

6 December 2021

Financial Services | Banks

Alliance Bank Malaysia (ABMB MK)

Buy (Maintained)

Re-Prioritising Core Lending Business; Keep BUY

Target Price (Return): MYR3.10 (+9%)
 Price (Market Cap): MYR2.84 (USD1,039m)
 ESG score: 3.20 (out of 4)
 Avg Daily Turnover (MYR/USD) 3.27m/0.78m

- **Keep BUY and GGM-derived MYR3.10 TP, 9% upside and c.5% FY23F (Mar) yield.** On Thursday, Alliance Bank Malaysia announced the disposal of its stockbroking business in Alliance Investment Bank to Phillip Futures. We are slightly positive on this as the disposal could support a faster normalisation of dividend payout which would bring dividend yields to 6-7%, and the redeployment of capital would help accelerate growth in its consumer, SME and Islamic banking businesses.
- **Disposal price.** The cash disposal will be equivalent to the net asset value of the stockbroking business (Sep 2021: MYR205.2m) and 60% of the aggregate brokerage fee of all brokerage transactions performed by Phillip Futures for a 12-month period from the specified transfer date. The transaction price will be agreed on a specified transfer point. The corporate exercise is expected to be concluded in 1H22.
- **50bps uplift to CET-1, faster normalisation of dividend payout?** Based on our estimates, the divestment would add 50-55bps to CET-1 ratio, which stood a solid 15.6% at end-Sep 2021. We do not expect special dividends from the disposal as the one-off disposal gain from the 12-month 60% fee is expected to be relatively negligible. ABMB noted that excess capital from the sale will be re-deployed to accelerate growth in its consumer, SME and Islamic banking businesses. Still, a boost to the already high CET-1 ratio puts ABMB in a good position to return to pre-COVID-19 dividend payout of 48% in the near term. Recall that dividend payout has been raised to 40% of 1HFY22 earnings (FY20-21: 22-25%).
- **Our view.** Management first flagged its intention to exit the stockbroking business back in early 2020. Overall, we are slightly positive on the deal as: i) brokerage fee contributes minimally to ABMB's operating income – approximately MYR12m or 1.3% of 1HFY22 operating income; (ii) the higher trading stamp duty of 15 bps from 10 bps, and the abolishment of the MYR200.00 stamp duty limit on each contract note, will likely dampen trading activities. ABMB would also benefit from the strategic stockbroking partnership arrangement with Phillip Capital Group, which allows ABMB's customers to access to regional trading platforms and a broad range of global investment products.
- **2QFY21 saw positive revision in guidance.** In the latest results briefing, management has guided for a conservative credit cost guidance of <75 bps (from <90 bps). Notwithstanding that, the conservative target does point to higher provisions of c.MY100m per quarter – given the expectation that credit cost will spike in 4QFY22 on the accelerated reduction of financial assistance, with most accounts set to mature by 1QCY22. Also, the CIR ratio target has been lowered to 44% (vs 45%), while NIM guidance has risen to 2.4% (vs 2.35%).
- **No changes to our TP and recommendations.**

Analysts

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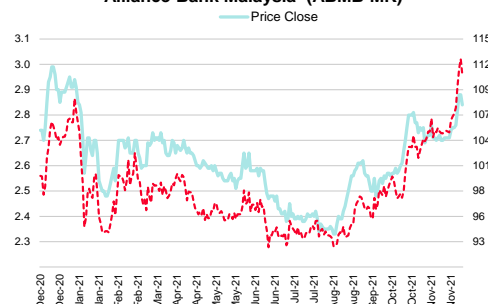
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(2.4)	4.8	9.7	7.2	7.6
Relative	5.3	7.1	14.8	13.2	13.7
52-wk Price low/high (MYR)				2.33 – 2.99	

Alliance Bank Malaysia (ABMB MK)



Source: Bloomberg

Overall ESG Score: 3.20 (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 environmental-friendly materials.

