

11 July 2014 | Sector update

Maintain NEUTRAL

BANKING - POTENTIAL MEGA MERGER OF CIMB, RHB CAP AND MBSB

It has been announced that BNM has given its approval to CIMB, RHB Cap and MBSB to commence merger talks. The three parties have entered into a 90 day exclusivity agreement to negotiate and finalise the pricing, structure and the relevant terms and conditions for a proposed merger and the formation of a Mega Islamic Bank.

- On a proforma basis, should the mega merger between CIMB, RHB Cap and MBSB be materialized, the merged entity will have a total asset, loans and customer deposits of RM613.7b, RM388.7b and RM434.4b respectively. In terms of asset size and loans, the merged entity will be largest among local banks surpassing Maybank.
- CIMB Group is expected to take the lead as acquirer. A share swap is likely for the merger as compared to rights issue exercise which the latter will require discount at least 25-30% to the share price of the acquirer and consequently more dilutive impact to earnings.
- The negotiation is still preliminary. Nevertheless, market is expecting a Price-Book multiple of 1.75x for the valuation of RHB Cap and MBSB (target companies). Based on our calculations, at a Price-Book multiple of 1.75x to the target companies' BVPS as at end March 2014, this will derive a pricing of RM11.80 and RM2.55 per share for RHB Cap and MBSB respectively. Hence, it will translate to combine total valuation for RHB Cap and MBSB of RM36.7b (RHB Cap: RM30.0b and MBSB: RM6.7b)
- In terms of an all share swap, this would imply a ratio of roughly 1.6 CIMB shares for every 1 RHB Cap shares and an exchange of 0.4 CIMB shares for every 1 MBSB shares at the current CIMB share price of RM7.24. It will require an issuance of 5b new CIMB shares for the merger (Refer Table below).

Table 1: Summary of the details for potential mega merger

	CIMB	RHB Cap	MBSB	Combined entity
Total Assets ('Mil)	380,040	196,944	36,742	613,726
Net Loans ('Mil)	234,197	124,068	30,416	388,681
Customer Deposit ('Mil)	262,018	143,272	29,061	434,350
Number of shares ('Mil)	8,229	2,547	2,623	
Book Value ('Mil) @ 31/3/2014	35,554	17,194	3,824	
BVPS	4.32	6.75	1.46	
Current PB ratio	1.7x	1.3x	1.6x	
@1.75x Price-Book		RM11.80 per share	RM2.55 per share	
Estimated cost (RM'Mil)		RM30,053	RM6,689	RM36,742 (for RHB Cap and MBSB)
No of shares needed to be raised by CIMB for share swap ('Mil) assuming current CIMB share price of RM7.24	5,075			

Chart 1: Comparison of Assets Size ('Mil) by Banking Groups

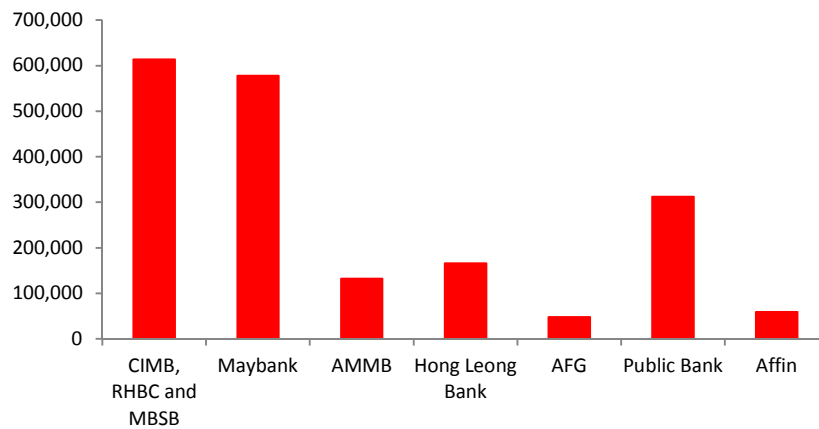


Chart 2: Comparison of Loan Size ('Mil) by Banking Groups

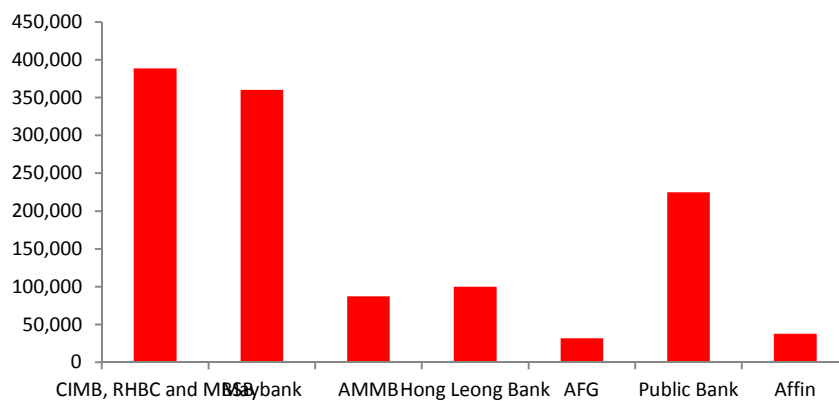
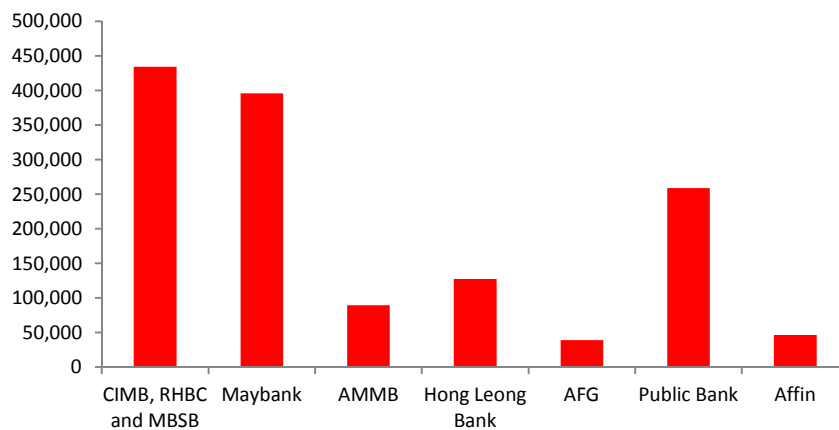


Chart 3: Comparison of Customer Deposits ('Mil) by Banking Groups




The following are the key positives from the potential merger:

- Creation of larger and diversified base for funding and liquidity;
- Expansion of network which will enable a wider reach to customers locally and abroad for the banks;
- Enlarged scale and size to compete in the intensively competed environment;
- Potential revenue synergies from cross selling opportunities to different clientele base on the three parties;
- Complementary markets for IB business with the merger of CIMB Group and RHB Cap, further strengthening of IB capabilities;
- Enable RHB Cap to gain access to commercial banking business in Indonesia via CIMB Niaga after the termination of Bank Mestika deal;
- Enable MBSB to access to customer deposit base of banks which will lower its funding cost as compared to its current cost of funds on a standalone basis, consequently improving its NIM. Also, enable MBSB to raise funding through the debt capital market at a more attractive rates than compared to the past with the larger sized entity and
- The eventual creation of Mega Islamic Bank will strengthen the positioning of the country as an Islamic Financial Hub and with the regional focus of CIMB Group and RHB Cap, this could raise the international prospects of Malaysia's Islamic finance further.

Below are the potential impacts to CIMB's Group financials should the merger materialize:

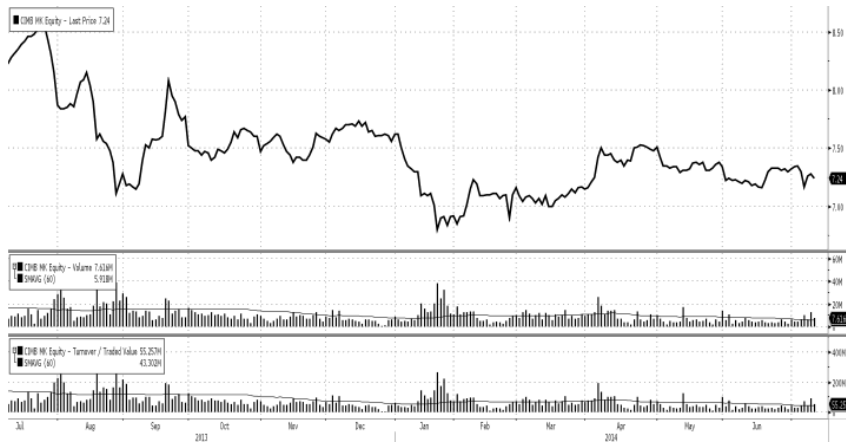
Existing share capital @ 31/3/2014 :	8,229 mil shares
New shares to be issued for share swap @ RM7.24:	5,075 mil shares
Enlarged share capital:	13,304 mil shares
Shareholders' fund (before):	RM35,554 mil
Shareholders' funds (after):	RM72,296 mil
FY15 CIMB net profit:	RM5,289 mil*
Add FY15 RHB Cap net profit:	RM2,308 mil*
Add FY15 MBSB net profit:	RM689 mil*
Enlarged net profit (yet to factor in any merger cost which may occur)	RM8,286 mil
*denotes existing MIDF net profit forecast	
CIMB's FY15 EPS (before)	64.2 sen
CIMB's FY15 EPS (after)	62.3 sen
Change	-3.0%

CIMB's FY15 BVPS (before)	RM4.94
CIMB's FY15 BVPS (after)	RM5.43
Change	+9.9%
CIMB's FY15 ROE (before)	13.6%
CIMB's FY15 ROE (after)	14.2%
Change	+0.6 ppts

- Based on our assessment of the impact to CIMB Group with the assumption of all share swaps for the merger, there will be slight dilution to EPS of 3.0%. Meanwhile, the impact on the Group's BVPS and ROE looks positive as shown in the table above with a change of 9.9% and 0.6 ppts respectively. Overall, we are positive on the merger.
- In view that the negotiations are still preliminary, we leave our existing forecast for CIMB and RHB Cap. We maintain our NEUTRAL call on CIMB with an unchanged TP of RM7.80 pegged to Price-Book multiple of 1.8x. For RHB Cap, we maintain our BUY call but raised our TP to RM10.50 from RM9.50 by ascribing a higher PB multiple of 1.5x (previously 1.3x). We expect higher interest on the stock in view of its position as a target company to be acquired and merged. Should there firmer indications on the deal with a confirmed PB multiple for the acquisition at 1.75x as speculated, we will raise our valuation for RHB Cap further to be in line with the higher PB multiple. 

	Rec.	Price @ 11/7	Target Price	EPS (sen)		PER		Net DPS		Net Div Yield		BV	BV	PBV	PBV
				14	15	14	15	14	15	14	15	14	15	14	15
AMMB	NEUTRAL	7.18	8.00	59.3	64.0	12.1	11.2	24.1	25.0	3.4	3.5	4.4	4.8	1.6	1.5
Maybank	BUY	9.98	11.00	77.0	84.0	13.0	11.9	46.0	50.0	4.6	5.0	5.6	6.1	1.8	1.6
Public Bank	NEUTRAL	20.06	19.90	113.0	123.0	17.8	16.3	51.0	55.0	2.5	2.7	7.2	7.8	2.8	2.6
RHB Capital	BUY	8.72	10.50	83.0	91.0	10.5	9.6	25.0	27.0	2.9	3.1	7.0	7.6	1.2	1.1
Hong Leong	BUY	14.12	16.50	108.0	117.0	13.1	12.1	36.0	39.0	2.5	2.8	7.8	8.7	1.8	1.6
CIMB	NEUTRAL	7.24	7.80	56.0	63.0	12.9	11.5	22.0	25.0	3.0	3.5	4.5	4.9	1.6	1.5
AFG	NEUTRAL	5.06	4.70	37.2	39.0	13.6	13.0	29.5	23.0	5.8	4.5	2.8	3.0	1.8	1.7
Affin	NEUTRAL	3.33	3.80	32.0	37.0	10.4	9.0	16.0	19.0	4.8	5.7	3.5	3.7	0.9	0.9

DAILY PRICE CHART OF CIMB



DAILY PRICE CHART OF RHB CAP



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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 <i>rise</i> 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	<i>Negative</i> total return is expected, by -15% or more, over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> 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.