

PP14767/09/2012(030761)

Thursday, August 20, 2015

AMMB Holdings Berhad

“Not Hitting it Right”

Results Review

- Actual vs. expectations.** AMMB Holdings Berhad (AMMB) 3M16 net profits to equity holders of RM340 million (-37%y-o-y) came in line with ours and consensus forecast respectively, accounting 22% and 22.6% of both estimates full year net profit forecast. Stripping out one-off divestment gains amounting to RM208 million from AmLife and AmFamily Takaful in 3M15, earnings for equity holder in 3M16 grew marginally by 2.2% y-o-y. The lower earnings were derailed by lower net interest income (-16% y-o-y) as well as lower other income (-91% excluding one off gain in 3M15) .
- Dividend.** No dividend declared in this quarter.
- Topline vs. Bottom line.** AMMB net income of RM479 million (-34% y-o-y, -22.3% y-o-y excluding one-off gain) was impacted by lower net interest income that tanked by 16% y-o-y. Net interest income was hit by persistent compression in net interest margin (NIM) especially in deposit pricing that pushed interest on deposits higher by 3.3% y-o-y in addition to rebalancing loans portfolio efforts. Similarly, pre-provision income dropped by 30.5% y-o-y (excluding one-off gain) in view of subdued capital market that led to slower non-interest income by 10% y-o-y.
- Loans growth subdued.** Weak consumer and business spending has impacted AMMB loans growth in 1Q15. Additionally, rebalancing efforts have shaven AMMB loans growth to -2.5% y-o-y with reduction in hire purchase (-2.7% y-o-y) and credit card (-4.8% y-o-y), reflecting AMMB rebalancing effort to reduce exposure in high risk segments. Management expects its FY16 loans growth to come in at 4-5%. YTD loans growth has reached -0.6%.

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BUY (TP: RM6.15)

Current Price (RM)	RM4.94
New Fair Value (RM)	RM6.15
Previous Fair Value (RM)	RM7.00
Previous Recommend.	HOLD
Upside To Fair Value	19.6%
Dividend Yield (FY16)	4.5%

Stock Code	
Bloomberg	AMM MK

Stock & Market Data		
Listing	MAIN MARKET	
Sector	Banking	
Shariah Compliance	No	
Issued Shares (mn)	3,014.2	
Market Cap (RM mn)	19,079.8	
YTD Chg In Share Price	-25.15%	
Beta (x)	0.97	
52-week Hi/Lo (RM)	RM7.22	RM4.86
3M Average Volume (shrs)	3.65 mil	
Estimated Free Float	47.8%	

Major Shareholders		
ANZ Bank	23.8%	
EPF	16.3%	
Amcorp Group	12.9%	

- **NIM compression severe than expected.** Net interest margin (NIM) compressed further by 21bps q-o-q to 2.12%. Excluding one-off item, NIM compressed by only 7bps, derailed by stiff price-based competition for loans and deposits in the market.
- **Costs under control.** Management's priority in improving efficiencies is gaining traction. Expenses fell further by RM86.2 million y-o-y (excluding restructuring expenses) to RM487 million. Though cost to income (CIT) rising to 50.6%, it was only pressurized due to slower income growth.
- **Liquidity position a concern.** The competition in securing deposits heating up with AMMB core deposit fell 2.9% q-o-q. However, CASA composition improved to 21% vs. 20% in FY15. We were bothered by AMMB loan to deposits (LDR) position that weakened to 95% at the expense of NIM compression.
- **Asset quality shown improvement.** Gross impaired loan (GIL) unexpectedly weakened marginally by 1bps to 1.80%. However, excluding large well-collateralized impaired corporate loan, GIL would touched 1.42%. The credit environment continued to be very benign and earnings were aided by negative credit charge of 4bps in 1Q16, due to ongoing recoveries and the underwriting of better credit quality.
- **Promising non-interest income.** Management expects ~40% of FY16 total income to be derived from non-interest income. This segment is expected to be fuelled by strategic alliance with MetLife Inc to grow its general insurance business.
- **Change to our forecast.** No change to our forecast as 3M16 results are within our expectation. Nevertheless, we estimate that FY16 and FY17 earnings to grow by 0.7% and 14.3% assisted by i) integration benefit of Kurnia and MBF cards ii) cementing its position in insurance market after inking an agreement with MetLife.

Outlook. We expect AMMB outlook will not exciting in near term given its rebalancing loans efforts. As for NIM, we expect that it will continue to compress in slow pace given stiff price-based competition for loans and deposits in the market that will likely influence NIM. For NOI, we expect AMMB's current focus on transaction banking and forex will be fruit full as the group has recently appointed a new head. Lastly, we will see AMMB cost efficiency effort will continue.

