12 March 2018 | Visit Note

AMMB Holdings Berhad

Recalibrating the franchise

***Upgrade to* TRADING BUY**

***Unchanged* Target Price (TP): RM4.30**

INVESTMENT HIGHLIGHTS

- **Recalibrating its franchise, which require investments**
- **FY18 is a transition year. Expect to reap efforts in FY19**
- **Credit cost normalising**
- **Income growth will drive earnings performance**
- **No change to forecast**
- **Upgrade to TRADING BUY (from NEUTRAL) with unchanged TP of RM4.30**

Key take away. We met with the management last Friday for an update following its result release last month. The key take away from our meeting are as follows:

- The management are recalibrating its franchise moving from its traditional areas of hire purchase financing and corporate to retail and SME based lending and deposits.
- FY18 will be a transition year. The management expect to start reaping the fruits of its labour in FY19.
- Revenue starting to see some benefits from its efforts.
- Credit cost has started to normalise, except for some troubled account which will lead to either higher provisions or higher recoveries.

Expected to start reaping next year. The management indicated that FY18 is a transition year. This is due to the investment needed to put in place the building blocks for a more sustainable growth. As such, CI is expected to come in circa 58%. This is without factoring the MSS cost that is to be incurred in 4QFY18. Besides the MSS cost, the higher OPEX is due to higher personnel cost and compliance cost as the Group recalibrate its focus segment. The Group had established a new division, Enterprise Banking, to capture the SME and mid-corporate segment. The management expect that cost will be lower in FY19, which include the RM80m savings expected from the MSS. We estimate that the CI ratio can improve by as much as -6ppts from 58.2% recorded in 9MFY18. Going forward, management will be balancing between investment need and controlling cost.

Recalibrating its business franchise. The Group is moving away from its more traditional segments, i.e. hire purchase and corporate loans. It will focus more on retail and SME segment to drive future growth. This recalibration has seen some positive impact. NIM improvement is amongst them. NIM came in at 1.98% in 9MFY18 and

RETURN STATS	
Price (9 March 2018)	RM4.03
Target Price	RM4.30
Expected Share Price Return	+6.7%
Expected Dividend Yield	+4.1%
Expected Total Return	+10.8%

STOCK INFO	
KLCI	1,843.92
Bursa / Bloomberg	1015 / AMM MK
Board / Sector	Main / Finance
Syariah Compliant	No
Issued shares (mil)	3,014.2
Market cap. (RM'm)	12,147.2
Price over NA	0.8x
52-wk price Range	RM3.92 – RM5.70
Beta (against KLCI)	1.43
3-mth Avg Daily Vol	3.16m
3-mth Avg Daily Value	RM14.05m
Major Shareholders	
ANZ	23.78%
Clear Goal Sdn Bhd	12.97%
EPF	9.38%

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

management expect that it will be able to sustain around the 2% level. One of the strategies is to expand CASA deposits and especially capture CASA from its SME clients. This will be done through SME lending program whereby its clients would have to open a CASA account for the credit facilities offered. However, we have yet to see this flow through in a significant way. Fixed deposits growth continued to outpace that of CASA. As at 3QFY18, fixed deposits grew +17.7%yoy to RM79.9b driven by retail segment while CASA expanded +7.0%yoy to RM20.0b. We believe that this could be a hindering for NIM to expand further.

Credit cost starting to normalise, higher provisions expected. Credit cost appears to have started normalising. This is evident by the lower recoveries in 3QFY18. However, we understand that there will be volatility in its credit cost due to its exposure in the corporate sector. In fact, the higher provision in 3QFY18 was due to an NPL amounting to circa RM50m, which have subsequently been fully repaid in 4QFY18. Therefore, we could expect a reversal in that quarter. As for FY19, we expect credit cost to come in between 40bps to 50bps.

Income growth will mitigate higher provisions and higher OPEX. Management indicated that income growth will mitigate the higher OPEX. The income improvement will come from the change in its focus as stated earlier. Indeed, we have observed commendable income improvement especially from NII. In 9MFY18, NII (inclusive of Islamic Banking) grew +8.8%yoy to RM1.84b, contributed by NIM expansion, while NOII was flat at RM1.07b. We believe that this was due to the recalibration of its loans book towards more retail. In addition, NII improvement came despite higher pace fixed deposit growth. Should the Group manage to capture higher CASA growth as it onboard its SME clients more, then we foresee NII growth to come in stronger.

ROE target still seems ambitious. Previously, management guided an ROE of circa 10% within 2 years time and circa 7% for FY18. We believe that the 10% ROE target to be ambitious taking into account the mix result especially the high investment that was incurred for strengthening of its Enterprise Banking and yield on deposits.

FORECAST

We are maintaining our FY18 and FY19 forecast.

VALUATION AND RECOMMENDATION

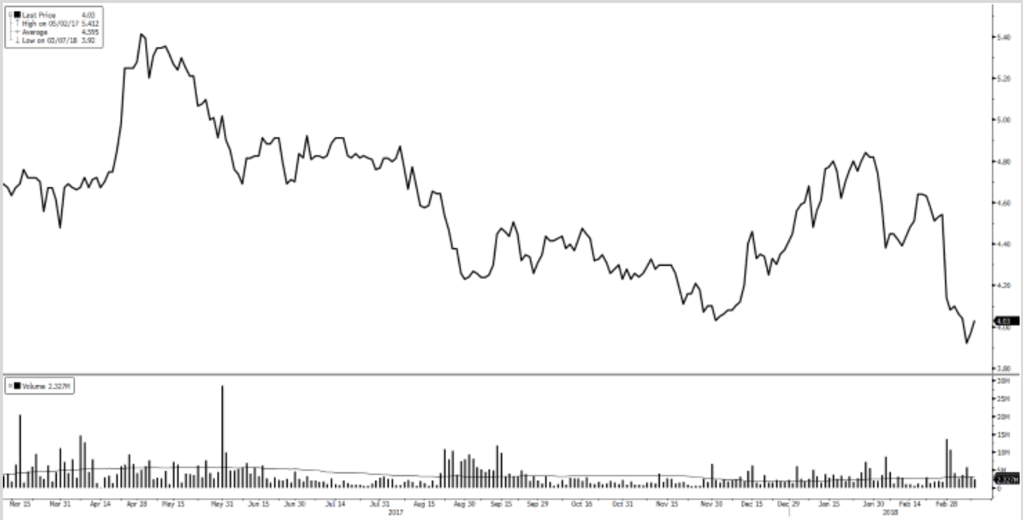
We believe that there Group's performance are starting to improve following from its transformation. We like the fact that NII grew robustly and NIM expanded decently. However, we believe that there is still more development that it needs to go through. Amongst them is to grow its CASA better, controling OPEX and bringing CI to more manageable level. However, we like the fact that credit cost is normalising despite its impact to earnings. We opine that there are encouraging signs for the Group and the recent drop in its share price present a good opportunity for investors to have an early exposure to its recovery. Therefore, we are upgrading our call to **TRADING BUY** (from NEUTRAL) on the stock with unchanged **TP of RM4.30**, based on PBV of 0.8x, pegged to FY19 BVPS.

INVESTMENT STATISTICS

FYE Mar	FY16	FY17	FY18F	FY19F
Net interest income (RM'm)	1,637.8	1,564.6	1,624.6	1,771.5
Islamic banking income (RM'm)	805.8	805.2	915.3	934.6
Non-interest income (RM'm)	1,252.2	1,395.8	1,435.3	1,573.3
Net/Total income (RM'm)	3,695.8	3,765.6	3,975.1	4,279.4
Pretax profit (RM'm)	1,731.0	1,801.2	1,824.7	1,948.4
Net profit (RM'm)	1,302.2	1,324.6	1,299.6	1,428.5
Core net profit (RM'm)	1,355.9	1,324.6	1,299.6	1,428.5
Core EPS (sen)	45.1	44.0	43.2	47.5
PER (x)	8.9	9.2	9.3	8.5
Net dividend (sen)	15.5	17.6	15.1	16.6
Net dividend yield (%)	3.8	4.4	3.8	4.1
Book value per share (RM)	5.03	5.32	5.44	5.67
PBV (X)	0.8	0.8	0.7	0.7
ROE (%)	8.8	8.5	8.0	8.5

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 *rise* 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	*Negative* total return is expected, by -10% or more, over the next 12 months.
TRADING SELL	Stock price is expected to *fall* 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.