

03 September 2019

Affin Bank Berhad

NIM to Improve

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Following a post-results' conference call with management last Friday, we revised slightly AFFIN's TP to RM2.45 with **OUTPERFORM** call maintained. We believe asset quality in FY19 will see improvement following resolution of two huge accounts with NIM improving from current levels as its NSFR compliance has been attained.

Recap. 6M19 CNP of RM293m came within expectations accounting for 55% of our estimate due to credit recoveries and improving fee-based income despite dismal loans and higher NIM compression.

NIM compressed due to higher FDs but expected to improve. The 20bps NIM compression was not a surprise due primarily to its high intake of FDs (+28% YoY vs CASA: +19% YoY). We are inclined to be optimistic on NIM margin to be elevated by end FY9 (from current level) as its NSFR has complied with requirement; thus, slashing its deposits growth by 6ppt to 5%. Furthermore, with its LDR ratio at 80% and no prospect of intense credit demand for 2019, management would be able to release some of its excess liquidity. We thus pencilled in a overall lower NIM compression for FY19 at 8bps (vs 10bps previously).

Asset quality to improve. Asset quality was mixed as GIL surged 70bps to 3.5% with credit recoveries recorded at 15bps (or RM36m). Excluding the R&R loans, net impaired loans ratio GIL would have been at 2.7%. As highlighted earlier, the high GIL was due to a couple of unresolved accounts (O&G and Real Estate) of which management are confident of resolving by end 2019 which will push GIL lower to 2.5%. Despite the large impaired loans, we take comfort that impairment allowances have been low in the last 6 quarters (with at least RM8m bad debt recovered/quarter) partly due to recoveries. Given this operational efficiency (with no systemic risk seen from asset quality) we are inclined to believe that net credit costs will be in the range of 20-30bps (vs. management's guidance of gross credit charge of 30-40bps).

Loans target revised. We are however concerned on its loans growth as management revised its FY19E loan growth target from 4-5% initially to 3-4% to 1-2%. Moderation in loans have been primarily from corporates and SME (-2% and -7% YTD, to RM4m and RM18.5m respectively) with consumer flattish at RM25.1m. Disbursement in corporate loans have been slow but management expects it to come in stream by end of 4Q19/1Q20 (coming in from the LTAT/Boustead Group of companies. Given that it has achieved its target of 40% Islamic financing to Group financing, it is expected that its priority on Islamic financing first will support its consumer loan segment and thereby supporting lower provisioning ahead.

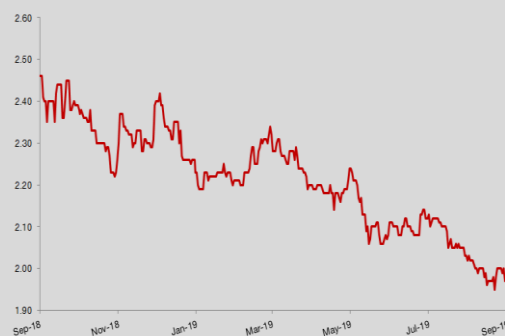
FY19E/FY20E earnings tweaked. We revised our earnings by +5% each to RM579m/RM670m on account of: (i) higher Islamic banking income (+25%/+4% vs +22%/+3% previously), ii) NIMs (-8/-5bps (from -10/-5bps), (iii) loans growth at ~1%/4% (from~3%/5%), (iv) credit charge at 25/23bps (unchanged), and (v) CIR at 60%/58% (unchanged) as most of its strategic initiatives will be completed by 2019.

TP revised up but rating maintained. We raised our TP to RM2.45 (from RM2.40 previously) based on an unchanged FY20 target PBV of 0.50x - implying a 0.5SD below mean - to account for its abysmal loans. Given the compliance on NSFR attained, lower funding cost and credit charges will support earnings ahead with opex expected to taper given the completion of its strategic initiatives. Still undemanding with total returns at >20%, **OUTPERFORM** call is reiterated.

OUTPERFORM ↔

Price : RM1.99
Target Price : RM2.45 ↑

Share Price Performance



KLCI 1,612.14
YTD KLCI chg -4.6%
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)	2.46
52-week range (L)	1.93
3-mth avg daily vol:	194,346
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

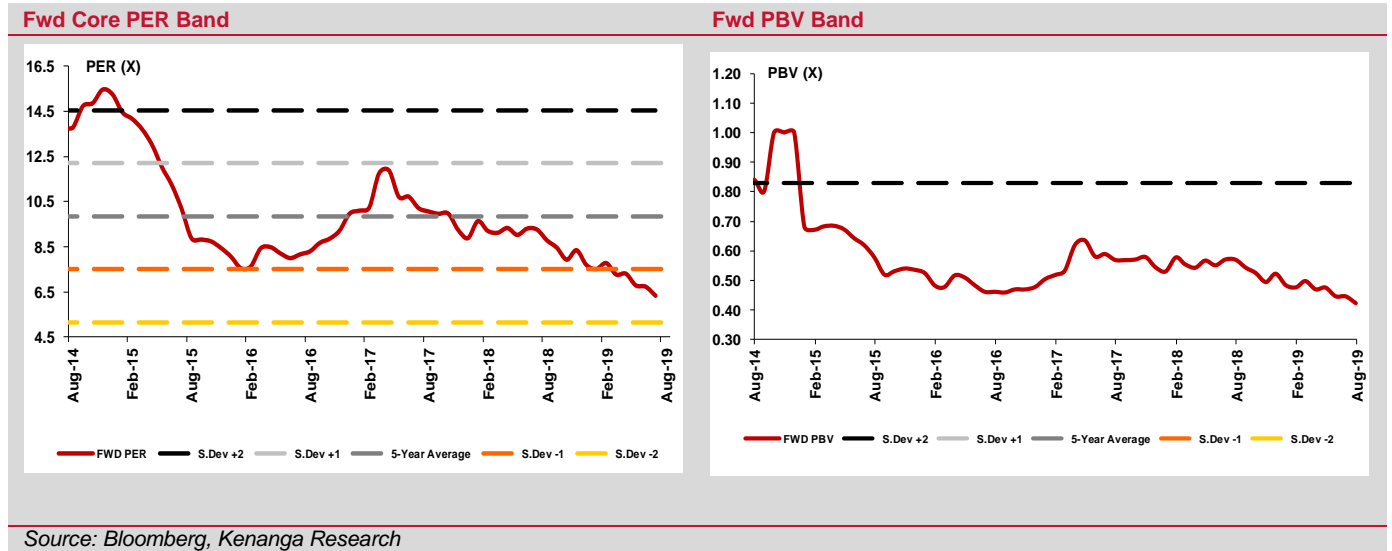
FY Dec (RM'm)	2018A	2019E	2020E
Net interest inc.	845	769	765
Islamic banking inc.	398	499	518
Non-interest inc.	677	739	818
Total inc.	1,920.6	2,007	2,101
Pre-tax profit	679	778	896
Net profit (NP)	503.1	578.7	670.4
Consensus NP		525	563
Earnings revision (%)		5%	5%
EPS (RM)	0.26	0.29	0.34
EPS growth (%)	8.0	13.1	15.8
Net DPS (RM)	0.05	0.06	0.06
BV/share (RM)	4.37	4.63	4.91
NTA/share (RM)	3.91	4.17	4.45
ROE (%)	6.0%	6.5%	7.1%
PER	7.7	6.8	5.9
Price/book (x)	0.46	0.43	0.41
Net dividend yield (%)	2.5	2.8	2.8

Other Salient Points.

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.

Income Statement						Financial Data & Ratios					
FY Mar (RM m)	FY17A	FY18E	FY19E	FY20E	FY21E	FY Mar (RM m)	FY17A	FY18E	FY19E	FY20E	FY21E
Interest Inc.	2,368	2,419	2,398	2,406	2,442	Growth	-11.9%	-1.2%	-9.1%	-0.5%	1.9%
Interest Exp.	(1,512)	(1,574)	(1,629)	(1,641)	(1,663)	Net Interest Inc.	-11.9%	-1.2%	-9.1%	-0.5%	1.9%
Net Interest Inc.	855	845	769	765	779	Isl. Ops.	-46.4%	82.5%	9.2%	10.6%	-1.0%
Islamic Banking Inc.	334	398	499	518	583	Non-int. Inc.	-19.4%	23.1%	4.5%	4.7%	3.4%
Other Op Inc	371	677	739	818	809	Total Inc.	-27.8%	16.8%	14.9%	11.6%	24.6%
Total Inc.	1,560	1,921	2,007	2,101	2,171	Op. Income	-25.3%	22.5%	14.6%	15.1%	23.7%
Other Op Exp	(902)	(1,165)	(1,142)	(1,154)	(1,104)	Pre-tax Profit	-25.9%	20.3%	15.0%	15.8%	24.7%
Provisions / (Writebacks)	(85)	(71)	(139)	(137)	0	Net Profit	4.3%	6.3%	1.2%	3.8%	3.6%
Non-op Gains & Losses	13	47	52	85	98	G. Loan	4.5%	5.8%	1.2%	3.7%	3.8%
Pre-tax Profit	554	679	778	896	1,108	N. Loan	-1.1%	12.6%	3.0%	5.9%	5.2%
Tax and Zakat	(130)	(152)	(175)	(201)	(248)	Customer deps	-11.9%	-1.2%	-9.1%	-0.5%	1.9%
Minority Interest	(7)	(24)	(24)	(24)	(24)	Operating metrics					
Net Profit	418	503	579	670	836	Est. NIM	1.7%	1.7%	1.6%	1.6%	1.6%
Balance Sheet						Est. effective lending yield	4.8%	3.6%	3.3%	3.2%	3.1%
FY Mar (RM m)	FY17A	FY18E	FY19E	FY20E	FY21E	Est. effective COF	3.5%	2.5%	2.5%	2.4%	2.3%
Cash & ST Funds	4,611	6,404	8,522	10,489	12,594	Cost-income	53.4%	70.0%	60.4%	58.4%	54.4%
G. Loans	46,055	48,973	49,549	51,431	53,276	Credit charge ratio	0.16%	0.12%	0.25%	0.23%	0.00%
N. Loans	45,722	48,392	48,968	50,800	52,745	G. loan-deposit	90.4%	85.4%	83.9%	82.2%	80.9%
Est. Int. Bearing Assets	65,195	70,927	73,579	77,309	81,259	Loan loss coverage	28.5%	36.5%	48.3%	29.2%	34.5%
Total Asset	70,009	75,976	78,211	82,309	86,311	G. impaired loans ratio	2.5%	3.2%	2.4%	4.2%	2.9%
Customer Deps	50,920	57,346	59,087	62,599	65,848	Return on equity	4.9%	5.9%	6.5%	7.1%	8.3%
LT Borrowings	2,036	3,054	3,054	3,054	3,054	Return on assets	0.6%	0.7%	0.8%	0.8%	1.0%
Est. Int. Bearing Liab.	59,756	65,423	67,163	70,676	73,925	Valuations					
Total Liabilities	61,680	67,235	68,975	72,488	75,737	EPS (RM)	0.24	0.26	0.29	0.34	0.42
Share Capital	4,685	4,685	4,685	4,685	4,685	PER (x)	8.3	7.7	6.8	5.9	4.7
Retained Earnings	2,671	2,929	3,399	3,960	4,688	Div. yield (%)	1.2	2.5	2.8	2.8	2.8
Other Reserves	915	1,058	1,058	1,058	1,058	BV/share (RM)	4.7	4.4	4.6	4.9	5.3
Shareholders' Fund	8,271	8,672	9,142	9,703	10,431	PBV (x)	0.4	0.5	0.4	0.4	0.4
Total Liab. & Equity	70,009	75,976	78,211	82,309	86,311						

Source: Kenanga Research



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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.	1-Yr. Fwd.		
BANKING																	
AFFIN BANK BHD	1.99	3,952.2	N	12/2019	4.1%	2.9%	15.0%	15.8%	7.9	6.8	5.9	0.5	0.4	6.5%	2.8%	2.45	OP
ALLIANCE BANK MALAYSIA BHD	3.00	4,644.3	N	03/2020	5.9%	7.2%	-1.5%	10.9%	8.6	8.8	7.9	0.8	0.8	9.0%	5.5%	3.45	OP
AMMB HOLDINGS BHD	4.20	12,659.6	N	03/2020	10.4%	4.5%	-0.4%	2.8%	8.4	8.4	8.2	0.7	0.6	7.8%	4.8%	4.75	OP
BIMB HOLDINGS BHD	4.05	7,145.3	Y	12/2019	10.0%	6.6%	7.6%	13.6%	10.4	10.1	9.2	1.4	1.3	14.0%	4.0%	4.80	OP
CIMB GROUP HOLDINGS BHD	5.06	49,220.7	N	12/2019	4.6%	5.0%	-16.2%	2.6%	8.5	10.5	10.5	0.9	0.8	8.5%	4.4%	6.45	OP
HONG LEONG BANK BERHAD	16.60	35,984.1	N	06/2020	4.1%	5.1%	1.0%	0.5%	12.9	12.7	12.7	1.4	1.3	10.8%	3.0%	17.30	MP
MALAYAN BANKING BHD	8.69	97,687.4	N	12/2019	3.8%	4.3%	-2.2%	4.7%	11.8	12.1	11.6	1.2	1.1	9.7%	6.5%	9.70	OP
MALAYSIA BUILDING SOCIETY	0.85	5,706.4	N	12/2019	-4.2%	4.5%	-17.8%	8.6%	8.5	10.3	9.9	0.7	0.7	6.7%	5.9%	1.10	OP
PUBLIC BANK BERHAD	20.32	78,885.1	N	12/2019	3.9%	5.2%	-0.1%	3.5%	14.0	14.1	13.6	1.9	1.9	13.7%	3.3%	25.20	OP
RHB BANK BHD	5.70	22,857.3	N	12/2019	6.0%	4.8%	3.7%	5.7%	9.9	9.6	9.0	1.0	0.9	9.9%	3.7%	6.05	OP
Simple Average					4.9%	5.0%	-1.1%	6.9%	10.1	10.3	9.9	1.1	1.0	9.7%	4.4%		

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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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