Affin Bank Berhad

(5185 | ABANK MK) Financial Services | Finance

Maintain NEUTRAL

Ambitious targets for FY23F

Revised Target Price: RM2.11

(Previously RM2.23)

KEY INVESTMENT HIGHLIGHTS

- **FY22's CNP of RM200m was above our forecast**
- **Affin's FY23F targets are very ambitious – we also worry its rapid loan and deposit growth may lead to some margin erosion**
- **The Group has yet to find a substitute for reliable income from AHAM.**
- **One upside is that Affin's GCC guidance does not incorporate overlay writebacks**
- **Maintain NEUTRAL | TP of RM2.11 | based on an unchanged FY23F P/BV of 0.45x**

Highlights from Affin Bank's 4QFY22 results:

- **FY22 CNP:** Fell -54%yoy. Due to huge provisioning costs.
- **4QFY22 CNP:** Turned positive following negative earnings last quarter.
- **4QFY22 NIM:** Flattish qoq. Mgmt guides for +10bps rise in FY23 NIM.
- **FY22 NOII:** Fell by -14%yoy.
- **FY22's OPEX**: up by +16%yoy, CIR now at 64.1%. Mgmt guides for ambitious 57.5% CIR target.
- **Rapid loan growth:** Gross loans grew by +15.4%yoy, +3.7%qoq – mgmt aims to continue momentum in Fy23.
- **Rapid deposit growth: Deposits** grew by +10.5%yoy, +1.6%qoq. Notably, CASA ratio did rise on a qoq basis.
- **GIL ratio worsens:** Up ++7bps qoq, though mgmt blames it on an accounting anomaly.
- **Light NCC:** 4QFY22 NCC of 3bps following last quarter's heavy provision. FY22 NCC of 54bps.
- **Dividend announced:** 7.8 sen, payout of 3.3x in FY23.

Our thoughts. We remain mixed on Affin Bank – its FY23 targets seem extremely ambitious. It has yet to find a reliable source of income as a replacement for AHAM contribution – and we worry about its CIR targets, given that it will incur further sticky IT spend in FY23. We keep an eye on asset quality in coming quarters, given that recent figures have been distorted by heavy loan growth.

We are also wary of the Group's rapid loan and deposit growth and possible margin erosions. One bright spot is that Affin Bank's GCC guidance does not factor in overlay writebacks – providing a potential upside in FY23 CNP.

RETURN STATISTICS	
Price @ 27 February 2023 (RM)	2.07
Expected share price return (%)	+1.8
Expected dividend yield (%)	+3.8
Expected total return (%)	**+5.6**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-1.0	0.5
3 months	2.5	-5.8
12 months	23.5	34.2

KEY STATISTICS	
FBM KLCI	1,455.50
Syariah compliant	No
F4GBM Index	No
ESG Grading Band (Star rating)	-
Issue shares (m)	2,124.06
Estimated free float (%)	13.45
Market Capitalisation (RM m)	4,729.69
52-wk price range	RM1.59 - RM2.33
Beta vs FBM KLCI (x)	1.05
3-mth average daily volume (m)	1.31
3-mth average daily value (RM m)	2.84
Top Shareholders (%)	
Lembaga Tabung Angkatan Tentera	33.21
BANK OF EAST ASIA LTD	23.79
Boustead Holdings Bhd	20.93

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FY22's CNP of RM200m was above our and below consensus expectations at 106% and 58% of respective full-year forecasts. The variance was due to lower-than-expected provisioning costs in 4QFY22.

FY22's CNP fell by -54%yoy due to the weaker NOII and higher OPEX, as well as the massive provisioning cost incurred in 3QFY22.

4QFY22's CNP of RM139m turned positive from the red in the last quarter due to much lower loan provisions. It fell by -23%yoy.

Guidance. Mgmt is projecting a 7.0% ROE (RM1b PBT) in FY23.

NIM. 4QFY22's NIM of 2.01% was flattish on a sequential-quarter basis (Note that most peers experienced NIM improvement in 4QCY22 – is this a consequence of accelerating loan and deposit growth?). FY22's NIM averaged 2.01%, improving +4bps yoy.

Guidance. In contrast to its peers, Affin Bank is guiding for an ambitious +10bps rise in FY23's NIM. Mgmt cites growing high-yield loan segments and rapid CASA accumulation as the core driver. Underlying this is an ambitious 25% CASA ratio in FY23.

NOII. FY22's NOII fell by -14%yoy, experiencing losses on both fee income and non-fee income.

Operating expenses. 4QFY22's CIR improved to 60.5%, with its OPEX down by -7%qoq.

FY22's CIR worsened to 64.1%, with its OPEX up by +16%yoy.

Guidance. Mgmt is striving for an extremely ambitious CIR of 57.5% in FY23. It aims to do so by growing its revenue pinned against a +5% OPEX growth target.

Loans. Gross loans grew by an extremely high +15.4%yoy, +3.7%qoq.

Guidance. Mgmt wants to maintain its current momentum, guiding for +12% loan growth in FY23.

Deposits. Deposits grew by +10.5%yoy, +1.6%qoq.

Loan/Deposit ratio stands at 89.4%, rising from previous quarter's 87.7%

CASA. CASA grew by +12.6%yoy, +11.3%qoq. CASA ratio stands at 23.5%, rising from previous quarter's 21.4%. Note that Affin Bank was able to increase its CASA ratio in contrast to its peers.

Guidance. While no official guidance was given, Mgmt did note it pinned its NIM guidance on an FY23 CASA ratio of 25%.

Asset quality. Current GIL ratio stands at 1.97%, worsening ++7bps qoq. GIL saw upticks across multiple segments – the most notable of which was the enterprise banking segment. Mgmt attributes this to a one-off revaluation of impairments (now factoring in Interest in Suspense) more than an actual worsening in asset quality.

Current LLC stands at 106%.

Guidance. Mgmt guides for an FY23 GIL ratio of <1.90% and LLC between 100-110%. Watch for potential asset quality issues surrounding the Pharmaniaga situation.

Provisioning. 4QFY22's NCC stood at a light 3bps, falling from previous quarter's heavy 177bps.

FY22's NCC averaged 54bps rising from previous period's 31bps.

Cumulative overlays. Current balance is at RM440m (Previously: RM490m)

Guidance. Mgmt is guiding for a GCC of 30bps in FY23 – note that this does not factor in any writebacks cumulative overlay balances, offering some headroom for positive surprises.

Capital ratios. Current CET-1 ratio is at 14.9%.

Dividend announced. The Group announced a dividend of 7.8 sen in the quarter, bringing FY22's total to 30.4 sen (FY22 payout: 3.3x) – following the special dividend issued last quarter.

Key downside risks. (1) Failure to maintain a consistent/improving CIR, (2) Further surprise overlay allocations, (3) Failure to provide alternate income drivers to compensate for the loss of AHAM's steady income contributions.

Forecasts revised: FY24F CNP adjusted by +2.1%. To reflect higher NII from the above-forecasted loan growth guidance.

Maintain NEUTRAL call: Revised GGM-TP of RM 2.11 ***(from RM2.23)*****.** The TP is based on an unchanged FY23F P/BV of 0.45x. Changes are made to reflect several adjustments to our model (despite not having altered FY23F earnings).

*(**GGM assumptions:** FY23F ROE of 5.7%, LTG of 3.5% and COE of 8.5%.)*

Exhibit 1: Quarterly results

FYE Dec (RM m)	4Q FY22	3Q FY22	4Q FY21	Yoy (%)	Qoq (%)	FY22	FY21	Yoy (%)
Net interest inc.	267	266	240	*11*	*0*	1,023	894	*14*
Islamic banking inc.	185	190	160	*16*	*-3*	688	549	*25*
Non-interest inc.	115	78	67	*72*	*48*	344	401	*-14*
Net income	**567**	**534**	**467**	***21***	***6***	**2,055**	**1,845**	***11***
OPEX	(343)	(368)	(292)	*18*	*-7*	(1,317)	(1,139)	*16*
PPOP	**224**	**166**	**175**	***28***	***35***	**738**	**706**	***5***
Loan provisions	(5)	(236)	7	*-168*	*-98*	(298)	(153)	*95*
Other provisions	25	(80)	(5)	*n.m.*	*n.m.*	(36)	(69)	*n.m.*
JV & Associates	(17)	(5)	9	*n.m.*	*n.m.*	9	45	*n.m.*
PBT	**227**	**(154)**	**186**	***22***	***-247***	**412**	**529**	***-22***
Tax	(89)	(39)	(6)	*1,509*	*127*	(213)	(95)	*123*
Discontinued ops	(0)	1,070	42	*n.m.*	*n.m.*	1,125	147	*n.m.*
NCI	-	(4)	(16)	*-100*	*-100*	(25)	(53)	*-53*
Reported NP	**138**	**872**	**207**	***-33***	***-84***	**1,300**	**527**	***147***
Core NP	**139**	**(194)**	**181**	***-23***	***-172***	**200**	**434**	***-54***
Total NII	452	457	400	*13*	*-1*	1,711	1,444	*18*
Total NOII	115	78	67	*72*	*48*	344	401	*-14*
Gross DPS (sen)	**7.8**	**22.6**	**12.5**	***n.m.***	***n.m.***	**30.4**	**12.5**	***n.m.***
Core EPS (sen)	6.4	(9.0)	8.6	*-25*	*-171*	9.2	20.5	*-55*
Gross loans	59,343	57,250	51,417	*15.4*	*3.7*			
Gross impaired loans	1,171	1,091	1,306	*-10.3*	*7.4*			
Customer deposits	64,995	63,960	58,794	*10.5*	*1.6*			
CASA	15,250	13,705	13,540	*12.6*	*11.3*			

Source: Affin Bank, MIDFR

Exhibit 2: Quarterly financial ratios

Ratios (%)	4Q FY22	3Q FY22	4Q FY21	Yoy (ppts)	QoQ (ppts)	FY22	FY21	Yoy (ppts)
ROE (Ann.)	**5.2**	**(7.1)**	**7.3**	***-2.1***	***12.2***	**1.9**	**4.4**	***-2.5***
NIM (Reported)	**2.01**	**2.01**	**2.05**	***-0.04***	***0.00***	**2.01**	**1.97**	***0.04***
NOII/Net income	20.3	14.6	14.3	*6.0*	*5.7*	16.7	21.8	*-5.0*
Cost/Income	60.5	68.9	62.5	*-2.0*	*-8.4*	64.1	61.7	*2.3*
NCC (Ann.) (bps)	3	177	(6)	*9*	*-174*	54	31	*22*
GIL ratio	1.97	1.91	2.54	*-0.57*	*0.07*			
Loan loss coverage	106	109	68	*38*	*-3*			
CASA ratio	23.5	21.4	23.0	*0.4*	*2.0*			
L/D ratio	89.4	87.7	85.9	*3.5*	*1.7*			
CET-1	14.9	16.3	13.5	*1.3*	*-1.5*			

Source: Affin Bank, MIDFR

Exhibit 3: FY23 guidance

	Actual FY22	Budget FY2023
Loan Growth	**15.4%**	12.0%
NIM	**2.01%**	2.11%
CIR	**62.6%**	57.5%
Gross Credit Cost	**66bps** **26bps (BAU)**	30bps
ROE / PBT (RM)	**5.6% (BAU)** **803.5m (BAU)**	7.0% 1,000m
Gross Impaired Loan	**1.97%**	1.90%
Loan Loss Coverage	**109%**	100%-110%
ESG Financing Target	**6.7%**	7.5%

Source: Affin Bank, MIDFR

INVESTMENT STATISTICS

INCOME STATEMENT

FYE Dec (RM m)	FY20	FY21	FY22	FY23F	FY24F
Interest income	1,728	1,670	2,053	2,287	2,684
Interest expense	(1,035)	(776)	(1,031)	(1,234)	(1,575)
Net interest income	**694**	**894**	**1,023**	**1,054**	**1,109**
Islamic banking inc.	481	549	688	595	633
Other operating inc.	1,090	401	344	810	950
Net income	**2,265**	**1,845**	**2,055**	**2,458**	**2,691**
OPEX	(1,351)	(1,139)	(1,317)	(1,524)	(1,669)
PPOP	**914**	**706**	**738**	**934**	**1,023**
Loan allowances	(490)	(165)	(289)	(201)	(201)
Other allowances	(72)	(57)	(45)	(25)	(8)
JV & Associates	42	45	9	45	49
PBT	**394**	**529**	**412**	**752**	**863**
Tax & zakat	(121)	(95)	(213)	(175)	(201)
Discontinued ops	-	147	1,125	-	-
NCI	(43)	(53)	(25)	(23)	(26)
Reported NP	**230**	**527**	**1,300**	**554**	**635**
Core NP	**230**	**434**	**200**	**554**	**635**
Total NII	1,175	1,444	1,711	1,648	1,741
Total NOII	1,090	401	344	810	950

BALANCE SHEET

FYE Dec (RM m)	FY20	FY21	FY22	FY23F	FY24F
Cash & ST funds	5,511	7,564	5,205	7,635	7,826
Investment securities	13,875	15,911	21,180	10,510	9,173
Net loans	45,493	50,528	58,105	63,213	68,284
Other IEAs	-	-	-	-	-
Non-IEAs	4,656	4,425	5,761	13,279	16,047
Total assets	**69,535**	**78,429**	**90,251**	**94,638**	**101,330**
Cust. & FI deposits	53,607	61,662	68,360	77,196	83,710
Other IBLs	3,462	4,001	8,453	4,568	4,151
Non-IBLs	2,829	2,833	2,687	2,935	3,015
Total liabilities	**59,898**	**68,495**	**79,500**	**84,700**	**90,876**
Share capital	4,902	4,969	5,245	4,969	4,969
Reserves	4,664	4,920	5,505	4,919	5,433
Shareholders' funds	**9,567**	**9,889**	**10,751**	**9,888**	**10,402**
NCI	71	45	0	49	52
Total equity	**9,637**	**9,934**	**10,751**	**9,938**	**10,454**
Total L&E	**69,535**	**78,429**	**90,251**	**94,638**	**101,330**
Total IEAs	64,880	74,004	84,490	81,359	85,283
Total IBLs	57,069	65,663	76,813	81,764	87,861
Gross loans	46,273	51,417	59,343	64,503	69,664
CASA	11,082	13,540	15,250	16,885	16,665

FINANCIAL RATIOS

FYE Dec (RM m)	FY20	FY21	FY22	FY23F	FY24F
Interest (%)					
NIM	1.83	2.08	2.16	2.09	2.09
Return on IEAs	2.82	2.40	2.59	2.90	3.22
Cost of funds	1.82	1.26	1.45	1.59	1.86
Net interest spread	1.00	1.14	1.14	1.31	1.36
Profitability (%)					
ROE	**2.4**	**4.5**	**1.9**	**5.7**	**6.3**
ROA	0.3	0.6	0.2	0.6	0.6
NOII/Net income	48.1	21.8	16.7	33.0	35.3
Effective tax rate	30.8	18.0	51.6	23.3	23.3
Cost/Income ratio	59.6	61.7	64.1	62.0	62.0
Liquidity (%)					
Loan/Deposit ratio	91.2	85.9	89.4	86.1	86.0
CASA ratio	22.2	23.0	23.5	23.0	21.0
Asset Quality (%)					
GIL ratio	3.52	2.54	1.97	2.00	1.98
LLC ratio	48	68	106	100	100
LLC (w. reserves)	96	126	147	182	152
Net CC (bps)	106	34	52	33	30
Capital (%)					
CET 1	14.5	13.5	14.9	13.8	13.8
Tier 1 capital	14.5	15.2	16.2	13.8	13.8
Total capital	20.5	21.0	19.1	19.1	19.0
Growth (%)					
Total NII	1.8	22.9	18.5	-3.7	5.7
Total NOII	43.3	-63.2	-14.3	135.6	17.3
Net income	18.3	-18.5	11.4	19.6	9.5
OPEX	12.0	-15.7	15.6	15.8	9.5
Core NP	-52.8	88.2	-53.9	177.4	14.7
Gross loans	0.7	11.1	15.4	8.7	8.0
Cust. & FI deposits	1.4	15.0	10.9	12.9	8.4
CASA	13.6	22.2	12.6	10.7	-1.3
Valuation metrics					
Core EPS (sen)	10.9	20.5	9.5	26.2	30.1
Gross DPS (sen)	3.5	12.5	0.0	7.9	9.0
Div payout ratio (%)	30.6	50.1	0.0	30.0	30.0
BVPS (RM)	4.5	4.7	5.1	4.7	4.9
Core P/E (x)	19.0	10.1	21.9	7.9	6.9
Dividend yield (%)	**1.7**	**6.0**	**0.0**	**3.8**	**4.4**
P/BV (x)	0.5	0.4	0.4	0.4	0.4

Source: Affin Bank, 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 *rise* 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 *fall* 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.
ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell	
☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology