

Alliance Bank Malaysia Berhad

(2488 | ABMB MK) Financial Services | Finance

3QFY24 Results: A Solid Quarter Ahead

KEY INVESTMENT HIGHLIGHTS

- 9MFY24's Core NP of RM513m was *Within/Within* our/*street* forecasts: **74%/76%** of full-year forecasts
- Management's tone: **Cautiously optimistic**
- Core themes: (a) **A strong 4Q**, (b) **CASA outlook mixed**, (c) **Strong targeted loan growth is putting pressure on CET 1**
- Forecasts unchanged
- **Maintain BUY | Unchanged TP of RM4.08 | based on an unchanged FY25F P/BV of 0.83x**

Maintain BUY
Unchanged Target Price: RM4.08

Verdict: Strong balance sheet growth is core driver.

Yays	1. Strong balance sheet growth – high double-digit growth in Penang and Sarawak. 2. OPEX frontloaded into 1HFY24.
Nays	1. CET 1 ratio was compressed by high growth rate – affecting dividend certainty.
OKs	1. While sector CASA outlook is optimistic, ABMB's high growth rate may erode its CASA ratio.

Results in a nutshell:

▼ **9MFY24's Core net profit (NP) of RM513m down by -6%yoy.** Sharp OPEX growth offset improvements in both NII and NOII.

▼ **3QFY24's Core NP of RM177m down by -5%qoq.** Improvements in NII and NCC were offset by weaker NOII.

▲ **Gross loans grew by +3.7%qoq, coming up to +8.7%YTD.**

▲ **Deposits grew by +5.0%qoq, coming up to +7.0%YTD.** Sarawak and Penang collectively were a huge driver for both loans and deposits, with the contributions growing by +6%yoy and 31%yoy respectively.

▲ **GIL moved by -17bps to 2.33%, LLC currently at 96%.**

Have a look at:

▲ **4QFY24's earnings to see no dip.** To achieve its FY24 ROE target of 10%, ABMB needs to maintain an even 4Q run rate. Management is guiding for this, despite 4Q results tending to dip by RM35-50m in most years. This is despite maintaining its FY24 NCC target of 30-35bps (9MFY24: 26bps only), implying a heavy provision.

Management attributes this evenness to (1) Frontloading costs to 1HFY24, (2) Better NOII outlook (low base effects from 9MFY24's cautious results), (3) Ability to draw from overlay balance for year-end top provisioning top-ups, (4) Lag effect of loan interest income finally kicking in.

▲ **Lumpy recoveries may provide positive surprises.** FY24 ROE guidance does not factor in these recoveries. However, management highlights that the brunt of recoveries may take place in FY25.

RETURN STATISTICS

Price @ 27 February 2024 (RM)	3.57
Expected share price return (%)	+14.2
Expected dividend yield (%)	+6.4
Expected total return (%)	+20.7

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	5.8	2.6
3 months	7.1	-1.0
12 months	4.6	-1.9

INVESTMENT STATISTICS

FYE Mar	FY24F	FY25F	FY26F
Core NP (RM m)	653	712	763
CNP growth (%)	(4)	9	7
Div yield (%)	5.9	6.4	6.9
Gross DPS (sen)	21.1	23.0	24.6
P/BV (x)	0.8	0.7	0.7
BVPS (RM)	4.6	4.9	5.2
ROE (%)	9.4	9.6	9.8
MIDF/Street CNP (%)	97	99	100

KEY STATISTICS

FBM KLCI	1,558.80
Issue shares (m)	1,548.1
Estimated free float (%)	57.7
Market Capitalisation (RM'm)	5,619.6
52-wk price range	RM3.22 - RM3.7
3-mth avg daily volume (m)	1.2
3-mth avg daily value (RM'm)	4.1
Top Shareholders (%)	
Vertical Theme Sdn Bhd	29.1
EPF Board	10.2
Global Success Network	5.0

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▲ **Balance sheet growth is still phenomenal.** ABMB posted an exceptional sequential growth of +3.7%qoq. Both Sarawak and Penang were strong contributors. Management believes growth momentum should persist (though the corporate segment may see some tapering down, due to lumpy drawdowns in the quarter) and it should at least reach the higher end of their 8-10% FY24 guidance.

