

# Affin Bank Berhad

*Expected write back came through*

**Maintain BUY**

**Maintain Target Price (TP): RM2.70**

## INVESTMENT HIGHLIGHTS

- **Met expectations on strong 3QFY18**
- **Strong operational showing**
- **Earnings boosted by result from associate**
- **Robust gross loans growth**
- **Declared an interim dividend of 5 sen**
- **Maintain BUY with unchanged TP of RM2.70**

**Recovered to meet expectations.** The Group's 9MFY18 net profit met expectations due to the strong 3QFY18 performance. Its earnings was 79.2% and 71.3% of ours and consensus' full year estimates respectively.

**In comparison with AHB, earnings expanded.** The Group's earnings for 9MFY18 grew +44.7%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 9MFY18 result, the Group's net profit recovered to post an expansion of +5.1%yoy from the -20.0yoy decline that was registered in 1HFY18.

**Operationally strong showing in 3QFY18.** Main contributor for the Group's earnings growth was the strong 3QFY18. Comparing with AHB, its net income grew +3.0%yoy and its OPEX fell -8.6%yoy. This resulted in PPOP growth of +29.7%yoy. With this, the 9MFY18 PPOP only declined -3.7%yoy. However, we note that AHB had a finance cost of RM41.7m which were not taken into account at PPOP level. If we account this, the Group would have posted +4.0%yoy increase instead.

**Write back in 3QFY18.** The Group saw a writeback of RM1.04m in 3QFY18. This had reduced the increase in 9MFY18 provisions to +22.7%yoy from the +95.0%yoy posted in 2QFY18.

**Result from associate boosted earnings.** The 9MFY18 Group share of result from associate went up +55.1%yoy to RM38.5m.

**Robust loans growth.** When compared with AHB, gross loans as at 3QFY18 grew +8.6%yoy to RM48.6b. This was mainly driven by household segment where loans expanded +12.9%yoy to RM22.3b. Residential mortgages continue to be a main driver as it grew +24.2%yoy to RM9.97b. We believe that this was evident that the Group ability to shift towards increasing the contribution from consumer segment.

RETURN STATS	
Price (28 Nov. 2018)	RM2.31
Target Price	RM2.70
Expected Share Price Return	+16.9%
Expected Dividend Yield	+3.0%
<b>Expected Total Return</b>	<b>+19.9%</b>

STOCK INFO	
KLCI	1,686.55
Bursa / Bloomberg	5185 / ABANK MK
Board / Sector	Main / Finance
Syariah Compliant	No
Issued shares (mil)	1,942.9
Market cap. (RM'm)	4,488.2
Price over NA	0.5x
52-wk price Range	RM2.20 – RM2.70
Beta against KLCI)	0.91
3-mth Avg Daily Vol	0.13m
3-mth Avg Daily Value	RM0.30m
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  
 PPOP = Pre Provisioning Operating Profit  
 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

## FORECAST

We maintain our forecast as the result were within our estimation.

## VALUATION AND RECOMMENDATION

We had expected the rebound in earnings growth in 3QFY18. However, we were pleasantly surprised by the magnitude, especially by the strong showing in NOII and Islamic Banking income. The expected write back on the loans provision also came through in the quarter, which boosted earnings. We believe that earnings will recover full in FY19 as the Group continue to resolve its asset quality issue. Hence, we maintain our BUY call for the stock with unchanged TP of RM2.70. Our TP is based on pegging FY19 BVPS to PBV of 0.6x.



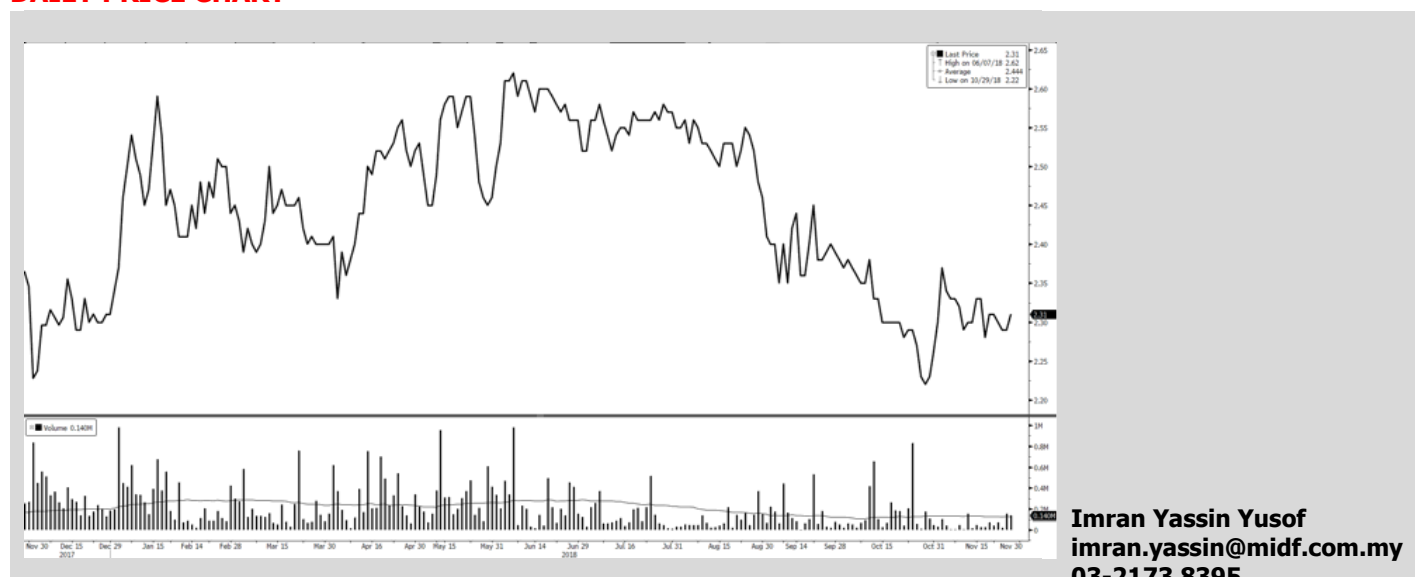
## INVESTMENT STATISTICS

FYE Dec	FY16*	FY17	FY18F	FY19F
Net Interest income (RM'm)	971	855	852	821
Islamic Banking income (RM'm)	273	334	435	521
Other income (RM'm)	693	371	627	611
Net/Total income (RM'm)	1,936	1,560	1,914	1,953
Pretax Profit (RM'm)	738	551	591	724
Net Profit (RM'm)	564	418	454	559
EPS (sen)	29	24	23	29
EPS Growth (%)	52.6	-17.2	-2.7	23.1
PER (x)	8.0	9.6	9.9	8.0
Net Dividend (sen)	11	2.34	7.0	10.0
Net dividend yield (%)	4.8	1.0	3.0	4.3
Book value per share (RM)	4.47	4.26	4.46	4.62
PBV (x)	0.5	0.5	0.5	0.5
ROE (%)	6.5	5.1	5.2	6.2

\* 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 3QFY18	ABB Group 3QFY17	AHB Group 3QFY17	Comparison between ABB	Comparison between ABB & AHB
				Yoy (+/- %)	Yoy (+/- %)
Net Interest Income	211.6	205.8	235.5	2.8%	-10.2%
Islamic Banking Income	97.1	84.6	84.6	14.9%	14.9%
Non interest income	187.5	37.6	161.5	>100%	16.1%
Net/Total income	496.2	328.0	481.6	51.3%	3.0%
OPEX	(306.5)	(240.6)	(335.2)	27.4%	-8.6%
PPOP	189.8	87.3	146.4	>100%	29.7%
Write back/(Provision) for loan losses and other assets	(4.7)	(28.9)	(28.8)	-83.7%	-83.6%
Pre-tax profit	190.6	58.4	108.7	>100%	75.3%
Net Profit	144.6	39.9	73.3	>100%	97.3%
EPS (sen)	7.4	2.4	3.8	>100%	94.7%

Source: Company, MIDFR

**Table 2: Cumulative results**

Cumulative Quarterly results					
FYE Dec (RM m)	ABB Group 9MFY18	ABB Group 9MFY17	AHB Group 9MFY17	Comparison between ABB	Comparison between ABB & AHB
				Yoy (+/- %)	Yoy (+/- %)
Net Interest Income	637.9	627.2	717.1	1.7%	-11.1%
Islamic Banking Income	300.4	235.8	235.8	27.4%	27.4%
Non interest income	528.8	162.8	518.6	224.9%	2.0%
Net/Total income	1,467.0	1,025.8	1,471.5	43.0%	-0.3%
OPEX	(924.0)	(624.3)	(907.6)	48.0%	1.8%
PPOP	543.1	401.5	564.0	35.3%	-3.7%
Write back/(Provision) for loan losses and other assets	(87.3)	(71.3)	(71.1)	22.5%	22.7%
Pre-tax profit	488.0	330.2	469.3	47.8%	4.0%
Net Profit	359.3	248.3	341.8	44.7%	5.1%
EPS (sen)	18.5	14.7	17.6	25.9%	5.1%

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.