Alliance Bank Malaysia Berhad

(2488 | ABMB MK) Financial Services | Finance

Maintain BUY

CASA still amongst highest industry

***Revised* Target Price: RM4.35**

(Previously RM4.58)

KEY INVESTMENT HIGHLIGHTS

- **Earnings were within our expectations**
- **Maintaining our earnings forecast for now**
- **Core drivers: High dividend yield, Sensitive to OPR hikes, Fairly consistent NOII (this quarter is an exception)**
- **Key risks: Inability to control OPEX, Deteriorations in asset quality, Higher-than-expected NCC**
- **Maintain BUY call with reduced TP of RM4.35**

Highlights from ABMB's 2QFY23 quarterly results:

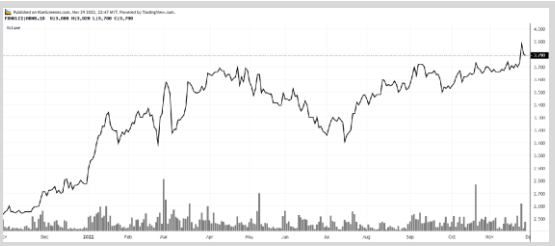
1. ABMB's YTD earnings rose by +16%yoy due to stronger NII and lower credit costs.
2. RA loans fell steeply, with all borrowers resuming partial/full payments.
3. GIL rose to 1.87, largely driven by corporate & commercial account.
4. NCC leapt to a high 66bps, on additional overlays and model refinement.
5. 2QFY23's NIM rose by +13bps qoq, averaging 2.64% in 1HFY23.
6. Quarterly NOII slipped -27%qoq. This was due to hedging costs in the quarter for 1/3 of FVOCI portfolio.
7. Solid pace of loan growth: gross loans grew by +6.7%yoy, driven by SME and commercial banking.
8. Deposit growth contracts qoq, though CASA ratio is among highest in industry.
9. 2QFY23's OPEX fell by -1.2%qoq – contrary to industry trends.
10. Dividend announced: Gross DPS of 12.0sen, payout of 50%

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)	16.4	10.2	8.6	8.1	7.6
Gross DPS (sen)	5.8	18.5	22.1	23.5	25.0
Dividend yield (%)	1.5	4.9	5.8	6.2	6.6
BVPS (RM)	4.0	4.1	4.5	4.6	4.9
P/BV (x)	0.9	0.9	0.8	0.8	0.8
ROE (%)	5.9	9.0	10.2	10.3	10.5

RETURN STATISTICS	
Price @ 29 November 2022 (RM)	3.79
Expected share price return (%)	+14.7
Expected dividend yield (%)	+6.2
Expected total return (%)	**+20.9**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	2.7	0.0
3 months	7.6	9.0
12 months	34.8	37.1

KEY STATISTICS	
FBM KLCI	1476.96
Syariah compliant	No
F4GBM Index	Yes
ESG Grading Band (Star rating)	☆☆☆
Issue shares (m)	1548.11
Estimated free float (%)	59.43
Market Capitalisation (RM m)	5,882.80
52-wk price range	RM2.73 - RM3.93
Beta vs FBM KLCI (x)	0.97
3-mth average daily volume (m)	2.12
3-mth average daily value (RM m)	7.76
Top Shareholders (%)	
Vertical Theme Sdn Bhd	29.06
Employees Provident Fund Board	10.76
GLOBAL SUCCESS NETWORK	4.83

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Within our and consensus expectations. ABMB's 1HFY23 core net profit of RM371m made up 54% our and consensus' full-year forecasts respectively.

YTD earnings rose by +16%yoy due to stronger NII and lower loan provisions.

Quarterly earnings of RM158m fell by 25%qoq as result of higher loan provisions and weaker NOII offsetting a higher NII.

Repayment assistance (RA) loans. As of Oct-22, ABMB has RM1.97b worth of RA loans, which translates to 4.2% of its gross loan portfolio. Previously, in of Aug-22, this figure was RM3.70b, translating to 8% of its previous gross loans. There are no more RA loans under moratorium – all customers have resumed partial/full payments.

Upon graduating back to BAU loans, lenders will be subject to a monitoring period before the release of overlays – categorised by risk level. Low risk lenders will be monitored for 9 months, whereas high risk for 18 months

Asset quality. The Group's GIL ratio rose to 1.87% (1QFY23: 1.85%, 2QFY22: 2.32%). This was driven by increases in the commercial & corporate GIL, which was largely due to 1 commercial account. +30dpd loans did trend upward on a sequential quarter basis for all loan segments.

The Group's LLC currently stands at 128%, flattish from previous quarter.

Provisioning. 2QFY23 NCC leaped to a high 66bps (this was expected, given last quarter's net NCC writebacks), with 1HFY23 averaging 25bps. The steep increase was due to sharp addition of overlays. In contrast, BAU provisioning for the quarter was 20.2bps, or RM94m. Management is maintaining its guidance of 35-40bps for FY23.

> **Management overlays.** Although there was further release of management overlays in the quarter, this was offset by top-up for corporate account (normally this belongs under BAU NCC) and model refinement (changing parameters in consideration of microeconomic headwinds), both of which amounted to RM81.5m. Hence, overlays experienced a net writeback of RM19.1m in 1HFY23. Current cumulative overlays stand at RM431m.

NIM and NII. Quarterly NIM expanded by +13bps qoq to 2.70% in 2QFY23 and averaged 2.64% in 1HFY23, up from 2.49% in 1HFY22. ABMB experiences 3-5bps increase to NIM for every +25bps OPR hike.

Similarly, NII was up +7%qoq and strengthened to +17%yoy.

NOII. 2QFY23 NOII slipped by -27%qoq – prior to this NOII contributions were at a relatively stable RM80-90m range. Management attributes this to hedging cost of RM16.7m. It hedged 1/3 of its FVOCI portfolio of RM8.7b to mitigate interest rate volatility risks.

Loan growth. Gross loans expanded at a decent pace of +6.7%yoy. SME and commercial banking acted as main driver to loan growth, growing by +14%yoy and +17%yoy respectively. In contrast consumer banking showed very muted +2% yoy growth.

Deposit growth. Group deposit growth expanded 8.4%yoy. CASA did see a contraction of -1.8%qoq. Loan/Deposit ratio currently stands at 93.2%

Cost efficiency. In contrast to its peers, quarterly OPEX fell by -1.2%qoq in 2QFY23. 1HFY23's OPEX rose by +7.6%yoy. Attributable to higher OPEX was wage inflation, higher marketing and deposit insurance costs, IT spend and investments in sales force.

ABMB's reported an improved cost/income ratio (CIR) of 43.3% in 2QFY23, improving from 44.4% in the last quarter. This averages to 43.9% in 1HFY23, though still elevated from 1HFY22's 41.6%.

Capital ratios. The Group's CET-1 ratio declined to 14.1%, though it remains well in a comfortable range.

Dividend announced. ABMB announced a dividend of 12.0 sen, which translates to a dividend payout of 50%.

Earnings maintained. We make no changes to our earnings forecast.

Key risks. Key risks to earnings include (1) Inability to control OPEX, (2) Deteriorations in asset quality, (3) Higher-than-expected NCC.

Valuation and recommendation. We are optimistic on ABMB's long-term prospects for several reasons: (1) High FY23 dividend yield of 5.8%, (2) Fairly consistent NOII (this quarter is an exception), (3) High sensitivity to OPR hikes.

Thus, we maintain our **BUY** with a reduced **TP of RM4.35**, as we peg its FY24 BVPS to a decreased P/BV of 0.95x (formerly 1.00x), which we believe is closer to its 5-year average and the sector average. (GGM assumptions: FY24F ROE of 10.3%, LTG of 3.5% and COE of 10.7%.)

EXHIBIT 1: QUARTERLY RESULTS

FYE Mar (RM m)	2QFY23	1QFY23	2QFY22	Yoy (%)	Qoq (%)	1HFY23	1HFY22	Yoy (%)
Net interest income	309	290	274	12.8%	6.5%	600	551	8.9%
Islamic banking income	118	106	91	28.9%	10.7%	224	195	14.8%
Non-interest income	54	77	87	-38.8%	-30.7%	131	190	-31.1%
Net income	**481**	**474**	**453**	**6.1%**	**1.4%**	**955**	**936**	**2.0%**
OPEX	(208)	(211)	(196)	6.4%	-1.2%	(419)	(389)	7.6%
PPOP	**272**	**264**	**257**	**5.9%**	**3.4%**	**536**	**547**	**-2.0%**
Loan provisions	(74)	17	(34)	121.3%	-529.9%	(57)	(129)	-55.7%
Other provisions	0	0	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	**198**	**281**	**224**	**-11.4%**	**-29.3%**	**479**	**418**	**14.6%**
Tax	(40)	(69)	(51)	-21.9%	-41.7%	(109)	(100)	9.3%
NCI	-	-	-	n.m.	n.m.	-	-	n.m.
Reported net profit	**158**	**212**	**173**	**-8.3%**	**-25.3%**	**371**	**319**	**16.3%**
Core net profit	**158**	**212**	**173**	**-8.3%**	**-25.3%**	**371**	**319**	**16.3%**
Total NII	**421**	**392**	**359**	**17.4%**	**7.3%**	**813**	**723**	**12.4%**
Total NOII	**60**	**82**	**94**	**-36.8%**	**-27.2%**	**142**	**213**	**-33.4%**
Gross DPS (sen)	12.0	-	8.3	n.m.	n.m.	12.0	8.3	n.m.
Core EPS (sen)	10.2	13.7	11.2	-8.3%	-25.3%	23.9	20.6	16.3%
Gross loans	46,774	46,098	43,848	6.7%	1.5%			
Gross impaired loans	876	850	1,018	-13.9%	3.1%			
Customer deposits	49,081	48,651	46,310	6.0%	0.9%			
CASA	23,879	24,309	22,961	4.0%	-1.8%			

Source: ABMB, MIDFR

EXHIBIT 2: QUARTERLY FINANCIAL RATIOS

Financial Ratios (%)	2QFY23	1QFY23	2QFY22	Yoy (+/- ppts)	Qoq (+/- ppts)	1HFY23	1HFY22	Yoy (+/- ppts)
NIM (Reported)	**2.70**	**2.57**	**2.47**	**0.23**	**0.13**	**2.64**	**2.49**	**0.15**
NOII/Total income	12.4	17.3	20.8	-8.4	-4.9	14.8	22.7	-7.9
ROE (Ann.)	**9.8**	**13.4**	**10.7**	**-1.0**	**-3.6**	**11.4**	**9.9**	**1.5**
Cost-to-income ratio	43.3	44.4	43.2	0.1	-1.1	43.9	41.6	2.3
Net credit costs (Ann.) (bps)	66	(15)	31	35	81	25	59	-34
GIL ratio	1.87	1.84	2.32	-0.45	0.03			
Loan loss coverage	128.4	127.6	106.4	22.0	0.7			
L/D ratio	93.2	92.7	92.5	0.7	0.5			
CET1	14.1	14.5	15.6	-1.5	-0.4			
Tier-1	15.1	15.8	16.6	-1.5	-0.7			
Total Capital	19.6	20.0	21.0	-1.4	-0.4			

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)	16.4	10.2	8.6	8.1	7.6
Dividend yield (%)	1.5	4.9	5.8	6.2	6.6
P/BV (x)	0.9	0.9	0.8	0.8	0.8

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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