AMMB Holdings Berhad

(1015 | AMM MK) Financial Services | Finance

Maintain BUY

New opportunities with Liberty Insurance

***Revised* Target Price: RM5.12**

(Previously RM4.56)

KEY INVESTMENT HIGHLIGHTS

- **Earnings were above our expectations**
- **Maintaining our earnings forecast for now**
- **Core drivers: Resumption of regular dividend payouts, Opportunities stemming from its collaboration with Liberty Insurance**
- **Key risks: Failure to contain OPEX, Significant credit costs, Slower corporate loan pick-up**
- **Maintain BUY call with upgraded TP of RM5.12**

Highlights from AMMB's 2QFY23 quarterly results:

1. AMMB's YTD earnings rose by +37%yoy due to stronger NOII and lower loan provisions.
2. Oct-22 RA loans crept down to 4% of gross loans portfolio, with notable run-offs in the retail segment.
3. GIL improved to 1.52% due to several write-offs.
4. Quarterly NCC of 25bps, bringing YTD average to 22bps. Management guiding for further overlays, which should bring FY23 NCC closer to its 35-40bps target.
5. 2QFY23's NIM rose flat on a quarter-on-quarter basis at 2.12%
6. 2QFY23's NOII up by +21%qoq due to improved trading and investment income.
7. +8%yoy loan growth, with wholesale banking acting as main driver.
8. Deposit growth +4% -- flattish on a quarter-on-quarter basis. L/D ratio at a high 102%.
9. 2QFY23's OPEX was up +3%qoq, +10%yoy.
10. Dividend announced: Gross DPS of 6.0 sen, payout of 23% -- below expectations.

FINANCIAL SUMMARY

FYE Mar	FY21	FY22	FY23F	FY24F	FY25F
NII (RM m)	2,935	3,275	3,708	3,955	4,216
NOII (RM m)	1,617	1,390	1,307	1,423	1,530
Total income (RM m)	4,509	4,621	5,015	5,378	5,747
PPOP (RM m)	2,376	2,527	2,809	3,012	3,218
Core net profit (RM m)	962	1,503	1,768	1,893	2,033
Core EPS (sen)	29.2	45.5	53.6	57.4	61.6
Core P/E (x)	14.3	9.2	7.8	7.3	6.8
Gross DPS (sen)	-	5.0	16.1	20.1	21.6
Dividend yield (%)	-	1.2	3.9	4.8	5.2
BVPS (RM)	4.4	5.1	5.4	5.8	6.3
P/BV (x)	0.9	0.8	0.8	0.7	0.7
ROE (%)	5.8	9.6	10.2	10.3	10.2

RETURN STATISTICS	
Price @ 30 November 2022 (RM)	4.17
Expected share price return (%)	+24.4
Expected dividend yield (%)	+4.8
Expected total return (%)	**+29.2**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-0.7	-3.4
3 months	3.3	1.4
12 months	30.8	33.1

KEY STATISTICS	
FBM KLCI	1488.80
Syariah compliant	No
F4GBM Index	Yes
ESG Grading Band (Star rating)	☆☆☆
Issue shares (m)	3307.99
Estimated free float (%)	43.46
Market Capitalisation (RM m)	13,346.31
52-wk price range	RM3.05 - RM4.18
Beta vs FBM KLCI (x)	0.88
3-mth average daily volume (m)	4.51
3-mth average daily value (RM m)	18.03
Top Shareholders (%)	
ANZ Funds Pty Ltd	21.65
Clear Goal Sdn Bhd	11.81
Employees Provident Fund Board	10.10

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Above our and consensus expectations. AMMB's 1HFY23 core net profit of RM971m made up 60% and 61% of full-year forecasts respectively. The variance was due to AMMB maintaining NCC well below its initial target, as well as boasting better-than-expected NOII figures.

YTD earnings rose by +37%yoy due to stronger NOII and lower loan provisions offsetting higher OPEX and weaker NOII contributions.

Quarterly earnings of RM551m rose by +32%qoq as result of stronger NII and NOII.

Repayment assistance (RA) loans. As of Oct-22, AMMB has RM4.7b worth of RA loans, which translates to 4% of its gross loan portfolio. Previously, in of Jul-22, this figure was RM5.5b, translating to 5% of its previous gross loans. There were notable run-offs in the retail segment.

So far, retail RA loan repayment trends have remained fairly consistent to that of previous quarter, while SME RA loans have seen upticks in MIA 1 and MIA 2 numbers.

Asset quality. The Group's GIL ratio improved to 1.52% (2QFY23: 1.55%), due to several write-offs.

The Group's LLC currently stands at 97.1%, from last quarter's 99.7%.

Provisioning. The Group reported a healthy NCC of 25bps for the quarter, bringing up 1HFY23's average to 22bps. Management is still guiding for further forward-looking provisions in the coming quarters, which should bring NCC closer to its 35-40bps FY23 target.

