FINANCIAL SERVICES

AmInvestment Bank

Company report

RHB BANK

(RHBBANK MK EQUITY, RHBC.KL)

15 Oct 2020

Pick-up in loan growth in 3Q20 with decent NOII

BUY

(Maintained)

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Rationale for report: Company update

Price	**RM4.34**
Fair Value	**RM5.70**
52-week High/Low	RM5.98/RM4.23

Key Changes

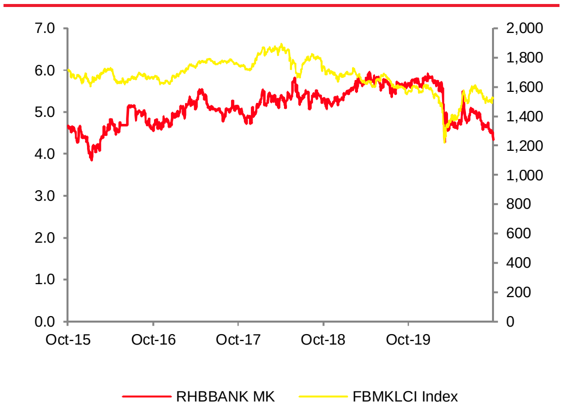
Fair value	⇔
EPS	⇔

YE to Dec	FY19	FY20F	FY21F	FY22F
Total income (RM mil)	7,100.8	6,892.9	6,818.7	7,021.2
Core net profit (RM mil)	2,482.4	2,112.5	2,326.2	2,571.6
FD Core EPS (sen)	61.9	52.7	58.0	64.1
FD Core EPS growth (%)	7.7	(14.9)	10.1	10.6
Consensus Net Profit (RM mil)	-	1,985.0	2,265.0	2,572.0
DPS (sen)	31.0	21.1	23.2	32.1
BV/share (RM)	6.42	6.88	7.30	7.99
PE (x)	7.0	8.2	7.5	6.8
Div yield (%)	6.9	4.7	5.2	7.1
P/BV (x)	0.7	0.6	0.6	0.5
ROE (%)	10.1	7.9	8.2	8.4

Stock and Financial Data

Shares Outstanding (million)	4,010.0
Market Cap (RM mil)	17,403.4
Book Value (RM/share)	6.42
P/BV (x)	0.7
ROE (%)	10.1
Major Shareholders	Employees Provident Fund (43.0%) OSK Holdings Bhd (10.1%) KWSP (5.0%)
Free Float	41.8
Avg Daily Value (RM mil)	11.5

Price performance	3mth	6mth	12mth
Absolute (%)	(13.4)	(7.9)	(23.7)
Relative (%)	(9.1)	(17.0)	(21.5)



Investment Highlights

- **We maintain our BUY recommendation on RHB Bank with unchanged fair value of RM5.70/share supported by an ROE of 8.2% leading to FY21 P/BV of 0.8x. Except for lowering our dividend payout expectation for FY20/21 to 40% from 50%, there are no changes to our earnings estimate. We continue to like RHB for its undemanding valuation trading at 0.6x P/BV, its strong capital position and sizeable FVOCI reserves of RM1.73bil.**

- **The 6-month blanket automatic loan moratorium to assist retail and SME borrowers ended on 30 Sep 2020. The group has managed to establish contacts with 104,000 retail customers out of the 201,000 vulnerable consumer loan borrowers in total. In terms of loan value, this cumulated to RM9.7bil, representing 54% of the total vulnerable retail loans of RM17.9bil. We understand that 97,000 customers (46% of the total vulnerable retail loan borrowers) failed to be contacted.**

- **Of the 104,000 retail customers contacted, 82.7% or 86,000 borrowers did not require repayment assistance. Meanwhile, 17.3% or 18,000 borrowers indicated their need for further repayment assistance. Year to date, the group has approved the restructuring and rescheduling (R&R) of loans totalling RM7bil to 56,000 retail borrowers. This comprised largely R&R for mortgage loans (RM5.2bil).**

- **RHB Bank has circa 22,000 business banking (SME & commercial) borrowers with total loans outstanding of RM20.9bil as at the end of June 2020. The group's business banking (BB) customers comprised largely SME borrowers and the group has managed to contact 100% of them. 7,000 of the BB customers with a loan value of RM12.4bil have been identified as vulnerable/high risk. Around 2,000 of these customers (loan value: RM4.7bil) required repayment assistance. This amounted to 18.1% of the total group BB loans in terms of loan value.**

- **Thus far, RHB has approved the R&R for 580 BB customers (29% of the total vulnerable BB borrowers) amounting to a cumulative RM2bil in loan value. On a comforting note, the average collateral coverage for BB loans is between 70% and 80%.**
- **For corporate loans, 100 customers with loans totaling RM12.4bil have been classified as vulnerable. 60 of these borrowers with loans of RM9.5bil in total required financial assistance. The R&R for a total of RM3.1bil of corporate loans have been approved for 27 borrowers.**
- **Asset quality for domestic loans is still stable in 3Q20 as a substantial portion of the retail and SME loans are still under the automatic blanket moratorium.**
- **The government has announced the implementation of the conditional movement control order (CMCO) in Selangor, KL and Putrajaya for 14 days (14 to 27 October). Meanwhile, Sabah has also been placed under the CMCO from 13 to 26 October. With the CMCO enforced for a short term period of 2 weeks and all economic sectors still allowed to operate, the impact to the economy will be less severe compared to the partial lockdown or the MCO implemented on 18 March.**
- **Over in Singapore, we understand that asset quality has been stable. With no automatic blanket moratorium in Singapore, loan borrowers are required to apply for any moratorium. We gather that the percentage of loans under the moratorium is circa 12.0% of the total outstanding loans in Singapore.**
- **In 1H20, pre-emptive provisioning (management overlay) of RM90mil has already been taken for the potential impact of Covid-19 (1Q20 RM50mil and 2Q20 RM40mil). Also, additional provisions of RM160mil have been set aside from the increase in expected credit loss (ECL) through adjustments in macroeconomic variables. 3Q20 is likely to see further top-up in provisions (management overlay). Nevertheless, we take comfort the even with the additional provisions, credit cost for FY20 will still be within management's guidance of 40bps. Management is maintaining its credit cost guidance of 30bps for FY21.**
- **RHB Bank completed the disposal of its stockbroking business in Singapore to Philip Capital. We understand that in 3Q20 there will be a recognition of gains from this sale. This disposal will relieve earnings of the group from being dragged by the losses of the stockbroking business. We understand that losses from RHB Securities Singapore amounted to SGD9mil in FY19. Capital release from the disposal will have minimal impact on the group's capital ratios.**
- **Non-interest income in 3Q20 is likely to be still decent supported by treasury segments' gains from disposal and marked-to-market revaluation impact on securities. 2Q20 saw the group's FVOCI reserves standing at RM1.73bil. The group's plans to continue to gradually monetise gains by partially disposing off its FVOCI securities until FY21.**
- **Earlier, RHB announced that it has inked a new 5 year bankatakaful deal with Syarikat Takaful Malaysia Keluarga (STMK) from 1 Aug 2020 to 31 July 2025 for the distribution of family and general takaful products. STMK will pay a facilitation fee of RM145mil to RHB Islamic for this arrangement. We understand that the new arrangement could add an incremental income of RM20mil per annum to group compared to the previous agreement should the key KPIs agreed from the tie-up be achieved.**
- **The group's 3Q20 loan growth is likely to have picked up pace over 2Q20. Recall that loans grew 2.6% QoQ or 4.9% YoY in 2Q20. The stronger loan growth will be supported largely by the non-repayment of retail and SME loans under the moratorium which increased the outstanding balances coupled with the holding up of loan momentum in Singapore. Also, mortgage loans picked up pace after the MCO with the resumption of construction works. This has resulted in further progressive drawdowns of the mortgage loans booked earlier.**

- **3Q20 is likely to still see compression in the group's NIM due to the OPR cut of 25bps on 7 July 2020. However, in 4Q20, we expect interest margin to improve from the repricing of sizeable matured deposits to lower rates. We are maintaining our expectations that there will be no further cuts in interest rate for the rest of FY20. The group's CASA ratio is still holding up and management is maintaining its NIM guidance of 1.96% for FY20.**
- **On dividends, payouts will be lower than the 31 sen/share (payout: 50.1%) in FY19. Management is targeting for a dividend payout of above 30% for FY20. We continue to expect no interim dividends with only the final dividend to be declared in the 4Q20.**
- **We understand that the group has yet to decide on the adoption of the transitional arrangements for regulatory capital treatment of accounting provisions. In the event that it is adopted, it is expected to have a modest uplift of 20bps to the CET1 ratio of the group with the add-back of the increase in stage 1 and 2 provisions from the end of Dec 2019. If implemented, it will not materially change the fundamentals of the group. This is in view of the fact that the add-back of provisions will be amortised over a 3 or 4 years before eventually reverting to the previous treatment on regulatory capital.**

EXHIBIT 1: PB BAND CHART

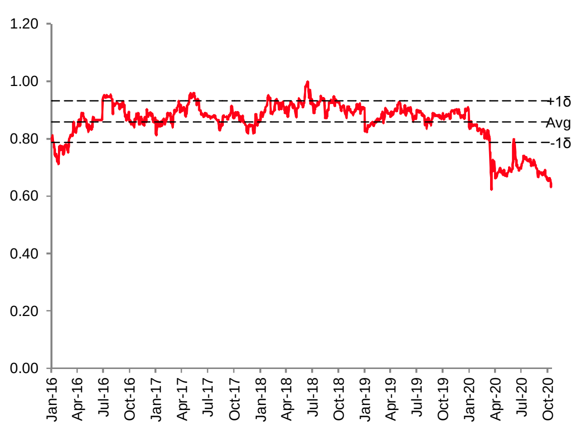


EXHIBIT 2: PE BAND CHART

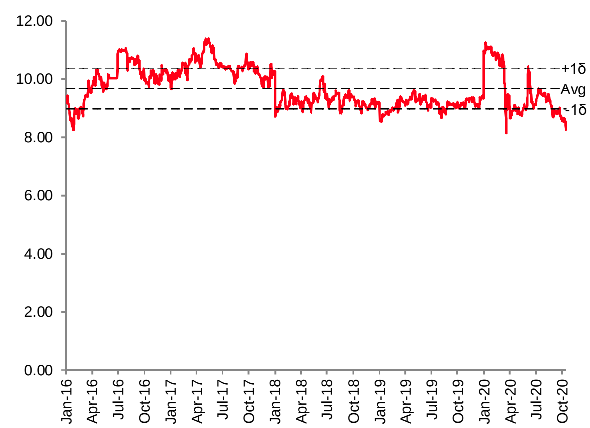


EXHIBIT 3: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	**FY18**	**FY19**	**FY20F**	**FY21F**	**FY22F**
Net interest income	3,655.2	3,609.6	3,100.7	2,873.5	2,708.2
Non-interest income	1,722.1	1,876.7	1,916.0	1,764.8	1,779.2
Islamic banking income	**1,428.3**	**1,614.5**	**1,876.2**	**2,180.4**	**2,533.9**
Total income	6,805.6	7,100.8	6,892.9	6,818.7	7,021.2
Overhead expenses	(3,357.7)	(3,471.8)	(3,343.0)	(3,204.8)	(3,300.0)
Pre-provision profit	3,448.0	3,629.0	3,549.8	3,613.9	3,721.2
Loan loss provisions	(306.0)	(278.5)	(705.3)	(543.9)	(285.2)
Impairment & others	(23.0)	-	-	-	-
Associates	**-**	**-**	**-**	**-**	**-**
Pretax profit	3,119.0	3,350.4	2,844.6	3,070.0	3,436.0
Tax	(810.1)	(862.6)	(725.7)	(736.8)	(856.6)
Minority interests	**(3.7)**	**(5.4)**	**(6.4)**	**(7.0)**	**(7.7)**
Net profit	2,305.1	2,482.4	2,112.5	2,326.2	2,571.6
Core net profit	2,305.1	2,482.4	2,112.5	2,326.2	2,571.6

