Company Update| Friday, 22 July 2022

Alliance Bank Malaysia Berhad

(2488 | ABMB MK) Financial Services | Finance

Upgrade to BUY

(previously NEUTRAL)

Embracing "Thought Leadership"

***Revised* Target Price: RM3.64**

(previously RM3.72)

KEY INVESTMENT HIGHLIGHTS

- **Upon establishing a sustainability framework foundation, ABMB has moved on to reaching out to customers**
- **Most notable are its efforts to establish itself via "Thought Leadership" amongst SME ESG issues**
- **Efforts are well underway to reduce business exposure to C5 clients**
- **ABMB will introduce incentives and disincentives in future to maintain sustainability efforts**
- **We tweak our FY21/FY22/FY23 earnings forecasts upward**
- **Upgrade to BUY call with a revised TP of RM3.64**

Yesterday, ABMB hosted a briefing detailing the continuation of its 3-phase Sustainability Framework FY2022-2025. Upon fleshing out the necessary foundations in phase 1, ABMB has since moved on to execution, via phase 2 of the plan (Exhibit 1).

As a refresher, phase 1 mainly involved providing the necessary foundation for its sustainability strategy (Exhibit 2). Some highlights of ABMB's ESG journey which started in FY22 include:

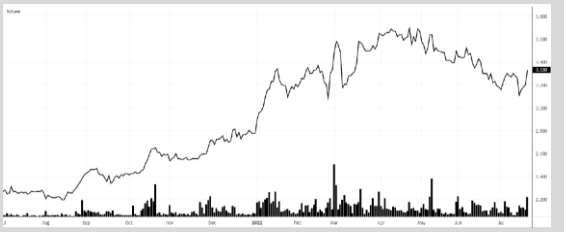
1. Improve ESG profile of portfolio.
2. Enhance risk management infrastructure.
3. Improve Bank's ESG practices
4. Improve capability and engagement
5. Enhance disclosures and communications

FINANCIAL SUMMARY

FYE Mar	FY21	FY22	FY23F	FY24F	FY25F
NII (RM m)	1,361	1,480	1,571	1,638	1,735
NOII (RM m)	457	387	465	458	467
Total Income (RM m)	1,818	1,868	2,036	2,095	2,202
PPOP (RM m)	1,017	1,045	1,113	1,146	1,204
Core net profit (RM m)	359	573	683	728	775
Core EPS (sen)	23.2	37.0	44.1	47.0	50.0
Core P/E (%)	14.4	9.0	7.5	7.1	6.7
Gross DPS (sen)	5.8	18.5	22.1	23.5	25.0
Dividend yield (%)	1.7	5.6	6.6	7.1	7.5
BVPS (x)	4.0	4.1	4.5	4.8	5.1
P/B (x)	0.8	0.8	0.7	0.7	0.7
ROAE (%)	5.9	9.0	10.2	10.1	10.1

RETURN STATISTICS	
Price @ 21st July 2022 (RM)	3.33
Expected share price return (%)	+9.2
Expected dividend yield (%)	+6.6
Expected total return (%)	**+15.9**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	1.5	2.1
3 months	5.3	-1.0
12 months	40.1	46.6

KEY STATISTICS	
FBM KLCI	1,450.32
Syariah compliant	No
F4GBM Index	Yes
ESG Grading Band (Star rating)	☆☆☆
Issue shares (m)	1548.11
Estimated free float (%)	59.12
Market Capitalisation (RM'm)	5,186.15
52-wk price range	RM2.32 - RM3.82
Beta vs FBM KLCI (x)	0.93
Monthly velocity (%)	0.00
Monthly volatility (%)	17.35
3-mth average daily volume (m)	1.77
3-mth average daily value (RM'm)	6.17
Top Shareholders (%)	
Vertical Theme Sdn Bhd	29.06
Employees Provident Fund Board	11.07
GLOBAL SUCCESS NETWORK	4.83

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Phase 2: Help customers with sustainability goals.

The main takeaway for the session were ABMB's 4 focal points for FY23 (View Exhibit 3 for greater detail):

1. **Rolling out SME Sustainability solutions.** ABMB is in contact with a third party to roll out framework for sustainable/green bonds and sukuk issuance solutions as a means of financing transition assets.
2. **Engagement/Advocacy with customers.** Advocacy to combat issues of lack of knowledge concerning transitioning importance alongside a lack of resources and solutions.
3. **Enhance risk mitigation/management reporting.** The group is looking to disclose high-ESG-risk C4 and C5 business exposure on a quarterly basis.
4. **Talent and resources.** In particular upskilling relationship managers, the main point of contact with clients.

