

28 August 2019

Affin Bank Berhad

Driven By Investment Gains

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6M19 results came in line within expectations on account of write-backs and gains on financial investments. TP of RM2.40 and OUTPERFORM call maintained pending a briefing this Friday.

In line. 6M19 CNP of RM293m came within expectations accounting for 55%/58% of our/market estimates. No dividend was declared, as expected as AFFIN only declares dividend once a year Q3.

As expected, NIM compressed. YoY, earnings improved tremendously (+36%) to RM293m as there was a writeback of RM36m (vs 6M18: credit loss of RM82m) with CIR flat at 63% as opex remained stable. Top-line was flat as both Islamic income and NII fell into negative territory (<-1% and -12%, respectively) while NOII surged +15% (due to gains from financial instruments (>+100% to RM132m). Loans fell below target (-0.4% vs guidance/estimation of 3-4%) coupled with compressed NIM (-39bps), pulled NII by 12%. The high compression was not a surprise given management's target of +11% growth for deposits to comply with NSFR by end of FY19 (vs 6M19: +12%) and CASA ratio falling 2ppt to +14%. Asset quality was mixed with GIL at 3.5% (due to two lumpy accounts expected to be resolved by end of 2019 while a surprise was a credit recovery of 15bps (vs 6M18 credit loss of 33bps).

QoQ, earnings improved +14% to RM156m boosted by: (i) healthy top-line (>+5%), (ii) higher write-back (>+100%) to RM26m, and (iii) improved CIR by 2ppt to 62%. Top-line was boosted by improved performance of Islamic Income and NOII (+8% and +10%, respectively). NII fell 0.7% as loans fell 2% with NIM compression of 9bps. While GIL saw 18bps uptick to 3.5%, there was larger credit recovery of 22bps.

Earnings maintained for now pending a management's briefing this Friday with unchanged assumptions for FY19E; (i) loans at ~3%, (ii) 10bps NIM compression, (iii) credit charge at 24bps, and (iv) CIR of <60% as we expect its high opex (due to its transformation initiatives) to taper by end of 2019.

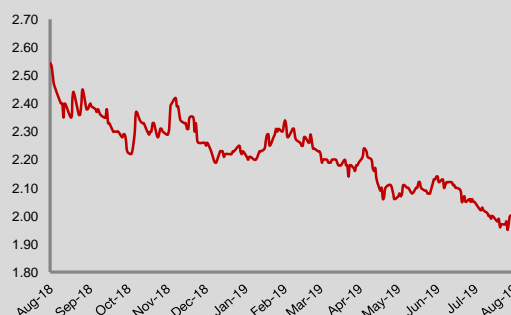
TP and rating maintained. Our TP maintained at RM2.40 on a target PBV of 0.50x FY20- implying a 0.5SD below mean - to account for the uncertainties ahead.

Risks to our call are: (i) higher-than-expected-margin squeeze, (ii) lower-than-expected loans/financing growth as well as (iii) worse-than-expected-deterioration in asset quality.

OUTPERFORM ↔

Price : RM1.99
Target Price : RM2.40 ↔

Share Price Performance



KLCI	1,590.84
YTD KLCI chg	-5.9%
YTD stock price chg	-10.8%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	ABANK MK Equity
Market Cap (RM m)	3,952.2
Shares Outstanding	1,986.0
52-week range (H)	2.55
52-week range (L)	1.93
3-mth avg daily vol:	192,636
Free Float	20%
Beta	0.9

Major Shareholders

Lembaga Tabung Angkatan Tentera	35.3%
Bank Of East Asia Ltd	23.6%
Boustead Holdings Bhd	20.7%

Summary Earnings Table

FYE Dec (RM m)	2018A	2019E	2020E
Net interest inc.	845	806	838
Islamic banking inc.	398	487	503
Non-interest inc.	677	759	811
Total inc.	1,920.6	2,053	2,152
Pre-tax profit	679	741	853
Net profit (NP)	503.1	549.7	637.0
Consensus NP		525	563
<i>Earnings revision (%)</i>			
EPS (RM)	0.26	0.28	0.32
EPS growth (%)	8.0	7.4	15.9
Net DPS (RM)	0.05	0.06	0.06
BV/share (RM)	4.37	4.61	4.88
NTA/share (RM)	3.91	4.15	4.42
ROE (%)	6.0%	6.2%	6.8%
PER	7.7	7.2	6.2
Price/book (x)	0.46	0.43	0.41
Net dividend yield (%)	2.5	2.8	2.8

