

# Affin Bank Berhad

*Higher than expected provisions*

**Maintain BUY**

**Maintain Target Price (TP): RM2.90  
(Under Review)**

## INVESTMENT HIGHLIGHTS

- **Fell short of expectations – variance was due to higher than expected provisions.**
- **Islamic Banking income saw solid growth and moderated total income decline.**
- **Higher provisions due to higher ECL.**
- **Robust loans growth.**
- **Putting our BUY call and TP of RM2.90 under review pending analyst briefing Monday next week.**

**Did not meet with expectations.** The Group's 1HFY18 net profit fell short of ours and consensus' expectations as it came at 36.5% and 42.6% of respective full year estimates. The variance was due to provisions coming in higher than expected.

**Earnings fell when compared with AHB.** Earnings for 1HFY18 grew +3.0%yoy. However, following the Group have changing its composition following from the reorganization exercise, a better comparison will be with Affin Holding Bhd (AHB), the previous group holding entity. Comparing the Group with AHB's 1HFY18 result, net profit fell -20.0yoy on lower income and higher provisions.

**Income decline moderated by Islamic Banking income.** Total income fell -1.9%yoy when compared with AHB's 1HFY18 total income. However, this was moderated by the strong increase in Islamic Banking income which grew +34.4%yoy.

**Higher than expected provisions.** Provisions went up +95.0%yoy as it breach our full year estimation. This was due to higher expected credit losses (ECL) which came in RM103.9m in 2QFY18. Comparatively, ECL in 1QFY18 was a write back of RM17.1m. This could potentially signal deterioration in asset quality. GIL ratio was 2.81% as at 2QFY18 vs. 2.54% as at 1QFY18. We noted that there was an increase of RM137.8m to RM289.4m in impaired loans in the construction sector.

**Robust loans growth.** Gross loans as at 2QFY18 grew +5.5%yoy to RM47.8b, mainly driven by household segment. Loans for this segment expanded +11.6%yoy to RM21.5b. This was supported by mortgages which rose +25.0%yoy to RM9.5b. We believe that this is evident that the Group's shift towards increasing the contribution from consumer segment is having the desired effect.

RETURN STATS	
Price (28 August 2018)	RM2.52
Target Price	RM2.90
Expected Share Price Return	+15.1%
Expected Dividend Yield	+4.4%
<b>Expected Total Return</b>	<b>+19.5%</b>

STOCK INFO	
KLCI	1,826.90
Bursa / Bloomberg	5185 / ABANK MK
Board / Sector	Main / Finance
Syariah Compliant	No
Issued shares (mil)	1,942.9
Market cap. (RM'm)	4,896.2
Price over NA	0.6x
52-wk price Range	RM2.22–RM2.70
Beta against KLCI)	0.78
3-mth Avg Daily Vol	0.17m
3-mth Avg Daily Value	RM0.43m
Major Shareholders	
LTAT	35.45%
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

**Putting the stock under review at this juncture.** We were disappointed with the Group's result as it had shown good traction previously. However, details on the higher provisions are still lacking at this juncture. Hence, we could not ascertain the cause for the higher than expected provisions. With the analyst briefing to be held on Monday next week, we are putting our stock recommendation and target price under review. We expect the analyst briefing will provide clarity to the situation whereby we will be able to better assess the Group's earnings potential.

## FORECAST

We maintain our forecast pending an analyst briefing next week.

## VALUATION AND RECOMMENDATION

Earnings for 2QFY18 were a surprisingly weak. However, we will be in a better position to assess the Group after the analyst briefing. Hence, we are reviewing our BUY call for the stock. We are also reviewing our TP to RM2.90 based on PBV of 0.6x.

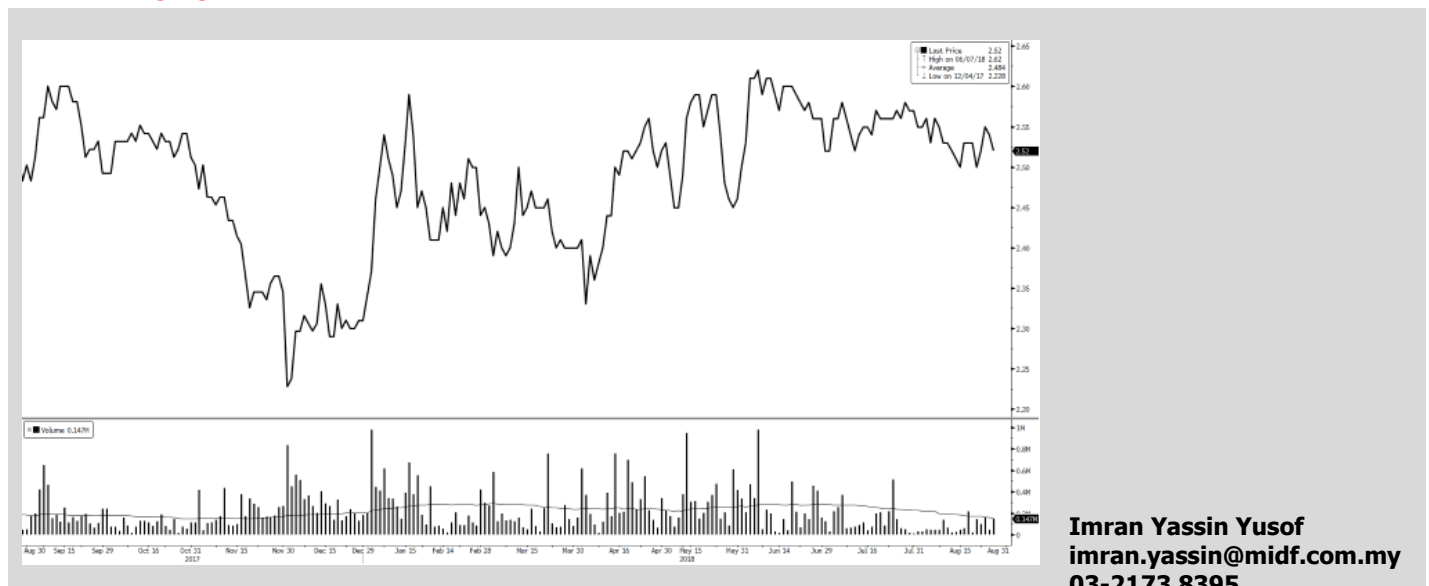
## INVESTMENT STATISTICS

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)	8.7	10.5	8.3	7.0
Net Dividend (sen)	11	2.34	11.0	12.0
Net dividend yield (%)	4.4	0.9	4.4	4.8
Book value per share (RM)	4.47	4.26	4.53	4.74
PBV (x)	0.6	0.6	0.6	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: Quarterly results**

Quarterly results					
FYE Dec (RM m)	ABB Group 2QFY18	ABB Group 2QFY17	AHB Group 2QFY17	Comparison between ABB	Comparison between ABB & AHB
				Yoy (+/- %)	Yoy (+/- %)
Net Interest Income	210.5	218.1	248.5	-3.5%	-15.3%
Islamic Banking Income	104.7	74.2	74.2	41.0%	41.0%
Non interest income	179.0	83.5	204.3	>100%	-12.4%
Net/Total income	494.2	375.8	527.0	31.5%	-6.2%
OPEX	(305.9)	(193.6)	(290.4)	58.0%	5.3%
PPOP	188.3	182.1	236.6	3.4%	-20.4%
Write back/(Provision) for loan losses	(92.3)	(35.7)	(35.9)	>100%	>100%
Pre-tax profit	114.3	146.5	198.7	-22.0%	-42.5%
Net Profit	73.3	118.2	148.4	-38.0%	-50.6%
EPS (sen)	3.8	7.0	7.6	-45.7%	-50.0%

Source: Company, MIDFR

**Table 2: Cumulative results**

Quarterly results					
FYE Dec (RM m)	ABB Group 1HFY18	ABB Group 1HFY17	AHB Group 1HFY17	Comparison between ABB	Comparison between ABB & AHB
				Yoy (+/- %)	Yoy (+/- %)
Net Interest Income	426.3	421.4	481.6	1.2%	-11.5%
Islamic Banking Income	203.2	151.2	151.2	34.4%	34.4%
Non interest income	341.3	125.2	357.1	>100%	-4.4%
Net/Total income	970.8	697.8	989.9	39.1%	-1.9%
OPEX	(617.5)	(383.6)	(572.3)	61.0%	7.9%
PPOP	353.3	314.2	417.6	12.5%	-15.4%
Write back/(Provision) for loan losses	(82.6)	(42.4)	(42.3)	94.8%	95.0%
Pre-tax profit	300.7	271.8	359.9	10.6%	-16.5%
Net Profit	(75.7)	(63.4)	(83.2)	19.4%	-9.0%
EPS (sen)	214.8	208.4	268.6	3.0%	-20.0%

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.