

20 January 2022

Alliance Bank Malaysia Bhd

Upbeat for 2022

By Clement Chua | clement.chua@kenanga.com.my

We hosted a meeting with ABMB's Head of Investor Relations, Mr. Tan Hong Ian, and came out optimistic on the group's near-term trajectory. Loans growth is expected to be favourable in the near-term while riding on well-positioned strategies. We reckon the group could deliver strong earnings and dividend surprises should recovery be better than expected. Maintain OP with a higher TP of RM3.60 (from RM3.25) on better GGM inputs. It is one of our Top Picks for 1QCY22.

Well anticipated 2022 loans performance. We spotted the group for its high exposure to the SME segment, which constitutes >30% of its books. In line with the economic recovery, this segment is primed to benefit as business loans demand improves on reinvigorated working capital needs. Expansionary-driven demand could materialise if the business landscape turns more favourable than expected. Meanwhile, household loans may be further fuelled as income prospects become more sustainable in 2HCY22. At present, our FY23E loans growth projection of 5% is in line with our CY22 industry-wide expectation.

Sale of stockbroking unit an overall boon. In December 2021, the group announced that it is disposing its stockbroking business to Philip Futures for an expected consideration of c.RM300m. The segment had previously contributed <3% to group PBT and its disposal is not expected to translate to meaningful income loss or cost efficiency gains. Although it might not lead to significant gains, the additional capital could aid the group's strategies in its key growth areas (i.e. SMEs). We reckon that a potential acceleration in loans growth from the abovementioned better economic environment could translate to some spill-over in special dividends from the excess capital.

NIMs to benefit from OPR hike. In anticipation of an upcoming rate hike in 2HCY22, management guided that we could see an increase of 3-4 bps to NIMs, leveraging on the group's mortgage portfolio. At present, the group has the highest CASA mix amongst its peers (c.50% vs 32%) which may trigger a migration to higher yielding fixed deposit products. However, it is likely that consumers may still prefer cash liquidity given the still uncertain economic landscape with lingering worries of new Covid-19 variants. This would help to keep interest spreads buoyant for the time being.

Credit cost would be lumpier in 2HFY22 but then ease. Previously, the group has updated its FY22 credit cost target from <90 bps to <75 bps on the back of 1HFY22 annualised credit cost of <60 bps. Management is still keeping a prudent eye on certain high-risk accounts in its TRA books which may call for further provisioning. At the meantime, management shared that its Alliance One Accounts make up 20% (or RM5b) of its consumer books, which it is comfortable with at this moment as current economic landscape should improve the quality of these accounts.

(refer to the overleaf for comments on the Sustainability Strategy Briefing)

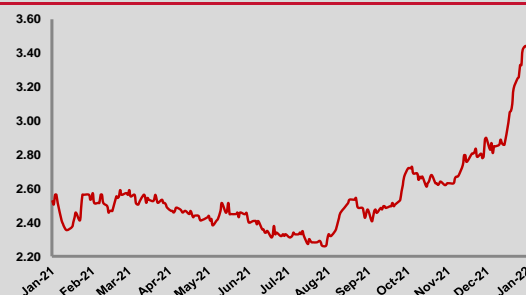
Post update, we recalibrate our applied exposure of the one-off prosperity tax from CY22 to FY22 on further clarity on its provisioning. This results in earnings adjustments of -8%/+6% in FY22E/FY23E Core PATAMI.

Maintain OUTPERFORM with a higher TP of RM3.60 (from RM3.25). Given the improved sentiment on the stock given its strong economic recovery angle, we recalibrate our GGM assumptions, namely our beta inputs. Our newly applied 0.82x (from 0.73x) CY22E PBV is 0.5SD below the group's 5-year mean. The group's medium-term fundamentals appear to be comparable, if not better than some of its larger cap peers. On the flipside, our dividend payout assumptions are rather conservative (at 40%, below pre-Covid levels of c.50%). Assuming we are out of the woods, it is possible for the stock to deliver positive earnings surprises in the coming years.

OUTPERFORM ↔

Price : RM3.34
Target Price : RM3.60 ↑

Share Price Performance



KLCI	1,530.33
YTD KLCI chg	-2.4%
YTD stock price chg	16.8%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	ABMB MK Equity
Market Cap (RM m)	5,170.7
Shares Outstanding	1,548.1
52-week range (H)	3.44
52-week range (L)	2.26
3-mth avg daily vol	1,737,205
Free Float	55%
Beta	1.1

Major Shareholders

Vertical Theme Sdn Bhd	29.1%
Employees Provident Fund	13.9%
Global Success Network	4.8%

