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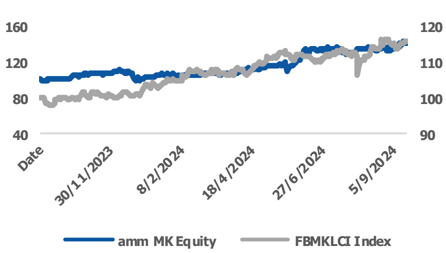
Recommendation:	**HOLD**
Current Price:	**RM 5.37**
Previous Target Price:	**-**
Target Price:	**RM 5.57**
Upside/Downside:	**3.7%**

Stock information	
Board	MAIN
Sector	Financial Services
Bursa / Bloomberg Code	1015 / AMM MK
Syariah Compliant	No
FTSE4Good Index	Yes
FTSE ESG Rating	★★★★
Bloomberg ESG Rating	59.4
Shares issued (m)	3,310.5
Market Cap (RM' m)	17,777.2
52-Week Price Range (RM)	5.51-3.92
Beta (x)	1.0
Free float (%)	77.4
3M Average Volume (m)	8.7
3M Average Value (RM' m)	45.1

Top 3 Shareholders	**(%)**
Employees Provident Fund Board	14.0
Clear Goal Sdn Bhd	9.1
Amanah Saham Nasional Bhd	8.4

Share Price Performance



	1M	**3M**	**12M**
Absolute (%)	6.1	3.7	32.3
Relative (%)	6.7	8.9	20.7

AMMB Holdings Berhad

Ambitious Plans

Summary

- **AMMB is on track to achieve the targets set as part of its ambitious 5-year plan.**
- **Regardless, there are multiple drivers, including: (i) Multiple avenues for long-term NIM improvement, (ii) Solid fee income prospects, given the revamp of their asset management and investment banking service, (iii) Excellent cost control, which is expected to improve cost/income ratios even further, (iv) Increasing dividend payouts, which we think still has much upside possibility.**
- **We initiate coverage on AMMB with a HOLD recommendation with a TP of RM5.57 based on FY26F GGM-PBV of 0.86x.**

Company Background

- Established in August 1975, AmBank Group is one of the largest banking groups in Malaysia. The Group comprises AMMB Holdings Berhad (AMMB), a publicly listed company on the Main Board of Bursa Malaysia, with subsidiaries offering a wide range of conventional and Islamic financial products and services.

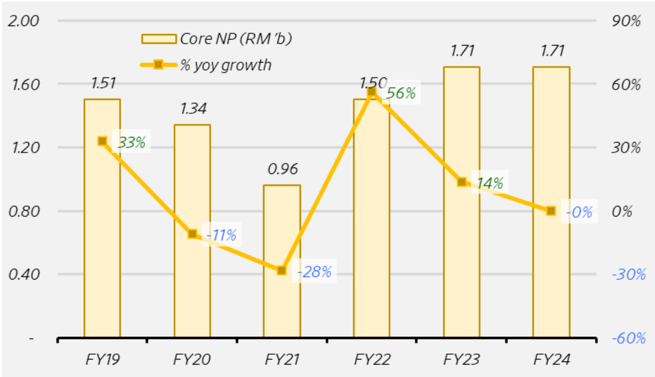
- Today, AmBank Group employs 2,000 employees to serve the needs of more than six million individual and corporate customers nationwide. The Group reaches out to its customers by providing an extensive network of more than 175 AmBank branches and strategically located electronic banking centres.

Income Statement

- **Earnings and ROE.** A steady earnings CAGR in recent years has been difficult to determine due to earnings distortions caused by the Covid-19 pandemic. Regardless, AMMB's ROE currently falls in the middling >10% range, which is still well below the 5-year targeted ROE of 12-13%.

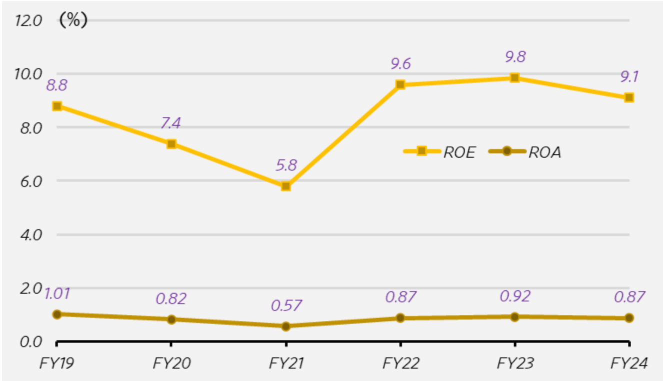
- The metric of focus, interestingly, is ROA (targeted value by FY29: 1.1%). This is to be achieved by keeping OPEX and NCC to a minimum while driving topline. AMMB has done much work in paring down non-essential business lines to streamline capital efficiency, notably their insurance arms. The Group's NIM optimisation measures and efforts in developing its fee income franchise are already showing positive returns.

