midf RESEARCH

23 August 2018 | 1QFY19 Results Review

AMMB Holdings Berhad

A reasonable start

***Maintain* NEUTRAL**

***Adjusted* Target Price (TP): RM4.10 (from RM3.75)**

INVESTMENT HIGHLIGHTS

- **Earnings in 1QFY19 within expectations.**
- **Lower OPEX; benefit from MSS seen.**
- **Focus area continue to feed NII.**
- **NIM under slight pressure.**
- **Asset quality improved.**
- **No change to forecast.**
- **Maintain NEUTRAL with adjusted TP to RM4.10 (from RM3.75) as we roll over our valuation to FY20.**

Earnings within expectations. The Group earnings was within ours and consensus' expectations at 25.5% and 27.0% of respective full year estimates. The net profit growth of +5.9%yoy was supported by the decline in OPEX.

Immediate benefit from MSS in FY18. OPEX fell -7.3%yoy as personnel related costs fell RM26m and absence of one-off RM20m cost in retail operation losses in 1QFY18. Excluding this one-off cost, 1QFY19 OPEX was -3.8%yoy better. As a result, CI improved -5.7ppts yoy at 50.6%, well below the 55% level the management is guiding. The management expect that the OPEX could be kept at around 1QFY19 level for the rest of the year as improvement in personnel cost will be moderated by investments needed. For example, in the Business Banking segment where OPEX went up +23%yoy to RM21m.

Focus area continue to feed NII. The Group's strategy to focus on Mid Corp, SME, affluent and mass affluent segments has led to continued stable growth in NII. Including income from Islamic Banking, NII grew +4.7%yoy to RM642m. This is consistent in gross loans growth performance, where it expanded +6.1%yoy, coming from mortgages, and loans from wholesale banking and SMEs. Meanwhile, NOII growth was rather weak with +0.8%yoy to RM372m due to lower trading and investment banking income. The NOII also included one-off gains from foreclosed properties of RM22m. Discounting this, NOII would have fallen -5.1%yoy.

NIM stable but under pressure. NIM was stable at 2.02% due to portfolio balancing and better deposit rates and mix. However, on sequential quarter, there were -2bps compression as the industry saw some asset pricing competition. For example, retail banking and wholesale banking NIM compressed -14.7bps yoy and -1.5bps yoy respectively. The management are anticipating further pressure on NIM due to potential deposit competition as the industry gear up to comply with NSFR in CY19.

RETURN STATS	
Price (21 August 2018)	RM4.00
Target Price	RM4.10
Expected Share Price Return	+2.5%
Expected Dividend Yield	+3.7%
Expected Total Return	**+6.2%**

STOCK INFO	
KLCI	1,798.11
Bursa / Bloomberg	1015 / AMM MK
Board / Sector	Main / Finance
Syariah Compliant	No
Issued shares (mil)	3,014.2
Market cap. (RM'm)	12,056.7
Price over NA	0.7x
52-wk price Range	RM3.40 – RM4.90
Beta (against KLCI)	1.30
3-mth Avg Daily Vol	3.41m
3-mth Avg Daily Value	RM13.22m
Major Shareholders	
ANZ	23.78%
Clear Goal Sdn Bhd	12.97%
EPF	8.58%

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

Slower CASA growth may put pressure to NIM. Total deposits grew +6.1%yoy to RM98.6b. However, this was mostly from fixed deposits (FD) which expanded +7.2%yoy to RM77.8b. On the positive side, the FD expansion was led by retail FDs which we believe are priced lower than non-retail FD. Retail FD grew +40.3%yoy to RM41.8b. Meanwhile, CASA growth was +2.5%yoy.

Credit cost slow to normalise. The Group posted minimal total provisions of RM7.0m. Nevertheless, this was mostly from charge on commitments and contingencies. Loans and financing saw a writeback of RM10.4m due to recoveries of RM116.6m. We noted that recoveries were still high as credit cost excluding recoveries was 51bps.

Asset quality improved. We were pleased to note that the Group's GIL ratio was -11bps yoy better due to strong improvement in the retail segment as its GIL ratio went from 1.42% as at 1QFY18 to 1.26% as at 1QFY19. This was despite the Group's strategy to focus on the retail segment. Slight concern was the increase of +2bps yoy on GIL ratio for wholesale and business banking to 2.43% and 2.41% respectively. However, at this point, we do not foresee coming weakness in these segments as yet.

Well within FY19 guidance. Recall that the management had guided for FY19; (1) ROE of at least 8.5%, (2) CI of less than 55%, (3) Dividend payout of circa 40% and (4) fully loaded CET1 of between 9.5% to 11.5%. It seems that the Group are on track to reach these targets and the management will be focusing on building on the income momentum seen in FY18. Meanwhile, we commend the management efforts on managing cost, which was a pleasant surprise. We believe that this will allow the Group to put in the needed investments in a more paced manner. One area of concern is that we have yet to see any result is its significant growth in CASA. We believe this will put additional pressure to NIM which may moderate the impact of the Group achieving better assets yields.

FORECAST

We are maintaining our FY19 and FY20 forecast.

VALUATION AND RECOMMENDATION

We believe that the Group have shown good improvements in terms of maintaining NII momentum and bringing cost down. However, there could be potential headwinds in terms of NIM compression. In addition, credit cost were still slow to normalise in our opinion. Therefore, we maintain our NEUTRAL recommendation for the stock. We adjust our TP to RM4.10 (from RM3.75) as we roll over our valuation to FY20. Our TP is based on pegging FY20 BVPS to PBV of 0.7x which 1 standard deviation below its 5-year historical average.

INVESTMENT STATISTICS

FYE Mar	FY17	FY18	FY19F	FY20F
Net interest income (RM'm)	1,564.6	1,664.3	1,771.5	1,802.9
Islamic banking income (RM'm)	805.2	941.0	1,006.8	1,107.5
Non-interest income (RM'm)	1,395.8	1,373.9	1,414.0	1,494.7
Net/Total income (RM'm)	3,765.6	3,979.2	4,192.4	4,405.1
Pretax profit (RM'm)	1,801.2	1,542.7	1,860.1	1,909.6
Net profit (RM'm)	1,324.6	1,132.1	1,363.8	1,400.1
Core net profit (RM'm)	1,324.6	1,289.0	1,363.8	1,400.1
Core EPS (sen)	44.0	42.8	45.3	46.5
PER (x)	9.1	9.3	8.8	8.6
Net dividend (sen)	17.6	15.0	15.0	15.8
Net dividend yield (%)	4.4	3.8	3.7	4.0
Book value per share (RM)	5.32	5.48	5.67	5.83
PBV (X)	0.8	0.7	0.7	0.7
ROE (%)	8.5	8.0	8.1	8.1

Forecast by MIDFR

DAILY PRICE CHART

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

FYE Mar (RM m)	Quarterly results 1Q19	4Q18	1Q18	Yoy (+/- %)	Qoq (+/- %)	Comments
Net Interest Income	431.4	425.3	416.2	3.6%	1.4%	Consistent with gross loans growth in focus areas.
Net Islamic Banking Income	236.6	250.0	225.3	5.0%	-5.4%	
Non interest income	345.7	395.5	340.6	1.5%	-12.6%	
Net/Total income	1,013.7	1,070.9	982.2	3.2%	-5.3%	
OPEX	(512.9)	(728.4)	(553.1)	-7.3%	-29.6%	Improvement from personnel related cost.
PPOP	500.8	342.5	429.1	16.7%	46.2%	
Writeback/(Provision)	(7.0)	17.2	20.0	<-100%	<-100%	Provision in commitment and contingencies.
PBT	493.8	359.7	449.1	10.0%	37.3%	
Taxation	(110.6)	(57.6)	(84.6)	30.8%	91.9%	
Net Profit	347.6	253.4	328.3	5.9%	37.2%	Due to lower expenses.
EPS (sen)	11.6	8.4	10.9	6.0%	37.3%	

Table 2: Financial ratios

Financial Ratios (%)	1Q19	4Q18	1Q18	Yoy (+/- ppts)	Qoq (+/- ppts)	Comments
CET-1^	11.9	11.3	11.7	0.2	0.6	
Tier 1 Capital^	12.6	12.0	12.6	0	0.6	
Total Capital^	16.7	16.6	16.4	0.3	0.1	
GIL	1.77	1.70	1.88	-0.11	0.07	Improvement in asset quality in retail banking.
Credit charge-off	0.03	-0.07	-0.05	0.08	0.10	
Loan loss Coverage	106.3	100.5	79.8	26.5	5.8	
Cost to income	50.6	68.0	56.3	-5.7	-17.4	Benefit from MSS.
Unadjusted Net LDR	98.4	99.6	98.6	-0.2	-1.2	
NIM	2.02	2.04	2.02	0	-0.02	Portfolio rebalancing and better deposits rates and mix in the quarter moderated asset pricing competition.
ROEA	8.3	6.3	8.1	0.2	2.0	

^Group level ratios

Table 3: PAT of key divisions

PAT of key divisions (RM m)	1QFY19	1QFY18	Yoy (+/- %)	Comments
Retail Banking	73.2	79.4	-7.8%	Higher impairment, partially offset by lower OPEX and higher income.
Wholesale Banking	189.2	160.1	18.2%	Lower impairment, higher income and lower OPEX.
Business Banking	40.2	25.7	56.4%	Higher income and lower impairment.
General Insurance, Group Funding and other segments	80.6	99.3	-18.8%	Higher writeback in 1QFY18.

Source: Company, MIDFR

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS	
STOCK RECOMMENDATIONS	
BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to *rise* by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	*Negative* total return is expected, by -10% or more, over the next 12 months.
TRADING SELL	Stock price is expected to *fall* by >10% 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.