

28 May 2024

Financial Services | Banks

AMMB (AMM MK)

Buy (Maintained)

Ending FY24 On a High; Stay BUY

Target Price (Return): MYR4.90 (+15%)
 Price (Market Cap): MYR4.27 (USD2,997m)
 ESG score: 3.2 (out of 4)
 Avg Daily Turnover (MYR/USD) 34.5m/7.36m

- **Maintain BUY, with new MYR4.90 TP from MYR5, 15% upside and c.5% FY25F (Mar) yield.** AMMB's FY24 results met our, but beat consensus estimates. While the group expects non-II to soften in FY25F off a high base, it sees room for NIM to expand given its ongoing initiatives to lower cost of funds (CoF). AMMB remains a sector Top Pick for its dividend upside potential following the completion of its capital rebuild exercises.
- **Results review.** 4QFY24 headline net profit of MYR477m (+11% YoY, -12% QoQ) brought the full-year sum to MYR1.87bn (+9% YoY) – this came in line with our, but exceeded Street full-year forecast. FY24 NII was down 7% YoY mainly from a 28bps NIM compression, but was offset by a higher non-II (+15%), mostly from trading income. Opex declined 2% YoY on prudent cost controls, while net impairment allowances (excluding one-off top ups) were also down 29% YoY. On a quarterly basis, 4Q NIM was maintained sequentially at 1.79% (-5bps YoY), while non-II was up 7% QoQ (+3% YoY) on strong core fees. All in, FY24 ROE of 10.0% (FY23: 9.8%) met management's target for the year. A final DPS of 16.6 sen was declared, bringing the full year total to 22.6 sen (FY23: 18.3 sen), implying a 40% payout (FY23: 35%).
- **Loans growth to accelerate in FY25F.** Loans growth in FY24 was relatively soft at 3% YoY (QoQ: +2%) due to lumpy corporate repayments. In FY25F, management aims for loans growth of 1-1.5x Malaysia GDP, ie at the mid-single digit level. The group has a robust pipeline to support such growth levels, with loans related to infrastructure projects to be drawn down gradually in tandem with the execution of said projects. It remains watchful of household loans given pressure on the cost of living and is slowing down growth in that segment.
- **On a NIM rebuilding path.** After a 28bps YoY NIM compression in FY24, the group has identified several initiatives to lower its CoF in FY25F. These include stepping up CASA gathering efforts (especially corporate CASA), running on tighter LDR (up to 96% from 94% at end-Mar 2024), and diversifying its funding sources. We learnt that these efforts have had an immediate impact on NIM as management reported that CoF in Apr CY24 saw an improvement from the 4QFY24 level.
- **No issues on asset quality.** The group's GIL ratio inched up 7bps QoQ to 1.67%, largely due to one corporate account entering impaired status – this had been regularised after the closing period. While household GILs were also on the rise, the group remains secure with its position as it had built up provision buffers for the retail book in the previous quarter.
- **Forecasts lowered by 2-3% to reflect the flow-through of softer-than-expected loans growth in FY24.** Our TP is lowered to MYR4.90 (from MYR5) as a result, and includes a 4% ESG premium.

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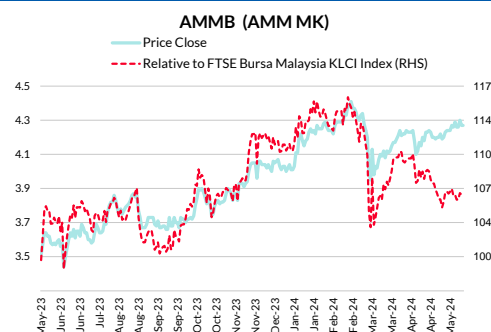


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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	6.5	0.7	(0.7)	5.4	22.3
Relative	(4.8)	(2.1)	(4.6)	(6.4)	6.9
52-wk Price low/high (MYR)				3.44	–4.41



Source: Bloomberg

Forecasts and Valuation	Mar-23	Mar-24	Mar-25F	Mar-26F	Mar-27F
Reported net profit (MYRm)	1,801	1,868	1,754	1,831	1,944
Net profit growth (%)	19.9	3.7	(6.1)	4.4	6.2
Recurring net profit (MYRm)	1,735	1,733	1,754	1,831	1,944
Recurring EPS (MYR)	0.52	0.52	0.53	0.55	0.59
BVPS (MYR)	5.47	5.87	6.15	6.48	6.83
DPS (MYR)	0.18	0.23	0.22	0.24	0.24
Recurring P/E (x)	8.15	8.15	8.05	7.71	7.26
P/B (x)	0.78	0.73	0.69	0.66	0.63
Dividend Yield (%)	4.3	5.3	5.2	5.6	5.6
Return on average equity (%)	10.3	9.9	8.8	8.8	8.8

Source: Company data, RHB

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 13ktCO₂e. 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.

Financial Exhibits

Asia	Financial summary (MYR)	Mar-23	Mar-24	Mar-25F	Mar-26F	Mar-27F
Malaysia	EPS	0.54	0.56	0.53	0.55	0.59
Financial Services	Recurring EPS	0.52	0.52	0.53	0.55	0.59
AMMB	DPS	0.18	0.23	0.22	0.24	0.24
AMM MK	BVPS	5.47	5.87	6.15	6.48	6.83
Buy						
Valuation basis	Valuation metrics	Mar-23	Mar-24	Mar-25F	Mar-26F	Mar-27F
GGM-derived intrinsic value with an ESG overlay. Key GGM assumptions are:	Recurring P/E (x)	8.15	8.15	8.05	7.71	7.26
i. COE of 10.7%;	P/B (x)	0.8	0.7	0.7	0.7	0.6
ii. ROE assumption of 9.1%;	Dividend Yield (%)	4.3	5.3	5.2	5.6	5.6
iii. 3.5% long-term growth.						
Key drivers	Income statement (MYRm)	Mar-23	Mar-24	Mar-25F	Mar-26F	Mar-27F
Our FY24 earnings are most sensitive to changes in:	Interest income	7,424	9,051	9,099	9,537	10,019
i. NIM;	Interest expense	(3,926)	(5,747)	(5,656)	(5,915)	(6,189)
ii. Loan impairment allowances;	Net interest income	3,498	3,304	3,443	3,623	3,830
iii. Non-interest income.	Non interest income	1,040	1,116	1,401	1,450	1,523
	Total operating income	4,538	4,420	4,844	5,073	5,354
	Overheads	(1,999)	(2,052)	(2,154)	(2,255)	(2,361)
	Pre-provision operating profit	2,539	2,369	2,690	2,818	2,993
	Loan impairment allowances	(344)	(642)	(422)	(452)	(483)
	Other impairment allowances	(10)	(207)	(17)	(18)	(18)
	Income from associates	70	91	43	45	48
	Other exceptional items		135			
	Pre-tax profit	2,255	1,745	2,293	2,394	2,541
	Taxation	(513)	148	(539)	(563)	(597)
	Minority interests	59	(25)	-	-	-
	Reported net profit	1,801	1,868	1,754	1,831	1,944
	Recurring net profit	1,735	1,733	1,754	1,831	1,944
Key risks	Profitability ratios	Mar-23	Mar-24	Mar-25F	Mar-26F	Mar-27F
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	8.8	8.8	8.8
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	1.5	1.5
	Net interest margin (%)	1.9	1.7	1.8	1.8	1.8
	Non-interest income / total income (%)	22.9	25.3	28.9	28.6	28.5
	Cost to income ratio (%)	44.0	46.4	44.5	44.5	44.1
	Credit cost (bps)	27.5	48.6	30.8	31.5	32.1
Company Profile	Balance sheet (MYRm)	Mar-23	Mar-24	Mar-25F	Mar-26F	Mar-27F
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	139,866	146,859	154,202
	Other interest earning assets	61,471	55,222	58,085	61,097	64,266
	Total gross IEAs	191,698	189,353	197,951	207,956	218,468
	Total provisions	(1,984)	(2,028)	(2,096)	(2,194)	(2,323)
	Net loans to customers	128,243	132,102	137,770	144,665	151,880
	Total net IEAs	189,714	187,324	195,854	205,762	216,146
	Total non-IEAs	7,827	9,439	9,596	8,929	8,306
	Total assets	197,541	196,764	205,450	214,691	224,452
	Customer deposits	130,332	142,395	149,515	156,992	164,842
	Other interest-bearing liabilities	45,376	30,577	31,416	32,303	33,239
	Total IBLs	175,707	172,972	180,932	189,295	198,080
	Total non-IBLs	3,698	4,350	4,132	3,926	3,729
	Total liabilities	179,405	177,322	185,064	193,220	201,810
	Share capital	6,376	6,376	6,376	6,376	6,376
	Shareholders' equity	18,135	19,441	20,385	21,470	22,641
	Minority interests	1	1	1	1	1
	Asset quality and capital	Mar-23	Mar-24	Mar-25F	Mar-26F	Mar-27F
	Reported NPLs / gross cust loans (%)	1.5	1.7	1.7	1.6	1.6
	Total provisions / reported NPLs (%)	104.6	90.7	90.8	93.4	97.2
	CET-1 ratio (%)	12.8	13.7	13.2	13.4	13.6
	Tier-1 ratio (%)	12.8	13.7	13.2	13.4	13.6
	Total capital ratio (%)	16.0	16.9	15.9	16.0	16.0

Source: Company data, RHB

Results At a Glance

Figure 1: AMMB – Summary of 4QFY24 and FY24 results*

FYE Mar (MYRm)	4Q23	3Q24	4Q24	QoQ (%)	YoY (%)	FY23	FY24	YoY (%)	Comments
Net interest income	824	827	823	-0.5	-0.1	3,541	3,304	-6.7	Largely a result of 28bps YoY NIM compression
NIM	1.84	1.79	1.79			2.07	1.79		
Non-interest income	336	325	347	6.8	3.3	1,171	1,342	14.6	Led by trading and markets-related income, while core fees were also up 9% YoY
Non-Il/Total income (%)	29.0	28.2	29.7			24.9	28.9		
Operating Income	1,160	1,152	1,170	1.6	0.9	4,712	4,646	-1.4	
Overheads	(556)	(522)	(530)	1.5	-4.7	(2,100)	(2,052)	-2.3	
CIR (%)	47.9	45.3	45.3			44.6	44.2		Within guidance of <45%
PIOP	604	630	640	1.6	6.0	2,612	2,594	-0.7	
Net impairment charges	(51)	(106)	(20)	-81.1	-60.8	(467)	(330)	-29.3	
Annualised credit cost (bps)	16^	32^	8^			33	27		Management aims to keep credit costs below 30bps in FY25F
One-off expenses (pre-tax)	0	(520)	0			0	(520)		Kitchen-sinking exercise in 3QFY24 involving impairment of non-financial assets and top-up of forward looking provisions
Profit before tax	553	4	620	nm	12.1	2,145	1,744	-18.7	
Tax	(125)	536	(143)			(495)	149		
ETR (%)	22.6	nm	23.1			23.1	nm		
PAT	428	543	477	-12.2	11.4	1,650	1,893	14.7	
PAT from cont. ops.	428	543	477	-12.2	11.4	1,716	1,842	7.3	
PAT from disc. ops.	0	0	0			(66)	51		
PATAMI	428	543	477	-12.2	11.4	1,709	1,868	9.3	Formed 100% and 107% of our and consensus estimates
PATAMI from cont. ops.	428	543	477	-12.2	11.4	1,716	1,842	7.3	
PATAMI from disc. ops.	0	0	0			(7)	26		
Other Indicators and Financial Ratios									
Gross loans (MYRbn)	130.2	131.3	134.1	2.1	3.0				Below our initial forecast of 4.5% for FY24. Management aims for mid-single digit loans growth in FY25F
Customer deposits (MYRbn)	130.3	135.9	142.4	4.8	9.3				
LDR (%)	99.9	96.6	94.2						
GIL ratio (%)	1.46	1.60	1.67						GIL upticks across the board, but most notably in the construction and real estate sectors
LLC (%) – excl. regulatory reserves	104.6	110.7	98.5						Sub-100% LLC is not a concern to AMMB, as most of its GILs are secured and well-collateralised
ROAE (%)	9.7	11.5	10.0			9.8	10.0		

Note: *Based on reported slides, ^based on internal estimates
Source: Company data, RHB

Earnings forecasts

We lower our FY25F-26F net profit by 2-3%. These incorporate:

- i. Flow-through of lower-than-expected loans growth in FY24 resulting in lower NII;
- ii. Stronger fee income assumptions given the robust advisory and deals pipeline.

We also introduce our FY27 estimates in this report.

Figure 2: AMMB – revisions to earnings forecasts

	Previous FY25F	Previous FY26F	Previous FY27F	Revised FY25F	Revised FY26F	New FY27F	% Change FY25F	% Change FY26F	% Change FY27F
FYE Dec (MYRm)									
Net interest income	3,626	3,847	na	3,443	3,623	3,830	-5.0%	-5.8%	na
Non-interest income	1,266	1,308	na	1,401	1,450	1,523	10.7%	10.9%	na
Operating expenses	(2,163)	(2,265)	na	(2,154)	(2,255)	(2,361)	-0.4%	-0.4%	na
PIOP	2,728	2,890	na	2,690	2,818	2,993	-1.4%	-2.5%	na
Impairment charges	(452)	(483)	na	(439)	(469)	(500)	-2.9%	-2.8%	na
Pretax profit	2,329	2,464	na	2,293	2,394	2,541	-1.6%	-2.9%	na
Net profit	1,782	1,885	na	1,754	1,831	1,944	-1.6%	-2.9%	na
Headline EPS (MYR)	0.54	0.57	na	0.53	0.55	0.59			
DPS (MYR)	0.22	0.24	na	0.22	0.24	0.24			
Loan growth (%)	5.0	5.0	na	5.0	5.0	5.0			
NIM (%)	1.84	1.86	na	1.86	1.87	1.88			
CIR (%)	44.2	43.9	na	44.5	44.5	44.1			
Credit cost (bps)	31	32	na	31	32	32			

Source: Company data, RHB

Valuation and TP

Our TP is lowered to MYR4.90 (from MYR5), and is based on a GGM-derived P/BV of 0.78x (near -1SD from mean, from 0.75x). Key model changes include CY24F BVPS (MYR6.08 from MYR6.34 to reflect the higher-than-expected FY24F DPS) and ROE (9.1% from 8.9% as the lowered earnings forecasts were offset by a lower equity base).

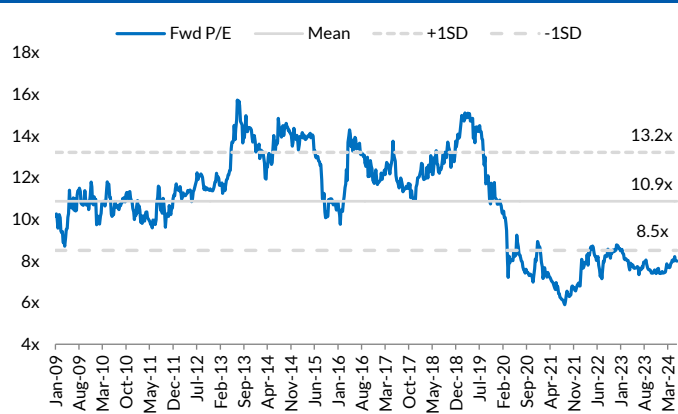
We continue to like AMMB for its undemanding valuation – its c.0.7x P/BV appears attractive relative to its 8-9% forecast ROE. Additionally, AMMB's target loan growth segments of construction and manufacturing could see accelerated activity moving forward with the execution of domestic development initiatives. Upside to our forecasts could come from faster loans growth (RHB FY25F: +5%) and the potential announcement of a positive revision of its dividend policy (currently 35-40%). AMMB remains a sector Top Pick.

