

26 August 2024

Financial Services | Banks

## Affin (ABANK MK)

## Sell (Maintained)

### Another Mixed Bag; Still a SELL

Target Price (Return): MYR1.60 (-50%)  
 Price (Market Cap): MYR3.23 (USD1,772m)  
 ESG score: 2.9 (out of 4)  
 Avg Daily Turnover (MYR/USD) 11.9m/2.59m

- **Still SELL, new MYR1.60 TP from MYR1.65, 50% downside with c.3% FY25F yield.** Affin's 1H24 results benefitted from a net writeback in impairment allowances, as PIOP missed estimates following the resumption of NIM compression. We make no change to our SELL call, as we deem the stock's current valuation to be unjustified against its weak earnings generation. However, the Sarawak State Government's impending purchase of a further 15-25% stake in Affin could keep valuations elevated in the near-term.
- **Results review.** Affin's 2Q24 net profit of MYR118.6m (+8% QoQ, +5% YoY) brought the 1H total to MYR228.8m (-12% YoY) – broadly meeting our and Street estimates. The YoY drop was largely a result of lower NII (-3% YoY) and greater opex (+16% YoY). PIOP was down 28% YoY and missed our estimates, but mitigated by a net writeback of provisions amounting to MYR34m (1H23: net charge of MYR37m) – thanks to corporate loan settlements and recoveries. For the quarter, NII dropped by 2% QoQ (YoY: +2%) after a 4bps NIM compression (YoY: +7bps). However, a second consecutive quarter of net impairment writebacks (2Q24 net writeback: MYR11m vs 2Q23 net charge: MYR51m) ensured positive net profit growth.
- **What is in store for NIM?** Management attributed the 4bps QoQ NIM compression to a shift in its growth strategy – it is currently observing some stress in the SME space, and is willing to sacrifice margins to obtain higher quality customers. We note two factors that could provide some cushion to the number: i) The group is looking at alternative funding sources (eg borrowings) that are cheaper than deposits; and ii) it has been proactively cutting deposit rates. However, the shift in focus could mean NIM will remain subdued in the near term.
- **Asset quality – pockets of vulnerability, but stable overall.** Aside from certain pockets in SME, mortgage and personal financing, the overall picture on asset quality appears stable. The group is comfortable with its LLC of 97% (1Q24: 100%, 2Q23: 128%), while further writebacks of provisions could be possible if the macroeconomic landscape remains positive.
- **Sarawak – non-II benefits, NII more mixed.** We understand that the Sarawak State Government has obtained approval to acquire a further 15-25% stake in Affin, and is ironing out the fine print of the agreement. With economic activity expected to ramp up in the state, we think Affin's clear-cut benefit lies in the fee income space (eg investment banking deals, loans-related fees). On the other hand, the state's NII potential for Affin looks rather mixed – cost of funds could benefit from an influx of Sarawak CASA (c.MYR3bn or +c.16% per our channel checks), although loan growth in the state should still be subject to the abovementioned NIM and asset quality challenges.
- **We lower FY24-26F earnings by 6%, 5% and 4%** as we factor in narrower NIM assumptions, partly offset by lower credit costs in FY24F. Our TP drops to MYR1.60, as a result, and includes a 2% ESG discount.

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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	55.3	12.2	28.2	23.8	66.5
Relative	42.9	11.8	27.8	18.2	52.9
52-wk Price low/high (MYR)				1.92	-3.43



Source: Bloomberg

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Reported net profit (MYRm)	1,179	402	436	492	583
Net profit growth (%)	210.0	(65.9)	8.5	12.9	18.3
Recurring net profit (MYRm)	432	402	436	492	583
Recurring EPS (MYR)	0.20	0.17	0.19	0.21	0.25
BVPS (MYR)	4.73	4.73	4.92	5.11	5.27
DPS (MYR)	0.12	0.06	0.07	0.08	0.10
Recurring P/E (x)	16.44	18.55	17.38	15.39	13.01
P/B (x)	0.68	0.68	0.66	0.63	0.61
Dividend Yield (%)	3.8	1.8	2.3	2.6	3.1
Return on average equity (%)	11.4	3.7	3.9	4.2	4.8

