

## Affin Bank Berhad

**TP: RM2.25 (-12.8%)**
*FY23 Results Below Expectations*
*Last Traded: RM2.58*
**SELL (ESG: ★★★)**

Li Hsia Wong

Tel: +603-2167 9610

liwong@ta.com.my

www.taonline.com.my

### Review

- Affin Bank's FY23 BAU profit after tax declined 36.2% YoY to RM402.2mn from RM630.1mn in FY22. The weaker YoY performance was attributed to lower operating income and higher overhead expenses. ROE stood at 4%.
- A dividend of 5.76 sen per share has been proposed, lower than 12.3 sen per share declared in 2022. This translates to a lower dividend payout ratio of 33.6% vs 50% last year.
- YoY, Affin's reported net income declined by 3.4% as the net interest income (NII) and contributions from Islamic Banking operations contracted by 23.4% and 13.5% YoY. While NII continued to be supported by a loan expansion, which rose by around 12.3% YoY to RM66.7bn, the net interest margin (NIM) slipped by 59 bps YoY due to higher deposit rates. QoQ, NIM eased by another 4 bps to 1.42%, underpinned by a 5 bps QoQ increase in the cost of funds.
- The healthy loan growth momentum was underpinned by increases in Community Banking (+17.4% YoY), Enterprise Banking (+8.9% YoY) and Corporate Banking (+2.8% YoY). Elsewhere, total deposits expanded by 9.0% YoY. Fixed Deposits, NIDs, MMD & CMD rose at a softer pace of 4.4% YoY (-5.6% QoQ) compared to CASA (+24.0% YoY, +13.6% QoQ). The CASA ratio stood at 26.7% in 4Q23 vs. 23.5% a year ago. The increase in CASA was led by Community Banking (+34.8% YoY), followed by Corporate Banking (+16.3% YoY), and Enterprise Banking (+14.3% YoY).
- The reported non-interest income (non-NII) ballooned to RM607.3mn vs RM343.8mn in FY22, thanks to stronger net gains from financial instruments amounting to RM168.1mn (FY22: RM62.2mn). However, the net fee and commission income declined by 71.2% YoY due to the absence of portfolio management fees, which stood at RM177.9mn in FY22. Encouragingly, fee income shows gradual sequential improvements, with fees and commissions jumping to RM41.4mn vs RM14.8mn in 3Q23. Wealth income also grew by 47.8% QoQ.
- FY23 operating expenses were well managed, rising by a marginal 0.3% YoY (+7.0% QoQ). Yearly, Personnel costs softened by 2.1% YoY (+9.2% QoQ). Meanwhile, Establishment Expenses accelerated by 6.6% YoY (+3.3% QoQ), followed by Promotion and Marketing-Related Expenses (+2.5% YoY, +29.6% QoQ), and General and Administrative Expenses (+0.1% YoY, -5.9% QoQ). Nevertheless, management noted that the cost-to-income ratio deteriorated to 71.6% in 4Q23 vs. 62.6% in 4Q22 due to the NIM compression affecting revenues.
- Affin reported softer allowances for impairment losses of RM78.2mn in FY23, improving from an allowance of RM507.1mn in FY22. The net credit cost strengthened to 8 bps in FY23 vs 44 bps a year ago. The gross impaired loans ratio (GIL) also strengthened to 1.90% (FY22: 1.97%).
- Elsewhere, the group's CET1 and Total Capital Ratio stood at 14.3% and

### Share Information

Bloomberg Code	ABANK MK
Stock Code	5185
Listing	Main Market
Share Cap (mn)	2346.5
Market Cap (RMmn)	6,054.0
52-wk Hi/Lo (RM)	2.70/1.79
12-mth Avg Daily Vol ('000 shrs)	1,546.0
Estimated Free Float (%)	20.1
Beta	1.2

### Major Shareholders (%)

LTAT	28.8
BEA	23.9
Boustead	20.0

### Forecast Revision

	FY24	FY25
Forecast Revision (%)	(9.8)	(3.3)
Net profit (RMmn)	462.4	536.9
Consensus	544.0	598.8
TA's / Consensus (%)	85.0	89.7
Previous Rating	Sell (maintained)	
Consensus TP (RM)	2.11	

### Financial Indicators

	FY24	FY25
ROE (%)	4.3	5.1
ROA (%)	0.4	0.5
CTI Ratio (%)	68.5	66.9
GIL Ratio (%)	1.9	1.9
BV/ Share (RM)	4.5	4.5
Price/ BV (x)	0.6	0.6

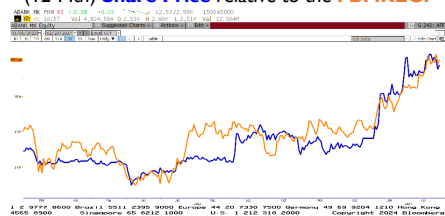
### Scorecard

	% of FY	
vs. TA	84.0	Below
vs. Consensus	85.0	Below

### Share Performance (%)

Price Change	ABANK	FBM KLCI
1 mth	(1.9)	2.5
3 mth	25.9	6.8
6 mth	34.4	6.9
12 mth	24.0	6.7

### (12-Mth) Share Price relative to the FBMKLCI



Source: Bloomberg

18.2%, respectively.

### Impact

- Incorporating the FY23 results, we adjust Affin's FY24/25 net profit slightly lower to RM462.4/536.9mn from RM512.9/555.2mn. We forecast FY26 net profit to increase by 17.1% to RM628.7mn.

### Outlook

- Several targets, such as PBT, NIM and CTI ratios, fell short of management's guidance. Despite that, management has set higher targets in 2024, focusing on strategic measures such as rebalancing the deposit mix by increasing CASA deposits to stem further NIM compression and tapping on the mobile banking app to cross-sell and deepen the client wallet share. Efforts are also directed towards a turnaround in corporate books, focusing on potential growth in the Sarawak region and ESG financing.
- For 2024, management is targeting to achieve a PBT of RM1.0bn and an ROE of 7%, underpinned by a loan growth target of 8%, better cost efficiency measures to bring the CTI ratio down to 64% and enhanced credit writing standards to manage the gross credit cost to between 20-30 bps, keeping the GIL ratio to 1.9% and loan loss coverage to around 100-120%.
- Looking ahead, management will be extending the A25 Transformation Plan into a more ambitious AX28 Plan. Briefly, the AX28 strategy outlines vital pillars, including private banking to support the T20, a new digital core for product innovation and increased scale, a greater presence in Sarawak, and a substantial commitment to ESG initiatives. However, without more details available at this juncture, we believe some of the 2028 targets, such as achieving a PBT of RM1.8bn and an ROE of 12%, appear ambitious.

### Valuation

- Updating the latest beta assumption obtained from Bloomberg, we raised Affin's TP to RM2.25 from RM2.15. Our valuation is based on an implied PBV of c. 0.45x based on the Gordon Growth Model. Given that Affin's share has risen steeply and ahead of its fundamentals, we maintain our SELL recommendation on the stock.

**Table I: Earnings Summary (RMmn)**

FYE Dec	2022	2023	2024F	2025F	2026F
Net interest income	1022.6	782.9	898.3	977.2	1071.5
Non-interest income	343.8	607.3	676.4	753.4	839.2
Islamic Banking	688.3	595.6	667.1	747.2	836.8
Total operating income	2054.6	1985.8	2241.7	2477.7	2747.6
Pre-provisioning profit	737.9	564.6	706.9	820.1	957.3
Pretax profit	1376.8	522.9	608.4	706.5	827.3
Core net profit	630.1	402.2	462.4	536.9	628.7
Reported net profit	1203.5	402.2	462.4	536.9	628.7
EPS (sen)	26.9	17.1	19.7	22.9	26.8
EPS growth (%)	8.6	(36.2)	15.0	16.1	17.1
Gross div (sen)	30.4	8.0	8.0	8.0	8.0
Div yield (%)	11.8	3.1	3.1	3.1	3.1

**Table 2: 4QFY23 Results Analysis (RMmn)**

FYE 31 Dec	4QFY22	3QFY23	4QFY23	QoQ	YoY	FY22	FY23	YoY
Net interest income	267.4	169.4	177.3	4.6	(33.7)	1,022.6	782.9	(23.4)
Income from Islamic Banking business	184.7	144.9	151.4	4.4	(18.1)	688.3	595.6	(13.5)
Less: Modification loss	0.0	0.0	0.0	n.m.	n.m.	0.0	0.0	n.m.
Non-interest income	115.0	186.1	157.6	(15.3)	37.0	343.8	607.3	76.6
Total income	567.0	500.4	486.2	(2.8)	(14.3)	2,054.6	1,985.8	(3.4)
Operating expenses	(343.1)	(374.3)	(400.4)	7.0	16.7	(1,316.7)	(1,421.2)	7.9
Operating profit	224.0	126.1	85.8	(32.0)	(61.7)	737.9	564.6	(23.5)
PBT	54.3	106.1	70.5	(33.5)	29.9	239.4	522.9	118.4
Reported profit after tax	16.9	100.5	39.5	(60.6)	134.0	78.0	402.2	415.4
EPS (sen)	0.7	4.3	1.7	(60.6)	134.0	3.3	17.1	415.4

### Stock Recommendation Guideline

- BUY** : Total return within the next 12 months exceeds required rate of return by 5%-point.  
**HOLD** : Total return within the next 12 months exceeds required rate of return by between 0-5%-point.  
**SELL** : Total return is lower than the required rate of return.  
**Not Rated**: The company is not under coverage. The report is for information only.

**Total Return** is defined as expected share price appreciation plus gross dividend over the next 12 months. Gross dividend is excluded from total return if dividend discount model valuation is used to avoid double counting.

**Required Rate of Return** of 7% is defined as the yield for one-year Malaysian government treasury plus assumed equity risk premium.

### ESG Scoring & Guideline

	Environmental	Social	Governance	Average
<b>Scoring</b>	★★	★★★	★★★	★★★
<b>Remark</b>	The bank has provided over RM50mn in green financing for solar and biogas projects and over RM470mn to over 6,000 start-ups. Affin was also the Principal Advisor, Lead Arranger, and Lead Manager for the RM100mn Green SRI Sukuk issued by UiTM Solar Dua Sdn Bhd. Affin issued the Group Credit Policy on Sustainable Financing, which provides a comprehensive framework for identifying and classifying clients and counterparties in accordance with BNM's CCPT guideline. Beginning in October 2021, all non-retail financing must be evaluated utilising the ESG Risk Assessment Checklist. The Affin Bank group has set a target for 5% of its total loan book to be ESG financing by 2025.	To support local businesses, the bank allocates 92% of its IT procurement to local suppliers, up from 82% in 2020. In FY22, women comprised 61% of Alliance's workforce, and around 54% occupied various middle management positions. However, just 34% of senior management positions are held by women. Affin contributed more than RM3.6mn to CSR programmes in 2021. In addition to participating in Soup Kitchen activities, the organisation gathered funds and made donations to various welfare homes, supported various Covid-19 relief initiatives, and launched many health awareness events and campaigns.	The bank is committed to applying and attaining excellent Corporate Governance standards. Affin was awarded the CG Excellence Award by the Minority Shareholders Watch Group - ASEAN Corporate Governance Awards 2020 in honour of its achievements. The bank launched a five-year ESG Roadmap and four Focus Areas in 2021 in order to integrate and promote ESG adoptions across its business operations. Approximately 78% of the board of directors are independent individuals.	

- ★★★★★ (≥80%) : Displayed market leading capabilities in integrating ESG factors in all aspects of operations, management and future directions.  
★★★★★ (60-79%) : Above adequate integration of ESG factors into most aspects of operations, management and future directions.  
★★★ (40-59%) : Adequate integration of ESG factors into operations, management and future directions.  
★★ (20-39%) : Have some integration of ESG factors in operations and management but are insufficient.  
★ (<20%) : Minimal or no integration of ESG factors in operations and management.

### Disclaimer

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As of Friday, March 01, 2024, the analyst, Wong Li Hsia, who prepared this report, has interest in the following securities covered in this report:  
(a) nil

**Kaladher Govindan – Head of Research**

TA SECURITIES HOLDINGS BERHAD (14948-M)

A Participating Organisation of Bursa Malaysia Securities Berhad

Menara TA One | 22 Jalan P. Ramlee | 50250 Kuala Lumpur | Malaysia | Tel: 603 – 2072 1277 | Fax: 603 – 2032 5048  
www.ta.com.my