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Alliance Financial Group Bhd

“Loss Provision the Culprit”

Results Review

- Actual vs. expectations.** Alliance Financial Group Berhad (AFG) FY15 net profit of RM529 million (-6% y-o-y) came in below ours and consensus estimates respectively, accounting 90% and 92% of ours and forecast respectively. Earnings were hit by higher allowance for losses amounting RM40 million y-o-y in FY15 on the back of higher collective provision booked amounting RM78.2 million (RM11.7 million in FY14).
- Dividend.** AFG declared lower dividend of 6.4 cent in 4Q15 (+10.5 cent in 4Q14) and hence, shaving FY15 dividend to 15.4 cent vs 29.5 cent in FY14, equivalent to 45% payout ratio with 3.3% yield.
- Topline vs. Bottom line.** AFG net income reached RM1.38 billion (+2.5% y-o-y) in FY15 on the back of higher contribution from loans that grew to RM1.33 billion in FY15 (+12.1% y-o-y), driven by consumer and business segment that risen immensely by double digits growth of 13.2% y-o-y and 16.6% y-o-y respectively. Growth in net income was well offset by operating expenses that risen commendably by 3% y-o-y to RM646.9 million. Despite disappointment in bottomline, pre-provision income still at healthier number of RM736 million (+2.1% y-o-y)
- Loans growth ended in high note.** As we mentioned, AFG gross loans grew by 14.7% y-o-y in FY15, with the largest growth recorded in SME segment (+26.8% y-o-y) owing to re-engineering application process. In consumer segment, loans growth for residential and non-residential seems rising by 13.5% y-o-y and 35.5% despite industry trend suggesting a lower trend in both segments.

Thursday, May 28, 2015

HOLD (TP: RM4.90)

Current Price (RM)	RM4.64
New Fair Value (RM)	RM4.90
Previous Fair Value (RM)	RM5.05
Previous Recommend.	HOLD
Upside To Fair Value	4.9%
Dividend Yield (FY16)	4.6%

Stock Code	
Bloomberg	AFG MK

Stock & Market Data	
Listing	MAIN MARKET
Sector	Banking
Shariah Compliance	No
Issued Shares (mn)	1,548.1
Market Cap (RM mn)	7,369
YTD Chg In Share Price	1.28%
Beta (x)	1.23
52-week Hi/Lo (RM)	RM5.23 RM4.07
3M Average Volume (shrs)	1.71 mill
Estimated Free Float	54.6%

Major Shareholders	
Vertical Theme Sdn Bhd	29.06%
EPF	17.47%
Malaysia Focus Inv.	4.75%

- **Growth in deposit supports CASA position.** Liquidity situations improved further with customer deposits grew strongly by 13.7% y-o-y in FY15 with CASA positions fell marginally to 33.6% (34% in FY14) due to faster pace of deposits growth. Loans to deposit (LDR) stood comfortably at 82.8% vs. 82.1% in FY14.
- **Asset quality improving further.** Gross NPL continued to decline both in absolute and percentage terms with gross NPL ratio of 1.0% from 1.1% in 9M15. On the back of lower recoveries and higher collective allowances, however, credit costs were higher at 11.5 bps in FY15. Loans loss coverage rose to 102.7% at end-March 2015 from 92.7% end-March 2014.
- **Net interest margin (NIM) under pressure.** As expected, AFG was unable to defend its positive growth in NIM. NIM dropped by 1bps q-o-q and 8bps y-o-y due to (i) the replacement of older higher yielding mortgages with newer lower yielding mortgages; and (ii) on-going deposit cost competition in the industry.
- **Personnel costs under control.** Personnel costs jumped at just 3% y-o-y in FY15 while admin expenses increased 7.3% y-o-y mainly due to higher communication expenses. The group's cost/income ratio weakened marginally to 46.8% vs. 46.6% in FY14.
- **Outlook.** The tougher economic and banking environment is set to shake AFG's performance in FY16. We feel that AFG's superior loans growth is unsustainable in the future, given loans in certain sectors and purposes experiencing a slowdown. As such, AFG exposure in household loan is set to slow down due to the softening in hire purchase and residential property loans. On the other hand, we expect AFG to maintain its market share in the domestic SME segment despite escalating competition in this segment banking on its fast turnaround and large base of customers. However, we are cautious on its loans loss provision as management had indicated collective allowance to maintain at 1.2% of loans book and hence, it will likely taper its net profit further.
- **Change to forecast.** We have done some housekeeping exercise and came out with new FY16 earnings forecast and at the same time we introduce our FY17 forecast. In that, we have cut our earnings assumption by 13.7% in FY16. Given this, FY16 and FY17 earnings are expected to grow by 4.1% and 12% respectively driven by 1) low risk as 50% of SME are collateralized business 2) benefit from OPR hike as more than 90% of variable rate forms its loans portfolio 3) growing hire purchase segment while other slowing down.
- **Valuation & recommendation.** We maintain our **HOLD** call on AFG, but we reduce our TP to RM4.90 from RM5.05 at 10% discount from 3-year average P/BV of 2.14x. Rating 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 Bhd

