

Affin Bank Berhad

Reorganised

Maintain BUY

Unchanged Target Price (TP): RM2.91
(under review)

INVESTMENT HIGHLIGHTS

- Earnings for Affin Holdings Bhd within expectations
- Affin Bank Bhd taken over listing status
- Lower earnings due to higher OPEX and provisions
- OPEX affected by voluntary separation scheme
- Income performance was strong, supported by NOII and Islamic Banking
- Robust gross loans and deposits growth
- Under review pending briefing today
- Maintain BUY with TP under review

Affin Holdings Bhd earnings within expectations. Affin Holdings Bhd, the previous financial holding company for the Group reported a FY17 net profit of RM534.9m which was within ours and consensus' expectations at 102.9% and 95.3% of respective full year estimate. It has since delisted with the listing status taken over by Affin Bank Bhd in a reorganization completed in February CY18. The remainder of our review will be based on the result of Affin Bank Bhd as the new financial holding company for the Group.

Net profit declined on higher OPEX. The Group (Affin Bank Bhd) FY17 earnings fell -10.0%yoy to RM417.9m. The earnings declined was due to higher OPEX and provisions.

OPEX increase due to transformation cost. OPEX rose +34.6%yoy to RM934.3m contributed by higher personnel cost. This was due to the VSS program launched to rationalise the headcount. Personnel cost went up +55.5%yoy to RM606.3m, while the VSS amounted to RM46.5m.

Higher provisions from higher IA. We estimated credit cost increased +12bps yoy to 0.19% for FY17. IA grew +36.5%yoy to RM111.0m, which could possibly mean deterioration of asset quality of certain accounts. We understand that this could be a continuation of R&R in several accounts with the majority in the property sector. Previously, management expect these accounts to return to performing. It is possible for the loans to be reclassified in the next 6 month. Hence, we expect that credit cost may normalised only in FY18.

RETURN STATS	
Price (28 February 2018)	RM2.44
Target Price	RM2.91
Expected Share Price Return	+19.3%
Expected Dividend Yield	n.a
Expected Total Return	+19.3%

STOCK INFO	
KLCI	1,856.20
Bursa / Bloomberg	5185 / AHB MK
Board / Sector	Main / Finance
Syariah Compliant	No
Issued shares (mil)	1,942.9
Market cap. (RM'm)	4,740.8
Price over NA	0.6x
52-wk price Range	RM2.22–RM2.98
Beta against KLCI)	1.04
3-mth Avg Daily Vol	0.28m
3-mth Avg Daily Value	RM0.68m
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

Strong income growth. Total income grew +17.8%yoy to RM1.56b. The strong income growth moderated the increase OPEX and was supported by expansion in Islamic Banking income and NOII. These grew +22.5%yoy and +69.0%yoy to RM334.3m and RM370.9m respectively. The rise in NOII was due to fee income and trading income which was not accounted for prior to the reorganization (having accounted for at Affin Holdings Bhd previously rather than Affin Bank Bhd). Meanwhile, NII growth was decent at +2.8%yoy to RM855.3m due to robust gross loans growth and possibly better loans pricing. Interest income grew +1.7%yoy to RM2.37b.

Robust gross loans expansion, in tandem with deposits growth. Gross loans as at 4QFY17 grew +7.0%yoy to RM46.1b. The main driver was mortgages with loans for residential property purchase went up +19.6%yoy to RM8.47b. Meanwhile, deposits grew almost at the same pace at +6.9%yoy to RM50.9b. However, we are disappointed to see that the growth was mainly fuelled by fixed deposit which grew +29.3%yoy to RM34.3b. While we understand the Group had possibly managed to secure better loans pricing, the fixed deposit growth may have led to slight increase in interest expense.

Earnings expected to recover in FY18. We believe that there are still pockets of opportunity still present for Group. For example in Islamic Banking and NOII. The higher cost incurred will normalise as the Group continue with its Affinity transformation program. Hence, we expect that earnings will recover in FY18.

FORECAST

For now, we are reviewing our forecast pending further guidance by the management at an analyst briefing today.