Fig 1: Core Net Profit



Source: AMMB

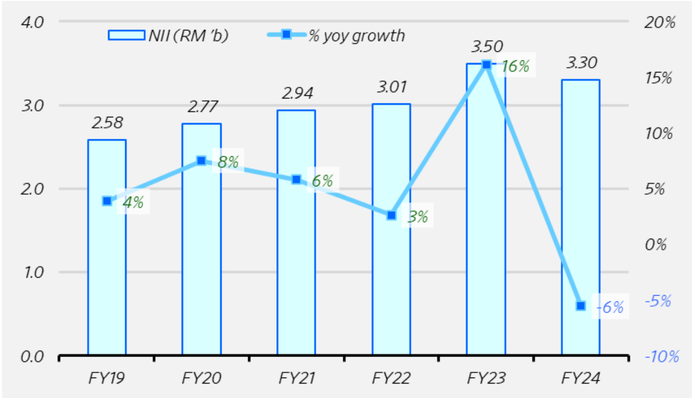
Fig 2: Return on Equity and Return on Assets



Source: AMMB

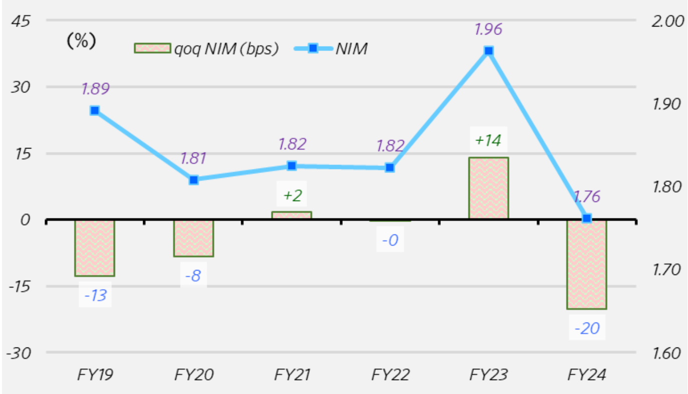
- **Management NII and NIM.** Recently, AMMB's NIM has been a major source of weakness. Historically, AMMB's COF has been very high, largely due to its weak deposit franchise, comprising a high concentration of pricier non-retail deposits. They have also expanded their retail loan book in previous years, focusing heavily on mortgages (which tend to be lower-yielding). The Group is undertaking a pretty intensive liability management exercise – loan rebalancing will come soon after.

Fig 3: Net Interest Income



Source: AMMB

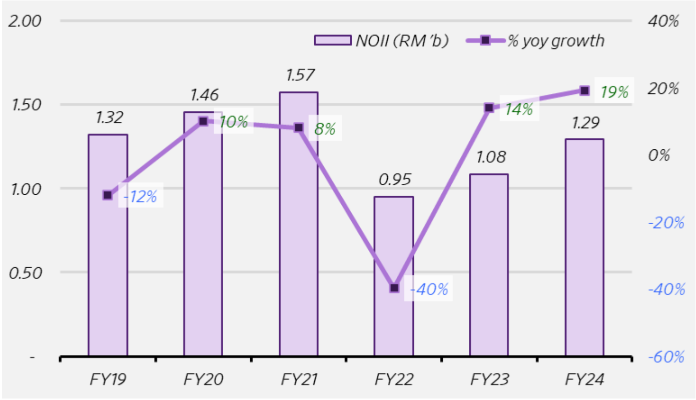
Fig 4: Net Interest Margins



Source: AMMB

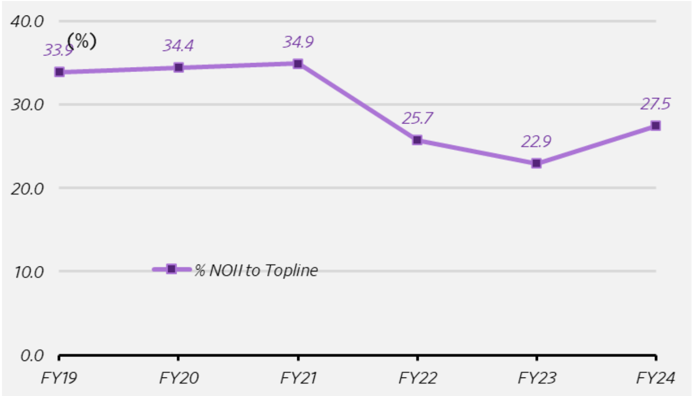
- **NOII.** AMMB's NOII makes up a decent chunk of topline, but we reckon this could be higher. The spotlight is on fee income: The Group has been working hard to develop its investment banking and asset management franchise, especially since the priority has been switched to tapping the mid-corp loan segment once again (there are natural opportunities for cross-selling).

