

30 August 2024

Financial Services | Banks

Alliance Bank Malaysia (ABMB MK)

Buy (Maintained)

A Decent Start To The Year; Stay BUY

- **Keep BUY, with new MYR5.10 TP from MYR4.80, 15% upside and c.5% FY25F (Mar) yield.** 1QFY25 results came in within expectations. Key highlights from the set include continued strong loans growth and resilient NIM, while credit costs were up from a low base. We continue to prefer Alliance Bank Malaysia among the smaller banks for its good balance between loans growth, NIM, and asset quality.
- **Results review.** ABMB's 1QFY25 net profit of MYR176.7m (-1% QoQ, +17% YoY) met expectations, at 24% of our and consensus full-year estimates. The YoY strength was mainly driven by total income growth of 16%, from NII (+17%) and non-II (+4%). Opex was well contained, growing by a slower 13% YoY, which led to a lower CIR of 48.0% (1QFY24: 49.3%), in line with guidance of c.48%. Credit costs of 32bps (1QFY24: 28bps) also came in within guidance. On a QoQ basis, PBT was up 2% QoQ on operating income growth of 5% and positive JAWs, though mitigated by higher credit costs (4QFY24: 26bps). All in, reported ROE of 10.0% (1QFY24: 9.1%, 4QFY24: 10.5%) is in line with the FY25F target of >10%.
- **Seeing good growth.** ABMB's gross loans grew 15% YoY (QoQ: +2%) to MYR57.1bn, driven by all segments. The group is seeing good growth across the board, particularly in construction, real estate and business activities for its non-retail portfolio. Management also highlighted that it intends to capture downstream opportunities related to data centres, where there is a higher concentration of smaller businesses that are more along the bank's niche. Separately, we also note that the group's treasury assets portfolio has expanded 11% YoY, which puts it in a favourable position to capitalise on falling yields.
- **Some downside to NIM expected?** NIM rose 2bps YoY (flat QoQ) to land at 2.45%, ie at the top end of management's 2.40-2.45% guidance. This range was kept, which in our view, implies potential yield pressure given: i) ABMB's strong loans growth momentum; and ii) the competitive loans landscape, particularly for mortgages and SME loans. We are not overly concerned, as any potential NIM squeeze could be mitigated by an acceleration in treasury and markets non-II in the coming quarters.
- **A temporary spike in GILs.** Absolute GIL rose 5% QoQ (YoY: -5%), while the GIL ratio added 6bps QoQ to 2.17% (1QFY24: 2.63%). We understand the rise in delinquencies was partly due to seasonality factors, and that flow rates improved in Jul 2024. Management is committed to keeping its LLC (including regulatory reserves) above 100% (1QFY25: 112%).
- **Forecasts unchanged,** but our TP is raised to MYR5.10 from MYR4.80 as we update our GGM model for the latest house assumptions. Our TP includes a 6% ESG premium.

Forecasts and Valuation	Mar-23	Mar-24	Mar-25F	Mar-26F	Mar-27F
Reported net profit (MYRm)	678	690	733	792	862
Net profit growth (%)	18.3	1.9	6.2	8.0	8.9
Recurring net profit (MYRm)	678	690	733	792	862
Recurring EPS (MYR)	0.44	0.45	0.47	0.51	0.56
BVPS (MYR)	4.36	4.63	5.06	5.38	5.73
DPS (MYR)	0.22	0.22	0.24	0.26	0.28
Recurring P/E (x)	10.14	9.95	9.38	8.68	7.97
P/B (x)	1.02	0.96	0.88	0.83	0.78
Dividend Yield (%)	5.0	5.0	5.3	5.8	6.3
Return on average equity (%)	10.3	9.9	9.8	9.8	10.0

Source: Company data, RHB

Target Price (Return): MYR5.10 (+15%)
 Price (Market Cap): MYR4.44 (USD1,582m)
 ESG score: 3.3 (out of 4)
 Avg Daily Turnover (MYR/USD) 10.4m/2.29m

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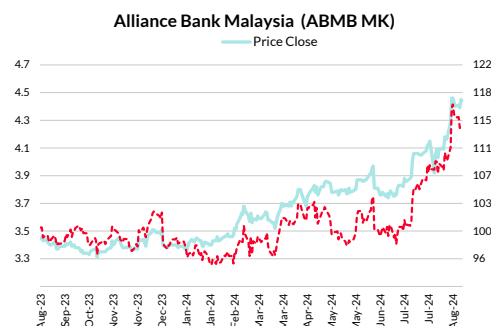


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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	31.0	8.8	16.8	24.7	25.8
Relative	15.8	5.7	12.4	16.7	10.6
52-wk Price low/high (MYR)				3.31	-4.46



Source: Bloomberg

Overall ESG Score: 3.3 (out of 4)

E: GOOD

ABMB's Scope 1, 2 and 3 operational emissions in FY24 marked a 18% reduction vs its baseline FY20 levels. As at Mar 2024, the group had achieved MYR12.6bn in new sustainable banking business, close to its target of MYR15bn by FY27 (Mar) - this target may likely be revised upwards.

S: EXCELLENT

ABMB supports its SME customers on their sustainability transition through financial support, industry roundtable discussions, and capacity building programmes, among others. The bank also boasts decent diversity and employee training credentials.

G: EXCELLENT

ABMB has 80% Board independence, while group-wide sustainability oversight is provided by a dedicated committee. Senior management personnel are also subject to ESG-linked remuneration packages.

Financial Exhibits

Asia	Financial summary (MYR)	Mar-23	Mar-24	Mar-25F	Mar-26F	Mar-27F
Malaysia	EPS	0.44	0.45	0.47	0.51	0.56
Financial Services	Recurring EPS	0.44	0.45	0.47	0.51	0.56
Alliance Bank Malaysia	DPS	0.22	0.22	0.24	0.26	0.28
ABMB MK	BVPS	4.36	4.63	5.06	5.38	5.73
Buy						
Valuation basis	Valuation metrics	Mar-23	Mar-24	Mar-25F	Mar-26F	Mar-27F
Our GGM assumptions are:	Recurring P/E (x)	10.14	9.95	9.38	8.68	7.97
i. COE of 10.5%;	P/B (x)	1.0	1.0	0.9	0.8	0.8
ii. ROE assumption of 9.9%; and	Dividend Yield (%)	5.0	5.0	5.3	5.8	6.3
iii. 3.5% long-term growth.						
Key drivers	Income statement (MYRm)	Mar-23	Mar-24	Mar-25F	Mar-26F	Mar-27F
Our FY25F earnings are most sensitive to changes in:	Interest income	2,429	2,906	3,162	3,500	3,873
i. Loans growth and NIM;	Interest expense	(746)	(1,156)	(1,255)	(1,447)	(1,660)
ii. Credit costs;	Net interest income	1,683	1,750	1,907	2,053	2,213
iii. Costs related to its new strategic initiatives; and	Non interest income	237	271	310	342	377
iv. Non-II.	Total operating income	1,920	2,020	2,217	2,395	2,590
	Overheads	(881)	(974)	(1,065)	(1,146)	(1,233)
	Pre-provision operating profit	1,038	1,047	1,152	1,249	1,357
	Loan impairment allowances	(152)	(135)	(184)	(204)	(220)
	Other impairment allowances	0	(1)	(3)	(3)	(3)
	Income from associates	0	0	0	0	0
	Pre-tax profit	887	911	965	1,042	1,134
	Taxation	(209)	(221)	(232)	(250)	(272)
	Reported net profit	678	690	733	792	862
	Recurring net profit	678	690	733	792	862
Key risks						
Key downside risks are:	Profitability ratios	Mar-23	Mar-24	Mar-25F	Mar-26F	Mar-27F
i. Weaker-than-expected loans growth and NIM;	Return on average assets (%)	1.1	1.0	0.9	0.9	1.0
ii. Higher-than-expected impairment allowances; and	Return on average equity (%)	10.3	9.9	9.8	9.8	10.0
iii. Weaker-than-expected non-II.	Return on IEAs (%)	3.8	4.2	4.1	4.2	4.3
	Cost of funds (%)	1.4	1.9	1.9	2.1	2.2
	Net interest spread (%)	2.5	2.2	2.2	2.2	2.1
	Net interest margin (%)	2.7	2.5	2.5	2.5	2.5
	Non-interest income / total income (%)	12.3	13.4	14.0	14.3	14.6
	Cost to income ratio (%)	45.9	48.2	48.0	47.8	47.6
	Credit cost (bps)	31.9	25.7	31.7	32.5	32.5
Company Profile						
Alliance Bank Malaysia is an integrated banking group with operations in consumer banking, SME banking, wholesale banking, Islamic banking, and investment banking.	Balance sheet (MYRm)	Mar-23	Mar-24	Mar-25F	Mar-26F	Mar-27F
	Total gross loans	49,193	55,905	60,329	65,104	70,259
	Other interest earning assets	15,807	18,850	19,815	20,830	21,897
	Total gross IEAs	65,001	74,755	80,144	85,934	92,156
	Total provisions	(1,267)	(1,185)	(1,231)	(1,292)	(1,369)
	Net loans to customers	48,498	55,256	59,621	64,334	69,422
	Total net IEAs	63,733	73,570	78,913	84,642	90,787
	Total non-IEAs	2,577	3,376	2,720	1,775	729
	Total assets	66,311	76,946	81,633	86,417	91,516
	Customer deposits	50,849	57,397	60,841	64,492	68,361
	Other interest-bearing liabilities	4,654	7,164	7,443	7,750	8,086
	Total IBLs	55,503	64,562	68,284	72,242	76,447
	Total non-IBLs	4,061	5,209	5,521	5,852	6,203
	Total liabilities	59,564	69,771	73,806	78,094	82,651
	Share capital	1,548	1,548	1,548	1,548	1,548
	Shareholders' equity	6,747	7,175	7,827	8,323	8,865
	Asset quality and capital	Mar-23	Mar-24	Mar-25F	Mar-26F	Mar-27F
	Reported NPLs / gross cust loans (%)	2.5	2.1	2.1	2.0	2.0
	Total provisions / reported NPLs (%)	102.8	100.6	97.2	99.2	97.4
	CET-1 ratio (%)	14.9	13.3	14.2	14.3	14.4

Source: Company data, RHB

Figure 1: ABMB – summary of 1QFY25 results

FYE Mar (MYRm)	1QFY24	4QFY24	1QFY25	QoQ (%)	YoY (%)	Comments
NII (+Islamic Banking)	405.4	457.3	476.1	4.1	17.5	Up from strong loans growth (+15% YoY, +2% QoQ)
NIM (%) – reported	2.43	2.45	2.45			
Non-II	60.9	58.9	63.6	8.0	4.5	YoY growth attributable to 36% YoY growth in wealth management fees and 13% YoY growth in fees from customer flows
Non-II/Total income (%)	13.1	11.4	11.8			
Operating income	466.3	516.2	539.8	4.6	15.8	
Overhead expenses	(230.1)	(249.2)	(259.3)	4.1	12.7	Mostly driven by higher personnel expenses, mainly from increased headcount
CIR (%)	49.3	48.3	48.0			
PIOP	236.2	267.0	280.5	5.1	18.8	
Impairment on other assets	(0.2)	(0.3)	(0.1)	(59)	(14)	
Loan loss provisions	(34.7)	(35.8)	(45.8)	28	32	
Annualised credit cost (bps)	28	26	32			Within the 30-35bps guided range
Operating profit	201.3	230.8	234.5	1.6	16.5	
Associates	0.0	0.0	0.0	(20.0)	(7.7)	
Pretax profit	201.3	230.8	234.5	1.6	16.5	
Tax	(50.8)	(53.1)	(57.9)	9.0	14.0	
Effective tax rate (%)	25.2	23.0	24.7			
Minorities	0.0	0.0	0.0	nm	nm	
Net profit	150.5	177.7	176.7	(0.6)	17.3	Formed 24%/24% of our/consensus full-year estimates
Other key data and ratios						
Gross loans	49,750	55,740	57,088	2.4	14.8	Annualised YTD growth stood at 9.7%, in line with management's 8-10% YoY target for the year
Customer deposits	51,794	57,397	57,818	0.7	11.6	FD added 15% YoY (+1% QoQ), while CASA grew by a slower 5% YoY (+1% QoQ). The CASA ratio of 41.5% remains one of the highest in the industry
Gross impaired loans	1,307	1,178	1,239	5.2	(5.2)	
Total assets	67,884	76,946	78,639	2.2	15.8	
Shareholders' funds	6,755	7,175	7,172	(0.0)	6.2	
ROAA (%)	0.90	0.95	0.91			
ROAE (%)	8.9	10.0	9.9			
LDR (%)	93.9	95.3	97.0			Loans-to-total-funds ratio (LTF) stood at 88.2% (1QFY24: 85.8%, 4QFY24: 87.0%)
GIL ratio (%)	2.62	2.11	2.16			
LLC (%) – excluding regulatory reserves	97.2	100.6	97.2			
CET-1 ratio (%)	13.7%	12.9%	12.2%			CET-1 ratio inclusive of unaudited 1QFY25F profit would have been 12.6%, which is comfortable for management

Source: Company data, RHB

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Management guidance

Figure 2: ABMB – management guidance and financial targets for FY25F

FYE Dec	FY24 actual	FY24F targets	1Q25 achieved	Comments
Reported ROE	10.2%	>10.0%	10.0%	Trading-related non-II to be the main ROE driver in the event of potential NIM squeeze (see below) – the group has been building up its treasury assets base (+11% YoY) to position for potential US Federal Funds Rate cuts
Reported NIM	2.48%	2.40-2.45%	2.45%	Some downside to the 1QFY25 number expected given the competitive landscape on loans and also deposits
CIR	48.2%	c.48%	48.0%	
Credit costs	26bps	30-35bps	32bps	BAU ECL provisions were lower YoY, but offset by lower writebacks of credit overlays (balance of MYR122m remaining)
Loans growth	13.6%	8-10%	14.8%	Management guided for a deceleration in loans growth moving forward, though still at levels above the industry. Growth should be broad-based, but in specific segments – eg emerging-affluent consumers, SMEs and businesses along the data centre supply chain

Source: Company data, RHB

Valuation and TP

Our TP is raised to MYR5.10 (from MYR4.80), and is based on a GGM-derived P/BV of 0.91x (from 0.85x). The sole change to our model was to cost of equity (10.5% from 11.0%) as we factored in the latest house assumptions. This compares to the 9-11% range of similar-sized banks under our coverage.

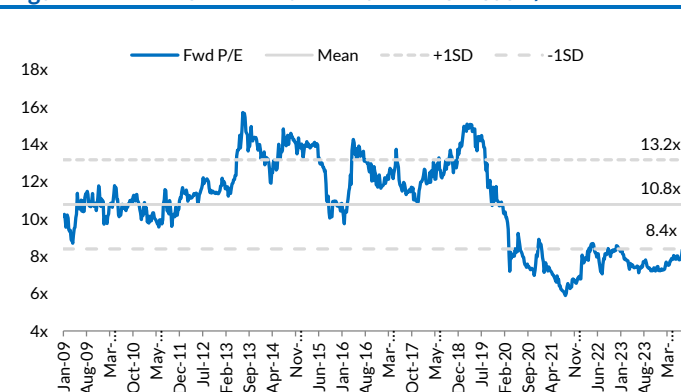
We continue to like ABMB for its solid loans growth momentum without compromising on NIM and asset quality. We think this places the bank in a good position to maintain ROEs of c.10%, with further uplift to come from its focus on relationship-based fee income (eg wealth management, customer flow). While the share price has performed well YTD, we think the current P/BV level of c.0.8x still looks reasonable for a BUY.

Figure 3: ABMB – GGM valuation with ESG overlay

Cost of equity (COE) computation:		Sustainable ROE (%)	9.9
Risk free rate (%)	4.0	COE (%)	10.5
Equity premium (%)	6.5	Long-term growth (g)	3.5
Beta (x)	1.0	Implied P/BV (x)	0.91
Cost of equity - CAPM (%)	10.5	BVPS - CY25F	MYR5.30
		Intrinsic value	MYR4.82
ESG premium/(discount) (%)	6.0	ESG premium/(discount)	MYR0.29
		TP (rounded)	MYR5.10

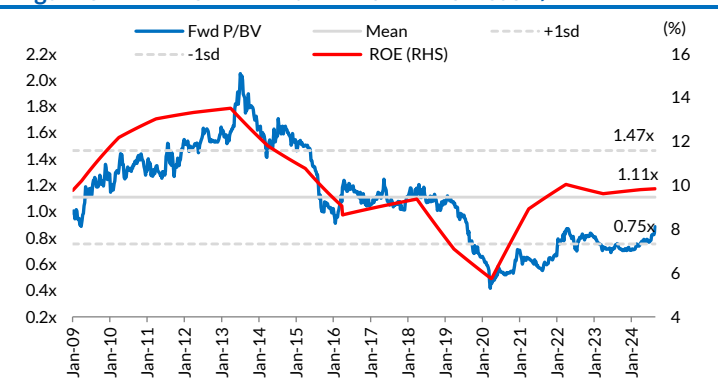
Source: Company data, RHB

Figure 4: ABMB's 12-month forward consensus P/E



Source: Bloomberg, RHB

Figure 5: ABMB's 12-month forward consensus P/BV



Source: Bloomberg, RHB

Emissions And ESG

Trend analysis

ABMB's operational Scope 1, 2 and 3 emissions have been on a downtrend for three consecutive years, mainly due to improvements in its Scope 2 emissions. ABMB's greenhouse gas reduction strategy involves lowering flow space, improving energy efficiency in offices and branches, and potential investments in carbon offset instruments.

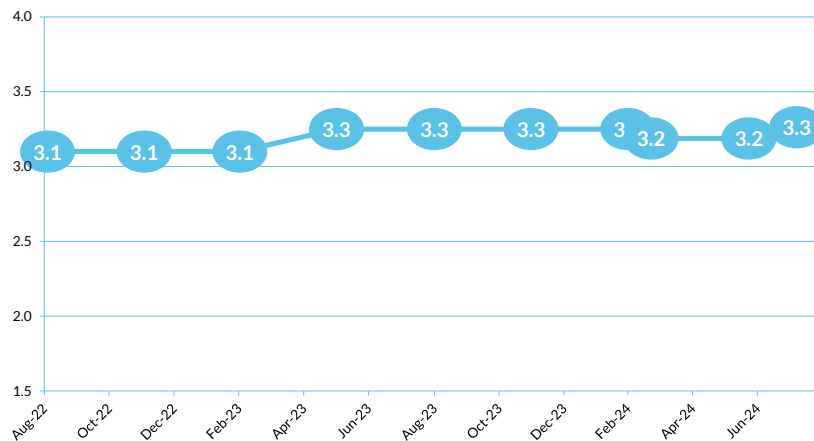
Emissions (tCO2e)	Mar-22	Mar-23	Mar-24
Scope 1	24	32	26
Scope 2	10,406	9,822	9,766
Scope 3	577	686	681
Total emissions	11,007	10,541	10,472

Source: Company data, RHB

Latest ESG-Related Developments

- **Acquires new head office building:** ABMB's new head office building on Jalan Ampang, Kuala Lumpur is a green-certified building, and should further aid the group in its emissions reduction initiatives.
- **Empowering SMEs for sustainability:** ABMB announced a collaboration with SME Corp Malaysia to assist SMEs to adopt ESG practices through relevant financing and non-financing solutions.
- **Financial education:** ABMB recently launched the seventh edition of its AEIOU challenge, a programme designed to improve financial literacy targeted towards primary schoolchildren.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-08-05	Buy	4.80	3.92
2024-05-31	Buy	4.40	3.87
2024-03-21	Buy	4.20	3.56
2024-02-28	Buy	4.30	3.63
2023-12-01	Buy	4.00	3.47
2023-08-30	Neutral	3.50	3.45
2023-05-31	Neutral	3.50	3.45
2023-04-02	Neutral	3.50	3.40
2023-02-28	Neutral	3.75	3.48
2022-11-29	Buy	4.40	3.79
2022-08-31	Buy	4.20	3.53
2022-07-19	Buy	4.00	3.18
2022-06-01	Buy	4.20	3.55
2022-03-01	Buy	4.00	3.60
2021-11-28	Buy	3.10	2.76

Source: RHB, Bloomberg

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Buy:	Share price may exceed 10% over the next 12 months
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