

# Alliance Bank (ABMB MK)

## Awaiting further disclosures

### BUY maintained

We have introduced an expanded ESG tear sheet for ABMB and assigned it an above average overall score of 52, based on its aggregated quantitative / qualitative / target-based metrics. There is nevertheless much room for further re-rating, as we await a more comprehensive ESG plan, slated to be unveiled this financial year. BUY maintained on ABMB with a TP of MYR4.50 (PBV of 1x, CY23E ROE of 10.2%).

### To disclose a more comprehensive ESG plan

ABMB's ESG score at this stage is based on available information in FY22 and there is a lack of disclosure, especially around environmental issues. Nevertheless, the bank plans to introduce a more comprehensive ESG plan in FY23, particularly with regard to carbon emissions reduction, which should aid in improving its ratings. Eventually, it will also need to set a baseline for its financed emissions. ABMB's current score of 52 based on our proprietary scoring methodology (see pg.3) is marginally above average (50).

### Other areas to address

Other areas that need to be addressed, in our opinion, include its attrition rate that has risen over the past two years, as well as a 30% female representation on the Board of Directors.

### FY23 financial targets

Management's FY23 financial targets include loan growth of 6-8%, an average NIM of 2.5%, and cost/income ratio of <45%. It guides for an average credit cost of 35-40bps, even though there was a net recovery in 1QFY23, in light of inflationary pressures.

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	8.5	7.8	7.4
P/BV (x)	0.7	0.9	0.8	0.8	0.7
Net dividend yield (%)	2.2	4.9	5.9	6.5	6.8
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	-	-	683	728	774
MKE vs. Consensus (%)	-	-	(2.8)	0.2	(1.1)

## BUY

Share Price	MYR 3.65
12m Price Target	MYR 4.50 (+23%)
Previous Price Target	MYR 4.50

### Company Description

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

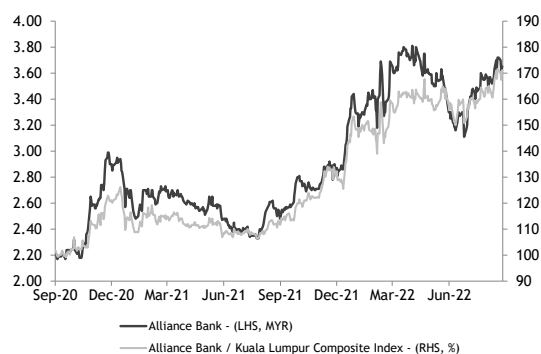
### Statistics

52w high/low (MYR)	3.81/2.48
3m avg turnover (USDm)	1.2
Free float (%)	43.9
Issued shares (m)	1,548
Market capitalisation	MYR5.7B
	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 (%)	3	6	46
Relative to index (%)	6	7	55

Source: FactSet

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Tear Sheet Insert

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Risk Rating & Score <sup>1</sup>	Medium & 27.3
Score Momentum <sup>2</sup>	-1.8
Last Updated	23 Feb 2022
Controversy Score <sup>3</sup> (Updated: 02 Feb 2021)	1

## Business Model & Industry Issues

- That ABMB is principally a retail bank with limited corporate lending exposure reduces its environment and corporate governance issues, in our view. Being the smallest domestic bank in Malaysia in terms of asset size, however, ABMB's ability to remain competitive in a fairly mature market is likely to be tested over time, more so with the advent of digital banks.
- The banking sector is one of the transmission mechanisms for government stimulus programs under COVID-19 relief schemes, with an ongoing loan moratorium for the unemployed and reduced instalment payments for individuals that have suffered pay cuts. The PEMULIH programme ended in Dec 2021 but affected borrowers could still transition to the URUS programme or the bank's own internal Payment Relief Assistance Plans (PRAP). These repayment assistance programmes elevate social priorities over shareholders returns in the near term.
- ABMB scores marginally above-average in our proprietary scoring methodology (see pg.3) with an overall score of 52/100.

### Material E issues

- The bank's credit policy prohibits lending to illegal business activities that cause environmental harm; however, there is currently a lack of disclosures relating to data or growth targets for sustainable or green loans/financing.
- To reduce its carbon footprint at the workplace, it has focused on 1) energy management e.g. replacing low-efficiency unit air conditioners at its branches, progressively fitting LED lights, 2) using environmentally friendly materials in all its office renovations, and reducing the use of paper, where the print volume declined by 13% at head office in FY21.
- There is strong digital adoption, with account transactions done digitally/remotely rising to 69% of total in Mar 2021, from 54% in Mar 2020.

### Material S issues

- In FY22, 61% of ABMB's workforce were women. The representation was lower on the Board of Directors at 22% currently and the Board strives for a diversity target of 30%.
- In the Bank Negara Malaysia Customer Satisfaction Survey of 20 banks, ABMB scored 87% for customer satisfaction, ranking first with a net promoter score of 53 versus the industry's 41.
- SMEs are the backbone of the Malaysian economy, accounting for >38% of the country's GDP. ABMB is dedicated towards supporting the SMEs and has launched various non-financial solutions/initiatives such as BizSmart Solution, #SupportLokal, Halal in One Programme etc.
- The attrition rate was 16.8% in FY22 versus 10.7% in FY21.

### Key G metrics and issues

- ABMB has not had any material accounting & tax, lobbying & public policy, sanctions related, data privacy or security controversies in the past 5 years.
- The CEO's remuneration was MYR10.1m in FY22, representing 1.8% of the group's net profit.
- As at 31 Mar 2022, the Board of Directors had nine members, all of whom were Non-Executive, seven of whom were Independent Directors.
- IT expenses amounted to MYR71.1m in FY22, representing 8.6% of total operating expenses.
- ABMB is audited by PricewaterhouseCoopers, the world's second largest network of professional firms.
- ABMB major shareholder is Vertical Theme with a 29.06% stake. Vertical Theme, meanwhile, is 49% held by Singapore's Temasek Holdings Via Duxton Investments Pte Ltd, while the remaining 51% stake was bought out in Apr 2016 by three individuals i.e. Ong Beng Seng, Ong Tiong Sin and Seow Lun Hoo. It is unclear as to whether the interests of the shareholders are aligned, or whether the individual shareholders share long-term interests in the bank's development.

<sup>1</sup>**Risk Rating & Score** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. <sup>2</sup>**Score Momentum** - indicates changes to the company's score since the last update - a **negative** integer indicates a company's improving risk score; a **positive** integer indicates a deterioration. <sup>3</sup>**Controversy Score** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

Quantitative parameters (Score: 21)						
	Particulars	Unit	2020	2021	2022	HLBK (HLBK MK)
E	Scope 1 emissions	tonnes CO2e	-	-	-	134
	Scope 2 emissions	tonnes CO2e	-	-	-	23,541
	<b>Total</b>	<b>tonnes CO2e</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>23,675</b>
	Scope 3 emissions	tonnes CO2e	-	-	-	1,294
	<b>Total</b>	<b>tonnes CO2e</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>24,969</b>
	GHG intensity (Scope 1 and 2)	kg CO2e/emp	-	-	-	3,200
	Exposure to coal, mining & plantation	% of loan book	-	-	-	10.0%
	Electricity consumption	MWh	-	-	-10% YoY	41,633
	Water consumption	m3	-	-	-	75,549
	Petrol consumption	litres	-	-	-	54,008
	Solid waste disposal	tonnes	-	-13% YoY	-7% YoY	24,881
S	% of women in workforce	%	61.0%	60.8%	60.7%	62.6%
	% of women in management roles	%	-	55.5%	55.6%	55.7%
	Attrition rate	%	8.0%	10.7%	16.8%	10.7%
G	MD/CEO salary as % of reported net profit	%	2.24%	2.48%	1.76%	0.51%
	Board salary as % of reported net profit	%	0.73%	0.90%	0.60%	0.05%
	Independent directors on the Board	%	78%	78%	78%	63%
	Profits distributed to shareholders	% of net profit	21.9%	25.0%	50.0%	35.8%
	Female directors on the Board	%	11%	22%	22%	38%

