Corporate Update

Affin Bank Berhad

(5185 | ABANK MK) Main | Financial Services

FTSE4Good | ESG 3 Stars

Maintain **NEUTRAL**

Revised Target Price **RM1.92**
(from RM2.28)

3QFY26 Results Review
Still Difficult

RETURN STATISTICS	
Price @ 16 November 2026 (RM)	1.95
Expected share price return (%)	-1.6
Expected dividend yield (%)	+4.5
Expected total return (%)	**+2.9**

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	2.5	2.3
3 months	2.5	-3.2
12 months	-10.9	-11.8

INVESTMENT STATISTICS			
FYE Dec	**FY26F**	**FY27F**	**FY28F**
Core NP (RM m)	**489**	**568**	**611**
CNP growth (%)	9	9	9
Div yield (%)	**3.9**	**4.5**	**4.7**
Gross DPS (sen)	7.6	8.7	9.2
P/BV (x)	**0.4**	**0.4**	**0.4**
BVPS (RM)	4.9	5.0	5.2
ROE (%)	**3.9**	**4.4**	**4.6**
% Street CNP (%)	**93**	**93**	**89**

KEY STATISTICS	
FBM KLCI	1,588.03
Issue shares (m)	2533.84
Estimated free float (%)	23.52
Market Capitalisation (RM'm)	5,396.02
52-wk price range	RM1.91 – RM2.82
3-mth average daily volume (m)	1.09
3-mth average daily value (RM'm)	2.26
Top Shareholders (%)	
Sg Assetfin Holdings Sdn Bhd	25.4
Bank of East Asia	23.9
LTAT	20.3

Salient Points

Weaker set of earnings than forecasted.

Management's tone: Negative

Expect: Next quarter to be rough.

Our Verdict

We still lack confidence in AFFIN, despite handling its investment income well. Next quarter will be a tough one, leaving no catalyst for a positive share price rerating. Their extremely high loan growth has not tapered down much, putting them at risk at further steeper NIM compression than their peers. Their asset quality and provisioning outlook is poor. Given their low capital levels, dividend outlook has more downside risk than upside risk – with possible SCRIPs diluting earnings.

Valuations

A revised FY27F P/BV of 0.38x *(formerly 0.45x)*

Current P/BV of 0.40x is inexpensive, trading under 10-year P/BV mean of 0.50x. However, the many headwinds faced by the bank make it difficult for us to assign a higher P/BV valuation.

The company is currently trading at a forward FY27F P/BV of 0.39x with a +4.5% dividend yield.

Themes

1. ▲ AFFIN has significant fee income growth potential (particularly with PHEIM), though it may take some time to set up.
2. ▲ High loan growth preserves NII but be wary of its impact on NIM. The Group intends to slow down growth.
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. Expect it to be supplemented by DRP and SCRIPS.
4. ► Cost control seems to be going well in FY26, as tech investments are tapering down. Unfortunately, CIR remains well above the 60% mark.
5. ▼ Negative on NIM prospects, especially due to the Group's high loan growth stance in a period of tightening liquidity. We look forward to a disposal of lower-yielding assets scheduled to take place in 4QFY26.
6. ▼ Liquidity is tightening: Ramping up lower-cost CASA growth is a problem yet to solve.
7. ▼ Very poor asset quality and provisioning outlook, particularly for its residential mortgage segment, which faces delayed recoveries.

Results in a nutshell:

▼ **9MFY26's Core NP of RM377m is *Below*/*Below* our/street forecasts: *73%*/*71%* of full-year forecasts.** While NOII performed better than expected, high provisions and steep NIM compression led to the missed expectations.

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► **No dividend announcement.**

▼ **9MFY26's Core net profit (NP) of RM377m down by -9%yoy.** The decrease was driven by higher provisions, which offset NII improvements.

▼ **3QFY26's Core NP of RM114m down by -11%qoq.** The decrease was driven by higher OPEX, which offset better NII and NOII.

Have a look at:

▼ **FY26 targets may not be reached.** Unfortunately, AFFIN's surprisingly strong investment income figure is not enough to buoy the Group's earnings. Management has negatively revised its NIM target. It mentions that its ROE/PBT target is unlikely to be met – something we were expecting, given the initial loftiness of the said targets.

▼ **Low capital levels: Dividend outlook is not good.** Current CET 1 ratio stands at a low 12.3%, with a Basel uplift of 40bps already factored in (no further uplift expected). MTM impact on FVOCI book has negatively impacted CET 1 ratio by 30bps. The Group will consider capital raising efforts if CET 1 ratio falls below 11%. The Group seems to suggest that 4QFY26 will be another big quarter for loans, further putting CET 1 levels at risk.

AFFIN is not providing a lot of clarity on its dividend payout next quarter. While a lower bound value of 40% is still possible, it will be supplemented by both DRP and SCRIPs – which are earnings dilutive.

► **High loan growth preserves NII but is exacerbating NIM compression.** The corporate segment is acting as the main driver. But management is slowing down on growth, with the Group having already tightened its underwriting standards (particularly for the vulnerable hire purchase and residential mortgage segments). Nevertheless, it seems that next quarter's figure will still be strong – customers seem to be rushing their loans in fears of a weaker CY27 outlook.

However, the aggressive loan growth levels are causing AFFIN's NIM compression to be very severe. We have seen this before: Historically, AFFIN is more than willing to incur significant COF to fuel its high growth rates. Management expects FY26's NIM to fall near ~1.4% levels (9MFY26: 1.47%), leaving much room for further compression. At the very least, ~RM1.4b of lower yielding AC instruments can be replaced in 4QFY26, providing light upside.

▼ **Still not confident on asset quality and provisioning outlook.** The Group is expecting recoveries of RM30-40m, though the timeline is uncertain. They are optimistic on the completion of their recovery's team restructuring, which should allow for quicker recoveries.

Overall, AFFIN is still vulnerable to asset quality and provisioning incidences. Apart from irritation in the residential mortgage space, we also see some rising pressure in the SME segment. The Group's LLC of 68% is also below their comfortable level of 70%. We do not rule out the possibility of a large provision next quarter.

▲ **Normal tax rates expected next quarter.** Historically, AFFIN reports higher effective tax rates in 4Q to account for adjustments. But management mentions that they've already done the necessary adjustments beforehand – there is no need for correction this time.

Forecasts revised: FY26F/27F/28F Core NP adjusted by -5%/-6%/-6%. To reflect weaker NIM and higher NCC.
Key downside risks. *(1) Dividend payout disappointments, (2) Lingering asset quality concerns, (3) Steeper-than-expected NIM compression.*

Maintain NEUTRAL call: Revised GGM-TP of RM 1.92 ***(from RM2.28)***. The TP is based on a revised FY27F P/BV of 0.38x *(formerly 0.45x)*, to reflect altered earnings prospects and ROE-based valuations.
(GGM assumptions: *FY27F ROE of 4.4%, LTG of 3.0% & COE of 6.8%)*

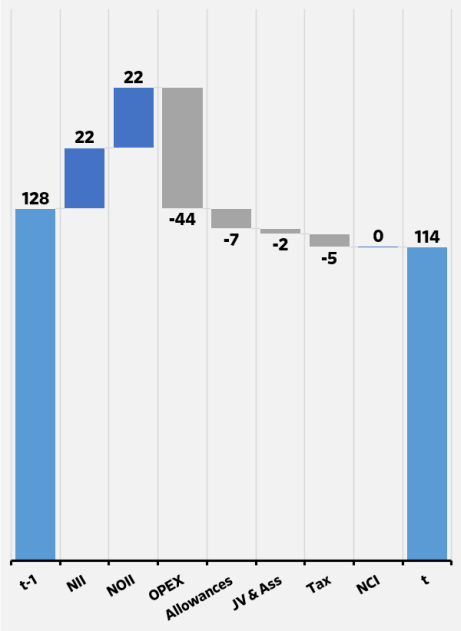
FIG 1: Quarterly results

FYE Dec (RM m)	3Q FY26	2Q FY26	3Q FY25	Yoy (%)	Qoq (%)	9M FY26	9M FY25	Yoy (%)
Net interest inc.	258	235	208	24	10	727	626	16
Islamic banking inc.	238	249	218	9	-5	723	634	14
Non-interest inc.	195	163	163	20	20	543	488	11
Net income	**691**	**647**	**588**	**18**	**7**	**1,993**	**1,748**	**14**
OPEX	(453)	(409)	(440)	3	11	(1,273)	(1,239)	3
PPOP	**238**	**238**	**148**	**61**	**0**	**720**	**509**	**41**
Loan provisions	(78)	(94)	33	-336	-17	(240)	(21)	1,021
Other provisions	(8)	15	2	<-500	-153	6	7	-9
JV & Associates	4	6	2	**110**	**-30**	16	48	**-67**
PBT	**156**	**165**	**185**	**-15**	**-5**	**502**	**543**	**-7**
Tax	(43)	(38)	(40)	8	13	(126)	(130)	-3
NCI	-	-	-	n.m.	n.m.	-	-	n.m.
Reported NP	**114**	**128**	**145**	**-22**	**-11**	**377**	**413**	**-9**
Core NP	**114**	**128**	**145**	**-22**	**-11**	**377**	**413**	**-9**
Total NII	460	438	364	26	5	1,313	1,090	20
Total NOII	231	209	224	3	10	680	658	3
Gross DPS (sen)	**-**	**-**	**-**	**n.m.**	**n.m.**	**-**	**-**	**n.m.**
Core EPS (sen)	4.3	4.9	5.7	-25	-14	14.1	16.1	-12
Gross loans	86,669	84,137	76,053	14.0	3.0			
Gross impaired loans	1,524	1,534	1,418	7.5	-0.6			
Customer deposits	78,073	78,531	77,300	1.0	-0.6			
CASA	19,909	21,636	19,908	0.0	-8.0			

Ratios (%)	3Q FY26	2Q FY26	3Q FY25	Yoy (ppts)	Qoq (ppts)	9M FY26	9M FY25	Yoy (ppts)
ROE (Ann.)	**3.7**	**4.1**	**4.8**	**-1.1**	**-0.4**	**4.1**	**4.5**	**-0.4**
NIM (Reported)	**1.41**	**1.47**	**1.39**	**0.02**	**-0.06**	**1.47**	**1.46**	**0.01**
NOII/Net income	33.4	32.3	38.1	-4.7	1.1	34.1	37.6	-3.5
Cost/Income	65.5	63.2	74.9	-9.3	2.3	63.9	70.9	-7.0
NCC (Ann.) (bps)	38	48	(18)	56	-9	39	4	35
GIL ratio	1.76	1.82	1.86	-0.11	-0.06			
Loan loss coverage	68	70	70	-2	-2			
CASA ratio	25.5	27.6	25.8	-0.3	-2.1			
L/D ratio	109.7	105.8	97.1	12.6	3.9			
CET-1	12.3	12.6	13.5	-1.2	-0.3			

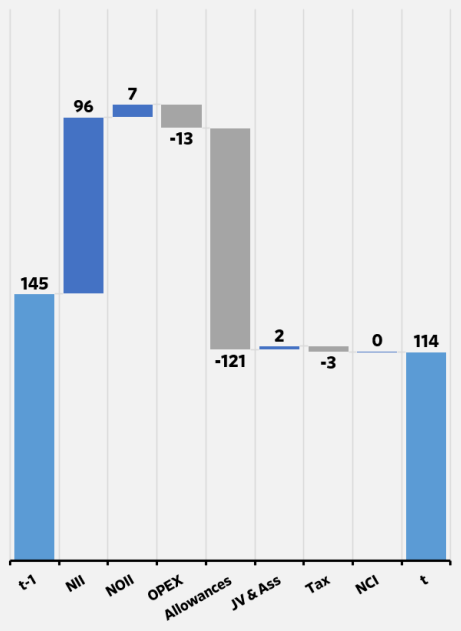
Source: Company, MBSBR

FIG 2: QoQ P/L walk (Quarterly)



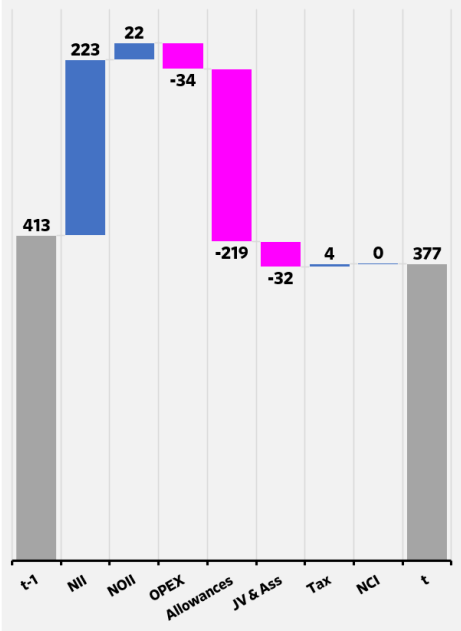
Source: Company, MBSBR

FIG 3: YoY P/L walk (Quarterly)



Source: Company, MBSBR

FIG 4: YoY P/L walk (Cumulative)



Source: Company, MBSBR

FIG 5: Targets, Achievements, and Outlook

Targets	FY26F	9M FY26	Notes (Red: New guidance, ~~Strikethrough: Guidance is no longer pertinent~~)
ROE	5.0 PBT: RM850m	4.1	Unlikely to be met.
CIR	67	63.9	
NIM	~1.4 ~~1.55~~ (from 1.45)	1.47	
NOII		3% (yoy)	
Loans	10	9.0 (YTD)	
Deposits		-1.2 (YTD)	
% CASA	31	25.5	
Loan/Depo		109.7	
GIL ratio	1.80	1.76	
NCC (bps)	~39 ~~~41~~	39	
CET 1		12.3	
Div payout	40 – 60	-	Likely to remain at lower bound of guidance, with possibility of DRP and SCRIPs.

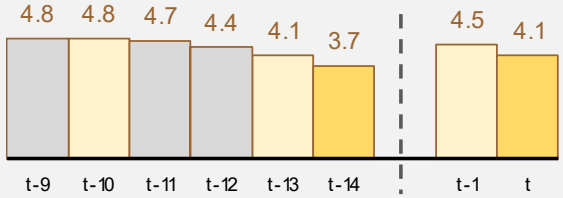
Source: Company, MBSBR

INCOME STATEMENT (QUARTERLY & CUMULATIVE)

3QFY26 / 9MFY26 results

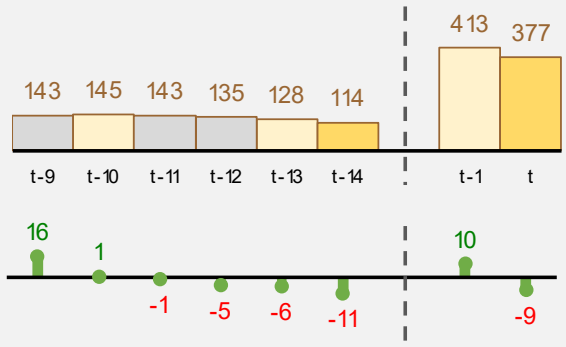
Earnings:	Below our full-year forecasts	(73%)
	Below street full-year forecasts	(71%)
Dividend:	NO	
YTD payout:	-	

ROE (%)



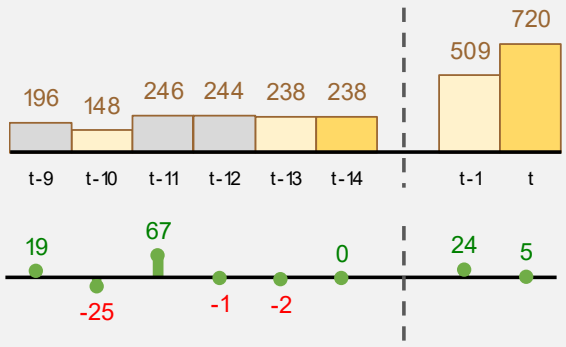
Core Net Profit (RM m)

Growth -- qoq (Qtr) & yoy (Cum) (%)



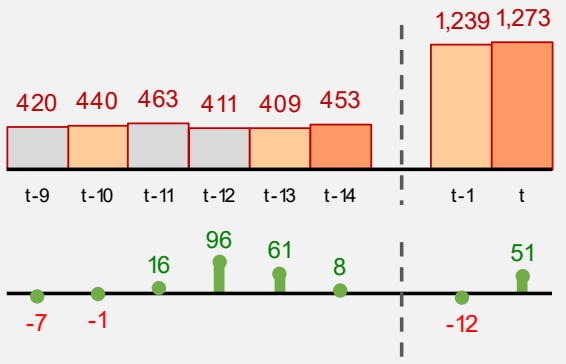
Pre-Provisioning Operating Profit (RM m)

Growth -- qoq (Qtr) & yoy (Cum) (%)



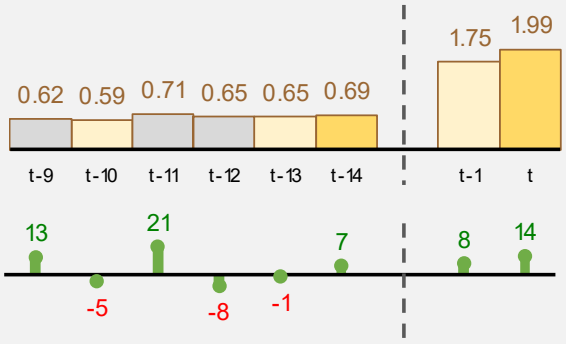
OPEX (RM m)

Growth -- yoy only! (Qtr & Cum) (%)

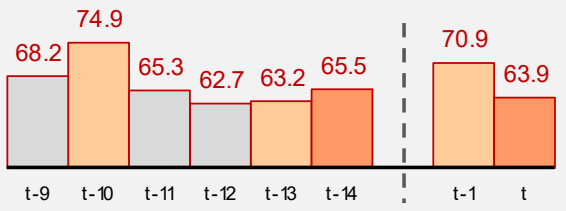


Topline (RM b)

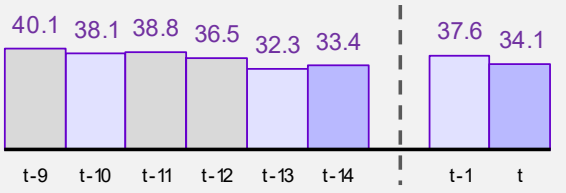
Growth -- qoq (Qtr) & yoy (Cum) (%)



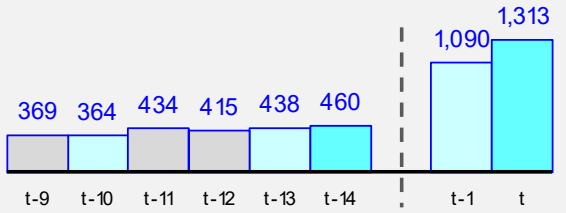
Cost/Income ratio (%)



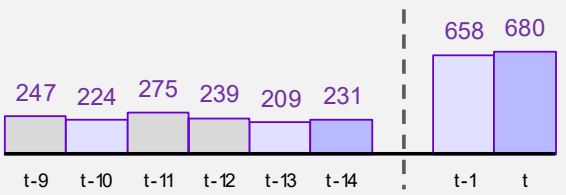
% NOII as topline (%)



Net interest income (RM m)

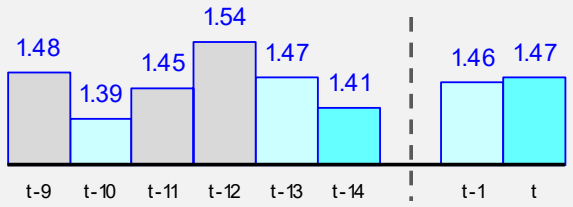


Non-interest income (RM m)

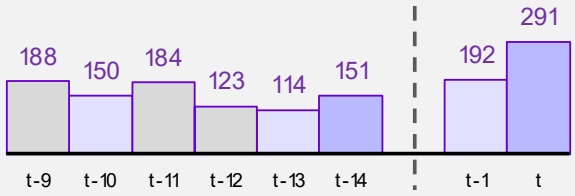


Source: Company, MBSBR

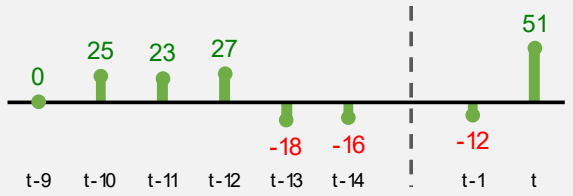
NIM (%)



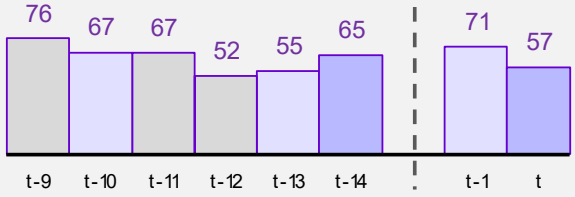
Non-fee NOII (RM m)



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

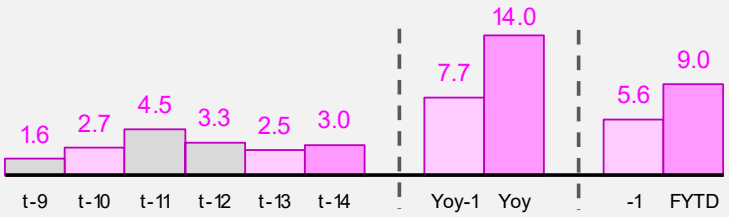


% Non-fee income as NOII (%)

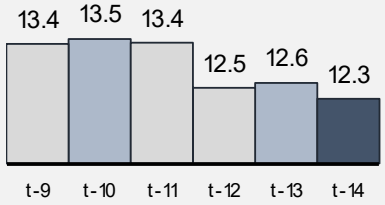


BALANCE SHEET

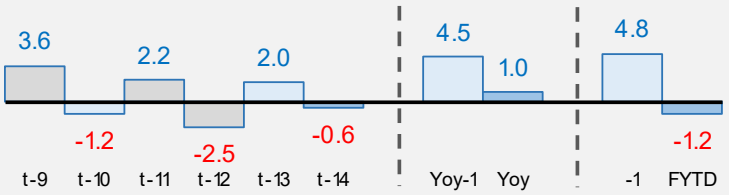
Loan growth -- qoq, yoy, FYTD (%)



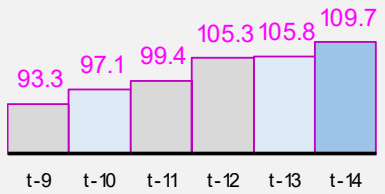
CET 1 ratio (%)



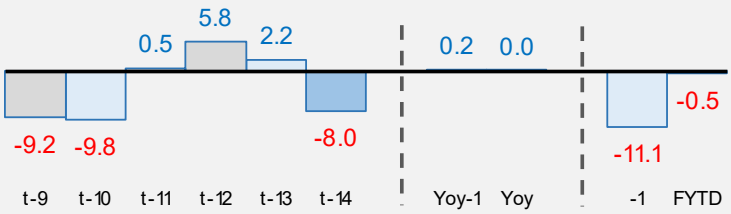
Deposit growth -- qoq, yoy, FYTD (%)



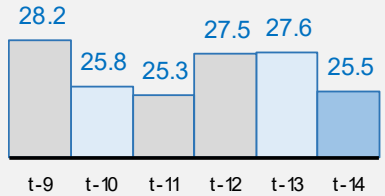
Loan/Deposit ratio (%)



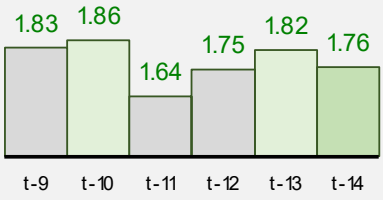
CASA growth -- qoq, yoy, FYTD (%)



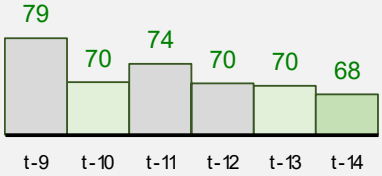
CASA ratio (%)



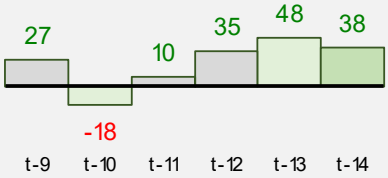
GIL ratio (%)



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	114	Qtrly ROE	Qtr value	3.7%
	22% of FY CNP				
	Qoq	-11%		t-1	4.1%
	Yoy	-22%		t-4	4.8%
Cum Core NP	RM mil	377	Cum ROE	Cum value	4.1%
	Below our forecast				
	73% of FY CNP				
	Below consensus				
	71% of FY CNP				
	Yoy	-9%		t-1	4.5%
NII	As expected		NIM	As expected	
				Qtr value	1.41
				Cum value	1.47
	Qtr (Qoq)	5%		Qtr (Qoq)	-6bps
	Qtr (Yoy)	26%		Qtr (Yoy)	+2bps
	Cum (Yoy)	20%		Cum (Yoy)	+1bps
NOII	As expected		Qtr	% NII	67%
	Qtr (Qoq)	10%		% NOII	33%
	Qtr (Yoy)	3%	Cum	% NII	66%
	Cum (Yoy)	3%		% NOII	34%
OPEX	As expected		Cost/ Inc.	+ve surprise	
				Qtr value	65.5%
				Cum value	63.9%
	Qtr (Qoq)	11%		Qtr (Qoq)	+2.3%
	Qtr (Yoy)	3%		Qtr (Yoy)	-9.3%
	Cum (Yoy)	3%		Cum (Yoy)	-7.0%

Metric	Surprise? Qoq/Yoy		Metric	Surprise? Qoq/Yoy	
Loans	As expected				
	Qoq	3.0%			
	Yoy	14.0%			
	YTD (FY)	9.0%			
Depo. grwth	As expected		CASA grwth	As expected	
	Qoq	-0.6%		Qoq	-8.0%
	Yoy	1.0%		Yoy	0.0%
	YTD (FY)	-1.2%		YTD (FY)	-0.5%
CASA ratio	As expected		L/D ratio	As expected	
	Value now	25.5%		Value now	109.7%
	Qoq	-2.1%		Qoq	+3.9%
	Yoy	-0.3%		Yoy	+12.6%
GIL ratio	As expected		LLC ratio	As expected	
	Value now	1.76%		Value now	68%
	Qoq	-6bps		Qoq	-2%
	Yoy	-11bps		Yoy	-2%
Qtrly Net CC	-ve surprise		Cum Net CC	-ve surprise	
	Heavy provision			Heavy provision	
	Value now	38bps		Value now	39bps
	t-1	48bps			
	t-4	-18bps		t-4	4bps
CET 1	Could be better		Div payout	No divvy	
	-ve surprise			As expected	
	Value now	12.3%		Payout	
	Qoq	-0.3%			

Source: Company, MBSBR

FINANCIAL SUMMARY

INCOME STATEMENT

FYE Dec (RM m)	FY24	FY25	FY26F	FY27F	FY28F
Net interest income	**826**	**875**	**948**	**1,018**	**1,090**
Islamic banking inc.	691	867	866	930	996
Other operating inc.	652	700	780	813	890
Net income	**2,170**	**2,442**	**2,594**	**2,761**	**2,976**
OPEX	(1,668)	(1,702)	(1,686)	(1,795)	(1,934)
PPOP	**502**	**740**	**908**	**966**	**1,042**
Loan allowances	73	(40)	(291)	(245)	(267)
Other allowances	79	9	(12)	(12)	(12)
JV & Associates	55	52	73	77	83
PBT	**708**	**761**	**678**	**787**	**846**
Tax & zakat	(198)	(221)	(188)	(219)	(235)
Discontinued ops	-	-	-	-	-
NCI	-	-	-	-	-
Reported NP	**510**	**540**	**489**	**568**	**611**
Core NP	**510**	**540**	**489**	**568**	**611**
Total NII	1,373	1,508	1,580	1,697	1,817
Total NOII	797	933	1,014	1,064	1,159

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	9,452	10,350
Total assets	**111,842**	**124,074**	**133,963**	**143,314**	**153,874**
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	5,795	6,689	8,053
Total liabilities	**100,241**	**111,855**	**121,383**	**130,318**	**140,427**
Share capital	5,489	5,489	5,489	5,489	5,489
Reserves	6,113	6,730	7,092	7,508	7,959
Shareholders' funds	**11,601**	**12,219**	**12,580**	**12,997**	**13,447**
NCI	-	-	-	-	-
Total equity	**11,601**	**12,219**	**12,580**	**12,997**	**13,447**
Total L&E	**111,842**	**124,074**	**133,963**	**143,314**	**153,874**
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	1.30	1.31	1.31
Return on IEAs	2.94	2.64	2.43	2.33	2.23
Cost of funds	2.29	2.01	1.79	1.67	1.56
Net interest spread	0.65	0.63	0.64	0.66	0.67
Profitability (%)					
ROE	**4.5**	**4.5**	**3.9**	**4.4**	**4.6**
ROA	0.5	0.5	0.4	0.4	0.4
NOII/Net income	36.7	38.2	39.1	38.5	39.0
Effective tax rate	27.0	28.3	27.0	27.0	27.0
Cost/Income	76.9	69.7	65.0	65.0	65.0
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	35	27	27
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	4.8	7.4	7.0
Total NOII	31.2	17.1	8.6	5.0	9.0
Net income	9.3	12.5	6.2	6.5	7.8
OPEX	17.4	2.0	-0.9	6.5	7.8
Core NP	26.7	6.0	-9.4	16.2	7.5
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	19.0	22.1	23.7
Gross DPS (sen)	-	8.5	7.6	8.7	9.2
Div payout (%)	-	40	40	40	40
BVPS (RM)	4.5	4.7	4.9	5.0	5.2
Core P/E (x)	9.8	9.3	10.3	8.8	8.2
Div yield (%)	**0.0**	**4.4**	**3.9**	**4.5**	**4.7**
P/BV (x)	0.4	0.4	0.4	0.4	0.4

Source: Company, MBSBR

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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