

16 August 2019

CIMB Group Holdings Bhd

CIMB Niaga: Better Asset Pricing

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CIMB Niaga's 6M19 CNP of IDR1.97t is within market expectation, accounting for 55% of consensus estimate as both top-line and asset quality improved. We refrain from making any changes in earnings estimates pending the Group's 6M19 results later this month. Maintain TP at RM6.45 with an OUTPERFORM as valuations are undemanding.

Within expectations. CIMB Niaga, a 92.5% subsidiary of CIMB Group recorded a core net profit (CNP) of IDR1.97t for 6M19 which was in line with market expectation, accounting for 55% of full-year estimate. CNP growth of +12% YoY was primarily driven by improvement in top-line, mainly from fee-based income.

NIM expanded with asset quality improving. Top-line was up by +12% to IDR9.4t, driven by NOII (+30% to IDR3.1t). NOII growth was driven primarily by strong performance from realised gain on derivatives (>+100% to IDR960b) and gains from sale of financial assets (>+100% to IDR155b). NII was commendable, registering mid-single-digit growth (+5.5% to IDR 6.32t) for the first time since 3Q17. NII was driven by strong NIM (+30bps to 5.2%; above guidance) as loans moderated to 40bps to +2.6%. Asset quality continued to improve with GIL down by 32bps to 2.9% with credit charge shedding 7bps to 1.7% (within guidance of 1.8%).

QoQ, the strong 1H was also driven by a strong 2Q as CNP was up 10% (a first since 1Q18) to IDR1,035b. While NII was strong for the quarter (+8%), NOII fell 12% to IDR1.44t. Loans rebounded by +1.4% with the strong NII supported by expanding NIM (+35bps to 5.4%). Asset quality was mixed with GIL improving by 18bps to 2.9% with a 19bps uptick in credit charge to 1.8%.

Consumer the driver. The NIM expansion wasn't a surprise given that 1Q saw uptick due to better repricing of assets. Management guided that further expansion is unlikely as higher funding costs are likely to creep in (which we believe could be due to higher deposits intake (as LDR is at >100% vs. 98% a year ago). Thus, we expect NIM to hover at ~5% by end of FY19. We are encouraged by improvement from its consumer banking (+7% YoY and contributing 40% of its loans) underpinned by its mortgages (+14% YoY) and credit card (+10% YoY) space. With its auto loans turning around since 2Q19, we expect Niaga's loans to be driven by the mass affluent segment with risk appetite sustainable given the improving asset quality.

Forecasts unchanged for the Group as Niaga's results came within expectations and guidance. Historically Niaga's contribution to the Group is at ~20%. FY18 PBT contribution was at 20%. The Group's 6M19 results are expected at the end of the month; thus FY19E earnings of RM4.7b are maintained for now.

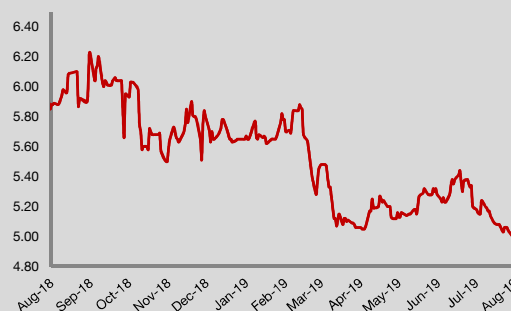
TP maintained at RM6.45 based on a FY20 target PBV of 1.06x (5-year mean). This is justified as we have been conservative in our assumptions coupled with momentum from capital market activities and loans activities expected to gain traction from both Malaysia and Indonesia into 2020. Furthermore, the low interest rate environment will be supportive of loans from the consumer space. Valuations are undemanding with potential returns >30% and coupled with a decent dividend yield of 4.4%, we reiterate our **OUTPERFORM** call.

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.