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	4.64	0.4	0.4	12.7	12.0	1.7	1.6	14.3	1.9	4.90	Hold
AMMB	March	6.28	0.6	0.6	11.0	11.0	1.4	1.3	14.1	4.5	6.80	Hold
BIMB	Dec	4.02	0.3	0.4	11.7	11.3	1.8	2.0	16.0	5.8	4.84	Buy
CIMB	Dec	5.61	0.5	0.6	12.1	10.4	1.3	1.5	9.2	3.5	6.10	Hold
Maybank	Dec	9.03	0.7	0.8	12.6	11.9	1.5	1.5	13.6	6.2	10.70	Buy
RHB Cap	Dec	7.41	0.8	0.9	9.7	9.1	1.1	1.1	11.5	1.3	8.30	Hold
Public Bank	Dec	18.70	1.2	1.3	15.3	14.2	2.6	2.8	18.7	2.9	20.60	Buy
Affin	Dec	2.77	0.3	0.3	9.0	8.5	0.7	0.7	7.8	5.1	NR	NR
MBSB	Dec	1.84	0.2	0.3	9.1	8.4	1.2	1.1	29.6	2.3	NR	NR
STMB	Dec	16.20	NA	NA	NA	NA	NA	NA	24.3	6.6	NR	NR
HL Bank	June	13.60	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 2: Financial Summary

YE: March (RM million)	4Q15	3Q15	4Q14	y-o-y	q-o-q	12M15	12M14	y-o-y
Gross Interest income	306	350	341	-10%	-13%	1,383	1,349	3%
Interest expense	432	459	418	3%	-6%	1,772	1,601	11%
Net interest income	(246)	(246)	(217)	13%	0%	(952)	(823)	16%
Islamic banking income	186	214	201	-7%	-13%	821	779	5%
Fee and commission income	58	58	53	11%	0%	225	211	7%
Fee and commission expense	70	75	66	6%	-6%	309	314	-2%
Investment income	(28)	(29)	(26)	8%	-4%	(114)	(104)	9%
Other income	15	16	43	-65%	-5%	87	104	-16%
Net income	5	17	5	-14%	-73%	55	45	21%
Operating expenses	306	350	341	-10%	-13%	1,383	1,349	3%
Pre-provision income	(165)	(156)	(165)	0%	6%	(647)	(628)	3%
Allowance loan loss	141	193	176	-20%	-27%	736	721	2%
Impairment	(17)	(27)	18	-200%	-35%	(40)	14	-391%
Operating profit	2	2	14	-89%	-12%	7	15	-55%
Associate	125	168	208	-40%	-26%	703	749	-6%
PBT	0	0	-	#DIV/0!	-75%	0	-	#DIV/0!
Taxation	125	168	208	-40%	-26%	703	749	-6%
PAT	(31)	(42)	(50)	-37%	-25%	(174)	(186)	-6%
EPS	93	126	158	-41%	-26%	529	564	-6%
Margin								
NII Margin	61%	61%	59%			59%	58%	
NOII Margin	20%	22%	26%			24%	27%	
PPOP Margin	46%	55%	52%			53%	53%	
PBT Margin	41%	48%	61%			51%	56%	
PAT Margin	30%	36%	46%			38%	42%	