Fig 5: Non-Interest Income



Source: AMMB

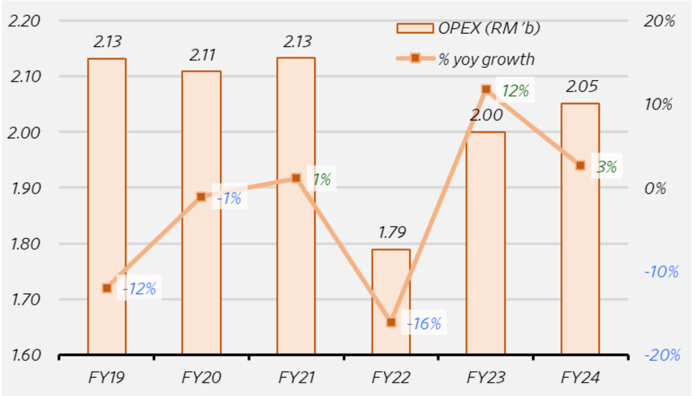
Fig 6: Non-Interest Income as % of Topline



Source: AMMB

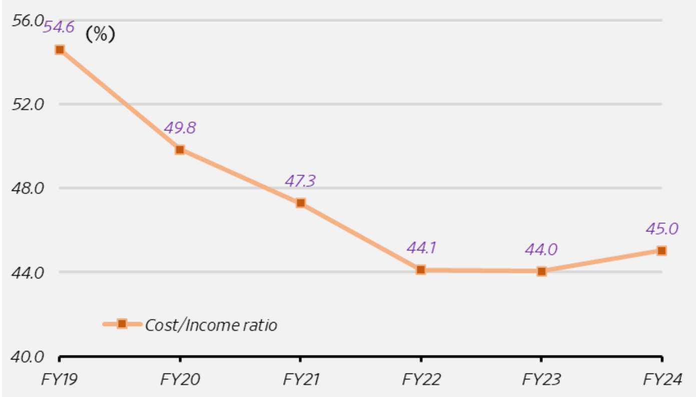
- **OPEX.** In recent years, management has kept costs on a tight leash, keeping yearly cost inflation to low single-digit levels. As a result, AMMB's cost/income ratio has improved throughout the years. Expect further improvements: AMMB 5-year target stipulates a target cost/income ratio of 40%.

Fig 7: OPEX



Source: AMMB

Fig 8: Cost/Income ratio

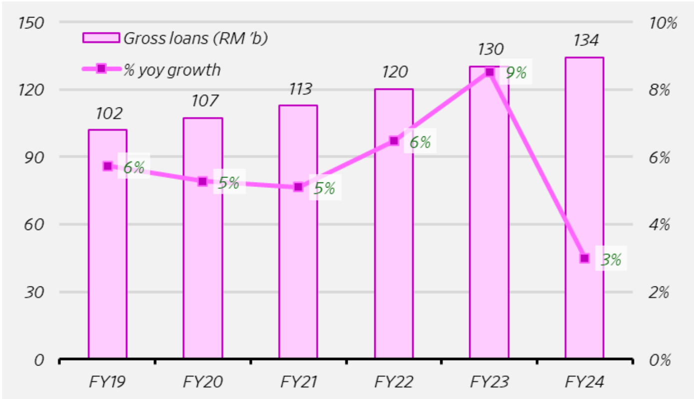


Source: AMMB

Balance Sheet

- **Loans.** Historically, AMMB's loan growth was either in line with or slightly above industry growth rates. Under a new strategic plan, growth has some downside risk, given the need for portfolio rebalancing: the priority is to grow better-yielding loan segments, such as mid-corp and hire purchase, while slowing down on segments such as residential mortgages.

