

26 July 2022

# Affin Bank Bhd

## Keeping Up with its Targets

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We maintain our GGM-derived PBV TP of RM2.45 (COE: 11.3%, TG: 3.0%, ROE: 7%) and OP call. Post a meeting with the group at its recently launched TRX Headquarters, we are convinced of AFFIN achieving its ambitious FY22 targets with some resiliency against economic headwinds. Disposal of its business units will help to fuel its key banking division's endeavours. There is no adjustment to our TP based on ESG of which it is given a 3-star rating as appraised by us. AFFIN is one of our 3QCY22 sector top picks.

Key takeaways are as follows:

- **Disposal of AHAM to boost organic growth in banking division.** The sale of AHAM will unlock RM1.54b in cash, likely to be sealed by the end of July 2022. This will elevate CET-1 levels to 16% (from 13.7%). The group opines that injecting said capital could stimulate the group's banking units and add NII of RM190m (+11% to current estimates) in two years. Meanwhile, due to non-compete agreement, AFFIN will abstain from any new asset management ventures for 18 months post sale.
- **Capital considerations first and then dividends.** The group opines that it will ensure working capital targets are sufficiently fulfilled before it considers the quantum of special dividends that may be paid. Of the RM1.54b proceeds, if we were to estimate a payout of 25% to shareholders, this could translate to c.18.0 sen in special dividends or 9% yield while still keeping CET-1 level at c.15.8%.
- **AXA to also close in 3QFY22.** The disposal of stakes in AXA Affin Life and General to the JV with MPI Generali (estimated to be completed end-Aug 2022) will provide additional RM155m cash while still being earnings accretive as an associate. That said, operational integration of this JV is expected to only materialise by 1QFY23. Post merger, the combined gross written premium is expected to stand at c.RM2.0b, behind market leader Allianz's RM2.35b book. There could be a two-pronged growth enjoyed with Generali's non-cannibalistic product offerings on top of operational synergies from the merged entity, uplifting the segment's overall contribution to beat its historical 5% of group earnings, going forward.
- **Unhindered by recent macro developments.** The group remains confident that its 12% loans growth (industry highest) target for FY22 is attainable. Although recent OPR hikes pose headwinds to affordability, strength of the SMEs is expected to remain solid as the local economic growth remains on track. This will be balanced by the launch of its mobile banking app in 4QFY22 to keep CASA and funding costs sticky. Meanwhile, NOII will be cushioned by encouraging reception of its wealth products amidst sluggish investment and trading performance.

Post update, we leave our FY22E/FY23E assumptions unchanged.

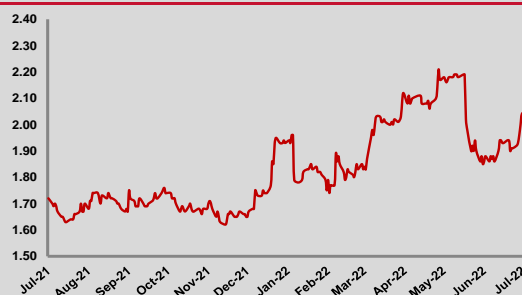
**Maintain OUTPERFORM and TP of RM2.45.** Our TP is based on a GGM-derived PBV of 0.48x (COE: 11.3%, TG: 3.0%, ROE: 7%) on our FY23E BVPS of RM5.07. We believe AFFIN's monetisation of its business units (AHAM and AXA Affin) could progressively refine AFFIN's identity as a more comparable traditional bank akin to its listed peers, which may at times fetch a higher valuation for the group. At the meantime, its dividend yield prospects of 5-6% (excluding possible special dividends) could incentivise investors to overlook its low ROE levels which should gradually be enhanced with its growth plans.

**Risks to our call include:** (i) higher-than-expected margin squeeze, (ii) lower-than-expected loans growth, (iii) worse-than-expected deterioration in asset quality, (iv) slowdown in capital market activities, (v) unfavourable currency fluctuations, and (vi) changes to OPR.

# OUTPERFORM ↔

Price : RM2.05  
Target Price : RM2.45 ↔

### Share Price Performance



KLCI	1,469.22
YTD KLCI chg	-6.3%
YTD stock price chg	18.5%

### Stock Information

Shariah Compliant	No
Bloomberg Ticker	ABANK MK Equity
Market Cap (RM m)	4,535.3
Shares Outstanding	2,212.3
52-week range (H)	2.21
52-week range (L)	1.62
3-mth avg daily vol	1,609,366
Free Float	13%
Beta	1.1

### Major Shareholders

Lembaga Tabung Angkatan Tentera	33.3%
Bank Of East Asia Ltd	23.9%
Boustead Holdings Bhd	21.0%

