

24 April 2024

RHB Bank Bhd

Light Steps for Steady Balance

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We maintain our OP call and GGM-derived PBV TP of RM7.25 (COE: 10.5%, TG: 3.0%, ROE: 10%). RHBANK could be operating with more modest loans prospects in FY24, with stable NIMs likely met with a balanced set of non-fund based streams. Boost Bank looks to debut in this quarter and appears to be more cost efficient against a comparable peer. While we slightly trim our FY24F/FY25F earnings (-2%), its dividend yields appear generous at c.8% at current price points. RHBANK is one of our 2QCY24 Top Picks.

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

- **Loans expectations tied to GDP.** RHBANK looks to maintain its 4.5% loans growth target (lower from FY23's 4.8% achievement). The group ties this to the group's in-house GDP expectation of 4.6% (close to Kenanga's 4.7%) as the group anticipates its books to be mostly supported by its home-based retail and SME portfolios. For now, the group plans to stay its ground in mortgage markets where it sees encouraging growth. We note that RHBANK has not factored in upcoming infrastructure projects as part of its projections, opening the possibility for better-than-expected delivery should they are roll out accordingly.
- **NIM to find balance.** In lieu of its mortgage efforts, RHBANK could participate competitively but opines that it will be selective with its pricing. On the flipside, the easing of funding costs is seeping in with fixed deposit rates in the recent months appearing to fall below FY23's mark. This supports the NIM guidance of 1.8%-1.9% (FY23: 1.82%).
- **Non-interest income (NOII) seeking prospects.** FY23's NOII was led by strong returns from its liability management initiatives which comprises of forex swaps. The group believes that interest rates movements may pose more risks to its returns than forex rates. Given that the street is expecting rate cuts in 2HCY24, we believe its contributions during the year could decline. On the other hand, stockbroking and fee-based sources are likely to benefit from a more vibrant stock market to support overall performance.
- **Nimble asset quality management eases hefty reserves.** We note that the group has fully exhausted its pandemic-related overlays, with its RM320m booking being mainly for risk-sensitive SME accounts. That said, although the group continues to maintain certain at-risk profiles (skewed to a few large corporate accounts), it believes that most of its staged books are well contained. Though it may continue to top up provisions as needed, its diluting loan loss coverage of 106% (including regulatory reserves) is not an urgent concern.
- **Boost Bank setting its eyes on 2QFY24 launch.** Boost Bank is poised to launch in the coming months with introductory deposit products. Lending products are due to be integrated progressively following further reviews by BNM, as with its digital banking peers. We note that Boost Bank has largely contributed to the RM26m associate losses to RHBANK for its 40% stake (or c.RM65m in entirety), as it has yet to generate revenue. Assuming this prevails as a run rate, it translates to significantly higher cost efficiency against its peer, Aeon Bank which appears be seeing net losses of c.RM130m/year.

Forecasts. Post update, we take this opportunity to trim our FY24F and FY25F earnings by 2% each. This comes from incorporating the above losses from associates while also fine-tuning our NIMs projections.

OUTPERFORM ↔

Price : RM5.53
Target Price : RM7.25 ↔

Share Price Performance



| | |
|---------------------|----------|
| KLCI | 1,561.72 |
| YTD KLCI chg | 7.4% |
| YTD stock price chg | 1.5% |

Stock Information

| | |
|---------------------|------------------|
| Shariah Compliant | No |
| Bloomberg Ticker | RHBANK MK Equity |
| Market Cap (RM m) | 23,703.5 |
| Shares Outstanding | 4,286.3 |
| 52-week range (H) | 5.77 |
| 52-week range (L) | 5.29 |
| 3-mth avg daily vol | 6,641,499 |
| Free Float | 35% |
| Beta | 0.9 |

Major Shareholders

| | |
|--------------------------|-------|
| Employees Provident Fund | 40.2% |
| OSK Holdings Bhd | 10.2% |
| Kumpulan Wang Persaraan | 6.9% |

Summary Earnings Table

| FY Dec (RM m) | 2023A | 2024F | 2025F |
|------------------------|--------------|--------------|--------------|
| Net interest Income | 5,926 | 6,544 | 6,680 |
| Non-interest Income | 1,844 | 1,811 | 1,856 |
| Total Income | 7,770 | 8,355 | 8,536 |
| Operating Expenses | -3,689 | -3,874 | -4,067 |
| Loan Impairment | -302 | -358 | -149 |
| Pre-tax Profit | 3,753 | 4,096 | 4,293 |
| Net Profit | 2,806 | 3,063 | 3,210 |
| Core Net Profit | 2,806 | 3,063 | 3,210 |
| Consensus NP | | 2,862 | 3,019 |
| Earnings Revision | | -2.1% | -2.1% |
| Core EPS (RM) | 0.65 | 0.71 | 0.75 |
| EPS Growth (%) | 4.8 | 9.1 | 4.8 |
| NDPS (RM) | 0.40 | 0.43 | 0.45 |
| BV/Share (RM) | 7.19 | 7.47 | 7.77 |
| NTA/Share (RM) | 6.38 | 6.7 | 7.0 |
| ROE (%) | 9.4 | 9.7 | 9.8 |
| PER (x) | 8.5 | 7.8 | 7.4 |
| P/BV (x) | 0.77 | 0.74 | 0.71 |
| Net Div. Yield (%) | 7.2 | 7.8 | 8.1 |

24 April 2024

Maintain OUTPERFORM and TP of RM7.25. Our TP is based on an unchanged GGM-derived FY25F PBV of 0.93x (COE: 10.5%, TG: 3.0%, ROE: 10.0%). It is positioned as a leading dividend 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, although for now the group may keep its buffers to cushion against the upcoming implementation of Basel 3 frameworks in CY25. The stock will still likely be monitored closely as a proxy of Boost Bank's deliveries. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us. **RHBANK is one of our 2QCY24 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.

| Income Statement | | | | | | Financial Data & Ratios | | | | | |
|-------------------------------------|----------------|----------------|----------------|----------------|----------------|----------------------------|--------|--------|--------|--------|--------|
| FY Dec (RM m) | 2021A | 2022A | 2023A | 2024F | 2025F | FY Dec | 2021A | 2022A | 2023A | 2024F | 2025F |
| Net interest income | 6,157 | 6,573 | 5,926 | 6,544 | 6,680 | Growth | | | | | |
| Non-interest income | 1,876 | 1,587 | 1,844 | 1,811 | 1,856 | Net interest income | 22.9% | 6.7% | -9.8% | 10.4% | 2.1% |
| Total income | 8,034 | 8,160 | 7,770 | 8,355 | 8,536 | Non-interest income | -13.8% | -15.4% | 16.2% | -1.8% | 2.5% |
| Operating expenses | -3,522 | -3,606 | -3,689 | -3,874 | -4,067 | Total income | 11.8% | 1.6% | -4.8% | 7.5% | 2.2% |
| PPOP | 4,511 | 4,554 | 4,081 | 4,481 | 4,469 | Operating expenses | 4.0% | 2.4% | 2.3% | 5.0% | 5.0% |
| Loan impairment | -575 | -309 | -356 | -358 | -149 | PPOP | 18.7% | 0.9% | -10.4% | 9.8% | -0.3% |
| Other impairment | -163 | -112 | 54 | 0 | 0 | Loan impairments | -49.8% | -46.3% | 15.2% | 0.7% | -58.5% |
| Pre-tax profit | 3,529 | 4,133 | 3,753 | 4,096 | 4,293 | Pre-tax profit | 33.4% | 17.1% | -9.2% | 9.1% | 4.8% |
| Tax and zakat | -906 | -1,452 | -943 | -1,024 | -1,073 | Net Profit | 28.8% | 2.3% | 4.8% | 9.1% | 4.8% |
| Minority interest | -5 | -3 | -4 | -9 | -10 | Gross loans | 6.8% | 6.9% | 5.4% | 4.4% | 3.0% |
| Net Profit | 2,618 | 2,678 | 2,806 | 3,063 | 3,210 | Customer deposits | 7.5% | 3.9% | 7.9% | 3.3% | 3.0% |
| Core Net Profit | 2,805 | 2,678 | 2,806 | 3,063 | 3,210 | | | | | | |
| Balance Sheet | | | | | | Operating metrics | | | | | |
| FY Dec (RM m) | 2021A | 2022A | 2023A | 2024F | 2025F | Est average asset yield | 3.49% | 3.88% | 4.67% | 4.68% | 4.67% |
| Cash & ST funds | 23,318 | 19,787 | 15,034 | 15,645 | 16,280 | Est average funding cost | 1.49% | 1.86% | 3.09% | 2.95% | 3.01% |
| Investment securities | 61,881 | 69,070 | 79,910 | 83,155 | 86,531 | Est NIM | 2.27% | 2.27% | 1.82% | 2.03% | 2.00% |
| Loans and financing | 194,897 | 208,379 | 219,563 | 229,164 | 236,116 | Cost-to-Income ratio | 45.2% | 44.2% | 47.5% | 46.4% | 47.6% |
| Other assets | 6,097 | 10,102 | 10,718 | 9,568 | 9,543 | Credit cost (bps) | 30.5 | 15.3 | 16.6 | 16.0 | 6.4 |
| Intangible assets | 3,349 | 3,414 | 3,467 | 3,467 | 3,467 | Loan-to-deposit ratio | 89.1% | 91.7% | 89.6% | 90.5% | 90.5% |
| Total Assets | 289,541 | 310,752 | 328,692 | 340,999 | 351,937 | GIL ratio | 1.5% | 1.5% | 1.7% | 1.6% | 1.6% |
| Customer deposits | 218,733 | 227,160 | 245,083 | 253,145 | 260,826 | LLC Ratio | 122.4% | 112.8% | 71.7% | 80.0% | 75.0% |
| Deposits & placements | 23,407 | 24,594 | 17,022 | 17,714 | 18,433 | LLC Ratio (+ reg reserves) | 133.5% | 139.6% | 117.6% | 127.6% | 121.2% |
| Borrowings | 9,256 | 12,971 | 16,989 | 17,679 | 18,397 | ROA | 0.9% | 0.9% | 0.9% | 0.9% | 0.9% |
| Other liabilities | 10,116 | 17,263 | 18,687 | 20,334 | 20,879 | ROE | 9.5% | 9.4% | 9.4% | 9.7% | 9.8% |
| Total liabilities | 261,511 | 281,988 | 297,781 | 308,872 | 318,533 | | | | | | |
| Share capital | 7,613 | 8,146 | 8,330 | 8,330 | 8,330 | Valuations | | | | | |
| Retained earnings | 18,924 | 19,412 | 19,629 | 20,845 | 22,122 | EPS (RM) | 0.65 | 0.62 | 0.65 | 0.71 | 0.75 |
| Regulatory reserves | 328 | 882 | 1,780 | 1,780 | 1,780 | PER (x) | 8.47 | 8.87 | 8.47 | 7.76 | 7.40 |
| Other reserves | 1,133 | 293 | 1,135 | 1,135 | 1,135 | Div yield (%) | 7.2 | 7.2 | 7.2 | 7.8 | 8.1 |
| Shareholders' funds | 27,998 | 28,732 | 30,875 | 32,090 | 33,367 | BV/share (RM) | 6.52 | 6.69 | 7.19 | 7.47 | 7.77 |
| Minority interest | 32 | 32 | 36 | 36 | 36 | P/BV (x) | 0.85 | 0.83 | 0.77 | 0.74 | 0.71 |
| Total liabilities and equity | 289,541 | 310,752 | 328,692 | 340,999 | 351,937 | | | | | | |

Source: Kenanga Research

24 April 2024

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. |
| Stocks Under Coverage | | | | | | | | | | | | | | | | | |
| AFFIN BANK BHD | UP | 2.50 | 1.80 | -28.0% | 5,866 | N | 12/2024 | 21.2 | 27.8 | 21.4% | 31.6% | 11.8 | 9.0 | 0.5 | 4.3% | 8.0 | 3.2% |
| ALLIANCE BANK MALAYSIA BHD | OP | 3.83 | 4.30 | 12.3% | 5,929 | N | 03/2024 | 45.5 | 50.9 | 4.0% | 11.8% | 8.4 | 7.5 | 0.8 | 10.2% | 24.5 | 6.4% |
| AMMB HOLDINGS BHD | OP | 4.18 | 4.80 | 14.8% | 13,823 | N | 03/2024 | 43.6 | 51.1 | -16.9% | 17.3% | 9.6 | 8.2 | 0.7 | 9.4% | 19.0 | 4.5% |
| BANK ISLAM MALAYSIA BHD | UP | 2.50 | 2.25 | -10.0% | 5,666 | Y | 12/2024 | 25.6 | 29.3 | 5.1% | 14.1% | 9.7 | 8.5 | 0.7 | 7.8% | 17.0 | 6.8% |
| CIMB GROUP HOLDINGS BHD | MP | 6.67 | 6.60 | -1.0% | 71,210 | N | 12/2024 | 67.1 | 69.8 | 2.6% | 3.9% | 9.9 | 9.6 | 1.0 | 10.3% | 44.0 | 6.6% |
| HONG LEONG BANK BHD | OP | 19.54 | 24.20 | 23.8% | 42,357 | N | 06/2024 | 196.0 | 213.1 | 5.2% | 8.7% | 10.0 | 9.2 | 1.1 | 11.3% | 60.0 | 3.1% |
| MALAYAN BANKING BHD | OP | 9.82 | 11.00 | 12.0% | 118,498 | N | 12/2024 | 80.7 | 82.9 | 4.1% | 2.8% | 12.2 | 11.8 | 1.2 | 10.2% | 62.0 | 6.3% |
| MALAYSIA BUILDING SOCIETY BHD | UP | 0.780 | 0.590 | -24.4% | 6,413 | Y | 12/2024 | 3.4 | 6.3 | 79.3% | 82.1% | 22.7 | 12.5 | 0.6 | 2.5% | 2.0 | 2.6% |
| PUBLIC BANK BHD | OP | 4.21 | 5.10 | 21.1% | 81,719 | N | 12/2024 | 37.8 | 39.6 | 10.3% | 4.8% | 11.1 | 10.6 | 1.4 | 13.0% | 21.0 | 5.0% |
| RHB BANK BHD | OP | 5.53 | 7.25 | 31.1% | 23,704 | N | 12/2024 | 71.3 | 74.7 | 9.1% | 4.8% | 7.8 | 7.4 | 0.7 | 9.7% | 43.0 | 7.8% |
| SECTOR AGGREGATE | | | | | 375,184 | | | | | 5.0% | 6.2% | 10.8 | 10.2 | 1.1 | 9.9% | | 5.2% |

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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