Corporate Update

Affin Bank Berhad

(5185 | ABANK MK) Main | Financial Services

FTSE4Good ESG 3 Stars

Maintain **NEUTRAL**

Unchanged Target Price **RM2.39**

1QFY26 Results Review
Pressures Abound

RETURN STATISTICS	
Price @ 18 May 2026 (RM)	2.41
Expected share price return (%)	-1.0
Expected dividend yield (%)	+3.9
Expected total return (%)	**+2.9**

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	1.2	-2.2
3 months	-1.2	-11.7
12 months	-7.2	-15.9

INVESTMENT STATISTICS			
FYE Dec	**FY26F**	**FY27F**	**FY28F**
Core NP (RM m)	**559**	**615**	**663**
CNP growth (%)	9	9	9
Div yield (%)	**3.6**	**3.9**	**4.1**
Gross DPS (sen)	8.7	9.4	10.0
P/BV (x)	**0.5**	**0.5**	**0.5**
BVPS (RM)	4.9	5.1	5.3
ROE (%)	**4.5**	**4.8**	**5.0**
% Street CNP (%)	**96**	**93**	**89**

KEY STATISTICS	
FBM KLCI	1,727.71
Issue shares (m)	2,533.8
Estimated free float (%)	23.8
Market Capitalisation (RM'm)	6,182.6
52-wk price range	RM2.21 – RM2.82
3-mth average daily volume (m)	1.8
3-mth average daily value (RM'm)	4.6
Top Shareholders (%)	
Sg Assetfin Holdings Sdn Bhd	28.4
Bank of East Asia	23.9
LTAT	22.0

Salient Points

Softer set of earnings, as expected.

Management's tone: Negative

Expect: A possible exacerbation of problems in further quarters.

Our Verdict

Our main concerns are asset quality issues and elevated provisioning, with NIM and loan growth outlook also subject to some pressure. AFFIN is taking a very wait-and-see approach to the Middle East conflict, but we expect several FY26 targets to be cut regardless.

Valuations

An unchanged FY27F P/BV of 0.47x

Current P/BV of 0.50x is trading close to its 10-year P/BV mean of 0.51x.

The company is currently trading at a forward FY27F P/BV of 0.47x with a +3.9% dividend yield.

Themes

1. ▲ Improved dividend certainty. It is committed to maintaining a 40-60% dividend payout policy, though a payout closer to the lower bound is likely.
2. ▲ AFFIN has significant fee income growth potential (particularly with PHEIM), though it may take some time to set up (possibly FY27).
3. ▲ High loan growth expected – but project delays, tighter underwriting standards, and liquidity constraints provide downside pressure.
4. ► The Group is optimistic about NIM prospects, but we think it may have already peaked. While ongoing CASA plans have been successful, deposit competition is ramping up.
5. ► Cost control needs more work. Expect a return to higher OPEX growth figures in FY26, instead of FY25's well-controlled result.
6. ▼ Ramping up lower-cost CASA growth is a problem the Group is yet to solve. It is repivoting to a business operating account-led strategy, but we will be looking closely regardless.
7. ▼ The war is affecting asset quality, particularly of business loans. This will worsen. Expect elevated provisioning, especially since LLC is low.

Results in a nutshell:

► **3MFY26's Core NP of RM135m was *Within/Within* our/street forecasts: *24%/23%* of full-year forecasts.**

► **No dividend announcement.**

▲ **3MFY26's Core net profit (NP) of RM135m up by +9%yoy.** Better NII and NOII income drove the increase, offset by higher OPEX and provisioning costs.

Analyst

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▼ **4QFY25's Core NP of RM904m down by +13%qoq.** The decrease was driven by weaker NII and NOII income, as well as higher OPEX. Lower OPEX and tax charges provided an offset.

Have a look at:

► **Minimal uplift from Basel III implementation – but special dividends (way) down the line.** The Basel III capital uplift will be at +10-30bps. Since loan growth targets are high, we do not expect any special dividends – or even a dividend payout above the lower bound of 40-60% target.

▲ **Special dividends, however, are reserved for when AFFIN converts to the IRB regime.** This will free up an estimated 2% worth of capital. AFFIN started the transition last year and is expected to be completed by CY29 (if there are no delays).

► **NIM may have peaked this quarter.** Most of the pressure comes from the COF side, with AFFIN acknowledging that the ongoing deposit is very aggressive. COF has grown slightly faster than loan yields in 1QFY26; this trend should persist and result in NIM compression. Regardless, AFFIN places great confidence in its CASA campaigns, which have seen pretty good traction thus far. It has also started pricing some loan yields upwards to compensate.

▲ **NOII still one of FY26's core drivers.** AFFIN is still confident in their fee income pipeline but acknowledge that fee income will remain lumpy for now. PHEIM is unlikely to make any meaningful impact the earnings until FY27.

► **Multiple downside pressures to the loan growth target.** AFFIN's RM14b loan pipeline remains, but we expect delays in project rollouts. Tighter underwriting standards and liquidity constraints (as deposit competition resumes) also apply pressure, especially when L/D ratio is heavily elevated. Regardless, AFFIN has a good track record of meeting loan growth targets, and the +3.3%qoq growth in 1QFY26 implies strong momentum thus far.

▼ **Asset quality is worsening, and this will affect provisions.** This quarter saw a +10bps sequential quarter GIL ratio uptick, driven primarily by business loans. Expect further exacerbation: Management does not seem confident about subsequent quarters' outlook, especially on the SME end.

This quarter saw elevated provisioning, a trend that should persist. If the war ends by Jun-26, it could put a cap on the heightened provisioning levels, though we do not expect the previous 13bps GCC target to be viable even if it is the case. Overlay balance is reduced from RM37m to RM30m.

Forecasts unchanged. We make no changes to our earnings forecasts. We await the following quarter for better clarity and guidance, given the present high levels of uncertainty.
Key downside risks. *(1) Lingering asset quality and provisioning concerns, (2) Steeper-than-expected NIM compression, (3) Dividend payout disappointments.*

Maintain NEUTRAL call: Unchanged GGM-TP of RM 2.39. The TP is based on an unchanged FY27F P/BV of 0.47x, to reflect altered earnings prospects and ROE-based valuations.

(GGM assumptions: *FY27F ROE of 4.8%, LTG of 3.0% & COE of 6.8%)*

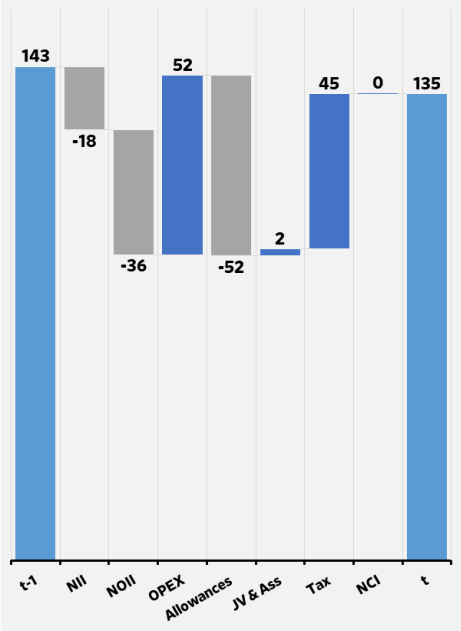
FIG 1: Quarterly Results

FYE Dec (RM m)	1Q FY26	4Q FY25	1Q FY25	Yoy (%)	Qoq (%)	3M FY26	3M FY25	Yoy (%)
Net interest inc.	233	248	206	13	-6	233	206	13
Islamic banking inc.	235	248	198	19	-5	235	198	19
Non-interest inc.	186	212	140	33	-12	186	140	33
Net income	**654**	**709**	**544**	**20**	**-8**	**654**	**544**	**20**
OPEX	(411)	(463)	(379)	8	-11	(411)	(379)	8
PPOP	**244**	**246**	**165**	**48**	**-1**	**244**	**165**	**48**
Loan provisions	(68)	(18)	(7)	906	267	(68)	(7)	906
Other provisions	(1)	2	(2)	-42	-157	(1)	(2)	-42
JV & Associates	6	4	22	**-73**	**50**	6	22	**-73**
PBT	**181**	**234**	**178**	**2**	**-23**	**181**	**178**	**2**
Tax	(45)	(90)	(54)	-16	-50	(45)	(54)	-16
NCI	-	-	-	n.m.	n.m.	-	-	n.m.
Reported NP	**135**	**143**	**124**	**9**	**-5**	**135**	**124**	**9**
Core NP	**135**	**143**	**124**	**9**	**-5**	**135**	**124**	**9**
Total NII	415	434	357	16	-4	415	357	16
Total NOII	239	275	187	28	-13	239	187	28
Gross DPS (sen)	**-**	**8.5**	**-**	**n.m.**	**n.m.**	**-**	**-**	**n.m.**
Core EPS (sen)	5.3	5.6	5.1	3	-5	5.3	5.1	3
Gross loans	82,119	79,511	72,898	12.6	3.3			
Gross impaired loans	1,436	1,304	1,344	6.8	10.2			
Customer deposits	77,012	79,000	75,467	2.0	-2.5			
CASA	21,166	20,010	24,308	-12.9	5.8			

Ratios (%)	1Q FY26	4Q FY25	1Q FY25	Yoy (ppts)	Qoq (ppts)	3M FY26	3M FY25	Yoy (ppts)
ROE (Ann.)	**4.4**	**4.7**	**4.2**	**0.2**	**-0.3**	**4.4**	**4.2**	**0.2**
NIM (Reported)	**1.54**	**1.45**	**1.47**	**0.07**	**0.09**	**1.54**	**1.47**	**0.07**
NOII/Net income	36.5	38.8	34.3	2.2	-2.3	36.5	34.3	2.2
Cost/Income	62.7	65.3	69.7	-6.9	-2.5	62.7	69.7	-6.9
NCC (Ann.) (bps)	35	10	4	31	25	35	4	31
GIL ratio	1.75	1.64	1.84	-0.10	0.11			
Loan loss coverage	70	74	80	-10	-4			
CASA ratio	27.5	25.3	32.2	-4.7	2.2			
L/D ratio	105.3	99.4	95.2	10.2	5.9			
CET-1	12.5	13.4	13.5	-1.0	-0.9			

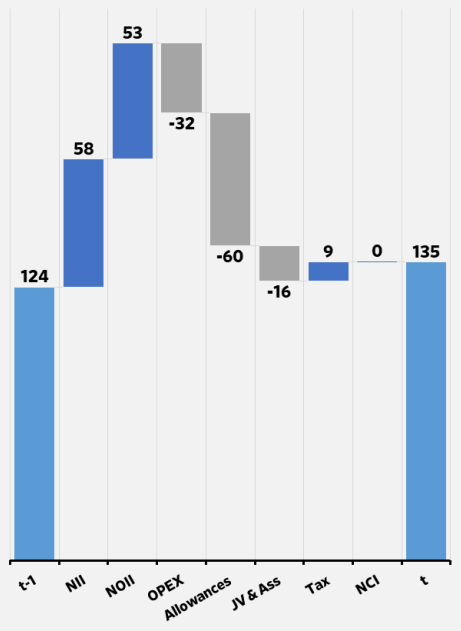
Source: Company, MBSBR

FIG 2: QoQ P/L walk (Quarterly)



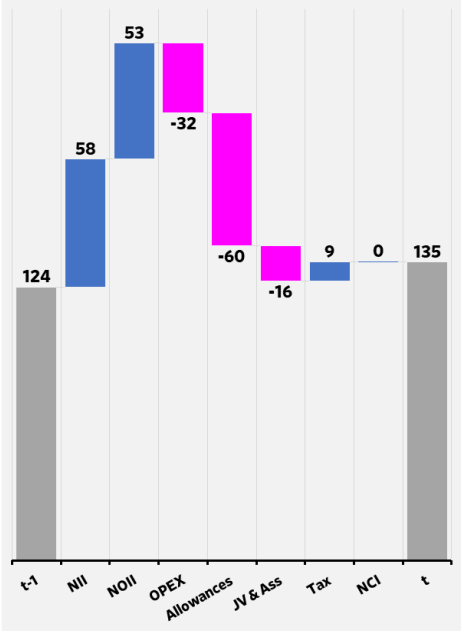
Source: Company, MBSBR

FIG 3: QoQ P/L walk (Quarterly)



Source: Company, MBSBR

FIG 4: QoQ P/L walk (Cumulative)



Source: Company, MBSBR

FIG 5: Targets, Achievements, and Outlook

Targets	FY26F	3M FY26	Notes (Red: New guidance, ~~Strikethrough: Guidance is no longer pertinent~~)
ROE	5.0 PBT: RM850m	4.4	Will likely be revised negatively.
CIR	67	62.7	Will likely be revised negatively.
NIM	1.55 (from 1.45)	1.54	Will likely be revised negatively. We think NIM has peaked this quarter, as COF issues ramp up.
NOII		28% (yoy)	
Loans	10	3.3 (YTD)	The target is lofty and faces multiple pressures, but AFFIN historically has a good track record of meeting this.
Deposits		-2.5 (YTD)	
% CASA	31	27.5	
Loan/Depo		105.3	
GIL ratio	1.80	1.75	
NCC (bps)	~~13 (GCC)~~	35	Will likely be revised negatively.
CET 1		12.5	
Div payout	40 – 60	-	Will likely be at lower bound of guidance.

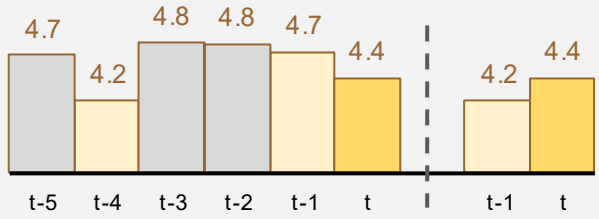
Source: Company, MBSBR

INCOME STATEMENT (QUARTERLY & CUMULATIVE)

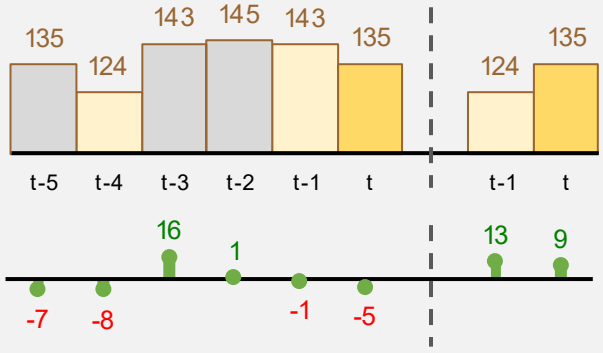
1QFY26 / 3MFY26 results

Earnings:	**Within our full-year forecasts**	**(24%)**
	Within street full-year forecasts	(23%)
Dividend:	**NO**	
YTD payout:	-	

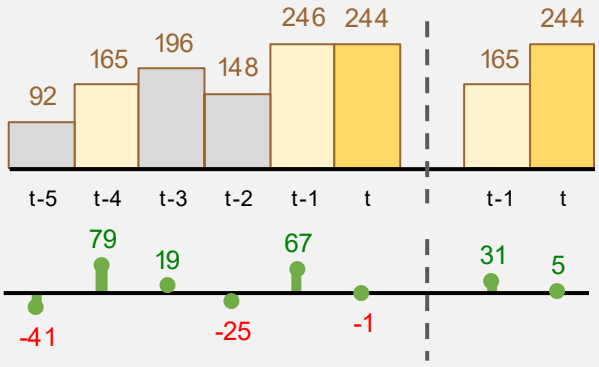
ROE (%)



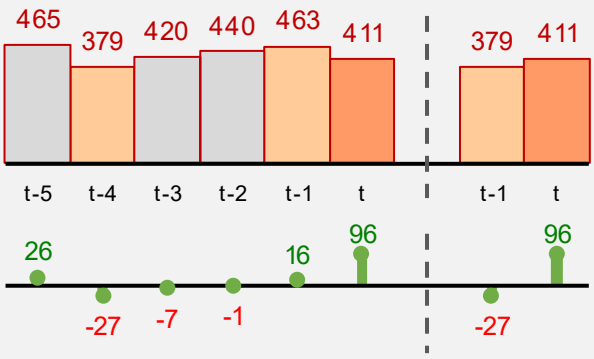
Core Net Profit (RM m)
Growth -- qoq (Qtr) & yoy (Cum) (%)



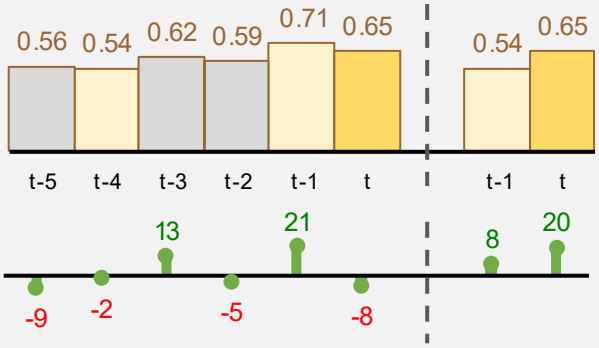
Pre-Provisioning Operating Profit (RM m)
Growth -- qoq (Qtr) & yoy (Cum) (%)



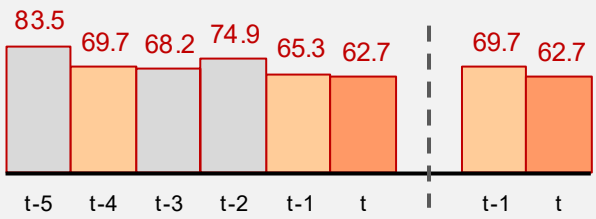
OPEX (RM m)
Growth -- yoy only! (Qtr & Cum) (%)



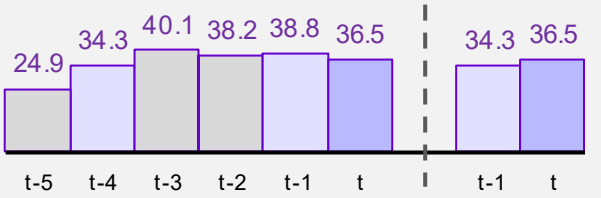
Topline (RM b)
Growth -- qoq (Qtr) & yoy (Cum) (%)



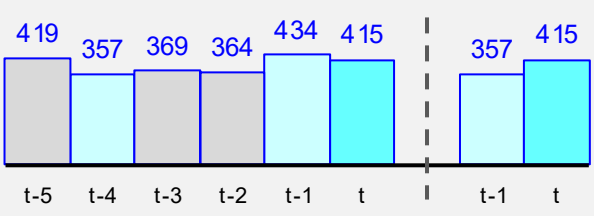
Cost/Income ratio (%)



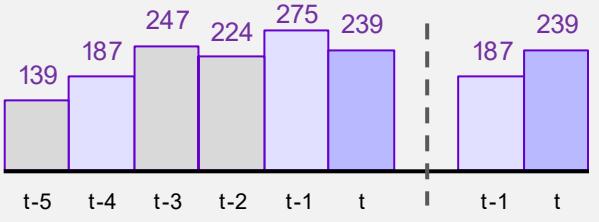
% NOII as topline (%)



Net interest income (RM m)

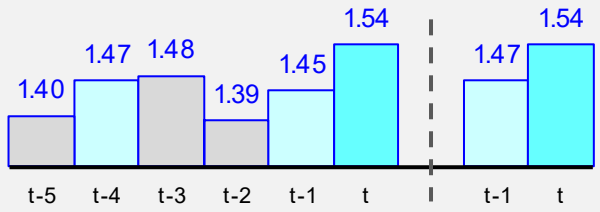


Non-interest income (RM m)

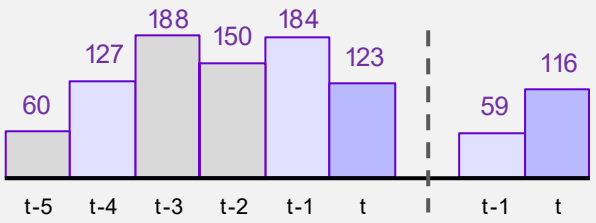


Source: Company, MBSBR

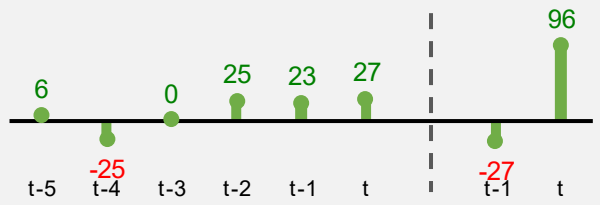
NIM (%)



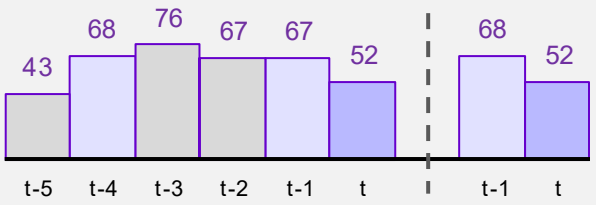
Non-fee NOII (RM m)



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

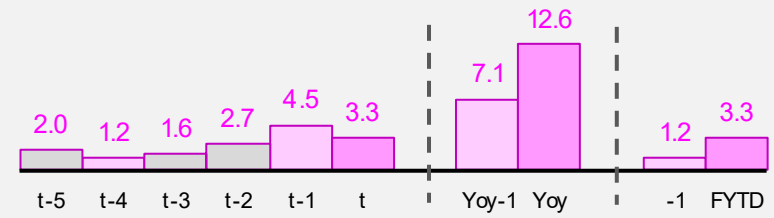


% Non-fee income as NOII (%)

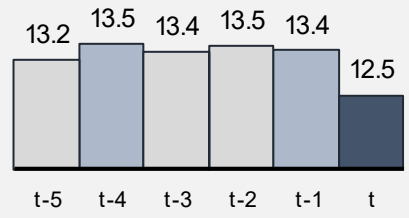


BALANCE SHEET

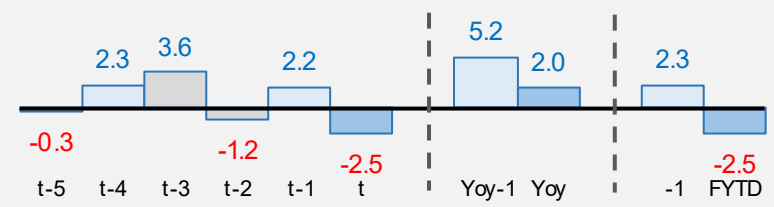
Loan growth -- qoq, yoy, FYTD (%)



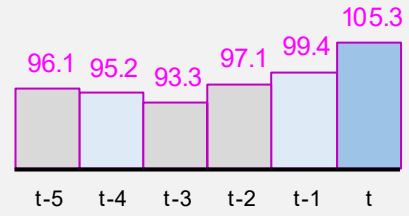
CET 1 ratio (%)



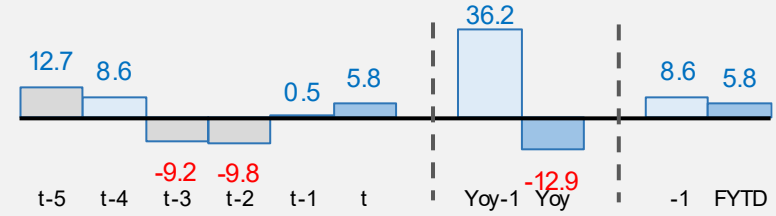
Deposit growth -- qoq, yoy, FYTD (%)



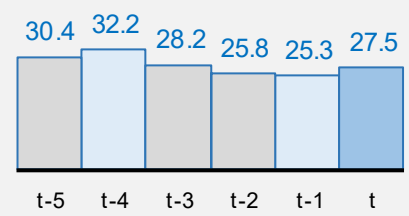
Loan/Deposit ratio (%)



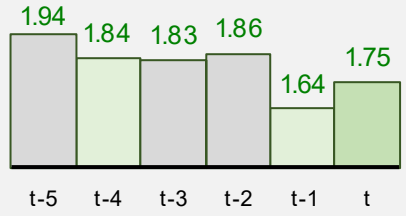
CASA growth -- qoq, yoy, FYTD (%)



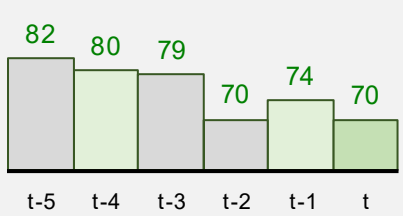
CASA ratio (%)



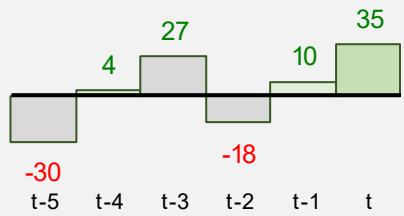
GIL ratio (%)



Loan loss coverage (%)



Ann. net credit cost (bps)



Source: Company, MBSBR

FIG 6: Retrospective Performance

Metric	Surprise? Qoq/Yoy		Metric	Surprise? Qoq/Yoy	
Qtrly Core NP	RM mil	135	Qtrly ROE	Qtr value	4.4%
	24% of FY CNP				
	Qoq	-5%		t-1	4.7%
	Yoy	9%		t-4	4.2%
Cum Core NP	RM mil	135	Cum ROE	Cum value	4.4%
	Within our forecast				
	24% of FY CNP				
	Within consensus				
	23% of FY CNP				
	Yoy	9%		t-1	4.2%
NII	As expected		NIM	As expected	
				Qtr value	1.54
				Cum value	1.54
	Qtr (Qoq)	-4%		Qtr (Qoq)	+9bps
	Qtr (Yoy)	16%		Qtr (Yoy)	+7bps
	Cum (Yoy)	16%		Cum (Yoy)	+7bps
NOII	As expected		Qtr	% NII	63%
	Qtr (Qoq)	-13%		% NOII	37%
	Qtr (Yoy)	28%	Cum	% NII	63%
	Cum (Yoy)	28%		% NOII	37%
OPEX	As expected		Cost/ Inc.	As expected	
				Qtr value	62.7%
				Cum value	62.7%
	Qtr (Qoq)	-11%		Qtr (Qoq)	-2.5%
	Qtr (Yoy)	8%		Qtr (Yoy)	-6.9%
	Cum (Yoy)	8%		Cum (Yoy)	-6.9%

Metric	Surprise? Qoq/Yoy		Metric	Surprise? Qoq/Yoy	
Loans	As expected				
	Qoq	3.3%			
	Yoy	12.6%			
	YTD (FY)	3.3%			
Depo. grwth	As expected		CASA grwth	As expected	
	Qoq	-2.5%		Qoq	5.8%
	Yoy	2.0%		Yoy	-12.9%
	YTD (FY)	-2.5%		YTD (FY)	5.8%
CASA ratio	As expected		L/D ratio	As expected	
	Value now	27.5%		Value now	105.3%
	Qoq	+2.2%		Qoq	+5.9%
	Yoy	-4.7%		Yoy	+10.2%
GIL ratio	-ve surprise		LLC ratio	As expected	
	Value now	1.75%		Value now	70%
	Qoq	+11bps		Qoq	-4%
	Yoy	-10bps		Yoy	-10%
Qtrly Net CC	As expected		Cum Net CC	As expected	
	Heavy provision			Heavy provision	
	Value now	35bps		Value now	35bps
	t-1	10bps			
	t-4	4bps		t-4	4bps
CET 1	Could be better		Div payout	No divvy	
	As expected			As expected	
	Value now	12.5%		Payout	
	Qoq	-0.9%			

Source: Company, MBSBR

FINANCIAL SUMMARY

INCOME STATEMENT

FYE Dec (RM m)	FY24	FY25	FY26F	FY27F	FY28F
Net interest income	**826**	**875**	**977**	**1,050**	**1,123**
Islamic banking inc.	691	867	893	959	1,026
Other operating inc.	652	700	734	806	883
Net income	**2,170**	**2,442**	**2,604**	**2,815**	**3,033**
OPEX	(1,668)	(1,702)	(1,784)	(1,914)	(2,062)
PPOP	**502**	**740**	**820**	**901**	**971**
Loan allowances	73	(40)	(100)	(109)	(118)
Other allowances	79	9	(12)	(12)	(12)
JV & Associates	55	52	66	72	78
PBT	**708**	**761**	**774**	**852**	**918**
Tax & zakat	(198)	(221)	(215)	(237)	(255)
Discontinued ops	-	-	-	-	-
NCI	-	-	-	-	-
Reported NP	**510**	**540**	**559**	**615**	**663**
Core NP	**510**	**540**	**559**	**615**	**663**
Total NII	1,373	1,508	1,629	1,750	1,872
Total NOII	797	933	975	1,065	1,160

BALANCE SHEET

FYE Dec (RM m)	FY24	FY25	FY26F	FY27F	FY28F
Cash & ST funds	3,155	6,406	6,424	6,442	6,462
Investment securities	31,153	32,811	33,271	34,111	35,344
Net loans	70,892	78,546	85,558	93,258	101,651
Other IEAs	-	66	66	66	66
Non-IEAs	6,642	6,245	8,686	9,440	10,333
Total assets	**111,842**	**124,074**	**134,004**	**143,317**	**153,856**
Customer deposits	73,744	79,000	86,110	93,860	102,307
Other IBLs	23,869	29,192	29,478	29,769	30,067
Non-IBLs	2,629	3,663	5,794	6,621	7,934
Total liabilities	**100,241**	**111,855**	**121,382**	**130,250**	**140,308**
Share capital	5,489	5,489	5,489	5,489	5,489
Reserves	6,113	6,730	7,133	7,578	8,060
Shareholders' funds	**11,601**	**12,219**	**12,622**	**13,067**	**13,548**
NCI	-	-	-	-	-
Total equity	**11,601**	**12,219**	**12,622**	**13,067**	**13,548**
Total L&E	**111,842**	**124,074**	**134,004**	**143,317**	**153,856**
Total IEAs	105,200	117,828	125,318	133,878	143,524
Total IBLs	97,612	108,192	115,588	123,629	132,374
Gross loans	72,045	79,511	86,667	94,467	102,969
CASA	22,384	20,010	24,111	26,281	28,646

FINANCIAL RATIOS

FYE Dec (RM m)	FY24	FY25	FY26F	FY27F	FY28F
Interest (%)					
NIM	1.28	1.30	1.34	1.35	1.35
Return on IEAs	2.94	2.64	2.45	2.35	2.25
Cost of funds	2.29	2.01	1.79	1.67	1.56
Net interest spread	0.65	0.63	0.66	0.68	0.69
Profitability (%)					
ROE	**4.5**	**4.5**	**4.5**	**4.8**	**5.0**
ROA	0.5	0.5	0.4	0.4	0.4
NOII/Net income	36.7	38.2	37.4	37.8	38.3
Effective tax rate	27.0	28.3	27.0	27.0	27.0
Cost/Income	76.9	69.7	68.5	68.0	68.0
Liquidity (%)					
Loan/Deposit	96.1	99.4	99.4	99.4	99.4
CASA ratio	30.4	25.3	28.0	28.0	28.0
Asset Quality (%)					
GIL ratio	1.94	1.64	1.60	1.60	1.60
LLC ratio	82	74	80	80	80
LLC (w. reserves)	116	120	112	109	107
Net CC (bps)	-10	5	12	12	12
Capital (%)					
CET 1	13.2	13.3	13.2	13.2	13.2
Tier 1 capital	14.6	14.7	14.6	14.6	14.6
Total capital	17.1	17.2	16.9	16.9	16.9
Growth (%)					
Total NII	-0.4	9.8	8.0	7.4	7.0
Total NOII	31.2	17.1	4.5	9.2	8.9
Net income	9.3	12.5	6.7	8.1	7.7
OPEX	17.4	2.0	4.8	7.3	7.7
Core NP	26.7	6.0	3.5	10.1	7.7
Gross loans	8.1	10.4	9.0	9.0	9.0
Customer deposits	4.1	7.1	9.0	9.0	9.0
CASA	18.3	-10.6	20.5	9.0	9.0
Valuation metrics					
Core EPS (sen)	19.8	21.0	21.7	23.9	25.7
Gross DPS (sen)	-	8.5	8.7	9.4	10.0
Div payout (%)	-	40	40	40	40
BVPS (RM)	4.5	4.7	4.9	5.1	5.3
Core P/E (x)	12.2	11.5	11.1	10.1	9.4
Div yield (%)	**0.0**	**3.5**	**3.6**	**3.9**	**4.1**
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 as 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