

Affin Holdings Berhad

Driven by strong PPOP

Maintain BUY

Unchanged Target Price (TP): RM3.30

INVESTMENT HIGHLIGHTS

- **Within expectations**
- **Net profit growth due to NOII and Islamic Banking income**
- **Higher CI ratio possibly from continued investment resulting from transformation program**
- **Loans accelerated slightly with solid growth in SME and mortgage segments**
- **CASA expanded +4.9%yoy while asset quality stable**
- **No change to forecast**
- **Maintain BUY with unchanged TP of RM3.30. We rollover our valuation to FY18**

Within expectations. The Group posted net profit of RM120.2m, which was a growth of +4.0%yoy, for 1QFY17. This was within ours and consensus' expectations at 22.9% and 21.4% of respective full year estimates.

Strong PPOP growth despite high OPEX. The net profit growth was due to higher PPOP which grew +17.3%yoy. This was from strong income growth which outweighs OPEX growth. Income expanded +19.4%yoy due to NOII and Islamic Banking Income, which grew +39.6%yoy and +30.6%yoy respectively. Better NOII was due to higher fee income (+31.6%yoy to RM142.1m) and trading income (RM34.3m vs. RM7.2m in 1QFY16), while strong growth on income from investment account fund (+48.0%yoy to RM28.4m) contributed the Islamic Banking income growth. We believe that this is in line with the Group's strategy of income based growth such as fee income.

Uptick in CI ratio. CI ratio went up +0.6ppt yoy to 64.5%. We believe that this was on the high side but we understand that the Group may still investing for its transformation. Personnel costs grew +19.8%yoy to RM176.3m, while commission & brokerage fees and professional fees went up >100% to RM38.8m and RM10.9m respectively.

Gross loans grew slightly faster. Gross loans growth accelerated slightly at +1.9%yoy to RM45.0b, vs. +0.6%yoy posted in 4QFY16. Main contributor to the gross loans growth was mortgages and SME loans. These segments grew +44.4%yoy to RM12.3b and +12.3%yoy to RM7.4b respectively. This did not come as a surprise as the Group focused on segments with better yields.

RETURN STATS	
Price (26 May 2017)	RM2.86
Target Price	RM3.30
Expected Share Price Return	+15.4%
Expected Dividend Yield	+4.5%
Expected Total Return	+19.9%

STOCK INFO	
KLCI	1,772.30
Bursa / Bloomberg	5185 / AHB MK
Board / Sector	Main / Finance
Syariah Compliant	No
Issued shares (mil)	1,942.9
Market cap. (RM'm)	5,556.8
Price over NA	0.6x
52-wk price Range	RM2.08–RM3.00
Beta against KLCI)	0.96
3-mth Avg Daily Vol	0.594m
3-mth Avg Daily Value	RM1.68m
Major Shareholders	
LTAT	35.42%
Bank of East Asia	23.52%
Boustead Holdings	20.69%

Some banking abbreviations used in this report:

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

CASA ratio improved. Deposits increased only by +0.1%yoy to RM50.1b. However, we were pleased to see CASA expanded by +4.9%yoy to RM9.3b. We believe that this contributed to the better margins this quarter.


Asset quality stable. GIL ratio was stable at 1.99% vs. 1.98% as at 1QFY16. Impaired loans grew +2.4% to RM896.7m. This was mainly from mortgages where impaired loans went up to RM391.3m from RM202.9m as at 1QFY16.

Opportunities remains in FY17. As previously stated, management estimates loans growth of lower-to-mid single digit for FY17. However, we have seen loans growth trending higher for the sector. We believe that despite the Group's selective and cautious approach towards asset growth, loans growth will accelerate. Additionally, we believe that the Group will be in a good position to take advantage of any upswing in conditions with transformation instituted at Affin Bank and Affin Islamic Bank.

FORECAST

We make no change to our forecasts given the result was within expectations.

VALUATION AND RECOMMENDATION

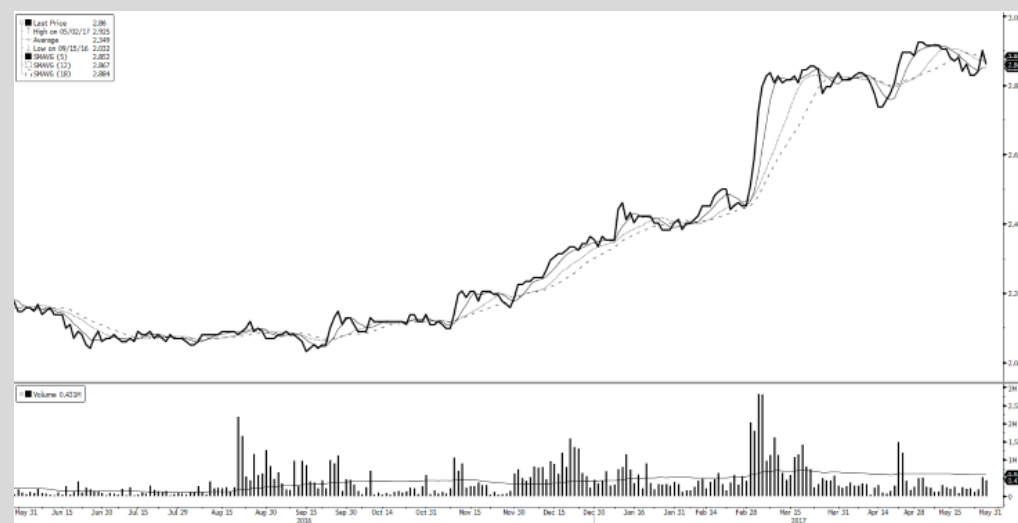
We believe that it was a good performance by the Group. We believe the result highlighted that the Groups' transformation program has been effective. We continue to be encouraged by the Group's future prospect. As previously stated, we like the fact that the Group is focusing on mortgage for affordable housing segment given the high demand for this property segment. We believe that the Group is building its niche and this will ensure profitability. As such, we maintain our BUY call for the stock. We rollover our valuation to FY18, with an unchanged TP of RM3.30 based on PBV multiple of 0.7x. 

