

COMPANY RESULTS

Alliance Bank Malaysia (ABMB MK)

4QFY23: Boosted By Lower Provisions

Alliance Bank reported 4QFY23 earnings that were in line with expectations. Earnings were largely supported by lower provisions, higher forex income and above-industry loans growth. However, negative operating JAWS and qoq NIM compression impacted the sequential earnings trend. Maintain BUY with a lower target price of RM3.90 (0.85x FY24 P/B, 9.2% ROE) after earnings revisions. Valuations remain attractive at -1SD to its historical mean P/B.

RESULTS

- 4QFY23 earnings in line.** Alliance Bank Malaysia (Alliance Bank) reported 4QFY23 net profit of RM130.2m (+26.3% yoy, -26.5% qoq), bringing FY23 earnings to RM678.1m (+18.4% yoy). Earnings were broadly in line with FY23 earnings, representing 101%/100% of our/consensus full-year estimates. FY23 earnings were lifted by: a) the absence of the prosperity tax, b) NIM expanding by 11bp, and c) decline in net credit cost to 32bp (FY22: 48bp) on the back of a RM207.6m release in excess pre-emptive provisions and RM17m in recoveries.
- QOQ trend: NIM compression and negative operating JAWS.** 4QFY23 earnings declined 26.5% qoq due to a 30bp compression in NIM and negative operating JAWS while expenses rose 11% qoq vs revenue contraction of 11% qoq. Revenue was impacted by NIM compression on higher funding cost and lower CASA, partially offset by a 25% qoq increase in non-interest income which benefited from higher forex income.
- YOY trend: Lower provisions, taxes and NIM expansion.** 4QFY23 earnings rose 26.5% on the back of: a) lower tax expenses (absence of prosperity tax, b) 21% yoy decline in provisions in the absence of additional management overlays, and c) NIM expanding by 8bp. That said, earnings were partially offset by negative operating JAWS, with 10% opex growth on higher establishment and marketing expenses.
- Loans growth intact with management expecting rising growth momentum.** FY23 loans growth remained stable at 6.2% (9MFY23: +6.2%, FY22: +4.2%). Loans growth was underpinned by SME and commercial loans, which expanded 14% and 15% yoy respectively. We have penciled in a slight moderation in loans growth to 6.0% in FY24 while management has set a more ambitious target of 8-10% growth.
- GIL ratio rose on a single lumpy GIL.** The group's gross impaired loan (GIL) ratio rose 66bp qoq to 2.51%, largely driven by one lumpy corporate account which the management has made the necessary provisions for. Loan loss coverage ratio declined to 103% from 136% in FY22 but remains above pre-COVID-19 levels. Management remains optimistic on capping GIL ratio below 3.0% while repayment assistance declined to 2.5%.

KEY FINANCIALS

Year to 31 Mar (RMm)	2022	2023	2024F	2025F	2026F
Net interest income	1,122	1,230	1,213	1,248	1,286
Non-interest income	349	237	251	267	283
Net profit (rep./act.)	573	678	655	698	741
Net profit (adj.)	573	678	655	698	741
EPS (sen)	36.9	43.6	42.1	44.8	47.6
PE (x)	9.1	7.7	8.0	7.5	7.1
P/B (x)	0.8	0.8	0.7	0.7	0.7
Dividend yield (%)	5.5	6.5	6.3	6.7	7.1
Net int margin (%)	2.5	2.7	2.6	2.6	2.6
Cost/income (%)	44.1	45.9	48.2	48.0	47.8
Loan loss cover (%)	135.9	102.8	45.5	53.1	60.1
Consensus net profit	-	-	713	748	-
UOBKH/Consensus (x)	-	-	0.92	0.93	-

Source: Alliance Bank Malaysia, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM3.37
Target Price	RM3.90
Upside	+15.7%
(Previous TP)	RM4.30

COMPANY DESCRIPTION

Alliance Bank is the smallest financial group in Malaysia in terms of asset size. It focuses on the consumer and SME segments with a total 80% loan exposure.

STOCK DATA

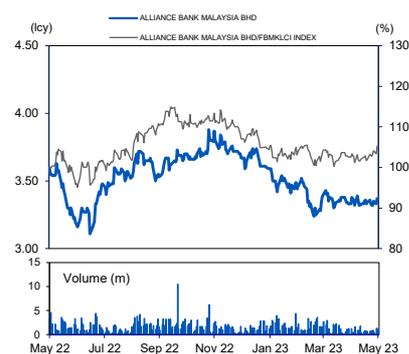
GICS sector	Financials
Bloomberg ticker:	ABMB MK
Shares issued (m):	1,548.1
Market cap (RMm):	5,217.1
Market cap (US\$m):	1,133.5
3-mth avg daily t'over (US\$m):	0.9
Price Performance (%)	
52-week high/low	RM3.88/RM3.11

1mth	3mth	6mth	1yr	YTD
1.2	(3.2)	(12.9)	(3.7)	(8.2)

Major Shareholders

	%
Temasek Holdings (Private) Limited	29.1
Employees Provident Fund Board	11.9
-	-
FY24 NAV/Share (RM)	4.57
FY24 CAR Tier-1 (%)	13.67

PRICE CHART



Source: Bloomberg

ANALYST(S)

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STOCK IMPACT

- **Net credit cost outlook: Relatively stable.** The group reported 48bp net credit cost in 4QFY23, bringing FY23 net credit cost to 32bp which was below its guidance of 35-40bp. Moving forward, management is guiding net credit cost to hover between the 30-35bp range which would include some pre-emptive provision write-backs from its existing stock of RM324m in pre-emptive provisions. Taking a more conservative view, we raise our FY24 net credit cost assumption to 32bp from 30bp.
- **NIM outlook: 9-14bp compression.** Management expects FY24 NIM to compress by 9-14bp on the back of continued downward normalisation in CASA ratio and deposit competition. That said, management expects NIM to bottom out in the next 1-2 quarters as it alluded that current industry CASA ratio of ~29% is now close to pre-COVID-19 average levels of 26-27%. We have penciled in a higher FY24 NIM compression assumption of 11bp from 9bp, factoring in management's latest guidance.

EARNINGS REVISION/RISK

- Factoring in lower NIM assumption, higher net credit cost and a RM10m charge from unwinding some of its derivative hedging contracts, we lower our FY24/25 earnings by 7%/4% respectively.

VALUATION/RECOMMENDATION

- **Maintain BUY with a lower target price of RM3.90** (0.85x FY24F P/B, 9.2% ROE) from RM4.30 after earnings adjustment. The stock is currently trading at an attractive -1SD from its five-year historical mean P/B. We believe that current share price will be underpinned by its attractive valuation, cash dividend yields in excess of 6% and potential upside surprise in loans growth where we remain conservative vs management's guidance.

4QFY23 RESULTS

Profit & Loss (RMm)	4QFY23	4QFY22	yoy % chg	FY23	qoq % chg	Comments
Net Interest Income	302.7	276.1	9.6	1,230.1	9.7	Benefited from NIM expansion
Islamic Banking	106.9	95.4	12.1	452.8	13.9	
Fees & Commissions	25.7	41.4	(38.0)	110.8	(31.4)	Lower brokerage income
Net Trading Income	19.2	38.7	(50.5)	90.4	(42.8)	
Other Operating Income	14.2	(0.1)	n.a.	35.7	22.6	
Total Income	468.6	451.5	3.8	1,919.8	2.8	
Operating Expenses	(241.0)	(219.0)	10.0	(881.4)	7.1	
PPOP	227.6	232.5	(2.1)	1,038.4	(0.6)	
Provision	(58.6)	(73.8)	(20.6)	(151.9)	(30.1)	Write-backs and reversals
PBT	169.0	158.7	6.5	886.9	7.2	
Net Profit	130.2	103.0	26.3	678.1	18.4	In line
EPS (sen)	8.4	6.7	26.3	43.8	18.4	
Financial Ratios (%)	4QFY23	4QFY22	yoy chg (ppt)	3QFY22	qoq chg (ppt)	Remarks
NIM	2.59	2.50	0.08	2.89	(0.30)	
Loan Growth, yoy	6.3	4.6	1.7	6.2	0.0	
Deposit Growth, yoy	5.5	(0.6)	6.1	5.5	(0.0)	
Loan/Deposit Ratio	94.3	93.6	0.6	94.4	(0.2)	
Cost/Income Ratio	51.4	48.5	2.9	44.7	6.8	
ROE	7.8	6.4	1.4	10.9	(3.0)	
NPL Ratio	2.56	1.88	0.7	1.96	0.6	
Credit Costs (bp)	47.7	63.7	(16.1)	30.9	16.8	
Loan Loss Coverage	102.8	135.9	(33.1)	125.0	(22.2)	
CET-1 CAR	14.5	15.9	(1.4)	15.1	(0.6)	

Source: Alliance Bank, UOB Kay Hian

KEY ASSUMPTIONS

(%)	2024F	2025F	2026F
Loan Growth	6.0	5.0	5.0
Credit Cost (bp)	32.0	30.0	28.0
ROE	9.2	9.3	9.4

Source: UOB Kay Hian

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

<ul style="list-style-type: none"> • Environmental <ul style="list-style-type: none"> - Green loan commitment. The bank's credit policy prohibits lending to illegal business activities that cause environmental harm. - Reducing carbon footprint. Installed eco-friendly materials in all its office renovations and digitisation initiatives helped reduce the use of paper in our offices.
<ul style="list-style-type: none"> • Social <ul style="list-style-type: none"> - Gender diversity. In pursuit of diverse and equal gender participation, 61% of the workforce are women, of which 79% hold management positions (Senior Executives and above) while 18% are part of Senior Management (Senior Vice President and above). - Staff welfare. Conducts an annual employee engagement survey, the Voice of Employee (VOE), to gather constructive feedback from employees at all levels of the organisation. The feedback helps to design specific employee engagement initiatives to meet their needs.
<ul style="list-style-type: none"> • Governance <ul style="list-style-type: none"> - Non-independent board of directors composition. Composition of Independent Non-Executive Directors (INED) is 40%.

Source: UOB Kay Hian

PROFIT & LOSS

Year to 31 Mar (RMm)	2023	2024F	2025F	2026F
Interest income	1,976	2,111	2,227	2,318
Interest expense	(746)	(898)	(979)	(1,032)
Net interest income	1,230	1,213	1,248	1,286
Fees & commissions	111	121	130	141
Other income	126	131	136	142
Non-interest income	237	251	267	283
Income from islamic banking	453	485	518	555
Total income	1,920	1,949	2,033	2,124
Staff costs	(573)	(607)	(619)	(631)
Other operating expense	(309)	(332)	(357)	(384)
Pre-provision profit	1,038	1,010	1,056	1,108
Loan loss provision	(152)	(170)	(162)	(159)
Other provisions	0	0	0	0
Associated companies	0	0	0	0
Pre-tax profit	887	840	894	950
Tax	(209)	(185)	(197)	(209)
Minorities	0	0	0	0
Net profit	678	655	698	741
Net profit (adj.)	678	655	698	741

OPERATING RATIOS

Year to 31 Mar (%)	2023	2024F	2025F	2026F
Capital Adequacy				
Tier-1 CAR	14.5	13.7	13.4	13.1
Total CAR	19.4	16.3	15.9	15.5
Total assets/equity (x)	9.8	10.3	10.5	10.7
Tangible assets/tangible common equity (x)	10.4	10.9	11.1	11.3
Asset Quality				
NPL ratio	2.6	2.7	2.8	2.8
Loan loss coverage	102.8	45.5	53.1	60.1
Loan loss reserve/gross loans	0.9	1.2	1.5	1.7
Increase in NPLs	44.5	13.2	7.6	5.9
Credit cost (bp)	31.0	33.0	30.0	28.0
Liquidity				
Loan/deposit ratio	94.3	96.0	96.7	97.4
Liquid assets/short-term liabilities	12.2	11.8	11.4	11.1
Liquid assets/total assets	9.7	8.9	8.3	7.7

BALANCE SHEET

Year to 31 Mar (RMm)	2023	2024F	2025F	2026F
Cash with central bank	980	1,028	1,080	1,134
Govt treasury bills & securities	5,352	5,352	5,352	5,352
Interbank loans	89	90	92	94
Customer loans	47,926	50,788	53,197	55,738
Investment securities	6,796	7,017	7,241	7,467
Derivative receivables	221	221	221	221
Associates & JVs	1	1	1	1
Fixed assets (incl. prop.)	58	179	188	197
Other assets	4,888	8,240	11,400	14,804
Total assets	66,311	72,917	78,772	85,008
Interbank deposits	1,719	1,857	2,005	2,166
Customer deposits	50,849	52,883	54,998	57,198
Derivative payables	366	26	26	26
Debt equivalents	1,572	595	594	593
Other liabilities	5,058	10,442	13,640	17,095
Total liabilities	59,564	65,803	71,263	77,078
Shareholders' funds	6,747	7,113	7,505	7,926
Minority interest - accumulated	0	0	0	0
Total equity & liabilities	66,311	72,917	78,772	85,008

KEY METRICS

Year to 31 Mar (%)	2023	2024F	2025F	2026F
Growth				
Net interest income, yoy chg	9.7	(1.4)	2.9	3.1
Fees & commissions, yoy chg	(31.4)	9.0	8.0	8.0
Pre-provision profit, yoy chg	(0.6)	(2.7)	4.6	4.9
Net profit, yoy chg	18.3	(3.3)	6.5	6.2
Net profit (adj.), yoy chg	18.3	(3.3)	6.5	6.2
Customer loans, yoy chg	6.2	6.0	4.7	4.8
Customer deposits, yoy chg	5.5	4.0	4.0	4.0
Profitability				
Net interest margin	2.7	2.6	2.6	2.6
Cost/income ratio	45.9	48.2	48.0	47.8
Adjusted ROA	1.1	0.9	0.9	0.9
Reported ROE	10.3	9.5	9.5	9.6
Adjusted ROE	10.3	9.5	9.5	9.6
Valuation				
P/BV (x)	0.8	0.7	0.7	0.7
P/NTA (x)	0.8	0.8	0.7	0.7
Adjusted P/E (x)	7.7	8.0	7.5	7.1
Dividend Yield	6.5	6.3	6.7	7.1
Payout ratio	50.5	50.0	50.0	50.0

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