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Results Highlight

Y/E : Dec (RM m)	2Q19	1Q19	QoQ Chg.	2Q18	YoY Chg.	6M19	6M18	YoY Chg.
Net interest inc.	187.0	188.4	-0.7%	210.5	-11.2%	375.4	426.3	-12.0%
Net Islamic banking inc.	104.7	97.4	7.5%	104.7	0.0%	202.1	203.2	-0.5%
Non-interest inc.	206.2	186.7	10.4%	179.0	15.2%	393.0	341.3	15.2%
Total inc.	497.9	472.5	5.4%	494.2	0.8%	970.4	970.8	0.0%
Other operating exp.	(310.8)	(304.3)	2.1%	(305.9)	1.6%	(615.1)	(617.5)	-0.4%
(Allowances)/write-backs	26.3	9.9	166.4%	(91.9)	128.6%	36.1	(76.2)	-52.6%
(Allowances)/write-backs on other assets	-	-	Na.	(0.4)	Na.	-	(6.4)	Na.
Operating profit	213.4	178.1	19.9%	96.0	122.3%	391.5	270.7	44.6%
Non-operating gains/(losses)	5.5	7.4	-25.5%	18.3	-70.0%	12.9	30.6	-57.9%
Pre-tax profit	218.9	185.4	18.1%	114.3	91.5%	404.3	301.3	34.2%
Taxation & minorities	(62.9)	(48.2)	30.5%	(41.0)	53.3%	(111.1)	(86.5)	28.4%
Net profit	156.0	137.2	13.7%	73.3	112.8%	293.3	214.8	36.5%
EPS (sen)	7.88	6.94	13.4%	3.77	108.7%	14.80	11.05	33.9%
Net DPS declared (sen)	-	-	-	-	Na.	-	-	Na.
G. loans	47,618	48,510	-1.8%	47,801	-0.4%	47,618	47,801	-0.4%
N. loans	47,064	47,931	-1.8%	47,203	-0.3%	47,064	47,203	-0.3%
Customer dep.	59,248	57,431	3.2%	52,778	12.3%	59,248	52,778	12.3%
Current and savings acc.	8,250	8,348	-1.2%	8,559	-3.6%	8,250	8,559	-3.6%
BV/share (RM)	4.66	4.58	1.8%	4.28	9.0%	4.66	4.28	9.0%
NTA/share (RM)	4.20	4.12	2.0%	3.81	10.3%	4.20	3.81	10.3%
Est. net interest margin	1.64%	1.73%		2.02%		1.63%	2.02%	
Reported net interest margin	0.00%	0.00%		0.00%				
Cost-income ratio	62.4%	64.4%		61.9%		63.4%	63.6%	
Effective tax rate	24.2%	22.3%		30.6%		23.3%	25.2%	
Effective minority interest	4.3%	4.5%		7.2%		4.4%	4.5%	
G. loan-deposit	80.4%	84.5%		90.6%		80.4%	90.6%	
N. loan-deposit	79.4%	83.5%		89.4%		79.4%	89.4%	
CASA-total deposits	13.9%	14.5%		16.2%		13.9%	16.2%	
Gross impaired loans ratio	3.49%	3.31%		2.8%		3.49%	2.81%	
Total allowances-to-loans	1.2%	1.2%		1.2%		1.2%	1.2%	
Loan loss coverage	33.3%	36.1%		44.5%		33.3%	44.5%	
Ann. credit charge/(writeback) ratio	-0.22%	-0.08%		0.3%		-0.15%	0.33%	
CET 1 capital	11.7%	12.0%		11.7%		11.7%	11.7%	
Tier 1 capital	11.7%	12.0%		11.7%		11.7%	11.7%	
Total capital	16.8%	17.3%		16.8%		16.8%	16.8%	
Ann. return on equity	7.0%	6.3%		3.4%		6.6%	5.1%	

Source: Company, Kenanga Research

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Peer Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div Yld (%)	Target Price (RM)	Rating
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.			
BANKING																	
AFFIN BANK BHD	1.99	3,952.2	N	12/2019	8.2%	5.3%	9.3%	15.9%	7.9	7.2	6.2	0.5	0.4	6.2%	2.8%	2.40	OP
ALLIANCE BANK MALAYSIA BHD	2.92	4,520.5	N	03/2020	5.9%	7.2%	-1.5%	10.9%	8.4	8.5	7.7	0.8	0.8	9.0%	5.6%	3.45	OP
AMMB HOLDINGS BHD	3.98	11,996.5	N	03/2020	10.4%	4.5%	-0.4%	2.8%	8.0	8.0	7.8	0.6	0.6	7.8%	5.0%	4.75	OP
BIMB HOLDINGS BHD	4.05	7,145.3	Y	12/2019	7.8%	8.5%	7.6%	13.6%	10.4	10.1	9.2	1.4	1.3	14.0%	4.0%	4.80	MP
CIMB GROUP HOLDINGS BHD	5.05	49,123.5	N	12/2019	4.6%	5.0%	-16.2%	2.6%	8.5	10.4	10.5	0.9	0.8	8.5%	4.5%	6.45	OP
HONG LEONG BANK BERHAD	16.48	35,724.0	N	06/2019	5.8%	5.7%	2.0%	9.0%	12.8	12.5	11.5	1.4	1.4	11.0%	2.9%	20.05	MP
MALAYAN BANKING BHD	8.55	96,113.6	N	12/2019	4.2%	4.3%	-0.5%	3.2%	11.6	11.7	11.3	1.2	1.1	9.9%	6.7%	10.35	OP
MALAYSIA BUILDING SOCIETY	0.83	5,538.6	N	12/2019	-1.0%	5.3%	-10.7%	10.2%	8.2	9.2	8.7	0.7	0.7	7.2%	6.1%	1.15	OP
PUBLIC BANK BERHAD	20.70	80,360.3	N	12/2019	3.9%	5.2%	-0.1%	3.5%	14.3	14.3	13.8	2.0	2.0	13.7%	3.3%	25.20	OP
RHB BANK BHD	5.72	22,937.5	N	12/2019	6.0%	4.8%	3.7%	5.7%	10.0	9.6	9.1	1.0	0.9	9.9%	3.7%	6.05	OP
Simple Average					5.6%	5.6%	-0.7%	7.7%	10.0	10.2	9.6	1.0	1.0	9.7%	4.4%		

Source: Bloomberg, Kenanga Research

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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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