

05 December 2022

## AMMB Holdings

### Well Padded while Juggling Macros

By Clement Chua | [clement.chua@kenanga.com.my](mailto:clement.chua@kenanga.com.my)

We maintain our OP call and GGM-derived PBV TP of RM4.75 (COE: 10.7%, TG: 3.5%, ROE: 9.5%). From a recent briefing, we gathered that the group is cautious with the near-term outlook arising from inflationary pressures spurred by rising rates and costs. That said, we are affirmed that the group's fundamentals and strategies could help ingrain its market position and cushion any unforeseen market-wide pressures.

The group recently conducted its post-2QFY23 sell-side briefing to provide further insights. Our key takeaways are as follows:

- **Shift in loans base to stimulate growth.** Breaking down its YTD loans growth of 6% (YoY +8%), a key driver comes from larger existing corporate accounts which are made predominantly on termed loans. The group opines that with their expiry in mind, it would be filled up by a growing SME base with business banking activities seen to pick up in 2HFY23. Year-end seasonality could keep this segment vibrant, which we believe is mainly from the service sectors.
- **Mindful of housing loans.** There was a moderate rise in the impairments of residential properties (+44% YTD), being the steepest increase seen amongst the group's overall loans profile. The rise in asset staging here could be attributed to housing loans being one of the leading segments falling into moratorium and repayment assistance programs, hence their graduation without significant improvement to borrower cashflow could trigger delinquency. The group is wary that defaults could not have peaked, given the subsequent OPR upcycle which could be further detrimental to affordability. We believe this issue would not be exclusive to AMBANK and we take comfort that the group still commands flexibility in its provisions, with a 1HFY23 credit cost of 25 bps still being below its target of 35-40 bps.
- **Credit cost management still buoyant.** The group still holds management overlays of RM424m, which it does not intend to offset in the near-term. Further clarity is needed with regards to the impact of inflationary pressures towards retailers, though we believe that this too is an industry-wide dilemma. Recall that the observation period for trouble accounts range between 6-12 months.
- **Digital initiatives to generate longer-term yields.** With its inaugural Digital Day recently conducted, the group adds that the gains from its digital partnerships may not lead to a direct material translation to earnings in the immediate term. Rather, the various partnerships should strengthen underlying ecosystems and build more efficient customer acquisition streams.

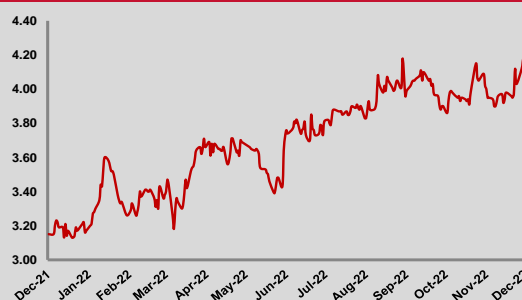
**Forecasts.** Post updates, we leave our FY23F/FY24F assumptions unchanged.

**Maintain OUTPERFORM and TP of RM4.75.** Our TP is based on an unchanged GGM-derived PBV of 0.84x (COE: 10.7%, TG: 3.5%, ROE: 9.5%) on an applied CY23F BVPS of RM5.69. We believe the group could be a key beneficiary of the ongoing economic recovery from its notable SME loans profile (21%), asset quality concerns on household sectors aside. The group also seeks to enjoy a better long-term growth trajectory from the abovementioned more aggressive partnerships against its peers. Meanwhile, we believe there will be more interest in AMBANK following its re-entry into the FBM KLCI. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us.

## OUTPERFORM ↔

Price : RM4.20  
Target Price : RM4.75 ↔

### Share Price Performance



KLCI	1,481.80
YTD KLCI chg	-5.5%
YTD stock price chg	32.5%

### Stock Information

Shariah Compliant	No
Bloomberg Ticker	AMM MK Equity
Market Cap (RM m)	13,908.3
Shares Outstanding	3,311.5
52-week range (H)	4.20
52-week range (L)	3.13
3-mth avg daily vol	4,766,305
Free Float	44%
Beta	0.9

