

AMMB Holdings Berhad

(1015 | AMM MK) Financial Services | Finance

2QFY24 Results: Tax Joy Next Quarter

KEY INVESTMENT HIGHLIGHTS

- **6MFY24's Core NP of RM822m was within our/street forecasts: 46%/49% of full-year forecasts**
- **Management's tone: Positive**
- **Core themes: (a) Tax credit write-off, (b) Post-election loan cheer, (c) Dividend payout revision in future, (d) Profit-taking from bond book**
- **Forecasts revised: FY24/25 Core NP adjusted by -4.5%/0.7%**
- **Maintain BUY with revised TP of RM4.23, based on a revised FY25F P/BV of 0.84x (formerly 0.80x)**

Verdict: Improved dividend yield prospects and non-core business exit act as rerating drivers.

Yays

1. Sleeker and more secure capital structure should imply better ROEs and dividend payouts in future.
2. OPEX continues to be among best managed.

Nays

1. FY24 loan growth is lacklustre for a smaller bank – the high residential mortgage loan take-up may be affecting NIMs.

OKs

1. Possible profit taking from NOII perspective in 2HFY23.
2. Possible further writebacks on loan sales in future.

Results in a nutshell:

▼ **6MFY24's Core net profit (NP) of RM822m down by -3%yoy.** It was mainly driven by improvements in NOII and stronger Associate performance, offsetting weaker NII, higher OPEX and provisions and NCI.

▲ **2QFY24's Core NP of RM470m up by 33%qoq.** The gain was largely due to improved NOII and provisioning offsetting weaker NII and higher tax.

▲ **Balance sheet growth was more convincing this quarter, though customer deposits continue to fluctuate.** Loan growth grew by +1.4%qoq, resulting in a flattish YTD figure, while deposits jumped by +3.9%qoq, marked by a staggering +10%qoq growth in CASA.

Have a look at:

▲ **Tax credit will cause huge one-off in 3QFY24...** AMMB will be writing off a tax credit of RM537m (related to its 1MDB fine), which will be fully recognised as a huge one-off in 3QFY24. It did something similar with RM235m in 3QFY22. This will not feed into dividends.

▲ **...almost certainly securing FY24F profitability targets, thus offering AMMB more options.** AMMB's target of >RM400m earnings per quarter is guaranteed by the tax credit write-off. This offers the Group more options on its pre-existing provisions, possibly opting for further writebacks or loan sales. Regardless, we believe that the Group will adhere to its FY23F NCC guidance of 35bps (which is a bit on the high side), as its current LLC is fairly lacking. We think stocking up on LLC is necessary, especially since the Group is hinting at pursuing riskier, higher-yielding assets to manage margins.

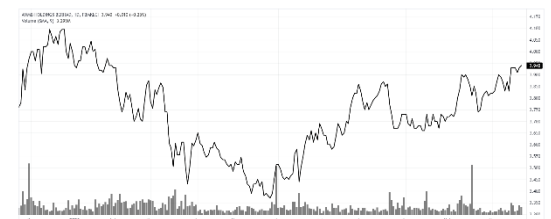
Maintain BUY

Revised Target Price: RM4.23
(Previously RM3.98)

RETURN STATISTICS

Price @ 22 November 2023 (RM)	3.94
Expected share price return (%)	+7.4
Expected dividend yield (%)	+5.1
Expected total return (%)	+12.5

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	3.4	2.2
3 months	6.8	5.5
12 months	0.0	-1.1

INVESTMENT STATISTICS

FYE Mar	FY24F	FY25F	FY26F
Core NP (RM m)	1,699	1,914	1,984
CNP growth (%)	(2)	13	4
Div yield (%)	4.5	5.1	5.3
Gross DPS (sen)	17.9	20.1	20.8
P/BV (x)	0.8	0.8	0.7
BVPS (RM)	4.7	5.0	5.4
ROE (%)	9.0	9.4	9.1
MIDF/Street CNP (%)	102	108	104

KEY STATISTICS

FBM KLCI	1,455.89
Issue shares (m)	3,296.2
Estimated free float (%)	45.8
Market Capitalisation (RM'm)	13,074.8
52-wk price range	RM3.42 - RM4.25
3-mth avg daily volume (m)	3.4
3-mth avg daily value (RM'm)	12.7
Top Shareholders (%)	
ANZ Funds Pty Ltd	21.7
Clear Goal Sdn Bhd	10.9
EPF Board	10.4

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► **Interesting developments in capital build, but dividend payouts remain intact for now.** The tax credit is expected to benefit CET1 by 40bps. Conversion to IRB approach factoring Basel III requirements by 2025 is expected to benefit CET1 by 1% (this figure has been reduced from 1.7%, which was the prior figure that excluded Basel III requirements). The combined effects bring up CET1 to c.14% range, which is close to that of larger banks.

As a result, CET1 of 14% and more moderate loan growth of ~5% should imply an increase in dividend payouts closer to the range of larger banks. However, management advised us to wait as it has matters to resolve first on its agenda. It wants to complete its migration to better risk management framework and exit non-core business for cash before reconsidering sustainable dividend payout ratios.

▲ **Huge CASA uptick leads to sequential quarter improvement in NIM.** Bucking the trend, AMMB posted a sequential NIM improvement of +6bps qoq. The improvement came largely from the COF side, with the huge intake of CASA (+10%qoq) in the quarter. There was also the added benefit of unwinding of repo financing.

Note that as of late, AMMB has seen heavy fluctuations in CASA and deposit balances. Management attributed the increase this time not to any promotions, but to sharp increases in non-bank FI CASA, which comes from asset managers holding cash. They guided that SMEs and retail customers are also holding more cash as well.

► **Possible loan portfolio restructuring to maintain margins.** Management has guided since last quarter of a possible foray into riskier, higher-yielding assets as its heavy residential mortgage uptake used to grow its consumer portfolio is cutting heavily into margins, especially when its status as a mid-sized bank has led to liquidity and COF issues. We are wary of a possible effect on asset quality and provisioning, though such issues may only manifest in a longer time frame.

▲ **Post-election cheer drives loan growth.** After loan growth saw a flat 1HFY23, management is guiding for a 3-4% growth in 2HFY23. They note while mortgage disbursements are expected to remain resilient, hire purchase loans have been coming down of late. Management is most excited about large infrastructure projects and the multiplier effect on associated industries which they feel will fuel SME and corporate loan growth. It also feeds into their plan to garner higher-yield loans.

▲ **Bond book profit taking has been delayed.** Previously, management guided that there would be a profit-taking exercise within this quarter. However, due to macro volatility in the market, this has been delayed and instead may be released somewhere in 2HFY24, providing some profit uplift. The MTM gains are not expected to be greater than 1QFY24's.

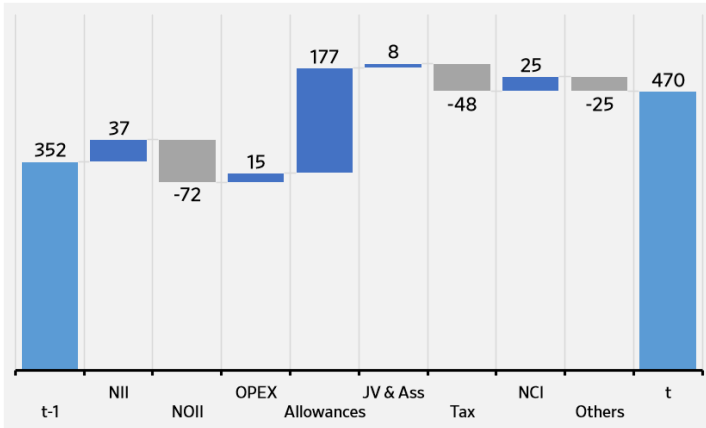
Forecasts revised: FY24/25 Core NP adjusted by -4.5%/0.7%. To reflect higher NCC charges in FY24, and improved NIM prospects in FY25. We do not factor the tax credit into Core NP calculations, as it does not feed into dividend payout.

