

05 August 2022

RHB Bank Bhd

Paving for Long-Term Prosperity

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We maintain our GGM-derived PBV TP of RM7.00 (COE: 10.7%, TG: 3.0%, ROE: 10%) and OP call. The group held an analyst briefing to discuss in detail strategies to achieve its TWP24 targets. We keep our medium-term optimism for the stock unchanged as we do not anticipate major overruns or overhauls in the near future. Key investment thesis remains to be its CET-1-led defensiveness. There is no adjustment to our TP based on ESG of which it is given a 3-star rating as appraised by us.

RHBBANK hosted an analyst briefing for a detailed presentation of its TWP24 Strategy. Key takeaways are as follows:

- **Reinforcing frontline channels.** The group identified strong opportunities in its wealth management segment where it opines it could at least double its AUM by 2024 and tap into a larger affluent customer base, given highly encouraging current take-ups. Meanwhile, the group intends to capture a larger SME market share to 12% (from 9% currently) with secure lending being a leading proposition with value-added digital solutions and hyper-personalisation to instil customer stickiness. ESG-enablement solutions would also provide borrowers a better leg into more sustainable practices.
- **Expanding overseas footprint.** Capitalising on its Singapore operation, a more diverse regional hub could be established to boost its commercial and SME lending in the ASEAN region. That said, Cambodia looks to be a new focus area where the group strives to gain 20% annual loans growth in the next three years. Backed by its growth potential, earnings expansion of 10% per year from Cambodia and Singapore combined may not be too farfetched (albeit, total international businesses make up less than 5% of group earnings at this juncture).
- **Investing in a more comprehensive back-end.** The group seeks to allocate up to RM500m over the next three years into modernising its operations, with several key automation prospects being identified to improve customer experience and productivity. A more seamless onboarding experience and greater implementation of data analytics would enable a more reactive approach by the bank in identifying and scaling into new segments. Meanwhile, the upskilling of manpower would be a progressive journey to ensure staff value and efficiency remain undeterred by future-proofing.

Post update, we leave our FY22E/FY23E assumptions unchanged. The headline 2024 targets for TWP24 of: (i) ROE: 11.5%; (ii) CIR <44.5%; and (iii) Top-3 standing in net promoter score, are all-in in sync with its immediate FY22 stepping stone targets. Current expectations lay that the country will not fall into a recession though we will not be too worried on minor economic hurdles at this juncture. The group's 4-5% loans target for FY22 is amongst the most conservative amongst its peers which we think could be well achieved.

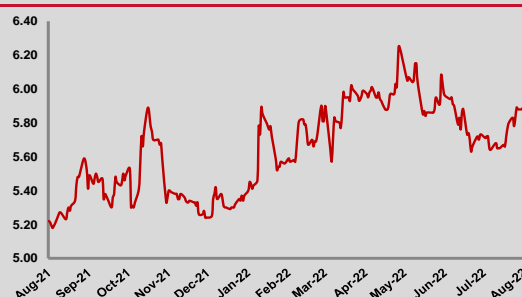
Maintain OUTPERFORM and TP of RM7.00. Our TP is based on a GGM-derived PBV of 0.91x (COE: 10.7%, TG: 3.0%, ROE: 10%) on our FY23E BVPS of RM7.66. The stock's high capital ratios (CET-1: 17%) could allow to group to deliver more dividend surprises in spite of management's existing guidance. Additionally, the group's recent digital banking licence win could serve as a sentiment booster to the group as it nears the launch of its new entity and digital offerings. **The stock is one of our 3QCY22 Strategy Top Picks.**

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) slowdown in capital market activities, (v) unfavourable currency fluctuations, and (vi) changes to OPR.

OUTPERFORM ↔

Price : RM5.88
Target Price : RM7.00 ↔

Share Price Performance



KLCI	1,507.71
YTD KLCI chg	-3.8%
YTD stock price chg	9.5%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	RHBBANK MK Equity
Market Cap (RM m)	24,767.0
Shares Outstanding	4,212.1
52-week range (H)	6.25
52-week range (L)	5.18
3-mth avg daily vol	5,654,678
Free Float	34%
Beta	1.1

Major Shareholders

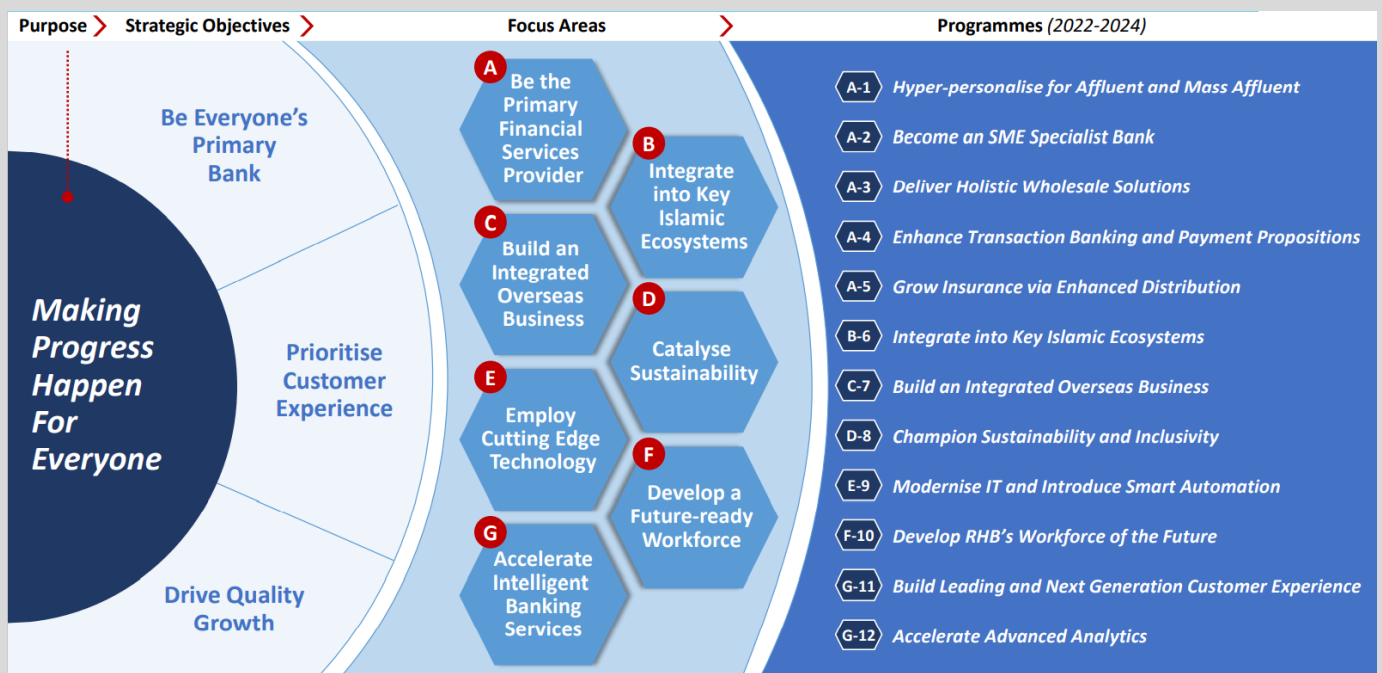
Employees Provident Fund	42.4%
Osk Holdings Bhd	10.2%
Kumpulan Wang Persaraan	6.0%

Summary Earnings Table

FY Dec (RM m)	2021A	2022E	2023E
Net interest income	6,157	6,263	6,527
Non-interest income	1,876	1,877	1,868
Total income	8,034	8,141	8,395
Operating expenses	-3,522	-3,593	-3,772
Loan impairment	-738	-573	-458
Pre-tax profit	3,529	3,975	4,165
PATAMI	2,618	2,666	3,114
Core PATAMI	2,805	2,666	3,114
Consensus NP		2,667	3,198
Earnings revision		0.0%	0.0%
Core EPS (RM)	0.69	0.66	0.77
EPS growth (%)	22%	-4.9%	16.8%
NDPS (RM)	0.40	0.32	0.36
BV/share (RM)	6.9	7.3	7.7
NTA/share (RM)	6.1	6.4	6.8
ROE (%)	9.5	9.3	10.3
PER (x)	8.5	8.9	7.6
P/BV (x)	0.85	0.81	0.77
Net Div. Yield (%)	6.8	5.4	6.1

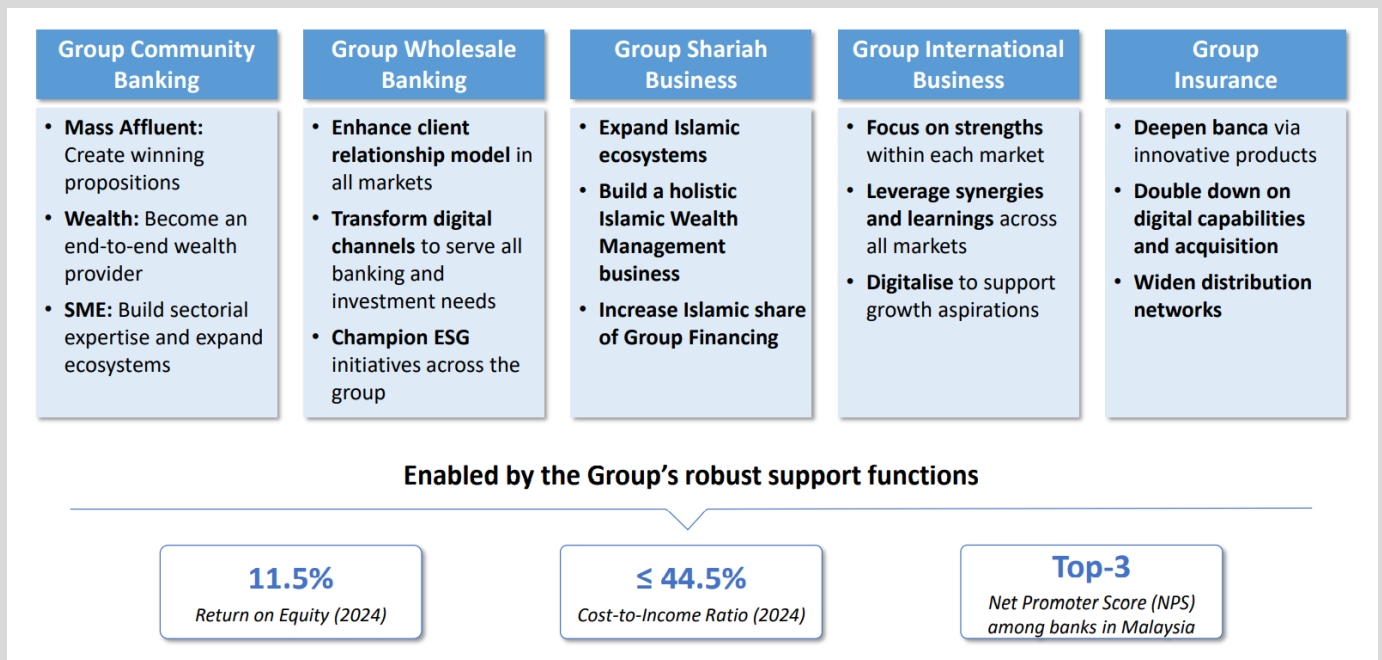


TWP24 Focus Areas and Multi-Year Programmes



Source: RHBBANK

TWP24 Group-based Targets



Source: RHBBANK

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Income Statement						Financial Data & Ratios					
FY Dec (RM m)	2019A	2020A	2021A	2022E	2023E	FY Dec	2019A	2020A	2021A	2022E	2023E
Net interest income	5,224	5,009	6,157	6,263	6,527	Growth					
Non-interest income	1,877	2,177	1,876	1,877	1,868	Net interest income	2.8%	-4.1%	22.9%	1.7%	4.2%
Total income	7,101	7,186	8,034	8,141	8,395	Non-interest income	9.0%	16.0%	-13.8%	0.0%	-0.5%
Operating expenses	-3,472	-3,387	-3,522	-3,593	-3,772	Total income	4.3%	1.2%	11.8%	1.3%	3.1%
PPOP	3,629	3,799	4,511	4,548	4,623	Operating expenses	3.4%	-2.4%	4.0%	2.0%	5.0%
Loan impairment	-319	-1,145	-737	-573	-458	PPOP	5.3%	4.7%	18.7%	0.8%	1.6%
Other impairment	41	-10	0	0	0	Loan impairments	-1.1%	259.2%	-35.6%	-22.3%	-20.1%
Pre-tax profit	3,351	2,644	3,529	3,975	4,165	Pre-tax profit	7.4%	-21.1%	33.4%	12.6%	4.8%
Tax and zakat	-863	-640	-906	-1,304	-1,041	PATAMI	7.7%	-18.1%	28.8%	1.8%	16.8%
Minority interest	-5	-7	-5	-5	-9	Gross loans	4.6%	5.3%	6.8%	5.7%	3.0%
PATAMI	2,483	2,033	2,618	2,666	3,114	Customer deposits	6.5%	6.8%	7.5%	5.9%	3.0%
Balance Sheet						Operating metrics					
FY Dec (RM m)	2019A	2020A	2021A	2022E	2023E	Est average asset yield	4.77%	3.99%	3.49%	3.62%	3.71%
Cash & ST funds	12,724	14,974	23,318	26,701	27,785	Est average funding cost	2.86%	2.08%	1.49%	1.68%	1.85%
Investment securities	58,678	63,371	61,881	66,403	69,099	Est NIM	2.19%	2.14%	2.27%	2.16%	2.14%
Loans and financing	173,237	182,425	194,897	205,912	212,159	Cost-to-Income ratio	48.9%	47.1%	45.2%	44.1%	44.9%
Other assets	9,670	7,090	6,097	4,270	4,364	Credit cost (bps)	18.8	60.5	30.5	28.6	21.9
Intangible assets	3,284	3,290	3,349	3,349	3,349	Loan-to-deposit ratio	90.9%	89.7%	89.1%	88.9%	88.9%
Total Assets	257,592	271,150	289,541	306,634	316,757	GIL ratio	2.0%	1.7%	1.5%	1.7%	1.7%
Customer deposits	190,555	203,471	218,733	231,662	238,691	LLC Ratio	85.7%	119.6%	122.4%	100.0%	100.0%
Deposits & placements	21,539	21,035	23,407	23,839	24,807	LLC Ratio (+ reg reserves)	109.8%	121.3%	133.5%	109.3%	109.0%
Borrowings	10,740	9,922	9,256	9,553	9,941	ROA	1.0%	0.8%	0.9%	0.9%	1.0%
Other liabilities	8,948	9,665	10,116	12,180	12,262	ROE	10.1%	7.7%	9.5%	9.3%	10.3%
Total liabilities	231,782	244,093	261,511	277,234	285,700	Valuations					
Share capital	4,010	6,994	7,613	7,613	7,613	EPS (RM)	0.61	0.57	0.69	0.66	0.77
Retained earnings	15,902	15,902	18,924	20,294	21,951	PER (x)	9.59	10.37	8.49	8.93	7.65
Regulatory reserves	839	52	328	328	328	Div yield (%)	5.3	3.0	6.8	5.4	6.1
Other reserves	5,025	4,077	1,133	1,133	1,133	BV/share (RM)	6.36	6.67	6.91	7.25	7.66
Shareholders' funds	25,775	27,024	27,998	29,368	31,025	P/BV (x)	0.92	0.88	0.85	0.81	0.77
Minority interest	35	33	32	32	32						
Total liabilities and equity	257,592	271,150	289,541	306,634	316,757						

Source: 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	2.12	4,690.1	N	12/2022	14.5%	5.8%	10.8%	24.8%	8.5	7.7	6.1	0.5	0.4	5.8%	5.2%	2.45	OP	
ALLIANCE BANK MALAYSIA BHD	3.49	5,402.9	N	03/2023	7.4%	5.3%	19.8%	12.5%	9.4	7.9	7.0	0.8	0.8	10.4%	6.3%	4.00	OP	
AMMB HOLDINGS BHD	3.93	13,011.7	N	03/2023	9.4%	4.9%	7.6%	8.2%	8.6	8.0	7.4	0.8	0.7	9.3%	4.1%	4.35	OP	
BIMB HOLDINGS BHD	2.71	5,840.8	Y	12/2022	-6.4%	0.9%	-1.9%	15.1%	12.6	12.9	11.0	1.0	1.0	7.9%	3.9%	2.90	OP	
CIMB GROUP HOLDINGS BHD	5.25	54,989.8	N	12/2022	5.2%	7.2%	3.9%	31.0%	11.3	10.9	8.3	0.9	0.9	8.0%	4.4%	5.70	OP	
HONG LEONG BANK BHD	20.82	45,131.9	N	06/2022	4.0%	12.8%	5.8%	24.4%	14.9	14.1	11.3	1.4	1.4	10.0%	2.7%	22.95	OP	
MALAYAN BANKING BHD	8.90	106,533.1	N	12/2022	6.3%	8.8%	5.8%	23.3%	12.8	12.1	9.8	1.2	1.2	9.9%	6.7%	11.05	OP	
MALAYSIA BUILDING SOCIETY BHD	0.580	4,159.5	N	12/2022	69.0%	7.7%	15.8%	41.7%	9.5	8.2	5.8	0.5	0.5	5.8%	6.0%	0.510	UP	
PUBLIC BANK BHD	4.65	90,259.7	N	12/2022	8.6%	8.1%	0.7%	26.3%	16.0	15.8	12.5	1.9	1.8	11.5%	3.3%	4.45	MP	
RHB BANK BHD	5.88	24,767.0	N	12/2022	5.6%	5.6%	-4.9%	16.8%	8.5	8.9	7.6	0.9	0.8	9.3%	5.4%	7.00	OP	
Simple Average					12.4%	6.7%	6.3%	22.4%	11.2	10.6	8.7	1.0	0.9	8.8%	4.8%			

Source: Kenanga Research

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Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★		
	Corporate Social Responsibility	★	★	★		
	Management/Workforce Diversity	★	★	★	☆	
	Accessibility & Transparency	★	★	★	★	
	Corruption-Free Pledge	★	★	★		
	Carbon-Neutral Initiatives	★	★	★		
SPECIFIC	Green Financing	★	★	★		
	Cybersecurity/Data Privacy	★	★	★		
	Digital Transformation	★	★	★	☆	
	Staff Welfare & Training	★	★	★		
OVERALL		★	★	★		

☆ denotes half-star
 ★ -10% discount to TP
 ★★ -5% discount to TP
 ★★★ TP unchanged
 ★★★★ +5% premium to TP
 ★★★★★ +10% premium to TP

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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