

Alliance Bank Malaysia Berhad

(2488 | ABMB MK) Financial Services | Finance

1QFY25 Results: Economic Corridors Drive Growth

KEY INVESTMENT HIGHLIGHTS

- **3MFY25's Core NP of RM177m was *Within/Within* our/street forecasts: 24%/24% of full-year forecasts**
- **Management's tone: Neutral**
- **Core themes: (a) New-to-bank customer acquisition still growing rapidly, (b) Optimism on NOII and potential recoveries, (c) Management remains confident on dividend payouts**
- **Forecasts unchanged**
- **Downgrade to NEUTRAL | Revised TP of RM4.64 | based on a revised FY26F P/BV of 0.88x (formerly 0.86x, from FY25F)**

Verdict: ABMB has largely been priced in for its ROE level. Dividend yields remain attractive.

Yays	<ol style="list-style-type: none"> Economic corridors to continue driving growth. NOII outlook remains strong. Still looking toward positive lumpy recoveries which could provide upside to NCC.
Nays	<ol style="list-style-type: none"> CIR still at the higher end.
OKs	<ol style="list-style-type: none"> Potential dividend downside, though management is adamant that capital constraints are being worked on. There is a possibility that the payout may come nearer the lower bound of the 40-50% guidance.

Results in a nutshell:

- ▲ **3MFY25's Core net profit (NP) of RM177m up by +17%oyoy.** Better NOII and NII offset cost inflation and steeper loan provisions.
- ▶ **1QFY25's Core NP of RM177m up by -1%qoq.** Improvements in NII and NOII offset higher loan provisions.
- ▲ **Gross loans grew by +2.4%qoq, coming up to +2.4%YTD.**
- ▶ **Deposits grew by +0.7%qoq, coming up to +0.7%YTD.**
- ▼ **GIL moved by +6bps to 2.17%, LLC currently at 97%.**

Have a look at:

▲ **New-to-bank customer acquisition is still growing at rapid pace – offering space to be selective on loans.** Expect further customer acquisitions to persist, as all 3 economic corridor hotspots (Penang, Sarawak and Johor) are still pulling in strong double-digit growth figures. This should keep buoying loan growth. More importantly, it offers ABMB options: Unlike its peers, ABMB does not seem as concerned about competitive loan rates.

▲ **NOII and recoveries remain ROE drivers.** There were minor asset quality concerns (especially about the SME segment, which is vulnerable to high inflation and subsidy removal), but management confirms that it is still too early to confirm whether it may be an issue. Regardless, we assume that opportunities for large corporate recoveries are still intact (providing upside to NCC) and NOII is slated to have a better 2QFY25 (benefiting from forex movements).

Downgrade to NEUTRAL

(Previously BUY)

Revised Target Price: RM4.64

(Previously RM4.28)

RETURN STATISTICS

Price @ 29 August 2024 (RM)	4.44
Expected share price return (%)	+4.4
Expected dividend yield (%)	+5.1
Expected total return (%)	+9.5

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	6.2	6.0
3 months	13.7	12.2
12 months	20.4	6.2

INVESTMENT STATISTICS

FYE Mar	FY25F	FY26F	FY27F
Core NP (RM m)	732	781	822
CNP growth (%)	6	7	5
Div yield (%)	4.8	5.1	5.4
Gross DPS (sen)	21.3	22.7	23.9
P/BV (x)	0.9	0.8	0.8
BVPS (RM)	5.0	5.3	5.6
ROE (%)	9.8	9.8	9.8
MIDF/Street CNP (%)	99	100	97

KEY STATISTICS

FBM KLCI	1,653.55
Issue shares (m)	1,548.1
Estimated free float (%)	70.4
Market Capitalisation (RM'm)	6,672.3
52-wk price range	RM3.31 - RM4.34
3-mth avg daily volume (m)	2.2
3-mth avg daily value (RM'm)	8.6
Top Shareholders (%)	
Vertical Theme Sdn Bhd	29.1
EPF Board	8.8
Global Success Network	5.0

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Forecasts unchanged. We make no changes to our forecast.

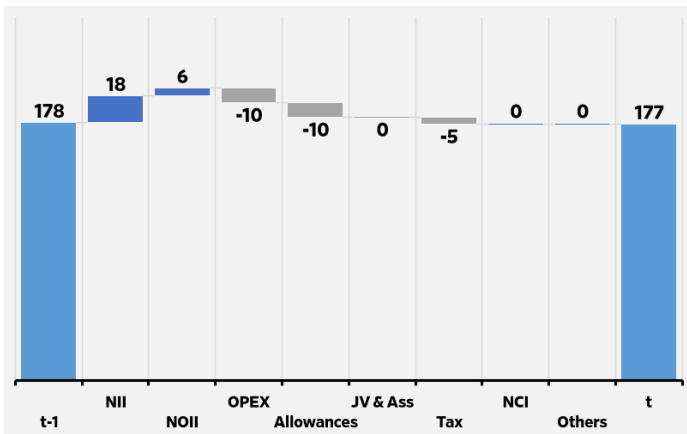
Key downside risks. (1) Further asset quality deterioration, (2) Poor NOII performance, (3) Steeper-than-expected NIM compression.

Downgrade to NEUTRAL call: Revised GGM-TP of RM 4.64 (from RM4.28). This is on the basis of its recent share price rally, which we believe indicates that all the positives have been priced in. The TP is based on a revised FY26F P/BV of 0.88x (formerly 0.86x, rolled on from FY25F), to reflect altered earnings prospects and ROE-based valuations.

(GGM assumptions: FY26F ROE of 9.8%, LTG of 5.0% & COE of 10.5%)

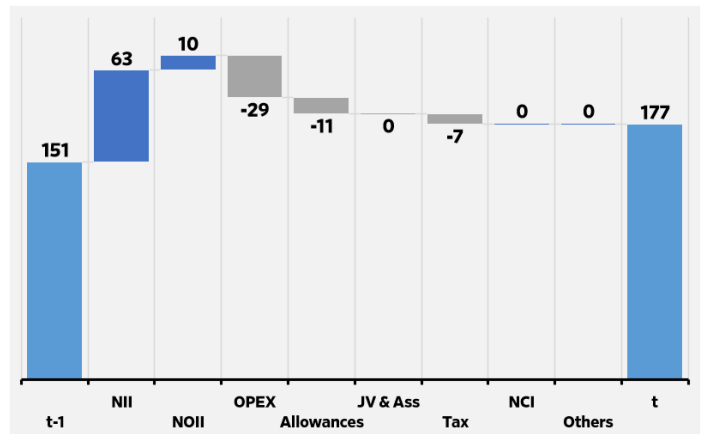


Fig 1: QoQ P/L walk (Quarterly results)



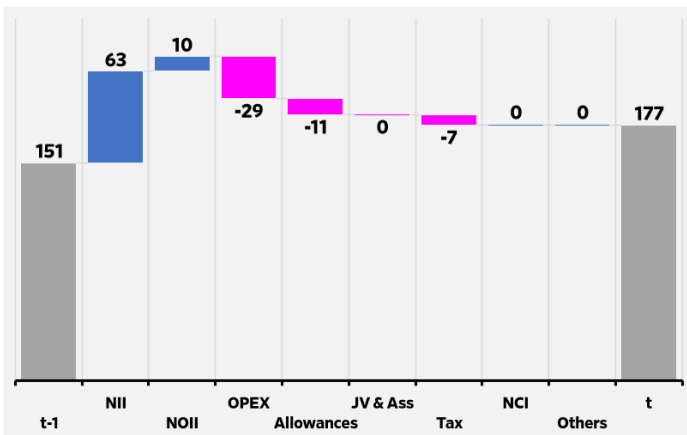
Source: ABMB, MIDFR

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 FY25	4Q FY24	1Q FY24	Yoy (%)	Qoq (%)	3M FY25	3M FY24	Yoy (%)
Net interest inc.	346	343	305	13	1	346	305	13
Islamic banking inc.	130	114	100	30	14	130	100	30
Non-interest inc.	64	59	61	4	8	64	61	4
Net income	540	516	466	16	5	540	466	16
OPEX	(259)	(249)	(230)	13	4	(259)	(230)	13
PPOP	280	267	236	19	5	280	236	19
Loan provisions	(46)	(36)	(35)	32	28	(46)	(35)	32
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	235	231	201	16	2	235	201	16
Tax	(58)	(53)	(51)	14	9	(58)	(51)	14
NCI	-	-	-	n.m.	n.m.	-	-	n.m.
Reported NP	177	178	151	17	-1	177	151	17
Core NP	177	178	151	17	-1	177	151	17
Total NII	465	447	401	16	4	465	401	16
Total NOII	75	69	65	16	8	75	65	16
Gross DPS (sen)	-	11.5	-	n.m.	n.m.	-	-	n.m.
Core EPS (sen)	11.4	11.5	9.7	17	-1	11.4	9.7	17
Gross loans	57,088	55,740	49,750	14.8	2.4			
Gross impaired loans	1,239	1,178	1,307	-5.2	5.2			
Customer deposits	57,818	57,397	51,794	11.6	0.7			
CASA	24,004	23,864	22,759	5.5	0.6			
Ratios (%)	1Q FY25	4Q FY24	1Q FY24	Yoy (ppts)	Qoq (ppts)	3M FY25	3M FY24	Yoy (ppts)
ROE (Ann.)	9.9	9.9	8.9	0.9	-0.1	9.9	8.9	0.9
NIM (Reported)	2.45	2.45	2.43	0.02	0.00	2.45	2.43	0.02
NOII/Net income	13.9	13.5	13.9	-0.0	0.4	13.9	13.9	-0.0
Cost/Income	48.0	48.3	49.3	-1.3	-0.2	48.0	49.3	-1.3
NCC (Ann.) (bps)	34	27	29	5	7	34	29	5
GIL ratio	2.17	2.11	2.63	-0.46	0.06			
Loan loss coverage	97	101	97	-0	-3			
CASA ratio	41.5	41.6	43.9	-2.4	-0.1			
L/D ratio	97.0	95.3	93.9	3.1	1.6			
CET-1	12.2	12.5	13.3	-1.1	-0.3			

Source: ABMB, MIDFR

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	2.4%				
	Yoy	14.8%				
	YTD (FY)	2.4%				
Depo. grwth	As expected		CASA grwth	As expected		
	Qoq	0.7%		Qoq	0.6%	
	Yoy	11.6%		Yoy	5.5%	
	YTD (FY)	0.7%		YTD (FY)	0.6%	
CASA ratio	As expected		L/D ratio	As expected		
	Value now	41.5%		Value now	97.0%	
	Qoq	-0.1%		Qoq	+1.6%	
	Yoy	-2.4%		Yoy	+3.1%	
GIL ratio	As expected		LLC ratio	As expected		
	Value now	2.17%		Value now	97%	
	Qoq	+6bps		Qoq	-3%	
	Yoy	-46bps		Yoy	-0%	
Qtrly Net CC	As expected		Cum Net CC	As expected		
	Decent provision			Decent provision		
	Value now	34bps		Value now	34bps	
	t-1	27bps				
	t-4	29bps		t-4	29bps	
CET 1	Could be better		Div payout	No divvy		
	As expected			As expected		
	Value now	12.2%		Payout	-	
	Qoq	-0.3%				

Others:

Source: ABMB, MIDFR

Fig 7: Targets, Achievements, and Outlook

Targets	FY24F	3M FY25	Notes (Red: New guidance, Strikethrough: Guidance is no longer pertinent)
ROE	>10	9.9	
CIR	48	48.0	
NIM	2.40-2.45 (from 2.48)	2.45	Recall that NIM is facing difficulties from both sides (1) ABMB is more vulnerable to competition from digital banks, given its smaller deposit franchise, (2) Loan yield issues stem from ABMB's loan mix rebalancing.
NOII		732% (yoy)	Benefits of forex volatility should come in the next quarter.
Loans	8-10	2.4 (YTD)	
Deposits		0.7 (YTD)	
% CASA		41.5	
Loan/Depo		97.0	
GIL ratio		2.17	
NCC (bps)	30-35	34	Large corporate recoveries provide some upside.
LLC		97	
CET 1		12.2	Management is slowing down on credit growth and optimising RWA to preserve this figure.
Div payout	40-50	-	Despite the low CET1 ratio, management maintains optimism on dividend outlook – though we think the figure may not hit the 50% mark.

Source: ABMB, MIDFR

FINANCIAL SUMMARY

INCOME STATEMENT

FYE Mar (RM m)	FY23	FY24	FY25F	FY26F	FY27F
Net interest income	1,230	1,310	1,389	1,501	1,557
Islamic banking inc.	453	440	498	538	558
Other operating inc.	237	271	301	302	314
Net income	1,920	2,020	2,187	2,341	2,429
OPEX	(881)	(974)	(1,050)	(1,124)	(1,141)
PPOP	1,038	1,047	1,137	1,217	1,287
Loan allowances	(152)	(135)	(175)	(190)	(205)
Other allowances	0	(1)	3	2	2
JV & Associates	0	0	0	0	0
PBT	887	911	965	1,030	1,084
Tax & zakat	(209)	(221)	(234)	(249)	(262)
NCI	-	-	-	-	-
Reported NP	678	690	732	781	822
Core NP	678	690	732	781	822
Total NII	1,653	1,720	1,852	2,001	2,075
Total NOII	267	300	336	340	353

BALANCE SHEET

FYE Mar (RM m)	FY23	FY24	FY25F	FY26F	FY27F
Cash & ST funds	3,659	4,597	3,759	3,810	3,910
Investment securities	12,148	14,253	12,814	11,734	10,908
Net loans	47,926	54,721	59,797	64,598	69,753
Other IEAs	0	0	0	0	0
Non-IEAs	2,577	3,376	6,104	7,848	9,399
Total assets	66,311	76,946	82,473	87,990	93,970
Customer deposits	50,849	57,397	62,276	67,383	72,908
Other IBLs	3,966	5,650	5,544	5,359	5,193
Non-IBLs	4,748	6,724	6,956	7,094	7,235
Total liabilities	59,564	69,771	74,777	79,836	85,336
Share capital	1,548	1,548	1,548	1,548	1,548
Reserves	5,199	5,627	6,148	6,606	7,086
Shareholders' funds	6,747	7,175	7,696	8,154	8,634
NCI	0	0	0	0	0
Total equity	6,747	7,175	7,696	8,154	8,634
Total L&E	66,311	76,946	82,473	87,990	93,970
Total IEAs	63,733	73,570	76,369	80,142	84,571
Total IBLs	54,815	63,047	67,820	72,742	78,101
Gross loans	49,068	55,740	60,757	65,617	70,867
CASA	21,295	23,864	23,042	23,584	25,518

FINANCIAL RATIOS

FYE Mar (RM m)	FY23	FY24	FY25F	FY26F	FY27F
Interest (%)					
NIM	2.66	2.51	2.47	2.49	2.52
Return on IEAs	3.19	3.59	3.27	3.27	3.18
Cost of funds	1.40	1.96	1.62	1.51	1.41
Net interest spread	1.78	1.63	1.65	1.76	1.77
Profitability (%)					
ROE	10.3	9.9	9.8	9.8	9.8
ROA	1.1	1.0	0.9	0.9	0.9
NOII/Net income	13.9	14.9	15.3	14.5	14.5
Effective tax rate	23.5	24.2	24.2	24.2	24.2
Cost/Income	45.9	48.2	48.0	48.0	47.0
Liquidity (%)					
Loan/Deposit	94.3	95.3	96.0	95.9	95.7
CASA ratio	41.9	41.6	37.0	35.0	35.0
Asset Quality (%)					
GIL ratio	2.51	2.11	1.95	1.90	1.90
LLC ratio	103	101	95	95	95
LLC (w. reserves)	124	114	116	115	113
Net CC (bps)	32	26	30	30	30
Capital (%)					
CET 1	13.8	12.5	12.9	12.4	12.0
Tier 1 capital	14.6	13.2	13.6	13.1	12.6
Total capital	18.7	16.8	17.0	16.4	15.7
Growth (%)					
Total NII	11.7	4.1	7.7	8.1	3.7
Total NOII	-31.1	12.4	11.7	1.4	3.8
Net income	2.8	5.2	8.3	7.0	3.7
OPEX	7.1	10.5	7.8	7.0	1.6
Core NP	18.3	1.9	6.0	6.7	5.3
Gross loans	6.2	13.6	9.0	8.0	8.0
Customer deposits	5.5	12.9	8.5	8.2	8.2
CASA	-9.7	12.1	-3.4	2.4	8.2
Valuation metrics					
Core EPS (sen)	43.8	44.6	47.3	50.4	53.1
Gross DPS (sen)	22.0	22.3	21.3	22.7	23.9
Div payout ratio (%)	50	50	45	45	45
BVPS (RM)	4.4	4.6	5.0	5.3	5.6
Core P/E (x)	10.1	10.0	9.4	8.8	8.4
Dividend yield (%)	5.0	5.0	4.8	5.1	5.4
P/BV (x)	1.0	1.0	0.9	0.8	0.8

Source: ABMB, MIDFR

Income Statement	Balance Sheet	Valuations & Sector
Core NP – Core Net Profit	LCR – Liquidity Coverage ratio	ROE – Return on Equity
PPOP – Pre-Provisioning Operating Profit	L/D ratio – Loan/Deposit ratio	GGM – Gordon Growth Model
NII – Net Interest Income	CASA – Current & Savings accounts	P/BV – Price to Book Value
NIM – Net Interest Margin	FD – Fixed Deposits	BVPS – Book Value per Share
COF – Cost of Funds	GIL – Gross Impaired Loans	BNM – Bank Negara Malaysia
NOII – Non-Interest Income	NIL – Net Impaired Loans	OPR – Overnight Policy Rate
MTM – Mark to Market	LLC – Loan Loss Coverage	SRR – Statutory Reserve Requirement
CIR – Cost to Income Ratio	NCC – Net Credit Costs	SBR – Standardised Base Rate
OPEX – Operational Expenses	GCC – Gross Credit Costs	ALR – Average Lending Rate
	CET 1 – Common Equity Tier 1	

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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