

21 July 2021

# AMMB Holdings Bhd

## Disposing AmGeneral Insurance

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51%-owned AmGeneral Holdings Bhd has proposed to dispose AmGeneral Insurance Bhd (AIGB) to Liberty Insurance Bhd (LIB) for RM2.29b (subject to adjustments), via cash and a 30% stake in LIB's combined business unit. The cash payment would assist the group in rebuilding its capital strength while an enlarged LIB will offer exclusive bancassurance to AMBANK for 20 years, thus maintaining the group participation in the general insurance space. Maintain MP and GGM-PBV TP of RM2.85.

On Monday, AMBANK announced that its 51%-owned AmGeneral Holdings Bhd has proposed the disposal of AIGB to LIB at a price tag RM2.29b. The deal will be satisfied via a combination of cash and a 30% stake in LIB which with AIGB would form the largest motor insurer and second-largest property and casualty insurer in the country. The remaining 49% stake in AmGeneral Holdings Bhd owned by the Insurance Australia Group Ltd appears to be earmarked to be sold to LIB at AUD340m (or RM1.05b), suggesting AMBANK's share of the deal amounts to RM1.24b. Following the completion of the merger, AMBANK will benefit from an exclusive 20-year new bancassurance partnership with the combined entity to distribute general insurance products. For the moment, the transaction price of the deal is still subject to further adjustments and regulatory approvals.

Based on its 1HFY21 earnings, AIGB generated net profit of RM150m. At 51% stake, this made up 13% of group PATAMI.

**We are positive on the deal** as the cash raised would certainly assist the group with its capital needs following the Global Settlement charge of RM2.83b. While this would result in the group having a much lesser involvement in the general insurance business, the compounded share from an enlarged LIB operation would be worth a 30% exposure.

**However, the deal could be underpriced** as it implies a multiple of 1.42x based on AIGB's 1HFY21 book value of RM1.62b, which appears to be at a discount compared to the trading average of listed insurers at 2.0x. Further, the deal is still subject to adjustments, so further haircuts could possible. This could lead to minor setbacks in the group's attempt to regain its capital position but we believe they are at still comfortable levels, having regained its CET-1 ratio to 12.04% following its earlier placement exercise from 11.01% post-Global Settlement (prior to 13.52%).

**Post update**, we leave our earnings assumptions unchanged for now as the deal has yet to be finalised.

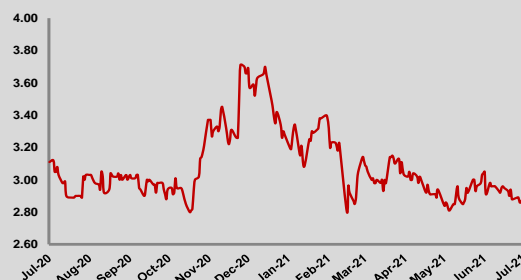
**Maintain MARKET PERFORM and TP of RM2.85.** Our TP is based on an unchanged FY22E GGM-derived PBV of 0.58x (1.5SD below 5-year mean). At current price points, we believe the risk-to-reward for AMBANK is well balanced. As the group moves past the Global Settlement and kitchen sinking saga, investors may relook the stock as it regains fundamental stability. That said, it currently offers less comparable returns in relation to its large-cap peers but could be well appreciated if it builds on its strong asset quality (GIL <2%) and registers strong recovery traction.

**Risks to our call include:** (i) higher/lower-than-expected margin, (ii) higher/lower-than-expected loans growth, (iii) better/worse-than-expected movement in asset quality, (iv) stronger/weaker capital market activities, (v) favourable/unfavourable currency fluctuations, and (vi) changes in OPR.

## MARKET PERFORM ↔

Price : RM2.92  
Target Price : RM2.85 ↔

### Share Price Performance



KLCI 1,519.97  
YTD KLCI chg -6.6%  
YTD stock price chg -20.0%

### Stock Information

Shariah Compliant No  
Bloomberg Ticker AMM MK Equity  
Market Cap (RM m) 9,676.9  
Shares Outstanding 3,314.0  
52-week range (H) 3.71  
52-week range (L) 2.80  
3-mth avg daily vol 3,766,420  
Free Float 47%  
Beta 1.1

### Major Shareholders

ANZ Funds Pty Ltd 21.6%  
Clear Goal Sdn Bhd 11.8%  
Employees Provident Fund 9.7%

### Summary Earnings Table

FY Mar (RM m)	2021A	2022E	2023E
Net interest income	3,022	3,183	3,274
Non-interest income	1,433	1,331	1,317
<b>Total income</b>	<b>4,455</b>	<b>4,514</b>	<b>4,591</b>
Operating expenses	-4,962	-2,186	-2,240
<b>Loan impairment</b>	<b>-3,074</b>	<b>-569</b>	<b>-506</b>
Pre-tax profit	-3,483	1,718	1,869
<b>PATAMI</b>	<b>-3,826</b>	<b>1,198</b>	<b>1,303</b>
<b>Core PATAMI</b>	<b>941</b>	<b>1,198</b>	<b>1,303</b>
Consensus NP		1,268	1,406
Earnings revision		0.0%	0.0%
Core EPS (RM)	0.31	0.36	0.39
EPS growth	-30%	16%	9%
NDPS (RM)	-	0.09	0.10
BV/share (RM)	4.86	4.69	4.98
NTA/share (RM)	4.38	4.25	4.55
ROE (%)	5.7	7.9	8.1
PER (x)	9.4	8.1	7.4
P/BV (x)	0.60	0.62	0.59
Net Div. Yield (%)	0.0	3.1	3.4