Summary Earnings Table

FY Mar (RM m)	2021A	2022E	2023E
Net interest income	1,395	1,482	1,538
Non-interest income	422	343	275
Total income	1,818	1,825	1,813
Operating expenses	-801	-806	-816
Loan impairment	-533	-279	-181
Pre-tax profit	484	740	817
PATAMI	359	503	613
Core PATAMI	359	503	613
Consensus NP		496	575
Earnings revision		-8.4%	6.4%
Core EPS (RM)	0.23	0.32	0.40
EPS growth (%)	-15	40	22
NDPS (RM)	0.058	0.130	0.160
BV/share (RM)	4.04	4.24	4.47
NTA/share (RM)	3.76	3.96	4.19
ROE (%)	5.9	7.8	9.1
PER (x)	14.4	10.3	8.4
P/BV (x)	0.83	0.79	0.75
Net Div. Yield (%)	1.7	3.9	4.8

Quick takes on sustainability. On top of our meeting, the group also hosted its inaugural Sustainability Strategy Briefing. Most of the group's sustainability plans are outlined with a FY25 target set in mind. This allows the group adequate time to implement ESG practices in certain focus areas without disrupting its portfolio too aggressively. The progressive fine-tuning of new measures into the group's operations should also not lead to sudden incurrance of new cost items in the immediate term, mainly on compliance.

ABMB's FY25 Sustainability Agenda



Source: ABMB

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.

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Income Statement

FY Mar (RM m)	2019A	2020A	2021A	2022E	2023E
Net interest income	1,358	1,359	1,395	1,482	1,538
Non-interest income	264	331	422	343	275
Total income	1,622	1,689	1,818	1,825	1,813
Operating expenses	-775	-807	-801	-806	-816
PPOP	847	882	1,017	1,019	997
Loan impairments	-131	-273	-533	-279	-181
Other impairments	-8	-41	0	0	0
Associates	0	0	0	0	0
Pre-tax profit	708	568	484	740	817
Tax and zakat	-170	-144	-125	-237	-204
Minority interest	0	0	0	0	0
PATAMI	538	424	359	503	613
Core PATAMI	538	424	359	503	613

Balance Sheet

FY Mar (RM m)	2019A	2020A	2021A	2022E	2023E
Cash & ST funds	1,805	3,119	3,088	3,104	3,183
Investment securities	9,945	12,316	12,933	12,208	12,516
Loans and financing	42,320	43,110	43,234	44,618	46,891
Other assets	2,018	1,993	1,035	339	221
Intangible assets	433	437	431	431	431
Total Assets	56,521	60,975	60,721	60,701	63,242
Customer deposits	45,018	48,426	48,489	47,358	49,281
Deposits & placements	859	1,544	1,393	1,677	1,746
Borrowings	2,338	2,670	2,373	2,419	2,482
Other liabilities	2,573	2,347	2,210	2,688	2,809
Total liabilities	50,788	54,986	54,463	54,142	56,318
Share capital	1,548	1,548	1,548	1,548	1,548
Retained earnings	3,828	3,975	4,472	4,773	5,138
Regulatory reserves	178	225	86	86	86
Other reserves	179	241	151	151	151
Shareholders' funds	5,733	5,989	6,258	6,559	6,924
Minority interest	-	-	-	-	-
Total liabilities and equity	56,521	60,975	60,721	60,701	63,242

Financial Data & Ratios

FY Mar	2019A	2020A	2021A	2022E	2023E
Growth					
Net interest income	12.2%	0.1%	2.7%	6.2%	3.8%
Non-interest income	-26.9%	25.2%	27.8%	-18.8%	-19.8%
Total income	3.2%	4.1%	7.6%	0.4%	-0.6%
Operating expenses	-2.4%	4.1%	-0.8%	0.7%	1.2%
PPOP	8.9%	4.1%	15.3%	0.2%	-2.1%
Loan impairment	40.1%	108.8%	95.0%	-47.6%	-35.3%
Pre-tax profit	3.4%	-19.8%	-14.8%	52.9%	10.4%
PATAMI	9.0%	-21.1%	-15.4%	40.2%	21.8%
Core PATAMI	9.0%	-21.1%	-15.4%	40.2%	21.8%
Gross loans	5.8%	1.9%	0.3%	3.2%	5.1%
Customer deposits	5.3%	7.6%	0.1%	-2.3%	4.1%

