


Company Flash Note

Malaysia

May 30, 2017 - 4:28 PM

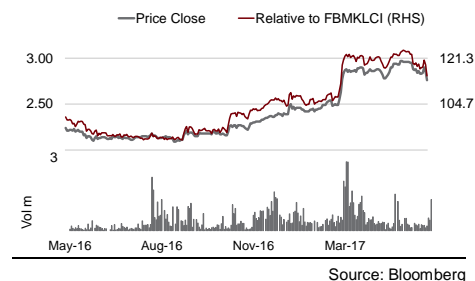
HOLD (no change)

Consensus ratings*:	Buy 2	Hold 4	Sell 2
Current price:		RM2.76	
Target price:		RM2.96	
Previous target:		RM2.96	
Up/downside:		7.2%	
CIMB / Consensus:		2.7%	
Reuters:		AFIN.KL	
Bloomberg:		AHB MK	
Market cap:		US\$1,255m	
		RM5,363m	
Average daily turnover:		US\$0.37m	
		RM1.63m	
Current shares o/s		1,943m	
Free float:		19.9%	

*Source: Bloomberg

Key financial forecasts

	Dec-17F	Dec-18F	Dec-19F
Net Profit (RMm)	562.1	606.6	649.9
Core EPS (RM)	0.29	0.31	0.33
Core EPS Growth	(0.34%)	7.92%	7.13%
FD Core P/E (x)	9.54	8.84	8.25
Recurring ROE	6.36%	6.61%	6.79%
P/BV (x)	0.60	0.57	0.55
DPS (RM)	0.11	0.12	0.13
Dividend Yield	4.16%	4.49%	4.81%



Price performance	1M	3M	12M
Absolute (%)	-5.8	10.8	23.2
Relative (%)	-5.6	6.6	15.4

Major shareholders	% held
LTAT	35.4
Bank of East Asia	23.5
Boustead	20.7

Analyst(s)

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Affin Holdings

Painting a brighter picture for coming quarters

- During the 1Q17 results conference call, Affin explained that its gross impaired loan ratio was bumped up in 1Q17 by one restructured loan.
- The bank foresees a drop in overheads in 2H17F and targets strong loan growth of 8-10% for 2017.
- Maintain Hold due to the increase in gross impaired loan ratio and expected slowdown in FY17F net profit growth.

Conference call on 1Q17 results

- Affin held a conference call on 30 May 17 regarding its 1Q17 financial results, hosted by Group CEO Kamarul Ariffin. During the call, the company addressed the key issues in the 1Q17 results and provided some guidance on future trends.

1Q17 gross impaired loan ratio bumped up by one R&R loan

- There was a steep increase in the bank's gross impaired loan (GIL) ratio from 1.7% at end-Dec 16 to 2.0% at end-Mar 17. The company explained that this was due to the classification of one restructured and rescheduled (R&R) loan amounting to RM200m as impaired. The loan is in the non-residential mortgages segment.
- The company said the R&R loan is still performing. If the borrower continues to service the loan promptly for six consecutive months, the loan will be reclassified as non-impaired in 2H17F.
- As the above loan is fully collateralised, the bank does not have to recognise any provisioning for its classification as impaired. This led to a drop in the banks' loan loss coverage from 55% at end-Dec 16 to 38.5% at end-Mar 17.

The reasons for a jump in 1Q17 overheads

- Affin explained that the 20.5% yoy surge in 1Q17 overheads was due to: (1) staff force increasing by about 200, (2) additional transition cost for its IT outsourcing project, and (3) costs related to the Affinity transformation programme.
- The bank will incur transition cost for the IT project in 1H17F and expects to see cost savings of RM3.5m per month in 2H17F. Overall, it believes that it can achieve cost-to-income ratio of 58-59% for FY17F (vs. our forecast of 61.6%) compared to 64.5% in 1Q17.

Aiming high for loan growth

- Affin targets high loan growth of 8-10% for 2017F, above our projections of 3% for the bank and 5-6% for the industry. The bank expects loan growth to come mainly from the retail and SME loan segments. Every 1% pt increase in our projected loan growth would raise our FY17F EPS forecast by circa 0.7%.

Ongoing implementation of Affinity transformation programme

- The company also touched on its Affinity transformation programme. We foresee tangible benefits from Affinity, in the form of: (1) improvement in its cost-to-income ratio, (2) enhancement to its digital banking capabilities, elevating its competitiveness, and (3) stronger fee income generation.

