

29 November 2021

Alliance Bank Malaysia Bhd

1HFY22 Beat Expectations

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1HFY22 net earnings of RM318.8m (+53%) came above expectations mainly due to improvements in provisioning. An interim dividend of 8.3 sen, which is also above our expectation as management applied a higher payout. The existing landscape is expected to be sustainable as the group's exposure is positively tied with the economy recovery. With that, we increase our FY21E/FY22E earnings by 15%/18%. Upgrade to MP with a higher GGM-derived PBV TP of RM2.65 (from RM2.35).

1HFY22 beat expectations. 1HFY22 net profit of RM318.8m was better than expected, amounting to 67%/71% of our/consensus full-year estimate. This was mainly due to lower-than-expected provisions and better-than-expected cost management. An interim dividend of 8.3 sen (40% payout) was announced, which also beats our expectations. We had previously anticipated a full-year payment of 8.6 sen based on a 25% payout ratio, which we now raise to 14.0 sen. The group pays its dividends bi-annually.

YoY, 1HFY22 total income improved by 5% to RM935.9m. This was due to the 9% increase in NII being softened by an 11% decrease in NOII from weaker treasury and investment gains. Although loans base was flattish, NIMs expanded (2.53%, +24bps) thanks to a higher CASA mix (49.6%, +8.3ppt) which reduced cost of funds. Coinciding with the higher top-line, CIR eased to 41.6% (-0.5ppt) amidst higher personnel cost. Impairment allowances fell by 47% on staging improvements when compared to 1HFY21 during the early days of Covid-19. Credit cost came in at 59bps (-53bps). This translated to a 1HFY22 net profit of RM318.8m (+53%).

QoQ, 2QFY22 total income fell by 6% from weakness in both NII (-4%) and NOII (-15%) as NIMs were dented by a 4bps modification loss impact and lower fees and investment income. Far less provision was made during the quarter (-64%) as management views impairments to be well managed. Credit cost amounted to 32bps (-55bps). This supported 2QFY22 net earnings, arriving at RM172.7m (+18%).

Key briefing's highlights. The group's books appear well-positioned to ride the ongoing economic recovery with manageable effort to keep quality in check. TRA now makes up 33% of its total books, stable from 32% during the Aug 2021 update, which could indicate minimal provisioning risks to come. URUS could also be a non-event, with only 15 applications seen so far. From 1HFY22 performance, management upgrades its guidances for FY22: (i) NIM (>2.40%, from 2.35%); (ii) CIR (~44%, from ~45%); and (iii) credit cost (<75 bps, from <90 bps). That said, loans growth (3-4%) and ROE (>7.5%) remain, with the latter being subject to prosperity tax implications.

Post results, we raise our FY22E/FY23E earnings by 15%/18%. Our upside adjustments mainly come from less demanding impairments and more optimised operating costs. We also raise our dividend expectations from 8.6 sen/10.0 sen to 14.0 sen/15.0 sen. This comes from the abovementioned higher earnings as well as an improved dividend payout of 40% from 25%.

Upgrade to MP with a higher TP of RM2.65 (from RM2.35). In addition to our earnings adjustments, we also tweak our GGM assumptions to arrive at a higher PBV of 0.60x (1SD below mean, from 0.54x 1.5SD below mean). We were previously cautious on the stock due to its low risk-to-reward but with the resumption of dividends to pre-Covid levels, the stock is a considerable proposition in our books. That said, it remains to have the highest SME mix amongst its peers which could be a cause of concern for cautious investors.

MARKET PERFORMANCE ↑

Price : RM2.76
Target Price : RM2.65 ↑

Share Price Performance



KLCI 1,512.22
YTD KLCI chg -7.1%
YTD stock price chg -5.2%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	ABMB MK Equity
Market Cap (RM m)	4,272.8
Shares Outstanding	1,548.1
52-week range (H)	2.92
52-week range (L)	2.33
3-mth avg daily vol	1,157,230
Free Float	55%
Beta	1.1

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)	2021A	2022E	2023E
Net interest income	1,395	1,482	1,516
Non-interest income	422	343	275
Total income	1,818	1,825	1,791
Operating expenses	-801	-806	-816
Loan impairment	-533	-279	-154
Pre-tax profit	484	740	821
PATAMI	359	549	575
Core PATAMI	359	549	575
Consensus NP		449	534
Earnings revision		15.1%	17.6%
Core EPS (RM)	0.23	0.35	0.37
EPS growth	-15%	53%	5%
NDPS (RM)	0.058	0.140	0.150
BV/share (RM)	4.04	4.26	4.48
NTA/share (RM)	3.76	3.98	4.20
ROE (%)	5.9	8.5	8.5
PER (x)	11.9	7.8	7.4
P/BV (x)	0.68	0.65	0.62
Net Div. Yield (%)	2.1	5.1	5.4

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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, (v) favourable/unfavourable currency fluctuations, and (vi) changes to OPR.

