Alliance Bank Malaysia Berhad

(2488 | ABMB MK) Financial Services | Finance

***Maintain* BUY**

Heavy provision writebacks

***Revised* Target Price: RM4.58**

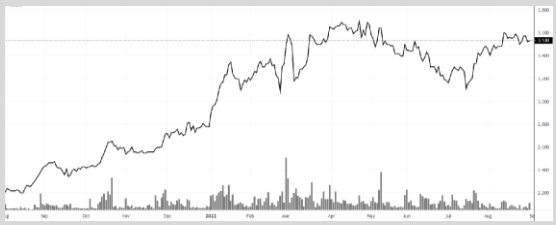
(Previously RM3.64)

KEY INVESTMENT HIGHLIGHTS

- **Earnings were within our expectations**
- **Maintaining our earnings forecast for now**
- **Core drivers: (1) Solid dividend yields, (2) Higher exposure to lucrative corporate and SME loan segments, (3) ABMB has made serious efforts in developing its ESG profile**
- **Key risks: (1) High CASA ratio leaves ABMB more susceptible to greater FD substitution, (2) Elevated L/D ratio, (3) Inability to contain OPEX**
- **Maintain BUY call with revised TP of RM4.58**

RETURN STATISTICS	
Price @ 30 August 2022 (RM)	3.53
Expected share price return (%)	+29.6
Expected dividend yield (%)	+6.2
Expected total return (%)	**+35.9**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	1.1	0.6
3 months	10.7	3.5
12 months	37.5	46.8

Highlights from Alliance Bank's 1QFY23's quarterly results:

1. ABMB's 1QFY23's earnings rose by +45%yoy due to net writebacks in loan provisioning, as well as high NII and lower tax rates.
2. RA loans decline to RM3.7b worth, or 8% of gross loans.
3. GIL improved to 1.84%, stemming from write-offs in corporate portfolio.
4. NCC was negative due to one-off account and management overlay writebacks.
5. NCC guidance reduced to 35-40bps from 40-45bps.
6. 1QFY23's NIM rose by +4bps qoq, +4bps yoy to 2.57%.
7. 1QFY23's NOII down by -31%yoy, as weaker brokerage fees offset improvements in fee income.
8. Solid pace of loan growth: gross loans grew by +6.7%yoy, driven by corporate and SME loans.
9. Deposit growth strong at +6.9%yoy. CASA ratio is industry's highest at 50%.
10. 1QFY23's OPEX was up +8.9%yoy, though management does not foresee it to remain so elevated in coming quarters.

KEY STATISTICS	
FBM KLCI	1,512.05
Syariah compliant	No
F4GBM Index	Yes
ESG Grading Band (Star rating)	☆☆☆
Issue shares (m)	1548.11
Estimated free float (%)	59.61
Market Capitalisation (RM m)	5,449.33
52-wk price range	RM2.47 - RM3.82
Beta vs FBM KLCI (x)	1.04
Monthly velocity (%)	
Monthly volatility (%)	17.35
3-mth average daily volume (m)	1.46
3-mth average daily value (RM m)	4.96
Top Shareholders (%)	
Vertical Theme Sdn Bhd	29.06
Employees Provident Fund Board	10.57
GLOBAL SUCCESS NETWORK	4.83

FINANCIAL SUMMARY

FYE Mar	FY21	FY22	FY23F	FY24F	FY25F
NII (RM m)	1,361	1,480	1,575	1,647	1,744
NOII (RM m)	457	387	431	438	474
Total income (RM m)	1,818	1,868	2,006	2,084	2,217
PPOP (RM m)	1,017	1,045	1,103	1,146	1,219
Core net profit (RM m)	359	573	683	728	774
Core EPS (sen)	23.2	37.0	44.1	47.0	50.0
Core P/E (x)	15.2	9.5	8.0	7.5	7.1
Gross DPS (sen)	5.8	18.5	22.1	23.5	25.0
Dividend yield (%)	1.6	5.2	6.2	6.7	7.1
BVPS (RM)	4.0	4.1	4.5	4.6	4.9
P/BV (x)	0.9	0.9	0.8	0.8	0.7
ROE (%)	5.9	9.0	10.2	10.3	10.5

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Within our and consensus expectations. ABMB's 1QFY23 core net profit of RM212m made up 31% and 32% of full-year forecasts respectively. We believe that earnings are skewed towards the earlier part of FY23, given the net writebacks for provisions in 1QFY23.

Quarterly earnings of RM212m rose by +106%qoq and +45%yoy mostly as result of net writebacks in loan provisioning. Also, increases in NII and low tax rates offset weaknesses in NOII.

Repayment assistance (RA) loans. As of Jul-22, ABMB has RM3.7b worth of RA loans, which translates to 8% of its gross loan portfolio. Previously, in of May-22, this figure was RM9.01b, translating to 19% of its previous gross loans. There were notable run-offs in all segments. Almost ~100% of customers have resumed making full of partial repayment, with 94% of PEMULIH graduates resuming full repayment.

Asset quality. The Group's GIL ratio improved to 1.84% from previous quarter's 1.85%. While consumer GIL saw a slight uptick to 2.5% from 4QFY22's 2.4% due to delinquent expired RA loans, corporate segment saw a sharp improvement to 0.6% from 1.2% GIL in the previous quarter, following a sizeable write-off in on account. SME and commercial segment GIL remained flattish on a sequential quarter basis.

ABMB has noted some tightening amongst contractor lenders, given worker issues, rising material costs. ABMB does not have major contractors within their portfolio to give any notable problems.

The Group's LLC currently stands at 127.6%, having fallen from 4QFY22's 135.9%.

Provisioning. The Group posted a NCC of -4bps, with a cumulative one-off recovery (RM18m) and management overlay (RM41m) reversal offsetting its quarterly BAU NCC of 9bps.

As a result, the group revises its NCC guidance downwards to 35-40bps from 40-45bps previously. Management does mention its revised NCC guidance is still conservative, stating more room for upside (due to overlay book being substantial as compared to ECL provisions), though it is cautious of external factors.

Cumulative provisions worth RM408m remain, from RM487 last quarter. Rather than imposing judgment for a set reversal period, ABMB is implementing a mechanical wait period of up to 18 months for RA loan graduation before reversal occurs.

NIM and NII. NIM expanded by +4bps qoq, +4bps yoy to 2.57% in 1QFY23. Management is keeping its 2.50% guidance for FY23 intact (note that this does not factor in any further rate hikes in CY22). The Group acknowledges its guidance as conservative, citing inflationary pressures, hiking interest rates and funding costs as potential headwinds.

Similarly, NII rose by +6.8%qoq and +7.6%yoy as result of higher loan growth, benefits from OPR hike, as well as mod loss unwinding.

The Group has reduced its NIM sensitivity to rate hikes to +4bps per +25bps OPR hike.

NOII. 1QFY23 NOII slipped by -31%yoy as weaker brokerage fees, treasury and investment losses offset the pick-up in wealth management and forex income.

Loan growth. Gross loans expanded at a solid pace of +6.7%yoy. SME banking and Corporate & Commercial Banking (GCC) segments acted as main driver to loan growth, growing by +13.9%yoy and +13.6%yoy respectively. It was offset by lacklustre performances in consumer segment, which posted +0.6%yoy growth. Mortgages did see a small contraction on a sequential year basis.

Deposit growth. Group deposit growth sustained a steady pace of +6.9%yoy. CASA grew by +5.3%, mainly driven from SME contributions. CASA ratio is currently 50%, which is top of the industry. Loan/Deposit ratio currently stands at a high 92.7%.

Cost efficiency. Operating expenses (OPEX) rose by +8.9%yoy in 1QFY23, as result of higher marketing, personnel, and IT costs. Despite higher IT spend, management believes the high growth rate should not be maintained, referring to a +5-6%yoy increase in FY23 as more realistic. One-time PIDM corrections did contribute to hiking up the quarter's figure.

This increased CIR to 44.4% from 40.0% in 1QFY22. The Group expects CIR to remain close to this level.

Capital ratios. The Group's CET-1 ratio has been reduced to 15.4% from 16.9% in 1QFY22.

No dividend announced. ABMB typically divvies in the 2nd and 4th quarter.

Earnings maintained. As 1QFY23 earnings were within expectations, we make no changes to our earnings forecast.

Key risks. Key risks to earnings include: (1) High CASA ratio makes ABMB more susceptible to a larger substitution to pricier FDs, (2) An elevated L/D ratio may force it to build its deposit base quicker (elevating its need for pricier funding), (3) Inability to contain OPEX following excessive personnel and admin costs.

Valuation and recommendation. We are optimistic on ABMB's long-term prospects for several reasons: (1) Solid dividend yield of 4.5% in FY23, (2) Its portfolio provides higher exposure to lucrative corporate and SME loan segments, (3) Serious improvements in sustainability efforts could push ABMB as a viable ESG alternative.

Thus, we maintain our **BUY** call with a higher **TP of RM4.58**, as we peg its FY24 BVPS (rolled on from FY23 BVPS) to an increased P/BV of 1.0x (formerly 0.8x), using FY24's ROE as the basis for our GGM valuations. (GGM assumptions: FY24 ROE of 10.3%, LTG of 3.5% and COE of 10.3%.)

EXHIBIT 1: QUARTERLY RESULTS

FYE Mar (RM m)	1QFY23	4QFY22	1QFY22	Yoy (%)	Qoq (%)	3MFY23	3MFY22	Yoy (%)
Net interest income	290	276	277	5.0%	5.2%	290	277	5.0%
Islamic banking income	106	95	104	2.4%	11.6%	106	104	2.4%
Non-interest income	77	80	102	-24.6%	-3.5%	77	102	-24.6%
Net income	**474**	**452**	**483**	**-1.8%**	**5.0%**	**474**	**483**	**-1.8%**
OPEX	(211)	(219)	(193)	8.9%	-3.9%	(211)	(193)	8.9%
PPOP	**264**	**232**	**290**	**-9.0%**	**13.3%**	**264**	**290**	**-9.0%**
Loan provisions	17	(73)	(95)	-118.1%	-123.6%	17	(95)	-118.1%
Other provisions	0	(1)	(0)	n.m.	n.m.	0	(0)	n.m.
JV & Associates	0	0	0	n.m.	n.m.	0	0	n.m.
Profit before tax	**281**	**159**	**194**	**44.5%**	**76.9%**	**281**	**194**	**44.5%**
Tax	(69)	(56)	(48)	42.2%	23.4%	(69)	(48)	42.2%
NCI	-	-	-	n.m.	n.m.	-	-	n.m.
Reported net profit	**212**	**103**	**146**	**45.3%**	**105.9%**	**212**	**146**	**45.3%**
Core net profit	**212**	**103**	**146**	**45.3%**	**105.9%**	**212**	**146**	**45.3%**
Total NII	**392**	**367**	**365**	**7.6%**	**6.8%**	**392**	**365**	**7.6%**
Total NOII	**82**	**84**	**118**	**-30.8%**	**-2.9%**	**82**	**118**	**-30.8%**
Gross DPS (sen)	-	10.2	-	n.m.	n.m.	-	-	n.m.
Core EPS (sen)	13.7	6.7	9.4	45.3%	105.9%	13.7	9.4	45.3%
Gross loans	46,098	46,189	43,203	6.7%	-0.2%			
Gross impaired loans	850	853	1,012	-16.1%	-0.4%			
Customer deposits	48,651	48,186	46,778	4.0%	1.0%			
CASA	24,309	23,577	23,093	5.3%	3.1%			

Source: ABMB, MIDFR

EXHIBIT 2: QUARTERLY FINANCIAL RATIOS

Financial Ratios (%)	1QFY23	4QFY22	1QFY22	Yoy (+/- ppts)	QoQ (+/- ppts)	3MFY23	3MFY22	Yoy (+/- ppts)
NIM (Reported)	**2.57**	**2.50**	**2.50**	**0.07**	**0.07**	**2.57**	**2.50**	**0.07**
NOII/Total income	17.3	18.7	24.5	-7.2	-1.4	17.3	24.5	-7.2
ROE (Ann.)	**13.4**	**6.4**	**9.2**	**4.2**	**7.0**	**13.4**	**9.2**	**4.2**
Cost-to-income ratio	44.4	48.5	40.0	4.4	-4.1	44.4	40.0	4.4
Net credit costs (Ann.) (bps)	(15)	65	88	-103	-80	(15)	88	-103
GIL ratio	1.84	1.85	2.34	-0.50	0.00			
Loan loss coverage	127.6	135.9	105.1	22.5	-8.3			
L/D ratio	92.7	93.6	90.3	2.4	-0.9			
CET1	15.4	16.0	16.9	-1.5	-0.6			
Tier-1	16.7	16.9	17.9	-1.2	-0.2			
Total Capital	20.9	21.0	22.2	-1.3	-0.1			

Source: ABMB, MIDFR

INVESTMENT STATISTICS

INCOME STATEMENT

FYE Mar (RM m)	FY21	FY22	FY23F	FY24F	FY25F
Interest income	1,793	1,684	1,977	2,183	2,404
Interest expense	(777)	(563)	(776)	(923)	(1,062)
Net interest income	**1,017**	**1,122**	**1,201**	**1,260**	**1,343**
Islamic banking income	379	398	413	429	445
Other operating income	422	349	392	396	429
Total income	**1,818**	**1,868**	**2,006**	**2,084**	**2,217**
OPEX	(801)	(823)	(903)	(938)	(998)
PPOP	**1,017**	**1,045**	**1,103**	**1,146**	**1,219**
Loan allowances	(533)	(217)	(189)	(174)	(183)
Other allowances	(0)	(0)	0	2	-
JV & Associates	0	0	0	0	0
Pretax profit	**484**	**827**	**914**	**974**	**1,036**
Taxation and zakat	(125)	(255)	(231)	(246)	(262)
NCI	-	-	-	-	-
Reported net profit	**359**	**573**	**683**	**728**	**774**
Core net profit	**359**	**573**	**683**	**728**	**774**
Total NII	1,361	1,480	1,575	1,647	1,744
Total NOII	457	387	431	438	474

BALANCE SHEET

FYE Mar (RM m)	FY21	FY22	FY23F	FY24F	FY25F
Cash and ST funds	3,130	3,397	3,510	3,512	3,913
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**	**65,228**	**68,360**	**71,295**
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	4,970	6,099	6,559
Total liabilities	**54,463**	**55,431**	**58,188**	**61,277**	**63,698**
Share capital	1,548	1,548	1,548	1,548	1,548
Reserves & retained profit	4,710	4,869	5,491	5,535	6,049
Shareholders' funds	**6,258**	**6,417**	**7,039**	**7,083**	**7,597**
NCI	-	-	-	-	-
Total equity	**6,258**	**6,417**	**7,039**	**7,083**	**7,597**
Total liabilities & equity	**60,721**	**61,848**	**65,228**	**68,360**	**71,295**
Total IEAs	59,296	60,311	62,769	65,868	68,773
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	3.39	3.57
Cost of funds	1.50	1.09	1.48	1.70	1.89
Net interest spread	1.54	1.72	1.73	1.69	1.68
Profitability (%)					
ROE	5.9	9.0	10.2	10.3	10.5
ROA	0.6	0.9	1.1	1.1	1.1
NOII/Total income	25.1	20.7	21.5	21.0	21.4
Effective tax rate	25.9	30.8	25.3	25.3	25.3
Liquidity & Efficiency (%)					
Cost-to-income ratio	44.1	44.1	45.0	45.0	45.0
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
NIL ratio	1.75	1.16	1.72	1.61	1.47
LLC ratio	97.6	135.9	124.0	110.2	105.5
LLC (incl. reserves)	105.9	141.5	129.0	115.4	125.6
Gross credit cost (bps)	111	52	46	41	43
Net credit cost (bps)	121	48	40	35	35
% Floating rate loans	82.7	82.4	83.0	84.0	84.0
% Domestic loans	100.0	100.0	100.0	100.0	100.0
Capital (%)					
CET 1	16.5	16.4	15.8	15.6	15.4
Tier 1 capital	17.4	17.3	17.0	16.7	16.5
Total capital	21.8	21.4	20.6	20.3	20.0
Growth (%)					
Total NII	2.8	8.8	6.4	4.5	5.9
Total NOII	24.8	(15.2)	11.2	1.6	8.2
Core net profit	(15.4)	59.7	19.2	6.5	6.4
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	4.6	4.9
Core P/E (x)	15.2	9.5	8.0	7.5	7.1
Dividend yield (%)	1.6	5.2	6.2	6.7	7.1
P/BV (x)	0.9	0.9	0.8	0.8	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