

RHB Bank Bhd

(1066 | RHHBANK MK) Financial Services | Finance

Maintain BUY

Performed well given the circumstances

Unchanged Target Price: RM5.25

(from RM5.10)

KEY INVESTMENT HIGHLIGHTS

- **Results were in line with expectations**
- **Earnings weighed down by additional provisioning set aside for Covid-19 effects. A prudent move in our opinion**
- **Net fund based income grew despite OPR cuts**
- **NIM compression was moderated by CASA deposits growth**
- **Asset quality remains stable**
- **No change to FY20/FY21/FY22 earnings forecast**
- **Maintain BUY with revised TP of RM5.25 (from RM5.10) as we rollover valuation to FY21**

Results were in-line. The Group posted 1QFY20 earnings of RM570.9m, which was -9.4%yoy lower. Nevertheless, its performance was within expectations. It came in at 26.5% and 24.9% of ours and consensus' full year estimates respectively.

Earnings affected by higher provisions. Main drag for the earnings was higher provisions in the quarter where it went up +58%yoy. As such, credit cost rose +12bp yoy. Nevertheless, this was mainly due to the Group setting aside an additional RM50m in provisions for Covid-19 effects. In our opinion, this was prudent given the uncertain impact of the pandemic and the movement control order (MCO). If we were to omit this, provisions would have only increased +5.8%yoy and that was due to write backs in 1QFY19.

Good net fund based performance considering OPR cuts. Net fund based income grew +4.4%yoy to RM1.26b. This was commendable given the OPR cuts seen in 1QFY20. In fact, NIM compressed -5bp yoy only. The net fund based income growth was due to stable gross loans growth. We also believe that it came from Islamic banking as Islamic banking income expanded +17.4%yoy.

NOII weighed down by treasury income. NOII fell -9.3%yoy to RM484.8m. It was weighed down by decline in treasury income which contracted -38.1%yoy to RM126.8m. It was led by -28.8%yoy decline in gains and mark-to-market in securities, to RM73.3m.

OPEX well contained. OPEX was relatively flat, marginally decreasing by -0.6%yoy. All OPEX components fell except for personnel expenses which grew +1.9%yoy to RM517.5m.

Decent gross loans growth given current climate. Gross loans grew +3.6%yoy to RM176.2b. It was driven by mortgages, SME and Singapore operations. These grew +8.3%yoy to RM90.0b, +4.6%yoy to RM20.1b and +20.2%yoy to RM14.7b respectively.

Deposits growth matching loans growth. Total deposits expanded +3.8%yoy to RM194.0b. More importantly, it was led by CASA which grew +16.4%yoy to RM53.2b, while fixed deposits declined marginally. We believe that this had moderated the effect of the OPR cuts which resulted in minor NIM compression and the net fund based income performance.

RETURN STATISTICS

Price @ 29 th May, 2020 (RM)	4.77
Expected share price return (%)	+10.1
Expected dividend yield (%)	+4.6
Expected total return (%)	+14.7

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	0.4	-4.0
3 months	1.7	-13.5
12 months	-18.2	-8.3

KEY STATISTICS

FBM KLCI	1473.25
Syariah compliant	No
Issue shares (m)	4010.05
Estimated free float (%)	31.46
Market Capitalisation (RM'm)	19127.92
52-wk price range	RM4.23 - RM5.98
Beta vs FBM KLCI (x)	0.91
Monthly velocity (%)	0.00
Monthly volatility (%)	7.06
3-mth average daily volume (m)	4.66
3-mth average daily value (RM'm)	22.78
Top Shareholders (%)	
Employees Provident Fund Board	42.72
OSK Holdings Bhd	10.13
ASB	4.15

Analyst


Imran Yassin Yusof

imran.yassin@midf.com.my

03-2173 8395

Asset quality remained stable thus far. The Group's GIL ratio saw an uptick of +3bp qoq. However, comparing to 1QFT19, it had improved by -12bp yoy. Nevertheless, we expect it might increase in the coming quarters especially with the full impact of the MCO.

No change in earnings forecast. We make no changes to our earnings forecast as the results were within expectation.

Valuation and recommendation. While the Group's 1QFY20 declined on a sequential year and quarter basis, this was understandable and was not a surprise given current uncertain climate. We like the fact that the Group posted growth in its net fund based income and we opine that the additional provisioning as a prudent measure. All-in, we believe that the fundamental of the Group remains intact. However, in our opinion, its current valuation does not reflect this. As such, we maintain our **BUY** call. We are revising our **TP to RM5.25** (from RM5.10) as we rollover our valuation to FY21. Our TP is based on PBV of 0.8x. 

INVESTMENT STATISTICS

Financial year ending 31 December (in RM'm, unless otherwise stated)	2018A	2019A	2020E	2021F	2022F
Net interest income (RM'm)	3,655	3,610	3,381	3,770	4,115
Islamic banking income (RM'm)	1,722	1,877	1,845	1,892	1,939
Non-interest income (RM'm)	1,428	1,614	1,827	2,010	2,211
Total income (RM'm)	6,806	7,101	7,054	7,671	8,265
Pretax profit (RM'm)	3,119	3,350	2,806	3,324	4,029
Net profit	2,305	2,482	2,153	2,553	3,096
Core Net profit (RM'm)	2,305	2,482	2,153	2,553	3,096
Core EPS (sen)	57.5	61.9	53.7	63.7	77.2
PER (x)	8.3	7.7	8.9	7.5	6.2
Net Dividend (sen)	20.5	31.0	22.0	25.0	30.0
Net Dividend Yield (%)	4.3	6.5	4.6	5.2	6.3
Book value per share (sen)	5.82	6.43	6.42	6.56	6.79
PBV (x)	0.8	0.7	0.7	0.7	0.7
ROE (%)	9.9	9.9	8.4	9.7	11.4

Source: Company, MIDFR

Some banking abbreviations used in this report:

CI = Cost to Income
 CET1 = Common Equity Tier 1
 GIL = Gross Impaired Loan
 LD = Loan-Deposit
 NII = Net Interest Income
 NOII = Non-interest income
 NIM = Net Interest margin
 CASA = Current and Savings Accounts
 COF = Cost of Funds
 IB = Investment Banking
 LLC = Loan Loss Coverage
 PPOP = Pre-Provisioning Operating Profit
 FVTPL = Fair Value Through Profit Or Loss
 OPEX = Operating Expenses
 OPR = Overnight Policy Rate

Table 1: Quarterly & Cumulative results (base on reported financials)

FYE Dec (RM m)	Quarterly results				
	1QFY20	4QFY19	1QFY19	Yoy (+/- %)	Qoq (+/- %)
Net Interest Income	894.5	931.2	880.3	1.6%	-3.9%
Other Operating Income	403.7	526.0	481.2	-16.1%	-23.3%
Islamic Banking Income	447.1	383.4	381.0	17.4%	16.6%
Net/Total Income	1,745.2	1,840.6	1,742.4	0.2%	-5.2%
OPEX	(841.5)	(921.0)	(846.3)	-0.6%	-8.6%
PPOP	903.7	919.7	896.1	0.9%	-1.7%
Write back/(Provision) for loan losses & other assets	(151.4)	(67.9)	(95.9)	58.0%	>100%
Pre-tax profit	752.3	851.8	823.2	-8.6%	-11.7%
Taxation	(180.1)	(229.0)	(192.1)	-6.2%	-21.4%
Net Profit	570.9	621.0	630.2	-9.4%	-8.1%

Table 2: Financial Ratios

Financial Ratios (%)	1QFY20	4QFY19	1QFY19	Yoy (+/-ppts)	Qoq (+/-ppts)
CET1	16.0	16.3	15.7	0.3	-0.3
CCR	16.0	16.3	15.8	0.2	-0.3
RWCR	18.3	18.6	19.0	-0.7	-0.3
GIL	2.00	1.97	2.12	-0.12	0.03
Credit charge-off	0.34	0.18	0.22	0.12	0.16
NIM	2.11	2.14	2.16	-0.05	-0.03
Loan loss Coverage	107.6	107.9	106.3	1.3	-0.3
CI ratio	48.2	50.0	48.6	-0.4	-1.8
Net LDR	90.8	92.5	89.3	1.5	-1.7
ROEA	8.9	9.6	10.7	-1.8	-0.7

Table 3: PBT by key segments (based on reported financials)

PBT (RM m)	1QFY20	1QFY19	Yoy (+/- %)
Corporate and Investment Banking	147.9	142.2	4.0%
Retail Banking	273.3	263.4	3.8%
Business Banking	103.7	100.5	3.2%
Treasury	247.0	328.3	-24.8%
Group International Business	12.2	54.3	-77.5%
Support center & others	(31.8)	(65.5)	-51.4%
Share of results of JV	-	(0.0)	-100.0%
Group PBT	752.3	823.2	-8.6%

Source: Company, MIDFR

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.