AMMB Holdings Berhad

(1015 | AMM MK) Financial Services | Finance

A disposal, AmGeneral specifically

***Maintain* BUY**

***Revised* Target Price: RM4.56**

(Previously RM4.07)

KEY INVESTMENT HIGHLIGHTS

- **Earnings were within our expectations**
- **We increase our FY22F/FY23F/FY24F earnings forecasts**
- **Core drivers include strong loan growth, normalisation of dividend payouts and collaboration opportunities with Liberty Insurance**
- **Key risks include CASA rundown effects, higher NCC from poor economic outlook and asset quality**
- **Maintain BUY call with a higher TP of RM4.56, based on P/BV of 0.8x FY24F BVPS**

Highlights from AMMB's 1QFY23F quarterly results:

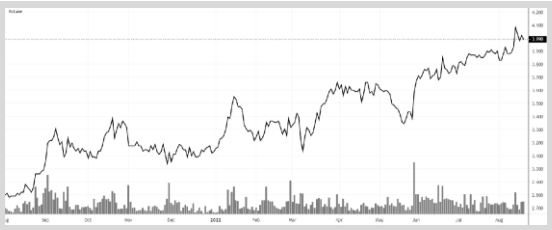
1. The Group's disposal of AmGeneral Insurance is close to completion. It will be reflected in the coming quarter's financial statements.
2. Gross loans were moderate at +3.9%yoy, but AMMB is banking on a sizeable corporate segment pipeline to drive growth in 2HFY23.
3. Net credit costs were lower in the quarter, but management guides for additional macroeconomic provisions in subsequent periods.
4. AMMB also allocated forward provisions worth RM30m in the quarter for construction sector exposure.
5. NIM to remain stable or increase.
6. Management maintains ROE guidance of 10.0% for FY23F, regardless of disposal.
7. Dividend payout to be normalised at pre-settlement figures of 35-40% while maintaining CET-1 of >12.5%.

FINANCIAL SUMMARY

FYE Mar	FY21	FY22	FY23F	FY24F	FY25F
NII (RM m)	2,935	3,275	3,712	3,960	4,219
NOII (RM m)	1,617	1,390	1,307	1,423	1,530
Total income (RM m)	4,509	4,621	5,019	5,384	5,749
PPOP (RM m)	2,376	2,527	2,700	2,896	3,093
Core net profit (RM m)	962	1,503	1,605	1,759	1,910
Core EPS (sen)	29.2	45.5	48.6	53.3	57.9
Core P/E (x)	13.7	8.8	8.2	7.5	6.9
Gross DPS (sen)	-	5.0	17.0	18.7	20.3
Dividend yield (%)	-	1.3	4.3	4.7	5.1
BVPS (RM)	4.4	5.1	5.3	5.7	6.2
P/BV (x)	0.9	0.8	0.7	0.7	0.6
ROE (%)	5.8	9.6	9.3	9.7	9.8

RETURN STATISTICS	
Price @ 17 August 2022 (RM)	3.99
Expected share price return (%)	+14.3
Expected dividend yield (%)	+4.3
Expected total return (%)	**+18.6**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	3.1	-2.9
3 months	7.0	16.4
12 months	37.6	38.2

KEY STATISTICS	
FBM KLCI	1,518.16
Syariah compliant	No
F4GBM Index	Yes
ESG Grading Band (Star rating)	☆☆☆
Issue shares (m)	3307.99
Estimated free float (%)	43.39
Market Capitalisation (RM m)	13,222.26
52-wk price range	RM2.86 - RM4.14
Beta vs FBM KLCI (x)	0.97
Monthly velocity (%)	1.50
Monthly volatility (%)	10.17
3-mth average daily volume (m)	4.17
3-mth average daily value (RM m)	15.77
Top Shareholders (%)	
ANZ Funds Pty Ltd	21.63
Clear Goal Sdn Bhd	11.80
Employees Provident Fund Board	10.20

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Within our and consensus expectations: AMMB's 1QFY23 core net profit of RM419m made up 26% and 27% of our and consensus full-year forecasts respectively.

