

ALLIANCE BANK MALAYSIA

(ABMB MK EQUITY, ALLI.KL)

HOLD

(MAINTAINED)

Price: RM4.59

Target Price (% return): RM4.70 (7%)

52-week High/Low: RM5.59/RM4.15

Financial Services

Rationale for report: Company Update

Hold your fire

The risk-reward is balanced despite -9% YTD correction, with our scenario analysis also pointing to limited upside on a probability-weighted basis. While Alliance enters this period from a position of strength, we are cognizant downside risks can be non-linear, as seen during Covid-19. Accordingly, we reflect this through a more conservative P/B valuation. Maintain HOLD with lower TP of RM4.70.

- **Retain HOLD with a lower TP of RM4.70 (from RM5.70)**, based on 0.84x CY27 P/B; the valuation is at -1.5SD to its 5-year pre-Covid mean and below sector's 0.92x. We believe the discount is appropriate given Alliance's higher relative macro sensitivity. While we have conservatively cut FY27-28 earnings by 2-4% to reflect steeper NCC, we embed tail risks through valuation rather than profit, due to their episodic and non-linear nature.
- **AQ in focus.** Alliance's SME/PF-heavy mix (34%/10% vs sector: 17%/5%) makes it more sensitive to macro weakness. That said, it enters this period from a position of strength, thanks to: (i) LLC >100% (vs 73% pre-Covid), (ii) 50-60% of its RM146m overlays allocated to PF, and (iii) 69% of GIL secured. To be prudent, we lift FY27-28 NCC to 39-40bp, above FY26 initial upper guidance (35bp) and pre-Covid 5-year average (21bp). Nevertheless, downside risks should not be dismissed; NCC was 63-121bp during Covid-19, illustrating stress outcomes can be materially higher in more severe scenarios.
- **Balanced setup.** While chatter of DBS taking a 29% stake in Alliance has faded, we do not rule out a re-emergence. A successful deal could lift ROE to c.13% (in line with UOB and OCBC MY ops), supporting 1.3x P/B valuation (RM7.30), while the Covid-19 trough of 0.5x P/B implies RM2.50 on the downside. Blending these with our RM4.70 base case TP yields RM4.80 on a probability-weighted basis, indicating a balanced risk-reward with limited upside (9%). Hence, this warrants a more neutral stance.
- **Sooner is better.** Sequentially, loans growth and fees expected to be steady, while NIM edges lower amid seasonal rivalry and treasury income softens (10-yr MGS yield +10bp). Also, opex is likely to climb up QoQ. That said, lower provisions (MEV-led and recoveries) should partly offset, leaving profit largely flattish QoQ; however, we would prefer to see Alliance build overlays to guard against second-order inflation risks ahead of FY27.

Analyst (s)

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Key Changes

Target Price:	↕
EPS:	↕

Stock and Financial Data

Shares Outstanding (million)	1,730.2
Market Cap (RMmil)	7,941.7
Book Value (RM/Share)	4.43
P/BV (x)	1.0
ROE (%)	10.1
Free Float	60.9
Avg Daily Value (RMmil)	16.8

Major Shareholders

Vertical Theme	(29.1%)
EPF	(8.5%)
Global Success	(4.5%)

Price performance	3mth	6mth	12mth
Absolute(%)	(17.0)	3.6	8.8
Relative(%)	(15.9)	(1.1)	(4.6)

Source: Alliance Bank Malaysia, AmInvestment Bank Bhd.

YE to March	FY25	FY26F	FY27F	FY28F
Total income (RM mil)	2,269.9	2,529.7	2,708.2	2,805.1
Core net profit (RM mil)	750.7	828.9	852.8	887.0
FD Core EPS (sen)	43.4	47.9	49.3	51.3
FD Core EPS growth (%)	8.7	10.4	2.9	4.0
Consensus Net Profit (RM mil)	-	824.4	872.9	933.9
DPS (sen)	17.4	19.4	20.0	20.8
BV/share (RM)	4.43	5.08	5.38	5.69
PE (x)	10.6	9.6	9.3	9.0
Div yield (%)	3.8	4.2	4.4	4.5
P/BV (x)	1.0	0.9	0.9	0.8
ROE (%)	10.1	10.1	9.4	9.3

Source: Alliance Bank Malaysia, AmInvestment Bank Bhd.

Price Chart

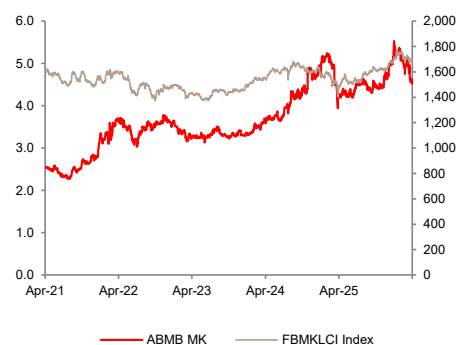
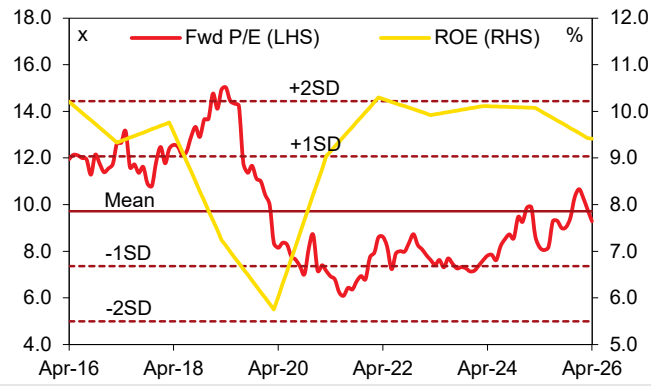
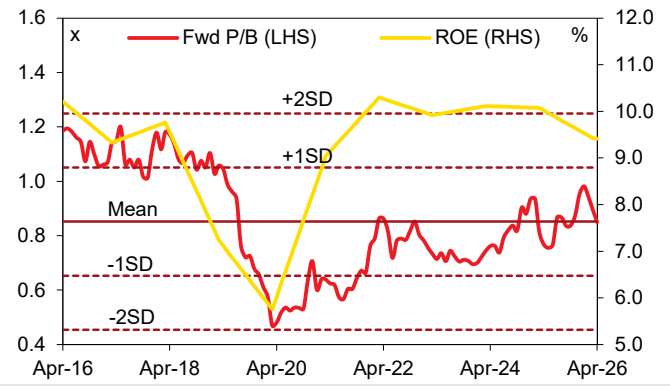


EXHIBIT 1. 10-YR FORWARD P/E BAND



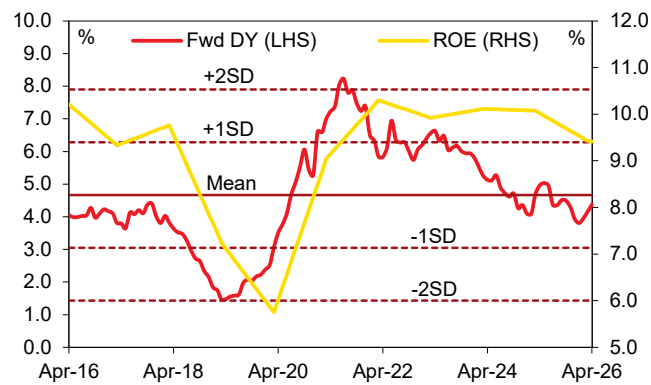
Source: AmInvestment Bank, Bloomberg

EXHIBIT 2. 10-YR FORWARD P/B BAND



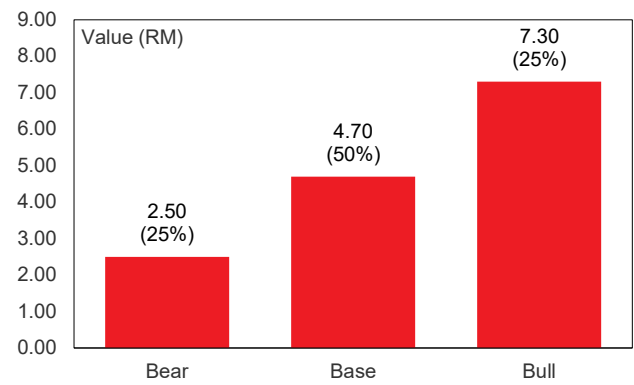
Source: AmInvestment Bank, Bloomberg

EXHIBIT 3. 10-YR FORWARD DY BAND



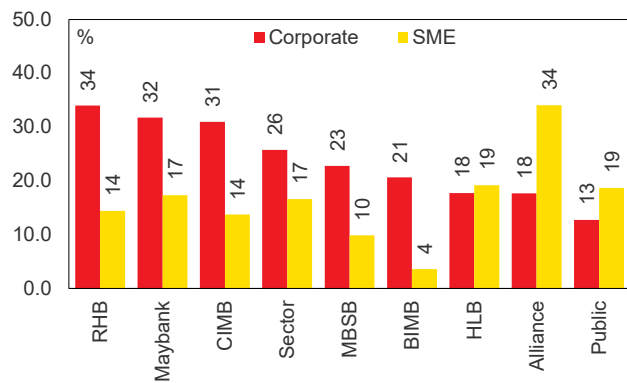
Source: AmInvestment Bank, Bloomberg

EXHIBIT 4. SCENARIO VALUATION WITH PROBABILITIES



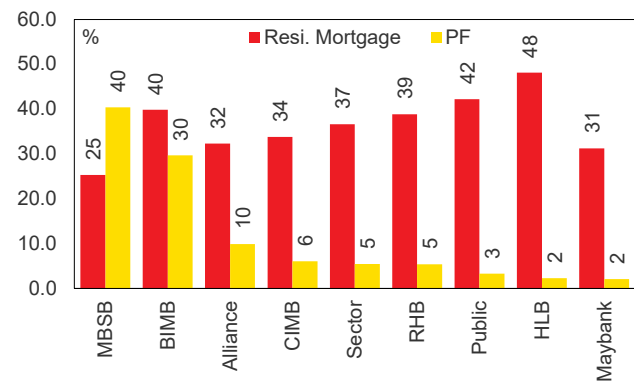
Source: AmInvestment Bank

EXHIBIT 5. CORPORATE & SME LENDING % TO TOTAL LOANS



Source: Companies

EXHIBIT 6. RESIDENTIAL MORTGAGE & PF % TO TOTAL LOANS



Source: Companies

EXHIBIT 7. PEERS COMPARISON

	Price (RM)	Target (RM)	Call	P/E (x)		EPS growth (%)		P/B (x)		Div. yield (%)		ROE (%)	
				2026	2027	2026	2027	2026	2027	2026	2027	2026	2027
Bank A	2.42	-	N.R.	9.2	8.4	13.9	9.9	0.5	0.5	4.3	4.7	5.2	5.5
Alliance	4.59	4.70	HOLD	9.6	9.3	10.4	2.9	0.9	0.9	4.2	4.4	10.1	9.4
BIMB	2.34	2.70	HOLD	9.3	8.6	10.6	8.0	0.7	0.6	6.4	6.9	7.2	7.6
CIMB	7.52	10.30	BUY	9.7	9.4	5.3	3.2	1.1	1.0	6.6	6.8	11.4	11.3
HLB	21.84	28.00	BUY	10.2	9.6	3.1	5.8	1.1	1.0	4.6	4.9	10.9	10.8
HLFG	18.68	33.00	BUY	6.4	6.0	2.0	6.0	0.6	0.6	4.8	5.0	9.9	9.8
Maybank	11.04	12.00	HOLD	12.2	11.9	3.9	2.3	1.4	1.3	6.0	6.1	11.4	11.3
MBSB	0.67	0.70	HOLD	14.1	13.3	39.5	6.2	0.5	0.5	5.7	6.0	3.9	4.0
Public	4.66	5.60	BUY	12.0	11.6	4.3	3.8	1.4	1.3	5.0	5.3	12.1	11.9
RHB	8.15	8.80	HOLD	10.3	9.9	2.1	4.5	1.0	1.0	6.3	6.5	9.9	10.0
Sector				10.3	9.8	9.5	5.3	0.9	0.9	5.4	5.7	9.2	9.2
Sector (ex-Bank A)				10.4	10.0	9.0	4.7	1.0	0.9	5.5	5.8	9.7	9.6

Source: AmInvestment Bank

Company profile

Alliance is the 9th smallest banking outfit by assets under our coverage, offering financial solutions through its consumer, SME, commercial, and Islamic banking businesses.

Malaysia is Alliance's sole operating market, where it maintains a nationwide network of nearly 80 branches.

Investment thesis and catalysts

Alliance's SME/PF-heavy mix (34%/10% vs sector: 17%/5%) makes the bank more sensitive to macro weakness. That said, it enters this period from a position of strength, supported by (i) LLC >100% (vs 73% pre-Covid), (ii) 50-60% of its RM146m overlays allocated to PF, and (iii) 69% of GIL secured. While we have prudently account for steeper NCC of 39-40bp in our model, further downside risks should not be dismissed; NCC was 63-121bp during Covid-19, highlighting stress outcomes can be materially higher in more severe scenarios.

Separately, while chatter of DBS taking a 29% stake in Alliance has faded, we do not rule out a re-emergence. A successful deal could lift ROE to c.13% (in line with UOB and OCBC MY ops), supporting 1.3x P/B valuation (RM7.30), while Covid-19 trough of 0.5x P/B implies RM2.50 on the downside. Blending these with our RM4.70 base case TP yields RM4.80 on a probability-weighted basis, indicating a balanced risk-reward with limited upside (9%). Hence, this warrants a more neutral stance.

Valuation methodology

We value Alliance using the Gordon Growth Model (GGM), since it incorporates both P/B and ROE into a single formula; notably, ROE plays an important role to the valuation of banking stocks as it has a strong correlation to P/B (87%).

We derived a TP of RM4.70 for Alliance and it is based on 0.84x CY27 P/B with assumptions of 9.3% ROE, 10.5% COE, and 3.0% LTG. The valuation is at -1.5SD to its 5-yr pre-Covid mean and below sector's 0.92x. This discount is warranted given Alliance's higher relative macro sensitivity. We embed tail risks through valuation rather than profit, due to their episodic and non-linear nature.

Risk factors

Key downside risks include:

- i) Sharp slowdown in global economic growth, giving rise to a spike in NPL formation; this could weigh on NCC and earnings.
- ii) Intense competition for both loans and deposits may exert downward pressure on NIM.
- iii) Subdued performance from its treasury operations.

EXHIBIT 8. VALUATIONS

Return on equity (ROE)	9.3% (from 9.5%)
Cost of equity (COE)	10.5% (from 9.5%)
Long-term growth rate (LTG)	3.0%
Target P/B	0.84x (from 1.01x)
CY27 BVPS	RM5.61 (from RM5.63)
ESG premium	-
12-month target price	RM4.70 (from RM5.70)

Source: AmInvestment Bank

EXHIBIT 9. CHANGE IN FORECASTS

(RM'm)	FY26			FY27			FY28		
	New	Old	%	New	Old	%	New	Old	%
Loan loss provisions	-217.1	-217.1	0.0	-282.3	-239.0	18.1	-290.5	-264.0	10.1
Core profit	828.9	828.9	0.0	852.8	886.2	-3.8	887.0	908.4	-2.4

Source: AmInvestment Bank

Financial Summary

Income Statement (RMmil)

YE to March	FY24	FY25	FY26F	FY27F	FY28F
Net interest income	1,309.6	1,451.1	1,549.7	1,680.2	1,751.0
Non-interest income	270.8	271.7	388.1	391.7	395.4
Islamic banking income	440.1	547.1	591.8	636.3	658.7
Total income	2,020.5	2,269.9	2,529.7	2,708.2	2,805.1
Overhead expenses	(973.7)	(1,088.5)	(1,221.9)	(1,303.8)	(1,347.4)
Pre-provision profit	1,046.7	1,181.4	1,307.8	1,404.4	1,457.7
Loan loss provisions	(134.9)	(187.9)	(217.1)	(282.3)	(290.5)
Impairment & others	(0.5)	(0.6)	-	-	-
Associates	-	-	-	-	-
Pretax profit	911.3	992.9	1,090.7	1,122.1	1,167.1
Tax	(220.8)	(242.2)	(261.8)	(269.3)	(280.1)
Minority interests	-	-	-	-	-
Net profit	690.5	750.7	828.9	852.8	887.0
Core net profit	690.5	750.7	828.9	852.8	887.0

Balance Sheet (Rmmil)

YE to March	FY24	FY25	FY26F	FY27F	FY28F
Cash & deposits with FIs	4,596.7	4,588.9	7,077.0	6,952.3	6,740.0
Marketable securities	11,691.0	13,545.1	13,947.4	14,269.0	14,585.1
Total current assets	16,287.7	18,134.0	21,024.3	21,221.2	21,325.1
Net loans & advances	54,720.8	61,418.5	66,166.3	70,769.1	74,984.7
Statutory deposits	nm	nm	nm	nm	nm
Long-term investments	3,870.4	4,065.0	4,146.3	4,229.2	4,313.8
Fixed assets	234.1	491.6	477.0	461.8	446.0
Intangible assets	462.4	517.0	515.8	510.6	501.5
Other long-term assets	1,370.8	591.1	591.1	591.1	591.1
Total LT assets	60,658.5	67,083.3	71,896.5	76,561.8	80,837.1
Total assets	76,946.1	85,217.3	92,920.9	97,783.1	102,162.2
Customer deposits	57,397.5	65,835.0	72,418.4	76,763.6	80,601.7
Deposits of other FIs	4,077.8	3,779.4	3,779.4	3,779.4	3,779.4
Subordinated debts	5,014.8	5,411.7	5,411.7	5,411.7	5,411.7
Hybrid capital securities	-	-	-	-	-
Other liabilities	3,280.9	2,522.8	2,522.8	2,522.8	2,522.8
Total liabilities	69,771.0	77,548.9	84,132.4	88,477.5	92,315.6
Shareholders' funds	7,175.1	7,668.4	8,788.5	9,305.6	9,846.6
Minority interests	-	-	-	-	-

Key Ratios

YE to March	FY24	FY25	FY26F	FY27F	FY28F
Total income growth (%)	5.2	12.3	11.4	7.1	3.6
Pre-provision profit growth (%)	0.8	12.9	10.7	7.4	3.8
Core net profit growth (%)	1.9	8.7	10.4	2.9	4.0
Net interest margin (%)	2.4	2.5	2.4	2.4	2.4
Cost-to-income ratio (%)	48.2	48.0	48.3	48.1	48.0
Effective tax rate (%)	24.2	24.4	24.0	24.0	24.0
Dividend payout (%)	50.0	40.0	40.4	40.6	40.6

Key Assumptions

YE to March	FY24	FY25	FY26F	FY27F	FY28F
Loan growth (%)	13.6	12.0	8.0	7.0	6.0
Deposit growth (%)	12.9	14.7	10.0	6.0	5.0
Loan-deposit ratio (%)	97.1	94.9	93.1	94.0	94.9
Gross NPL (%)	2.1	1.8	1.9	1.9	1.9
Net NPL (%)	1.7	1.4	1.4	1.4	1.4
Credit charge-off rate (%)	0.3	0.3	0.3	0.4	0.4
Loan loss reserve (%)	100.6	106.6	101.2	102.2	103.7
Total CAR (%)	-	-	-	-	-
Tier 1 Ratio (%)	-	-	-	-	-
Loan loss reserve (%)	-	-	-	-	-

Source: Company, AmInvestment Bank Bhd.

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