Company Update| Friday, 05 August 2022

RHB Bank Berhad

(1066 | RHBBANK MK) Financial Services | Finance

Maintain BUY

RHB embraces hyper-specialisation

***Unchanged* Target Price: RM7.13**

KEY INVESTMENT HIGHLIGHTS

- **RHB's latest 3-year plan prioritises organic growth, specialisation and the refinement of processes in equal measure**
- **Notable revamping in approaches for wealth management, overseas segment, portfolio mix**
- **We are mildly positive over the upcoming changes, wary of execution risk on foreign segments**
- **We reduce our FY23 forecasts.**
- **Maintain BUY call with unchanged TP of RM7.13**

RHB recently unveiled its 3-year TWP24 plan. Here are some highlights:

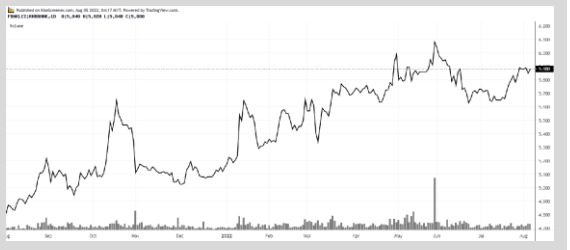
- The Group will rebalance its loans portfolio with an increased focus on secured SME loans.
- RHB will widen its national footprint coverage, pushing for a larger proportion of non-Klang valley loans.
- The Group will be embracing an advisory approach to develop its Islamic Wealth Management in favour of a purely product-based approach.
- RHB will widen its regional footprint using a hub and spoke model, prioritising its Singapore and Cambodia franchises.
- The Group intends to mobilise RM20b in sustainable financial services by 2026.
- RM400m capex has been allocated for the purpose of modernising IT, while RM100m is for introducing automation.

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	2,461	2,496	2,890
Total Income (RM m)	7,186	7,788	8,835	9,221	10,096
PPOP (RM m)	3,799	4,266	4,886	5,099	5,634
Core net profit (RM m)	2,316	2,805	2,968	3,385	3,877
Core EPS (sen)	57.2	69.2	73.3	83.6	95.7
Core P/E (x)	10.3	8.5	8.0	7.0	6.1
Gross DPS (sen)	17.7	40.0	36.6	41.8	47.9
Dividend yield (%)	3.0	6.8	6.2	7.1	8.1
BVPS (x)	6.7	6.9	7.4	7.9	8.4
P/B (x)	0.9	0.9	0.8	0.7	0.7
ROAE (%)	8.8	10.2	10.2	10.9	11.8

RETURN STATISTICS	
Price @ 5TH August 2022 (RM)	5.88
Expected share price return (%)	+21.3
Expected dividend yield (%)	+6.2
Expected total return (%)	**+27.5**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	2.8	-1.8
3 months	2.6	2.0
12 months	13.3	12.4

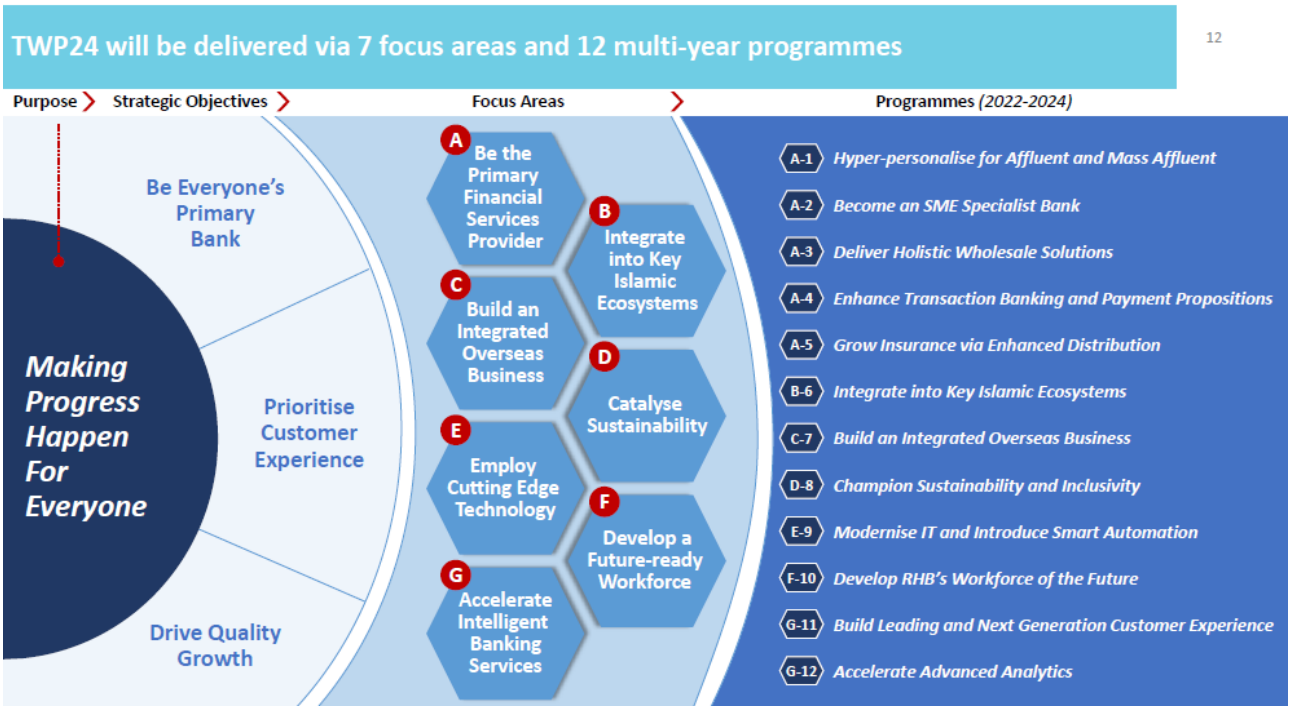
KEY STATISTICS	
FBM KLCI	1,507.71
Syariah compliant	No
F4GBM Index	Yes
ESG Grading Band (Star rating)	☆☆☆☆
Issue shares (m)	4142.90
Estimated free float (%)	34.21
Market Capitalisation (RM'm)	24,767.01
52-wk price range	RM5.15 - RM6.31
Beta vs FBM KLCI (x)	1.07
Monthly velocity (%)	
Monthly volatility (%)	7.06
3-mth average daily volume (m)	5.65
3-mth average daily value (RM'm)	33.30
Top Shareholders (%)	
Employees Provident Fund Board	42.36
OSK Holdings Bhd	10.21
Amanah Saham Nasional Bhd	5.95

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Yesterday, RHB hosted an analyst briefing detailing its new TWP24 Strategy (TWP24). Here is a breakdown of the plan and some notable highlights.

TWP24 IN BRIEF

EXHIBIT 1



Source: RHB, MIDFR

3-year plan. The TWP24 is a 3-year plan, scheduled to run from 2022-2024. RHB's last plan, the FIT22, ran for 5 years (2018-2022). Management has opted for a shorter 3-year period this time around due to the unpredictable macroeconomic environment, given that FIT22 was completely derailed by Covid-19.

Framework and structure. The TWP24 is premised on 3 broad-based strategic objectives, premised on achieving 7 core Focus Areas. These Focus Areas are in turn driven by 12 multi-year Programmes. These Programmes correspond to specific Focus Areas, indicated by identical alphabetical labels (E.g. Programme A-5 corresponds to Focus Area A).

