

RHB Bank (RHBBANK MK)

Room for earnings to surprise positively

BUY maintained, TP raised

Our forecasts are conservative, and are about 5-10% below consensus for FY22-23E, predominantly because we have taken a much more conservative stance towards provisioning levels. Even so, we find valuations decent at this stage, such that a BUY is warranted, with potential room for earnings to surprise positively. Our forecasts are maintained, but our TP is raised to MYR6.90 from MYR6.30, on a higher CY23 PBV target of 0.93x (0.85x previously), supported by an ROE of 9.8%. There is also room for dividends to be better than expected as well.

Expecting earnings rebound in FY23

The operating outlook for RHB looks positive at this stage - loan growth looks healthy enough to sustain growth of at least 4-5%, NIM appears stable with potential upside, while loans under repayment assistance have come off to just 4.5% of total loans. Cukai Makmur is expected to be a drag this year but we do anticipate strong earnings rebound in FY23E of 24% (-12.8% in FY22E) in the absence of this.

Elevated credit cost assumptions

O&G related loans and bonds totalled MYR3.7b end-Dec 2021, making up 1.9% of total loans. However, having put through overlays over the years, the loan loss coverage on both O&G loans and bonds is currently more than 100%. RHB foresees credit cost to range around 30bps to 35bps for FY22F (MIBG: 40bps). Initial expectations are that FY23F credit cost could remain above pre-COVID levels of 20-25bps (MIBG: 40bps).

Dividends could surprise positively

CET1 of 17.2% end-Dec 2021 is the highest among domestic peers. In FY21, management proposed a final DPS of 25sen, taking FY21 DPS to 40sen. This represents a payout ratio of 62.9%. We have assumed a payout ratio of 50% moving forward and there is room for upside surprise should the bank take its payout ratio back to around the 63% level. This would then take FY22's dividend yield to more than 6%.

FYE Dec (MYR m)	FY20A	FY21A	FY22E	FY23E	FY24E
Operating income	7,186	7,789	8,152	8,546	8,972
Pre-provision profit	3,799	4,266	4,470	4,690	4,937
Core net profit	2,316	2,805	2,452	2,919	3,183
Core EPS (MYR)	0.58	0.70	0.59	0.70	0.77
Core EPS growth (%)	(8.4)	21.1	(15.4)	19.1	9.0
Net DPS (MYR)	0.18	0.40	0.30	0.35	0.38
Core P/E (x)	9.4	7.7	10.0	8.4	7.7
P/BV (x)	0.8	0.8	0.8	0.8	0.8
Net dividend yield (%)	3.2	7.4	5.0	5.9	6.5
Book value (MYR)	6.74	6.76	7.03	7.38	7.77
ROAE (%)	8.8	10.2	8.6	9.8	10.1
ROAA (%)	0.9	1.0	0.8	0.9	1.0
Consensus net profit	-	-	2,589	3,233	3,513
MKE vs. Consensus (%)	-	-	(5.3)	(9.7)	(9.4)

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BUY

Share Price MYR 5.93
 12m Price Target MYR 6.90 (+16%)
 Previous Price Target MYR 6.30

Company Description

RHB Capital provides integrated financial services such as commercial banking, Islamic banking, investment banking, and stock broking, among others.

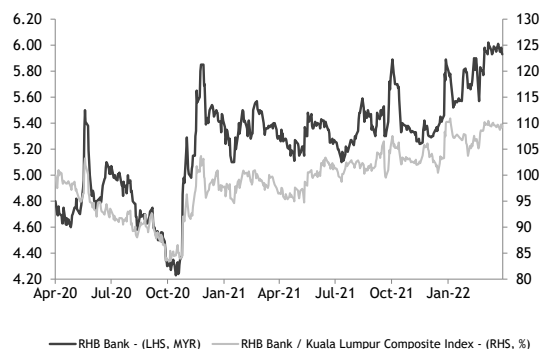
Statistics

52w high/low (MYR)	6.02/5.10
3m avg turnover (USDm)	6.2
Free float (%)	45.7
Issued shares (m)	4,143
Market capitalisation	MYR24.6B USD5.8B

Major shareholders:

Employees Provident Fund	42.1%
OSK Holdings Bhd.	10.2%
Permodalan Nasional Bhd.	6.0%

Price Performance



	-1M	-3M	-12M
Absolute (%)	3	1	12
Relative to index (%)	1	(1)	13

Source: FactSet

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Risk Rating & Score ¹	24.3
Score Momentum ²	-3.1
Last Updated	10 July 2021
Controversy Score ³ (Updated: 09 July 2021)	1

Business Model & Industry Issues

- RHB Bank has the highest CET1 ratios among its domestic peers at 17.2% at the group level and 15.2% at the bank level as at end-Dec 2021. These ratios place the bank in a strong position to weather through the presently volatile economic environment both domestically and abroad.
- The banking sector is one of the transmission mechanisms for government stimulus programs under COVID-19 relief schemes, with an ongoing loan moratorium for the unemployed and reduced instalment payments for individuals that have suffered pay cuts.
- RHB Bank displays no exceptional risks not typical of a large bank for ESG. The group's earnings are principally driven by its domestic operations, while regional contributions are relatively insignificant at this stage (<5%). This domestic concentration reduces its overall environment and corporate governance issues, in our view.

Material E issues

- A constituent of FTSE4Good Bursa Malaysia with an MSCI ESG rating of AA. S&P Global ESG Score of 47/100 in 2021.
- MYR5b Green Financing Commitment by 2025. MYR4.32b extended as at end-2021, 20.7% of which was for renewable energy projects.
- Structured and executed Malaysia's first Green Cross Currency Interest Rate Swap transaction set against ESG-linked KPIs to hedge a USD100m 2-year sustainable loan.
- Established a Group Climate Action Programme to implement requirements under the BNM Climate Change and Principle-based Taxonomy.
- The Group recorded a 41% reduction in GHG emissions intensity per employee in 2021 compared to 2016.
- Will no longer finance any new thermal coal mine projects and coal-fired power plant projects from 2022.
- As at end-Dec 2021, the group's exposure to O&G loans and bonds accounted for 1.9% of total loans.

Material S issues

- The Board of Directors comprised 3 females (33%) and 6 males as at end-Dec 2021. Females comprised 60% of its total workforce in 2021.
- Repayment assistance to 312,992 retail customers (MYR34.5b) and 7,133 SME customers (MYR12.9b) in 2021.
- Digital transactions accounted for 93% of total customer transactions in 2021, up from 86% in 2020.
- As at Dec 2021, it had upskilled over 600 employees in Digital, IT and Analytics to build proficiency in high-demand and future-looking skills.
- Benefited 4,000 underprivileged students from the B40 segment and 40 schools since the launch of RHB X-Cel Academic Excellence in 2018.
- Increased financial literacy for more than 25k secondary students since launch of Money Ma\$ter Programme in 2018.

Key G metrics and issues

- RHB Bank has not had any material accounting & tax, lobbying & public policy, sanctions related, data privacy or security controversies in the past 5 years.
- RHB's BOD comprised 1 executive director/Managing Director, 1 non-independent non-executive Chairman, 6 independent non-executive directors and 1 non-independent non-executive director as at end-2021.
- The Managing Director's remuneration was MYR4.9m in FY21, representing 1.4% of the group's pretax profit.
- The group discloses the remuneration of each individual Director in its annual report.
- IT expenses amounted to MYR280m in FY21 representing 8.0% of total operating expenses.
- RHB Bank is audited by PricewaterhouseCoopers, the world's second largest network of professional firms. PwC has been, at the very least, their auditors over the past 10 years.
- The EPF is a major shareholder of the group with a 42.1% stake as at 7 Apr 2022, which does imply that RHB Bank is a Government-linked company. Previous attempts to reduce this shareholding through potential M&As have since fallen through but this does not preclude future attempts at doing so.
- On 18 June 2021, RHB Bank said it had discovered an error in the issuance of current account e-statements sent via email to a number of customers, due to a technical issue at its external service partner. This affected less than 0.5% of its total retail customer base and the problem was swiftly addressed.

¹**Risk Rating & Score** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. ²**Score Momentum** - indicates changes to the company's score since the last update - a **negative** integer indicates a company's improving risk score; a **positive** integer indicates a deterioration. ³**Controversy Score** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

Loan growth expected to remain robust

Against loan growth of 6.7% in 2021, management targets loan growth of 4-5% for FY22. The bank has a healthy stock of mortgages and for the first couple of months this year, mortgages and auto HP are showing positive growth. The SME ecosystem remains active and is also showing positive traction thus far. Corporate lending is expected to pick up in light of the opening up of the economy and with several infrastructure projects in the pipeline. Singapore's loan book surged 25% YoY in 2021, driven by the property segment and demand remains healthy.

NIM guidance maintained

For FY21, NIM came in at 2.11% versus 1.96% in FY20, including mod loss/gain. Excluding the mod gain/loss, NIM was 2.14% versus 2.06% in FY20. Management guides for NIM of about 2.11% for FY22. Every 25bps rate hike improves NIM by about 3-4bps though based on early data, this guidance could be conservative.

Loans under RA have reduced to just 4.5%

Loans under repayment assistance (RA) declined to 12% of total loans on 31 Jan 2022 from 31% in Nov 2021, and have reduced even further to just 4.5% mid-March. 94% have started repayments and 6% are delinquent, but just about one month in arrears thus far.

URUS exposure has increased

Loans under URUS have increased from MYR216m end-Jan to MYR330m mid-March. Even so, the amount is manageable. URUS loans will not be deemed impaired but classified as Stage 2, because there is some repayment involved.

O&G exposure is manageable

O&G related loans and bonds totalled MYR3.7b end-Dec 2021, making up 1.9% of total loans, of which 14% (MYR0.5b) was on watchlist, while 35% (MYR1.3b) was impaired. Management has put through overlays over the years against problematic O&G loans and the loan loss coverage on both O&G loans and bonds is currently more than 100%.

Exposure to the hospitality sector is about 3% of total loans, but this includes a 0.4% loan exposure to aviation. The balance would comprise hotels, restaurants, tour agencies etc.

Conservative credit cost guidance

In terms of credit costs, RHB foresees credit cost to range around 30bps to 35bps for FY22F. Initial expectations are that FY23 credit cost could still remain elevated and higher than pre-COVID levels of 20-25bps. 2022 would be too soon to see any write-backs of overlays.

Watching non-interest income (NOII)

Management is cognizant of the risks posed to investment income should bond yields rise further. At this stage, the bank is actively rebuilding its FVOCI (fair value to comprehensive income) investment portfolio, which should benefit from higher coupon rates. It expects investment banking and commercial banking fees to fare decently this year, supported by wealth management, unit trust and bancassurance income, but the brokerage business is likely to be a challenge.

Managing expenses

FY21 operating expenses increased 4% YoY as personnel costs rose 4.7% YoY. The group's cost/income ratio declined to 45% in FY21 from 47% in FY20. Management targets a cost/income ratio of 45% or less for FY22.

Management has targeted to spend MYR300m on IT infrastructure modernization and MYR200m on digital projects and to date, it has spent 60% and 70% respectively.

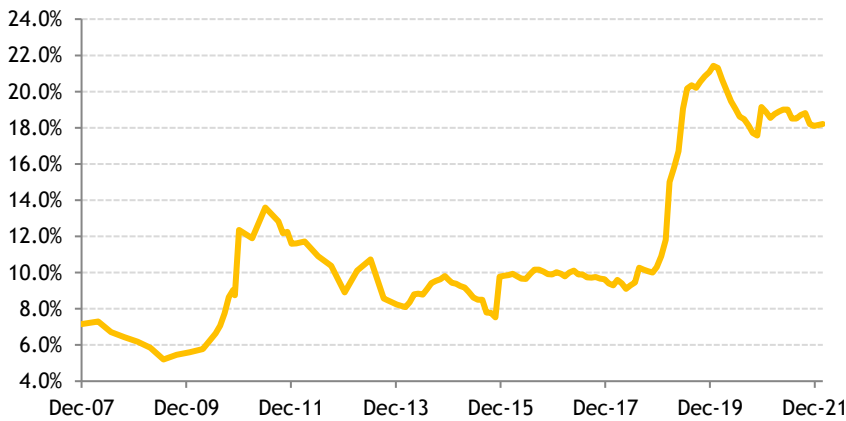
Participating in digital banking bid

Management views its recent MOU to joint venture on a 40:60 basis with Boost Holdings (Axiata's 75.4% subsidiary) as a strategic move. If the JV is successful in securing a digital banking license, this will allow the bank to tap into a relatively separate market segment (of the under-served population), while over the long term, there is the possibility of referral work from the digital to the conventional bank as income levels rise and demand increases for more sophisticated products. The initial capital requirement is just MYR100m, of which RHB's portion would be MYR40m, if it is successful in its bid.

Higher cash dividends in the future?

CET1 of 17.2% end-Dec 2021 is the highest among domestic peers. In FY21, management proposed a final DPS of 25sen, taking FY21 DPS to 40sen. This represents a payout ratio of 62.9%, but the cash portion was just 30%. Management will strive for an eventual cash dividend payout ratio of 50%.

Foreign shareholding in RHB Bank (18.20% end-Feb 2022)

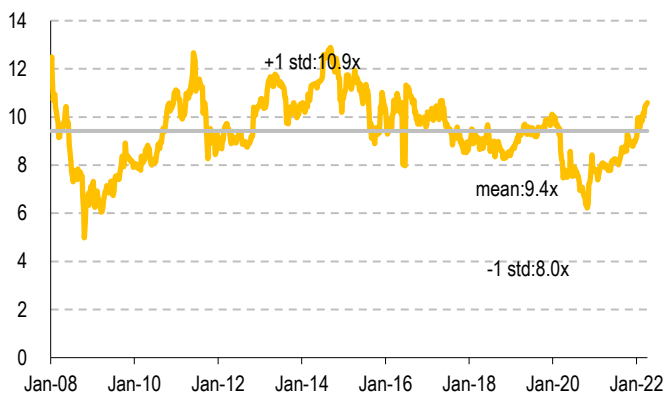


Source: Bank

Risk statement

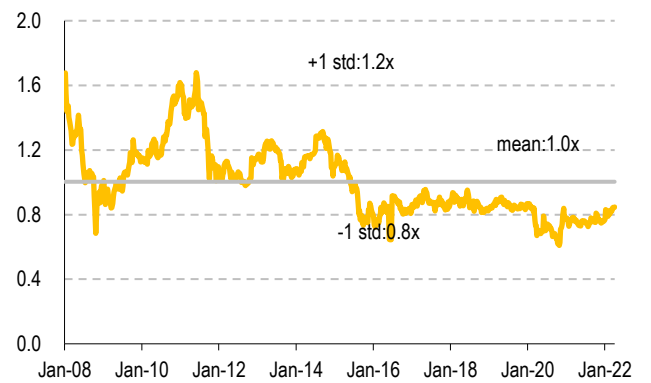
As the fourth largest domestic financial institution in Malaysia in terms of asset size, any economic slowdown in the country would have a knock-on effect on the group’s operating performance and hence potentially our estimates, rating, and target price. Volatility in the O&G sector could result in asset quality issues for both its Malaysia and Singapore loan exposures.

One-year forward rolling PER (x)



Source: Bloomberg, Maybank IBG Research

One-year forward rolling P/BV (x)



Source: Bloomberg, Maybank IBG Research

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Metrics					
Core P/E (x)	9.4	7.7	10.0	8.4	7.7
Core FD P/E (x)	9.4	7.7	10.0	8.4	7.7
P/BV (x)	0.8	0.8	0.8	0.8	0.8
P/NTA (x)	0.9	0.9	1.0	0.9	0.9
Net dividend yield (%)	3.2	7.4	5.0	5.9	6.5
INCOME STATEMENT (MYR m)					
Interest income	6,569.4	6,083.6	6,626.6	6,885.8	7,134.0
Interest expense	(3,226.0)	(2,266.5)	(2,581.0)	(2,611.6)	(2,707.9)
Net interest income	3,343.4	3,817.1	4,045.6	4,274.2	4,426.2
Islamic banking income	1,665.7	2,095.1	2,262.7	2,443.7	2,639.2
Net insurance income	216.5	235.0	246.8	259.1	272.1
Net fees and commission	1,027.7	1,094.3	1,149.0	1,206.5	1,266.8
Other income	932.5	547.1	448.4	362.5	367.6
Total non-interest income	2,176.7	1,876.4	1,844.2	1,828.1	1,906.4
Operating income	7,185.7	7,788.7	8,152.5	8,546.0	8,971.8
Staff costs	(2,041.6)	(2,137.7)	(2,244.6)	(2,356.8)	(2,474.6)
Other operating expenses	(1,345.1)	(1,384.7)	(1,437.7)	(1,499.3)	(1,559.8)
Operating expenses	(3,386.7)	(3,522.4)	(3,682.2)	(3,856.1)	(4,034.4)
Pre-provision profit	3,799.0	4,266.3	4,470.2	4,689.9	4,937.4
Loan impairment allowances	(1,075.4)	(737.2)	(818.0)	(841.4)	(741.2)
Other allowances	(79.2)	(0.3)	0.0	0.0	0.0
Associates & JV income	0.0	0.0	0.0	0.0	0.0
Pretax profit	2,644.4	3,528.8	3,652.2	3,848.6	4,196.2
Income tax	(639.9)	(905.6)	(1,196.2)	(923.7)	(1,007.1)
Minorities	(6.6)	(4.7)	(4.4)	(5.8)	(6.4)
Discontinued operations	34.7	0.0	0.0	0.0	0.0
Reported net profit	2,032.5	2,618.4	2,451.5	2,919.0	3,182.7
Core net profit	2,315.5	2,804.5	2,451.5	2,919.0	3,182.7
BALANCE SHEET (MYR m)					
Cash & deposits with banks	14,973.7	23,318.1	24,484.0	25,708.2	26,993.6
Sec. under resale agreements	0.0	0.0	0.0	0.0	0.0
Derivatives financial assets	0.0	0.0	0.0	0.0	0.0
Dealing securities	4,462.1	2,778.2	2,917.2	3,063.0	3,216.2
Available-for-sale securities	58,908.5	59,102.4	63,830.6	68,937.0	74,452.0
Investment securities	0.0	0.0	0.0	0.0	0.0
Loans & advances	182,424.9	194,896.6	203,758.1	212,006.6	220,486.9
Central bank deposits	612.7	635.0	5,910.9	6,140.9	6,379.9
Investment in associates/JVs	0.0	0.0	0.0	0.0	0.0
Insurance assets	0.0	0.0	0.0	0.0	0.0
Fixed assets	1,163.2	1,191.3	1,215.1	1,239.4	1,264.2
Intangible assets	3,290.4	3,348.9	3,348.9	3,348.9	3,348.9
Other assets	5,314.5	4,270.9	4,362.5	4,457.4	4,555.7
Total assets	271,150.0	289,541.5	309,827.3	324,901.5	340,697.3
Deposits from customers	203,470.8	219,313.9	227,481.9	236,581.2	246,044.4
Deposits from banks & FIs	21,035.2	23,406.8	24,343.1	25,316.8	26,329.5
Derivatives financial instruments	0.0	0.0	0.0	0.0	0.0
Subordinated debt	2,718.7	3,221.9	3,221.9	3,221.9	3,221.9
Other securities in issue	3,545.2	3,646.4	4,246.4	4,246.4	4,246.4
Other borrowings	4,785.5	4,636.0	4,852.2	5,079.4	5,317.8
Insurance liabilities	0.0	0.0	0.0	0.0	0.0
Other liabilities	8,538.0	7,286.0	16,525.7	19,834.5	23,318.2
Total liabilities	244,093.4	261,510.9	280,671.2	294,280.1	308,478.1
Share capital	6,994.1	7,612.6	7,612.6	7,612.6	7,612.6
Reserves	20,029.7	20,385.7	21,506.8	22,966.4	24,557.7
Shareholders' funds	27,023.8	27,998.3	29,119.4	30,579.0	32,170.3
Preference shares	0.0	0.0	0.0	0.0	0.0
Minority interest	32.7	32.2	36.6	42.5	48.9
Total equity	27,056.6	28,030.5	29,156.1	30,621.4	32,219.2
Total liabilities & equity	271,150.0	289,541.5	309,827.3	324,901.5	340,697.3

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Ratios					
Growth (%)					
Net interest income	(7.2)	14.2	6.0	5.7	3.6
Non-interest income	18.3	(13.8)	(1.7)	(0.9)	4.3
Operating expenses	(0.0)	4.0	4.5	4.7	4.6
Pre-provision profit	3.5	12.3	4.8	4.9	5.3
Core net profit	(8.4)	21.1	(12.6)	19.1	9.0
Gross loans	5.6	6.7	4.4	4.0	4.0
Customer deposits	6.8	7.8	3.7	4.0	4.0
Total assets	5.3	6.8	7.0	4.9	4.9
Profitability (%)					
Non-int. income/Total income	30.3	24.1	22.6	21.4	21.2
Average lending yields	3.26	3.02	3.09	3.09	3.08
Average cost of funds	1.73	1.17	1.27	1.26	1.26
Net interest margin	1.98	2.19	2.19	2.22	2.23
Cost/income	47.1	45.2	45.2	45.1	45.0
Liquidity (%)					
Loans/customer deposits	89.7	88.9	89.6	89.6	89.6
Asset quality (%)					
Net NPL	0.9	0.8	0.8	0.8	0.8
Gross NPL	1.7	1.5	1.5	1.4	1.4
(SP+GP)/average gross loans	0.6	0.4	0.4	0.4	0.3
Loan loss coverage	115.9	122.5	112.2	117.0	117.0
Capital adequacy (%)					
CET1	16.2	17.2	15.4	15.4	15.5
Tier 1 capital	16.2	17.2	15.5	15.6	15.7
Risk-weighted capital	18.4	19.8	17.8	17.7	17.7
Returns (%)					
ROAE	8.8	10.2	8.6	9.8	10.1
ROAA	0.9	1.0	0.8	0.9	1.0
Shareholders equity/assets	10.0	9.7	9.4	9.4	9.4

Source: Company; Maybank IBG Research

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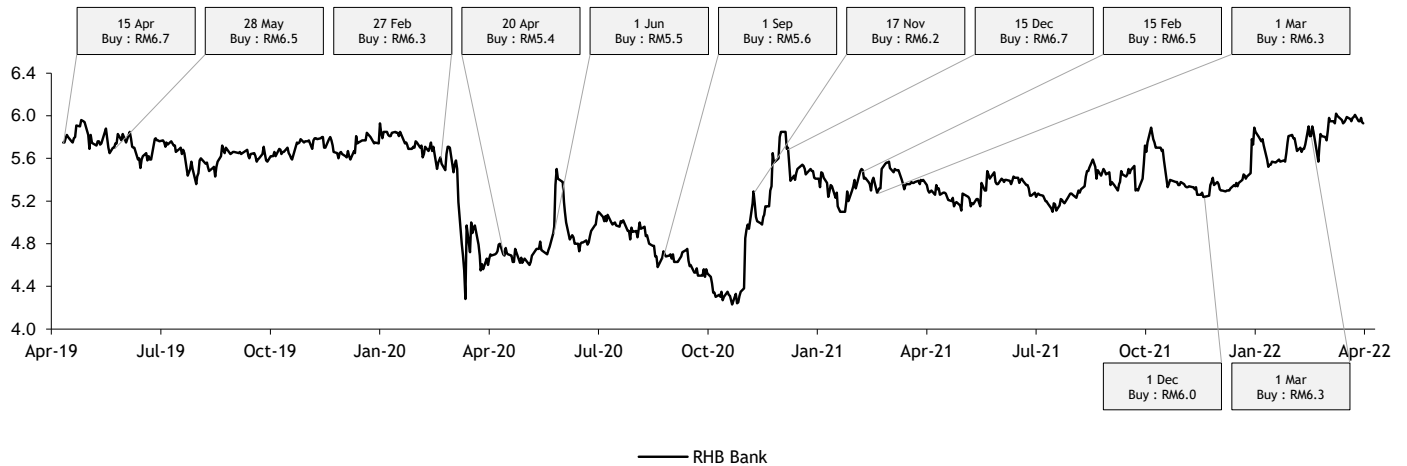
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