

Alliance Bank (ABMB MK)

3QFY22 significantly above expectations

BUY maintained

Alliance Bank's (ABMB) 3QFY22 results were significantly above expectations due to better-than-expected NIM expansion and lower credit cost. We upgrade FY22-24 earnings by 13-19% on higher NIM and lower credit cost assumptions, but maintain elevated credit costs still, into FY24, on prudent grounds. We maintain a BUY on ABMB with a higher TP of MYR4.00 (+75sen), supported by a CY23E ROE of 9.4%.

Significantly above expectations

ABMB's core net profit of MYR151m in 3QFY22 (+50% YoY, +13% QoQ) took 9MFY22 core net profit to MYR489m (+58% YoY). This was significantly above expectations at 100% of our and consensus' full-year forecasts, the major variance being much better NIMs and much lower-than-expected provisions in 3QFY22.

Guidance for full year

Management guides for NIM of above 2.5% for FY22, against 2.54% in 9MFY22 and has further lowered its credit cost guidance to <55bps from <75bps previously. It also targets an ROE of >8%, taking into account the impact of Cukai Makmur.

Upgrading earnings by 13-19%

Factoring in lower credit cost and higher NIM, we raise FY22 earnings by 19%. Our FY22E ROE of 8.9% would correspond to management's guidance of >8%. We raise FY23/24E earnings by 19% and 13% respectively, also on lower credit cost, but we keep the credit cost elevated on grounds of prudence, at 45bps respectively, against 55bps in FY22E.

FYE Mar (MYR m)	FY20A	FY21A	FY22E	FY23E	FY24E
Operating income	1,689	1,818	1,917	1,940	2,008
Pre-provision profit	882	1,017	1,086	1,074	1,104
Core net profit	424	359	572	646	664
Core FDEPS (MYR)	0.27	0.23	0.37	0.42	0.43
Core FDEPS growth(%)	(21.1)	(15.4)	59.5	12.8	2.9
Net DPS (MYR)	0.06	0.06	0.15	0.17	0.17
Core FD P/E (x)	6.9	11.4	9.3	8.2	8.0
P/BV (x)	0.5	0.7	0.8	0.8	0.7
Net dividend yield (%)	3.2	2.2	4.3	4.9	5.0
Book value (MYR)	3.87	4.04	4.24	4.49	4.74
ROAE (%)	7.2	5.9	8.9	9.6	9.3
ROAA (%)	0.7	0.6	0.9	1.0	1.0
Consensus net profit	-	-	490	581	632
MKE vs. Consensus (%)	-	-	16.8	11.2	5.1

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BUY

Share Price	MYR 3.43
12m Price Target	MYR 4.00 (+17%)
Previous Price Target	MYR 3.25

Company Description

ABMB offers integrated financial services through its consumer and business banking, investment banking, Islamic banking, and stockbroking businesses.

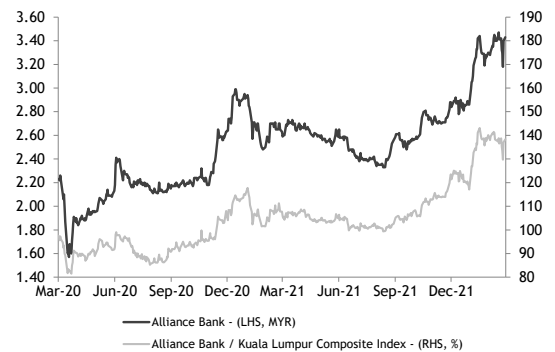
Statistics

52w high/low (MYR)	3.47/2.33
3m avg turnover (USDm)	1.4
Free float (%)	41.0
Issued shares (m)	1,548
Market capitalisation	MYR5.3B
	USD1.3B

Major shareholders:

Vertical Theme Sdn. Bhd.	29.1%
Employees Provident Fund	13.4%
Global Success Network Sdn. Bhd.	4.8%

