

20 November 2023

# Affin Bank

## Slower Pace to Growth Expectations

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**AFFIN's 9MFY23 results missed our forecast (as NIM pressures persisted) but met market expectation. On a brighter note, it may see a wider presence in Sarawak. We cut our FY23-24F earnings by 12-7% and lower our long-term ROE inputs, resulting in a lower GGM-derived PBV TP of RM1.90 (from RM2.20). Downgrade to MARKET PERFORM from OUTPERFORM.**

**9MFY23 results below our expectations.** AFFIN's 9MFY23 reported net profit of RM362.7m which was below our expectation, at only 68% of our full-year forecast as we had underestimated the prolonged compression of its NIMs in 3QFY23. On the other hand, the results were within market expectation at 72% of the full-year consensus estimate.

**YoY**, its 9MFY23's net interest income sunk by 17% on continued NIMs compression (1.54%, -60bps) as the group faced higher funding cost from past OPR hikes. That said, loans growth remained supportive at 12% driven by better mortgage and hire purchases. Meanwhile, its non-interest income improved drastically (+97%) thanks to forex and treasury gains which led to flattish improvement in total income. Paired with higher personnel and general expenses, its CIR rose to 68.1% (+2.6ppt). On the flipside, credit cost significantly improved to 14 bps (-52 bps) on stronger asset quality for the period. Alongside the absence of goodwill impairments, its 9MFY23's net profit from continuing operations came in at RM362.7m (+493%). If we account for discontinued operations for AHAM, earnings would have reported a 69% decline instead.

**Outlook.** AFFIN's continued NIM compression in 3QFY23 has dented its full-year earnings projections. 4Q periods are typically more competitive in the general pricing landscape and this may pose further challenges to the group. Believing its previous NIM guidance of 1.86% could no longer be met, the group updates to a targeted range of 1.45%-1.50%. As this would undermine top line, the group had widened its CIR target to 65% (from 60%) which also accommodates higher wages from earlier collective adjustments. On the other hand, the group's maintenance of its full-year credit cost guidance of 30 bps hints that its last quarter could remain heavy with unexpected inflationary pressures hitting troubled accounts. All in, this triggers a lower pretax profit guidance of RM600m while all other metrics remain unchanged. Meanwhile, the group points to Sarawak as a new area of growth following support and interest from the state government. As of 3QFY23, it makes up 4% (RM2.8b) of its total loans books.

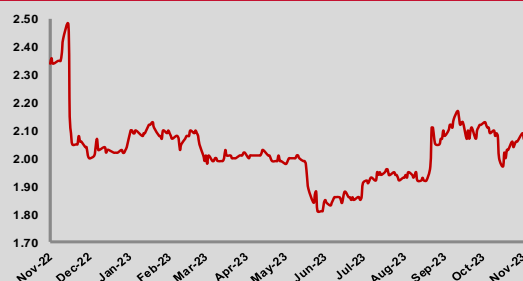
**Forecasts.** We cut our FY23-24F earnings forecasts by 12-7% mainly to account for the softer NIMs outlook. Our revised FY23F pretax profit of RM613m is close to its updated target of RM600m.

**Downgrade to MARKET PERFORM with a lower TP of RM1.90 (from RM2.20).** We also lower the ROE inputs in our Gordon Growth Model to 6.0% (from 6.5%) while keeping our COE of 11.5% and TG of 3.0% unchanged. This lowers our applied PBV to 0.35x (from 0.41x) on our FY24F BVPS of RM5.33. AFFIN could be seen as a high growth play with its loans acquisition rate being double of industry averages, albeit also due to its relatively smaller market share. While the stock may offer generous yields of 5%-6%, this may be fairly priced in considering its relatively lower ROE performance as compared to its peers. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us.

## MARKET PERFORM

Price : RM2.01  
Target Price : RM1.90

### Share Price Performance



KLCI	1,460.67
YTD KLCI chg	-2.3%
YTD stock price chg	-1.0%

### Stock Information

Shariah Compliant	No
Bloomberg Ticker	ABANK MK EQUITY
Market Cap (RM m)	4,716.4
Shares Outstanding	2,346.5
52-week range (H)	2.48
52-week range (L)	1.81
3-mth avg daily vol	1,310,679
Free Float	19%
Beta	1.1

### Major Shareholders

Lembaga Tabung Angkasa Tentera	28.8%
Bank Of East Asia Ltd	23.9%
Boustead Holdings Bhd	19.9%

