

Affin Bank Berhad

(5185 | ABANK MK) Financial Services | Finance

4QFY23 Results: Disappointing Dividend Payout

Downgrade to SELL
(Previously NEUTRAL)
Revised Target Price: RM1.70
(Previously RM2.24)

KEY INVESTMENT HIGHLIGHTS

- **FY23's Core NP of RM402m was *Below/Below our/street* forecasts: 90%/85% of full-year forecasts**
- **Management's tone: Neutral, but optimistic on prospects.**
- **Core themes: (a) AX28 unveiled, (b) Dividend disappointment, (c) NIM improvements**
- **Forecasts revised: FY24F/FY25F Core NP adjusted by -14%/-18%**
- **Downgrade to SELL | Revised TP of RM1.70 | based on a revised FY24F P/BV of 0.34x (formerly 0.42x)**

Verdict: Affin needs more convincing ROE sustainability. Now overpriced from Sarawak-related sentiment.

Yays	<ol style="list-style-type: none"> 1. Mobile app and huge CASA inflows a positive for COF and NIM outlook. 2. NOII is gradually coming online.
Nays	<ol style="list-style-type: none"> 1. OPEX spend and growth to remain highly elevated these few years. 2. Further corporate segment delinquencies expected. 3. Possibility of further dividend disappointments.
OKs	<ol style="list-style-type: none"> 1. While loan growth target has been reduced this year, it will pick up again FY25 – we are not too keen on the ~12% loan growth level Affin vies for.

Results in a nutshell:

▲ **FY23's Core net profit (NP) of RM402m up by +415%oyoy.** There was a huge reduction in NII and sharp cost inflation – regardless this was improved by excellent NOII performance and significantly lower provisions (recall last year saw a huge lumpy provision allocation).

▼ **4QFY23's Core NP of RM40m down by -61%qoq.** Despite improvements in NII, poorer NOII, OPEX and Associate results (as well as higher tax – recall last quarter had virtually no tax) attributed to a very weak quarter.

▲ **Gross loans grew by +3.7%qoq, coming up to +12.3%YTD.**

▼ **Deposits grew by -1.1%qoq, coming up to +9.0%YTD.**

▼ **GIL moved by +5bps to 1.90%, LLC currently at 114%.** Corporate segment delinquencies remain an issue that will likely persist.

Have a look at:

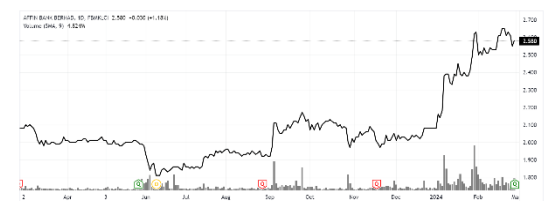
▼ **Disappointing dividend payout.** Affin's full-year dividend payout came at 34%, well below the ~50% range it has hovered around in recent years. Management attributes this to weaker economic performance – and wording implies this could repeat if economic conditions persist.

▲ **Looking into capital-related ROE improvement levers.** Management has stated they are seriously considering FIRB implementation (which improves RWA optimisation) and are currently seeking approval from BNM to distribute products which command lower capital weight.

RETURN STATISTICS

Price @ 29 February 2024 (RM)	2.56
Expected share price return (%)	-33.6
Expected dividend yield (%)	+2.5
Expected total return (%)	-31.2

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	9.1	5.8
3 months	26.4	20.7
12 months	28.3	20.3

INVESTMENT STATISTICS

FYE Dec	FY24F	FY25F	FY26F
Core NP (RM m)	495	518	579
CNP growth (%)	8	10	10
Div yield (%)	2.5	2.5	2.8
Gross DPS (sen)	6.3	6.5	7.2
P/BV (x)	0.5	0.5	0.5
BVPS (RM)	5.0	5.2	5.4
ROE (%)	4.4	4.4	4.7
MIDF/Street CNP (%)	91	87	

KEY STATISTICS

FBM KLCI	1,551.44
Issue shares (m)	2,273.9
Estimated free float (%)	20.0
Market Capitalisation (RM'm)	6,171.3
52-wk price range	RM1.79 - RM2.7
3-mth avg daily volume (m)	2.9
3-mth avg daily value (RM'm)	6.9
Top Shareholders (%)	
LTAT	28.8
Bank of East Asia Ltd	23.9
Boustead Holdings Bhd	20.0

Analyst

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► **AX28 unveiled.** Affin has seemingly reworked its current A25 multi-year plan (which was scheduled to end in 2025) into AX28 (which ends in 2028). We feel that most targets are extremely difficult to achieve, even if the Sarawak deal goes through. It has, however, mentioned that it will revert its loan growth to <12% after FY24 – given the liquidity pressure and NIM-adverse effects this level of loan growth has, we are not too keen.

▲ **NIM improvement is likely, driven by huge CASA inflows.** In contrast to its peers, Affin is guiding for improvement in NIMs in FY24. While the guided quantum of improvement may be ambitious, the rollout of its mobile app has brought in huge CASA inflows (It improved 4QFY23's NIM by +20bps). CASA inflows are expected to persist – also, FY24's lower loan growth target of 8% lowers liquidity pressure and the need for funding. Affin has the benefit of riding on low base effects – despite benefiting from the OPR hike, Affin grossly underperformed from a NIM perspective in FY23.

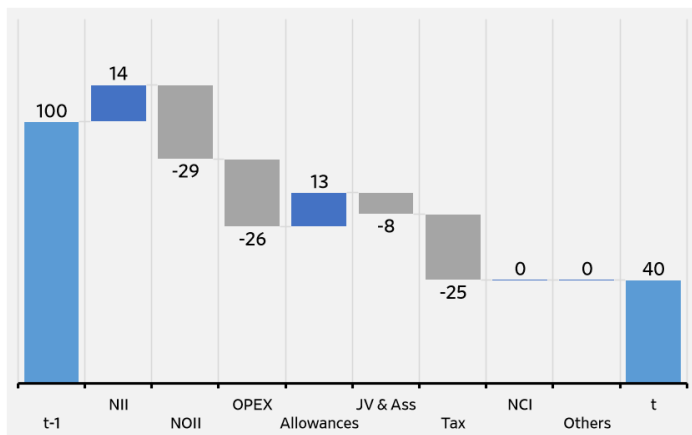
Forecasts revised: FY24F/FY25F Core NP adjusted by -14%/-18%. To reflect lower earnings prospects amid a difficult year.

Key downside risks. (1) Further NIM compression, (2) Lumpy NCC allocations, (3) Higher-than-expected OPEX.

Downgrade to SELL call: Revised GGM-TP of RM 1.70 (from RM2.24). The TP is based on a revised FY24F P/BV of 0.34x (formerly 0.42x), to reflect altered weaker earnings prospects and ROE-based valuations.

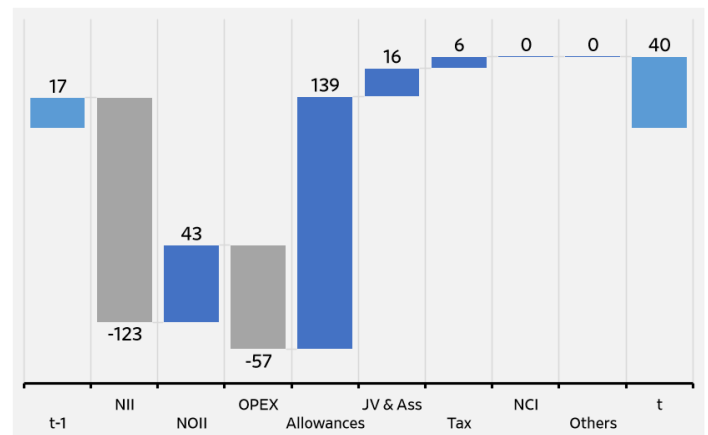
(GGM assumptions: FY24F ROE of 4.4%, LTG of 3.0% & COE of 7.0%)

Fig 1: QoQ P/L walk (Quarterly results)



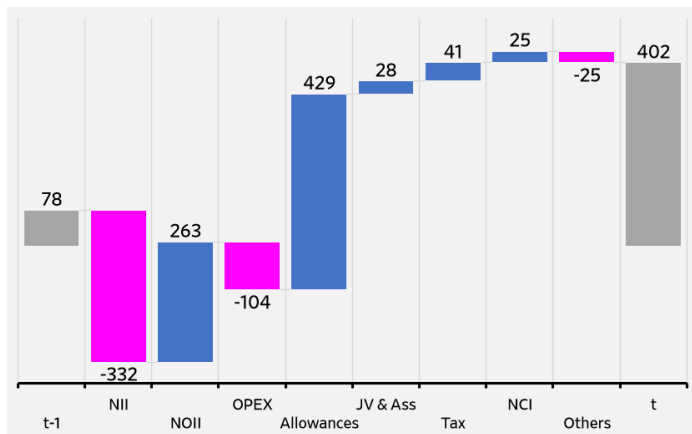
Source: Affin Bank, MIDFR

Fig 2: YoY P/L walk (Quarterly results)



Source: Affin Bank, MIDFR

Fig 3: YoY P/L walk (Cumulative results)



Source: Affin Bank, MIDFR

Fig 4: Quarterly results

FYE Dec (RM m)	4Q FY23	3Q FY23	4Q FY22	Yoy (%)	Qoq (%)	FY23	FY22	Yoy (%)
Net interest inc.	177	169	267	-34	5	783	1,023	-23
Islamic banking inc.	151	145	185	-18	4	596	688	-13
Non-interest inc.	158	186	115	37	-15	607	344	77
Net income	486	500	567	-14	-3	1,986	2,055	-3
OPEX	(400)	(374)	(343)	17	7	(1,421)	(1,317)	8
PPOP	86	126	224	-62	-32	565	738	-23
Loan provisions	(17)	(20)	(168)	-90	-12	(52)	(462)	-89
Other provisions	3	(8)	15	-80	-140	(27)	(45)	-41
JV & Associates	(1)	7	(17)	n.m.	n.m.	36	9	n.m.
PBT	71	106	54	30	-34	523	239	118
Tax	(31)	(6)	(37)	-17	453	(121)	(161)	-25
Discontinued ops	-	-	(0)	n.m.	n.m.	-	1,125	n.m.
NCI	-	-	-	n.m.	n.m.	-	(25)	n.m.
Reported NP	40	100	17	139	-61	402	1,179	-66
Core NP	40	100	17	134	-31	402	78	415
Total NII	329	314	452	-27	5	1,379	1,711	-19
Total NOII	158	186	115	37	-15	607	344	77
Gross DPS (sen)	5.8	-	7.8	n.m.	n.m.	5.8	30.4	n.m.
Core EPS (sen)	1.7	4.4	0.8	120	-61	17.4	3.6	384
Gross loans	66,663	64,290	59,343	12.3	3.7			
Gross impaired loans	1,265	1,186	1,171	8.0	6.7			
Customer deposits	70,834	71,630	64,995	9.0	-1.1			
CASA	18,914	16,643	15,250	24.0	13.6			
Ratios (%)	4Q FY23	3Q FY23	4Q FY22	Yoy (ppts)	Qoq (ppts)	FY23	FY22	Yoy (ppts)
ROE (Ann.)	1.4	3.7	0.6	0.8	-2.2	3.6	0.7	2.9
NIM (Reported)	1.44	1.24	2.01	-0.57	0.20	1.42	2.01	-0.59
NOII/Net income	32.4	37.2	20.3	12.1	-4.8	30.6	16.7	13.8
Cost/Income	82.4	74.8	60.5	21.9	7.6	71.6	64.1	7.5
NCC (Ann.) (bps)	11	13	122	-110	-2	8	83	-75
GIL ratio	1.90	1.84	1.97	-0.08	0.05			
Loan loss coverage	(114)	124	120	-234	-238			
CASA ratio	26.7	23.2	23.5	3.2	3.5			
L/D ratio	92.1	87.7	89.1	2.9	4.4			
CET-1	14.3	13.8	14.0	0.2	0.5			

Source: Affin Bank, MIDFR

Fig 5: Retrospective performance (Income Statement)

Metric	Surprise? Qoq/Yoy		Metric	Surprise? Qoq/Yoy	
Qtrly Core NP	RM mil	40	Qtrly ROE	Qtr value	1.4%
	9% of FY CNP				
	Qoq	-61%		t-1	3.7%
	Yoy	134%		t-4	0.6%
Cum Core NP	RM mil	402	Cum ROE	Cum value	3.6%
	Below our forecast				
	90% of FY CNP				
	Below consensus				
	85% of FY CNP				
	Yoy	415%	t-1	0.7%	
NII	As expected		NIM	+ve surprise	
				Qtr value	1.44
				Cum value	1.42
	Qtr (Qoq)	5%		Qtr (Qoq)	+20bps
	Qtr (Yoy)	-27%		Qtr (Yoy)	-57bps
Cum (Yoy)	-19%	Cum (Yoy)	-59bps		
NOII	As expected		Qtr	% NII	68%
	Qtr (Qoq)	-15%		% NOII	32%
	Qtr (Yoy)	37%	Cum	% NII	69%
	Cum (Yoy)	77%		% NOII	31%
OPEX	As expected		Cost/ Inc.	As expected	
				Qtr value	82.4%
				Cum value	71.6%
	Qtr (Qoq)	7%		Qtr (Qoq)	+7.6%
	Qtr (Yoy)	17%		Qtr (Yoy)	+21.9%
Cum (Yoy)	8%	Cum (Yoy)	+7.5%		

Notes (Cum = Cumulative, Qtr = Quarterly)

Earnings came well below expectations – this quarter's performance was especially weak.

Mobile app is bringing serious CASA inflows, benefitting NIM.

A weaker quarter but made huge strides in developing their fee income franchise.

A heavy quarter.

Source: Affin Bank, MIDFR

Fig 6: Retrospective performance (Balance Sheet, Dividends, and anything extra)

Metric	Surprise? Qoq/Yoy		Metric	Surprise? Qoq/Yoy		Notes (Cum = Cumulative, Qtr = Quarterly)
Loans	As expected					Strong loan growth continues to persist. We don't necessarily see this as a good thing.
	Qoq	3.7%				
	Yoy	12.3%				
	YTD (FY)	12.3%				
Depo. grwth	As expected		CASA grwth	+ve surprise		CASA inflows were stronger than expected.
	Qoq	-1.1%		Qoq	13.6%	
	Yoy	9.0%		Yoy	24.0%	
	YTD (FY)	9.0%		YTD (FY)	24.0%	
CASA ratio	As expected		L/D ratio	As expected		End year NCC turned out to be quite small.
	Value now	26.7%		Value now	92.1%	
	Qoq	+3.5%		Qoq	+4.4%	
	Yoy	+3.2%		Yoy	+2.9%	
GIL ratio	As expected		LLC ratio	As expected		
	Value now	1.90%		Value now	114%	
	Qoq	+5bps		Qoq	-10%	
	Yoy	-8bps		Yoy	-7%	
Qtrly Net CC	As expected		Cum Net CC	As expected		
	Small provision			Small provision		
	Value now	11bps		Value now	8bps	
	t-1	13bps		t-4	83bps	
CET 1	Healthy level		Div payout	Div announced		Dividend payout was a disappointment.
	As expected			-ve surprise		
	Value now	14.3%		Payout	34%	
	Qoq	0.5%				

Others:

Source: Affin Bank, MIDFR

Fig 7: Targets, Achievements, and Outlook

Targets	FY24F	FY23F	FY23	Notes (Red: New guidance, Strikethrough: Guidance is no longer pertinent)
ROE	7 (PBT: RM518m)	4.5 (PBT: RM600m)	3.6	We don't think FY24 ROE target is achievable.
CIR	64	<65	71.6	OPEX growth said to grow at a sharp 8-10% until FY25.
NIM	1.60 (+18bps FY23's 1.42)	1.45-1.50 (-51-56bps FY22's 2.01)	1.42	In contrast to peers, Affin is guiding for a strong NIM improvement. While the quantum may be ambitious, strong improvement is certainly plausible.
NOII			77% (yoy)	
Loans	8	12.0	12.3 (YTD)	Affin's reduction in loan growth target is favourable. Unfortunately, it has been mentioned that this is temporary, and it will be resuming ~12% growth in FY25.
Deposits			9.0 (YTD)	
% CASA	>30.0	25.0	26.7	The rollout of their mobile app makes this target achievable.
Loan/Depo			92.1	
GIL ratio	1.90	2.00	1.90	Warning for further irritation on corporate book.
NCC (bps)	10-15 GCC: 13	18-20 GCC: 30	8	
LLC	100-120	100-110	114	
CET 1			14.3	
Div payout	40-60		34	Affin warns of possible further dividend payout misses as well, should poor economic environment persist.

*Most of Affin's targets are stretch targets.

Source: Affin Bank, MIDFR

FINANCIAL SUMMARY

INCOME STATEMENT

FYE Dec (RM m)	FY22	FY23F	FY24F	FY25F	FY26F
Interest income	2,053	2,650	2,161	2,197	2,266
Interest expense	(1,031)	(1,867)	(1,234)	(1,234)	(1,234)
Net interest income	1,023	783	927	963	1,032
Islamic banking inc.	688	596	618	642	688
Other operating inc.	344	607	710	749	818
Net income	2,055	1,986	2,256	2,354	2,538
OPEX	(1,317)	(1,421)	(1,534)	(1,601)	(1,701)
PPOP	738	565	722	753	838
Loan allowances	(462)	(50)	(90)	(98)	(108)
Other allowances	(45)	(28)	(27)	(22)	(21)
JV & Associates	9	36	43	45	50
PBT	239	523	648	678	758
Tax & zakat	(161)	(121)	(153)	(160)	(179)
Discontinued ops	1,125	-	-	-	-
NCI	(25)	-	-	-	-
Reported NP	1,179	402	495	518	579
Core NP	78	402	495	518	579
Total NII	1,711	1,379	1,546	1,605	1,721
Total NOII	344	607	710	749	818

BALANCE SHEET

FYE Dec (RM m)	FY22	FY23F	FY24F	FY25F	FY26F
Cash & ST funds	5,205	6,483	6,399	6,962	7,030
Investment securities	21,180	27,239	20,979	19,273	20,126
Net loans	57,932	65,225	70,585	77,643	85,408
Other IEAs	0	0	0	0	0
Non-IEAs	5,804	6,300	13,864	16,570	17,366
Total assets	90,121	105,248	111,827	120,449	129,929
Customer deposits	64,995	70,834	76,572	84,305	92,820
Other IBLs	11,818	21,289	21,670	22,066	22,475
Non-IBLs	2,679	2,016	2,049	2,084	2,120
Total liabilities	79,492	94,139	100,291	108,455	117,416
Share capital	5,245	5,371	5,371	5,371	5,371
Reserves	5,383	5,738	6,165	6,623	7,142
Shareholders' funds	10,629	11,109	11,536	11,994	12,513
NCI	0	0	0	0	0
Total equity	10,629	11,109	11,536	11,994	12,513
Total L&E	90,121	105,248	111,827	120,449	129,929
Total IEAs	84,317	98,947	97,963	103,879	112,564
Total IBLs	76,813	92,123	98,242	106,371	115,296
Gross loans	59,343	66,663	71,996	79,195	87,115
CASA	15,250	18,914	18,760	21,076	23,205

FINANCIAL RATIOS

FYE Dec (RM m)	FY22	FY23F	FY24F	FY25F	FY26F
Interest (%)					
NIM	2.16	1.50	1.57	1.59	1.59
Return on IEAs	2.59	2.89	2.20	2.18	2.09
Cost of funds	1.45	2.21	1.30	1.21	1.11
Net interest spread	1.15	0.68	0.90	0.97	0.98
Profitability (%)					
ROE	0.8	3.7	4.4	4.4	4.7
ROA	0.1	0.4	0.5	0.4	0.5
NOII/Net income	16.7	30.6	31.5	31.8	32.2
Effective tax rate	65.7	22.2	22.8	22.8	22.8
Cost/Income	64.1	71.6	68.0	68.0	67.0
Liquidity (%)					
Loan/Deposit	89.1	92.1	92.2	92.1	92.0
CASA ratio	23.5	26.7	24.5	25.0	25.0
Asset Quality (%)					
GIL ratio	1.97	1.90	1.96	1.96	1.96
LLC ratio	120	114	100	100	100
LLC (w. reserves)	161	140	146	148	144
Net CC (bps)	83	8	13	13	13
Capital (%)					
CET 1	15.0	13.8	14.0	13.8	13.3
Tier 1 capital	16.3	15.3	15.4	15.1	14.6
Total capital	18.7	18.0	17.8	17.4	16.8
Growth (%)					
Total NII	18.5	-19.4	12.1	3.8	7.2
Total NOII	-14.3	76.6	17.0	5.5	9.1
Net income	11.4	-3.4	13.6	4.3	7.8
OPEX	15.6	7.9	7.9	4.3	6.3
Core NP	-82.0	415.4	23.2	4.6	11.8
Gross loans	15.4	12.3	8.0	10.0	10.0
Customer deposits	10.5	9.0	8.1	10.1	10.1
CASA	12.6	24.0	-0.8	12.3	10.1
Valuation metrics					
Core EPS (sen)	3.4	17.4	21.5	22.5	25.1
Gross DPS (sen)	22.6	5.8	6.3	6.5	7.2
Div payout (%)	42	33	30	30	30
BVPS (RM)	4.6	4.8	5.0	5.2	5.4
Core P/E (x)	75.7	14.7	11.9	11.4	10.2
Div yield (%)	8.8	2.3	2.5	2.5	2.8
P/BV (x)	0.6	0.5	0.5	0.5	0.5

Source: Affin Bank, MIDFR

Income Statement	Balance Sheet	Valuations & Sector
Core NP – Core Net Profit	LCR – Liquidity Coverage ratio	ROE – Return on Equity
PPOP – Pre-Provisioning Operating Profit	L/D ratio – Loan/Deposit ratio	GGM – Gordon Growth Model
NII – Net Interest Income	CASA – Current & Savings accounts	P/BV – Price to Book Value
NIM – Net Interest Margin	FD – Fixed Deposits	BVPS – Book Value per Share
COF – Cost of Funds	GIL – Gross Impaired Loans	BNM – Bank Negara Malaysia
NOII – Non-Interest Income	NIL – Net Impaired Loans	OPR – Overnight Policy Rate
MTM – Mark to Market	LLC – Loan Loss Coverage	SRR – Statutory Reserve Requirement
CIR – Cost to Income Ratio	NCC – Net Credit Costs	SBR – Standardised Base Rate
OPEX – Operational Expenses	GCC – Gross Credit Costs	ALR – Average Lending Rate
	CET 1 – Common Equity Tier 1	

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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.

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