

CIMB Group Holdings Berhad

(1023 | CIMB MK) Financial Services | Finance

CIMB Thai: Ending the year strong

KEY INVESTMENT HIGHLIGHTS

- **Ended the year strongly with a rebound in earnings**
- **Income growth supported by NOII expansion as NIM compression took its toll to NII in 4QFY19**
- **Higher OPEX due to law and Fast Forward strategy**
- **Remedial actions taken led to lower provisions**
- **No change to FY19 and FY20 earnings forecast**
- **Maintain BUY with unchanged TP of RM6.30**

Strong end to the year. The Group's operating subsidiary CIMB Thai ended the year strongly as its earnings recovered to THB1.50b. This was due to the rebound in 4QFY19 where earnings turned positive as compared to losses in the same quarter last year. Main contributor for the strong performance this year was the lower provisions.

Income growth from NOII expansion. Net income grew +3.5%yoy supported by the +10.6%yoy expansion in NOII. While NII have been solid for 9MFY19 (+3.1%yoy), it fell in 4QFY19, leading to an increase of only +1.5%yoy. This was due to the impact of NIM compression of -40bp to 3.31% coming from higher cost of fund.

Combination of strategy and the law led to higher OPEX. Operating expenses (OPEX) rose by +14.1%yoy. This was mainly due to higher general expenses and personnel cost. These were expenses incurred due to the Fast Forward expansion strategy. Also, the higher personnel cost was attributed to an amendment bill to the Labour Protection Law which required higher compensation for employees who have retired or have been in service for over 20 years.

Remedial actions led to lower provisions. Provisions came off by -48.7%yoy in FY19. This was the result from remedial actions taken to improve its assets quality.

Asset quality stable. There was a slight uptick in gross non-performing loans (NPL) ratio at 4.6% from 4.3% as at 4QFY18. It stood at THB11.1b. Main reason was due to certain corporate accounts and retail segments.

No change in earnings forecast. We are maintaining our earnings forecast for FY19 and FY20.

Valuation and recommendation. The situation had improve in Thailand as we had expected. This was evident by CIMB Thai's FY19 earnings performance. Furthermore, provisions continue to be on a downtrend. Our only concern was the NIM compression. However, we understand that deposits competition in Thailand is currently stable and this should limit the pressure to NIM. As such, we believe that the Group's business in Thailand continues to be sound. All-in, we are maintaining our **BUY** call with **TP of RM6.30**, derived by pegging its FY20 BVPS to PBV of 1.1x.



Maintain BUY

Unchanged Target Price: RM6.30

RETURN STATISTICS

Price @ 21 st January 2020 (RM)	5.13
Expected share price return (%)	+22.8
Expected dividend yield (%)	+5.1
Expected total return (%)	+27.9

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-2.7	-1.3
3 months	-0.4	2.6
12 months	-11.1	-4.7

KEY STATISTICS

FBM KLCI	1,587.33
Syariah compliant	No
Issue shares (m)	9564.19
Estimated free float (%)	45.33
Market Capitalisation (RM'm)	50,904.82
52-wk price range	RM4.82 - RM5.89
Beta vs FBM KLCI (x)	1.28
Monthly velocity (%)	18.00
Monthly volatility (%)	11.50
3-mth average daily volume (m)	7.79
3-mth average daily value (RM'm)	41.03
Top Shareholders (%)	
Khazanah Nasional Bhd	23.77
Employees Provident Fund Board	12.58
Kumpulan Wang Persaraan Diperbadan	6.41

Analyst

Imran Yassin Yusof
 imran.yassin@midf.com.my
 03-2173 8395

INVESTMENT STATISTICS

Financial year ending 31 December (in RM'm, unless otherwise stated)	2017A	2018A	2019E	2020F	2021F
Net interest income (RM'm)	10,459	9,634	10,291	10,605	11,403
Islamic banking income (RM'm)	2,132	2,610	2,927	3,103	3,289
Non-interest income (RM'm)	5,036	4,046	4,388	4,520	4,655
Total income (RM'm)	17,626	17,382	17,606	18,227	19,347
Pretax profit (RM'm)	6,110	7,201	6,580	6,864	7,337
Net profit	4,475	5,584	4,991	5,206	5,565
Core Net profit (RM'm)	4,475	4,656	5,251	5,206	5,565
Core EPS (sen)	50	50	51	51	52
PER (x)	10.3	10.3	10.1	10.1	10.0
Net Dividend (sen)	25	25	26	26	26
Net Dividend Yield (%)	4.9	4.9	5.1	5.1	5.2
Book value per share (sen)	5.23	5.37	5.55	5.70	5.85
PBV (x)	1.0	1.0	0.9	0.9	0.9
ROE (%)	9.6	9.6	9.3	9.4	9.3

Source: Company, MIDFR

Table: Comparison of quarterly and cumulative results

FYE Dec (THB m)	Quarterly results					Cumulative Result		
	4QFY19	3QFY19	4QFY18	Yoy (+/- %)	Qoq (+/- %)	FY19	FY18	Yoy (+/- %)
NII	2,722	2,751	2,804	-2.9%	-1.0%	10,907	10,747	1.5%
NOII	1,046	698	728	43.6%	49.8%	3,247	2,936	10.6%
Net income	3,768	3,449	3,532	6.7%	9.3%	14,155	13,682	3.5%
OPEX	(2,545)	(2,555)	(2,408)	5.7%	-0.4%	(9,690)	(8,492)	14.1%
PPOP	1,223	894	1,124	8.8%	36.7%	4,465	5,191	-14.0%
Write back/(Provision) for loan losses	(281)	(584)	(1,589)	-82.3%	-51.8%	(2,522)	(4,919)	-48.7%
Pre-tax profit	941	310	(465)	>100%	>100%	1,943	271	>100%
Net Profit	774	298	(530)	>100%	>100%	1,501.6	6.9	>100%
EPS (THB)	0.017	0.010	(0.021)	>100%	>100%	0.043	0.000	>100%

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

Source: Company

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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.