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Tuesday, September 29, 2015

Alliance Financial Group Bhd

“Issuing 3 Bonds”

Latest Development

- **Issuing 3 bonds worth RM4 billion.** Alliance Financial Group Berhad (AFG) has informed Securities Commission of Malaysia (SC) and Bursa Malaysia (Bursa) of its intention to issue debt papers worth RM4 billion (nominal value). In a filing to Bursa Malaysia (Bursa) along with SC, AFG intends to issue 3 debt programmes with size ranging from of RM1.5 billion, RM2 billion and RM500 million for general banking and working capital requirements.
- **Details of the bond.**
 - First bond.** The RM1.5 billion senior medium-term notes programme has tenure of 30 years and is rated A1 by RAM Rating Services Bhd. Proceeds will be used for general banking, working capital requirements and business purposes of Alliance Bank.
 - Second Bond.** The RM2 billion subordinated medium-term notes (sub-MTN) programme also has 30-year tenure and is rated A2 by RAM. The proceeds will be used for working capital, general banking and other corporate purposes, including the redemption of any existing subordinated notes of Alliance Bank.
 - Third bond.** The commercial papers programme, with RM500 million nominal value, has a tenure of 7 years and is rated P1 by RAM. Proceeds will be used for general banking, working capital and business purposes of Alliance Bank
- **Redemption of current subordinates MTN.** Of note, AFG currently has RM606 million of subordinated obligation as at 1Q16. From the Bursa announcement, we understand that AFG is keen to redeem the

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BUY (TP: RM4.20)

Current Price (RM)	RM3.37
New Fair Value (RM)	RM4.20
Previous Fair Value (RM)	RM4.70
Previous Recommend.	BUY
Upside To Fair Value	24.6%
Dividend Yield (FY16)	6%

Stock Code

Bloomberg	AFG MK
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Stock & Market Data

Listing	MAIN MARKET	
Sector	Banking	
Shariah Compliance	No	
Issued Shares (mn)	1,548.1	
Market Cap (RM mn)	5,217	
YTD Chg In Share Price	-28%	
Beta (x)	1.01	
52-week Hi/Low (RM)	RM5.03	RM3.34
3M Average Volume (shrs)	1.25 mill	
Estimated Free Float	54.6%	

Major Shareholders

Vertical Theme Sdn Bhd	29.06%
EPF	17.31%
Malaysia Focus Inv.	4.75%

subordinated obligation using the proceeds from the 3 fresh new bonds issued. As per filing with the authority, 60% of the proceeds RM4 billion will be used as a working capital.

- **Its never not too late.** Of note, AFG is the last bank to raise cash call via bond issuance. We think that despite AFG is well capitalised under Basel III requirements, the move is seen as measure to protect capital. In the current soft economy, the low interest rates environment will benefit AFC immensely as the group will be able to raise capital cheaply. Below is the history of capital raising exercise for Malaysia banks;
 - i. **CIMB.** In January 2014, CIMB Berhad raised RM3.55 billion via issuance of new shares. The new shares are equivalent to 6.08% of the enlarged share capital. The offer was oversubscribed, enabling CIMB to increase the deal from 400 million shares to 500 million shares
 - ii. **Public Bank (PBK).** In July 2014, PBK raised RM4.83 billion in May through the issuance of 350.21 million rights shares on the basis of one right share for every 10 existing shares held. The rights issue price of RM13.80 each represented a 33% discount to the theoretical ex-rights price of RM20.64 then. The issue was oversubscribed by 30.53%, with total valid acceptances and excess applications received was at 457.15 million rights shares.
 - iii. **RHB Capital.** In April 2015, RHB Capital raised rights issue of RM1 billion to RM3 billion to reduce its debt position. The exercise would dilute RHB Capital's financial year ending Dec 31, 2016 EPS by 4% to 12%, assuming a rights issue of between RM1bil and RM3bil. The rights were priced 15% below market price.
- **Expect AFG shares to recover.** We feel that AFG can fully focus on growth without distractions. At the back of this, we have assumed a sustainable dividend payout of 40-50%. Keeping this ratio up to FY18F, and assuming stable loans growth of 11%, CET1 ratio should stay healthy at 8%, above the Basel III's requirement.
- **RAM ratings.** The bond issuance draws Rating Agency Malaysia (RAM) statement that reaffirmed Alliance Bank's A1/Stable/P1 financial institution ratings as AFG's firm position in the banking industry
- **Change to forecast.** We have tweaked our forecast to incorporate the bonds issuance. At preliminary yield assumption of 3.8%, we are projecting that AFG's FY16 and FY17 earnings will lift by 1.6% y-o-y and 10% y-o-y respectively assuming 60% of the bonds will be disbursed as a loans annually for FY16 and the remaining for FY17 at the back of net interest margin (NIM) of 2.16%. That said, FY16 and FY17 earnings are expected to grow by 9% and 14.5% 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 3) migrating into higher yielding loans segments.

- **Valuation & recommendation.** . We maintain our TP on AFG at 4.20 based on 10% discount on its 3-year average P/BV of 1.88x and FY16 BV of 2.5x, we reaffirmed our **BUY** call on AFG. 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.

Table 1: Peers Comparison

Company	Year Ended	Price (RM)	EPS (RM)		P/E (x)		P/B (X)		ROE (%)	Div Yield (%)	TP (RM)	Call
			FY15	FY16	FY15	FY16	FY15	FY16				
AFG	March	3.37	0.4	0.4	12.7	12.0	1.7	1.6	14.3	1.9	4.20	Buy
AMMB	March	4.52	0.6	0.6	11.0	11.0	1.4	1.3	14.1	4.5	6.15	Buy
BIMB	Dec	4.10	0.3	0.4	11.7	11.3	1.8	2.0	16.0	5.8	4.84	Buy
CIMB	Dec	4.54	0.5	0.6	12.1	10.4	1.3	1.5	9.2	3.5	6.10	Buy
Maybank	Dec	8.31	0.7	0.8	12.6	11.9	1.5	1.5	13.6	6.2	10.20	Buy
RHB Cap	Dec	5.93	0.8	0.9	9.7	9.1	1.1	1.1	11.5	1.3	7.70	Buy
Public Bank	Dec	17.38	1.2	1.3	15.3	14.2	2.6	2.8	18.7	2.9	21.70	Buy
Affin	Dec	2.35	0.3	0.3	9.0	8.5	0.7	0.7	7.8	5.1	NR	NR
MBSB	Dec	1.47	0.2	0.3	9.1	8.4	1.2	1.1	29.6	2.3	NR	NR
STMB	Dec	3.79	NA	NA	NA	NA	NA	NA	24.3	6.6	NR	NR
HL Bank	June	13.14	1.2	1.3	12.0	11.2	1.6	1.5	14.7	2.9	NR	NR
Average			0.6	0.7	11.5	10.8	1.5	1.5	15.8	3.9		

Source: Bloomberg, M&A Securities

Table 3: Financial Forecast

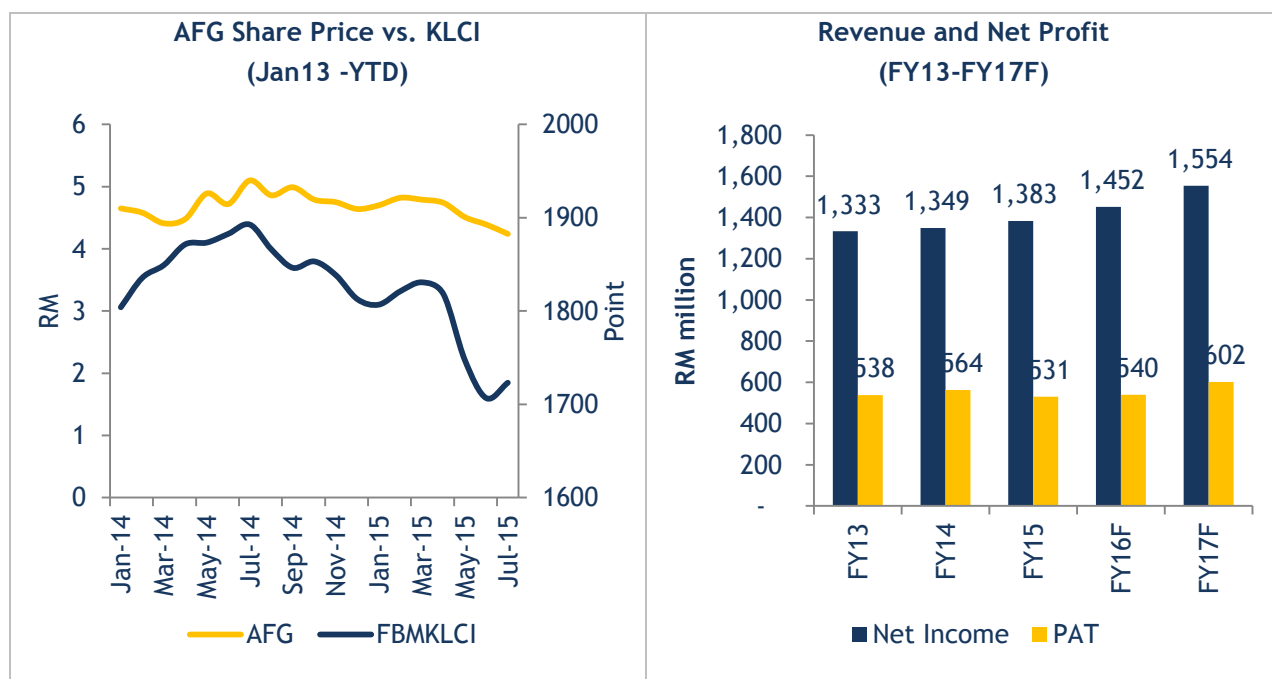
Y/E: March (RM'mil)	FY13	FY14	FY15	FY16F	FY17F
Net interest income	730	779	821	810	873
Islamic banking income	242	211	225	239	249
Fee and commission income	267	314	309	357	380
Fee and commission expense	(92)	(104)	(114)	(135)	(155)
Investment income	117	104	87	109	111
Other income	69	45	55	55	60
Net income	1,333	1,349	1,383	1,435	1,518
Operating expenses	(639)	(628)	(647)	(654)	(679)
Pre-provision income	694	721	736	781	840
Allowance loan loss	25	14	(40)	(71)	(47)
Impairment	0	15	7	8	8
Operating profit	719	749	703	718	801
Associate	(5)	0	0	0	0
PBT	714	749	703	718	801
Taxation	(176)	(186)	(172)	(178)	(199)
PAT	538	564	531	540	602
EPS (sen)	35.3	37.2	34.8	34.6	41.2
Dividend - sen	16.6	29.5	15.4	16.2	19.3
Dividend payment (RMm)	257	457	238	252	299
PER (x)	13.5	12.6	13.3	12.0	10.1
BV	1.96	2.25	2.42	2.54	2.73
P/BV	2.4	2.1	1.9	1.6	1.5

Source: Bursa Malaysia, M&A Securities

Table 4: Operational Ratio

Y/E: Dec (RM'mil)	FY13	FY14	FY15	FY16F	FY17F
Growth					
NII	9%	7%	7%	3%	10%
NOII	-1%	20%	5%	1%	3%
Operating expenses	8%	-2%	2%	2%	4%
PPOP	6%	4%	8%	4%	10%
Core earnings	7%	5%	-4%	6%	14%
Gross loans	11%	13%	14%	10%	10%
Customer deposits	20%	14%	12%	9%	8%
	14%	10%	10%	10%	8%
Profitability					
NOII/Total income	9%	8%	9%	9%	9%
Average Lending Yield	4.2%	4.5%	4.5%	4.4%	3.9%
Average Cost of funds	0.0%	0.0%	2.4%	2.4%	2.4%
NII	35%	34%	34%	33%	32%
Cost/income	16%	17%	29%	27%	27%
Asset Quality					
Net NPL	1.7%	1.2%	1.0%	1.1%	1.0%
Gross NPL	2.2%	1.6%	1.4%	1.4%	1.4%
SP+GP/Gross Loans	0.1%	0.1%	0.3%	0.2%	0.1%
Return					
ROA	1.2%	1.2%	1.0%	1.0%	1.1%
ROE	13.3%	13.5%	11.5%	11.4%	12.0%

Source: Bursa Malaysia, M&A Securities



Source: Bloomberg, M&A Securities

M&A Securities

STOCK RECOMMENDATIONS

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

SECTOR RECOMMENDATIONS

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

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