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## Another steady quarter; higher dividend

CIMB's 2Q17 net profit of RM1.1bn was up 26.3% yoy though down 6.6% qoq (in the absence of non-recurring recoveries). 1H17 net profit was in-line with our and consensus estimates. Annualized ROE, cost-to-income ratio and CET 1 ratio (11.9%) continued to strengthen from last year, while 2Q17 PPOP was up 13.9% yoy. 2Q17 credit cost edged up 26bps qoq but it was not a major surprise. A DPS of 13 sen (+62.5% yoy) was proposed vs. 8 sen in 2Q16. Maintain BUY, PT unchanged at RM7.50 (at 1.4x CY18 P/BV).

### 1H17 headline net profit +35.3% yoy; in-line with expectations

1H17 net profit (+35.3% yoy) was in-line with our and consensus estimates, supported by robust fund-based income growth as group NIM was higher (+8bps yoy to 2.71%) driven by group loan growth of 8.3% yoy, CIMB Niaga's higher NIM and a mortgage-repricing of 25bps on selective accounts. Amongst others, Wholesale Banking was the outperformer in 1H17 with PBT of RM1.24bn, up 77% yoy, driven by a combination of increased capital market activities, stronger loan growth and lower provisions. 1H17 PBT for the key overseas units rebounded strongly (Indonesia + 88.8% yoy; Thailand +80% yoy; Singapore +62.1% yoy) due to lower provisions, while Malaysia (66% of group PBT) was up 13.4% yoy.

### Credit quality remains intact; CIR on track with KPI

CIMB's GIL ratio remained flat at 3.2% qoq. In the absence of non-recurring recoveries, 2Q17 credit cost edged up +26bps qoq to 78bps (propped up by some provisions on O&G accounts in Singapore and in the Malaysian consumer books due to the Raya season) but was within management's guidance. Management reiterated its official credit cost guidance of 60-65bps for 2017E. Meanwhile, CIMB's 1H17 cost-to-income ratio (CIR) of 52.5% is on track to meet its 2017 target KPI of < 53%.

### Maintain BUY, PT unchanged at RM7.50 (1.4x CY18 target P/BV)

Reiterate **BUY** on CIMB, with an unchanged CY18 **Price Target** of **RM7.50**, based on a target P/BV of 1.4x (underlying assumptions: 2018E ROE 9.6% and 8.3% cost of equity). Our assumptions for 2017-19E: i) fund-based income growth of 5-6% p.a. with loan growth of 6.3-7%; ii) steady NIM at 2.63-2.66%; iii) CIR at 51%. We have also raised our dividend forecasts based on a payout ratio of 51% from 45-48% previously. Downside risks – deterioration in asset quality, NIM pressure, more volatility in provisions arising from the adoption of the MFRS 9.

### 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)	16.8	17.3	13.1	13.3	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)	1.41	1.33	1.29	1.26	1.24
Net DPS (sen)	14.0	20.0	25.9	25.6	26.1
Dividend Yield (%)	2.1	2.9	3.8	3.8	3.8
Chg in EPS (%)	-	-	-	-	-
Affin/Consensus (x)	-	-	1.04	0.95	0.9

Source: Company, Affin Hwang estimates

## Results Note

# CIMB Group

CIMB MK  
Sector: Banking

RM6.78 @ 28 Aug 2017

BUY (maintain)

Upside: 10.6%

Price Target: RM7.50

Previous Target: RM7.50



## Price Performance

	1M	3M	12M
Absolute	+2.1%	+6.8%	+44.3%
Rel to KLCI	+2.0%	+6.9%	+37.2%

## Stock Data

Issued shares (m)	9,052.1
Mkt cap (RMm)/(US\$m)	61,373.3/14,380.5
Avg daily vol - 6mth (m)	18.0
52-wk range (RM)	4.49-6.87
Est free float	43.1%
BV per share (RM) (30 Jun)	5.21
P/BV (x)	1.44
Net cash/ (debt) (RMm)	n.a.
ROE (2017F)	10.0%
Derivatives	Nil
Shariah Compliant	No

