

PP14767/09/2012(030761)

AMMB Holdings Berhad

“Not Good Enough”

Results Review

- Actual vs. expectations.** AMMB Holdings Berhad (AMMB) FY15 net profit to equity holders of RM1.91 billion (+8% y-o-y) came below from ours and consensus estimates respectively, accounting 94.2% and 93.8% of ours and consensus full year net profit forecast. Stripping out one-off divestment gains amounting to RM208 million from AmLife and AmFamily Takaful, earnings for equity holder for FY15 reached RM1.71 billion (-4% y-o-y). Additionally, earnings were helped by lower operating expenses (-2% y-o-y) and writeback of RM31 million (-145% y-o-y)
- Dividend.** Dividend for this quarter was declared at 15.3 sen vs. 16.9 sen in 4Q14, lifting FY15 dividend to 27.3 sen vs. 24.1 sen in 12M14, equivalent to 43% payout ratio with 4% yield.
- Topline vs. Bottom line.** AMMB recorded flat income in FY15 on the back of dropping net interest income (NII) by 13.2% y-o-y impacted by subdued loans growth. However, non-interest income (NOII) surged 21.8% y-o-y assisted by divestment gains mentioned. Excluding the divestment gains, NOII tumbled by 7% y-o-y in FY15.
- Rebalancing efforts was severe than expected.** For full year FY15, AMMB loans growth was subdued after dropping by 1.6% y-o-y as AMMB rebalanced its exposure from high risk loans of auto segment into selected segments and better quality customers. Retail banking’ loans growth (consist of mortgage and auto) dropped by 5.4% y-o-y in FY15 whilst, wholesale banking (non-retail) soared by 2% y-o-y in FY15.

Monday, May 25, 2015

HOLD (TP: RM6.80)

Current Price (RM)	RM6.37
New Fair Value (RM)	RM6.80
Previous Fair Value (RM)	RM7.00
Previous Recommend.	HOLD
Upside To Fair Value	6.7%
Dividend Yield (FY16)	3.5%

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	-4.09%	
Beta (x)	0.97	
52-week Hi/Lo (RM)	RM7.34	RM5.97
3M Average Volume (shrs)	3.56 mil	
Estimated Free Float	47.8%	

Major Shareholders		
ANZ Bank	23.8%	
EPF	14.9%	
Amcorp Group	12.9%	

- **NIM compression still persist, however in slower pace.** Net interest margin (NIM) compressed further by 5bps to 2.33% for FY15 but the NIM reported is still within management guidance of compression between 10bps-15bps. Of note, AMMB's NIM recovered to 2.54% in 6M15 before tumbled by 16bps in 9M15 with the on-going portfolio rebalancing contributed to the compression
- **Costs under control.** Management's priority in improving efficiencies is gaining traction. Expenses fell further by RM4.4 million y-o-y to RM2.15 billion. Stripping out 1Q15 one-off cost of RM89.8million (relating to the insurance units sale), expenses would have dropped by 4.4% y-o-y. Though cost to income (CIT) was closer to 12M14 position of 45.7%, it was only pressurized due to slower income growth.
- **Liquidity position improving.** On the positive side, AMMB's liquidity position continued to improve with stronger core deposit and CASA growth with 4.5% y-o-y and 0.1% y-o-y respectively with CASA ratio shed marginally by 4bps q-o-q and now at 19.2% due to faster pace of core deposits. Loan to deposits (LDR) position improved to 85.4% vs. 85.9% in 3Q15.
- **Asset quality shown improvement.** Gross impaired loan (GIL) unexpectedly weaken to 1.88% vs. 1.79% in 9M15 even though loans loss coverage was at satisfactory level of 104.5. Going forward, we are concern about the recent flood situation, which may directly hit its loans gross impairment especially in hire purchase and residential financing
- **Change to our forecast.** We have done some house-keeping exercise and came out with new FY16 earnings forecast and at the same time we introduce our FY17 forecast. In that, we have cut our earnings assumption by 10.6% in FY16 due to on-going rebalancing efforts. 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 inkling an agreement with MetLife.
- **Outlook.** Entering into FY16, we feel that the worse is not over for AMMB as its rebalancing efforts may bring further setback on loans growth. Moderating loans growth environment in the banking industry may influence AMMB loans growth prospects, adding to the higher cost of funds that would inevitably lowering AMMB total income. 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. Given this, we expect AMMB's FY16 outlook will remain dreary at this stage, unless AMMB's NOI able to cover the deficiency left by NII.
- **Valuation & recommendation.** We maintain our **HOLD** call on AMMB, but we reduce our TP to RM6.80 from RM7.00 pegged at 15% discount from 3-year average P/BV of 2.2x. 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 banking driven by ANZ affiliation iv) further M&A activity in the future.