Expanding on point 2, we are positive on ABMB's efforts in establishing itself as a SME ESG Thought Leadership company (i.e. being recognised as an authority in a specific field). We believe that this is a unique niche that ABMB can tap into as a means to distinguish itself from the rest of its peers, an effective touchpoint for potential customers, as well as a means to gather data and evaluate concerns concerning ESG transitioning by the wider economy.

Some notable efforts include:

1. **Malaysian Green Tech (MGTC) x ABMB Green SME Nurturing & Development Programme.** This initiative provides businesses with training and green certification. The programme provides business matching with with vendors that hold the MyHijau Mark, which is Malaysia's official green recognition scheme endorsed by the Government of Malaysia.
2. **Bursa x ABMB #Financing4ESG.** The initiative involves ESG assessment and advisory by Bursa for PLC clients in order to improve their ESG rating and qualify for the FTSE4Good Index.
3. **EcoBiz challenge (in collaboration with MGTC).** Via challenges for university students, ABMB has reached >5,000 students across Malaysia.

Other notable points

1. **By FY25, the group aims for loans by C5 companies to make up <25% of its total loans book.** In FY22, 53% of loans (RM24.5b) are under C5 categorisation. (C5 companies refer to companies which may cause significant harm to the broader environment and have not taken any remedial measures to promote transition and to reduce harmful practices.)
2. **ABMB's RM10b goal in new sustainable banking businesses by FY25 (Exhibit 1) encompasses loans, treasury income, capital markets and other sources of income.**
3. **No difference in interest rate spreads is expected between sustainable and non-sustainable loans.** In future, we may see incentives and disincentives that may distort this balance. This ties in with phase 3 of the group's sustainability framework, which aims to secure the impact of sustainability.
4. **ABMB explains that costs of ESG adoption processes may vary between clients.** This largely depends on the nature of business, in addition to their readiness level. ABMB seeks to disclose these results in their ESG survey, expected to come out by 4QFY22.

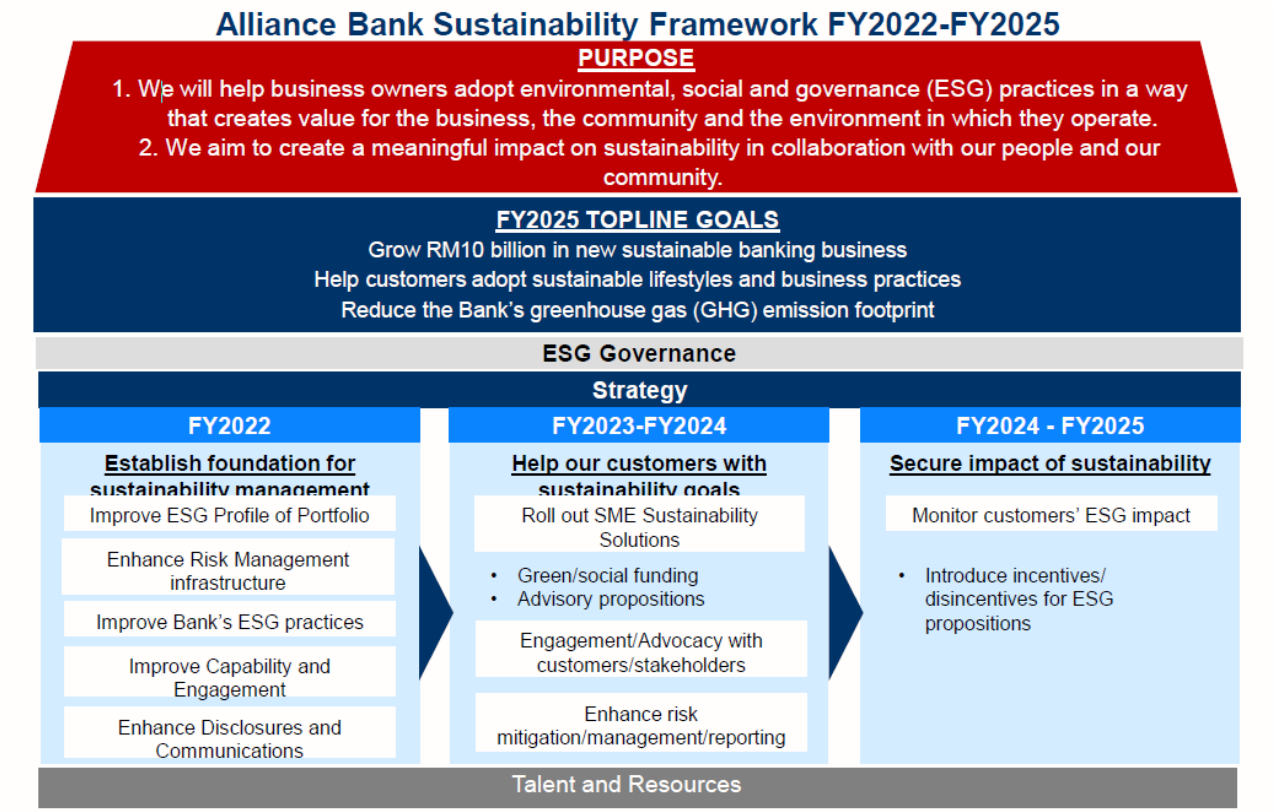
Our opinions on ABMB's sustainable strategy. While not expected to alter short-term earnings in any material way, we are positive on ABMB's effort in establishing itself as Thought Leadership Centre for SME ESG issues. Alongside a notable boost to brand recognition, it's an interesting means to broaden outreach not merely to pre-existing enterprises, but also to future clients via its university events. Its narrower scope of focus allows it to gain deeper insights and specialisation in comparison to more broad-based approaches toward ESG.

Earnings revised. We tweak our earnings forecast for FY23/24/25 by +1%/+1%/+1% respectively, as we adjust earnings to account for three +25bps OPR hike in CY22 and two hikes for CY23 (we previously accounted for two hikes in CY22 and three hikes in CY23). We also increase our credit costs expectations and loan growth forecasts, which were initially too conservative.

Valuation and recommendation. We remain mildly optimistic on ABMB's prospects, due to several headwinds. Core earnings drivers include a high dividend yield of >6% and stronger-than-average loan growth (management forecasts 6-8%). Despite being pegged as a prime beneficiary of OPR hikes, asset quality issues and elevated credit costs remain an issue. Its high CASA ratio of 49% makes it more susceptible in the event of a rundown, as customers switch to pricier FDs. Additionally, the Group's high LD ratio may force it to accumulate deposits at a higher cost to sustain its current level of loan growth.

Nonetheless, ABMB share price has declined to an attractive price point. Thus, we upgrade our call to **BUY** with a reduced **TP of RM3.64**, as we peg its FY23 BVPS to an unchanged PBV of 0.8x (given its FY23F ROE of 10.2%). We have lowered FY23 BVPS expectations as we may have previously underestimated the impact of OPR hikes on FVOCI losses reflected in bank reserves (given ABMB's sizeable exposure to FVOCI instruments).

EXHIBIT 1: ABMB'S SUSTAINABILITY FRAMEWORK



Source: Company, MIDFR

EXHIBIT 2: PHASE 1 (FY22) HIGHLIGHTS

	FY22 Sustainability Achievements
Improve ESG Profile of Portfolio	• Outperformed our FY22 target of RM500mil, achieving over RM2.1bil in sustainable banking business
Enhance Risk Management infrastructure	• Developed a Sustainability Framework and ESG Screener to classify portfolio based on BNM Climate Change and Principle-based Taxonomy (CCPT) • Rollout of ESG Risk Acceptance Criteria for high climate risk sectors
Improve Bank's ESG practices	• Established GHG emissions baseline (FY2020) and plans to reduce GHG emissions • Developed ESG due diligence checklist for supplier onboarding process for sustainable supply chain operations
Improve Capability and Engagement	• ESG training completed for targeted stakeholders i.e. Board, Senior Management, and subject matter resources
Enhance Disclosures and Communications	• Outperformed sub sector and industry averages with improvement of FTSE4Good Rating of 2.9 in 2022 from 2.3 in previous year • Aligned FY22 annual report to Task Force on Climate-related Financial Disclosures (TCFD) reporting standards

Source: Company, MIDFR

EXHIBIT 3: PHASE 2 (FY23) FOCAL POINTS

	FY23 Sustainability Focus
Rollout SME Sustainability Solutions	• Develop and launch financing and capital market solutions for SMEs
Engagement/ Advocacy with customers	• Scale up Sustainability Assistance Program for SMEs • Establish SME ESG Thought Leadership • Disclosure quality enhancement

Enhance risk mitigation/ management reporting	• Enhancement of risk management to fulfil CRMSA requirements
	• Enhancements of ESG risks in operations via
	  • GHG reduction actions
	  • Embed ESG in social supply chain

Talent and resources	• Enhance ESG business and risk management capability
	  • ESG training and awareness programs
	  • ESG Remuneration framework

Source: Company, MIDFR

INVESTMENT STATISTICS

INCOME STATEMENT

FYE Mar (RM m)	FY21	FY22	FY23F	FY24F	FY25F
Interest income	1,793	1,684	1,973	2,174	2,395
Interest expense	(777)	(563)	(776)	(923)	(1,062)
Net interest income	**1,017**	**1,122**	**1,197**	**1,251**	**1,334**
Islamic banking income	379	398	413	429	445
Other operating income	422	349	426	416	423
Total income	**1,818**	**1,868**	**2,036**	**2,095**	**2,202**
OPEX	(801)	(823)	(922)	(949)	(997)
PPOP	**1,017**	**1,045**	**1,113**	**1,146**	**1,204**
Loan allowances	(533)	(217)	(199)	(174)	(167)
Other allowances	(0)	(0)	0	2	-
JV & Associates	0	0	0	0	0
Pretax profit	**484**	**827**	**915**	**974**	**1,037**
Taxation and zakat	(125)	(255)	(231)	(246)	(262)
NCI	-	-	-	-	-
Reported net profit	**359**	**573**	**683**	**728**	**775**
Core net profit	**359**	**573**	**683**	**728**	**775**
Total NII	1,361	1,480	1,571	1,638	1,735
Total NOII	457	387	465	458	467

BALANCE SHEET

FYE Mar (RM m)	FY21	FY22	FY23F	FY24F	FY25F
Cash and ST funds	3,130	3,397	3,166	3,167	3,569
Investment securities	12,933	11,791	12,199	12,555	12,555
Net loans	43,234	45,124	47,060	49,802	52,305
Other IEAs	-	-	-	-	-
Non-IEAs	1,425	1,536	2,459	2,491	2,522
Total assets	**60,721**	**61,848**	**64,883**	**68,015**	**70,950**
Customer & bank deposits	49,881	49,875	51,696	53,705	55,716
Other IBLs	1,573	1,573	1,523	1,473	1,423
Non-IBLs	3,010	3,983	4,625	5,454	5,914
Total liabilities	**54,463**	**55,431**	**57,844**	**60,632**	**63,053**
Share capital	1,548	1,548	1,548	1,548	1,548
Reserves & retained profit	4,710	4,869	5,491	5,835	6,349
Shareholders' funds	**6,258**	**6,417**	**7,039**	**7,383**	**7,897**
NCI	-	-	-	-	-
Total equity	**6,258**	**6,417**	**7,039**	**7,383**	**7,897**
Total liabilities & equity	**60,721**	**61,848**	**64,883**	**68,015**	**70,950**
Total IEAs	59,296	60,311	62,424	65,524	68,428
Total IBLs	51,454	51,448	53,218	55,178	57,139
Gross loans	44,147	46,189	48,499	51,069	53,520
CASA	22,800	23,577	23,790	24,266	24,751

FINANCIAL RATIOS

FYE Mar (RM m)	FY21	FY22	FY23F	FY24F	FY25F
Interest (%)					
NIM	2.31	2.48	2.56	2.56	2.59
Return on IEAs	3.04	2.82	3.21	3.40	3.58
Cost of funds	1.50	1.09	1.48	1.70	1.89
Net interest spread	1.54	1.72	1.73	1.70	1.69
Profitability (%)					
ROAE	5.9	9.0	10.2	10.1	10.1
ROAA	0.6	0.9	1.1	1.1	1.1
NOII/Total income	25.1	20.7	22.8	21.8	21.2
Effective tax rate	25.9	30.8	25.3	25.3	25.3
Liquidity & Efficiency (%)					
Cost-to-income ratio	44.1	44.1	45.3	45.3	45.3
Loan/Deposit ratio	89.2	93.6	93.9	95.4	96.2
CASA ratio	47.0	48.9	47.5	46.5	45.5
Asset Quality (%)					
GIL ratio	2.34	1.85	2.55	2.42	2.32
LLC	98	136	124	110	106
LLC (incl. reserves)	106	142	129	115	126
Gross credit cost (bps)	110.6	51.8	48.2	41.2	39.5
Net credit cost (bps)	121.4	48.1	42.0	35.0	32.0
% Floating rate loans	83	82	83	84	84
% Domestic loans	100	100	100	100	100
Capital (%)					
CET 1	16.5	16.0	15.8	15.6	15.4
Tier 1 capital	16.5	16.9	16.7	16.5	16.2
Total capital	21.8	21.0	20.6	20.3	20.0
Growth (%)					
Total NII	2.8	8.8	6.1	4.2	5.9
Total NOII	24.8	(15.2)	19.9	(1.5)	2.1
Core net profit	(15.4)	59.7	19.3	6.5	6.5
Gross loans	1.1	4.6	5.0	5.3	4.8
Customer deposits	0.1	(0.6)	4.0	4.2	4.1
CASA	25.7	3.4	0.9	2.0	2.0
Valuation metrics					
Core EPS (sen)	23.2	37.0	44.1	47.0	50.0
Gross DPS (sen)	5.8	18.5	22.1	23.5	25.0
Div payout ratio (%)	25.0	50.0	50.0	50.0	50.0
BVPS (RM)	4.0	4.1	4.5	4.8	5.1
Core P/E (%)	14.4	9.0	7.5	7.1	6.7
Dividend yield (%)	1.7	5.6	6.6	7.1	7.5
P/B (x)	0.8	0.8	0.7	0.7	0.7

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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 *rise* 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 *fall* 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.
ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell	
☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology