

RHB Bank (RHBBANK MK)

Attractive valuations and yields

Maintain BUY

Our FY23/24E earnings forecasts (unchanged) for RHB are conservatively 6% lower than consensus respectively, largely on account of our more prudent assumptions re NIMs and credit costs. Even so, RHB's FY23E dividend yield of 7.7% is one of the most attractive in the industry. Moreover, the stock trades at a FY23E PBV of just 0.8x for a potential ROE of 10.1%, which is undemanding. We maintain a BUY with an unchanged TP of MYR7.10 (FY23E PBV of 1x).

Our forecasts are conservative relative to consensus

Against management's targets for FY23, our assumptions are more conservative, which would explain why our earnings forecasts for FY23/24E are 6% below consensus. Key variances include a FY23E NIM compression assumption of 7bps vs management's -2bps target, and FY23E credit cost of 35bps vs management's 25-30bps. Our loan growth target of 4.5% is within management's range of 4-5% but our FY23E cost/income ratio of <=45.5% is higher than management's <=44.6% target. Our FY23E ROE of 10.1% trails management's =>11% target.

Prudent provisioning

RHB's loan loss coverage (LLC) end-2022 was 140% including regulatory reserves. Stripping out pre-emptive provisions of about MYR840m, LLC would still be a comfortable 114%. Of its loans under repayment assistance of MYR7.3b end-Jan 2023 (4% of total loans), 95% is still current, 2% are <30 days in arrears, 2% between 30-60 days in arrears and just 1% is delinquent at this stage.

Attractive dividend yields

We have imputed a dividend payout ratio of 62% in FY23-24E (62.9% in FY21, 62.5% in FY22) and with the recent correction in share price, RHB now offers an attractive FY23E dividend yield of >7% which is one of the highest in the industry.

FYE Dec (MYR m)	FY21A	FY22A	FY23E	FY24E	FY25E
Operating income	7,789	8,309	8,595	8,992	9,478
Pre-provision profit	4,266	4,592	4,686	4,901	5,180
Core net profit	2,810	2,708	2,943	3,185	3,411
Core EPS (MYR)	0.70	0.68	0.68	0.73	0.77
Core EPS growth (%)	21.8	(3.7)	1.0	6.5	5.4
Net DPS (MYR)	0.40	0.40	0.42	0.45	0.48
Core P/E (x)	7.7	8.6	8.1	7.6	7.2
P/BV (x)	0.8	0.9	0.8	0.8	0.8
Net dividend yield (%)	7.4	6.9	7.7	8.2	8.6
Book value (MYR)	6.76	6.76	6.89	7.05	7.23
ROAE (%)	10.2	9.5	10.1	10.5	10.8
ROAA (%)	1.0	0.9	0.9	0.9	1.0
Consensus net profit	-	-	3,126	3,384	3,620
MIBG vs. Consensus (%)	-	-	(5.8)	(5.9)	(5.8)

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BUY

Share Price	MYR 5.50
12m Price Target	MYR 7.10 (+29%)
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.

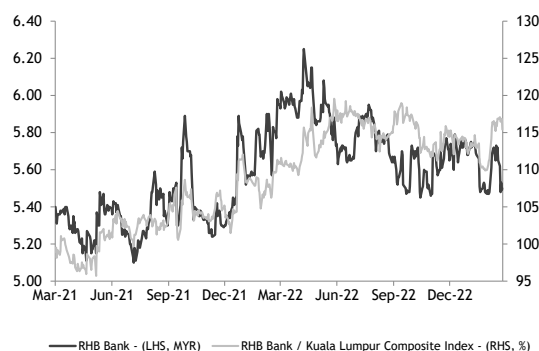
Statistics

52w high/low (MYR)	6.25/5.45
3m avg turnover (USDm)	5.1
Free float (%)	47.2
Issued shares (m)	4,247
Market capitalisation	MYR23.4B USD5.2B

Major shareholders:

Employees Provident Fund	40.6%
OSK Holdings Bhd.	10.2%
Permodalan Nasional Bhd.	5.9%

Price Performance



	-1M	-3M	-12M
Absolute (%)	0	(5)	(8)
Relative to index (%)	5	(0)	4

Source: FactSet

ESG@MAYBANK IBG

Tear Sheet Insert

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Risk Rating & Score ¹	25.8
Score Momentum ²	+1.5
Last Updated	13 Oct 2022
Controversy Score ³ (Updated: 11 Dec 2022)	2

Business Model & Industry Issues

- RHB Bank has the highest CET1 ratios among its domestic peers at 16.9% at the group level and 15.1% at the bank level as at end-Dec 2022. 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.
- 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.

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% of which was for renewable energy 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 42.1% stake as at 7 Apr 2022, which does imply 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.

¹**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. ²**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. ³**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).

Key highlights

Loan growth to moderate to 4-5%: Against robust loan growth of 6.9% in 2022, management expects growth to moderate to 4-5% in 2023. As it stands, there was moderation in lending to the retail and SME segments in the first two months of 2023, with some recovery in Mar 2023. The other segment that is expected to see slower growth is in ASB financing. The corporate loan book contracted 0.5% YoY in 2022 due to some sizeable redemptions, but should expand in 2023. The 4-5% loan growth is expected to be driven by mortgages, auto, SME and commercial lending.

In 2022, overseas loans jumped 18% YoY, led by Singapore (+18.7% YoY) and Cambodia (+17.9% YoY), the latter from a smaller base, while part of the strong growth in Singapore was driven by foreign currency translation, on the back of the strong Singapore Dollar. The focus in Singapore has been on lending to real estate and property. In Cambodia, management is more cautious about lending to the SME segment. We have penciled in loan growth of 4.5% for 2023.

NIM expected to compress marginally: Total deposits rose 3.9% YoY in 2022, while CASA rose 1.3%. Industry deposit competition appears to be tapering off but RHB Bank has a fixed deposit campaign running at the moment and funding cost is likely to come under some pressure in 1Q23. Management maintains its NIM target of 2.22-2.25% (without factoring in any rate hikes) versus 2.24% in FY22. We have taken a more conservative view and penciled in a 7bp NIM contraction in 2023.

Loans under repayment assistance (RA) manageable: As at end-Jan 2023, RHB had 4% (MYR7.3b) of total loans under RA. Of this, 95% is still current, 2% are <30 days in arrears, 2% between 30-60 days in arrears and just 1% is delinquent at this stage.

Close to MYR840m overlays: RHB's COVID overlays total about MYR410m currently, for which it has until end-Dec 2023 to hold onto, before it has to be released. It has about MYR124m worth of macro-economic variable (MEV) overlays and about MYR306m of sector or company specific overlays. RHB's loan loss coverage end-2022 was 140% including regulatory reserves. Stripping out these management overlays, loan loss coverage would still be a healthy 114%.

Credit cost guidance of 25-30bps for 2023. This compares against actual credit cost of just 15bps in FY22 due to the writeback of part of its COVID-related provisions. Management does however, maintain a higher credit cost guidance of 25-30bps for FY23, while we have penciled in a much more conservative assumption of 35bps. RHB's oil & gas exposure to loans and bonds is about 1.6% of total loans, but loan loss coverage is more than 100% on this portfolio. A sector that management is closely monitoring this year is the construction sector.

Cost/income ratios (CIR) on track for TWP24: Management's CIR target of <=44.5% by 2024 under its 3-year Together We Progress 2024 (TWP24) plan, appears to be within reach, with the banking group recording a CIR of 44.7% in 2022 (<=44.6% target for 2023). Management hopes to reap the benefits of its process automation initiatives over the past few years, to achieve this target.

Capital ratios: Capital ratios remain strong. The group's CET1 ratio was 16.9% end-Dec 2022 and 15.1% at the bank level. The group delivered a full year DPS of 40sen in FY22, this being a payout ratio of 62.5%. Of the total DPS of 40sen, 10sen was electable, while 30sen was cash. Management looks to maintain this payout ratio moving forward.

Foreign shareholding in RHB Bank (18.05% end-Mar 2022)

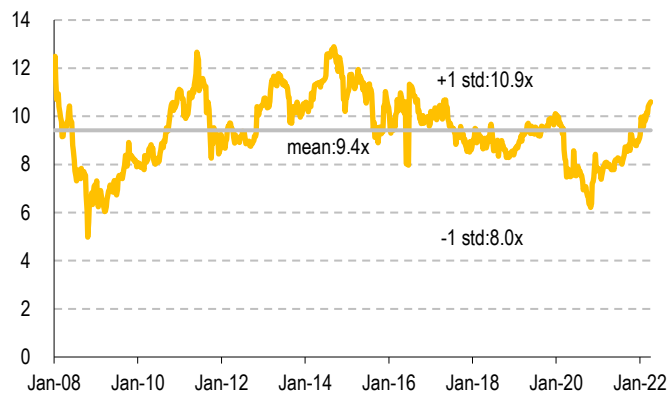


Source: Bank

Risk statement

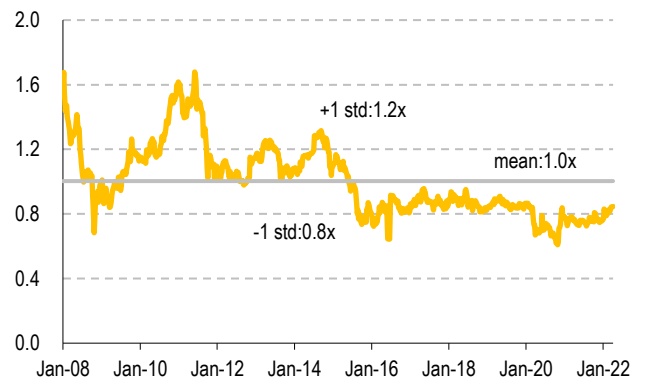
As the fourth largest domestic financial institution in Malaysia in terms of asset size, any economic slowdown in the country would have a knock-on effect on the group’s operating performance and hence potentially our estimates, rating, and target price. Volatility in the O&G sector could result in asset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

One-year forward rolling PER (x)



Source: Bloomberg, Maybank IBG Research

One-year forward rolling P/BV (x)



Source: Bloomberg, Maybank IBG Research

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Metrics					
Core P/E (x)	7.7	8.6	8.1	7.6	7.2
Core FD P/E (x)	7.7	8.6	8.1	7.6	7.2
P/BV (x)	0.8	0.9	0.8	0.8	0.8
P/NTA (x)	0.9	1.0	0.9	0.9	0.9
Net dividend yield (%)	7.4	6.9	7.7	8.2	8.6
INCOME STATEMENT (MYR m)					
Interest income	6,083.6	7,382.0	7,399.9	7,696.5	7,990.4
Interest expense	(2,266.5)	(3,207.5)	(3,239.1)	(3,483.9)	(3,615.8)
Net interest income	3,817.1	4,174.5	4,160.8	4,212.6	4,374.7
Islamic banking income	2,095.1	2,398.1	2,589.9	2,797.1	3,020.9
Net insurance income	235.0	209.0	219.4	230.4	241.9
Net fees and commission	1,094.3	866.5	909.8	955.3	1,003.1
Other income	547.1	660.8	714.7	796.5	837.3
Total non-interest income	1,876.4	1,736.2	1,843.9	1,982.2	2,082.3
Operating income	7,788.7	8,308.8	8,594.6	8,991.9	9,477.8
Staff costs	(2,137.7)	(2,250.2)	(2,362.7)	(2,469.0)	(2,592.5)
Other operating expenses	(1,384.7)	(1,466.6)	(1,545.6)	(1,621.9)	(1,705.7)
Operating expenses	(3,522.4)	(3,716.8)	(3,908.3)	(4,090.9)	(4,298.2)
Pre-provision profit	4,266.3	4,591.9	4,686.3	4,901.0	5,179.6
Loan impairment allowances	(737.2)	(421.2)	(754.2)	(645.2)	(622.2)
Other allowances	(0.3)	(0.0)	0.0	0.0	0.0
Associates & JV income	0.0	0.1	0.1	0.1	0.1
Pretax profit	3,528.8	4,170.8	3,932.1	4,255.8	4,557.5
Income tax	(905.6)	(1,458.8)	(983.0)	(1,063.9)	(1,139.4)
Minorities	(4.7)	(4.3)	(5.9)	(6.4)	(6.8)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	2,618.4	2,707.7	2,943.2	3,185.5	3,411.3
Core net profit	2,810.4	2,707.7	2,943.2	3,185.5	3,411.3
BALANCE SHEET (MYR m)					
Cash & deposits with banks	23,318.1	19,787.2	20,882.9	21,927.0	23,023.4
Sec. under resale agreements	0.0	101.3	109.4	118.1	127.6
Derivatives financial assets	0.0	0.0	0.0	0.0	0.0
Dealing securities	2,778.2	3,089.4	3,243.9	3,406.1	3,576.4
Available-for-sale securities	59,102.4	65,980.4	71,258.8	76,959.5	83,116.3
Investment securities	0.0	0.0	0.0	0.0	0.0
Loans & advances	194,896.6	208,378.6	217,814.9	226,963.1	236,495.6
Central bank deposits	635.0	3,429.6	5,796.8	6,023.3	6,258.5
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	1,191.3	1,212.9	1,237.1	1,261.9	1,287.1
Intangible assets	3,348.9	3,414.5	3,414.5	3,414.5	3,414.5
Other assets	4,270.9	5,394.4	5,475.4	5,559.4	5,646.3
Total assets	289,541.5	310,788.2	329,233.7	345,632.9	362,945.6
Deposits from customers	219,313.9	251,753.6	236,246.2	245,696.0	255,523.8
Deposits from banks & FIs	23,406.8	7,298.9	7,590.9	7,894.5	8,210.3
Derivatives financial instruments	0.0	0.0	0.0	0.0	0.0
Subordinated debt	3,221.9	2,867.1	2,867.1	2,867.1	2,867.1
Other securities in issue	3,646.4	3,841.2	4,441.2	4,441.2	4,441.2
Other borrowings	4,636.0	7,669.6	7,971.2	8,287.9	8,620.5
Insurance liabilities	0.0	0.0	0.0	0.0	0.0
Other liabilities	7,286.0	8,611.5	40,357.9	45,469.9	51,003.4
Total liabilities	261,510.9	282,041.9	299,474.4	314,656.7	330,666.3
Share capital	7,612.6	8,145.6	8,145.6	8,145.6	8,145.6
Reserves	20,385.7	20,569.5	21,576.7	22,787.2	24,083.5
Shareholders' funds	27,998.3	28,715.1	29,722.3	30,932.8	32,229.1
Preference shares	0.0	0.0	0.0	0.0	0.0
Minority interest	32.2	31.1	37.0	43.4	50.3
Total equity	28,030.5	28,746.2	29,759.3	30,976.2	32,279.3
Total liabilities & equity	289,541.5	310,788.2	329,233.7	345,632.9	362,945.6

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Ratios					
Growth (%)					
Net interest income	14.2	9.4	(0.3)	1.2	3.8
Non-interest income	(13.8)	(7.5)	6.2	7.5	5.1
Operating expenses	4.0	5.5	5.2	4.7	5.1
Pre-provision profit	12.3	7.6	2.1	4.6	5.7
Core net profit	21.8	(3.7)	8.7	8.2	7.1
Gross loans	6.7	6.9	4.5	4.2	4.2
Customer deposits	7.8	14.8	(6.2)	4.0	4.0
Total assets	6.8	7.3	5.9	5.0	5.0
Profitability (%)					
Non-int. income/Total income	24.1	20.9	21.5	22.0	22.0
Average lending yields	3.02	3.39	3.27	3.27	3.26
Average cost of funds	1.17	1.60	1.65	1.75	1.75
Net interest margin	2.19	2.28	2.21	2.18	2.19
Cost/income	45.2	44.7	45.5	45.5	45.4
Liquidity (%)					
Loans/customer deposits	88.9	82.8	92.2	92.4	92.6
Asset quality (%)					
Net NPL	0.8	(0.2)	0.9	0.9	0.9
Gross NPL	1.5	1.5	1.7	1.7	1.7
(SP+GP)/average gross loans	0.4	0.2	0.3	0.3	0.3
Loan loss coverage	122.4	112.8	104.4	104.4	104.4
Capital adequacy (%)					
CET1	17.2	16.9	14.1	14.0	14.0
Tier 1 capital	17.2	16.9	14.2	14.2	14.2
Risk-weighted capital	19.8	19.3	16.3	16.1	16.0
Returns (%)					
ROAE	10.2	9.5	10.1	10.5	10.8
ROAA	1.0	0.9	0.9	0.9	1.0
Shareholders equity/assets	9.7	9.2	9.0	8.9	8.9

Source: Company; Maybank IBG Research

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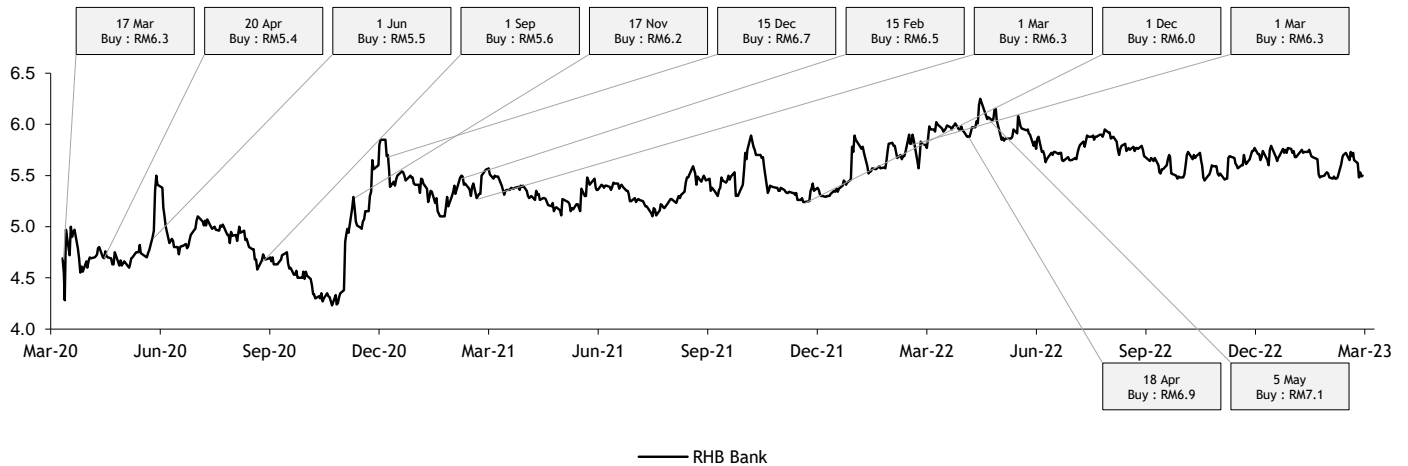
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