Results Highlights

	2Q	1Q	QoQ	2Q	YoY	6M	6M	YoY
FYE Mar (RM m)	FY22	FY22	Chg	FY21	Chg	FY22	FY21	Chg
Net interest income	366	381	-3.9%	347	5.2%	746.0	683.7	9.1%
Non-interest income	87	102	-14.6%	127	-31.1%	189.9	212.3	-10.5%
Total income	453	483	-6.2%	474	-4.5%	935.9	896.1	4.5%
Operating expenses	-196	-193	1.2%	-191	2.6%	-389.0	-377.3	3.1%
Pre-impairment profit	257	290	-11.1%	284	-9.3%	547.0	518.7	5.5%
(Allowances)/ write-backs	-35	-95	-63.6%	-151	-77.0%	-129.9	-245.6	-47.1%
(Allowances)/ write-backs on other assets	0	0	396.8%	0	-62.6%	0.2	0.5	-59.9%
Operating profit	223	194	14.7%	134	66.6%	417.3	273.6	52.5%
Non-operating gains / (losses)	0	0	-17.6%	0	-54.8%	0.0	0.1	-41.5%
Profit before tax	223	194	14.7%	134	66.6%	417.3	273.7	52.5%
Taxation	-51	-48	6.0%	-29	76.5%	-99.5	-64.5	54.3%
Minority interest	0	0	N.M	0	N.M.	0.0	0.0	N.M
Net PATAMI	173	146	18.3%	104	66.2%	318.8	208.3	53.1%
Core PATAMI	173	146	18.3%	104	66.2%	318.8	208.3	53.1%
Gross loans	43,848	43,203	1.5%	43,751	0.2%	43,848	43,751	0.2%
Gross impaired loans	1,018	1,012	0.6%	764	33.1%	1,018	764	33.1%
Customer deposits	46,310	46,778	-1.0%	48,703	-4.9%	46,310	48,703	-4.9%
Current and savings account (CASA)	22,961	23,093	-0.6%	20,120	14.1%	22,961	20,120	14.1%
Total assets	59,544	59,200	0.6%	61,767	-3.6%	59,544	61,767	-3.6%
Shareholders' equity	6,438	6,334	1.7%	6,414	0.4%	6,438	6,414	0.4%
Est. annualised NIM	2.52%	2.59%		2.29%		2.53%	2.29%	
Cost-to-income ratio	43.2%	40.0%		40.2%		41.6%	42.1%	
Annualised credit cost (bps)	31.8	87.3		137.8		59.0	112.1	
Effective tax rate	23.0%	24.9%		21.7%		23.9%	23.6%	
Annualised ROA	1.2%	1.0%		0.7%		1.1%	0.7%	
Annualised ROE	10.8%	9.3%		6.6%		10.0%	6.7%	
Gross impaired loans ratio	2.3%	2.3%		1.7%		2.3%	1.7%	
Loan loss coverage ratio (LLC)	106.4%	105.1%		106.8%		106.4%	106.8%	
LLC plus regulatory reserves	111.1%	109.8%		153.6%		111.1%	153.6%	
Loan-to-deposit ratio	94.0%	91.7%		90.6%		94.0%	90.6%	
CASA-to-deposit ratio	49.6%	49.4%		41.3%		49.6%	41.3%	
CET-1 capital (Group level)	15.6%	15.5%		15.4%		15.6%	15.4%	

Source: Company, Kenanga Research

Management Guidance

	FY22 Targets	FY21 Performance
Gross loans growth	3 – 4%	1.1%
NIM	>2.40%	2.30%
	(from ~2.35%)	
Cost-to-income ratio	~44%	44.1%
	(from ~45%)	
Net credit cost	<75bps	121 bps
	(from <90 bps)	
ROE	> 7.5%	5.9%

Source: Company, Kenanga Research

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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	1.68	3,568.4	N	12/2021	-13.1%	5.5%	80.4%	6.5%	15.2	8.4	7.9	0.4	0.4	4.3%	3.0%	1.55	MP		
ALLIANCE BANK MALAYSIA BHD	2.76	4,272.8	N	03/2022	-7.2%	1.4%	53.0%	4.8%	11.9	7.8	7.4	0.7	0.6	8.5%	5.1%	2.65	MP		
AMMB HOLDINGS BHD	3.15	10,435.7	N	03/2022	-3.6%	1.4%	30.2%	11.5%	10.1	8.5	7.6	0.6	0.7	8.1%	2.8%	3.15	MP		
BIMB HOLDINGS BHD	2.97	6,165.3	Y	12/2021	7.0%	1.9%	6.6%	2.6%	7.7	7.2	7.0	0.9	0.7	11.0%	4.7%	3.55	OP		
CIMB GROUP HOLDINGS BHD	5.10	52,129.4	N	12/2021	-1.0%	2.1%	257.5%	8.1%	42.5	11.9	11.0	0.9	0.9	7.4%	4.1%	4.75	MP		
HONG LEONG BANK BHD	18.30	39,669.2	N	06/2022	4.4%	2.2%	-3.6%	10.6%	13.1	13.6	12.3	1.3	1.2	9.1%	3.1%	18.20	MP		
MALAYAN BANKING BHD	8.10	96,172.5	N	12/2021	-8.5%	3.2%	19.4%	2.2%	14.0	11.8	11.6	1.1	1.1	9.1%	6.9%	10.55	OP		
MALAYSIA BUILDING SOCIETY BHD	0.620	4,446.3	N	12/2021	60.2%	5.9%	156.8%	3.3%	15.7	6.1	5.9	0.5	0.5	7.6%	4.8%	0.605	MP		
PUBLIC BANK BHD	4.00	77,642.8	N	12/2021	-3.1%	3.1%	14.3%	-4.3%	15.9	13.9	14.6	1.6	1.5	11.4%	3.5%	3.80	MP		
RHB BANK BHD	5.26	21,791.8	N	12/2021	-6.4%	7.2%	14.2%	0.7%	10.4	9.1	9.0	0.8	0.7	8.4%	5.7%	6.10	OP		
Simple Average					2.9%	3.4%	62.9%	4.6%	15.7	9.8	9.4	0.9	0.8	8.5%	4.4%				

Source: 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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