

Affin Bank Berhad

(5185 | ABANK MK) Financial Services | Finance

1QFY24 Results: Still Waiting for Sunshine

KEY INVESTMENT HIGHLIGHTS

- 3MFY24's Core NP of RM110m was *Within/Within* our/street forecasts: **22%/22%** of full-year forecasts
- Management's tone: **Negative**
- Core themes: (a) Dividend uncertainty, (b) Liquidity issues, (c) Tighter OPEX control, (d) Heavier provisions ahead
- Forecasts unchanged
- **Maintain SELL | Revised TP of RM1.82 | based on a revised FY25F P/BV of 0.35x (previously 0.34x, from FY24F)**

Maintain SELL

Revised Target Price: RM1.82
(Previously RM1.70)

RETURN STATISTICS

Price @ 21 May 2024 (RM)	2.54
Expected share price return (%)	-28.4
Expected dividend yield (%)	+2.6
Expected total return (%)	-25.8

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	4.9	-0.2
3 months	2.0	-6.6
12 months	27.5	11.9

INVESTMENT STATISTICS

FYE Dec	FY24F	FY25F	FY26F
Core NP (RM m)	495	518	579
CNP growth (%)	8	10	10
Div yield (%)	2.5	2.6	2.8
Gross DPS (sen)	6.3	6.5	7.2
P/BV (x)	0.5	0.5	0.5
BVPS (RM)	5.0	5.2	5.4
ROE (%)	4.4	4.4	4.7
MIDF/Street CNP (%)	98	91	93

KEY STATISTICS

FBM KLCI	1,622.09
Issue shares (m)	2,346.5
Estimated free float (%)	20.4
Market Capitalisation (RM'm)	5,983.5
52-wk price range	RM1.79 - RM2.7
3-mth avg daily volume (m)	2.1
3-mth avg daily value (RM'm)	5.2
Top Shareholders (%)	
LTAT	28.8
Bank of East Asia Ltd	23.9
Boustead Holdings Bhd	20.0

Verdict: From a fundamental standpoint, Affin remains weak – even factoring in a boost from the Sarawak deal. Dividend outlook is uncertain.

Yays	<ol style="list-style-type: none"> 1. Lots of opportunities from the deal with Sarawak government. 2. NOII gradually coming online.
Nays	<ol style="list-style-type: none"> 1. Possibility of further dividend disappointments. 2. OPEX highly elevated, with OPEX growing at a high 9-10%yoy despite cost-saving measures being rolled out. 3. Despite mobile app rollout, CASA/deposit flows remained volatile, and liquidity remained an issue. 4. Further impairments and heavier provisioning expected.
OKs	<ol style="list-style-type: none"> 1. It's difficult to pinpoint the future direction of Affin's share price, as sentiment is unusually strong, despite lacklustre fundamentals. 2. Neutral on NIM – weak deposit franchise could lead to COF to continue rising, but asset yields finally seem to be benefitting from loan portfolio rebalancing. 3. Loan growth to return to ~12% range in FY25.

Results in a nutshell:

▼ **1QFY24's Core net profit (NP) of RM110m down by -26%yoy.** Despite higher net writebacks this time around, in the quarter remained weak. Largely due to worsening OPEX and NII.

▲ **1QFY24's Core NP of RM110m up by +179%qoq.** But this is due to low base effects – last quarter saw a very large provision and OPEX.

▲ **Gross loans grew by +2.1%qoq, coming up to +2.1%YTD.** We feel more comfortable with more moderate growth figures, which imply less liquidity pressure.

► **Deposits grew by 1.3%qoq, coming up to 1.3%YTD.** Note that this was mostly driven by FDs – corporate CASA saw a drastic, sudden decline.

▼ **GIL moved by +6bps to 1.96%, LLC currently at 100%.**

Analyst

Samuel Woo

samuel.woo@midf.com.my

Have a look at:

▼ **Profitability targets are unlikely to be achieved.** Management implies difficulty in achieving the initial FY24 PBT target of RM1.0b, especially after lacklustre 1QFY24 results. However, note that the initial FY24 targets were made without a potential deal with the Sarawak government in mind – implying room for upside surprises.

Regardless, we believe it is difficult to achieve such targets even with the Sarawak deal: (1) Sarawak deal has been delayed, so Affin is unable to reap any benefits until 2HFY24 – and even then, benefits will take time to trickle in, (2) NIM target is too ambitious, (3) NOII outlook remains uncertain.

▶ **Difficulty in determining NIM outlook.** On a positive note, Affin displayed increasing asset yields, implying that previous loan portfolio optimisation measures could bring some benefits in subsequent quarters. We think this trend will continue throughout the year.

However, COF is still rising. Moving forward, it's difficult to determine the future direction of COF as this quarter saw several potential factors affecting COF: (1) There was a sharp pare-down in borrowings, (2) Corporate CASA balances saw sharp decline, (3) Large influx in FDs, especially when industry liquidity is said to be tightening. COF also remains highly dependent on future inflows from the Sarawak government – an event that is surrounded by much uncertainty.

▶ **Softer OPEX expected ahead.** Affin seems to have frontloaded some of its OPEX in 1QFY24 (which saw +15%yoy of growth), guiding overall OPEX growth for FY24 to come in at a lower 9-10%yoy.

▲ **Making serious efforts to weed out unproductivity.** Affin has had an issue with staff overcapacity, leading to ballooning personnel costs. To combat this issue, it has placed 10% of its manpower (with the lowest productivity levels) on a probationary watchlist. Stricter measures may be undertaken if productivity levels are not improved.

▼ **Liquidity issues are mounting up...** Despite retail balances seeing decent inflows from the recent rollout of its mobile app, Affin saw a sharp overall decline in CASA balances, stemming primarily from corporate depositors.

This is nothing new – Affin's exposure to corporate deposits is among the largest of its peers and is subject to volatility from mass withdrawals and deposits. We think Affin was banking on its deal with the Sarawak government to give it some much-needed CASA inflow – but this has since been delayed.

▼ **...not helped by possible loan growth surprises...** Affin's loan growth has been extremely high in the last few years (~12-15% range). This year's target is 8% but loan growth will return to the 12% level in FY25. Management cites possible upside surprises from the corporate segment – which could apply further pressure on liquidity.

▼ **...and is impacting dividend outlook.** Affin's CET 1 ratio has fallen to 13.4% from 14.6% one year ago, most of which is used to fuel loan growth. Should loan growth remain high, we could see CET 1 ratio fall below the comfortable ~13% range, especially given that Affin is already liquidity constrained. A further instance of mass deposit withdrawals could imply a serious threat to dividend payouts, leading to a possible repeat of last quarter.

▼ **Asset quality keeps worsening.** Affin saw a pretty dramatic spike in SME and consumer segment GILs. While the Group attributes this to seasonal effects, management implies that the overall GIL ratio is unlikely to have peaked.

▼ **Expect heavy provisioning quarters ahead.** Despite net writebacks in the quarter, the Group maintains its 10-15bps NCC guidance for FY24 – suggesting that subsequent quarters could see heavier provisions.

Forecasts unchanged. We make no changes to our earnings forecasts.

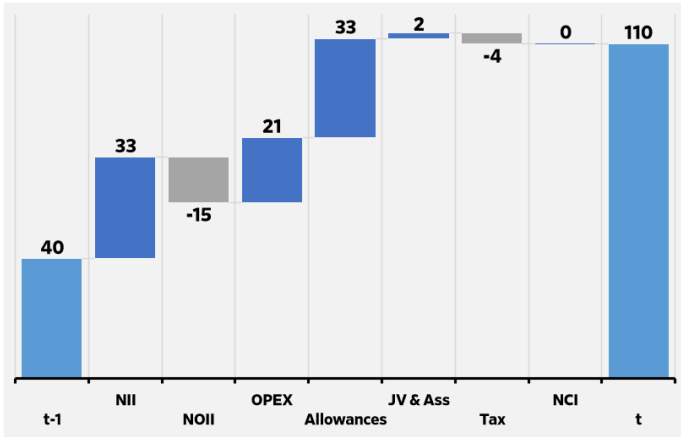
Key downside risks. (1) Higher-than-expected OPEX growth, (2) NIMs remain weak, (3) NOII remains lacklustre.

Maintain SELL call: Revised GGM-TP of RM 1.82 (from RM1.70). The TP is based on a revised FY25F P/BV of 0.35x (previously 0.34x, rolled on from FY24F), to reflect altered earnings prospects and ROE-based valuations.

(GGM assumptions: FY25F ROE of 4.4%, LTG of 3.0% & COE of 7.0%)

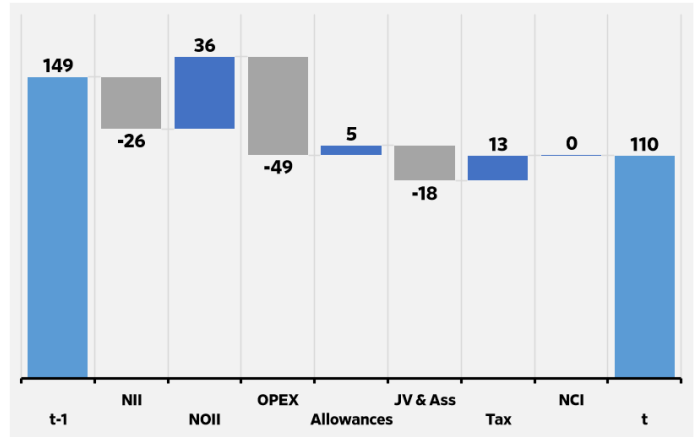


Fig 1: QoQ P/L walk (Quarterly results)



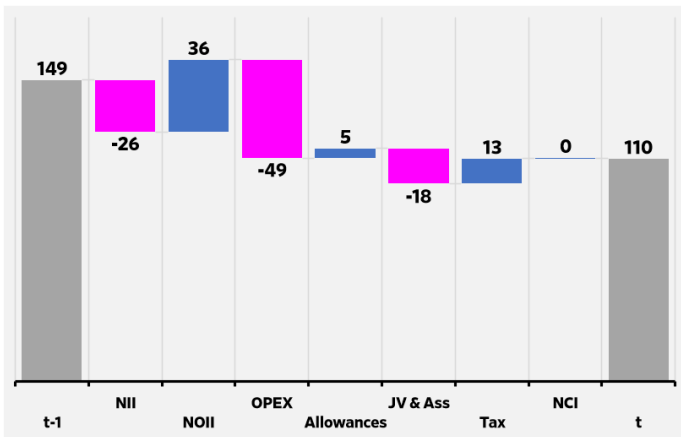
Source: Affin Bank, MIDFR

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)	1Q FY24	4Q FY23	1Q FY23	Yoy (%)	Qoq (%)	3M FY24	3M FY23	Yoy (%)
Net interest inc.	194	177	234	-17	9	194	234	-17
Islamic banking inc.	168	151	154	9	11	168	154	9
Non-interest inc.	143	158	107	34	-10	143	107	34
Net income	505	486	494	2	4	505	494	2
OPEX	(379)	(400)	(330)	15	-5	(379)	(330)	15
PPOP	126	86	164	-24	46	126	164	-24
Loan provisions	16	(17)	6	176	-189	16	6	176
Other provisions	3	3	8	-64	-8	3	8	-64
JV & Associates	1	(1)	19	n.m.	n.m.	1	19	n.m.
PBT	145	71	196	-26	106	145	196	-26
Tax	(35)	(31)	(47)	-27	12	(35)	(47)	-27
NCI	-	-	-	n.m.	n.m.	-	-	n.m.
Reported NP	110	40	149	-26	179	110	149	-26
Core NP	110	40	149	-26	179	110	149	-26
Total NII	362	329	388	-7	10	362	388	-7
Total NOII	143	158	107	34	-10	143	107	34
Gross DPS (sen)	-	5.8	-	n.m.	n.m.	-	-	n.m.
Core EPS (sen)	4.7	1.7	6.6	-28	174	4.7	6.6	-28
Gross loans	68,037	66,663	61,164	11.2	2.1			
Gross impaired loans	1,330	1,265	1,201	10.8	5.1			
Customer deposits	71,758	70,834	65,870	8.9	1.3			
CASA	17,852	18,914	14,698	21.5	-5.6			
Ratios (%)	1Q FY24	4Q FY23	1Q FY23	Yoy (ppts)	Qoq (ppts)	3M FY24	3M FY23	Yoy (ppts)
ROE (Ann.)	3.9	1.4	5.5	-1.6	2.5	3.9	5.5	-1.6
NIM (Reported)	1.44	1.44	1.76	-0.32	0.00	1.44	1.76	-0.32
NOII/Net income	28.3	32.4	21.6	6.7	-4.2	28.3	21.6	6.7
Cost/Income	75.1	82.4	66.8	8.3	-7.3	75.1	66.8	8.3
NCC (Ann.) (bps)	(10)	11	(4)	-6	-21	(10)	(4)	-6
GIL ratio	1.96	1.90	1.96	-0.01	0.06			
Loan loss coverage	100	114	117	-17	-14			
CASA ratio	24.9	26.7	22.3	2.6	-1.8			
L/D ratio	93.0	92.1	90.7	2.2	0.9			
CET-1	13.4	14.3	14.6	-1.2	-0.8			

Source: Affin Bank, MIDFR

Fig 5: Retrospective performance (Income Statement)

Metric		Surprise? Qoq/Yoy		Metric		Surprise? Qoq/Yoy	
Qtrly Core NP	RM mil		110	Qtrly ROE	Qtr value		3.9%
	22% of FY CNP						
	Qoq		179%		t-1		1.4%
	Yoy		-26%		t-4		5.5%
Cum Core NP	RM mil		110	Cum ROE	Cum value		3.9%
	Within our forecast						
	22% of FY CNP						
	Within consensus						
	22% of FY CNP						
Yoy		-26%		t-1		5.5%	
NII	As expected			NIM	As expected		
					Qtr value		1.44
					Cum value		1.44
	Qtr (Qoq)		10%		Qtr (Qoq)		+0bps
	Qtr (Yoy)		-7%		Qtr (Yoy)		-32bps
Cum (Yoy)		-7%	Cum (Yoy)		-32bps		
NOII	-ve surprise			Qtr	% NII		72%
	Qtr (Qoq)		-10%		% NOII		28%
	Qtr (Yoy)		34%	Cum	% NII		72%
	Cum (Yoy)		34%		% NOII		28%
OPEX	As expected			Cost/ Inc.	As expected		
					Qtr value		75.1%
					Cum value		75.1%
	Qtr (Qoq)		-5%		Qtr (Qoq)		-7.3%
	Qtr (Yoy)		15%		Qtr (Yoy)		+8.3%
Cum (Yoy)		15%	Cum (Yoy)		+8.3%		

Source: Affin Bank, MIDFR

Notes (Cum = Cumulative, Qtr = Quarterly)

Admittedly, we were gunning for stronger figures, especially after a solid couple of quarters.

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					
	Qoq	2.1%				
	Yoy	11.2%				
	YTD (FY)	2.1%				
Depo. grwth	As expected		CASA grwth	-ve surprise		CASA growth was hit by huge withdrawals in corporate segment.
	Qoq	1.3%		Qoq	-5.6%	
	Yoy	8.9%		Yoy	21.5%	
	YTD (FY)	1.3%		YTD (FY)	-5.6%	
CASA ratio	-ve surprise		L/D ratio	As expected		
	Value now	24.9%		Value now	93.0%	
	Qoq	-1.8%		Qoq	+0.9%	
	Yoy	+2.6%		Yoy	+2.2%	
GIL ratio	As expected		LLC ratio	As expected		Some overlay writebacks were seen this quarter. Current overlay balance: RM480m (4QFY24: RM516m).
	Value now	1.96%		Value now	100%	
	Qoq	+6bps		Qoq	-14%	
	Yoy	-1bps		Yoy	-17%	
Qtrly Net CC	As expected		Cum Net CC	As expected		
	Decent provision			Decent provision		
	Value now	-10bps		Value now	-10bps	
	t-1	11bps				
	t-4	-4bps		t-4	-4bps	
CET 1	Healthy level		Div payout	No divvy		While CET 1 remains in a comfortable >13% range, we feel that Affin's high loan growth might wear down this figure in due time.
	As expected			As expected		
	Value now	13.4%		Payout	34%	
	Qoq	-0.8%				
Others:						

