RHB BANK

(RHBBANK MK EQUITY, RHBC.KL)

HOLD

(MAINTAINED)

Price: RM8.24

Target Price (% return): RM8.80 (13%)

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

Financial Services

Rationale for report: Company Update

No fresh spark

Reiterate HOLD on RHB with unchanged TP of RM8.80. We are revising FY26-28 profit estimates by +1-2%, as NCC and opex cuts outweigh softer NOII outlook. Overall, we are reassured on AQ but there is no new ground on what matters: the DPR ceiling is intact, capital management remains off the table, and it is already the best performing bank YTD (+11%). Thus, with no new re-rating catalysts, further outperformance looks like a stretch from here. The c.6% BAU yield provides a floor.

- **HOLD with unchanged TP of RM8.80,** based on 1.04x FY27 P/B. Currently, valuation is uncompelling as RHB is trading at >+2SD above its 5-/10-year mean P/B and is the best performing bank YTD (+11%). That said, its c.6% yield provides a good carry proposition and limits downside, but without a new kicker, there is nothing to chase here.
- **Lower for longer.** We trim FY26-28 NCC estimates to 14-16bp (from 16-18bp), nudging closer to RHB's 13-14bp guidance. Case for lower NCC is strengthening: Brent is beneath USD80/bbl, de-escalating Middle East tensions, and diesel subsidy are all pulling in the right direction, with 13bp of untouched overlays. On the ground, R&R is muted, watch-list accounts holding steady, and 1Q26 seasonal delinquency spike is reversing. In FY27, recoveries from a property account and the Thai portfolio should help contain NCC.
- **Crosscurrents.** NIM may face modest near-term pressure sequentially, but a 2H recovery is plausible as easing Middle East tensions allow larger deployment into higher-yielding SME and commercial segments, while 5% loans growth provides an additional cushion. On NOII, treasury income is to stay patchy, though resilient banca, wealth management and lending fees are partial offset. Meanwhile, cost discipline is intact, with opex growth capped <4%. Overall, we cut FY26-28 NOII and opex assumptions by 1-2%.
- **Who eats first?** We see little prospect of a large DPR step-up from 65% and limited scope for capital management. Such a ceiling is conceivable, seeing growth ambitions in SME and commercial segments will continue to compete for capital, alongside lower CET1 of <15% and a fully-loaded Basel III impact of -52bp. That said, RHB is not perturbed and is looking to balance growth and dividends via NOII expansion and reduction in untapped committed loan lines.

YE to Dec	FY25	FY26F	FY27F	FY28F
Total income (RM mil)	8,774.3	9,259.4	9,622.7	10,050.9
Core net profit (RM mil)	3,363.2	3,477.9	3,636.7	3,784.3
FD Core EPS (sen)	77.4	80.0	83.7	87.1
FD Core EPS growth (%)	7.8	3.4	4.6	4.1
Consensus Net Profit (RM mil)	-	3,502.0	3,703.0	3,920.0
DPS (sen)	50.0	51.6	54.0	56.2
BV/share (RM)	7.86	8.14	8.45	8.78
PE (x)	10.6	10.2	9.8	9.4
Div yield (%)	6.1	6.3	6.6	6.8
P/BV (x)	1.0	1.0	1.0	0.9
ROE (%)	10.1	10.0	10.1	10.1

Source: RHB Bank, AmInvestment Bank Bhd.

Analyst (s)

Chan Jit Hoong, CFA, CPA
chan.jit-hoong@ambankgroup.com
+603 2036 1407

Key Changes

Target Price:	⇔
EPS:	⇧

Stock and Financial Data

Shares Outstanding (million)	4,361.9
Market Cap (RMmil)	35,767.7
Book Value (RM/Share)	7.86
P/BV (x)	1.0
ROE (%)	10.1
Free Float	46.8
Avg Daily Value (RMmil)	57.8

Major Shareholders

EPF	(34.6%)
OSK	(10.3%)
KWAP	(5.0%)

Price performance	3mth	6mth	12mth
Absolute(%)	(5.0)	6.4	28.5
Relative(%)	(2.0)	7.9	19.6

Source: RHB Bank, AmInvestment Bank Bhd.

Price Chart

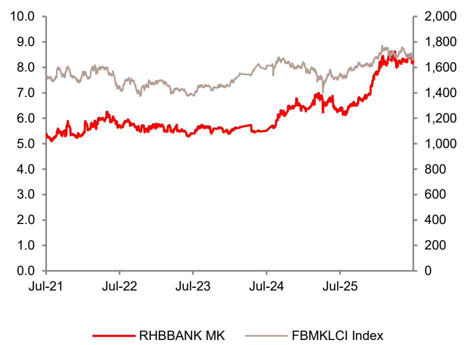
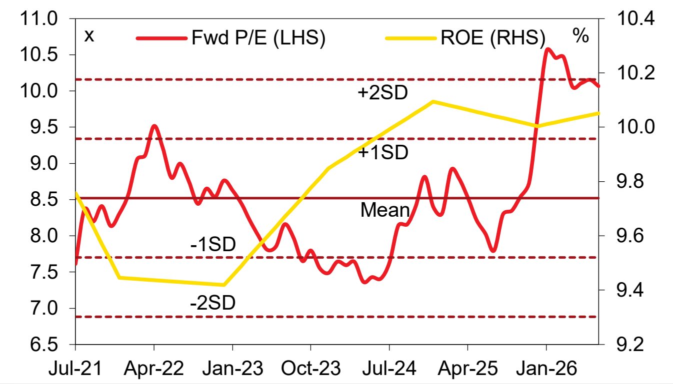
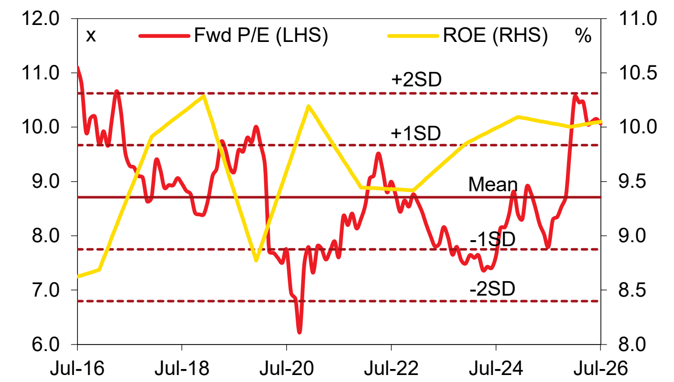


EXHIBIT 1. 5-YR FORWARD P/E BAND



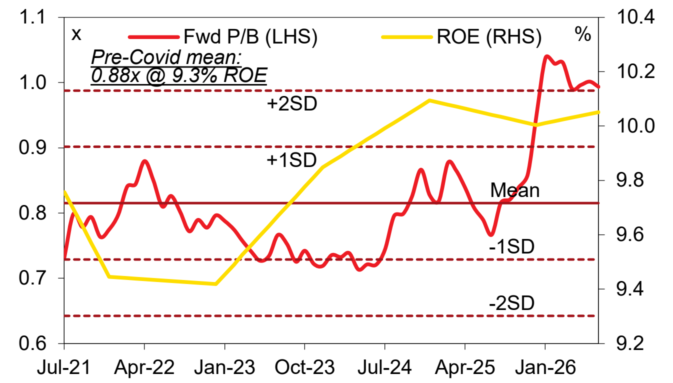
Source: AmInvestment Bank, Bloomberg

EXHIBIT 2. 10-YR FORWARD P/E BAND



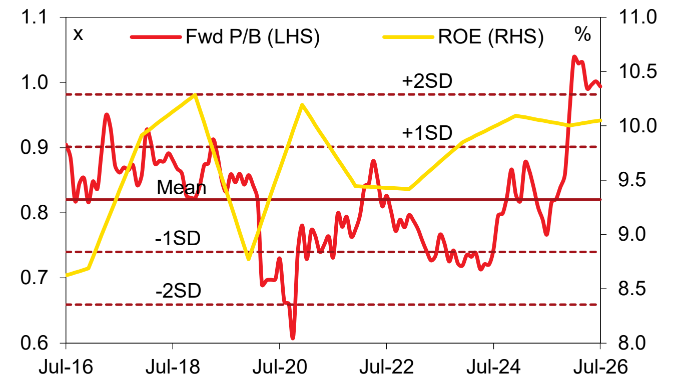
Source: AmInvestment Bank, Bloomberg

EXHIBIT 3. 5-YR FORWARD P/B BAND



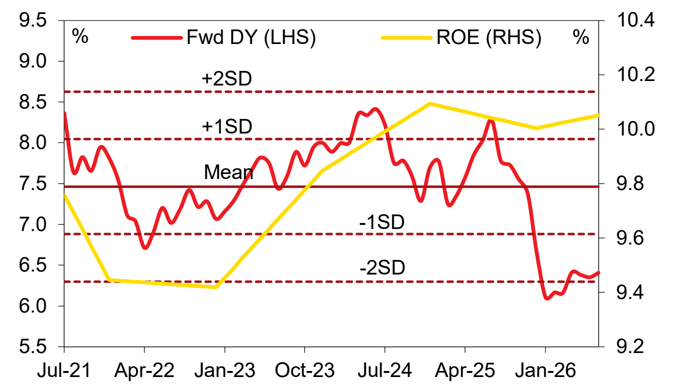
Source: AmInvestment Bank, Bloomberg

EXHIBIT 4. 10-YR FORWARD P/B BAND



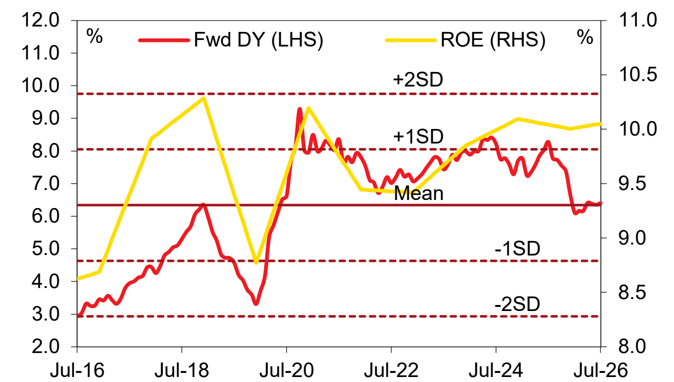
Source: AmInvestment Bank, Bloomberg

EXHIBIT 5. 5-YR FORWARD DY BAND



Source: AmInvestment Bank, Bloomberg

EXHIBIT 6. 10-YR FORWARD DY BAND



Source: AmInvestment Bank, Bloomberg

EXHIBIT 7. PEERS COMPARISON

	Price (RM)	Target (RM)	Call	P/E (x) 2026	P/E (x) 2027	EPS growth (%) 2026	EPS growth (%) 2027	P/B (x) 2026	P/B (x) 2027	Div. yield (%) 2026	Div. yield (%) 2027	ROE (%) 2026	ROE (%) 2027
Bank A	2.24	-	N.R.	10.0	8.7	4.6	15.2	0.5	0.4	3.9	4.5	4.6	5.2
Alliance*	4.74	4.70	HOLD	9.6	9.2	3.2	4.0	0.9	0.8	4.2	4.6	9.5	9.4
BIMB	2.07	2.40	HOLD	9.3	9.0	-9.6	3.1	0.6	0.6	6.3	6.5	6.2	6.3
CIMB	7.45	10.30	BUY	9.6	9.3	5.3	3.2	1.1	1.0	6.6	6.9	11.4	11.3
HLB	21.42	28.00	BUY	10.0	9.4	3.1	5.8	1.1	1.0	4.7	5.0	10.9	10.8
HLFG	18.40	33.00	BUY	6.3	6.0	2.0	6.0	0.6	0.6	4.9	5.1	9.9	9.8
Maybank	10.74	11.20	HOLD	12.5	12.2	-1.6	2.8	1.3	1.3	5.8	6.0	10.9	10.8
MBSB	0.64	0.68	HOLD	16.8	14.8	11.9	13.3	0.5	0.5	5.3	6.1	3.1	3.5
Public	4.80	5.60	BUY	12.4	12.0	4.2	3.5	1.5	1.4	6.0	6.3	12.1	12.0
RHB	8.24	8.80	HOLD	10.3	9.8	3.4	4.6	1.0	1.0	6.3	6.6	10.0	10.1
Sector				**10.7**	**10.1**	**2.6**	**6.2**	**0.9**	**0.9**	**5.4**	**5.7**	**8.9**	**8.9**
Sector (ex-Bank A)				**10.8**	**10.2**	**2.4**	**5.1**	**0.9**	**0.9**	**5.6**	**5.9**	**9.3**	**9.3**

* refers to FY27 & FY28
Source: AmInvestment Bank, Bloomberg

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 uncompelling valuations as the stock trades >+2SD above its 5-/10-year mean P/B levels. Even though RHB's existing c.6% yield remains attractive on a headline basis, it is modest relative to its historical levels.

Furthermore, the DPR 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 new kicker, we do not believe it is enough to excite the market and re-rate the stock higher. Hence, further outperformance looks like a stretch from here.

