

# ALLIANCE BANK MALAYSIA

(ABMB MK EQUITY, ALLI.KL)

**HOLD**

(MAINTAINED)

Price: RM4.80

Target Price (% return): RM4.70 (2%)

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

## Financial Services

Rationale for report: Company Result

## Safety first

Keep HOLD on Alliance with unchanged TP of RM4.70. 4QFY26 profit met expectations (-/+4% QoQ/YoY) and its 2<sup>nd</sup> interim DPS of 9.7sen was equally on the mark. That said, FY27 guidance offered limited comfort on Middle East uncertainties; NCC target of 27-32bp looks ambitious vs rising 30+ dpd in SME and PF segments (+20-30bp QoQ); we continue to pencil in 39bp to err on the side of caution. On the positive side, Alliance prudently raised pre-emptive provision (+27% QoQ), allaying some near-term worries. Lastly, little excitement emerged on capital management, despite potential 30-37bp CET1 uplift from final Basel III reforms.

- **Retain HOLD and TP of RM4.70**, based on 0.85x CY27 P/B; the valuation is at -1.5SD to its 5-year pre-Covid mean and below sector's 0.93x. We believe the discount is fair given Alliance's higher relative macro sensitivity. Hence, we embed tail risks through valuation rather than profit, due to their episodic and non-linear nature.
- **In-line.** Alliance delivered 4QFY26 profit of RM206m (-/+4% QoQ/YoY), bringing FY26 to RM827m (+10% YoY); this was in line with both our and consensus expectations at 100% of forecasts. Also, full-year DPS of 19.1sen (declared 9.7sen this quarter) was equally on the mark. Overall, we keep FY27-28 profit estimates and introduce FY29 projections.
- **Staying vigilant.** Alliance raised pre-emptive provision (+27% QoQ to RM185m) despite resilient headline AQ (GIL ratio -16bp QoQ); a prudent move given 30+ dpd in SME and PF segments rising 20-30bp, along with Middle East tensions. While early containment measures appear to be working and 113% LLC provides meaningful buffer, the 27-32bp FY27 NCC guidance looks ambitious as management expects the war to be short-lived; we nonetheless continue to assume higher 39bp to err on the side of caution.
- **Quality over growth.** Softer top-line momentum reflects Alliance's deliberate pullback from riskier segments, with NIM slipping 3bp QoQ; a conscious trade-off to protect AQ in the final stretch of its Acceler8 plan amid geopolitical uncertainty. On a separate note, final Basel III reforms should deliver 30-37bp CET1 uplift, though the bank frames this as optionality for growth or higher DPR rather than an immediate capital return.

## Analyst (s)

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## Key Changes

Target Price:	↔
EPS:	↔

## Stock and Financial Data

Shares Outstanding (million)	1,730.2
Market Cap (RMmil)	8,305.1
Book Value (RM/Share)	5.10
P/BV (x)	0.9
ROE (%)	10.0
Free Float	60.9
Avg Daily Value (RMmil)	12.0

## Major Shareholders

Vertical Theme	(29.1%)
EPF	(8.6%)
Global Success	(4.5%)

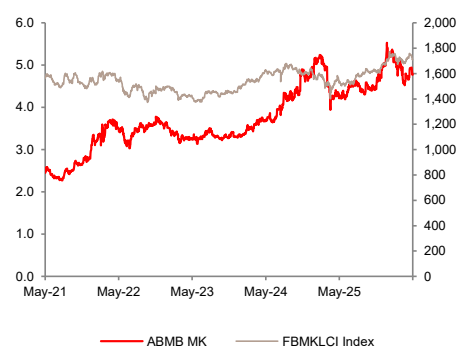
Price performance	3mth	6mth	12mth
Absolute(%)	(7.7)	8.4	13.8
Relative(%)	(5.5)	2.3	1.4

Source: Alliance Bank Malaysia, AmInvestment Bank Bhd.

YE to March	FY26	FY27F	FY28F	FY29F
Total income (RM mil)	2,466.2	2,622.9	2,710.3	2,833.5
Core net profit (RM mil)	826.5	852.9	887.5	940.9
FD Core EPS (sen)	47.8	49.3	51.3	54.4
FD Core EPS growth (%)	10.1	3.2	4.0	6.0
Consensus Net Profit (RM mil)	-	872.9	933.9	1,032.0
DPS (sen)	19.1	20.0	21.8	24.0
BV/share (RM)	5.10	5.32	5.63	5.95
PE (x)	10.0	9.7	9.4	8.8
Div yield (%)	4.0	4.2	4.5	5.0
P/BV (x)	0.9	0.9	0.9	0.8
ROE (%)	10.0	9.5	9.4	9.4

Source: Alliance Bank Malaysia, AmInvestment Bank Bhd.

