Corporate Update

Affin Bank Berhad

(5185 | ABANK MK) Main | Financial Services

FTSE4Good ESG 3 Stars

Maintain **NEUTRAL**

Revised Target Price **RM2.48** (from RM2.46)

2QFY25 Results Review
A Stronger Second Half

To Conclude	**Weaker set of earnings, as forecasted.** **Management's tone: Cautiously optimistic** **Expect: A stronger 2HFY25, buoyed by August's influx of Sarawak payroll balances.**
Our Verdict	**We feel that current valuations are stretched, given AFFIN's current low profitability level, also there is a chance of bonus issuance instead of dividends.**
Valuations	**Although AFFIN's current P/BV of 0.50x is trading below the 10-year P/BV mean of 0.53x, we feel it is currently fully valued given AFFIN's low ROE – especially since AFFIN's historical share price has been inflated by positive Sarawak-related sentiment for a long time.** **The company is currently trading at a forward FY26F P/BV of 0.47x with a 3.1% dividend yield.**
Yays	1. CASA inflows to drive NIM outlook. 2. High fee income to drive topline. 3. Despite the incoming loan growth target revision, loan growth is still very high.
Nays	1. Low dividend yields. 2. Expect negative revisions to FY25 target next quarter. 3. Group may always need capital to match high loan growth.
Okays	1. Cost-cutting initiatives may already be bearing fruit. 2. Asset quality situation, though looking good, can always switch.

Results in a nutshell:

► **6MFY25's Core NP of RM268m was *Within/Within* our/street forecasts: *45%/47%* of full-year forecasts.** Despite coming in on the weaker end, we are forecasting a stronger 2HFY25 – largely buoyed by the expected influx of Sarawak payroll balances. Our forecasts already factor in AFFIN not being able to meet several of its current FY25 profitability targets.

► **No dividend announcement.**

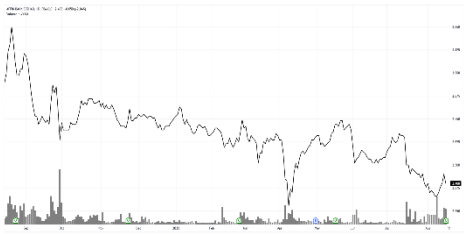
▲ **6MFY25's Core net profit (NP) of RM268m up by 17%yoy.** This was driven by increases in NII and NOII, which offset higher OPEX, provision, and tax expenses.

▲ **2QFY25's Core NP of RM143m up by 16%qoq.** This was due to improved topline and tax performance, which offset higher OPEX and provision expenses.

RETURN STATISTICS

Price @ 15 August 2025 (RM)	2.40
Expected share price return (%)	+3.4
Expected dividend yield (%)	+3.1
Expected total return (%)	**+6.5**

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-9.4	-12.3
3 months	-5.5	-10.2
12 months	-18.5	-16.5

INVESTMENT STATISTICS

FYE Dec	FY25F	FY26F	FY27F
Core NP (RM m)	**599**	**639**	**699**
CNP growth (%)	12	12	12
Div yield (%)	**3.0**	**3.1**	**3.4**
Gross DPS (sen)	7.2	7.5	8.1
P/BV (x)	**0.5**	**0.5**	**0.5**
BVPS (RM)	4.8	5.1	5.3
ROE (%)	**5.0**	**5.1**	**5.4**
% Street CNP (%)	**105**	**96**	**90**

KEY STATISTICS

FBM KLCI	1,576.34
Issue shares (m)	2,533.8
Estimated free float (%)	22.9
Market Capitalisation (RM'm)	6,081.2
52-wk price range	RM2.20 – RM3.24
3-mth average daily volume (m)	1.5
3-mth average daily value (RM'm)	3.7
Top Shareholders (%)	
Sg Assetfin Holdings Sdn Bhd	26.4
Bank of East Asia	23.9
LTAT	22.0

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Have a look at:

▼ **As usual, expect negative revisions to FY25 targets – these will be announced by 3QFY25.** We are expecting revisions to ROE, NIM, CIR, and loan growth targets.

► **Management hints heavily at possible DRP or bonus issuance in FY25.** Despite being happy at the present CET1 level, management wants more capital to fund its high level of growth and possible M&A activity.

▼ **NIM was dragged by a flight to FDs.** CASA saw a substantial drop, being replaced by FDs due to recent volatile events. Despite lowering FD rates, AFFIN still saw huge demand, which weighed down on COF. AFFIN intends to release the excess liquidity in the latter months – even if loan demand does not match it. The Group also debuted a USD300m senior unsecured note issuance as part of its NIM optimisation strategy. Overall, a NIM compression of 1.5bps is expected this year due to the OPR cut.

▲ **Still optimistic on the Sarawak government payroll CASA influx, slated to occur in August.** Some Sarawakian non-government corporations and individuals have already come in (as seen in the last quarter) – there is a debit card shortage in Sarawak. Promising sign: New customer account openings peaked in June – implying more avenues for CASA growth.

► **Miscellaneous OPEX/tax expense related matters:**

1. **Tax rate was lower this quarter – but expect to see elevated charges soon.** This lowered rate was due to movements in provision fulfilment settings. In the remainder of FY25, expect the normalised tax rate to be at 25-26% (which is higher than the usual 24%).
2. **AFFIN is coming to the tail-end of its heavy IT infrastructure spend.** Currently, AFFIN's capex spend is to future-proof the bank. Hopefully this brings down the CIR in subsequent years.
3. **Of FY25's new branch target of 16, only 1 or 2 branches remain unfinished.** Implying lesser spending on this front in subsequent quarters.

► **Loan growth has been lacklustre so far – despite an impressive pipeline, expect FY25 loan growth targets to be cut.** This was dragged by large repayments in the corporate loan segment. Management's impressive pipeline stands at RM13b (most of these are non-Sarawak related), boding well for the corporate loan growth outlook. On a more optimistic note, enterprise banking seems to be picking up (especially from the Sarawak side). The Group does note stronger demand in bigger SMEs, but tightening demand amid smaller players.

▲ **We could see significant improvement in asset quality by year-end.** The Group seems optimistic about the resolutions of several larger delinquencies, which implies larger recoveries and write-offs. Also, the more concerning Stage 2 loans in enterprise and corporate banking segments seem to be trending downwards, which is a positive sign (do note some increase in the community banking segment's Stage 2 loans).

Forecasts unchanged. We make no changes to our earnings forecasts.
Key downside risks. *(1) Severe asset quality deterioration, (2) Steep NIM compression, (3) Weaker-than-expected NOII performance.*

Maintain NEUTRAL call: Revised GGM-TP of RM 2.48 ***(from RM2.46)***. The TP is based on a revised FY26F P/BV of 0.49x *(formerly 0.51x, rolled on from FY25F)*, to reflect altered earnings prospects and ROE-based valuations.

(GGM assumptions: *FY26F ROE of 5.1%, LTG of 3.0% & COE of 7.4%)*

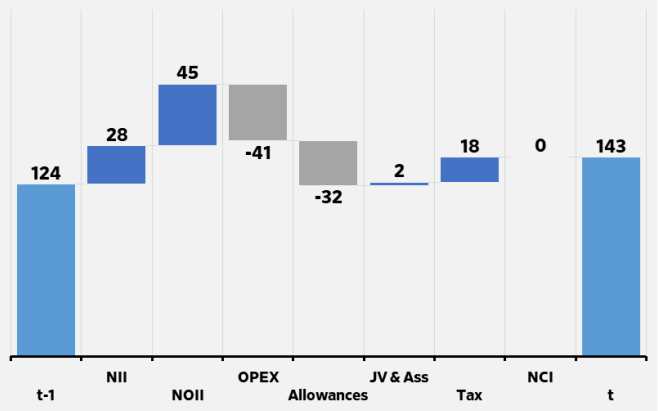
FIG 1: Quarterly results

FYE Dec (RM m)	2Q FY25	1Q FY25	2Q FY24	Yoy (%)	Qoq (%)	1H FY25	1H FY24	Yoy (%)
Net interest inc.	213	206	192	11	3	419	386	8
Islamic banking inc.	219	198	161	36	11	417	329	27
Non-interest inc.	185	140	142	30	32	325	284	14
Net income	**616**	**544**	**495**	**25**	**13**	**1,160**	**999**	**16**
OPEX	(420)	(379)	(368)	14	11	(799)	(747)	7
PPOP	**196**	**165**	**127**	**54**	**19**	**361**	**253**	**43**
Loan provisions	(48)	(7)	(22)	112	625	(54)	(7)	688
Other provisions	7	(2)	35	-80	-417	5	38	-88
JV & Associates	24	22	11	n.m.	n.m.	46	12	n.m.
PBT	**180**	**178**	**151**	**19**	**1**	**358**	**296**	**21**
Tax	(36)	(54)	(32)	13	-33	(90)	(67)	35
NCI	-	-	-	n.m.	n.m.	-	-	n.m.
Reported NP	**143**	**124**	**119**	**21**	**16**	**268**	**229**	**17**
Core NP	**143**	**124**	**119**	**21**	**16**	**268**	**229**	**17**
Total NII	432	404	353	22	7	835	715	17
Total NOII	185	140	142	30	32	325	284	14
Gross DPS (sen)	**-**	**-**	**-**	**n.m.**	**n.m.**	**-**	**-**	**n.m.**
Core EPS (sen)	5.6	5.1	4.7	18	10	10.5	9.2	14
Gross loans	74,066	72,898	69,016	7.3	1.6			
Gross impaired loans	1,359	1,344	1,306	4.1	1.1			
Customer deposits	78,202	75,467	71,226	9.8	3.6			
CASA	22,060	24,308	18,439	19.6	-9.2			

Ratios (%)	2Q FY25	1Q FY25	2Q FY24	Yoy (ppts)	Qoq (ppts)	1H FY25	1H FY24	Yoy (ppts)
ROE (Ann.)	**4.8**	**4.2**	**4.2**	**0.6**	**0.6**	**4.5**	**4.0**	**0.4**
NIM (Reported)	**1.48**	**1.47**	**1.40**	**0.08**	**0.01**	**1.49**	**1.42**	**0.07**
NOII/Net income	30.0	25.8	28.6	1.4	4.2	28.0	28.4	-0.4
Cost/Income	68.2	69.7	74.3	-6.2	-1.5	68.9	74.7	-5.8
NCC (Ann.) (bps)	27	4	14	13	23	15	2	13
GIL ratio	1.83	1.84	1.89	-0.06	-0.01			
Loan loss coverage	79	80	97	-18	-1			
CASA ratio	28.2	32.2	25.9	2.3	-4.0			
L/D ratio	93.3	95.2	95.1	-1.8	-1.8			
CET-1	13.4	13.5	12.8	0.5	-0.2			

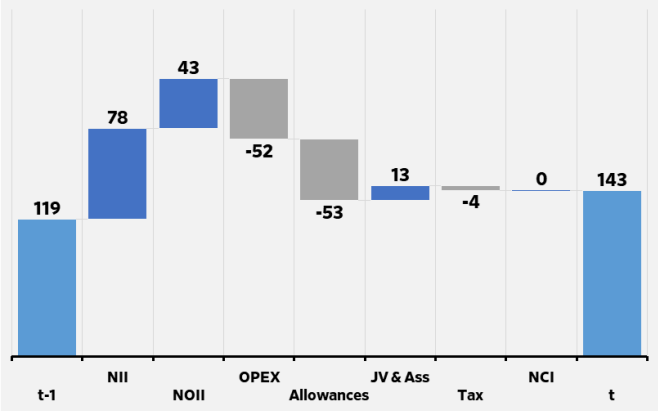
Source: Company, MBSBR

FIG 2: QoQ P/L walk (Quarterly results)



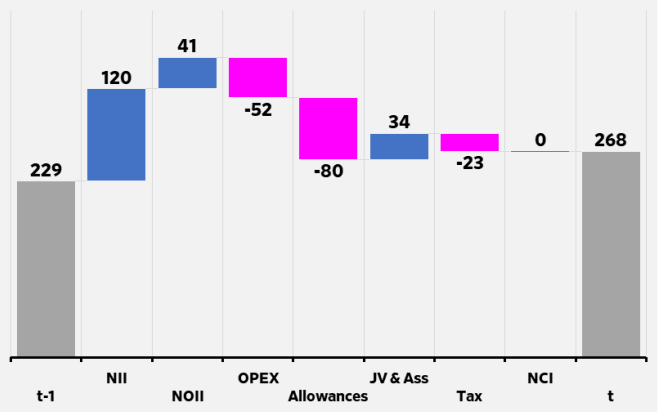
Source: Company, MBSBR

FIG 3: YoY P/L walk (Quarterly results)



Source: Company, MBSBR

FIG 4: YoY P/L walk (Cumulative results)



Source: Company, MBSBR

INCOME STATEMENT (QUARTERLY & CUMULATIVE)

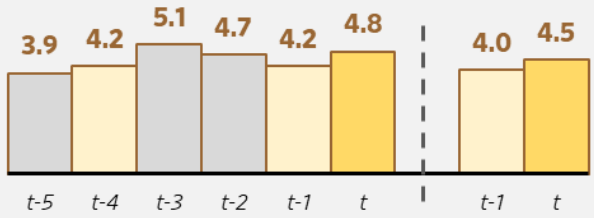
2QFY25 / 6MFY25 results

Earnings: Within/Within our/street forecasts

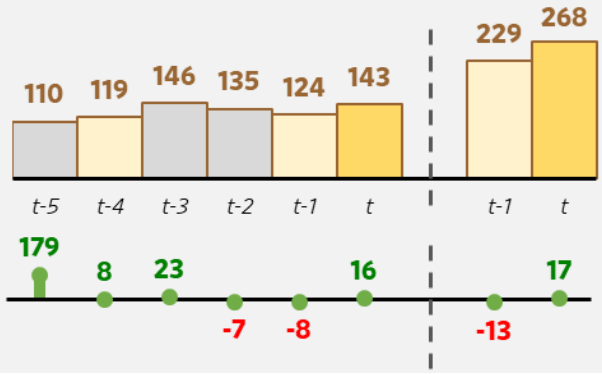
45%/47% of full-year estimates

Dividend: NO

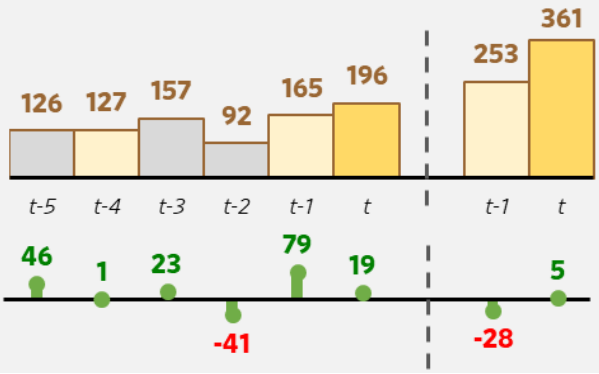
ROE (%)



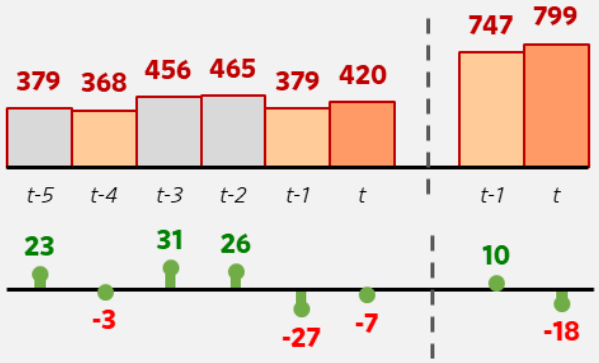
Core Net Profit (RM b)
Growth – qoq (Qtr) & yoy (Cum) (%)



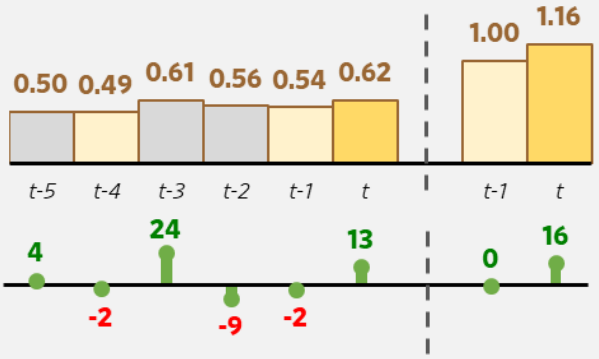
Pre-Provisioning Operating Profit (RM b)
Growth – qoq (Qtr) & yoy (Cum) (%)



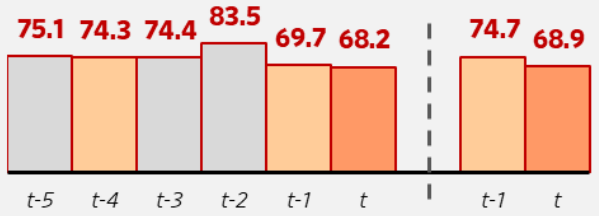
OPEX – (RM b)
Growth – yoy only! (Qtr & Cum) (%)



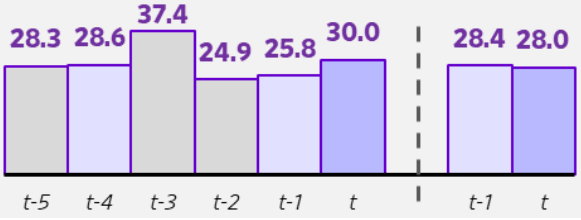
Topline – (RM b)
Growth – qoq (Qtr) & yoy (Cum) (%)



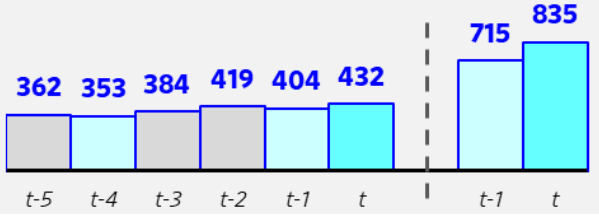
Cost/Income ratio (%)



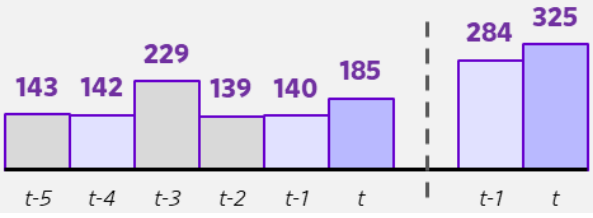
% NOII as topline (%)



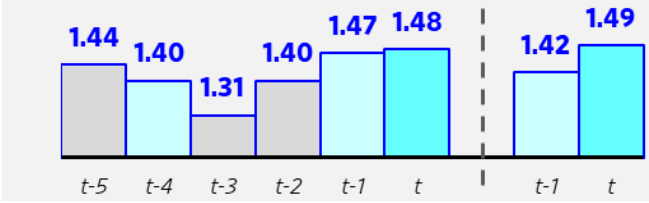
Net interest income (RM b)



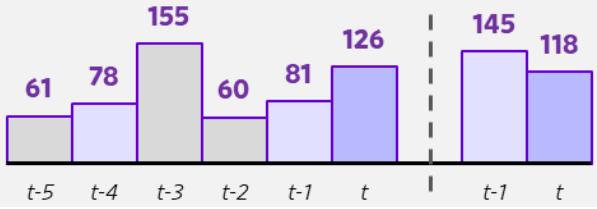
Non-interest income (RM b)



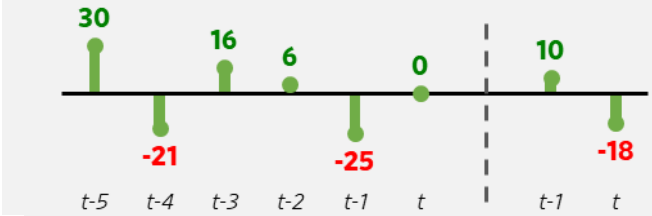
NIM (%)



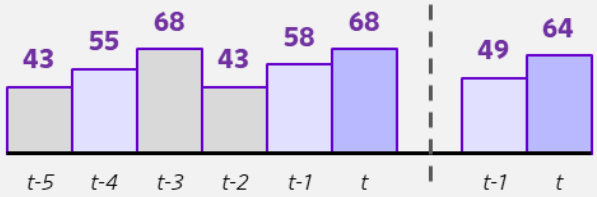
Non-fee NOII (RM b)



Fee income growth – qoq (Qtr) & yoy (Cum) (%)

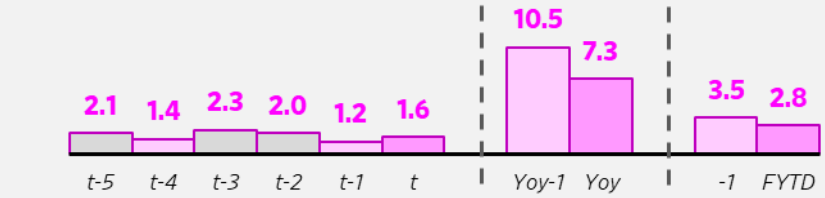


% Non-fee income as NOII (%)

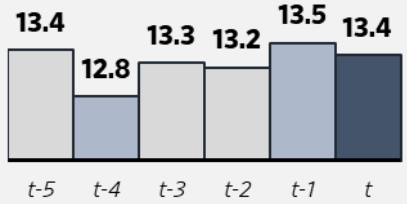


BALANCE SHEET

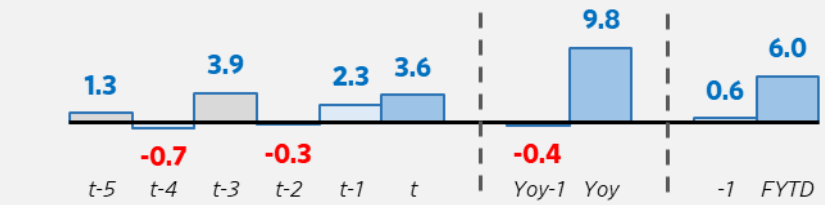
Loan growth – qoq, yoy, FYTD (%)



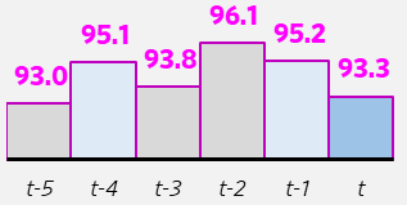
CET 1 ratio (%)



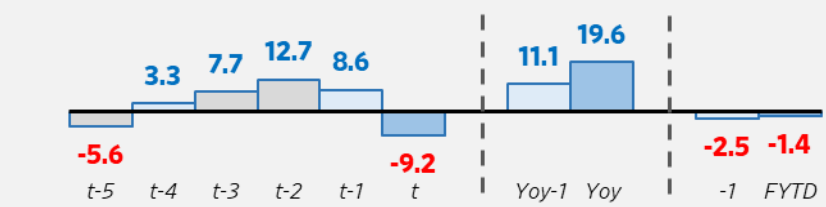
Deposit growth – qoq, yoy, FYTD (%)



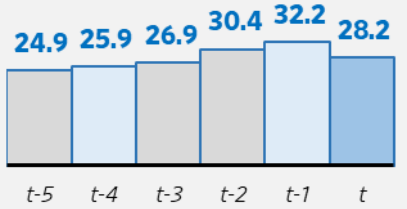
Loan/Deposit ratio (%)



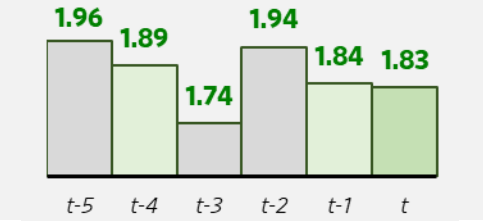
CASA growth – qoq, yoy, FYTD (%)



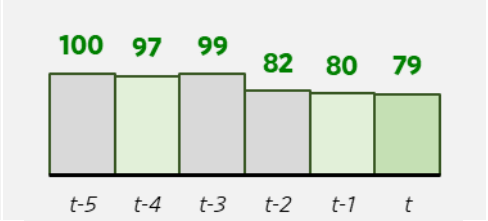
CASA ratio (%)



GIL ratio (%)



Loan loss coverage (%)



Ann. net credit cost (bps)

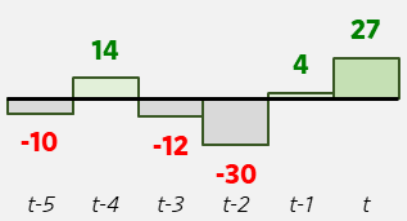


FIG 5: Retrospective performance (Income Statement)

Metric	Surprise? *Qoq/Yoy*		Metric	Surprise? *Qoq/Yoy*		Notes *(Cum = Cumulative, Qtr = Quarterly)*
Qtrly Core NP	RM mil	***143***	**Qtrly ROE**	Qtr value	***4.8%***	
	24% of FY CNP					
	Qoq	*16%*		t-1	*4.2%*	
	Yoy	*21%*		t-4	*4.2%*	
Cum Core NP	RM mil	***268***	**Cum ROE**	Cum value	***4.5%***	
	Within our forecast					
	45% of FY CNP					
	Within consensus					
	47% of FY CNP					
	Yoy	*17%*		t-1	*4.0%*	
NII	As expected		**NIM**	As expected		
				Qtr value	***1.48***	
				Cum value	***1.49***	
	Qtr (Qoq)	*7%*		Qtr (Qoq)	*+1bps*	
	Qtr (Yoy)	*22%*		Qtr (Yoy)	*+8bps*	
	Cum (Yoy)	*17%*		Cum (Yoy)	*+7bps*	
NOII	As expected		**Qtr**	% NII	***70%***	
	Qtr (Qoq)	*32%*		% NOII	***30%***	
	Qtr (Yoy)	*30%*	**Cum**	% NII	***72%***	
	Cum (Yoy)	*14%*		% NOII	***28%***	
OPEX	As expected		**Cost/ Inc.**	As expected		
				Qtr value	***68.2%***	
				Cum value	***68.9%***	
	Qtr (Qoq)	*11%*		Qtr (Qoq)	*-1.5%*	
	Qtr (Yoy)	*14%*		Qtr (Yoy)	*-6.2%*	
	Cum (Yoy)	*7%*		Cum (Yoy)	*-5.8%*	

Source: Company, MBSBR

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

Metric	Surprise? *Qoq/Yoy*		Metric	Surprise? *Qoq/Yoy*		**Notes** *(Cum = Cumulative, Qtr = Quarterly)*
Loans	-ve surprise					
	Qoq	*1.6%*				
	Yoy	*7.3%*				
	YTD (FY)	*2.8%*				
Depo. grwth	As expected		**CASA grwth**	As expected	
	Qoq	*3.6%*		Qoq	*-9.2%*
	Yoy	*9.8%*		Yoy	*19.6%*
	YTD (FY)	*6.0%*		YTD (FY)	*-1.4%*
CASA ratio	-ve surprise		**L/D ratio**	As expected	
	Value now	***28.2%***		Value now	***93.3%***
	Qoq	*-4.0%*		Qoq	*-1.8%*
	Yoy	*+2.3%*		Yoy	*-1.8%*
GIL ratio	As expected		**LLC ratio**	As expected	
	Value now	***1.83%***		Value now	***79%***
	Qoq	*-1bps*		Qoq	*-1%*
	Yoy	*-6bps*		Yoy	*-18%*
Qtrly Net CC	As expected		**Cum Net CC**	As expected	
	Decent provision			Decent provision	
	Value now	***27bps***		Value now	***15bps***
	t-1	*4bps*			
	t-4	*14bps*		t-4	*2bps*
CET 1	Healthy level		**Div payout**	No divvy	
	As expected			As expected	
	Value now	***13.4%***		**Payout**	*-*
	Qoq	*-0.2%*			
Others:						

Source: Company, MBSBR

FIG 7: Targets, Achievements, and Outlook

Targets	FY25	1H FY25	Notes (Red: New guidance, ~~Strikethrough: Guidance is no longer pertinent~~)
ROE	6 PBT: RM1.1b	4.5 PBT: RM358m	Likely to be revised by 3QFY25.
CIR	65	68.9	Likely to be revised by 3QFY25.
NIM	1.55 (+21bps FY24: 1.34)	1.49	Likely to be revised by 3QFY25.
NOII		14% (yoy)	
Loans	12	2.8 (YTD)	Likely to be revised by 3QFY25.
Deposits		6.0 (YTD)	
% CASA	31	28.2	
Loan/Depo		93.3	
GIL ratio	1.70	1.83	Management believes there will be large-scale write-offs and recoveries by year end, which will help reduce the current GIL ratio.
NCC (bps)	12 (GCC)	15	
LLC	90-100	79	Current overlays: RM250m (No change from last quarter).
CET 1		13.4	
Div payout		-	Management is guiding for DRP or bonus issuance this year.

Source: Company, MBSBR

FINANCIAL SUMMARY

INCOME STATEMENT

FYE Dec (RM m)	FY23	FY24	FY25F	FY26F	FY27F
Net interest income	**783**	**826**	**989**	**1,066**	**1,166**
Islamic banking inc.	596	691	659	711	778
Other operating inc.	607	652	907	958	1,048
Net income	**1,986**	**2,170**	**2,555**	**2,735**	**2,991**
OPEX	(1,421)	(1,668)	(1,712)	(1,833)	(2,004)
PPOP	**565**	**502**	**843**	**903**	**987**
Loan allowances	(50)	73	(99)	(111)	(125)
Other allowances	(28)	79	(26)	(24)	(24)
JV & Associates	36	55	59	63	69
PBT	**523**	**708**	**777**	**830**	**907**
Tax & zakat	(121)	(198)	(179)	(191)	(209)
Discontinued ops	-	-	-	-	-
NCI	-	-	-	-	-
Reported NP	**402**	**510**	**599**	**639**	**699**
Core NP	**402**	**510**	**599**	**639**	**699**
Total NII	1,379	1,518	1,648	1,777	1,944
Total NOII	607	652	907	958	1,048

BALANCE SHEET

FYE Dec (RM m)	FY23	FY24	FY25F	FY26F	FY27F
Cash & ST funds	6,483	3,155	6,323	6,346	6,370
Investment securities	27,239	31,153	26,183	25,696	27,844
Net loans	65,225	70,892	79,108	88,602	99,234
Other IEAs	-	-	-	-	-
Non-IEAs	6,300	6,642	10,076	12,108	11,660
Total assets	**105,248**	**111,842**	**121,690**	**132,751**	**145,108**
Customer deposits	70,834	73,744	82,593	92,586	103,789
Other IBLs	21,289	23,869	24,299	24,746	25,210
Non-IBLs	2,016	2,629	2,668	2,710	2,754
Total liabilities	**94,139**	**100,241**	**109,560**	**120,042**	**131,753**
Share capital	5,371	5,489	5,489	5,489	5,489
Reserves	5,738	6,113	6,641	7,220	7,866
Shareholders' funds	**11,109**	**11,601**	**12,130**	**12,709**	**13,355**
NCI	-	-	-	-	-
Total equity	**11,109**	**11,601**	**12,130**	**12,709**	**13,355**
Total L&E	**105,248**	**111,842**	**121,690**	**132,751**	**145,108**
Total IEAs	98,947	105,200	111,614	120,643	133,448
Total IBLs	92,123	97,612	106,892	117,332	128,999
Gross loans	66,663	72,045	80,690	90,373	101,218
CASA	18,914	22,384	21,474	24,998	28,023

FINANCIAL RATIOS

FYE Dec (RM m)	FY23	FY24	FY25F	FY26F	FY27F
Interest (%)					
NIM	1.50	1.44	1.52	1.53	1.53
Return on IEAs	2.89	2.94	2.05	1.98	1.89
Cost of funds	2.21	2.29	1.21	1.10	1.00
Net interest spread	0.68	0.65	0.84	0.88	0.89
Profitability (%)					
ROE	**3.7**	**4.5**	**5.0**	**5.1**	**5.4**
ROA	0.4	0.5	0.5	0.5	0.5
NOII/Net income	30.6	30.1	35.5	35.0	35.0
Effective tax rate	22.2	27.0	22.2	22.2	22.2
Cost/Income	71.6	76.9	67.0	67.0	67.0
Liquidity (%)					
Loan/Deposit	92.1	96.1	95.8	95.7	95.6
CASA ratio	26.7	30.4	26.0	27.0	27.0
Asset Quality (%)					
GIL ratio	1.90	1.94	1.96	1.96	1.96
LLC ratio	114	82	100	100	100
LLC (w. reserves)	140	116	128	125	122
Net CC (bps)	8	-10	13	13	13
Capital (%)					
CET 1	13.8	13.2	13.2	13.2	13.2
Tier 1 capital	15.3	14.6	14.6	14.6	14.6
Total capital	18.0	17.1	16.9	16.9	16.9
Growth (%)					
Total NII	-19.4	10.1	8.6	7.8	9.4
Total NOII	76.6	7.4	39.1	5.7	9.3
Net income	-3.4	9.3	17.7	7.1	9.4
OPEX	7.9	17.4	2.6	7.1	9.4
Core NP	415.4	26.7	17.4	6.8	9.2
Gross loans	12.3	8.1	12.0	12.0	12.0
Customer deposits	9.0	4.1	12.0	12.1	12.1
CASA	24.0	18.3	-4.1	16.4	12.1
Valuation metrics					
Core EPS (sen)	16.0	20.3	23.8	25.5	27.8
Gross DPS (sen)	5.8	-	7.2	7.5	8.1
Div payout (%)	33	-	30	30	30
BVPS (RM)	4.4	4.6	4.8	5.1	5.3
Core P/E (x)	15.0	11.8	10.1	9.4	8.6
Div yield (%)	**2.4**	**0.0**	**3.0**	**3.1**	**3.4**
P/BV (x)	0.5	0.5	0.5	0.5	0.5

Source: Company, MBSBR

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MBSB INVESTMENT BANK (formerly known MIDF INVESTMENT BANK): GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	The stock price is expected to rise by >10% within 3 months after a Trading Buy rating has been assigned due to positive news flow.
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	The stock price is expected to fall by >10% within 3 months after a Trading Sell rating has been assigned due to negative news flow.

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