

# AMMB Holdings (AMM MK)

## 2QFY23 results above expectations

### Forecasts maintained

While 1HFY23 results were above expectations on low credit costs, management maintains its credit cost guidance, which would imply higher credit costs in 2HFY23. Our forecasts are maintained and we continue to maintain a BUY on the stock, with an unchanged TP of MYR4.95, based on a CY23E PBV of 0.8x (CY23E ROE: 8.7%).

### Above expectations

AMMB's 2QFY23 core net profit of MYR469m (+63% YoY, +16% QoQ) took 1HFY23 core net profit to MYR873m (+35% YoY) - above expectations at 58%/55% of our full-year forecast and consensus respectively. The main variance emanated from still low credit costs of just 24bps in 2QFY23 (20bps in 1QFY23). 1HFY23 net credit cost was 22bps but management maintains its 35-40bps credit cost guidance for FY23. Our forecasts are unchanged with a credit cost estimate of 40bps for FY23.

### Decent operating environment

Loan growth picked up pace, rising 7.6% YoY and NIM in 1HFY23 improved 12bps YoY. NOII in 1HFY23 declined just 11% YoY, contributing to 1HFY23 operating income growth of 8.7%. Operating expenses rose at a faster rate of 10%, contributing to operating profit growth of 7.7% YoY. Credit cost remained relatively low, resulting in 1HFY23 provisions declining 56% YoY.

### Interim dividend payout of 23%

AMMB declared an interim DPS of 6sen, representing a payout ratio of 23%. Its capital ratios are recovering nicely and its CET1 ratio would be 12.2% after the dividend payment. Management is on target to restoring its payout ratio to its historical range of 35-40%. Our forecasts impute a payout ratio of 35%.

FYE Mar (MYR m)	FY21A	FY22A	FY23E	FY24E	FY25E
Operating income	4,509	4,621	4,663	4,959	5,223
Pre-provision profit	2,376	2,527	2,458	2,635	2,773
Core net profit	1,013	1,248	1,488	1,635	1,778
Core EPS (MYR)	0.34	0.38	0.49	0.54	0.59
Core EPS growth (%)	(24.5)	12.2	30.6	9.9	8.7
Net DPS (MYR)	0.00	0.05	0.17	0.19	0.21
Core P/E (x)	8.7	9.8	8.4	7.7	7.1
P/BV (x)	0.6	0.7	0.7	0.7	0.6
Net dividend yield (%)	0.0	1.3	4.1	4.6	4.9
Book value (MYR)	4.86	5.56	5.98	6.34	6.72
ROAE (%)	6.1	7.9	8.6	8.8	9.0
ROAA (%)	0.6	0.7	0.8	0.8	0.9
Consensus net profit	-	-	1,666	1,769	1,832
MKE vs. Consensus (%)	-	-	(11.8)	(7.6)	(2.9)

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# BUY

Share Price	MYR 4.17
12m Price Target	MYR 4.95 (+19%)
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.

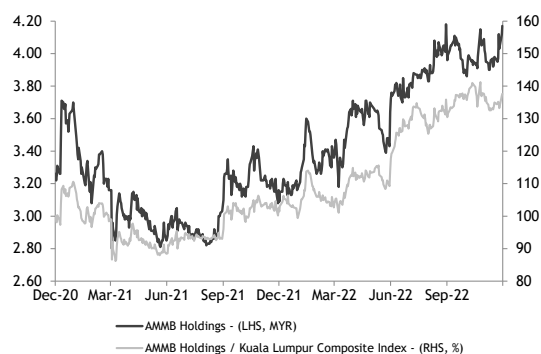
### Statistics

52w high/low (MYR)	4.18/3.09
3m avg turnover (USDm)	4.0
Free float (%)	52.3
Issued shares (m)	3,314
Market capitalisation	MYR13.8B USD3.1B

### Major shareholders:

Australia & New Zealand Banking Group Lt	21.6%
HASHIM AZMAN	11.8%
Employees Provident Fund	10.1%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	2	(0)	32
Relative to index (%)	1	2	35

