

AMMB Holdings

Bulking Up On Loan Coverage

By Ahmad Ramzani Ramli | ahmadramzani@kenanga.com.my

AMMB's 4QFY20 results were a slight miss, mainly as the group booked in pre-emptive loan provisioning of RM167m. On a more positive note, asset quality was under control, liquidity build-up was driven by CASA while guidance on Day One Modification losses seem much lower than initial estimates. We maintain our RM3.60 TP and OUTPERFORM call. Valuations appear undemanding while aggressive pre-emptive loan provisioning made could help keep further allowances ahead in check.

4QFY20 results a slight miss. 4QFY20 CNP of RM248m (+2% YoY, ex-gains from sale of retail NPLs of RM285m in 4QFY19/-35% QoQ) brought FY20 CNP to RM1.3b (+4% YoY, ex-NPL disposal gains). While the results were a slight miss with FY20 net profit making up 95-96% of our/consensus estimates, this was commendable considering that AMMB made RM167m (63bps out of total 75bps) in pre-emptive provisions during the quarter. This was also one of the more aggressive pre-emptive provisioning that was made among the banks during 1QCY20. MTM losses from treasury due to bond market sell-off in March also contributed to the shortfall.

Results' review. Lower non-interest income (NII) and higher credit cost were the main line items that dragged 4QFY20 results, as highlighted above. In mitigation, opex was well controlled while AMMB enjoyed a low effective tax rate of just 7% following the reversal of tax overprovision from prior years now that AMMB has settled its tax matters with the IRB up to FY19. Loan growth was a decent 5% YoY (+3% QoQ), led by the corporate segment while deposits rose 6%/7% YoY/QoQ as AMMB looked to build up liquidity. More impressive was CASA growth (+16% YoY and QoQ), which was driven by the wholesale segment and AMMB attributed this to the fruits of its cash management system. Gross impaired loans (GIL) ratio was broadly stable QoQ at 1.7%, while LLC ticked up to 68% (3QFY20: 64%) following the pre-emptive provisioning. On the whole, FY20 ROE of 7.4% missed the 8-8.5% guidance.

Dividend. AMMB declared a final cash DPS of 7.3 sen. While this was below our expected 15.0 sen (4QFY19: 15.0 sen), nevertheless, this was a positive surprise considering ABMB (MP; TP: RM2.20) did not declare any DPS in its 4QFY20 results last week. FY20 DPS of 13.3 sen (FY19: 20 sen) translates to a payout of 30% (FY19: 40%).

Conference call's highlights. Visibility remains poor at this stage, and thus, guidance for FY21 was scant. Broadly, AMMB expects a U-shaped economic recovery and thus, sees room for another 50bps OPR cut. NIM was guided at 1.8%, and likely to range between 1.75%-1.80% should there be another 50bps OPR cut in 2HCY20. In terms of asset quality, AMMB expects GILs to pick up post the end of the loan moratorium period and internal stress testing of the portfolio points to the requirement of RM300m-500m in provisions (c. 28-47bps credit cost), of which, RM167m was taken up in 4QFY20. Finally, management guided for Day One Modification losses (net) of RM80m at the income level, after taking into account benefits from concessionary rate funding.

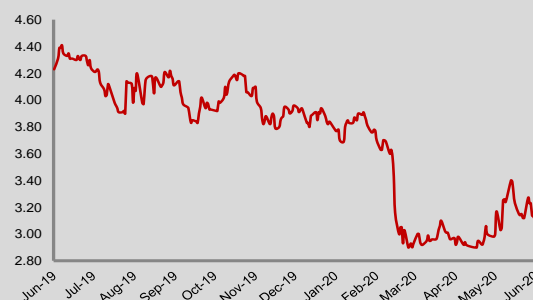
Earnings. We updated our FY21E numbers for the FY20 results, but the impact is not too significant. FY21E DPS, however, is revised down by a more significant 32% to 11.5 sen as we updated our payout assumption to 30% (43% previously). We project a 14% YoY drop in FY21E net profit mainly on credit cost rising further to 45bps (FY20: 28bps). We also introduce our FY22E net profit of RM1.298b (+12% YoY) in this report.

Maintain OUTPERFORM and TP of RM3.60, which is based on a GGM-derived CY21E PB of 0.55x. Even after we assumed AMMB takes a hit of c. RM1b in loan impairments over FY21-22, AMMB still trades at CY20E/21E PE and PB of 7.7x/7.3x and 0.48x/0.46x respectively, which we think are undemanding.

OUTPERFORM ↔

Price : RM3.08
Target Price : RM3.60 ↔

Share Price Performance



KLCI 1,494.43
YTD KLCI chg -5.9%
YTD stock price chg -21.2%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	AMM MK Equity
Market Cap (RM m)	9,267.1
Shares Outstanding	3,008.8
52-week range (H)	4.42
52-week range (L)	2.82
3-mth avg daily vol:	3,936,507
Free Float	28%
Beta	1.1

Major Shareholders

Anz Funds Pty Ltd	23.8%
Clear Goal Sdn Bhd	13.0%
Employees Provident Fund Board	10.7%

Summary Earnings Table

FY Mar (RM'm)	2020A	2021E	2022E
Net Interest Income	2,958	2,946	3,176
Non-Interest Income	1,272	1,254	1,292
Total Income	4,230	4,200	4,468
Operating Expenses	-2,108	-2,129	-2,172
Loan Allowances	-290	-476	-504
PBT	1,783	1,592	1,789
Net Profit (NP)	1,341	1,155	1,298
Core Net Profit (CNP)	1,341	1,155	1,298
Consensus NP		1,245	1,360
Earnings Revision (%)		-2.8	n.a.
EPS (sen)	44.6	38.4	43.1
EPS growth (%)	3.8	(13.8)	12.4
DPS (sen)	13.3	11.5	19.5
BV/Share (RM)	6.16	6.41	6.73
NTA/Share (RM)	4.98	5.23	5.54
ROE (%)	7.4	6.1	6.6
PER (x)	7.0	8.2	7.3
Price/Book (x)	0.51	0.49	0.47
Dividend Yield (%)	4.2	3.7	6.2

*CNP includes Day One modification losses

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Risks to our call are: (i) higher-than-expected margin squeeze, (ii) lower-than-expected loans growth, (iii) weaker-than-expected market-related income, and (iv) higher-than-expected rise in credit charge.

Table 1: Results Highlight

Y/E : 31-Mar. (RM'm)	4Q20	3Q20	QoQ Chg.	4Q19	YoY Chg.	FY20	FY19	YoY Chg.
Net interest income	823	718	15%	660	25%	2,958	2,676	11%
Non-interest Income	180	381	-53%	293	-39%	1,272	1,226	4%
Total income	1,002	1,099	-9%	953	5%	4,230	3,902	8%
Operating expenses	-501	-552	-9%	-600	-16%	-2,108	-2,131	-1%
Pre-impairment profit	501	547	-8%	353	42%	2,122	1,771	20%
Loan (allowances) / write-backs	-199	-54	266%	269	-174%	-290	316	-192%
(Allowances) / write-backs on other assets	-4	-3	41%	1	-391%	-47	-12	293%
Operating profit	299	490	-39%	623	-52%	1,786	2,075	-14%
Non-operating gains / (losses)	-13	5	-351%	2	-900%	-3	20	-115%
Pre-tax profit	285	495	-42%	625	-54%	1,783	2,095	-15%
Taxation	-19	-94	-80%	-149	-87%	-330	-492	-33%
Minorities	-19	-20	-4%	-16	17%	-112	-98	15%
Net profit	248	382	-35%	460	-46%	1,341	1,505	-11%
Core net profit	248	382	-35%	243	2%	1,341	1,289	4%
Gross loans	107,219	104,548	3%	101,845	5%	107,219	101,845	5%
Gross impaired loans	1,853	1,791	3%	1,621	14%	1,853	1,621	14%
Customer deposits	113,175	105,863	7%	107,269	6%	113,175	107,269	6%
Current and savings account	28,831	24,756	16%	24,873	16%	28,831	24,873	16%
Total assets	169,201	157,906	7%	158,788	7%	169,201	158,788	7%
Shareholders' equity	18,581	18,322	1%	17,691	5%	18,581	17,691	5%
Annualized net interest margin	1.95%	2.02%		1.78%		1.94%	1.89%	
Cost-to-income ratio	50.0%	50.2%		63.0%		49.8%	54.6%	
Credit cost (bps)	75	21		-107		28	-32	
Effective tax rate	6.7%	18.9%		23.9%		18.5%	23.5%	
Annualised ROA	0.6%	1.0%		1.2%		0.8%	1.0%	
Annualised ROE	5.4%	8.4%		10.5%		7.4%	8.8%	
Gross impaired loans ratio	1.7%	1.7%		1.6%		1.7%	1.6%	
Loan loss coverage (LLC)	68.4%	63.8%		80.2%		68.4%	80.2%	
LLC (+ regulatory reserves)	89.3%	101.3%		108.0%		89.3%	108.0%	
Loan-to-deposit ratio	93.6%	97.7%		93.7%		93.6%	93.7%	
CASA to deposit ratio	25.5%	23.4%		23.3%		25.5%	23.3%	
CET 1 capital (Group level)	12.4%	12.2%		11.9%		12.4%	11.9%	

Source: Company, Kenanga Research

Table 2: AMMB's FY20 actual vs guidance

	FY20 guidance	FY20 actual
Reported ROE	8-8.5%	7.4%
CIR	<50%	49.8%
Dividend payout	45-50%	30%
FHC CET-1 ratio	11.5% +/- 1%	12.4%
Credit cost	15-20bps	28bps

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.	1-Yr. Fwd.		
BANKING																	
AFFIN BANK BHD	1.58	3,137.9	N	12/2020	-6.3%	5.4%	-32.3%	22.5%	6.4	9.5	7.7	0.3	0.3	3.5%	3.2%	1.45	UP
ALLIANCE BANK MALAYSIA BHD	2.16	3,343.9	N	03/2021	1.3%	3.9%	-20.6%	45.0%	7.9	9.9	6.8	0.6	0.5	5.5%	4.8%	2.20	MP
AMMB HOLDINGS BHD	3.08	9,267.1	N	03/2021	-0.7%	5.6%	-13.8%	12.4%	6.9	8.0	7.2	0.5	0.5	6.1%	3.7%	3.60	OP
BIMB HOLDINGS BHD	3.44	6,166.8	Y	12/2020	3.5%	6.3%	0.0%	7.8%	7.9	8.2	7.9	1.1	1.0	12.8%	4.7%	4.90	OP
CIMB GROUP HOLDINGS BHD	3.53	35,028.1	N	12/2020	-0.8%	5.2%	-40.9%	27.1%	7.3	13.1	10.8	0.6	0.6	4.9%	3.8%	3.45	UP
HONG LEONG BANK BERHAD	14.08	30,521.5	N	06/2020	-0.6%	3.2%	-12.1%	5.2%	10.8	12.3	11.7	1.1	1.1	9.0%	3.6%	17.00	OP
MALAYAN BANKING BHD	7.53	84,647.5	N	12/2020	-1.9%	3.0%	-20.5%	9.2%	10.3	14.6	13.6	1.0	1.0	7.5%	5.1%	7.85	MP
MALAYSIA BUILDING SOCIETY	0.61	4,095.2	N	12/2020	-13.1%	-5.2%	-57.6%	35.0%	5.6	13.1	9.7	0.5	0.5	3.5%	3.3%	0.60	UP
PUBLIC BANK BERHAD	16.44	63,822.4	N	12/2020	-2.6%	5.2%	-18.4%	10.7%	11.6	14.2	12.8	1.5	1.4	10.1%	3.6%	18.00	MP
RHB BANK BHD	4.83	19,368.5	N	12/2020	0.0%	3.7%	-12.6%	5.0%	7.8	8.9	8.5	0.8	0.7	8.3%	5.4%	6.00	OP
Simple Average					-2.1%	3.6%	-22.9%	18.0%	8.3	11.2	9.7	0.8	0.8	7.1%	4.1%		

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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KENANGA INVESTMENT BANK BERHAD (15678-H)

Level 12, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia

Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my