- **Valuation & recommendation.** We have cut our TP on AMMB to RM6.15 from RM7.00 as the former is more reflective of AMMB challenges ahead. Our TP of RM6.15 is premised on 5-year average P/BV of 1.6x, and offer potential upside of 19%. Re-rating catalysts for the stock include i) 1) stronger performance in insurance sector 2) successfully balancing its loans book between household and business 3) larger foothold in SME segment baking driven by ANZ affiliation iv) further M&A activity in the future. Given that the share price has tanked quite considerably off late, the stock is still a BUY.

Results Review - AMMB Holdings Berhad

Table 1: Peers Comparison

Company	Year Ended	Price (RM)	EPS (RM)		P/E (x)		P/B (X)		ROE (%)	Div Yield (%)	TP (RM)	Call
			FY15	FY16	FY15	FY16	FY15	FY16				
AFG	March	3.69	0.4	0.4	12.7	12.0	1.7	1.6	14.3	1.9	4.70	Buy
AMMB	March	4.94	0.6	0.6	11.0	11.0	1.4	1.3	14.1	4.5	6.15	Buy
BIMB	Dec	4.02	0.3	0.4	11.7	11.3	1.8	2.0	16.0	5.8	4.84	Buy
CIMB	Dec	5.00	0.5	0.6	12.1	10.4	1.3	1.5	9.2	3.5	6.10	Buy
Maybank	Dec	8.46	0.7	0.8	12.6	11.9	1.5	1.5	13.6	6.2	10.70	Buy
RHB Cap	Dec	6.53	0.8	0.9	9.7	9.1	1.1	1.1	11.5	1.3	8.35	Buy
Public Bank	Dec	17.94	1.2	1.3	15.3	14.2	2.6	2.8	18.7	2.9	21.70	Buy
Affin	Dec	2.25	0.3	0.3	9.0	8.5	0.7	0.7	7.8	5.1	NR	NR
MBSB	Dec	1.40	0.2	0.3	9.1	8.4	1.2	1.1	29.6	2.3	NR	NR
STMB	Dec	3.91	NA	NA	NA	NA	NA	NA	24.3	6.6	NR	NR
HL Bank	June	12.78	1.2	1.3	12.0	11.2	1.6	1.5	14.7	2.9	NR	NR
Average			0.6	0.7	11.5	10.8	1.5	1.5	15.8	3.9		

Source: Bloomberg, M&A Securities

Table 2: Results Analysis

YE: March (RM million)	1Q16	4Q15	1Q15	q-o-q	y-o-y	3M16	3M15	y-o-y
Revenue	2,109	2,215	2,583	-18%	-5%	2,109	2,583	-18%
Net interest income	1,016	1,069	1,082	-6%	-5%	1,016	1,082	-6%
Islamic banking income	(593)	(598)	(576)	3%	-1%	(593)	(576)	3%
Net fee and commission income	424	471	505	-16%	-10%	424	505	-16%
Other income	207	225	208	-1%	-8%	207	208	-1%
Net income	380	336	420	-10%	13%	380	420	-10%
Operating expenses	(270)	(246)	(305)	-11%	10%	(270)	(305)	-11%
Pre-provision income	109	90	115	-5%	21%	109	115	-5%
Allowance loan loss	224	336	636	-65%	-34%	224	636	-65%
Impairment	964	1,123	1,465	-34%	-14%	964	1,465	-34%
Writeback	(484)	(544)	(554)	-13%	-11%	(484)	(554)	-13%
Profit Equalization	479	578	911	-47%	-17%	479	911	-47%
Operating profit	(11)	59	(81)	-87%	-118%	(11)	(81)	-87%
Associate	(0)	29	(33)	-100%	-100%	(0)	(33)	-100%
Acquisition cost	18	16	2	842%	15%	18	2	842%
PBT	(1)	(15)	(1)	68%	-91%	(1)	(1)	68%
Taxation	485	667	798	-39%	-27%	485	798	-39%
PAT	0	(11)	1	-76%	-102%	0	1	-76%
MI	(3)	12	(73)	-96%	-126%	(3)	(73)	-96%
PATAMI	482	668	726	-34%	-28%	482	726	-34%
Margin								
NII margin	44%	42%	34%			44%	34%	
NOII margin	49%	27%	18%			49%	18%	
PPOP margin	50%	52%	62%			50%	62%	
PBT margin	50%	60%	28%			23%	28%	
PAT margin	35%	46%	37%			35%	37%	
EPS (sen)	11.3	17.2	17.8			11.1	17.8	

Source: Bursa Malaysia, M&A Securities

Table 3: Financial Forecast

YE: March (RM million)	FY13	FY14	FY15	FY16F	FY17F
Gross Interest income	4,523	4,677	4,327	4,526	4,671
Interest expense	(2,305)	(2,405)	(2,346)	(2,274)	(2,418)
Net interest income	2,218	2,272	1,981	2,252	2,253
Islamic banking income	884	940	865	895	926
Fee and commission income	1,480	2,057	1,496	3,036	3,735
Fee and commission expense	(1,230)	(1,585)	(1,078)	(2,321)	(2,998)
Other income	1,003	1,026	1,458	1,134	1,158
Net income	4,356	4,710	4,721	4,996	5,074
Operating expenses	(2,042)	(2,122)	(2,089)	(2,437)	(2,608)
Pre-provision income	2,314	2,588	2,632	2,559	2,466
Allowance loan loss	(173)	(68)	31	(241)	(114)
Impairment writeback	(12)	(84)	23	(24)	(29)
Profit Equalization	52	31	19	34	28
Operating profit	(9)	(11)	(35)	(19)	(22)
Associate	2,171	2,456	2,670	2,309	2,331
Acquisition cost	13	21	3	12	8
PBT	(45)	(29)	(68)	0	0
Taxation	2,139	2,448	2,604	2,322	2,338
PAT	(475)	(577)	(560)	(546)	(550)
Minority Interest	1,663	1,871	2,045	1,776	1,789
PATAMI	(43)	(89)	(126)	(109)	(110)
	1,621	1,782	1,919	1,667	1,679
EPS (sen)					
Dividend - sen	54.0	59.3	63.7	55.3	55.7
Dividend payment (RMm)	22	24.1	27.1	22.1	22.3
Dividend payout (%)	663	726	818	667	672
Retained Earnings	40%	39%	40%	40%	40%
PER (x)	1,000	1,145	1,227	1,109	1,117
Price	32.64	26.39	9.99	11.50	11.42
Gross Yield	7.18	6.36	6.36	6.36	6.36
BV	3%	4%	4%	3.5%	3.5%
P/BV	3.04	2.89	3.24	3.68	4.03
	2.4	2.2	2.0	1.7	1.6

Source: Bursa Malaysia, M&A Securities

Table 5: Financial Ratio

Y/E: Dec (RM'mil)	FY13	FY14	FY15	1Q16
Asset Quality				
Gross Impairment	1.98%	1.86%	1.79%	1.8%
Allowance Coverage	129.3%	127.4%	104.9%	103.2%
Profitability				
ROA	1.37%	1.45%	1.60%	1.13%
ROE	13.9%	14.1%	15.1%	9.3%
Cost to Income	47.8%	45.5%	47.4%	50.6%
Lending and Deposits				
Loan Growth	11.37%	5.34%	-1.6%	-2.3%
Deposits Growth	2.73%	2.45%	4.5%	-3.0%
Loan to Deposits	97.3%	97.2%	85.4%	95%
Margin				
Net Interest Margin	2.72%	2.68%	2.33%	2.12%
Capital Strength				
CET1	8.7%	9.4%	9.6%	11.1%
Tier1	8.8	9.5%	11.6%	12.4%
RWCR	14.5%	15.7%	15.2%	16.4%

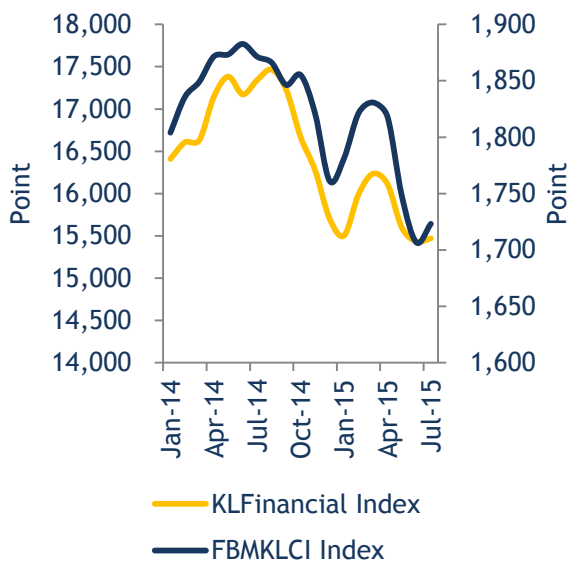
Source: Bursa Malaysia, M&A Securities

Table 6: AMMB KPI

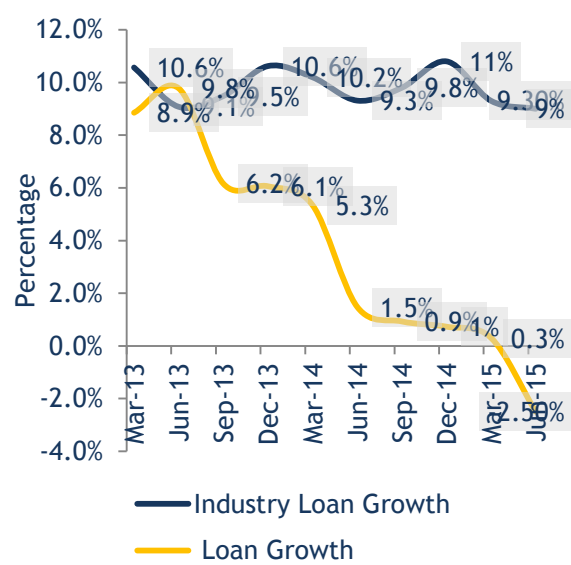
Y/E: Dec (RM'mil)	FY14	FY15	FY16-17
PATMI	10%	8%	9-11%
ROE	14.1%	~14%	14.5%-15.5%
CTI	43.3%	43%-45%	42%-44%
Gross Impaired	1.86%	1.9%	1.9%
Dividend	41%	40%-50%	40%-50%

Source: Bursa Malaysia, M&A Securities

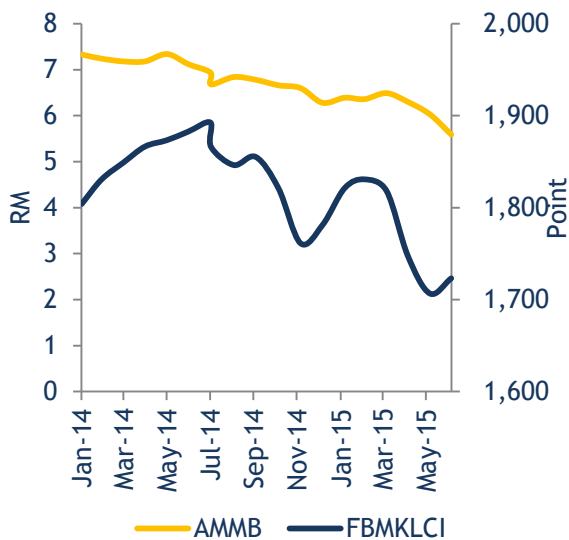
FBM KLCI vs Financial Index
(Jan14 -YTD)



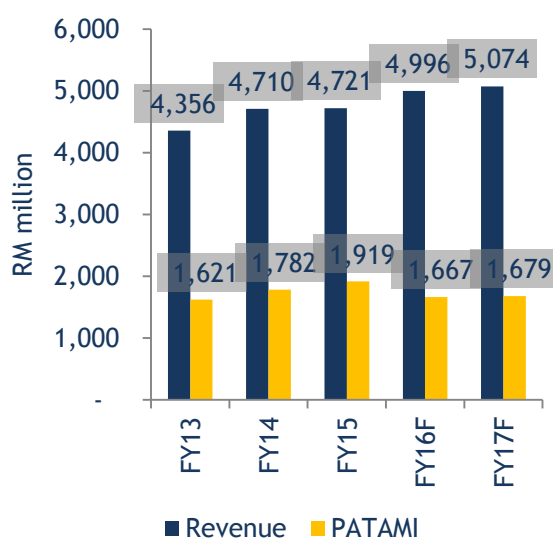
Industry Loan Growth vs AMMB Loan Growth
(Jan13-YTD)



AMMB Share Price vs. KLCI
(Jan14-YTD)



Revenue and Net Profit
(FY13-FY17F)



M&A Securities

STOCK RECOMMENDATIONS

BUY	Share price is expected to be $\geq +10\%$ over the next 12 months.
TRADING BUY	Share price is expected to be $\geq +10\%$ within 3-months due to positive newsflow.
HOLD	Share price is expected to be between -10% and $+10\%$ over the next 12 months.
SELL	Share price is expected to be $\geq -10\%$ over the next 12 months.

SECTOR RECOMMENDATIONS

OVERWEIGHT	The sector is expected to outperform the FBM KLCI over the next 12 months.
NEUTRAL	The sector is expected to perform in line with the FBM KLCI over the next 12 months.
UNDERWEIGHT	The sector is expected to underperform the FBM KLCI over the next 12 months.

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