Corporate Update

Affin Bank Berhad

(5185 | ABANK MK) Main | Financial Services

FTSE4Good | ESG 3 Stars

Maintain **NEUTRAL**

Revised Target Price **RM2.28**

(from RM2.39)

2QFY26 Results Review
Mortgage Woes

RETURN STATISTICS	
Price @ 14 August 2026 (RM)	2.23
Expected share price return (%)	+2.2
Expected dividend yield (%)	+4.1
Expected total return (%)	**+6.3**

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-1.3	-2.0
3 months	-0.4	-8.6
12 months	-9.4	-17.3

INVESTMENT STATISTICS

FYE Dec	FY26F	FY27F	FY28F
Core NP (RM m)	**514**	**604**	**650**
CNP growth (%)	9	9	9
Div yield (%)	**3.6**	**4.1**	**4.4**
Gross DPS (sen)	8.0	9.2	9.8
P/BV (x)	**0.5**	**0.4**	**0.4**
BVPS (RM)	4.9	5.1	5.2
ROE (%)	**4.1**	**4.7**	**4.9**
% Street CNP (%)	**91**	**94**	**90**

KEY STATISTICS

FBM KLCI	1,727.39
Issue shares (m)	2,533.8
Estimated free float (%)	28.4
Market Capitalisation (RM'm)	5,843.5
52-wk price range	RM2.21 – RM2.82
3-mth average daily volume (m)	1.2
3-mth average daily value (RM'm)	2.9
Top Shareholders (%)	
Sg Assetfin Holdings Sdn Bhd	26.4
Bank of East Asia	23.9
LTAT	22.0

Salient Points

Weak set of earnings, below our forecasts.

Management's tone: Very negative.

Expect: Asset quality issues to dominate future conversations.

Our Verdict

AFFIN's asset quality and provisioning outlook faces tremendous downside risk in subsequent quarters. We advise investors to revisit this stock upon better clarity on its asset quality situation.

Valuations

A revised FY27F P/BV of 0.45x *(formerly 0.47x)*

Current P/BV of 0.46x is trading slightly below the 10-year P/BV mean of 0.51x. We think the discount is warranted, given the Group's current headwinds.

The company is currently trading at a forward FY27F P/BV of 0.44x with a +4.1% dividend yield.

Themes

1. ▲ AFFIN has significant fee income growth potential (particularly with PHEIM), though it may take some gestation period.
2. ▲ High loan growth expected – but project delays, tighter underwriting standards, and liquidity constraints provide downside pressure.
3. ► Dividends are not the Group's priority now – growth is. It is committed to maintaining a 40-60% dividend payout policy, though a payout closer to the lower bound is likely. Incidences of DRP are possible.
4. ► The Group is mixed about NIM prospects. On one hand, deposit competition is ramping up, but on the other, the Group expects some uplift from the loan yields segment. We look forward to a disposal of lower-yielding assets scheduled to take place in 4QFY26.
5. ► Cost control seems to be going well in FY26, as tech investments are tapering down. Unfortunately, CIR remains well above the 60% mark.
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. ▼ Very poor asset quality and provisioning outlook, particularly for its residential mortgage segment, which faces delayed recoveries.

Results in a nutshell:

▼ **6MFY26's Core NP of RM263m is *Below/Below* our/street forecasts: *47%/46%* of full-year forecasts.** Asset quality issues and provisions came in worse than forecasted.

► **No dividend announcement.**

Analyst

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▼ **6MFY26's Core net profit (NP) of RM263m down by -2%yoy.** The decrease was driven by higher provisions and OPEX charges, as well as weaker Associate income. This offset improvements in NII and NOII.

▼ **2QFY26's Core NP of RM128m down by -6%qoq.** The decrease was driven by weaker NOII and higher provisions, which offset improved NII performance.

Have a look at:

▼ **Very poor asset quality and provisioning outlook.** Management implies that asset quality issues will only worsen. There was a fair amount of GIL creep-up in the consumer book, particularly in the residential mortgage segment. They attribute the ramp-up in residential mortgage GILs to a recent change in the judiciary section of the recovery process, which has led to a bottleneck in pursuing mortgage recoveries. Expect delays in the recovery process as a result. Other banks seem much less negative though: we opine it could possibly be the result of pursuing such lofty loan growth targets.

This quarter saw a very large provisioning, bringing up the 1HFY26's NCC to (as per our calculations) 41bps – well above what they were previously guiding for. Although management refrains from giving proper guidance, considering all the ongoing uncertainty, they imply that FY26's NCC will finish at a similar level. Interestingly, the Group has also reversed its LLC stance: Previously confident at the 70% level, the Group now intends to raise it back to 100%. Also, the management overlay stash remains unchanged, at RM30m.

▼ **This will negatively impact loan growth in 2HFY26.** Management will tighten underwriting standards and refrain from growing their residential mortgage book. The Group needs to price loans up to preserve NIMs. Regardless, the Group made great progress in 1HFY26 alone – its 10% FY26 loan growth target is still achievable.

▼ **No intention to maintain competitive dividend yields.** The Group believes scaling up growth and developing PHEIM is the priority – which leaves little excess capital. Even though management alluded to full cash dividends in FY26 two quarters ago, it seems that DRP may be back on the cards. There will be a +30bps capital uplift from Basel III changes in Dec-26, but we doubt this gives any upside to dividends. As mentioned previously, AFFIN has plans to convert to the IRB regime (which could free up 2% worth of capital), but completion is far off, expected to happen somewhere in 2030.

► **Mixed signals on NIM.** Near-term COF will be hit by deposit competition, prompting management to explore alternative sources of funding. At the same time, NIM this quarter failed to register a positive impact coming from the late inclusion of some high-yielding loans, but this uplift should be reflected in NIM next quarter. We think any possible improvements to NIM will only be apparent towards 4QFY26, when the management can flush out RM1.2b worth of low-yielding assets and benefit from CASA accumulation exercises.

Forecasts revised: FY26F/FY27F/FY28F Core NP adjusted by -8%/-2%/-2%. To reflect higher provisioning costs, though fee income has been coming in slightly better than expected.
Key downside risks. *(1) Lingering asset quality concerns, (2) Steeper-than-expected NIM compression, (3) Higher-than-expected NCC.*

Maintain NEUTRAL call: Revised GGM-TP of RM 2.28 ***(from RM2.39)***. The TP is based on a revised FY27F P/BV of 0.45x *(formerly 0.47x)*, to reflect altered earnings prospects and ROE-based valuations.

(GGM assumptions: *FY27F ROE of 4.7%, LTG of 3.0% & COE of 6.8%)*

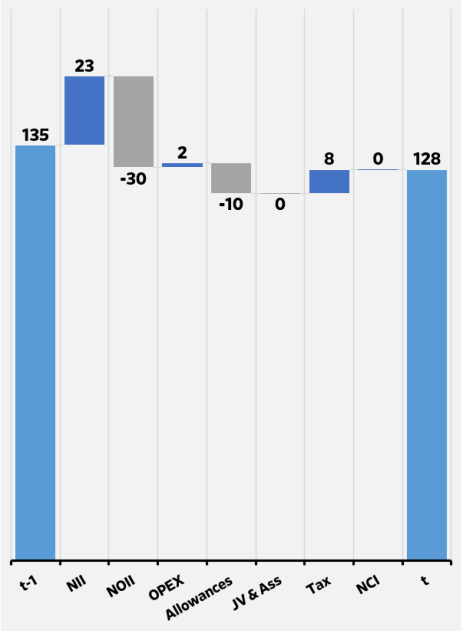
FIG 1: Quarterly results

FYE Dec (RM m)	2Q FY26	1Q FY26	2Q FY25	Yoy (%)	Qoq (%)	1H FY26	1H FY25	Yoy (%)
Net interest inc.	235	233	213	11	1	468	419	12
Islamic banking inc.	249	235	219	14	6	484	417	16
Non-interest inc.	163	186	185	-12	-13	349	325	7
Net income	**647**	**654**	**616**	**5**	**-1**	**1,302**	**1,160**	**12**
OPEX	(409)	(411)	(420)	-3	-0	(820)	(799)	3
PPOP	**238**	**244**	**196**	**21**	**-2**	**482**	**361**	**33**
Loan provisions	(94)	(68)	(48)	98	39	(162)	(54)	198
Other provisions	15	(1)	7	126	<-500	14	5	195
JV & Associates	6	6	24	**-75**	**-0**	12	46	**-74**
PBT	**165**	**181**	**180**	**-8**	**-9**	**346**	**358**	**-3**
Tax	(38)	(45)	(36)	4	-17	(83)	(90)	-8
NCI	-	-	-	n.m.	n.m.	-	-	n.m.
Reported NP	**128**	**135**	**143**	**-11**	**-6**	**263**	**268**	**-2**
Core NP	**128**	**135**	**143**	**-11**	**-6**	**263**	**268**	**-2**
Total NII	438	415	369	19	5	853	727	17
Total NOII	209	239	247	-15	-12	448	434	3
Gross DPS (sen)	**-**	**-**	**-**	**n.m.**	**n.m.**	**-**	**-**	**n.m.**
Core EPS (sen)	4.9	5.3	5.6	-12	-6	10.2	10.5	-3
Gross loans	84,137	82,119	74,066	13.6	2.5			
Gross impaired loans	1,534	1,436	1,359	12.9	6.8			
Customer deposits	78,531	77,012	78,202	0.4	2.0			
CASA	21,636	21,166	22,060	-1.9	2.2			

Ratios (%)	2Q FY26	1Q FY26	2Q FY25	Yoy (ppts)	Qoq (ppts)	1H FY26	1H FY25	Yoy (ppts)
ROE (Ann.)	**4.1**	**4.4**	**4.8**	**-0.7**	**-0.3**	**4.3**	**4.5**	**-0.2**
NIM (Reported)	**1.52**	**1.54**	**1.48**	**0.04**	**-0.02**	**1.52**	**1.49**	**0.03**
NOII/Net income	32.3	36.5	40.1	-7.8	-4.2	34.4	37.4	-2.9
Cost/Income	63.2	62.7	68.2	-5.0	0.5	63.0	68.9	-5.9
NCC (Ann.) (bps)	48	35	27	21	13	41	15	26
GIL ratio	1.82	1.75	1.83	-0.01	0.07			
Loan loss coverage	70	70	79	-10	-0			
CASA ratio	27.6	27.5	28.2	-0.7	0.1			
L/D ratio	105.8	105.3	93.3	12.4	0.5			
CET-1	12.6	12.5	13.4	-0.8	0.1			

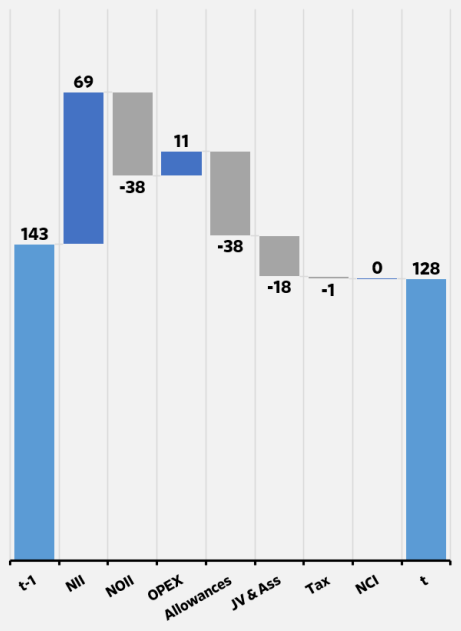
Source: Company, MBSBR

FIG 2: QoQ P/L walk (Quarterly)



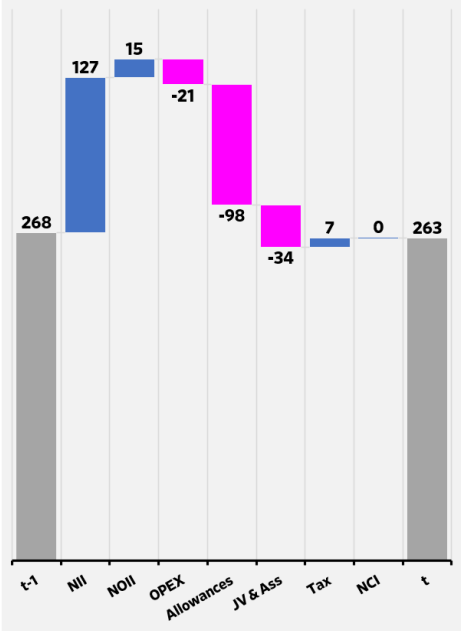
Source: Company, MBSBR

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	1H FY26	Notes (Red: New guidance, ~~Strikethrough: Guidance is no longer pertinent~~)
ROE	5.0 PBT: RM850m	4.3	This ROE figure seems a bit lofty.
CIR	67	63.0	
NIM	1.55 (from 1.45)	1.52	
NOII		3% (yoy)	
Loans	10	5.8 (YTD)	Expect a tapering of loans in 2HFY26, as underwriting standards tighten.
Deposits		-0.6 (YTD)	
% CASA	31	27.6	
Loan/Depo		105.8	
GIL ratio	1.80	1.82	
NCC (bps)	~35	41	Management does not seem altogether confident about the figure – it points to too much uncertainty to give any official guidance.
CET 1		12.6	
Div payout	40 – 60	-	Likely to remain at the lower bound of guidance – with an added possibility of DRP.

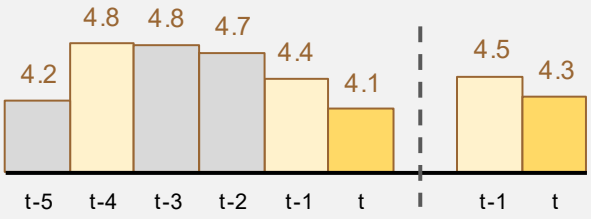
Source: Company, MBSBR

INCOME STATEMENT (QUARTERLY & CUMULATIVE)

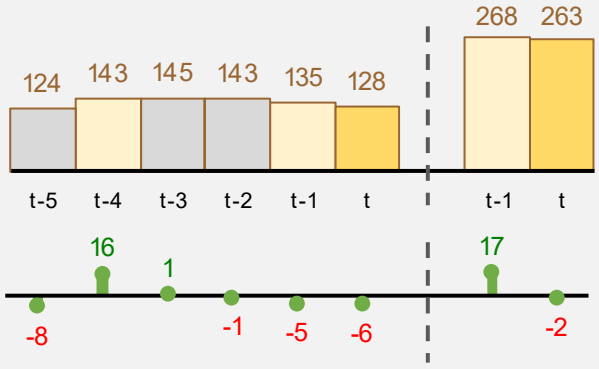
2QFY26 / 6MFY26 results

Earnings:	Below our full-year forecasts	(47%)
	Below street full-year forecasts	(46%)
Dividend:	NO	
YTD payout:	-	

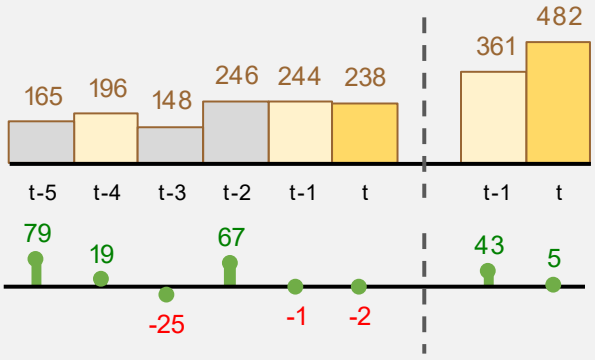
ROE (%)



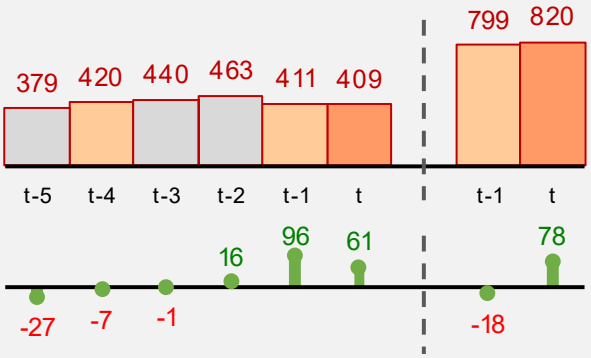
Core Net Profit (RM m)
Growth -- qoq (Qtr) & yoy (Cum) (%)



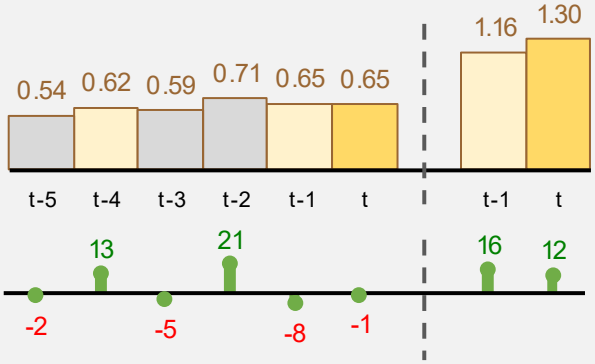
Pre-Provisioning Operating Profit (RM m)
Growth -- qoq (Qtr) & yoy (Cum) (%)



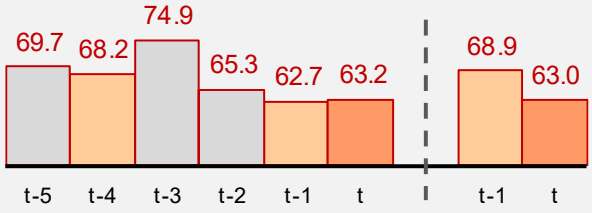
OPEX (RM m)
Growth -- yoy only! (Qtr & Cum) (%)



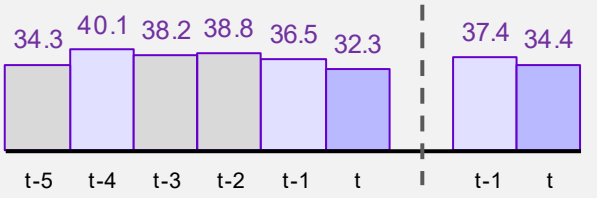
Topline (RM b)
Growth -- qoq (Qtr) & yoy (Cum) (%)



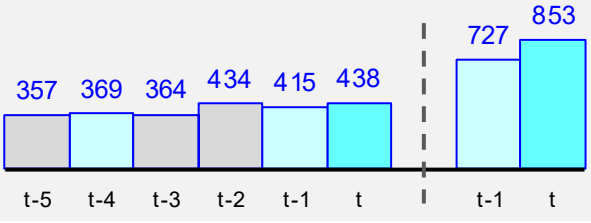
Cost/Income ratio (%)



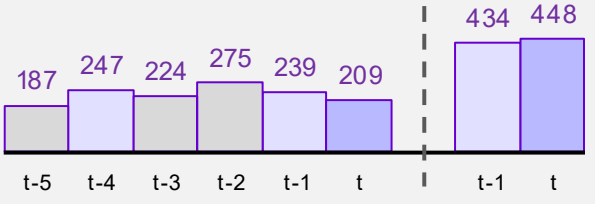
% NOII as topline (%)



Net interest income (RM m)

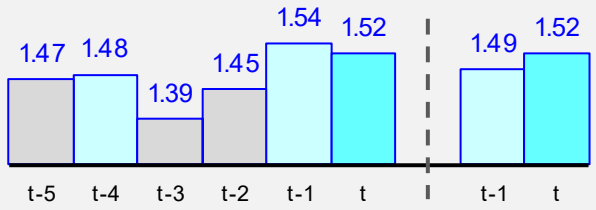


Non-interest income (RM m)

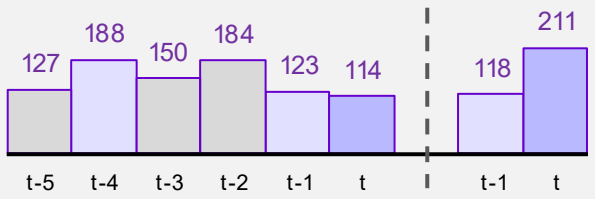


Source: Company, MBSBR

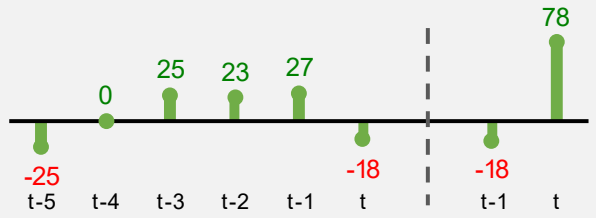
NIM (%)



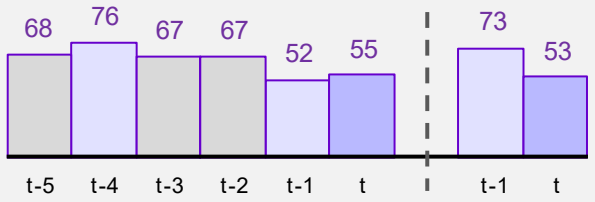
Non-fee NOII (RM m)



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

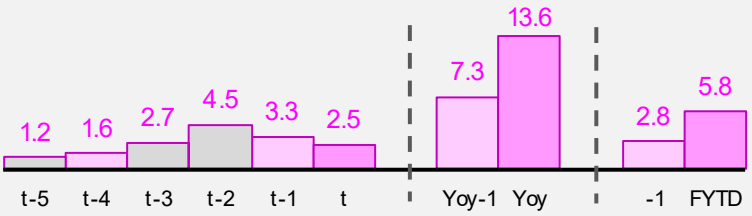


% Non-fee income as NOII (%)

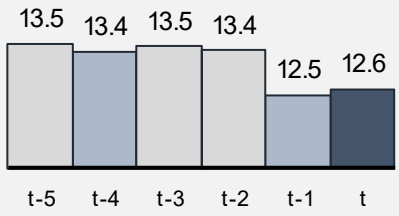


BALANCE SHEET

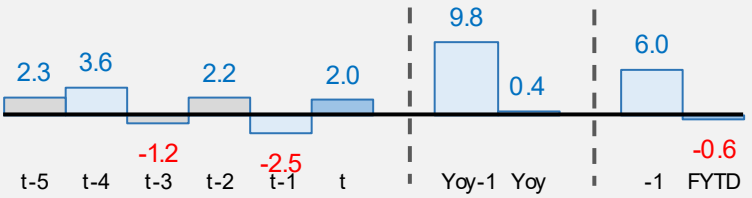
Loan growth -- qoq, yoy, FYTD (%)



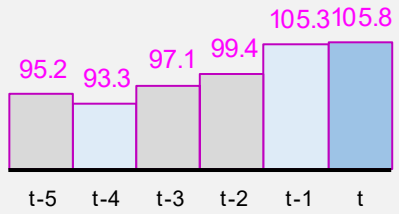
CET 1 ratio (%)



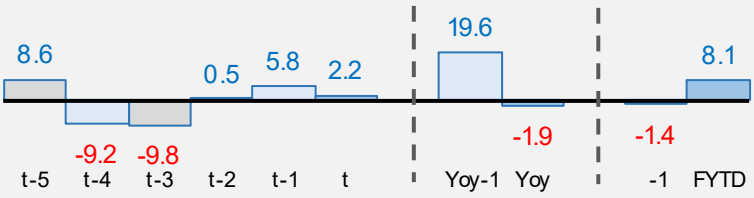
Deposit growth -- qoq, yoy, FYTD (%)



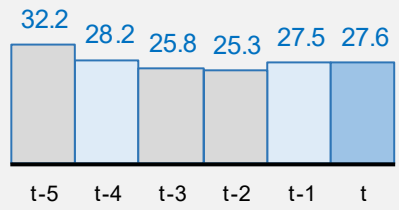
Loan/Deposit ratio (%)



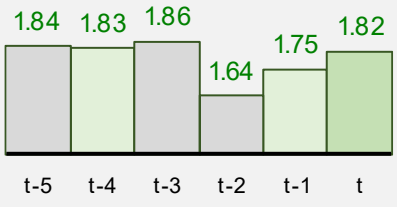
CASA growth -- qoq, yoy, FYTD (%)



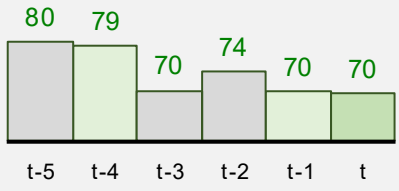
CASA ratio (%)



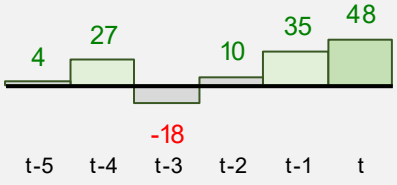
GIL ratio (%)



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	128	Qtrly ROE	Qtr value	4.1%
	23% of FY CNP				
	Qoq	-6%		t-1	4.4%
	Yoy	-11%		t-4	4.8%
Cum Core NP	RM mil	263	Cum ROE	Cum value	4.3%
	Below our forecast				
	47% of FY CNP				
	Below consensus				
	46% of FY CNP				
	Yoy	-2%		t-1	4.5%
NII	As expected		NIM	As expected	
				Qtr value	1.52
				Cum value	1.52
	Qtr (Qoq)	5%		Qtr (Qoq)	-2bps
	Qtr (Yoy)	19%		Qtr (Yoy)	+4bps
	Cum (Yoy)	17%		Cum (Yoy)	+3bps
NOII	As expected		Qtr	% NII	68%
	Qtr (Qoq)	-12%		% NOII	32%
	Qtr (Yoy)	-15%	Cum	% NII	66%
	Cum (Yoy)	3%		% NOII	34%
OPEX	+ve surprise		Cost/ Inc.	+ve surprise	
				Qtr value	63.2%
				Cum value	63.0%
	Qtr (Qoq)	-0%		Qtr (Qoq)	+0.5%
	Qtr (Yoy)	-3%		Qtr (Yoy)	-5.0%
	Cum (Yoy)	3%		Cum (Yoy)	-5.9%

Metric	Surprise? Qoq/Yoy		Metric	Surprise? Qoq/Yoy	
Loans	As expected				
	Qoq	2.5%			
	Yoy	13.6%			
	YTD (FY)	5.8%			
Depo. grwth	As expected		CASA grwth	As expected	
	Qoq	2.0%		Qoq	2.2%
	Yoy	0.4%		Yoy	-1.9%
	YTD (FY)	-0.6%		YTD (FY)	8.1%
CASA ratio	As expected		L/D ratio	As expected	
	Value now	27.6%		Value now	105.8%
	Qoq	+0.1%		Qoq	+0.5%
	Yoy	-0.7%		Yoy	+12.4%
GIL ratio	-ve surprise		LLC ratio	As expected	
	Value now	1.82%		Value now	70%
	Qoq	+7bps		Qoq	-0%
	Yoy	-1bps		Yoy	-10%
Qtrly Net CC	-ve surprise		Cum Net CC	-ve surprise	
	Heavy provision			Heavy provision	
	Value now	48bps		Value now	41bps
	t-1	35bps			
	t-4	27bps		t-4	15bps
CET 1	Healthy level		Div payout	No divvy	
	As expected			As expected	
	Value now	12.6%		Payout	
	Qoq	0.1%			

Source: Company, MBSBR

FINANCIAL SUMMARY

INCOME STATEMENT

FYE Dec (RM m)	FY24	FY25	FY26F	FY27F	FY28F
Net interest income	**826**	**875**	**977**	**1,042**	**1,115**
Islamic banking inc.	691	867	892	951	1,018
Other operating inc.	652	700	780	813	890
Net income	**2,170**	**2,442**	**2,649**	**2,806**	**3,024**
OPEX	(1,668)	(1,702)	(1,749)	(1,852)	(1,996)
PPOP	**502**	**740**	**901**	**954**	**1,028**
Loan allowances	73	(40)	(249)	(181)	(197)
Other allowances	79	9	(12)	(12)	(12)
JV & Associates	55	52	72	76	82
PBT	**708**	**761**	**712**	**837**	**901**
Tax & zakat	(198)	(221)	(198)	(233)	(250)
Discontinued ops	-	-	-	-	-
NCI	-	-	-	-	-
Reported NP	**510**	**540**	**514**	**604**	**650**
Core NP	**510**	**540**	**514**	**604**	**650**
Total NII	1,373	1,508	1,629	1,736	1,858
Total NOII	797	933	1,021	1,070	1,165

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	85,509	93,243	101,651
Other IEAs	-	66	66	66	66
Non-IEAs	6,642	6,245	8,693	9,450	10,348
Total assets	**111,842**	**124,074**	**133,962**	**143,313**	**153,872**
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	5,779	6,651	7,990
Total liabilities	**100,241**	**111,855**	**121,367**	**130,280**	**140,364**
Share capital	5,489	5,489	5,489	5,489	5,489
Reserves	6,113	6,730	7,106	7,544	8,019
Shareholders' funds	**11,601**	**12,219**	**12,595**	**13,033**	**13,507**
NCI	-	-	-	-	-
Total equity	**11,601**	**12,219**	**12,595**	**13,033**	**13,507**
Total L&E	**111,842**	**124,074**	**133,962**	**143,313**	**153,872**
Total IEAs	105,200	117,828	125,269	133,862	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	1.34	1.34
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	0.68
Profitability (%)					
ROE	**4.5**	**4.5**	**4.1**	**4.7**	**4.9**
ROA	0.5	0.5	0.4	0.4	0.4
NOII/Net income	36.7	38.2	38.5	38.1	38.5
Effective tax rate	27.0	28.3	27.0	27.0	27.0
Cost/Income	76.9	69.7	66.0	66.0	66.0
Liquidity (%)					
Loan/Deposit	96.1	99.4	99.3	99.3	99.4
CASA ratio	30.4	25.3	28.0	28.0	28.0
Asset Quality (%)					
GIL ratio	1.94	1.64	1.67	1.62	1.60
LLC ratio	82	74	80	80	80
LLC (w. reserves)	116	120	110	109	107
Net CC (bps)	-10	5	30	20	20
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	6.6	7.0
Total NOII	31.2	17.1	9.4	4.8	9.0
Net income	9.3	12.5	8.5	5.9	7.8
OPEX	17.4	2.0	2.7	5.9	7.8
Core NP	26.7	6.0	-4.9	17.6	7.6
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	20.0	23.5	25.3
Gross DPS (sen)	-	8.5	8.0	9.2	9.8
Div payout (%)	-	40	40	40	40
BVPS (RM)	4.5	4.7	4.9	5.1	5.2
Core P/E (x)	11.3	10.6	11.2	9.5	8.8
Div yield (%)	**0.0**	**3.8**	**3.6**	**4.1**	**4.4**
P/BV (x)	0.5	0.5	0.5	0.4	0.4

Source: Company, MBSBR

MBSB RESEARCH is part of MBSB Investment Bank Berhad 197501002077 (24878-X).

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MBSB 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