

PP14767/09/2012(030761)

RHB Capital Berhad

“Swift Recovery”

Results Review

- Actual vs. expectations.** RHB Capital Berhad (RHB) made a swift recovery in 1Q16 after delivering earnings of RM554 million (+15% y-o-y, +72% q-o-q), which came in line with ours and consensus estimates respectively, accounting 29% of ours and consensus full year forecast respectively. The surge in earnings was assisted from 1) lower interest expense of RM1.1 billion (-5% y-o-y) on the back of flat interest income which contributed to impressive net interest income of RM833 million (+10% y-o-y), 2) Islamic banking income of RM244 million (+20% y-o-y) and 3) leaner operating cost of RM777 million (-5% y-o-y)
- Dividend.** No dividend was declared in this quarter.
- Topline vs. Bottom line.** 3M16 net income of RM1.6 billion was underpinned by higher net interest income by 10% y-o-y and higher Islamic banking income by 10% y-o-y. The spike in interest income was driven by 1) lower cost of deposits by 6.2% y-o-y and 2) pursuant to right issue proceeds. Pre-provision profit improved to RM826 million (+20% y-o-y) driven by lower operating expenses by 5% y-o-y.
- Loans growth declined on q-o-q.** Group loan growth came in at 4.2% y-o-y vs. 8% guidance. Growth was led by mortgages (+18% y-o-y), non-residential property (+18% y-o-y) and construction (+14% y-o-y). However, the growth was mitigated by large corporate repayment amounting RM1 billion and hence, led to slower loans growth of 1.2% q-o-q. Geographically, domestic loans growth expanded to 4% y-o-y, while international loans expanded modestly by 5% y-o-y with stronger growth reported in Cambodia (+114% y-o-y) and Indonesia (+195% y-o-y).

Thursday, May 26, 2016

HOLD (TP: RM6.20)

Current Price (RM)	RM5.56
New Fair Value (RM)	RM6.20
Previous Fair Value (RM)	RM6.15
Previous Recommend.	HOLD
Upside To Fair Value	9%
Dividend Yield (FY16)	3.8%

Stock Code

Bloomberg	RHBC MK
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Stock & Market Data

Listing	MAIN MARKET	
Sector	Finance	
Shariah Compliance	No	
Issued Shares (mn)	3,074	
Market Cap (RM mn)	18,571	
YTD Chg In Share Price	6.53%	
Beta (x)	1.14	
52-week Hi/Lo (RM)	RM7.40	RM5.01
3M Average Volume (shrs)	1.721mn	
Estimated Free Float	30.2%	

Major Shareholders

EPF	34.6%
Aabar Investment	17.5%
OSK Holdings	8.3%

- **Asset quality improved.** The group's gross NPL ratio improved further to 1.82% vs. 1.88% in 4Q15. The aggregate credit charge in 1Q16 was higher by 7bps mainly because of a net recovery of 11bps in 2Q15 pertaining mainly to realignment of collective allowance on its mortgage book.
- **Leaner operating expenses.** The group's effective cost optimisation efforts have produced positive results with opex improved 5.2% y-o-y with cost to income ratio (CTI) improving significantly to 48.5% vs. 54.3% in 1Q15.
- **Capital positions enhanced.** With the completion of its recent rights issue, RHB's capital position has been enhanced and its fully loaded CET1 ratio currently stands at 11.7 and 16% of total capital ratio. Pursuant to completion of internal reorganisation, RHB capital ratio will improve including CET of 12.5% and total capital ratio of 17%.
- **Total deposits weak, liquidity improving.** Deposits declined 0.8% y-o-y mainly because of management's efforts to manage funding costs which resulted in a 3% contraction in fixed deposits. Positively, CASA composition was still healthy at 24.1% vs. 24% in 4Q15. The group's loan/deposit ratio improved to 95% vs. 96% at 4Q15.
- **Net Interest Margin (NIM) inched up.** Group NIM improved 7bps QoQ to 2.22%, largely on the back of a better funding mix and higher asset utilization. Management expects on-going NIM pressure but aims to hold NIMs above 2% for 2016.
- **Outlook.** We are surprise with RHB's ability to preserve its various ratios despite poor end in FY15. Management initiative to tweak its funding cost is the key as RHB management to improve its net interest margin. Additionally, with the completion of the rights issue, RHBC is at the last leg of its corporate restructuring, which should lead to a new lease of life for RHB Banking Group upon completion. To reiterate, the proceeds will be used for the settlement of RHBC's debt as well as housing RHB Investment Bank, RHB Islamic and RHB Insurance under the main operating entity, RHB Bank. RHB Bank will then assume the listed status of RHBC
- **Change to our forecast.** No change to our forecast. At this juncture, FY16 and FY17 are expected to grow by 25% y-o-y and 38% y-o-y 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 revise our target price on RHB at RM6.20 as we remove 5% discount on its P/B of 0.95 given its steady recovery process. The stock is a **HOLD** now. Re-rating catalysts for the stock include i) adjustment in OPR as 75% of Group's loan are 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
			FY16	FY17	FY16	FY17	FY16	FY17				
AFG	Mac	4.07	0.3	0.4	11.7	11.2	1.3	1.3	10.8	2.0	4.00	Hold
AMMB	Mac	4.53	0.4	0.4	10.3	10.2	0.9	0.9	10.7	4.5	4.90	Hold
BIMB	Dec	3.96	0.4	0.4	10.3	9.8	1.7	1.5	17.2	3.3	4.28	Hold
CIMB	Dec	4.68	0.5	0.5	10.4	9.2	1.0	0.9	7.3	2.9	4.75	Hold
Maybank	Dec	8.85	0.7	0.7	12.9	12.3	1.4	1.3	11.9	6.4	9.10	Hold
RHB Cap	Dec	6.00	0.6	0.6	9.8	9.2	0.8	0.8	7.2	1.0	6.20	Hold
Public Bank	Dec	18.96	1.3	1.4	14.8	14.0	2.3	2.0	17.1	3.0	21.38	Buy
Affin	Dec	2.21	0.2	0.3	9.8	9.0	0.6	0.5	4.5	1.3	NR	NR
MBSB	Dec	1.28	0.1	0.1	11.0	11.2	0.8	0.8	5.4	7.5	NR	NR
STMB	Dec	4.18	0.2	0.2	20.1	17.8	5.0	NA	24.5	1.8	NR	NR
HL Bank	Jun	13.40	1.0	1.1	13.3	12.5	1.3	1.3	11.1	3.0	NR	NR
Average			0.6	0.7	12.8	11.4	1.5	1.1	11.1	3.9		

Source: Bloomberg, M&A Securities

Table 2: Results Analysis

YE: March (RM million)	1Q16	4Q15	1Q15	y-o-y	q-o-q	3M16	3M15	y-o-y
Gross Interest income	2,010	2,038	1,991	1%	-1%	2,010	1,991	1%
Interest expense	(1,128)	(1,167)	(1,191)	-5%	-3%	(1,128)	(1,191)	-5%
Net interest income	883	871	800	10%	1%	883	800	10%
Islamic banking income	244	237	202	20%	3%	244	202	20%
Other income	477	573	506	-6%	-17%	477	506	-6%
Net income	1,604	1,682	1,509	6%	-5%	1,604	1,509	6%
Operating expenses	(777)	(962)	(820)	-5%	-19%	(777)	(820)	-5%
Pre-provision income	826	720	689	20%	15%	826	689	20%
Allowance loan loss	(80)	(235)	(50)	60%	-66%	(80)	(50)	60%
Writeback of impairment	0	(11)	6	-93%	-104%	0	6	-93%
Operating profit	746	475	645	16%	57%	746	645	16%
Joint Ventures & Associate	0	0	0	-34%	-10%	0	0	-34%
PBT	746	475	645	16%	57%	746	645	16%
Taxation	(193)	(152)	(165)	17%	27%	(193)	(165)	17%
PAT	554	323	480	15%	72%	554	480	15%
EPS (sen)	18	10.5	18.5	-3%	71%	18	18.5	-3%
Dividend - sen	0	12	0			-	0	
Dividend payment (RMm)	0	36.8	0			-	0	
Dividend payout (%)	0	11.7%	0			-	0	

Source: Bursa Malaysia, M&A Securities

Table 3: Financial Forecast

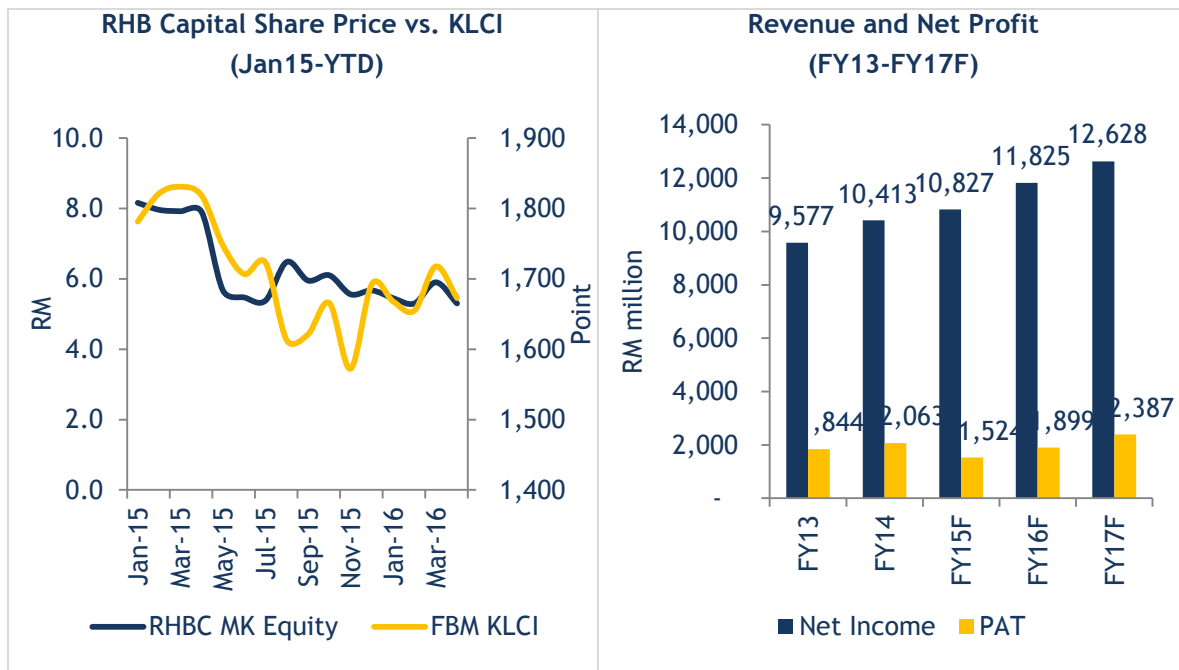
YE: Dec (RM million)	FY13	FY14	FY15	FY16F	FY17F
Gross Interest income	6,901	7,470	7,935	8,279	8,773
Interest expense	(3,626)	(4,178)	(4,636)	(4,782)	(5,053)
Net interest income	3,274	3,291	3,300	3,497	3,720
Islamic banking income	591	732	876	920	966
Other income	2,085	2,211	2,015	2,627	2,890
Net income	5,951	6,235	6,191	7,044	7,576
Operating expenses	(3,052)	(3,411)	(3,793)	(3,421)	(3,297)
Pre-provision income	2,899	2,824	2,398	3,623	4,279
Allowance loan loss	(448)	(206)	(340)	(580)	(370)
Writeback of impairment	19	117	49	50	80
Operating profit	2,470	2,735	2,106	3,093	3,988
Associate	1	(0)	-	0	0
Joint Ventures	0	0	0	1	1
PBT	2,471	2,735	2,107	3,094	3,989
Taxation	(627)	(672)	(583)	(743)	(957)
PAT	1,844	2,063	1,524	2,351	3,032
EPS	72.9	79.7	58.1	61.8	77.6
Dividend (sen)	16.3	6.0	12.0	21.6	27.2
Dividend Payment (RM mil)	415	154	369	665	835
Dividend Payout	23%	7%	24%	35%	35%
Retained Earnings (RM mil)	1,429	1,909	1155	1234	1551
PER (x)	11.4	10.4	9.8	9.2	7.3
Gross Yield	2%	1%	2%	4%	5%
BV	6.2	6.9	7.2	7.6	8.1
P/BV	1.3	1.1	0.8	0.8	0.7

Source: Bursa Malaysia, M&A Securities

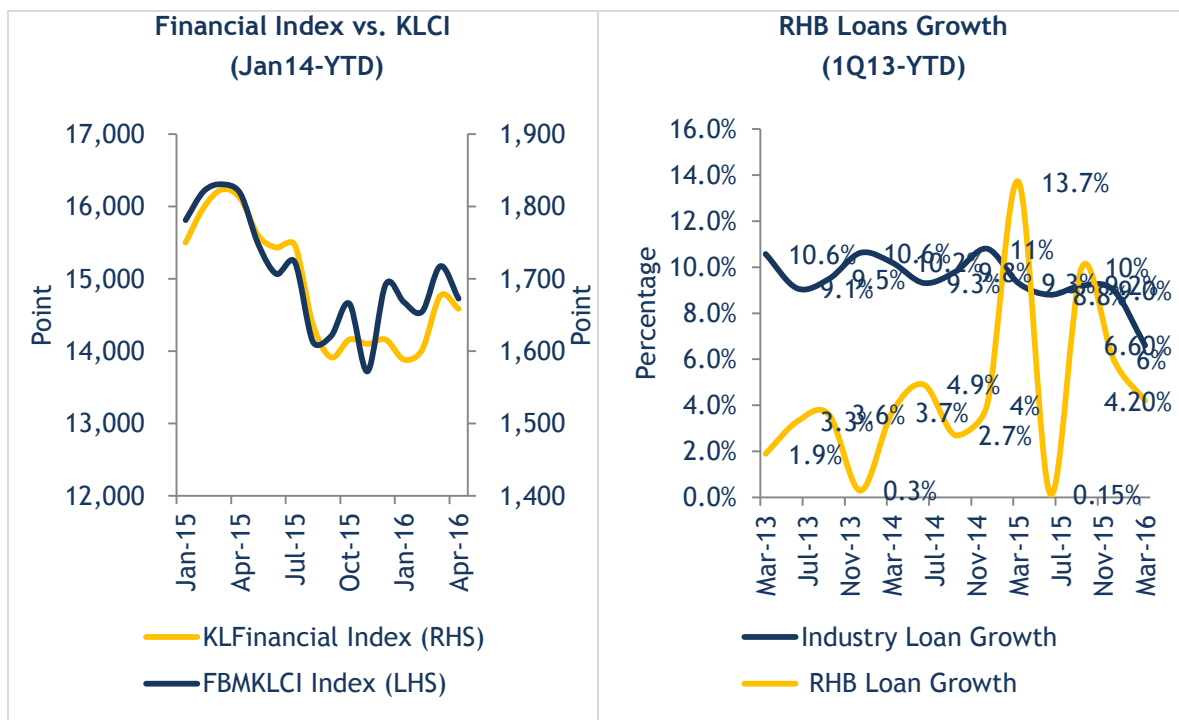
Table 4: Operational Ratio

YE: March (RM million)	FY13	FY14	FY15	FY16F	FY17F
Margin					
NII Margin	55%	53%	53%	50%	49%
NOII Margin	35%	35%	33%	37%	38%
PPOP Margin	49%	45%	39%	51%	56%
PBT Margin	42%	44%	34%	44%	53%
PAT Margin	31%	33%	25%	33%	40%
Growth					
NII	11%	1%	0%	6%	6%
NOII	51%	6%	-9%	30%	10%
Operating expenses	33%	12%	11%	-10%	-4%
Pre-provision profit	14%	-3%	-15%	51%	18%
Core net profit	3%	12%	-26%	54%	29%
Gross loans	9%	17%	6%	4%	6%
Customer deposits	0%	14%	1%	14%	7%
Total assets	1%	15%	5%	5%	7%
Profitability					
Average Lending Yield	22%	21%	19%	22%	23%
Average Cost of funds	2.3%	2.2%	2.4%	2.4%	2.4%
NIM	3.6%	3.5%	3.8%	3.8%	3.8%
Cost/income	1.8%	1.6%	1.6%	1.6%	1.6%
	51%	55%	61%	49%	44%
Asset Quality					
Net NPL	2.1%	1.7%	1.5%	1.8%	1.9%
Gross NPL	2.8%	2.0%	1.9%	2.1%	2.1%
Return					
ROA	1.0%	0.9%	0.7%	1.0%	1.2%
ROE	10.9%	10.9%	6.6%	9.5%	11.4%

Source: Bursa Malaysia, M&A Securities



Source: Bloomberg, 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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