

# Alliance Bank Malaysia Berhad

(2488 | ABMB MK) Financial Services | Finance

## Maintain TRADING BUY

### Credit cost moderated

**Revised Target Price: RM2.70**

(from RM3.35)

#### KEY INVESTMENT HIGHLIGHTS

- **Results was in-line with expectations**
- **Net profit declined from high credit cost**
- **Credit cost moderated in 3QFY20**
- **NOII contributed to income growth, coming from higher treasury and investment income**
- **Strong loans and deposits growth**
- **Revising FY21 earnings forecast downwards to take into account of the possibility of another OPR cut**
- **Maintain TRADING BUY with revised TP of RM2.70 (from RM3.35)**

**In-line with expectations.** The Group's 9MFY20 earnings of RM326.2m was within expectations. It came in at 74.4% and 72.2% of our and consensus' full year estimates respectively.

**Earnings declined from high credit cost...** Net profit for the group fell -23.4%yoy. While PPOP was flattish at +0.9%yoy, provisions continued to be a drag.

**.. but credit cost moderated in 3QFY20.** Provisions (including bond impairment) in 9MFY20 continued to be high, but we observed it had moderated in 3QFY20 where it fell -45.8%qoq. This was due to recoveries of 2 legacy corporate accounts and write-backs from several commercial accounts. There was also improved collection efforts from pre-Jun'18 Alliance One Account (AOA). The 9MFY20 net credit cost was 49.5bp well within the management's guidance of 55-60bp.

**NOII main contributor of net income growth.** NOII (including Islamic banking base) grew +18.9%yoy to RM271.8m in 9MFY20. The growth was due to higher treasury and investment income, where there were RM12.2m gain from sale of government bonds. Despite lower economic activities, client based income grew +2.3%yoy.

**NII relatively flat from NIM compression.** NII (including Islamic fund based income) was relatively flat with -0.1%yoy to RM988.8m. Positive impact from normal growth and better asset were moderated by NIM compression.

**Gross loans saw robust growth.** Gross loans grew +5.5%yoy to RM43.5b. The contributors were AOA, personal loans and SME loans book. The post-June'18 AOA accounts saw an addition of RM1.9b. As for the SME loans book, it expanded +10.6%yoy to RM9.3b.

**Strong growth from customer deposits.** Customer based funding grew +8.9%yoy to RM47.1b. More importantly, CASA showed strong expansion of +7.6%yoy to RM17.4b, which would moderate compression pressure to NIM given that there could be another OPR cut following Jan-19 cut. The CASA growth mainly came from Alliance SavePlus (+RM1.3b yoy) and Alliance@Work payroll (+RM206m yoy).

**Uptick in GIL ratio from R&R accounts.** GIL ratio went up +0.3%-pt to 1.8%. The main attributor was restructured and rescheduled accounts.

#### RETURN STATISTICS

Price @ 29 <sup>th</sup> Feb. 2020 (RM)	2.31
Expected share price return (%)	+16.9
Expected dividend yield (%)	+6.3
<b>Expected total return (%)</b>	<b>+23.2</b>

#### SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-5.7	-2.6
3 months	-12.2	-9.0
12 months	-45.0	-36.9


#### KEY STATISTICS

FBM KLCI	1,482.64
Syariah compliant	No
Issue shares (m)	1548.11
Estimated free float (%)	43.00
Market Capitalisation (RM'm)	3,576.12
52-wk price range	RM2.24 - RM4.26
Beta vs FBM KLCI (x)	0.82
Monthly velocity (%)	23.84
Monthly volatility (%)	17.35
3-mth average daily volume (m)	2.42
3-mth average daily value (RM'm)	6.16
Top Shareholders (%)	
Vertical Theme Sdn Bhd	29.06
Employees Provident Fund Board	13.32
FOCUS ASIA STRATEGIES LTD	4.75

#### Analyst

**Imran** Yassin Yusof  
 imran.yassin@midf.com.my  
 03-2173 8395

**Revising forecast to reflect pressure to NIM.** We revising our FY21 earnings forecast downwards by -3.1% to take into account the possibility of another OPR cut.

**Valuation and recommendation.** We were pleased that credit cost have begun to normalise. The management have tighten its credit underwriting policies and we should see credit cost continue to gradually improve in the coming quarters and into FY21. We expect that credit cost to normalise by FY22. Gross loans and deposits showed strong growth. Furthermore, we observed that despite the slight stress in asset quality, the Group continue to increase its book value. Hence, with the current price, we are maintaining our **TRADING BUY** recommendation for the stock with revised **TP of RM2.70 (from RM3.35)** to reflect the revision in earnings. We pegged its FY21 BVPS to 0.9x PBV. We also believe that the dividend yield of circa 5% should moderate any downside. 

## INVESTMENT STATISTICS

Financial year ending 31 March (in RM'm, unless otherwise stated)	2018A	2019A	2020E	2021F	2022F
Net interest income (RM'm)	925	998	1,052	1,033	1,080
Islamic banking income (RM'm)	318	359	374	393	413
Non-interest income (RM'm)	329	265	309	337	341
Total income (RM'm)	1,572	1,622	1,736	1,762	1,833
Pretax profit (RM'm)	685	708	562	687	761
Net profit	493	538	438	525	582
Core Net profit (RM'm)	545	538	438	525	582
Core EPS (sen)	31.9	34.7	28.6	34.3	38.0
PER (x)	7.2	6.7	8.1	6.7	6.1
Net Dividend (sen)	15.3	16.7	14.5	17.0	19.0
Net Dividend Yield (%)	6.6	7.2	6.3	7.4	8.2
Book value per share (sen)	3.53	3.70	3.85	3.92	4.06
PBV (x)	0.7	0.6	0.6	0.6	0.6
ROE (%)	9.5	9.9	7.3	8.7	9.3

Source: Company, MIDFR

### Some banking abbreviations used in this report:

CI = Cost to Income  
 CET1 = Common Equity Tier 1  
 GIL = Gross Impaired Loan  
 LD = Loan-Deposit  
 NII = Net Interest Income  
 NOII = Non-interest income  
 NIM = Net Interest margin  
 CASA = Current and Savings Accounts  
 COF = Cost of Funds  
 IB = Investment Banking  
 LLC = Loan Loss Coverage  
 PPOP = Pre-Provisioning Operating Profit  
 FVTPL = Fair Value Through Profit Or Loss  
 OPEX = Operating Expenses  
 OPR = Overnight Policy Rate

**Table 1: Quarterly & Cumulative results (base on reported financials)**

FYE March (RM m)	Quarterly results					Cumulative results		
	3QFY20	2QFY20	3QFY19	Yoy (+/- %)	Qoq (+/- %)	9MFY20	9MFY19	Yoy (+/- %)
Net Interest Income	242.6	241.8	254.9	-4.8%	0.3%	732.0	744.7	-1.7%
Islamic Banking Income	100.4	91.9	94.6	6.1%	9.2%	285.9	265.4	7.7%
Non-interest income	81.3	95.6	68.9	18.0%	-15.0%	242.7	208.5	16.4%
Total income	424.3	429.3	418.4	1.4%	-1.2%	1,260.6	1,218.6	3.4%
OPEX	(211.2)	(198.0)	(196.8)	7.3%	6.7%	(607.2)	(571.5)	6.2%
PPOP	213.1	231.3	221.6	-3.8%	-7.9%	653.3	647.2	0.9%
Provision for loan losses and other assets	(31.5)	(79.3)	(32.4)	-2.8%	-60.3%	(215.9)	(90.1)	139.6%
PBT	181.7	152.0	189.2	-4.0%	19.5%	437.5	557.1	-21.5%
Net Profit	134.0	115.5	148.9	-10.0%	16.0%	326.2	425.8	-23.4%
EPS (sen)	8.7	7.5	9.6	-9.4%	16.0%	21.1	27.5	-23.3%

**Table 2: Financial Ratios**

Financial Ratios (%)	3QFY20	2QFY20	3QFY19	Yoy (+/-ppts)	Qoq (+/-ppts)	9MFY20	9MFY19	Yoy (+/-ppts)
CET1 <sup>^</sup>	13.2	13.5	13.3	-0.1	-0.3	13.2	13.3	-0.1
Tier 1 Capital <sup>^</sup>	14.0	14.3	13.8	0.2	-0.3	14.0	13.8	0.2
Total Capital <sup>^</sup>	18.3	18.6	18.3	0.0	-0.3	18.3	18.3	0.0
NIM	2.39	2.34	2.56	-0.17	0.05	2.38	2.48	-0.10
GIL	1.90	1.70	1.30	0.60	0.20	1.90	1.30	0.60
NIL	1.2	1.0	0.8	0.4	0.2	1.2	0.8	0.4
Credit cost	0.39	0.72	0.32	0.07	-0.33	0.54	0.30	0.24
LLC	101.6	105.0	125.9	-24.3	-3.4	101.6	125.9	-24.3
Cost to income	49.8	46.1	47.0	2.8	3.7	48.2	46.9	1.3
Gross LD ratio	93.4	93.8	96.9	-3.5	-0.4	93.4	96.9	-3.5
ROE	9.3	8.1	10.9	-1.6	1.2	7.5	10.4	-2.9

<sup>^</sup> Capital ratios at Group level after deduction of proposed dividends

**Table 3: PBT by key segments (based on reported financials)**

PBT (RM m)	9MFY20	9MFY19	Yoy (+/- %)
Consumer Banking	28.3	75.5	-62.6%
Business Banking	241.5	310.0	-22.1%
Financial Markets	186.6	178.9	4.3%
Investment Banking	(11.8)	(3.7)	220.2%
Others	(0.4)	4.3	-108.6%
Elimination	(6.9)	(8.1)	-14.8%
<b>Group PBT</b>	<b>437.4</b>	<b>557.0</b>	<b>-21.5%</b>

Source: Company, MIDFR

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (197501002077 (23878 – X)).  
 (Bank Pelaburan)  
 (A Participating Organisation of Bursa Malaysia Securities Berhad)

## DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (197501002077 (23878 – X)). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This document may not be reproduced, distributed or published in any form or for any purpose.

### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

<b>BUY</b>	Total return is expected to be >10% over the next 12 months.
<b>TRADING BUY</b>	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.
<b>NEUTRAL</b>	Total return is expected to be between -10% and +10% over the next 12 months.
<b>SELL</b>	Total return is expected to be <10% over the next 12 months.
<b>TRADING SELL</b>	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

<b>POSITIVE</b>	The sector is expected to outperform the overall market over the next 12 months.
<b>NEUTRAL</b>	The sector is to perform in line with the overall market over the next 12 months.
<b>NEGATIVE</b>	The sector is expected to underperform the overall market over the next 12 months.