

26 August 2019

# AMMB Holdings

## A Reasonable Start

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AMMB's post-results briefing last Friday offered greater clarity on 3M20 earnings; improved CIR, surge in investment & trading income and further credit recoveries were pleasant surprises while pedestrian loans growth (+3% YoY and -1% QoQ) was not unexpected. We expect AMBANK's earnings to be supported by better NIM as management's targets to recover the higher-margin auto loan market. And should monetary conditions ease further as expected, there may well be further investment & trading income gains from fixed income portfolios. We do not expect significant write-backs for the financial year ahead but its strong credit recoveries should provide benign credit charge. TP lowered to RM4.75 as we roll over valuation to FY21 (ascribing a lower PBV) but maintain **OUTPERFORM** due to undemanding valuations.

**Recap.** 3M20 CNP of RM392m came in-line with both our/market expectations accounting for 27%/28% of our/market estimates. **Top-line is commendable with improving asset quality.** YoY, 3M20 CNP improved as top-line improved 5% with operating profit surging 15% as write-backs improved >+100% to RM45m (The higher write-backs come mostly from corporate loans). The improving top-line was driven by both NII and NOII which rose 9% and 7%, respectively, with the latter driven by investment & trading income surging >+100% to RM86m as Insurance business struggled (-21%) due to higher claims and commission as income from insurance business improved by only 4%. NII improved due to improvement in loans (>+2% vs. system at +4% vs. estimation of ~+5%) although reported NIM compressed by 15bps. CIR improved by 110bps to 50% (vs. guidance of 52% and industry of 48%). Asset quality improved as GIL fell 11bps to 1.66%. **QoQ**, CNP fell 15% primarily due to the absence of large recoveries (as 4Q19 saw write-backs of RM272m due to NPL sale). Nevertheless, top-line improved +10% driven by NII and NOII (+11% and +21%). NOII was driven by net insurance income (+52% to RM121m). NII was driven by higher NIM (+7bps) as loans fell 1% (primarily due to large corporate repayments). The improved NIMs were supported by the group's reducing its excess liquidity supported by better asset pricing. There was an uptick in asset deterioration by 7bps to 1.66%.

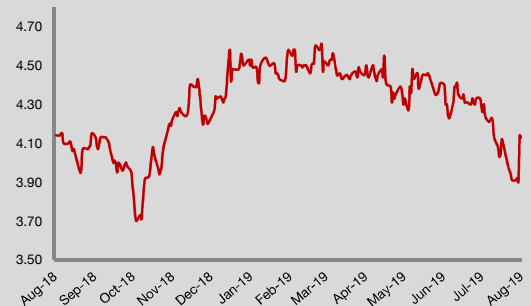
**NIM looking to expand.** 3M20 ROE of 8.5% was within guidance of ~9% despite loans falling below expectation. However, NIM was in line with guidance but credit recoveries sprung a surprise. Moving forward, management expects NIM to expand 7-9bps. NIM enhancement will be supported by realigning its strategy to re-grow its auto loan book. Unlikely for massive write-backs ahead, with credit costs expected at 10 to 15bps. Loans growth is a concern, but we expect loans to grow in tandem with GDP, thus FY20 loans growth estimated at ~4.5%.

**Earnings revised upwards.** We revised our FY20E assumptions; (i) NIM at 5bps uptick (-3bps compression previously), (ii) CIR of 51% (from 53% previously), (iii) revised loans growth at +4.5 (previously >+5%), and (iii) credit costs at 10bps (from 8bps previously), thus raising our FY20E earnings by ~4% to RM1.5b (giving a potential ROE of 8.3%). **Maintain OUTPERFORM but a lower TP.** Our TP is lowered to RM4.75 (from RM5.10) as we roll over our valuation base to FY21. Lowered target PB ratio of 0.77x (implying a 0.5SD below mean) from 0.83x previously is to reflect the risk on slower loans and NOII due to externalities but mitigated by operational efficiency, which would see benign credit charge (among its peers) and better NIM. Undemanding valuations with dividend yield attractive at 5.3% and with total potential upside of +20%, we maintain our **OUTPERFORM** call.

