

AMMB Holdings Berhad

(1015 | AMM MK) Financial Services | Finance

Potential AmMetLife Disposal

Maintain BUY

Revised Target Price: RM3.98
(Previously RM4.03)

KEY INVESTMENT HIGHLIGHTS

- **Purpose:** Discussions regarding AmMetLife disposal
- **Tone:** Optimistic, but too early to make concrete assumptions
- **Core themes:** (a) Boost to capital ratios, (b) Bancassurance offering could continue, (c) As a derisking measure
- **Forecasts revised:** FY24F/25F Core NP adjusted by **-1.7%/-0.5%**
- **Maintain BUY | Revised TP of RM3.98 | based on a revised FY25F P/BV of 0.80x (formerly 0.87x, from FY24F)**

Verdict: +ve risk-reward, though close to being priced in.

- Yays**
1. Dividend payments have resumed.
 2. Loan growth is usually above market.
 3. RWA optimisation to continue, nearing FIRB regime.

- Nays**
1. No official FY24F guidance for key metrics given yet.

OKs

AMMB has confirmed in a Bursa announcement that there have been preliminary talks with Great Eastern (GE) on a possible sale of AmMetLife Insurance and AmMetLife Takaful.

We are positive about the deal. We view this as a means for AMMB to further streamline its capital structure while reducing its exposure to insurance-sector risks (most notably, MTM volatility). Earnings loss is not a huge concern, as AML's contribution to bottom line is unlikely to sustain at the >2% mark. AMMB could follow most of its banking peers and sign a bancassurance contract with the new entity to preserve some of its fee income.

On AmMetLife. AML (Both Insurance and Takaful) is a 50:50 JV between AMMB and US-based Metlife International Holdings. It specialises in Life insurance, with a wide variety of medical and health insurance plans, as well as wealth offerings. The market share is not large, with the Group reporting a gross written premium (GWP) of RM617m in Mar-22 – we doubt this reaches even 4% of the local market share.

Deal valuations. The press indicated that the deal for AML Insurance Berhad would be valued between USD250-300m (RM1.12-1.34b), which implies a P/B of 1.6-1.9x (using Sep-22's figures).

Although AML Takaful is not factored into the equation, we can assume a price tag of RM90-106m should we follow a similar P/B value. This brings the combined purchase consideration to the RM1.13-1.45b range. This will push up AMMB's Mar-23 CET-1 ratio from 12.1% to 12.6-12.7%.

This comes hot on the heels of AMMB's recent disposal of its 51%-held general insurance arm. Do note the difficulty in forecasting regulatory approval from BNM – especially when talks are in such early stages.

RETURN STATISTICS

Price @ 2 August 2023 (RM)	3.78
Expected share price return (%)	+5.4
Expected dividend yield (%)	+5.3
Expected total return (%)	+10.7

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	6.1	0.3
3 months	6.1	3.4
12 months	-1.5	0.9

INVESTMENT STATISTICS

FYE Mar	FY24F	FY25F	FY26F
Core NP (RM m)	1,779	1,902	1,984
CNP growth (%)	3	7	4
Div yield (%)	5.0	5.3	5.5
Gross DPS (sen)	18.7	20.0	20.8
P/BV (x)	0.8	0.8	0.7
BVPS (RM)	4.6	5.0	5.3
ROE (%)	9.5	9.4	9.2
MIDF/Street CNP (%)	103	104	104

KEY STATISTICS

FBM KLCI	1,444.56
Issue shares (m)	3,296.2
Estimated free float (%)	46.5
Market Capitalisation (RM'm)	12,697.1
52-wk price range	RM3.42 - RM4.25
3-mth avg daily volume (m)	3.1
3-mth avg daily value (RM'm)	11.2
Top Shareholders (%)	
ANZ Funds Pty Ltd	21.7
Clear Goal Sdn Bhd	10.9
EPF Board	9.7

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Disposal incentives:

- 1. Unreliable income source.** Even with better earnings consistency expected from IFRS 17, volatile MTM gains always provide severe downside possibility. Observe sharp volatility (especially in its Takaful arm) in net profit and ROEs below. Earnings void will be minimal too, as it makes up a small proportion of AMMB's bottom line.
- 2. Sleeker capital structure and derisking.** With AMMB working its way towards adopting FIRB approach to RWA, the Group may intend to offload RWA-heavy insurance assets, offering potential for ROE upside. It reduces the need for capital allocation to subsidiaries as well as potentially offloads clunky, ROE-unfriendly goodwill. Keep in mind that AMMB has an especially low CET-1 ratio – increasing the necessity of disposal gains and a lighter RWA structure.
- 3. Disposal does not imply the end of bancassurance fee income.** Other local banks have long-standing bancassurance partnerships with other Life Insurance firms. Notable examples include ABMB & Manulife, HSBC & Allianz, Affin & Generali, STMB and Affin Islamic and AIA & Citi. Banks will continue to get fee income in the form of a cut of commission (and usually a one-off upfront fee from its insurance partner at the beginning of the deal) while avoiding the compliance costs and organisational complexity that come with managing an insurance firm.

