

# Equity Beat

01 March 2010

4QFY09 results

## RHB Capital Bhd

*Stronger international operations, retail and Islamic banking*

**Reaffirm BUY****Increased Target Price (TP) to RM6.90 (from RM6.60)**

- 4Q09 net profit of RM336.4m was higher by 0.5%qoq and 70.8%yoy. 12M09 net profit of RM1.2b was higher than 12M08 by 15%.
- Cumulative net profit for FY09 exceeded our expectation by 7.7% and that of consensus full year estimates by 16.6%. ROE for 12M09 was 14.5% higher than 12M08's 14.1%.
- The improved profit performance was contributed mainly by stronger net interest income and Islamic banking income.
- We are reaffirming our BUY call on the stock with increased target price from RM6.60 to RM6.90 based on 12 times PER on FY10 EPS.

### STOCK INFO

Price (25 Feb 09)	RM5.28	KLCI	1270.78
Issued shares (mil)	2,153.47	Bursa / Bloomberg	1066 / RHBC MK
Par Value (RM)	1.00	Board / Sector	Main/ Finance
Market cap. (RM'm)	11,370.32	Syariah Compliant	No
Price over NA (x)			
52-wk price Range	RM3.40- RM5.74	Major Shareholders	
Beta (against KLCI) (x)	1.16	EPF	57.29%
3-mth Avg Daily Vol	1.10M	Abu Dhabi Commercial Bank	25.00%
3-mth Avg Daily Value	5.84M	Grantham Mayo Van GMO Emerging Market Fund	2.18%

**Gross loan growth of 10.3% for 12M09.** Higher than banking industry growth rate of 8.1%yoy. Loan to individual grew by 13.5%yoy to RM29.5b while loan to SMEs increased 7.4%yoy to RM11.3b. Also higher were loan to government and statutory bodies to RM3.7b vs. FY08's RM109m and increase in lending to foreign entities by 5.8%yoy to RM4.8b.

For consumer loans, mortgage loans rose by 14.2% to RM15.5b while hire purchase financing grew 4.6% to RM11.3b and credit cards receivables grew 6.7% to RM2.2b. Loan granted for working capital purposes in FY09 fell 9.2% to RM22.2b.

**Net interest margin (NIM) stable.** Adjusted NIM (+Islamic Banking income) for 4Q09 was 2.7% (vs. 2.73% in 3Q09 and 2.86% in 2Q09).

Following Bank Negara's indication of normalising interest rates gradually, we expect the group's NIM to improve from the potential rise in interest rates. This is due to its loan portfolio which comprised of 72% of variable rate loan. In addition, we believe that once the acquisition of PT Bank Mestika Dharma (Bank Mestika) is completed, the higher margin of the Indonesia operation will be a further boost to its margin.

**Improved asset quality with lower NPL ratios in line with peers.** Gross NPL fell to 4.67% in 4Q09 (vs. 4.98% in

FYE 31 Dec	FY08	FY09	FY10F	FY11F
Net Interest Income (RM'm)	2,216.3	2,413.2	2,636.2	3,005.0
Islamic Banking Income (RM'm)	281.0	326.2	365.4	381.4
Other Operating Income (RM'm)	947.7	925.6	1,034.3	1,072.1
Pretax Profit (RM'm)	1,422.4	1,538.4	1,926.7	2,199.2
Net Profit (RM'm)	1,048.7	1,201.4	1,445.0	1,649.3
EPS (sen)	48.7	55.8	58.0	65.0
PER (x)	10.8	9.5	9.2	8.1
Gross DPS (sen)	15.0	22.5	15.0	15.0
Dividend Yield (%)	2.8	4.3	2.8	2.8

Source: Company, Forecasts by MIDFR

3Q09 and 5.0% in 2Q09). Contributing to lowering gross NPL were decline in the following:

- i. NPL for financing of transport vehicles by 23.5% to RM180.8m;
- ii. NPL for loan granted to purchase security by 89.4% to RM4.7m and
- iii. NPL for credit cards by 11.8% to RM69.6m

On net basis, NPL ratio declined to 2.21% in 4Q09 compared to 2.37% in 3Q09.

**Retail and international banking segment key contributor to pre-tax profit (PBT).** For FY09, retail banking contributed 59% to group PBT vs. 57% in FY08 while contribution from international banking to group PBT was 4% (vs. 2% in FY08).

**Proposed final dividend of 17.45 sen.** The group proposed a final dividend of 17.5 sen in addition to an earlier interim dividend of 5 sen. The total dividend payment of 22.5 sen for FY09 equates to a payout of 40.3%.

**Prospects.** RHB Cap's acquisition of Bank Mestika (80% stake) will be quick entry for the banking group into the Indonesian market to improve on its regional presence in addition to existing operations in Brunei, Thailand, Singapore and Vietnam. We believe that Bank Mestika's contribution of pre-tax profit would be minimal to group at start and would be a longer term investment to generate higher returns as Indonesia has low loans penetration rate based on a low loans to GDP ratio of 24% and higher net interest margin in Indonesia compared to Malaysia. The group has obtained Bank Negara's approval and is waiting for approval from other authorities to proceed with the acquisition. Management indicated that the acquisition is expected to be complete by 2Q10.

Additionally, increase in capital market activities (fund raising through IPOs and bonds) will provide opportunities of higher revenue to the group's investment bank.

**Change in forecast.** We raised our forecast for FY10 EPS from 55.5 sen to 58.0 sen by increasing our forecast for other operating and Islamic banking income for FY10 in view of the stronger capital market deals and stronger Islamic banking income growth in FY09. Our forecast for FY10 and FY11 EPS have already taken into account the enlarged share capital from 2.1b to 2.5 shares for the rights issue totaling RM1.3b to finance the acquisition of Bank Mestika.

**Valuation.** We reaffirming our BUY call on the stock with an increased target price to RM6.90 from RM6.60. Our higher target price of RM6.60, implies a 12x PER on FY10 earnings per share. The forward PER of 12x is equal to the average of the stock's 5 years historical PER. RHBCap has been a laggard among the local banking stocks and believe that with its improved fundamentals, there is potential upside to this stock.



# MIDF EQUITY BEAT

Monday, 01 March 2010

Quarterly Results						Cumulative		Comments
FY 31 Dec (RM'Mil)	4Q09	3Q09	4Q08	%Qoq	%Yoy	12M09	%Yoy	
Net Interest Income	633.9	611.5	572.3	+3.7	+10.8	2,413.2	+8.9	Higher qoq due to :  <ul style="list-style-type: none"> <li>i. Higher interest income from loan of RM790.1m vs. RM758.3m,</li> <li>ii. Higher interest income from recovery of NPL of RM39.4m vs. RM35.0m and</li> <li>iii. Higher interest income from money at call and deposits placed with FIs of RM72.5m vs. RM61.9m</li> </ul> Partially offset by:  <ul style="list-style-type: none"> <li>i. Lower interest income from available for sales securities of RM82.6m vs. RM96.2m;</li> <li>ii. Lower interest income from held to maturity securities of RM90.0m vs. RM96.9m;</li> <li>iii. Higher interest expense of borrowings (RM35.3m vs. RM43.1m)</li> </ul>
Islamic Banking Income	85.2	79.3	80.7	+7.4	+5.6	326.2	+16.1	Stronger income of Islamic Treasury Asset and Islamic loan grew RM543.8m to RM6.1b in FY09.
Other Operating Income	248.1	232.1	264.1	+6.9	-6.1	925.6	-2.3	Higher qoq due the following:  <ul style="list-style-type: none"> <li>i. Higher service fees and charges of RM40.0m vs. RM35.2m;</li> <li>ii. Higher commitment fees of RM14.1m vs. RM11.9m;</li> <li>iii. Higher underwriting and arrangement fees of RM21.1m vs. RM 3.2m and</li> <li>iv. Higher corporate advisory fees of RM6.9m vs. RM2.7m.</li> </ul> Partially offset by:  <ul style="list-style-type: none"> <li>i. Lower brokerage of RM15.8m vs. RM19.2m and</li> <li>ii. Lower realized FX gain of RM65.6m vs. RM70.7m</li> </ul>
Net income	967.2	922.9	917.0	+4.8	+5.5	3,665.0	+6.4	
Pre-tax profit	377.1	446.2	262.0	-15.5	+43.9	1,538.4	+8.2	Higher net income qoq was partially offset by:  <ul style="list-style-type: none"> <li>i. Higher operating expenses by RM88.6m;</li> <li>ii. Higher allowance for loan loss by RM10.2m and</li> <li>iii. Higher impairment loss by RM14.6m</li> </ul>
Tax	(39.2)	(109.6)	(65.3)	-64.2	-40.0	(329.8)	-11.5	
Net Profit	336.4	334.8	196.9	+0.5	+70.8	1,201.4	+14.6	
EPS (sen)	15.6	15.5	9.1	+0.6	+71.4	55.8	+14.6	

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Financial Ratios (%)	4Q09	3Q09	4Q08	%Qoq	%Yoy			
CCR	10.4	9.3	8.5	+1.1	+1.9			Banking industry CCR as at Jan 10: 13.3%. Higher qoq due to issuance by RHB Bank Hybrid Tier-1 Capital Securities of RM230m on 17 Dec 09.
RWCR	13.8	13.0	12.4	+0.8	+1.4			Banking industry RWCR as at Jan 10:14.8%.
Net NPL	2.2	2.4	2.2	-0.2	+0.2			Banking industry net NPL: 1.7%.
Gross NPL	4.7%	5.0	4.5	-0.3	+0.2			
Cost to income	48.6	41.3	47.7	+7.3	+0.9			Higher qoq due to increase in operating expenses (higher personnel cost i.e due to investment in staff, higher marketing expenses, higher establishment cost and increase in general and administration expenses..
Loan Loss Coverage	83.4	85.6	90.3	-2.2	-6.9			Banking industry loan loss coverage: 96.9%. Higher qoq due to increase in allowance for loan losses by RM10.2m)
Loan to Deposit	71.8	78.1	81.9	-6.3	-10.1			Lower qoq due to decline in gross loan as aforementioned while deposit from customers grew 3.4%qoq.
ROEA	15.7	16.3	10.3	-0.6	+5.4			
ROAA	1.2	1.3	0.8	-0.1	+0.4			

## DAI Y PRICE CHART



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### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

#### SECTOR RECOMMENDATIONS

OVERWEIGHT	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.
UNDERWEIGHT	The sector is expected to underperform the overall market over the next 12 months.