

18 August 2022

AMMB Holdings Bhd

Poised for Better Returns

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1QFY23 earnings of RM419.2m (+8%) came within expectations. AMBANK should continue to report stronger earnings thanks to credit cost improvements with possible excitement from the successful disposal of its AmGeneral stake to Liberty Insurance. Participation in the enlarged entity could yield a better payoff for the group in the long-term, calling for higher ROE targets. Maintain OP with a higher GGM-derived TP of RM4.75 (from RM4.35) on better long-term assumptions.

1QFY23 met expectations. 1QFY23 PATAMI of RM419.2m is within our/consensus expectations, accounting for 26%/27% of respective full-year projections. No dividends were declared, as expected. The group typically pays its dividends biannually.

YoY, 1QFY23 total income eroded by 4%. NII (+4%) rose thanks to a larger loans base (+4%) backed by relatively stable NIMs (2.07%, -2bps) but was mitigated by the erosion of NOI (-23%) largely owing to investment revaluation losses and dents in derivative trading. Alongside a higher CIR of 46.9% (+6.1%) on higher personnel charges, PPOP tapered down by 14%. That said, provisioning needs improved as economic recovery hoisted client cashflow and repayment habits, leading to impairments to fall by 70% (inclusive of RM30m overlays added to the construction sector). Ultimately, this led 1QFY23 PATAMI to gain 8% at RM419.2m.

Briefing's highlights. The group believes there is little hindrance in achieving its FY23 targets of: (i) 7% loans growth, and (ii) CIR of <45%. Two possible OPR hikes could be a net benefit for the group as it would support NIMs against competitive pricing pressures while economic recovery would support loans demand. Provisions may see some adjustments with the higher rates but it should not be significant enough to steer its 35-40 bps credit cost target for FY23. Meanwhile, the repayment assistance books now make up only 5% of total loans with the progressive exit of rehabilitated accounts, of which 40% are re-enrolling.

AmGeneral disposal to yield positive returns. With the completion of AmGeneral disposal (now a 30%-owned associate), the group is confident that its new partner, Liberty Insurance Berhad could take its insurance segment to new heights. The combined entity stands to become the largest auto insurer in Malaysia and the added synergies could boast net contributions to PATAMI. **This called for the group to increase its ROE guidance to at least 10% from a range guidance of 9.3-10%.** Post completion of disposal, AMBANK received a RM304m cash consideration and an additional RM959m in equity interest value from its 30% stake in the combined entity.

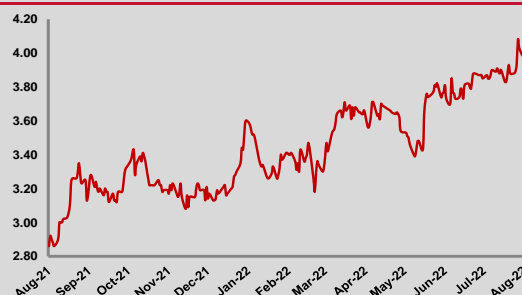
Post results, we tweak our FY23F earnings by +1% from model updates. While we match management's guidance in most aspects, we hold on to slightly more conservative ROE readings amidst macro uncertainties.

Maintain OUTPERFORM with a higher TP of RM4.75 (from RM4.35). We raise our GGM inputs to reflect a greater confidence in the stock's ROE delivery, leading to a new applied CY23F PBV of 0.84x (COE: 10.7%, TG: 3.5%, ROE: 9.5%, from 9%). We believe interest in the stock will continue to hold from its earnings traction recovery and with targeted ROE levels of 10%, a level not seen since 2017, where its valuations were closer to 0.9x. That said, we do not expect special dividends from the disposal of AmGeneral stake as the group only registered a net disposal gain of RM5m. There is no adjustment to our TP based on ESG of which it is given a 3-star rating as appraised by us.

