

AMMB Holdings (AMM MK)

2QFY22 results within expectations

BUY maintained

AMMB's 2QFY22 earnings were within expectations, and we maintain elevated provisions into FY23E on grounds of prudence, while factoring in the impact of *Cukai Makmur* in FY22E as a one-off item. We thus broadly maintain our core earnings and our TP of MYR3.90 (CY22E PBV of 0.8x; CY22E ROE: 8.3%).

Within expectations

AMMB's core net profit of MYR296m in 2QFY22 (+34% YoY, -14% QoQ) took 1HFY22 core net profit to MYR641m (+0.5% YoY). This was within expectations at 54%/52% of our full-year forecast/consensus respectively. The group's operating profit contracted 5% YoY in 2QFY22 on the back of lower non-interest income (NOII) but its bottomline was bolstered by a 55% YoY decline in impairment allowances.

Maintaining higher credit cost assumptions

2QFY22 net credit cost was 57bps versus 66bps in 1QFY22, thus averaging 61bps in 1HFY22 versus 73bps in 1HFY21. This is slightly better than management's full-year credit cost guidance of 65bps. Loans under repayment assistance (RA) currently total MYR33.7b on Nov 12th, representing 29% of total loans. We maintain our higher credit cost assumption of 70bps for FY22 and 50bps for FY23, to buffer against loans under repayment assistance presently, as well as the group's O&G exposure.

Factoring in *Cukai Makmur* as a one-off

We lower our FY22E net profit by 8% to MYR1.14b, incorporating a net tax impact of about MYR140m from *Cukai Makmur* but since this is a one-off item, our core net profit of MYR1.23b is largely maintained (-1% revision). Management hopes to resume dividend payment in FY22 and we have conservatively assumed a payout ratio of 20% versus historical payout ratios of 30-40%.

FYE Mar (MYR m)	FY20A	FY21A	FY22E	FY23E	FY24E
Operating income	4,230	4,509	4,720	4,765	4,833
Pre-provision profit	2,122	2,376	2,589	2,575	2,582
Core net profit	1,341	1,013	1,227	1,462	1,547
Core EPS (MYR)	0.45	0.34	0.39	0.44	0.47
Core EPS growth (%)	5.5	(24.5)	15.1	13.7	5.8
Net DPS (MYR)	0.13	0.00	0.07	0.13	0.14
Core P/E (x)	6.7	8.7	8.1	7.1	6.7
P/BV (x)	0.5	0.6	0.6	0.6	0.6
Net dividend yield (%)	4.4	0.0	2.3	4.2	4.4
Book value (MYR)	6.16	4.86	5.00	5.31	5.64
ROAE (%)	7.4	6.1	7.9	8.6	8.5
ROAA (%)	0.8	0.6	0.7	0.8	0.8
Consensus net profit	-	-	1,281	1,422	1,593
MKE vs. Consensus (%)	-	-	(10.7)	2.8	(2.9)

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BUY

Share Price	MYR 3.15
12m Price Target	MYR 3.90 (+24%)
Previous Price Target	MYR 3.90

Company Description

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

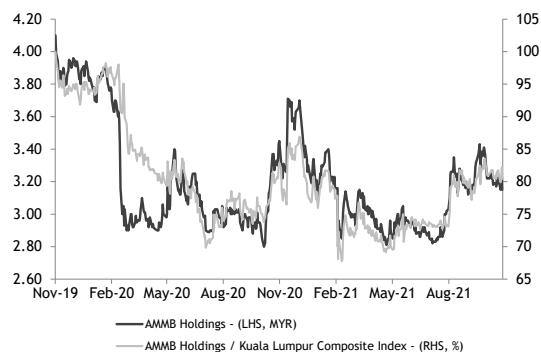
Statistics

52w high/low (MYR)	3.71/2.80
3m avg turnover (USDm)	2.8
Free float (%)	53.1
Issued shares (m)	3,314
Market capitalisation	MYR10.4B USD2.5B

Major shareholders:

Australia & New Zealand Banking Group Lt	21.6%
HASHIM AZMAN	11.8%
Employees Provident Fund	9.3%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(6)	5	(8)
Relative to index (%)	(2)	10	(2)

Source: FactSet

FYE Mar (MYR m)	Quarterly					Cumulative		
	2QFY22	2QFY21	% YoY	1QFY22	% QoQ	6MFY22	6MFY21	% YoY
Interest income	1,000.5	1,056.7	(5.3)	1,005.4	(0.5)	2,005.9	2,140.7	(6.3)
Interest expense	(437.4)	(524.9)	(16.7)	(436.7)	0.1	(874.1)	(1,164.5)	(24.9)
Net Interest income	563.1	531.8	5.9	568.6	(1.0)	1,131.8	976.1	15.9
Islamic banking income	235.8	243.4	(3.1)	280.8	(16.0)	516.7	423.5	22.0
Non-interest income	316.4	381.2	(17.0)	362.2	(12.6)	678.6	826.2	(17.9)
Operating income	1,115.4	1,156.3	(3.5)	1,211.6	(7.9)	2,327.0	2,225.8	4.5
Operating expenses	(513.6)	(523.8)	(1.9)	(494.6)	3.8	(1,008.2)	(1,062.4)	(5.1)
Operating profit	601.8	632.5	(4.9)	717.0	(16.1)	1,318.8	1,163.4	13.4
Loan impairment allowance	(163.4)	(361.0)	(54.7)	(189.0)	(13.5)	(352.3)	(403.8)	(12.7)
Other provisions	(10.5)	28.5	nm	(14.3)	(26)	(24.8)	21.4	nm
Associates & JVs	5.5	(1.5)	nm	26.2	(78.9)	31.8	21.4	48.3
Pretax profit	433.4	298.5	45.2	540.0	(19.7)	973.4	802.4	21.3
Taxation	(95.4)	(26.0)	>100	(117.8)	(19.1)	(213.2)	(128.0)	66.6
Minority interest	(17.0)	(35.2)	(51.8)	(35.6)	(52.3)	(52.6)	(72.0)	(27.0)
Net profit	321.0	237.3	35.3	386.6	(17.0)	707.6	602.5	17.5
Recurring net profit	296.0	220.5	34.2	344.6	(14.1)	640.6	637.7	0.5
EPS (sen) (basic)	9.7	7.9	22.8	11.9	(18.6)	21.5	20.0	7.5
DPS (sen)	-	-	0.0	0.0	0.0	-	-	0.0
Cost-to-income (%)	46.0	45.3	1.6	40.8	5.2	43.3	47.7	(9.2)
Tax rate (%)	22.0	8.7	>100	21.8	0.2	21.9	15.9	37.4
Balance sheet (MYR m)	Sep 21	Sep 20	% YoY	Jun 21	% QoQ	Sep 21	Mar 21	YTD chg
Customer loans (gross)	115,553	110,553	4.5	115,567	(0.0)	115,553	114,759	0.7
Customer loans (net)	113,043	108,882	3.8	113,195	(0.1)	113,043	112,478	0.5
Deposits from customers	116,036	115,223	0.7	114,160	1.6	116,036	120,638	(3.8)
			<i>ppt chg</i>		<i>ppt chg</i>			<i>ppt chg</i>
Gross LDR (%)	99.6	95.9	3.6	101.2	(1.6)	99.6	95.1	4.5
Gross impaired loans	1,668	1,738	(4.0)	1,808	(7.8)	1,668	1,770	(5.8)
Gross impaired loans ratio (%)	1.4	1.6	(0.1)	1.6	(0.1)	1.4	1.5	(0.1)
Loan loss coverage	150.5	96.1	54.4	131.1	19.3	150.5	128.8	21.7

Source: Bank

Key highlights

Repayment assistance: Loans under repayment assistance (RA) totalled MYR36.5b in Aug 2021 (32% of total loans), and have since settled lower at MYR33.7b on Nov 12th, representing 29% of total loans. Retail loans comprised 61% of this amount, with SME and commercial/corporate loans accounting for 32% and 8% respectively.

Loan growth: Group loans rose a modest 0.7% from Mar 2021, translating to an annualized loan growth of 2.8%. On a YTD basis, mortgages rose 3% as did retail SME and business banking loans. This offset a 4% YTD decline in auto finance and corporate loans as well as a 3% YTD decline in its cards business. Management continues to push for loan growth of 5% for FY22.

Customer deposits: Customer deposits contracted 4% YTD, led by a 5% contraction in fixed deposits, while CASA was flat YTD. With the contraction in fixed deposits, nevertheless, the group's CASA ratio rose to 30.7% end-Sep 2021 from 29.7% end-Mar 2021.

Net interest margin (NIM): Underlying NIM declined to 1.94% in 2QFY22 from 2.08% in 1QFY22, and this was largely a function of lower yields from bonds that were reinvested during the period. Including a mod gain of MYR67m, however, reported NIM was lifted by 9bps to 2.03% in 2QFY22.

Non-interest income (NOII): NOII contracted 17% YoY in 2QFY22. Fee income contracted 4% YoY while investment and insurance income declined YoY as well.

Operating expenses: Operating expenses contracted 2% YoY in 2QFY22, and -5% YoY in 1HFY22. Personnel costs declined 4% YoY in 2QFY22, while a 28% YoY contraction in marketing expenses was offset by a 25% YoY increase in admin expenses. The group's cost/income ratio (CIR) was a higher 46% in 2QFY22 versus 45% in 2QFY21. Management guides for a CIR of about 45% for FY22.

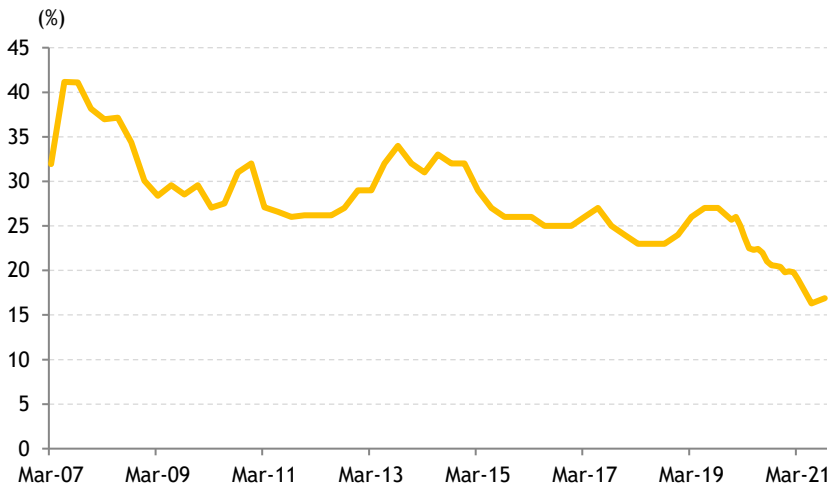
Credit cost: 2QFY22 net credit cost was 57bps versus 66bps in 1QFY22, thus averaging 61bps in 1HFY22 versus 73bps in 1HFY21. In absolute terms, provisions totalled MYR377.1m in 1HFY22, of which MYR154.9m were management overlays. The group's gross impaired loans (GIL) ratio improved to 1.44% end-Sep 2021 from 1.57% end-Mar 2021, but positively, its overall loan loss coverage was a higher 159% end-Sep 2021 (including regulatory reserves). Management continues to guide for about 60-65bps credit cost for FY22. It remains cautious of two particular O&G exposures totalling about MYR800m which are 36% covered at the moment.