Quarterly earnings: 1QFY23's core net earnings of RM419m rose by +7.0%yoy despite weaker NOII and higher operating costs, as reduced credit costs and higher NII offset the losses.

On a sequential quarter basis, earnings rose by +8.4%qoq, driven by higher NII and lower operating costs.

AmGeneral Insurance Berhad (AmGen) disposal: The disposal of AmGen is close to completion, and the effect will be reflected in the following quarter's financial statement. AMMB has received RM304m cash consideration and 30% equity interest in the combined businesses of AmGen and Liberty Insurance, valued at RM959m. An overview of the process can be found in Exhibit 3. Some key highlights are:

1. The combined entity will be the largest motor insurer in Malaysia, and a leading general insurer in the country.
2. Given its transition from fully owned subsidiary to associate company, future income contributions will be recorded in the "Share in results of associates and JV contributions" segment of the B/S rather than under its revenue.
3. Gains of disposal worth RM4.8m will only be reflected in B/S in the following quarter.
4. Management is aiming for a net profit of RM300m per year for the new combined entity. AmGen previously contributed RM180-200m per year, while Liberty's was RM60-70m – the Group expects to leverage on the combined entity's larger market share and bancassurance networks to plug in the remainder.
5. The Group continues to guide for an ROE of 10.0% in FY22. The AmGen disposal is not expected to affect the goal.

Payment Holiday and Repayment Assistance (PHRA) loans: PHRA loans have reduced to RM5.5b in July-22, making up 5% of total gross loans. In contrast, PHRA stood at RM6.6b in May-22 and RM36.5b in Aug-21 at its peak. So far delinquencies amongst PHRA loans remain considerably manageable, with loans in the ≥MIA 3 bucket remaining in the mid-single digit range.

Total PHRA re-enrolment for retail and retail SME buckets amounted to RM2.15b in July-22, from a cumulative RM22.8b in Nov-21 (9.4%). Management does not view this as a cause of concern, given that the majority involves the maturation of payment holidays into either government or AMMB's own repayment assistance programmes, which does not imply a significant deterioration in asset quality. Management also believes that AMMB's re-enrolment rate is relatively muted compared to its peers.

Asset quality: GIL ratio currently stands at 1.55%, rising from 4QFY22's 1.40%. Management does not believe that it will exceed 2.00%. While the GIL of PHRA loans is much higher than the Group average, loss severity is not that concerning given that most of these are backed by guarantees and collateral.

Loan loss coverage stands at a decent 99.7%. (Including reserves, LLC stands at 123.3%.)

Provisioning: The Group reported a low net credit cost (NCC) of 20bps in 1QFY23. This includes forward provisions worth RM30m for construction sector exposures, given the major headwinds faced by industry players.

AMMB will be maintaining its 35-40bps guidance for FY23, as it will be providing additional forward-looking provisions (separate from total overlay reserves of RM424m, based on judgement on portfolio performance) within the next few quarters. These are expected to bring up NCC to 30bps by 2HFY23. Note that AMMB's NCC guidance for regular interest rate levels are expected to remain at 35-40bps.

The forward-looking provisions are based on models which inputs various economic factors. The impetus for additional provisions is the effect of increased, rapid interest rate hikes on lender debt serving pressure.

Net interest margins (NIM) and net interest income (NII): NIM widened by +12bps qoq to 2.12% in 1QFY23, up from 2.00% in the previous quarter. Factoring in 1-2 further +25bps OPR hikes in CY2022, management guides for FY23's NIM to remain stable or widen slightly from 2.12%. Given that time deposits take a repricing period of 7 months to reflect changes in OPR rates, management expects a near-term widening of margins, before a narrowing of spreads as FD pricing catches up to lending rates at end-CY2022.

Similarly, total NII rose by +6.3%qoq and +5.5%yoy. As mentioned previously, every +25bps OPR hike will result in +RM40m gain in NII. Management is not expecting the effects of OPR hikes on CASA to counteract its positive effects on NII. This is premised on the belief that CASA rates are stickier than expected, as well as CASA margins being expected to improve even with the increase in OPR.

