

ALLIANCE BANK MALAYSIA

(ABMB MK EQUITY, ALLI.KL)

HOLD

(Maintained)

Price: RM5.46
Target Price (% return): RM5.20 (-1%)
52-week High/Low: RM5.55/RM3.83

Financial Services

Rationale for report: Company Results

Lower price torque ahead

Maintain HOLD on Alliance with a GGM-TP of RM5.20. We expect 3QFY26 earnings to be flattish QoQ, as robust top-line and lower NCC are likely to be offset by higher opex. Besides, we see low probability of capital management. No changes to our forecasts. After the strong price performance, valuation looks stretchy at >1x P/B, limiting near-term upside. As such, we remain lukewarm on the stock and prefer not to chase event-driven price action, linked to the potential DBS M&A. Instead, we like HLFG for better capital return potential (>50%).

- HOLD at GGM-TP of RM5.20.** This is based on 0.97x FY27 P/B. Post-rights issue (RI), the stock has rallied strongly (+35%; +65% vs RI price), leaving limited upside even with any potential DBS M&A news flow. Valuation is now stretchy at >1x P/B for a small bank, while capital management is unlikely.
- Robust top-line but...** We see sequential NIM improvement (2QFY26: -10bp QoQ) as deposits were pre-funded earlier, with lower FD repricing and less aggressive Oct-Dec rivalry. That said, full-year NIM slippage guidance of 2-8bp stays intact vs ours: -6bp. Moreover, loans growth has re-accelerated across most segments (ex-corporate), with FY26 guidance kept at +8-10% (ours: +8%). Besides, NOL remains resilient, backed by fees, though treasury income could face pressure from higher average MGS yields in Oct-Dec (+8bp QoQ).
- ...higher opex capping bottom-line growth.** Opex is set to rise in 2HFY26, driven by higher IT spend (AI-enabled credit system, new HQ) and personnel costs. In turn, CIR is guided to trend up to c.48% (1HFY26: 46%; ours: 48%). However, asset quality is stable, with limited delinquent-to-impaired conversion and a largely unchanged watchlist. As such, NCC should trend lower (1HFY26: 46bp vs guidance: 30-35bp; ours: 36bp).
- Competing need for capital.** We see low probability of capital management, given Alliance's above-industry loans growth (>3ppt); recall, the RM600m RI last year to fund expansion and DPR was reduced to 40% from 50%. In our opinion, meaningful dividend upside will only emerge if credit growth slows. DPR guidance remains at 40-50% (ours: 41-44%), which we expect to hold over the next 3 years.

YE to Mar	FY25	FY26F	FY27F	FY28F
Revenue (RM mil)	2,269.9	2,476.4	2,655.8	2,752.8
Core net profit (RM mil)	750.7	808.2	858.7	881.7
FD Core EPS (sen)	43.4	46.7	49.6	51.0
FD Core EPS growth (%)	8.7	7.7	6.3	2.7
Consensus Net Profit (RM mil)	-	-	-	-
DPS (sen)	17.4	19.4	21.0	22.3
BV/share (RM)	4.4	5.1	5.4	5.7
PE (x)	12.7	11.8	11.1	10.9
Div yield (%)	3.1	3.5	3.8	4.0
P/BV (x)	1.2	1.1	1.0	1.0
ROE (%)	10.1	9.8	9.5	9.2

Source: Alliance Bank Malaysia, AmInvestment Bank

Analyst (s)

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Key Changes

Target Price:

EPS:

Stock and Financial Data

Shares Outstanding (million)	1,730.20
Market Cap (RMmil)	9,568.10
Book Value (RM/Share)	4.43
P/BV (x)	1.2
ROE (%)	10.1
Net Gearing (%)	
Free Float	60.9
Avg Daily Value (RMmil)	8.9

Major Shareholders

Vertical Theme	29.1%
EPF	4.5%
Global Success	4.5%

Price performance	3mth	6mth	12mth
Absolute(%)	24.8	21.3	15.1
Relative(%)	17.6	9.0	6.1

