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23 January 2017 | Visit Note

AMMB Holdings Berhad

Possible re-rating if initiatives flows through

***Maintain* NEUTRAL**

***Unchanged* Target Price (TP): RM4.55**

INVESTMENT HIGHLIGHTS

- **Selective on asset growth but not sacrificing asset quality.**
- **Towards an income based approach. Non volatile NOII will be the focus in the future.**
- **Looking to grow SMEs and owner-occupier home loan segment.**
- **Looking to build on CASA franchise.**
- **Yet to benefit from cost optimization.**
- **Impact from initiatives will take time.**
- **No change to forecast.**
- **Maintain NEUTRAL with unchanged TP of RM4.55, based on PB multiple of 0.8x based on 1 standard deviation below 3 year historical average.**

Not focusing solely on asset growth. We met with the management recently to get an update. The key take away from the meeting in our perspective are as follows:

- Top 4 aspirations are in 4 key segments. Asset growth is not a metric but an enabler to hit the other metrics.
- Focus on growing NOII.
- Focusing on SMEs segment for loans growth.
- Aim to grow CASA franchise to ease funding cost.

Top 4 aspirations by the year 2020. These include being top 4 in 4 focus products (cards & merchants, transaction banking, markets & FX and wealth management), top 4 in growth segments (mass affluent, affluent, SME and mid corporate), top 4 in current engines (corporate loans, DCM, funds management) and top 4 best employer. Amongst the financial metrics are relative market capitalisation, revenue growth, ROE, P/E, NIM, CTI and GIL ratio. We noticed the management does not consider asset growth as a financial metrics. We are made to understand that asset growth will be an enabler to reach the other financial metrics.

RETURN STATS	
Price (20 Jan. 2017)	RM4.43
Target Price	RM4.55
Expected Share Price Return	+2.7%
Expected Dividend Yield	+3.8%
Expected Total Return	+6.5%

STOCK INFO	
KLCI	1,664.89
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)	13,352.8
Price over NA	0.79x
52-wk price Range	RM3.90 – RM4.76
Beta (against KLCI)	1.2
3-mth Avg Daily Vol	2.26m
3-mth Avg Daily Value	RM9.55m
Major Shareholders	
ANZ	23.78%
EPF	14.33%
Clear Goal Sdn Bhd	12.97%

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

Towards an income based approach. We understand that the Group will be focusing on NOII growth. We do not find this surprising due to the NIM compression seen. Indeed, we have seen this strategy coming through to its income performance. Recall, for its 1HFY17, NOII came in +16.5%yoy higher underpinned by higher loan underwriting fees and commission on trade facilities, trading gain from fixed income and higher claims income as historical claims experience improved. Normally a focus on NOII may be risky given its volatile nature. Nevertheless, we were made aware that the Group will be focusing on the non volatile aspect of NOII such as fees income from cards & merchant and transaction banking.

Focusing on SME... Management indicated that SMEs will be a main focal point going forward. This is a new driver for the Group, where there were 12 full-fledged SME branches as at 1HFY17. We believe that this segment is very competitive. However, management indicated that the SME segment is currently underserved and it is confident that it has the capabilities to serve the SMEs with its range of products.

...and selective mortgages. The other segment the Group will be focusing is 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. We believe that this is a good strategy given the lower risk associated.

Looking to grow its CASA franchise. We like the fact that the Group will be targeting to grow its CASA franchise. This will ease the Group's funding cost and ease the pressure on NIM. Recall, CASA ratio was stable at 21.9% vs. 20.9% as at 2QFY16, despite declining by -3.0%yoy to RM18.3b. On adjusted basis (customer deposits added on to stable funding sources), LDR was to 89.6%.

Yet to benefit from cost optimization. We saw OPEX for 1HFY17 remains elevated. For 1HFY17, it grew +7.4%yoy to RM1.06b mainly contributed by higher personnel and admin & general expenses. Both these cost grew +7.7%yoy to RM568.8m and +13.8%yoy to RM149.3m respectively. However, we understand that some of the OPEX increase was due to infrastructure investments for the Group to carry with its revenue initiatives. Coupled with flattish total income growth, CI ratio was higher by +3.6bps yoy.

Overall strategy implementation on track but yet to translate to revenue and earnings. We understand that the implementations of its strategic initiatives are on track, whereby we saw some early benefits in its 1HFY17 results where mass affluent and affluent segments, wealth management, markets and DCM showing good momentum. However, we have yet to see it translate into its earnings. We believe that the Group are making the right initiatives but it is still early days.

FORECAST

We maintain our forecast pending its 3QFY17 result expected next month.

VALUATION AND RECOMMENDATION

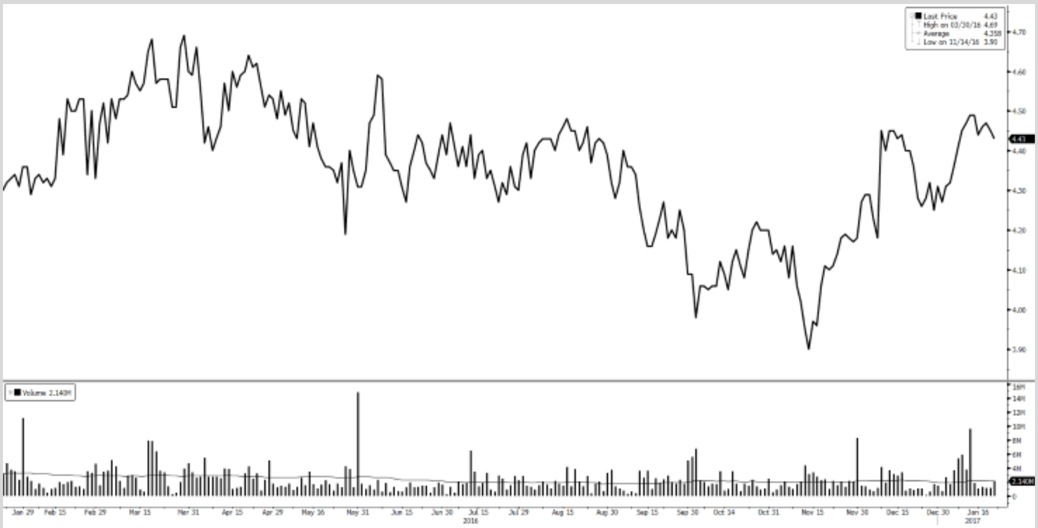
We believe that the Group has targeted the right segments for its transformation program. SMEs will be an area of potential, while we like the fact that it is targeting the owner-occupier segment for its mortgage loans. Focusing on growing non-volatile NOII is also a good move to compensate for pressure on NII stemming from NIM compression. However, we believe that it is still early days. We believe that the impact of its initiatives will take time. Nevertheless, should the initiatives flows to its performance, we do not discount that it could be a re-rating catalyst in the future. For now, we maintain our NEUTRAL recommendation with unchanged TP of RM4.55. Our valuation is based on pegging the stock to a PB multiple of 0.8x which is 1 standard deviation below its 3 year historical average.

INVESTMENT STATISTICS

FYE Mar	FY15	FY16	FY17F	FY18F
Net interest income (RM'm)	1,981.1	1,637.8	1,644.3	1,628.1
Islamic banking income (RM'm)	864.7	805.8	896.4	915.3
Non-interest income (RM'm)	1,878.8	1,252.2	1,454.4	1,567.4
Net/Total income (RM'm)	4,724.6	3,695.8	3,995.1	4,110.8
Pretax profit (RM'm)	2,604.3	1,731.0	1,889.6	1,980.3
Net profit (RM'm)	1,918.6	1,302.2	1,350,0	1,408.9
Core net profit (RM'm)	1,634.8	1,355.9	1,350.0	1,408.9
Core EPS (sen)	54.4	45.1	45.0	47.0
PER (x)	8.1	9.8	9.9	9.5
Net dividend (sen)	27.3	15.5	16.0	17.0
Net dividend yield (%)	6.2	3.5	3.6	3.8
Book value per share (RM)	4.80	5.03	5.32	5.57
PBV (X)	0.9	0.9	0.8	0.8
ROE (%)	13.8	8.8	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 *rise* 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	*Negative* total return is expected, by -15% or more, over the next 12 months.
TRADING SELL	Stock price is expected to *fall* 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.