

# Portfolio Manager's Views

Investment Team



4 July 2025

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# 1. Executive Summary

- 1 **Special Feature: Why are we invested in Alliance Bank?**
- 2 **The global outlook is turning more positive.** Easing Middle East tensions (Israel-Iran ceasefire on 24 June) are lowering oil prices, while the Fed's June projections signal two rate cuts in 2025 amid slower global growth.
- 3 **The USD Index is down 9.6% YTD**, weighed by rising US debt and fading exceptionalism is supportive of emerging markets like Malaysia. Trade tensions are easing, with better US-China talks and less appetite for tariffs. A more dovish Fed Chair post-Powell (term ends May 2026) could further support policy easing.
- 4 **FBMKLCI rose 1.8% in June** as foreign inflows returned. With record-low foreign shareholding (19.0%), sentiment may rebound. A possible July OPR cut and mild US tariffs on Vietnam bode well for Malaysia.
- 5 **KLCI's valuations are undemanding** ie. FY25 PER of 13.7x (10Y range 12.9x to 21.1x), PBR of 1.3x (10Y range 1.2x to 1.9x) and forecast DY of 4.6% (10Y range 2.9% to 4.5%) [source: Bloomberg]. We favor domestic plays shielded from external risks, keeping more cash amid short-term uncertainty and waiting to buy at lower levels.

# 2. Feature: Alliance Bank

We continue to own Alliance Bank in our funds. The reasons for holding the stock are outlined here:

Exhibit 1: SME's economic data

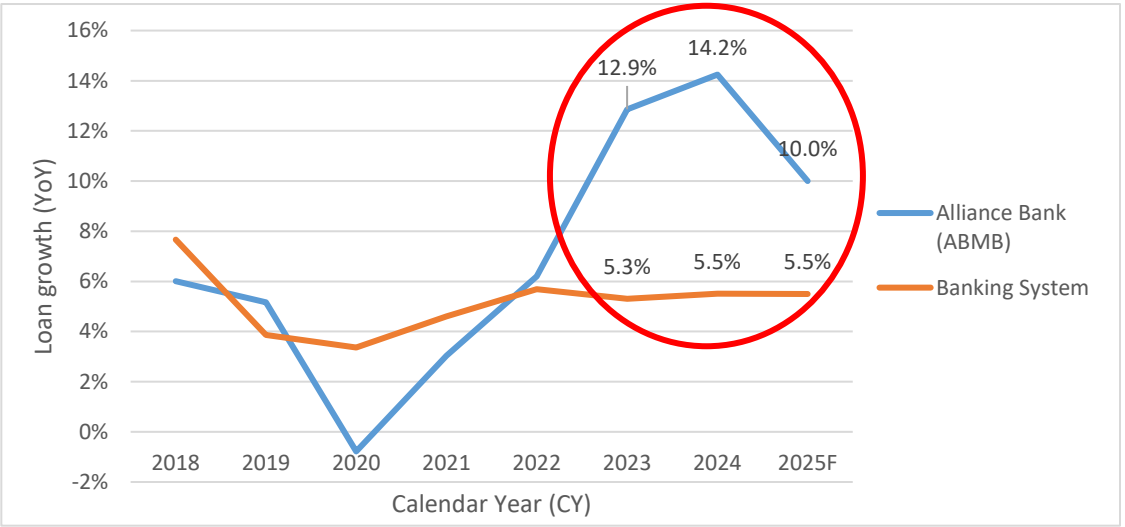


Source: Department of Statistics, Malaysia (DOSM)

## 1 Alliance Bank is a play on SME loan growth.

SME loans account for 34% of Alliance Bank's total loans (Malaysia banks' average: 17% of total loans). The SME is a key contributor to Malaysia's GDP, accounting for 39.1% of Malaysia's GDP in 2023.

Exhibit 2: Alliance Bank loan growth vs the banking industry loan growth



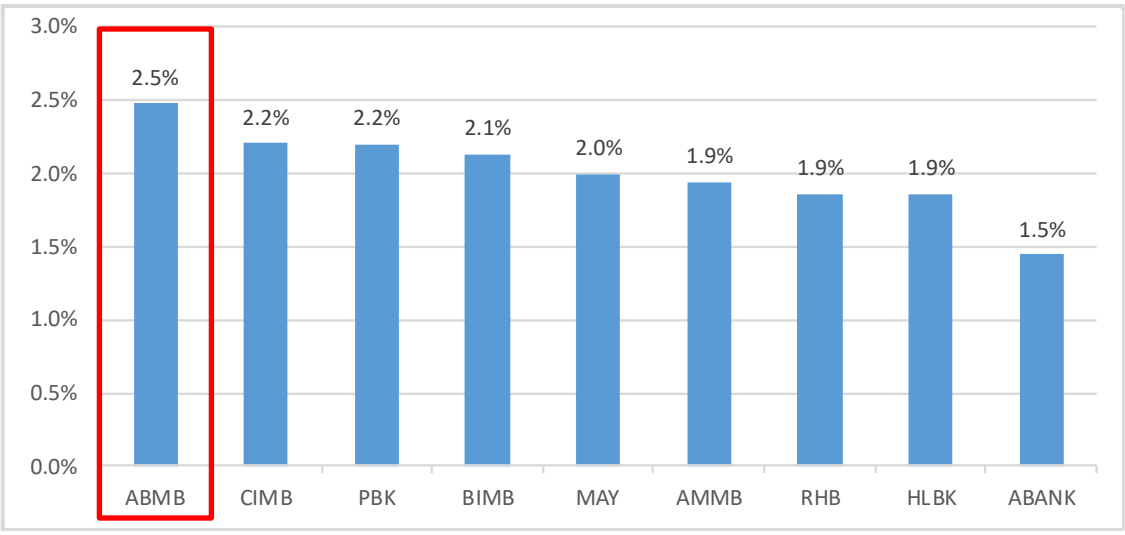
Source: Astute, Bloomberg

## 2 Alliance Bank recorded above average loan growth over the past 3 years.

Alliance Bank's loan has been growing at a faster rate compared to the banking system since CY2023. It is supported by its strong SME network.

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Exhibit 3: Banks' Net Interest Margin (NIM)

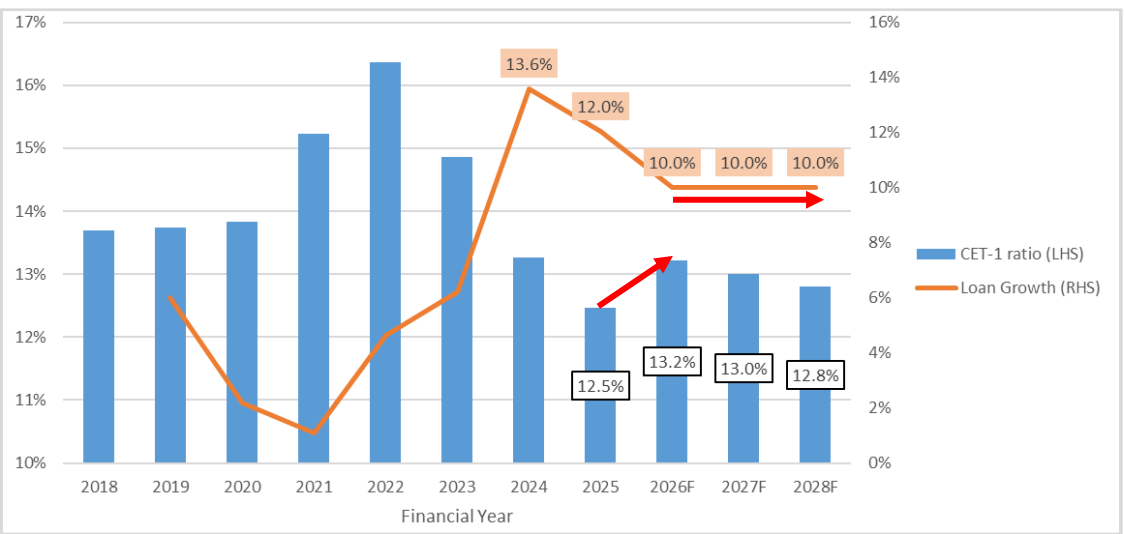


Source: Bloomberg

**3 As a SME loan-centric bank, ABMB has the highest NIM among all the banks**

Its advantage is providing headroom to offer lower lending rates compared to its peers to expand its market share.

Exhibit 4: CET-1 vs Loan growth vs ROE



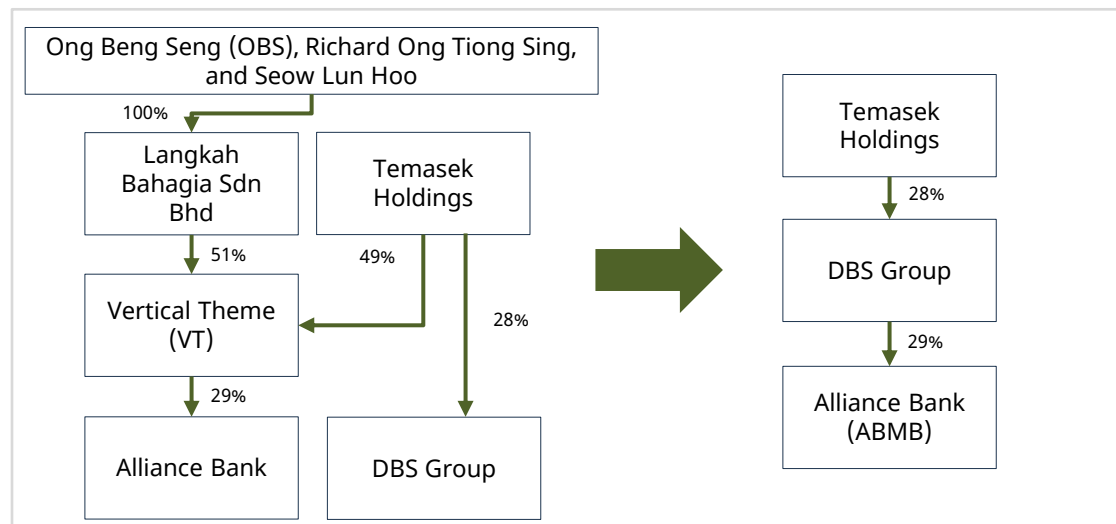
Source: Astute, Bloomberg

**4 The RM600 mil rights issue allows Alliance to sustain its loan growth momentum**

Post-right issue, the CET-1 ratio (a key metric of financial strength) strengthens from 12.5% to 13.2%. This could ensure that Alliance can continue to lend at 10% loan growth without taking a dividend cut.

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Exhibit 5: Alliance Bank's shareholding structure



