Corporate Update| Thursday, 12 January 2023

Alliance Bank Malaysia Berhad

(2488 | ABMB MK) Financial Services | Finance

Maintain BUY

ABMB ACCELER8-s into the new year

***Revised* Target Price: RM4.36**

(Previously RM4.35)

KEY INVESTMENT HIGHLIGHTS

- **Neutral over ABMB's new strategic plan**
- **Tweak our earnings forecast upwards**
- **Core drivers: High dividend yield, Sensitive to OPR hikes, High possible overlay writebacks**
- **Key risks: Inability to control OPEX, Deteriorations in asset quality, Higher-than-expected NCC**
- **Maintain BUY call with upgraded TP of RM4.36**

Highlights from ABMB's ACCELER8 2027 unveiling:

1. Apart from loan growth, financial targets are extremely achievable.
2. Targets by 2027 – ROE: >11%, CIR: ~45%, Loan growth: 8-10%, Dividend payout maintained at 50%.
3. SME expansion strategy to be maintained and built on.
4. Regional champion: Aside from the central region, ABMB will now focus on other fast-growing economic corridors.
5. Tech-based efficiency: Prioritising quickness of process, higher level of customer service, a higher degree of product/service personalisation.
6. Targeting high potential business segments earlier on, in a bid to selectively capture market share.
7. Acceleration of Islamic businesses via more niche propositions.
8. We have faith in ABMB management's execution ability, given their solid track record in recent years.

FINANCIAL SUMMARY

FYE Mar	FY21	FY22	FY23F	FY24F	FY25F
NII (RM m)	1,361	1,480	1,575	1,672	1,757
NOII (RM m)	457	387	431	438	474
Total income (RM m)	1,818	1,868	2,006	2,110	2,231
PPOP (RM m)	1,017	1,045	1,103	1,160	1,227
Core net profit (RM m)	359	573	683	738	780
Core EPS (sen)	23.2	37.0	44.1	47.7	50.4
Core P/E (x)	15.9	10.0	8.4	7.7	7.3
Gross DPS (sen)	5.8	18.5	22.1	23.8	25.2
Dividend yield (%)	1.6	5.0	6.0	6.5	6.8
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	10.5	10.6

RETURN STATISTICS	
Price @ 11 January 2023 (RM)	3.73
Expected share price return (%)	+17.9
Expected dividend yield (%)	+6.5
Expected total return (%)	**+24.3**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-1.3	-2.0
3 months	1.4	-3.1
12 months	14.1	20.0

KEY STATISTICS	
FBM KLCI	1487.87
Syariah compliant	No
F4GBM Index	Yes
ESG Grading Band (Star rating)	☆☆☆
Issue shares (m)	1,548.11
Estimated free float (%)	59.70
Market Capitalisation (RM m)	5,758.95
52-wk price range	RM3.11 - RM3.93
Beta vs FBM KLCI (x)	0.94
3-mth average daily volume (m)	1.74
The 3-mth average daily value (RM	6.47
Top Shareholders (%)	
Vertical Theme Sdn Bhd	29.06
Employees Provident Fund Board	10.49
GLOBAL SUCCESS NETWORK	4.83

Analyst
Samuel Woo
samuel.woo@midf.com.my
03-2173 1669

ABMB unveils its ACCELER8 2027 strategy. Several strategic thrusts are similar to that of other banks' multi-year strategies:

1. **Tech-based efficiency:** To offer quicker, more agile execution in process; A higher level of customer service; More personalised products and services to target select customer groups.
2. **Targeting high potential business groups earlier on:** HENRY (**H**igh **E**arners, **N**ot **R**ich **Y**et); Business customers throughout life cycle, naturally complementing their affinity towards SME customers (Small firm -> Big firm -> IPO).
3. **Acceleration of Islamic business via more specialised propositions:** green services, Halal in One (ABMB's complete halal business support programme).
4. **SME strategy maintained and built on.** ABMB will strive to continue the success of its past SME strategic priorities (FY22 SME loans: +11%yoy). ACCELER8 will see more focus on targeted ecosystems (e.g. Green Technology), as well as following through with the aforementioned "business life cycle" approach.
5. **Regional champion focus.** With already firm rooting in the central region, ABMB will be shifting its focus to other fast-growing economic corridors.

Financial targets. Apart from loan growth target, most are very achievable and close to present values.

1. **Loan growth: 8-10%yoy** *(Last quarter: +6.7%yoy)*
2. **ROE: >11%** *(Currently: 10-11% range)*
3. **CIR: ~45%** *(Currently: 42-43% range)*
4. **Dividend ratio maintained at 50%**

Earnings revised. We increase our FY24/25 earnings projections by +1.5%/+0.7% respectively, to incorporate the possibility of two additional +25bps OPR hikes in 1HCY23. We are fairly certain of one +25bps in January, but incorporate the possibility of another one after that.