Source: Company data, RHB

#### Overall ESG Score: 2.9 (out of 4)

##### E: MODERATE

Affin's total emissions decreased YoY in FY23, but it is still lacking Scope 3 operational and financed emissions disclosures. Its sustainable financing targets, however, are ambitious, ie a long-term target for 25% of its loan portfolio to come from sustainable facilities by FY28.

##### S: EXCELLENT

Financial inclusion initiatives include the BizDana/BizDana-I Start-Up financing scheme in collaboration with the Credit Guarantee Corp. The bank is also fairly diverse (50-60% of employees are women), and wirjers receive a decent 59 hours of training pa on average.

##### G: EXCELLENT

We do not note any material involvement from the bank in major corruption, money-laundering or terrorism financing cases over the past 10 years. Additionally, board members and senior management are subject to ESG-linked key performance indicators.

## Financial Exhibits

Asia	Financial summary (MYR)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Malaysia	EPS	0.54	0.17	0.19	0.21	0.25
Financial Services	Recurring EPS	0.20	0.17	0.19	0.21	0.25
<b>Affin</b>	DPS	0.12	0.06	0.07	0.08	0.10
ABANK MK	BVPS	4.73	4.73	4.92	5.11	5.27
Sell						
	<b>Valuation metrics</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
<b>Valuation basis</b>	Recurring P/E (x)	16.44	18.55	17.38	15.39	13.01
Our GGM assumptions are:	P/B (x)	0.7	0.7	0.7	0.6	0.6
i. COE of 9.1%;	Dividend Yield (%)	3.8	1.8	2.3	2.6	3.1
ii. ROE assumption of 5.3%;						
iii. 3.5% long-term growth.						
	<b>Income statement (MYRm)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
<b>Key drivers</b>	Interest income	3,400	4,387	4,725	4,912	5,325
Our FY24F earnings are most sensitive to changes in:	Interest expense	(1,690)	(3,008)	(3,266)	(3,242)	(3,456)
i. Net interest margin;	<b>Net interest income</b>	<b>1,711</b>	<b>1,379</b>	<b>1,459</b>	<b>1,671</b>	<b>1,869</b>
ii. Credit costs;	Non interest income	344	607	614	681	717
iii. Non-interest income.	<b>Total operating income</b>	<b>2,055</b>	<b>1,986</b>	<b>2,073</b>	<b>2,352</b>	<b>2,585</b>
	Overheads	(1,317)	(1,421)	(1,513)	(1,604)	(1,691)
	<b>Pre-provision operating profit</b>	<b>738</b>	<b>565</b>	<b>560</b>	<b>747</b>	<b>895</b>
<b>Key risks</b>	Loan impairment allowances	(439)	(75)	(24)	(147)	(186)
The upside risks include:	Other impairment allowances	(69)	(3)	(2)	(2)	(2)
i. Sharper-than-expected NIM expansion;	Income from associates	9	36	40	50	60
ii. Lower-than-expected credit costs;	Other exceptional items	1,125				
iii. Stronger-than-expected non-II.	<b>Pre-tax profit</b>	<b>1,365</b>	<b>523</b>	<b>574</b>	<b>648</b>	<b>766</b>
	Taxation	(161)	(121)	(138)	(155)	(184)
	Minority interests	(25)	-	-	-	-
	<b>Reported net profit</b>	<b>1,179</b>	<b>402</b>	<b>436</b>	<b>492</b>	<b>583</b>
	<b>Recurring net profit</b>	<b>432</b>	<b>402</b>	<b>436</b>	<b>492</b>	<b>583</b>
	<b>Profitability ratios</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
<b>Company Profile</b>	Return on average assets (%)	1.4	0.4	0.4	0.5	0.5
The principal activities of the group are commercial banking and hire purchase, Islamic banking, investment banking and stock-broking, and money-broking. Affin is also involved in life and general insurance via its jointly controlled entity/associate.	Return on average equity (%)	11.4	3.7	3.9	4.2	4.8
	Return on IEAs (%)	4.3	4.8	4.9	4.9	5.0
	Cost of funds (%)	2.4	3.6	3.6	3.6	3.6
	Net interest spread (%)	1.9	1.2	1.2	1.3	1.3
	Net interest margin (%)	2.1	1.5	1.5	1.7	1.7
	Non-interest income / total income (%)	16.7	30.6	29.6	29.0	27.7
	Cost to income ratio (%)	64.1	71.6	73.0	68.2	65.4
	Credit cost (bps)	80.7	12.2	3.7	21.0	24.2
	<b>Balance sheet (MYRm)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
	Total gross loans	58,105	65,225	66,172	74,081	79,895
	Other interest earning assets	26,881	34,193	28,965	29,793	30,650
	Total gross IEAs	84,985	99,418	95,137	103,873	110,544
	Total provisions	(1,411)	(1,438)	(1,532)	(1,747)	(2,000)
	Net loans to customers	56,694	63,787	64,640	72,333	77,895
	Total net IEAs	83,575	97,980	93,605	102,126	108,545
	Total non-IEAs	6,676	7,268	7,369	4,362	3,694
	Total assets	90,251	105,248	100,974	106,488	112,239
	Customer deposits	64,995	70,834	75,084	79,589	84,365
	Other interest-bearing liabilities	11,817	21,288	12,248	12,734	13,254
	Total IBLs	76,812	92,122	87,332	92,323	97,618
	Total non-IBLs	2,688	2,017	2,101	2,172	2,245
	Total liabilities	79,500	94,139	89,433	94,495	99,863
	Share capital	5,245	5,371	5,505	5,643	5,643
	Shareholders' equity	10,751	11,109	11,541	11,993	12,375
	<b>Asset quality and capital</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
	Reported NPLs / gross cust loans (%)	2.0	1.9	2.0	1.9	1.9
	Total provisions / reported NPLs (%)	120.5	113.6	116.0	121.3	128.5

