

01 March 2021

Affin Bank Bhd

FY20 Below Expectations

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FY20 PATAMI of RM230.3m (-53%) and 3.5 sen dividend missed expectations as 4QFY20 was swamped by higher-than-expected pre-emptive provisioning. We believe AFFIN could continue to face asset quality concerns as long as movement controls persist. Meanwhile, its NOII-based income could ease as market condition softens. Maintain UP with a lower FY22E GGM-derived PBV TP of RM1.40 (from RM1.50).

FY20 disappointed. FY20 reported PATAMI of RM230.3m came in way below estimates, making up only 66%/63% of our/consensus full-year expectations. The negative deviation is due to much chunkier pre-emptive impairments provided for in 4QFY20. We reckon this could mostly be due to cracks surfacing from the lapse of the loan moratorium in September. The 3.5 sen dividend declared is also below expectations, coinciding with the earnings disappointment.

YoY, FY20 total income was uplifted by 18% as NOII propelled higher by 43%. This is thanks to the group's high fee-based income streams which benefitted from the more vibrant securities market during the year. Meanwhile, NII inched by 2% as NIMs improved to 1.87% (+27 bps) as cost of funds softened from OPR cuts. CIR stood relatively elevated at 62.9% (-0.5ppt) as overheads increased (+12%) with the higher top-line. Given the greater macroeconomic risks brought by Covid-19, the group booked significantly higher provisions at RM561.6m (+900%), raising the year's credit cost to 120 bps (from FY19: 12 bps). This caused FY20 PATAMI plunging to RM230.3m (-53%). GIL ratio for the group stood at 3.5% (+0.5ppt) as its assets were sensitive to the economic slowdown. Similar to the industry, AFFIN's CASA-to-deposit rose as customers prefer to keep their cash liquid (22.2%; +3.1ppt).

QoQ, 4QFY20 NII increased by 25% as NIMs benefitted from a better repricing of its deposits. Gross loans grew by 2% during the period. On the flipside, NOII dropped by 38% due to softer gains from financial instruments as markets cooled off. Management ended the quarter with heavy pre-emptive provisioning of RM259.9m (+130%) possibly to frontload identified risks from a prolonged MCO 2.0. Due to this, 4QFY20 posted a LATAMI of RM9.4m (from 3QFY20 PATAMI: RM48.7m).

Painful cut. The group has presented guidance for a much more hopeful FY21E as economic recovery should reinvigorate overall demand for loans and deposits. Meanwhile, as the group appears to benefit from low interest rate environments, it expects NIM to come closer to 1.9% (FY20: 1.66%) as its products are progressively repriced. Despite the impairment scare brought upon in 4QFY20, the group is still cautious with the economic conditions and have guided for high credit cost to persist (albeit significantly lower) at 43 bps. Meanwhile, measures should be enforced to manage asset quality, but the 3% GIL guidance could be done better.

Post results, we cut our FY21E earnings by 15% as we account for softer NOII and higher impairment allowances in lieu of possible aggravation of credit quality risks. We also introduce our FY22E numbers.

Maintain UNDERPERFORM with a lower TP of RM1.40 (from RM1.50, previously). Our TP is based on a rolled over FY22E GGM-derived PBV of 0.29x (1.5SD below 5-year mean, from 0.31x). We encapsulate a higher risk-free rate of 3.1% (from 2.7%) to offset the higher BV/share. While the stock is typically known to have the least exposure in financing risks due to its higher NOII mix against its peers, we believe times may have caught up to the stock that it should focus in keeping its financing businesses in check. ROE and dividend yield leave much to be desired against its peers.

UNDERPERFORM ↔

Price : RM1.76
Target Price : RM1.40 ↓

Share Price Performance



KLCI	1,577.75
YTD KLCI chg	-3.0%
YTD stock price chg	-4.3%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	ABANK MK Equity
Market Cap (RM m)	3,660.4
Shares Outstanding	2,079.8
52-week range (H)	1.93
52-week range (L)	1.33
3-mth avg daily vol	670,673
Free Float	13%
Beta	1.1

Major Shareholders

LTAT	35.2%
Bank Of East Asia Ltd	23.7%
Boustead Holdings Bhd	19.8%

Summary Earnings Table

FY Dec (RM m)	2020A	2021E	2022E
Net interest income	1,175	1,159	1,199
Non-interest income	1,090	926	945
Total income	2,265	2,086	2,144
Operating expenses	-1,351	-1,389	-1,417
Loan imp. allowances	-562	-281	-267
Pre-tax profit	394	451	495
PATAMI	230	336	369
Core PATAMI	230	336	369
Consensus NP		423	468
Earnings revision		-14.9%	-
EPS (sen)	11.6	16.9	18.6
EPS growth (%)	-52.8	45.9	9.8
Net DPS (sen)	3.5	5.0	6.0
BV/share (RM)	4.6	4.7	4.9
ROE (%)	2.4	3.4	3.7
PER (x)	15.9	10.9	0.0
P/BV (x)	0.38	0.37	0.36
Net dividend yield (%)	2.0	2.8	3.4

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Risks to our call include: (i) lower-than-expected margin squeeze, (ii) higher-than-expected loans growth, (iii) better-than-expected improvement in asset quality, (iv) stronger capital market activities, and (v) favourable currency fluctuations.

Results Highlights

	4Q	3Q	QoQ	4Q	YoY	12M	12M	YoY
FYE Dec (RM m)	FY20	FY20	Chg	FY19	Chg	FY20	FY19	Chg
Net interest income	381.0	305.9	25%	297.6	28%	1,174.9	1,153.8	2%
Non-interest income	239.8	388.3	-38%	185.1	30%	1,090.0	760.6	43%
Total income	620.8	694.2	-11%	482.7	29%	2,264.9	1,914.4	18%
Operating expenses	-353.8	-475.8	-26%	-287.1	23%	-1,351.0	-1,206.6	12%
Pre-impairment profit	267.0	218.4	22%	195.5	37%	913.9	707.8	29%
(Allowances)/ write-backs	-259.9	-112.3	131%	-42.9	506%	-543.1	-49.9	989%
(Allowances)/ write-backs on other assets	-6.2	-11.3	-45%	-3.7	68%	-18.5	-5.6	229%
Operating profit	0.9	94.8	-99%	149.0	-99%	352.3	652.3	-46%
Non-operating gains / (losses)	23.2	4.1	465%	17.5	33%	41.9	30.2	39%
Profit before tax	24.2	98.9	-76%	166.4	-85%	394.2	682.5	-42%
Taxation	-14.2	-41.4	-66%	-34.7	-59%	-121.3	-166.4	-27%
Minority interest	-19.3	-8.8	120%	-9.6	101%	-42.5	-28.3	50%
Net PATAMI	-9.4	48.7	-119%	122.1	-108%	230.3	487.8	-53%
Core PATAMI	-9.4	48.7	-119%	122.1	-108%	230.3	487.8	-53%
Gross loans	45,936	45,024	2%	46,615	-1%	45,936	46,615	-1%
Gross impaired loans	1,629	1,312	24%	1,379	18%	1,629	1,379	18%
Customer deposits	49,887	49,507	1%	51,090	-2%	49,887	51,090	-2%
Current and savings account (CASA)	11,082	10,233	8%	9,752	14%	11,082	9,752	14%
Total assets	69,537	69,696	0%	68,341	2%	69,537	68,341	2%
Shareholders' equity	9,567	9,583	0%	9,337	2%	9,567	9,337	2%
Reported NIM	1.87%	1.70%		1.60%		1.66%	1.49%	
Cost-to-income ratio	57.0%	68.5%		59.9%		62.9%	64.5%	
Annualised credit cost (bps)	231	99		40		120	2	
Effective tax rate	58.7%	41.9%		20.9%		30.9%	25.5%	
Annualised ROA	-0.1%	0.3%		0.7%		0.4%	0.7%	
Annualised ROE	-0.4%	2.0%		5.2%		2.4%	5.4%	
Gross impaired loans ratio	3.5%	2.9%		3.0%		3.5%	3.0%	
Loan loss coverage ratio (LLC)	47.9%	61.3%		41.6%		47.9%	41.6%	
LLC plus regulatory reserves	95.9%	95.1%		94.7%		95.9%	94.7%	
Loan-to-deposit ratio	91.2%	91.2%		88.8%		91.2%	88.8%	
CASA-to-deposit ratio	22.2%	20.7%		19.1%		22.2%	19.1%	
CET-1 capital (Group level)	14.3%	15.0%		14.4%		14.3%	14.4%	

Source: Company, Kenanga Research

Management Guidance

	FY21 Targets	FY20 Performance
Loan growth	6.0%	-1%
Deposit growth	6.0%	-2%
Net interest margin	1.9%	1.66%
Cost-to-income ratio	< 60.0%	62.9%
Credit cost	43 bps	120 bps
Return on equity	6.0%	2.4%
Gross impaired loan	3.0%	3.5%

Source: Company, Kenanga Research

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Peer Table 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.			
Stocks Under Coverage																		
AFFIN BANK BHD	1.76	3,660.4	N	12/2021	-2.6%	3.0%	46.1%	9.8%	15.9	10.9	9.9	0.4	0.4	3.5%	2.8%	1.40	UP	
ALLIANCE BANK MALAYSIA BHD	2.65	4,102.5	N	03/2021	2.4%	2.9%	-15.5%	35.1%	9.7	11.4	8.5	0.7	0.7	5.9%	2.4%	2.50	MP	
AMMB HOLDINGS BHD	3.16	9,510.4	N	03/2021	0.3%	4.5%	-27.4%	35.3%	7.1	9.8	7.2	0.5	0.5	5.1%	3.6%	3.70	OP	
BIMB HOLDINGS BHD	4.06	7,525.8	Y	12/2021	7.6%	3.9%	6.1%	0.8%	10.5	9.9	9.8	1.2	1.1	11.5%	3.4%	5.25	OP	
CIMB GROUP HOLDINGS BHD	4.33	42,966.4	N	12/2021	-9.3%	-0.3%	-73.8%	176.0%	9.4	36.0	13.0	0.8	0.8	2.1%	1.1%	3.60	UP	
HONG LEONG BANK BHD	18.00	39,018.9	N	06/2021	14.8%	9.6%	14.3%	6.3%	14.8	12.9	12.2	1.4	1.3	10.1%	2.0%	18.50	MP	
MALAYAN BANKING BHD	8.03	91,654.4	N	12/2022	-4.7%	2.8%	8.8%	19.7%	13.3	12.2	10.2	1.1	1.1	8.7%	7.0%	9.10	OP	
MALAYSIA BUILDING SOCIETY BHD	0.675	4,708.4	N	12/2021	66.6%	3.0%	173.9%	14.4%	17.1	6.2	5.5	0.5	0.5	8.1%	4.4%	0.820	OP	
PUBLIC BANK BHD	4.16	80,748.5	N	12/2021	1.4%	2.3%	15.6%	3.1%	16.6	14.3	13.9	1.7	1.6	11.6%	3.4%	4.55	OP	
RHB BANK BHD	5.42	21,734.4	N	12/2021	-6.6%	-2.6%	-18.1%	16.0%	8.8	10.7	9.2	0.8	0.8	7.7%	3.3%	6.40	OP	
Simple Average					7.0%	2.9%	13.0%	31.6%	12.3	13.4	9.9	0.9	0.9	7.4%	3.3%			

Source: 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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