

29 November 2022

Affin Bank Bhd

Provisional Shocks to Boost Coverage

By Clement Chua | clement.chua@kenanga.com.my

9MFY22 operational PATAMI of RM61.1m (-76%) missed expectations due to the group's decision to book higher overlays to improve loan loss coverage. Goodwill impairments of RM75m also did not help bottom line. With capital at hand, AFFIN is in the position to accelerate its core banking aspirations to meet its AIM25 goals but market-wide challenges may hinder. Downgrade to MP (from OP) with a lower GGM-derived PBV TP of RM2.25 (from RM2.45).

9MFY22 missed expectations. 9MFY22 reported PATAMI for continuing operations of RM61.1m only made up 15%/12% of our full-year forecast/consensus full-year estimate. The negative deviation was owing to 3QFY22's booking of further provisional overlays and kitchen sinking of goodwill impairments. No dividend was declared during this quarter's reporting, although the group had on 18 October 2022 announced a special 18.09 sen and interim 4.53 sen payment arising from the gains of disposal of (Affin Hwang Asset Management) AHAM.

YoY, 9MFY22 net interest income grew by 21% led by a higher loans portfolio (+17%) from gains in community banking accounts in addition to improved net interest margins (2.14%, +11 bps). On the flipside, non-interest income plunged 32% as treasury income continued to drag. Cost-wise, operating expense grew by 15% due to AHAM divestment-related expenses, bringing cost-income ratio to 65.5% (+4.0ppt). In 3QFY22, the group opted to raise its management overlays by RM220m to drive its loan-loss coverage ratio to above 100%. This led credit cost to 71 bps (+20 bps). In addition, the group also opted to impair RM75m of its accumulated goodwill during the period. All in, continuing operations came up to RM61.1m (-76%). Including the discontinued operations from AHAM following the divestment, net PATAMI arrives at RM1.16b thanks to divestment gains of RM1.05b.

Key briefing updates. The group shared that it would exceed its FY22 targets, save for their cost-income ratio aspirations of <55%. At other fronts, a 17% loans growth outperformed the industry and peers (c.7%) leading to better acquisitions in most community banking products, accounting for 60% of total books. Albeit due to its low base, the group opines its strategies could continue to yield sustainable growth, also assisted by its new AFFINMAX mobile app which is gaining share in CASA. At least for now, the group believes it is still able to be firm with its pricing methods as to not undertake less profitable accounts to meet its targets. Meanwhile, group's decision to imbue a 40 bps management overlay was to meet its loan loss coverage aspiration of >100%, which previously stood at 80%. The additional provisional coverage is to further cushion vulnerable sectors.

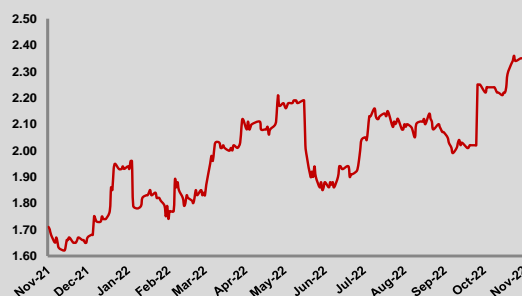
Forecasts. Post results, we slash our FY22F earnings by 31% as we incorporate 3QFY22's impairment top-ups while FY23F earnings are tweaked by -1% from model updates.

Downgrade to MARKET PERFORM with a lower TP of RM2.25 (from RM2.45). Although our GGM-derived PBV of 0.48x (COE: 11.3%, TG: 3.0%, ROE: 7%) remains unchanged, our FY23 BVPS is reduced to RM4.64 (from RM5.07) not accounting for divested operations going forward. Given the current price points, we believe the risk-reward for AFFIN is once again balanced as the group paths its traditional banking business to generate a 10% ROE by FY25. Additionally, investors may seek to realise their position post-special dividends ex-November 2022. While this medium-term trajectory could be challenged by a more competitive interest rate environment, it is somewhat balanced by a modest yield of 5%. There is no adjustment to our TP based on ESG of 3-star rating as appraised by us.

MARKET PERFORM

Price : **RM2.43**
Target Price : **RM2.25**

Share Price Performance



KLCI 1,486.54
YTD KLCI chg -5.2%
YTD stock price chg 40.5%

Stock Information

Shariah Compliant No
Bloomberg Ticker ABANK MK Equity
Market Cap (RM m) 5,376.0
Shares Outstanding 2,212.3
52-week range (H) 2.43
52-week range (L) 1.62
3-mth avg daily vol 1,030,986
Free Float 13%
Beta 1.2

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	2022F	2023F
Net interest income	1,448	1,787	1,862
Non-interest income	798	350	355
Total income	2,247	2,137	2,217
Operating expenses	-1,354	-1,286	-1,312
Loan impairment	-223	-437	-144
Pre-tax profit	710	439	786
PATAMI	527	273*	530*
Core PATAMI	527	273*	530*
Consensus NP		532	627
Earnings revision		-30.7%	-1.1%
Core EPS (RM)	0.25	0.13	0.25
EPS growth (%)	128.8	-48.3	94.6
NDPS (RM)	0.125	0.291	0.130
BV/share (RM)	4.68	4.52	4.64
NTA/share (RM)	4.3	4.1	4.2
ROE (%)	5.4	2.8	5.5
PER (x)	9.7	18.7	9.6
P/BV (x)	0.52	0.54	0.52
Net Div. Yield (%)	5.2	12.0	5.4

* excluding discontinued operations from AHAM's divestment

29 November 2022

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

Results Highlights

	3Q	2Q	QoQ	3Q	YoY	9M	9M	YoY
FYE Dec (RM m)	FY22	FY22	Chg	FY21	Chg	FY22	FY21	Chg
Net interest income	456.7	424.1	7.7%	367.8	24.2%	1,258.8	1,043.9	20.6%
Non-interest income	77.8	79.5	-2.2%	99.1	-21.5%	228.8	334.6	-31.6%
Total income	534.5	503.6	6.1%	466.8	14.5%	1,487.6	1,378.4	7.9%
Operating expenses	-368.3	-309.2	19.1%	-273.4	34.7%	-973.7	-847.3	14.9%
Pre-impairment profit	166.2	194.4	-14.5%	193.4	-14.1%	513.9	531.1	-3.2%
(Allowances)/ write-backs	-233.5	-34.7	573.3%	-47.3	393.6%	-287.8	-180.5	59.4%
(Allowances)/ write-backs on other assets	-82.4	-3.2	2486.8%	-1.9	4164.5%	-66.1	-44.1	49.9%
Operating profit	-149.7	156.6	-195.6%	144.2	-203.8%	160.0	306.5	-47.8%
Associates / Joint Ventures	-4.7	17.7	-126.3%	12.2	-138.2%	25.1	36.1	-30.3%
Profit before tax	-154.4	174.3	-188.6%	156.4	-198.7%	185.1	342.6	-45.9%
Taxation	-39.1	-45.1	-13.4%	-40.1	-2.6%	-124.0	-89.7	38.2%
Continuing Operations	-193.5	129.1	-249.8%	116.3	-266.4%	61.1	252.9	-75.8%
Minority interest	-4.3	-10.8	-60.4%	-9.7	-55.7%	-25.0	-37.8	-34.0%
Discontinued operations	1,070.1	28.7	3634.1%	26.6	3926.6%	1,125.8	104.9	973.4%
Net PATAMI	872.4	146.9	493.9%	133.2	554.9%	1,161.9	320.1	263.0%
Gross loans	57,250	55,429	3.3%	49,111	16.6%	57,250	49,111	16.6%
Gross impaired loans	1,091	1,262	-13.6%	1,540	-29.1%	1,091	1,540	-29.1%
Customer deposits	63,960	64,452	-0.8%	57,459	11.3%	63,960	57,459	11.3%
Current and savings account (CASA)	13,705	13,855	-1.1%	12,148	12.8%	13,705	12,148	12.8%
Total assets	86,679	86,677	0.0%	76,025	14.0%	86,679	76,025	14.0%
Shareholders' equity	10,948	10,098	8.4%	9,595	14.1%	10,948	9,595	14.1%
Reported NIM	2.22%	2.11%		2.08%		2.14%	2.03%	
Cost-to-income ratio	68.9%	61.4%		58.6%		65.5%	61.5%	
Annualised net credit cost (bps)	165.8	25.5		38.9		70.6	50.5	
Effective tax rate	-25.3%	25.9%		25.7%		66.9%	26.2%	
Annualised ROA	4.0%	0.7%		0.7%		1.9%	0.6%	
Annualised ROE	33.2%	5.8%		5.6%		14.9%	4.5%	
Gross impaired loans ratio	1.9%	2.3%		3.1%		1.9%	3.1%	
Loan loss coverage ratio (LLC)	108.8%	77.2%		59.3%		108.8%	59.3%	
LLC plus regulatory reserves	146.5%	127.1%		107.2%		146.5%	107.2%	
Loan-to-deposit ratio	89.4%	86.2%		83.9%		89.4%	83.9%	
CASA-to-deposit ratio	21.4%	21.5%		21.1%		21.4%	21.1%	
CET-1 capital (Group level)	0.0%	13.4%		13.6%		0.0%	13.6%	

