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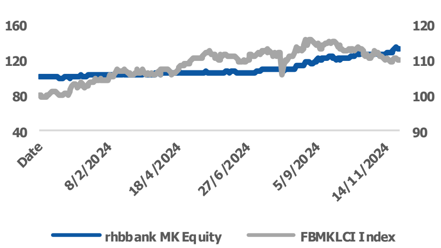
Recommendation:	**HOLD**
Current Price:	**RM 6.52**
Previous Target Price:	**-**
Target Price:	**RM 6.92**
Upside/Downside:	**6.1%**

Stock information	
Board	MAIN
Sector	Financial Services
Bursa / Bloomberg Code	1066 / RHBBANK MK
Syariah Compliant	No
FTSE4Good Index	Yes
FTSE ESG Rating	★★★★
Bloomberg ESG Rating	N/A
Shares issued (m)	4,359.5
Market Cap (RM' m)	28,423.9
52-Week Price Range (RM)	6.83-5.38
Beta (x)	0.8
Free float (%)	80.8
3M Average Volume (m)	8.0
3M Average Value (RM' m)	50.7

Top 3 Shareholders	**(%)**
Employees Provident Fund Board	38.0
Osk Holdings Bhd	10.3
Amanah Saham Nasional Bhd	6.7

Share Price Performance



	1M	**3M**	**12M**
Absolute (%)	1.7	8.1	19.6
Relative (%)	2.3	12.4	8.0

RHB Bank Berhad

Tailwinds and Headwinds

Summary

- **RHB is a Group that sees multiple opportunities for growth in the next couple of years but also faces some glaring headwinds.**
- **Regardless, there are multiple drivers, including (i) Probable improvements in asset quality, which could alleviate loan compression pressure, (ii) A conducive environment for NOII, particularly on the non-fee side, (iii) A possible turnaround in CASA outlook, and (iv) RHB's elevated CET 1 ratio, which provides opportunities for improved dividend payouts and a sleeker capital structure (leading to better ROEs).**
- **We initiate coverage on RHB with a HOLD recommendation with a TP of RM6.92 based on FY25F GGM-PBV of 0.89x.**

Company Background

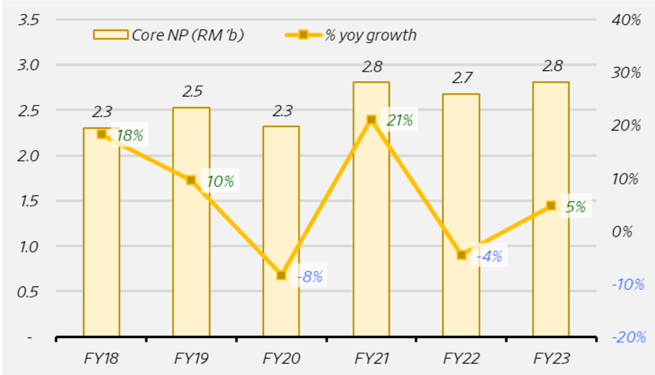
- RHB is a Malaysian bank based in Kuala Lumpur and founded in 1997. A wholly owned subsidiary of RHB Capital, RHB Bank Berhad is a result of three mergers – with Kwong Yik Bank Berhad, Sime Bank Berhad, and Bank Utama (Malaysia) Berhad in 1997, 1999, and 2003.

- Ranked among the top banks in Malaysia and with a significant presence in ASEAN, RHB has strong market leadership in Malaysia across targeted products and segments. With more than 14,000 employees Group-wide, RHB's presence spans 7 countries in the ASEAN region.

Income Statement

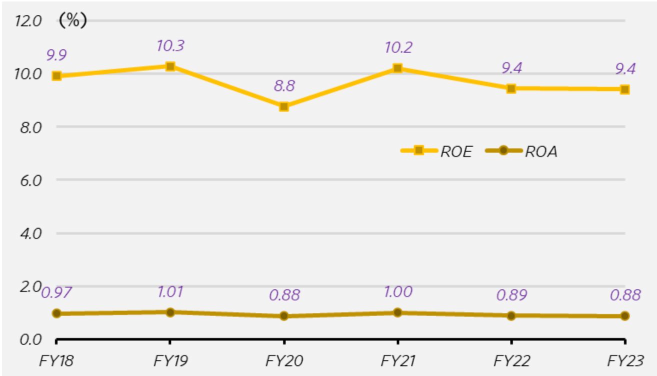
- **Earnings and ROE.** RHB's ROE has been lacklustre lately, coming in regularly at the c.9.5% level. This primarily concerns COF and fee income weaknesses, as well as its large capital base. Note that in recent years, ROE has also been buoyed by large writebacks, which are non-sustainable. We think any possible ROE uplift in FY25 will likely be writeback-led, given that management has been guiding for large-scale recoveries for quite some time.

