

23 May 2024

Affin Bank

Waiting for Sunshine

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AFFIN's 1QFY24 results were within expectations with signs of weakness to be compensated in upcoming quarters. We noted that while the group maintained its growth targets in lieu of this, it does not account for benefits from Sarawak as the timing of its spillover remains an uncertainty. We keep our forecasts relatively unchanged. Maintain UNDERPERFORM for presently rich valuation amidst low ROEs with a GGM-derived TP of RM1.80.

Within expectations. AFFIN's 1QFY24 net earnings of RM110.2m came in as expected, making up 22% of our full-year forecast and 23% of consensus full-year estimate. No dividend was declared this quarter as the group typically makes a single dividend payment during its 4Q period.

YoY, 1QFY24 net interest income fell by 7% as NIMs continued to exhibit stress (1.44%, -35 bps) from stretched funding cost in spite of an 11% loans growth. Meanwhile, non-interest income grew by 34% thanks to better treasury performances. Cost-to-income ratio spiked to 75.1% (+8.3 ppts) mainly due higher spending on establishments while personnel cost was also strained following union wage reviews. Meanwhile, provisions were reported in a net writeback position but mitigated by lower profits shared by associates. All in, 1QFY24 net profit came in at RM110.2m (-26%).

QoQ, 1QFY24 saw NIMs picking up (1.44%, +10 bps) on better priced asset yields to offset sustained funding costs while low forex gains led to total income to only increase by 4%. With comparatively lower personnel cost and writebacks seen during the quarter, net earnings of RM110.2m reflected a 179% improvement.

Briefing highlights. While AFFIN appeared to have a slow start to the year, the group stayed confident in catching up in subsequent quarters amidst several broad challenges.

- The 8% loans growth target was maintained despite the group reporting an 11% increase so far. Its cautiousness stemmed from a potentially slowing corporate loans (26% of total book) scene. Meanwhile, community banking looks to be afloat thanks to mortgages (30%) and hire purchases (22%) still being much in demand.
- NIMs target of 1.6% looks to be achieved with several headways invested into building its CASA portfolio (1QFY24: 25%, FY24 target: 30%) which could improve in line with larger business on the community banking front.
- PBT target of RM1.0b for FY24 is intact, with the group anticipating sustained growth across its key pillars without accounting for any potential spillover from Sarawak State Government's entry as a minority shareholder. The group opines that aside from a higher CASA-mix, fee income are likely to be bolstered by mandate wins on its investment banking arm and extraction of better efficiency from its workforce.
- The group believes it is poised to be strong beneficiary of Sarawak's economic growth trajectory, with the latter's 2030 GDP target of RM282b (CY22: RM140b). While prior guidance of initial entry was to expand on its branch network into the teens, the group views opportunities could be more corporate-centric with the further development of several key industries there such as healthcare, oil & gas, energy and aviation.

Forecasts. Post results, we tweak our FY24F/FY25F earnings by -1% from model updates.

UNDERPERFORM ↔

Price : RM2.53
Target Price : RM1.80 ↔

Share Price Performance



KLCI	1,622.09
YTD KLCI chg	11.5%
YTD stock price chg	21.6%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	ABANK MK Equity
Market Cap (RM m)	5,936.6
Shares Outstanding	2,346.5
52-week range (H)	2.67
52-week range (L)	1.81
3-mth avg. daily vol.	2,039,660
Free Float	20%
Beta	1.1

Major Shareholders

Lembaga Tabung Angkatan Tentera	28.8%
Bank Of East Asia Ltd	23.9%
Boustead Holdings Bhd	20.0%

Summary Earnings Table

FY Dec (RM m)	2023A	2024F	2025F
Net interest Income	1,379	1,613	1,915
Non-interest Income	607	611	614
Total Income	1,986	2,224	2,529
Operating Expenses	-1,421	-1,492	-1,567
Loan Impairment	-78	-87	-109
Pre-tax Profit	523	630	831
Core Net Profit	402	484	639
Net Profit	402	484	639
Consensus NP		505	567
Earnings Revision (%)		-0.8	-0.6
Core EPS (sen)	17.4	21.0	27.7
EPS Growth (%)	-65.9	20.4	31.9
NDPS (RM)	0.058	0.080	0.130
BV/Share (RM)	4.81	4.94	5.09
NTA/Share (RM)	4.5	4.7	4.8
ROE (%)	3.7	4.3	5.5
PER (x)	0.1	0.1	0.1
P/BV (x)	0.53	0.51	0.50
Net Div. Yield (%)	2.3	3.2	5.1

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Maintain UNDERPERFORM and TP of RM1.80 based on an unchanged GGM inputs and PBV of 0.35x (COE: 11.5%, TG: 3.0%, ROE: 6.0%). AFFIN's share price saw strong appreciation with the inclusion of Sarawak State Government amongst its shareholders, spurring hopes of substantial spillovers from there. We believe it could be overbought with our abovementioned discussions indicating that immediate benefits need to be more meaningful. Paired by the group's below-industry ROE, we view risk-reward to be unfavourably skewed. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us.

Risks to our call include: (i) higher-than-expected margin expansion, (ii) higher-than-expected loans growth, (iii) better-than-expected asset quality, (iv) surge in capital market activities, (v) favourable currency fluctuations, and (vi) changes to OPR.

Results Highlights

	1Q	4Q	QoQ	1Q	YoY	3M	3M	YoY
FYE Dec (RM m)	FY24	FY23	Chg	FY23	Chg	FY24	FY23	Chg
Net interest income	362.0	328.6	10.1%	387.7	-6.6%	362.0	387.7	-6.6%
Non-interest income	142.6	157.6	-9.5%	106.6	33.7%	142.6	106.6	33.7%
Total income	504.5	486.2	3.8%	494.3	2.1%	504.5	494.3	2.1%
Operating expenses	-378.9	-400.4	-5.4%	-330.0	14.8%	-378.9	-330.0	14.8%
Pre-impairment profit	125.6	85.8	46.4%	164.3	-23.6%	125.6	164.3	-23.6%
(Allowances)/ write-backs	23.1	-17.4	-232.7%	13.3	72.8%	23.1	13.3	72.8%
(Allowances)/ write-backs on other assets	-4.7	3.1	-253.3%	0.0	N.M.	-4.7	0.0	N.M.
Operating profit	143.9	71.5	101.4%	177.6	-19.0%	143.9	177.6	-19.0%
Associates / Joint Ventures	1.0	-0.9	-204.7%	18.7	-94.7%	1.0	18.7	-94.7%
Profit before tax	144.9	70.5	105.5%	196.3	-26.2%	144.9	196.3	-26.2%
Taxation	-34.7	-31.0	12.1%	-47.4	-26.7%	-34.7	-47.4	-26.7%
Minority interest	0.0	0.0	N.M.	0.0	N.M.	0.0	0.0	N.M.
Net Profit	110.2	39.5	178.8%	149.0	-26.0%	110.2	149.0	-26.0%
Gross loans	68,037	66,663	2.1%	61,164	11.2%	68,037	61,164	11.2%
Gross impaired loans	1,330	1,265	5.1%	1,201	10.8%	1,330	1,201	10.8%
Customer deposits	71,758	70,834	1.3%	65,870	8.9%	71,758	65,870	8.9%
Current and savings account (CASA)	17,852	18,914	-5.6%	14,698	21.5%	17,852	14,698	21.5%
Total assets	107,316	105,248	2.0%	94,052	14.1%	107,316	94,052	14.1%
Shareholders' equity	11,211	11,109	0.9%	10,821	3.6%	11,211	10,821	3.6%
Reported NIM	1.44%	1.34%		1.79%		1.44%	1.79%	
Cost-to-income ratio	75.1%	82.4%		66.8%		75.1%	66.8%	
Annualised net credit cost (bps)	-13.7	10.6		-8.9		-13.7	-8.9	
Effective tax rate	24.0%	43.9%		24.1%		24.0%	24.1%	
Annualised ROA	0.4%	0.2%		0.6%		0.4%	0.6%	
Annualised ROE	4.0%	1.4%		5.6%		4.0%	5.6%	
Gross impaired loans ratio	2.0%	1.9%		2.0%		2.0%	2.0%	
Loan loss coverage ratio (LLC)	99.6%	113.6%		117.1%		99.6%	117.1%	
LLC plus regulatory reserves	125.1%	140.3%		157.2%		125.1%	157.2%	
Loan-to-deposit ratio	97.9%	97.7%		93.3%		97.9%	93.3%	
CASA-to-deposit ratio	24.9%	26.7%		22.3%		24.9%	22.3%	
CET-1 capital (Group level)	13.4%	14.3%		14.6%		13.4%	14.6%	

Source: Company, Kenanga Research

Management Guidance

	FY24 Targets	FY23 Performance
Loan Growth	8.0%	12.3%
Net Interest Margin	1.60%	1.42%
CIR	64.0%	71.6%
Gross Credit Cost	20-30 bps	13 bps
Profit Before Tax	RM1.0b	RM523m
GIL	1.9%	1.9%

Source: Company, Kenanga Research

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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.				
Stocks Under Coverage																	
AFFIN BANK BHD	UP	2.53	1.80	-28.9%	5,937	N	12/2024	21.0	27.7	20.4%	31.9%	12.1	9.1	0.5	4.3%	8.0	3.2%
ALLIANCE BANK MALAYSIA BHD	OP	3.77	4.30	14.1%	5,836	N	03/2024	45.5	50.9	4.0%	11.8%	8.3	7.4	0.8	10.2%	24.5	6.5%
AMMB HOLDINGS BHD	OP	4.26	4.80	12.7%	14,087	N	03/2024	43.6	51.1	-16.9%	17.3%	9.8	8.3	0.7	9.4%	19.0	4.5%
BANK ISLAM MALAYSIA BHD	UP	2.53	2.25	-11.1%	5,734	Y	12/2024	25.2	29.0	3.3%	14.9%	10.0	8.7	0.8	7.6%	17.0	6.7%
CIMB GROUP HOLDINGS BHD	MP	6.84	6.60	-3.5%	73,057	N	12/2024	67.1	69.8	2.6%	3.9%	10.2	9.8	1.0	10.3%	44.0	6.4%
HONG LEONG BANK BHD	OP	19.42	24.20	24.6%	42,097	N	06/2024	196.0	213.1	5.2%	8.7%	9.9	9.1	1.1	11.3%	60.0	3.1%
MALAYAN BANKING BHD	OP	9.99	11.00	10.1%	120,549	N	12/2024	80.7	82.9	4.1%	2.8%	12.4	12.0	1.2	10.2%	62.0	6.2%
MALAYSIA BUILDING SOCIETY	UP	0.920	0.590	-35.9%	7,565	Y	12/2024	3.4	6.3	79.3%	82.1%	26.8	14.7	0.7	2.5%	2.0	2.2%
PUBLIC BANK BHD	OP	4.19	5.10	21.7%	81,331	N	12/2024	37.3	39.3	9.0%	5.4%	11.2	10.7	1.4	12.9%	21.0	5.0%
RHB BANK BHD	OP	5.49	7.25	32.1%	23,934	N	12/2024	71.3	74.7	9.1%	4.8%	7.7	7.3	0.7	9.7%	43.0	7.8%
SECTOR AGGREGATE					380,126					4.7%	6.4%	11.0	10.3	1.1	9.9%		5.2%

Source: Kenanga Research

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Stock ESG Ratings:

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

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