1Q17: An interesting start

CIMB kicked off 1Q17 with RM1.18bn in net profit (+45% yoy, +38% qoq), in line with our estimate but outperforming the street's. Key surprises are mainly the robust topline income growth driven by a 10bps increase in NIM yoy, strong loan growth in Malaysia, sharply higher investment gains and credit cost of 52bps, which came in below management's guidance. Further improvement in asset quality (as NPLs had peaked in 4Q16) and operational synergies from the JV with China Galaxy are possible catalysts for further upside to our 2017-19E forecasts. Maintain BUY, PT raised to RM7.00 from RM6.30.

1Q17 headline net profit +45% yoy; above market expectations

CIMB Group reported a 1Q17 net profit of RM1,180.3m, up 45% yoy and up 38% qoq with the key drivers being primarily a stronger topline while the group continued to achieve operational and asset quality improvements. Its 1Q17 net profit was in line with our 2017 forecast, though above the street estimate by 9%. No dividends were proposed for 1Q17 (1Q16: NIL).

Operating results driven by stronger NIM; credit cost eased

1Q17 pre-provision operating profit (PPOP) grew by 30% yoy, underpinned by: i) a robust 11.5% yoy growth in fund-based income (as NIM rose 10bps yoy to 2.72%, with robust loan growth in Malaysia); and ii) non-interest income, + 32% yoy. Though operating expenses grew in line with business growth, the cost-to-income ratio of 52.6% was in line with management's guidance of <53%. Meanwhile, 1Q17 impaired loan allowances declined by almost 9% yoy and 44% qoq, with the annualized credit cost at 52bps (1Q16: 64bps; 4Q16: 93bps), bolstered by credit recoveries. Though management reiterated its official credit cost guidance of 60-65bps for 2017E, we believe that emerging tailwinds in the commodity markets will bolster recovery of assets classified as impaired in CIMB's books.

Maintain BUY; higher RM7.00 TP; FY17-19 EPS forecasts unchanged

Reiterate **BUY** on CIMB. As we roll forward our valuation horizon to 2018E, we revise our **Price Target** to **RM7.00** (based on a P/BV multiple of 1.3x and 2018E ROE of 9.6%) from RM6.30 previously (P/B target multiple of 1.2x and 2017E ROE of 10.0%). Our higher target multiple of 1.3x remains below the past five-year average of 1.4x, and is justified by an improving macro outlook, likely further upside from asset quality improvement and cost synergies from the JV with China Galaxy, which reinforce our conviction of much stronger earnings prospects in 2017-19E. Our key earnings assumptions: i) steady NIM above 2.6% (against management's guidance of a 5-10bps NIM compression to <2.6%); ii) 2017-19E loan growth target of 6-7%; iii) fund-based income growth of 5-6% p.a; and iv) easing credit cost from 74bps in 2016 to 53-56bps 2017-19E.

Earnings & Valuation Summary

FYE 31 Dec	2015	2016	2017E	2018E	2019E
Total income (RMm)	15,394.7	15,916.0	16,342.8	16,974.4	17,636.4
PPOP (RMm)	6,146.8	7,413.6	8,014.3	8,317.4	8,633.1
Pretax profit (RMm)	3,914.0	4,884.1	6,258.8	6,401.0	6,734.9
Net profit (RMm)	2,849.5	3,564.2	4,671.0	4,775.3	5,023.2
EPS (sen)	33.6	41.0	51.7	51.1	52.0
Core net profit (RMm)	3,411.0	3,414.2	4,671.0	4,775.3	5,023.2
Core EPS (sen)	40.2	39.3	51.7	51.1	52.0
Core EPS growth (%)	5.7	(2.4)	31.7	(1.2)	1.8
Core PER (x)	15.2	15.6	11.9	12.0	11.8
ROE (%)	7.3	8.3	10.0	9.6	9.6
BVPS (RM)	4.81	5.11	5.24	5.37	5.49
PBV (x)	1.27	1.20	1.17	1.14	1.12
Net DPS (sen)	14.0	20.0	22.9	24.3	25.0
Dividend Yield (%)	2.4	3.5	4.0	4.2	4.3
Chg in EPS (%)			-	-	-
Affin/Consensus (x)			1.1	1.0	0.9

Source: Company, Affin Hwang estimates

Results Note

CIMB Group

CIMB MK
Sector: Banking

RM6.13 @ 24 May 2017

BUY (maintain)

Upside: 14.2%

Price Target: RM7.00

Previous Target: RM6.30

Price Performance

	1M	3M	12M
Absolute	+9.3%	+20.7%	+43.5%
Rel to KLCI	+8.3%	+15.7%	+31.8%

Stock Data

Issued shares (m)	8,868.4
Mkt cap (RMm)/(US$m)	55,489.4/12,926.5
Avg daily vol - 6mth (m)	15.7
52-wk range (RM)	4.11-5.19
Est free float	43.2%
BV per share (RM) (31 Mar)	5.27
P/BV (x)	1.16
Net cash/ (debt) (RMm)	n.a.
ROE (2017F)	10.0%
Derivatives	Nil
Shariah Compliant	No

Key Shareholders

Khazanah	29.3%
EPF	15.1%

Source: Affin Hwang, Bloomberg

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Downside risks: (i) deterioration in asset quality; ii) more volatility in provisions arising from the adoption of the FRS 9 accounting standard; iii) competitive pressure on rates; iv) NIM compression from wholesale funding pressure and as the bank complies with requirements under the net stable funding ratio (under Basel 3).

Fig 1: Results Comparison

FYE Dec (RMm)	1Q17	QoQ (%)	YoY (%)	4Q 16	Comments
Interest Income	4,842.9	*(0.7)*	*3.3*	4,878.6	Group loans grew 12% yoy, flat qoq (excluding FX fluctuations, at 6.3% yoy and flat qoq). Malaysia remained its key market, at 57% of the group's loanbook, followed by Indonesia (19%) and Singapore (10%). On a segmental basis, consumer loans were up 10.7% yoy (51% of loanbook), corporate loans up 14.5% yoy (36% of loanbook) and commercial loans up 11.6 yoy (13% of loanbook).
Interest Expense	(2,197.3)	*(1.6)*	*(4.6)*	(2,233.8)	Deposits up 10.8% yoy and 4.6% qoq (excluding FX fluctuations +6.3 yoy, +4.3% qoq). Strong deposit growth in Malaysia (+13% yoy), Indonesia (+1.9% yoy), Thailand (+15.3% yoy), offset by decline in Singapore (-2.5% yoy).
Net Interest Income	**2,645.5**	*0.0*	*11.0*	**2,644.8**	1Q17 NIM edged up 10bps yoy and 3bps qoq to 2.72%, underpinned by improved loan pricing of Malaysian-based loans, though mitigated by wholesale funding pressure.
Islamic Banking	474.0	*10.8*	*8.3*	427.9	
Non-Interest Income	1,238.3	*(0.2)*	*37.0*	1,240.9	Strong yoy rebound underpinned by fee income (+7.8% yoy) and higher realized investment gains (from a loss in 1Q16).
Gain on disposal of net assets/ subsidiaries	2.7	*>100*	*n.m.*	(0.5)	
Operating Income	**4,360.5**	*1.1*	*17.1*	**4,313.1**	
Operating Expenses	(2,295.7)	*2.9*	*7.4*	(2,231.0)	1Q17 CIR at 52.6% (vs. 51.7% in 4Q16 and 57.4% 1Q16). Yoy increase driven by higher personnel and administrative costs.
Pre-provision Profit	**2,064.8**	*(0.8)*	*30.0*	**2,082.2**	
Impaired Loan and Receivable Allowances	(424.5)	*(43.5)*	*(8.6)*	(741.2)	The bulk of the allowances (estimated circa 77%) were from CIMB Niaga. 1Q17 annualised credit cost came in at 52bps vs. 64bps in 1Q16 and 93bps in 4Q16, underpinned by some recoveries across the region.
Impairment Loss & others	(30.9)	*(77.2)*	*(38.8)*	(146.1)	
Associate	4.3	*(74.4)*	*(91.4)*	16.7	
Pre-Tax Profit	**1,613.6**	*33.2*	*43.7*	**1,211.7**	
Taxation	(402.6)	*20.8*	*37.3*	(333.2)	
Minority Interests	(30.7)	*27.9*	*92.2*	(24.0)	
Net Profit	**1,180.3**	*38.1*	*45.0*	**854.4**	1Q17 net profit in-line with Affin's 2017 forecast of RM4.67bn but above consensus.
Core Net Profit	**1,180.3**	*38.1*	*45.0*	**854.9**	
EPS (sen)	**13.3**	*37.4*	*40.0*	**9.7**	
Core EPS (sen)	**13.3**	*n.m.*	*40.1*	**9.7**	
Single-tier DPS (sen)	**-**	*n.m.*	*n.m.*	**12.00**	No dividends proposed in 1Q17 (1Q16: NIL).
Yield (%)	-	*n.m.*	*n.m.*	2.41	

Source: Affin Hwang, Company data

Fig 2: CIMB Group: Key financial ratios

FYE Dec (RMm)	3Q15	4Q15	1Q16	2Q16	3Q16	4Q16	1Q17
Key Financial Ratios:							
Profitability							
Net asset yield (%)	4.59	4.76	4.44	4.31	4.34	4.49	4.24
Cost of funds (%)	2.33	2.44	2.30	2.21	2.20	2.18	2.05
CIMB Group NIM	2.68	2.66	2.62	2.63	2.58	2.69	2.72
Fee income ratio (%)	32.1	30.5	26.7	30.3	32.2	30.1	30.2
Cost to income ratio (%)	63.7	53.9	57.4	53.6	53.2	51.7	52.6
Annualised ROE (%)	9.2*	8.4*	7.9	8.4	9.5	7.7	10.3
Balance Sheet							
Gross loans (RMbn)	297,774.5	297,822.1	289,441.7	297,728.6	304,453.1	323,719.6	324,485.5
Customer deposits (RMbn)	310,809.9	317,423.6	316,842.4	315,998.0	336,586.4	336,245.5	351,617.8
Net loan/deposit ratio (%)	95.0	92.9	90.6	93.5	89.8	95.6	91.7
Asset Quality							
Gross Impaired loan (RMm)	10,172.0	9,081.8	8,785.0	9,414.1	9,769.5	10,645.3	10,291.2
Gross Impaired loan ratio (%)	3.4	3.0	3.0	3.2	3.2	3.3	3.2
Net Impaired loan ratio (%)	0.8	0.5	0.5	0.5	0.6	0.7	0.7
Impaired loan cover (%)	84.9	84.7	84.8	83.5	80.6	79.8	79.6
Impaired loan cover with regulatory reserves (%)	84.9	95.9	97.1	95.9	92.6	92.2	93.2
New Impaired loan formation (RMm)	976.7	(85.8)	729.7	1,032.1	1,193.3	1,330.0	903.9
Capital Ratios (Group Level)							
Core Equity Tier-1 (%)	9.3	10.4	10.6	10.7	10.9	11.3	11.5
Tier-1 (%)	10.6	11.8	11.8	12.2	12.4	12.9	13
Total Capital (%)	13.4	15.4	15.4	15.6	15.8	16.4	16.4

** Implies ROE ratios on a normalized basis, excluding 'non-business as usual' items*

Source: Company data, Affin Hwang

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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