

19 May 2026

Affin Bank

Optimistic Despite Cautious Landscape

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AFFIN's 1QFY26 net earnings (+9% YoY) came in within expectations, though we are concerned of its near-term credit cost trajectory given the group's low LLC (c.70%) and thin overlay balance. While the group looks for sustainable earnings delivery supported by its RM14b loans pipeline, we anticipate possible softness from its community banking segment should inflationary pressures worsen. Maintain MARKET PERFORM and TP of RM2.50.

1QFY26 within expectations. AFFIN's 1QFY26 net earnings of RM135.5m made up 24% of our full-year forecast and 23% of consensus full-year estimate.

YoY, 1QFY26 net profit grew by 9% mainly on the back of both: (i) stronger NII led by a 13% loans base expansion from pent-up disbursements from its corporate banking book alongside a higher NIM of 1.55% (+8 bps) from better asset yields, and (ii) stronger NOII driven by more fee-based deals occurring during the period.

While PPOP increased by 48% as CIR improved to 62.7% (-7.0 ppts) from the higher topline, a surge in credit cost to 34 bps (+29 bps) from higher SME impairments weighed on overall profitability.

QoQ, net profit increased by 6% albeit mostly due to lower sequential costs incurred (-11%) while NOII saw a 12% decline from forex losses.

Highlights. Though AFFIN made no changes to its FY26 targets, we grow wary on possible disappointments in its credit cost guidance of 13 bps. With an LLC of 70% and management overlay balances of only RM30m, we opine AFFIN may be more likely to top up on its provisions should macroeconomic factors worsen. At the meantime, the group is anticipating for the Middle East conflicts to cease by Jun 2026 with a meaningful correction to oil price by end-FY26, though we are likely less bullish with our in-house projections of USD80/bbl.

With regards to earnings sustainability, the group's existing corporate loans pipeline of RM14b should provide support to growth should its community banking segment moderate from inflationary concerns. Meanwhile, the group continues to believe there is opportunity to grow its CASA in Sarawak which could help to ease funding cost.

AFFIN is due to enjoy a capital uplift of 10-30 bps to its CET-1 ratio from the upcoming Basel III implementation. That said, we believe the group may most like retain its capital for asset building as opposed to distribution to shareholders as it currently operates at a LDR of >100% and with provisions likely requiring topping up in the near-term. Per our previous analysis on a 13 bps guidance, we anticipated a capital relief of c.RM100m which if distributed to shareholders, equates to 3.9 sen/share or 1.6% yield. This is currently not reflected in our 40% payout assumption.

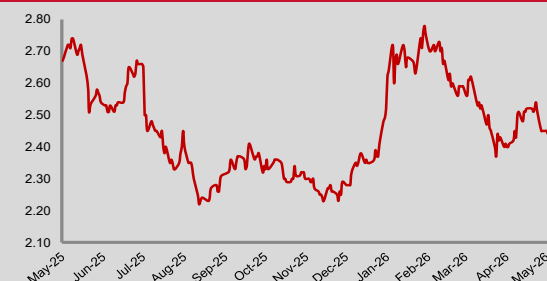
Forecast. We tweak our FY26F/FY27F earnings by -2% each post-1QFY26 model updates.

Maintain MARKET PERFORM and TP of RM2.50. Our TP is based on an unchanged GGM-derived PBV of 0.51x (COE: 9.4%, TG: 3.0%, ROE: 6.25%). While we remain conservative on AFFIN's longer-term earnings delivery due to past volatilities, our 6.25% ROE incorporates more positive projections, and we wait to assess more initiatives and execution particularly in relations to its Sarawak-led initiatives. The group is also in the midst of reviewing its AX28 program which had initially targeted a 12% ROE by FY28. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us.

MARKET PERFORM ↔

Price : RM2.41
Target Price : RM2.50 ↔

Share Price Performance



KLCI	1,731.14
YTD KLCI chg	3.0%
YTD stock price chg	2.6%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	ABANK MK Equity
Market Cap (RM m)	6,106.5
Shares Outstanding	2,533.8
52-week range (H)	2.78
52-week range (L)	2.22
3-mth avg. daily vol.	1,638,834
Free Float	24%
Beta	1.06

Major Shareholders

SG Assetfin Holdings Sdn Bhd	26.4%
Bank Of East Asia Ltd	23.9%
Lembaga Tabung Angkatan Tentera	21.1%

Summary Earnings Table

FY Dec (RM m)	2025A	2026F	2027F
Net interest Income	1,742	2,072	2,279
Non-interest Income	700	547	569
Total Income	2,442	2,619	2,848
Operating Expenses	-1,702	-1,777	-1,866
Loan Impairment	-24	-139	-146
Pre-tax Profit	761	783	834
Core Net Profit	540	556	593
Net Profit	540	556	593
Consensus NP	-	585	665
Earnings Revision (%)	-	-2.0	-2.4
Core EPS (sen)	21.3	21.9	23.4
EPS Growth (%)	6.0	2.9	6.6
NDPS (sen)	8.5	9.0	9.5
BV/Share (RM)	4.82	4.91	5.05
NTA/Share (RM)	4.5	4.6	4.8
ROE (%)	4.5	4.5	4.7
PER (x)	11.3	11.0	10.3
P/BV (x)	0.50	0.49	0.48
Net Div. Yield (%)	3.5	3.7	3.9

19 May 2026

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) slowdown in capital market activities, (v) unfavourable currency fluctuations, and (vi) changes to OPR.

Results Highlights

	1Q	4Q	QoQ	1Q	YoY	3M	3M	YoY
FYE Dec (RM m)	FY26	FY25	Chg	FY25	Chg	FY26	FY25	Chg
Net interest income	468.4	481.0	-2.6%	403.8	16.0%	468.4	403.8	16.0%
Non-interest income	186.0	212.3	-12.4%	140.1	32.7%	186.0	140.1	32.7%
Total income	654.4	693.3	-5.6%	543.9	20.3%	654.4	543.9	20.3%
Operating expenses	-410.6	-462.7	-11.3%	-379.1	8.3%	-410.6	-379.1	8.3%
Pre-impairment profit	243.8	230.6	5.7%	164.9	47.9%	243.8	164.9	47.9%
(Allowances)/ write-backs	-68.9	-15.7	339.8%	-8.8	682.6%	-68.9	-8.8	682.6%
(Allowances)/ write-backs on other assets	0.0	0.8	-101.8%	0.1	-118.7%	0.0	0.1	-118.7%
Operating profit	174.9	215.7	-18.9%	156.2	12.0%	174.9	156.2	12.0%
Associates / Joint Ventures	6.0	4.0	50.0%	22.0	-72.7%	6.0	22.0	-72.7%
Profit before tax	180.9	219.7	-17.7%	178.2	1.5%	180.9	178.2	1.5%
Taxation	-45.4	-90.5	-49.8%	-54.1	-16.0%	-45.4	-54.1	-16.0%
Minority interest	0.0	0.0	N.M	0.0	N.M.	0.0	0.0	N.M
Net Profit	135.5	127.6	6.2%	124.1	9.2%	135.5	124.1	9.2%
Gross loans	82,119	79,511	3.3%	72,898	12.6%	82,119	72,898	12.6%
Gross impaired loans	1,436	1,304	10.2%	1,344	6.8%	1,436	1,344	6.8%
Customer deposits	77,012	79,000	-2.5%	75,394	2.1%	77,012	75,394	2.1%
Current and savings account (CASA)	21,166	20,010	5.8%	24,308	-12.9%	21,166	24,308	-12.9%
Total assets	125,698	124,074	1.3%	116,180	8.2%	125,698	116,180	8.2%
Shareholders' equity	12,216	12,219	0.0%	11,773	3.8%	12,216	11,773	3.8%
Reported annualised NIM	1.55%	1.47%		1.47%		1.55%	1.47%	
Cost-to-income ratio	62.7%	66.7%		69.7%		62.7%	69.7%	
Annualised net credit cost (bps)	34.1	8.1		4.9		34.1	4.9	
Effective tax rate	25.1%	41.2%		30.3%		25.1%	30.3%	
Annualised ROA	0.4%	0.4%		0.4%		0.4%	0.4%	
Annualised ROE	4.4%	4.2%		4.2%		4.4%	4.2%	
Gross impaired loans ratio	1.75%	1.64%		1.84%		1.75%	1.84%	
Loan loss coverage ratio (LLC)	70.1%	74.1%		80.0%		70.1%	80.0%	
LLC plus regulatory reserves	116.6%	119.7%		124.5%		116.6%	124.5%	
Loan-to-deposit ratio	106.6%	100.6%		96.7%		106.6%	96.7%	
CASA-to-deposit ratio	27.5%	25.3%		32.2%		27.5%	32.2%	
CET-1 capital (Group level)	12.5%	13.4%		13.5%		12.5%	13.5%	

Source: Company, Kenanga Research

Management Guidance

	FY26 Targets	FY25 Performance
Loan Growth	10.0%	10.4%
Net Interest Margin	1.55%	1.45%
CIR	67.0%	69.7%
Gross Credit Cost	13 bps	13 bps
Profit Before Tax	RM850m	RM760m
GIL	1.80%	1.64%
ROE	5.0%	4.5%
LLC	70%-80%	74%

Source: Company, Kenanga Research

19 May 2026

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.
Stocks Under Coverage																	
Affin Bank Bhd	MP	2.41	2.50	3.7%	6,106.5	N	12/2026	21.9	23.4	2.9%	6.6%	11.0	10.3	0.5	4.5%	9.0	3.7%
Alliance Bank Malaysia Bhd	MP	4.92	5.20	5.7%	8,512.7	N	03/2026	48.0	50.3	10.7%	4.6%	10.2	9.8	1.0	10.5%	19.5	4.0%
AMMB Holdings Bhd	OP	6.43	7.45	15.9%	21,262.3	N	03/2026	64.2	67.0	6.0%	4.5%	10.0	9.6	1.0	10.0%	34.0	5.3%
Bank Islam Malaysia Bhd	OP	2.34	2.55	9.0%	5,303.5	Y	12/2026	26.5	28.5	7.9%	7.5%	8.8	8.2	0.7	7.5%	16.0	6.8%
CIMB Group Holdings Bhd	OP	7.80	8.45	8.3%	84,265.8	N	12/2026	78.6	83.9	6.9%	6.8%	9.9	9.3	1.1	11.4%	50.0	6.4%
Hong Leong Bank Bhd	OP	21.98	25.95	18.1%	47,646.4	N	06/2026	227.1	236.0	-0.6%	3.9%	9.7	9.3	1.1	11.5%	105.0	4.8%
Malayan Banking Bhd	OP	11.08	12.30	11.0%	134,016.2	N	12/2026	89.0	90.4	2.1%	1.6%	12.5	12.3	1.3	11.0%	64.0	5.8%
MBSB Bhd	OP	0.675	0.730	8.1%	5,550.1	Y	12/2026	5.7	7.7	45.4%	36.4%	11.9	8.7	0.5	4.1%	4.5	6.7%
Public Bank Bhd	OP	4.83	5.95	23.2%	93,753.6	N	12/2026	38.6	40.1	3.8%	3.8%	12.5	12.0	1.5	12.3%	29.4	6.1%
RHB Bank Bhd	MP	8.22	8.40	2.2%	35,854.9	N	12/2026	75.5	79.9	-2.7%	5.8%	10.9	10.3	1.0	9.5%	47.0	5.7%
SECTOR AGGREGATE					442,272					3.5%	4.5%	11.3	10.8	1.2	10.3%		5.5%

Name	Terminal growth (%)	Sustainable ROE (%)	Cost of Equity (%)	Applied PBV (x)	Target Price (RM)	Call	Remarks
Affin Bank Bhd	3.00	6.25	9.4	0.51	2.50	MP	
Alliance Bank Malaysia Bhd	3.00	10.0	10.0	1.00	5.20	MP	+5% ESG Premium
AMMB Holdings Bhd	3.00	10.0	9.4	1.10	7.45	OP	
Bank Islam Malaysia Bhd	3.50	8.0	9.7	0.73	2.55	OP	
CIMB Group Holdings Bhd	3.50	11.5	10.7	1.12	8.45	OP	+5% ESG Premium
Hong Leong Bank Bhd	-	-	-	-	25.95	OP	Sum-of-Parts
Malayan Banking Bhd	3.50	11.5	9.0	1.45	12.30	OP	
MBSB Bhd	3.00	6.0	8.7	0.53	0.730	OP	
Public Bank Bhd	4.00	13.5	9.4	1.78	5.95	OP	+5% ESG Premium
RHB Bank Bhd	2.50	10.0	9.7	1.05	8.40	MP	

Source: Kenanga Research

19 May 2026

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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Published by:

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