AMMB Holdings Berhad

(1015 | AMM MK) Financial Services | Finance

Maintain BUY

Topline continues to improve

***Revised* Target Price: RM5.24**

(Previously RM5.12)

KEY INVESTMENT HIGHLIGHTS

- **9MFY23's CNP of RM1.3b was within our forecast**
- **AMMB continues promising topline recovery – FY23 ROE target well in sight**
- **We are less concerned about potential asset quality issues, given AMMB's heavily collateralised arrears and BNM's pause on OPR hikes**
- **Maintain BUY | TP of RM5.24 | based on Revised FY24F P/BV of 0.92x**

Highlights from AMMB's 3QFY23 quarterly results:

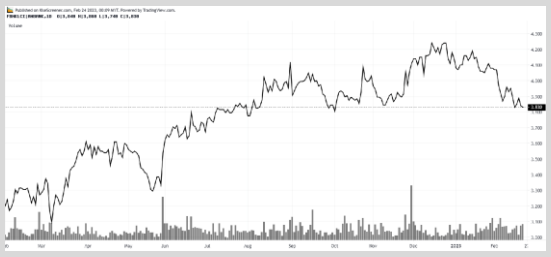
- **9MFY23 CNP:** Rose +72%yoy. Significantly lower provisioning charges – also note Cukai Makmur base effects.
- **3QFY23 CNP:** Fell -4%qoq. Due to higher loan provisions offsetting higher topline.
- **3QFY23 NIM:** Improved +1bps qoq. Expect NIM contractions, provided no further OPR hikes.
- **3QFY23 NOII:** Improved +15%qoq. Due to recovery in both fee and non-fee income.
- **9MFY23's OPEX**: up by +11%yoy, CIR now at 42.1%. Driven by personnel costs – expect FY23 CIR to close off at similar level.
- **Promising loan growth:** Gross loans grew by +5.9%yoy, +1.6%qoq, in line with FY23 target of 6-7%.
- **Muted deposit growth:** Deposits contracted by -0.3%yoy. CASA ratio stands at 32.2% level.
- **GIL ratio worsens:** Up +9bps qoq, largely driven by residential mortgages. Expect it to keep worsening.
- **Heavy NCC:** 3QFY23 NCC of 66bps, with 9MFY23 averaging 37bps. FY23 mgmt guidance remains at 35-40bps.

Our thoughts. We favour AMMB for its good OPEX control, push to more diversified funding and promising recovery in NOII. Its gross loans are now keeping pace with the rest of the industry, following lacklustre results a few quarters back – the central issue is maintaining its steady stream of liquidity.

While sector-wide tailwinds are diminishing, AMMB demonstrated a steady uplift in topline, good OPEX management and the resumption of dividends. We are less concerned on impairments, given that the majority are heavily collateralised. We believe that AMMB is heavily under-priced given its ROE generating potential – nonetheless, keep in mind that the stock hasn't fared well in recent years, as well as the market's asset quality and NIM concerns offering notable downward pressure.

RETURN STATISTICS	
Price @ 24 February 2023 (RM)	3.83
Expected share price return (%)	+36.9
Expected dividend yield (%)	+4.6
Expected total return (%)	**+41.5**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-7.2	-5.8
3 months	-7.0	-5.1
12 months	13.2	23.0

KEY STATISTICS	
FBM KLCI	1,457.65
Syariah compliant	No
F4GBM Index	Yes
ESG Grading Band (Star rating)	☆☆☆
Issue shares (m)	3,307.99
Estimated free float (%)	44.15
Market Capitalisation (RM m)	12,741.28
52-wk price range	RM3.14 - RM4.25
Beta vs FBM KLCI (x)	0.72
3-mth average daily volume (m)	4.39
3-mth average daily value (RM m)	17.93
Top Shareholders (%)	
ANZ Funds Pty Ltd	21.66
Clear Goal Sdn Bhd	11.82
Employees Provident Fund Board	9.38

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9MFY23's CNP of RM1.3b was Within/Above our/consensus forecasts: 75%/81% of full-year forecasts respectively.

9MFY23's CNP rose by +72%yoy due to topline improvements and a sharp reduction in provisions. Do note base effects: In 3QFY22, AMMB incurred nine months' worth of Cukai Makmur and had heavy O&G related provisions.

3QFY23's CNP of RM453m fell by -4%qoq due to higher provisions offsetting improvements in NOII.

Guidance. Management is guiding for a further ~RM400m CNP in 4QFY23, with the 10% ROE goal likely to be achieved.

NIM. 3QFY23's NIM of 2.13% rose by +1bps qoq, with OPR-led increases in loan yields offsetting high year-end deposit competition (and a slight reduction in the unwinding of mod losses). 9MFY23's NIM averaged 2.16%, up +10bps yoy.

Deposit competition. Management believes attributes prolonged and intense deposit competition to several reasons: (1) PIDM closure, (2) OPR hike rumours, (3) SRR policy reversal (Multiple banks should have normalised BNM deposit balances in 4QCY22) – this costs the bank roughly RM5-6m per month.

Guidance. NIM is expected to have peaked: provided there are no further rate hikes in 1QCY23, management expects NIMs to begin contracting. FY24F margin outlook will be clearer in end-March.

NOII. 3QFY23's NOII rose +15%qoq – with stronger recovery on both fee-income and non-fee income end.

Operating expenses. 3QFY23's CIR stood at 41.1%, flattish on a sequential-quarter basis. OPEX rose +4%qoq, driven largely by personnel costs (higher bonuses, wage inflation, more hiring).

9MFY23's OPEX leaped by +12%yoy, driven largely by personnel costs. Note, however, base effects from a bonus accrual reversal last year.

Guidance. JAWs should be flattish to the previous year – FY23 is expected to close off close to the current ~42% level.

Loans. Gross loans rose by +5.9%yoy, +1.6%qoq, boasting a sequential-quarter growth rate more in line with the industry average, following a lacklustre 1QFY23. Growth was spread throughout all segments, following much more subdued corporate activity in prior quarters.

Guidance. Management's 6-7% loan growth guidance for FY23 remains.

Deposits. Deposits contracted by -0.3%yoy, with strong FD growth offset by CASA reduction. Two positive notes: (1) Adequate liquidity in the quarter: +2.8%qoq deposit growth, which still outstrips loan growth, (2) Growth in retail deposits, in line with management's goal of funding diversification (note that retail deposits are much more rate-sensitive, implying they were more expensive to acquire).

CASA rose +6.9%yoy, +0.4%qoq. Management had done a good job at maintaining CASA balances, with the CASA ratio standing at a decent 32.2%, falling slightly from previous quarter's 32.9%

Loan/Deposit ratio stands at 100%, falling from previous quarter's 101%.

Asset quality. Current GIL ratio stands at 1.62%, worsening +9bps qoq. It still hasn't reached >1.7% pre-pandemic range. Residential mortgages and business banking loans (mostly small business owners) from RA programmes were core culprits.

Repayment assistance (RA) loans. As of Jan-23, RA loans were valued at RM4.1b (3% of gross loans). (Oct-22, RM4.7b [4% of gross loans]).

For retail RA loans, 7% had ≥ 3-month non-repayment status. (The majority are residential mortgages and are thus heavily collateralised).

For SME RA loans, 7% hit the ≥ 3-month mark – most of which are small business owners (with shophouses as collateral), and CGC or SJPP guaranteed.

LLC. Current LLC has fallen to 95% -- however, mgmt attributes this to mortgage and other heavily collaterised impairments forming a higher percentage of NPLs (which implies less need for provisioning).

Guidance. Management believes the GIL ratio will rise further.

With most borrowers exiting PEMULIH programmes and entering 18-month R&R programmes in Jan-March CY22, management believes that GIL ratio should be peaking at the end phase of the 18-month R&R period (September CY24). R&R programmes often make borrowers pay 50% regular loan interest in first 6 months, 75% in the subsequent 6, before graduating to 100% in the final 6.

The increase in payment tiers (coupled with possible BNM OPR hikes) are associated with step-ups in GIL ratios.

Provisioning. 3QFY23's NCC stood at a high 66bps (mgmt previously guided for heavy provisions). Of the net impairment charge of RM149m in the Qtr, RM103m were driven by forward-looking provisions.

9MFY23's NCC averaged 37bps, still far from 9MFY22's 64bps (recall heavy O&G related provisions).

Cumulative overlays. The balance remained stable at RM420m.

Guidance. Management maintains its guidance of 35-40bps for FY23.

Capital ratios. Current CET-1 ratio is a healthy 12.3%, with gradual improvements every quarter in preparation for an eventual FIRB regime.

No dividend announced. The Group typically divvies in 2Q and 4Q.

Key downside risks. (1) Weak recovery in fee income (2) Asset quality deterioration (3) OPEX spikes.

Earnings revised: FY24F/FY25F CNP raised by +2%/+4%. We lower our CIR and NIM forecasts (offset by increasing NCC). Note that we have also made heavy model alterations, hence changes to NIM projections.

Maintain BUY call: Revised GGM-TP of RM5.24 ***(from RM5.12).*** The TP is based on FY24F P/BV of 0.92x (formerly 0.90x) to reflect improved earnings prospects and ROE-based valuations.

*(**GGM assumptions:** FY24F ROE of 10.6%, LTG of 3.5% and COE of 11.2%.)*

Exhibit 1: Quarterly results

FYE Mar (RM m)	3Q FY23	2Q FY23	3Q FY22	Yoy (%)	Qoq (%)	9M FY23	9M FY22	Yoy (%)
Net interest inc.	592	600	568	*4*	*-1*	1,759	1,637	*7*
Islamic banking inc.	339	364	267	*27*	*-7*	985	784	*26*
Non-interest inc.	280	199	223	*25*	*40*	676	669	*1*
Net income	**1,211**	**1,163**	**1,059**	***14***	***4***	**3,420**	**3,091**	***11***
OPEX	(497)	(476)	(446)	*12*	*4*	(1,438)	(1,300)	*11*
PPOP	**714**	**686**	**613**	***16***	***4***	**(1,438)**	**(1,300)**	***11***
Loan provisions	(204)	(74)	(252)	*-19*	*176*	(337)	(558)	*-40*
Other provisions	54	(14)	(86)	*n.m.*	*n.m.*	35	(156)	*n.m.*
JV & Associates	20	12	3	*543*	*69*	35	35	*-0*
PBT	**585**	**611**	**278**	***110***	***-4***	**1,713**	**1,111**	***54***
Tax	(132)	(141)	107	*-224*	*-7*	(387)	(81)	*377*
Discontinued ops	-	(107)	32	*n.m.*	*n.m.*	(77)	147	*n.m.*
NCI	-	74	(13)	*n.m.*	*n.m.*	59	(66)	*n.m.*
Reported NP	**453**	**435**	**403**	***12***	***4***	**1,307**	**1,111**	***18***
Core NP	**453**	**469**	**128**	***254***	***-4***	**1,326**	**773**	***72***
Total NII*	930	913	815	*14*	*2*	2,674	2,370	*13*
Total NOII*	301	262	248	*21*	*15*	780	756	*3*
Gross DPS (sen)	**-**	**6.0**	**-**	***n.m.***	***n.m.***	**6.0**	**-**	***n.m.***
Core EPS (sen)	13.7	14.2	3.9	*252*	*-3*	40.1	23.4	*71*
Gross loans	126,338	124,351	119,307	*5.9*	*1.6*			
Gross impaired loans	2,041	1,892	1,608	*26.9*	*7.8*			
Customer deposits	124,337	120,995	124,710	*-0.3*	*2.8*			
CASA	39,982	39,825	37,410	*6.9*	*0.4*			

**Contains contributions from JV & Associates*

Source: AMMB, MIDFR

Exhibit 2: Quarterly financial ratios

Ratios (%)	3Q FY23	2Q FY23	3Q FY22	Yoy (ppts)	QoQ (ppts)	9M FY23	9M FY22	Yoy (ppts)
ROE (Ann.)	**10.3**	**10.9**	**3.1**	***7.2***	***-0.6***	**10.0**	**6.3**	***3.8***
NIM (Reported)	**2.13**	**2.12**	**2.09**	***0.04***	***0.01***	**2.16**	**2.06**	***0.10***
NOII/Net income	24.5	22.3	23.3	*1.1*	*2.2*	22.6	24.2	*-1.6*
Cost/Income	41.1	41.0	42.1	*-1.0*	*0.1*	42.1	42.1	*-0.0*
NCC (Ann.) (bps)	66	25	87	*-21*	*42*	37	64	*-28*
GIL ratio	1.62	1.52	1.35	*0.27*	*0.09*			
Loan loss coverage	95	97	153	*-58*	*-2*			
CASA ratio	32.2	32.9	30.0	*2.2*	*-0.8*			
L/D ratio	100.0	101.3	93.7	*6.4*	*-1.2*			
CET-1	12.3	12.2	13.0	*-0.8*	*0.1*			

Source: AMMB, MIDFR

INVESTMENT STATISTICS

INCOME STATEMENT

FYE Mar (RM m)	FY21	FY22	FY23F	FY24F	FY25F
Interest income	4,156	4,067	4,533	5,240	5,858
Interest expense	(2,064)	(1,770)	(2,200)	(2,750)	(3,218)
Net interest income	**2,092**	**2,296**	**2,333**	**2,490**	**2,641**
Islamic banking inc.	930	1,062	1,478	1,577	1,673
Other operating inc.	1,487	1,263	959	1,049	1,130
Net income	**4,509**	**4,621**	**4,770**	**5,116**	**5,444**
OPEX	(2,132)	(2,094)	(2,003)	(2,149)	(2,286)
PPOP	**2,376**	**2,527**	**2,767**	**2,967**	**3,157**
Loan allowances	(913)	(314)	(496)	(462)	(417)
Other allowances	(4,990)	(452)	(104)	(113)	(119)
JV & Associates	44	44	55	104	126
PBT	**(3,483)**	**1,805**	**2,221**	**2,497**	**2,747**
Tax & zakat	(229)	(210)	(511)	(574)	(632)
NCI	(114)	(92)	60	-	-
Reported NP	**(3,826)**	**1,503**	**1,770**	**1,923**	**2,115**
Core NP	**962**	**1,503**	**1,770**	**1,923**	**2,115**
Total NII	2,935	3,275	3,590	3,830	4,062
Total NOII	1,574	1,346	1,180	1,286	1,381

BALANCE SHEET

FYE Mar (RM m)	FY21	FY22	FY23F	FY24F	FY25F
Cash & 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	126,026	133,820	140,592
Other IEAs	-	-	-	-	-
Non-IEAs	7,258	7,260	8,940	9,079	9,303
Total assets	**170,178**	**174,859**	**188,167**	**199,927**	**210,951**
Cust. & FI deposits	130,559	132,865	133,931	138,822	144,170
Other IBLs	7,094	7,858	9,192	10,061	10,186
Non-IBLs	16,935	16,177	26,346	30,884	33,185
Total liabilities	**154,588**	**156,900**	**169,469**	**179,767**	**187,541**
Share capital	5,952	6,776	6,776	6,776	6,776
Reserves	8,689	9,984	10,666	12,029	13,759
Shareholders' funds	**14,641**	**16,760**	**17,443**	**18,805**	**20,535**
NCI	950	1,199	1,256	1,354	2,875
Total equity	**15,590**	**17,959**	**18,698**	**20,159**	**23,410**
Total L&E	**170,178**	**174,859**	**188,167**	**199,927**	**210,951**
Total IEAs	162,921	167,599	179,227	190,848	201,648
Total IBLs	137,653	140,723	143,123	148,883	154,356
Gross loans	112,692	119,993	128,033	135,715	142,501
CASA	35,758	43,107	39,622	38,747	37,730

FINANCIAL RATIOS

FYE Mar (RM m)	FY21	FY22	FY23F	FY24F	FY25F
Interest (%)					
NIM	1.82	1.98	2.07	2.07	2.07
Return on IEAs	2.58	2.46	2.61	2.83	2.99
Cost of funds	1.51	1.27	1.55	1.88	2.12
Net interest spread	1.08	1.19	1.06	0.95	0.86
Profitability (%)					
ROE	**5.8**	**9.6**	**10.4**	**10.6**	**10.8**
ROA	0.6	0.9	1.0	1.0	1.0
NOII/Net income	34.9	29.1	24.7	25.1	25.4
Effective tax rate	(6.6)	11.6	23.0	23.0	23.0
Cost/Income ratio	47.3	45.3	42.0	42.0	42.0
Liquidity (%)					
Loan/Deposit ratio	91.8	96.3	101.8	103.6	104.3
CASA ratio	29.7	35.2	32.0	30.0	28.0
Asset Quality (%)					
GIL ratio	1.57	1.40	1.65	1.47	1.41
LLC ratio	117	115	95	95	95
LLC (w. reserves)	117	121	100	101	101
Net CC (bps)	83	27	40	35	30
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	6	12	10	7	6
Total NOII	8	(14)	(12)	9	7
Net income	7	2	3	7	6
Core NP	(28)	56	18	9	10
Gross loans	5	6	7	6	5
Cust. & FI deposits	6	2	1	4	4
CASA	24	21	(8)	(2)	(3)
Valuation metrics					
Core EPS (sen)	29.2	45.5	53.7	58.3	64.1
Gross DPS (sen)	-	5.0	16.1	17.5	19.2
Div payout ratio (%)	-	11	30	30	30
BVPS (RM)	4.4	5.1	5.3	5.7	6.2
Core P/E (x)	13.1	8.4	7.1	6.6	6.0
Dividend yield (%)	**0.0**	**1.3**	**4.2**	**4.6**	**5.0**
P/BV (x)	0.9	0.8	0.7	0.7	0.6

Source: AMMB, MIDFR

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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