Qualitative parameters (Score: 67)	
a) Is there an ESG policy in place and whether there is a standalone ESG Committee or is it part of Risk committee?	<i>Yes, there is a Group Sustainability Committee that comprises Independent Directors of ABMB and Alliance Islamic Bank.</i>
b) Does the performance evaluation of the board and senior mgt include a review of the performance of the board and senior management in addressing the company's material sustainability risks and opportunities?	<i>Yes. From FY22, the balanced scorecard of Senior Management includes ESG-related KPIs on financing, investment, policy, carbon footprint and helping customers make the transition to ESG compliance.</i>
c) Does the company follow TCFD framework for ESG reporting? Is it signatory to responsible banking initiative or other such initiatives?	<i>Committed to aligning and progressively adopting TCFD starting 2022.</i>
d) Does the company capture Scope 3 emissions from financing activities?	<i>No mention.</i>
e) Does the bank have a firm deadline for exiting the financing of the coal sector?	<i>The company has no outstanding loans to the coal sector.</i>
f) Does the bank have no deforestation, no peat, no exploitation (NDPE) policies in place?	<i>Have prohibited lending to coal-fired power plants, coal mines, unconventional O&amp;G, projects that can cause severe environmental damage, arms trading entertainment sectors, financing of hostile takeovers.</i>

Target (Score: 100)		
Particulars	Target	Achieved
Targets MYR4b in new sustainable banking business in FY23 from MYR2.0b in FY22, and MYR10b in FY25	MYR4b	MYR3.3b
To reduce customers under C5 category to <60% in FY23 from <65% in FY22 and <20% by FY25. Ie to help customers adopt more sustainable lifestyles and business practices	<60%	<65%
To announce GHG emissions reduction plan and target in FY23. Have pledged to be Carbon Net Zero by 2050.	NA	NA
Impact		
NA		
Overall score: 52		
As per our ESG matrix, Alliance Bank (ABMB MK) has an overall score of 52.		

ESG score	Weights	Scores	Final Score
Quantitative	50%	21	11
Qualitative	25%	67	17
Target	25%	100	25
<b>Total</b>			<b>52</b>

ABMB's ESG score at this stage is based on available information in FY22 and there is a lack of disclosure, especially around environmental issues. Nevertheless, the bank plans to introduce a more comprehensive ESG plan in FY23 which should aid in improving its ratings. Score of 52 is currently above average on our ESG rating (average ESG rating = 50; refer to Appendix I for our ESG Assessment Scoring).

## Appendix I

Methodology of our proprietary ESG scoring methodology.

We evaluate the ESG ratings based on quantitative, qualitative and ESG targets. We assign a score for each of these three parameters. The overall rating is based on the weighted average of the scores: quantitative (50%), qualitative (25%) and ESG target (25%).

For the quantitative, qualitative and ESG target, the sub-parameters are assigned a score - '0' for data not available, '+1' for improving trajectory, positive change, 'Yes', better than peers or a positive number if historical is not available and '-1' for declining trajectory, negative change, 'No', lower than peers or a negative number. The total of the scores of all the sub-parameters is divided by the total number of sub-parameters is the score of each of the three parameters.

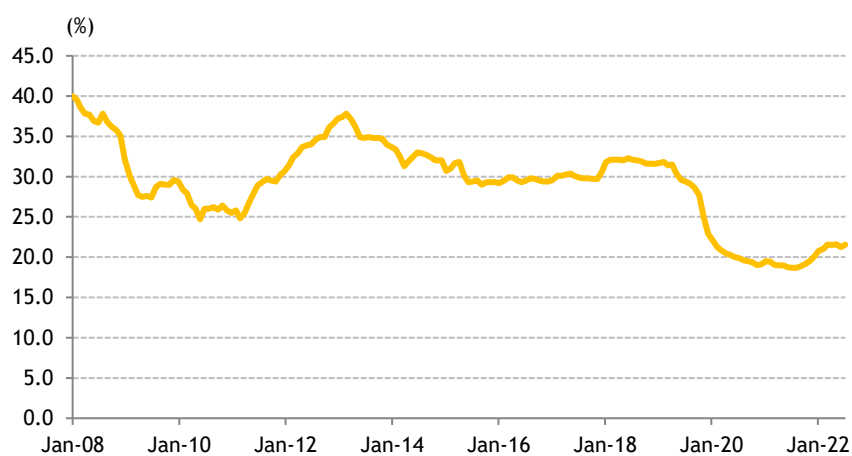
The sub-parameters may be different for different industries depending on the key areas to monitor for each industry. A company should achieve a minimum score of 50 for an average ESG rating.

## 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.

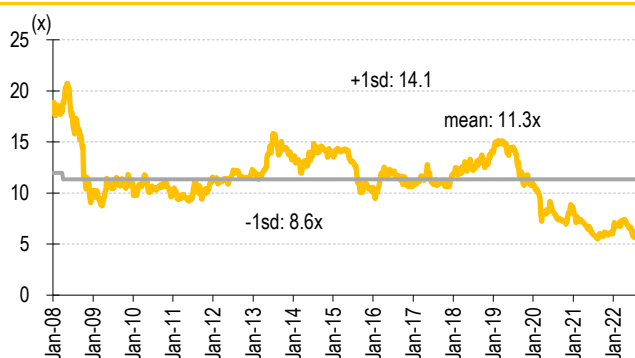
## Foreign shareholding

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

FYE 31 Mar	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Key Metrics</b>					
Core P/E (x)	11.4	10.2	8.5	7.7	7.4
Core FD P/E (x)	11.4	10.2	8.5	7.8	7.4
P/BV (x)	0.7	0.9	0.8	0.8	0.7
P/NTA (x)	0.7	1.0	0.9	0.8	0.8
Net dividend yield (%)	2.2	4.9	5.9	6.5	6.8
<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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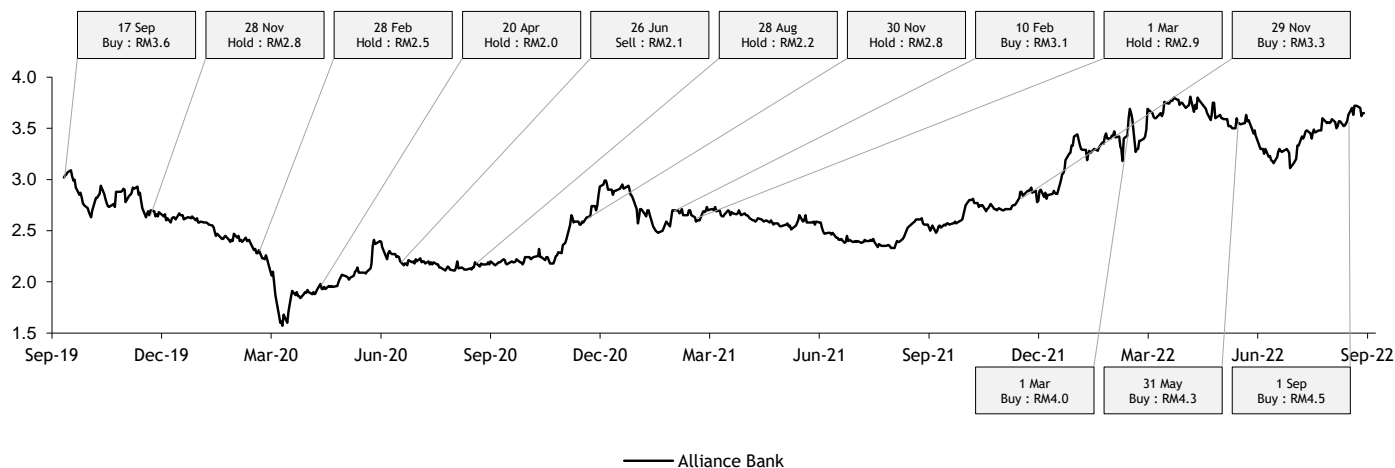
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