27 May 2014 | 1QFY14 Results Review

RHB Capital Berhad

Strong pick up in loan growth

***Maintain* BUY**

***Unchanged* Target Price (TP): RM9.50**

INVESTMENT HIGHLIGHTS

- **1QFY14 net profit met expectations. Annualised ROE was 10.6%.**
- **Loan growth picked up momentum to 11.2%yoy and is on track to meet its target of 12.0% for FY14.**
- **NOII grew 10.7%yoy for 1QFY14 and NOII ratio was 34.0%.**
- **Annualised credit cost improved to 17bp in 1QFY14 vs. 55bp in 1QFY13. The improvement was due absence of an impairment allowance charge on one large corporate account in 1QFY13 as well as higher recoveries.**
- **CI ratio for 1QFY14 of 53.7% was above FY14 target and our assumption. Nevertheless, we expect the ratio to improve moving forward with an improved total income and lower overhead expenses.**
- **NIM was stable at 2.33% similar to the previous quarter.**
- **Group CET1 (fully loaded basis) stood at 8.6%.**
- **Maintain BUY with unchanged TP of RM9.50 pegging the stock to a forward PB multiple of 1.3x on FY14 BVPS.**

1QFY14 net profit grew 26.2%yoy and came in within expectation. The Group reported a net profit of RM450.7m (-10.7%qoq; +26.2%yoy). Net profit rose 26.2%yoy supported by higher NII, Islamic Banking income and NOII and lower loan impairment charges partially offset by higher overhead expenses and taxation.

1QFY14 net profit met expectations accounting for 21.3% of ours and 22.4% of consensus estimates for FY14 profit. Annualised ROE of 10.6% was lower than our expectation of 12.2% for FY14.

On track to meet 3 of its FY14 KPI Targets. The Group is on track to meet 3 of its KPI targets set for FY14, while work is cut out for its other 3 other targets (Refer Table 1 below).

NOII grew 10.7%yoy for 1QFY14. The uplift in NOII driven was supported by service charges, commission, guarantee & commitment fees (+44.0%yoy), corporate advisory, underwriting & arrangement fees (+6.0%yoy), higher other fee income (+224.0%yoy) and insurance underwriting surplus (+54.0%yoy). Net brokerage income was lower by 7%yoy despite of strong local brokerage income. The decline was mainly due to the drop in Singapore brokerage income with the slowdown in market transactions as well as due to the decline in Thailand's brokerage income arising from the political tensions and uncertainties. Net FX gains declined 19%yoy.

RETURN STATS	
Price (26 May 2014)	RM8.35
Target Price	RM9.50
Expected Share Price Return	+13.8%
Expected Dividend Yield	+3.0%
Expected Total Return	**+16.8%**

STOCK INFO	
KLCI	1,862.80
Bursa / Bloomberg	1066 / RHBC MK
Board / Sector	Main / Finance
Syariah Compliant	No
Issued shares (mil)	2,546.9
Par Value (RM)	1.00
Market cap. (RM'm)	21,266.70
Price over NA	1.3x
52-wk price Range	RM7.14 -RM10.92
Beta (against KLCI)	0.97
3-mth Avg Daily Vol	0.84 m
3-mth Avg Daily Value	RM6.97 m
Major Shareholders	
EPF	41.34%
Abu Dhabi Investments	21.43%
OSK Equity Holdings	9.91%

Some banking abbreviations used in this report:
CA = Collective Impairment Allowance
CI = Cost-Income Ratio
CET1 = Common Equity Tier 1
GIL = Gross Impaired Loan
LD = Loan-Deposit
NII = Net Interest Income
NOII = Non-interest income
NIM = Net Interest margin
CASA = Current and Savings Accounts
COF = Cost of Funds
IB = Investment Bank
LLC = Loan Loss Coverage

INVESTMENT STATISTICS

FYE Dec	FY12	FY13	FY14F	FY15F
Net interest income (RM'm)	2,960.1	3,274.5	3,403.0	3,713.7
Other operating income (RM'm)	1,379.4	2,085.4	2,279.2	2,501.6
Islamic Banking income (RM'm)	490.1	590.9	651.8	701.8
Total income (RM'm)	4,829.6	5,950.8	6,333.9	6,917.1
Pretax profit (RM'm)	2,384.6	2,470.8	2,833.8	3,091.8
Net profit (RM'm)	1,784.7	1,831.2	2,115.0	2,307.5
EPS (sen)	79.0	72.9	83.0	91.0
EPS growth (%)	+14.7	-7.7	+13.9	+9.6
PER (x)	10.6	11.5	10.1	9.2
Net Dividend (sen)	22.1	16.3	25.0	27.0
Net Dividend (%)	2.3	2.0	3.0	3.2

Source: Company, MIDFR

NOII ratio was 34.0% for 1QFY14 as compared to 33.0% in 1QFY13 and 37.0% in 4QFY13.

