

30 May 2019

CIMB Group Holdings

In Line despite Earnings falling

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3M19 results were in line accounting for 25% of our core earnings estimate. No change to our earnings but we raised TP to RM6.25 as we roll-over to FY20E. Valuations are undemanding, raised to OUTPERFORM.

In Line. CIMB recorded a 3M19 CNP of RM1.19b, accounting for 25%/24% of our/market estimates. No dividend declared as expected.

Excellent loans growth while overall asset quality improving. YoY, 3M19 CNP fell, (-9%) to RM1,192m due to the absence of RM152m gains recorded in 1Q18 (disposal of China Galaxy). Stripping of these gains, CNP would register a +3% upside. Topline was flat dragged falling NOII (-14%) to RM980m. Operating profit fell 2%, dragged by opex (+8%) as incremental investment kicks in towards their **Forward23 Transformation Programme**. The absence of divestment gains saw weaker PBT (-8%) to RM1,603m. PBT contribution from Malaysia fell 29% YoY on account of lower fee income, but Indonesia and Thailand improved at +47% and 62% respectively driven by lower provisions. Malaysia remains the largest PBT contributor at 55% followed by Indonesia and Thailand at 24% and 10% respectively. (FY18: at 64%, 20% and 6% respectively). CIR was way above target (~50%) due to incremental costs mentioned above. Group loans growth of +8% exceeded expectations/guidance 6.6%/6-7% with domestic loans growing above systems (+7.7% vs +4.9%) with mortgages and working capital the driver at +9% and +10%, respectively. NIM (-3bps) fell (below guidance due to its base rate hike in Nov) mainly pressure from Malaysia, but management maintained its 5-10bps compression for FY19. On a positive note, asset quality improved with GIL falling 23bps to 3.0% and credit charge fell 14bps to 0.35% (vs guidance and estimation of 40-50bps) due to better recoveries in Indonesia and Thailand.

A better quarter benefiting from higher asset pricing. QoQ, saw better traction as CNP rebounded at +7%, on account of better topline (+2%) and non-operating gains of RM16m. Loans moderated (-40bps) to +1.3% (Q1 generally a weak quarter) as demand for working capital moderated (<1%). NIM saw a 3bps uptick on better asset pricing. Asset quality was mixed with a 9bps uptick in GIL, but credit charge remained flat.

Still cautious, management maintained its guidance for FY19E i) loans at 6-7%, ii) credit costs at 40-50bps, iii) NIM compression of 5-10bps, and iv) ROE at 9-9.5%. Downside pressures are expected to prevail from both Malaysia and Indonesia while lower recoveries are expected ahead hence maintaining its credit costs guidance. Our assumptions for FY19E; i) loans growth at ~6%, ii) credit cost at 45bps, iii) NIM compression of 10bps, and iv) ROE of 8.7%. Coming from a low base, we pencilled in a 6% growth in NOII but expect a contribution of 25% to the top-line.

Maintained earnings. As results are in line, we maintain our FY19E/FY20E earnings at RM4.7b/RM4.6b.

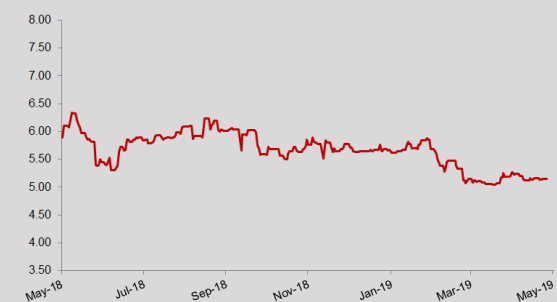
Raised TP and call. We raised our TP to RM6.25 (from RM6.10) as we roll-over to FY20E ascribing a target PBV of 1.03x implying a 0.5SD-level below its 5-year mean to reflect the on-going risks and challenges ahead. Valuations are undemanding coupled with a decent dividend yield of 4.4% giving a total upside >25, upgrade to **OUTPERFORM**.

Key risks to our call are: (i) steeper margin squeeze, (ii) higher-than-expected loans & deposits growth, (iii) lower-than-expected rise in credit charge, and (iv) further slowdown in capital market activities.

OUTPERFORM ↑

Price : **RM5.15**
Target Price : **RM6.25** ↑

Share Price Performance



KLCI	1,707.73
YTD KLCI chg	1.0%
YTD stock price chg	2.5%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	CIMB MK Equity
Market Cap (RM m)	50,096.2
Shares Outstanding	9,727.4
52-week range (H)	6.56
52-week range (L)	5.00
3-mth avg daily vol:	10,850,710
Free Float	53%
Beta	1.4

Major Shareholders

Khazanah Nasional Bhd	27.0%
Employees Provident Fund	13.5%
Kumpulan Wang Persaraan Diperbadankan	6.5%

Summary Earnings Table

FY Dec (RM'm)	2018A	2019E	2020E
Net Interest Income	9,634	10,008	10,413
Islamic Banking Inc.	2,610	2,676	2,894
Non-Interest Income	4,046	4,305	4,369
Total Income	16,291	16,988	17,676
PBT	7,201	6,395	6,336
Net Profit (NP)	5,584	4,684	4,641
Consensus NP		4,950	5,370
Earnings Revision (%)			
EPS (sen)	59.7	48.4	46.5
EPS growth (%)	18.2	-18.9	-4.0
DPS (sen)	25.0	22.5	21.6
BV/Share (RM)	5.51	5.86	6.09
NTA/share (RM)	4.5	4.7	4.9
ROE (%)	11.2	8.7	7.9
PER (x)	8.6	10.6	11.1
Price/NTA (x)	1.1	1.1	1.0
Price/Book (x)	0.9	0.9	0.8
Dividend Yield (%)	4.9	4.4	4.2

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Results Highlight								
Y/E : 31-Dec. (RM'm)	1Q19	4Q18	QoQ Chg.	1Q18	YoY Chg.	3M19	3M18	YoY Chg.
Net Interest Income	2,461.5	2,433.9	1.1%	2,419.8	1.7%	2,461.5	2,419.8	1.7%
Net Income from Islamic Banking	708.8	680.3	4.2%	590.9	20.0%	708.8	590.9	20.0%
Non Interest Income	979.9	960.6	2.0%	1,139.3	-14.0%	979.9	1,139.3	-14.0%
Total Income	4,150.3	4,074.8	1.9%	4,150.0	0.0%	4,150.3	4,150.0	0.0%
Operating Expenses	(2,302.4)	(2,269.0)	1.5%	(2,141.1)	7.5%	(2,302.4)	(2,141.1)	7.5%
(Allowances)/write-backs	(300.0)	(288.1)	4.1%	(401.3)	-25.2%	(300.0)	(401.3)	-25.2%
(Other Impairments)/Writebacks	8.7	(12.7)	-169.1%	(24.0)	-136.4%	8.7	(24.0)	-136.4%
Operating Profit	1,556.6	1,505.1	3.4%	1,583.6	-1.7%	1,556.6	1,583.6	-1.7%
Others	46.5	7.2	550.7%	159.3	-70.8%	46.5	159.3	-70.8%
Pre-Tax Profit	1,603.1	1,512.2	6.0%	1,742.9	-8.0%	1,603.1	1,742.9	-8.0%
Tax & Minority Interest	(411.1)	(395.1)	4.1%	(437.0)	-5.9%	(411.1)	(437.0)	-5.9%
Net Profit	1,192.0	1,117.1	6.7%	1,305.9	-8.7%	1,192.0	1,305.9	-8.7%
Core Profit	1,192.0	1,117.1	6.7%	1,305.9	-8.7%	1,192.0	1,305.9	-8.7%
EPS (sen)	12.5	11.9	4.4%	14.2	-12.0%	12.5	14.2	-12.0%
DPS (sen)	-	12.0	-100.0%	-	#DIV/0!	-	-	#DIV/0!
Gross Loans	350,684.5	346,281.5	1.3%	326,014.6	7.6%	350,684.5	326,014.6	7.6%
Net Loans	341,453.4	337,148.3	1.3%	318,333.0	7.3%	341,453.4	318,333.0	7.3%
Total Customer Deposits	375,261.7	370,193.1	1.4%	353,834.7	6.1%	375,261.7	353,834.7	6.1%
CASA / Low Cost Deposits	125,567.1	123,805.9	1.4%	127,309.9	-1.4%	125,567.1	127,309.9	-1.4%
Book value/share (RM)	5.52	5.49	0.6%	5.11	8.1%	5.52	5.11	8.1%
NTA/share (RM)	4.54	4.49	1.3%	4.08	11.4%	4.54	4.08	11.4%
Est. Annualised Net Interest Margin	2.40%	2.37%		2.43%		2.40%	2.43%	
Reported Net Interest Margin	0.00%	0.00%		2.57%		0.00%	0.00%	
Cost-to-Income Ratio	55.5%	55.7%		51.6%		55.5%	51.6%	
Est. Annualised Credit Charge (Writeback) Ratio	0.35%	0.34%		0.49%		0.35%	0.49%	
Effective Tax Rate	24.7%	26.1%		23.1%		24.7%	23.1%	
G.Loan-to-Deposit Ratio	93.5%	93.5%		92.1%		93.5%	92.1%	
N.Loan-to-Deposit Ratio	91.0%	91.1%		90.0%		91.0%	90.0%	
% of CASA to Total Customer Deposits	33.5%	33.4%		36.0%		33.5%	36.0%	
Total Allowances-to-Loans	2.64%	2.65%		2.38%		2.64%	2.38%	
Gross Impaired Loans Ratio	2.99%	2.91%		3.22%		2.99%	3.22%	
Loan Loss Coverage	88.2%	91.0%		73.7%		88.2%	73.7%	
CET1	12.1%	12.9%		11.5%		12.1%	11.5%	
Total Capital	15.6%	17.8%		16.7%		15.6%	16.7%	
Est. Annualised ROE	9.4%	9.0%		10.9%		9.4%	10.9%	

Source: Company, Kenanga Research

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Peer Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div Yld (%)	Target Price (RM)	Rating
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.			
BANKING																	
AFFIN BANK BHD	2.07	4,111.1	N	12/2019	20.0%	8.0%	12.4%	19.1%	8.6	8.6	7.2	0.4	0.5	5.6%	2.4%	2.60	OP
ALLIANCE BANK MALAYSIA BHD	3.80	5,882.8	N	03/2020	9.4%	8.0%	7.2%	9.2%	10.9	10.2	9.3	1.0	1.0	9.8%	4.7%	4.25	OP
AMMB HOLDINGS BHD	4.36	13,141.8	N	03/2020	9.7%	4.8%	-4.4%	2.8%	8.7	9.1	8.9	0.7	0.7	7.5%	4.6%	5.10	OP
BIMB HOLDINGS BHD	4.56	8,045.1	Y	12/2019	7.8%	8.5%	7.6%	13.6%	11.7	11.3	10.4	1.6	1.5	14.0%	3.5%	4.80	MP
CIMB GROUP HOLDINGS BHD	5.15	50,096.2	N	12/2019	4.6%	4.8%	-16.1%	-0.9%	8.6	10.6	11.1	0.9	0.9	8.5%	4.4%	6.25	OP
HONG LEONG BANK BERHAD	18.58	38,007.2	N	06/2019	5.8%	5.7%	2.0%	9.0%	14.4	14.1	13.0	1.6	1.5	11.0%	2.6%	20.05	MP
MALAYAN BANKING BHD	9.05	99,999.6	N	12/2019	5.2%	4.3%	1.6%	1.2%	12.3	12.1	12.0	1.3	1.2	10.1%	6.4%	10.20	OP
MALAYSIA BUILDING SOCIETY	0.92	5,878.0	N	12/2019	-1.0%	5.3%	-10.7%	10.2%	9.2	10.3	9.7	0.8	0.7	7.2%	5.4%	1.15	OP
PUBLIC BANK BERHAD	23.00	89,289.2	N	12/2019	3.9%	5.2%	-0.1%	3.5%	15.9	15.9	15.4	2.2	2.2	13.7%	3.0%	24.10	MP
RHB BANK BHD	5.74	23,017.7	N	12/2019	6.0%	4.8%	3.7%	3.6%	10.0	9.6	9.3	1.0	0.9	9.9%	3.7%	6.05	MP
Simple Average					7.1%	5.9%	0.3%	7.1%	11.0	11.2	10.6	1.1	1.1	9.7%	4.1%		

Source: Bloomberg, Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%
NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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