

01 March 2018 | 3QFY18 Results Review

AMMB Holdings Berhad

Did not meet expectations

Maintain NEUTRAL

**Adjusted Target Price (TP): RM4.30
(from RM4.40)**

INVESTMENT HIGHLIGHTS

- **Net profit below expectations due to provisions**
- **Otherwise decent result with NII growing robustly**
- **NIM improved and loans growth decent**
- **Improvement in asset quality**
- **Fixed deposit growth outpacing CASA growth**
- **Revised FY18 and FY19 forecast downwards by -7.7% and -4.1%.**
- **Maintain NEUTRAL with adjusted TP of RM4.30 (from RM4.40)**

Below expectations. The Group's 9MFY18 net profit of RM878.7m did not meet ours and consensus' expectations. It was 62.4% and 66.4% of respective full year estimates. The variance was due to provisions in 3QFY18 instead of previous trend of write backs.

Net profit declined due to provisions. The Group posted 9MFY18 net profit decline of -11.1%yoy due to provisions of RM32.9m. The provisions came in the 3QFY17 which amounted to RM80.9m. In turn, this was due to an account which became non-performing amounting to circa RM50m. However, we understand that the loan have been fully repaid in January CY18 and will result in a write back.

Otherwise, decent result. NII (inclusive of Islamic Banking) grew +8.8%yoy to RM1.84b, contributed by NIM expansion of +2bps yoy to 1.98%. The NIM improved through portfolio rebalancing and funding mix. Asset yield improved circa 0.7bps, while yield improved circa 1.1bps through funding mix. Meanwhile, NOII was flat at RM1.07b.

OPEX increase expected; due to investment. OPEX rose at faster pace at +7.3%yoy (vs. +5.3%yoy to RM1.12b in 1HFY18). This was due to higher personnel and compliance cost. Combined, both added RM104.2m to 9MFY17 OPEX of RM1.57b. However, we are not too concern by this uptick in OPEX as it was due to investment relating to building the capability of its Business Banking division.

MSS cost will increase OPEX but savings later. Also, we could expect a further increase in personnel cost from its MSS program, where a total of 1,123 applications were approved, representing 12% of the Group's permanent workforce. The payout for the MSS is estimated at RM128m which will be accounted for in 4QFY18. However, we understand that the savings is expected to be RM80m per year.

RETURN STATS	
Price (28 February 2018)	RM4.14
Target Price	RM4.30
Expected Share Price Return	+3.9%
Expected Dividend Yield	+3.6%
Expected Total Return	+7.5%

STOCK INFO	
KLCI	1,856.20
Bursa / Bloomberg	1015 / AMM MK
Board / Sector	Main / Finance
Syariah Compliant	No
Issued shares (mil)	3,014.2
Market cap. (RM'm)	12,478.7
Price over NA	0.8x
52-wk price Range	RM4.06 – RM5.70
Beta (against KLCI)	1.40
3-mth Avg Daily Vol	2.93m
3-mth Avg Daily Value	RM13.11m
Major Shareholders	
ANZ	23.78%
Clear Goal Sdn Bhd	12.97%
EPF	9.40%

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

Loans growth good in targeted segment. Gross loans grew at decent a +4.4%yoy to RM94.7b which is slightly faster than banking system growth. Main contributor was its target segment of mortgage (+22.2%yoy to RM25.5b) and SME loans (+14.5%yoy to RM15.8b).

Sequential quarter improvement in asset quality. While GIL ratio as at 3QFY18 was still higher on a sequential year basis (vs. 1.54% as at 3QFY17), there were still improvement on a sequential quarter basis. GIL ratio improved by -11bps qoq to 1.77% from both retail and wholesale banking.


Fixed deposit growth still outpacing CASA growth. We were disappointed that fixed deposits growth continued to outpace that of CASA. Fixed deposits grew +17.7%yoy to RM79.9b driven by retail segment which rose +32.2%yoy to RM35.7b. CASA expanded +7.0%yoy to RM20.0b. We believe that this could be a hindering NIM to expand further.

ROE target still seems ambitious. Previously, management guided an ROE of circa 10% within 2 years time and circa 7% for FY18. We believe that the 10% ROE target to be ambitious taking into account the mix result especially the high investment that was incurred for strengthening of its Business Banking and yield on deposits.

