

01 June 2018 | 4QFY18 Results Review

AMMB Holdings Berhad

On the right track but out of the index

Downgrade to NEUTRAL

**Revised Target Price (TP): RM3.75
(from RM4.30)**

INVESTMENT HIGHLIGHTS

- **Normalised net profit within our expectations**
- **Income growth was robust from better NII supported by loans growth and NIM improvement**
- **Excluding one-off items, OPEX was well contained**
- **Credit cost normalising. Another quarter of asset quality improvement**
- **Continue to build income momentum in FY19**
- **Revised FY19 forecast downwards by -8.4%**
- **Out of the FBM KLCI index. Expect further pressure on the stock. Downgrade to NEUTRAL with revised TP to RM3.75 (from RM4.30)**

Normalised net profit within expectations. The Group registered a decline of -14.5%yoy for its FY18 net profit. However, this was inclusive of the one-off OPEX relating to MSS cost and retail credit card operational losses. Discounting this cost, earnings would have declined -2.7%yoy to RM1.29b due to the high recovery in FY17. This normalised net profit was within our full year estimate at 99.2%.

Robust income growth. Total income grew +5.7%yoy attributable to NII, Islamic banking income and insurance business income. NII (inclusive Islamic bet funding income) grew a robust +8.4%yoy to RM2.48b due to +2bps yoy improvement in NIM and +5.9%yoy growth to RM96.3b in gross loans. This was the first time in the past few years that the Group managed to grow its gross loans faster than industry. Main drivers for the gross loans growth were mortgages (+21%yoy) and business banking (+30%yoy). These were funded by deposit growth of +2%yoy to RM95.8b whereby CASA grew +3%yoy to RM20.4b. Meanwhile, net income from insurance business expanded +21.2%yoy to RM465.1m.

Excluding one-off, OPEX well contained. On the surface, OPEX rose +12.0%yoy. However, this was due to investments relating to strengthening its business units such as Business Banking division and MSS cost. Excluding these one-off expenses, OPEX only grew by +3%yoy to RM2.23b.

Credit cost normalising. Recoveries are waning as the Group posted provisions of RM15.7m as compared to net recoveries of RM195.9m in FY17. This was another reason for the net profit decline. However, we consider this to be positive as the Group will have to rely on its operational excellence rather than boosting its earnings through recoveries going forward.

RETURN STATS

Price (31 May 2018)	RM3.55
Target Price	RM3.75
Expected Share Price Return	+5.6%
Expected Dividend Yield	+4.2%
Expected Total Return	+9.8%

STOCK INFO

KLCI	1,740.62
Bursa / Bloomberg	1015 / AMM MK
Board / Sector	Main / Finance
Syariah Compliant	No
Issued shares (mil)	3,014.2
Market cap. (RM'm)	10,700.4
Price over NA	0.8x
52-wk price Range	RM3.40 – RM5.37
Beta (against KLCI)	1.39
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	9.10%

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


Another sequential quarter of improvement in asset quality. It appears that asset quality is on an improving trend. GIL ratio was -7bps qoq better to 1.7% from both retail and wholesale banking. This was the second consecutive quarter of quarter-on-quarter improvement. Meanwhile, in a sequential year basis, it was better by -16bps. Retail and wholesale banking asset quality improved by -8bps yoy and -17bps yoy to 1.25% and 2.29% respectively.

Continue to build income momentum in FY19. For FY19, the management will be focusing on building on the income momentum seen in FY18. Its priorities will be to grow income in top 4 products & segments, achieve better assets yields and grow CASA. Meanwhile, it will also be managing cost and pacing its investments to achieve a CI ratio of 55%.

FORECAST

We are revising downwards our FY19 forecast -8.4%.

