

## Malaysia

**REDUCE** (previously ADD)

Consensus ratings\*: Buy 1 Hold 4 Sell 2

Current price:	RM2.38
Target price:	RM2.26
Previous target:	RM2.26
Up/downside:	-5.0%
CGS-CIMB / Consensus:	10.9%
Reuters:	AFIN.KL
Bloomberg:	ABANK MK
Market cap:	US\$1,190m
	RM5,585m
Average daily turnover:	US\$0.70m
	RM3.26m
Current shares o/s:	2,274m
Free float:	27.3%

\*Source: Bloomberg

**Key changes in this note**

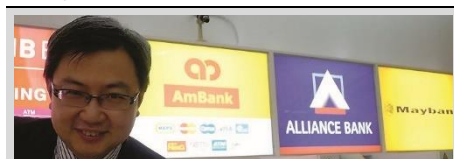
➤ No change.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	16.7	11.7	13.3
Relative (%)	14.6	7.9	13.3

Major shareholders	% held
LTAT	28.8
The Bank of East Asia	23.9
Boustead	20.0

**Analyst(s)**

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# Affin Bank Berhad

## Time to take profit

- We downgrade our Affin Bank call from Add to Reduce as we expect a slowdown in loan growth in FY24F; it is also trading at rich valuations.
- Affin's CY24F P/E of 10.6x is now above the sector average of 9.9x and the second highest in the sector (only behind Public Bank's 11.2x).
- The emergence of SSFS as a key shareholder could catalyse its growth in Sarawak but we expect this to take time (over 1 year) to materialise.

### Downgrade Affin to Reduce on likely slowdown in loan growth

We see the Sarawak government (via Sarawak State Financial Secretary or SSFS) emerging as one of the major shareholders of Affin Bank in Apr 2023 as positive for the earnings outlook of the bank in the longer term. Nonetheless, we downgrade our rating for Affin Bank from Add to Reduce as we expect a slowdown in loan growth in FY24F; it is also trading at rich valuations following the 17.2% rise in its share price over the past one month (to RM2.38 on 16 Jan 24). Its CY24F P/E of 10.6x is now above the sector average of 9.9x, and the second highest in the sector (only behind Public Bank's 11.2x). Potential de-rating catalysts include elevated cost of funds. Upside risks to our call include a significant upturn in net interest margin and a steep improvement in cost-to-income ratio in 2024-25F. We maintain our FY23-25F EPS forecasts and DDM-based target price of RM2.26 (cost of equity of 10.4% and terminal growth rate of 4%). Based on our current forecasts, we are projecting an ROE expansion from 1.8% in FY22 to 5.3% in FY25F for Affin Bank. We prefer Hong Leong Bank for exposure to Malaysian banks due to its better asset quality and lower CY24F P/E of 9.8x.

### The entry of SSFS as Affin's shareholder welcomed by investors

We think the uptrend in Affin Bank's share price over the past one month has been fuelled by the news of a potential increase in SSFS's stake in Affin. In a filing to Bursa Malaysia on 8 Jan 24, Affin Bank said that it had been informed by Lembaga Tabung Angkatan Tentera (LTAT) – the bank's largest shareholder with a 28.8% stake as at 29 Dec 23 – that LTAT was in discussions with SSFS relating to Affin Bank shares. This could signify a potential increase in SSFS's stake in Affin Bank, in our view. SSFS held a 4.8% stake in Affin Bank as of 29 Dec 23, which was acquired in mid-Apr 23 (112.6m shares at RM1.97/share or RM221.7m in total).

### It could take time to realise the benefits

We reiterate our view that the emergence of SSFS as a key shareholder of Affin Bank will be positive for the bank as it could catalyse its business growth in Sarawak (through closer working relationships with the Sarawak government). However, we think that it will take time (more than 1 year) for any positive benefits to materialise, as Affin Bank needs to formulate a plan, expand its network, and strengthen its operations in Sarawak. To achieve this, Affin Bank would have to incur additional costs (larger number of branches and employees in Sarawak) while revenue would only increase gradually over time, in our view.

### Financial Summary

	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Net Interest Income (RMm)	894	1,023	1,017	1,047	1,146
Total Non-Interest Income (RMm)	951	1,032	1,098	1,184	1,299
Operating Revenue (RMm)	1,845	2,055	2,115	2,231	2,444
Total Provision Charges (RMm)	(219.4)	(438.5)	(97.1)	(98.8)	(103.6)
Net Profit (RMm)	527	1,178	475	525	580
Core EPS (RM)	0.25	0.09	0.21	0.22	0.25
Core EPS Growth	75%	(66%)	141%	9%	10%
FD Core P/E (x)	9.49	27.96	11.59	10.63	9.63
DPS (RM)	0.13	0.30	0.08	0.09	0.10
Dividend Yield	5.3%	12.8%	3.4%	3.8%	4.2%
BVPS (RM)	4.66	4.67	4.50	4.63	4.76
P/BV (x)	0.51	0.51	0.53	0.51	0.50
ROE	5.42%	1.82%	4.48%	4.90%	5.26%
% Change In Core EPS Estimates			0%	0%	0%
EPS/Consensus EPS (x)			0.93	0.90	0.91

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

## Time to take profit

### Sarawak – the next sweet spot for growth? ➤

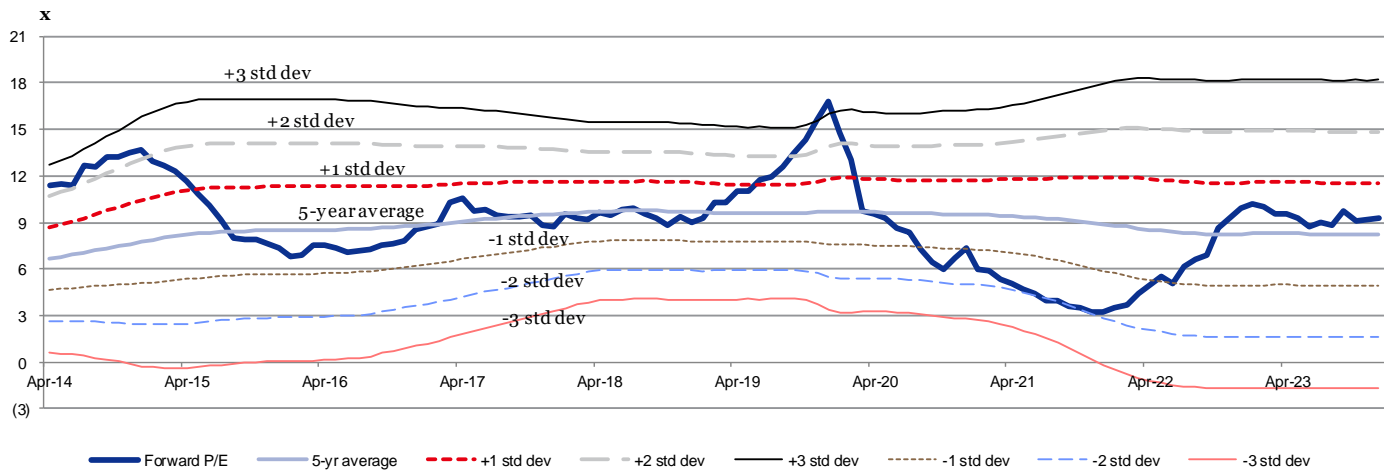
In our view, the emergence of the Sarawak government as a key shareholder of Affin Bank could act as a catalyst for the bank's business growth in Sarawak in the longer term through closer working relationships between Affin Bank and the Sarawak government. The growth could be in the areas of (1) business loans (ranging from SME to corporate loans), (2) investment banking deals, (3) treasury, and (4) ESG-related businesses (for financial services), in our view.

Affin Bank's exposure to Sarawak is small as its loans extended in Sarawak only accounted for 4.4% of its total loans at end-Sep 2023. In Sarawak, it has branches in Kuching, Sibul, Bintulu and Miri. In the longer term, it plans to widen its presence in Sarawak through (1) opening new physical branches, (2) setting up additional offsite automated teller machines, and (3) establishing mobile financial centres in rural areas (based on Affin Bank's presentation slides dated 7 Dec 23 for CGS-CIMB Regional Financial Virtual Conference 2023).

### Potential upside risks to our Reduce call ➤

The potential upside risks to our Reduce call include a significant upturn in net interest margin and a steep improvement in cost-to-income ratio in FY24-25F. If these happen, Affin Bank could record much stronger net profit growth in FY24-25F, compared to our projected 9-10%. De-rating catalysts include elevated cost of funds and our projected slowdown in loan growth in FY24F.

Figure 1: Affin's 12-month rolling forward P/E




SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

**Figure 2: Sector Comparison**

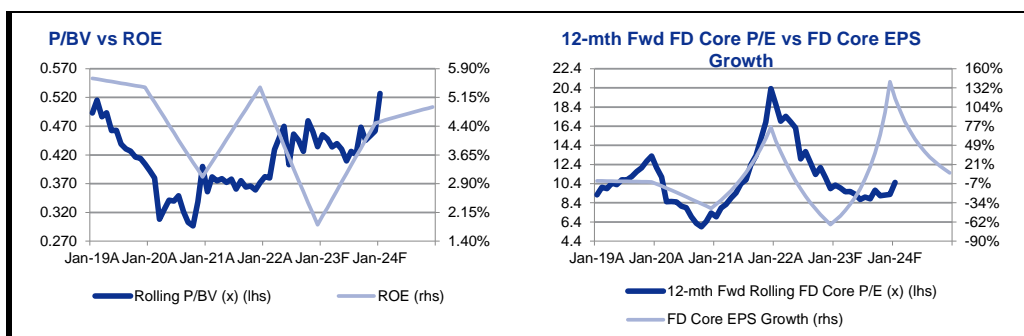
Company	Bbg Ticker	Recom.	Price (local)	Target Price (local)	Market Cap (US\$ m)	Core P/E (x)		3-year EPS CAGR (%)	P/BV (x) CY2023F	Recurr. ROE (%) CY2023F	P/POPS (x) CY2023F	Div Yield (%) CY2023F
						CY2023F	CY2024F					
DBS Group	DBS SP	Hold	32.34	35.30	62,234	7.9	8.1	9.0%	1.41	18.6%	6.8	6.9%
OCBC	OCBC SP	Add	12.87	14.00	43,157	8.3	8.3	8.3%	1.06	13.2%	7.1	6.2%
United Overseas Bank	UOB SP	Add	28.20	33.30	35,188	7.4	7.4	9.4%	1.02	14.5%	5.7	6.7%
<b>Singapore average</b>						<b>7.9</b>	<b>8.0</b>	<b>8.9%</b>	<b>1.18</b>	<b>15.6%</b>	<b>6.6</b>	<b>6.6%</b>
Agricultural Bank of China	1288 HK	Add	2.93	2.90	177,541	3.8	3.7	1.2%	0.39	10.9%	2.1	8.4%
Bank of China	3988 HK	Add	2.91	3.60	150,382	3.6	3.5	1.4%	0.35	10.4%	2.0	8.9%
Bank of Communications	3328 HK	Add	4.65	4.90	52,734	3.7	3.6	1.3%	0.35	10.0%	2.0	8.9%
China CITIC Bank	998 HK	Add	3.73	5.30	34,294	2.7	2.4	7.6%	0.28	11.1%	1.2	10.4%
China Construction Bank	939 HK	Add	4.45	5.70	145,527	3.1	3.1	1.2%	0.35	11.7%	1.9	9.7%
China Minsheng Bank	1988 HK	Reduce	2.61	2.20	21,662	3.2	3.0	4.4%	0.20	6.4%	1.3	9.3%
ICBC	1398 HK	Add	3.64	3.90	223,707	3.4	3.3	1.0%	0.35	11.0%	2.0	9.2%
<b>Hong Kong average</b>						<b>3.4</b>	<b>3.3</b>	<b>1.6%</b>	<b>0.35</b>	<b>10.8%</b>	<b>1.9</b>	<b>9.1%</b>
Bank Central Asia	BBCA IJ	Add	9,700	10,150	76,686	24.5	22.9	11.7%	4.95	21.2%	18.9	2.4%
Bank Mandiri	BMRI IJ	Add	6,525	6,850	39,056	11.5	11.0	0.7%	2.38	21.0%	7.0	5.0%
Bank Rakyat Indonesia	BBRI IJ	Add	5,825	6,100	56,617	15.1	13.6	11.5%	2.74	18.8%	9.0	5.6%
Bank Negara Indonesia	BBNI IJ	Add	5,600	5,900	13,395	9.8	8.7	14.2%	1.44	15.2%	5.9	5.1%
Bank Tabungan Negara	BBTN IJ	Add	1,325	1,600	1,193	5.2	5.3	0.8%	0.58	10.7%	2.1	3.3%
Bank Neo Commerce	BBYB IJ	Add	360	420	278	na	na	na	1.48	-18.4%	3.5	0.0%
<b>Indonesia average</b>						<b>15.9</b>	<b>14.6</b>	<b>12.5%</b>	<b>2.92</b>	<b>19.0%</b>	<b>10.0</b>	<b>4.1%</b>
Affin Bank Berhad	ABANK MK	Reduce	2.38	2.26	1,190	11.6	10.6	39.8%	0.53	4.5%	7.5	3.4%
Alliance Bank Malaysia Berhad	ABMB MK	Hold	3.43	3.70	1,131	7.6	6.9	6.1%	0.73	10.2%	4.9	5.7%
AMMB Holdings	AMM MK	Add	4.25	4.86	2,995	7.1	7.3	2.9%	0.73	10.9%	5.5	4.9%
Bank Islam Malaysia Bhd	BIMB MK	Add	2.26	2.55	1,091	9.8	8.4	5.1%	0.74	7.5%	4.8	4.0%
Hong Leong Bank	HLBK MK	Add	18.82	26.30	8,690	10.5	9.8	5.2%	1.11	11.5%	11.3	3.5%
Malayan Banking Bhd	MAY MK	Add	9.06	10.60	23,275	11.3	10.5	7.4%	1.23	11.3%	7.3	5.4%
Public Bank Bhd	PBK MK	Add	4.36	5.25	18,028	12.2	11.2	7.2%	1.51	13.5%	8.9	4.1%
RHB Bank Bhd	RHBBANK MK	Add	5.55	6.70	5,067	8.1	7.4	5.5%	0.68	9.5%	5.4	6.2%
<b>Malaysia average</b>						<b>10.7</b>	<b>9.9</b>	<b>7.1%</b>	<b>1.11</b>	<b>11.1%</b>	<b>7.6</b>	<b>4.7%</b>
Bangkok Bank	BBL TB	Add	149.5	193.0	8,066	7.7	6.8	16.6%	0.53	7.1%	3.6	3.3%
Kasikornbank	KBANK TB	Add	130.5	168.0	8,739	7.5	6.9	12.2%	0.58	8.0%	3.0	4.6%
Kiatnakin Phatra Bank	KKP TB	Add	49.0	81.0	1,173	5.9	5.1	4.3%	0.67	11.7%	2.6	7.8%
Krung Thai Bank	KTB TB	Add	18.3	22.3	7,229	6.9	6.4	8.6%	0.63	9.6%	3.1	3.8%
Tisco Financial Group	TISCO TB	Add	98.8	103.0	2,235	11.3	10.9	4.0%	1.81	16.1%	7.8	7.6%
<b>Thailand average</b>						<b>7.5</b>	<b>6.8</b>	<b>11.3%</b>	<b>0.62</b>	<b>8.5%</b>	<b>3.4</b>	<b>4.4%</b>

SOURCES: CGS-CIMB RESEARCH ESTIMATES, BLOOMBERG, COMPANY REPORTS (AS AT 16 JAN 24)

ESG in a nutshell		Refinitiv ESG Scores					
		D+ ESG Score	A+ ESG Controversies Score	D+ ESG Combined Score	D+ ESG Environment Pillar Score	C- ESG Social Pillar Score	D+ ESG Government Pillar Score
<p>Affin Bank has shown significant improvements in its ESG adoption in the past 1-2 years, based on our observation. The bank has provided more ESG information in its annual reports and quarterly presentation slides. In addition, ESG focus is one of the five pillars for its A25 strategic thrusts (its group-wide strategic plan from 2023 to 2025). According to the bank, the four focus areas of its ESG initiatives are: 1) people and culture, 2) sustainable financing, 3) sustainable operations, and 4) community support.</p>							
<p><b>Keep your eye on</b></p> <p>The ESG targets set by Affin Bank under its A25 strategic plans (to be achieved latest by 2025F) are: 1) environmental and social-compliant financing accounting for up to 10% of its total loans, 2) 100,000 beneficiaries p.a. from its corporate social responsibility (CSR) activities, 3) electricity consumption of 220,000 kWh, 4) 50% of its suppliers assessed based on ESG criteria, and 5) a reduction of 15,000kg p.a. in terms of total paper usage.</p>	<p><b>Implications</b></p> <p>Affin Bank has shown good progress in achieving its ESG targets under the A25 strategic plans. The ESG-compliance financing accounted for about 5% of its total loans in 2022, ahead of its 2022 target of 4%. Furthermore, there was a total of 60,000 beneficiaries for its CSR activities in 2022 (vs. 2022 target of 50,000). It also managed to reduce its electricity consumption by 150,000kWh in 2022 (vs. its target of a decline of 120,000kWh for the year).</p>						
<p><b>ESG highlights</b></p> <p>Going forward, we think Affin Bank will focus on integrating ESG evaluations into its decision-making processes, including its credit evaluation system. Another key area of ESG focus for Affin Bank is enhancing its analysis of the risks from climate change and utilising this for its decision-making.</p>	<p><b>Implications</b></p> <p>Like all other Malaysian banks, Affin Bank started to adopt the Climate Change and Principle-based Taxonomy, which was introduced by Bank Negara Malaysia (BNM), in Jul 2022. This provided the bank with a strong foundation to analyse and quantify the risks from climate change on its operations. BNM also expects Malaysian banks (including Affin) to provide greater disclosures on climate change in the longer term. In addition, banks will be required to conduct stress testing for the risks from climate change by 2024F. As such, we think Affin Bank will put more resources into this area to meet regulatory requirements and this should lead to an improvement in its ESG standards in the longer term.</p>						
<p><b>Trends</b></p> <p>Affin Bank's targets for the proportion of ESG financing (over its total loans) are 4% in 2022 (which was surpassed) and 10% by 2025F.</p>	<p><b>Implications</b></p> <p>This shows Affin Bank's drive to expedite the growth of its ESG financing in the next few years. In our view, ESG financing could include financing for the construction and operation of projects in renewable energy, financing for the purchase of electric vehicles and green buildings, as well as the installation of solar panels.</p> <p>Although we expect the above to be positive for Affin's overall loan growth, the impact will likely be negligible as we expect green financing to remain a small percentage of its total financing over the next few years.</p>						

SOURCES: CGS-CIMB RESEARCH, REFINITIV

## BY THE NUMBERS



### Profit & Loss

(RMm)	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Net Interest Income	894	1,023	1,017	1,047	1,146
Total Non-Interest Income	951	1,032	1,098	1,184	1,299
<b>Operating Revenue</b>	<b>1,845</b>	<b>2,055</b>	<b>2,115</b>	<b>2,231</b>	<b>2,444</b>
Total Non-Interest Expenses	(1,139)	(1,317)	(1,381)	(1,453)	(1,530)
<b>Pre-provision Operating Profit</b>	<b>706</b>	<b>738</b>	<b>734</b>	<b>777</b>	<b>915</b>
Total Provision Charges	(219)	(439)	(97)	(99)	(104)
<b>Operating Profit After Provisions</b>	<b>487</b>	<b>299</b>	<b>636</b>	<b>679</b>	<b>811</b>
Pretax Income/(Loss) from Assoc.	45	9	10	11	12
<b>Operating EBIT (incl Associates)</b>	<b>532</b>	<b>308</b>	<b>646</b>	<b>689</b>	<b>823</b>
Non-Operating Income/(Expense)	144	1,057	4	31	(29)
<b>Profit Before Tax (pre-EI)</b>	<b>676</b>	<b>1,365</b>	<b>650</b>	<b>720</b>	<b>795</b>
Exceptional Items	0	0	0	0	0
<b>Pre-tax Profit</b>	<b>676</b>	<b>1,365</b>	<b>650</b>	<b>720</b>	<b>795</b>
Taxation	(95)	(161)	(156)	(173)	(191)
Consolidation Adjustments & Others					
Exceptional Income - post-tax					
<b>Profit After Tax</b>	<b>580</b>	<b>1,203</b>	<b>494</b>	<b>547</b>	<b>604</b>
Minority Interests	(53)	(25)	(20)	(22)	(24)
Pref. & Special Div	0	0	0	0	0
FX And Other Adj.	0	0	0	0	0
<b>Net Profit</b>	<b>527</b>	<b>1,178</b>	<b>475</b>	<b>525</b>	<b>580</b>
Recurring Net Profit	527	187	475	525	580

### Balance Sheet Employment

	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Gross Loans/Cust Deposits	87.5%	91.3%	92.2%	91.1%	88.6%
Avg Loans/Avg Deposits	89.9%	89.5%	91.8%	91.6%	89.8%
Avg Liquid Assets/Avg Assets	29.0%	29.6%	28.4%	27.8%	28.7%
Avg Liquid Assets/Avg IEAs	30.9%	31.5%	30.3%	29.6%	30.5%
Net Cust Loans/Assets	64.4%	64.3%	66.3%	66.1%	64.9%
Net Cust Loans/Broad Deposits	81.9%	79.2%	80.5%	79.6%	77.5%
Equity & Provs/Gross Cust Loans	21.0%	20.3%	18.7%	18.3%	18.1%
Asset Risk Weighting	65.4%	63.9%	64.3%	64.1%	64.1%
Provision Charge/Avg Cust Loans	0.37%	0.94%	0.27%	0.26%	0.26%
Provision Charge/Avg Assets	0.24%	0.62%	0.18%	0.17%	0.17%
Total Write Offs/Average Assets	0.34%	0.57%	0.14%	0.13%	0.13%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

## BY THE NUMBERS... cont'd

### Balance Sheet

(RMm)	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Total Gross Loans	52,587	59,644	64,922	68,931	72,726
Liquid Assets & Invst. (Current)	15,911	21,180	19,966	21,991	25,922
Other Int. Earning Assets					
<b>Total Gross Int. Earning Assets</b>	<b>68,498</b>	<b>80,824</b>	<b>84,888</b>	<b>90,922</b>	<b>98,648</b>
Total Provisions/Loan Loss Reserve	(889)	(1,411)	(1,480)	(1,647)	(1,846)
<b>Total Net Interest Earning Assets</b>	<b>67,609</b>	<b>79,413</b>	<b>83,408</b>	<b>89,275</b>	<b>96,802</b>
Intangible Assets	896	629	629	629	629
Other Non-Interest Earning Assets	3,530	5,175	5,124	5,348	5,554
<b>Total Non-Interest Earning Assets</b>	<b>4,425</b>	<b>5,804</b>	<b>5,753</b>	<b>5,977</b>	<b>6,183</b>
<b>Cash And Marketable Securities</b>	<b>6,395</b>	<b>4,904</b>	<b>5,629</b>	<b>5,622</b>	<b>5,124</b>
Long-term Investments	0	0	0	0	0
<b>Total Assets</b>	<b>78,429</b>	<b>90,121</b>	<b>94,791</b>	<b>100,874</b>	<b>108,109</b>
Customer Interest-Bearing Liabilities	58,796	64,996	69,787	74,997	81,296
Bank Deposits	2,866	8,178	8,356	8,701	9,223
Interest Bearing Liabilities: Others	3,332	2,565	2,694	2,830	2,973
<b>Total Interest-Bearing Liabilities</b>	<b>64,993</b>	<b>75,739</b>	<b>80,838</b>	<b>86,528</b>	<b>93,491</b>
Bank's Liabilities Under Acceptances	669	1,074	23	25	26
Total Non-Interest Bearing Liabilities	2,833	2,679	3,359	3,458	3,412
<b>Total Liabilities</b>	<b>68,495</b>	<b>79,492</b>	<b>84,220</b>	<b>90,011</b>	<b>96,929</b>
<b>Shareholders' Equity</b>	<b>9,889</b>	<b>10,629</b>	<b>10,571</b>	<b>10,863</b>	<b>11,180</b>
Minority Interests	45	0	0	0	0
<b>Total Equity</b>	<b>9,934</b>	<b>10,629</b>	<b>10,571</b>	<b>10,863</b>	<b>11,180</b>

### Key Ratios

	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Total Income Growth	(18.5%)	11.3%	2.9%	5.5%	9.6%
Operating Profit Growth	(22.8%)	4.5%	(0.6%)	6.0%	17.7%
Pretax Profit Growth	71%	102%	(52%)	11%	10%
Net Interest To Total Income	48.5%	49.8%	48.1%	46.9%	46.9%
Cost Of Funds	1.00%	1.13%	1.15%	1.16%	1.17%
Return On Interest Earning Assets	2.40%	2.59%	2.47%	2.43%	2.45%
Net Interest Spread	1.40%	1.46%	1.32%	1.27%	1.28%
Net Interest Margin (Avg Deposits)	1.65%	1.65%	1.51%	1.45%	1.47%
Net Interest Margin (Avg RWA)	1.82%	1.88%	1.72%	1.67%	1.71%
Provisions to Pre Prov. Operating Profit	31.1%	59.4%	13.2%	12.7%	11.3%
Interest Return On Average Assets	1.21%	1.21%	1.10%	1.07%	1.10%
Effective Tax Rate	14.1%	11.8%	24.0%	24.0%	24.0%
Net Dividend Payout Ratio	49.2%	56.0%	38.9%	39.5%	39.5%
Return On Average Assets	0.71%	1.40%	0.51%	0.54%	0.56%

### Key Drivers

	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Loan growth (%)	11.1%	15.4%	8.5%	6.1%	5.4%
Gross impaired loan ratio (%)	2.5%	2.0%	2.0%	2.1%	2.1%
Loan loss coverage (%)	68.1%	120.5%	113.8%	116.6%	121.8%
Cost-to-income ratio (%)	61.7%	64.1%	65.3%	65.2%	62.6%
Non-interest income ratio (%)	21.8%	16.7%	16.8%	17.1%	17.7%
Common equity Tier-1 capital ratio (%)	14.5%	15.7%	15.1%	14.7%	14.2%
Stage-1 ECL coverage (%)	18.2%	18.1%	15.9%	17.4%	18.5%
Stage-2 ECL coverage (%)	24.0%	66.4%	72.7%	79.2%	85.6%
Stage-3 ECL coverage (%)	25.9%	36.0%	25.2%	20.1%	17.8%
Total provision over loans (%)	1.7%	2.4%	2.3%	2.4%	2.6%
Return on equity (%)	5.4%	11.5%	4.5%	4.9%	5.3%
Return on asset (%)	0.7%	1.4%	0.5%	0.5%	0.6%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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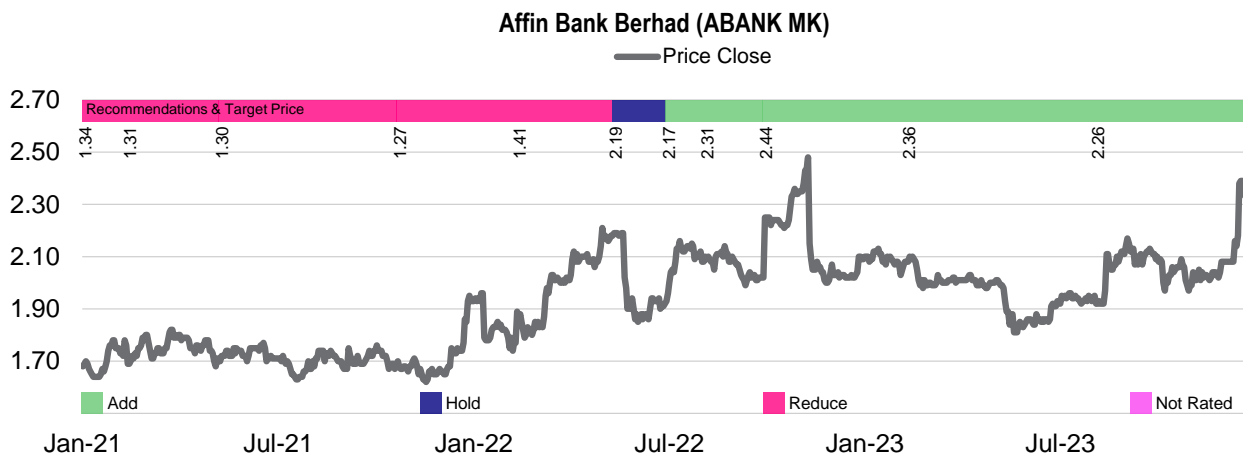
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	Rating Distribution (%)	Investment Banking clients (%)
Add	67.5%	1.3%
Hold	22.5%	0.0%
Reduce	10.1%	0.2%

**Spitzer Chart for stock being researched ( 2 year data )**



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