

14767/09/2012(030761)

## Alliance Financial Group Bhd

## “All is Well in 1Q17”

## Results Review

- **Actual vs. expectations.** Alliance Financial Group Berhad (AFG) started FY17 with steady growth in earnings that touched RM132 million (+9% y-o-y, 2% q-o-q). The results came largely in line with ours and consensus' expectations, accounting 23.5% and 24.3% of full year estimates respectively. Earnings were backed by Islamic banking income of RM67 million (+15% y-o-y, +10% y-o-y) and fee based income of RM84 million (7.7% y-o-y, +5% q-o-q).
- **Dividend.** No dividend was declared in this quarter.
- **Topline vs. Bottom line.** AFG's net income of RM364 million (+6% y-o-y, +3% q-o-q) in 1Q16 was decent and it came from 1) Islamic banking income of RM67 million (+15% y-o-y, +10% q-o-q) 2) fee and commissioned based income of RM84 million (+7.7% y-o-y, +5% q-o-q) while net interest income was in unexciting growth despite the improvement in cost of funds and higher net interest margin respectively. Additionally, AFG managed to contain operating expenses of RM169 million (-6% y-o-y) due to lower marketing expenses, while cost-to-income ratio stood at 46.5% vs. 51.2% in 4Q16 with continuation in cost control and selected franchise investment.
- **Non-interest income (NOII).** NOII was higher at RM77 million (+9.7% q-o-q) driven by higher wealth management fees of 20.5% q-o-q and higher forex income by 10% q-o-q.

Tuesday, August 23, 2016

HOLD (TP: RM4.00)

Current Price (RM)	RM4.04
New Fair Value (RM)	RM4.00
Previous Fair Value (RM)	RM4.00
Previous Recommend.	HOLD
Upside To Fair Value	-1%
Dividend Yield (FY17)	4%

## Stock Code

Bloomberg	AFG MK
-----------	--------

## Stock &amp; Market Data

Listing	MAIN MARKET	
Sector	Banking	
Shariah Compliance	No	
Issued Shares (mn)	1,5424.9	
Market Cap (RM mn)	6,160	
YTD Chg In Share Price	13.4%	
Beta (x)	1.11	
52-week Hi/Lo (RM)	RM4.37	RM3.07
3M Average Volume (shrs)	1.19 mill	
Estimated Free Float	54.6%	

## Major Shareholders

Vertical Theme Sdn Bhd	29.06%
EPF	17.8%
Malaysia Focus Inv.	4.75%

## Results Review - Alliance Financial Group

- **Loans growth fell, RAR loans continued to improve.** In contrast to high single digit loans growth target, AFG's 1Q17 loans growth slowed down to 3% y-o-y, and declined 0.7% q-o-q. The slowdown is a witness of management focus on higher RAR loans vs. lower RAR loans (-3.6% q-o-q), especially to drive SME/Commercial and unsecured consumer loans, which grew at 5.6% q-o-q. SME/Commercial and unsecured both surged strongly by 73% q-o-q and 69% q-o-q while in lower RAR, hire purchase and corporate lending declined significantly.
- **NIM slip 3bps q-o-q in 4Q16.** AFG's NIM improved by 10bps q-o-q to 2.22% as cost of funds reduced 8bps due to the recent redemption of Tier-2 Subordinated Notes and a more efficient funding mix, with gross interest margin maintained especially in the RAR loans despite the reduction in the base rate due to the statutory reserve rate revision.
- **Liquidity position still healthy.** AFG's total deposits weakened 2.5% q-o-q with the notable reduction in fixed deposit by 5.3% q-o-q to RM21.7 billion. Nevertheless, CASA is still at healthy pace of 32.9% due to the still strong growth in the SME segment and AFG continues to rake-in healthy individual deposit that attributed 38.6% of total deposits.
- **Asset quality stable.** Gross NPL continued to decline with gross NPL was at 1.2% from 1.3%. On the back of lower recoveries and higher allowances, credit costs were higher at 27.1bps vs. 22.8bps in 4Q16. Loan loss coverage rose to 119.2% vs. 105.4% in 1Q16.
- **Stronger capital ratios.** The group's CET1 ratio stood at 11.7% as at June 2016 and remains comfortable. Management maintains its dividend payout ratio target of up to 60% for the year
- **Outlook.** We foresee that emphasized on RAR loans will bear fruit to AFG it translate to a better margins and better use of capital. We believe AFG's early penetration in the SME segment will give an edge as customers will recognize AFG effort in nurturing this segment. On NIM, we are positive that AFG is on track to achieve improvement on NIM despite it's the revision in base rate recently.
- **Change to forecast.** No change to our FY17 and FY18 forecast as 1Q17 financial are within our expectations. At this stage, FY17 and FY18 earnings are expected to grow by 8% and 3.5% respectively driven by 1) low risk as 50% of SME are collateralized business 2) benefit from OPR hike (if any) as more than 90% of variable rate forms its loans portfolio
- **Valuation & recommendation.** We value AFG at RM4.00 as we incorporate 1-standard deviation below P/BV of 1.6 and the stock is a **HOLD**. Rerating catalyst for the stock could emanate from i) lower-than-expected provision allowance ii) higher-than-expected LDR to assist loans growth iii) new M&A deal.

## Results Review - Alliance Financial Group

Table 1: Peers Comparison

Company	YE	Price (RM)	EPS (RM)		P/E (x)		P/B (X)		ROE (%)	Div Yield (%)	TP (RM)	Call
			FY16	FY17	FY16	FY17	FY16	FY17				
AFG	Mac	4.04	0.3	0.4	11.7	11.2	1.3	1.3	10.8	2.0	4.00	Hold
AMMB	Mac	4.42	0.4	0.4	10.3	10.2	0.9	0.9	10.7	4.5	4.80	Hold
BIMB	Dec	4.01	0.4	0.4	10.3	9.8	1.7	1.5	17.2	3.3	4.28	Hold
CIMB	Dec	4.70	0.5	0.5	10.4	9.2	1.0	0.9	7.3	2.9	4.75	Hold
Maybank	Dec	7.99	0.7	0.7	12.9	12.3	1.4	1.3	11.9	6.4	9.10	Hold
RHB Bank	Dec	5.00	0.6	0.6	9.8	9.2	0.8	0.8	7.2	1.0	5.80	Hold
Public Bank	Dec	19.80	1.3	1.4	14.8	14.0	2.3	2.0	17.1	3.0	21.38	Buy
Affin	Dec	2.15	0.2	0.3	9.8	9.0	0.6	0.5	4.5	1.3	NR	NR
MBSB	Dec	0.85	0.1	0.1	11.0	11.2	0.8	0.8	5.4	7.5	NR	NR
STMB	Dec	4.27	0.2	0.2	20.1	17.8	5.0	NA	24.5	1.8	NR	NR
HL Bank	Jun	13.16	1.0	1.1	13.3	12.5	1.3	1.3	11.1	3.0	NR	NR
Average			0.6	0.7	12.8	11.4	1.5	1.1	11.1	3.9		

Source: Bloomberg, M&amp;A Securities

Table 2: Financial Summary

YE: March (RM million)	1Q17	4Q16	1Q15	y-o-y	q-o-q	3M16	3M15	y-o-y
Gross Interest income	475	493	464	2%	-4%	475	464	2%
Interest expense	-263	-282	-256	3%	-7%	-263	-256	3%
Net interest income	212	211	208	2%	0%	212	208	2%
Islamic banking income	67	61	59	15%	10%	67	59	15%
Fee and commission income	74	69	70	5%	7%	74	70	5%
Fee and commission expense	-25	-24	-28	-11%	3%	-25	-28	-11%
Investment income	36	3	24	47%	1037%	36	24	47%
Other income	-1	32	11	-107%	-102%	-1	11	-107%
Net income	364	353	344	6%	3%	364	344	6%
Operating expenses	-169	-181	-167	1%	-6%	-169	-167	1%
Pre-provision income	195	172	177	10%	13%	195	177	10%
Allowance loan loss	-18	-6	-17	6%	228%	-18	-17	6%
Impairment	-1	5	1	-279%	-123%	-1	1	-279%
Operating profit	175	172	161	9%	2%	175	161	9%
Associate	0	0	0	-82%	12%	0	0	-82%
PBT	175	172	161	9%	2%	175	161	9%
Taxation	-43	-42	-39	11%	2%	-43	-39	11%
PAT	132	130	122	9%	2%	132	122	9%
EPS (sen)	8.7	8.5	7.9	10%	2%	8.7	8.0	9%
Dividend - sen	0.0	6.5	6.4			0	0.0	
Dividend payment (RMm)	0.0	0	99.1			0	0.0	
Dividend payout (%)	0%	0%	81%			0	0.0	
Cost to income	-46%	-51%	-49%			-46%	-49%	

Source: Bursa Malaysia, M&amp;A Securities

## Results Review - Alliance Financial Group

Table 3: Financial Forecast

Y/E: March (RM'mil)	FY14	FY15	FY16	FY17F	FY18F
Net interest income	779	821	848	1,023	895
Islamic banking income	211	225	244	254	264
Fee and commission income	314	309	285	300	318
Fee and commission expense	(104)	(114)	(107)	(100)	(94)
Investment income	104	87	92	94	95
Other income	45	55	61	68	74
Net income	1,349	1,383	1,424	1,639	1,552
Operating expenses	(628)	(647)	(689)	(706)	(730)
Pre-provision income	721	736	735	933	822
Allowance loan loss	14	(40)	(48)	(227)	(55)
Impairment	15	7	8	8	8
Operating profit	749	703	695	714	775
Associate	0	0	0	0	0
PBT	749	703	695	748	775
Taxation	(186)	(172)	(173)	(186)	(192)
PAT	564	531	522	563	583
EPS (sen)	37.2	34.8	34.5	36.3	37.7
Dividend - sen	29.5	15.4	14.5	17.1	17.7
Dividend payment (RMm)	457	238	224	264	274
PER (x)	12.6	13.3	12.0	11.4	11.0
BV	2.25	2.42	2.54	2.73	2.94
P/BV	2.1	1.9	1.6	1.5	1.4

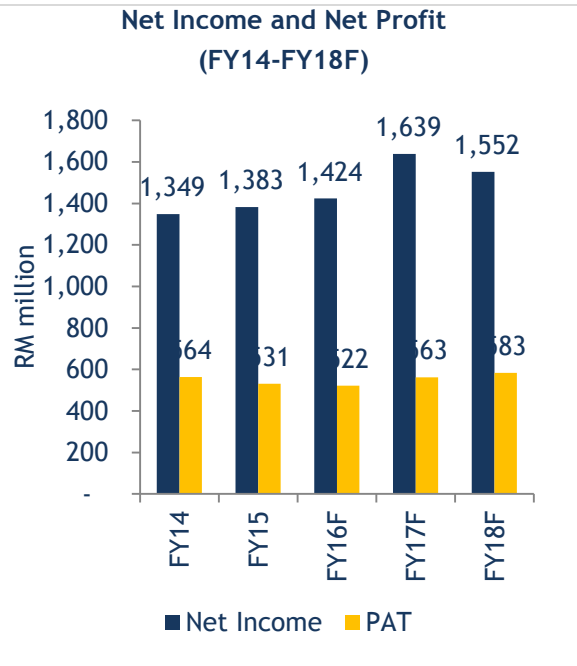
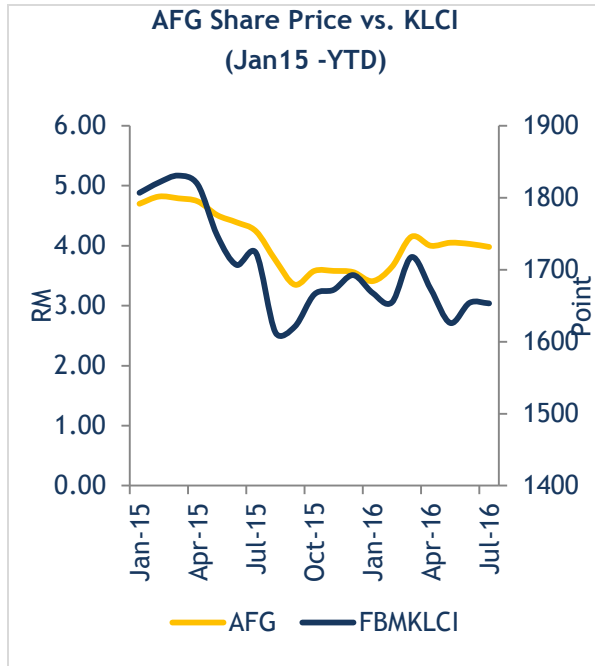
Source: Bursa Malaysia, M&amp;A Securities

## Results Review - Alliance Financial Group

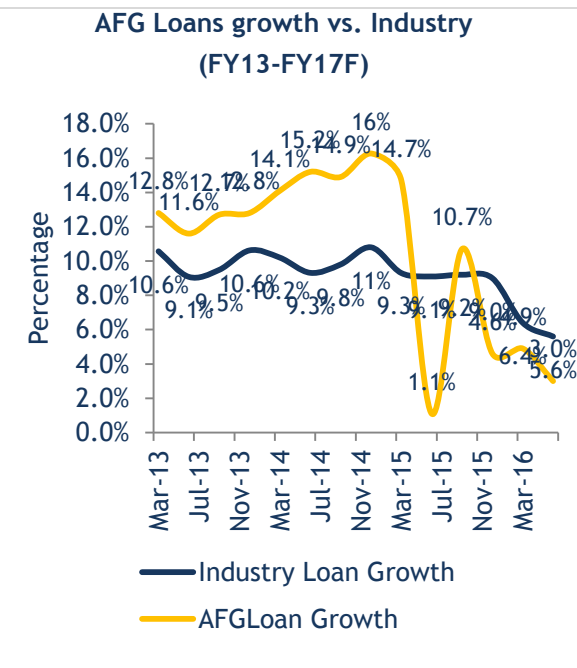
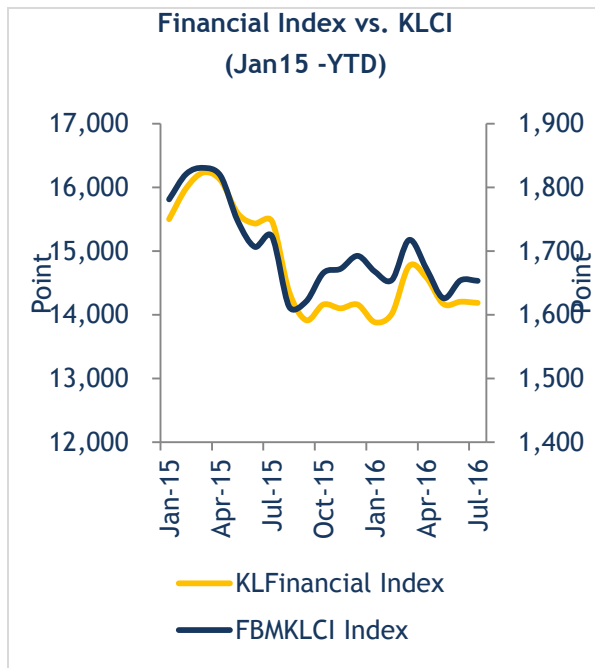
Table 4: Financial Matrix

Y/E: March (RM'mil)	FY14	FY15	FY16	FY17F	FY18F
<b>Margin</b>					
NII Margin	58%	59%	60%	62%	58%
NOII Margin	27%	24%	23%	22%	25%
PPOP Margin	53%	53%	52%	57%	53%
PBT Margin	56%	51%	49%	46%	50%
PAT Margin	42%	38%	37%	34%	38%
<b>Growth</b>					
NII	7%	5%	3%	21%	-13%
NOII	0%	-6%	-2%	9%	9%
Operating expenses	-2%	3%	6%	3%	3%
Pre-provision profit	4%	2%	0%	27%	-12%
Core net profit	5%	-6%	-2%	8%	4%
Gross loans	12%	13%	15%	15%	5%
Customer deposits	14%	12%	9%	14%	3%
Total assets	10%	10%	10%	11%	5%
<b>Profitability</b>					
Average Lending Yield			2%	2%	2%
Average Cost of funds			4%	5%	5%
NIM					
Cost/income	46.6%	46.8%	48.4%	43.1%	47.0%
<b>Asset Quality</b>					
Net NPL	1.2%	1.0%	1.1%	1.0%	1.0%
Gross NPL	1.6%	1.2%	1.3%	1.4%	1.4%
<b>Return</b>					
ROA	1.2%	1.0%	0.9%	1.0%	1.0%
ROE	14%	12%	11%	11%	10%

## Results Review - Alliance Financial Group



Source: Bloomberg, M&amp;A Securities



Source: Bloomberg, M&amp;A Securities

# M&A Securities

## STOCK RECOMMENDATIONS

<b>BUY</b>	Share price is expected to be $\geq +10\%$ over the next 12 months.
<b>TRADING BUY</b>	Share price is expected to be $\geq +10\%$ within 3-months due to positive newsflow.
<b>HOLD</b>	Share price is expected to be between $-10\%$ and $+10\%$ over the next 12 months.
<b>SELL</b>	Share price is expected to be $\geq -10\%$ over the next 12 months.

## SECTOR RECOMMENDATIONS

<b>OVERWEIGHT</b>	The sector is expected to outperform the FBM KLCI over the next 12 months.
<b>NEUTRAL</b>	The sector is expected to perform in line with the FBM KLCI over the next 12 months.
<b>UNDERWEIGHT</b>	The sector is expected to underperform the FBM KLCI over the next 12 months.

## DISCLOSURES AND DISCLAIMER

This report has been prepared by M&A SECURITIES SDN BHD. Readers should be fully aware that this report is for informational purposes only and no representation or warranty, expressed or implied is made as to the accuracy, completeness or reliability of the information or opinion contained herein. The recommendation and opinion are based on information obtained or derived from sources believed to be reliable.

This report contains financial forecast/projection based on our assumptions which may defer from the actual financial results announced by the companies under coverage. All opinions, estimates and assumptions are subject to change without notice. Analysts will initiate, update and cease coverage solely at the discretion of M&A SECURITIES SDN BHD.

Investors are to be cautioned that value of any securities invested may fluctuate from time to time. We advise investors to seek financial, legal and other advice for investing based on the recommendation of our report as we have not taken into account each investors' specific investment objectives, risk tolerance and financial position.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. M&A SECURITIES SDN BHD can accept no liability for any consequential loss or damage whether direct or indirect. Investment should be made at investors' own risks.

M&A SECURITIES SDN BHD and INSAS GROUP of companies, their respective directors, officers, employees and connected parties may have interest in any of the securities mentioned and may benefit from the information herein. M&A SECURITIES SDN BHD and INSAS GROUP of companies and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This report may not be reproduced, distributed or published in any form or for any purpose.

M & A Securities Sdn Bhd (15017-H)

(A wholly-owned subsidiary of INSAS BERHAD)

A Participating Organisation of Bursa Malaysia Securities Berhad

Principal Office:

Level 1,2,3 No.45 & 47,43-6

The Boulevard, Mid Valley City,

Lingkaran Syed Putra,

59200 Kuala Lumpur

Tel: +603 - 2282 1820 Fax: +603 - 2283 1893

Website: [www.mnaonline.com.my](http://www.mnaonline.com.my)

Research Team

[research@mna.com.my](mailto:research@mna.com.my)

03-22821820 ext. 257,

333 334 335 336