

Alliance Financial Group Bhd

“Back on Business”

Results Review

- Actual vs. expectations.** Alliance Financial Group Berhad (AFG) 6M16 net profit of RM257 million (-7% y-o-y) came marginally below from ours, but in line with consensus forecast, accounting 44% and 45% of ours and consensus full year net profit forecast. The 6M16 earnings were hampered by higher loans loss allowance of RM36 million (-852% y-o-y) on the back of higher collective provision booked amounting to RM33.7 million (+23.7% y-o-y) as well as slower recoveries effort.
- Dividend.** No dividend declared in this quarter.
- Topline vs. Bottom line.** AFG net income reached RM710 million (-2% y-o-y) derailed by slower contribution from fee based income of RM141million (-14% y-o-y) and wedged by lower brokerage income by 20% y-o-y to RM17.1 million. Net interest income was flat in 6M16 to RM421 million as higher cost of funds pushed interest expense higher. Similarly, pre-provision income was hit after dropping by 6% y-o-y to only RM377 million.
- Loans growth recovering.** AFG’s gross loan growth jumped to 10.2% y-o-y in 6M16 as strategic shift to move into profitable segment was bearing fruit, and hence led to annualized loans growth of 2.8% vs. targeted loans growth of 8% for FY16. SME segment continued to be AFG bread and butter, posted at 9% q-o-q growth in 2Q16. The SME, commercial, personal loans, credit cards and share margin financing as a whole have grown at a faster rate of 10.6% in 1H16 compared to the latter bucket comprising of mortgage, hire purchase, shophouse financing and corporate segment, which have grown at an annualised rate of 5.6% in 1H15.

Monday, November 30, 2015

HOLD (TP: RM4.00)

Current Price (RM)	RM3.56
New Fair Value (RM)	RM4.00
Previous Fair Value (RM)	RM4.90
Previous Recommend.	BUY
Upside To Fair Value	9.5%
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)	5,511	
YTD Chg In Share Price	-24.3%	
Beta (x)	1.05	
52-week Hi/Lo (RM)	RM4.91	RM3.31
3M Average Volume (shrs)	1.26 mill	
Estimated Free Float	54.6%	

