

# RHB Bank

## Margin Stress Lessened by Treasury

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1QFY23 net profit of RM762.2m (+31%) came within expectations. Interest margins were burdened by the past OPR hikes as asset yields were outpaced by funding costs. While efforts are in place to narrow the gap, fair value gains are alleviating earnings together with lower provisions and taxes. RHBBANK is expected to generate dividend yield of c.7% should current expectations hold. Maintain OUTPERFORM and GGM-derived PBV TP of RM7.10. RHBBANK is one of our 2QCY23 Top Picks.

**1QFY23 within expectations.** 1QFY23 net profit of RM762.6m made up 24% each of both our full-year forecast and consensus full-year estimates. No dividend was declared, as expected given the group's typical biannual payments.

**YoY,** 1QFY23 registered a 4% decline in net interest income. Despite a 6% growth in gross loans led by higher mortgages, net interest margin (NIM) eroded by 19 bps as fund cost rose as a result of the four 25 bps hikes in OPR in 2022. On the flipside, non-interest income surged 33% as treasury income enjoyed fair value gains from losses in prior years, offsetting the decline in fee-based income. Cost-income ratio remained stable at 44.9% (+0.1ppt) as operating expenses grew in line with total income. Meanwhile, thanks to credit costs reporting at 10 bps (-19 bps) on lower asset quality stresses, pre-tax profit saw a 16% expansion. Following the lapse of Prosperity Tax, 1QFY23 net profit came in at RM762.6m (+31%).

**Briefing highlights.** Though there are some headwinds flagged in the recent results, the group sought to maintain its guidance, pending better clarity from 2QFY23's performance.

- While most of the NIM compression could have been felt in 1QFY23, substantial catch-up is required to meet the group's initial 2.22%-2.25% NIMs target. Deposits were stagnant while CASA levels narrowed to 28.1% (-0.9ppt, which could indicate further pains in NIM management).
- They opine that targeted penetration could help revitalise its CASA books to lower funding costs. The group also maintains a CASA target of 30% for FY23.
- Loans growth should remain intact as access to liquidity is not an issue. Currently, the group reports a loans-to-deposits ratio of 95%, which it deems to be well balanced. Aside from sustained retail lending, stronger overseas operations (mainly Singapore) should keep the group's 4%-5% growth target in check.
- Non-interest income is expected to be helmed by treasury gains as fee-based streams may still see softness.
- Credit cost guidance of 25-30 bps is kept for now, as the group reviews the possibility of some top-ups or write-backs which may lower this guidance later on. As present, a Covid-related overlay of RM411m is maintained.

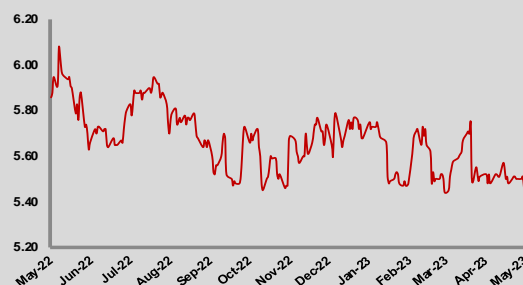
**Forecasts.** Post results, our FY23F/FY24F earnings are largely unchanged safe for 1QFY23's model inputs.

**Maintain OUTPERFORM and TP of RM7.10.** Our TP is based on an unchanged GGM-derived FY24F PBV of 0.91x (COE: 10.7%, TG: 3.0%, ROE: 10.0%). It is positioned as a leading dividend yield candidate with yields averaging above 7% at current price levels. This could be further lifted should the group decide to release its hefty CET-1 portfolio to reward shareholders. The stock will still likely be monitored closely due to its tie-in with Axiata-Boost in relation to the upcoming launch of a new digital bank in the near future. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us. RHBBANK is one of our 2QCY23 Top Picks.

# OUTPERFORM ↔

Price : RM5.46  
Target Price : RM7.10 ↔

## Share Price Performance



KLCI 1,402.98  
YTD KLCI chg -6.2%  
YTD stock price chg -5.7%

## Stock Information

Shariah Compliant	No
Bloomberg Ticker	RHBBANK MK Equity
Market Cap (RM m)	23,403.5
Shares Outstanding	4,286.3
52-week range (H)	6.08
52-week range (L)	5.44
3-mth avg daily vol	4,239,375
Free Float	35%
Beta	0.9

## Major Shareholders

Employees Provident Fund	41.0%
OSK Holdings Bhd	10.2%
Amanah Saham Nasional	5.8%

## Summary Earnings Table

FY Dec (RM m)	2022A	2023F	2024F
Net interest income	6,573	6,712	6,828
Non-interest income	1,736	1,813	1,917
<b>Total income</b>	<b>8,309</b>	<b>8,524</b>	<b>8,745</b>
Operating expenses	-3,717	-3,903	-4,098
<b>Loan impairment</b>	<b>-421</b>	<b>-426</b>	<b>-441</b>
Pre-tax profit	4,171	4,195	4,206
<b>Net Profit</b>	<b>2,708</b>	<b>3,137</b>	<b>3,145</b>
<b>Core Net Profit</b>	<b>2,708</b>	<b>3,137</b>	<b>3,145</b>
Consensus NP	-	3,125	313
Earnings revision	-	-	0.1%
Core EPS (RM)	0.67	0.77	0.78
EPS growth	-3.5	15.9	0.3
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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**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

	1Q	4Q	QoQ	1Q	YoY	3M	3M	YoY
FYE Dec (RM m)	FY23	FY22	Chg	FY22	Chg	FY23	FY22	Chg
Net interest income	1,437	1,745	-17.7%	1,499	-4.1%	1,437	1,499	-4.1%
Non-interest income	470	520	-9.6%	354	32.9%	470	354	32.9%
<b>Total income</b>	<b>1,908</b>	<b>2,266</b>	<b>-15.8%</b>	<b>1,853</b>	<b>3.0%</b>	<b>1,908</b>	<b>1,853</b>	<b>3.0%</b>
Operating expenses	-857	-1,007	-15.0%	-831	3.1%	-857	-831	3.1%
<b>Pre-impairment profit</b>	<b>1,051</b>	<b>1,259</b>	<b>-16.5%</b>	<b>1,022</b>	<b>2.9%</b>	<b>1,051</b>	<b>1,022</b>	<b>2.9%</b>
(Allowances)/ write-backs	-55	65	-183.9%	-146	-62.4%	-55	-146	-62.4%
(Allowances)/ write-backs on other assets	9	-102	-108.7%	-8	-212.9%	9	-8	-212.9%
<b>Operating profit</b>	<b>1,005</b>	<b>1,222</b>	<b>-17.8%</b>	<b>868</b>	<b>15.8%</b>	<b>1,005</b>	<b>868</b>	<b>15.8%</b>
Non-operating gains / (losses)	0	0	-98.2%	0	-150.0%	0	0	-150.0%
<b>Profit before tax</b>	<b>1,005</b>	<b>1,222</b>	<b>-17.8%</b>	<b>868</b>	<b>15.8%</b>	<b>1,005</b>	<b>868</b>	<b>15.8%</b>
Taxation	-243	-448	-45.9%	-286	-15.2%	-243	-286	-15.2%
Minority interest	0	-2	-100.0%	0	-100.0%	0	0	-100.0%
<b>Net Profit</b>	<b>763</b>	<b>772</b>	<b>-1.2%</b>	<b>582</b>	<b>31.0%</b>	<b>763</b>	<b>582</b>	<b>31.0%</b>
<b>Core Net Profit</b>	<b>763</b>	<b>772</b>	<b>-1.2%</b>	<b>582</b>	<b>31.0%</b>	<b>763</b>	<b>582</b>	<b>31.0%</b>
Gross loans	213,359	212,200	0.5%	201,348	6.0%	213,359	201,348	6.0%
Gross impaired loans	3,389	3,289	3.0%	3,022	12.1%	3,389	3,022	12.1%
Customer deposits	226,432	227,160	-0.3%	226,527	0.0%	226,432	226,527	0.0%
Current and savings account (CASA)	63,699	66,439	-4.1%	65,611	-2.9%	63,699	65,611	-2.9%
Total assets	312,373	310,788	0.5%	297,599	5.0%	312,373	297,599	5.0%
Shareholders' equity	29,884	28,715	4.1%	28,068	6.5%	29,884	28,068	6.5%
Est. annualised NIM	1.91%	2.34%		2.10%		1.91%	2.10%	
Cost-to-income ratio	44.9%	44.5%		44.8%		44.9%	44.8%	
Annualised credit cost (bps)	10.3	-12.4		29.2		10.3	29.2	
Effective tax rate	24.1%	36.7%		32.9%		24.1%	32.9%	
Annualised ROA	1.0%	1.0%		0.8%		1.0%	0.8%	
Annualised ROE	10.4%	10.9%		8.3%		10.4%	8.3%	
Gross impaired loans ratio	1.6%	1.5%		1.5%		1.6%	1.5%	
Loan loss coverage ratio (LLC)	109.4%	112.8%		125.7%		109.4%	125.7%	
LLC plus regulatory reserves	136.7%	139.6%		137.7%		136.7%	137.7%	
Loan-to-deposit ratio	94.7%	93.8%		88.2%		94.7%	88.2%	
CASA-to-deposit ratio	28.1%	29.2%		29.0%		28.1%	29.0%	
CET-1 capital (Group level)	16.9%	16.9%		16.8%		16.9%	16.8%	

Source: Company, Kenanga Research

## Management Guidance

	FY23 Targets	FY22 Performance
Credit cost	25-30 bps	15 bps
NIM	2.22-2.25%	2.26%
Return on equity	>11.0%	9.5%
Loans Growth	4.0-5.0%	6.9%
CASA composition	30.0%	29.2%
GIL ratio	<1.50%	1.55%
CIR ratio	<44.6%	44.7%

Source: Company, 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. 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.
Stocks Under Coverage																	
ALLIANCE BANK MALAYSIA BHD	OP	3.35	4.40	31.3%	5,186	N	03/2023	44.7	50.0	20.9%	11.8%	7.5	6.7	0.8	10.5%	22.0	6.6%
AMMB HOLDINGS BHD	OP	3.49	5.00	43.3%	11,542	N	03/2023	51.0	55.8	12.0%	9.4%	6.8	6.3	0.6	9.7%	16.0	4.6%
BANK ISLAM MALAYSIA BHD	MP	1.84	2.30	25.0%	4,170	Y	12/2023	26.3	27.4	14.9%	4.2%	7.0	6.7	0.6	8.2%	15.5	8.4%
CIMB GROUP HOLDINGS BHD	OP	4.90	6.55	33.7%	52,259	N	12/2023	59.9	68.8	14.8%	15.0%	8.2	7.1	0.8	9.7%	30.0	6.1%
HONG LEONG BANK BHD	OP	19.58	23.35	19.3%	42,444	N	06/2023	197.3	201.2	22.9%	2.0%	9.9	9.7	1.2	12.5%	70.0	3.6%
MALAYAN BANKING BHD	OP	8.58	10.10	17.7%	103,424	N	12/2023	80.3	80.0	16.8%	-0.5%	10.7	10.7	1.2	11.1%	68.0	7.9%
PUBLIC BANK BHD	OP	3.90	4.90	25.6%	75,702	N	12/2023	36.0	37.2	14.1%	3.3%	10.8	10.5	1.4	13.5%	18.0	4.6%
RHB BANK BHD	OP	5.46	7.10	30.0%	23,403	N	12/2023	77.5	77.7	15.9%	0.3%	7.0	7.0	0.7	10.7%	43.0	7.9%
SECTOR AGGREGATE					318,131					16.2%	4.5%	9.7	9.2	1.1	10.9%		6.2%

Source: Kenanga Research

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**Stock ESG Ratings:**

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

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