midf RESEARCH

27 February 2018 | 3QFY18 Results Review

Alliance Bank Malaysia Berhad

Income growth moderated transformation cost

***Maintain* BUY**

***Unchanged* Target Price (TP): RM4.69**

INVESTMENT HIGHLIGHTS

- **Net profit for 9MFY18 was within ours but beat consensus' expectations**
- **Lower earnings due to transformation investment which was anticipated. Normalised earnings grew +7.0%yoy**
- **Robust income growth with NIM improvement a key driver**
- **Better RAR loans with continued traction for its Alliance One Account product**
- **Lower credit cost due to write back in 3QFY18**
- **Maintain BUY with unchanged TP of RM4.69 based on PBV of 1.3x to FY19 BVPS**

Earnings beat consensus' but within our expectations. The Group's 9MFY18 earnings came within our expectation at 70.7% of full year estimate. However, it beat consensus' expectations as it was 77.0% of consensus' forecast.

Robust income growth moderate transformation cost. Net profit for 9MFY18 was -3.6%yoy lower due to transformation cost which inflated OPEX by +13.9%yoy. Transformation investment amounted to RM59.5m. However, this was moderated by robust income growth from NII, NOII and Islamic Banking income, which grew +5.2%yoy, 7.6%yoy and 6.5%yoy respectively. In addition, normalised net profit grew +7.0%yoy.

Transformation initiative showing result. One of the initiatives from the transformation program was recalibrating the Group's assets to higher RAR loans. Growth in this segment had been encouraging, as the loans book had expanded +12.4%yoy to RM13.4b. Part of the driver was the Alliance One Account (AOA) which continued its traction as year-to-date loans approved was more than RM1.5b. This had led to the improvement in NIM and NII. For 9MFY18, NIM was +10bps yoy higher. Management expect that the OPR hike will have a +2.0bps and +5.0bps impact to NIM in FY18 and FY19 respectively.

CASA and structured investment will mitigate potential creep up in COF. CASA grew +4.3%yoy to RM15.9b partly due to its Alliance@Work product which on-boarded SMEs and its workers. In addition to structured investment growth (to RM1.1b from RM0.5b), we opine this will mitigate any upward pressure on COF.

RETURN STATS	
Price (26 February 2018)	RM4.12
Target Price	RM4.69
Expected Share Price Return	+13.8%
Expected Dividend Yield	+4.1%
Expected Total Return	**+17.9%**

STOCK INFO	
KLCI	1,860.08
Bursa / Bloomberg	2488 / ABMB MK
Board / Sector	Main / Finance
Syariah Compliant	No
Issued shares (mil)	1,548.1
Market cap. (RM'm)	6,378.2
Price over NA	1.0x
52-wk price Range	RM3.62 - RM4.49
Beta (against KLCI)	1.26
3-mth Avg Daily Vol	1.69m
3-mth Avg Daily Value	RM6.91m
Major Shareholders	
Vertical Theme SB	29.1%
EPF	11.7%

Some banking abbreviations used in this report:

CA = Collective Impairment Allowance
CI = Cost-Income Ratio
CET1 = Common Equity Tier 1
GIL = Gross Impaired Loan
LDR = Loan-Deposit Ratio
NII = Net Interest Income
NOII = Non-interest income
GIM = Gross Interest Margin
NIM = Net Interest Margin
CASA = Current and Savings Accounts
COF = Cost of Funds
FX = Foreign Exchange
OPEX = Operating Expenses
RAR = Risk Adjusted Returns
PPOP = Pre Provision Operating Profit

Lower credit cost due to one-off write back. Credit cost for 9MFY18 was -4bps yoy lower due to one-off write back. This came about due to overestimation of corporate accounts with probability of default, and it was realigned in 3QFY18. Discounting this write back, net credit cost was 27.9bps. Both were within guidance of less than 30bps. Meanwhile, asset quality was stable.

Transformation scaling up as continues. While AOA have gained traction and has offset contraction of conventional mortgages since Nov'17, management are targeting to ramp-up further. It targets 3 times monthly disbursement to RM500m by end of FY19. We believe that this will be the main driver for its earnings in near to medium term. Meanwhile, we believe that its Alliance@Work will lead to further NIM improvement with lower COF from higher CASA. The Group is on track to acquire 10,000 employee accounts by Mar'18 and the management are aiming to ramp-up acquisition to 7,000 accounts per month. Other initiatives also include SME and branch transformation.

No change in MFRS 9 assessment and impact not as severe. Management guided that the Day One impact to capital will be by circa 50bps lower.

FORECAST

We are maintaining our FY18 and FY19 forecast for now given that the result were within expectations.

VALUATION AND RECOMMENDATION

Despite the transformation investments driving up CI, we noted that it already start to have a positive impact. This is evident by the incremental income growth. Discounting the transformation effect, 9MFY18 income would have grown +5.6%yoy vs. the +6.0%yoy registered. We expect that the result of the transformation will be a main driver for earnings growth in FY19. In addition, with the profile of its loans book, the OPR hike will benefit the Group the most. Therefore, we are maintaining our **BUY** call with unchanged TP to RM4.69. Our TP is based on pegging its FY19 BVPS to PB multiple of 1.3x which is its 5-year historical average PBV.

INVESTMENT STATISTICS

FYE Mar	FY16	FY17	FY18F	FY19F
Net interest income (RM'm)	848	848	1,050	1,110
Islamic banking income (RM'm)	244	297	282	282
Non-interest income (RM'm)	332	325	335	352
Total income (RM'm)	1,424	1,469	1,667	1,744
Pretax profit (RM'm)	695	681	709	785
Net profit (RM'm)	522	512	538	596
Core net profit (RM'm)	522	512	538	596
Core EPS (sen)	34.2	33.5	35.2	39.0
PER (x)	-1.4	-2.0	5.1	10.6
Net dividend (sen)	12.0	12.3	11.7	10.6
Net dividend yield (%)	14.5	16.0	17.0	19.0
Book value per share (RM)	3.5	3.9	4.1	4.6
PBV (x)	3.13	3.30	3.51	3.65
ROE (%)	1.3	1.2	1.2	1.1

Forecast by MIDFR

DAILY PRICE CHART

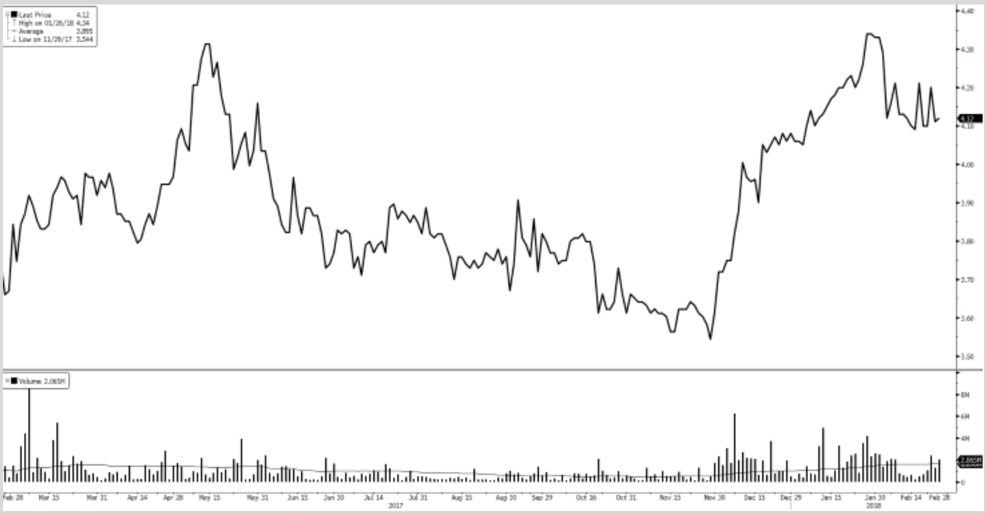

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Table 1: Comparison of quarterly results

FYE Mar (RM m)	Quarterly results 3Q18	2Q18	3Q17	Yoy (+/- %)	Qoq (+/- %)	Comments
Net Interest Income	220.3	230.4	218.4	0.9%	-4.4%	
Islamic Banking Income	78.8	78.1	74.8	5.3%	0.9%	Better NIM driven by higher R&R loans
Non-interest income	88.9	85.4	85.4	4.1%	4.1%	
Net Income/ Total income	388.0	393.9	378.6	2.5%	-1.5%	
OPEX	(215.3)	(190.2)	(174.3)	23.5%	13.2%	Transformation investment
PPOP	172.7	203.7	204.3	-15.5%	-15.2%	
Provision for loan losses	8.0	(33.5)	(32.4)	-124.7%	-123.9%	Write back due to readjustment of credit rating scale of corporate loans
PBT	180.7	170.2	171.9	5.1%	6.2%	
Net Profit	122.6	122.8	129.7	-5.5%	-0.2%	
Normalised Net Profit	148.0	138.6	129.7	14.1%	6.8%	
EPS (sen)	8.0	8.0	8.5	-5.9%	0.0%	

Table 2: Comparison of financial ratios

Financial Ratios (%)	3Q18	2Q18	3Q17	Yoy (+/- ppts)	Qoq (+/- ppts)	Comments
CET1^	13.6	13.7	12.5	1.1	-0.1	
Tier 1 Capital^	14.0	13.7	12.5	1.5	0.3	
Total Capital^	18.7	18.4	17.1	1.6	0.3	
NIM	2.38	2.38	2.31	0.07	0.00	Strong growth from better RAR loans.
GIL	1.2	1.2	1.0	0.2	0.0	
NIL	0.8	0.8	0.6	0.2	0.0	
Credit charge off	-0.08	0.34	0.33	-0.41	-0.42	Write back from corporate loans
LLC	116.2	116.9	137.1	-20.9	-0.7	
Cost to income	55.5	48.3	46.0	9.5	7.2	Transformation investments
Gross LD ratio	96.8	91.1	86.6	10.2	5.7	
ROE	9.3	9.4	10.4	-1.1	-0.1	

^Capital ratios at Group level after deduction of proposed dividends.

Table 3: Cumulative results, PBT by business segment and ratios

Normalised Cumulative results				Comments
FYE Mar (RM m)	**9M18**	**9M17**	**Yoy (+/- %)**	
Net Interest Income	668.1	634.8	5.2%	Better NIM driven by higher R&R loans
Islamic Banking Income	234.9	220.6	6.5%	
Non interest income	265.5	246.8	7.6%	Higher wealth management fees and banking services fees
Net / Total income	1,168.5	1,102.2	6.0%	
OPEX	(581.9)	(510.7)	13.9%	Transformation investments
PPOP	586.6	591.4	-0.8%	
Write back/(Provision) for loan losses	(55.8)	(68.6)	-18.7%	Write back in 3QFY18
Pre-tax profit	530.8	522.9	1.5%	
Net Profit	380.4	394.7	-3.6%	
Normalised Net Profit	422.3	394.7	7.0%	
EPS (sen)	24.7	25.9	-4.6%	
PBT by business segment (RM m)	**9M18**	**9M17**	**Yoy (+/- %)**	
Consumer Banking	108.9	122.7	-11.2%	Higher OPEX and provisions
Business Banking	305.6	272.7	12.0%	Higher revenue and lower provisions
Financial Markets	158.9	120.9	31.5%	Higher revenue
Investment Banking	(2.0)	(3.9)	-48.6%	
Others	(42.4)	14.1	-401.2%	
Elimination	1.9	(3.6)	-152.6%	
Group PBT	530.8	522.9	1.5%	
Ratios (%)	**9M18**	**9M17**	**(+/- ppts)**	
ROE	9.8	10.8	-1.0	
Cost to income	49.8	46.3	3.5	Higher due to transformation cost.
Credit charge-off	0.19	0.23	-0.04	Write back in 3QFY18 stemming from readjustment of credit rating scale of corporate loans.
NIM	2.36	2.25	0.11	Contributed by expansion of better risk adjusted return loans.
CASA	39.5	34.1	5.4	
NOII ratio	24.0	23.5	0.5	

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS	
STOCK RECOMMENDATIONS	
BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to *rise* by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	*Negative* total return is expected, by -10% or more, over the next 12 months.
TRADING SELL	Stock price is expected to *fall* by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.
SECTOR RECOMMENDATIONS	
POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.