midf RESEARCH

28 February 2018 | 4QFY17 Results Review

RHB Bank Berhad

Lifted by lower provisions

***Maintain* NEUTRAL**

***Adjusted* Target Price (TP): RM5.70 (from RM5.22)**

INVESTMENT HIGHLIGHTS

- **Full year net profit within expectations. Net profit lifted by lower provisions.**
- **Strong CASA expansion but no acceleration in gross loans while NIM flat.**
- **Asset quality improved.**
- **Final dividend of 10 sen, full year 15 sen.**
- **Tweaked FY18 earnings and BVPS.**
- **Maintain NEUTRAL with unchanged TP of RM5.70 (from RM5.22), pegging the stock to PBV of 0.9x on its FY18 BVPS.**

Within expectations. The Group posted a FY17 net profit of RM1.95b, which was within ours and consensus' full year estimates at 100.6% and 96.5% respectively. The +16.0%yoy rise was due to lower provisions.

Lower provisions provided the lift for FY17. Provisions in 4QFY17 fell -34.1%yoy due to one-off impairment on a corporate bond of RM254m in the previous year. This has led to FY17 provisions to come in -25.6%yoy lower. Excluding the one-off impairment, net profit would have grown +4.0%yoy instead.

Recovery in NOII in 4QFY17. PPOP in FY17 recovered to grow +3.2%yoy as opposed to -1.6%yoy decline in 9MFY17, due to a recovery in NOII in 4QFY17 where it grew +50.4%yoy to RM520.2m. The growth was contributed by strong growth in treasury related income. Net forex gain grew to RM124m from RM44m in 4QFY16. Meanwhile, gains and mark-to-market on securities & derivatives rose to RM40m from RM2m registered in the same quarter last year.

Decent net fund based income growth. Net fund based income expanded at a decent +5.3%yoy to RM4.55b. It was driven by Islamic fund based income which grew +18.7%yoy to RM1.03b, while NII grew +2.0%yoy. Main contributor for the growth was active management of funding and liquidity. To illustrate, interest expense fell -4.4%yoy to RM4.38b, while CASA grew +18.8%yoy to RM50.5b. However, despite strong CASA growth, FY17 NIM was flat at 2.18%. This suggests that there were compression in loan yields. Indeed, interest income fell -1.6%yoy to RM7.8b.

Sluggish loans growth from overseas. Group gross loans growth grew only +3.7%yoy to RM160.1b. However, domestic gross loans growth made up for the decline overseas. Domestic loans growth grew +5.2%yoy to RM144.8b supported by mortgages and SME loans. These expanded +15.8%yoy to RM46.9b and +10.1%yoy to RM22.1b respectively. For its overseas operation, loans contraction was due to several large repayments and impact of stronger ringgit in Singapore.

RETURN STATS	
Price (27 February 2018)	RM5.47
Target Price	RM5.70
Expected Share Price Return	+4.2%
Expected Dividend Yield	+2.9%
Expected Total Return	**+7.1%**

STOCK INFO	
KLCI	1,871.46
Bursa / Bloomberg	1066 / RHBBANK MK
Board / Sector	Main / Finance
Syariah Compliant	No
Issued shares (mil)	4,010.0
Market cap. (RM'm)	21,934.9
Price over NA	0.9x
52-wk price Range	RM4.71 – RM5.61
Beta (against KLCI)	1.55
3-mth Avg Daily Vol	1.91 m
3-mth Avg Daily Value	RM9.98 m
Major Shareholders	
EPF	40.70%
Aabar Investment PJS	17.75%
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

Asset quality improved due to domestic. Group GIL ratio as at 4QFY17 improved -8bps qoq and -20bps yoy supported by improvement in the Group asset quality for its domestic operations. Domestic GIL ratio fell -50bps to 1.46%. We opine that there were some weakness from the Group's oil and gas exposure in Singapore.

New 5-year strategy. After concluding IGNITE 2017, the Group has embarked on a new 5-year strategy with three key thrusts, namely Funding the Group Journey, Invest to Win in the medium term and Transform the Organisation. The new strategy is named FIT22. Amongst the target segments are continuation of Affluent and Mass Affluent market, SMEs, Mid Caps and Large Caps. One aspect of FIT22 is its digitization of the Group. In our opinion, this could lead to additional OPEX in the next 2-3 years time as the Group invest on IT infrastructure and talent acquisition amongst others.

FY18 target achievable. For FY18, the management is guiding a target of; (1) ROE of 9-10%, (2) Loans growth of 6%, (3) CASA growth of 10%, (4) GIL ratio of less than 2.2%, (5) CI of less than 50%, and (6) positive overseas profit contribution. We believe that these targets are achievable given it is close to the Group's achievement in FY17.

FORECAST

We are tweaking slightly FY18 earnings and BVPS to reflect the guidance given by the management.

VALUATION AND RECOMMENDATION

Although the Group posted solid net profit growth, we note that this was due to lower credit cost. More importantly, NII growth was only decent, while NIM was flat. However, we believe that the strong growth in CASA, mortgages and SME loans provides a good base for the Group's earnings potential. We might revisit its investment case should there be a more pronounced improvement. For now, we are maintaining our **NEUTRAL** call for the stock with an adjusted **TP of RM5.70** (from RM5.22). Our TP is based on pegging its FY18 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)	12.5	11.2	10.1	9.4
Net dividend (sen)	12	15.0	16.0	17.0
Net dividend yield (%)	2.2	2.7	2.9	3.1
Book value per share (RM)	5.42	5.77	6.00	6.40
PBV (x)	1.0	0.9	0.9	0.9
ROE (%)	8.5	8.7	9.0	9.0

Source: Company, MIDFR

DAILY PRICE CHART

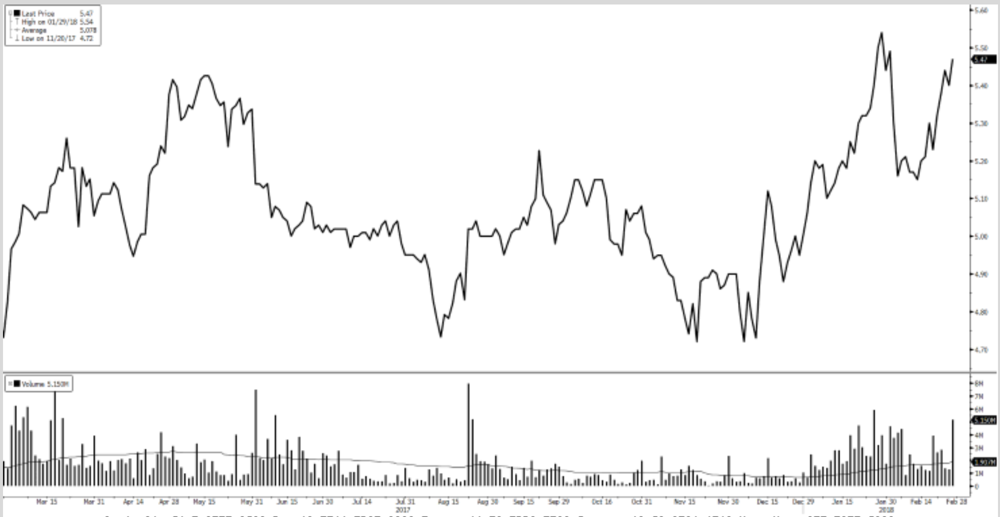

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Table 1: Quarterly results (base on reported financials)

Quarterly results						Comments
FYE Dec (RM m)	**4QFY17**	**3QFY17**	**4QFY16**	**Yoy (+/- %)**	**Qoq (+/- %)**	
Net Interest Income	892.2	892.3	860.6	3.7%	0.0%	Efficient management of funding cost. Interest expense fell -4.1%yoy.
Other Operating Income	520.2	414.9	345.8	50.4%	25.4%	Strong growth in treasury related income. Net forex gain grew to RM124m from RM44m in 4QFY16.
Islamic Banking Income	255.2	277.2	271.8	-6.1%	-7.9%	Mainly from strong Islamic fund based income growth (+15%yoy).
Net/Total Income	1,667.6	1,584.4	1,478.2	12.8%	5.3%	
OPEX	(847.4)	(793.6)	(802.5)	5.6%	6.8%	Due to higher personnel cost which was from salary increment.
PPOP	820.2	790.8	675.7	21.4%	3.7%	
Write back/(Provision) for loan losses & other assets	(218.4)	(146.8)	(331.6)	-34.1%	48.8%	One-off provisions in 4QFY16 from a corporate account.
Pre-tax profit	601.9	644.1	344.4	74.8%	-6.6%	
Taxation	(139.8)	(153.9)	(87.7)	59.4%	-9.2%	
Net Profit	460.1	488.8	261.2	76.1%	-5.9%	

Table 2: Financial Ratios

Financial Ratios (%)	4QFY17	3QFY17	4QFY16	Yoy (+/-ppts)	Qoq (+/-ppts)	Comments
CET1	13.9	13.6	13.1	0.8	0.3	
CCR	14.2	13.8	13.4	0.8	0.3	
RWCR	17.2	17.9	17.2	0.0	-0.7	
GIL	2.23	2.31	2.43	-0.20	-0.08	Mainly from overseas operations.
Credit charge-off	0.29	0.37	0.80	-0.51	-0.08	One-off provisions in 4QFY17.
NIM	2.17	2.19	2.18	-0.01	-0.02	Efficient funding cost management.
Loan loss Coverage	101.6	93.6	74.7	26.9	8.0	
CI ratio	50.8	50.1	54.3	-3.5	0.7	
Net LDR	95.3	92.4	91.9	3.4	2.9	
ROEA	7.9	8.5	4.8	3.1	-0.6	

Table 3: Cumulative Results and ratio

Cumulative results				Comments
FYE Dec (RM m)	**FY17**	**FY16**	**Yoy (+/- %)**	
Net Interest Income	3,521.8	3,453.5	2.0%	From stable NIM which stemmed from efficient COF management. Interest expense fell -4.4%yoy to RM4.18b
Other Operating Income	1,780.3	1,759.3	1.2%	Strong growth in 4QFY17 reversed the downtrend.
Islamic Banking Income	1,084.6	977.2	11.0%	Strong growth in Islamic fund based income.
Net/Total Income	6,386.7	6,189.9	3.2%	
OPEX	(3,186.5)	(3,095.4)	2.9%	Well contained with increase due to increase in personnel cost from salary increment.
PPOP	3,200.2	3,094.5	3.4%	
Write back/(Provision) for loan losses & other assets	(642.5)	(863.4)	-25.6%	Due to one-off provisions in 4QFY16.
Pre-tax profit	2,558.1	2,231.8	14.6%	
Taxation	(602.1)	(544.3)	10.6%	
Net Profit	1,950.1	1,681.6	16.0%	
			+ / - ppt	
CI Ratio	49.9	50.0	-0.1	
Credit charge-off	0.27	0.39	-0.12	
ROE	8.7	8.5	0.2	

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

PBT (RM m)	FY17	FY16	Yoy (+/- %)	Comments
Corporate and Investment Banking	570.3	525.8	8.5%	Arising from lower loan impairment.
Retail Banking	1,089.9	1,058.2	3.0%	Higher non fund based income and lower allowances for loans and financing.
Business Banking	392.5	446.6	-12.1%	Due to higher allowances for loans and financing and higher OPEX.
Treasury	1,165.3	881.9	32.1%	Higher net fund based income and higher net forex gain.
Group International Business	(249.4)	(233.0)	7.1%	Contributed by impairment losses made on corporate bonds and loans, especially those relating to the oil and gas industry in Singapore.
Support center & others	(410.8)	(448.4)	-8.4%	
Share of results of JV	0.4	0.7	-46.0%	
Group PBT	2,558.1	2,231.8	14.6%	

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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.