S: GOOD

ABMB continues to promote financial literacy among schoolchildren ages 9 to 12 through its AEIOU programme. Student participation more than doubled from 15,000 in FY19, to 32,000 in FY20.

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.

Forecasts and Valuation	Mar-20	Mar-21	Mar-22F	Mar-23F	Mar-24F
Reported net profit (MYRm)	424	359	497	561	650
Net profit growth (%)	(21.1)	(15.4)	38.6	12.8	15.8
Recurring net profit (MYRm)	424	359	497	561	650
Recurring EPS (MYR)	0.27	0.23	0.32	0.36	0.42
BVPS (MYR)	3.87	4.04	4.29	4.53	4.80
DPS (MYR)	0.06	0.06	0.13	0.15	0.19
Recurring P/E (x)	10.36	12.25	8.84	7.83	6.77
P/B (x)	0.73	0.70	0.66	0.63	0.59
Dividend Yield (%)	2.1	2.0	4.6	5.3	6.5
Return on average equity (%)	7.2	5.9	7.7	8.2	9.0

Source: Company data, RHB

See important disclosures at the end of this report

Market Dateline / PP 19489/05/2019 (035080)

6 December 2021

Financial Services | Banks

Financial Exhibits

Asia Malaysia Financial Services Alliance Bank Malaysia ABMB MK Buy	Financial summary (MYR)	Mar-20	Mar-21	Mar-22F	Mar-23F	Mar-24F
	EPS	0.27	0.23	0.32	0.36	0.42
	Recurring EPS	0.27	0.23	0.32	0.36	0.42
	DPS	0.06	0.06	0.13	0.15	0.19
	BVPS	3.87	4.04	4.29	4.53	4.80
Valuation basis Our GGM assumptions are: i. COE of 10.6%; ii. ROE assumption of 8.3%; iii. 3.5% long-term growth.	Valuation metrics	Mar-20	Mar-21	Mar-22F	Mar-23F	Mar-24F
	Recurring P/E (x)	10.36	12.25	8.84	7.83	6.77
	P/B (x)	0.7	0.7	0.7	0.6	0.6
	Dividend Yield (%)	2.1	2.0	4.6	5.3	6.5
Key drivers Our FY22F earnings are most sensitive to changes in: i. Credit cost; ii. NIM; iii. Costs related to its new strategic initiatives; and iv. Non-interest income.	Income statement (MYRm)	Mar-20	Mar-21	Mar-22F	Mar-23F	Mar-24F
	Interest income	2,448	2,172	2,083	2,174	2,307
	Interest expense	(1,089)	(777)	(598)	(631)	(669)
	Net interest income	1,359	1,395	1,485	1,544	1,637
	Non interest income	331	422	327	278	299
Key risks Key downside risks are: i. Higher-than-expected impairment allowances; ii. Lower-than-expected NIM; and iii. Weaker-than-expected non-II. The converse represents upside risks.	Total operating income	1,689	1,818	1,812	1,822	1,936
	Overheads	(807)	(801)	(829)	(865)	(902)
	Pre-provision operating profit	882	1,017	983	957	1,034
	Loan impairment allowances	(278)	(533)	(251)	(216)	(176)
	Other impairment allowances	(37)	(0)	(3)	(3)	(3)
Company Profile Alliance Bank Malaysia is an integrated banking group with operations in consumer banking, SME banking, wholesale banking, Islamic banking, investment banking and stock broking.	Income from associates	0	0	0	0	0
	Pre-tax profit	568	484	729	739	855
	Taxation	(144)	(125)	(232)	(177)	(205)
	Reported net profit	424	359	497	561	650
	Recurring net profit	424	359	497	561	650
	Profitability ratios	Mar-20	Mar-21	Mar-22F	Mar-23F	Mar-24F
	Return on average assets (%)	0.7	0.6	0.8	0.9	1.0
	Return on average equity (%)	7.2	5.9	7.7	8.2	9.0
	Return on IEAs (%)	4.3	3.6	3.4	3.4	3.5
	Cost of funds (%)	2.2	1.5	1.1	1.1	1.2
	Net interest spread (%)	2.1	2.2	2.3	2.3	2.3
	Net interest margin (%)	2.4	2.3	2.4	2.4	2.5
	Non-interest income / total income (%)	19.6	23.2	18.1	15.3	15.4
	Cost to income ratio (%)	47.8	44.1	45.8	47.5	46.6
	Credit cost (bps)	64.1	121.1	56.0	46.3	35.8
	Balance sheet (MYRm)	Mar-20	Mar-21	Mar-22F	Mar-23F	Mar-24F
	Total gross loans	43,769	44,241	45,574	47,846	50,467
	Other interest earning assets	15,486	16,168	16,121	16,950	17,823
	Total gross IEAs	59,256	60,409	61,695	64,797	68,290
	Total provisions	(659)	(1,007)	(1,120)	(1,186)	(1,216)
	Net loans to customers	43,403	43,511	44,690	46,848	49,396
	Total net IEAs	58,596	59,401	60,576	63,611	67,074
	Total non-IEAs	2,379	1,320	2,255	1,777	1,289
	Total assets	60,975	60,721	62,831	65,388	68,363
	Customer deposits	48,426	48,489	49,943	51,941	54,278
	Other interest-bearing liabilities	4,606	3,829	3,881	3,940	4,010
	Total IBLs	53,031	52,317	53,825	55,881	58,288
	Total non-IBLs	1,955	2,146	2,361	2,502	2,652
	Total liabilities	54,986	54,463	56,185	58,383	60,940
	Share capital	1,548	1,548	1,548	1,548	1,548
	Shareholders' equity	5,989	6,258	6,646	7,006	7,423
	Asset quality and capital	Mar-20	Mar-21	Mar-22F	Mar-23F	Mar-24F
	Reported NPLs / gross cust loans (%)	2.0	2.3	2.6	3.2	2.7
	Total provisions / reported NPLs (%)	75.7	97.6	94.5	77.5	89.2
	CET-1 ratio (%)	13.8	16.5	15.7	15.7	16.0

Source: Company data, RHB

Recommendation Chart

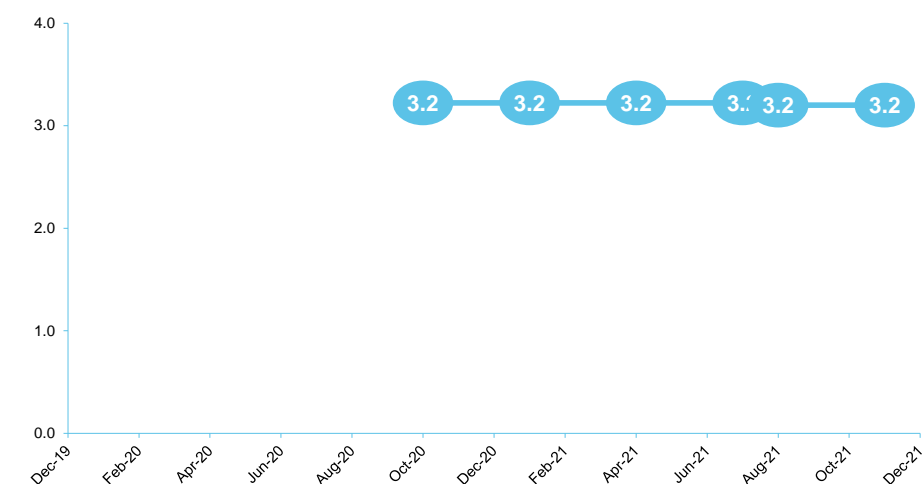


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2021-11-28	Buy	3.10	2.76
2021-08-29	Buy	2.90	2.53
2021-06-01	Neutral	2.70	2.60
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

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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