

23 June 2021

Affin Bank Bhd

Insurance Joint Venture with Generali

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AFFIN announced that it has agreed to form a new joint venture with Generali, Italy's largest insurer, with regards to developing the latter's general and life insurance businesses. This entails the partial equity disposals of Affin's life and general insurance units and acquisitions of certain assets and liabilities of MPI Generali Insurans Bhd. Overall, a new enlarged company will be formed with a gross written premium (GWP) value of more than RM2.0b. We make no changes to our assumptions for now. Maintain UNDERPERFORM and TP of RM1.35.

Creating a larger insurance player. Yesterday, AFFIN announced that together with Generali Asia N.V. (Generali), they have agreed to form a joint venture to develop their life and general insurance businesses in Malaysia. In this agreement, AFFIN will dispose 21.0% of equity interest (currently 51%) in AXA Affin Life Insurance Berhad (AALI) and approximately 2.95% of equity interest (currently 49.95%) in AXA Affin General Insurance Berhad (AAGI) to Generali. Additionally, AAGI will acquire certain assets and liabilities of MPI Generali Insurans Berhad via a business transfer to create an enlarged insurance company which also consolidates AALI and AAGI. Ultimately, AFFIN would own 30.0% of the said enlarged company. Currently, no further information of the transaction value of the deal has been disclosed, as the transaction is still subject to regulatory approvals and is earmarked to be completed by 2QFY22.

We are positive with this development, as this agreement would provide the group access to gross written premium of more than RM2.0b (from RM1.38b in FY20) in the general insurance business space. This would firmly catapult the group to be the second largest general insurance player, behind ALLIANZ (with RM2.4b gross written premium). The move could also open opportunities in terms of operational synergies and better offerings to customers which includes a bancassurance partnership with Generali. Additionally, the monetisation of the group's stake could provide sizeable reserves to support its core banking operations. However, to reemphasise, the transaction value of the agreement has yet to be disclosed and could still be under negotiation. *Referencing the respective annual reports, the combined FY20 book value from AAGI and AALI given the disposing stake above is estimated at RM292m.* On another note, AAGI reported a FY20 PAT of RM83.8m (+25% YoY), making up 36% of the group's PATAMI, albeit skewed by heavier loan provisioning in the financing space.

Post-update, we leave our FY21E/FY22E earnings unchanged, as the deal has yet to be finalised.

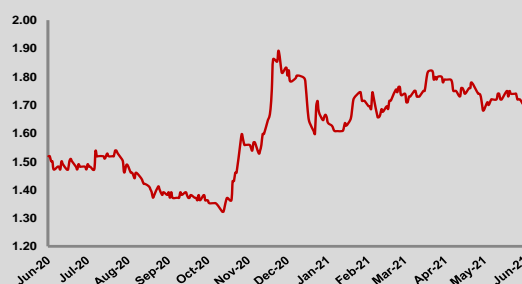
Maintain UNDERPERFORM and TP of RM1.35. Our TP is based on a FY22E GGM-derived PBV of 0.28x (2SD below 5-year mean). At the moment, we are still cautious on the stock as its high NOII mix could come under threat in the near term from the normalisation of the local trading landscape. In FY20 and 1QFY21, its NOII surged by 25% and 39%, respectively. Meanwhile, although it is not as strongly exposed to financing risks as its peers due to higher composition of NOII, its GIL ratio of more than 3% hovers above the industry average (~2%) and could be a cause of concern especially given the ongoing extensions of movement control orders. In the meantime, ROE and dividend yield leave much to be desired.

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.

UNDERPERFORM ↔

Price : RM1.72
Target Price : RM1.35 ↔

Share Price Performance



KLCI	1,574.02
YTD KLCI chg	-3.3%
YTD stock price chg	-6.5%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	ABANK MK Equity
Market Cap (RM m)	3,653.4
Shares Outstanding	2,124.1
52-week range (H)	1.89
52-week range (L)	1.32
3-mth avg daily vol	236,311
Free Float	13%
Beta	1.1

Major Shareholders

Lembaga Tabung Angkatan Tentera	35.3%
Bank Of East Asia Ltd	23.7%
Boustead Holdings Bhd	19.4%

Summary Earnings Table

FY Dec (RM m)	2020A	2021E	2022E
Net interest income	1,253	1,028	1,132
Non-interest income	1,090	1,085	1,017
Total income	2,343	2,114	2,149
Operating expenses	-1,351	-1,287	-1,313
Loan impairment	-562	-368	-319
Pre-tax profit	394	498	555
PATAMI	230	336	375
Core PATAMI	230	336	375
Consensus NP		381	439
Earnings revision		0.0%	0.0%
Core EPS (RM)	0.11	0.16	0.18
EPS growth	-53%	46%	11%
NDPS (RM)	0.04	0.05	0.06
BV/share (RM)	4.6	4.7	4.8
NTA/share (RM)	4.2	4.3	4.4
ROE (%)	2.4	3.5	3.8
PER (x)	15.5	10.6	9.6
P/BV (x)	0.37	0.37	0.36
Net Div. Yield (%)	2.0	2.9	3.5

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Income Statement

FY Dec (RM m)	2018A	2019A	2020A	2021E	2022E
Net interest income	1,244	1,154	1,253	1,028	1,132
Non-interest income	677	761	1,090	1,085	1,017
Total income	1,921	1,914	2,343	2,114	2,149
Operating expenses	-1,218	-1,207	-1,351	-1,287	-1,313
PPOP	703	708	992	827	836
Loan impairments	-59	-50	-543	-356	-304
Other impairments	-12	-6	-18	-12	-15
Associates	47	30	42	40	37
Pre-tax profit	679	683	394	498	555
Tax and zakat	-152	-166	-121	-125	-139
Minority interest	-24	-28	-43	-37	-42
PATAMI	503	488	230	336	375
Core PATAMI	503	488	230	336	375

Balance Sheet

FY Dec (RM m)	2018A	2019A	2020A	2021E	2022E
Cash & ST funds	6,332	4,605	5,461	6,226	6,739
Investment securities	16,174	13,304	13,875	14,231	15,404
Loans and financing	48,392	45,388	45,493	49,877	53,989
Other assets	4,173	4,129	3,803	2,017	1,924
Intangible assets	906	915	904	904	904
Total Assets	75,976	68,341	69,537	73,255	78,960
Customer deposits	57,346	51,089	49,884	52,566	55,244
Deposits & placements	4,847	1,763	3,720	4,490	4,673
Borrowings	3,054	3,607	3,395	3,429	3,569
Other liabilities	1,988	2,485	2,899	4,123	4,229
Total liabilities	67,235	58,945	59,899	64,608	67,714
Share capital	4,685	4,775	4,902	4,902	4,902
Retained earnings	2,929	3,640	3,682	3,915	4,164
Regulatory reserves	939	733	782	782	782
Other reserves	119	190	200	200	200
Shareholders' funds	8,672	9,337	9,567	9,799	10,049
Minority interest	70	59	71	71	71
Total liabilities and equity	75,976	68,341	69,537	74,478	77,833

Financial Data & Ratios

FY Dec	2018A	2019A	2020A	2021E	2022E
Growth					
Net interest income	4.5%	-7.2%	8.6%	-18.0%	10.1%
Non-interest income	82.5%	12.3%	43.3%	-0.4%	-6.3%
Total income	23.1%	-0.3%	22.4%	-9.8%	1.7%
Operating expenses	30.3%	-0.9%	12.0%	-4.7%	2.0%
PPOP	12.3%	0.7%	40.2%	-16.7%	1.2%
Loan impairment	-19.5%	-15.0%	989.3%	-34.4%	-14.8%
Pre-tax profit	22.6%	0.5%	-42.2%	26.4%	11.4%
PATAMI	20.4%	-3.0%	-52.8%	46.0%	11.4%
Core PATAMI	20.4%	-3.0%	-52.8%	46.0%	11.4%
Gross loans	5.8%	-6.2%	0.2%	9.6%	8.2%
Customer deposits	12.6%	-10.9%	-2.4%	5.4%	5.1%

Operating metrics

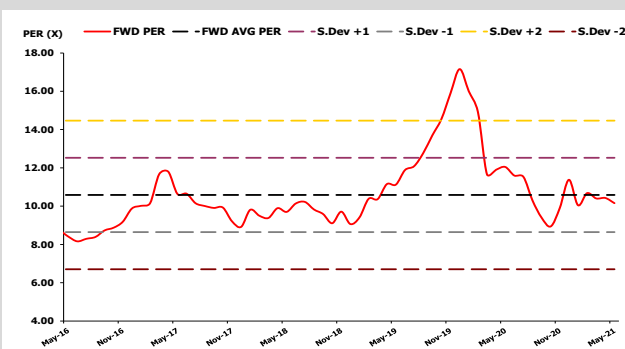
Est avg asset yield	-1.77%	-1.40%	-1.00%	-2.24%	3.93%
Est avg funding cost	3.62%	3.82%	2.90%	2.57%	2.66%
Est NIM	1.82%	1.72%	1.95%	1.52%	1.55%
Cost-to-Income ratio	63.4%	63.0%	59.6%	60.9%	61.1%
Credit cost (bps)	12.5	11.8	123.6	74.7	58.4
Loan-to-deposit ratio	84.4%	88.8%	91.2%	94.9%	97.7%
GIL ratio	3.3%	3.0%	3.6%	3.8%	3.8%
LLC Ratio	36.5%	41.6%	47.9%	55.0%	60.0%
LLC Ratio (+ reg reserves)	95.6%	94.7%	95.9%	96.5%	97.8%
ROA	0.7%	0.7%	0.3%	0.5%	0.5%
ROE	5.9%	5.4%	2.4%	3.5%	3.8%

Valuations

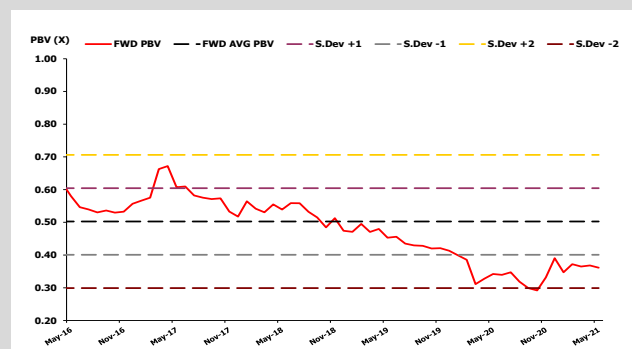
EPS (RM)	0.24	0.23	0.11	0.16	0.18
PER (x)	7.11	7.33	15.53	10.64	9.55
Div yield (%)	2.9	3.9	2.0	2.9	3.5
BV/share (RM)	4.17	4.49	4.60	4.71	4.83
P/BV (x)	0.41	0.38	0.37	0.37	0.36

Source: Kenanga Research

Fwd Core PER Band



Fwd PBV Band



Source: Bloomberg, 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	1.72	3,653.4	N	12/2021	-6.8%	5.4%	46.0%	11.4%	15.5	10.6	9.6	0.4	0.4	3.5%	2.9%	1.35	UP	
ALLIANCE BANK MALAYSIA BHD	2.48	3,839.3	N	03/2022	-5.1%	0.9%	34.9%	9.1%	10.7	7.9	7.3	0.6	0.6	7.5%	3.6%	2.40	MP	
AMMB HOLDINGS BHD	2.96	9,790.0	N	03/2022	-3.7%	3.7%	29.2%	10.1%	9.5	8.1	7.3	0.6	0.6	8.0%	3.0%	2.45	UP	
BIMB HOLDINGS BHD	3.97	8,241.2	Y	12/2021	7.6%	3.9%	6.1%	0.8%	10.3	9.7	9.6	1.2	1.1	11.5%	3.5%	5.15	OP	
CIMB GROUP HOLDINGS BHD	4.60	46,065.2	N	12/2021	1.2%	2.6%	204.4%	30.4%	38.2	12.6	9.6	0.8	0.8	6.3%	2.8%	4.00	MP	
HONG LEONG BANK BHD	18.88	40,926.5	N	06/2021	-6.6%	6.0%	14.3%	6.9%	15.5	13.5	12.7	1.4	1.3	10.1%	1.9%	17.80	MP	
MALAYAN BANKING BHD	8.20	93,594.8	N	12/2022	-3.9%	2.3%	18.6%	15.6%	13.6	11.4	9.9	1.1	1.1	9.4%	6.8%	10.75	OP	
MALAYSIA BUILDING SOCIETY BHD	0.625	4,359.6	N	12/2021	62.4%	5.0%	133.4%	21.9%	15.8	6.8	5.6	0.5	0.5	6.9%	4.8%	0.650	MP	
PUBLIC BANK BHD	4.20	81,524.9	N	12/2021	0.2%	3.8%	17.7%	2.9%	16.7	14.2	13.8	1.7	1.6	11.8%	3.3%	4.40	OP	
RHB BANK BHD	5.36	21,493.8	N	12/2021	-3.6%	6.4%	15.6%	13.4%	10.6	9.1	8.1	0.8	0.8	8.5%	4.3%	6.25	OP	
Simple Average					4.2%	4.0%	52.0%	12.2%	15.6	10.4	9.3	0.9	0.9	8.4%	3.7%			

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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