RHB Bank Berhad

(1066 | RHBBANK MK) Financial Services | Finance

1QFY23 results

Maintain BUY

***Revised* Target Price: RM7.58**
(Previously RM6.74)

KEY INVESTMENT HIGHLIGHTS

- **3MFY23's Core NP of RM762m was *Within*/*Within* our/street forecasts: *24%*/*24%* of full-year forecasts**
- **Core themes: (a) Sharpest qoq NIM decline so far, in comparison to peers, (b) High capital ratios provide options and assurance, (c) Sizeable overlay writebacks in sight**
- **FY23F/24F Core NP adjusted by -2%/-10%.**
- **Maintain BUY | Revised TP of RM7.58 | based on a revised FY24F P/BV of 1.06x *(formerly 0.89x, from FY23F)***

Weak quarter but expected. Core net profit (NP) dropped by -2% qoq despite reduced OPEX (-15%qoq) and normalised tax. Topline took a huge hit: NII dropped by an especially sharp -20%qoq, while NOII fell by -3%qoq. Going forward, we keep our eyes peeled for signs of convincing revenue recovery – regardless, the Group's FY23F bottom line should be buoyed by strong overlay writebacks.

Have a look at:

Huge NIM drop – and liquidity ratios not amazing either. RHB's NIM dropped by a whopping -46bps qoq to 1.90% – much steeper than its peers. Its liquidity ratios have turned up weaker this quarter, while deposits fell quarter-on-quarter.

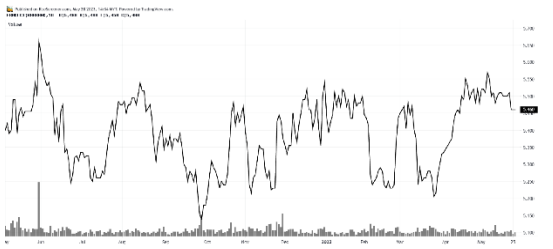
Other banking players have soaked up liquidity over the quarter, in anticipation of possible funding issues – reporting net deposit growth (particularly on the FD segment) and enhanced LCR ratios. In contrast, RHB seems to have fallen behind on this front – while we could see slower loan growth as a result, we opine that RHB could draw from its huge capital reserves to buffer itself from the worst.

Verdict: +ve risk-reward — Capital reserves provide options and assurance.

Yays	1. High chance of elevated dividend payout: high CET 1 ratio offers headroom for upside. 2. Asset quality seems to have stabilised – expect a sizeable overlay payout at end year.
Nays	1. NIM decline was especially steep – NII could also see sharper quantum of decline than peers.
OKs	1. NOII income, meant to be a core driver to FY23F's growth, hasn't quite recovered yet. 2. Huge capital ratios can provide funding – to drive loan growth and for NIM optimisation strategies, compensating for weak liquidity ratios.

RETURN STATISTICS	
Price @ 26 May 2023 (RM)	5.46
Expected share price return (%)	+38.9
Expected dividend yield (%)	+38.9
Expected total return (%)	**+46.8**

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	0.2	0.6
3 months	-1.1	3.9
12 months	-5.8	2.6

INVESTMENT STATISTICS

FYE Dec	FY23F	FY24F	FY25F
Core NP (RM m)	**3,151**	**3,355**	**3,503**
CNP growth (%)	16	6	4
Div yield (%)	**7.5**	**7.9**	**7.4**
Gross DPS (sen)	41.0	43.3	40.7
P/BV (x)	**0.8**	**0.8**	**0.7**
BVPS (RM)	6.9	7.2	7.3
ROE (%)	**10.9**	**11.4**	**11.6**
MIDF/Street CNP (%)	**101**	**101**	**100**

KEY STATISTICS	
FBM KLCI	1,402.98
Issue shares (m)	4,247.4
Estimated free float (%)	35.2
Market Capitalisation (RM'm)	23,660.6
52-wk price range	RM5.42 - RM6.08
3-mth avg daily volume (m)	4.2
3-mth avg daily value (RM'm)	23.5
Top Shareholders (%)	
EPF Board	41.0
OSK Holdings Bhd	10.2
Amanah Saham Nasional Bhd	5.8

Analyst
Samuel Woo
samuel.woo@midf.com.my

Forecasts revised: FY23F/24F Core NP adjusted by -2%/-10%. Although we have sharply revised our FY23F NIM forecast downward, this is offset by much lower NCC, given the likelihood of sizeable overlay writeback is very high. We cut our FY24F NIM and NOII forecasts, as our previous guidance may have been overly optimistic.

Key downside risks. *(1) Lackluster overlay writeback, (2) Weak NOII recovery, (3) NIM dips further than forecasted.*

Maintain BUY call: Revised GGM-TP of RM 7.58 ***(from RM6.74)***. The TP is based on a revised FY24F P/BV of 1.06x *(formerly 0.89x, rolled on from FY23F)*, to reflect altered earnings prospects and ROE-based valuations. ***(GGM assumptions:*** *FY24F ROE of 11.4%, LTG of 4.0% & COE of 11.0%)*

Fig 1: Quarterly results

FYE Dec (RM m)	1Q FY23	4Q FY22	1Q FY22	Yoy (%)	Qoq (%)	3M FY23	3M FY22	Yoy (%)
Net interest inc.	884	1,051	990	-11	-16	884	990	-11
Islamic banking inc.	553	694	509	9	-20	553	509	9
Non-interest inc.	470	520	354	33	-10	470	354	33
Net income	**1,908**	**2,266**	**1,853**	**3**	**-16**	**1,908**	**1,853**	**3**
OPEX	(857)	(1,007)	(831)	3	-15	(857)	(831)	3
PPOP	**1,051**	**1,259**	**1,022**	**3**	**-16**	**1,051**	**1,022**	**3**
Loan provisions	(55)	65	(146)	-62	-184	(55)	(146)	-62
Other provisions	9	(102)	(8)	-213	-109	9	(8)	-213
JV & Associates	0	-	(0)	n.m.	n.m.	0	(0)	n.m.
PBT	**1,005**	**1,222**	**868**	**16**	**-18**	**1,005**	**868**	**16**
Tax	(243)	(448)	(286)	-15	-46	(243)	(286)	-15
NCI	(1)	(2)	0	n.m.	n.m.	(1)	0	n.m.
Reported NP	**762**	**772**	**582**	**31**	**-1**	**762**	**582**	**31**
Core NP	**762**	**776**	**582**	**31**	**-2**	**762**	**582**	**31**
Total NII	1,374	1,717	1,471	-7	-20	1,374	1,471	-7
Total NOII	534	549	382	40	-3	534	382	40
Gross DPS (sen)	**-**	**25.0**	**-**	**n.m.**	**n.m.**	**-**	**-**	**n.m.**
Core EPS (sen)	17.9	18.3	14.1	28	-2	17.9	14.1	28
Gross loans	213,359	212,200	201,348	6.0	0.5			
Gross impaired loans	3,389	3,289	3,022	12.1	3.0			
Customer deposits	226,432	227,160	226,527	-0.0	-0.3			
CASA	63,699	66,439	65,611	-2.9	-4.1			

Ratios (%)	1Q FY23	4Q FY22	1Q FY22	Yoy (ppts)	Qoq (ppts)	3M FY23	3M FY22	Yoy (ppts)
ROE (Ann.)	**10.2**	**10.8**	**8.3**	**1.9**	**-0.6**	**10.2**	**8.3**	**1.9**
NIM (Reported)	**1.90**	**2.36**	**2.16**	**-0.26**	**-0.46**	**1.90**	**2.16**	**-0.26**
NOII/Net income	28.0	24.2	20.6	7.4	3.8	28.0	20.6	7.4
Cost/Income	44.9	44.5	44.8	0.1	0.4	44.9	44.8	0.1
NCC (Ann.) (bps)	11	(13)	30	-19	23	11	30	-19
GIL ratio	1.59	1.55	1.50	0.09	0.04			
Loan loss coverage	109	113	126	-16	-3			
CASA ratio	28.1	29.2	29.0	-0.8	-1.1			
L/D ratio	92.5	91.7	87.2	5.4	0.8			
CET-1	16.9	16.9	16.8	0.1	0.0			

Source: RHB, MIDFR

Fig 2: Retrospective performance (Income Statement)

Metric	Surprise? *Qoq/Yoy*		Metric	Surprise? *Qoq/Yoy*		**Notes** *(Cum = Cumulative, Qtr = Quarterly)*
Qtrly Core NP	RM mil	***762***	**Qtrly ROE**	Qtr value	***10.2%***	**Weak quarter but we were expecting it.**
	24% of FY CNP					On a quarter-on-quarter basis, weaker NII and NOII were not enough to offset normalised tax and better cost control.
	Qoq	*-2%*		t-1	*10.8%*	Despite the weak net income performance expected for the year, a combination of mostly intact overlays and good asset quality should be sufficient for RHB to break their >11% ROE target.
	Yoy	*31%*		t-4	*8.3%*	
Cum Core NP	RM mil	***762***	**Cum ROE**	Cum value	***10.2%***	Our expectations are conservative, factoring further BAU provisions in the year.
	Within our forecast					
	24% of FY CNP					
	Within consensus					
	24% of FY CNP					
	Yoy	*31%*		t-1	*8.3%*	
NII	-ve surprise		**NIM**	-ve surprise		**NIM drop quarter-on-quarter was especially sharp, even in comparison to peers.**
				Qtr value	***1.90***	NIM guidance likely revised by 2HFY22.
				Cum value	***1.90***	
	Qtr (Qoq)	*-20%*		Qtr (Qoq)	*-46bps*	
	Qtr (Yoy)	*-7%*		Qtr (Yoy)	*-26bps*	
	Cum (Yoy)	*-7%*		Cum (Yoy)	*-26bps*	
NOII	As expected		**Qtr**	% NII	***72%***	**Not exceptional.**
	Qtr (Qoq)	*-3%*		% NOII	***28%***	Fee and trading income contributions haven't quite recovered yet.
	Qtr (Yoy)	*40%*	**Cum**	% NII	***72%***	
	Cum (Yoy)	*40%*		% NOII	***28%***	
OPEX	+ve surprise		**Cost/ Inc.**	As expected		**Solid improvement, but remains to be proven if can be maintained.**
				Qtr value	***44.9%***	
				Cum value	***44.9%***	
	Qtr (Qoq)	*-15%*		Qtr (Qoq)	*+0.4%*	
	Qtr (Yoy)	*3%*		Qtr (Yoy)	*+0.1%*	
	Cum (Yoy)	*3%*		Cum (Yoy)	*+0.1%*	

Source: RHB, MIDFR

Fig 3: Retrospective performance (Balance Sheet, Dividends, and anything extra)

Metric	Surprise? *Qoq/Yoy*		Metric	Surprise? *Qoq/Yoy*		Notes *(Cum = Cumulative, Qtr = Quarterly)*
Loans	-ve surprise					**Poor quarter.** Especially when one of RHB's strengths in past years was its strong foreign loan growth contributions.
	Qoq	*0.5%*				
	Yoy	*6.0%*				
	YTD (FY)	*0.5%*				
Depo. grwth	-ve surprise		**CASA grwth**	As expected		**Deposit growth lacklustre, with RHB opting to take less deposits.** Unlike its peers, it seems that RHB has not taken the conservative strategy of securing funding at elevated prices in the quarter.
	Qoq	*-0.3%*		Qoq	*-4.1%*	
	Yoy	*-0.0%*		Yoy	*-2.9%*	
	YTD (FY)	*-0.3%*		YTD (FY)	*-4.1%*	
CASA ratio	As expected		**L/D ratio**	As expected		
	Value now	***28.1%***		Value now	***92.5%***	
	Qoq	*-1.1%*		Qoq	*+0.8%*	
	Yoy	*-0.8%*		Yoy	*+5.4%*	
GIL ratio	As expected		**LLC ratio**	As expected		**No major issues. Small provision.** Its been two great quarters for provisions. Coupled with stable asset quality figures, overlay writebacks looking to be significant.
	Value now	***1.59%***		Value now	***109%***	
	Qoq	*+4bps*		Qoq	*-3%*	
	Yoy	*+9bps*		Yoy	*-16%*	
Qtrly Net CC	As expected		**Cum Net CC**	As expected		
	Small provision			Small provision		
	Value now	***11bps***		Value now	***11bps***	
	t-1	*-13bps*				
	t-4	*30bps*		t-4	*30bps*	
CET 1	Healthy level		**Div payout**	No divvy		**Best in the industry.**
	As expected			As expected		
	Value now	***16.9%***		**Payout**	*-*	
	Qoq	*0.0%*				
Others:						

Source: RHB, MIDFR

Fig 4: Targets, Achievements, and Outlook

Targets	FY23F	3M FY23	Notes (Red: New guidance, ~~Strikethrough: former guidance is no longer pertinent~~)
ROE	>11.0	10.2	
CIR	<44.6	44.9	
NIM	-2 to +1bps from 2.24	-	**Likely to be revised in 2HFY22, expect further NIM compression.**
NOII		40% (yoy)	**Fee income recovery guided by mgmt.**
Loans	4-5	5 (YTD)	
Deposits		-3 (YTD)	
CASA	30	28.1	Ambitious CASA ratio target, which expects a net uptick in the year.
Loan/Depo.		92.5	
GIL ratio	<1.50	1.59	
NCC (bps)	25-30	11	**Blue sky scenario: Management suggests an NCC closer to the 16-19bps range.** Overlays are not factored into guidance.
LLC		109	
CET 1		16.9	
Div payout		-	Management hints at future instances of high payout (from standard 50%). Management will reassess DRPs. *(25% in FY22, from 50% in FY21).*

Source: RHB, MIDFR

FINANCIAL SUMMARY

INCOME STATEMENT

FYE Dec (RM m)	FY21	FY22	FY23F	FY24F	FY25F
Interest income	6,328	7,382	7,680	7,915	8,037
Interest expense	(2,266)	(3,208)	(3,425)	(3,425)	(3,425)
Net interest income	**4,062**	**4,174**	**4,255**	**4,490**	**4,612**
Islamic banking inc.	2,095	2,398	2,253	2,272	2,334
Other operating inc.	1,876	1,736	1,801	1,966	2,160
Net income	**8,033**	**8,309**	**8,310**	**8,728**	**9,107**
OPEX	(3,522)	(3,717)	(3,656)	(3,797)	(3,961)
PPOP	**4,511**	**4,592**	**4,653**	**4,931**	**5,145**
Loan allowances	(575)	(309)	(370)	(457)	(479)
Other allowances	(163)	(112)	(129)	(51)	(48)
JV & Associates	-	0	-	-	-
PBT	**3,773**	**4,171**	**4,154**	**4,423**	**4,618**
Tax & zakat	(906)	(1,459)	(997)	(1,062)	(1,108)
NCI	(5)	(4)	(6)	(7)	(7)
Others	-	-	-	-	-
Reported NP	**2,863**	**2,708**	**3,151**	**3,355**	**3,503**
Core NP	**2,805**	**2,708**	**3,151**	**3,355**	**3,503**
Total NII	5,875	6,379	6,350	6,603	6,783
Total NOII	2,159	1,930	1,959	2,125	2,324

BALANCE SHEET

FYE Dec (RM m)	FY21	FY22	FY23F	FY24F	FY25F
Cash & ST funds	23,318	19,787	16,646	16,274	16,684
Investment securities	61,881	69,070	65,717	62,574	59,631
Net loans	194,897	208,379	219,498	230,700	242,193
Other IEAs	0	0	0	0	0
Non-IEAs	9,446	13,536	20,162	24,464	27,766
Total assets	**289,541**	**310,771**	**322,023**	**334,012**	**346,275**
Customer deposits	218,733	227,160	237,609	247,826	258,483
Other IBLs	35,520	46,360	47,006	47,759	48,627
Non-IBLs	7,259	8,483	8,463	8,454	8,453
Total liabilities	**261,511**	**282,003**	**293,078**	**304,039**	**315,563**
Share capital	7,613	8,146	8,146	8,146	8,146
Reserves	20,386	20,592	20,770	21,797	22,536
Shareholders' funds	**27,998**	**28,737**	**28,916**	**29,943**	**30,681**
NCI	32	31	29	30	31
Total equity	**28,031**	**28,768**	**28,945**	**29,973**	**30,712**
Total L&E	**289,541**	**310,771**	**322,023**	**334,012**	**346,275**
Total IEAs	280,095	297,236	301,861	309,548	318,509
Total IBLs	254,252	273,519	284,615	295,585	307,110
Gross loans	198,512	212,200	223,022	233,950	245,414
CASA	65,606	66,439	66,531	64,435	67,206

FINANCIAL RATIOS

FYE Dec (RM m)	FY21	FY22	FY23F	FY24F	FY25F
Interest (%)					
NIM	2.17	2.21	2.12	2.16	2.16
Return on IEAs	2.34	2.56	2.56	2.59	2.56
Cost of funds	0.93	1.22	1.23	1.18	1.14
Net interest spread	1.41	1.34	1.34	1.41	1.42
Profitability (%)					
ROE	**10.2**	**9.5**	**10.9**	**11.4**	**11.6**
ROA	1.0	0.9	1.0	1.0	1.0
NOII/Net income	26.9	23.2	23.6	24.3	25.5
Effective tax rate	24.0	35.0	24.0	24.0	24.0
Cost/Income	43.8	44.7	44.0	43.5	43.5
Liquidity (%)					
Loan/Deposit	89.1	91.7	92.4	93.1	93.7
CASA ratio	30.0	29.2	28.0	26.0	26.0
Asset Quality (%)					
GIL ratio	1.49	1.55	1.43	1.29	1.23
LLC ratio	122	113	107	104	103
LLC (w. reserves)	133	140	135	134	133
Net CC (bps)	30	15	17	20	20
Capital (%)					
CET 1	17.2	16.9	17.2	16.4	15.7
Tier 1 capital	17.2	16.9	17.2	16.4	15.7
Total capital	19.8	19.3	19.7	18.9	18.2
Growth (%)					
Total NII	11.5	8.6	-0.5	4.0	2.7
Total NOII	12.5	-10.6	1.5	8.4	9.4
Net income	11.8	3.4	0.0	5.0	4.3
OPEX	4.0	5.5	-1.6	3.8	4.3
Core NP	21.1	-3.5	16.4	6.5	4.4
Gross loans	6.7	6.9	5.1	4.9	4.9
Customer deposits	8.1	4.2	3.9	3.7	3.7
CASA	4.5	1.3	0.1	-3.2	4.3
Valuation metrics					
Core EPS (sen)	67.0	64.7	75.3	80.1	83.7
Gross DPS (sen)	40.0	40.0	41.0	43.3	40.7
Div payout (%)	57	62	55	55	50
BVPS (RM)	6.7	6.9	6.9	7.2	7.3
Core P/E (x)	8.1	8.4	7.3	6.8	6.5
Div yield (%)	**7.3**	**7.3**	**7.5**	**7.9**	**7.4**
P/BV (x)	0.8	0.8	0.8	0.8	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