

## Affin Bank Berhad

(5185 | ABANK MK) Financial Services | Finance

### Credit Costs and NIM Issues to Persist

#### KEY INVESTMENT HIGHLIGHTS

- **Core themes:** (a) NCC warning in 3QFY23 (no overlay writebacks expected), (b) NIM compression likely, (c) Putting the brakes on residential mortgage uptake
- **Forecasts revised:** FY23F Core NP adjusted by -10%
- **Maintain NEUTRAL with Unchanged TP of RM1.82 based on an unchanged FY24F P/BV of 0.34x**

**Verdict: Decent drivers but with a lot of potential for downside risk.**

| Yays   | Nays   | OKs  |
|--|--|--|
| <ol style="list-style-type: none"> <li>1. Very high loan growth.</li> <li>2. Progress in filling up an AHAM-shaped hole with forex, trade and wealth management capabilities.</li> </ol> | <ol style="list-style-type: none"> <li>1. With no overlay writeback expected, NCC outlook not good, especially for 3QFY23.</li> <li>2. Further NIM compression expected.</li> <li>3. OPEX still yet to be controlled.</li> </ol> | <ol style="list-style-type: none"> <li>1. App delayed again, delaying CASA build.</li> <li>2. Potential partnership with Sarawak state government – but still in very early stages.</li> </ol> |

#### Highlights from our recently held briefing with Affin:

**Net credit costs - no overlay release expected.** We understand that all the build-up in overlays will be converted into company-specific provisions. Meanwhile, the management is expecting 3QFY23 to be another heavy quarter for provisions but the provisions in 2QFY23 is still manageable. Regarding its exposure in a pharmaceutical company, management remained tight-lipped, but it was emphasized that it will be fully provided.

**NIMs may see further compression in 2QFY23.** This is as deposit competition is still very tight in the Islamic space, though it has improved on Conventional side. Interestingly, management believes that this deposit competition is mainly concentrated among certain banks.

**Loan growth target still in reach.** Management is confident in achieving +12%yoy FY23 target. Reiterates it is pumping breaks to slow down on current rate of growth – especially on the lower yielding residential mortgage segment. Drivers are retail and SME loans. Management will be more selective in growing its corporate portfolio. As part of NIM optimisation strategy, the Group remains committed on building its credit card and personal financing loans. The management does mention that hire purchase applications are slowing down for now. Following its exorbitant loan growth, Affin finds loan competition coming in from larger banks now, as opposed to smaller banks previously.

## Maintain NEUTRAL

**Unchanged Target Price: RM1.82**

#### RETURN STATISTICS

|                                 |      |
|---------------------------------|------|
| Price @ 5 July 2023 (RM)        | 1.85 |
| Expected share price return (%) | -1.8 |
| Expected dividend yield (%)     | +4.3 |
| Expected total return (%)       | +2.5 |

#### SHARE PRICE CHART



| Price performance (%) | Absolute | Relative |
|-----------------------|----------|----------|
| 1 month               | -1.6     | -2.6     |
| 3 months              | -1.1     | -4.7     |
| 12 months             | 3.6      | 7.0      |

#### INVESTMENT STATISTICS

| FYE Dec               | FY23F      | FY24F      | FY25F      |
|-----------------------|------------|------------|------------|
| <b>Core NP (RM m)</b> | <b>491</b> | <b>598</b> | <b>632</b> |
| CNP growth (%)        | 12         | 8          | 8          |
| <b>Div yield (%)</b>  | <b>3.6</b> | <b>4.3</b> | <b>4.5</b> |
| Gross DPS (sen)       | 6.7        | 8.0        | 8.3        |
| <b>P/BV (x)</b>       | <b>0.4</b> | <b>0.3</b> | <b>0.3</b> |
| BVPS (RM)             | 5.1        | 5.3        | 5.6        |
| <b>ROE (%)</b>        | <b>4.5</b> | <b>5.3</b> | <b>5.3</b> |
| MIDF/Street CNP (%)   | 94         | 103        | 102        |

#### KEY STATISTICS

|                              |                 |
|------------------------------|-----------------|
| FBM KLCI                     | 1,389.90        |
| Issue shares (m)             | 2,273.9         |
| Estimated free float (%)     | 19.5            |
| Market Capitalisation (RM'm) | 4,229.4         |
| 52-wk price range            | RM1.75 - RM2.33 |
| 3-mth avg daily volume (m)   | 1.2             |
| 3-mth avg daily value (RM'm) | 2.2             |
| Top Shareholders (%)         |                 |
| LTAT                         | 28.6            |
| Bank of East Asia Ltd        | 23.8            |
| Boustead Holdings Bhd        | 19.6            |

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**OPEX target is maintained.** Management is maintaining its <10%yoy OPEX target. The major drivers for OPEX growth are personnel and tech spend, with cost inflation and Collective Agreement issues coming up.

**No change in dividends expectation.** Management indicated that the dividend payout still retained at 40-60%. Meanwhile, for the latest DRP, we understand that it had 71% take up rate.


**Sarawak story – still no concrete plans.** It was hinted at Sarawak state wanting a larger stake than the current 4.95%. Growth in Sarawak is apparently exceeding expectations: Management wants to double up on this growth, will up its branch network.

**Tech and mobile app delayed again.** App, scheduled for release in Jun-23, has been delayed again due to a bug issue – this time to July/August. This puts a dent to its CASA target of 25% by year-end (currently 22%). The app is for retail users – but management believes that this will have a positive knock-on effect on its corporate app. For app promotion, management will be piggybacking on pre-existing media plans, to manage marketing cost. In addition, management will be leveraging on big data tech (estimated rollout: Dec-23) to improve customer personalisation. This improves cross-selling, build fee income franchise and customer loyalty.

**Bond issuance.** Interestingly, Affin's recent RM500m AT-1 issuance (5.7%) was 100% subscribed to by retail investors – 1.3x oversubscribed.

**Forecasts revised: FY23F Core NP adjusted by -10%.** To reflect higher NCC and lack of overlay writebacks in the year.

**Key downside risks.** (1) OPEX unable to be controlled, (2) Lacklustre NOII recovery, (3) NCC higher than expected.

**Maintain NEUTRAL call: Unchanged GGM-TP of RM 1.82.** While Affin seems to be headed to a better direction, it still needs work on cost control. In the near term, heavy provisioning should dampen near-term prospects. The TP is based on an unchanged FY24F P/BV of 0.34x. (**GGM assumptions:** FY24F ROE of 5.3%, LTG of 4.5% & COE of 6.7%) 

## FINANCIAL SUMMARY

## INCOME STATEMENT

| FYE Dec (RM m)             | FY21         | FY22         | FY23F        | FY24F        | FY25F        |
|----------------------------|--------------|--------------|--------------|--------------|--------------|
| Interest income            | 1,670        | 2,053        | 2,301        | 2,345        | 2,378        |
| Interest expense           | (776)        | (1,031)      | (1,234)      | (1,234)      | (1,234)      |
| <b>Net interest income</b> | <b>894</b>   | <b>1,023</b> | <b>1,067</b> | <b>1,111</b> | <b>1,144</b> |
| Islamic banking inc.       | 549          | 688          | 711          | 741          | 762          |
| Other operating inc.       | 401          | 344          | 372          | 478          | 524          |
| <b>Net income</b>          | <b>1,845</b> | <b>2,055</b> | <b>2,150</b> | <b>2,329</b> | <b>2,431</b> |
| OPEX                       | (1,139)      | (1,317)      | (1,398)      | (1,456)      | (1,507)      |
| <b>PPOP</b>                | <b>706</b>   | <b>738</b>   | <b>753</b>   | <b>873</b>   | <b>924</b>   |
| Loan allowances            | (165)        | (289)        | (126)        | (124)        | (134)        |
| Other allowances           | (57)         | (45)         | (29)         | (19)         | (17)         |
| JV & Associates            | 45           | 9            | 45           | 52           | 55           |
| <b>PBT</b>                 | <b>529</b>   | <b>412</b>   | <b>643</b>   | <b>782</b>   | <b>827</b>   |
| Tax & zakat                | (95)         | (213)        | (152)        | (185)        | (195)        |
| Discontinued ops           | 147          | 1,125        | -            | -            | -            |
| NCI                        | (53)         | (25)         | -            | -            | -            |
| <b>Reported NP</b>         | <b>527</b>   | <b>1,300</b> | <b>491</b>   | <b>598</b>   | <b>632</b>   |
| <b>Core NP</b>             | <b>434</b>   | <b>200</b>   | <b>491</b>   | <b>598</b>   | <b>632</b>   |
| Total NII                  | 1,444        | 1,711        | 1,778        | 1,851        | 1,906        |
| Total NOII                 | 401          | 344          | 372          | 478          | 524          |

