

28 November 2019

Alliance Bank Malaysia Bhd

Higher Provisioning Impact but Better Days Ahead

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On the surface, 1HFY20 results appear to be disappointing, coming in at 39% of our full year and consensus estimates. Don't forget though, that the 1H was marred by a one-off RM51m bond impairment in the 1Q. Credit charge remained elevated on impairments to Alliance One Account as highlighted previously (in our note of 31st October) which brought total allowance in 1H to RM133m. We see this moderating in the 2H and coupled with the recovery in NIM, thanks to the absence of OPR cut, we expect to see a much improved 2H. Keeping our forecast for the full year and Outperform Call.

Below on higher impairment. 1HFY20 CNP of RM192m fell below both our/market estimates accounting for 39% each of full-year forecasts. The short-fall stemmed from a sharp rise in provisioning in 2QFY20 arising from the higher impairments in its mortgage segment – mostly from the AOA and PF space. An interim DPS of 6.0 sen was declared (implying a 48% payout ratio and in line).

YoY, impairment charges were slightly higher than expected. 1HFY20 CNP of RM192m was down 30% YoY owing to sharp rise in provisioning from RM58.3m to RM133m as delinquent corporate accounts impacted 1QFY20 while 2QFY20 was impacted by impairments to mortgage loans in the AOA accounts. Also impacting the 1HFY20 negatively was a one-off RM51m write off for a defaulted bond. Top-line improved (+4.5%) to RM836m underpinned by Islamic income and NOII growth by 8% and 16% respectively. NOII improvement was underpinned by gains on investments (+88%) to RM47m and higher forex income by >+100% to RM9.9m. NIM as expected fell, reported YTD at 13 bps. Loans grew at 5.5% (within estimate and above system of 3.9%) driven by higher yielding Personal Use and SMEs (+27%) to RM11.7bn and PF (+31% to RM5.2bn). GIL rose 30 bps to 1.7% as it should, coming from residential property (+23 bps) and Personal Use (+14bps).

QoQ, CNP surged +51% on account of +45% surge in NOII mitigated by higher impairments (+38%) to RM77m. Topline improved +5.5% underpinned by surging NOII as both NII and Islamic income fell 2% and 1% respectively. Surging NOII boosted by gains on market revaluation of RM21m. NIM fell 9bps due to full impact of OPR cut and delinquency pricing revision. Loans at +1.3% driven by SME's (+3%) and Personal Use (+6%). Uptick in GIL by 40bps to 1.7% with credit charge on loans saw a 20bps uptick to 0.73%.

FY20E forecast maintained. Our forecast had previously penciled in RM180m loss allowance for the full year with RM70m factored into 2HFY20 (which we are keeping). Having seen the 1HFY20 allowance coming in at RM133m, we raise our allowance for the full year by RM23m to RM203m. However, we have also factored in a negative impact of RM16m to account NIM compression in 2HFY20 which now can be removed since there was no OPR cut in November. The net negative impact therefore is just RM7m at the pretax level and RM5m at the net level which is immaterial. On positive note, an interim DPS of 6.0 sen was declared (implying a 48% payout ratio and in line).

Earnings Unchanged. Our FY20E/FY21E earnings are maintained at RM487m/RM580m.

TP raised and call maintained. TP raised to RM3.45 (from RM3.30) based on unchanged PBV of 0.85x (implying -1.5SD below mean) as we rollover to FY21E, reflecting risks of further NIM compression and higher provisioning from its SME & PF books with prevailing uncertainties. Dividend is exciting at ~7%. **OUTPERFORM** maintained.

OUTPERFORM ↔

Price : **RM2.69**

Target Price : **RM3.45** ↑

Share Price Performance



KLCI	1,587.18
YTD KLCI chg	-6.1%
YTD stock price chg	-33.1%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	ABMB MK Equity
Market Cap (RM m)	4,164.4
Shares Outstanding	1,548.1
52-week range (H)	4.35
52-week range (L)	2.57
3-mth avg daily vol:	5,845,595
Free Float	44%
Beta	0.9

Major Shareholders

Vertical Theme Sdn Bhd	29.1%
Employees Provident Fund	12.2%
Focus Asia Strategies Ltd	4.8%

Summary Earnings Table

FY Mar (RM'm)	2019A	2020E	2021E
Net interest inc.	998.9	1,007.8	1,111.7
Islamic banking inc.	359.1	381.6	391.3
Non-interest inc.	264.1	271.5	301.3
Total income	1,622.1	1,660.9	1,804.3
Pre-tax profit	708.0	640.7	762.6
Net profit (NP)	537.6	486.9	579.5
Consensus NP		488.1	571.7
Earnings revision			
EPS (RM)	0.35	0.31	0.37
EPS growth (%)	9.00	(9.42)	19.02
Net DPS (RM)	0.17	0.15	0.18
BV/share (RM)	3.70	3.87	4.06
NTA/share (RM)	3.42	3.59	3.78
ROE (%)	9.61	8.31	9.44
PER (x)	7.75	8.55	7.19
Price/book (x)	0.73	0.70	0.66
Dividend yield (%)	6.2	5.6	6.7

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Other Salient Points

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.

