

# Alliance Bank (ABMB MK)

## ACCELER8 2027

### BUY maintained

ABMB has unveiled its 5-year business plan to 2027, which is dubbed ACCELER8. Among its targets to investors is to deliver a top quartile ROE among peers of >11%, which we think is quite achievable if growth momentum is sustained. Moreover, there are sufficient pre-emptive provisions that have been built up, that could be released over time to support earnings growth. We maintain a BUY on the stock with an unchanged TP of MYR4.50 (PBV of 1x, CY23E ROE of 10.2%).

### ACCELER8

ABMB's ACCELER8 strategy (2023-2027) takes on an 8-pronged approach over the next five years and they are: 1) to continue the velocity on its SME expansion strategy, 2) to support its business customers through their life cycle, 3) to broaden the consumer business, targeting attractive segments, 4) to target resilient ecosystems across their value chain, 5) to become a regional champion for selected economic corridors, 6) to drive synergies and value creation in its corporate and capital market businesses, 7) to accelerate its Islamic business and 8) to leverage partnerships to scale product offering, distribution and drive value.

### Financial targets

Among its expected deliverables to investors, the bank hopes to deliver: a) top quartile ROE among peers of >11% (MIBG FY23E: 9.9%), b) above-industry loans growth of 8-10% (MIBG FY23E: 5.7%), c) a cost/income ratio of about 45% (MIBG FY23E: 43.9%), d) sustainable dividend payout ratios (MIBG FY23E: 50%).

### ROE target looks achievable

The ROE target, in our view, is quite achievable if growth momentum is sustained. Our ROE forecast for FY24/25E of 10.2% respectively, do not yet assume any major write-backs in the group's pre-emptive provisions, which currently amount to about MYR431m (65% of FY23 net profit), which could be gradually be released over time.

FYE Mar (MYR m)	FY21A	FY22A	FY23E	FY24E	FY25E
Operating income	1,818	1,868	1,897	2,015	2,101
Pre-provision profit	1,017	1,045	1,063	1,155	1,212
Core net profit	359	573	664	729	766
Core FDEPS (MYR)	0.23	0.37	0.43	0.47	0.49
Core FDEPS growth(%)	(15.4)	59.7	15.9	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	8.7	7.9	7.5
P/BV (x)	0.7	0.9	0.8	0.8	0.8
Net dividend yield (%)	2.2	4.9	5.7	6.3	6.6
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	-	-	674	728	778
MKE vs. Consensus (%)	-	-	(1.5)	0.2	(1.6)

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# BUY

Share Price	MYR 3.73
12m Price Target	MYR 4.50 (+21%)
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.

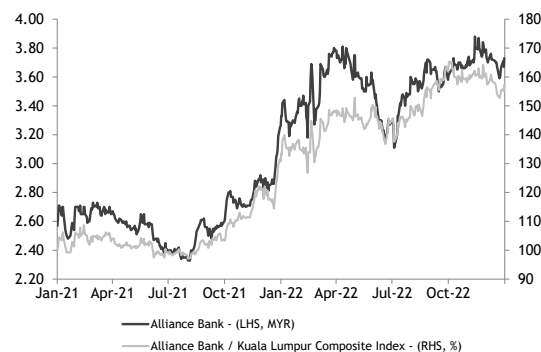
### Statistics

52w high/low (MYR)	3.88/3.11
3m avg turnover (USDm)	1.5
Free float (%)	43.8
Issued shares (m)	1,548
Market capitalisation	MYR5.8B USD1.3B

### Major shareholders:

Vertical Theme Sdn. Bhd.	29.1%
Employees Provident Fund	10.7%
Global Success Network Sdn. Bhd.	4.8%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	(1)	4	14
Relative to index (%)	(2)	(3)	21

Source: FactSet

ESG@MAYBANK IBG

Tear Sheet Insert

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

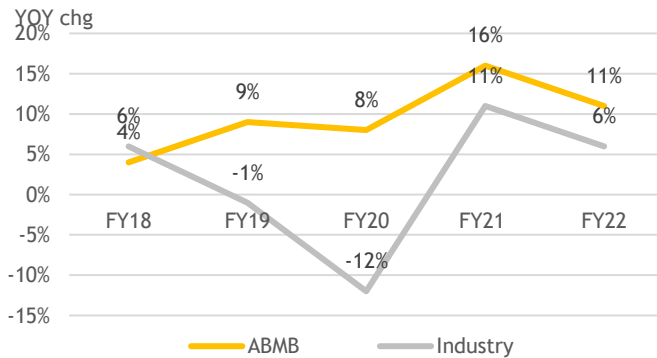
- ABMB has not had any material accounting & tax, lobbying & public policy, sanctions related, data privacy or security controversies in the past 5 years.
- The CEO's remuneration was MYR10.1m in FY22, representing 1.8% of the group's net profit.
- As at 31 Mar 2022, the Board of Directors had nine members, 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).

## Niche in the SME segment

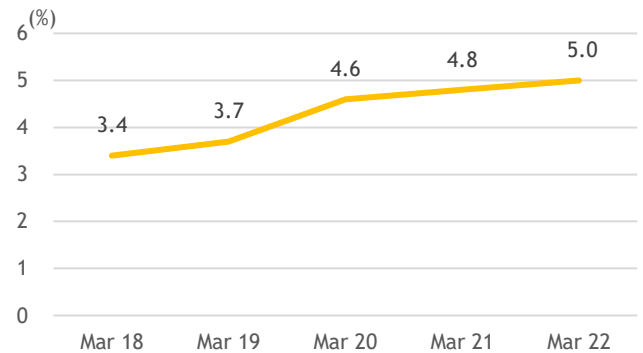
ABMB, while being the smallest domestic financial group in Malaysia by asset size, has long carved itself a niche in the SME segment, and this is reflected in the chart below, whereby a) its SME loan growth has been faster than peers over the past four years and b) its SME loan market share has steadily grown from 3.4% end-Mar 2018 to 5.0% end-Mar 2022. SME loans accounted for a hefty 34% of its total loan portfolio as at end-Sep 2022 relatively to a peer average of about 16%.

**ABMB: SME loan growth**



Source: Bank, Maybank IBG Research

**ABMB: SME loan market share**



Source: Bank, Maybank IBG Research

## Rationale for the strategy refresh

ABMB's strategy refresh is premised on three broad objectives:

- Broadening growth beyond the SME segment: Replicating its successful challenger DNA in SME to other customer segments;
- Building competitive advantages to drive sustainable long-term growth across those segments;
- Increasing value for key stakeholders (investors, customers, employees, community).

## ACCELER8 2027

ABMB's refreshed group strategy, ACCELER8 2027, comprises an 8-pronged approach:

1. Continue velocity on SME expansion strategy: Scale up its sales capacity and equip its salesforce with better digital tools; leverage digital channels to reach a wider base of SMEs.
2. Support its business customers through their life cycle: Aim to be the main banker of choice for businesses across their life cycle.
3. Broaden consumer business, targeting attractive segments: Target young professionals or the HENRY (High Earners, Not Rich Yet) with strong future growth potential; better serve high net-worth customers across their personal and business needs.
4. Target resilient ecosystems across their value chain: Create holistic solutions for targeted ecosystems (eg green technology); build deeper domain expertise while partnering with third party providers to offer differentiated solutions.

5. Become regional champion for selected economic corridors: Capture higher share of growth from fast-growing economic corridors (eg Northern states and East Malaysian States); Strengthen and empower regional teams to deliver fast and relevant solutions to clients.
6. Drive synergies & value creation in its corporate & capital market business: Drive synergies of corporate and capital markets business through enhanced client coverage model; intensified account planning to stay close and relevant to customers.
7. Accelerate Islamic business, leveraging unique propositions: Focus on unique/innovative propositions (eg Halal in One program); Scale up sustainability solutions.
8. Leverage partnerships to scale product offering, distribution and drive value: Expand distribution reach, widen product range and capabilities.

## Targeted outcomes

Stemming from the group's ACCELER8 strategy, management hopes to deliver the following outcomes to its various stakeholders:

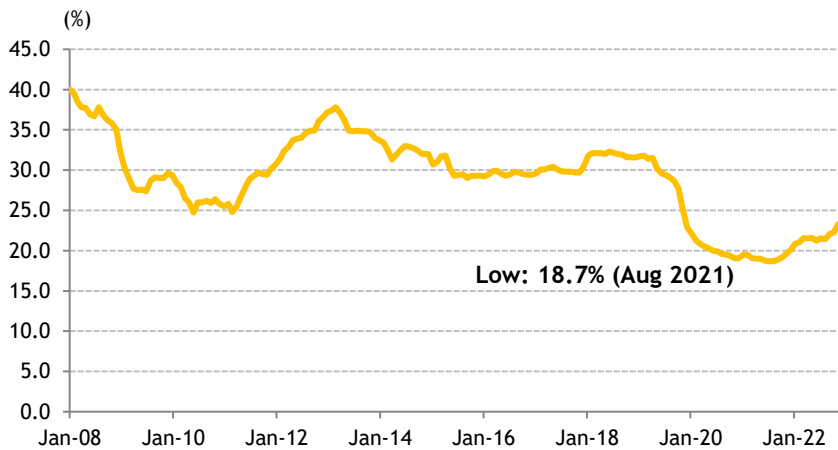
**Investors:** a) top quartile ROE among peers (>11%); b) loans growth above industry (8-10%); c) targeted cost/income ratio of about 45%; d) maintain dividend ratios.

**Customers:** a) Industry leading NPS; b) Best-in-class key operational metrics eg turnaround time, call and complaints resolution; c) High customer wallet share and d) Industry recognition for innovative customer centric solutions.

**Employees:** a) Top employer of choice; b) High Voice of Employee scores; c) High retention rates.

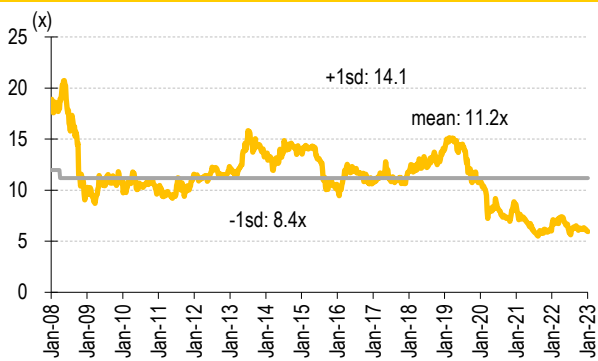
**Community:** a) High FTSE4Good Score; b) Industry recognition for ESG; Strong sustainability progress eg new sustainable banking business, C5 portfolio percentage and greenhouse gas emissions.

**Alliance Bank's foreign shareholding (22.99% end-Dec 2022)**



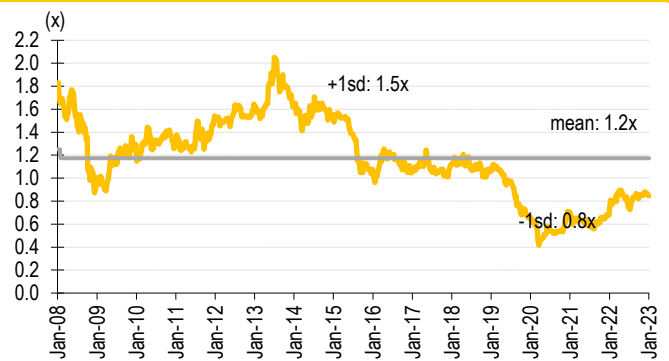
Source: Bank, Maybank IBG Research

**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	8.7	7.9	7.5
Core FD P/E (x)	11.4	10.2	8.7	7.9	7.5
P/BV (x)	0.7	0.9	0.8	0.8	0.8
P/NTA (x)	0.7	1.0	0.9	0.8	0.8
Net dividend yield (%)	2.2	4.9	5.7	6.3	6.6
<b>INCOME STATEMENT (MYR m)</b>					
Interest income	1,793.4	1,684.5	1,971.3	2,128.0	2,211.0
Interest expense	(776.8)	(562.9)	(776.5)	(891.9)	(940.2)
<b>Net interest income</b>	<b>1,016.7</b>	<b>1,121.6</b>	<b>1,194.8</b>	<b>1,236.1</b>	<b>1,270.8</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	113.0	119.8	127.0
Other income	220.3	187.0	171.9	221.3	242.7
<b>Total non-interest income</b>	<b>422.4</b>	<b>348.5</b>	<b>285.0</b>	<b>341.1</b>	<b>369.7</b>
<b>Operating income</b>	<b>1,817.6</b>	<b>1,867.7</b>	<b>1,897.1</b>	<b>2,015.4</b>	<b>2,100.7</b>
Staff costs	(511.7)	(529.6)	(545.5)	(572.8)	(601.4)
Other operating expenses	(289.0)	(293.3)	(288.2)	(287.6)	(287.3)
<b>Operating expenses</b>	<b>(800.7)</b>	<b>(822.9)</b>	<b>(833.7)</b>	<b>(860.4)</b>	<b>(888.7)</b>
<b>Pre-provision profit</b>	<b>1,016.9</b>	<b>1,044.7</b>	<b>1,063.4</b>	<b>1,155.0</b>	<b>1,212.0</b>
Loan impairment allowances	(532.9)	(217.2)	(190.0)	(174.7)	(182.6)
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>873.5</b>	<b>980.4</b>	<b>1,029.4</b>
Income tax	(125.2)	(254.5)	(209.6)	(251.0)	(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>663.8</b>	<b>729.4</b>	<b>765.9</b>
<b>Core net profit</b>	<b>358.8</b>	<b>572.8</b>	<b>663.8</b>	<b>729.4</b>	<b>765.9</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	51,637.6
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>70,206.0</b>
Deposits from customers	48,488.5	48,186.4	50,534.1	52,685.4	54,933.6
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	3,666.6	3,745.8	3,841.4
<b>Total liabilities</b>	<b>54,463.4</b>	<b>55,431.2</b>	<b>57,759.5</b>	<b>60,078.7</b>	<b>62,515.5</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	5,394.7	5,759.4	6,142.4
Shareholders' funds	6,257.8	6,416.7	6,942.8	7,307.5	7,690.5
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	6,942.8	7,307.5	7,690.5
<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>70,206.0</b>

FYE 31 Mar	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Key Ratios</b>					
<b>Growth (%)</b>					
Net interest income	3.7	10.3	6.5	3.5	2.8
Non-interest income	27.8	(17.5)	(18.2)	19.7	8.4
Operating expenses	(0.8)	2.8	1.3	3.2	3.3
Pre-provision profit	15.3	2.7	1.8	8.6	4.9
Core net profit	(15.4)	59.7	15.9	9.9	5.0
Gross loans	1.1	4.6	5.7	4.5	4.5
Customer deposits	0.1	(0.6)	4.9	4.3	4.3
Total assets	(0.4)	1.9	4.6	4.1	4.2
<b>Profitability (%)</b>					
Non-int. income/Total income	23.2	18.7	15.0	16.9	17.6
Average lending yields	3.69	3.48	3.87	3.97	3.97
Average cost of funds	2.27	1.77	2.31	2.47	2.50
Net interest margin	2.30	2.53	2.60	2.58	2.56
Cost/income	44.1	44.1	43.9	42.7	42.3
<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)	(1.3)
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	168.5
<b>Capital adequacy (%)</b>					
CET1	16.5	16.4	16.0	16.2	16.4
Tier 1 capital	17.4	17.3	16.0	16.2	16.4
Risk-weighted capital	21.8	21.4	19.8	19.9	20.0
<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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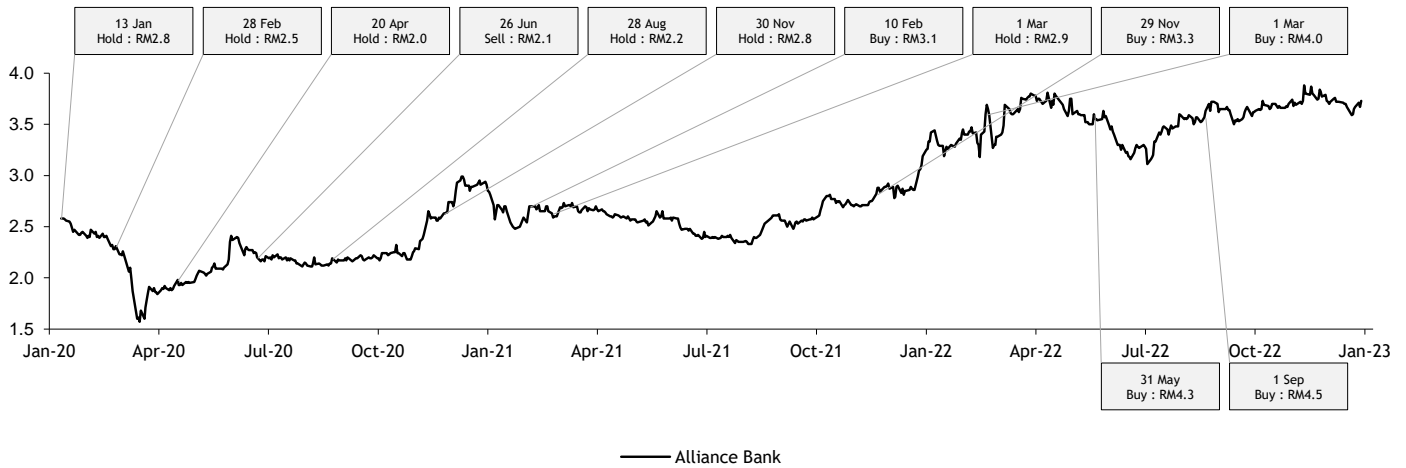
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