

Affin Bank Berhad

(5185 | ABANK MK) Financial Services | Finance

Maintain NEUTRAL

Previously constraint by capital needs

Revised Target Price: RM1.87
(from RM2.10)

KEY INVESTMENT HIGHLIGHTS

- **Earnings decline in FY20 was due to NII weakness**
- **NII weakness was due to NIM compression and lower loans book. Loans book constrained by need to conserve and grow capital**
- **Situation should improve in FY20**
- **Good traction from consumer and SME book**
- **Vigilant over asset quality**
- **No change to forecast**
- **Maintain NEUTRAL with revised TP of RM1.87 (from RM2.10)**

Key take away – expecting improvement in income. We met with the management yesterday. Below are the key take away:

- NII weakness from NIM compression and decline in loans book
- The management expects loans book to expand and provide support to NII this year
- The management expects better traction for consumer and SME segment with several enhancement to customer experience
- The Group will remain vigilant on the impact of Covid-19 to its asset quality but it does expect more R&R

Earnings decline due to weakness in NII. Recall, the Group saw its FY19 net profit declined -3.0%yoy. However, it was within our expectations at 97.6% of our full year estimates. The main reason for the earnings decline was weaken NII, which -12.1%yoy to RM743.1m.

NII weakness came from external and internal constraint. The main contributors to the lowered NII were NIM compression and contraction in its loans book. NIM compression was due to the OPR cut in May-19 and higher funding cost. The Group had accumulated deposits in order to meet NSFR requirements. The fastest way to increase its deposits base was through fixed deposits, which caused funding cost to increase. Meanwhile, the Group also had constraint in regards to growing its asset base. Gross loans fell -6.1%yoy to RM46.0b. This was due to the fact that it needed to conserve and expand its capital.

Should be better for FY20. As for FY20, the management expects that loans book to grow as its capital position has been strengthened. Its CET1 capital and total capital ratios stood at 14.4% and 23.2% respectively. The management has guided a loans growth of 4% to 5%. This is expected to be funded via a deposits growth of the same magnitude, 4% to 5%. We opine that the Group's loans growth target is reasonable. We also expect that it may moderate any NIM compression that will come from the OPR cut in Jan-19 and potentially another cut.

Good traction from consumer and SME. The management indicated that its strategy to focus on the consumer and SME segments have gained some traction. For example, the composition of gross loans as at end 2016 of these two sectors were 47% and 8.4% respectively. However, these have grown to 54.6% and 9.1% respectively. We believe that this will further increase in FY20 especially as the Group expects to launch several enhancements to customer experience which may attract more consumers. Also, we expect this will help moderate NIM compression with potentially more CASA.

RETURN STATISTICS

Price @ 2 nd March 2020 (RM)	1.77
Expected share price return (%)	+5.6
Expected dividend yield (%)	+4.0
Expected total return (%)	+9.6

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-3.8	-0.2
3 months	-6.8	-1.3
12 months	-22.4	-10.0

KEY STATISTICS

FBM KLCI	1,466.94
Syariah compliant	No
Issue shares (m)	1942.95
Estimated free float (%)	12.05
Market Capitalisation (RM'm)	3,515.26
52-wk price range	RM1.75 - RM2.32
Beta vs FBM KLCI (x)	0.71
Monthly velocity (%)	1.60
Monthly volatility (%)	7.92
3-mth average daily volume (m)	0.12
3-mth average daily value (RM'm)	0.22
Top Shareholders (%)	
Lembaga Tabung Angkatan Tentera	35.33
BANK OF EAST ASIA LTD	23.56
Boustead Holdings Bhd	20.73

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An eye on asset quality. The Group had done well to improve its asset quality with the resolution of several impaired accounts. GIL ratio as at end FY19 went down to 3.00% from 3.25% the previous year. The management expects that there will be more resolution of impaired accounts this year and GIL ratio should improve further. However, we are concern on the potential impact of Covid-19 to asset quality especially from its corporate and SME book. We do not discount the possibility of GIL ratio increasing in FY20. Nevertheless, the management indicated that it will remain vigilant and it does expect more R&R of accounts.

Maintaining forecast. We are maintaining our forecast for now as we expect only a modest growth this year.

Valuation and recommendation. We believe that the Group will continue to face with NIM compression and NII pressure this year due to the OPR cuts. However, we do expect it to be at a lower level than in FY19, and overall income should continue to grow. Also, better expansion in CASA deposits may also moderate the impact of the OPR cuts. One area that we will be keeping a close eye on will be the Group's asset quality. For now, its GIL ratio remains stable albeit on the high side. All-in, we maintain our **NEUTRAL** call for the stock as we do not see any immediate catalyst. We revised our **TP** to **RM1.87** (from RM2.10) as we peg its FY20 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	873	886	902
Islamic banking income (RM'm)	398	411	469	507	547
Non-interest income (RM'm)	677	778	672	677	682
Total income (RM'm)	1,921	1,932	2,015	2,070	2,131
Pretax profit (RM'm)	679	683	689	712	717
Net profit	503	488	516	534	539
Core EPS (sen)	25	24	27	27	28
PER (x)	7.0	7.5	6.7	6.5	6.4
Net Dividend (sen)	5.0	7.0	7.0	8.0	9.0
Net Dividend Yield (%)	2.8	4.0	4.0	4.5	5.1
Book value per share (sen)	4.37	4.70	4.71	4.79	4.52
PBV (x)	0.4	0.4	0.4	0.4	0.4
ROE (%)	5.8	5.4	5.4	5.4	5.3

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
 R&R = Restructuring and Rescheduling

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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.