

## Affin Bank Berhad

(5185 | ABANK MK) Financial Services | Finance

### 2QFY23 results: Disappointing Asset Quality and NIM Issues

**Maintain NEUTRAL**
**Revised Target Price: RM1.71**  
 (Previously RM1.82)

#### KEY INVESTMENT HIGHLIGHTS

- 6MFY23's Core NP of RM262m was *Within/Within* our/street forecasts: **53%/50%** of full-year forecasts.
- Management's tone: Apart from loan growth, unoptimistic about 2H.
- Core themes: (a) Poor asset quality and credit cost outlook, (b) Possible backloading of OPEX, (c)
- Forecasts revised: FY23F/24F Core NP adjusted by **-9%/-4%**.
- Maintain NEUTRAL | Revised TP of RM1.71 | based on a revised FY24F P/BV of 0.32x (formerly 0.34x).

**Verdict: Heavy downward bias stemming from asset quality and credit cost outlook.**

<b>Yays</b>	1. Loan growth should remain in the double-digit category.
<b>Nays</b>	1. Credit cost outlook is poor, with macroeconomic indicators unpromising. Asset quality issues persist – Affin may be more vulnerable to May-23 OPR hike than larger banks.
<b>OKs</b>	1. NOII stages recovery, but unable to determine yet whether this is sustainable. 2. So far OPEX is well below guided – but we are wary of possible cost backloading in 2HFY23.

**6MFY23's Core net profit (NP) of RM262m up by +3%yoy.** This was largely driven by improvements in NOII offsetting weakness in NII and cost control. Provisions and tax remained on a similar level.

**2QFY23's Core NP of RM113m down by -24%qoq.** Earnings were largely dragged by higher provisions (following net writeback in the previous quarter) and weaker NII income offsetting NOII and cost control improvement. Loan growth was relatively muted at +2.1%qoq (bringing the YTD to +5.3%). In contrast, deposits rose by a whopping +8.6%qoq, largely driven by a leap in corporate deposits (which could be LTAT-assisted).

**Downside bias: Heavy provisioning, backloaded costs in 2HFY23.** Management previously guided in one of our meetings that 3Q would be a heavy quarter for provisioning – especially with unpromising macroeconomic indicators. We are also wary of a possible backloading of costs – so far OPEX growth is trailing well below <10%yoy guidance for FY23.

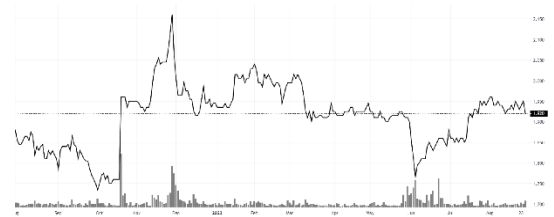
#### Have a look at:

**Worrying impairments, not only from RA programmes.** GILs have risen sharply in enterprise and retail banking segments. While working capital GIL increase was largely attributable to one specific account, there were other concerning increases in mortgage, hire purchase and personal financing GILs. Enterprise banking saw pressure in property, real estate, and manufacturing segments. More concerningly, a lot of these impairments were not part of the former RA loan watchlist – giving a bit more unpredictability in asset quality outlook in future.

#### RETURN STATISTICS

Price @ 25 August 2023 (RM)	1.92
Expected share price return (%)	-11.2
Expected dividend yield (%)	+4.1
Expected total return (%)	-7.1

#### SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	0.0	-0.5
3 months	3.7	-5.8
12 months	0.8	4.3

#### INVESTMENT STATISTICS

FYE Dec	FY23F	FY24F	FY25F
<b>Core NP (RM m)</b>	<b>448</b>	<b>573</b>	<b>631</b>
CNP growth (%)	12	8	8
<b>Div yield (%)</b>	<b>3.2</b>	<b>4.0</b>	<b>4.3</b>
Gross DPS (sen)	6.1	7.6	8.3
<b>P/BV (x)</b>	<b>0.4</b>	<b>0.4</b>	<b>0.3</b>
BVPS (RM)	5.1	5.3	5.5
<b>ROE (%)</b>	<b>4.1</b>	<b>5.1</b>	<b>5.4</b>
MIDF/Street CNP (%)	86	98	100

