

PP14767/09/2012(030761)

Market Access

CIMB Group Holdings Berhad

“Niaga a Letdown”

Results Review

- Actual vs. expectations.** CIMB Group Holdings Bhd (CIMB) 1Q15 net profit of RM590 million that dropped 45% y-o-y, came in within ours but below consensus estimates respectively, accounting 25% and 19.3% of ours and consensus full year net profit forecast. The disappointment earnings performance was tempered by prolonged loans loss provision in Indonesia unit that made allowance of IDR1446 billion (+619.4% y-o-y, -26.2% q-o-q). Excluding exceptional restructuring expenses of RM202 million from Investment Banking division, 1Q15 earnings only dropped by 26% y-o-y, accounting 17.8% and 14.5% of ours and consensus respectively. Nonetheless, better-than-expected earnings of 188% q-o-q was premised on lower loans loss provision by RM385 million that lifted PBT by 114% q-o-q to RM824 million.
- Dividend.** No dividend declared in this quarter.
- Topline vs. Bottom line.** 1Q15 revenue gained satisfactorily to RM3.68 billion (+4% y-o-y, 0% q-o-q) mainly due to higher net interest income to RM2.19 billion (+6% y-o-y, -2% q-o-q) and other operating income to RM3.68 billion (+4% y-o-y, 2% q-o-q). In contrast, CIMB pre-provision profit dropped to RM1.34 billion (-12% y-o-y, -1% q-o-q) hampered by hefty gained of overhead expenses of RM2.34 billion (+16% y-o-y, 4% q-o-q).
- Review.** Overall, the satisfactory showing came on the back of the PBT growth from consumer banking (11.2% y-o-y) and commercial banking (18.1% y-o-y). However, wholesale banking experienced hefty losses by 56.6% y-o-y due to the mutual separation scheme offered to the staff. Similarly, group asset management’s PBT and group funding’s PBT tumbled by 23.7% y-o-y and 64% y-o-y respectively. Geographically, PBT ex-Malaysia declined

Thursday, May 21, 2015

HOLD (TP: RM6.10)

Current Price (RM)	RM6.02
New Fair Value (RM)	RM6.10
Previous Fair Value (RM)	RM6.10
Previous Recommend.	HOLD
Upside To Fair Value	1.3%
Dividend Yield (FY15)	2%

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)	51,108.5
YTD Chg In Share Price	8.27%
Beta (x)	1.17
52-week Hi/Lo (RM)	RM7.41   RM5.05
3M Average Volume (shrs)	11.30mn
Estimated Free Float	55%

Major Shareholders	
Khazanah	29.3%
EPF	17.0%
Mitsub. UFJ	4.5%

to only 20% vs. 38% in 1Q14, underpinned by 89.4% y-o-y drop in Indonesia PBT and 23.9% y-o-y decline in Thailand PBT. Singapore maintained consistent performance with 46.1% y-o-y gain in PBT.