## BALANCE SHEET

| FYE Dec (RM m)             | FY21          | FY22          | FY23F         | FY24F          | FY25F          |
|----------------------------|---------------|---------------|---------------|----------------|----------------|
| Cash & ST funds            | 7,564         | 5,205         | 5,323         | 5,845          | 6,369          |
| Investment securities      | 15,911        | 21,180        | 16,913        | 11,957         | 10,134         |
| Net loans                  | 50,528        | 58,105        | 65,068        | 70,374         | 76,004         |
| Other IEAs                 | 0             | 0             | 0             | 0              | 0              |
| Non-IEAs                   | 4,425         | 5,761         | 10,626        | 16,251         | 18,931         |
| <b>Total assets</b>        | <b>78,429</b> | <b>90,251</b> | <b>97,930</b> | <b>104,427</b> | <b>111,438</b> |
| Customer deposits          | 58,794        | 64,995        | 72,664        | 78,550         | 84,913         |
| Other IBLs                 | 6,868         | 11,818        | 11,705        | 11,827         | 11,953         |
| Non-IBLs                   | 2,833         | 2,687         | 2,435         | 2,468          | 2,503          |
| <b>Total liabilities</b>   | <b>68,495</b> | <b>79,500</b> | <b>86,804</b> | <b>92,845</b>  | <b>99,369</b>  |
| Share capital              | 4,969         | 5,245         | 5,245         | 5,245          | 5,245          |
| Reserves                   | 4,920         | 5,505         | 5,881         | 6,337          | 6,824          |
| <b>Shareholders' funds</b> | <b>9,889</b>  | <b>10,751</b> | <b>11,126</b> | <b>11,582</b>  | <b>12,069</b>  |
| NCI                        | 45            | 0             | 0             | 0              | 0              |
| <b>Total equity</b>        | <b>9,934</b>  | <b>10,751</b> | <b>11,126</b> | <b>11,582</b>  | <b>12,069</b>  |
| <b>Total L&amp;E</b>       | <b>78,429</b> | <b>90,251</b> | <b>97,930</b> | <b>104,427</b> | <b>111,438</b> |
| Total IEAs                 | 74,004        | 84,490        | 87,304        | 88,176         | 92,507         |
| Total IBLs                 | 65,663        | 76,813        | 84,369        | 90,377         | 96,866         |
| Gross loans                | 51,417        | 59,343        | 66,464        | 71,781         | 77,523         |
| CASA                       | 13,540        | 15,250        | 15,768        | 18,067         | 19,530         |

## FINANCIAL RATIOS

| FYE Dec (RM m)           | FY21       | FY22        | FY23F      | FY24F      | FY25F      |
|--------------------------|------------|-------------|------------|------------|------------|
| <b>Interest (%)</b>      |            |             |            |            |            |
| NIM                      | 2.08       | 2.16        | 2.07       | 2.11       | 2.11       |
| Return on IEAs           | 2.40       | 2.59        | 2.68       | 2.67       | 2.63       |
| Cost of funds            | 1.26       | 1.45        | 1.53       | 1.41       | 1.32       |
| Net interest spread      | 1.14       | 1.14        | 1.15       | 1.26       | 1.31       |
| <b>Profitability (%)</b> |            |             |            |            |            |
| <b>ROE</b>               | <b>4.5</b> | <b>1.9</b>  | <b>4.5</b> | <b>5.3</b> | <b>5.3</b> |
| ROA                      | 0.6        | 0.2         | 0.5        | 0.6        | 0.6        |
| NOII/Net income          | 21.8       | 16.7        | 17.3       | 20.5       | 21.6       |
| Effective tax rate       | 16.9       | 50.6        | 22.8       | 22.8       | 22.8       |
| Cost/Income              | 61.7       | 64.1        | 65.0       | 62.5       | 62.0       |
| <b>Liquidity (%)</b>     |            |             |            |            |            |
| Loan/Deposit             | 85.9       | 89.4        | 89.5       | 89.6       | 89.5       |
| CASA ratio               | 23.0       | 23.5        | 21.7       | 23.0       | 23.0       |
| <b>Asset Quality (%)</b> |            |             |            |            |            |
| GIL ratio                | 2.54       | 1.97        | 2.00       | 1.96       | 1.96       |
| LLC ratio                | 68         | 120         | 105        | 100        | 100        |
| LLC (w. reserves)        | 126        | 161         | 141        | 145        | 148        |
| Net CC (bps)             | 34         | 52          | 20         | 18         | 18         |
| <b>Capital (%)</b>       |            |             |            |            |            |
| CET 1                    | 13.8       | 15.0        | 14.2       | 13.5       | 12.8       |
| Tier 1 capital           | 15.4       | 16.3        | 15.5       | 14.7       | 13.9       |
| Total capital            | 20.6       | 18.7        | 17.8       | 17.0       | 16.1       |
| <b>Growth (%)</b>        |            |             |            |            |            |
| Total NII                | 22.9       | 18.5        | 3.9        | 4.1        | 3.0        |
| Total NOII               | -63.2      | -14.3       | 8.3        | 28.4       | 9.8        |
| Net income               | -18.5      | 11.4        | 4.7        | 8.3        | 4.4        |
| OPEX                     | -15.7      | 15.6        | 6.1        | 4.1        | 3.5        |
| Core NP                  | 88.2       | -53.9       | 145.8      | 21.7       | 5.8        |
| <b>Valuation metrics</b> |            |             |            |            |            |
| Core EPS (sen)           | 20.0       | 9.2         | 22.7       | 27.6       | 29.2       |
| Gross DPS (sen)          | 12.5       | 22.6        | 6.7        | 8.0        | 8.3        |
| Div payout (%)           | 50         | 38          | 30         | 30         | 30         |
| BVPS (RM)                | 4.6        | 5.0         | 5.1        | 5.3        | 5.6        |
| Core P/E (x)             | 9.2        | 20.1        | 8.2        | 6.7        | 6.3        |
| <b>Div yield (%)</b>     | <b>6.8</b> | <b>12.2</b> | <b>3.6</b> | <b>4.3</b> | <b>4.5</b> |
| P/BV (x)                 | 0.4        | 0.4         | 0.4        | 0.3        | 0.3        |

Source: Affin Bank, MIDFR

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### MIDF AMANAH INVESTMENT BANK: GUIDE TO RECOMMENDATIONS

#### 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         | Total return is expected to be <-10% 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. |

#### ESG RECOMMENDATIONS\* - source Bursa Malaysia and FTSE Russell

|      |  |
|------|--|
| ☆☆☆☆ | Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell      |
| ☆☆☆  | Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell   |
| ☆☆   | Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell |
| ☆    | Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell   |

\* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology