RHB Bank Berhad

(1066 | RHBBANK MK) Financial Services | Finance

Maintain BUY

Dividends above expectations

***Revised* Target Price: RM6.74**

(Previously RM6.94)

KEY INVESTMENT HIGHLIGHTS

- **FY22's CNP of RM2.7b was within our forecast**
- **Good NOII outlook, establishing regional footprint in lucrative Cambodia and headroom for further attractive dividend payouts. DRP may be further revised downward**
- **On the flip side, fair amount of cumulative overlays have already been written back – CASA ratio goal for FY22 which underpins NIM and ROE assumptions is ambitious**
- **Maintain BUY | TP of RM6.74 | based on a revised FY23F P/BV of 0.89x**

Highlights from RHB's 4QFY22 results:

- **FY22 CNP:** Fell -2%yoy. Due to higher OPEX and weaker NOII contributions.
- **4QFY22 CNP:** Rose +11%qoq. Due to stronger NII and net writebacks.
- **4QFY22 NIM:** Improved +9bps qoq. Mgmt guides for NIM to remain close to current range.
- **FY22 NOII:** Worsened -11%yoy.
- **FY22's OPEX**: up by +6%yoy, CIR improved to 44.7%.
- **Solid loan growth:** Gross loans grew by +6.9%yoy, +1.2%qoq, driven by retail, SME and oversea loans.
- **Mediocre deposit growth:** Deposits grew by +3.9%yoy, CASA grew by +1.3%yoy, -1.7%qoq. CASA ratio stands at 29.2% -- ambitious CASA ratio guidance of 30% in FY23.
- **GIL ratio improves:** Down -2bps qoq, due to improvements in Cambodian, corporate and SME portfolios.
- **Net NCC writebacks:** 4QFY22 NCC of -13bps, with FY22 NCC of 15bps well below guidance.
- **Dividend announced:** 25.0 sen, total FY22 payout of 62% -- above expectations.

Our thoughts. We continue to favour RHB for its NOII recovery and high CET 1 ratio (implying further headroom for attractive dividend payouts). Its efforts to build its regional presence (especially in Cambodia) should provide benefits in the long term but may see some asset quality issues for now.

Note, however, RHB's FY23 ROE guidance (even though conservative) is contingent on an ambitious CASA ratio goal of 30%. Additionally, it has pared down a fair chunk of its overlay provisions, offering less writeback opportunity. Nevertheless, valuations are still undemanding.

RETURN STATISTICS	
Price @ 28 February 2023 (RM)	5.61
Expected share price return (%)	+20.2
Expected dividend yield (%)	+7.1
Expected total return (%)	**+27.3**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-3.8	-2.4
3 months	-5.0	-2.2
12 months	-4.0	4.3

KEY STATISTICS	
FBM KLCI	1,455.50
Syariah compliant	No
F4GBM Index	Yes
ESG Grading Band (Star rating)	☆☆☆☆
Issue shares (m)	4,142.90
Estimated free float (%)	35.50
Market Capitalisation (RM m)	23,360.55
52-wk price range	RM5.43 - RM6.31
Beta vs FBM KLCI (x)	0.87
3-mth average daily volume (m)	4.97
3-mth average daily value (RM m)	27.94
Top Shareholders (%)	
Employees Provident Fund Board	40.83
OSK Holdings Bhd	10.12
Amanah Saham Nasional Bhd	5.90

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FY22's CNP of RM2.7b was within our and consensus expectations at 104% and 103% of respective full-year forecasts.

FY22's CNP fell by -2%yoy due to higher OPEX and weaker NOII contribution offsetting reduced loan provisions.

4QFY22's CNP of RM776m rose by +11%qoq due to stronger NII and net writebacks. It rose by +18%yoy.

Guidance. FY23: >11.0% ROE (Conservative estimate, given that RHB could have achieved 11.2% ROE without Prosperity Tax).

NIM. 4QFY22's NIM of 2.36% improved by +9bps qoq. FY22's NIM averaged 2.24%, improving +13bps yoy.

Guidance. FY23: NIM range of 2.22-2.25% (roughly at present range). Mgmt foresee continued deposit competition – in spite of that, an optimistic CASA ratio of 30% is baked into the assumption.

NOII. FY22's NOII fell by -11%yoy. Due to weaker fee and trading income offsetting derivatives and forex gains.

Guidance. Mgmt is expecting NOII to perform better from a fee standpoint – better deal pipelines, improved asset management and Islamic wealth management performances.

Operating expenses. 4QFY22's CIR worsened to 44.5%, with its OPEX up by +5%qoq due to higher marketing and personnel costs.

FY22's CIR improved to 44.7%, with its OPEX up by +6%yoy, driven mostly by personnel and establishment costs.

Guidance. FY23 CIR: <44.6%.

Loans. Gross loans grew by +6.9%yoy, +1.2%qoq, driven by retail, SME and overseas loans – in contrast, wholesale banking loan growth was a muted +0.4%yoy.

Guidance. FY23: 4-5%.

Deposits. Deposits grew by +3.9%yoy, +0.7%qoq.

Loan/Deposit ratio stands at 91.7%, rising from previous quarter's 91.2%

CASA. CASA contracted by, -1.7%qoq. CASA ratio stands at 29.2%, falling from previous quarter's 29.9%

Guidance. FY23 CASA ratio: 30% (ambitious). Mgmt believes it can shore up CASA via improvements in its deposit channels, as well as more targeted approaches.

Asset quality. Current GIL ratio stands at 1.55%, improving -2bps qoq, driven by improving asset quality in Cambodian, corporate and SME portfolios.

Current LLC stands at 113%, falling from last quarter's 118%.

Guidance. FY23: <1.50%.

Provisioning. 4QFY22's NCC was a net writeback of 13bps, from previous quarter's 41bps. Writeback was lumpy as it was Covid-19-related overlays introduced in CY20/21, including tourism-related and O&G borrowers.

FY22's NCC averaged 15bps, falling from previous period's 30bps.

Cumulative overlays. The balance has been pared down to RM410m, from last quarter's RM840m.

Guidance. FY23 NCC: 25-30bps. Writeback assumptions are baked in (but only those geared towards industry requirements, as opposed to the overlay stash). Note that if all goes well, we could see an NCC closer to the 16-19% range.

Capital ratios. Current CET-1 ratio is still very high, at 16.9%. Mgmt believes 13.0% is an adequate level – but not something it looks to reach in the near future.

Elevated tax rate. Tax rate is elevated at 37% (similar to the previous quarter). This is due to provisions against the Labuan book. Mgmt expects this to recur but to a much smaller extent.

Dividend announced. The Group announced a dividend of 25.0 sen in the quarter, bringing FY22's payout ratio to 62.5%, above expectations of ~50%. DRP percentage has reduced to 25% (from 50% in FY21). Mgmt will reassess DRP moving forward, given its adequate capital ratios.

Guidance. Standard payout should remain around 50%, possible upside may be assessed yearly.

Key downside risks. (1) Above-forecasted OPEX, (2) Asset quality deterioration (foreign portfolios especially vulnerable), (3) Lacklustre recovery in NOII.

Forecasts revised: FY23F/24F CNP adjusted by -2%/-4%. To reflect new management targets and tweaks to our model – most notably our NOII forecasts may have been overly optimistic.

Maintain BUY call: Revised GGM-TP of RM 6.74 ***(from RM6.94)*****.** The TP is based on a revised FY23F P/BV of 0.89x *(formerly 0.90x)*, to reflect reduced earnings prospects and ROE-based valuations.

*(**GGM assumptions:** FY23F ROE of 10.7%, LTG of 3.5% and COE of 11.6%.)*

Exhibit 1: Quarterly results

FYE Dec (RM m)	4Q FY22	3Q FY22	4Q FY21	Yoy (%)	Qoq (%)	FY22	FY21	Yoy (%)
Net interest inc.	1,051	1,102	995	6	-5	4,174	3,817	9
Islamic banking inc.	694	593	535	30	17	2,398	2,095	14
Non-interest inc.	520	498	389	34	4	1,736	1,877	-7
Net income	**2,266**	**2,194**	**1,919**	**18**	**3**	**8,309**	**7,789**	**7**
OPEX	(1,007)	(962)	(910)	11	5	(3,717)	(3,523)	6
PPOP	**1,259**	**1,232**	**1,009**	**25**	**2**	**4,592**	**4,266**	**8**
Loan provisions	65	(210)	76	-14	-131	(309)	(575)	-46
Other provisions	(102)	17	(162)	n.m.	n.m.	(112)	(163)	n.m.
JV & Associates	-	-	-	n.m.	n.m.	-	-	n.m.
PBT	**1,222**	**1,039**	**923**	**32**	**18**	**4,171**	**3,529**	**18**
Tax	(448)	(338)	(291)	54	33	(1,459)	(906)	61
NCI	(2)	1	(0)	n.m.	n.m.	(3)	(5)	n.m.
Reported NP	**772**	**702**	**631**	**22**	**10**	**2,709**	**2,618**	**3**
Core NP	**776**	**702**	**658**	**18**	**11**	**2,713**	**2,776**	**-2**
Total NII	1,717	1,629	1,498	15	5	6,379	5,630	13
Total NOII	549	565	421	30	-3	1,929	2,159	-11
Gross DPS (sen)	**25.0**	**-**	**25.0**	**n.m.**	**n.m.**	**40.0**	**40.0**	**n.m.**
Core EPS (sen)	18.3	16.8	16.3	13	9	64.1	68.5	-7
Gross loans	212,200	209,740	198,512	6.9	1.2			
Gross impaired loans	3,289	3,297	2,951	11.5	-0.2			
Customer deposits	227,160	225,588	218,733	3.9	0.7			
CASA	66,439	67,556	65,606	1.3	-1.7			

Source: RHB, MIDFR

Exhibit 2: Quarterly financial ratios

Ratios (%)	4Q FY22	3Q FY22	4Q FY21	Yoy (ppts)	QoQ (ppts)	FY22	FY21	Yoy (ppts)
ROE (Ann.)	**10.8**	**10.0**	**9.4**	**1.4**	**0.8**	**9.4**	**9.9**	**-0.5**
NIM (Reported)	**2.36**	**2.27**	**2.21**	**0.15**	**0.09**	**2.24**	**2.11**	**0.13**
NOII/Net income	24.2	25.7	21.9	2.3	-1.5	23.2	27.7	-4.5
Cost/Income	44.5	43.9	47.4	-3.0	0.6	44.7	45.2	-0.5
NCC (Ann.) (bps)	(13)	41	(16)	3	-54	15	30	-15
GIL ratio	1.55	1.57	1.49	0.06	-0.02			
Loan loss coverage	113	118	122	-10	-5			
CASA ratio	29.2	29.9	30.0	-0.7	-0.7			
L/D ratio	91.7	91.2	89.1	2.6	0.5			
CET-1	16.9	16.4	17.2	-0.3	0.5			

Source: RHB, MIDFR

Exhibit 3: FY23 guidance

Top Level Indicators	Actual FY2022	Target FY2023
ROE	9.7%	≥11.0%
Loans Growth	6.9%	4%-5%
CASA Composition	29.2%	30.0%
Gross Impaired Loans Ratio	1.55%	≤1.50%
Cost-to-Income Ratio	44.7%	≤44.6%

Source: RHB, MIDFR

INVESTMENT STATISTICS

INCOME STATEMENT

FYE Dec (RM m)	FY20	FY21	FY22	FY23F	FY24F
Interest income	6,569	6,084	7,382	7,779	8,529
Interest expense	(3,226)	(2,266)	(3,208)	(3,425)	(4,027)
Net interest income	**3,343**	**3,818**	**4,174**	**4,354**	**4,502**
Islamic banking inc.	1,666	2,095	2,398	2,383	2,464
Other operating inc.	2,177	1,876	1,736	2,116	2,715
Net income	**7,186**	**7,789**	**8,309**	**8,852**	**9,681**
OPEX	(3,387)	(3,522)	(3,717)	(3,957)	(4,260)
PPOP	**3,799**	**4,267**	**4,592**	**4,895**	**5,421**
Loan allowances	(1,075)	(575)	(309)	(556)	(449)
Other allowances	(79)	(163)	(112)	(87)	(36)
JV & Associates	-	-	0	-	-
PBT	**2,644**	**3,529**	**4,171**	**4,253**	**4,936**
Tax & zakat	(640)	(906)	(1,459)	(1,042)	(1,209)
NCI	(7)	(5)	(4)	(6)	(7)
Others	35	-	-	-	-
Reported NP	**2,033**	**2,619**	**2,708**	**3,204**	**3,719**
Core NP	**2,316**	**2,805**	**2,708**	**3,204**	**3,719**
Total NII	5,268	5,875	6,379	6,498	6,720
Total NOII	1,918	1,914	1,930	2,354	2,961

BALANCE SHEET

FYE Dec (RM m)	FY20	FY21	FY22	FY23F	FY24F
Cash & ST funds	14,974	23,318	19,787	18,728	19,780
Investment securities	63,371	61,881	69,070	61,020	60,538
Net loans	182,425	194,897	208,379	215,718	226,913
Other IEAs	-	-	-	-	-
Non-IEAs	10,381	9,446	13,553	16,429	18,561
Total assets	**271,150**	**289,541**	**310,788**	**311,894**	**325,792**
Cust. & FI deposits	224,506	242,721	253,000	261,236	271,743
Other IBLs	11,082	11,532	20,520	11,898	12,504
Non-IBLs	8,505	7,259	8,522	8,039	8,708
Total liabilities	**244,093**	**261,511**	**282,042**	**281,174**	**292,954**
Share capital	6,994	7,613	8,146	7,613	7,613
Reserves	20,030	20,386	20,565	23,077	25,192
Shareholders' funds	**27,024**	**27,998**	**28,711**	**30,690**	**32,805**
NCI	33	32	31	31	33
Total equity	**27,057**	**28,031**	**28,746**	**30,721**	**32,838**
Total L&E	**271,150**	**289,541**	**310,788**	**311,894**	**325,792**
Total IEAs	260,769	280,095	297,236	295,466	307,231
Total IBLs	235,588	254,252	273,519	273,135	284,247
Gross loans	186,114	198,512	212,200	219,068	230,240
CASA	62,779	65,606	66,439	66,689	64,774

FINANCIAL RATIOS

FYE Dec (RM m)	FY20	FY21	FY22	FY23F	FY24F
Interest (%)					
NIM	2.08	2.17	2.21	2.23	2.23
Return on IEAs	2.60	2.25	2.56	2.67	2.83
Cost of funds	1.40	0.93	1.22	1.28	1.44
Net interest spread	1.20	1.32	1.34	1.39	1.39
Profitability (%)					
ROE	**8.8**	**10.2**	**9.5**	**10.7**	**11.7**
ROA	0.9	1.0	0.9	1.0	1.2
NOII/Net income	26.7	24.6	23.2	26.6	30.6
Effective tax rate	24.2	25.7	35.0	24.5	24.5
Cost/Income ratio	47.1	45.2	44.7	44.7	44.0
Liquidity (%)					
Loan/Deposit ratio	89.7	89.1	91.7	90.6	91.1
CASA ratio	30.9	30.0	29.2	28.0	26.0
Asset Quality (%)					
GIL ratio	1.71	1.49	1.55	1.43	1.39
LLC ratio	120	122	113	107	104
LLC (w. reserves)	121	133	140	115	129
Net CC (bps)	59	30	15	26	20
Capital (%)					
CET 1	16.4	17.2	16.9	15.4	15.2
Tier 1 capital	16.4	17.2	16.9	15.4	15.2
Total capital	18.6	19.8	19.3	18.1	17.7
Growth (%)					
Total NII	6.3	11.5	8.6	1.9	3.4
Total NOII	(8.7)	(0.2)	0.8	22.0	25.8
Net income	1.8	8.4	6.7	6.5	9.4
OPEX	(0.0)	4.0	5.5	6.5	7.7
Core NP	(8.4)	21.1	(3.5)	18.3	16.1
Gross loans	5.6	6.7	6.9	3.2	5.1
Cust. & FI deposits	5.9	8.1	4.2	3.3	4.0
CASA	28.3	4.5	1.3	0.4	(2.9)
Valuation metrics					
Core EPS (sen)	57.2	69.2	66.9	79.1	91.8
Gross DPS (sen)	17.7	40.0	40.0	39.6	45.9
Div payout ratio (%)	31	58	62	50	50
BVPS (RM)	6.7	6.9	7.1	7.6	8.1
Core P/E (x)	9.8	8.1	8.4	7.1	6.1
Dividend yield (%)	**3.1**	**7.1**	**7.1**	**7.1**	**8.2**
P/BV (x)	0.8	0.8	0.8	0.7	0.7

Source: RHB, MIDFR

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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