Lower credit cost and asset quality improved. Annualised credit cost in 1QFY14 was much lower at 17b vs. 39bp in the preceding quarter and 55bp in 1QFY13. This was in line with our expectation that post loan impairment charges for 2 large corporate loan accounts in FY13, the Group's credit charge off will improve in FY14. On absolute value basis, the Group's gross impaired loans declined 6.3%qoq to RM3.2b. New impaired loans formation was lower in 1QFY14 compared to the preceding quarter. GIL ratio improved from 2.8% in 4QFY13 to 2.5% in 1QFY14. GIL ratios for key lending segments were stable.

The Group's CA ratio stood at 1.11% in 1QFY14 slightly short of BNM's required CA ratio of 1.2% by end 2015.

Momentum for loan growth picked up pace. Gross loan grew at a faster pace of 3.7%qoq and 11.2%yoy to RM126.3b in 1QFY14 (4QFY13: 0.3%qoq and 9.2%yoy).

On annualised basis, its loan growth was in line with our expectation of 11.0% and is on track to meet its target of 12.0%yoy for FY14. Momentum for mortgage loans remained strong. This was evidenced by pickup in growth of its loans for purchase of residential property and purchase of non residential property to 18.6%yoy and 30.5%yoy respectively in 1QFY14 (4QFY13: 15.2%yoy and 30.0%yoy). Loan growth for HP financing soften to 1.5%yoy (4QFY13: 3.6%yoy). Management highlighted that the Group has lost market share in HP financing but has identified a few niche markets to grow the financing selectively with the appropriate returns. Meanwhile, loans for purchase of securities remained strong at 26.0%yoy albeit at slightly moderated pace compared to 4QFY13. Working capital loans accelerated to 10.2%yoy in 1QFY14 up from 9.7% in 4QFY13.

In terms of loans by customer type, retails loan expanded at a slightly faster pace of 15.9%yoy as compared to 15.0%yoy in the preceding quarter. Elsewhere, international, SME and corporate and other loans expanded by 39.0%yoy, 0.4%yoy and 4.0%yoy respectively. We gather that SME is a relatively untapped area for growth and is expected to gain grounds ahead with a push in loans toward the mid market segment of the economy.

Deposit growth accelerated in 1QFY14 to support loan growth and CASA continued to gain traction to keep NIM stable. Customer deposits grew 4.0%qoq and 6.0%yoy to RM143.3b (4QFY13: 0.8%qoq and -0.3%yoy). CASA continued to gain traction with a growth of 12.1%yoy, faster pace than 9.1%yoy in the previous quarter. CASA ratio inched higher to 23.5% vs. to 23.3% in 4QFY13. The Group continues to focus on achieving the right deposit mix and to grow its CASA. Net LD ratio inched lower to 86.6% as compared to 86.7% in 4QFY13 (target LD ratio: 85.0-90.0%).

Synergy benefits from OSK IB on track to meet 2nd year target post acqusition. The Group reported syenergy benefits of RM48m post merger of RHB IB and OSK IB in the 2nd year post merger (2nd year synergy benefit targets: RM112m). We gather that the synergy benefits of RM48m reported was mainly revenue synergies realised from its IB, retail securities and asset management businesses post acquisition. It is on track to meet its synergy targets for the 2nd year after the acquisition of OSK IB.

No further developments on its plans to acquire 40% equity in Bank Mestika. The Group is still waiting for feedback from the new Indonesian authority, OJK. The last extension of the agreement to acquire the said 40% equity in Bank Mestika will expire on June 2015. Management hinted that it will decide on whether to extend the agreement in the next couple of weeks and may even not extend it if sees a low chance of closing the deal.

Profit of RHB Easy rose but contribution to Group PBT declined. The number of Easy branches was 270 at the end of 1QFY14 and the Group intends to expand it to 285 or 286 outlets by end FY14. PBT of RHB Easy rose by a marginal 0.4%yoy to RM36.1m in 1QFY14 but its percentage contribution to Group PBT declined to 5.8% (1QFY13: 7.3%). Loans by RHB Easy expanded 4.1%qoq to RM6.8b. GIL ratio for loans extended by Easy was 0.9% (4QFY13: 1.6%). We understand that the Group intends to expand Easy at slower pace than previously. Some pressure points on the asset quality on Easy moving forward (especially on Easy's personal loans) will not be surprising if inflation effect widens further as well as due to the tightened measures that have been introduced by authorities thus far.

FORECAST

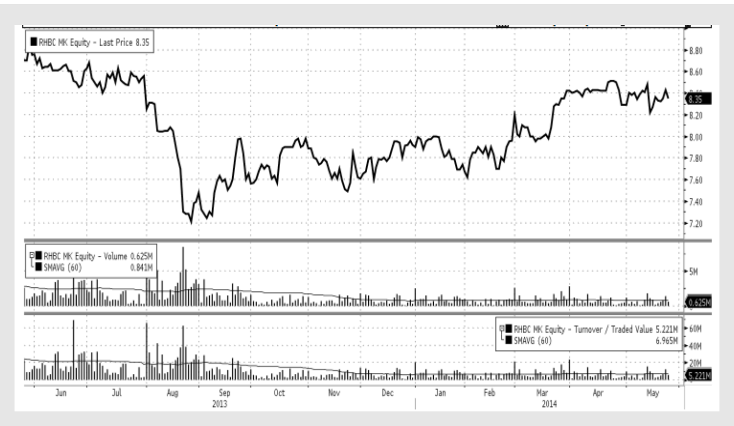
We make no changes to our forecast for FY14 & FY15.