OUTPERFORM ↔

Price : RM5.05
Target Price : RM6.45 ↔

Share Price Performance



KLCI	1,600.29
YTD KLCI chg	-5.3%
YTD stock price chg	-11.6%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	CIMB MK Equity
Market Cap (RM m)	49,123.5
Shares Outstanding	9,727.4
52-week range (H)	6.28
52-week range (L)	4.98
3-mth avg daily vol:	9,336,552
Free Float	57%
Beta	1.3

Major Shareholders

Khazanah Nasional Bhd	23.5%
Employees Provident Fund	13.1%
Kumpulan Wang Persaraan	6.9%

Summary Earnings Table

FY Dec (RM'm)	2018A	2019E	2020E
Net interest inc.	9,634	10,008	10,445
Islamic banking inc.	2,610	2,676	2,902
Non-interest inc.	4,046	4,305	4,369
Total Income	16,291	16,988	17,716
Pre-tax profit	7,201	6,389	6,555
Net profit (NP)	5,584	4,679	4,801
Consensus NP		4,877	5,302
Earnings Revision (%)			
EPS (RM)	59.7	48.4	48.0
EPS growth (%)	18.2	-18.9	-0.7
DPS (RM)	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)	8.5	10.4	10.5
Price/Book (x)	1.1	1.1	1.0
Price/NTA (x)	0.9	0.9	0.8
Dividend yield (%)	5.0	4.5	4.4

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Results Highlight								
Y/E : 31 Dec (IDR 'bn)	2Q19	1Q19	QoQ Chg.	2Q18	YoY Chg.	6M19	6M18	YoY Chg.
Net Interest Income	3,278.5	3,037.6	7.9%	2,954.8	11.0%	6,316.1	5,988.3	5.5%
Non Interest Income	1,439.9	1,631.2	-11.7%	1,117.9	28.8%	3,071.1	2,358.4	30.2%
Total Income	4,718.4	4,668.8	1.1%	4,072.8	15.9%	9,387.2	8,346.7	12.5%
Operating Expenses	(2,019.5)	(2,084.1)	-3.1%	(1,930.3)	4.6%	(4,103.6)	(3,896.7)	5.3%
(Allowances)/write-backs	(843.7)	(751.7)	12.2%	(762.0)	10.7%	(1,595.5)	(1,614.9)	-1.2%
(Other Impairments)/Writebacks	(2.4)	(0.6)	276.5%	33.7	107.1%	(3.0)	(5.0)	-39.4%
Other operating gains/(losses)	(449.9)	(561.2)	-19.8%	(222.2)	102.5%	(1,011.1)	(431.4)	134.4%
Operating Profit	1,402.8	1,271.1	10.4%	1,191.9	17.7%	2,674.0	2,398.7	11.5%
Non-operating gains/(losses)	(6.4)	9.9	164.8%	8.9	171.9%	3.5	22.2	-84.3%
Pre-Tax Profit	1,396.4	1,281.0	9.0%	1,200.8	16.3%	2,677.4	2,420.9	10.6%
Tax & Minority Interest	(360.6)	(340.4)	6.0%	(309.7)	16.4%	(701.0)	(653.1)	7.3%
Net Profit	1,035.8	940.6	10.1%	891.2	16.2%	1,976.4	1,767.8	11.8%
EPS (IDR)	41.5	37.9	9.7%	35.6	16.8%	37.8	70.4	-46.3%
Gross Loans	190,540.0	187,990.0	1.4%	185,720.0	2.6%	190,540.0	185,720.0	2.6%
Net Loans	185,094.4	181,598.3	1.9%	179,110.0	3.3%	185,094.4	179,110.0	3.3%
Total Customer Deposits	170,678.2	164,042.2	4.0%	190,280.0	-10.3%	170,678.2	190,280.0	-10.3%
CASA / Low Cost Deposits	97,547.8	93,601.7	4.2%	106,790.0	-8.7%	97,547.8	106,790.0	-8.7%
Book value/share (IDR)	1,665.4	1,649.2	1.0%	1,501.6	10.9%	1,665.4	1,501.6	10.9%
NTA/share (IDR)	1,665.4	1,649.2	1.0%	1,501.6	10.9%	1,665.4	1,501.6	10.9%
Est. Annualised Net Interest Margin	5.40%	5.05%		4.85%		5.20%	4.91%	5.40%
Cost-to-Income Ratio	42.8%	44.6%		47.4%		43.7%	46.7%	42.8%
Est. Annualised Credit Charge (Writeback) Ratio	1.80%	1.61%		1.67%		1.70%	1.77%	1.80%
Effective Tax Rate	25.8%	26.6%		25.8%		26.2%	27.0%	25.8%
G.Loan-to-Deposit Ratio	111.6%	114.6%		97.6%		111.6%	97.6%	111.6%
N.Loan-to-Deposit Ratio	108.4%	110.7%		94.1%		108.4%	94.1%	108.4%
% of CASA to Total Customer Deposits	57.2%	57.1%		56.1%		57.2%	56.1%	57.2%
Total Allowances-to-Loans	2.86%	3.40%		3.56%		2.86%	3.56%	2.86%
Gross Impaired Loans Ratio	2.87%	3.05%		3.39%		2.87%	3.39%	2.87%
Loan Loss Coverage	99.6%	111.5%		105.0%		99.6%	105.0%	99.6%
Tier 1 Capital	19.4%	19.2%		17.4%		19.4%	17.4%	19.4%
Total Capital	20.6%	20.4%		18.6%		20.6%	18.6%	20.6%
Est. Annualised ROE	10.3%	9.6%		9.6%		9.8%	9.5%	10.3%

