

# AMMB Holdings (AMM MK)

## Decent ESG rating

### BUY maintained

While AMMB has established internal ESG policies, further environmental disclosures and a firmer commitment towards net zero and carbon neutral deadlines would serve to enhance overall ratings. We have introduced an expanded ESG tear sheet for the bank and assigned it an above average overall score of 63, based on its aggregated quantitative/qualitative/target-based metrics. BUY maintained with an unchanged TP of MYR4.95, based on a CY23 PBV of 0.8x (CY23E ROE: 8.7%).

### Further disclosures would raise ESG score

As per our ESG assessment, AMMB has established internal ESG policies, but further disclosures relating to its quantitative "E" metrics would improve its overall ESG score. Its targets include reducing carbon emission by 24% by FY23 (against FY19 baseline), but a firmer commitment towards net zero and carbon neutral deadlines would enhance overall ratings. AMMB's overall ESG score is 63, which makes its ESG rating above average (50) in our view.

### Needs to establish a financed emissions baseline

AMMB's Scope 1 & 2 emissions are trending down, which is a positive. There is, however, no mention just yet of its progress on financed emissions, for which it should be looking to establish a baseline soon.

### Financial targets for FY23

Management's financial targets for FY23 include loan growth of 7%, NIM of 2.05-2.10% and credit cost of 35-40bps. It also targets an ROE of 9-10% for FY23. AMMB's capital ratios are recovering nicely and its CET1 ratio stood at 11.96% end-Jun 2022, without transitional arrangements (12.38% with transitional arrangements). The divestment of its insurance business should accrete another 25bps. Management targets to take its CET1 ratio to above 12.5% by Mar 2023 and believes that a dividend payout ratio of at least 35% is realistic.

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	1,264	1,489	1,635	1,778
Core EPS (MYR)	0.34	0.38	0.49	0.54	0.59
Core EPS growth (%)	(24.5)	13.7	29.0	9.8	8.8
Net DPS (MYR)	0.00	0.05	0.17	0.19	0.21
Core P/E (x)	8.7	9.7	8.3	7.6	6.9
P/BV (x)	0.6	0.7	0.7	0.6	0.6
Net dividend yield (%)	0.0	1.3	4.2	4.6	5.0
Book value (MYR)	4.86	5.56	5.99	6.34	6.72
ROAE (%)	6.1	8.0	8.6	8.8	9.0
ROAA (%)	0.6	0.7	0.8	0.9	0.9
Consensus net profit	-	-	1,588	1,660	1,831
MKE vs. Consensus (%)	-	-	(6.3)	(1.5)	(2.9)

# BUY

Share Price	MYR 4.10
12m Price Target	MYR 4.95 (+21%)
Previous Price Target	MYR 4.95

### Company Description

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

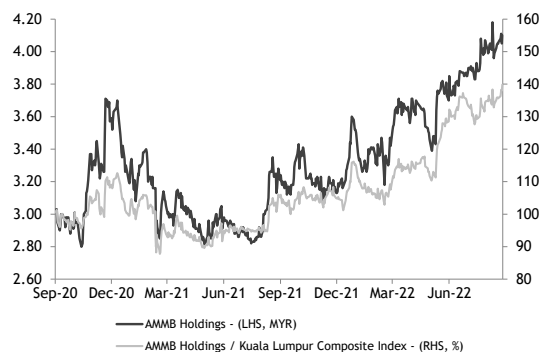
### Statistics

52w high/low (MYR)	4.18/3.08
3m avg turnover (USDm)	3.7
Free float (%)	52.2
Issued shares (m)	3,314
Market capitalisation	MYR13.6B USD3.0B

### Major shareholders:

Australia & New Zealand Banking Group Lt	21.6%
HASHIM AZMAN	11.8%
Employees Provident Fund	10.2%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	2	8	30
Relative to index (%)	6	8	38

Source: FactSet

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Tear Sheet Insert

Risk Rating & Score <sup>1</sup>	Medium & 27.9
Score Momentum <sup>2</sup>	-1.7
Last Updated	20 May 2022
Controversy Score <sup>3</sup> (Updated: 16 May 2022)	1

