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Page : 9

FINANCE

PETALING JAYA: AMMB Holdings Bhd's plan to improve its environmental, social and governance (ESG) criteria is a positive move.

This is in line with industry trend, as revealed by Bank Negara. The central bank at the recent AMMB's ESG day, noted several local financial institutions have started to set climate change targets.

CGS-CIMB Research, which attended the forum, said it is positive on AMMB's ESG day as it reflected its commitment to improve its ESG disclosures.

"AMMB has through the event shared the progress of its ESG adoption. Notably, AMMB had in financial year 2021 (FY21) introduced its exclusion list for financing based on ESG criteria, and an environmental and social risk grading system for new non-retail credit applications," it said.

"Going forward, Bank Negara will introduce more regulatory requirements for banks to manage this risk, including the compliance with Climate Change Principle-based Taxonomy from July 2022 onwards, and industry-wide stress testing exercise in 2024," it added.

The research house maintained its "add" call on AMMB with an unchanged target price of RM3.64.

AMMB's ESG efforts lauded

Move is in line with industry trend

CGS-CIMB Research said its add call is due to AMMB's attractive valuation. The counter is currently trading at 2022 forecast price to earnings ratio of 8.8 times, which is the second-lowest in the sector, and below the industry average of 12.5 times.

A continuous recovery in its core earnings per share growth in FY22-FY23 forecast is a potential re-rating catalyst.

Going forward, CGS-CIMB said it believes AMMB's key ESG focus would be on establishing a system to identify and track its climate change risks and further improving its ESG disclosure: which would cover the percentage of loans exposed to sectors with high ESG risks.

The bank is also expected to increase its sustainable lending, it said.

Meanwhile, MIDF Research said among other initiatives the bank is expected to implement are an exclusion list of sectors associated with negative ESG impact such as – weapons, forced labour and coal-fired power plants.

"We doubt that AMMB's ESG efforts will have much bearing on our earnings projections for now. A slight concern is the pivoting of large customers mainly the oil and gas sector to less lucrative business models," MIDF Research said.

"However, the process is likely to be gradual. We maintain our neutral recommendation with an unchanged target price of RM3.20 based by pegging its FY22 forecast book value per share to a price to book value of 0.6 times," it added.