

27 August 2019

RHB Bank Berhad

Boosted by Treasury Related Income

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6M19 earnings came within our/market expectations on account of lower impairment allowances and improved fee-based income. While loans were above expectations, NII was dragged by higher NIM compression, which is expected to be stable in the remaining quarters this year. Nevertheless, our conservative assumptions, TP at RM6.05 and OUTPERFORM recommendation are maintained.

In line. 6M19 CNP of RM1.24b came in line with our/market expectations, accounting for 52% of both full-year estimates. A DPS of 12.5 sen was declared, implying a 40% payout (vs expectations of 35%).

NOII boosted by gains. YoY, CNP of RM1,245m (+8%) was supported by improved operating profit (+6%) to RM1,664m as impairment allowances fell 8% to RM168m and improvement in CIR by 60bps to 48.5%. Top-line at RM3,520m (moderating by 420bps to 3.9%) was supported by both Islamic banking income (+26%) and NOII (+8%). While improvement in Islamic banking income was supported by lower provisioning, NOII was supported by gains from investment securities (>+100% to RM292m). Despite loans at +6.8% (vs guidance/estimation of ~+5%) NII fell (-2.6%) due to falling NIM (-18bps to 2.06%) on higher funding costs (with longer tenure) from the OPR hike on Jan 18. Higher mixed of FDs (with longer tenure) and lower LDR also contributed to NIM compression. Asset improved as GIL fell 18bps to 2.15% with credit charge falling 3bps to 20bps (vs guidance/expectation of high teens).

QoQ, CNP fell 2% to RM615m with top-line soft (+2%) dragged by higher tax rate of 27%. NII was flatish dragged by falling NIM (-5bps) despite loans improving by 70bps to +1.4%. Moderation in both fee and other income dragged NOII (-3.5%) despite a 34% gain in investment securities to RM167m. While credit costs declined another 4bps to 0.18%, Q2 saw slight uptick in GIL (+3bps) to 2.15%.

Maintained target ROE of 10.5%. Management maintained its FY19E ROE of 10.5% (vs ours at 10%) with NOII expected to repeat its performance in 2H19 (mainly from revaluation gains - assuming another OPR cut and other one-offs gains). NIM is expected to hover around 2.13% (implying 10bps compression), given that re-pricing of funding costs are expected to come on-stream by Q3/Q4. Management expects loans to be on target (+5% YoY), driven by mortgage and SME but we do not discount an aggressive foray into PF (in the Islamic market space given its higher margins and lower provisioning. Credit charge is expected to be as guided (in high teens) with GIL to improve given that RM180m of the impaired loans under the R&R bracket and expected to improve GIL by 11bps by end of FY19E.

No revision to forecasts. Our FY19E/FY20E NP are maintained at RM2.4b/RM2.5b and we keep our conservative assumptions for both FYs:- (i) loans growth of <5%/~5.2% (unchanged), (ii) CIR at 49% (unchanged), (iii) 5-10bps compression/+3bps (unchanged), (iv) credit charge at 19bps (unchanged), and (v) ROE at 10% (unchanged).

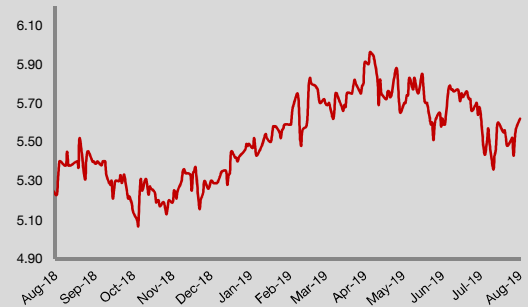
TP maintained at RM6.05 based on a target 0.92x PBV FY20E (implying a 0.5SD below mean valuation) - to reflect potential risk from uncertainties ahead undermining fee-based income growth. We believe loans target is achievable given that its loans are skewed domestically with asset quality expected to be stable given its focus on retails. **Reiterate OUTPERFORM** as valuations remain undemanding.

Key risks to our call are: (i) steeper margin squeeze, (ii) higher-than-expected loans & deposits growth, (iii) lower-than-expected rise in credit charge, and (iv) further slowdown in capital market activities.

OUTPERFORM ↔

Price : **RM5.62**
Target Price : **RM6.05** ↔

Share Price Performance



KLCI 1,600.53
YTD KLCI chg -5.3%
YTD stock price chg 6.2%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	RHBBANK MK Equity
Market Cap (RM m)	22,536.5
Shares Outstanding	4,010.0
52-week range (H)	6.07
52-week range (L)	5.05
3-mth avg daily vol:	6,199,647
Free Float	44%
Beta	1.1

Major Shareholders

Employees Provident Fund	41.3%
Aabar Investments PJSC	10.1%
OSK Holdings Bhd	4.9%

Summary Earnings Table

FY Dec (RM'm)	2018A	2019E	2020E
Net interest inc.	3,654	3,572	3,829
Islamic banking inc.	1,428	1,640	1,750
Non-interest inc.	1,722	1,747	1,702
Total inc.	6,804	6,958	7,281
Pre-tax profit	3,119	3,200	3,383
Net profit (NP)	2,305	2,391	2,528
Consensus NP		2,401	2,538
Earnings revision %			
EPS (RM)	0.57	0.60	0.63
EPS growth (%)	18.1%	3.7%	5.7%
Net DPS (RM)	0.21	0.21	0.22
BV/share (RM)	5.82	6.21	6.62
NTA/share (RM)	5.01	5.40	5.81
ROE (%)	9.9	9.9	9.8
PER	9.8	9.4	8.9
Price/book (x)	1.0	0.9	0.8
Net dividend yield (%)	3.6	3.7	3.9

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Results Highlight								
Y/E : Dec (RM m)	2Q19	1Q19	QoQ Chg.	2Q18	YoY Chg.	6M19	6M18	YoY Chg.
Net interest income	880.9	880.3	0.1%	936.9	-6.0%	1,761.1	1,865.9	-5.6%
Net inc. from Islamic banking	431.3	381.0	13.2%	371.0	16.2%	812.3	644.8	26.0%
Non-interest Income	464.4	481.2	-3.5%	309.2	50.2%	945.6	875.9	8.0%
Total income	1,776.6	1,742.4	2.0%	1,617.1	9.9%	3,519.0	3,386.5	3.9%
Other operating expenses	(861.2)	(846.3)	1.8%	(799.0)	7.8%	(1,707.6)	(1,662.0)	2.7%
(Allowances) / write-backs	(76.1)	(92.2)	-17.5%	(77.2)	-1.5%	(168.2)	(180.9)	-7.0%
(Allowances) / write-backs on other assets	2.2	19.3	-89%	32.1	-93%	21.4	21.2	1.0%
Operating profit	841.5	823.2	2.2%	773.0	8.9%	1,664.7	1,564.9	6.4%
Non-operating gains / (losses)	0.0	(0.0)	-100.0%	0.0	-100.0%	(0.0)	0.0	-178.9%
Pre-tax profit	841.5	823.2	2.2%	773.0	8.9%	1,664.7	1,564.9	6.4%
Taxation & minorities	(226.1)	(193.0)	17.2%	(202.7)	11.5%	(419.1)	(403.8)	3.8%
Net profit	615.410	630.2	-2.3%	570.3	7.9%	1,245.6	1,161.1	7.3%
EPS (sen)	15.3	15.7	-2.3%	14.2	7.9%	31.1	29.0	7.3%
Net DPS declared (sen)	12.5	0.0	N.a	7.5	66.7%	12.5	7.5	66.7%
Gross loans	172,346	170,056	1.3%	161,361	6.8%	172,346	161,361	6.8%
Net loans	169,232	166,825	1.4%	158,200	7.0%	169,232	158,200	7.0%
Customer deposits	185,029	186,890	-1.0%	165,977	11.5%	185,029	165,977	11.5%
Current and savings account	49,179	45,699	7.6%	48,112	2.2%	49,179	48,112	2.2%
BV/share (RM)	6.20	6.08	1.9%	5.61	10.4%	6.20	5.61	10.4%
NTA/share (RM)	5.38	5.26	2.2%	4.81	11.8%	5.38	4.81	11.8%
Annualized Net interest margin	2.06%	2.11%		2.25%		2.06%	2.24%	
Cost-to-income ratio	48.5%	48.6%		49.4%		48.5%	49.1%	
Effective tax rate	26.7%	23.3%		26.2%		25.0%	25.8%	
G. loan-to-deposit ratio	93.1%	91.0%		97.2%		93.1%	97.2%	
N. loan-to-deposit ratio	91.5%	89.3%		95.3%		91.5%	95.3%	
CASA to deposit ratio	26.6%	24.5%		29.0%		26.6%	29.0%	
Gross impaired loans ratio	2.15%	2.12%		2.33%		2.15%	2.33%	
Total allowances-to-loans	-1.8%	-1.9%		-2.0%		-1.8%	-2.0%	
Loan loss coverage	85.0%	90.2%		84.2%		85.0%	84.2%	
Credit charge ratio	0.18%	0.22%		0.19%		0.20%	0.23%	
Credit charge ratio-loans only	0.18%	0.22%		0.19%		0.20%	0.23%	
CET 1 capital (Group level)	13.3%	13.5%		14.5%		13.3%	14.5%	
Total capital (Group level)	16.4%	16.7%		17.7%		16.4%	17.7%	
Annualised ROE	10.3%	10.8%		10.0%		10.1%	10.4%	

Source: Company, Kenanga Research

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Peer 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.			
BANKING																	
AFFIN BANK BHD	2.00	3,972.0	N	12/2019	8.2%	5.3%	9.3%	15.9%	7.9	7.2	6.2	0.5	0.4	6.2%	2.8%	2.40	OP
ALLIANCE BANK MALAYSIA BHD	3.25	5,031.3	N	03/2020	9.4%	8.0%	7.2%	9.2%	9.4	8.7	8.0	0.9	0.8	9.8%	5.5%	4.25	OP
AMMB HOLDINGS BHD	4.12	12,418.4	N	03/2020	10.4%	4.5%	-0.4%	2.8%	8.2	8.3	8.1	0.7	0.6	7.8%	4.9%	4.75	OP
BIMB HOLDINGS BHD	4.06	7,163.0	Y	12/2019	7.8%	8.5%	7.6%	13.6%	10.4	10.1	9.2	1.4	1.4	14.0%	4.0%	4.80	MP
CIMB GROUP HOLDINGS BHD	5.06	49,220.7	N	12/2019	4.6%	5.0%	-16.2%	2.6%	8.5	10.5	10.5	0.9	0.8	8.5%	4.4%	6.45	OP
HONG LEONG BANK BERHAD	16.98	36,807.9	N	06/2019	5.8%	5.7%	2.0%	9.0%	13.2	12.9	11.8	1.5	1.4	11.0%	2.8%	20.05	MP
MALAYAN BANKING BHD	8.59	96,563.3	N	12/2019	4.2%	4.3%	-0.5%	3.2%	11.7	11.8	11.4	1.2	1.1	9.9%	6.7%	10.35	OP
MALAYSIA BUILDING SOCIETY	0.83	5,572.1	N	12/2019	-1.0%	5.3%	-10.7%	10.2%	8.3	9.3	8.8	0.7	0.7	7.2%	6.0%	1.15	OP
PUBLIC BANK BERHAD	20.80	80,748.5	N	12/2019	3.9%	5.2%	-0.1%	3.5%	14.4	14.4	13.9	2.0	2.0	13.7%	3.3%	25.20	OP
RHB BANK BHD	5.62	22,536.5	N	12/2019	6.0%	4.8%	3.7%	5.7%	9.8	9.4	8.9	1.0	0.9	9.9%	3.7%	6.05	OP
Simple Average					5.9%	5.7%	0.2%	7.6%	10.2	10.2	9.7	1.1	1.0	9.8%	4.4%		

Source: Bloomberg, Kenanga Research

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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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