### Major Shareholders

ANZ Funds Pty Ltd	21.7%
Clear Goal Sdn Bhd	11.8%
Employees Provident Fund	9.9%

### Summary Earnings Table

FY Mar (RM m)	2022A	2023F	2024F
Net interest income	3,358	3,542	3,709
Non-interest income	1,280	1,340	1,375
<b>Total income</b>	<b>4,639</b>	<b>4,882</b>	<b>5,084</b>
Operating expenses	-2,094	-2,136	-2,157
<b>Loan impairment</b>	<b>-766</b>	<b>-474</b>	<b>-485</b>
Pre-tax profit	1,805	2,301	2,476
<b>PATAMI</b>	<b>1,503</b>	<b>1,648</b>	<b>1,792</b>
<b>Core PATAMI</b>	<b>1,503</b>	<b>1,648</b>	<b>1,792</b>
Consensus NP		1,617	1,734
Earnings revision		0.0%	0.0%
Core EPS (RM)	0.46	0.50	0.54
EPS growth (%)	60%	10%	9%
NDPS (RM)	0.05	0.16	0.18
BV/share (RM)	5.08	5.42	5.78
NTA/share (RM)	4.65	4.99	5.36
ROE (%)	9.6	9.5	9.7
PER (x)	9.2	8.4	7.7
P/BV (x)	0.83	0.78	0.73
Net Div. Yield (%)	1.2	3.8	4.3

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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.

**Income Statement**

FY Mar (RM m)	2020A	2021A	2022A	2023F	2024F
Net interest income	2,958	3,022	3,358	3,542	3,709
Non-interest income	1,284	1,433	1,280	1,340	1,375
<b>Total income</b>	<b>4,242</b>	<b>4,455</b>	<b>4,639</b>	<b>4,882</b>	<b>5,084</b>
Operating expenses	-2,108	-4,962	-2,094	-2,136	-2,157
<b>PPOP</b>	<b>2,134</b>	<b>-507</b>	<b>2,544</b>	<b>2,746</b>	<b>2,927</b>
Loan impairments	-323	-3,054	-314	-454	-465
Other impairments	-13	-20	-452	-20	-20
Associates	-3	44	44	20	25
<b>Pre-tax profit</b>	<b>1,783</b>	<b>-3,483</b>	<b>1,805</b>	<b>2,301</b>	<b>2,476</b>
Tax and zakat	-330	-229	-210	-529	-569
Minority interest	-112	-114	-92	-124	-114
<b>PATAMI</b>	<b>1,341</b>	<b>-3,826</b>	<b>1,503</b>	<b>1,648</b>	<b>1,792</b>
<b>Core PATAMI</b>	<b>1,341</b>	<b>941</b>	<b>1,503</b>	<b>1,648</b>	<b>1,792</b>

**Balance Sheet**

FY Mar (RM m)	2020A	2021A	2022A	2023F	2024F
Cash & ST funds	15,612	18,809	13,221	6,651	6,921
Investment securities	37,122	28,639	26,795	37,805	39,341
Loans and financing	105,951	110,617	118,066	126,851	132,002
Other assets	7,257	10,669	15,378	13,749	12,352
Intangible assets	3,262	1,444	1,400	1,400	1,400
<b>Total Assets</b>	<b>169,203</b>	<b>170,178</b>	<b>174,859</b>	<b>186,456</b>	<b>192,015</b>
Customer deposits	112,967	120,543	122,593	123,427	125,914
Deposits & placements	10,022	9,921	9,895	11,964	12,205
Borrowings	13,347	14,590	15,454	16,282	16,331
Other liabilities	13,308	9,534	8,959	15,704	17,287
<b>Total liabilities</b>	<b>149,643</b>	<b>154,588</b>	<b>156,900</b>	<b>167,377</b>	<b>171,738</b>
Share capital	5,852	5,952	6,776	6,776	6,776
Retained earnings	11,566	7,810	9,220	10,341	11,539
Regulatory reserves	388	-	-	-	-
Other reserves	775	879	763	763	763
<b>Shareholders' funds</b>	<b>18,581</b>	<b>14,641</b>	<b>16,760</b>	<b>17,880</b>	<b>19,078</b>
Minority interest	979	950	1,199	1,199	1,199
<b>Total liabilities and equity</b>	<b>169,203</b>	<b>170,178</b>	<b>174,859</b>	<b>186,456</b>	<b>192,015</b>

