

30 November 2018 | 2QFY19 Results Review

## Alliance Bank Malaysia Berhad

*Asset quality improved as expected*

**Maintain BUY**

**Unchanged Target Price (TP): RM4.75**

### INVESTMENT HIGHLIGHTS

- In line with expectations
- NIM expansion continue to support income growth
- Better RAR loans grew at faster pace
- Asset quality improved
- Interim dividend of 8.5 sen
- No change to forecast
- Maintain BUY with unchanged TP of RM4.75 based on pegging FY20 BVPS to PBV of 1.3x

**Within expectations.** The Group registered 2HFY19 net profit that was within ours and consensus' expectations. It came at 46.5% and 49.3% of respective full year estimates. The +7.4%yoy growth in earnings was due to NII and Islamic banking income expansion.

**NII growth continued to be supported by better NIM.** For 9MFY18, NII and Islamic net financing income grew +6.8%yoy to RM648m. This was supported by the better NIM which increased +9bps yoy to 2.44%. In fact, NIM was +2bps qoq better to 2.45% in 2QFY19. This was due to impact from OPR hike, deposit initiatives and continuous improvement to the Group's asset mix.

**Meanwhile, NOII declined on lower trading income.** The only income weakness was from its NOII (including Islamic non-financing income) which declined -12.7%yoy to RM152.3m. This was due to lower forex trading income, lower wealth management fee income and reclassification of higher net interest expenses on structured investment (fair value option) to NOII.

**Better RAR loans grew at faster pace.** Better RAR loans grew +24.7%yoy to 16.1b. This was at faster pace that the +21.3%yoy registered as at 1QFY19. Main contributor was the constant strong traction from its Alliance One Account (AOA). It expanded RM1.8b from a year ago to RM2.1b, and added RM0.5b from end 1QFY19. In addition, SME & Commercial loans grew +9.3%yoy to RM10.6b. Conversely, lower RAR loans declined -4.5%yoy to RM24.8b. This included mortgages as the Group focus on migrating it to the AOA.

**GIL ratio improved from last quarter.** GIL ratio as at 2QFY19 was higher by +19bps yoy to 1.37%. However, as management expected it was an improvement from 1QFY19, where it fell from 1.57%. The better asset quality was due to repayments of several major business accounts in non-residential properties and working capital, and regularised accounts in residential properties portfolio. As such, credit cost was 21bps in 2QFY19 vs. 34bps in 2QFY18.

RETURN STATS	
Price (29 Nov. 2018)	RM4.07
Target Price	RM4.75
Expected Share Price Return	+16.7%
Expected Dividend Yield	+4.2%
<b>Expected Total Return</b>	<b>+20.9%</b>

STOCK INFO	
KLCI	1,696.34
Bursa / Bloomberg	2488 / ABMB MK
Board / Sector	Main / Finance
Syariah Compliant	No
Issued shares (mil)	1,548.1
Market cap. (RM'm)	6,300.8
Price over NA	1.2x
52-wk price Range	RM3.64 - RM4.49
Beta (against KLCI)	0.82
3-mth Avg Daily Vol	0.71m
3-mth Avg Daily Value	RM2.87m
Major Shareholders	
Vertical Theme SB	29.1%
EPF	12.3%

#### 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

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**Kindly refer to the last page of this publication for important disclosures**

**CASA growth remained sluggish...**as it grew only +0.6%yoy to RM16.0b. This growth mirrors customer deposits growth of +0.8%yoy to RM44.0b. While this may have protected NIM somewhat, we are slightly concerned that LDR had inched up to 95.5%. This may lead to NIM compression should the Group need to fight for deposits later.


**Alliance@Work could moderate the pressure.** The Group's Alliance@Work product had gained good traction, as it had on boarded more than 12,000 new local employees accounts opened as at 1HFY19, with a monthly run-rate of more than 2,000 new CASA accounts. This had resulted in consumer and business CASA balance from this product to grow to RM94.8m from RM30.3m as at 4QFY18. We believe that this will moderate some potential pressure to fund its asset growth.

**Transformation progressing well except for a minor bump.** AOA loan balance has doubled but will likely be slightly lower than target of RM4.2b in FY19. The management is guiding for the AOA loan balances to reach RM3.7b instead. Similarly, its SME loans was targeted to reach RM9.4b but will likely hit RM8.7b. However, we opine that these are minor bumps and it is just evident that the target set by the management was very ambitious. In addition, its Alliance@Work and digital initiative have progressed well.

## FORECAST

We are maintaining our FY19 and FY20 forecast for now given that the result were within expectations.

## VALUATION AND RECOMMENDATION

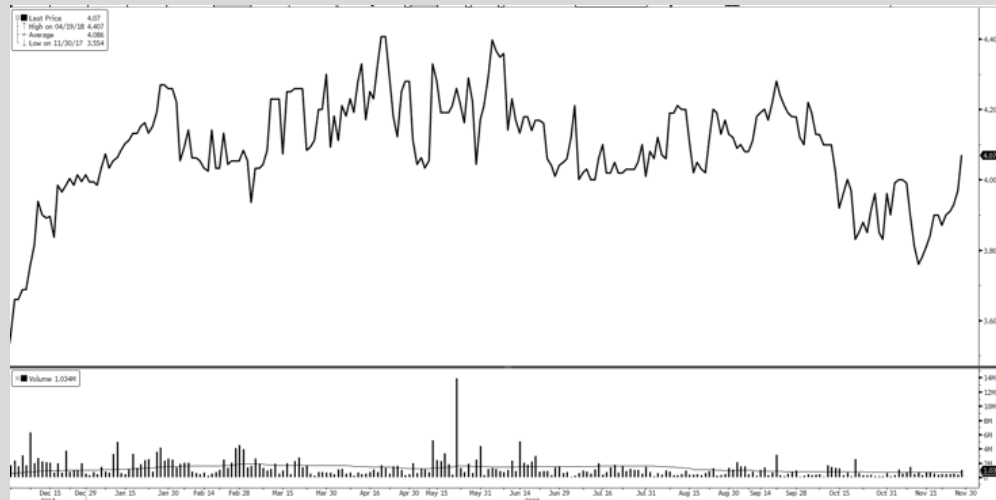
The Group continues to perform as well as we expected. We are especially pleased with the ongoing growth in its better RAR loans and the stability of its NIM. Asset quality had also improved as guided. While more work needs to be done, especially on the deposits side, we believe that the Group remains on the right track. As such, we are maintaining our **BUY** call with an unchanged TP of RM4.75. Our TP is based on pegging its FY20 BVPS to PB multiple of 1.3x which is its 5-year historical average PBV. 

## INVESTMENT STATISTICS

FYE Mar	FY17	FY18	FY19F	FY20F
Net interest income (RM'm)	848	893	1,082	1,156
Islamic banking income (RM'm)	297	318	310	335
Non-interest income (RM'm)	325	361	352	371
Total income (RM'm)	1,469	1,572	1,744	1,862
Pretax profit (RM'm)	681	685	785	841
Net profit (RM'm)	512	493	596	638
Core net profit (RM'm)	512	545	596	638
Core EPS (sen)	33.5	35.7	39.0	41.6
PER (x)	12.1	11.4	10.4	9.7
Net dividend (sen)	16.0	15.3	17.0	18.5
Net dividend yield (%)	3.9	3.8	4.2	4.5
Book value per share (RM)	3.30	3.53	3.65	3.76
PBV (x)	1.2	1.2	1.1	1.1
ROE (%)	10.5	9.0	10.5	11.0

Forecast by MIDFR

## DAILY PRICE CHART



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**Table 1: Comparison of quarterly results**

FYE Mar (RM m)	Quarterly results					Comments
	2Q19	1Q19	2Q18	Yoy (+/- %)	Qoq (+/- %)	
Net Interest Income	246.7	243.9	238.7	3.4%	1.1%	Driven by strong growth in better RAR loans
Islamic Banking Income	88.0	82.9	78.1	12.7%	6.2%	Mainly driven by growth in better RAR loans
Non-interest income	64.5	74.3	77.1	-16.3%	-13.2%	Lower forex trading income
Total income	399.2	401.1	393.9	1.3%	-0.5%	
OPEX	(191.5)	(183.2)	(190.2)	0.7%	4.5%	
PPOP	207.7	217.9	203.7	2.0%	-4.7%	
Provision for loan losses and other assets	(20.9)	(36.8)	(33.5)	-37.6%	-43.2%	Repayments of several accounts
PBT	186.8	181.1	170.2	9.8%	3.1%	
Net Profit	140.5	136.4	122.8	14.4%	3.0%	
Normalised Net Profit	140.5	136.4	122.8	14.4%	3.0%	
EPS (sen)	9.1	8.8	8.0	13.8%	3.4%	

**Table 2: Comparison of financial ratios**

Financial Ratios (%)	2Q19	1Q19	2Q18	Yoy (+/- ppts)	Qoq (+/- ppts)	Comments
CET1 <sup>^</sup>	13.5	12.8	13.7	-0.2	0.7	
Tier 1 Capital <sup>^</sup>	13.9	13.3	13.7	0.2	0.6	
Total Capital <sup>^</sup>	18.4	17.8	18.4	0.0	0.6	
NIM	2.45	2.43	2.38	0.07	0.02	Due to better RAR loans and sluggish deposits growth
GIL	1.4	1.6	1.2	0.2	-0.2	Repayments of previously impaired accounts
NIL	0.9	1.0	0.8	0.1	-0.1	
Credit charge off	0.21	0.37	0.34	-0.14	-0.17	
LLC	114.9	108.0	116.9	-2.0	6.9	
Cost to income	48.0	45.7	48.3	-0.3	2.3	
Gross LD ratio	95.5	96.4	91.1	4.4	-0.9	
ROE	10.3	10.2	9.3	1.0	0.1	

<sup>^</sup>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)	1H19	1H18	Yoy (+/- %)	
Net Interest Income	489.8	461.8	6.1%	Due to strong growth in better RAR loans
Islamic Banking Income	170.9	156.1	9.5%	
Non interest income	139.6	162.6	-14.1%	Slippage in forex trading income
Net / Total income	800.3	780.5	2.5%	
OPEX	(374.7)	(366.6)	2.2%	
PPOP	425.6	413.9	2.8%	
Write back/(Provision) for loan losses and other assets	(57.7)	(63.7)	-9.4%	Repayments of several major business accounts and regularized accounts in residential properties portfolio
Pre-tax profit	367.9	350.2	5.1%	
Net Profit	276.9	257.8	7.4%	
EPS (sen)	17.9	16.8	6.5%	
PBT by business segment (RM m)	1H19	1H18	Yoy (+/- %)	
Consumer Banking	41.2	81.0	-49.2%	Due to lower net income and higher OPEX
Business Banking	211.2	174.3	21.2%	Higher net income and allowance for expected credit losses on loans, advances and financing improved
Financial Markets	166.8	106.2	57.0%	Higher net income
Investment Banking	(0.8)	(0.8)	-1.3%	
Others	10.3	(13.4)	-176.8%	
Elimination	(10.8)	2.9	-471.2%	
<b>Group PBT</b>	367.8	350.2	5.0%	
Ratios (%)	1H19	1H18	(+/- ppts)	
ROE	10.2	10.0	0.2	
Cost to income	46.8	47	-0.2	
Credit charge-off	0.29	0.33	-0.04	
NIM	2.44	2.35	0.09	
CASA	37.3	37.3	0	
NOII ratio	19.0	22.3	-3.3	

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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 <i>rise</i> 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	<i>Negative</i> total return is expected, by -10% or more, over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> 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.