

Alliance Bank Malaysia Berhad

(2488 | ABMB MK) Financial Services | Finance

Maintain NEUTRAL

Better than expected but still earnings declined

Unchanged Target Price: RM2.05

KEY INVESTMENT HIGHLIGHTS

- **Results was above our expectations as we overestimated the provision level**
- **Net profit declined from high credit cost, with additional in 4QFY20 from Covid-19 impact**
- **NOII was the driver of net income growth**
- **Pace of gross loans growth slowed; deposits growth strong**
- **Asset quality deteriorated**
- **No dividend to preserve capital**
- **Maintain NEUTRAL with unchanged TP of RM2.05**

Above our expectations. The Group registered FY20 net profit which was above our expectations at 120% but within consensus'. The variance was due to our overestimation of the provisions as we had expected deeper credit cost due to Covid-19. However, FY20 earnings did decline by -21.1%yoy due to high provisions.

Another quarter of high provisions. Earnings in 4QFY20 continued to be weighed down by provisions which grew +100.9%yoy and +213.1%yoy. This lead to FY20 credit cost to come in at 72bp. The group had booked a credit cost of 8bp for early assessment of the Covid-19 impact, where 5.2bp was from deterioration in macroeconomic variable and 2.8bp for personal finance delinquency in anticipation of the loan moratorium.

Net income came within expectation. Net income for FY20 grew +4.1%yoy which was within our expectation. Main driver for the net income growth was NOII which, inclusive of Islamic banking base, grew +25.2%yoy to RM365.8m. The growth was due to higher treasury and investment income, where there was RM20.4m gain. The group also saw higher wealth management & banking services of +RM24.8m.

NII marginally declined from NIM compression. NII (including Islamic fund based income) marginally declined by -0.5%yoy to RM1.32b. Main drag to NII was NIM compression following from OPR cuts which impacted NIM by -9bp.

Gross loans growth slowed. Pace of gross loans growth slowed to +2.2%yoy to RM43.7b. In fact, gross loans were almost flat on a sequential quarter basis due to Covid-19 impact. In terms of segments, consumer banking and SME banking grew +2.8%yoy to RM23.2b and +7.6%yoy to RM9.4b respectively. However, corporate banking declined -3.3%yoy to RM11.0b.

Asset quality deteriorated. GIL ratio went up +90bp yoy due to worsen asset quality in residential segment. GIL ratio in classic mortgage and AOA mortgage increased +0.9%-pt to 1.9% and +3.7%-pt to 5.3%. We believe that this is a worrying trend. We expect asset quality will continue to be under pressure in FY21.

Customer deposits saw strong growth. Customer based funding grew +6.5%yoy to RM48.9b. CASA showed strong expansion of +13.6%yoy to RM17.4b which moderated the NIM compression. However, we believe that the CASA expansion was due to savers ensuring sufficient liquidity during a time of uncertainty.

RETURN STATISTICS

Price @ 25 th June 2020 (RM)	2.24
Expected share price return (%)	-8.5
Expected dividend yield (%)	+4.1
Expected total return (%)	-4.4

SHARE PRICE CHART




Share price performance (%)	Absolute	Relative
1 month	7.18	3.40
3 months	17.89	7.98
12 months	-40.43	-33.01

KEY STATISTICS

FBM KLCI	1489.20
Syariah compliant	No
Issue shares (m)	1548.106
Estimated free float (%)	42.59307
Market Capitalisation (RM'm)	3467.757
52-wk price range	RM1.48 - RM3.82
Beta vs FBM KLCI (x)	1.169706
Monthly velocity (%)	0.0012
Monthly volatility (%)	17.3478
3-mth average daily volume (m)	2.148448
3-mth average daily value (RM'm)	4.450893
Top Shareholders (%)	
Vertical Theme Sdn Bhd	29.06
Employees Provident Fund Board	13.73
FOCUS ASIA STRATEGIES LTD	4.75

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

No change to earnings. We maintaining our FY21 earnings forecast for now, pending a briefing from the management today.

Valuation and recommendation. We believe that the group will continue to face pressure in terms of NII and asset quality in FY21 as the impact of the movement control order and Covid-19 manifest further in the coming quarters. There is potential that credit cost and GIL ratio might spike up after the end of the loan moratorium period. However, we expect the economic situation will start to improve in 3QFY21 and this should curb some of the downside risk. All-in, we are maintain our NEUTRAL call on the stock with unchanged TP of RM2.05. We pegged its FY21 BVPS to 0.5x PBV. 