Non-interest income (NOII): 1QFY23 NOII fell by -4.2%qoq and -29.0%yoy, on the back of disappointing investment, trading, and insurance contributions. Additionally, management cites a market risk-off situation in 1HCY22 as the cause for depressed fee incomes, though it believes a potential risk-on scenario in August could lead to a reversal in fortunes.

Loan growth: Gross loans expanded at a steady pace of +3.9%yoy. Retail and business banking loans served as consistent drivers of growth. The corporate banking segment showed more lacklustre results. Nevertheless, management is maintaining its guidance for +6.0-7.0%yoy group loan growth in FY23, banking on a strong visible pipeline on the corporate loan segment. These are mostly large-cap customers looking for refinancing substitutes to pricey bond capital markets, given that the banking sector's liquidity remains intact.

Management is not particularly worried about potential negative effects of interest rate hikes on loan growth. It views pent-up demand (particularly in the construction sector), a lack of supply and potential opportunities in derivatives and interest rate swaps alternatives as drivers of loan demand.

Deposit growth: Group deposit growth expanded by +6.4%yoy, though it contracted by -1.0%qoq. CASA growth contracted by -8.2%qoq, as investors switch to fixed deposits following the recent hike in board rates. The Group remains positive on maintaining its CASA deposit base, expecting the CASA ratio to continue further improving despite higher interest rates. The Group continues to move its deposit mix towards favouring retail depositors.

Loan/Deposit ratio currently stands at high 97.4%.

Cost efficiency: Quarterly operating expenses (OPEX) rose by +9.9%yoy, though it improved by -2.5% on a sequential quarter basis. Higher staff expenses in the form of cost-of-living wage settlements for staff contributed to the slippage, though management guides that other discretionary costs are much stickier.

AMMB reported an improved cost/income ratio (CIR) of 46.8% in 1QFY23, improving from 50.0% in 4QFY22. Management is guiding for a stable to negative JAWS. This is largely dependent on potential revenue, given that OPEX is much stickier. Note that the disposal of AmGen is expected to improve the CIR, given the subsidiary's much higher CIR. In FY22, AmGen posted a CIR of 60.1%, in contrast to the Group's 44.9%.

Capital ratios: The Group's CET-1 ratio rests at a comfortable 12.38%, close to the pre-settlement CET-1 ratio of 12.44%. CET-1 ratio is subject to a further +0.25% gain from the AmGen disposal proceeds.

No dividend announced: AMMB typically divvies in the 2nd and 4th quarter. The Group is targeting a regular dividend payout of 35-40% while maintaining a CET1 ratio of >12.5%. We reduce our dividend payout target for FY23 to 35% as our initial projections may have been overly optimistic, factoring in potential special dividends from the AmGen disposal.

Key risks: Key risks to earnings include (1) greater-than-expected CASA run-down, (2) heightened credit costs stemming from a deterioration in asset quality or worsening economic outlook, (3) slower-than-expected corporate loan pick-up.

Earnings revised: We increase our earnings forecasts for FY23F/FY24F/FY25F by 1.0%/4.0%/2.6% to factor in higher loan growth assumptions, two further OPR hikes in CY2022, as well as more moderate contributions from non-loan allowances.

Valuation and recommendation: Despite a high L/D ratio implying the need for further funding to maintain its higher loan growth trajectory, we remain optimistic on AMMB's prospects premised on its strong projected loan growth, resumption of normalised dividend payouts and opportunities stemming from its collaboration with Liberty Insurance. However, we are still a little skeptical as to whether AMMB achieve its sustainable 10.0% ROE target by FY24F.

Thus, we maintain our **BUY** with a higher **TP of RM4.56**, as we peg its FY24 BVPS (rolled on from FY23 BVPS) to a higher FY24 P/BV of 0.80x (previously 0.70x). (We refresh our GGM assumptions to factor FY24F ROE of 9.7%, COE of 11.2%, LTG of 3.5%.)