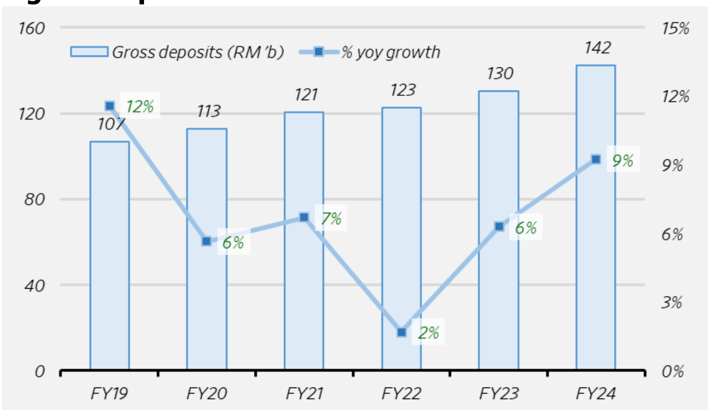
Fig 9: Gross loans



Source: AMMB

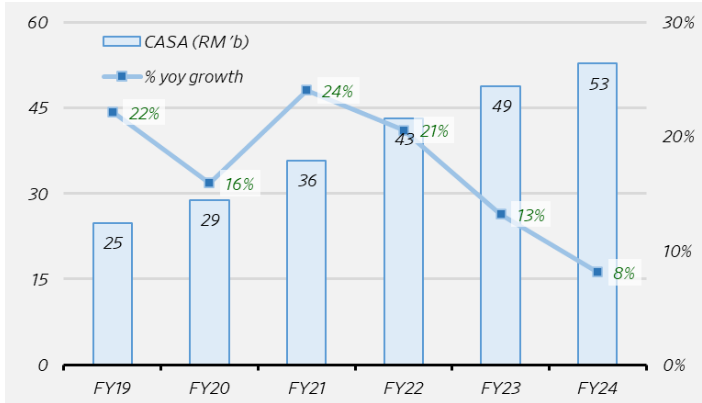
- **Deposits, CASA and Liquidity.** AMMB has been rebalancing its deposit mix as part of its liability management initiative, notably increasing the proportion of cheaper retail deposits and improving its CASA mix. So far, these efforts have borne fruit: in the latest quarter, AMMB's NIM rose qoq, in contrast to most of its peers. It is still looking to draw down on debt markets for further COF optimisation opportunities.

