

RHB Bank Berhad

(1066 | RHHBANK MK) Financial Services | Finance

Higher than expected dividends

KEY INVESTMENT HIGHLIGHTS

- Results were within expectations
- NOII was key to total income growth
- NIM had recovered and loans growth decent
- Asset quality improved
- Good retail and business banking CASA growth
- Higher than expected dividends of 31sen/share
- Downward adjustment to FY20 and FY21 earnings forecast
- Maintain BUY with revised TP of RM6.30 from RM6.35

Within expectations. The Group FY19 reported earnings of RM2.48b was within expectations. It came at 99.3% and 102.9% of ours and consensus' full year estimates respectively. The earnings growth of +7.7% was driven by income growth and lower provisions.

NOII was the key to total income growth. Total income grew +4.3%yoy led by the +14.7% expansion of NOII to RM2.14b. NOII (including Islamic banking NOII) growth was due to treasury income which rose +40.3%yoy to RM794.4m. Meanwhile, NII (including Islamic banking net fund based income) was relatively flat at +0.4%yoy to RM4.96b. This was due to the NIM compression in FY19, partly attributable to the OPR cut in May-19. However, we note that NIM have recovered to 2.14% in 4QFY19 from 2.09% in 2QFY19.

Group gross loans growth tapered off. Group gross loans as at 4QFY19 grew +4.3%yoy to RM176.2b. This was slightly lower than the +5.2%yoy posted as at 3QFY19. The main contributor for the tapering of growth was lower growth in the business banking segment, which expanded +2.7%yoy to RM25.9b (vs. +4.4%yoy as at 3QFY19). This was hardly surprising as we had observed a general cautiousness for borrowing from businesses last year due to uncertain economic conditions. However, we noted that retail loans remained resilient where it grew +6.4%yoy to RM90.1b. It was driven by mortgages which grew +9.6%yoy to RM58.6b.

Good improvement in asset quality. The Group's GIL ratio improved -9bp yoy and -19bp qoq. Meanwhile, its FY19 credit cost improved by -1bp yoy to 0.18%.

Robust deposits growth. Customer deposits grew +6.5%yoy to RM190.6b with FD and CASA expanding +10.1%yoy to RM111.1b and +5.4%yoy to RM48.9b respectively. While FD growth outpaced that of CASA, we are not overly concerned. This is because retail and business banking CASA grew +7.1%yoy to RM16.9b and +6.1%yoy to RM14.3b respectively. Meanwhile, overseas CASA rose +13.9%yoy to RM8.6b.

More or less met targets. We observed that the Group more or less met its target for FY19. For FY20, the management is targeting the following: (1) ROE of 10.3-10.5%, (2) loans growth of +4.0%yoy, (3) CASA growth of +4.0%yoy, (4) GIL ratio of 1.95%, and (5) CI ratio of 48.5%. We believe that these targets are achievable. However, we are closely monitoring asset quality given the headwinds to the economy this year.

Maintain BUY

Revised Target Price: RM6.30

(from RM6.35)

RETURN STATISTICS

Price @ 27 th Feb. 2020 (RM)	5.61
Expected share price return (%)	+12.3
Expected dividend yield (%)	+5.5
Expected total return (%)	+17.8

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-4.1	0.2
3 months	-2.9	2.5
12 months	0.4	14.2

KEY STATISTICS


FBM KLCI	1,505.59
Syariah compliant	No
Issue shares (m)	4010.05
Estimated free float (%)	32.84
Market Capitalisation (RM'm)	22,496.36
52-wk price range	RM5.21 - RM6.07
Beta vs FBM KLCI (x)	0.92
Monthly velocity (%)	23.84
Monthly volatility (%)	7.06
3-mth average daily volume (m)	4.03
3-mth average daily value (RM'm)	23.20
Top Shareholders (%)	
Employees Provident Fund Board	41.69
OSK Holdings Bhd	10.13
ASB	4.87

Analyst

Imran Yassin Yusof
imran.yassin@midf.com.my
03-2173 8395

Higher than expected dividends. The Group announced a final dividend of 18.5sen/share which brings total dividends to 31sen/share or 50.1% payout ratio. This is higher than we had anticipated and do not discount the possibility of similar payout in FY20.

No change in earnings forecast. We are adjusting our earnings forecast for FY20 and FY21 downwards by -2.4% and -5% to take into account the increased possibility of another OPR cut.

Valuation and recommendation. We continue to be pleasantly surprised by the Group's resilience in light of the challenging environment. We noted that there have been good traction with its initiatives that we believe had translated to continuing good performance the Group has recoded recently. Meanwhile, we expect NOII might sustain its robust growth albeit not at the same pace as FY19. Furthermore, the prospects of good dividends should be a good enticement. Hence, we maintain our **BUY** call with revised **TP of RM6.30** (from RM6.35), pegging its FY20 BVPS to a PBV of 0.97x. The revision in our TP is due to the downward adjustment of our FY20 earnings forecast. 

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	3,845	3,933	4,343
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	7,518	7,835	8,493
Pretax profit (RM'm)	3,119	3,350	3,453	3,646	4,109
Net profit	2,305	2,482	2,650	2,800	3,158
Core Net profit (RM'm)	2,305	2,482	2,650	2,800	3,158
Core EPS (sen)	57.5	61.9	66.1	69.8	78.8
PER (x)	9.8	9.1	8.5	8.0	7.1
Net Dividend (sen)	20.5	31.0	31.0	31.0	33.0
Net Dividend Yield (%)	3.7	5.5	5.5	5.5	5.9
Book value per share (sen)	5.82	6.43	6.45	6.60	6.81
PBV (x)	1.0	0.9	0.9	0.9	0.8
ROE (%)	9.9	9.9	10.2	10.6	11.6

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					Cumulative results		
	4QFY19	3QFY19	4QFY18	Yoy (+/- %)	Qoq (+/- %)	FY19	FY18	Yoy (+/- %)
Net Interest Income	931.2	917.2	897.6	3.7%	1.5%	3,609.6	3,655.2	-1.2%
Other Operating Income	526.0	405.0	448.3	17.4%	29.9%	1,876.7	1,721.2	9.0%
Islamic Banking Income	383.4	418.8	386.7	-0.9%	-8.5%	1,614.5	1,428.4	13.0%
Net/Total Income	1,840.6	1,741.1	1,732.6	6.2%	5.7%	7,100.8	6,804.8	4.3%
OPEX	(921.0)	(843.2)	(870.4)	5.8%	9.2%	(3,471.8)	(3,356.8)	3.4%
PPOP	919.7	897.8	862.2	6.7%	2.4%	3,629.0	3,448.0	5.3%
Write back/(Provision) for loan losses & other assets	(67.9)	(63.9)	(87.2)	-22.1%	6.3%	(278.5)	(329.0)	-15.3%
Pre-tax profit	851.8	834.0	775.1	9.9%	2.1%	3,350.4	3,119.1	7.4%
Taxation	(229.0)	(217.2)	(207.5)	10.3%	5.5%	(862.6)	(810.1)	6.5%
Net Profit	621.0	615.8	565.4	9.8%	0.8%	2,482.4	2,305.2	7.7%

Table 2: Financial Ratios

Financial Ratios (%)	4QFY19	3QFY19	4QFY18	Yoy (+/-ppts)	Qoq (+/-ppts)	FY19	FY18	Yoy (+/-ppts)
CET1	16.3	16.5	15.5	0.8	-0.2	16.3	15.5	0.8
CCR	16.3	16.6	15.7	0.6	-0.3	16.3	15.7	0.6
RWCR	18.6	19.0	18.8	-0.2	-0.4	18.6	18.8	-0.2
GIL	1.97	2.16	2.06	-0.09	-0.19	1.97	2.06	-0.09
Credit charge-off	0.18	0.16	0.18	0.00	0.02	0.18	0.19	-0.01
NIM	2.14	2.13	2.20	-0.06	0.01	2.12	2.24	-0.12
Loan loss Coverage	107.9	105.8	103.0	4.9	2.1	107.9	103.0	4.9
CI ratio	50.0	48.4	50.2	-0.2	1.6	48.9	49.3	-0.4
Net LDR	92.5	92.7	94.4	-1.9	-0.2	92.5	94.4	-1.9
ROEA	9.6	9.5	9.7	-0.1	0.1	10.3	10.3	0.0

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

PBT (RM m)	FY19	FY18	Yoy (+/- %)
Corporate and Investment Banking	574.9	552.7	4.0%
Retail Banking	1,056.6	1,033.8	2.2%
Business Banking	477.7	379.6	25.8%
Treasury	1,255.5	1,216.7	3.2%
Group International Business	171.2	214.8	-20.3%
Support center & others	(185.4)	(278.8)	-33.5%
Share of results of JV	(0.0)	0.1	-130.3%
Group PBT	3,350.4	3,119.1	7.4%

Source: Company, MIDFR

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (197501002077 (23878 – X)).
 (Bank Pelaburan)
 (A Participating Organisation of Bursa Malaysia Securities Berhad)

DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (197501002077 (23878 – X)). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This document may not be reproduced, distributed or published in any form or for any purpose.

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.