

# Alliance Bank (ABMB MK)

## 1QFY23 surprised positively on credit cost write-backs

### BUY maintained

ABMB's results were above expectations largely on account of credit cost writebacks in 1QFY23. We lower our credit cost estimates marginally, but maintain elevated levels in light of inflationary pressures. As such, our FY23-25E forecasts are raised by just 3-4%. We maintain a BUY on ABMB with a slightly higher (+20sen) TP of MYR4.50 (revised PBV of 1x [previously 0.9x], CY23E ROE of 10.2%).

### Above expectations

ABMB's core net profit of MYR212m in 1QFY23 (+45% YoY, +103% QoQ) was above expectations at 33%/32% of our full-year forecast/consensus. Operationally, the results were in line, with the main surprise being a net write-back in credit cost. This was attributed to the writeback of MYR18m from one corporate account and the release of MYR41m worth of management overlays.

### Operationally in line

Operationally, the group's performance was within expectations. NOII dropped 25% YoY and coupled with negative JAWS, 1QFY23 operating profit declined 9% YoY. Loan growth of 6.7% YoY was within management's target of 6-8% for FY23, but NIM in 1QFY23 of 2.57% (+7bps QoQ) was higher than management's guidance of 2.5%. Its CIR of 44% was within its guidance of <45%, but credit cost was much improved versus guidance of 40-45bps.

### Forecasts raised marginally

Management maintains its NIM guidance of 2.5%, and is wary of deposit price competition, while its credit cost guidance is lowered just marginally to 35-40bps from 40-45bps in light of inflationary pressures. We lower our credit cost estimate marginally to 40bps/35bps for FY23/24E from 45/40bps previously. Our FY23/24/24E earnings are raised by 3%/3%/4%.

FYE Mar (MYR m)	FY21A	FY22A	FY23E	FY24E	FY25E
Operating income	1,818	1,868	1,924	2,029	2,118
Pre-provision profit	1,017	1,045	1,082	1,155	1,211
Core net profit	359	573	663	729	766
Core FDEPS (MYR)	0.23	0.37	0.43	0.47	0.49
Core FDEPS growth(%)	(15.4)	59.7	15.8	9.9	5.0
Net DPS (MYR)	0.06	0.19	0.21	0.24	0.25
Core FD P/E (x)	11.4	10.2	8.2	7.5	7.1
P/BV (x)	0.7	0.9	0.8	0.7	0.7
Net dividend yield (%)	2.2	4.9	6.1	6.7	7.0
Book value (MYR)	4.04	4.14	4.48	4.72	4.96
ROAE (%)	5.9	9.0	9.9	10.2	10.2
ROAA (%)	0.6	0.9	1.0	1.1	1.1
Consensus net profit	-	-	660	709	758
MKE vs. Consensus (%)	-	-	0.6	2.9	1.0

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# BUY

Share Price	MYR 3.53
12m Price Target	MYR 4.50 (+27%)
Previous Price Target	MYR 4.30

### Company Description

ABMB offers integrated financial services through its consumer and business banking, investment banking, Islamic banking, and stockbroking businesses.

### Statistics

52w high/low (MYR)	3.81/2.48
3m avg turnover (USDm)	1.1
Free float (%)	43.9
Issued shares (m)	1,548
Market capitalisation	MYR5.5B
	USD1.2B

### Major shareholders:

Vertical Theme Sdn. Bhd.	29.1%
Employees Provident Fund	10.6%
Global Success Network Sdn. Bhd.	4.8%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	1	1	38
Relative to index (%)	1	4	47

Source: FactSet

## Alliance Bank: Summary results table

Year End: Mar (MYR m)	Quarterly					Cumulative		
	1Q23	1Q22	% YoY	4Q22	% QoQ	3MFY23	3MFY22	% YoY
Interest income	438.5	420.4	4.3	416.6	5.3	438.5	420.4	4.3
Interest expense	(148.2)	(143.8)	3.0	(138.6)	6.9	(148.2)	(143.8)	3.0
<b>Net interest income</b>	<b>290.4</b>	<b>276.6</b>	<b>5.0</b>	<b>278.0</b>	<b>4.5</b>	<b>290.4</b>	<b>276.6</b>	<b>5.0</b>
Islamic banking income	106.4	103.9	2.4	95.4	11.6	106.4	103.9	2.4
Non-interest income	77.3	102.5	(24.6)	80.0	(3.5)	77.3	102.5	(24.6)
<b>Operating income</b>	<b>474.1</b>	<b>483.0</b>	<b>(1.8)</b>	<b>453.4</b>	<b>4.6</b>	<b>474.1</b>	<b>483.0</b>	<b>(17.2)</b>
Operating expenses	(210.6)	(193.3)	8.9	(219.0)	(3.9)	(210.6)	(193.3)	8.9
<b>Operating profit</b>	<b>263.5</b>	<b>289.6</b>	<b>(9.0)</b>	<b>234.3</b>	<b>12.5</b>	<b>263.5</b>	<b>289.6</b>	<b>(9.0)</b>
Loan loss provisions	17.3	(95.3)	Nm	(73.2)	Nm	17.3	(95.3)	nm
Other provisions	0.1	(0.0)	Nm	(0.5)	Nm	0.1	(0.0)	nm
Associates & jvs	0.0	-	nm	0.0	nm	0.0	-	nm
<b>Pretax Profit</b>	<b>280.9</b>	<b>194.3</b>	<b>44.6</b>	<b>160.6</b>	<b>74.9</b>	<b>280.9</b>	<b>194.3</b>	<b>44.6</b>
Taxation	(68.7)	(48.3)	42.2	(55.7)	23.4	(68.7)	(48.3)	42.2
Minority interest	-	-	-	-	-	-	-	-
<b>Net profit</b>	<b>212.2</b>	<b>146.0</b>	<b>45.3</b>	<b>104.9</b>	<b>102.3</b>	<b>212.2</b>	<b>146.0</b>	<b>45.3</b>
Recurring net profit	212.1	146.0	45.3	103.1	105.8	212.1	146.0	45.3
EPS (sen)	13.7	9.4	45.7	6.7	104.5	13.7	9.4	45.7
Net DPS (sen)	-	-	-	10.2	-	-	-	-
			<i>ppt chg</i>		<i>ppt chg</i>			<i>ppt chg</i>
Cost-to-income (%)	44.4	40.0	4.4	48.3	(3.9)	44.4	40.0	4.4
Tax rate (%)	24.5	24.9	(0.4)	34.7	(10.2)	24.5	24.9	(0.4)
<b>Balance sheet (MYR m)</b>	<b>Jun 22</b>	<b>Jun 21</b>	<b>YoY chg</b>	<b>Mar 22</b>	<b>QoQ chg</b>	<b>Jun 22</b>	<b>Dec 21</b>	<b>YTD Chg</b>
Gross loans & advances	46,098	43,203	6.7	46,189	(0.2)	46,098	44,515	3.6
Net loans & advances	45,114	42,233	6.8	45,124	(0.0)	45,114	43,518	3.7
Customer deposits	48,651	46,778	4.0	48,186	1.0	48,651	46,425	4.8
			<i>ppt chg</i>		<i>ppt chg</i>			<i>ppt chg</i>
Gross LDR (%)	94.8	92.4	2.4	95.9	(1.1)	94.8	95.9	(1.1)
Gross NPL ratio (%)	1.8	2.3	(0.5)	1.8	(0.0)	1.8	2.0	(0.2)
Loan loss coverage (%)	129.8	105.1	24.7	135.9	(6.1)	129.8	121.7	8.2

Source: Company

## Key highlights

**Repayment assistance:** Loans under Repayment Assistance declined to MYR3.7b in July from MYR9.0b in May 2022, representing 8% of total loans. PEMULIH loans accounted for MYR4.75b or 92% of the total. For its PEMULIH borrowers, 94% have resumed full repayment.

