

AMMB Holdings Berhad

(1015 | AMM MK) Financial Services | Finance

All Eyes on SME Segment

KEY INVESTMENT HIGHLIGHTS

- **Purpose:** AMMB unveils its latest 5-year plan (FY24-29)
- **Tone:** Neutral
- **Core themes:** (a) SME loans to be core driver, (b) Increased dividend payouts, (c) Lowering Cost/Income Ratio
- **Forecasts unchanged**
- **Maintain BUY | Unchanged TP of RM4.75 | based on an unchanged FY25F P/BV of 0.77x**

Verdict: AMMB's improved dividend payout outlook should provide valuation boost.

| Yays | Nays | OKs |
|--|--|--|
| <ol style="list-style-type: none"> AMMB has given confirmation that dividend payouts will be further increased – and we believe there is upside possibility. Fee income has solid outlook, backed by a strong investment banking franchise and better loan growth. Loan growth will likely recover in FY24. | <ol style="list-style-type: none"> GIL ratio has yet to have peaked. ROE target of 10% is slightly questionable, without one-off events. | <ol style="list-style-type: none"> Further RWA optimisation is possible – but expect to be on a smaller scale. AMMB's new strategy plan does not impede its attractiveness as a potential acquisition target. We feel some aspects of AMMB's new strategic plan are difficult to achieve – especially simultaneously achieving both higher NIM and lower NCC levels – especially when having the SME segment as the core loan driver. |

Forecasts unchanged. We make no changes to our earnings forecast.

Key downside risks. (1) Loan growth disappoints, (2) Further deterioration of asset quality, (3) Higher-than-expected OPEX increase.

Maintain BUY call: Unchanged GGM-TP of RM 4.75. The TP is based on an unchanged FY25F P/BV of 0.77x.

(GGM assumptions: FY25F ROE of 8.9%, LTG of 3.5% & COE of 10.5%)



Maintain BUY

Unchanged Target Price: RM4.75

RETURN STATISTICS

| | |
|----------------------------------|--------------|
| Price @ 19 June 2024 (RM) | 4.36 |
| Expected share price return (%) | +8.9 |
| Expected dividend yield (%) | +4.9 |
| Expected total return (%) | +13.9 |

SHARE PRICE CHART



| Price performance (%) | Absolute | Relative |
|-----------------------|----------|----------|
| 1 month | 3.4 | -1.7 |
| 3 months | 2.4 | -7.0 |
| 12 months | 21.2 | 6.4 |

INVESTMENT STATISTICS

| FYE Mar | FY25F | FY26F | FY27F |
|-----------------------|--------------|--------------|--------------|
| Core NP (RM m) | 1,776 | 1,869 | 1,922 |
| CNP growth (%) | 4 | 5 | 3 |
| Div yield (%) | 4.9 | 5.8 | 6.0 |
| Gross DPS (sen) | 21.5 | 25.5 | 26.2 |
| P/BV (x) | 0.7 | 0.7 | 0.6 |
| BVPS (RM) | 6.2 | 6.5 | 6.8 |
| ROE (%) | 8.9 | 8.9 | 8.8 |

KEY STATISTICS

| | |
|------------------------------|-----------------|
| FBM KLCI | 1,599.79 |
| Issue shares (m) | 3,296.2 |
| Estimated free float (%) | 58.3 |
| Market Capitalisation (RM'm) | 14,186.4 |
| 52-wk price range | RM3.42 - RM4.45 |
| 3-mth avg daily volume (m) | 8.8 |
| 3-mth avg daily value (RM'm) | 36.3 |
| Top Shareholders (%) | 3,296.2 |
| EPF Board | 16.1 |
| Clear Goal Sdn Bhd | 10.9 |
| Amanah Saham Nasional Bhd | 7.7 |

Analyst

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Verdict on Strategy: Neutral. Despite some lofty targets, AMMB's plan is safe and does not take large risks. (Read: Strategy does not reduce AMMB's attractiveness as a potential acquisition target).

| | |
|-------------|---|
| Yays | <ol style="list-style-type: none"> 1. AMMB's management has a record of good execution. All eyes on the new CFO, Shafiq Abdul Jabbar. 2. Loan growth (6% CAGR) is moderate and realistic and is unlikely to put significant pressure on funding – one aspect that AMMB is weak at. 3. AMMB's IB franchise is solid and reliable. |
| Nays | <ol style="list-style-type: none"> 1. Dividend payout target of 50% (from 40%) is underwhelming – but there's a high chance of positive upside, given moderate forecasted loan growth and extremely healthy CET 1 ratio. 2. We are sceptical of the Group's claim of being able to simultaneously increase base NIM and lower NCC by a notable degree. 3. ROE target of 12-13% may be difficult to achieve with a high base GIL ratio of 1.6% and no overseas presence. |
| OKs | <ol style="list-style-type: none"> 1. AMMB is placing a lot of weight and emphasis on retail deposits. While management presents multiple interesting suggestions, the track record has not been kind – a weak deposit franchise has underwhelmed on multiple occasions. We think the mass segment remains elusive. 2. There is a lot of pressure on the SME segment (the central loans driver) to succeed. AMMB is gunning for a +12% CAGR for this loan segment. While AMMB's SME loan growth has always outperformed the market, this is still a lofty target. 3. While it may not be significant, AMMB having secured the removal of non-core assets does alleviate some pressure from ROE, ROA and NIM targets. |

Fig 1: Noteworthy Strategic Initiatives

Segmental Breakdown:

1. **Mass.** Less Attractive – Optimise and target selectively. (Target undergrads, optimise cost, upgrade credit management).
2. **Mass Affluent.** Attractive – Differentiate to grow. (Create a digital-first proposition to serve segment profitably).
3. **Affluent + Signature Priority Banking.** Moderately attractive – Differentiate to grow. (Differentiate on advisory via AI, in-house training to relationship managers, improve product shelf).
4. **SME.** Attractive – Drive expansion. (Expand credit appetite, drive sales, build “beyond banking” services, support with analytics).
5. **Mid-corp.** Moderately attractive – Drive expansion. (Drive disciplined account planning and support with analytics).
6. **Wholesale Banking.** Moderately attractive – Grow wallet share. (Deepen wallet with Transaction banking/FX solutions for Next20, drive disciplined account planning).

Two-wheel financing (Retail). AMMB is foraying into the segment, which is normally associated with higher risk. Success on this front could see competitors following suit.

Retail segment will be deposit-led and cost-controlled. Retail deposits are prioritised due to its sticky, cheaper nature. The Group intends to reduce the retail segment's CIR from 58% to 50% in 5 years. (Retail's CIR is high, due to branch network).

Supply Chain Participation (SME). AMMB believes there are opportunities in this space. Foreign banks are usually the ones involved in this line, but they mainly deal with large multinational corporations – AMMB thinks the mid-sized space, however, is underappreciated by local banks.

(On this note, we will see Enterprise Banking and RSME segments lumped together for streamlining purposes.)

Fig 2: 5-Year Aspirations

| Targets | FY29 | FY24 | Notes |
|---------------------|---------------|------|--|
| ROE | 12-13 | 9.1 | It's a lofty goal. While AMMB seems solid on an execution front, we think this is difficult to achieve without lowering its GIL ratio to that of its best-performing peers. |
| ROA | 1.10 | 0.87 | AMMB is prioritising its ROA target instead of ROE. It shows that: (1) Efficient asset deployment is central to the multi-year strategy, (2) Absolute returns are a priority. |
| Reported Net Profit | 8.0 (CAGR) | | |
| CIR | <40 | 45.0 | The group is vying for 2% positive JAWs per year. Accumulated 5-year spend: RM900m. The brunt of these will be frontloaded to earlier years. 5-10% of PATMI will be used for investing in processes. |
| NIM | >2.00 | 1.79 | In the short term, liability management will largely drive NIM optimisation. The Group's COF issues mainly concerned the weak retail deposit franchise. It remains to be seen whether it can turn this around via its digital offerings, especially since the retail segment will now be deposit-centric (given its cheaper, stickier nature), rather than loan-led. On a longer-term basis, the disposal of non-core assets (Insurance & REITs) will help on the asset yield side. |
| Loans | 6.0 (CAGR) | | Loan growth will be driven primarily by the SME segment. CAGR by segments: SME: 12% / Corporate: 5.3% (Incl. Unrated bonds) / Retail: Not given (but most certainly will be <6%). |
| Deposits | 6.0 (CAGR) | | |
| GIL ratio | 1.60 | 1.67 | We see no issues in achieving this target. |
| NCC (bps) | 20-25 | 52 | We believe it is difficult for AMMB to achieve both higher NIMs and a lower NCC base at the same time. |
| CET 1 | 12.8 | 13.0 | Do keep in mind FIRB transition and AmMetLife disposal will cause this figure to spike up very soon – offering ample room for further increases in dividend payout ratios. |
| Div payout | 50 | 40 | 50% seems low, especially since its targeted balance sheet growth is moderate and its CET 1 ratio expected to see a boost. We think there is a high chance this figure will be revised upwards. |

Source: AMMB, MIDFR

FINANCIAL SUMMARY

INCOME STATEMENT

| FYE Mar (RM m) | FY23 | FY24 | FY25F | FY26F | FY27F |
|----------------------------|--------------|--------------|--------------|--------------|--------------|
| Net interest income | 2,281 | 2,137 | 2,537 | 2,648 | 2,727 |
| Islamic banking inc. | 1,301 | 1,316 | 1,195 | 1,247 | 1,285 |
| Other operating inc. | 956 | 1,103 | 1,080 | 1,166 | 1,212 |
| Net income | 4,538 | 4,555 | 4,812 | 5,061 | 5,224 |
| OPEX | (1,999) | (2,052) | (2,165) | (2,277) | (2,351) |
| PPOP | 2,539 | 2,504 | 2,646 | 2,783 | 2,873 |
| Loan allowances | (422) | (696) | (387) | (410) | (435) |
| Other allowances | 68 | (153) | 5 | 9 | 12 |
| JV & Associates | 44 | 40 | 42 | 45 | 46 |
| PBT | 2,229 | 1,694 | 2,307 | 2,427 | 2,496 |
| Tax & zakat | (513) | 148 | (531) | (558) | (574) |
| NCI | 59 | (25) | - | - | - |
| Discontinued ops | (66) | 51 | - | - | - |
| Reported NP | 1,709 | 1,868 | 1,776 | 1,869 | 1,922 |
| Core NP | 1,709 | 1,707 | 1,776 | 1,869 | 1,922 |
| Total NII | 3,498 | 3,304 | 3,624 | 3,782 | 3,896 |
| Total NOII | 1,083 | 1,291 | 1,188 | 1,279 | 1,328 |

BALANCE SHEET

| FYE Mar (RM m) | FY23 | FY24 | FY25F | FY26F | FY27F |
|----------------------------|----------------|----------------|----------------|----------------|----------------|
| Cash & ST funds | 8,699 | 6,493 | 9,125 | 9,345 | 9,345 |
| Investment securities | 51,851 | 47,717 | 44,246 | 41,161 | 38,425 |
| Net loans | 128,243 | 132,102 | 139,761 | 148,297 | 157,195 |
| Other IEAs | 0 | 0 | 0 | 0 | 0 |
| Non-IEAs | 8,639 | 10,452 | 10,308 | 12,154 | 13,959 |
| Total assets | 197,432 | 196,764 | 203,440 | 210,958 | 218,924 |
| Customer deposits | 130,315 | 142,381 | 150,924 | 159,980 | 169,578 |
| Other IBLs | 34,513 | 22,089 | 20,706 | 18,912 | 17,913 |
| Non-IBLs | 14,577 | 12,851 | 11,398 | 10,699 | 9,068 |
| Total liabilities | 179,405 | 177,322 | 183,028 | 189,590 | 196,559 |
| Share capital | 6,376 | 6,376 | 6,376 | 6,376 | 6,376 |
| Reserves | 11,650 | 13,065 | 14,035 | 14,991 | 15,989 |
| Shareholders' funds | 18,026 | 19,441 | 20,412 | 21,367 | 22,365 |
| NCI | 1 | 1 | 0 | 0 | 0 |
| Total equity | 18,027 | 19,442 | 20,412 | 21,367 | 22,365 |
| Total L&E | 197,432 | 196,764 | 203,440 | 210,958 | 218,924 |
| Total IEAs | 188,792 | 186,312 | 193,132 | 198,803 | 204,965 |
| Total IBLs | 164,828 | 164,471 | 171,631 | 178,891 | 187,491 |
| Gross loans | 130,227 | 134,130 | 142,178 | 150,709 | 159,751 |
| CASA | 48,800 | 52,767 | 54,333 | 57,593 | 61,048 |

FINANCIAL RATIOS

| FYE Mar (RM m) | FY23 | FY24 | FY25F | FY26F | FY27F |
|--------------------------|------------|------------|------------|------------|------------|
| Interest (%) | | | | | |
| NIM | 1.96 | 1.76 | 1.91 | 1.93 | 1.93 |
| Return on IEAs | 2.79 | 3.24 | 3.03 | 3.09 | 3.04 |
| Cost of funds | 1.76 | 2.39 | 1.91 | 1.94 | 1.86 |
| Net interest spread | 1.03 | 0.85 | 1.12 | 1.15 | 1.18 |
| Profitability (%) | | | | | |
| ROE | 9.8 | 9.1 | 8.9 | 8.9 | 8.8 |
| ROA | 0.9 | 0.9 | 0.9 | 0.9 | 0.9 |
| NOII/Net income | 22.9 | 27.5 | 24.7 | 25.3 | 25.4 |
| Effective tax rate | 23.0 | -8.8 | 23.0 | 23.0 | 23.0 |
| Cost/Income | 44.0 | 45.0 | 45.0 | 45.0 | 45.0 |
| Liquidity (%) | | | | | |
| Loan/Deposit | 98.4 | 92.8 | 92.6 | 92.7 | 92.7 |
| CASA ratio | 37.4 | 37.1 | 36.0 | 36.0 | 36.0 |
| Asset Quality (%) | | | | | |
| GIL ratio | 1.46 | 1.67 | 1.70 | 1.60 | 1.60 |
| LLC ratio | 105 | 91 | 100 | 100 | 100 |
| LLC (w. reserves) | 116 | 102 | 108 | 108 | 107 |
| Net CC (bps) | 34 | 53 | 28 | 28 | 28 |
| Capital (%) | | | | | |
| CET 1 | 12.4 | 13.0 | 14.5 | 14.5 | 14.3 |
| Tier 1 capital | 12.4 | 13.0 | 14.5 | 14.5 | 14.3 |
| Total capital | 15.8 | 16.3 | 18.0 | 17.9 | 17.8 |
| Growth (%) | | | | | |
| Total NII | 16.1 | -5.5 | 9.7 | 4.4 | 3.0 |
| Total NOII | 14.0 | 19.2 | -8.0 | 7.6 | 3.8 |
| Net income | 11.9 | 0.4 | 5.6 | 5.2 | 3.2 |
| OPEX | 11.7 | 2.6 | 5.5 | 5.2 | 3.2 |
| Core NP | 13.7 | -0.1 | 4.1 | 5.2 | 2.9 |
| Gross loans | 8.5 | 3.0 | 6.0 | 6.0 | 6.0 |
| Customer deposits | 6.3 | 9.3 | 6.0 | 6.0 | 6.0 |
| CASA | 13.2 | 8.1 | 3.0 | 6.0 | 6.0 |
| Valuation metrics | | | | | |
| Core EPS (sen) | 51.7 | 51.6 | 53.7 | 56.5 | 58.1 |
| Gross DPS (sen) | 18.3 | 22.6 | 21.5 | 25.5 | 26.2 |
| Div payout (%) | 35 | 44 | 40 | 45 | 45 |
| BVPS (RM) | 5.5 | 5.9 | 6.2 | 6.5 | 6.8 |
| Core P/E (x) | 8.4 | 8.4 | 8.1 | 7.7 | 7.5 |
| Div yield (%) | 4.2 | 5.2 | 4.9 | 5.8 | 6.0 |
| P/BV (x) | 0.8 | 0.7 | 0.7 | 0.7 | 0.6 |

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