## Price Chart



## EXHIBIT 1. 4QFY26 Results Summary

FYE Mar (RMmil)	4QFY26	4QFY25	YoY (%)	3QFY26	QoQ (%)	12MFY26	12MFY25	YoY (%)
Net interest income	371.4	371.4	0.0	377.3	-1.5	1,484.2	1,451.1	2.3
Islamic banking	148.4	141.4	4.9	146.6	1.2	582.4	547.1	6.5
Non-interest income	73.3	50.4	45.3	107.7	-32.0	399.6	271.7	47.1
<b>Total income</b>	<b>593.1</b>	<b>563.2</b>	<b>5.3</b>	<b>631.6</b>	<b>-6.1</b>	<b>2,466.2</b>	<b>2,269.9</b>	<b>8.6</b>
Operating expenses	-307.0	-290.5	5.7	-298.2	2.9	-1,181.4	-1,088.5	8.5
<b>Pre-provision profit</b>	<b>286.1</b>	<b>272.8</b>	<b>4.9</b>	<b>333.4</b>	<b>-14.2</b>	<b>1,284.8</b>	<b>1,181.4</b>	<b>8.7</b>
Loan loss provisions	-19.7	-9.8	101.8	-50.3	-60.8	-217.3	-187.9	15.6
<b>Operating profit</b>	<b>266.4</b>	<b>263.0</b>	<b>1.3</b>	<b>283.1</b>	<b>-5.9</b>	<b>1,067.5</b>	<b>993.5</b>	<b>7.4</b>
Others	-0.1	0.0	n.m.	-0.1	-4.5	0.6	-0.6	n.m.
<b>Pre-tax profit</b>	<b>266.4</b>	<b>263.0</b>	<b>1.3</b>	<b>283.0</b>	<b>-5.9</b>	<b>1,068.1</b>	<b>992.9</b>	<b>7.6</b>
Tax & minority interest	-60.3	-65.5	-7.9	-67.8	-11.1	-241.6	-242.2	-0.3
<b>Net Profit</b>	<b>206.0</b>	<b>197.5</b>	<b>4.3</b>	<b>215.2</b>	<b>-4.3</b>	<b>826.5</b>	<b>750.7</b>	<b>10.1</b>
EPS (sen)	11.9	12.8	-6.7	12.4	-4.3	49.3	48.5	1.6
DPS (sen)	9.7	9.9	-1.6	0.0	n.m.	19.1	19.4	-1.5
BVPS (RM)	5.26	4.95	6.1	5.21	0.9	5.26	4.95	6.1

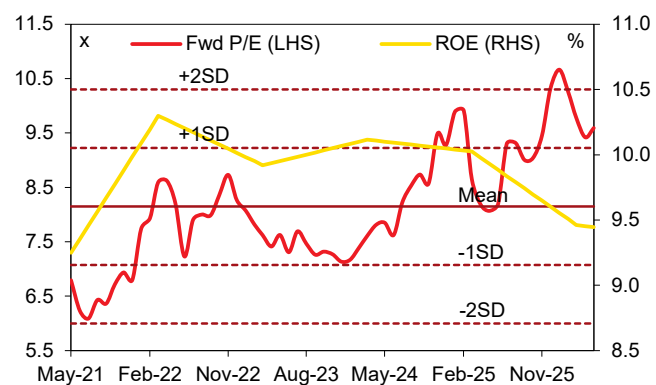
Source: Alliance, AmInvestment Bank Bhd.

## EXHIBIT 2. Financial ratios

FYE Mar (%)	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26	2QFY26	3QFY26	4QFY26
Net interest margin	2.45	2.49	2.45	2.43	2.42	2.32	2.34	2.31
Cost / income ratio	48.0	45.2	47.2	51.6	45.1	47.7	47.2	51.8
Return on equity	10.0	10.6	10.2	10.6	10.5	10.5	10.5	9.7
Loans growth, yoy	14.8	14.8	14.2	12.0	9.9	8.1	7.9	7.5
Deposits growth, yoy	11.6	13.8	13.3	14.7	12.5	12.5	10.4	8.8
Loan / deposit ratio	98.7	100.2	98.9	94.9	96.5	96.3	96.6	93.8
Gross impaired loans ratio	2.17	2.02	1.97	1.83	1.96	1.91	1.89	1.73
Loan loss coverage	97.2	105.6	103.6	106.6	103.8	107.1	109.0	113.1
Net credit cost (bp)	33.7	66.8	26.4	6.5	58.6	36.9	31.6	12.2
CET1 ratio	12.2	12.7	12.4	12.5	12.4	13.9	13.1	13.4

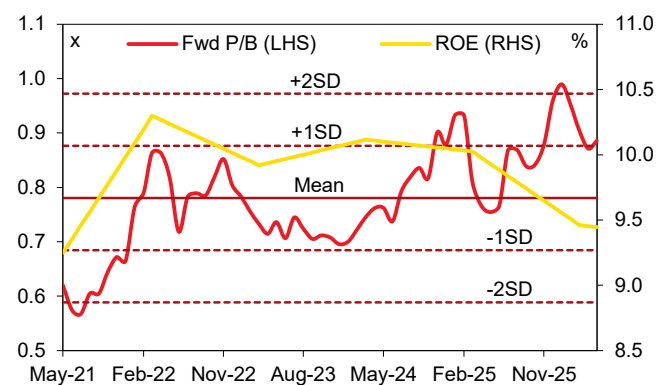
Source: Alliance, AmInvestment Bank Bhd.

## EXHIBIT 3. 5-YR FORWARD P/E BAND



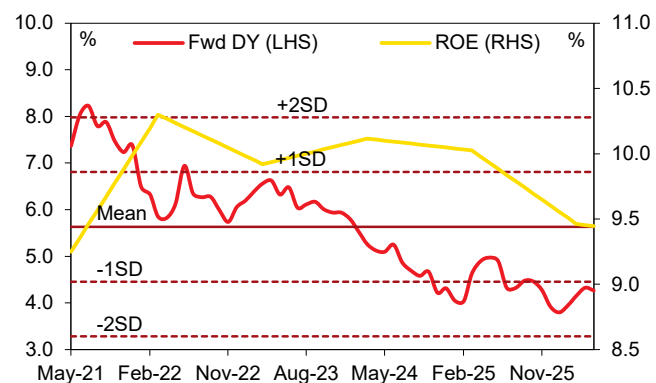
Source: AmInvestment Bank, Bloomberg

## EXHIBIT 4. 5-YR FORWARD P/B BAND



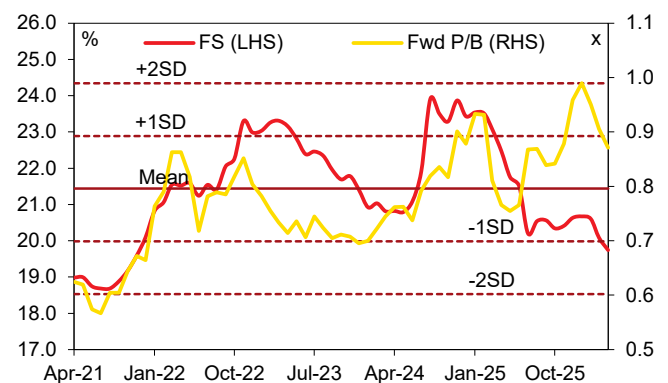
Source: AmInvestment Bank, Bloomberg

## EXHIBIT 5. 5-YR FORWARD DY BAND



Source: AmInvestment Bank, Bloomberg

## EXHIBIT 6. ALLIANCE'S FOREIGN SHAREHOLDING



Source: AmInvestment Bank, Alliance

## 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%/9% 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) higher pre-emptive provision of RM185m, and (iii) 68% of GIL secured. While we have prudently account for steeper NCC of 37-39bp 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 (0%). 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 0.85x CY27 P/B with assumptions of 9.4% 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 0.93x. 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 7. VALUATIONS

Return on equity (ROE)	9.4%
Cost of equity (COE)	10.5%
Long-term growth rate (LTG)	3.0%
Target P/B	0.85x
CY27 BVPS	RM5.55
ESG premium	-
12-month target price	RM4.70

Source: AmInvestment Bank

## Financial Summary

### Income Statement (RMmil)

YE to March	FY25	FY26	FY27F	FY28F	FY29F
Net interest income	1,451.1	1,484.2	1,574.9	1,637.9	1,727.6
Non-interest income	271.7	399.6	421.7	425.4	429.2
Islamic banking income	547.1	582.4	626.3	647.1	676.8
<b>Total income</b>	<b>2,269.9</b>	<b>2,466.2</b>	<b>2,622.9</b>	<b>2,710.3</b>	<b>2,833.5</b>
Overhead expenses	(1,088.5)	(1,181.4)	(1,243.3)	(1,282.4)	(1,322.6)
Pre-provision profit	1,181.4	1,284.8	1,379.6	1,428.0	1,510.9
Loan loss provisions	(187.9)	(217.3)	(271.9)	(275.4)	(289.0)
Impairment & others	(0.6)	0.5	-	-	-
Associates	-	0.1	-	-	-
<b>Pretax profit</b>	<b>992.9</b>	<b>1,068.1</b>	<b>1,107.7</b>	<b>1,152.5</b>	<b>1,221.9</b>
Tax	(242.2)	(241.6)	(254.8)	(265.1)	(281.0)
Minority interests	-	-	-	-	-
<b>Net profit</b>	<b>750.7</b>	<b>826.5</b>	<b>852.9</b>	<b>887.5</b>	<b>940.9</b>
Core net profit	750.7	826.5	852.9	887.5	940.9

### Balance Sheet (RMmil)

YE to March	FY25	FY26	FY27F	FY28F	FY29F
Cash & deposits with FIs	4,588.9	3,139.8	2,364.4	2,057.1	1,685.3
Marketable securities	13,545.1	15,634.0	16,768.9	17,142.6	17,527.3
<b>Total current assets</b>	<b>18,134.0</b>	<b>18,773.8</b>	<b>19,133.3</b>	<b>19,199.6</b>	<b>19,212.6</b>
Net loans & advances	61,418.5	66,040.5	71,126.6	76,105.4	81,432.8
Statutory deposits	nm	nm	nm	nm	nm
Long-term investments	4,065.0	5,473.5	5,582.9	5,694.6	5,808.5
Fixed assets	491.6	603.0	461.8	446.0	429.6
Intangible assets	517.0	522.8	510.6	501.5	488.5
Other long-term assets	591.1	742.5	742.5	742.5	742.5
<b>Total LT assets</b>	<b>67,083.3</b>	<b>73,382.2</b>	<b>78,424.3</b>	<b>83,490.0</b>	<b>88,901.8</b>
<b>Total assets</b>	<b>85,217.3</b>	<b>92,156.0</b>	<b>97,557.6</b>	<b>102,689.6</b>	<b>108,114.5</b>
Customer deposits	65,835.0	71,611.8	76,624.6	81,222.1	86,095.4
Deposits of other FIs	3,779.4	3,470.6	3,470.6	3,470.6	3,470.6
Subordinated debts	5,411.7	5,545.0	5,545.0	5,545.0	5,545.0
Hybrid capital securities	-	-	-	-	-
Other liabilities	2,522.8	2,707.7	2,707.7	2,707.7	2,707.7
<b>Total liabilities</b>	<b>77,548.9</b>	<b>83,335.1</b>	<b>88,348.0</b>	<b>92,945.5</b>	<b>97,818.8</b>
Shareholders' funds	7,668.4	8,820.9	9,209.7	9,744.2	10,295.7
Minority interests	-	-	-	-	-

### Key Ratios

YE to March	FY25	FY26	FY27F	FY28F	FY29F
Total income growth (%)	12.3	8.6	6.4	3.3	4.5
Pre-provision profit growth (%)	12.9	8.7	7.4	3.5	5.8
Core net profit growth (%)	8.7	10.1	3.2	4.0	6.0
Net interest margin (%)	2.5	2.3	2.3	2.3	2.3
Cost-to-income ratio (%)	48.0	47.9	47.4	47.3	46.7
Effective tax rate (%)	24.4	22.6	23.0	23.0	23.0
Dividend payout (%)	40.0	40.0	40.6	42.5	44.1

### Key Assumptions

YE to March	FY25	FY26	FY27F	FY28F	FY29F
Loan growth (%)	12.0	7.5	8.0	7.0	7.0
Deposit growth (%)	14.7	8.8	7.0	6.0	6.0
Loan-deposit ratio (%)	94.9	93.8	94.7	95.5	96.4
Gross NPL (%)	1.8	1.7	1.8	1.8	1.8
Net NPL (%)	1.4	1.4	1.3	1.3	1.3
Credit charge-off rate (%)	0.3	0.3	0.4	0.4	0.4
Loan loss reserve (%)	106.6	113.1	108.7	107.2	106.2

Source: Company, AmInvestment Bank Bhd.

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