

02 December 2019

# AMMB Holdings

## Top-line Traction Remains

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1HFY20 results came in line encouraged by strong fund and fee-based income. Top-line continued to show resilience sequentially underpinned by resilient NOII with credit charge looking normalised and better than most of its peers. With undemanding valuation, and attractive dividend yield of 5.6%, we reiterate **OUTPERFORM** with an unchanged target price of RM4.75.

In line. 1HFY20 Core Net Profit (CNP) of RM711m came in line at 47%/49% of our/market full-year estimates. An interim DPS of 6.0 sen (+20%) was declared (in line).

**Strong fee-based income.** YoY, CNP improved 2% boosted by encouraging top-line (+7%) underpinned by NII and NOII growing at 9% and 7%, respectively. Fund-based income saw better growth (+5%) despite lower NIM (-8bps) as loans improved 2%, with better interest income from investment securities (+31% vs. income from loans at +1%). Growth in Investment in securities was also superior to loans (+19% vs. +2%). NOII improved on account of gain on sale/revaluation of financial investment/assets of RM151m. Loans were driven by residential properties (+9%) and SMEs (12%). Costs were well contained despite a 4% increase in opex (mostly from staff costs) as CIR fell 1ppt to 50%. Asset quality saw a slight uptick as GIL went up by 5bps with net credit charge up by 7bps to 0.12% (on account of RM45m writeback in 1Q) but within guidance estimation of 10-15bps. Although deterioration in retail went up by 17%, impairments from wholesale banking went down by 12%.

**QoQ top-line traction remains,** CNP of RM320m (-18%) was dragged by impairments (RM105m vs. 1QFY20: writebacks of RM45). Traction continued at top-line (+2% to RM1,077m) breaking the RM1b barrier since 4Q18. Fund-based income improved 1% as NIM improved 4bps (as deposits were re-priced along with easing of expensive deposits) underpinned by 1% advancement in loans (mitigated by 6% fall in investment securities). NOII rebounded (+1.2%) on account of better investment & trading income (+9% to RM94m) which was offset by fall in insurance income (-7%) to RM112m. Net Credit charge of 0.42% is attributed to higher credit charge (0.82%) which was offset by improved recoveries (48bps vs 1QFY20: 37bps).

**FY20 target looks doable.** Management guided for a revised ROE of 8-8.5% (in line with our initial estimate) with a loan target at the GDP level. Loan traction will be from incoming corporate pipeline supported by mortgages and SMEs. We believe AMBANK have reached a normalised level of credit charge: thus, management has guided for a full-year credit charge of 15-20bps (in line with our expectation of 15bps). NIM is expected to improve by 2-5bps due to the strong contribution from investment securities and the easing of expensive deposits.

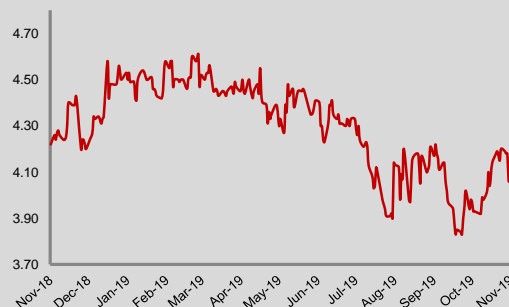
**Earnings upgraded.** FY20E earnings raised slightly by 3% to RM1,551m on these assumptions; (i) NIM at +4bps (unchanged), (ii) CIR of 50% (from 51%), (iii) loans growth at +4.5% (unchanged), (iv) credit costs at 15bps (unchanged), and (v) tax rate of 21% (from 22%) as guided by management.

**Maintain OUTPERFORM and TP.** TP at RM4.75 is based on unchanged FY21E PBV of 0.77x (0.5SD below mean) to reflect the risk on slower loans but mitigated by operational efficiency, which would see benign credit charge (among its peers) and better NIM. On undemanding valuations with attractive dividend yield of 5.6% coupled with total potential upside of >+20%, we maintain our **OUTPERFORM** call.

