

28 Oct 2015 | Corporate Update

RHB Capital Berhad

Cost savings from CTS to translate into 19.2 months payback

INVESTMENT HIGHLIGHTS

- **1,812 employees' CTS applications have been accepted.**
- **Group to pay RM309m for CTS and will realise cost savings of RM193m per annum commencing from FY16.**
- **Our net profit forecast for FY16 has been revised upwards by +6.5% to input in cost savings from CTS.**
- **Maintain NEUTRAL with an unchanged TP of RM6.60 basing our valuation on RHB Bank, the new Bank Holding Company which will eventually take over the listing status of RHB Cap.**

Announced the completion of CTS with a total payout of RM309m. The Group completed its offer of Career Transition Scheme (CTS) to permanent employees in Malaysia on 30 September 2015.

A total of 1,812 employees' applications for CTS have been accepted. This represents 11.8% of the Group's Malaysian workforce of 15,348 and 13.1% of the Group's permanent workforce of 13,787 in Malaysia. The size is relatively smaller compared to the recent Mutual Separation Scheme (MSS) by CIMB Group completed on July 2015 with an acceptance of 3,599 employees (1,891 from Malaysia and 1,708 from Indonesia) requiring a payout of RM443.3m.

Cost savings of RM193m per annum from the CTS to translate into 19.2 months payback. The Group announced that 1,812 employees' applications for CTS have been accepted. These employees will be leaving the Group in batches between Nov'15 and Jan'16.

We expect major portion of the CTS payment to be paid out in Nov and Dec'15 with the remaining portion settled in Jan'16.

Hence, for FY15 there will not much cost savings. We expect cost savings of RM193m per annum to start to be realized from FY16 onwards. We have factored this into our earnings estimate for FY16. Nevertheless, for the CTS payments of RM309m in total, this will be one-off payments. We have not factored this into our estimate as our net profit forecast is based on core earnings.

The Group has a CI ratio target of <51% for FY15. We do not expect this target to be achieved. This largely in view of the slower revenue particularly from the IB business. Hence, we maintain our CI ratio assumption of 53% for FY15 and subsequently a lower CI ratio of 49% (previously 52%) for FY16 with the cost savings from CTS.

Maintain NEUTRAL

Unchanged Target Price (TP): RM6.60

RETURN STATS

Price (27 Oct 2015)	RM6.26
Target Price	RM6.60
Expected Share Price Return	+5.4%
Expected Dividend Yield	n.m
Expected Total Return	+5.4%

STOCK INFO

KLCI	1,696.95
Bursa / Bloomberg	1066 / RHBC MK
Board / Sector	Main / Finance
Syariah Compliant	No
Issued shares (mil)	2,588.5
Par Value (RM)	1.00
Market cap. (RM'm)	16,203.90
Price over NA	0.8x
52-wk price Range	RM5.85 – RM8.90
Beta (against KLCI)	1.09
3-mth Avg Daily Vol	0.31 m
3-mth Avg Daily Value	RM6.47 m
Major Shareholders	
EPF	41.58%
Abu Dhabi Investments	21.09%
OSK Equity Holdings	9.97%


Some banking abbreviations used in this report:

CTS = Career Transition Scheme
BVPS = Book Value Per Share

FORECAST

Our net profit forecast for FY16 has been revised upwards by +6.5% to RM2.37b as we input in cost savings from CTS.

VALUATION AND RECOMMENDATION

Our valuation has already been based on RHB Bank as the new Bank Holding Company. Based on estimates with the cost savings from CTS inputted into FY16 estimates, our ROE for FY16 under RHB Bank Group has been raised to 11.2% from 10.8% previously. Also, EPS and BVPS will be slightly enhanced to 59.0 sen and RM5.76 per share respectively from 57.4 sen and RM5.73 per share previously. As the changes only increased our FY16 BVPS estimate slightly, we maintain **NEUTRAL** with an unchanged TP of **RM6.60** based on PB multiple of 1.1x on FY16 BVPS. 

INVESTMENT STATISTICS

FYE Dec	FY13	FY14	FY15F	FY16F*
Net interest income (RM'm)	3,275	3,291	3,543	3,786
Other operating income (RM'm)	2,085	2,211	2,196	2,189
Islamic Banking income (RM'm)	591	652	819	912
Total income (RM'm)	5,951	6,235	6,559	6,887
Pretax profit (RM'm)	2,471	2,735	2,779	3,089
Net profit (RM'm)	1,831	2,038	2,074	2,376
EPS (sen)	72.9	79.7	67.0	59.0
EPS growth (%)	-7.7	+9.3	-15.9	-11.9
PER (x)	8.6	7.9	9.3	n.m [^]
Net dividend (sen)	16.3	6.0	9.0	7.5
Net dividend yield (%)	2.6	1.0	1.4	n.m [^]
Book value per share (sen)	6.57	7.31	7.62	5.76
PBV (x)	1.0	0.9	0.8	n.m [^]
ROE (%)	11.5	11.5	9.8	11.2

*Forecast estimated under new Bank Holding Company, RHB Bank which will take over the listing status of RHB Cap in FY16
[^]n.m as the financial statistics will be based on the new Bank Holding Company, RHB Bank's stock price which will be different from FY13, FY14 and FY15 which the measures under still based on RHB Cap's share price
 Source: Company, MIDFR

DAILY PRICE CHART



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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	<i>Negative</i> total return is expected, by -15% or more, over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% 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.