

PP14767/09/2012(030761)

RHB Capital Berhad

“The Grand Opening”

Results Review

- Actual vs. expectations.** RHB Capital (RHB) 1Q15 net profit of RM479.52 million that soared by 6% y-o-y, came in line with ours and consensus estimates respectively, accounting 22% and 23% of ours and consensus full year net profit forecast. The earnings were aided by lower allowance loan loss by RM4 million y-o-y (-RM54 million in 1Q14) and lower taxation of 26% vs. 29% in 1Q14. Nonetheless, earnings dropped by 4% q-o-q premised on lower taxation in 4Q14.
- Dividend.** No dividend declared in this quarter.
- Topline vs. Bottom line.** 1Q15 net income gained satisfactorily to RM1.5 billion (3% y-o-y) mainly due to the immense gains in islamic banking income of RM799 million (+33% y-o-y) and non-interest income of RM506.4 million (+3% y-o-y). However, net interest income shed to RM799 million (-3% y-o-y) on the back of higher cost of funds in deposits and placement of banks by 116% y-o-y. Pre-provision profit stabilized at RM688 million (+1% y-o-y).
- Decent momentum on loans growth.** Despite guiding slower loans growth of 10% y-o-y in FY15, gross loans in 1Q15 grew strongly by 13.7% y-o-y underpinned by dazzling growth in Hong Kong (+203% y-o-y), Singapore (+58.6% y-o-y). Thailand (+43.8% y-o-y) and Malaysia (+10.24% y-o-y). Non-residential loans sustained strong growth from 4Q14 with growth of 43% y-o-y, while residential property grew at similar set, growing by 23% y-o-y. In terms of customer, lending to retail customer rising in slower pace of 2.2% y-o-y, while lending to SME grew strongly by 11.1% y-o-y with a focus on program lending and leveraged model through its branches.

Monday, June 01, 2015

HOLD (TP: RM8.35)

|                          |        |
|--------------------------|--------|
| Current Price (RM)       | RM7.70 |
| New Fair Value (RM)      | RM8.35 |
| Previous Fair Value (RM) | RM8.30 |
| Previous Recommend.      | HOLD   |
| Upside To Fair Value     | 8.4%   |
| Dividend Yield (FY15)    | 1.9%   |

|            |         |
|------------|---------|
| Stock Code |         |
| Bloomberg  | RHBC MK |

|                          |                 |
|--------------------------|-----------------|
| Stock & Market Data      |                 |
| Listing                  | MAIN MARKET     |
| Sector                   | Finance         |
| Shariah Compliance       | No              |
| Issued Shares (mn)       | 2,572.5         |
| 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%           |

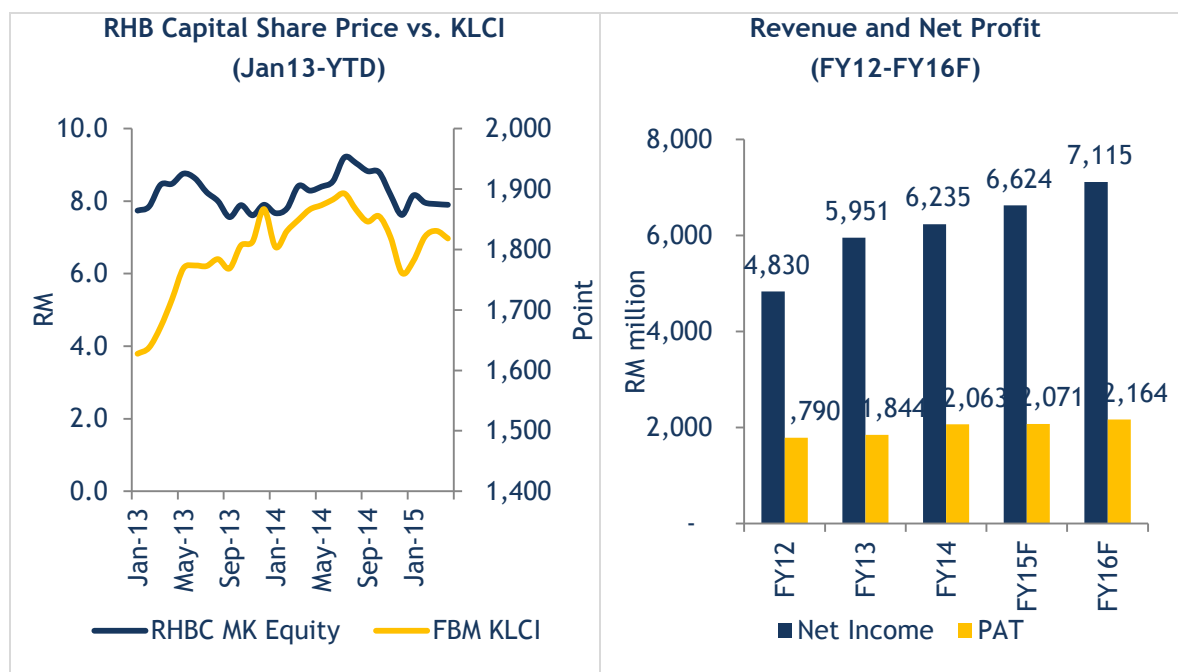
|                    |       |
|--------------------|-------|
| Major Shareholders |       |
| EPF                | 41.6% |
| Aabar Investment   | 21.1% |
| OSK Holdings       | 9.97% |

- **Total deposits still healthy.** Deposits grew by 10.8% y-o-y where the strong contribution came from fixed deposits by 12.5% y-o-y, whilst demand and savings deposits soared satisfactory at 5.4% y-o-y and 3% y-o-y respectively. CASA surged back to 22.3% vs.21.7% in F14 and we foresee that CASA could have been expanded at a faster pace if not for lumpy corporate withdrawals towards 1Q15.
- **Net Interest Margin (NIM).** NIM was compressed by another 3bps q-o-q to 2.22% as management guided slower compression in FY15 emanating from higher CASA growth in this quarter that could be maintained for the next quarter. However, higher cost of funds as witnessed in 1Q15 could hamper the management plan for moderating compression in NIM.
- **Restructuring update.** Management proposed internal organization has been submitted to various parties and expected to complete in 4Q15 for the entire exercise of equity raising, internal restructuring and transfer of listing status.
- **Outlook.** RHB plans something big for its future by issuing RM2.5 billion rights issue which the price could not be determined at this stage. The bulk of the proceeds will be used to further capitalize RHB Bank should the transfer of listing status approved by Securities of Commission. The expected restructuring benefit includes reduction of finance cost in holding company as well as potential surge in ROE.
- **Change to our forecast.** We have done some house-keeping exercise and came out with new FY15 and FY16 earnings forecast. We estimate that FY15 and FY16 earnings to grow by 0.4% and 4.5% assisted by 1) full blown result of completion of OSKIB into RHBC financials 2) robust target for Islamic and Singapore unit 3) benefiting from IGNITE implementation.
- **Valuation & recommendation.** We have a **HOLD** call on a stock with a new target price of RM8.35 based at 10% discount from 3-year average P.BV of 1.26x. Re-rating catalysts for the stock include i) adjustment in OPR 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      | 4.51       | 0.4      | 0.4  | 12.7    | 12.0 | 1.7     | 1.6  | 14.3    | 1.9           | 5.05    | Hold |
| AMMB        | March      | 6.30       | 0.6      | 0.6  | 11.0    | 11.0 | 1.4     | 1.3  | 14.1    | 4.5           | 6.80    | Hold |
| BIMB        | Dec        | 4.07       | 0.3      | 0.4  | 11.7    | 11.3 | 1.8     | 2.0  | 16.0    | 5.8           | 4.84    | Buy  |
| CIMB        | Dec        | 5.67       | 0.5      | 0.6  | 12.1    | 10.4 | 1.3     | 1.5  | 9.2     | 3.5           | 6.10    | Hold |
| Maybank     | Dec        | 9.03       | 0.7      | 0.8  | 12.6    | 11.9 | 1.5     | 1.5  | 13.6    | 6.2           | 10.70   | Buy  |
| RHB Cap     | Dec        | 7.70       | 0.8      | 0.9  | 9.7     | 9.1  | 1.1     | 1.1  | 11.5    | 1.3           | 8.35    | Hold |
| Public Bank | Dec        | 18.50      | 1.2      | 1.3  | 15.3    | 14.2 | 2.6     | 2.8  | 18.7    | 2.9           | 20.60   | Buy  |
| Affin       | Dec        | 2.79       | 0.3      | 0.3  | 9.0     | 8.5  | 0.7     | 0.7  | 7.8     | 5.1           | NR      | NR   |
| MBSB        | Dec        | 1.83       | 0.2      | 0.3  | 9.1     | 8.4  | 1.2     | 1.1  | 29.6    | 2.3           | NR      | NR   |
| STMB        | Dec        | 3.29       | NA       | NA   | NA      | NA   | NA      | NA   | 24.3    | 6.6           | NR      | NR   |
| HL Bank     | June       | 13.66      | 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&amp;A Securities



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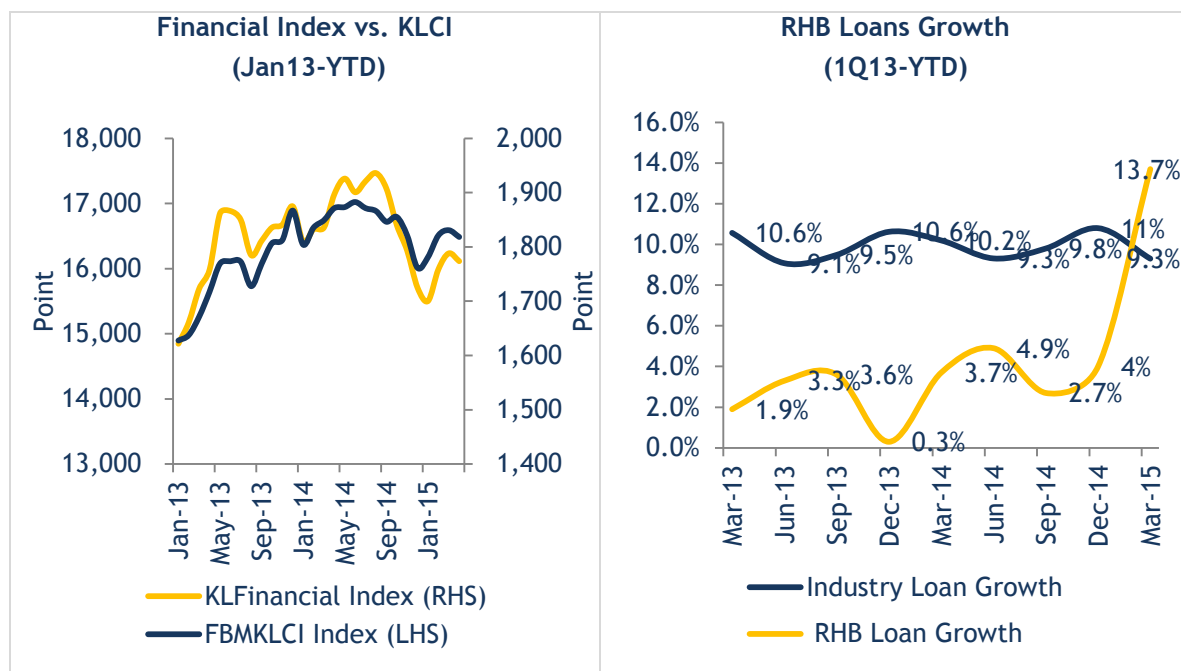


Table 2: Results Analysis

| YE: March (RM million)  | 1Q15    | 4Q15    | 1Q14  | y-o-y | q-o-q | 3M15    | 3M14  | y-o-y |
|-------------------------|---------|---------|-------|-------|-------|---------|-------|-------|
| Gross Interest income   | 1,991   | 1,964   | 1,758 | 13%   | 1%    | 1,991   | 1,758 | 13%   |
| Interest expense        | (1,191) | (1,159) | (936) | 27%   | 3%    | (1,191) | (936) | 27%   |
| Net interest income     | 800     | 806     | 822   | -3%   | -1%   | 800     | 822   | -3%   |
| Islamic banking income  | 202     | 201     | 152   | 33%   | 1%    | 202     | 152   | 33%   |
| Other income            | 506     | 671     | 492   | 3%    | -24%  | 506     | 492   | 3%    |
| Net income              | 1,509   | 1,677   | 1,466 | 3%    | -10%  | 1,509   | 1,466 | 3%    |
| Operating expenses      | (820)   | (987)   | (786) | 4%    | -17%  | (820)   | (786) | 4%    |
| Pre-provision income    | 689     | 690     | 680   | 1%    | 0%    | 689     | 680   | 1%    |
| Allowance loan loss     | (50)    | (40)    | (54)  | -7%   | 24%   | (50)    | (54)  | -7%   |
| Writeback of impairment | 6       | (6)     | 12    | -49%  | -204% | 6       | 12    | -49%  |
| Operating profit        | 645     | 643     | 637   | 1%    | 0%    | 645     | 637   | 1%    |
| Associate               | -       | -       | (0)   | -100% | 0     | -       | (0)   | -100% |
| Joint Ventures          | 0       | 0       | 0     | 18%   | -52%  | 0       | 0     | 18%   |
| PBT                     | 645     | 644     | 637   | 1%    | 0%    | 645     | 637   | 1%    |
| Taxation                | (165)   | (145)   | (184) | -10%  | 14%   | (165)   | (184) | -10%  |
| PAT                     | 480     | 499     | 453   | 6%    | -4%   | 480     | 453   | 6%    |
| <b>Margin</b>           |         |         |       |       |       |         |       |       |
| NII margin              | 66%     | 60%     | 66%   |       |       | 66%     | 66%   |       |
| NOII margin             | 34%     | 40%     | 34%   |       |       | 34%     | 34%   |       |
| PPOP margin             | 46%     | 41%     | 46%   |       |       | 46%     | 46%   |       |
| PBT margin              | 43%     | 38%     | 43%   |       |       | 43%     | 43%   |       |
| PAT margin              | 32%     | 30%     | 31%   |       |       | 32%     | 31%   |       |
| EPS (sen)               | 18.6    | 19.4    | 17.6  |       |       | 18.6    | 17.6  |       |

Source: Bursa Malaysia, M&amp;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&amp;A Securities

Table 5: Financial Ratio

| YE: Dec (RM million)  | FY12  | FY13 | FY14 | FY15F | FY16f |
|-----------------------|-------|------|------|-------|-------|
| <b>Growth</b>         |       |      |      |       |       |
| 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%    |
|                       |       |      |      |       |       |
| <b>Profitability</b>  |       |      |      |       |       |
| 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           |       |      |      |       |       |
|                       |       |      |      |       |       |
| <b>Asset Quality</b>  |       |      |      |       |       |
| 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%  |
|                       |       |      |      |       |       |
| <b>Return</b>         |       |      |      |       |       |
| ROA                   | 1%    | 1%   | 1%   | 1%    | 1%    |
| ROE                   | 12%   | 11%  | 11%  | 10%   | 10%   |

Source: Bursa Malaysia, M&amp;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.         |

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