

01 June 2017 | 4QFY17 Results Review

AMMB Holdings Berhad

Earnings growth due to NOII

Maintain NEUTRAL

**Revised Target Price (TP): RM5.55
(from RM4.55)**

INVESTMENT HIGHLIGHTS

- **FY17 earnings were within expectations**
- **FY17 growth came from momentum in 4QFY17 income**
- **NOII growth remains strong, with a gain on disposal of foreclosed properties**
- **Another quarter of NIM improvement as CASA grew at faster rate than total deposits**
- **Gross loans steady but asset quality a slight concern**
- **Dividend of 12.6 sen, bringing total for the year to 17.6 sen. Higher than expectations**
- **No change to forecast**
- **Maintain NEUTRAL with revised TP of RM5.55 (from RM4.55)**

Earnings within expectations. The Group's FY17 net profit was within ours and consensus' expectations at 98.1% and 100.1% of respective full year estimates.

Turned to growth due to 4QFY17 income. The Group posted FY17 growth of +1.7%yoy due to strong pick up in 4QFY17, where net profit grew +19.9%yoy. This was due to total income growth of +11.3%yoy in the quarter.

NOII growth remains strong. NOII for FY17 grew +11.5%yoy which limited the NII and Islamic Banking income decline of -4.5%yoy and -0.1%yoy respectively. The NOII growth was due to momentum from sustainable fees (such as Wealth and Bancassurance). There was also a gain on disposal of foreclosed properties of RM108.1m in 4QFY17 which contributed positively.

Another quarter of NIM improvement... Even though there was NIM compression in FY17, there was another quarter of improvement in 4QFY17. NIM improved +14bps yoy to 2.06% to end the year with only a compression of -4bps yoy to 1.98%. We believe that this resulted in the NII momentum in 4QFY17. The NIM improvement was due to better funding cost management, from better deposit mix, and increasing composition of SME loans.

... from higher CASA. CASA grew +6.1%yoy to RM19.9b which was underpinned by retail SME and payroll account. On the other hand, deposit grew +4.1%yoy to RM94.1m as at 4QFY17. As a result CASA ratio improved +0.4ppt yoy to 21.1%.

| RETURN STATS | |
|------------------------------|--------------|
| Price (31 May 2017) | RM5.21 |
| Target Price | RM5.55 |
| Expected Share Price Return | +6.5% |
| Expected Dividend Yield | +3.3% |
| Expected Total Return | +9.8% |

| STOCK INFO | |
|-----------------------|-----------------|
| KLCI | 1,765.87 |
| 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) | 15,703.9 |
| Price over NA | 1.0x |
| 52-wk price Range | RM3.90 – RM5.70 |
| Beta (against KLCI) | 1.35 |
| 3-mth Avg Daily Vol | 5.97m |
| 3-mth Avg Daily Value | RM30.34m |
| Major Shareholders | |
| ANZ | 23.78% |
| Clear Goal Sdn Bhd | 12.97% |
| EPF | 9.95% |

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

Gross loan growth steady. Gross loans grew +3.5%yoy to RM91.0b which was supported by the two main focus segment SMEs and mortgages. These segments grew +10%yoy and +21%yoy respectively. However, it is not much of a surprise as these were part of the Group's targeted segment.

Uptick in GIL ratio raised concern on asset quality. GIL ratio was trending downwards as at 3QFY17 but it had increased as at 4QFY17 to 1.86%. This was due to wholesale segment which was impacted by impairments in the quarter. In addition impaired loans in the mining & quarrying (oil and gas related), and real estate sector remained elevated, whereby it grew +74.1%yoy to RM154.0m and +23.6%yoy to RM707.1m respectively. However, management indicated that loan exposure to oil and gas, and commercial real estate sectors had been reduced to 2% and 9% of total gross loans respectively.

FORECAST

No changes were made to our forecast.

VALUATION AND RECOMMENDATION

The Group's FY17 performance was driven mostly by NOII. While we understand that this was in line with its strategy, we were disappointed that NII declined. However, there was momentum going into the 4QFY17 and loans grew steadily. Nevertheless, we have yet to see traction in earnings despite the improvement. As such, we maintain our NEUTRAL recommendation. However, we are revising our TP to RM5.55 (from RM4.55) as we revert our PB multiple to its 3 years historical average of 1.0x. We believe that this is fair given the improvement that the Group has shown.

