

17 May 2018 | Corporate Update

AMMB Holdings Berhad

Value beyond perception

INVESTMENT HIGHLIGHTS

- **Optimistic with new direction**
- **Asset quality intact due to de-risking of loans book**
- **Earnings to rebound in FY19**
- **Already reprimanded for past dealings**
- **No change to forecast**
- **Maintain TRADING BUY with unchanged TP of RM4.30**

Reaction to GE14. We participated in a conference call yesterday with the management on the Group's reaction to the concluded 14th General Election (GE14). Amongst the topics discussed were their outlooks following the election result, asset quality and past issue relating to 1MDB.

Optimistic on the country's new direction. The management indicated that it is optimistic that the country will continue on its growth trajectory. Any headwinds will be from the external sector due to the ongoing geopolitical concerns.

No major impact to asset quality. According to the management, it had conducted scenario simulation on the outcome of GE14 including the possibility of a change in government and stress testing the Group's asset quality. Subsequently, it found no major impact to the quality of its assets. This was due to the de-risking of its exposure.

Ongoing recalibration of 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. The positive impact including NIM improvement as evident by the 1.98% posted in 9MFY18 and management expect that it will be able to sustain around the 2% level. Besides this, the Group was also able to lower the risk coming from the surprised GE14 result. Management indicated that the construction and GLC segment make up 8% and 6% of the Group's loans book respectively.

Credit cost normalising. In fact, partly due to the de-risking of its loans book, credit cost appears to have started normalising as evident by the lower recoveries registered in 3QFY18. However, we understand that there will still be volatility in its credit cost due to its exposure in the corporate sector and in particular in real estate. As for FY19, we expect credit cost to come in between 40bps to 50bps.

Maintain TRADING BUY
Unchanged Target Price (TP): RM4.30

RETURN STATS

Price (16 May 2018)	RM3.58
Target Price	RM4.30
Expected Share Price Return	+20.1%
Expected Dividend Yield	+4.6%
Expected Total Return	+24.7%

STOCK INFO

KLCI	1,858.26
Bursa / Bloomberg	1015 / AMM MK
Board / Sector	Main / Finance
Syariah Compliant	No
Issued shares (mil)	3,014.2
Market cap. (RM'm)	10,790.8
Price over NA	0.7x
52-wk price Range	RM3.40 – RM5.54
Beta (against KLCI)	1.59
3-mth Avg Daily Vol	3.03m
3-mth Avg Daily Value	RM14.05m
Major Shareholders	
ANZ	23.78%
Clear Goal Sdn Bhd	12.97%
EPF	9.28%

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

Earnings potential is there. Previously, the management had indicated to us 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. The Group had established a new division, Enterprise Banking, to capture the SME and mid-corporate segment. As such, CI is expected to come in circa 58% (without factoring the MSS cost). However, the management expect that cost will be lower in FY19, and we estimate that the CI ratio can improve by as much as -6ppts. In addition, management indicated that income growth will mitigate the higher OPEX. Indeed, we have observed commendable income improvement especially from NII recently. Therefore, we believe that there has been encouraging signs for the Group. We opine that earnings potential remains intact despite the result of GE14.


Already paid the price for past lack of oversight. Despite its fundamental remains intact, its past dealings with 1MDB and the ex-Prime Minister have muddled the perception of the Group. We believe that the main concern is that the Group may be further punished for its lack of oversight. However, the regulators have already fined the Group RM53.7m in 2015 (which is a record amount) and it had pledge to spend RM100m in four years to improve its compliance and supervision issues. As such, the management believe that the Group have strengthened itself after investing to revamp its system and process. Furthermore, we understand that the Group have fully disclosed the transactions with the regulators. As such, we believe that it is highly unlikely that the Group will be punished again.

Difficult to run away from perception but value beyond it. Nevertheless, we are cognizant that the perception might persist for the Group. This sentiment issue have affected valuation for the Group. Its PBV is currently trading at 37% discount to its 5-year historical average at 0.67x. Meanwhile, the average PBV of its peers are trading at 1.3x which is the 5-year historical average PBV. However, we believe that there is value if investors are willing to look beyond the perception issue. The Group have put in place the building blocks and enhance its earnings potential. Therefore, we believe that the current price presents a good opportunity for investors to have a stake before an earnings uplift.

