

AMMB Holdings (AMM MK)

4QFY22 results supported by credit cost writeback

BUY maintained, TP raised to MYR4.40

AMMB's FY22 results were above expectations, mainly because of the write-back of management overlays in 4QFY22. Our FY23-25E net profit forecasts are raised by 3-9% but we continue to be prudent in our provisioning assumptions. As such, our FY23E ROE of 8% continues to lag management's target of 9.3-10%. We maintain a BUY on AMMB with a higher TP of MYR4.40 (from MYR4.05), pegged to a CY23 PBV of 0.7x (CY23E ROE: 8%).

Credit cost write-back in 4Q

AMMB's 4QFY22 core net profit of MYR392m (>300% YoY, +86% QoQ) took FY22 core net profit to MYR1.2b (+23% YoY). The results were above our forecast and consensus, largely on account of a credit cost writeback in 4QFY22. Positively, the group has resumed dividend payments with a DPS of 5sen in FY22 (payout ratio of 11%). Reported loan growth was 4.6% YoY (6% excluding unrated bonds/sukuk), while NIM improved 15bps.

Targets for FY23

Management guides for FY23 loan growth to hold up against the growth of 6% in FY22, NIM of 2.05-2.10% (2.05% in FY22), credit cost of 35-40bps and ROE of 9.3-10%.

Taking a more conservative view

Against management's guidance, we maintain a conservative view with regards to provisioning, particularly given the volatile external environment. As such, we are keeping our credit cost assumptions elevated into FY23/24E at 50bps respectively, though slightly lower than our previous assumptions. Our FY23/24/25E net profit forecasts are raised by 7%/3%/9% respectively on the back of better NIM and credit cost expectations.

FYE Mar (MYR m)	FY21A	FY22A	FY23E	FY24E	FY25E
Operating income	4,509	4,621	4,681	4,948	5,214
Pre-provision profit	2,376	2,527	2,476	2,624	2,764
Core net profit	1,013	1,244	1,393	1,485	1,569
Core EPS (MYR)	0.34	0.38	0.46	0.49	0.52
Core EPS growth (%)	(24.5)	11.9	22.6	6.6	5.7
Net DPS (MYR)	0.00	0.05	0.14	0.15	0.16
Core P/E (x)	8.7	9.8	7.9	7.4	7.0
P/BV (x)	0.6	0.7	0.6	0.6	0.5
Net dividend yield (%)	0.0	1.3	3.8	4.1	4.3
Book value (MYR)	4.86	5.56	5.99	6.33	6.70
ROAE (%)	6.1	7.9	8.0	8.0	8.0
ROAA (%)	0.6	0.7	0.8	0.8	0.8
Consensus net profit	-	-	1,467	1,614	na
MKE vs. Consensus (%)	-	-	(5.1)	(8.0)	na

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BUY

Share Price	MYR 3.64
12m Price Target	MYR 4.40 (+21%)
Previous Price Target	MYR 4.05

Company Description

AMMB Holdings provides integrated financial services such as retail banking, wholesale banking, investment banking, and Islamic banking, among others.

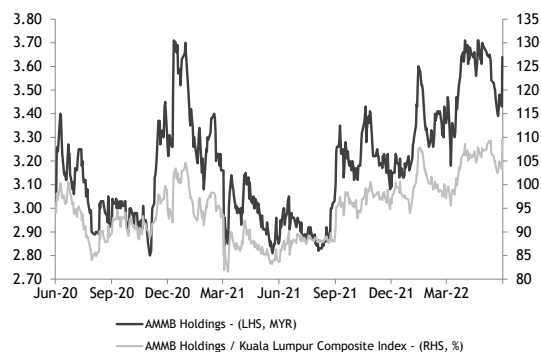
Statistics

52w high/low (MYR)	3.71/2.82
3m avg turnover (USDm)	2.5
Free float (%)	52.7
Issued shares (m)	3,314
Market capitalisation	MYR12.1B USD2.8B

Major shareholders:

Australia & New Zealand Banking Group Lt	21.6%
HASHIM AZMAN	11.8%
Employees Provident Fund	9.6%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(1)	8	28
Relative to index (%)	2	13	31

Source: FactSet

AMMB: Summary results table

FYE Mar (MYR m)	Quarterly					Cumulative		
	4Q22	4Q21	% YoY	3Q22	% QoQ	FY22	FY21	% YoY
Interest income	1,022.3	1,009.2	1.3	1,038.4	(1.6)	4,066.6	4,155.8	(2.1)
Interest expense	(456.9)	(436.5)	4.7	(439.2)	4.0	(1,770.2)	(2,063.9)	(14.2)
Net Interest income	565.4	572.7	(1.3)	599.2	(5.6)	2,296.4	2,091.9	9.8
Islamic banking income	277.9	201.6	37.9	267.5	3.9	1,062.0	929.7	14.2
Non-interest income	270.7	348.2	(22.3)	313.3	(13.6)	1,262.5	1,487.1	(15.1)
Operating income	1,113.9	1,122.5	(0.8)	1,180.0	(5.6)	4,620.9	4,508.6	2.5
Operating expenses	(557.3)	(524.7)	6.2	(528.7)	5.4	(2,094.2)	(2,132.2)	(1.8)
Operating profit	556.6	597.8	(6.9)	651.3	(14.5)	2,526.7	2,376.4	6.3
Loan impairment allowance	333.3	(251.7)	Nm	(295.2)	Nm	(314.2)	(913.2)	(65.6)
Other provisions	(384.8)	(5,007.5)	(92.3)	(42.3)	809	(451.9)	(4,990.5)	(90.9)
Associates & JVs	9.2	6.9	34.5	3.1	196.7	44.1	43.8	0.6
Pretax profit	514.4	(4,654.5)	Nm	316.9	62.3	1,804.7	(3,483.5)	Nm
Taxation	(96.5)	(15.0)	>100	99.9	Nm	(209.8)	(228.6)	(8.2)
Minority interest	(26.2)	(23.2)	12.7	(13.5)	94.0	(92.3)	(114.4)	(19.3)
Net profit	391.8	(4,692.8)	Nm	403.3	(2.9)	1,502.7	(3,826.5)	Nm
Recurring net profit	391.8	95.2	311.5	211.1	85.5	1,243.5	1,013.3	22.7
EPS (sen) (basic)	11.8	(156.0)	-	12.2	(3.0)	45.5	(127.2)	-
DPS (sen)	5.0	-	0.0	0.0	0.0	5.0	-	0.0
Cost-to-income (%)	50.0	46.7	7.0	44.8	5.2	45.3	47.3	(4.2)
Tax rate (%)	18.8	(0.3)	-	(31.5)	50.3	11.6	(6.6)	-
Balance sheet (MYR m)	Mar 22	Mar 21	% YoY	Dec 21	% QoQ	Mar 22	Mar 21	YTD chg
Customer loans (gross)	119,993	114,759	4.6	119,307	0.6	119,993	119,307	0.6
Customer loans (net)	118,066	112,478	5.0	116,847	1.0	118,066	116,847	1.0
Deposits from customers	122,971	120,638	1.9	124,909	(1.6)	122,971	124,909	(1.6)
			ppt chg		ppt chg			ppt chg
Gross LDR (%)	97.6	95.1	2.5	95.5	2.1	97.6	95.5	2.1
Gross impaired loans	1,676	1,770	(5.3)	1,608	4.2	1,676	1,608	4.2
Gross impaired loans ratio (%)	1.4	1.5	(0.1)	1.3	0.0	1.4	1.3	0.0
Loan loss coverage	115.0	128.8	(13.8)	153.0	(38.0)	115.0	153.0	(38.0)

Source: Company

Key highlights

Repayment assistance: Loans under repayment assistance (RA) totalled MYR6.6b as at 13 May 2022 (6% of total loans), down significantly from MYR17.8b on 18 Feb 2022 (15% of total loans). Retail RA loans that were more than 3 months in arrears accounted for 4% of total retail RA loans while the percentage of SME RA loans more than 3 months in arrears was 2%.