VALUATION AND RECOMMENDATION

The Group is on track to realise higher synergy benefits from its acquisition of OSK IB. As we had expected, its credit charge off improved in 1QFY14 after a substantial loan impairment charges on 2 corporate accounts in FY13. Despite that, the annualised ROE was lower than our expectation of 12.2% and against its target of 12.0% for FY14.

There are a few levers that can be pulled to contribute towards the improvement of its ROE. Firstly, the rise in operating expenses seen in 1QFY14 was mainly higher personnel cost. Further improvement in productivity will likely lead to an improvement in its CI ratio moving forward. In addition, its CI ratio could still improve by leveraging on its Islamic Banking business, which now requires fewer headcounts than previously. Also, further cost savings can be extracted with its broking business co-sharing the same location as its branches. The Group also plans to optimise its risk-weighted assets. Stock valuation remains undemanding, trading at an attractive 1.2x PB multiple to our forecast BVPS. We continue to maintain our BUY call with unchanged TP of RM9.50 based on a forward PB multiple of 1.3x.

DAILY PRICE CHART



Kelvin Ong,CFA
kelvin.ong@midf.com.my
03-2173 8353

Table 1: Achievements against FY14 targets

	FY14 Targets	Actual achievements for 1QFY14	Comments
ROE (%)	>12.0%	10.6%	Behind target
GIL ratio (%)	<2.5%	2.5	On track
Loan growth (%)	12%	3.7%qoq (Annualised: 14.8%)	On track
CASA growth (%)	>15%	5.1%qoq (Annualised: 20.4%)	On track
Cost to income (%)	<50.0%	53.7%	Behind target
International profit contribution (%)	>12%	10.0%	Behind target

Source: Company

Table 2: Quarterly results

Quarterly results						Comments
FYE Dec (RM m)	**1QFY14**	**4QFY13**	**1QFY13**	**Yoy**	**Qoq**	
Net Interest Income	818.9	864.1	778.8	+5.1%	-5.2%	Stable NIM.
Islamic Banking Income	151.7	161.8	133.7	+13.5%	-6.2%	Higher by 13.5%yoy supported by 12.0% financing growth and deposit growth of 11.0%. Non funding income declined 7.0%yoy due to lower gain from disposal of net assets.
Other Operating Income	497.7	590.4	449.7	+10.7%	-15.7%	Decline by 15.7qoq. This was contributed by lower fee income (-22.9%qoq) as a result of lower service, fee and charges (-44.0%qoq) and lower underwriting and arrangement fees (-64.9%qoq). Also other fee income drop 6.7%qoq due a lower net fx gain (-19.6%qoq). Investment and trading income was higher by 58.5%qoq but was not sufficient to offset the decline in fee income and other fee income.
Net/Total Income	1,468.3	1,616.3	1,362.2	+7.8%	-9.2%	
Provision for loan losses	(54.2)	(118.7)	(154.9)	-65.0%	-54.3%	Credit cost improved to 17bp in 1QFY14 vs. 39bp in 4QFY13.
Pre-tax profit	637.4	683.1	494.3	+29.0%	-6.7%	
Net Profit	450.7	504.5	357.2	+26.2%	-10.7%	
EPS (sen)	17.7	19.9	14.3	+23.8%	-11.1%	

Table 3: Financial Ratios

Financial Ratios (%)	1Q14	4Q13	1Q13	Yoy	Qoq	Comments
CET1*	10.2	11.1	10.9	-0.7	-0.9	Industry CET1 as at end Mar'14: 12.0%. As at end Mar'14, Group CET1 ratio stood at 8.6%. The Group plans to reduce its double leverage ratio to below 120% (presently 134%) with the guidelines already released on capital holding requirements for financial holding companies.
CCR*	10.7	11.6	11.5	-0.8	-0.9	Industry CCR as at end Mar'14: 12.8%
RWCR*	12.8	14.0	14.4	-1.6	-1.2	Industry RWCR as at end Mar'14: 14.4%
Gross impaired loan (GIL)	2.5	2.8	3.0	-0.5	-0.3	Higher than industry GIL ratio of 1.8% as at end Mar'14.
NIM	2.33	2.33	2.34	-0.01	-	NIM stable.
Loan loss Coverage	68.4	63.7	68.7	-0.3	+4.7	Industry's LLC ratio: 104.6% as at Mar'14.
CI ratio	53.7	50.6	52.7	+1.0	+3.1	
Net LDR	86.6	86.8	82.3	+4.3	-0.2	Industry LD ratio: 85.1% as at Mar '14.
ROEA	10.6	12.2	9.3	+1.3	-1.6	

**represents ratios of RHB Bank after propsoed dividend*

DISCLOSURES AND DISCLAIMER

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 *rise* 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	*Negative* total return is expected, by -15% or more, over the next 12 months.
TRADING SELL	Stock price is expected to *fall* 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.