

PP14767/09/2012(030761)

Market Access

CIMB Group Holdings Berhad

“Pessimistic Over KPI Outlook”

It was reported in the news that CIMB CEO predicts that the group may not be able to meet some of its KPIs set for this year given the challenging operating environment. Hence, we tweak our TP to RM4.90 as we assigned lower P/BV target. The stock is a HOLD.

The key information that we gathered from the recent news flow on CIMB are as follows:

- Slowdown in household loans segment.** The surge in household debt that reached 140% of GDP in June 2015 has forced Bank Negara Malaysia (BNM) to clampdown loans growth in certain segment including in the household segment. That said, the instructions has caused the approvals in the household segment to drop significantly and has very much impacted all banks that have large exposure in the household segment. Thankfully, for CIMB, its loans composition is well balance between household and corporate loans and this may provide a shield against the rising tide. Nonetheless, we expect further deterioration in loans growth in Malaysia given the on-going clampdown in household loans in order to protect asset quality.
- Loans growth outlook.** We view CIMB loans growth outlook of 10% y-o-y in FY15 is achievable given 6M15's loans growth already surpassed the management guidance or reaching 16.5% y-o-y assisted by foreign exchange translation (+12.2% y-o-y excluding foreign exchange translation). In 2H15, we expect that further slowdown in household loans will bite loans growth, however on the flip side, we do not expect the overly deterioration in household loans as CIMB already adopted a cautious approach to slowdown the inching-up of gross impaired loans.
- Other countries contribution still healthy.** Despite the slowdown in Malaysia, we believe CIMB's other countries contribution still healthy, especially in Thailand (+10.1%

Thursday, October 15, 2015

HOLD (TP: RM4.90)

Current Price (RM)	RM4.95
New Fair Value (RM)	RM4.90
Previous Fair Value (RM)	RM6.10
Previous Recommend.	BUY
Upside To Fair Value	0.2%
Dividend Yield (FY15)	1.6%

Stock Code

Bloomberg	CIMB MK
-----------	---------

Stock & Market Data

Listing	MAIN MARKET	
Sector	Finance	
Shariah Compliance	No	
Issued Shares (mn)	8,489.8	
Market Cap (RM mn)	41,769	
YTD Chg In Share Price	-11.5%	
Beta (x)	1.09	
52-week Hi/Lo (RM)	RM6.73	RM4.46
3M Average Volume (shrs)	11.30mn	
Estimated Free Float	55%	

Major Shareholders

Khazanah	29.5%
EPF	17.2%
Aberdeen	5.0%

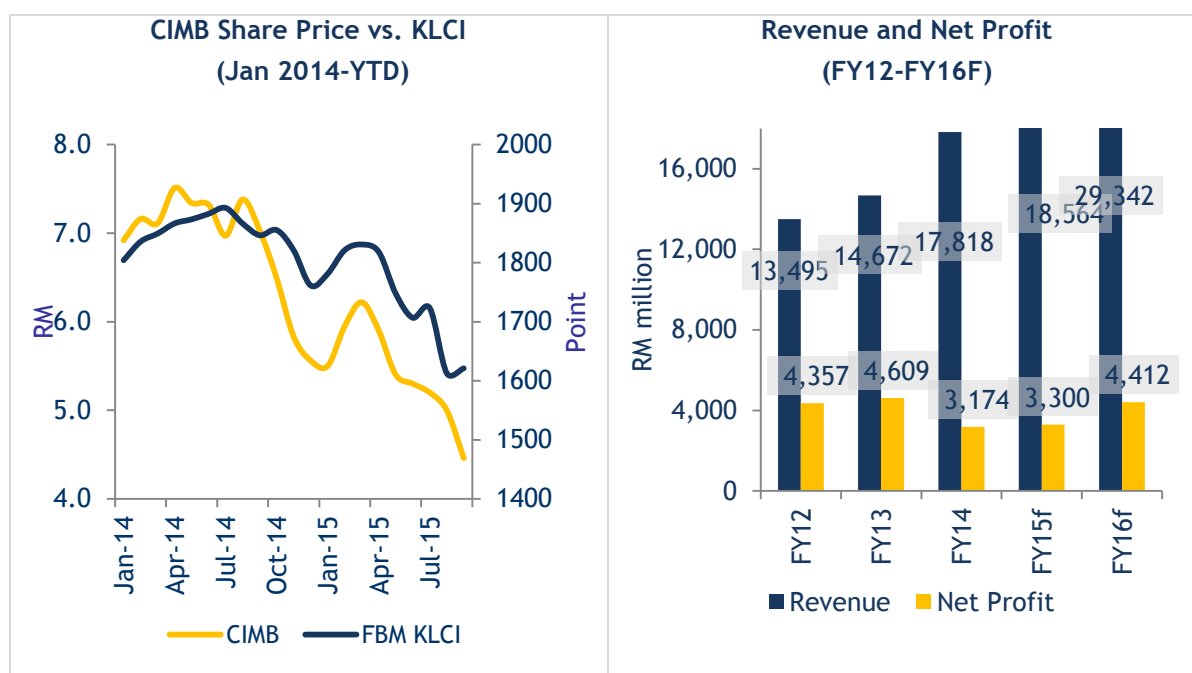
y-o-y) and Singapore (+15% y-o-y) that continue to experience healthy loans growth. That said, we project other countries loans growth will support CIMB's loans growth despite the slowdown in Malaysia's performance.