INVESTMENT STATISTICS

FYE Dec	FY15	FY16	FY17F	FY18F
Net Interest income (RM'm)	948	971	1,051	1,143
Islamic Banking income (RM'm)	239	273	299	302
Other income (RM'm)	616	693	703	723
Net/Total income (RM'm)	1,803	1,936	2,054	2,168
Pretax Profit (RM'm)	519	738	794	849
Net Profit (RM'm)	369	564	585	626
EPS (sen)	19	29	30	32
EPS Growth (%)	-0.46	52.6	3.8	6.9
PER (x)	15.1	9.9	9.5	8.9
Net Dividend (sen)	8	11	12	13
Net dividend yield (%)	2.8	3.8	4.2	4.5
Book value per share (sen)	4.26	4.47	4.7	4.9
PBV (x)	0.7	0.6	0.6	0.6
ROE (%)	4.6	5.9	6.4	6.6

Source: Company, MIDFR

DAILY PRICE CHART



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Table 1: Comparison of quarterly results

Quarterly results						Comments
FYE Dec (RM m)	1QFY17	4QFY16	1QFY16	Yoy (+/- %)	Qoq (+/- %)	
Net Interest Income	239.5	246.9	229.7	4.3%	-3.0%	Possibly due to uplift in NIM. We estimate that NIM increased +13bps yoy to 1.98%. Interest expense fell -5.1%yoy to RM388.0m This could possibly due to CASA growth +4.9%yoy to RM9.27b vs. fixed deposit growth of +3.6%yoy to RM31.6b.
Islamic Banking Income	77.0	79.5	58.9	30.6%	-3.2%	Due to strong growth on income from investment account fund which grew +48.0%yoy to RM28.4m.
Non interest income	193.1	201.4	138.3	39.6%	-4.2%	Higher fee income (+31.6%yoy to RM142.1m) and trading income (RM34.3m vs. RM7.2m in 1QFY16).
Net/Total income	509.6	527.8	426.9	19.4%	-3.5%	Due to higher NOII and Islamic banking income.
OPEX	(328.6)	(294.6)	(272.6)	20.5%	11.5%	Higher personnel (+19.8%yoy to RM176.3m), marketing (+64.7%yoy to RM51.6m) and general & admin costs (+34.3%yoy to RM34.5m).
PPOP	181.0	233.2	154.3	17.3%	-22.4%	
Write back/(Provision) for loan losses	(20.6)	(34.8)	(12.8)	61.5%	-40.7%	Higher individual assessment allowance and lower recoveries.
Pre-tax profit	161.9	217.3	152.9	5.9%	-25.5%	
Taxation and zakat	(41.7)	(45.9)	(37.4)	11.7%	-9.2%	
Net Profit	120.2	171.4	115.6	4.0%	-29.9%	Due to higher income.
EPS (sen)	6.0	8.8	6.2	-3.9%	-32.4%	

Table 2: Comparison of financial ratios

Financial Ratios (%)	1QFY17	4QFY16	1QFY16	Yoy (+/- ppts)	Qoq (+/- ppts)	Comments
CET1*	11.7	12.4	11.9	-0.2	-0.7	
Tier 1 Capital*	11.7	12.4	11.9	-0.2	-0.7	
Total Capital*	17.8	16.0	14.4	3.4	1.8	
Gross impaired loan (GIL)	1.99	1.67	1.98	0.01	0.32	
Loan loss Coverage	71.2	94.3	61.8	9.4	-23.2	
Credit charge-off	0.18	0.32	0.12	0.07	-0.13	
Cost to income	64.5	55.8	63.9	0.6	8.7	
Net LD	89.2	84.9	87.3	2.0	4.3	
ROEA	5.4	7.9	5.4	0.0	-2.5	

*Ratios of Affin Bank after proposed dividend

Table 3: Contribution to PBT by business segments

PBT by Business Units (RM m)	1QFY17	1QFY16	Yoy (+/- %)	
Affin Bank Berhad	125.3	123.1	1.8%	Increase in Islamic banking income, NII and other operating income moderated by higher net of the allowance for loan impairment.
Affin IB	37.6	20.8	80.8%	Due to higher other operating income from increase in initial service charges, net income on financial instruments, management fee income and net brokerage income.
Insurance	1.5	11.4	-86.6%	Due to higher net claims and higher overhead expenses.
Others	(2.9)	(2.5)	14.9%	

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MIDF AMANAH INVESTMENT BANK : GUIDE TO ROMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	<i>Negative</i> total return is expected, by -15% or more, over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% 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.