

# RHB Bank (RHBBANK MK)

## 6 core areas to focus on

### 10% ROE target within reach

Against our present FY24E ROE forecast of 9.7%, management's 10% target is within reach if credit cost in 2H24 comes in much lower than expected. We maintain a BUY on RHB, with an unchanged TP of MYR6.80, pegged to a FY25E PBV of 0.9x. Dividend yields of >6% provide support.

### Focusing on 6 core areas

In striving for higher earnings growth and higher ROEs, management is of the opinion that there are six core areas that it should focus on: a) growing loans in the community banking space; b) improving its investment banking pipeline; c) strengthening its asset management division; d) expanding its bancassurance business; e) lowering provision levels through better asset quality underwriting; and f) improving efficiency and cost savings.

### Potentially lower-than-expected credit cost?

The pipeline for loans remains healthy but depending on the timing of disbursements, loan growth is likely to trend towards the lower end of management's 6.5-7.0% YoY expectation for FY24, in our view. Positively, NIMs have been stable at around 1.88% in 3Q24 (target of 1.88-1.90% for FY24). Of its MYR360m impairment allowances in 1H24, MYR130m had been against its operations in Thailand and MYR60m against potential SME defaults. Both operations have shown signs of stabilization and in our view, there is a high likelihood that credit costs could surprise positively against management's guidance of 20-25bps, and our 26bps assumption.

### Positive surprises on ROE and dividend fronts?

Our forecasted FY24E ROE of 9.7% lags management's target of 10%, but we deem the 10% to be within reach, if the credit cost comes in at 20bps or lower during the year. On the dividend front, RHB has declared a DPS of 40sen over the past 3 years (FY21-FY23) and we have assumed 40sen moving forward until there is greater clarity on its dividend payout. Nevertheless, this implies a lower payout of 57% in FY24E against 61% in FY23, and there is possibly room to surprise positively in this aspect as well, in our opinion.

FYE Dec (MYR m)	FY22A	FY23A	FY24E	FY25E	FY26E
Operating income	8,160	7,770	8,526	8,880	9,405
Pre-provision profit	4,554	4,081	4,694	4,884	5,239
Core net profit	2,678	2,806	3,056	3,230	3,477
Core EPS (MYR)	0.67	0.70	0.70	0.73	0.77
Core EPS growth (%)	(12.3)	4.8	0.2	3.9	5.9
Net DPS (MYR)	0.40	0.40	0.40	0.40	0.40
Core P/E (x)	8.7	7.8	8.8	8.5	8.0
P/BV (x)	0.9	0.8	0.8	0.8	0.8
Net dividend yield (%)	6.9	7.3	6.5	6.5	6.5
Book value (MYR)	6.77	7.20	7.39	7.60	7.85
ROAE (%)	9.4	9.4	9.7	9.8	10.1
ROAA (%)	0.9	0.9	0.9	0.9	0.9
Consensus net profit	-	-	2,893	3,077	3,234
MIBG vs. Consensus (%)	-	-	5.6	5.0	7.5

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# BUY

Share Price	MYR 6.18
12m Price Target	MYR 6.80 (+10%)
Previous Price Target	MYR 6.80

### Company Description

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

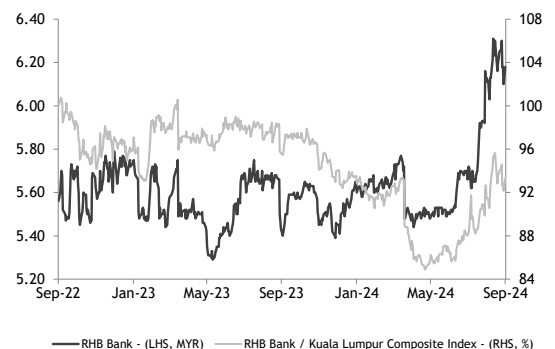
### Statistics

52w high/low (MYR)	6.31/5.39
3m avg turnover (USDm)	12.8
Free float (%)	47.7
Issued shares (m)	4,359
Market capitalisation	MYR26.9B USD6.5B

