

Affin Bank Berhad

Good start for new entity

Maintain BUY

Adjusted Target Price (TP): RM2.90
(from RM2.80)

INVESTMENT HIGHLIGHTS

- Earnings with expectations
- Compare with AHB 1QFY17 result for better comparison
- Solid NOII growth
- Higher OPEX was within expectations
- There is still an investment case to be made
- Maintain BUY with adjusted TP of RM2.90 as we roll over our valuation to FY19

Net profit within expectations. The Group net profit in 1QFY18 came in at RM146.0m. This was within ours and consensus' expectations given it were 24.8% and 27.8% of respective full year estimates. Net profit grew +61.8%yoy. However, this does not represent a comparable assessment. This is due to the fact that the Group have changed its composition following from the reorganization exercise.

Compare with AHB 1QFY17 result for better comparison A better comparison will be with Affin Holding Bhd (AHB), the previous group holding entity. Comparing the Group with AHB's 1QFY18 result, net profit grew strongly by +18.5%yoy. This was due to strong Islamic banking income, NOII and write backs in quarter.

Solid NOII growth. NOII grew +6.2%yoy supported by higher fee income. Total fee income grew +34.7%yoy to RM128.6m. We opine this to be in line with the management's effort to diversify its income.

Higher OPEX expected. OPEX grew +10.5%yoy but this was within our expectations. The increased OPEX was due to higher personnel cost and this was in relations to building the capacity of the Group for its transformation program.

Asset mix inching towards consumer. YTD gross loans grew 0.7%qoq to RM46.4b. More notably was the loan book composition. The Group have been shifting towards increasing the contribution from consumer segment. As at 1QFY18, consumer segment increased to 50.6% from 49.1% as at 1QFY17. Oppositely, corporate segment contribution reduced to 41.3% from 42.9%. Asset quality remains stable with GIL ratio at 2.54%.The bulk of the impaired loans comes from two accounts which management expect one account to be resolved by end of FY18.

RETURN STATS	
Price (31 May 2018)	RM2.46
Target Price	RM2.90
Expected Share Price Return	+17.9%
Expected Dividend Yield	+4.5%
Expected Total Return	+22.4%

STOCK INFO	
KLCI	1,740.62
Bursa / Bloomberg	5185 / ABANK MK
Board / Sector	Main / Finance
Syariah Compliant	No
Issued shares (mil)	1,942.9
Market cap. (RM'm)	4,779.7
Price over NA	0.65x
52-wk price Range	RM2.22–RM2.73
Beta against KLCI)	1.05
3-mth Avg Daily Vol	0.27m
3-mth Avg Daily Value	RM0.66m
Major Shareholders	
LTAT	35.42%
Bank of East Asia	23.52%
Boustead Holdings	20.69%

Some banking abbreviations used in this report:

IA = Individual Impairment Allowance
 CA = Collective Impairment Allowance
 CI = Cost-Income Ratio
 CET1 = Common Equity Tier 1
 GIL = Gross Impaired Loan
 LD = Loan-Deposit
 NII = Net Interest Income
 NOII = Non-interest income
 NIM = Net Interest margin
 CASA = Current and Savings Accounts
 IB = Investment Banking
 BVPS = Book Value Per Share
 LLC = Loan Loss Coverage
 OPEX = Operating Expenses
 R&R = Restructured and Rescheduled

There is still an investment case. We continue to be encouraged by the Group's outlook. We believe that the Group is on the right track and we expect stronger result after completion of its transformation. Meanwhile its relatively small size allows it to be nimble to institute changes needed and will be able to be realised some of the benefits in the short term. We also maintain our view that the Group is building its niche and believe that this will ensure future profitability.

FORECAST

We maintain our forecast.

VALUATION AND RECOMMENDATION

As previously stated, we believe that there are pockets of opportunity present for Group. For example, in Islamic Banking and NOII, as was the case in this quarter. The higher cost incurred in FY17 will normalise gradually as the Group continue with its Affinity transformation program. Hence, we expect that earnings to come in stronger this year. Going forward, we believe that the transformation will place the Group in a firmer footing, with its digital offering to be a key component. As we are maintaining our optimistic view of the Group, we make no change to our **BUY** call for the stock. We roll over our valuation to FY19. We adjust our **TP to RM2.90 (from RM2.80)** based on PBV of 0.6x. 

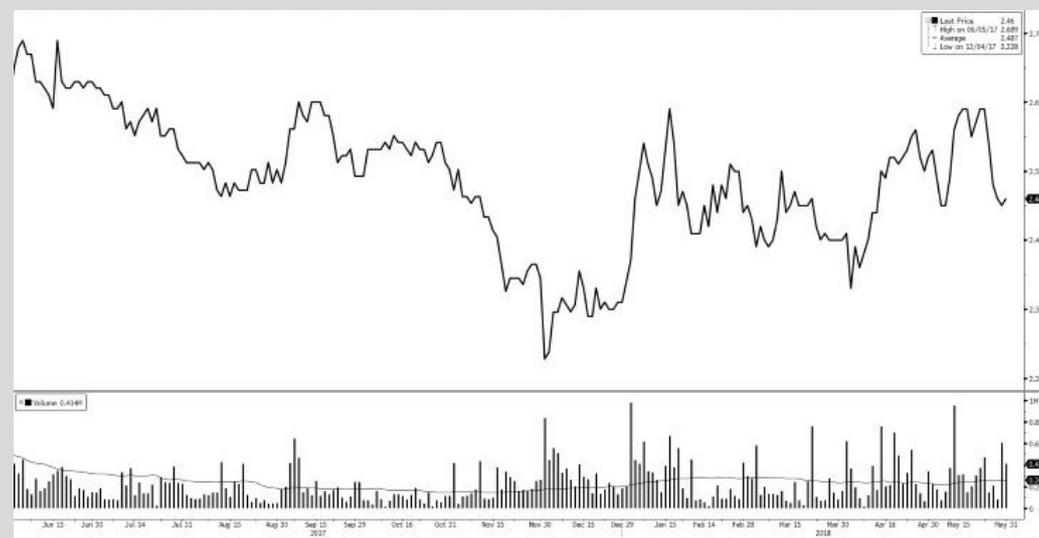
INVESTMENT STATISTICS

FYE Dec	FY16*	FY17	FY18F	FY19F
Net Interest income (RM'm)	971	855	973	1,085
Islamic Banking income (RM'm)	273	334	384	404
Other income (RM'm)	693	371	667	699
Net/Total income (RM'm)	1,936	1,560	2,024	2,188
Pretax Profit (RM'm)	738	551	762	901
Net Profit (RM'm)	564	418	588	698
EPS (sen)	29	24	30	36
EPS Growth (%)	52.6	-17.2	26.1	18.6
PER (x)	8.5	10.3	8.1	6.9
Net Dividend (sen)	11	2.34	11.0	12.0
Net dividend yield (%)	4.5	1.0	4.5	4.9
Book value per share (RM)	4.47	4.26	4.53	4.74
PBV (x)	0.6	0.6	0.5	0.5
ROE (%)	6.5	5.1	6.7	7.6

* Based on Affin Holdings Bhd as the financial holding co. of the Group.

Source: Company, MIDFR

DAILY PRICE CHART



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Table 1: Cumulative results

Quarterly results						
FYE Dec (RM m)	ABB Group 1QFY18	ABB Group 1QFY17	AHB Group 1QFY17	Comparison between ABB		Comparison between ABB & AHB
				Yoy (+/- %)		Yoy (+/- %)
Net Interest Income	215.8	203.3	233.1	6.1%		-7.4%
Islamic Banking Income	98.5	77.0	77.0	28.0%		28.0%
Non interest income	162.3	41.7	152.8	>100%		6.2%
Net/Total income	476.6	322.0	462.9	48.0%		3.0%
OPEX	(311.6)	(190.0)	(281.9)	64.0%		10.5%
PPOP	165.0	132.1	181.0	25.0%		-8.8%
Write back/(Provision) for loan losses	9.7	(6.7)	(6.5)	>100%		>100%
Pre-tax profit	186.8	125.3	161.6	49.0%		15.6%
Net Profit	146.0	90.2	123.2	61.8%		18.5%
EPS (sen)	7.3	5.3	6.2	37.7%		17.9%

Source: Company, MIDFR

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MIDF AMANAH INVESTMENT BANK : GUIDE TO ROMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	<i>Negative</i> total return is expected, by -10% or more, over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.