► **Loan growth is wearing down on CET 1 ratio.** ABMB’s fast loan growth as well as its changing loan portfolio saw CET 1 ratio steadily reduce throughout the quarters. While management states that FY24 should not see any dividend issues, FY25’s outlook is less certain. ABMB’s new focus on end-financing loans (from a sub-sale-driven model) is less optimal for RWA efficiency.

► **Sector CASA outlook is positive, but ABMB’s CASA ratio may see further decline.** Management believes that industry CASA weakness has bottomed out recently and sees possible pickup down the line. At the same time, it notes that its current CASA ratio of 45% is too high and may not be able to be maintained given its high rate of growth.

► **LCR falls on a sequential-quarter basis, bucking industry trends.** ABMB varies its LCR and other liquidity measures for NIM optimisation (it helps that its 4Q is a quarter later than most of its peers). ABMB’s smaller size allows for more drastic movements, as there is less pressure to find funding in a limited time frame.

Forecasts unchanged. We make no changes to our forecasts.

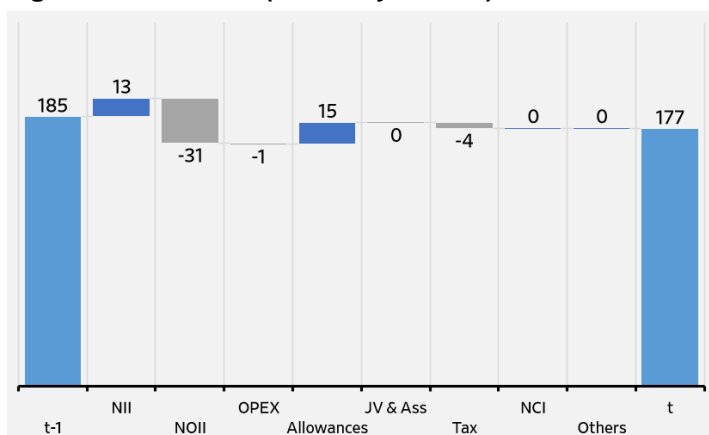
Key downside risks. (1) Weak NOII result, (2) Higher-than-expected NCC, (3) Steep NIM compression.

Maintain BUY call: Unchanged GGM-TP of RM 4.08 (from RM4.08). The TP is based on an unchanged FY25F P/BV of 0.83x.

(GGM assumptions: FY25F ROE of 9.6%, LTG of 5.0% & COE of 10.6%)

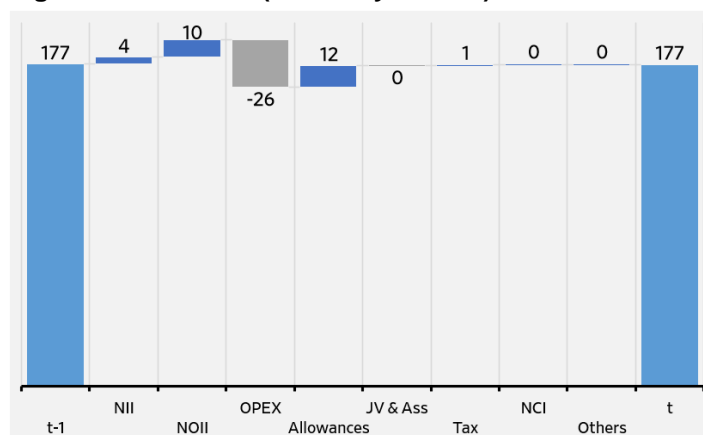


Fig 1: QoQ P/L walk (Quarterly results)



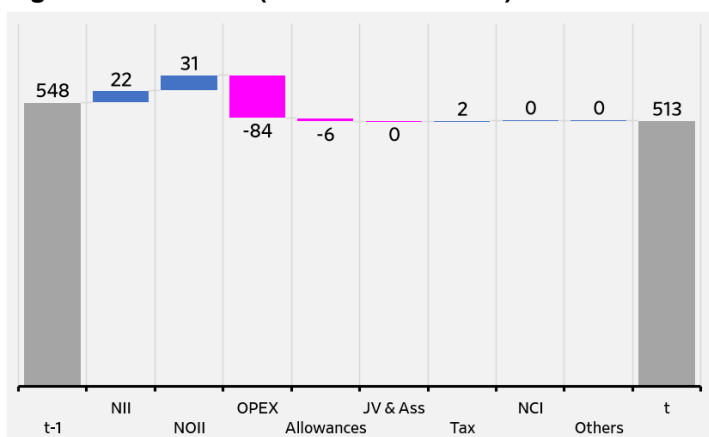
Source: ABMB, MIDFR

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)	3Q FY24	2Q FY24	3Q FY23	Yoy (%)	Qoq (%)	9M FY24	9M FY23	Yoy (%)
Net interest inc.	334	328	328	2	2	967	927	4
Islamic banking inc.	116	110	122	-5	5	326	346	-6
Non-interest inc.	61	90	47	29	-33	212	178	19
Net income	510	528	497	3	-3	1,504	1,451	4
OPEX	(248)	(247)	(222)	12	0	(725)	(640)	13
PPOP	262	281	275	-5	-7	780	811	-4
Loan provisions	(25)	(40)	(37)	-33	-38	(99)	(94)	6
Other provisions	(0)	(0)	0	n.m.	n.m.	(0)	1	n.m.
JV & Associates	0	0	0	n.m.	n.m.	0	0	n.m.
PBT	237	242	238	-0	-2	680	718	-5
Tax	(61)	(56)	(61)	-1	8	(168)	(170)	-1
NCI	-	-	-	n.m.	n.m.	-	-	n.m.
Reported NP	177	185	177	-0	-5	513	548	-6
Core NP	177	185	177	-0	-5	513	548	-6
Total NII	442	430	439	1	3	1,274	1,252	2
Total NOII	68	98	58	16	-31	231	200	16
Gross DPS (sen)	-	10.9	-	n.m.	n.m.	10.9	12.0	n.m.
Core EPS (sen)	11.4	12.0	11.4	-0	-5	33.1	35.4	-6
Gross loans	53,356	51,460	47,276	12.9	3.7			
Gross impaired loans	1,246	1,291	913	36.4	-3.5			
Customer deposits	54,410	51,838	48,991	11.1	5.0			
CASA	24,530	22,898	22,450	9.3	7.1			
Ratios (%)	3Q FY24	2Q FY24	3Q FY23	Yoy (ppts)	Qoq (ppts)	9M FY24	9M FY23	Yoy (ppts)
ROE (Ann.)	10.1	10.7	10.8	-0.7	-0.6	9.8	11.1	-1.4
NIM (Reported)	2.49	2.53	2.75	-0.26	-0.04	2.48	2.68	-0.20
NOI/Net income	13.3	18.6	11.7	1.6	-5.4	15.3	13.8	1.6
Cost/Income	48.6	46.7	44.7	3.9	1.9	48.2	44.1	4.0
NCC (Ann.) (bps)	20	32	32	-12	-13	26	27	-1
GIL ratio	2.33	2.51	1.93	0.40	-0.17			
Loan loss coverage	96	94	125	-29	2			
CASA ratio	45.1	44.2	45.8	-0.7	0.9			
L/D ratio	96.2	97.2	94.4	1.7	-1.0			
CET-1	12.8	12.9	14.2	-1.4	-0.1			

Source: ABMB, MIDFR

Fig 5: Retrospective performance (Income Statement)

Metric	Surprise? Qoq/Yoy		Metric	Surprise? Qoq/Yoy	
Qtrly Core NP	RM mil	177	Qtrly ROE	Qtr value	10.1%
	25% of FY CNP				
	Qoq	-5%		t-1	10.7%
	Yoy	-0%		t-4	10.8%
Cum Core NP	RM mil	513	Cum ROE	Cum value	9.8%
	Within our forecast				
	74% of FY CNP				
	Within consensus				
	76% of FY CNP				
	Yoy	-6%		t-1	11.1%
NII	As expected		NIM	As expected	
				Qtr value	2.49
				Cum value	2.48
	Qtr (Qoq)	3%		Qtr (Qoq)	-4bps
	Qtr (Yoy)	1%		Qtr (Yoy)	-26bps
	Cum (Yoy)	2%		Cum (Yoy)	-20bps
NOII	As expected		Qtr	% NII	87%
	Qtr (Qoq)	-31%		% NOII	13%
	Qtr (Yoy)	16%	Cum	% NII	85%
	Cum (Yoy)	16%		% NOII	15%
OPEX	As expected		Cost/ Inc.	As expected	
				Qtr value	48.6%
				Cum value	48.2%
	Qtr (Qoq)	0%		Qtr (Qoq)	+1.9%
	Qtr (Yoy)	12%		Qtr (Yoy)	+3.9%
	Cum (Yoy)	13%		Cum (Yoy)	+4.0%

Source: ABMB, MIDFR

Notes (Cum = Cumulative, Qtr = Quarterly)

An unremarkable quarter.

NIM compression was manageable.

Weaker NOII results have been well guided for. (Recall last quarter's huge bancassurance one-off).

Most costs have been frontloaded to 1HFY24.

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					
	Qoq	3.7%				
	Yoy	12.9%				
	YTD (FY)	8.7%				
Depo. grwth	+ve surprise		CASA grwth	+ve surprise		An exceptional quarter after a lacklustre 1HFY24.
	Qoq	5.0%		Qoq	7.1%	
	Yoy	11.1%		Yoy	9.3%	
	YTD (FY)	7.0%		YTD (FY)	15.2%	
CASA ratio	As expected		L/D ratio	As expected		Asset quality well under control. Smaller provision this quarter, but management maintains its 30-35bps FY24 target.
	Value now	45.1%		Value now	96.2%	
	Qoq	+0.9%		Qoq	-1.0%	
	Yoy	-0.7%		Yoy	+1.7%	
GIL ratio	As expected		LLC ratio	As expected		CET 1 is a bit strained – but dividend outlook for FY24 is still intact.
	Value now	2.33%		Value now	96%	
	Qoq	-17bps		Qoq	+2%	
	Yoy	+40bps		Yoy	-29%	
Qtrly Net CC	+ve surprise		Cum Net CC	As expected		
	Small provision			Decent provision		
	Value now	20bps		Value now	26bps	
	t-1	32bps		t-4	27bps	
CET 1	Healthy level		Div payout	No divvy		
	As expected			As expected		
	Value now	12.8%		Payout		
	Qoq	-0.1%				
Others:						

Source: ABMB, MIDFR

Fig 7: Targets, Achievements, and Outlook

Targets	FY24F	9M FY24	Notes (Red: New guidance, Strikethrough: Guidance is no longer pertinent)
ROE	>10	9.8	
CIR	<48	48.2	6-7% OPEX growth, with some one-off adjustments (Collective adjustment).
NIM	2.45-2.50	2.48	
NOII		16% (yoy)	
Loans	8-10	8.7 (YTD)	Breakdown by LOB: Consumer: 8%, SME/Commercial: double-digit growth, Corporate: to pad whatever's left.
Deposits		7.0 (YTD)	
% CASA	>40%*	45.1	*Internal target.
Loan/Depo		96.2	
GIL ratio	<3.00	2.33	
NCC (bps)	30-35	26	
LLC		96	
CET 1		12.8	
Div payout	50	-	While FY24 dividends should be as normal, management will discuss FY25's dividend outlook (as CET 1 ratio is straining from growth).

Source: ABMB, MIDFR

FINANCIAL SUMMARY

INCOME STATEMENT

FYE Mar (RM m)	FY22	FY23	FY24F	FY25F	FY26F
Interest income	1,684	1,976	2,144	2,363	2,429
Interest expense	(563)	(746)	(923)	(1,062)	(1,062)
Net interest income	1,122	1,230	1,221	1,301	1,368
Islamic banking inc.	398	453	452	482	507
Other operating inc.	349	237	309	315	342
Net income	1,868	1,920	1,982	2,098	2,216
OPEX	(823)	(881)	(932)	(965)	(1,008)
PPOP	1,045	1,038	1,051	1,133	1,208
Loan allowances	(217)	(152)	(179)	(181)	(188)
Other allowances	(0)	0	2	2	1
JV & Associates	0	0	0	0	0
PBT	827	887	874	954	1,022
Tax & zakat	(255)	(209)	(221)	(241)	(258)
NCI	-	-	-	-	-
Reported NP	573	678	653	712	763
Core NP	573	678	653	712	763
Total NII	1,480	1,653	1,628	1,735	1,824
Total NOII	387	267	355	363	393

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	52,112	55,967	59,991
Other IEAs	0	0	0	0	0
Non-IEAs	1,536	2,577	2,997	4,243	5,363
Total assets	61,848	66,311	69,483	73,803	78,283
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	4,298	4,501	4,609
Total liabilities	55,431	59,564	62,317	66,196	70,271
Share capital	1,548	1,548	1,548	1,548	1,548
Reserves	4,869	5,199	5,618	6,059	6,464
Shareholders' funds	6,417	6,747	7,166	7,607	8,012
NCI	0	0	0	0	0
Total equity	6,417	6,747	7,166	7,607	8,012
Total L&E	61,848	66,311	69,483	73,803	78,283
Total IEAs	60,311	63,733	66,486	69,560	72,920
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	2.55	2.56
Return on IEAs	2.82	3.19	3.29	3.47	3.41
Cost of funds	1.09	1.40	1.64	1.77	1.67
Net interest spread	1.72	1.78	1.66	1.70	1.74
Profitability (%)					
ROE	9.0	10.3	9.4	9.6	9.8
ROA	0.9	1.1	1.0	1.0	1.0
NOII/Net income	20.7	13.9	17.9	17.3	17.7
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	95.2	95.4	95.5
CASA ratio	48.9	41.9	39.0	37.0	35.0
Asset Quality (%)					
GIL ratio	1.85	2.51	2.00	1.60	1.40
LLC ratio	136	103	95	95	95
LLC (w. reserves)	142	124	118	122	124
Net CC (bps)	48	32	35	33	32
Capital (%)					
CET 1	16.4	13.8	13.2	13.2	12.8
Tier 1 capital	17.3	14.6	14.0	13.9	13.5
Total capital	21.4	18.7	17.7	17.6	17.0
Growth (%)					
Total NII	8.8	11.7	-1.5	6.6	5.1
Total NOII	-15.1	-31.1	32.7	2.4	8.1
Net income	2.8	2.8	3.3	5.8	5.7
OPEX	2.8	7.1	5.7	3.6	4.5
Core NP	59.7	18.3	-3.6	9.1	7.1
Gross loans	4.6	6.2	8.0	7.0	7.0
Customer deposits	-0.6	5.5	7.7	7.1	7.1
CASA	3.4	-9.7	0.3	1.6	1.3
Valuation metrics					
Core EPS (sen)	37.0	43.8	42.2	46.0	49.3
Gross DPS (sen)	18.5	22.0	21.1	23.0	24.6
Div payout ratio (%)	50	50	50	50	50
BVPS (RM)	4.1	4.4	4.6	4.9	5.2
Core P/E (x)	9.6	8.2	8.5	7.8	7.2
Dividend yield (%)	5.2	6.2	5.9	6.4	6.9
P/BV (x)	0.9	0.8	0.8	0.7	0.7

Source: ABMB, MIDFR

Income Statement

Core NP – Core Net Profit
 PPOP – Pre-Provisioning Operating Profit
 NII – Net Interest Income
 NIM – Net Interest Margin
 COF – Cost of Funds
 NOII – Non-Interest Income
 MTM – Mark to Market
 CIR – Cost to Income Ratio
 OPEX – Operational Expenses

Balance Sheet

LCR – Liquidity Coverage ratio
 L/D ratio – Loan/Deposit ratio
 CASA – Current & Savings accounts
 FD – Fixed Deposits
 GIL – Gross Impaired Loans
 NIL – Net Impaired Loans
 LLC – Loan Loss Coverage
 NCC – Net Credit Costs
 GCC – Gross Credit Costs
 CET 1 – Common Equity Tier 1

Valuations & Sector

ROE – Return on Equity
 GGM – Gordon Growth Model
 P/BV – Price to Book Value
 BVPS – Book Value per Share
 BNM – Bank Negara Malaysia
 OPR – Overnight Policy Rate
 SRR – Statutory Reserve Requirement
 SBR – Standardised Base Rate
 ALR – Average Lending Rate

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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