

# AMMB Holdings Berhad

(1015 | AMM MK) Financial Services | Finance

## NIM held up well despite OPR cuts

### KEY INVESTMENT HIGHLIGHTS

- **Result was above expectations as we overestimated the NIM compression**
- **Robust NII as NIM improved due to lower cost of fund**
- **Earnings were weighed down by increase in provisions as the Group took into account the impact of Covid-19**
- **Loans growth stable while deposits growth was led by CASA**
- **Final dividend of 7.3sen/share. Lower than expected**
- **Tweaking FY21 and FY22 earnings downwards**
- **Maintain TRADING BUY with unchanged TP of RM3.60**

**Results above expectations.** The Group registered its FY20 which was above our expectations at 111% of our full year estimate. The variance was due to our overestimation of the NIM compression following the OPR cuts.

**NIM held up very well.** We were pleasantly surprised that NII came in +12.4%yoy higher. This was due to NIM expansion of +5bp yoy despite the OPR cuts in the quarter. The improvement in NIM was due to lower cost of fund which fell -29bp yoy to 3.16%. As a result net income increased +7.8%yoy. Coupled with lower OPEX, PPOP grew +18.3%yoy.

**Earnings were weighed down by higher provisions.** The net income growth had moderated the impact of higher provisions. Net profit in FY20 fell -10.9%yoy as the year saw provisions as opposed from write backs in FY19. The increase in provisions was due to RM167.3m macroeconomic factor taking into account the impact of the Covid-19 pandemic. Also, there were recoveries of RM493.6m in FY19.

**GIL ratio spiked up but LLC still at good level.** GIL ratio spiked up +14bp yoy. Most of the gross impaired loans came from the retail sector where it grew by RM196m to RM924m. However, we believe that the LLC were at a good level at 93.4%.

**Housing and business banking led loans growth.** Gross loans saw growth of +5.3%yoy to RM107.2b. Mortgages continued to lead gross loans growth. It grew +7.9%yoy to RM32.9b. Business banking also made a key contribution. This segment loans book expanded +10.8%yoy to RM47.3b as at 4QFY20.

**Robust deposits growth and led by CASA.** Deposits grew +5.7%yoy to RM113b. We were pleased that CASA was the main driver, expanding +16.1%yoy to RM28.8b. However, this could be due to individuals and businesses keeping liquidity sufficient in light of the uncertain environment surrounding Covid-19. This could be evident by the decline in retail FD of -19.0%yoy to RM32.5b. Total FD meanwhile grew +2.6%yoy to RM84.2b.

**Expecting tough environment ahead.** The management are expecting weaker asset quality in FY21 due to impact of Covid-19 and the movement control order (MCO) and also further NIM compression. However, we believe that the Group could possibly weather this support due to its stable capital positions.

## Maintain TRADING BUY

**Unchanged Target Price: RM3.60**

### RETURN STATISTICS

Price @ 29 <sup>th</sup> June 2020 (RM)	3.08
Expected share price return (%)	+16.9
Expected dividend yield (%)	+5.2
<b>Expected total return (%)</b>	<b>+22.1</b>

### SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-2.8	-4.2
3 months	2.7	-7.2
12 months	-27.2	-18.5

### KEY STATISTICS

FBM KLCI	1,494.43
Syariah compliant	No
Issue shares (m)	3001.30
Estimated free float (%)	27.80
Market Capitalisation (RM'm)	9,267.09
52-wk price range	RM2.82 - RM4.42
Beta vs FBM KLCI (x)	1.12
Monthly velocity (%)	0.00
Monthly volatility (%)	11.73
3-mth average daily volume (m)	3.94
3-mth average daily value (RM'm)	12.09
Top Shareholders (%)	
ANZ Funds Pty Ltd	23.82
Clear Goal Sdn Bhd	13.00
Employees Provident Fund Board	10.65

### Analyst

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**Tweaking earnings forecast.** We are tweaking our earnings forecast for FY21 and FY22 downwards by -7.8% and -1.8% to take into account possible higher provisions.

**Valuation and recommendation.** We continue to be pleasantly surprised by the Group's resilience in light of the challenging environment. Most surprising was the robustness of its income and how it managed to lower its cost of fund resulting an improvement in NIM. This was despite the multiple OPR cuts. While asset quality is expected to deteriorate, we expect that the robustness of its income may moderate the increase in provisions. Taking all into consideration, we maintain our **TRADING BUY** recommendation. Our **TP** remains unchanged at **RM3.60** based on PBV of 0.6x.