INVESTMENT STATISTICS

Financial year ending 31 March (in RM'm, unless otherwise stated)	2019A	2020E	2021F	2022F	2023F
Net interest income (RM'm)	998	981	992	1054	1102
Islamic banking income (RM'm)	359	338	370	382	395
Non-interest income (RM'm)	265	331	362	374	386
Total income (RM'm)	1,622	1,689	1,724	1,810	1,882
Pretax profit (RM'm)	708	568	536	754	783
Net profit	538	424	409	577	599
Core Net profit (RM'm)	538	424	409	577	599
Core EPS (sen)	34.7	27.4	26.4	37.2	38.6
PER (x)	6.5	8.2	8.5	6.0	5.8
Net Dividend (sen)	16.7	6.0	9.2	16.7	18.5
Net Dividend Yield (%)	7.5	2.7	4.1	7.5	8.3
Book value per share (sen)	3.70	3.87	3.92	4.05	4.20
PBV (x)	0.6	0.6	0.6	0.6	0.6
ROE (%)	9.9	7.5	6.7	9.2	9.2

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		
	4QFY20	3QFY20	4QFY19	Yoy (+/- %)	Qoq (+/- %)	FY20	FY19	Yoy (+/- %)
Net Interest Income	254.5	242.6	253.3	0.4%	4.9%	980.8	998.1	-1.7%
Islamic Banking Income	92.0	100.4	93.6	-1.7%	-8.3%	337.9	359.1	-5.9%
Non-interest income	87.9	81.3	56.5	55.7%	8.1%	330.6	265.0	24.8%
Total income	434.4	424.3	403.4	7.7%	2.4%	1,689.3	1,622.1	4.1%
OPEX	(205.4)	(211.2)	(203.5)	1.0%	-2.7%	(807.0)	(774.9)	4.1%
PPOP	229.0	213.1	200.0	14.5%	7.5%	882.3	847.2	4.1%
Provision for loan losses and other assets	(98.6)	(31.5)	(49.1)	>100%	>100%	(314.5)	(139.2)	>100%
PBT	130.4	181.7	150.9	-13.6%	-28.2%	567.9	708.0	-19.8%
Net Profit	98.1	134.0	111.8	-12.3%	-26.8%	424.3	537.6	-21.1%
EPS (sen)	6.3	8.7	7.2	-12.5%	-27.6%	27.4	34.7	-21.0%

Table 2: Financial Ratios

Financial Ratios (%)	4QFY20	3QFY20	4QFY19	Yoy (+/-ppts)	Qoq (+/-ppts)	FY20	FY19	Yoy (+/-ppts)
CET1 [^]	13.7	13.2	13.4	0.3	0.5	13.7	13.4	0.3
Tier 1 Capital [^]	14.4	14.0	14.1	0.3	0.4	14.4	14.1	0.3
Total Capital [^]	18.7	18.3	18.5	0.2	0.4	18.7	18.5	0.2
NIM	2.46	2.39	2.57	-0.11	0.07	2.40	2.50	-0.10
GIL	2.00	1.90	1.10	0.90	0.10	2.00	1.10	0.90
NIL	1.3	1.2	0.6	0.7	0.1	1.3	0.6	0.7
Credit cost	0.91	0.31	0.38	0.52	0.60	0.72	0.32	0.41
LLC	101.4	101.6	142.9	-41.5	-0.2	101.4	142.9	-41.5
Cost to income	47.3	49.6	50.4	-3.1	-2.3	47.8	47.8	0.0
Gross LD ratio	90.2	93.4	94.9	-4.7	-3.2	90.2	94.9	-4.7
ROE	7.1	9.3	8.1	-1.0	-2.2	7.5	10.4	-2.9

[^] Capital ratios at Group level after deduction of proposed dividends

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

PBT (RM m)	FY20	FY19	Yoy (+/- %)
Consumer Banking	7.5	80.5	-90.7%
Business Banking	326.3	409.4	-20.3%
Financial Markets	246.1	232.7	5.7%
Investment Banking	(16.9)	(33.4)	-49.5%
Others	5.6	5.5	1.8%
Elimination	0.9	13.2	-93.4%
Group PBT	567.8	707.9	-19.8%

Source: Company, MIDFR

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

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

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