Source: Alliance Bank Malaysia, AmInvestment Bank

Price Chart



EXHIBIT 1. 5-YR FORWARD P/E BAND

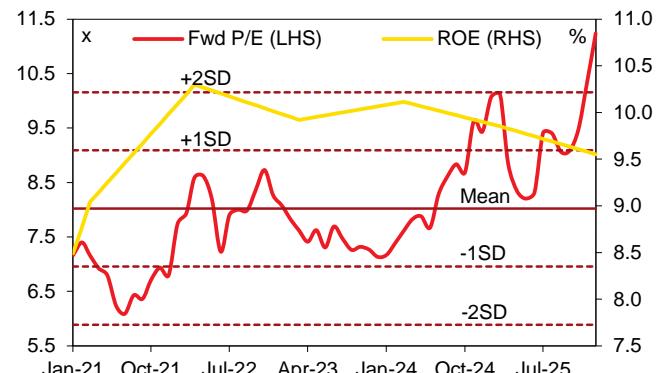


EXHIBIT 2. 10-YR FORWARD P/E BAND

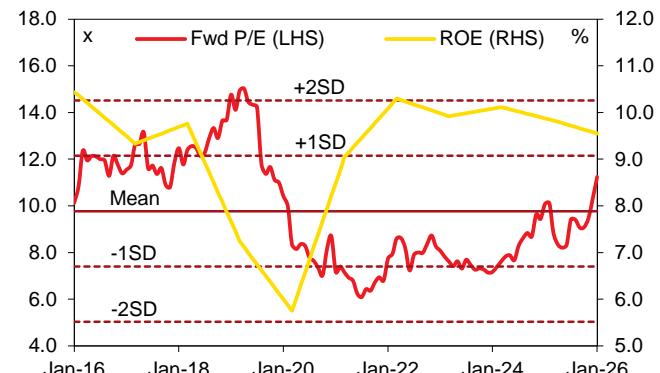


EXHIBIT 3. 5-YR FORWARD P/B BAND

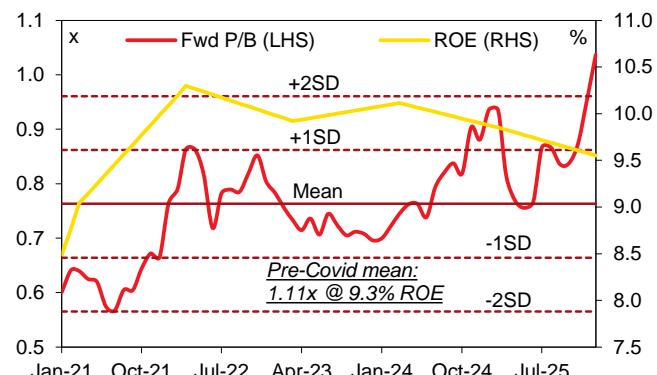


EXHIBIT 4. 10-YR FORWARD P/B BAND

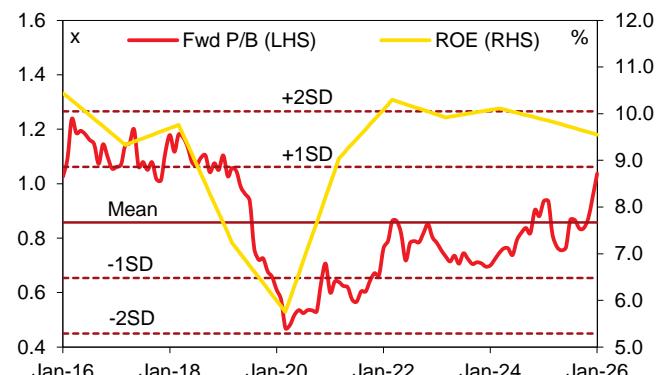


EXHIBIT 5. 5-YR FORWARD DY BAND

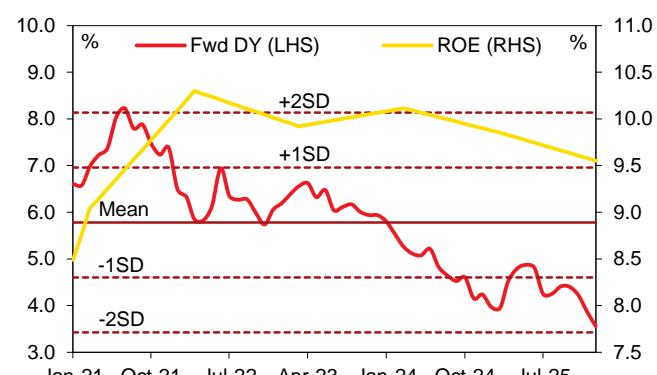


EXHIBIT 6. 10-YR FORWARD DY BAND

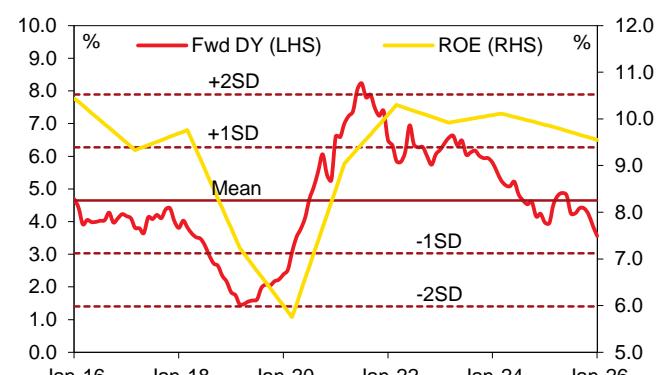


EXHIBIT 7. PEERS COMPARISON

	Price (RM)	Target (RM)	Call	P/E (x)		EPS growth (%) 2026	P/B (x)		Div. yield (%)		ROE (%)		
				2026	2027		2026	2027	2026	2027	2026	2027	
Bank A	2.62	-	N.R.	11.2	9.7	5.9	15.4	0.5	0.5	2.8	3.3	4.7	5.3
Alliance	5.46	5.20	HOLD	11.7	11.0	7.7	6.3	1.1	1.0	3.5	3.8	9.8	9.5
BIMB	2.44	2.50	HOLD	9.7	9.0	10.6	8.0	0.7	0.7	6.2	6.7	7.2	7.6
CIMB	8.45	9.20	BUY	10.9	10.6	5.7	3.1	1.2	1.1	5.9	6.1	11.2	11.1
HLB	24.00	25.80	BUY	11.2	10.6	3.1	5.8	1.2	1.1	4.2	4.5	10.9	10.8
HLFG	20.82	31.20	BUY	7.1	6.7	2.0	6.0	0.7	0.6	3.7	3.9	9.9	9.8
Maybank	11.10	10.80	HOLD	12.2	12.0	4.7	2.2	1.3	1.3	6.0	6.1	11.0	10.9
MBSB	0.74	0.73	HOLD	14.1	13.5	8.0	4.2	0.6	0.6	5.7	5.9	4.3	4.5
Public	4.75	5.10	BUY	12.2	11.7	5.0	3.8	1.5	1.4	4.9	5.2	12.2	12.1
RHB	8.18	8.10	HOLD	10.6	10.1	2.5	4.2	1.0	1.0	5.7	5.9	9.7	9.8
Sector				11.1	10.5	5.5	5.9	1.0	0.9	4.9	5.1	9.1	9.1
Sector (ex-Bank A)				11.1	10.6	5.5	4.8	1.0	1.0	5.1	5.3	9.6	9.6

Source: AmlInvestment 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

Following its strong post-RI rally (+35%; +65% vs RI price), we see limited upside from here. Also, valuation has become frothy at >1x P/B for a small-cap bank, while the likelihood of meaningful capital management is low in the near-term.

Against this backdrop, we continue to be lukewarm on Alliance even with any potential DBS-related M&A news flow. We prefer not to chase event-driven price action, particularly when the acquisition of a 29% associate stake is unlikely to generate meaningful synergies or drive significant change in fundamentals.

Instead, we like other financial names such as HLFG, which offer more compelling capital upside (>50%), driven by unwarranted market mispricing, alongside clearer prospects for dividend yield expansion; these attributes provide better capital-return visibility, making the investment case more actionable.

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 RM5.20 for Alliance and this is based on 0.97x FY27 P/B with assumptions of 9.5% ROE, 9.7% COE, and 3.0% LTG. This is valued at +2SD to its 5-year mean and just slightly above sector's 0.98x. The premium is fair considering its ROE output is 1ppt higher vs the average for the past 5 years.

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.

EXHIBIT 8. VALUATIONS

Return on equity (ROE)	9.5%
Cost of equity (COE)	9.7%
Long-term growth rate (LTG)	3.0%
Target P/B	0.97x
FY27 BVPS	RM5.37
ESG premium	-
12-month target price	RM5.20

Source: AmlInvestment Bank

Financial Summary

Income Statement (RMmil)

YE to Mar	FY24	FY25	FY26F	FY27F	FY28F
Net interest income	1,309.6	1,451.1	1,562.5	1,693.6	1,764.5
Non-interest income	270.8	271.7	318.1	321.7	325.4
Islamic banking income	440.1	547.1	595.8	640.5	662.9
Total income	2,020.5	2,269.9	2,476.4	2,655.8	2,752.8
Overhead expenses	(973.7)	(1,088.5)	(1,182.4)	(1,261.5)	(1,311.7)
Pre-provision profit	1,046.7	1,181.4	1,294.0	1,394.2	1,441.1
Loan loss provisions	(134.9)	(187.9)	(230.6)	(264.3)	(281.0)
Impairment & others	(0.5)	(0.6)	-	-	-
Associates	-	-	-	-	-
Pretax profit	911.3	992.9	1,063.4	1,129.9	1,160.1
Tax	(220.8)	(242.2)	(255.2)	(271.2)	(278.4)
Minority interests	-	-	-	-	-
Core net profit	690.5	750.7	808.2	858.7	881.7

Balance Sheet (RMmil)

YE to Mar	FY24	FY25	FY26F	FY27F	FY28F
Cash & deposits with FIs	4,596.7	4,588.9	7,069.7	6,928.6	6,671.8
Marketable securities	11,691.0	13,545.1	13,947.4	14,269.0	14,585.1
Total current assets	16,287.7	18,134.0	21,017.1	21,197.6	21,256.9
Net loans & advances	54,720.8	61,418.5	66,152.9	70,776.3	75,000.0
Statutory deposits	nm	nm	nm	nm	nm
Long-term investments	3,870.4	4,065.0	4,146.3	4,229.2	4,313.8
Fixed assets	234.1	491.6	477.0	461.8	446.0
Intangible assets	462.4	517.0	515.8	510.6	501.5
Other long-term assets	1,370.8	591.1	591.1	591.1	591.1
Total LT assets	60,658.5	67,083.3	71,883.1	76,569.1	80,852.4
Total assets	76,946.1	85,217.3	92,900.2	97,766.6	102,109.3
Customer deposits	57,397.5	65,835.0	72,418.4	76,763.6	80,601.7
Deposits of other FIs	4,077.8	3,779.4	3,779.4	3,779.4	3,779.4
Subordinated debts	5,014.8	5,411.7	5,411.7	5,411.7	5,411.7
Hybrid capital securities	-	-	-	-	-
Other liabilities	3,280.9	2,522.8	2,522.8	2,522.8	2,522.8
Total liabilities	69,771.0	77,548.9	84,132.4	88,477.5	92,315.6
Shareholders' funds	7,175.1	7,668.4	8,767.8	9,289.2	9,793.7
Minority interests	-	-	-	-	-

Key Ratios

YE to Mar	FY24	FY25	FY26F	FY27F	FY28F
Total income growth (%)	5.2	12.3	9.1	7.2	3.7
Pre-provision profit growth (%)	0.8	12.9	9.5	7.7	3.4
Core net profit growth (%)	1.9	8.7	7.7	6.3	2.7
Net interest margin (%)	2.4	2.5	2.4	2.4	2.4
Cost-to-income ratio (%)	48.2	48.0	47.7	47.5	47.6
Effective tax rate (%)	24.2	24.4	24.0	24.0	24.0
Dividend payout (%)	50.0	40.0	41.5	42.3	43.8

Key Assumptions

YE to Mar	FY24	FY25	FY26F	FY27F	FY28F
Loan growth (%)	13.6	12.0	8.0	7.0	6.0
Deposit growth (%)	12.9	14.7	10.0	6.0	5.0
Loan-deposit ratio (%)	97.1	94.9	93.1	94.0	94.9
Gross NPL (%)	2.1	1.8	1.9	1.9	1.9
Net NPL (%)	1.7	1.4	1.4	1.4	1.4
Credit charge-off rate (%)	0.3	0.3	0.4	0.4	0.4
Loan loss reserve (%)	100.6	106.6	102.3	101.4	101.9

Source: Company, AmInvestment Bank

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