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17 November 2016 | 3QFY16 Results Review

CIMB Group Holdings Bhd

Improved liquidity

Maintain BUY

Adjusted **Target Price (TP): RM5.90**
(*previously* RM5.50)

INVESTMENT HIGHLIGHTS

- **9MFY16 net profit below expectations as we understated the provisions and tax.**
- **Normalised 9MFY16 net profit, stripping one-off cost in 9MFY15, grew +5.8%yoy on the back of strong 3QFY16 growth.**
- **Operationally even better with PPOP growing +23.5%yoy.**
- **CI ratio improved further, fell -160bps yoy to 54.6%.**
- **NIM declined 4bps yoy largely due the margin compression in Malaysia.**
- **Steady loans growth of +2.2%yoy. Surprise was pace of loans growth in Malaysia. Deposit grew at faster pace improving liquidity.**
- **Asset quality remains stable.**
- **Stronger CET1 ratio of 10.9% which is on track to achieve its target of 11.0% for FY16.**
- **Tweak to our forecast, downward by -8.5% and -9.9% to FY16 and FY17 forecast.**
- **Maintain BUY with adjusted TP of RM5.90 pegging the stock to 1.1X Price-to-Book multiple**

9MFY16 net profit below our expectations on understated provisions and tax. The Group's 9MFY16 net profit of RM2.71b was below our expectation coming at 68.5% of our full year estimates as we had understated the higher provisions and tax. However, it was within consensus' expectation at 74.1% of full year estimate.

Robust net profit growth due to strong 3QFY16. Comparing with 9MFY15 normalised net profit (excluding costs such as IB restructuring cost and MSS cost) shows a growth of +5.8%yoy. This was due strong growth in 3Q16, where net profit grew +13.4%yoy to RM1.02b which was supported by +7.4%yoy growth to RM4.12b in total income and contained cost (+3.2%yoy to RM2.19b).

Operationally even better. Loan impairment moderated the net profit growth as it grew +4.3%yoy to RM1.66b. This was due to higher provisions in Thailand and segmental wise from commercial banking (+142%yoy). However, operation-wise the result was robust where PPOP grew +23.5%yoy (+7.3%yoy normalized) to RM5.33b from lower OPEX and decent NII and NOII growth.

RETURN STATS	
Price (16 Nov. 2016)	RM4.79
Target Price	RM5.90
Expected Share Price Return	+23.2%
Expected Dividend Yield	+4.0%
Expected Total Return	+27.2%

STOCK INFO	
KLCI	1,627.63
Bursa / Bloomberg	1023 / CIMB MK
Board / Sector	Main / Finance
Syariah Compliant	No
Issued shares (mil)	8,868.4
Par Value (RM)	1.0
Market cap. (RM'm)	42,479.5
Price over NA	0.9x
52-wk price Range	RM3.89 – RM5.10
Beta (against KLCI)	1.18
3-mth Avg Daily Vol	12.43m
3-mth Avg Daily Value	RM68.18m
Major Shareholders	
Khazanah	29.34%
EPF	15.69%

Some banking abbreviations used in this report:
CA = Collective Impairment Allowance
CI = Cost to Income
CET1 = Common Equity Tier 1
GIL = Gross Impaired Loan
LD = Loan-Deposit
NII = Net Interest Income
NOII = Non-interest income
NIM = Net Interest margin
CASA = Current and Savings Accounts
COF = Cost of Funds
IB = Investment Banking
LLC = Loan Loss Coverage
PPOP = Pre-Provisioning Operating Profit

Cost rationalization continues. OPEX in 9MFY16 fell -8.8%yoy, or -0.6%yoy on normalised basis, to RM6.42b as cost rationalisation continues. Most cost component fell, namely personnel (-13.2%yoy), establishment (-7.6%yoy) and marketing (-12.1%yoy). Admin and general cost increased +7.4%yoy. As a result CI continue to improve as it fell by 160bps yoy to 54.6% in 9MFY16.