# OUTPERFORM ↔

**Price :** RM4.13  
**Target Price :** RM4.75 ↓

### Share Price Performance



KLCI	1,609.33
YTD KLCI chg	-4.8%
YTD stock price chg	-4.8%

### Stock Information

Shariah Compliant	No
Bloomberg Ticker	AMM MK Equity
Market Cap (RM m)	12,448.6
Issued shares	3,014.2
52-week range (H)	4.64
52-week range (L)	3.70
3-mth avg daily vol:	2,470,178
Free Float	55%
Beta	1.2

### Major Shareholders

Anz Funds Pty Ltd	23.8%
Clear Goal Sdn Bhd	13.0%
Employees Provident Fund	8.0%

### Summary Earnings Table

FY Mar (RM'm)	2019A	2020E	2021E
Net Interest Income	1,724	2,056	2,208
Islamic Banking Inc.	952	971	1,030
Non Interest Income	1,226	1,383	1,387
Total Income	3,902	4,411	4,624
PBT	2,095	2,027	2,083
Net Profit (NP)	1,505	1,500	1,541
Consensus NP		1,416	1,474
Earnings Revision		4.2%	4.1%
EPS (sen)	50.0	49.8	51.2
EPS growth (%)	33.2	-0.4	2.8
DPS (sen)	20.0	20.0	22.0
BV/Share (RM)	5.87	6.17	6.17
NTA/Share	4.7	5.0	5.1
ROE (%)	8.8	8.3	8.3
PER	8.3	8.3	8.1
Price/NTA (x)	0.9	0.8	0.8
Price/Book (x)	0.7	0.7	0.7
Dividend Yield (%)	4.8	4.8	5.3

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**Other Salient Points**

**Despite NIM compression of 15bps YoY** and moderation in loans, NII expanded by +9% YoY driven by better interest income from investment securities (+49% YoY vs income from loans at +4%). Investment in securities was also superior to loans (+29% YoY vs +2.5% YoY. NIM for Investment securities was also superior to loans (2.2% vs 1.7%). YoY, NIM from investment securities saw an uptick of 86bps to 2.2% while for loans saw a 29bps compression to 1.7%. The significant drop in higher-margin HP (-15%) contributed to the NIM compression. We understand that NIM difference for its auto loans and mortgages was at least 50bps. Going forward, NIM uptick will be a challenge but we feel its aggressive foray back into the auto loans supported by renewed confidence from the mid-corporate and corporate segment plus the added advantage of reducing its liquidity buffers will support NIM expansion.

**Asset quality still satisfactory** with significant drop in impaired loans from mining, real estate and mortgages. However, the 7bps uptick in GIL QoQ was due to a handful of single accounts coming from manufacturing (RM284m) and construction (RM72M) which constitute 21% of total impaired loans. Internal risk assessments indicate that impaired & sub-standard loans for real estate, construction and O&G are at 8%, 5% and 4%, respectively, under their respective segment. Altogether these three segments constituted only 14% of their total loan book. Its targeted credit charge is doable given that management expects further NPL sale for this year and consistent credit recoveries. Given that its gross credit charge have been averaging <50bps in the last nine quarters with credit recovery rate of >100% (from gross expected credit loss), we feel that this doable given the stable economy ahead.

**Risks to our call are:** (i) higher-than-expected margin squeeze, (ii) lower-than-expected loans & deposits growth, (iii) worse-than-expected deterioration in asset quality, and (iv) higher-than-expected rise in credit charge.

**Results Highlight**

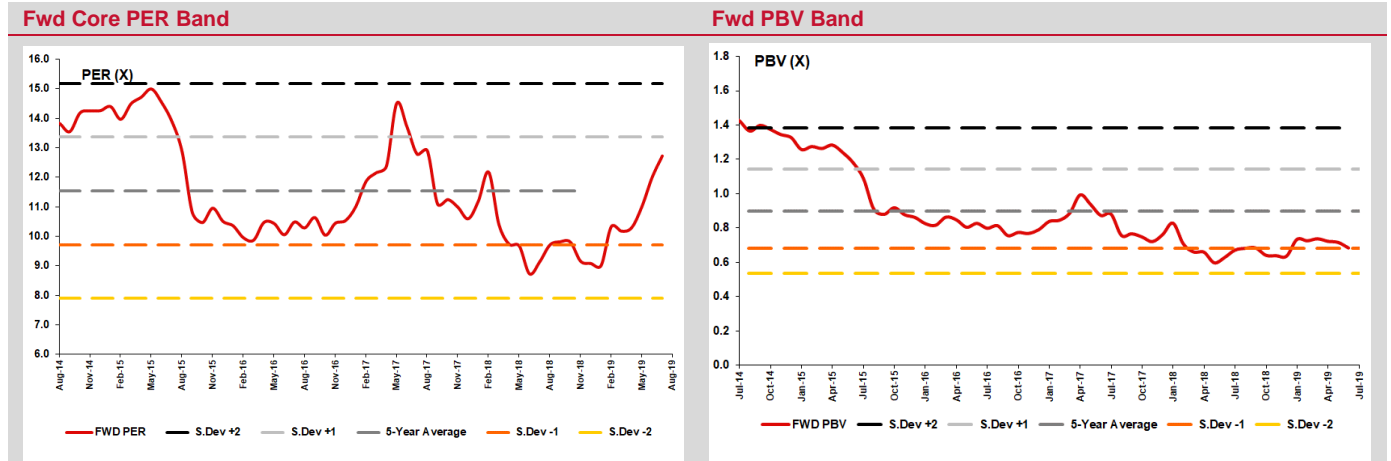
Y/E : 31-Mar. (RM'm)	1Q20	4Q19	QoQ Chg.	4Q18	YoY Chg.	1Q20	1Q19	YoY Chg.
Net Interest Income	468.3	422.8	10.8%	431.4	8.6%	468.3	431.4	8.6%
Net Income from Islamic Banking	230.0	237.6	-3.2%	236.6	-2.8%	230.0	236.6	-2.8%
Non Interest Income	353.5	292.6	20.8%	329.8	7.2%	353.5	329.8	7.2%
<b>Total Income</b>	<b>1,051.8</b>	<b>952.9</b>	<b>10.4%</b>	<b>997.8</b>	<b>5.4%</b>	<b>1,051.8</b>	<b>997.8</b>	<b>5.4%</b>
Operating Expenses	(528.6)	(599.9)	-11.9%	(512.9)	3.1%	(528.6)	(512.9)	3.1%
(Allowances)/write-backs	44.9	271.6	-83.5%	10.4	333.5%	44.9	10.4	333.5%
(Allowances)/write-backs on other assets	1.7	(10.2)	-116.5%	(1.8)	-195.5%	1.7	(1.8)	-195.5%
<b>Operating Profit</b>	<b>569.8</b>	<b>614.4</b>	<b>-7.3%</b>	<b>493.5</b>	<b>15.5%</b>	<b>569.8</b>	<b>493.5</b>	<b>15.5%</b>
Others	(1.4)	10.7	-112.6%	0.3	-507.8%	(1.4)	0.3	-507.8%
<b>Pre-Tax Profit</b>	<b>568.5</b>	<b>625.1</b>	<b>-9.1%</b>	<b>493.8</b>	<b>15.1%</b>	<b>568.5</b>	<b>493.8</b>	<b>15.1%</b>
Tax & Minority Interest	(177.0)	(165.4)	7.0%	(146.2)	21.0%	(177.0)	(146.2)	21.0%
<b>Net Profit</b>	<b>391.5</b>	<b>459.7</b>	<b>-14.8%</b>	<b>347.6</b>	<b>12.6%</b>	<b>391.5</b>	<b>347.6</b>	<b>12.6%</b>
<b>Core Profit</b>	<b>391.5</b>	<b>459.7</b>	<b>-14.8%</b>	<b>347.6</b>	<b>12.6%</b>	<b>391.5</b>	<b>347.6</b>	<b>12.6%</b>
<b>EPS (sen)</b>	<b>13.0</b>	<b>15.3</b>	<b>-14.8%</b>	<b>11.6</b>	<b>12.6%</b>	<b>13.0</b>	<b>11.6</b>	<b>12.6%</b>
<b>DPS (sen)</b>	<b>-</b>	<b>15.0</b>	<b>-</b>	<b>-</b>	<b>N.a</b>	<b>-</b>	<b>-</b>	<b>N.a</b>
Gross Loans	100,833.8	101,844.6	-1.0%	98,394.3	2.5%	100,833.8	98,394.3	2.5%
Net Loans	99,696.9	100,544.0	-0.8%	97,060.2	2.7%	99,696.9	97,060.2	2.7%
Total Customer Deposits	102,772.0	106,916.0	-3.9%	98,627.8	4.2%	102,772.0	98,627.8	4.2%
CASA / Low Cost Deposits	23,079.7	24,872.5	-7.2%	20,793.1	11.0%	23,079.7	20,793.1	11.0%
Book value/share (RM)	6.04	5.88	2.8%	5.61	7.7%	6.04	5.61	7.7%
NTA/share (RM)	4.92	4.76	3.5%	4.47	10.0%	4.92	4.47	10.0%
Est. Annualised Net Interest Margin	1.82%	1.75%		1.82%		1.82%	1.82%	
Reported Net Interest Margin	1.87%	1.78%		2.02%		1.87%	2.02%	
Cost-to-Income Ratio	50.3%	63.0%		51.4%		50.3%	51.4%	
Est. Annualised Credit Charge (Writeback) Ratio	-0.18%	-1.08%		-0.04%		-0.18%	-0.04%	
Effective Tax Rate	24.1%	23.9%		22.4%		24.1%	22.4%	
G.Loan-to-Deposit Ratio	98.1%	95.3%		99.8%		98.1%	99.8%	
N.Loan-to-Deposit Ratio	97.0%	94.0%		98.4%		97.0%	98.4%	
% of CASA to Total Customer Deposits	22.5%	23.3%		21.1%		22.5%	21.1%	
Total Allowances-to-Loans	1.13%	1.28%		1.36%		1.13%	1.36%	
Gross Impaired Loans Ratio	1.66%	1.59%		1.77%		1.66%	1.77%	
Loan Loss Coverage	68.0%	80.3%		99.6%		68.0%	99.6%	
CET1	11.9%	12.3%		11.6%		11.9%	11.6%	
Total Capital	15.4%	15.9%		16.4%		15.4%	16.4%	
Est. Annualised ROE	8.5%	10.1%		7.9%		8.5%	7.9%	

