

Friday, November 20, 2015

AMMB Holdings Berhad

“Improving Operational Signs”

Results Review

- Actual vs. expectations.** AMMB Holdings Berhad (AMMB) 6M16 net profits to equity holders of RM722 million (-27% y-o-y) came in lower against our expectation but in line with consensus forecast, accounting 43.3% and 47.6% of both sides full year net profit forecast. Stripping out one-off divestment gains amounting to RM208 million relating to the disposal of AmLife and AmFamily Takaful in 3M15, earnings for equity holder in 6M16 only fell by 7.3% y-o-y. The lower earnings were derailed by lower net interest income (-16% y-o-y) as well as lower other income (-65% y-o-y) performance.
- Dividend.** AMMB declared first interim dividend of 5 cent in 6M15 vs. 12 cent in 6M15, translating into 21% payout vs. 37% in 6M15.
- Topline vs. Bottom line.** AMMB net income of RM1.89 billion (-27% y-o-y, -25.6% y-o-y excluding one-off gain) was impacted by lower net interest income (-16% y-o-y) as it was hit by lower income from loans of RM1.65 billion in 6M16 (-9.5% y-o-y). However, the slower opex by 6% y-o-y was not translated into better pre-provision which dropped by 46.4% y-o-y (excluding one-off gain).
- Loans growth subdued.** Loans book improved marginally by 0.3% y-o-y on the back of improving loans by the business segment by (3.3% y-o-y) and selected segment in household (residential 5.7% y-o-y). Given the sluggish growth so far, the 2% loans growth guidance in FY16 may seem over stretched given subdued household consumption, however we believe AMMB will catch up as the rebalancing efforts is now bearing fruits.

HOLD (TP: RM5.10)

Current Price (RM)	RM4.65
New Fair Value (RM)	RM5.10
Previous Fair Value (RM)	RM6.10
Previous Recommend.	HOLD
Upside To Fair Value	9.6%
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)	14,046	
YTD Chg In Share Price	-29.4%	
Beta (x)	1.18	
52-week Hi/Low (RM)	RM6.75	RM4.17
3M Average Volume (shrs)	3.65 mil	
Estimated Free Float	47.8%	

Major Shareholders	
ANZ Bank	23.8%
EPF	16.4%
Amcorp Group	12.9%

- **Deposits weakened, CASA improved.** Current account & savings account deposits (CASA) grew by 9.9% y-o-y in 6M16 with total deposits tracking growth in CASA by 4.6% y-o-y in 6M16, pushing CASA-to-Total Deposit ratio to 21% vs 20.1% in 6M15.
- **NIM contained.** AMMB had managed to stop NIM from free falling, registering at 2.12% as positive impact from asset repricing was offset against margin compression as higher-yield auto loans tapered off while it was aided by increased contribution of wholesale loans.
- **Costs under control.** Cost-to-income ratio (CIR) performed miserably jumping to 53.4% vs 44% in 6M15. Total income declined at faster pace (-27% y-o-y) in 6M16 than overhead expenses (-6% y-o-y), leading to higher CIR.
- **Asset quality shown improvement.** Gross impaired loan (GIL) unexpectedly weakened to 1.95% vs. 1.80% in 3M16 as a result of impairment of one large real estate company. The credit environment continued to be very benign and earnings were aided by negative credit charge of 21ps in 6M16, due to ongoing recoveries and the underwriting of better credit quality. Furthermore, loan loss coverage (LLC) declined to 70.1% on weak recoveries.
- **Change to our forecast.** No change to our forecast as we believe AMMB earnings will catch up aided by the fruits of its transition plan. 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.** Judging from 6M16 results, we believe AMMB is making progress on its transition program albeit in slow pace. Additionally, the lukewarm reception on GST implementation will assist AMMB retail loans in the future given its leading positions in selected segment in household loans. Nevertheless, we are cautious on AMMB near term outlook as AMMB may fight the higher cost of borrowing which may exert pressure on asset quality and hence, causing delinquency rates to climb
- **Valuation & recommendation.** We value AMMB at RM5.10 as we incorporate 1-standard deviation below mean of P/BV of 1.5x. That said, we maintain our **HOLD** call on AMMB. Re-rating catalysts for the stock include i) 1) stronger performance in insurance sector 2) successfully re-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	YE	Price (RM)	EPS (RM)		P/E (x)		P/B (X)		ROE (%)	Div Yield (%)	TP (RM)	Call
			FY15	FY16	FY15	FY16	FY15	FY16				
AFG	Mac	3.54	0.4	0.4	12.7	12.0	1.7	1.6	14.3	1.9	4.00	Buy
AMMB	Mac	4.65	0.6	0.6	11.0	11.0	1.4	1.3	14.1	4.5	5.10	Hold
BIMB	Dec	3.96	0.3	0.4	11.7	11.3	1.8	2.0	16.0	5.8	4.60	Buy
CIMB	Dec	4.56	0.5	0.6	12.1	10.4	1.3	1.5	9.2	3.5	4.90	Hold
Maybank	Dec	8.23	0.7	0.8	12.6	11.9	1.5	1.5	13.6	6.2	9.92	Buy
RHB Cap	Dec	5.83	0.8	0.9	9.7	9.1	1.1	1.1	11.5	1.3	6.60	Hold
Public Bank	Dec	18.04	1.2	1.3	15.3	14.2	2.6	2.8	18.7	2.9	21.38	Buy
Affin	Dec	2.42	0.3	0.3	9.0	8.5	0.7	0.7	7.8	5.1	NR	NR
MBSB	Dec	1.62	0.2	0.3	9.1	8.4	1.2	1.1	29.6	2.3	NR	NR
STMB	Dec	3.77	NA	NA	NA	NA	NA	NA	24.3	6.6	NR	NR
HL Bank	Jun	13.70	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)	2Q16	1Q16	2Q15	q-o-q	y-o-y	9M16	9M15	y-o-y
Revenue	2,088	2,109	2,211	-6%	-1%	4,197	4,794	-12%
Net interest income	432	424	515	-16%	2%	855	1,020	-16%
Islamic banking income	200	207	224	-11%	-3%	407	432	-6%
Net fee and commission income	101	424	117	-14%	-8%	210	232	-9%
Other income	198	207	269	-26%	-11%	422	905	-53%
Net income	931	380	1,124	-17%	-3%	1,895	2,589	-27%
Operating expenses	(500)	(270)	(495)	1%	3%	(984)	(1,049)	-6%
Pre-provision income	431	109	629	-32%	-10%	910	1,540	-41%
Allowance loan loss	64	224	(5)	-1445%	-693%	53	(86)	-162%
Impairment	2	964	1	65%	-1990%	2	(32)	-106%
Writeback	0	(484)	(4)	-101%	-100%	18	(3)	-811%
Profit Equalization	-	479	(4)	-100%	-100%	(1)	(5)	-69%
Operating profit	496	(11)	617	-20%	2%	982	1,415	-31%
Associate	4	(0)	7	-47%	1430%	4	8	-51%
Acquisition cost	1	18	(4)	-122%	-124%	(2)	(76)	-97%
PBT	501	(1)	621	-19%	4%	983	1,347	-27%
Taxation	(93)	485	(141)	-34%	-18%	(207)	(298)	-31%
PAT	408	0	481	-15%	11%	777	1,049	-26%
MI	(25)	(3)	(35)	-27%	-13%	(55)	(66)	-17%
PATAMI	383	482	446	-14%	13%	722	983	-27%
Margin								
Nil margin	46%	44%	46%			45%	39%	
NOII margin	51%	49%	43%			50%	26%	
PPOP margin	46%	50%	56%			48%	59%	
PBT margin	54%	50%	28%			23%	28%	
PAT margin	41%	35%	40%			38%	38%	
EPS (sen)	12.7	11.3	14.8			24.0	32.6	

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	2Q16
Asset Quality				
Gross Impairment	1.98%	1.86%	1.79%	1.95%
Allowance Coverage	129.3%	127.4%	104.9%	70.1%
Profitability				
ROA	1.37%	1.45%	1.60%	1.18%
ROE	13.9%	14.1%	15.1%	9.8%
Cost to Income	47.8%	45.5%	47.4%	52%
Lending and Deposits				
Loan Growth	11.37%	5.34%	-1.6%	0.3%
Deposits Growth	2.73%	2.45%	4.5%	-3.0%
Loan to Deposits	97.3%	97.2%	85.4%	87%
Margin				
Net Interest Margin	2.72%	2.68%	2.33%	2.12%
Capital Strength				
CET1	8.7%	9.4%	9.6%	10.5%
Tier1	8.8	9.5%	11.6%	11.8%
RWCR	14.5%	15.7%	15.2%	15.6%

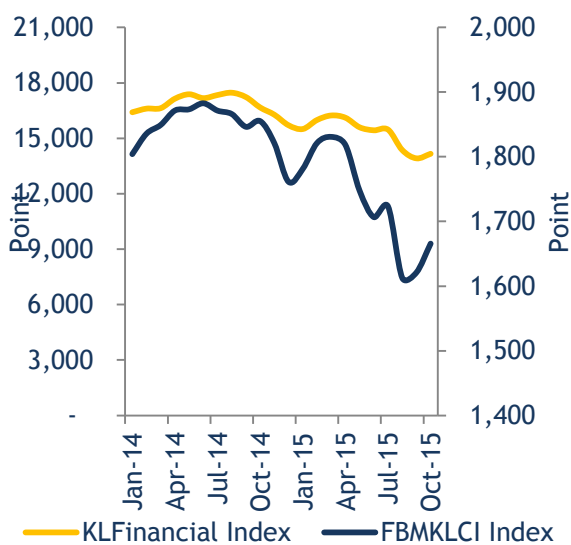
Source: Bursa Malaysia, M&A Securities

Table 6: AMMB KPI

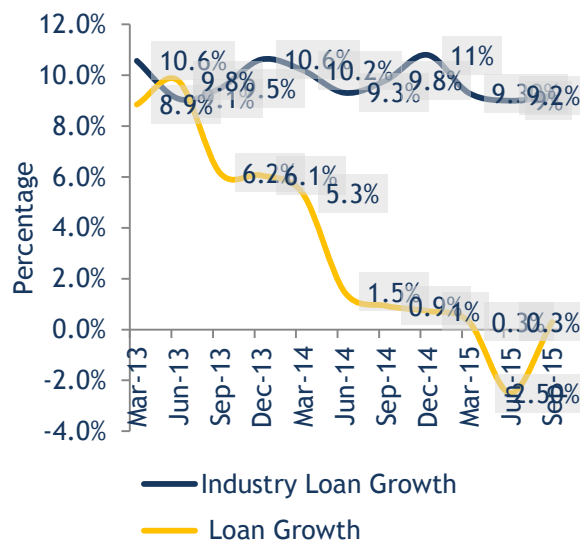
Y/E: Dec (RM'mil)	FY14	FY15	FY16-17
PATMI	10%	8%	9-11%
ROE	14.1%	~14%	14.5%-15.5%
CTI	43.3%	43%-45%	42%-44%
Gross Impaired	1.86%	1.9%	1.9%
Dividend	41%	40%-50%	40%-50%

Source: Bursa Malaysia, M&A Securities

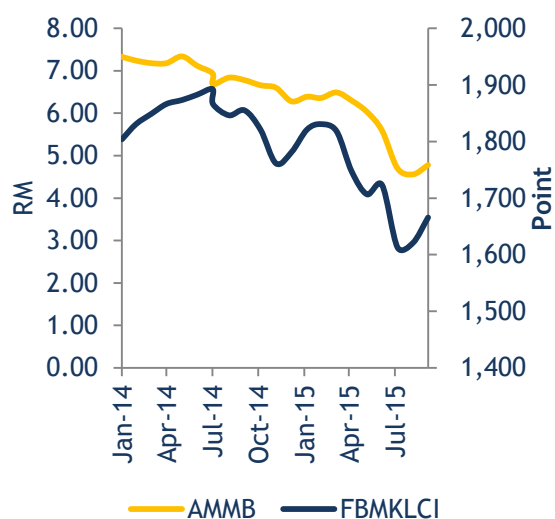
FBM KLCI vs Financial Index
(Jan14 -YTD)



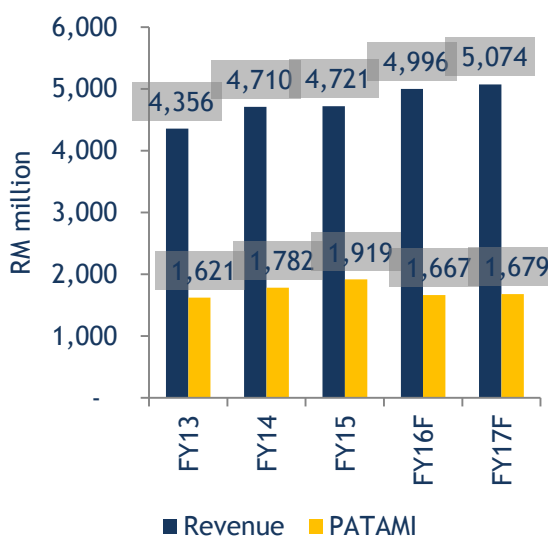
Industry Loan Growth vs AMMB Loan Growth
(Jan13-YTD)



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.

DISCLOSURES AND DISCLAIMER

This report has been prepared by M&A SECURITIES SDN BHD. Readers should be fully aware that this report is for informational purposes only and no representation or warranty, expressed or implied is made as to the accuracy, completeness or reliability of the information or opinion contained herein. The recommendation and opinion are based on information obtained or derived from sources believed to be reliable.

This report contains financial forecast/projection based on our assumptions which may defer from the actual financial results announced by the companies under coverage. All opinions, estimates and assumptions are subject to change without notice. Analysts will initiate, update and cease coverage solely at the discretion of M&A SECURITIES SDN BHD.

Investors are to be cautioned that value of any securities invested may fluctuate from time to time. We advise investors to seek financial, legal and other advice for investing based on the recommendation of our report as we have not taken into account each investors' specific investment objectives, risk tolerance and financial position.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. M&A SECURITIES SDN BHD can accept no liability for any consequential loss or damage whether direct or indirect. Investment should be made at investors' own risks.

M&A SECURITIES SDN BHD and INSAS GROUP of companies, their respective directors, officers, employees and connected parties may have interest in any of the securities mentioned and may benefit from the information herein. M&A SECURITIES SDN BHD and INSAS GROUP of companies and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This report may not be reproduced, distributed or published in any form or for any purpose.

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