

23 September 2022

Financial Services | Banks

Affin (ABANK MK)

Special Dividend On The Cards? U/G TRADING BUY

- **Upgrade to TRADING BUY from Neutral, with new MYR2.45 TP from MYR2.25, 18% upside and c.7% yield.** We maintain our cautious stance on Affin, as the Affin Hwang Asset Management (AHAM) earnings gap as well as asset quality concerns continue to cloud its medium-term outlook. However, a potential special dividend announcement following the sale of AHAM could act as a strong near-term re-rating catalyst, and we upgrade our call as a result.
- **Key drivers for 2H22F.** Recall that in 1H22, Affin achieved a ROE of 5.8% (annualised), which was short of its 7% target for the year. Management is looking towards the higher-margin enterprise and community banking segments to make up lost ground in 2H22F. The bank will also launch its A1addin digital bank and an updated mobile banking application in 2H to help boost CASA deposits. Elsewhere, management is confident of a rebound in its investment banking operations, and will look to bring CIR to a level below 60% (1H22 CIR: 63.5%).
- **Potential special dividend from AHAM disposal.** Affin will book a c.MYR1bn gain from the disposal of AHAM in 3Q22. We understand that a portion of the proceeds will be used to increase general provisions and to support loans growth up to FY24F, with the remainder to be distributed as special dividends. Our calculations indicate that the bank has capacity to pay a special dividend of 11 sen/share from the AHAM proceeds, which is equivalent to an additional 5% yield.
- **100% LLC a comforting measure.** Management re-emphasised its desire to achieve LLC of 100% by end-FY22. This will require over MYR200m in additional provisions, which management is planning to carve out from the AHAM disposal gains. After factoring in the additional provisions, our FY22F credit cost is raised to 56bps (from 18bps), which brings our net profit forecast for the year to MYR1.40bn (from MYR1.56bn).
- **AIM25 targets.** Affin reiterated its new metamorphosis plan for FY22F-25F, with a 10% ROE target and c.18% loans growth CAGR being key highlights. We deem these to be quite ambitious given the challenging macroeconomic environment ahead, and remain cognisant of potential asset quality issues that may result from overly-aggressive loans growth. For now, we have not yet made forecasts for FY25.
- **Forecasts and TP.** We lower our FY22F net profit by 10% after factoring in additional provisions, but our FY23F-24F are kept flat. Our TP, which includes an ESG premium of 2%, is raised to MYR2.45 (from MYR2.25) after lowering our cost of equity input to 9.0% (from 9.5%) in view of potential special dividends. Affin's medium-term outlook appears unclear, but we deem the near-term thesis to be compelling, and thus we recommend a TRADING BUY on the counter.

Forecasts and Valuation	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Reported net profit (MYRm)	230	533	1,396	638	688
Net profit growth (%)	(52.8)	131.2	162.2	(54.3)	7.9
Recurring net profit (MYRm)	230	533	582	638	688
Recurring EPS (MYR)	0.11	0.25	0.27	0.30	0.32
BVPS (MYR)	4.82	4.66	5.14	5.21	5.38
DPS (MYR)	0.04	0.13	0.14	0.15	0.16
Recurring P/E (x)	18.11	8.21	7.55	6.89	6.39
P/B (x)	0.43	0.44	0.40	0.40	0.38
Dividend Yield (%)	1.7	6.0	6.6	7.3	7.8
Return on average equity (%)	2.4	5.5	13.4	5.8	6.1

Source: Company data, RHB

Trading Buy (from Neutral)

Target Price (Return):	MYR2.45 (+18%)
Price (Market Cap):	MYR2.07 (USD1,006m)
ESG score:	3.10 (out of 4)
Avg Daily Turnover (MYR/USD)	1.43m/0.32m

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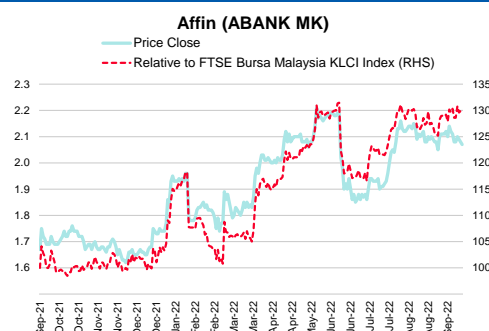


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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	19.7	(0.5)	11.9	13.1	24.0
Relative	27.4	2.2	10.8	21.9	29.4
52-wk Price low/high (MYR)				1.62 – 2.21	



Source: Bloomberg

Overall ESG Score: 3.10 (out of 4)

E: GOOD

Introduced the Group Credit Policy on Sustainable Financing in Aug 2021. Effective Oct 2021, all non-retail financing is required to be assessed using the ESG Risk Assessment Checklist. Under its Affin 2025 Metamorphosis 2.0 (A25), the bank targets to have up to 10% ESG financing portfolio.

S: GOOD

Launched its SME Colony mobile app to support growth of SMEs, including the underserved segments. Under A25, the bank aims to host events for local communities to benefit 100,000 persons per annum.

G: EXCELLENT

The Board comprises ten directors, three of whom are nonindependent non-executive directors and the remaining seven are independent non-executive directors. The current Board composition of which the majority is independent directors exceeds the Bank Negara Malaysia Corporate Governance requirements.

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Financial Exhibits

Asia	Financial summary (MYR)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Malaysia	EPS	0.11	0.25	0.66	0.30	0.32
Financial Services	Recurring EPS	0.11	0.25	0.27	0.30	0.32
Affin	DPS	0.04	0.13	0.14	0.15	0.16
ABANK MK	BVPS	4.82	4.66	5.14	5.21	5.38
Trading Buy						
Valuation basis	Valuation metrics	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Our GGM assumptions are:	Recurring P/E (x)	18.11	8.21	7.55	6.89	6.39
i. COE of 9.0%;	P/B (x)	0.4	0.4	0.4	0.4	0.4
ii. ROE assumption of 6.0%; and	Dividend Yield (%)	1.7	6.0	6.6	7.3	7.8
iii. 3.5% long-term growth.						
Key drivers	Income statement (MYRm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Our FY22 earnings are most sensitive to changes in:	Interest income	2,872	2,751	3,230	3,896	4,114
i. Credit cost assumptions;	Interest expense	(1,697)	(1,302)	(1,574)	(2,043)	(2,171)
ii. Net interest margin; and	Net interest income	1,175	1,448	1,655	1,854	1,944
iii. Gains/losses from investments.	Non interest income	1,090	798	365	408	448
	Total operating income	2,265	2,247	2,020	2,261	2,391
	Overheads	(1,351)	(1,354)	(1,219)	(1,282)	(1,343)
	Pre-provision operating profit	914	893	802	979	1,048
	Loan impairment allowances	(543)	(219)	(306)	(110)	(112)
	Other impairment allowances	(18)	(3)	(8)	(8)	(8)
	Income from associates	42	45	60	66	72
	Other exceptional items			1,078		
	Pre-tax profit	394	716	1,625	927	1,000
	Taxation	(121)	(130)	(187)	(223)	(240)
	Minority interests	(43)	(53)	(42)	(67)	(72)
	Reported net profit	230	533	1,396	638	688
	Recurring net profit	230	533	582	638	688
Key risks	Profitability ratios	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
The upside risks include:	Return on average assets (%)	0.3	0.7	1.7	0.7	0.7
i. Better-than-expected loans recoveries;	Return on average equity (%)	2.4	5.5	13.4	5.8	6.1
ii. Stronger-than-expected NIM; and	Return on IEAs (%)	4.4	3.9	4.1	4.5	4.5
iii. Lower-than-expected CIR.	Cost of funds (%)	3.0	2.1	2.2	2.6	2.6
	Net interest spread (%)	1.4	1.8	1.8	1.9	1.9
	Net interest margin (%)	1.8	2.1	2.1	2.1	2.1
	Non-interest income / total income (%)	48.1	35.5	18.1	18.0	18.7
	Cost to income ratio (%)	59.6	60.2	60.3	56.7	56.2
	Credit cost (bps)	118	45	57	19	18
Downside risks include:	Balance sheet (MYRm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
i. Weaker-than-expected asset quality from new businesses (personal loans and SME lending);	Total gross loans	46,382	50,528	56,701	59,969	63,500
ii. NIM compression from competitive pressures.	Other interest earning assets	19,775	23,663	28,569	29,243	30,297
	Total gross IEAs	66,157	74,191	85,269	89,211	93,797
	Total provisions	(780)	(889)	(1,261)	(1,416)	(1,568)
	Net loans to customers	45,602	49,639	55,440	58,552	61,932
	Total net IEAs	65,377	73,301	84,008	87,795	92,229
	Total non-IEAs	4,158	5,128	5,492	6,004	6,671
	Total assets	69,535	78,429	89,500	93,799	98,900
	Customer deposits	49,884	58,794	65,850	71,118	75,385
	Other interest-bearing liabilities	7,183	6,867	10,735	9,543	9,938
	Total IBLs	57,067	65,661	76,585	80,660	85,323
	Total non-IBLs	2,831	2,834	1,942	2,021	2,089
	Total liabilities	59,898	68,495	78,526	82,682	87,412
	Share capital	4,902	4,969	4,969	4,969	4,969
	Shareholders' equity	9,567	9,889	10,926	11,068	11,437
	Minority interests	71	45	48	49	51
Company Profile	Asset quality and capital	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
The principal activities of the group are commercial banking and hire purchase, Islamic banking, investment banking and stock-broking, money-broking, fund and unit trusts management. The group is also involved in life and general insurance via its jointly controlled entity/associate.	Reported NPLs / gross cust loans (%)	3.5	2.6	2.2	2.3	2.3
	Total provisions / reported NPLs (%)	47.9	68.1	98.9	104.9	109.5