Source: Company data, RHB

## Results At a Glance

Figure 1: Affin – summary of 2Q24 and 1H24 results

FYE 31 Dec (MYRm)	2Q23	1Q24	2Q24	QoQ (%)	YoY (%)	1H23	1H24	YoY (%)	Comments
NII (+ Islamic Banking)	348	362	353	(2.4)	1.5	736	715	(2.8)	Lower, due to 15bps YoY NIM compression.
NIM (%) - reported	1.33	1.44	1.40			1.57	1.42		
Non-II	157	143	142	(0.7)	(9.8)	264	284	7.8	
Non-II/Total income (%)	31.1	28.3	28.6			26.4	28.4		
<b>Operating income</b>	<b>505</b>	<b>505</b>	<b>495</b>	(1.9)	(2.0)	<b>999</b>	<b>999</b>	0.0	
Overhead expenses	(316)	(379)	(368)	(3.0)	16.2	(646)	(747)	15.5	Driven upwards by higher personnel (base effect from collective agreement adjustments) and establishment (tech spend for system upgrades) costs.
CIR (%)	62.7	75.1	74.3			64.7	74.7		
<b>PIOP</b>	<b>188</b>	<b>126</b>	<b>127</b>	1.1	(32.6)	<b>353</b>	<b>253</b>	(28.4)	At 37% of our initial full-year PIOP forecast.
Impairments on financial assets	1	(5)	2	>100	58.1	0	(3)	nm	
Impairments losses on loans	(51)	23	11	(53.2)	>100	(37)	34	>100	Writebacks on provisions for impaired corporate loans, given settlements and recoveries from certain corporate NPLs.
Annualised credit cost (bps)*	33	(14)	(6)			14	(11)		
<b>Operating profit</b>	<b>139</b>	<b>144</b>	<b>139</b>	(3.2)	0.6	<b>315</b>	<b>283</b>	(10.1)	
Associates	11	1	11	>100	0.6	30	12	(58.6)	
<b>Pretax profit</b>	<b>150</b>	<b>145</b>	<b>151</b>	4.0	0.6	<b>345</b>	<b>296</b>	(14.4)	
Tax	(37)	(35)	(32)	(7.2)	(12.3)	(84)	(67)	(20.4)	
Effective tax rate (%)	24.5	24.0	21.4			24.4	22.6		
Profit from discontinuing operations	0	0	0			0	0		
Minorities	0	0	0	nm	nm	0	0	nm	
<b>Net profit</b>	<b>113.2</b>	<b>110.2</b>	<b>118.6</b>	7.6	4.7	<b>261.2</b>	<b>228.8</b>	(12.4)	Making up 49% and 47% of our and consensus full-year net profit estimates.
<b>Other key data and ratios</b>									
Gross loans	62,468	68,037	69,016	1.4	10.5				
Customer deposits	71,511	71,758	71,226	(0.7)	(0.4)				
Gross impaired loans	1,112	1,330	1,306	(1.8)	17.4				
Total assets	100,857	107,316	108,166	0.8	7.2				
Shareholders' funds	10,957	11,211	11,303	0.8	3.2				
ROAA (%)	0.48	0.43	0.46			0.56	0.44		
ROAE (%)	4.16	3.95	4.21			4.81	4.08		Below its initial target of 7%.
LDR (%)	85.4	93.0	95.1						
GIL ratio (%)	1.78	1.96	1.89						YoY increase contributed by mortgages, personal financing and working capital loans.
Loan loss coverage (%)	128.2	99.6	97.2						
CET-1 ratio (%)	14.7	13.4	12.8						Has been on a downtrend since 2Q23.

Note: \*Based on internally derived estimates

Source: Company data, RHB

## Management guidance

Figure 2: Affin – management guidance and financial targets for FY24F

FYE Dec	FY23 actual	FY24F targets	1H24 achieved	Comments
Reported ROE	3.7%	7.0%	4.1%	
NIM	1.44%	1.60%	1.42%	We see risks of Affin missing its target, given management's updated focus on asset quality rather than yields.
CIR	71.6%	64.0%	74.7%	YoY opex growth of 16% is ahead of the 6-8% guidance provided earlier in the year.
Loans growth	12.3%	8.0%	10.5%	Management continues to aim for above-industry loan growth, albeit with a renewed focus towards "safer" loan segments (eg mortgages) to protect asset quality – this is likely to come at the expense of margins.
GIL	1.90%	1.90%	1.89%	Management is seeing some pockets of vulnerability in the mortgage, unsecured personal finance, and SME segments.

Source: Company data, RHB

## Earnings forecasts

We lower our FY24-26F numbers by 4-6%, after taking into account:

- A lower NIM assumption for FY24, which is now flat against our derived 1.50% FY23 NIM. We now expect NIM to expand from FY25F onwards, partly on the assumption of a greater CASA mix, particularly from Sarawak;
- Lower credit costs, as 1H24 saw a net writeback in provisions. We made no changes to FY25F and FY26F credit costs;
- Greater non-II in FY25F and FY26F, given our optimism on Sarawak-related fee income.

