

31 May 2019

Affin Bank Berhad

In Line

By Ahmad Ramzani Ramli | ahmadramzani@kenanga.com.my

3M19 set of results came in line with our/consensus expectations on account of better loans, credit recovery and lower opex. TP of RM2.60 and OUTPERFORM call maintained pending a briefing from management later today.

In Line. 3M19 CNP of RM138m was within expectations accounting for 25%/26% of our/market estimates. No dividend was declared, as expected.

Loans on target, let down by NIM compression. YoY, earnings fell (-2%) to RM138m; despite lower opex and writebacks (RM10m vs 1Q19: RM16m) recorded for the quarter. Topline (-1%) saw poor performances from its fund-based (-13%) and Islamic banking income (-1%) Fee-based of (+15%) was driven by a >100% gain in financial instruments to RM72m. While loans growth (+4.6% driven by mortgages +20%) was within guidance, NII was dragged by falling NIM (-20bps) as funding costs intensifies from higher intake of FDs. CIR of 64% (above guidance of <60% and industry average of 48%) due to weak topline as opex expanded due to its current AFINITY TRANSFORMATION programme. Asset quality was mixed as GIL surged ahead by 78bps (to 3.31% due to uptick from the construction sector; +60bps to 0.9%) while the quarter saw a RM10m credit recovery due to write-back of RM12.2m as credit losses charged for the quarter was mild at RM1.8m.

QoQ, earnings fell 4% despite topline improving +4%, as the quarter saw higher opex (+4%) and higher tax rate (+4ppts to 22%). Topline was dragged by NII (-9%). Loans fell (-1%); dragged by purchase of transport vehicles (-3%) and working capital (-6%) while growth in residential mortgages continued to be resilient (+4%). NIM saw a +14ps uptick likely due to better asset pricing from its 10bps rate hike at end of 4Q18.

Earnings maintained for now pending a management briefing later today.

TP and rating maintained. For now, we maintain our **OUTPERFORM** call (due to undemanding valuations) and TP of RM2.60 based on a target PBV of 0.5x (implying a 0.5SD below mean) pending further updates from management. The 0.5SD below is to reflect concerns on asset quality and domestic/external headwinds.

Risks to our call are: (i) higher-than-expected-margin squeeze, (ii) lower-than-expected loans/financing growth as well as (iii) worse-than-expected-deterioration in asset quality.

OUTPERFORM ↔

Price : **RM2.08**
Target Price : **RM2.60** ↔

Share Price Performance



KLCI 1,636.50
YTD KLCI chg -3.2%
YTD stock price chg -6.7%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	ABANK MK Equity
Market Cap (RM m)	4,130.9
Shares Outstanding	1,986.0
52-week range (H)	2.63
52-week range (L)	2.05
3-mth avg daily vol:	115,066
Free Float	20%
Beta	0.9

Major Shareholders

Lembaga Tabung Angkatan Tentera	35.5%
Bank Of East Asia Ltd	23.6%
Boustead Holdings Bhd	20.7%

Summary Earnings Table

FYE Dec (RM m)	2018A	2019E	2020E
Net interest inc.	845	838	854
Islamic banking inc.	398	503	515
Non-interest inc.	677	759	811
Total inc.	1,920.6	2,099	2,179
Pre-tax profit	679	754	829
Net profit (NP)	503.1	559.8	593.4
Consensus NP		536	574
<i>Earnings revision (%)</i>			
EPS (RM)	0.26	0.29	0.31
EPS growth (%)	8.0	11.3	6.0
Net DPS (RM)	0.05	0.06	0.06
BV/share (RM)	4.37	4.59	4.95
NTA/share (RM)	3.91	4.14	4.48
ROE (%)	6.0%	6.3%	6.3%
PER	8.0	7.2	6.8
Price/book (x)	0.48	0.45	0.42
Net dividend yield (%)	2.4	2.6	2.6

31 May 2019

Results Highlight

Y/E : Dec (RM m)	1Q19	4Q18	QoQ Chg.	1Q18	YoY Chg.	3M19	3M18	YoY Chg.
Net interest inc.	188.4	207.5	-9.2%	215.8	-12.7%	188.4	215.8	-12.7%
Net Islamic banking inc.	97.4	97.8	-0.4%	98.5	-1.1%	97.4	98.5	-1.1%
Non-interest inc.	186.7	148.2	26.0%	162.3	15.1%	186.7	162.3	15.1%
Total inc.	472.5	453.6	4.2%	476.6	-0.9%	472.5	476.6	-0.9%
Other operating exp.	(304.3)	(293.5)	3.7%	(311.6)	-2.3%	(304.3)	(311.6)	-2.3%
(Allowances)/write-backs	9.9	16.5	-40.2%	15.7	37.1%	9.9	15.7	-162.9%
(Allowances)/write-backs on other assets	-	(0.1)	N.a	(6.0)		-	(6.0)	N.a
Operating profit	178.1	176.4	0.9%	174.7	1.9%	178.1	174.7	1.9%
Non-operating gains/(losses)	7.4	10.9	-32.2%	12.3	-39.9%	7.4	12.3	-39.9%
Pre-tax profit	185.4	187.3	-1.0%	187.0	-0.8%	185.4	187.0	-0.8%
Taxation & minorities	(47.3)	(43.5)	8.7%	(45.5)	3.9%	(47.3)	(45.5)	3.9%
Net profit	138.1	143.8	-3.9%	141.5	-2.4%	138.1	141.5	-2.4%
EPS (sen)	6.99	7.40	-5.5%	7.28	-4.0%	6.99	7.28	-4.0%
Net DPS declared (sen)	-	-	-	-	N.a	-	-	N.a
G. loans	48,510	48,973	-0.9%	46,379	4.6%	48,510	46,379	4.6%
N. loans	47,931	48,392	-1.0%	45,826	4.6%	47,931	45,826	4.6%
Customer dep.	57,431	57,346	0.1%	53,007	8.3%	57,431	53,007	8.3%
Current and savings acc.	8,348	8,939	-6.6%	8,700	-4.1%	8,348	8,700	-4.1%
BV/share (RM)	1.89	1.85	2.3%	1.77	7.0%	1.89	1.77	7.0%
NTA/share (RM)	1.71	1.66	2.9%	1.58	8.1%	1.71	1.58	8.1%
Est. net interest margin	1.58%	1.44%		1.64%		1.58%	1.78%	
Reported net interest margin	0.00%	0.00%		0.00%				
Cost-income ratio	64.4%	64.7%		65.4%		64.4%	65.4%	
Effective tax rate	22.2%	18.8%		21.8%		22.2%	21.8%	
Effective minority interest	4.5%	5.4%		3.1%		4.5%	3.1%	
G. loan-deposit	84.5%	85.4%		87.5%		84.5%	87.5%	
N. loan-deposit	83.5%	84.4%		86.5%		83.5%	86.5%	
CASA-total deposits	14.5%	15.6%		16.4%		14.5%	16.4%	
Gross impaired loans ratio	3.31%	3.25%		2.5%		3.31%	2.54%	
Total allowances-to-loans	1.2%	1.2%		1.2%		1.2%	1.2%	
Loan loss coverage	36.1%	36.5%		46.8%		36.1%	46.8%	
Ann. credit charge/(writeback) ratio	-0.08%	-0.14%		-0.1%		-0.08%	-0.14%	
CET 1 capital	12.0%	12.2%		12.0%		12.0%	12.0%	
Tier 1 capital	12.0%	12.3%		12.0%		12.0%	12.0%	
Total capital	17.3%	17.2%		17.3%		17.3%	17.3%	
Ann. return on equity	6.3%	6.8%		6.5%		6.4%	6.5%	

Source: Company, Kenanga Research

31 May 2019

Peer Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div Yld (%)	Target Price (RM)	Rating
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.		
BANKING																	
AFFIN BANK BHD	2.08	4,130.9	N	12/2019	7.2%	4.9%	11.2%	5.9%	8.2	7.4	6.8	0.5	0.5	6.3%	2.6%	2.60	OP
ALLIANCE BANK MALAYSIA BHD	3.82	5,913.8	N	03/2020	9.4%	8.0%	7.2%	9.2%	11.0	10.3	9.4	1.0	1.0	9.8%	4.7%	4.25	OP
AMMB HOLDINGS BHD	4.48	13,503.5	N	03/2020	9.7%	4.8%	-4.4%	2.8%	9.0	9.4	9.1	0.7	0.7	7.5%	4.5%	5.10	OP
BIMB HOLDINGS BHD	4.65	8,203.9	Y	12/2019	7.8%	8.5%	7.6%	13.6%	12.0	11.5	10.6	1.6	1.5	14.0%	3.5%	4.80	MP
CIMB GROUP HOLDINGS BHD	5.21	50,679.9	N	12/2019	4.6%	4.8%	-16.1%	-0.9%	8.7	10.8	11.2	0.9	0.9	8.5%	4.3%	6.25	OP
HONG LEONG BANK BERHAD	18.72	38,293.6	N	06/2019	5.8%	5.7%	2.0%	9.0%	14.5	14.2	13.1	1.6	1.5	11.0%	2.6%	20.05	MP
MALAYAN BANKING BHD	9.01	99,557.6	N	12/2019	4.2%	4.3%	-0.5%	3.2%	12.3	12.3	12.0	1.3	1.2	9.9%	6.3%	10.35	OP
MALAYSIA BUILDING SOCIETY	0.92	5,878.0	N	12/2019	-1.0%	5.3%	-10.7%	10.2%	9.2	10.3	9.7	0.8	0.7	7.2%	5.4%	1.15	OP
PUBLIC BANK BERHAD	23.60	91,618.5	N	12/2019	3.9%	5.2%	-0.1%	3.5%	16.3	16.3	15.8	2.2	2.2	13.7%	2.9%	24.10	MP
RHB BANK BHD	5.74	23,017.7	N	12/2019	6.0%	4.8%	3.7%	3.6%	10.0	9.6	9.3	1.0	0.9	9.9%	3.7%	6.05	MP
Simple Average					5.8%	5.6%	0.0%	6.0%	11.1	11.2	10.7	1.2	1.1	9.8%	4.0%		

Source: Bloomberg, Kenanga Research

31 May 2019

Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies.

Published and printed by:

KENANGA INVESTMENT BANK BERHAD (15678-H)

Level 12, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my



Chan Ken Yew
Head of Research