

RHB Bank (RHBANK MK)

1Q24 results within expectations

HOLD maintained

RHB's 1Q24 results were within expectations, but we have trimmed our FY24E net profit by 3% on higher credit cost assumptions. We maintain our FY25/26E forecasts. Correspondingly, we trim our TP to MYR5.90 from MYR6.20 on a lower FY24E ROE of 9.2% (from 9.4%). We maintain an FY24E PBV target of 0.8x. HOLD, dividend yields of 7% provide support.

Within expectations

RHB's 1Q24 core net profit of MYR730m (-4% YoY, +25% QoQ) - within expectations at 24%/26% of our full-year forecast. Nevertheless, the credit cost is likely to be higher than anticipated moving forward, given that impaired loans are still rising. We thus raise our FY24E credit cost assumption to 25bps from 20bps, and trim FY24E earnings by 3%. Our FY25/26E earnings are maintained.

Some positives

Against an FY24 loans growth target of =>4.5%, loan growth was 6.0% YoY end-Mar 2024. CASA also grew at a faster pace and NIMs expanded 6bps QoQ. Meanwhile, NOII rose 7.2%, contributing to operating income growth of 9.5% YoY. However, expenses rose at a faster pace of 12% YoY due to higher personnel and marketing costs. As such, operating profit growth was a slower, but still decent 7.4% YoY. Credit cost was a higher 38bps in 1Q24 versus 9bps in 1Q23. Excluding provisions against several overseas loans which are not expected to recur, the normalized credit cost was about 25bps in 1Q24.

FY24 targets

A reminder of management's FY24 targets: loans growth of =>4.5% (1Q24: 6.0% YoY), CIR <=47.5% (1Q24: 45.9%). Management also guides for NIM of 1.8-1.9% (1Q24: 1.83%) and credit cost of 20-25bps (1Q24: 38bps). At this stage, 1Q24 ROE of 9.2% is trailing the target of =>10% for FY24.

FYE Dec (MYR m)	FY22A	FY23A	FY24E	FY25E	FY26E
Operating income	8,160	7,770	8,238	8,646	9,070
Pre-provision profit	4,554	4,081	4,406	4,651	4,904
Core net profit	2,678	2,806	2,895	3,155	3,333
Core EPS (MYR)	0.67	0.70	0.66	0.71	0.74
Core EPS growth (%)	(12.3)	4.8	(5.1)	7.2	3.9
Net DPS (MYR)	0.40	0.40	0.39	0.39	0.39
Core P/E (x)	8.7	7.8	8.3	7.7	7.4
P/BV (x)	0.9	0.8	0.7	0.7	0.7
Net dividend yield (%)	6.9	7.3	7.1	7.2	7.1
Book value (MYR)	6.77	7.20	7.37	7.56	7.79
ROAE (%)	9.4	9.4	9.2	9.6	9.7
ROAA (%)	0.9	0.9	0.9	0.9	0.9
Consensus net profit	-	-	2,874	3,020	3,228
MIBG vs. Consensus (%)	-	-	0.7	4.5	3.3

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HOLD

Share Price	MYR 5.48
12m Price Target	MYR 5.90 (+8%)
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.

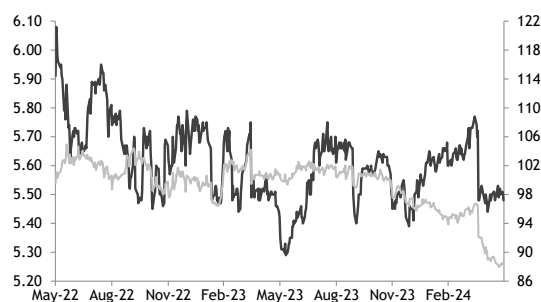
Statistics

52w high/low (MYR)	5.77/5.29
3m avg turnover (USDm)	8.6
Free float (%)	45.3
Issued shares (m)	4,359
Market capitalisation	MYR23.9B
	USD5.1B

Major shareholders:

Employees Provident Fund	41.1%
OSK Holdings Bhd.	10.4%
Permodalan Nasional Bhd.	6.8%

Price Performance



	-1M	-3M	-12M
Absolute (%)	0	(2)	1
Relative to index (%)	(2)	(6)	(12)

