

23 August 2017 | Corporate Update

AMMB Holdings Berhad

Did not pass the courting stage

Maintain NEUTRAL

Revised Target Price (TP): RM4.50
(from RM5.55)

INVESTMENT HIGHLIGHTS

- **Merger talks with RHB Bank Bhd ended.**
- **Missed opportunity to reinvigorate both banking groups.**
- **Moving forward with Top 4 Strategy.**
- **Negative news but maintain NEUTRAL as price have declined by 9.8% since merger talk was announced.**
- **Revised TP to RM4.50 (from RM5.55) due to lower valuation multiple stemming from possible negative sentiment.**

Merger talks ended. The Group announced yesterday that it had mutually agreed with RHB Bank Bhd to end discussions on the proposed merger between the two Groups. Both Groups could not reach an agreement on the terms and conditions. As such the exclusivity agreement will lapse immediately.

Missed opportunity. We view this latest development negatively. We believe that the merger will be beneficial to the Group especially to its shareholders. It would have propelled the Group to a strong number 4 position in terms of asset size by being a part of a larger entity. To put into context, we had estimated that the total asset of the MergeCo to be approximately RM368.3m, where its number 3 peer asset size as at 2QFY17 was RM391.1m. As for shareholders, the failed merger means that it would have missed the potential earnings accretion. We had estimated an increase of 25 sen to its BVPS.

Moving forward with Top 4 Strategy. The management indicated that it would be continuing with its Top 4 Strategy, which is to be top 4 in four focused areas. While we believe that the strategy is sound, we have yet to see it having a significant impact to earnings. For example, FY17 NII declined -4.5%yoy, while net profit growth of +1.7%yoy was contributed mostly by NOII which included gains from disposal of foreclosed properties. We believe that more needs to be done especially in growing NII.

FORECAST

No changes to our forecast.

RETURN STATS

Price (22 Aug. 2017)	RM4.70
Target Price	RM4.50
Expected Share Price Return	-4.30%
Expected Dividend Yield	+3.6%
Expected Total Return	-0.6%

STOCK INFO

KLCI	1,774.22
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)	14,166.7
Price over NA	1.0x
52-wk price Range	RM3.90 – RM5.70
Beta (against KLCI)	1.33
3-mth Avg Daily Vol	3.08m
3-mth Avg Daily Value	RM15.59m
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

VALUATION AND RECOMMENDATION

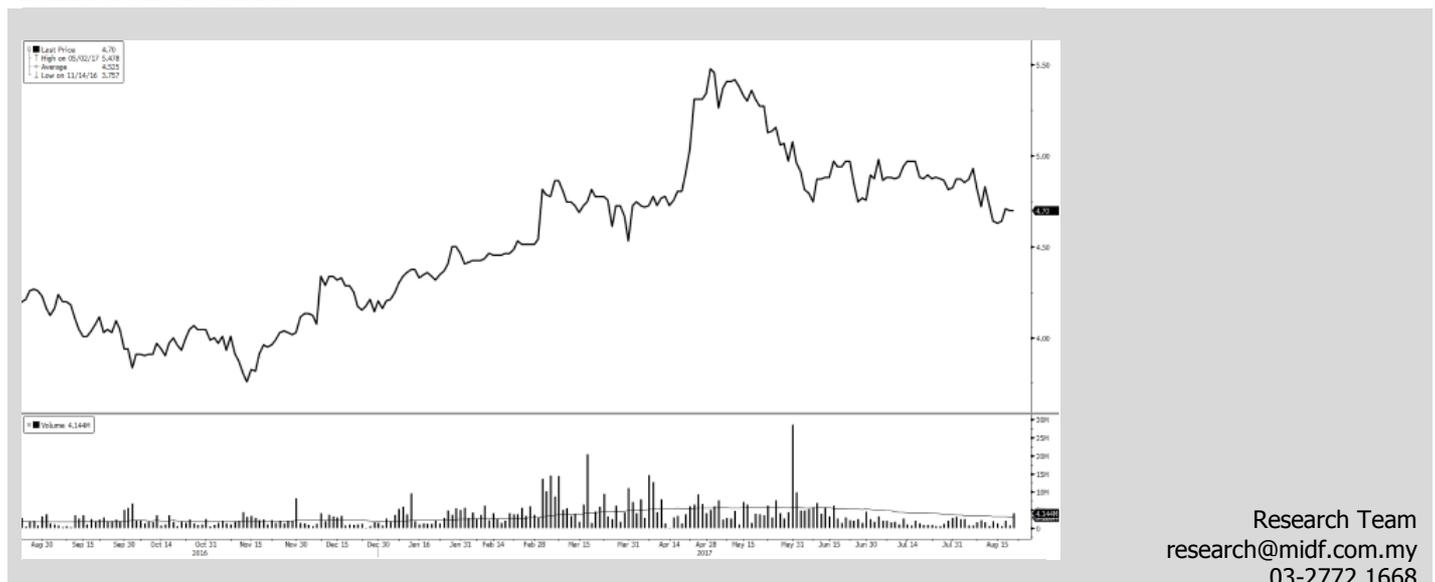
As stated above, we are negative on this latest development. In our opinion, the Group has missed an opportunity to propel its position in the industry. We believe that this news will have an adverse effect to sentiments for the Group. As such, we are lowering our target price to RM4.50 (from RM5.55) as we lower our PBV multiple to 0.8x which is 1 standard deviation below its historical average. We opine that the stock merits a downgrade but the share price has retreated by -9.8% since the announcement of the merger talks (1 June 2017). Therefore, we maintain our NEUTRAL recommendation for now. 

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)	10.4	10.7	10.0	9.5
Net dividend (sen)	15.5	17.6	17.0	18.0
Net dividend yield (%)	3.3	3.7	3.6	3.8
Book value per share (RM)	5.03	5.32	5.55	5.84
PBV (X)	0.9	0.9	0.8	0.8
ROE (%)	8.8	8.5	8.6	8.6

Forecast by MIDFR

DAILY PRICE CHART



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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.