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	4.75	0.4	0.4	12.7	12.0	1.7	1.6	14.3	1.9	5.05	Hold
AMMB	March	6.37	0.6	0.6	11.0	11.0	1.4	1.3	14.1	4.5	6.80	Hold
BIMB	Dec	4.10	0.3	0.4	11.7	11.3	1.8	2.0	16.0	5.8	4.84	Buy
CIMB	Dec	5.75	0.5	0.6	12.1	10.4	1.3	1.5	9.2	3.5	6.10	Hold
Maybank	Dec	9.26	0.7	0.8	12.6	11.9	1.5	1.5	13.6	6.2	10.70	Buy
RHB Cap	Dec	7.52	0.8	0.9	9.7	9.1	1.1	1.1	11.5	1.3	8.30	Hold
Public Bank	Dec	19.14	1.2	1.3	15.3	14.2	2.6	2.8	18.7	2.9	20.60	Hold
Affin	Dec	2.82	0.3	0.3	9.0	8.5	0.7	0.7	7.8	5.1	NR	NR
MBSB	Dec	1.89	0.2	0.3	9.1	8.4	1.2	1.1	29.6	2.3	NR	NR
STMB	Dec	16.20	NA	NA	NA	NA	NA	NA	24.3	6.6	NR	NR
HL Bank	June	13.96	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)	4Q15	3Q15	4Q14	q-o-q	y-o-y	12M15	12M14	y-o-y
Revenue	2,215	2,134	2,435	-9%	4%	9,143	9,606	-5%
Net interest income	471	487	578	-19%	-3%	1,981	2,279	-13%
Islamic banking income	225	207	252	-11%	9%	865	944	-8%
Net fee and commission income	90	96	71	27%	-6%	418	472	-11%
Other income	336	216	236	42%	56%	1,458	1,026	42%
Net income	1,123	1,006	1,137	-1%	12%	4,721	4,722	0%
Operating expenses	(544)	(492)	(468)	16%	11%	(2,089)	(2,133)	-2%
Pre-provision income	578	514	669	-14%	13%	2,632	2,588	2%
Allowance loan loss	59	57	(64)	-193%	4%	31	(68)	-145%
Impairment	29	26	(25)	-216%	11%	23	(84)	-127%
Writeback	16	6	26	-41%	157%	19	31	-37%
Profit Equalization	(15)	(15)	(2)	787%	0%	(35)	(11)	229%
Operating profit	667	587	605	10%	14%	2,670	2,456	9%
Associate	(11)	5	7	-247%	-295%	3	21	-85%
Acquisition cost	12	(4)	(17)	-170%	-401%	(68)	(29)	134%
PBT	668	589	595	12%	14%	2,604	2,448	6%
Taxation	(118)	(143)	(109)	8%	-17%	(560)	(577)	-3%
PAT	550	446	486	13%	23%	2,045	1,871	9%
MI	(31)	(29)	(23)	36%	5%	(126)	(89)	42%
PATAMI	519	417	464	12%	25%	1,919	1,782	8%
Margin								
NII margin	42%	48%	51%			42%	48%	
NOII margin	27%	44%	30%			29%	46%	
PPOP margin	52%	51%	59%			56%	55%	
PBT margin	60%	28%	24%			28%	25%	
PAT margin	46%	41%	41%			41%	38%	
EPS (sen)	17.2	13.8	15.4			63.7	59.1	

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	250	472	865	895	926
Fee and commission income	884	940	1,496	3,036	3,735
Fee and commission expense	1,003	1,026	(1,078)	(2,321)	(2,998)
Other income	4,356	4,710	1,458	1,134	1,158
Net income	(2,087)	(2,151)	4,721	4,996	5,074
Operating expenses	2,269	2,559	(2,089)	(2,437)	(2,608)
Pre-provision income	(173)	(68)	2,632	2,559	2,466
Allowance loan loss	39	(54)	31	(241)	(114)
Impairment	2,135	2,438	23	(24)	(29)
writeback	13	21	19	34	28
Profit Equalization	2,139	2,448	(35)	(19)	(22)
Operating profit	(475)	(577)	2,670	2,309	2,331
Associate	(43)	(89)	3	12	8
Acquisition cost	1,621	1,782	(68)	0	0
PBT	54.1	59.3	2,604	2,322	2,338
Taxation	25%	25%	(560)	(546)	(550)
PAT	19%	19%	2,045	1,776	1,789
Minority Interest	14.1	14.2	(126)	(109)	(110)
PATAMI	1.6	1.7	1,919	1,667	1,679
EPS (sen)	54.0	59.3	63.7	55.3	55.7
Dividend - sen	22	24.1	27.1	22.1	22.3
Dividend payment (RMm)	663	726	818	667	672
Dividend payout (%)	40%	39%	40%	40%	40%
Retained Earnings	1,000	1,145	1,227	1,109	1,117
PER (x)	32.64	26.39	9.99	11.50	11.42
Price	7.18	6.36	6.36	6.36	6.36
Gross Yield	3%	4%	4%	3.5%	3.5%
BV	3.04	2.89	3.24	3.68	4.03
P/BV	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)	FY12	FY13	FY14	FY15
Asset Quality				
Gross Impairment	2.45%	1.98%	1.86%	1.79%
Allowance Coverage	112.6%	129.3%	127.4%	104.9%
Profitability				
ROA	1.39%	1.37%	1.45%	
ROE	13.8%	13.9%	14.1%	15.1%
Cost to Income	41.6%	47.8%	45.5%	47.4%
Lending and Deposits				
Loan Growth	5.86%	11.37%	5.34%	-1.6%
Deposits Growth	2.85%	2.73%	2.45%	4.5%
Loan to Deposits	97.9%	97.3%	97.2%	85.4%
Margin				
Net Interest Margin	2.75%	2.72%	2.68%	2.33%
Capital Strength				
CET1	-	8.7%	9.4%	9.6%
Tier1	10.4%	8.8	9.5%	11.6%
RWCR	14.7%	14.5%	15.7%	15.2%

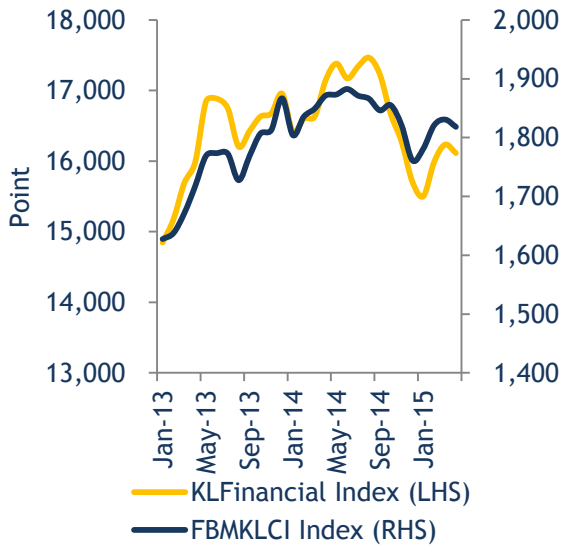
Source: Bursa Malaysia, M&A Securities

Table 6: AMMB KPI

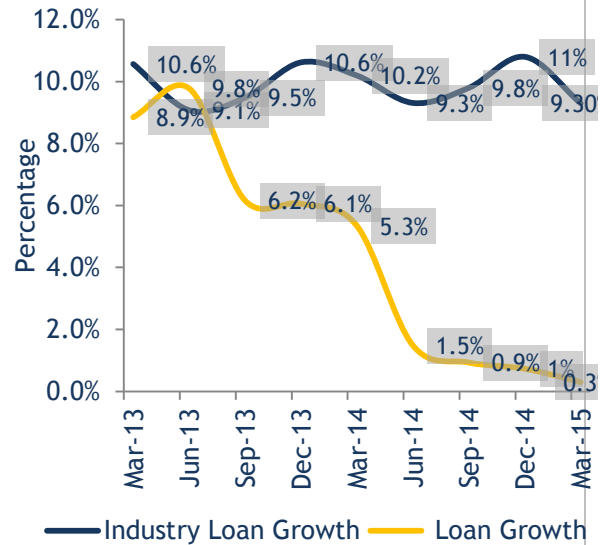
Y/E: Dec (RM'mil)	FY14	FY15	FY16-17
PATMI	10%	8%	9-11%
ROE	14.1%	~14%	14.5%-15.5%
CTI	43.3%	43%-45%	42%-44%
Gross Impaired	1.86%	1.9%	1.9%
Dividend	41%	40%-50%	40%-50%

Source: Bursa Malaysia, M&A Securities

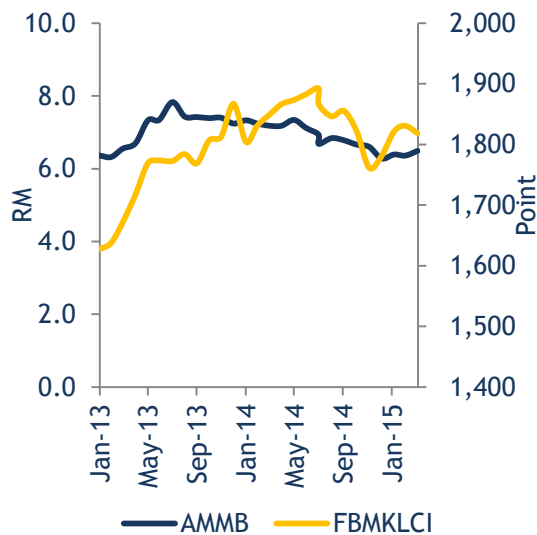
FBM KLCI vs Financial Index
(Jan13 -YTD)



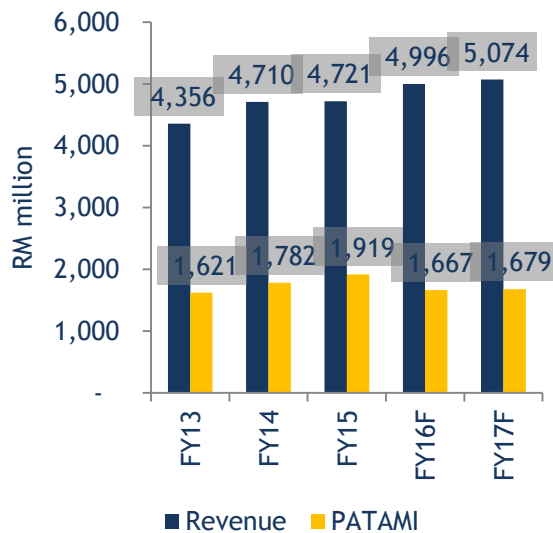
Industry Loan Growth vs AMMB Loan Growth
(Jan13-YTD)



AMMB Share Price vs. KLCI
(Jan13-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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M & A Securities SdnBhd (15017-H)

(A wholly-owned subsidiary of INSAS BERHAD)

A Participating Organisation of Bursa Malaysia Securities Berhad

Principal Office:

Level 1,2,3 No.45 & 47,43-6

The Boulevard, Mid Valley City,

Lingkaran Syed Putra,

59200 Kuala Lumpur

Tel: +603 - 2282 1820 Fax: +603 - 2283 1893

Website: www.mnaonline.com.my