Fig 1: Core Net Profit



Source: RHB

Fig 2: Return on Equity and Return on Assets

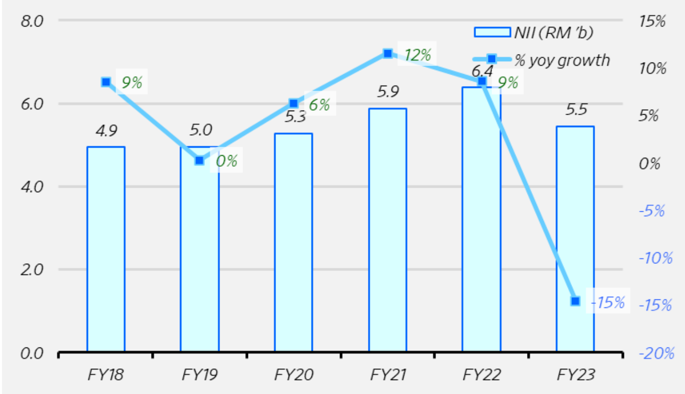


Source: RHB

- **Management NII and NIM.** RHB's NIM has underperformed its peers due to its problematic COF, which is brought about by a weak deposit franchise. We are also sceptical about RHB's continued reliance on mortgage loans as a growth driver, given their lower yields. RHB's SME and corporate loan growth has been extremely poor; unlike other banks, they have no proper offset for the thin-margined mortgages.

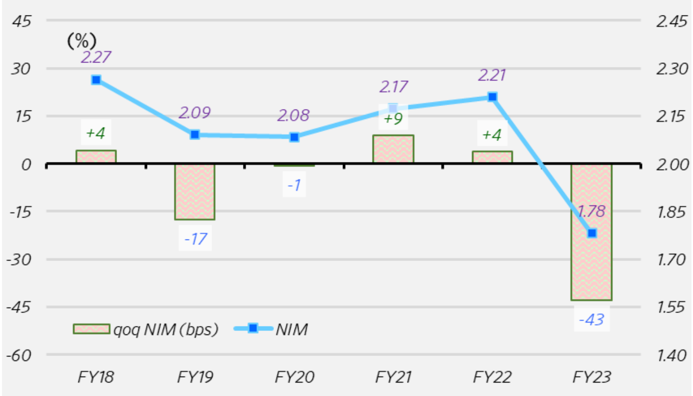
- However, management seems confident they can stage a NIM turnaround. They are banking on improved CASA inflows from various government-related partnerships (notably, the mySiswa programme) for improved CASA inflows. Non-Singaporean overseas loans are expected to pick up once again in FY25 – given that they are predominantly SMEs, this should provide light benefit for loan yields.

Fig 3: Net Interest Income



Source: RHB

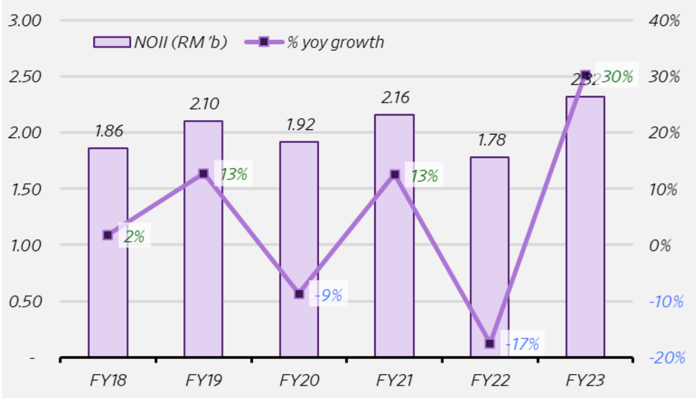
Fig 4: Net Interest Margins



Source: RHB

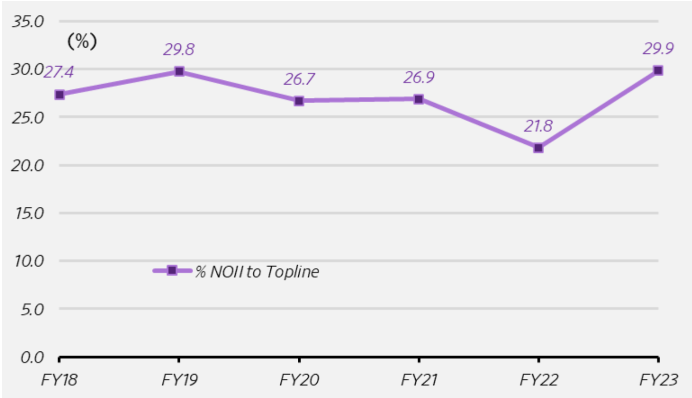
- **NOII.** RHB's NOII comprises a large portion of its topline relative to peers. In recent times, non-fee income has taken centre stage – a conducive environment has led to a windfall of trading gains and derivative and forex income in these few years. In contrast, fee income has been relatively muted as of late, though judging by the latest results, this seems to be recovering well.