OUTPERFORM ↔

Price : RM3.98
Target Price : RM4.75 ↑

Share Price Performance



KLCI	1,518.16
YTD KLCI chg	-3.1%
YTD stock price chg	25.9%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	AMM MK Equity
Market Cap (RM m)	13,222.3
Shares Outstanding	3,313.8
52-week range (H)	4.08
52-week range (L)	2.86
3-mth avg daily vol	4,172,604
Free Float	43%
Beta	1.0

Major Shareholders

ANZ Funds Pty Ltd	21.6%
Clear Goal Sdn Bhd	11.8%
Employees Provident Fund	10.2%

Summary Earnings Table

FY Mar (RM m)	2022A	2023F	2024F
Net interest income	3,358	3,458	3,613
Non-interest income	1,280	1,340	1,397
Total income	4,639	4,798	5,010
Operating expenses	-2,094	-2,136	-2,157
Loan impairment	-766	-434	-484
Pre-tax profit	1,805	2,279	2,418
PATAMI	1,503	1,632	1,750
Core PATAMI	1,503	1,632	1,750
Consensus NP		1,552	1,671
Earnings revision		+1.0%	0.0%
Core EPS (RM)	0.46	0.49	0.53
EPS growth (%)	60	9	7
NDPS (RM)	0.05	0.16	0.18
BV/share (RM)	5.08	5.41	5.76
NTA/share (RM)	4.65	4.99	5.34
ROE (%)	9.6	9.4	9.5
PER (x)	8.7	8.0	7.5
P/BV (x)	0.78	0.74	0.69
Net Div. Yield (%)	1.3	4.0	4.5



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

Results Highlights

	1Q	4Q	QoQ	1Q	YoY	3M	3M	YoY
FYE Mar (RM m)	FY23	FY22	Chg	FY22	Chg	FY23	FY22	Chg
Net interest income	881	843	4.5%	849	3.8%	881	849	3.8%
Non-interest income	277	271	2.4%	362	-23.4%	277	362	-23.4%
Total income	1,159	1,114	4.0%	1,212	-4.4%	1,159	1,212	-4.4%
Operating expenses	-544	-557	-2.5%	-495	9.9%	-544	-495	9.9%
Pre-impairment profit	615	557	10.5%	717	-14.2%	615	717	-14.2%
(Allowances)/ write-backs	-63	-51	23.3%	-209	-69.6%	-63	-209	-69.6%
(Allowances)/ write-backs on other assets	0	168	-100.3%	6	-108.8%	0	6	-108.8%
Operating profit	551	674	-18.2%	514	7.3%	551	514	7.3%
Non-operating gains / (losses)	3	9	-69.1%	26	-89.1%	3	26	-89.1%
Profit before tax	554	683	-18.9%	540	2.6%	554	540	2.6%
Taxation	-120	-96	24.4%	-118	1.8%	-120	-118	1.8%
Minority interest	-15	-26	-43.7%	-36	-58.6%	-15	-36	-58.6%
Net PATAMI	419	392	7.0%	387	8.4%	419	387	8.4%
Core PATAMI	419	392	7.0%	387	8.4%	419	387	8.4%
Gross loans	120,126	119,993	0.1%	115,567	3.9%	120,126	115,567	3.9%
Gross impaired loans	1,864	1,676	11.2%	1,808	3.1%	1,864	1,808	3.1%
Customer deposits	121,393	122,593	-1.0%	114,114	6.4%	121,393	114,114	6.4%
Current and savings account (CASA)	39,554	43,107	-8.2%	34,106	16.0%	39,554	34,106	16.0%
Total assets	178,553	174,859	2.1%	166,758	7.1%	178,553	166,758	7.1%
Shareholders' equity	17,017	16,760	1.5%	15,893	7.1%	17,017	15,893	7.1%
Est. annualised NIM	2.07%	1.97%		2.09%		2.07%	2.09%	
Cost-to-income ratio	46.9%	50.0%		40.8%		46.9%	40.8%	
Annualised credit cost (bps)	20.0	-81.5		65.6		21.1	72.5	
Effective tax rate	21.7%	14.1%		21.8%		21.7%	21.8%	
Annualised ROA	0.9%	0.9%		0.9%		0.9%	0.9%	
Annualised ROE	9.9%	9.4%		10.1%		9.9%	10.1%	
Gross impaired loans ratio	1.6%	1.4%		1.6%		1.6%	1.6%	
Loan loss coverage ratio (LLC)	99.7%	115.0%		131.1%		99.7%	131.1%	
LLC plus regulatory reserves	99.7%	115.0%		131.1%		99.7%	131.1%	
Loan-to-deposit ratio	103.7%	103.1%		106.7%		103.7%	106.7%	
CASA-to-deposit ratio	32.6%	35.2%		29.9%		32.6%	29.9%	
CET-1 capital (Group level)	12.0%	12.2%		11.3%		12.0%	11.3%	

