RHB Bank Berhad

(1066 | RHBBANK MK) Financial Services | Finance

Maintain BUY

Sizeable corporate writebacks in O&G sector

***Revised* Target Price: RM6.94**

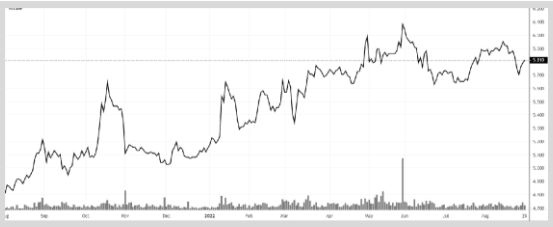
(Previously RM7.13)

KEY INVESTMENT HIGHLIGHTS

- **Earnings were below our expectations**
- **Reducing our FY21 forecast by 9%**
- **Core drivers include widening regional footprint, high dividend yield, above-average loan growth, notable room for improvement in Islamic banking arm, and higher sensitivity to OPR hikes**
- **Key risks include higher-than-expected credit costs, weakening NOII and funding issues**
- **Maintain BUY call with reduced TP of RM6.94**

RETURN STATISTICS	
Price @ 29 August 2022 (RM)	5.81
Expected share price return (%)	+19.5
Expected dividend yield (%)	+5.7
Expected total return (%)	**+25.2**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	3.9	-2.3
3 months	19.9	10.9
12 months	29.4	26.1

Highlights from RHB Bank's 2QFY22 quarterly results:

1. 1HFY22 earnings of RM1.23b were below our expectations but within consensus'
2. GIL ratio rose to 1.62% as result of deteriorations in Cambodian portfolio and in Malaysian unsecured loan and SME categories.
3. RHB reported a low NCC of 4bps in the quarter, as result of reversal in specific O&G accounts, as well as RM35m worth of general management overlay writeback.
4. Quarterly NIM widened +8bps qoq to 2.23%.
5. Loan growth maintained at a strong +7.3%yoy, driven by overseas operations, and domestic mortgage and SME portfolios.
6. The Group does note difficulty in sourcing cheap funding, which is worrying given its high rate of loan growth.
7. Groups CET-1 ratio of 16.6% is amongst highest in industry.
8. Tax rate is expected to normalize from 35% range in 1HFY22 to 33% in 2HFY22.
9. The Group is focusing on developing its Islamic banking sector, sensing demand in loans and wealth management.
10. Gross DPS of 15.0 sen announced, translating to 51% payout ratio.

FINANCIAL SUMMARY

FYE Dec	FY20	FY21	FY22F	FY23F	FY24F
NII (RM m)	5,268	5,875	6,374	6,725	7,206
NOII (RM m)	2,336	2,159	1,864	2,232	2,890
Total income (RM m)	7,186	7,788	8,238	8,957	10,096
PPOP (RM m)	3,799	4,266	4,531	4,953	5,634
Core net profit (RM m)	2,316	2,805	2,686	3,275	3,877
Core EPS (sen)	57.2	69.2	66.3	80.9	95.7
Core P/E (x)	10.2	8.4	8.8	7.2	6.1
Gross DPS (sen)	17.7	40.0	33.2	40.4	47.9
Dividend yield (%)	3.0	6.9	5.7	7.0	8.2
BVPS (RM)	6.7	6.9	7.4	7.7	8.4
P/BV (x)	0.9	0.8	0.8	0.8	0.7
ROE (%)	8.8	10.2	9.3	10.7	11.9

KEY STATISTICS	
FBM KLCI	1,501.74
Syariah compliant	No
F4GBM Index	Yes
ESG Grading Band (Star rating)	☆☆☆☆
Issue shares (m)	4142.90
Estimated free float (%)	34.65
Market Capitalisation (RM m)	24,387.93
52-wk price range	RM5.17 - RM6.31
Beta vs FBM KLCI (x)	1.07
Monthly velocity (%)	
Monthly volatility (%)	7.06
3-mth average daily volume (m)	4.67
3-mth average daily value (RM m)	27.34
Top Shareholders (%)	
Employees Provident Fund Board	41.93
OSK Holdings Bhd	10.21
Amanah Saham Nasional Bhd	5.95

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Below our but within consensus expectations. RHB Bank's 1HFY22 core net profit of RM1.23b made up 41% and 46% of full-year forecasts respectively. The variance was due to weaker than expected NOII and higher-than-expected operating costs. YTD earnings fell by -8.6%yoy because of weaker NOII and higher tax expenses as result of Cukai Makmur offsetting improvements in NII and loan provisioning. Quarterly earnings of RM635m fell by -9.5%yoy for the exact same reasons. 2QFY22's earnings did see improvement of +5.8%qoq on the back of stronger NII and lower loan provisioning. This offset poorer NOII and higher OPEX and tax expenses.

Repayment assistance (RA) loans. As of Jul-22, RHB has RM7.5b worth of domestic RA loans, which translates to 4% of its domestic loan portfolio. Previously, in of Apr-22, this figure was RM9.2b, translating to 5% of its previous domestic loans. There were notable run-offs in the commercial and retail segment, while the SME and corporate segments remain stickier. ~4% of RA loans have missed payments thus far. So far, only <1% of RA loans are classified as NPL.

Asset quality. The Group's GIL ratio rose to 1.62% (1QFY22: 1.50%, 2QFY21: 1.63%), spurred by deteriorations in the Malaysian unsecured loan and SME categories, as well as in Cambodia. Management maintains its GIL ratio guidance of <1.70%, not expecting any major further deterioration. RHB mentions that the uptick in Malaysian SME GIL was due to the graduation of RA programmes. Investment holding and construction loans were among the worst hit SME sectors. The Malaysian unsecured loan book was similarly affected by RA programme graduation, though management does not foresee major issues as delinquency ratios were still lower than that of pre-pandemic times. In Cambodia's case, the uptick was mainly due to tourism and property sector lenders failing to pay. The Group's LLC currently stands at 117%, fallen from 1QFY22's 126% and 2QFY21's 124%. The reduction came as the Group made considerable provisioning writebacks.

Provisioning. RHB reported a NCC of 4bps in the quarter, averaging 17bps in 1HFY22 [1HFY21: 43bps]. The low NCC in the quarter was as result of a reversal in provisions for specific O&G corporate names, as a more positive outlook for the O&G industry have led these borrowers falling back in the performing loan band. Additionally, promising repayment rates by graduating RA loan lenders has helped with the reduction of NCC on the retail end. Additionally, there was RM35m worth of writeback of the RM90m management overlays added in 1QFY21. Management is still maintaining FY22 NCC guidance of 30-40bps, though it expects the actual figure to be skewed towards the lower end. The Group's current pre-emptive provision level is estimated to be at roughly RM813m.

NIM and NII. Quarterly NIM widened +8bps qoq, +7bps yoy to 2.23%. It averaged 2.18% in 1HFY22, up from 2.15% in 1HFY21. Management is maintaining NIM guidance of +3-4bps from FY21's NIM figure. Similarly, 2QFY22's NII strengthened to +6.2% qoq and was up +9.1%yoy.

NOII. 1HFY22 NOII fell by -27% due to weaker fee and investment income, offsetting the improvement in net forex gains. The Group does mention that it still maintains its steady momentum in onboarding new customers for stockbroking and asset management units, and is primed to take advantage once market conditions turn more favourable. However, we are cautious that RHB may be slipping in certain segments: note its fall in AUM market share to 9.4% from Jun-21's 10.3%.

Loan growth. Gross loans maintained their strong growth at +7.3%yoy. Management maintains a loan guidance of 4-5% in FY22. Notable performers include overseas operations, as well as domestic mortgage and SME portfolios. RHB has previously stated its intention to amplify loan growth of its foreign segments, particularly in Cambodia. Additionally, it foresees a pick-up on domestic corporate loans in 2HFY22.

Deposit growth. Group deposit growth also sustained a steady pace of 4.8%yoy, driven by local growth of +7.2%yoy, though overseas operations contracted by -3.8%yoy. CASA stands at 29.3%, with the Group confident that it can hit its 30% guidance for FY22.

