

Outthink. Outperform.

Entering into a new galaxy

The CIMB Group is disposing its 50% stake in CIMB Securities International (its regional stockbroking unit) to China Galaxy Securities to form a 50:50 JV. The move is expected to result in a potential gain of RM180m, open doors to more capital market deals and enhance its level of customer service. Maintain BUY, with PT raised from RM7.00 to RM7.50 (at 1.4x P/BV target).

Strategic partnership through 50:50 JV with China Galaxy Securities

The CIMB Group had on 6 June 2017 agreed to sell a 50% stake in its wholly-owned unit, CIMB Securities International Pte. Ltd. (CSI) to China Galaxy International Financial Holdings Limited's wholly-owned unit, China Galaxy Securities Co. Ltd. ("China Galaxy") for SGD167m (RM515m), based on a 1.3x CSI's consolidated net asset value of SGD256.9m as at 31 Dec15. The sale will enable both CIMB and China Galaxy to enter into a strategic 50:50 JV. Currently, CSI is CIMB's stockbroking business outside of Malaysia, comprising institutional and retail brokerage, equities research and associated securities business across Indonesia, Singapore, Thailand, HK, South Korea, India, UK and US.

Potential gain from sale of RM180m, uplift of 100-150bps in CIR

The disposal of stake is expected to be completed by end-2017 or early-2018, after obtaining regulatory approvals. The CIMB Group is expected to book-in a potential gain amounting to RM180m (including a direct realized gain on disposal and revaluation gains from the remaining stake held). The CIMB Group will also see a benefit of 100-150bps in cost-to-income ratio (from our forecast of 51% for 2017-19E, as revenues and costs from CSI will be deconsolidated).

Maintain BUY, PT raised to RM7.50 from RM7.00

Reiterate BUY on CIMB. We raise our Price Target from RM7.00 to RM7.50, based on a P/BV multiple of 1.4x (from 1.3x) and a 2018E ROE of 9.6%. Our target multiple of 1.4x is in-line with CIMB's past five-year average of 1.4x while the higher multiple is justified by an improving macro outlook, likely further upside from asset quality improvement and synergies from the JV with China Galaxy (new investment banking deals, improved trading platform, more extensive equities distribution platform and research coverage). Our earnings assumptions: i) steady NIM above 2.6% (vs. management's guidance of <2.6%); ii) 2017-19E loan growth target of 6-7%; iii) fund-based income growth of 5-6% p.a; and iv) credit costs at 53-56bps 2017-19E (vs. 74bps in 2016).

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)	16.7	17.2	13.0	13.2	13.0
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)	1.40	1.32	1.29	1.26	1.23
Net DPS (sen)	14.0	20.0	22.9	24.3	25.0
Dividend Yield (%)	2.1	3.0	3.4	3.6	3.7
Chg in EPS (%)			-	-	-
Affin/Consensus (x)			1.1	1.0	0.9

Source: Company, Affin Hwang estimates

Company Update

CIMB Group

CIMB MK
Sector: Banking

RM6.74 @ 6 June 2017

BUY (maintain)

Upside: 11.3%

Price Target: RM7.50

Previous Target: RM7.00



Price Performance

	1M	3M	12M
Absolute	+16.0%	+23.4%	+51.8%
Rel to KLCI	+14.2%	+19.1%	+39.8%

Stock Data

Issued shares (m)	8,868.4
Mkt cap (RMm)/(US\$m)	61,011.2/14,298.4
Avg daily vol - 6mth (m)	16.8
52-wk range (RM)	4.11-6.87
Est free float	43.5%
BV per share (RM) (31 Mar)	5.27
P/BV (x)	1.28
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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CIMB Group - FINANCIAL SUMMARY

Profit & Loss Statement

FYE 31 Dec (RMm)	2015	2016	2017E	2018E	2019E
Interest income	18,098.6	18,826.0	20,145.9	21,315.4	22,489.5
Interest expense	(8,761.9)	(9,000.1)	(9,704.4)	(10,344.6)	(11,026.1)
Net interest income	9,336.7	9,825.9	10,441.5	10,970.7	11,463.4
Islamic banking income	1,569.0	1,704.0	1,789.2	1,878.7	1,972.6
Total non-interest income	4,488.9	4,386.0	4,112.0	4,125.0	4,200.4
Total income	15,394.7	15,916.0	16,342.8	16,974.4	17,636.4
Overhead expenses	(9,249.0)	(8,651.7)	(8,328.5)	(8,657.0)	(9,003.3)
Pre-Prov. Op. Profit	6,146.8	7,413.6	8,014.3	8,317.4	8,633.1
Impaired loan allowances	(2,318.5)	(2,645.1)	(1,873.4)	(2,036.8)	(2,020.9)
Associates contributions	85.6	115.7	118.0	120.4	122.8
Pretax profit	3,914.0	4,884.1	6,258.8	6,401.0	6,734.9
Tax	(1,018.0)	(1,251.2)	(1,564.7)	(1,600.2)	(1,683.7)
Minority interest	(46.4)	(68.8)	(23.1)	(25.4)	(28.0)
Net profit	2,849.5	3,564.2	4,671.0	4,775.3	5,023.2

Balance Sheet Statement

FYE 31 Dec (RMm)	2015	2016	2017E	2018E	2019E
Cash and short-term fund	29,318.8	26,709.7	27,215.5	26,328.1	27,618.8
Deposits with FIs	1,829.5	2,308.0	2,308.0	2,308.0	2,308.0
Securities repurchased	9,714.1	5,315.3	5,368.4	5,422.1	5,476.3
Securities held-for-trading	20,680.3	22,768.6	22,768.6	22,768.6	22,768.6
Securities available-for-sale	32,767.5	31,530.3	34,683.3	38,151.6	41,966.8
Securities held to maturity	25,759.2	30,381.3	30,381.3	30,381.3	30,381.3
Derivatives	11,708.8	12,006.2	12,006.2	12,006.2	12,006.2
Total current assets	131,778.3	131,019.3	134,731.4	137,365.9	142,526.1
Net loan and advances	290,295.7	315,372.9	337,603.1	360,266.6	382,648.7
Fixed assets	2,529.5	2,140.5	2,140.5	2,140.5	2,140.5
Statutory reserves with BNM	7,699.8	8,484.4	8,193.1	8,748.5	9,355.5
Other assets	19,140.3	18,240.8	19,216.4	20,452.1	21,757.2
Intangible assets	1,820.6	2,036.6	2,036.6	2,036.6	2,036.6
Goodwill	8,297.5	8,472.3	8,472.3	8,472.3	8,472.3
Total assets	461,561.6	485,766.9	512,393.4	539,482.6	568,936.9
Customer deposits	317,423.6	336,245.5	356,222.0	380,371.7	406,760.3
Deposits from other FIs	23,692.0	28,736.1	28,736.1	28,736.1	28,736.1
Bills / REPOS	10,856.4	8,059.2	8,059.2	8,059.2	8,059.2
Derivatives	12,139.8	12,137.6	12,137.6	12,137.6	12,137.6
Other funding liabilities	40,779.8	39,516.9	43,111.8	43,111.8	43,111.8
Other liabilities	14,437.4	13,992.4	14,132.3	14,273.6	14,416.4
Total liabilities	419,329.0	438,687.7	462,399.1	486,690.1	513,221.4
Minority interests	981.9	1,571.0	1,594.1	1,619.5	1,647.5
Preference shares	200.0	200.0	200.0	200.0	200.0
Shareholders' Funds	41,050.8	45,308.2	48,200.2	50,973.1	53,868.0

Quarterly Profit & Loss

FYE 31 Dec (RMm)	1Q16	2Q16	3Q16	4Q16	1Q17
Interest income	4,688.0	4,566.2	4,693.2	4,878.6	4,842.9
Interest expense	(2,304.2)	(2,214.2)	(2,247.9)	(2,233.8)	(2,197.3)
Net interest income	2,383.8	2,352.0	2,445.3	2,644.8	2,645.5
Islamic banking income	437.5	413.4	425.2	427.9	474.0
Total non-interest income	904.0	1,137.7	1,253.2	1,240.4	1,241.0
Total income	3,725.3	3,903.1	4,123.7	4,313.1	4,360.5
Overhead expenses	(2,136.9)	(2,090.9)	(2,193.0)	(2,231.0)	(2,295.7)
Operating profit	1,588.4	1,812.2	1,930.8	2,082.2	2,064.8
Loan loss provisioning	(464.6)	(589.5)	(603.3)	(751.6)	(424.5)
Provn for other receivables	(51.2)	(17.5)	(28.8)	10.4	(26.0)
Impairment loss from securities	0.7	(50.1)	46.4	(146.1)	(4.9)
Associates contribution	49.8	33.5	15.6	16.7	4.3
Pretax profit	1,123.1	1,188.6	1,360.8	1,211.7	1,613.6
Taxation	(293.3)	(312.7)	(311.9)	(333.2)	(402.6)
Minority interests	(16.0)	(3.1)	(25.7)	(24.0)	(30.7)
Net profit	813.8	872.8	1,023.2	854.4	1,180.3

Source: CIMB Group, Affin Hwang estimates

Key Financial Ratios and Margins

FYE 31 Dec (RMm)	2015	2016	2017E	2018E	2019E
Return and efficiency					
ROE (%)	7.3%	8.3%	10.0%	9.6%	9.6%
ROA (%)	0.7%	0.8%	0.9%	0.9%	0.9%
Average lending yield	4.50%	4.34%	4.39%	4.40%	4.40%
Cost of funds	2.34%	2.24%	2.29%	2.31%	2.33%
NIM post-Islamic banking (%)	2.71%	2.66%	2.66%	2.65%	2.63%
Int income/total income (%)	70.8%	72.4%	74.8%	75.7%	76.2%
Non-interest/total income (%)	29.2%	27.6%	25.2%	24.3%	23.8%
Cost-to-income (%)	60.1%	54.4%	51.0%	51.0%	51.0%
Balance sheet					
Loan growth (%)	12.5%	8.7%	6.9%	6.8%	6.3%
Gross Impaired loan ratio (%)	3.0%	3.3%	3.0%	2.8%	2.7%
Gross provisions (%)	1.5%	1.6%	1.5%	1.6%	1.7%
Loan loss reserves (%)	95.9%	92.2%	93.2%	102.4%	108.7%
Credit Cost (bps)	73.0	74.0	55.9	56.9	53.0
Deposit growth (%)	12.5%	5.9%	5.9%	6.8%	6.9%
LD ratio (%)	91.5%	95.6%	94.8%	94.7%	94.1%
Loan-to-Funds ratio (%)	75.8%	78.5%	79.4%	80.3%	80.7%
CASA ratio (%)	34.4%	35.8%	37.0%	38.5%	40.1%
Capital adequacy (Group)					
CET1 (%)	10.9%	11.6%	12.1%	13.2%	14.2%
Tier-1 (%)	11.8%	12.8%	13.3%	14.3%	15.3%
Total Capital Ratio (%)	15.4%	16.4%	16.8%	17.6%	18.4%
Investment statistics					
PER (X)	20.0	16.4	13.0	13.2	13.0
PBT growth rate (%)	-8.5%	24.8%	28.1%	2.3%	5.2%
Net earnings growth rate (%)	-8.3%	25.1%	31.1%	2.2%	5.2%
EPS (sen)	33.6	41.0	51.7	51.1	52.0
EPS growth rate (%)	-10.3%	22.0%	26.1%	-1.2%	1.8%
BV/share (RM)	4.81	5.11	5.24	5.37	5.49
P/BV	1.4	1.3	1.3	1.3	1.2
Dividend payout (%)	41.9%	49.5%	45.0%	48.3%	48.8%
NDPS (sen)	14.0	20.0	22.9	24.3	25.0
Net yield (%)	2.1%	3.0%	3.4%	3.6%	3.7%

Loan Breakdown - By Economic Purpose

FYE 31 Dec (RMm)	2015	2016	2017E	2018E	2019E
Securities	27,168	26,587	28,714	30,150	31,657
Transport vehicles	23,297	22,721	22,039	22,039	22,480
Residential properties	75,495	84,219	90,957	98,234	105,110
Non-residential properties	25,171	24,823	24,823	24,823	24,823
Fixed assets	15,920	18,160	18,342	18,525	18,711
Personal use	10,608	12,430	14,294	16,438	18,082
Credit card	8,843	9,823	10,805	11,886	13,075
Consumer durables	109	101	101	101	101
Construction	9,581	11,877	13,303	14,899	16,687
Mergers and acquisitions	3,617	4,601	4,601	4,601	4,601
Working capital	79,418	86,641	95,305	103,883	112,193
Other purpose	18,596	21,736	22,823	23,964	25,163
Islamic loans sold to Cagamas	-	-	-	-	-
Total gross loans	297,822	323,720	346,107	369,542	392,681

Breakdown of loans (%)

Corporate (%)	60.3%	60.1%	60.1%	59.8%	59.5%
Retail (%)	39.7%	39.9%	39.9%	40.2%	40.5%

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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