

02 December 2019

Affin Bank Berhad

Looking Beyond Transformation

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Following last week post-briefing, AFFIN's TP is maintained at RM2.45. While loans look challenging, as its portfolio rebalances, growth will be supported by better NIM and better credit charge ahead.

To recap, 9MFY19 CNP of RM366m came below our/consensus expectations, accounting for 63%/68% of respective full-year estimates on account of declining fee-based income, compressed NIM (-20bps) with loans shrinking 5% (vs. target of 3-4%).

Portfolio rebalancing. Management alluded to the decline in loan book as a strategic initiative to rebalance its loans portfolio - as big repayments came on stream with poor disbursements given the challenging environment plus low utilization; hence, the easing of these accounts. Moving forward, focus will now be on higher yielding assets - Personal Use and Credit Cards. While previously Corporate/Consumer portfolio was at 60/40, management indicated a rebalancing of SME/Corporate/Consumer of 10/40/50 with SME targeted to attain 15% in 2 to 3 years' time. Its Islamic financing will be at 40% of total loans. FY19 loans are expected to shrink by 2% due to the above factors with FY20 loans growth targeted at +5% (or RM2.4b). We believe this is doable given the magnitude of growth historically from household and SME loans. With its Transformation Initiatives in place enhancing products and experience, these will add traction to growth in such segments (Household and SMEs). We, however, pencilled in a conservative +4% growth given the challenging environment.

Expect better NIM ahead. The continued compression in NIM is not a surprise given the lag in re-pricing of deposits. Management gave an indication of a +10bps NIM for FY20 given the focus on higher yielding assets. NIM compression is not anticipated given the moderate credit demand expected plus with its low LDR and Loan to Fund Ratio (LTF) at 82% and 75%. The traction in SME and is expected to bolster CASA (which currently is at a mere 15%) offsetting NIM compression. We maintain an 18bps NIM compression for FY19 (as we expect fully priced deposits in 4QFY19) but pencilling a conservative +5bps NIM for FY20.

Normalised credit charge ahead. 9MFY19 asset quality was mixed as GIL surged 60bps to 3.5% with credit charge recorded at 2bps (or RM7m). Excluding the R&R loans, net impaired loans ratio GIL would have been at 2.6%. As highlighted earlier, the high GIL was due to a couple of unresolved accounts (O&G and Real Estate) of which management are confident of resolving by at least 1QFY20 which will push GIL down to 2.5%. Despite the large impaired loans, we take comfort that gross credit charge have been low in the last 7 quarters at an average 12bps vs. average credit recovery of 8bps. Given this operational efficiency (with no systemic risk seen from asset quality), management revised its credit charge guidance to 15-20bps and we understand this will be the normalised charge going ahead.

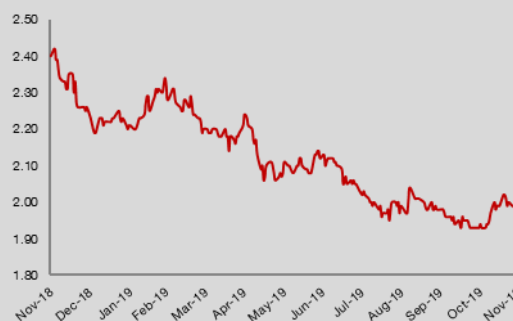
FY19E/FY20E earnings tweaked. We revised FY19E/FY20E earnings by -2%/-3% to RM566m/RM651m on account of: (i) NIMs (-18/+5bps (from -8/-3bps)), (ii) loans growth at -2%/4% (from ~1%/4%), (iii) credit charge at 25/23bps (unchanged), and (iv) CIR at 60%/59% (unchanged) as most of its strategic initiatives will be completed by 2019.

TP unchanged and rating maintained. TP maintained at RM2.45 based on FY20 target PBV of 0.49x (unchanged) - implying a 0.5SD below mean - to account for its abysmal loans. Given that compliance on NSFR is attained, lower funding cost and credit charges will support earnings ahead with opex expected to taper given the completion of its strategic initiatives. Still undemanding with total returns at >20%, **OUTPERFORM** call is reiterated.

