

2 April 2012
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12-month upside potential

Target price	7.80 [^]
Current price (as at 30 Mar)	7.69
Capital upside (%)	1.4
Net dividends (%)	4.1
Total return (%)	6.5

[^]Target price of CIMB is under review for potential upgrade

Key stock information

Syariah-compliant?	No
Market cap (RM m)	57,158
Issued shares (m)	7,432
Free float (%)	58
52-week high / low (RM)	8.98 / 6.68
3-mth avg volume ('000)	12,987
3-mth avg turnover (RM m)	94

Share price performance

	1M	3M	6M
Absolute (%)	7.4	6.2	11.4
Relative (%)	5.6	0.7	-4.5

Share price chart


Source: Bloomberg

CIMB Group Holdings
Banking
Trading Buy
Bloomberg Ticker: CIMB MK | Bursa Code: 1023

A slew of potential positive developments

We observe that there have been recent positive newsflows for CIMB Group on potential involvement of Mercuria on the APH project and the soon to be announced acquisition of RBS's selective equity operations. We are maintaining our **TRADING BUY** recommendation with an unchanged target price of **RM7.80**.

What's in the news

- According to a business weekly, Switzerland-based Mercuria Energy Group Ltd (Mercuria) is speculated to be partnering CIMB Group to review the beleaguered Asia Petroleum Hub (APH) bunkering island project off Tanjung Bin in Johor. Other potential suitors speculated for the APH include PTT Thailand.
- To recap, CIMB has in Dec 2011 sought a court order to appoint receivers and managers to restructure APH.
- On another note, it is reported by a foreign daily that Royal Bank of Scotland Group (RBS) expects to complete the sale of its Asian equities franchise to CIMB Group this week. The deal marks the latest step in the British state-owned bank's global restructuring and a major move in CIMB Group's efforts to become a major player in Asia. The two banks are expected to sign a sales-and-purchase agreement today committing them to a transaction. The deal remains subject to regulatory approval.
- RBS's sale includes its equities businesses across Hong Kong, Australia, Taiwan, Thailand and India. Around 400 people will move to CIMB Group as part of the deal, including Matthew Kirkby, head of global banking, and Peter Irvine, head of equities, in the Asian Pacific region.

Our comments

- We are positive on both developments. As highlighted in our reported dated 7 Feb, management has guided that the APH saga is unlikely to put a dent on its earnings prospects going forward, given that management has written down majority of this specific loan since 2010. Although management did not disclose the balance remains on CIMB's loan book, we understand that the amount is not significant and management does not foresee the need for further provision upon assessing the collateral involved.
- In fact, management believes that there should be potential write backs once they resolve the shareholder structure and potentially dispose its stakes to external parties or complete the project involved.
- As such, we view the potential involvement of Mercuria or PTT Thailand positively, since the commencement of APH project could imply writing back of its related loan loss provision.
- On the other hand, we are positive about the potential acquisition of RBS's selective equity operations, although the details remain scanty for now. We are optimistic that this acquisition strategy is in line with the aspiration of CIMB Group to be a regional champion, as per the objectives outlined in the GLC transformation program. The potential acquisition is expected to leapfrog CIMB Group from being 'Asean for you' to broadening their reach to the Asian region. Nonetheless, pricing continues to be a key consideration.

Valuation and recommendation

- We currently have a **Trading Buy** on CIMB Group. We are reviewing our current target price of **RM7.80** with potential upgrade, pending on the upcoming announcements of potential acquisitions of RBS's selective equity operations and Bank of Commerce, Philippines.
- We believe that the key catalyst for the group remains its stronger earnings outlook and potential dividend upside.