## Business Model & Industry Issues

- AMMB had, in previous years, been in the press much for its links to 1MDB. Positively though, heavy investments into its risk management processes have contributed to much tightening of processes and there has been an almost complete overhaul of top management at the group. Moreover, its hefty Global Settlement with the Ministry of Finance of MYR2.83b end-Feb 2021 should signal an end to this debacle.
- The banking sector is one of the transmission mechanisms for government stimulus programs under COVID-19 relief schemes, with an ongoing loan moratorium for the unemployed and reduced instalment payments for individuals that have suffered pay cuts. The PEMULIH programme ended in Dec 2021 but affected borrowers could still transition to the URUS programme or the bank's own internal Payment Relief Assistance Plans (PRAP). These repayment assistance programmes elevate social priorities over shareholders returns in the near term.
- Operationally, AMMB displays no exceptional risks not typical of a medium-sized bank for ESG.
- AMMB also scores above-average in our proprietary scoring methodology (see pg.3) with an overall score of 63/100.

### Material E issues

- AMMB had disbursed MYR3.7b in New Green financing, as well as MYR11b with low ESG-Risk Grade by FY22.
- FY22 saw an 11% reduction in total carbon emissions against its FY19 baseline - 26% reduction in Scope 1 emissions and 11% reduction in Scope 2 emissions. It is working towards a 24% reduction in total carbon emissions by FY23. Paper consumption dropped 31%.
- As of FY22, AMMB ceased to provide new or additional loans/financing to coal-fired power plants and businesses where coal or coal-related activities contribute at least 20% of the business' total revenue or cost of production.

### Material S issues

- Female directors make up 33% of Board composition. In FY22, 63% of its workforce comprised women, with 48% of women in management roles.
- In terms of remuneration by gender, the average monthly salary in FY22 of a male employee was about 20%25% higher than that of a female employee at AmBank and AmInvestment Bank respectively. A factor that has to be taken into consideration, though, is that the statistic is skewed by a higher proportion of males in top management, in our view.
- 91% of total procurement was channelled to local businesses, in FY22.

### Key G metrics and issues

- AMMB's Board of Directors comprises 9 members - 7 Independent Non-Executive Directors and 2 Non-Independent Non-Executive Directors.
- The CEO's remuneration was MYR6.7m in FY22, representing 0.5% of the group's pretax profit. The CEO does not sit on the Board of Directors.
- In 2015, AMMB was fined MYR53.7m by BNM for various breaches of regulations and also had to set aside MYR25m per year for four years, for investment in systems, infrastructure and training. According to press reports, this was due to its failure to report suspicious transactions pertaining to Malaysia's ex-Prime Minister Datuk Seri Najib Razak's accounts back then, intrinsically linking the bank to 1MDB. Since then, the bank has done much to enhance its processes and internal systems and there has since been a comprehensive revamp of top management, including the appointment of a new CEO and CFO in Nov 2015 and June 2017 respectively.
- The group discloses the remuneration of each individual Director in its annual report.
- Computerization expenses amounted to MYR192m in FY22, representing 9% of total operating expenses.
- AMMB is audited by Ernst & Young, one of the Big 4 global accounting firms. PwC has been their auditors over the past 10 years, at the very least.

<sup>1</sup>**Risk Rating & Score** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. <sup>2</sup>**Score Momentum** - indicates changes to the company's score since the last update - a **negative** integer indicates a company's improving risk score; a **positive** integer indicates a deterioration. <sup>3</sup>**Controversy Score** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

Quantitative parameters (Score: 60)						
	Particulars	Unit	2020	2021	2022	HLBK MK
E	Scope 1 emissions	tonnes CO2e	102	58	41	134
	Scope 2 emissions	tonnes CO2e	15,810	14,120	12,614	23,541
	<b>Total</b>	<b>tonnes CO2e</b>	<b>15,912</b>	<b>14,178</b>	<b>12,655</b>	<b>23,675</b>
	Scope 3 emissions	tonnes CO2e	350	26	34	1,294
	<b>Total</b>	<b>tonnes CO2e</b>	<b>16,262</b>	<b>14,204</b>	<b>12,689</b>	<b>24,969</b>
	GHG intensity (Scope 1 and 2)	kg CO2e/emp	na	1,534	1,501	3,200
	Exposure to coal, mining & plantation	% of loan book	na	na	na	10.0%
	Electricity consumption	MWh	28,374	25,396	22,943	41,633
	Water consumption	m3	na	na	na	75,549
	Petrol consumption	litres	44,773	25,460	18,077	54,008
	Paper consumption	(m sheets)	55.00	44.00	30.00	na
S	% of women in workforce	%	62.0%	62.0%	63.0%	62.6%
	% of women in management roles	%	43.0%	45.0%	48.0%	55.7%
	Attrition rate	%	na	10.0%	14.7%	10.7%
G	MD/CEO salary as % of recurring net profit	%	0.31%	0.66%	0.53%	0.51%
	Board salary as % of recurring net profit	%	0.37%	0.49%	0.42%	0.05%
	Independent directors on the Board	%	63%	56%	78%	63%
	Profits distributed to shareholders	% of net profit	29.9%	0.0%	10.0%	35.8%
	Female directors on the Board	%	25%	22%	33%	38%