Key downside risks. (1) Weaker-than-expected NOII, (2) Steep NIM compression, (3) Higher-than-expected NCC.

Maintain BUY call: Revised GGM-TP of RM 4.23 (from RM3.98). The TP is based on a revised FY25F P/BV of 0.84x (formerly 0.80x) to reflect altered earnings prospects and ROE-based valuations. We raise our P/BV to reflect improved dividend payout prospects amid capital restructuring efforts. **(GGM assumptions: FY25F ROE of 9.4%, LTG of 3.5% & COE of 10.5%)**

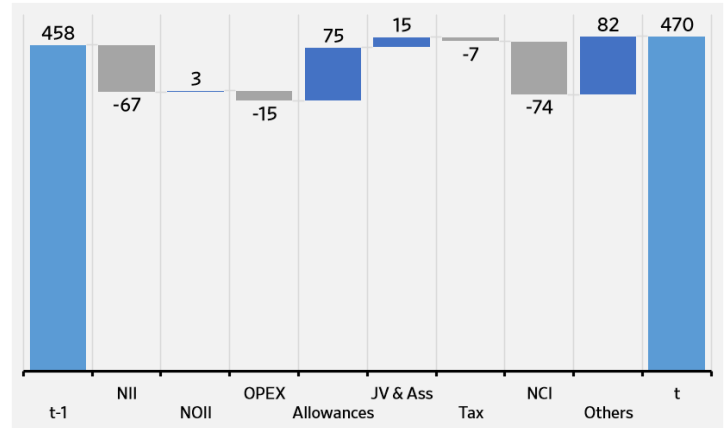


Fig 1: QoQ P/L walk (Quarterly results)



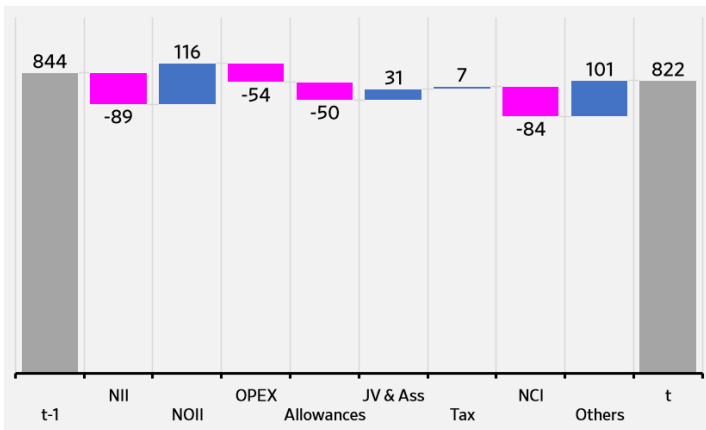
Source: AMMB, MIDFR

Fig 2: YoY P/L walk (Quarterly results)



Source: AMMB, MIDFR

Fig 3: YoY P/L walk (Cumulative results)