Operating metrics

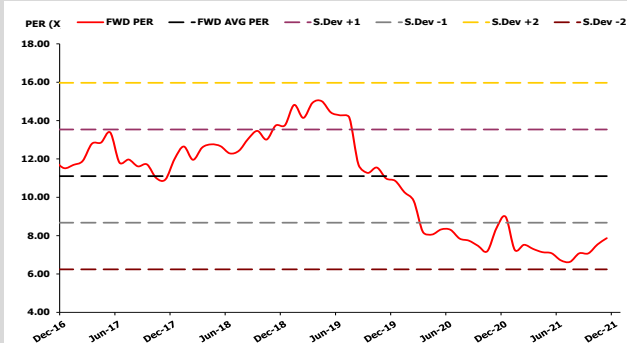
Est avg asset yield	4.88%	4.75%	3.98%	3.70%	3.82%
Est avg funding cost	2.71%	2.79%	2.03%	1.59%	1.70%
Est NIM	2.56%	2.40%	2.35%	2.48%	2.51%
Cost-to-Income ratio	47.8%	47.8%	44.1%	44.2%	45.0%
Credit cost (bps)	31.8	64.0	123.4	63.5	39.5
Loan-to-deposit ratio	94.0%	89.0%	89.2%	94.2%	95.2%
GIL ratio	1.1%	2.0%	2.4%	2.4%	2.4%
LLC Ratio	105.5%	75.7%	97.6%	100.0%	100.0%
LLC Ratio (+ reg reserves)	142.9%	101.4%	105.9%	108.0%	107.7%
ROA	1.0%	0.7%	0.6%	0.8%	1.0%
ROE	9.6%	7.2%	5.9%	7.8%	9.1%

Valuations

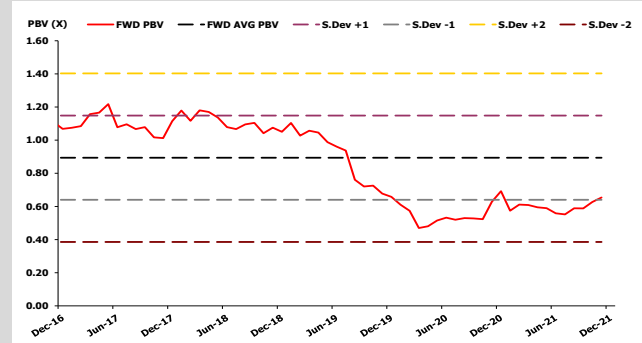
EPS (RM)	0.35	0.27	0.23	0.32	0.40
PER (x)	9.62	12.19	14.41	10.28	8.44
Div yield (%)	5.0	1.8	1.7	3.9	4.8
BV/share (RM)	3.70	3.87	4.04	4.24	4.47
P/BV (x)	0.90	0.86	0.83	0.79	0.75

Source: Kenanga Research

Fwd Core PER Band



Fwd PBV Band



Source: Bloomberg, 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	1.93	4,099.4	N	12/2021	-13.1%	5.5%	80.4%	6.5%	17.4	9.7	9.1	0.4	0.4	4.3%	2.6%	1.55	MP		
ALLIANCE BANK MALAYSIA BHD	3.34	5,170.7	N	03/2022	-7.2%	1.8%	40.2%	21.1%	14.4	10.3	8.5	0.8	0.8	7.8%	3.9%	3.60	OP		
AMMB HOLDINGS BHD	3.52	11,657.8	N	03/2022	-3.6%	1.4%	30.2%	11.5%	11.3	9.5	8.5	0.7	0.7	8.1%	2.5%	3.15	MP		
BIMB HOLDINGS BHD	3.10	6,435.2	Y	12/2021	0.2%	-2.3%	14.8%	-7.1%	15.3	13.3	14.3	1.2	1.2	9.0%	4.5%	3.20	OP		
CIMB GROUP HOLDINGS BHD	5.33	54,480.3	N	12/2021	-1.0%	2.1%	318.0%	2.0%	44.4	10.6	10.4	0.9	0.9	8.7%	3.9%	5.20	MP		
HONG LEONG BANK BHD	19.50	42,270.5	N	06/2022	0.7%	5.1%	-3.1%	9.2%	14.0	14.4	13.2	1.4	1.3	9.2%	2.8%	18.20	MP		
MALAYAN BANKING BHD	8.32	98,829.2	N	12/2021	-8.5%	3.2%	19.4%	2.2%	14.4	12.1	11.9	1.1	1.1	9.1%	6.7%	10.55	OP		
MALAYSIA BUILDING SOCIETY BHD	0.570	4,087.7	N	12/2021	55.4%	6.8%	94.0%	25.9%	14.4	7.4	5.9	0.4	0.4	5.8%	4.2%	0.540	MP		
PUBLIC BANK BHD	4.18	81,136.7	N	12/2021	-3.6%	2.3%	14.3%	-0.7%	16.7	14.6	14.7	1.7	1.6	11.4%	3.3%	3.85	MP		
RHB BANK BHD	5.76	23,863.2	N	12/2021	-5.2%	5.8%	18.0%	-0.2%	10.1	8.5	8.5	0.9	0.8	9.8%	5.4%	6.50	OP		
Simple Average					1.4%	3.2%	62.6%	7.0%	17.2	11.0	10.5	1.0	0.9	8.3%	4.0%				

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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KENANGA INVESTMENT BANK BERHAD (15678-H)

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my