Decent NII growth despite NIM compression. 9MFY16 NII grew +4.6%yoy to RM8.25b. Excluding Islamic Banking operations, NII grew +4.4%yoy to RM7.18b. This was despite NIM contracting 4bps yoy, due to margin compression in Malaysia. However, Indonesia and Thailand NIM improved significantly from higher CASA. The 9MFY16 NIM for Indonesia and Thailand expanded 35bps yoy and 60bps yoy to 5.54% and 3.76% respectively.

Deliberately slowing loans growth as at 3QFY16. The Group recorded slower gross loans growth of +2.2yoy to RM304.5b as at 3QFY16 (vs. 6.6%yoy as at 2QFY16). This was due to decline in loans book for Wholesale Banking (-4.0%yoy) in addition to slower growth in Commercial Banking (+0.5%yoy) and Consumer Banking (+7.8%yoy) which was due to decline in auto segment (-2.0%yoy). However, we understand that the overall slower growth was partly due to deliberate decision by the Group as it rebalanced its loans portfolio such as shrinking its Micro and SME loans in Indonesia and limiting the auto loans in Thailand. We consider this as positive as it helps to protect asset quality.

Surprisingly, loans in Malaysia grew at faster pace. Geographically, gross loans in Malaysia grew at faster pace at +8.2%yoy (vs. +7.7%yoy as at 2QFY16). We are encouraged by this development especially as Malaysia is the highest contributor in terms of loans (57%) and PBT (75%). Meanwhile, loans in Thailand (in local currency term) grew +2.1%yoy. Indonesia and Singapore registered decline of -2.7%yoy and -5.7%yoy respectively due to the economic conditions in those countries.

More encouragingly deposit grew at faster pace improving liquidity. The Group's deposits growth was at faster pace at +8.0%yoy to RM338.9b (vs. +7.1%yoy as at 2QFY16). Major contributor was Consumer Banking, where it grew +11.9%yoy. Commercial Banking and Wholesale Banking grew +6.0%yoy and +4.9%yoy respectively. Similar to loans growth, Malaysia grew at faster pace with +10.5%yoy (vs. +6.9%yoy as at 2QFY16). There was a turnaround in deposits in Thailand where it grew +5.6%yoy from a decline of -5.7%yoy as at last quarter. Drilling further CASA growth also improved coming in at +8.0%yoy to RM115.8b from +7.8%yoy registered as at 2QFY16. This was due to strong CASA growth in Indonesia and Thailand, each grew +6.1%yoy and +53.6%yoy respectively. Even CASA in Singapore grew +6.1%yoy as opposed to a decline as at last quarter. Malaysia's CASA grew +0.2%yoy.

As a result of the better deposit growth, liquidity improved with the Group posted LD ratio of 89.8% in 9MFY16 from 94.9% in 9MFY15. Again, we view this positively as it gives room for the Group to ramp-up loans growth when there is an uptick in economic conditions.

Better asset quality with improved GIL and NIL ratio. Group 9MFY16 GIL ratio came in at 3.2% vs. 3.4% in 9MFY15. Meanwhile, NIL came in at 0.6% vs. 0.8% in 9MFY15.

Keep seeing positive result from T18. The Group is expected to continue on cost management initiatives as well as optimising of RWA and capital from its T18 plan. We keep seeing positive results coming from this plan. Examples include the improving CI ratio and CET1 improving to 10.9% from 9.3% as at September 2015. While there may be a possibility of slower business acceleration due to trailing economic headwinds. However, we are encouraged by momentum observed in Malaysia Consumer Banking segment.

FORECAST

We tweak our FY16 and FY17 forecast downwards by -8.5% and -9.9% to better reflect the expected provisions as we increase our charge-off rate forecast to 70bps and 60bps respectively.

VALUATION AND RECOMMENDATION

We believe that the Group had a good 9MFY16 performance. Most surprising was the faster loans growth in Malaysia and overall deposits which improved liquidity. We believe that the better liquidity will give room for the Group to ramp-up its loans should there be an upturn in economic conditions. In addition, we believe that current valuation remains attractive as the stock is trading at 0.9x to our FY17 BVPS. This is significantly below its 5-year average PBV of 1.8x. We are sanguine on the prospect of the Group, coupled with its relatively cheap valuation, we maintain our BUY recommendation. The dividend yield of 4.0% is also expected to limit the downside risk to the share price. We adjust our TP of RM5.90 (previously RM5.50) as we adjust our PB multiple to 1.1x which is 1 standard deviation below its 5-year historical PBV. The higher PBV, while still below its 5-year average PBV, reflects our cautious optimism on the stock.