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	1.96	3,892.6	N	12/2019	8.2%	5.3%	9.3%	15.9%	7.7	7.0	6.1	0.4	0.4	6.2%	2.8%	2.40	OP
ALLIANCE BANK MALAYSIA BHD	3.30	5,108.7	N	03/2020	9.4%	8.0%	7.2%	9.2%	9.5	8.9	8.1	0.9	0.8	9.8%	5.4%	4.25	OP
AMMB HOLDINGS BHD	3.94	11,875.9	N	03/2020	9.7%	4.8%	-4.4%	2.8%	7.9	8.3	8.0	0.6	0.6	7.5%	5.1%	5.10	OP
BIMB HOLDINGS BHD	4.00	7,057.1	Y	12/2019	7.8%	8.5%	7.6%	13.6%	10.3	9.9	9.1	1.4	1.3	14.0%	4.0%	4.80	MP
CIMB GROUP HOLDINGS BHD	5.05	49,123.5	N	12/2019	4.6%	5.0%	-16.2%	2.6%	8.5	10.4	10.5	0.9	0.8	8.5%	4.5%	6.45	OP
HONG LEONG BANK BERHAD	17.04	36,937.9	N	06/2019	5.8%	5.7%	2.0%	9.0%	13.2	13.0	11.9	1.5	1.4	11.0%	2.8%	20.05	MP
MALAYAN BANKING BHD	8.55	96,113.6	N	12/2019	4.2%	4.3%	-0.5%	3.2%	11.6	11.7	11.3	1.2	1.1	9.9%	6.7%	10.35	OP
MALAYSIA BUILDING SOCIETY	0.83	5,538.6	N	12/2019	-1.0%	5.3%	-10.7%	10.2%	8.2	9.2	8.7	0.7	0.7	7.2%	6.1%	1.15	OP
PUBLIC BANK BERHAD	20.80	80,748.5	N	12/2019	3.9%	5.2%	-0.1%	3.5%	14.4	14.4	13.9	2.0	2.0	13.7%	3.3%	25.20	OP
RHB BANK BHD	5.52	22,135.5	N	12/2019	6.0%	4.8%	3.7%	3.6%	9.6	9.3	8.9	0.9	0.9	9.9%	3.8%	6.05	OP
Simple Average					5.9%	5.7%	-0.2%	7.4%	10.1	10.2	9.7	1.1	1.0	9.8%	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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