01 June 2018 | 4QFY18 Results Review

Alliance Bank Malaysia Berhad

Steepening of income growth trajectory

***Maintain* BUY**

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

INVESTMENT HIGHLIGHTS

- **Core net profit within expectations**
- **Core earnings grew +6.4%yoy due to acceleration of its income**
- **NIM improvement a key driver to income growth**
- **Strategy paid off with continued traction for its Alliance One Account and Allaince@Work product**
- **Asset quality deteriorate but it was due to legacy portfolio**
- **Dividend of 6.8 sen**
- **Maintain BUY with unchanged TP of RM4.69 based on PBV of 1.3x to FY19 BVPS**

Core earnings within our expectations. The Group FY18 net profit fell -3.7%yoy due to expenses associated with its transformation. However, this was within our expectations as core earnings, i.e. normalising the transformation cost, came in at 101.2% of our full year estimates. This was a +6.4%yoy growth. Comparatively, it was 106.9% to consensus' estimates.

Income growth accelerated. Full year total income grew +7.0%yoy which was an acceleration from +3.2%yoy registered in FY17. In fact, it was the fastest pace of growth in the past 5 years. This was due to robust NII and NOII expansion. NII (inclusive of Islamic net financing income) grew +5.5%yoy to RM1.19b while NOII rose +11.9%yoy to RM381.8m.

Strategy continues to show result. Main driver for the NII growth was due to +14bps yoy to 2.40% improvement in NIM. While the OPR hike had a contributing factor, this was only +2bps. The remainder was from the Group's strategy to invest and recalibrate to higher RAR loans, which grew +19.3%yoy to RM14.5b. This included the traction from its Alliance One Account (AOA) which stood at RM1.0b as at 4QFY18. Growth in AOA have now compensated the whittling down of its conventional mortgage accounts. Another segment with strong growth was its SME and commercial segment, which expanded 9.4%yoy to RM10.3b. Comparatively, gross loans increased +2.5%yoy to RM40.3b.

Alliance@Work traction led to stable COF. Alliance@Work have on boarded more than 10,000 accounts which had surpassed management's target. This had supported CASA growth with +3.1%yoy to RM16.0b. As such, COF was -1bps better to 2.69%.

RETURN STATS	
Price (31 May 2018)	RM4.24
Target Price	RM4.69
Expected Share Price Return	+10.6%
Expected Dividend Yield	+4.0%
Expected Total Return	**+14.6%**

STOCK INFO	
KLCI	1,740.62
Bursa / Bloomberg	2488 / ABMB MK
Board / Sector	Main / Finance
Syariah Compliant	No
Issued shares (mil)	1,548.1
Market cap. (RM'm)	6,564.0
Price over NA	1.0x
52-wk price Range	RM3.62 - RM4.48
Beta (against KLCI)	1.04
3-mth Avg Daily Vol	1.65m
3-mth Avg Daily Value	RM7.02m
Major Shareholders	
Vertical Theme SB	29.1%
EPF	12.1%

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

Deterioration in asset quality were from legacy portfolio. GIL ration increased to 1.4% from 1.0% as at 4QFY17. This was mainly from impairment in loans related to purchase of non-residential properties. We understand that this was a legacy portfolio and the management does not expect any undue stress to its assets going forward.

Transformation cost lower than expected. OPEX grew +14.8%yoy due to transformation cost. Striping the transformation cost, OPEX would have only risen by +4.0%yoy to RM719.8m. Nevertheless, we understand that the transformation cost was lower with CI ratio coming in at 50.5% vs. guidance of 52%. For FY19, the management does not expect further lumpy expenses from the transformation and expect CI ratio to trend gradually towards 46%. We believe this to be achievable given it was the Group's previous normalised level.

Scaling up initiatives in FY19. The management are targeting to ramp-up its AOA further. It targets monthly disbursement to RM500m by end of FY19, targeting affluent and emerging affluent consumers. We believe that AOA will be the main driver for its earnings in near to medium term. Meanwhile, we believe that its Alliance@Work ensure that COF are maintained at around current level due to higher CASA mix. As for SME, the management targets a loans growth of 20% in this segment. We have a slight reservation in regards to this given the increasing competition in this space. However, should the Group manage to maintain the current run rate, it will still be commendable in our view.

FORECAST

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

VALUATION AND RECOMMENDATION

We believe that the transformation cost have paid early dividends as evident by the acceleration of the Group's income. We opine that it provides a good base for the Group to accelerate it further when all the transformation will be in place. As a result, we expect the initiatives stemming from the transformation will be a main driver for earnings growth in FY19. 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	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)	12.7	11.9	10.9	10.2
Net dividend (sen)	16.0	15.3	17.0	18.0
Net dividend yield (%)	3.8	3.6	4.0	4.2
Book value per share (RM)	3.30	3.53	3.65	3.80
PBV (x)	1.3	1.2	1.2	1.1
ROE (%)	10.5	9.8	10.6	10.8

Forecast by MIDFR

DAILY PRICE CHART

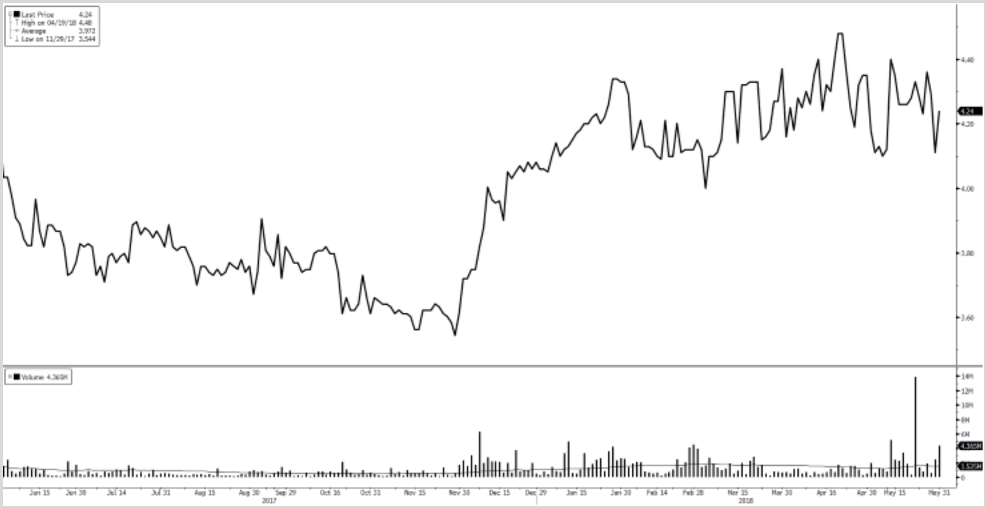

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Table 1: Comparison of quarterly results

FYE Mar (RM m)	Quarterly results 4Q18	3Q18	4Q17	Yoy (+/- %)	Qoq (+/- %)	Comments
Net Interest Income	224.4	220.3	212.8	5.5%	1.9%	To strong NIM improvement.
Islamic Banking Income	83.4	78.8	76.5	9.0%	5.8%	
Non-interest income	95.7	88.9	78.0	22.7%	7.6%	Steady growth in client based fee income.
Net Income/ Total income	403.5	388.0	367.3	9.9%	4.0%	
OPEX	(212.1)	(215.3)	(181.2)	17.1%	-1.5%	Due to transformation cost.
PPOP	191.4	172.7	186.1	2.8%	10.8%	
Provision for loan losses	(37.6)	8.0	(27.6)	36.2%	-570.0%	Due to impairment charges from several large business accounts and intensified R&R remedial action for business accounts.
PBT	153.7	180.7	158.5	-3.0%	-14.9%	
Net Profit	112.9	122.6	117.4	-3.8%	-7.9%	
Normalised Net Profit	122.4	148.0	117.4	4.3%	-17.3%	
EPS (sen)	7.7	8.0	7.3	5.5%	-3.8%	

Table 2: Comparison of financial ratios

Financial Ratios (%)	4Q18	3Q18	4Q17	Yoy (+/- ppts)	Qoq (+/- ppts)	Comments
CET1^	13.4	13.6	13.0	0.4	-0.2	
Tier 1 Capital^	13.8	14.0	13.0	0.8	-0.2	
Total Capital^	18.3	18.7	17.7	0.6	-0.4	
NIM	2.50	2.38	2.30	0.20	0.12	Better RAR adjusted loans.
GIL	1.4	1.2	1.0	0.4	0.2	Legacy portfolio in non-residential property segment.
NIL	1.0	0.8	0.6	0.4	0.2	
Credit charge off	0.39	-0.08	0.29	0.10	0.47	
LLC	96.7	116.2	136.7	-40.0	-19.5	
Cost to income	52.6	55.5	49.3	3.3	-2.9	
Gross LD ratio	94.3	96.8	87.0	7.3	-2.5	
ROE	7.6	9.3	9.5	-1.9	-1.7	

^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)	**FY18**	**FY17**	**Yoy (+/- %)**	
Net Interest Income	892.5	847.5	5.3%	Driven by better risk adjusted return ("RAR") loans
Islamic Banking Income	318.3	297.1	7.1%	
Non interest income	361.3	324.8	11.2%	
Net / Total income	1,572.0	1,469.4	7.0%	
OPEX	(794.0)	(691.9)	14.8%	Transformation cost.
PPOP	778.0	777.5	0.1%	
Write back/(Provision) for loan losses	(93.4)	(96.2)	-2.9%	
Pre-tax profit	684.6	681.4	0.5%	
Net Profit	493.2	512.1	-3.7%	
Normalised Net Profit	544.7	512.1	6.4%	
EPS (sen)	31.9	33.5	-4.8%	
PBT by business segment (RM m)	**FY18**	**FY17**	**Yoy (+/- %)**	
Consumer Banking	142.4	161.2	-11.7%	Higher OPEX.
Business Banking	357.1	350.4	1.9%	Higher net income.
Financial Markets	228.0	160.5	42.1%	Increase in revenue.
Investment Banking	(0.8)	(5.6)	85.0%	Higher brokerage income.
Others	(43.7)	12.8	<-100%	
Elimination	1.6	2.1	-26.0%	
Group PBT	684.6	681.3	0.5%	
Ratios (%)	**FY18**	**FY17**	**(+/- ppts)**	
ROE	9.5	10.5	-1.0	
Cost to income	50.5	47.1	3.4	Transformation cost.
Credit charge-off	0.23	0.24	-0.01	
NIM	2.40	2.26	0.14	Better RAR loans.
CASA	37.3	34.2	3.1	
NOII ratio	24.3	23.2	1.1	

Source: Company, MIDFR

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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.