

RHB Bank (RHBBANK MK)

Raising earnings marginally

HOLD maintained

We raise our FY23/24/25E net profit forecasts by 5%/4%/3% to factor in lower credit cost assumptions, but our FY23E ROE estimate of 9.2% trails RHB's 1H23 ROE of 10.6% on expectation of a weaker 2H23 due to higher credit cost. We also lower our dividend payout ratio to 50% from 62.5% for FY23/24/25E. HOLD with unchanged TP of MYR6.20 (FY24E PBV of 0.9x).

NIM to compress a bit more before stabilizing

The operating environment remains challenging, but positively, we expect RHB's loan growth to pick up in 2H23, and NII to hold up. Moreover, the focus on cost efficiencies should lead to more tempered expense growth. We expect NIMs to compress a bit more QoQ in 3Q23 before stabilizing moving forward. Asset quality remains stable, though property/construction are sectors to monitor, as well as the smaller SMEs.

Lowering our credit cost assumptions

RHB has written back/reassigned its MYR411m COVID overlays, but it still holds about MYR560m worth of economic overlays that could potentially be written back should economic conditions improve. Management maintains a gross credit cost guidance of 20-25bps for FY23, which would imply slightly higher provisions in 2H23 (against 21bps in 1H23). We have lowered our FY23/24/25E average gross credit cost assumption to 23/20/19bps from 29/23/20bps respectively.

Lowering our dividend payout assumption

We understand that RHB's dividend payout ratio of 62.9% in FY21 was in response to a low payout ratio of 34.8% in FY20, while the 62.5% payout ratio in FY22 was due to the lower earnings base caused by *Cukai Makmur*. Moving forward, RHB maintains a minimum payout ratio policy of 30% but management will strive for a higher payout ratio. Our previous dividend payout ratio assumption of 62.5% for FY23/24E appears optimistic at this stage, for which we are lowering to 50%.

FYE Dec (MYR m)	FY21A	FY22A	FY23E	FY24E	FY25E
Operating income	8,034	8,309	7,371	7,925	8,330
Pre-provision profit	4,511	4,592	3,842	4,260	4,499
Core net profit	3,055	2,708	2,757	2,892	3,068
Core EPS (MYR)	0.76	0.68	0.64	0.66	0.69
Core EPS growth (%)	32.5	(11.4)	(5.4)	3.2	4.4
Net DPS (MYR)	0.40	0.40	0.32	0.33	0.34
Core P/E (x)	7.0	8.6	8.8	8.5	8.1
P/BV (x)	0.8	0.9	0.8	0.8	0.7
Net dividend yield (%)	7.4	6.9	5.7	5.9	6.2
Book value (MYR)	6.76	6.77	7.21	7.42	7.65
ROAE (%)	11.1	9.5	9.2	9.1	9.2
ROAA (%)	1.1	0.9	0.9	0.9	0.9
Consensus net profit	-	-	2,817	2,920	3,093
MIBG vs. Consensus (%)	-	-	(2.1)	(1.0)	(0.8)

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HOLD

Share Price	MYR 5.59
12m Price Target	MYR 6.20 (+11%)
Previous Price Target	MYR 6.20

Company Description

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

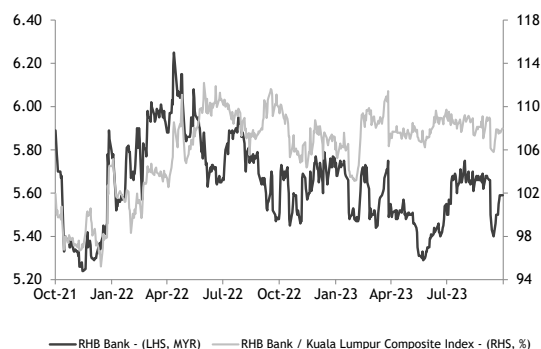
Statistics

52w high/low (MYR)	5.79/5.29
3m avg turnover (USDm)	4.9
Free float (%)	46.1
Issued shares (m)	4,286
Market capitalisation	MYR24.0B USD5.1B

Major shareholders:

Employees Provident Fund	40.6%
OSK Holdings Bhd.	10.2%
Permodalan Nasional Bhd.	6.8%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(1)	1	2
Relative to index (%)	1	(2)	(2)

Source: FactSet

1. Key highlights

1.1 Loan growth expected to pick up pace

RHB's loan growth as at end-June 2023 was just 0.9% YTD (+4.5% YoY) due to lumpy repayments and dampened consumer loan growth, due in part to the festive holidays, during the period.

