

ALLIANCE BANK MALAYSIA

(ABMB MK EQUITY, ALLI.KL)

BUY

(MAINTAINED)

Price: RM4.69

Target Price (% return): RM5.50 (22%)

52-week High/Low: RM5.59/RM4.37

Financial Services

Rationale for report: Company Update

Vitamin-O overlooked?

Better reinvestment yields lie ahead, while today's MTM drag resets NOII to an easier FY28 base. More importantly, equity investors appear to be overlooking the potential kicker from an OPR hike, even as KLIBOR and IRS suggest the rates market is pricing in that possibility. Beyond this, we continue to like Alliance for its strong execution, tight management-shareholder alignment and balance sheet primed for growth. FBMKLCI's expansion to 50 constituents adds another catalyst, paving way for index inclusion.

- **BUY with unchanged TP of RM5.50**, based on 0.99x CY27 P/B; the valuation is at -0.5SD to its 5-year pre-Covid mean but above sector's 0.88x. Also, it is on par to the valuations of RHB and HLFM (0.97-1.03x) given similar ROE generation (9.8-9.9%).
- **Rising rates, not a death sentence.** The sharp rise in MGS yields (+30bp) since mid-July has raised concerns over MTM losses, but Alliance looks fairly insulated. FVTPL accounts for just 3% of its treasury book vs sector's 18%, limiting P&L hit. However, FVOCI is higher at 69% vs peers' 49%. Every 10bp increase in yields could shave c.1%/3% off earnings/BV, respectively. Still, such losses need not crystallize if held to maturity. Its overall securities portfolio carries an average duration of c.4.3 years.
- **Vitamin-O could propel numbers.** Markets seem to be pricing in a near-term OPR hike, with 3M/6M KLIBOR up c.27/28bp YTD to 3.55%/3.58%, while 6M IRS has climbed 40bp to 3.64%. This is not our base case (consistent with our house view), but Alliance would be among the biggest beneficiaries should it materialize; c.86% of its loans are variable-rate vs sector's 78%, giving it greater asset-side sensitivity. Every 25bp increase could lift full-year bottom-line by c.6%, comfortably ahead of sector's c.3-4%.
- **NCC normalizing, buffers reassuring.** Although 1QFY27 GIL ratio inched up 10bp QoQ (mainly from mortgages but collateral coverage is high at c.92%), recent delinquencies remain contained and the watchlist of troubled accounts has not broadened. That said, quarterly NCC is expected to rise to c.30bp BAU from the unusually low 1bp last quarter, as earlier recoveries fade rather than from emerging stress. More importantly, there are ample cushion against any AQ slippage: pre-emptive overlays amount to c.24bp of NCC, LLC stands at 102% vs 73% pre-Covid, while 74% of GILs are secured.

YE to March	FY26	FY27F	FY28F	FY29F
Total income (RM mil)	2,466.2	2,623.5	2,711.6	2,835.0
Core net profit (RM mil)	826.5	886.8	903.2	946.6
FD Core EPS (sen)	47.8	51.3	52.2	54.7
FD Core EPS growth (%)	10.1	7.3	1.9	4.8
Consensus Net Profit (RM mil)	-	879.1	923.2	990.8
DPS (sen)	19.1	21.0	22.0	24.1
BV/share (RM)	5.10	5.34	5.65	5.97
PE (x)	9.8	9.2	9.0	8.6
Div yield (%)	4.1	4.5	4.7	5.1
P/BV (x)	0.9	0.9	0.8	0.8
ROE (%)	10.0	9.8	9.5	9.4

Source: Alliance Bank Malaysia, AmInvestment Bank Bhd.

Analyst (s)

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Key Changes

Target Price:	↔
EPS:	↔

Stock and Financial Data

Shares Outstanding (million)	1,730.2
Market Cap (RMmil)	8,062.8
Book Value (RM/Share)	5.10
P/BV (x)	0.9
ROE (%)	10.0
Free Float	54.3
Avg Daily Value (RMmil)	10.4

Major Shareholders

Vertical Theme	(29.1%)
EPF	(7.5%)
Global Success	(5.0%)

Price performance	3mth	6mth	12mth
Absolute(%)	(2.5)	0.4	1.5
Relative(%)	0.4	4.4	1.8

Source: Alliance Bank Malaysia, AmInvestment Bank Bhd.

Price Chart

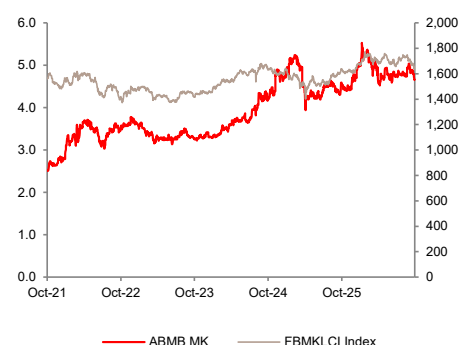
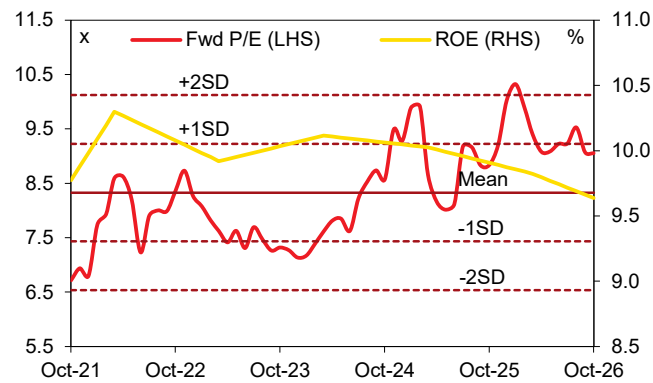
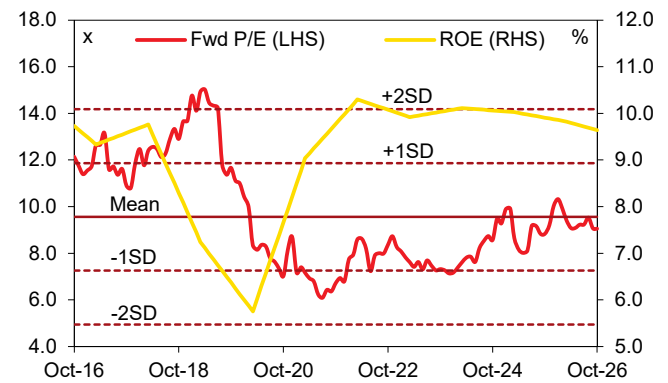


EXHIBIT 1. 5-YR FORWARD P/E BAND



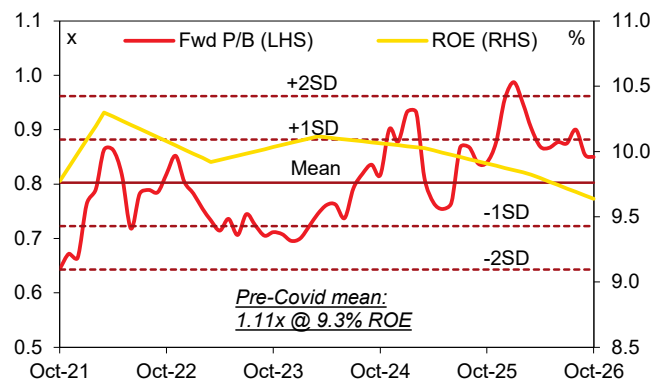
Source: AmInvestment Bank, Bloomberg

EXHIBIT 2. 10-YR FORWARD P/E BAND



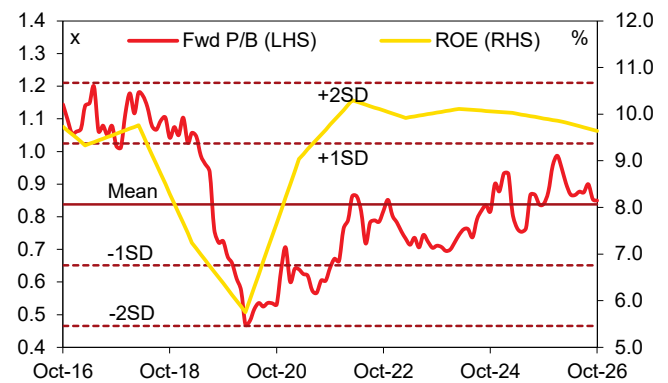
Source: AmInvestment Bank, Bloomberg

EXHIBIT 3. 5-YR FORWARD P/B BAND



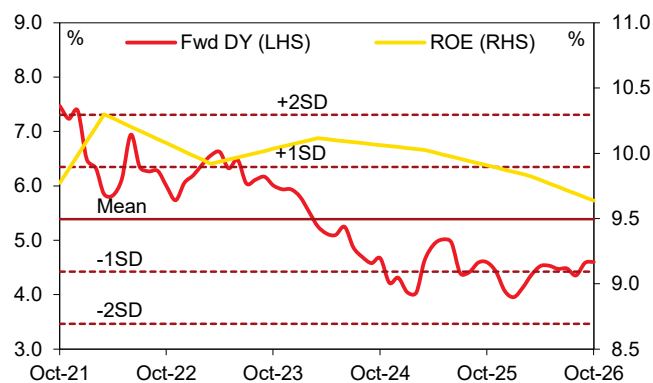
Source: AmInvestment Bank, Bloomberg

EXHIBIT 4. 10-YR FORWARD P/B BAND



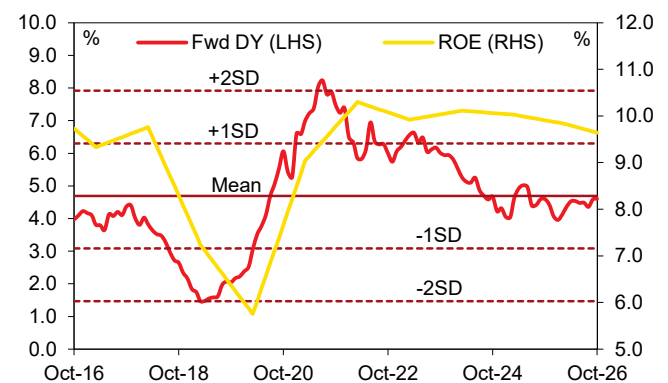
Source: AmInvestment Bank, Bloomberg

EXHIBIT 5. 5-YR FORWARD DY BAND



Source: AmInvestment Bank, Bloomberg

EXHIBIT 6. 10-YR FORWARD DY BAND



Source: AmInvestment Bank, Bloomberg

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	2.00	-	N.R.	9.6	8.4	-2.0	14.4	0.4	0.4	4.2	4.8	4.3	5.0
Alliance*	4.69	5.50	BUY	9.2	9.0	7.3	1.9	0.9	0.8	4.5	4.7	9.8	9.5
BIMB	2.06	2.25	HOLD	9.3	9.0	-9.6	3.1	0.6	0.6	6.4	6.6	6.2	6.3
CIMB	7.68	9.80	BUY	10.4	10.0	1.0	3.5	1.1	1.1	6.2	6.4	11.0	10.9
HLB*	22.90	28.00	BUY	9.9	9.4	4.5	5.6	1.1	1.0	5.2	5.5	11.0	11.0
HLFG*	18.50	33.00	BUY	5.8	5.5	5.4	5.1	0.6	0.5	4.7	5.1	10.1	9.8
Maybank	10.00	11.20	HOLD	11.7	11.3	-1.6	2.8	1.2	1.2	6.3	6.4	10.9	10.8
MBSB	0.55	0.60	HOLD	18.0	14.3	-11.1	26.3	0.4	0.4	5.0	6.3	2.5	3.1
Public	4.70	5.60	HOLD	12.1	11.7	4.2	3.5	1.4	1.4	6.2	6.4	12.1	12.0
RHB	7.46	8.70	HOLD	9.5	9.1	1.4	4.6	0.9	0.9	6.9	7.2	9.8	9.9
Sector				10.5	9.8	-0.1	7.1	0.9	0.8	5.5	5.9	8.8	8.8
Sector (ex-Bank A)				10.7	9.9	0.2	6.3	0.9	0.9	5.7	6.1	9.3	9.3

* refers to FY27 & FY28

Source: AmInvestment Bank, Bloomberg

EXHIBIT 8. VALUATIONS

Return on equity (ROE)	9.6%
Cost of equity (COE)	9.7%
Long-term growth rate (LTG)	3.0%
Target P/B	0.99x
CY27 BVPS	RM5.57
ESG premium	-
12-month target price	RM5.50

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

While Brent is back >USD100/bbl, there is ample protection against any AQ slippage: pre-emptive overlays amount to c.24bp of NCC, LLC stands at 102% vs 73% pre-Covid, while 74% of GILs are secured. Rate risk looks manageable too. FVTPL accounts for just 3% of its treasury book vs sector's 18%, limiting P&L hit. However, FVOCI is higher at 69% vs peers' 49%. Every 10bp increase in yields could shave c.1%/3% off earnings/BV, respectively. Still, such losses need not crystallize if held to maturity. Its overall securities portfolio carries an average duration of c.4.3 years.

Furthermore, our bullish stance hinges on management's strong execution track record. The Acceler8 strategy has largely unfolded to script, with the bank wrestling loans market share from peers (+40bp since FY23). Plus, it still has scope for balance sheet optimization move (LDR/LFR at 96%/88%), coupled with a budding and robust NOI engine.

LTIP strengthens the bull case, given tighter management-shareholder alignment over the next 10 years. Last year's cash call and the upcoming 60-70bp CET1 uplift from final Basel III reforms have equipped Alliance with fresh ammunition to accelerate growth. Dividends remain secondary for now but will naturally track earnings, with optionality for a step-up towards 50% DPR in due course. Cherry on top: a beneficiary of FBMKLCI expansion to 50 constituents (c.1% weight).

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 RM5.50 for Alliance and it is based on 0.99x CY27 P/B with assumptions of 9.6% ROE, 9.7% COE, and 3.0% LTG. The valuation is at -0.5SD to its 5-yr pre-Covid mean but above sector's 0.88x. Furthermore, it is on par to the valuations of RHB and HLF (0.97-1.03x) given similar ROE generation (9.8-9.9%).

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.

Financial Summary

Income Statement (RMmil)

YE to March	FY25	FY26	FY27F	FY28F	FY29F
Net interest income	1,451.1	1,484.2	1,575.4	1,638.8	1,728.6
Non-interest income	271.7	399.6	421.7	425.4	429.2
Islamic banking income	547.1	582.4	626.4	647.4	677.1
Total income	2,269.9	2,466.2	2,623.5	2,711.6	2,835.0
Overhead expenses	(1,088.5)	(1,181.4)	(1,250.7)	(1,290.0)	(1,330.4)
Pre-provision profit	1,181.4	1,284.8	1,372.8	1,421.6	1,504.6
Loan loss provisions	(187.9)	(217.3)	(221.1)	(248.6)	(275.3)
Impairment & others	(0.6)	0.5	-	-	-
Associates	-	0.1	-	-	-
Pretax profit	992.9	1,068.1	1,151.7	1,173.0	1,229.3
Tax	(242.2)	(241.6)	(264.9)	(269.8)	(282.7)
Minority interests	-	-	-	-	-
Net profit	750.7	826.5	886.8	903.2	946.6
Core net profit	750.7	826.5	886.8	903.2	946.6

Balance Sheet (RMmil)

YE to March	FY25	FY26	FY27F	FY28F	FY29F
Cash & deposits with FIs	4,588.9	3,139.8	2,338.8	2,008.4	1,628.5
Marketable securities	13,545.1	15,634.0	16,768.9	17,142.6	17,527.3
Total current assets	18,134.0	18,773.8	19,107.7	19,150.9	19,155.9
Net loans & advances	61,418.5	66,040.5	71,177.3	76,183.0	81,524.1
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
Total LT assets	67,083.3	73,382.2	78,475.1	83,567.6	88,993.2
Total assets	85,217.3	92,156.0	97,582.8	102,718.5	108,149.0
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
Total liabilities	77,548.9	83,335.1	88,348.0	92,945.5	97,818.8
Shareholders' funds	7,668.4	8,820.9	9,234.9	9,773.1	10,330.3
Minority interests	-	-	-	-	-

Key Ratios

YE to March	FY25	FY26	FY27F	FY28F	FY29F
Total income growth (%)	12.3	8.6	6.4	3.4	4.5
Pre-provision profit growth (%)	12.9	8.7	6.8	3.6	5.8
Core net profit growth (%)	8.7	10.1	7.3	1.9	4.8
Net interest margin (%)	2.5	2.3	2.3	2.3	2.3
Cost-to-income ratio (%)	48.0	47.9	47.7	47.6	46.9
Effective tax rate (%)	24.4	22.6	23.0	23.0	23.0
Dividend payout (%)	40.0	40.0	41.0	42.1	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	1.4	1.4	1.4
Credit charge-off rate (%)	0.3	0.3	0.3	0.3	0.3
Loan loss reserve (%)	106.6	113.1	104.7	101.7	100.1

Source: Company, AmInvestment Bank Bhd.

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