



## Company report

# ALLIANCE BANK MALAYSIA

(ABMB MK EQUITY, ALLI.KL)

23 Nov 2021

*Attractive valuation; improving outlook on asset quality*

## BUY

(Maintained)

**Kelvin Ong, CFA**

kelvin-ong@ambankgroup.com

03-2036 2294

**Rationale for report: Company update**

Price	RM2.71
Fair Value	RM3.60
52-week High/Low	RM3.06/RM2.30

### Key Changes

Fair value	↔
EPS	↔

YE to Mar	FY21	FY22F	FY23F	FY24F
Total income (RM mil)	1,817.6	1,834.5	1,906.5	2,043.3
Core net profit (RM mil)	358.7	487.7	569.1	623.3
FD Core EPS (sen)	23.2	31.5	36.8	40.3
FD Core EPS growth (%)	(15.4)	36.0	16.7	9.5
Consensus Net Profit (RM mil)	-	443.2	529.4	593.3
DPS (sen)	5.8	15.1	17.6	19.3
BV/share (RM)	4.04	4.06	4.10	4.16
PE (x)	11.7	8.6	7.4	6.7
Div yield (%)	2.4	6.3	7.4	8.1
P/BV (x)	0.7	0.7	0.7	0.7
ROE (%)	5.9	7.8	9.0	9.7

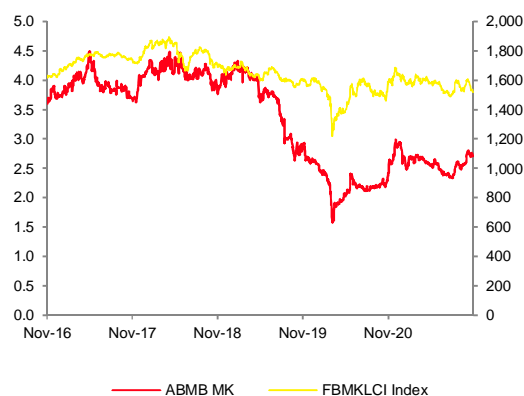
### Stock and Financial Data

Shares Outstanding (million)	1,548.1
Market Cap (RM mil)	4,195.4
Book Value (RM/share)	4.04
P/BV (x)	0.7
ROE (%)	5.9

Major Shareholders	Vertical Theme (29.1%) Employees Provident Fund (13.3%)
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Free Float	57.6
Avg Daily Value (RM mil)	2.8

Price performance	3mth	6mth	12mth
Absolute (%)	14.8	6.3	14.3
Relative (%)	13.7	10.4	18.2



### Investment Highlights

- We maintain BUY on Alliance Bank Malaysia (ABMB) with an unchanged fair value of RM3.60/share. Our fair value is based on FY23 ROE of 9.0%, implying a P/BV of 0.9x. No changes to our earnings estimate.
- We continue to like the stock due to: i) its attractive valuation, trading at a low 0.7x FY23 P/BV; ii) improving outlook on the group's asset quality; and iii) potential normalisation of dividend payout with improved earnings. For FY23, we have pencilled in a dividend payout of 48.0% which leads to an attractive dividend yield of 7.4%. ABMB has a long-term dividend policy of up to 60.0% dividend payout ratio based on reported net profit after tax attributable to shareholders.
- As of end-Sep 2021, the total financial assistance to borrowers stood at circa RM14.8bil vs. RM13.9bil in Aug 2021. This comprised RM11.0bil in moratorium and RM3.8bil of payment relief assistance (PRA). Compared to Aug 2021, the outstanding amount of loans under moratorium has been stable. However, with requests from business loan borrowers for payment assistance, the outstanding for PRA has risen slightly to RM3.8bil in Sep 2021 from RM2.9bil in Aug. On a comforting note, based on our tracking, new enrolments for financial assistance have tapered significantly. We expect new applications for repayment assistance to continue declining. The easing of mobility restrictions and opening of economic sectors are poised to allow borrowers to resume their normal loan repayments after the financial assistance comes to an end.
- Looking ahead, we see ABMB's asset quality to be improving. Except for some recent upticks in personal financing, delinquencies for other key loan segments (mortgages, AOA, SME, commercial and corporate loans) continued to be stable from the group's last briefing updates for its 1Q22 results.
- With the expected improvement in economic activity going into 2022, provisions are likely to trend lower with the decrease in borrowers requiring payment assistance.

- Nevertheless, we expect the group to remain prudent and maintain the provisions in the form of management overlays built up since FY21 until the bulk of the financial assistance ends. In FY21, ABMB has built up RM313mil of overlays with a further top-up of RM15mil in 1Q22, bringing the total to RM328mil. Any reversals in management overlays will most likely to occur only in FY23.
- For FY22, management has guided for a NIM expansion of 5bps from 2.30% in FY21. We see room for stronger improvement in interest margin above the 5bps guided from lower funding cost where the group could release further FDs while moving the mix of SavePlus deposits higher.
- The group’s liquidity continued to be robust with an LCR of 170.3% in 1Q22, well above the industry’s 149.0% while its loan-to-fund ratio stood at a healthy 84.8%.
- In FY21 and 1Q22, the group’s financing growth has been muted due to the intentional strategy to derisk the corporate loan book. With the economy poised for a stronger recovery post-lockdowns, we see opportunities for the group’s loans to pick up momentum. Improvements in SME, commercial loans and personal financing which are higher in yields compared to mortgage loans, will boost the group’s NIM.

EXHIBIT 1: PB BAND CHART

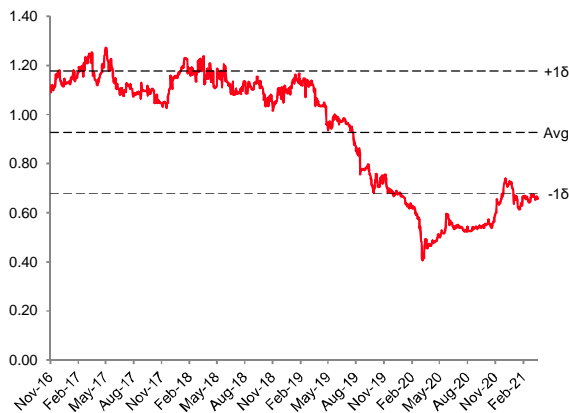


EXHIBIT 2: PE BAND CHART

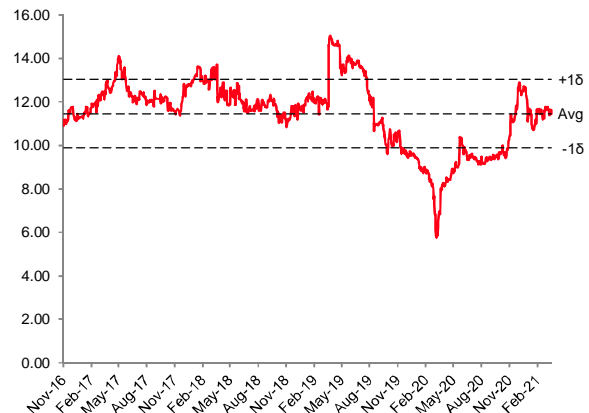


EXHIBIT 3: ESG RATING

<b>Overall</b>	★	★	★		
Board composition	★	★	★		
Employee welfare and environmental protection	★	★	★		
Corporate social responsibility	★	★	★		
Earnings quality	★	★	★		
Balance sheet strength	★	★	★		
Accessibility & transparency	★	★	★	★	

We accord a discount/premium of -6%, -3%, 0%, +3% and +6% on fundamental fair value based on the overall ESG rating as appraised by us, from 1-star to 5-star

## EXHIBIT 4: FINANCIAL DATA

Income Statement (RMmil, YE 31 Mar)	FY20	FY21	FY22F	FY23F	FY24F
Net interest income	980.8	1,016.7	1,055.7	1,111.1	1,176.7
Non-interest income	330.6	422.4	378.1	382.6	441.7
<b>Islamic banking income</b>	<b>377.9</b>	<b>378.5</b>	<b>400.8</b>	<b>412.8</b>	<b>424.9</b>
Total income	1,689.3	1,817.6	1,834.5	1,906.5	2,043.3
Overhead expenses	(807.0)	(800.7)	(825.5)	(857.9)	(919.5)
Pre-provision profit	882.3	1,016.9	1,009.0	1,048.6	1,123.8
Loan loss provisions	(273.2)	(532.9)	(367.3)	(289.3)	(303.7)
Impairment & others	(41.3)	(0.1)	-	-	-
<b>Associates</b>	-	-	-	-	-
Pretax profit	567.8	483.9	641.7	759.3	820.1
Tax	(143.6)	(125.2)	(154.0)	(190.2)	(196.8)
<b>Minority interests</b>	-	-	-	-	-
Net profit	424.2	358.7	487.7	569.1	623.3
Core net profit	424.2	358.7	487.7	569.1	623.3
Balance Sheet (RMmil, YE 31 Mar)	FY20	FY21	FY22F	FY23F	FY24F
Cash & deposits with FIs	3,119.2	3,088.2	4,022.4	3,743.5	3,699.3
<b>Marketable securities</b>	<b>12,752.8</b>	<b>13,128.3</b>	<b>12,659.1</b>	<b>13,375.4</b>	<b>13,991.9</b>
Total current assets	15,872.0	16,216.6	16,681.5	17,118.9	17,691.2
Net loans & advances	43,110.0	43,233.5	44,637.8	46,650.3	48,763.4
Statutory deposits	nm	nm	nm	nm	nm
Long-term investments	949.0	88.0	96.8	106.5	117.1
Fixed assets	64.5	57.3	51.6	46.2	41.5
Intangible assets	437.1	431.3	431.3	431.3	431.3
<b>Other long-term assets</b>	<b>542.8</b>	<b>694.6</b>	<b>772.9</b>	<b>936.4</b>	<b>1,159.4</b>
<b>Total LT assets</b>	<b>45,103.4</b>	<b>44,504.6</b>	<b>45,990.4</b>	<b>48,170.6</b>	<b>50,512.7</b>
Total assets	60,975.5	60,721.2	62,671.9	65,289.5	68,203.9
Customer deposits	48,425.9	48,488.5	50,428.1	52,949.5	55,596.9
Deposits of other FIs	1,543.6	1,392.7	1,773.5	1,901.0	2,221.1
Subordinated debts	1,520.6	1,572.7	1,621.1	1,673.8	1,726.8
Hybrid capital securities	1,946.1	1,272.6	1,155.3	1,025.0	942.8
<b>Other liabilities</b>	<b>1,550.2</b>	<b>1,736.9</b>	<b>1,410.2</b>	<b>1,385.3</b>	<b>1,274.2</b>
Total liabilities	54,986.5	54,463.4	56,388.2	58,934.6	61,761.8
Shareholders' funds	5,989.0	6,257.8	6,283.7	6,354.8	6,442.1
Minority interests	-	-	-	-	-
Key Ratios (YE 31 Mar)	FY20	FY21	FY22F	FY23F	FY24F
Total income growth (%)	4.1	7.6	0.9	3.9	7.2
Pre-provision profit growth (%)	4.1	15.3	(0.8)	3.9	7.2
Core net profit growth (%)	(21.1)	(15.4)	36.0	16.7	9.5
Net interest margin (%)	2.4	2.4	2.4	2.4	2.5
Cost-to-income ratio (%)	47.8	44.1	45.0	45.0	45.0
Effective tax rate (%)	25.3	25.9	24.0	25.1	24.0
Dividend payout (%)	21.9	25.0	48.0	48.0	48.0
Key Assumptions (YE 31 Mar)	FY20	FY21	FY22F	FY23F	FY24F
Loan growth (%)	2.2	1.1	4.0	5.0	5.0
Deposit growth (%)	7.6	0.1	4.0	5.0	5.0
Loan-deposit ratio (%)	89.0	89.2	88.5	88.1	87.7
Gross NPL (%)	2.0	2.3	2.8	2.0	2.0
Net NPL (%)	1.3	1.7	2.0	1.0	0.9
Credit charge-off rate (%)	0.6	1.2	0.8	0.6	0.6
Loan loss reserve (%)	101.4	105.9	121.1	191.5	212.4

Source: Company, AmInvestment Bank Bhd estimates

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