

RHB Bank Berhad

(1066 | RHBANK MK) Financial Services | Finance

3QFY23 Results: CASA Inflows Delayed

KEY INVESTMENT HIGHLIGHTS

- 9MFY23's Core NP of RM2,220m was *Within/Within* our/*street* forecasts: **76%/78%** of full-year forecasts
- Management's tone: **Optimistic but with downsides**
- Core themes: (a) Loan growth recovery, (b) GIL ratio negative surprise, (c) CASA inflows buffered NIM, (d) Digital banking losses
- Forecasts revised: FY23F/24F/25F Core NP adjusted by **-2%/-4%/-5%**
- **Maintain BUY** with revised TP of **RM6.50**, based on a revised FY24F P/BV of **0.86x** (*previously 0.88x*)

Verdict: Loan growth recovery and dividend yields are still attractive. Digital bank ownership has intangible advantage.

Yays	1. Slight NOII uplift in 4QFY23, from improved trading income.
	2. Good loan growth recovery to persist – overseas and corporate contributions saw solid rebound.
	3. Dividend yields still excellent, coupled with high CET1 ratio.
Nays	1. FY24 provisions may be on higher side – especially with low LLC, and impairment volume possibly coming above management expectations.
	2. Expect digital banking losses to keep cutting into earnings.
OKs	1. 4QFY23 NIM outlook buffered by sizeable CASA inflows.

Results in a nutshell:

▲ **9MFY23's Core net profit (NP) of RM2,220m up by 16%oyoy.** Tax normalisation and provision writebacks were core drivers of improvements. These, combined with good OPEX management and better NOII performance, offset weaker NII.

▼ **3QFY23's Core NP of RM650m down by -20%qoq.** Despite better showings in topline and OPEX (and tax), Core NP fell due to heavy net overlay writebacks in the last quarter.

▲ **Weak CASA growth, otherwise balance sheet growth was good.** Loan and deposit growth saw a good pickup (as expected), boasting +2.4%qoq and +3.0%qoq growth respectively.

Have a look at:

▼ **Most guidance revisions expected, except for higher GIL ratio...** Management made negative revisions to ROE, GIL ratio, CIR targets.

Recall last quarter's GIL ratio of 1.64% was supposedly "close to peak". It has since increased to 1.79% and expected to end in the 1.7-1.8% range in FY23 (lower than 3QFY23's figure, supposedly). GIL increases were largely brought about by Thai, Cambodian, commercial and SME portfolio. FY24 should also see GIL ratio persisting in the 1.7-1.8% range.

Maintain BUY

Revised Target Price: RM6.50
(Previously RM6.66)

RETURN STATISTICS

Price @ 27 November 2023 (RM)	5.57
Expected share price return (%)	+16.7
Expected dividend yield (%)	+7.0
Expected total return (%)	+23.7

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	0.5	-0.2
3 months	3.3	-1.1
12 months	-1.4	0.9

INVESTMENT STATISTICS

FYE Dec	FY23F	FY24F	FY25F
Core NP (RM m)	2,870	3,007	3,166
CNP growth (%)	6	5	5
Div yield (%)	6.7	7.0	7.3
Gross DPS (sen)	37.3	38.8	40.4
P/BV (x)	0.8	0.7	0.7
BVPS (RM)	7.2	7.6	7.9
ROE (%)	9.7	9.7	9.8
MIDF/Street CNP (%)	101	101	101

KEY STATISTICS

FBM KLCI	1,448.15
Issue shares (m)	4,247.4
Estimated free float (%)	35.2
Market Capitalisation (RM'm)	24,046.4
52-wk price range	RM5.29 - RM5.81
3-mth avg daily volume (m)	3.9
3-mth avg daily value (RM'm)	21.7
Top Shareholders (%)	
EPF Board	41.0
OSK Holdings Bhd	10.2
Amanah Saham Nasional Bhd	5.8

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Wary of lower LLC and repercussions on provisioning. LLC fell to a low 75%, despite management guidance in 2QFY23 (83% then) for larger recoveries to push up the figure. Management states the brunt of the delinquencies happening within 3QFY23 was heavily collateralised, hence no immediacy in topping up.

