

30 May 2024

RHB Bank

Eyeing for Small Hints of Trouble

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RHBBANK's 1QFY24 net profit (-4% YoY) was within expectations with the group still confident to achieving its targets albeit with a pinch of precaution. Certain SME and overseas accounts are seeing stress but the group believes the impacts are well-contained. Meanwhile, Boost Bank looks to launch soon. Our forecasts are relatively unchanged. Maintain **OUTPERFORM** and GGM-derived PBV TP of RM7.25. RHBBANK is one of our 2QCY24 Top Picks.

Within expectations. RHBBANK's 1QFY24 net profit of RM730.2m came in at 24% of our full-year forecast and 26% of consensus full-year estimate. No dividend was declared this quarter as the group typically makes biannual payments.

YoY, 1QFY24 total income improved by 10%, mostly thanks to gains in net interest income (+10%) tracked by a higher loans base (+5%) and recovering NIMs (2.00%, +9 bps). Meanwhile, non-interest income also increased by 7% from better treasury income. That said, 1QFY24 net profit declined by 4% as cost-income (45.9%, +1.0 ppt) was mostly stretched by union wage reviews and comparatively higher credit cost (38 bps, +28 bps) given stress observed in certain SME and international accounts.

QoQ, total income growth was more moderate (+3%) owing to softer fee-based streams. In addition to lower effective taxes, 1QFY24 earnings managed to improve by 25% as operating expenses and credit costs also gradually subsided.

Briefing highlights. No changes in guidance were present but the group leans towards being cautiously optimistic in lieu of visible challenges ahead.

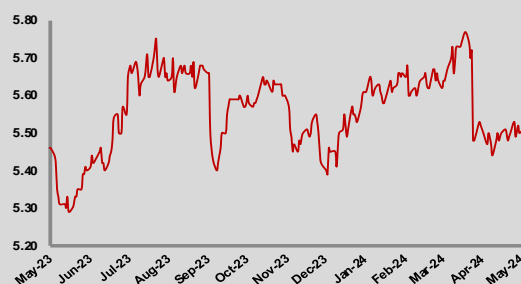
- The group showed stronger headways in its loans growth with its Singapore portfolio expanding by 22% and mortgages still appearing quite supportive (+9%). That said, the group prefers to abstain from raising the floor of existing loans growth target of >4.5% as it may choose to not undertake less profitable accounts to preserve margins.
- Its liquidity management initiatives continue to serve well in balancing the group's overall profitability, albeit not encapsulated within NIMs. While it is still dependent on stable demand for USD to be viable, we take comfort on easing market competition likely to uplift NIMs in the upcoming quarters. The group's target of 1.80%-1.90% is unchanged.
- Asset quality pains seem to emerge from the recent reporting. That said, the group believes in the recovery of its repayments which are also mostly secured and guaranteed. Given the current optics, there could be no need for further escalation of its provisioning.
- Boost Bank looks to be launched to the market soon, with the group believing that associate losses from here will be well managed, which we opine could indicate a quicker revenue model as compared to its peers. The group eyes a breakeven point within 4-5 years of its operations, within the foundational phase imposed by BNM.

Forecasts. Relatively unchanged following model updates to incorporate 1QFY24.

OUTPERFORM ↔

Price : RM5.48
Target Price : RM7.25 ↔

Share Price Performance



KLCI	1,605.35
YTD KLCI chg	10.4%
YTD stock price chg	0.6%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	RHBBANK MK Equity
Market Cap (RM m)	23,890.0
Shares Outstanding	4,359.5
52-week range (H)	5.77
52-week range (L)	5.29
3-mth avg daily vol	7,479,824
Free Float	35%
Beta	0.8

Major Shareholders

Employees Provident Fund	40.4%
OSK Holdings Bhd	10.3%
Amanah Saham Nasional	6.7%

Summary Earnings Table

FY Dec (RM m)	2023A	2024F	2025F
Net interest Income	5,926	6,525	6,610
Non-interest Income	1,844	1,811	1,856
Total Income	7,770	8,336	8,466
Operating Expenses	-3,689	-3,874	-4,067
Loan Impairment	-302	-369	-148
Pre-tax Profit	3,753	4,066	4,224
Net Profit	2,806	3,040	3,158
Core Net Profit	2,806	3,040	3,158
Consensus NP	-	2,842	3,011
Earnings Revision	-	-0.7%	-1.6%
Core EPS (RM)	0.65	0.71	0.74
EPS Growth	4.8	8.3	3.9
NDPS (RM)	0.40	0.43	0.45
BV/Share (RM)	7.19	7.46	7.75
NTA/Share (RM)	6.38	6.7	6.9
ROE (%)	9.4	9.7	9.7
PER (x)	8.4	7.7	7.5
P/BV (x)	0.76	0.73	0.71
Net Div. Yield (%)	7.3	7.8	8.2

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Maintain OUTPERFORM and TP of RM7.25 based on an unchanged GGM-derived FY25F PBV of 0.93x (COE: 10.5%, TG: 3.0%, ROE: 10.0%) against FY25F BVPS of RM7.75. 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. 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. **RHBBANK 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.

Results Highlights

	1Q	4Q	QoQ	1Q	YoY	3M	3M	YoY
FYE Dec (RM m)	FY24	FY23	Chg	FY23	Chg	FY24	FY23	Chg
Net interest income	1,584.1	1,400.8	13.1%	1,437.3	10.2%	1,584.1	1,437.3	10.2%
Non-interest income	504.1	623.2	-19.1%	470.4	7.2%	504.1	470.4	7.2%
Total income	2,088.2	2,024.0	3.2%	1,907.7	9.5%	2,088.2	1,907.7	9.5%
Operating expenses	-959.2	-980.9	-2.2%	-856.5	12.0%	-959.2	-856.5	12.0%
Pre-impairment profit	1,129.1	1,043.1	8.2%	1,051.2	7.4%	1,129.1	1,051.2	7.4%
(Allowances)/ write-backs	-213.1	-237.0	-10.1%	-54.9	288.4%	-213.1	-54.9	288.4%
(Allowances)/ write-backs on other assets	-1.9	6.9	-127.0%	8.8	-121.1%	-1.9	8.8	-121.1%
Operating profit	914.1	813.0	12.4%	1,005.2	-9.1%	914.1	1,005.2	-9.1%
Non-operating gains / (losses)	-3.9	-7.3	-46.2%	0.0	N.M.	-3.9	0.0	N.M.
Profit before tax	910.2	805.8	13.0%	1,005.2	-9.5%	910.2	1,005.2	-9.5%
Taxation	-178.8	-218.5	-18.2%	-242.6	-26.3%	-178.8	-242.6	-26.3%
Minority interest	-1.2	-1.4	-14.1%	-1.0	22.8%	-1.2	-1.0	22.8%
Net Profit	730.2	585.9	24.6%	761.7	-4.1%	730.2	761.7	-4.1%
Core Net Profit	730.2	585.9	24.6%	761.7	-4.1%	730.2	761.7	-4.1%
Gross loans	224,919	222,416	1.1%	213,359	5.4%	224,919	213,359	5.4%
Gross impaired loans	4,115	3,879	6.1%	3,389	21.4%	4,115	3,389	21.4%
Customer deposits	242,935	245,083	-0.9%	226,432	7.3%	242,935	226,432	7.3%
Current and savings account (CASA)	70,406	68,423	2.9%	63,699	10.5%	70,406	63,699	10.5%
Total assets	329,257	328,692	0.2%	312,373	5.4%	329,257	312,373	5.4%
Shareholders' equity	31,711	30,875	2.7%	29,884	6.1%	31,711	29,884	6.1%
Est. annualised NIM	2.00%	1.78%		1.91%		2.00%	1.91%	
Cost-to-income ratio	45.9%	48.5%		44.9%		45.9%	44.9%	
Annualised credit cost (bps)	38.1	42.9		10.3		38.1	10.3	
Effective tax rate	19.6%	27.1%		24.1%		19.6%	24.1%	
Annualised ROA	0.9%	0.7%		1.0%		0.9%	1.0%	
Annualised ROE	9.3%	7.7%		10.4%		9.3%	10.4%	
Gross impaired loans ratio	1.83%	1.74%		1.59%		1.83%	1.59%	
Loan loss coverage ratio (LLC)	70.1%	71.7%		109.4%		70.1%	109.4%	
LLC plus regulatory reserves	116.0%	117.6%		136.7%		116.0%	136.7%	
Loan-to-deposit ratio	93.2%	91.4%		94.7%		93.2%	94.7%	
CASA-to-deposit ratio	29.0%	27.9%		28.1%		29.0%	28.1%	
CET-1 capital (Group level)	16.5%	16.7%		16.9%		16.5%	16.9%	

Source: Company, Kenanga Research

Management Guidance

	FY24 Targets	FY23 Performance
Credit cost	20-25 bps	16 bps
NIM	1.80-1.90%	1.92%
Return on equity	>10%	9.4%
Loans Growth	>4.5%	4.8%
CASA composition	27%-28%	27.9%
GIL ratio	<1.70%	1.74%
CIR ratio	<47.5%	47.5%

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. (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	2.39	1.80	-24.7%	5,608	N	12/2024	21.0	27.7	20.4%	31.9%	11.4	8.6	0.5	4.3%	8.0	3.3%
ALLIANCE BANK MALAYSIA BHD	OP	3.80	4.30	13.2%	5,883	N	03/2024	45.5	50.9	4.0%	11.8%	8.3	7.5	0.8	10.2%	24.5	6.4%
AMMB HOLDINGS BHD	OP	4.22	5.20	23.2%	13,955	N	03/2025	55.3	56.3	17.5%	1.8%	7.6	7.5	0.7	9.1%	22.0	5.2%
BANK ISLAM MALAYSIA BHD	MP	2.41	2.25	-6.6%	5,462	Y	12/2024	25.2	29.0	3.3%	14.9%	9.6	8.3	0.7	7.6%	17.0	7.1%
CIMB GROUP HOLDINGS BHD	MP	6.87	6.60	-3.9%	73,395	N	12/2024	67.1	69.8	2.6%	3.9%	10.2	9.8	1.0	10.3%	44.0	6.4%
HONG LEONG BANK BHD	OP	19.30	24.20	25.4%	41,837	N	06/2024	196.0	213.1	5.2%	8.7%	9.8	9.1	1.1	11.3%	60.0	3.1%
MALAYAN BANKING BHD	OP	9.90	11.00	11.1%	119,463	N	12/2024	80.0	83.6	3.2%	4.5%	12.4	11.8	1.2	10.1%	62.0	6.3%
MALAYSIA BUILDING SOCIETY BHD	UP	0.865	0.590	-31.8%	7,112	Y	12/2024	3.4	6.3	79.3%	82.1%	25.2	13.8	0.6	2.5%	2.0	2.3%
PUBLIC BANK BHD	OP	4.08	5.10	25.0%	79,196	N	12/2024	37.3	39.3	9.0%	5.4%	10.9	10.4	1.4	12.9%	21.0	5.1%
RHB BANK BHD	OP	5.48	7.25	32.3%	23,890	N	12/2024	70.8	73.5	8.3%	3.9%	7.7	7.5	0.7	9.7%	43.0	7.8%
SECTOR AGGREGATE					375,800					6.1%	6.1%	10.8	10.1	1.1	10.0%		5.3%

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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