

# RHB Bank Berhad

In Line

By Ahmad Ramzani Ramli | [ahmadramzani@kenanga.com.my](mailto:ahmadramzani@kenanga.com.my)

9MFY19 earnings came within our/market expectations at 78% of full-year estimates on account of lower impairment allowances and improved fee-based income. While loans were above expectations, management guided for a challenging 5% growth target for FY19. NII was dragged by higher NIM compression which is expected to be stable for the final quarter of this year but NOII might be hard pressed to repeat its 1HFY19 performance. Nevertheless, our conservative assumptions as well as TP of RM6.05 are maintained but the call is downgraded to MARKET PERFORM given the stock's outperformance and its price approaching fair value.

In line. 9MFY19 CNP of RM1.86b came in line with our/market expectations, accounting for 78% of both full-year estimates. No dividend declared as expected.

**Driven by Islamic banking and fee-based income.** YoY, CNP of RM1,861m (+7%) was supported by improved operating profit (+7%) to RM2,499m as impairment allowances on loans fell 9% to RM239m. Top-line at RM5,260m (moderating by 380bps to 3.7%) was supported by both Islamic banking income (+18%) and NOII (+6%). While improvement in Islamic banking income was supported by lower provisioning, NOII was supported by gains from investment securities (+44% to RM604m). Loans growth was at +5.2% (vs. guidance/estimation of ~+5%) but NII fell (-2.8%) due to falling NIM (-14bps) impacted by the OPR cut in May 2019 coupled with higher funding costs (with longer tenure) from the OPR hike on Jan 18. Loans were driven by retail (+8%), underpinned by mortgages (+10%) and Unsecured Business (+4%). Domestic loans (+5.1%) outpaced system at +3.9%. Islamic financing contributed 37% of total Group loans/financing. Asset improved as GIL fell 21bps to 2.16% with credit charge falling 3bps to 19bps (vs. guidance/expectation of high teens). CIR improved by 50bps to 48.5% (as guided/expected of ~49%).

**QoQ, NIM improved, fee-based income fell.** CNP was flat at RM615m as topline fell 2% which was offset by drops in both opex (-2%) and Impairment allowances (-7%). NII improved +4% but both Islamic banking and NOII fell at 3% and 13%, respectively. The former was due to higher provisioning with the latter due to decline in investment securities (-21%) to RM176m. While loans were marginally flat, the improved NIM (+7bps as FDs were re-priced) contributed to the NII performance. Asset quality remained relatively stable as both GIL and credit charge experienced no significant movement from the preceding quarter.

**Target ROE of 10.5% looks challenging.** No change in management's target of FY19E ROE at 10.5% (vs. ours of 9.9%). NOII is unlikely to repeat its 1HFY19 performance (no OPR cut and unlikely for further realised gains for the year) and loans might be muted due to the absence or corporate loans. NIM is expected to hover around 2.13% (implying 10bps compression), given that re-pricing of funding costs is expected to come on-stream by 3Q/4Q. Management expects its loans target (+5% YoY) to be challenging, underpinned by mortgage and SMEs (QoQ moderated by 70bps to +1.7%) and we do not expect aggressive foray into PF (in the Islamic market space given its higher provisioning in 3Q). Nevertheless, while NIM looks likely to stabilise in 4Q, deposit competition might prevail ahead as its LDR is still above the industry average of 93%. Credit charge is expected to be as guided (in high teens) with GIL to improve given RM180m impaired loans under the R&R bracket expected to improve GIL by 11bps by end of FY19.

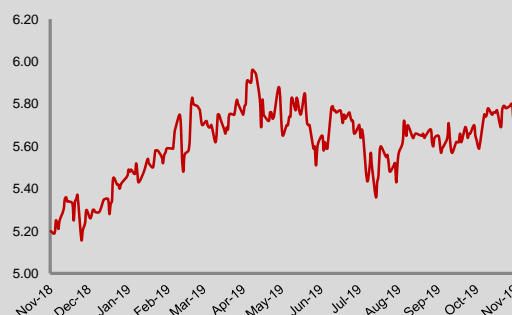
**No revision to forecasts.** Our FY19E/FY20E NP are maintained at RM2.4b/RM2.5b and we keep our conservative assumptions for both FYs: (i) loans growth of <5%/-5.2% (unchanged), (ii) CIR at 49% (unchanged), (iii) 5-10bps compression/+3bps (unchanged), (iv) credit charge at 19bps (unchanged), and (v) ROE at 10% (unchanged).

**TP maintained at RM6.05** based on a target 0.92x PBV FY20E (implying a 0.5SD below mean valuation) - to reflect potential risk from uncertainties ahead undermining fee-based income growth. We believe loans target is achievable given the current accommodative interest rate environment with asset quality expected to be stable given its focus on the retail segment. However, it is approaching fair valuation given the recent surge in share price with soft dividend yield vs. industry average of >4%. Hence, downgrade to MARKET PERFORM.

## MARKET PERFORM

Price : RM5.78  
Target Price : RM6.05

### Share Price Performance



KLCI 1,591.35  
YTD KLCI chg -5.9%  
YTD stock price chg 9.3%

### Stock Information

Shariah Compliant	No
Bloomberg Ticker	RHBBANK MK Equity
Market Cap (RM m)	23,178.1
Shares Outstanding	4,010.0
52-week range (H)	6.07
52-week range (L)	5.11
3-mth avg daily vol:	3,859,105
Free Float	33%
Beta	1.0

### Major Shareholders

Employees Provident Fund	41.3%
OSK Holdings Bhd	10.1%
Amanah Saham Bumiputera	4.9%

### Summary Earnings Table

FY Dec (RM'm)	2018A	2019E	2020E
Net interest inc.	3,654	3,570	3,833
Islamic banking inc.	1,428	1,640	1,751
Non-interest inc.	1,722	1,744	1,702
Total inc.	6,804	6,953	7,285
Pre-tax profit	3,119	3,210	3,394
<b>Net profit (NP)</b>	<b>2,305</b>	<b>2,399</b>	<b>2,536</b>
Consensus NP		2409	2538
Earnings revision %			
EPS (RM)	0.57	0.60	0.63
EPS growth (%)	18.1	4.1	5.7
Net DPS (RM)	0.21	0.21	0.22
BV/share (RM)	5.82	6.21	6.63
NTA/share (RM)	5.01	5.40	5.81
ROE (%)	9.9	9.9	9.9
PER (x)	10.1	9.7	9.1
Price/book (x)	1.0	0.9	0.9
Net dividend yield (%)	3.5	3.6	3.8

26 November 2019

**Other Salient Points**

Key risks to our call are: (i) steeper margin squeeze, (ii) higher-than-expected loans & deposits growth, (iii) lower-than-expected rise in credit charge, and (iv) further slowdown in capital market activities.

**Results Highlight**

Y/E : Dec (RM m)	3Q19	2Q19	QoQ Chg.	3Q18	YoY Chg.	9M19	9M18	YoY Chg.
Net interest income	917.2	880.9	4.1%	890.5	3.0%	2,678.4	2,756.3	-2.8%
Net inc. from Islamic banking	418.8	431.3	-2.9%	396.8	5.6%	1,231.1	1,041.6	18.2%
Non-interest Income	405.0	464.4	-12.8%	398.0	1.8%	1,350.7	1,273.9	6.0%
<b>Total income</b>	<b>1,741.1</b>	<b>1,776.6</b>	<b>-2.0%</b>	<b>1,685.3</b>	<b>3.3%</b>	<b>5,260.1</b>	<b>5,071.8</b>	<b>3.7%</b>
Other operating expenses	(843.2)	(861.2)	-2.1%	(824.1)	2.3%	(2,550.8)	(2,486.1)	2.6%
(Allowances) / write-backs	(70.9)	(76.1)	-6.8%	(82.2)	-13.7%	(239.1)	(263.1)	-9.1%
(Allowances) / write-backs on other assets	7.0	2.2	225%	0.0	N.A	28.5	21.2	34.1%
<b>Operating profit</b>	<b>834.0</b>	<b>841.5</b>	<b>-0.9%</b>	<b>779.0</b>	<b>7.1%</b>	<b>2,498.7</b>	<b>2,343.9</b>	<b>6.6%</b>
Non-operating gains / (losses)	0.0	0.0	N.A	0.0	-100.0%	(0.0)	0.1	-146.9%
<b>Pre-tax profit</b>	<b>834.0</b>	<b>841.5</b>	<b>-0.9%</b>	<b>779.0</b>	<b>7.1%</b>	<b>2,498.7</b>	<b>2,344.0</b>	<b>6.6%</b>
Taxation & minorities	(218.1)	(226.1)	-3.5%	(200.4)	8.9%	(637.2)	(604.2)	5.5%
<b>Net profit</b>	<b>615.828</b>	<b>615.4</b>	<b>0.1%</b>	<b>578.7</b>	<b>6.4%</b>	<b>1,861.4</b>	<b>1,739.8</b>	<b>7.0%</b>
<b>EPS (sen)</b>	<b>15.4</b>	<b>15.3</b>	<b>0.1%</b>	<b>14.4</b>	<b>6.4%</b>	<b>46.4</b>	<b>43.4</b>	<b>7.0%</b>
<b>Net DPS declared (sen)</b>	<b>0.0</b>	<b>12.5</b>	<b>-</b>	<b>0.0</b>	<b>N.A</b>	<b>12.5</b>	<b>7.5</b>	<b>66.7%</b>
Gross loans	172,759	172,346	0.2%	164,314	5.1%	172,759	164,314	5.1%
Net loans	169,675	169,232	0.3%	160,979	5.4%	169,675	160,979	5.4%
Customer deposits	183,118	185,029	-1.0%	171,374	6.9%	183,118	171,374	6.9%
Current and savings account	46,443	49,179	-5.6%	46,145	0.6%	46,443	46,145	0.6%
<b>BV/share (RM)</b>	<b>6.44</b>	<b>6.20</b>	<b>3.9%</b>	<b>5.82</b>	<b>10.6%</b>	<b>6.44</b>	<b>5.82</b>	<b>10.6%</b>
<b>NTA/share (RM)</b>	<b>5.62</b>	<b>5.38</b>	<b>4.5%</b>	<b>5.02</b>	<b>12.0%</b>	<b>5.62</b>	<b>5.02</b>	<b>12.0%</b>
Annualized Net interest margin	2.07%	2.00%		2.12%		2.01%	2.15%	
Cost-to-income ratio	48.4%	48.5%		48.9%		48.5%	49.0%	
Effective tax rate	26.0%	26.7%		25.5%		25.4%	25.7%	
G. loan-to-deposit ratio	94.3%	93.1%		95.9%		94.3%	95.9%	
N. loan-to-deposit ratio	92.7%	91.5%		93.9%		92.7%	93.9%	
CASA to deposit ratio	25.4%	26.6%		26.9%		25.4%	26.9%	
Gross impaired loans ratio	2.16%	2.15%		2.37%		2.16%	2.37%	
Total allowances-to-loans	-1.8%	-1.8%		-2.0%		-1.8%	-2.0%	
Loan loss coverage	83.7%	85.0%		85.7%		83.7%	85.7%	
Credit charge ratio	0.17%	0.18%		0.20%		0.19%	0.22%	
Credit charge ratio-loans only	0.17%	0.18%		0.20%		0.19%	0.22%	
CET 1 capital (Group level)	16.5%	16.3%		14.8%		16.5%	14.8%	
Total capital (Group level)	19.0%	19.4%		18.0%		19.0%	18.0%	
Annualised ROE	10.0%	10.3%		10.1%		9.8%	10.1%	

Source: Company, Kenanga Research

26 November 2019

## Peer Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div Yld (%)	Target Price (RM)	Rating
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.		
<b>BANKING</b>																	
AFFIN BANK BHD	1.99	3,952.2	N	12/2019	4.1%	2.9%	15.0%	15.8%	7.9	6.8	5.9	0.5	0.4	6.5%	2.8%	2.45	OP
ALLIANCE BANK MALAYSIA BHD	2.63	4,071.5	N	03/2020	5.6%	7.2%	-9.4%	19.1%	8.3	7.6	8.4	0.7	0.7	8.3%	6.3%	3.30	OP
AMMB HOLDINGS BHD	4.03	12,147.2	N	03/2020	10.4%	4.5%	-0.4%	2.8%	8.1	8.1	7.9	0.6	0.6	7.8%	5.0%	4.75	OP
BIMB HOLDINGS BHD	4.25	7,498.2	Y	12/2019	10.0%	6.6%	7.6%	13.6%	10.9	10.5	9.7	1.5	1.4	14.0%	3.8%	4.80	OP
CIMB GROUP HOLDINGS BHD	5.34	52,988.6	N	12/2019	4.6%	5.0%	-15.8%	4.1%	8.9	11.0	10.9	1.0	0.9	8.6%	4.2%	6.45	OP
HONG LEONG BANK BERHAD	16.76	36,331.0	N	06/2020	4.1%	5.1%	1.0%	0.5%	13.0	12.9	12.8	1.4	1.3	10.8%	3.0%	17.30	MP
MALAYAN BANKING BHD	8.66	97,350.2	N	12/2019	3.8%	4.3%	-2.2%	4.7%	11.8	12.1	11.5	1.2	1.1	9.7%	6.5%	9.70	OP
MALAYSIA BUILDING SOCIETY	0.86	5,773.5	N	12/2019	-4.2%	4.5%	-17.8%	8.6%	8.6	10.4	10.0	0.7	0.7	6.7%	5.8%	1.10	OP
PUBLIC BANK BERHAD	19.80	76,866.3	N	12/2019	3.9%	5.2%	-0.1%	3.4%	13.7	13.7	13.2	1.9	1.9	13.7%	3.5%	22.10	OP
RHB BANK BHD	5.78	23,178.1	N	12/2019	6.0%	4.8%	4.1%	5.7%	10.1	9.7	9.1	1.0	0.9	9.9%	3.6%	6.05	MP
Simple Average					4.8%	5.0%	-1.8%	7.8%	10.1	10.3	9.9	1.1	1.0	9.6%	4.4%		

Source: Bloomberg, Kenanga Research

26 November 2019

**Stock Ratings are defined as follows:****Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

**Sector Recommendations\*\*\***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

**\*\*\*Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

---

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies.

---

Published and printed by:

**KENANGA INVESTMENT BANK BERHAD (15678-H)**

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia

Telephone: (603) 2172 0880 Website: [www.kenanga.com.my](http://www.kenanga.com.my) E-mail: [research@kenanga.com.my](mailto:research@kenanga.com.my)