Source: FactSet

## AMMB: Summary results table

FYE Mar (MYR m)	Quarterly					Cumulative		
	2Q23	2Q22	% YoY	1Q23	% QoQ	1HFY23	1HFY22	% YoY
Interest income	1,188.0	969.6	22.5	1,043.1	13.9	2,231.1	1,943.1	14.8
Interest expense	(588.1)	(437.4)	34.5	(476.6)	23.4	(1,064.7)	(874.1)	21.8
<b>Net Interest income</b>	<b>600.0</b>	<b>532.3</b>	<b>12.7</b>	<b>566.4</b>	<b>5.9</b>	<b>1,166.4</b>	<b>1,069.0</b>	<b>9.1</b>
Islamic banking income	363.5	235.8	54.1	282.8	28.5	646.3	516.7	25.1
Non-interest income	199.4	219.3	(9.1)	196.4	1.5	395.8	446.1	(11.3)
<b>Operating income</b>	<b>1,162.8</b>	<b>987.4</b>	<b>17.8</b>	<b>1,045.7</b>	<b>11.2</b>	<b>2,208.5</b>	<b>2,031.7</b>	<b>8.7</b>
Operating expenses	(476.4)	(433.6)	9.9	(464.7)	2.5	(941.1)	(854.5)	10.1
<b>Operating profit</b>	<b>686.4</b>	<b>553.8</b>	<b>24.0</b>	<b>581.0</b>	<b>18.2</b>	<b>1,267.4</b>	<b>1,177.3</b>	<b>7.7</b>
Loan impairment allowance	(73.7)	(117.2)	(37.1)	(60.1)	22.8	(133.8)	(306.1)	(56.3)
Other provisions	(14.0)	(55.6)	(74.8)	(5.9)	139	(19.9)	(70.1)	(71.7)
Associates & JVs	11.9	5.5	114.3	2.9	315.7	14.7	31.8	(53.6)
<b>Pretax profit</b>	<b>610.5</b>	<b>386.5</b>	<b>58.0</b>	<b>517.9</b>	<b>17.9</b>	<b>1,128.4</b>	<b>832.8</b>	<b>35.5</b>
Taxation	(141.4)	(87.0)	62.6	(114.0)	24.1	(255.4)	(188.0)	35.8
Discontinued operations	(107.5)	38.5	NM	30.0	NM	(77.5)	115.4	NM
Minority interest	73.8	(17.0)	NM	(14.7)	NM	59.0	(52.6)	NM
<b>Net profit</b>	<b>435.4</b>	<b>321.0</b>	<b>35.6</b>	<b>419.2</b>	<b>3.9</b>	<b>854.6</b>	<b>707.6</b>	<b>20.8</b>
<b>Recurring net profit</b>	<b>469.4</b>	<b>288.0</b>	<b>63.0</b>	<b>403.6</b>	<b>16.3</b>	<b>873.0</b>	<b>644.6</b>	<b>35.4</b>
EPS (sen) (basic)	13.2	9.7	35.6	12.7	3.5	25.8	21.5	19.9
DPS (sen)	6.0	-	0.0	0.0	0.0	6.0	-	0.0
Cost-to-income (%)	41.0	43.9	(6.7)	44.4	(3.5)	42.6	42.1	1.3
Tax rate (%)	23.2	22.5	2.9	22.0	1.2	22.6	22.6	0.3
<b>Balance sheet (MYR m)</b>	<b>Sep 22</b>	<b>Sep 21</b>	<b>% YoY</b>	<b>Jun 22</b>	<b>% QoQ</b>	<b>Sep 22</b>	<b>Dec 21</b>	<b>YTD chg</b>
Customer loans (gross)	124,351	115,553	7.6	120,126	3.5	124,351	119,307	4.2
Customer loans (net)	122,513	113,043	8.4	118,268	3.6	122,513	116,847	4.8
Deposits from customers	121,025	116,036	4.3	121,444	(0.3)	121,025	124,909	(3.1)
			<b>ppt chg</b>		<b>ppt chg</b>			<b>ppt chg</b>
Gross LDR (%)	102.7	99.6	3.2	98.9	3.8	102.7	95.5	7.2
Gross impaired loans	1,892	1,668	13.4	1,864	1.5	1,892	1,608	17.7
Gross impaired loans ratio (%)	1.5	1.4	0.1	1.6	(0.0)	1.5	1.3	0.2

Source: Company

## Key highlights

**Repayment assistance:** Loans under repayment assistance (RA) totalled MYR4.7b (4% of total loans) end-Oct 2022, down from MYR5.5b (5% of total loans). Retail RA loans that were more than 3 months in arrears accounted for 7% of total retail RA loans while the percentage of SME RA loans more than 3 months in arrears was 4%.