#### KEY STATISTICS

FBM KLCI	1,444.41
Issue shares (m)	2,273.9
Estimated free float (%)	19.2
Market Capitalisation (RM'm)	4,575.7
52-wk price range	RM1.79 - RM2.33
3-mth avg daily volume (m)	1.3
3-mth avg daily value (RM'm)	2.4
Top Shareholders (%)	
LTAT	28.8
Bank of East Asia Ltd	23.9
Boustead Holdings Bhd	19.9

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**Double paying of AT1 interest charges and huge corporate deposit uptake contribute to steep NIM compression.** Quarterly NIM fell by a whopping -43bps qoq, with COF increasing by +101bps qoq. Management attributes +25bps of the COF hike to taking on new RM500m worth of AT1 bonds before getting rid of pre-existing ones (which should be gone by July) – something we could see repeated across the sector, given the high number of recent bond issuances. We think that the huge corporate deposit uptake may have contributed to the remainder of COF spike.

There is certainly room for NIM improvement in the following quarter, given low base effects: A lack of double interest paying following the maturity of older AT1 bonds and an overly high LCR of >200% (especially when the Group is trying to slow down on loan accumulation).

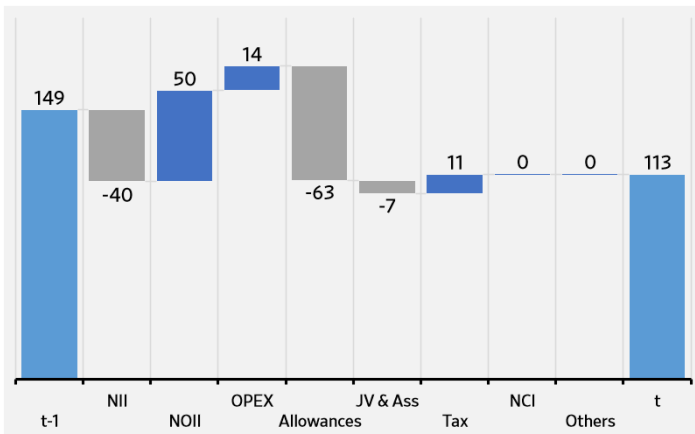
**Forecasts revised: FY23F/24F Core NP adjusted by -9%/-4%.** To reflect higher credit costs and weaker NIMs for both years. We also increase our NOII estimates for FY23F.

**Key downside risks.** (1) Higher-than-expected costs, (2) Elevated provisioning, (3) NII performs weaker than expected.

**Maintain NEUTRAL call: Revised GGM-TP of RM 1.71 (from RM1.82).** The TP is based on a revised FY24F P/BV of 0.32x reflecting altered earnings prospects and ROE-based valuations. **(GGM assumptions: FY24F ROE of 5.2%, LTG of 4.5% & COE of 6.6%).**

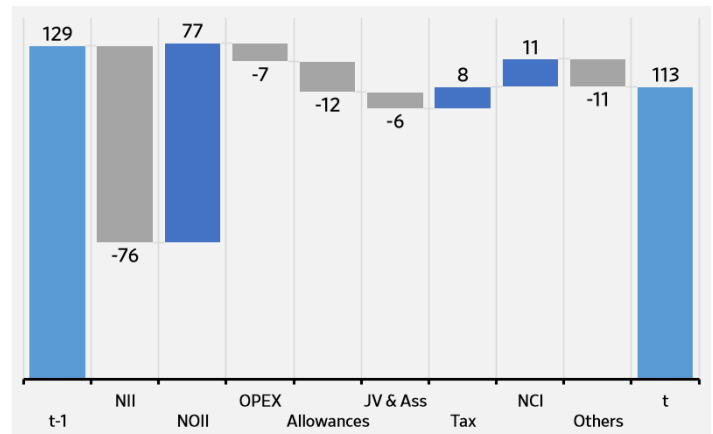


**Fig 1: QoQ P/L walk (Quarterly results)**



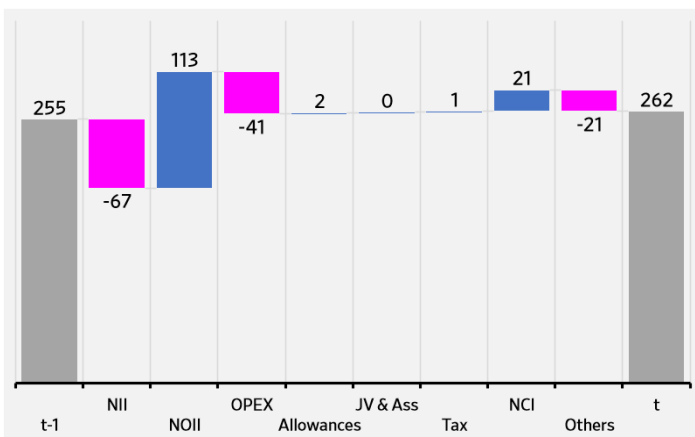
Source: Affin Bank, MIDFR

**Fig 2: YoY P/L walk (Quarterly results)**



Source: Affin Bank, MIDFR

**Fig 3: YoY P/L walk (Cumulative results)**



Source: Affin Bank, MIDFR

Fig 4: Quarterly results

FYE Dec (RM m)	2Q FY23	1Q FY23	2Q FY22	Yoy (%)	Qoq (%)	1H FY23	1H FY22	Yoy (%)
Net interest inc.	203	234	260	-22	-13	436	489	-11
Islamic banking inc.	145	154	164	-12	-6	299	313	-4
Non-interest inc.	157	107	80	97	47	264	151	75
<b>Net income</b>	<b>505</b>	<b>494</b>	<b>504</b>	<b>0</b>	<b>2</b>	<b>999</b>	<b>953</b>	<b>5</b>
OPEX	(316)	(330)	(309)	2	-4	(646)	(605)	7
<b>PPOP</b>	<b>188</b>	<b>164</b>	<b>194</b>	<b>-3</b>	<b>15</b>	<b>353</b>	<b>348</b>	<b>1</b>
Loan provisions	(20)	6	(38)	-48	-457	(14)	(58)	-75
Other provisions	(30)	8	0	<-500	-486	(22)	20	-211
JV & Associates	11	19	18	n.m.	n.m.	30	30	n.m.
<b>PBT</b>	<b>150</b>	<b>196</b>	<b>174</b>	<b>-14</b>	<b>-24</b>	<b>346</b>	<b>339</b>	<b>2</b>
Tax	(37)	(47)	(45)	-19	-22	(84)	(85)	-1
Discontinued ops	-	-	29	n.m.	n.m.	-	56	n.m.
NCI	-	-	(11)	n.m.	n.m.	-	(21)	n.m.
<b>Reported NP</b>	<b>113</b>	<b>149</b>	<b>147</b>	<b>-23</b>	<b>-24</b>	<b>262</b>	<b>290</b>	<b>-9</b>
<b>Core NP</b>	<b>113</b>	<b>149</b>	<b>129</b>	<b>-12</b>	<b>-24</b>	<b>262</b>	<b>255</b>	<b>3</b>
Total NII	348	388	424	-18	-10	736	802	-8
Total NOII	157	107	80	97	47	264	151	75
<b>Gross DPS (sen)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>n.m.</b>	<b>n.m.</b>	<b>-</b>	<b>-</b>	<b>n.m.</b>
Core EPS (sen)	5.0	6.6	6.1	-18	-24	11.5	12.0	-4
Gross loans	62,468	61,164	55,429	12.7	2.1			
Gross impaired loans	1,112	1,201	1,262	-11.9	-7.4			
Customer deposits	71,511	65,870	64,452	11.0	8.6			
CASA	16,599	14,698	13,855	19.8	12.9			
<b>Ratios (%)</b>	<b>2Q FY23</b>	<b>1Q FY23</b>	<b>2Q FY22</b>	<b>Yoy (ppts)</b>	<b>Qoq (ppts)</b>	<b>1H FY23</b>	<b>1H FY22</b>	<b>Yoy (ppts)</b>
<b>ROE (Ann.)</b>	<b>4.1</b>	<b>5.5</b>	<b>5.1</b>	<b>-1.0</b>	<b>-1.4</b>	<b>4.8</b>	<b>5.0</b>	<b>-0.3</b>
<b>NIM (Reported)</b>	<b>1.33</b>	<b>1.76</b>	<b>1.99</b>	<b>-0.66</b>	<b>-0.43</b>	<b>1.57</b>	<b>1.99</b>	<b>-0.42</b>
NOII/Net income	31.1	21.6	15.8	15.3	9.5	26.4	15.8	10.5
Cost/Income	62.7	66.8	61.4	1.3	-4.1	64.7	63.5	1.2
NCC (Ann.) (bps)	14	(4)	30	-16	18	5	22	-17
GIL ratio	1.78	1.96	2.28	-0.50	-0.18			
Loan loss coverage	128	117	77	51	11			
CASA ratio	23.2	22.3	21.5	1.7	0.9			
L/D ratio	85.4	90.7	84.5	0.9	-5.4			
CET-1	14.7	14.6	13.4	1.3	0.1			

Source: Affin Bank, MIDFR

Fig 5: Retrospective performance (Income Statement)

Metric	Surprise? Qoq/Yoy		Metric	Surprise? Qoq/Yoy	
Qtrly Core NP	RM mil	113	Qtrly ROE	Qtr value	4.1%
	23% of FY CNP				
	Qoq	-24%		t-1	5.5%
	Yoy	-12%		t-4	5.1%
Cum Core NP	RM mil	262	Cum ROE	Cum value	4.8%
	Within our forecast				
	53% of FY CNP				
	Within consensus				
	Yoy	3%		t-1	5.0%
NII	-ve surprise		NIM	-ve surprise	
				Qtr value	1.33
				Cum value	1.57
	Qtr (Qoq)	-10%		Qtr (Qoq)	-43bps
	Qtr (Yoy)	-18%		Qtr (Yoy)	-66bps
Cum (Yoy)	-8%	Cum (Yoy)	-42bps		
NOII	As expected		Qtr	% NII	69%
	Qtr (Qoq)	47%		% NOII	31%
	Qtr (Yoy)	97%	Cum	% NII	74%
	Cum (Yoy)	75%		% NOII	26%
OPEX	As expected		Cost/ Inc.	As expected	
				Qtr value	62.7%
				Cum value	64.7%
	Qtr (Qoq)	-4%		Qtr (Qoq)	-4.1%
	Qtr (Yoy)	2%		Qtr (Yoy)	+1.3%
Cum (Yoy)	7%	Cum (Yoy)	+1.2%		

Source: Affin Bank, MIDFR

Notes (Cum = Cumulative, Qtr = Quarterly)
<p><b>A decent quarter, despite NIM compression.</b></p>
<p><b>Decent but we are wary of a difficult 2H.</b> Especially from a credit cost standpoint. OPEX was also relatively muted in 1H – this may be backloaded into 2H.</p>
<p><b>Double counting AT1 bond interest payments dragged NIMs downwards – NIM compression was already sizeable enough without it (likely due to huge increase in deposits qoq).</b> COF went up by 100bps qoq – management attributes 25bps to the double counting issue. For the record, the bank issued RM500m AT1 bonds in June – while its preexisting financing is set to expire in July.</p>
<p><b>Strong improvement on both fee and non-fee side.</b> However, we may have to wait a few more quarters to see if this is sustainable.</p>
<p><b>Good cost control this quarter – is Affin backloading costs?</b> Cost was surprisingly well maintained for now, trailing well below &lt;10% guidance. However, there could be potential for a OPEX-heavy 2H. After all, management has highlighted ambitious spending plans in Sarawak.</p>

Fig 6: Retrospective performance (Balance Sheet, Dividends, and anything extra)

Metric	Surprise? Qoq/Yoy		Metric	Surprise? Qoq/Yoy		Notes (Cum = Cumulative, Qtr = Quarterly)
Loans	As expected					<b>A bit lacklustre, but mgmt is confident in its 2H corporate pipeline.</b> Management has been pumping on the brakes in lower-yield loan segments, but we should only see weaker growth reflected in FY24.
	Qoq	2.1%				
	Yoy	12.7%				
	YTD (FY)	5.3%				
Depo. grwth	+ve surprise		CASA grwth	+ve surprise		<b>Very strong quarterly growth.</b> This rate of growth is very drastic, driven by corporate deposits – we believe there might be intervention from LTAT.
	Qoq	8.6%		Qoq	12.9%	
	Yoy	11.0%		Yoy	19.8%	
	YTD (FY)	10.0%		YTD (FY)	8.8%	
CASA ratio	As expected		L/D ratio	As expected		
	Value now	23.2%		Value now	85.4%	
	Qoq	+0.9%		Qoq	-5.4%	
	Yoy	+1.7%		Yoy	+0.9%	
GIL ratio	As expected		LLC ratio	As expected		<b>GIL has reduced due to the great number of write-offs – but there are concerning developments.</b> Significant improvement in corporate portfolio but enterprise and community side see sharp upticks. More specifically, a concerning rise in residential mortgages, hire purchases and personal financing.
	Value now	1.78%		Value now	128%	
	Qoq	-18bps		Qoq	+11%	
	Yoy	-50bps		Yoy	+51%	
Qtrly Net CC	As expected		Cum Net CC	As expected		Upticks are not only flooding in from RA programmes but also due to OPR hikes. Property, real estate, and manufacturing are weak points.
	Decent provision			Decent provision		
	Value now	14bps		Value now	5bps	
	t-1	-4bps				
			t-4	22bps	<b>Decent-sized provision.</b>	
CET 1	Healthy level		Div payout	No divvy		<b>Very healthy.</b>
	As expected			As expected		
	Value now	14.7%		Payout	-	
	Qoq	0.1%				

Others:

Source: Affin Bank, MIDFR

Fig 7: Targets, Achievements, and Outlook

Targets	FY23F	1H FY23	Notes (Red: New guidance, Strikethrough: Guidance is no longer pertinent)
ROE	5.8 (PBT: RM850m) <del>7.0 (PBT: RM 1b)</del>	4.8	Unlikely to be achieved.
CIR	<60.0 <del>&lt;57.5</del>	64.7	OPEX to rise by <10%.
NIM	1.86 2.11 (-15bps FY22's 2.01)	-	Unlikely to be achieved. NIM should at least pick up from this quarter, given that AT1 double counting issue should be resolved before the end of 3QFY23. LCR could also go down in the following quarter, supplying some upside to NIMs.
NOII		75% (yoy)	
Loans	12	5.3 (YTD)	The group is confident in its 2H pipeline.
Deposits		10.0 (YTD)	
% CASA	25	23.2	Unlikely to be achieved.
Loan/Depo		85.4	
GIL ratio	2.00 <del>1.90</del>	1.78	
GCC (bps)	30	5	Unlikely to be achieved, mgmt does not sound confident. Also, best not to expect any major writebacks until FY24.
LLC	100-110	128	
CET 1		14.7	
Div payout		-	

Source: Affin Bank, MIDFR

## FINANCIAL SUMMARY

## INCOME STATEMENT

FYE Dec (RM m)	FY21	FY22	FY23F	FY24F	FY25F
Interest income	1,670	2,053	2,162	2,266	2,340
Interest expense	(776)	(1,031)	(1,234)	(1,234)	(1,234)
<b>Net interest income</b>	<b>894</b>	<b>1,023</b>	<b>928</b>	<b>1,032</b>	<b>1,106</b>
Islamic banking inc.	549	688	618	688	737
Other operating inc.	401	344	588	569	584
<b>Net income</b>	<b>1,845</b>	<b>2,055</b>	<b>2,134</b>	<b>2,288</b>	<b>2,427</b>
OPEX	(1,139)	(1,317)	(1,387)	(1,430)	(1,505)
<b>PPOP</b>	<b>706</b>	<b>738</b>	<b>747</b>	<b>858</b>	<b>922</b>
Loan allowances	(165)	(289)	(176)	(138)	(134)
Other allowances	(57)	(45)	(29)	(22)	(17)
JV & Associates	45	9	45	51	55
<b>PBT</b>	<b>529</b>	<b>412</b>	<b>586</b>	<b>749</b>	<b>826</b>
Tax & zakat	(95)	(213)	(138)	(177)	(195)
Discontinued ops	147	1,125	-	-	-
NCI	(53)	(25)	-	-	-
<b>Reported NP</b>	<b>527</b>	<b>1,300</b>	<b>448</b>	<b>573</b>	<b>631</b>
<b>Core NP</b>	<b>434</b>	<b>200</b>	<b>448</b>	<b>573</b>	<b>631</b>
Total NII	1,444	1,711	1,546	1,720	1,843
Total NOII	401	344	588	569	584

## 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	10,596	16,203	18,882
<b>Total assets</b>	<b>78,429</b>	<b>90,251</b>	<b>97,900</b>	<b>104,379</b>	<b>111,390</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	5,850	6,289	6,775
<b>Shareholders' funds</b>	<b>9,889</b>	<b>10,751</b>	<b>11,096</b>	<b>11,534</b>	<b>12,021</b>
NCI	45	0	0	0	0
<b>Total equity</b>	<b>9,934</b>	<b>10,751</b>	<b>11,096</b>	<b>11,534</b>	<b>12,021</b>
<b>Total L&amp;E</b>	<b>78,429</b>	<b>90,251</b>	<b>97,900</b>	<b>104,379</b>	<b>111,390</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	1.80	1.96	2.04
Return on IEAs	2.40	2.59	2.52	2.58	2.59
Cost of funds	1.26	1.45	1.53	1.41	1.32
Net interest spread	1.14	1.14	0.99	1.17	1.27
<b>Profitability (%)</b>					
<b>ROE</b>	<b>4.5</b>	<b>1.9</b>	<b>4.1</b>	<b>5.1</b>	<b>5.4</b>
ROA	0.6	0.2	0.5	0.6	0.6
NOII/Net income	21.8	16.7	27.5	24.9	24.1
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	28	20	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	-9.6	11.2	7.2
Total NOII	-63.2	-14.3	71.0	-3.2	2.6
Net income	-18.5	11.4	3.9	7.2	6.0
OPEX	-15.7	15.6	5.3	3.1	5.2
Core NP	88.2	-53.9	124.3	27.8	10.2
Gross loans	11.1	15.4	12.0	8.0	8.0
Customer deposits	17.9	10.5	11.8	8.1	8.1
CASA	22.2	12.6	3.4	14.6	8.1
<b>Valuation metrics</b>					
Core EPS (sen)	20.0	9.2	20.7	26.4	29.1
Gross DPS (sen)	12.5	22.6	6.1	7.6	8.3
Div payout (%)	50	38	30	30	30
BVPS (RM)	4.6	5.0	5.1	5.3	5.5
Core P/E (x)	9.6	20.8	9.3	7.3	6.6
<b>Div yield (%)</b>	<b>6.5</b>	<b>11.8</b>	<b>3.2</b>	<b>4.0</b>	<b>4.3</b>
P/BV (x)	0.4	0.4	0.4	0.4	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