Affin Bank Berhad

(5185 | ABANK MK) Financial Services | Finance

Eyes on the East

***Upgrade to* NEUTRAL**

(Previously SELL)

***Revised* Target Price: RM2.24**

(Previously RM1.71)

KEY INVESTMENT HIGHLIGHTS

- **Potential new shareholder from the government of Sarawak (SWG)**
- **Tone: Still skewed toward the negative on a fundamental basis**
- **Core themes: (a) SWG may be looking to be largest shareholder, (b) Fundamentals are still weak, but could see some minor benefits**
- **Subject to regulatory approval, the potential entry of SWG as a significant shareholder could herald a new chapter in Affin's business direction and momentum. Credit quality and yield will remain areas of focus**
- **Forecasts unchanged**
- **Upgrade to NEUTRAL | Revised TP of RM2.24 | based on a revised FY24F P/BV of 0.42x**

Verdict: **Affin is trading well above what its fundamentals suggest. Regardless of potential new shareholder cheer, multiple headwinds persist.**	
Yays	1. Deal for new shareholders may provide some degree of fundamental benefit.
Nays	1. Questionable NIM outlook – attributable to voluminous accumulation of lower-yielding loans and increased deposit rates to provide adequate liquidity. 2. Asset quality outlook not the best – expect lumpy provisions. 3. Valuations are very elevated as result of recent newsflow.
OKs	1. NOII needs more time to come online. 2. Potential for lower OPEX growth and better CIR in FY24 – though this is dependent on expansion plans within Sarawak if deal materialises. 3. FY24 should see lower loan growth, lessening liquidity requirement pressure and benefitting NIMs.

Our verdict:

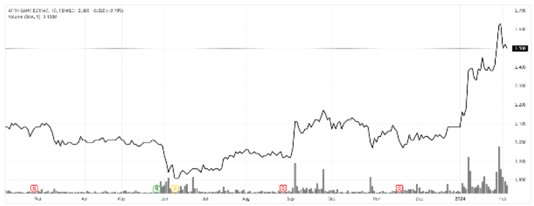
Interesting newsflow from last week. According to recent media reports, the Sarawak government (SWG) could be vying for a 30% stake, rather than the previously mentioned 20%. We think that there is a significant difference where it could imply that the SWG is looking to be the largest shareholder.

From a fundamental perspective, the potential new shareholder is in line with Affin's current direction. We think it provides Affin with increased Investment Banking (IB) opportunities (given that its NOII hasn't fully recovered from the AHAM disposal). It also provides Affin opportunities to build up its SME and corporate segments, especially when the Group is looking to move away from lower-yielding consumer loan segments.

At the same time, it's important not to overstate the benefits brought about by these changes. Affin is still far too expensive for its valuation, given the multiple headwinds it faces in the near future. We feel that benefits brought about by a new shareholder will take some time to manifest.

RETURN STATISTICS	
Price @ 6 February 2024 (RM)	2.50
Expected share price return (%)	-10.3
Expected dividend yield (%)	+3.1
Expected total return (%)	**-7.3**

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	13.3	11.2
3 months	18.8	16.4
12 months	17.1	15.1

INVESTMENT STATISTICS

FYE Dec	FY23F	FY24F	FY25F
Core NP (RM m)	**448**	**573**	**632**
CNP growth (%)	12	8	8
Div yield (%)	**2.4**	**3.1**	**3.3**
Gross DPS (sen)	6.1	7.6	8.3
P/BV (x)	**0.5**	**0.5**	**0.4**
BVPS (RM)	5.1	5.3	5.6
ROE (%)	**4.1**	**5.1**	**5.3**

KEY STATISTICS	
FBM KLCI	1,512.98
Issue shares (m)	2,273.9
Estimated free float (%)	19.6
Market Capitalisation (RM'm)	5,795.8
52-wk price range	RM1.79 - RM2.7
3-mth avg daily volume (m)	2.4
3-mth avg daily value (RM'm)	5.7
Top Shareholders (%)	
LTAT	28.8
Bank of East Asia Ltd	23.9
Boustead Holdings Bhd	20.0

Analyst
Samuel Woo
samuel.woo@midf.com.my

Entrant of new potential major shareholder:

The SWG's incentives in acquiring Affin Bank are very apparent. As alluded to by media reports, the SWG intends to use Affin to boost the state's financing of SME and business activities. A large-scale, state-linked bank is crucial in ensuring the financing of development initiatives in Sarawak is well supported.

The implication is different between a 30% or 20% stake. Initial media reports pegged the SWG's proposed stake at 20%. However, more recent articles have now pegged it at 30%. The change in proposed stake is significant as it determines who will be the largest shareholder at Affin Bank, and this could influence its future direction.

> **We feel that a 30% stake would make more sense from SWG's perspective** – as the largest shareholder, it will be able to exercise significantly more control over the bank's direction – in line with the state's intention to provide the financing for the state development initiatives. It is also possible that it could have a higher stake, albeit via indirect means. Also, it should be stated that these are all subject to BNM approval.

Could Bank of East Asia pare down its 24% stake? At current juncture, we think it is unlikely. BEA has held onto its stake for over thirteen years, when Affin's balance sheet was in far worse shape. We note that Affin has made significant improvements in the past few years, and we believe BEA will likely want to reap these benefits. However, we are not ruling out anything as valuation will be a major determinant in our opinion.

Potential benefits for Affin with a new shareholder in place

Recapping some of Affin's near-term profitability headwinds and plans:

- **NIM has been underperforming as of late, likely due to a combination of a high lower-yielding loan growth and more competitive deposit rates to provide adequate liquidity.** One of the core drivers of Affin's abnormally high loan growth in the past few years was its heavy accumulation of lower-yielding consumer loans during the low-interest environment of the pandemic.
    - **As a result, Affin will be slowing down its loan growth, shifting its focus on selective higher-yielding segments.** It will be shifting away from lower-yielding consumer loan segments (especially on residential mortgages, which have extremely competitive margins as of late) to higher-yielding business loans (as a means of NIM preservation).
- **NOII still has a hole to fill.** The Group is currently developing its investment banking (IB) franchise to replace AHAM's former stable NOII contribution.
- **Asset quality outlook questionable, especially on business end.** This will likely be accompanied by high (and possibly lumpy) credit charges.
- **OPEX still unable to be controlled.** The Group still struggles to keep its OPEX to a manageable level. This could increase further as the Group expands its regional presence.

SME and corporate segments may potentially benefit – in line with the Group's loan portfolio rebalancing intentions. As alluded to in media reports, Affin will be able to support Sarawak's business and SME growth. Stronger growth of these SME and corporate segments is in line with Affin's current direction improving asset yields and NIM profile. Keep in mind the following:

- **Still need to keep an eye on asset quality.** Affin's ability to be selective about larger projects depends on various factors.
- **Also, on possible ESG issues.** Especially if Affin's loan exposure to O&G players increases without any mitigating factors.
- **Other form of financing such as grants?** These are usually used to stimulate nascent but strategic industries. These would be beneficial from a NIM and liquidity perspective.

- **From an NOII standpoint, potential for more Investment Banking (IB) deals.** Affin has been hard at work in developing its IB segment, especially following the NOII void left by the recent AHAM disposal.

The effect on attractive consumer deposits is minute but still exists. While business loans serve as the core driver, we see several (minor) opportunities for Affin to build on its consumer book:

- **The opening of more brick-and-mortar branches.** Probably the best way to build up attractive consumer deposits (especially CASA) – especially after the launch of its new mobile app. From an intangible standpoint, it is also a good way to develop its deposit franchise in the state.
- **Capitalising on business owners (most notably, SME owners).** Cross-linkage of products is to be expected. Business owners are an attractive segment, given their high net worth. This could lead to larger deposits and the sale of higher-margin wealth products.
- **Underbanked segment likely another core segment.** We believe that one of Sarawak's intentions is to develop financial accessibility in more rural areas. However, balances from this segment are unlikely to be significant.

Affin current valuations are unattractive, given its low ROE-generating potential. We believe that Affin is trading ahead of its fundamentals as the uplift in sentiment from a potential new shareholder may have affected valuations. Affin is currently trading at ~0.52x P/BV, which is well above its 5-year historical average of 0.34x. We opine that this is expensive, well above the 0.40-0.45x P/BV range which we believe that it should be trading at, given that its ROE range will likely remain in the 4-5% range in the near future.

Forecasts unchanged. We maintain our forecasts.

Key downside risks. *(1) Higher-than-expected net credit costs, (2) Deposit competition persists, (3) The deal for a potential new shareholder does not follow through.*

Upgrade to NEUTRAL call: Revised GGM-TP of RM 2.24 ***(from RM1.71).*** Our revised TP is based on a revised FY24F P/BV of 0.42x, to reflect positive Sarawak-deal related sentiment. Subject to regulatory approval, the potential entry of SWG as a significant shareholder could herald a new chapter in Affin's business direction and momentum. Nevertheless, credit quality and yield will remain areas of focus.

