

# AMMB Holdings (AMM MK)

## Looking to improving yields

### BUY maintained

We keep our forecasts following our meeting with management. We forecast a net profit growth of 5.7% in FY25/26E respectively, with prospective ROEs of 8.7%. Valuations are undemanding - BUY maintained with an unchanged TP of MYR5.05, pegged to a CY24E PBV of 0.83x. We forecast a FY24 dividend yield of 4.9% (40% payout assumption).

### Looking towards NIM improvement

AMMB's loan growth has lagged the industry's thus far and it is likely to end its financial year (March) around the 3% mark, in our view. We have pencilled in loan growth of 2.8% for FY24 and 3.2% for FY25. Nevertheless, what is positive is that with increased focus on better yielding loans in the commercial and mid-corporate space, we do expect NIMs to improve in FY25, and we have factored in a 3-bps increase in the group's FY25 NIM.

### Provision levels are comfortable

The group's gross impaired loans ratio is still ticking up at this stage (particularly in the consumer portfolio), in line with the industry's, but with the restoration of its loan loss coverage to a comfortable 112% end-Dec 2023, provision levels are adequate, in our view. We have nevertheless kept credit cost assumptions elevated at 30bps in FY24E and FY25E respectively, on prudent grounds.

### Room for higher payout ratios

The group's CET1 ratios have been restored to a comfortable 13.4% and could potentially be enhanced by another 2%-pts when it carts over to an Internal Risk-based (IRB) framework. Our dividend payout forecast assumes a normalization to pre-COVID levels of 40% from FY24E onwards, but we do not rule out higher payout ratios once it shifts to IRB.

FYE Mar (MYR m)	FY22A	FY23A	FY24E	FY25E	FY26E
Operating income	4,285	4,472	4,548	4,607	4,782
Pre-provision profit	2,496	2,473	2,508	2,571	2,680
Core net profit	1,422	1,735	1,647	1,740	1,838
Core EPS (MYR)	0.43	0.52	0.50	0.52	0.55
Core EPS growth (%)	27.9	21.6	(5.2)	5.7	5.7
Net DPS (MYR)	0.05	0.18	0.20	0.21	0.22
Core P/E (x)	8.6	7.2	8.3	7.8	7.4
P/BV (x)	0.7	0.7	0.7	0.7	0.6
Net dividend yield (%)	1.3	4.9	4.8	5.1	5.4
Book value (MYR)	5.06	5.47	5.87	6.18	6.51
ROAE (%)	9.1	9.9	8.8	8.7	8.7
ROAA (%)	0.8	0.9	0.8	0.9	0.9
Consensus net profit	-	-	1,786	1,751	1,879
MIBG vs. Consensus (%)	-	-	14.9	(0.7)	(2.2)

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# BUY

Share Price	MYR 4.12
12m Price Target	MYR 5.05 (+23%)
Previous Price Target	MYR 5.05

### Company Description

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

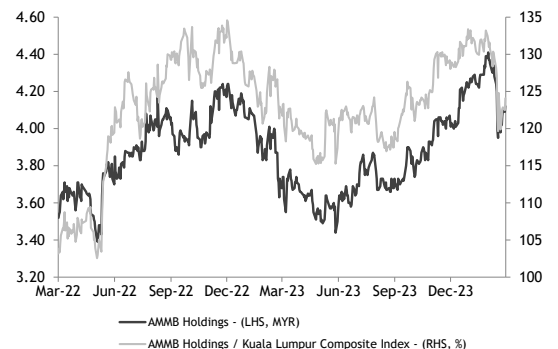
### Statistics

52w high/low (MYR)	4.41/3.44
3m avg turnover (USDm)	6.3
Free float (%)	67.5
Issued shares (m)	3,314
Market capitalisation	MYR13.7B
	USD2.9B

### Major shareholders:

Employees Provident Fund	12.7%
HASHIM AZMAN	11.8%
Permodalan Nasional Bhd.	7.6%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	(6)	1	10
Relative to index (%)	(7)	(5)	0

Source: FactSet

# 1. Highlights

## 1.1 Focusing on commercial and mid-corp lending

Against an earlier loan growth target of 4-5%, AMMB's loan growth for FY24 is likely to settle lower at the 3% mark, mainly due to ongoing contraction in corporate loans, as repayments exceed disbursements. On the consumer front, the group is likely to scale back on its mortgage offerings if rate competition continues to be stiff, focusing instead on driving overall profitability. Retail SME lending continues to be cautious, and has expanded <2% in FY24-YTD. Into FY25, where the group is likely to see increased focus in the commercial banking space, in segments such as construction and property development, as well as the mid-sized corporate banking space.

Our forecasts currently assume loan growth of 2.8% for FY24 and 3.2% for FY25.

## 1.2 NIMs relatively stable

NIMs had recovered from a low of 1.76% in 1QFY24 to 1.82% in 2QFY24 and 1.79% in 3QFY24. There has been some mild pressure in 4QFY24, but only by about 1-2bps. This being the case, NIM for FY24 is likely to average around 1.79%, in our view, which would be within management's guidance.

Our forecasts currently assume NIMs of around 1.79% for FY24 and 1.82% in FY25. The expectation of a slightly improvement in FY25 is largely predicated on the group's shift away from the more rate competitive segments e.g. mortgages, to better margin segments e.g. commercial.

## 1.3 Looking to sustain NOII

Non-interest income (NOII) was supportive of earnings in 9MFY24, rising 25% YoY. The group's treasury book is positioned around expectations of possible rate cuts this year, and could benefit from unrealized/realized gains from lower interest rates. The potential disposal of AmMetLife awaits approval from authorities.

## 1.4 Keeping costs under control

Personnel costs rose 5% YoY in 9MFY24, of which about half may be attributed to higher unionised costs. Admin and establishment (ex-depreciation/amortization) costs rose 20%/15% respectively in 9MFY24. Management believes that there is room for further cost savings, with the aim of keeping the group's cost/income ratio around 45%.

## 1.5 Still some stress in the consumer book...

The group's gross impaired loans (GIL) ratio was 1.60% end-Dec 2023 and ticked up in recent months due to upticks in the consumer space and one or two accounts in the commercial accounts. Asset quality is generally stable otherwise.

## 1.6 ...but provision levels are comfortable

Recently, the group took the opportunity to improve its loan loss coverage and recognised one-off credit impairment overlays of MYR328m in 3QFY24. This raised its credit cost to 74bps in 3QFY24 from 17bps in 2QFY24 and 51bps in 1QFY24. Positively, this improved the group's loan loss coverage to 110.7% end-Dec 2023 (112.3% including regulatory reserves) from 96.2% end-Sep 2023. Management guides for credit cost of 30-35bps for FY24 excluding the one-off overlays.

We have penned in an average credit cost of 30bps for FY24 and maintained a credit cost assumption of 30bps into FY25 as well, on prudent grounds.

## 1.7 Expecting capital ratios to improve further

With the recent tax-writeback, AMMB's CET1 ratio improved substantially to 13.4% end-Dec 2023 from 12.7% end-Sep 2023 on a non-transitional basis. The group's shift to an Internal Risk-based (IRB) framework could add another 2%-pts to the group's CET1 ratio. Currently, the group awaits approval from authorities to do so. Tentatively, the implementation of Basel III could shave off about 0.5%-pts, but this could be compensated for by the possible disposal of AmMetLife. All in, AMMB's CET1 ratio could comfortably move up to over 15%.

## 1.8 Could pave the way for higher dividend payouts

With the recovery in capital ratios, we expect the group's dividend payout ratio to restore to historical levels, which averaged 40% in FY17-FY19. Nevertheless, there is room for further upside, in our opinion, once the shift towards IRB further improves the group's capital ratios.

FYE 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Key Metrics</b>					
Core P/E (x)	8.6	7.2	8.3	7.8	7.4
Core FD P/E (x)	8.6	7.2	8.3	7.8	7.4
P/BV (x)	0.7	0.7	0.7	0.7	0.6
P/NTA (x)	0.8	0.7	0.7	0.7	0.6
Net dividend yield (%)	1.3	4.9	4.8	5.1	5.4
<b>INCOME STATEMENT (MYR m)</b>					
Interest income	4,170.6	4,909.9	4,985.8	4,984.3	5,066.1
Interest expense	(1,770.2)	(2,695.3)	(3,040.4)	(3,079.4)	(3,170.6)
<b>Net interest income</b>	<b>2,400.4</b>	<b>2,214.6</b>	<b>1,945.4</b>	<b>1,904.9</b>	<b>1,895.5</b>
Islamic banking income	1,062.0	1,301.3	1,405.4	1,517.8	1,639.2
Net insurance income	0.0	0.0	0.0	0.0	0.0
Net fees and commission	603.7	597.0	614.9	633.3	652.3
Other income	218.6	359.4	582.4	551.2	595.3
<b>Total non-interest income</b>	<b>822.4</b>	<b>956.4</b>	<b>1,197.3</b>	<b>1,184.5</b>	<b>1,247.6</b>
<b>Operating income</b>	<b>4,284.8</b>	<b>4,472.2</b>	<b>4,548.0</b>	<b>4,607.2</b>	<b>4,782.3</b>
Staff costs	(1,151.8)	(1,317.7)	(1,317.7)	(1,370.4)	(1,425.2)
Other operating expenses	(637.1)	(681.4)	(722.0)	(665.7)	(677.2)
<b>Operating expenses</b>	<b>(1,789.0)</b>	<b>(1,999.1)</b>	<b>(2,039.7)</b>	<b>(2,036.1)</b>	<b>(2,102.4)</b>
<b>Pre-provision profit</b>	<b>2,495.8</b>	<b>2,473.1</b>	<b>2,508.4</b>	<b>2,571.1</b>	<b>2,679.9</b>
Loan impairment allowances	(314.2)	(421.8)	(508.1)	(408.0)	(393.6)
Other allowances	(453.5)	68.2	(172.1)	0.0	0.0
Associates & JV income	44.1	69.9	64.2	67.4	70.8
<b>Pretax profit</b>	<b>1,772.2</b>	<b>2,189.4</b>	<b>1,892.3</b>	<b>2,230.5</b>	<b>2,357.1</b>
Income tax	(177.3)	(513.1)	132.9	(490.7)	(518.6)
Minorities	(92.3)	58.8	(25.1)	(0.2)	(0.2)
Discontinued operations	228.6	(66.1)	51.1	0.0	0.0
<b>Reported net profit</b>	<b>1,731.3</b>	<b>1,669.1</b>	<b>2,051.2</b>	<b>1,739.6</b>	<b>1,838.3</b>
<b>Core net profit</b>	<b>1,421.8</b>	<b>1,735.2</b>	<b>1,646.5</b>	<b>1,739.6</b>	<b>1,838.3</b>
<b>BALANCE SHEET (MYR m)</b>					
Cash & deposits with banks	14,522.5	8,698.5	9,046.5	9,408.3	9,784.7
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	7,216.6	12,770.9	8,939.6	9,118.4	9,300.8
Available-for-sale securities	27,794.5	39,080.4	40,252.8	41,057.9	41,879.1
Investment securities	0.0	0.0	0.0	0.0	0.0
Loans & advances	118,065.7	128,242.6	132,268.4	136,479.1	141,295.6
Central bank deposits	376.5	2,446.5	2,169.1	2,209.5	2,250.7
Investment in associates/JVs	604.5	1,631.6	1,677.8	1,726.4	1,777.3
Insurance assets	580.7	0.0	0.0	0.0	0.0
Fixed assets	370.3	391.5	411.1	431.7	453.3
Intangible assets	1,399.9	510.6	510.6	510.6	510.6
Other assets	3,927.6	3,767.8	4,715.8	4,834.6	4,957.2
<b>Total assets</b>	<b>174,858.9</b>	<b>197,540.6</b>	<b>199,991.9</b>	<b>205,776.6</b>	<b>212,209.2</b>
Deposits from customers	122,970.7	130,331.6	132,921.4	135,579.8	138,291.4
Deposits from banks & FIs	9,894.6	11,462.2	11,691.5	11,925.3	12,163.8
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	8,375.0	9,915.0	10,906.5	11,997.2	13,196.9
Insurance liabilities	2,687.4	0.0	0.0	0.0	0.0
Other liabilities	12,972.3	27,695.9	25,007.1	25,764.9	26,944.6
<b>Total liabilities</b>	<b>156,900.0</b>	<b>179,404.7</b>	<b>180,526.5</b>	<b>185,267.2</b>	<b>190,596.7</b>
Share capital	6,776.2	6,376.2	6,376.2	6,376.2	6,376.2
Reserves	9,983.6	11,758.8	13,063.2	14,106.9	15,209.9
Shareholders' funds	16,759.8	18,135.0	19,439.4	20,483.2	21,586.1
Preference shares	0.0	0.0	0.0	0.0	0.0
Minority interest	1,199.1	0.9	26.0	26.2	26.4
Total equity	17,958.9	18,135.9	19,465.4	20,509.3	21,612.5
<b>Total liabilities &amp; equity</b>	<b>174,858.9</b>	<b>197,540.6</b>	<b>199,991.9</b>	<b>205,776.6</b>	<b>212,209.2</b>

FYE 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Key Ratios</b>					
<b>Growth (%)</b>					
Net interest income	14.7	(7.7)	(12.2)	(2.1)	(0.5)
Non-interest income	(44.7)	16.3	25.2	(1.1)	5.3
Operating expenses	(16.1)	11.7	2.0	(0.2)	3.3
Pre-provision profit	5.0	(0.9)	1.4	2.5	4.2
Core net profit	40.3	22.0	(5.1)	5.7	5.7
Gross loans	4.6	8.5	2.8	3.2	3.5
Customer deposits	1.9	6.0	2.0	2.0	2.0
Total assets	2.8	13.0	1.2	2.9	3.1
<b>Profitability (%)</b>					
Non-int. income/Total income	19.2	21.4	26.3	25.7	26.1
Average lending yields	3.03	3.52	3.34	3.36	3.37
Average cost of funds	1.53	2.14	2.17	2.11	2.11
Net interest margin	2.05	2.07	1.79	1.82	1.83
Cost/income	41.8	44.7	44.8	44.2	44.0
<b>Liquidity (%)</b>					
Loans/customer deposits	96.0	98.4	99.5	100.7	102.2
<b>Asset quality (%)</b>					
Net NPL	0.9	1.0	1.2	1.2	1.1
Gross NPL	1.4	1.5	1.6	1.6	1.5
(SP+GP)/average gross loans	0.3	0.3	0.3	0.3	0.3
Loan loss coverage	115.0	104.6	74.9	75.9	79.1
<b>Capital adequacy (%)</b>					
CET1	11.7	12.1	13.5	13.8	14.2
Tier 1 capital	11.7	12.1	0.0	0.0	0.0
Risk-weighted capital	15.2	15.5	0.0	0.0	0.0
<b>Returns (%)</b>					
ROAE	9.1	9.9	8.8	8.7	8.7
ROAA	0.8	0.9	0.8	0.9	0.9
Shareholders equity/assets	9.6	9.2	9.7	10.0	10.2

Source: Company; Maybank IBG Research

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• Retail Research

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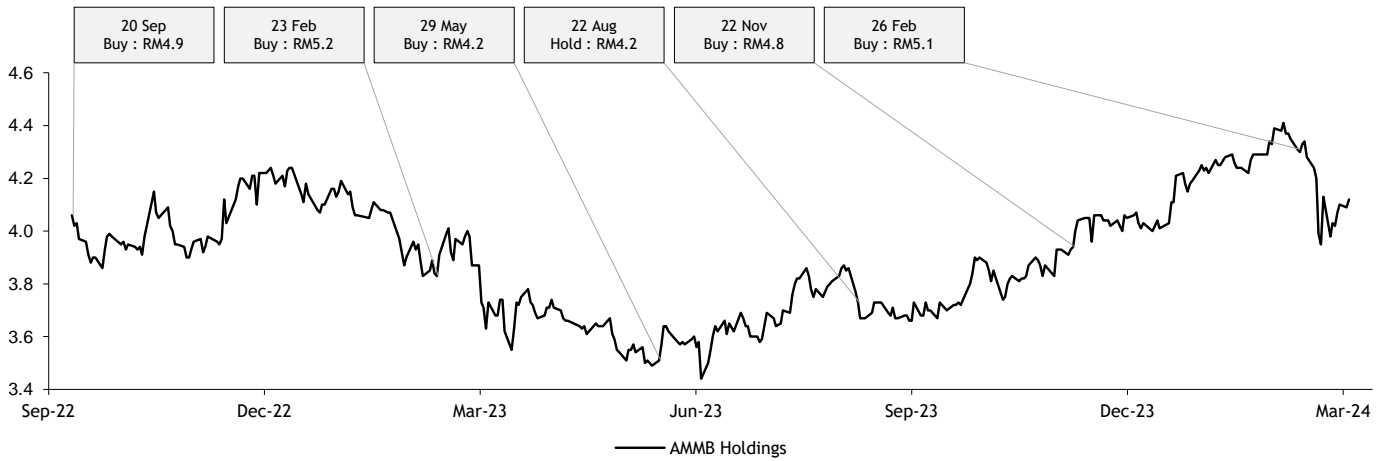
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