

Equity Beat

24 February 2010

4QFY09 results update

CIMB Group Holdings Berhad

More transformation work in progress for stronger regional status

Reaffirm BUY**Increased Target Price (TP) to RM14.50 (from RM14.40)**

- 4QFY09 net profit grew 10.5%qoq to RM802.8m. 12M09 net profit of RM2.8b was higher by 43.8% yoy.
- Full FY09 net profit was above our forecast by 4.2% and higher than consensus full year estimates by 6.6%. This translated into a higher ROE of 15% (vs. FY08: 12.3%) which met management's ROE target for FY09 of between 14 to 15%.
- The improvement in profit was contributed mainly by its Indonesian platform (CIMB Niaga) and from the Treasury & Investments segment.
- PBT contribution from CIMB Niaga was higher by 160.6%yoy to RM787m in FY09 while that of Treasury and Investments grew 54.9%yoy to RM1.47b.
- We reaffirm our buy call on the stock with an increase target price to RM14.50 (from RM14.40), implying 16x PER on FY10 EPS.

STOCK INFO

Price (25 Feb 10)	RM12.66	KLCI	1266.43
Issued shares (mil)	3,531.76	Bursa / Bloomberg	1023 / CIMB MK
Par Value (RM)	1.00	Board / Sector	Main/ Finance
Market cap. (RM'm)	44,712.15	Syariah Compliant	No
Price over NA (x)	2.2		
52-wk price Range	RM5.90 - RM13.58	Major Shareholders	
Beta (against KLCI) (x)	1.25	Khazanah Nasional Bhd	28.39%
3-mth Avg Daily Vol	5.71m	EPF	14.17%
3-mth Avg Daily Value	72.3m	Capital International Emerging Mkts	0.84%

Loan growth exceeded target of 8% set for FY09. Gross loan grew 21.5%yoy and by 14.2%yoy (excluding CIMB Thai). Loan growth for consumer banking was 13.2% yoy while that for Corporate and Investment banking and CIMB Niaga were 5.5%yoy and 29.4%yoy respectively.

Growth for consumer banking was driven by mortgage loan (+20.1%yoy to RM29b), credit cards (+13.7%yoy to RM3b), hire purchase financing (+3.4% to RM11.3b) and OD and Term Loan (+23.3% to RM11.4b) while business banking loan fell 6.5%yoy to RM13b. Management indicated that the group will refocus on SME loans again in 2010 as one of its key priorities.

Net interest margin (NIM) improved. NIM for FY09 rose to 2.64% (vs. FY08: 2.30%) as a result of stronger NIM in Indonesia.

NIM of CIMB Niaga improved to 6.02% in FY09 (vs.4.87% in FY08) while that of CIMB Thai was lower at 2.82% in FY09 (vs.2.86% in FY08).Management expects some pressure on NIMs in Indonesia due to intense competition while that of Malaysia and Thailand to be stable.

Corporate and Investment banking income contribution lower in FY09. Profit before tax (PBT) for Corporate and Investment banking fell 20.3% yoy due to higher loan loss provision for its international portfolio.

FYE 31 Dec	FY08	FY09	FY10F	FY11F
Net Interest Income (RM'm)	4,660.5	6,068.9	6,860.4	7,510.6
Islamic Banking Income (RM'm)	437.7	807.1	840.6	938.2
Other Operating Income (RM'm)	2,644.1	3,793.6	4,108.9	4,752.3
Pretax Profit (RM'm)	2,715.6	3,811.9	4,592.1	5,040.1
Net Profit (RM'm)	2,012.5	2,806.8	3,206.4	3,780.1
EPS (sen)	57.8	79.5	90.7 *	99.6 *
PER(x)	21.9	15.9	14.0	12.7
Net DPS (sen)	18.5	18.5	18.5	18.5
Dividend Yield (%)	1.5	1.5	1.5	1.5

Source: Company, Forecasts by MIDFR

* Forecast of EPS before bonus issue of 1:1

Stronger earnings contribution from CIMB Niaga. CIMB Niaga reported a higher consolidated net profit of IDR1.6t (RM534m) vs. FY08's IDR 678.2b (RM213m). Improvement in net interest income by 28.4%yoy to IDR6t (RM205m), higher fee income by 2% to IDR1.5t (RM505m) and improved cost efficiency led to a stronger earnings contribution to the Group.

CIMB Thai for 4Q09 and 3Q09 turnaround to record net profit of RM5m and RM48m respectively compared to a loss of RM11m in 2Q09. The improved performance of Thai operation was due to stronger NIM of 3.4% in both 4Q09 and 3Q09 compared to 2.8% in 2Q09 and 2.2% in 1Q09 while loan growth commenced in 2H09 after realignment of its business. For Thai operations, management rightsized its deposits to lower deposit cost and raised loan to deposit ratio (LD ratio) to 97.3% in 4Q09 vs.71.9% in 2Q09.