Qualitative Parameters (Score: 33)	
a)	is there an ESG policy in place and whether there is a standalone ESG Committee or is it part of Risk committee? <i>Yes, there is a standalone Group Sustainability Council chaired by the Group CEO, while the CEO of AmBank Islamic is the Group Sustainability Champion and Alternate Chairman.</i>
b)	Does the performance evaluation of the board and senior mgt include a review of the performance of the board and senior management in addressing the company's material sustainability risks and opportunities? <i>Yes. Since FY21, the Group has embedded sustainability-related KPIs into the scorecards of all C-Suites, including the Group CEO.</i>
c)	Does the company follow TCFD framework for ESG reporting? Is it signatory to responsible banking initiative or other such initiatives? <i>Currently establishing climate change parameters according to the Task Force on Climate-Related Financial Disclosures (TCFD), which includes conducting a climate change scenario analysis of its business.</i>
d)	Does the company capture or plan to capture Scope 3 emissions including from financing activities? <i>No mention.</i>
e)	Does the bank have a firm deadline for exiting the financing of the coal sector? <i>The bank no longer provides new or additional loans and financing to businesses where coal or coal-related activities constitute at least 20% of the business' total revenue or cost of production, but no firm exit deadline mentioned.</i>

Target (Score: 100)		
Particulars	Target	Achieved
To reduce overall carbon emissions by 24% by FY23 vs FY19 baseline	-24	-11%
To no longer provide new or additional loans/financing to customers in coal-fired power plants, or coal or coal-related activities contribute 20.0% or more of the counterparty's total revenue, or if coal or coal-related products contribute 20.0% or more of the counterparty's raw materials for its production.	NA	NA
To assign ESG risk grades and climate change classification to our portfolios, and ensure 70.0% of loans/financing portfolios have a low ESG risk grades by 2030.	NA	NA
<b>Impact</b>		
NA		
<b>Overall score: 63</b>		
As per our ESG matrix, AMMB Holdings (AMM MK) has an overall score of 63.		

ESG score	Weights	Scores	Final Score
Quantitative	50%	60	30
Qualitative	25%	33	8
Target	25%	100	25
<b>Total</b>			<b>63</b>

As per our ESG assessment, AMMB has established internal ESG policies, but needs further disclosures and commitments relating to its quantitative "E" metrics. AMMB's overall ESG score is 63, which makes its ESG rating above average in our view (average ESG rating = 50; refer to Appendix I for our ESG Assessment Scoring).

## Appendix I

### Methodology of our proprietary ESG scoring methodology.

We evaluate the ESG ratings based on quantitative, qualitative and ESG targets. We assign a score for each of these three parameters. The overall rating is based on the weighted average of the scores: quantitative (50%), qualitative (25%) and ESG target (25%).

For the quantitative, qualitative and ESG target, the sub-parameters are assigned a score - '0' for data not available, '+1' for improving trajectory, positive change, 'Yes', better than peers or a positive number if historical is not available and '-1' for declining trajectory, negative change, 'No', lower than peers or a negative number. The total of the scores of all the sub-parameters is divided by the total number of sub-parameters is the score of each of the three parameters.

