

25 November 2019

CIMB Group Holdings

Above and Resilient

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9MFY19 results were above expectations with CNP accounting for 84%/82% of our/market estimates. The Group's top-line is gaining traction thanks to resilient loans and capital market activities. TP maintain at RM6.45 and we reiterate our OUTPERFORM call as valuations remain undemanding.

Above Expectations. 3Q19 net of RM1.01b (-33% QoQ, -14% YoY) brings 9M19 to RM3.7b (-17% YoY). At the core level 3Q19 CNP of RM1.27b (-16% QoQ, +8% YoY), brings 9M19 to RM3.969b (+12% YoY) which is 84%/82%.

Improvement led by Islamic Banking and fee-based income. YoY, top-line revenue of RM13,021m was led by growth in Islamic Banking and NOII at +18% and +8%, respectively, as NII rebounded 3% to RM7,406m. CIMB's Islamic first initiative in both Malaysia and Indonesia is driving fund-based income where its financing grew 9% to RM90b (25% of gross loans). Islamic financing is being driven by both the mortgage and auto segments. Improved NOII was underpinned by trading and forex income (+34%) to RM1,584m. Operating profit of RM4,614m improved slightly by 80bps to +1% as opex continued to expand (due to Forward23 initiatives and RM349m staff Transformational Initiatives in 3Q) but mitigated by impairment allowances which fell 10% to RM1,032m (mainly from writebacks). NP was down by 17% but stripping of the RM928m gains (9M18) and adding the RM258m transformational costs gains (3Q19, net of tax), up by +12%. Stripping of this one-off transformation cost, CIR would have been at 54%. Malaysia's PBT contribution remains resolute at 66%, followed by Indonesia at 19%, Singapore at 7% and Thailand at 5%. Group's loans growth of 5.9% was within expectation/guidance of ~6% with domestic loans (+4.5%) above systems (+3.9%) followed by Indonesia (+5%) and Thailand (+9%). NIM compression was as expected at 5bps. Asset quality saw slight deterioration (8bps) to 3.15% but credit charge was down 39bps due to the above-mentioned writebacks (vs. guidance of 40-50bps/estimation of 45bps).

Top-line traction. QoQ, top-line continued its traction (+10%), with both Islamic banking and NOII improving further by 269bps and 83bps, respectively, at +10 and +13%. NP down by 33% but stripping of the transformational costs CNP would have been at 1,268m (-16% QoQ). The one-off staff transformational costs are expected to register RM200m savings per annum. Loans moderated by 20bps to +1.3%, but consumer loans were resilient led by as Housing (+2.2%), HP (+2.9%) and PF (+5.3%). Overall, consumer loans improved by 3% and contributed 50% of total loans. NIM improved by 11bps (by our estimation) as cost of funds fell (28bps) due to repricing of funds after the recent OPR cut. CASA remained resilient at 35%. Impairment on allowances for loans saw a 23ppt uptick translating to a credit costs of 46bps (as guided and expected to be normalised around this level).

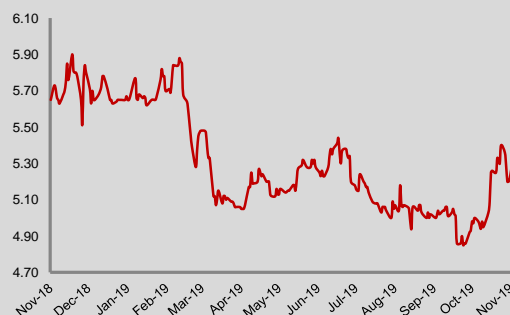
Consumer loans the driver. As guided previously, management maintained its FY19E guidance as follows: (i) loans at 6%, (ii) credit costs at 40-50bps, (iii) NIM compression of 5-10bps, and (iv) ROE at 9-9.5%. Loans have been slowly gaining traction led by the consumer space, thanks to the Group's strategy to target the mass affluent segment in the region as accommodative interest rate prevails. Given that asset quality remains resilient with current interest rate regime prevailing, we expect the Group to aggressively foray into this segment. Given that NIM will still be under pressure ahead, we believe pressure will be minimised by its resilient CASA and further easing of expensive deposits.

Revised earnings. We revised our FY19E/FY20E earnings by 0.5%/2% to RM4,702m/RM4,895m on account of the cost-savings. No change in call and TP maintained at RM6.45 based on a FY20E target PBV of 1.06x (5-year mean). We feel this is justified as we have been conservative in our assumptions. Loans activities are picking up, mitigating the moderation in business loans coupled with a resilient capital market. With valuations undemanding coupled with a decent dividend yield of 4.2%, we reiterate our **OUTPERFORM** call.

OUTPERFORM ↔

Price : **RM5.37**
Target Price : **RM6.45** ↑

Share Price Performance



KLCI	1,596.84
YTD KLCI chg	-5.5%
YTD stock price chg	-6.0%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	CIMB MK EQUITY
Market Cap (RM m)	53,286.3
Shares Outstanding	9,923.0
52-week range (H)	6.03
52-week range (L)	4.82
3-mth avg daily vol:	8,597,265
Free Float	46%
Beta	1.3

Major Shareholders

Khazanah Nasional Bhd	23.8%
Employees Provident Fund	12.4%
Kumpulan Wang Persaraan Diperbadankan	6.2%

Summary Earnings Table

FY Dec (RM'm)	2018A	2019E	2020E
Net Interest Income	9,634	10,006	10,450
Islamic Banking Inc.	2,610	2,680	2,908
Non-Interest Income	4,046	4,305	4,369
Total Income	16,291	16,990	17,726
PBT	7,201	6,419	6,683
Net Profit (NP)	5,584	4,702	4,895
Consensus NP		4,841	5,180
Earnings Revision (%)		0.5%	1.9%
EPS (sen)	59.7	48.6	48.9
EPS growth (%)	18.2	-18.6	0.7
DPS (sen)	25.0	22.6	22.8
BV/Share (RM)	5.51	5.76	6.13
NTA/share (RM)	4.5	4.6	5.0
ROE (%)	11.2	8.8	8.4
PER (x)	9.0	11.1	11.0
Price/NTA (x)	1.2	1.2	1.1
Price/Book (x)	1.0	0.9	0.9
Dividend Yield (%)	4.7	4.2	4.2

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Other salient Points

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

Results Highlight								
Y/E : 31-Dec. (RM'm)	3Q19	2Q19	QoQ Chg.	3Q18	YoY Chg.	9M19	9M18	YoY Chg.
Net Interest Income	2,567.7	2,376.8	8.0%	2,413.5	6.4%	7,406.1	7,200.6	2.9%
Net Income from Islamic Banking	820.6	753.2	8.9%	667.7	22.9%	2,282.6	1,929.8	18.3%
Non Interest Income	1,250.1	1,102.7	13.4%	1,059.4	18.0%	3,332.8	3,085.4	8.0%
Total Income	4,638.4	4,232.7	9.6%	4,140.5	12.0%	13,021.5	12,215.7	6.6%
Operating Expenses	(2,786.4)	(2,293.6)	21.5%	(2,158.3)	29.1%	(7,382.4)	(6,386.8)	15.6%
(Allowances)/write-backs	(403.6)	(329.0)	22.7%	(398.9)	1.2%	(1,032.7)	(1,144.6)	-9.8%
(Other Impairments)/Writebacks	(123.4)	122.2	-200.9%	(110.1)	12.0%	7.6	(114.4)	-106.6%
Operating Profit	1,325.1	1,732.3	-23.5%	1,473.2	-10.1%	4,614.0	4,569.9	1.0%
Others	11.8	223.5	-94.7%	13.2	-10.3%	281.9	1,118.5	-74.8%
Pre-Tax Profit	1,336.9	1,955.8	-31.6%	1,486.4	-10.1%	4,895.8	5,688.5	-13.9%
Tax & Minority Interest	(326.5)	(447.2)	-27.0%	(306.7)	6.5%	(1,184.8)	(1,222.1)	-3.0%
Net Profit	1,010.3	1,508.6	-33.0%	1,179.7	-14.4%	3,711.0	4,466.4	-16.9%
Core Profit	1,268.3*	1,508.6	-16.0%	1,179.7	7.5%	3,969.0*	3,538**	12.0%
EPS (sen)	10.4	15.6	-33.3%	12.6	-17.5%	38.2	47.7	-20.0%
DPS (sen)	-	14.0	-100.0%	-	N.a	14.0	13.0	7.7%
Gross Loans	360,699.3	355,907.0	1.3%	340,647.6	5.9%	360,699.3	340,647.6	5.9%
Net Loans	351,991.7	347,239.0	1.4%	331,836.5	6.1%	351,991.7	331,836.5	6.1%
Total Customer Deposits	385,085.4	380,113.8	1.3%	355,623.4	8.3%	385,085.4	355,623.4	8.3%
CASA / Low Cost Deposits	134,584.7	133,331.0	0.9%	119,542.0	12.6%	134,584.7	119,542.0	12.6%
Book value/share (RM)	5.77	5.70	1.2%	5.36	7.5%	5.77	5.36	7.5%
NTA/share (RM)	4.78	4.71	1.5%	4.35	10.0%	4.78	4.35	10.0%
Est. Annualised Net Interest Margin	2.56%	2.45%		2.50%		2.44%	2.47%	
Reported Net Interest Margin	2.47%	2.46%		2.52%		2.47%	2.52%	
Cost-to-Income Ratio	60.1%	54.2%		52.1%		56.7%	52.3%	
Est. Annualised Credit Charge (Writeback) Ratio	0.46%	0.38%		0.48%		0.39%	0.46%	
Effective Tax Rate	26.2%	23.6%		19.8%		24.6%	20.1%	
G.Loan-to-Deposit Ratio	93.7%	93.6%		95.8%		93.7%	95.8%	
N.Loan-to-Deposit Ratio	91.4%	91.4%		93.3%		91.4%	93.3%	
% of CASA to Total Customer Deposits	34.9%	35.1%		33.6%		34.9%	33.6%	
Total Allowances-to-Loans	2.41%	2.44%		2.83%		2.41%	2.83%	
Gross Impaired Loans Ratio	3.15%	3.12%		3.07%		3.15%	3.07%	
Loan Loss Coverage	76.6%	78.2%		92.0%		76.6%	92.0%	
CET1	12.5%	12.4%		12.0%		12.5%	12.0%	
Total Capital	16.1%	16.1%		17.2%		16.1%	17.2%	
Est. Annualised ROE	7.5%	11.5%		9.7%		9.2%	12.2%	