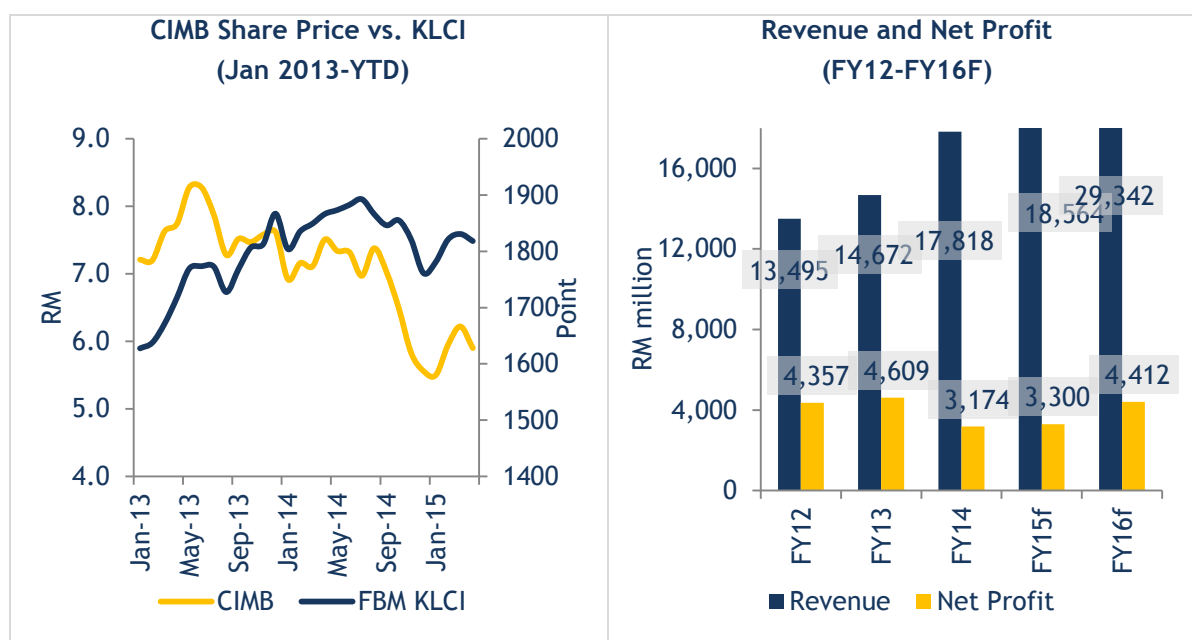
- **Large impairments, but not severe as 4Q14.** Loans provision and impairment reduced by RM386 million q-o-q and RM144 million q-o-q mainly due to prolonged issues at CIMB Niaga. We believe impairment in Malaysia is almost done but we view Indonesia impairment could sustain throughout FY15 but in smaller magnitude. GIL weakened to 3.2% vs. 3.1% in 4Q14 from the effect of coal and coal related loans still were not recovered in CIMB Niaga.
- **Gross loans growth surged.** Despite satisfactory performance, loans growth managed to rake-in a growth of 12.4% y-o-y vs. 10% FY15 guidance. The strong gross loans growth was assisted by the growth in Singapore of 12.6% y-o-y and Thailand of 10.6% y-o-y. Malaysia gross loans growth was only 8.5% y-o-y, lagging behind industry guidance of 9.3% y-o-y where the maturities of large corporate loans impacted performance.
- **Deposits growth tracking loans growth.** Despite headwinds in countries policy rate, CIMB recorded respected deposits growth of 13.2% y-o-y lifted by others deposit and fixed deposits by 19.5% y-o-y and 16.4% y-o-y. Geographically, Thailand and Singapore continued to support the group's deposits growth by 22.1% y-o-y and 18.3% y-o-y. However we foresee that the Group may not able to sustain the momentum growth in double digit as keen competitions and uncertainty in policy hike will have final say to the growth moving forward.
- **NIM weakened.** The worst is not over as NIM compressed by 14bps to 2.65%, exceeding the guidance of 5-10bps for full year, mainly arising from Niaga by 41bps to 5.22% as its shifted its loans portfolio towards higher quality loans.
- **Change to earnings forecast.** We maintain our FY15 and FY16 earnings forecast as 1Q15 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.** CIMB challenging performance may prolong FY15 as the Group undertakes restructuring exercise through various measures in various units and countries. This includes cost saving initiatives of RM400-RM600million a year predominantly in Malaysia and Indonesia. That said, we believe CIMB focus in FY15 will be on restructuring activities, whilst business activities will be stagnant in line with lower KPI guided to adjust with the sluggish banking environment. To make it worse, management has guided CIMB Niaga will be dampened by continuous higher loans provision related to coal and coal related loans. Despite all the negative flows, CIMB asset quality remains intact in all countries where recent stress test result suggests that CIMB is in no immediate danger.

- **Valuation & recommendation.** We maintain our TP on CIMB at RM6.10 pegged at 3-year average of 1.52x and the stock is a **HOLD**. 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

Table 1: Peers Comparison

Company	Year Ended	Price (RM)	EPS (RM)		P/E (x)		P/B (X)		ROE (%)	Div Yield (%)	TP (RM)	Call
			FY15	FY16	FY15	FY16	FY15	FY16				
AFG	March	4.77	0.4	0.4	12.7	12.0	1.7	1.6	14.3	1.9	5.05	Hold
AMMB	March	6.42	0.6	0.6	11.0	11.0	1.4	1.3	14.1	4.5	7.00	Hold
BIMB	Dec	4.07	0.3	0.4	11.7	11.3	1.8	2.0	16.0	5.8	4.84	Buy
CIMB	Dec	6.02	0.5	0.6	12.1	10.4	1.3	1.5	9.2	3.5	6.10	Hold
Maybank	Dec	9.36	0.7	0.8	12.6	11.9	1.5	1.5	13.6	6.2	10.70	Buy
RHB Cap	Dec	7.67	0.8	0.9	9.7	9.1	1.1	1.1	11.5	1.3	8.30	Hold
Public Bank	Dec	19.24	1.2	1.3	15.3	14.2	2.6	2.8	18.7	2.9	20.60	Hold
Affin	Dec	2.90	0.3	0.3	9.0	8.5	0.7	0.7	7.8	5.1	NR	NR
MBSB	Dec	1.91	0.2	0.3	9.1	8.4	1.2	1.1	29.6	2.3	NR	NR
STMB	Dec	16.32	NA	NA	NA	NA	NA	NA	24.3	6.6	NR	NR
HL Bank	June	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&amp;A Securities



Source: Bloomberg, M&amp;A Securities

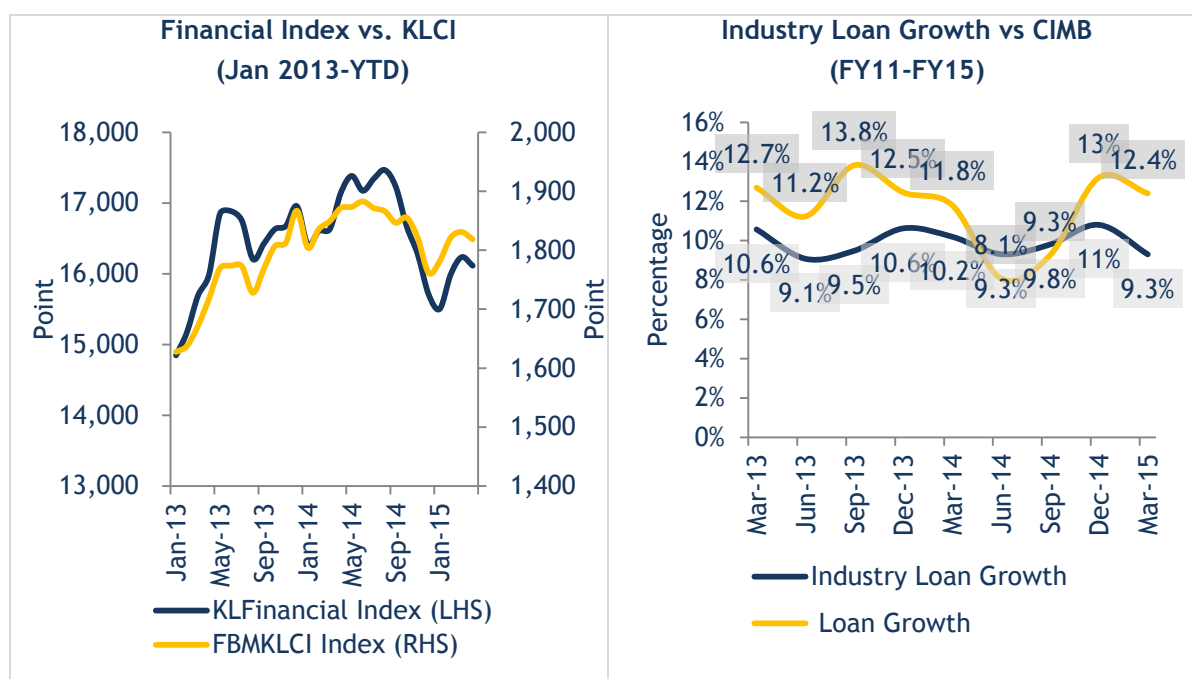


Table 2: Operational ratio

Y/E: Dec (RM'mil)	FY12	FY13	FY14	3M15
<b>Asset Quality</b>				
Gross Impairment	3.4%	3.2%	3.1%	3.2%
Allowance Coverage	82.8%	84.8%	82.7%	84.2%
<b>Profitability</b>				
ROA	1.3	1.2	0.8	0.7
ROE	15.5	15.5	9.3	8.2%
Cost to Income				58%
<b>Lending and Deposits</b>				
Loan Growth	8.9%	13%	13.2	12.4%
Deposits Growth	9.9%	10.2%		12.8%
Loan to Deposits	82.9%	88.4%	93%	90.3%
<b>Margin</b>				
Net Interest Margin		2.9%	2.8%	2.65%
<b>Capital Strength</b>				
CET1		8.3%	10.4%	10%
Tier1		8.6%	11%	11.2%
Total capital		15.1%	17.2%	14.3%

Table 2: Results Analysis

YE: Dec (RM million)	1Q15	4Q14	1Q14	y-o-y	q-o-q	3M15	3M14	y-o-y
Net interest income	2,191	2,242	2,067	6%	-2%	2,191	2,067	6%
Non- interest income	1,122	976	1,097	2%	15%	1,122	1,097	2%
Islamic banking income	367	377	368	0%	-3%	367	368	0%
Operating income	3,680	3,595	3,532	4%	2%	3,680	3,532	4%
Overheads	-2,340	-2,239	-2,011	16%	4%	-2,340	-2,011	16%
Pre-provision income	1,341	1,356	1,521	-12%	-1%	1,341	1,521	-12%
Loan loss allowance	-534	-919	-111	379%	-42%	-534	-111	379%
Impairment	4	-148	-18	-121%	-103%	4	-18	-121%
Operating profit	810	289	1,391	-42%	180%	810	1,391	-42%
Associates/JV	14	19	33	-59%	-29%	14	33	-59%
Others	0	77	6	-100%	-100%	0	6	-100%
PBT	824	385	1,431	-42%	114%	824	1,431	-42%
Taxation	-233	-160	-349	-33%	46%	-233	-349	-33%
PAT	590	225	1,082	-45%	162%	590	1,082	-45%
EPS	6.9	2.4	13.2	-48%	188%	6.9	13.2	-48%
Net interest income margin	60%	61%	58%			60%	58%	
Non-interest income margin	30%	27%	31%			30%	31%	
PBT margin	22%	10%	40%			22%	40%	
PAT margin	16%	6%	31%			16%	31%	

Source: Bursa Malaysia, M&amp;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&amp;A Securities

# M&A Securities

## STOCK RECOMMENDATIONS

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

## SECTOR RECOMMENDATIONS

<b>OVERWEIGHT</b>	The sector is expected to outperform the FBM KLCI over the next 12 months.
<b>NEUTRAL</b>	The sector is expected to perform in line with the FBM KLCI over the next 12 months.
<b>UNDERWEIGHT</b>	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](http://www.mnaonline.com.my)