**Loan growth:** Group loans gathered momentum, rising 7.6% YoY and 7.3% on an annualized basis. On a YTD basis, the growth emanated predominantly from corporate loan growth of 10% and investment banking loan growth of 7%. Retail loan growth was 3% YTD, supported by cards and personal financing growth of 4% YTD and retail SME financing growth of 5% YTD. Loan growth thus far is faster than management's 7% target for FY23.

**Customer deposits:** Deposits slipped 1% YTD, while CASA contracted 8% YTD. The group's CASA ratio was 32.9% end-Sep 2022 versus 32.6% end-June 2022.

**Net interest margin (NIM):** NIM was stable QoQ at 2.12%. 1HFY23 NIM was 2.17%, up 12bps from 2.05% in 1HFY22. Underlying NIM (excluding mod gains/losses) was 2.12%, up 16bps from 1.96% in 1HFY22.

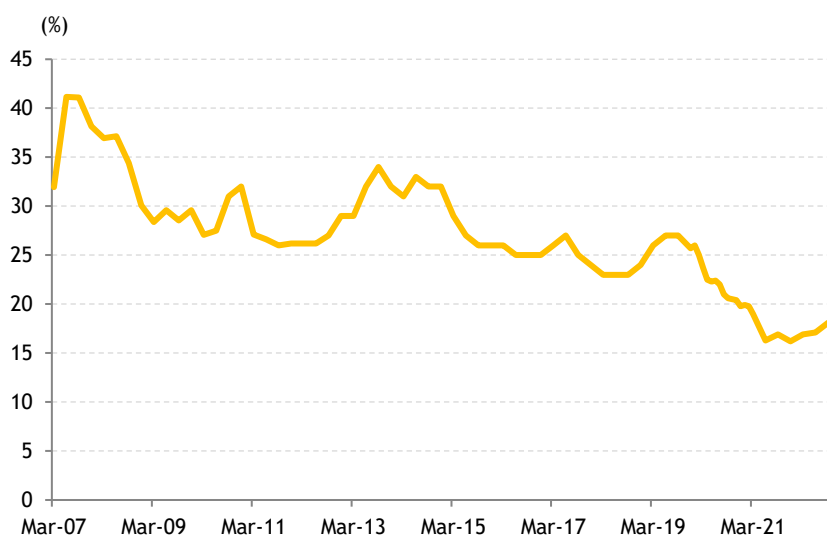
**Non-interest income (NOII):** 2QFY23 saw NOII decline 9% YoY, while 1HFY23 NOII declined 11% YoY. Fee income declined due to lower stockbroking, asset management and unit trust income. Other NOII was impacted by mark-to-market losses on investments and losses on derivatives, offset in part by large forex gains.

**Operating expenses:** Operating expenses rose 9.9% YoY in 2QFY23, and was up 10% YoY in 1HFY23. The growth was however distorted by the write-back of bonus accruals in 1HFY22. Excluding this, operating expenses would have risen just 5% YoY. The group's cost/income ratio (CIR) averaged 42.6% in 1HFY23 versus 42.1% in 1HFY22.

**Credit cost:** The group's GIL ratio was lower at 1.52% end-Sep 2022 versus 1.55% end-June 2022, though marginally higher from 1.4% end-Mar 2022. Management overlays total MYR424m to date. Net credit cost was 24bps in 2QFY23 versus 20bps in 1QFY23. Cumulative 1HFY23 credit cost was 22bps versus 54bps in 1HFY22. Management maintains its credit cost guidance of 35-40bps with MYR220m of forward-looking provisions that it could possibly put through in 2HFY23, to factor in further interest rate increases in the next few months.

