

Alliance Bank Malaysia Berhad

TP: RM4.50 (+6.1%)

Last Traded: RM4.24

HOLD

Softer FY18 Results but Within Expectations

Li Hsia Wong

Tel: +603-2167 9610

liwong@ta.com.my

www.taonline.com.my

Review

- ABMB reported softer FY18 results, bringing reported net profit to RM493.2mn, or 3.7% decline from RM512.1mn a year ago. ROE stood at 9.5%, from 10.5% in FY17. Despite the weaker results YoY performance, ABMB's results came within expectations, representing 98% and 99% of ours and consensus forecasts.
- Accounting for 99% of our projections, total income expanded 7% YoY. This is the highest revenue growth in the past 5 years. Combined with Islamic net financing income, total net interest income (NII) advanced at a faster pace of 5.5% YoY. Growth was driven by ongoing focus on better risk adjusted return (RAR) loans and NIM expansion of 14 bps.
- Gross loans broadened by around 2.5% YoY, underpinned by a 19.3% increase in better RAR loans such as SME, commercial, share margin and consumer unsecured lending. Yielding RAR 3x that of a normal standalone mortgage, the Alliance One Account (AOA) initiative appears to be gaining good traction. Loan balances under AOA have been ramped up to c. RM1.0bn. In the meantime, lower RAR loans such as mortgages, HP, Biz Premises and corporate loans collectively decreased by 5.3% YoY.
- The healthy increase in better RAR loans helped support gross interest margin, which widened by 10 bps YoY to 4.89%. Overall NIM rose 14 bps to 2.40%, also driven in part, by a 3.1% YoY increase in CASA deposits. CASA ratio improved to 37.3% from 34.8% a year ago. Overall COF for the bank slipped 1 bp YoY due to more efficient funding mix.
- Including Islamic Banking, non-NII improved by 11.9% YoY. According to management, client based fee income grew at a stronger pace of 4.4% YoY or by RM14.4mn, spurred by higher wealth management fees, banking services fees and trade fees. Gains from AFS investments and stronger treasury income from derivatives also helped boost non client based non-NII.
- Net credit charge stood at 23.4 bps in FY18, thanks to one-off write back from credit rating scale alignment for corporates (as reported in 3QFY18). Excluding this one-off, normalised net credit cost is at 32.4 bps - in line with management's guidance of 30-35 bps. Management targets FY19 credit cost of 35 bps. Gross impaired loans ratio climbed to 1.4% (FY17: 1.0%). Loan loss coverage slipped to 96.7% (FY17: 136.7%). This includes Regulatory Reserve.
- Elsewhere, total overhead expenses surged 14.8% YoY, or RM102.1mn due to higher transformation investments and other personnel and admin expenses. The increase captures RM80.4mn in transformation expenses such as restructuring cost (RM42.6mn), scaling up sales personnel (RM16.6mn) and technology and marketing (RM22.0mn) invested to-date. As guided by management, more (or around RM70mn) will be invested in

Share Information

Bloomberg Code	ABMB MK
Stock Code	2488
Listing	Main Market
Share Cap (mn)	1548.1
Market Cap (RMmn)	6,563.9
52-wk Hi/Lo (RM)	4.48/3.62
12-mth Avg Daily Vol ('000 shrs)	1167.7
Estimated Free Float (%)	49.6
Beta	1.04

Major Shareholders (%)

Vertical Theme - 29.1
EPF - 12.2

Forecast Revision

	FY19	FY20
Forecast Revision (%)	(2.5)	(3.5)
Net profit (RMmn)	540.6	602.2
Consensus	564.7	624.5
TA's / Consensus (%)	95.7	96.4

Financial Indicators

	FY19	FY20
ROE (%)	10.2	11.0
ROA (%)	1.0	1.0
CTI Ratio (%)	49.6	49.3
Gross NPL Ratio (%)	2.0	2.0
BV/ Share (RM)	3.6	3.8
Price/ BV (x)	1.2	1.1

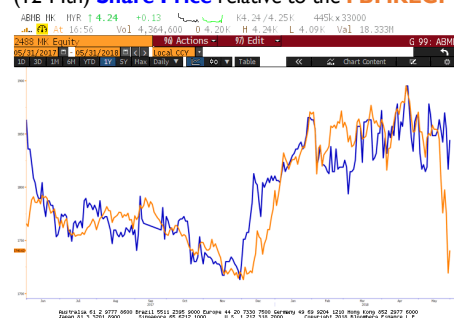
Scorecard

	% of FY	
vs. TA	98.0	Within
vs. Consensus	99.0	Within

Share Performance (%)

Price Change	ABMB	FBM KLCI
1 mth	3.2	0.7
3 mth	(3.0)	(6.6)
6 mth	3.9	(3.1)
12 mth	(2.1)	(1.4)

(12-Mth) Share Price relative to the FBMKLCI



Source: Bloomberg

FY19. Management also expects to generate transformation revenue of RM50mn, from the creation of new revenue streams. As a result, ABMB's cost to income (CTI) ratio broadened to 50.5% from 47.1% a year ago. Excluding the transformation costs, BAU CTI would have improved to around 46%

- Lastly, the CETI Capital Ratio and total capital ratio for the group stood above regulatory requirements at 13.4% and 18.3% respectively. Day-1 impact from MFRS9 is expected to reduce CETI by 40 bps while existing provisions increase by 25 bps. Elsewhere, ABMB also reported healthy liquidity position as the liquidity coverage ratio stood at 160% while the net stable funding ratio (NSFR) is reported to be above 100%.

Impact

- Incorporating FY18 results, we tweaked our FY19 and FY20 net profit forecasts lower to RM540.6mn and RM602.2mn. Additionally, we forecast net profit growth of c. 7.4% in FY21 to RM647.0mn.

Outlook

- Management foresees a stronger FY19. Projecting ROE of around 10% and PAT growth in excess of 10%, management foresees growth to be driven by stronger loan growth (+10% YoY) along with a leaner cost structure and benign asset quality. Revenue is also projected to improve by more than 6%, underpinned by transformation initiatives gaining traction in the SME and consumer segment via AOA. Monthly disbursements under the AOA are expected to be ramped up to RM500mn by end FY19. In FY19, management is also expected to scale up Alliance @Work with a target to acquire more than 60k new consumer CASA account, from around 10k currently. Benefiting from branch transformation initiatives and investments in digitisation, we foresee the increase in automation to drive efficiency and reduce turnaround time.

Valuation

- We remain positive on ABMB's transformation plans and foresee exciting growth prospects for the group, going forward. Adjusting the COE assumption from 10% to 9.5% on the back of more sanguine earnings prospects, we raise ABMB's TP to RM4.50 from RM4.20. Valued at an implied FY19 PBV of 1.25x, we upgrade the stock from Sell to HOLD.

Table 1: Earnings Summary (RMmn)

FYE Dec	2017	2018	2019F	2020F	2021F
Net interest income	847.5	892.5	959.5	1007.2	1061.0
Non-interest income	324.8	361.3	395.2	432.5	473.5
Islamic Banking	297.0	318.2	343.7	371.2	400.9
Total operating income	1469.4	1572.0	1698.4	1811.0	1935.4
Pre-provisioning profit	777.5	778.0	856.8	918.8	989.7
Pretax profit	681.4	684.6	720.8	802.9	862.6
Net profit	512.1	493.2	540.6	602.2	647.0
EPS (sen)	33.1	31.9	34.9	38.9	41.8
EPS growth (%)	(1.9)	(3.7)	9.6	11.4	7.4
Gross div (sen)	16.0	15.3	16.0	16.0	16.0
Div yield (%)	3.8	3.6	3.8	3.8	3.8

Table 2: 4QFY18 Results Analysis (RMmn)

YE 31 Mar	4Q FY17	3Q FY18	4Q FY18	QoQ	YoY	FY17	FY18	YoY
Net interest income	212.8	220.3	224.4	1.9	5.5	847.5	892.5	5.3
Non-interest income	78.0	88.9	95.7	7.7	22.7	324.8	361.3	11.2
Islamic banking	76.5	78.8	83.4	5.8	9.0	297.0	318.2	7.1
Total income	367.3	388.0	403.5	4.0	9.9	1,469.4	1,572.0	7.0
Overhead expenses	(181.2)	(215.3)	(212.1)	(1.5)	17.1	(691.9)	(794.0)	14.8
Profit before allowances	186.1	172.7	191.4	10.8	2.9	777.5	778.0	0.1
Allowances/impairments	(27.6)	8.0	(37.7)	>100.0	>100.0	(96.2)	(93.4)	(2.9)
PBT	158.5	180.7	153.7	(14.9)	(3.0)	681.3	684.6	0.5
Net profit	117.4	122.6	112.9	(7.9)	(3.8)	512.1	493.2	(3.7)
EPS (sen)	7.6	7.9	7.3	(7.9)	(3.8)	33.1	31.9	(3.7)

Stock Recommendation Guideline

- BUY** : Total return within the next 12 months exceeds required rate of return by 5%-point.
HOLD : Total return within the next 12 months exceeds required rate of return by between 0-5%-point.
SELL : Total return is lower than the required rate of return.
Not Rated: The company is not under coverage. The report is for information only.

Total Return is defined as expected share price appreciation plus gross dividend over the next 12 months. Gross dividend is excluded from total return if dividend discount model valuation is used to avoid double counting.

Required Rate of Return of 7% is defined as the yield for one-year Malaysian government treasury plus assumed equity risk premium.

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As of Friday, June 01, 2018, the analyst, Wong Li Hsia, who prepared this report, has interest in the following securities covered in this report:
(a) nil

Kaladher Govindan – Head of Research

TA SECURITIES HOLDINGS BERHAD (14948-M)

A Participating Organisation of Bursa Malaysia Securities Berhad

Menara TA One | 22 Jalan P. Ramlee | 50250 Kuala Lumpur | Malaysia | Tel: 603 – 2072 1277 | Fax: 603 – 2032 5048
www.ta.com.my