

25 August 2017 | 1QFY18 Results Review

AMMB Holdings Berhad

Robust NII from good NIM pickup

Maintain NEUTRAL

Unchanged Target Price (TP): RM4.50

INVESTMENT HIGHLIGHTS

- **Earnings within expectations.**
- **Robust NII growth from better NIM and strong gross loans growth. Moderated fall in NOII.**
- **Credit cost normalising with lower writebacks.**
- **Strong gross loans growth but asset quality continue to be a concern with elevated impairment.**
- **No change to forecast.**
- **Maintain NEUTRAL with unchanged TP of RM4.50.**

Within expectations. The Group's 1QFY18 earnings came within ours and consensus' expectations where it was 23.3% and 24.2% of respective full year estimates. Net profit grew a modest +1.6%yoy from expansion in NII (+6.1%yoy) and Islamic Banking income (14.3%yoy), which moderated the fall in NOII (-5.8%yoy) and lower writebacks (-68.6%yoy) as compared to 1QFY17. However, we were pleased with the lower writebacks as we believe this signals credit cost is slowly normalising. It also mean that earnings will not be dependent on writebacks and recoveries in the future.

Good NIM pickup contributed to NII growth. NIM improved +8bps yoy and this was due to better pricing on its assets. Interest income went up +3.2%yoy to RM1.04b.

Strong growth in loans. NII expansion was also due to strong growth in loans. Gross loans grew +6.6%yoy to RM92.8b. Main contributor was its target segment of mortgage (+21.9%yoy to RM22.6b) and SME loans (+18.3%yoy to RM14.7b).

Asset quality remains a concern. GIL ratio remains elevated at 1.88%, an uptick of +19bps yoy and +2bps qoq. This came from Wholesale banking segment where GIL ratio was +49bps yoy higher to 2.39% as there were impairments on a few accounts particularly from a property developer. However, management is confident that this will be reduced. Retail banking asset quality remains good, improving -10bps yoy to 0.49%.

RETURN STATS	
Price (24 Aug. 2017)	RM4.52
Target Price	RM4.50
Expected Share Price Return	-0.4%
Expected Dividend Yield	+3.8%
Expected Total Return	+3.4%

STOCK INFO	
KLCI	1.775.50
Bursa / Bloomberg	1015 / AMM MK
Board / Sector	Main / Finance
Syariah Compliant	No
Issued shares (mil)	3,014.2
Par Value (RM)	1.0
Market cap. (RM'm)	13,624.1
Price over NA	0.8x
52-wk price Range	RM3.90 – RM5.70
Beta (against KLCI)	1.33
3-mth Avg Daily Vol	3.26m
3-mth Avg Daily Value	RM16.25m
Major Shareholders	
ANZ	23.78%
Clear Goal Sdn Bhd	12.97%
EPF	9.54%

Some banking abbreviations used in this report:

CA = Collective Assessment Allowance
 CI = Cost-Income Ratio
 CET1 = Common Equity Tier 1
 GIL = Gross Impaired Loan
 LDR = Loan-Deposit Ratio
 NII = Net Interest Income
 NOII = Non-interest income
 NIM = Net Interest margin
 CASA = Current and Savings Accounts
 COF = Cost of Funds
 LLC = Loan Loss Coverage
 PPOP = Pre-Provisioning Operating Profit


Fixed deposit main contributor to deposits growth. We were disappointed that CASA fell -4.5%yoy to RM20.3b, coming from non-retail segment. The +7.2%yoy to RM92.9b growth in deposits was contributed by fixed deposits which grew +10.9%yoy to RM72.6b. This may have moderated NIM uptick slightly. The expansion in fixed deposits was from the retail and non-retail segment.

Ambitious ROE target. Management guided an ROE of circa 10%, to be hit within 2 years time. We believe that this is an ambitious target given that NII growth is only slowly coming in. OPEX could possibly be an area of contribution where management expect it to fall below 55%.

FORECAST

No changes were made to our forecast.

VALUATION AND RECOMMENDATION

We were pleased to see robust NII improvement in the quarter coupled with loans growth. However, asset quality deterioration remains our main concern. With the results coming within our expectations, we maintain our NEUTRAL recommendation with unchanged TP to RM4.50, based on PBV of 0.8x. 

INVESTMENT STATISTICS

FYE Mar	FY16	FY17	FY18F	FY19F
Net interest income (RM'm)	1,637.8	1,564.6	1,621.5	1,664.6
Islamic banking income (RM'm)	805.8	805.2	915.3	934.6
Non-interest income (RM'm)	1,252.2	1,395.8	1,567.4	1,711.3
Net/Total income (RM'm)	3,695.8	3,765.6	4,104.2	4,310.5
Pretax profit (RM'm)	1,731.0	1,801.2	1,976.7	2,081.8
Net profit (RM'm)	1,302.2	1,324.6	1,407.9	1,482.8
Core net profit (RM'm)	1,355.9	1,324.6	1,407.9	1,482.8
Core EPS (sen)	45.1	44.0	46.9	49.3
PER (x)	10.0	10.3	9.6	9.2
Net dividend (sen)	15.5	17.6	17.0	18.0
Net dividend yield (%)	3.4	3.9	3.8	4.0
Book value per share (RM)	5.03	5.32	5.55	5.84
PBV (X)	0.9	0.8	0.8	0.8
ROE (%)	8.8	8.5	8.6	8.6

Forecast by MIDFR

DAILY PRICE CHART

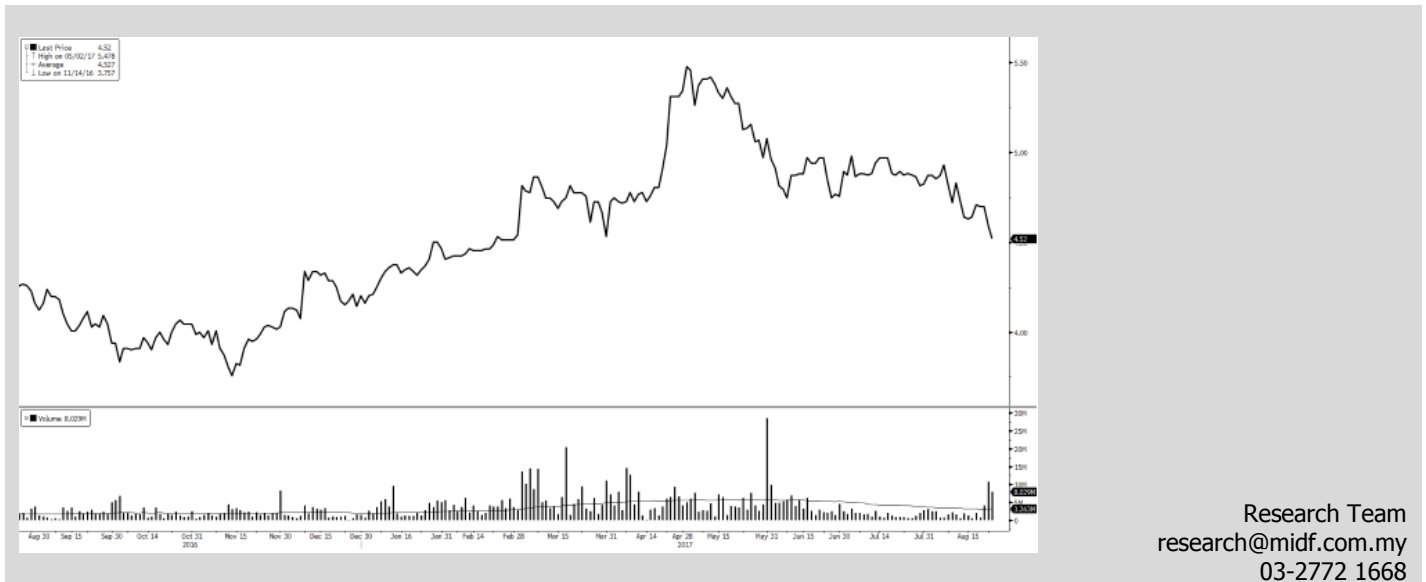


Table 1: Results by quarters (based on reported financials)

FYE Mar (RM m)	Quarterly results					Comments
	1Q18	4Q17	1Q17	Yoy (+/- %)	Qoq (+/- %)	
Net Interest Income	416.2	404.2	392.3	6.1%	3.0%	Strong NIM improvement of +8bps yoy, coupled with loans growth of +6.6%yoy to RM92.8b.
Net Islamic Banking Income	225.3	213.7	197.2	14.3%	5.4%	
Non interest income	340.6	388.8	361.7	-5.8%	-12.4%	Lower fee income (-0.8%yoy) and trading & investment income (-11.8%yoy).
Net/Total income	982.2	1,006.7	951.2	3.3%	-2.4%	
OPEX	(553.1)	(582.6)	(535.5)	3.3%	-5.1%	Due to higher compliance and governance cost, and two one-off investments amounting to RM27m.
PPOP	429.1	424.1	415.7	3.2%	1.2%	
Writeback/ (Provision)	20.0	16.6	63.7	-68.6%	20.5%	Lower recoveries (-25.4%yoy to RM119.6m). Normalising with lower writebacks.
PBT	449.1	440.7	479.4	-6.3%	1.9%	
Taxation	(84.6)	(84.1)	(119.9)	-29.5%	0.6%	
Net Profit	328.3	335.8	323.0	1.6%	-2.2%	Due to robust NII growth and Islamic Banking.
EPS (sen)	10.9	11.2	10.7	1.6%	-2.2%	

Table 2: Financial ratios

Financial Ratios (%)	1Q18	4Q17	1Q17	Yoy (+/- ppts)	Qoq (+/- ppts)	Comments
CET-1^	11.7	11.6	11.5	0.2	0.1	
Tier 1 Capital^	12.6	12.5	12.6	0.0	0.1	
Total Capital^	16.4	16.3	16.4	0.0	0.1	
GIL	1.88	1.86	1.69	0.19	0.02	Wholesale segment impacted by impairments in 2 or 3 individual accounts.
Credit charge-off	-0.05	-0.07	-0.17	0.12	0.02	Normalising with lower writebacks.
Loan loss Coverage	79.8	79.7	81.2	-1.4	0.1	
Cost to income	56.3	57.9	56.3	0.0	-1.6	
Unadjusted Net LDR	98.6	95.5	94.7	3.9	3.1	
Adjusted Net LDR	88.9	85.7	85.8	3.1	3.2	
NIM	2.02	2.06	1.94	0.08	-0.04	Continuing pressure in Retail mitigated by portfolio rebalancing and Wholesale loan repricing.
ROEA	8.1	8.4	8.5	-0.4	-0.3	

^Group level ratios

Table 3: PAT of key divisions

PAT of key divisions (RM m)	1Q18	1Q17	Yoy (+/- %)	Comments
Retail Banking	76.1	76.0	0.1%	NII grew +1.5%yoy driven by Mortgages, Small Business Banking and Deposits. NOII increased +5.9%yoy from higher commission recorded by Wealth Management. OPEX grew +2.6%yoy to RM239.3m as a result of higher personnel costs.
Wholesale Banking	189.2	243.4	-22.3%	OPEX increased +13.9%yoy from higher personnel costs which was to invest in building better capabilities. Higher allowances and lower recoveries recorded for the quarter.
Insurance, Group Funding and other segments	99.3	40.0	148.0%	Group funding recorded profit due to writebacks of RM42.5m. Net earned premium was relatively flat for General Insurance, higher for Family Takaful but lower for Life Insurance.

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	<i>Negative</i> total return is expected, by -15% or more, over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.