## INVESTMENT STATISTICS

Financial year ending 31 March (in RM'm, unless otherwise stated)	2019A	2020A	2021E	2022F	2023F
Net interest income (RM'm)	1,724.3	1,938.6	1,720.4	1,973.9	2,062.7
Islamic banking income (RM'm)	951.9	1,019.6	1,148.2	1,219.0	1,294.2
Non-interest income (RM'm)	1,246.1	1,269.0	1,429.1	1,517.2	1,610.9
Total income (RM'm)	3,922.4	4,227.2	4,297.6	4,710.1	4,967.8
Pretax profit (RM'm)	2,095.4	1,782.9	1,740.3	1,966.0	2,113.9
Net profit	1,505.3	1,340.7	1,276.0	1,441.5	1,550.0
Core Net profit (RM'm)	1,505.3	1,340.7	1,276.0	1,441.5	1,550.0
Core EPS (sen)	50	44.6	42	48	51
PER (x)	6.2	6.9	7.3	6.4	6.0
Net Dividend (sen)	20	13.3	15	18	21
Net Dividend Yield (%)	6.5	4.3	4.8	5.9	6.7
Book value per share (sen)	5.87	6.18	6.23	6.39	6.59
PBV (x)	0.5	0.5	0.5	0.5	0.0
ROE (%)	8.8	7.4	6.8	7.5	7.8

### Some banking abbreviations used in this report:

CI = Cost to Income  
 CET1 = Common Equity Tier 1  
 GIL = Gross Impaired Loan  
 LD = Loan-Deposit  
 NII = Net Interest Income  
 NOII = Non-interest income  
 NIM = Net Interest margin  
 CASA = Current and Savings Accounts  
 COF = Cost of Funds  
 IB = Investment Banking  
 LLC = Loan Loss Coverage  
 PPOP = Pre-Provisioning Operating Profit  
 FVTPL = Fair Value Through Profit Or Loss  
 OPEX = Operating Expenses  
 OPR = Overnight Policy Rate

Source: Company, MIDFR

**Table 2: Quarterly & Cumulative results (base on reported financials)**

FYE March (RM m)	Quarterly results					Cumulative results		
	4QFY20	3QFY20	4QFY19	Yoy (+/- %)	Qoq (+/- %)	FY20	FY19	Yoy (+/- %)
Net Interest Income	492.5	504.9	422.8	16.5%	-2.5%	1,938.6	1,724.3	12.4%
Net Islamic Banking Income	330.1	213.3	237.6	38.9%	54.7%	1,019.6	951.9	7.1%
Non-interest income	166.5	386.3	294.2	-43.4%	-56.9%	1,269.0	1,246.1	1.8%
Net/Total income	989.1	1,104.6	954.6	3.6%	-10.5%	4,227.2	3,922.4	7.8%
OPEX	(501.1)	(552.3)	(599.9)	-16.5%	-9.3%	(2,108.2)	(2,130.9)	-1.1%
PPOP	488.0	552.3	354.6	37.6%	-11.7%	2,119.0	1,791.5	18.3%
Writeback/(Provision)	(202.6)	(56.9)	270.5	>100%	>100%	(336.1)	303.8	>100%
PBT	285.4	495.4	625.1	-54.3%	-42.4%	1,782.9	2,095.4	-14.9%
Taxation	(19.0)	(93.7)	(149.3)	-87.3%	-79.7%	(330.0)	(492.3)	-33.0%
Net Profit	247.5	382.1	459.7	-46.1%	-35.2%	1,340.7	1,505.3	-10.9%
EPS (sen)	8.2	12.7	15.3	-46.1%	-35.2%	44.6	50.0	-10.8%

**Table 3: Financial Ratios**

Financial Ratios (%)	4QFY20	3QFY20	4QFY19	Yoy (+/-ppts)	Qoq (+/-ppts)	FY20	FY19	Yoy (+/-ppts)
CET-1 <sup>^</sup>	12.4	12.2	11.9	0.5	0.2	12.4	11.9	0.5
Tier 1 Capital <sup>^</sup>	12.4	12.2	11.9	0.5	0.2	12.4	11.9	0.5
Total Capital <sup>^</sup>	15.8	15.6	15.4	0.4	0.2	15.8	15.4	0.4
GIL	1.73	1.71	1.59	0.14	0.02	1.73	1.59	0.14
Credit charge-off	0.76	0.22	-1.06	1.82	0.54	0.31	-0.30	0.61
Loan loss Coverage	93.4	105.2	114.0	-20.6	-11.8	93.4	114.0	-20.6
Cost to income	50.0	50.0	62.8	-12.8	0.0	49.9	54.3	-4.5
Unadjusted Net LDR	93.8	97.8	94.0	-0.2	-4.0	93.8	94.0	-0.2
NIM	1.95	2.02	1.78	0.17	-0.07	1.94	1.89	0.05
ROEA	5.4	8.3	10.7	-5.3	-2.9	7.4	8.8	-1.4

<sup>^</sup>Group level ratios**Table 4: PBT by key segments (based on reported financials)**

PBT (RM m)	FY20	FY19	Yoy (+/- %)
Retail Banking	315.2	568.5	-44.6%
Wholesale Banking	772.0	782.9	-1.4%
Business Banking	125.6	126.0	-0.3%
General Insurance, Group Funding and other segments	240.1	125.7	91.0%

Source: Company, MIDFR

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### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

<b>BUY</b>	Total return is expected to be >10% over the next 12 months.
<b>TRADING BUY</b>	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
<b>NEUTRAL</b>	Total return is expected to be between -10% and +10% over the next 12 months.
<b>SELL</b>	Total return is expected to be <10% over the next 12 months.
<b>TRADING SELL</b>	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

#### SECTOR RECOMMENDATIONS

<b>POSITIVE</b>	The sector is expected to outperform the overall market over the next 12 months.
<b>NEUTRAL</b>	The sector is to perform in line with the overall market over the next 12 months.
<b>NEGATIVE</b>	The sector is expected to underperform the overall market over the next 12 months.