Balance Sheet (RMmil, YE 31 Dec)	**FY18**	**FY19**	**FY20F**	**FY21F**	**FY22F**
Cash & deposits with FIs	12,553.2	11,628.0	13,496.9	12,325.7	12,933.6
Marketable securities	**52,497.9**	**60,629.0**	**58,391.4**	**59,892.5**	**62,429.8**
Total current assets	65,051.1	72,257.0	71,888.3	72,218.2	75,363.4
Net loans & advances	165,629.8	173,236.7	176,317.1	181,296.1	190,127.6
Statutory deposits	nm	nm	nm	nm	nm
Long-term investments	4,795.2	4,549.3	4,851.0	4,879.1	5,052.9
Fixed assets	1,000.0	991.3	978.2	966.7	956.0
Intangible assets	2,649.3	2,654.1	2,654.1	2,654.1	2,654.1
Other long-term assets	**4,040.3**	**3,904.1**	**3,535.9**	**3,816.1**	**3,940.7**
Total LT assets	**178,114.6**	**185,335.5**	**188,336.3**	**193,612.2**	**202,731.4**
Total assets	243,165.7	257,592.5	260,224.7	265,830.4	278,094.8
Customer deposits	178,856.3	190,555.2	194,366.3	200,197.3	209,206.2
Deposits of other FIs	18,290.9	21,539.3	21,169.3	20,969.3	21,936.6
Subordinated debts	3,748.7	2,724.2	2,322.5	1,828.0	1,497.5
Hybrid capital securities	5,567.7	3,790.9	2,608.5	1,800.6	1,149.1
Other liabilities	**13,306.1**	**13,172.0**	**12,104.8**	**11,705.2**	**12,179.7**
Total liabilities	219,769.7	231,781.7	232,571.4	236,500.4	245,969.1
Shareholders' funds	23,358.0	25,775.4	27,615.5	29,291.1	32,086.5
Minority interests	38.0	35.4	37.8	38.9	39.2

Key Ratios (YE 31 Dec)	**FY18**	**FY19**	**FY20F**	**FY21F**	**FY22F**
Total income growth (%)	6.6	4.3	(2.9)	(1.1)	3.0
Pre-provision profit growth (%)	7.7	5.3	(2.2)	1.8	3.0
Core net profit growth (%)	18.2	7.7	(14.9)	10.1	10.6
Net interest margin (%)	2.2	2.2	2.0	2.0	2.0
Cost-to-income ratio (%)	49.3	48.9	48.5	47.0	47.0
Effective tax rate (%)	26.0	25.7	25.5	24.0	24.9
Dividend payout (%)	35.7	50.1	40.0	40.0	50.0

Key Assumptions (YE 31 Dec)	**FY18**	**FY19**	**FY20F**	**FY21F**	**FY22F**
Loan growth (%)	5.5	4.3	2.0	3.0	5.0
Deposit growth (%)	7.6	6.5	2.0	3.0	4.5
Loan-deposit ratio (%)	92.6	90.9	90.7	90.6	90.9
Gross NPL (%)	2.1	2.0	2.0	2.1	1.9
Net NPL (%)	1.1	1.1	1.0	1.1	0.8
Credit charge-off rate (%)	0.2	0.2	0.4	0.3	0.2
Loan loss reserve (%)	93.3	85.7	94.1	97.6	114.2

Source: Company, AmInvestment Bank Bhd estimates

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