

03 September 2018 | 1QFY19 Results Review

## Alliance Bank Malaysia Berhad

*In line with expectations*

**Maintain BUY**

**Adjusted Target Price (TP): RM4.75  
(from RM4.69)**

### INVESTMENT HIGHLIGHTS

- **1QFY19 earnings within expectations**
- **Strong NII growth from NIM improvement**
- **Better RAR loans grew strongly**
- **GIL ratio spiked up but expected to taper**
- **No change to forecast**
- **Maintain BUY with adjusted TP of RM4.75 (from RM4.69) as we rollover our valuation to FY20. Our TP is based on pegging FY20 BVPS to PBV of 1.3x**

**Within expectations.** The Group registered 1QFY19 net profit that was within ours and consensus' expectations. It came at 22.9% and 24.3% of respective full year estimates. The +1.0%yoy growth in earnings was due to NII expansion.

**Strong NII growth from NIM improvement.** NII inclusive of Islamic net financing income grew +8.0%yoy to RM321.3m, supporting net income growth of +3.8%yoy to RM401.1m. The strong NII growth was due to improvement in NIM.

**NIM improvement resulted from better asset mix.** NIM improved +11bps(yoy) to 2.43%. This was partly due to the impact of the OPR hike in January CY18. However, the OPR hike had also caused cost of fund to increase on a sequential quarter basis (+14bps). The other factor for the NIM improvement was better asset mix.

**Better RAR loans grew while lower RAR loans contracted.** Better RAR loans grew +21.3%yoy as at 1QFY19 to RM15.0b with strong traction from its Alliance One Account (AOA) which expanded RM1.49b to RM1.58b. Meanwhile, lower RAR loans, which includes mortgages, declined -4.4%yoy to RM25.3b.

**GIL ratio spiked but expected to level off.** Our only worry for the Group is the rising trend in GIL ratio. As at 2QFY19, GIL ratio went up by +14bps(qoq) and +45bps(yoy) to 1.57%. Nevertheless, it was still lower than industry's GIL ratio of 1.61%. The rise in GIL ratio was due to impairments in non residential mortgages and working capital loans. However, these were fully covered resulting in only +6bps yoy increase in credit cost. We understand that the management expects the GIL ratio will taper off in coming quarters.

RETURN STATS	
Price (30 August 2018)	RM4.13
Target Price	RM4.75
Expected Share Price Return	+15.0%
Expected Dividend Yield	+4.1%
<b>Expected Total Return</b>	<b>+19.1%</b>

STOCK INFO	
KLCI	1,819.66
Bursa / Bloomberg	2488 / ABMB MK
Board / Sector	Main / Finance
Syariah Compliant	No
Issued shares (mil)	1,548.1
Market cap. (RM'm)	6,393.7
Price over NA	1.2x
52-wk price Range	RM3.62 - RM4.49
Beta (against KLCI)	0.95
3-mth Avg Daily Vol	1.05m
3-mth Avg Daily Value	RM4.31m
Major Shareholders	
Vertical Theme SB	29.1%
EPF	12.0%

#### 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

**More work needed to attract CASA.** We note that CASA growth was relatively flat at +0.5%yoy to RM15.7b, suggesting that traction from its Alliance@Work product have slowed somewhat. Customer deposits fell -5.0%yoy to RM42.0b but we are not overly concerned as this was due to contraction of money market and negotiable instruments deposits.


**MFRS 9 impact better than expected.** Recall, previously the management had guided that the Day One impact to lower capital will be by circa 50bps. However, it was only lower by 20bps. Meanwhile, provisions increased by +22%.

**Transformation initiatives progressing well but need to ramp up in certain areas.** AOA loan approval was more than RM935m in 1QFY19, showing very good progress. We believe that the AOA growth will be key to driving the Group's earnings growth as its RAR is 3x of standalone mortgage. Other initiatives also progressed well. However, we opine that its Alliance@Work needs to ramp-up further. It had acquired more than 5,700 local employee CASA and 213 new company payroll accounts against target more than 20,000 new local employees and more than 1,000 new company payroll.

## FORECAST

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

## VALUATION AND RECOMMENDATION

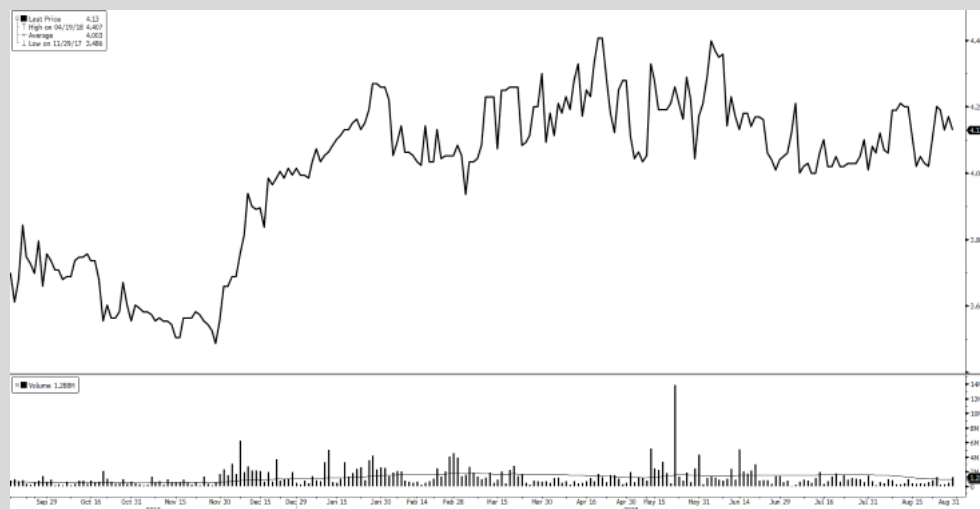
As we had expected, the result of the transformation continues to support earnings growth as evident by the strong income growth. While more work needs to be done, we believe that the Group continues to be on the right track. As such, we are maintaining our **BUY** call with an adjusted TP of RM4.75 (from RM4.69) as we rollover our valuation to FY20. 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)	12.3	11.6	10.6	9.9
Net dividend (sen)	16.0	15.3	17.0	18.5
Net dividend yield (%)	3.9	3.7	4.1	4.5
Book value per share (RM)	3.30	3.53	3.65	3.76
PBV (x)	1.3	1.2	1.1	1.1
ROE (%)	10.5	9.8	10.6	11.0

Forecast by MIDFR

## DAILY PRICE CHART



**Imran Yassin Yusof**  
 imran.yassin@midf.com.my  
 03-2173 8395

**Table 1: Comparison of quarterly results**

FYE Mar (RM m)	Quarterly results					Comments
	1Q19	4Q18	1Q18	Yoy (+/- %)	Qoq (+/- %)	
Net Interest Income	243.9	224.4	225.3	8.3%	8.7%	Due to growth in better RAR loans
Islamic Banking Income	82.9	83.4	78.0	6.3%	-0.6%	
Non-interest income	74.3	95.7	83.3	-10.8%	-22.4%	Lower wealth management fee income and lower forex trading income gain and realised gain from financial investments
Total income	401.1	403.5	386.6	3.8%	-0.6%	
OPEX	(183.2)	(212.1)	(176.4)	3.9%	-13.6%	Higher personnel expenses from scaling up sales force for AOA, SME expansion and Alliance@Work
PPOP	217.9	191.4	210.2	3.7%	13.8%	
Provision for loan losses	(36.8)	(37.6)	(30.2)	21.9%	-2.1%	NPL on non residential properties loan
PBT	181.1	153.7	180.0	0.6%	17.8%	
Net Profit	136.4	112.9	135.0	1.0%	20.8%	
Normalised Net Profit	136.4	122.4	135.0	1.0%	11.4%	
EPS (sen)	8.8	7.7	8.8	0.0%	14.3%	

**Table 2: Comparison of financial ratios**

Financial Ratios (%)	1Q19	4Q18	1Q18	Yoy (+/- ppts)	Qoq (+/- ppts)	Comments
CET1 <sup>^</sup>	12.8	13.4	12.6	0.2	-0.6	
Tier 1 Capital <sup>^</sup>	13.3	13.8	12.6	0.7	-0.5	
Total Capital <sup>^</sup>	17.8	18.3	17.2	0.6	-0.5	
NIM	2.43	2.50	2.32	0.11	-0.07	Growth in better RAR loans vs. contractions in lower RAR loans
GIL	1.6	1.4	1.1	0.5	0.2	Impairments from non residential properties and working capital loans
NIL	1.0	1.0	0.7	0.3	0.0	
Credit charge off	0.37	0.39	0.31	0.06	-0.02	
LLC	108.0	96.7	122.1	-14.1	11.3	
Cost to income	45.7	52.6	45.6	0.1	-6.9	Rise in income offset higher operating expenses
Gross LD ratio	96.4	94.3	88.2	8.2	2.1	
ROE	10.2	8.6	10.7	-0.5	1.6	

<sup>^</sup>Capital ratios at Group level after deduction of proposed dividends.

**Table 3: PBT by business segment**

Normalised Cumulative results				Comments
PBT by business segment (RM m)	1QFY19	1QFY18	Yoy (+/- %)	
Consumer Banking	7.5	37.2	-79.8%	Lower net income and higher OPEX
Business Banking	109.3	86.0	27.0%	Net income was higher while OPEX remains stable. Also, there were write back in credit losses on loans, advances and financing
Financial Markets	60.3	55.6	8.5%	Increase in net income
Investment Banking	(0.7)	0.3	-313.5%	
Others	5.9	1.7	247.0%	
Elimination	(1.2)	(0.9)	31.3%	
<b>Group PBT</b>	<b>181.0</b>	<b>180.0</b>	<b>0.6%</b>	

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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.