midf RESEARCH

28 November 2018 | 3QFY18 Results Review

RHB Bank Berhad

Upper bound of expectations

***Maintain* TRADING BUY**

***Unchanged* Target Price (TP): RM6.00**

INVESTMENT HIGHLIGHTS

- **Upperbound of expectations**
- **Support from strong Islamic banking income and lower provisions**
- **Loans growth driven by mortgage and SME**
- **Uptick in GIL ratio possibly from overseas**
- **Upward revision in FY18 and FY19 forecast**
- **Maintain TRADING BUY with unchanged TP of RM6.00**

Higher bound of expectations. The Group registered a strong 9MFY18 net profit growth of +16.8%yoy. As a result, it was at the upper bound of our and consensus' expectations. Its 9MFY18 earnings came in at 80.0% and 79% of respective full year estimates. Main driver was the strong Islamic banking income and lower provisions.

Islamic banking income above expectations. NII in 9MFY18 had a robust growth of +4.9%yoy while NOII was flattish with +0.7%yoy dragged by lower IB and brokerage income. Main contributor for income growth was Islamic banking income as it grew +26.5%yoy. This was due to both net fund and non-fund based income which expanded +23%yoy to RM942m and +79%yoy to RM99m respectively.

Better NIM overall but moderated in 3QFY18. NIM for the 9MFY18 was circa +9bps yoy better at 2.27%. This was boosted by the OPR hike at the start of the year. However, there was a moderation in 3QFY18 as NIM fell -6bps qoq to 2.23% due to re-pricing of deposits. However, this was still higher than the level seen in 3QFY17.

Higher OPEX but CI improved. OPEX in 9MFY18 expanded +6.4%yoy due to higher personnel and IT related expenses. Nevertheless, CI improved to 49.0% from 49.5% in 9MFY17. This was due to the better income and evident that OPEX was well contained.

Loans growth supported by mortgages and SME. Gross loans as at 3QFY18 grew at slightly higher pace of +4.0%yoy to RM164.3b from +3.1%yoy posted last quarter. The two biggest contributors to loans book, i.e. mortgages and SME, still continue to support loans growth. These grew +15.7%yoy to RM45.0b and +6.2%yoy to RM21.4b respectively. Meanwhile, gross loans from wholesale banking fell -10.0%yoy to RM45.2b. Overseas operations' gross loans improved +0.8%yoy to RM15.8b.

Uptick in GIL ratio from overseas operations. GIL ratio as at 3QFY18 was up +4bps on sequential quarter basis to 2.37%. However, this was due to conversion of impaired bonds to loans. Excluding this restructured account, GIL ratio would have been at 2.28%. We believe this was from its overseas operations as domestic GIL ratio was -6bps qoq better to 1.70%. Meanwhile, the Group's oil & gas exposure have decreased slightly by RM0.1b to RM4.8b from 2QFY18. This represents 2.9% of total loans book.

RETURN STATS	
Price (27 Nov. 2018)	RM5.25
Target Price	RM6.00
Expected Share Price Return	+14.9%
Expected Dividend Yield	+2.9%
Expected Total Return	**+17.8%**

STOCK INFO	
KLCI	1,684.97
Bursa / Bloomberg	1066 / RHBBANK MK
Board / Sector	Main / Finance
Syariah Compliant	No
Issued shares (mil)	4,010.0
Market cap. (RM'm)	21,052.7
Price over NA	0.9x
52-wk price Range	RM4.71 – RM5.88
Beta (against KLCI)	1.28
3-mth Avg Daily Vol	2.02m
3-mth Avg Daily Value	RM10.67m
Major Shareholders	
EPF	40.62%
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

Better deposits growth from last quarter. Total deposits as at 3QFY18 expanded +1.7%yoy to RM171.4b, better than the +0.1%yoy that was registered as at 2QFY18. However, CASA growth moderated to +1.2%yoy to RM46.1b from +4.2%yoy posted last quarter. This was the same pace of growth as fixed deposits.

Strategy on track. We noted that the Group's have been able to execute its FIT22 strategy well. Amongst the highlights were the strong increase in premier customers and SME loans, increase in fee income market share in midsized corporates, and rebalancing its financing portfolio, where retail and SME make up 72.6% of total domestic financing portfolio as at 3QFY18. Hence, we believe that this had contributed to the stellar performance thus far. As a result, we believe that the Group will be able to achieve its targets for FY18.

FORECAST

We are tweaking upwards our FY18 and FY19 forecast by +2.7% and +3.9% as we take into account the strong growth in Islamic banking income.

VALUATION AND RECOMMENDATION

The Group's earnings continue to be on a solid trend. We believe that this was due to its ability to execute its FIT22 strategy well. While there are possible headwinds in terms of asset quality in the oil & gas segment, we believe that its income growth and well contained OPEX will be able to support earnings growth. 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)	12.0	10.8	9.4	8.7
Net dividend (sen)	12	15.0	15.0	17.0
Net dividend yield (%)	2.3	2.9	2.9	3.2
Book value per share (RM)	5.42	5.77	6.02	6.45
PBV (x)	1.0	0.9	0.9	0.8
ROE (%)	8.5	8.7	9.2	9.3

Forecast by MIDFR

DAILY PRICE CHART

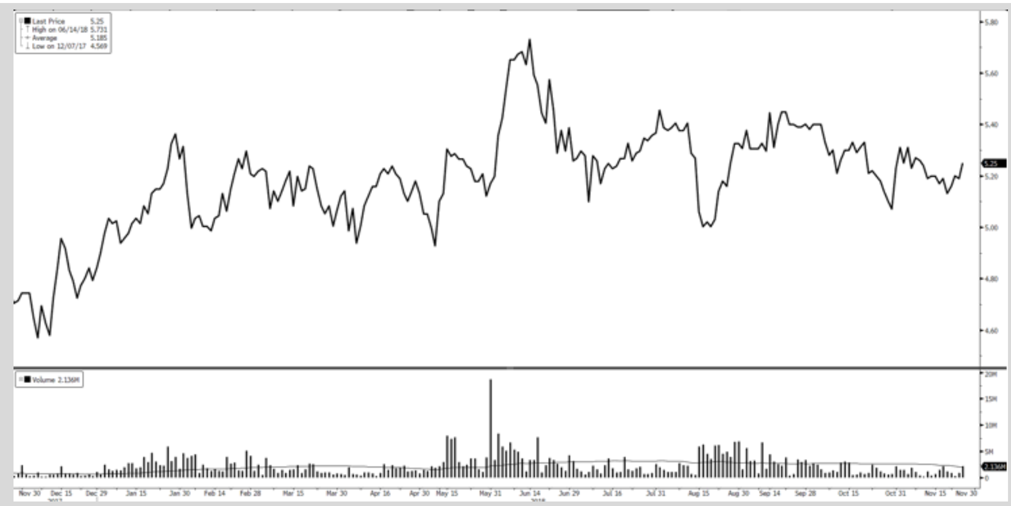

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Table 1: Quarterly results (base on reported financials)

Quarterly results						Comments
FYE Dec (RM m)	3QFY18	2QFY18	3QFY17	Yoy (+/- %)	Qoq (+/- %)	
Net Interest Income	890.5	936.9	892.3	-0.2%	-5.0%	On account of re-pricing of deposits
Other Operating Income	398.0	309.2	413.6	-3.8%	28.7%	Lower investment bank and brokerage income
Islamic Banking Income	396.8	371.0	277.2	43.2%	6.9%	Strong Islamic fund based income growth (+24%yoy to RM329m)
Net/Total Income	1,685.3	1,617.1	1,583.1	6.5%	4.2%	
OPEX	(824.1)	(799.0)	(792.3)	4.0%	3.1%	Higher personnel cost (+4.4%yoy to RM486.3m)
PPOP	861.2	818.1	790.8	8.9%	5.3%	
Write back/(Provision) for loan losses & other assets	(82.2)	(45.2)	(146.8)	-44.0%	82.0%	Lower net charge on loans of RM99.4m vs. RM178.9m compared to 3QFY17
Pre-tax profit	779.0	773.0	644.1	21.0%	0.8%	
Taxation	(198.9)	(202.9)	(153.9)	29.2%	-2.0%	
Net Profit	578.7	570.1	488.8	18.4%	1.5%	Robust income and lower provisions

Table 2: Financial Ratios

Financial Ratios (%)	3QFY18	2QFY18	3QFY17	Yoy (+/-ppts)	Qoq (+/-ppts)	Comments
CET1	14.8	14.5	13.6	1.2	0.3	
CCR	15.0	14.7	13.8	1.2	0.3	
RWCR	18.0	17.7	17.9	0.1	0.3	
GIL	2.37	2.33	2.31	0.06	0.04	
Credit charge-off	0.16	0.19	0.37	-0.21	-0.03	Lower net charge
NIM	2.23	2.29	2.19	0.04	-0.06	Impact from deposit re-pricing
Loan loss Coverage	104.2	104.1	93.6	10.6	0.1	
CI ratio	48.9	49.4	50.0	-1.1	-0.5	Due to higher income
Net LDR	93.9	95.3	92.4	1.5	-1.4	
ROEA	9.9	10.1	8.5	1.4	-0.2	

Table 3: Cumulative Results and ratio

Cumulative results				Comments
FYE Dec (RM m)	**9MFY18**	**9MFY17**	**Yoy (+/- %)**	
Net Interest Income	2,757.6	2,629.6	4.9%	NIM improvement in 1HFY18 and +4.0%yoy to RM164.3b in gross loans growth
Other Operating Income	1,271.2	1,261.8	0.7%	Moderated by lower investment banking and brokerage income which fell -11%yoy to RM82m and -13%yoy to RM212m respectively
Islamic Banking Income	1,041.6	823.7	26.5%	Strong growth in Islamic fund based income (+24%yoy to RM942m)
Net/Total Income	5,070.5	4,715.1	7.5%	
OPEX	(2,484.7)	(2,335.2)	6.4%	Higher personnel (+9.1%yoy to RM1.5b) and establishment cost (+6.8%yoy to RM553.7m)
PPOP	2,585.7	2,380.0	8.6%	
Write back/(Provision) for loan losses & other assets	(241.8)	(424.0)	-43.0%	Write back on financial assets of RM3.9m vs. charge of RM121.4m in 9MFY17
Pre-tax profit	2,344.0	1,956.3	19.8%	
Taxation	(602.6)	(462.3)	30.3%	
Net Profit	1,739.8	1,490.1	16.8%	
			+ / - ppt	
CI Ratio	49.0	49.5	-0.5	
Credit charge-off	0.20	0.26	-0.06	
ROE	10.3	8.9	1.4	

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

PBT (RM m)	**9MFY18**	**9MFY17**	**Yoy (+/- %)**	**Comments**
Corporate and Investment Banking	446.9	412.5	8.3%	Higher non-fund based and net fund based income and lower ECL
Retail Banking	758.0	710.9	6.6%	Higher income offset by higher OPEX and ECL
Business Banking	292.0	277.2	5.3%	Higher net fund based income and lower ECL
Treasury	923.3	864.7	6.8%	Higher income
Group International Business	173.1	(77.3)	>100%	Lower ECL in Singapore as substantial losses for corporate bonds and loans were provided last year in the oil and gas industry. Also improved profitability in Thailand
Support center & others	(249.4)	(232.1)	7.4%	
Share of results of JV	0.1	0.3	-78.7%	
Group PBT	2,344.0	1,956.3	19.8%	

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 *rise* 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	*Negative* total return is expected, by -10% or more, over the next 12 months.
TRADING SELL	Stock price is expected to *fall* 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.