

30 May 2019

Alliance Bank Malaysia Bhd

Benefitting from its Higher Margin Assets

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12M19 results are in line, driven by higher NIM from higher RAR (risk adjusted returns) loans mix. TP lowered to RM4.25, given the risks ahead coming from competitive asset pricing and higher provisioning given the higher intake of PFs and SMEs moving forward.

In Line. 12M19 CNP of RM538m is in line with our estimation accounting for 99%/94% of our/market estimates. A final DPS of 8.2 sen was declared making its full-year DPS of 16.7% (in line) maintaining its dividend payout of 48%.

Better RAR loans translating higher NIM despite loans off-target. YoY, 12M19 improved +9% to on the back of an improving topline (+3%) to RM1,622m and a lower tax rate of 24% (vs. 12M18: 28%) mitigated by higher impairment allowances of RM131m (+41%). Decent topline was dragged by falling NOII (-23%) but both Islamic and NII improved at +10% and +13% respectively. Strong NII was supported by better NIM (+20bps) and loans of +6% (vs guidance/estimation of 10%/7% and system loans of 4.9%). The improvement in NIM due to asset pricing outpacing COF (26bps vs. 20bps); coming from i) full year OPR hike impact (13bps) and ii) better RAR loans mix (11bps). The higher NIM was enhanced by higher RAR loans (+27% vs. falling lower RAR loans at 6%). The RAR space was driven by SME & Commercial (+1.3%) to RM11.5b while Alliance One Account improved +2.2% to RM3.2b. Asset quality was mix with GIL falling 30bps to 1.1% while credit costs saw 8bps uptick to 0.32% (within guidance/estimation. CIR of 48% was within guidance/estimation (vs. industry's 48%).

Competitive asset pricing pushes loans growth. QoQ, was a disappointment as CNP fell 25% to RM112m due to i) falling topline (-4%) to RM403m and ii) higher impairment allowances to RM40m (+24%). Topline plunge was dragged by NOII falling 18% to RM56m. Loans grew >3% but translated to falling NII (-0.6%) as NIM fell 5bps due to competitive asset pricing. Asset quality was mixed with GIL falling by 20bps, but credit charge surged by 7bps to 0.39%.

FY20 target doable. Management set a target ROE of >10% for FY20E, driven by i) loans ~+7%, ii) 5-10bps compression in NIM, iii) CIR of 48% and (iv) credit cost of ~35bps. Loans will be driven by its RAR loans namely i) Alliance One Account (AOA), ii) PF and (iii) SMEs. Mitigating NIM compression will be the drive for higher CASA through targeting 1,800 new payroll companies (vs. FY19: 1,350 companies). While we believe these targets are doable, risks of falling NIMs and higher credit costs are a concern with competitive asset pricing and higher provisioning given the higher intake of PFs and SMEs.

Earnings revised upwards. Given our FY20E assumptions of i) loans at +7% (from +9), ii) credit costs at 35bps (from 23bps), iii) NIM (at -5bps vs. -1bps) and CIR of 48 (from 50%) we raised slightly our FY20E by ~2% to RM576bm (giving a potential ROE of <10%) and introduce our FY21E earnings at RM629m where we expect loan traction to continue with improved NIM.

TP lowered but call maintained. We lowered our TP to RM4.25 (from RM4.45) based on a target PBV of 1.1x (implying a 0.5SD below its 5-year mean) to reflect risks of higher provisioning from its SME and PF book with uncertainties prevailing. Valuations are still attractive. Coupled with the decent dividend yield of 4.7%, the potential total returns are expected to exceed 15%. Hence, we maintained our call at **OUTPERFORM**. **Risks to our call:** (i) lower-than-expected loans growth, (ii) steeper margin squeeze, (iii) higher-than-expected rise in credit charge, and (iv) further slowdown in capital market activities.

OUTPERFORM ↔

Price : **RM3.80**
Target Price : **RM4.25** ↓

Share Price Performance



KLCI 1,623.67
YTD KLCI chg -4.0%
YTD stock price chg -5.5%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	ABMB MK Equity
Market Cap (RM m)	5,882.8
Shares Outstanding	1,548.1
52-week range (H)	4.49
52-week range (L)	3.57
3-mth avg daily vol:	1,273,033
Free Float	54%
Beta	0.8

Major Shareholders

Vertical Theme Sdn Bhd	29.1%
Employees Provident Fund	12.6%
Malaysia Focus Investment	4.8%

Summary Earnings Table

FY Mar (RM'm)	2019A	2020E	2021E
Net interest inc.	998.9	1,024.6	1,113.3
Islamic banking inc.	359.1	382.4	405.3
Non-interest inc.	264.1	356.0	356.0
Total income	1,622.1	1,763.0	1,874.6
Pre-tax profit	708.0	758.1	828.1
Net profit (NP)	537.6	576.2	629.4
Consensus NP		620.0	672
Earnings revision (%)		2.2%	
EPS (RM)	0.35	0.37	0.41
EPS growth (%)	9.00	7.17	9.23
Net DPS (RM)	0.17	0.18	0.20
BV/share (RM)	3.70	3.90	4.11
NTA/share (RM)	3.42	3.62	3.83
ROE (%)	9.61	9.79	10.16
PER (x)	10.94	10.21	9.35
Price/book (x)	1.03	0.98	0.93
Dividend yield (%)	4.4	4.7	5.1

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Results Highlight								
Y/E : Mar (RM m)	4Q19	3Q19	QoQ Chg.	3Q18	YoY Chg.	12M19	12M18	YoY Chg.
Net Interest inc.	253.3	254.9	-0.6%	224.4	12.9%	998.9	908.7	9.9%
Net Islamic banking inc.	93.6	94.6	-1.0%	83.4	12.3%	359.1	318.2	12.8%
Non-interest inc.	56.5	68.9	-18.1%	95.7	-41.0%	264.1	345.1	-23.5%
Total inc.	403.4	418.4	-3.6%	403.5	0.0%	1,622.1	1,572.0	3.2%
Other operating exp	(203.5)	(196.8)	3.4%	(212.1)	-4.1%	(774.9)	(794.0)	-2.4%
Pre-provisioning Operating Profit	200.0	221.6	-9.8%	191.4	4.5%	847.2	778.0	8.9%
(Allowances) / write-backs	(40.5)	(32.6)	24.1%	(37.6)	7.6%	(131.4)	(93.4)	40.7%
(Allowances) / write-backs on other assets	(8.6)	0.2	-4230.8%	(0.1)	13758.1%	(7.8)	(0.1)	12508.1%
Non-operating gains / (losses)	0.03	0.0	-36%	0.0	-39.1%	0.1	0.0	463.6%
Pre-tax profit	150.9	189.3	-20.3%	153.7	-1.8%	708.0	684.6	3.4%
Tax & minorities	(39.1)	(40.3)	(0.0)	(40.9)	-4.2%	(170.4)	(191.4)	-10.9%
Net profit	111.8	148.9	-25.0%	112.9	-1.0%	537.6	493.2	9.0%
Core net profit	111.8	148.9	-25.0%	112.9	-1.0%	537.6	493.2	9.0%
EPS (RM)	0.07	0.10	-25.0%	0.07	-1.0%	0.35	0.32	9.0%
Core EPS (RM)	0.07	0.10	-25.0%	0.07	-1.0%	0.35	0.32	9.0%
Net DPS declared (RM)	0.08	-		0.1		0.17	0.15	
G. loans	42,730	41,410	3.2%	40,307	6.0%	42,730	40,307	6.0%
N. loans	42,320	41,015	3.2%	39,990	5.8%	42,320	39,990	5.8%
Customer deposits	45,018	42,618	5.6%	42,740	5.3%	45,018	42,740	5.3%
Current & savings acc.	0	16,235	-100.0%	15,954	-100.0%	0	15,954	-100.0%
BV/share (RM)	3.70	3.60	2.9%	3.53	5.0%	3.70	3.53	5.0%
NTA/share (RM)	3.42	3.32	3.0%	3.26	4.9%	3.42	3.26	4.9%
Net Interest Margin	2.65%	2.70%		2.39%		2.48%	2.28%	
Cost-income ratio	2.38%	2.38%		2.50%		2.50%	2.40%	
Effective tax rate	50.4%	47.0%		52.6%		47.8%	50.5%	
	25.9%	21.3%		26.6%		24.1%	28.0%	
G. loan-deposit								
N. loan-deposit	94.9%	97.2%		94.3%		94.9%	94.3%	
CASA-deposits	94.0%	96.2%		93.6%		94.0%	93.6%	
Gross impaired loans ratio	0.0%	38.1%		37.3%		0.0%	37.3%	
Total allowances-loans	1.1%	1.3%		1.4%		1.1%	1.4%	
Loan loss coverage	1.2%	1.2%		0.9%		1.2%	0.9%	
Annualised credit charge / (writeback) ratio	105.5%	90.8%		64.5%		105.5%	64.5%	
CET 1 capital ratio	0.39%	0.32%		0.38%		0.32%	0.24%	
Tier 1 capital ratio	13.4%	11.6%		13.4%		13.4%	13.4%	
Total capital ratio	14.1%	11.6%		13.8%		14.1%	13.8%	
Annualised ROE	18.5%	14.5%		18.3%		18.5%	18.3%	