The upwards revision in GIL ratio was in stark contrast to what management was guiding for, possibly indicating that they were blindsided by the scale of impairments in 3QFY23 (likely the overseas impairments in Thailand and Cambodia caught them off-guard). Add this with lower LLC, and this may lead to higher provisioning in FY24.

▲ **... and higher loan growth target (but came as a relief).** There was a positive revision to loan growth (5.5% now) – this was a relief given that FY23's initial 4-5% guidance was very low, especially when RHB always boasted above-industry figures. We opine that liquidity will not be a cap on 4QFY23's loan growth outlook, with MySiswa CASA inflows expected to surge in then.

Management seems confident in loan drawdowns in the next couple of quarters. It has noted that retail growth momentum is not as strong as in the past – but wholesale banking loan growth seems to have staged a recovery. While SG's growth should remain strong, management has indicated wariness with Cambodia's lacklustre economic situation – possibly leading to more muted growth in that region.

▲ **NIM surprises positively, despite delay in CASA inflows.** NIM rose by +3bps qoq (most of the uplift was from MY), especially when a quarter-on-quarter decline was initially guided for.

This was despite a weak CASA growth of +0.6%qoq (dragged by -14%qoq contraction in overseas balances). The brunt of MySiswa retail CASA inflows was postponed to 4QFY23. Encouragingly, the delayed inflow provides possible NIM upside to 4QFY23 – also, management believes COF may have peaked in 3QFY23.

▼ **Digital bank losses ramp up.** JV reflected RM15m worth of losses pertaining to digital banking expenses, from RM4 last quarter. Unfortunately, management has refrained from guiding on the expected total quantum of the losses – but mentions that these will persist until the JV starts breaking even.

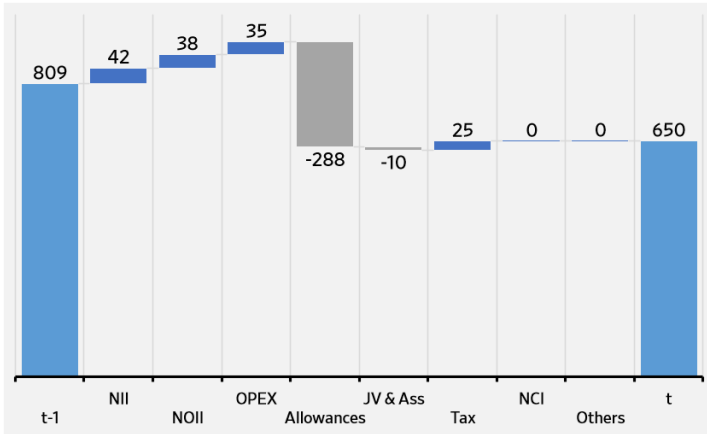
Forecasts revised: FY23F/24F/25F Core NP adjusted by -2%/-4%/-5%. We make heavy alterations – we increase loan, deposit and NOII forecasts while slashing NIM and NCC forecasts. We also incorporate additional JV expenses for the RHB-Axiata digital bank project.

Key downside risks. (1) Further NIM compression, (2) Lacklustre loan growth, (3) Elevated OPEX.

Maintain BUY call: Revised GGM-TP of RM 6.50 (from RM6.66). The TP is based on a revised FY24F P/BV of 0.86x (formerly 0.88x), to reflect altered earnings prospects and ROE-based valuations. (**GGM assumptions:** FY24F ROE of 9.7%, LTG of 4.0% & COE of 10.7%)

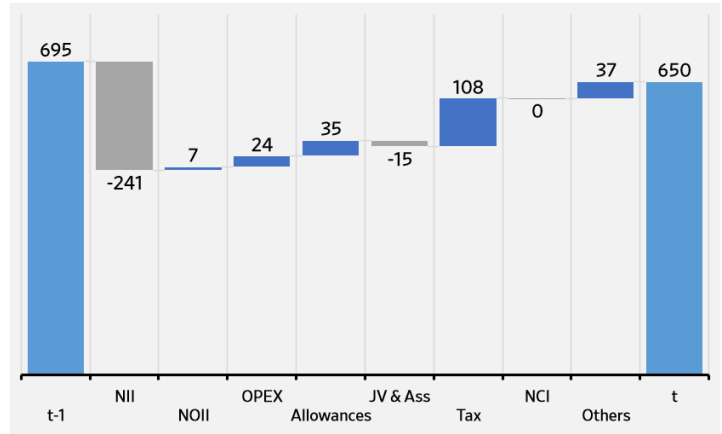


Fig 1: QoQ P/L walk (Quarterly results)



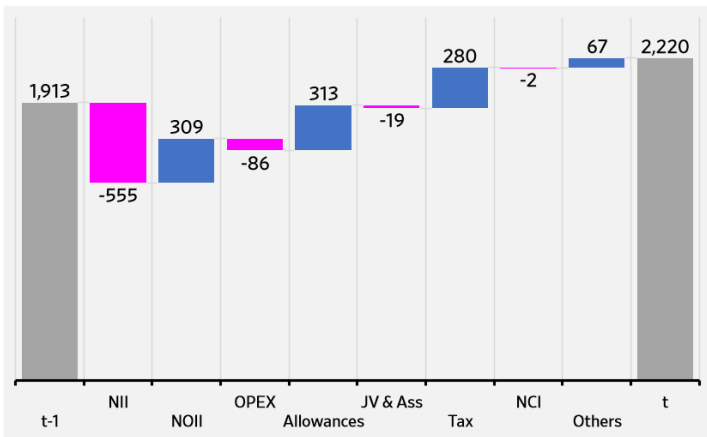
Source: RHB, MIDFR

Fig 2: YoY P/L walk (Quarterly results)



Source: RHB, MIDFR

Fig 3: YoY P/L walk (Cumulative results)



Source: RHB, MIDFR

Fig 4: Quarterly results

FYE Dec (RM m)	3Q FY23	2Q FY23	3Q FY22	Yoy (%)	Qoq (%)	9M FY23	9M FY22	Yoy (%)
Net interest inc.	916	893	1,102	-17	3	2,692	3,124	-14
Islamic banking inc.	608	672	593	2	-10	1,833	1,704	8
Non-interest inc.	436	315	461	-5	38	1,221	1,093	12
Net income	1,959	1,879	2,157	-9	4	5,746	5,920	-3
OPEX	(908)	(943)	(932)	-3	-4	(2,708)	(2,623)	3
PPOP	1,051	936	1,225	-14	12	3,038	3,297	-8
Loan provisions	(166)	102	(210)	-21	-263	(119)	(374)	-68
Other provisions	9	29	17	-47	-68	47	(10)	<-500
JV & Associates	(15)	(4)	-	n.m.	n.m.	(19)	-	n.m.
PBT	879	1,063	1,032	-15	-17	2,948	2,913	1
Tax	(228)	(253)	(336)	-32	-10	(724)	(1,004)	-28
NCI	(1)	(1)	(0)	n.m.	n.m.	(3)	(1)	n.m.
Reported NP	650	809	695	-7	-20	2,220	1,908	16
Core NP	650	809	695	-7	-20	2,220	1,913	16
Total NII	1,388	1,346	1,629	-15	3	4,107	4,662	-12
Total NOII	572	534	565	1	7	1,640	1,330	23
Gross DPS (sen)	-	15.0	-	n.m.	n.m.	15.0	15.0	n.m.
Core EPS (sen)	15.2	19.0	16.7	-9	-20	51.8	45.9	13
Gross loans	219,395	214,192	209,740	4.6	2.4			
Gross impaired loans	3,931	3,512	3,297	19.2	11.9			
Customer deposits	236,135	229,289	225,588	4.7	3.0			
CASA	63,562	63,187	67,556	-5.9	0.6			
Ratios (%)	3Q FY23	2Q FY23	3Q FY22	Yoy (ppts)	Qoq (ppts)	9M FY23	9M FY22	Yoy (ppts)
ROE (Ann.)	8.7	10.8	9.9	-1.2	-2.1	9.9	9.1	0.8
NIM (Reported)	1.85	1.82	2.27	-0.42	0.03	1.85	2.20	-0.35
NOII/Net income	29.2	28.4	26.2	3.0	0.8	28.5	22.5	6.1
Cost/Income	46.4	50.2	43.2	3.1	-3.8	47.1	44.3	2.8
NCC (Ann.) (bps)	31	(20)	41	-11	50	7	25	-17
GIL ratio	1.79	1.64	1.57	0.22	0.15			
Loan loss coverage	75	82	118	-43	-8			
CASA ratio	26.9	27.6	29.9	-3.0	-0.6			
L/D ratio	91.6	92.1	91.2	0.4	-0.5			
CET-1	16.2	16.7	16.4	-0.2	-0.5			

Source: RHB, MIDFR

Fig 5: Retrospective performance (Income Statement)

Metric	Surprise? Qoq/Yoy		Metric	Surprise? Qoq/Yoy	
Qtrly Core NP	RM mil	650	Qtrly ROE	Qtr value	8.7%
	22% of FY CNP				
	Qoq	-20%		t-1	10.8%
	Yoy	-7%		t-4	9.9%
Cum Core NP	RM mil	2,220	Cum ROE	Cum value	9.9%
	Within our forecast				
	76% of FY CNP				
	Within consensus				
	78% of FY CNP				
Yoy	16%	t-1	9.1%		
NII	As expected		NIM	+ve surprise	
				Qtr value	1.85
				Cum value	1.85
	Qtr (Qoq)	3%		Qtr (Qoq)	+3bps
	Qtr (Yoy)	-15%		Qtr (Yoy)	-42bps
Cum (Yoy)	-12%	Cum (Yoy)	-35bps		
NOII	As expected		Qtr	% NII	71%
	Qtr (Qoq)	7%		% NOII	29%
	Qtr (Yoy)	1%	Cum	% NII	71%
	Cum (Yoy)	23%		% NOII	29%
OPEX	As expected		Cost/ Inc.	As expected	
				Qtr value	46.4%
				Cum value	47.1%
	Qtr (Qoq)	-4%		Qtr (Qoq)	-3.8%
	Qtr (Yoy)	-3%		Qtr (Yoy)	+3.1%
Cum (Yoy)	3%	Cum (Yoy)	+2.8%		

Source: RHB, MIDFR

Notes (Cum = Cumulative, Qtr = Quarterly)

A weak quarter, but this was well-guided.

NIM showed positive quarter-on-quarter growth, which was better than guided decline.

Good improvement, after last quarter's poor showing.

Management has already guided for muted 2HFY23.
No more collective agreement-related spikes.

Fig 6: Retrospective performance (Balance Sheet, Dividends, and anything extra)

Metric	Surprise? Qoq/Yoy		Metric	Surprise? Qoq/Yoy		Notes (Cum = Cumulative, Qtr = Quarterly)	
Loans	As expected		CASA grwth	-ve surprise		<p>Good recovery, as expected. Most notably, a rebound in wholesale banking and overseas segments.</p> <p>CASA growth was a lot weaker than expected since management had been alluding to strong growth in 2HFY23 since the beginning of the year. Nevertheless, deposit growth saw a very strong improvement. CASA inflows have been delayed to 4QFY23.</p> <p>GIL went up drastically quarter-on-quarter.</p> <p>Very healthy.</p>	
	Qoq	2.4%		Qoq	0.6%		
	Yoy	4.6%		Yoy	-5.9%		
	YTD (FY)	3.4%		YTD (FY)	-4.3%		
Depo. grwth	As expected		L/D ratio	As expected			
	Qoq	3.0%		Value now	26.9%	Value now	91.6%
	Yoy	4.7%		Qoq	-0.6%	Qoq	-0.5%
CASA ratio	As expected		LLC ratio	-ve surprise			
	Yoy	-3.0%		Value now	1.79%	Value now	75%
	YTD (FY)	4.0%		Qoq	+15bps	Qoq	-8%
GIL ratio	As expected		Cum Net CC	As expected			
	Yoy	+22bps		Value now	31bps	Value now	7bps
	YTD (FY)	4.0%		t-1	-20bps	t-4	25bps
Qtrly Net CC	As expected		Div payout	No divvy			
	Decent provision			As expected			
	Value now	31bps		Value now	16.2%	Payout	
CET 1	As expected		Div payout	As expected			
	t-4	41bps		Qoq	-0.5%		
	Healthy level						

Others:

Source: RHB, MIDFR

Fig 7: Targets, Achievements, and Outlook

Targets	FY23F	9M FY23	Notes (Red: New guidance, Strikethrough: Guidance is no longer pertinent)
ROE	>10.0 > 11.0	9.9	The revision was expected, given management's less optimistic NCC guidance. This year's profits were largely buoyed by overlay writebacks.
CIR	47-47.5 < 44.6	47.1	
NIM	1.8-1.9 (from 2.24)	1.85	No direct indication on trajectory of 4Q's NIM. However delayed CASA inflows could provide some benefit.
NOII		23% (yoy)	Stronger 4QFY23 expected, thanks to better trading income.
Loans	5.0-5.5 4-5	3.4 (YTD)	RHB's initial guidance was disappointingly low, especially given its above-average loan growth on a regular basis.
Deposits		4.0 (YTD)	
% CASA	27-28 30	26.9	Management attributes brunt of the MySiswa CASA balances to come in 4QFY23 – hence CASA inflows are delayed rather than underwhelming.
Loan/Depo		91.6	
GIL ratio	1.7-1.8 < 1.50	1.79	This was disappointing – due to SME, commercial and overseas GILs for steep increases. 4QFY23 should be stable or see a slight decline. Management guides that FY24 GIL target will likely remain at similar levels.
NCC (bps)	No overlay: 20-25 25-30	No overlay: 7 24	Total NCC will likely come below mgmt's initial 18-19bps guidance.
LLC		75	Management will look to rectify this low figure – expect possible higher provisions in 4QFY23 or FY24.
CET 1		16.2	
Div payout		-	

Source: RHB, MIDFR

FINANCIAL SUMMARY

INCOME STATEMENT

FYE Dec (RM m)	FY21	FY22	FY23F	FY24F	FY25F
Interest income	6,328	7,382	7,115	7,587	7,869
Interest expense	(2,266)	(3,208)	(3,425)	(3,425)	(3,425)
Net interest income	4,062	4,174	3,690	4,162	4,444
Islamic banking inc.	2,095	2,398	1,954	2,106	2,249
Other operating inc.	1,876	1,736	2,042	2,102	2,199
Net income	8,033	8,309	7,686	8,370	8,892
OPEX	(3,522)	(3,717)	(3,651)	(3,892)	(4,179)
PPOP	4,511	4,592	4,035	4,478	4,713
Loan allowances	(575)	(309)	(283)	(458)	(484)
Other allowances	(163)	(112)	69	25	25
JV & Associates	-	0	(38)	(80)	(80)
PBT	3,773	4,171	3,784	3,965	4,174
Tax & zakat	(906)	(1,459)	(908)	(952)	(1,002)
NCI	(5)	(4)	(6)	(6)	(6)
Others	-	-	-	-	-
Reported NP	2,863	2,708	2,870	3,007	3,166
Core NP	2,805	2,708	2,870	3,007	3,166
Total NII	5,875	6,379	5,507	6,121	6,536
Total NOII	2,159	1,930	2,179	2,249	2,356

BALANCE SHEET

FYE Dec (RM m)	FY21	FY22	FY23F	FY24F	FY25F
Cash & ST funds	23,318	19,787	16,646	16,274	16,684
Investment securities	61,881	69,070	69,286	69,517	69,765
Net loans	194,897	208,379	218,687	231,017	243,848
Other IEAs	0	0	0	0	0
Non-IEAs	9,446	13,536	20,240	23,896	27,109
Total assets	289,541	310,771	324,859	340,705	357,407
Customer deposits	218,733	227,160	239,199	252,834	267,245
Other IBLs	35,520	46,360	47,006	47,759	48,627
Non-IBLs	7,259	8,483	8,463	8,454	8,453
Total liabilities	261,511	282,003	294,668	309,046	324,325
Share capital	7,613	8,146	8,146	8,146	8,146
Reserves	20,386	20,592	22,015	23,482	24,903
Shareholders' funds	27,998	28,737	30,161	31,627	33,048
NCI	32	31	30	32	33
Total equity	28,031	28,768	30,191	31,659	33,082
Total L&E	289,541	310,771	324,859	340,705	357,407
Total IEAs	280,095	297,236	304,619	316,809	330,298
Total IBLs	254,252	273,519	286,205	300,593	315,872
Gross loans	198,512	212,200	223,022	235,289	248,229
CASA	65,606	66,439	65,780	68,265	72,156

