

PP14767/09/2012(030761)

Market Access

CIMB Group Holdings Berhad

“Hit by Loans Loss”

Results Review

- Actual vs. expectations.** CIMB Group Holdings Bhd (CIMB) 1H15 earnings of RM1.24 billion (-39% y-o-y) came in within ours and consensus estimates respectively, accounting 45% and 47% of ours and consensus full year net profit forecast. The drop in earnings was weighed by higher loans loss of RM1.06 billion (+311% y-o-y) on the back of weak individual and collective allowance that gained by 925% y-o-y and 76.6% y-o-y respectively in 6M15. Stripping off exceptional expenses of RM518 million (RM202 million for restructuring expenses and RM316 million for MSS), CIMB net profit dropped by 18% y-o-y.
- Dividend.** In line with lower earnings, CIMB declared a lower first interim dividend of 3 cent vs. 10 cent in 6M14, translating into 20% payout ratio.
- Topline vs. Bottom line.** 6M15 net income surged to RM1.78 billion (+8% y-o-y) mainly due to the strong growth in non-interest income of RM2.28 billion (+16% y-o-y) on the back of gains in forex translation amounting to RM255 million (+393% y-o-y). The growth in interest income by 11% y-o-y was offset by higher net interest income by 18% y-o-y, due to the squeeze in net interest margin. Despite incurring one off expenses, CIMB pre-provision income fell satisfactorily by only 6% y-o-y to RM2.7 billion
- Review.** Overall, the satisfactory 6M15 showing (excluding one off expenses) came on the back of the PBT growth from consumer banking (15.3% y-o-y). Other segment, including commercial banking, wholesale banking, asset management declined by 14% y-o-y, 35.6% y-o-y and 6.7% y-o-y Geographically, only Singapore maintained consistent performance after recording

Tuesday, September 01, 2015

BUY (TP: RM6.10)

Current Price (RM)	RM5.00
New Fair Value (RM)	RM6.10
Previous Fair Value (RM)	RM6.10
Previous Recommend.	HOLD
Upside To Fair Value	22%
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)	42,448
YTD Chg In Share Price	-10%
Beta (x)	1.05
52-week Hi/Lo (RM)	RM7.40 RM4.48
3M Average Volume (shrs)	11.30mn
Estimated Free Float	55%

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

growth in PBT by 36.9% y-o-y while other markets including Malaysia, Indonesia and Thailand posted weak PBT dampened by various operational issues including the completion of MSS exercise recently.

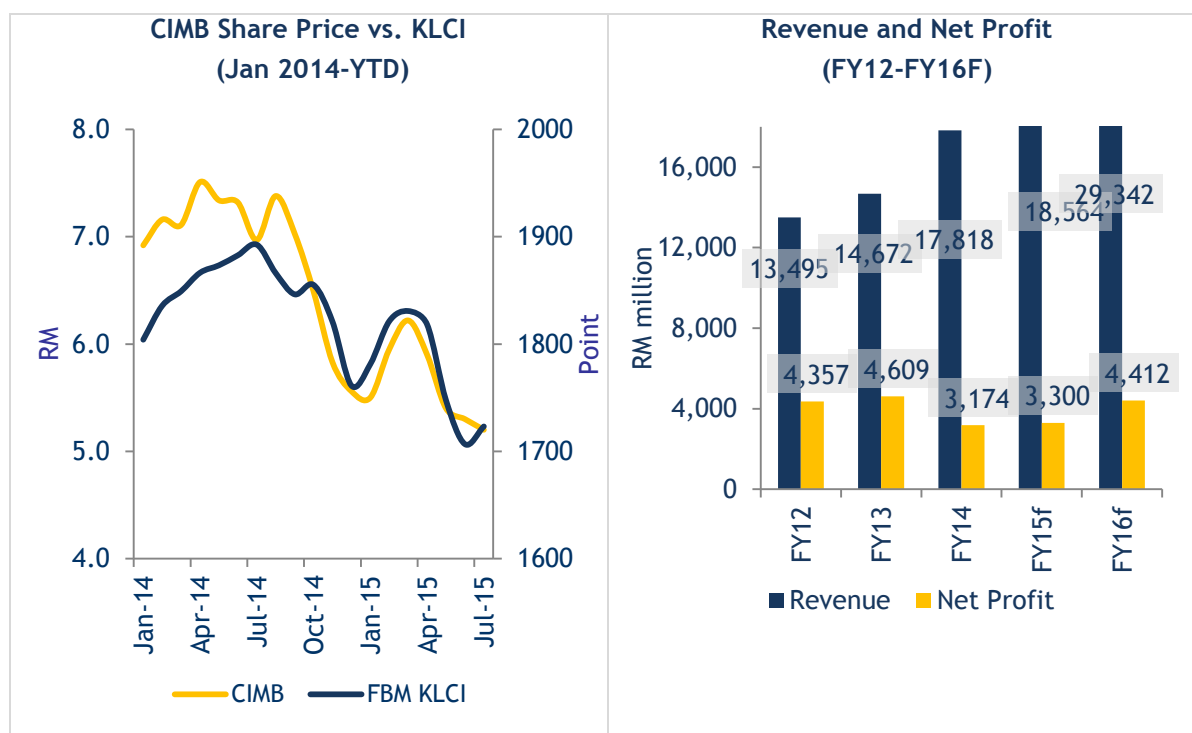
- **Provision remains elevated.** Absolute NPLs was at 4.3% vs. 3% in 6M14, with deterioration in asset quality out of Indonesia and Thailand. The overall loan loss charge was at 3% vs. 0.7% in 6M14 with weaknesses noted in Indonesia. Management highlighted that the provisions for Niaga may be higher in 3Q15 and 4Q15 due to the weakness in Indonesia's economy. Meanwhile, in Thailand, CIMB Thai's provisioning will remain high in 2QFY15 and 3QFY15 for both retail and corporate loans. Of note, the management remains cautious in lending towards the lower income household. It highlighted that the tipping point of impairment of loans to middle and above income will be when there is a significant unemployment rise.
- **Gross loans growth surged.** Despite satisfactory performance, loans growth managed to rake-in a growth of 16.5% y-o-y vs. 10% FY15 guidance as the Group pushed its loan-to-deposit ratio to the 94% level. The strong gross loans growth was assisted by the growth in Singapore of 15% y-o-y and Thailand of 10.4% y-o-y. Malaysia gross loans growth recovered at 10.4%.
- **Deposits growth weakened.** Deposits growth was slower at 4.4% with Singapore recording strongest growth of 15.4% y-o-y. Higher growth cost of deposit (fixed deposit) by 7.2% will result in NIM to contract further in the near quarter. The group alluded that while CASA growth to remain healthy, CASA contribution to total deposit had came off largely due to a higher mix of contribution from fixed deposit.
- **NIM weakened.** The Group reported a net interest margin (NIM) of 2.68% vs. 2.88% in 6M14, or a drop of 24bps y-o-y. This decline came steeper than the company's target of NIM compression of 5bps to 10bps YoY for FY15. 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. The company believes NIM compression may be closer to 20bps YoY for FY15F.
- **Change to earnings forecast.** We maintain our FY15 and FY16 earnings forecast as 1H15 are within our expectation. 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
- **Outlook.** Management target of 11% ROE may be under threat as slower equities and fixed income deals may jeopardize its ROE target given slower fixed income deals as well as slower loans growth. In our forecast, we have taken into account a slow momentum for top line growth in view that FY15 will be a year which the Group will focus on managing costs. Hence, we have projected ROE of 9.5% for FY15.
- **Valuation & recommendation.** We maintain our TP on CIMB at RM6.10 pegged at 3-year average of 1.52x and the stock is **aBUY**. 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	3.76	0.4	0.4	12.7	12.0	1.7	1.6	14.3	1.9	4.70	Buy
AMMB	March	4.70	0.6	0.6	11.0	11.0	1.4	1.3	14.1	4.5	6.15	Buy
BIMB	Dec	3.99	0.3	0.4	11.7	11.3	1.8	2.0	16.0	5.8	4.84	Buy
CIMB	Dec	5.00	0.5	0.6	12.1	10.4	1.3	1.5	9.2	3.5	6.10	Buy
Maybank	Dec	8.76	0.7	0.8	12.6	11.9	1.5	1.5	13.6	6.2	10.20	Buy
RHB Cap	Dec	6.48	0.8	0.9	9.7	9.1	1.1	1.1	11.5	1.3	7.70	Hold
Public Bank	Dec	18.00	1.2	1.3	15.3	14.2	2.6	2.8	18.7	2.9	21.70	Buy
Affin	Dec	2.28	0.3	0.3	9.0	8.5	0.7	0.7	7.8	5.1	NR	NR
MBSB	Dec	1.37	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	June	13.08	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

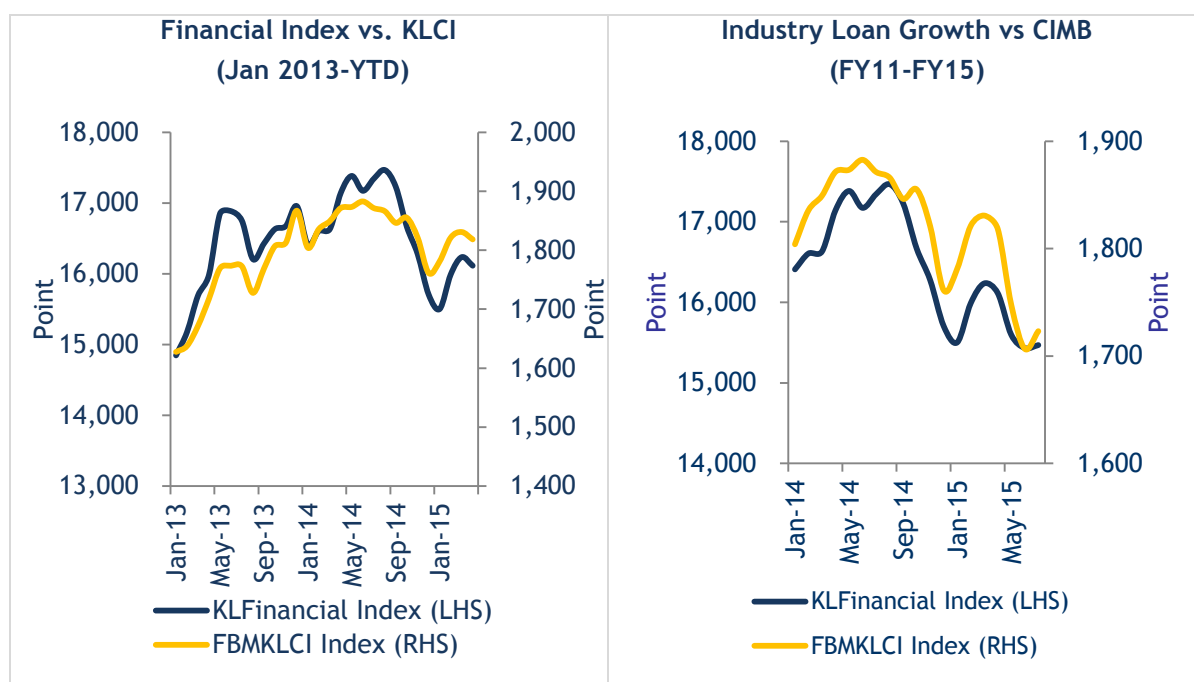


Table 2: Operational ratio

Y/E: Dec (RM'mil)	FY12	FY13	FY14	6M15
Asset Quality				
Gross Impairment	3.4%	3.2%	3.1%	3.3%
Allowance Coverage	82.8%	84.8%	82.7%	86.1%
Profitability				
ROA	1.3	1.2	0.8	0.7
ROE	15.5	15.5	9.3	8.7%
Cost to Income				56.7%
Lending and Deposits				
Loan Growth	8.9%	13%	13.2	16.5%
Deposits Growth	9.9%	10.2%		9.6%
Loan to Deposits	82.9%	88.4%	93%	94%
Margin				
Net Interest Margin		2.9%	2.8%	2.64%
Capital Strength				
CET1		8.3%	10.4%	9.7%
Tier1		8.6%	11%	11.0%
Total capital		15.1%	17.2%	13.9%

Table 2: Results Analysis

YE: Dec (RM million)	2Q15	1Q15	2Q14	y-o-y	q-o-q	6M15	6M14	y-o-y
Gross Interest income	4,385	4,278	3,989	10%	3%	8,663	7,797	11%
Interest expense	-2,117	-2,087	-1,813	17%	1%	-4,203	-3,554	18%
Net interest income	2,269	2,191	2,175	4%	4%	4,460	4,242	5%
Islamic banking income	399	367	361	11%	9%	766	729	5%
Other income	1,165	1,122	871	34%	4%	2,288	1,968	16%
Net income	3,833	3,680	3,407	12%	4%	7,513	6,939	8%
Operating expenses	-2,440	-2,340	-2,008	22%	4%	-4,780	-4,019	19%
Pre-provision income	1,393	1,341	1,399	0%	4%	2,734	2,920	-6%
Allowance loan loss	-529	-534	-147	259%	-1%	-1,063	-259	311%
Allowance on impairment and other receivables	-1	4	-10	-95%	-114%	3	-29	-110%
Writeback of impairment	-9	0	0	0	0	-9	2	-613%
Recoveries from investment management	0	0	1	-100%	0	0	1	-100%
Operating profit	854	810	1,243	-31%	5%	1,664	2,635	-37%
Associate	28	27	36	-22%	6%	55	75	-27%
Joint Ventures	1	-13	2	-53%	-107%	-12	-4	217%
Other gain/disposal	1	0	0	-4243%	0	1	6	-91%
PBT	884	824	1,281	-31%	7%	1,707	2,712	-37%
Taxation	-232	-233	-317	-27%	-1%	-465	-666	-30%
PAT	652	590	964	-32%	10%	1,242	2,046	-39%

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.

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