

03 June 2019

Affin Bank Berhad

Growth by Operational Efficiency

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

Following a post-results' conference call with management last Friday, we have downgraded AFFIN's TP to RM2.40 but reiterate our **OUTPERFORM** call (due to undemanding valuations). We believe asset quality in FY19 will see improvement following resolution of two huge accounts. Loans growth target is achievable, in our view, following its revision to a more conservative target.

Recap. 3M19 CNP of RM138m was within expectations accounting for 25%/26% of our/market estimates. While loans growth (at +4.6%) was within guidance, NII was dragged by falling NIM (-20bps) as funding costs intensified from higher intake of FDs. CIR of 64% was above guidance of <60% and industry average of 48% due to weak top-line as opex expanded due to its on-going strategic initiatives.

Loans target revised. With economic uncertainties prevailing, management revised its FY19E loan growth target from 4-5% to 3-4%. FY19 loans will be impacted by corporates/SME; thus, will be driven primarily by consumer. Recap, management is strategically building its Islamic contribution to 40% of total assets by 2020 and looks likely to succeed as 3M19 portfolio is already at 39% Islamic assets. AFFIN is expected to roll out retail and corporate transaction banking by Jul 19 (part of its strategic initiatives), which will support its CASA growth and to comply with NSFR 9 (currently at 90%) by end of 2019. Turnaround time is expected to be faster with corporate internet banking. It is expected to grow corporate banking from the LTAT/Boustead Group of companies which is likely to come on-stream by end of 4Q19/1Q20. **NIM compressed due to higher FDs.** The 20bps NIM compression was a surprise due primarily to its high intake of FDs as it strives to comply with NSFR by end of 2019 (from mid-2019 initially guided). We understand that its deposits growth target remained at +11% YoY. Weak corporates/SME growths undermine CASA in 1Q19: 14% of deposits). To mitigate this impact, management target FY19 CASA at 20% which we find challenging with anaemic SME growth given the prevailing uncertainties.

While YTD, GIL saw uptick by 77bps to 3.31%, management stress that excluding R&R accounts, GIL stood at 2.63%. Resolution of two huge (O&G and Real Estate related) are slow (was guided to resolve b4Q18/1Q19),9) but management insisted that both will be resolve2019, end of 2019 which will push its GIL to 2.5%. Despite the large impaired loans, we take comfort that impairment allowances have been low in the last three quarters, (at 8bps credit recovery/quarter) partly due to recoveries. Given this operational efficiency (with no systemic risk seen from asset quality) we are inclined to believe that credit costs will be in the range of 20-30bps (vs. management's guidance of gross credit charge of 30-40bps).

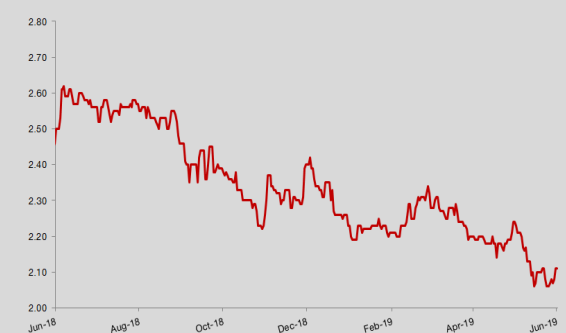
FY19E/FY20E earnings tweaked. We revised our earnings by -2%/+7% to RM550m/RM637m on account of; i) loans growth at ~3%/5% (from 5%/6%), (ii) credit charge at 24/23bps (from 25/24), NIMs (-10bps/-5 from -3bps/-7), and (iv) CIR at 60%/58% (from 60%/60%) as most of its strategic initiatives will be completed by 2019.

TP lowered but rating maintained. Our TP is reduced to RM2.40 (vs. RM2.60 previously) as we roll over valuations to FY20 based on a target PBV of 0.50x (previously 0.57x) - implying a 0.5SD below mean - to account for the uncertainties ahead. While NIM compression is a concern, we are positive on its operational efficiency which will contain credit costs. Undemanding with total returns still at >10%, **OUTPERFORM** call is maintained.

OUTPERFORM ↔

Price : RM2.11
Target Price : RM2.40 ↓

Share Price Performance



KLCI 1,650.76
YTD KLCI chg -2.4%
YTD stock price chg -5.4%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	ABANK MK Equity
Market Cap (RM m)	4,190.5
Shares Outstanding	1,986.0
52-week range (H)	2.63
52-week range (L)	2.05
3-mth avg daily vol:	115,370
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

FY Dec (RM'm)	2018A	2019E	2020E
Net interest inc.	845	806	838
Islamic banking inc.	398	487	503
Non-interest inc.	677	759	811
Total inc.	1,920.6	2,053	2,152
Pre-tax profit	679	741	853
Net profit (NP)	503.1	549.7	637.0
Consensus NP		530.6	564.6
Earnings revision (%)		-2%	7%
EPS (RM)	0.26	0.28	0.32
EPS growth (%)	8.0	7.4	15.9
Net DPS (RM)	0.05	0.06	0.06
BV/share (RM)	4.37	4.61	4.88
NTA/share (RM)	3.91	4.15	4.42
ROE (%)	6.0%	6.2%	6.8%
PER	8.1	7.6	6.5
Price/book (x)	0.48	0.46	0.43
Net dividend yield (%)	2.4	2.6	2.6

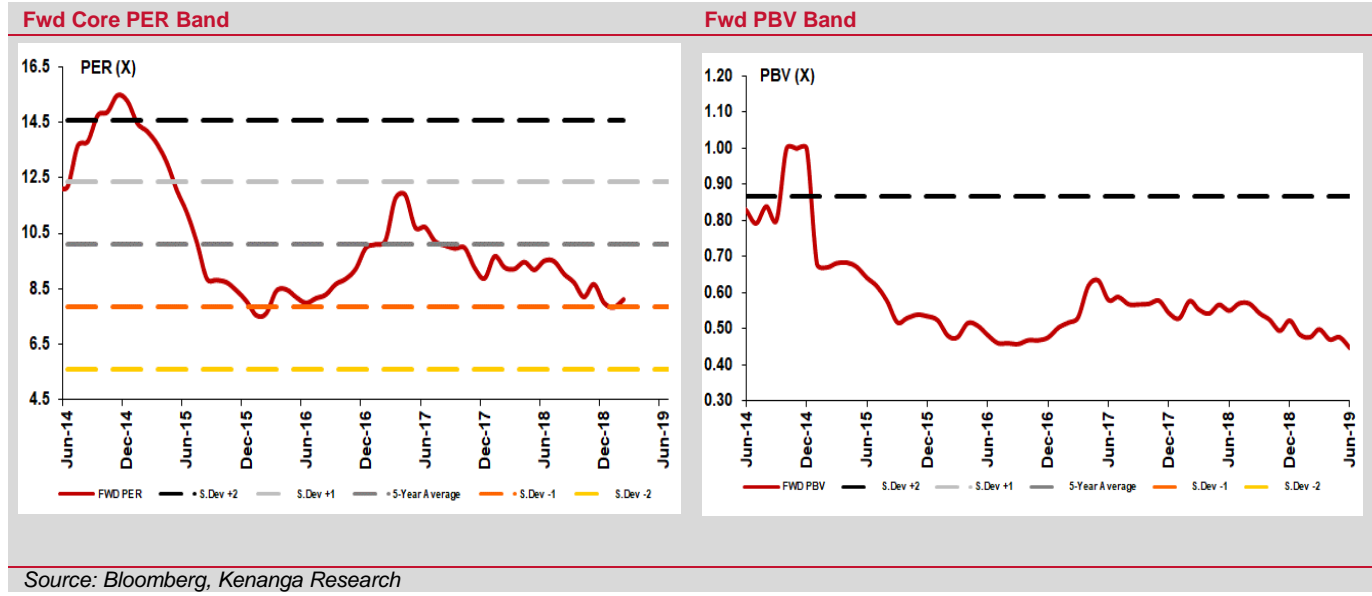
03 June 2019

Other Salient Points.

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.

Income Statement						Financial Data & Ratios					
FY Mar (RM m)	FY16A	FY17A	FY18E	FY19E	FY20E	FY Mar (RM m)	FY16A	FY17A	FY18E	FY19E	FY20E
Interest Inc.	2,553	2,368	2,419	2,533	2,668	Growth	2.4%	-11.9%	-1.2%	-4.6%	3.9%
Interest Exp.	(1,583)	(1,512)	(1,574)	(1,727)	(1,830)	Net Interest Inc.	2.4%	-11.9%	-1.2%	-4.6%	3.9%
Net Interest Inc.	971	855	845	806	838	Isl. Ops.	12.5%	-46.4%	82.5%	12.1%	6.8%
Islamic Banking Inc.	273	334	398	487	503	Non-int. Inc.	7.4%	-19.4%	23.1%	6.9%	4.8%
Other Op Inc	693	371	677	759	811	Total Inc.	35.8%	-27.8%	16.8%	9.0%	11.4%
Total Inc.	1,936	1,560	1,921	2,053	2,152	Op. Income	42.9%	-25.3%	22.5%	9.2%	15.1%
Other Op Exp	(1,094)	(902)	(1,165)	(1,225)	(1,247)	Pre-tax Profit	52.7%	-25.9%	20.3%	9.3%	15.9%
Provisions / (Writebacks)	(43)	(85)	(71)	(139)	(137)	Net Profit	0.6%	4.3%	6.3%	3.2%	4.8%
Non-op Gains & Losses	(8)	13	47	52	85	G. Loan	0.9%	4.5%	5.8%	3.2%	4.7%
Pre-tax Profit	742	554	679	741	853	N. Loan	1.9%	-1.1%	12.6%	11.1%	4.5%
Tax and Zakat	(162)	(130)	(152)	(167)	(192)	Customer deps	2.4%	-11.9%	-1.2%	-4.6%	3.9%
Minority Interest	(16)	(7)	(24)	(24)	(24)	Operating metrics					
Net Profit	564	418	503	550	637	Est. NIM	1.7%	1.7%	1.7%	1.6%	1.6%
Balance Sheet						Est. effective lending yield	5.0%	4.8%	3.6%	3.4%	3.3%
FY Mar (RM m)	FY16A	FY17A	FY18E	FY19E	FY20E	Est. effective COF	3.5%	3.5%	2.5%	2.5%	2.5%
Cash & ST Funds	5,009	4,611	6,404	12,145	12,914	Cost-income	56.5%	57.8%	60.7%	59.7%	58.0%
G. Loans	44,153	46,055	48,973	50,520	52,920	Credit charge ratio	0.0%	0.2%	0.1%	0.2%	0.2%
N. Loans	43,747	45,722	48,392	49,939	52,290	G. loan-deposit	85.7%	90.4%	85.4%	79.3%	79.5%
Est. Int. Bearing Assets	63,542	65,195	70,927	78,173	81,224	Loan loss coverage	55.0%	28.5%	36.5%	45.6%	34.2%
Total Asset	68,886	70,009	75,976	82,805	86,223	G. impaired loans ratio	1.7%	2.5%	3.2%	2.5%	3.5%
Customer Deps	51,506	50,920	57,346	63,709	66,575	Return on equity	6.6%	4.9%	5.9%	6.2%	6.8%
LT Borrowings	1,607	2,036	3,054	3,054	3,054	Return on assets	0.8%	0.6%	0.7%	0.7%	0.8%
Est. Int. Bearing Liab.	58,878	59,756	65,423	71,786	74,652	Valuations					
Total Liabilities	60,155	61,680	67,235	73,598	76,464	EPS (RM)	0.29	0.24	0.26	0.28	0.32
Share Capital	1,943	4,685	4,685	4,685	4,685	PER (x)	7.3	8.8	8.1	7.6	6.5
Retained Earnings	2,401	2,671	2,929	3,370	3,898	Div. yield (%)	3.6	1.1	2.4	2.6	2.6
Other Reserves	4,339	915	1,058	1,058	1,058	BV/share (RM)	4.5	4.7	4.4	4.6	4.9
Shareholders' Fund	8,682	8,271	8,672	9,113	9,641	PBV (x)	0.5	0.4	0.5	0.5	0.4
Total Liab. & Equity	68,886	70,009	75,976	82,805	86,223						

Source: Kenanga Research



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	2.11	4,190.5	N	12/2019	8.2%	5.3%	9.3%	15.9%	8.3	7.6	6.5	0.5	0.5	6.2%	2.6%	2.40	OP
ALLIANCE BANK MALAYSIA BHD	3.85	5,960.2	N	03/2020	9.4%	8.0%	7.2%	9.2%	11.1	10.3	9.5	1.0	1.0	9.8%	4.6%	4.25	OP
AMMB HOLDINGS BHD	4.43	13,352.8	N	03/2020	9.7%	4.8%	-4.4%	2.8%	8.9	9.3	9.0	0.7	0.7	7.5%	4.5%	5.10	OP
BIMB HOLDINGS BHD	4.61	8,133.3	Y	12/2019	7.8%	8.5%	7.6%	13.6%	11.9	11.4	10.5	1.6	1.5	14.0%	3.5%	4.80	MP
CIMB GROUP HOLDINGS BHD	5.27	51,555.3	N	12/2019	4.6%	4.8%	-16.1%	-0.9%	8.9	10.9	11.4	0.9	0.9	8.5%	4.3%	6.25	OP
HONG LEONG BANK BERHAD	19.00	38,825.5	N	06/2019	5.8%	5.7%	2.0%	9.0%	14.7	14.4	13.2	1.6	1.6	11.0%	2.5%	20.05	MP
MALAYAN BANKING BHD	9.02	99,889.1	N	12/2019	4.2%	4.3%	-0.5%	3.2%	12.3	12.4	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	91,540.8	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	5.83	23,298.4	N	12/2019	6.0%	4.8%	3.7%	3.6%	10.1	9.7	9.4	1.0	0.9	9.9%	3.6%	6.05	MP
Simple Average					5.9%	5.7%	-0.2%	7.0%	11.2	11.3	10.7	1.2	1.1	9.8%	4.0%		

Source: Bloomberg, Kenanga Research

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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.**

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Published and printed by:

KENANGA INVESTMENT BANK BERHAD (15678-H)

Level 17, 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