

RHB Bank Berhad

(1066 | RHHBANK MK) Financial Services | Finance

1QFY24 Results: NOII Boost to Persist

KEY INVESTMENT HIGHLIGHTS

- FY24's Core NP of RM730m was *Within/Within* our/street forecasts: **25%/26%** of full-year forecasts
- Management's tone: **Pessimistic**
- Core themes: (a) **One-off provisions**, (b) **Solid COF outlook**, (c) **Currency swaps provide boost to NOII**
- Forecasts revised: **FY24F/25F Core NP adjusted by -3%/-2%**.
- **Maintain BUY | Revised TP of RM6.06 | based on a revised FY25F P/BV of 0.78x (formerly 0.80x, from FY24F)**

Verdict: **Despite a challenging fundamental outlook, dividend yields are among the best in industry.**

Yays	1. CASA and liquidity outlook remains bright, alleviating pressure on NIMs.
	2. Liability management initiatives should bolster NOII for the entirety of FY24.
Nays	1. RHB will likely disappoint in NCC and ROE targets.
OKs	1. Further Boost Bank costs expected be similar to FY23.
	2. FY24 loan growth target likely to be revised positively.
	3. Cost inflation is quite steep.

Results in a nutshell:

▼ **1QFY24's Core net profit (NP) of RM730m down by -4%yoy.** High OPEX growth and a large provisioning charge offset improvements in NOII.

▲ **1QFY24's Core NP of RM730m up by +25%qoq.** Virtually everything was better. Improved NOII/NII, lower OPEX, provisioning and tax charges.

► **Gross loans grew by +1.1%qoq, coming up to +1.1%YTD.** An unremarkable value, primarily driven by overseas and local retail. Local C&C loans continue to lag.

▼ **Deposits grew by -0.9%qoq, coming up to -0.9%YTD.** There was a huge boost in retail and corporate CASA, but not enough to offset declines in pricier FDs and MMDs.

▼ **GIL moved by +9bps to 1.83%, LLC currently at 70%.** Attributable to local SME and continued issues with the TH and Cambodian portfolio.

Have a look at:

▲ **Further COF improvement to expand NIMs.** Levers include: (1) Local FD rates expected to fall further, (2) MTC accounts to continue driving CASA, (3) Further MySiswa CASA accounts booked this quarter.

Even in 1QFY24, RHB continued to pare down its pricier deposits, while showing strong CASA gains. On a geographical basis, SG NIMs remained flattish, while MY NIMs contributed to most of the +6bps improvement.

Maintain BUY

Revised Target Price: RM6.06
(Previously RM6.00)

RETURN STATISTICS

Price @ 29 May 2024 (RM)	5.48
Expected share price return (%)	+10.6
Expected dividend yield (%)	+7.5
Expected total return (%)	+18.1

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	0.9	-4.0
3 months	-2.5	-6.6
12 months	0.5	-11.7

INVESTMENT STATISTICS

FYE Dec	FY24F	FY25F	FY26F
Core NP (RM m)	2,857	3,046	3,227
CNP growth (%)	2	7	6
Div yield (%)	7.2	7.5	7.8
Gross DPS (sen)	39.3	41.1	42.7
P/BV (x)	0.7	0.7	0.7
BVPS (RM)	7.5	7.8	8.1
ROE (%)	9.1	9.3	9.5
MIDF/Street CNP (%)	100	102	101

KEY STATISTICS

FBM KLCI	1,605.35
Issue shares (m)	4,286.3
Estimated free float (%)	35.2
Market Capitalisation (RM'm)	24,108.0
52-wk price range	RM5.29 - RM5.78
3-mth avg daily volume (m)	7.2
3-mth avg daily value (RM'm)	40.6
Top Shareholders (%)	
EPF Board	39.7
OSK Holdings Bhd	10.3
Amanah Saham Nasional Bhd	6.7

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▲ **NOIIs to continue benefiting from currency swaps.** The benefits of these swaps will end if the US Fed rate falls, narrowing the interest rate differential – and thus reducing demand for the dollar. Management expects contributions from these swaps to persist until end-2024.

▲ **Positive NIM/liquidity outlook should lead to loan growth targets being revised.** Management mentions that it will likely revise its low FY24 loan growth guidance of 4.5% to something higher in 2HFY24. RHB sees growth potential in local C&C loans (which have lagged this quarter) and overseas loans. The Group will also focus on growing higher-yielding loans, such as PF and ASNB loans. Residential mortgage yields, unfortunately, remain highly competitive.

▶ **Management still guiding for recoveries.** GIL ratio increases largely came from local SME and overseas portfolios (Cambodia and TH). While management does not confirm that the overall GIL ratio has peaked, it remains “cautiously optimistic” on the outlook. RHB has already seen recoveries on the local front in 2QFY24. Overseas recoveries to come later.

▼ **Provisioning one-offs are not recognised in FY24 guidance.** Although our models imply that this quarter’s NCC came in at 39bps, RHB officially only recognises 1QFY24’s NCC as 25bps. RHB does not recognise the remaining 14bps, due to them being one-offs from overseas restructuring accounts – and not repeatable in subsequent quarters.

The reported 25bps value is incorporated into RHB’s FY24’s NCC guidance – instead of the actual 39bps. This implies FY24’s actual NCC could come in above the targeted 20-25bps range – despite RHB claiming otherwise.

▶ **Boost Bank spending to remain mediocre.** Total FY24 costs borne on RHB’s end are expected to be close to FY23’s RM26m.

▶ **The introduction of Basel III’s Operating RWA standards (2025) will take 70-80bps off the current CET 1 ratio.** Hence, the Group’s capital build (DRP) is expected to persist for now.

Forecasts revised: FY24F/25F Core NP adjusted by -3%/-2%. To reflect higher NCC values, given the one-off costs this quarter and further GIL creep that may affect the following year’s outlook.

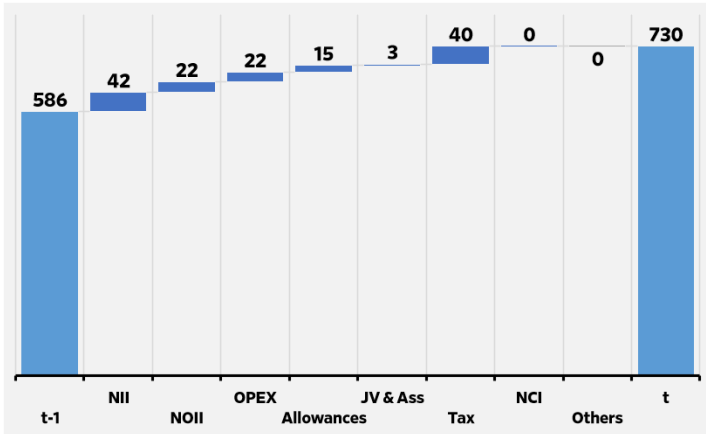
Key downside risks. (1) *Slower-than-expected loan growth*, (2) *Higher-than-expected NCC*, (3) *Weak NOII*.

Maintain BUY call: Revised GGM-TP of RM 6.06 (from RM6.00). The TP is based on a revised FY25F P/BV of 0.78x (formerly 0.80x, rolled on from FY25F), to reflect altered earnings prospects and ROE-based valuations.

(GGM assumptions: FY25F ROE of 9.3%, LTG of 4.0% & COE of 10.8%)

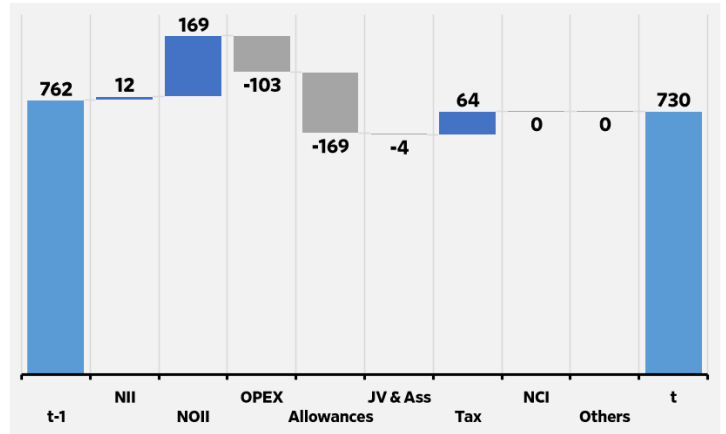


Fig 1: QoQ P/L walk (Quarterly results)