### Summary Earnings Table

FY Dec (RM m)	2022A	2023F	2024F
Net interest income	1,711	1,453	1,758
Non-interest income	344	577	491
<b>Total income</b>	<b>2,055</b>	<b>2,030</b>	<b>2,248</b>
Operating expenses	-1,317	-1,322	-1,388
<b>Loan impairment</b>	<b>-507</b>	<b>-105</b>	<b>-167</b>
Pre-tax profit	239	613	703
<b>Core Net Profit</b>	<b>53</b>	<b>466</b>	<b>534</b>
<b>Net Profit *</b>	<b>1,179</b>	<b>466</b>	<b>534</b>
Consensus NP	-	502	569
Earnings revision (%)	-	-11.5	-6.9
Core EPS (sen)	55.8	22.1	25.3
EPS growth (%)	123.7	-60.5	14.7
NDPS (RM)	0.304	0.110	0.125
BV/share (RM)	5.09	5.20	5.33
NTA/share (RM)	4.8	4.9	5.0
ROE (%)	0.5	4.3	4.8
PER (x)	-	0.1	0.1
P/BV (x)	0.39	0.39	0.38
Net Div. Yield (%)	15.1	5.5	6.2

\* including discontinued operations from AHAM's divestment

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

**Results Highlights**

	3Q	2Q	QoQ	3Q	YoY	9M	9M	YoY
FYE Dec (RM m)	FY23	FY23	Chg	FY22	Chg	FY23	FY22	Chg
Net interest income	314.4	347.8	-9.6%	456.7	-31.2%	1,049.9	1,258.8	-16.6%
Non-interest income	186.1	157.0	18.5%	77.8	139.3%	449.7	228.8	96.5%
<b>Total income</b>	<b>500.4</b>	<b>504.9</b>	<b>-0.9%</b>	<b>534.5</b>	<b>-6.4%</b>	<b>1,499.6</b>	<b>1,487.6</b>	<b>0.8%</b>
Operating expenses	-374.3	-316.4	18.3%	-368.3	1.6%	-1,020.7	-973.7	4.8%
<b>Pre-impairment profit</b>	<b>126.1</b>	<b>188.4</b>	<b>-33.1%</b>	<b>166.2</b>	<b>-24.1%</b>	<b>478.9</b>	<b>513.9</b>	<b>-6.8%</b>
(Allowances)/ write-backs	-26.4	-50.8	-48.0%	-233.5	-88.7%	-63.9	-268.1	-76.2%
(Allowances)/ write-backs on other assets	-1.0	1.0	-200.0%	-82.4	-98.8%	0.0	-85.8	-100.0%
<b>Operating profit</b>	<b>98.7</b>	<b>138.6</b>	<b>-28.8%</b>	<b>-149.7</b>	<b>-165.9%</b>	<b>415.0</b>	<b>160.0</b>	<b>159.4%</b>
Associates / Joint Ventures	7.3	11.4	-35.7%	-4.7	-256.9%	37.4	25.1	48.8%
<b>Profit before tax</b>	<b>106.1</b>	<b>150.0</b>	<b>-29.3%</b>	<b>-154.4</b>	<b>-168.7%</b>	<b>452.4</b>	<b>185.1</b>	<b>144.4%</b>
Taxation	-5.6	-36.7	-84.8%	-39.1	-85.7%	-89.7	-124.0	-27.6%
<b>Continuing Operations</b>	<b>100.5</b>	<b>113.2</b>	<b>-11.3%</b>	<b>-193.5</b>	<b>-151.9%</b>	<b>362.7</b>	<b>61.1</b>	<b>493.2%</b>
Minority interest	0.0	0.0	N.M	-4.3	-100.0%	0.0	-25.0	-100.0%
Discontinued operations	0.0	0.0	N.M	1,070.1	-100.0%	0.0	1,125.8	-100.0%
<b>Net Profit</b>	<b>100.5</b>	<b>113.2</b>	<b>-11.3%</b>	<b>872.4</b>	<b>-88.5%</b>	<b>362.7</b>	<b>1,162.0</b>	<b>-68.8%</b>
Gross loans	64,290	62,468	2.9%	57,250	12.3%	64,290	57,250	12.3%
Gross impaired loans	1,186	1,112	6.6%	1,091	8.7%	1,186	1,091	8.7%
Customer deposits	71,630	71,511	0.2%	63,960	12.0%	71,630	63,960	12.0%
Current and savings account (CASA)	16,643	16,599	0.3%	13,705	21.4%	16,643	13,705	21.4%
Total assets	102,149	100,857	1.3%	86,679	17.8%	102,149	86,679	17.8%
Shareholders' equity	11,000	10,957	0.4%	10,948	0.5%	11,000	10,948	0.5%
Reported NIM	1.31%	1.51%		2.22%		1.54%	2.14%	
Cost-to-income ratio	74.8%	62.7%		68.9%		68.1%	65.5%	
Annualised net credit cost (bps)	16.7	32.9		165.8		13.8	65.8	
Effective tax rate	5.3%	24.5%		-25.3%		19.8%	67.0%	
Annualised ROA	0.4%	0.5%		4.0%		0.5%	1.9%	
Annualised ROE	3.7%	4.2%		33.2%		4.4%	14.9%	
Gross impaired loans ratio	1.8%	1.8%		1.9%		1.8%	1.9%	
Loan loss coverage ratio (LLC)	123.9%	128.2%		108.8%		123.9%	108.8%	
LLC plus regulatory reserves	146.7%	156.4%		146.5%		146.7%	146.5%	
Loan-to-deposit ratio	92.9%	90.5%		89.4%		92.9%	89.4%	
CASA-to-deposit ratio	23.2%	23.2%		21.4%		23.2%	21.4%	
CET-1 capital (Group level)	14.4%	14.8%		16.3%		14.4%	16.3%	

Source: Company, Kenanga Research

**Management Guidance**

	FY23 Targets	FY22 Performance
Loan Growth	12.0%	15.4%
Net Interest Margin	1.45%-1.50%	2.15%
	(from 1.86%)	
CIR	60.0%	64%
	(from 65.0%)	
Gross Credit Cost	30 bps	51 bps
Profit Before Tax	RM600m	RM412m
	(from RM850m)	
GIL	<2.00%	1.97%

Source: Company, Kenanga Research

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. (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.
<b>Stocks Under Coverage</b>																	
AFFIN BANK BHD	MP	2.01	1.90	-5.5%	4,716	N	12/2023	22.1	25.3	-60.5%	14.7%	9.1	7.9	0.4	4.3%	11.0	5.5%
ALLIANCE BANK MALAYSIA BHD	OP	3.36	4.30	28.0%	5,202	N	03/2024	47.4	51.6	8.3%	8.9%	7.1	6.5	0.7	10.6%	25.0	7.4%
AMMB HOLDINGS BHD	OP	3.93	4.80	22.1%	13,009	N	03/2024	48.1	54.5	-8.2%	13.3%	8.2	7.2	0.7	8.6%	19.0	4.8%
BANK ISLAM MALAYSIA BHD	MP	2.21	2.15	-2.7%	5,009	Y	12/2023	24.1	25.0	5.6%	3.7%	9.2	8.8	0.7	7.5%	14.5	6.6%
CIMB GROUP HOLDINGS BHD	OP	5.80	6.30	8.6%	61,858	N	12/2023	63.1	67.3	20.9%	6.6%	9.2	8.6	0.9	10.3%	35.0	6.0%
HONG LEONG BANK BHD	OP	19.10	24.20	26.7%	41,403	N	06/2024	203.4	206.6	9.1%	1.6%	9.4	9.2	1.1	11.8%	63.0	3.3%
MALAYAN BANKING BHD	OP	9.12	9.95	9.1%	109,989	N	12/2023	78.5	80.1	14.1%	2.1%	11.6	11.4	1.2	10.8%	65.0	7.1%
MALAYSIA BUILDING SOCIETY BHD	UP	0.750	0.630	-16.0%	6,126	Y	12/2023	3.4	5.2	-38.5%	52.3%	21.8	14.3	0.7	3.1%	1.8	2.4%
PUBLIC BANK BHD	OP	4.23	4.75	12.3%	82,107	N	12/2023	35.1	37.7	11.3%	7.4%	12.1	11.2	1.5	13.1%	18.0	4.3%
RHB BANK BHD	OP	5.63	7.15	27.0%	24,132	N	12/2023	67.7	74.4	1.2%	9.9%	8.3	7.6	0.8	9.4%	41.0	7.3%
<b>SECTOR AGGREGATE</b>					<b>353,551</b>					<b>7.9%</b>	<b>6.0%</b>	<b>10.6</b>	<b>10.0</b>	<b>1.1</b>	<b>10.2%</b>		<b>5.5%</b>

Source: Kenanga Research

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**Stock ESG Ratings:**

	Criterion	Rating				
<b>GENERAL</b>	Earnings Sustainability & Quality	★	★	★	☆	
	Community Investment	★	★	★	☆	
	Workforce Safety & Wellbeing	★	★	★		
	Corporate Governance	★	★	★	★	
	Anti-corruption Policy	★	★	★		
	Emissions Management	★	★	★		
<b>SPECIFIC</b>	Green Financing	★	★	★		
	Financial Inclusion	★	★	★		
	Cybersecurity/Data Privacy	★	★	★	☆	
	Digitalisation & Innovation	★	★	★		
	Diversity & Inclusion	★	★	★		
	Customer Experience	★	★	★		
<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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