

1 June 2021

Alliance Bank Malaysia (ABMB MK)

Soft End To The Year

- **NEUTRAL with lower MYR2.70 TP from MYR2.80, 4% upside, c.3% FY22F yield.** Alliance Bank's FY21 (Mar) results were in line with our forecast but slightly below consensus'. A DPS of 5.79 sen was declared, implying a 25% payout. Credit cost is expected to remain elevated in FY22F while dividend payout is likely to fall short of pre-COVID-19's c.50%, in our view. We cut FY22-23F earnings by 11% and 12% on higher credit cost assumptions.
- **Outlook and guidance.** Key FY22F guidance includes 3-4% loan growth, c.2.35% NIM, 45-46% CIR, <90bps credit cost, and >7.5% ROE. Management is looking forward to a recovery but sees downside risks largely from the latest round of lockdowns. Peak GIL ratio is kept at 3.5%. While FY21 payout was only 25%, management stated that it should gradually normalise to the <60% payout policy.
- **FY21 met expectations.** ABMB's FY21 PATAMI of MYR359m (-15%) was in line with our expectations, but slightly missed consensus'. Credit cost was at 121bps with close to 60% (71bps) being overlay provisions. ROE was lower at 5.9%, given the lower PATAMI. The group declared DPS of 5.79 sen for the financial year, implying a 25% payout, which is lower than the historical c.50%.
- **4QFY21 earnings drivers.** PATAMI fell 50% QoQ and 49% YoY on elevated credit costs (124bps) and weaker PIOP. NII was up 5% QoQ on the 15bps NIM expansion. Non-II fell 38% QoQ on meaningfully lower trading income. CIR drifted higher QoQ to 52.1% on both weak income and 21% QoQ higher opex (mostly personnel and general expenses).
- **Other highlights.** 16% of its loan book are on relief program, with 53%, 30% and 17% split between consumer, SMEs and corporate borrowers. Loans only grew 1% largely on the group de-risking in FY21. GIL ratio was lower at 2.34% but was hardly reflective of true asset health, in our view. CASA mix improved to 47%, which helped in lowering the cost of fund.
- **Earnings and TP.** We cut our FY21-22F earnings forecasts by 11% and 12% on higher credit cost assumptions, in view of the recent lockdown. Our TP is lower at MYR2.70, valuing ABMB at 0.6x FY22F P/BV.

Forecasts and Valuation	Mar-20	Mar-21	Mar-22F	Mar-23F	Mar-24F
Reported net profit (MYRm)	424	359	395	457	534
Net profit growth (%)	(21.1)	(15.4)	10.0	15.7	17.0
Recurring net profit (MYRm)	424	359	395	457	534
Recurring EPS (MYR)	0.27	0.23	0.25	0.30	0.35
BVPS (MYR)	3.87	4.04	4.23	4.44	4.68
DPS (MYR)	0.06	0.06	0.08	0.11	0.14
Recurring P/E (x)	9.45	11.18	10.16	8.78	7.50
P/B (x)	0.67	0.64	0.61	0.58	0.55
Dividend Yield (%)	2.3	2.2	3.1	4.2	5.4
Return on average equity (%)	7.2	5.9	6.2	6.8	7.6

Source: Company data, RHB

Malaysia Results Review

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Neutral (Maintained)

Target Price (Return):	MYR2.70 (4.2%)
Price:	MYR2.59
Market Cap:	USD972m
Avg Daily Turnover (MYR/USD)	2.33m/0.57m

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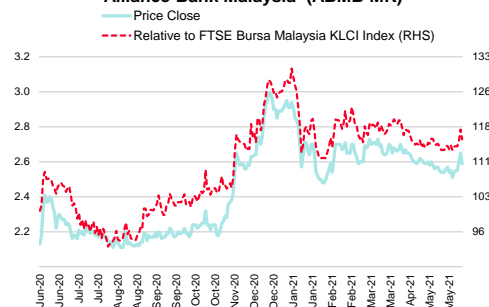
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(11.0)	(0.4)	(2.3)	(1.5)	23.3
Relative	(8.3)	0.7	(2.7)	(2.8)	15.8
52-wk Price low/high (MYR)				2.11 – 2.99	

Alliance Bank Malaysia (ABMB MK)



Source: Bloomberg

Overall ESG Score: 3.2 (out of 4)

E: Good

ABMB has in place environmental management measures to minimise its environmental footprint. This includes initiatives that reduce paper use, energy intensity, and better use of environmentally friendly materials.