NIM and NII. Quarterly NIM was stable, remaining at 2.12% from last quarter and averaging 2.17% in 1HFY23, up from 2.05% in 1HFY22. Sharp reductions in wholesale banking and general insurance NIMs offset the positive benefits of OPR increases.

Similarly, NII rose by +10%qoq and +19%yoy.

NOII. 2QFY23 NOII rose by +21%qoq due to superior trading and investment income. Note that 2QFY23 also incurred an additional estimated loss on disposal of RM54m.

Loan growth. Gross loans expanded at a steady pace of +8%yoy. Wholesale banking acted as main driver to loan growth, growing by +6%yoy.

Deposit growth. Group deposit growth was flattish on a sequential quarter basis and ticked upward by a meagre +4%yoy. CASA growth showed a +1%qoq improvement. Loan/Deposit ratio currently stands at a high 102%.

Cost efficiency. Quarterly OPEX crawled up +3%qoq and +10%yoy, largely driven by higher staff costs and bonus accrual reversal in FY22.

Quarterly CIR improved to 41.0% on the back of much stronger income within the quarter. (1QFY23: 44.4%)

Capital ratios. The Group's CET-1 ratio has fallen to 12.2% in the quarter.

Dividend announced. AMMB announced a dividend of 6.0 sen, which translated to a dividend payout of 23%. This was lower than expected, so we adjust our dividend projections accordingly – it seems that the Group may need to take some time in building up towards achieve its regular dividend payout target of 35-40%.

Earnings revised. We increase FY23/24/25 earnings forecasts by +10%/+8%/+6% to factor low credit costs and CIR ratio, as the Group seems to be performing better than expected on these fronts.

Key risks. Key risks to earnings include (1) Higher-than-expected OPEX, (2) Significant credit costs in the coming quarters, (3) Slower-than-expected corporate loan pick-up.

Valuation and recommendation. We are optimistic on AMMB's long-term prospects for its resumption of normalised dividend payouts and opportunities stemming from its collaboration with Liberty Insurance. AMMB seems well on track in achieving its 10.0% ROE target via much stronger than expected income contributions. However, do watch for potential funding issues in coming quarters, given the Group's elevated L/D ratio and unremarkable CET-1 ratio.

Thus, we maintain our **BUY** with a higher **TP of RM5.12**, as we peg its FY24 BVPS to an increased P/BV of 0.90x (formerly 0.80x) to account for higher FY24 ROE projections. (GGM assumptions: FY24 ROE of 10.3%, LTG of 3.5% and COE of 11.0%.)

EXHIBIT 1: QUARTERLY RESULTS

FYE Mar (RM m)	2QFY23	1QFY23	2QFY22	Yoy (%)	Qoq (%)	1HFY23	1HFY22	Yoy (%)
Net interest income	600	566	532	13%	6%	1,166	1,069	9%
Islamic banking income	364	283	236	54%	29%	646	517	25%
Other operating income	199	196	219	-9%	1%	396	446	-11%
Total income	**1,163**	**1,046**	**987**	**18%**	**11%**	**2,208**	**2,032**	**9%**
OPEX	(476)	(465)	(434)	10%	3%	(941)	(854)	10%
PPOP	**686**	**581**	**554**	**24%**	**18%**	**1,267**	**1,177**	**8%**
Loan allowances	(74)	(60)	(117)	-37%	23%	(134)	(306)	-56%
Other allowances	(14)	(6)	(56)	n.m.	n.m.	(20)	(70)	n.m.
JV & Associates	12	3	6	114%	316%	15	32	-54%
Profit before tax	**611**	**518**	**387**	**58%**	**18%**	**1,128**	**833**	**35%**
Tax & zakat	(141)	(114)	(87)	63%	24%	(255)	(188)	36%
Discontinued operations	(107)	30	39	-379%	-458%	(77)	115	-167%
NCI	74	(15)	(17)	-534%	-600%	59	(53)	-212%
Reported net profit	**435**	**419**	**321**	**36%**	**4%**	**855**	**708**	**21%**
Core net profit	**551**	**419**	**321**	**72%**	**32%**	**971**	**708**	**37%**
Total NII	**913**	**831**	**769**	**19%**	**10%**	**1,744**	**1,555**	**12%**
Total NOII	**262**	**217**	**224**	**17%**	**21%**	**479**	**508**	**-6%**
Gross DPS (sen)	**6.0**	**-**	**-**	**n.m.**	**n.m.**	**6.0**	**-**	**n.m.**
Core EPS (sen)	**16.7**	**12.7**	**9.7**	**72%**	**32%**	**29.3**	**21.4**	**37%**
Gross loans	124,351	120,126	115,553	8%	4%			
Gross impaired loans	1,892	1,864	1,668	13%	2%			
Customer deposits	120,995	121,393	115,871	4%	0%			
CASA	39,825	39,554	35,605	12%	1%			

