Alliance Bank Malaysia Berhad

(2488 | ABMB MK) Financial Services | Finance

Maintain BUY

Multi-year portfolio restructuring in works

***Revised* Target Price: RM4.26**

(Previously RM4.36)

KEY INVESTMENT HIGHLIGHTS

- **9MFY23's CNP of RM548m was Within our forecast.**
- **Will undergo a mass loan restructuring in coming years – reprioritising corporate and consumer loans**
- **Our core issue is NIM and asset quality issues in coming quarters**
- **Nonetheless, we still favour ABMB for its slated NOII recovery and high dividend yields**
- **Maintain BUY | TP of RM4.26 | based on a revised FY24F P/BV of 0.93x**

Highlights from ABMB's 3QFY23 results:

- **9MFY23 CNP:** Rose +17%yoy. Due to higher NII offsetting reductions in NOII.
- **3QFY23 CNP:** Rose +12%qoq. Due to reduced loan provisions and stronger NII.
- **3QFY23 NIM:** Improved +5bps qoq. Expect a sharp downturn in NIM, starting next quarter.
- **9MFY23 NOII:** Worsened -34%qoq.
- **9MFY23's OPEX**: up by +6%yoy, CIR now at 44.1%. Due to higher personnel, and tech costs.
- **Muted loan growth:** Gross loans grew by +6.2%yoy, +1.1%qoq, though mgmt has lowered its guidance for the year.
- **Solid deposit growth:** Deposits grew by +5.5%yoy. CASA ratio stands at 45.8%, still highest among peers.
- **GIL ratio worsens:** Up +6bps qoq, due to a specific construction account.
- **Light NCC:** 3QFY23 NCC of 32bps, 9MFY23 NCC of 27bps. However, expect heavier NCC in the following quarter.

Our thoughts. We are wary of potential execution risk when ABMB intends to restructure its loan portfolio – especially when ABMB re-enters the highly competitive space. We are also worried about NIM compression in the coming quarter, and how deep that would cut into earnings.

We still favour ABMB due to its niche as an SME-specialised bank, its high FY24F dividend yield (especially with its dividend payout having returned to ~50% level), high possible overlay writebacks (relative to CNP base, having written off problematic RA loans), and good recovery in NOII contributions.

RETURN STATISTICS	
Price @ 28 February 2023 (RM)	3.48
Expected share price return (%)	+22.5
Expected dividend yield (%)	+6.8
Expected total return (%)	**+29.2**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-5.4	-4.0
3 months	-4.4	-6.7
12 months	1.2	9.9

KEY STATISTICS	
FBM KLCI	1,454.19
Syariah compliant	No
F4GBM Index	Yes
ESG Grading Band (Star rating)	☆☆☆
Issue shares (m)	1,548.11
Estimated free float (%)	59.80
Market Capitalisation (RM m)	5,433.85
52-wk price range	RM3.11 - RM3.93
Beta vs FBM KLCI (x)	0.88
3-mth average daily volume (m)	1.56
3-mth average daily value (RM m)	5.70
Top Shareholders (%)	
Vertical Theme Sdn Bhd	29.06
Employees Provident Fund Board	10.39
GLOBAL SUCCESS NETWORK	5.08

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9MFY23's CNP of RM548m was *Within/Within* our/consensus forecasts: *80%/80%* of full-year forecasts.

9MFY23's CNP rose by +17%yoy due to stronger NII and lower tax expense offsetting reductions in NOII.

3QFY23's CNP of RM177m rose by +12%qoq due to reduced loan provisions and stronger NII. It was up +17%yoy due to stronger NII contribution offsetting higher loan provisions.

FY23 guidance. FY23 ROE of >10.0% is maintained (current annualised ROE: 11.3%) and likely to be met, even though mgmt is guiding for a weaker last quarter.

ACCELER8 guidance. As part of its multi-year plan, ABMB's FY27 goal is to earn 11-12% ROE. While this figure seems very close to present figures, mgmt notes that RWA and income stream lag that accompanies rapid loan growth should offer some downward pressure.

NIM. 3QFY23's NIM of 2.75% improved by +5bps qoq. 9MFY23's NIM averaged 2.68%, improving +14bps.

Guidance. Mgmt keeps its prudent FY23 guidance of 2.55%-2.60%, given that industry funding pressures are expected to push NIM down significantly (Mgmt guidance implies 4QFY23 NIM within the 2.3-2.4% range). ABMB has also dabbled in lower-risk securities, which should bring about lower yields.

NOII. 9MFY23's NOII was down -34%yoy, as weaker treasury & investment and brokerage income offset improvements in client-based fee income.

Guidance. While fee income should improve, ABMB will continue facing downward pressure from its past hedging of 1/3 of its FVOCI book.

Operating expenses. 9MFY23's CIR worsened to 44.1%, with its OPEX up by +6%yoy (largely attributable to headcount increase). Nevertheless, it remains within the mgmt's FY23 guidance of <45%.

ACCELER8 guidance. FY27F goal is ~45% -- but management has warned for potential spikes (no more than 47%) in certain periods.

Loans. Gross loans grew by +6.2%yoy, +1.1%qoq. This is slightly under industry growth – a contraction in the corporate banking portfolio is the cause (as the Group restructures the segment to get rid of riskier names).

Guidance. Mgmt is reducing its former FY23F 6-7% loan growth guidance to 4-5%. Unfortunately, some loan segments have seen lower-than-expected growth figures (most notably the corporate segment, which contracted yoy).

ACCELER8 portfolio restructuring. Mgmt will be refocusing on its corporate portfolio once more, intending for it to undergo double-digit growth in FY24. It will also be shifting more focus to its consumer loans, where one focus is end financing.

Deposits. Deposits grew by +5.5%yoy.

Loan/Deposit ratio stands at 94.4%, rising from the previous quarter's 93.2%

CASA. CASA contracted by -3.4%yoy, -6.0%qoq. CASA ratio stands at 45.8%, falling from the previous quarter's 48.7%

Guidance. Mgmt intends to keep CASA at the>40% range (instead of normalising to the ~37% pre-pandemic range). To work towards this, mgmt will be putting more effort into developing its transactional banking franchise, as well as reactivating physical branches for CASA gathering.

Asset quality. Current GIL ratio stands at 1.93%, worsening ++6bps qoq. An uptick in consumer GIL is largely to blame for the increase.

Current LLC stands at 125%.

Guidance. Mgmt is expecting to see further asset quality deterioration in the coming quarters – it is particularly concerned about the rise in +30dpd (days payment due) loans across all portfolios.

Provisioning. 3QFY23's NCC stood at 32bps, falling from previous quarter's 66bps. The quarter did see a reversal of RM52m of pandemic-related overlays.

9MFY23's NCC averaged 27bps falling from previous period's 44bps.

Cumulative overlays. The balance stands at RM380m, from RM431m in last quarter.

Guidance. Mgmt maintains its FY23F guidance of 35-40bps despite NCC being on the lower side in 9MFY23. It guides for one potentially problematic construction name, as well as potential asset quality problems stemming from the BAU payments of former R&R loans.

Capital ratios. Current CET-1 ratio is 14.2%.

No dividend announced. The Group typically divvies into 2Q and 4Q.

Key downside risks. (1) Delinquency rates higher-than-expected, (2) above-expected OPEX, (3) Steeper NIM compression.

Forecasts revised: FY24/FY25 CNP adjusted by -1%/-2%. To reflect poorer loan growth guidance offered by mgmt.

Maintain BUY call: Revised GGM-TP of RM 4.26 *(from RM4.36)*. The TP is based on a revised FY24F P/BV of 0.93x *(formerly 0.95x)*, to reflect lower earnings prospects and ROE-based valuations.

*(**GGM assumptions:** FY24F ROE of 10.3%, LTG of 3.5% and COE of 10.8%.)*

Exhibit 1: Quarterly results

FYE Mar (RM m)	3Q FY23	2Q FY23	3Q FY22	Yoy (%)	Qoq (%)	9M FY23	9M FY22	Yoy (%)
Net interest inc.	328	309	295	*11*	*6*	927	846	*10*
Islamic banking inc.	122	118	107	*14*	*3*	346	302	*14*
Non-interest inc.	47	54	79	*-40*	*-12*	178	268	*-34*
Net income	**497**	**481**	**480**	***3***	***3***	**1,451**	**1,416**	***2***
OPEX	(222)	(208)	(215)	*3*	*7*	(640)	(604)	*6*
PPOP	**275**	**272**	**265**	***4***	***1***	**811**	**812**	***-0***
Loan provisions	(37)	(74)	(15)	*143*	*-50*	(94)	(144)	*-35*
Other provisions	0	0	0	*n.m.*	*n.m.*	1	0	*n.m.*
JV & Associates	0	0	0	*n.m.*	*n.m.*	0	0	*n.m.*
PBT	**238**	**198**	**250**	***-5***	***20***	**718**	**669**	***7***
Tax	(61)	(40)	(99)	*-38*	*53*	(170)	(199)	*-15*
NCI	-	-	-	*n.m.*	*n.m.*	-	-	*n.m.*
Reported NP	**177**	**158**	**151**	***17***	***12***	**548**	**470**	***17***
Core NP	**177**	**158**	**151**	***17***	***12***	**548**	**470**	***17***
Total NII	439	421	390	*12*	*4*	1,252	1,113	*12*
Total NOII	58	60	90	*-36*	*-3*	200	303	*-34*
Gross DPS (sen)	**-**	**12.0**	**-**	***n.m.***	***n.m.***	**12.0**	**8.3**	***n.m.***
Core EPS (sen)	11.4	10.2	9.8	*17*	*12*	35.4	30.3	*17*
Gross loans	47,276	46,774	44,515	*6.2*	*1.1*			
Gross impaired loans	913	876	899	*1.6*	*4.2*			
Customer deposits	48,991	49,081	46,425	*5.5*	*-0.2*			
CASA	22,450	23,879	23,235	*-3.4*	*-6.0*			

Source: ABMB, MIDFR

Exhibit 2: Quarterly financial ratios

Ratios (%)	3Q FY23	2Q FY23	3Q FY22	Yoy (ppts)	QoQ (ppts)	9M FY23	9M FY22	Yoy (ppts)
ROE (Ann.)	**10.8**	**9.8**	**9.4**	***1.4***	***1.0***	**11.1**	**9.8**	***1.4***
NIM (Reported)	**2.75**	**2.70**	**2.66**	***0.09***	***0.05***	**2.68**	**2.54**	***0.14***
NOII/Net income	11.7	12.4	18.8	*-7.1*	*-0.7*	13.8	21.4	*-7.6*
Cost/Income	44.7	43.3	44.8	*-0.1*	*1.4*	44.1	42.6	*1.5*
NCC (Ann.) (bps)	32	66	14	*18*	*-34*	27	44	*-17*
GIL ratio	1.93	1.87	2.02	*-0.09*	*0.06*			
Loan loss coverage	125	128	122	*3*	*-3*			
CASA ratio	45.8	48.7	50.0	*-4.2*	*-2.8*			
L/D ratio	94.4	93.2	93.7	*0.7*	*1.2*			
CET-1	14.2	14.1	15.3	*-1.1*	*0.1*			

Source: ABMB, MIDFR

INVESTMENT STATISTICS

INCOME STATEMENT

FYE Mar (RM m)	FY21	FY22	FY23F	FY24F	FY25F
Interest income	1,793	1,684	1,958	2,123	2,299
Interest expense	(777)	(563)	(776)	(923)	(1,062)
Net interest income	**1,017**	**1,122**	**1,182**	**1,200**	**1,237**
Islamic banking inc.	379	398	438	444	458
Other operating inc.	422	349	382	439	507
Net income	**1,818**	**1,868**	**2,002**	**2,083**	**2,202**
OPEX	(801)	(823)	(901)	(938)	(991)
PPOP	**1,017**	**1,045**	**1,101**	**1,146**	**1,211**
Loan allowances	(533)	(217)	(189)	(174)	(183)
Other allowances	(0)	(0)	0	2	-
JV & Associates	0	0	0	0	0
PBT	**484**	**827**	**912**	**974**	**1,028**
Tax & zakat	(125)	(255)	(231)	(246)	(260)
NCI	-	-	-	-	-
Reported NP	**359**	**573**	**681**	**727**	**768**
Core NP	**359**	**573**	**681**	**727**	**768**
Total NII	1,361	1,480	1,576	1,600	1,649
Total NOII	457	387	426	483	553

BALANCE SHEET

FYE Mar (RM m)	FY21	FY22	FY23F	FY24F	FY25F
Cash & ST funds	3,130	3,397	3,510	3,452	3,856
Investment securities	12,933	11,791	12,231	10,991	10,501
Net loans	43,234	45,124	47,060	49,754	52,355
Other IEAs	-	-	-	-	-
Non-IEAs	1,425	1,536	2,700	3,619	4,174
Total assets	**60,721**	**61,848**	**65,501**	**67,815**	**70,885**
Cust. & FI deposits	49,881	49,875	52,682	55,411	57,845
Other IBLs	1,573	1,573	1,523	1,473	1,423
Non-IBLs	3,010	3,983	4,257	3,837	4,048
Total liabilities	**54,463**	**55,431**	**58,462**	**60,721**	**63,316**
Share capital	1,548	1,548	1,548	1,548	1,548
Reserves	4,710	4,869	5,491	5,546	6,021
Shareholders' funds	**6,258**	**6,417**	**7,039**	**7,094**	**7,569**
NCI	-	-	-	-	-
Total equity	**6,258**	**6,417**	**7,039**	**7,094**	**7,569**
Total L&E	**60,721**	**61,848**	**65,501**	**67,815**	**70,885**
Total IEAs	59,296	60,311	62,800	64,197	66,712
Total IBLs	51,454	51,448	54,205	56,884	59,268
Gross loans	44,147	46,189	48,499	51,020	53,572
CASA	22,800	23,577	24,258	25,059	25,721

FINANCIAL RATIOS

FYE Mar (RM m)	FY21	FY22	FY23F	FY24F	FY25F
Interest (%)					
NIM	2.31	2.48	2.56	2.52	2.52
Return on IEAs	3.04	2.82	3.18	3.34	3.51
Cost of funds	1.50	1.09	1.47	1.66	1.83
Net interest spread	1.54	1.72	1.71	1.68	1.68
Profitability (%)					
ROE	**5.9**	**9.0**	**10.1**	**10.3**	**10.5**
ROA	0.6	0.9	1.1	1.1	1.1
NOII/Net income	25.1	20.7	21.3	23.2	25.1
Effective tax rate	25.9	30.8	25.3	25.3	25.3
Cost/Income ratio	44.1	44.1	45.0	45.0	45.0
Liquidity (%)					
Loan/Deposit ratio	89.2	93.6	92.1	92.3	92.7
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 ratio	98	136	124	110	106
LLC (w. reserves)	106	142	129	115	126
Net CC (bps)	121	48	40	35	35
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	6.5	1.5	3.1
Total NOII	24.8	(15.1)	10.0	13.4	14.4
Net income	7.6	2.8	7.2	4.1	5.7
OPEX	(0.8)	2.8	9.5	4.1	5.7
Core NP	(15.4)	59.7	18.9	6.8	5.6
Gross loans	1.1	4.6	5.0	5.2	5.0
Cust. & FI deposits	(0.2)	(0.0)	5.6	5.2	4.4
CASA	25.7	3.4	2.9	3.3	2.6
Valuation metrics					
Core EPS (sen)	23.2	37.0	44.0	47.0	49.6
Gross DPS (sen)	5.8	18.5	22.0	23.5	24.8
Div payout ratio (%)	25	50	50	50	50
BVPS (RM)	4.0	4.1	4.5	4.6	4.9
Core P/E (x)	15.0	9.4	7.9	7.4	7.0
Dividend yield (%)	**1.7**	**5.3**	**6.3**	**6.8**	**7.1**
P/BV (x)	0.9	0.8	0.8	0.8	0.7

Source: ABMB, 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 *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