

BANKING - PROPOSED MERGER ABORTED

- **Merger aborted...** CIMB, RHB Cap and MBSB have officially announced that the proposed merger and the creation of mega-Islamic Bank have been aborted. All discussions in relation to the merger and formation of mega-Islamic Bank have ceased and the exclusivity agreement entered by the three entities on 10 July 2014 expires with immediate effect.
- **...due to expected challenges in delivering synergies.** Rationale for the abortion of the proposed merger was due to due to the challenges in delivering synergies from the merger in view of the weaker economic conditions. Management had earlier alluded that synergies for the merger comprised largely of cost synergies (approximately 86% of the total synergies). We believe that the Group will first need to incur integration cost of circa RM1.4b and restructuring cost in addition to transaction cost in order to realize these cost synergies. Hence, in times of tough operating environment which will pose challenges to earnings growth, it is difficult to realize accretion in earnings and ROE from the merger. Based on the announcement, the decision to abort the deal was not due to changes in terms and conditions of the proposed merger which entities to the merger were not able to come to an agreement as highlighted by the media.
- **The cancellation will clearly be negative on MBSB** as the shares of the entity was accorded an attractive valuation of RM2.82 per share based 1.91x PB multiple. This will put downward pressure on the shares of MBSB with the termination of the merger.
- **We expect the positive reaction to the share price of CIMB to continue** given that uncertainties as to the achievement of potential synergies as well as ROE dilution on the merged entity are now off. Based on our earlier estimates, ROE for the merged entity will be down to 10.2% post merger. Without the merger, ROE for CIMB is more favorable based on our estimates at 11.8% for FY14 and 11.5% for FY15 having taken into account the weak earnings prospects of CIMB Niaga to continue into the next two quarters results (4QFY14 and 1QFY15).
- **CIMB: Maintain Trading Buy with revised TP of RM6.70.** With the proposed merger aborted, we are maintaining our Trading Buy rating but revised our TP for CIMB down to RM6.70 (previously RM7.27) pegged to a forward FY15 PB multiple of 1.4x (previously 1.5x) which implies a PER of 12.4x.
- **RHB Cap: Maintain Buy with revised TP of RM9.30.** We maintain our BUY rating on RHB Cap with a revised TP of RM9.30 (previously RM10.70). With the cancellation of the proposed merger, the high benchmark valuation at 1.4x PB multiple earlier will not hold. Our new TP is based on a PB multiple of 1.2x which implies a PER of 10.3x. We remain positive on RHB Cap premised on: i) attractive valuation trading at 1.0x to our FY15 BVPS forecast, ii) positive synergies to be realized from the merger of RHB IB and OSK IB, and iii) good traction of its Islamic Banking and NOII.
- **Forecasts unchanged.** Our earnings forecasts for CIMB and RHB Cap remain unchanged as we have yet to factor in the impacts from the proposed merger.

INVESTMENT STATISTICS OF CIMB GROUP

FYE Dec	FY12	FY13	FY14F	FY15F
Net interest income (RM'm)	7,396	7,954	8,648	9,525
Islamic banking income (RM'm)	1,689	1,593	1,782	1,814
Non-interest income (RM'm)	4,407	4,600	4,102	4,380
Total income (RM'm)	13,495	14,672	14,533	15,719
Pretax profit (RM'm)	5,638	5,849	5,202	5,813
Net profit (RM'm)	4,345	4,540	3,997	4,464
EPS (sen)	58.4	60.0	48.0*	54.0
EPS growth (%)	+7.7	+2.7	-20.0	+12.5
PER (x)	9.8	9.6	12.0	10.6
Net Dividend (sen)	23.4	23.8	19.0	21.0
Net Dividend Yield (%)	4.1	4.1	3.3	3.7
Book value per share (sen)	3.81	3.92	4.46	4.83
PBV (x)	1.5	1.5	1.3	1.2
ROE (%)	16.0	15.5	11.8	11.5

*Lower than FY13 as we have taken into account a higher number of shares from its DRP as well as from share private placement exercise in Jan'14

Forecast by MIDFR

INVESTMENT STATISTICS OF RHB CAP

FYE Dec	FY12	FY13	FY14F	FY15F
Net interest income (RM'm)	2,960	3,275	3,403	3,714
Other operating income (RM'm)	1,380	2,085	2,279	2,502
Islamic Banking income (RM'm)	490	591	652	702
Total income (RM'm)	4,830	5,951	6,334	6,917
Pretax profit (RM'm)	2,385	2,471	2,840	3,092
Net profit (RM'm)	1,785	1,831	2,119	2,308
EPS (sen)	79.0	72.9	82.0	90.0
EPS growth (%)	+14.7	-7.7	+12.5	+9.8
PER (x)	9.7	10.5	9.3	8.5
Net dividend (sen)	22.1	16.3	25.0	27.0
Net dividend yield (%)	2.9	2.1	3.3	3.5
Book value per share (sen)	6.06	6.57	7.16	7.78
PBV (x)	1.3	1.2	1.1	1.0
ROE (%)	13.4	11.5	12.1	12.0

Source: Company, MIDFR

Banks	Rec.	Price @ 15/01	Target Price	EPS (sen)		PER		Net DPS		Net Div Yield		BVPS		PBV	
				14	15	14	15	14	15	14	15	14	15		
AMMB	NEUTRAL	6.40	7.30	59.3	58.0	10.8	11.0	24.1	23.0	3.8	3.6	4.4	4.7	1.5	1.4
Maybank	BUY	8.60	11.20	70.0	79.0	12.3	10.9	44.0	48.0	5.1	5.6	5.6	6.0	1.5	1.4
Public Bank	NEUTRAL	17.52	19.50	113.0	121.0	15.5	14.5	51.0	55.0	2.9	3.1	7.1	7.8	2.5	2.2
RHB Capital	BUY	7.75	9.30	82.0	90.0	9.5	8.6	25.0	27.0	3.2	3.5	7.2	7.8	1.1	1.0
Hong Leong	BUY	14.00	16.30	119.4	119.0	11.7	11.8	41.0	39.0	2.9	2.8	8.2	8.6	1.7	1.6
CIMB	TR. BUY	5.91	6.70	48.0	54.0	12.3	10.9	19.0	21.0	3.2	3.6	4.5	4.8	1.3	1.2
AFG	NEUTRAL	4.67	5.00	37.2	37.0	12.6	12.6	29.5	22.0	6.3	4.7	2.7	2.9	1.7	1.6
Affin	NEUTRAL	2.93	3.30	27.0	34.0	10.9	8.6	14.0	17.0	4.8	5.8	3.9	4.1	0.7	0.7

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(Bank Pelaburan)

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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.