

## CIMB Group Holdings Bhd

*CIMB Niaga: Fruits from improving asset quality*

### INVESTMENT HIGHLIGHTS

- **Lower provisions and strong NOII growth drove double digit earnings growth**
- **Bearing fruit from focusing on improving asset quality**
- **Resulting in sacrificing NIM slightly**
- **Good growth in loans to consumer and SME segments**
- **No change to our forecast**
- **Maintain BUY with unchanged TP of RM7.70 pegging the stock to 1.3x FY19 Price-to-Book multiple**

**Strong earnings growth from lower provisions.** CIMB Niaga FY18 net profit grew +16.9%yoy driven by lower provisions. Provisions fell -25.7%yoy as it reaps the efforts from improving its asset quality. Gross NPL fell -64bps yoy as at 4QFY18 to 3.11%.

**Broad base asset quality improvement...** We noted that while consumer gross NPL was flat at 2.5% as at 4QFY18, the corporate and SME segment gross NPL improved -120bps yoy and -50bps yoy to 1.3% and 3.0% respectively. More notable was the improvement in gross NPL of the commercial segment as it reached an inflection point and expected to trend further downwards. It came at 7.9% as at 4QFY18 from 9.3% as at 2QFY18 and 8.2% as at 4QFY17.

**... but sacrificed NIM and asset growth to achieve this.** NIM compressed by -6bps qoq and -9bps yoy in 4QFY18. As for FY18, NIM fell -48bps yoy. We understand the NIM compression was a combination of the aggressive policy rate hikes by Bank Indonesia and as a result of the management's focus on improving asset quality. This in particular led CIMB Niaga to opt for better quality assets which in general have lower yields. Another consequence was that gross loans grew at +1.8%yoy to IDR188.47t. Nevertheless, mortgages (+11.2%yoy to IDR30.0t), credit cards (+5.5%yoy to IDR8.6t) and SME loans (+8.5%yoy to IDR29.6t) grew robustly.

**NOII helped to moderate NII weakness.** NII fell -3.2%yoy from the NIM compression and sluggish loans growth but this was moderated by NOII expansion of +13.8%yoy. This was mainly due to higher recoveries (+55.5%yoy to IDR619b) and forex & fixed income derivatives (+30.0%yoy to IDR940b).

**Maintain BUY**

**Unchanged Target Price (TP): RM7.70**

#### RETURN STATS

Price (20 February 2019)	RM5.76
Target Price	RM7.70
Expected Share Price Return	+33.7%
Expected Dividend Yield	+4.5%
<b>Expected Total Return</b>	<b>+38.2%</b>

#### STOCK INFO

KLCI	1,726.18
Bursa / Bloomberg	1023 / CIMB MK
Board / Sector	Main / Finance
Syariah Compliant	No
Issued shares (mil)	9,564.5
Market cap. (RM'm)	55,091.26
Price over NA	1.08
52-wk price Range	RM5.21 - RM7.39
Beta (against KLCI)	1.48
3-mth Avg Daily Vol	8.13m
3-mth Avg Daily Value	RM46.4m
Major Shareholders	
Khazanah	26.8%
EPF	13.8%
KWAP	6.9%

#### Some banking abbreviations used in this report:

CA = Collective Impairment Allowance
CI = Cost to Income
CET1 = Common Equity Tier 1
GIL = Gross Impaired Loan
NPL = Non Performing 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


**Deposits growth contributed by growth in savings accounts.** In our opinion, one area of concern would be the +0.8%yoy growth in deposits, to IDR190.75t. However, we believe that the growth of +8.5%yoy to IDR54.5t in savings account have slightly assist in containing NIM compression, as time & structured deposits grew only +0.6%yoy to IDR90.4t. The savings account expansion also moderated the contraction in current account of -7.0%yoy to IDR45.9t. Overall CASA grew +0.9%yoy.

**Cautiously optimistic for FY19.** The management are cautiously optimistic on Indonesia's FY19 economic outlook and expects pick-up in economic activity in 2HFY19, post election. Main key area of focus will be consumer and SME segments. While we expect that margin compression will remain prevalent, we do not expect a repeat of the policy rate hike cycle in FY19. As such, income should continue to improve in FY19.

## FORECAST

We make no changes to our forecast pending the Group's 4QFY18 result later this month.

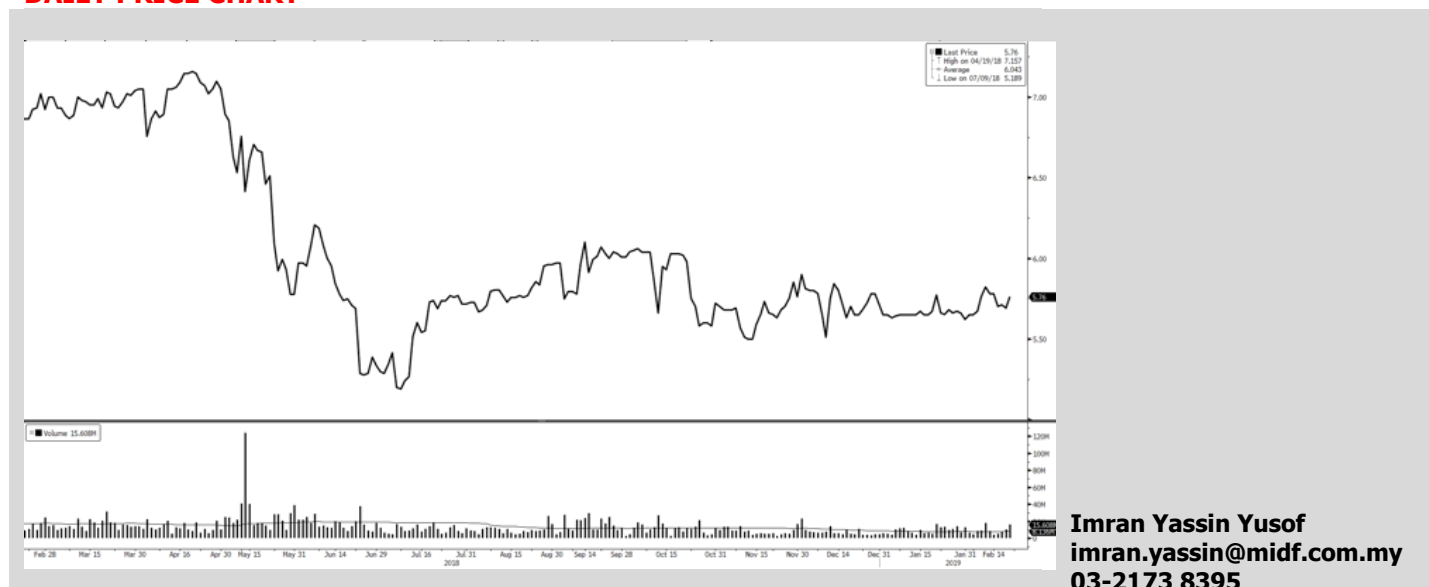
## VALUATION AND RECOMMENDATION

We were disappointed that income growth was tepid for CIMB Niaga in FY18. However, it was partly situational and partly a result of its efforts to improve its asset quality. As such, our disappointment was assuaged by the impact of the asset quality improvement. We opine that this continuing asset quality improvement will lead to better income afterwards and more sustainable earnings growth. Also, we believe that the rupiah should stabilise this year and CIMB Niaga should contribute better to the Group's earnings. We also opine that the Group's performance in Malaysia will continue to be solid. Hence, we maintain our **BUY** recommendation with unchanged **TP of RM7.70** based on pegging its FY19 BVPS to PBV multiple of 1.3x. 

## INVESTMENT STATISTICS OF CIMB GROUP

FYE Dec	FY16	FY17	FY18F	FY19F
Net interest income (RM'm)	9,826	10,459	10,981	11,420
Islamic banking income (RM'm)	1,704	2,132	1,951	2,068
Non-interest income (RM'm)	4,386	5,036	5,851	5,266
Total income (RM'm)	16,065	17,626	18,783	18,754
Pretax profit (RM'm)	4,884	6,110	7,367	7,035
Net profit	3,564	4,475	5,733	5,335
Core Net profit (RM'm)	3,564	4,475	4,733	5,335
Core EPS (sen)	41	50	50	54
PER (x)	14.0	11.6	11.5	10.7
Net Dividend (sen)	20	25	26	24
Net Dividend Yield (%)	3.5	4.3	4.5	4.1
Book value per share (RM)	5.11	5.23	5.54	5.81
PBV (x)	1.1	1.1	1.0	1.0
ROE (%)	8.3	9.6	9.3	9.5