VALUATION AND RECOMMENDATION

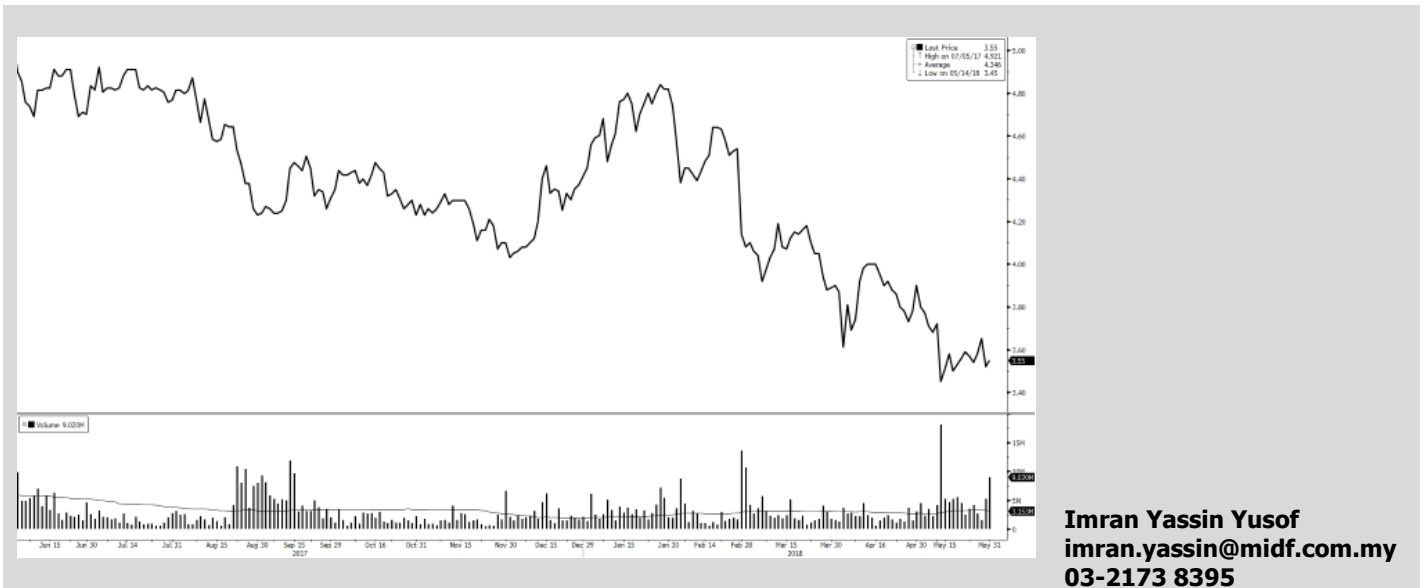
We believe that the Group is on the right track. Investments made and cost incurred in FY18 have slowly translated to better income. We also like the fact that credit cost is normalising despite its impact to earnings. We expect better momentum in income growth in FY19, and coupled with lower cost, earnings are set to recover. However, the stock will no longer be a component stock in the FBM KLCI, effective 15 June, according FTSE's first half review of the index announced yesterday. We believe that this will likely cause pressure on its share price in the near term. We opine that this warrants a valuation discount. Therefore, we are revising our TP to RM3.75 (from RM4.30) as we reduce the PBV pegged from 0.8x to 0.7x which 1 standard deviation below its 5-year historical average. As such, we are downgrading our call to NEUTRAL (from TRADING BUY). Nevertheless, we expect to revisit the stock after any short terms headwinds to its share price are resolved. 

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)	8.1	8.3	7.8	7.6
Net dividend (sen)	17.6	15.0	15.0	15.8
Net dividend yield (%)	5.0	4.3	4.2	4.5
Book value per share (RM)	5.32	5.48	5.67	5.83
PBV (X)	0.7	0.6	0.6	0.6
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)

Quarterly results						Comments
FYE Mar (RM m)	4Q18	3Q18	4Q17	Yoy (+/- %)	Qoq (+/- %)	
Net Interest Income	425.3	407.8	404.2	5.2%	4.3%	Due to NIM improvement and gross loans growth.
Net Islamic Banking Income	250.0	239.9	213.7	17.0%	4.2%	
Non interest income	395.5	311.6	388.8	1.7%	26.9%	
Net/Total income	1,070.9	959.3	1,006.7	6.4%	11.6%	
OPEX	(728.4)	(576.7)	(582.6)	25.0%	26.3%	Due to MSS cost.
PPOP	342.5	382.7	424.1	-19.2%	-10.5%	
Writeback/(Provision)	17.2	(80.9)	16.6	3.5%	-121.3%	Recovery on an asset.
PBT	359.7	301.7	440.7	-18.4%	19.2%	
Taxation	(57.6)	(71.6)	(84.1)	-31.5%	-19.6%	
Net Profit	253.4	219.0	335.8	-24.5%	15.7%	Due to MSS cost.
EPS (sen)	8.4	7.3	11.2	-24.6%	15.7%	

Table 2: Financial ratios

Financial Ratios (%)	4Q18	3Q18	4Q17	Yoy (+/- ppts)	Qoq (+/- ppts)	Comments
CET-1 [^]	11.3	11.3	11.6	-0.3	0	
Tier 1 Capital [^]	12.0	12.2	12.5	-0.5	-0.2	
Total Capital [^]	16.6	16.1	16.3	0.3	0.5	
GIL	1.70	1.77	1.86	-0.16	-0.07	Improvement in asset quality in retail and wholesale banking.
Credit charge-off	-0.07	0.34	-0.07	0.00	-0.41	
Loan loss Coverage	100.5	101.6	79.7	20.8	-1.1	
Cost to income	68.0	60.1	57.9	10.1	7.9	MSS cost.
Unadjusted Net LDR	99.6	93.7	95.5	4.1	5.9	
Adjusted Net LDR	89.9	84.4	87	2.9	5.5	
NIM	2.04	1.95	2.06	-0.02	0.09	Better asset quality mix in the quarter.
ROEA	6.3	5.3	8.4	-2.1	1.0	

[^]Group level ratios

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

Cumulative Results				Comments
FYE Mar (RM m)	FY18	FY17	Yoy (+/- %)	
Net Interest Income	1,664.3	1,564.6	6.4%	Due to NIM improvement.
Net Islamic Banking Income	941.0	805.2	16.9%	
Non-interest income	1,373.9	1,395.8	-1.6%	Decline in corporate and commercial banking.
Net/Total income	3,979.2	3,765.6	5.7%	
OPEX	(2,420.8)	(2,160.5)	12.0%	Investments and MSS cost.
PPOP	1,558.4	1,605.1	-2.9%	
Write back/(Provision) for loan losses	(15.7)	196.1	-108.0%	
Profit before tax	1,542.7	1,801.2	-14.4%	
Taxation	(288.9)	(392.4)	-26.4%	
Profit after tax and MI	1,132.1	1,324.6	-14.5%	
Normalised PATAMI	1,289.0	1,324.6	-2.7%	Discounting MSS cost and retail operation loss.
EPS (sen)	37.6	44.0	-14.5%	

Cumulative Results				Comments
Financial ratios (%)	FY18	FY17	Yoy (+/- pts)	
ROE	7.0	8.5	-1.5	
Cost to income	60.8	57.4	3.4	Due to MSS cost.
Credit charge-off	0	-0.19	0.19	
NIM	2.00	1.98	0.02	Better asset mix.

Table 4: PAT of key divisions

PAT of key divisions (RM m)	FY18	FY17	Yoy (+/- %)	Comments
Retail Banking	304.3	349.2	-12.9%	Higher impairment and higher other operating expenses, partially offset by higher income.
Wholesale Banking	781.6	827.1	-5.5%	Higher impairment and higher other operating expenses
General Insurance, Group Funding and other segments	234.7	196.6	19.4%	Higher income attributed to lower claims.

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 <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.