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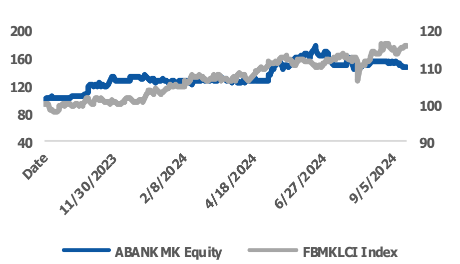
Recommendation:	**HOLD**
Current Price:	**RM 2.89**
Previous Target Price:	**-**
Target Price:	**RM 2.71**
Upside/Downside:	**-6.2%**

Stock information	
Board	MAIN
Sector	Financial Services
Bursa / Bloomberg Code	5185 / ABANK MK
Syariah Compliant	No
FTSE4Good Index	Yes
FTSE ESG Rating	☆★★★
Bloomberg ESG Rating	43.6
Shares issued (m)	2,400.5
Market Cap (RM' m)	6,937.4
52-Week Price Range (RM)	3.43-1.99
Beta (x)	0.7
Free float (%)	20.3
3M Average Volume (m)	2.6
3M Average Value (RM' m)	7.9

Top 3 Shareholders	**(%)**
Lembaga Tabung Angkatan Tentera	28.9
Bank Of East Asia Ltd	23.9
Boustead Holdings Bhd	20.1

Share Price Performance



	1M	**3M**	**12M**
Absolute (%)	-4.3	-10.5	41.7
Relative (%)	-2.6	-7.9	29.6

Affin Bank Berhad

Geared for Rapid Growth

Summary

- **AFFIN has been growing rapidly at the expense of its weaker ROE and cost-to-income ratio. This trend is expected to persist in the foreseeable future.**
- **Regardless, there are multiple drivers including: (i) A revamp of investment banking functions, which should lead to a recovery in fee income prospects, (ii) Multiple opportunities to improve funding profile, which has underperformed in recent quarters, (iii) A key stakeholder in the form of the Sarawak government, which should come with better non-interest income related deals amongst other growth opportunities, (iv) Considerable improvements in asset quality profile.**
- **We initiate coverage on AFFIN with a HOLD recommendation with a TP of RM2.71 based on FY25F GGM-PBV of 0.52x.**

Company Background

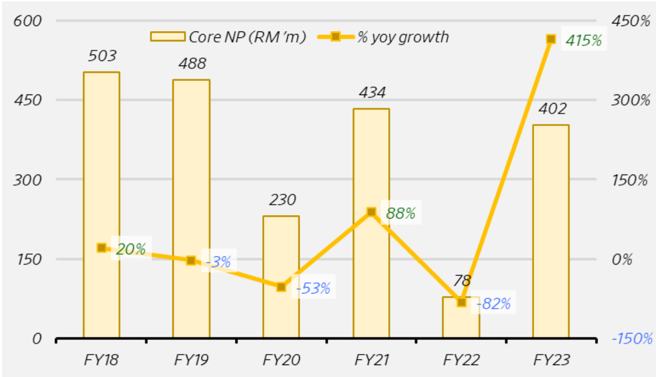
- Affin Bank Berhad (AFFIN) is the financial holding entity of Affin Islamic Bank Berhad, Affin Hwang Investment Bank Berhad, and Affin Moneybrokers Sdn Bhd. Generali Insurance Malaysia Berhad and Generali Life Insurance Malaysia Berhad are affiliated with Affin Bank Berhad.

- Affin Group provides an exhaustive array of financial products and services for individual and corporate clients. The focus market segments are categorised under essential business units such as Community Banking, Enterprise Banking, Corporate Banking, Treasury, and Investment Banking. As of 3 July 2024, Affin Bank has 125 branches in Malaysia.

Income Statement

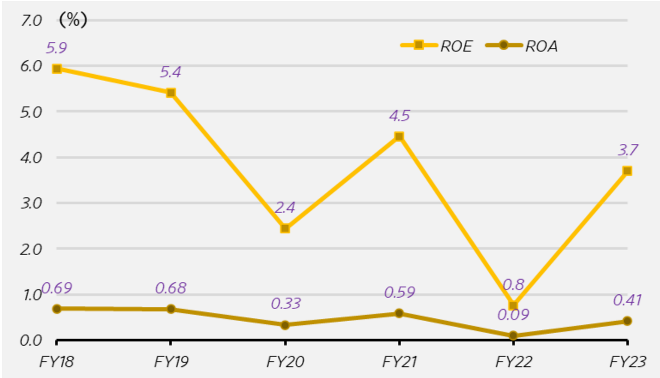
- **Earnings and ROE.** A steady earnings CAGR in recent years has been difficult to determine due to earnings distortions caused by the Covid-19 pandemic. Regardless, AFFIN's ROE is consistently among the lowest in the industry due to a high cost/income ratio and elevated provisioning costs.

