

Alliance Bank Malaysia Berhad

(2488 | ABMB MK) Financial Services | Finance

1QFY24 Results: Heavy OPEX

KEY INVESTMENT HIGHLIGHTS

- 3MFY24's Core NP of RM151m was *Within/Within* our/*street* forecasts: **20%/22%** of full-year forecasts
- Management's tone: **Less optimistic**
- Core themes: (a) Asset quality issues persist, (b) NOII unwinding termination, (c) Corporate loans to ramp up
- Forecasts revised: FY23F/FY24F/25F Core NP adjusted by **-6%/-5%/-6%**
- **Maintain BUY | Revised TP of RM3.90 | based on a revised FY25F P/BV of 0.79x (formerly 0.86x, from FY23F)**

Verdict: Risk-reward still skewed toward to +ve, though asset quality issues may provide some downside.

Yays	1. High loan growth.
Nays	1. Downside bias when it comes to asset quality and provisioning.
OKs	1. OPEX should be more manageable in coming quarters. 2. NOII outlook has improved.

3MFY24's Core net profit (NP) of RM151m is down by -29%yoy. Improvements in NII and tax normalisation were offset by weaker NOII, OPEX and provisioning performances.

1QFY24's Core NP of RM151m up by +16%qoq. Improvements in cost control (4Q seasonal effects) and provisioning offset higher tax expenses. NII and NOII remained stable.

Loan growth was a bit slow at +1.4%qoq (for the FY24F target) but is expected to ramp up in future quarters. Deposits, on the other hand, grew at a far healthier +1.9%qoq.

Have a look at:

Asset quality deterioration is well expected. Mgmt assures us that while 30+dpd trends have picked up for each loan segment, overall GIL ratio should be close to peaking already. Mgmt points to two leading indicators suggesting this: +30dpd flow rates are headed towards milder figures and there has been slower formation of GIL in the last month.

The consumer segment has seen AOA (almost all of which are pre-2018 loans) and personal financing GIL rapidly deteriorate. Most recent delinquencies stem from OPR hikes and inflation, rather than from pre-existing RA programmes. Expect further provision writebacks in coming quarters.

Better NOII in following quarters. Mgmt has incurred an early termination cost for IRS unwinding (the unwinding of the FVOCI book hedge adds a charge of RM10m a year), which bodes well for the outlook of NOII. Mgmt also guides for improved treasury incomes in coming quarters.

Maintain BUY

Revised Target Price: RM3.90
(Previously RM4.00)

RETURN STATISTICS

Price @ 29 August 2023 (RM)	3.53
Expected share price return (%)	+10.6
Expected dividend yield (%)	+6.9
Expected total return (%)	+17.5

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	0.9	0.6
3 months	6.6	3.0
12 months	0.9	4.2

INVESTMENT STATISTICS

FYE Mar	FY24F	FY25F	FY26F
Core NP (RM m)	696	754	807
CNP growth (%)	3	8	7
Div yield (%)	6.4	6.9	7.4
Gross DPS (sen)	22.5	24.3	26.1
P/BV (x)	0.8	0.7	0.7
BVPS (RM)	4.6	4.9	5.2
ROE (%)	10.0	10.2	10.3
MIDF/Street CNP (%)	101	102	102

KEY STATISTICS

FBM KLCI	1,454.44
Issue shares (m)	1,548.1
Estimated free float (%)	57.4
Market Capitalisation (RM'm)	5,495.8
52-wk price range	RM3.22 - RM3.93
3-mth avg daily volume (m)	0.9
3-mth avg daily value (RM'm)	3.1
Top Shareholders (%)	
Vertical Theme Sdn Bhd	29.1
EPF Board	10.4
Global Success Network	5.0

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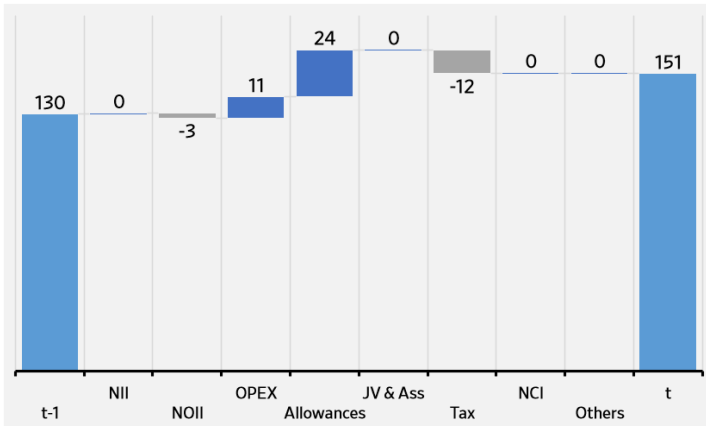
Forecasts revised: FY23F/FY24F/25F Core NP adjusted by -6%/-5%/-6%. To reflect more moderate NOII for all 3 years, as well as higher NCC and OPEX.

Key downside risks. (1) Higher-than-expected credit costs, (2) Lacklustre NOII recovery, (3) Steeper-than-expected NIM compression.

Maintain BUY call: Revised GGM-TP of RM 3.90 (from RM4.00). The TP is based on a revised FY25F P/BV of 0.79x (formerly 0.86x, rolled on from FY24F), to reflect altered earnings prospects and ROE-based valuations. **(GGM assumptions: FY25F ROE of 10.2%, LTG of 5.0% & COE of 11.5%)**

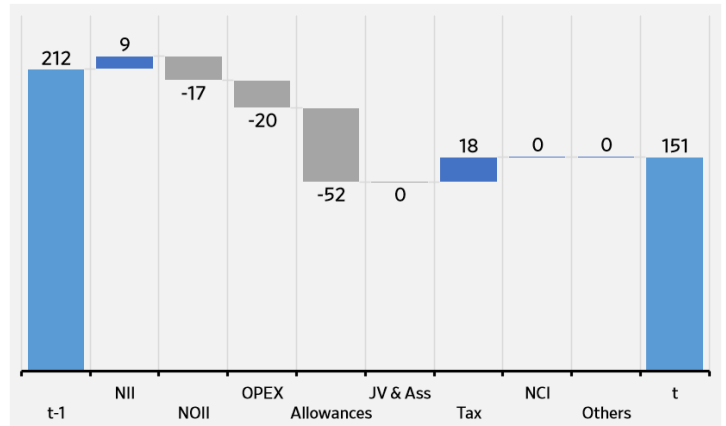


Fig 1: QoQ P/L walk (Quarterly results)



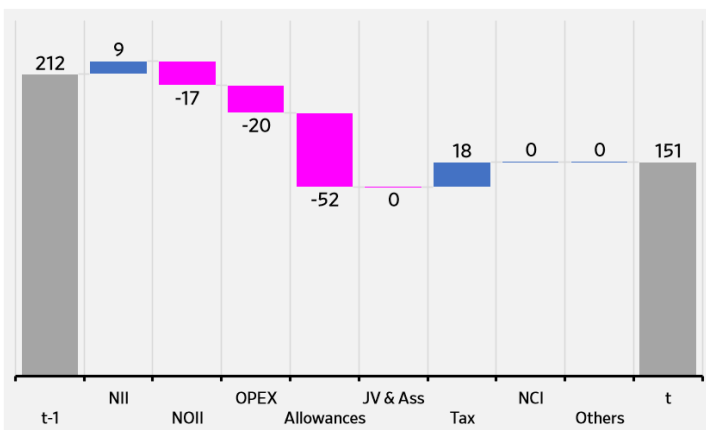
Source: ABMB, MIDFR

Fig 2: YoY P/L walk (Quarterly results)



Source: ABMB, MIDFR

Fig 3: YoY P/L walk (Cumulative results)



Source: ABMB, MIDFR

Fig 4: Quarterly results

FYE Mar (RM m)	1Q FY24	4Q FY23	1Q FY23	Yoy (%)	Qoq (%)	3M FY24	3M FY23	Yoy (%)
Net interest inc.	305	303	290	5	1	305	290	5
Islamic banking inc.	100	107	106	-6	-6	100	106	-6
Non-interest inc.	61	59	77	-21	3	61	77	-21
Net income	466	469	474	-2	-1	466	474	-2
OPEX	(230)	(241)	(211)	9	-5	(230)	(211)	9
PPOP	236	228	264	-10	4	236	264	-10
Loan provisions	(35)	(59)	17	-301	-41	(35)	17	-301
Other provisions	(0)	(0)	0	n.m.	n.m.	(0)	0	n.m.
JV & Associates	0	0	0	n.m.	n.m.	0	0	n.m.
PBT	201	169	281	-28	19	201	281	-28
Tax	(51)	(39)	(69)	-26	31	(51)	(69)	-26
NCI	-	-	-	n.m.	n.m.	-	-	n.m.
Reported NP	151	130	212	-29	16	151	212	-29
Core NP	151	130	212	-29	16	151	212	-29
Total NII	401	401	392	2	0	401	392	2
Total NOII	65	68	82	-21	-4	65	82	-21
Gross DPS (sen)	-	10.0	-	n.m.	n.m.	-	-	n.m.
Core EPS (sen)	9.7	8.4	13.7	-29	16	9.7	13.7	-29
Gross loans	49,750	49,068	46,098	7.9	1.4			
Gross impaired loans	1,307	1,233	850	53.8	6.0			
Customer deposits	51,794	50,849	48,651	6.5	1.9			
CASA	22,759	21,295	24,309	-6.4	6.9			
Ratios (%)	1Q FY24	4Q FY23	1Q FY23	Yoy (ppts)	Qoq (ppts)	3M FY24	3M FY23	Yoy (ppts)
ROE (Ann.)	8.9	7.7	13.4	-4.5	1.2	8.9	13.4	-4.5
NIM (Reported)	2.43	2.50	2.57	-0.14	-0.07	2.43	2.57	-0.14
NOI/Net income	13.9	14.4	17.3	-3.4	-0.5	13.9	17.3	-3.4
Cost/Income	49.3	51.4	44.4	4.9	-2.1	49.3	44.4	4.9
NCC (Ann.) (bps)	29	49	(15)	44	-20	29	(15)	44
GIL ratio	2.63	2.51	1.84	0.78	0.11			
Loan loss coverage	97	103	128	-30	-6			
CASA ratio	43.9	41.9	50.0	-6.0	2.1			
L/D ratio	93.9	94.3	92.7	1.1	-0.4			
CET-1	13.3	13.8	14.5	-1.2	-0.5			

Source: ABMB, MIDFR

Fig 5: Retrospective performance (Income Statement)

Metric	Surprise? Qoq/Yoy		Metric	Surprise? Qoq/Yoy	
Qtrly Core NP	RM mil	151	Qtrly ROE	Qtr value	8.9%
	20% of FY CNP				
	Qoq	16%		t-1	7.7%
	Yoy	-29%		t-4	13.4%
Cum Core NP	RM mil	151	Cum ROE	Cum value	8.9%
	Within our forecast				
	20% of FY CNP				
	Within consensus				
	22% of FY CNP				
Yoy	-29%	t-1	13.4%		
NII	As expected		NIM	As expected	
				Qtr value	2.43
				Cum value	2.43
	Qtr (Qoq)	0%		Qtr (Qoq)	-7bps
	Qtr (Yoy)	2%		Qtr (Yoy)	-14bps
Cum (Yoy)	2%	Cum (Yoy)	-14bps		
NOII	-ve surprise		Qtr	% NII	86%
	Qtr (Qoq)	-4%		% NOII	14%
	Qtr (Yoy)	-21%	Cum	% NII	86%
	Cum (Yoy)	-21%		% NOII	14%
OPEX	As expected		Cost/ Inc.	As expected	
				Qtr value	49.3%
				Cum value	49.3%
	Qtr (Qoq)	-5%		Qtr (Qoq)	-2.1%
	Qtr (Yoy)	9%		Qtr (Yoy)	+4.9%
Cum (Yoy)	9%	Cum (Yoy)	+4.9%		

Source: ABMB, MIDFR

Notes (Cum = Cumulative, Qtr = Quarterly)

Earnings are a bit on the weak side, but subsequent quarters should fare a bit better.

This quarter has been especially heavy on NOII and OPEX.

NIM compression was a bit sharper than guided last quarter, but NII is retained.

Hit by a one-off.

NOII took a bit of a hit in the quarter, in the form of early termination costs for IRS unwinding – which should bode well for subsequent quarters.

OPEX saw a sharp increase due to collective agreement salary adjustments and other expenditures.

Regardless this figure should normalise in coming quarters.

Fig 6: Retrospective performance (Balance Sheet, Dividends, and anything extra)

Metric	Surprise? Qoq/Yoy		Metric	Surprise? Qoq/Yoy		Notes (Cum = Cumulative, Qtr = Quarterly)
Loans	As expected		CASA grwth	As expected		<p>Loan growth is lagging, but a healthier pipeline should await in 2H.</p> <p>Especially for the corporate segment, whose growth remains -ve on a sequential year basis thus far.</p> <p>Don't expect any major changes in loan composition 3 years down the road.</p>
	Qoq	1.4%		Qoq	6.9%	
	Yoy	7.9%		Yoy	-6.4%	
	YTD (FY)	1.4%		YTD (FY)	6.9%	
Depo. grwth	As expected		L/D ratio	As expected		<p>Healthy deposit growth.</p>
	Qoq	1.9%		Value now	93.9%	
	Yoy	6.5%		Qoq	-0.4%	
	YTD (FY)	1.9%		Yoy	+1.1%	
CASA ratio	As expected		LLC ratio	As expected		<p>Uptick is worrying but expected.</p> <p>A lot of recent delinquencies are not from previous RA programmes, instead rising due to May-23 OPR hike.</p> <p>There was an overlay writeback of RM48m in the quarter – an uptick in BAU provisions this quarter was largely due to a single manufacturing name.</p>
	Value now	43.9%		Value now	97%	
	Qoq	+2.1%		Qoq	-6%	
	Yoy	-6.0%		Yoy	-30%	
GIL ratio	As expected		Cum Net CC	As expected		<p>No issues.</p>
	Value now	2.63%		Decent provision		
	Qoq	+11bps		Value now	29bps	
	Yoy	+78bps		t-1	49bps	
Qtrly Net CC	As expected		Div payout	As expected		
	Decent provision			Decent provision		
	Value now	29bps		Payout	50%	
	t-1	49bps				
CET 1	As expected		Cum Net CC	As expected		
	Healthy level			Value now	29bps	
	Value now	13.3%		t-4	-15bps	
	Qoq	-0.5%				
<p>Others:</p>						

Source: ABMB, MIDFR

Fig 7: Targets, Achievements, and Outlook

Targets	FY24F	3M FY24	Notes (Red: New guidance, Strikethrough: Guidance is no longer pertinent)
ROE	>10 10.5	8.9	
CIR	<48	49.3	6-7% OPEX growth, with some one-off adjustments (Collective adjustment).
NIM	2.45-2.50 2.50-2.55	2.43	
NOII		-21% (yoy)	
Loans	8-10	1.4 (YTD)	Breakdown by LOB: Consumer: 8%, SME/Commercial: double-digit growth, Corporate: to pad whatever's left.
Deposits		1.9 (YTD)	
% CASA	>40%*	43.9	*Internal target.
Loan/Depo		93.9	
GIL ratio	<3.00%	2.63	Current figure should be close to peak – 3.00% is very conservative.
NCC (bps)	30-35	29	FY24F NCC guidance factors in writebacks. Overlay balance: RM256m.
LLC		97	
CET 1		13.3	
Div payout	50	-	

Source: ABMB, MIDFR

FINANCIAL SUMMARY

INCOME STATEMENT

FYE Mar (RM m)	FY22	FY23	FY24F	FY25F	FY26F
Interest income	1,684	1,976	2,146	2,361	2,431
Interest expense	(563)	(746)	(923)	(1,062)	(1,062)
Net interest income	1,122	1,230	1,223	1,299	1,369
Islamic banking inc.	398	453	453	481	507
Other operating inc.	349	237	415	419	447
Net income	1,868	1,920	2,091	2,200	2,324
OPEX	(823)	(881)	(983)	(1,012)	(1,057)
PPOP	1,045	1,038	1,108	1,188	1,266
Loan allowances	(217)	(152)	(179)	(181)	(188)
Other allowances	(0)	0	2	2	1
JV & Associates	0	0	0	0	0
PBT	827	887	932	1,009	1,080
Tax & zakat	(255)	(209)	(236)	(255)	(273)
NCI	-	-	-	-	-
Reported NP	573	678	696	754	807
Core NP	573	678	696	754	807
Total NII	1,480	1,653	1,631	1,733	1,826
Total NOII	387	267	460	467	498

BALANCE SHEET

FYE Mar (RM m)	FY22	FY23	FY24F	FY25F	FY26F
Cash & ST funds	3,397	3,659	3,654	3,809	3,858
Investment securities	11,791	12,148	10,720	9,784	9,071
Net loans	45,124	47,926	52,366	56,085	60,048
Other IEAs	0	0	0	0	0
Non-IEAs	1,536	2,577	2,793	4,167	5,369
Total assets	61,848	66,311	69,534	73,845	78,347
Customer deposits	48,186	50,849	54,764	58,653	62,817
Other IBLs	3,262	3,966	3,255	3,041	2,844
Non-IBLs	3,983	4,748	4,327	4,501	4,609
Total liabilities	55,431	59,564	62,346	66,196	70,271
Share capital	1,548	1,548	1,548	1,548	1,548
Reserves	4,869	5,199	5,639	6,101	6,528
Shareholders' funds	6,417	6,747	7,188	7,650	8,076
NCI	0	0	0	0	0
Total equity	6,417	6,747	7,188	7,650	8,076
Total L&E	61,848	66,311	69,534	73,845	78,347
Total IEAs	60,311	63,733	66,741	69,678	72,978
Total IBLs	51,448	54,815	58,019	61,694	65,662
Gross loans	46,189	49,068	52,993	56,702	60,672
CASA	23,577	21,295	21,358	21,701	21,986

FINANCIAL RATIOS

FYE Mar (RM m)	FY22	FY23	FY24F	FY25F	FY26F
Interest (%)					
NIM	2.48	2.66	2.50	2.54	2.56
Return on IEAs	2.82	3.19	3.29	3.46	3.41
Cost of funds	1.09	1.40	1.64	1.77	1.67
Net interest spread	1.72	1.78	1.65	1.69	1.74
Profitability (%)					
ROE	9.0	10.3	10.0	10.2	10.3
ROA	0.9	1.1	1.0	1.1	1.1
NOII/Net income	20.7	13.9	22.0	21.2	21.4
Effective tax rate	30.8	23.5	25.3	25.3	25.3
Cost/Income	44.1	45.9	47.0	46.0	45.5
Liquidity (%)					
Loan/Deposit	93.6	94.3	95.6	95.6	95.6
CASA ratio	48.9	41.9	39.0	37.0	35.0
Asset Quality (%)					
GIL ratio	1.85	2.51	1.42	1.38	1.30
LLC ratio	136	103	100	95	95
LLC (w. reserves)	142	124	133	127	126
Net CC (bps)	48	32	35	33	32
Capital (%)					
CET 1	16.4	13.8	14.0	13.3	12.7
Tier 1 capital	17.3	14.6	14.8	14.1	13.4
Total capital	21.4	18.7	18.7	17.8	16.9
Growth (%)					
Total NII	8.8	11.7	-1.3	6.2	5.4
Total NOII	-15.1	-31.1	72.3	1.6	6.5
Net income	2.8	2.8	8.9	5.2	5.6
OPEX	2.8	7.1	11.5	3.0	4.5
Core NP	59.7	18.3	2.7	8.2	7.1
Valuation metrics					
Core EPS (sen)	37.0	43.8	45.0	48.7	52.1
Gross DPS (sen)	18.5	22.0	22.5	24.3	26.1
Div payout ratio (%)	50	50	50	50	50
BVPS (RM)	4.1	4.4	4.6	4.9	5.2
Core P/E (x)	9.5	8.1	7.8	7.3	6.8
Dividend yield (%)	5.2	6.2	6.4	6.9	7.4
P/BV (x)	0.9	0.8	0.8	0.7	0.7

Source: ABMB, 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 <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	Total return is expected to be <-10% 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.

ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell

☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology