

03 September 2018 | 2QFY18 Results Review

RHB Bank Berhad

Continued solid income growth

INVESTMENT HIGHLIGHTS

- In line with expectations
- Income growth continue to contribute to earnings expansion
- Mortgage and SME loans drove loans growth
- Asset quality stable
- Dividend of 7.5 sen declared
- No change to forecast.
- **Maintain TRADING BUY with unchanged TP of RM6.00**

Earnings as expected. The Group registered 1HFY18 net profit that was within ours and consensus' expectations. The net profit of RM1.16b was 53.4% and 54.4% of respective full year estimates.

Strong income rise continue support earnings growth. Net profit went up +15.9%yoy due to the strong income growth of +8.0%yoy. NII, NOII and Islamic Banking income expansion contributed to the income growth. NOII grew +2.9%yoy on higher treasury related income. Islamic Banking income grew +18.0%yoy due to net funding income increase of +22%yoy to RM614m.

Main income growth from better NIM. Similarly, NII grew +7.4%yoy. Both conventional and Islamic NII saw solid growth due to continuing NIM improvement. NIM in 2QFY18 improved +1bps qoq and +10bps yoy from the OPR hike and funding cost management.

Higher 1HFY18 OPEX from impact of 1QFY18 increase. OPEX in 1HFY18 expanded +7.5%yoy due to one-off personnel and IT related cost in 1QFY18 as the Group continue to invest. However, on a sequential quarter basis, 2QFY18 OPEX fell -7.4%yoy as these expenses normalised.

Mortgages and SME continue to drive loans growth. Gross loans grew at a decent pace of +3.1%yoy to RM156.6b. This was the result of the drag coming from overseas operations as gross loans there fell -8.9%yoy to RM16.6b. Domestic operations gross loans grew +4.5%yoy to RM140.1b driven by mortgages and SME loans. Mortgages grew +16.4%yoy to RM43.4b and SME loans grew +8.2%yoy to RM21.0b.

Slight uptick in GIL ratio but otherwise stable. GIL ratio was up by +4bps on sequential year and quarter basis to 2.33%. This was mainly from higher GIL ratio in the domestic asset as domestic GIL ratio was up by +12bps(qoq) to 1.76%. However, putting into context, in improved by -27bps(yoy).

Deposits growth flattish due to liquidity management. Total deposits grew +0.1%yoy to RM166.0b as the Group managed its liquidity. However, CASA grew +4.2%yoy to RM48.1b. We believe that this had led to the NIM improvement and overall NII growth.

Maintain TRADING BUY

Unchanged Target Price (TP): RM6.00

RETURN STATS

Price (30 Aug 2018)	RM5.40
Target Price	RM6.00
Expected Share Price Return	+11.1%
Expected Dividend Yield	+2.8%
Expected Total Return	+13.9%

STOCK INFO

KLCI	1,819.66
Bursa / Bloomberg	1066 / RHBANK MK
Board / Sector	Main / Finance
Syariah Compliant	No
Issued shares (mil)	4,010.0
Market cap. (RM'm)	21,654.2
Price over NA	0.9x
52-wk price Range	RM4.71 – RM5.88
Beta (against KLCI)	1.36
3-mth Avg Daily Vol	3.26m
3-mth Avg Daily Value	RM17.60m
Major Shareholders	
EPF	40.67%
Aabar Investment PJS	14.75%
OSK Equity Holdings	10.13%


Some banking abbreviations used in this report:

CA = Collective Impairment Allowance
 CI = Cost-Income Ratio
 CET1 = Common Equity Tier 1
 GIL = Gross Impaired Loan
 LD = Loan-Deposit
 NII = Net Interest Income
 NOII = Non-interest income
 NIM = Net Interest margin
 CASA = Current and Savings Accounts
 COF = Cost of Funds
 OPEX = Operating Expenses
 LLC = Loan Loss Coverage
 PPOP = Pre Provision Operating Profit

FORECAST

We are maintaining our forecasts.

VALUATION AND RECOMMENDATION

The Group continue to maintain its solid start. Income growth continues to be strong boosted by NIM improvement. Although we believe that the industry will be facing with the pressure of NIM compression coming from deposits competition, we opine that the Group will be able to manage its funding cost judging from its performance in 1QFY18 and 2QFY18. We also believe that its high OPEX will normalise as we have seen in 2QFY18. With the good performance of the stock, we believe there still will be trading opportunities for the stock. Hence, we are maintaining our **TRADING BUY** call with unchanged **TP of RM6.00**. Our TP is based on pegging its FY19 BVPS to 0.95x which is its 5-year average PBV. 

INVESTMENT STATISTICS

FYE Dec	FY16	FY17	FY18F	FY19F
Net interest income (RM'm)	3,453	3,522	3,892	4,139
Other operating income (RM'm)	1,763	1,780	1,778	1,800
Islamic Banking income (RM'm)	977	1,085	1,031	1,083
Total income (RM'm)	6,193	6,387	6,702	7,021
Pretax profit (RM'm)	2,232	2,558	2,837	3,027
Net profit (RM'm)	1,682	1,950	2,174	2,322
Core Net profit (RM'm)	1,875	1,950	2,174	2,322
Core EPS (sen)	43.6	48.6	54.2	57.9
EPS growth (%)	-34.8	11.5	11.5	6.8
PER (x)	12.4	11.1	10.0	9.3
Net dividend (sen)	12	15.0	15.0	17.0
Net dividend yield (%)	2.2	2.8	2.8	3.1
Book value per share (RM)	5.42	5.77	6.01	6.41
PBV (x)	1.0	0.9	0.9	0.8
ROE (%)	8.5	8.7	9.0	9.0

Forecast by MIDFR

DAILY PRICE CHART

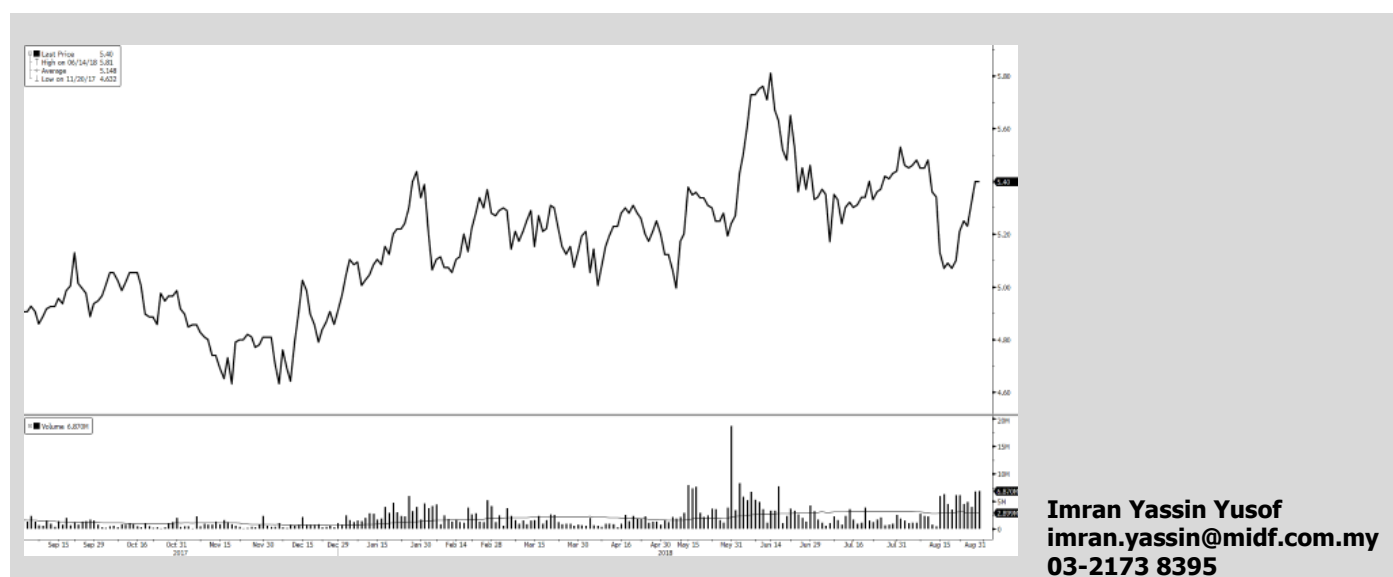


Table 1: Quarterly results (base on reported financials)

Quarterly results						Comments
FYE Dec (RM m)	2QFY18	1QFY18	2QFY17	Yoy (+/- %)	Qoq (+/- %)	
Net Interest Income	936.9	928.9	885.7	5.8%	0.9%	Due to improvement in NIM
Other Operating Income	309.2	566.7	397.1	-22.1%	-45.4%	Lower forex gains, trading & investment income and brokerage income
Islamic Banking Income	371.0	273.8	296.5	25.1%	35.5%	Strong Islamic fund based income growth
Net/Total Income	1,617.1	1,769.4	1,579.2	2.4%	-8.6%	
OPEX	(799.0)	(863.0)	(784.3)	1.9%	-7.4%	Higher personnel cost
PPOP	818.1	906.4	794.9	2.9%	-9.7%	
Write back/(Provision) for loan losses & other assets	(45.2)	(114.5)	(141.1)	-68.0%	-60.6%	Write back on financial assets at FVOCI of RM19m vs. charge of RM109.2m in 2QFY18
Pre-tax profit	773.0	791.9	653.9	18.2%	-2.4%	
Taxation	(202.9)	(200.9)	(151.8)	33.7%	1.0%	
Net Profit	570.1	590.8	501.0	13.8%	-3.5%	

Table 2: Financial Ratios

Financial Ratios (%)	2QFY18	1QFY18	2QFY17	Yoy (+/-ppts)	Qoq (+/-ppts)	Comments
CET1	14.5	13.9	13.4	1.1	0.6	
CCR	14.7	14.2	13.6	1.1	0.5	
RWCR	17.7	17.2	17	0.7	0.5	
GIL	2.33	2.29	2.29	0.04	0.04	
Credit charge-off	0.19	0.26	0.06	0.13	-0.07	Higher provisioning on loans, advances and financing
NIM	2.29	2.28	2.19	0.10	0.01	Impact from OPR hike and funding cost management
Loan loss Coverage	104.1	107.4	81.4	22.7	-3.3	
CI ratio	49.4	48.8	49.7	-0.3	0.6	Due to higher income
Net LDR	95.3	93.1	93.1	2.2	2.2	
ROEA	10.1	10.4	8.9	1.2	-0.3	

Table 3: Cumulative Results and ratio

Cumulative results				Comments
FYE Dec (RM m)	1HFY18	1HFY17	Yoy (+/- %)	
Net Interest Income	1,865.9	1,737.3	7.4%	NIM improvement and +3.1%yoy loans growth
Other Operating Income	875.9	850.9	2.9%	Lower fee income
Islamic Banking Income	644.8	546.5	18.0%	Strong growth in Islamic fund based income (+22%yoy)
Net/Total Income	3,386.5	3,134.7	8.0%	
OPEX	(1,662.0)	(1,545.5)	7.5%	Higher personnel and establishment cost
PPOP	1,724.5	1,589.1	8.5%	
Write back/(Provision) for loan losses & other assets	(159.7)	(277.2)	-42.4%	Write back on financial assets. However, loan provisions increased +16.3%yoy to RM180.9m
Pre-tax profit	1,564.9	1,312.2	19.3%	
Taxation	(403.8)	(308.4)	30.9%	
Net Profit	1,160.9	1,001.2	15.9%	
			+ / - ppt	
CI Ratio	49.1	49.3	-0.2	
Credit charge-off	0.22	0.2	0.02	
ROE	10.2	9.1	1.1	

Table 4: PBT by key segments (based on reported financials)

PBT (RM m)	1HFY18	1HFY17	Yoy (+/- %)	Comments
Corporate and Investment Banking	352.7	273.4	29.0%	Higher non-fund based and net fund based income and lower ECL
Retail Banking	496.9	487.0	2.1%	Higher income offset by higher OPEX and ECL
Business Banking	165.1	189.9	-13.0%	Higher provisions
Treasury	618.7	601.3	2.9%	Higher net fund based income
Group International Business	116.1	(72.8)	>100%	Lower ECL in Singapore as substantial losses for corporate bonds and loans were provided last year. Also improved profitability in Cambodia and Laos
Support center & others	(184.6)	(166.8)	10.7%	
Share of results of JV	0.0	0.2	-81.6%	
Group PBT	1,564.9	1,312.2	19.3%	

Source: Company, MIDFR

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	<i>Negative</i> total return is expected, by -10% or more, over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.