**Loan growth:** Gross loans rose 6.7% YoY with SME growth of 13.9% (driven mainly by disbursements under special relief schemes). Consumer loans was relatively flat at 0.6% YoY but personal financing rose 9.1% YoY. Corporate and commercial loans rose at a robust pace of 13.6% YoY.

**Deposit growth:** Deposit growth was a slower +4% YoY. CASA grew at a slightly faster pace of 5.3% YoY and the group's CASA ratio remained strong at 50% end-June 2022 versus 49.4% end-June 2021.

**Net interest margin (NIM):** NIM improved 7bps to 2.57% in 1QFY23 from 2.50% in 4QFY22. Every 25bps interest rate hike improves the group's NIM by about 3-4bps. The NIM of 2.57% is better than management's earlier guidance of 2.5% for FY23, which assumed one OPR hike. Management maintains its NIM guidance for now, in anticipation of a pick-up in competition.

**Non-interest income (NOII):** 1QFY23 NOII dropped 25% YoY as fee income declined 20% YoY and investment income was lower as well.

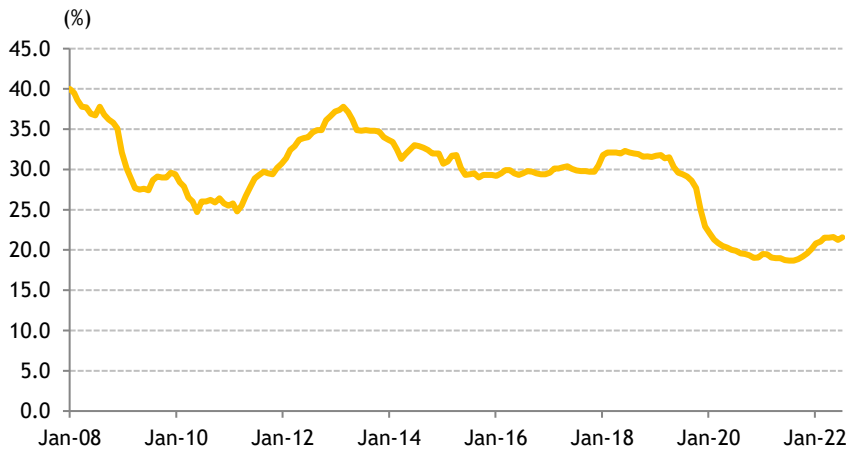
**Operating expenses:** 1QFY23 operating expense rose 8.9% YoY due to the group's a) investment in its sales force, b) IT expenditure, c) marketing and deposit insurance costs and d) wage inflation. Its cost/income ratio (CIR) was higher at 44.4% in 1QFY23 versus 40.0% in 1QFY22. Management thinks that cost growth of about 5-6% is a more sustainable pace.

**Asset quality:** The group's gross impaired loans ratio was stable QoQ at 1.8% end-June 2022. Positively its corporate GIL improved to 0.6% end-June 2022 from 1.2% end-Mar 2022 (which was caused by one account which is fully provisioned).

**Credit cost:** The group reported a net credit cost recovery in 1QFY23 of 3.7bps versus a credit cost of 6.9bps in 1QFY22. This was attributed to the recovery of MYR17.5m from one particular account (a contractor) and the release of MYR41.4m worth of management overlays. Even so, the group's loan loss coverage remained comfortable at 128% end-Jun 2022 (133% including regulatory reserves). Management overlays outstanding total MYR408m, and this will be consumed gradually over 18 months. Management guides for lower credit cost of 35-40bps in FY23 versus 40-45bps before.

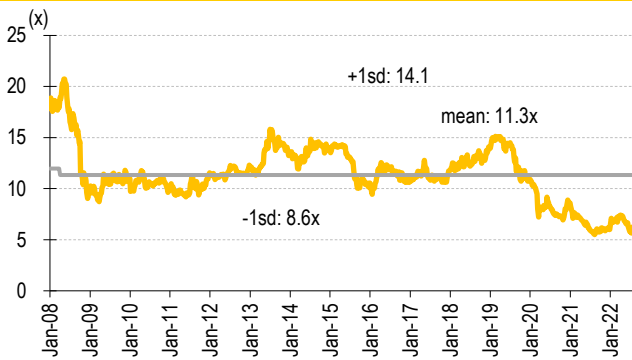
**Capital ratios:** ABMB's capital position remains sound, with a CET1 ratio of 15.4% end-Jun 2022.

**Alliance Bank's foreign shareholding (21.55% end-Jul 2022)**



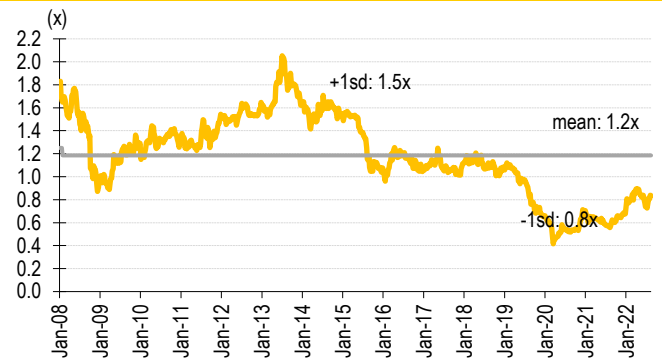
Source: Bank, Maybank IBG Research

**ABMB: One-year forward rolling PER (x)**



Source: Bank, Maybank IBG Research

**ABMB: One-year forward rolling P/BV**



Source: Bank, Maybank IBG Research

**Risk statement**

As the smallest domestic financial institution in Malaysia in terms of asset size, the bank lacks the economies of scale of its peers and this could be a setback to future market share gains. Moreover, its primary niche in SME financing could eventually be eroded as the bigger banks compete more aggressively in this relatively more lucrative market.

