

11 July 2019

CIMB Group Holdings Bhd

A Forward-Looking Banker

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Coming from a recent meeting with management, we reiterate our TP of RM6.25 with an OUTPERFORM call premised on its undemanding valuation and strategic growth in ASEAN. The current climate has led to attractive valuation and with its current positioning, CIMB is poised it to make further inroads into ASEAN.

Inroads into ASEAN; slowly but surely. Under the current FORWARD 23 strategy, CIMB's focus will be to strengthen its presence in the fast-changing banking landscape, embracing the Industrial Revolution 4.0 and competing/embracing the disrupters' challenge. The ASEAN market is its oyster with presence in all 10 countries, the latest being the Philippines. Although we are cautious on its aggressive expansion as trade friction and uncertainties prevail, we are positive on its foray, especially in the Philippines; having a light model strategy and spearheaded by digitization. In preparing for the Industrial Revolution 4.0 and disruptive technology, the group's foray into the Philippines via digital banking will lower cost, build customer base slowly but surely and at the same time enhancing its experience into the digital economy. While in the mature Indonesian and Malaysian markets, CIMB has the dominant and competitive advantage, the Singapore and Thailand markets will see CIMB pursuing a niche and selective strategy. While **CIMB sees great opportunity in Vietnam, they** are cautious in their foray into the market, given the competitive and regulatory environment. We understand that the group is competing in the market in a measured way, reassessing constantly for the right opportunity and we won't be surprised if the same Philippines strategy is adopted when regulatory condition is eased. We also do not discount that given the right price, potential M&A would emerge.

Driving into Consumer and SME. While dominant in the home market's wholesale banking, we believe CIMB will look to grow opportunities in the consumer and retail SME segment. We understand that this strategy will also apply to Indonesia, targeting the fast-growing retail SME, high-end and mass affluent markets. We understand also that by leveraging on its digital expertise, the digital banking will be vigorously expanded in Indonesia. Riding the expected infra spending in Indonesia, it is expecting the corporate segment will be widened, and is pursuing this segment competitively given that its cost of funds has significantly dropped by 2ppt with CASA contributing 55% to funding. While CIMB Thailand is not expected to contribute more than what is offered currently (~7%), we understand that the focus will be on asset quality (hence selective), high-end consumer and emphasis on corporate entities, which are MNC with presence in ASEAN.

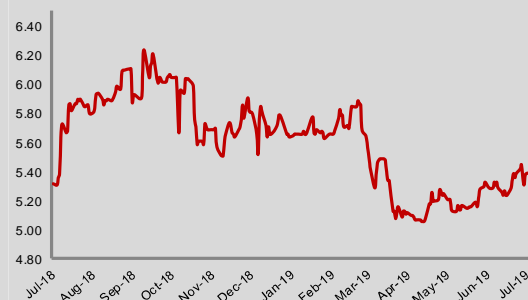
By the end of FORWARD 23, the Indonesian market will likely contribute further, from the current ~20% to ~30% with the home market dropping from 64% to ~50%. Singapore and Thailand's contributions are expected to remain the same at ~7%.

Earnings maintained. We made no changes to our FY19E/FY20E earnings of RM4.7b/RM4.6b based on the following unchanged assumptions: (i) loans growth of ~6%, (ii) NIM compression at 10bps, (iii) credit charge of 45bps, and (iv) ROE of 9%. Coming from a low base, we pencilled in a 6% NOII growth but expect a 25% contribution to the top-line. **TP maintained at RM6.25** based on an unchanged target PBV of 1.03x implying a 0.5SD-level below its 5-year mean to reflect the on-going challenges and prevailing volatilities. Valuations are undemanding at 0.9x PBV, at the bottom of its 5-year mean. With market looking like its bottoming out, valuations are attractive for the stocks in our banking universe. Besides, we also expect the M&A/consolidation narrative to refloat soon with CIMB could be one of the likely consolidator. Adding to the potential returns of >20% coupled with an attractive dividend yield of 4.0%, we reiterate our **OUTPERFORM** call.

OUTPERFORM ↔

Price : RM5.33
Target Price : RM6.25 ↔

Share Price Performance



| | |
|---------------------|----------|
| KLCI | 1,678.97 |
| YTD KLCI chg | -0.7% |
| YTD stock price chg | -6.7% |

Stock Information

| | |
|----------------------|----------------|
| Shariah Compliant | No |
| Bloomberg Ticker | CIMB MK Equity |
| Market Cap (RM m) | 51,847.1 |
| Shares Outstanding | 9,727.4 |
| 52-week range (H) | 6.28 |
| 52-week range (L) | 5.00 |
| 3-mth avg daily vol: | 9,596,016 |
| Free Float | 54% |
| Beta | 1.3 |

Major Shareholders

| | |
|--------------------------|-------|
| Khazanah Nasional Bhd | 27.0% |
| Employees Provident Fund | 13.1% |
| Kumpulan Wang Persaraan | 6.3% |

Summary Earnings Table

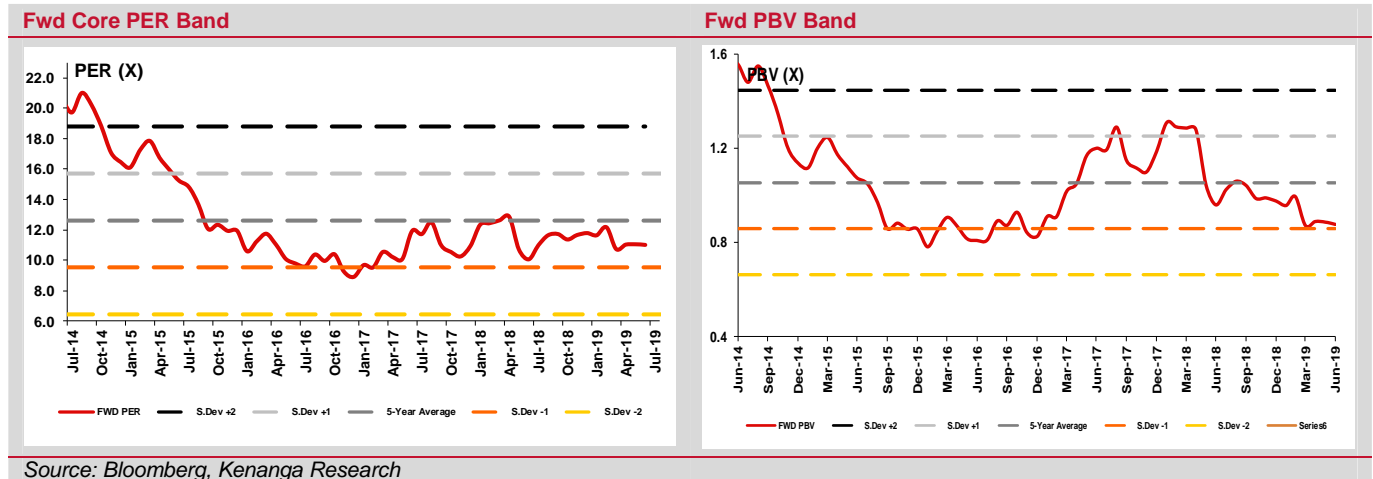
| FY Dec (RM'm) | 2018A | 2019E | 2020E |
|------------------------|---------------|---------------|---------------|
| Net interest inc. | 9,634 | 10,008 | 10,413 |
| Islamic banking inc. | 2,610 | 2,676 | 2,894 |
| Non-interest inc. | 4,046 | 4,305 | 4,369 |
| Total Income | 16,291 | 16,988 | 17,676 |
| Pre-tax profit | 7,201 | 6,395 | 6,336 |
| Net profit (NP) | 5,584 | 4,684 | 4,641 |
| Consensus NP | | 4,950 | 5,370 |
| Earnings Revision (%) | | N.a | N.a |
| EPS (RM) | 59.7 | 48.4 | 46.5 |
| EPS growth (%) | 18.2 | -18.9 | -4.0 |
| DPS (RM) | 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) | 8.9 | 11.0 | 11.5 |
| Price/Book (x) | 1.2 | 1.1 | 1.1 |
| Price/NTA (x) | 1.0 | 0.9 | 0.9 |
| Dividend yield (%) | 4.7 | 4.2 | 4.0 |

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Risks to our call are: (i) higher-than-expected margin squeeze, (ii) lower-than-expected loans and deposits growth, (iii) worse-than-expected deterioration in asset quality, (iv) further slowdown in capital market activities, and (v) adverse currency fluctuations.

| Income Statement | | | | | | Financial Data & Ratios | | | | | |
|---------------------------------------|----------------|----------------|----------------|----------------|----------------|--------------------------|-------|-------|-------|--------|--------|
| FY Dec (RM m) | 2016A | 2017A | 2018A | 2019E | 2020E | FY Dec | 2016A | 2017A | 2018E | 2019E | 2020E |
| Interest Income | 18,826 | 19,509 | 19,239 | 20,112 | 21,121 | Growth | | | | | |
| Interest Expense | (9,000) | (9,050) | (9,604) | (10,104) | (10,709) | Net Interest Income | 5.2% | 6.4% | -7.9% | 3.9% | 4.0% |
| Net Interest Inc. | 9,826 | 10,459 | 9,634 | 10,008 | 10,413 | Total Income | 3.4% | 10.5% | -7.4% | 4.3% | 4.1% |
| Islamic Ops. | 1,704 | 2,132 | 2,610 | 2,676 | 2,894 | Pre-tax Profit | 21.0% | 29.0% | 17.9% | -11.2% | -0.9% |
| Non-Interest Inc. | 4,386 | 4,997 | 4,046 | 4,305 | 4,369 | Net Profit | 19.8% | 31.0% | 24.8% | -16.1% | -0.9% |
| Total Income | 15,916 | 17,588 | 16,291 | 16,988 | 17,676 | Core Net Profit | 14.6% | 37.0% | 24.8% | -16.1% | -0.9% |
| Overhead Exp. | (8,652) | (9,134) | (8,656) | (8,925) | (9,404) | Gross Loans | 8.7% | 0.2% | 6.6% | 6.2% | 6.5% |
| Loan Loss Prov. | (2,409) | (2,231) | (1,433) | (1,587) | (1,853) | Net Loans | 8.6% | 0.4% | 6.5% | 4.9% | 6.3% |
| Others | (121) | (114) | 999 | (81) | (83) | Customer Deposits | 5.9% | 3.6% | 6.7% | 6.0% | 6.6% |
| Pre-tax Profit | 4,735 | 6,110 | 7,201 | 6,395 | 6,336 | Operating metrics | | | | | |
| Taxation | (1,251) | (1,502) | (1,537) | (1,572) | (1,558) | Avg. Lending Yield | 5.2% | 5.2% | 5.1% | 5.0% | 5.0% |
| Minority Interest | (69) | (133) | (80) | (139) | (138) | Avg. Cost of Funds | 2.7% | 2.7% | 2.8% | 2.9% | 2.9% |
| Net Profit | 3,415 | 4,475 | 5,584 | 4,684 | 4,641 | Net Interest Margin | 2.6% | 2.7% | 2.5% | 2.4% | 2.4% |
| Core Net Profit | 3,266 | 4,475 | 5,584 | 4,684 | 4,641 | Cost-to-Income | 54.4% | 51.9% | 53.1% | 52.5% | 53.2% |
| Balance Sheet | | | | | | Credit Charge | 0.8% | 0.7% | 0.4% | 0.4% | 0.5% |
| FY Dec (RM m) | 2016A | 2017A | 2018A | 2019E | 2020E | Loan/Deposit Ratio | 96.3% | 93.0% | 92.9% | 93.0% | 93.0% |
| Cash & ST Funds | 34,333 | 52,208 | 51,179 | 54,248 | 52,714 | Loan Loss Coverage | 79.8% | 70.5% | 91.0% | 113.6% | 113.5% |
| Net Loans | 315,373 | 316,557 | 337,148 | 353,606 | 376,014 | Total Prov.-to-Loans | 2.6% | 2.4% | 2.7% | 3.6% | 3.8% |
| Invest. Securities | 84,680 | 90,982 | 95,259 | 99,736 | 104,623 | G. Impaired Loans | 3.3% | 3.4% | 2.9% | 3.2% | 3.3% |
| Intangible Assets | 10,509 | 10,046 | 9,389 | 10,864 | 11,597 | Return on Equity | 7.5% | 9.5% | 11.2% | 8.7% | 7.9% |
| Other Assets | 40,872 | 36,706 | 34,733 | 35,905 | 37,108 | Return on Assets | 0.7% | 0.9% | 1.1% | 0.9% | 0.8% |
| Total Asset | 485,767 | 506,500 | 534,002 | 565,071 | 599,118 | Valuations | | | | | |
| Cust. Deposits | 336,246 | 348,518 | 371,962 | 394,349 | 420,296 | EPS (sen) | 37.6 | 50.5 | 59.7 | 48.4 | 46.5 |
| Bank Deposits | 28,736 | 19,752 | 20,233 | 21,184 | 22,222 | PER (x) | 14.2 | 10.6 | 8.9 | 11.0 | 11.5 |
| Debt Securities | 43,209 | 51,981 | 59,312 | 61,818 | 64,552 | DPS (sen) | 20.0 | 25.0 | 25.0 | 22.5 | 21.6 |
| Other Liabilities | 30,498 | 36,443 | 29,906 | 29,906 | 29,906 | Dividend payout | 51.6% | 39.4% | 50.8% | 45.0% | 45.0% |
| Total Liabilities | 438,688 | 456,693 | 481,414 | 507,256 | 536,976 | Dividend yield | 3.8% | 4.7% | 4.7% | 4.2% | 4.0% |
| Share Capital | 8,868 | 22,183 | 24,132 | 24,132 | 24,132 | BV/Share (RM) | 5.2 | 5.5 | 5.5 | 5.9 | 6.1 |
| Other Reserves | 20,633 | 1,578 | 1,578 | 1,578 | 1,578 | Price/Book (x) | 1.0 | 1.0 | 1.0 | 0.9 | 0.9 |
| Retained Inc. | 16,007 | 24,684 | 29,771 | 33,960 | 39,226 | NTA/Share (RM) | 4.0 | 4.3 | 4.5 | 4.7 | 4.9 |
| Minority interest | 1,571 | 1,361 | 1,014 | 1,153 | 1,290 | Price/NTA (x) | 1.3 | 1.2 | 1.2 | 1.1 | 1.1 |
| Total Equity | 47,079 | 49,806 | 56,495 | 60,823 | 66,226 | | | | | | |
| Total Liabilities & Equity | 485,767 | 506,500 | 534,002 | 565,071 | 599,118 | | | | | | |

Source: 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. | 1-Yr. Fwd. | | | |
| AFFIN BANK BHD | 2.11 | 4,190.5 | N | 12/2019 | 8.2% | 5.3% | 9.3% | 15.9% | 8.3 | 7.6 | 6.5 | 0.5 | 0.5 | 6.2% | 2.6% | 2.40 | OP | |
| ALLIANCE BANK MALAYSIA BHD | 3.73 | 5,774.4 | N | 03/2020 | 9.4% | 8.0% | 7.2% | 9.2% | 10.7 | 10.0 | 9.2 | 1.0 | 1.0 | 9.8% | 4.8% | 4.25 | OP | |
| AMMB HOLDINGS BHD | 4.31 | 12,991.1 | N | 03/2020 | 9.7% | 4.8% | -4.4% | 2.8% | 8.6 | 9.0 | 8.8 | 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 | 5.33 | 51,847.1 | N | 12/2019 | 4.6% | 4.8% | -16.1% | -0.9% | 8.9 | 11.0 | 11.5 | 0.9 | 0.9 | 8.5% | 4.2% | 6.25 | OP | |
| HONG LEONG BANK BERHAD | 19.00 | 41,186.6 | N | 06/2019 | 5.8% | 5.7% | 2.0% | 9.0% | 14.7 | 14.5 | 13.3 | 1.6 | 1.6 | 11.0% | 2.5% | 20.05 | MP | |
| MALAYAN BANKING BHD | 8.94 | 100,497.8 | N | 12/2019 | 4.2% | 4.3% | -0.5% | 3.2% | 12.2 | 12.2 | 11.9 | 1.3 | 1.2 | 9.9% | 6.4% | 10.35 | OP | |
| MALAYSIA BUILDING SOCIETY | 0.91 | 5,782.1 | N | 12/2019 | -1.0% | 5.3% | -10.7% | 10.2% | 9.0 | 10.1 | 9.6 | 0.7 | 0.7 | 7.2% | 5.5% | 1.15 | OP | |
| PUBLIC BANK BERHAD | 23.12 | 89,755.0 | N | 12/2019 | 3.9% | 5.2% | -0.1% | 3.5% | 16.0 | 16.0 | 15.5 | 2.2 | 2.2 | 13.7% | 2.9% | 24.10 | MP | |
| RHB BANK BHD | 5.71 | 22,897.4 | N | 12/2019 | 6.0% | 4.8% | 3.7% | 3.6% | 9.9 | 9.6 | 9.2 | 1.0 | 0.9 | 9.9% | 3.7% | 6.05 | OP | |
| Simple Average | | | | | 5.9% | 5.7% | -0.2% | 7.0% | 11.0 | 11.1 | 10.6 | 1.2 | 1.1 | 9.8% | 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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