- We wish to reiterate that the disappointing financial results over the past few quarters were mainly due to management deliberation to maintain strong asset quality, and to conserve balance sheet for potential regional acquisition, in view of the rising external uncertainties.
- As such, we view the lower than expected quarterly results in 2011 to be an exception rather than a norm. Therefore, it should not serve as an indication of forward earnings growth.
- We maintain our optimistic stance that 2012 should be a good year for CIMB given that it is one of the prime beneficiaries of rising business loans stemming from the rolling out of Entry Point Projects under the government's Economic Transformation Programme. Given its strong investment banking foothold, we believe the group is also well positioned to capitalise on the increased deal flows this year.
- Management has guided that they are not aggressively pursuing overseas expansion in the near term in view of the scarcity of value accretive deals, after the potential acquisitions of RBS and Bank of Commerce. Given that the group's core capital ratio and RWCR ratio for FY11 stayed high at 14.5% and 16.8%, respectively, we foresee upside potential on its dividend payout this year, to reward its shareholders and to enhance its ROE.
- We believe that the potential acquisitions RBS's selective equity operations and Bank of Commercial are not material relative to its overall balance sheet strength and is not expected to constrain its potentially high dividend payout.
- Downside risks to our recommendation include (1) persistent selling pressure if market continues to view the group as a well political connected stock with perceived higher risk premium as general election draws closer, (2) slower than expected cost cutting exercise, (3) unexpected dried up in deal flows due to the volatility of the capital market, and (4) lower than expected topline growth due to a significant slowdown in loan growth.

**Figure 1 : Key financial data**

FYE 31 Dec	2009	2010	2011	2012F	2013F
Net interest income (RM m)	6,694.1	6,604.8	6,676.3	9,319.2	10,689.4
Non-interest income (RM m)	3,789.1	5,246.2	5,195.8	4,640.4	4,944.8
Operating profit (RM m)	4,951.9	5,264.9	5,492.1	6,389.6	7,207.6
Pretax profit (RM m)	3,811.9	4,626.7	5,203.1	5,708.1	6,467.0
Net profit (RM m)	2,806.8	3,500.8	4,030.8	4,464.2	5,056.9
Adj net profit (RM m)	2,806.8	3,500.8	4,030.8	4,464.2	5,056.9
EPS (sen)	39.8	48.7	54.2	60.1	68.0
Adj EPS (sen)	39.8	48.7	54.2	60.1	68.0
Alliance / Consensus (%)				106.0	105.4
Adj EPS growth (%)	37.7	22.3	11.3	14.5	13.3
Adj PE (x)	17.9	14.6	14.1	11.9	10.5
ROE (%)	15.0	16.2	16.4	16.8	17.5
Net DPS (sen)	9.3	26.1	22.0	33.0	37.4
Net dividend yield (%)	1.3	3.7	2.9	4.6	5.2
BVPS (RM)	2.88	3.13	3.49	3.72	4.04
P/BV (x)	2.5	2.3	2.2	1.9	1.8

Source: Alliance Research, Bloomberg



DISCLOSURE

Stock rating definitions

- Strong buy - High conviction buy with expected 12-month total return (including dividends) of 30% or more
- Buy - Expected 12-month total return of 15% or more
- Neutral - Expected 12-month total return between -15% and 15%
- Sell - Expected 12-month total return of -15% or less
- Trading buy - Expected 3-month total return of 15% or more arising from positive newsflow. However, upside may not be sustainable

Sector rating definitions

- Overweight - Industry expected to outperform the market over the next 12 months
- Neutral - Industry expected to perform in-line with the market over the next 12 months
- Underweight - Industry expected to underperform the market over the next 12 months

Commonly used abbreviations

Adex = advertising expenditure	EPS = earnings per share	PBT = profit before tax
bn = billion	EV = enterprise value	P/B = price / book ratio
BV = book value	FCF = free cash flow	P/E = price / earnings ratio
CF = cash flow	FV = fair value	PEG = P/E ratio to growth ratio
CAGR = compounded annual growth rate	FY = financial year	q-o-q = quarter-on-quarter
Capex = capital expenditure	m = million	RM = Ringgit
CY = calendar year	M-o-m = month-on-month	ROA = return on assets
Div yld = dividend yield	NAV = net assets value	ROE = return on equity
DCF = discounted cash flow	NM = not meaningful	TP = target price
DDM = dividend discount model	NTA = net tangible assets	trn = trillion
DPS = dividend per share	NR = not rated	WACC = weighted average cost of capital
EBIT = earnings before interest & tax	p.a. = per annum	y-o-y = year-on-year
EBITDA = EBIT before depreciation and amortisation	PAT = profit after tax	YTD = year-to-date



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