Bank Yingkou of China and Singapore retail banking contributed profit in FY09. Bank of Yingkou profit contribution in 4Q09 of RM7.9m and was lower than 3Q09 of RM10m while for Singapore operations, retail banking growth was stronger with higher growth in home loan and credit cards.

Asset quality improved. Gross NPL at group level fell to 5.0% in 4Q09 (vs. 3Q09's 5.5%) contributed mainly by lower NPL of Malaysia and Thai operations. Gross NPL for Malaysian market declined to RM4.8b (vs. RM5.3b in 3Q09) while that of Thailand lowered to RM1.31b (vs. RM1.39m in 3Q09).

Gross NPL for CIMB Thai declined 6%yoy and its loan loss provision fell 50% yoy to THB1.2b in FY09.

For CIMB Niaga, gross NPL ratio for FY09 was 3.06% (vs. 2.5% in FY08) and lower compared to the industry average of 3.3% in Indonesia. Provision for loan losses at CIMB Niaga rose by 46.2% yoy

On net basis, Group net NPL ratio declined to the lowest level of 2.0% (vs. 2.4% in 3Q09).

Loan loss charge for FY09 of 70 bps was lower than the target set for the financial year of 90 bps. Moving forward, management is comfortable further improving the loan loss charge and has set a target of 60 bps for FY10.

Prospects. We believe that the ongoing transformation of the group's Indonesian and Thailand operations will benefit the group in terms of greater cost efficiencies in the longer term (higher cross border synergies) and that the development of a regional banking model bodes well to increase its competitiveness to withstand increased competition in the financial sector space. Additionally, the Group stands to benefit from greater economic integration among Asean countries as a stronger regional bank.

The Group has strong pipeline deals in capital advisory (M&As) as well potential IPO deals both in Malaysia and Indonesia to grow its non-interest income.

CIMB Niaga will undergo a 2nd stage of transformation to grow its higher margin lending business i.e. loan, credit cards and investment banking business.

Sale and leaseback of the Group's 65 properties comprising of branches (agreement entered with EPF) will result in a capital gain of RM171m to the Group. The capital gain is expected to be realised in 1Q10. In addition, sale of office building of CIMB Thai will also be expected to be realised in 1Q10.

Net dividend target of 18.5 sen remain. The group will pay out a net dividend of 18.5 sen per share and will maintain the same dividend target of 18.5 sen per share for FY10. This is in view of the implementation of changes required under FRS139 and Basel II in 2010. Management has highlighted that it will review the dividend payment target again after implementation of the necessary changes.

Bonus of 1 for 1 proposed. The proposed bonus exercise is to align the pricing of the stock with the pricing convention of Stock Exchange of Thailand (SET) for the dual listing its shares on SET in June 2010. This exercise will enlarge the number of shares from 3.5b to 7.1b.

New targets set for FY10. As a result of achieving key targets for FY09, management has set higher ROE target of 16% for FY10 compared to 14-15% in FY09. FY10 loan and deposit growth target has been set at 12% and 18% respectively.

Valuation. We reaffirm our buy call on the stock and revised our Target Price to RM14.50 (from RM14.40). Our TP is pegged at 16x PER (average of historical 5 years highest and lowest PER) on FY10 earnings per share. We believe that the management has strong value propositions to move group further as a stronger regional bank with more transformation work in place. The stock has stronger growth potential from its overseas operation in the future to drive both interest and non-interest income.



Quarterly Results						Cumulative		Comments
FY 31 Dec (RM'Mil)	4Q09	3Q09	4Q08	%Qoq	%Yoy	12M09	%Yoy	
Net Interest Income	1,568.8	1,595.1	1,285.7	-1.6	+22.0	6,068.9	+30.2	Lower qoq due to the following: Lower interest income from: i. Loan of RM2.08b vs. RM2.1b; ii. Money at call and deposits placed at FIs of RM73.3m vs. RM105.3m; iii. Available for sale of securities of RM101.4m vs. RM148.1m and iv. Held to maturity securities of RM203.6m vs. RM157.5m
Islamic Banking Income	260.3	222.6	130.9	+16.9	+98.9	807.1	+84.3	Stronger qoq and yoy due to growth of Syariah compliant banking products. Islamic loan grew 166.4%yoy against deposit growth of 28.1%yoy.
Other Operating Income	950.7	899.7	485.5	+5.7	+95.8	3,793.6	+43.6	Stronger qoq due to: Higher fee income from the following: i. Commissions of RM58.6m vs. RM39.7m; ii. Fees on loan of RM190.6m vs. RM130.7m; iii. Placement fee of RM127.8 vs. RM8m and iv. Underwriting fee of RM25.5m vs. RM0.3m
Total income	2,779.7	2,787.0	1,882.4	-0.3	+47.7	10,669.5	+37.8	
Pre-tax profit	1,093.6	1,000.8	448.1	+9.3	+144.1	3,811.9	+40.4	Loan loss provision higher due to higher provisions at CIMB Niaga as well as increase in provisioning taken for international portfolio of Corporate and Investment Banking segment.
Tax	(200.0)	(219.1)	(151.2)	-8.7	+32.3	(764.8)	+8.8	
Net Profit	802.9	726.8	318.6	+10.5	+152.0	2,806.8	+43.8	
EPS (sen)	22.7	20.6	9.2	+10.2%	+146.7	79.5	+37.5	