**Financial Data & Ratios**

FY Mar	2020A	2021A	2022A	2023F	2024F
<b>Growth</b>					
Net interest income	10.5%	2.1%	11.1%	5.5%	4.7%
Non-interest income	3.7%	11.6%	-10.7%	4.6%	2.6%
Total income	8.4%	5.0%	4.1%	5.2%	4.1%
Operating expenses	-1.1%	135.4%	-57.8%	2.0%	1.0%
PPOP	19.6%	-123.8%	-601.7%	7.9%	6.6%
Loan impairment	-207.1%	846.6%	-89.7%	44.5%	2.6%
Pre-tax profit	-14.9%	-295.4%	-151.8%	27.5%	7.6%
PATAMI	-10.9%	-385.4%	-139.3%	9.7%	8.7%
Core PATAMI	-10.9%	-29.9%	59.8%	9.7%	8.7%
Gross loans	5.4%	4.4%	6.7%	7.4%	4.1%
Customer deposits	5.7%	6.7%	1.7%	0.7%	2.0%

**Operating metrics**

Est avg asset yield	4.44%	3.75%	3.76%	4.26%	4.52%
Est avg funding cost	2.85%	1.97%	1.70%	2.27%	2.56%
Est NIM	1.91%	1.89%	2.10%	2.14%	2.12%
Cost-to-Income ratio	49.8%	110.1%	45.3%	43.7%	42.4%
Credit cost (bps)	31.2	84.3	27.5	37.1	36.0
Loan-to-deposit ratio	93.8%	91.8%	96.3%	102.8%	104.8%
GIL ratio	1.7%	1.5%	1.3%	1.3%	1.3%
LLC Ratio	68.4%	117.3%	115.0%	100.0%	100.0%
LLC Ratio (+ reg reserves)	89.3%	117.3%	115.0%	100.0%	100.0%
ROA	0.8%	0.6%	0.9%	0.9%	0.9%
ROE	7.4%	5.7%	9.6%	9.5%	9.7%

**Valuations**

EPS (RM)	0.41	0.29	0.46	0.50	0.54
PER (x)	10.3	14.7	9.2	8.4	7.73
Div yield (%)	3.2	0.0	1.2	3.8	4.29
BV/share (RM)	5.63	4.44	5.08	5.42	5.78
P/BV (x)	0.75	0.95	0.83	0.78	0.73

Source: 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. Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
<b>Stocks Under Coverage</b>																	
AFFIN BANK BHD	MP	2.05	2.25	9.8%	4,535.3	N	12/2022	12.9	25.1	-48.3%	94.6%	15.9	8.2	0.5	2.8%	29.1	14.2%
ALLIANCE BANK MALAYSIA BHD	OP	3.79	4.20	10.8%	5,867.3	N	03/2023	45.5	52.1	22.9%	14.6%	8.3	7.3	0.9	10.7%	22.0	5.8%
AMMB HOLDINGS BHD	OP	4.20	4.75	13.1%	13,909.3	N	03/2023	49.9	54.3	9.7%	8.7%	8.4	7.7	0.8	9.5%	16.0	3.8%
BANK ISLAM MALAYSIA BHD	MP	2.59	2.45	-5.4%	5,582.1	Y	12/2022	19.7	24.5	-10.1%	24.5%	13.2	10.6	1.0	7.4%	10.0	3.9%
CIMB GROUP HOLDINGS BHD	OP	5.64	6.40	13.5%	60,151.2	N	12/2022	52.2	66.4	12.6%	27.1%	10.8	8.5	0.9	8.7%	26.0	4.6%
HONG LEONG BANK BHD	OP	20.64	23.35	13.1%	44,741.7	N	06/2023	197.2	201.4	22.8%	2.1%	10.5	10.2	1.3	12.5%	70.0	3.4%
MALAYAN BANKING BHD	OP	8.58	10.40	21.2%	103,424.4	N	12/2022	73.5	87.5	5.5%	19.1%	11.7	9.8	1.1	9.9%	60.0	7.0%
PUBLIC BANK BHD	MP	4.41	4.70	6.6%	85,601.2	N	12/2022	29.6	38.0	1.6%	28.4%	14.9	11.6	1.7	11.6%	15.5	3.5%
RHB BANK BHD	OP	5.57	7.00	25.7%	23,657.9	N	12/2022	66.0	80.5	-4.6%	21.9%	8.4	6.9	0.8	9.3%	32.0	5.7%
<b>Simple Average</b>										<b>3.0%</b>	<b>28.2%</b>	<b>11.0</b>	<b>8.7</b>	<b>0.9</b>	<b>8.8%</b>		<b>5.8%</b>

Source: Kenanga Research

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**Stock ESG Ratings:**

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

☆ 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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**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](http://www.kenanga.com.my) E-mail: [research@kenanga.com.my](mailto:research@kenanga.com.my)