FORECAST

We are maintaining our FY18 and FY19 forecast pending release of its result at the end of the month.

VALUATION AND RECOMMENDATION

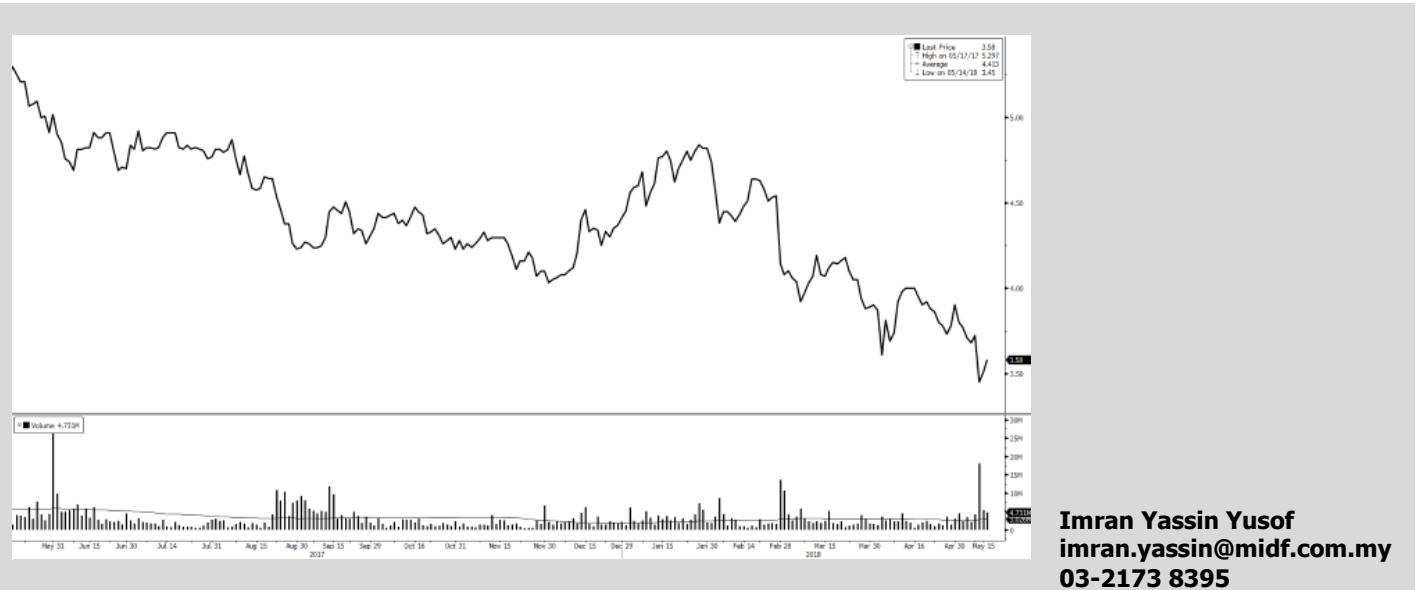
We recognize that there is a perception that the result of GE14 will be negative for the Group given the past dealings with the previous Government. However, we believe that the Group have been fully reprimanded and the fact that it had fully disclosed the transactions should significantly reduce the probability of further fines. In addition, we believe that the Group have made solid steps to enhance its earnings potential. Therefore, the current share price weakness should represent a good opportunity for investors. Hence we maintain our TRADING BUY call on the stock with unchanged TP of RM4.30, based on 1 standard deviation below its 5-year average 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)	7.9	8.1	8.3	7.5
Net dividend (sen)	15.5	17.6	15.1	16.6
Net dividend yield (%)	4.3	4.9	4.2	4.6
Book value per share (RM)	5.03	5.32	5.44	5.67
PBV (X)	0.7	0.7	0.7	0.6
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 <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.