CIMB Group Holdings Berhad

(1023 | CIMB MK) Financial Services | Finance

Outlook is stable

***Maintain* BUY**

***Unchanged* Target Price: RM6.30**

KEY INVESTMENT HIGHLIGHTS

- **NIM compression manageable despite policy cuts expected in Malaysia, Indonesia and Thailand**
- **Deposits competition in Malaysia stable and not as intense as before**
- **Indonesia seems fine and expected to have some pickup in loans growth**
- **Weighing options on digital bank**
- **No change to FY19 and FY20 earnings forecast**
- **Maintain BUY with unchanged TP of RM6.30**

Key takeaways. We met with the management yesterday. Below are our key takeaways from the discussion:

- Deposits competition in Malaysia and Thailand has been stable. However, it continues to be intense in Indonesia.
- Outlook in Indonesia appears to be fine, with expectation of a pickup in loans growth in FY20.
- The Group is approximately half way on the investment it had planned for its Forward23 initiative.
- Several options being mull for the upcoming digital bank license in Malaysia including the option of not applying for the license.

NIM compression will be manageable despite rate cuts. NIM in 9MFY19 was lower -5bp yoy to 2.47% due to policy rate cuts in Malaysia and Indonesia in FY19. However, we believe that NIM compression will be manageable at a likelihood of low single digit. This is despite the management expecting one policy rate cut in Malaysia, Indonesia and Thailand. Our expectation in premised upon the fact the policy cuts will be likely have positive impact to CIMB Niaga and CIMB Thai's NIM. Meanwhile, the expected OPR cut in Malaysia will lilely have a negative impact of 3-4bp to NIM. Nevertheless, we believe that the impact to another OPR cut will likely be muted.

Deposits competition stable and will not weigh NIM. Another factor that will provide some support to NIM will be the stable deposit competition especially in Malaysia. We observed the previous intensifying of fixed deposit competition in the fourth quarter was relatively absent in FY19. This could be due to the fact that banks were holding back in taking deposits in view of another OPR cut. In addition, we understand that much of the expensive deposits were released in 3QFY19. As such, we will not be surprised if the Group's NIM recovered from the OPR cut in just one quarter. Recall, NIM had improved +4bp qoq and +16bp yoy in 3QFY19, mainly contributed by the recovery in Malaysia. We are expecting an OPR cut in 1QFY20.

RETURN STATISTICS	
Price @ 20th January 2020 (RM)	5.12
Expected share price return (%)	+23.0
Expected dividend yield (%)	+5.1
Expected total return (%)	**+28.1**

SHARE PRICE CHART

Share price performance (%)	Absolute	Relative
1 month	-2.8	-1.5
3 months	-0.6	1.6
12 months	-9.7	-3.8

KEY STATISTICS	
FBM KLCI	1,588.88
Syariah compliant	No
Issue shares (m)	9564.19
Estimated free float (%)	45.33
Market Capitalisation (RM'm)	50,805.59
52-wk price range	RM4.82 - RM5.89
Beta vs FBM KLCI (x)	1.28
Monthly velocity (%)	23.84
Monthly volatility (%)	10.28
3-mth average daily volume (m)	7.95
3-mth average daily value (RM'm)	41.44
Top Shareholders (%)	
Khazanah Nasional Bhd	23.77
Employees Provident Fund Board	12.58
Kumpulan Wang Persaraan Diperbadan	6.41

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Outlook in Indonesia seems fine. The management anticipates there will be a pickup in loans growth in Indonesia in FY20. This expected to come from the corporate segment relating to infrastructure projects and state owned enterprise (including infra-related). Meanwhile, the growth in the consumer segment will continue into FY20. As a result, revenue growth expectation will remain intact. Currently, there is no pressure in asset quality but there will be some "top-up" provisions due to macro-economic factors. However, Group credit cost will track guidance of 40bp to 50bp.

Halfway through Forward23 investments. We understand that the Group is at the halfway point of its investment for its Forward23 initiative. We view this as positive as this could mean that the timeline for improvement to CI ratio is on track. Recall, capital expenditure and OPEX are expected to be elevated in FY19 and FY20 due to the investments required and this, we expect, will be a drag to earnings. However, cost is expected to subsequently normalise. In addition, the investment will also bring in revenue enhancement. In fact, we opine that the Group's digital initiative and its associated investments are bearing some positive results. One possible evidence is the strong loans growth in consumer segment recorded by the Group thus far. Digitisation and the use of data analytics have enabled the Group to ensure faster turnaround of loan applications, more targeted approach to customer acquisition and better risk pricing.

Still mulling on the digital bank license. We understand that the Group is still exploring on the options relating to the upcoming digital bank license. This could even mean not applying for the license given that the Group's existing license allows it to offer financial products digitally. Another option is to take advantage of its ownership of Touch 'N' Go (TNG). We believe that this makes sense given the position of TNG as the leading e-wallet provider in Malaysia. Nevertheless, we echo the management's view that the digital banks will not have a significant impact to traditional banks in the short term (as highlighted by our previous report: "Banking on the virtual"). However, in the medium term, traditional banks will need to catch up on its digital proposition if it does not want to be left behind.

No change in earnings forecast. We are maintaining our earnings forecast for FY19 and FY20 pending the release of the Group's 4QFY19 results.

Valuation and recommendation. Overall, we continue to be cautiously optimistic on the Group's prospects. As we had expected, improvements in Indonesia and Thailand will provide support to earnings. We believe the underlying factors such as income and credit cost will continue to improve. We believe that the impact of another OPR cut in Malaysia will be muted. In terms of valuation, we believe that the Group's valuation is cheap at current juncture as it trades below its historical PBV. We do not believe such valuation is warranted for the Group given that we do not foresee any deterioration in its fundamentals. Hence, we maintain our **BUY** call with unchanged **TP of RM6.30**, based on pegging its FY20 BVPS to a PBV of 1.1x. 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)	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	10.0	10.1	9.9
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

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

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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 *rise* 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 *fall* 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.