## DAILY PRICE CHART



**Table 1: Comparison of quarterly results**

FYE Dec (IDR b)	Quarterly results (normalised)					Comments
	4QFY18	3QFY18	4QFY17	Yoy (+/- %)	Qoq (+/- %)	
NII	2,999	3,024	3,034	-1.2%	-0.8%	Lower NIM due to focus on better quality assets
NOII	950	1,003	1,034	-8.1%	-5.3%	Lower fees and commissions income (-13.9%yoy to IDR507b)
Net income	3,949	4,027	4,068	-2.9%	-1.9%	
OPEX	(2,004)	(2,064)	(1,932)	3.7%	-2.9%	
PPOP	1,945	1,963	2,136	-8.9%	-0.9%	
Write back/(Provision) for loan losses	(720)	(758)	(923)	-22.0%	-5.0%	Due to continuous improvement in asset quality
Core Pre-tax profit	1,225	1,205	1,213	1.0%	1.7%	
Core Net Profit	891	824	781	14.1%	8.1%	
EPS (IDR)	35.74	33.06	31.08	15.0%	8.1%	

Source: Company

**Table 2: Comparison of financial ratios by quarters based on normalised financials**

Financial Ratios (%)	4QFY18	3QFY18	4QFY17	Yoy (+/- ppts)	Qoq (+/- ppts)	Comments
Tier 1 Capital	18.4	18.2	17.3	1.1	0.2	
Total CAR	19.7	19.4	18.6	1.1	0.3	
Gross NPL	3.11	3.41	3.75	-0.64	-0.30	Continuing improvement in asset quality in corporate, commercial and consumer segments
Net NPL	1.55	1.82	2.16	-0.61	-0.27	
GIL ratio	4.05	4.33	5.10	-1.05	-0.28	
Loan Loss Coverage	105.9	101.2	107.2	-1.3	4.6	
Credit charge-off	1.52	1.67	2.02	-0.50	-0.15	Better asset quality
Cost to income (CI)	50.8	51.3	47.5	3.3	-0.5	Higher personnel cost and income weakness
CASA ratio	52.6	53.3	52.6	0.1	-0.6	Savings account growth moderated current account contraction
LD ratio	97.2	92.4	96.2	0.9	4.7	
NIM	5.11	5.17	5.20	-0.09	-0.06	Due to focusing on better quality asset which come with lower NIM
ROE	9.1	8.5	8.5	0.6	0.6	

Source: Company

**Table 3: Comparison of cumulative quarter results**

Cumulative results (normalised)				Comments
FYE Dec (IDR b)	FY18	FY17	Yoy (+/- %)	
NII	12,012	12,403	-3.2%	Impacted by NIM compression of -48bps due to policy rate hikes throughout FY18 and focus on better quality assets
NOII	3,816	3,353	13.8%	Higher recoveries (+55.5%yoy to IDR619b) and forex & fixed income derivatives (+30.0%yoy to IDR940b)
Net income	15,828	15,756	0.5%	
OPEX	(7,947)	(7,521)	5.7%	Higher other expenses at +9.9%yoy to IDR4,140b due to investments in technology
PPOP	7,881	8,235	-4.3%	
Write back/(Provision) for loan losses	(3,030)	(4,080)	-25.7%	Better asset quality as gross NPL fell -64bps yoy to 3.11%
Core Pre-tax profit	4,851	4,155	16.8%	
Core Net Profit	3,482	2,978	16.9%	
EPS (IDR)	139.67	118.50	17.9%	
			<b>+ / - ppts</b>	
ROE	9.1	8.3	0.8	
NIM	5.12	5.6	-0.48	Due to aggressive rate hike by Bank of Indonesia and the focus on better asset quality
CI	50.2	47.7	2.5	Higher other expenses
LD	97.2	96.2	0.9	
CASA ratio	52.6	52.6	0.1	

Source: Company

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 >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	<i>Negative</i> total return is expected, by -10% or more, 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.