Affin Bank Berhad

(5185 | ABANK MK) Financial Services | Finance

1QFY23 Results

***Maintain* NEUTRAL**

***Revised* Target Price: RM1.82**

(Previously RM2.11)

KEY INVESTMENT HIGHLIGHTS

- **FY23's Core NP of RM149m was *Within*/*Within* our/street forecasts: *27%*/*27%* of full-year forecasts**
- **Core themes: (a) OPEX revised upwards, (b) Poorer NIM outlook, (c) Strong loan growth maintained.**
- **FY23F/24F Core NP adjusted by -2%/4%**
- **Maintain NEUTRAL | Revised TP of RM1.82 | based on a revised FY24F P/BV of 0.34x *(formerly 0.45x, from FY23F)***

Decent quarter, but major headwinds ahead. Core net profit (NP) rose by +7%qoq, largely driven by net writebacks, better OPEX (-4%qoq) and tax normalisation. Otherwise, NII (-14%qoq) and NOII (-7%qoq) were lacklustre. Unfortunately, Affin has once again revised its OPEX expectation negatively, and NIM guidance will likely follow suit.

Have a look at:

Cost control remains poor – Affin has a history of revising OPEX growth expectations. Management has revised its FY24F OPEX growth to <10% (from 5% in the last quarter), citing higher tech spend, personnel and establishment costs (as it still maintains costs for its old headquarters at Raja Chulan). Establishment costs should come down by next year, when the older HQ will no longer be used, finally giving it a chance to improve its cost profile.

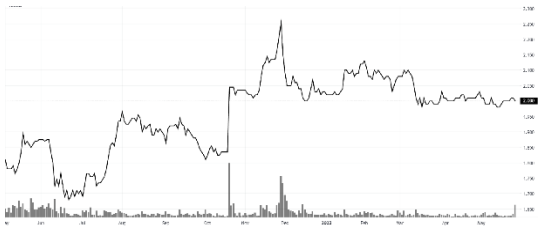
As with its peers, Affin is likely going to revise its NIM guidance downwards. NIM guidance was one of the most optimistic in the industry, underpinned by CASA inflows driven by its mobile app coming online. But as any major CASA inflow is only scheduled to come in 4QFY23, any positive effects on this year's bottom line are minimal.

Verdict: Risk/reward is skewed toward negative, but a much better LLC profile should improve provisioning in future.

Yays	1. Solid RWA optimisation to continue in FY23F. 2. Via post-FS provisioning in 4QFY22, Affin has improved its LLC greatly – allowing for better NCC outlook for now. 3. Rapid loan growth.
Nays	1. Cost management doesn't seem to be improving. 2. NIM guidance to be revised downwards – mobile app comes online too late.
OKs	

RETURN STATISTICS	
Price @ 26 May 2023 (RM)	2.00
Expected share price return (%)	-8.8
Expected dividend yield (%)	-8.8
Expected total return (%)	**-4.9**

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-0.5	-0.1
3 months	-0.5	1.4
12 months	-0.9	8.0

INVESTMENT STATISTICS

FYE Dec	FY23F	FY24F	FY25F
Core NP (RM m)	**544**	**598**	**632**
CNP growth (%)	12	8	8
Div yield (%)	**3.7**	**4.0**	**4.1**
Gross DPS (sen)	7.4	8.0	8.3
P/BV (x)	**0.4**	**0.4**	**0.4**
BVPS (RM)	5.2	5.4	5.6
ROE (%)	**5.0**	**5.2**	**5.3**
MIDF/Street CNP (%)	**99**	**99**	**95**

KEY STATISTICS

FBM KLCI	1,402.98
Issue shares (m)	2,273.9
Estimated free float (%)	18.5
Market Capitalisation (RM'm)	4,525.0
52-wk price range	RM1.70 - RM2.33
3-mth avg daily volume (m)	0.5
3-mth avg daily value (RM'm)	1.0
Top Shareholders (%)	
LTAT	28.3
Bank of East Asia Ltd	23.8
Boustead Holdings Bhd	20.9

Analyst
Samuel Woo
samuel.woo@midf.com.my

Forecasts revised: FY23F/24F Core NP adjusted by -2%/-4%. To reflect poorer cost control and slower NOII recovery, but improved NCC figures following 4QFY22's post-financial-statement provision allocation.

Key downside risks. *(1) Poorer cost management, (2) Delayed CASA inflow from app, (3) Larger-than-expected provisions taken.*

Maintain NEUTRAL call: Revised GGM-TP of RM 1.82 ***(from RM2.11).*** The TP is based on a revised FY24F P/BV of 0.34x *(formerly 0.45x, rolled on from FY23F)*, to reflect altered earnings prospects and ROE-based valuations. ***(GGM assumptions:*** *FY24F ROE of 5.2%, LTG of 4.5% & COE of 6.7%)*

Fig 1: Quarterly results

FYE Dec (RM m)	1Q FY23	4Q FY22	1Q FY22	Yoy (%)	Qoq (%)	3M FY23	3M FY22	Yoy (%)
Net interest inc.	234	267	229	2	-13	234	229	2
Islamic banking inc.	154	185	149	3	-17	154	149	3
Non-interest inc.	107	115	72	49	-7	107	72	49
Net income	**494**	**567**	**449**	**10**	**-13**	**494**	**449**	**10**
OPEX	(330)	(343)	(296)	11	-4	(330)	(296)	11
PPOP	**164**	**224**	**153**	**7**	**-27**	**164**	**153**	**7**
Loan provisions	6	(5)	(19)	-129	-218	6	(19)	-129
Other provisions	8	25	19	-60	-69	8	19	-60
JV & Associates	19	(17)	12	n.m.	n.m.	19	12	n.m.
PBT	**196**	**227**	**165**	**19**	**-14**	**196**	**165**	**19**
Tax	(47)	(89)	(40)	19	-47	(47)	(40)	19
Discontinued ops	-	(0)	27	n.m.	n.m.	-	27	n.m.
NCI	-	-	(10)	n.m.	n.m.	-	(10)	n.m.
Reported NP	**149**	**138**	**143**	**4**	**8**	**149**	**143**	**4**
Core NP	**149**	**139**	**126**	**19**	**7**	**149**	**126**	**19**
Total NII	388	452	378	3	-14	388	378	3
Total NOII	107	115	72	49	-7	107	72	49
Gross DPS (sen)	**-**	**7.8**	**-**	**n.m.**	**n.m.**	**-**	**-**	**n.m.**
Core EPS (sen)	6.6	6.4	5.9	11	2	6.6	5.9	11
Gross loans	61,164	59,343	53,499	14.3	3.1			
Gross impaired loans	1,201	1,171	1,299	-7.5	2.5			
Customer deposits	65,870	64,995	62,255	5.8	1.3			
CASA	14,698	15,250	13,414	9.6	-3.6			

Ratios (%)	1Q FY23	4Q FY22	1Q FY22	Yoy (ppts)	Qoq (ppts)	3M FY23	3M FY22	Yoy (ppts)
ROE (Ann.)	**5.5**	**5.2**	**5.1**	**0.5**	**0.4**	**5.5**	**5.1**	**0.5**
NIM (Reported)	**1.76**	**2.01**	**1.92**	**-0.16**	**-0.25**	**1.76**	**1.92**	**-0.16**
NOII/Net income	21.6	20.3	15.9	5.7	1.3	21.6	15.9	5.7
Cost/Income	66.8	60.5	65.9	0.9	6.3	66.8	65.9	0.9
NCC (Ann.) (bps)	(4)	3	16	-19	-7	(4)	16	-19
GIL ratio	1.96	1.97	2.43	-0.46	-0.01			
Loan loss coverage	117	120	70	47	-3			
CASA ratio	22.3	23.5	21.5	0.8	-1.1			
L/D ratio	90.7	89.1	84.5	6.2	1.6			
CET-1	14.6	14.0	13.7	0.9	0.6			

Source: Affin Bank, MIDFR

Fig 2: Retrospective performance (Income Statement)

Metric	Surprise? *Qoq/Yoy*		Metric	Surprise? *Qoq/Yoy*		**Notes** *(Cum = Cumulative, Qtr = Quarterly)*
Qtrly Core NP	RM mil	***149***	**Qtrly ROE**	Qtr value	***5.5%***	**Good improvement due to tax normalisation and decent OPEX control.** Offset poor NII and NOII showing.
	27% of FY CNP					
	Qoq	*7%*		t-1	*5.2%*	
	Yoy	*19%*		t-4	*5.1%*	
Cum Core NP	RM mil	***149***	**Cum ROE**	Cum value	***5.5%***	
	Within our forecast					
	27% of FY CNP					
	Within consensus					
	27% of FY CNP					
	Yoy	*19%*		t-1	*5.1%*	
NII	As expected		**NIM**	As expected		**As with its peers, Affin saw a sharp NIM decline.** NIM will likely be compressed further in subsequent quarters. Seeing improvements in asset quality, it has begun its NIM optimisation strategy by growing higher yield, riskier asset classes such as personal financing and credit cards.
				Qtr value	***1.76***	
				Cum value	***1.76***	
	Qtr (Qoq)	*-14%*		Qtr (Qoq)	*-25bps*	
	Qtr (Yoy)	*3%*		Qtr (Yoy)	*-16bps*	
	Cum (Yoy)	*3%*		Cum (Yoy)	*-16bps*	
NOII	As expected		**Qtr**	% NII	***78%***	**Affin's NOII was disappointing.** It reported weaker quarter-on-quarter gains on investment income as well as weaker commissions and wealth income.
	Qtr (Qoq)	*-7%*		% NOII	***22%***	
	Qtr (Yoy)	*49%*	**Cum**	% NII	***78%***	
	Cum (Yoy)	*49%*		% NOII	***22%***	
OPEX	-ve surprise		**Cost/ Inc.**	-ve surprise		**Poor topline has driven CIR down – OPEX forecast for FY23F has been revised negatively.** Tech spend, wage inflation and establishment costs (as it still maintains costs for its older headquarters) were main reasons for the OPEX forecast.
				Qtr value	***66.8%***	
				Cum value	***66.8%***	
	Qtr (Qoq)	*-4%*		Qtr (Qoq)	*+6.3%*	
	Qtr (Yoy)	*11%*		Qtr (Yoy)	*+0.9%*	
	Cum (Yoy)	*11%*		Cum (Yoy)	*+0.9%*	

Source: Affin Bank, MIDFR

Fig 3: Retrospective performance (Balance Sheet, Dividends, and anything extra)

Metric	Surprise? *Qoq/Yoy*		Metric	Surprise? *Qoq/Yoy*		**Notes** *(Cum = Cumulative, Qtr = Quarterly)*
Loans	As expected					**Rapid growth to continue.**
	Qoq	*3.1%*				
	Yoy	*14.3%*				
	YTD (FY)	*3.1%*				
Depo. grwth	As expected		**CASA grwth**	As expected		**Decent – CASA decline could have been steeper.** Affin has pursued a conservative strategy of accumulating higher-cost deposits in the quarter given potential headwinds. As a result, its current liquidity profile offers headroom for improvement.
	Qoq	*1.3%*		Qoq	*-3.6%*	
	Yoy	*5.8%*		Yoy	*9.6%*	
	YTD (FY)	*1.3%*		YTD (FY)	*-3.6%*	
CASA ratio	As expected		**L/D ratio**	As expected		
	Value now	***22.3%***		Value now	***90.7%***	
	Qoq	*-1.1%*		Qoq	*+1.6%*	
	Yoy	*+0.8%*		Yoy	*+6.2%*	
GIL ratio	As expected		**LLC ratio**	As expected		**Net writebacks, asset quality didn't see too much deterioration. LLC is healthy, following post-FS provision.** There was a very sharp quarter-on-quarter uptick in credit card GILs, but management has mentioned that it has since normalised (being festive season effects).
	Value now	***1.96%***		Value now	***117%***	
	Qoq	*-1bps*		Qoq	*-3%*	
	Yoy	*-46bps*		Yoy	*+47%*	
Qtrly Net CC	As expected		**Cum Net CC**	As expected		Mortgage Gil has risen by +4bps qoq to 1.03% but we don't think it's particularly concerning.
	Net writebacks			Net writebacks		
	Value now	***-4bps***		Value now	***-4bps***	
	t-1	*3bps*				
	t-4	*16bps*		t-4	*16bps*	
CET 1	Healthy level		**Div payout**	No divvy		**Affin has grown its RWA efficiency by leaps and bounds over the last two years – it's expected to continue this year.**
	As expected			As expected		
	Value now	***14.6%***		**Payout**		
	Qoq	*0.6%*				
Others: NSFR is Group's key indicator of liquidity: will oscillate between 105-115%, depending on macro-outlook.						

Source: Affin Bank, MIDFR

Fig 4: Targets, Achievements, and Outlook

Targets	FY23F	3M FY23	Notes (Red: New guidance, ~~Strikethrough: former guidance is no longer pertinent~~)
ROE	7 (PBT: RM 1b)	5.5	Following negative revisions to NIM and OPEX, it seems the only way that Affin can meet its ROE target is by a sizeable overlay release by this year.
CIR	<57.5	66.8	OPEX to rise by <10%. ~~OPEX to rise +5% yoy.~~
NIM	2.11 (+10bps FY22's 2.01)	1.76	*Affin is guiding for a rise in NIM, in contrast to its peers -- with further NIM compressions likely, NIM guidance may be revised down the line.*
NOII		49% (yoy)	
Loans	12	3.1 (YTD)	
Deposits		1.3 (YTD)	
CASA	25	22.3	Target may be difficult to achieve: App is to launch in June to drive CASA growth, but CASA should only start rushing in 3 months later.
Loan/Depo		90.7	
GIL ratio	1.90	1.96	
Gross CC (bps)	30	(4)	**Thanks to a post-FS provision made after 4Q22 results, Affin has managed to allocate the majority of headwind provisions under FY22. As a result, GCC goal is now overly conservative.**
LLC	100-110	117	
CET 1		14.6	
Div payout		-	

**Affin tends to employ stretch goals – revisions are very likely*

Source: Affin Bank, MIDFR

FINANCIAL SUMMARY

INCOME STATEMENT

FYE Dec (RM m)	FY21	FY22	FY23F	FY24F	FY25F
Interest income	1,670	2,053	2,311	2,345	2,378
Interest expense	(776)	(1,031)	(1,234)	(1,234)	(1,234)
Net interest income	**894**	**1,023**	**1,077**	**1,111**	**1,144**
Islamic banking inc.	549	688	718	741	762
Other operating inc.	401	344	372	478	524
Net income	**1,845**	**2,055**	**2,167**	**2,329**	**2,431**
OPEX	(1,139)	(1,317)	(1,409)	(1,456)	(1,507)
PPOP	**706**	**738**	**759**	**873**	**924**
Loan allowances	(165)	(289)	(63)	(124)	(134)
Other allowances	(57)	(45)	(29)	(19)	(17)
JV & Associates	45	9	46	52	55
PBT	**529**	**412**	**712**	**782**	**827**
Tax & zakat	(95)	(213)	(168)	(185)	(195)
Discontinued ops	147	1,125	-	-	-
NCI	(53)	(25)	-	-	-
Reported NP	**527**	**1,300**	**544**	**598**	**632**
Core NP	**434**	**200**	**544**	**598**	**632**
Total NII	1,444	1,711	1,795	1,851	1,906
Total NOII	401	344	372	478	524

BALANCE SHEET

FYE Dec (RM m)	FY21	FY22	FY23F	FY24F	FY25F
Cash & ST funds	7,564	5,205	5,323	5,845	6,369
Investment securities	15,911	21,180	16,913	11,957	10,134
Net loans	50,528	58,105	65,068	70,374	76,004
Other IEAs	0	0	0	0	0
Non-IEAs	4,425	5,761	10,663	16,288	18,968
Total assets	**78,429**	**90,251**	**97,967**	**104,464**	**111,475**
Customer deposits	58,794	64,995	72,664	78,550	84,913
Other IBLs	6,868	11,818	11,705	11,827	11,953
Non-IBLs	2,833	2,687	2,435	2,468	2,503
Total liabilities	**68,495**	**79,500**	**86,804**	**92,845**	**99,369**
Share capital	4,969	5,245	5,245	5,245	5,245
Reserves	4,920	5,505	5,918	6,374	6,861
Shareholders' funds	**9,889**	**10,751**	**11,163**	**11,619**	**12,106**
NCI	45	0	0	0	0
Total equity	**9,934**	**10,751**	**11,163**	**11,619**	**12,106**
Total L&E	**78,429**	**90,251**	**97,967**	**104,464**	**111,475**
Total IEAs	74,004	84,490	87,304	88,176	92,507
Total IBLs	65,663	76,813	84,369	90,377	96,866
Gross loans	51,417	59,343	66,464	71,781	77,523
CASA	13,540	15,250	15,768	18,067	19,530

FINANCIAL RATIOS

FYE Dec (RM m)	FY21	FY22	FY23F	FY24F	FY25F
Interest (%)					
NIM	2.08	2.16	2.09	2.11	2.11
Return on IEAs	2.40	2.59	2.69	2.67	2.63
Cost of funds	1.26	1.45	1.53	1.41	1.32
Net interest spread	1.14	1.14	1.16	1.26	1.31
Profitability (%)					
ROE	**4.5**	**1.9**	**5.0**	**5.2**	**5.3**
ROA	0.6	0.2	0.6	0.6	0.6
NOII/Net income	21.8	16.7	17.2	20.5	21.6
Effective tax rate	16.9	50.6	22.8	22.8	22.8
Cost/Income	61.7	64.1	65.0	62.5	62.0
Liquidity (%)					
Loan/Deposit	85.9	89.4	89.5	89.6	89.5
CASA ratio	23.0	23.5	21.7	23.0	23.0
Asset Quality (%)					
GIL ratio	2.54	1.97	2.00	1.96	1.96
LLC ratio	68	120	105	100	100
LLC (w. reserves)	126	161	141	145	148
Net CC (bps)	34	52	10	18	18
Capital (%)					
CET 1	13.8	15.0	14.2	13.5	12.8
Tier 1 capital	15.4	16.3	15.5	14.7	13.9
Total capital	20.6	18.7	17.8	17.0	16.1
Growth (%)					
Total NII	22.9	18.5	4.9	3.1	3.0
Total NOII	-63.2	-14.3	8.3	28.4	9.8
Net income	-18.5	11.4	5.5	7.5	4.4
OPEX	-15.7	15.6	7.0	3.3	3.5
Core NP	88.2	-53.9	172.3	9.9	5.8
Gross loans	11.1	15.4	12.0	8.0	8.0
Customer deposits	17.9	10.5	11.8	8.1	8.1
CASA	22.2	12.6	3.4	14.6	8.1
Valuation metrics					
Core EPS (sen)	20.0	9.2	25.1	27.6	29.2
Gross DPS (sen)	12.5	22.6	7.4	8.0	8.3
Div payout (%)	50	38	30	30	30
BVPS (RM)	4.6	5.0	5.2	5.4	5.6
Core P/E (x)	10.0	21.7	8.0	7.3	6.9
Div yield (%)	**6.3**	**11.3**	**3.7**	**4.0**	**4.1**
P/BV (x)	0.4	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