

CIMB Group Holdings Berhad

(1023 | CIMB MK) Financial Services | Finance

Maintain BUY

Income growth despite NIM compression

Revised Target Price: RM5.70

(from RM6.30)

KEY INVESTMENT HIGHLIGHTS

- **Normalised earnings within expectations**
- **Normalised net profit growth from robust income growth**
- **NII resilient despite NIM compression, supported by loans growth**
- **OPEX increase from investments but likely to normalise**
- **Robust growth in deposits**
- **Final dividend of 12sen; full year dividends 26sen**
- **No change to FY20 and FY21 earnings forecast**
- **Maintain BUY with revised TP of RM5.70 (from RM6.30)**

Normalised earnings within expectations. The Group reported FY19 normalised earnings of RM5.01b which was within ours and consensus' expectations. It came in at 100.5% and 100.9% of respective full year estimates. The normalised earnings for FY19 and FY18 excludes transformational cost, write off of intangible assets and gains from divestments.

Normalised net profit growth due to income growth. Normalised net profit grew +7.7%yoy supported by total income growth of +8.2%yoy. Both NII and NOII had robust growth, with +6.3%yoy and +12.9%yoy respectively. NII expansion was driven by loans growth while trading and fx income.

NIM compression moderated by loans growth. There was marginal NIM compression of -4bp yoy due to Malaysia and Thailand, while Indonesia NIM improved. The NIM compression was moderated by gross loans growth where it grew +6.7%yoy to RM369.5b. Main contributor was consumer banking and wholesale banking which rose +9.0%yoy to RM184.9b and +7.2%yoy to RM119.1b respectively. Based on geography and excluding fx fluctuations, Malaysia saw loans growth of +6.0%yoy and Thailand was +6.1%yoy. Meanwhile in Indonesia and Singapore grew +3.0%yoy and +3.7%yoy respectively.

Rise in normalised OPEX due to investments. Reported OPEX grew +14.4%yoy to RM1.64b due to one-off transformational cost which includes the MSS cost in Indonesia. Normalising these costs, OPEX grew +9.8%yoy driven by investments and Forward23 related expenses. Admin & General cost saw cost increasing +17.1%yoy to RM1.68b, and personnel cost rose +9.6%yoy to RM5.4b. We noted that the underlying OPEX rose at a more manageable 4.2%yoy.

Slight uptick in GIL ratio but manageable. GIL ratio as at 4QFY19 went up by +3bp yoy to 3.1%. Loan provisions rose +14.5%yoy mainly contributed by Indonesian corporate. However, credit cost of 0.44% was within guidance.

Robust growth in deposits. Group deposits rose +5.8%yoy to RM401.7b. Again, consumer banking and wholesale banking were the main contributors to the growth. It grew +8.9%yoy to RM179.0b and +4.5%yoy to RM157.0b respectively. CASA had solid growth as highlighted by the increase of CASA ratio to 34.4% from 32.7% as at 4QFY19.

RETURN STATISTICS

Price @ 28 th Feb. 2020 (RM)	4.82
Expected share price return (%)	+18.3
Expected dividend yield (%)	+5.4
Expected total return (%)	+23.7

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-2.2	1.0
3 months	-6.4	-1.6
12 months	-15.1	-2.7


KEY STATISTICS

FBM KLCI	1,482.64
Syariah compliant	No
Issue shares (m)	9727.16
Estimated free float (%)	44.78
Market Capitalisation (RM'm)	47,828.70
52-wk price range	RM4.72 - RM5.69
Beta vs FBM KLCI (x)	1.24
Monthly velocity (%)	23.84
Monthly volatility (%)	10.28
3-mth average daily volume (m)	9.31
3-mth average daily value (RM'm)	47.46
Top Shareholders (%)	
Khazanah Nasional Bhd	23.77
Employees Provident Fund Board	13.09
Kumpulan Wang Persaraan Diperbadan	6.45

Analyst

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No change in earnings forecast. We are maintaining our earnings forecast for FY20 and FY21 as the result were within expectations.

Valuation and recommendation. We continue to be cautiously optimistic on the Group's prospects. Despite the NIM compression, the Group could saw its normalised earnings improve as we had expected. We expect there will be further NIM compression due to the possibility of another OPR cut following the cur in Jan-20. However, loans growth appears to be robust which should moderate this impact. Besides, we expect the investments will start to normalise in FY20. In terms of valuation, we believe that the Group's valuation is cheap at current juncture as it trades well below its historical PBV. Hence, we maintain our **BUY** call. We are revising our **TP to RM5.70** (from RM6.30), as we peg its FY20 BVPS to a lower PBV of 1.0x to take into account event risk such as Covid-19 outbreak. In addition its dividend yield of circa 5.0% should provide some protection to investors from any downside risks. 

INVESTMENT STATISTICS

Financial year ending 31 December (in RM'm, unless otherwise stated)	2018A	2019A	2020E	2021F	2022F
Net interest income (RM'm)	9,634	10,084	10,605	11,403	12,252
Islamic banking income (RM'm)	2,610	3,041	3,103	3,289	3,486
Non-interest income (RM'm)	4,046	4,419	4,520	4,655	4,795
Total income (RM'm)	17,382	17,796	18,227	19,347	20,533
Pretax profit (RM'm)	7,201	5,975	6,864	7,337	7,839
Net profit	5,584	4,560	5,206	5,565	5,945
Core Net profit (RM'm)	4,656	5,014	5,206	5,565	5,945
Core EPS (sen)	50	52	51	52	52
PER (x)	9.7	9.3	9.5	9.4	9.2
Net Dividend (sen)	25	26	26	26	27
Net Dividend Yield (%)	5.2	5.4	5.4	5.5	5.6
Book value per share (sen)	5.37	5.67	5.70	5.85	5.99
PBV (x)	0.9	0.9	0.8	0.8	0.8
ROE (%)	9.6	9.3	9.4	9.3	9.2

Source: Company, MIDFR

Some banking abbreviations used in this report:

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
 FVTPL = Fair Value Through Profit Or Loss
 OPEX = Operating Expenses
 OPR = Overnight Policy Rate

Table 1: Comparison of quarterly & cumulative results

FYE Dec (RM m)	Quarterly results (normalised)					Cumulative results (normalised)		
	4QFY19*	3QFY19*	4QFY18^	Yoy (+/- %)	Qoq (+/- %)	FY19*	FY18^	Yoy (+/- %)
NII	3,346	3,249	3,035	10.2%	3.0%	12,659	11,904	6.3%
NOII	1,177	1,389	1,040	13.2%	-15.3%	5,137	4,550	12.9%
Net income	4,523	4,638	4,075	11.0%	-2.5%	17,796	16,454	8.2%
OPEX	(2,468)	(2,437)	(2,269)	8.8%	1.3%	(9,501)	(8,656)	9.8%
PPOP	2,055	2,201	1,806	13.8%	-6.6%	8,295	7,798	6.4%
Write back/(Provision) for loan losses and others	(683)	(527)	(301)	126.9%	29.6%	(1,708)	(1,559)	9.6%
Pre-tax profit	1	12	1	32.3%	-91.7%	31	34	-8.8%
Net profit	1,045	1,268	1,117	-6.4%	-17.6%	5,014	4,656	7.7%
EPS (sen)	10.6	13.0	11.7	-9.4%	-18.5%	51.7	49.8	3.8%
Reported net profit	849	1,010	1,117	-24.0%	-16.0%	4,560	5,584	-18.3%

* Excludes transformational cost (net of tax) of RM270m; Impairment and write off of intangible assets of RM277m and Tax and MI of RM92 m

^ Excludes CPAM & CPIAM gain of RM928m

Table 2: Comparison of financial ratios

Financial Ratios (%)	Quarterly results (normalised)					Cumulative results (normalised)		
	4QFY19*	3QFY19*	4QFY18^	Yoy (+/-ppts)	Qoq (+/-ppts)	FY19*	FY18^	Yoy (+/-ppts)
CET-1	12.9	13.1	12.5	0.4	-0.2	12.9	12.5	0.4
Tier 1 Capital	14.0	14.2	14.0	0.0	-0.2	14.0	14.0	0.0
Total Capital	16.8	16.7	17.1	-0.3	0.1	16.8	17.1	-0.3
GIL ratio	3.1	3.2	2.9	0.2	-0.1	3.1	2.9	0.2
Loan Loss Coverage	80.7	76.6	91.0	-10.3	4.1	80.7	91.0	-10.3
Credit cost	0.66	0.45	0.33	0.33	0.21	0.44	0.41	0.03
Cost to income (CI)	54.6	52.6	55.7	-1.1	2.0	53.4	52.6	0.8
LD ratio	92.0	91.6	91.2	0.8	0.4	92.0	91.2	0.8
NIM	2.53	2.52	2.45	0.08	0.01	2.46	2.50	-0.04
ROE	7.4	9.1	8.8	-1.4	-1.7	9.3	9.6	-0.3

* Excludes transformational cost (net of tax) of RM270m; Impairment and write off of intangible assets of RM277m and Tax and MI of RM92 m

^ Excludes CPAM & CPIAM gain of RM928m

Table 3: Comparison of PBT by key segments

PBT by segments (RM m)	FY19*	FY18^	Yoy (+/- %)
Consumer Banking	1,958	2,659	-26.4%
Commercial Banking	1,609	860	87.1%
Wholesale banking	1,928	1,834	5.1%
Group Funding	479	1,847	-74.1%
PBT	6,618	6,273	5.5%
Reported PBT	5,975	7,201	-17.0%

* Excludes transformational cost (net of tax) of RM270m; Impairment and write off of intangible assets of RM277m and Tax and MI of RM92 m

^ Excludes CPAM & CPIAM gain of RM928m

Source: Company, MIDFR

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% 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.