FINANCIAL SERVICES

AmInvestment Bank

Company report

RHB BANK

(RHBBANK MK EQUITY, RHBC.KL)

31 Mar 2017

Still compelling from valuation perspective

BUY

Price: RM5.27
Fair Value: RM6.00

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Rationale for report: Company update

YE to Dec	FY16	FY17F	FY18F	FY19F
FD Core EPS (Sen)	46.7	51.4	55.6	61.8
PE (x)	11.3	10.3	9.5	8.5

Source: AmInvestment Bank Bhd

Quick Take

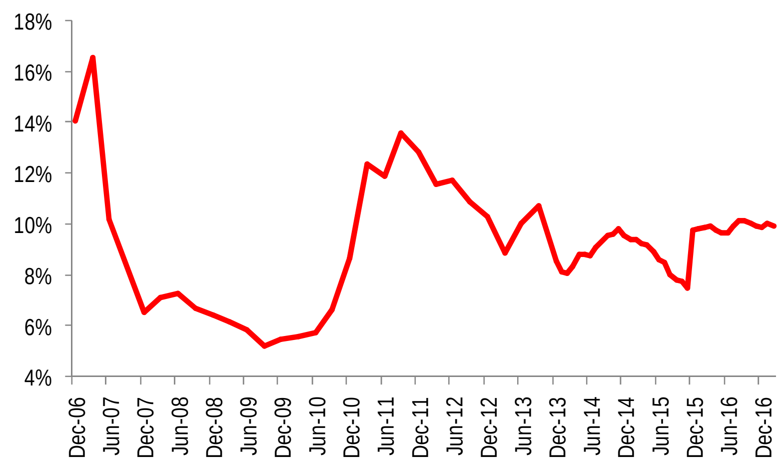
- **We met Group CFO Syed Ahmad Taufik Albar for company updates. The company has been rebalancing its loan portfolio by reducing its corporate loan mix from 33% in 2014 to 31% in 2015 and 29% in 2016. We understand the strategic portfolio rebalancing will continue moving forward. The group plans to lower its corporate loan mix to a low 20% eventually while raising the mix for SME loans from 13% in 2016 to 20% by 2020. Generally, SME loans have higher margins than corporate loans, hence the strategic portfolio rebalancing strategy is seen as positive on the group's asset yield over the longer term.**
- **To facilitate better growth in auto financing, the group has made improvements to both its processes and structure. Also, it has introduced a variable rate auto financing to widen its offerings for HP loan borrowers.**
- **Recall in 4QFY16, NIM improved by 3bps QoQ to 2.18% due to lower funding cost from active management of funding and liquidity. The group continued to guide for NIM of more than 2.00% for FY17 as margin is expected to contract due to pressure from loans and deposits.**
- **Management highlighted the continued existence of deposit rate competition in the market. Underpinned by a higher inflationary environment, our view is that the real returns are likely to stay in the negative region for depositors in 2017. Hence, this is likely to present more challenges for deposit growth. In FY16, the group did well in CASA, with a growth of 11.9% YoY, outpacing the industry's 5.0% YoY. Nevertheless, with the aforementioned challenges, the group's CASA growth in FY17 is expected to be lower than FY16. On growing CASA, the group will focus on tapping deposits from the affluent segment, business owners of SMEs and payroll accounts.**
- **Credit cost of 0.39% (excluding impairment of Swiber's bonds of RM253mil) was recognised in FY16. Provisions were made for impaired oil & gas and steel sector related loans in FY16. Recall in 4QFY16 results briefing, 46% of the group's oil & gas loans have been classified as watch list (both Malaysia and Singapore loans accounting for half of the said percentage). We understand that there is still pressure on the asset quality on oil & gas loans despite of firmer oil prices lately with the OPEC production cut. On steel related loans, we do not expect further provisions to be made in FY17. This is in view that allowances for loan impairments amounting to 90% of the total impaired steel loans have already been provided. Management did not see any deterioration in the group's asset quality for loans to the property sector despite the wide industry concern. It is cautious on lending to the property sector. For consumers, some pressures on asset quality were seen on personal loans and credit cards. The percentage of restructured & rescheduled (R&R) loans to total loans stood at 2%. Meanwhile, we understand that the percentage of R&R oil & gas loans to total R&R loans was around 15%. Overall for FY17, with the absence of further provisions on legacy steel loans and large impairments on bonds, credit cost is expected to improve from FY16. We have imputed a lower credit cost of 0.30% for FY17.**
- **We understand that the group has incurred a cost of RM10mil to close down its Easy outlets (transferring the Easy facilities to branches) and consolidation of IB branches. Cost savings from these expense rationalisation initiatives for both Easy and IB branches of circa RM25mil per annum will fully trickle down into earnings starting FY17.**
- **Maintain our forecast for now and BUY call with an unchanged fair value of RM6.00/share (1.0x FY18 BV/share). Our BUY recommendation is premised on the stock currently trading below 1.0x P/BV which continues to look compelling, further cost savings from expenses initiatives undertaken by the group, improvement in credit cost in FY17 and decent ROEs of 9.1% for both FY17 and FY18.**

EXHIBIT 1: VALUATION MATRIX

YE 31 Dec	FY15	FY16	FY17F	FY18F	FY19F
Total Income	6,174.7	6,193.2	6,281.9	6,483.7	7,017.9
Core Net Profit	1,797.9	1,874.5	2,061.7	2,231.5	2,463.1
FD Core EPS (sen)	56.7	46.7	51.4	55.6	61.8
FD Core EPS growth (%)	(25.8)	(17.6)	10.0	8.2	11.0
Consensus Net Profit (RM mil)	-	-	393.0	2,109.5	2,245.6
DPS (sen)	12.0	12.0	15.4	16.7	18.4
BV/share (RM)	7.5	5.4	5.9	6.3	6.8
PE (x)	9.3	11.3	10.3	9.5	8.5
Div yield (%)	2.4	2.4	3.1	3.4	3.7
P/BV (x)	0.7	1.0	0.9	0.8	0.8
ROE (%)	8.6	8.4	9.1	9.1	9.4

Source: Company, AmInvestment Bank Bhd estimates

EXHIBIT 2: FOREIGN SHAREHOLDINGS(%)



*Source: Company Note: * Foreign shareholdings exclude ADCB/Abrar's strategic stake*

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