

29 November 2024

Financial Services | Banks

Alliance Bank Malaysia (ABMB MK)

Buy (Maintained)

Continuing To Fire On All Cylinders; Keep BUY

- **Maintain BUY and MYR5.50 TP, 13% upside and c.4% FY26F (Mar) yield.** Alliance Bank Malaysia's 1HFY25 results were in line, with stronger non-II making up for higher-than-expected credit costs, which management expects to moderate. At the halfway point, the group is on track to achieving – if not exceeding – most of its FY25F targets. As ABMB continues to chart above-industry growth while maintaining margins and asset quality, we think investors will be willing to look past the lower near-term dividend payout.
- **Results review.** ABMB's 2QFY25 net profit of MYR189.9m (+2% YoY, +8% QoQ) brought the 1HFY25 total to MYR366.6m (+9% YoY) – this came in line, forming 50% of our and consensus full-year estimates. On a YoY basis, healthy income growth of 15% was driven by NII (+16% from loans growth and stable NIM) and non-II (+11% on stronger treasury and markets income), while opex grew by a smaller 12%. The CIR eased 1.5ppts to 46.5% as a result, and led to strong PIOP growth of 18%. Credit costs, however, spiked to 49bps (1HFY24: 30bps), as the group booked in larger pre-emptive provisions. All in, 1HFY25 reported ROE stood at 10.3%, ahead of management's 10% target for the year (1HFY24: 10.1%).
- **ABMB declared a 9.5 sen interim DPS**, translating to a 40% payout ratio. This compares to 1HFY24's 10.9 sen and 50% payout. While the interim DPS declared fell short of our initial 11.8 sen forecast, we are not entirely surprised as management had previously alluded to potentially paying out at the lower end of its 40-50% guidance in order to preserve more capital for growth. Its CET-1 ratio of 12.4%, albeit a 50bps decline from the Mar 2024 position, remains at a comfortable level for management.
- **Continues to fire on all cylinders.** YoY loans growth of 15% (QoQ: +3%) was driven by all key segments, most notably households (+14%) and SME (+16%). Management sees strong momentum coming from its growth corridors of Johor, Penang and Sarawak, and from sectors such as construction, real estate and manufacturing. Management retained its 8-10% loans growth guidance for the full-year, but did not rule out the possibly of ending the year ahead of the target.
- **Expecting lower credit costs in 2HFY25.** 1HFY25 credit costs of 49bps include 12bps in pre-emptive provisions booked for its construction and personal finance portfolios. Conversely, GIL ratio eased to 2.02% from 2.50% in Sep 2024 (Jun 2024: 2.17%), allowing for lower BAU expected credit loss (ECL) provisions in 1HFY25. With GIL formation also easing, ABMB thinks 2HFY25 credit costs can be lower HoH, reaching 30-35bps at year-end.
- **Minimal changes to earnings forecasts**, even though we revised our dividend payout assumption to 40% from 50%. Our TP is maintained at MYR5.50, and includes an unchanged 6% ESG premium.

Forecasts and Valuation	Mar-23	Mar-24	Mar-25F	Mar-26F	Mar-27F
Reported net profit (MYRm)	678	690	735	792	861
Net profit growth (%)	18.3	1.9	6.5	7.7	8.8
Recurring net profit (MYRm)	678	690	735	792	861
Recurring EPS (MYR)	0.44	0.45	0.47	0.51	0.56
BVPS (MYR)	4.36	4.63	5.06	5.42	5.83
DPS (MYR)	0.22	0.22	0.19	0.20	0.22
Recurring P/E (x)	11.15	10.94	10.28	9.54	8.77
P/B (x)	1.12	1.05	0.96	0.90	0.84
Dividend Yield (%)	4.5	4.6	3.9	4.2	4.6
Return on average equity (%)	10.3	9.9	9.8	9.8	9.9

Source: Company data, RHB

Target Price (Return): MYR5.50 (+13%)
 Price (Market Cap): MYR4.88 (USD1,700m)
 ESG score: 3.3 (out of 4)
 Avg Daily Turnover (MYR/USD) 8.64m/2.00m

Analysts

Nabil Thoo
 +603 2302 8123
nabil.thoo@rhbgroup.com

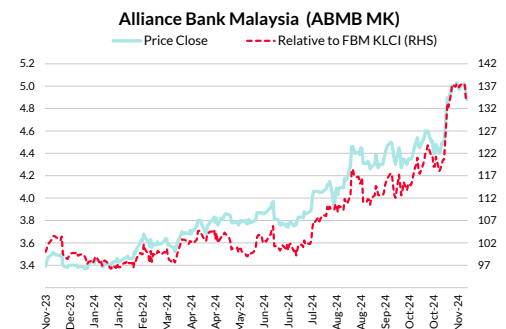


David Chong CFA
 +603 2302 8106
david.chongvc@rhbgroup.com



Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	44.0	8.4	9.7	28.4	42.7
Relative	33.7	8.8	13.9	29.1	31.9
52-wk Price low/high (MYR)				3.37	–5.03



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	0.19	0.20	0.22
ABMB MK	BVPS	4.36	4.63	5.06	5.42	5.83
Buy						
Valuation basis	Valuation metrics	Mar-23	Mar-24	Mar-25F	Mar-26F	Mar-27F
Our GGM assumptions are:	Recurring P/E (x)	11.15	10.94	10.28	9.54	8.77
i. COE of 10.0%;	P/B (x)	1.1	1.1	1.0	0.9	0.8
ii. ROE assumption of 9.9%; and	Dividend Yield (%)	4.5	4.6	3.9	4.2	4.6
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	3,872
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	330	342	377
iv. Non-interest income.	Total operating income	1,920	2,020	2,237	2,394	2,590
	Overheads	(881)	(974)	(1,065)	(1,146)	(1,233)
	Pre-provision operating profit	1,038	1,047	1,172	1,249	1,356
	Loan impairment allowances	(152)	(135)	(202)	(204)	(220)
	Other impairment allowances	0	(1)	(3)	(3)	(3)
	Income from associates	0	0	0	0	0
	Pre-tax profit	887	911	967	1,042	1,133
	Taxation	(209)	(221)	(232)	(250)	(272)
	Reported net profit	678	690	735	792	861
	Recurring net profit	678	690	735	792	861
Key risks	Profitability ratios	Mar-23	Mar-24	Mar-25F	Mar-26F	Mar-27F
Key downside risks are:	Return on average assets (%)	1.1	1.0	0.9	0.9	1.0
i. Weaker-than-expected loans growth and NIM;	Return on average equity (%)	10.3	9.9	9.8	9.8	9.9
ii. Higher-than-expected impairment allowances; and	Return on IEAs (%)	3.8	4.2	4.1	4.2	4.3
iii. Weaker-than-expected non-II.	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	14.7	14.3	14.6
	Cost to income ratio (%)	45.9	48.2	47.6	47.9	47.6
	Credit cost (bps)	31.9	25.7	34.7	32.5	32.5
Company Profile	Balance sheet (MYRm)	Mar-23	Mar-24	Mar-25F	Mar-26F	Mar-27F
Alliance Bank Malaysia is an integrated banking group with operations in consumer banking, SME banking, wholesale banking, Islamic banking, and investment banking.	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)	(1,249)	(1,310)	(1,387)
	Net loans to customers	48,498	55,256	59,621	64,334	69,422
	Total net IEAs	63,733	73,570	78,895	84,625	90,770
	Total non-IEAs	2,577	3,376	2,739	1,867	899
	Total assets	66,311	76,946	81,635	86,491	91,669
	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	7,829	8,397	9,018
	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	98.5	100.6	98.7
	CET-1 ratio (%)	14.9	13.3	14.2	14.4	14.7

Source: Company data, RHB

Results At a Glance

Figure 1: ABMB – summary of 2QFY25 and 1HFY25 results

FYE Mar (MYRm)	2Q24	1Q25	2Q25	QoQ (%)	YoY (%)	1H24	1H25	YoY (%)	Comments
Net interest income	437.7	476.1	501.8	5.4	14.6	843.1	977.9	16.0	Driven by higher loan volume (+15% YoY)
NIM – reported	2.53	2.45	2.49			2.48	2.47		Ahead of 2.45-2.50% guidance
Non-interest income	90.4	63.6	103.9	63.2	14.9	151.3	167.5	10.7	Core fees was down 34% YoY due to higher card-related expenses in 2QFY25, along with the high base effect from a one-off bancassurance gain in 2QFY24
Non-Il/Total income (%)	17.1	11.8	17.1			15.2	14.6		
Operating Income	528.1	539.8	605.6	12.2	14.7	994.4	1,145.4	15.2	
Overheads	(246.7)	(259.3)	(273.6)	5.5	10.9	(476.8)	(532.9)	11.8	
CIR (%)	46.7	48.0	45.2			48.0	46.5		
Pre-provision operating profit	281.4	280.5	332.1	18.4	18.0	517.5	612.6	18.4	
Impairment on other assets	(0.0)	(0.1)	(0.6)	>100	>100	(0.2)	(0.7)	>100	
Loan loss provisions	(39.7)	(45.8)	(94.0)	>100	>100	(74.4)	(139.8)	87.9	Includes MYR33m/12bps in pre-emptive provisions booked. BAU ECL provisions declined by 30bps YoY
Annualised credit cost (bps)	31	32	65			30	49		
Operating profit	241.7	234.5	237.5	1.3	(1.7)	443.0	472.1	6.6	
Associates	0.0	0.0	0.0	0.0	33.3	0.0	0.0	9.1	
Profit before tax	241.7	234.5	237.5	1.3	(1.7)	443.0	472.1	6.6	
Tax	(56.3)	(57.9)	(47.6)	(17.7)	(15.4)	(107.1)	(105.5)	(1.5)	
ETR (%)	23.3	24.7	20.1			24.2	22.4		
Minority Interest	0.0	0.0	0.0	nm	nm	0.0	0.0	nm	
PATAMI	185.3	176.7	189.9	7.5	2.5	335.9	366.6	9.1	At 50% of our and Street forecasts
Other key data and ratios									
Gross loans	51,460	57,088	59,074	3.5	14.8				Ahead of the 8-10% YoY target. Growth was driven by consumer (+14%), SME (+16%), commercial (+16%) and corporate (+12%)
Customer deposits	51,838	57,818	58,966	2.0	13.8				Of this, CASA grew at a slower 5% pace, and hence, the CASA ratio slid to 40.9% (from 44.2%)
Gross impaired loans	1,291	1,239	1,192	(3.8)	(7.6)				
Total assets	70,128	78,639	81,023	3.0	15.5				
Shareholders' funds	6,915	7,172	7,408	3.3	7.1				
ROAA (%) – calculated	1.07	0.91	0.95			1.07	1.04		
ROAE (%) – calculated	10.8	9.9	10.4			9.8	10.1		Reported ROE is 10.3%, in line with >10% target
LDR (%)	97.2	97.0	98.4						
GIL (%)	2.50	2.16	2.01						Improvements across the board, most notably in the consumer portfolio (including Alliance One Accounts)
LLC (%) – excluding regulatory reserves	94.3	97.2	105.6						
CET-1 ratio (%)*	13.3	12.2	12.4						

Note: *indicates CET-1 ratio net of proposed dividends and without transitional arrangements

Source: Company data, RHB

Management guidance

Figure 2: ABMB – management guidance and financial targets

	FY24 actual	FY25 targets	1HFY25 achieved	Comments
Reported ROE	10.2%	>10.0%	10.3%	Key ROE drivers would be above-industry loans growth and fee income growth (wealth management, bancassurance, trade and FX-related fees)
Reported NIM	2.48%	2.40-2.45%	2.47%	Management sees some NIM compression arising from the year-end seasonal deposit competition
CIR	48.2%	c.48%	46.5%	Management guided for the pace of opex growth to slow down (FY24 opex was a 10% increase YoY; 1HFY25 achieved: +12%) as cost-intensive strategy-related investments subside
Credit cost	26bps	30-35bps	49bps	With a lower GIL ratio and GIL formation easing, ABMB expects credit costs to ease in 2HFY25F
Loans growth	13.6%	8-10%	14.8%	Growth to be broad-based except for Alliance One Accounts (secondary mortgages), which it has de-emphasised growth on. Management assured us that it will not compromise on pricing and asset quality in growing its loan portfolio, and instead will focus on service delivery
Dividend payout	50%	40-50%	40%	Lower YoY payout reflects management's commitment to conserving capital for growth

Source: Company data, RHB

Earnings forecasts

Our FY25F-27F are kept largely unchanged, with the following revisions made:

- Higher credit costs of 35bps in FY25F (from 32bps), in line with the higher-than-expected 1HFY25 figure, but still within guidance;
- A higher non-fee non-ll assumption for FY25F, in line with the 1HFY25 performance;
- A lower dividend payout ratio of 40% (from 50%) to reflect ongoing capital optimisation efforts – ABMB's dividend yield drops to 4% (from 5%), which still looks decent for a fast-growing bank with stable margins and asset quality.

Figure 3: ABMB – revisions to earnings forecasts

	Previous FY25F	Previous FY26F	Previous FY27F	Revised FY25F	Revised FY26F	New FY27F	% Change FY25F	% Change FY26F	% Change FY27F
FYE Dec (MYRm)									
Net interest income	1,907	2,053	2,213	1,907	2,053	2,213	0.0%	0.0%	0.0%
Non-interest income	310	342	377	330	342	377	6.5%	0.0%	0.0%
Operating expenses	(1,065)	(1,146)	(1,233)	(1,065)	(1,146)	(1,233)	0.0%	0.0%	0.0%
PIOP	1,152	1,249	1,357	1,172	1,249	1,356	1.7%	0.0%	-0.1%
Impairment charges	(187)	(207)	(223)	(205)	(207)	(223)	9.3%	0.0%	0.0%
Pretax profit	965	1,042	1,134	967	1,042	1,133	0.3%	0.0%	-0.1%
Net profit	733	792	862	735	792	861	0.3%	0.0%	-0.1%
EPS (MYR)	0.47	0.51	0.56	0.47	0.51	0.56	0.3%	0.0%	-0.1%
DPS (MYR)	0.24	0.26	0.28	0.19	0.20	0.22	-19.8%	-20.0%	-20.1%
Loan growth (%)	8.0	8.0	8.0	8.0	8.0	8.0			
NIM (%)	2.50	2.51	2.52	2.50	2.51	2.52			
CIR (%)	48.0	47.8	47.6	47.6	47.9	47.6			
Credit cost (bps)	32	33	32	35	33	32			

Source: Company data, RHB

Valuation and TP

Our TP is maintained at MYR5.50, and is based on a GGM-derived P/BV of 0.98x (near -0.5SD from mean). Our TP includes an unchanged 6% ESG premium, as ABMB's ESG score of 3.3 is three notches ahead of the country median.

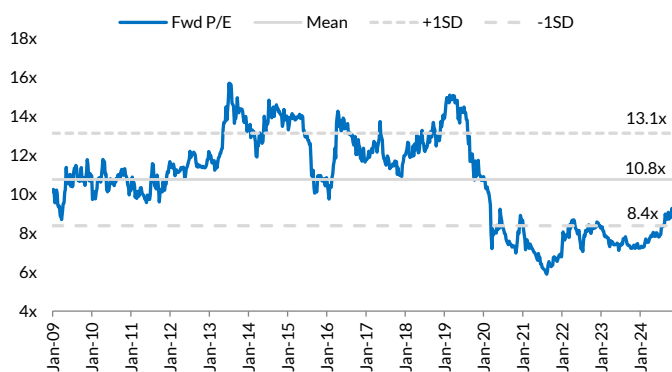
We maintain our optimistic stance on ABMB, as the bank's pursuit of above-industry growth rates without compromising on margin and asset quality should position it nicely to maintain a ROE of 9-10%. Compared to a 0.9x P/BV, we think the risk-reward split looks compelling, especially as it is still some distance below the counter's historical mean. We also think investors will be willing to look past the potentially lower dividend payout in the near term, as the capital preserved will be used to fund growth for the long term.

Figure 4: ABMB – GGM valuation with ESG overlay

Cost of equity (COE) computation:		Sustainable ROE (%)	9.9
Risk free rate (%)	4.0	COE (%)	10.0
Equity premium (%)	6.0	Long-term growth (g)	3.5
Beta (x)	1.0	Implied P/BV (x)	0.98
Cost of equity - CAPM (%)	10.0	BVPS - CY25F	MYR5.33
		Intrinsic value	MYR5.23
ESG premium/(discount) (%)	6.0	ESG premium/(discount)	MYR0.31
		TP (rounded)	MYR5.50

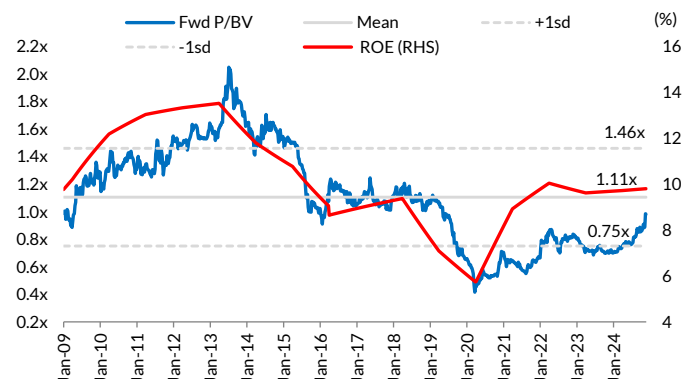
Source: Company data, RHB

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



Source: Bloomberg, RHB

Figure 6: 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.

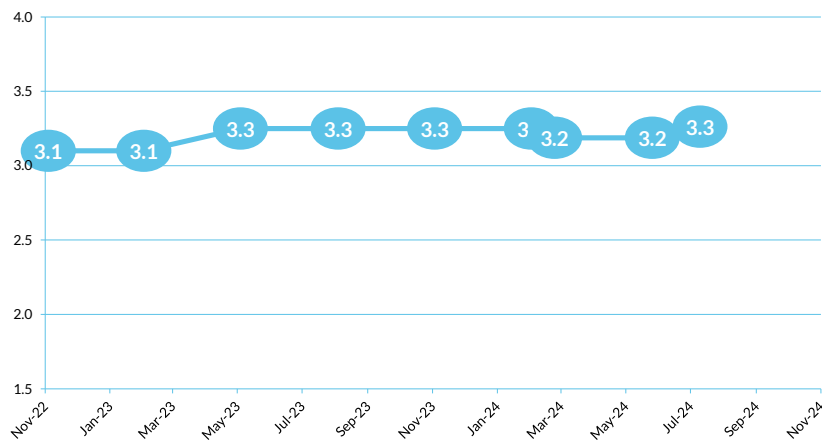
Emissions (tCO ₂ e)	Mar-22	Mar-23	Mar-24
Scope 1	24	32	26
Scope 2	10,406	9,822	9,766
Scope 3	577	686	681
Total emissions	11,007	10,541	10,472

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 practice 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 school children.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-11-11	Buy	5.50	4.90
2024-08-29	Buy	5.10	4.44
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

Source: RHB, Bloomberg

RHB Guide to Investment Ratings

Buy:	Share price may exceed 10% over the next 12 months
Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
Take Profit:	Target price has been attained. Look to accumulate at lower levels
Sell:	Share price may fall by more than 10% over the next 12 months
Not Rated:	Stock is not within regular research coverage

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KUALA LUMPUR

RHB Investment Bank Bhd
Level 3A, Tower One, RHB Centre
Jalan Tun Razak
Kuala Lumpur 50400
Malaysia
Tel : +603 2302 8100
Fax : +603 2302 8134

JAKARTA

PT RHB Sekuritas Indonesia
Revenue Tower, 11th Floor, District 8 - SCBD
Jl. Jendral Sudirman Kav 52-53
Jakarta 12190
Indonesia
Tel : +6221 509 39 888
Fax : +6221 509 39 777

BANGKOK

RHB Securities (Thailand) PCL
10th Floor, Sathorn Square Office Tower
98, North Sathorn Road, Silom
Bangrak, Bangkok 10500
Thailand
Tel: +66 2088 9999
Fax :+66 2088 9799

SINGAPORE

RHB Bank Berhad (Singapore branch)
90 Cecil Street
#04-00 RHB Bank Building
Singapore 069531
Fax: +65 6509 0470