Source: Company data, RHB

Figure 1: Affin's AIM25 targets

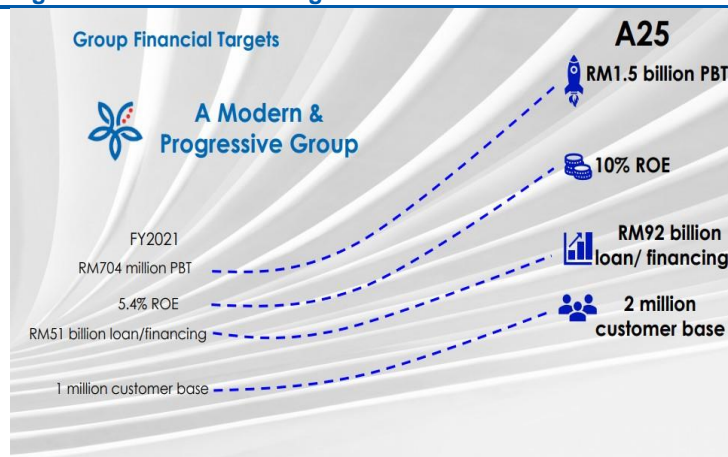
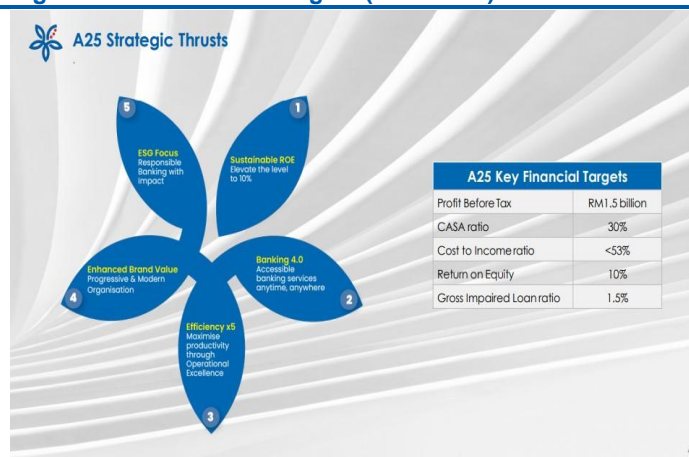


Figure 2: Affin's AIM25 targets (continued)



Source: Company data

Source: Company data

Figure 3: Affin's AIM25 targets and our comments

	2021 actual	1H22 achieved	AIM25 target	Comments
Gross loans (MYR bn)	50.7	54.3	92.0	Implies 16% FY21-FY25F CAGR, which we take with a pinch of salt. Given the expected challenging macroeconomic outlook ahead, overly-aggressive growth could lead to asset quality issues down the line
ROE (%)	5.4	5.8	10.0	Strong net interest income, coupled with a restructuring of fee income could help the bank achieve the 10% target
CIR (%)	60.4	63.5	<53	To be driven by controlled increases in cost as well as income expansion
GIL (%)	2.54	2.28	1.50	Overly-aggressive loans growth, as well as the anticipated rising interest rate environment between FY22-FY23, could pose some risk to the GIL target
CASA ratio (%)	23.0	21.5	30.0	The launch of the A1addin digital bank in 2H22 to assist in driving CASA growth

Source: Company data, RHB

Figure 4: Affin – revisions in earnings forecasts

FYE Dec	Previous			Revised			% Change		
	FY22F	FY23F	FY24F	FY22F	FY23F	FY24F	FY22F	FY23F	FY24F
(MYR m)									
Net interest income	1,660	1,863	1,953	1,655	1,854	1,944	-0.3%	-0.5%	-0.5%
Non-interest income	1,387	408	448	1,387	408	448	0.0%	0.0%	0.0%
Operating expenses	(1,219)	(1,282)	(1,343)	(1,219)	(1,282)	(1,343)	0.0%	0.0%	0.0%
PIOP	1,828	989	1,057	1,824	979	1,048	-0.2%	-0.9%	-0.9%
Provision expenses	(106)	(118)	(120)	(314)	(118)	(120)	>100%	0.0%	0.0%
Pretax profit	1,782	937	1,010	1,570	927	1,000	-11.9%	-1.0%	-0.9%
Net profit	1,558	644	694	1,396	638	688	-10.4%	-1.0%	-0.9%
EPS (MYR)	0.73	0.30	0.33	0.66	0.30	0.32			
DPS (MYR)	0.13	0.15	0.16	0.23	0.15	0.16			
Loans growth (%)	12.0	8.0	6.0	12.0	8.0	6.0			
NIM (%)	2.08	2.13	2.13	2.08	2.12	2.12			
CIR (%)	60.2	56.5	56.0	60.3	56.7	56.2			
Credit cost (bps)	18	18	18	56	18	18			
Loan loss coverage (%)	82.6	89.5	95.0	98.9	104.9	109.5			

Source: Company data, RHB

Valuation and TP

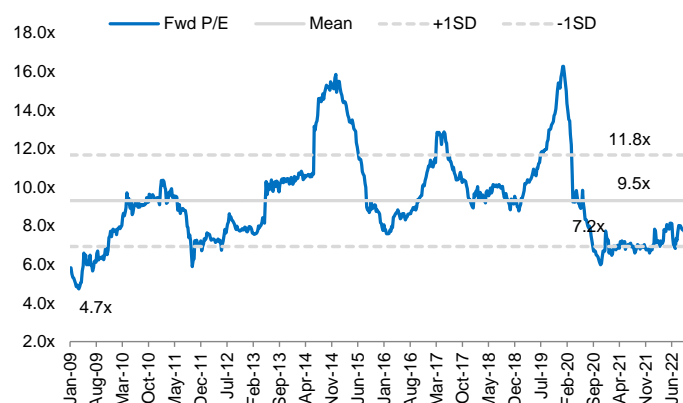
Our new TP of MYR2.45 (from MYR2.25) is based on a GGM-derived P/BV of 0.45x, with an ESG premium of 2% included as per our in-house proprietary methodology.

