

01 March 2021

Alliance Bank Malaysia Bhd

3QFY21 Broadly Within Expectations

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9MFY21 earnings of RM308.7m (-5%) is deemed to be broadly within expectations. We are cautious of 4QFY21 still being heavy on impairments as the group appears to have asset quality concerns. Although management is taking steps to improve its books, we believe it would be a medium-term endeavour as it presently deals with greater at-risk accounts and higher repayment assistance portfolio. Downgrade to MP (from OP) with a lower CY22E GGM-derived PBV TP of RM2.50 (from RM2.70).

9MFY21 broadly within expectations. We deem 9MFY21's net profit of RM308.7m to be broadly within expectations, as it accounted for 86% and 79% of our and consensus full-year estimates. We had expected further provisions to be incurred in 4QFY21 as we believe the group could be more greatly exposed to asset quality risks. No dividend was declared during the quarter, as expected.

YoY, 9MFY21 NII increased by 3% due to cost of funds being eased by OPR cuts. Meanwhile, NOII was lifted by 41% namely on the back of gains from investment segments. Alongside leaner operating costs from lower personnel and administrative expenses, PPOP grew by 23% to RM803.2m with CIR reduced to 41.4% (-6.8ppt). The group's books seems to notably affected by Covid-19, with its GIL ratio rising to 2.5% (from 9MFY20: 1.9%). Coinciding with this, heavy provisioning of RM396.3m (+127%) was booked, raising an annualised credit costs for the year to 121 bps, +67 bps (reported credit cost: 91.3 bps, +41.8 bps). Consequently, 9MFY21 earnings fell to RM308.7m (-5%).

QoQ, 3QFY21 total income was flattish as overall business activities stayed muted for the group despite the moratorium being lifted. That said, the group saw a rise in its GIL to 2.5% (+0.8ppt), leading to management further providing for impairments of RM150.8m (from 2QFY21: RM150.5m). We reckon the group has gained more visibility of its at-risk accounts as more customers are applied for the group's AOA restructuring programs. 3QFY21 net profits closed at RM100.5m (-3%) after higher effective taxes during the period.

Key briefing highlights. Going into the MCO 2.0, management's key concern includes de-risking its assets with continued emphasis on sensitive sectors (i.e. tourism, hospitality). Meanwhile, the group's Targeted Assistance has also increased to RM6.3b (from 2QFY21: RM5.0b) from payment relief sought for its mortgage accounts. With that, the group has revised its credit cost guidance to 125 bps (from 100 bps for FY21). To better reinforce its operations, management sought to capitalise on its digital onboarding platform which could in turn reduce customer acquisition costs. Tighter screening processes will be enforced, although we do not anticipate results to translate quickly.

Post-results, we leave our FY21E earnings unchanged with some minor tweaks to our FY22E assumptions by -0.8% on potentially spill over of credit cost.

Downgrade to MP (from OP) with a lower TP of RM2.50 (from RM2.70). Our TP is based on a rolled over CY22E GGM-derived PBV of 0.56x (1.5SD below 5-year mean, from 0.65x). The derating mainly arose from us capturing a higher risk-free rate of 3.1% (from 2.7%). We believe the stock is a less favourable position compared to its peers as they could be more exposed to troubled accounts brought by the pandemic. While it has been successful in right-sizing its operations, its forward-looking sustainability is still at risk. We suggest that the risk-to-reward for the stock could be well-priced in at the moment.

Risks to our call include: (i) higher/lower-than-expected margin squeeze, (ii) higher/lower-than-expected loans growth, (iii) better/worse-than-expected deterioration in asset quality, (iv) improvement/slowdown in capital market activities, and (v) favourable/unfavourable currency fluctuations.

MARKET PERFORM

Price : RM2.65
Target Price : RM2.50

Share Price Performance



KLCI 1,577.75
YTD KLCI chg -3.0%
YTD stock price chg -8.9%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	ABMB MK Equity
Market Cap (RM m)	4,102.5
Shares Outstanding	1,548.1
52-week range (H)	2.99
52-week range (L)	1.57
3-mth avg daily vol	2,207,937
Free Float	40%
Beta	1.2

Major Shareholders

Vertical Theme Sdn Bhd	29.1%
Employees Provident Fund	13.8%
Focus Asia Strategies	4.8%

Summary Earnings Table

FY Mar (RM m)	2020A	2021E	2022E
Net interest inc.	981	994	1,011
Islamic banking inc.	378	378	387
Non-interest inc.	331	331	331
Total income	1,689	1,703	1,728
Pre-tax profit	568	472	638
Net profit (NP)	424	359	485
Consensus NP		391	462
Earnings revision (%)		0.0%	-0.8%
EPS (RM)	0.27	0.23	0.31
EPS growth (%)	-21.1	-15.5	35.1
Net DPS (RM)	0.06	0.06	0.09
BV/share (RM)	3.87	4.04	4.26
NTA/share (RM)	3.59	3.75	3.98
ROE (%)	7.24	5.86	7.55
PER (x)	9.68	11.44	8.47
Price/book (x)	0.69	0.66	0.62
Dividend yield (%)	2.3	2.4	3.3

01 March 2021

Results Highlights

	3Q	2Q	QoQ	3Q	YoY	9M	9M	YoY
FYE Mar (RM m)	FY21	FY21	Chg	FY19	Chg	FY21	FY19	Chg
Net Interest inc.	253.2	254.9	-0.7%	240.3	5.4%	749.3	726.4	3.2%
Net Islamic banking inc.	93.2	92.6	0.7%	100.9	-7.6%	280.8	285.9	-1.8%
Non-interest inc.	129.3	127.0	1.8%	81.3	59.1%	341.6	242.7	40.8%
Total inc.	475.7	474.4	0.3%	422.5	12.6%	1,371.8	1,256.8	9.1%
Other operating exp	-191.2	-190.6	0.3%	-209.3	-8.7%	-568.5	-605.4	-6.1%
Pre-provisioning Operating Profit	284.5	283.9	0.2%	213.1	33.5%	803.2	653.3	22.9%
(Allowances) / write-backs	-150.8	-150.5	0.2%	-41.9	260.2%	-396.3	-174.8	126.7%
(Allowances) / write-backs on other assets	0.3	-0.4	-162.1%	10.4	-97.5%	-0.2	-41.1	-99.5%
Non-operating gains / (losses)	0.0	0.0	-35%	0.0	-42.9%	0.1	0.1	10.6%
Pre-tax profit	134.0	133.0	0.8%	181.7	-26.2%	406.8	437.4	-7.0%
Tax & minorities	-33.6	-29.0	0.2	-47.7	-29.6%	-98.1	-111.2	-11.9%
Net profit	100.5	103.9	-3.4%	134.0	-25.0%	308.7	326.2	-5.4%
Core net profit	100.5	103.9	-3.4%	134.0	-25.0%	308.7	326.2	-5.4%
EPS (RM)	0.06	0.07	-3.4%	0.09	-25.0%	0.20	0.21	-5.4%
Core EPS (RM)	0.06	0.07	-3.4%	0.09	-25.0%	0.20	0.21	-5.4%
Net DPS declared (RM)	0.0	0.0		0.0		0.0	0.1	
G. loans	43,207	43,751	-1.2%	43,547	-0.8%	43,207	43,547	-0.8%
N. loans	42,351	43,031	-1.6%	43,055	-1.6%	42,351	43,055	-1.6%
Customer deposits	46,081	48,703	-5.4%	46,646	-1.2%	46,081	46,646	-1.2%
Current & savings acc.	20,535	20,120	2.1%	17,481	17.5%	20,535	17,481	17.5%
BV/share (RM)	4.16	4.14	0.4%	3.82	8.9%	4.16	3.82	8.9%
NTA/share (RM)	3.88	3.86	0.5%	3.54	9.5%	3.88	3.54	9.5%
Net interest margin	2.32%	2.33%		2.41%		2.30%	2.38%	
Reported Net Interest Margin	2.23%	2.22%		2.38%		2.23%	2.37%	
Cost-income ratio	40.2%	40.2%		49.5%		41.4%	48.2%	
Effective tax rate	25.0%	21.8%		26.2%		24.1%	25.4%	
G. loan-deposit	93.8%	89.8%		93.4%		93.8%	93.4%	
N. loan-deposit	91.9%	88.4%		92.3%		91.9%	92.3%	
CASA-deposits	44.6%	41.3%		37.5%		44.6%	37.5%	
Gross impaired loans ratio	2.5%	1.7%		1.9%		2.5%	1.9%	
Total allowances-loans	2.2%	1.9%		1.4%		2.2%	1.4%	
Loan loss coverage	87.2%	106.8%		72.7%		87.2%	72.7%	
Annualised credit charge / (writeback) ratio	1.39%	1.38%		0.39%		1.21%	0.54%	
CET 1 capital ratio	15.3%	15.4%		13.2%		15.3%	13.2%	
Tier 1 capital ratio	16.3%	16.3%		14.0%		16.3%	14.0%	
Total capital ratio	20.7%	20.7%		18.3%		20.7%	18.3%	
Annualised ROE	6.4%	6.8%		9.2%		6.6%	7.5%	

Source: Company, Kenanga Research

01 March 2021

Peer Table 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.	1-Yr. Fwd.			
Stocks Under Coverage																		
AFFIN BANK BHD	1.76	3,660.4	N	12/2021	-2.6%	3.0%	46.1%	9.8%	15.9	10.9	9.9	0.4	0.4	3.5%	2.8%	1.40	UP	
ALLIANCE BANK MALAYSIA BHD	2.65	4,102.5	N	03/2021	2.4%	2.9%	-15.5%	35.1%	9.7	11.4	8.5	0.7	0.7	5.9%	2.4%	2.50	MP	
AMMB HOLDINGS BHD	3.16	9,510.4	N	03/2021	0.3%	4.5%	-27.4%	35.3%	7.1	9.8	7.2	0.5	0.5	5.1%	3.6%	3.70	OP	
BIMB HOLDINGS BHD	4.06	7,525.8	Y	12/2021	7.6%	3.9%	6.1%	0.8%	10.5	9.9	9.8	1.2	1.1	11.5%	3.4%	5.25	OP	
CIMB GROUP HOLDINGS BHD	4.33	42,966.4	N	12/2021	-9.3%	-0.3%	-73.8%	176.0%	9.4	36.0	13.0	0.8	0.8	2.1%	1.1%	3.60	UP	
HONG LEONG BANK BHD	18.00	39,018.9	N	06/2021	14.8%	9.6%	14.3%	6.3%	14.8	12.9	12.2	1.4	1.3	10.1%	2.0%	18.50	MP	
MALAYAN BANKING BHD	8.03	91,654.4	N	12/2022	-4.7%	2.8%	8.8%	19.7%	13.3	12.2	10.2	1.1	1.1	8.7%	7.0%	9.10	OP	
MALAYSIA BUILDING SOCIETY BHD	0.675	4,708.4	N	12/2021	66.6%	3.0%	173.9%	14.4%	17.1	6.2	5.5	0.5	0.5	8.1%	4.4%	0.820	OP	
PUBLIC BANK BHD	4.16	80,748.5	N	12/2021	1.4%	2.3%	15.6%	3.1%	16.6	14.3	13.9	1.7	1.6	11.6%	3.4%	4.55	OP	
RHB BANK BHD	5.42	21,734.4	N	12/2021	-6.6%	-2.6%	-18.1%	16.0%	8.8	10.7	9.2	0.8	0.8	7.7%	3.3%	6.40	OP	
Simple Average					7.0%	2.9%	13.0%	31.6%	12.3	13.4	9.9	0.9	0.9	7.4%	3.3%			

Source: Kenanga Research

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01 March 2021

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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