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### Income Statement

FY Mar (RM m)	2019A	2020A	2021A	2022E	2023E
Net interest income	2,676	2,958	3,022	3,183	3,274
Non-interest income	1,238	1,284	1,433	1,331	1,317
<b>Total income</b>	<b>3,915</b>	<b>4,242</b>	<b>4,455</b>	<b>4,514</b>	<b>4,591</b>
Operating expenses	-2,131	-2,108	-4,962	-2,186	-2,240
<b>PPOP</b>	<b>1,784</b>	<b>2,134</b>	<b>-507</b>	<b>2,328</b>	<b>2,350</b>
Loan impairments	301	-323	-3,054	-549	-486
Other impairments	3	-13	-20	-20	-20
Associates	20	-3	44	10	20
<b>Pre-tax profit</b>	<b>2,095</b>	<b>1,783</b>	<b>-3,483</b>	<b>1,718</b>	<b>1,869</b>
Tax and zakat	-492	-330	-229	-430	-467
Minority interest	-98	-112	-114	-90	-98
<b>PATAMI</b>	<b>1,505</b>	<b>1,341</b>	<b>-3,826</b>	<b>1,198</b>	<b>1,303</b>
<b>Core PATAMI</b>	<b>1,505</b>	<b>1,341</b>	<b>941</b>	<b>1,198</b>	<b>1,303</b>

### Balance Sheet

FY Mar (RM m)	2019A	2020A	2021A	2022E	2023E
Cash & ST funds	7,074	15,612	18,809	19,294	19,682
Investment securities	40,222	37,122	31,541	23,739	24,217
Loans and financing	100,544	105,951	112,478	116,547	118,896
Other assets	7,574	7,257	5,906	8,381	10,152
Intangible assets	3,380	3,262	1,444	1,444	1,444
<b>Total Assets</b>	<b>158,793</b>	<b>169,203</b>	<b>170,178</b>	<b>169,405</b>	<b>174,391</b>
Customer deposits	106,916	112,967	120,543	125,438	130,531
Deposits & placements	7,688	10,022	9,921	10,324	10,743
Borrowings	13,349	13,347	14,590	14,788	14,999
Other liabilities	12,151	13,308	9,534	2,872	1,139
<b>Total liabilities</b>	<b>140,103</b>	<b>149,643</b>	<b>154,588</b>	<b>153,421</b>	<b>157,412</b>
Share capital	5,752	5,852	5,952	5,952	5,952
Retained earnings	10,908	11,566	7,810	8,710	9,682
Regulatory reserves	450	388	-	-	-
Other reserves	582	775	879	879	879
<b>Shareholders' funds</b>	<b>17,691</b>	<b>18,581</b>	<b>14,641</b>	<b>15,541</b>	<b>16,513</b>
Minority interest	999	979	950	950	950
<b>Total liabilities and equity</b>	<b>158,793</b>	<b>169,203</b>	<b>170,178</b>	<b>169,911</b>	<b>174,874</b>

### Financial Data & Ratios

FY Mar	2019A	2020A	2021A	2022E	2023E
<b>Growth</b>					
Net interest income	2.7%	10.5%	2.1%	5.3%	2.9%
Non-interest income	-4.7%	3.7%	11.6%	-7.1%	-1.1%
Total income	0.3%	8.4%	5.0%	1.3%	1.7%
Operating expenses	-12.0%	-1.1%	135.4%	-56.0%	2.5%
PPOP	20.2%	19.6%	-123.8%	-559.1%	0.9%
Loan impairment	-13.0%	-207.1%	846.6%	-82.0%	-11.5%
Pre-tax profit	11.0%	-14.9%	-295.4%	-149.3%	8.8%
PATAMI	1.9%	-10.9%	-385.4%	-131.3%	8.8%
Core PATAMI	1.9%	-10.9%	-29.9%	27.4%	8.8%
Gross loans	5.4%	5.4%	6.2%	3.6%	2.0%
Customer deposits	11.6%	5.7%	6.7%	4.1%	4.1%

### Operating metrics

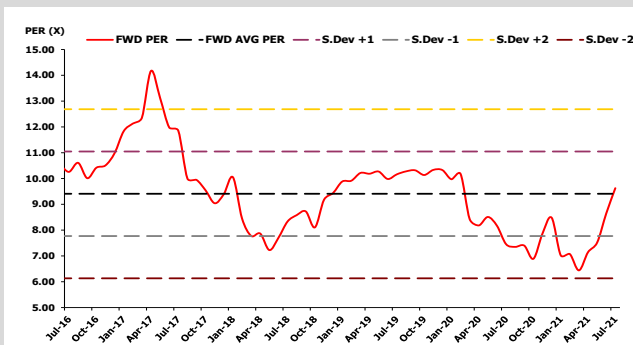
Est. avg. asset yield	4.92%	4.44%	3.67%	3.65%	3.88%
Est. avg. funding cost	3.27%	2.85%	1.97%	1.82%	1.82%
Est NIM	1.95%	1.91%	1.86%	1.97%	2.03%
Cost-to-Income ratio	54.6%	49.8%	110.1%	49.0%	48.8%
Credit cost (bps)	-30.8	31.2	102.3	48.0	41.3
Loan-to-deposit ratio	94.0%	93.8%	93.3%	92.9%	91.1%
GIL ratio	1.5%	1.7%	1.5%	1.6%	1.6%
LLC Ratio	80.2%	68.4%	128.8%	100.0%	100.0%
LLC Ratio (+ reg reserves)	108.0%	89.3%	128.8%	100.0%	100.0%
ROA	1.0%	0.8%	-2.3%	0.7%	0.8%
ROE	8.8%	7.4%	5.7%	7.9%	8.1%

### Valuations

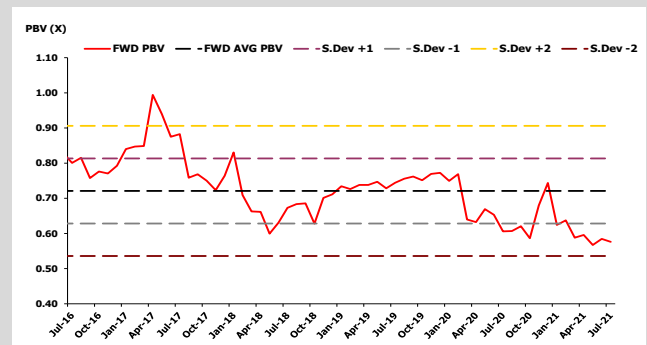
EPS (RM)	0.50	0.44	0.31	0.36	0.39
PER (x)	5.85	6.56	9.36	8.08	7.42
Div yield (%)	6.85	4.55	0.00	3.08	3.42
BV/share (RM)	5.87	6.16	4.86	4.69	4.98
P/BV (x)	0.50	0.47	0.60	0.62	0.59

Source: Kenanga Research

### Fwd Core PER Band



### Fwd PBV Band



Source: Bloomberg, 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.			
<b>Stocks Under Coverage</b>																		
AFFIN BANK BHD	1.71	3,632.1	N	12/2021	-7.8%	5.7%	44.2%	8.8%	15.4	10.7	9.8	0.4	0.4	3.4%	2.9%	1.30	UP	
ALLIANCE BANK MALAYSIA BHD	2.38	3,684.5	N	03/2022	-5.6%	1.0%	33.9%	8.3%	10.3	7.7	7.1	0.6	0.6	7.5%	3.8%	2.20	MP	
AMMB HOLDINGS BHD	2.92	9,676.9	N	03/2022	-4.2%	3.4%	27.4%	8.8%	9.4	8.1	7.4	0.6	0.6	7.9%	3.1%	2.85	MP	
BIMB HOLDINGS BHD	3.76	7,805.3	Y	12/2021	7.0%	1.9%	6.6%	2.6%	9.8	9.1	8.9	1.1	0.9	11.0%	3.7%	5.10	OP	
CIMB GROUP HOLDINGS BHD	4.56	45,664.7	N	12/2021	0.4%	2.4%	196.8%	28.8%	37.9	12.8	9.9	0.8	0.8	6.2%	2.9%	4.40	MP	
HONG LEONG BANK BHD	18.24	39,539.2	N	06/2021	-6.6%	5.4%	14.3%	5.8%	15.0	13.1	12.4	1.4	1.3	10.1%	2.0%	17.70	MP	
MALAYAN BANKING BHD	8.03	93,897.5	N	12/2022	-5.6%	1.8%	14.4%	12.8%	13.3	11.6	10.3	1.1	1.1	9.1%	7.0%	10.65	OP	
MALAYSIA BUILDING SOCIETY BHD	0.590	4,115.5	N	12/2021	61.4%	5.0%	128.6%	22.2%	14.9	6.5	5.3	0.5	0.4	6.8%	5.1%	0.600	MP	
PUBLIC BANK BHD	4.04	78,419.2	N	12/2021	-0.1%	3.4%	17.3%	1.7%	16.1	13.7	13.5	1.7	1.6	11.7%	3.5%	3.90	MP	
RHB BANK BHD	5.25	21,358.9	N	12/2021	-4.4%	6.5%	14.2%	12.0%	10.4	9.1	8.1	0.8	0.7	8.4%	4.4%	6.15	OP	
<b>Simple Average</b>					<b>3.5%</b>	<b>3.7%</b>	<b>49.8%</b>	<b>11.2%</b>	<b>15.2</b>	<b>10.2</b>	<b>9.3</b>	<b>0.9</b>	<b>0.8</b>	<b>8.2%</b>	<b>3.8%</b>			

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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