EXHIBIT 1: QUARTERLY RESULTS

FYE Mar (RM m)	1QFY23	4QFY22	1QFY22	Yoy (%)	Qoq (%)	3MFY23	3MFY22	Yoy (%)
Net interest income	599	565	569	5.3%	5.9%	599	569	5.3%
Islamic banking income	283	278	281	0.7%	1.8%	283	281	0.7%
Other operating income	277	271	362	-23.4%	2.4%	277	362	-23.4%
Total income	**1,159**	**1,114**	**1,212**	**-4.4%**	**4.0%**	**1,159**	**1,212**	**-4.4%**
OPEX	(544)	(557)	(495)	9.9%	-2.5%	(544)	(495)	9.9%
PPOP	**615**	**557**	**717**	**-14.2%**	**10.5%**	**615**	**717**	**-14.2%**
Loan allowances	(60)	244	(189)	-68.2%	-124.6%	(60)	(189)	-68.2%
Other allowances	(4)	(295)	(14)	n.m.	n.m.	(4)	(14)	n.m.
JV & Associates	3	9	26	-89.1%	-69.1%	3	26	-89.1%
Profit before tax	554	514	540	2.6%	7.7%	554	540	2.6%
Tax	(120)	(96)	(118)	1.8%	24.4%	(120)	(118)	1.8%
NCI	(15)	(26)	(36)	-58.6%	-43.7%	(15)	(36)	-58.6%
Reported net profit	**419**	**392**	**387**	**8.4%**	**7.0%**	**419**	**387**	**8.4%**
Core net profit	**419**	**392**	**387**	**8.4%**	**7.0%**	**419**	**387**	**8.4%**
Total NII	**863**	**812**	**818**	**5.5%**	**6.3%**	**863**	**818**	**5.5%**
Total NOII	**298**	**311**	**420**	**-29.0%**	**-4.2%**	**298**	**420**	**-29.0%**
Gross DPS (sen)	**-**	**5.0**	**-**	**n.m.**	**n.m.**	**-**	**-**	**n.m.**
Core EPS (sen)	**12.7**	**11.9**	**11.9**	**6.8%**	**6.7%**	**12.7**	**11.9**	**6.8%**
Gross loans	120,126	119,993	115,567	3.9%	0.1%			
Gross impaired loans	1,864	1,676	1,808	3.1%	11.2%			
Customer deposits	121,393	122,593	114,114	6.4%	-1.0%			
CASA	39,554	43,107	34,106	16.0%	-8.2%			

Source: Company, MIDFR

EXHIBIT 2: QUARTERLY FINANCIAL RATIOS

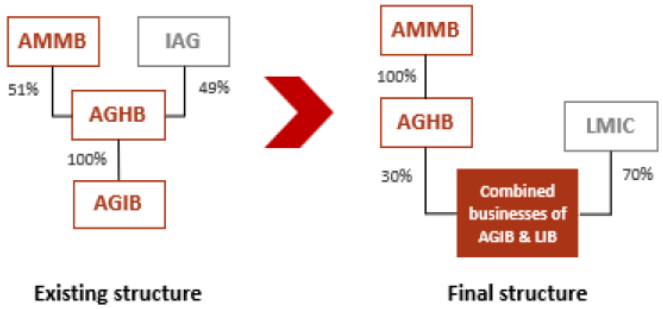
Financial Ratios (%)	1QFY23	4QFY22	1QFY22	Yoy	Qoq	3MFY23	3MFY22	Yoy
NIM (Reported)	**2.12**	**2.00**	**2.08**	**0.04**	**0.12**	**2.12**	**2.08**	**0.04**
NOII/Total income	25.7	27.7	33.9	-8.3	-2.0	25.7	33.9	-8.3
ROE (Ann.)	**9.9**	**9.3**	**9.7**	**0.1**	**0.5**	**9.9**	**9.7**	**0.1**
Cost-to-income ratio	46.9	50.0	40.8	6.1	-3.1	46.9	40.8	6.1
Net credit costs (Ann.) (bps)	20	(83)	68	-47	103	20	68	-47
GIL ratio	1.55	1.40	1.56	-0.01	0.15	1.55	1.40	-0.01
Loan loss coverage	99.7	115.0	131.1	-31.4	-15.3	99.7	115.0	-31.4
L/D ratio	97.4	96.3	99.2	-1.8	1.1	97.4	96.3	-1.8
CET1	12.4	12.2	12.3	0.0	0.2	12.4	12.2	0.0
Tier-1	12.4	12.2	12.3	0.0	0.2	12.4	12.2	0.0
Total Capital	15.6	15.3	15.3	0.3	0.3	15.6	15.3	0.3

Source: Company, MIDFR

EXHIBIT 3: DISPOSAL OF AMGEN

Disposal of AmGen – Overview

Corporate Structure – Before and After disposal



Notes:

- *AMMB: AMMB Holdings Bhd*
- *AGHB: AmGeneral Holdings Bhd*
- *AGIB: AmGeneral Insurance Bhd ("AmGen")*
- *IAG: IAG International Pty Ltd*
- *LIB: Liberty Insurance Bhd*
- *LMIC: Liberty Mutual Insurance Company*

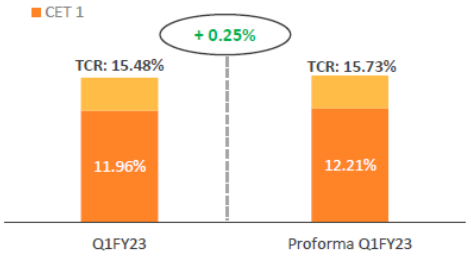
1. AMMB disposed AGIB to LIB for a total consideration of RM2,363 million*
2. IAG exits completely. AMMB and LIB own 30% and 70% equity interest respectively in the combined AGIB / LIB business
3. AMMB received RM304 million* cash consideration and 30% equity interest valued at RM959 million*
4. AMMB to account for this 30% equity interest as an associate undertaking
5. AMMB entered into a 20-year bancassurance partnership with LIB

** Numbers updated to reflect position as of 30 June 2022*

Gain / (Loss) on Disposal

RM'mil	Position at 30 June 22
Total consideration (cash & shares)	**2,362.6**
Net assets disposed (before goodwill)	(1,668.1)
Gain on Disposal (pre-goodwill)	**694.5**
Goodwill from Kurnia's acquisition	(778.9)
Transaction expenses	(20.0)
Net Loss on Disposal	**(104.4)**
Attributable to shareholders of AMMB	4.8
Attributable to non-controlling interests (IAG)	(109.2)
	(104.4)

Impact to capital ratios (without TA)



Notes: TCR = Total Capital Ratios

1. FHC CET1 is expected to improve by approximately 0.25%

Source: Company, MIDFR

INVESTMENT STATISTICS

INCOME STATEMENT

FYE Mar (RM m)	FY21	FY22	FY23F	FY24F	FY25F
Interest income	4,156	4,067	4,876	5,635	6,329
Interest expense	(2,064)	(1,770)	(2,200)	(2,750)	(3,218)
Net interest income	**2,092**	**2,296**	**2,676**	**2,885**	**3,111**
Islamic banking income	930	1,062	1,126	1,182	1,217
Other operating income	1,487	1,263	1,217	1,317	1,421
Total income	**4,509**	**4,621**	**5,019**	**5,384**	**5,749**
OPEX	(2,132)	(2,094)	(2,319)	(2,487)	(2,656)
PPOP	**2,376**	**2,527**	**2,700**	**2,896**	**3,093**
Loan allowances	(913)	(314)	(496)	(462)	(459)
Other allowances	(4,990)	(452)	(134)	(163)	(165)
JV & Associates	44	44	139	149	159
Pretax profit	**(3,483)**	**1,805**	**2,209**	**2,421**	**2,629**
Taxation and zakat	(229)	(210)	(519)	(569)	(618)
NCI	(114)	(92)	(84)	(93)	(101)
Reported net profit	**(3,826)**	**1,503**	**1,605**	**1,759**	**1,910**
Core net profit	**962**	**1,503**	**1,605**	**1,759**	**1,910**
Total NII	2,935	3,275	3,712	3,960	4,219
Total NOII	1,617	1,390	1,307	1,423	1,530

BALANCE SHEET

FYE Mar (RM m)	FY21	FY22	FY23F	FY24F	FY24F
Cash and ST funds	18,913	14,523	16,542	18,536	20,866
Investment securities	33,392	35,011	36,660	38,493	40,190
Net loans	110,617	118,066	126,105	133,787	140,573
Other IEAs	-	-	-	-	-
Non-IEAs	7,258	7,260	4,442	7,867	8,157
Total assets	**170,178**	**174,859**	**183,748**	**198,683**	**209,786**
Customer & bank deposits	130,559	132,865	138,618	143,711	149,271
Other IBLs	7,094	7,858	9,192	10,061	10,186
Non-IBLs	16,935	16,177	16,995	24,701	28,516
Total liabilities	**154,588**	**156,900**	**164,806**	**178,474**	**187,972**
Share capital	5,952	6,776	6,776	6,776	6,776
Reserves & retained profit	8,689	9,984	10,873	12,037	13,531
Shareholders' funds	**14,641**	**16,760**	**17,649**	**18,813**	**20,307**
NCI	950	1,199	1,294	1,396	1,507
Total equity	**15,590**	**17,959**	**18,943**	**20,209**	**21,813**
Total liabilities & equity	**170,178**	**174,859**	**183,748**	**198,683**	**209,786**
Total IEAs	162,921	167,599	179,307	190,816	201,629
Total IBLs	137,653	140,723	147,810	153,773	159,457
Gross loans	112,692	119,993	128,033	135,715	142,501
CASA	35,758	43,107	44,926	46,624	48,489

FINANCIAL RATIOS

FYE Mar (RM m)	FY21	FY22	FY23F	FY24F	FY25F
Interest (%)					
NIM	1.82	1.98	2.14	2.14	2.15
Return on IEAs	2.58	2.46	2.81	3.04	3.23
Cost of funds	1.51	1.27	1.52	1.82	2.05
Net interest spread	1.08	1.19	1.29	1.22	1.17
Profitability (%)					
ROE	5.8	9.6	9.3	9.7	9.8
ROA	0.6	0.9	0.9	0.9	0.9
NOII/Total income	35.9	30.1	26.0	26.4	26.6
Effective tax rate	(6.6)	11.6	23.5	23.5	23.5
Liquidity & Efficiency (%)					
Cost-to-income ratio	47.3	45.3	46.2	46.2	46.2
Loan/Deposit ratio	91.8	96.3	98.1	99.8	100.5
CASA ratio	29.7	35.2	35.0	34.8	34.7
Asset Quality (%)					
GIL ratio	1.57	1.40	1.60	1.47	1.41
NIL ratio	1.12	0.95	1.25	1.13	1.11
LLC ratio	117.3	115.0	110.0	105.0	100.3
LLC (incl. reserves)	117.3	121.1	115.1	110.5	106.0
Gross credit cost (bps)	115	48	60	55	53
Net credit cost (bps)	83	27	40	35	33
% Floating rate loans	78.6	79.5	83.0	84.0	84.0
% Domestic loans	99.4	99.3	99.3	99.5	99.5
Capital (%)					
CET 1	11.3	12.2	12.0	12.1	12.3
Tier 1 capital	11.3	12.2	12.6	12.6	12.8
Total capital	14.5	15.3	15.8	16.0	16.3
Growth (%)					
Total NII	5.8	11.6	13.3	6.7	6.5
Total NOII	11.3	(14.0)	(6.0)	8.9	7.5
Core net profit	(28.2)	56.2	6.8	9.6	8.6
Gross loans	5.1	6.5	6.7	6.0	5.0
Customer deposits	6.7	1.7	4.8	4.3	4.3
CASA	24.0	20.6	4.2	3.8	4.0
Valuation metrics					
Core EPS (sen)	29.2	45.5	48.6	53.3	57.9
Gross DPS (sen)	-	5.0	17.0	18.7	20.3
Div payout ratio (%)	-	11.0	35.0	35.0	35.0
BVPS (RM)	4.4	5.1	5.3	5.7	6.2
Core P/E (x)	13.7	8.8	8.2	7.5	6.9
Dividend yield (%)	-	1.3	4.3	4.7	5.1
P/BV (x)	0.9	0.8	0.7	0.7	0.6

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MIDF AMANAH INVESTMENT BANK: GUIDE TO RECOMMENDATIONS	
STOCK RECOMMENDATIONS	
BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to *rise* by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to *fall* by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.
SECTOR RECOMMENDATIONS	
POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.
ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell	
☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology