

17 December 2020

Financial Services | Banks

Alliance Bank Malaysia (ABMB MK)

Neutral (Maintained)

An In-The-Price Recovery; NEUTRAL

- **Maintain NEUTRAL with new TP MYR2.90 from MYR2.60, 3% downside.** Management has alluded to more pre-emptive provisions in the coming quarters, which should help to pave a cleaner recovery path in FY22F (Mar) although we are wary of its relatively riskier portfolio. While we reiterate our OVERWEIGHT call on the banking sector, we believe Alliance Bank's current valuation of 0.7x FY22F P/BV has largely priced in the recovery prospects; its share price is the best performer YTD.
- **2021 sector strategy: Revenge of the cyclical.** We stay OVERWEIGHT on the banking sector despite the strong share price performance since Nov 2020. With recovery on its way and the arrival of effective vaccines in just a matter of time, sector re-rating (ahead of actual ROE recovery) will gain more traction in 2021 as investors rotate to cyclical sectors.
- **Beefing up provisions for the rainy days.** Management maintained FY21F credit cost guidance of <100bps and alluded to more pre-emptive provisions in the coming quarters. Although ABMB has been able to defend the target so far, we remain cautious on its asset quality outlook, especially the Alliance One Account (AOA) borrowers.
- **Valuation suggests recovery priced in.** ABMB's share price is the best performer YTD. The stock is trading at c.0.7x FY22F P/BV, which suggests the recovery outlook has largely been priced in by now.
- **Earnings and TP.** We make no changes to our earnings forecasts. Our GGM-derived TP is raised to MYR2.90, mainly on lower risk premium assumption. Our TP values ABMB at 0.7x FY22F P/BV, below -1SD from its mean. We believe the current valuation has largely priced in the recovery and risk-reward appears balanced.

Target Price (Return): MYR2.90 (-3%)
 Price: MYR2.99
 Market Cap: USD1,142m
 Avg Daily Turnover (MYR/USD): 4.45m/1.08m

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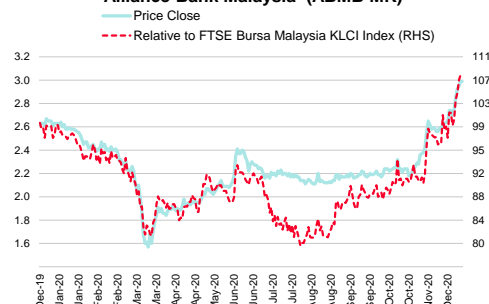
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	13.7	16.8	37.8	31.1	15.9
Relative	8.3	12.2	28.5	20.8	9.2
52-wk Price low/high (MYR)				1.57 – 2.99	

Alliance Bank Malaysia (ABMB MK)



Source: Bloomberg

Forecasts and Valuation	Mar-19	Mar-20	Mar-21F	Mar-22F	Mar-23F
Reported net profit (MYRm)	538	424	404	443	519
Net profit growth (%)	9.0	(21.1)	(4.9)	9.8	17.1
Recurring net profit (MYRm)	538	424	404	443	519
Recurring EPS (MYR)	0.35	0.27	0.26	0.29	0.34
BVPS (MYR)	3.70	3.87	4.07	4.30	4.54
DPS (MYR)	0.17	0.06	0.06	0.10	0.13
Recurring P/E (x)	8.61	10.91	11.47	10.44	8.92
P/B (x)	0.81	0.77	0.73	0.70	0.66
Dividend Yield (%)	5.6	2.0	1.8	3.3	4.3
Return on average equity (%)	9.6	7.2	6.6	6.8	7.6

Source: Company data, RHB

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Financial Services | Banks

Financial Exhibits

Asia	Financial summary (MYR)	Mar-19	Mar-20	Mar-21F	Mar-22F	Mar-23F
Malaysia	EPS	0.35	0.27	0.26	0.29	0.34
Financial Services	Recurring EPS	0.35	0.27	0.26	0.29	0.34
Alliance Bank Malaysia	DPS	0.17	0.06	0.06	0.10	0.13
ABMB MK	BVPS	3.70	3.87	4.07	4.30	4.54
Neutral						
Valuation basis	Valuation metrics	Mar-19	Mar-20	Mar-21F	Mar-22F	Mar-23F
Our GGM assumptions are:	Recurring P/E (x)	8.61	10.91	11.47	10.44	8.92
i. COE of 9.5%;	P/B (x)	0.8	0.8	0.7	0.7	0.7
ii. ROE assumption of 7.0%;	Dividend Yield (%)	5.6	2.0	1.8	3.3	4.3
iii. 2.0% long-term growth.						
Key drivers	Income statement (MYRm)	Mar-19	Mar-20	Mar-21F	Mar-22F	Mar-23F
Our FY21F earnings are most sensitive to changes in:	Interest income	2,370	2,448	2,367	2,415	2,520
i. Credit cost;	Interest expense	(1,013)	(1,089)	(1,004)	(1,021)	(1,065)
ii. NIM;	Net interest income	1,357	1,359	1,363	1,394	1,455
iii. Costs related to its new strategic initiatives;	Non interest income	265	331	411	297	312
iv. Non-II.	Total operating income	1,622	1,689	1,774	1,691	1,766
	Overheads	(775)	(807)	(799)	(827)	(863)
	Pre-provision operating profit	847	882	975	864	904
	Loan impairment allow ances	(131)	(278)	(444)	(280)	(221)
	Other impairment allow ances	(8)	(37)	-	-	-
	Income from associates	0	0	0	0	0
	Pre-tax profit	708	568	531	583	683
	Taxation	(170)	(144)	(127)	(140)	(164)
	Reported net profit	538	424	404	443	519
	Recurring net profit	538	424	404	443	519
Company Profile	Profitability ratios	Mar-19	Mar-20	Mar-21F	Mar-22F	Mar-23F
Alliance Bank Malaysia is an integrated banking group with operations in consumer banking, SME banking, wholesale banking, Islamic banking, investment banking and stock broking.	Return on average assets (%)	1.0	0.7	0.7	0.7	0.8
	Return on average equity (%)	9.6	7.2	6.6	6.8	7.6
	Return on IEAs (%)	4.4	4.3	3.9	3.9	3.9
	Cost of funds (%)	2.1	2.2	1.9	1.9	1.9
	Net interest spread (%)	2.3	2.1	2.1	2.0	2.0
	Net interest margin (%)	2.5	2.4	2.3	2.2	2.2
	Non-interest income / total income (%)	16.3	19.6	23.2	17.6	17.6
	Cost to income ratio (%)	47.8	47.8	45.0	48.9	48.8
	Credit cost (bps)	31.5	64.1	100.4	61.8	47.0
	Balance sheet (MYRm)	Mar-19	Mar-20	Mar-21F	Mar-22F	Mar-23F
	Total gross loans	42,823	43,769	44,661	46,009	47,849
	Other interest earning assets	11,827	15,486	16,508	17,372	18,266
	Total gross IEAs	54,650	59,256	61,169	63,381	66,115
	Total provisions	(503)	(659)	(970)	(1,112)	(1,182)
	Net loans to customers	42,538	43,403	43,845	45,057	46,827
	Total net IEAs	54,147	58,596	60,198	62,269	64,932
	Total non-IEAs	2,374	2,379	2,581	2,608	2,628
	Total assets	56,521	60,975	62,779	64,877	67,561
	Customer deposits	45,018	48,426	49,636	51,126	53,171
	Other interest-bearing liabilities	3,248	4,606	4,742	4,867	5,008
	Total IBLs	48,266	53,031	54,379	55,993	58,179
	Total non-IBLs	2,522	1,955	2,101	2,227	2,360
	Total liabilities	50,788	54,986	56,480	58,219	60,538
	Share capital	1,548	1,548	1,548	1,548	1,548
	Shareholders' equity	5,733	5,989	6,300	6,658	7,022
	Asset quality and capital	Mar-19	Mar-20	Mar-21F	Mar-22F	Mar-23F
	Reported NPLs / gross cust loans (%)	1.1	2.0	1.8	3.3	3.0
	Total provisions / reported NPLs (%)	105.5	75.7	120.7	73.2	82.4
	CET-1 ratio (%)	13.7	13.8	14.3	14.7	15.0

Source: Company data, RHB

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Financial Services | Banks

Valuation

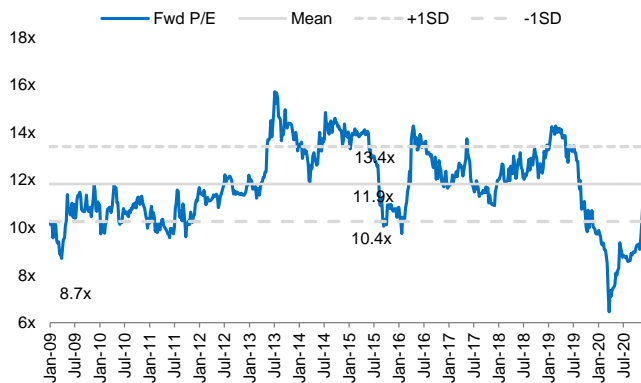
Our GGM-derived TP is raised to MYR2.90 from MYR2.60 mainly due to a lower risk premium assumption. We value ABMB at 0.7x FY22F P/BV, which is below -1SD from its mean.

Figure 1: ABMB's GGM valuation

Cost of equity (COE) computation:		Sustainable ROE (%)	7.0
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)	0.7
Cost of equity - CAPM (%)	9.5	BVPS – FY22F	MYR 4.30
		Target price	MYR 2.86
		TP (rounded)	MYR 2.90

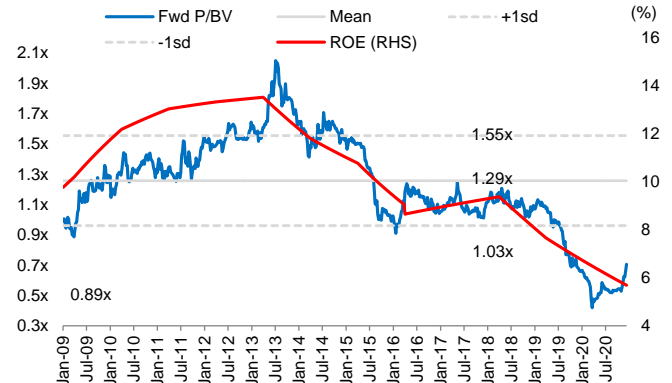
Source: Company data, RHB

Figure 2: ABMB's 12-month forward P/E



Source: Bloomberg, RHB

Figure 3: ABMB's 12-month forward P/BV



Source: Bloomberg, RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2018-09-03	Buy	4.80	4.12

Source: RHB, Bloomberg

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