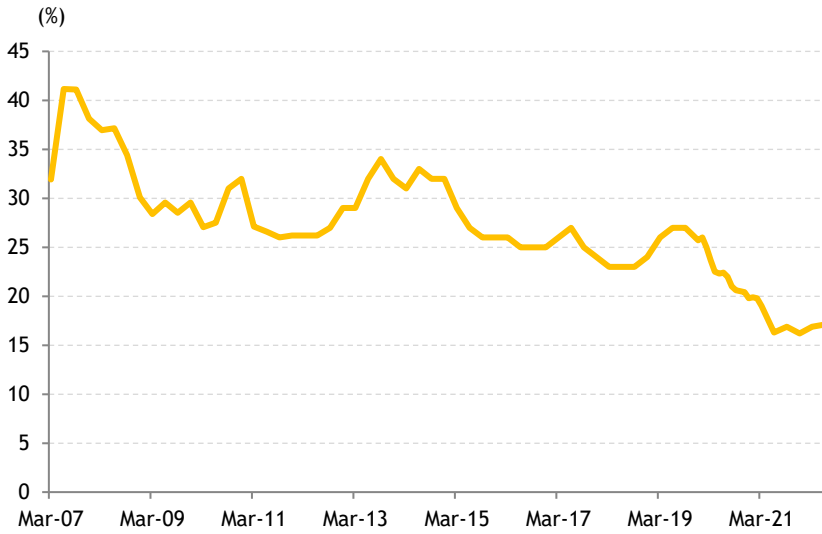
The sub-parameters may be different for different industries depending on the key areas to monitor for each industry. A company should achieve a minimum score of 50 for an average ESG rating.

### 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.

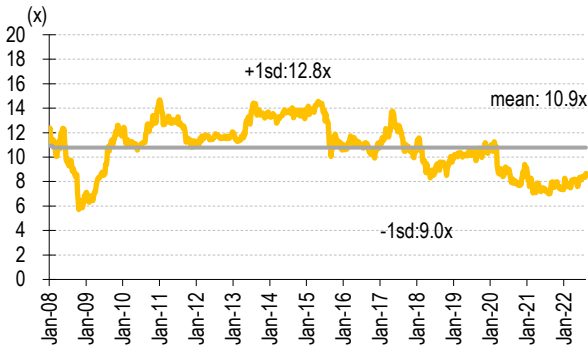
## Foreign shareholding

AMMB's foreign shareholding - (excl. ANZ's 23.8% stake): 17.1% end-Jun 2022



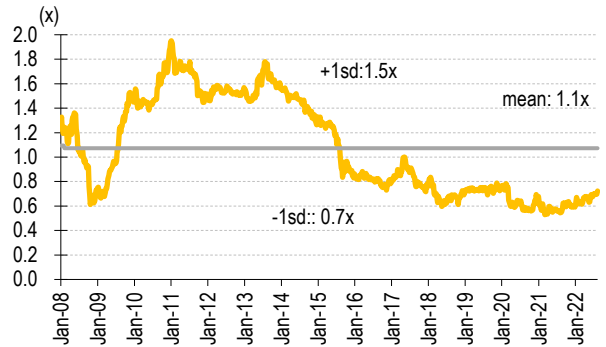
Source: Bank

### 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
<b>Key Metrics</b>					
Core P/E (x)	8.7	9.7	8.3	7.6	6.9
Core FD P/E (x)	8.7	9.7	8.3	7.6	6.9
P/BV (x)	0.6	0.7	0.7	0.6	0.6
P/NTA (x)	0.7	0.7	0.7	0.7	0.7
Net dividend yield (%)	0.0	1.3	4.2	4.6	5.0
<b>INCOME STATEMENT (MYR m)</b>					
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)
<b>Net interest income</b>	<b>2,091.9</b>	<b>2,296.4</b>	<b>2,354.3</b>	<b>2,499.4</b>	<b>2,636.7</b>
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
<b>Total non-interest income</b>	<b>1,487.1</b>	<b>1,262.5</b>	<b>1,179.9</b>	<b>1,209.4</b>	<b>1,239.9</b>
<b>Operating income</b>	<b>4,508.6</b>	<b>4,620.9</b>	<b>4,681.1</b>	<b>4,947.6</b>	<b>5,214.4</b>
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)
<b>Operating expenses</b>	<b>(2,132.2)</b>	<b>(2,094.2)</b>	<b>(2,205.2)</b>	<b>(2,323.7)</b>	<b>(2,450.4)</b>
<b>Pre-provision profit</b>	<b>2,376.4</b>	<b>2,526.7</b>	<b>2,476.0</b>	<b>2,623.9</b>	<b>2,764.1</b>
Loan impairment allowances	(913.2)	(314.2)	(490.8)	(448.8)	(402.0)
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
<b>Pretax profit</b>	<b>(3,483.5)</b>	<b>1,804.7</b>	<b>2,031.5</b>	<b>2,223.8</b>	<b>2,413.2</b>
Income tax	(228.6)	(209.8)	(446.9)	(489.2)	(530.9)
Minorities	(114.4)	(92.3)	(95.9)	(99.8)	(103.8)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
<b>Reported net profit</b>	<b>(3,826.5)</b>	<b>1,502.7</b>	<b>1,488.6</b>	<b>1,634.8</b>	<b>1,778.5</b>
<b>Core net profit</b>	<b>1,013.3</b>	<b>1,263.5</b>	<b>1,488.6</b>	<b>1,634.8</b>	<b>1,778.5</b>
<b>BALANCE SHEET (MYR m)</b>					
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
<b>Total assets</b>	<b>170,178.3</b>	<b>174,858.9</b>	<b>184,514.4</b>	<b>194,451.9</b>	<b>205,013.8</b>
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	15,507.9	17,872.8	20,452.8
<b>Total liabilities</b>	<b>154,587.9</b>	<b>156,900.0</b>	<b>165,173.2</b>	<b>173,948.3</b>	<b>183,250.4</b>
Share capital	5,951.6	6,776.2	6,776.2	6,776.2	6,776.2
Reserves	8,689.2	9,983.6	11,269.9	12,332.5	13,488.5
Shareholders' funds	14,640.8	16,759.8	18,046.1	19,108.7	20,264.7
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
<b>Total equity</b>	<b>15,590.4</b>	<b>17,958.9</b>	<b>19,341.2</b>	<b>20,503.6</b>	<b>21,763.4</b>
<b>Total liabilities &amp; equity</b>	<b>170,178.3</b>	<b>174,858.9</b>	<b>184,514.4</b>	<b>194,451.9</b>	<b>205,013.8</b>