## Key Shareholders

Khazanah	28.1%
EPF	12.9%

Source: Affin Hwang, Bloomberg

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Fig 1: Results Comparison

FYE Dec (RMm)	2Q17	QoQ (%)	YoY (%)	1H17	YoY (%)	Comments
Interest Income	4,930.4	1.8	8.0	9,773.3	5.6	Group loans grew 8.3% yoy, flat qoq (excluding FX fluctuations, at 5.5% yoy and flat qoq). Malaysia remained its key market, with 57% of the group's loan book, followed by Indonesia (19%) and Singapore (10%). On a segmental basis, consumer loans were up 8.5% yoy (51.6% of loan book), corporate loans up 7.7% yoy (35% of loan book) and commercial loans up 8.7 yoy (13% of loan book).
Interest Expense	(2,246.3)	2.2	1.4	(4,443.6)	(1.7)	Deposits up 9.6% yoy and -1.4% qoq (excluding FX fluctuations +7.3 yoy, -0.6% qoq). Strong deposit growth in Malaysia (+14% yoy), offset by Indonesia (-2.7% yoy) and Singapore (-2.5% yoy).
<b>Net Interest Income</b>	<b>2,684.2</b>	<b>1.5</b>	<b>14.1</b>	<b>5,329.7</b>	<b>12.5</b>	2Q17 NIM -1bp qoq to 2.71%, while 1H17 +8bps yoy to 2.71% underpinned by improved loan pricing of Malaysian-based loans.
Islamic Banking	516.3	8.9	24.9	990.3	16.4	
Non-Interest Income	1,126.9	(9.0)	(1.0)	2,365.2	15.8	Strong yoy rebound underpinned by fee income (+6.4% yoy) and higher forex profits (from a loss in 1Q16).
Gain on disposal of net assets/ subsidiaries	-	n.m.	n.m.	2.7	>100	
<b>Operating Income</b>	<b>4,327.4</b>	<b>(0.8)</b>	<b>10.9</b>	<b>8,687.9</b>	<b>13.9</b>	
Operating Expenses	(2,262.9)	(1.4)	8.2	(4,558.7)	7.8	1H17 CIR at 52.6% (vs. 55.4% in 1H16). Yoy increase driven by higher personnel and administrative costs. Excluding foreign currency effects, overheads grew at 4% yoy
<b>Pre-provision Profit</b>	<b>2,064.4</b>	<b>(0.0)</b>	<b>13.9</b>	<b>4,129.2</b>	<b>21.4</b>	
Impaired Loan and Receivable Allowances	(632.2)	48.9	7.2	(1,082.0)	(3.6)	In the absence of non-recurring recoveries, 2Q17 credit cost edged up +26bps to 78bps qoq (propped up by some provisions on O&G accounts in Singapore and in the Malaysian consumer books due to the Raya season). CIMB Niaga saw lower 1H17 provisions -17% yoy.
Impairment Loss & others	(1.3)	(95.8)	(98.1)	(6.9)	(86.1)	
Associate	2.7	(36.4)	(91.9)	7.0	(91.6)	
<b>Pre-Tax Profit</b>	<b>1,433.7</b>	<b>(11.2)</b>	<b>20.6</b>	<b>3,047.3</b>	<b>31.8</b>	
Taxation	(295.4)	(26.6)	(5.5)	(698.0)	15.2	
Minority Interests	(35.8)	16.4	1,062.4	(66.5)	(<100)	
<b>Net Profit</b>	<b>1,102.5</b>	<b>(6.6)</b>	<b>26.3</b>	<b>2,282.7</b>	<b>35.3</b>	1H17 net profit in-line within Affin and market expectations.
<b>Core Net Profit</b>	<b>1,102.5</b>	<b>(6.6)</b>	<b>26.3</b>	<b>2,282.7</b>	<b>35.3</b>	
<b>EPS (sen)</b>	<b>12.3</b>	<b>(7.5)</b>	<b>21.8</b>	<b>25.6</b>	<b>30.6</b>	
<b>Core EPS (sen)</b>	<b>12.3</b>	<b>(7.9)</b>	<b>21.3</b>	<b>25.6</b>	<b>30.4</b>	
<b>Single-tier DPS (sen)</b>	<b>13.00</b>	<b>n.m.</b>	<b>62.5</b>	<b>13.00</b>	<b>62.5</b>	1 <sup>st</sup> interim DPS of 13 sen proposed (2Q16: 8 sen) based on a higher payout ratio of 51.6% (from 41.4% in 1H16).
Yield (%)	1.94	n.m.	0.7	1.94	0.7	

Source: Affin Hwang, Company data



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Fig 2: CIMB Group: Key financial ratios

FYE Dec (RMm)	4Q15	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17
<b>Key Financial Ratios:</b>							
<b>Profitability</b>							
Net asset yield (%)	4.76	4.44	4.31	4.34	4.49	4.24	4.33
Cost of funds (%)	2.44	2.30	2.21	2.20	2.18	2.05	2.10
CIMB Group NIM	2.66	2.62	2.63	2.58	2.69	2.72	2.71
Fee income ratio (%)	30.5	26.7	30.3	32.2	30.1	30.2	27.90
Cost to income ratio (%)	53.9	57.4	53.6	53.2	51.7	52.6	52.30
Annualised ROE (%)	8.4*	7.9	8.4	9.5	7.7	10.3	9.40
<b>Balance Sheet</b>							
Gross loans (RMm)	297,822.1	289,441.7	297,728.6	304,453.1	323,719.6	324,485.5	322,298.5
Customer deposits (RMm)	317,656.3	317,085.9	316,241.2	336,842.9	336,500.0	351,873.2	346,915.2
Gross loan/deposit ratio (%)	92.9	90.6	93.5	89.8	95.6	91.7	92.4
<b>Asset Quality</b>							
Gross Impaired loan (RMm)	9,081.8	8,785.0	9,414.1	9,769.5	10,645.3	10,291.2	10,353.3
Gross Impaired loan ratio (%)	3.0	3.0	3.2	3.2	3.3	3.2	3.2
Net Impaired loan ratio (%)	0.5	0.5	0.5	0.6	0.7	0.7	0.8
Impaired loan cover (%)	84.7	84.8	83.5	80.6	79.8	79.6	77.6
Impaired loan cover with regulatory reserves (%)	95.9	97.1	95.9	92.6	92.2	93.2	91.1
New Impaired loan formation (RMm)	(85.8)	729.7	1,032.1	1,193.3	1,330.0	903.9	1,045.3
<b>Capital Ratios (Group Level)</b>							
Core Equity Tier-1 (%)	10.4	10.6	10.7	10.9	11.3	11.5	11.9
Tier-1 (%)	11.8	11.8	12.2	12.4	12.9	13	13.4
Total Capital (%)	15.4	15.4	15.6	15.8	16.4	16.4	16.8

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

Source: Company data, Affin Hwang



<b>BUY</b>	Total return is expected to exceed +10% over a 12-month period
<b>HOLD</b>	Total return is expected to be between -5% and +10% over a 12-month period
<b>SELL</b>	Total return is expected to be below -5% over a 12-month period
<b>NOT RATED</b>	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.*

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