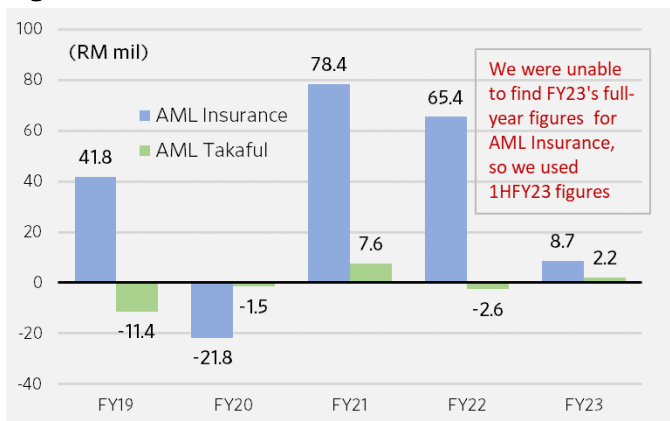
Forecasts revised: FY24F/25F Core NP adjusted by -1.7%/-0.5%. We increase our credit costs assumptions to factor in less overlay writeback to keep loan loss reserves at healthier levels.

Key downside risks. (1) Lacklustre NOII recovery, (2) Sharp NIM compression, (3) Higher-than-anticipated OPEX.

Maintain BUY call: Revised GGM-TP of RM 3.98 (from RM4.03). The TP is based on a revised FY25F P/BV of 0.80x (formerly 0.87x, rolled on from FY24F), to reflect weaker earnings prospects and ROE-based valuations. Although the stock has undergone sharp positive repricing, we believe that the share price has yet to fully reflect resumption of dividend payments and above-industry loan growth. (**GGM assumptions:** FY25F ROE of 9.4%, LTG of 3.5% & COE of 10.9%)

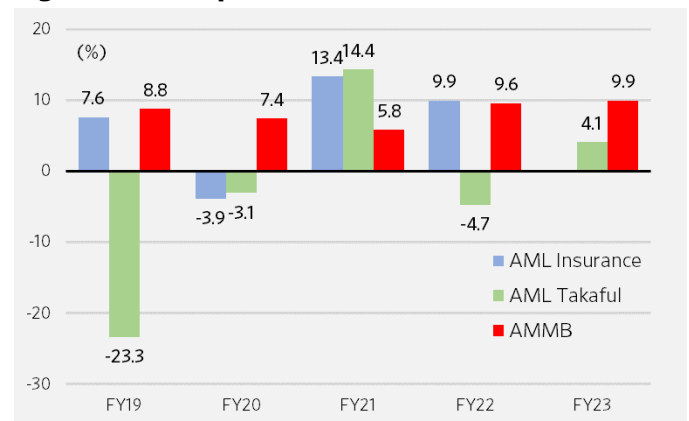


Fig 1: AML Insurance & Takaful Net Profit



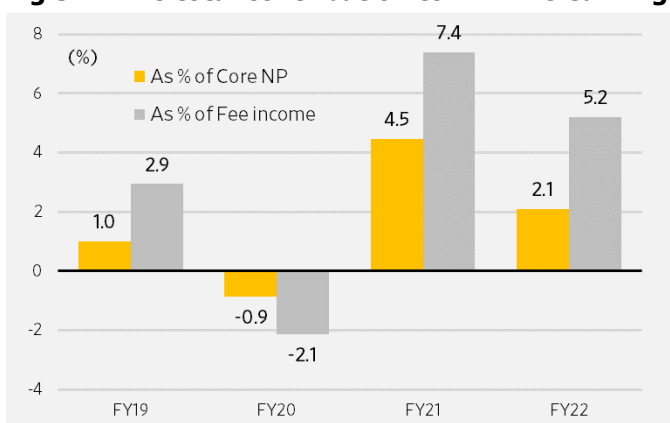
Source: Banks, MIDFR

Fig 2: ROE comparisons



Source: Banks, MIDFR

Fig 3: AML's total contribution to AMMB's earnings



Source: Banks, MIDFR

AML has experienced severe earnings and ROE volatility in the past, especially the Takaful arm. Indeed, there is difficulty in comparing AMMB ROEs with that of AML.

Contribution to AMMB's earnings is fairly minimal – note that the 4.5% in FY21 was due to an AMMB reporting an abnormally weak Core NP in that year.

FINANCIAL SUMMARY

INCOME STATEMENT

FYE Mar (RM m)	FY22	FY23	FY24F	FY25F	FY26F
Interest income	3,942	4,976	5,381	5,805	6,044
Interest expense	(1,770)	(2,695)	(2,950)	(3,218)	(3,400)
Net interest income	2,172	2,281	2,431	2,587	2,644
Islamic banking inc.	1,062	1,301	1,271	1,219	1,245
Other operating inc.	822	956	1,049	1,151	1,251
Net income	4,056	4,538	4,752	4,957	5,140
OPEX	(1,789)	(1,999)	(2,138)	(2,181)	(2,262)
PPOP	2,267	2,539	2,614	2,776	2,878
Loan allowances	(314)	(422)	(376)	(382)	(386)
Other allowances	(454)	68	(13)	(29)	(24)
JV & Associates	44	70	91	111	115
PBT	1,544	2,255	2,316	2,476	2,583
Tax & zakat	(177)	(513)	(537)	(574)	(599)
NCI	(92)	59	-	-	-
Discontinued ops	229	(66)	-	-	-
Reported NP	1,503	1,735	1,779	1,902	1,984
Core NP	1,503	1,735	1,779	1,902	1,984
Total NII	3,012	3,436	3,576	3,696	3,777
Total NOII	950	1,110	1,176	1,261	1,363

BALANCE SHEET

FYE Mar (RM m)	FY22	FY23	FY24F	FY25F	FY26F
Cash & ST funds	14,523	8,699	9,185	9,320	9,551
Investment securities	35,011	51,851	48,326	45,204	42,445
Net loans	118,066	128,243	136,113	143,001	150,165
Other IEAs	0	0	0	0	0
Non-IEAs	7,260	8,748	8,657	8,723	10,495
Total assets	174,859	197,541	202,281	206,247	212,657
Customer deposits	122,593	130,315	138,264	145,454	153,018
Other IBLs	18,130	34,513	25,136	20,712	18,455
Non-IBLs	16,177	14,577	19,428	19,235	18,832
Total liabilities	156,900	179,405	182,829	185,401	190,304
Share capital	6,776	6,376	6,376	6,376	6,376
Reserves	9,984	11,759	13,076	14,470	15,976
Shareholders' funds	16,760	18,135	19,453	20,846	22,353
NCI	1,199	1	0	0	0
Total equity	17,959	18,136	19,453	20,846	22,353
Total L&E	174,859	197,541	202,281	206,247	212,657
Total IEAs	167,599	188,792	193,625	197,524	202,162
Total IBLs	140,723	164,828	163,401	166,166	171,473
Gross loans	119,993	130,227	138,040	144,942	152,190
CASA	43,107	48,800	47,010	46,545	47,435

FINANCIAL RATIOS

FYE Mar (RM m)	FY22	FY23	FY24F	FY25F	FY26F
Interest (%)					
NIM	1.82	1.93	1.87	1.89	1.89
Return on IEAs	2.39	2.79	2.81	2.97	3.02
Cost of funds	1.27	1.76	1.80	1.95	2.01
Net interest spread	1.11	1.03	1.02	1.02	1.01
Profitability (%)					
ROE	9.6	9.9	9.5	9.4	9.2
ROA	0.9	0.9	0.9	0.9	0.9
NOII/Net income	25.7	24.3	24.8	25.4	26.5
Effective tax rate	11.5	22.7	23.2	23.2	23.2
Cost/Income	44.1	44.0	45.0	44.0	44.0
Liquidity (%)					
Loan/Deposit	96.3	98.4	98.4	98.3	98.1
CASA ratio	35.2	37.4	34.0	32.0	31.0
Asset Quality (%)					
GIL ratio	1.40	1.46	1.47	1.41	1.40
LLC ratio	115	105	95	95	95
LLC (w. reserves)	121	116	104	104	104
Net CC (bps)	27	34	28	27	26
Capital (%)					
CET 1	12.3	12.8	12.9	13.1	13.0
Tier 1 capital	12.3	12.8	12.9	13.1	13.0
Total capital	15.4	16.0	16.1	16.4	16.3
Growth (%)					
Total NII	2.6	14.1	4.1	3.4	2.2
Total NOII	-39.6	16.8	6.0	7.2	8.1
Net income	-10.0	11.9	4.7	4.3	3.7
OPEX	-16.1	11.7	7.0	2.0	3.7
Core NP	56.2	15.5	2.5	6.9	4.3
Gross loans	6.5	8.5	6.0	5.0	5.0
Customer deposits	1.7	6.3	6.1	5.2	5.2
CASA	20.6	13.2	-3.7	-1.0	1.9
Valuation metrics					
Core EPS (sen)	35.9	41.5	42.5	45.4	47.4
Gross DPS (sen)	5.0	18.3	18.7	20.0	20.8
Div payout (%)	11	35	35	35	35
BVPS (RM)	4.0	4.3	4.6	5.0	5.3
Core P/E (x)	10.5	9.1	8.9	8.3	8.0
Div yield (%)	1.3	4.8	5.0	5.3	5.5
P/BV (x)	0.9	0.9	0.8	0.8	0.7

Source: AMMB, MIDFR

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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	Total return is expected to be <-10% 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.

ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell

☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology