

31 May 2024

Alliance Bank Malaysia

Decent Close with Grounded Targets

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ABMB's FY24 net profit (+2% YoY) met expectations although dividends missed slightly. The group's headline trajectories seem to be brewing well, though the group is wary of shifts in market conditions from macro headwinds later on. We tweak our FY25F numbers by -2% post-results update and raise our GGM-derived PBV TP by 7% to RM4.60 (from RM4.30) as we roll over our valuation base year. Maintain OUTPERFORM with ABMB being one of our 2QCY24 Top Picks.

Within expectations. ABMB's FY24 net profit of RM690.5m made up 98% of our full-year forecast and 103% of consensus full-year estimate. However, its total dividend payment of 22.6 sen was below our anticipated 24.5 sen as we had factored a slightly higher potential pay-out of 53%.

YoY, FY24 total income grew by 5% as loans growth impressed at 14%, mitigating the decline in NIMs (2.54%, -17 bps). Meanwhile, non-interest income saw support from better forex trading in addition to a better wealth management pipeline. All in, FY24 net profit only grew by 2% largely due to cost-income ratio creeping up to 48.2% (+2.3 pts) as personnel costs were inflated by collective agreements and an enlarged sales force to execute the group's acquisition strategies.

QoQ, 4QFY24 total revenue only saw a slight uptick (+1%) as stronger interest income was offset by softening trading returns. This translated to net profits being mostly stagnant.

Briefing highlights. Having closed a satisfactory performance with several headline targets exceeded, the group is optimistic for continued momentum but cautions against stretching its goals.

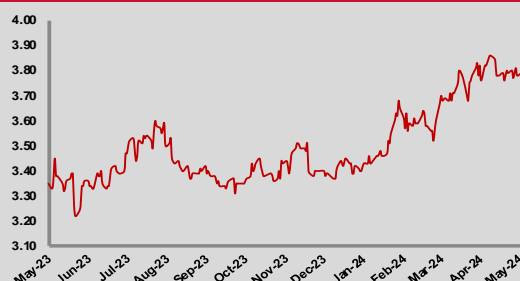
- Its 14% loans growth performance outperformed its intended 8%-10% target for FY24, citing greater success in its key SME segments and a strong focus to new-to-bank customers. While the group continues to inject resources into expanding its outreach, it opted to retain its 8%-10% target into FY25 as economic uncertainties may unveil during the year and hamper the SMEs.
- With regards to NIMs, the group believes the current climate may see risks of further compression as it may need to compete more heavily in the latter half. For now, it does not intend to defend higher profit rates at a guidance of 2.40%-2.45% for the year.
- Its credit cost guidance of 30-35 bps (FY24: 26 bps) also leans towards precaution as the group has onboarded certain healthy but medium-risk accounts into its portfolio. The expectations for higher provisioning needs could also be spurred by the abovementioned, where the group is seeing SMEs to be one of the segments reflecting sequential increases in GIL.
- Having reverted back to pre-pandemic level of payments, the group looks to target its dividend payout between 40%-50%, where we had input the higher range of the band into our assumptions to possibly generate yields closer to 7%.

Forecasts. Our FY25F numbers were slightly tweaked from model updates while we introduce our FY26F numbers.

OUTPERFORM ↔

Price : RM3.87
Target Price : RM4.60 ↑

Share Price Performance



KLCI	1,604.26
YTD KLCI chg	10.3%
YTD stock price chg	14.2%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	ABMB MK Equity
Market Cap (RM m)	5,991.2
Shares Outstanding	1,548.1
52-week range (H)	3.87
52-week range (L)	3.22
3-mth avg daily vol	1,360,683
Free Float	58%
Beta	0.7

Major Shareholders

Vertical Theme Sdn Bhd	29.1%
Employees Provident Fund	10.1%
Global Success Network	5.0%

Summary Earnings Table

FY Mar (RM m)	2024A	2025F	2026F
Net interest Income	1,750	1,920	1,981
Non-interest Income	271	230	231
Total Income	2,020	2,150	2,212
Operating Expenses	-974	-989	-1,007
Loan Impairment	-135	-125	-116
Pre-tax Profit	911	1,035	1,089
Net Profit	690	776	817
Core Net Profit	690	776	817
Consensus NP	-	726	775
Earnings Revision (%)	-	-1.5	NEW
Core EPS (RM)	0.45	0.50	0.53
EPS Growth (%)	1.9	12.5	5.2
NDPS (RM)	0.22	0.25	0.27
BV/Share (RM)	4.63	4.89	5.15
NTA/Share (RM)	4.34	4.59	4.85
ROE (%)	9.9	10.5	10.5
PER (x)	8.7	7.7	7.3
P/BV (x)	0.83	0.79	0.75
Net Div. Yield (%)	5.8	6.5	6.8

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Maintain OUTPERFORM with a higher TP of RM4.60 (from RM4.30), as we roll over our valuation base year to CY25F BVPS of RM5.08. Our call is based on an unchanged GGM-derived PBV of 0.86x (COE: 11.2%, 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. On top of its higher-than-industry loans growth projection, 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 pay-out ratio of 50% to hold, we anticipate dividend yield to come close to 7%. **ABMB is one of our 2QCY24 Top Picks.**

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)	FY24	FY24	Chg	FY23	Chg	FY24	FY23	Chg
Net interest income	457	449	1.8%	410	11.6%	1,750	1,683	4.0%
Non-interest income	59	61	-2.7%	59	-0.1%	271	237	14.3%
Total income	516	510	1.2%	469	10.1%	2,020	1,920	5.2%
Operating expenses	-249	-248	0.6%	-241	3.4%	-974	-881	10.5%
Pre-impairment profit	267	262	1.8%	228	17.3%	1,047	1,038	0.8%
(Allowances)/ write-backs	-36	-25	45.3%	-59	-38.7%	-135	-152	-11.5%
(Allowances)/ write-backs on other assets	0	0	425.0%	0	262.1%	1	0	-218.5%
Operating profit	231	238	-2.6%	169	36.8%	912	886	3.0%
Non-operating gains / (losses)	0	0	N.M	0	36.4%	0	0	-35.1%
Profit before tax	231	238	-2.6%	169	36.8%	912	886	3.0%
Taxation	-53	-61	-12.4%	-39	36.6%	-221	-209	5.8%
Minority interest	0	0	N.M	0	N.M.	0	0	N.M
Net Profit	178	177	0.5%	130	36.6%	691	678	1.9%
Core Net Profit	178	177	0.5%	130	36.6%	691	678	1.9%
Gross loans	55,740	53,356	4.5%	49,068	13.6%	55,740	49,068	13.6%
Gross impaired loans	1,178	1,246	-5.4%	1,233	-4.4%	1,178	1,233	-4.4%
Customer deposits	57,397	54,410	5.5%	50,849	12.9%	57,397	50,849	12.9%
Current and savings account (CASA)	23,864	24,530	-2.7%	21,295	12.1%	23,864	21,295	12.1%
Total assets	76,946	73,330	4.9%	66,311	16.0%	76,946	66,311	16.0%
Shareholders' equity	7,175	6,983	2.7%	6,747	6.4%	7,175	6,747	6.4%
Est. annualised NIM	2.54%	2.61%		2.59%		2.54%	2.71%	
Cost-to-income ratio	48.3%	48.6%		51.4%		48.2%	45.9%	
Annualised credit cost (bps)	26.3	18.8		48.6		25.6	32.1	
Effective tax rate	22.9%	25.5%		23.0%		24.2%	23.6%	
Annualised ROA	0.9%	1.0%		0.8%		1.0%	1.1%	
Annualised ROE	10.0%	10.2%		7.8%		9.9%	10.3%	
Gross impaired loans ratio	2.1%	2.3%		2.5%		2.1%	2.5%	
Loan loss coverage ratio (LLC)	100.6%	96.3%		102.8%		100.6%	102.8%	
LLC plus regulatory reserves	113.8%	117.0%		123.7%		113.8%	123.7%	
Loan-to-deposit ratio	97.5%	98.4%		94.9%		97.5%	94.9%	
CASA-to-deposit ratio	41.6%	45.1%		41.9%		41.6%	41.9%	
CET-1 capital (Group level)	12.9%	13.2%		14.5%		12.9%	14.5%	

Source: Company, Kenanga Research

Management Guidance

	FY25 Targets	FY24 Performance
Gross loans growth	8%-10%	13.6%
NIM	2.40%-2.45%	2.5%
Cost-to-income ratio	~48%	48.2%
Net credit cost	30-35 bps	26bps
ROE	>10%	10%

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. (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																	
AFFIN BANK BHD	UP	2.42	1.80	-25.6%	5,679	N	12/2024	21.0	27.7	20.4%	31.9%	11.5	8.7	0.5	4.3%	8.0	3.3%
ALLIANCE BANK MALAYSIA BHD	OP	3.87	4.60	18.9%	5,991	N	03/2025	50.2	52.7	12.5%	5.2%	7.7	7.3	0.8	10.5%	25.0	6.5%
AMMB HOLDINGS BHD	OP	4.22	5.20	23.2%	13,955	N	03/2025	55.3	56.3	17.5%	1.8%	7.6	7.5	0.7	9.1%	22.0	5.2%
BANK ISLAM MALAYSIA BHD	MP	2.41	2.25	-6.6%	5,462	Y	12/2024	25.2	29.0	3.3%	14.9%	9.6	8.3	0.7	7.6%	17.0	7.1%
CIMB GROUP HOLDINGS BHD	MP	6.84	6.60	-3.5%	73,074	N	12/2024	67.1	69.8	2.6%	3.9%	10.2	9.8	1.0	10.3%	44.0	6.4%
HONG LEONG BANK BHD	OP	19.26	26.20	36.0%	41,750	N	06/2024	199.6	215.2	7.1%	7.8%	9.7	9.0	1.1	11.5%	60.0	3.1%
MALAYAN BANKING BHD	OP	9.90	11.00	11.1%	119,463	N	12/2024	80.0	83.6	3.2%	4.5%	12.4	11.8	1.2	10.1%	62.0	6.3%
MALAYSIA BUILDING SOCIETY BHD	UP	0.885	0.590	-33.3%	7,277	Y	12/2024	3.9	6.6	104.4%	68.2%	22.6	13.4	0.6	2.8%	2.0	2.3%
PUBLIC BANK BHD	OP	4.08	5.10	25.0%	79,196	N	12/2024	37.3	39.3	9.0%	5.4%	10.9	10.4	1.4	12.9%	21.0	5.1%
RHB BANK BHD	OP	5.48	7.25	32.3%	23,890	N	12/2024	70.8	73.5	8.3%	3.9%	7.7	7.5	0.7	9.7%	43.0	7.8%
SECTOR AGGREGATE					375,736					6.6%	5.8%	10.7	10.1	1.1	10.0%		5.3%

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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