

24 March 2025

Alliance Bank Malaysia Bhd

Rights to Fund

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

ABMB proposed a renounceable rights issue to raise proceeds of c.RM600m to bolster its diminishing CET-1 of 12.4% by +1.1 ppt. The funding would support its FY27 ACCELER8 targets to consistently grow its loans book by 8%-10% YoY to achieve a ROE of >11%. Despite potential knee jerk reaction on share base dilution (9% per illustration), we view the exercise as positive on higher earnings accretion potential. To fuel this further expansion, balanced with retaining adequate capital, the trade-off is likely a lower dividend payout (which we revise to 40%, ie the lower end of guidance range). We maintain our MARKET PERFORM call and GGM-derived PBV TP of RM5.30 (COE: 11.2%, TG: 3.0%, ROE: 10.0%).

Last Friday, ABMB announced a proposed issuance of renounceable rights issue of new ordinary shares, intended to raise gross proceeds of c.RM600m at a yet to be determined entitlement basis and issue price. We note that the proposed rights issue will be undertaken on a full subscription basis, of which ABMB has obtained a full unconditional undertaking by its major shareholder, Vertical Theme Sdn Bhd.

Aside from the estimated expense of RM5m for the proposed rights issue, **the entire proceeds from the exercise is intended to be utilised for working capital purposes** (i.e. general banking, financing activities, investing activities, payment on interest for borrowings).

A necessary injection. The proposed rights issue is intended to resolve ABMB's reducing capital reserves, where its 3QFY25 CET-1 stood at 12.4%, below a targeted 12.5% and the lowest among its listed peers.

The quicker-than-expected diminishing of capital is due to the group's FY27 ACCELER8 strategies leading its effectiveness in acquiring customers, building up to a 3QFY25 loans growth of 14% vs 8%-10% annual target). To keep up, the group had grown its deposit by 13% albeit at the expense of a easing CASA ratio to c.39% (being the lowest reading since 1QFY21, albeit still the highest in the industry).

The proceeds from the proposed rights issue would increase the group's CET-1 ratio to a more palatable 13.5% (+1.1 ppt). However, it is likely that the group could stinge on dividend payouts for near-term payments as to not stretch its newly obtained reserves. Assuming that a CET-1 of 13.5% is to be maintained, we believe that the payout ratio of c.40% is comfortable to support a Risk Weighted Asset growth of up to 7%.

Forecast. We leave our model inputs unchanged for now, including our optimistic payout of c.50%. We believe such payouts to be probable at least for FY25F before the group fully tightens for more capital preservative measures i.e. post-completion of the rights issue exercise.

On an illustrated 20% discount and three rights share for every 32 ABMB shares, a hypothetical 9% dilution (up to 145.1m new shares) to ABMB's share base would take place to raise the said RM600m proceeds. That said, we believe the eventual discount could be less significant given that the proposed exercise would still be fully undertaken if not entirely exercised by its rights holder.

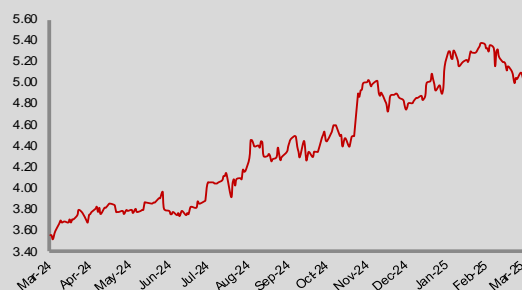
Hypothetically, should we further adjust our applied dividend payout to 40% as mentioned in the scenario above on a 9% share dilution, our CY26F BVPS of RM5.43 would remain relatively unchanged at RM5.40.

Maintain to MARKET PERFORM with a TP of RM5.30. Our TP is based on an unchanged GGM-derived PBV of 0.93x (COE: 10.5%, TG: 3.0%, ROE: 10%) against a CY26 BVPS of RM5.43. We also attach 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.

MARKET PERFORM ↔

Price : RM5.09
Target Price : RM5.30 ↔

Share Price Performance



KLCI	1,505.45
YTD KLCI chg	-8.3%
YTD stock price chg	5.2%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	ABMB MK Equity
Market Cap (RM m)	7,879.9
Shares Outstanding	1,548.1
52-week range (H)	5.38
52-week range (L)	3.52
3-mth avg daily vol	1,785,555
Free Float	70%
Beta	0.44

Major Shareholders

Vertical Theme Sdn Bhd	29.1%
Employees Provident Fund	8.9%
Global Success Network	5.0%

Summary Earnings Table

FY Mar (RM m)	2024A	2025F	2026F
Net interest income	1,750	1,995	2,140
Non-interest income	271	230	181
Total income	2,020	2,225	2,321
Operating expenses	-974	-989	-1,021
Loan impairment	-135	-238	-203
Pre-tax profit	911	997	1,097
Net Profit	690	748	823
Core Net Profit	690	748	823
Consensus NP		738	794
Earnings revision (%)		0.0	0.0
Core EPS (RM)	0.45	0.48	0.53
EPS growth (%)	1.9	8.3	10.0
NDPS (RM)	0.22	0.25	0.27
BV/share (RM)	4.63	4.87	5.13
NTA/share (RM)	4.34	4.57	4.84
ROE (%)	9.9	10.2	10.6
PER (x)	11.4	10.5	9.6
P/BV (x)	1.10	1.05	0.99
Net Div. Yield (%)	4.4	4.9	5.2

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As trading valuations for the stock has caught up, we believe its risk-reward has become more balanced. Similarly, previous dividend prospects of mid-7% are now diluted to c.5%. Given the lower incentive, the perceived higher earnings risk tied to ABMB's heavy SME exposure may be more pronounced to investors.

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) slowdown in capital market activities, (v) unfavourable currency fluctuations, and (vi) changes to OPR.

Income Statement

FY Mar (RM m)	2022A	2023A	2024A	2025F	2026F
Net interest income	1,519	1,683	1,750	1,995	2,140
Non-interest income	349	237	271	230	181
Total income	1,868	1,920	2,020	2,225	2,321
Operating expenses	-823	-881	-974	-989	-1,021
PPOP	1,045	1,038	1,047	1,235	1,300
Loan impairment	-217	-152	-135	-238	-203
Other impairment	0	0	-1	0	0
Associates	0	0	0	0	0
Pre-tax profit	827	887	911	997	1,097
Tax and zakat	-255	-209	-221	-249	-274
Minority interest	0	0	0	0	0
Net Profit	573	678	690	748	823
Core Net Profit	573	678	690	748	823

Balance Sheet

FY Mar (RM m)	2022A	2023A	2024A	2025F	2026F
Cash	3,229	3,571	4,597	3,819	3,935
Investment securities	11,791	12,148	14,253	14,728	15,174
Financing assets	45,124	47,926	54,721	62,785	68,627
Other assets	1,272	2,225	2,913	3,687	3,104
Intangible assets	432	440	462	462	462
Total Assets	61,848	66,311	76,946	85,480	91,302
Customer deposits	48,186	50,849	57,397	63,508	68,070
Other deposits	1,689	1,719	2,055	2,074	2,159
Borrowings	2,436	2,259	3,087	3,965	4,060
Other liabilities	3,120	4,736	7,232	8,396	9,065
Total liabilities	55,431	59,564	69,771	77,944	83,353
Share capital	1,548	1,548	1,548	1,548	1,548
Retained earnings	4,865	4,990	5,549	5,910	6,323
Regulatory reserves	48	257	155	155	155
Other reserves	-44	-49	-78	-78	-78
Shareholders' funds	6,417	6,747	7,175	7,536	7,949
Minority interest	-	-	-	-	-
Total liabilities and equity	61,848	66,311	76,946	85,480	91,302

Financial Data & Ratios

FY Mar	2022A	2023A	2024A	2025F	2026F
Growth (%)					
Net interest income	8.9%	10.8%	4.0%	14.0%	7.3%
Non-interest income	-17.5%	-32.0%	14.3%	-15.2%	-21.2%
Total income	2.8%	2.8%	5.2%	10.1%	4.3%
Operating expenses	2.8%	7.1%	10.5%	1.6%	3.2%
PPOP	2.7%	-0.6%	0.8%	18.0%	5.2%
Loan impairment	-59.2%	-29.9%	-11.5%	76.2%	-14.8%
Pre-tax profit	70.9%	7.2%	2.8%	9.5%	10.0%
Net Profit	59.7%	18.3%	1.9%	8.3%	10.0%
Core Net Profit	59.7%	18.3%	1.9%	8.3%	10.0%
Gross loans	4.4%	6.2%	14.2%	14.7%	9.3%
Customer deposits	-0.6%	5.5%	12.9%	10.6%	7.2%
Operating metrics (%)					
Est average asset yield	3.71%	4.14%	4.54%	4.69%	4.78%
Est average funding cost	1.53%	1.99%	2.73%	2.80%	2.74%
Est NIM	2.54%	2.71%	2.54%	2.57%	2.53%
Cost-to-Income ratio	44.1%	45.9%	48.2%	44.5%	44.0%
Credit cost (bps)	49.2	32.7	26.3	40.5	30.8
Loan-to-deposit ratio	94%	94%	95%	99%	101%
GIL ratio	1.9%	2.6%	2.1%	2.1%	2.1%
LLC Ratio	136%	103%	101%	100%	100%
LLC Ratio (+ reg reserves)	142%	124%	114%	112%	111%
ROA	0.9%	1.1%	1.0%	0.9%	0.9%
ROE	9.0%	10.3%	9.9%	10.2%	10.6%
Valuations					
EPS (RM)	0.37	0.44	0.45	0.48	0.53
PER (x)	13.76	11.62	11.41	10.53	9.58
Div yield (%)	3.6	4.3	4.4	4.9	5.2
BV/share (RM)	4.14	4.36	4.63	4.87	5.13
P/BV (x)	1.23	1.17	1.10	1.05	0.99

Source: 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	2.77	2.40	-13.4%	6,649.3	N	12/2025	25.6	27.4	20.5%	7.2%	10.8	10.1	0.6	5.2%	10.0	3.6%
ALLIANCE BANK MALAYSIA BHD	MP	5.09	5.30	4.1%	7,879.9	N	03/2025	48.3	53.2	8.3%	10.0%	10.5	9.6	1.0	10.2%	25.0	4.9%
AMMB HOLDINGS BHD	OP	5.61	6.80	21.2%	18,535.8	N	03/2025	58.0	64.7	23.3%	11.4%	9.7	8.7	0.9	9.8%	29.0	5.2%
BANK ISLAM MALAYSIA BHD	MP	2.50	2.45	-2.0%	5,666.2	Y	12/2025	28.9	29.9	14.8%	3.3%	8.6	8.4	0.7	8.4%	17.5	7.0%
CIMB GROUP HOLDINGS BHD	MP	6.85	7.90	15.3%	73,534.1	N	12/2025	76.2	79.7	5.5%	4.5%	9.0	8.6	1.0	11.5%	42.0	6.1%
HONG LEONG BANK BHD	OP	20.48	27.40	33.8%	44,394.9	N	06/2025	215.3	221.6	5.2%	2.9%	9.5	9.2	1.0	11.4%	71.0	3.5%
MALAYAN BANKING BHD	OP	10.18	12.00	17.9%	122,980.3	N	12/2025	88.5	92.6	5.8%	4.6%	11.5	11.0	1.2	11.1%	65.0	6.4%
MBSB BHD	MP	0.715	0.720	0.7%	5,879.0	Y	12/2025	7.8	8.4	36.9%	8.5%	9.2	8.5	0.5	5.6%	3.5	4.9%
PUBLIC BANK BHD	OP	4.49	5.25	16.9%	87,154.0	N	12/2025	38.3	39.6	3.9%	3.5%	11.7	11.3	1.5	12.7%	23.0	5.1%
RHB BANK BHD	OP	6.76	7.80	15.4%	29,470.2	N	12/2025	73.8	77.5	2.5%	5.0%	9.2	8.7	0.9	9.7%	44.5	6.6%
SECTOR AGGREGATE					402,144					6.5%	4.7%	10.5	10.0	1.1	10.6%		5.3%

Name	Terminal growth (%)	Sustainable ROE (%)	Cost of Equity (%)	Applied PBV (x)	Target Price (RM)	Call	Remarks
AFFIN BANK BHD	3.0	6.25	9.9	0.47	2.40	UP	
ALLIANCE BANK MALAYSIA BHD	3.0	10.0	10.5	0.93	5.30	MP	+5% ESG Premium
AMMB HOLDINGS BHD	3.0	10.0	9.9	1.02	6.80	OP	
BANK ISLAM MALAYSIA BHD	3.5	8.0	10.2	0.67	2.45	MP	
CIMB GROUP HOLDINGS BHD	3.5	11.5	11.2	1.05	7.90	MP	+5% ESG Premium
HONG LEONG BANK BHD	2.5	12.0	9.5	1.35	27.40	OP	
MALAYAN BANKING BHD	3.5	12.0	9.5	1.41	12.00	OP	
MBSB BHD	3.0	6.0	9.2	0.48	0.720	MP	
PUBLIC BANK BHD	4.0	13.0	9.9	1.54	5.25	OP	+5% ESG Premium
RHB BANK BHD	2.5	10.0	10.2	0.98	7.80	OP	

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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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