Source: AMMB, MIDFR

Fig 4: Quarterly results

FYE Mar (RM m)	2Q FY24	1Q FY24	2Q FY23	Yoy (%)	Qoq (%)	1H FY24	1H FY23	Yoy (%)
Net interest inc.	561	520	600	-7	8	1,081	1,166	-7
Islamic banking inc.	303	371	364	-17	-18	674	646	4
Non-interest inc.	242	249	198	22	-3	492	390	26
Net income	1,106	1,141	1,161	-5	-3	2,247	2,202	2
OPEX	(493)	(508)	(478)	3	-3	(1,000)	(946)	6
PPOP	613	633	684	-10	-3	(1,000)	(946)	6
Loan provisions	(56)	(166)	(74)	-24	-66	(222)	(134)	66
Other provisions	43	(24)	(14)	-406	-276	19	(20)	-193
JV & Associates	18	10	3	446	84	28	(3)	<-500
PBT	618	453	599	3	37	1,071	1,100	-3
Tax	(148)	(100)	(141)	5	48	(248)	(255)	-3
Discontinued ops	-	51	(105)	n.m.	n.m.	51	(66)	n.m.
NCI	(0)	(25)	74	n.m.	n.m.	(25)	59	n.m.
Reported NP	470	378	427	10	24	848	837	1
Core NP	470	352	458	3	33	822	844	-3
Total NII*	846	809	913	-7	5	1,655	1,744	-5
Total NOII*	278	342	260	7	-19	620	473	31
Gross DPS (sen)	6.0	-	6.0	n.m.	n.m.	6.0	6.0	n.m.
Core EPS (sen)	14.2	10.7	13.8	3	33	24.9	25.5	-2
Gross loans	130,828	128,971	124,351	5.2	1.4			
Gross impaired loans	2,164	2,139	1,892	14.4	1.1			
Customer deposits	135,324	130,265	120,995	11.8	3.9			
CASA	43,538	39,583	39,825	9.3	10.0			

*Contains contributions from JV & Associates

Ratios (%)	2Q FY24	1Q FY24	2Q FY23	Yoy (ppts)	Qoq (ppts)	1H FY24	1H FY23	Yoy (ppts)
ROE (Ann.)	10.1	7.6	10.6	-0.5	2.5	8.9	9.8	-0.9
NIM (Reported)	1.82	1.76	2.12	-0.30	0.06	1.63	2.17	-0.54
NOII/Net income	24.7	29.7	22.2	2.6	-5.0	27.3	21.3	5.9
Cost/Income	44.6	44.5	41.1	3.4	0.1	44.5	43.0	1.6
NCC (Ann.) (bps)	18	53	25	-7	-36	35	22	12
GIL ratio	1.65	1.66	1.52	0.13	-0.01			
Loan loss coverage	87	97	97	-10	-9			
CASA ratio	32.2	30.4	32.9	-0.7	1.8			
L/D ratio	95.3	97.4	101.3	-6.0	-2.1			
CET-1	12.7	12.9	12.2	0.5	-0.2			

Source: AMMB, MIDFR

Fig 5: Retrospective performance (Income Statement)

Metric	Surprise? Qoq/Yoy		Metric	Surprise? Qoq/Yoy	
Qtrly Core NP	RM mil	470	Qtrly ROE	Qtr value	10.1%
	26% of FY CNP				
	Qoq	33%		t-1	7.6%
	Yoy	3%		t-4	10.6%
Cum Core NP	RM mil	822	Cum ROE	Cum value	8.9%
	Within our forecast				
	46% of FY CNP				
	Within consensus				
	49% of FY CNP				
Yoy	-3%	t-1	9.8%		
NII	As expected		NIM	+ve surprise	
				Qtr value	1.82
				Cum value	1.63
	Qtr (Qoq)	5%		Qtr (Qoq)	+6bps
	Qtr (Yoy)	-7%		Qtr (Yoy)	-30bps
Cum (Yoy)	-5%	Cum (Yoy)	-54bps		
NOII	-ve surprise		Qtr	% NII	75%
	Qtr (Qoq)	-19%		% NOII	25%
	Qtr (Yoy)	7%	Cum	% NII	73%
	Cum (Yoy)	31%		% NOII	27%
OPEX	As expected		Cost/ Inc.	As expected	
				Qtr value	44.6%
				Cum value	44.5%
	Qtr (Qoq)	-3%		Qtr (Qoq)	+0.1%
	Qtr (Yoy)	3%		Qtr (Yoy)	+3.4%
Cum (Yoy)	6%	Cum (Yoy)	+1.6%		

Source: AMMB, MIDFR

Notes (Cum = Cumulative, Qtr = Quarterly)

ROE to be buoyed by tax credit write-offs.

With the added cash, we may see added provisioning.