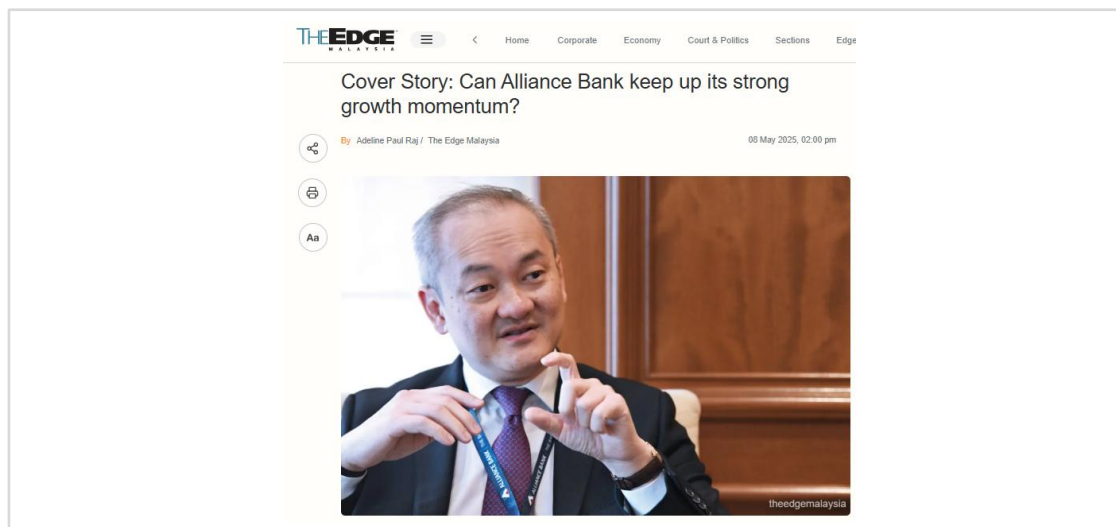
Source: The Edge

## 5 Potential catalyst from restructuring by Temasek.

DBS could purchase Vertical Theme's 29% stake in Alliance, allowing DBS entry to Malaysia (citing [The Edge article](#)). DBS could add value to areas such as:

- (1) Technological transfer
- (2) Growth in consumer banking
- (3) Expansion in non-interest income

Exhibit 6: Alliance Bank is featured in TheEdge Weekly



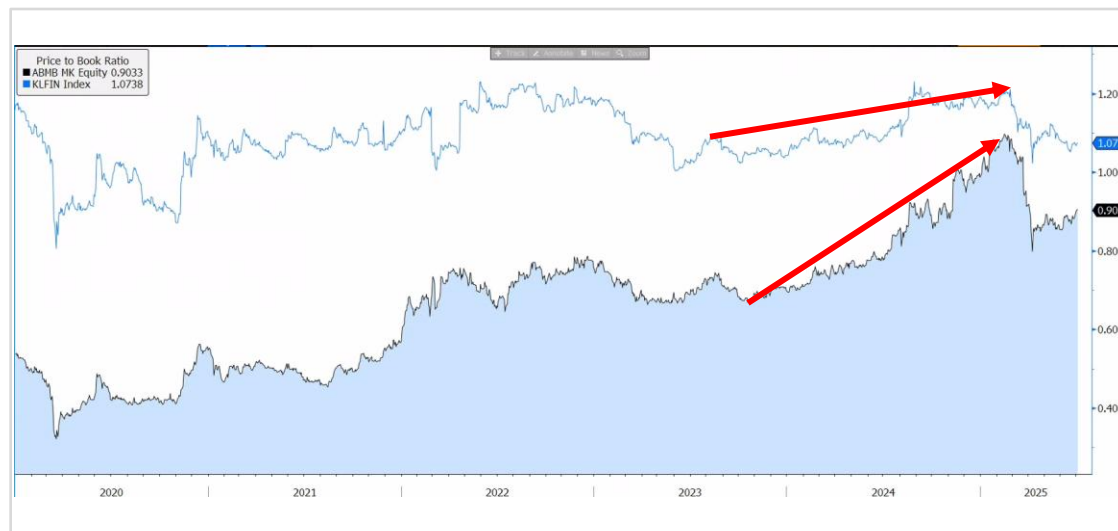
Source: The Edge

## 6 "When conditions are right for you to grow, you should" - Kellee Kam

We like Alliance Bank under Kellee Kam, the CEO's management. In TheEdge article ([link](#)), Alliance Bank is still on the hot spot to grow its loan at 10% per annum and is confident to achieve 11% ROE by FYE March 2027.

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Exhibit 7: Alliance's trailing 12-month PBR vs KLFIN Index



Source: Bloomberg

**7 Alliance Bank trailing 12-month PBR has expanded faster against the KLFIN Index**

Based on the abovementioned pointers, we are still optimistic that there could be a further re-rating towards the KLFIN Index.

Exhibit 8: Valuation - Gordon Growth Model (GGM)

	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
Year	0	1	2	3	4	5	6	7	8	9	10
Dividend/Terminal Value (sen)	22.8	25.7	27.3	29.0	30.8	32.7	34.7	36.9	39.1	41.6	762.7
Discount	1.0000	0.9091	0.8264	0.7513	0.6830	0.6209	0.5645	0.5132	0.4665	0.4241	0.3855
PV	22.8	23.4	22.6	21.8	21.0	20.3	19.6	18.9	18.3	17.6	294.1
Fair Value per share	5.00	A = sum of PV									
Current share price	4.35	B									
Capital appreciation yield	15%	C = A / B - 1									
Dividend yield	5.2%	D = 2026 dividend (22.8 sen) / B									
<b>Total Return</b>	<b>20.3%</b>	C + D									
Discount rate	10%										
Long term growth	3%										
Fair FY26 PBR	1.00										
Current FY26 PBR	0.87										
FY26 ROE	9.7%										

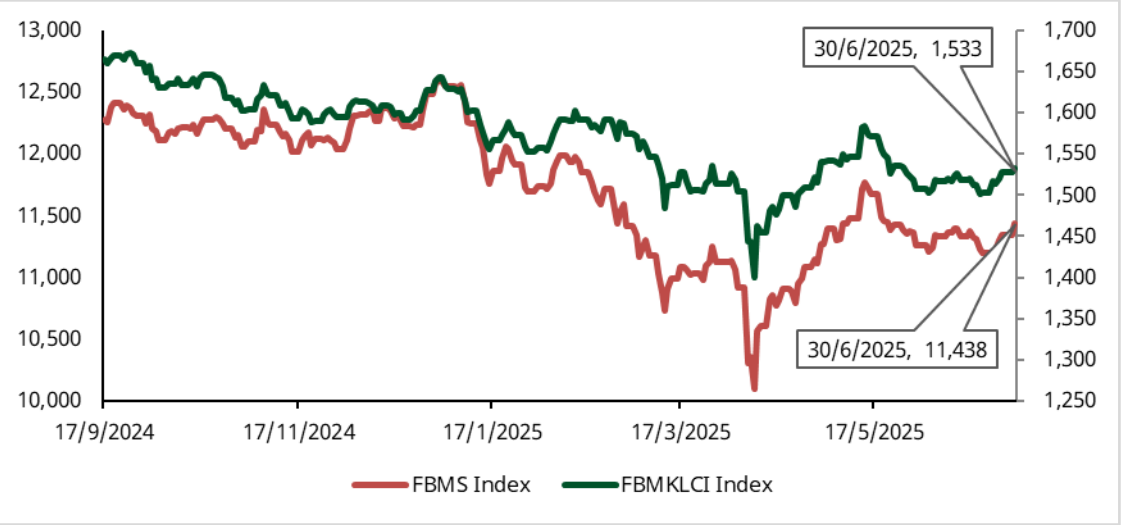
Source: Astute

**8 Our DGM-based fair value suggests a total return of 20.3%.**

The bank is trading at an undemanding 0.87x FY25 PBR. Our Gordon Growth Model (GGM) suggests that the bank's fair FY26 PBR is 1x. As such, we expect a total return of 20.3%.

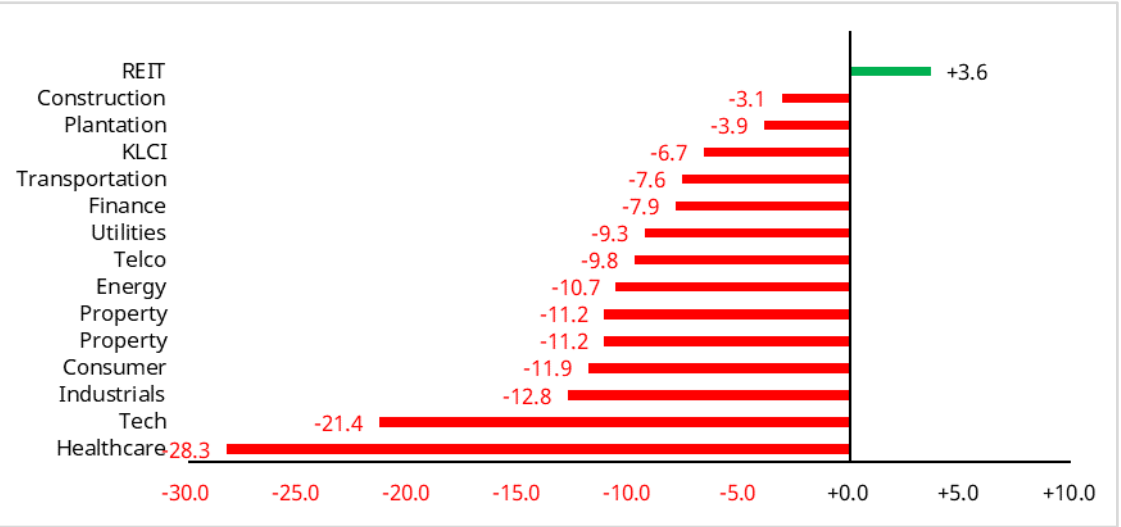
# Appendices

Exhibit 9: KLCI & Shariah Index



Source: Bloomberg

Exhibit 10: Sector Performances Year-to-Date (2/1/25 – 30/6/25, %)



Source: Bloomberg

**1 The KLCI has rebounded amid broad base buying.**

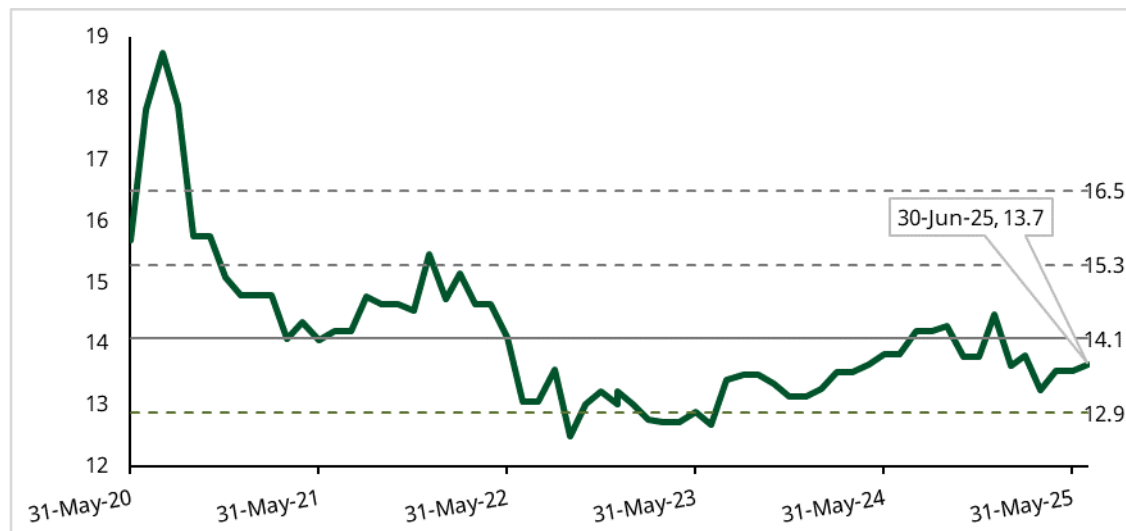
The KLCI recovered +11% from the trough during Trump's liberation day tariffs, which sparked a global selloff. Recovery has been seen as middle east tensions eased.

**2 KLCI kept in the red due to external pressures.**

The healthcare and technology sectors were the top losers. Trump signaled future tariffs on semiconductors despite initial exemptions. Rising costs could reduce Malaysian tech exports' competitiveness in the U.S., negatively impacting the outlook for local technology firms.

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Exhibit 11: KLCI's 12M Forward PER (x)

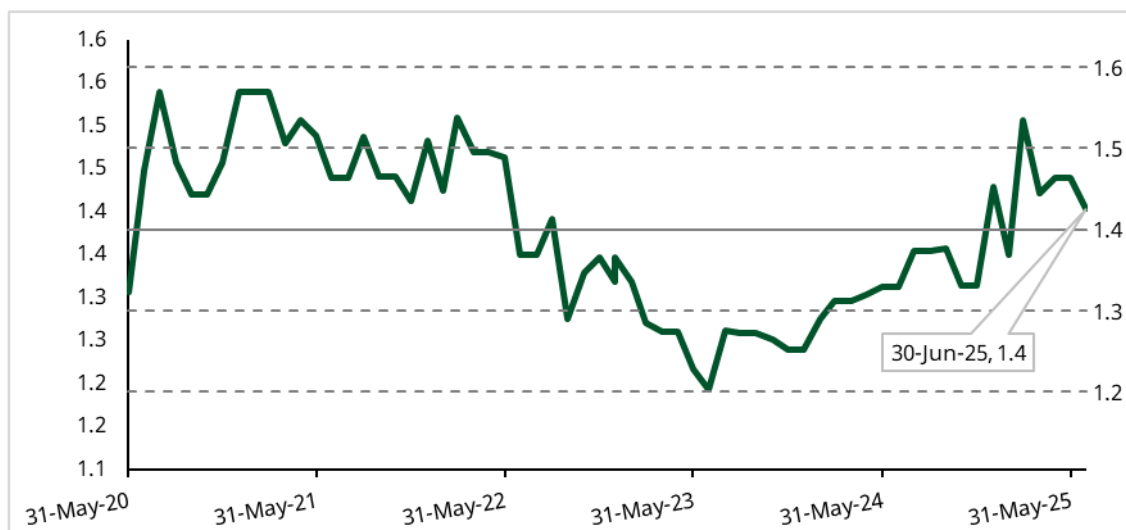


Source: Bloomberg

**3 The KLCI's valuation is undervalued below the 5Y mean.**

The KLCI trades at a 12-month forward PER of 13.7x (5Y range 12.9x to 21.1x, 5Y mean of 14.1x).

Exhibit 12: KLCI's 12M Forward PBR (x)



Source: Bloomberg

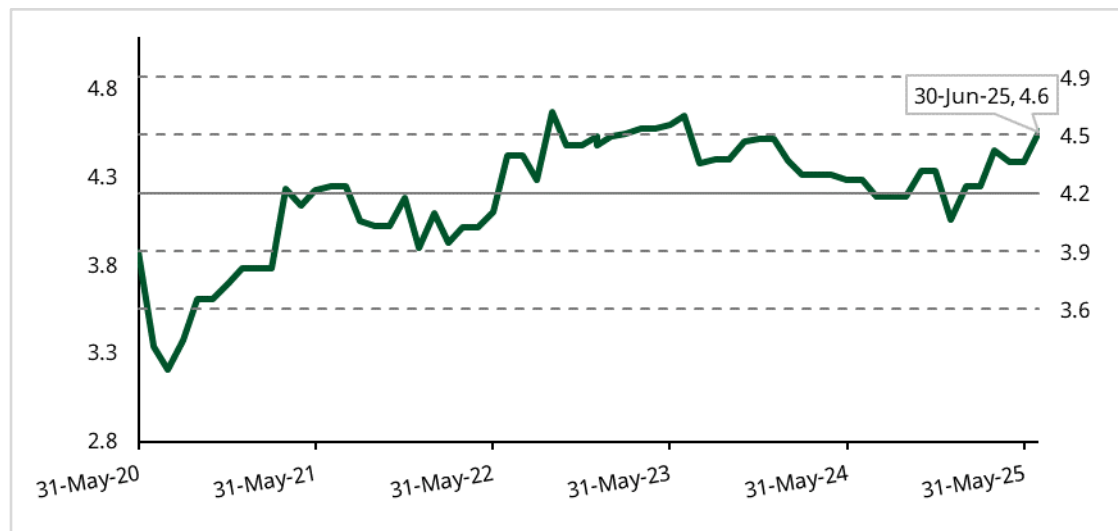
**4 This is the same for KLCI's PBR.**

The KLCI trades at a 12-month forward PBR of 1.3x (5Y range 1.2x to 1.9x, 5Y mean 1.4x).



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Exhibit 13: KLCI's 12M Forward DY (%)

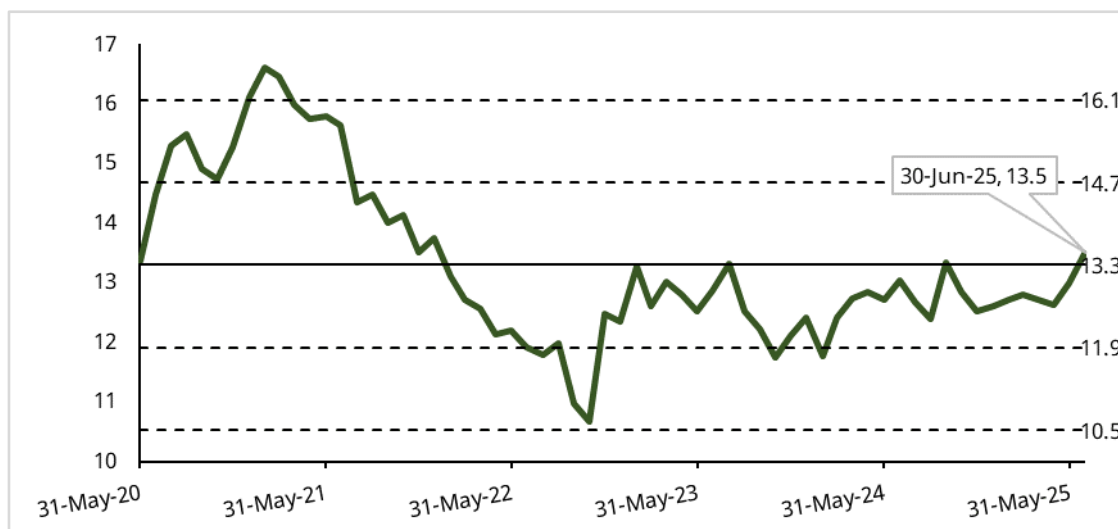


Source: Bloomberg

## 5 The KLCI dividend yield is still attractive.

The KLCI trades at a 12-month forward forecast DY of 4.6%, above its 5Y mean of 4.2%. The appealing dividend yield is likely to help limit potential losses.

Exhibit 14: MSCI AxJ Index's 12M Forward PER (x)



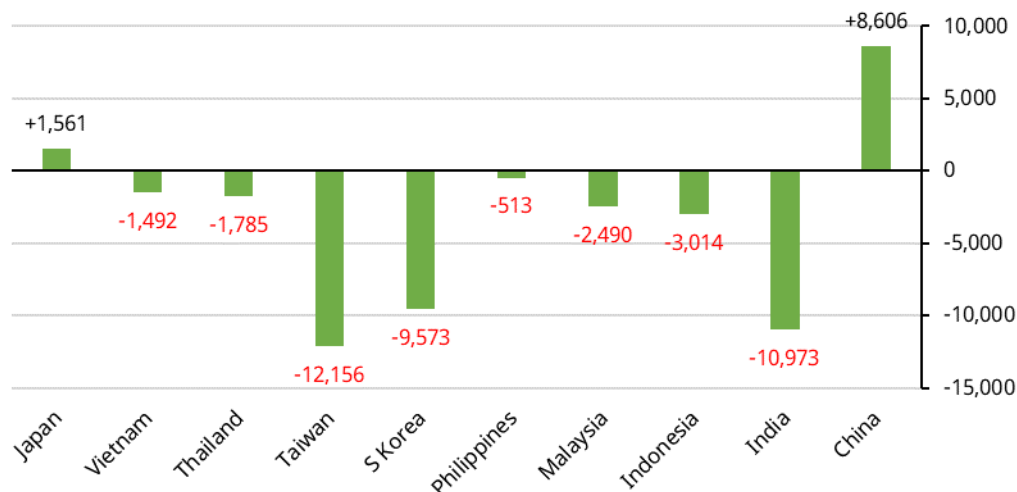
Source: Bloomberg

## 6 Asia ex Japan is still trading below historical averages.

The MSCI AC Asia ex Japan index trades at a 12-month forward PER of 13.3x (5Y range 10.7x to 16.6x, mean of 13.3x). Asia ex Japan is also seeing recoveries as Trump's tariff paused and US-China tariff war de-escalate.

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Exhibit 15: Selected ASEAN Markets (Net USD mil)



Source: Bloomberg, data as of 16 June 2025, China's data is as of 31 Dec 2024.

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**Outflows were the highest in East Asia and India. Southeast Asia sees outflows as well.**

Overseas investors turned net sellers of Asian equities except China. Investors are still concerned on Trump's trade policies might hit the Asian economies.

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