

30 August 2019

CIMB Group Holdings

In Line with Resiliency In Loans Growth

By Ahmad Ramzani Ramli | ahmadramzani@kenanga.com.my

OUTPERFORM ↔

Price : **RM4.94**
Target Price : **RM6.45** ↔

6M19 results earnings accounted for 57% of our core earnings estimate on account of write-backs. No change to our earnings and maintained TP at RM6.45. Valuations undemanding, reiterate OUTPERFORM.

In line. CIMB recorded a 6M19 CNP of RM2.7b, accounting for 57%/55% of our/market estimates. The positive deviation stems from write-backs from its loan loss provisions. An interim DPS of 14.0 sen was declared (vs our expectation of 11.0 sen).

Top-line rebounded on resilient loans. YoY, CNP fell (-18%) due to the absence of RM1.1b gains recorded in 1H18 (disposal of China Galaxy). Stripping off these gains, CNP would have registered a +12% upside. Nevertheless, top-line as guided rebounded (+4%) driven by Islamic income (+16% to RM1,462m) and rebound in NOII (+3% to RM2,082m). Adopting an Islamic first approach namely for auto and mortgages supported higher financing, margins and lower provisioning. Improved NOII was due to gains from financial assets and securities of RM560m. Earnings were also dragged by higher opex (+9%) as incremental investment kicked in towards their Forward23. While Malaysia's PBT contribution remains stable at 67%, Indonesia saw 2ppt uptick to 19% (coming from stronger consumer loans) while Thailand fell 3ppt to 5% due to low trading income and higher opex. Group's loans growth of +7% exceeded expectation/guidance of 6.6%/6-7% with domestic loans growing above systems (+6.6% vs +4.2%) driven by consumer banking (+8%) given management's target into the retail space. Nevertheless, downside pressure on NIM (+6bps) saw NII soft at 1%. As mentioned previously, we expected write-backs coming from positive adjustments from MFRS9; hence, credit charge for the period was at 36bps (vs guidance of 40-45bps).

QoQ, saw CNP surging +27% to RM1,509m. Stripping of the RM236m divestments, CNP would have been at +7% driven by rebound in top-line (+2%) and lower provisioning (-29% to RM207m). Top-line was again driven by Islamic income and NOII with NII fell (-3%) of NIM (8bps compression) as loans were flattish. Asset quality slightly deteriorated as GIL saw a 14bps uptick to 3.13%, hence uptick in provisioning at 3pbs to 0.38%.

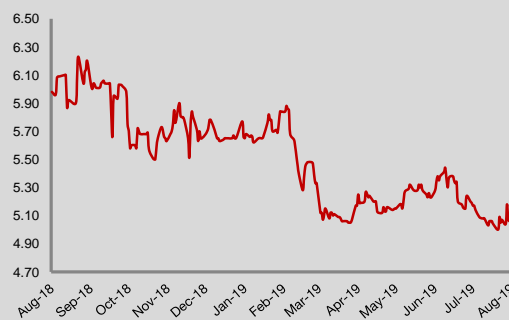
Still cautious, management maintained its guidance for FY19E as follows; (i) loans at 6-7%, (ii) credit costs at 40-50bps, (iii) NIM compression of 5-10bps, and (iv) ROE at 9-9.5%. Downside pressures are expected to prevail from both Malaysia and Indonesia while lower recoveries are expected ahead; hence, maintaining its credit costs guidance. On a YoY basis, loans are stronger, driven by consumer and SMEs with corporate segment picking up pace. Domestic loans are expected to be well above the system with Niaga's loans driven by consumer space and expected to pick up in 2H19. 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/RM4.8b.

No change in TP and call. 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. Furthermore, momentum from capital market activities is picking up and corporate loans activities are expected to gain traction from both Malaysia and Indonesia in 2020. With valuations undemanding coupled with a decent dividend yield of 4.5%, we reiterate our **OUTPERFORM** call.

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.

Share Price Performance



KLCI	1,595.18
YTD KLCI chg	-5.6%
YTD stock price chg	-13.5%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	CIMB MK Equity
Market Cap (RM m)	48,053.4
Shares Outstanding	9,727.4
52-week range (H)	6.28
52-week range (L)	4.94
3-mth avg daily vol:	9,011,176
Free Float	57%
Beta	1.3

Major Shareholders

Khazanah Nasional Bhd	23.5%
Employees Provident Fund	13.0%
Kumpulan Wang Persaraan Diperbadankan	6.9%

Summary Earnings Table

FY Dec (RM'm)	2018A	2019E	2020E
Net Interest Income	9,634	10,008	10,445
Islamic Banking Inc.	2,610	2,676	2,902
Non-Interest Income	4,046	4,305	4,369
Total Income	16,291	16,988	17,716
PBT	7,201	6,389	6,555
Net Profit (NP)	5,584	4,679	4,801
Consensus NP		4,860	5,271
<i>Earnings Revision (%)</i>			
EPS (sen)	59.7	48.4	48.0
EPS growth (%)	18.2	-18.9	-0.7
DPS (sen)	25.0	22.5	22.3
BV/Share (RM)	5.51	5.86	6.08
NTA/share (RM)	4.5	4.7	4.9
ROE (%)	11.2	8.6	8.2
PER (x)	8.3	10.2	10.3
Price/NTA (x)	1.1	1.0	1.0
Price/Book (x)	0.9	0.8	0.8
Dividend Yield (%)	5.1	4.6	4.5

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Results Highlight								
Y/E : 31-Dec. (RM'm)	2Q19	1Q19	QoQ Chg.	2Q18	YoY Chg.	6M19	6M18	YoY Chg.
Net Interest Income	2,376.8	2,461.5	-3.4%	2,367.3	0.4%	4,838.3	4,787.1	1.1%
Net Income from Islamic Banking	753.2	708.8	6.3%	671.2	12.2%	1,462.0	1,262.1	15.8%
Non Interest Income	1,102.7	979.9	12.5%	886.7	24.4%	2,082.7	2,026.0	2.8%
Total Income	4,232.7	4,150.3	2.0%	3,925.2	7.8%	8,383.0	8,075.2	3.8%
Operating Expenses	(2,293.6)	(2,302.4)	-0.4%	(2,087.3)	9.9%	(4,596.0)	(4,228.4)	8.7%
(Allowances)/write-backs	(329.0)	(300.0)	9.7%	(344.4)	-4.5%	(629.0)	(745.7)	-15.6%
(Other Impairments)/Writebacks	122.2	8.7	1298.0%	19.7	520.3%	131.0	(4.3)	N.a
Operating Profit	1,732.3	1,556.6	11.3%	1,513.1	14.5%	3,288.9	3,096.7	6.2%
Others	223.5	46.5	380.5%	946.0	-76.4%	270.1	1,105.3	-75.6%
Pre-Tax Profit	1,955.8	1,603.1	22.0%	2,459.2	-20.5%	3,559.0	4,202.1	-15.3%
Tax & Minority Interest	(447.2)	(411.1)	8.8%	(478.4)	-6.5%	(858.3)	(915.4)	-6.2%
Net Profit	1,508.6	1,192.0	26.6%	1,980.8	-23.8%	2,700.7	3,286.7	-17.8%
Core Profit	1,508.6	1,192.0	26.6%	1,980.8	-23.8%	2,700.7	3,286.7	-17.8%
EPS (sen)	15.6	12.5	25.0%	21.3	-26.7%	-	35.3	N.a
DPS (sen)	14.0	-	N.a	13.0	7.7%	-	13.0	N.a
Gross Loans	355,277.0	350,684.5	1.3%	331,989.2	7.0%	355,277.0	331,989.2	7.0%
Net Loans	346,608.9	341,453.4	1.5%	323,337.3	7.2%	346,608.9	323,337.3	7.2%
Total Customer Deposits	380,113.8	375,261.7	1.3%	343,537.6	10.6%	380,113.8	343,537.6	10.6%
CASA / Low Cost Deposits	133,331.0	125,567.1	6.2%	125,738.4	6.0%	133,331.0	125,738.4	6.0%
Book value/share (RM)	5.70	5.52	3.1%	5.23	8.9%	5.70	5.23	8.9%
NTA/share (RM)	4.71	4.54	3.6%	4.22	11.7%	4.71	4.22	11.7%
Est. Annualised Net Interest Margin	2.53%	2.61%		2.62%		2.54%	2.60%	
Reported Net Interest Margin	2.46%	2.48%		2.53%		0.00%	0.00%	
Cost-to-Income Ratio	54.2%	55.5%		53.2%		54.8%	52.4%	
Est. Annualised Credit Charge (Writeback) Ratio	0.38%	0.35%		0.42%		0.36%	0.46%	
Effective Tax Rate	23.6%	24.7%		18.1%		24.1%	20.2%	
G.Loan-to-Deposit Ratio	93.5%	93.5%		96.6%		93.5%	96.6%	
N.Loan-to-Deposit Ratio	91.2%	91.0%		94.1%		91.2%	94.1%	
% of CASA to Total Customer Deposits	35.1%	33.5%		36.6%		35.1%	36.6%	
Total Allowances-to-Loans	2.45%	2.64%		2.88%		2.45%	2.88%	
Gross Impaired Loans Ratio	3.13%	2.99%		3.17%		3.13%	3.17%	
Loan Loss Coverage	78.2%	88.2%		90.7%		78.2%	90.7%	
CET1	12.4%	12.1%		13.4%		12.4%	13.4%	
Total Capital	16.1%	15.6%		17.5%		16.1%	17.5%	
Est. Annualised ROE	11.5%	9.4%		16.5%		10.3%	13.7%	

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	1.97	3,912.5	N	12/2019	8.2%	5.3%	9.3%	15.9%	7.8	7.1	6.1	0.5	0.4	6.2%	2.8%	2.40	OP
ALLIANCE BANK MALAYSIA BHD	2.98	4,613.4	N	03/2020	5.9%	7.2%	-1.5%	10.9%	8.6	8.7	7.9	0.8	0.8	9.0%	5.5%	3.45	OP
AMMB HOLDINGS BHD	4.07	12,267.7	N	03/2020	10.4%	4.5%	-0.4%	2.8%	8.1	8.2	8.0	0.7	0.6	7.8%	4.9%	4.75	OP
BIMB HOLDINGS BHD	4.07	7,180.6	Y	12/2019	10.0%	6.6%	7.6%	13.6%	10.5	10.1	9.3	1.4	1.4	14.0%	4.0%	4.80	OP
CIMB GROUP HOLDINGS BHD	4.94	48,053.5	N	12/2019	4.6%	5.0%	-16.2%	2.6%	8.3	10.2	10.3	0.9	0.8	8.5%	4.6%	6.45	OP
HONG LEONG BANK BERHAD	16.50	35,767.3	N	06/2020	4.1%	5.1%	1.0%	0.5%	12.8	12.7	12.6	1.4	1.3	10.8%	3.0%	17.30	MP
MALAYAN BANKING BHD	8.57	96,338.5	N	12/2019	3.8%	4.3%	-2.2%	4.7%	11.7	11.9	11.4	1.2	1.1	9.7%	6.6%	9.70	OP
MALAYSIA BUILDING SOCIETY	0.83	5,572.1	N	12/2019	-1.0%	5.3%	-10.7%	10.2%	8.3	9.3	8.8	0.7	0.7	7.2%	6.0%	1.15	OP
PUBLIC BANK BERHAD	20.32	78,885.1	N	12/2019	3.9%	5.2%	-0.1%	3.5%	14.0	14.1	13.6	1.9	1.9	13.7%	3.3%	25.20	OP
RHB BANK BHD	5.65	22,656.8	N	12/2019	6.0%	4.8%	3.7%	5.7%	9.8	9.5	9.0	1.0	0.9	9.9%	3.7%	6.05	OP
Simple Average					5.6%	5.3%	-0.9%	7.0%	10.0	10.2	9.7	1.0	1.0	9.7%	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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KENANGA INVESTMENT BANK BERHAD (15678-H)

Level 12, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my



Chan Ken Yew
Head of Research