

# RHB BANK

(RHBBANK MK EQUITY, RHBC.KL)

**HOLD**

(MAINTAINED)

Price: RM8.21

Target Price (% return): RM8.80 (14%)

52-week High/Low: RM8.65/RM6.11

## Financial Services

Rationale for report: Company Result

## Needs a kicker

Maintain HOLD on RHB with unchanged TP of RM8.80. 1Q26 results were in line (+14% YoY, -5% QoQ) and thus, forecasts were kept. The capital return ceiling remains intact; higher-yield segment growth is consuming capital headroom, while the fully-loaded Basel III impact of -52bp limits scope for any capital management initiatives. Although RHB's existing c.6% yield remains attractive on a headline basis, it is modest relative to its historical levels. Without a dividend kicker, we do not think it is enough to excite the market and re-rate the stock higher.

- HOLD with unchanged TP of RM8.80**, based on 1.04x FY27 P/B. Despite chugging along fairly well operationally, valuations are frothy as RHB trades >+2SD above its 5-/10-year mean. Also, we see better risk-reward investing in HLF ( >70% capital return potential).
- No surprises.** RHB printed 1Q26 profit of RM857m (+14% YoY, -5% QoQ). This was within forecasts, forming 24-25% of ours and consensus full year estimates. As such, no change to FY26-28 projections. Also, FY26 guidance were kept.
- Something's got to give.** Commercial loan growth (+13% YoY) is helping to defend NIM, but it is consuming capital in the process; CET1 has decreased to <15%. As such, raising DPR materially >65% will be challenging, with growth ambitions continuing to compete for capital. While RHB now guides for a Day 1 CET1 uplift of c.100bp from the final Basel III reforms (effective 1 Jan 2028), this benefit is expected to unwind over time, resulting in a fully-loaded impact of -52bp after 5 years. In our opinion, it leaves limited scope for any meaningful capital management initiatives.
- Some turbulence.** GIL ratio rose 6bp QoQ, no thanks to domestic mortgage, corporate, and SME books; the SME uptick was largely deliberate, with RHB proactively tightening credit standards. However, LLC contracted 3ppt given the highly secured nature of those portfolios limiting ECL impact. More encouragingly, stage 2 local loans improved 11bp, R&R take-up is minimal at 1-2%, and RM339m in overlays stay untouched. The concern: against backdrop of the Middle East conflict, 13-14bp NCC guidance looks ambitious for FY26 and we see even less room to sustain this in FY27; LLC is at a fairly low 73%, leaving limited buffer to cushion any major AQ weakness (pre-Covid normalized NCC: 18-19bp).

## Analyst (s)

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## Key Changes

Target Price:	↔
EPS:	↔

## Stock and Financial Data

Shares Outstanding (million)	4,361.9
Market Cap (RMmil)	35,811.3
Book Value (RM/Share)	7.86
P/BV (x)	1.0
ROE (%)	10.1
Free Float	46.0
Avg Daily Value (RMmil)	65.3

## Major Shareholders

EPF	(35.3%)
OSK	(10.3%)
KWAP	(5.0%)

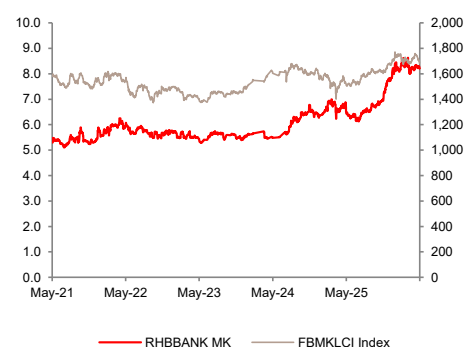
Price performance	3mth	6mth	12mth
Absolute(%)	(2.3)	18.1	25.9
Relative(%)	(0.3)	12.6	13.6

Source: RHB Bank, AmInvestment Bank Bhd.

YE to Dec	FY25	FY26F	FY27F	FY28F
Total income (RM mil)	8,774.3	9,308.4	9,670.2	10,097.5
Core net profit (RM mil)	3,363.2	3,432.5	3,587.8	3,720.1
FD Core EPS (sen)	77.4	79.0	82.6	85.6
FD Core EPS growth (%)	7.8	2.1	4.5	3.7
Consensus Net Profit (RM mil)	-	3,493.0	3,689.0	3,947.0
DPS (sen)	50.0	51.0	53.0	55.0
BV/share (RM)	7.86	8.13	8.44	8.75
PE (x)	10.6	10.4	9.9	9.6
Div yield (%)	6.1	6.2	6.5	6.7
P/BV (x)	1.0	1.0	1.0	0.9
ROE (%)	10.1	9.9	10.0	10.0

Source: RHB Bank, AmInvestment Bank Bhd.

## Price Chart



**EXHIBIT 1. 1Q26 Results Summary**

FYE Dec (RMmil)	1Q26	1Q25	YoY (%)	4Q25	QoQ (%)
Net interest income	1,007.5	969.8	3.9	992.2	1.5
Islamic banking	661.8	557.5	18.7	575.1	15.1
Non-interest income	526.7	520.3	1.2	765.3	-31.2
<b>Total income</b>	<b>2,195.9</b>	<b>2,047.6</b>	<b>7.2</b>	<b>2,332.6</b>	<b>-5.9</b>
Operating expenses	-1,015.2	-970.7	4.6	-1,129.6	-10.1
<b>Pre-provision profit</b>	<b>1,180.7</b>	<b>1,077.0</b>	<b>9.6</b>	<b>1,203.0</b>	<b>-1.8</b>
Loan loss provisions	-86.8	-98.8	-12.1	-21.0	n.m.
<b>Operating profit</b>	<b>1,093.9</b>	<b>978.2</b>	<b>11.8</b>	<b>1,182.0</b>	<b>-7.5</b>
Others	-13.1	-15.5	-15.5	5.9	n.m.
<b>Pre-tax profit</b>	<b>1,080.8</b>	<b>962.7</b>	<b>12.3</b>	<b>1,187.9</b>	<b>-9.0</b>
Tax & minority interest	-224.1	-212.6	5.4	-282.2	-20.6
<b>Net Profit</b>	<b>856.8</b>	<b>750.0</b>	<b>14.2</b>	<b>905.7</b>	<b>-5.4</b>
EPS (sen)	19.6	17.2	14.2	20.8	-5.4
DPS (sen)	0.0	0.0	n.m.	35.0	n.m.
BVPS (RM)	7.58	7.39	2.6	7.83	-3.2

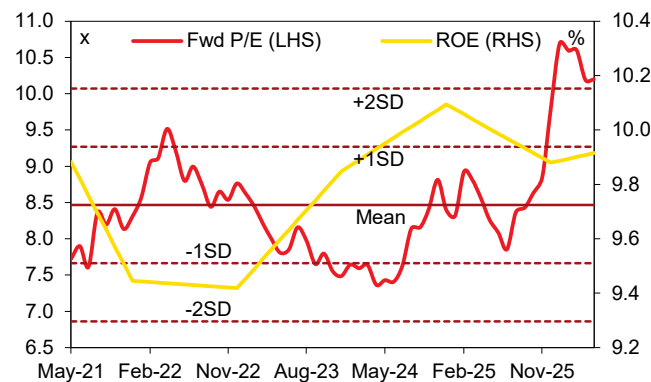
Source: RHB, AmInvestment Bank Bhd.

**EXHIBIT 2. Financial ratios**

FYE Dec (%)	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25	1Q26
Net interest margin	1.90	1.91	1.84	1.84	1.81	1.77	1.82	1.86
Cost / income ratio	46.7	45.4	48.8	47.4	47.1	46.4	48.4	46.2
Return on equity	9.3	10.6	10.5	9.4	9.9	11.0	10.9	10.2
Loans growth, yoy	6.4	3.7	6.9	6.3	5.9	7.9	5.4	6.2
Deposits growth, yoy	4.8	0.9	1.8	2.3	4.4	6.5	1.2	4.0
Loan / deposit ratio	94.8	95.5	95.3	96.2	96.2	96.7	99.2	98.2
Gross impaired loans ratio	1.76	1.77	1.47	1.50	1.51	1.50	1.41	1.47
Loan loss coverage	70.4	70.6	78.6	76.9	77.5	76.3	76.6	73.2
Net credit cost (bp)	26.3	18.3	10.9	17.0	19.7	16.0	3.4	14.0
CET1 ratio	16.9	16.6	17.2	16.0	16.3	15.2	16.1	14.7

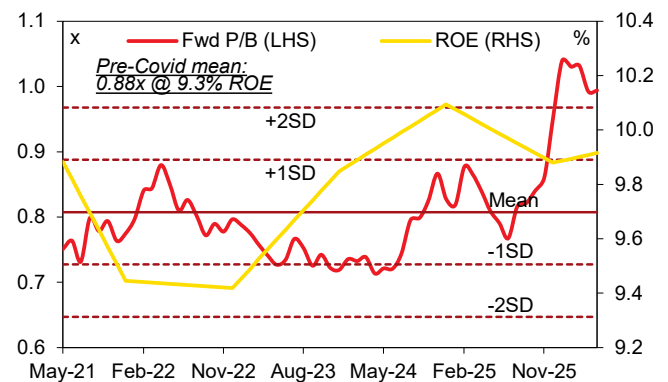
Source: RHB, AmInvestment Bank Bhd.

**EXHIBIT 3. 5-YR FORWARD P/E BAND**



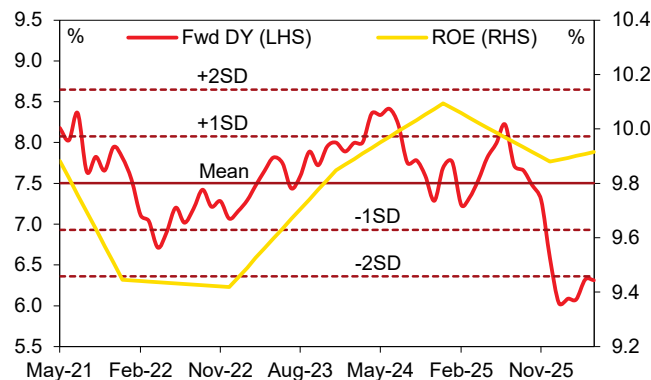
Source: AmInvestment Bank, Bloomberg

**EXHIBIT 4. 5-YR FORWARD P/B BAND**



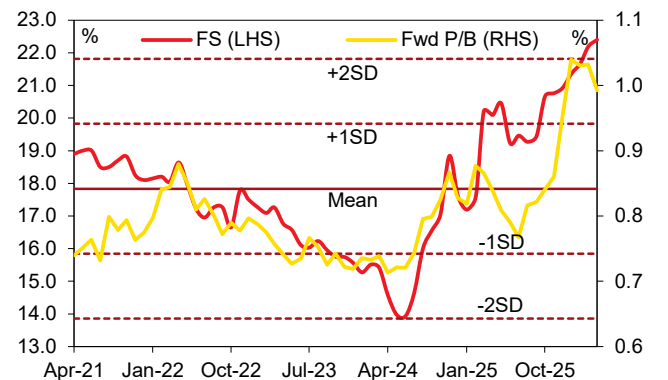
Source: AmInvestment Bank, Bloomberg

**EXHIBIT 5. 5-YR FORWARD DY BAND**



Source: AmInvestment Bank, Bloomberg

**EXHIBIT 6. RHB'S FOREIGN SHAREHOLDING**



Source: AmInvestment Bank, RHB

## Company profile

RHB is the fourth largest banking group in Malaysia (by assets), providing community, wholesale, Islamic banking, international business, and insurance.

Key markets for RHB is Malaysia contributing c.90-95% to group PBT in 2025. The bank has presence in 7 countries, with a network of close to 300 branches and offices.

## Investment thesis and catalysts

We are not bullish on RHB given unconvincing valuations as the stock trades >+2SD above its 5-/10-year mean levels. Even though RHB's existing c.6% yield remains attractive on a headline basis, it is modest relative to its historical levels.

Also, the capital return ceiling remains intact; higher-yield segment growth is consuming capital headroom (CET1 has declined to <15% from >17% over the past 5 years), while the fully-loaded Basel III impact of -52bp limits scope for any capital management initiatives. Without a dividend kicker, we do not believe it is enough to excite the market and re-rate the stock higher.

Separately, RHB's foreign shareholding of 22.4% is now at its 10-year peak.

## Valuation methodology

We value RHB using the Gordon Growth Model (GGM), as it incorporates both P/B and ROE into a single formula; notably, ROE plays an important role to the valuation of banking stocks as it has a strong correlation to P/B (87%).

We derived a TP of RM8.80 for RHB and it is based on 1.04x FY27 P/B with assumptions of 10.0% ROE, 9.7% COE, and 3.0% LTG. This is broadly in line with the valuations of HLFG and sector (0.93-0.98x) given similar ROE generation (9.5-9.8%), which effectively values RHB at close to +2SD above its 5-year pre-pandemic mean level.

## Risk factors

Key downside risks include:

- i) Sharp slowdown in global economic growth, giving rise to a spike in NPL formation; this could weigh on NCC and earnings.
- ii) Intense competition for both loans and deposits could exert downward pressure on NIM. Also, a drastic SORA rate decline in Singapore can compound the slippage.
- iii) Higher-than-expected RWA inflation under the final Basel III reforms; this could affect CET1 ratio and potentially dividend payout.

### EXHIBIT 7. VALUATIONS

Return on equity (ROE)	10.0%
Cost of equity (COE)	9.7%
Long-term growth rate (LTG)	3.0%
Target P/B	1.04x
FY27 BVPS	RM8.44
ESG premium	-
12-month target price	RM8.80

Source: AmInvestment Bank

## Financial Summary

### Income Statement (RMmil)

YE to Dec	FY24	FY25	FY26F	FY27F	FY28F
Net interest income	3,869.3	3,880.2	4,060.5	4,160.4	4,300.4
Non-interest income	2,559.6	2,734.8	2,834.4	2,945.4	3,058.9
Islamic banking income	2,176.0	2,159.3	2,413.5	2,564.4	2,738.2
<b>Total income</b>	<b>8,604.9</b>	<b>8,774.3</b>	<b>9,308.4</b>	<b>9,670.2</b>	<b>10,097.5</b>
Overhead expenses	(4,021.4)	(4,153.9)	(4,390.3)	(4,520.1)	(4,714.8)
Pre-provision profit	4,583.5	4,620.4	4,918.1	5,150.1	5,382.7
Loan loss provisions	(524.8)	(332.8)	(422.7)	(452.7)	(513.2)
Impairment & others	(12.3)	118.6	-	-	-
Associates	(26.2)	(27.7)	(30.0)	(30.0)	(30.0)
<b>Pretax profit</b>	<b>4,020.1</b>	<b>4,378.5</b>	<b>4,465.4</b>	<b>4,667.4</b>	<b>4,839.5</b>
Tax	(896.0)	(1,009.6)	(1,027.0)	(1,073.5)	(1,113.1)
Minority interests	(3.9)	(5.6)	(5.8)	(6.1)	(6.3)
<b>Net profit</b>	<b>3,120.2</b>	<b>3,363.2</b>	<b>3,432.5</b>	<b>3,587.8</b>	<b>3,720.1</b>
Core net profit	3,120.2	3,363.2	3,432.5	3,587.8	3,720.1

### Balance Sheet (RMmil)

YE to Dec	FY24	FY25	FY26F	FY27F	FY28F
Cash & deposits with FIs	11,551.6	6,648.0	1,484.0	1,786.3	2,180.3
Marketable securities	64,925.3	67,205.2	73,492.6	74,515.4	75,564.3
<b>Total current assets</b>	<b>76,476.9</b>	<b>73,853.2</b>	<b>74,976.6</b>	<b>76,301.7</b>	<b>77,744.6</b>
Net loans & advances	234,967.6	247,910.4	260,438.0	273,515.1	287,190.9
Statutory deposits	nm	nm	nm	nm	nm
Long-term investments	30,112.5	27,815.4	28,093.6	28,374.5	28,658.2
Fixed assets	1,018.3	989.7	898.9	831.1	757.9
Intangible assets	3,487.6	3,467.7	3,457.5	3,434.5	3,406.3
Other long-term assets	3,851.8	4,067.8	4,067.8	4,067.8	4,067.8
<b>Total LT assets</b>	<b>273,437.7</b>	<b>284,251.0</b>	<b>296,955.7</b>	<b>310,223.0</b>	<b>324,081.1</b>
<b>Total assets</b>	<b>349,914.6</b>	<b>358,104.2</b>	<b>371,932.3</b>	<b>386,524.7</b>	<b>401,825.7</b>
Customer deposits	249,565.5	252,537.2	265,164.1	278,422.3	292,343.4
Deposits of other FIs	40,617.4	38,458.6	38,458.6	38,458.6	38,458.6
Subordinated debts	18,225.0	21,138.2	21,138.2	21,138.2	21,138.2
Hybrid capital securities	-	-	-	-	-
Other liabilities	8,975.4	11,780.2	11,780.2	11,780.2	11,780.2
<b>Total liabilities</b>	<b>317,383.3</b>	<b>323,914.1</b>	<b>336,541.0</b>	<b>349,799.2</b>	<b>363,720.3</b>
Shareholders' funds	32,492.2	34,146.1	35,341.5	36,669.7	38,043.2
Minority interests	39.1	44.0	49.8	55.9	62.1

### Key Ratios

YE to Dec	FY24	FY25	FY26F	FY27F	FY28F
Total income growth (%)	10.7	2.0	6.1	3.9	4.4
Pre-provision profit growth (%)	12.3	0.8	6.4	4.7	4.5
Core net profit growth (%)	11.2	7.8	2.1	4.5	3.7
Net interest margin (%)	1.8	1.7	1.8	1.7	1.7
Cost-to-income ratio (%)	46.7	47.3	47.2	46.7	46.7
Effective tax rate (%)	22.3	23.1	23.0	23.0	23.0
Dividend payout (%)	59.9	64.6	64.6	64.2	64.2

### Key Assumptions

YE to Dec	FY24	FY25	FY26F	FY27F	FY28F
Loan growth (%)	6.9	5.4	5.0	5.0	5.0
Deposit growth (%)	1.8	1.2	5.0	5.0	5.0
Loan-deposit ratio (%)	95.3	99.2	99.2	99.2	99.2
Gross NPL (%)	1.5	1.4	1.4	1.4	1.4
Net NPL (%)	1.0	0.9	1.0	1.0	1.0
Credit charge-off rate (%)	0.2	0.1	0.2	0.2	0.2
Loan loss reserve (%)	78.6	76.6	73.1	71.3	70.8

Source: Company, AmInvestment Bank Bhd.

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