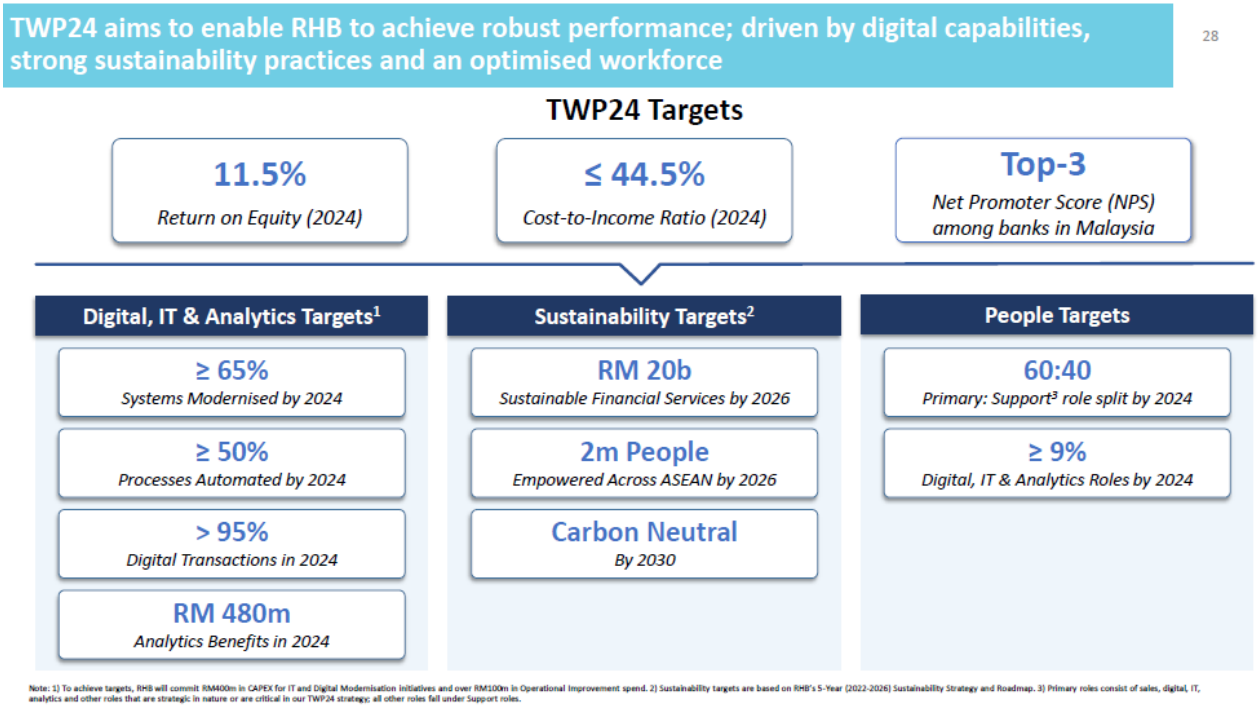
The Programmes may also be categorised in the following way:

1) **Programmes A-1 to A-5 build onto FIT22's foundation via clear target segment strategies,** maintaining a pre-existing trajectory of growth by hyper-specialisation, extending pre-existing range of touchpoints as well as providing a wider range of services and products,
2) **Programmes B-6 to D-8 serve as new engines of growth**, breaching into entirely new avenues of opportunity,
3) **Programmes E-9 to G-12 involve investment into a differentiated and competitively advantaged operating model,** which prioritises a high degree of process automation and tailored customer experience.

Targets. TWP24's central objectives are listed in the slide below: the focus is on ROE, CIR and Net Promoter Score (NPS) among banks in Malaysia. While not highlighted as part of the presentation, TWP24 does incorporate future capital management strategies in achieving the ROE target.

Other metrics, such as loan growth, CASA composition and GIL ratio are not factored within the TWP24: these remain set on a yearly basis instead.

EXHIBIT 2



Source: RHB, MIDFR

Where RHB currently stands:

1. **System modernisation: 50%**
2. **Processes automated: 25%**
3. **Analytics benefits: roughly RM240m**

Base case assumptions. The TWP24 base case is premised on Malaysia not being in a recessionary environment. It does factor, however, more downside risk due to lower economic growth within the country.

A-1: Hyper-personalise for Affluent and Mass Affluent

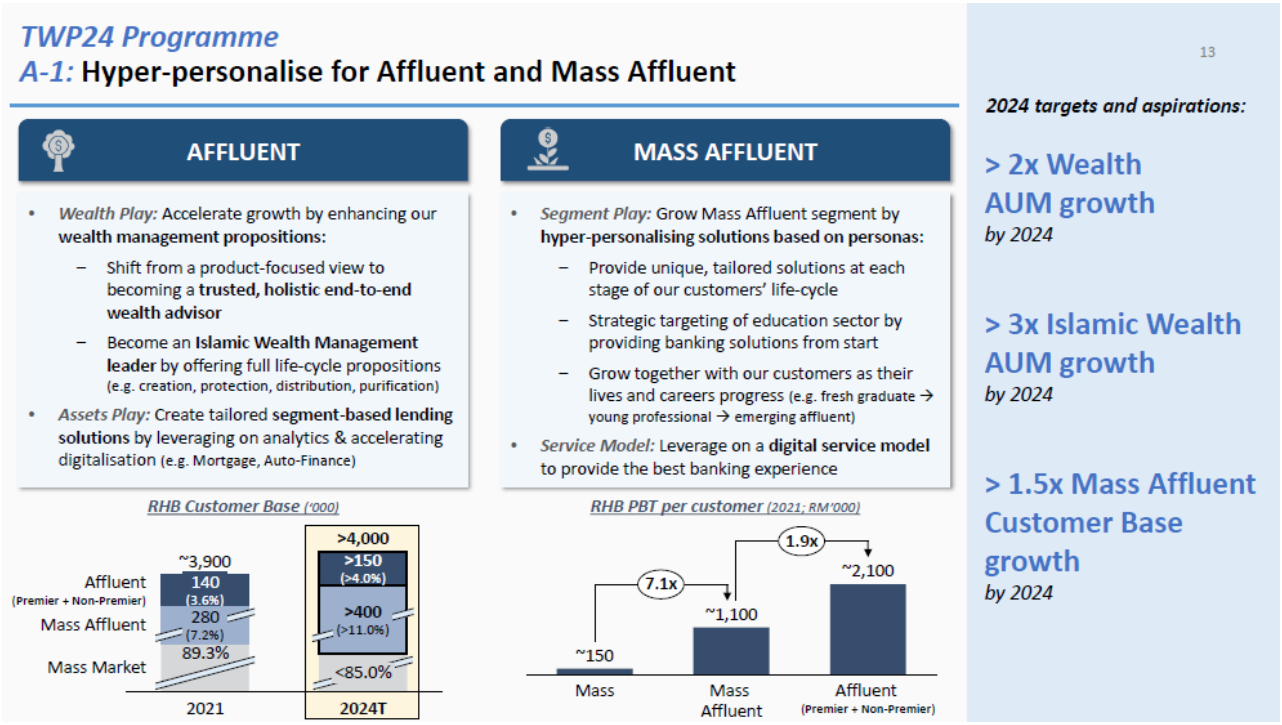
The goal is to increase affluent and mass affluent customer base. Mass Affluent (Monthly income: >RM8,000, <RM17,817) and Affluent (Monthly income: >RM17,817) customer segments have higher margins as compared to other segments, roping in a PBT per customer several higher than that of the Mass Market customer base. As a result, RHB will be attempting to reduce the proportion of its Mass market customer base in favour of more lucrative segments.

A-1 is community-banking centric. It serves to build on the retail momentum developed under FIT22. Under FIT22, retail assets grew at a high single digit CAGR. This is intended to be maintained under TWP24.

Focus will be on investing on touchpoints. A-1 involves the designing of specific customer journeys for different segments. As a result, RHB will be doing an expansion and development of its relationship managers (RM) base.

It will also be leveraging on its good government and private sector relationships in order to grow the segment via the life-cycle approach. This involves targeting customers of a younger age, with a focus on University students who have to potential to develop into Emergent Affluent individuals. RHB does highlight that the necessity of digitally serving this segment of clients.

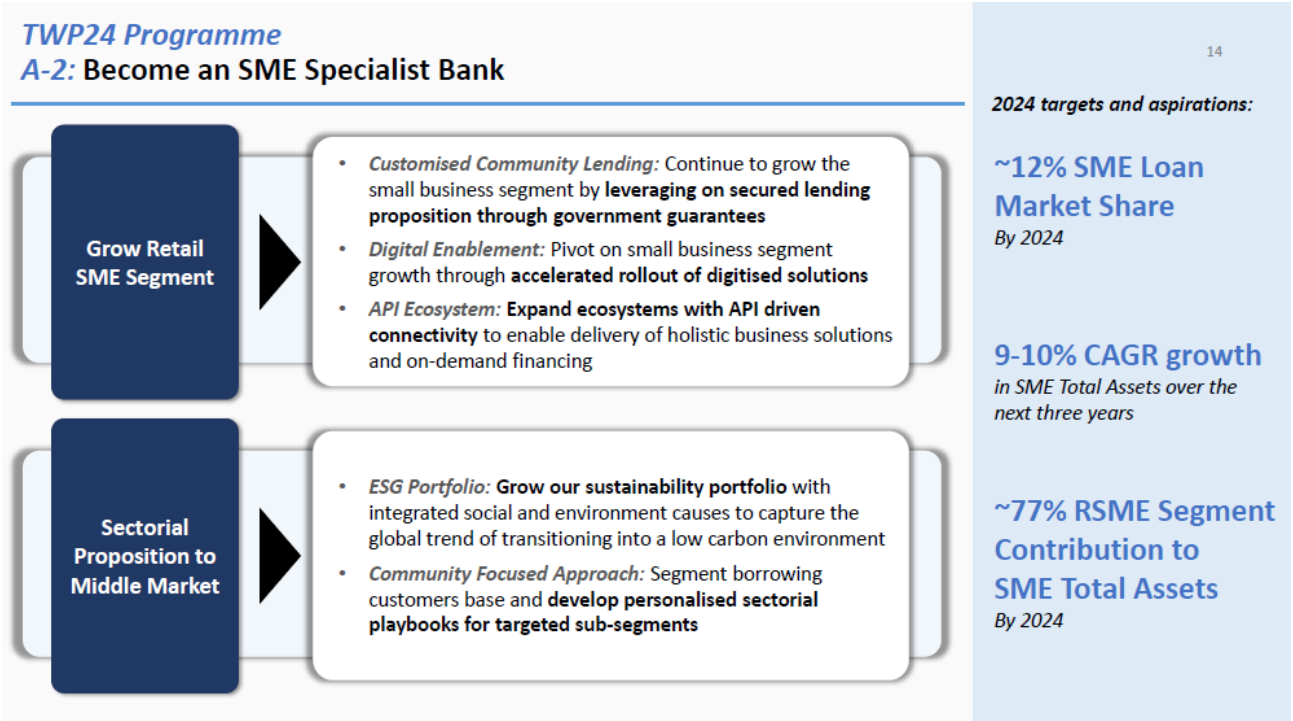
EXHIBIT 3



Source: RHB, MIDFR

A-2: Become an SME Specialist Bank

EXHIBIT 4



Source: RHB, MIDFR

A-2 is retail-SME centric. RHB's intends to maintain momentum of growth spurred by FIT22. RHB's SME loan market share is currently at ~9.5%.

SMEs allow for a more secure portfolio. One of A-2's central objectives is to build quality growth – SMEs are highly sought after due to the high level of secured lending. The Group is willing to take advantage of government guarantees as it tries to grow SMEs into producing 40% of national GDP.

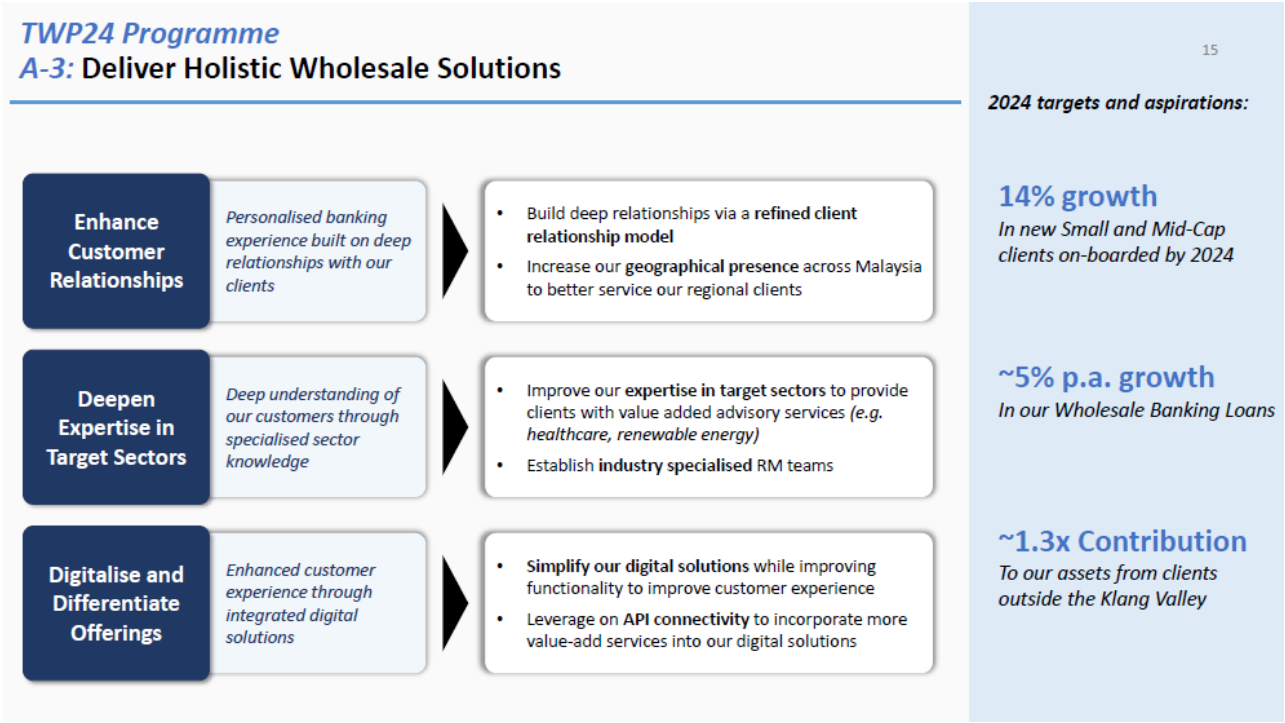
The Group intends to maintain its asset quality for retail SMEs, keeping it within the 2.0-2.5% range. Its outstanding portfolio against collateral value is currently at 80% (In contrast, corporate loans are 60% collateralised). Currently, the total government guarantee coverage makes up 24% of RHB's total SME portfolio.

Sustainable financing problems focus on helping SMEs:

1. Transition to green energy,
2. Build sustainable housing,
3. Transition to low carbon processes,
4. Develop sustainable products.