Source: AMMB, MIDFR

EXHIBIT 2: QUARTERLY FINANCIAL RATIOS

Financial Ratios (%)	2QFY23	1QFY23	2QFY22	Yoy (+/- ppts)	Qoq (+/- ppts)	1HFY23	1HFY22	Yoy (+/- ppts)
NIM (Reported)	**2.12**	**2.12**	**2.03**	**0.09**	**0.00**	**2.17**	**2.05**	**0.12**
NOII/Net income	22.3	20.7	22.6	-0.3	1.6	21.5	24.6	-3.1
ROE (Ann.)	**12.8**	**9.9**	**8.0**	**4.8**	**2.9**	**11.2**	**8.8**	**2.5**
Cost-to-income ratio	41.0	44.4	43.9	-2.9	-3.5	42.6	42.1	0.6
Net credit costs (Ann.) (bps)	25	20	41	-17	4	22	54	-32
GIL ratio	1.52	1.55	1.44	0.08	-0.03			
Loan loss coverage	97.1	99.7	150.5	-53.3	-2.6			
L/D ratio	101.3	97.4	97.6	3.7	3.8			
CET1	12.2	12.4	12.7	-0.5	-0.2			
Tier-1	12.2	12.4	12.7	-0.5	-0.2			
Total Capital	15.6	15.6	15.6	0.0	0.0			

Source: AMMB, MIDFR

INVESTMENT STATISTICS

INCOME STATEMENT

FYE Mar (RM m)	FY21	FY22	FY23F	FY24F	FY25F
Interest income	4,156	4,067	4,873	5,629	6,326
Interest expense	(2,064)	(1,770)	(2,200)	(2,750)	(3,218)
Net interest income	**2,092**	**2,296**	**2,673**	**2,879**	**3,108**
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**	**5,015**	**5,378**	**5,747**
OPEX	(2,132)	(2,094)	(2,207)	(2,366)	(2,528)
PPOP	**2,376**	**2,527**	**2,809**	**3,012**	**3,218**
Loan allowances	(913)	(314)	(372)	(396)	(417)
Other allowances	(4,990)	(452)	(104)	(119)	(118)
JV & Associates	44	44	84	90	97
Pretax profit	**(3,483)**	**1,805**	**2,416**	**2,588**	**2,779**
Taxation and zakat	(229)	(210)	(556)	(595)	(639)
NCI	(114)	(92)	(93)	(100)	(107)
Reported net profit	**(3,826)**	**1,503**	**1,768**	**1,893**	**2,033**
Core net profit	**962**	**1,503**	**1,768**	**1,893**	**2,033**
Total NII	2,935	3,275	3,708	3,955	4,216
Total NOII	1,617	1,390	1,307	1,423	1,530

BALANCE SHEET

FYE Mar (RM m)	FY21	FY22	FY23F	FY24F	FY25F
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	125,779	133,620	140,485
Other IEAs	-	-	-	-	-
Non-IEAs	7,258	7,260	7,327	10,753	11,042
Total assets	**170,178**	**174,859**	**186,308**	**201,401**	**212,584**
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	19,436	27,202	31,007
Total liabilities	**154,588**	**156,900**	**167,246**	**180,975**	**190,464**
Share capital	5,952	6,776	6,776	6,776	6,776
Reserves & retained profit	8,689	9,984	11,064	12,319	13,896
Shareholders' funds	**14,641**	**16,760**	**17,840**	**19,095**	**20,672**
NCI	950	1,199	1,302	1,412	1,529
Total equity	**15,590**	**17,959**	**19,142**	**20,507**	**22,201**
Total liabilities & equity	**170,178**	**174,859**	**186,389**	**201,482**	**212,664**
Total IEAs	162,921	167,599	178,981	190,649	201,541
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	3.05	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	10.2	10.3	10.2
ROA	0.6	0.9	1.0	1.0	1.0
NOII/Total income	35.9	30.1	26.1	26.5	26.6
Effective tax rate	(6.6)	11.6	23.0	23.0	23.0
Liquidity & Efficiency (%)					
Cost-to-income ratio	47.3	45.3	44.0	44.0	44.0
Loan/Deposit ratio	91.8	96.3	97.9	99.7	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	50	50	50
Net credit cost (bps)	83	27	30	30	30
% 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	13.2	6.7	6.6
Total NOII	11.3	(14.0)	(6.0)	8.9	7.5
Core net profit	(28.2)	56.2	17.6	7.1	7.4
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	53.6	57.4	61.6
Gross DPS (sen)	-	5.0	16.1	20.1	21.6
Div payout ratio (%)	-	11.0	30.0	35.0	35.0
BVPS (RM)	4.4	5.1	5.4	5.8	6.3
Core P/E (x)	14.3	9.2	7.8	7.3	6.8
Dividend yield (%)	-	1.2	3.9	4.8	5.2
P/BV (x)	0.9	0.8	0.8	0.7	0.7

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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