

01 March 2021

RHB Bank Bhd

FY20 Within Expectations

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FY20 PATAMI of RM2.06b (-18%) is within expectations but full-year dividend of 17.65 sen disappointed as the group was conservative with its capital. Frontloading of impairments proved far greater than initial credit cost guidance of 50bps, but management believes it should sufficiently support the group going into FY21. RHBANK's higher capital/CET-1 ratio could be reflective of its ability to ride out economic uncertainties longer. Maintain OP with a higher FY22E GGM-derived PBV TP of RM6.40 (from RM6.30).

FY20 within expectations. RHBANK's FY20 reported profit of RM2.03b is within expectations, making up 105%/96% of our/consensus expectations. However, a final dividend of 7.65 sen (YTD: 17.65 sen) missed our initial 20.0 sen full-year expectations (c.40% payout). Management described that they withheld payments in consideration of capital management ahead of the Dividend Reinvestment Plan (DRP) to come.

YoY, FY20 net interest income climbed by 4% despite loans growth of 6% as NIMs (1.97%, -21 bps) was diluted by OPR cuts during the year. Meanwhile, NOII surged by 18% from higher brokerage and investment-related gains, leading to a total income of RM7.19b (+1%). PPOP inched further by 4% to RM3.81b as CIR improved (47.1%, -1.6 ppt) amidst stable opex incurred during the year. Impairment allowances soared by over 200% as management provisioned for overlays on Covid-19's impact and as pre-emptive measures against spill-overs into FY21, leading up to a LLC of 120%. With this, PATAMI declined 18% to RM2.03b. Despite business uncertainties, asset quality improved with GIL dipping to 1.7% (-0.2ppt) but we believe this could have been the relief brought by the loan moratorium. CASA-to-deposit ratio rose to 30.9% (FY19: 25.7%) as consumers grew more cash conservative.

QoQ, 4QFY20 net interest income surged by 22%, stemmed by overall improvements in loan demands. Additionally, the group's fixed deposits have been fully repriced, lightening the cost of funds. Impairments remained lofty due to pre-emptive provisioning, causing a 30% earnings drag in 4QFY20.

Key briefing highlights. Management expressed the intent to frontload further provisions at year-end, but the rate has already breached the initial credit cost guidance of 50 bps at 59 bps. Hence, management reckons that the group is currently well sheltered but will stay observant on any prolonged stress from the pandemic and is prepared to book in the necessary credit costs, albeit at a lower level than FY20. Anticipating economic recovery instilled by Covid-19 vaccinations, management expects loans to maintain their pace of growth and GIL ratio to be fairly contained at below 2%, although we anticipate there could be kicks from the accounts under the R&R schemes who opted for extensions. That said, the group is involved to ensure the programs can resuscitate the accounts at risk, offering either reduction or deferment options. Cost prudence will remain a priority in the group with the intent to keep GIL stable. All in, management is confident that a ROE of 9.0% is achievable for FY21.

Post-results, we raise our FY21E earnings by 11% on the back of better loans growth and after fine tuning our cost assumptions to be closer to management's targets. We also introduce our FY22E numbers, projecting a 13% EPS growth.

Maintain OUTPERFORM with a higher TP of RM6.40 (from RM6.30). Our TP is based on a rolled over FY22E GGM-derived PBV of 0.86x (closely within 5-year mean), although slightly below our previously applied 0.92x as we account for a higher risk-free rate of 3.1% (from 2.7%). The new DRP proposition may be on interest to investors as it opens more avenues to reward investors. Meanwhile, the group commands the highest CET-1 ratio amongst its peers, providing room for capital management needs should uncertainties from the pandemic prolong.

OUTPERFORM ↔

Price : RM5.39
Target Price : RM6.40 ↑

Share Price Performance



KLCI	1,577.75
YTD KLCI chg	-3.0%
YTD stock price chg	-0.6%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	RHBANK MK Equity
Market Cap (RM m)	21,734.4
Shares Outstanding	4,010.0
52-week range (H)	5.85
52-week range (L)	4.23
3-mth avg daily vol	5,455,633
Free Float	29%
Beta	1.1

Major Shareholders

Employees Provident Fund	41.9%
OSK Holdings Bhd	10.1%
Kumpulan Wang Persaraan	6.0%

Summary Earnings Table

FY Dec (RM m)	2020A	2021E	2022E
Net interest income	5,009	5,532	5,784
Non-interest income	2,177	1,954	2,030
Total income	7,186	7,485	7,814
Operating expenses	-3,387	-3,522	-3,646
Loan impairment	-1,155	-810	-619
Pre-tax profit	2,644	3,153	3,549
PATAMI	2,033	2,358	2,654
Core PATAMI	2,033	2,358	2,654
Consensus NP		2,381	2,702
Earnings revision		11.2%	-
Core EPS (RM)	0.51	0.59	0.66
EPS growth	-18%	16%	13%
NDPS (RM)	0.18	0.23	0.26
BV/share (RM)	6.7	7.1	7.5
NTA/share (RM)	5.9	6.3	6.7
ROE (%)	7.7	8.5	9.1
PER (x)	10.6	9.2	8.1
P/BV (x)	1.25	1.32	1.39
Net Div. Yield (%)	3.3	4.3	4.8

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Risks to our call include: (i) higher-than-expected margin squeeze, (ii) lower-than-expected loans growth, (iii) worse-than-expected deterioration in asset quality, (iv) further slowdown in capital market activities, and (v) adverse currency fluctuations.

Results Highlights								
	4Q	3Q	QoQ	4Q	YoY	12M	12M	YoY
FYE Dec (RM m)	FY20	FY20	Chg	FY19	Chg	FY20	FY19	Chg
Net interest income	1,543	1,261	22.3%	1,315	17.3%	5,009	5,222	-4.1%
Non-interest income	551	569	-3.2%	526	4.7%	2,177	1,868	16.5%
Total income	2,094	1,830	14.4%	1,841	13.7%	7,186	7,090	1.4%
Operating expenses	-889	-854	4.2%	-921	-3.4%	-3,387	-3,451	-1.9%
Pre-impairment profit	1,204	976	23.3%	920	30.9%	3,799	3,639	4.4%
(Allowances)/ write-backs	-549	-168	227.3%	-80	586.9%	-1,145	-319	258.7%
(Allowances)/ write-backs on other assets	-58	-19	211.2%	12	-579.1%	-10	40	-123.5%
Operating profit	597	790	-24.4%	852	-29.9%	2,644	3,360	-21.3%
Non-operating gains / (losses)	0	0	N.M	0	N.M.	0	0	-100.0%
Profit before tax	597	790	-24.4%	852	-29.9%	2,628	3,360	-21.8%
Taxation	-135	-214	-37.0%	-229	-41.1%	-640	-863	-25.9%
Minority interest	-1	46	-101.5%	-2	-59.9%	42	-15	-381.2%
Net PATAMI	439	622	-29.5%	621	-29.4%	2,033	2,482	-18.1%
Core PATAMI	439	622	-29.5%	621	-29.4%	2,033	2,482	-18.1%
Gross loans	186,114	182,421	2.0%	176,175	5.6%	186,114	176,175	5.6%
Gross impaired loans	3,181	3,091	2.9%	3,479	-8.6%	3,181	3,479	-8.6%
Customer deposits	203,471	196,773	3.4%	190,555	6.8%	203,471	190,555	6.8%
Current and savings account (CASA)	62,779	61,580	1.9%	48,931	28.3%	62,779	48,931	28.3%
Total assets	271,150	263,038	3.1%	257,592	5.3%	271,150	257,592	5.3%
Shareholders' equity	27,024	27,295	-1.0%	25,775	4.8%	27,024	25,775	4.8%
Est. annualised NIM	2.38%	1.98%		2.16%		1.96%	2.18%	
Cost-to-income ratio	43.0%	46.6%		50.0%		47.1%	48.7%	
Annualised credit cost (bps)	119.3	37.0		18.3		63.2	18.5	
Effective tax rate	22.6%	27.1%		26.9%		24.3%	25.7%	
Annualised ROA	0.7%	0.9%		1.0%		0.8%	1.0%	
Annualised ROE	6.5%	9.2%		9.6%		7.7%	10.1%	
Gross impaired loans ratio	1.7%	1.7%		2.0%		1.7%	2.0%	
Loan loss coverage ratio (LLC)	119.6%	108.2%		85.7%		119.6%	85.7%	
LLC plus regulatory reserves	121.3%	114.9%		109.8%		121.3%	109.8%	
Loan-to-deposit ratio	91.1%	92.2%		90.9%		91.1%	90.9%	
CASA-to-deposit ratio	30.9%	31.3%		25.7%		30.9%	25.7%	
CET-1 capital (Group level)	16.2%	16.4%		16.3%		16.2%	16.3%	

Source: Company, Kenanga Research

Management Guidance		
	FY21 Targets	FY20 Performance
Credit cost	< FY20	59 bps
Return on equity	9.0%	7.8%
Loans Growth	4 – 5%	5.6%
CASA composition	30.0%	30.9%
GIL ratio	<2.0%	1.71%
CIR ratio	<47.5%	47%

Source: Company, Kenanga Research

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Peer Table 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.			
Stocks Under Coverage																		
AFFIN BANK BHD	1.76	3,660.4	N	12/2021	-2.6%	3.0%	46.1%	9.8%	15.9	10.9	9.9	0.4	0.4	3.5%	2.8%	1.40	UP	
ALLIANCE BANK MALAYSIA BHD	2.65	4,102.5	N	03/2021	2.4%	2.9%	-15.5%	35.1%	9.7	11.4	8.5	0.7	0.7	5.9%	2.4%	2.50	MP	
AMMB HOLDINGS BHD	3.16	9,510.4	N	03/2021	0.3%	4.5%	-27.4%	35.3%	7.1	9.8	7.2	0.5	0.5	5.1%	3.6%	3.70	OP	
BIMB HOLDINGS BHD	4.06	7,525.8	Y	12/2021	7.6%	3.9%	6.1%	0.8%	10.5	9.9	9.8	1.2	1.1	11.5%	3.4%	5.25	OP	
CIMB GROUP HOLDINGS BHD	4.33	42,966.4	N	12/2021	-9.3%	-0.3%	-73.8%	176.0%	9.4	36.0	13.0	0.8	0.8	2.1%	1.1%	3.60	UP	
HONG LEONG BANK BHD	18.00	39,018.9	N	06/2021	14.8%	9.6%	14.3%	6.3%	14.8	12.9	12.2	1.4	1.3	10.1%	2.0%	18.50	MP	
MALAYAN BANKING BHD	8.03	91,654.4	N	12/2022	-4.7%	2.8%	8.8%	19.7%	13.3	12.2	10.2	1.1	1.1	8.7%	7.0%	9.10	OP	
MALAYSIA BUILDING SOCIETY BHD	0.675	4,708.4	N	12/2021	66.6%	3.0%	173.9%	14.4%	17.1	6.2	5.5	0.5	0.5	8.1%	4.4%	0.820	OP	
PUBLIC BANK BHD	4.16	80,748.5	N	12/2021	1.4%	2.3%	15.6%	3.1%	16.6	14.3	13.9	1.7	1.6	11.6%	3.4%	4.55	OP	
RHB BANK BHD	5.42	21,734.4	N	12/2021	-6.6%	-2.6%	-18.1%	16.0%	8.8	10.7	9.2	0.8	0.8	7.7%	3.3%	6.40	OP	
Simple Average					7.0%	2.9%	13.0%	31.6%	12.3	13.4	9.9	0.9	0.9	7.4%	3.3%			

Source: Kenanga Research

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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.**

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