# OUTPERFORM ↔

Price : RM3.99  
Target Price : RM4.75 ↔

### Share Price Performance



KLCI 1,561.74  
YTD KLCI chg -7.6%  
YTD stock price chg -8.1%

### Stock Information

Shariah Compliant	No
Bloomberg Ticker	AMM MK Equity
Market Cap (RM m)	12,026.6
Shares Outstanding	3,014.2
52-week range (H)	4.64
52-week range (L)	3.81
3-mth avg daily vol:	1,988,570
Free Float	31%
Beta	1.2

### Major Shareholders

ANZ Funds Pty Ltd	23.8%
Clear Goal Sdn Bhd	13.0%
Employees Provident Fund	7.9%

### Summary Earnings Table

FY Mar (RM'm)	2019A	2020E	2021E
Net Interest Income	1,724	2,060	2,210
Islamic Banking Inc.	952	980	1,045
Non-Interest Income	1,226	1,383	1,387
Total Income	3,902	4,423	4,642
PBT	2,095	2,067	2,128
Net Profit (NP)	1,505	1,551	1,574
Consensus NP		1449.1	1497.1
Earnings Revision		3.3%	1.9%
EPS (sen)	50.0	51.5	52.3
EPS growth (%)	33.2	3.0	1.5
DPS (sen)	20.0	20.0	22.5
BV/Share (RM)	5.87	6.18	6.18
NTA/Share	4.7	5.1	5.1
ROE (%)	8.8	8.5	8.4
PER (x)	8.0	7.7	7.6
Price/NTA (x)	0.8	0.8	0.8
Price/Book (x)	0.7	0.6	0.6
Dividend Yield (%)	5.0	5.0	5.6

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**Other Salient Points**

**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.

<b>Results Highlight</b>								
<b>Y/E : 31-Mar. (RM m)</b>	<b>2Q20</b>	<b>1Q20</b>	<b>QoQ Chg.</b>	<b>2Q19</b>	<b>YoY Chg.</b>	<b>6M20</b>	<b>6M19</b>	<b>YoY Chg.</b>
Net Interest Income	472.9	468.3	1.0%	431.4	9.6%	941.2	862.7	9.1%
Net Income from Islamic Banking	246.1	230.0	7.0%	235.6	4.4%	476.1	472.2	0.8%
Non Interest Income	357.9	353.5	1.2%	333.5	7.3%	711.4	663.2	7.3%
<b>Total Income</b>	<b>1,076.9</b>	<b>1,051.8</b>	<b>2.4%</b>	<b>1,000.5</b>	<b>7.6%</b>	<b>2,128.7</b>	<b>1,998.2</b>	<b>6.5%</b>
Operating Expenses	(526.2)	(528.6)	-0.4%	(505.5)	4.1%	(1,054.8)	(1,018.4)	3.6%
(Allowances)/write-backs	(105.2)	44.9	-334.2%	(35.5)	196.1%	(60.3)	(25.2)	139.6%
(Allowances)/write-backs on other assets	(37.2)	1.7	-2322.3%	0.3	-	(35.5)	(1.5)	2326.5%
<b>Operating Profit</b>	<b>408.3</b>	<b>569.8</b>	<b>-28.3%</b>	<b>459.7</b>	<b>-11.2%</b>	<b>978.1</b>	<b>953.2</b>	<b>2.6%</b>
Others	25.3	(1.4)	-1968.8%	30.9	-18.2%	23.9	31.3	-23.4%
<b>Pre-Tax Profit</b>	<b>433.6</b>	<b>568.5</b>	<b>-23.7%</b>	<b>490.7</b>	<b>-11.6%</b>	<b>1,002.0</b>	<b>984.5</b>	<b>1.8%</b>
Tax & Minority Interest	(114.0)	(177.0)	-35.6%	(142.5)	-20.0%	(291.0)	(288.8)	0.8%
<b>Net Profit</b>	<b>319.6</b>	<b>391.5</b>	<b>-18.4%</b>	<b>348.2</b>	<b>-8.2%</b>	<b>711.0</b>	<b>695.7</b>	<b>2.2%</b>
<b>Core Profit</b>	<b>319.6</b>	<b>391.5</b>	<b>-18.4%</b>	<b>348.2</b>	<b>-8.2%</b>	<b>711.0</b>	<b>695.7</b>	<b>2.2%</b>
<b>EPS (sen)</b>	<b>10.6</b>	<b>13.0</b>	<b>-18.4%</b>	<b>11.6</b>	<b>-8.2%</b>	<b>23.6</b>	<b>23.1</b>	<b>2.2%</b>
<b>DPS (sen)</b>	<b>6.0</b>	<b>-</b>	<b>N.A</b>	<b>5.0</b>	<b>20.0%</b>	<b>6.0</b>	<b>5.0</b>	<b>20.0%</b>
Gross Loans	101,977.0	100,833.8	1.1%	99,938.7	2.0%	101,977.0	99,938.7	2.0%
Net Loans	100,738.0	99,696.9	1.0%	98,567.7	2.2%	100,738.0	98,567.7	2.2%
Total Customer Deposits	102,713.0	102,772.0	-0.1%	100,782.5	1.9%	102,713.0	100,782.5	1.9%
CASA / Low Cost Deposits	23,371.5	23,079.7	1.3%	21,998.3	6.2%	23,371.5	21,998.3	6.2%
Book value/share (RM)	6.03	6.04	-0.1%	5.64	6.9%	6.03	5.64	6.9%
NTA/share (RM)	4.95	4.92	0.6%	4.51	9.8%	4.95	4.51	9.8%
Est. Annualised Net Interest Margin	1.94%	1.92%		1.97%		1.91%	1.97%	
Reported Net Interest Margin	1.91%	1.87%		1.91%		1.89%	1.97%	
Cost-to-Income Ratio	48.9%	50.3%		50.5%		49.6%	51.0%	
Est. Annualised Credit Charge (Writeback) Ratio	0.42%	-0.18%		0.15%		0.12%	0.05%	
Effective Tax Rate	18.6%	24.1%		22.9%		21.7%	22.6%	
G.Loan-to-Deposit Ratio	99.3%	98.1%		99.2%		99.3%	99.2%	
N.Loan-to-Deposit Ratio	98.1%	97.0%		97.8%		98.1%	97.8%	
% of CASA to Total Customer Deposits	22.8%	22.5%		21.8%		22.8%	21.8%	
Total Allowances-to-Loans	1.22%	1.13%		1.37%		1.22%	1.37%	
Gross Impaired Loans Ratio	1.77%	1.66%		1.72%		1.77%	1.72%	
Loan Loss Coverage	68.8%	68.0%		79.7%		68.8%	79.7%	
CET1	12.8%	11.9%		11.9%		12.8%	11.9%	
Total Capital	16.2%	15.4%		16.6%		16.2%	16.6%	
Est. Annualised ROE	6.8%	8.5%		7.8%		7.6%	7.8%	

Source: Company, 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	1.94	3,852.9	N	12/2019	5.7%	3.0%	12.5%	15.0%	7.7	6.8	5.9	0.4	0.4	6.4%	2.8%	2.45	OP
ALLIANCE BANK MALAYSIA BHD	2.70	4,179.9	N	03/2020	5.6%	8.6%	-9.4%	19.0%	8.5	7.8	8.6	0.8	0.7	8.3%	6.2%	3.45	OP
AMMB HOLDINGS BHD	3.99	12,026.6	N	03/2020	10.6%	4.6%	3.0%	1.5%	8.0	7.8	7.6	0.6	0.6	8.1%	5.0%	4.75	OP
BIMB HOLDINGS BHD	4.16	7,339.4	Y	12/2019	10.0%	6.6%	7.7%	13.5%	10.7	10.3	9.5	1.5	1.4	14.0%	3.9%	4.80	OP
CIMB GROUP HOLDINGS BHD	5.18	51,401.0	N	12/2019	4.6%	5.0%	-15.8%	4.1%	8.7	10.7	10.6	0.9	0.9	8.6%	4.4%	6.45	OP
HONG LEONG BANK BERHAD	16.90	36,634.4	N	06/2020	4.1%	5.1%	1.0%	0.6%	13.1	13.0	12.9	1.4	1.4	10.8%	3.0%	17.30	OP
MALAYAN BANKING BHD	8.53	95,888.8	N	12/2019	3.8%	4.3%	-2.2%	4.7%	11.6	11.9	11.4	1.2	1.1	9.7%	6.6%	9.70	OP
MALAYSIA BUILDING SOCIETY	0.84	5,639.3	N	12/2019	-4.2%	4.5%	-17.8%	8.6%	8.4	10.2	9.8	0.7	0.7	6.7%	6.0%	1.10	OP
PUBLIC BANK BERHAD	19.62	76,167.6	N	12/2019	3.9%	5.2%	-0.1%	3.4%	13.6	13.6	13.1	1.8	1.9	13.7%	3.5%	22.10	OP
RHB BANK BHD	5.66	22,696.9	N	12/2019	6.0%	4.8%	4.1%	5.7%	9.8	9.5	8.9	1.0	0.9	9.9%	3.7%	6.05	MP
<b>Simple Average</b>					<b>5.0%</b>	<b>5.2%</b>	<b>-1.7%</b>	<b>7.6%</b>	<b>10.0</b>	<b>10.1</b>	<b>9.8</b>	<b>1.0</b>	<b>1.0</b>	<b>9.6%</b>	<b>4.5%</b>		

Source: Bloomberg, Kenanga Research

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**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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