

28 August 2019

Alliance Bank Malaysia Bhd

Bad Start

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3M20 results are below market estimates, dragged by compressing NIM and higher provisioning. TP lowered to RM3.45, given the risks ahead from further NIM compression, higher provisioning given the higher intake of PF and SME moving forward. However, as valuations are undemanding, it is maintained at **OUTPERFORM**.

Disappointing. 3M20 CNP of RM77m fell below our/market estimates accounting for 13% each of both estimates. While top-line was soft, core earnings was dragged by higher opex, impairment allowances and widening NIM compression. No dividend declared as expected.

YoY, 3M20 fell 43% to RM77m. While top-line was soft at +1.5%, decline in earnings was caused by higher impairment allowances (>100% to RM105m) and higher opex (+8% to RM198m) which pushed CIR by +3ppt to 48.7%. Fall in NOII (-12%) dragged top-line as both NII and Islamic banking incomes saw improvement (+2% and +12% respectively). NOII was dragged by MTM revaluation losses of RM17m (vs 1Q19: RM41m gain). Further NIM (reported 3bps) compression dragged NII despite loans at +6% (vs industry at >+4% and guidance/estimation of +7%). Asset quality mixed as GIL saw a 10bps fall to 1.3% but credit charge surged 15bps to 0.53% due to lower credit recoveries (-41% to RM9.7m) and higher provisioning from three single accounts and growing PF space.

QoQ, the new financial year saw broad-base decline with CNP falling 31% dragged by impairment allowances (+114%) with soft top-line (<+1%). Top-line was boosted by strong NOII (+16%) propelled by strong net fee income (+61% to RM40m). With loans falling (-0.1%) and further NIM compression (reported; -10bps due to higher FDs - +13% - intake since Mar/Apr 2019 with longer tenure), NII fell 2.1%. Asset quality deteriorated as GIL saw a 20bps uptick with credit charge up by 14bps to 0.53%

FY20 target looking stretched. Management still maintain its target ROE of >10% for FY20E, driven by; i) loans ~+7%, ii) 5-10bps compression in NIM, iii) CIR of 48%, and (iv) credit cost revised to ~40bps (from ~35bps). Loans will be driven by its RAR loans namely; i) Alliance One Account (AOA), ii) PF, and (iii) SME. Mitigating NIM compression will be the driver for higher CASA through targeting 1,800 new payroll companies (vs. FY19: 1,350 companies). We believe these targets are stretched as risks of further NIMs compression are unavoidable given the prospect of further rate cut (with 95% of its FDs maturing in 6-9 months) coupled with risks of higher provisioning given the higher intake of PF and SME.

Earnings revised. Our FY20E/FY21E earnings are revised downwards by 8%/7%, respectively, to RM530m/RM587m. FY20E assumptions are ; i) loans at +6% (from +7), ii) credit costs at 40bps (from 35bps), iii) NIM (at -10bps (from -5bps), iv) CIR of 48% maintained, and v) revised NOII downwards by 23% to RM272m.

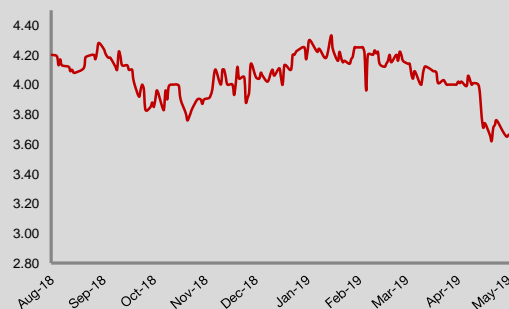
TP lowered but call maintained. TP lowered to RM3.45 (from RM4.25) based on a target FY20 PBV of 0.89x (implying a -1.5SD below its 5-year mean) reflecting risks of further NIM compression and higher provisioning from its SME & PF books with prevailing uncertainties. Despite the uninspiring results, dividend yield is exciting at ~6% with recent downturn in price. With potential total returns still >20% we maintain **OUTPERFORM**.

Risks to our call: (i) lower-than-expected loans growth, (ii) steeper margin squeeze, (iii) higher-than-expected rise in credit charge, and (iv) further slowdown in capital market activities.

OUTPERFORM ↔

Price : **RM2.92**
Target Price : **RM3.45** ↓

Share Price Performance



KLCI	1,590.84
YTD KLCI chg	-5.9%
YTD stock price chg	-27.4%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	ABMB MK Equity
Market Cap (RM m)	4,520.5
Shares Outstanding	1,548.1
52-week range (H)	4.35
52-week range (L)	2.90
3-mth avg daily vol:	1,121,237
Free Float	53%
Beta	0.8

Major Shareholders

Vertical Theme Sdn Bhd	29.1%
Employees Provident Fund	13.1%
Malaysia Focus Investment	4.8%

Summary Earnings Table

FY Mar (RM'm)	2019A	2020E	2021E
Net interest inc.	998.9	1,012.7	1,089.6
Islamic banking inc.	359.1	379.4	400.2
Non-interest inc.	264.1	271.5	301.3
Total income	1,622.1	1,663.7	1,791.1
Pre-tax profit	708.0	696.7	772.8
Net profit (NP)	537.6	529.5	587.3
Consensus NP		582.0	626
Earnings revision (%)		-8.1%	-6.7%
EPS (RM)	0.35	0.34	0.38
EPS growth (%)	9.00	(1.52)	10.93
Net DPS (RM)	0.17	0.16	0.18
BV/share (RM)	3.70	3.88	4.08
NTA/share (RM)	3.42	3.60	3.80
ROE (%)	9.61	9.02	9.53
PER (x)	8.41	8.54	7.70
Price/book (x)	0.79	0.75	0.72
Dividend yield (%)	5.7	5.6	6.2

28 August 2019

Results Highlight								
Y/E : Mar (RM m)	1Q20	4Q19	QoQ Chg.	1Q19	YoY Chg.	3M20	3M19	YoY Chg.
Net Interest inc.	248.0	253.3	-2.1%	243.9	1.7%	248.0	243.9	1.7%
Net Islamic banking inc.	93.1	93.6	-0.6%	82.8	12.4%	93.1	82.8	12.4%
Non-interest inc.	65.8	56.5	16.5%	74.3	-11.5%	65.8	74.3	-11.5%
Total inc.	406.9	403.4	0.9%	401.1	1.5%	406.9	401.1	1.5%
Other operating exp	(198.1)	(203.5)	-2.7%	(183.2)	8.1%	(198.1)	(183.2)	8.1%
Pre-provisioning Operating Profit	208.9	200.0	4.5%	217.9	-4.1%	208.9	217.9	-4.1%
(Allowances) / write-backs	(55.8)	(40.5)	37.7%	(37.3)	49.6%	(55.8)	(37.3)	49.6%
(Allowances) / write-backs on other assets	(49.4)	(8.6)	475.0%	0.4	11835.2%	(49.4)	0.4	N.a
Non-operating gains / (losses)	0.03	0.0	11%	0.0	55.0%	0.0	0.0	55.0%
Pre-tax profit	103.8	150.9	-31.3%	181.1	-42.7%	103.8	181.1	-42.7%
Tax & minorities	(27.1)	(39.1)	(0.3)	(44.7)	-39.4%	(27.1)	(44.7)	-39.4%
Net profit	76.7	111.8	-31.4%	136.4	-43.8%	76.7	136.4	-43.8%
Core net profit	76.7	111.8	-31.4%	136.4	-43.8%	76.7	136.4	-43.8%
EPS (RM)	0.05	0.07	-31.4%	0.09	-43.8%	0.05	0.09	-43.8%
Core EPS (RM)	0.05	0.07	-31.4%	0.09	-43.8%	0.05	0.09	-43.8%
Net DPS declared (RM)	-	0.08		0.1		-	-	
G. loans	42,687	42,730	-0.1%	40,471	5.5%	42,687	40,307	5.9%
N. loans	42,253	42,320	-0.2%	40,042	5.5%	42,253	39,990	5.7%
Customer deposits	45,455	45,018	1.0%	41,995	8.2%	45,455	42,740	6.4%
Current & savings acc.	15,938	15,961	-0.1%	15,689	1.6%	15,938	15,954	-0.1%
BV/share (RM)	3.69	3.70	-0.4%	3.48	6.0%	3.69	3.53	4.6%
NTA/share (RM)	3.41	3.42	-0.5%	3.21	6.1%	3.41	3.26	4.5%
Net Interest Margin	2.48%	2.62%		2.66%		2.48%	2.52%	
Reported Net Interest Margin	2.40%	2.50%		2.43%		2.40%	2.43%	
Cost-income ratio	48.7%	50.4%		45.7%		48.7%	45.7%	
Effective tax rate	26.1%	25.9%		24.7%		26.1%	24.7%	
G. loan-deposit	93.9%	94.9%		96.4%		93.9%	94.3%	
N. loan-deposit	93.0%	94.0%		95.3%		93.0%	93.6%	
CASA-deposits	35.1%	35.5%		37.4%		35.1%	37.3%	
Gross impaired loans ratio	1.3%	1.1%		1.6%		1.3%	1.4%	
Total allowances-loans	1.2%	1.2%		1.3%		1.2%	0.9%	
Loan loss coverage	95.4%	105.5%		79.7%		95.4%	64.5%	
Annualised credit charge / (writeback) ratio	0.53%	0.39%		0.38%		0.53%	0.38%	
CET 1 capital ratio	13.5%	13.4%		12.8%		13.5%	13.4%	
Tier 1 capital ratio	14.2%	14.1%		13.3%		14.2%	13.8%	
Total capital ratio	18.7%	18.5%		17.8%		18.7%	18.3%	
Annualised ROE	5.4%	8.0%		10.2%		5.4%	10.2%	