Fig 1: Core Net Profit



Source: AFFIN

Fig 2: Return on Equity and Return on Assets

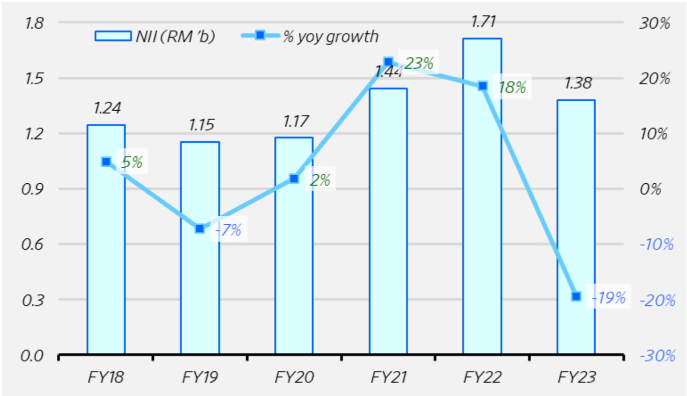


Source: AFFIN

- **Management NII and NIM.** AFFIN's NIM has underperformed the rest of the industry in the last couple of years. We believe this is due to AFFIN's aggressive loan growth strategy, which requires a high level of funding. The funding sourced is expensive, due to AFFIN's weak deposit franchise and non-retail slant.

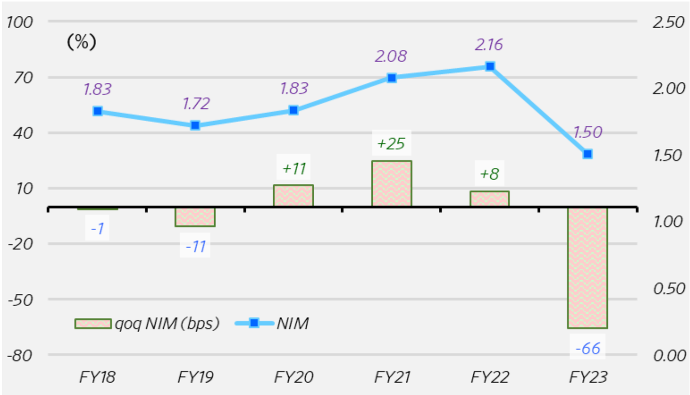
- To illustrate, AFFIN's average retail CASA interest rate of ~3% is above the industry high. This implies that recent CASA surges are not as beneficial to COF as once thought. In contrast, competitors have far lower retail CASA rates (we estimate closer to the ~1% mark). We believe that AFFIN has a larger proportion of pricier promo rate FDs than most of its peers.

Fig 3: Net Interest Income



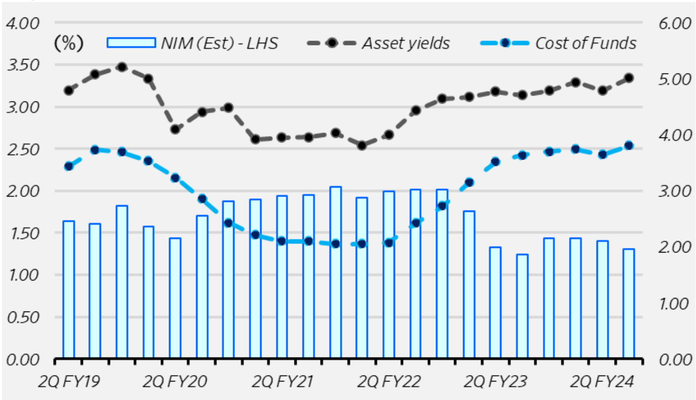
Source: AFFIN

Fig 4: Net Interest Margins



Source: AFFIN

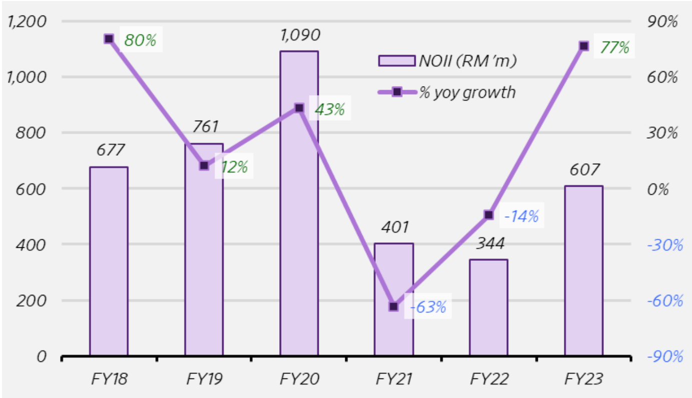
Fig 5: Asset yields and Cost of Funds



Source: AFFIN

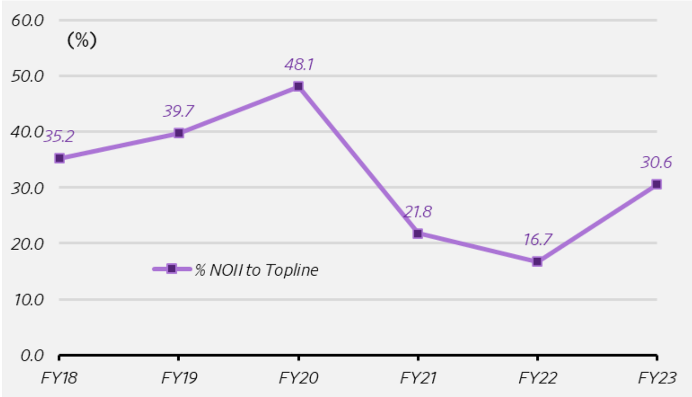
- **NOII.** AFFIN's NOII makes up a large proportion of the topline, though this has declined following the disposal of its asset management arm. Fee income was nearly halved following this divestment. Regardless, AFFIN seems to be making considerable effort to plug an AHAM-shaped hole by revamping its treasury functions and investment banking franchise. Recovery has been gradual so far, but we think it will ramp up following the Sarawak government's increasing its stake in the bank.

Fig 6: Non-Interest Income



Source: AFFIN

Fig 7: Non-Interest Income as % of Topline

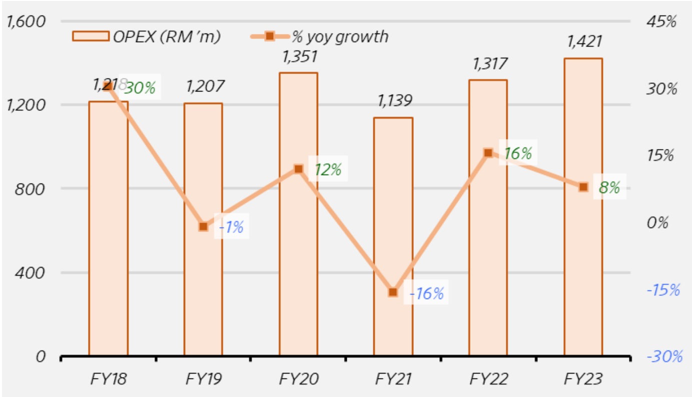


Source: AFFIN

- **OPEX.** AFFIN's cost/income ratio is the highest in the industry. Following its asset management arm divestment and plummeting NIMs, AFFIN has struggled with cost management and a lacklustre topline. Cost elevation drivers include rebranding costs (for its image revamp), marketing costs (to promote its new app), establishment costs (upon purchasing its new headquarters in TRX), and a major restructuring in its business operations (large-scale hiring) — alongside industry-wide cost pressures such as digitisation and wage inflation.

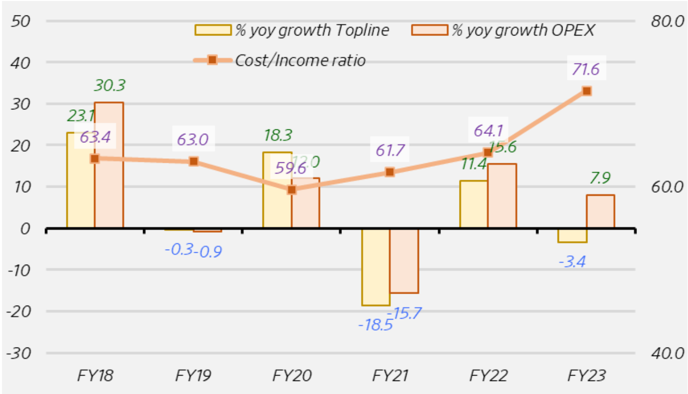
- Expect cost growth to remain high in the near term as the Group (1) Expands its presence in Sarawak (thus having to set up new brick-and-mortar outlets) and other states and (2) Continues resolving its staff overcapacity issue (which could imply considerable severance pay in the near term).

Fig 8: OPEX



Source: AFFIN

Fig 9: Cost/Income ratio

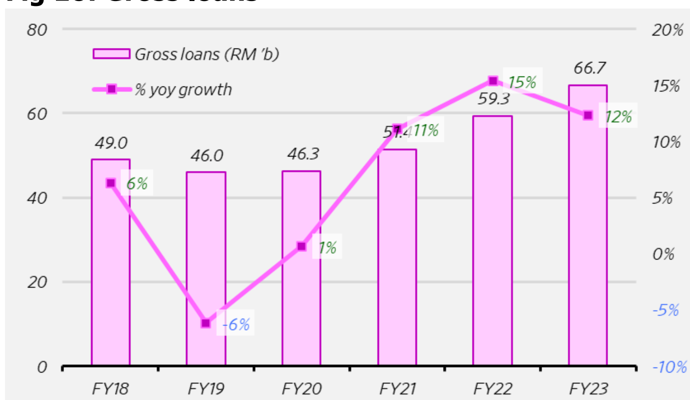


Source: AFFIN

Balance Sheet

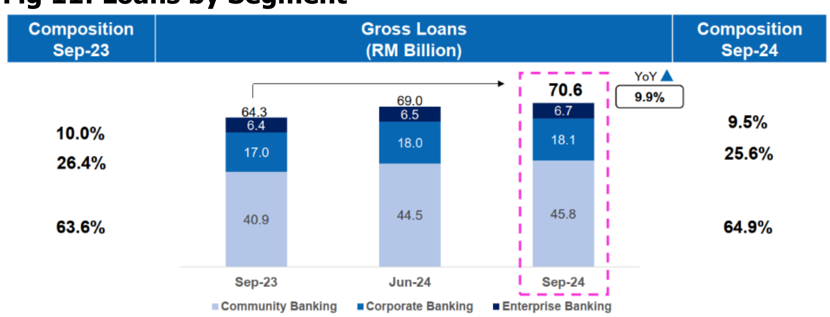
- **Loans.** Since the pandemic, AFFIN's loan growth has been well above the industry average. Growth was primarily centred on its consumer and SME portfolio. While mortgages and hire purchases loans were the core drivers, the Group also rapidly expanded its higher-yielding unsecured loans to improve its NIM profile. The corporate portfolio was of lower priority due to the segment's high GIL ratio. Management asserts that it did not compromise underwriting standards to capture market share.

Fig 10: Gross loans



Source: AFFIN

Fig 11: Loans by Segment

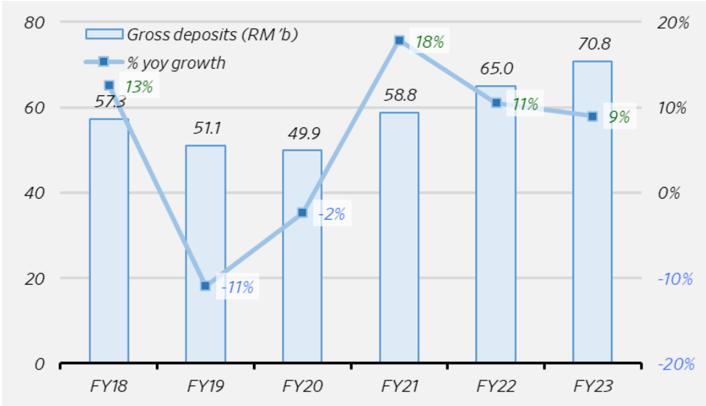


RM Billion	Sep-23	Jun-24	Sep-24	QoQ (%)	YoY (%)
Community Banking	40.9	44.5	45.8	2.9	12.0
Corporate Banking	17.0	18.0	18.1	0.6	6.5
Enterprise Banking	6.4	6.5	6.7	3.1	4.7
TOTAL	64.3	69.0	70.6	2.3	9.9

Source: AFFIN

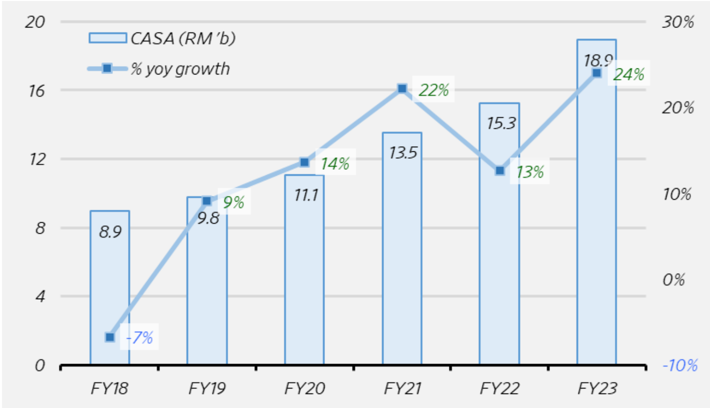
- **Deposits, CASA and Liquidity.** Similar to loan growth, AFFIN's deposit growth has been exceptionally high in the last couple of years. It hasn't quite eclipsed loan growth – AFFIN's loan/deposit ratio is currently very elevated. CASA growth has been particularly strong (but volatile), as evidenced by the steep climb in CASA ratio – but we suspect that this CASA may be very pricy, as the rapid growth is fuelled by extremely high rates. Deposit growth can vary wildly on a qoq basis, mainly due to lumpy corporate withdrawals.

Fig 12: Deposits



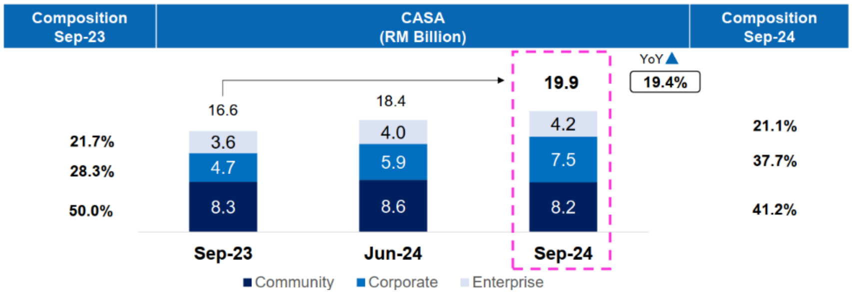
Source: AFFIN

Fig 13: CASA



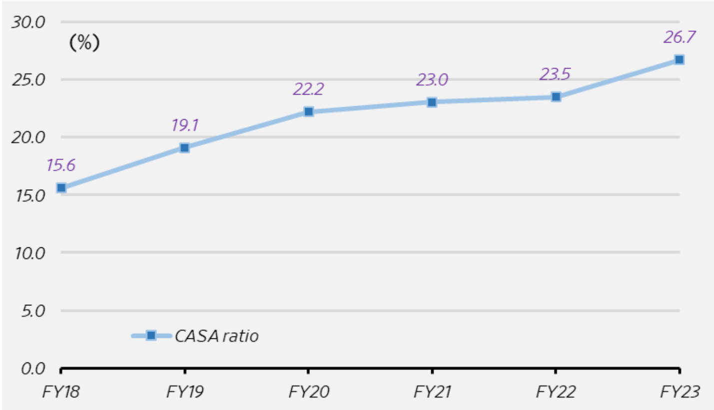
Source: AFFIN

Fig 14: CASA by Segment



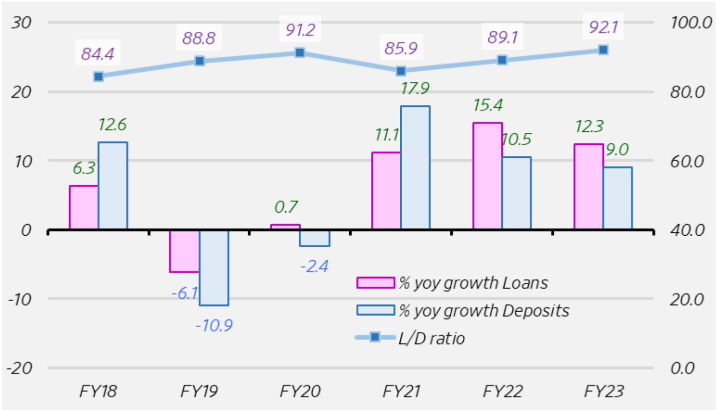
Source: AFFIN

Fig 15: CASA ratio



Source: AFFIN

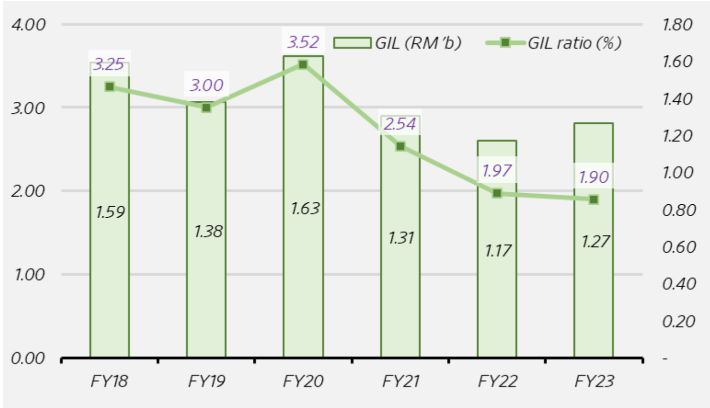
Fig 16: Loan/Deposit ratio



Source: AFFIN

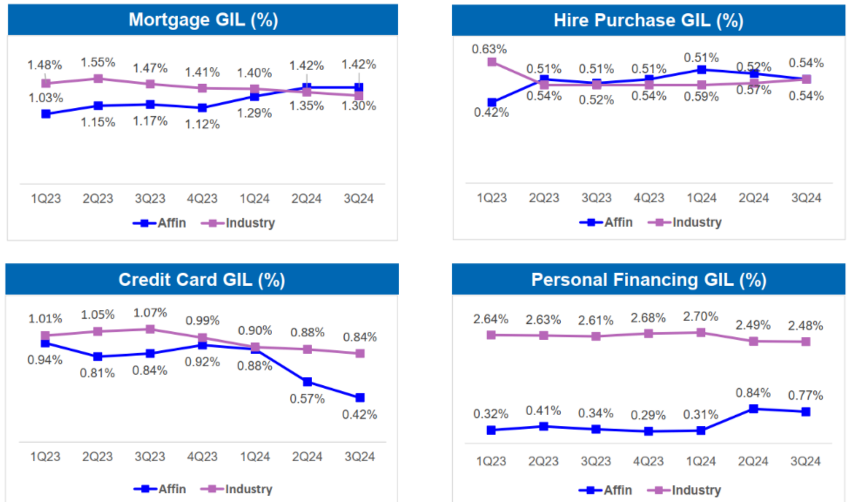
- **Asset quality and provisioning.** AFFIN's asset quality is not its strongest suit, with its GIL ratio among the highest in the industry. Management repeatedly warns of potential SME and corporate portfolio issues – while the consumer segment's GIL ratio is steadily rising. The Group used to have unpredictable, huge quarterly provisions – though we have seen no further re-occurrences since FY22.

Fig 17: Gross Impaired Loans



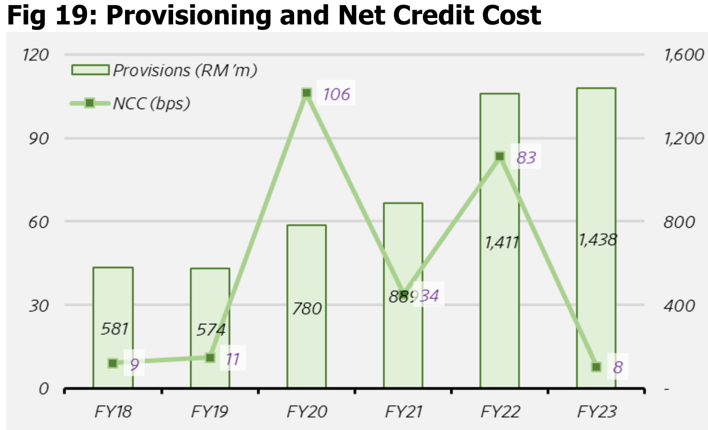
Source: AFFIN

Fig 18: Retail GIL by Segment



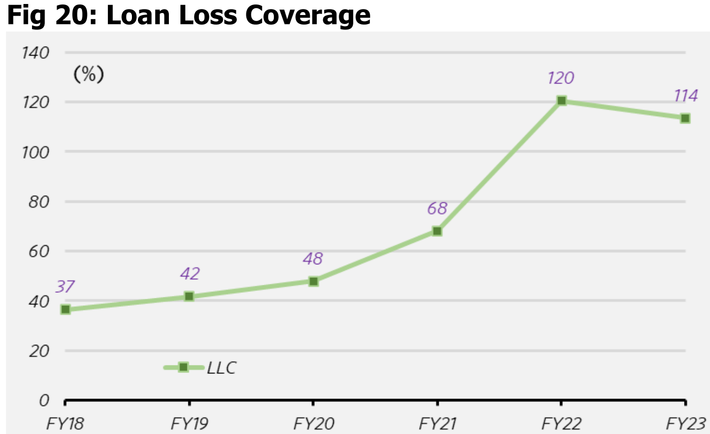
Source: AFFIN

Fig 19: Provisioning and Net Credit Cost



Source: AFFIN

Fig 20: Loan Loss Coverage

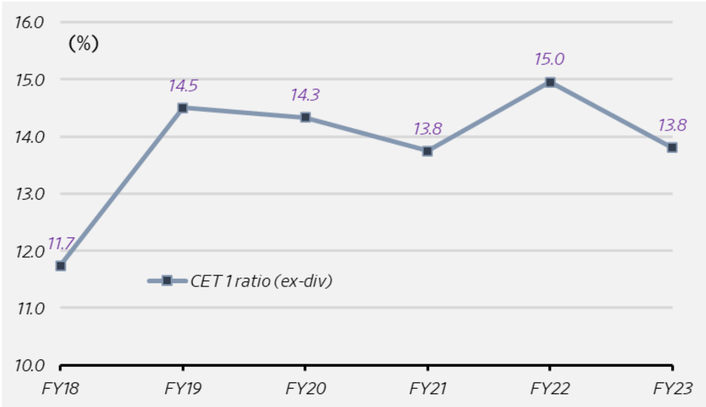


Source: AFFIN

- **Capital and dividends.** AFFIN's CET 1 ratio is at the lower end of its peers – its bank-level CET 1 ratio is even lower, at 11.8%. This is due to its aggressive loan growth stance, and AFFIN has already used up most of the extra capital earned from various divestments.

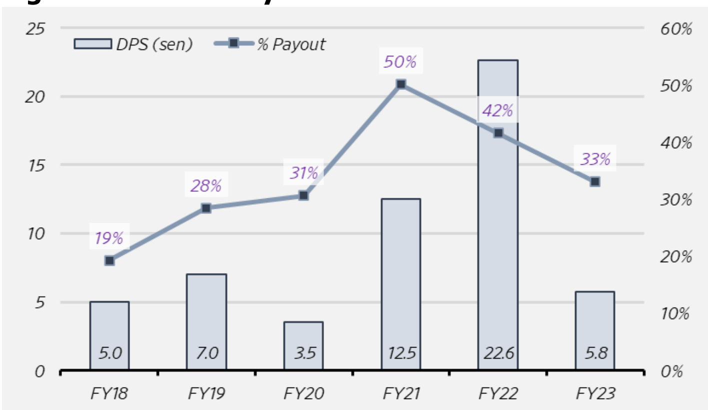
- AFFIN guides its dividend payout to remain within the 40-60% range. It disappointed on this front in FY23, citing a weaker economic performance – implying that this could repeat if economic conditions persist. We believe that a repeat of this is unlikely despite a rather low CET 1 ratio (especially in FY24): AFFIN is unlikely to disappoint its new shareholders.

Fig 21: CET 1 ratio



Source: AFFIN

Fig 22: Dividend Payout



Source: AFFIN

Investment Highlights

- **Solid fee income prospects.** After disposing off its asset management arm, AFFIN has spent considerable expense and efforts in rebuilding its treasury and investment banking franchise. This will directly benefit advisory, brokerage, and fee and commission income streams.

- While recovery has been gradual, this revamp is well-timed with the economic cycle: Expect sharper fee income growth spurred on by better economic prospects. More importantly, AFFIN's improved functions should allow the Group to handle the increased load from larger, more prominent deals from its partnership with the Sarawak government.

- **Multiple opportunities to improve funding profile.** AFFIN's COF is currently the highest in the industry. This is due to the high funding required to maintain its loan growth, which can come at a very high cost. Notably, AFFIN houses an extremely high proportion of FDs drawn in under pricier promotional rates.

- Moving forward, AFFIN's COF profile sees multiple upside opportunities: (1) The Sarawak state government will place a decent chunk of its RM30b coffers into AFFIN, (2) Expect Sarawak businesses to utilise AFFIN as their preferred bank, (3) AFFIN's mobile app is finally up and running, which should help with the acquisition of cheaper retail deposits, (4) The natural FD attrition from the expensive promotional bucket, and (5) Better, more stable rates for bond/debt market funding – especially since AFFIN is already heavily reliant on interbank lending. We believe the improved liquidity prospects should allow AFFIN to price down deposit rates more rationally – especially in their pricy retail CASA segment.

- **Aggressive capture of loan market share to persist.** AFFIN will resume its high 12% loan growth target in FY25 following a lull in FY24. We are less worried about COF implications this time (for the above reasons), so the downsides are less pronounced. 12% loan growth is well above the industry average (which usually hovers in the 5-6% range), which implies that AFFIN will be taking loan market share.

- AFFIN's strong presence in Sarawak is central to this. Note that its current level of growth in East Malaysia is lower than its overall figure (Johor is the current "flavour of the month") – implying much room for growth. We expect growth in all three segments (consumer, SME and corporate) – though the Group will reprioritise its consumer loan portfolio to maintain healthy asset quality.

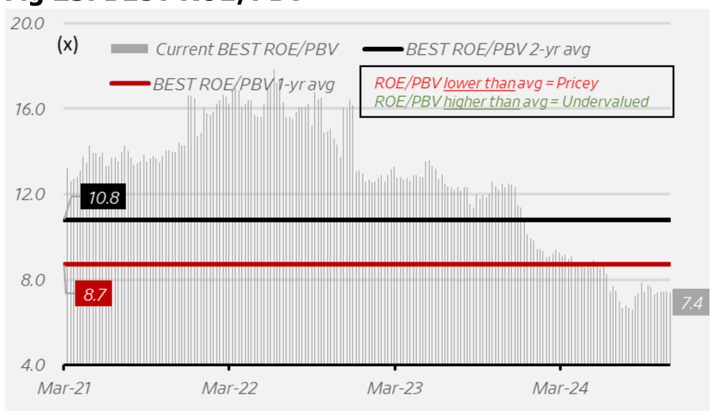
- **Considerable improvements in asset quality.** AFFIN has made laudable progress in improving its GIL ratio and LLC levels from pre-pandemic times. It intends to maintain these metrics close to current levels. Although it sees occasional impairment spikes in its SME and corporate portfolio, the overall trajectory is still moving in the right direction.

- The Group is reprioritising its consumer loan portfolio once again, as management expresses uncertainty about the quality of potential SME customers (their debt servicing ability may not be adequate). Although this will likely negatively impact NIMs, we think the cross-selling opportunities and further benefits to GILs (retail loans are normally safer) and NCC profile make up for it.

Valuation & Recommendation

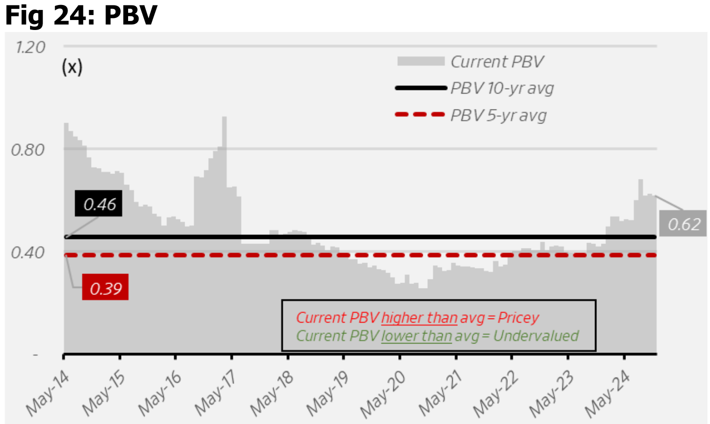
- We initiate coverage on AFFIN with a **HOLD** recommendation and a target price of **RM2.71** based on an FY25F PBV of 0.52x GGM-PBV valuation. (GGM Assumptions: FY25F ROE of 4.9%, LTG of 3.0%, & COE of 6.7%.) Despite solid growth prospects, AFFIN's share price is mostly priced in by now after appreciating 34.0% year-to-date.

Fig 23: BEST ROE/PBV



Source: AFFIN

Fig 24: PBV



Source: AFFIN

- We favour Affin for its (i) Solid fee income prospects following considerable effort in building its investment banking franchise, (ii) Extremely high rate of loan growth and market share capture, (iv) Considerable progress made toward a healthier balance sheet.

Key Risks

- **Low CET 1 ratio may impede dividend payout ability.** AFFIN's CET 1 ratio is very low, with CET 1 ratio on a bank level at 12.2%. Our primary concern is that this could cut into dividend payouts, and AFFIN's payout could come in lower than 40-60% guidance again.

- **Asset quality issues and large provisions.** AFFIN frequently warns of impairments in its corporate and SME portfolio. It tends to make huge provisions very suddenly, though this is less common now.

- **NIM issues may persist.** AFFIN's COF is the highest in the industry. Since it will be resuming double-digit loan growth targets in FY25F, we worry that liquidity constraints may become an issue again.

Financial Highlights

Income Statement

FYE Dec (RM m)	FY22	FY23	FY24F	FY25F	FY26F
Net interest income	**1,023**	**783**	**910**	**1,006**	**1,094**
Islamic banking inc.	688	596	606	671	729
Other operating inc.	344	607	718	824	904
Net income	**2,055**	**1,986**	**2,234**	**2,501**	**2,728**
OPEX	(1,317)	(1,421)	(1,519)	(1,676)	(1,827)
PPOP	**738**	**565**	**715**	**825**	**900**
Loan allowances	(462)	(50)	(90)	(99)	(111)
Other allowances	(45)	(28)	(27)	(22)	(21)
JV & Associates	9	36	43	50	54
PBT	**239**	**523**	**641**	**754**	**821**
Tax & zakat	(161)	(121)	(147)	(173)	(189)
Discontinued ops	1,125	-	-	-	-
NCI	(25)	-	-	-	-
Reported NP	**1,179**	**402**	**494**	**581**	**633**
Core NP	**78**	**402**	**494**	**581**	**633**
Total NII	1,711	1,379	1,516	1,677	1,823
Total NOII	344	607	718	824	904

Balance Sheet

FYE Dec (RM m)	FY22	FY23	FY24F	FY25F	FY26F
Cash & ST funds	5,205	6,483	6,399	6,962	7,030
Investment securities	21,180	27,239	20,979	19,273	20,126
Net loans	57,932	65,225	70,585	79,055	88,542
Other IEAs	0	0	0	0	0
Non-IEAs	5,804	6,300	13,862	16,732	17,714
Total assets	**90,121**	**105,248**	**111,825**	**122,022**	**133,412**
Customer deposits	64,995	70,834	76,572	85,837	96,223
Other IBLs	11,818	21,289	21,670	22,066	22,475
Non-IBLs	2,679	2,016	2,049	2,084	2,120
Total liabilities	**79,492**	**94,139**	**100,291**	**109,986**	**120,819**
Share capital	5,245	5,371	5,371	5,371	5,371
Reserves	5,383	5,738	6,163	6,665	7,222
Shareholders' funds	**10,629**	**11,109**	**11,534**	**12,036**	**12,593**
NCI	0	0	0	0	0
Total equity	**10,629**	**11,109**	**11,534**	**12,036**	**12,593**
Total L&E	**90,121**	**105,248**	**111,825**	**122,022**	**133,412**
Total IEAs	84,317	98,947	97,963	105,290	115,698
Total IBLs	76,813	92,123	98,242	107,903	118,699
Gross loans	59,343	66,663	71,996	80,635	90,312
CASA	15,250	18,914	19,909	23,176	25,980

Key Ratios

FYE Dec (RM m)	FY22	FY23	FY24F	FY25F	FY26F
Interest (%)					
NIM	2.16	1.50	1.54	1.65	1.65
Return on IEAs	2.59	2.89	2.18	2.20	2.11
Cost of funds	1.45	2.21	1.30	1.20	1.09
Net interest spread	1.15	0.68	0.88	1.01	1.02
Profitability (%)					
ROE	**0.8**	**3.7**	**4.4**	**4.9**	**5.1**
ROA	0.1	0.4	0.5	0.5	0.5
NOII/Net income	16.7	30.6	32.1	33.0	33.2
Effective tax rate	65.7	22.2	22.2	22.2	22.2
Cost/Income	64.1	71.6	68.0	67.0	67.0
Liquidity (%)					
Loan/Deposit	89.1	92.1	92.2	92.1	92.0
CASA ratio	23.5	26.7	26.0	27.0	27.0
Asset Quality (%)					
GIL ratio	1.97	1.90	1.96	1.96	1.96
LLC ratio	120	114	100	100	100
LLC (w. reserves)	161	140	146	148	142
Net CC (bps)	83	8	13	13	13
Capital (%)					
CET 1	15.0	13.8	12.9	13.2	13.2
Tier 1 capital	16.3	15.3	14.4	14.6	14.6
Total capital	18.7	18.0	16.9	16.9	16.9
Growth (%)					
Total NII	18.5	-19.4	10.0	10.6	8.7
Total NOII	-14.3	76.6	18.2	14.8	9.7
Net income	11.4	-3.4	12.5	11.9	9.1
OPEX	15.6	7.9	6.9	10.3	9.1
Core NP	-82.0	415.4	22.7	17.6	9.0
Gross loans	15.4	12.3	8.0	12.0	12.0
Customer deposits	10.5	9.0	8.1	12.1	12.1
CASA	12.6	24.0	5.3	16.4	12.1
Valuation metrics					
Core EPS (sen)	3.4	17.4	21.4	25.1	27.4
Gross DPS (sen)	22.6	5.8	6.3	7.3	7.8
Div payout (%)	42	33	30	30	30
BVPS (RM)	4.6	4.8	5.0	5.2	5.5
Core P/E (x)	295.8	57.4	46.8	39.8	36.5
Div yield (%)	**2.3**	**0.6**	**0.6**	**0.7**	**0.8**
P/BV (x)	2.2	2.1	2.0	1.9	1.8

APEX SECURITIES BERHAD – CONTACT LIST

APEX SECURITIES BHD	DEALING TEAM	RESEARCH TEAM
Head Office: 5th Floor Menara UAC, 12, Jalan PJU 7/5, Mutiara Damansara, 47800 Petaling Jaya, Selangor Darul Ehsan, Malaysia General Line: (603) 7890 8899	**Head Office:** Kong Ming Ming (ext 2002) Lee Chen Ming (ext 2029) Shirley Chang (ext 2026) Ahmad Mujib (ext 2028) Azfar Bin Abdul Aziz (ext 2031) Aizzat Bin Mohd Daud (ext 2030)	**Head Office:** Kenneth Leong (ext 2093) Steven Chong (ext 2068) Jayden Tan (ext 2069) Chelsea Chew (ext 2070) Tan Sue Wen (ext 2095) Ong Tze Hern (ext 2113) Samuel Woo (ext 2121) Amir Hamdan (ext 2112)
Petaling Jaya Office: 16th Floor, Menara Choy Fook Onn, No.1B Jalan Yong Shook Lin, 46050 Petaling Jaya, Selangor Darul Ehsan, Malaysia General Line: (603) 7620 1118	**Institutional Dealing Team:** Low Jin Wu (ext 2109) **PJ Office:** General Line: (603) 7620 1118	

RESEARCH RECOMMENDATION FRAMEWORK

STOCK RECOMMENDATIONS

BUY: Total returns* are expected to exceed 10% within the next 12 months.
HOLD: Total returns* are expected to be within +10% to – 10% within the next 12 months.
SELL: Total returns* are expected to be below -10% within the next 12 months.
TRADING BUY: Total returns* are expected to exceed 10% within the next 3 months.
TRADING SELL: Total returns* are expected to be below -10% within the next 3 months.
*Capital gain

SECTOR RECOMMENDATIONS

OVERWEIGHT: The industry defined by the analyst is expected to exceed 10% within the next 12 months.
NEUTRAL: The industry defined by the analyst is expected to be within +10% to – 10% within the next 12 months.
UNDERWEIGHT: The industry defined by the analyst, is expected to be below -10% within the next 12 months.

DISCLAIMER