### Summary Earnings Table

FY Dec (RM m)	2021A	2022E	2023E
Net interest income	1,448	1,619	1,682
Non-interest income	798	879	883
<b>Total income</b>	<b>2,247</b>	<b>2,498</b>	<b>2,565</b>
Operating expenses	-1,354	-1,327	-1,393
<b>Loan impairment</b>	<b>-223</b>	<b>-210</b>	<b>-143</b>
Pre-tax profit	710	1,012	1,079
<b>PATAMI</b>	<b>527</b>	<b>584</b>	<b>728</b>
<b>Core PATAMI</b>	<b>527</b>	<b>584</b>	<b>728</b>
Consensus NP		534	658
Earnings revision		0.0%	0.0%
Core EPS (RM)	0.25	0.28	0.35
EPS growth (%)	128.8	10.8	24.8
NDPS (RM)	0.125	0.110	0.130
BV/share (RM)	4.68	4.85	5.07
NTA/share (RM)	4.3	4.4	4.6
ROE (%)	5.4	5.8	7.0
PER (x)	8.2	7.4	5.9
P/BV (x)	0.44	0.42	0.40
Net Div. Yield (%)	6.1	5.4	6.3

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Income Statement						Financial Data & Ratios					
FY Dec (RM m)	2019A	2020A	2021A	2022E	2023E	FY Dec	2019A	2020A	2021A	2022E	2023E
Net interest income	1,154	1,253	1,448	1,619	1,682	<b>Growth</b>					
Non-interest income	761	1,090	798	879	883	Net interest income	-7.2%	8.6%	15.6%	11.8%	3.9%
<b>Total income</b>	<b>1,914</b>	<b>2,343</b>	<b>2,247</b>	<b>2,498</b>	<b>2,565</b>	Non-interest income	12.3%	43.3%	-26.7%	10.1%	0.4%
Operating expenses	-1,207	-1,351	-1,354	-1,327	-1,393	Total income	-0.3%	22.4%	-4.1%	11.2%	2.7%
<b>PPOP</b>	<b>708</b>	<b>992</b>	<b>893</b>	<b>1,172</b>	<b>1,173</b>	Operating expenses	-0.9%	12.0%	0.2%	-2.0%	5.0%
Loan impairments	-50	-543	-219	-205	-138	PPOP	0.7%	40.2%	-10.0%	31.2%	0.1%
Other impairments	-6	-18	-3	-5	-5	Loan impairment	-15.0%	989.3%	-59.6%	-6.5%	-32.6%
Associates	30	42	45	50	50	Pre-tax profit	0.5%	-42.2%	80.2%	42.4%	6.7%
<b>Pre-tax profit</b>	<b>683</b>	<b>394</b>	<b>710</b>	<b>1,012</b>	<b>1,079</b>	PATAMI	-3.0%	-52.8%	128.8%	10.8%	24.8%
Tax and zakat	-166	-121	-130	-325	-270	Core PATAMI	-3.0%	-52.8%	128.8%	10.8%	24.8%
Minority interest	-28	-43	-53	-103	-81	Gross loans	-6.2%	0.2%	11.1%	11.3%	4.1%
<b>PATAMI</b>	<b>488</b>	<b>230</b>	<b>527</b>	<b>584</b>	<b>728</b>	Customer deposits	-10.9%	-2.4%	17.9%	9.8%	5.1%
<b>Core PATAMI</b>	<b>488</b>	<b>230</b>	<b>527</b>	<b>584</b>	<b>728</b>						
<b>Balance Sheet</b>						<b>Operating metrics</b>					
<b>FY Dec (RM m)</b>	<b>2019A</b>	<b>2020A</b>	<b>2021A</b>	<b>2022E</b>	<b>2023E</b>	Est avg asset yield	-1.40%	-2.71%	3.90%	4.09%	4.31%
Cash & ST funds	4,605	5,461	6,394	5,710	5,942	Est avg funding cost	3.82%	2.90%	2.07%	2.30%	2.57%
Investment securities	13,304	13,875	15,911	20,613	21,449	Est NIM	1.72%	1.95%	2.08%	2.06%	1.99%
Loans and financing	45,388	45,493	50,528	56,217	58,499	Cost-to-Income ratio	63.0%	59.6%	60.4%	53.1%	54.3%
Other assets	4,129	3,803	4,696	2,910	3,317	Credit cost (bps)	11.8	123.6	46.4	38.4	24.1
Intangible assets	915	904	899	899	899	Loan-to-deposit ratio	88.8%	91.2%	85.9%	87.0%	86.2%
<b>Total Assets</b>	<b>68,341</b>	<b>69,537</b>	<b>78,429</b>	<b>86,348</b>	<b>90,106</b>	GIL ratio	3.0%	3.6%	2.6%	2.4%	2.4%
Customer deposits	51,089	49,884	58,794	64,584	67,871	LLC Ratio	41.6%	47.9%	68.1%	70.0%	70.0%
Deposits & placements	1,763	3,720	2,866	3,397	3,570	LLC Ratio (+ reg reserves)	94.7%	95.9%	125.9%	125.9%	123.7%
Borrowings	3,607	3,395	3,972	2,351	2,471	ROA	0.7%	0.3%	0.7%	0.7%	0.8%
Other liabilities	2,485	2,899	2,863	5,730	5,454	ROE	5.4%	2.4%	5.4%	5.8%	7.0%
<b>Total liabilities</b>	<b>58,945</b>	<b>59,899</b>	<b>68,495</b>	<b>76,062</b>	<b>79,367</b>	<b>Valuations</b>					
Share capital	4,775	4,902	4,969	4,969	4,969	EPS (RM)	0.23	0.11	0.25	0.28	0.35
Retained earnings	3,640	3,682	4,163	4,515	4,969	PER (x)	8.87	18.79	8.21	7.41	5.94
Regulatory reserves	733	782	755	755	755	Div yield (%)	3.2	1.7	6.1	5.4	6.3
Other reserves	190	200	2	2	2	BV/share (RM)	4.42	4.53	4.68	4.85	5.07
<b>Shareholders' funds</b>	<b>9,337</b>	<b>9,567</b>	<b>9,889</b>	<b>10,240</b>	<b>10,694</b>	P/BV (x)	0.46	0.45	0.44	0.42	0.40
Minority interest	59	71	45	45	45						
<b>Total liabilities and equity</b>	<b>68,341</b>	<b>69,537</b>	<b>78,429</b>	<b>86,348</b>	<b>90,106</b>						