Source: Company, Kenanga Research

Management Guidance

	FY22 Targets	FY21 Performance
Loan Growth	12.0%	11.1%
Net Interest Margin	2.04%	1.97%
CIR	55%	61%
Gross Credit Cost	70 bps	41 bps
	(from 30 bps)	
Profit Before Tax (including discontinued operations)	RM1.0b	RM704m
GIL	2.20%	2.54%

Source: Company, Kenanga Research

29 November 2022

Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net Div. Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
AFFIN BANK BHD	MP	2.43	2.25	-7.4%	5,376.0	N	12/2022	12.9	25.1	-48.3%	94.6%	18.8	9.7	0.5	2.8%	29.1	12.0%
ALLIANCE BANK MALAYSIA BHD	OP	3.80	4.20	10.5%	5,882.8	N	03/2023	45.3	51.6	22.5%	13.9%	8.4	7.4	0.9	10.6%	22.0	5.8%
AMMB HOLDINGS BHD	OP	4.03	4.75	17.9%	13,346.3	N	03/2023	50.5	55.4	11.0%	9.6%	8.0	7.3	0.7	9.6%	16.0	4.0%
BANK ISLAM MALAYSIA BHD	MP	2.62	2.45	-6.5%	5,646.8	Y	12/2022	19.5	24.6	-8.9%	23.6%	13.4	10.6	1.0	7.4%	9.8	3.7%
CIMB GROUP HOLDINGS BHD	OP	5.80	6.40	10.3%	61,857.6	N	12/2022	52.4	66.8	12.9%	27.5%	11.1	8.7	0.9	8.7%	26.0	4.5%
HONG LEONG BANK BHD	OP	20.84	23.35	12.0%	45,175.2	N	06/2023	196.0	203.2	22.1%	3.7%	10.6	10.3	1.3	12.4%	70.0	3.4%
MALAYAN BANKING BHD	OP	8.67	10.40	20.0%	104,509.3	N	12/2022	72.9	88.1	4.7%	20.8%	11.9	9.8	1.2	9.8%	60.0	6.9%
RHB BANK BHD	OP	5.69	7.00	23.0%	24,167.6	N	12/2022	65.5	80.0	-5.4%	22.1%	8.7	7.1	0.8	9.3%	32.0	5.6%
Simple Average										3.0%	28.4%	11.4	8.9	0.9	8.8%	5.5%	

Source: Kenanga Research

This section is intentionally left blank

29 November 2022

Stock ESG Ratings:

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

☆ 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.**

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies.

Published 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