

10 January 2018 | Visit Note

## AMMB Holdings Berhad

*Driving to the next phase*

### INVESTMENT HIGHLIGHTS

- **Focusing on driving transformation to the next stage; growth**
- **MSS is to reduce operational leverage and drive efficiency**
- **Enterprise Banking for SMEs will be a key driver of growth**
- **Ready for MFRS 9**
- **Transformation green shoots are there but we believe may take slightly longer for result to fully bloom**
- **No change to forecast for now**
- **Maintain NEUTRAL with unchanged TP of RM4.35**

**Focusing on driving transformation forward.** We had a meeting with the management of the Group yesterday to understand the latest development. The key take away that we gathered was that the Group have been focusing on strengthening the core bank while also refining its strategy and it is now looking to drive its transformation forward.

**Mutual Separation Scheme to drive efficiency.** The Group is embarking on a mutual separation scheme (MSS) on a voluntary basis for a period of two weeks, ending on 19 January 2018. We understand that management is projecting 10% to 13% of its workforce of circa 11,600. The impact will be in 4QFY18, where we estimate additional one-time cost in range of RM170m to RM250m. The rationale for the MSS is to reduce its operational leverage and increase efficiency. Based on previous staff rationalisation exercise, we expect the Group to improve its CI ratio in the longer term. We estimate that the CI ratio can improve by as much as -6ppts from 57.2% recorded in 1HFY18.

**Enterprise Banking will be a future income driver.** Going forward, the Group will be focusing on accelerating its Enterprise Banking (EB) business after building its foundation during 9MFY18. EB is catered for SMEs that is below revenue of RM50m. The strategy involves semi-programmed lending whereby borrowers have to meet certain pre-selected criteria to qualify. However, the difference with fully programmed lending is that these borrowers are then subjected to a qualifying judgement for its credit worthiness. The advantage of this practice is that it allows for a faster turnaround for loans applicant but simultaneously will ensure credit risk are properly assess and mitigated. The management expect that the improvement in loans turnaround time will ensure the Group remain competitive. The management also expect to capture other business streams such as CASA from its SME clients.

**Maintain NEUTRAL**

**Unchanged Target Price (TP): RM4.35**

### RETURN STATS

Price (9 January 2018)	RM4.48
Target Price	RM4.35
Expected Share Price Return	-2.9%
Expected Dividend Yield	+3.8%
<b>Expected Total Return</b>	<b>+0.9%</b>

### STOCK INFO

KLCI	1,826.95
Bursa / Bloomberg	1015 / AMM MK
Board / Sector	Main / Finance
Syariah Compliant	No
Issued shares (mil)	3,014.2
Market cap. (RM'm)	13,503.5
Price over NA	0.8x
52-wk price Range	RM4.06 – RM5.70
Beta (against KLCI)	1.29
3-mth Avg Daily Vol	2.08m
3-mth Avg Daily Value	RM9.05m
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

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**Conservative on risk.** We like the fact that the Group is conservative regarding its view with risk. The management indicated that it will not be expanding its asset without taking the necessary assessment to the associated risk. We believe that this attitude will protect its asset quality. For example, as at 1HFY18, GIL ratio seems to have stabilised at 1.88%. However, our concern for the Group is its large exposure to commercial real estate sector with only 50% were classified as strong by the Group's internal risk grades. As at 1HFY18, this amounted to RM7.3b.

**Selective on mortgages.** Besides SMEs, we understand that the Group will also focus on the mortgage segment. However, we understand the Group is being selective on the type of mortgages for its lending activities. The Group will be focusing on loans for the owner-occupier homes and affordable homes, which we understand that there is an undersupply situation.

**ROE target ambitious.** Previously, management guided an ROE of circa 10% within 2 years time. We believe that, while achievable, it is an ambitious target. This especially the mix result in its previous quarters and the continued high investment needed. However, we believe that the green shoots are there but we opine that due to its size, the Group's transformation may take slightly longer to bear fruit.

## FORECAST

No changes were made to our forecast pending its 3QFY18 result announcement next month.

## VALUATION AND RECOMMENDATION

We believe that there were encouraging signs from the Group's transformation efforts. Chiefly amongst the improvements were the robust NII growth, better NIM and decent loans growth that we have seen in 1HFY18 result. However, asset quality and uncertainty surrounding credit cost remains our main concern. We also believe that due to its size, it may take slightly longer for the Group to realise its transformation program aspiration. While we could see pockets of improvement, we view that it is not compelling enough at this juncture. However, we do not discount potentially revisiting its investment case for FY19. For now, we maintain our NEUTRAL recommendation with unchanged TP to RM4.35, based on PBV of 0.8x.

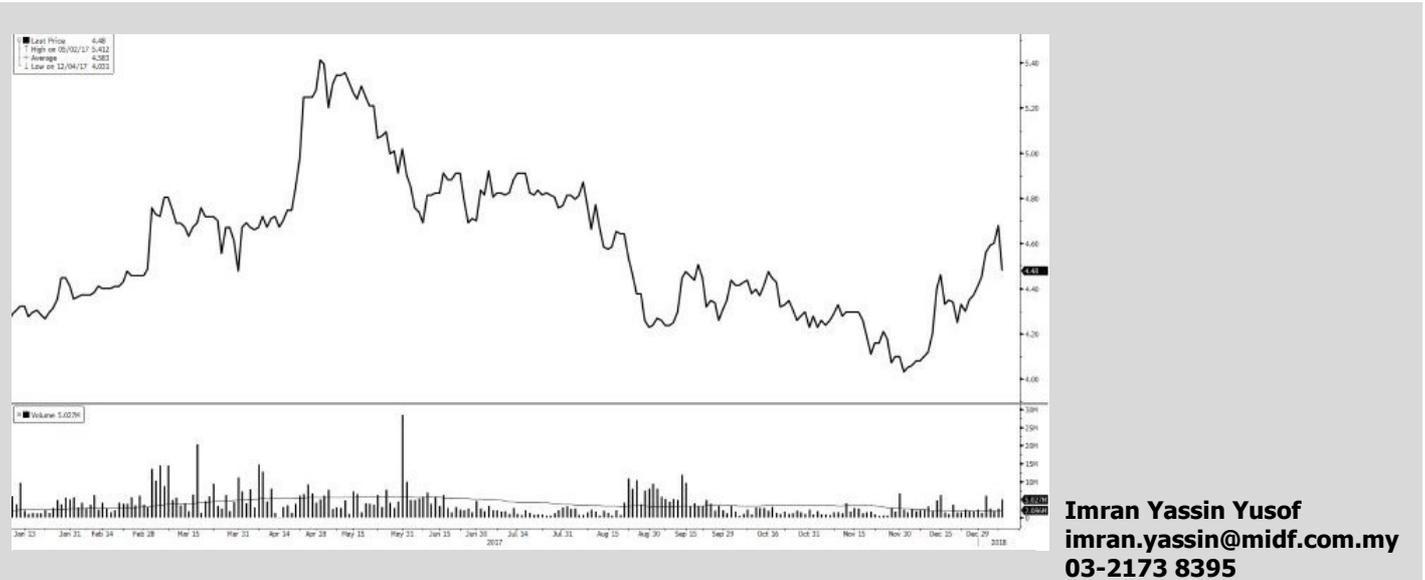


## INVESTMENT STATISTICS

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)	9.9	10.2	9.6	9.1
Net dividend (sen)	15.5	17.6	17.0	18.0
Net dividend yield (%)	3.5	3.9	3.8	4.0
Book value per share (RM)	5.03	5.32	5.55	5.84
PBV (X)	0.9	0.8	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 >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.