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Tuesday, August 23, 2016

AMMB Holdings Berhad

“Still Uncertain Now”

Results Review

- Actual vs. expectations. AMMB Holdings Berhad (AMMB) continued its recovery effort in slow pace but yet productive. 1Q17 earnings touched RM359 million (-3% y-o-y, +15% y-o-y), in line with ours and consensus estimates, accounting 24% and 36.5% of both sides full year net profit forecast. 3M17 earnings were aided by 1) non-interest income (NOII) of RM385.6 million (+13.6% q-o-q) 2) operating expenses of RM535 million (-14% q-o-q) and 3) lower loan loss of RM36 million (-8% q-o-q).
- Dividend.** No dividend was declared in this quarter.
- Topline vs. Bottom line.** AMMB’s 1Q17 net income of RM947 million was mixed in performance (-2% y-o-y, +5% q-o-q) due to 1) lower net interest income (-7% y-o-y, +1% q-o-q) impacted from lower loans yield until the revision of base rate recently that provided a relieve in the NIM and 2) lower operating expenses of RM535 million (-14% q-o-q) given the reduction in personnel and computers and software amounting to RM45.4 million 3) higher NOII due to higher insurance income by 34% y-o-y and higher investment income by 38%
- Cost management initiatives bear fruit.** Positively, operating expenses improved to RM535 million (+10% y-o-y) led by proactive cost management efforts. AMMB continues to emphasize on cost discipline. However, low income growth remains a blockade for CTI to show its color after only improving to 56.3% vs. 68.6% in 4Q16.
- Loans growth still unconvincing.** Despite improvement in loans growth in y-o-y basis, its

HOLD (TP: RM4.80)

Current Price (RM)	RM4.42
New Fair Value (RM)	RM4.80
Previous Fair Value (RM)	RM4.90
Previous Recommend.	HOLD
Upside To Fair Value	8.6%
Dividend Yield (FY17)	3.7%

Stock Code	
Bloomberg	AMM MK

Stock & Market Data		
Listing	MAIN MARKET	
Sector	Banking	
Shariah Compliance	No	
Issued Shares (mn)	3,014.2	
Market Cap (RM mn)	13,332	
YTD Chg In Share Price	-2.5%	
Beta (x)	1.2	
52-week Hi/Lo (RM)	RM5.05	RM4.17
3M Average Volume (shrs)	3.65 mil	
Estimated Free Float	47.8%	

Major Shareholders	
ANZ Bank	23.8%
EPF	16.4%
Amcorp Group	12.9%

cautious stance continued that impacted loans growth in 1Q17. In 1Q17, loans outstanding was at RM87 billion (-1% q-o-q, +1.5% y-o-y) as management repositioned from traditional segment of mass hire purchase segment. Positively, healthy growths are observed in the mortgage and trade loans which expanded at the pace of 3% y-o-y and 0.4% y-o-y and we could see the trend to continue for the rest of FY17 performance.

- **Deposits still weak.** Deposits tumbled 4.0% q-o-q as the weakness came from across the board and this was in line with industry liquidity outflow and deliberate move to manage funding issue. As a results, group's loans to deposits (LDR) accelerated to 94.7% vs. 91.7% in 4Q16. Positively, its CASA ratio improved to 26% vs. 25.4% in 4Q16.
- **NIM stabilized.** The Group's NIM widened to 1.94%, rising by 2bps q-o-q on improving cost of funds by 2bps q-o-q to 2.26%. The bulk of the improvement was coming from asset repricing by 1 bps and another 2bps was coming from improving yield in mortgages and cards. Moving forward, we are positive that the compression will take place in slow pace given the recent OPR cut will witness banks will fight for the deposits and this will lead into cost of funds compression.
- **Asset quality shown improved.** Asset quality improved with gross impaired loans soared to 1.69% vs. 1.94% in 4Q16. While steady improvement in impaired loans was reported for auto finance and mortgages, the increase was driven by wholesale banking. Despite that, AMMB continued to report positive net credit costs, boosted by healthy level of recoveries coupled with reduction in collective allowances.
- **Change to forecast.** No change to our forecast as 1Q17 earnings were within our expectations. At this stage, FY17 and FY18 earnings are expected to grow by 7% y-o-and 14.% assisted by i) integration benefit of Kurnia and MBF cards ii) cementing its position in insurance market after inking an agreement with MetLife.
- **Outlook.** FY17 will see another uncertain year for AMMB as the Group embarks its transition journey through various initiatives especially on the SME segment and the issuance of cards and transaction banking. At this stage we view that its loans growth will witness another modest growth of low single digit given its focus on mortgages that are hampered by soft market sentiments as well stringent banking requirements.
- **Valuation & recommendation.** We value AMMB at RM4.80 as we incorporate 1-standard deviation below mean P/BV of 1.5x. That said, we maintain our **HOLD** call on AMMB. Re-rating catalysts for the stock include i) 1) stronger performance in insurance sector 2) successfully re-balancing its loans book between household and business 3) larger foothold in SME segment banking driven by ANZ affiliation iv) further M&A activity in the future.

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Table 1: Peers Comparison

Company	YE	Price (RM)	EPS (RM)		P/E (x)		P/B (X)		ROE (%)	Div Yield (%)	TP (RM)	Call
			FY16	FY17	FY16	FY17	FY16	FY17				
AFG	Mac	4.04	0.3	0.4	11.7	11.2	1.3	1.3	10.8	2.0	4.00	Hold
AMMB	Mac	4.42	0.4	0.4	10.3	10.2	0.9	0.9	10.7	4.5	4.80	Hold
BIMB	Dec	4.01	0.4	0.4	10.3	9.8	1.7	1.5	17.2	3.3	4.28	Hold
CIMB	Dec	4.70	0.5	0.5	10.4	9.2	1.0	0.9	7.3	2.9	4.75	Hold
Maybank	Dec	7.99	0.7	0.7	12.9	12.3	1.4	1.3	11.9	6.4	9.10	Hold
RHB Bank	Dec	5.00	0.6	0.6	9.8	9.2	0.8	0.8	7.2	1.0	5.80	Hold
Public Bank	Dec	19.80	1.3	1.4	14.8	14.0	2.3	2.0	17.1	3.0	21.38	Buy
Affin	Dec	2.15	0.2	0.3	9.8	9.0	0.6	0.5	4.5	1.3	NR	NR
MBSB	Dec	0.85	0.1	0.1	11.0	11.2	0.8	0.8	5.4	7.5	NR	NR
STMB	Dec	4.27	0.2	0.2	20.1	17.8	5.0	NA	24.5	1.8	NR	NR
HL Bank	Jun	13.16	1.0	1.1	13.3	12.5	1.3	1.3	11.1	3.0	NR	NR
Average			0.6	0.7	12.8	11.4	1.5	1.1	11.1	3.9		

Source: Bloomberg, M&A Securities

Table 2: Results Analysis

YE: March (RM million)	1Q17	4Q16	1Q16	q-o-q	y-o-y	3M17	3M16	y-o-y
Revenue	2,063	2,103	2,109	-2%	-2%	2,063	2,109	-2%
Gross Interest income	1,006	1,011	1,016	-1%	0%	1,006	1,016	-1%
Interest expense	-614	-623	-593	4%	-2%	-614	-593	4%
Net interest income	392	388	424	-7%	1%	392	424	-7%
Islamic banking income	197	190	207	-5%	4%	197	207	-5%
Fee and commission income	354	354	380	-7%	0%	354	380	-7%
Fee and commission expense	-212	-266	-270	-22%	-21%	-212	-270	-22%
Other income	215	235	224	-4%	-8%	215	224	-4%
Net income	947	901	964	-2%	5%	947	964	-2%
Operating expenses	-535	-619	-484	10%	-14%	-535	-484	10%
Pre-provision income	412	282	479	-14%	46%	412	479	-14%
Allowance loan loss	36	40	-11	-438%	-8%	36	-11	-438%
Impairment	8	-5	0	-8194%	-257%	8	0	-8194%
Writeback	19	24	18	6%	-19%	19	18	6%
Operating profit	476	340	485	-2%	40%	476	485	-2%
Associate	5	4	0	1737%	21%	5	0	1737%
Acquisition cost	-1	-2	-3	-75%	-53%	-1	-3	-75%
PBT	479	342	482	-1%	40%	479	482	-1%
Taxation	-120	-31	-114	5%	291%	-120	-114	5%
PAT	359	311	369	-3%	15%	359	369	-3%
MI	-36	-31	-29	25%	17%	-36	-29	25%
PATAMI	323	280	340	-5%	15%	323	340	-5%
No of Share	3,014	3,014	3,014			3,014	3,014	
EPS (sen)	10.7	9.3	11.3			10.7	11.3	
Dividend - sen	0	10.5	0			0	0	
Dividend payment (RMm)	0	316	0			0	0	
Dividend payout (%)	0	102%	0			0	0	

Source: Bursa Malaysia, M&A Securities

Table 3: Financial Forecast

YE: March (RM million)	FY14	FY15	FY16	FY17F	FY18F
Gross Interest income	4,677	4,327	4,097	4,583	4,746
Interest expense	(2,405)	(2,346)	(2,459)	(2,303)	(2,532)
Net interest income	2,272	1,981	1,638	2,281	2,214
Islamic banking income	940	865	806	834	863
Fee and commission income	2,057	1,496	1,448	1,375	1,389
Fee and commission expense	(1,585)	(1,078)	(1,069)	(1,101)	(1,123)
Other income	1,026	1,458	870	801	778
Net income	4,710	4,721	3,693	4,191	4,122
Operating expenses	(2,122)	(2,089)	(2,177)	(2,133)	(2,091)
Pre-provision income	2,588	2,632	1,516	2,057	2,031
Allowance loan loss	(68)	31	164	(106)	176
Impairment	(84)	23	6	(18)	4
writeback	31	19	41	30	30
Profit Equalization	(11)	(35)	(1)	(16)	(18)
Operating profit	2,456	2,670	1,726	1,947	2,223
Associate	21	3	3	3	3
Acquisition cost	(29)	(68)	3	0	0
PBT	2,448	2,604	1,731	1,950	2,226
Taxation	(577)	(560)	(332)	(458)	(523)
PAT	1,871	2,045	1,399	1,492	1,703
Minority Interest	(89)	(126)	(97)	(92)	(105)
PATAMI	1,782	1,919	1,302	1,400	1,598
EPS (sen)	59.3	63.7	43.33	46.4	53.0
Dividend - sen	24.1	27.3	15.5	18.6	21.2
Dividend payment (RMm)	726	823	467	560	639
Dividend payout (%)	39%	40%	33%	40%	40%
Retained Earnings	1,145	1,222	932	932	1,064
PER (x)	26.39	9.99	11.40	10.85	9.51
BV	2.89	3.24	3.68	3.91	4.20
P/BV	2.2	2.0	1.3	1.3	1.2

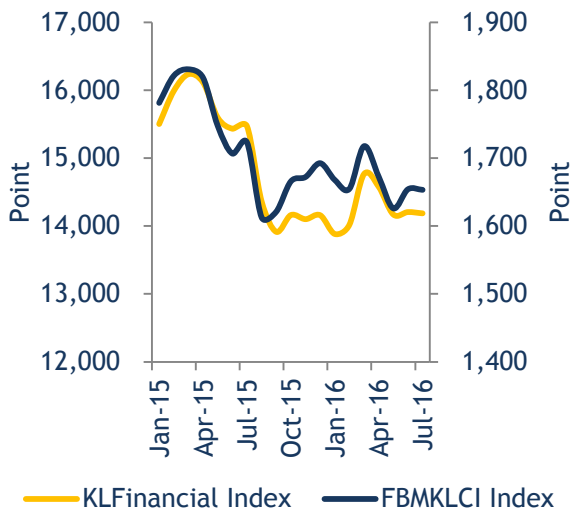
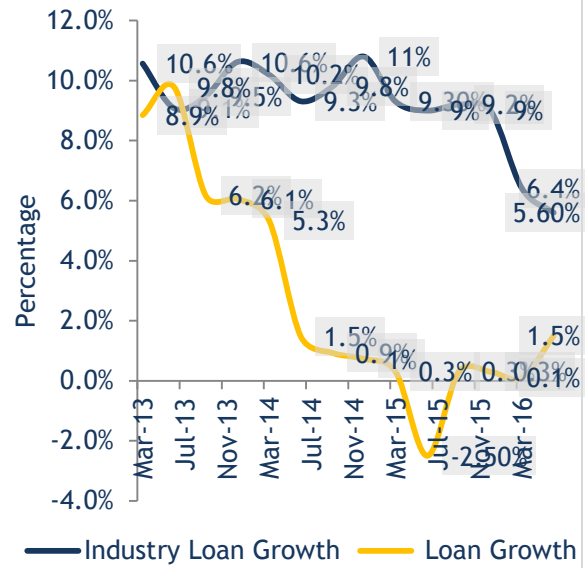
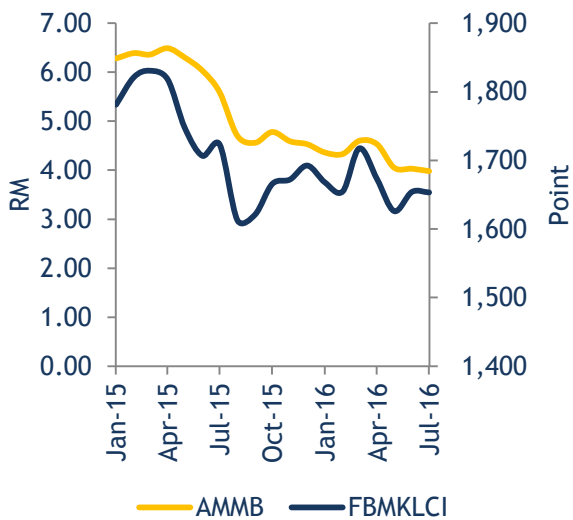
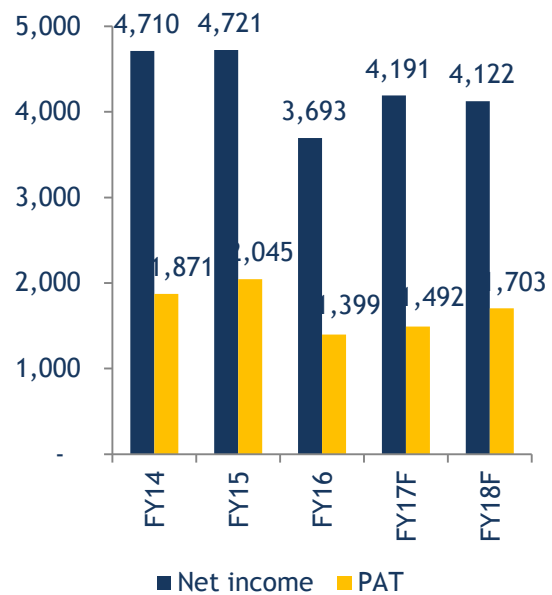
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Table 4: Operational Ratio

YE: March (RM million)	FY14	FY15	FY16	FY17F	FY18F
<u>Margin</u>					
NII Margin	48%	42%	44%	54%	54%
NOII Margin	32%	40%	34%	26%	25%
PPOP Margin	55%	56%	41%	49%	49%
PBT Margin	52%	55%	47%	47%	54%
PAT Margin	40%	43%	38%	36%	41%
<u>Growth</u>					
NII	2%	-13%	-17%	39%	-3%
NOII	20%	25%	-33%	-14%	-3%
Operating expenses	4%	-2%	4%	-2%	-2%
Pre-provision profit	12%	2%	-42%	36%	-1%
Core net profit	12%	9%	-32%	7%	14%
Gross loans	5%	-2%	0%	3%	4%
Customer deposits	10%	6%	3%	-2%	19%
Total assets	4%	1%	0%	6%	6%
<u>Profitability</u>					
Average Lending Yield	3.2%	2.7%	2.8%	3.0%	3.0%
Average Cost of funds	2.0%	2.0%	2.2%	2.1%	2.1%
NIM	1.89%	1.76%	1.70%	1.70%	1.70%
Cost/income	45%	44%	59%	51%	51%
<u>Asset Quality</u>					
Net NPL	2%	2%	2%	2%	2%
Gross NPL	2%	2%	2%	2%	3%
<u>Return</u>					
ROA	1.4%	1.5%	1.0%	1.1%	1.1%
ROE	14.5%	14.5%	9.0%	9.3%	10.0%

Source: Bursa Malaysia, M&A Securities

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FBM KLCI vs Financial Index
(Jan15 -YTD)Industry Loan Growth vs AMMB Loan Growth
(Jan13-YTD)AMMB Share Price vs. KLCI
(Jan14-YTD)Revenue and Net Profit
(FY14-FY18F)

M&A Securities

STOCK RECOMMENDATIONS

BUY	Share price is expected to be $\geq +10\%$ over the next 12 months.
TRADING BUY	Share price is expected to be $\geq +10\%$ within 3-months due to positive newsflow.
HOLD	Share price is expected to be between -10% and $+10\%$ over the next 12 months.
SELL	Share price is expected to be $\geq -10\%$ over the next 12 months.

SECTOR RECOMMENDATIONS

OVERWEIGHT	The sector is expected to outperform the FBM KLCI over the next 12 months.
NEUTRAL	The sector is expected to perform in line with the FBM KLCI over the next 12 months.
UNDERWEIGHT	The sector is expected to underperform the FBM KLCI over the next 12 months.

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A Participating Organisation of Bursa Malaysia Securities Berhad

Principal Office:

Level 1,2,3 No.45 & 47,43-6

The Boulevard, Mid Valley City,

Lingkaran Syed Putra,

59200 Kuala Lumpur

Tel: +603 - 2282 1820 Fax: +603 - 2283 1893

Website: www.mnaonline.com.my

Research Team

research@mna.com.my

03-22821820 ext. 257, 221, 260, 249, 258