FYE 31 Mar	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Key Ratios</b>					
<b>Growth (%)</b>					
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)	24.7	17.8	9.8	8.8
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
<b>Profitability (%)</b>					
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
<b>Liquidity (%)</b>					
Loans/customer deposits	93.2	96.0	96.9	97.3	97.7
<b>Asset quality (%)</b>					
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	0.4	0.4	0.3
Loan loss coverage	128.8	115.0	89.0	89.0	89.0
<b>Capital adequacy (%)</b>					
CET1	10.4	11.7	12.5	12.7	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
<b>Returns (%)</b>					
ROAE	6.1	8.0	8.6	8.8	9.0
ROAA	0.6	0.7	0.8	0.9	0.9
Shareholders equity/assets	8.6	9.6	9.8	9.8	9.9

Source: Company; Maybank IBG Research

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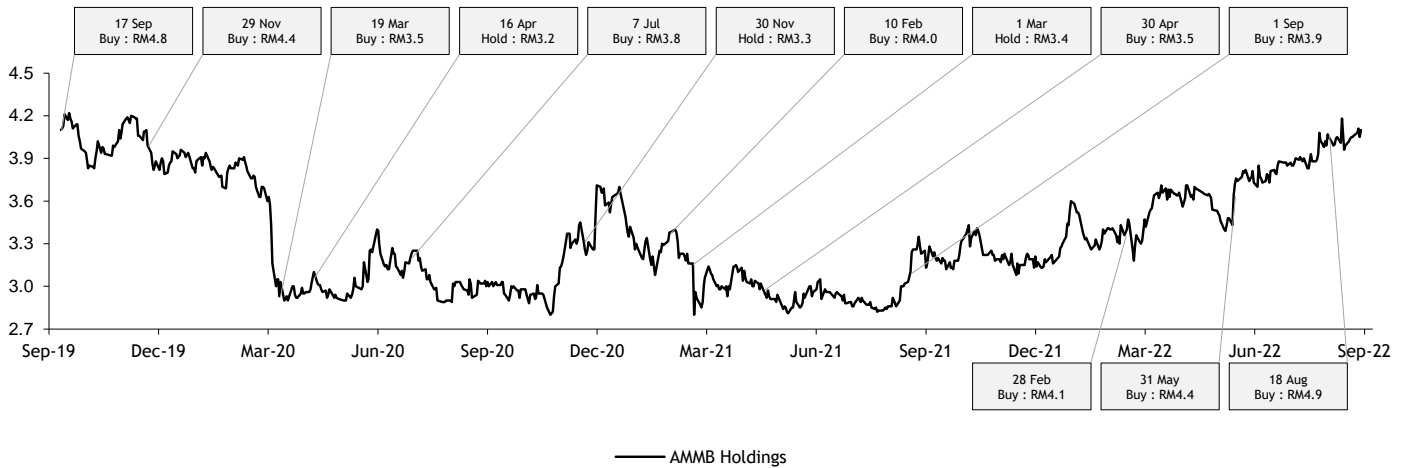
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