

11 September 2023

AMMB Holdings

Focus-Minded Approach

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We maintain our OP call and GGM-derived PBV TP of RM4.80 (COE: 10.2%, TG: 4.25%, ROE: 9.0%). From a recent briefing, while we gathered a cautiously optimistic tone for the group, we believe that it has firm strategies in sustaining its fundamentals. Loans growth is expected to stay supported with returning margins to carry earnings. Meanwhile, asset quality concerns are expected to remain well-contained with OPR sidelining, as expected. AMBANK is one of our 3QCY23 Top Picks.

The group recently conducted its post-1QFY24 sell-side briefing to provide further insights. Our key takeaways are as follows:

- **Opportunities persist amidst moderating GDP.** The group viewed that its loans growth may more modestly perform in-line with the industry at 4%-5% as overall activities appear to be easing. As we gathered that AMBANK has a meaningful 21% SME proportion to its overall books, the group notes that opportunities are present from the relocation of businesses from overseas to local logistics and industrial hubs. Meanwhile, a growing data center segment is also fuelling AMBANK's books.
- **Home loan values were stable.** Additionally, its average housing loan value (33% of total) remained steady (at c.RM600k) and was not diluted by a meaningful growth in affordable housing mix.
- **Mindful of liquidity.** CASA readings for the group fell to 30% in 1QFY24 (4QFY23: 37%, 1QFY23: 33%) as larger accounts remained sensitive to higher rate offerings. That said, it will still opt to manage funding costs efficiently even if it may lead to some loss in fixed deposits share. As of 1QFY24, AMBANK holds a liquidity coverage ratio of 170% and a loans-to-deposits ratio of 99%, which it thinks is highly sufficient for it to keep up with its loans growth target.
- **Margins to seep back in.** The group had attributed previous NIM pressures to be dragged by simultaneous maturity and renewal of fixed deposit accounts between Dec 2022 and Jan 2023 which have once again matured from an average tenure of 7 months. As rates are significantly friendly to AMBANK, funding cost would largely ease from here. However, due to most of its benefits likely being captured in 1QFY24, this could be why the group is only anticipating stable NIMs throughout the year (c.1.90%).
- **Flattish OPR a good note for credit cost.** The group closed 1QFY24 with provision overlays of RM362m while also have considered forward looking measures in the event of possible deterioration of economic readings. Given BNM's recent call to maintain rates, it is likely that certain measures may have been over accounted for which may lead the group to tone down its allowance requirements in the coming quarters. For now, a stable credit charge of 35 bps for FY24 may not be an issue to meet.

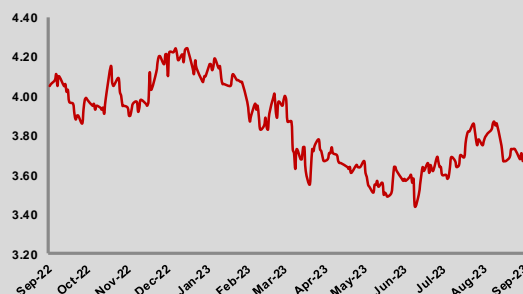
Forecasts. Post updates, we leave our FY24F/FY25F assumptions unchanged.

Maintain OUTPERFORM and TP of RM4.80. Our TP is based on an unchanged GGM-derived PBV of 0.80x (COE: 10.2%, TG: 4.25%, ROE: 9.0%) on an applied CY24F BVPS of RM5.99. Despite a slightly more conservative fundamental landscape, we continue to believe our thesis that AMBANK is still in a better shape for consolidation. On top of securing sustainable ROEs of c.9% (since FY19 of <9%), the group may now be in a stronger position to deliver better dividend payouts of c.40% (from 35%) which we are anticipating. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us. **AMBANK is one of our 3QCY23 Top Picks.**

OUTPERFORM ↔

Price : RM3.67
Target Price : RM4.80 ↔

Share Price Performance



KLCI	1,454.95
YTD KLCI chg	-2.7%
YTD stock price chg	-11.4%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	AMM MK Equity
Market Cap (RM m)	12,147.7
Shares Outstanding	3,310.0
52-week range (H)	4.24
52-week range (L)	3.44
3-mth avg daily vol	3,018,380
Free Float	46%
Beta	0.7

Major Shareholders

ANZ Funds Pty Ltd	21.7%
Clear Goal Sdn Bhd	10.9%
Employees Provident Fund	10.0%

Summary Earnings Table

FY Mar (RM m)	2023A	2024F	2025F
Net interest income	3,582	3,666	3,860
Non-interest income	956	973	1,002
Total income	4,538	4,639	4,863
Operating expenses	-1,999	-2,019	-2,046
Loan impairment	-354	-533	-329
Pre-tax profit	2,255	2,107	2,527
Net Profit	1,735	1,593	1,805
Core Net Profit	1,735	1,593	1,805
Consensus NP	-	1,665	1,768
Earnings revision	-	-	-
Core EPS (RM)	0.52	0.48	0.55
EPS growth (%)	15.1	-8.2	13.3
NDPS (RM)	18.3	19.0	21.0
BV/share (RM)	5.44	5.74	6.07
NTA/share (RM)	5.29	5.58	5.92
ROE (%)	10.0	8.6	9.2
PER (x)	7.0	7.6	6.7
P/BV (x)	0.67	0.64	0.60
Net Div. Yield (%)	5.0	5.2	5.7

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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)	2021A	2022A	2023A	2024F	2025F
Net interest income	3,022	3,234	3,582	3,666	3,860
Non-interest income	1,433	1,317	956	973	1,002
Total income	4,455	4,551	4,538	4,639	4,863
Operating expenses	-4,962	-1,789	-1,999	-2,019	-2,046
PPOP	-507	2,762	2,539	2,620	2,816
Loan impairments	-3,054	-314	-422	-513	-309
Other impairments	-20	-454	68	-20	-20
Associates	44	44	70	20	40
Pre-tax profit	-3,483	1,544	2,255	2,107	2,527
Tax and zakat	-229	-177	-513	-506	-606
Minority interest	-114	-92	59	-8	-115
PATAMI	-3,826	1,503	1,735	1,593	1,805
Core PATAMI	941	1,503	1,735	1,593	1,805

Balance Sheet

FY Mar (RM m)	2021A	2022A	2023A	2024F	2025F
Cash & ST funds	18,809	13,221	8,699	9,076	9,167
Investment securities	28,639	26,795	40,002	39,892	40,293
Loans and financing	110,617	118,066	128,243	132,878	133,678
Other assets	10,669	15,378	19,979	19,203	22,481
Intangible assets	1,444	1,400	511	511	511
Total Assets	170,178	174,859	197,432	201,560	206,129
Customer deposits	120,543	122,593	130,315	132,229	137,598
Deposits & placements	9,921	9,895	11,462	10,895	11,337
Borrowings	14,590	15,454	17,447	22,266	22,640
Other liabilities	9,534	8,959	20,181	17,179	14,453
Total liabilities	154,588	156,900	179,405	182,569	186,028
Share capital	5,952	6,776	6,376	6,376	6,376
Retained earnings	7,810	9,220	10,884	11,849	12,959
Regulatory reserves	-	103	212	212	212
Other reserves	879	660	554	554	554
Shareholders' funds	14,641	16,760	18,026	18,991	20,101
Minority interest	950	1,199	1	1	1
Total liabilities and equity	170,178	174,859	197,432	201,560	206,129

Financial Data & Ratios

FY Mar	2021A	2022A	2023A	2024F	2025F
Growth					
Net interest income	2.1%	7.0%	10.8%	2.3%	5.3%
Non-interest income	11.6%	-8.1%	-27.4%	1.8%	3.0%
Total income	5.0%	2.1%	-0.3%	2.2%	4.8%
Operating expenses	135.4%	-63.9%	11.7%	1.0%	1.3%
PPOP	-123.8%	-644.5%	-8.1%	3.2%	7.5%
Loan impairment	846.6%	-89.7%	34.3%	21.6%	-39.7%
Pre-tax profit	-295.4%	-144.3%	46.1%	-6.6%	19.9%
PATAMI	-385.4%	-139.3%	15.5%	-8.2%	13.3%
Core PATAMI	-29.9%	59.8%	15.5%	-8.2%	13.3%
Gross loans	4.4%	6.7%	8.6%	3.6%	0.6%
Customer deposits	6.7%	1.7%	6.3%	1.5%	4.1%

Operating metrics

Est avg asset yield	3.75%	3.65%	4.21%	4.74%	5.07%
Est avg funding cost	1.97%	1.70%	2.12%	2.92%	2.89%
Est NIM	1.89%	2.02%	2.12%	2.04%	2.12%
Cost-to-Income ratio	110.1%	44.1%	44.0%	43.5%	42.1%
Credit cost (bps)	84.3	27.5	34.3	39.3	23.2
Loan-to-deposit ratio	91.8%	96.3%	98.4%	100.5%	97.2%
GIL ratio	1.5%	1.3%	1.4%	1.4%	1.4%
LLC Ratio	117.3%	115.0%	104.6%	100.0%	100.0%
LLC Ratio (+ reg reserves)	117.3%	121.1%	115.8%	110.6%	110.6%
ROA	0.6%	0.9%	0.9%	0.8%	0.9%
ROE	5.7%	9.6%	10.0%	8.6%	9.2%

Valuations

EPS (RM)	0.29	0.46	0.52	0.48	0.55
PER (x)	12.9	8.1	7.0	7.63	6.73
Div yield (%)	0.0	1.4	5.0	5.2	5.7
BV/share (RM)	4.44	5.08	5.44	5.74	6.07
P/BV (x)	0.83	0.72	0.67	0.64	0.60

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. (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.	1-Yr. Fwd.	1-Yr. Fwd.		
Stocks Under Coverage																					
AFFIN BANK BHD	OP	2.05	2.20	7.3%	4,810	N	12/2023	24.9	27.2	-55.4%	9.1%	8.2	7.5	0.4	4.8%	12.5	6.1%				
ALLIANCE BANK MALAYSIA BHD	OP	3.40	4.30	26.5%	5,264	N	03/2024	47.4	51.6	8.3%	8.9%	7.2	6.6	0.7	10.6%	25.0	7.4%				
AMMB HOLDINGS BHD	OP	3.67	4.80	30.8%	12,148	N	03/2024	48.1	54.5	-8.2%	13.3%	7.6	6.7	0.6	8.6%	19.0	5.2%				
BANK ISLAM MALAYSIA BHD	MP	2.12	2.15	1.4%	4,805	Y	12/2023	24.1	25.0	5.6%	3.7%	8.8	8.5	0.7	7.5%	14.5	6.8%				
CIMB GROUP HOLDINGS BHD	OP	5.69	6.30	10.7%	60,684	N	12/2023	63.1	67.3	20.9%	6.6%	9.0	8.5	0.9	10.3%	35.0	6.2%				
HONG LEONG BANK BHD	OP	19.80	24.20	22.2%	42,921	N	06/2024	203.4	206.6	9.1%	1.6%	9.7	9.6	1.1	11.8%	63.0	3.2%				
MALAYAN BANKING BHD	OP	9.14	9.95	8.9%	110,175	N	12/2023	78.5	80.1	14.1%	2.1%	11.6	11.4	1.2	10.8%	65.0	7.1%				
MALAYSIAN BUILDING SOCIETY BHD	UP	0.710	0.630	-11.3%	5,092	Y	12/2023	3.4	5.2	-38.5%	52.3%	20.6	13.5	0.6	3.1%	1.8	2.5%				
PUBLIC BANK BHD	OP	4.25	4.75	11.8%	82,495	N	12/2023	35.1	37.7	11.3%	7.4%	12.1	11.3	1.5	13.1%	18.0	4.2%				
RHB BANK BHD	OP	5.66	7.25	28.1%	24,261	N	12/2023	76.7	78.2	14.7%	2.0%	7.4	7.2	0.8	10.6%	43.0	7.6%				
SECTOR AGGREGATE					352,654						9.2%	5.2%	10.5	9.9	1.1	10.3%			5.6%		

Source: Kenanga Research

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Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★	☆	
	Community Investment	★	★	★	☆	
	Workforce Safety & Wellbeing	★	★	★		
	Corporate Governance	★	★	★	★	
	Anti-corruption Policy	★	★	★		
	Emissions Management	★	★	★		
SPECIFIC	Green Financing	★	★	☆		
	Financial Inclusion	★	★	★		
	Cybersecurity/Data Privacy	★	★	★		
	Digitalisation & Innovation	★	★	★		
	Diversity & Inclusion	★	★	★		
	Customer Experience	★	★	★		
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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