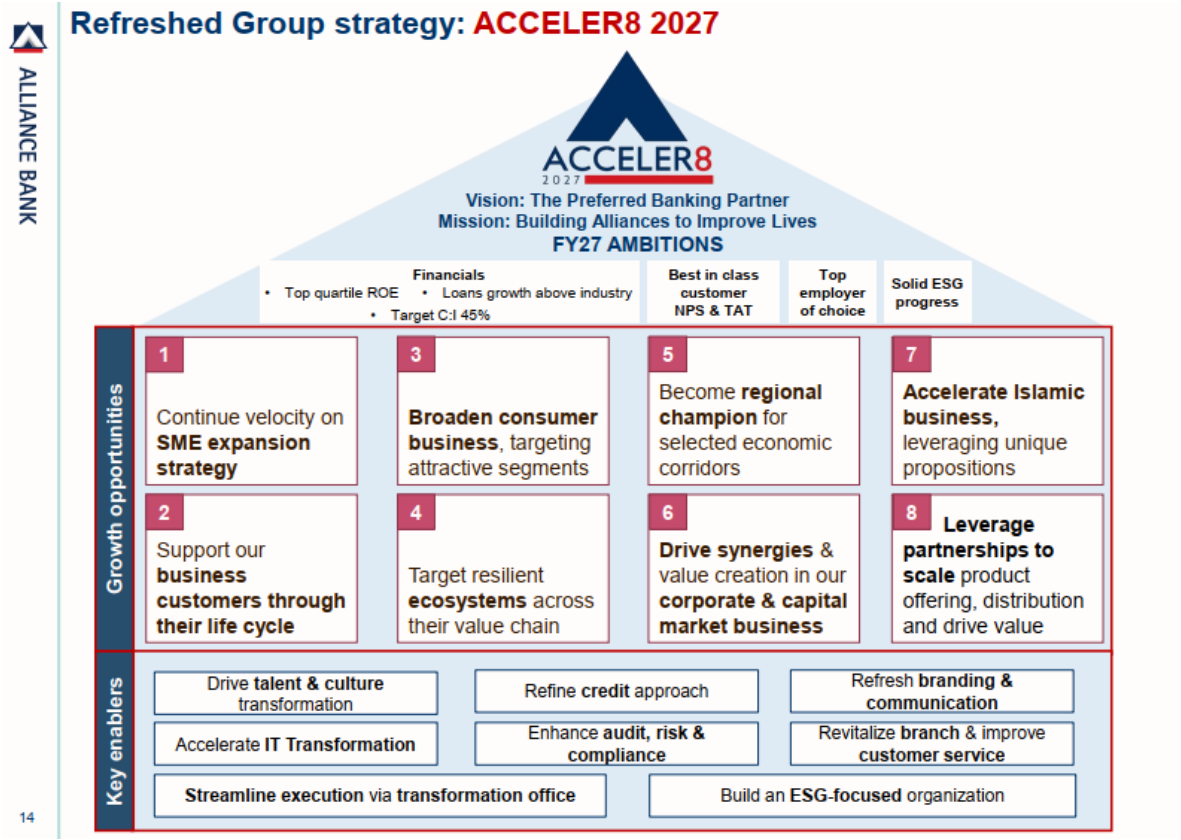
Key risks. Key risks to earnings include (1) Inability to control OPEX, (2) Further deteriorations in asset quality, and (3) Higher-than-expected NCC.

Valuation and recommendation. While still in the early stages, ABMB seems well on track to achieve its ACCLER8 initiatives. Apart from loan growth, targets are reasonable and do not stray too far from pre-existing plans. Management has done an exceptional job in furthering strategic thrusts over the last couple of years while navigating through the Covid-19 crisis.

We remain optimistic about ABMB's long-term prospects for several reasons: (1) High FY24F dividend yield of 6.4%, (2) High possible overlay writebacks (FY24: 42% of CNP, having written off problematic RA loans), (3) CIR on the stronger side, (4) High sensitivity to OPR hikes relative to earnings base, given that there might be two further OPR hikes in 1HCY23 (Per hike: +4bps; +1.5% FY24 CNP).

Thus, we maintain our **BUY** with a slightly higher **TP of RM4.36**, as we peg its FY24 BVPS to an unchanged P/BV of 0.95x (GGM assumptions: FY24F ROE of 10.3%, LTG of 3.5% and COE of 10.7%.)