### Major shareholders:

Employees Provident Fund	39.5%
OSK Holdings Bhd.	10.3%
Permodalan Nasional Bhd.	7.1%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	1	12	14
Relative to index (%)	2	7	(2)

Source: FactSet

ESG@MAYBANK IBG  
Tear Sheet Insert

## 1. Focusing on six core areas

In striving for higher earnings growth and higher ROEs, management is of the opinion that there are six core areas that it should focus on:

- Growing loans in the community banking space;
- Improving its investment banking pipeline;
- Strengthening its asset management division;
- Expanding its bancassurance business;
- Lowering provision levels through better asset quality underwriting; and
- Improving efficiency and cost savings.

### 1.1 Growing loans in the community banking space

RHB's community banking space comprise both retail and SME banking, and loans to these segments expanded 7.2% YoY and 3.1% YoY end-June 2024. Within retail banking, mortgages and auto financing rose at a faster pace of 9.0% and 10.7% respectively, and these are the segments that management looks to target for future growth. In the mortgage segment, it looks to focus on the mass affluent market and properties in the MYR700-800 psf range.

SME lending slowed to just 3.1% YoY end-June 2024 as the focus has predominantly been on recoveries, but management looks to grow this segment again, once it has formulated a growth plan. RHB targets a group loan growth of 6.5-7% for FY24 (+6.4% YoY end-June 2024).

### 1.2 Improving its investment banking pipeline

Having appointed new leadership at the helm, the group hopes to fortify its position in the investment banking space.

### 1.3 Strengthening its asset management division

RHB Asset Management currently has about MYR56b of assets under management. Management looks to focus on strengthening this base, and is open to partnerships, with whom it could white label products.

### 1.4 Expanding its bancassurance business

With about 199 branches, RHB believes it has a strong distribution channel and is looking for a strong insurance partner who could assist in driving its bancassurance business, both in terms of life and general insurance.

To note that there is presently a pending Court Case between RHB and its present banca partner, Tokio Marine Life Insurance, whereby the latter has sought a declaration that its right of first refusal with RHB under the Bancassurance Arrangement Agreement dated 29 Dec 2014 (which expires on 31 Dec 2024) is still subsisting.

### 1.5 Better asset quality underwriting

RHB Group's gross impaired loans (GIL) ratio has risen over the past year from 1.64% end-June 2023 to 1.76% end-June 2024. Where it has seen some stress would be in the domestic SME and corporate segments, as well as in its Thailand and Cambodia operations.

Between Dec 2023 and June 2024, its SME GIL ratio crept up further to 3.37% from 3.20%, while its corporate GIL ratio was a higher 2.07% versus 1.94% end-Dec 2023. Its GIL ratios in Thailand and Cambodia were 28.2% and 11.1% respectively as at end-June 2024, versus 24.0% and 9.8% end-Dec 2023.

Management's focus has been on debt recovery and intervention (assisting clients that may be experiencing debt stress). The focus has also been on tightening its credit process.

## 1.6 Improving efficiency and cost savings

RHB Group's cost/income ratio was 46.3% in 1H24. Management believes there is much room for improvement through automation and the streamlining of processes. With over 13,650 employees, the focus has to be on productivity/performance driven efficiencies as well as on keeping a close eye on discretionary expenses and ancillary costs such as medical benefits, claims etc. There is room for savings on IT costs as well, through the consolidation of operations.

## 2. Lower credit cost ahead?

Impairment allowances totalled MYR360m in 1H24, of which about MYR130m had been on its Thailand operations and MYR60m worth of collective allowance against its SME portfolio.

In Thailand, lending has predominantly been to the SME sector. While asset quality has yet to improve, GILs have stabilized and loan loss coverage is currently about 80%. As such, provisions moving forward are expected to be much lower. As for its SME portfolio, recoveries are increasing and management has been less aggressive in writing new loans to this segment.