Figure 3: AMMB – GGM valuation with ESG overlay

Cost of equity (COE) computation:		Sustainable ROE (%)	9.1
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)	0.78
Cost of equity - CAPM (%)	10.7	BVPS - CY24F	MYR6.08
		Intrinsic value	MYR4.74
ESG premium/(discount) (%)	4	ESG premium/(discount)	0.19
		TP (rounded)	MYR4.90

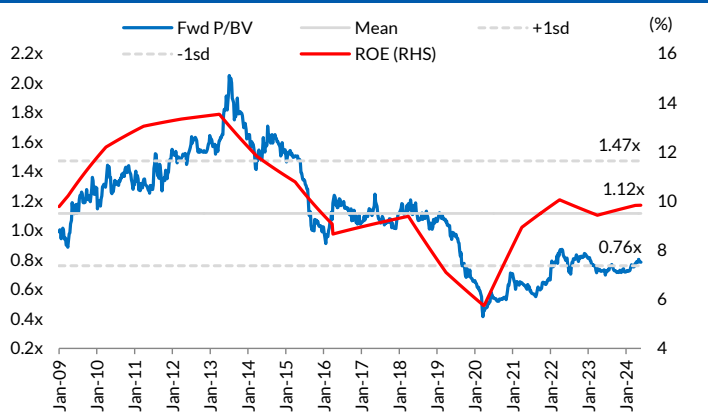
Source: Company data, RHB

Figure 4: AMMB's 12-month forward consensus P/E



Source: Bloomberg, RHB

Figure 5: 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 tCO₂e offset). Stripping off the offsets would still result in a 30% decline against the baseline year, which we view as commendable.

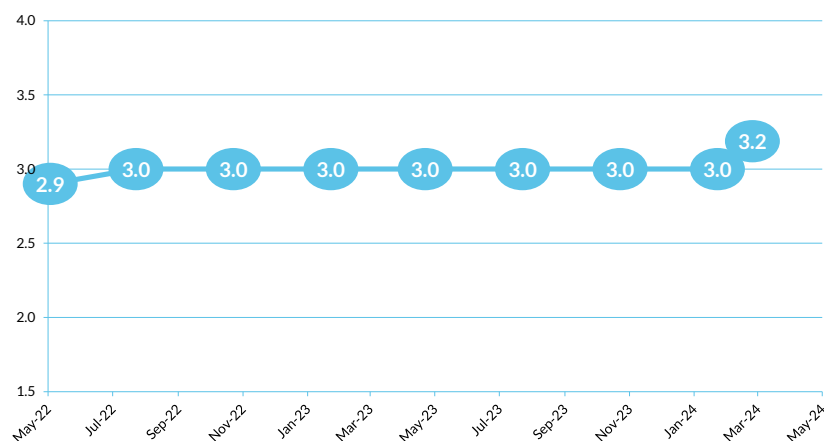
Emissions (tCO ₂ e)	Mar-22	Mar-23	Mar-24
Scope 1	41	70	na
Scope 2	16,013	2,196	na
Scope 3	34	262	na
Total emissions	16,088	2,528	na

Source: Company data, RHB

Latest ESG-Related Developments

- Ramping up financing of green property:** 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
2024-03-21	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
2021-03-01	Neutral	3.40	3.16

Source: RHB, Bloomberg

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Buy:	Share price may exceed 10% over the next 12 months
Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
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Not Rated:	Stock is not within regular research coverage

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