Source: Company, Kenanga Research

Management Guidance

	FY23 Targets	FY22 Performance
Loans growth	+7%	4.6%
NIM	2.05-2.10%	2.02%
Credit cost	35-40 bps	66 bps
ROE	>10% (from 9.3-10.0%)	9.6%

Source: Company, Kenanga Research

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Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net. Div. (sen)	Net Div Yld (%)		
								1-Yr.	2-Yr.	1-Yr.	2-Yr.	1-Yr.	2-Yr.					1-Yr.	2-Yr.
								Fwd.	Fwd.	Fwd.	Fwd.	Fwd.	Fwd.					Fwd.	Fwd.
Stocks Under Coverage																			
AFFIN BANK BHD	OP	2.10	2.45	16.7%	4,645.9	N	12/2022	27.7	34.5	10.8%	24.8%	7.6	6.1	0.4	5.8%	11.0	5.2%		
ALLIANCE BANK MALAYSIA BHD	OP	3.55	4.20	18.3%	5,495.8	N	03/2023	44.3	49.9	19.8%	12.5%	8.0	7.1	0.8	10.4%	22.0	6.2%		
AMMB HOLDINGS BHD	OP	3.99	4.75	19.0%	13,222.3	N	03/2023	49.5	53.0	8.6%	7.2%	8.1	7.5	0.7	9.4%	16.0	4.0%		
BANK ISLAM MALAYSIA BHD	OP	2.65	2.90	9.4%	5,711.5	Y	12/2022	21.0	24.7	-1.9%	15.1%	12.6	10.7	1.0	7.9%	10.5	4.0%		
CIMB GROUP HOLDINGS BHD	OP	5.45	5.70	4.6%	57,084.7	N	12/2022	48.2	63.1	3.9%	31.0%	11.3	8.6	0.9	8.0%	23.0	4.2%		
HONG LEONG BANK BHD	OP	20.70	22.95	10.9%	44,871.8	N	06/2022	147.8	183.9	5.8%	24.4%	14.0	11.3	1.4	10.0%	56.0	2.7%		
MALAYAN BANKING BHD	OP	8.97	11.05	23.2%	107,371.0	N	12/2022	73.7	90.9	5.8%	23.3%	12.2	9.9	1.2	9.9%	60.0	6.7%		
MALAYSIA BUILDING SOCIETY BHD	UP	0.600	0.510	-15.0%	4,302.9	N	12/2022	7.1	10.0	15.8%	41.7%	8.5	6.0	0.5	5.8%	3.5	5.8%		
PUBLIC BANK BHD	MP	4.65	4.65	0.0%	90,259.7	N	12/2022	29.3	37.1	0.7%	26.3%	15.8	12.5	1.8	11.5%	15.5	3.3%		
RHB BANK BHD	OP	5.86	7.00	19.5%	24,682.8	N	12/2022	65.8	76.9	-4.9%	16.8%	8.9	7.6	0.8	9.3%	32.0	5.5%		
Simple Average												6.4%	22.3%	10.7	8.7	0.9	8.8%	4.8%	

Source: Kenanga Research

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Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★		
	Corporate Social Responsibility	★	★	★		
	Management/Workforce Diversity	★	★	★	☆	
	Accessibility & Transparency	★	★	★	★	
	Corruption-Free Pledge	★	★	★		
	Carbon-Neutral Initiatives	★	★	★		
SPECIFIC	Green Financing	★	★	☆		
	Cybersecurity/Data Privacy	★	★	★		
	Digital Transformation	★	★	★		
	Staff Welfare & Training	★	★	★		
OVERALL		★	★	★		

☆ denotes half-star
 ★ -10% discount to TP
 ★★ -5% discount to TP
 ★★★ TP unchanged
 ★★★★ +5% premium to TP
 ★★★★★ +10% premium to TP

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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