Good pickup, when some peers see sequential quarter declines.**We were expecting the profit taking this quarter.****Well managed, as expected.**

Fig 6: Retrospective performance (Balance Sheet, Dividends, and anything extra)

Metric	Surprise? Qoq/Yoy		Metric	Surprise? Qoq/Yoy		Notes (Cum = Cumulative, Qtr = Quarterly)
Loans	As expected					Good pickup expected in the next few quarters.
	Qoq	1.4%				
	Yoy	5.2%				
	YTD (FY)	0.5%				
Depo. grwth	As expected		CASA grwth	+ve surprise		Huge uptake in CASA. Management claims asset managers were parking its cash.
	Qoq	3.9%		Qoq	10.0%	
	Yoy	11.8%		Yoy	9.3%	
	YTD (FY)	3.8%		YTD (FY)	-10.8%	
CASA ratio	As expected		L/D ratio	As expected		Management is adhering to guidance of 35bps – implying provisions to remain at this level. Nothing particularly daunting about Gil.
	Value now	32.2%		Value now	95.3%	
	Qoq	+1.8%		Qoq	-2.1%	
	Yoy	-0.7%		Yoy	-6.0%	
GIL ratio	As expected		LLC ratio	As expected		Management is adhering to guidance of 35bps – implying provisions to remain at this level. Nothing particularly daunting about Gil.
	Value now	1.65%		Value now	87%	
	Qoq	-1bps		Qoq	-9%	
	Yoy	+13bps		Yoy	-10%	
Qtrly Net CC	As expected		Cum Net CC	As expected		Management is adhering to guidance of 35bps – implying provisions to remain at this level. Nothing particularly daunting about Gil.
	Small provision			Decent provision		
	Value now	18bps		Value now	35bps	
	t-1	53bps		t-4	22bps	
CET 1	Healthy level		Div payout	No divvy		Could be better, but post IRB implementation and tax credit writeoff should see CET1 hit the ~14% range.
	As expected			As expected		
	Value now	12.7%		Payout		
	Qoq	-0.2%				

Others:

Source: AMMB, MIDFR

Fig 7: Targets, Achievements, and Outlook

Targets	FY24F	1H FY24	Notes (Red: New guidance, Strikethrough: Guidance is no longer pertinent)
ROE	9-10	8.9	Management guides for earnings of >RM1.6b (>RM400m for each quarter). Factoring in the tax credit writeoff, this should be easily achievable (though do note our forecasts do not include tax credit write-off, given that it does not translate into dividends).
CIR		44.5	FY24's OPEX should be lower than FY23's RM2.1b. Hence 2HFY23's OPEX should not be larger than RM1.1b.
NIM		1.63	Should remain close to current level of 1.80% 1.76% in remainder of year.
NOII		31% (yoy)	
Loans	4-5 3-4	0.5 (YTD)	Management has guided that it expects loans to come >4% for the year.
Deposits		3.8 (YTD)	
% CASA	30 (Unofficial)	32.2	Group wants to keep acquiring retail deposit market share, as part of its reaching out to the mass market.
Loan/Depo		95.3	
GIL ratio		1.65	
NCC (bps)	35	35	Tax writeoff gives the Group options, such as loan sales – but 35bps should be the base case, as guided by mgmt.
LLC		87	
CET 1		12.7	
Div payout		-	Normalised goal: 35-40%.

Source: AMMB, MIDFR

FINANCIAL SUMMARY

INCOME STATEMENT

FYE Mar (RM m)	FY22	FY23	FY24F	FY25F	FY26F
Interest income	3,942	4,976	5,381	5,833	6,072
Interest expense	(1,770)	(2,695)	(2,950)	(3,218)	(3,400)
Net interest income	2,172	2,281	2,431	2,615	2,672
Islamic banking inc.	1,062	1,301	1,271	1,231	1,258
Other operating inc.	822	956	1,049	1,151	1,251
Net income	4,056	4,538	4,752	4,997	5,181
OPEX	(1,789)	(1,999)	(2,138)	(2,199)	(2,280)
PPOP	2,267	2,539	2,614	2,799	2,901
Loan allowances	(314)	(422)	(456)	(396)	(416)
Other allowances	(454)	68	(13)	(22)	(18)
JV & Associates	44	70	91	112	116
PBT	1,544	2,255	2,236	2,492	2,583
Tax & zakat	(177)	(513)	-	(578)	(599)
NCI	(92)	59	-	-	-
Discontinued ops	229	(66)	-	-	-
Reported NP	1,503	1,735	2,236	1,914	1,984
Core NP	1,503	1,735	1,699	1,914	1,984
Total NII	3,012	3,436	3,576	3,735	3,817
Total NOII	950	1,110	1,176	1,262	1,364

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	7,185	8,639	8,542	8,600	10,366
Total assets	174,784	197,432	202,166	206,125	212,528
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	19,012	18,869	18,582
Total liabilities	156,900	179,405	182,413	185,035	190,054
Share capital	6,776	6,376	6,376	6,376	6,376
Reserves	9,909	11,650	13,377	14,713	16,097
Shareholders' funds	16,685	18,026	19,753	21,090	22,473
NCI	1,199	1	0	0	0
Total equity	17,884	18,027	19,753	21,090	22,473
Total L&E	174,784	197,432	202,166	206,125	212,528
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	1.91	1.91
Return on IEAs	2.39	2.79	2.81	2.98	3.04
Cost of funds	1.27	1.76	1.80	1.95	2.01
Net interest spread	1.11	1.03	1.02	1.03	1.02
Profitability (%)					
ROE	9.6	10.0	9.0	9.4	9.1
ROA	0.9	0.9	0.9	0.9	0.9
NOII/Net income	25.7	24.3	24.8	25.3	26.3
Effective tax rate	11.5	22.7	0.0	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	34	28	28
Capital (%)					
CET 1	12.3	12.8	13.8	14.0	14.0
Tier 1 capital	12.3	12.8	13.8	14.0	14.0
Total capital	15.4	16.0	17.1	17.4	17.4
Growth (%)					
Total NII	2.6	14.1	4.1	4.5	2.2
Total NOII	-39.6	16.8	6.0	7.3	8.1
Net income	-10.0	11.9	4.7	5.2	3.7
OPEX	-16.1	11.7	7.0	2.8	3.7
Core NP	56.2	15.5	-2.1	12.7	3.6
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	40.6	45.7	47.4
Gross DPS (sen)	5.0	18.3	17.9	20.1	20.8
Div payout (%)	11	35	35	35	35
BVPS (RM)	4.0	4.3	4.7	5.0	5.4
Core P/E (x)	11.0	9.5	9.7	8.6	8.3
Div yield (%)	1.3	4.6	4.5	5.1	5.3
P/BV (x)	1.0	0.9	0.8	0.8	0.7

Source: AMMB, MIDFR

Income Statement

Core NP – Core Net Profit
 PPOP – Pre-Provisioning Operating Profit
 NII – Net Interest Income
 NIM – Net Interest Margin
 COF – Cost of Funds
 NOII – Non-Interest Income
 MTM – Mark to Market
 CIR – Cost to Income Ratio
 OPEX – Operational Expenses

Balance Sheet

LCR – Liquidity Coverage ratio
 L/D ratio – Loan/Deposit ratio
 CASA – Current & Savings accounts
 FD – Fixed Deposits
 GIL – Gross Impaired Loans
 NIL – Net Impaired Loans
 LLC – Loan Loss Coverage
 NCC – Net Credit Costs
 GCC – Gross Credit Costs
 CET 1 – Common Equity Tier 1

Valuations & Sector

ROE – Return on Equity
 GGM – Gordon Growth Model
 P/BV – Price to Book Value
 BVPS – Book Value per Share
 BNM – Bank Negara Malaysia
 OPR – Overnight Policy Rate
 SRR – Statutory Reserve Requirement
 SBR – Standardised Base Rate
 ALR – Average Lending Rate

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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