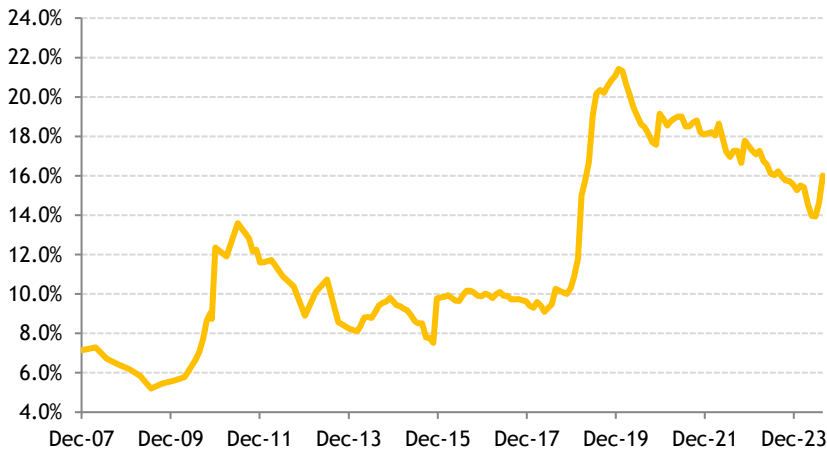
Provisioning to both Thailand and SMEs is likely to taper off in the coming months, and as such, credit cost could potentially be lower than anticipated, in our view.

Our forecasts currently impute a credit cost of 26bps for FY24, against an average credit cost of 32bps in 1H24. There is room for positive surprises on this front, in our view.

## 3. Risk statement

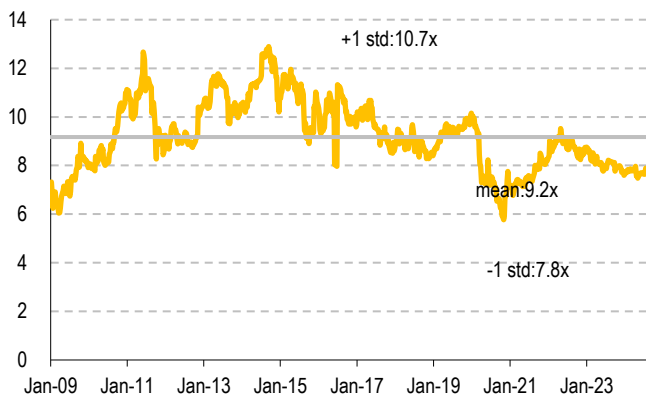
As the fourth largest domestic financial institution in Malaysia in terms of asset size, any economic slowdown in the country would have a knock-on effect on the group's operating performance and hence potentially our estimates, rating, and target price. Volatility in the O&G sector could result in asset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

**Figure 1: Foreign shareholding in RHB Bank (16.01% end-Aug 2024)**



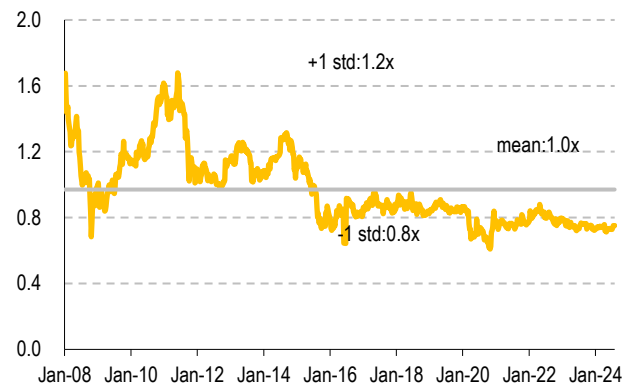
Source: Bank

**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	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Key Metrics</b>					
Core P/E (x)	8.7	7.8	8.8	8.5	8.0
Core FD P/E (x)	8.7	7.8	8.8	8.5	8.0
P/BV (x)	0.9	0.8	0.8	0.8	0.8
P/NTA (x)	1.0	0.9	0.9	0.9	0.9
Net dividend yield (%)	6.9	7.3	6.5	6.5	6.5
<b>INCOME STATEMENT (MYR m)</b>					
Interest income	7,382.0	9,473.5	9,222.6	9,670.5	10,084.0
Interest expense	(3,207.4)	(5,913.9)	(5,308.6)	(5,536.1)	(5,790.2)
<b>Net interest income</b>	<b>4,174.7</b>	<b>3,559.6</b>	<b>3,914.1</b>	<b>4,134.4</b>	<b>4,293.8</b>
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	1,096.5	977.9	1,072.9
<b>Total non-interest income</b>	<b>1,587.5</b>	<b>1,844.4</b>	<b>2,055.8</b>	<b>1,985.1</b>	<b>2,130.5</b>
<b>Operating income</b>	<b>8,160.2</b>	<b>7,770.4</b>	<b>8,525.6</b>	<b>8,879.8</b>	<b>9,405.3</b>
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)
<b>Operating expenses</b>	<b>(3,606.3)</b>	<b>(3,689.3)</b>	<b>(3,832.1)</b>	<b>(3,995.4)</b>	<b>(4,166.6)</b>
<b>Pre-provision profit</b>	<b>4,553.9</b>	<b>4,081.1</b>	<b>4,693.6</b>	<b>4,884.4</b>	<b>5,238.8</b>
Loan impairment allowances	(421.2)	(301.5)	(643.0)	(608.8)	(641.0)
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)
<b>Pretax profit</b>	<b>4,132.7</b>	<b>3,753.3</b>	<b>4,029.5</b>	<b>4,258.8</b>	<b>4,584.4</b>
Income tax	(1,451.7)	(942.8)	(967.1)	(1,022.1)	(1,100.3)
Minorities	(2.7)	(4.3)	(6.1)	(6.5)	(7.0)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
<b>Reported net profit</b>	<b>2,678.4</b>	<b>2,806.2</b>	<b>3,056.3</b>	<b>3,230.2</b>	<b>3,477.2</b>
<b>Core net profit</b>	<b>2,678.4</b>	<b>2,806.2</b>	<b>3,056.3</b>	<b>3,230.2</b>	<b>3,477.2</b>
<b>BALANCE SHEET (MYR m)</b>					
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	233,026.5	246,032.7	258,379.8
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
<b>Total assets</b>	<b>310,771.3</b>	<b>328,692.1</b>	<b>349,070.5</b>	<b>366,694.4</b>	<b>383,885.2</b>
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	16,853.5	21,406.7	24,835.9
<b>Total liabilities</b>	<b>282,002.9</b>	<b>297,781.0</b>	<b>316,819.2</b>	<b>332,974.3</b>	<b>348,476.6</b>
Share capital	8,145.6	8,330.3	8,330.3	8,330.3	8,330.3
Reserves	20,590.5	22,544.2	23,878.4	25,340.6	27,022.3
Shareholders' funds	28,736.1	30,874.6	32,208.7	33,671.0	35,352.6
Preference shares	0.0	0.0	0.0	0.0	0.0
Minority interest	32.3	36.5	42.6	49.1	56.1
Total equity	28,768.4	30,911.1	32,251.3	33,720.1	35,408.7
<b>Total liabilities &amp; equity</b>	<b>310,771.3</b>	<b>328,692.1</b>	<b>349,070.5</b>	<b>366,694.4</b>	<b>383,885.2</b>

FYE 31 Dec	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Key Ratios</b>					
<b>Growth (%)</b>					
Net interest income	2.8	(14.7)	10.0	5.6	3.9
Non-interest income	(15.4)	16.2	11.5	(3.4)	7.3
Operating expenses	2.4	2.3	3.9	4.3	4.3
Pre-provision profit	0.9	(10.4)	15.0	4.1	7.3
Core net profit	(12.3)	4.8	8.9	5.7	7.6
Gross loans	6.9	4.8	6.5	5.6	5.0
Customer deposits	4.1	7.5	3.8	4.0	4.0
Total assets	7.3	5.8	6.2	5.0	4.7
<b>Profitability (%)</b>					
Non-int. income/Total income	19.5	23.7	24.1	22.4	22.7
Average lending yields	3.39	3.87	3.64	3.65	3.65
Average cost of funds	1.52	2.61	2.29	2.35	2.37
Net interest margin	2.28	1.94	2.00	2.02	2.03
Cost/income	44.2	47.5	44.9	45.0	44.3
<b>Liquidity (%)</b>					
Loans/customer deposits	91.2	89.4	91.4	92.8	93.7
<b>Asset quality (%)</b>					
Net NPL	0.7	0.5	1.2	1.2	1.2
Gross NPL	1.5	1.7	1.8	1.9	1.8
(SP+GP)/average gross loans	0.2	0.1	0.3	0.3	0.3
Loan loss coverage	112.8	71.7	90.2	88.7	90.2
<b>Capital adequacy (%)</b>					
CET1	16.9	16.9	14.3	14.4	14.6
Tier 1 capital	16.9	16.9	14.4	14.5	14.7
Risk-weighted capital	19.3	19.3	16.7	16.7	16.8
<b>Returns (%)</b>					
ROAE	9.4	9.4	9.7	9.8	10.1
ROAA	0.9	0.9	0.9	0.9	0.9
Shareholders equity/assets	9.2	9.4	9.2	9.2	9.2

Source: Company; Maybank IBG Research

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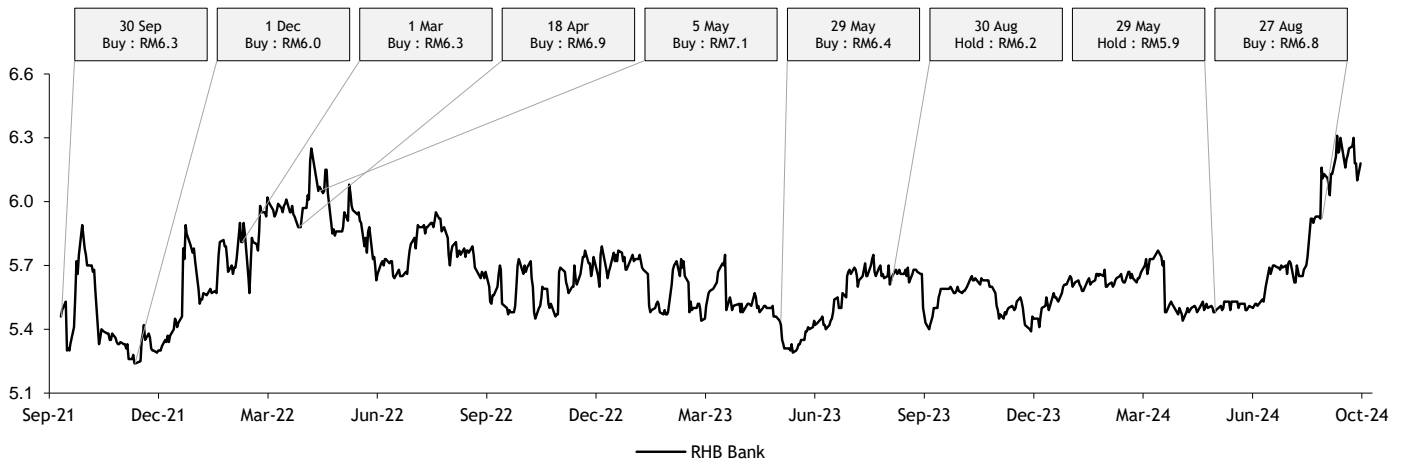
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