Maintain Hold

- We retain our Hold recommendation on Affin, given the rise in gross impaired loan ratio in 1Q17. We also forecast a marginal 0.3% drop in FY17F net profit, vs. a surge of 52.7% in FY16. However, its FY18F P/BV of 0.6x is the lowest in the sector. We retain our FY17-19F EPS forecasts and DDM-based target price of RM2.96.
- The upside/downside risks to our call are a drop/increase in loan loss provisioning and significant pick-up/slowdown in loan growth.

Figure 1: Affin's quarterly gross impaired loan ratio

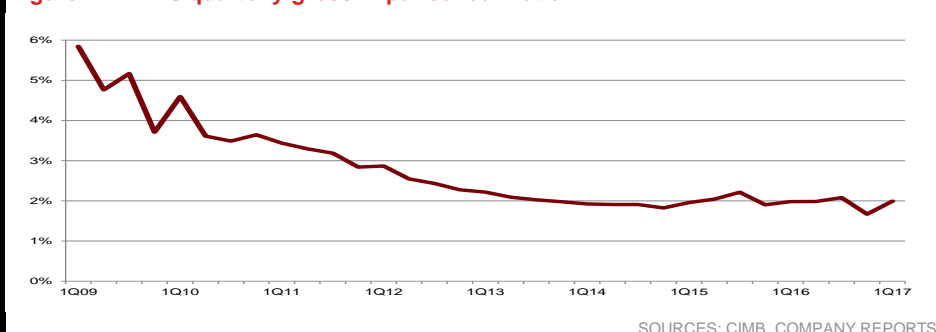


Figure 2: Sector comparison

Company	Bbg Ticker	Recom.	Price (local)	Target Price (local)	Market Cap (US\$ m)	Core P/E (x)		3-year EPS CAGR (%)	P/BV (x) CY2016	Recurr. ROE (%) CY2016	P/PPOPS (x) CY2016	Div Yield (%) CY2016
						CY2016	CY2017					
DBS Group	DBS SP	Hold	20.84	18.75	38,273	12.5	12.3	2.7%	1.24	10.7%	8.0	2.9%
OCBC	OCBC SP	Hold	10.44	9.94	31,573	12.5	11.5	-0.3%	1.22	10.0%	9.4	3.4%
United Overseas Bank	UOB SP	Hold	23.35	21.20	27,606	12.2	11.8	1.1%	1.16	10.2%	8.7	3.0%
Singapore average						12.4	11.9	1.9%	1.21	10.3%	8.6	3.1%
Agricultural Bank of China	1288 HK	Add	3.77	5.30	165,333	6.0	5.7	1.6%	0.87	15.8%	3.4	5.1%
Bank of China	3988 HK	Add	3.90	4.20	155,525	6.4	6.1	-0.5%	0.77	13.1%	3.3	4.9%
Bank of Communications	3328 HK	Hold	6.02	6.10	62,346	5.9	5.6	1.8%	0.69	12.7%	3.4	5.1%
China CITIC Bank	998 HK	Reduce	5.04	3.90	40,302	5.2	5.0	1.9%	0.63	13.1%	2.0	4.8%
China Construction Bank	939 HK	Add	6.49	7.60	209,087	6.2	6.1	0.4%	0.92	16.2%	3.7	4.9%
China Merchants Bank	3968 HK	Hold	23.55	22.00	81,956	8.4	7.4	9.7%	1.30	17.0%	3.6	3.6%
China Minsheng Bank	1988 HK	Hold	7.99	8.60	41,615	5.4	5.1	3.5%	0.77	15.8%	2.5	4.0%
ICBC	1398 HK	Add	5.20	6.30	263,464	6.0	5.8	0.0%	0.87	15.9%	3.6	5.1%
Hong Kong average						6.2	5.9	1.3%	0.86	15.2%	3.4	4.9%
Bank Central Asia	BBCA IJ	Add	17,775	17,400	32,901	21.3	19.0	13.3%	3.90	19.9%	14.4	1.0%
Bank Danamon	BDMN IJ	Reduce	5,300	3,675	3,814	14.3	12.2	-	1.35	9.8%	5.5	2.0%
Bank Mandiri	BMRI IJ	Add	12,350	12,900	21,634	20.8	15.0	6.0%	1.92	10.2%	6.7	2.1%
Bank Negara Indonesia	BBNI IJ	Add	6,525	6,700	9,135	10.8	9.3	19.6%	1.40	13.5%	5.5	1.9%
Bank Panin	PNBN IJ	Hold	935	1,300	1,691	7.9	6.8	-	0.85	11.5%	5.0	0.0%
Bank Rakyat Indonesia	BBRI IJ	Add	14,200	14,200	26,299	13.4	12.8	12.9%	2.39	20.5%	7.3	2.2%
Bank Tabungan Negara	BBTN IJ	Add	2,460	2,550	1,956	10.0	9.1	21.6%	1.36	15.3%	6.4	1.4%
Bank Tabungan Pensiunan	BTPN IJ	Hold	2,510	3,950	1,101	6.3	5.5	-	0.90	15.5%	3.4	0.0%
Indonesia average						15.7	13.7	-	2.20	15.3%	7.9	1.6%
Affin Holdings	AHB MK	Hold	2.76	2.96	1,255	9.5	9.5	14.5%	0.62	7.2%	6.8	4.2%
Alliance Financial Group	AFG MK	Hold	4.16	3.90	1,485	11.9	11.3	0.5%	1.26	11.4%	8.5	3.4%
BIMB Holdings	BIMB MK	Add	4.48	4.90	1,717	12.5	11.8	0.8%	1.83	16.6%	6.5	2.9%
Hong Leong Bank	HLBK MK	Hold	13.96	13.50	6,684	13.6	12.8	-2.0%	1.38	10.6%	12.3	3.0%
Malayan Banking Bhd	MAY MK	Hold	9.40	9.10	22,559	13.9	13.2	-1.7%	1.40	11.2%	8.0	5.5%
Public Bank Bhd	PBK MK	Hold	20.02	19.50	18,095	14.9	13.8	2.8%	2.27	17.2%	11.5	2.9%
Malaysia average						13.5	12.7	1.5%	1.44	11.8%	9.0	3.9%
Bangkok Bank	BBL TB	Hold	180.5	180.0	10,100	10.8	10.0	5.4%	0.91	8.7%	6.2	3.6%
Bank of Ayudhya	BAY TB	Hold	36.8	38.0	7,924	12.6	11.5	8.3%	1.30	10.9%	5.6	3.2%
Kasikombank	KBANK TB	Hold	190.5	191.0	13,365	11.3	12.4	1.1%	1.42	13.4%	5.1	2.1%
Krung Thai Bank	KTB TB	Reduce	19.2	19.0	7,866	8.3	8.3	10.2%	0.98	12.6%	3.6	4.8%
Tisco Financial Group	TISCO TB	Hold	76.5	78.0	1,795	11.1	9.5	15.7%	1.78	17.1%	5.4	4.6%
Thailand average						10.7	10.5	6.6%	1.15	11.4%	5.0	3.3%

SOURCES: CIMB, COMPANY REPORTS

BY THE NUMBERS

Profit & Loss

(RMm)	Dec-16A	Dec-17F	Dec-18F	Dec-19F
Net Interest Income	971	948	1,038	1,099
Total Non-Interest Income	965	1,026	1,089	1,159
Operating Revenue	1,936	1,974	2,127	2,258
Total Non-Interest Expenses	(1,143)	(1,216)	(1,287)	(1,362)
Pre-provision Operating Profit	793	758	840	896
Total Provision Charges	(18)	(23)	(52)	(58)
Operating Profit After Provisions	775	735	789	839
Pretax Income/(Loss) from Assoc.	49	55	61	69
Operating EBIT (incl Associates)	823	790	850	907
Non-Operating Income/(Expense)	(82)	(30)	(30)	(29)
Profit Before Tax (pre-EI)	742	760	820	878
Exceptional Items	0	0	0	0
Pre-tax Profit	742	760	820	878
Taxation	(162)	(182)	(197)	(211)
Consolidation Adjustments & Others				
Exceptional Income - post-tax				
Profit After Tax	580	577	623	667
Minority Interests	(16)	(15)	(16)	(18)
Pref. & Special Div	0	0	0	0
FX And Other Adj.	0	0	0	0
Net Profit	564	562	607	650
Recurring Net Profit	564	562	607	650

Balance Sheet

(RMm)	Dec-16A	Dec-17F	Dec-18F	Dec-19F
Total Gross Loans	44,326	46,034	48,719	51,711
Liquid Assets & Invst. (Current)	14,786	17,752	18,614	19,161
Other Int. Earning Assets				
Total Gross Int. Earning Assets	59,112	63,786	67,333	70,872
Total Provisions/Loan Loss Reserve	(406)	(392)	(390)	(393)
Total Net Interest Earning Assets	58,706	63,395	66,943	70,479
Intangible Assets	1,607	1,607	1,607	1,607
Other Non-Interest Earning Assets	3,737	3,943	4,119	4,289
Total Non-Interest Earning Assets	5,344	5,549	5,725	5,895
Cash And Marketable Securities	4,836	7,058	7,298	7,794
Long-term Investments	0	0	0	0
Total Assets	68,886	76,002	79,967	84,168
Customer Interest-Bearing Liabilities	51,506	57,448	60,912	64,574
Bank Deposits	5,040	5,567	5,623	5,697
Interest Bearing Liabilities: Others	1,644	1,649	1,651	1,654
Total Interest-Bearing Liabilities	58,190	64,663	68,186	71,925
Bank's Liabilities Under Acceptances	0	268	264	273
Total Non-Interest Bearing Liabilities	1,966	2,027	2,095	2,141
Total Liabilities	60,155	66,959	70,545	74,339
Shareholders' Equity	8,683	8,995	9,373	9,780
Minority Interests	49	49	49	49
Total Equity	8,731	9,044	9,421	9,828

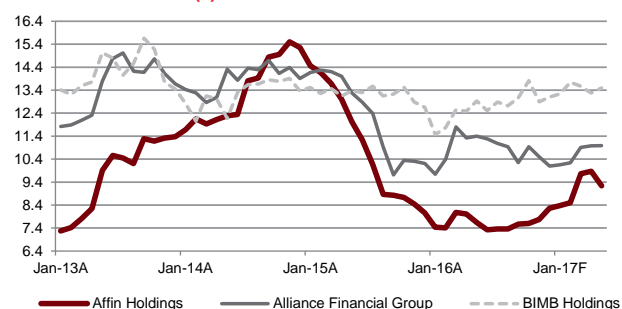
Balance Sheet Employment

	Dec-16A	Dec-17F	Dec-18F	Dec-19F
Gross Loans/Cust Deposits	85.7%	79.2%	79.0%	79.1%
Avg Loans/Avg Deposits	86.3%	82.3%	79.1%	79.1%
Avg Liquid Assets/Avg Assets	28.2%	31.2%	33.2%	32.9%
Avg Liquid Assets/Avg IEAs	30.6%	33.7%	35.8%	35.4%
Net Cust Loans/Assets	63.5%	59.3%	59.7%	60.2%
Net Cust Loans/Broad Deposits	77.4%	71.5%	71.8%	72.2%
Equity & Provs/Gross Cust Loans	20.6%	20.6%	20.3%	19.9%
Asset Risk Weighting	53.9%	53.5%	53.6%	53.5%
Provision Charge/Avg Cust Loans	0.05%	0.15%	0.11%	0.08%
Provision Charge/Avg Assets	0.033%	0.094%	0.063%	0.051%
Total Write Offs/Average Assets	0.098%	0.154%	0.176%	0.170%

Key Ratios

	Dec-16A	Dec-17F	Dec-18F	Dec-19F
Total Income Growth	7.40%	1.99%	7.74%	6.17%
Operating Profit Growth	10.6%	(4.4%)	10.9%	6.7%
Pretax Profit Growth	42.8%	2.4%	7.9%	7.1%
Net Interest To Total Income	50.1%	48.0%	48.8%	48.7%
Cost Of Funds	2.35%	2.50%	2.43%	2.40%
Return On Interest Earning Assets	4.07%	4.03%	3.96%	3.93%
Net Interest Spread	1.72%	1.53%	1.54%	1.53%
Net Interest Margin (Avg Deposits)	1.90%	1.74%	1.75%	1.75%
Net Interest Margin (Avg RWA)	2.66%	2.44%	2.49%	2.50%
Provisions to Pre Prov. Operating Profit	2.3%	3.0%	6.2%	6.5%
Interest Return On Average Assets	1.42%	1.31%	1.33%	1.34%
Effective Tax Rate	21.8%	24.0%	24.0%	24.0%
Net Dividend Payout Ratio	39.7%	39.7%	39.7%	39.7%
Return On Average Assets	0.83%	0.78%	0.78%	0.79%

12-mth Fwd FD P/E (x)



Key Drivers

	Dec-16A	Dec-17F	Dec-18F	Dec-19F
Loan Growth (%)	0.6%	3.0%	5.9%	6.1%
Net Interest Margin (%)	1.5%	1.4%	1.4%	1.4%
Non Interest Income Growth (%)	13.0%	6.3%	6.2%	6.4%
Cost-income Ratio (%)	59.0%	61.6%	60.5%	60.3%
Net NPL Ratio (%)	1.7%	2.0%	2.0%	2.0%
Loan Loss Reserve (%)	55.0%	44.0%	41.1%	39.2%
GP Ratio (%)	0.5%	0.5%	0.6%	0.6%
Tier 1 Ratio (%)	12.4%	11.8%	11.8%	11.7%
Total CAR (%)	16.8%	15.8%	15.5%	15.2%
Deposit Growth (%)	1.9%	11.5%	6.0%	6.0%
Loan-deposit Ratio (%)	84.9%	78.5%	78.4%	78.5%
Gross NPL Ratio (%)	1.7%	2.0%	2.0%	2.0%
Fee Income Growth (%)	7.8%	8.3%	7.0%	6.3%

SOURCE: CIMB RESEARCH, COMPANY DATA

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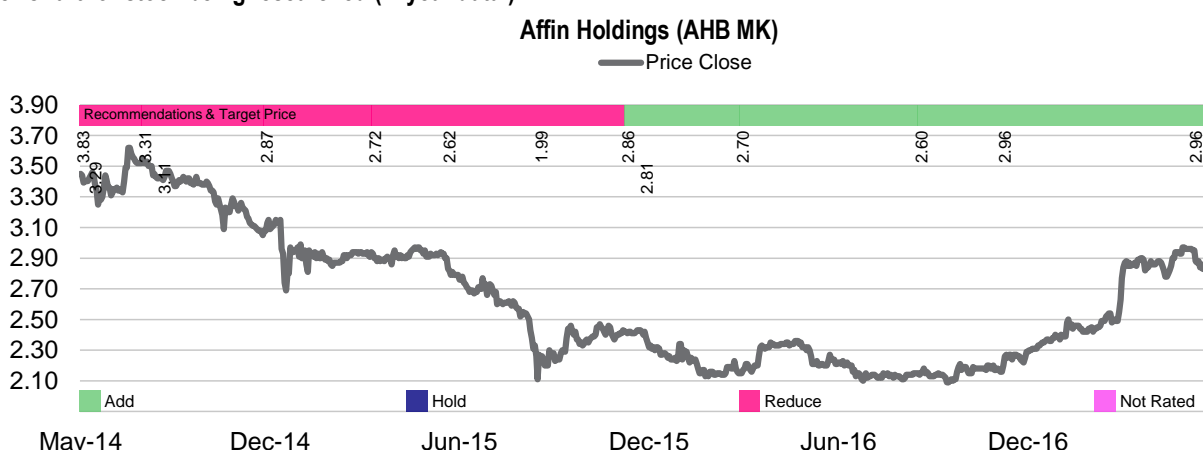
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1244 companies under coverage for quarter ended on 31 March 2017		
	Rating Distribution (%)	Investment Banking clients (%)
Add	55.9%	5.2%
Hold	30.0%	1.6%
Reduce	10.4%	0.3%

Spitzer Chart for stock being researched (2 year data)



Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2016, Anti-Corruption 2016.

AAV – Very Good, n/a, **ADVANC** – Very Good, Certified, **AEONTS** – Good, n/a, **AMATA** – Excellent, Declared, **ANAN** – Very Good, Declared, **AOT** – Excellent, Declared, **AP** – Very Good, Declared, **ASK** – Very Good, Declared, **ASP** – Very Good, Certified, **BANPU** – Very Good, Certified, **BAY** – Excellent, Certified, **BBL** – Very Good, Certified, **BCH** – not available, Declared, **BGP** - Excellent, Certified, **BEM** – Very Good, n/a, **BDMS** – Very Good, n/a, **BEAUTY** – Good, Declared, **BEC** - Good, n/a, **BH** - Good, Declared, **BIGC** - Excellent, Declared, **BJC** – Good, n/a, **BLA** – Very Good, Certified, **BPP** – not available, n/a, **BTS** - Excellent, Certified, **CBG** – Good, n/a, **CCET** – not available, n/a, **CENTEL** – Very Good, Certified, **CHG** – Very Good, n/a, **CK** – Excellent, n/a, **COL** – Very Good, Declared, **CPALL** – not available, Declared, **CPF** – Excellent, Declared, **CPN** - Excellent, Certified, **DELTA** - Excellent, Declared, **DEMCO** – Excellent, Certified, **DTAC** – Excellent, Certified, **EA** – Very Good, Declared, **ECL** – Good, Certified, **EGCO** - Excellent, Certified, **EPG** – Good, n/a, **GFPT** - Excellent, Declared, **GLOBAL** – Very

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- Companies certified by CAC

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Hold	The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
Reduce	The stock's total return is expected to fall below 0% or more over the next 12 months.
<i>The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.</i>	
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Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.
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Neutral	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
Underweight	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.