Source: Company, Kenanga Research

* added back transformational costs RM258m net of tax

** subtracted RM928m gain from sale of CPAM and CPIAM (CIMB Principal and Islamic)

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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	2.00	3,972.0	N	12/2019	4.1%	2.9%	15.0%	15.8%	7.9	6.8	5.9	0.5	0.4	6.5%	2.8%	2.45	OP
ALLIANCE BANK MALAYSIA BHD	2.72	4,210.8	N	03/2020	5.6%	7.2%	-9.4%	19.1%	8.5	7.8	8.6	0.8	0.7	8.3%	6.1%	3.30	OP
AMMB HOLDINGS BHD	4.06	12,237.6	N	03/2020	10.4%	4.5%	-0.4%	2.8%	8.1	8.2	7.9	0.7	0.6	7.8%	4.9%	4.75	OP
BIMB HOLDINGS BHD	4.31	7,604.1	Y	12/2019	10.0%	6.6%	7.6%	13.6%	11.1	10.7	9.8	1.5	1.4	14.0%	3.7%	4.80	OP
CIMB GROUP HOLDINGS BHD	5.37	53,286.3	N	12/2019	4.6%	5.0%	-15.8%	4.1%	9.0	11.1	11.0	1.0	0.9	8.6%	4.2%	6.45	OP
HONG LEONG BANK BERHAD	16.74	36,287.6	N	06/2020	4.1%	5.1%	1.0%	0.5%	13.0	12.9	12.8	1.4	1.3	10.8%	3.0%	17.30	MP
MALAYAN BANKING BHD	8.64	97,125.4	N	12/2019	3.8%	4.3%	-2.2%	4.7%	11.8	12.0	11.5	1.2	1.1	9.7%	6.5%	9.70	OP
MALAYSIA BUILDING SOCIETY	0.87	5,807.1	N	12/2019	-4.2%	4.5%	-17.8%	8.6%	8.6	10.5	10.1	0.7	0.7	6.7%	5.8%	1.10	OP
PUBLIC BANK BERHAD	19.86	77,099.3	N	12/2019	3.9%	5.2%	-0.1%	3.4%	13.7	13.7	13.3	1.9	1.9	13.7%	3.5%	22.10	OP
RHB BANK BHD	5.70	22,857.3	N	12/2019	6.0%	4.8%	3.7%	5.7%	9.9	9.6	9.0	1.0	0.9	9.9%	3.7%	6.05	OP
Simple Average					4.8%	5.0%	-1.8%	7.8%	10.2	10.3	10.0	1.1	1.0	9.6%	4.4%		

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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