Source: Company, Kenanga Research

28 August 2019

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div Yld (%)	Target Price (RM)	Rating
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.			
BANKING																	
AFFIN BANK BHD	1.99	3,952.2	N	12/2019	8.2%	5.3%	9.3%	15.9%	7.9	7.2	6.2	0.5	0.4	6.2%	2.8%	2.40	OP
ALLIANCE BANK MALAYSIA BHD	2.92	4,520.5	N	03/2020	5.9%	7.2%	-1.5%	10.9%	8.4	8.5	7.7	0.8	0.8	9.0%	5.6%	3.45	OP
AMMB HOLDINGS BHD	3.98	11,996.5	N	03/2020	10.4%	4.5%	-0.4%	2.8%	8.0	8.0	7.8	0.6	0.6	7.8%	5.0%	4.75	OP
BIMB HOLDINGS BHD	4.05	7,145.3	Y	12/2019	7.8%	8.5%	7.6%	13.6%	10.4	10.1	9.2	1.4	1.3	14.0%	4.0%	4.80	MP
CIMB GROUP HOLDINGS BHD	5.05	49,123.5	N	12/2019	4.6%	5.0%	-16.2%	2.6%	8.5	10.4	10.5	0.9	0.8	8.5%	4.5%	6.45	OP
HONG LEONG BANK BERHAD	16.48	35,724.0	N	06/2019	5.8%	5.7%	2.0%	9.0%	12.8	12.5	11.5	1.4	1.4	11.0%	2.9%	20.05	MP
MALAYAN BANKING BHD	8.55	96,113.6	N	12/2019	4.2%	4.3%	-0.5%	3.2%	11.6	11.7	11.3	1.2	1.1	9.9%	6.7%	10.35	OP
MALAYSIA BUILDING SOCIETY	0.83	5,538.6	N	12/2019	-1.0%	5.3%	-10.7%	10.2%	8.2	9.2	8.7	0.7	0.7	7.2%	6.1%	1.15	OP
PUBLIC BANK BERHAD	20.70	80,360.3	N	12/2019	3.9%	5.2%	-0.1%	3.5%	14.3	14.3	13.8	2.0	2.0	13.7%	3.3%	25.20	OP
RHB BANK BHD	5.72	22,937.5	N	12/2019	6.0%	4.8%	3.7%	5.7%	10.0	9.6	9.1	1.0	0.9	9.9%	3.7%	6.05	OP
Simple Average					5.6%	5.6%	-0.7%	7.7%	10.0	10.2	9.6	1.0	1.0	9.7%	4.4%		

28 August 2019

Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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