Results Highlight								
Y/E : Mar (RM m)	2Q20	1Q20	QoQ Chg.	2Q19	YoY Chg.	6M20	6M19	YoY Chg.
Net Interest inc.	241.8	248.0	-2.5%	246.7	-2.0%	489.9	490.7	-0.2%
Net Islamic banking inc.	91.9	93.1	-1.3%	88.0	4.4%	185.0	170.9	8.3%
Non-interest inc.	95.6	65.8	45.4%	64.4	48.4%	161.4	138.7	16.3%
Total inc.	429.3	406.9	5.5%	399.2	7.5%	836.2	800.3	4.5%
Other operating exp	(198.0)	(198.1)	0.0%	(191.5)	3.4%	(396.1)	(374.7)	5.7%
Pre-provisioning Operating Profit	231.3	208.9	10.7%	207.7	11.4%	440.2	425.5	3.4%
(Allowances) / write-backs	(77.2)	(55.8)	38.5%	(21.0)	267.4%	(133.0)	(58.3)	128.1%
(Allowances) / write-backs on other assets	(2.0)	(49.4)	-95.9%	0.1	-1495.2%	(51.4)	0.6	-9172.7%
Non-operating gains / (losses)	-	0.0	-100%	0.0	-100.0%	0.0	0.1	-40.4%
Pre-tax profit	152.0	103.8	46.5%	186.8	-18.6%	255.8	367.9	-30.5%
Tax & minorities	(36.5)	(27.1)	0.3	(46.3)	-21.1%	(63.6)	(91.0)	-30.1%
Net profit	115.5	76.7	50.6%	140.5	-17.8%	192.2	276.9	-30.6%
Core net profit	115.5	76.7	50.6%	140.5	-17.8%	192.2	276.9	-30.6%
EPS (RM)	0.07	0.05	50.6%	0.09	-17.8%	0.12	0.18	-30.6%
Core EPS (RM)	0.07	0.05	50.6%	0.09	-17.8%	0.12	0.18	-30.6%
Net DPS declared (RM)	0.06	-		0.09		0.06	0.09	
G. loans	43,233	42,687	1.3%	40,972	5.5%	43,233	40,972	5.5%
N. loans	42,758	42,253	1.2%	40,576	5.4%	42,758	40,576	5.4%
Customer deposits	46,096	45,455	1.4%	42,912	7.4%	46,096	42,912	7.4%
Current & savings acc.	17,257	15,938	8.3%	16,018	7.7%	17,257	16,018	7.7%
BV/share (RM)	3.80	3.69	2.9%	3.59	5.8%	3.80	3.59	5.8%
NTA/share (RM)	3.52	3.41	3.3%	3.31	6.2%	3.52	3.31	6.2%
Net Interest Margin	2.40%	2.49%		2.54%		2.43%	2.51%	
Cost-income ratio	46.1%	48.7%		48.0%		47.4%	46.8%	
Effective tax rate	24.0%	26.1%		24.8%		24.9%	24.7%	
G. loan-deposit	93.8%	93.9%		95.5%		93.8%	95.5%	
N. loan-deposit	92.8%	93.0%		94.6%		92.8%	94.6%	
CASA-deposits	37.4%	35.1%		37.3%		37.4%	37.3%	
Gross impaired loans ratio	1.7%	1.3%		1.4%		1.7%	1.4%	
Total allowances-loans	1.3%	1.2%		1.2%		1.3%	1.2%	
Loan loss coverage	79.6%	95.4%		84.5%		79.6%	84.5%	
Annualised credit charge / (writeback) ratio	0.73%	0.53%		0.21%		0.63%	0.29%	
CET 1 capital ratio	13.5%	13.5%		13.5%		13.5%	13.5%	
Tier 1 capital ratio	14.3%	14.2%		13.9%		14.3%	13.9%	
Total capital ratio	18.6%	18.7%		18.4%		18.6%	18.4%	
Annualised ROE	8.1%	5.4%		10.3%		6.7%	10.2%	

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	1.98	3,932.3	N	12/2019	4.1%	2.9%	15.0%	15.8%	7.8	6.8	5.8	0.5	0.4	6.5%	2.8%	2.45	OP
ALLIANCE BANK MALAYSIA BHD	2.69	4,164.4	N	03/2020	5.6%	8.6%	-9.4%	19.0%	8.4	7.7	8.6	0.8	0.7	8.3%	6.2%	3.45	OP
AMMB HOLDINGS BHD	4.09	12,328.0	N	03/2020	10.4%	4.5%	-0.4%	2.8%	8.2	8.2	8.0	0.7	0.6	7.8%	4.9%	4.75	OP
BIMB HOLDINGS BHD	4.18	7,374.7	Y	12/2019	10.0%	6.6%	7.6%	13.6%	10.7	10.4	9.5	1.5	1.4	14.0%	3.9%	4.80	OP
CIMB GROUP HOLDINGS BHD	5.25	52,095.6	N	12/2019	4.6%	5.0%	-15.8%	4.1%	8.8	10.8	10.7	0.9	0.9	8.6%	4.3%	6.45	OP
HONG LEONG BANK BERHAD	16.86	36,547.7	N	06/2020	4.1%	5.1%	1.0%	0.6%	13.1	12.9	12.9	1.4	1.4	10.8%	3.0%	17.30	OP
MALAYAN BANKING BHD	8.58	96,450.9	N	12/2019	3.8%	4.3%	-2.2%	4.7%	11.7	11.9	11.4	1.2	1.1	9.7%	6.5%	9.70	OP
MALAYSIA BUILDING SOCIETY	0.85	5,672.8	N	12/2019	-4.2%	4.5%	-17.8%	8.6%	8.4	10.3	9.8	0.7	0.7	6.7%	5.9%	1.10	OP
PUBLIC BANK BERHAD	19.74	76,633.4	N	12/2019	3.9%	5.2%	-0.1%	3.4%	13.6	13.7	13.2	1.9	1.9	13.7%	3.5%	22.10	OP
RHB BANK BHD	5.77	23,138.0	N	12/2019	6.0%	4.8%	4.1%	5.7%	10.0	9.6	9.1	1.0	0.9	9.9%	3.6%	6.05	MP
Simple Average					4.8%	5.1%	-1.8%	7.8%	10.1	10.2	9.9	1.0	1.0	9.6%	4.5%		

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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