FORECAST

We are revising downwards our FY18 and FY19 forecast downwards by -7.7% and -4.1%.

VALUATION AND RECOMMENDATION

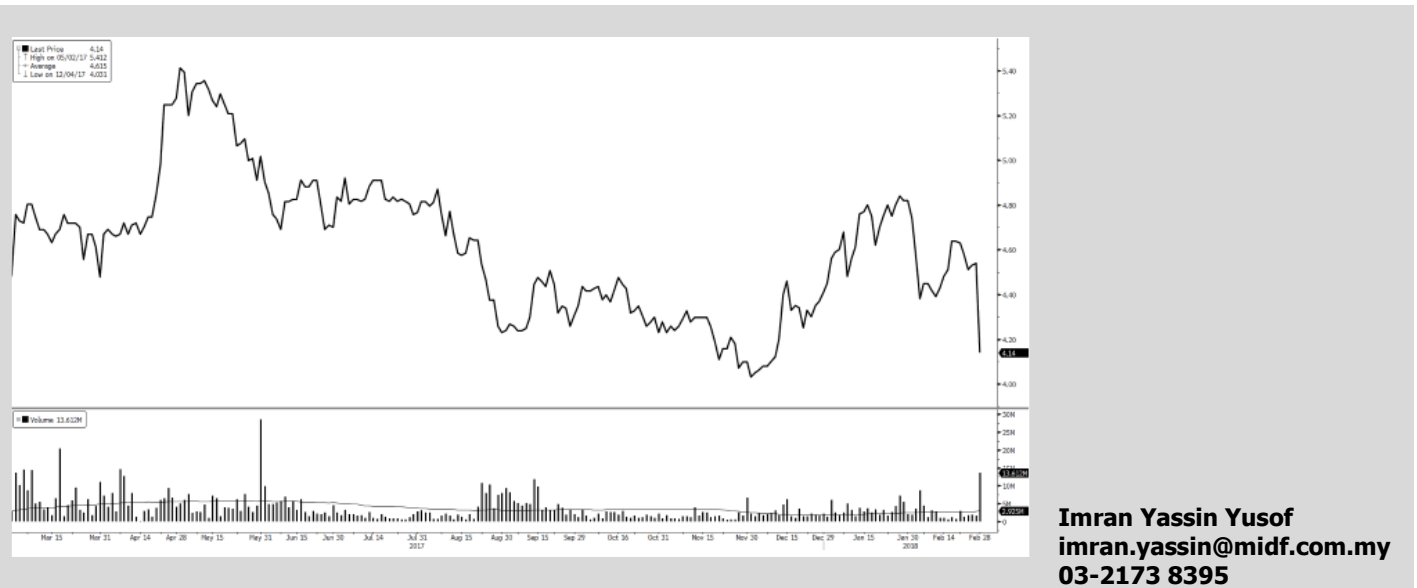
We are encouraged by the pockets of improvement we have observed in the 9MFY18 result. We like the fact that NII grew robustly and NIM expanded decently. However, we believe that the growth in the fixed deposit are hindering a better NIM improvement. We also like the fact that credit cost is normalising despite its impact to earnings. While we opine that there are encouraging signs, we view that it is not compelling enough at this juncture. We could potentially revisit its investment case in CY18 but for now we maintain our NEUTRAL recommendation with adjusted TP to RM4.30 (from RM4.40), based on PBV of 0.8x, pegged to FY19 BVPS. 

INVESTMENT STATISTICS

FYE Mar	FY16	FY17	FY18F	FY19F
Net interest income (RM'm)	1,637.8	1,564.6	1,624.6	1,771.5
Islamic banking income (RM'm)	805.8	805.2	915.3	934.6
Non-interest income (RM'm)	1,252.2	1,395.8	1,435.3	1,573.3
Net/Total income (RM'm)	3,695.8	3,765.6	3,975.1	4,279.4
Pretax profit (RM'm)	1,731.0	1,801.2	1,824.7	1,948.4
Net profit (RM'm)	1,302.2	1,324.6	1,299.6	1,428.5
Core net profit (RM'm)	1,355.9	1,324.6	1,299.6	1,428.5
Core EPS (sen)	45.1	44.0	43.2	47.5
PER (x)	9.1	9.4	9.6	8.7
Net dividend (sen)	15.5	17.6	15.1	16.6
Net dividend yield (%)	3.8	4.3	3.7	4.0
Book value per share (RM)	5.03	5.32	5.44	5.67
PBV (X)	0.8	0.8	0.8	0.7
ROE (%)	8.8	8.5	8.0	8.5

