RHB Bank Bhd

9MFY21 Above Expectations

OUTPERFORM ↔

Price :	**RM5.28**
Target Price :	**RM6.50** ↑

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9MFY21 normalised PATAMI of RM2.15b (+16%) is above estimates thanks to stronger overall top-line and cost performance. Management appears comfortable on closing FY21 as guided but with a slight bump in credit cost exposure. This traction could extend over to FY22 if not for worsening of the Covid situation. Otherwise, we opine its heavy overlays and high CET-1 ration should cushion some damage. Maintain OUTPERFORM but raise our GGM-derived PBV TP to RM6.50 (from RM6.10).

9MFY21 results better than expected. 9MFY21 normalised PATAMI of RM2.15b is above expectations, making up 92%/86% of our/consensus expectations. The positive deviation was due to better-than-expected loans growth, NOII and CIR. 4QFY21 could see some concentrated provisions, which we had already factored in. No dividend was declared this quarter as the group typically pays its dividends bi-annually.

YoY, total income grew by 15% to RM5.87b thanks to stronger NII (+26%) which was led by a 7% loans growth led by mortgages, SMEs and demand in Singapore while NIMs expanded to 2.18% (+30bps) in a low cost of fund environment. That said, CASA moderated to 30.1% (9MFY20: 31.3%). Meanwhile, NOII fell by 9% as improvements in fee-based income was offset by poorer comparative treasury performance. CIR narrowed to 44.5% (-4.3ppt) amidst a 5% increase in cost (mainly personnel) due to the higher top-line. In term of provisions, 9MFY21 saw a larger share (RM651.0m, +20%) as management booked overlays in addition to PEMULIH considerations. This translated to an annualised credit cost of 46bps (+5bps). The majority of FY20 provisions were in 4QFY20 from hefty frontloading. All in, reported 9MFY21 PATAMI came in at RM1.99b (+25%). Removing the impacts of modification losses, normalised PATAMI would register at RM2.15b (+16%).

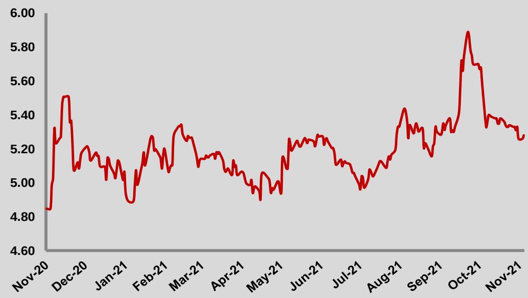
QoQ, 3QFY21 total income decreased by 3% when factoring in RM172.1m modification losses incurred from the PEMULIH scheme. NOII was 10% stronger thanks to positive movements in trading income. Similar to the above, PEMULIH resulted in higher allowances booked during the period (+10%) at a credit cost of 52bps (+4bps). Stripping out the impact of modification loss, normalised 3QFY21 PATAMI came in at RM766.4m (+9%).

Key briefings' highlights. Management appears confident that its FY21 targets will be duly achieved; having gained noticeable ground in its loans mix while still sustaining healthy CASA levels to keep cost of funds low. However, the group is cautious that URUS may call for bumps in its impairment allowances and hence raise their credit cost guidance to 40-45bps (from 40bps). For the time being, the group has accumulated management overlays of RM564m YTD which should serve as a solid buffer against any uncertainties that could arise, more recently from new Covid-19 variants.

Post results, we raise our FY21E/FY22E earnings by 17%/16% from stronger loans performance (5%/2% to 8%/3%) and a leaner CIR (~44% from ~46%).

Maintain OUTPERFORM with a higher TP of RM6.50 (from RM6.10). In addition to the earnings adjustments above, we also raise our ROE assumptions to our GGM to arrive at an applied PBV of 0.88x (from 0.84x, 0.5SD above mean). RHBBANK's strong delivery is further lifted by its ability to sustain an industry leading CET-1 ratio of 16.8%. Amidst ongoing uncertainties, it can allow for better capital management or surprise shareholders with more generous dividend payments. We anticipate a payout of c.50% which translates to dividend yield of 5-6%.

Share Price Performance



KLCI	1,513.98
YTD KLCI chg	-7.0%
YTD stock price chg	-3.1%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	RHBBANK MK Equity
Market Cap (RM m)	21,874.6
Shares Outstanding	4,142.9
52-week range (H)	5.89
52-week range (L)	4.85
3-mth avg daily vol	3,859,339
Free Float	34%
Beta	1.1

Major Shareholders

Employees Provident Fund	42.1%
OSK Holdings Bhd	10.2%
Kumpulan Wang Persaraan	6.0%

Summary Earnings Table

FY Dec (RM m)	2020A	2021E	2022E
Net interest income	5,009	6,004	5,993
Non-interest income	2,177	1,895	2,056
Total income	**7,186**	**7,899**	**8,049**
Operating expenses	-3,387	-3,421	-3,489
Loan impairment	**-1,155**	**-847**	**-527**
Pre-tax profit	2,644	3,406	4,032
PATAMI	**2,033**	**2,550**	**2,704**
Core PATAMI	**2,296**	**2,709**	**2,704**
Consensus NP		2,484	2,727
Earnings revision		16.7%	15.6%
Core EPS (RM)	0.57	0.68	0.67
EPS growth	-8%	18%	0%
NDPS (RM)	0.18	0.31	0.34
BV/share (RM)	6.7	7.1	7.4
NTA/share (RM)	5.9	6.2	6.6
ROE (%)	7.7	9.2	9.3
PER (x)	9.2	7.8	7.8
P/BV (x)	0.78	0.75	0.71
Net Div. Yield (%)	3.3	5.9	6.4

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, (v) adverse currency fluctuations, and (vi) changes to OPR.

Results Highlights

FYE Dec (RM m)	3Q FY21	2Q FY21	QoQ Chg	3Q FY20	YoY Chg	9M FY21	9M FY20	YoY Chg
Net interest income	1,391	1,505	-7.6%	1,261	10.3%	4,382	3,492	25.5%
Non-interest income	550	501	9.8%	569	-3.3%	1,488	1,626	-8.5%
Total income	**1,941**	**2,006**	**-3.2%**	**1,830**	**6.1%**	**5,870**	**5,118**	**14.7%**
Operating expenses	-862	-865	-0.2%	-854	1.0%	-2,612	-2,497	4.6%
Pre-impairment profit	**1,079**	**1,141**	**-5.5%**	**976**	**10.5%**	**3,257**	**2,620**	**24.3%**
(Allowances)/ write-backs	-250	-227	9.9%	-187	33.9%	-651	-541	20.2%
(Allowances)/ write-backs on other assets	0	0	-100.0%	0	N.M.	0	-10	-96.7%
Operating profit	**829**	**913**	**-9.3%**	**790**	**4.9%**	**2,606**	**2,070**	**25.9%**
Non-operating gains / (losses)	0	0	N.M	0	N.M.	0	0	N.M
Profit before tax	**829**	**913**	**-9.3%**	**790**	**4.9%**	**2,606**	**2,070**	**25.9%**
Taxation	-191	-210	-9.0%	-214	-10.8%	-614	-505	21.7%
Minority interest	-2	-2	3.3%	46	-104.7%	-5	29	-116.2%
Net PATAMI	**636**	**701**	**-9.4%**	**622**	**2.1%**	**1,987**	**1,594**	**24.7%**
Core PATAMI	**766**	**701**	**9.3%**	**574**	**33.5%**	**2,146**	**1,858**	**15.5%**
Gross loans	194,626	191,012	1.9%	182,421	6.7%	194,626	182,421	6.7%
Gross impaired loans	2,565	3,120	-17.8%	3,091	-17.0%	2,565	3,091	-17.0%
Customer deposits	214,038	215,594	-0.7%	196,773	8.8%	214,038	196,773	8.8%
Current and savings account (CASA)	64,526	63,100	2.3%	61,580	4.8%	64,526	61,580	4.8%
Total assets	280,933	282,312	-0.5%	263,038	6.8%	280,933	263,038	6.8%
Shareholders' equity	27,858	27,521	1.2%	27,295	2.1%	27,858	27,295	2.1%
Est. annualised NIM	2.03%	2.20%		1.98%		2.18%	1.87%	
Cost-to-income ratio	44.4%	43.1%		46.6%		44.5%	48.8%	
Annualised credit cost (bps)	51.8	47.9		41.1		45.6	40.3	
Effective tax rate	23.0%	23.0%		27.1%		23.6%	24.4%	
Annualised ROA	0.9%	1.0%		0.9%		1.0%	1.0%	
Annualised ROE	9.2%	10.4%		9.2%		10.4%	9.3%	
Gross impaired loans ratio	1.3%	1.6%		1.7%		1.3%	1.7%	
Loan loss coverage ratio (LLC)	147.9%	124.1%		108.2%		147.9%	108.2%	
LLC plus regulatory reserves	149.8%	126.0%		114.9%		149.8%	114.9%	
Loan-to-deposit ratio	90.1%	87.8%		92.2%		90.1%	92.2%	
CASA-to-deposit ratio	30.1%	29.3%		31.3%		30.1%	31.3%	
CET-1 capital (Group level)	16.8%	16.8%		16.4%		16.8%	16.4%	

Source: Company, Kenanga Research

Management Guidance

	FY21 Targets	FY20 Performance
Credit cost	40 – 45 bps (from ~40 bps)	59 bps
NIM	2.06% (with Mod Loss)	2.14%
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	<46.5% (from <47.5%)	47%

Source: Company, Kenanga Research

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	1.67	3,547.2	N	12/2021	-13.1%	5.5%	80.4%	6.5%	15.1	8.4	7.8	0.4	0.4	4.3%	3.0%	1.55	MP
ALLIANCE BANK MALAYSIA BHD	2.88	4,458.5	N	03/2022	-7.2%	1.4%	53.0%	4.8%	12.4	8.1	7.7	0.7	0.7	8.5%	4.9%	2.65	MP
AMMB HOLDINGS BHD	3.16	10,468.8	N	03/2022	-3.6%	1.4%	30.2%	11.5%	10.1	8.5	7.7	0.7	0.7	8.1%	2.8%	3.15	MP
BIMB HOLDINGS BHD	2.93	6,082.3	Y	12/2021	0.2%	-2.3%	14.8%	-7.1%	14.5	12.6	13.6	1.2	1.1	9.0%	4.8%	3.20	OP
CIMB GROUP HOLDINGS BHD	5.18	52,947.1	N	12/2021	-1.0%	2.1%	318.0%	2.0%	43.2	10.3	10.1	0.9	0.9	8.7%	4.1%	5.25	MP
HONG LEONG BANK BHD	18.08	39,192.3	N	06/2022	0.7%	5.1%	-3.1%	9.2%	12.9	13.4	12.2	1.3	1.2	9.2%	3.0%	18.20	MP
MALAYAN BANKING BHD	7.98	94,747.8	N	12/2021	-8.5%	3.2%	19.4%	2.2%	13.8	11.6	11.4	1.1	1.0	9.1%	7.0%	10.55	OP
MALAYSIA BUILDING SOCIETY BHD	0.590	4,231.2	N	12/2021	55.4%	6.8%	94.0%	25.9%	14.9	7.7	6.1	0.5	0.4	5.8%	4.1%	0.540	UP
PUBLIC BANK BHD	3.94	76,478.1	N	12/2021	-3.6%	2.3%	14.3%	-0.7%	15.7	13.7	13.8	1.6	1.5	11.4%	3.6%	3.85	MP
RHB BANK BHD	5.28	21,874.6	N	12/2021	-5.2%	5.8%	18.0%	-0.2%	9.2	7.8	7.8	0.8	0.7	9.8%	5.9%	6.50	OP
Simple Average					**1.4%**	**3.1%**	**63.9%**	**5.4%**	**16.2**	**10.2**	**9.8**	**0.9**	**0.9**	**8.4%**	**4.3%**		

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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