

20 June 2024

Financial Services | Banks

## AMMB (AMM MK)

**Buy** (Maintained)

### The Next Five Years – Growth, Efficiency, Dividends

- **Maintain BUY, new MYR5.50 TP (from MYR4.90), 26% upside and c.6% FY25F (Mar) yield.** AMMB's strategy day event yesterday provided a glimpse into the group's 5-year plan – in summary, it intends to shift its funding mix towards lower-cost retail deposits for greater profitability, and also to double absolute DPS by FY29. While execution will be a challenge, the targets – if achieved – could warrant a re-rating for the counter.
- **Financial aspirations.** Over the next five years, AMMB's priorities are to: i) Improve dividend payouts to c.45 sen by FY29 (ie 15% CAGR); ii) improve operational efficiency and bring CIR down to 40% (FY24: 45%); and iii) drive profitability, with a target to raise ROA to 1.1% (FY24: 1.0%, translates to c.11-12% ROE). Another key lever to boost profitability will be to rejig the group's funding mix by pivoting away from higher-cost wholesale deposits to lower-cost and "stickier" retail ones. Other 5-year CAGR targets include income of 8%, loans and deposits of 6%, and PATMI of 8%.
- **Retail banking – pivoting from net lender to net funder of the group.** Over the next five years, the group envisions its retail banking division to be a gatherer of lower-cost deposits for it to funnel towards the higher-yielding mid-corporate and SME segments. Consequently, retail loans (primarily mortgages) will take a backseat due to their lower-yield nature. We gather that the division's customer acquisition strategies will be focussed towards the affluent and mass-affluent segments, which will be offered segment-specific wealth management solutions among others.
- **Non-retail – focus on mid-corporates and SMEs.** AMMB sees opportunities predominantly in supply chain financing. Geography-wise, aside from the Klang Valley, AMMB is also eyeing the northern peninsular region (electrical & electronics and related), the southern peninsular region (data centres and infrastructure), as well as East Malaysia (enterprise banking).
- **Are these targets achievable?** Income growth will be the key area of focus, as its 5-year 8% CAGR target looks rather steep, when compared to its FY19-24 CAGR of 3%, while loan growth levels are comparatively similar. As such, NIM and non-II will have to do most of the heavy lifting. While retail deposits make for a hotly contested space, we think AMMB's offerings could appeal to its target segments, especially with the right distribution strategies – we regard its plan of tapping into bancassurance partners' agency forces for wealth distribution as interesting. Separately, we think the target of doubling absolute DPS in 5 years is achievable given existing capital levels (post-F-IRB implementation), and more so with a dividend reinvestment plan.
- **We raise FY25-27F net profit by 3-6%** as we assume greater NIM expansion and loan growth. We also raise our DPS assumptions. Our new, higher TP of MYR5.50 includes a 4% ESG premium.

Forecasts and Valuation	Mar-23	Mar-24	Mar-25F	Mar-26F	Mar-27F
Reported net profit (MYRm)	1,801	1,868	1,800	1,930	2,053
Net profit growth (%)	19.9	3.7	(3.6)	7.2	6.4
Recurring net profit (MYRm)	1,735	1,733	1,800	1,930	2,053
Recurring EPS (MYR)	0.52	0.52	0.54	0.58	0.62
BVPS (MYR)	5.47	5.87	6.15	6.48	6.84
DPS (MYR)	0.18	0.23	0.25	0.26	0.28
Recurring P/E (x)	8.32	8.32	8.01	7.47	7.02
P/B (x)	0.80	0.74	0.71	0.67	0.64
Dividend Yield (%)	4.2	5.2	5.6	6.0	6.4
Return on average equity (%)	10.3	9.9	9.0	9.2	9.3

Source: Company data, RHB

Target Price (Return):	MYR5.50 (+26%)
Price (Market Cap):	MYR4.36 (USD3,058m)
ESG score:	3.2 (out of 4)
Avg Daily Turnover (MYR/USD)	23.1m/4.87m

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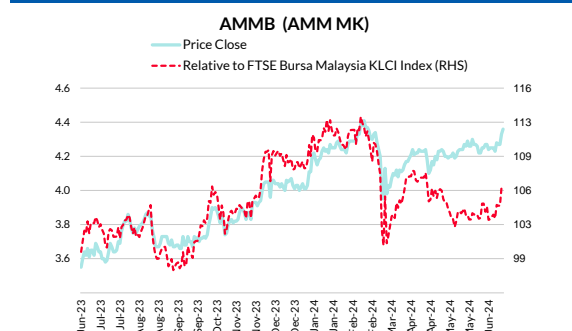


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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	8.7	2.3	5.8	7.1	24.6
Relative	(1.7)	3.0	1.8	(2.5)	8.8
52-wk Price low/high (MYR)				3.58	4.41



Source: Bloomberg

#### Overall ESG Score: 3.2 (out of 4)

##### E: GOOD

AMMB's operational emissions declined 30% in FY23 vs its baseline year of FY19 before including carbon offsets amounting to 13ktCO<sub>2</sub>e. Its commitment and disclosures on sustainable financing initiatives are sparse.

##### S: EXCELLENT

AMMB is engaged in numerous programmes to assist MSMEs with capacity building and digitalisation. The bank's employees are decently diverse (62% are women) and well-trained (average of >30 training hours pa).

##### G: EXCELLENT

AMMB has 78% independence at the Board level, with its sustainability direction overseen by a dedicated Group Sustainability Council. The Group CEO and his direct reportees are also assessed on sustainability-linked performance indicators, among others.

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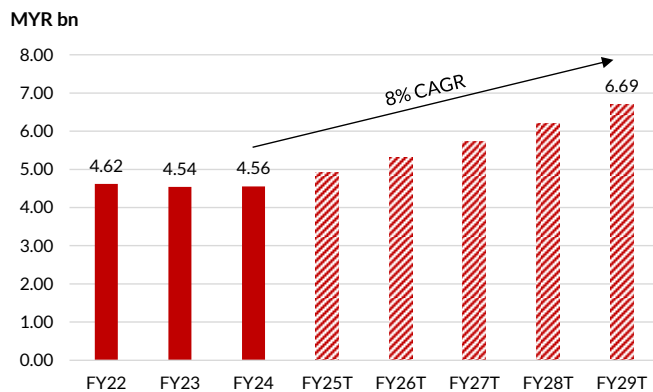
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## Financial Exhibits

<b>Asia</b>	<b>Financial summary (MYR)</b>	<b>Mar-23</b>	<b>Mar-24</b>	<b>Mar-25F</b>	<b>Mar-26F</b>	<b>Mar-27F</b>
Malaysia	EPS	0.54	0.56	0.54	0.58	0.62
Financial Services	Recurring EPS	0.52	0.52	0.54	0.58	0.62
<b>AMMB</b>	DPS	0.18	0.23	0.25	0.26	0.28
AMM MK	BVPS	5.47	5.87	6.15	6.48	6.84
Buy						
<b>Valuation basis</b>	<b>Valuation metrics</b>	<b>Mar-23</b>	<b>Mar-24</b>	<b>Mar-25F</b>	<b>Mar-26F</b>	<b>Mar-27F</b>
GGM-derived intrinsic value with an ESG overlay. Key GGM assumptions are:	Recurring P/E (x)	8.32	8.32	8.01	7.47	7.02
i. COE of 10.7%;	P/B (x)	0.8	0.7	0.7	0.7	0.6
ii. ROE assumption of 9.4%;	Dividend Yield (%)	4.2	5.2	5.6	6.0	6.4
iii. 3.5% long-term growth.						
<b>Key drivers</b>	<b>Income statement (MYRm)</b>	<b>Mar-23</b>	<b>Mar-24</b>	<b>Mar-25F</b>	<b>Mar-26F</b>	<b>Mar-27F</b>
Our FY25F earnings are most sensitive to changes in:	Interest income	7,424	9,051	9,186	9,731	10,288
i. NIM;	Interest expense	(3,926)	(5,747)	(5,680)	(5,971)	(6,301)
ii. Loan impairment allowances;	<b>Net interest income</b>	<b>3,498</b>	<b>3,304</b>	<b>3,507</b>	<b>3,760</b>	<b>3,988</b>
iii. Non-interest income.	Non interest income	1,040	1,116	1,401	1,450	1,523
	<b>Total operating income</b>	<b>4,538</b>	<b>4,420</b>	<b>4,907</b>	<b>5,210</b>	<b>5,511</b>
	Overheads	(1,999)	(2,052)	(2,154)	(2,255)	(2,361)
	<b>Pre-provision operating profit</b>	<b>2,539</b>	<b>2,369</b>	<b>2,753</b>	<b>2,955</b>	<b>3,150</b>
	Loan impairment allowances	(344)	(642)	(425)	(460)	(497)
	Other impairment allowances	(10)	(207)	(17)	(18)	(18)
	Income from associates	70	91	43	45	48
	Other exceptional items		135			
	<b>Pre-tax profit</b>	<b>2,255</b>	<b>1,745</b>	<b>2,354</b>	<b>2,523</b>	<b>2,683</b>
	Taxation	(513)	148	(553)	(593)	(631)
	Minority interests	59	(25)	-	-	-
	<b>Reported net profit</b>	<b>1,801</b>	<b>1,868</b>	<b>1,800</b>	<b>1,930</b>	<b>2,053</b>
	<b>Recurring net profit</b>	<b>1,735</b>	<b>1,733</b>	<b>1,800</b>	<b>1,930</b>	<b>2,053</b>
<b>Key risks</b>	<b>Profitability ratios</b>	<b>Mar-23</b>	<b>Mar-24</b>	<b>Mar-25F</b>	<b>Mar-26F</b>	<b>Mar-27F</b>
The downside risks include:	Return on average assets (%)	1.0	0.9	0.9	0.9	0.9
i. Weaker-than-expected NIM;	Return on average equity (%)	10.3	9.9	9.0	9.2	9.3
ii. Lower-than-expected non-II;	Return on IEAs (%)	4.1	4.8	4.7	4.7	4.7
iii. Higher-than-expected credit costs.	Cost of funds (%)	2.4	3.3	3.2	3.2	3.2
	Net interest spread (%)	1.7	1.5	1.5	1.6	1.6
	Net interest margin (%)	1.9	1.7	1.8	1.8	1.8
	Non-interest income / total income (%)	22.9	25.3	28.5	27.8	27.6
	Cost to income ratio (%)	44.0	46.4	43.9	43.3	42.8
	Credit cost (bps)	27.5	48.6	30.9	31.7	32.3
<b>Company Profile</b>	<b>Balance sheet (MYRm)</b>	<b>Mar-23</b>	<b>Mar-24</b>	<b>Mar-25F</b>	<b>Mar-26F</b>	<b>Mar-27F</b>
AMMB provides a wide range of financial products and services. Its business divisions and associates cover retail banking, business banking, transaction banking, corporate and institutional banking, investment banking including fund management and stockbroking, equity markets, general insurance, life assurance and <i>takaful</i> . These business divisions offer both conventional and Islamic financial services.	Total gross loans	130,227	134,130	141,123	149,512	158,400
	Other interest earning assets	61,471	55,222	58,085	61,097	64,266
	Total gross IEAs	191,698	189,353	199,208	210,609	222,666
	Total provisions	(1,984)	(2,028)	(2,099)	(2,205)	(2,349)
	Net loans to customers	128,243	132,102	139,024	147,307	156,052
	Total net IEAs	189,714	187,324	197,109	208,404	220,318
	Total non-IEAs	7,827	9,439	9,840	9,487	9,212
	Total assets	197,541	196,764	206,949	217,890	229,530
	Customer deposits	130,332	142,395	150,939	159,996	169,596
	Other interest-bearing liabilities	45,376	30,577	31,505	32,491	33,536
	Total IBLs	175,707	172,972	182,445	192,487	203,132
	Total non-IBLs	3,698	4,350	4,132	3,926	3,729
	Total liabilities	179,405	177,322	186,577	196,412	206,861
	Share capital	6,376	6,376	6,376	6,376	6,376
	Shareholders' equity	18,135	19,441	20,371	21,477	22,668
	Minority interests	1	1	1	1	1
	<b>Asset quality and capital</b>	<b>Mar-23</b>	<b>Mar-24</b>	<b>Mar-25F</b>	<b>Mar-26F</b>	<b>Mar-27F</b>
	Reported NPLs / gross cust loans (%)	1.5	1.7	1.7	1.6	1.6
	Total provisions / reported NPLs (%)	104.6	90.7	90.1	92.2	95.7
	CET-1 ratio (%)	12.8	13.7	13.1	13.2	13.3
	Tier-1 ratio (%)	12.8	13.7	13.1	13.2	13.3
	Total capital ratio (%)	16.0	16.9	15.7	15.6	15.6

Source: Company data, RHB

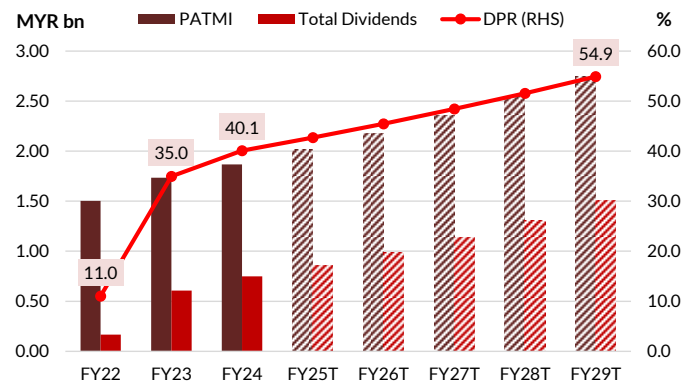
Figure 1: AMMB's targeted operating income trajectory\*



Note: \*FY25-28T is for illustrative purposes only. The actual trajectory is unlikely to be a straight line

Source: Company data

Figure 2: AMMB's targeted PATMI and total dividends trajectory implies DPR expansion to over 50% by FY29\*



Note: \*FY25-28T is for illustrative purposes only. The actual trajectory is unlikely to be a straight line

Source: Company data

## Earnings forecasts

We raise our FY25-27F net profit by 3-6%. These incorporate:

- Greater loan growth assumption of 6% (from 5%), while the deposit growth estimate is also raised to 6% (from 5%);
- Greater NIM assumptions. Our FY25F NIM of 1.89% now implies a 5bps YoY expansion (vs previous 3bps expansion);
- We also raised our DPS estimates in line with management's guidance of a >40% payout ratio moving forward. Our estimates imply payout ratios of c.45%.

Figure 3: AMMB - revisions to earnings forecasts

	Previous FY25F	Previous FY26F	Previous FY27F	Revised FY25F	Revised FY26F	New FY27F	% Change FY25F	% Change FY26F	% Change FY27F
<b>FYE Dec (MYRm)</b>									
Net interest income	3,443	3,623	3,830	3,507	3,760	3,988	1.8%	3.8%	4.1%
Non-interest income	1,401	1,450	1,523	1,401	1,450	1,523	0.0%	0.0%	0.0%
Operating expenses	(2,154)	(2,255)	(2,361)	(2,154)	(2,255)	(2,361)	0.0%	0.0%	0.0%
<b>PIOP</b>	2,690	2,818	2,993	2,753	2,955	3,150	2.4%	4.9%	5.2%
Impairment charges	(439)	(469)	(500)	(442)	(478)	(515)	0.6%	1.8%	3.0%
Pretax profit	2,293	2,394	2,541	2,354	2,523	2,683	2.6%	5.4%	5.6%
<b>Net profit</b>	1,754	1,831	1,944	1,800	1,930	2,053	2.6%	5.4%	5.6%
Headline EPS (MYR)	0.53	0.55	0.59	0.54	0.58	0.62			
DPS (MYR)	0.22	0.24	0.24	0.25	0.26	0.28			
Loan growth (%)	5.0	5.0	5.0	6.0	6.0	6.0			
NIM (%)	1.86	1.87	1.88	1.89	1.92	1.93			
CIR (%)	44.5	44.5	44.1	43.9	43.3	42.8			
Credit cost (bps)	31	32	32	31	32	32			

Source: Company data, RHB

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### Valuation and TP

Our TP rises to MYR5.50 from MYR4.90, and includes a 4% ESG premium. We rolled forward our valuation year to CY25F (from CY24F), while the other key model change was on ROE (to 9.4% from 9.1%, in line with forecast changes).

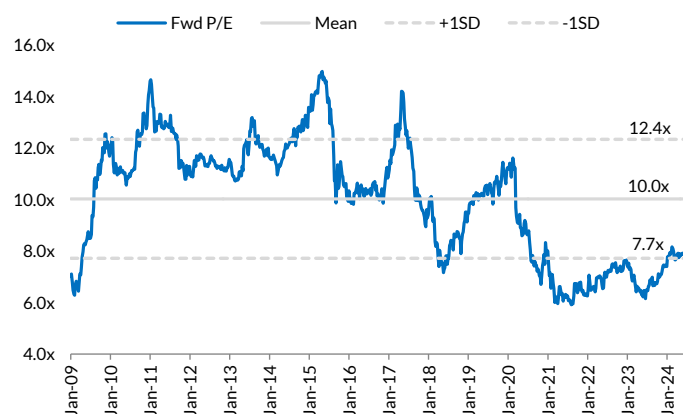
We continue to like AMMB for its undemanding valuation – its c.0.7x P/BV is attractive relative to its >9% forecasted ROE and implied 11-12% target ROE under its new Winning Together strategy. Should the group be able to execute its strategy and demonstrate steady progress towards targets, then a re-rating could be on the cards.

Figure 4: AMMB – GGM valuation with ESG overlay

<b>Cost of equity (COE) computation:</b>		Sustainable ROE (%)	9.4
Risk free rate (%)	4.0	COE (%)	10.7
Equity premium (%)	6.0	Long-term growth (g)	3.5
Beta (x)	1.1	Implied P/BV (x)	0.82
Cost of equity - CAPM (%)	10.7	BVPS - CY24F	MYR6.40
		Intrinsic value	MYR5.25
ESG premium/(discount) (%)	4.0	ESG premium/(discount)	MYR0.21
		<b>TP (rounded)</b>	<b>MYR5.50</b>

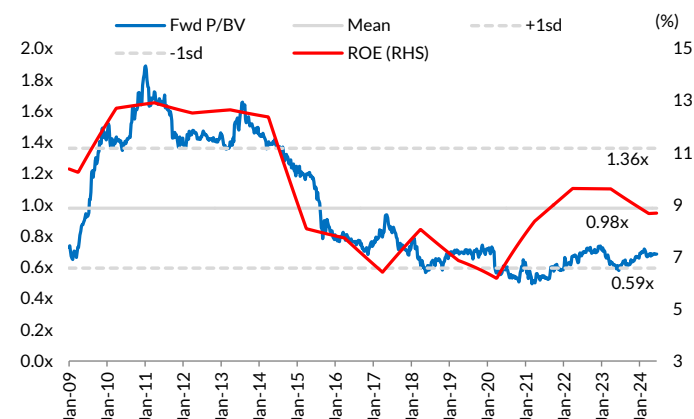
Source: Company data, RHB

Figure 5: AMMB's 12-month forward consensus P/E



Source: Bloomberg, RHB

Figure 6: AMMB's 12-month forward consensus P/BV



Source: Bloomberg, RHB

## Emissions And ESG

### Trend analysis

AMMB's FY23 (Mar) emissions declined significantly against its FY19 baseline, through the use of carbon offset instruments such as RE certificates (amounting to c.13,000 tCO<sub>2</sub>e offset). Stripping off the offsets would still result in a 30% decline against the baseline year, which we view as commendable.

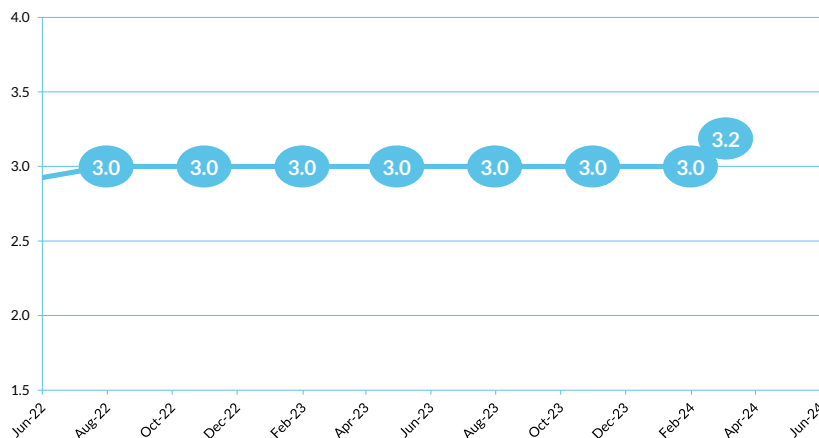
Emissions (tCO <sub>2</sub> e)	Mar-22	Mar-23	Mar-24
Scope 1	41	70	na
Scope 2	16,013	2,196	na
Scope 3	34	262	na
Total emissions	16,088	2,528	na

Source: Company data, RHB

## Latest ESG-Related Developments

- Ramping up financing of green properties:** AMMB recently announced partnerships with several developers of green-certified development projects - including a MYR450m facility to Eastern & Oriental (EAST MK, BUY, TP: MYR1.38) as well as a MYR130m facility to Avaland (AVALAND MK, NR).
- GVC Programme:** AMMB is the official banker for Kossan Rubber Industries' (KRI MK, BUY, TP: MYR2.73) Greening Value Chain (GVC) programme, which assists SMEs in implementing ESG-related changes to their operations, including helping out in climate reporting.

## ESG Rating History



Source: RHB

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-05-27	Buy	4.90	4.27
2024-03-21	Buy	5.00	4.12
2024-02-27	Buy	4.80	4.30
2023-11-23	Buy	4.70	4.00
2023-08-22	Buy	4.20	3.73
2023-05-30	Buy	4.50	3.57
2023-02-24	Buy	4.60	3.91
2022-12-01	Buy	4.80	4.20
2022-08-18	Buy	4.60	4.07
2022-06-01	Buy	4.40	3.72
2022-02-27	Buy	4.00	3.43
2021-11-28	Buy	3.90	3.15
2021-08-31	Buy	3.50	3.03
2021-06-01	Buy	3.30	2.86
2021-03-11	Buy	3.40	3.01

Source: RHB, Bloomberg

## RHB Guide to Investment Ratings

<b>Buy:</b>	Share price may exceed 10% over the next 12 months
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<b>Not Rated:</b>	Stock is not within regular research coverage

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