Source: Company, Kenanga Research

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Income Statement						Financial Data & Ratios					
FY Dec (RM m)	2017A	2018A	2019A	2020E	2021E	FY Dec (RM m)	2017A	2018A	2019A	2020E	2021E
Interest Income	3,997	4,320	4,892	5,453	5,742	<b>Growth (%)</b>					
Interest Expense	(2,432)	(2,656)	(3,168)	(3,396)	(3,534)	Net Interest Income	-4.5%	6.4%	3.6%	19.3%	7.4%
<b>Net Interest Inc.</b>	<b>1,565</b>	<b>1,664</b>	<b>1,724</b>	<b>2,056</b>	<b>2,208</b>	Total Income	1.0%	6.9%	-2.1%	13.0%	4.8%
Islamic Ops.	805	941	952	971	1,030	Pre-tax Profit	4.1%	-14.4%	35.8%	-3.3%	2.8%
Non-Interest Inc.	1,359	1,380	1,226	1,383	1,387	Net Profit	1.7%	-14.5%	33.0%	-0.4%	2.8%
<b>Total Income</b>	<b>3,729</b>	<b>3,986</b>	<b>3,902</b>	<b>4,411</b>	<b>4,624</b>	Core Net Profit	1.7%	-14.5%	33.0%	-0.4%	2.8%
Overhead Exp.	(2,160)	(2,421)	(2,131)	(2,248)	(2,360)	Gross Loans	3.5%	5.9%	5.6%	4.6%	5.1%
Loan Loss Prov.	174	1	301	(152)	(215)	Net Loans	3.9%	6.1%	8.0%	2.1%	5.2%
Others	59	(23)	23	16	34	Customer Deposits	4.0%	2.0%	11.6%	4.3%	5.6%
<b>Pre-tax Profit</b>	<b>1,801</b>	<b>1,543</b>	<b>2,095</b>	<b>2,027</b>	<b>2,083</b>	<b>Operating metrics (%)</b>					
Taxation	(392)	(289)	(492)	(446)	(458)	Avg. Lending Yield	4.6%	4.8%	4.8%	4.8%	4.8%
Minority Interest	(84)	(122)	(98)	(81)	(83)	Avg. Cost of Funds	3.1%	3.3%	3.5%	3.5%	3.5%
<b>Net Profit</b>	<b>1,325</b>	<b>1,132</b>	<b>1,505</b>	<b>1,500</b>	<b>1,541</b>	Net Interest Margin	1.8%	1.9%	1.7%	1.8%	1.8%
<b>Core Net Profit</b>	<b>1,325</b>	<b>1,132</b>	<b>1,505</b>	<b>1,500</b>	<b>1,541</b>	Cost-to-Income	57.9%	60.7%	54.6%	51.0%	51.0%
						Credit Charge	-0.2%	0.0%	-0.3%	0.1%	0.2%
						Loan/Deposit Ratio	96.9%	100.5%	95.2%	95.4%	95.0%
						Loan Loss Coverage	66.3%	57.6%	120.9%	72.6%	83.5%
						Total Prov.-to-Loans	1.2%	1.0%	2.3%	1.4%	1.6%
						G. Impaired Loans	1.9%	1.7%	1.9%	1.9%	1.9%
						Return on Equity	8.5%	7.0%	8.8%	8.3%	8.3%
						Return on Assets	1.0%	0.8%	1.0%	0.9%	0.9%
						<b>Valuations</b>					
						EPS (sen)	43.9	37.6	50.0	49.8	51.2
						PER (x)	9.4	11.0	8.3	8.3	8.1
						DPS (sen)	17.6	15.0	20.0	20.0	22.0
						Dividend Payout (%)	0.4	0.4	0.4	0.4	0.4
						Dividend Yield (%)	4.3	3.6	4.8	4.8	5.3
						BV/Share (RM)	5.3	5.5	5.9	6.2	6.2
						Price/Book (x)	0.8	0.8	0.7	0.7	0.7
						NTA/Share (RM)	4.2	4.3	4.7	5.0	5.1
						Price/NTA (x)	1.0	1.0	0.9	0.8	0.8

Source: Kenanga Research



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### Peer Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div Yld (%)	Target Price (RM)	Rating
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.			
<b>BANKING</b>																	
AFFIN BANK BHD	2.00	3,972.0	N	12/2019	8.2%	5.3%	9.3%	15.9%	7.9	7.2	6.2	0.5	0.4	6.2%	2.8%	2.40	OP
ALLIANCE BANK MALAYSIA BHD	3.34	5,170.7	N	03/2020	9.4%	8.0%	7.2%	9.2%	9.6	9.0	8.2	0.9	0.9	9.8%	5.4%	4.25	OP
AMMB HOLDINGS BHD	4.13	12,448.6	N	03/2020	10.4%	4.5%	-0.4%	2.8%	8.3	8.3	8.1	0.7	0.6	7.8%	4.8%	4.75	OP
BIMB HOLDINGS BHD	4.05	7,145.3	Y	12/2019	7.8%	8.5%	7.6%	13.6%	10.4	10.1	9.2	1.4	1.3	14.0%	4.0%	4.80	MP
CIMB GROUP HOLDINGS BHD	5.07	49,318.0	N	12/2019	4.6%	5.0%	-16.2%	2.6%	8.5	10.5	10.6	0.9	0.8	8.5%	4.4%	6.45	OP
HONG LEONG BANK BERHAD	16.98	36,807.9	N	06/2019	5.8%	5.7%	2.0%	9.0%	13.2	12.9	11.8	1.5	1.4	11.0%	2.8%	20.05	MP
MALAYAN BANKING BHD	8.64	97,125.4	N	12/2019	4.2%	4.3%	-0.5%	3.2%	11.8	11.8	11.5	1.2	1.1	9.9%	6.6%	10.35	OP
MALAYSIA BUILDING SOCIETY	0.83	5,572.1	N	12/2019	-1.0%	5.3%	-10.7%	10.2%	8.3	9.3	8.8	0.7	0.7	7.2%	6.0%	1.15	OP
PUBLIC BANK BERHAD	20.82	80,826.1	N	12/2019	3.9%	5.2%	-0.1%	3.5%	14.4	14.4	13.9	2.0	2.0	13.7%	3.3%	25.20	OP
RHB BANK BHD	5.57	22,336.0	N	12/2019	6.0%	4.8%	3.7%	3.6%	9.7	9.3	9.0	1.0	0.9	9.9%	3.8%	6.05	OP
<b>Simple Average</b>					<b>5.9%</b>	<b>5.7%</b>	<b>0.2%</b>	<b>7.4%</b>	<b>10.2</b>	<b>10.3</b>	<b>9.7</b>	<b>1.1</b>	<b>1.0</b>	<b>9.8%</b>	<b>4.4%</b>		

Source: Bloomberg, Kenanga Research

**Stock Ratings are defined as follows:****Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

**Sector Recommendations\*\*\***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

**\*\*\*Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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