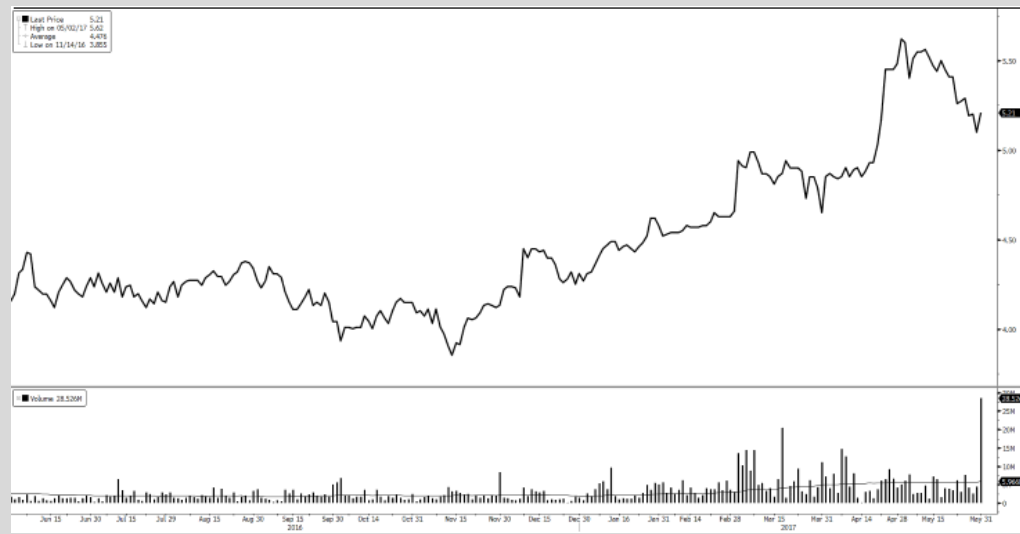


INVESTMENT STATISTICS

| 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) | 11.6 | 11.8 | 11.1 | 10.6 |
| Net dividend (sen) | 15.5 | 17.6 | 17.0 | 18.0 |
| Net dividend yield (%) | 3.0 | 3.4 | 3.3 | 3.5 |
| Book value per share (RM) | 5.03 | 5.32 | 5.55 | 5.84 |
| PBV (X) | 1.0 | 1.0 | 0.9 | 0.9 |
| ROE (%) | 8.8 | 8.5 | 8.6 | 8.6 |

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 | | | | | Comments |
|----------------------------|-------------------|---------|---------|-------------|-------------|--|
| | 4Q17 | 3Q17 | 4Q16 | Yoy (+/- %) | Qoq (+/- %) | |
| Net Interest Income | 404.2 | 394.7 | 387.6 | 4.3% | 2.4% | Better NIM and loans growth on targeted segment, mortgage (+21%yoy) and SMEs (+10%yoy). |
| Net Islamic Banking Income | 213.7 | 193.0 | 190.4 | 12.2% | 10.7% | |
| Non interest income | 388.8 | 265.7 | 326.5 | 19.1% | 46.3% | Higher fee by +14.0%yoy to RM136.7m. Also due to gain on disposal of foreclosed properties of RM108.1m. |
| Net/Total income | 1,006.7 | 853.4 | 904.5 | 11.3% | 18.0% | |
| OPEX | (582.6) | (517.9) | (620.6) | -6.1% | 12.5% | Driven by lower IT cost (-30.9%yoy to RM42.7m), advertising (-22.2%yoy to RM19.8m) and professional services (-20.9%yoy to RM28.4m). |
| PPOP | 424.1 | 335.5 | 283.9 | 49.4% | 26.4% | |
| Writeback/ (Provision) | 16.6 | 73.4 | 57.9 | -71.3% | -77.4% | Higher individual allowance (RM245.0m vs. RM95.0m in 4QFY16) |
| PBT | 440.7 | 408.9 | 341.9 | 28.9% | 7.8% | |
| Taxation | (84.1) | (91.5) | (30.6) | >100% | -8.1% | |
| Net Profit | 335.8 | 313.2 | 280.0 | 19.9% | 7.2% | Due to strong NOII growth. |
| EPS (sen) | 11.2 | 10.4 | 9.3 | 19.9% | 7.1% | |

Table 2: Financial ratios

| Financial Ratios (%) | 4Q17 | 3Q17 | 4Q16 | Yoy (+/- ppts) | Qoq (+/- ppts) | Comments |
|----------------------|-------|-------|-------|----------------|----------------|---|
| CET-1^ | 11.6 | 11.6 | 11.3 | 0.3 | 0 | |
| Tier 1 Capital^ | 12.5 | 12.6 | 12.3 | 0.2 | -0.1 | |
| Total Capital^ | 16.3 | 16.1 | 16.1 | 0.2 | 0.2 | |
| GIL | 1.86 | 1.54 | 1.94 | -0.08 | 0.32 | Wholesale segment impacted by impairments in 4QFY17 Retail GIL continue to improve with ratio coming down to 1.33% as at 4QFY17 (vs. 1.44% as at 3QFY17). |
| Credit charge-off | -0.07 | -0.32 | -0.26 | 0.19 | 0.25 | |
| Loan loss Coverage | 79.7 | 84.1 | 81.2 | -1.5 | -4.4 | |
| Cost to income | 57.9 | 60.7 | 68.6 | -10.7 | -2.8 | |
| Unadjusted Net LDR | 95.5 | 103.3 | 95.7 | -0.2 | -7.8 | |
| Adjusted Net LDR | 85.7 | 90.3 | 84.7 | 1 | -4.6 | |
| NIM | 2.06 | 2.02 | 1.92 | 0.14 | 0.04 | Loans growth in higher yielding segment such as SMEs and mortgage, and cost of fund management. |
| ROEA | 8.4 | 8.0 | 7.5 | 0.9 | 0.4 | |

^Group level ratios

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

| Cumulative Results | | | | Comments |
|--|-----------|-----------|-------------|--|
| FYE Mar (RM m) | FY17 | FY16 | Yoy (+/- %) | |
| Net Interest Income | 1,564.6 | 1,637.8 | -4.5% | Resulting from NIM compression. Interest income fell -2.5%yoy to RM4.0b while interest expense only fell by -1.1%yoy to RM2.4b. |
| Net Islamic Banking Income | 805.2 | 805.8 | -0.1% | |
| Non interest income | 1,395.8 | 1,252.2 | 11.5% | Strong growth from corporate and commercial banking. There was also a gain on disposal of foreclosed properties of RM108.1m. |
| Net/Total income | 3,765.6 | 3,695.8 | 1.9% | |
| OPEX | (2,160.5) | (2,174.3) | -0.6% | Due to cost savings measures and efficiencies. Establishment, marketing and admin cost fell by -3.0%yoy, -8.0%yoy and -16.8%yoy to RM521.3m, RM153.0m and RM291.2m respectively. |
| PPOP | 1,605.1 | 1,521.5 | 5.5% | |
| Write back/(Provision) for loan losses | 196.1 | 209.5 | -6.4% | Due to lower writebacks for commitments and contingencies (-71.4%yoy to RM11.7m). However, recoveries remained strong. |
| Profit before tax | 1,801.2 | 1,731.0 | 4.1% | |
| Taxation | (392.4) | (331.5) | 18.4% | |
| Profit after tax and MI | 1,324.6 | 1,302.2 | 1.7% | |
| EPS (sen) | 44.0 | 43.3 | 1.7% | |

| Cumulative Results | | | | Comments |
|----------------------|-------|-------|---------------|---|
| Financial ratios (%) | FY17 | FY16 | Yoy (+/- pts) | |
| ROE | 8.5 | 8.8 | -0.3 | |
| Cost to income | 57.4 | 58.8 | -1.4 | |
| Credit charge-off | -0.19 | -0.19 | 0 | |
| NIM | 1.98 | 2.02 | -0.04 | Due to roll-off of higher yield legacy retail loans and deposit mix, but moderated by SME loans and active funding cost management. |

Table 4: PAT of key divisions

| PAT of key divisions (RM m) | | | | Comments |
|---|-------|-------|-------------|--|
| PAT of key divisions (RM m) | FY17 | FY16 | Yoy (+/- %) | |
| Retail Banking | 356.6 | 467.2 | -23.7% | Due to margin compression which led to lower NII despite stronger mortgage loans growth. Meanwhile, writebacks from loan provisions were lower. |
| Wholesale Banking | 826.4 | 821.3 | 0.6% | Robust NOII growth (+30.9%yoy) from trading and investment income (+46.9%yoy). |
| General Insurance, Group Funding and other segments | 225.8 | 111.0 | 103.5% | Net earned premiums increased +1.9%yoy supported by stringer growth in non-motor. Expense increased +5.8%yoy. Group funding recorded profit due to writebacks of RM202.0m. |

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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. |