

COMPANY RESULTS

RHB Bank (RHBBANK MK)

1Q23: In Line, Supported By Lower Provisions

RHBBANK's 1Q23 results were in line. Weaker-than-expected NIM was offset by lower provisions, solid operating cost discipline coupled with higher treasury gains. Share price resilience is expected to be supported by the group's solid CET1 ratio of 16.9% (highest in the industry), which should allow the group to sustain an attractive dividend yield of over 7% in 2023 (highest among its peers). Maintain BUY and target price of RM6.65 (9.7% ROE, 0.83x 2023F P/B).

RESULTS

- In line.** RHB Bank (RHBBANK) reported 1Q23 net profit of RM700.5m (+30.8% yoy, -1.4% qoq) which was in line with 1Q23 earnings, representing 24.8% of our full-year estimates.
- Qoq trend.** 1Q23 earnings declined 1.4% qoq on the back of negative operating Jaws (revenue: -16% qoq vs opex: -15% qoq) but partly offset by lower tax expense (absence of prosperity tax). Sequential decline in revenue was largely impacted by a 46bp qoq decline in NIM but resulting in a 18% qoq decline in net interest income.
- Yoy trend.** 1Q23 earnings expanded 30.8% yoy underpinned by: a) lower tax expense on the absence of the prosperity tax, b) a threefold rise in treasury income on higher marked to market gains, and c) lower net credit cost of 10bp vs 29bp in 1Q22 on provision write-backs. The group delivered neutral operating Jaws yoy with opex growth cap at a commendable 3%.
- Loans growth eases but remains above targets.** Group loans growth has eased off to 6.0% (2022: 6.9%). Growth was driven largely by mortgages and auto loans while corporate loans growth was flattish. Slowing growth was experienced in both Malaysia (1Q23: 4.7% vs 2022: 5.3%) and Singapore (1Q23: 13.8% vs 2022: 18.3%), broadly in line with industry trends. That said, 1Q23's group loans growth of 6.0% remains well above management's full-year guidance of 4-5% and our forecast of 5.2%.
- Larger-than-expected compression in NIM...** NIM declined 46bp qoq to 1.90% and 34bp from 2022: 2.24%. This is larger than management's full-year compression guidance of -4bp to -2bp. Intense deposit competition and continued decline in CASA ratio to 28.1% (Dec 22: 29.2%) were the main drags.
- prompting us to pencil in a larger 10bp compression for 2023.** Given the above, we have pencilled in a larger NIM compression assumption of 10bp from 4bp into our 2023 forecast as any NIM optimisation strategy would take a few quarters to take effect. Management has in plan various NIM optimisation strategies which involve CASA enhancement, loans to deposit ratio optimisation and being less aggressive on fixed deposit gathering.

KEY FINANCIALS

Year to 31 Dec (RMm)	2021	2022	2023F	2024F	2025F
Net interest income	4,062	4,174	4,223	4,563	4,938
Non-interest income	1,876	1,736	1,808	1,898	1,993
Net profit (rep./act.)	2,863	2,708	3,025	3,294	3,535
Net profit (adj.)	3,281	2,953	3,025	3,294	3,535
EPS (sen)	81.8	73.6	75.4	82.1	88.2
PE (x)	6.7	7.4	7.2	6.6	6.2
P/B (x)	0.8	0.8	0.7	0.7	0.7
Dividend yield (%)	7.3	7.3	7.6	8.3	9.4
Net int margin (%)	2.2	2.2	2.1	2.1	2.1
Cost/income (%)	43.8	44.7	46.0	45.5	44.9
Loan loss cover (%)	122.4	112.8	228.0	2,259.1	(167.0)
Consensus net profit	-	-	3,125	3,313	3,480
UOBKH/Consensus (x)	-	-	0.97	0.99	1.02

Source: RHB Bank, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM5.47
Target Price	RM6.65
Upside	+21.8%

COMPANY DESCRIPTION

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

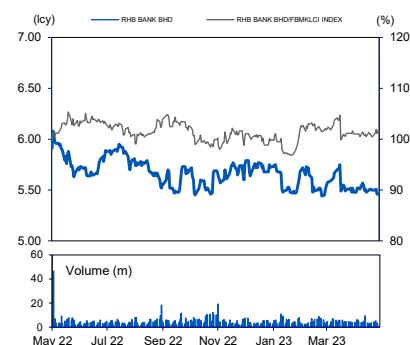
STOCK DATA

GICS sector	Financials
Bloomberg ticker:	RHBBANK MK
Shares issued (m):	4,286.3
Market cap (RMm):	23,403.5
Market cap (US\$m):	5,087.4
3-mth avg daily t'over (US\$m):	5.1
Price Performance (%)	
52-week high/low	RM6.08/RM5.44

1mth	3mth	6mth	1yr	YTD
(0.4)	(0.4)	(4.0)	(7.1)	(5.7)

Major Shareholders	%
EPF	41.1
OSK Holdings	10.1
-	-
FY23 NAV/Share (RM)	7.79
FY23 CAR Tier-1 (%)	18.50

PRICE CHART



Source: Bloomberg

ANALYST(S)

Keith Wee Teck Keong
+603 2147 1981
keithwee@uobkayhian.com

- GIL ratio relatively stable.** The group's GIL ratio rose marginally to 1.59% from 1.55% in 4Q22. The uptick in GIL was largely attributed to a single commercial banking loan account amounting to roughly RM40m which was well collateralised. Net credit cos normalised upwards to 10bp in 1Q23 from -12bp in 4Q22 in the absence of lumpy recoveries but remains below management's full-year guidance of 25-30bp. This is attributed to lower-than-expected GIL formation and hence lower provision required. The group's stock of pre-emptive provision remains unchanged at RM411m and loans loss coverage ratio was relatively stable qoq at 109.4%.
- Loans under repayment assistance declines...** Loans under repayment assistance declined to 2% of total of total group loans as at end-Apr 23 from 3% as at end-Mar 23.
- ...providing potential scope for future write-backs.** Management alluded that if this trend persists, there could be potential scope to write back some of its pre-emptive provisions. Assuming is to materialize potential net credit cost could decline to 15-17bp vs its current guidance of 25-30bp. Factoring in the lower-than-expected provision in 1Q23, we tweak downwards our 2023-25 net credit cost assumption to 23bp/20bp/20bp respectively from 28bp/25bp/25bp.
- Outlook.** Management has retained its 2023 key guidance of: a) loans growth: 4-5%, b) net credit cost: 25-30bp, and c) ROE: 11%.

EARNINGS REVISION/RISK

- Unchanged as lower NIM assumptions were offset by lower credit cost assumptions.

VALUATION/RECOMMENDATION

- Maintain BUY and target price of RM6.65** (9.7% ROE 2023, 0.83x 2023F P/B). Share price resilience is expected to be supported by the group's solid CET1 ratio of 16.9% (highest in the industry), which should allow the group to sustain an attractive dividend yield of over 7% in 2023 (highest among its peers).

1Q23 RESULTS

Profit & Loss (RMm)	1Q23	1Q22	yoy % chg	4Q22	qoq % chg	Remarks
Net Interest Income	884.0	990.0	(10.7)	1,051.0	(15.9)	Impacted by 35bp compression in NIM
Islamic Banking	553.2	508.9	8.7	694.4	(20.3)	
Fees & Commissions	202.5	227.0	(10.8)	206.8	(2.1)	Impacted by lower asset management and brokerage income
Net Trading Income	111.4	46.4	139.9	113.5	(1.8)	
Other Operating Income	156.6	80.6	94.3	200.2	(21.8)	
Total Income	1,907.7	1,852.9	3.0	2,265.7	(15.8)	
Operating Expenses	(856.5)	(830.9)	3.1	(1,007.2)	(15.0)	
PPOP	1,051.2	1,022.0	2.9	1,258.5	(16.5)	
Provision on loans	(46.0)	(153.8)	(70.1)	(36.4)	26.4	
PBT	1,005.2	868.2	15.8	1,222.1	(17.7)	
Core Net Profit	761.7	582.3	30.8	772.1	(1.4)	In line
EPS (sen)	19.0	14.5	30.8	19.3	(1.4)	
DPS (sen)	0.0	0.0	n.a.	25.0	n.a.	
BVPS (RM)	7.04	6.77	3.9	6.76	4.1	
Financial Ratios (%)	1Q23	1Q22	yoy chg (ppt)	4Q22	qoq chg (ppt)	
NIM	1.90	2.16	(0.260)	2.36	(0.46)	
Loan Growth, yoy	0.6	1.4	(0.8)	1.2	(0.6)	
Deposit Growth, yoy	(0.3)	3.6	(3.9)	0.7	(1.0)	
Loan/Deposit Ratio	92.5	87.2	5.4	91.7	0.8	
Cost/Income Ratio	44.9	44.8	0.1	44.5	0.4	
ROE	10.4	8.3	2.1	10.9	(0.5)	
NPL Ratio	1.6	1.5	0.1	1.6	0.0	
Credit Costs (bp)	10.0	29.0	(21.9)	6.9	1.8	
Loan Loss Cov	109.4	125.7	(16.3)	130.3	(20.9)	
CET-1 CAR	16.4	16.8	(0.3)	16.9	(0.5)	

Source: RHBBANK, UOB Kay Hian

KEY ASSUMPTIONS

(%)	2023F	2024F	2025F
Loan Growth	5.2	5.5	5.8
Credit Cost (bps)	23.0	20.0	20.0
ROE	9.7	10.3	10.7

Source: UOB Kay Hian

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

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

Source: UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Interest income	7,382	7,847	8,419	9,074
Interest expense	(3,208)	(3,624)	(3,856)	(4,137)
Net interest income	4,174	4,223	4,563	4,938
Fees & commissions	866	884	928	974
Other income	870	924	970	1,019
Non-interest income	1,736	1,808	1,898	1,993
Income from islamic banking	2,398	2,470	2,544	2,620
Total income	8,309	8,501	9,005	9,551
Staff costs	(2,250)	(2,408)	(2,552)	(2,705)
Other operating expense	(1,467)	(1,505)	(1,544)	(1,584)
Pre-provision profit	4,592	4,589	4,909	5,262
Loan loss provision	(421)	(513)	(472)	(500)
Other provisions	(0)	0	0	0
Associated companies	0	0	0	0
Other non-operating income	0	0	0	0
Pre-tax profit	4,171	4,075	4,437	4,761
Tax	(1,459)	(1,046)	(1,139)	(1,222)
Minorities	(4)	(4)	(4)	(4)
Net profit	2,708	3,025	3,294	3,535
Net profit (adj.)	2,953	3,025	3,294	3,535

OPERATING RATIOS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Capital Adequacy				
Tier-1 CAR	16.9	18.5	17.9	17.3
Total CAR	19.3	22.1	21.2	20.3
Total assets/equity (x)	10.8	10.5	10.9	11.4
Tangible assets/tangible common	12.1	11.7	12.1	12.6
Asset Quality				
NPL ratio	1.6	0.7	0.1	(0.8)
Loan loss coverage	112.8	228.0	2,259.1	(167.0)
Loan loss reserve/gross loans	1.7	1.7	1.6	1.4
Increase in NPLs	11.5	(49.4)	(90.1)	(1,339.1)
Credit cost (bp)	19.9	23.0	20.0	20.0
Liquidity				
Loan/deposit ratio	91.7	92.8	93.2	93.8
Liquid assets/short-term liabilities	29.0	30.0	30.9	31.7
Liquid assets/total assets	23.5	24.0	24.5	24.9

BALANCE SHEET

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Cash with central bank	3,430	3,013	3,222	3,451
Govt treasury bills & securities	69,070	75,197	81,875	89,154
Interbank loans	652	718	789	868
Customer loans	208,379	219,326	232,343	246,818
Investment securities	0	0	0	0
Derivative receivables	1,960	1,852	1,743	1,635
Associates & JVs	0	0	0	0
Fixed assets (incl. prop.)	1,213	1,236	1,260	1,285
Other assets	26,084	27,837	29,849	32,223
Total assets	310,788	329,178	351,082	375,435
Interbank deposits	24,594	26,561	28,686	30,981
Customer deposits	227,160	236,246	249,240	263,197
Derivative payables	1,939	1,939	1,939	1,939
Debt equivalents	3,841	3,841	3,841	3,841
Other liabilities	24,508	29,319	35,203	42,409
Total liabilities	282,042	297,907	318,910	342,368
Shareholders' funds	28,715	31,236	32,133	33,022
Minority interest - accumulated	31	36	40	44
Total equity & liabilities	310,788	329,178	351,082	375,435

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Growth				
Net interest income, yoy chg	2.8	1.2	8.0	8.2
Fees & commissions, yoy chg	(20.8)	2.0	5.0	5.0
Pre-provision profit, yoy chg	1.8	(0.1)	7.0	7.2
Net profit, yoy chg	(5.4)	11.7	8.9	7.3
Net profit (adj.), yoy chg	(10.0)	2.5	8.9	7.3
Customer loans, yoy chg	6.9	5.3	5.9	6.2
Customer deposits, yoy chg	3.9	4.0	5.5	5.6
Profitability				
Net interest margin	2.2	2.1	2.1	2.1
Cost/income ratio	44.7	46.0	45.5	44.9
Adjusted ROA	1.0	0.9	1.0	1.0
Reported ROE	9.5	10.1	10.4	10.9
Adjusted ROE	10.4	10.1	10.4	10.9
Valuation				
P/BV (x)	0.8	0.7	0.7	0.7
P/NTA (x)	0.9	0.8	0.8	0.7
Adjusted P/E (x)	7.4	7.2	6.6	6.2
Dividend Yield	7.3	7.6	8.3	9.4
Payout ratio	59.2	55.0	55.0	58.0

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