APEX SECURITIES BERHAD

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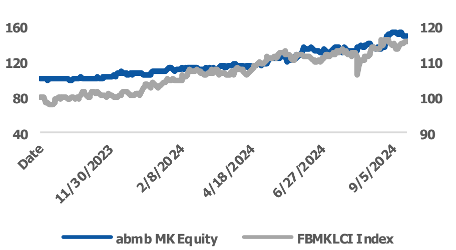
Recommendation:	**HOLD**
Current Price:	**RM 4.83**
Previous Target Price:	**-**
Target Price:	**RM 5.00**
Upside/Downside:	**3.5%**

Stock information	
Board	MAIN
Sector	Financial Services
Bursa / Bloomberg Code	2488 / ABMB MK
Syariah Compliant	No
FTSE4Good Index	Yes
FTSE ESG Rating	☆☆☆★
Bloomberg ESG Rating	N/A
Shares issued (m)	1,548.1
Market Cap (RM' m)	7,477.4
52-Week Price Range (RM)	5.05-3.36
Beta (x)	0.4
Free float (%)	70.4
3M Average Volume (m)	1.9
3M Average Value (RM' m)	8.7

Top 3 Shareholders	**(%)**
Vertical Theme Sdn Bhd	29.1
Employees Provident Fund Board	7.7
Global Success Network	5.0

Share Price Performance



	1M	**3M**	**12M**
Absolute (%)	7.8	12.1	39.2
Relative (%)	8.4	17.8	27.1

Alliance Bank Malaysia Berhad

Aggressive Loan Growth to Persist

Summary

- **ABMB continues to be one of the fastest-growing banks in Malaysia.**
- **There are multiple reasons why we like the bank: (i) High loan growth potential and aggressive market share take-up, (ii) It is building towards a healthier, more diversified loan book, (iii) Its large exposure to client-based NOII contributions ties in well with aggressive market share capture, and (iv) Its highly efficient COF, despite being a smaller bank.**
- **We initiate coverage on ABMB with a HOLD recommendation with a TP of RM5.00 based on FY25F GGM-PBV of 0.95x.**

Company Background

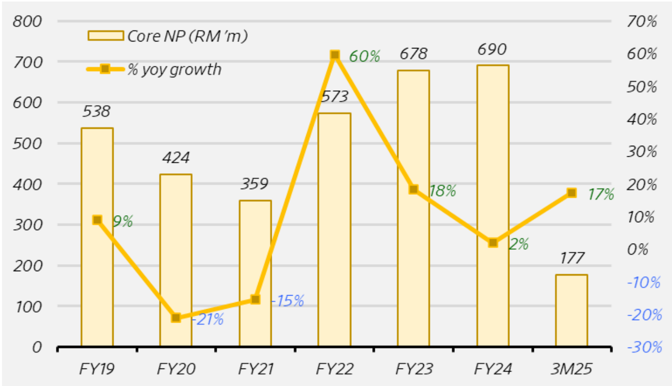
- Alliance Bank (ABMB) was incorporated in Malaysia on 3 August 1982 under Malaysian French Bank Berhad. In 1996, it assumed the name of Multi-Purpose Bank Berhad. Following the successful merger of several financial institutions in Jan 2001, the Bank assumed its present name.

- Today, it is a dynamic, integrated financial services group offering fast, simple and responsive banking and financial solutions through its consumer banking, SME banking, corporate and commercial banking, and Islamic banking businesses.

Income Statement

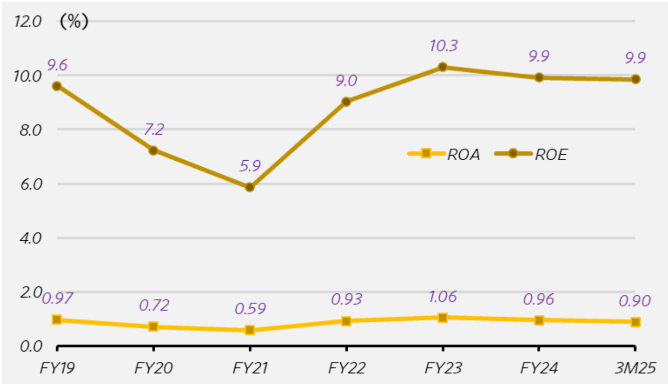
- **Earnings and ROE.** It is difficult to determine a steady earnings CAGR in recent years due to earnings distortions caused by the pandemic. Regardless, ABMB's ROE falls squarely in the "central" range relative to peers, set firmly between 9.5-10.5% – and is expected to remain in that bracket for the foreseeable future.

Fig 1: Core Net Profit



Source: ABMB

Fig 2: Return on Equity and Return on Assets

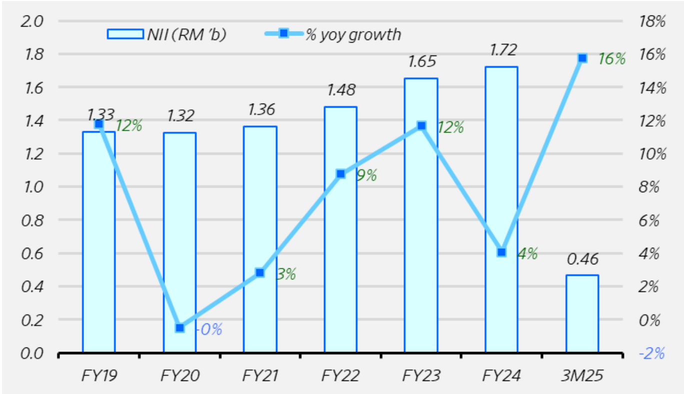


Source: ABMB

- **NII and NIM.** Trajectory-wise, ABMB's NIM is moving in line with the rest of the industry. Relative to other peers, however, ABMB's NIM is on the higher end – its heavy business segment skew has allowed it to reap high loan yields while keeping the cost of funds low. Its high loan growth continues to ensure growth in NII.

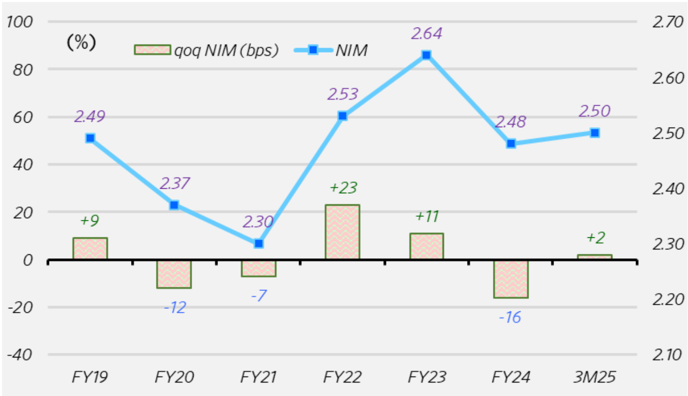
- Expect loan yields to continue tapering in subsequent years as ABMB rebalances its loan portfolio (prioritising lower-yield, end-financing style residential mortgages instead of former high-risk Alliance One Account mortgage refinancing programme-style loans).

Fig 3: Net Interest Income



Source: ABMB

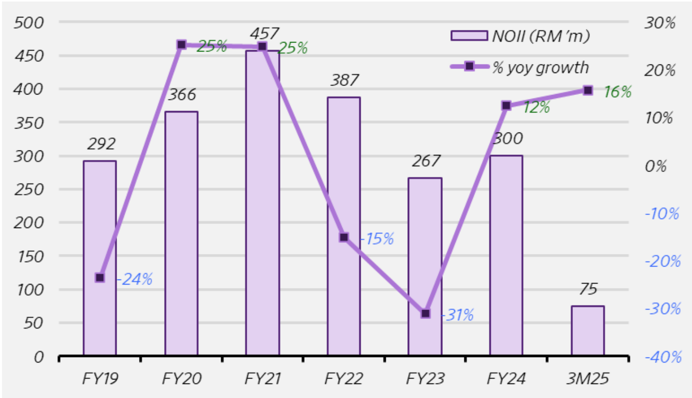
Fig 4: Net Interest Margins



Source: ABMB

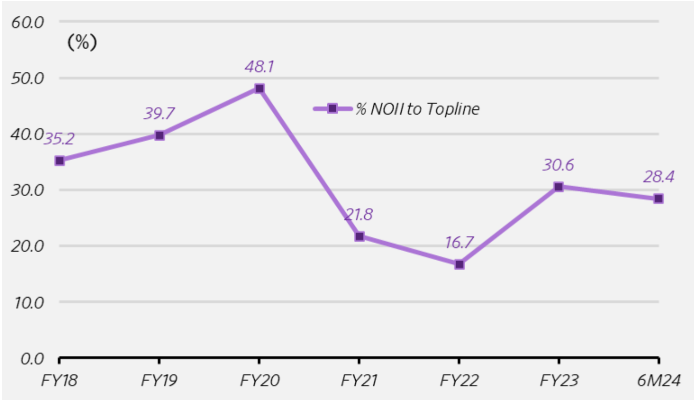
- **NOII.** Compared to peers, ABMB's NOII makes up a tiny proportion of the topline, with the brunt of NOII contribution (usually >80%) coming from client-based income such as wealth management, forex sales and trade fees commission, which is more fee-based in nature. ABMB focuses little on non-client-based income sources (i.e. treasury gains) and has recently sold off its stockbroking arm.

Fig 5: Non-Interest Income



Source: ABMB

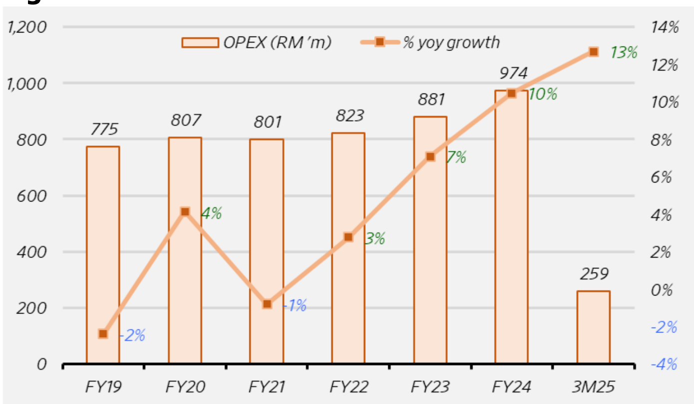
Fig 6: Non-Interest Income as % of Topline



Source: ABMB

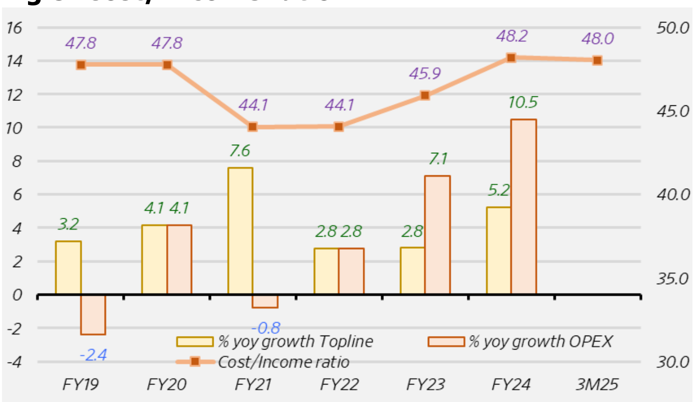
- **OPEX.** Rising cost pressures across the industry (namely wage inflation and digitisation costs) continue to push ABMB's cost/income ratio upwards. ABMB's cost/income profile falls within the "middling" range of 45-50%. Expect cost growth to remain high in the near term.

Fig 7: OPEX



Source: ABMB

Fig 8: Cost/Income ratio



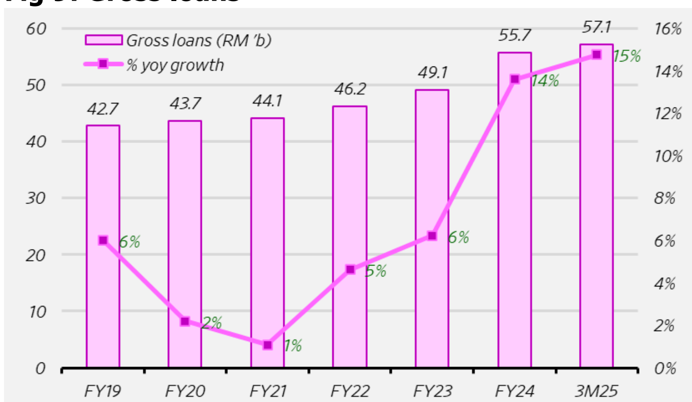
Source: ABMB

Balance Sheet

- **Loans.** Relative to peers, ABMB's loan book is heavily skewed towards SME and commercial loans. The bank continues to grow SME loans faster than the industry, aggressively capturing market share.

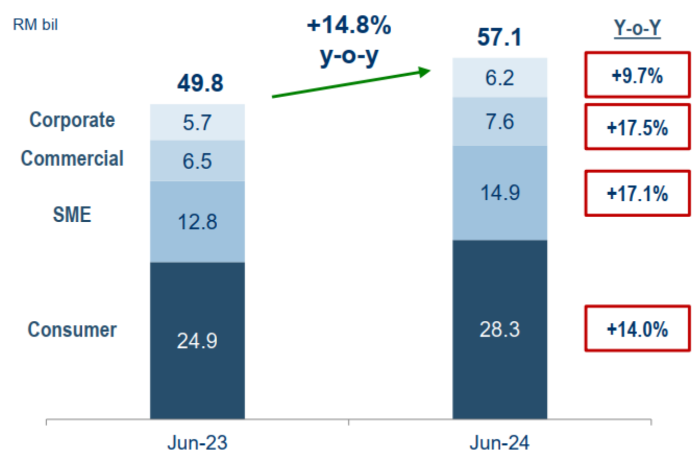
- In recent years, ABMB has also increased its focus on growing both the consumer and corporate segments, following improvements in asset quality seen in recent years. Most notable is the sharp growth of end-financing residential mortgage loans. Previously reporting low-single-digit growth figures, the consumer segment is now experiencing growth levels of 14-15% yoy. Selected economic hotbeds – namely Sarawak, Penang and Johor – continue to fuel rapid loan growth.

Fig 9: Gross loans



Source: ABMB

Fig 10: Loans by Segment



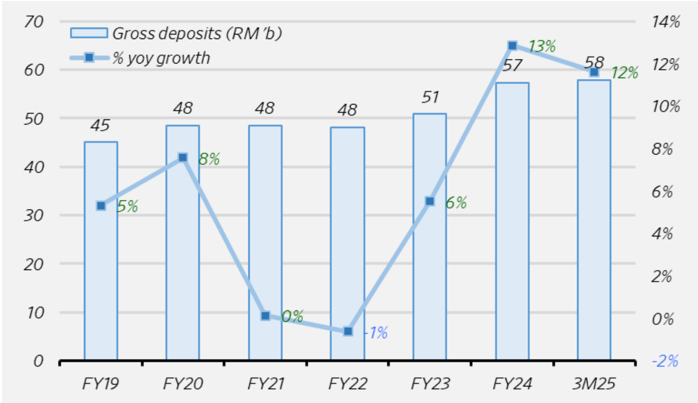
Source: ABMB

- **Deposits, CASA and Liquidity.** Admittedly, ABMB's deposit growth trails slightly behind the more rapid loan expansion – but a conducive bond environment is expected to buoy liquidity in the near-to-medium term, despite the loan/deposit ratio coming in at a high 97%.

- ABMB boasts one of the highest CASA ratios in the industry, namely due to its business operating accounts, and its previous slant toward being a SME-centric bank

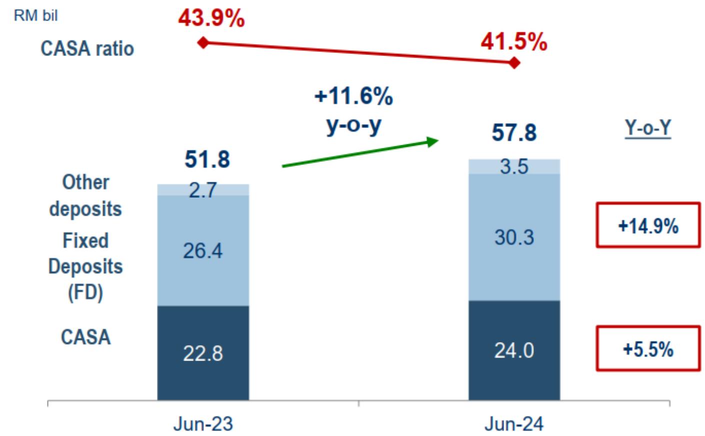
– which allowed it to build its non-retail deposit base rapidly. ABMB's SavePlus deposit account (a tiered interest savings account – interest receivable depends on deposit balance volume) is also a hit among individuals.

Fig 11: Deposits



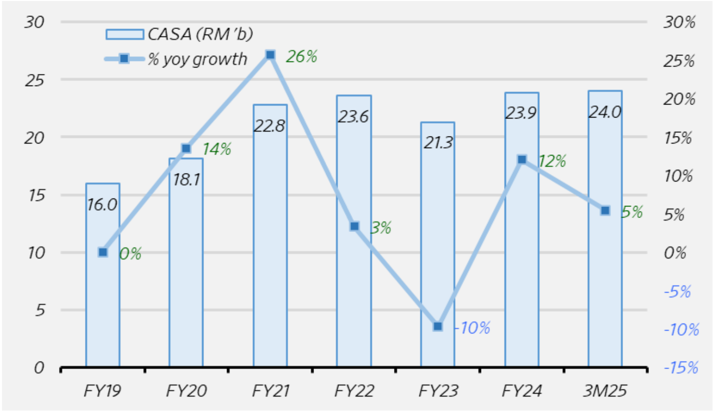
Source: ABMB

Fig 12: Deposits by Segment



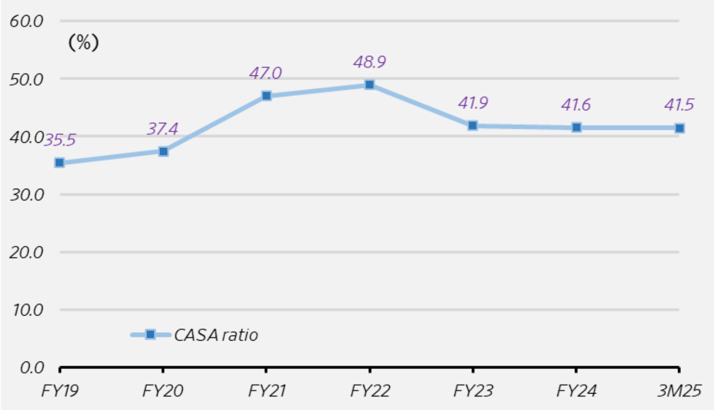
Source: ABMB

Fig 13: CASA



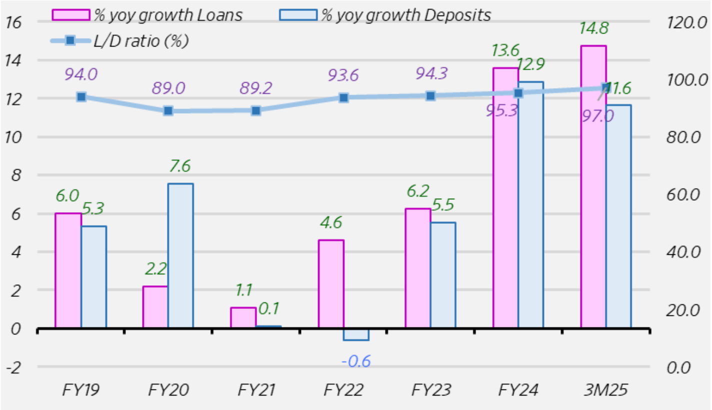
Source: ABMB

Fig 14: CASA ratio



Source: ABMB

Fig 15: Loan/Deposit ratio

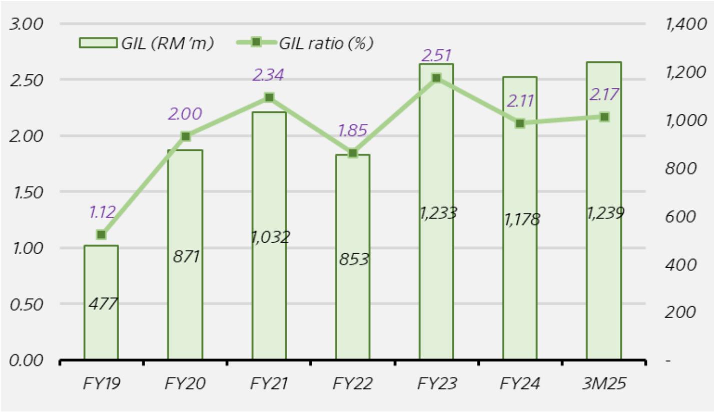


Source: ABMB

- **Asset quality and provisioning.** ABMB's asset quality is not its strongest suit, with its GIL ratio among the highest in the industry. Weaker asset quality can be seen in its consumer and commercial & corporate portfolio – its SME segment's GIL ratio is the only segment out of the three that has a GIL ratio lower than 2.0%.

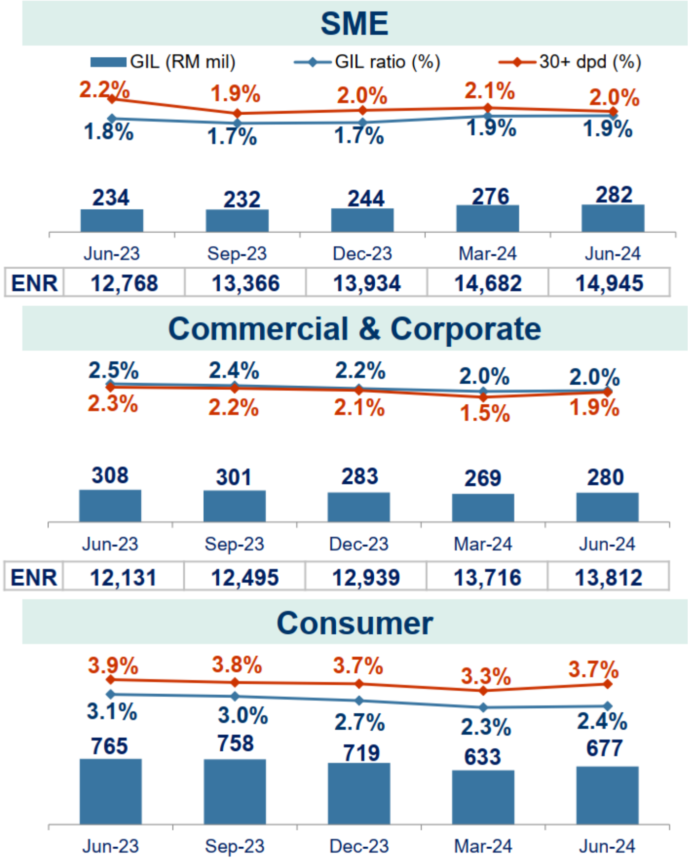
- Before the pandemic, ABMB focused on growing riskier, higher-yielding loans (a high-risk, high-profitability approach from a smaller, less-able-to-compete type bank). It has since switched its stance towards growing a safer, more well-rounded loan base – and we opine the worst of its asset quality issues are over for now. Management has been guiding for a few large-scale recoveries in the past year, but these have yet to materialise. Its loan loss coverage is relatively healthy, though we think it could be slightly higher.

Fig 16: Gross Impaired Loans



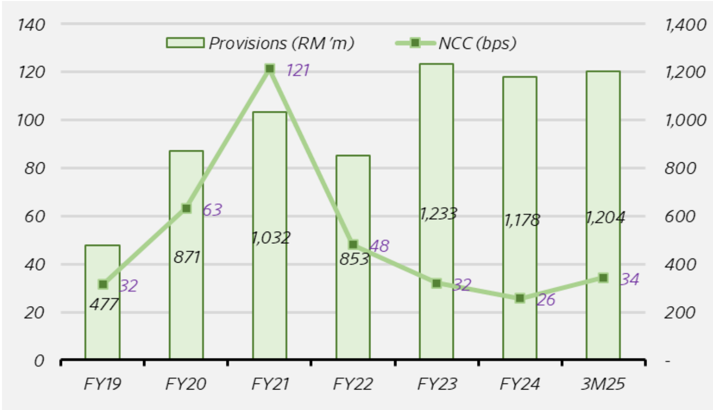
Source: ABMB

Fig 17: GIL by Segment



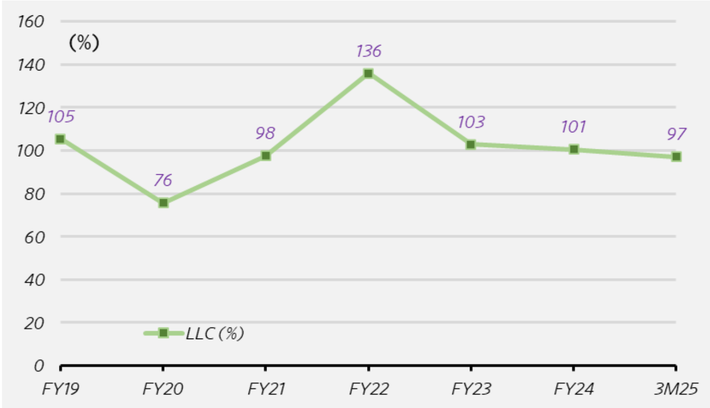
Source: ABMB

Fig 18: Provisioning and Net Credit Cost



Source: ABMB

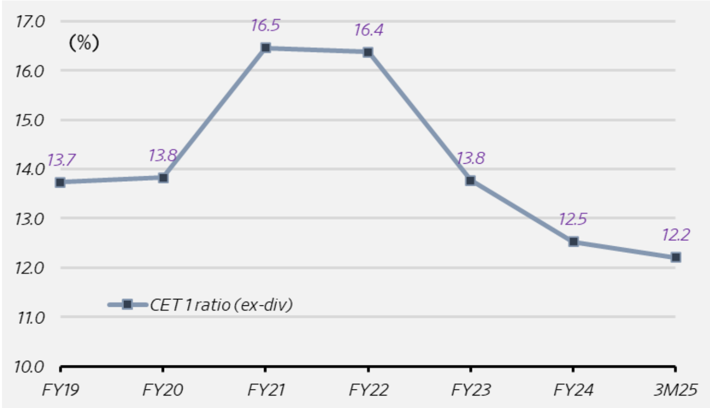
Fig 20: Loan Loss Coverage



Source: ABMB

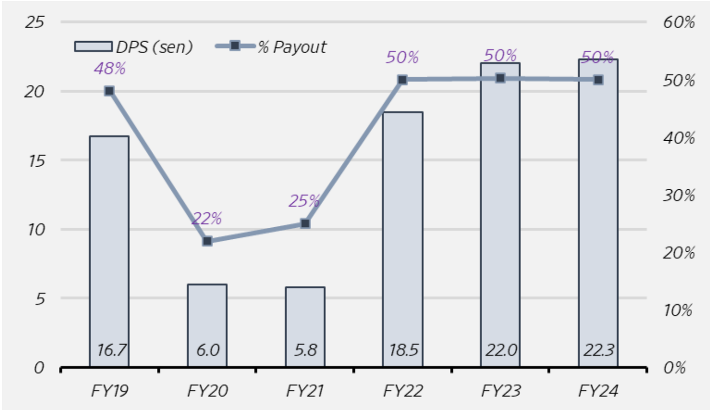
- **Capital and dividends.** ABMB's CET 1 ratio stands at the lower end of its peers due to its aggressive loan growth expansion. Management assures dividend payouts will continue – though we opine it will likely be at the lower end of their 40-60% guidance for now.

Fig 21: CET 1 ratio



Source: ABMB

Fig 22: Dividend Payout



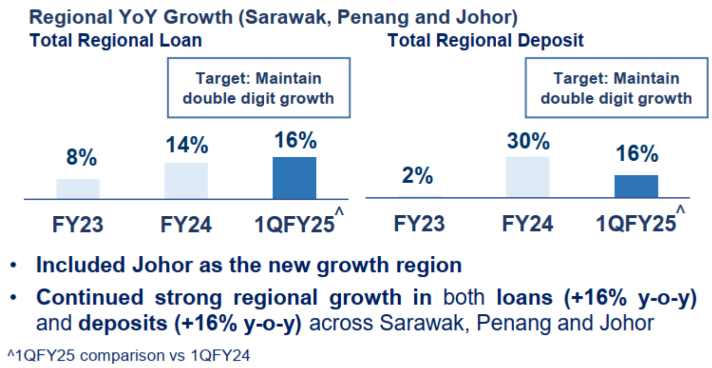
Source: ABMB

Investment Highlights

- **High loan growth potential and aggressive market share take-up.** ABMB is expected to continue growing loans at an elevated pace – repeatedly reporting one of the highest loan growth figures among listed peers. We see no signs of this stopping, with selected economic corridors still providing ample room for loan and deposit growth. Admittedly, the impact on pre-provisioning operating profit is not as pronounced, offset by a sharp elevation of OPEX recently – but as OPEX normalises, the benefits from loan growth on the bottom line should be clear.

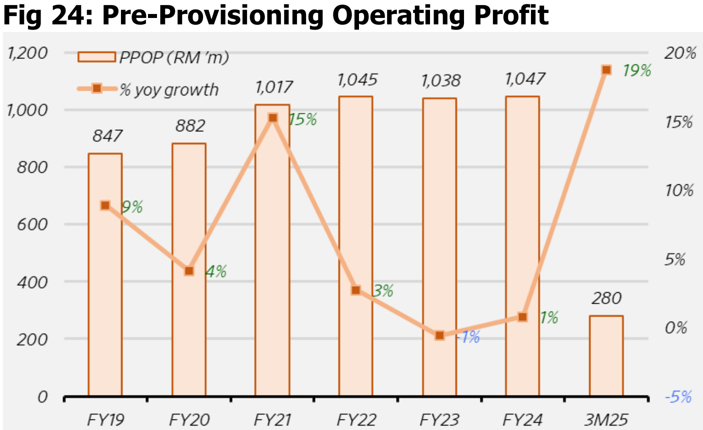
- While recovery has been gradual, this revamp is well-timed with the economic cycle: Expect sharper fee income growth spurred on by better economic prospects. More importantly, ABMB's improved functions should allow the Group to handle the increased load from larger, more prominent deals from its partnership with the Sarawak government.

Fig 23: Regional Loan/Deposit Growth at Select Economic Corridors



Source: ABMB

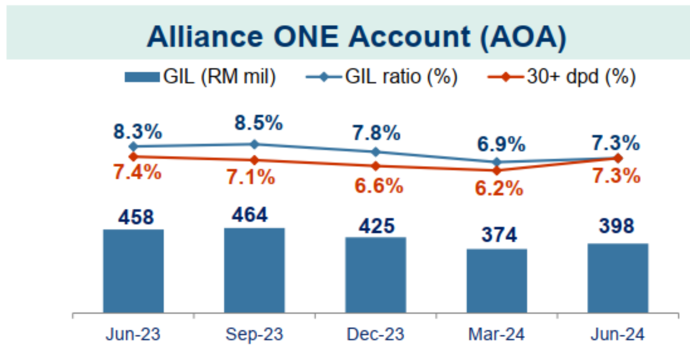
Fig 24: Pre-Provisioning Operating Profit



Source: ABMB

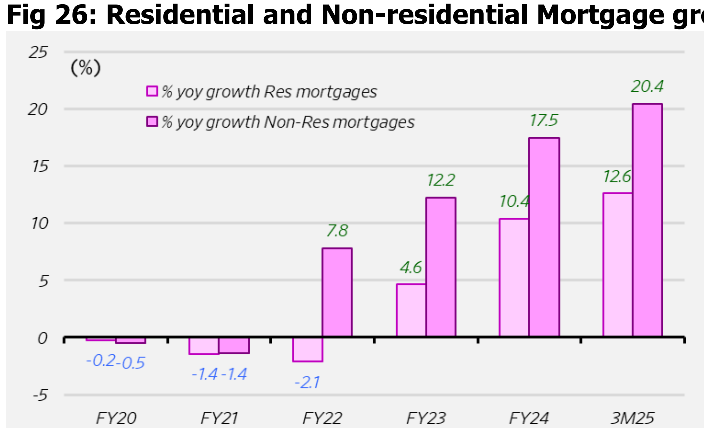
- **A healthier, more diversified loanbook.** ABMB's previous operating model relied on high-risk, high-yielding loans – namely their AOA loans (mortgage refinancing) – to maintain a high level of profitability. This was their niche as a small bank, unable to compete with larger peers head-to-head. However, following heavy impairments during the pandemic, ABMB have since switched their focus to safer, lower-yielding loan segments (most notably, end-financing mortgages) – and are willing to sacrifice their NIMs to do so. We think the trade-off for lower provisioning makes it worthwhile.

Fig 25: Alliance ONE Account GILs



Source: ABMB

Fig 26: Residential and Non-residential Mortgage growth

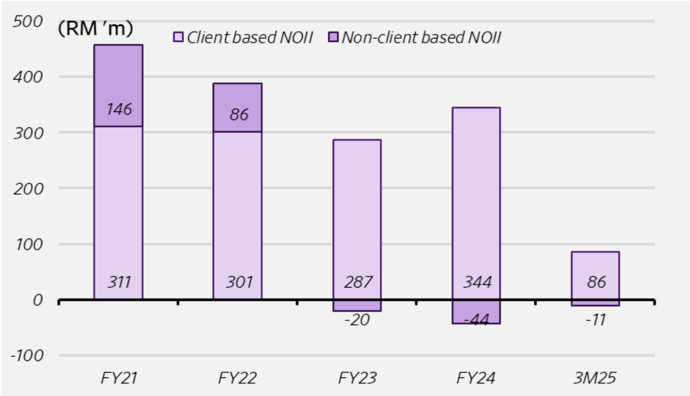


Source: ABMB

- **Larger exposure to client-based NOII contributions aligns well with aggressive market share capture.** The brunt of ABMB's NOII contribution (usually >80%) comes from client-based income (Wealth management is the largest contributor, followed by forex fees and trade fees). The remainder comes from non-client-based income – namely treasury contributions (i.e. mark to market and forex gains). Rule of thumb: if non-client-based income doesn't report a net loss in the quarter, it is considered a satisfactory performance.

- Cross-selling from other lines of business is crucial in growing client-based contributions – usually, borrowers are the segment most commonly tapped into. Hence, the high loan growth direction taken by ABMB is ideal, as it builds up the client base for these forms of fee income very quickly, ensuring a steady, strong build-up in client-based income flows.

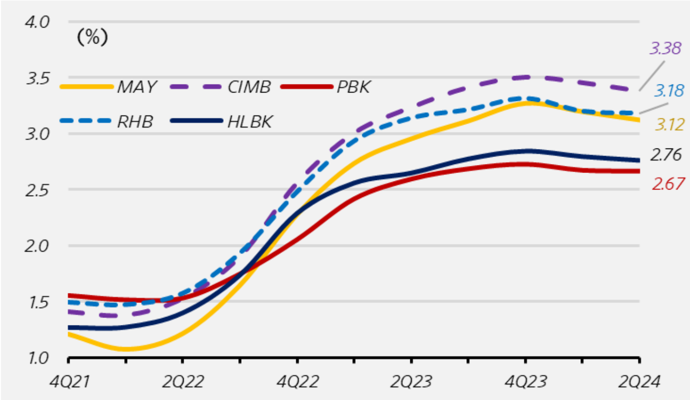
Fig 27: NOII split



Source: ABMB

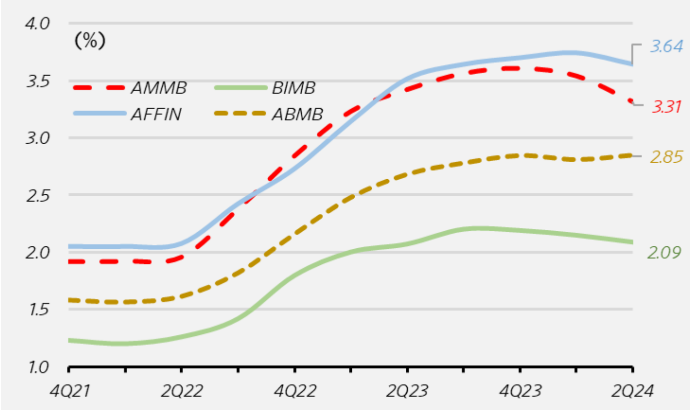
- **Cost of funds is still highly efficient, despite smaller size.** Being a smaller bank usually implies a weaker deposit franchise – making it harder to acquire adequate funding (at a decent price) for high-asset-growth strategies. However, ABMB seems to have handled this issue very well, reporting relatively low COF relative to its size and current level of asset growth. The main driver of efficiency is its high CASA levels, coming from business-related operating accounts and SavePlus tiered current accounts for individuals.

Fig 28: Cost of Funds (Big Banks)



Source: ABMB

Fig 29: Cost of Funds (Smaller Banks)

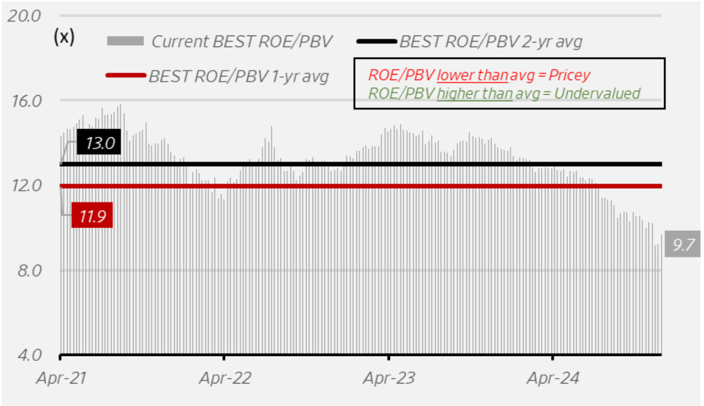


Source: ABMB

Valuation & Recommendation

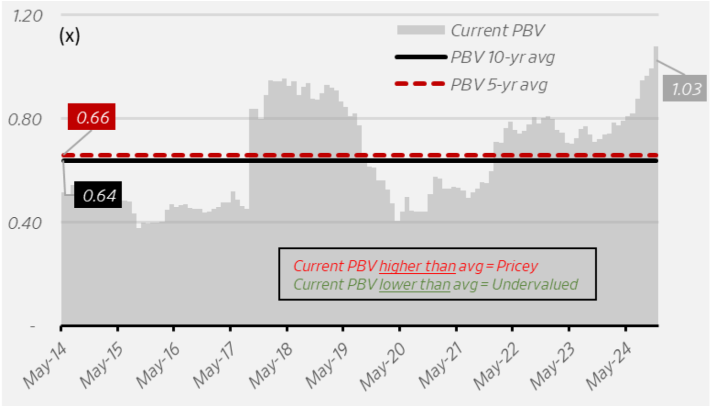
- We initiate coverage on ABMB with a **HOLD** recommendation and a target price of **RM5.00** based on an FY26F PBV of 0.95x GGM-PBV valuation. (GGM Assumptions: FY25F ROE of 9.8%, LTG of 5.0%, & COE of 10.1%.) Following the recent share price run-up, we think ABMB is priced in for now.

Fig 30: BEST ROE/PBV



Source: ABMB

Fig 31: PBV



Source: ABMB

- We favour ABMB for its (i) High loan growth potential and aggressive capturing of market share, (ii) Its ongoing loanbook rebalancing, which has already resulted in a safer asset quality profile, (iii) Potential for client-based NOII contribution growth, given its aggressive market share capture, (iv) Efficient cost of funds, despite being a smaller bank.

Key Risks

- **Low CET 1 ratio may impede dividend payout ability.** ABMB's CET 1 ratio is on the lower end, though management reassures us that it is still comfortable with current levels. Our primary concern is that this could cut into dividend payouts, keeping the dividend payout levels towards the lower end of the standard 40-60% guidance – or potentially lower.

- **Asset quality issues.** Given its weaker asset quality, ABMB's underwriting process may not be as stringent as some of its peers (at least in the past). From an impairment standpoint, it is thus more vulnerable to large-scale economic shocks relative to peers.

- **Weak deposit franchise.** Although ABMB seems to have great success in growing business-related CASA, its overall deposit franchise is still weak – making it difficult to acquire sufficient (fairly priced) funding in critical moments – e.g. when loan/deposit ratio is tight or in times of stiff deposit competition.

Financial Highlights

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

Key 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)	22.8	22.4	21.2	19.8	18.8
Dividend yield (%)	**2.2**	**2.2**	**2.1**	**2.3**	**2.4**
P/BV (x)	2.3	2.2	2.0	1.9	1.8

APEX SECURITIES BERHAD – CONTACT LIST

APEX SECURITIES BHD

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RESEARCH RECOMMENDATION FRAMEWORK

STOCK RECOMMENDATIONS
BUY: Total returns* are expected to exceed 10% within the next 12 months.
HOLD: Total returns* are expected to be within +10% to – 10% within the next 12 months.
SELL: Total returns* are expected to be below -10% within the next 12 months.
TRADING BUY: Total returns* are expected to exceed 10% within the next 3 months.
TRADING SELL: Total returns* are expected to be below -10% within the next 3 months.
*Capital gain

SECTOR RECOMMENDATIONS
OVERWEIGHT: The industry defined by the analyst is expected to exceed 10% within the next 12 months.
NEUTRAL: The industry defined by the analyst is expected to be within +10% to – 10% within the next 12 months.
UNDERWEIGHT: The industry defined by the analyst, is expected to be below -10% within the next 12 months.

DISCLAIMER