Fig 10: Deposits



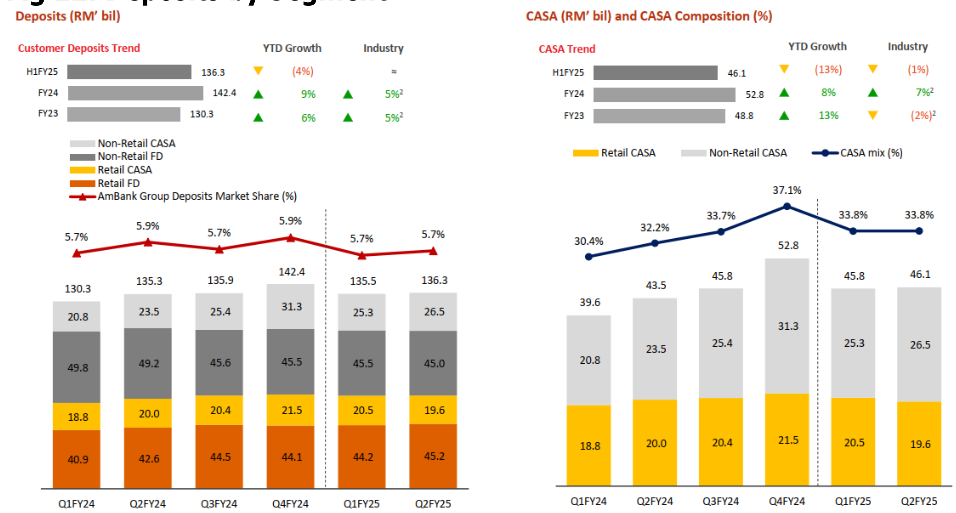
Source: AMMB

Fig 11: CASA



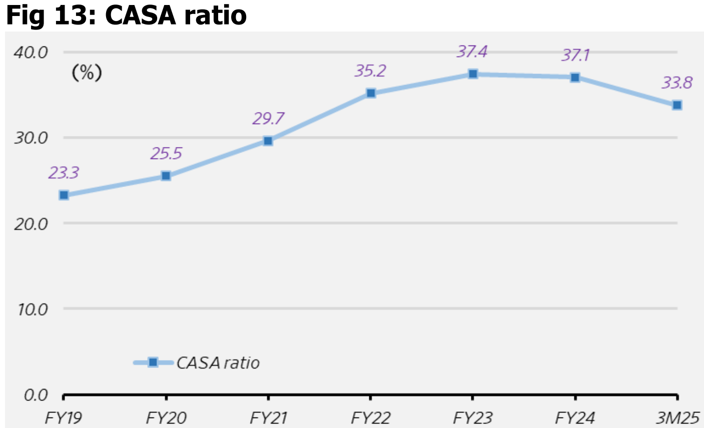
Source: AMMB

Fig 12: Deposits by Segment



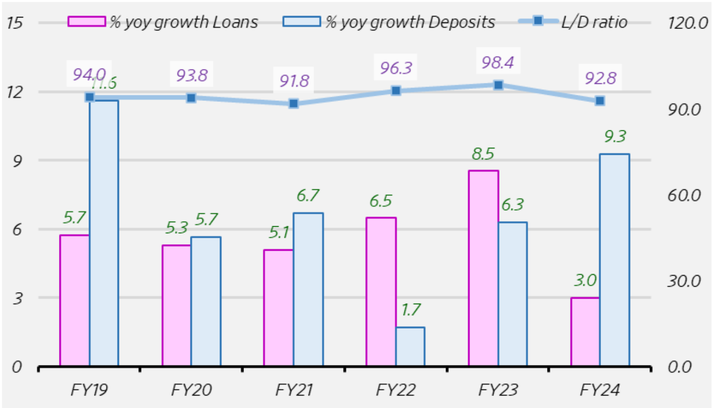
Source: AMMB

Fig 13: CASA ratio



Source: AMMB

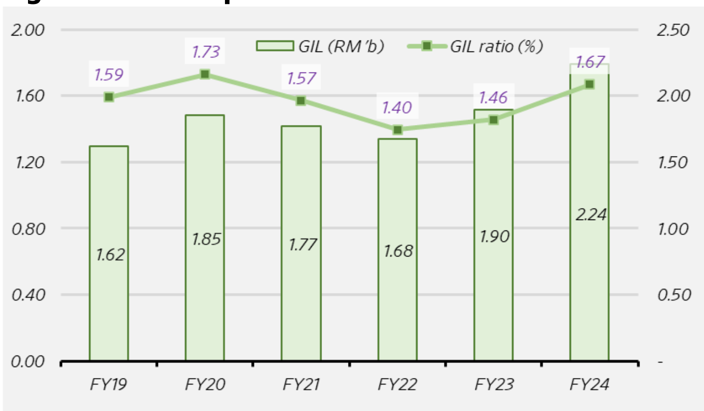
Fig 14: Loan/Deposit ratio



Source: AMMB

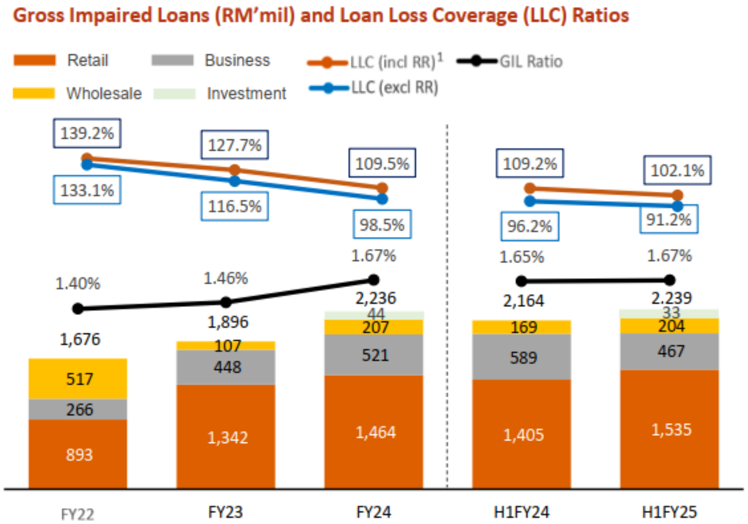
- **Asset quality and provisioning.** The Group has recently seen rising stress from R&R residential mortgages and is comfortable with a level close to 1.6%. AMMB seems happy with its current LLC levels.

Fig 15: Gross Impaired Loans



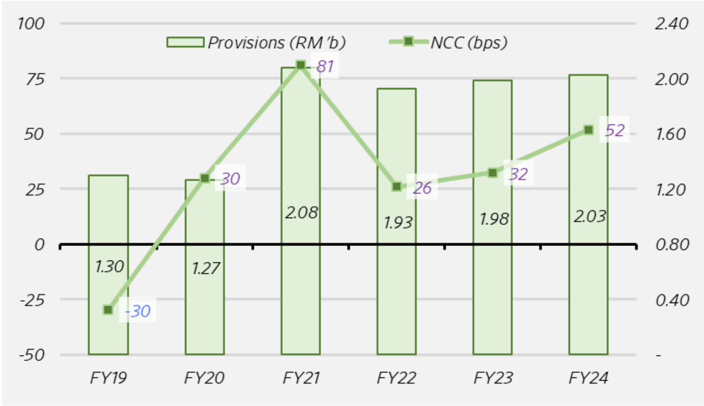
Source: AMMB

Fig 16: GIL ratio by Segment



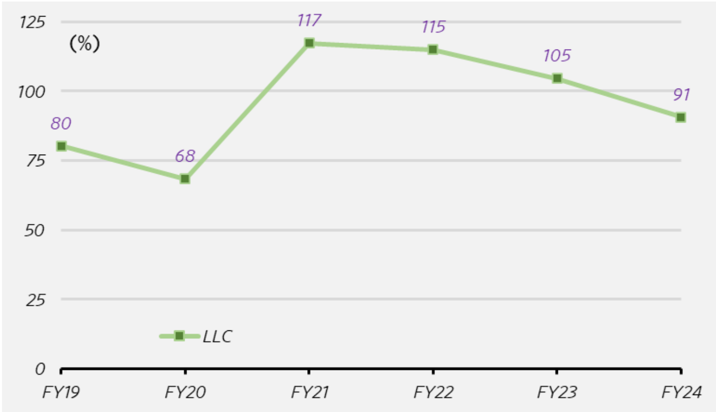
Source: AMMB

Fig 17: Provisioning and Net Credit Cost



Source: AMMB

Fig 18: Loan Loss Coverage

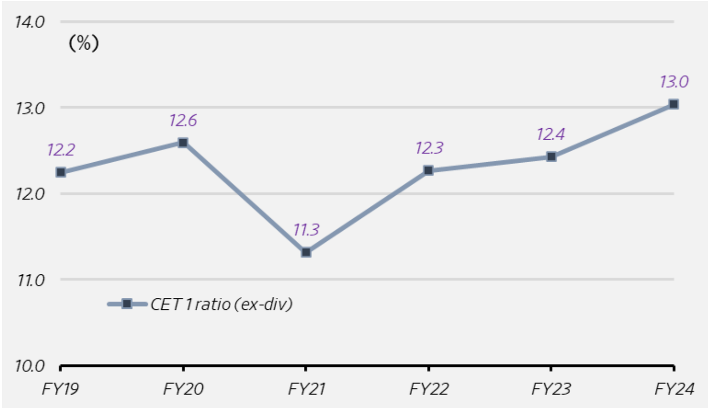


Source: AMMB

- **Capital and dividends.** Upon implementing the F-IRB approach this quarter, AMMB's CET 1 ratio jumped to a high 15.3%. Although management sees 14% as the optimal CET-1 level, AMMB will keep CET 1 slightly elevated for now in preparation for further stages of Basel III implementation.

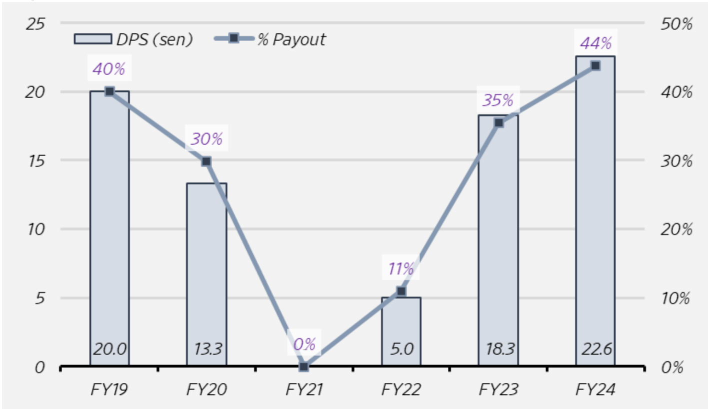
- The intention is to increase dividend payout gradually over several years. Management is targeting a payout of 50% by FY29, from the <45% levels presently.

Fig 19: CET 1 ratio



Source: AMMB

Fig 20: Dividend Payout



Source: AMMB

Investment Highlights

- **Multiple avenues for NIM improvement.** Unlike its peers, AMMB recorded an impressive sequential quarter improvement in NIMs in the latest quarter (2QFY25). Management believes their ongoing liability management initiative and loan rebalancing will continue improving NIMs. The Group is prioritising a better NIM profile over asset growth.

- For liability rebalancing, the Group is paring down on pricey non-retail CASA and deposits and turning to the debt market for further drawdowns. For loan rebalancing, AMMB is switching back to higher-yielding loan categories, such as mid-corp SME and hire purchase loans, while moving away from residential mortgages.

- **Solid fee income prospects.** AMMB has done a good job revamping its fee income-related lines of business, namely its investment banking franchise (which has steadily climbed the ranks) and asset management segment. They have also disposed of their insurance arms, opting for bancassurance deals instead (which provide a more streamlined capital structure). This increases non-interest income contributions to topline.

- AMMB has timed the revamping of its investment banking franchise well with the economic cycle. For now, AMMB sees a strong pipeline of IPOs, which it will likely capture. We feel that there remains much-unexplored potential as the Group pushes into the lucrative mid-corp segment, which offers many cross-selling opportunities into the fee income services.

- **Excellent cost control.** AMMB is managing its cost extremely well, boasting extremely low OPEX growth relative to the industry. Management assures that there are further avenues for paring down costs. The Group is already slightly overperforming on a cost/income front (44% level). We think their FY29 target of 40% is plausible (which would make AMMB the third most efficient bank in the industry), given the aggressive growth opportunities AMMB sees in the topline.