Figure 3: Affin – revisions to earnings forecasts

FYE Dec	Previous FY24F	Previous FY25F	Previous FY26F	Revised FY24F	Revised FY25F	Revised FY26F	% Change FY24F	% Change FY25F	% Change FY26F
(MYRm)									
Net interest income	1,589	1,726	1,928	1,459	1,671	1,869	-8.2%	-3.2%	-3.1%
Non-interest income	614	658	691	614	681	717	0.0%	3.5%	3.7%
Operating expenses	(1,513)	(1,604)	(1,691)	(1,513)	(1,604)	(1,691)	0.0%	0.0%	0.0%
<b>PIOP</b>	691	780	929	<b>560</b>	<b>747</b>	<b>895</b>	-18.9%	-4.2%	-3.6%
Impairment charges	(120)	(149)	(188)	(26)	(149)	(188)	-78.3%	0.0%	0.0%
Pretax profit	610	681	800	574	648	766	-6.0%	-4.8%	-4.2%
<b>Net profit</b>	464	517	608	<b>436</b>	<b>492</b>	<b>583</b>	-6.0%	-4.8%	-4.2%
EPS (MYR)	0.20	0.22	0.26	0.19	0.21	0.25			
DPS (MYR)	0.08	0.09	0.10	0.07	0.08	0.10			
Loan growth (%)	8.0	12.0	8.0	8.0	12.0	8.0			
NIM (%)	1.63	1.74	1.80	1.50	1.68	1.74			
CIR (%)	68.7	67.3	64.5	73.0	68.2	65.4			
Credit cost (bps)	18	21	24	4	21	24			

Source: Company data, RHB

Valuation and TP

We lower our TP to MYR1.60 from MYR1.65, based on a GGM-derived P/BV of 0.32x (below -1SD from the mean, previously 0.34x). Model changes include: i) A lower ROE assumption of 5.3% (from 5.4%), in line with forecast changes; and ii) a higher BVPS assumption of MYR5.11 (from MYR4.93), rolled forward to FY25F.

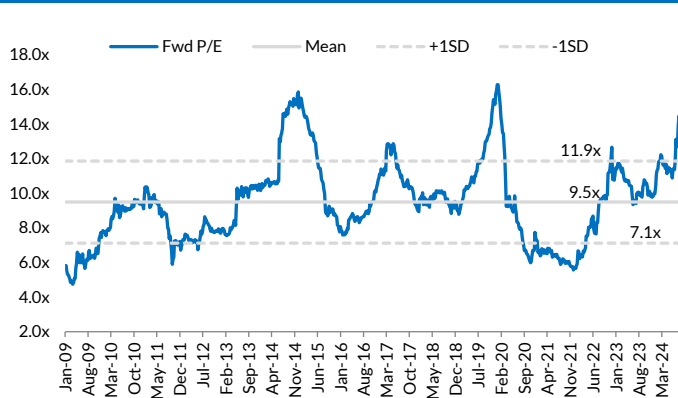
We maintain our SELL call on Affin, primarily on the valuation mismatch. While the Sarawak theme provides Affin with a unique growth story, its currently lofty valuation will require support from earnings growth through higher ROEs, which are not expected to kick in so immediately. Additionally, ambitious growth targets for the bank and a gradually decreasing CET-1 ratio could lead to lower-for-longer dividend payouts.

Figure 4: Affin – GGM valuation with ESG overlay

<b>Cost of equity (COE) computation:</b>		Sustainable ROE (%)	5.3
Risk free rate (%)	4.0	COE (%)	9.1
Equity premium (%)	5.1	Long-term growth (g)	3.5
Beta (x)	1.0	Implied P/BV (x)	0.32
Cost of equity - CAPM (%)	9.1	BVPS – FY25F	MYR5.11
		Intrinsic value	MYR1.66
ESG premium/(discount) (%)	(2.0)	ESG premium/(discount)	(MYR0.03)
		<b>TP (rounded)</b>	<b>MYR1.60</b>

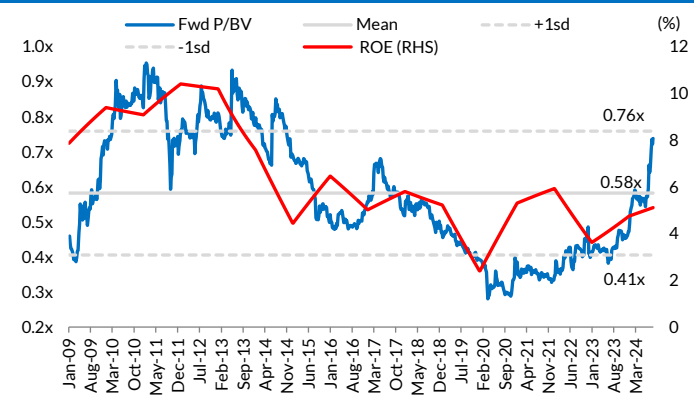
Source: Company data, RHB

Figure 5: Affin’s 12-month forward consensus P/E



Source: Bloomberg, RHB

Figure 6: Affin’s 12-month forward consensus P/BV



Source: Bloomberg, RHB

## Emissions And ESG

### Trend analysis

Affin's total operational emissions decreased YoY in FY23, primarily as a result of its carbon-optimisation initiatives.

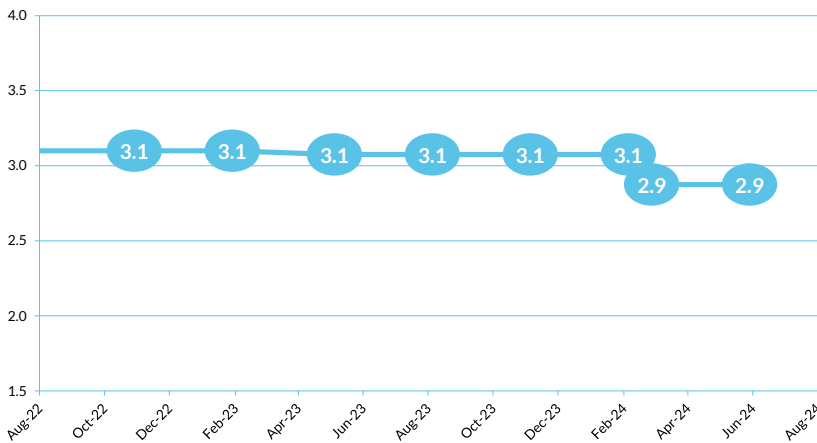
Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
Scope 1	14	14	19
Scope 2	14,301	17,075	15,771
Scope 3	-	-	na
Total emissions	14,315	17,089	15,790

Source: Company data, RHB

## Latest ESG-Related Developments

- Solar panel financing for homeowners:** Affin recently launched its Solar Financing-I product to assist homeowners transitioning to solar-powered electricity for domestic use. The bank has also partnered with 14 solar panel providers under this initiative.
- Exclusive partnership with Proton New Energy Technology (Pro-Net):** Affin announced a collaboration with Pro-Net, a subsidiary of Proton focused on smart EVs, to become its exclusive financing partner.

## ESG Rating History



Source: RHB

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-05-22	Sell	1.65	2.53
2024-03-21	Sell	1.65	2.55
2024-03-01	Sell	1.70	2.60
2024-02-19	Sell	1.90	2.61
2023-11-20	Neutral	1.90	1.99
2023-08-28	Buy	2.20	1.92
2023-05-28	Buy	2.30	2.00
2023-02-28	Buy	2.50	2.08
2022-11-29	Buy	2.80	2.48
2022-09-22	Trading Buy	2.45	2.07
2022-08-25	Neutral	2.25	2.09
2022-03-02	Neutral	2.00	1.86
2022-03-01	Neutral	1.80	1.89
2021-11-23	Neutral	1.65	1.70
2021-11-21	Sell	1.48	1.68

Source: RHB, Bloomberg

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<b>Buy:</b>	Share price may exceed 10% over the next 12 months
<b>Trading Buy:</b>	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
<b>Neutral:</b>	Share price may fall within the range of +/- 10% over the next 12 months
<b>Take Profit:</b>	Target price has been attained. Look to accumulate at lower levels
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<b>Not Rated:</b>	Stock is not within regular research coverage

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