

Affin Bank Bhd

(5185 | ABANK MK) Financial Services | Finance

Maintain NEUTRAL

Building up loan loss reserve

Revised Target Price: RM1.65

(from RM1.55)

KEY INVESTMENT HIGHLIGHTS

- **Results were within expectations**
- **Strong PPOP growth but moderated by higher provisions**
- **As a result, net profit declined -10.0%yoy**
- **NIM improved but NII declined as gross loans contracted**
- **Deposits continue to be led by fixed deposits but rate could have been lower**
- **GIL ratio improved but remains elevated**
- **No change to earnings forecast**
- **Maintain NEUTRAL with revised TP of RM1.65 (from RM1.55)**

Within expectations. The Group posted an earnings of RM123.6m in 1QFY20, which was within expectations. It came at 26.7% and 23.2% of ours and consensus' estimates respectively.

Strong income performance...The Group saw a very strong income growth of +33.4%yoy resulting PPOP to expand +77.4%yoy. Main driver was NOII which grew +80.6%yoy. The sharp increase in NOII was due to gains in financial instruments which came in at RM207.6m vs. RM71.5m in 1QFY19. We believe that this could be the result of treasury activities which took advantage of the fall in MGS and GII yields in the quarter.

...moderated by provisions. However, despite the strong PPOP growth, net profit declined -10.0%yoy. Income growth was moderated by a rise in provisions which came in at RM118.1m. Comparatively, there was a net write back of RM9.9m in 1QFY19. We understand that this was to build up the Group's LLC. Also, we opine that this was a deliberate decision to be more prudent to take into account the expected economic fallout from the Covid-19 pandemic and movement control order (MCO) imposed.

NIM improved but NII declined. NII (including Islamic banking income) fell -2.5%yoy to RM293.1m. This was despite NIM improving +25bp as the Group managed to lower its funding cost. We believe that the contraction in NII was due to lower gross loans growth.

Gross loans contracted due to HP. Gross loans fell -4.0%yoy to RM24.2b. This was due to a contraction in hire purchase loans of -14.9%yoy to RM10.3b on higher repayments. However, the rise in mortgages of +7.3%yoy to RM11.8b was able to moderate this decline.

Better fixed deposits rate? Total deposits grew +6.2%yoy to RM20.7b led by fixed deposits (FD) which expanded +6.2%yoy to RM20.7b. However, the fact that NIM improved led us to postulate that the Group managed to take advantage of the OPR cuts in the quarter to book in FDs with lower rates. CASA growth was higher at +8.8%yoy and remains the primary focus for the Group. However, with a balance of RM3.7b, we believe it has yet to be impactful.

GIL ratio improved but remains elevated. GIL ratio saw an improvement of -20bp yoy. However, we believe that it remains elevated at 3.11%.

RETURN STATISTICS

Price @ 29 th May 2020 (RM)	1.59
Expected share price return (%)	+3.8
Expected dividend yield (%)	+3.1
Expected total return (%)	+6.9

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	3.9	-1.4
3 months	9.7	-11.4
12 months	-25.12	-16.74


KEY STATISTICS

FBM KLCI	1473.25
Syariah compliant	No
Issue shares (m)	1986.02
Estimated free float (%)	11.83
Market Capitalisation (RM'm)	3137.91
52-wk price range	RM1.25 - RM2.18
Beta vs FBM KLCI (x)	0.89
Monthly velocity (%)	0.00
Monthly volatility (%)	10.62
3-mth average daily volume (m)	0.38
3-mth average daily value (RM'm)	0.58
Top Shareholders (%)	
Lembaga Tabung Angkatan Tentera	35.33
BANK OF EAST ASIA LTD	23.56
Boustead Holdings Bhd	20.73

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Maintaining forecast. We are maintaining our FY20, FY21 and FY22 earnings forecast as the result came in within our expectations.

Valuation and recommendation. We believe it had been a mix results for the Group. While its operating performance had been very strong, it had to increase its provisions levels to top up its LLC. Meanwhile, the Group could not take advantage of its NIM expansion as its gross loans balance fell. We expect that the Group will face further headwinds due to the economic fallout of Covid-19 pandemic and the MCO, similar to its peers in the sector. However, its size may exacerbate this impact. Therefore, despite the strong operating performance, we are maintaining our **NEUTRAL** call for the stock. We revise our **TP to RM1.65** (from RM1.55) as we rollover our valuation to FY21, pegging its BVPS to 0.4x PBV. 

INVESTMENT STATISTICS

Financial year ending 31 December (in RM'm, unless otherwise stated)	2018A	2019A	2020E	2021F	2022F
Net interest income (RM'm)	845	743	788	798	810
Islamic banking income (RM'm)	398	411	543	587	634
Non-interest income (RM'm)	677	778	993	859	738
Total income (RM'm)	1,921	1,932	2,324	2,244	2,181
Pretax profit (RM'm)	679	683	622	636	643
Net profit	503	488	463	475	481
Core EPS (sen)	25	24	24	24	25
PER (x)	6.3	6.7	6.7	6.5	6.4
Net Dividend (sen)	5.0	7.0	5.0	5.0	5.0
Net Dividend Yield (%)	3.1	4.4	3.1	3.1	3.1
Book value per share (sen)	4.37	4.70	4.66	4.79	4.86
PBV (x)	0.4	0.3	0.3	0.3	0.3
ROE (%)	5.8	5.5	4.9	4.8	4.7

Source: Company, MIDFR

Some banking abbreviations used in this report:

CI = Cost to Income
 CET1 = Common Equity Tier 1
 GIL = Gross Impaired Loan
 LD = Loan-Deposit
 NII = Net Interest Income
 NOII = Non-interest income
 NIM = Net Interest margin
 CASA = Current and Savings Accounts
 COF = Cost of Funds
 IB = Investment Banking
 LLC = Loan Loss Coverage
 PPOP = Pre-Provisioning Operating Profit
 FVTPL = Fair Value Through Profit Or Loss
 OPEX = Operating Expenses
 OPR = Overnight Policy Rate

Table 1: Quarterly results (based on reported financials)

FYE Dec (RM m)	Quarterly results				
	1QFY20	4QFY19	1QFY19	Yoy (+/- %)	Qoq (+/- %)
Net Interest Income	173.4	187.1	188.4	-7.9%	-7.3%
Islamic Banking Income	119.7	110.5	97.4	22.9%	8.3%
Non interest income	337.3	189.4	186.7	80.6%	78.0%
Net/Total income	630.4	487.0	472.5	33.4%	29.4%
OPEX	(332.0)	(291.5)	(304.3)	9.1%	13.9%
PPOP	298.3	195.5	168.2	77.4%	52.6%
Write back/(Provision) for loan losses & others	(118.1)	(46.6)	9.9	<-100%	>100%
Pre-tax profit	176.5	166.2	185.4	-4.8%	6.2%
Net Profit	123.6	122.1	137.2	-10.0%	1.2%
EPS (sen)	6.0	6.2	6.9	-14.0%	-2.9%

Table 2: Financial Ratios

Financial Ratios (%)	1QFY20	4QFY19	1QFY19	Yoy (+/-ppts)	Qoq (+/-ppts)
CET1 [^]	14.3	14.5	0.3	14.0	-0.2
Tier 1 Capital [^]	16.0	16.2	14.1	2.0	-0.2
Total Capital [^]	23.1	23.3	20.8	2.4	-0.2
Gross impaired loan (GIL)	3.11	3.00	3.31	-0.20	0.11
Loan loss reserve	96.1	96.9	97.4	-1.3	-0.7
Net Interest Margin	1.86	1.72	1.61	0.25	0.14
Cost to income	52.7	59.9	64.4	-11.7	-7.2
ROEA	5.3	5.2	5.8	-0.5	0.1

[^] Capital ratios at Group level after deduction of proposed dividends

Source: Company, MIDFR

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.