Source: 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.			
<b>Stocks Under Coverage</b>																		
AFFIN BANK BHD	2.05	4,535.3	N	12/2022	14.5%	5.8%	10.8%	24.8%	8.2	7.4	5.9	0.4	0.4	5.8%	5.4%	2.45	OP	
ALLIANCE BANK MALAYSIA BHD	3.42	5,294.5	N	03/2023	7.4%	5.3%	19.8%	12.5%	9.2	7.7	6.9	0.8	0.8	10.4%	6.4%	4.00	OP	
AMMB HOLDINGS BHD	3.89	12,879.3	N	03/2023	9.4%	4.9%	7.6%	8.2%	8.5	7.9	7.3	0.8	0.7	9.3%	4.1%	4.35	OP	
BANK ISLAM MALAYSIA BHD	2.68	5,776.1	Y	12/2022	-6.4%	0.9%	-1.9%	15.1%	12.5	12.7	10.9	1.0	1.0	7.9%	3.9%	2.90	OP	
CIMB GROUP HOLDINGS BHD	5.22	54,675.6	N	12/2022	5.2%	7.2%	3.9%	31.0%	11.3	10.8	8.3	0.9	0.9	8.0%	4.4%	5.70	OP	
HONG LEONG BANK BHD	20.58	44,611.6	N	06/2022	4.0%	12.8%	5.8%	24.4%	14.7	13.9	11.2	1.4	1.3	10.0%	2.7%	22.95	OP	
MALAYAN BANKING BHD	8.80	105,336.1	N	12/2022	6.3%	8.8%	5.8%	23.3%	12.6	11.9	9.7	1.2	1.2	9.9%	6.8%	11.05	OP	
MALAYSIA BUILDING SOCIETY BHD	0.575	4,123.6	N	12/2022	69.0%	7.7%	15.8%	41.7%	9.4	8.1	5.7	0.5	0.5	5.8%	6.1%	0.510	UP	
PUBLIC BANK BHD	4.62	89,677.4	N	12/2022	8.6%	8.1%	0.7%	26.3%	15.9	15.7	12.5	1.9	1.8	11.5%	3.4%	4.45	MP	
RHB BANK BHD	5.83	24,556.4	N	12/2022	5.6%	5.6%	-4.9%	16.8%	8.4	8.9	7.6	0.8	0.8	9.3%	5.5%	7.00	OP	
<b>Simple Average</b>					<b>12.4%</b>	<b>6.7%</b>	<b>6.3%</b>	<b>22.4%</b>	<b>11.1</b>	<b>10.5</b>	<b>8.6</b>	<b>1.0</b>	<b>0.9</b>	<b>8.8%</b>	<b>4.9%</b>			

Source: Kenanga Research

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**Stock ESG Ratings:**

	Criterion	Rating				
<b>GENERAL</b>	Earnings Sustainability & Quality	★	★	★	★	
	Corporate Social Responsibility	★	★	★		
	Management/Workforce Diversity	★	★	★		
	Accessibility & Transparency	★	★	★	★	
	Corruption-Free Pledge	★	★	★		
	Carbon-Neutral Initiatives	★	★	★		
<b>SPECIFIC</b>	Green Financing	★	★	☆		
	Cybersecurity/Data Privacy	★	★	★		
	Customer Satisfaction	★	★	★		
	Digital Transformation	★	★			
	Staff Welfare & Training	★	★	★		
<b>OVERALL</b>		★	★	★		

☆ denotes half-star  
 ★ -10% discount to TP  
 ★★ -5% discount to TP  
 ★★★ TP unchanged  
 ★★★★ +5% premium to TP  
 ★★★★★ +10% premium to TP

**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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