Major Shareholders

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

- **Improving liquidity position.** Deposits posted at flattish 8.1% y-o-y in 6M16, however deposits plunged 1.2% q-o-q on the back slower fixed deposits growth of 2.2% q-o-q given AFG run off from expensive fixed deposits. CASA ratio declined by 90bps q-o-q to 33.6% on declining demand deposits. Loan-to-deposit ratio (LDR) came in higher level of 86.2% from 85.1% in 1Q16 given acceleration in loans growth. Nevertheless, LDR remains below that of the industry.
- **Cost-to-income ratio (CIR) manageable.** CIR weakened to 46.9% vs. 44.8% in 1H15, however on q-o-q, CIR improved to 45.4% on the back of higher opex that outpaced total income growth.
- **NIM continue to impress.** NIM had surprisingly improved, by 3ps q-o-q to 2.19% in 2QFY16. We believe the NIM improvement was due mainly to reducing exposure on expensive fixed deposits as well as re-pricing efforts on both its asset and liabilities portfolios. Nevertheless, AFG guided 10bps compression on NIM in FY16.
- **Asset quality improving further.** Gross NPL continued to decline both in absolute and percentage terms with gross impaired ratio of 1.1% from 1.2% in 6M15. On the back of higher recoveries and higher collective allowances, however, credit costs were higher at RM35.6 million in 1H16. Loans loss coverage was slower to 92.7% vs. 105.4% 1Q16.
- **Outlook.** Post re-engineering efforts, AFG is starting to show improvement despite the slow start in the progress no thanks to its strong execution of the strategy outlined. Meanwhile on SME front, management still believe stable outlook for the segment given its effort to focus on underserved small-sized segment. 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 may slice its net profit further.
- **Change to forecast.** No change to our forecast despite AFG missing our forecast in 6M16. Given this, FY16 and FY17 earnings are expected to grow by 1.6% and 11% 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 segment (contradict with previous para).
- **Valuation & recommendation.** We value AFG at RM4.00 as we incorporate 1-standard deviation below P/BV of 1.6. That said, we maintain our **HOLD** 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	YE	Price (RM)	EPS (RM)		P/E (x)		P/B (X)		ROE (%)	Div Yield (%)	TP (RM)	Call
			FY15	FY16	FY15	FY16	FY15	FY16				
AFG	Mac	3.55	0.4	0.4	12.7	12.0	1.7	1.6	14.3	1.9	4.00	Hold
AMMB	Mac	4.64	0.6	0.6	11.0	11.0	1.4	1.3	14.1	4.5	5.10	Hold
BIMB	Dec	3.96	0.3	0.4	11.7	11.3	1.8	2.0	16.0	5.8	4.60	Buy
CIMB	Dec	4.55	0.5	0.6	12.1	10.4	1.3	1.5	9.2	3.5	4.90	Hold
Maybank	Dec	8.44	0.7	0.8	12.6	11.9	1.5	1.5	13.6	6.2	9.92	Buy
RHB Cap	Dec	5.56	0.8	0.9	9.7	9.1	1.1	1.1	11.5	1.3	6.60	Hold
Public Bank	Dec	18.26	1.2	1.3	15.3	14.2	2.6	2.8	18.7	2.9	19.14	Hold
Affin	Dec	2.42	0.3	0.3	9.0	8.5	0.7	0.7	7.8	5.1	NR	NR
MBSB	Dec	1.61	0.2	0.3	9.1	8.4	1.2	1.1	29.6	2.3	NR	NR
STMB	Dec	3.73	NA	NA	NA	NA	NA	NA	24.3	6.6	NR	NR
HL Bank	Jun	13.36	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)	2Q16	1Q16	2Q15	y-o-y	q-o-q	6M16	6M15	y-o-y
Gross Interest income	471	464	458	3%	2%	935	881	6%
Interest expense	(258)	(256)	(237)	9%	1%	(514)	(460)	12%
Net interest income	213	208	221	-4%	3%	421	421	0%
Islamic banking income	61	59	55	11%	4%	120	108	10%
Fee and commission income	70	70	90	-22%	0%	141	165	-14%
Fee and commission expense	(27)	(28)	(29)	-7%	-4%	(55)	(57)	-4%
Investment income	36	24	23	59%	49%	60	56	8%
Other income	12	11	30	-60%	9%	23	34	-31%
Net income	366	344	390	-6%	6%	710	727	-2%
Operating expenses	(166)	(167)	(163)	2%	-1%	(333)	(325)	3%
Pre-provision income	200	177	227	-12%	13%	377	402	-6%
Allowance loan loss	(19)	(17)	7	-392%	13%	(36)	5	-852%
Impairment	-	1	3	-100%	-100%	1	3	-80%
Operating profit	181	161	237	-24%	12%	341	410	-17%
Associate	0	0	-	0	-83%	0	-	0
PBT	181	161	237	-24%	12%	341	410	-17%
Taxation	(46)	(39)	(57)	-19%	19%	(85)	(99)	-15%
PAT	135	122	180	-25%	10%	257	311	-18%
EPS	8.7	7.9	11.6	-25%	10%	16.6	20.1	-18%
Margin								
NII Margin	58%	60%	57%			59%	58%	
NOII Margin	25%	23%	29%			24%	27%	
PPOP Margin	55%	51%	58%			53%	55%	
PBT Margin	49%	47%	61%			48%	56%	
PAT Margin	37%	35%	46%			36%	43%	

Source: Bursa Malaysia, M&A Securities

Table 3: Financial Forecast

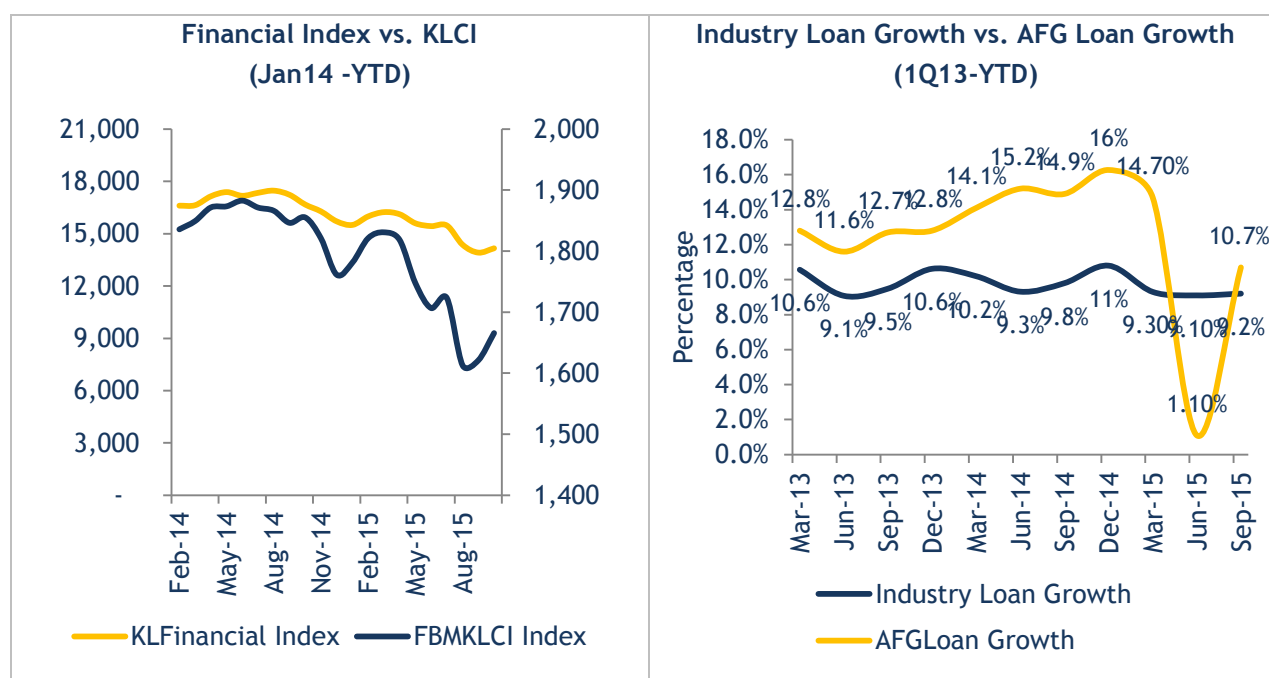
Y/E: March (RM'mil)	FY13	FY14	FY15	FY16F	FY17F
Net interest income	730	779	821	810	873
Islamic banking income	242	211	225	239	249
Fee and commission income	267	314	309	357	380
Fee and commission expense	(92)	(104)	(114)	(135)	(155)
Investment income	117	104	87	109	111
Other income	69	45	55	55	60
Net 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	34.9	38.9
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	11.9	10.7
BV	1.96	2.25	2.42	2.54	2.76
P/BV	2.4	2.1	1.9	1.6	1.5

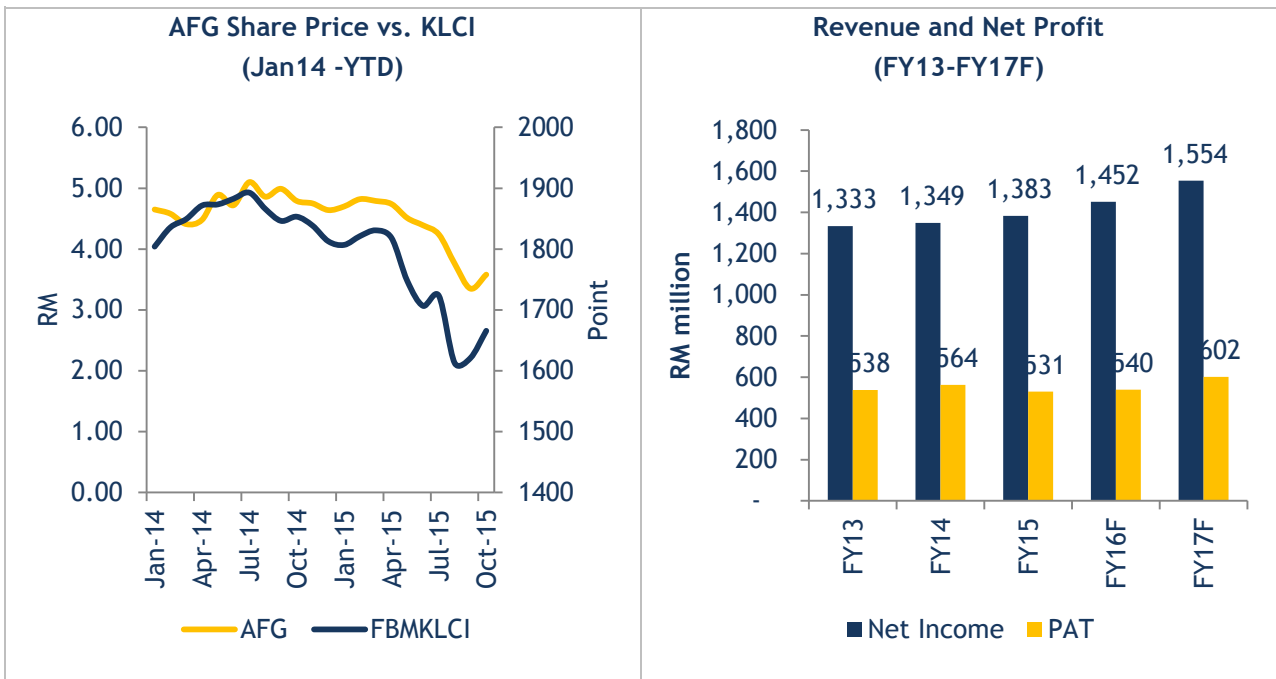
Source: Bursa Malaysia, M&A Securities

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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