

02 March 2021

AMMB Holdings Bhd

3QFY21 Within; Huge Settlement Looms

By Clement Chua | clement.chua@kenanga.com.my

9MFY21 PATAMI of RM866.3m (-21%) is deemed to be broadly within expectations but near-term earnings will be rattled by the RM2.83b settlement with the MoF which management assures can be accommodated. FY21E dividends were also scrapped. Meanwhile, 4QFY21 credit cost is expected to remain elevated from more macroeconomic overlays needed. Downgrade to MP (from OP) with a lower FY22E GGM-derived PBV TP of RM3.05 (from RM3.70).

9MFY21 broadly within. 9MFY21 PATAMI of RM866.3m is deemed to be broadly within expectations, making up 89%/84% of our/consensus full-year estimates. We were counting on 4QFY21 provisions to remain heavy which was validated during the briefing with management. During the briefing, management also addressed the RM2.83b global settlement (GS) with the Ministry of Finance which would sacrifice any dividend payments for FY21. This nullifies our previous dividend expectation of 11.3 sen (35% payout).

YoY, the group posted overall better income of RM3.40b (+5%) as NII expanded on the back of growth in gross loans (+7%) in spite of NIM dampening to 1.87% (-8bps) from the OPR cuts during the year. Meanwhile, NOII jumped 6% stemmed by better results from trading and investment-related segments of the group, benefiting from greater market volatility. Operating expenses were flattish, hence driving down CIR to 47.3% (-2.5ppt) against the higher top-line. The stronger overall performance was flipped by heavy impairments arising from the Covid-19 impacted economy. Provisioning spiked by 420%, driving an annualised credit costs to 83bps (+66bps). This translated to a 21% decline in 9MFY21 PATAMI to RM866.3m (-21%).

QoQ, 3QFY21 total income only improved 2% as NII gains of 9% from stronger NIMs (2.12%, +12bps) with better repricing of funds were met with a 14% drop in NOII as investment markets soften. PPOP came in flat as operating expenses rose slightly on higher administrative and personnel cost. While the group still provided for impairment allowances of RM257.7m, it was still lower than 2QFY21 provision by 29%. This benefited 3QFY21 PATAMI which came in at RM263.8m (+11%).

Key briefing highlights. The news of the RM2.83b GS caught the industry off guard, pinning the group for its previous involvement in 1MDB transactions. Management assured that with the GS, it would be unencumbered by the said past dealings going forward and the group has sufficient means for the settlement. This will be immediately provided for in 4QFY21 and comes at the expense of FY21 dividends. CET-1 capital is expected to fall to 11.0% from 13.5%-pre dividends owing to this. On the business-front, management guided for credit cost for FY21 to close between 80-100 bps according to previous guidance. The greater impairment for allowance to come should be directed towards the retail and O&G segments.

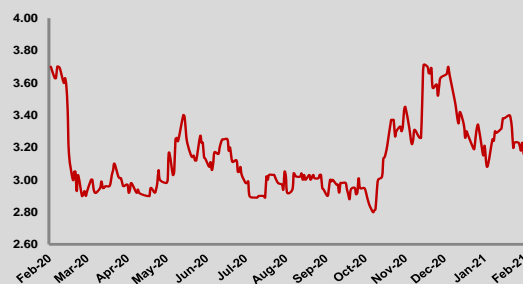
Post results, after incorporating the RM2.83b GS provisions to be booked in 4QFY21, we estimate for FY21 to report a LATAMI of RM1.41b, which entails a negative 245% revision. Meanwhile, we also lower FY22E earnings by 3.3% to capture slightly higher provisions expectations.

Downgrade to MARKET PERFORM (from OUTPERFORM) with a lower TP of RM3.05 (from RM3.70, previously). Our lower TP is based on a revised FY22E GGM-derived PBV of 0.51x (2SD below 5-year mean, from 0.56x) as we capture a higher risk-free rate of 3.1% (from 2.7%). We reckon there could be a negative knee-jerk reaction on the stock when its suspension is lifted this Wednesday. We believe perception for the stock should remain sour for the near term. However, we believe the development is not expected to hamper the overall business landscape of the group, hence we recommend investors to spot buying opportunities and accumulate on weakness.