Forecast by MIDFR

DAILY PRICE CHART



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

Quarterly results					
FYE Mar (RM m)	3Q18	2Q18	3Q17	Yoy (+/- %)	Qoq (+/- %)
Net Interest Income	407.8	415.0	394.7	3.3%	-1.7%
Net Islamic Banking Income	239.9	225.9	193.0	24.3%	6.2%
Non interest income	311.6	326.1	265.7	17.3%	-4.4%
Net/Total income	959.3	966.9	853.4	12.4%	-0.8%
OPEX	(576.7)	(562.7)	(517.9)	11.3%	2.5%
PPOP	382.7	404.2	335.5	14.0%	-5.3%
Writeback/(Provision)	(80.9)	28.0	73.4	-210.3%	-389.2%
PBT	301.7	432.2	408.9	-26.2%	-30.2%
Taxation	(71.6)	(75.1)	(91.5)	-21.7%	-4.6%
Net Profit	219.0	331.5	313.2	-30.1%	-33.9%
EPS (sen)	7.3	11.0	10.4	-30.1%	-33.9%

Table 2: Financial ratios

Financial Ratios (%)	3Q18	2Q18	3Q17	Yoy (+/- ppts)	Qoq (+/- ppts)
CET-1 [^]	11.3	11.5	11.6	-0.3	-0.2
Tier 1 Capital [^]	12.2	12.4	12.6	-0.4	-0.2
Total Capital [^]	16.1	16.4	16.1	0	-0.3
GIL	1.77	1.88	1.54	0.23	-0.11
Credit charge-off	0.34	-0.12	-0.32	0.67	0.46
Loan loss Coverage	101.6	101.4	84.1	17.5	0.2
Cost to income	60.1	58.2	60.7	-0.6	1.9
Unadjusted Net LDR	93.7	96.6	103.3	-9.6	-2.9
Adjusted Net LDR	84.4	88.6	91.6	-7.2	-4.2
NIM	1.95	1.97	2.02	-0.07	-0.02
ROEA	5.3	8.1	8.0	-2.7	-2.8

[^]Group level ratios

Table 3: Cumulative Results and ratios (based on reported financials)

Cumulative Results			
FYE Mar (RM m)	9MFY18	9MFY17	Yoy (+/- %)
Net Interest Income	1,239.1	1,160.4	6.8%
Net Islamic Banking Income	691.0	591.5	16.8%
Non-interest income	978.3	1,007.0	-2.8%
Net/Total income	2,908.4	2,758.9	5.4%
OPEX	(1,692.4)	(1,577.9)	7.3%
PPOP	1,215.9	1,181.0	3.0%
Write back/(Provision) for loan losses	(32.9)	179.5	-118.3%
Profit before tax	1,183.0	1,360.4	-13.0%
Taxation	(231.3)	(308.4)	-25.0%
Profit after tax and MI	878.7	988.8	-11.1%
EPS (sen)	29.2	32.9	-11.1%

Cumulative Results			
Financial ratios (%)	9MFY18	9MFY17	Yoy (+/- pts)
ROE	7.2	8.5	-1.3
Cost to income	58.2	57.2	1
Credit charge-off	0.04	-0.23	0.27
NIM	1.98	1.96	0.02

Table 4: PAT of key divisions

PAT of key divisions (RM m)			
PAT of key divisions (RM m)	9MFY18	9MFY17	Yoy (+/- %)
Retail Banking	229.5	247.2	-7.2%
Wholesale Banking	519.8	671.4	-22.6%
General Insurance, Group Funding and other segments	202.4	133.5	51.6%

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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 <i>rise</i> 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	<i>Negative</i> total return is expected, by -10% or more, over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> 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.