

Alliance Bank (ABMB MK)

Tracking expectations

BUY maintained

ABMB continues to see fairly robust loan growth and fairly stable margins. Moreover, non-interest income (NOII) is expected to hold up. An offset to earnings this year could be expectation of higher credit costs on a YoY basis, but this has already been factored into our forecasts. ABMB is expected to announce its 1QFYE3/25 results on Aug 29th. We maintain our BUY call on ABMB with an unchanged TP of MYR4.35 (CY24E PBV target of 0.9x; 9.9% ROE). Dividend yields of 6% provide support.

Loan growth tracking expectations

ABMB's loan growth continues to be robust, and should average about 8% for FY25E, in our opinion, driven predominantly by lending to SMEs and personal financing. Lending to mortgages is expected to be measured, given the price war in that segment, while lending to corporates is selective. Net interest margins are expected to be stable in 1QFY25, while NOII is expected to hold up, after expanding 14% YoY in FY24. Expenses are likely to track revenue growth, with a stable cost/income ratio of around 48%.

Tracking to guidance

At this stage, ABMB's financials appear to be tracking to guidance and just to recap, targets for FY25 include a) loan growth of 8-10% (FY24 actual: 13.6%; MIBG: 8.0%), b) NIMs of 2.40-2.45% (FY24: 2.48%; MIBG: 2.41%), c) CIR -48% (FY24: 48.2%, MIBG: 48.3%), credit cost 30-35bps (FY24: 25.8bps; MIBG: 30bps).

Room for rerating?

As it stands, our FY25E ROE of 9.9% trails management's FY25 ROE target of >10%. Certainly the ability to sustain ROEs of >10% could contribute to further upwards rerating of the bank. ABMB's CET1 ratio stood at 12.5% end-Mar 2024, which we believe is comfortable. With an expected dividend payout of 50%, yields are decent at about 6%.

FYE Mar (MYR m)	FY23A	FY24A	FY25E	FY26E	FY27E
Operating income	1,920	2,020	2,158	2,240	2,313
Pre-provision profit	1,038	1,047	1,134	1,175	1,202
Core net profit	678	690	725	770	809
Core FDEPS (MYR)	0.44	0.45	0.47	0.50	0.52
Core FDEPS growth(%)	18.3	1.9	5.0	6.3	5.0
Net DPS (MYR)	0.22	0.22	0.23	0.25	0.26
Core FD P/E (x)	7.8	8.3	8.3	7.8	7.4
P/BV (x)	0.8	0.8	0.8	0.8	0.7
Net dividend yield (%)	6.5	6.0	6.0	6.4	6.7
Book value (MYR)	4.35	4.63	4.86	5.11	5.37
ROAE (%)	10.3	9.9	9.9	10.0	10.0
ROAA (%)	1.1	1.0	0.9	0.9	0.9
Consensus net profit	-	-	733	785	848
MIBG vs. Consensus (%)	-	-	(1.2)	(1.8)	(4.7)

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BUY

Share Price	MYR 3.88
12m Price Target	MYR 4.35 (+12%)
Previous Price Target	MYR 4.35

Company Description

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

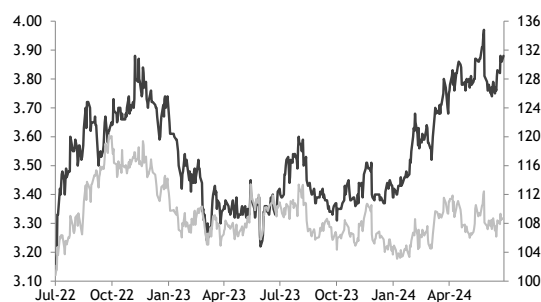
Statistics

52w high/low (MYR)	3.97/3.31
3m avg turnover (USDm)	1.2
Free float (%)	43.7
Issued shares (m)	1,548
Market capitalisation	MYR6.0B USD1.3B

Major shareholders:

Vertical Theme Sdn. Bhd.	29.1%
Employees Provident Fund	10.2%
Global Success Network Sdn. Bhd.	5.1%

Price Performance



	-1M	-3M	-12M
Absolute (%)	2	5	14
Relative to index (%)	1	(0)	(1)

Source: FactSet

1. Investment thesis

1.1 Loan growth momentum

Loan growth momentum continues to be encouraging, and is currently tracking management's target of 8-10% for FY25. The SME and commercial banking segments continue to see double-digit loan growth while in the consumer segment, mortgages (mainly to the primary market) are expanding, but at a slower mid-single digit pace, due to price competition. Personal financing provides support to consumer loan growth. Corporate lending has been selective. Our forecast assumes an FY25 loan growth of 8% i.e. at the lower end of management's target.

1.2 CASA growth still challenging

CASA growth remains challenging but ABMB's CASA ratio remains above 40% (41.6% end-Mar 2024), which is still one of the highest in the industry. Stripping out Alliance SavePlus, which is a digital savings account that offers up to 3% interest, the group's CASA ratio would be about 35%.

1.3 Nevertheless, NIMs are stable...

ABMB's NIM averaged 2.48% in FY24 and management had guided for NIMs to marginally compress to 2.40-2.45% in FY25. 1QFY25 NIMs are holding up within this range currently, as the bank has not been aggressive in pursuing deposits. As it stands, our FY25 forecast assumes a NIM of 2.41%, which is at the lower end of the targeted range.

1.4 NOII holding up

In FY24, ABMB's non-interest income (NOII) rose 14% YoY, aided by higher derivatives income and higher wealth management fees, mitigated in part by unrealized investment and forex losses. Wealth management income continues to expand and NOII is expected to hold up should investment and forex income fare better than expected.

1.5 CIR expected to be unchanged

Management had previously guided for the group's cost/income ratio (CIR) to remain relatively unchanged at 48% in FY25 (48.2% in FY24). As such, expense growth is expected to keep pace with revenue expansion, as the group continues to invest in its digital/IT infrastructure. Our forecasts already assume a CIR of 48.3% for FY25, which factors in operating expense growth of 6.1%.

1.6 Stable asset quality

Asset quality is stable, though there is still some slight deterioration on the SME front. In FY24, the group's overall GIL ratio improved to 2.11% end-Mar 2024 from 2.51% end-Mar 2023, but its SME GIL ratio was a tad higher at 1.9% end-Mar 2024 versus 1.7% end-Mar 2023.

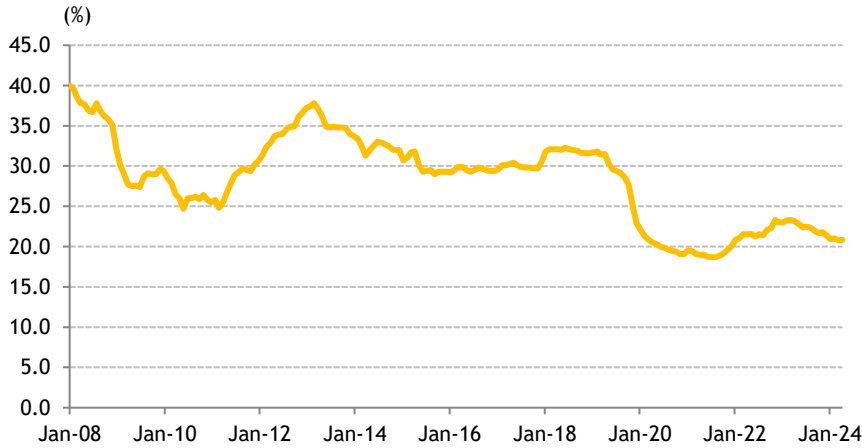
1.7 Credit cost of 30-35bps

Against credit cost of 25.8bps in FY24, management has guided for credit cost of 30-35bps in FY25. Our forecasts currently assume a credit cost of 30bps for FY25. Loan loss coverage (LLC) end-Mar 2024 was 100.6% (114% including regulatory reserves) and while the group had management overlays of MYR121m end-Mar 2024, it is our opinion that this amount is likely to be reallocated to other loans, rather than written back, so as to ensure that the LLC level is maintained above 100%.

1.8 Capital levels comfortable

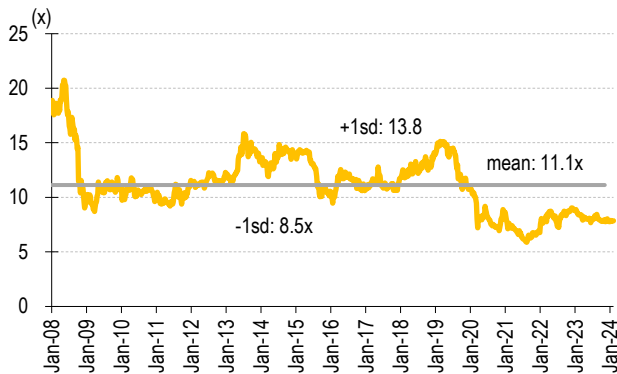
ABMB's CET1 ratio stood at 12.5% end-Mar 2024, which we believe is comfortable for a domestic-focused bank. With an expected dividend payout of 50%, yields are attractive at over 6%.

Alliance Bank's foreign shareholding (May 2024: 20.79%)



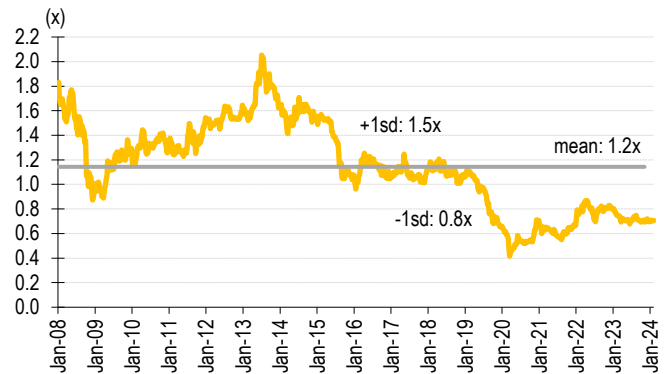
Source: Bank, Maybank IBG Research

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	FY23A	FY24A	FY25E	FY26E	FY27E
Key Metrics					
Core P/E (x)	7.8	8.3	8.3	7.8	7.4
Core FD P/E (x)	7.8	8.3	8.3	7.8	7.4
P/BV (x)	0.8	0.8	0.8	0.8	0.7
P/NTA (x)	0.8	0.9	0.9	0.8	0.8
Net dividend yield (%)	6.5	6.0	6.0	6.4	6.7
INCOME STATEMENT (MYR m)					
Interest income	1,975.8	2,465.8	2,600.9	2,734.2	2,879.8
Interest expense	(745.7)	(1,156.3)	(1,199.6)	(1,298.0)	(1,369.4)
Net interest income	1,230.1	1,309.6	1,401.3	1,436.2	1,510.4
Islamic banking income	452.8	440.1	462.1	485.2	509.5
Net insurance income	0.0	0.0	0.0	0.0	0.0
Net fees and commission	110.8	147.3	151.7	156.3	161.0
Other income	126.1	123.5	143.0	162.4	131.7
Total non-interest income	236.9	270.8	294.8	318.6	292.7
Operating income	1,919.8	2,020.5	2,158.2	2,240.0	2,312.6
Staff costs	(572.6)	(629.8)	(673.9)	(707.6)	(743.0)
Other operating expenses	(308.8)	(343.9)	(350.4)	(357.1)	(367.3)
Operating expenses	(881.4)	(973.7)	(1,024.3)	(1,064.7)	(1,110.3)
Pre-provision profit	1,038.4	1,046.7	1,133.8	1,175.3	1,202.3
Loan impairment allowances	(152.3)	(134.9)	(173.9)	(155.0)	(131.1)
Other allowances	0.5	(0.5)	0.0	0.0	0.0
Associates & JV income	0.0	0.0	0.0	0.0	0.0
Pretax profit	886.6	911.3	959.9	1,020.3	1,071.2
Income tax	(208.8)	(220.8)	(235.2)	(250.0)	(262.4)
Minorities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	677.8	690.4	724.7	770.3	808.7
Core net profit	677.8	690.4	724.7	770.3	808.7
BALANCE SHEET (MYR m)					
Cash & deposits with banks	3,570.7	4,596.7	5,056.3	5,562.0	6,118.1
Sec. under resale agreements	0.0	0.0	0.0	0.0	0.0
Derivatives financial assets	221.1	183.0	130.0	130.0	130.0
Dealing securities	265.2	335.2	352.0	369.6	388.1
Available-for-sale securities	11,882.9	13,917.8	14,196.1	14,480.0	14,769.6
Investment securities	0.0	0.0	0.0	0.0	0.0
Loans & advances	47,926.0	54,720.8	57,425.9	60,796.1	64,090.4
Central bank deposits	979.6	1,125.4	1,181.7	1,240.8	1,302.8
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	166.6	355.1	357.5	360.0	362.5
Intangible assets	440.4	462.4	459.4	456.4	453.4
Other assets	857.9	1,249.8	1,323.2	1,401.3	1,484.4
Total assets	66,310.5	76,946.1	80,482.0	84,796.1	89,099.3
Deposits from customers	50,849.0	57,397.5	61,091.3	64,676.7	68,181.2
Deposits from banks & FIs	1,719.3	2,055.1	2,157.8	2,265.7	2,379.0
Derivatives financial instruments	366.1	287.1	287.1	287.1	287.1
Subordinated debt	0.0	0.0	0.0	0.0	0.0
Other securities in issue	1,571.5	1,571.9	1,571.9	1,571.9	1,571.9
Other borrowings	675.6	2,022.7	2,022.7	2,022.7	2,022.7
Insurance liabilities	0.0	0.0	0.0	0.0	0.0
Other liabilities	4,382.3	6,436.7	5,825.8	6,061.4	6,342.5
Total liabilities	59,563.9	69,771.0	72,956.6	76,885.5	80,784.4
Share capital	1,548.1	1,548.1	1,548.1	1,548.1	1,548.1
Reserves	5,198.5	5,627.0	5,977.3	6,362.4	6,766.8
Shareholders' funds	6,746.6	7,175.1	7,525.4	7,910.5	8,314.9
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	6,746.6	7,175.1	7,525.4	7,910.5	8,314.9
Total liabilities & equity	66,310.5	76,946.1	80,482.0	84,796.1	89,099.3

