

PP14767/09/2012(030761)

RHB Capital Berhad

“Completed CTS Scheme”

Market Access

RHB Capital Berhad (RHB) announced that the Group has completed the career transition scheme (CTS) with a total of 1,812 applicants in Malaysia approved, representing 11.8% of total workforce. RHB is valued at RM6.60 based on P/BV of 0.9x (1-SD below mean). The stock is still HOLD.

- **Incurred an additional of RM309 million cost.** Note that the CTS cost incurred is at the higher end of our estimates. Despite belting out RM309 million in CTS cost but we don’t expect material impact to the group’s financials as we expect the CTS cost will be pinched from the staff cost already set aside in FY15 and FY16 respectively. Nonetheless, we view the trim in workforce as smaller than other banks so far, e.g. CIMB Group (CIMB) that laid off 1,891 of total workforce from Malaysia (RM443 million cost) whilst Affin Holding (Affin) and Hong Leong Bank (Hong Leong) and Hong Leong Islamic have yet to share the final numbers as they still at preliminary stage in executing staff reduction process.
- **Cost savings of RM193 million annually.** The Group CTS exercise was vast with 11.8% acceptance of total workforce of 15,348, or 13.1% of total permanent workforce. As mentioned, the group will be using the staff cost in and FY15 and FY16 respectively and hence, the full year impact on staff cost reduction will be felt only in FY17.
- **Leaner and slimmer.** We are not entirely surprised by the move as RHB is aiming to be a leaner entity and target to reach 51% of CTI. We are positive on the move given that the group will be operating from a leaner base from FY16 onwards. Cost-to-income may reach 53% in FY17 (56% currently) and thus, enabling the Group to compete in term of bottomline growth in FY17.

Thursday, October 29, 2015

HOLD (TP: RM6.60)

Current Price (RM)	RM6.23
New Fair Value (RM)	RM6.60
Previous Fair Value (RM)	RM7.70
Previous Recommend.	BUY
Upside To Fair Value	5.9%
Dividend Yield (FY15)	1.9%

Stock Code	
Bloomberg	RHBC MK

Stock & Market Data	
Listing	MAIN MARKET
Sector	Finance
Shariah Compliance	No
Issued Shares (mn)	2,588
Market Cap (RM mn)	16,126
YTD Chg In Share Price	18.24%
Beta (x)	1.09
52-week Hi/Low (RM)	RM8.90   RM5.85
3M Average Volume (shrs)	1.721mn
Estimated Free Float	30.2%

Major Shareholders	
EPF	41.6%
Aabar Investment	21.1%
OSK Holdings	9.97%

- **Industry phenomenon.** We are not surprised if other banks also follow the similar path undertaken by RHB given the steady pressure on net interest income and non-interest income. To some extent, we believe banks with almost 50% or more cost-to-income ratio (CTI) is likely to offer the similar scheme excluding those that have embarked on this journey so far. Among the banks that could fall in this group is AFG, AMMB and Maybank (below table).

**Table 1: Cost to Income Ratio**  
(March 2014 - June 2015)

	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15
AFG	48.4%	44.9%	44.8%	44.7%	51.8%	48.6%
AMMB	42.5%	49.8%	44.2%	49.8%	50.7%	50.6%
CIMB	56.8%	58.9%	57.6%	63.2%	58.1%	55.4%
Maybank	48.9%	46.6%	50.3%	50.7%	49.9%	49.5%
Public Bank	31.8%	31.7%	28.9%	28.1%	31.0%	31.2%
RHB Capital	53.6%	55.2%	51.1%	58.9%	54.3%	56.7%

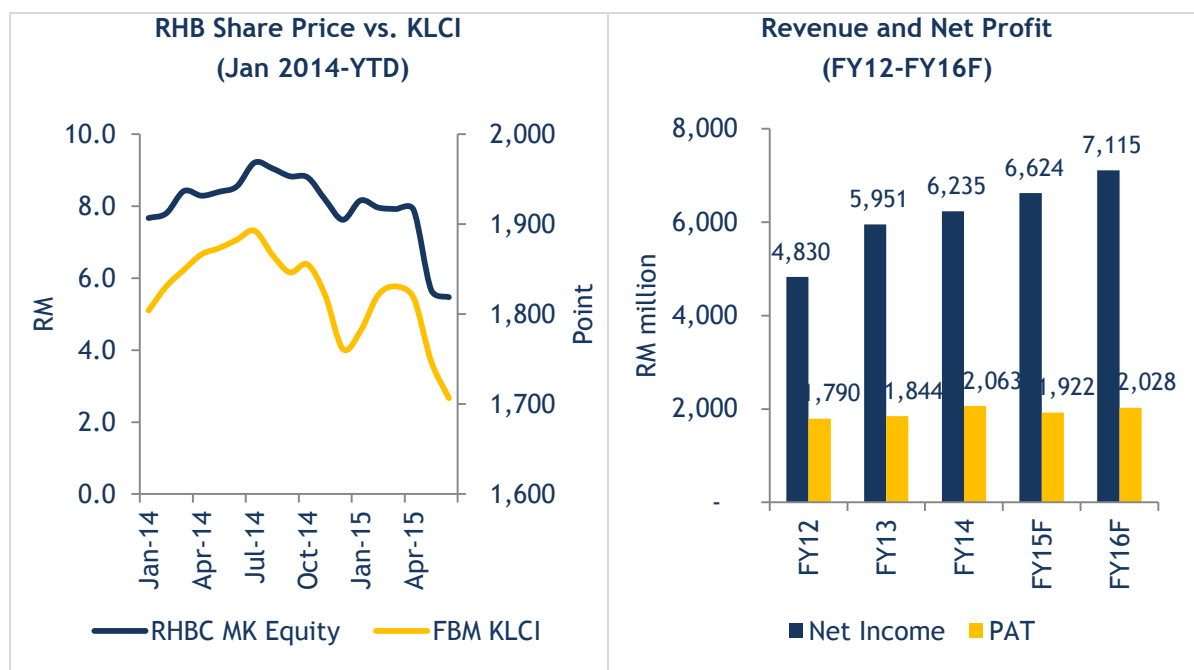
Source: Various, M&A Securities

- **Earnings outlook.** The impact on CTS will be felt only in FY17, as mentioned. Status quo, FY15 and FY16 earnings are expected to grow by 0.4% y-o-y and 5.9% y-o-y driven 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.** RHB is valued at RM6.60 (unchanged) based P/BV of 0.9x (1-SD below mean). That said, RHB is still **HOLD**. Re-rating catalyst for the stock includes 1) adjustment in OPR (if any) as 75% of Group's loan attributed by flexible rate 2) steady NIM due to continuing lower cost of funds 3) aggressive expansion in Singapore.

**Table 2: Peers Comparison**

Company	YE	Price (RM)	EPS (RM)		P/E (x)		P/B (X)		ROE (%)	Div Yield (%)	TP (RM)	Call
			FY15	FY16	FY15	FY16	FY15	FY16				
AFG	Mac	3.62	0.4	0.4	12.7	12.0	1.7	1.6	14.3	1.9	4.00	Hold
AMMB	Mac	4.87	0.6	0.6	11.0	11.0	1.4	1.3	14.1	4.5	5.10	Hold
BIMB	Dec	4.11	0.3	0.4	11.7	11.3	1.8	2.0	16.0	5.8	4.60	Buy
CIMB	Dec	4.84	0.5	0.6	12.1	10.4	1.3	1.5	9.2	3.5	4.90	Hold
Maybank	Dec	8.47	0.7	0.8	12.6	11.9	1.5	1.5	13.6	6.2	9.92	Buy
RHB Cap	Dec	6.23	0.8	0.9	9.7	9.1	1.1	1.1	11.5	1.3	6.60	Hold
Public Bank	Dec	18.18	1.2	1.3	15.3	14.2	2.6	2.8	18.7	2.9	21.38	Buy
Affin	Dec	2.39	0.3	0.3	9.0	8.5	0.7	0.7	7.8	5.1	NR	NR
MBSB	Dec	1.63	0.2	0.3	9.1	8.4	1.2	1.1	29.6	2.3	NR	NR
STMB	Dec	3.84	NA	NA	NA	NA	NA	NA	24.3	6.6	NR	NR
HL Bank	Jun	14.00	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 3: Financial Forecast

YE: Dec (RM million)	FY13	FY14	FY15F	FY16F
Gross Interest income	6,901	7,470	7,998	8,451
Interest expense	(3,626)	(4,178)	(4,575)	(4,772)
Net interest income	3,274	3,291	3,423	3,680
Islamic banking income	591	732	769	807
Other income	2,085	2,211	2,433	2,627
Net income	5,951	6,235	6,624	7,114
Operating expenses	(3,052)	(3,411)	(3,914)	(4,231)
Pre-provision income	2,899	2,824	2,710	2,883
Allowance loan loss	(448)	(206)	(242)	(265)
Writeback of impairment	19	117	60	50
Operating profit	2,470	2,735	2,528	2,667
Associate	1	(0)	0.3	0
Joint Ventures	0	0	1	1
PBT	2,471	2,735	2,529	2,669
Taxation	(627)	(672)	(607)	(640)
PAT	1,844	2,063	1,922	2,028
EPS (sen)	72.9	79.7	74.7	78.8
Dividend - sen	16.3	6.0	14.9	15.8
Dividend payment (RMm)	415	154	384	406
Dividend payout (%)	23%	7%	20%	20%
Retained Earnings	1429	1909	1538	1623
PER (x)	11.4	10.4	11.1	10.5
Gross Yield	2%	1%	2%	2%
BV	6.2	6.9	7.5	8.1
P/BV	1.3	1.1	1.1	1.0

Source: Bursa Malaysia, M&A Securities

# M&A Securities

## STOCK RECOMMENDATIONS

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

## SECTOR RECOMMENDATIONS

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

## DISCLOSURES AND DISCLAIMER

This report has been prepared by M&A SECURITIES SDN BHD. Readers should be fully aware that this report is for informational purposes only and no representation or warranty, expressed or implied is made as to the accuracy, completeness or reliability of the information or opinion contained herein. The recommendation and opinion are based on information obtained or derived from sources believed to be reliable.

This report contains financial forecast/projection based on our assumptions which may defer from the actual financial results announced by the companies under coverage. All opinions, estimates and assumptions are subject to change without notice. Analysts will initiate, update and cease coverage solely at the discretion of M&A SECURITIES SDN BHD.

Investors are to be cautioned that value of any securities invested may fluctuate from time to time. We advise investors to seek financial, legal and other advice for investing based on the recommendation of our report as we have not taken into account each investors' specific investment objectives, risk tolerance and financial position.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. M&A SECURITIES SDN BHD can accept no liability for any consequential loss or damage whether direct or indirect. Investment should be made at investors' own risks.

M&A SECURITIES SDN BHD and INSAS GROUP of companies, their respective directors, officers, employees and connected parties may have interest in any of the securities mentioned and may benefit from the information herein. M&A SECURITIES SDN BHD and INSAS GROUP of companies and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This report may not be reproduced, distributed or published in any form or for any purpose.

M & A Securities Sdn Bhd (15017-H)

(A wholly-owned subsidiary of INSAS BERHAD)

A Participating Organisation of Bursa Malaysia Securities Berhad

### Principal Office:

Level 1,2,3 No.45 & 47,43-6

The Boulevard, Mid Valley City,

Lingkaran Syed Putra,

59200 Kuala Lumpur

Tel: +603 - 2282 1820 Fax: +603 - 2283 1893

Website: [www.mnaonline.com.my](http://www.mnaonline.com.my)