Into 2H23, we expect faster loan growth emanating predominantly from corporate loan demand in Singapore, as well as a pick-up in consumer lending. SME lending continues to expand (+4.8% YoY end-June 2023) but management is more cautious with regards to lending to this segment. For FY23, we have imputed a loan growth forecast of 4%, which is at the lower end of management's 4-5% target for the year.

1.2 CASA growth remains a challenge

RHB's deposit growth was just 1.5% YoY and 0.9% YTD as at end-June 2023. CASA, meanwhile, contracted 4.7% and its CASA ratio slipped to 27.6% end-June 2023 from 29.2% end-Dec 2022. Fixed deposit rate competition has since eased slightly and we would expect some flow back into CASA in 2H23, though probably not of significant magnitude.

1.3 A bit more NIM compression expected

RHB Group witnessed a hefty 46bps QoQ NIM compression in 1Q23 to 1.90% and a further 8bps QoQ compression in 2Q23 to 1.82%. NIM pressure appears to be abating and current deposit rate campaigns are less intense. Nevertheless, we expect RHB's NIM to compress marginally QoQ in 3Q23 before rebounding in 4Q23. Our forecast assumes an average NIM of 1.88% for FY23, against a 1H23 average of 1.86%, and 1.94% for FY24E.

1.4 Volatile capital markets

2Q23 NOII rose 13% YoY and was up 24% in 1H23. Although fee income declined 6% YoY, this was offset by realised and unrealised investment gains and higher gains from the revaluation of derivatives. Sustaining this momentum into 2H23 could be a challenge, but there is room for realizing some of its investment gains still, in our view. We expect RHB's NOII to come in relatively flat HoH in 2H23.

1.5 Focus is on driving cost efficiencies

Management has embarked on a group-wide cost-cutting initiative, looking at its processes and systems for ways to drive greater efficiencies. 1H23 operating expenses rose 6.5% YoY and would have been a slower 4.7% YoY if not for one-off union costs. Management hopes to keep expense growth at around the 5% mark.

With NIM compression having impacted the group's cost/income ratio (CIR), which stood at 47.5% in 1H23, management's FY23 target of sub-45% is unlikely to be achieved, but the aim is to cap expense growth at around the 5% YoY mark. Our forecasts impute a higher CIR of 47.9% for FY23.

1.6 Relatively stable asset quality

The group's gross impaired loans (GIL) have risen 6.8% YTD, resulting in a higher GIL ratio of 1.64% end-June 2023 versus 1.55% end-Dec 2022. Nevertheless, this is in line with the industry's trend and asset quality has generally been stable, with the GIL ratio still below its pre-pandemic level of 1.97% in 2019.

On the consumer front, there was an uptick in the GIL ratio in 2Q23 due to the festive holidays, but should normalize into 3Q23. The one segment that management is monitoring is the SME segment. The larger SMEs are faring decently but there is some stress among SMEs that are reliant on imports and those in the construction (due to fewer infrastructure works) and hospitality (especially those that rely on tourism) industries.

Sector wise, property development and construction (contractors involved in larger infra projects) are segments to monitor at this stage. The bank's exposure to construction and property development is about 11.7% of total loans, of which exposure to real estate alone is about 8% of total loans. Its exposure to O&G is only about 1.5% of total loans and bonds.

1.7 Still has economic overlays of about MYR560m

RHB previously had about MYR411m worth of COVID overlays, of which MYR284m had been written back in 1H23 (mainly the retail related overlays), while the remainder (particularly the SME-related overlays) had been reclassified into customer-specific provisions. As such, the group no longer holds COVID-related overlays.

It does, however, still hold about MYR560m worth of economic-variable overlays that could potentially be written back should economic conditions improve.

Of the MYR2.9b worth of loans under Repayment Assistance as at end-July 2023, MYR1.9b is from retail customers. Of this MYR1.9b, only about 1% is not current in terms of repayments currently i.e. about MYR190m. As such, this is less of a concern at this stage.

1.8 Gross credit cost guidance of 20-25bps

RHB saw a net credit writeback of about 8bps in 1H23, but on a gross basis, credit cost would have been about 21bps in 1H23. Management maintains a gross credit cost guidance of 20-25bps for FY23, which would imply slightly higher provisions in 2H23. We have lowered our FY23 average gross credit cost assumption to 23bps from 29bps, and from 23bps to 20bps for FY24.

Loan loss coverage (LLC) was just 82.5% end-June 2023, 108.5% including regulatory reserves. Management is optimistic that LLC would move up closer to 100% once a particular corporate loan is restructured, and also in light of the fact that there would no longer be lumpy provision writebacks in 2H23.

1.9 Digital bank at the operational readiness review stage

RHB's 40%-owned digital bank (60%-owned by Axiata's Boost) is currently in the operational readiness review stage with BNM, with the intention of launching the digital bank by this year-end or early 2024.

1.10 FY23 ROE target of >11% appears optimistic

Management had earlier targeted an FY23 ROE of >11% (10.6% in 1H23) and an FY24 ROE of 11.5%. These targets appear optimistic at this stage, given the large interest margin compression that the industry as a whole has witnessed thus far. We are less sanguine and our ROE forecasts stand at a lower 9.2% for FY23 and 9.1% for FY24.

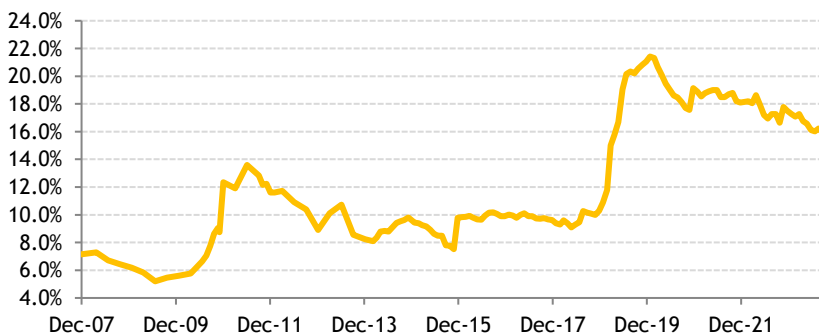
1.11 Lowering our dividend payout ratios

RHB’s dividend payout ratios were 62.9% in FY21 and 62.5% in FY22. We understand that the payout ratio of 62.9% in FY21 was in response to a low payout ratio of 34.8% in FY20, while the 62.5% payout ratio in FY22 was due to the lower earnings base caused by *Cukai Makmur*. Moving forward, RHB maintains a minimum payout ratio policy of 30% but management will strive for a higher payout ratio. Our previous dividend payout ratio assumption of 62.5% for FY23/24E appears optimistic at this stage, for which we are lowering to 50%.

2. Risks

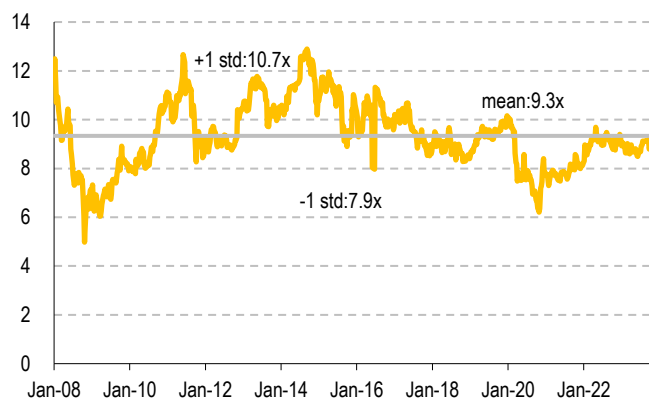
As the fourth largest domestic financial institution in Malaysia in terms of asset size, any economic slowdown in the country would have a knock-on effect on the group’s operating performance and hence potentially our estimates, rating, and target price. Volatility in the O&G sector could result in asset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

Figure 1: Foreign shareholding in RHB Bank (15.95% end-Sep 2023)



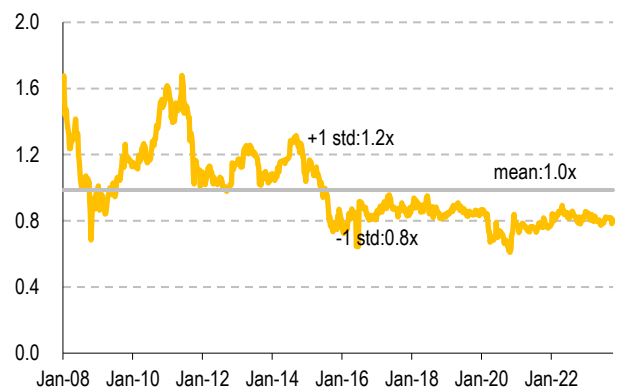
Source: Bank

Figure 2: One-year forward rolling PER (x)



Source: Bloomberg, Maybank IBG Research

Figure 3: 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)	7.0	8.6	8.8	8.5	8.1
Core FD P/E (x)	7.0	8.6	8.8	8.5	8.1
P/BV (x)	0.8	0.9	0.8	0.8	0.7
P/NTA (x)	0.9	1.0	0.9	0.8	0.8
Net dividend yield (%)	7.4	6.9	5.7	5.9	6.2

INCOME STATEMENT (MYR m)

Interest income	6,328.5	7,382.0	7,349.8	7,561.6	7,782.4
Interest expense	(2,266.5)	(3,207.5)	(4,140.1)	(4,173.6)	(4,333.1)
Net interest income	4,062.0	4,174.5	3,209.7	3,388.0	3,449.3
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	823.2	864.3	907.5
Other income	547.1	660.8	528.8	645.4	710.1
Total non-interest income	1,876.4	1,736.2	1,571.4	1,740.1	1,859.6
Operating income	8,033.6	8,308.8	7,371.0	7,925.2	8,329.7
Staff costs	(2,137.7)	(2,250.2)	(2,137.7)	(2,233.9)	(2,345.6)
Other operating expenses	(1,384.7)	(1,466.6)	(1,391.3)	(1,431.1)	(1,484.7)
Operating expenses	(3,522.4)	(3,716.8)	(3,529.0)	(3,665.0)	(3,830.3)
Pre-provision profit	4,511.2	4,591.9	3,842.0	4,260.2	4,499.4
Loan impairment allowances	(737.2)	(421.2)	(206.9)	(447.1)	(454.5)
Other allowances	(0.3)	(0.0)	0.0	0.0	0.0
Associates & JV income	0.0	0.1	0.0	0.0	0.0
Pretax profit	3,773.6	4,170.8	3,635.1	3,813.1	4,044.9
Income tax	(905.6)	(1,458.8)	(872.4)	(915.1)	(970.8)
Minorities	(4.7)	(4.3)	(5.5)	(5.8)	(6.1)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	2,863.3	2,707.7	2,757.2	2,892.1	3,068.0
Core net profit	3,055.3	2,707.7	2,757.2	2,892.1	3,068.0

BALANCE SHEET (MYR m)

Cash & deposits with banks	23,318.1	19,787.2	15,910.8	15,910.8	15,910.8
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	74,821.8	78,562.9
Investment securities	0.0	0.0	0.0	0.0	0.0
Loans & advances	194,896.6	208,378.6	216,471.2	225,563.0	235,036.7
Central bank deposits	635.0	3,429.6	6,393.7	6,666.0	6,949.2
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	5,377.5	5,458.5	5,542.3	5,629.2
Total assets	289,541.5	310,771.3	323,497.9	336,704.5	350,494.3
Deposits from customers	219,313.9	228,405.8	236,246.2	245,696.0	255,523.8
Deposits from banks & FIs	23,406.8	24,593.9	25,577.6	26,600.7	27,664.8
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	13,722.5	14,326.8	14,961.3	15,627.5
Insurance liabilities	0.0	0.0	0.0	0.0	0.0
Other liabilities	7,286.0	8,572.5	8,883.2	9,525.3	10,211.4
Total liabilities	261,510.9	282,002.9	292,342.0	304,091.5	316,335.8
Share capital	7,612.6	8,145.6	8,145.6	8,145.6	8,145.6
Reserves	20,385.7	20,590.5	22,972.4	24,423.7	25,963.2
Shareholders' funds	27,998.3	28,736.1	31,118.0	32,569.3	34,108.7
Preference shares	0.0	0.0	0.0	0.0	0.0
Minority interest	32.2	32.3	37.8	43.6	49.8
Total equity	28,030.5	28,768.4	31,155.9	32,613.0	34,158.5
Total liabilities & equity	289,541.5	310,771.3	323,497.9	336,704.5	350,494.3

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Ratios					
Growth (%)					
Net interest income	21.5	2.8	(23.1)	5.6	1.8
Non-interest income	(13.8)	(7.5)	(9.5)	10.7	6.9
Operating expenses	4.0	5.5	(5.1)	3.9	4.5
Pre-provision profit	18.7	1.8	(16.3)	10.9	5.6
Core net profit	32.5	(11.4)	1.8	4.9	6.1
Gross loans	6.7	6.9	4.0	4.2	4.2
Customer deposits	7.8	4.1	3.4	4.0	4.0
Total assets	6.8	7.3	4.1	4.1	4.1
Profitability (%)					
Non-int. income/Total income	23.4	20.9	21.3	22.0	22.3
Average lending yields	3.02	3.39	3.29	3.31	3.31
Average cost of funds	1.17	1.52	1.88	1.86	1.86
Net interest margin	2.19	2.28	1.92	1.97	1.98
Cost/income	43.8	44.7	47.9	46.2	46.0
Liquidity (%)					
Loans/customer deposits	88.9	91.2	91.6	91.8	92.0
Asset quality (%)					
Net NPL	0.8	0.7	1.1	1.1	1.1
Gross NPL	1.5	1.5	2.0	2.0	2.0
(SP+GP)/average gross loans	0.4	0.2	0.1	0.2	0.2
Loan loss coverage	122.4	112.8	95.5	95.5	95.5
Capital adequacy (%)					
CET1	17.2	16.9	15.1	15.4	15.6
Tier 1 capital	17.2	16.9	15.3	15.5	15.7
Risk-weighted capital	19.8	19.3	17.3	17.5	17.6
Returns (%)					
ROAE	11.1	9.5	9.2	9.1	9.2
ROAA	1.1	0.9	0.9	0.9	0.9
Shareholders equity/assets	9.7	9.2	9.6	9.7	9.7

Source: Company; Maybank IBG Research

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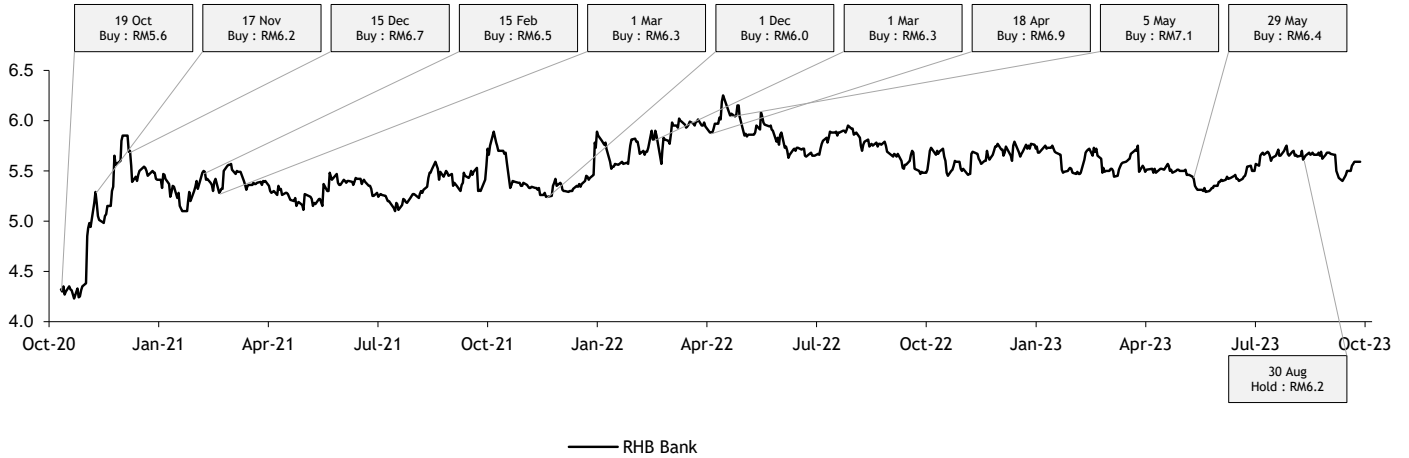
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