

RHB Bank Berhad

(1066 | RHBANK MK) Financial Services | Finance

4QFY23 Results: Improved CASA Outlook

KEY INVESTMENT HIGHLIGHTS

- FY23's Core NP of RM2,806m was *Within/Within* our/*street* forecasts: **98%/98%** of full-year forecasts
- Management's tone: **Neutral**
- Core themes: (a) Improved CASA and NIM outlook, (b) Conservative loan target, (c) Overseas GIL irritation to persist
- Forecasts revised: FY24F/25F Core NP adjusted by -2%/-2%
- **Maintain BUY | Revised TP of RM6.00 | based on a revised FY24F P/BV of 0.80x (formerly 0.86x)**

Verdict: Excellent dividend yields buoy RHB's limited share price upside.

Yays	1. Better NOII outlook, especially alongside FX swaps. 2. Improved CASA outlook to preserve NIM. 3. Excellent dividend yields, backed by high CET 1 ratio.
Nays	1. Overseas (especially Thai) segments to continue seeing GIL irritation.
OKs	1. FY24 loan target is low, but we think it's a conservative estimate. 2. DRP has started once again.

Results in a nutshell:

▲ **FY23's Core net profit (NP) of RM2,806m up by 5%yoy.** A huge drop in NII was offset by a combination of improved NOII, overlay writebacks and normalisation of tax.

▼ **4QFY23's Core NP of RM586m down by -10%qoq.** Improved NOII was offset by weaker NII and NCC, as well as higher OPEX.

▼ **Gross loans grew by 1.4%qoq, coming up to 4.8%YTD.** FY23's initial loan target of >5% was unable to be achieved.

▲ **Deposits grew by 3.8%qoq, coming up to 7.9%YTD.** MySiswa flows are finally coming in: expect this to persist throughout FY24.

► **GIL moved by -5bps to 1.74%, LLC currently at a low 72%.**

Have a look at:

► **FY24 ROE target of 10.0% does not factor in overlay writebacks.** Unlike FY23's heavy reliance on writebacks, RHB's core drivers will be improved NOII outlook and better CASA inflows. The Group's lower loan target of >4.5% is meant to help manage NIMs via better asset yield pricing.

▲ **NIM outlook more positive.** 4QFY23's sequential quarter decline of -8bps qoq is sharper than expected. Nevertheless, the Group is more optimistic about FY24's outlook, given improved CASA inflows from MySiswa, multi-currency account growth as well as a possible rebound in industry CASA levels. As with FY23, the Group will also continue leveraging on liability management initiatives (e.g. FX swaps) which feed their way into improved NOIIs, almost as a form of NIM supplement.

Maintain BUY

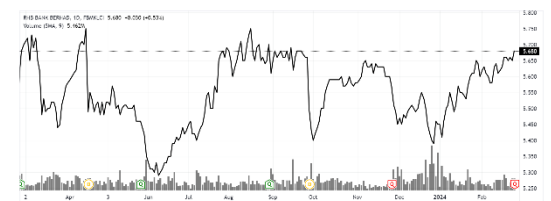
Revised Target Price: RM6.00

(Previously RM6.50)

RETURN STATISTICS

Price @ 27 February 2024 (RM)	5.68
Expected share price return (%)	+5.6
Expected dividend yield (%)	+7.1
Expected total return (%)	+12.8

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	0.9	-2.2
3 months	3.9	-5.4
12 months	3.3	-3.1

INVESTMENT STATISTICS

FYE Dec	FY24F	FY25F	FY26F
Core NP (RM m)	2,943	3,101	3,228
CNP growth (%)	5	5	4
Div yield (%)	7.1	7.4	7.5
Gross DPS (sen)	40.5	41.9	42.8
P/BV (x)	0.8	0.7	0.7
BVPS (RM)	7.5	7.8	8.1
ROE (%)	9.4	9.5	9.5
MIDF/Street CNP (%)	100	100	

KEY STATISTICS

FBM KLCI	1,558.8
Issue shares (m)	4,247.4
Estimated free float (%)	35.6
Market Capitalisation (RM'm)	24,260.7
52-wk price range	RM5.29 - RM5.78
3-mth avg daily volume (m)	5.6
3-mth avg daily value (RM'm)	30.8
Top Shareholders (%)	
EPF Board	40.4
OSK Holdings Bhd	10.2
Amanah Saham Nasional Bhd	6.0

Analyst

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▼ **Concerning pickup in overseas GILs, while LLC grows even lower.** The bank is most concerned about Thai exposure to the hospitality industry with further GILs possibly to keep coming in. This will need to be provided for. While SG saw a huge spike in GILs on a sequential-quarter basis, this was due to lumpy real estate exposures and is heavily collateralised.

LLC has been allowed to come down this low (though RHB intends to top it up eventually) given the high collateralisation of most impaired loans in question. The Group is banking on various recoveries/reclassifications to help improve the figure soon. FY24's NCC of 20-25bps seems like a more realistic figure than of previous years (which always come below guidance).

Forecasts revised: FY24F/25F Core NP adjusted by -2%/-2%. To reflect newer guidance and targets.

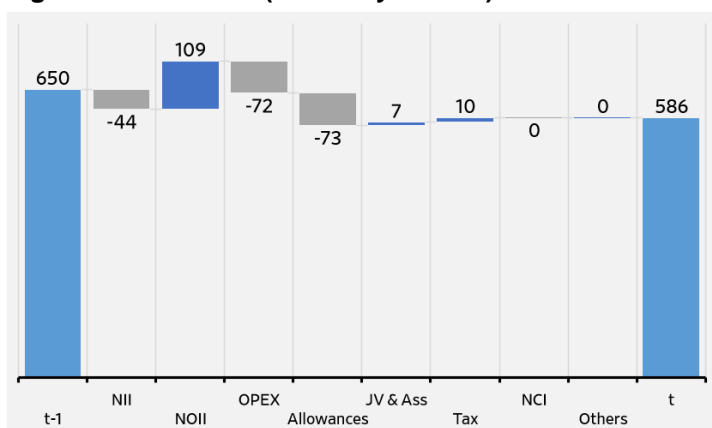
Key downside risks. (1) Lackluster loan growth, (2) Weak NOII, (3) Elevated NCC.

Maintain BUY call: Revised GGM-TP of RM 6.00 (from RM6.50). The TP is based on a revised FY24F P/BV of 0.80x (formerly 0.86x), to reflect altered earnings prospects and ROE-based valuations.

(GGM assumptions: FY24F ROE of 9.4%, LTG of 4.0% & COE of 10.7%)

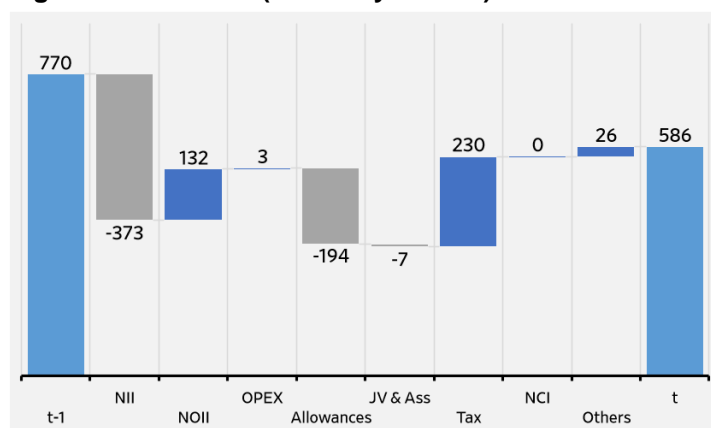


Fig 1: QoQ P/L walk (Quarterly results)



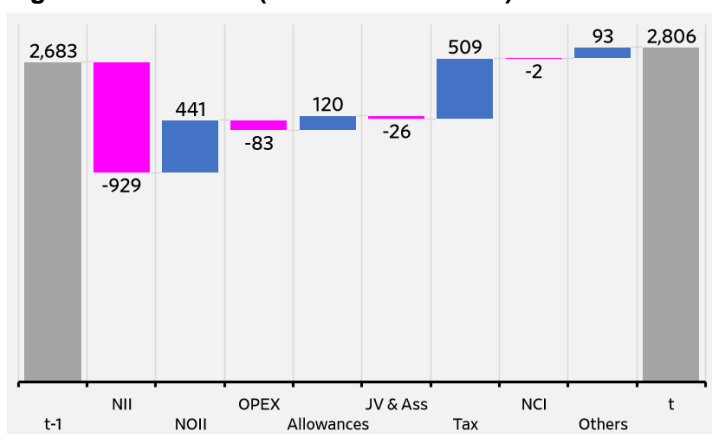
Source: RHB, MIDFR

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)	4Q FY23	3Q FY23	4Q FY22	Yoy (%)	Qoq (%)	FY23	FY22	Yoy (%)
Net interest inc.	867	916	1,051	-17	-5	3,560	4,175	-15
Islamic banking inc.	534	608	694	-23	-12	2,366	2,398	-1
Non-interest inc.	623	436	495	26	43	1,844	1,587	16
Net income	2,024	1,959	2,240	-10	3	7,770	8,160	-5
OPEX	(981)	(908)	(983)	-0	8	(3,689)	(3,606)	2
PPOP	1,043	1,051	1,256	-17	-1	4,081	4,554	-10
Loan provisions	(237)	(166)	65	-462	43	(356)	(309)	15
Other provisions	7	9	(102)	-107	-26	54	(112)	-148
JV & Associates	(7)	(15)	0	n.m.	n.m.	(26)	0	n.m.
PBT	806	879	1,220	-34	-8	3,753	4,133	-9
Tax	(218)	(228)	(448)	-51	-4	(943)	(1,452)	-35
NCI	(1)	(1)	(2)	n.m.	n.m.	(4)	(3)	n.m.
Reported NP	586	650	770	-24	-10	2,806	2,678	5
Core NP	586	650	770	-24	-10	2,806	2,683	5
Total NII	1,344	1,388	1,717	-22	-3	5,451	6,379	-15
Total NOII	680	572	549	24	19	2,320	1,879	23
Gross DPS (sen)	25.0	-	25.0	n.m.	n.m.	40.0	40.0	n.m.
Core EPS (sen)	13.7	15.2	18.2	-25	-10	65.5	63.4	3
Gross loans	222,416	219,395	212,200	4.8	1.4			
Gross impaired loans	3,879	3,931	3,289	18.0	-1.3			
Customer deposits	245,083	236,135	227,160	7.9	3.8			
CASA	68,423	63,562	66,439	3.0	7.6			
Ratios (%)	4Q FY23	3Q FY23	4Q FY22	Yoy (ppts)	Qoq (ppts)	FY23	FY22	Yoy (ppts)
ROE (Ann.)	7.6	8.7	10.7	-3.1	-1.1	9.1	9.3	-0.2
NIM (Reported)	1.77	1.85	2.36	-0.59	-0.08	1.82	2.24	-0.42
NOII/Net income	33.6	29.2	24.5	9.1	4.4	29.9	23.0	6.8
Cost/Income	48.5	46.4	43.9	4.6	2.1	47.5	44.2	3.3
NCC (Ann.) (bps)	44	31	(13)	56	13	16	15	1
GIL ratio	1.74	1.79	1.55	0.19	-0.05			
Loan loss coverage	72	75	113	-41	-3			
CASA ratio	27.9	26.9	29.2	-1.3	1.0			
L/D ratio	89.6	91.6	91.7	-2.1	-2.0			
CET-1	16.7	16.2	16.9	-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	586	Qtrly ROE	Qtr value	7.6%
	20% of FY CNP				
	Qoq	-10%		t-1	8.7%
	Yoy	-24%		t-4	10.7%
Cum Core NP	RM mil	2,806	Cum ROE	Cum value	9.1%
	Within our forecast				
	98% of FY CNP				
	Within consensus				
	Yoy	5%		t-1	9.3%
NII	As expected		NIM	-ve surprise	
				Qtr value	1.77
				Cum value	1.82
	Qtr (Qoq)	-3%		Qtr (Qoq)	-8bps
	Qtr (Yoy)	-22%		Qtr (Yoy)	-59bps
	Cum (Yoy)	-15%		Cum (Yoy)	-42bps
NOII	As expected		Qtr	% NII	66%
	Qtr (Qoq)	19%		% NOII	34%
	Qtr (Yoy)	24%	Cum	% NII	70%
	Cum (Yoy)	23%		% NOII	30%
OPEX	As expected		Cost/ Inc.	As expected	
				Qtr value	48.5%
				Cum value	47.5%
	Qtr (Qoq)	8%		Qtr (Qoq)	+2.1%
	Qtr (Yoy)	-0%		Qtr (Yoy)	+4.6%
Cum (Yoy)	2%	Cum (Yoy)	+3.3%		

Source: RHB, MIDFR

Notes (Cum = Cumulative, Qtr = Quarterly)

Quarter was fairly weak – but only because it was less buoyed by overlays than the others.

NIM contraction was steeper than expected. Management is making up for it via FX swap income (liability management initiatives) under NOII.

Strong pickup seen, driven by better trading and forex incomes.

Overall, cost inflation was relatively minimal on a sequential year basis.

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					
	Qoq	1.4%				
	Yoy	4.8%				
	YTD (FY)	4.8%				
Depo. grwth	As expected		CASA grwth	As expected		After months of delay, CASA inflows are finally flooding in.
	Qoq	3.8%		Qoq	7.6%	
	Yoy	7.9%		Yoy	3.0%	
	YTD (FY)	7.9%		YTD (FY)	3.0%	
CASA ratio	As expected		L/D ratio	As expected		
	Value now	27.9%		Value now	89.6%	
	Qoq	+1.0%		Qoq	-2.0%	
	Yoy	-1.3%		Yoy	-2.1%	
GIL ratio	As expected		LLC ratio	-ve surprise		We thought low LLC would be rectified by now, but as most new GILs are heavily collateralised, management is not as fussed.
	Value now	1.74%		Value now	72%	
	Qoq	-5bps		Qoq	-3%	
	Yoy	+19bps		Yoy	-41%	
Qtrly Net CC	As expected		Cum Net CC	As expected		
	Heavy provision			Small provision		
	Value now	44bps		Value now	16bps	
	t-1	31bps				
			t-4	15bps		
CET 1	Very healthy level		Div payout	Div announced		No issues on this front.
	As expected			As expected		
	Value now	16.7%		Payout	61%	
	Qoq	0.5%				
Others:						

Source: RHB, MIDFR

Fig 7: Targets, Achievements, and Outlook

Targets	FY24F	FY23F	FY23	Notes (Red: New guidance, Strikethrough: Guidance is no longer pertinent)
ROE	>10	>11.0	9.1	Figure does not factor overlay writebacks.
CIR	<47.5	<44.6	47.5	
NIM	1.8-1.9 (from 1.82)	1.8-1.9 (from 2.24)	1.82	
NOII			23% (yoy)	
Loans	>4.5	4-5	4.8 (YTD)	While low, RHB has higher internal stretch targets.
Deposits			7.9 (YTD)	
% CASA	>28	30	27.9	MySiswa, MTC accounts and government projects to drive CASA outlook.
Loan/Depo			89.6	
GIL ratio	<1.75	<1.50	1.74	
NCC (bps)	20-25	25-30	16	
LLC			72	Intends to raise LLC.
CET 1			16.7	
Div payout			61	60% is standard payout, cash payout of >50%. DRP has restarted to prepare for potential Basel III implementation issues.

Source: RHB, MIDFR

FINANCIAL SUMMARY

INCOME STATEMENT

FYE Dec (RM m)	FY22	FY23	FY24F	FY25F	FY26F
Interest income	7,382	9,473	7,475	7,678	7,857
Interest expense	(3,207)	(5,914)	(3,425)	(3,425)	(3,425)
Net interest income	4,175	3,560	4,050	4,253	4,432
Islamic banking inc.	2,398	2,366	2,049	2,152	2,243
Other operating inc.	1,587	1,844	2,263	2,318	2,413
Net income	8,160	7,770	8,363	8,723	9,088
OPEX	(3,606)	(3,689)	(3,972)	(4,100)	(4,271)
PPOP	4,554	4,081	4,390	4,623	4,817
Loan allowances	(309)	(356)	(456)	(480)	(506)
Other allowances	(112)	54	26	26	26
JV & Associates	0	(26)	(80)	(80)	(80)
PBT	4,133	3,753	3,880	4,089	4,256
Tax & zakat	(1,452)	(943)	(931)	(981)	(1,021)
NCI	(3)	(4)	(6)	(6)	(6)
Others	-	-	-	-	-
Reported NP	2,678	2,806	2,943	3,101	3,228
Core NP	2,678	2,806	2,943	3,101	3,228
Total NII	6,379	5,451	5,956	6,254	6,518
Total NOII	1,781	2,320	2,407	2,469	2,570

BALANCE SHEET

FYE Dec (RM m)	FY22	FY23	FY24F	FY25F	FY26F
Cash & ST funds	19,787	15,034	16,433	16,923	17,923
Investment securities	69,070	79,910	80,170	80,449	80,747
Net loans	208,379	219,563	229,296	242,031	255,349
Other IEAs	0	0	0	0	0
Non-IEAs	13,536	14,185	17,878	21,635	25,332
Total assets	310,771	328,692	343,778	361,039	379,351
Customer deposits	227,160	245,083	257,827	272,524	288,057
Other IBLs	46,360	44,300	45,438	46,719	48,151
Non-IBLs	8,483	8,398	8,416	8,445	8,486
Total liabilities	282,003	297,781	311,682	327,688	344,695
Share capital	8,146	8,330	8,330	8,330	8,330
Reserves	20,592	22,546	23,734	24,987	26,291
Shareholders' funds	28,737	30,877	32,064	33,318	34,622
NCI	31	34	32	33	35
Total equity	28,768	30,911	32,097	33,351	34,656
Total L&E	310,771	328,692	343,778	361,039	379,351
Total IEAs	297,236	314,507	325,900	339,403	354,019
Total IBLs	273,519	289,383	303,265	319,242	336,209
Gross loans	212,200	222,416	233,536	246,381	259,932
CASA	66,439	68,423	72,707	76,307	80,656

FINANCIAL RATIOS

FYE Dec (RM m)	FY22	FY23	FY24F	FY25F	FY26F
Interest (%)					
NIM	2.21	1.78	1.86	1.88	1.88
Return on IEAs	2.56	3.10	2.33	2.31	2.27
Cost of funds	1.22	2.10	1.16	1.10	1.05
Net interest spread	1.34	1.00	1.18	1.21	1.22
Profitability (%)					
ROE	9.4	9.4	9.4	9.5	9.5
ROA	0.9	0.9	0.9	0.9	0.9
NOII/Net income	21.8	29.9	28.8	28.3	28.3
Effective tax rate	35.1	25.1	24.0	24.0	24.0
Cost/Income	44.2	47.5	47.5	47.0	47.0
Liquidity (%)					
Loan/Deposit	91.7	89.6	88.9	88.8	88.6
CASA ratio	29.2	27.9	28.2	28.0	28.0
Asset Quality (%)					
GIL ratio	1.55	1.74	1.70	1.67	1.67
LLC ratio	113	72	104	103	103
LLC (w. reserves)	140	118	127	125	124
Net CC (bps)	15	16	20	20	20
Capital (%)					
CET 1	16.9	16.7	16.2	15.3	15.0
Tier 1 capital	16.9	16.7	16.2	15.3	15.0
Total capital	19.3	19.4	18.9	18.0	17.7
Growth (%)					
Total NII	8.6	-14.6	9.3	5.0	4.2
Total NOII	-17.5	30.3	3.7	2.6	4.1
Net income	1.6	-4.8	7.6	4.3	4.2
OPEX	2.4	2.3	7.7	3.2	4.2
Core NP	-4.5	4.8	4.9	5.4	4.1
Gross loans	6.9	4.8	5.0	5.5	5.5
Customer deposits	4.2	3.8	4.7	5.2	5.3
CASA	1.3	3.0	6.3	5.0	5.7
Valuation metrics					
Core EPS (sen)	62.7	65.7	68.9	72.6	75.6
Gross DPS (sen)	40.0	40.0	40.5	41.9	42.8
Div payout (%)	63	61	60	60	60
BVPS (RM)	6.7	7.2	7.5	7.8	8.1
Core P/E (x)	9.1	8.6	8.2	7.8	7.5
Div yield (%)	7.0	7.0	7.1	7.4	7.5
P/BV (x)	0.8	0.8	0.8	0.7	0.7

Source: RHB, MIDFR

Income Statement

Core NP – Core Net Profit
 PPOP – Pre-Provisioning Operating Profit
 NII – Net Interest Income
 NIM – Net Interest Margin
 COF – Cost of Funds
 NOII – Non-Interest Income
 MTM – Mark to Market
 CIR – Cost to Income Ratio
 OPEX – Operational Expenses

Balance Sheet

LCR – Liquidity Coverage ratio
 L/D ratio – Loan/Deposit ratio
 CASA – Current & Savings accounts
 FD – Fixed Deposits
 GIL – Gross Impaired Loans
 NIL – Net Impaired Loans
 LLC – Loan Loss Coverage
 NCC – Net Credit Costs
 GCC – Gross Credit Costs
 CET 1 – Common Equity Tier 1

Valuations & Sector

ROE – Return on Equity
 GGM – Gordon Growth Model
 P/BV – Price to Book Value
 BVPS – Book Value per Share
 BNM – Bank Negara Malaysia
 OPR – Overnight Policy Rate
 SRR – Statutory Reserve Requirement
 SBR – Standardised Base Rate
 ALR – Average Lending Rate

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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