Loan/Deposit ratio currently stands at a high 91.7%yoy, and the Group notes some difficulty in sourcing cheaper funding to fuel its high loan growth. It aims to source CASA by from corporate, commercial and SME customers via payroll account programmes. RHB additionally intends on improving its mobile and internet banking solutions to drive CASA.

Cost efficiency. Operating expenses (OPEX) rose by +2.8%yoy in 2QFY22 as result of higher personnel, establishment and marketing expenses offsetting lower admin costs. OPEX stayed flat at -0.1% in 1HFY22, as higher establishment costs offset reductions in marketing and admin expenses.

RHB reported a weaker cost/income ratio (CIR) of 45.7% in 2QFY22, slipping from 43.1% in the 2QFY21. This averages to higher 45.4% in 1HFY22 [1HFY21: 44.5%], due to a weaker income base.

Capital ratios. The Group's CET-1 ratio remains amongst the highest in the industry, at 16.6%.

Dividend announced. RHB announced a gross DPS of 15.0 sen, which translates to a dividend payout of 51%.

Misc.

1. The Group's tax rate is expected to normalise to 33% from the ~35% range in 1HFY22. The elevated tax rate was due a sizeable portion of RHB's loans being written out of RHB Labuan, which has lower tax rates. As a result, any provisioning will attract a lower tax sheet.
2. The Group is skewed towards growth in its Islamic banking segment, seeing that loan demand on the Islamic side is greater than conventional, coupled with promising growth in the Islamic wealth management segment.

Earnings revised. We reduce FY21's earnings forecasts by -9% to factor in lower NOII and a higher CIR.

Key risks. Key risks to earnings include (1) Higher-than-expected NCC as result of further asset quality deterioration or poor macroeconomic outlook, (2) Unstable, weaker NOII as result of higher competition – RHB has already loss market share of its AUM, (3) Funding issues, as the Group struggles to maintain its high rate of loan growth in an increasingly competitive deposit landscape, given its high L/D ratio.

Valuation and recommendation. Despite headwinds, we are positive on RHB's long-term prospects for several reasons: (1) RHB's widening regional footprint: particularly Cambodia, (2) High dividend yield of 5.7% for FY22, with its high CET-1 ratio providing possible upside, (3) Above-average loan growth, (4) Notable room for growth in its lagging Islamic banking arm, (5) Higher sensitivity to positive OPR hikes amongst larger banks.

Thus, we maintain our **BUY** call with a reduced **TP of RM6.94**, following the effect of reduced FY23 BVPS as we reduce our FY22 profit forecasts. We derive our TP by pegging RHB's FY23 BVPS to an unchanged P/BV of 0.9x. (GGM assumptions: FY23 ROE of 10.7%, LTG of 3.5% and COE of 11.4%.)

EXHIBIT 1: QUARTERLY RESULTS

FYE Dec (RM m)	2QFY22	1QFY22	2QFY21	Yoy (%)	Qoq (%)	1HFY22	1HFY21	Yoy (%)
Islamic banking income	601	509	492	22.4%	18.2%	1,110	1,014	9.5%
Other operating income	313	405	501	-37.5%	-22.6%	718	938	-23.5%
Net income	**1,946**	**1,903**	**2,006**	**-3.0%**	**2.2%**	**3,849**	**3,929**	**-2.0%**
OPEX	(889)	(859)	(865)	2.8%	3.4%	(1,748)	(1,750)	-0.1%
PPOP	**1,057**	**1,044**	**1,141**	**-7.3%**	**1.2%**	**2,102**	**2,179**	**-3.5%**
Loan allowances	(19)	(146)	(219)	-91.5%	-87.2%	(165)	(399)	-58.7%
Other allowances	(20)	(8)	(9)	n.m.	n.m.	(28)	(3)	n.m.
JV & Associates	0	(0)	-	n.m.	n.m.	-	-	n.m.
Profit before tax	**1,019**	**891**	**913**	**11.5%**	**14.4%**	**1,909**	**1,777**	**7.4%**
Tax & zakat	636	601	703	-9.6%	5.7%	1,237	1,354	-8.7%
NCI	(1)	(1)	(2)	-64.4%	-23.4%	(2)	(2)	-29.2%
Reported net profit	**635**	**600**	**701**	**-9.5%**	**5.8%**	**1,235**	**1,352**	**-8.6%**
Core net profit	**635**	**600**	**701**	**-9.5%**	**5.8%**	**1,235**	**1,352**	**-8.6%**
Total NII	**1,562**	**1,471**	**1,432**	**9.1%**	**6.2%**	**3,033**	**2,812**	**7.9%**
Total NOII	**384**	**433**	**574**	**-33.1%**	**-11.4%**	**816**	**1,117**	**-26.9%**
Gross DPS (sen)	**15.0**	**-**	**15.0**	**n.m.**	**n.m.**	**15.0**	**15.0**	**n.m.**
Core EPS (sen)	**15.3**	**14.5**	**17.5**	**-12.5%**	**5.6%**	**29.8**	**33.7**	**-11.7%**
Gross loans	204,926	201,348	191,012	7.3%	1.8%			
Gross impaired loans	3,326	3,022	3,120	6.6%	10.0%			
Customer deposits	225,942	226,527	215,594	4.8%	-0.3%			
CASA	66,283	65,611	63,000	5.2%	1.0%			

Source: RHB Bank, MIDFR

EXHIBIT 2: QUARTERLY FINANCIAL RATIOS

Financial Ratios (%)	2QFY22	1QFY22	2QFY21	Yoy (+/- ppts)	Qoq (+/- ppts)	1HFY22	1HFY21	Yoy (+/- ppts)
NIM (Reported)	**2.23**	**2.16**	**2.15**	**0.08**	**0.07**	**2.18**	**2.15**	**0.03**
NOII/Net income	19.7	22.7	28.6	-8.9	-3.0	21.2	28.4	-7.2
ROE (Ann.)	**9.3**	**8.6**	**10.2**	**-0.9**	**0.7**	**9.0**	**9.8**	**-0.8**
Cost-to-income ratio	45.7	45.1	43.1	2.6	0.5	45.4	44.5	0.9
Net credit costs (Ann.) (bps)	4	30	47	-43	-26	17	43	-26
GIL ratio	1.62	1.50	1.63	-0.01	0.12			
Loan loss coverage	117.0	125.7	124.1	-7.1	-8.8			
L/D ratio	88.9	87.2	86.8	2.1	1.7			
CET1	16.6	16.8	16.8	-0.1	-0.2			
Tier-1	16.6	16.8	16.8	-0.1	-0.2			
Total Capital	19.2	19.4	19.3	-0.1	-0.2			

Source: RHB Bank, MIDFR

INVESTMENT STATISTICS

INCOME STATEMENT

FYE Dec (RM m)	FY20	FY21	FY22F	FY23F	FY24F
Interest income	6,569	6,084	7,118	7,919	8,868
Interest expense	(3,226)	(2,266)	(2,893)	(3,425)	(4,027)
Net interest income	**3,343**	**3,817**	**4,225**	**4,494**	**4,841**
Islamic banking income	1,666	2,095	2,263	2,398	2,542
Other operating income	2,177	1,876	1,751	2,065	2,712
Total income	**7,186**	**7,788**	**8,238**	**8,957**	**10,096**
OPEX	(3,387)	(3,522)	(3,707)	(4,004)	(4,462)
PPOP	**3,799**	**4,266**	**4,531**	**4,953**	**5,634**
Loan allowances	(1,075)	(575)	(509)	(513)	(449)
Other allowances	(70)	(162)	(36)	(94)	(39)
JV & Associates	-	-	-	-	-
Pretax profit	**2,644**	**3,529**	**3,987**	**4,346**	**5,145**
Taxation	(640)	(906)	(1,296)	(1,065)	(1,261)
NCI	(7)	(5)	(5)	(7)	(8)
Others	35	-	-	-	-
Reported net profit	**2,033**	**2,618**	**2,686**	**3,275**	**3,877**
Core net profit	**2,316**	**2,805**	**2,686**	**3,275**	**3,877**
Total NII	5,268	5,875	6,374	6,725	7,206
Total NOII	2,336	2,159	1,864	2,232	2,890

BALANCE SHEET

FYE Dec (RM m)	FY20	FY21	FY22F	FY23F	FY24F
Cash and ST funds	14,974	23,318	26,814	29,651	31,153
Investment securities	63,371	61,881	62,715	63,604	65,052
Net loans	182,425	194,897	204,633	215,718	226,913
Other IEAs	-	-	-	-	-
Non-IEAs	10,381	9,446	9,785	15,020	15,750
Total assets	**271,150**	**289,541**	**303,947**	**323,993**	**338,869**
Customer & bank deposits	224,506	242,721	252,403	263,371	274,831
Other IBLs	11,082	11,532	11,269	11,486	11,849
Non-IBLs	8,505	7,259	10,470	17,859	18,256
Total liabilities	**244,093**	**261,511**	**274,142**	**292,717**	**304,935**
Share capital	6,994	7,613	7,613	7,613	7,613
Reserves & retained profit	20,030	20,386	22,163	23,633	26,287
Shareholders' funds	**27,024**	**27,998**	**29,776**	**31,245**	**33,900**
NCI	33	32	30	31	34
Total equity	**27,057**	**28,031**	**29,805**	**31,277**	**33,934**
Total liabilities & equity	**271,150**	**289,541**	**303,947**	**323,993**	**338,869**
Total IEAs	260,769	280,095	294,162	308,973	323,119
Total IBLs	235,588	254,252	263,671	274,857	286,679
Gross loans	186,114	198,512	208,437	219,068	230,240
CASA	62,779	65,606	66,918	68,591	70,571

FINANCIAL RATIOS

FYE Dec (RM m)	FY20	FY21	FY22F	FY23F	FY24F
Interest (%)					
NIM	2.08	2.17	2.22	2.23	2.28
Return on IEAs	2.60	2.25	2.48	2.63	2.81
Cost of funds	1.40	0.93	1.12	1.27	1.43
Net interest spread	1.20	1.32	1.36	1.35	1.37
Profitability (%)					
ROE	8.8	10.2	9.3	10.7	11.9
ROA	0.9	1.0	0.9	1.0	1.2
NOII/Total income	30.7	26.9	22.6	24.9	28.6
Effective tax rate	24.2	25.7	32.5	24.5	24.5
Liquidity & Efficiency (%)					
Cost-to-income ratio	47.1	45.2	45.0	44.7	44.2
Loan/Deposit ratio	89.7	89.1	89.9	90.6	91.1
CASA ratio	30.9	30.0	29.4	28.8	28.3
Asset Quality (%)					
GIL ratio	1.71	1.49	1.54	1.43	1.39
NIL ratio	0.86	0.79	0.51	0.56	0.56
LLC ratio	119.6	122.4	118.7	106.5	103.7
LLC (incl. reserves)	121.3	133.5	126.6	115.0	129.6
Gross credit cost (bps)	67	40	35	32	25
Net credit cost (bps)	59	30	25	24	20
% Floating rate loans	87	88	88	88	88
% Domestic loans	88	87	87	87	87
Capital (%)					
CET 1	16.4	17.8	15.4	15.4	15.2
Tier 1 capital	16.4	17.8	15.4	15.4	15.2
Total capital	18.6	20.5	18.1	18.1	17.7
Growth (%)					
Total NII	6.3	11.5	8.5	5.5	7.2
Total NOII	11.2	(7.6)	(13.7)	19.8	29.5
Core net profit	(8.4)	21.1	(4.2)	21.9	18.4
Gross loans	5.6	6.7	5.0	5.1	5.1
Customer deposits	6.8	7.5	4.1	4.6	4.6
CASA	28.3	4.5	2.0	2.5	2.9
Valuation metrics					
Core EPS (sen)	57.2	69.2	66.3	80.9	95.7
Gross DPS (sen)	17.7	40.0	33.2	40.4	47.9
Div payout ratio (%)	30.6	57.8	50.0	50.0	50.0
BVPS (RM)	6.7	6.9	7.4	7.7	8.4
Core P/E (x)	10.2	8.4	8.8	7.2	6.1
Dividend yield (%)	3.0	6.9	5.7	7.0	8.2
P/BV (x)	0.9	0.8	0.8	0.8	0.7

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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 *rise* 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 *fall* 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.
ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell	
☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology