

Affin Bank Berhad

(5185 | ABANK MK) Financial Services | Finance

Enters New Largest Shareholder

KEY INVESTMENT HIGHLIGHTS

- **Purpose:** Update on entrant of new largest shareholder
- **Tone:** Long term benefit still skewed toward the negative in the short-term on a fundamental basis
- **Core themes:** (a) Benefit from largest shareholder, (b) Fundamentals are still weak, and seems overvalued
- **Forecasts unchanged**
- **Maintain SELL | Revised TP of RM2.35 | based on a revised FY25F P/BV of 0.45x (formerly 0.35x)**

Verdict: Entrant of SAH is expected to be a positive boost for Affin in the long run. However, fundamental issues and overvaluation may beset in the short term

Yays	<ol style="list-style-type: none"> 1. Entrant of Sarawak government via its wholly owned subsidiary company, SG Assetfin Holdings Sdn Bhd (SAH) with 31% stake – largest shareholder. 2. Lots of opportunities from the deal with potential new shareholder.
Nays	<ol style="list-style-type: none"> 1. OPEX and CIR are still seemingly uncontrollable. 2. NIM compression is likely to persist. 3. Questionable asset quality, though NCC outlook is more positive.
OKs	<ol style="list-style-type: none"> 1. CASA flows are picking up – but its high rates would barely bring any benefit to COF. 2. Re-rating adjustment due to new shareholders.

Entrant of a new largest shareholder. Sarawak Government via its wholly owned subsidiary company, SG Assetfin Holdings Sdn Bhd ('SAH') has concluded the share purchase agreement (SPA) of Affin Bank Bhd shares owned by Lembaga Tabung Angkatan Tentera (LTAT) and Boustead Holdings Berhad, thereby becoming the largest shareholder with an approximately 31% stake. Prior to the acquisition, the Sarawak Government held a 4.81% stake.

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 (enhancing its NOII potential and filling in 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.

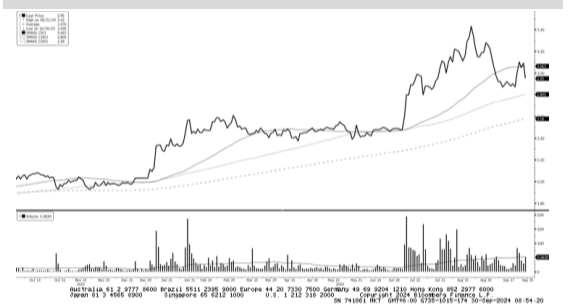
More of a longer-term play - important not to overstate the benefits brought about by these changes. We believe that Affin is still overvalued at current juncture, given the multiple headwinds it faces in the near future. We feel that benefits brought about by a new shareholder will take some time to manifest.

Maintain SELL
Revised Target Price: RM2.35
 (Previously RM1.82)

RETURN STATISTICS

Price @ 27 September 2024 (RM)	2.95
Expected share price return (%)	-20.3
Expected dividend yield (%)	+2.2
Expected total return (%)	-18.1

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-10.1	-9.0
3 months	18.5	13.5
12 months	38.5	18.8

INVESTMENT STATISTICS

FYE Dec	FY24F	FY25F	FY26F
Core NP (RM m)	495	518	579
CNP growth (%)	8	10	10
Div yield (%)	2.1	2.2	2.4
Gross DPS (sen)	6.3	6.5	7.2
P/BV (x)	0.7	0.6	0.6
BVPS (RM)	5.0	5.2	5.4
ROE (%)	4.4	4.4	4.7
MIDF/Street CNP (%)	101	92	95

KEY STATISTICS

FBM KLCI	1,660.09
Issue shares (m)	2346.49
Estimated free float (%)	20.34
Market Capitalisation (RM'm)	7,081.44
52-wk price range	RM1.97 - RM3.43
3-mth avg daily volume (m)	4.98
3-mth avg daily value (RM'm)	14.96
Top Shareholders (%)	
LTAT	28.88
Bank of East Asia Ltd	23.93
Boustead Holdings Bhd	20.08

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The SAH's incentives in acquiring Affin Bank are very apparent. As alluded to by media reports, the Sarawak government via SAH 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.

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.

The effect on attractive consumer deposits still exists (by maybe minute). 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.

However, short-term headwinds persist - recapping Affin's 2QFY24 result:

- **▼ NIM has been underperforming as of late.** Recall, in 2QFY24, Affin's NIM fell by -4bps qoq and is expected to narrow further (in contrast to the rest of the industry). Currently, we believe the only thing that offers a meaningful jumpstart to Affin's NIM is if there is a huge CASA inflow upon completion of a new shareholder – though we understand that the management remains uncertain about the potential scale of inflows. Affin's weak deposit franchise coupled with high loan growth requirements has led to persistent liquidity issues in the past.
- **▼ Its average retail CASA interest rate of ~3% is above-industry high.** This implies that its recent CASA surge is not as beneficial to COF as once thought.
- **▼ Loan yields will continue to remain weak, as management is reprioritising consumer loans once more (and moving away from the SME segment).** Management expresses uncertainty about the quality of potential SME customers, believing their debt servicing ability may not be adequate. Hence, they will slow down growth in their SME segment and ramp up growth in the lower-yielding consumer segment instead.
- **▼ Downward FY24 target revision is almost a certainty.** As with previous years, we expect ROE, CIR and NIM targets to be lowered. These targets could be plausible if the new shareholder deal had been finalised earlier this year.
- **▲ We are slightly more positive about its NCC target.** Affin's 1HFY24 NCC figure of 2bps was still well below its FY24 target of 10-15bps. Management guides for potential forward-looking provision writebacks.

Affin current valuations are unattractive, given its low ROE-generating potential. We believe that Affin is trading ahead of its fundamentals. We believe that the benefit to incur from the new largest shareholder will take time to manifest. Affin is currently trading at ~0.6x 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 make no changes to our forecasts.

Key downside risks. (1) Persistent asset quality issues, (2) Steep NIM compression, (3) Weak NOII performance.

Maintain SELL call: Revised GGM-TP of RM 2.35 (from RM1.82). The TP is based on a revised FY25F P/BV of 0.45x (formerly 0.35x). We pegged FY25F BV to a higher P/BV which is +1SD of its historical P/BV to reflect the potential re-rating following the entrant of a new largest shareholder. However, we believe that the share price has moved ahead of its fundamental. Hence, we retain our **SELL** call. (**GGM assumptions:** FY25F ROE of 4.4%, LTG of 3.0% & COE of 7.0%)

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)	87.3	16.9	13.7	13.1	11.8
Div yield (%)	7.7	2.0	2.1	2.2	2.4
P/BV (x)	0.6	0.6	0.6	0.6	0.5

Source: Affin Bank, MIDFR

Income Statement

Core NP – Core Net Profit
PPOP – Pre-Provisioning Operating Profit
NII – Net Interest Income
NIM – Net Interest Margin
COF – Cost of Funds
NOII – Non-Interest Income
MTM – Mark to Market
CIR – Cost to Income Ratio
OPEX – Operational Expenses

Balance Sheet

LCR – Liquidity Coverage ratio
L/D ratio – Loan/Deposit ratio
CASA – Current & Savings accounts
FD – Fixed Deposits
GIL – Gross Impaired Loans
NIL – Net Impaired Loans
LLC – Loan Loss Coverage
NCC – Net Credit Costs
GCC – Gross Credit Costs
CET 1 – Common Equity Tier 1

Valuations & Sector

ROE – Return on Equity
GGM – Gordon Growth Model
P/BV – Price to Book Value
BVPS – Book Value per Share
BNM – Bank Negara Malaysia
OPR – Overnight Policy Rate
SRR – Statutory Reserve Requirement
SBR – Standardised Base Rate
ALR – Average Lending Rate

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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