- **Loans loss coverage to over in Indonesia.** Indonesia economy outlook was not convincing as the country recorded the slowest growth in more than five years, however CIMB is optimistic on its potential in Indonesia where massive provisions were already in place and it is about to be over. The recent separation scheme offered (MSS) in Indonesia is expected to bring more breathing space into cost.
- **Cost remain high, however one-off.** CIMB's KPI to achieve >55% CTI is expected be in threat as at 1H15 CTI only reached 56.7% (excluding restructuring cost and MSS cost). However we expect things to normalize in FY16 as the absence of large provisions as well as MSS cost to benefit CIMB's CIT.
- **NIM weakened.** CIMB NIM is one of highest in industry, where the large NIM is largely contributed by the Indonesia operations. However given the high cost of funds the industry experiencing, we do expect CIMB NIM to taper off to ~2.55% - 2.6% in FY15. We do not price in a large drop as a result as CIMB CASA position that is attractive to defend CIMB cost of funds.
- **Earnings outlook..** Despite the challenges ahead, CIMB's FY15 and FY16 earnings are expected to grow by 3% and 30% respectively underpinned by i) recovery in non-interest income in Malaysia ii) enormous growth in Singapore iii) stronger contribution from regional capital market.
- **Valuation & recommendation.** We value CIMB at RM4.90 as we incorporate 1-standard deviation below mean of P/BV of 1.4x from a mean of 1.8x previously given the challenges ahead. That said, we downgrade our call to a HOLD from a BUY on CIMB. . Re-rating catalyst for the stock includes 1) new merger and acquisition activity 2) easing banking environment in Indonesia 3) securing more financing for ETP related projects

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	3.64	0.4	0.4	12.7	12.0	1.7	1.6	14.3	1.9	4.00	Hold
AMMB	Mac	4.90	0.6	0.6	11.0	11.0	1.4	1.3	14.1	4.5	5.10	Hold
BIMB	Dec	4.16	0.3	0.4	11.7	11.3	1.8	2.0	16.0	5.8	4.60	Buy
CIMB	Dec	4.95	0.5	0.6	12.1	10.4	1.3	1.5	9.2	3.5	4.90	Hold
Maybank	Dec	8.62	0.7	0.8	12.6	11.9	1.5	1.5	13.6	6.2	9.92	Buy
RHB Cap	Dec	6.15	0.8	0.9	9.7	9.1	1.1	1.1	11.5	1.3	6.60	Hold
Public Bank	Dec	18.54	1.2	1.3	15.3	14.2	2.6	2.8	18.7	2.9	19.14	Hold
Affin	Dec	2.45	0.3	0.3	9.0	8.5	0.7	0.7	7.8	5.1	NR	NR
MBSB	Dec	1.59	0.2	0.3	9.1	8.4	1.2	1.1	29.6	2.3	NR	NR
STMB	Dec	3.89	NA	NA	NA	NA	NA	NA	24.3	6.6	NR	NR
HL Bank	Jun	13.92	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