FYE 31 Mar	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Key Metrics</b>					
Core P/E (x)	11.4	10.2	8.2	7.5	7.1
Core FD P/E (x)	11.4	10.2	8.2	7.5	7.1
P/BV (x)	0.7	0.9	0.8	0.7	0.7
P/NTA (x)	0.7	1.0	0.8	0.8	0.8
Net dividend yield (%)	2.2	4.9	6.1	6.7	7.0
<b>INCOME STATEMENT (MYR m)</b>					
Interest income	1,793.4	1,684.5	1,971.3	2,128.0	2,206.3
Interest expense	(776.8)	(562.9)	(813.6)	(916.7)	(938.1)
<b>Net interest income</b>	<b>1,016.7</b>	<b>1,121.6</b>	<b>1,157.6</b>	<b>1,211.3</b>	<b>1,268.1</b>
Islamic banking income	378.5	397.5	417.4	438.3	460.2
Net insurance income	0.0	0.0	0.0	0.0	0.0
Net fees and commission	202.1	161.5	169.5	178.0	186.9
Other income	220.3	187.0	179.9	201.3	202.7
<b>Total non-interest income</b>	<b>422.4</b>	<b>348.5</b>	<b>349.5</b>	<b>379.3</b>	<b>389.6</b>
<b>Operating income</b>	<b>1,817.6</b>	<b>1,867.7</b>	<b>1,924.5</b>	<b>2,028.9</b>	<b>2,117.9</b>
Staff costs	(511.7)	(529.6)	(545.5)	(572.8)	(601.4)
Other operating expenses	(289.0)	(293.3)	(297.2)	(301.2)	(305.2)
<b>Operating expenses</b>	<b>(800.7)</b>	<b>(822.9)</b>	<b>(842.7)</b>	<b>(874.0)</b>	<b>(906.7)</b>
<b>Pre-provision profit</b>	<b>1,016.9</b>	<b>1,044.7</b>	<b>1,081.7</b>	<b>1,154.9</b>	<b>1,211.3</b>
Loan impairment allowances	(532.9)	(217.2)	(190.0)	(174.7)	(182.1)
Other allowances	(0.1)	(0.2)	0.0	0.0	0.0
Associates & JV income	0.1	0.1	0.1	0.1	0.1
<b>Pretax profit</b>	<b>484.0</b>	<b>827.4</b>	<b>891.8</b>	<b>980.2</b>	<b>1,029.2</b>
Income tax	(125.2)	(254.5)	(228.3)	(250.9)	(263.5)
Minorities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
<b>Reported net profit</b>	<b>358.8</b>	<b>572.8</b>	<b>663.5</b>	<b>729.3</b>	<b>765.7</b>
<b>Core net profit</b>	<b>358.8</b>	<b>572.8</b>	<b>663.5</b>	<b>729.3</b>	<b>765.7</b>
<b>BALANCE SHEET (MYR m)</b>					
Cash & deposits with banks	3,088.2	3,228.6	3,554.8	3,913.9	4,309.2
Sec. under resale agreements	105.0	55.0	55.0	55.0	55.0
Derivatives financial assets	153.7	86.3	130.0	130.0	130.0
Dealing securities	237.9	541.6	568.7	597.1	627.0
Available-for-sale securities	12,695.2	11,249.3	11,474.3	11,703.8	11,937.9
Investment securities	0.0	0.0	0.0	0.0	0.0
Loans & advances	43,233.5	45,123.7	47,502.0	49,524.3	51,382.9
Central bank deposits	88.0	99.5	104.5	109.7	115.2
Investment in associates/JVs	0.0	0.0	0.0	0.0	0.0
Insurance assets	0.0	0.0	0.0	0.0	0.0
Fixed assets	177.7	177.4	179.8	182.3	184.8
Intangible assets	431.3	432.2	429.2	426.2	423.2
Other assets	510.6	854.2	704.0	743.8	786.1
<b>Total assets</b>	<b>60,721.2</b>	<b>61,847.9</b>	<b>64,702.3</b>	<b>67,386.2</b>	<b>69,951.4</b>
Deposits from customers	48,488.5	48,186.4	50,534.1	52,685.4	54,662.7
Deposits from banks & FIs	1,392.7	1,689.0	1,773.4	1,862.1	1,955.2
Derivatives financial instruments	149.4	212.6	212.6	212.6	212.6
Subordinated debt	0.0	0.0	0.0	0.0	0.0
Other securities in issue	1,572.7	1,572.8	1,572.8	1,572.8	1,572.8
Other borrowings	0.0	0.0	0.0	0.0	0.0
Insurance liabilities	0.0	0.0	0.0	0.0	0.0
Other liabilities	2,860.1	3,770.4	3,666.8	3,746.0	3,857.9
<b>Total liabilities</b>	<b>54,463.4</b>	<b>55,431.2</b>	<b>57,759.7</b>	<b>60,078.9</b>	<b>62,261.2</b>
Share capital	1,548.1	1,548.1	1,548.1	1,548.1	1,548.1
Reserves	4,709.7	4,868.6	5,394.5	5,759.2	6,142.0
Shareholders' funds	6,257.8	6,416.7	6,942.6	7,307.3	7,690.2
Preference shares	0.0	0.0	0.0	0.0	0.0
Minority interest	0.0	0.0	0.0	0.0	0.0
Total equity	6,257.8	6,416.7	6,942.6	7,307.3	7,690.2
<b>Total liabilities &amp; equity</b>	<b>60,721.2</b>	<b>61,847.9</b>	<b>64,702.3</b>	<b>67,386.2</b>	<b>69,951.4</b>

FYE 31 Mar	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Key Ratios</b>					
<b>Growth (%)</b>					
Net interest income	3.7	10.3	3.2	4.6	4.7
Non-interest income	27.8	(17.5)	0.3	8.5	2.7
Operating expenses	(0.8)	2.8	2.4	3.7	3.7
Pre-provision profit	15.3	2.7	3.5	6.8	4.9
Core net profit	(15.4)	59.7	15.8	9.9	5.0
Gross loans	1.1	4.6	5.7	4.5	4.0
Customer deposits	0.1	(0.6)	4.9	4.3	3.8
Total assets	(0.4)	1.9	4.6	4.1	3.8
<b>Profitability (%)</b>					
Non-int. income/Total income	23.2	18.7	18.2	18.7	18.4
Average lending yields	3.69	3.48	3.87	3.97	3.97
Average cost of funds	2.27	1.77	2.42	2.54	2.50
Net interest margin	2.30	2.53	2.54	2.54	2.56
Cost/income	44.1	44.1	43.8	43.1	42.8
<b>Liquidity (%)</b>					
Loans/customer deposits	89.2	93.6	94.0	94.0	94.0
<b>Asset quality (%)</b>					
Net NPL	0.1	(0.7)	(0.9)	(1.1)	(1.4)
Gross NPL	2.3	1.8	1.9	1.9	1.9
(SP+GP)/average gross loans	1.2	0.5	0.4	0.4	0.4
Loan loss coverage	97.6	135.9	145.5	157.3	169.3
<b>Capital adequacy (%)</b>					
CET1	16.5	16.4	16.0	16.2	16.5
Tier 1 capital	17.4	17.3	16.0	16.2	16.5
Risk-weighted capital	21.8	21.4	19.8	19.9	20.1
<b>Returns (%)</b>					
ROAE	5.9	9.0	9.9	10.2	10.2
ROAA	0.6	0.9	1.0	1.1	1.1
Shareholders equity/assets	10.3	10.4	10.7	10.8	11.0

Source: Company; Maybank IBG Research

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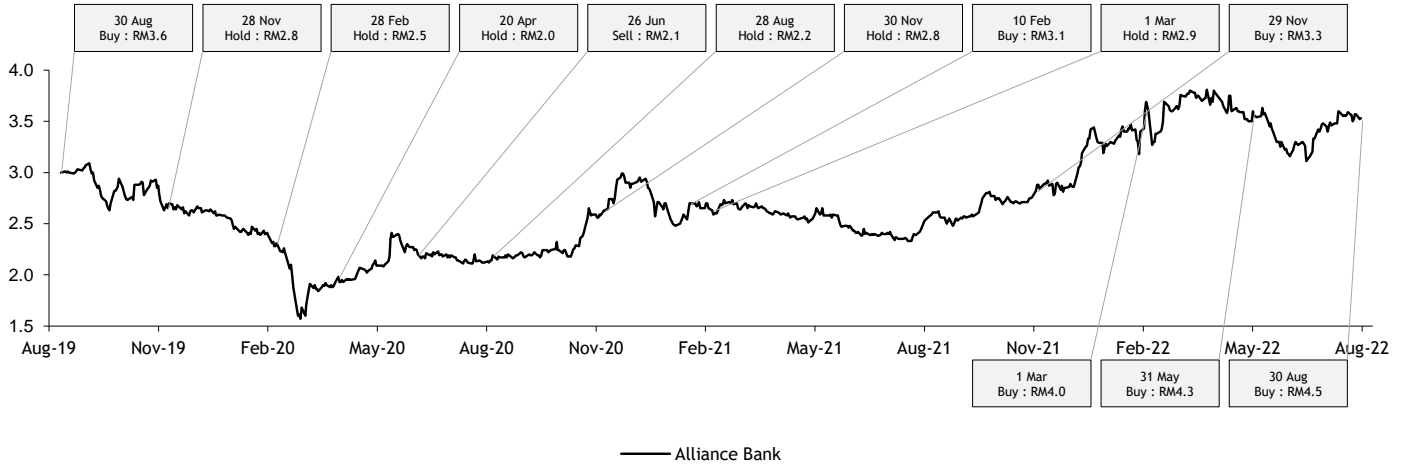
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