

28 March 2023

# RHB Bank Bhd

## Defensive but Rewarding Pick

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We maintain our GGM-derived PBV TP of RM7.10 (COE: 10.7%, TG: 3.0%, ROE: 10%) and OP call. The group seeks to adopt more targeted strategies to acquire quality assets. Meanwhile, net interest margins (NIMs) should be contained by planned CASA expansion with normalising non-interest income sought to bolster earnings. With our anticipated c.55% payout to garner 7%-8% dividend yield at current price points, RHBANK looks to be a promising dividend play.

Key takeaways from our recent meeting with the group are as follows:

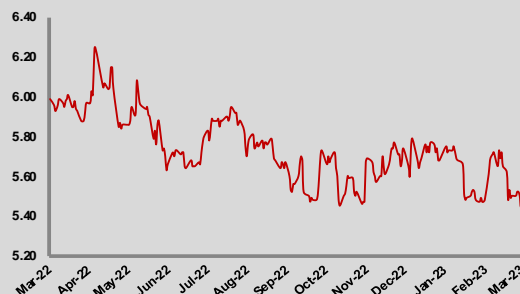
- **Modest but selective expansion in loans base.** A more moderate loans growth of 4%-5% in FY23 is guided by RHBANK (FY22: 6.9%) as economic prospects may wane amidst inflationary uncertainties. That said, the group opines that it could capitalise on its retail stronghold in housing loans as demand for primary market properties still persist. Meanwhile, mid-market SMEs also appear to be an area of promise while not being too susceptible to cost pressures. Regionally, Singapore looks to gain from a growing focus in REITs while Cambodia is likely to benefit from the boost in hospitality with the influx of Chinese tourists. Both markets registered double-digit growth in FY22, albeit also due to their low base (<15% of total group loans).
- **Upbeat for flattish margins.** The group looks to achieve NIMs of 2.22%-2.25% (FY22: 2.24%) whereas most peers are guiding up to double-digit erosion in respective performance. This could be supported by targeted CASA acquisitions which could offset NIM pressures from heightening deposits competition that may ease in 2HFY23. Meanwhile, asset yields would stay competitive.
- **Asset quality concerns to ease.** Group gross impaired loans (GIL) are expected to see some improvements, mainly due to the progressive retirement of repayment assistance programs. There may still be concerns surrounding the construction sector as well as net-import industries due to rising exchange rates, but we opine that these accounts make up less than 20% of overall books. Hence, a target of <1.5% GIL from FY22's 1.55% could be possible.  
  
On the flipside, the group continues to hold RM820m in provisions (RM410m Covid-related overlays and RM410m general allowances) which may be considered for writebacks should conditions improve. However, general allowances could be more sensitive to changes in asset quality if macro conditions worsen.
- **Dividend sparks shine bright.** In FY22, the group declared total dividend of 40.0 sen which translates to a payout of c.60%. While the group is conservative by guiding its mandated 30% policy, it has marked the second consecutive year of such generous levels. We opine that it is not unlikely for the group to match similar payouts in the coming year. Our inputted 55% payout translates to dividend yields close to 8%.

**Post update,** we leave our FY23F/FY24F assumptions unchanged. A key variance in our model inputs are our FY23F credit cost seen to linger at 20 bps which is more optimistic than the group's 25-30 bps guidance. We premise this on its willingness to write back excess Covid-related overlays.

# OUTPERFORM ↔

Price : RM5.45  
Target Price : RM7.10 ↔

### Share Price Performance



KLCI	1,396.60
YTD KLCI chg	-6.6%
YTD stock price chg	-5.9%

### Stock Information

Shariah Compliant	No
Bloomberg Ticker	RHBANK MK Equity
Market Cap (RM m)	23,148.2
Shares Outstanding	4,247.4
52-week range (H)	6.25
52-week range (L)	5.44
3-mth avg daily vol	4,397,568
Free Float	36%
Beta	0.9

### Major Shareholders

Employees Provident Fund	40.7%
OSK Holdings Bhd	10.1%
Kumpulan Wang Persaraan	5.9%

### Summary Earnings Table

FY Dec (RM m)	2022A	2023F	2024F
Net interest income	6,573	6,700	6,823
Non-interest income	1,736	1,813	1,917
<b>Total income</b>	<b>8,309</b>	<b>8,513</b>	<b>8,740</b>
Operating expenses	-3,717	-3,903	-4,098
<b>Loan impairment</b>	<b>-421</b>	<b>-416</b>	<b>-440</b>
Pre-tax profit	4,171	4,195	4,202
<b>Net Profit</b>	<b>2,708</b>	<b>3,136</b>	<b>3,142</b>
<b>Core Net Profit</b>	<b>2,708</b>	<b>3,136</b>	<b>3,142</b>
Consensus NP		3,147	3,388
Earnings revision		0.0%	0.0%
Core EPS (RM)	0.67	0.77	0.78
EPS growth (%)	-3.5	15.8	0.2
NDPS (RM)	0.40	0.43	0.42
BV/share (RM)	7.09	7.43	7.79
NTA/share (RM)	6.25	6.59	6.9
ROE (%)	9.5	10.7	10.2
PER (x)	8.2	7.0	7.0
P/BV (x)	0.77	0.73	0.70
Net Div. Yield (%)	7.3	7.9	7.7

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**Maintain OUTPERFORM and TP of RM7.10.** Our TP is based on a GGM-derived PBV of 0.91x (COE: 10.7%, TG: 3.0%, ROE: 10%) on our FY24F BVPS of RM7.79. Its high capital ratios (CET-1: 17% vs peer average: 14%) could allow to group to deliver more dividend surprises in spite of management's existing guidance. Chiefly, we believe the 8% dividend yield could attract investors seeking alternatives from other large cap names. Meanwhile, ongoing fallouts in the global financial system could drive investors to look for fundamentally safer names, of which we believe RHBBANK's CET-1 ratio would offer better capital safety amongst peers.

**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.

Income Statement						Financial Data & Ratios					
FY Dec (RM m)	2020A	2021A	2022A	2023F	2024F	FY Dec	2020A	2021A	2022A	2023F	2024F
Net interest income	5,009	6,157	6,573	6,700	6,823	<b>Growth</b>					
Non-interest income	2,177	1,876	1,736	1,813	1,917	Net interest income	-4.1%	22.9%	6.7%	1.9%	1.8%
<b>Total income</b>	<b>7,186</b>	<b>8,034</b>	<b>8,309</b>	<b>8,513</b>	<b>8,740</b>	Non-interest income	16.0%	-13.8%	-7.5%	4.4%	5.8%
Operating expenses	-3,387	-3,522	-3,717	-3,903	-4,098	Total income	1.2%	11.8%	3.4%	2.5%	2.7%
<b>PPOP</b>	<b>3,799</b>	<b>4,511</b>	<b>4,592</b>	<b>4,610</b>	<b>4,642</b>	Operating expenses	-2.4%	4.0%	5.5%	5.0%	5.0%
Loan impairment	-1,145	-737	-421	-416	-440	PPOP	4.7%	18.7%	1.8%	0.4%	0.7%
Other impairment	-10	0	0	0	0	Loan impairments	259.2%	-35.6%	-42.9%	-1.3%	5.9%
<b>Pre-tax profit</b>	<b>2,644</b>	<b>3,529</b>	<b>4,171</b>	<b>4,195</b>	<b>4,202</b>	Pre-tax profit	-21.1%	33.4%	18.2%	0.6%	0.2%
Tax and zakat	-640	-906	-1,459	-1,049	-1,050	Net Profit	-18.1%	28.8%	3.4%	15.8%	0.2%
Minority interest	-7	-5	-4	-9	-9	Gross loans	5.3%	6.8%	6.9%	3.9%	3.0%
<b>Net Profit</b>	<b>2,033</b>	<b>2,618</b>	<b>2,708</b>	<b>3,136</b>	<b>3,142</b>	Customer deposits	6.8%	7.5%	3.9%	3.0%	3.0%
<b>Core Net Profit</b>	<b>2,296</b>	<b>2,805</b>	<b>2,708</b>	<b>3,136</b>	<b>3,142</b>						
<b>Balance Sheet</b>						<b>Operating metrics</b>					
FY Dec (RM m)	2020A	2021A	2022A	2023F	2024F	Est average asset yield	3.99%	3.49%	3.88%	4.17%	4.12%
Cash & ST funds	14,974	23,318	19,787	20,591	21,427	Est average funding cost	2.08%	1.49%	1.74%	2.26%	2.30%
Investment securities	63,371	61,881	69,070	71,874	74,793	Est NIM	2.14%	2.27%	2.27%	2.20%	2.17%
Loans and financing	182,425	194,897	208,379	216,473	223,041	Cost-to-Income ratio	47.1%	45.2%	44.7%	45.8%	46.9%
Other assets	7,090	6,097	10,138	9,379	9,476	Credit cost (bps)	60.5	30.5	15.3	19.6	20.0
Intangible assets	3,290	3,349	3,414	3,414	3,414	Loan-to-deposit ratio	89.7%	89.1%	91.7%	92.5%	92.5%
<b>Total Assets</b>	<b>271,150</b>	<b>289,541</b>	<b>310,788</b>	<b>321,732</b>	<b>332,151</b>	GIL ratio	1.7%	1.5%	1.5%	1.6%	1.5%
Customer deposits	203,471	218,733	227,160	234,052	241,153	LLC Ratio	119.6%	122.4%	112.8%	110.0%	110.0%
Deposits & placements	21,035	23,407	24,594	25,592	26,632	LLC Ratio (+ reg reserves)	121.3%	133.5%	139.6%	135.7%	135.1%
Borrowings	9,922	9,256	12,971	13,498	14,046	ROA	0.8%	0.9%	0.9%	1.0%	1.0%
Other liabilities	9,665	10,116	17,317	18,449	18,739	ROE	7.7%	9.5%	9.5%	10.7%	10.2%
<b>Total liabilities</b>	<b>244,093</b>	<b>261,511</b>	<b>282,042</b>	<b>291,591</b>	<b>300,569</b>						
Share capital	6,994	7,613	8,146	8,146	8,146	<b>Valuations</b>					
Retained earnings	15,902	18,924	19,412	20,807	22,247	EPS (RM)	0.57	0.69	0.67	0.77	0.78
Regulatory reserves	52	328	882	882	882	PER (x)	9.61	7.87	8.15	7.04	7.03
Other reserves	4,077	1,133	276	276	276	Div yield (%)	3.2	7.3	7.3	7.9	7.7
<b>Shareholders' funds</b>	<b>27,024</b>	<b>27,998</b>	<b>28,715</b>	<b>30,110</b>	<b>31,551</b>	BV/share (RM)	6.67	6.91	7.09	7.43	7.79
Minority interest	33	32	31	31	31	P/BV (x)	0.82	0.79	0.77	0.73	0.70
<b>Total liabilities and equity</b>	<b>271,150</b>	<b>289,541</b>	<b>310,788</b>	<b>321,732</b>	<b>332,151</b>						

Source: Kenanga Research

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## Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
<b>Stocks Under Coverage</b>																	
ALLIANCE BANK MALAYSIA BHD	OP	3.29	4.40	33.7%	5,093	N	03/2023	44.7	49.4	20.9%	10.4%	7.4	6.7	0.8	10.5%	22.0	6.7%
AMMB HOLDINGS BHD	OP	3.55	5.00	40.8%	11,740	N	03/2023	51.0	54.8	12.0%	7.4%	7.0	6.5	0.7	9.7%	16.0	4.5%
BANK ISLAM MALAYSIA BHD	MP	2.15	2.30	7.0%	4,825	Y	12/2023	26.2	27.2	14.4%	4.2%	8.2	7.9	0.7	8.1%	15.5	7.2%
CIMB GROUP HOLDINGS BHD	OP	5.16	6.55	26.9%	55,032	N	12/2023	59.7	68.4	14.3%	14.7%	8.6	7.5	0.8	9.7%	30.0	5.8%
HONG LEONG BANK BHD	OP	19.98	23.35	16.9%	43,311	N	06/2023	197.0	199.7	22.7%	1.4%	10.1	10.0	1.2	12.5%	70.0	3.5%
MALAYAN BANKING BHD	OP	8.44	10.10	19.7%	101,737	N	12/2023	79.6	79.3	15.7%	-0.3%	10.6	10.6	1.2	11.0%	68.0	8.1%
PUBLIC BANK BHD	OP	3.89	4.90	26.0%	75,508	N	12/2023	35.9	37.0	13.8%	3.2%	10.8	10.5	1.4	13.4%	18.0	4.6%
RHB BANK BHD	OP	5.45	7.10	30.3%	23,148	N	12/2023	77.4	77.6	15.8%	0.2%	7.0	7.0	0.7	10.7%	43.0	7.9%
<b>SECTOR AGGREGATE</b>					<b>324,919</b>					<b>12.4%</b>	<b>4.9%</b>	<b>9.6</b>	<b>9.2</b>	<b>1.0</b>	<b>10.5%</b>		<b>5.9%</b>

Source: Kenanga Research

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**Stock ESG Ratings:**

	Criterion	Rating				
<b>GENERAL</b>	Earnings Sustainability & Quality	★	★	★	☆	
	Community Investment	★	★	★	☆	
	Workforce Safety & Wellbeing	★	★	★		
	Corporate Governance	★	★	★	★	
	Anti-corruption Policy	★	★	★		
	Emissions Management	★	★	★		
<b>SPECIFIC</b>	Green Financing	★	★	★		
	Financial Inclusion	★	★	★		
	Cybersecurity/Data Privacy	★	★	★		
	Digitalisation & Innovation	★	★	★	★	
	Diversity & Inclusion	★	★	★		
	Customer Experience	★	★	★		
<b>OVERALL</b>		★	★	★		

☆ 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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