

## RHB Bank (RHBBANK MK)

# Sustainability trends moving in right direction

### BUY maintained

We have introduced an expanded ESG tear sheet for RHB and assigned it an above average overall score of 65, based on its aggregated quantitative / qualitative / target-based metrics. RHB's sustainability disclosures are comfortable but there is room for further improvement in terms of its commitments. BUY maintained with an unchanged TP of MYR7.10 (FY23E PBV target of 0.95x, supported by a FY23E ROE of 9.8%). FY22E dividend yield is attractive at 5.2%.

### Looking for firmer qualitative commitments

While RHB's sustainability trends are moving in the right direction, we would like to see a firmer commitment (as opposed to a soft approach) towards adopting the recommendations of the Task Force of the Climate-related Financial Disclosures (TCFD). Ratings would also improve with the tagging of the board and management's performance scorecard to sustainability performance as well as a firm deadline for exiting the financing of the coal sector. RHB's overall ESG score is 65, which is above average on our ESG rating.

### Financed emissions baseline required

RHB targets to achieve carbon neutral operations by 2030. To this end, the group targets to reduce operational GHG emissions intensity per employee by 45% from baseline 2016. What the group further needs to do, nevertheless, is to set a baseline for its financed emissions.

### Financial targets for FY22

Management maintains its FY22 loan growth target of 4-5% but has since raised its NIM guidance to 2.25-2.26% in FY22 (2.11% before) and lowered its credit cost guidance to about 30bps from 30-40bps previously. Management's 8.5% FY22 ROE target stands for now and this compares against our forecast of 8.6%.

FYE Dec (MYR m)	FY20A	FY21A	FY22E	FY23E	FY24E
Operating income	7,186	7,789	8,175	8,568	8,993
Pre-provision profit	3,799	4,266	4,493	4,712	4,958
Core net profit	2,316	2,805	2,453	2,936	3,198
Core EPS (MYR)	0.58	0.70	0.59	0.71	0.77
Core EPS growth (%)	(8.4)	21.1	(15.3)	19.7	8.9
Net DPS (MYR)	0.18	0.40	0.30	0.35	0.39
Core P/E (x)	9.4	7.7	9.6	8.0	7.4
P/BV (x)	0.8	0.8	0.8	0.8	0.7
Net dividend yield (%)	3.2	7.4	5.2	6.2	6.8
Book value (MYR)	6.74	6.76	7.03	7.38	7.77
ROAE (%)	8.8	10.2	8.6	9.8	10.2
ROAA (%)	0.9	1.0	0.8	0.9	1.0
Consensus net profit	-	-	2,582	3,204	3,462
MKE vs. Consensus (%)	-	-	(5.0)	(8.4)	(7.6)

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# BUY

Share Price	MYR 5.68
12m Price Target	MYR 7.10 (+25%)
Previous Price Target	MYR 7.10

### Company Description

RHB Capital provides integrated financial services such as commercial banking, Islamic banking, investment banking, and stock broking, among others.

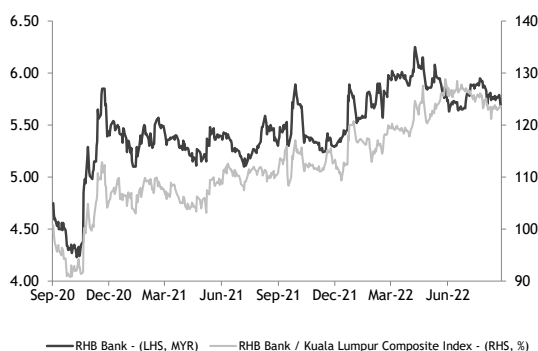
### Statistics

52w high/low (MYR)	6.25/5.24
3m avg turnover (USDm)	4.7
Free float (%)	45.9
Issued shares (m)	4,212
Market capitalisation	MYR23.9B
	USD5.3B

### Major shareholders:

Employees Provident Fund	42.0%
OSK Holdings Bhd.	10.2%
Permodalan Nasional Bhd.	5.9%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	(4)	(3)	6
Relative to index (%)	(1)	(3)	12

Source: FactSet

**ESG@MAYBANK IBG**  
Tear Sheet Insert

Risk Rating & Score <sup>1</sup>	Medium & 24.5
Score Momentum <sup>2</sup>	+0.3
Last Updated	11 May 2022
Controversy Score <sup>3</sup> (Updated: 09 July 2021)	1

## Business Model & Industry Issues

- RHB Bank has the highest CET1 ratios among its domestic peers at 17.2% at the group level and 15.2% at the bank level as at end-Dec 2021. These ratios place the bank in a strong position to weather through the presently volatile economic environment both domestically and abroad.
- The banking sector is one of the transmission mechanisms for government stimulus programs under COVID-19 relief schemes, with an ongoing loan moratorium for the unemployed and reduced instalment payments for individuals that have suffered pay cuts. The PEMULIH programme ended in Dec 2021 but affected borrowers could still transition to the URUS programme or the bank's own internal Payment Relief Assistance Plans (PRAP). These repayment assistance programmes elevate social priorities over shareholders returns in the near term.
- RHB Bank displays no exceptional risks not typical of a large bank for ESG. The group's earnings are principally driven by its domestic operations, while regional contributions are relatively insignificant at this stage (<5%). This domestic concentration reduces its overall environment and corporate governance issues, in our view.
- RHB also scores above-average in our proprietary scoring methodology (see Pg. 3) with an overall score of 65/100.

## Material E issues

- A constituent of FTSE4Good Bursa Malaysia with an MSCI ESG rating of AA. S&P Global ESG Score of 47/100 in 2021.
- MYR5b Green Financing Commitment by 2025. MYR4.32b extended as at end-2021, 20.7% was for RE projects.
- Structured and executed Malaysia's first Green Cross Currency Interest Rate Swap transaction set against ESG-linked KPIs to hedge a USD100m 2-year sustainable loan.
- Established a Group Climate Action Programme to implement requirements under the BNM Climate Change and Principle-based Taxonomy.
- The Group recorded a 41% reduction in GHG emissions intensity per employee in 2021 compared to 2016.
- Will no longer finance any new thermal coal mine projects and coal-fired power plant projects from 2022.
- As at end-Dec 2021, the group's exposure to O&G loans and bonds accounted for 1.9% of total loans.

## Material S issues

- The Board of Directors comprised 3 females (33%) and 6 males as at end-Dec 2021. Females comprised 60% of its total workforce in 2021.
- Repayment assistance to 312,992 retail customers (MYR34.5b) and 7,133 SME customers (MYR12.9b) in 2021.
- Digital transactions accounted for 93% of total customer transactions in 2021, up from 86% in 2020.
- As at Dec 2021, it had upskilled over 600 employees in Digital, IT and Analytics to build proficiency in high-demand and future-looking skills.
- Benefited 4,000 underprivileged students from the B40 segment and 40 schools since the launch of RHB X-Cel Academic Excellence in 2018.
- Increased financial literacy for more than 25k secondary students since launch of Money Ma\$ter Programme in 2018.

## Key G metrics and issues

- RHB Bank has not had any material accounting & tax, lobbying & public policy, sanctions related, data privacy or security controversies in the past 5 years.
- RHB's BOD comprised 1 executive director/Managing Director, 1 non-independent non-executive Chairman, 6 independent non-executive directors and 1 non-independent non-executive director as at end-2021.
- The Managing Director's remuneration was MYR4.9m in FY21, representing 1.4% of the group's pretax profit.
- The group discloses the remuneration of each individual Director in its annual report.
- IT expenses amounted to MYR280m in FY21 representing 8.0% of total operating expenses.
- RHB Bank is audited by PricewaterhouseCoopers, the world's second largest network of professional firms. PwC has been, at the very least, their auditors over the past 10 years.
- The EPF is a major shareholder of the group with a 41.8% stake as at 14 Sep 2022, which implies that RHB Bank is a Government-linked company. Previous attempts to reduce this shareholding through potential M&As have since fallen through but this does not preclude future attempts at doing so.
- On 18 June 2021, RHB Bank said it had discovered an error in the issuance of current account e-statements sent via email to a number of customers, due to a technical issue at its external service partner. This affected less than 0.5% of its total retail customer base and the problem was swiftly addressed.

<sup>1</sup>**Risk Rating & Score** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. <sup>2</sup>**Score Momentum** - indicates changes to the company's score since the last update - a **negative** integer indicates a company's improving risk score; a **positive** integer indicates a deterioration. <sup>3</sup>**Controversy Score** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

Quantitative parameters (Score: 80)						
	Particulars	Unit	2019	2020	2021	HLBK MK
E	Scope 1 GHG emissions	tonnes CO2e	215	135	154	134
	Scope 2 GHG emissions	tonnes CO2e	27,605	25,678	23,811	23,541
	<b>Total</b>	<b>tonnes CO2e</b>	<b>27,820</b>	<b>25,813</b>	<b>23,965</b>	<b>23,675</b>
	Scope 3 GHG emissions	tonnes CO2e	2,448	1,606	1,615	1,294
	<b>Total</b>	<b>tonnes CO2e</b>	<b>30,268</b>	<b>27,419</b>	<b>25,580</b>	<b>24,969</b>
	GHG intensity (Scope 1 and 2)	kg CO2e/emp	2,110	1,940	1,822	3,200
	Exposure to coal, mining & plantation	% of loan book			NA	10.0%
	Electricity consumption	MWh	48,152	44,807	41,616	41,633
	Water consumption	m3	148,091	120,352	79,013	75,549
	Petrol consumption	litres	na	na	na	54,008
S	Solid waste recycled	reams	170,292	149,579	147,960	NA
	% of women in workforce	%	59.2%	59.4%	59.8%	62.6%
	% of women in management roles	%	50.2%	52.2%	52.5%	55.7%
G	Attrition rate	%	13.4%	11.1%	12.1%	10.7%
	MD/CEO salary as % of reported net profit	%	0.20%	0.20%	0.19%	0.51%
	Board salary as % of reported net profit	%	0.17%	0.21%	0.14%	0.05%
	Independent directors on the Board	%	55%	60%	60%	63%
	Profits distributed to shareholders	% of net profit	50.1%	34.8%	62.9%	35.8%
	Female directors on the Board	%	27%	30%	33%	38%

Qualitative parameters (Score: 0)	
a) Is there an ESG policy in place and whether there is a standalone ESG Committee or is it part of Risk committee?	<i>Yes, there is a dedicated GCAP Project Steering Committee, a Climate Risk Management Team and an appointed Group Chief Sustainability Officer.</i>
b) Does the performance evaluation of the board and senior mgt include a review of the performance of the board and senior management in addressing the company's material sustainability risks and opportunities?	<i>Sustainability related evaluation is included in the performance scorecard of the Sustainability Management Team but not necessarily that of the board and other senior management.</i>
c) Does the company follow TCFD framework for ESG reporting? Is it signatory to responsible banking initiative or other such initiatives?	<i>It has aligned its sustainability initiatives and achievements with 6 prioritized UN SDGs, and adopted a soft approach to TCFD for climate-related disclosures.</i>
d) Does the group capture or plan to capture Scope 3 emissions including from financing activities?	<i>No mention.</i>
e) Does the bank have a firm deadline for exiting the financing of the coal sector?	<i>No new coal financing from 2022 onwards, to eventually phase out existing coal financing exposures.</i>
f) Does the bank have a "no deforestation, no peat, no exploitation (NDPE)" policy in place?	<i>Yes, it does. Effective 2022, the bank will only support responsible companies that demonstrate alignment with NDPE for relevant sectors in the agriculture, forestry and palm oil sectors.</i>

Target (Score: 100)		
Particulars	Target	Achieved
RM20b in sustainable financial services by 2026	MYR20b	MYR4.3
No financing for new thermal coal mine projects and new coal-fired power plant projects effective 2022	NA	NA
Carbon neutral operations by 2030. To reduce operational GHG emissions intensity per employee by 45% from baseline 2016.	-45%	-41%
RHB Sustainability Financing Programme provides various green financing solutions to retail and SME customers - targets RM1b in new financing by 2025	MYR1b	MYR44.3m
Impact		
NA		
Overall score: 65		
As per our ESG matrix, RHB Bank (RHHBANK MK) has an overall score of 65.		

ESG score	Weights	Scores	Final Score
Quantitative	50%	80	40
Qualitative	25%	0	0
Target	25%	100	25
<b>Total</b>			<b>65</b>

RHB's sustainability trends are moving in the right direction. A firmer commitment (as opposed to a soft approach) towards adopting the recommendations of the TCFD would be positive. RHB's overall ESG score is 65, which is above average on our ESG rating (average ESG rating = 50; refer to Appendix I for our ESG Assessment Scoring).

## Appendix I

### Methodology of our proprietary ESG scoring methodology.

We evaluate the ESG ratings based on quantitative, qualitative and ESG targets. We assign a score for each of these three parameters. The overall rating is based on the weighted average of the scores: quantitative (50%), qualitative (25%) and ESG target (25%).

For the quantitative, qualitative and ESG target, the sub-parameters are assigned a score - '0' for data not available, '+1' for improving trajectory, positive change, 'Yes', better than peers or a positive number if historical is not available and '-1' for declining trajectory, negative change, 'No', lower than peers or a negative number. The total of the scores of all the sub-parameters is divided by the total number of sub-parameters is the score of each of the three parameters.

The sub-parameters may be different for different industries depending on the key areas to monitor for each industry. A company should achieve a minimum score of 50 for an average ESG rating.

### Risk statement

As the fourth largest domestic financial institution in Malaysia in terms of asset size, any economic slowdown in the country would have a knock-on effect on the group's operating performance and hence potentially our estimates, rating, and target price. Volatility in the O&G sector could result in asset quality issues for both its Malaysia and Singapore loan exposures.

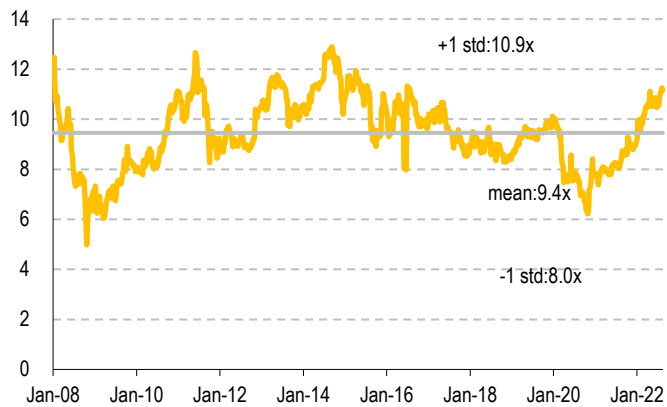
## Risk statement

**Fig 1: Foreign shareholding in RHB Bank (17.26% end-Aug 2022)**



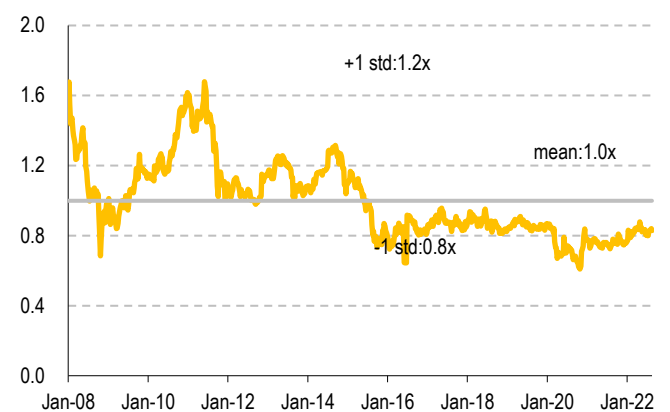
Source: Bank

**Fig 2: One-year forward rolling PER (x)**



Source: Bloomberg, Maybank IBG Research

**Fig 3: One-year forward rolling P/BV (x)**



Source: Bloomberg, Maybank IBG Research

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Key Metrics</b>					
Core P/E (x)	9.4	7.7	9.6	8.0	7.4
Core FD P/E (x)	9.4	7.7	9.6	8.0	7.4
P/BV (x)	0.8	0.8	0.8	0.8	0.7
P/NTA (x)	0.9	0.9	0.9	0.9	0.8
Net dividend yield (%)	3.2	7.4	5.2	6.2	6.8
<b>INCOME STATEMENT (MYR m)</b>					
Interest income	6,569.4	6,083.6	6,847.6	7,137.9	7,396.3
Interest expense	(3,226.0)	(2,266.5)	(2,430.7)	(2,611.6)	(2,707.9)
<b>Net interest income</b>	<b>3,343.4</b>	<b>3,817.1</b>	<b>4,416.9</b>	<b>4,526.3</b>	<b>4,688.4</b>
Islamic banking income	1,665.7	2,095.1	2,262.7	2,443.7	2,639.2
Net insurance income	216.5	235.0	246.8	259.1	272.1
Net fees and commission	1,027.7	1,094.3	930.2	976.7	1,025.5
Other income	932.5	547.1	318.4	362.5	367.6
<b>Total non-interest income</b>	<b>2,176.7</b>	<b>1,876.4</b>	<b>1,495.3</b>	<b>1,598.3</b>	<b>1,665.1</b>
<b>Operating income</b>	<b>7,185.7</b>	<b>7,788.7</b>	<b>8,174.9</b>	<b>8,568.3</b>	<b>8,992.8</b>
Staff costs	(2,041.6)	(2,137.7)	(2,244.6)	(2,356.8)	(2,474.6)
Other operating expenses	(1,345.1)	(1,384.7)	(1,437.7)	(1,499.3)	(1,559.8)
<b>Operating expenses</b>	<b>(3,386.7)</b>	<b>(3,522.4)</b>	<b>(3,682.2)</b>	<b>(3,856.1)</b>	<b>(4,034.4)</b>
<b>Pre-provision profit</b>	<b>3,799.0</b>	<b>4,266.3</b>	<b>4,492.7</b>	<b>4,712.2</b>	<b>4,958.3</b>
Loan impairment allowances	(1,075.4)	(737.2)	(838.1)	(841.6)	(742.0)
Other allowances	(79.2)	(0.3)	0.0	0.0	0.0
Associates & JV income	0.0	0.0	0.0	0.0	0.0
<b>Pretax profit</b>	<b>2,644.4</b>	<b>3,528.8</b>	<b>3,654.6</b>	<b>3,870.6</b>	<b>4,216.3</b>
Income tax	(639.9)	(905.6)	(1,197.0)	(928.9)	(1,011.9)
Minorities	(6.6)	(4.7)	(4.4)	(5.9)	(6.4)
Discontinued operations	34.7	0.0	0.0	0.0	0.0
<b>Reported net profit</b>	<b>2,032.5</b>	<b>2,618.4</b>	<b>2,453.1</b>	<b>2,935.8</b>	<b>3,198.0</b>
<b>Core net profit</b>	<b>2,315.5</b>	<b>2,804.5</b>	<b>2,453.1</b>	<b>2,935.8</b>	<b>3,198.0</b>
<b>BALANCE SHEET (MYR m)</b>					
Cash & deposits with banks	14,973.7	23,318.1	24,484.0	25,708.2	26,993.6
Sec. under resale agreements	0.0	0.0	0.0	0.0	0.0
Derivatives financial assets	0.0	0.0	0.0	0.0	0.0
Dealing securities	4,462.1	2,778.2	2,917.2	3,063.0	3,216.2
Available-for-sale securities	58,908.5	59,102.4	63,830.6	68,937.0	74,452.0
Investment securities	0.0	0.0	0.0	0.0	0.0
Loans & advances	182,424.9	194,896.6	204,929.1	213,225.0	221,754.0
Central bank deposits	612.7	635.0	5,910.9	6,140.9	6,379.9
Investment in associates/JVs	0.0	0.0	0.0	0.0	0.0
Insurance assets	0.0	0.0	0.0	0.0	0.0
Fixed assets	1,163.2	1,191.3	1,215.1	1,239.4	1,264.2
Intangible assets	3,290.4	3,348.9	3,348.9	3,348.9	3,348.9
Other assets	5,314.5	4,270.9	4,362.5	4,457.4	4,555.7
<b>Total assets</b>	<b>271,150.0</b>	<b>289,541.5</b>	<b>310,998.3</b>	<b>326,119.9</b>	<b>341,964.5</b>
Deposits from customers	203,470.8	219,313.9	227,481.9	236,581.2	246,044.4
Deposits from banks & FIs	21,035.2	23,406.8	24,343.1	25,316.8	26,329.5
Derivatives financial instruments	0.0	0.0	0.0	0.0	0.0
Subordinated debt	2,718.7	3,221.9	3,221.9	3,221.9	3,221.9
Other securities in issue	3,545.2	3,646.4	4,246.4	4,246.4	4,246.4
Other borrowings	4,785.5	4,636.0	4,852.2	5,079.4	5,317.8
Insurance liabilities	0.0	0.0	0.0	0.0	0.0
Other liabilities	8,538.0	7,286.0	17,695.9	21,043.7	24,568.5
<b>Total liabilities</b>	<b>244,093.4</b>	<b>261,510.9</b>	<b>281,841.4</b>	<b>295,489.3</b>	<b>309,728.5</b>
Share capital	6,994.1	7,612.6	7,612.6	7,612.6	7,612.6
Reserves	20,029.7	20,385.7	21,507.6	22,975.5	24,574.5
Shareholders' funds	27,023.8	27,998.3	29,120.2	30,588.1	32,187.1
Preference shares	0.0	0.0	0.0	0.0	0.0
Minority interest	32.7	32.2	36.6	42.5	48.9
Total equity	27,056.6	28,030.5	29,156.9	30,630.6	32,236.0
<b>Total liabilities &amp; equity</b>	<b>271,150.0</b>	<b>289,541.5</b>	<b>310,998.3</b>	<b>326,119.9</b>	<b>341,964.5</b>

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Key Ratios</b>					
<b>Growth (%)</b>					
Net interest income	(7.2)	14.2	15.7	2.5	3.6
Non-interest income	18.3	(13.8)	(20.3)	6.9	4.2
Operating expenses	(0.0)	4.0	4.5	4.7	4.6
Pre-provision profit	3.5	12.3	5.3	4.9	5.2
Core net profit	(8.4)	21.1	(12.5)	19.7	8.9
Gross loans	5.6	6.7	5.0	4.0	4.0
Customer deposits	6.8	7.8	3.7	4.0	4.0
Total assets	5.3	6.8	7.4	4.9	4.9
<b>Profitability (%)</b>					
Non-int. income/Total income	30.3	24.1	18.3	18.7	18.5
Average lending yields	3.26	3.02	3.16	3.16	3.15
Average cost of funds	1.73	1.17	1.20	1.26	1.26
Net interest margin	1.98	2.19	2.32	2.30	2.30
Cost/income	47.1	45.2	45.0	45.0	44.9
<b>Liquidity (%)</b>					
Loans/customer deposits	89.7	88.9	90.1	90.1	90.1
<b>Asset quality (%)</b>					
Net NPL	0.9	0.8	0.8	0.8	0.8
Gross NPL	1.7	1.5	1.5	1.4	1.4
(SP+GP)/average gross loans	0.6	0.4	0.4	0.4	0.3
Loan loss coverage	115.9	122.5	112.2	117.0	117.0
<b>Capital adequacy (%)</b>					
CET1	16.2	17.2	15.3	15.3	15.5
Tier 1 capital	16.2	17.2	15.5	15.5	15.7
Risk-weighted capital	18.4	19.8	17.7	17.6	17.7
<b>Returns (%)</b>					
ROAE	8.8	10.2	8.6	9.8	10.2
ROAA	0.9	1.0	0.8	0.9	1.0
Shareholders equity/assets	10.0	9.7	9.4	9.4	9.4

Source: Company; Maybank IBG Research



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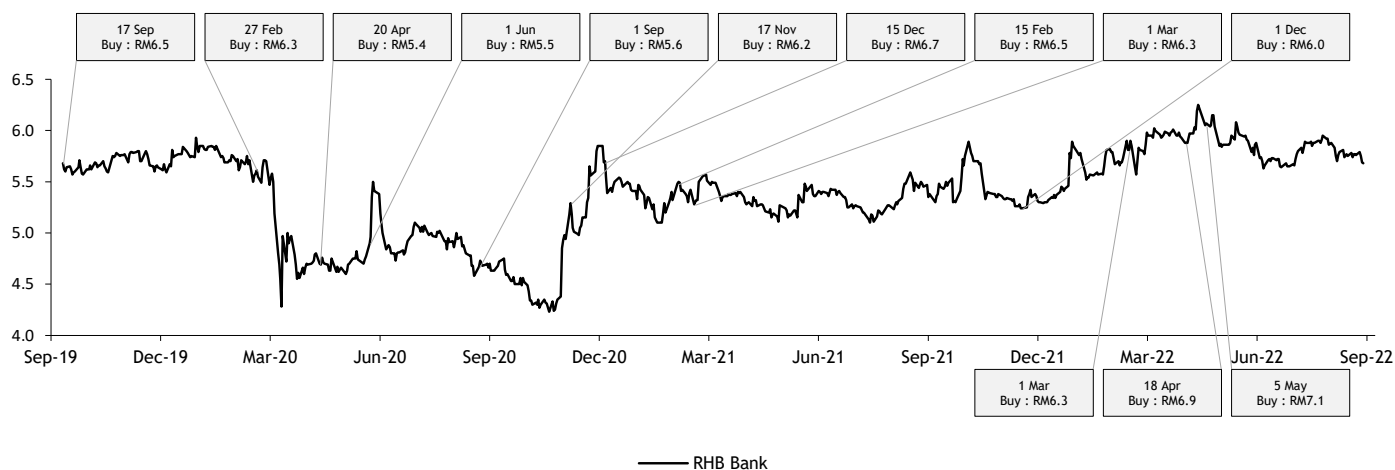
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