Fig 5: Non-Interest Income



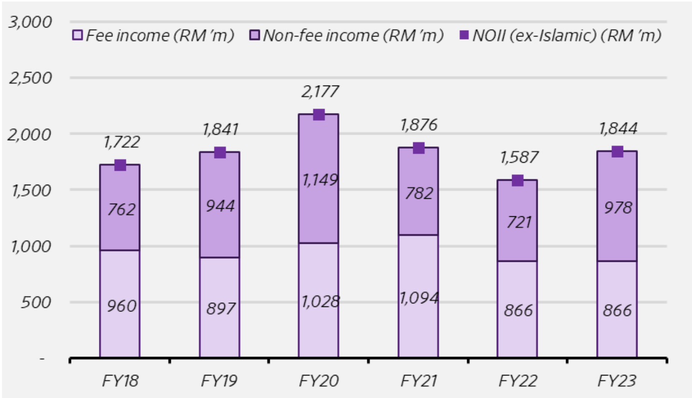
Source: RHB

Fig 6: Non-Interest Income as % of Topline



Source: RHB

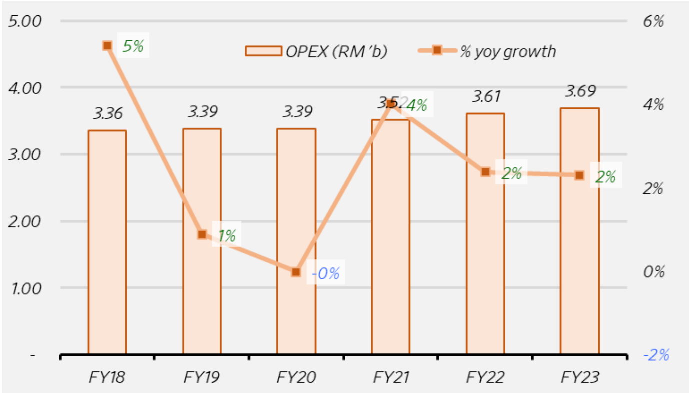
Fig 7: Fee/Non-fee Income Split



Source: RHB

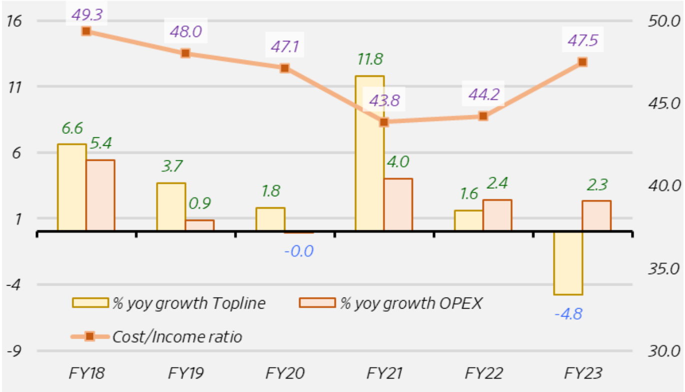
- **OPEX.** RHB's OPEX growth is revenue-led (i.e. dependent on their cost/income ratio targets). Hence, this is often well controlled, but an upper-single-digit annual growth rate will likely be seen in FY24 as cost inflation ramps. RHB's cost/income ratio falls on the higher side (>45%), largely due to topline volatility.

Fig 8: OPEX



Source: RHB

Fig 9: Cost/Income ratio



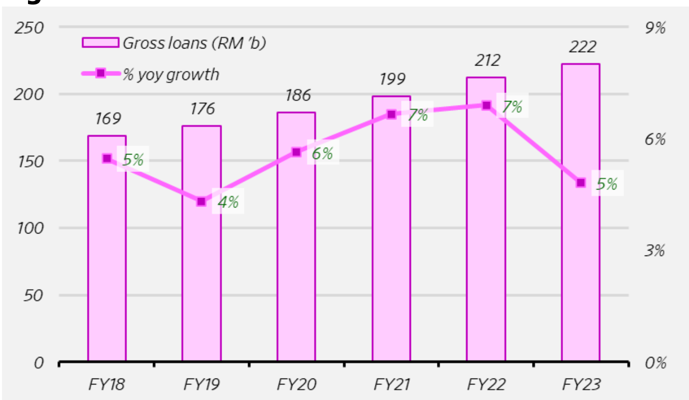
Source: RHB

Balance Sheet

- **Loans.** RHB's loan growth has been lacking lately due to its weak domestic non-retail segment and overseas contributions. Instead, the Group focuses on its domestic consumer segment: residential mortgages, unsecured lending, and hire purchase loans.

- While Singapore is usually a reliable growth driver, forex effects have recently dragged loan growth from this segment. Other overseas operations are still showing sharp contraction, as the asset quality situation in these places continues to inhibit sustained growth.

Fig 10: Gross loans



Source: RHB

Fig 11: Loans by Segment

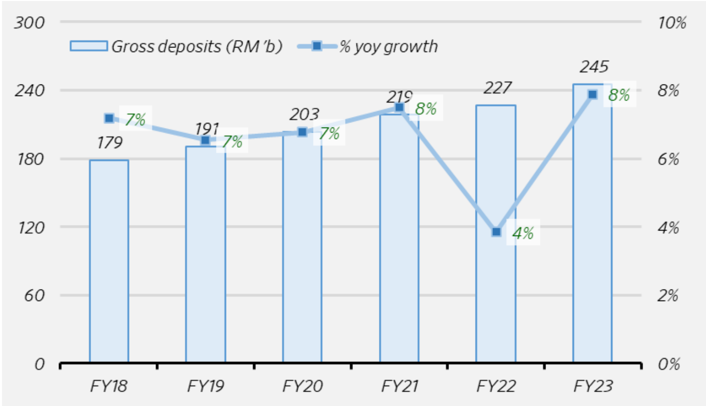
RM bil	Sep 2023	Dec 2023	Jun 2024	Sep 2024	Q-o-Q	YTD	Y-o-Y
GROUP COMMUNITY BANKING	**138.5**	**140.8**	**144.8**	**147.4**	**1.8%**	**4.7%**	**6.4%**
Retail	**111.1**	**113.3**	**117.0**	**119.5**	**2.1%**	**5.4%**	**7.5%**
Mortgage	79.8	81.5	84.9	86.9	2.3%	6.6%	8.9%
Commercial Property Financing	4.1	4.0	3.9	3.9	-1.4%	-4.5%	-5.5%
ASB Financing	6.1	6.1	5.6	5.7	0.2%	-7.5%	-8.0%
Auto Financing	10.5	10.8	11.5	11.8	2.7%	9.6%	12.1%
Unsecured Business	10.1	10.4	10.5	10.8	2.8%	4.0%	6.8%
Others	0.5	0.5	0.5	0.5	-1.0%	-3.1%	-4.5%
SME	**27.4**	**27.5**	**27.8**	**27.9**	**0.3%**	**1.4%**	**2.0%**
GROUP WHOLESALE BANKING	**47.9**	**48.8**	**47.8**	**48.6**	**1.7%**	**-0.4%**	**1.4%**
Corporate	40.2	40.9	39.1	39.5	1.1%	-3.4%	-1.8%
Commercial	7.7	7.9	8.7	9.1	4.6%	15.2%	17.7%
TOTAL RHB DOMESTIC	**186.5**	**189.6**	**192.6**	**196.0**	**1.8%**	**3.4%**	**5.1%**
OVERSEAS OPERATIONS	**32.9**	**32.8**	**35.3**	**31.5**	**-10.8%**	**-3.8%**	**-4.3%** N1
Singapore	27.0	27.1	29.9	26.7	-10.8%	-1.6%	-1.0%
Others	6.0	5.6	5.4	4.8	-10.8%	-14.3%	-19.1%
TOTAL RHB GROUP	**219.4**	**222.4**	**227.9**	**227.5**	**-0.2%**	**2.3%**	**3.7%**
TOTAL RHB GROUP – *normalised for Forex*					**1.2%**	**3.6%**	**4.9%**

N1 Excluding forex impact on translation (mainly for Singapore), normalised growth for Overseas operations:
Q-o-Q = -3.1% to RM34.2 bil
YTD = 3.8% to RM34.0 bil
Y-o-Y = 2.6% to RM33.8 bil

Source: RHB

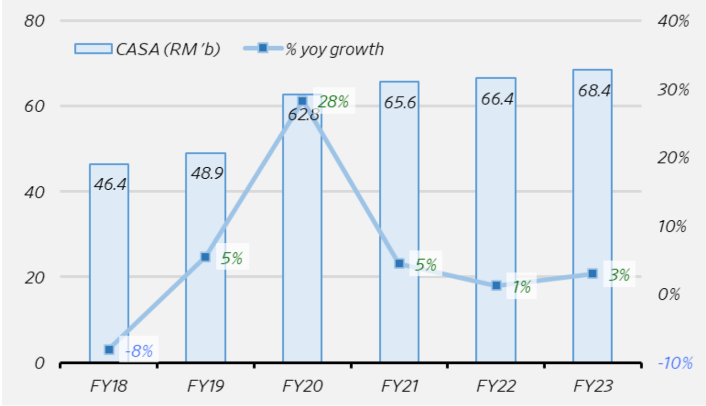
- **Deposits, CASA, and Liquidity.** RHB's deposit growth usually keeps up with loan growth. Unfortunately, the brunt of this growth is driven by pricier FDs (RHB has among the highest proportion of FDs in its deposit mix), which tends to lead to a suboptimal COF. Unfortunately, RHB has had persistent issues growing its CASA (especially on the retail side), which we feel may be partially due to its slow non-retail loan growth and weak deposit franchise.

Fig 12: Deposits



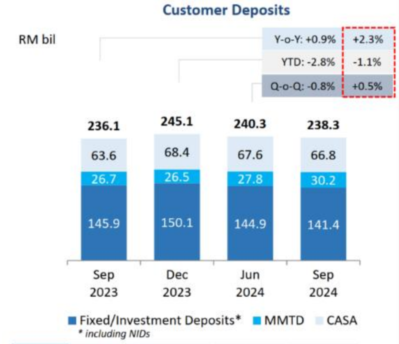
Source: RHB

Fig 13: CASA



Source: RHB

Fig 14: More on Deposits



	Sep 2023	Dec 2023	Jun 2024	Sep 2024
LDR	92.9%	90.8%	94.8%	95.5%
LCR	144.8%	177.4%	139.6%	124.0%

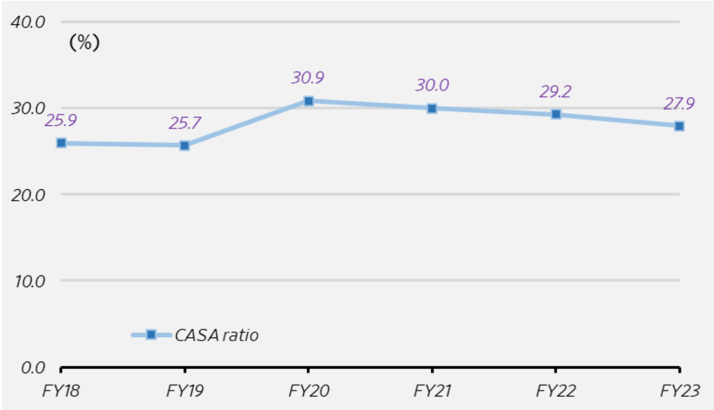
Growth = normalised for forex impact on translation

CASA by Segment

RM bil	Sep 2023	Dec 2023	Jun 2024	Sep 2024	Q-o-Q	YTD	Y-o-Y
GROUP COMMUNITY BANKING	**39.1**	**39.9**	**40.9**	**40.7**	**-0.4%**	**2.1%**	**4.1%**
Retail	21.1	20.9	22.1	21.7	-1.9%	3.6%	2.6%
SME	17.9	18.9	18.7	19.0	1.4%	0.3%	5.9%
GROUP WHOLESALE BANKING	**16.1**	**20.3**	**18.5**	**18.6**	**0.4%**	**-8.7%**	**15.1%**
Corporate	14.5	18.6	16.9	16.7	-1.1%	-10.2%	15.2%
Commercial	1.6	1.8	1.6	1.9	16.2%	7.1%	14.1%
TOTAL RHB DOMESTIC	**55.2**	**60.2**	**59.4**	**59.3**	**-0.1%**	**-1.6%**	**7.3%**
OVERSEAS OPERATIONS	**8.3**	**8.2**	**8.3**	**7.5**	**-9.4%**	**-8.5%**	**-10.0%**
TOTAL RHB GROUP	**63.6**	**68.4**	**67.6**	**66.8**	**-1.3%**	**-2.4%**	**5.0%**
CASA Ratio	26.9%	27.9%	28.1%	28.0%			

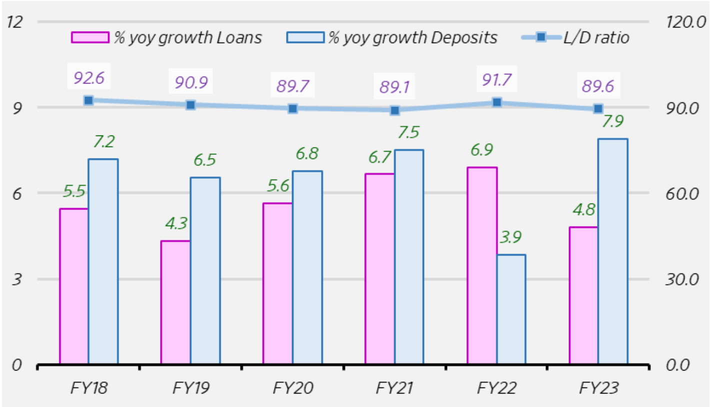
Source: RHB

Fig 15: CASA ratio



Source: RHB

Fig 16: Loan/Deposit ratio

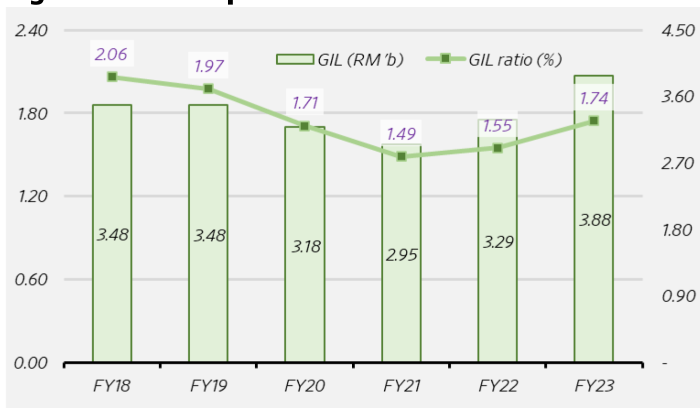


Source: RHB

- **Asset quality and provisioning.** RHB has struggled with asset quality, with the main sources of trouble being its overseas businesses. Thailand and Cambodia in particular are two countries with large exposure to tourism and other COVID-19-impacted industries. As with other banks, its domestic mortgage GILs have been ticking upward – though it is far from an alarming rate. A more positive trend is seen in most other loan classes.

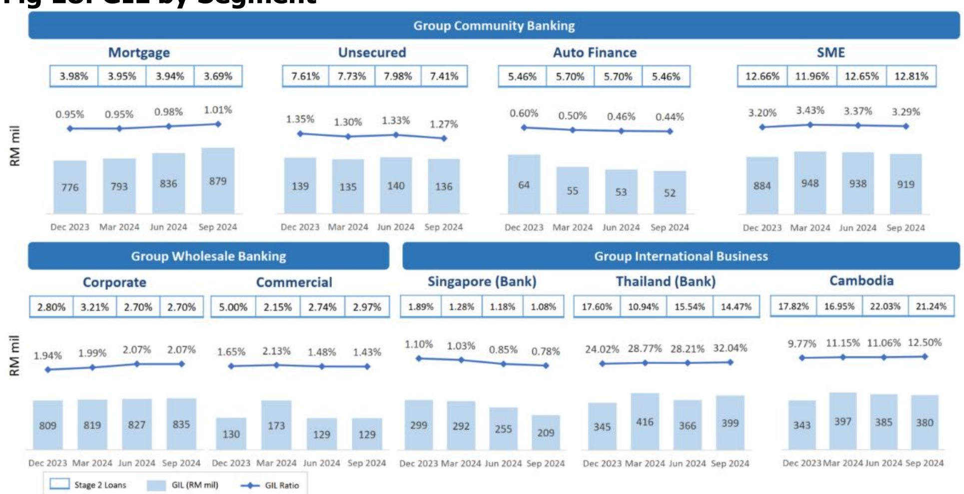
- Its LLC has stood at a low 70% level for several quarters, but the Group is banking on several large recoveries to push this figure up by FY25. Provisioning levels have been buoyed by writebacks in the last couple of years – with more recoveries expected, we could see further writebacks in FY25.

Fig 17: Gross Impaired Loans



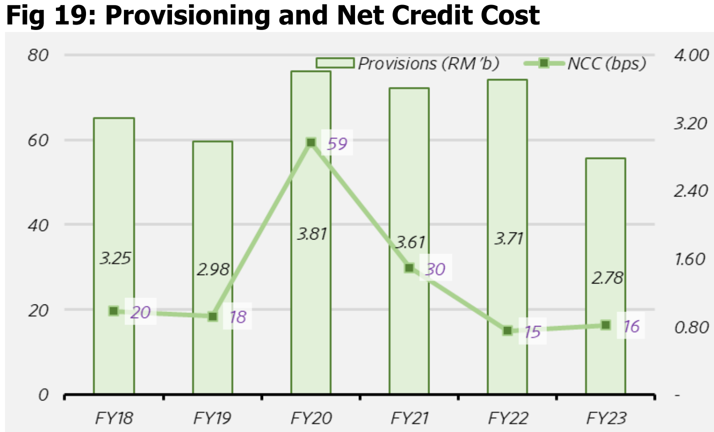
Source: RHB

Fig 18: GIL by Segment



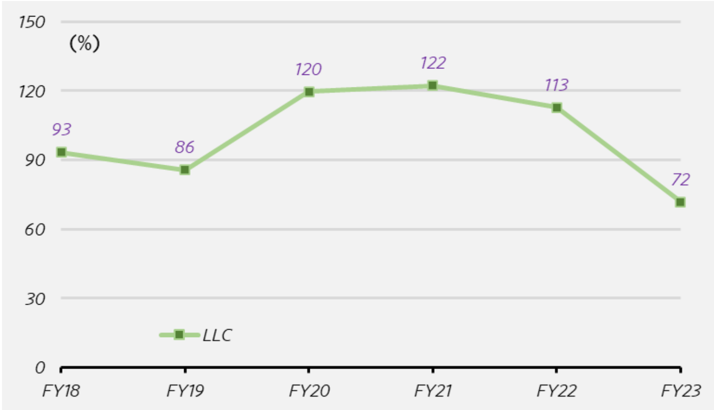
Source: RHB

Fig 19: Provisioning and Net Credit Cost



Source: RHB

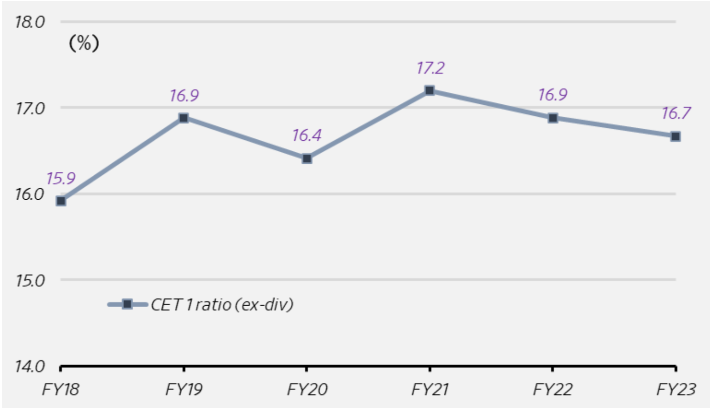
Fig 20: Loan Loss Coverage



Source: RHB

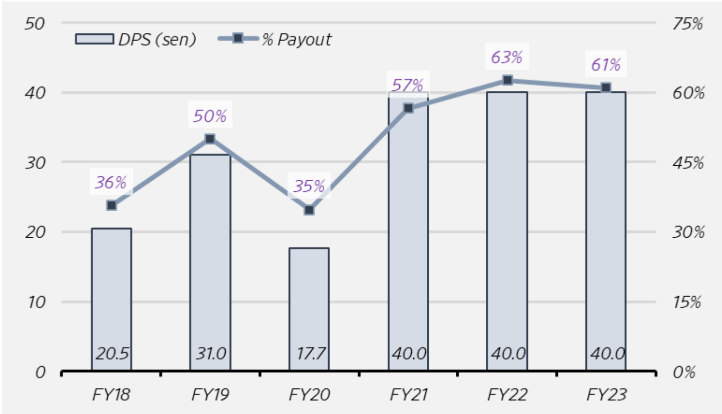
- **Capital and dividends.** RHB's CET 1 ratio is among the highest in the industry, leaving ample room for dividend upside (its dividend yields are already among the best in the industry). It has begun its DRP again recently ahead of Basel III implementation (which we feel is an overly prudent measure). Note that management intends to reduce CET 1 slowly over the next couple of years, which prevents it from achieving a more optimal ROE.

Fig 21: CET 1 ratio



Source: RHB

Fig 22: Dividend Payout



Source: RHB

Investment Highlights

- **Asset quality outlook should improve, which could reduce loan compression pressure.** RHB has had asset quality issues, though the Group seems very confident about significant recoveries by FY25. This is a good sign, as it could finally prop up RHB's low LLC (currently at 70%, from the industry ideal of 90-100%) and add positive upside to NCC.

- Another core aspect is that management slowed loan growth in some of these problematic segments – particularly those concerning its overseas operations (Thailand and Cambodia). These impairments are largely from SMEs from Covid-19-related segments. These impairments seem to have stabilised in recent quarters, and management is confident that they will be able to resume stronger growth by early FY25.

- **A conducive environment for NOII – particularly from non-fee sources.** RHB's topline has been buoyed by non-fee income recently. A volatile positive market and declining interest rate situations – conditions expected to persist in FY25 – will likely imply another solid year for these income sources.

- We think fee income should also start picking up once more – improved market conditions imply solid brokerage income and asset management revenue streams. A higher preference for debt and equity market funding should also provide more income for RHB's investment banking franchise.

- **CASA outlook may turn.** Historically, RHB has struggled with COF, namely due to its weak deposit franchise. To fund its above-average loan growth, the Group took in a high level of promotional FDs, which tend to be pricier.

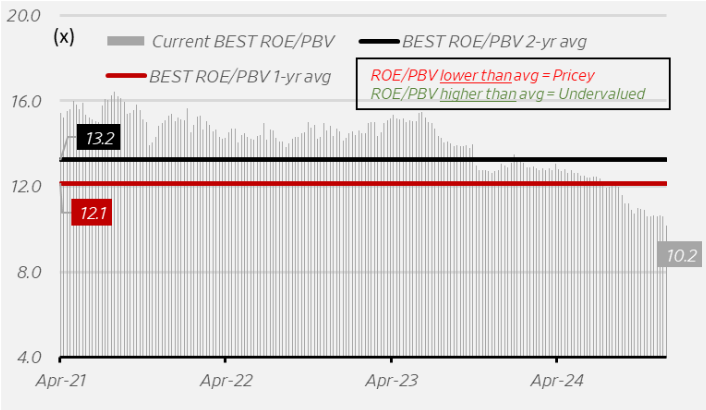
- However, the Group seems more optimistic lately, having been tied up with various government programmes (most notably, mySiswa) to secure valuable retail inflows – which tend to be cheaper than non-retail counterparts. This is a work in progress, but we deem it a good start: in time, it should be able to buoy the CASA reductions seen in other core segments.

- **Elevated CET 1 ratio provides opportunities for improved dividend payouts and a sleeker capital structure.** RHB's CET 1 ratio, at 16.6%, is among the highest of its peers. Paring this down (which RHB intends to do gradually to a healthier 13% range) will lead to a more streamlined capital structure, implying room for further ROE improvement without needing to increase earnings. This also provides upside possibilities for dividends: RHB's 6-7% dividend yield is among the industry's highest, but we think special dividends or a sustained increase in dividend payouts is within the realm of possibility.

Valuation & Recommendation

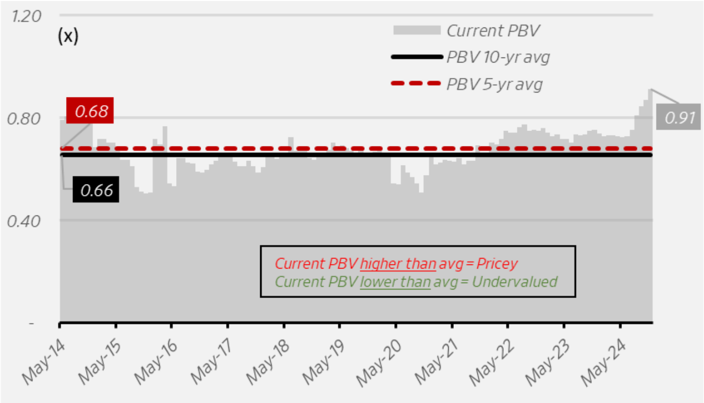
- We initiate coverage on RHB with a **HOLD** recommendation and a target price of **RM6.92** based on an FY25F PBV of 0.89x GGM-PBV valuation. (GGM Assumptions: FY25F ROE of 9.5%, LTG of 4.0%, & COE of 10.2%.) Despite upsides in the form of better NOII and large recoveries, we are worried about potential headwinds such as NIM compression (particularly from the loan yield side) and slow loan growth.

Fig 23: BEST ROE/PBV



Source: RHB

Fig 24: PBV



Source: RHB

- Watch RHB for: (i) Improvements in asset quality, which could alleviate loan compression pressure, (ii) A conducive environment for NOII, particularly on the non-fee side, (iii) A positive turnaround in CASA outlook, and (iv) RHB's elevated CET 1 ratio, which provides opportunities for improved dividend payouts and a sleeker capital structure (leading to better ROEs).

Key Risks

- **Weak loan growth.** RHB's loan growth has disappointed over the last couple of years – at one point, it regularly reported strong above-average levels. RHB continues to see very sharp compression in overseas regions (even Singapore, which has been affected by forex effects) and in its domestic non-retail segment.

- **Persistent asset quality issues.** RHB's impairments have mostly stabilize, but last quarter did see impairment uptick in residential mortgages and overseas regions. We worry that these may persist.

- **NIM issues may persist.** While RHB seems to be showing promising signs on CASA growth, we worry for its loan yields, which may be impacted by its sharp growth in residential mortgages without strong higher-yielding loans to balance off the low yields.

Financial Highlights

Income Statement

FYE Dec (RM m)	FY22	FY23	FY24F	FY25F	FY26F
Net interest income	**4,175**	**3,560**	**3,970**	**4,221**	**4,444**
Islamic banking inc.	2,398	2,366	2,009	2,136	2,248
Other operating inc.	1,587	1,844	2,543	2,510	2,376
Net income	**8,160**	**7,770**	**8,523**	**8,867**	**9,069**
OPEX	(3,606)	(3,689)	(4,048)	(4,168)	(4,262)
PPOP	**4,554**	**4,081**	**4,474**	**4,700**	**4,806**
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**	**3,850**	**4,094**	**4,246**
Tax & zakat	(1,452)	(943)	(924)	(982)	(1,019)
NCI	(3)	(4)	(6)	(6)	(6)
Others	-	-	-	-	-
Reported NP	**2,678**	**2,806**	**2,920**	**3,105**	**3,220**
Core NP	**2,678**	**2,806**	**2,920**	**3,105**	**3,220**
Total NII	6,379	5,451	5,839	6,207	6,535
Total NOII	1,781	2,320	2,684	2,660	2,534

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	230,523	242,960	256,172
Other IEAs	0	0	0	0	0
Non-IEAs	13,536	14,185	17,199	20,699	24,498
Total assets	**310,771**	**328,692**	**344,326**	**361,031**	**379,340**
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	8,973	8,445	8,486
Total liabilities	**282,003**	**297,781**	**312,238**	**327,688**	**344,695**
Share capital	8,146	8,330	8,330	8,330	8,330
Reserves	20,592	22,546	23,725	24,980	26,280
Shareholders' funds	**28,737**	**30,877**	**32,055**	**33,310**	**34,611**
NCI	31	34	32	33	35
Total equity	**28,768**	**30,911**	**32,087**	**33,343**	**34,645**
Total L&E	**310,771**	**328,692**	**344,326**	**361,031**	**379,340**
Total IEAs	297,236	314,507	327,127	340,332	354,842
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

Key Ratios

FYE Dec (RM m)	FY22	FY23	FY24F	FY25F	FY26F
Interest (%)					
NIM	2.21	1.78	1.82	1.86	1.88
Return on IEAs	2.56	3.10	2.31	2.29	2.26
Cost of funds	1.22	2.10	1.16	1.10	1.05
Net interest spread	1.34	1.00	1.15	1.19	1.22
Profitability (%)					
ROE	**9.4**	**9.4**	**9.3**	**9.5**	**9.5**
ROA	0.9	0.9	0.9	0.9	0.9
NOII/Net income	21.8	29.9	31.5	30.0	27.9
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	89.4	89.2	88.9
CASA ratio	29.2	27.9	28.2	28.0	28.0
Asset Quality (%)					
GIL ratio	1.55	1.74	1.80	1.70	1.67
LLC ratio	113	72	70	80	85
LLC (w. reserves)	140	118	92	102	106
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	7.1	6.3	5.3
Total NOII	-17.5	30.3	15.7	-0.9	-4.7
Net income	1.6	-4.8	9.7	4.0	2.3
OPEX	2.4	2.3	9.7	2.9	2.3
Core NP	-4.5	4.8	4.1	6.3	3.7
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	68.2	72.5	75.2
Gross DPS (sen)	40.0	40.0	40.2	41.9	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)	10.4	9.9	9.6	9.0	8.7
Div yield (%)	**6.1**	**6.1**	**6.2**	**6.4**	**6.5**
P/BV (x)	1.0	0.9	0.9	0.8	0.8

APEX SECURITIES BERHAD – CONTACT LIST

APEX SECURITIES BHD

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RESEARCH RECOMMENDATION FRAMEWORK

STOCK RECOMMENDATIONS
BUY: Total returns* are expected to exceed 10% within the next 12 months.
HOLD: Total returns* are expected to be within +10% to – 10% within the next 12 months.
SELL: Total returns* are expected to be below -10% within the next 12 months.
TRADING BUY: Total returns* are expected to exceed 10% within the next 3 months.
TRADING SELL: Total returns* are expected to be below -10% within the next 3 months.
*Capital gain

SECTOR RECOMMENDATIONS
OVERWEIGHT: The industry defined by the analyst is expected to exceed 10% within the next 12 months.
NEUTRAL: The industry defined by the analyst is expected to be within +10% to – 10% within the next 12 months.
UNDERWEIGHT: The industry defined by the analyst, is expected to be below -10% within the next 12 months.

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