Figure 5: Affin – GGM valuation with ESG overlay

Cost of equity (COE) computation:		Sustainable ROE (%)	6.0
Risk free rate (%)	4.0	COE (%)	9.0
Equity premium (%)	5.0	Long-term growth (g)	3.5
Beta (x)	1.0	Implied P/BV (x)	0.45
Cost of equity - CAPM (%)	9.0	BVPS – 12-mth rolling forward	MYR5.30
		Intrinsic value	MYR2.40
ESG premium/(discount) (%)	2.0	ESG premium/(discount)	MYR0.05
		TP (rounded)	MYR2.45

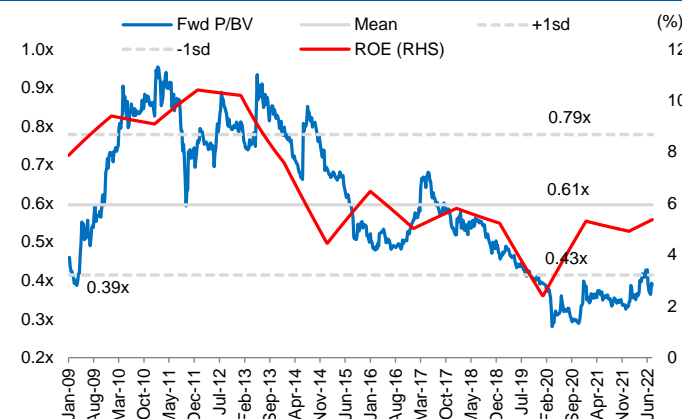
Source: Company data, RHB

Figure 6: Affin's 12-month forward consensus P/E



Source: Bloomberg, RHB

Figure 7: Affin's 12-month forward consensus P/BV



Source: Bloomberg, RHB

Recommendation Chart

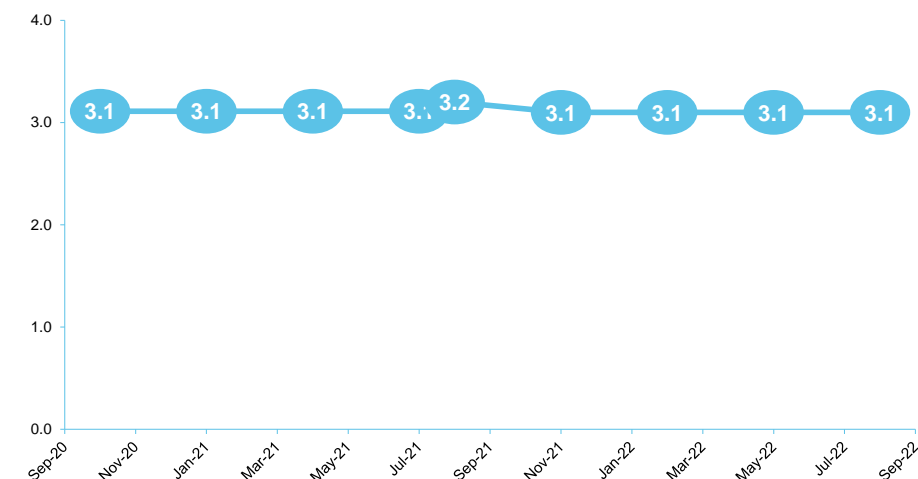


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2021-08-26	Sell	1.48	1.74
2021-02-28	Sell	1.48	1.76
2020-11-30	Sell	1.30	1.56
2020-08-31	Sell	1.25	1.49
2020-08-26	Sell	1.50	1.48
2020-06-10	Sell	1.50	1.74
2020-06-01	Sell	1.30	1.57
2020-05-31	Neutral	1.50	1.59
2020-03-31	Neutral	1.50	1.44
2020-03-02	Neutral	1.70	1.77

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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