Source: Affin Bank, MIDFR

Fig 7: Targets, Achievements, and Outlook

Targets	FY24F	3M FY24	Notes (Red: New guidance, Strikethrough: Guidance is no longer pertinent)
ROE	7 (PBT: RM1.0b)	3.9	Unlikely to be achievable.
CIR	64	75.1	OPEX growth to remain at 8 9-10% until FY25.
NIM	1.60 (from 1.42)	1.44	NIM improvement is overly ambitious, even when factoring possible help from Sarawak government.
NOII		34% (yoy)	
Loans	8	2.1 (YTD)	Affin will resume ~12% target in FY25.
Deposits		1.3 (YTD)	
% CASA	>30.0	24.9	Overly ambitious. Mobile app balances are not sufficient. Only achievable if inflows from Sarawak deal come in hard and fast.
Loan/Depo		93.0	
GIL ratio	1.90	1.96	
NCC (bps)	10-15 GCC: 13	-10	Expect tougher quarters ahead – target unchanged despite net writebacks in 1QFY24.
LLC	100-120	100	
CET 1		13.4	
Div payout	40-60	-	Poor economic conditions and earnings performance, worn down CET 1 ratio make dividend outlook more uncertain.

Source: Affin Bank, MIDFR

FINANCIAL SUMMARY

INCOME STATEMENT

FYE Dec (RM m)	FY22	FY23F	FY24F	FY25F	FY26F
Net interest income	1,023	783	927	963	1,032
Islamic banking inc.	688	596	618	642	688
Other operating inc.	344	607	710	749	818
Net income	2,055	1,986	2,256	2,354	2,538
OPEX	(1,317)	(1,421)	(1,534)	(1,601)	(1,701)
PPOP	738	565	722	753	838
Loan allowances	(462)	(50)	(90)	(98)	(108)
Other allowances	(45)	(28)	(27)	(22)	(21)
JV & Associates	9	36	43	45	50
PBT	239	523	648	678	758
Tax & zakat	(161)	(121)	(153)	(160)	(179)
Discontinued ops	1,125	-	-	-	-
NCI	(25)	-	-	-	-
Reported NP	1,179	402	495	518	579
Core NP	78	402	495	518	579
Total NII	1,711	1,379	1,546	1,605	1,721
Total NOII	344	607	710	749	818

BALANCE SHEET

FYE Dec (RM m)	FY22	FY23F	FY24F	FY25F	FY26F
Cash & ST funds	5,205	6,483	6,399	6,962	7,030
Investment securities	21,180	27,239	20,979	19,273	20,126
Net loans	57,932	65,225	70,585	77,643	85,408
Other IEAs	0	0	0	0	0
Non-IEAs	5,804	6,300	13,863	16,570	17,366
Total assets	90,121	105,248	111,827	120,449	129,929
Customer deposits	64,995	70,834	76,572	84,305	92,820
Other IBLs	11,818	21,289	21,670	22,066	22,475
Non-IBLs	2,679	2,016	2,049	2,084	2,120
Total liabilities	79,492	94,139	100,291	108,455	117,416
Share capital	5,245	5,371	5,371	5,371	5,371
Reserves	5,383	5,738	6,164	6,623	7,142
Shareholders' funds	10,629	11,109	11,535	11,994	12,513
NCI	0	0	0	0	0
Total equity	10,629	11,109	11,535	11,994	12,513
Total L&E	90,121	105,248	111,827	120,449	129,929
Total IEAs	84,317	98,947	97,963	103,879	112,564
Total IBLs	76,813	92,123	98,242	106,371	115,296
Gross loans	59,343	66,663	71,996	79,195	87,115
CASA	15,250	18,914	18,760	21,076	23,205

FINANCIAL RATIOS

FYE Dec (RM m)	FY22	FY23F	FY24F	FY25F	FY26F
Interest (%)					
NIM	2.16	1.50	1.57	1.59	1.59
Return on IEAs	2.59	2.89	2.20	2.18	2.09
Cost of funds	1.45	2.21	1.30	1.21	1.11
Net interest spread	1.15	0.68	0.90	0.97	0.98
Profitability (%)					
ROE	0.8	3.7	4.4	4.4	4.7
ROA	0.1	0.4	0.5	0.4	0.5
NOII/Net income	16.7	30.6	31.5	31.8	32.2
Effective tax rate	65.7	22.2	22.8	22.8	22.8
Cost/Income	64.1	71.6	68.0	68.0	67.0
Liquidity (%)					
Loan/Deposit	89.1	92.1	92.2	92.1	92.0
CASA ratio	23.5	26.7	24.5	25.0	25.0
Asset Quality (%)					
GIL ratio	1.97	1.90	1.96	1.96	1.96
LLC ratio	120	114	100	100	100
LLC (w. reserves)	161	140	146	148	144
Net CC (bps)	83	8	13	13	13
Capital (%)					
CET 1	15.0	13.8	14.0	13.8	13.3
Tier 1 capital	16.3	15.3	15.4	15.1	14.6
Total capital	18.7	18.0	17.8	17.4	16.8
Growth (%)					
Total NII	18.5	-19.4	12.1	3.8	7.2
Total NOII	-14.3	76.6	17.0	5.5	9.1
Net income	11.4	-3.4	13.6	4.3	7.8
OPEX	15.6	7.9	7.9	4.3	6.3
Core NP	-82.0	415.4	23.2	4.6	11.8
Gross loans	15.4	12.3	8.0	10.0	10.0
Customer deposits	10.5	9.0	8.1	10.1	10.1
CASA	12.6	24.0	-0.8	12.3	10.1
Valuation metrics					
Core EPS (sen)	3.4	17.4	21.5	22.5	25.1
Gross DPS (sen)	22.6	5.8	6.3	6.5	7.2
Div payout (%)	42	33	30	30	30
BVPS (RM)	4.6	4.8	5.0	5.2	5.4
Core P/E (x)	75.1	14.6	11.8	11.3	10.1
Div yield (%)	8.9	2.3	2.5	2.6	2.8
P/BV (x)	0.6	0.5	0.5	0.5	0.5

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	

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (197501002077 (23878 – X)).
(Bank Pelaburan)
(A Participating Organisation of Bursa Malaysia Securities Berhad)

DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (197501002077 (23878 – X)) for distribution to and use by its clients to the extent permitted by applicable law or regulation.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that MIDF Investment believes are reliable at the time of publication. All information, opinions and estimates contained in this report are subject to change at any time without notice. Any update to this report will be solely at the discretion of MIDF Investment.

MIDF Investment makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such. MIDF Investment and its affiliates and related BNM and each of their respective directors, officers, employees, connected parties, associates and agents (collectively, "Representatives") shall not be liable for any direct, indirect or consequential loss, loss of profits and/or damages arising from the use or reliance by anyone upon this report and/or further communications given in relation to this report.

This report is not, and should not at any time be construed as, an offer, invitation or solicitation to buy or sell any securities, investments or financial instruments. The price or value of such securities, investments or financial instruments may rise or fall. Further, the analyses contained herein are based on numerous assumptions. This report does not take into account the specific investment objectives, the financial situation, risk profile and the particular needs of any person who may receive or read this report. You should therefore independently evaluate the information contained in this report and seek financial, legal and other advice regarding the appropriateness of any transaction in securities, investments or financial instruments mentioned or the strategies discussed or recommended in this report.

The Representatives may have interest in any of the securities, investments or financial instruments and may provide services or products to any company and affiliates of such BNM mentioned herein and may benefit from the information herein.

This document may not be reproduced, copied, distributed or republished in whole or in part in any form or for any purpose without MIDF Investment's prior written consent. This report is not directed or intended for distribution to or use by any person or entity where such distribution or use would be contrary to any applicable law or regulation in any jurisdiction concerning the person or entity.

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