FINANCIAL RATIOS

FYE Dec (RM m)	FY21	FY22	FY23F	FY24F	FY25F
Interest (%)					
NIM	2.17	2.21	1.83	1.97	2.02
Return on IEAs	2.34	2.56	2.36	2.44	2.43
Cost of funds	0.93	1.22	1.22	1.17	1.11
Net interest spread	1.41	1.34	1.14	1.27	1.32
Profitability (%)					
ROE	10.2	9.5	9.7	9.7	9.8
ROA	1.0	0.9	0.9	0.9	0.9
NOII/Net income	26.9	23.2	28.3	26.9	26.5
Effective tax rate	24.0	35.0	24.0	24.0	24.0
Cost/Income	43.8	44.7	47.5	46.5	47.0
Liquidity (%)					
Loan/Deposit	89.1	91.7	91.4	91.4	91.2
CASA ratio	30.0	29.2	27.5	27.0	27.0
Asset Quality (%)					
GIL ratio	1.49	1.55	1.77	1.70	1.67
LLC ratio	122	113	107	104	103
LLC (w. reserves)	133	140	130	126	125
Net CC (bps)	30	15	13	20	20
Capital (%)					
CET 1	17.2	16.9	16.3	15.9	15.3
Tier 1 capital	17.2	16.9	16.3	15.9	15.3
Total capital	19.8	19.3	18.7	18.3	17.7
Growth (%)					
Total NII	11.5	8.6	-13.7	11.2	6.8
Total NOII	12.5	-10.6	12.9	3.2	4.8
Net income	11.8	3.4	-7.5	8.9	6.2
OPEX	4.0	5.5	-1.8	6.6	7.4
Core NP	21.1	-3.5	6.0	4.8	5.3
Gross loans	6.7	6.9	5.1	5.5	5.5
Customer deposits	8.1	4.2	4.6	5.0	5.0
CASA	4.5	1.3	-1.0	3.8	5.7
Valuation metrics					
Core EPS (sen)	67.0	64.7	68.6	71.8	75.6
Gross DPS (sen)	40.0	40.0	37.3	38.8	40.4
Div payout (%)	57	62	55	55	55
BVPS (RM)	6.7	6.9	7.2	7.6	7.9
Core P/E (x)	8.3	8.6	8.1	7.8	7.4
Div yield (%)	7.2	7.2	6.7	7.0	7.3
P/BV (x)	0.8	0.8	0.8	0.7	0.7

Source: RHB, MIDFR

Income Statement	Balance Sheet	Valuations & Sector
Core NP – Core Net Profit	LCR – Liquidity Coverage ratio	ROE – Return on Equity
PPOP – Pre-Provisioning Operating Profit	L/D ratio – Loan/Deposit ratio	GGM – Gordon Growth Model
NII – Net Interest Income	CASA – Current & Savings accounts	P/BV – Price to Book Value
NIM – Net Interest Margin	FD – Fixed Deposits	BVPS – Book Value per Share
COF – Cost of Funds	GIL – Gross Impaired Loans	BNM – Bank Negara Malaysia
NOII – Non-Interest Income	NIL – Net Impaired Loans	OPR – Overnight Policy Rate
MTM – Mark to Market	LLC – Loan Loss Coverage	SRR – Statutory Reserve Requirement
CIR – Cost to Income Ratio	NCC – Net Credit Costs	SBR – Standardised Base Rate
OPEX – Operational Expenses	GCC – Gross Credit Costs	ALR – Average Lending Rate
	CET 1 – Common Equity Tier 1	

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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	Total return is expected to be <-10% 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.

ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell

☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology