

PP14767/09/2012(030761)

Tuesday, September 01, 2015

RHB Capital Berhad

“On Track”

Results Review

- Actual vs. expectations.** RHB Capital (RHB) 6M15’s net profit of RM1.0 billion (-1% y-o-y) came in line with ours and consensus estimates respectively, accounting 48.5% and 48.8% of ours and consensus full year net profit forecast. 6M15 earnings were aided by lower allowance for loan loss by about RM63 million difference (lower) against the year before and on the back higher income from Islamic banking that gained by RM82 million.
- Dividend.** No dividend declared in this quarter.
- Topline vs. Bottom line.** 6M15 total income gained satisfactorily by 3% due to the immense gains in islamic banking income of RM417 million (+24% y-o-y) and non-interest income of RM994 million (+7% y-o-y). Non-interest income held up its position after growing by +7% y-o-y despite sluggish capital market activities premised on growth in underwriting and arrangement fees by 91.4% y-o-y in line with the hint given by management in 1Q15 briefing. Pre-provision income was flat on y-o-y basis due to the rising opex by 5% y-o-y.
- Operating expenses still high.** Expenses jumped by 5% y-o-y in 6M15. 2Q15 expenses had been high, relating to performance bonuses that increased 6.2% y-o-y. Against operating income growth of 3% y-o-y, the group continued to incur negative JAWS during the quarter. Management is nevertheless confident of managing costs for the year and with the expected pick-up in NOI, the target is to achieve positive JAWS for the year and keep cost to income to below 51%.

BUY (TP: RM7.70)

Current Price (RM)	RM6.48
New Fair Value (RM)	RM7.70
Previous Fair Value (RM)	RM8.35
Previous Recommend.	HOLD
Upside To Fair Value	18.8%
Dividend Yield (FY15)	1.9%

Stock Code

Bloomberg	RHBC MK
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Stock & Market Data

Listing	MAIN MARKET	
Sector	Finance	
Shariah Compliance	No	
Issued Shares (mn)	2,572.5	
Market Cap (RM mn)	20,271	
YTD Chg In Share Price	1.05%	
Beta (x)	1.13	
52-week Hi/Lo (RM)	RM9.70	RM7.05
3M Average Volume (shrs)	1.721mn	
Estimated Free Float	30.2%	

Major Shareholders

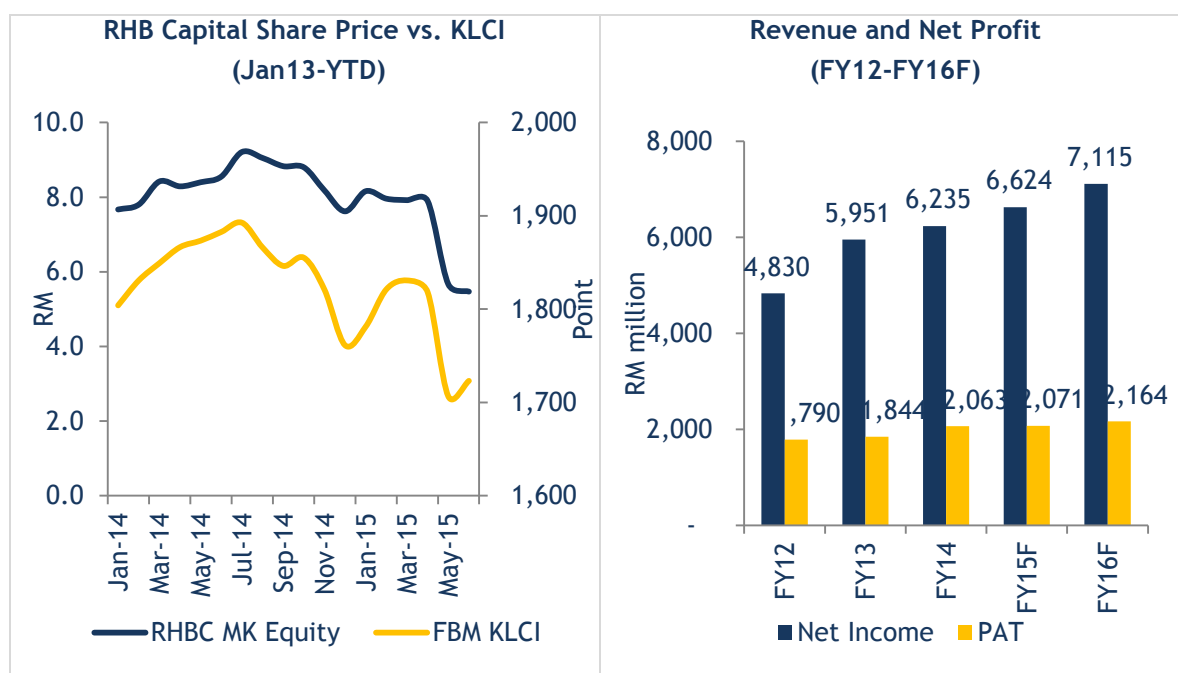
EPF	41.6%
Aabar Investment	21.1%
OSK Holdings	9.97%

- **Slower momentum on loans growth.** The Group reported a slower loans growth of +0.15% y-o-y to RM144.6 billion impacted by large corporate repayment. Domestic loans growth was subdued at 0.8% y-o-y while international loans expanded 21.5% y-o-y with stronger growth reported in Indonesia and Hong Kong by 199% y-o-y and 136% y-o-y respectively. Mortgage loans remained strong with growth in loans for purchase of residential property while loans growth for purchase of non-residential property remained steady at 11% y-o-y and 10.5% y-o-y respectively. In terms of loans by customers, lending to retail customers moderated to 4.8% y-o-y while SME recovered to 28% y-o-y. Lending to corporate borrowers declined by 7.2% y-o-y due to large loan repayment mentioned above.
- **Total deposits were flat.** The Group's total deposits were flat in 6M15 with growth of 0.02% y-o-y as the group reduced its exposure in fixed and investment deposits by 2.1% y-o-y. CASA surged to 23.4% vs.22.3% in 1Q15.
- **Net Interest Margin (NIM).** NIM for 2Q15 was compressed by another 9bps q-o-q to 2.13% contributed by higher funding cost arising from strong competition for deposits. Moving forward, we expect the NIM compression could moderate due to reducing exposure in high cost of deposits and hence, slower the cost of funds.
- **A case for worry in asset quality.** Gross NPLs rose by 2.3% y-o-y caused by working capital loans (associated with SME loans). As a result, the group's NPL ratio was weakened by 2bps q-o-q to 2.05% as was the credit charge of that dropped by 11 bps. RHB's loan loss coverage was slightly higher at 73.4% end-Mar 2015 versus 61% in 1Q15.
- **Outlook.** We remain positive on RHB's outlook given its efficiency on recoveries to keep credit costs lower. However, the blip was only in overhead expenses where cost-to-income has weakened further and resulting negative JAWS. Meanwhile, IGNITE 2017 is progressing well and already lifted PBT by RM68m. This transformation is expected to gain further momentum for the rest of 2015.
- **Change to our forecast.** No change to our forecast as 1H15 results are within our expectation. We estimate that FY15 and FY16 earnings to grow by 0.4% and 4.5% assisted by 1) full blown results of completion of OSKIB into RHBC financials 2) robust target for Islamic and Singapore unit 3) benefiting from IGNITE implementation.
- **Valuation & recommendation.** We upgrade our rating to a **BUY** as we roll our valuation into FY16. We arrive at new TP of RM7.70 based at 15% discount from 3-year average P.BV of 1.1x. Re-rating catalysts for the stock include i) adjustment in OPR (if any) as 75% of Group's loan attributed by flexible rate ii) steady NIM due to continuing lower cost of funds iii) aggressive expansion in Singapore.

Table 1: Peers Comparison

Company	Year Ended	Price (RM)	EPS (RM)		P/E (x)		P/B (X)		ROE (%)	Div Yield (%)	TP (RM)	Call
			FY15	FY16	FY15	FY16	FY15	FY16				
AFG	March	3.76	0.4	0.4	12.7	12.0	1.7	1.6	14.3	1.9	4.70	Buy
AMMB	March	4.70	0.6	0.6	11.0	11.0	1.4	1.3	14.1	4.5	6.15	Buy
BIMB	Dec	3.99	0.3	0.4	11.7	11.3	1.8	2.0	16.0	5.8	4.84	Buy
CIMB	Dec	5.00	0.5	0.6	12.1	10.4	1.3	1.5	9.2	3.5	6.10	Buy
Maybank	Dec	8.76	0.7	0.8	12.6	11.9	1.5	1.5	13.6	6.2	10.20	Buy
RHB Cap	Dec	6.48	0.8	0.9	9.7	9.1	1.1	1.1	11.5	1.3	7.70	Hold
Public Bank	Dec	18.00	1.2	1.3	15.3	14.2	2.6	2.8	18.7	2.9	21.70	Buy
Affin	Dec	2.28	0.3	0.3	9.0	8.5	0.7	0.7	7.8	5.1	NR	NR
MBSB	Dec	1.37	0.2	0.3	9.1	8.4	1.2	1.1	29.6	2.3	NR	NR
STMB	Dec	3.72	NA	NA	NA	NA	NA	NA	24.3	6.6	NR	NR
HL Bank	June	13.08	1.2	1.3	12.0	11.2	1.6	1.5	14.7	2.9	NR	NR
Average			0.6	0.7	11.5	10.8	1.5	1.5	15.8	3.9		

Source: Bloomberg, M&A Securities



Source: Bloomberg, M&A Securities

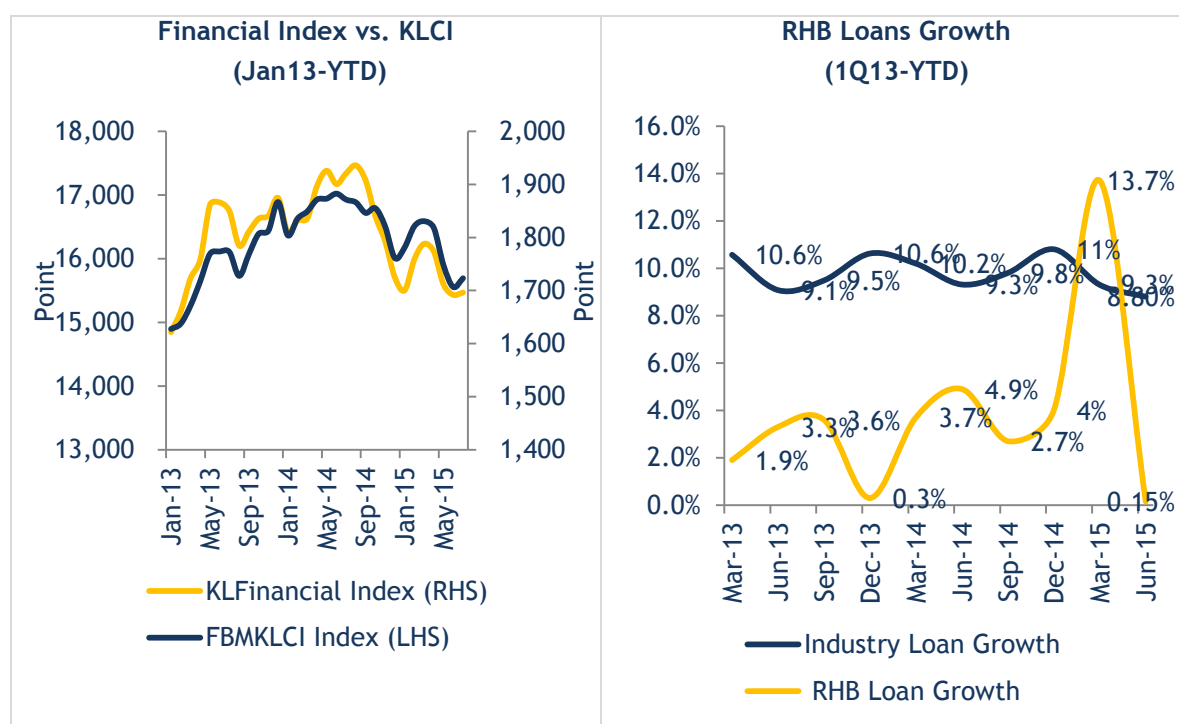


Table 2: Results Analysis

YE: March (RM million)	2Q15	1Q15	2Q14	y-o-y	q-o-q	6M15	6M14	y-o-y
Gross Interest income	1,938	1,991	1,835	6%	-3%	3,929	3,594	9%
Interest expense	(1,153)	(1,191)	(1,008)	14%	-3%	(2,344)	(1,944)	21%
Net interest income	784	800	828	-5%	-2%	1,584	1,650	-4%
Islamic banking income	214	202	183	17%	6%	417	335	24%
Other income	488	506	434	12%	-4%	994	926	7%
Net income	1,487	1,509	1,445	3%	-1%	2,995	2,911	3%
Operating expenses	(843)	(820)	(797)	6%	3%	(1,662)	(1,583)	5%
Pre-provision income	644	689	648	-1%	-7%	1,333	1,328	0%
Allowance loan loss	41	(50)	(17)	-335%	-181%	(9)	(72)	-87%
Writeback of impairment	8	6	108	-93%	24%	14	120	-89%
Operating profit	692	645	739	-6%	7%	1,337	1,376	-3%
Associate	-	-	(0)	-100%	0	-	(0)	-100%
Joint Ventures	0	0	0	-64%	-53%	0	0	-31%
PBT	692	645	739	-6%	7%	1,337	1,377	-3%
Taxation	(166)	(165)	(180)	-8%	0%	(331)	(364)	-9%
PAT	527	480	559	-6%	10%	1,006	1,013	-1%
Margin								
NII margin	67%	66%	70%			67%	68%	
NOII margin	33%	34%	30%			33%	32%	
PPOP margin	43%	46%	45%			44%	46%	
PBT margin	47%	43%	51%			45%	47%	
PAT margin	35%	32%	39%			34%	35%	
EPS (sen)	20.5	18.6	21.7			39.1	39.4	

Source: Bursa Malaysia, M&A Securities

Table 3: Financial Forecast

YE: Dec (RM million)	FY12	FY13	FY14	FY15F	FY16F
Gross Interest income	6,153	6,901	7,470	7,998	8,452
Interest expense	(3,193)	(3,626)	(4,178)	(4,575)	(4,772)
Net interest income	2,960	3,274	3,291	3,423	3,680
Islamic banking income	490	591	732	769	807
Other income	1,379	2,085	2,211	2,433	2,627
Net income	4,830	5,951	6,235	6,624	7,115
Operating expenses	(2,294)	(3,052)	(3,411)	(3,718)	(4,053)
Pre-provision income	2,536	2,899	2,824	2,906	3,062
Allowance loan loss	(148)	(448)	(206)	(242)	(265)
Writeback of impairment	(4)	19	117	60	50
Operating profit	2,384	2,470	2,735	2,724	2,846
Associate	0	1	(0)	0.3	0
Joint Ventures	1	0	0	1	1
PBT	2,385	2,471	2,735	2,725	2,848
Taxation	(595)	(627)	(672)	(654)	(683)
PAT	1,790	1,844	2,063	2,071	2,164
EPS	79.0	72.9	79.7	80.5	84.1
Dividend (sen)	22.1	16.3	6.0	16.1	16.8
Dividend Payment (RM mil)	562	415	154	414	433
Dividend Payout	31%	23%	7%	20%	20%
Retained Earnings (RM mil)	1,227	1,429	1,909	1,657	1,731
PER (x)	10.5	11.4	10.4	10.3	9.9
Gross Yield	3%	2%	1%	2%	2%
BV	5.5	6.2	6.9	7.5	8.2
P/BV	1.4	1.3	1.1	1.1	1.0

Source: Bursa Malaysia, M&A Securities

Table 5: Financial Ratio

YE: Dec (RM million)	FY12	FY13	FY14	FY15F	FY16F
<u>Growth</u>					
NII	6%	11%	1%	4%	8%
NOII	28%	51%	6%	10%	8%
Operating expenses	21%	33%	12%	9%	9%
Pre-provision profit	5%	14%	-3%	3%	5%
Core net profit	19%	3%	12%	0%	4%
Gross loans	15%	9%	17%	4%	6%
Customer deposits	19%	0%	14%	7%	7%
Total assets	24%	1%	15%	5%	6%
<u>Profitability</u>					
NOII/Total income	17%	22%	21%	22%	22%
Average Lending Yield	2.1%	2.3%	2.2%	2.3%	2.3%
Average Cost of funds	3.8%	3.6%	3.5%	3.4%	3.4%
NII	1.7%	1.8%	1.6%	1.6%	1.6%
Cost/income					
<u>Asset Quality</u>					
Net NPL	2%	2%	2%	2%	2%
Gross NPL	3%	3%	2%	2%	2%
SP+GP/Gross Loans	-0.3%	0.4%	0.3%	0.1%	0.1%
<u>Return</u>					
ROA	1%	1%	1%	1%	1%
ROE	12%	11%	11%	10%	10%

Source: Bursa Malaysia, M&A Securities

M&A Securities

STOCK RECOMMENDATIONS

BUY	Share price is expected to be $\geq +10\%$ over the next 12 months.
TRADING BUY	Share price is expected to be $\geq +10\%$ within 3-months due to positive newsflow.
HOLD	Share price is expected to be between -10% and $+10\%$ over the next 12 months.
SELL	Share price is expected to be $\geq -10\%$ over the next 12 months.

SECTOR RECOMMENDATIONS

OVERWEIGHT	The sector is expected to outperform the FBM KLCI over the next 12 months.
NEUTRAL	The sector is expected to perform in line with the FBM KLCI over the next 12 months.
UNDERWEIGHT	The sector is expected to underperform the FBM KLCI over the next 12 months.

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