Capital ratio: AMMB's end-Sep 2021 CET1 ratio improved to 11.6% from 11.3% end-Jun 2021 and 10.4% end-Mar 2021, aided largely by the private placement in April 2021. Management hopes to get to 12% by end-Mar 2022. The divestment of AmGeneral Insurance will accrete about 25bps (partially offset by *Cukai Makmur*) while in FY23, the adoption of the Internal Risk Based framework could add a further 80bps.

Dividends: At 11.6% CET1, management thinks it could start to resume dividend payment, but is cautious around issues such as the eventual take-up for URUS.

Cukai Makmur: *Cukai Makmur* will be levied on the group's chargeable income in FY22 and management is in talks with its auditors as to whether to reflect this progressively during the year or at financial year end. Management estimates RM99m of additional tax charge in 1HFY22 from *Cukai Makmur*. We estimate an additional tax charge of MYR140m for FY22 from *Cukai Makmur*.

AMMB's foreign shareholding - (excl. ANZ's 23.8% stake): 16.9% end-Sep 2021

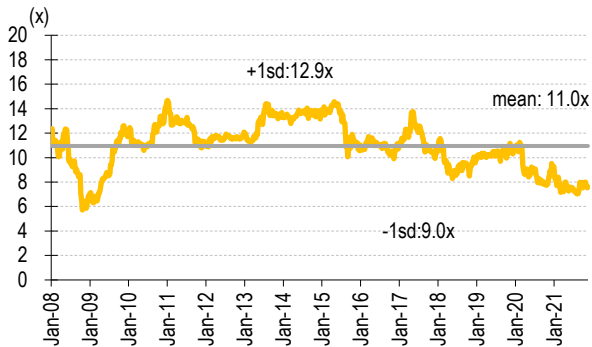


Source: Bank

Risk statement

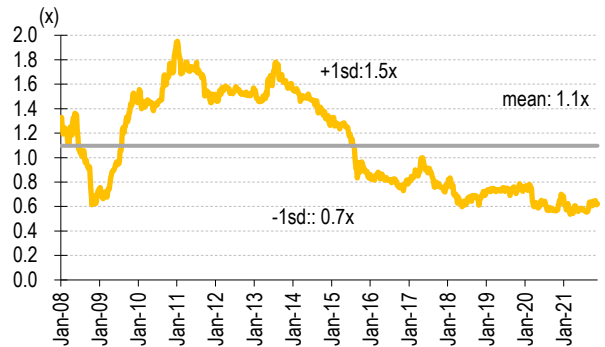
There are several risk factors for our earnings estimates, price target, and rating for AMMB. Any slowdown in the domestic economy would have a negative impact on the group's earnings, as would a pick-up in deposit rate competition. Meanwhile, a deterioration in asset quality particularly in relation 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 KE

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



Source: Bank, Maybank KE

FYE 31 Mar	FY20A	FY21A	FY22E	FY23E	FY24E
Key Metrics					
Core P/E (x)	6.7	8.7	8.1	7.1	6.7
Core FD P/E (x)	6.7	8.7	8.1	7.1	6.7
P/BV (x)	0.5	0.6	0.6	0.6	0.6
P/NTA (x)	0.6	0.7	0.7	0.6	0.6
Net dividend yield (%)	4.4	0.0	2.3	4.2	4.4
INCOME STATEMENT (MYR m)					
Interest income	4,940.0	4,155.8	4,273.5	4,428.1	4,607.2
Interest expense	(3,001.4)	(2,063.9)	(1,967.1)	(2,106.7)	(2,285.9)
Net interest income	1,938.6	2,091.9	2,306.4	2,321.3	2,321.3
Islamic banking income	1,019.6	929.7	1,004.0	1,084.4	1,171.1
Net insurance income	440.7	494.3	489.4	467.3	446.3
Net fees and commission	543.8	581.7	639.9	659.1	678.9
Other income	287.6	411.0	280.3	232.8	215.4
Total non-interest income	1,272.1	1,487.1	1,409.6	1,359.2	1,340.6
Operating income	4,230.3	4,508.6	4,720.1	4,764.9	4,833.0
Staff costs	(1,241.0)	(1,280.2)	(1,318.6)	(1,358.1)	(1,398.9)
Other operating expenses	(867.2)	(852.1)	(812.2)	(831.8)	(851.9)
Operating expenses	(2,108.2)	(2,132.2)	(2,130.8)	(2,189.9)	(2,250.8)
Pre-provision profit	2,122.1	2,376.4	2,589.3	2,575.0	2,582.2
Loan impairment allowances	(322.6)	(1,116.9)	(817.0)	(602.8)	(497.7)
Other allowances	(13.5)	(4,786.8)	0.0	0.0	0.0
Associates & JV income	(3.1)	43.8	46.0	48.3	50.7
Pretax profit	1,782.9	(3,483.5)	1,818.4	2,020.5	2,135.3
Income tax	(330.0)	(228.6)	(565.3)	(444.5)	(469.8)
Minorities	(112.1)	(114.4)	(109.4)	(113.8)	(118.4)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	1,340.7	(3,826.5)	1,143.7	1,462.2	1,547.2
Core net profit	1,340.7	1,013.3	1,227.5	1,462.2	1,547.2
BALANCE SHEET (MYR m)					
Cash & deposits with banks	15,710.6	18,912.5	19,669.0	20,455.8	21,274.0
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	12,545.9	9,562.0	10,231.3	10,947.5	11,713.8
Available-for-sale securities	24,575.7	21,978.6	24,176.5	26,594.1	29,253.5
Investment securities	0.0	0.0	0.0	0.0	0.0
Loans & advances	105,950.9	112,478.3	117,075.5	120,683.3	124,545.2
Central bank deposits	489.0	425.3	3,362.1	3,494.4	3,632.0
Investment in associates/JVs	699.3	588.9	622.1	656.8	693.4
Insurance assets	457.9	432.7	441.3	450.2	459.2
Fixed assets	571.8	486.7	244.5	244.5	244.5
Intangible assets	3,261.5	1,443.9	1,443.9	1,443.9	1,443.9
Other assets	4,940.5	3,869.3	3,988.4	4,106.0	4,227.9
Total assets	169,203.1	170,178.3	181,254.6	189,076.5	197,487.5
Deposits from customers	113,175.4	120,638.0	125,485.5	130,630.4	135,986.2
Deposits from banks & FIs	10,021.9	9,920.9	10,119.3	10,321.7	10,528.1
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	5,140.0	7,275.0	8,002.5	8,802.8	9,683.0
Insurance liabilities	2,479.2	2,479.0	2,528.6	2,579.2	2,630.7
Other liabilities	18,826.5	14,275.0	17,490.3	17,976.8	18,692.2
Total liabilities	149,643.0	154,587.9	163,626.2	170,310.8	177,520.4
Share capital	5,851.6	5,951.6	6,776.6	6,776.6	6,776.6
Reserves	12,729.2	8,689.2	9,792.8	10,816.4	11,899.4
Shareholders' funds	18,580.8	14,640.8	16,569.4	17,592.9	18,675.9
Preference shares	0.0	0.0	0.0	0.0	0.0
Minority interest	979.3	949.6	1,059.0	1,172.8	1,291.2
Total equity	19,560.0	15,590.4	17,628.4	18,765.7	19,967.1
Total liabilities & equity	169,203.1	170,178.3	181,254.6	189,076.5	197,487.5

FYE 31 Mar	FY20A	FY21A	FY22E	FY23E	FY24E
Key Ratios					
Growth (%)					
Net interest income	12.4	7.9	10.3	0.6	(0.0)
Non-interest income	3.8	16.9	(5.2)	(3.6)	(1.4)
Operating expenses	(1.1)	1.1	(0.1)	2.8	2.8
Pre-provision profit	19.8	12.0	9.0	(0.6)	0.3
Core net profit	5.3	(24.4)	21.1	19.1	5.8
Gross loans	5.3	7.0	3.4	3.2	3.2
Customer deposits	5.5	6.6	4.0	4.1	4.1
Total assets	6.6	0.6	6.5	4.3	4.4
Profitability (%)					
Non-int. income/Total income	30.1	33.0	29.9	28.5	27.7
Average lending yields	3.88	3.16	3.16	3.15	3.16
Average cost of funds	2.60	1.76	1.59	1.57	1.63
Net interest margin	1.94	1.90	2.00	1.97	1.93
Cost/income	49.8	47.3	45.1	46.0	46.6
Liquidity (%)					
Loans/customer deposits	93.6	93.2	93.3	92.4	91.6
Asset quality (%)					
Net NPL	1.3	1.1	0.9	1.1	1.1
Gross NPL	1.7	1.5	1.5	1.8	1.8
(SP+GP)/average gross loans	0.3	1.0	0.7	0.5	0.4
Loan loss coverage	68.4	128.8	89.0	80.5	80.5
Capital adequacy (%)					
CET1	12.4	10.4	11.7	11.9	12.2
Tier 1 capital	12.4	11.1	12.5	12.6	12.6
Risk-weighted capital	15.8	14.8	16.1	16.2	16.2
Returns (%)					
ROAE	7.4	6.1	7.9	8.6	8.5
ROAA	0.8	0.6	0.7	0.8	0.8
Shareholders equity/assets	11.0	8.6	9.1	9.3	9.5

Source: Company; Maybank

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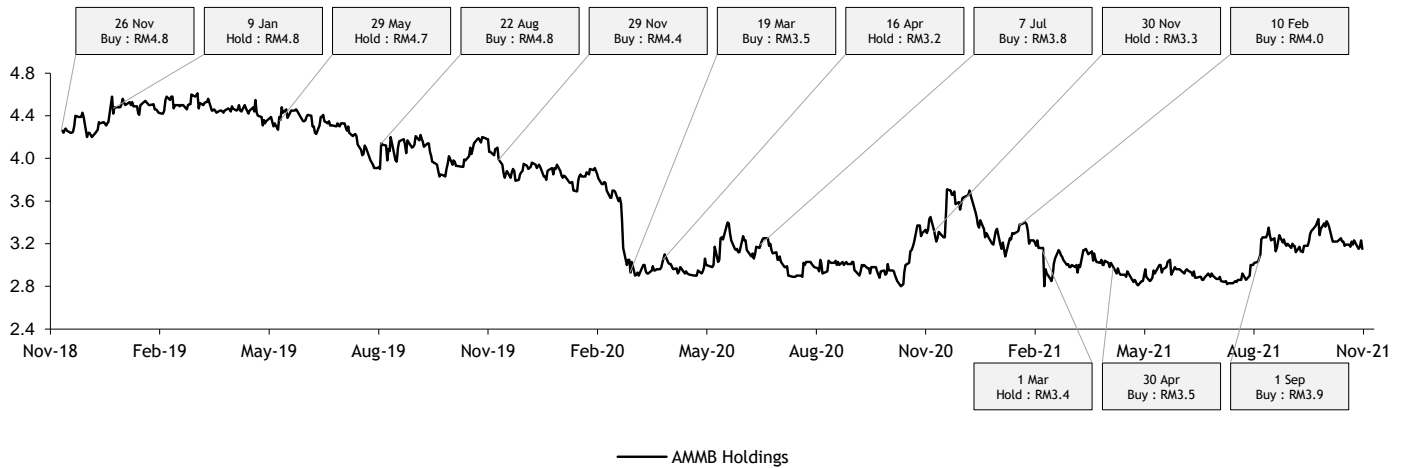
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