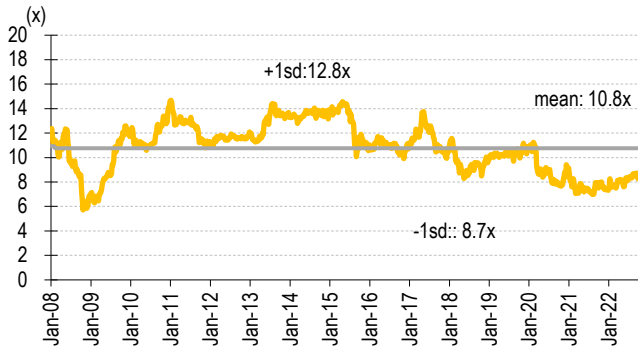
**Capital ratio:** AMMB's capital ratios are recovering nicely and its CET1 ratio was higher at 12.2% after the proposed dividend of 6 sen. Management targets to take its CET1 ratio to above 12.5% by Mar 2023 and believes that a dividend payout ratio of at least 35% is realistic.

#### AMMB's foreign shareholding - (excl. ANZ's 23.8% stake): 18.1% end-Sep 2022



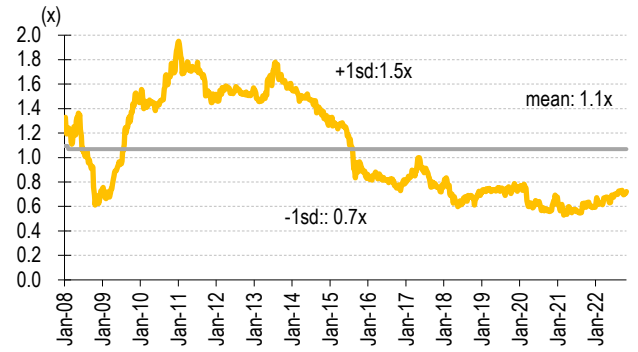
Source: Bank

**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

### 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.

FYE 31 Mar	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Key Metrics</b>					
Core P/E (x)	8.7	9.8	8.4	7.7	7.1
Core FD P/E (x)	8.7	9.8	8.4	7.7	7.1
P/BV (x)	0.6	0.7	0.7	0.7	0.6
P/NTA (x)	0.7	0.7	0.8	0.7	0.7
Net dividend yield (%)	0.0	1.3	4.1	4.6	4.9
<b>INCOME STATEMENT (MYR m)</b>					
Interest income	4,155.8	4,066.6	4,325.5	4,828.6	5,051.9
Interest expense	(2,063.9)	(1,770.2)	(1,916.9)	(2,334.6)	(2,385.9)
<b>Net interest income</b>	<b>2,091.9</b>	<b>2,296.4</b>	<b>2,408.6</b>	<b>2,494.0</b>	<b>2,666.0</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	569.3	586.4	604.0
Other income	411.0	182.2	109.1	202.5	169.0
<b>Total non-interest income</b>	<b>1,487.1</b>	<b>1,262.5</b>	<b>1,107.4</b>	<b>1,226.3</b>	<b>1,219.2</b>
<b>Operating income</b>	<b>4,508.6</b>	<b>4,620.9</b>	<b>4,662.9</b>	<b>4,959.1</b>	<b>5,223.1</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>2,457.7</b>	<b>2,635.4</b>	<b>2,772.7</b>
Loan impairment allowances	(913.2)	(314.2)	(496.8)	(459.5)	(411.6)
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>2,007.3</b>	<b>2,224.5</b>	<b>2,412.2</b>
Income tax	(228.6)	(209.8)	(441.6)	(489.4)	(530.7)
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>1,469.7</b>	<b>1,635.3</b>	<b>1,777.7</b>
<b>Core net profit</b>	<b>1,013.3</b>	<b>1,247.5</b>	<b>1,488.1</b>	<b>1,635.3</b>	<b>1,777.7</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	126,678.0	132,378.5	138,335.5
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>187,474.2</b>	<b>197,544.9</b>	<b>208,245.9</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	18,480.0	20,977.6	23,697.3
<b>Total liabilities</b>	<b>154,587.9</b>	<b>156,900.0</b>	<b>168,145.3</b>	<b>177,053.2</b>	<b>186,495.0</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	11,257.6	12,320.6	13,476.1
Shareholders' funds	14,640.8	16,759.8	18,033.8	19,096.8	20,252.3
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	19,328.9	20,491.6	21,750.9
<b>Total liabilities &amp; equity</b>	<b>170,178.3</b>	<b>174,858.9</b>	<b>187,474.2</b>	<b>197,544.9</b>	<b>208,245.9</b>

FYE 31 Mar	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Key Ratios</b>					
<b>Growth (%)</b>					
Net interest income	7.9	9.8	4.9	3.5	6.9
Non-interest income	16.9	(15.1)	(12.3)	10.7	(0.6)
Operating expenses	1.1	(1.8)	5.3	5.4	5.5
Pre-provision profit	12.0	6.3	(2.7)	7.2	5.2
Core net profit	(24.4)	23.1	19.3	9.9	8.7
Gross loans	7.0	4.6	7.0	4.5	4.5
Customer deposits	6.6	1.9	3.8	4.1	4.1
Total assets	0.6	2.8	7.2	5.4	5.4
<b>Profitability (%)</b>					
Non-int. income/Total income	33.0	27.3	23.7	24.7	23.3
Average lending yields	3.16	3.10	3.15	3.28	3.27
Average cost of funds	1.76	1.53	1.54	1.69	1.66
Net interest margin	1.90	2.05	2.06	2.04	2.07
Cost/income	47.3	45.3	47.3	46.9	46.9
<b>Liquidity (%)</b>					
Loans/customer deposits	93.2	96.0	99.3	99.6	100.0
<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	12.3	12.5	12.7
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	7.9	8.6	8.8	9.0
ROAA	0.6	0.7	0.8	0.8	0.9
Shareholders equity/assets	8.6	9.6	9.6	9.7	9.7

Source: Company; Maybank IBG Research

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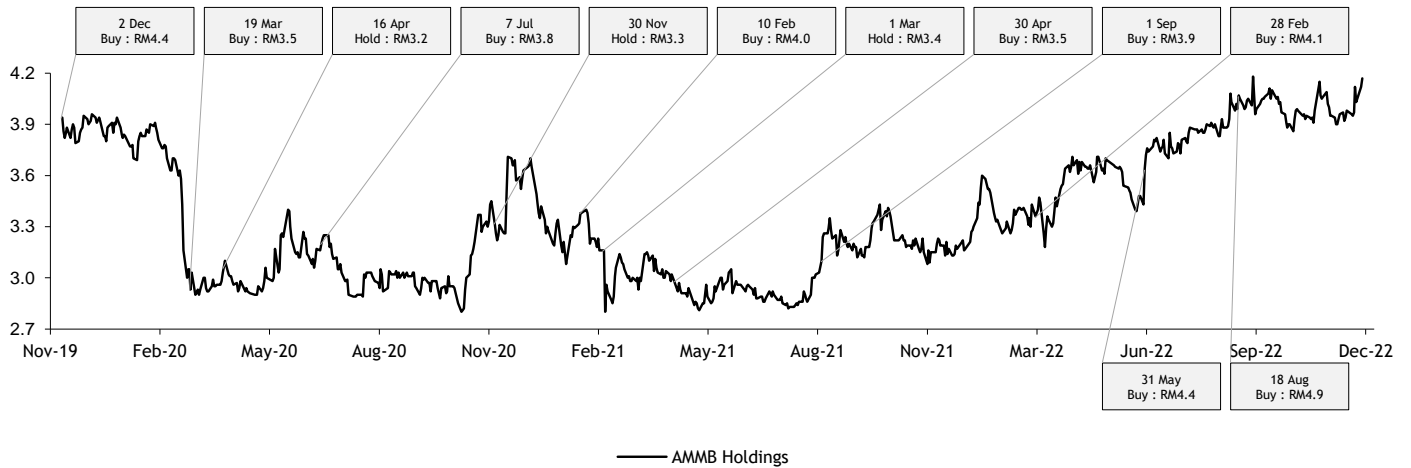
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