Price Performance



	-1M	-3M	-12M
Absolute (%)	4	19	29
Relative to index (%)	(1)	13	28

Source: FactSet

Alliance Bank: Summary results table

Year End: Mar (MYR m)	Quarterly					Cumulative		
	3Q22	3Q21	% YoY	2Q22	% QoQ	9M22	9M21	% YoY
Interest income	432.8	429.1	0.8	416.6	3.9	1,269.8	1,370.4	(7.3)
Interest expense	(138.0)	(175.9)	(21.6)	(142.4)	(3.1)	(424.2)	(621.1)	(31.7)
Net interest income	294.8	253.2	16.4	274.1	7.5	845.5	749.3	12.8
Islamic banking income	106.9	93.2	14.7	91.4	16.9	302.1	280.8	7.6
Non-interest income	78.5	129.3	(39.3)	87.5	(10.2)	268.5	341.6	(21.4)
Operating income	480.2	475.7	0.9	453.0	6.0	1,416.1	1,371.8	(1.0)
Operating expenses	(215.0)	(191.2)	12.4	(195.6)	9.9	(603.9)	(568.5)	6.2
Operating profit	265.2	284.5	(6.8)	257.4	3.1	812.2	803.2	1.1
Loan loss provisions	(15.2)	(150.8)	(89.9)	(33.6)	(54.9)	(144.0)	(396.3)	(63.7)
Other provisions	0.2	0.3	(9.4)	0.2	-	0.4	(0.2)	nm
Associates & jvs	0.0	0.0	-	0.0	-	0.0	0.0	-
Pretax Profit	250.3	134.0	86.8	224.0	11.8	668.6	406.7	64.4
Taxation	(99.3)	(33.6)	195.9	(51.2)	93.8	(198.8)	(98.1)	102.8
Minority interest	-	-	nm	-	nm	-	-	nm
Net profit	151.0	100.5	50.3	172.7	(12.6)	469.8	308.7	52.2
Recurring net profit	151.0	100.5	50.3	191.4	(21.1)	488.5	308.7	58.2
EPS (sen)	9.8	6.5	50.8	11.2	(12.5)	30.3	19.9	52.3
Net DPS (sen)	-	-	-	8.3	-	8.3	-	-
			<i>ppt chg</i>		<i>ppt chg</i>			<i>ppt chg</i>
Cost-to-income (%)	44.8	40.2	4.6	43.2	1.6	42.6	41.4	1.2
Tax rate (%)	39.7	25.0	14.6	22.9	16.8	29.7	24.1	5.6
Balance sheet (RM m)	Dec 21	Dec 20	YoY chg	Sep 21	QoQ chg	Dec 21	Mar 21	YTD Chg
Gross loans & advances	44,515	43,207	3.0	43,848	1.5	44,515	44,147	0.8
Net loans & advances	43,518	42,351	2.8	42,859	1.5	43,518	43,234	0.7
Customer deposits	46,425	46,081	0.7	46,310	0.2	46,425	48,489	(4.3)
			<i>ppt chg</i>		<i>ppt chg</i>			<i>ppt chg</i>
Gross LDR (%)	95.9	93.8	2.1	94.7	1.2	95.9	91.0	4.8
Gross NPL ratio	2.0	2.5	(0.5)	2.3	(0.3)	2.0	2.3	(0.3)
Loan loss coverage	0.0	94.6	(94.6)	106.4	(106.3)	0.0	97.6	(97.5)

Source: Company

Key highlights

Repayment assistance: Loans under Repayment Assistance have declined to MYR9.25b currently from MYR14.5b end-Dec 2021. PEMULIH loans accounted for MYR6.8b or 93% of the total. The bank has 86 cases under URUS amounting to MYR23.6m.

Loan growth: Gross loans rose 3% YoY as SME loans rose 9.1% YoY to offset a 1.8% decline in consumer loans, as mortgages and personal financing declined 2.6% and 4.3% respectively. The growth in SME loans was driven predominantly by disbursements under special relief schemes.

Deposit growth: Deposits rose 1.1% but positively, CASA rose 13.1% YoY and the CASA ratio jumped to 50% end-Dec 2021 from 44.6% end-Dec 2020.

Net interest margin (NIM): NIM improved meaningful from 2.47% in 2QFY22 to 2.66% in 3QFY22, resulting in a higher average NIM of 2.54% in 9MFY22 from 2.3% in FY21. Previous guidance was for an average NIM of >2.4% for FY22.

Non-interest income (NOII): 3QFY22 NOII declined 39% YoY while 9MFY22 NOII declined 21% YoY mainly due to lower treasury and investment income. 9MFY22 net fee income dropped 19% YoY due mainly to lower brokerage fees.

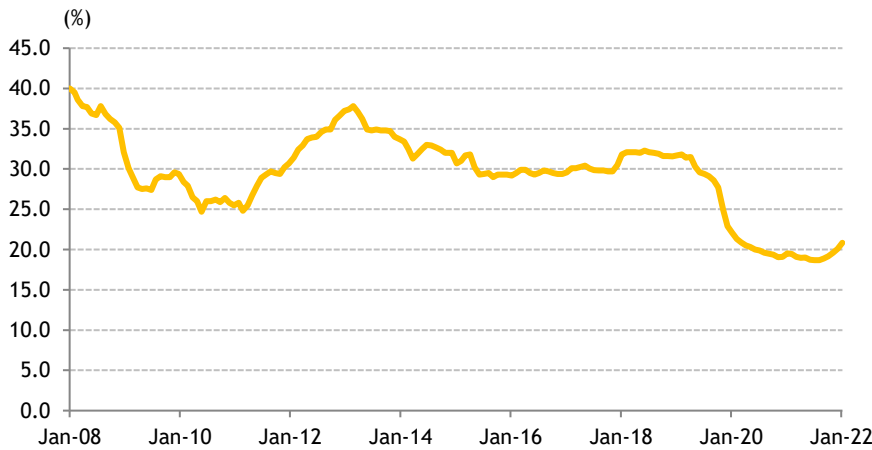
Operating expenses: 9MFY22 operating expense rose 6.2% YoY. Management attributes 40% of this increase to be non-recurring transactional fees (investment bank) and collections incentives, while the remaining 60% is recurring. Its cost/income ratio (CIR) averaged 42.6% in 9MFY22 versus 41.4% in 9MFY21.

Asset quality: The group's gross impaired loans ratio declined to 2.0% end-Dec 2021 from 2.3% end-Sep 2021. The SME GIL ratio was stable at 1.1% with 97.9% of accounts current. The commercial GIL ratio improved to 1.6% from 1.8% end-Sep 2021 while the corporate GIL ratio was just 0.7%.

Credit cost: Credit cost was 32.5bps in 9MFY22 versus 91.3bps in FY21. Of this, 26.4bps or 81% are management overlays. BAU net credit cost was 33.7bps lower YoY. Management has further lowered its FY22 credit cost guidance from <75bps to <55bps.

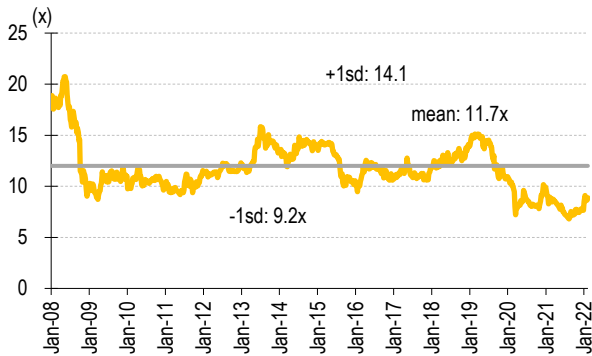
Capital ratios: ABMB's capital position remains sound, with a CET1 ratio of 16.5% end-Dec 21.

Alliance Bank's foreign shareholding (20.8% end-Jan 2022)



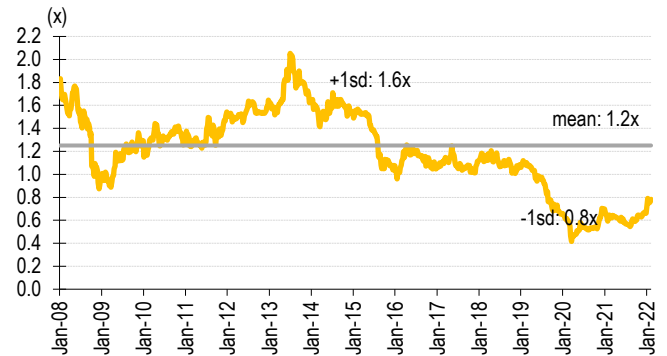
Source: Bank, Maybank IBG Research

ABMB: One-year forward rolling PER (x)



Source: Bank, Maybank IBG Research

ABMB: One-year forward rolling P/BV



Source: Bank, Maybank IBG Research

Risk statement

As the smallest domestic financial institution in Malaysia in terms of asset size, the bank lacks the economies of scale of its peers and this could be a setback to future market share gains. Moreover, its primary niche in SME financing could eventually be eroded as the bigger banks compete more aggressively in this relatively more lucrative market.

FYE 31 Mar	FY20A	FY21A	FY22E	FY23E	FY24E
Key Metrics					
Core P/E (x)	6.9	11.4	9.3	8.2	8.0
Core FD P/E (x)	6.9	11.4	9.3	8.2	8.0
P/BV (x)	0.5	0.7	0.8	0.8	0.7
P/NTA (x)	0.5	0.7	0.9	0.8	0.8
Net dividend yield (%)	3.2	2.2	4.3	4.9	5.0
INCOME STATEMENT (MYR m)					
Interest income	2,069.9	1,793.4	1,939.0	1,978.2	2,020.7
Interest expense	(1,089.1)	(776.8)	(792.0)	(849.0)	(876.0)
Net interest income	980.8	1,016.7	1,147.0	1,129.3	1,144.7
Islamic banking income	377.9	378.5	397.4	417.3	438.2
Net insurance income	0.0	0.0	0.0	0.0	0.0
Net fees and commission	196.2	202.1	212.2	222.8	234.0
Other income	134.4	220.3	159.9	170.7	191.6
Total non-interest income	330.6	422.4	372.1	393.6	425.6
Operating income	1,689.3	1,817.6	1,916.6	1,940.2	2,008.4
Staff costs	(516.1)	(511.7)	(537.2)	(569.5)	(603.6)
Other operating expenses	(290.9)	(289.0)	(292.8)	(296.7)	(300.7)
Operating expenses	(807.0)	(800.7)	(830.1)	(866.2)	(904.3)
Pre-provision profit	882.3	1,016.9	1,086.5	1,074.0	1,104.1
Loan impairment allowances	(273.2)	(532.9)	(245.8)	(206.2)	(211.3)
Other allowances	(41.3)	(0.1)	0.0	0.0	0.0
Associates & JV income	0.1	0.1	0.1	0.1	0.1
Pretax profit	567.9	484.0	840.7	867.9	892.9
Income tax	(143.6)	(125.2)	(268.4)	(222.2)	(228.6)
Minorities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	424.3	358.8	572.3	645.7	664.3
Core net profit	424.3	358.8	572.3	645.7	664.3
BALANCE SHEET (MYR m)					
Cash & deposits with banks	3,119.2	3,088.2	3,397.9	3,738.6	4,113.4
Sec. under resale agreements	51.2	105.0	105.0	105.0	105.0
Derivatives financial assets	436.9	153.7	130.0	130.0	130.0
Dealing securities	650.1	237.9	249.8	262.3	275.4
Available-for-sale securities	11,665.8	12,695.2	12,949.1	13,208.1	13,472.2
Investment securities	0.0	0.0	0.0	0.0	0.0
Loans & advances	43,110.0	43,233.5	44,028.0	44,953.1	45,901.3
Central bank deposits	949.0	88.0	92.4	97.0	101.9
Investment in associates/JVs	0.0	0.0	0.0	0.0	0.0
Insurance assets	0.0	0.0	0.0	0.0	0.0
Fixed assets	193.6	177.7	180.1	182.6	185.1
Intangible assets	437.1	431.3	428.3	425.3	422.3
Other assets	362.5	510.6	416.2	437.6	460.1
Total assets	60,975.5	60,721.2	61,976.8	63,539.5	65,166.8
Deposits from customers	48,425.9	48,488.5	49,469.6	50,509.1	51,574.5
Deposits from banks & FIs	1,543.6	1,392.7	1,462.3	1,535.4	1,612.2
Derivatives financial instruments	348.9	149.4	149.4	149.4	149.4
Subordinated debt	0.0	0.0	0.0	0.0	0.0
Other securities in issue	1,520.6	1,572.7	1,572.7	1,572.7	1,572.7
Other borrowings	369.5	0.0	0.0	0.0	0.0
Insurance liabilities	0.0	0.0	0.0	0.0	0.0
Other liabilities	2,778.0	2,860.1	2,761.7	2,824.4	2,910.8
Total liabilities	54,986.5	54,463.4	55,415.7	56,591.0	57,819.6
Share capital	1,548.1	1,548.1	1,548.1	1,548.1	1,548.1
Reserves	4,440.9	4,709.7	5,013.0	5,400.4	5,799.0
Shareholders' funds	5,989.0	6,257.8	6,561.1	6,948.5	7,347.1
Preference shares	0.0	0.0	0.0	0.0	0.0
Minority interest	0.0	0.0	0.0	0.0	0.0
Total equity	5,989.0	6,257.8	6,561.1	6,948.5	7,347.1
Total liabilities & equity	60,975.5	60,721.2	61,976.8	63,539.5	65,166.8

FYE 31 Mar	FY20A	FY21A	FY22E	FY23E	FY24E
Key Ratios					
Growth (%)					
Net interest income	(1.7)	3.7	12.8	(1.5)	1.4
Non-interest income	24.8	27.8	(11.9)	5.8	8.1
Operating expenses	4.1	(0.8)	3.7	4.4	4.4
Pre-provision profit	4.1	15.3	6.8	(1.2)	2.8
Core net profit	(21.1)	(15.4)	59.5	12.8	2.9
Gross loans	2.2	1.1	2.5	2.5	2.5
Customer deposits	7.6	0.1	2.0	2.1	2.1
Total assets	7.9	(0.4)	2.1	2.5	2.6
Profitability (%)					
Non-int. income/Total income	19.6	23.2	19.4	20.3	21.2
Average lending yields	4.35	3.69	3.90	3.90	3.90
Average cost of funds	3.06	2.27	2.44	2.51	2.50
Net interest margin	2.40	2.30	2.50	2.45	2.44
Cost/income	47.8	44.1	43.3	44.6	45.0
Liquidity (%)					
Loans/customer deposits	89.0	89.2	89.0	89.0	89.0
Asset quality (%)					
Net NPL	0.5	0.1	(0.3)	(0.7)	(1.1)
Gross NPL	2.0	2.3	2.5	2.5	2.5
(SP+GP)/average gross loans	0.6	1.2	0.6	0.5	0.5
Loan loss coverage	74.7	97.6	110.8	125.8	140.6
Capital adequacy (%)					
CET1	13.8	16.5	15.8	16.0	16.6
Tier 1 capital	14.6	17.4	15.8	16.0	16.6
Risk-weighted capital	18.9	21.8	19.9	20.1	20.6
Returns (%)					
ROAE	7.2	5.9	8.9	9.6	9.3
ROAA	0.7	0.6	0.9	1.0	1.0
Shareholders equity/assets	9.8	10.3	10.6	10.9	11.3

Source: Company; Maybank

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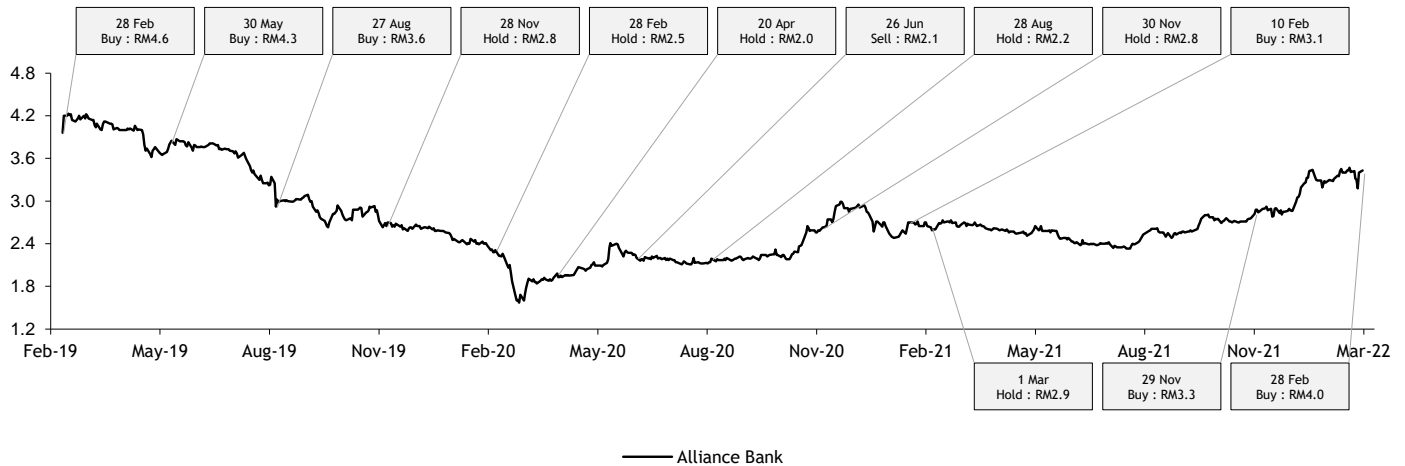
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