FYE 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
Key Ratios					
Growth (%)					
Net interest income	9.7	6.5	7.0	2.5	5.2
Non-interest income	(32.0)	14.3	8.9	8.1	(8.1)
Operating expenses	7.1	10.5	5.2	3.9	4.3
Pre-provision profit	(0.6)	0.8	8.3	3.7	2.3
Core net profit	18.3	1.9	5.0	6.3	5.0
Gross loans	6.2	13.6	8.0	6.0	5.5
Customer deposits	5.5	12.9	6.4	5.9	5.4
Total assets	7.2	16.0	4.6	5.4	5.1
Profitability (%)					
Non-int. income/Total income	12.3	13.4	13.7	14.2	12.7
Average lending yields	3.92	4.23	4.07	4.07	4.07
Average cost of funds	2.17	2.92	2.17	1.85	1.91
Net interest margin	2.64	2.48	2.41	2.36	2.36
Cost/income	45.9	48.2	47.5	47.5	48.0
Liquidity (%)					
Loans/customer deposits	94.3	95.3	94.0	94.0	94.0
Asset quality (%)					
Net NPL	1.4	1.2	(1.5)	(1.6)	(1.7)
Gross NPL	2.5	2.1	2.0	2.0	2.0
(SP+GP)/average gross loans	0.3	0.3	0.3	0.3	0.2
Loan loss coverage	102.8	100.6	(154.9)	(150.9)	(148.7)
Capital adequacy (%)					
CET1	13.8	12.5	12.5	12.4	12.4
Tier 1 capital	15.3	13.6	12.5	12.4	12.4
Risk-weighted capital	19.4	17.2	15.7	15.6	15.5
Returns (%)					
ROAE	10.3	9.9	9.9	10.0	10.0
ROAA	1.1	1.0	0.9	0.9	0.9
Shareholders equity/assets	10.2	9.3	9.4	9.3	9.3

Source: Company; Maybank IBG Research

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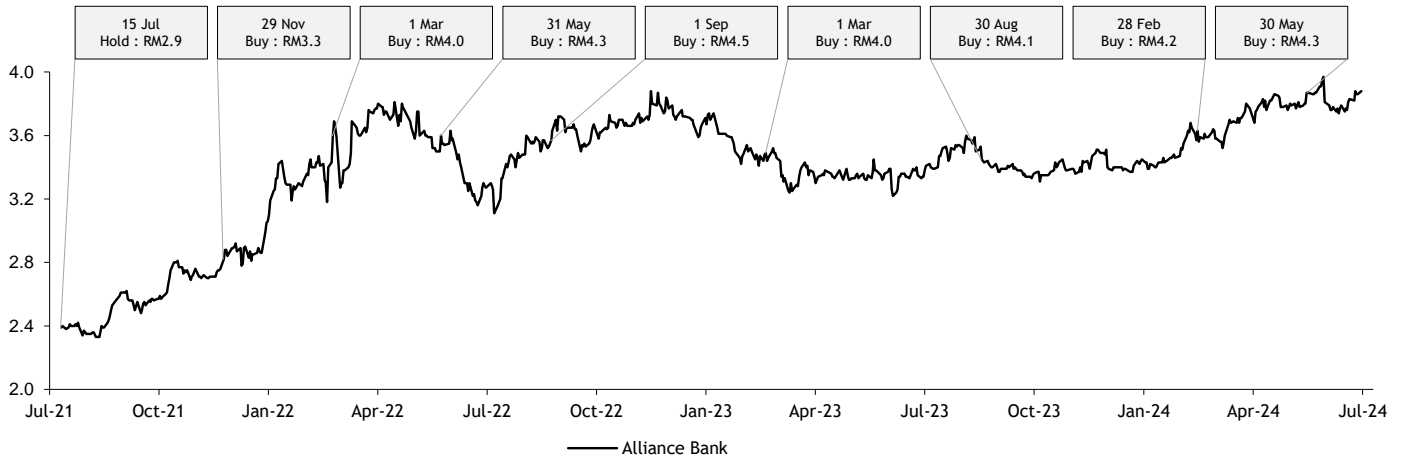
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Historical recommendations and target price: Alliance Bank (ABMB MK)



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