EXHIBIT 1: STRATEGY OVERVIEW



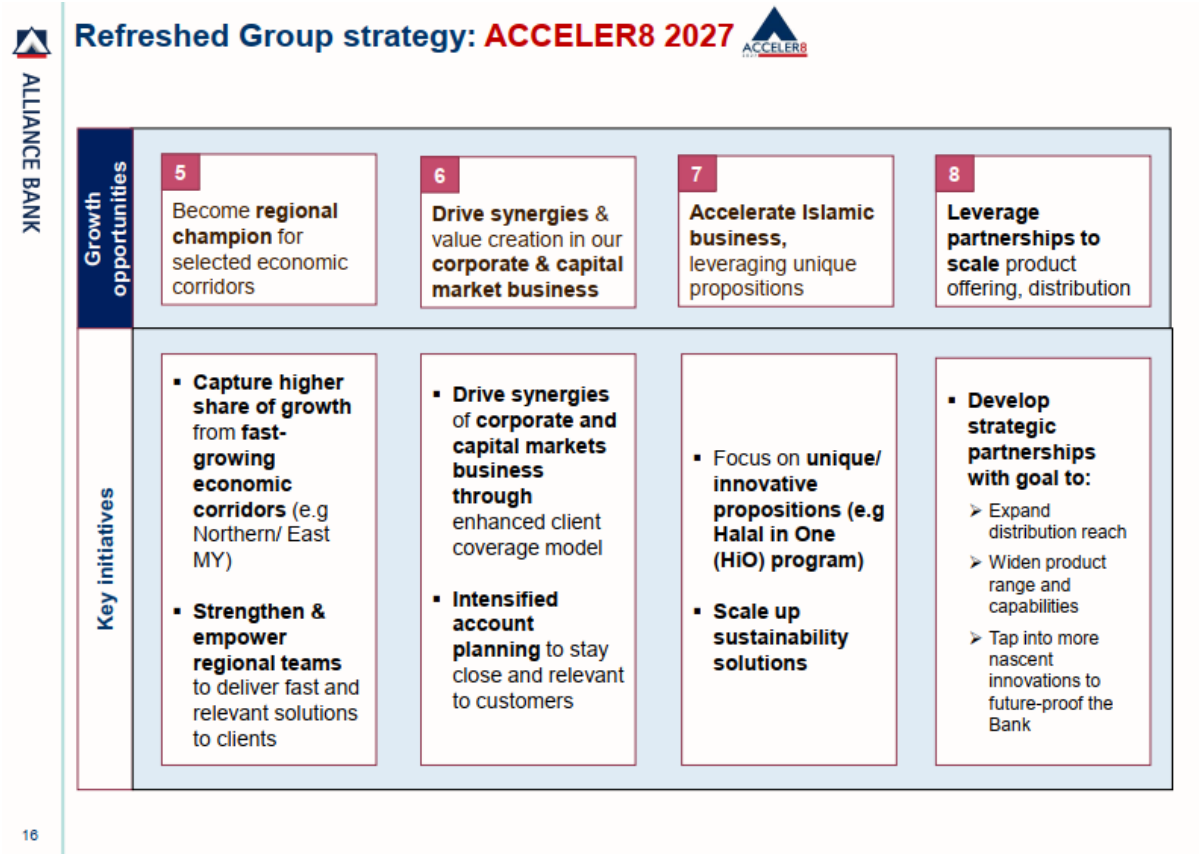
Source: ABMB, MIDFR

EXHIBIT 2: KEY INITIATIVES 1



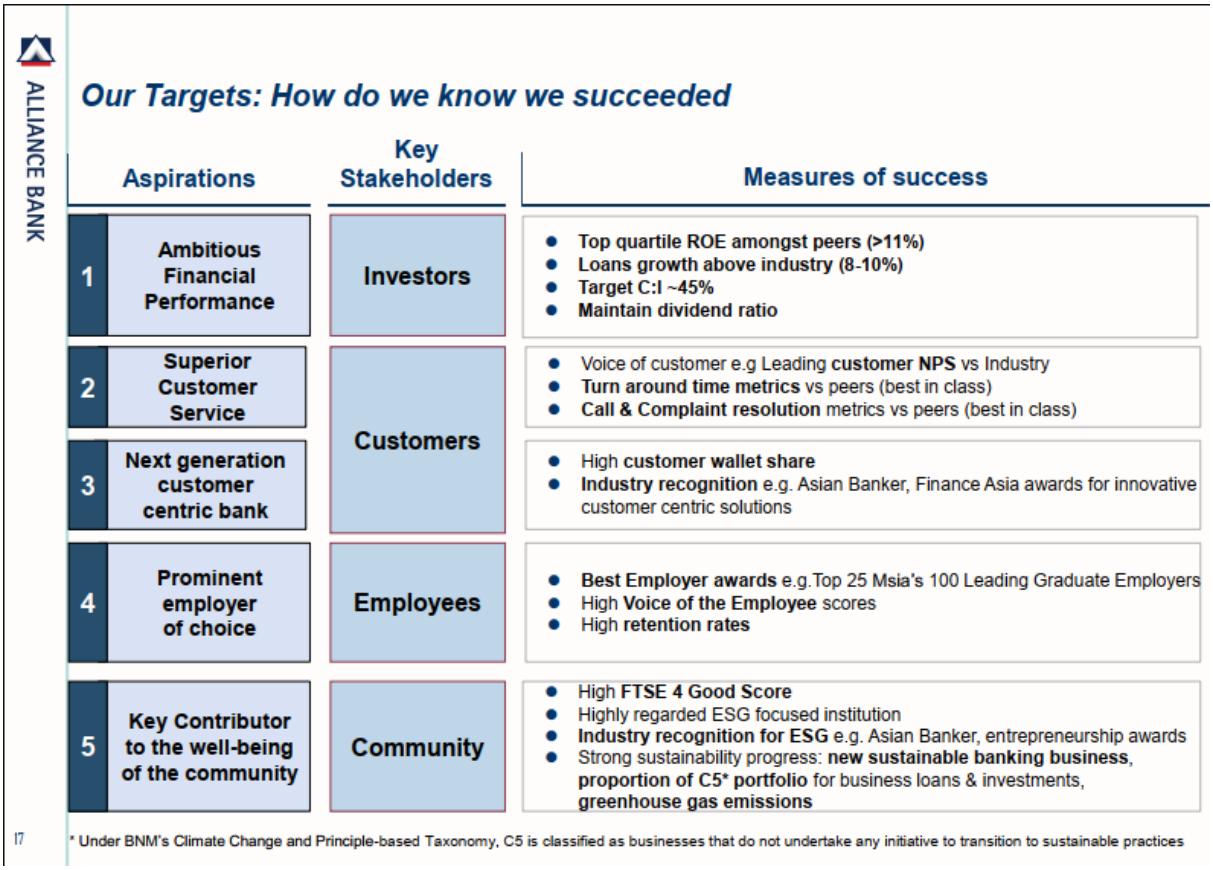
Source: ABMB, MIDFR

EXHIBIT 3: KEY INITIATIVES 2



Source: ABMB, MIDFR

EXHIBIT 4: CORE FINANCIAL TARGETS BY 2027



Source: ABMB, MIDFR

INVESTMENT STATISTICS

INCOME STATEMENT

FYE Mar (RM m)	FY21	FY22	FY23F	FY24F	FY25F
Interest income	1,793	1,684	1,977	2,209	2,418
Interest expense	(777)	(563)	(776)	(923)	(1,062)
Net interest income	**1,017**	**1,122**	**1,201**	**1,286**	**1,356**
Islamic banking income	379	398	413	429	445
Other operating income	422	349	392	396	429
Total income	**1,818**	**1,868**	**2,006**	**2,110**	**2,231**
OPEX	(801)	(823)	(903)	(949)	(1,004)
PPOP	**1,017**	**1,045**	**1,103**	**1,160**	**1,227**
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**	**988**	**1,044**
Taxation and zakat	(125)	(255)	(231)	(250)	(264)
NCI	-	-	-	-	-
Reported net profit	**359**	**573**	**683**	**738**	**780**
Core net profit	**359**	**573**	**683**	**738**	**780**
Total NII	1,361	1,480	1,575	1,672	1,757
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	5,540	6,057
Shareholders' funds	**6,258**	**6,417**	**7,039**	**7,088**	**7,605**
NCI	-	-	-	-	-
Total equity	**6,258**	**6,417**	**7,039**	**7,088**	**7,605**
Total liabilities & equity	**60,721**	**61,848**	**65,228**	**68,365**	**71,303**
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	2.60	2.61
Return on IEAs	3.04	2.82	3.21	3.43	3.59
Cost of funds	1.50	1.09	1.48	1.70	1.89
Net interest spread	1.54	1.72	1.73	1.73	1.70
Profitability (%)					
ROE	5.9	9.0	10.2	10.5	10.6
ROA	0.6	0.9	1.1	1.1	1.1
NOII/Total income	25.1	20.7	21.5	20.7	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	45.0	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	6.1	5.1
Total NOII	24.8	(15.2)	11.2	1.6	8.2
Core net profit	(15.4)	59.7	19.2	8.1	5.6
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	47.7	50.4
Gross DPS (sen)	5.8	18.5	22.1	23.8	25.2
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)	15.9	10.0	8.4	7.7	7.3
Dividend yield (%)	1.6	5.0	6.0	6.5	6.8
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