MARKET PERFORM ↓

Price : RM3.14
Target Price : RM3.05 ↓

Share Price Performance



KLCI 1,567.14
YTD KLCI chg -3.7%
YTD stock price chg -13.4%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	AMM MK Equity
Market Cap (RM m)	9,510.4
Shares Outstanding	3,009.6
52-week range (H)	3.71
52-week range (L)	2.80
3-mth avg daily vol	4,195,155
Free Float	42%
Beta	1.1

Major Shareholders

ANZ Funds Pty Ltd	23.8%
Clear Goal Sdn Bhd	13.0%
Employees Provident Fund	10.9%

Summary Earnings Table

FY Mar (RM m)	2020A	2021E	2022E
Net interest income	2,958	3,103	3,146
Non-interest income	1,284	1,189	1,257
Total income	4,242	4,292	4,403
Operating expenses	-2,108	-2,198	-2,249
Loan impairment	-323	-3,910	-480
Pre-tax profit	1,783	-1,873	1,686
PATAMI	1,341	-1,413	1,272
Core PATAMI	1,341	-1,413	1,272
Consensus NP		1,037	1,346
Earnings revision		245.3%	-3.3%
Core EPS (RM)	0.44	-0.47	0.42
EPS growth	-11%	-205%	190%
NDPS (RM)	0.13	0.00	0.13
BV/share (RM)	6.2	5.7	6.0
NTA/share (RM)	5.0	4.5	4.8
ROE (%)	7.4	-7.9	7.2
PER (x)	7.1	N.M.	7.4
P/BV (x)	1.96	1.81	1.91
Net Div. Yield (%)	4.2	0.0	4.1

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Risks to our call include: (i) higher/lower-than-expected margin squeeze, (ii) higher/lower-than-expected loans growth, (iii) better/worse-than-expected deterioration in asset quality, (iv) improvement/slowdown in capital market activities, and (v) favourable/unfavourable currency fluctuations.

Results Highlights

	3Q	2Q	QoQ	3Q	YoY	9M	9M	YoY
FYE Mar (RM m)	FY21	FY21	Chg	FY20	Chg	FY21	FY20	Chg
Net interest income	848	775	9.4%	718	18.0%	2,247	2,136	5.2%
Non-interest income	328	381	-13.9%	381	-13.9%	1,154	1,093	5.7%
Total income	1,176	1,156	1.7%	1,099	7.0%	3,402	3,228	5.4%
Operating expenses	-545	-524	4.1%	-552	-1.3%	-1,608	-1,607	0.0%
Pre-impairment profit	631	632	-0.3%	547	15.3%	1,794	1,621	10.7%
(Allowances)/ write-backs	-258	-365	-29.4%	-68	281.6%	-663	-128	418.6%
(Allowances)/ write-backs on other assets	-2	-10	-77.9%	3	-186.6%	-14	38	-136.8%
Operating profit	371	258	43.9%	482	-23.1%	1,117	1,531	-27.0%
Non-operating gains / (losses)	0	27	-99.9%	16	-99.9%	43	4	912.5%
Profit before tax	371	285	30.3%	498	-25.5%	1,160	1,536	-24.4%
Taxation	-86	-26	229.7%	-94	-8.6%	-214	-311	-31.3%
Minority interest	-19	-35	-45.6%	-20	-2.2%	-91	-93	-2.3%
Net PATAMI	264	237	11.2%	382	-31.0%	866	1,093	-20.8%
Core PATAMI	264	237	11.2%	382	-31.0%	866	1,093	-20.8%
Gross loans	111,898	110,553	1.2%	104,548	7.0%	111,898	104,548	7.0%
Gross impaired loans	1,936	1,738	11.3%	1,791	8.1%	1,936	1,791	8.1%
Customer deposits	119,041	114,784	3.7%	105,709	12.6%	119,041	105,709	12.6%
Current and savings account (CASA)	33,463	34,089	-1.8%	24,756	35.2%	33,463	24,756	35.2%
Total assets	172,515	162,995	5.8%	157,909	9.2%	172,515	157,909	9.2%
Shareholders' equity	19,575	19,335	1.2%	18,322	6.8%	19,575	18,322	6.8%
Est. annualised NIM	2.12%	2.00%		1.94%		1.87%	1.95%	
Cost-to-income ratio	46.4%	45.3%		50.2%		47.3%	49.8%	
Annualised credit cost (bps)	-92.6	-133.9		-25.8		82.6	16.9	
Effective tax rate	23.1%	9.1%		18.8%		18.4%	20.3%	
Annualised ROA	0.6%	0.6%		1.0%		0.7%	0.9%	
Annualised ROE	5.4%	4.9%		8.3%		6.1%	8.1%	
Gross impaired loans ratio	1.7%	1.6%		1.7%		1.7%	1.7%	
Loan loss coverage ratio (LLC)	97.1%	96.1%		63.8%		97.1%	63.8%	
LLC plus regulatory reserves	99.8%	96.1%		101.3%		99.8%	101.3%	
Loan-to-deposit ratio	97.7%	97.7%		102.0%		97.7%	102.0%	
CASA-to-deposit ratio	28.1%	29.7%		23.4%		28.1%	23.4%	
CET-1 capital (Group level)	12.0%	13.5%		11.3%		12.0%	11.3%	

Source: Company, Kenanga Research

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Peer Table 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.			
Stocks Under Coverage																		
AFFIN BANK BHD	1.69	3,514.8	N	12/2021	-2.6%	3.0%	46.1%	9.8%	15.3	10.5	9.5	0.4	0.4	3.5%	3.0%	1.40	UP	
ALLIANCE BANK MALAYSIA BHD	2.63	4,071.5	N	03/2021	2.4%	2.9%	-15.5%	35.1%	9.6	11.4	8.4	0.7	0.7	5.9%	2.5%	2.50	MP	
AMMB HOLDINGS BHD	3.14	9,510.4	N	03/2021	0.3%	4.5%	-27.4%	35.3%	7.1	9.8	7.2	0.5	0.5	5.1%	3.6%	3.05	MP	
BIMB HOLDINGS BHD	4.08	7,562.9	Y	12/2021	7.6%	3.9%	6.1%	0.8%	10.6	10.0	9.9	1.2	1.1	11.5%	3.4%	5.25	OP	
CIMB GROUP HOLDINGS BHD	4.22	41,874.9	N	12/2021	-9.3%	-0.3%	-73.8%	176.0%	9.2	35.1	12.7	0.7	0.7	2.1%	1.1%	3.60	UP	
HONG LEONG BANK BHD	18.00	39,018.9	N	06/2021	14.8%	9.6%	14.3%	6.3%	14.8	12.9	12.2	1.4	1.3	10.1%	2.0%	18.50	MP	
MALAYAN BANKING BHD	8.06	91,996.8	N	12/2022	-4.7%	2.8%	8.8%	19.7%	13.3	12.3	10.2	1.1	1.1	8.7%	6.9%	9.10	OP	
MALAYSIA BUILDING SOCIETY BHD	0.675	4,708.4	N	12/2021	66.6%	3.0%	173.9%	14.4%	17.1	6.2	5.5	0.5	0.5	8.1%	4.4%	0.820	OP	
PUBLIC BANK BHD	4.20	81,524.9	N	12/2021	1.4%	2.3%	15.6%	3.1%	16.7	14.5	14.0	1.7	1.6	11.6%	3.3%	4.55	OP	
RHB BANK BHD	5.28	21,173.0	N	12/2021	-6.6%	-2.6%	-18.1%	16.0%	8.5	10.4	9.0	0.8	0.8	7.7%	3.4%	6.40	OP	
Simple Average					7.0%	2.9%	13.0%	31.6%	12.2	13.3	9.9	0.9	0.9	7.4%	3.4%			

Source: 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 17, 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

