

# Alliance Bank Malaysia

## Strong Confidence in Loans Delivery

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**FY23 net profit of RM677.8m (+18% YoY) and full-year dividend payment of 22.0 sen were within expectations. The group looks to acquire a larger loans base in spite of a slower economic outlook thanks to their strong positioning in key segments. Assuming earnings and dividend payouts could sustain, ABMB is poised to be one of the highest yielding stock among the banks. Maintain OUTPERFORM and GGM-derived PBV TP of RM4.40.**

**FY23 within expectations.** FY23 net profit of RM677.8m made up 98% of our full-year forecast and 99% of consensus full-year estimates. A second interim dividend of 10.0 sen was declared, leading to a full-year payment of 22.0 sen. This is spot on with our expectations from an anticipated payout of 50%.

**YoY,** FY23 total income grew by 3% as net interest income rose by 11%. This was driven by a 6% growth in loans on top of net interest margin (NIM) expanding by 16 bps (to 2.76%) riding on the OPR up-cycle in CY22. However, non-interest income eroded 34% as treasury and investment losses fail to recuperate. Meanwhile, cost-income ratio inched to 45.9% (+1.8ppts) as higher talent investments boosted operating expenses. Cost income ratio closed at 32 bps (-16 bps) as the group had written back on pandemic-related overlays. Overall, FY23 net earnings reported at RM677.8m (+18%).

**Briefing highlights.** Although the group had initially cautioned that loans growth was under threat during its 3QFY23 briefing, it managed to achieve its initial target of 6%-8% and opines it could do better.

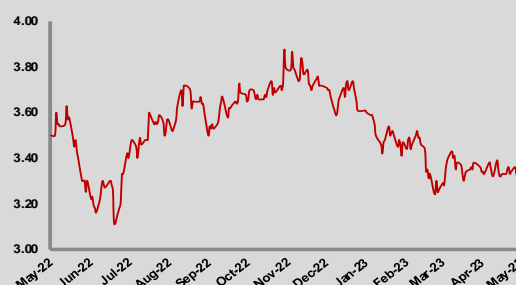
1. The group targets an 8%-10% loans growth for FY24, premised on progressive onboarding from consumer, SMEs and commercial clients. For now, the group intends not to compromise rates and quality, but may see the quantum being met due to its relatively smaller book size as compared to other peers.
2. CASA erosion was mainly triggered by yield-seeking retail customers. Corporate customers are likely stickier due to their dependence on ABMB's facilities for working capital purposes. We note that despite the 7.0 ppts decrease in CASA readings, its 42% rate remains at an industry-leading level.
3. Deposit competition appears to be easing and the group looks to optimise its need to pre-fund its financing. That said, a targeted NIM of 2.50%-2.55% is indicative for pressures to persist.
4. Credit cost looks to remain stable at 30-35 bps for FY24. While the group may incorporate further write-backs from its remaining RM304m overlay, it does not discount topping up specific accounts which may be troubled by macros.
5. Gross impaired loans remain elevated but the group does not expect levels to rise above 3%. The increase in troubled accounts could be due to continually rising interest rate pressures but these could be confined to previously enrolled Repayment Assistance accounts.

**Forecasts.** Post results, we lowered our FY24F earnings slightly as we incorporate FY23's full-year numbers. FY24F reflects an 11% earnings growth with greater dependence on interest income to lead as fee-based businesses may continue to be sluggish. While the group holds an 8%-10% loans growth target, we opt to be conservative with only 6% assumed in our model. Meanwhile, we also introduce our FY25F numbers.

## OUTPERFORM ↔

Price : RM3.37  
Target Price : RM4.40 ↔

### Share Price Performance



KLCI 1,396.91  
YTD KLCI chg -6.6%  
YTD stock price chg -8.2%

### Stock Information

Shariah Compliant	No
Bloomberg Ticker	ABMB MK Equity
Market Cap (RM m)	5,217.1
Shares Outstanding	1,548.1
52-week range (H)	3.88
52-week range (L)	3.11
3-mth avg daily vol	1,290,735
Free Float	60%
Beta	0.9

### Major Shareholders

Vertical Theme Sdn Bhd	29.1%
Employees Provident Fund	10.2%
Global Success Network	5.1%

### Summary Earnings Table

FY Mar (RM m)	2023A	2024F	2025F
Net interest income	1,683	1,798	1,869
Non-interest income	237	246	248
<b>Total income</b>	<b>1,920</b>	<b>2,045</b>	<b>2,117</b>
Operating expenses	-881	-895	-910
<b>Loan impairment</b>	<b>-152</b>	<b>-143</b>	<b>-115</b>
Pre-tax profit	887	1,006	1,091
<b>Net Profit</b>	<b>678</b>	<b>755</b>	<b>819</b>
<b>Core Net Profit</b>	<b>678</b>	<b>755</b>	<b>819</b>
Consensus NP	-	713	748
Earnings revision (%)	-	-2.5	NEW
Core EPS (RM)	0.44	0.49	0.53
EPS growth (%)	18.3	11.3	8.4
NDPS (RM)	0.22	0.25	0.27
BV/share (RM)	4.36	4.60	4.86
NTA/share (RM)	4.07	4.32	4.57
ROE (%)	10.3	10.9	11.2
PER (x)	7.7	6.9	6.4
P/BV (x)	0.77	0.73	0.69
Net Div. Yield (%)	6.5	7.3	8.0

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**Maintain OUTPERFORM and TP of RM4.40.** Our call is based on an unchanged GGM-derived CY24F PBV of 0.88x (COE: 11%, TG: 3%, ROE: 10%). We had inputted a 5% premium to our TP based on our 4-star ESG rating appraisal, warranted by the stock's strong green financing pipeline and its sustainable financing policies. In spite of the lower loans growth outlook, the stock's fundamentals are still comparatively better than its larger cap peers in terms of ROE and dividend yields. At current price points and assuming estimated payout ratio of 50% to hold, we anticipate dividend yield to creep up to 8%.

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

### Results Highlights

	4Q	3Q	QoQ	4Q	YoY	12M	12M	YoY
FYE Mar (RM m)	FY23	FY23	Chg	FY22	Chg	FY23	FY22	Chg
Net interest income	410	449	-8.9%	372	10.3%	1,683	1,519	10.8%
Non-interest income	59	47	25.3%	80	-26.3%	237	349	-32.0%
<b>Total income</b>	<b>469</b>	<b>497</b>	<b>-5.6%</b>	<b>452</b>	<b>3.8%</b>	<b>1,920</b>	<b>1,868</b>	<b>2.8%</b>
Operating expenses	-241	-222	8.7%	-219	10.0%	-881	-823	7.1%
<b>Pre-impairment profit</b>	<b>228</b>	<b>275</b>	<b>-17.2%</b>	<b>232</b>	<b>-2.1%</b>	<b>1,038</b>	<b>1,045</b>	<b>-0.6%</b>
(Allowances)/ write-backs	-59	-37	59.0%	-73	-20.1%	-152	-218	-30.2%
(Allowances)/ write-backs on other assets	0	0	-138.7%	-1	-116.4%	0	-1	-20.1%
<b>Operating profit</b>	<b>169</b>	<b>238</b>	<b>-28.8%</b>	<b>159</b>	<b>6.6%</b>	<b>886</b>	<b>826</b>	<b>7.2%</b>
Non-operating gains / (losses)	0	0	N.M	0	22.2%	0	0	-31.5%
<b>Profit before tax</b>	<b>169</b>	<b>238</b>	<b>-28.8%</b>	<b>159</b>	<b>6.6%</b>	<b>886</b>	<b>826</b>	<b>7.2%</b>
Taxation	-39	-61	-36.4%	-56	-30.2%	-209	-255	-18.0%
Minority interest	0	0	N.M	0	N.M.	0	0	N.M
<b>Net Profit</b>	<b>130</b>	<b>177</b>	<b>-26.5%</b>	<b>103</b>	<b>26.3%</b>	<b>678</b>	<b>573</b>	<b>18.3%</b>
<b>Core Net Profit</b>	<b>130</b>	<b>177</b>	<b>-26.5%</b>	<b>103</b>	<b>26.3%</b>	<b>678</b>	<b>573</b>	<b>18.3%</b>
Gross loans	49,068	47,276	3.8%	46,189	6.2%	49,068	46,189	6.2%
Gross impaired loans	1,233	913	35.0%	853	44.5%	1,233	853	44.5%
Customer deposits	50,849	48,991	3.8%	48,186	5.5%	50,849	48,186	5.5%
Current and savings account (CASA)	21,295	22,450	-5.1%	23,577	-9.7%	21,295	23,577	-9.7%
Total assets	66,311	65,088	1.9%	61,848	7.2%	66,311	61,848	7.2%
Shareholders' equity	6,747	6,551	3.0%	6,417	5.1%	6,747	6,417	5.1%
Est. annualised NIM	2.59%	2.89%		2.51%		2.71%	2.53%	
Cost-to-income ratio	51.4%	44.7%		48.5%		45.9%	44.1%	
Annualised credit cost (bps)	48.6	31.3		64.6		32.1	48.5	
Effective tax rate	23.0%	25.7%		35.1%		23.6%	30.8%	
Annualised ROA	0.8%	1.1%		0.7%		1.1%	0.9%	
Annualised ROE	7.8%	10.9%		6.4%		10.3%	9.0%	
Gross impaired loans ratio	2.5%	1.9%		1.8%		2.5%	1.8%	
Loan loss coverage ratio (LLC)	102.8%	125.0%		135.9%		102.8%	135.9%	
LLC plus regulatory reserves	123.7%	130.2%		141.5%		123.7%	141.5%	
Loan-to-deposit ratio	94.9%	95.1%		95.0%		94.9%	95.0%	
CASA-to-deposit ratio	41.9%	45.8%		48.9%		41.9%	48.9%	
CET-1 capital (Group level)	14.5%	15.1%		14.6%		14.5%	14.6%	

Source: Company, Kenanga Research

### Management Guidance

	FY23 Targets	FY22 Performance
Gross loans growth	8-10%	6.2%
NIM	2.50-2.55%	2.71%
Cost-to-income ratio	<48%	45.9%
Net credit cost	30-35 bps	31.9 bps
ROE	~10.5%	10.3%

Source: Company, Kenanga Research

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## Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net Div. Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
ALLIANCE BANK MALAYSIA BHD	OP	3.37	4.40	30.6%	5,217	N	03/2024	48.8	52.9	11.3%	8.4%	6.9	6.4	0.7	10.9%	24.5	7.3%
AMMB HOLDINGS BHD	OP	3.57	5.05	41.5%	11,806	N	03/2024	56.3	62.0	7.4%	10.2%	6.3	5.8	0.6	9.9%	19.5	5.5%
BANK ISLAM MALAYSIA BHD	MP	1.87	2.25	20.3%	4,238	Y	12/2023	24.0	25.0	5.1%	4.1%	7.8	7.5	0.6	7.5%	15.5	8.3%
CIMB GROUP HOLDINGS BHD	OP	4.89	6.55	33.9%	52,152	N	12/2023	59.9	68.8	14.8%	15.0%	8.2	7.1	0.8	9.7%	30.0	6.1%
HONG LEONG BANK BHD	OP	19.54	23.35	19.5%	42,357	N	06/2023	197.3	201.2	22.9%	2.0%	9.9	9.7	1.2	12.5%	70.0	3.6%
MALAYAN BANKING BHD	OP	8.59	10.10	17.6%	103,545	N	12/2023	80.3	80.0	16.8%	-0.5%	10.7	10.7	1.2	11.1%	68.0	7.9%
PUBLIC BANK BHD	OP	3.84	4.90	27.6%	74,537	N	12/2023	36.0	37.2	14.1%	3.3%	10.7	10.3	1.4	13.5%	18.0	4.7%
RHB BANK BHD	OP	5.42	7.10	31.0%	23,232	N	12/2023	77.5	77.7	15.9%	0.3%	7.0	7.0	0.7	10.7%	43.0	7.9%
SECTOR AGGREGATE					317,085					15.5%	4.5%	9.6	9.2	1.0	10.9%		6.4%

Source: Kenanga Research

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**Stock ESG Ratings:**

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★	☆	
	Community Investment	★	★	★	☆	
	Workforce Safety & Wellbeing	★	★	★		
	Corporate Governance	★	★	★	★	
	Anti-corruption Policy	★	★	★		
	Emissions Management	★	★	★		
SPECIFIC	Green Financing	★	★	★	★	☆
	Financial Inclusion	★	★	★	☆	
	Cybersecurity/Data Privacy	★	★	★		
	Digitalisation & Innovation	★	★	★	★	
	Diversity & Inclusion	★	★	★		
	Customer Experience	★	★	★		
OVERALL		★	★	★	★	

☆ denotes half-star  
 ★ -10% discount to TP  
 ★★ -5% discount to TP  
 ★★★ TP unchanged  
 ★★★★ +5% premium to TP  
 ★★★★★ +10% premium to TP

**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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