Loan growth: Group loans rose 6% YoY (on stripping out unrated bonds/sukuk; 4.6% reported) and this was led predominantly by 7% growth in mortgages, 8% in business banking loans and 11% in mid-corp financing. The only segment to contract was auto financing (-4% YoY). Management targets loan growth of 4-5% in FY23.

Customer deposits: Deposits rose at a slower pace of 2% YoY but CASA expanded at a robust pace of 21% YoY. This resulted in a jump in the group's CASA ratio to 35% end-Mar 2022 from 30% end-Dec 2021.

Net interest margin (NIM): Underlying NIM was 2.00% in 4QFY22, down 9bps QoQ. Nevertheless, NIM averaged 2.05% in FY22, up 15bps YoY. Management guides for NIM of 2.05-2.10% for FY23.

Non-interest income (NOII): FY22 saw NOII decline 15% YoY, due mainly to lower insurance and investment income.

Operating expenses: Operating expenses rose 6% YoY in 4QFY22 but was overall 2% lower YoY in FY22. The group's cost/income ratio (CIR) averaged 45.3% in FY22 versus 47.3% in FY21. Management's Business Efficiency Transformation Programme resulted in cost savings of more than MYR100m in FY22.

Credit cost: The group's GIL ratio declined to 1.4% end-Mar 2022 from 1.57% end-Mar 2021. FY22 saw MYR747m of provisions for the group's exposure to O&G loans, bonds and contingencies. The group is now over 80% covered on two lumpy corporate O&G loans.

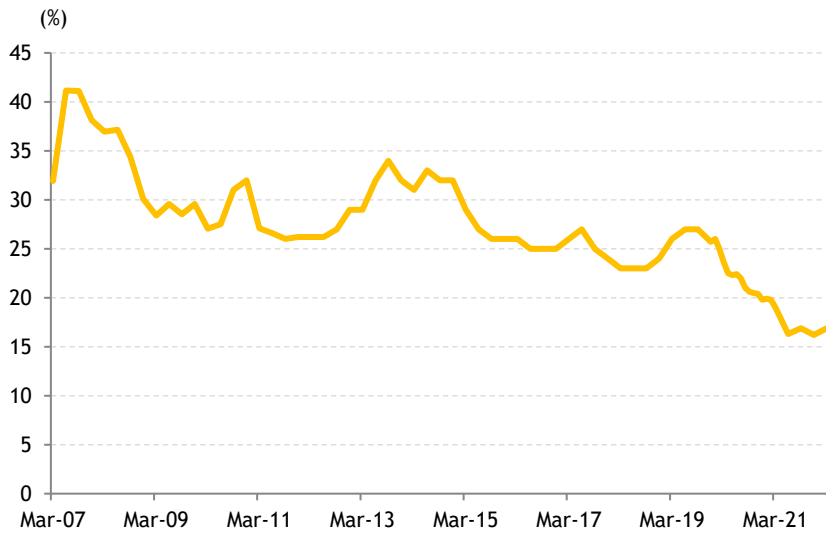
4QFY22 saw a net credit writeback as some of the management overlays were reversed. Management overlays totalled MYR950m end-Dec 2021, of which MYR500m were corporate exposures (predominantly against the O&G portfolio), which were reversed out as provisions against the specific O&G loans were made. The balance of the overlays is held against the retail book.

Coupled with the reclassification of unrated bonds/sukuk from loans to financial investments, net credit cost in FY22 came in at a low 26bps versus 81bps in FY21. Including other provisions for bonds/sukuk, credit cost was in fact 64bps in FY22 versus 97bps in FY21. Loan loss coverage improved to 139.2% end-Mar 2022 from 124.1% end-Mar 2021. Management guides for credit cost of 35-40bps for FY23.

Capital ratio: AMMB's capital ratios are recovering nicely and its CET1 ratio stood at 11.6% end-Mar 2022, without transitional arrangements (12.2% with transitional arrangements). This is before factoring in any enhancement from the divestment of its insurance business, which could accrete about 25bps. The adoption of the Internal Risk Based framework could add a further 140bps eventually.

Dividends return. With the improvement in the group's results and financial position, particularly its capital base, the group has recommenced dividends, having declared a final DPS of 5sen.

AMMB's foreign shareholding - (excl. ANZ's 23.8% stake): 16.9% end-Mar 2022

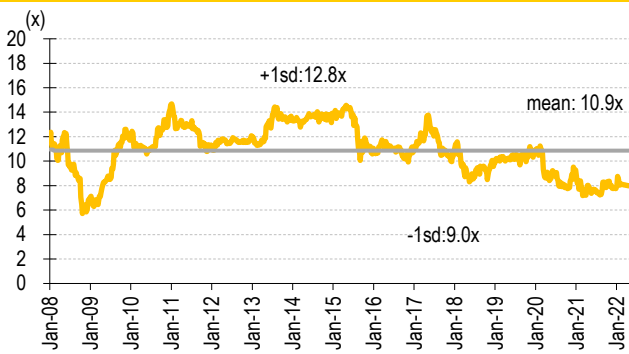


Source: Bank

Risk statement

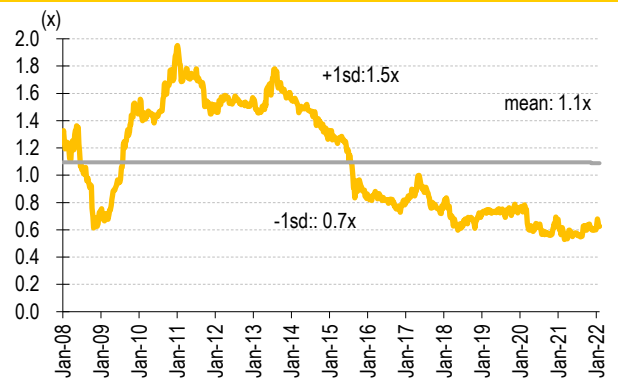
There are several risk factors for our earnings estimates, price target, and rating for AMMB. Any slowdown in the domestic economy would have a negative impact on the group's earnings, as would a pick-up in deposit rate competition. Meanwhile, a deterioration in asset quality particularly in relation to its exposure to the commercial property sector, could result in higher-than-expected provision levels.

AMMB: One-year forward rolling PER (x)



Source: Bank, Maybank IBG Research

AMMB: One-year forward rolling P/BV (x)



Source: Bank, Maybank IBG Research

FYE 31 Mar	FY21A	FY22A	FY23E	FY24E	FY25E
Key Metrics					
Core P/E (x)	8.7	9.8	7.9	7.4	7.0
Core FD P/E (x)	8.7	9.8	7.9	7.4	7.0
P/BV (x)	0.6	0.7	0.6	0.6	0.5
P/NTA (x)	0.7	0.7	0.7	0.6	0.6
Net dividend yield (%)	0.0	1.3	3.8	4.1	4.3
INCOME STATEMENT (MYR m)					
Interest income	4,155.8	4,066.6	4,271.2	4,712.3	4,930.4
Interest expense	(2,063.9)	(1,770.2)	(1,916.9)	(2,212.9)	(2,293.7)
Net interest income	2,091.9	2,296.4	2,354.3	2,499.4	2,636.7
Islamic banking income	929.7	1,062.0	1,147.0	1,238.7	1,337.8
Net insurance income	494.3	476.6	428.9	437.5	446.2
Net fees and commission	581.7	603.7	621.8	640.5	659.7
Other income	411.0	182.2	129.1	131.5	134.0
Total non-interest income	1,487.1	1,262.5	1,179.9	1,209.4	1,239.9
Operating income	4,508.6	4,620.9	4,681.1	4,947.6	5,214.4
Staff costs	(1,280.2)	(1,310.5)	(1,363.0)	(1,417.5)	(1,474.2)
Other operating expenses	(852.1)	(783.7)	(842.2)	(906.2)	(976.2)
Operating expenses	(2,132.2)	(2,094.2)	(2,205.2)	(2,323.7)	(2,450.4)
Pre-provision profit	2,376.4	2,526.7	2,476.0	2,623.9	2,764.1
Loan impairment allowances	(913.2)	(314.2)	(613.5)	(641.1)	(669.9)
Other allowances	(4,990.5)	(451.9)	0.0	0.0	0.0
Associates & JV income	43.8	44.1	46.3	48.6	51.0
Pretax profit	(3,483.5)	1,804.7	1,908.8	2,031.5	2,145.2
Income tax	(228.6)	(209.8)	(419.9)	(446.9)	(471.9)
Minorities	(114.4)	(92.3)	(95.9)	(99.8)	(103.8)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	(3,826.5)	1,502.7	1,392.9	1,484.8	1,569.5
Core net profit	1,013.3	1,243.5	1,392.9	1,484.8	1,569.5
BALANCE SHEET (MYR m)					
Cash & deposits with banks	18,912.5	14,522.5	15,103.4	15,707.6	16,335.9
Sec. under resale agreements	0.0	0.0	0.0	0.0	0.0
Derivatives financial assets	0.0	0.0	0.0	0.0	0.0
Dealing securities	9,562.0	7,216.6	7,721.7	8,262.2	8,840.6
Available-for-sale securities	21,978.6	27,794.5	30,574.0	33,631.4	36,994.5
Investment securities	0.0	0.0	0.0	0.0	0.0
Loans & advances	112,478.3	118,065.7	123,718.2	129,285.5	135,103.4
Central bank deposits	425.3	376.5	490.4	509.8	529.9
Investment in associates/JVs	588.9	604.5	637.9	672.9	709.6
Insurance assets	432.7	580.7	592.3	604.2	616.2
Fixed assets	486.7	370.3	244.5	244.5	244.5
Intangible assets	1,443.9	1,399.9	1,399.9	1,399.9	1,399.9
Other assets	3,869.3	3,927.6	4,032.0	4,134.0	4,239.3
Total assets	170,178.3	174,858.9	184,514.4	194,451.9	205,013.8
Deposits from customers	120,638.0	122,970.7	127,619.2	132,851.5	138,298.5
Deposits from banks & FIs	9,920.9	9,894.6	10,092.5	10,294.3	10,500.2
Derivatives financial instruments	0.0	0.0	0.0	0.0	0.0
Subordinated debt	0.0	0.0	0.0	0.0	0.0
Other securities in issue	0.0	0.0	0.0	0.0	0.0
Other borrowings	7,275.0	8,375.0	9,212.5	10,133.8	11,147.2
Insurance liabilities	2,479.0	2,687.4	2,741.1	2,795.9	2,851.8
Other liabilities	14,275.0	12,972.3	15,500.5	17,888.6	20,526.0
Total liabilities	154,587.9	156,900.0	165,165.8	173,964.2	183,323.7
Share capital	5,951.6	6,776.2	6,776.2	6,776.2	6,776.2
Reserves	8,689.2	9,983.6	11,277.3	12,316.7	13,415.3
Shareholders' funds	14,640.8	16,759.8	18,053.6	19,092.9	20,191.5
Preference shares	0.0	0.0	0.0	0.0	0.0
Minority interest	949.6	1,199.1	1,295.0	1,394.8	1,498.6
Total equity	15,590.4	17,958.9	19,348.6	20,487.7	21,690.1
Total liabilities & equity	170,178.3	174,858.9	184,514.4	194,451.9	205,013.8

FYE 31 Mar	FY21A	FY22A	FY23E	FY24E	FY25E
Key Ratios					
Growth (%)					
Net interest income	7.9	9.8	2.5	6.2	5.5
Non-interest income	16.9	(15.1)	(6.5)	2.5	2.5
Operating expenses	1.1	(1.8)	5.3	5.4	5.5
Pre-provision profit	12.0	6.3	(2.0)	6.0	5.3
Core net profit	(24.4)	22.7	12.0	6.6	5.7
Gross loans	7.0	4.6	4.5	4.5	4.5
Customer deposits	6.6	1.9	3.8	4.1	4.1
Total assets	0.6	2.8	5.5	5.4	5.4
Profitability (%)					
Non-int. income/Total income	33.0	27.3	25.2	24.4	23.8
Average lending yields	3.16	3.10	3.14	3.27	3.26
Average cost of funds	1.76	1.53	1.54	1.61	1.59
Net interest margin	1.90	2.05	2.05	2.07	2.09
Cost/income	47.3	45.3	47.1	47.0	47.0
Liquidity (%)					
Loans/customer deposits	93.2	96.0	96.9	97.3	97.7
Asset quality (%)					
Net NPL	1.1	0.9	0.9	0.9	0.9
Gross NPL	1.5	1.4	1.5	1.5	1.5
(SP+GP)/average gross loans	0.8	0.3	0.5	0.5	0.5
Loan loss coverage	128.8	115.0	89.0	89.0	89.0
Capital adequacy (%)					
CET1	10.4	0.0	12.6	12.8	12.9
Tier 1 capital	10.4	11.8	12.6	12.6	12.6
Risk-weighted capital	14.1	15.3	16.2	16.2	16.2
Returns (%)					
ROAE	6.1	7.9	8.0	8.0	8.0
ROAA	0.6	0.7	0.8	0.8	0.8
Shareholders equity/assets	8.6	9.6	9.8	9.8	9.8

Source: Company; Maybank IBG Research

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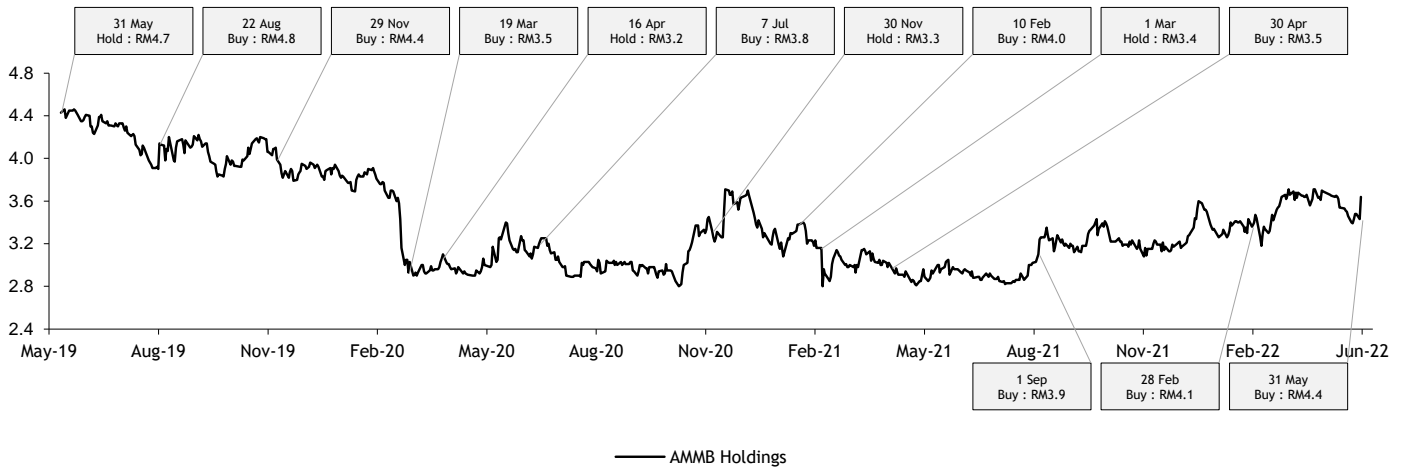
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