Separately, RHB's foreign shareholding of 23.0% 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, 9.8% COE, and 3.0% LTG. This is broadly in line with the valuations of HLFG and sector (0.91-0.98x) given similar ROE generation (9.3-9.8%), 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 8. VALUATIONS

Return on equity (ROE)	10.0%
Cost of equity (COE)	9.8%
Long-term growth rate (LTG)	3.0%
Target P/B	1.04x
FY27 BVPS	RM8.45
ESG premium	-
12-month target price	RM8.80

Source: AmInvestment Bank

EXHIBIT 9. CHANGE IN FORECASTS

	FY26			FY27			FY28		
(RM'm)	New	Old	%	New	Old	%	New	Old	%
Non-interest income	2,784.4	2,834.4	-1.8	2,895.4	2,945.4	-1.7	3,008.9	3,058.9	-1.6
Opex	-4,334.9	-4,390.3	-1.3	-4,463.0	-4,520.1	-1.3	-4,655.2	-4,714.8	-1.3
Loan loss provisions	-370.1	-422.7	-12.5	-398.7	-452.7	-11.9	-442.7	-513.2	-13.7
Core profit	3,477.9	3,432.5	1.3	3,636.7	3,587.8	1.4	3,784.3	3,720.1	1.7

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	4,061.1	4,162.1	4,302.7
Non-interest income	2,559.6	2,734.8	2,784.4	2,895.4	3,008.9
Islamic banking income	2,176.0	2,159.3	2,413.9	2,565.2	2,739.4
Total income	**8,604.9**	**8,774.3**	**9,259.4**	**9,622.7**	**10,050.9**
Overhead expenses	(4,021.4)	(4,153.9)	(4,334.9)	(4,463.0)	(4,655.2)
Pre-provision profit	4,583.5	4,620.4	4,924.5	5,159.7	5,395.8
Loan loss provisions	(524.8)	(332.8)	(370.1)	(398.7)	(442.7)
Impairment & others	(12.3)	118.6	-	-	-
Associates	(26.2)	(27.7)	(30.0)	(30.0)	(30.0)
Pretax profit	**4,020.1**	**4,378.5**	**4,524.4**	**4,730.9**	**4,923.0**
Tax	(896.0)	(1,009.6)	(1,040.6)	(1,088.1)	(1,132.3)
Minority interests	(3.9)	(5.6)	(5.9)	(6.2)	(6.4)
Net profit	**3,120.2**	**3,363.2**	**3,477.9**	**3,636.7**	**3,784.3**
Core net profit	3,120.2	3,363.2	3,477.9	3,636.7	3,784.3

Balance Sheet (RMmil)

YE to Dec	FY24	FY25	FY26F	FY27F	FY28F
Cash & deposits with FIs	11,551.6	6,648.0	1,476.8	1,771.7	2,153.5
Marketable securities	64,925.3	67,205.2	73,492.6	74,515.4	75,564.3
Total current assets	**76,476.9**	**73,853.2**	**74,969.4**	**76,287.1**	**77,717.7**
Net loans & advances	234,967.6	247,910.4	260,490.6	273,598.0	287,306.9
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
Total LT assets	**273,437.7**	**284,251.0**	**297,008.3**	**310,305.9**	**324,197.1**
Total assets	**349,914.6**	**358,104.2**	**371,977.7**	**386,593.0**	**401,914.9**
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
Total liabilities	**317,383.3**	**323,914.1**	**336,541.0**	**349,799.2**	**363,720.3**
Shareholders' funds	32,492.2	34,146.1	35,386.9	36,737.8	38,132.1
Minority interests	39.1	44.0	49.9	56.0	62.4

Key Ratios

YE to Dec	FY24	FY25	FY26F	FY27F	FY28F
Total income growth (%)	10.7	2.0	5.5	3.9	4.5
Pre-provision profit growth (%)	12.3	0.8	6.6	4.8	4.6
Core net profit growth (%)	11.2	7.8	3.4	4.6	4.1
Net interest margin (%)	1.8	1.7	1.8	1.7	1.7
Cost-to-income ratio (%)	46.7	47.3	46.8	46.4	46.3
Effective tax rate (%)	22.3	23.1	23.0	23.0	23.0
Dividend payout (%)	59.9	64.6	64.5	64.5	64.5

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	1.1
Credit charge-off rate (%)	0.2	0.1	0.1	0.1	0.2
Loan loss reserve (%)	78.6	76.6	71.7	69.2	67.9

Source: Company, AmInvestment Bank Bhd.

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