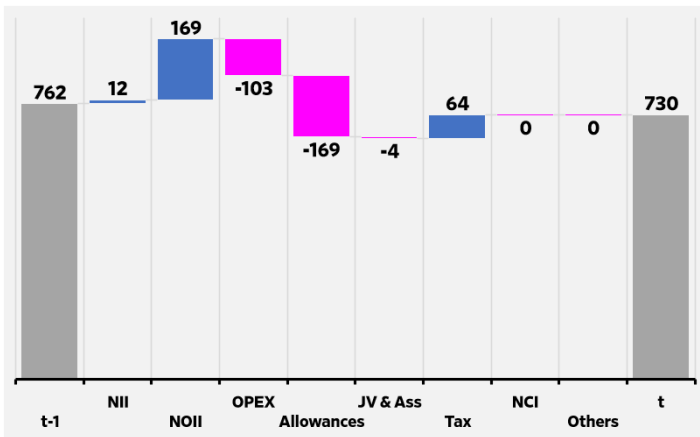
Source: RHB, MIDFR

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)	1Q FY24	4Q FY23	1Q FY23	Yoy (%)	Qoq (%)	3M FY24	3M FY23	Yoy (%)
Net interest inc.	926	867	884	5	7	926	884	5
Islamic banking inc.	658	534	553	19	23	658	553	19
Non-interest inc.	504	623	470	7	-19	504	470	7
Net income	2,088	2,024	1,908	9	3	2,088	1,908	9
OPEX	(959)	(981)	(857)	12	-2	(959)	(857)	12
PPOP	1,129	1,043	1,051	7	8	1,129	1,051	7
Loan provisions	(213)	(237)	(55)	288	-10	(213)	(55)	288
Other provisions	(2)	7	9	-121	-127	(2)	9	-121
JV & Associates	(4)	(7)	0	n.m.	n.m.	(4)	0	n.m.
PBT	910	806	1,005	-9	13	910	1,005	-9
Tax	(179)	(218)	(243)	-26	-18	(179)	(243)	-26
NCI	(1)	(1)	(1)	n.m.	n.m.	(1)	(1)	n.m.
Reported NP	730	586	762	-4	25	730	762	-4
Core NP	730	586	762	-4	25	730	762	-4
Total NII	1,386	1,344	1,374	1	3	1,386	1,374	1
Total NOII	703	680	534	32	3	703	534	32
Gross DPS (sen)	-	25.0	-	n.m.	n.m.	-	-	n.m.
Core EPS (sen)	17.0	13.7	17.9	-5	24	17.0	17.9	-5
Gross loans	224,919	222,416	213,359	5.4	1.1			
Gross impaired loans	4,115	3,879	3,389	21.4	6.1			
Customer deposits	242,935	245,083	226,432	7.3	-0.9			
CASA	70,406	68,423	63,699	10.5	2.9			
Ratios (%)	1Q FY24	4Q FY23	1Q FY23	Yoy (ppts)	Qoq (ppts)	3M FY24	3M FY23	Yoy (ppts)
ROE (Ann.)	9.2	7.6	10.2	-1.0	1.6	9.2	10.2	-1.0
NIM (Reported)	1.83	1.77	1.90	-0.07	0.06	1.83	1.90	-0.07
NOII/Net income	33.7	33.6	28.0	5.7	0.0	33.7	28.0	5.7
Cost/Income	45.9	48.5	44.9	1.0	-2.5	45.9	44.9	1.0
NCC (Ann.) (bps)	39	44	11	28	-5	39	11	28
GIL ratio	1.83	1.74	1.59	0.24	0.09			
Loan loss coverage	70	72	109	-39	-2			
CASA ratio	29.0	27.9	28.1	0.8	1.1			
L/D ratio	91.4	89.6	92.5	-1.2	1.8			
CET-1	16.5	16.7	16.9	-0.4	-0.2			

Source: RHB, MIDFR

Fig 5: Retrospective performance (Income Statement)

Metric	Surprise? Qoq/Yoy		Metric	Surprise? Qoq/Yoy	
Qtrly Core NP	RM mil	730	Qtrly ROE	Qtr value	9.2%
	25% of FY CNP				
	Qoq	25%		t-1	7.6%
	Yoy	-4%		t-4	10.2%
Cum Core NP	RM mil	730	Cum ROE	Cum value	9.2%
	Within our forecast				
	25% of FY CNP				
	Within consensus				
	Yoy	-4%		t-1	10.2%
NII	As expected		NIM	As expected	
				Qtr value	1.83
				Cum value	1.83
	Qtr (Qoq)	3%		Qtr (Qoq)	+6bps
	Qtr (Yoy)	1%		Qtr (Yoy)	-7bps
	Cum (Yoy)	1%		Cum (Yoy)	-7bps
NOII	As expected		Qtr	% NII	66%
	Qtr (Qoq)	3%		% NOII	34%
	Cum	Qtr (Yoy)	32%	% NII	66%
		Cum (Yoy)	32%	% NOII	34%
OPEX	As expected		Cost/ Inc.	As expected	
				Qtr value	45.9%
				Cum value	45.9%
	Qtr (Qoq)	-2%		Qtr (Qoq)	-2.5%
	Qtr (Yoy)	12%		Qtr (Yoy)	+1.0%
Cum (Yoy)	12%	Cum (Yoy)	+1.0%		

Source: RHB, MIDFR

Notes (Cum = Cumulative, Qtr = Quarterly)

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	1.1%				
	Yoy	5.4%				
	YTD (FY)	1.1%				
Depo. grwth	As expected		CASA grwth	As expected		
	Qoq	-0.9%		Qoq	2.9%	
	Yoy	7.3%		Yoy	10.5%	
	YTD (FY)	-0.9%		YTD (FY)	2.9%	
CASA ratio	As expected		L/D ratio	As expected		
	Value now	29.0%		Value now	91.4%	
	Qoq	+1.1%		Qoq	+1.8%	
	Yoy	+0.8%		Yoy	-1.2%	
GIL ratio	As expected		LLC ratio	As expected		
	Value now	1.83%		Value now	70%	
	Qoq	+9bps		Qoq	-2%	
	Yoy	+24bps		Yoy	-39%	
Qtrly Net CC	-ve surprise		Cum Net CC	-ve surprise		
	Heavy provision			Heavy provision		
	Value now	39bps		Value now	39bps	
	t-1	44bps				
	t-4	11bps		t-4	11bps	
CET 1	Healthy level		Div payout	No divvy		
	As expected			As expected		
	Value now	16.5%		Payout	61%	
	Qoq	-0.2%				

Several one-offs pertaining to overseas impairments were the cause.

Others:

Source: RHB, MIDFR

Fig 7: Targets, Achievements, and Outlook

Targets	FY24F	3M FY24	Notes (Red: New guidance, Strikethrough: Guidance is no longer pertinent)
ROE	>10	9.2	We do not think this value is achievable.
CIR	<47.5	45.9	
NIM	1.8-1.9 (from 1.82)	1.83	NIM will continue to expand, driven by COF improvements.
NOII		32% (yoy)	
Loans	>4.5	1.1 (YTD)	This value will likely be revised higher by 2HFY24.
Deposits		-0.9 (YTD)	
% CASA	>28	29.0	MySiswa, MTC accounts and government projects to drive CASA outlook.
Loan/Depo		91.4	
GIL ratio	<1.75	1.83	Both local and overseas impairments expected to persist.
NCC (bps)	20-25	39	End result will likely be >25bps, as RHB chooses not to recognise some one-off provisions as part of their official guidance.
LLC		70	
CET 1		16.5	
Div payout	60	61	Standard: 60%. DRP has restarted to prepare for Basel III.

Source: RHB, MIDFR

FINANCIAL SUMMARY

INCOME STATEMENT

FYE Dec (RM m)	FY22	FY23	FY24F	FY25F	FY26F
Net interest income	4,175	3,560	4,050	4,253	4,433
Islamic banking inc.	2,398	2,366	2,049	2,152	2,243
Other operating inc.	1,587	1,844	2,263	2,316	2,409
Net income	8,160	7,770	8,363	8,722	9,085
OPEX	(3,606)	(3,689)	(3,972)	(4,099)	(4,270)
PPOP	4,554	4,081	4,390	4,622	4,815
Loan allowances	(309)	(356)	(570)	(552)	(506)
Other allowances	(112)	54	26	26	26
JV & Associates	0	(26)	(80)	(80)	(80)
PBT	4,133	3,753	3,766	4,016	4,254
Tax & zakat	(1,452)	(943)	(904)	(964)	(1,021)
NCI	(3)	(4)	(6)	(6)	(6)
Others	-	-	-	-	-
Reported NP	2,678	2,806	2,857	3,046	3,227
Core NP	2,678	2,806	2,857	3,046	3,227
Total NII	6,379	5,451	5,956	6,255	6,519
Total NOII	1,781	2,320	2,407	2,467	2,566

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	229,337	242,072	255,390
Other IEAs	0	0	0	0	0
Non-IEAs	13,536	14,185	17,803	21,538	25,233
Total assets	310,771	328,692	343,744	360,982	379,294
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	23,700	24,931	26,234
Shareholders' funds	28,737	30,877	32,030	33,261	34,565
NCI	31	34	32	33	35
Total equity	28,768	30,911	32,062	33,294	34,599
Total L&E	310,771	328,692	343,744	360,982	379,294
Total IEAs	297,236	314,507	325,941	339,444	354,060
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	9.1	9.3	9.5
ROA	0.9	0.9	0.8	0.9	0.9
NOII/Net income	21.8	29.9	28.8	28.3	28.2
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	88.7
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	25	23	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	2.5	4.0
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	1.8	6.6	5.9
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)	62.6	65.5	66.7	71.1	75.4
Gross DPS (sen)	40.0	40.0	39.3	41.1	42.7
Div payout (%)	63	61	60	60	60
BVPS (RM)	6.7	7.2	7.5	7.8	8.1
Core P/E (x)	8.8	8.4	8.2	7.7	7.3
Div yield (%)	7.3	7.3	7.2	7.5	7.8
P/BV (x)	0.8	0.8	0.7	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