

PP14767/09/2012(030761)

Tuesday, December 01, 2015

RHB Capital Berhad

“Hit by Higher Opex”

Results Review

- Actual vs. expectations.** RHB Capital (RHB) 9M15’s net profit of RM1.2 billion (-1% y-o-y) came in below from ours and consensus respectively. Excluding career transition scheme (CTS) cost of RM309 million, RHB’s 9M15 net profit made up 72% of ours and 73.3% of consensus full year net profit forecast. 9M15 earnings performance were hampered by slower of both net interest income (-2% y-o-y) and non-interest income (-6% y-o-y). Additionally, net profit was hit by higher allowance of loan loss amounting to RM96 million.
- Dividend.** No dividend declared in this quarter.
- Topline vs. Bottom line.** 9M15 net income dropped to RM4.5 billion (-1% y-o-y) on the back of the surge in interest expense to RM3.5 billion (+15% y-o-y) mainly driven by higher funding expense on sukuk and sub-debts totaling RM1.5 billion and USD300 million senior unsecured notes issued during second half of 2014. Non-interest income slipped to RM1.44 billion (-6%) due to lower trading income and investment banking related fee income as 3Q15 posed to be the main weaker link.
- Loans growth.** Loans growth surged to 10% y-o-y in 9M15, with 3Q15 contributed to the big jump by 3.3% q-o-q. Domestic loans growth was flattish at 6.6% y-o-y, while international loans expanded by 38% y-o-y with stronger growth reported in Cambodia (+109% y-o-y) and Singapore (+43% y-o-y). Loans growth continued to be backed by retail segment (mortgage financing) and business banking (SME segment), benefitting from its programme lending initiatives through its branches

HOLD (TP: RM6.15)

Current Price (RM)	RM5.56
New Fair Value (RM)	RM6.15
Previous Fair Value (RM)	RM7.70
Previous Recommend.	BUY
Upside To Fair Value	9%
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)	3,102	
Market Cap (RM mn)	17,270	
YTD Chg In Share Price	-24.4%	
Beta (x)	1.07	
52-week Hi/Lo (RM)	RM8.12	RM5.52
3M Average Volume (shrs)	1.721mn	
Estimated Free Float	30.2%	

Major Shareholders

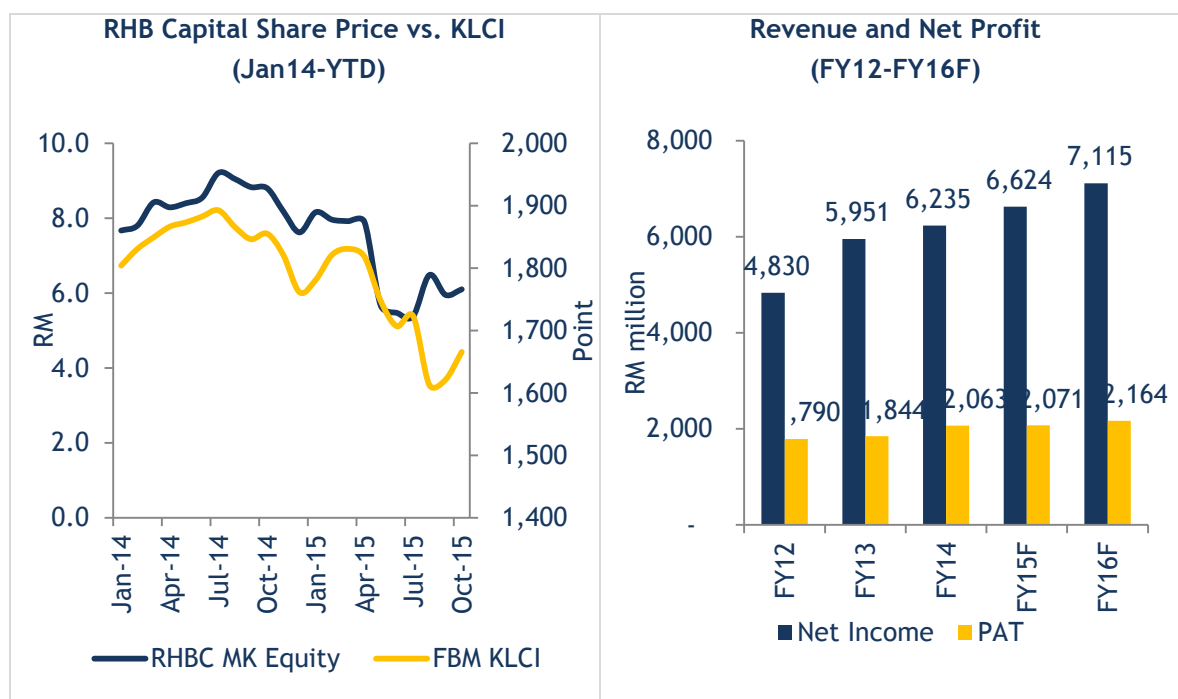
EPF	34.6%
Aabar Investment	17.5%
OSK Holdings	8.3%

- **Higher cost only in 3Q15.** Opex surged to RM2.8billion (+17% y-o-y), the major contributor was CTS scheme amounting to RM309 million and drove cost-to-income (CIR) to 62.8% in 9M15. Excluding CTS scheme, RHB 9M15's opex jumped only by 4.1% y-o-y and CIR at 55.9%. We understand that 1,812 employees accepted the scheme, this represents 11.8% of the group's Malaysian workforce of 15,348 and 13.1% of the group's permanent workforce of 13,787 in Malaysia. The group expects to achieve annual personnel cost savings of about RM193 million.
- **Total deposits recovered.** The Group's total deposits trailing loans growth at 7.3% y-o-y as domestic deposits grew by 5% y-o-y, pushing loan-to-deposit to 94% due to the acceleration in loans growth. Liquidity improved with CASA position surged to 37.1% vs. 34.1 in 9M14. Both fixed and demand deposits showed flattish growth of 12.5% y-o-y and 6.2% y-o-y respectively.
- **Net Interest Margin (NIM) held up.** NIM for 3Q15 was unchanged at 2.13% due to reducing exposure in high cost of deposits and hence, slower the cost of funds. The company is hopeful that if cost of deposits remains stable from here on, it may be able to sustain NIM at above 2.00% level next year.
- **Outlook.** Despite hit by CTS cost, we reckon that RHB is able to compete in highly competitive environment given the ability of RHB to keep credit cost lower and to ensure the manageable NIM compression in the future. Nevertheless, we are cautious with RHB opex moving forward as we believe the cost will be higher should RHB deviate from its cost discipline program. Nonetheless, management is confident that, despite the weak outlook, asset quality remains stable with no sign of alarming deterioration despite low loan loss coverage
- **Change to our forecast.** No change to our forecast as 3Q15 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 result of completion of OSKIB into RHBC financials 2) robust target for Islamic and Singapore unit 3) benefiting from IGNITE implementation.
- **Valuation & recommendation.** We value RHB at RM6.15 as we incorporate 1-standard deviation below mean P/BV of 0.9. That said, we downgrade our call to **HOLD** on RHB. 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	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	3.58	0.4	0.4	12.7	12.0	1.7	1.6	14.3	1.9	4.00	Hold
AMMB	Mac	4.59	0.6	0.6	11.0	11.0	1.4	1.3	14.1	4.5	5.10	Hold
BIMB	Dec	3.90	0.3	0.4	11.7	11.3	1.8	2.0	16.0	5.8	4.60	Buy
CIMB	Dec	4.50	0.5	0.6	12.1	10.4	1.3	1.5	9.2	3.5	4.90	Hold
Maybank	Dec	8.32	0.7	0.8	12.6	11.9	1.5	1.5	13.6	6.2	9.92	Buy
RHB Cap	Dec	5.56	0.8	0.9	9.7	9.1	1.1	1.1	11.5	1.3	6.15	Hold
Public Bank	Dec	18.38	1.2	1.3	15.3	14.2	2.6	2.8	18.7	2.9	19.14	Hold
Affin	Dec	2.38	0.3	0.3	9.0	8.5	0.7	0.7	7.8	5.1	NR	NR
MBSB	Dec	1.55	0.2	0.3	9.1	8.4	1.2	1.1	29.6	2.3	NR	NR
STMB	Dec	3.70	NA	NA	NA	NA	NA	NA	24.3	6.6	NR	NR
HL Bank	Jun	13.56	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

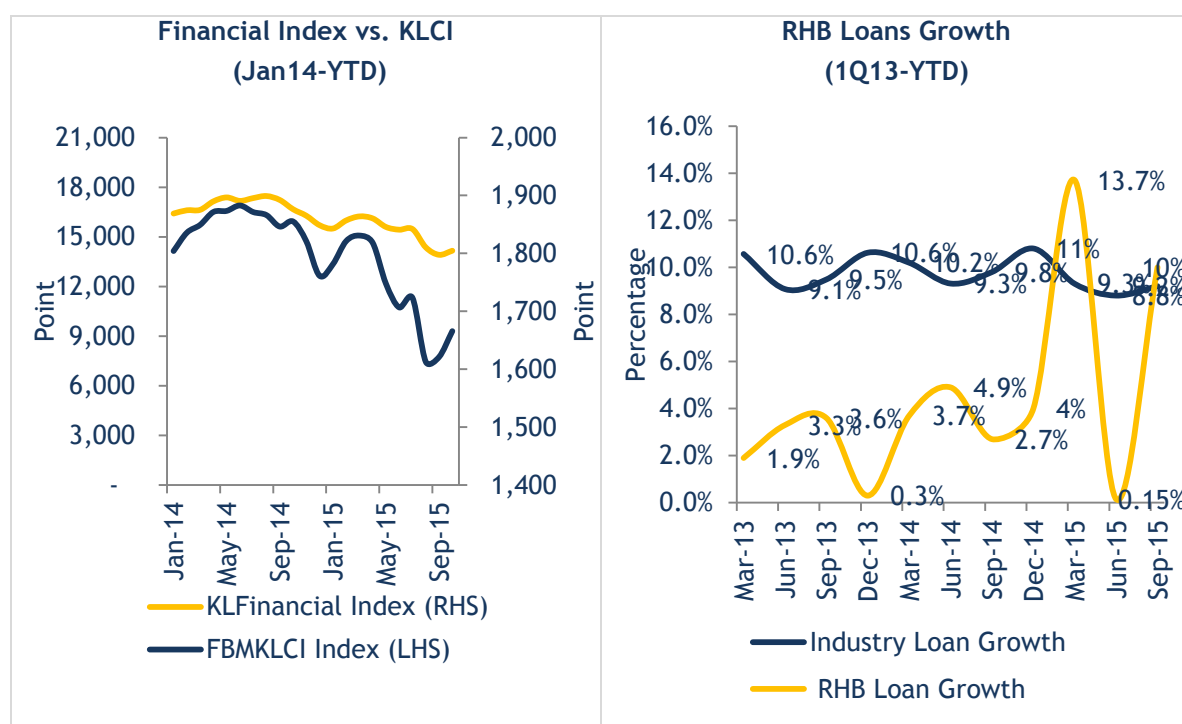


Table 2: Results Analysis

YE: March (RM million)	3Q15	2Q15	3Q14	y-o-y	q-o-q	9M15	9M14	y-o-y
Gross Interest income	1,968	1,938	1,912	3%	2%	5,897	5,506	7%
Interest expense	(1,125)	(1,153)	(1,076)	5%	-2%	(3,469)	(3,020)	15%
Net interest income	844	784	836	1%	8%	2,428	2,486	-2%
Islamic banking income	223	214	196	13%	4%	639	532	20%
Other income	448	488	615	-27%	-8%	1,442	1,541	-6%
Net income	1,514	1,487	1,647	-8%	2%	4,509	4,558	-1%
Operating expenses	(1,169)	(843)	(841)	39%	39%	(2,832)	(2,424)	17%
Pre-provision income	345	644	806	-57%	-46%	1,678	2,134	-21%
Allowance loan loss	(96)	41	(94)	2%	-336%	(106)	(166)	-36%
Writeback of impairment	46	8	3	1477%	503%	59	123	-52%
Operating profit	294	692	715	-59%	-58%	1,631	2,091	-22%
Associate	-	-	0	-100%	#DIV/0!	-	(0)	-100%
Joint Ventures	0	0	0	-44%	180%	0	0	-38%
PBT	294	692	715	-59%	-57%	1,632	2,092	-22%
Taxation	(100)	(166)	(163)	-39%	-40%	(431)	(527)	-18%
PAT	195	527	552	-65%	-63%	1,201	1,565	-23%
Margin								
NII margin	56%	53%	51%			54%	55%	
NOII margin	30%	33%	37%			32%	34%	
PPOP margin	23%	43%	49%			37%	47%	
PBT margin	19%	47%	43%			36%	46%	
PAT margin	13%	35%	34%			27%	34%	
EPS (sen)	7.6	20.5	21.5			46.7	60.8	

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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M & A Securities SdnBhd (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

Research Team

research@mna.com.my

03-22821820 ext. 257, 221, 260, 249, 258