Source: Company, Kenanga Research

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Peer Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div Yld (%)	Target Price (RM)	Rating
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.			
BANKING																	
AFFIN BANK BHD	2.07	4,111.1	N	12/2019	20.0%	8.0%	12.4%	19.1%	8.6	8.6	7.2	0.4	0.5	5.6%	2.4%	2.60	OP
ALLIANCE BANK MALAYSIA BHD	3.80	5,882.8	N	03/2020	9.4%	8.0%	7.2%	9.2%	10.9	10.2	9.3	1.0	1.0	9.8%	4.7%	4.25	OP
AMMB HOLDINGS BHD	4.36	13,141.8	N	03/2020	9.7%	4.8%	-4.4%	2.8%	8.7	9.1	8.9	0.7	0.7	7.5%	4.6%	5.10	OP
BIMB HOLDINGS BHD	4.56	8,045.1	Y	12/2019	7.8%	8.5%	7.6%	13.6%	11.7	11.3	10.4	1.6	1.5	14.0%	3.5%	4.80	MP
CIMB GROUP HOLDINGS BHD	5.15	50,096.2	N	12/2019	4.6%	4.8%	-16.1%	-0.9%	8.6	10.6	11.1	0.9	0.9	8.5%	4.4%	6.25	OP
HONG LEONG BANK BERHAD	18.58	38,007.2	N	06/2019	5.8%	5.7%	2.0%	9.0%	14.4	14.1	13.0	1.6	1.5	11.0%	2.6%	20.05	MP
MALAYAN BANKING BHD	9.05	99,999.6	N	12/2019	5.2%	4.3%	1.6%	1.2%	12.3	12.1	12.0	1.3	1.2	10.1%	6.4%	10.20	OP
MALAYSIA BUILDING SOCIETY	0.92	5,878.0	N	12/2019	-1.0%	5.3%	-10.7%	10.2%	9.2	10.3	9.7	0.8	0.7	7.2%	5.4%	1.15	OP
PUBLIC BANK BERHAD	23.00	89,289.2	N	12/2019	3.9%	5.2%	-0.1%	3.5%	15.9	15.9	15.4	2.2	2.2	13.7%	3.0%	24.10	MP
RHB BANK BHD	5.74	23,017.7	N	12/2019	6.0%	4.8%	3.7%	3.6%	10.0	9.6	9.3	1.0	0.9	9.9%	3.7%	6.05	MP
Simple Average					7.1%	5.9%	0.3%	7.1%	11.0	11.2	10.6	1.1	1.1	9.7%	4.1%		

Source: Bloomberg, Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%
NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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