OUTPERFORM ↔

Price : RM1.94
Target Price : RM2.45 ↔

Share Price Performance



KLCI	1,561.74
YTD KLCI chg	-7.6%
YTD stock price chg	-13.0%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	ABANK MK Equity
Market Cap (RM m)	3,852.9
Shares Outstanding	1,986.0
52-week range (H)	2.43
52-week range (L)	1.90
3-mth avg daily vol:	120,729
Free Float	12%
Beta	0.8

Major Shareholders

Lembaga Tabung Angkatan Tentera	35.3%
Bank of East Asia Ltd	23.6%
Boustead Holdings Bhd	20.7%

Summary Earnings Table

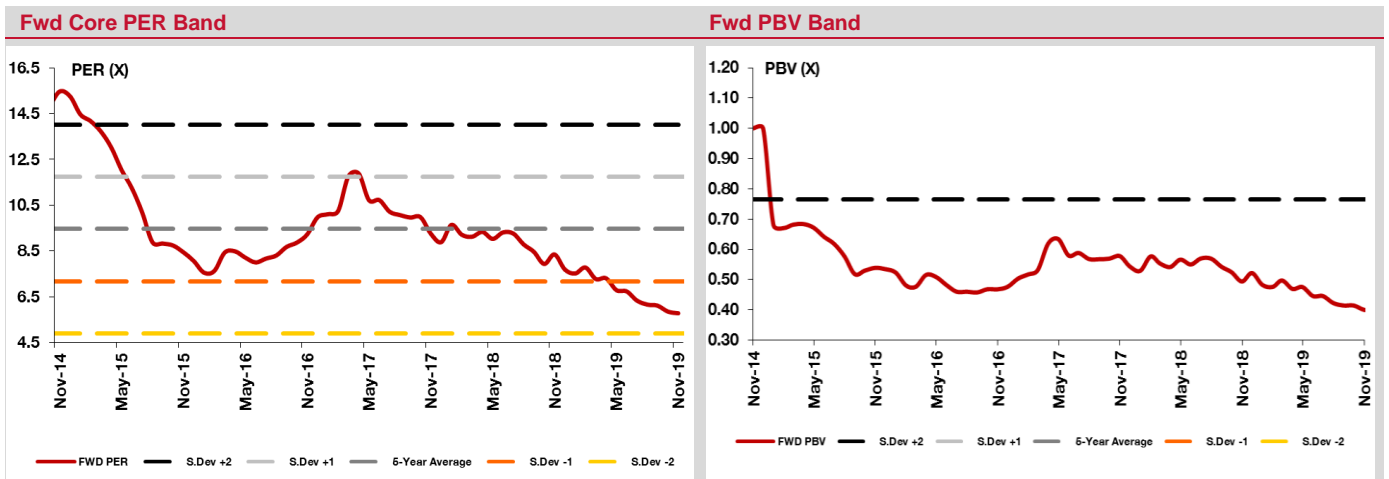
FY Dec (RM'm)	2018A	2019E	2020E
Net interest inc.	845	651	666
Islamic banking inc.	398	546	601
Non-interest inc.	677	769	808
Total inc.	1,920.6	1,967	2,076
Pre-tax profit	679	762	871
Net profit (NP)	503.1	565.9	651.0
Consensus NP		515.0	516.6
Earnings revision (%)		-2%	-3%
EPS (RM)	0.26	0.29	0.33
EPS growth (%)	8.0	10.6	15.0
Net DPS (RM)	0.05	0.06	0.06
BV/share (RM)	4.37	4.62	4.89
NTA/share (RM)	3.91	4.16	4.44
ROE (%)	6.0%	6.4%	6.9%
PER	7.5	6.8	5.9
Price/book (x)	0.44	0.42	0.40
Net dividend yield (%)	2.6	2.8	2.8

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 Dec (RM m)	FY16A	FY17A	FY18A	FY19E	FY20E	FY Dec (RM m)	FY16A	FY17A	FY18A	FY19E	FY20E
Interest Inc.	2,553	2,368	2,419	2,378	2,395	Growth	2.4%	-11.9%	-1.1%	-23.0%	2.3%
Interest Exp.	(1,583)	(1,512)	(1,574)	(1,727)	(1,728)	Net Interest Inc.	2.4%	-11.9%	-1.1%	-23.0%	2.3%
Net Interest Inc.	971	855	845	651	666	Isl. Ops.	12.5%	-46.4%	82.5%	13.7%	5.0%
Islamic Banking Inc.	273	334	398	546	601	Non-int. Inc.	7.4%	-19.4%	23.1%	2.4%	5.5%
Other Op Inc	693	371	677	769	808	Total Inc.	35.8%	-27.8%	16.8%	12.3%	10.7%
Total Inc.	1,936	1,560	1,921	1,967	2,076	Op. Income	42.9%	-25.3%	22.5%	12.2%	14.3%
Other Op Exp	(1,094)	(902)	(1,165)	(1,119)	(1,153)	Pre-tax Profit	52.7%	-25.9%	20.4%	12.5%	15.0%
Provisions / (Writebacks)	(43)	(85)	(71)	(139)	(137)	Net Profit	0.6%	4.3%	6.3%	-2.0%	3.5%
Non-op Gains & Losses	(8)	13	47	52	85	G. Loan	0.9%	4.5%	5.8%	-2.1%	3.4%
Pre-tax Profit	742	554	679	762	871	N. Loan	1.9%	-1.1%	12.6%	2.1%	-0.3%
Tax and Zakat	(162)	(130)	(152)	(172)	(196)	Customer deps	2.4%	-11.9%	-1.1%	-23.0%	2.3%
Minority Interest	(16)	(7)	(24)	(24)	(24)	Operating metrics					
Net Profit	564	418	503	566	651	Est. NIM	2.0%	1.8%	1.8%	1.7%	1.7%
Balance Sheet						Est. effective lending yield	5.0%	4.8%	3.6%	3.3%	3.2%
FY Dec (RM m)	FY16A	FY17A	FY18A	FY19E	FY20E	Est. effective COF	3.8%	3.8%	2.8%	2.8%	2.8%
Cash & ST Funds	5,009	4,611	6,404	9,534	7,997	Cost-income	61.1%	53.4%	70.0%	59.9%	59.3%
G. Loans	44,153	46,055	48,973	47,971	49,626	Credit charge ratio	0.13%	0.16%	0.12%	0.25%	0.24%
N. Loans	43,747	45,722	48,392	47,390	48,996	G. loan-deposit	85.7%	90.4%	85.4%	82.0%	85.1%
Est. Int. Bearing Assets	63,425	65,239	71,016	73,902	74,798	Loan loss coverage	55.0%	28.5%	36.5%	53.5%	60.8%
Total Asset	68,886	70,009	75,976	77,644	78,012	G. impaired loans ratio	1.7%	2.5%	3.2%	2.3%	2.1%
Customer Deps	51,506	50,920	57,346	58,533	58,334	Return on equity	6.6%	4.9%	5.9%	6.4%	6.9%
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.	53,800	52,956	60,401	61,587	61,389	Valuations					
Total Liabilities	60,155	61,680	67,235	68,421	68,223	EPS (RM)	0.29	0.24	0.26	0.29	0.33
Share Capital	1,943	4,685	4,685	4,685	4,685	PER (x)	6.7	8.1	7.5	6.8	5.9
Retained Earnings	2,401	2,671	2,929	3,386	3,928	Div. yield (%)	3.9	1.2	2.6	2.8	2.8
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	9,129	9,671	PBV (x)	0.43	0.41	0.44	0.42	0.40
Total Liab. & Equity	68,886	70,009	75,976	77,644	78,012						

Source: Kenanga Research



Source: Bloomberg, 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.			
BANKING																	
AFFIN BANK BHD	1.94	3,852.9	N	12/2019	5.7%	3.0%	12.5%	15.0%	7.7	6.8	5.9	0.4	0.4	6.4%	2.8%	2.45	OP
ALLIANCE BANK MALAYSIA BHD	2.70	4,179.9	N	03/2020	5.6%	8.6%	-9.4%	19.0%	8.5	7.8	8.6	0.8	0.7	8.3%	6.2%	3.45	OP
AMMB HOLDINGS BHD	3.99	12,026.6	N	03/2020	10.6%	4.6%	3.0%	1.5%	8.0	7.8	7.6	0.6	0.6	8.1%	5.0%	4.75	OP
BIMB HOLDINGS BHD	4.16	7,339.4	Y	12/2019	10.0%	6.6%	7.7%	13.5%	10.7	10.3	9.5	1.5	1.4	14.0%	3.9%	4.80	OP
CIMB GROUP HOLDINGS BHD	5.18	51,401.0	N	12/2019	4.6%	5.0%	-15.8%	4.1%	8.7	10.7	10.6	0.9	0.9	8.6%	4.4%	6.45	OP
HONG LEONG BANK BERHAD	16.90	36,634.4	N	06/2020	4.1%	5.1%	1.0%	0.6%	13.1	13.0	12.9	1.4	1.4	10.8%	3.0%	17.30	OP
MALAYAN BANKING BHD	8.53	95,888.8	N	12/2019	3.8%	4.3%	-2.2%	4.7%	11.6	11.9	11.4	1.2	1.1	9.7%	6.6%	9.70	OP
MALAYSIA BUILDING SOCIETY	0.84	5,639.3	N	12/2019	-4.2%	4.5%	-17.8%	8.6%	8.4	10.2	9.8	0.7	0.7	6.7%	6.0%	1.10	OP
PUBLIC BANK BERHAD	19.62	76,167.6	N	12/2019	3.9%	5.2%	-0.1%	3.4%	13.6	13.6	13.1	1.8	1.9	13.7%	3.5%	22.10	OP
RHB BANK BHD	5.66	22,696.9	N	12/2019	6.0%	4.8%	4.1%	5.7%	9.8	9.5	8.9	1.0	0.9	9.9%	3.7%	6.05	MP
Simple Average					5.0%	5.2%	-1.7%	7.6%	10.0	10.1	9.8	1.0	1.0	9.6%	4.5%		

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:

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