

PP14767/09/2012(030761)

Market Access

CIMB Group Holdings Berhad

“Continue to Wash Out”

Results Review

- Actual vs. expectations.** CIMB Group Holdings Bhd (CIMB) 9M15 net profit of RM2.06 billion (-30% y-o-y) came in within ours estimates, but below consensus forecast, accounting 72% and 62% of ours and consensus full year net profit forecast. The lower earnings was fuelled by higher loans loss of RM1.58 billion (+163% y-o-y) on the back of weak individual and collective allowance of 234% y-o-y and 71.3% y-o-y respectively in 9M15. Stripping off exceptional expenses of RM518 million (RM202 million for restructuring expenses and RM316 million for MSS), CIMB net profit only dropped by 14.4% y-o-y.
- Dividend.** No dividend was declared in this quarter.
- Topline vs. Bottom line.** 9M15 net income surged to RM11.3 billion (+9% y-o-y) thanks to strong growth in both net interest income (+7% y-o-y) and non-interest income (+12% y-o-y) to RM6.8 billion and RM3.3 billion respectively. The growth in interest income was premised on higher income from loans and money at call by 14.1% y-o-y and 5.4% y-o-y in 9M15. Nevertheless, pre-provision income fell by 2% y-o-y on higher opex on the back of restructuring and MSS cost.
- Segment review.** Overall, consumer banking was the star performer in 9M15 with PBT surging by 17.4% y-o-y, underpinned by fine performance in Indonesia (+85.4% y-o-y), Thailand (+50.5% y-o-y) and Singapore (+41.7% y-o-y). Malaysia consumer banking contributed with soft with growth of 4.8% y-o-y. Whilst commercial banking PBT fell by 6% y-o-y on the back of higher provision. Nevertheless, Malaysia commercial banking showed improvement with 15% y-o-y growth in PBT. Wholesale banking remained weak with contribution dropping by 38.4% y-o-y in 9M15, wedged by the drop in contribution

Thursday, November 26, 2015

HOLD (TP: RM4.90)

Current Price (RM)	RM4.60
New Fair Value (RM)	RM6.10
Previous Fair Value (RM)	RM6.10
Previous Recommend.	HOLD
Upside To Fair Value	6.5%
Dividend Yield (FY15)	2%

Stock Code	
Bloomberg	CIMB MK

Stock & Market Data	
Listing	MAIN MARKET
Sector	Finance
Shariah Compliance	No
Issued Shares (mn)	8,527.3
Market Cap (RM mn)	39,225.4
YTD Chg In Share Price	-17.3%
Beta (x)	1.17
52-week Hi/Lo (RM)	RM6.32 RM4.46
3M Average Volume (shrs)	11.30mn
Estimated Free Float	55%

Major Shareholders	
Khazanah	29.7%
EPF	17.1%
Mitsub. UFJ	4.6%

from both the corporate banking (-28% y-o-y) and treasury operations (28.3% y-o-y).

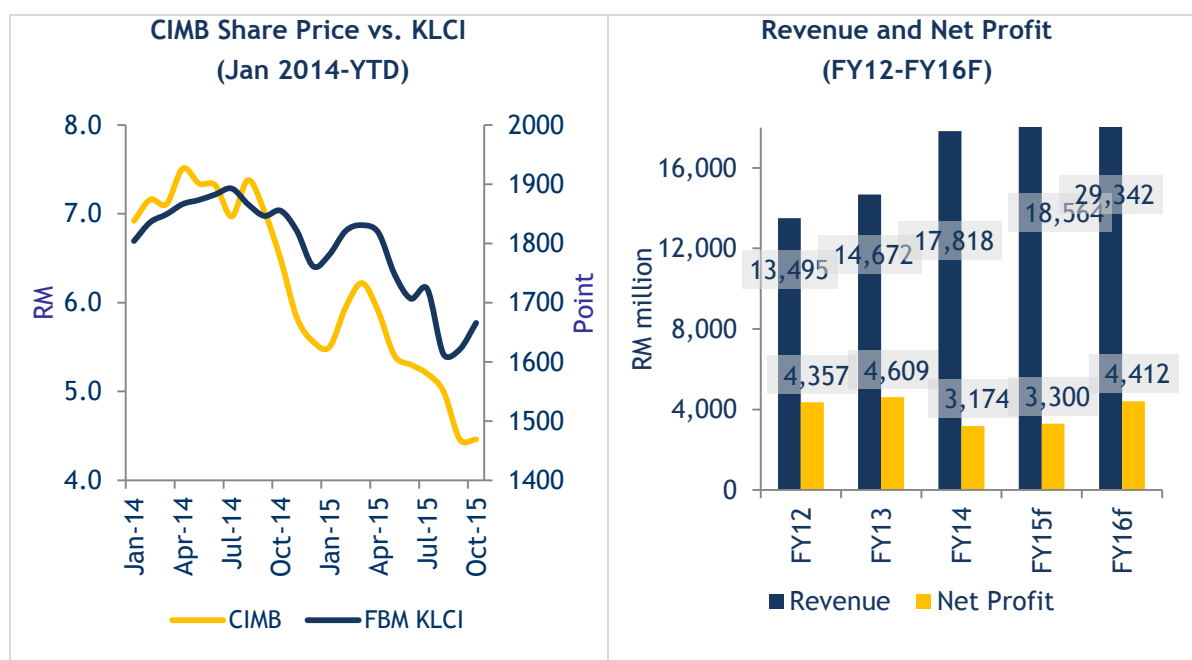
- **Provision remains elevated.** Gross NPLs was at 3.2% vs. 3.4% in 9M14, with deterioration in asset quality in Thailand. The overall loan loss charge was at 3% vs. 1.2% in 9M15 with weakness noted in Indonesia. Management highlighted that provisions for Niaga will improve in 3Q15 and 4Q15 due to weakness of the economic conditions in Indonesia.
- **Gross loans growth surged.** Despite satisfactory performance, loans growth managed to rake-in a growth of 10.7% y-o-y (excluding forex impact) vs. 10% FY15 guidance as the Group pushing its loan-to-deposit ratio to 94% level. The strong gross loans growth was assisted by the growth in Indonesia of 12.3% y-o-y, Thailand at 9.2% y-o-y and Singapore at 7.9% y-o-y and Thailand of 10.4% y-o-y. Malaysia gross loans growth continued its double digits pace of 10.5%. Segmentally, all segment recorded double digit loans growth with wholesale banking leading at 27.1% y-o-y, followed by retail at 15.8% y-o-y.
- **Deposits growth weakened.** Deposits grew to 5.8% y-o-y (ex-forex impact) with the strongest contributor from Singapore of 17.2% y-o-y and Indonesia at 11.3% y-o-y. Malaysia deposits growth normalized to 10.8% due to the deposit campaign held. CASA ratio weakened marginally by 8bps to 34.1% as intense competition in Malaysia pushed the Group CASA weakened.
- **NIM weakened, but rising on q-o-q.** The Group reported a net interest margin (NIM) of 2.65% vs. 2.86% in 9M14, or 21bps compression. This decline came in below the company's target of NIM compression of 5bps to 10bps YoY for FY15 as the Group managed to grow NIM on q-o-q basis by 4bps. The compression in NIM was attributed to higher funding costs mainly from its retail division. This came from greater deposit costs, largely for Indonesia and Malaysia.
- **Change to earnings forecast.** We maintain our FY15 and FY16 earnings forecast as 3Q15 are within our expectation. FY15 and FY16 earnings are expected to grow by 3% and 30% respectively underpinned by i) recovering in non-interest income in Malaysia ii) enormous growth in Singapore iii) stronger contribution from regional capital market
- **Outlook.** We view that CIMB turnaround effort is progressing well with improvement in both net interest income and non-interest income. Additionally, CIMB managed to slow down the overhead expenses with series of cost cutting initiatives, but management reiterated the overhead cost will remains accelerating due to the MSS cost. In our forecast, we have taken into account a slow momentum for top line growth in view that FY15 will be the year which the Group will focus on managing costs. Hence, we have projected ROE of 9.5% for FY15.
- **Valuation & recommendation.** We value CIMB at RM4.90 as we incorporate -1 standard deviation below mean of P/BV of 1.4x. That said we maintained our **HOLD** call on CIMB. Re-rating catalyst for the stock includes. 1) more merger and acquisition activity 2) easing banking environment in Indonesia 3)securing more financing for ETP related projects

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Table 1: Peers Comparison

Company	YE	Price (RM)	EPS (RM)		P/E (x)		P/B (X)		ROE (%)	Div Yield (%)	TP (RM)	Call
			FY15	FY16	FY15	FY16	FY15	FY16				
AFG	Mac	3.58	0.4	0.4	12.7	12.0	1.7	1.6	14.3	1.9	4.00	Hold
AMMB	Mac	4.62	0.6	0.6	11.0	11.0	1.4	1.3	14.1	4.5	5.10	Hold
BIMB	Dec	3.95	0.3	0.4	11.7	11.3	1.8	2.0	16.0	5.8	4.60	Buy
CIMB	Dec	4.60	0.5	0.6	12.1	10.4	1.3	1.5	9.2	3.5	4.90	Hold
Maybank	Dec	8.41	0.7	0.8	12.6	11.9	1.5	1.5	13.6	6.2	9.92	Buy
RHB Cap	Dec	5.55	0.8	0.9	9.7	9.1	1.1	1.1	11.5	1.3	6.60	Hold
Public Bank	Dec	18.24	1.2	1.3	15.3	14.2	2.6	2.8	18.7	2.9	19.14	Hold
Affin	Dec	2.42	0.3	0.3	9.0	8.5	0.7	0.7	7.8	5.1	NR	NR
MBSB	Dec	1.60	0.2	0.3	9.1	8.4	1.2	1.1	29.6	2.3	NR	NR
STMB	Dec	3.72	NA	NA	NA	NA	NA	NA	24.3	6.6	NR	NR
HL Bank	Jun	13.28	1.2	1.3	12.0	11.2	1.6	1.5	14.7	2.9	NR	NR
Average			0.6	0.7	11.5	10.8	1.5	1.5	15.8	3.9		

Source: Bloomberg, M&A Securities



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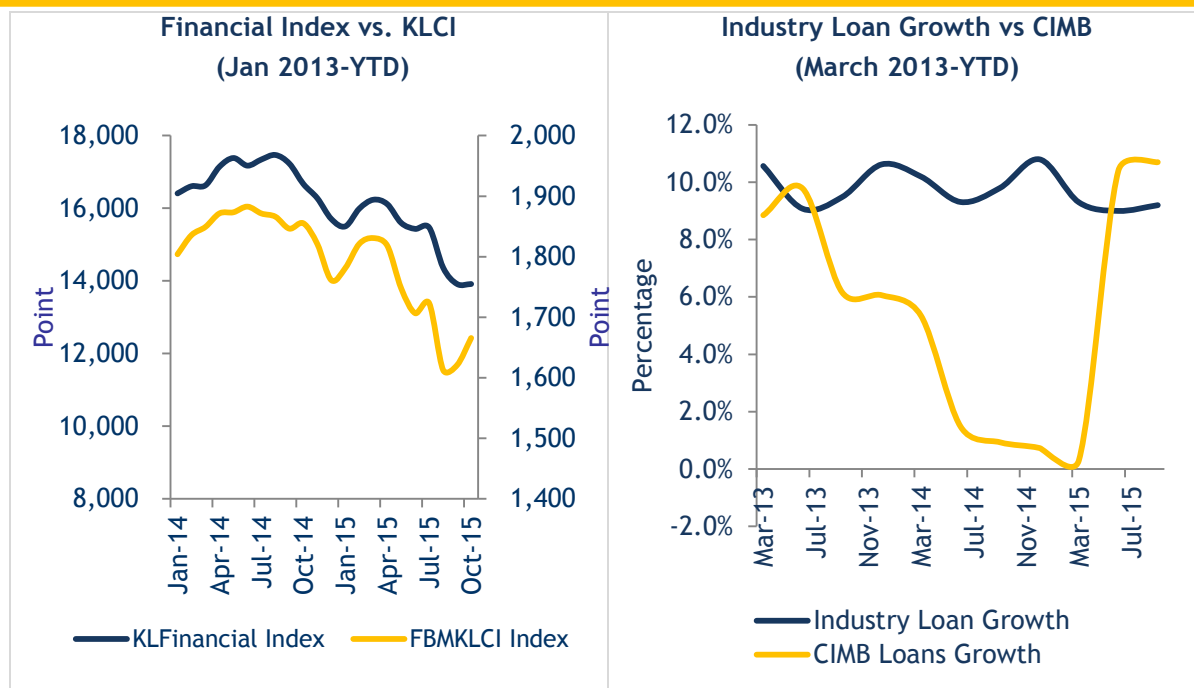


Table 2: Operational ratio

Y/E: Dec (RM'mil)	FY12	FY13	FY14	9M15
Asset Quality				
Gross Impairment	3.4%	3.2%	3.1%	3.4%
Allowance Coverage	82.8%	84.8%	82.7%	75.6%
Profitability				
ROA	1.3	1.2	0.8	0.7
ROE	15.5	15.5	9.3	8.8%
Cost to Income				56.2%
Lending and Deposits				
Loan Growth	8.9%	13%	13.2	10.7%
Deposits Growth	9.9%	10.2%		10.4%
Loan to Deposits	82.9%	88.4%	93%	94.9%
Margin				
Net Interest Margin		2.9%	2.8%	2.65%
Capital Strength				
CET1		8.3%	10.4%	9.3%
Tier1		8.6%	11%	10.6%
Total capital		15.1%	17.2%	13.4%

Table 2: Results Analysis

YE: Dec (RM million)	3Q15	2Q15	3Q14	y-o-y	q-o-q	9M15	9M14	y-o-y
Gross Interest income	4,656	4,385	4,040	15%	6%	13,319	11,837	13%
Interest expense	-2,240	-2,117	-1,869	20%	6%	-6,443	-5,423	19%
Net interest income	2,416	2,269	2,171	11%	6%	6,876	6,413	7%
Islamic banking income	386	399	355	9%	-3%	1,152	1,084	6%
Other income	1,035	1,165	987	5%	-11%	3,322	2,956	12%
Net income	3,837	3,833	3,514	9%	0%	11,350	10,453	9%
Operating expenses	-2,261	-2,440	-2,034	11%	-7%	-7,040	-6,053	16%
Pre-provision income	1,576	1,393	1,480	7%	13%	4,310	4,400	-2%
Allowance loan loss	-524	-529	-344	52%	-1%	-1,587	-603	163%
Allowance on impairment and other receivables	-7	-1	-5	31%	1296%	-4	-35	-88%
Writeback of impairment	2	-9	2	-16%	-118%	-8	4	-301%
Recoveries from investment management	0	0	0	0	0	0	1	-100%
Operating profit	1,047	854	1,132	-8%	23%	2,711	3,767	-28%
Associate	27	28	32	-13%	-3%	82	107	-23%
Joint Ventures	-4	1	1	-392%	-509%	-16	-3	524%
Other gain/disposal	4	1	15	-76%	522%	4	21	-80%
PBT	1,075	884	1,180	-9%	22%	2,782	3,892	-29%
Taxation	-256	-232	-276	-7%	11%	-721	-942	-23%
PAT	818	652	904	-9%	26%	2,060	2,950	-30%

Source: Bursa Malaysia, M&A Securities

Table 3: Financial Forecast

YE: Dec (RM million)	FY13	FY14	FY15F	FY16F
Revenue	18,469	17,818	18,564	19,342
Net Interest Income	7,954	8,656	8,898	9,794
Non-interest income	4,600	3,931	4,128	4,558
Islamic Banking Income	1,593	1,461	1,505	1,856
Operating income	14,147	14,048	14,531	16,208
Overheads	-8,458	-8,292	-8,574	-8,745
Profit before allowance	5,689	5,756	5,957	7,463
Allowance for loan loss	-661	-1,522	-1,880	-1,920
Impairment on assets	-61	-188	-120	-100
Operating profit	4,967	4,046	3,957	5,443
Results of associates	361	123	398	420
Others	520	107	45	20
PBT	5,849	4,276	4,400	5,883
PAT	4,609	3,174	3,300	4,412
EPS (sen)	60.0	37.7	39.0	52
NII margin	43%	49%	48%	51%
NOII margin	25%	22%	22%	24%
PBT Margin	41%	30%	30%	36%
PAT Margin	33%	23%	23%	27%
PER (x)	12.7	12.0	10.5	11.6
P/BV (x)	1.95	1.56	1.43	1.3

Source: Bursa Malaysia, M&A Securities

M&A Securities

STOCK RECOMMENDATIONS

BUY	Share price is expected to be $\geq +10\%$ over the next 12 months.
TRADING BUY	Share price is expected to be $\geq +10\%$ within 3-months due to positive newsflow.
HOLD	Share price is expected to be between -10% and $+10\%$ over the next 12 months.
SELL	Share price is expected to be $\geq -10\%$ over the next 12 months.

SECTOR RECOMMENDATIONS

OVERWEIGHT	The sector is expected to outperform the FBM KLCI over the next 12 months.
NEUTRAL	The sector is expected to perform in line with the FBM KLCI over the next 12 months.
UNDERWEIGHT	The sector is expected to underperform the FBM KLCI over the next 12 months.

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