INVESTMENT STATISTICS OF CIMB GROUP

FYE Dec	FY14	FY15	FY16F	FY17F
Net interest income (RM'm)	8,656	9,337	9,988	10,144
Islamic banking income (RM'm)	1,461	1,569	1,679	1,601
Non-interest income (RM'm)	4,029	4,490	4,352	4,464
Total income (RM'm)	14,146	15,396	16,019	16,209
Pretax profit (RM'm)	4,276	3,914	4,932	5,252
Net profit	3,107	2,850	3,619	4,087
Core Net profit (RM'm)	3,159	3,411	3,619	4,087
Core EPS (sen)	38.1	40.2	42	47
PER (x)	12.6	11.9	11.3	10.1
Net Dividend (sen)	21.0	14.0	17	19
Net Dividend Yield (%)	4.4	2.9	3.5	4.0
Book value per share (sen)	4.44	4.81	5.12	5.39
PBV (x)	1.1	1.0	0.9	0.9
ROE (%)	9.3	8.6	8.5	9.0

DAILY PRICE CHART

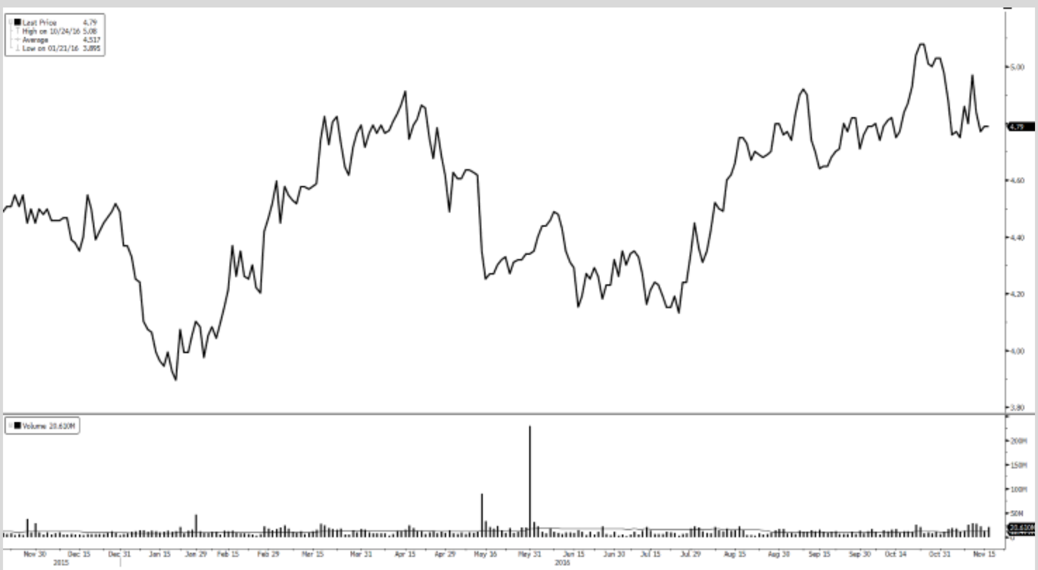

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Table 1: Comparison of quarterly results

Quarterly results (normalised)						Comments
FYE Dec (RM m)	**3QFY16**	**2QFY16**	**3QFY15***	**Yoy (+/- %)**	**Qoq (+/- %)**	
NII	2,796	2,720	2,767	1.0%	2.8%	
NOII	1,328^	1,183	1,073	23.8%	12.3%	Due to gain on sale of Sun Life in 3QFY16.
Net income	4,124	3,903	3,840	7.4%	5.7%	
OPEX	(2,193)	(2,137)	(2,125)	3.2%	2.6%	Higher establishment cost and admin. & general cost. Personnel cost stable.
PPOP	1,931	1,812	1,715	12.6%	6.6%	Due to higher net income growth compared to OPEX growth.
Write back/(Provision) for loan losses	(603)	(589)	(524)	15.1%	2.4%	Provisioning remains elevated in Indonesia.
Pre-tax profit	1,360	1,189	1,209	12.5%	14.4%	Also due to write-backs in other provisions.
Net Profit	1,023	873	902	13.4%	17.2%	
EPS (sen)	11.8	10.1	10.7	10.3%	16.8%	

*Core earnings after excluding Indonesia's MSS cost (RM134m) and tax and MI on Indonesia's MSS cost (RM36m)
^ Including gain on sale of Sun Life in 3Q16 (RM150m)

Table 2: Comparison of financial ratios by quarters based on normalised financials

Financial Ratios (%)	3QFY16	2QFY16	3QFY15	Yoy (+/- ppts)	Qoq (+/- ppts)	Comments
CET-1	10.9	10.7	9.3	1.6	0.2	
CCR	12.4	12.2	10.6	1.8	0.2	
RWCR	15.8	15.6	13.4	2.4	0.2	
GIL ratio	3.2	3.2	3.4	-0.2	0.0	
Loan Loss Coverage	80.6	83.5	76.6	4.0	-2.9	
Credit charge-off	0.79	0.79	0.70	0.09	0.00	
Cost to income (CI)	53.2	53.6	55.4	-2.2	-0.4	Improvement on continued cost rationalization.
LD ratio	89.8	93.5	94.9	-5.1	-3.7	Faster pace of growth of deposits compared to loans.
NIM	2.58	2.63	2.68	-0.10	-0.05	Pressure mainly in Malaysia.
ROE	9.5	8.4	9.1	0.4	1.1	

Table 3: Comparison of cumulative results and ratios

Quarterly results (normalised)				Comments
FYE Dec (RM m)	**9MFY16**	**9MFY15***	**Yoy (+/- %)**	
NII	8,247	7,885	4.6%	Faster loans growth in Malaysia. Stable Consumer Banking loans growth.
NOII	3,505^	3,469	1.0%	
Net income	11,752	11,354	3.5%	Supported by strong loans growth in Malaysia and gains on sale of Sun Life.
OPEX	(6,421)	(6,385)	0.6%	Controlled as all cost component fell. Only admin. & general cost went up by +8.9%yoy to RM1.16b.
PPOP	5,331	4,969	7.3%	
Write back/(Provision) for loan losses	(1,657)	(1,589)	4.3%	Provisions remains elevated in Indonesia.
Pre-tax profit	3,672	3,434	6.9%	
Net Profit	2,710	2,561	5.8%	Contributed by strong 3QFY16 growth.
EPS (sen)	31.4	30.3	3.6%	
			+ / - ppts	
ROE	8.5	8.8	-0.3	
NIM	2.61	2.65	-0.04	
CI	54.6	56.2	-1.6	
LD	89.8	94.9	-5.1	

*Core earnings after excluding IB restructuring cost (RM202m), Malaysia MSS cost (RM316m mil), Indonesia's MSS cost (RM134m)
^ Including gain on sale of Sun Life in 3Q16 (RM150m)

Table 4: Comparison of PBT by key segments

PBT by segments (RM m)	**9MFY16**	**9MFY15***	**Yoy (*/- %)**	
Consumer Banking	1,711	1,286	33.0%	Stable loans growth.
Commercial Banking	314	462	-32.0%	Due to provisionings.
Wholesale banking	1,341	1,279	4.8%	
GAMI	204	202	1.0%	
Group Funding^	102	205	-50.2%	
PBT	3,672	3,434	6.9%	
Reported PBT	3,672	2,782	32.0%	

*Core earnings after excluding IB restructuring cost (RM202m), Malaysia MSS cost (RM316m mil), Indonesia's MSS cost (RM134m)
^ Including gain on sale of Sun Life in 3Q16 (RM150m)

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS	
STOCK RECOMMENDATIONS	
BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to *rise* by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	*Negative* total return is expected, by -15% or more, over the next 12 months.
TRADING SELL	Stock price is expected to *fall* by >15% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.
SECTOR RECOMMENDATIONS	
POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.