RHB Bank Berhad

(1066 | RHBBANK MK) Financial Services | Finance

Maintain BUY

Still committed to a high dividend payout

***Unchanged* Target Price: RM6.94**

KEY INVESTMENT HIGHLIGHTS

- **Earnings were below our expectations**
- **Reduce our FY21 forecast**
- **Core drivers: High dividend yield, CET-1 to offer buffer to funding issues, widening ASEAN footprint**
- **Key risks: Higher-than-expected NCC, rising GIL ratio in Cambodia, weaker NOII**
- **Maintain BUY call with unchanged TP of RM6.94**

Highlights from RHB's 3QFY22 quarterly results:

1. RHB's YTD earnings fell by -9%yoy due to poorer NOII and higher tax charges.
2. RA loans saw no notable rundown, though all loans are already out of moratorium. NPL <1% for retail side.
3. GIL improved to 1.57% on a quarter-on-quarter basis, with improving foreign loan portfolio offsetting deteriorations in local side.
4. NCC up sharply to 41bps within the quarter – within management guidance. Driven by further overlays and high Singaporean NCC.
5. 9MFY22's NIM rose by +4bps qoq to 2.27%. FY22 target unlikely to be achieved.
6. 3QFY22's NOII up by +47%qoq.
7. Steady loan growth: gross loans grew by +8%yoy, driven by mortgages, SME and overseas segments.
8. Deposit growth more muted +5%yoy, note that CASA growth was +1.9%qoq, driven by corporate segment.
9. 9MFY22's OPEX was up 8%yoy - expect FY22 OPEX to also be up 8%yoy, with more accruals in 4QFY22.

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	2,617	3,275	3,877
Core EPS (sen)	57.2	69.2	64.6	80.9	95.7
Core P/E (x)	9.9	8.2	8.8	7.0	5.9
Gross DPS (sen)	17.7	40.0	32.3	40.4	47.9
Dividend yield (%)	3.1	7.1	5.7	7.1	8.4
BVPS (RM)	6.7	6.9	7.3	7.7	8.4
P/BV (x)	0.8	0.8	0.8	0.7	0.7
ROE (%)	8.8	10.2	9.1	10.7	11.9

RETURN STATISTICS	
Price @ 29 November 2022 (RM)	5.67
Expected share price return (%)	+22.3
Expected dividend yield (%)	+7.1
Expected total return (%)	**+29.5**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	0.0	-2.6
3 months	2.3	-1.2
12 months	8.2	10.0

KEY STATISTICS	
FBM KLCI	1,476.96
Syariah compliant	No
F4GBM Index	Yes
ESG Grading Band (Star rating)	☆☆☆☆
Issue shares (m)	4142.90
Estimated free float (%)	35.51
Market Capitalisation (RM m)	24,167.56
52-wk price range	RM5.17 - RM6.31
Beta vs FBM KLCI (x)	0.92
3-mth average daily volume (m)	5.29
3-mth average daily value (RM m)	29.71
Top Shareholders (%)	
Employees Provident Fund Board	41.16
OSK Holdings Bhd	10.12
Amanah Saham Nasional Bhd	5.90

Analyst
Samuel Woo
samuel.woo@midf.com.my
03-2173 1669

Below our but within consensus expectations. RHB's 9MFY22 core net profit of RM1.94b made up 64% and 73% of ours and consensus' full-year forecasts respectively. Our credit cost guidance for RHB may have been overly optimistic.

YTD earnings fell by -9%yoy largely due to poorer NOII and higher tax charges offsetting NII and credit cost improvements.

Quarterly earnings of RM702m fell by -8%qoq as result of higher OPEX and NCC charges.

Repayment assistance (RA) loans. As of Oct-22, RHB has RM7.5b worth of RA loans, which translates to 4% of its gross loan portfolio. These figures have not changed since Jul-22: 100% RA loans are no longer in moratoriums.

For the retail portfolio, 92-93% have resumed payment. NPL rate remains below 1%. As for the SME portfolio, 91% have resumed payment.

Asset quality. The Group's GIL ratio improved to 1.57% (2QFY22: 1.62%) – improvements in foreign loans offset upticks in the local portfolio. Singapore, most notably, saw major write-offs although Cambodia's GIL saw a steady uptick as loans come off moratoriums – management believes this GIL ratio has sort of peaked. Similarly, local commercial GILs saw a sharp spike upward due to a single account.

Group believes it can close FY22 with a GIL of <1.7%.

LLC stood flattish at 118%.

Provisioning. RHB reported NCC of 41bps, bringing 9MFY22's average up to 25bps. Management's guidance for FY22 is still 30bps, so expect the trend of elevated NCC to persist in the following quarter. The higher NCC was driven by higher Singaporean NCC and further overlays.

Cumulative overlays have risen to RM840m from RM813m in last quarter.

NIM and NII. NIM widened by +4bps qoq to 2.27% in 3QFY22 and averaging 2.20%, up +11bps yoy. Similarly, quarterly NII rose by +4%qoq and +9%yoy. To reiterate NIM guidance is +3-4bps from 2.20%, which we believe is unlikely to be achieved.

NOII. 3QFY22 NOII rose by +47%qoq largely by stronger investment and forex income. Fee income also showed steady 12%qoq uptick.

Loan growth. Gross loans expanded at a steady pace of 8%yoy. Mortgages, SME and overseas (namely Cambodia) segments served as core drivers. Note that Singapore has a very high LDR – while the strategy is to maintain healthy deposit growth to fund it, the Group may provide funding from Malaysia.

Deposit growth. Group deposit growth grew at a muted pace of +5.4%yoy. Notably, it contracted by -0.2%qoq driven by contraction in FDs. CASA growth was +1.9%qoq (+4.7%yoy), driven almost solely by corporate segment. Loan/Deposit ratio currently stands at a high 93%.

> **Corporate CASA.** The Group attributes its stellar +22%qoq corporate CASA growth to more push of payroll opportunities as well as actively engaging borrowing customers. Note that the Group is also actively pushing its SME CASA franchise to replace retail movements – this isn't going as well.

Cost efficiency. OPEX grew by 8%qoq in 3QFY22, averaging 4% YTD growth. Higher OPEX was primarily due to higher personnel, marketing and admin costs. Management believes that FY22's OPEX will close roughly +8% higher than FY21's figure – 4QFY22 will see some additional accrual costs.

RHB's reported a solid cost/income ratio (CIR) of 43.9% in 3QFY22, improving from 45.7% in the last quarter. This averages to 44.8% in 9MFY22. Management's FY22 guidance of <45%

Capital ratios. The Group's CET-1 ratio fell slightly on a sequential quarter basis, though it remains at 16.4% (among the best in industry).

No dividend announced. RHB typically divvies in the 2nd and 4th quarter. RHB is committed on a 50% payout ratio in FY22.

Earnings revised. We lower our FY22 forecast by -12% to account for higher credit costs.

Key risks. Key risks to earnings include (1) Further asset quality deteriorations in Cambodia, (2) Unstable, weaker NOII as result of higher competition – RHB has already lost market share of its retail AUM, (3) Higher-than-expected NCC.

Valuation and recommendation. We are optimistic on RHB's long-term prospects for several reasons: (1) CET-1 ratio is among best in industry, offering a buffer to funding issues, (2) High FY22 dividend yield of 5.7%, (3) Widening footprint in ASEAN region.

Thus, we maintain our **BUY** with a unchanged **TP of RM6.94**, as we peg its FY23 BVPS to a unchanged P/BV of 0.90x. Model revisions offset reductions in FY23 BVPS figure. (GGM assumptions: FY23 ROE of 10.7%, LTG of 3.5% and COE of 11.4%.)

EXHIBIT 1: QUARTERLY RESULTS

FYE Dec (RM m)	3QFY22	2QFY22	3QFY21	Yoy (%)	Qoq (%)	9MFY22	9MFY21	Yoy (%)
Net interest income	1,102	1,031	845	30.5%	6.9%	3,124	2,822	10.7%
Islamic banking income	593	601	546	8.6%	-1.4%	1,704	1,560	9.2%
Other operating income	498	313	550	-9.4%	59.0%	1,216	1,488	-18.3%
Net income	**2,194**	**1,946**	**1,941**	**13.0%**	**12.7%**	**6,043**	**5,870**	**3.0%**
OPEX	(962)	(889)	(862)	11.5%	8.3%	(2,710)	(2,612)	3.7%
PPOP	**1,232**	**1,057**	**1,079**	**14.2%**	**16.5%**	**3,333**	**3,257**	**2.3%**
Loan allowances	(210)	(19)	(252)	-16.8%	1025.8%	(374)	(651)	-42.5%
Other allowances	17	(20)	2	n.m.	n.m.	(10)	(1)	n.m.
JV & Associates	-	0	-	n.m.	n.m.	-	-	n.m.
Profit before tax	**1,039**	**1,019**	**829**	**25.4%**	**2.0%**	**2,949**	**2,606**	**13.1%**
Tax & zakat	(338)	(383)	(191)	77.0%	-11.8%	(1,011)	(614)	64.5%
NCI	1	(1)	(2)	-135.0%	-201.6%	(1)	(5)	-79.1%
Reported net profit	**702**	**635**	**636**	**10.5%**	**10.6%**	**1,937**	**1,987**	**-2.5%**
Core net profit	**702**	**635**	**766**	**-8.4%**	**10.6%**	**1,937**	**2,118**	**-8.5%**
Total NII	**1,629**	**1,562**	**1,492**	**9.2%**	**4.3%**	**4,662**	**4,304**	**8.3%**
Total NOII	**565**	**384**	**621**	**-9.1%**	**47.2%**	**1,381**	**1,738**	**-20.6%**
Gross DPS (sen)	**-**	**15.0**	**-**	**n.m.**	**n.m.**	**15.0**	**15.0**	**n.m.**
Core EPS (sen)	**16.8**	**15.3**	**18.9**	**-10.7%**	**10.0%**	**46.5**	**52.1**	**-10.9%**
Gross loans	209,740	204,926	194,626	7.8%	2.3%			
Gross impaired loans	3,297	3,326	2,565	28.5%	-0.9%			
Customer deposits	225,588	225,942	214,038	5.4%	-0.2%			
CASA	67,556	66,283	64,526	4.7%	1.9%			

Source: RHB, MIDFR

EXHIBIT 2: QUARTERLY FINANCIAL RATIOS

Financial Ratios (%)	3QFY22	2QFY22	3QFY21	Yoy (+/- ppts)	QoQ (+/- ppts)	9MFY22	9MFY21	Yoy (+/- ppts)
NIM (Reported)	**2.27**	**2.23**	**1.98**	**0.29**	**0.04**	**2.20**	**2.09**	**0.11**
NOII/Net income	25.7	19.7	32.0	-6.3	6.0	22.8	29.6	-6.8
ROE (Ann.)	**10.0**	**9.3**	**11.0**	**-1.0**	**0.8**	**9.2**	**10.1**	**-0.9**
Cost-to-income ratio	43.9	45.7	44.4	-0.6	-1.8	44.8	44.5	0.3
Net credit costs (Ann.) (bps)	41	4	53	-12	38	25	46	-21
GIL ratio	1.57	1.62	1.32	0.25	-0.05			
Loan loss coverage	118.1	117.0	147.9	-29.9	1.1			
L/D ratio	91.2	88.9	89.2	2.0	2.3			
CET1	16.4	16.6	16.8	-0.4	-0.2			
Tier-1	16.4	16.6	16.8	-0.4	-0.2			
Total Capital	18.8	19.2	19.4	-0.6	-0.4			

Source: RHB, 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)	(610)	(513)	(449)
Other allowances	(70)	(162)	(36)	(94)	(39)
JV & Associates	-	-	-	-	-
Pretax profit	**2,644**	**3,529**	**3,885**	**4,346**	**5,145**
Taxation	(640)	(906)	(1,263)	(1,065)	(1,261)
NCI	(7)	(5)	(5)	(7)	(8)
Others	35	-	-	-	-
Reported net profit	**2,033**	**2,618**	**2,617**	**3,275**	**3,877**
Core net profit	**2,316**	**2,805**	**2,617**	**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	10,505	17,894	18,290
Total liabilities	**244,093**	**261,511**	**274,176**	**292,751**	**304,970**
Share capital	6,994	7,613	7,613	7,613	7,613
Reserves & retained profit	20,030	20,386	22,129	23,599	26,253
Shareholders' funds	**27,024**	**27,998**	**29,741**	**31,211**	**33,865**
NCI	33	32	30	31	34
Total equity	**27,057**	**28,031**	**29,771**	**31,242**	**33,899**
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	9.1	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	40	32	25
Net credit cost (bps)	59	30	30	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	(6.7)	25.1	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	64.6	80.9	95.7
Gross DPS (sen)	17.7	40.0	32.3	40.4	47.9
Div payout ratio (%)	30.6	57.8	50.0	50.0	50.0
BVPS (RM)	6.7	6.9	7.3	7.7	8.4
Core P/E (x)	9.9	8.2	8.8	7.0	5.9
Dividend yield (%)	3.1	7.1	5.7	7.1	8.4
P/BV (x)	0.8	0.8	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