Source: Bursa Malaysia, M&A Securities

Table 3: Financial Forecast

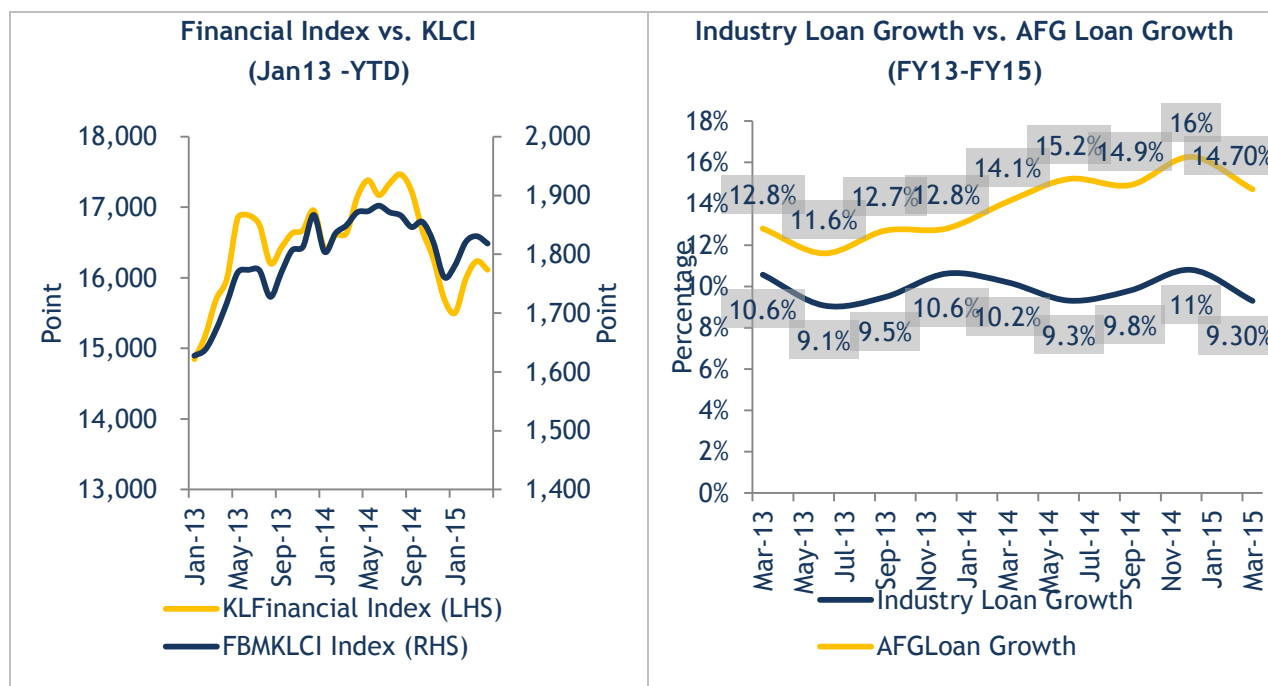
Y/E: March (RM'mil)	FY13	FY14	FY15	FY16F	FY17F
Net interest income	2,124	2,276	2,448	2,668	2,852
Islamic banking income	1,429	1,601	1,772	1,908	2,052
Fee and commission income	(699)	(823)	(952)	(1,081)	(1,144)
Fee and commission expense	730	779	821	826	908
Investment income	242	211	225	239	249
Other income	267	314	309	357	380
Net income	(92)	(104)	(114)	(135)	(155)
Operating expenses	117	104	87	109	111
Pre-provision income	69	45	55	55	60
Allowance loan loss	1,333	1,349	1,383	1,451	1,553
Impairment	(639)	(628)	(647)	(654)	(679)
Operating profit	694	721	736	798	875
Associate	25	14	(40)	(71)	(60)
PBT	0	15	7	8	8
Taxation	719	749	703	734	823
PAT	(5)	0	0	0	0
EPS (sen)	35.3	37.2	34.8	35.7	40.0
Dividend - sen	16.6	29.5	15.4	23	23
Dividend payment (RMm)	257	457	238	356	356
PER (x)	13.5	12.6	13.3	13.9	12.4
BV	1.96	2.25	2.42	2.54	2.76
P/BV	2.4	2.1	1.9	2.0	1.8

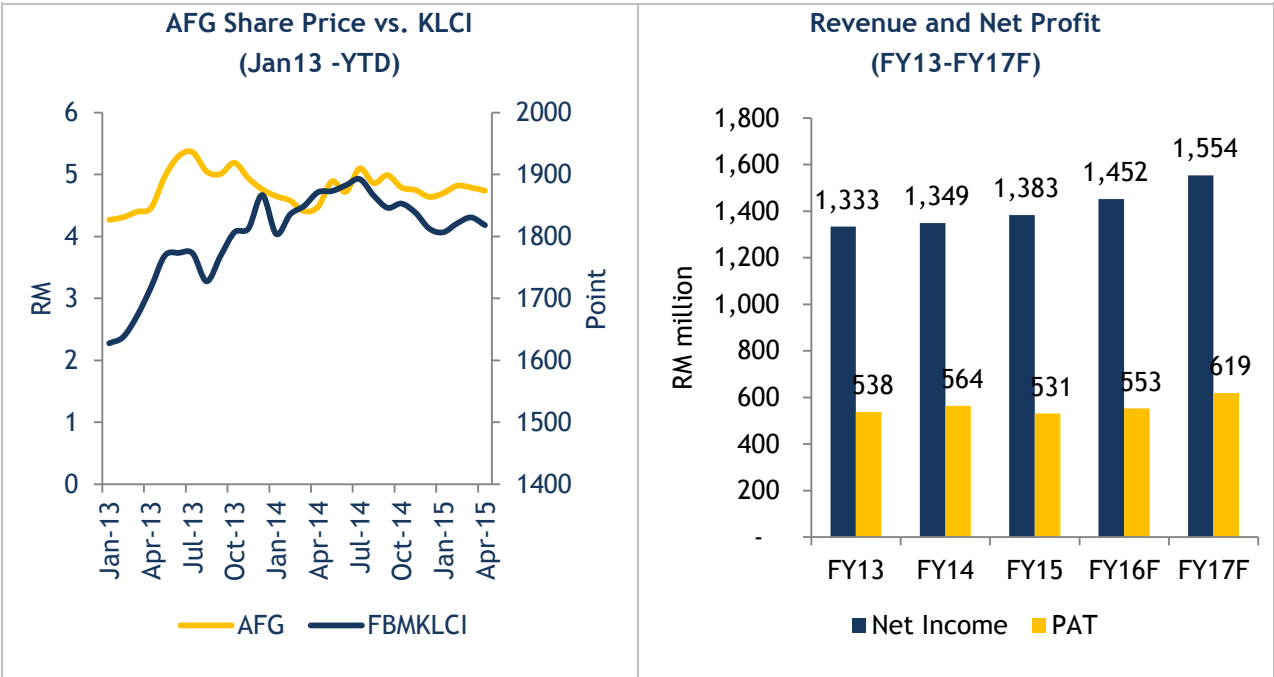
Source: Bursa Malaysia, M&A Securities

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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