Source: Bloomberg, M&A Securities

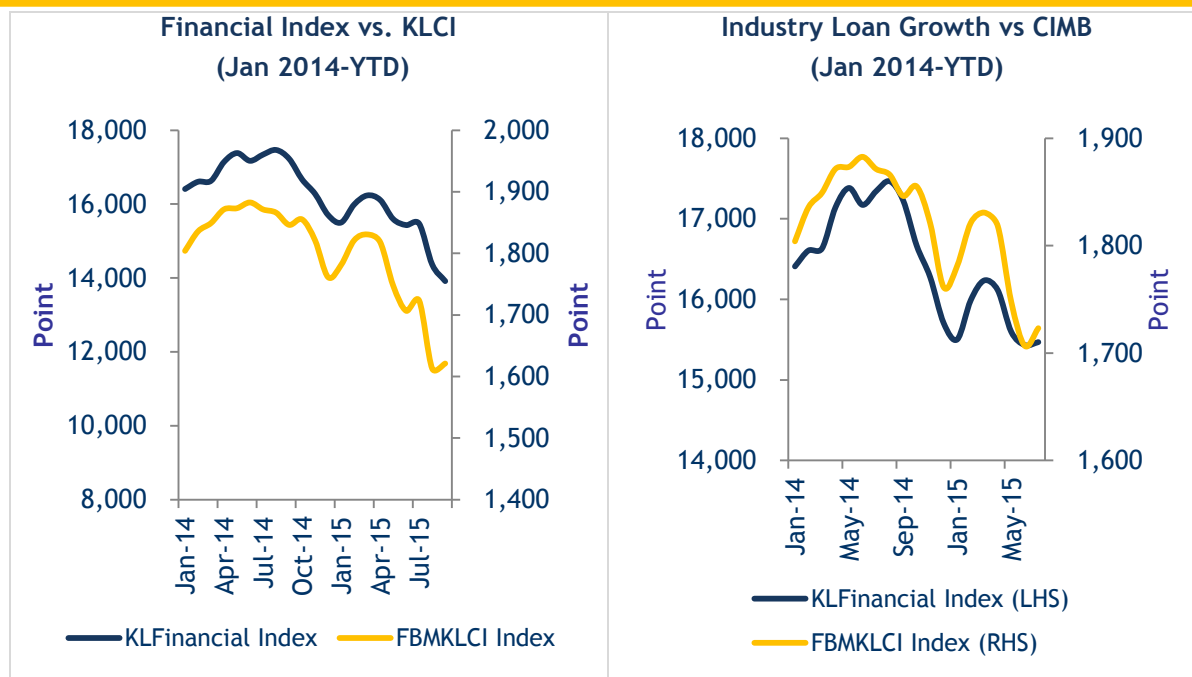


Table 3: Financial Forecast

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.

DISCLOSURES AND DISCLAIMER

This report has been prepared by M&A SECURITIES SDN BHD. Readers should be fully aware that this report is for informational purposes only and no representation or warranty, expressed or implied is made as to the accuracy, completeness or reliability of the information or opinion contained herein. The recommendation and opinion are based on information obtained or derived from sources believed to be reliable.

This report contains financial forecast/projection based on our assumptions which may defer from the actual financial results announced by the companies under coverage. All opinions, estimates and assumptions are subject to change without notice. Analysts will initiate, update and cease coverage solely at the discretion of M&A SECURITIES SDN BHD.

Investors are to be cautioned that value of any securities invested may fluctuate from time to time. We advise investors to seek financial, legal and other advice for investing based on the recommendation of our report as we have not taken into account each investors' specific investment objectives, risk tolerance and financial position.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. M&A SECURITIES SDN BHD can accept no liability for any consequential loss or damage whether direct or indirect. Investment should be made at investors' own risks.

M&A SECURITIES SDN BHD and INSAS GROUP of companies, their respective directors, officers, employees and connected parties may have interest in any of the securities mentioned and may benefit from the information herein. M&A SECURITIES SDN BHD and INSAS GROUP of companies and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This report may not be reproduced, distributed or published in any form or for any purpose.

M & A Securities Sdn Bhd (15017-H)

(A wholly-owned subsidiary of INSAS BERHAD)

A Participating Organisation of Bursa Malaysia Securities Berhad

Principal Office:

Level 1,2,3 No.45 & 47,43-6

The Boulevard, Mid Valley City,

Lingkaran Syed Putra,

59200 Kuala Lumpur

Tel: +603 - 2282 1820 Fax: +603 - 2283 1893

Website: www.mnaonline.com.my