Source: FactSet

Figure 1: RHB Bank: Results

FYE Dec (MYR m)	Quarterly					Cumulative		
	1Q24	1Q23	% YoY	4Q23	% QoQ	3M24	3M23	% YoY
Interest income	2,487.8	2,230.4	11.5	2,493.9	(0.2)	2,487.8	2,230.4	11.5
Interest expense	(1,561.8)	(1,346.4)	16.0	(1,626.7)	(4.0)	(1,561.8)	(1,346.4)	16.0
Net interest income	926.0	884.0	4.7	867.2	6.8	926.0	884.0	4.7
Islamic banking income	658.1	553.2	19.0	533.6	23.3	658.1	553.2	19.0
Non-interest income	504.1	470.4	7.2	623.2	(19.1)	504.1	470.4	7.2
Operating income	2,088.2	1,907.7	9.5	2,024.0	3.2	2,088.2	1,907.7	9.5
Operating expenses	(959.2)	(856.5)	12.0	(980.9)	(2.2)	(959.2)	(856.5)	12.0
Operating Profit	1,129.1	1,051.2	7.4	1,043.1	8.2	1,129.1	1,051.2	7.4
Loan loss provisions	(215.0)	(46.0)	367.0	(230.1)	(6.6)	(215.0)	(46.0)	367.0
Other provisions	0.0	0.0	-	0.0	-	-	-	-
Associates & JVs	(3.9)	0.0	-	(7.3)	-	(3.9)	0.0	-
Pretax Profit	910.2	1,005.2	(9.5)	805.8	13.0	910.2	1,005.2	(9.5)
Taxation	(178.8)	(242.6)	(26.3)	(218.5)	(18.2)	(178.8)	(242.6)	(26.3)
Discontinued operations	0.0	0.0	-	0.0	-	-	-	-
Minority interest	(1.2)	(1.0)	22.8	(1.4)	(14.1)	(1.2)	(1.0)	22.8
Net profit	730.2	761.7	(4.1)	585.9	24.6	730.2	761.7	(4.1)
Recurring net profit	730.2	761.7	(4.1)	585.9	24.6	730.2	761.7	(4.1)
EPS (sen)	17.0	17.9	(5.0)	13.6	25.2	17.0	17.9	(5.0)
Net DPS (sen)	0.0	0.0	-	25.0	NM	-	-	-
Cost-to-income (%)	45.9	44.9	1.0	48.5	(2.5)	45.9	44.9	1.0
Tax rate (%)	19.6	24.1	(4.5)	27.1	(7.5)	19.6	24.1	(4.5)
Balance sheet (MYR m)	Mar-24	Mar-23	YoY chg	Dec-23	QoQ chg	Mar-24	Mar-23	YTD Chg
Gross loans & advances	224,919	213,359	5.4	222,416	1.1	224,919	213,359	5.4
Net loans & advances	221,960	209,557	5.9	219,563	1.1	221,960	209,557	5.9
Deposits from customers	243,462	227,391	7.1	245,591	(0.9)	243,462	227,391	7.1
			ppt chg		ppt chg			ppt chg
Gross LDR	92.4	93.8	(1.4)	90.6	1.8	92.4	93.8	(1.5)
Gross impaired loans	4,115.4	3,388.7	21.4	3,879	6.1	4,115.4	3,389	21.4
Gross impaired loans ratio	1.8	1.6	0.2	1.7	0.1	1.8	1.6	0.2
Loan loss coverage	70.1	109.4	(39.2)	71.7	(1.6)	70.1	109.4	(39.2)

Source: Bank, Maybank IBG Research

Key highlights

Loan growth: Group loans expanded 6.0% YoY and this was led by domestic consumer loan growth of 6.5% YoY. SME lending slipped -2.3% YoY while corporate lending rose 4.1% YoY. Overseas lending saw strong loan growth of 17.1% YoY, driven predominantly by Singapore loan growth of 21.9% YoY. On the domestic retail front, mortgages rose 8.6% YoY while auto financing and personal financing increased 9.4% YoY and 8.4% YoY respectively.

Deposit growth: Total deposits rose 7.3% YoY and positively, CASA rose at a faster rate of 10.5% YoY. As a result, the group's CASA ratio improved to 29.0% end-Mar 2024 from 28.1% end-Mar 2023. The group's loan/deposit ratio was 92.6% while its liquidity coverage ratio (LCR) was 144.4%.

Net interest margin (NIM): The group's NIM improved 6bps QoQ to 1.83% in 1Q24. This compares against an average of 1.82% in FY23.

Non-interest income (NOII): NOII rose 7.2% YoY. Positively, fee income rose 19% YoY while investment income was also higher YoY. This was offset in part by lower forex gains.

Operating expenses: Operating expenses rose 12% YoY as personnel expense rose 14.2% YoY while marketing expenses jumped 27.6% YoY. Marketing expenses jumped due largely to sales related incentives. The group's cost/income ratio (CIR) was higher at 45.9% in 1Q24 versus 44.9% in 1Q23.

Asset quality. The group's absolute gross impaired loans (GIL) rose 6% QoQ. It saw a QoQ increase in GILs in Thailand and Cambodia, impacted by subdued economic conditions in these countries. Domestically, it has seen a rise in SME defaults, as well as defaults in its corporate and commercial loan books. As a result, the group's GIL ratio was a higher 1.83% end-Mar 2024 versus 1.74% end-Dec 2023. 80-85% of the SME impaired loans are secured and 70-80% guaranteed by SJPP, for which the recovery process will take 18-24 months. Management is optimistic of its overseas GILs stabilizing, but recovery will take some time.

Credit cost: By our estimates, credit cost was 38bps in 1Q24, but the reported credit cost of 25bps strips out several overseas defaults, which management deems to be one-off. Credit cost was 42bps in 4Q23. Loan loss coverage slipped to 70.1% end-Mar 2024 from 71.7% end-Dec 2023. It was 106.3% end-Mar 2024 with regulatory reserves. Management is of the opinion that the resolution of 1-2 large corporate accounts in 1H24, would assist in raising its LLC. The LLC in Cambodia and Thailand is close to 100%.

Capital ratios: The group's CET1 ratio was 16.5% end-Mar 2024 and 15.1% at the bank level. Preliminarily, management estimates a 70-80bps negative impact to operational RWA from Basel 4 implementation, which is why management has reinitiated its dividend reinvestment programme for now, despite its high CET1 ratio, pending further clarity.

Figure 2: Foreign shareholding in RHB Bank (14.55% end-Apr 2024)

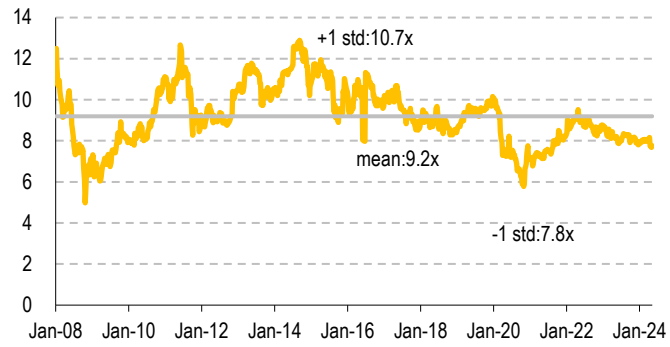


Source: Bank

Risk statement

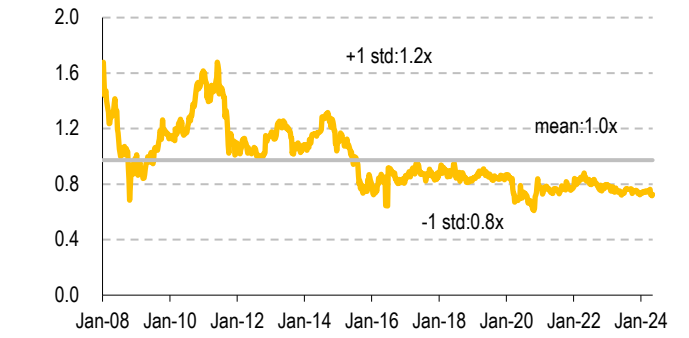
As the fourth largest domestic financial institution in Malaysia in terms of asset size, any economic slowdown in the country would have a knock-on effect on the group’s operating performance and hence potentially our estimates, rating, and target price. Volatility in the O&G sector could result in asset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

Figure 3: One-year forward rolling PER (x)



Source: Bloomberg, Maybank IBG Research

Figure 4: One-year forward rolling P/BV (x)



Source: Bloomberg, Maybank IBG Research

FYE 31 Dec	FY22A	FY23A	FY24E	FY25E	FY26E
Key Metrics					
Core P/E (x)	8.7	7.8	8.3	7.7	7.4
Core FD P/E (x)	8.7	7.8	8.3	7.7	7.4
P/BV (x)	0.9	0.8	0.7	0.7	0.7
P/NTA (x)	1.0	0.9	0.8	0.8	0.8
Net dividend yield (%)	6.9	7.3	7.1	7.2	7.1

INCOME STATEMENT (MYR m)

Interest income	7,382.0	9,473.5	9,129.1	9,425.1	9,748.8
Interest expense	(3,207.4)	(5,913.9)	(5,402.5)	(5,574.0)	(5,790.2)
Net interest income	4,174.7	3,559.6	3,726.6	3,851.1	3,958.6
Islamic banking income	2,398.1	2,366.4	2,555.8	2,760.2	2,981.0
Net insurance income	60.2	47.2	49.5	52.0	54.6
Net fees and commission	866.5	866.4	909.7	955.2	1,003.0
Other income	660.8	930.8	996.5	1,027.9	1,072.9
Total non-interest income	1,587.5	1,844.4	1,955.8	2,035.1	2,130.5
Operating income	8,160.2	7,770.4	8,238.2	8,646.5	9,070.2
Staff costs	(2,184.3)	(2,215.2)	(2,314.9)	(2,419.1)	(2,527.9)
Other operating expenses	(1,421.9)	(1,474.1)	(1,517.2)	(1,576.3)	(1,638.6)
Operating expenses	(3,606.3)	(3,689.3)	(3,832.1)	(3,995.4)	(4,166.6)
Pre-provision profit	4,553.9	4,081.1	4,406.1	4,651.1	4,903.6
Loan impairment allowances	(421.2)	(301.5)	(568.3)	(474.6)	(495.7)
Other allowances	(0.0)	0.0	0.0	0.0	0.0
Associates & JV income	0.1	(26.3)	(21.0)	(16.8)	(13.4)
Pretax profit	4,132.7	3,753.3	3,816.8	4,159.7	4,394.5
Income tax	(1,451.7)	(942.8)	(916.0)	(998.3)	(1,054.7)
Minorities	(2.7)	(4.3)	(5.8)	(6.3)	(6.7)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	2,678.4	2,806.2	2,895.0	3,155.0	3,333.1
Core net profit	2,678.4	2,806.2	2,895.0	3,155.0	3,333.1

BALANCE SHEET (MYR m)

Cash & deposits with banks	19,787.2	15,034.4	15,034.4	15,034.4	15,034.4
Sec. under resale agreements	101.3	0.0	0.0	0.0	0.0
Derivatives financial assets	0.0	0.0	0.0	0.0	0.0
Dealing securities	3,089.4	3,718.5	3,904.4	4,099.6	4,304.6
Available-for-sale securities	65,980.4	76,191.6	80,001.2	84,001.2	88,201.3
Investment securities	0.0	0.0	0.0	0.0	0.0
Loans & advances	208,378.6	219,562.6	228,351.2	238,440.6	249,214.3
Central bank deposits	3,429.6	3,911.8	6,696.4	6,979.9	7,274.8
Investment in associates/JVs	0.0	56.0	56.0	56.0	56.0
Insurance assets	0.0	0.0	0.0	0.0	0.0
Fixed assets	1,212.9	1,209.0	1,233.1	1,257.8	1,283.0
Intangible assets	3,414.5	3,467.3	3,467.3	3,467.3	3,467.3
Other assets	5,377.5	5,541.0	5,651.1	5,765.5	5,884.1
Total assets	310,771.3	328,692.1	344,395.1	359,102.3	374,719.8
Deposits from customers	228,405.8	245,590.8	254,886.4	265,081.8	275,685.1
Deposits from banks & FIs	24,593.9	17,022.4	17,703.3	18,411.4	19,147.9
Derivatives financial instruments	0.0	0.0	0.0	0.0	0.0
Subordinated debt	2,867.1	3,377.2	3,377.2	3,377.2	3,377.2
Other securities in issue	3,841.2	7,018.5	7,618.5	7,618.5	7,618.5
Other borrowings	13,722.5	15,715.3	16,380.4	17,078.8	17,812.1
Insurance liabilities	0.0	0.0	0.0	0.0	0.0
Other liabilities	8,572.5	9,056.9	12,282.6	13,962.6	15,921.4
Total liabilities	282,002.9	297,781.0	312,248.2	325,530.3	339,562.1
Share capital	8,145.6	8,330.3	8,330.3	8,330.3	8,330.3
Reserves	20,590.5	22,544.2	23,774.3	25,193.1	26,772.0
Shareholders' funds	28,736.1	30,874.6	32,104.6	33,523.5	35,102.3
Preference shares	0.0	0.0	0.0	0.0	0.0
Minority interest	32.3	36.5	42.3	48.6	55.3
Total equity	28,768.4	30,911.1	32,146.9	33,572.1	35,157.6
Total liabilities & equity	310,771.3	328,692.1	344,395.1	359,102.3	374,719.8

FYE 31 Dec	FY22A	FY23A	FY24E	FY25E	FY26E
Key Ratios					
Growth (%)					
Net interest income	2.8	(14.7)	4.7	3.3	2.8
Non-interest income	(15.4)	16.2	6.0	4.1	4.7
Operating expenses	2.4	2.3	3.9	4.3	4.3
Pre-provision profit	0.9	(10.4)	8.0	5.6	5.4
Core net profit	(12.3)	4.8	3.2	9.0	5.6
Gross loans	6.9	4.8	4.4	4.4	4.5
Customer deposits	4.1	7.5	3.8	4.0	4.0
Total assets	7.3	5.8	4.8	4.3	4.3
Profitability (%)					
Non-int. income/Total income	19.5	23.7	23.7	23.5	23.5
Average lending yields	3.39	3.87	3.64	3.64	3.65
Average cost of funds	1.52	2.61	2.33	2.37	2.37
Net interest margin	2.28	1.94	1.96	1.98	1.99
Cost/income	44.2	47.5	46.5	46.2	45.9
Liquidity (%)					
Loans/customer deposits	91.2	89.4	89.6	89.9	90.4
Asset quality (%)					
Net NPL	0.7	0.5	1.2	1.2	1.2
Gross NPL	1.5	1.7	1.9	1.9	1.8
(SP+GP)/average gross loans	0.2	0.1	0.3	0.2	0.2
Loan loss coverage	112.8	71.7	87.3	88.7	90.2
Capital adequacy (%)					
CET1	16.9	16.9	14.4	14.6	14.8
Tier 1 capital	16.9	16.9	14.6	14.8	15.0
Risk-weighted capital	19.3	19.3	16.9	17.0	17.1
Returns (%)					
ROAE	9.4	9.4	9.2	9.6	9.7
ROAA	0.9	0.9	0.9	0.9	0.9
Shareholders equity/assets	9.2	9.4	9.3	9.3	9.4

Source: Company; Maybank IBG Research

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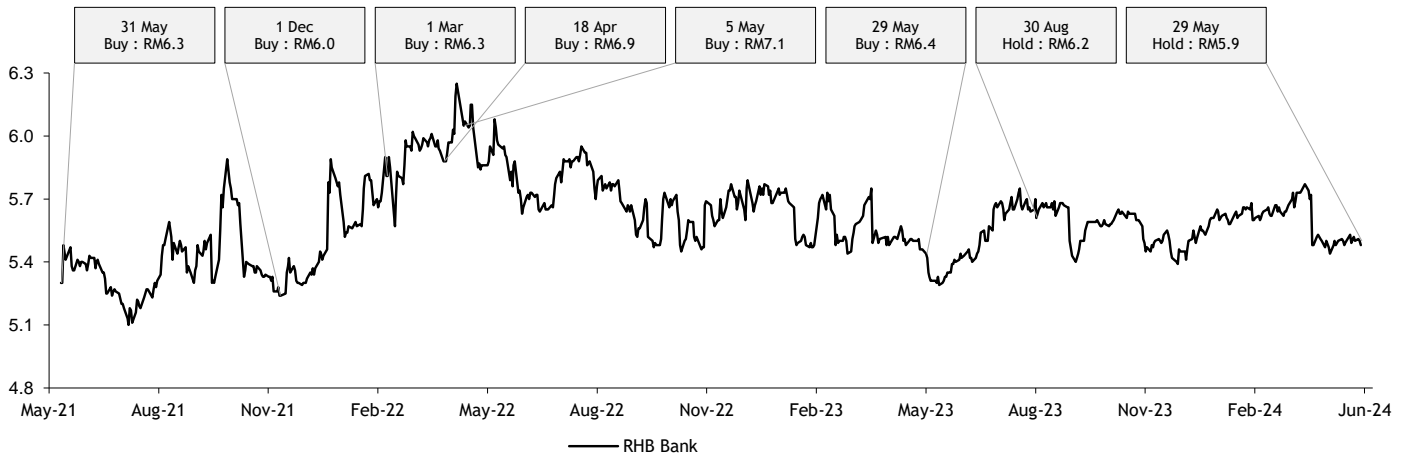
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