S: Good

ABMB continues to promote financial literacy among schoolchildren ages 9 to 12 through its AEIOU program. Student participation more than doubled from 15,000 in FY2019, to 32,000 in FY2020.

G: Excellent

The Board consists eight members, comprising entirely non-executive directors, six of whom are independent directors. The number of independent non-executive directors that made up of 75% of the Board is in compliance with BNM Policy Document on Corporate Governance to have a majority of Independent Directors at all times.

Note:

Small cap stocks are defined as companies with a market capitalisation of less than USD1bn.

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Financial Exhibits

Asia	Financial summary (MYR)	Mar-20	Mar-21	Mar-22F	Mar-23F	Mar-24F
Malaysia	EPS	0.27	0.23	0.25	0.30	0.35
Financial Services	Recurring EPS	0.27	0.23	0.25	0.30	0.35
Alliance Bank Malaysia	DPS	0.06	0.06	0.08	0.11	0.14
ABMB MK	BVPS	3.87	4.04	4.23	4.44	4.68
Neutral						
	Valuation metrics	Mar-20	Mar-21	Mar-22F	Mar-23F	Mar-24F
Valuation basis	Recurring P/E (x)	9.45	11.18	10.16	8.78	7.50
Our GGM assumptions are:	P/B (x)	0.7	0.6	0.6	0.6	0.6
i. COE of 9.5%;	Dividend Yield (%)	2.3	2.2	3.1	4.2	5.4
ii. ROE assumption of 6.8%; and						
iii. 2.0% long-term growth.						
Key drivers	Income statement (MYRm)	Mar-20	Mar-21	Mar-22F	Mar-23F	Mar-24F
Our FY22F earnings are most sensitive to changes in:	Interest income	2,448	2,172	2,249	2,361	2,481
i. Credit cost;	Interest expense	(1,089)	(777)	(773)	(807)	(853)
ii. NIM;	Net interest income	1,359	1,395	1,476	1,554	1,628
iii. Costs related to its new strategic initiatives; and	Non interest income	331	422	240	230	246
iv. Non-interest income.	Total operating income	1,689	1,818	1,716	1,784	1,873
	Overheads	(807)	(801)	(831)	(866)	(911)
	Pre-provision operating profit	882	1,017	885	917	963
	Loan impairment allowances	(278)	(533)	(363)	(314)	(257)
	Other impairment allowances	(37)	(0)	(3)	(3)	(3)
	Income from associates	0	0	0	0	0
	Pre-tax profit	568	484	519	601	703
	Taxation	(144)	(125)	(125)	(144)	(169)
	Reported net profit	424	359	395	457	534
	Recurring net profit	424	359	395	457	534
Key risks	Profitability ratios	Mar-20	Mar-21	Mar-22F	Mar-23F	Mar-24F
Key downside risks are:	Return on average assets (%)	0.7	0.6	0.6	0.7	0.8
i. Higher-than-expected impairment allowances;	Return on average equity (%)	7.2	5.9	6.2	6.8	7.6
ii. Lower-than-expected NIM; and	Return on IEAs (%)	4.3	3.6	3.6	3.7	3.7
iii. Weaker-than-expected non-II.	Cost of funds (%)	2.2	1.5	1.5	1.5	1.5
The converse represents upside risks.	Net interest spread (%)	2.1	2.2	2.2	2.2	2.2
	Net interest margin (%)	2.4	2.3	2.4	2.4	2.4
	Non-interest income / total income (%)	19.6	23.2	14.0	12.9	13.1
	Cost to income ratio (%)	47.8	44.1	48.4	48.6	48.6
	Credit cost (bps)	64.1	121.1	80.5	66.9	52.5
Company Profile	Balance sheet (MYRm)	Mar-20	Mar-21	Mar-22F	Mar-23F	Mar-24F
Alliance Bank Malaysia is an integrated banking group with operations in consumer banking, SME banking, wholesale banking, Islamic banking, investment banking and stock broking.	Total gross loans	43,769	44,241	46,010	47,851	50,001
	Other interest earning assets	15,486	16,168	17,063	17,940	18,862
	Total gross IEAs	59,256	60,409	63,073	65,791	68,863
	Total provisions	(659)	(1,007)	(1,232)	(1,395)	(1,506)
	Net loans to customers	43,403	43,511	45,059	46,738	48,768
	Total net IEAs	58,596	59,401	61,842	64,395	67,357
	Total non-IEAs	2,379	1,320	795	766	720
	Total assets	60,975	60,721	62,636	65,161	68,076
	Customer deposits	48,426	48,489	49,943	51,941	54,278
	Other interest-bearing liabilities	4,606	3,829	3,875	3,933	4,003
	Total IBLs	53,031	52,317	53,819	55,874	58,281
	Total non-IBLs	1,955	2,146	2,275	2,411	2,556
	Total liabilities	54,986	54,463	56,093	58,285	60,836
	Share capital	1,548	1,548	1,548	1,548	1,548
	Shareholders' equity	5,989	6,258	6,543	6,876	7,240
	Asset quality and capital	Mar-20	Mar-21	Mar-22F	Mar-23F	Mar-24F
	Reported NPLs / gross cust loans (%)	2.0	2.3	3.3	3.0	2.7
	Total provisions / reported NPLs (%)	75.7	97.6	81.1	97.2	111.6
	CET-1 ratio (%)	13.8	16.5	14.8	15.0	15.1

Source: Company data, RHB

Results At A Glance

Figure 1: Summary of ABMB's 4QFY21 and FY21 results

FYE Mar (MYRm)	4FYQ20	3QFY21	4QFY21	QoQ (%)	YoY (%)	FY20	FY21	YoY (%)	Comments – 4QFY21 vs 3QFY21
NII (+ Islamic banking)	346.5	346.4	365.0	5	5	1,364.4	1,395.2	2.3	
NIM (%) – reported	2.46	2.26	2.41			2.38	2.23		Improved on lower cost of fund.
Non-II	87.9	129.3	80.8	(38)	(8)	330.6	422.4	28	Lower QoQ on trading gains normalised.
Non-II/total income (%)	20.2	27.2	18.1			19.5	23.2		
Operating income	434.4	475.7	445.8	(6)	3	1,694.9	1,817.6	7	
Overhead expenses	(205.4)	(191.2)	(232.1)	21	13	(812.6)	(800.7)	(1)	
CIR (%)	47.3	40.2	52.1			47.9	44.1		
PIOP	229.0	284.5	213.7	(25)	(7)	882.3	1,016.9	15	
Impairments on financial assets	(0.6)	0.3	0.0	(100)	(100)	(41.7)	(0.2)	(100)	
Impairment losses on loans	(98.0)	(150.8)	(136.5)	(9)	39	(272.8)	(532.8)	95	
Annualised credit cost (bps)	90	138	124			64	122		
Operating profit	130.4	134.0	77.2	(42)	(41)	567.8	483.9	(15)	
Associates	0.0	0.0	0.0	(10)	6	0.1	0.1	(10)	
Pretax profit	130.4	134.0	77.2	(42)	(41)	567.9	484.0	(15)	
Tax	(32.3)	(33.6)	(27.2)	(19)	(16)	(143.6)	(125.2)	(13)	
ETR (%)	24.8	25.0	35.2			25.3	25.9		
Minorities	0.0	0.0	0.0	nm	nm	0.0	0.0	nm	
Net profit	98.1	100.5	50.1	(50)	(49)	424.3	358.8	(15)	
Other key data and ratios									
Gross loans	43,668	43,207	44,147	2	1				
Customer deposits	48,426	46,081	48,489	5	0				
Gross impaired loans	871	1,090	1,032	(5)	18				
Total assets	60,975	58,849	60,721	3	(0)				
Shareholders' funds	5,989	6,439	6,258	(3)	4				
ROAA	0.66	0.67	(0.21)			0.74	0.60		
ROAE	6.6	6.3	(1.9)			7.2	5.9		
LDR (%)	89.0	91.9	89.2						
GIL ratio (%)	1.99	2.52	2.31						
Loan loss coverage (%)	101.4	101.1	153.0						

Source: Company data, RHB

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Revisions in earnings forecasts

We cut our FY21-22F earnings forecasts by 11% and 12% on higher credit cost assumption, in view of the recent lockdown.

Figure 2: ABMB – revisions to forecasts

FYE 31 Mar	Net profit (MYRm)			EPS (MYR)			DPS (MYR)		
	Previous	Revised	% Chg	Previous	Revised	% Chg	Previous	Revised	% Chg
2022F	443.3	394.6	(11.0)	0.29	0.25	(11.0)	0.10	0.08	(20.0)
2023F	519.0	456.7	(12.0)	0.34	0.30	(12.0)	0.13	0.11	(15.4)
2024F	n.a.	534.4	n.m.	n.a.	0.35	n.m.	n.a.	0.14	n.m.

Source: RHB

Valuation and TP

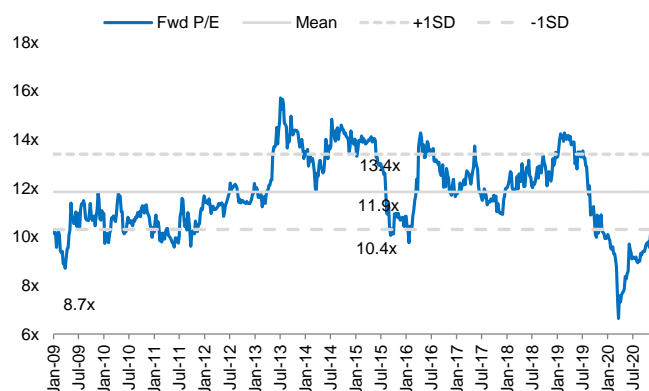
Our GGM-derived TP is trimmed slightly to MYR2.70 from MYR2.80 following the downward revision in earnings. Our revised TP is based on 0.6x FY22 P/BV.

Figure 3: GGM valuation

Cost of equity (COE) computation:		Sustainable ROE (%)	6.8
Risk free rate (%)	2.9	COE (%)	9.5
Equity premium (%)	6.0	Long-term growth (g)	2.0
Beta (x)	1.1	Implied P/BV (x)	0.6
Cost of equity - CAPM (%)	9.5	BVPS – FY22F	MYR4.23
		Target price	MYR2.73
		TP (rounded)	MYR2.70

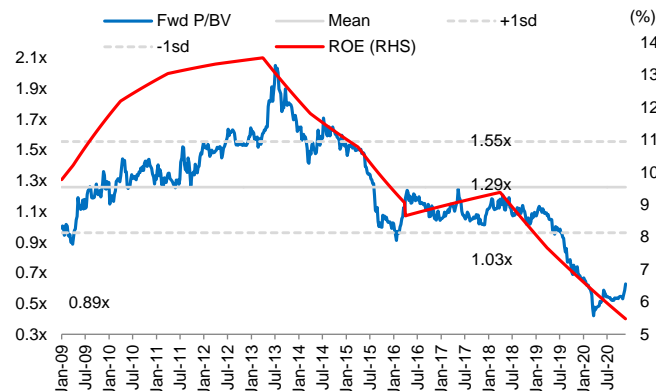
Source: Company data, RHB

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

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2021-02-28	Neutral	2.80	2.65
2020-12-16	Neutral	2.90	2.99
2020-11-29	Neutral	2.60	2.58
2020-08-31	Neutral	2.20	2.19
2020-06-26	Neutral	2.40	2.20
2020-03-23	Buy	2.10	1.60
2020-03-01	Buy	2.70	2.31
2020-01-21	Buy	2.90	2.53
2019-11-28	Neutral	2.90	2.65
2019-08-28	Neutral	3.10	3.02
2019-08-13	Buy	4.20	3.30
2018-11-30	Buy	4.80	4.10

Source: RHB, Bloomberg

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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
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Not Rated:	Stock is not within regular research coverage

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