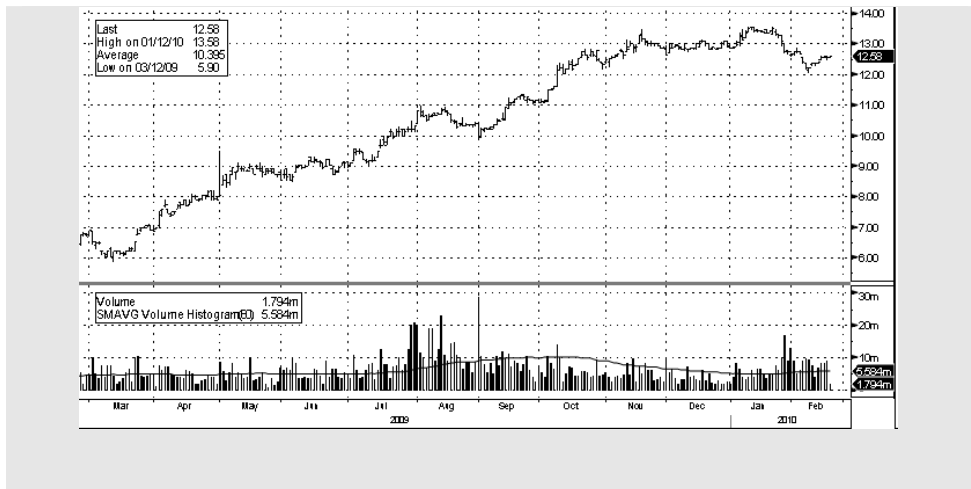
MIDF EQUITY BEAT

Wednesday, 24 February 2010

Financial Ratios (%)	4Q09	3Q09	4Q08	%Qoq	%Yoy		
CCR *	14.8	13.5	9.0	+1.3	+5.8		Banking industry CCR as at Dec 09: 13.1%. Target Tier 1 Capital for CIMB Bank for FY10: 10%.
RWCR *	15.1	14.0	12.2	+1.1	+2.9		Banking industry RWCR as at Dec 09: 14.7%. Target RWCR for CIMB Bank for FY10: 12%.
Net NPL	2.0	2.4	2.3	-0.4	-0.3		Banking industry net NPL as at Dec 09: 1.8%. Lower qoq due to lower Net NPL of: i. CIMB Bank: 1.2% in 4Q09 (vs. 2.2% in 3Q09) ii. CIMB Thai: 7.1% in 4Q09 (vs. 8.6% in 3Q09) iii. CIMB Niaga: 1.0% in 4Q09 (vs. 1.8% in 3Q09)
Gross NPL	5.0	5.5	4.9	-0.5	+0.1		Banking industry gross NPL as at Dec 09: 3.7%. 4Q09 ratio lower compared to 5.5% in 3Q09, 5.6% in 2Q09 and 5.6% in 1Q09. Gross NPL for CIMB Niaga was 3.0% in 4Q09 vs. 2.8% in 3Q09 while that CIMB Thai was 14.9% in 4Q09 vs. 16.6% in 3Q09.
Cost to income	55.3	51.6	58.2	+3.7	-2.9		Higher qoq due to increase in the following operating expenses: i. Personnel cost of RM771m (vs. RM739m) ii. Admin and general expenses of RM411m (vs. RM289m) Partially offset by lower establishment expenses of RM295m (vs. RM323m).
Loan Loss Coverage	90.8	86.7	88.1	+4.1	+2.7		Higher qoq due to higher provisioning taken at CIMB Niaga to increase loan loss coverage to above 100% and higher international portfolio provisioning of Corporate and Investment Banking segment due to adjustment to FRS139.
Loan to Deposit	79.5	82.1	76.4	-2.6	+3.1		Retail deposit of CIMB Bank grew 18.3%yoy due to strong deposit growth of Singapore operations.
ROEA	16.2	15.4	6.7	+0.8	+9.5		
ROAA	1.4	1.3	0.5	+0.1	+0.9		

*Capital ratios of CIMB Bank

DAILY PRICE CHART



Zulkifli Hamzah
Kelvin Ong, CFA
kelvin.ong@midf.com.my
03-2173 8227

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (23878 - X).
 (Bank Pelaburan)
 (A Participating Organisation of Bursa Malaysia Securities Berhad)

DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (23878-X). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This document may not be reproduced, distributed or published in any form or for any purpose.

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	Total return is expected to be <15% 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

OVERWEIGHT	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.
UNDERWEIGHT	The sector is expected to underperform the overall market over the next 12 months.