VALUATION AND RECOMMENDATION

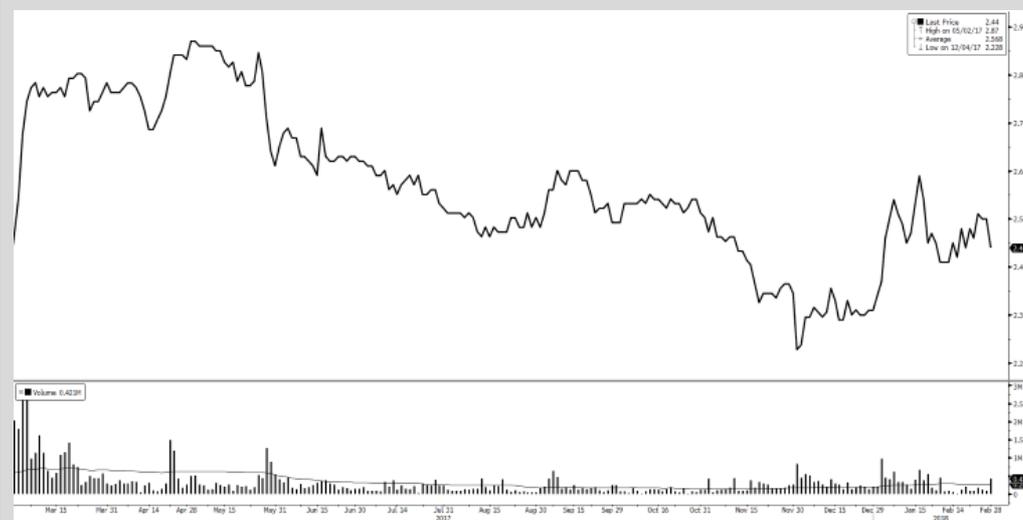
We opine that the personnel cost incurred FY17 was to ensure that the Group will be able to grow its income and will contract in FY18 once most of the transformation investment have taken place. Meanwhile, we expect credit cost to normalise in FY18 with potential write backs. We maintain our optimistic view of the Group. Therefore, we maintain our BUY call for the stock. However, we are reviewing our TP subject to the analyst briefing and a review of Affin Bank Bhd as the new financial holding company.

INVESTMENT STATISTICS

FYE Dec	FY14*	FY15*	FY16*	FY17
Net Interest income (RM'm)	949	948	971	855
Islamic Banking income (RM'm)	244	239	273	334
Other income (RM'm)	630	616	693	371
Net/Total income (RM'm)	1,824	1,803	1,936	1,560
Pretax Profit (RM'm)	825	519	738	551
Net Profit (RM'm)	605	369	564	418
EPS (sen)	35.3	19	29	24
EPS Growth (%)	-18.9	-0.46	52.6	-17.2
PER (x)	6.9	12.8	8.4	10.2
Net Dividend (sen)	15	8	11	2.3
Net dividend yield (%)	6.1	3.3	4.5	1.0
Book value per share (sen)	4.09	4.26	4.47	4.26
PBV (x)	0.6	0.6	0.5	0.6
ROE (%)	8.4	4.6	6.5	5.1

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

DAILY PRICE CHART



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Table 1: Cumulative results and ratios

FYE Dec (RM m)	Cumulative results		
	FY17	FY16	Yoy (+/- %)
Net Interest Income	855.3	832.1	2.8%
Islamic banking income	334.3	272.8	22.5%
Non-interest income	370.9	219.5	69.0%
Net/Total Income	1,560.5	1,324.4	17.8%
OPEX	(934.3)	(694.1)	34.6%
PPOP	626.2	630.3	-0.7%
Write back/(Provision) for loan losses	(85.2)	(27.6)	>100%
PBT	550.7	599.9	-8.2%
Taxation and zakat	(129.6)	(138.6)	-6.5%
Net Profit	417.9	464.1	-10.0%
EPS (sen)	24.0	27.5	-12.7%
Ratios (%)	FY17	FY16	(+/- ppts)
ROE	5.1	8.0	-2.9
CI ratio	59.9	52.4	7.5
Credit charge-off	0.19	0.06	0.13

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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.