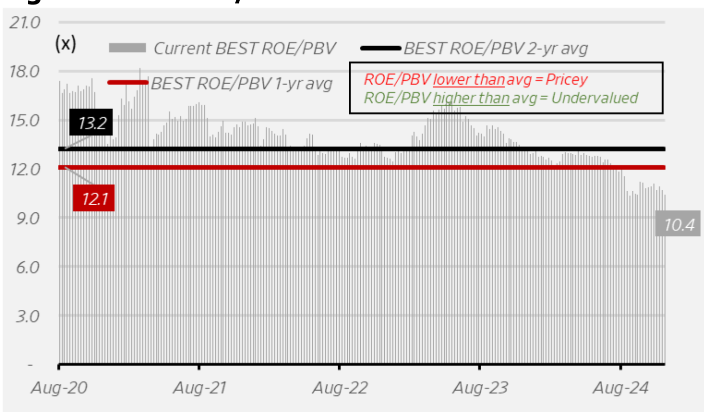
- **Dividend payouts to improve.** AMMB wants to increase its dividend payouts to 50% by FY29. This will increase dividend yields to align with its peers. Recall that they faced capital constraints several years ago, crimping their dividend-paying ability – these have been rectified, and AMMB's current CET 1 ratio is an extremely healthy 15.3%.

- Although we feel AMMB could technically offer a 50% payout already (it is already issuing 44% payouts), the Group wants to remain prudent with capital, seeing that multiple Basel III stage implementations have yet to occur. Given that 50% seems overly conservative, we think there's certainly much possibility for upside.

Valuation & Recommendation

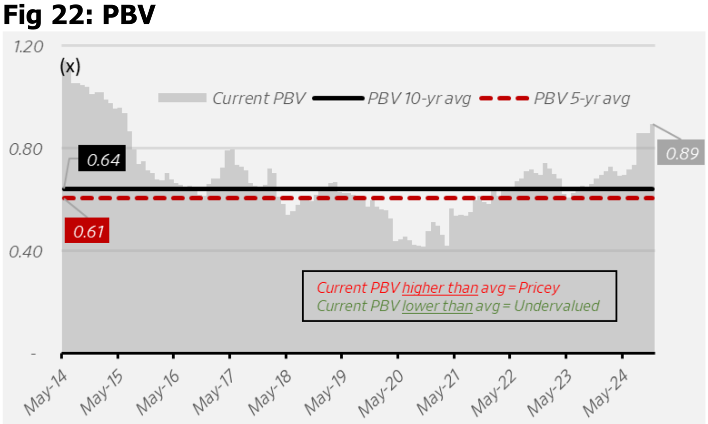
- We initiate coverage on AMMB with a **HOLD** recommendation and a target price of **RM5.57** based on an FY26F PBV of 0.86x GGM-PBV valuation. (GGM Assumptions: FY26F ROE of 9.1%, LTG of 3.5%, & COE of 10.0%.)

Fig 21: BEST ROE/PBV



Source: AMMB

Fig 22: PBV



Source: AMMB

- We favour AMMB for its (i) Multiple avenues for NIM improvement due to their ongoing liability management initiative and loan rebalancing, (ii) Solid fee income prospects, given the revamp of their asset management and investment banking services, (iii) Excellent cost control, which is expected to improve cost/income ratios even further, and (iv) Increasing dividend payouts, which we think still has much upside possibility.

Key Risks

- **Weak loan growth.** AMMB's 5-year plan involves paring down on residential loans, and a restructuring (combining RSME and business and enterprise banking into a single unit). AMMB's loan growth has been weak in recent years – we think the trend will likely continue, especially if loan drawdowns are delayed.

- **Recurrent deposit issues.** AMMB has expressed difficulty in tapping the mass market segment, which has led to a more non-retail-centric deposit mix. Moving away from residential mortgages, we think AMMB will likely run into further difficulties of a similar nature.

- **Asset quality issues.** AMMB has had its fair share of GIL spikes. Currently, the residential mortgage (primarily from R&R programmes) impairments are quite noteworthy, as impairments seem high even when compared to non-retail R&R programme loans.

Financial Highlights

Income Statement

FYE Mar (RM m)	FY23	FY24	FY25F	FY26F	FY27F
Net interest income	**2,281**	**2,137**	**2,532**	**2,634**	**2,704**
Islamic banking inc.	1,301	1,316	1,193	1,240	1,273
Other operating inc.	956	1,103	1,080	1,199	1,285
Net income	**4,538**	**4,555**	**4,805**	**5,073**	**5,262**
OPEX	(1,999)	(2,052)	(2,138)	(2,258)	(2,342)
PPOP	**2,539**	**2,504**	**2,667**	**2,816**	**2,920**
Loan allowances	(422)	(696)	(345)	(393)	(414)
Other allowances	68	(153)	5	9	12
JV & Associates	44	40	43	45	47
PBT	**2,229**	**1,694**	**2,370**	**2,477**	**2,565**
Tax & zakat	(513)	148	(545)	(570)	(590)
NCI	59	(25)	-	-	-
Discontinued ops	(66)	51	-	-	-
Reported NP	**1,709**	**1,868**	**1,825**	**1,907**	**1,975**
Core NP	**1,709**	**1,707**	**1,825**	**1,907**	**1,975**
Total NII	3,498	3,304	3,617	3,762	3,863
Total NOII	1,083	1,291	1,188	1,311	1,400

Balance Sheet

FYE Mar (RM m)	FY23	FY24	FY25F	FY26F	FY27F
Cash & ST funds	8,699	6,493	9,125	9,345	9,450
Investment securities	51,851	47,717	44,246	41,161	38,425
Net loans	128,243	132,102	139,102	146,902	154,981
Other IEAs	0	0	0	0	0
Non-IEAs	8,639	10,452	10,297	12,136	15,353
Total assets	**197,432**	**196,764**	**202,770**	**209,543**	**218,209**
Customer deposits	130,315	142,381	150,212	159,225	168,778
Other IBLs	34,513	22,089	20,706	18,912	17,913
Non-IBLs	14,577	12,851	11,409	9,985	9,068
Total liabilities	**179,405**	**177,322**	**182,328**	**188,122**	**195,759**
Share capital	6,376	6,376	6,376	6,376	6,376
Reserves	11,650	13,065	14,066	15,045	16,074
Shareholders' funds	**18,026**	**19,441**	**20,443**	**21,421**	**22,450**
NCI	1	1	0	0	0
Total equity	**18,027**	**19,442**	**20,443**	**21,421**	**22,450**
Total L&E	**197,432**	**196,764**	**202,770**	**209,543**	**218,209**
Total IEAs	188,792	186,312	192,473	197,408	202,856
Total IBLs	164,828	164,471	170,919	178,137	186,691
Gross loans	130,227	134,130	141,507	149,290	157,501
CASA	48,800	52,767	54,076	57,321	60,760

Key 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	3.04	3.10	3.05
Cost of funds	1.76	2.39	1.92	1.95	1.86
Net interest spread	1.03	0.85	1.12	1.15	1.19
Profitability (%)					
ROE	**9.8**	**9.1**	**9.2**	**9.1**	**9.0**
ROA	0.9	0.9	0.9	0.9	0.9
NOII/Net income	22.9	27.5	24.7	25.8	26.6
Effective tax rate	23.0	-8.8	23.0	23.0	23.0
Cost/Income	44.0	45.0	44.5	44.5	44.5
Liquidity (%)					
Loan/Deposit	98.4	92.8	92.6	92.3	91.8
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	108
Net CC (bps)	34	53	25	27	27
Capital (%)					
CET 1	12.4	13.0	13.7	13.6	13.5
Tier 1 capital	12.4	13.0	13.7	13.6	13.5
Total capital	15.8	16.3	16.9	16.8	16.7
Growth (%)					
Total NII	16.1	-5.5	9.5	4.0	2.7
Total NOII	14.0	19.2	-8.0	10.4	6.7
Net income	11.9	0.4	5.5	5.6	3.7
OPEX	11.7	2.6	4.2	5.6	3.7
Core NP	13.7	-0.1	6.9	4.5	3.5
Gross loans	8.5	3.0	5.5	5.5	5.5
Customer deposits	6.3	9.3	5.5	6.0	6.0
CASA	13.2	8.1	2.5	6.0	6.0
Valuation metrics					
Core EPS (sen)	51.7	51.6	55.2	57.7	59.7
Gross DPS (sen)	18.3	22.6	22.1	26.0	27.0
Div payout (%)	35	44	40	45	45
BVPS (RM)	5.5	5.9	6.2	6.5	6.8
Core P/E (x)	19.4	19.4	18.1	17.3	16.7
Div yield (%)	**1.8**	**2.3**	**2.2**	**2.6**	**2.7**
P/BV (x)	1.8	1.7	1.6	1.5	1.5

APEX SECURITIES BERHAD – CONTACT LIST

APEX SECURITIES BHD

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Ahmad Mujib (ext 2028)
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RESEARCH TEAM

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Ong Tze Hern (ext 2113)
Samuel Woo (ext 2121)
Amir Hamdan (ext 2112)

RESEARCH RECOMMENDATION FRAMEWORK

STOCK RECOMMENDATIONS
BUY: Total returns* are expected to exceed 10% within the next 12 months.
HOLD: Total returns* are expected to be within +10% to – 10% within the next 12 months.
SELL: Total returns* are expected to be below -10% within the next 12 months.
TRADING BUY: Total returns* are expected to exceed 10% within the next 3 months.
TRADING SELL: Total returns* are expected to be below -10% within the next 3 months.
*Capital gain

SECTOR RECOMMENDATIONS
OVERWEIGHT: The industry defined by the analyst is expected to exceed 10% within the next 12 months.
NEUTRAL: The industry defined by the analyst is expected to be within +10% to – 10% within the next 12 months.
UNDERWEIGHT: The industry defined by the analyst, is expected to be below -10% within the next 12 months.

DISCLAIMER