A-3: Deliver Holistic Wholesale Solutions

EXHIBIT 5



Source: RHB, MIDFR

A-3 focuses on building a relationship-led wholesale banking business. The Group is in the midst of redesigning service teams to fit the sizes and expectations of wholesale clientele.

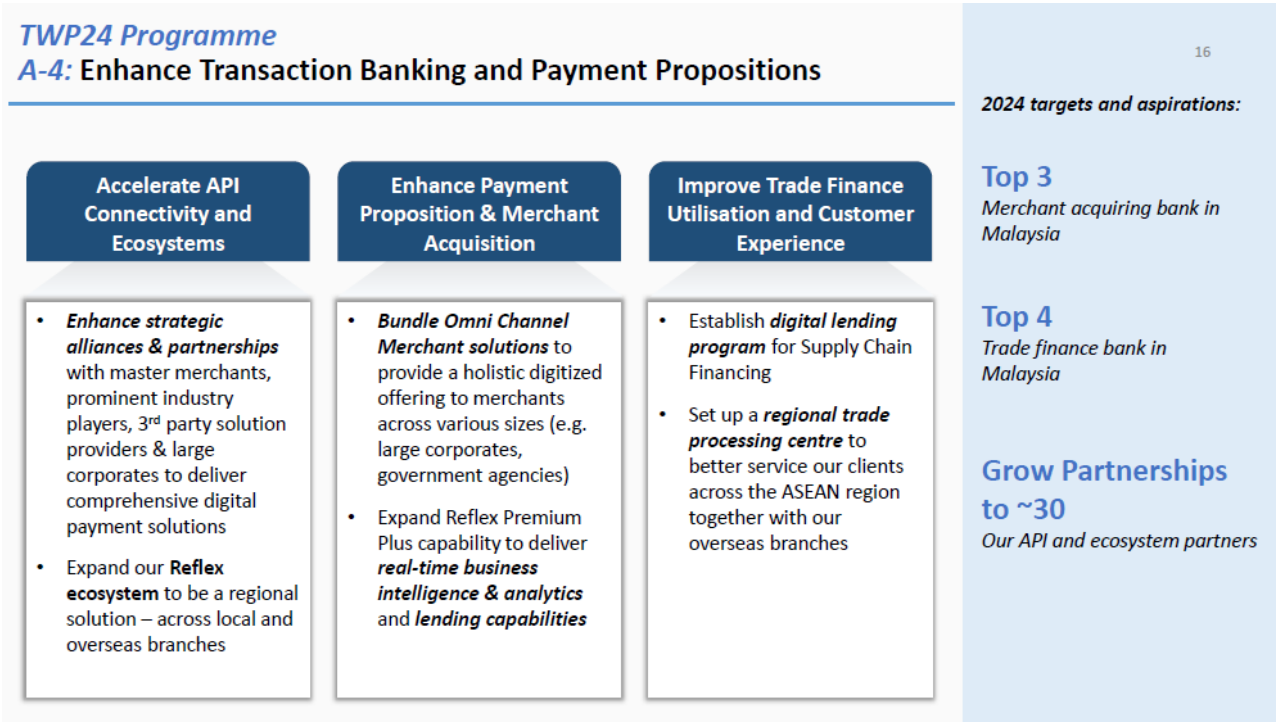
Two key areas of growth in the wholesale business:

1. Small and mid-cap clients, where there is further room to increase penetration. Large cap market has already been thoroughly penetrated by RHB.

2. 20% of current Malaysian assets are from Non-Klang valley – the Group wishes to push this figure to 26% by 2024 by pushing its national footprint coverage.

A-4: Enhance Transaction Banking and Payment Propositions

EXHIBIT 6



Source: RHB, MIDFR

Building on their thriving API ecosystem. To recap, RHB was the first Malaysian back to utilise an active Application Program Interface (API). This allows the Bank to interface with 3rd party providers in the areas of accounting, payroll and point of sales solutions. The Group now intends to expand its partnerships with a very simple objective:

In short, the API's objective is to offer a holistic end-to-end solution for customers, as well as simplify the way they run businesses. API's development will be focused on additional features, including analytics and digital lending along the way.

Reflex abroad. RHB will be expanding its Reflex offerings (accounts and services geared for business use) abroad in an attempt to grow its regional footprint. In the case of Singapore and Cambodia (which already have Reflex offerings), the range of Reflex services will be enriched.

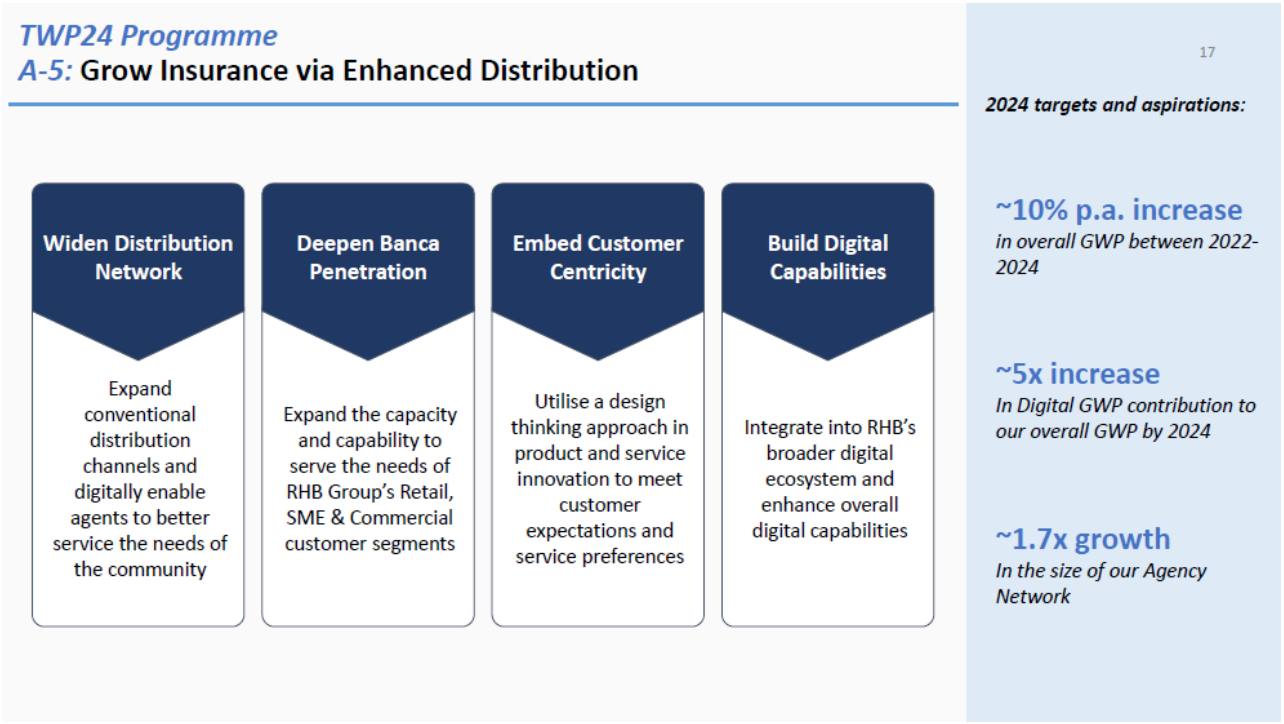
A-5: Grow Insurance via Enhanced Distribution

Enhancing distribution. RHB intends to simplify the insurance buying process by improving both physical and digital means. Physical means imply agency growth and cross-selling via RHB branches. Digital means equate to equipping agents with tools that make them more marketable and present as they build their individual businesses.

Two active actions will be undertaken in order to deepen Banca penetration:

1. **Utilise analytics from within RHB.** This involves collaborations between analytics and insurance teams, in order to gauge specific products and services for customers,
2. **Utilise RHB's digital platform.** In this, the focus will be on integrating digital capabilities between RHB's insurance products and services onto RHB's pre-existing digital platforms and services.

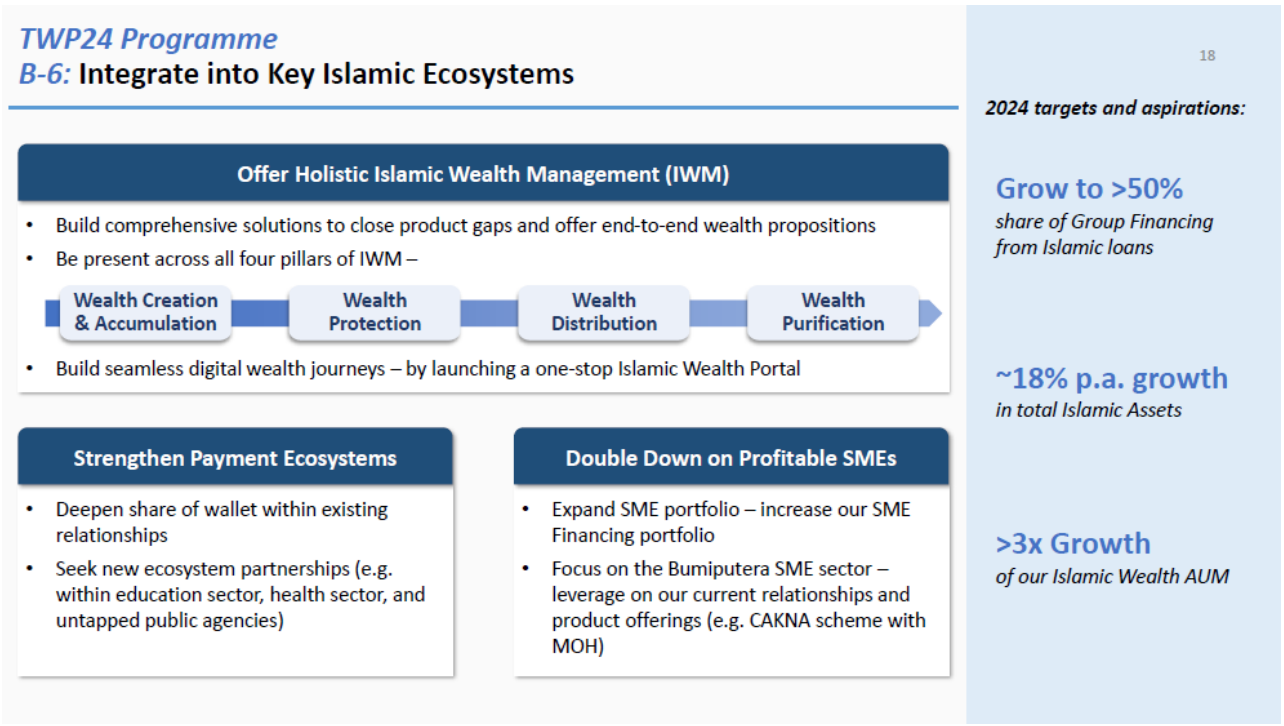
EXHIBIT 7



Source: RHB, MIDFR

B-6: Integrate into Key Islamic Ecosystems

EXHIBIT 8



Source: RHB, MIDFR

RHB will be embracing an advisory approach rather than a product-centric one. The gist of which is to develop end-to-end systems within the Islamic Wealth Management programme that go beyond wealth creation. Thus, besides creation and accumulation that the Group is specializing on today, RHB will be more avidly pursuing protection services

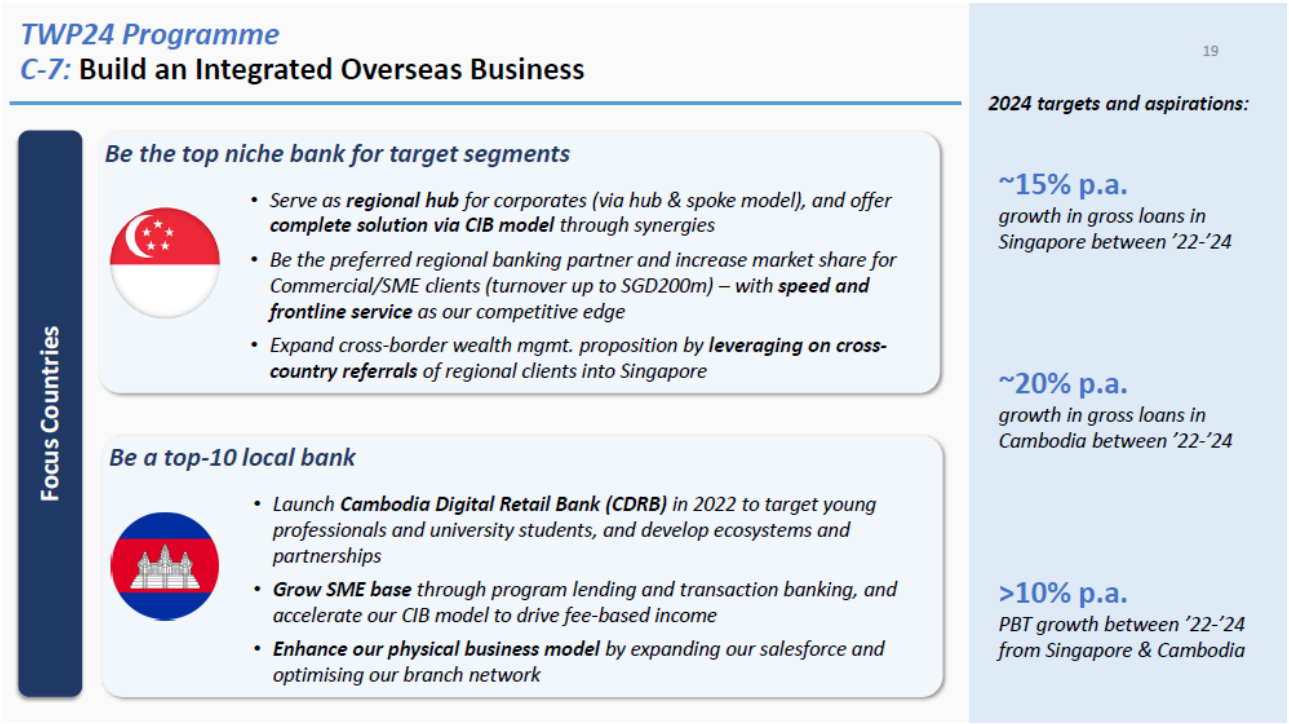
(via takaful products) and two new areas: estate planning and purification (deducting from one's investment earnings from non-Shariah compliant sources).

No cannibalisation between Islamic and Conventional sides expected. Islamic banking metrics tend to be weaker than that of Conventional banking. Management will not be developing its Islamic banking growth the expense of its Conventional banking arm, as it believes the main priority would be tilting its Islamic CASA funding from higher cost to lower cost sources. Currently, Islamic CASA is much weaker than its conventional counterpart, given that its growth so far is mostly funded by corporate deposits.

Success so far. RHB will be planning to release 4 more takaful investment linked products by end-2022, following the success of a recent launch.

C-7: Build an Integrated Overseas Business

EXHIBIT 9



Source: RHB, MIDFR

Following the FIT22's success in the turnaround activities in foreign segments, the Group has since graduated to making them flourish. FY21's overseas offerings made up 10% of profits – the Group intends to push this to 20% by 2024.

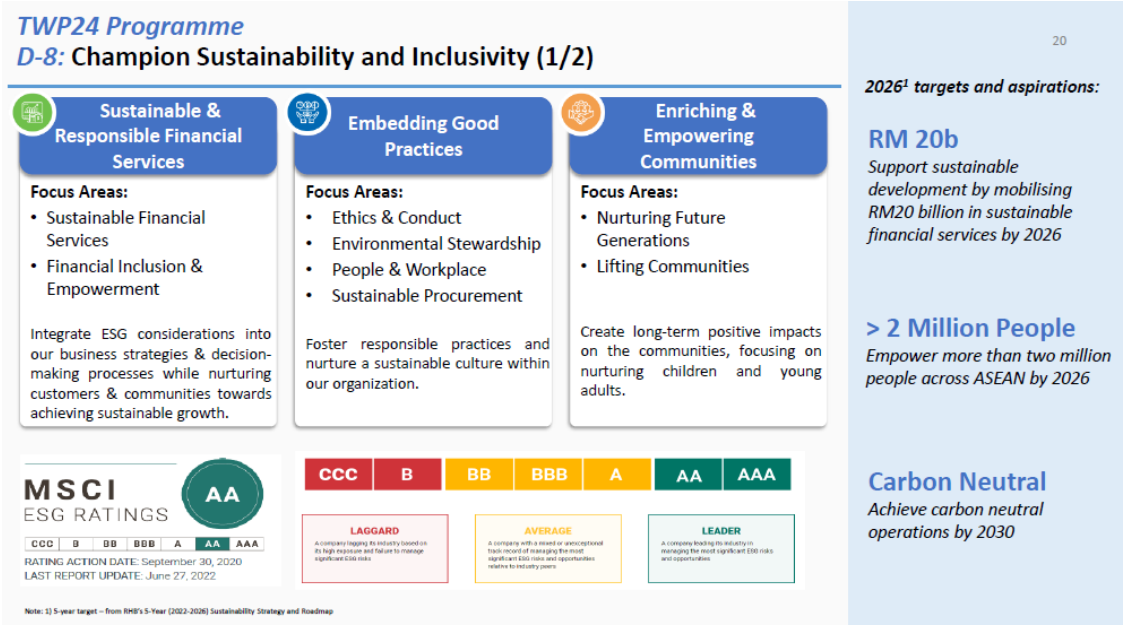
In Cambodia and Thailand, a servicing team for corporate clients. Similar to Singapore, RHB will develop a regional corporate and investment bank servicing team in these two regions.

Loan diversification in competitive Thai market. RHB Thailand portfolio largely consists of corporate loans. The Group intends to build its commercial and SME space in the country. RHB will be largely focusing on potential Malaysian corporates in Thailand that require business. The overarching intention is to develop its proportion of secured basis loans.

Digital features and partnership growth. Indonesia and Vietnam will be subject to an enhancement of digital features and partnerships in order to grow their retail and equities business. Note that these offerings will be minor – the brunt of RHB's overseas efforts will be centered about Singapore and Cambodia.

D-8: Champion Sustainability and Inclusivity

EXHIBIT 10



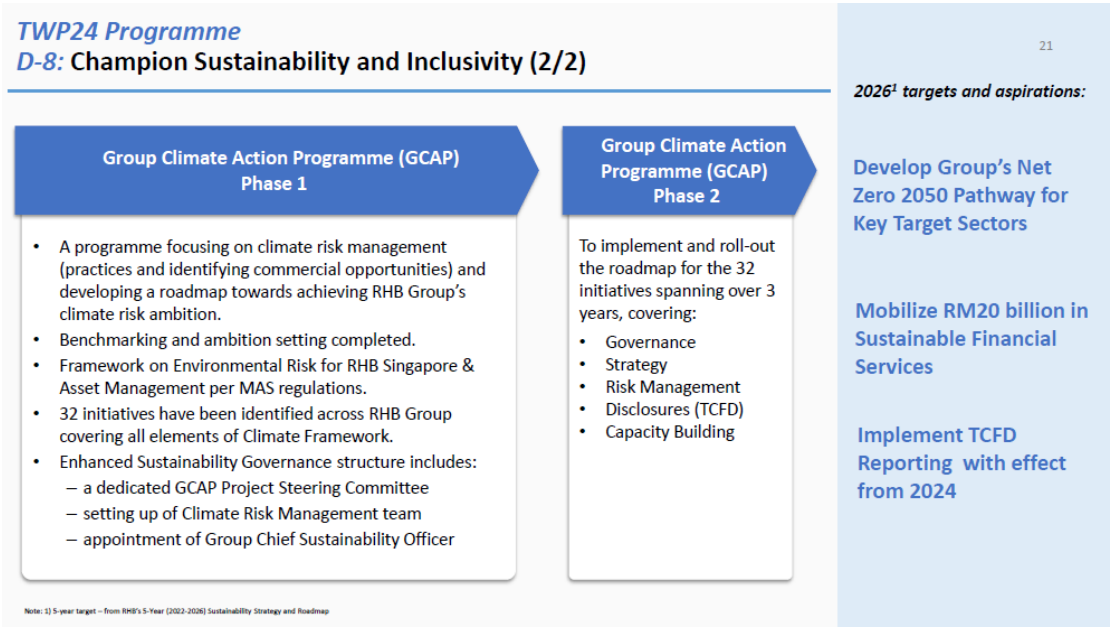
Source: RHB, MIDFR

Financial Inclusion & Empowerment. The group will be targeting segments such as SME, micro-SME, new-to-workforce as well as the underserved population.

Environmental stewardship. This concerns RHB's management of its environmental footprint. The Group will be aiming to reduce its internal carbon footprint by 45% within the next 5 years.

RM10b already achieved. Concerning its RM20b sustainable financial services goal, the Group has already surpassed RM10b of sustainable financing services as of Jun-22, with more than RM3b coming in 1HCY22. More than 50% is attributable to green financing purposes.

EXHIBIT 11

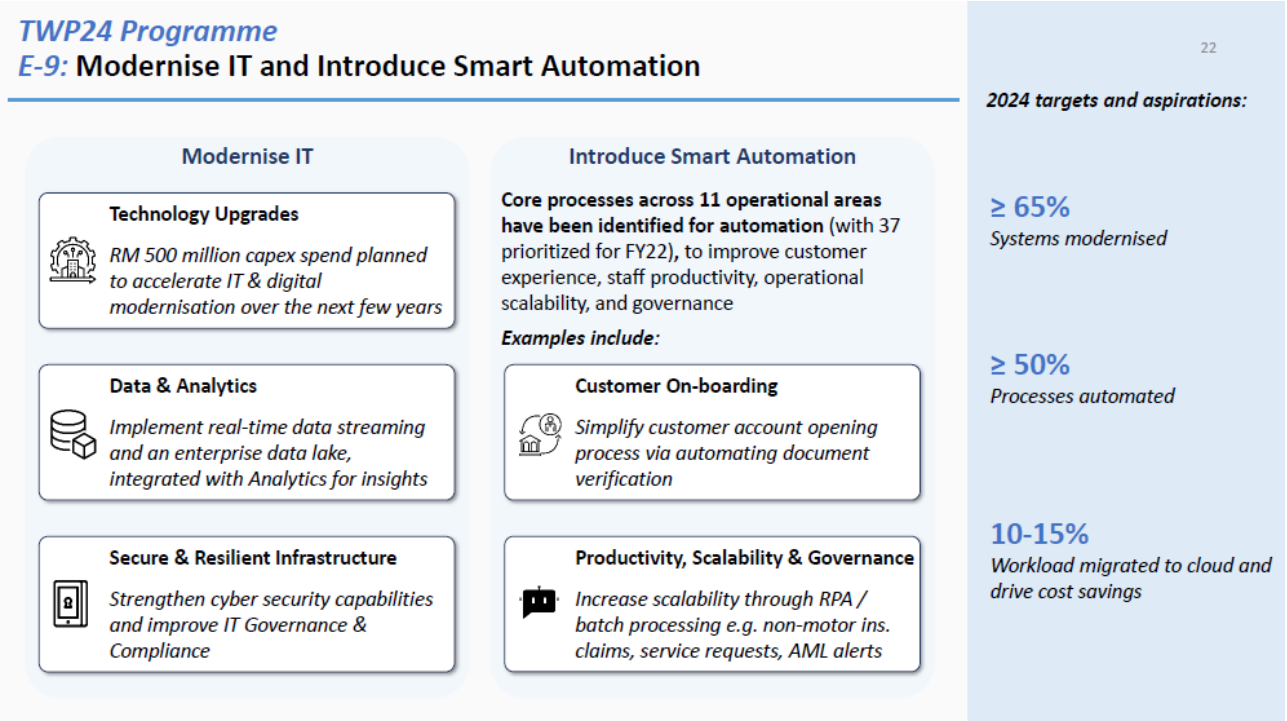


Source: RHB, MIDFR

Phase 1 was completed in Apr-22. Phase 1 involved blueprint development and emission setting, as well as to complete what is required by BNM's CCPT. Phase 2, the execution phase, will begin in 4QCY22.

E-9: Modernise IT and Introduce Smart Automation

EXHIBIT 12



Source: RHB, MIDFR

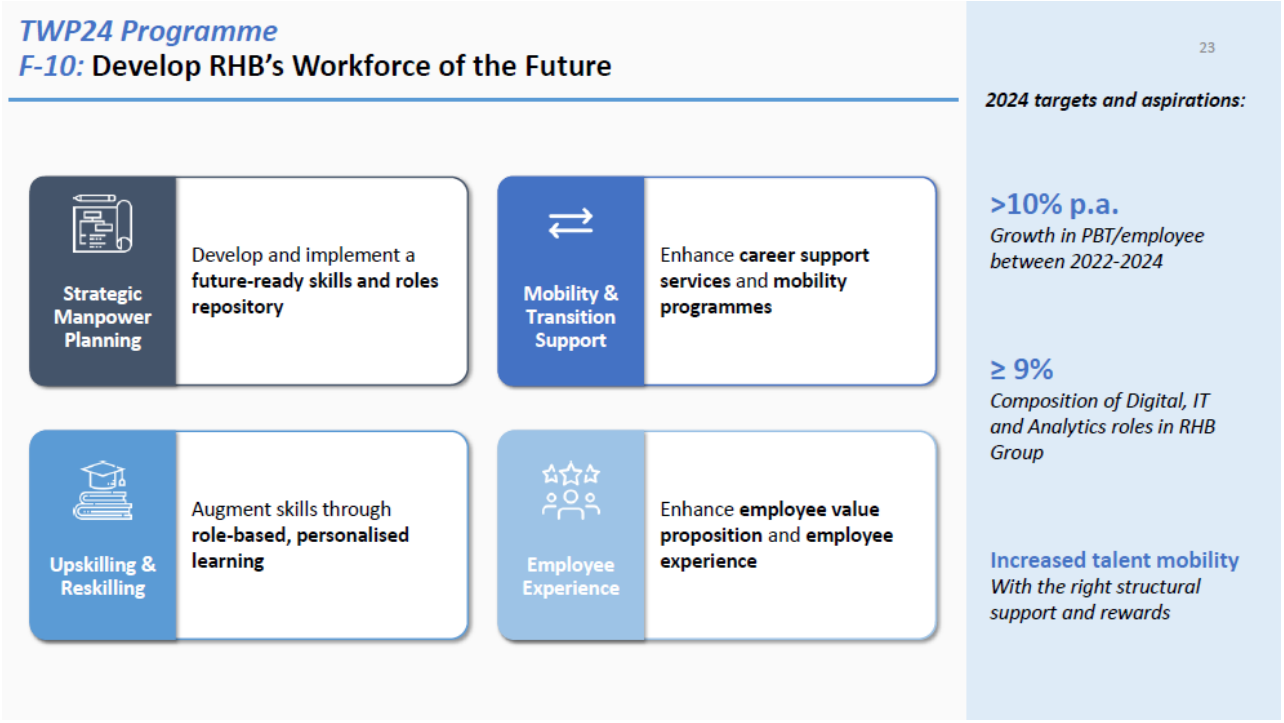
RM500m capex. RM400m will be allocated for IT modernisation purposes, while the remaining RM100m will be reserved for Smart Automation purposes.

Areas of automation focus include:

1. Credit operations (in enabling straight-through processing of customer loan applications),
2. Branch operations (in automating customer account opening),
3. E-kyc and E-kyb purposes

F-10: Develop RHB's Workforce of the Future

EXHIBIT 13

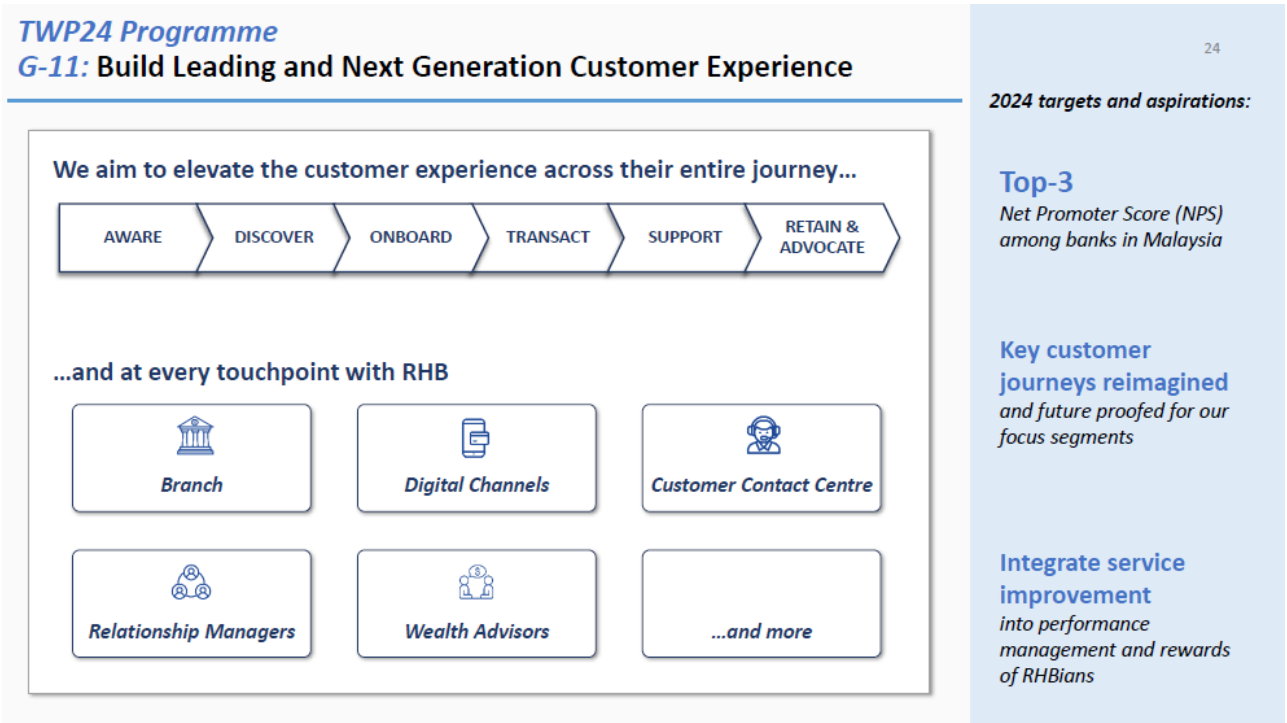


Source: RHB, MIDFR

Automation in processes still difficult. RHB has specified that the challenge lies within incorporating IT and automation within the workforce

G-11: Build Leading and Next Generation Customer Experience

EXHIBIT 14

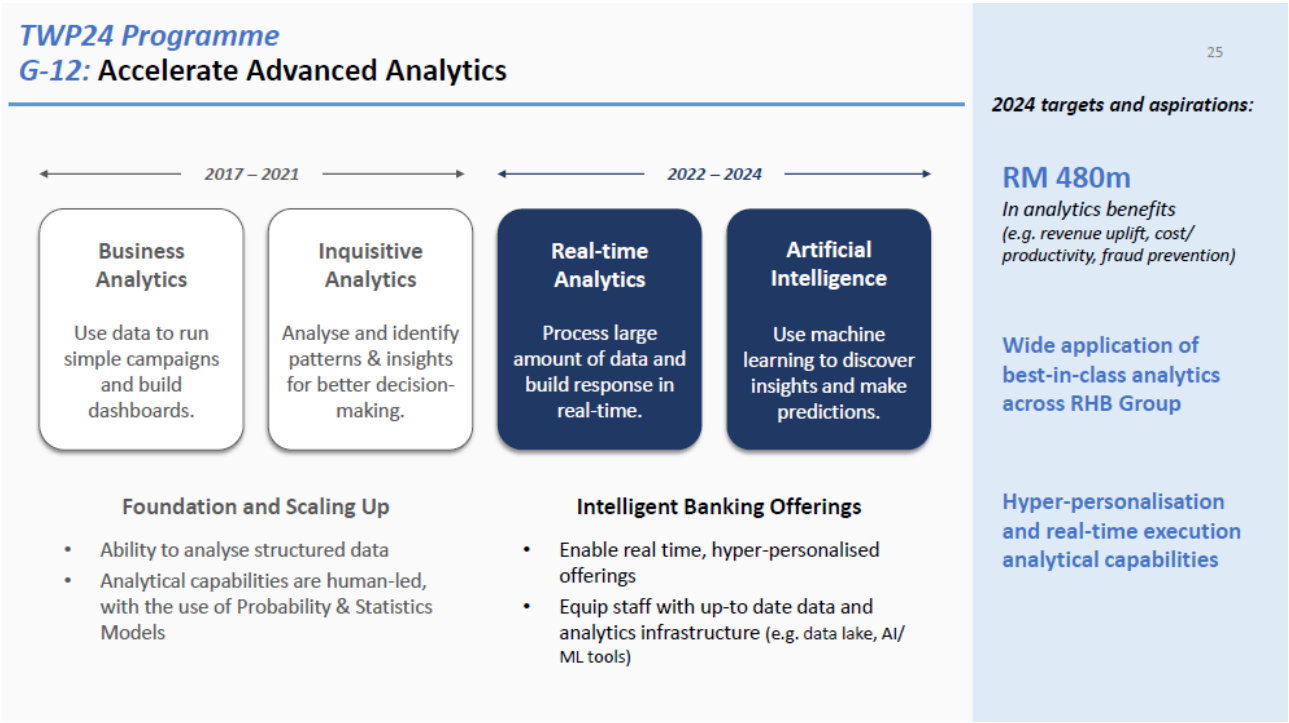


Source: RHB, MIDFR

Deepening segment strategies. RHB is deepening strategies down specific journeys in order to find opportunities to delight customers via services. Their main focus is to find service gaps and customer needs to apply hyperpersonalisation.

G-12: Accelerate Advanced Analytics

EXHIBIT 15



Source: RHB, MIDFR

Pre-existing analytics benefits worth 240m thus far. The remainder of benefits will come from both revenue uplift and cost avoidance. Analytics benefits will largely benefit from the community banking segment. These benefits will be felt in all aspects of business – including HR-related purposes.

OPINIONS AND RECOMMENDATIONS

Opinions. While long-term effects are a bit hard to discern at this point of time, we are mildly positive on TWP24. Despite there being a slight amount of execution risk on the foreign projects, we are ultimately optimistic on RHB expanding its overseas ventures, prioritising secured SME loans, making notable advances in its ESG journey and making the effort to hike up its lagging Islamic banking stats.

Changes to earnings. We reduce our FY23 earnings forecasts by -3% as we may have underestimated the quantum of FVOCI-related losses for the year following BNM's hawkish stance towards OPR hikes.

Valuation and recommendation. We like RHB for its high dividend yield of 6.2% for FY22, its widening regional footprint, and its loan book rebalancing exercise prioritising secured SME loans. Potential rerating catalysts could come from wider expansion in NIM relative to its large cap peers in the event of an OPR hike or above average loan growth.

Thus, we maintain our **BUY** with an unchanged **TP of RM7.13**, as we peg its FY23 BVPS to an unchanged PBV of 0.9x.

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	2,348	2,328	2,712
Total income	**7,186**	**7,788**	**8,835**	**9,221**	**10,096**
OPEX	(3,387)	(3,522)	(3,949)	(4,122)	(4,462)
PPOP	**3,799**	**4,266**	**4,886**	**5,099**	**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**	**4,341**	**4,492**	**5,145**
Taxation	(640)	(906)	(1,368)	(1,101)	(1,261)
NCI	(7)	(5)	(6)	(7)	(8)
Others	35	-	-	-	-
Reported net profit	**2,033**	**2,618**	**2,968**	**3,385**	**3,877**
Core net profit	**2,316**	**2,805**	**2,968**	**3,385**	**3,877**
Total NII	5,268	5,875	6,374	6,725	7,206
Total NOII	2,336	2,159	2,461	2,496	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	10,009	17,343	18,045
Total liabilities	**244,093**	**261,511**	**273,680**	**292,200**	**304,725**
Share capital	6,994	7,613	7,613	7,613	7,613
Reserves & retained profit	20,030	20,386	22,304	24,479	26,283
Shareholders' funds	**27,024**	**27,998**	**29,917**	**32,092**	**33,896**
NCI	33	32	30	32	34
Total equity	**27,057**	**28,031**	**29,947**	**32,124**	**33,930**
Total liabilities & equity	**271,150**	**289,541**	**303,627**	**324,324**	**338,654**
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 (%)					
ROAE	8.8	10.2	10.2	10.9	11.8
ROAA	0.9	1.0	1.0	1.1	1.2
NOII/Total income	32.5	27.7	27.9	27.1	28.6
Effective tax rate	24.2	25.7	31.5	24.5	24.5
Liquidity & Efficiency (%)					
Cost-to-income ratio	47.1	45.2	44.7	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)	14.0	1.4	15.8
Core net profit	8.8	10.2	10.2	10.9	11.8
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	73.3	83.6	95.7
Gross DPS (sen)	17.7	40.0	36.6	41.8	47.9
Div payout ratio (%)	30.6	57.8	50.0	50.0	50.0
BVPS (RM)	6.7	6.9	7.4	7.9	8.4
Core P/E (x)	10.3	8.5	8.0	7.0	6.1
Dividend yield (%)	3.0	6.8	6.2	7.1	8.1
P/B (x)	0.9	0.9	0.8	0.7	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