(GGM assumptions: *FY24F ROE of 5.1%, LTG of 4.5% & COE of 5.8%)*

FINANCIAL SUMMARY

INCOME STATEMENT

FYE Dec (RM m)	FY21	FY22	FY23F	FY24F	FY25F
Interest income	1,670	2,053	2,084	2,250	2,330
Interest expense	(776)	(1,031)	(1,234)	(1,234)	(1,234)
Net interest income	**894**	**1,023**	**850**	**1,016**	**1,096**
Islamic banking inc.	549	688	567	677	731
Other operating inc.	401	344	613	664	675
Net income	**1,845**	**2,055**	**2,031**	**2,357**	**2,502**
OPEX	(1,139)	(1,317)	(1,361)	(1,509)	(1,576)
PPOP	**706**	**738**	**670**	**849**	**926**
Loan allowances	(165)	(289)	(113)	(124)	(134)
Other allowances	(57)	(45)	(31)	(26)	(20)
JV & Associates	45	9	40	51	56
PBT	**529**	**412**	**566**	**749**	**827**
Tax & zakat	(95)	(213)	(118)	(177)	(195)
Discontinued ops	147	1,125	-	-	-
NCI	(53)	(25)	-	-	-
Reported NP	**527**	**1,300**	**448**	**573**	**632**
Core NP	**434**	**200**	**448**	**573**	**632**
Total NII	1,444	1,711	1,417	1,693	1,827
Total NOII	401	344	613	664	675

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	28,022	21,136	18,862
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	6,872	7,807	10,217
Total assets	**78,429**	**90,251**	**105,285**	**105,162**	**111,452**
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	9,809	3,217	2,503
Total liabilities	**68,495**	**79,500**	**94,179**	**93,594**	**99,369**
Share capital	4,969	5,245	5,245	5,245	5,245
Reserves	4,920	5,505	5,861	6,323	6,837
Shareholders' funds	**9,889**	**10,751**	**11,107**	**11,568**	**12,083**
NCI	45	0	0	0	0
Total equity	**9,934**	**10,751**	**11,107**	**11,568**	**12,083**
Total L&E	**78,429**	**90,251**	**105,285**	**105,162**	**111,452**
Total IEAs	74,004	84,490	98,413	97,355	101,235
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	17,439	19,245	21,228

FINANCIAL RATIOS

FYE Dec (RM m)	FY21	FY22	FY23F	FY24F	FY25F
Interest (%)					
NIM	2.08	2.16	1.55	1.73	1.84
Return on IEAs	2.40	2.59	2.28	2.30	2.35
Cost of funds	1.26	1.45	1.53	1.41	1.32
Net interest spread	1.14	1.14	0.75	0.89	1.03
Profitability (%)					
ROE	**4.5**	**1.9**	**4.1**	**5.1**	**5.3**
ROA	0.6	0.2	0.5	0.5	0.6
NOII/Net income	21.8	16.7	30.2	28.2	27.0
Effective tax rate	16.9	50.6	20.0	22.8	22.8
Cost/Income	61.7	64.1	67.0	64.0	63.0
Liquidity (%)					
Loan/Deposit	85.9	89.4	89.5	89.6	89.5
CASA ratio	23.0	23.5	24.0	24.5	25.0
Asset Quality (%)					
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	18	18	18
Capital (%)					
CET 1	13.8	15.0	13.2	13.4	12.8
Tier 1 capital	15.4	16.3	14.4	14.6	13.9
Total capital	20.6	18.7	16.5	16.8	16.1
Growth (%)					
Total NII	22.9	18.5	-17.1	19.5	7.9
Total NOII	-63.2	-14.3	78.4	8.2	1.7
Net income	-18.5	11.4	-1.2	16.1	6.1
OPEX	-15.7	15.6	3.3	10.9	4.5
Core NP	88.2	-53.9	124.4	27.8	10.3
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	14.4	10.4	10.3
Valuation metrics					
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	5.6
Core P/E (x)	12.5	27.1	12.1	9.5	8.6
Div yield (%)	**5.0**	**9.0**	**2.4**	**3.1**	**3.3**
P/BV (x)	0.5	0.5	0.5	0.5	0.4

Source: Affin Bank, MIDFR

Income Statement	Balance Sheet	Valuations & Sector
Core NP – Core Net Profit	LCR – Liquidity Coverage ratio	ROE – Return on Equity
PPOP – Pre-Provisioning Operating Profit	L/D ratio – Loan/Deposit ratio	GGM – Gordon Growth Model
NII – Net Interest Income	CASA – Current & Savings accounts	P/BV – Price to Book Value
NIM – Net Interest Margin	FD – Fixed Deposits	BVPS – Book Value per Share
COF – Cost of Funds	GIL – Gross Impaired Loans	BNM – Bank Negara Malaysia
NOII – Non-Interest Income	NIL – Net Impaired Loans	OPR – Overnight Policy Rate
MTM – Mark to Market	LLC – Loan Loss Coverage	SRR – Statutory Reserve Requirement
CIR – Cost to Income Ratio	NCC – Net Credit Costs	SBR – Standardised Base Rate
OPEX – Operational Expenses	GCC – Gross Credit Costs	ALR – Average Lending Rate
	CET 1 – Common Equity Tier 1	

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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 *rise* 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 *fall* 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