

01 October 2018 | Corporate Update

## RHB Bank Berhad

*Small business an area of choice*

### INVESTMENT HIGHLIGHTS

- **Aims to grow SME loans book to 20% contribution by 2020**
- **Fast approvals seen as key to winning more businesses**
- **Good asset yield from SMEs**
- **No change to forecast**
- **Maintain TRADING BUY with unchanged TP of RM6.00**

**Briefing on business banking.** We attended a briefing held by the Group on its Business Banking segment last Friday. The key take away from the meeting was that SMEs, in particular the small business segment, is aimed to be solid contributor to the Group's loans portfolio.

**Still room to grow in the SME segment.** The Group is targeting for SME to contribute 20% to its loans book by 2020 from the current 16%. It also targets to jump one place to become the top 3 bank of choice for SMEs. We believe that the interest in SMEs from banks is due to the segment's growth outperforming GDP. For example, SME grew +5.2%yoy vs. Malaysian GDP growth of +4.2%yoy in 2016.

**Focus is on the small businesses.** We noted that the Group will be targeting the small business segment in the SME sector. We believe that this provide the optimum size to risk ratio. Small business segment makes up circa 21.2% of total number of SMEs in Malaysia, and its number grew at CAGR of +8.4% between 2010 to 2015 vs. 7.3% CAGR for the SME segment.

**SMEs investing again.** We understand that there was some cautiousness from businesses following the surprise GE14 result. However, this general cautiousness may have abetted a little as we understand that businesses and SMEs seem to be investing again. This is evident by the robust expansion in business loans in the banking system as at August CY18. We expect business loans to further improve after more clarity in Government policies.

**Good yields from SME business.** We understand the NIM from this segment is circa above 2%. For 1HFY18, net interest income for this segment grew +11.2%yoy to RM462.2m. This is not surprising given the higher risk banks would have to take on.

**Fast approvals will be a key differentiator.** The Group is not alone in targeting the SMEs. However, it believes that its online application process and fast approval will be a key competitive advantage. It had launched an online SME financing platform where approval could be expected in 2 days and disbursement in 5 days. However, we opine that the Group's proposition is entirely unique. At this juncture, we could not yet gauge on the effectiveness of the platform. However, without the platform, the Group's Business Banking have booked +7.4%yoy higher SME loans to RM24.6b as at 1HFY18, which shows the potential to accelerate its SME loans book.

**Maintain TRADING BUY**

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

RETURN STATS	
Price (28 September 2018)	RM5.40
Target Price	RM6.00
Expected Share Price Return	+11.1%
Expected Dividend Yield	+2.8%
<b>Expected Total Return</b>	<b>+13.9%</b>

STOCK INFO	
KLCI	1,793.15
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)	1.34
3-mth Avg Daily Vol	2.70m
3-mth Avg Daily Value	RM14.29m
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

**Concerns on asset quality not yet there.** Of course, our main concern for the drive to grow its SME loans book will be on whether asset quality will be affected. While the credit cost for the Business Banking Group was higher than the Group's general credit cost in 1HFY18, we understand that it was not significantly higher than the industry's. In fact, we have yet to observe deterioration in asset quality. Domestic asset GIL ratio improved -27bps yoy to 1.76% as at 1HFY18.

**No change to forecast.** We make no changes to our forecast for now.

## VALUATION AND RECOMMENDATION

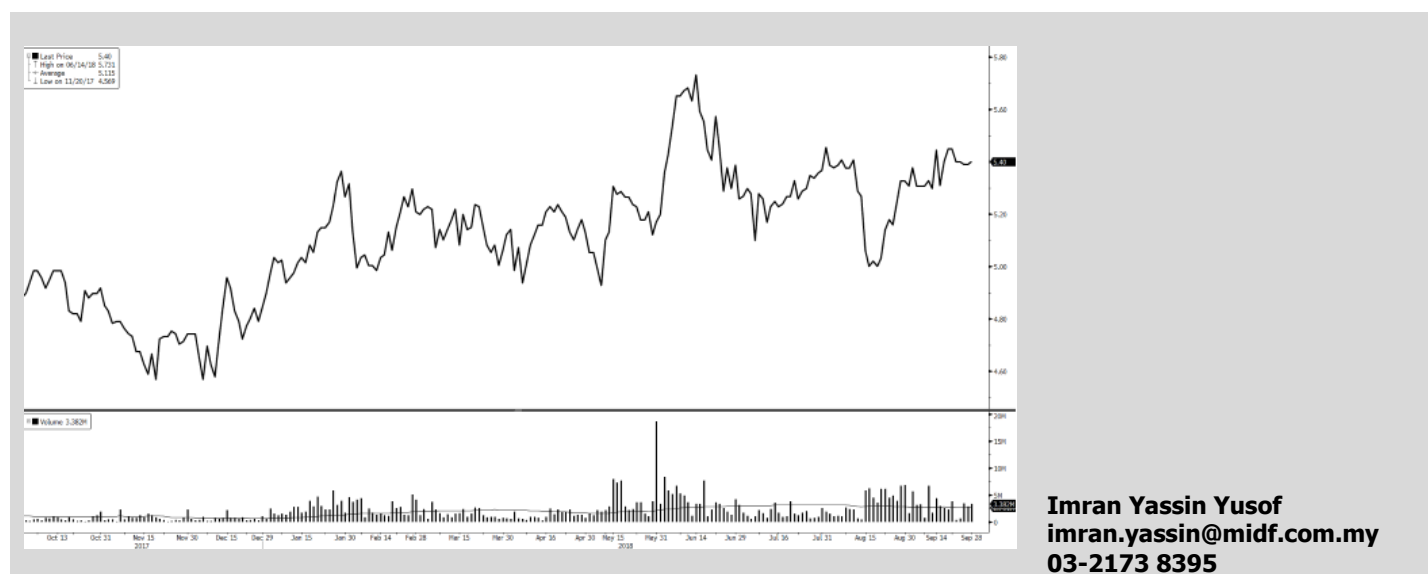
We view positively at the Group's efforts to grow its SME business segment. Although, it is becoming very competitive with majority of its peers targeting this segment, we opine that the Group has a solid base to work on. With other areas also improving, we maintain our **TRADING BUY** call with unchanged **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



**Imran Yassin Yusof**  
 imran.yassin@midf.com.my  
 03-2173 8395

**APPENDIX: Group Business Banking Performance**

	<b>FY13</b>	<b>FY14</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17</b>	<b>CAGR</b>	<b>1HFY18</b>
Gross loans (RM 'b)	15.8	17.8	19.8	22.0	23.9	11.0%	24.6
Customer deposits (RM 'b)	19.2	20.9	21.5	22.1	22.6	4.2%	23.5
Revenue (RM 'm)	827	894	938	970	1,017	5.3%	543.7
Market share	6.2%	7.2%	8.7%	8.8%	9.0%	-	-

Source: Company

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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.