

## COMPANY RESULTS

### RHB Bank (RHBBANK MK)

2Q22: Lower Provisions

RHB's 2Q22 results are in line, underpinned by lower provisions. The group declared an interim dividend per share of 15 sen. We continue to like RHB given its solid CET1 ratio that allows the group to sustain an attractive dividend yield of 6.5%/7.2% for 2022/23. RHB is among the strongest beneficiaries of rising interest rates, which provides potential upside surprise to our conservative NIM assumptions. Maintain BUY and target price of RM6.60 (0.88x 2022/23F P/B, 9.5% ROE).

#### RESULTS

- In line.** RHB Bank (RHB) reported 2Q22 net profit of RM634.8m (-9.5% yoy, +5.3% qoq) bringing 1H22 earnings to RM1,235.1m (-11.1% yoy). 2Q22 earnings are in line, with 1H22 earnings representing 48% of our full-year estimates. Lower-than-expected provisions helped to offset weaker-than-expected non-interest income. 1H22 earnings contracted 9.5% yoy due to the impact of the prosperity tax. 2Q22 PBT expanded 5.2% yoy as a 52% yoy decline in loans-loss provision was more than sufficient to offset a 5.2% yoy dip in pre-provision operating profit (PPOP). 1H22 revenue was impacted by a 27% yoy decline in non-interest income due to weaker brokerage (-55% yoy), wealth management (-15% yoy) and trading income (-54% yoy).
- 2Q22 earnings rose 5.3% qoq**, underpinned by a sharp decline in net credit cost to 4bp vs 29bp in 1Q22 as the group benefitted from recoveries. PPOP inched upwards by 1.2% qoq as a 5% qoq increase in net interest income (7bp qoq NIM expansion) was sufficient to offset a 22% qoq decline in non-interest income, as trading income plunged 87% qoq.
- 2Q22 earnings contracted 9.5% yoy** due to the prosperity tax. 2Q22 PBT expanded 9.5% yoy, underpinned by a significant decline in net credit cost to 4bp vs 46bp in 2Q21. The lower net credit cost in 2Q22 was attributable to recoveries and significantly lower management overlays. However, PPOP declined 7.3% yoy with a 37.5% yoy contraction in non-interest income being the key drag. Non-interest income was impacted by a 51% yoy contraction in brokerage income, 18% yoy decline in asset management income and 95% yoy plunge in trading income due to a spike in bond yields.
- Loans growth gains traction.** Loans expanded 7.3% in 1H22 (2021: 6.7% and 1Q22: 7.1% yoy) driven largely by mortgages (+9.6% yoy), and SME (12.7% yoy). Singapore operations, which contribute 9% to overall group loans, reported a strong 16.8% yoy loans growth.

#### KEY FINANCIALS

Year to 31 Dec (RMm)	2020	2021	2022F	2023F	2024F
Net interest income	3,761	4,062	4,272	4,726	5,143
Non-interest income	2,177	1,876	1,504	1,597	1,658
Net profit (rep./act.)	2,033	2,618	2,557	3,104	3,400
Net profit (adj.)	2,451	2,863	2,557	3,104	3,400
EPS (sen)	61.1	71.4	63.8	77.4	84.8
PE (x)	9.5	8.1	9.1	7.5	6.9
P/B (x)	0.9	0.8	0.8	0.8	0.7
Dividend yield (%)	3.0	6.9	6.0	7.3	8.0
Net int margin (%)	2.1	2.2	2.3	2.3	2.3
Cost/income (%)	44.5	43.8	45.4	44.4	43.8
Loan loss cover (%)	119.6	122.4	108.0	114.5	126.1
Consensus net profit	-	-	2,668	3,201	3,435
UOBKH/Consensus (x)	-	-	0.96	0.97	0.99

Source: RHB Bank, Bloomberg, UOB Kay Hian

## BUY

(Maintained)

Share Price	RM5.81
Target Price	RM6.60
Upside	+13.6%

#### COMPANY DESCRIPTION

Fifth largest fully integrated financial services groups in Malaysia by total assets size. Provides universal banking services to customers.

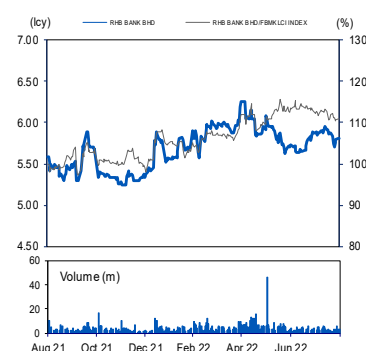
#### STOCK DATA

GICS sector	Financials
Bloomberg ticker:	RHBBANK MK
Shares issued (m):	4,212.1
Market cap (RMm):	24,472.2
Market cap (US\$m):	5,450.4
3-mth avg daily t'over (US\$m):	6.1

#### Price Performance (%)

52-week high/low	RM6.25/RM5.24				
1mth	3mth	6mth	1yr	YTD	
(1.2)	(2.4)	(1.5)	5.4	8.2	
<b>Major Shareholders</b>					<b>%</b>
EPS					41.9
OSK Holdings Bhd					10.2
FY22 NAV/Share (RM)					7.48
FY22 CAR Tier-1 (%)					17.24

#### PRICE CHART



Source: Bloomberg

#### ANALYST(S)

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- **NIM expanded 7bp qoq to 2.23%** on the back of the recent overnight policy rate (OPR) hikes. We expect NIM to stabilise once the benefit of the recent OPR hike kicks in, as RHB is among the best positioned to benefit from a rising rate environment given its high floating rate loans composition. That said, we remain conservative in only pencilling in 2bp expansion in 2022 NIM vs management's guidance of 4bp, as we factor in higher deposit competition and declining CASA ratio as potential offsets.
- **GIL ratio edged upwards.** The group's GIL ratio increased to 1.62% in 2Q22 from 1.50% from 1Q22 due to: a) the effects of the repayment assistance unwind, and b) its Cambodian operations reported higher GIL ratio. Management is retaining its guidance for group GIL ratio to remain below 1.70% by end-22. Loans-loss coverage ratio dipped marginally to 117% in 2Q22 from 125% in 1Q21.
- **Provision declined on the back of write-backs.** Net credit cost declined sharply to 4bp in 2Q22 from 29bp in 1Q22 as the group had benefitted from write-backs on pre-emptive provision relating to the O&G sector in 2Q22. This brought 1H22 net credit cost to 16bp vs our full-year estimate of 38bp. Factoring in the lumpy recoveries in 2Q22, we lower our 2022 net credit cost assumption to 30bp from 38bp. Management has retained its 30-40bp net credit cost guidance for 2022, but did allude that the group is likely to finish the year at the lower end of the 30-40bp range. As for 2023-24, we have pencilled in a 30bp/27bp net credit cost assumption, which is still above the group's pre-COVID-19 average of 24bp.
- **Targeted loans assistance to decline.** Domestic loans under targeted assistance declined further to 4% of total domestic loans as at end-Jul 22 from 5% of total domestic loans as at end-Apr 22.
- **Outlook.** Management has retained its 2022 key guidance of: a) loans growth: 4-5%, b) cost-to-income ratio: >45%, c) net credit cost: 30-40bp, and d) ROE: 10%.

### EARNINGS REVISION/RISK

- Earnings forecasts unchanged. Our lower 2022 net credit cost assumption is offset by weaker-than-expected non-interest income

### VALUATION/RECOMMENDATION

- **Maintain BUY and target price of RM6.60 (9.5% ROE 2022/23, 0.88x 2022/23F P/B).** To smoothen the impact of the Cukai Makmur, our target price is based on a blended average of 2022/23 operating metrics. Share price resilience is expected to be supported by the group's solid CET1 ratio of 16.6% (highest in the industry), which should allow the group to sustain an attractive dividend yield of 6%/7% for 2022/23. Note that our dividend assumption is based on a relatively sustainable and conservative 55% payout ratio.

### 2022 RESULTS

Profit & Loss (RMm)	2Q22	2Q21	yoy % chg	1H22	yoy % chg	Remarks
Net Interest Income	1,031.2	1,013.2	1.8	2,021.2	0.3	Benefitted from higher NIM
Islamic Banking	601.5	491.5	22.4	1,110.4	9.5	
Fees & Commissions	205.9	270.4	(23.8)	432.9	(27.1)	Impacted by lower asset management and brokerage income
Net Trading Income	5.9	105.4	(94.4)	52.3	(53.7)	
Other Operating Income	101.4	125.0	(18.8)	232.6	0.8	
Total Income	1,945.9	2,005.5	(3.0)	3,849.4	(2.9)	
Operating Expenses	(888.6)	(864.5)	2.8	(1,747.6)	(0.1)	
PPOP	1,057.4	1,141.0	(7.3)	2,101.8	(5.2)	
Provision on loans	(38.6)	(227.3)	(83.0)	(192.4)	(52.0)	
PBT	1,018.8	913.4	11.5	1,909.4	5.2	
Net Profit	634.8	701.3	(9.5)	1,235.1	(11.1)	In line
EPS (sen)	15.8	17.5	(9.5)	30.8	(8.6)	
DPS (sen)	15.0	15.0	0.0	15.0	0.0	
BVPS (RM)	6.51	6.86	(5.1)	6.51	(5.1)	
Financial Ratios (%)	2Q22	2Q21	yoy chg (ppt)	1Q22	qoq chg (ppt)	
NIM	2.23	2.15	0.08	2.11	0.12	
Loan Growth, yoy	1.7	1.5	0.2	1.4	0.3	
Deposit Growth, yoy	(0.3)	(1.1)	0.8	3.6	(3.8)	
Loan/Deposit Ratio	88.9	86.8	2.1	87.2	1.7	
Cost/Income Ratio	45.7	43.1	2.6	45.1	0.5	
ROE	9.2	10.4	(1.2)	8.6	0.6	
NPL Ratio	1.6	1.6	(0.0)	1.5	0.1	
Credit Costs (bp)	7.5	47.6	(40.0)	30.6	(23.0)	
Loan Loss Cov	117.2	124.1	(6.9)	126.2	(9.0)	
CET-1 CAR	17.2	16.8	0.4	16.8	0.4	

Source: RHBANK, UOB Kay Hian

### KEY ASSUMPTIONS

(%)	2022F	2023F	2024F
Loan Growth	6.0	6.3	6.5
Credit Cost (bps)	30.0	30.0	27.0
ROE	8.6	10.0	10.6

Source: UOB Kay Hian

### ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

<ul style="list-style-type: none"> <li>• <b>Environmental</b> <ul style="list-style-type: none"> <li>- <b>Green loan commitment.</b> RM3.3b extended as at Jun 21, of which 20% is for renewable energy projects. Targeting RM5b Green Financing Commitment by 2025</li> <li>- <b>Zero new coal financing.</b> With effect from 2022, RHB will not be pursuing opportunities or providing financing for any new thermal coal mine projects and coal fired power plant projects</li> </ul> </li> <li>• <b>Social</b> <ul style="list-style-type: none"> <li>- <b>Board and upper management gender diversity.</b> Maintained 30% female directors on the Board and 26.1% for Top and Senior Management as at Jun-21</li> <li>- <b>Scholarship for underprivileged children.</b> &gt; RM2m allocated for RHB X-Cel programme to assist B40 (underprivileged) students achieve academic excellence - benefitting more than 1,400 B40 students annually</li> </ul> </li> <li>• <b>Governance</b> <ul style="list-style-type: none"> <li>- <b>Non-independent board of directors composition.</b> Composition of Independent Non-Executive Directors (INED) – 60% as at 15 Mar 21, from 55% as at 16 Mar 20.</li> </ul> </li> </ul>
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Source: UOB Kay Hian

**PROFIT & LOSS**

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
Interest income	6,328	8,038	8,750	9,421
Interest expense	(2,266)	(3,766)	(4,024)	(4,279)
Net interest income	4,062	4,272	4,726	5,143
Fees & commissions	1,094	919	956	985
Other income	782	585	641	673
Non-interest income	1,876	1,504	1,597	1,658
Income from islamic banking	2,095	2,347	2,417	2,489
<b>Total income</b>	<b>8,034</b>	<b>8,122</b>	<b>8,740</b>	<b>9,290</b>
Staff costs	(2,138)	(2,266)	(2,425)	(2,570)
Other operating expense	(1,385)	(1,421)	(1,458)	(1,497)
Pre-provision profit	4,511	4,436	4,857	5,223
Loan loss provision	(737)	(634)	(675)	(644)
Other provisions	(0)	0	0	1
Associated companies	0	0	0	0
Other non-operating income	(245)	0	0	0
Pre-tax profit	3,529	3,801	4,182	4,580
Tax	(906)	(1,239)	(1,073)	(1,175)
Minorities	(5)	(5)	(5)	(5)
<b>Net profit</b>	<b>2,618</b>	<b>2,557</b>	<b>3,104</b>	<b>3,400</b>
Net profit (adj.)	2,863	2,557	3,104	3,400

**BALANCE SHEET**

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
Cash with central bank	635	81	125	168
Govt treasury bills & securities	61,881	67,246	73,082	79,430
Interbank loans	3,487	3,835	4,219	4,641
Customer loans	194,897	207,276	220,677	233,858
Investment securities	0	0	0	0
Derivative receivables	719	610	501	393
Associates & JVs	0	1	2	3
Fixed assets (incl. prop.)	1,191	1,213	1,236	1,260
Other assets	26,733	32,156	33,971	35,934
<b>Total assets</b>	<b>289,541</b>	<b>312,417</b>	<b>333,813</b>	<b>355,687</b>
Interbank deposits	23,407	25,279	27,302	29,486
Customer deposits	218,733	227,482	236,581	249,593
Derivative payables	888	888	888	888
Debt equivalents	3,646	3,646	3,646	3,646
Other liabilities	14,837	25,092	34,426	40,175
<b>Total liabilities</b>	<b>261,511</b>	<b>282,388</b>	<b>302,843</b>	<b>323,788</b>
Shareholders' funds	27,998	29,993	30,928	31,854
Minority interest - accumulated	32	37	41	45
<b>Total equity &amp; liabilities</b>	<b>289,541</b>	<b>312,417</b>	<b>333,813</b>	<b>355,687</b>

**OPERATING RATIOS**

Year to 31 Dec (%)	2021	2022F	2023F	2024F
<b>Capital Adequacy</b>				
Tier-1 CAR	17.2	17.2	16.7	16.3
Total CAR	19.8	20.0	19.3	18.7
Total assets/equity (x)	10.3	10.4	10.8	11.2
Tangible assets/tangible common equity (x)	11.6	11.6	12.0	12.4
<b>Asset Quality</b>				
NPL ratio	1.5	1.8	1.7	1.6
Loan loss coverage	122.4	108.0	114.5	126.1
Loan loss reserve/gross loans	1.9	2.0	2.0	2.0
Increase in NPLs	(7.3)	29.7	2.1	(2.5)
Credit cost (bp)	37.1	30.0	30.0	27.0
<b>Liquidity</b>				
Loan/deposit ratio	89.1	91.1	93.3	93.7
Liquid assets/short-term liabilities	27.2	28.1	29.3	30.2
Liquid assets/total assets	22.8	22.8	23.2	23.7

**KEY METRICS**

Year to 31 Dec (%)	2021	2022F	2023F	2024F
<b>Growth</b>				
Net interest income, yoy chg	8.0	5.2	10.6	8.8
Fees & commissions, yoy chg	6.5	(16.0)	4.0	3.0
Pre-provision profit, yoy chg	7.0	(1.7)	9.5	7.5
Net profit, yoy chg	28.8	(2.3)	21.4	9.5
Net profit (adj.), yoy chg	16.8	(10.7)	21.4	9.5
Customer loans, yoy chg	6.8	6.4	6.5	6.0
Customer deposits, yoy chg	7.5	4.0	4.0	5.5
<b>Profitability</b>				
Net interest margin	2.2	2.3	2.3	2.3
Cost/income ratio	43.8	45.4	44.4	43.8
Adjusted ROA	1.0	0.8	1.0	1.0
Reported ROE	9.5	8.8	10.2	10.8
Adjusted ROE	10.4	8.8	10.2	10.8
<b>Valuation</b>				
P/BV (x)	0.8	0.8	0.8	0.7
P/NTA (x)	0.9	0.9	0.8	0.8
Adjusted P/E (x)	8.1	9.1	7.5	6.9
Dividend Yield	6.9	6.0	7.3	8.0
Payout ratio	61.3	55.0	55.0	55.0

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