FINANCIAL SERVICES

AmInvestment Bank

Company Report

RHB BANK

(RHBBANK MK EQUITY, RHBC.KL)

29 May 2025

Lower credit cost supported by improved ECL

BUY

(Maintained)

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Rationale for report: Company Result

Price	**RM6.67**
Fair Value	**RM7.58**
52-week High/Low	RM7.04/RM5.47

Key Changes

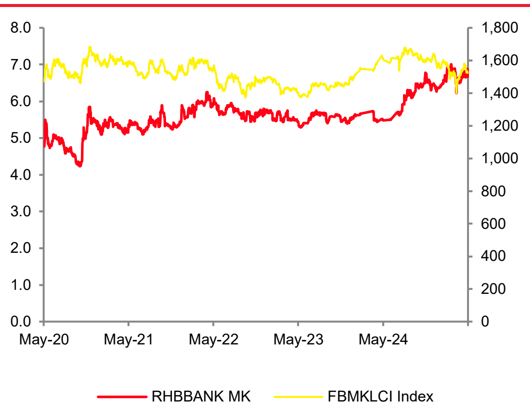
Fair value	⇔
EPS	⇔

YE to Dec	FY24	FY25F	FY26F	FY27F
Total income (RM mil)	8,604.9	8,912.3	9,308.7	9,868.6
Core net profit (RM mil)	3,120.2	3,182.0	3,347.6	3,728.4
FD Core EPS (sen)	72.0	73.4	77.3	86.1
FD Core EPS growth (%)	9.6	2.0	5.2	11.4
Consensus Net Profit (RM mil)	-	3,251.0	3,431.0	3,666.0
DPS (sen)	43.0	44.1	46.4	51.6
BV/share (RM)	7.50	7.81	8.43	8.95
PE (x)	9.3	9.1	8.6	7.8
Div yield (%)	6.4	6.6	7.0	7.7
P/BV (x)	0.9	0.9	0.8	0.7
ROE (%)	9.8	9.6	9.5	9.9

Stock and Financial Data

Shares Outstanding (million)	4,332.3
Market Cap (RMmil)	28,896.5
Book Value (RM/Share)	7.50
P/BV (x)	0.9
ROE (%)	9.8
Major Shareholders	Employees Provident Fund (39.0%) OSK Holdings Bhd (10.3%) Amanah Saham Nasional (6.7%)
Free Float	39.0
Avg Daily Value (RMmil)	60.4

Price performance	3mth	6mth	12mth
Absolute (%)	(3.5)	-	21.3
Relative (%)	(0.2)	4.9	28.6



Investment Highlights

1Q25 earnings met expectations, with improved asset quality and lower ECL, driving a better credit cost of 18bps. Domestic asset quality showed positive trends, while OPEX growth remained contained at 1.2% YoY. Singapore's NIM is expected to rise as deposit repricing lowers funding costs. The group expanded its securities portfolio by 24.5% QoQ to RM93 billion, with a 3.89% average yield, offering potential FVOCI gains amid lower 10-year MGS yields. Higher total income should enhance the CI ratio from 47.4% in 1Q25. Capital ratios remained strong, at CET1 16.0% and total capital ratio 18.5%. BUY recommendation retained.

- **Recommendation and valuation.** We reiterate our BUY call on RHB with an unchanged TP of RM7.58/share, valuing the stock at a FY26 P/BV of 0.9x, supported by a 9.5% ROE and a neutral 3-star ESG rating. FY25/26 earnings estimates have been revised down -0.3%/-0.8% due to adjusted NII projections with a lower FY25 loan growth forecast from 7% to 6%.

- **Earnings aligned with expectations, aided by reduced provisions.** RHB Bank reported 1Q25 earnings of RM750mil (+2.7% YoY), in line with expectations at 23.5% of estimates. The profit increase was driven by higher NII and lower provisions due to improved ECL but was partly offset by a decline in NOII from weaker treasury income and slightly higher OPEX. QoQ, earnings fell 10.3% due to lower total income and higher provisions.

- **Loan growth slowed, with robust domestic expansion partially offset by weaker overseas loan growth.** Loan growth eased to 6.3% YoY, with domestic loans rising 7.9%, driven by community and wholesale banking. Mortgages, mid-market SME, and commercial loans maintained strong momentum. NIM edged up 1bps YoY to 1.84%, with a 3bps rise in domestic NIM, though Singapore's NIM fell 17bps due to lower SORA. Singapore's NIM is expected to improve in 2Q25 as deposit repricing reduces funding costs. Management kept its FY25 NIM guidance at 1.86-1.90%, citing SRR release as a potential 2-3bps boost. Given slower GDP growth forecasts, the FY25 loan growth target was revised to 5-6% from 6-7%.

- **Asset quality improved YoY with a lower domestic GIL ratio**. Group GIL ratio fell to 1.50% in 1Q25 (from 1.83% in 1Q24), with domestic GIL improving to 1.12% (from 1.57%). ECL on loans dropped 53.1% YoY to RM100mil, aided by better domestic ECL and the absence of a RM95mil international business ECL in 1Q24. Credit cost improved significantly to 17bps (vs. 38bps), within the 15-20bps guidance. Recoveries in Thailand and Cambodia remain slow due to macroeconomic conditions, but recovery efforts in SMEs and international business loans could help offset potential rise in pre-emptive provisions amid MEV revisions. Low exposure of loans vulnerable to the impact of tariffs at 3.5-4% of loan book. Management retains RM317mil in overlays to mitigate potential asset quality risks.

Company profile

RHB Bank is a multinational financial institution that delivers a wide range of financial services, including community banking, wholesale banking, international business, Islamic banking, and insurance. The group maintains a regional presence across Singapore, Thailand, Brunei, Cambodia, and Laos.

Investment thesis and Key catalysts

We find the valuation appealing, with the stock trading at 0.8x FY26F price-to-book value (P/BV), supported by a projected return on equity (ROE) of 9.6%.

Valuation methodology

The stock valuation is based on FY26 estimates, applying a price-to-book value (P/BV) multiple of 0.9x derived from the Gordon Growth Model. This assessment is underpinned by a cost of equity (COE) of 10.3%, a beta of 1.1, a market risk premium of 6.3%, a risk-free rate of 3.7%, and a long-term growth rate of 3%.

Risk factors

Potential downside risks to our projections include:

- Slower-than-expected global economic expansion, which may negatively affect loan growth.
- An unforeseen rise in funding costs—particularly if CASA growth lags, leading to intensified competition for deposits.
- Prolonged high interest rates in developed markets, which could reduce the valuation of bond and securities portfolios, consequently impacting banks' non-interest income (NOII).

EXHIBIT 1: VALUATIONS

COE	10.3%
Beta	1.1
Market risk premium	6.3% (from 6.1%)
Risk free rate	3.7% (from 3.9%)
Long term growth rate	3%
P/BV	0.9x
FY26 BVPS	RM8.43
TP	**RM7.58**
ESG Premium	0
Adjusted TP	**RM7.58**

Source: AmInvestment Bank

EXHIBIT 2: TARGET FORS FOR FY25 AND KEY TARGETS UNDER NEW STRATEGY 'PROGRESS27'

	Targets for FY25
ROE	10.4-10.8%
Loans Growth	5-6% (revised from 6-7%)
CASA Ratio	28-29%
Gross Impaired Loans Ratio	1.4-1.5%
Cost to Income Ratio	45.5%-46.0%
Net Interest Margin	1.86%-1.90%
Credit Cost	15-20bps
	Aspirations under new strategy 'Progress27"*
ROE	≥ 12%
CIR	≤ 44.8%
GIL	≤ 1.3%
	*Targets to be achieved by FY2027

Source: AmInvestment Bank

EXHIBIT 3: RESULTS SUMMARY

Income Statement (RM m, FYE 31 Dec)	1Q24	4Q24	1Q25	% QoQ	% YoY
Interest income	2,488	2,540	2,510	-1.2	0.9
Interest expense	-1,562	-1,583	-1,540	-2.7	-1.4
Net interest income	**926**	**957**	**970**	1.3	4.7
Islamic banking income	658	856	558	-34.8	-15.3
Non-interest income	504	398	520	30.8	3.2
Modification loss	0	0	0	n.m.	n.m.
Total income	**2,088**	**2,211**	**2,048**	-7.4	-1.9
Overhead expenses	-959	-1,079	-971	-10.0	1.2
Pre-provision profit	**1,129**	**1,132**	**1,077**	-4.9	-4.6
Loan impairment allowances	-213	-65	-100	54.1	-53.1
Other allowances	-2	-9	-6	-34.2	216.3
Associates and JV income	-4	-9	-9	-6.8	117.7
Pretax profit	**910**	**1,047**	**963**	-8.2	5.8
Income tax	-179	-212	-212	0.1	18.5
Profit from discountinued operations	0	0	0	n.m.	n.m.
Minority interest	-1	-1	-1	-36.9	-36.9
Net profit	**730**	**836**	**750**	-10.3	2.7
Core EPS (sen)	17.0	19.1	17.2	-10.1	1.0
Profit by segments (RM m)					
Group Community Banking	371	444	426	-4.2	14.7
Group Wholesale Banking	579	672	548	-18.4	-5.3
Group International Business	34	24	87	267.2	154.3
Insurance	23	27	18	-33.6	-22.0
Support center and others	-93	-110	-108	-2.2	16.2
Inter-segment elimination	0	0	0	n.m.	n.m.
Share of profit from JV	-4	-9	-9	-6.8	117.7
Group profit before taxation	**910**	**1,047**	**963**	-8.1	5.8
Balance Sheet (RM m, FYE 31 Dec)	**1Q24**	**4Q24**	**1Q25**	**% QoQ**	**% YoY**
Gross loans and advances	224,919	237,758	239,158	0.6	6.3
Net loans and advances	221,960	234,968	236,363	0.6	6.5
Customer deposits	242,935	249,565	248,520	-0.4	2.3
Gross impaired loans	4,115	3,487	3,580	2.7	-13.0
Average shareholders funds	31,293	32,108	32,354	0.8	3.4
Ratios (%)					
Net LD	91.4%	94.2%	95.1%		
CASA	29.0%	27.6%	28.0%		
NIM	1.83%	1.84%	1.84%		
Cost to income	45.9%	48.8%	47.4%		
Credit cost (based only on loans)	0.38%	0.11%	0.17%		
Loan loss coverage (excluding reg reserve)	71.7%	78.6%	76.9%		
Loan loss coverage (including reg reserve)	106.3%	115.5%	115.7%		
GIL/Gross NPL	1.83%	1.47%	1.50%		
ROE	9.3%	10.4%	9.3%		
CET1 ratio	16.5%	16.4%	16.0%		
Tier 1	16.5%	16.4%	16.0%		
Total capital ratio	19.2%	19.0%	18.5%		

Source: AmInvestment Bank, Company

EXHIBIT 4: CHANGE IN EARNINGS

		FY25F			FY26F	
RMm	**Previous**	**Revised**	**Chg**	**Previous**	**Revised**	**Chg**
Earnings	3,192.3	3,182.0	-0.3%	3,373.5	3,347.6	-0.8%
Net interest income	4,103.7	4,067.6	-0.9%	4,426.7	4,352.4	-1.7%

EXHIBIT 5: ESG SCORE

	Environmental assessment	Parameters	Weightage	Rating					Rationale
1	Exposure to sustainable financing out of total loans	% of loan book	30%	*	*	*	*		RM17.8bil sustainable finance mobilized (more than target of RM10.2bil) vs. RM2.1bil in FY23
2	% of financing to high risk ESG sectors out of total loans	% of loan book	30%	*	*	*			
3	Scope 1 GHG Emissions to total income	t/Co2e/RM'Mil	10%	*	*	*	*	*	Low at 0.05 in FY24 vs. 0.06 in FY23
4	Scope 2 GHG Emissions to total income	t/Co2e/RM'Mil	10%	*	*	*	*		Lower at 2.6 in FY24 vs 3.1 in FY23
5	Scope 3 GHG Emissions to total income	t/Co2e/RM'Mil	10%	*	*	*	*		Stable at 0.3 in FY24
6	Electricity consumption to total income	Electricity consumption to total income	5%	*	*	*			
7	Water consumption to total income	m3/RM'Mil	5%	*	*	*	*		
	Weighted score for environmental assessment		**100%**	*	*	*	*		
	Social assessment								
1	Corporate Social Responsibilty investments or spend	% of total income	35%	*	*	*			More than RM4.99mil in FY23 vs. RM3.93mil in FY22
2	Investments in training	% of total income	20%	*	*	*			0.4% in FY24 and FY23
3	Workforce diversity - women in senior management and above (excluding Board Directors)	% of total workforce	10%	*	*	*			35.3% in FY24 vs. 33.9% in FY23 and 30.3% in FY22
4	Average training hours per employee	hours	25%	*	*	*			29 hrs in 2024 vs. 22 hrs in 2023 and 18hrs in 2022
5	Financial literacy programs	No of participants educated through programs	10%	*	*				10,034 individuals in FY24 lower than 15,141 in FY23
	Weighted score for social assessment		**100%**	*	*	*			
	Governance assessment								
1	Board age diversity	% under the 61 to 70 years old category	20%	*	*				90% 61-year-old and above
2	Board women representation	% of total board directors	10%	*	*	*			30%
3	Directors with tenure of 3-6 years	% in the 3 to 6 years or more category	20%	*	*	*			30% >5 years
4	Independent board directors	% of total board directors	20%	*	*	*	*		60% independent directors
5	Remuneration to directors	% of total operating expenses	10%	*	*	*			
6	Cybersecurity, Privacy and Data Protection	Confirmed incidents	20%	*					7 complaints on breaches of customer privacy and loss of data in FY24 similar to FY23
	Weighted score for governance assessment		**100%**	*	*	*			
	Environmental score		40%	*	*	*	*		
	Social score		25%	*	*	*			
	Governance score		35%	*	*	*			
	Overall ESG Score		**100%**	*	*	*			

Source:AmInvestment Bank, Company

EXHIBIT 6: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY23	FY24	FY25F	FY26F	FY27F
Net interest income	3,559.6	3,869.3	4,067.6	4,352.4	4,798.0
Non-interest income	1,844.4	2,559.6	2,613.2	2,667.9	2,723.7
Islamic banking income	2,366.4	2,176.0	2,231.5	2,288.5	2,346.9
Total income	**7,770.4**	**8,604.9**	**8,912.3**	**9,308.7**	**9,868.6**
Overhead expenses	(3,689.3)	(4,021.4)	(4,099.7)	(4,235.5)	(4,440.9)
Pre-provision profit	4,081.1	4,583.5	4,812.7	5,073.3	5,427.7
Loan loss provisions	(355.8)	(535.3)	(621.7)	(664.1)	(517.0)
Impairment & others	54.3	(1.8)	-	-	-
Associates	(26.3)	(26.2)	-	-	-
Pretax profit	**3,753.3**	**4,020.1**	**4,191.0**	**4,409.2**	**4,910.7**
Tax	(942.8)	(896.0)	(1,005.8)	(1,058.2)	(1,178.6)
Minority interests	(4.3)	(3.9)	(3.2)	(3.4)	(3.7)
Core net profit	**2,806.2**	**3,120.2**	**3,182.0**	**3,347.6**	**3,728.4**

Balance Sheet (RMmil, YE 31 Dec)	FY23	FY24	FY25F	FY26F	FY27F
Cash & deposits with FIs	14,145.4	11,551.6	22,815.5	22,428.7	24,704.2
Marketable securities	82,474.7	91,207.9	84,418.6	91,207.6	100,654.4
Total current assets	**96,620.1**	**102,759.6**	**107,234.1**	**113,636.3**	**125,358.6**
Net loans & advances	219,562.6	234,967.6	248,661.8	265,639.3	287,212.5
Statutory deposits	nm	nm	nm	nm	nm
Long-term investments	3,911.8	3,829.8	4,084.2	4,354.2	4,746.0
Fixed assets	1,066.2	1,018.3	1,018.8	1,005.3	986.0
Intangible assets	2,654.1	2,649.3	2,654.1	2,654.1	2,654.1
Other long-term assets	4,877.2	4,690.0	4,740.0	4,813.4	4,972.2
Total LT assets	**232,072.0**	**247,155.1**	**261,158.9**	**278,466.4**	**300,570.8**
Total assets	**328,692.1**	**349,914.6**	**368,393.0**	**392,102.7**	**425,929.5**
Customer deposits	245,083.1	249,565.5	264,539.4	283,057.2	305,701.7
Deposits of other FIs	17,022.4	27,205.0	28,589.1	30,045.1	36,241.1
Subordinated debts	3,377.2	3,380.3	3,670.3	3,826.3	4,071.0
Hybrid capital securities	5,650.0	3,624.8	4,161.4	4,731.2	5,555.5
Other liabilities	26,648.4	33,607.8	33,568.2	33,883.4	35,536.7
Total liabilities	**297,781.0**	**317,383.3**	**334,528.4**	**355,543.2**	**387,106.0**
Shareholders' funds	30,874.6	32,492.2	33,822.8	36,513.5	38,773.8
Minority interests	36.5	39.1	41.8	46.0	49.7

Key Ratios (YE 31 Dec)	FY23	FY24	FY25F	FY26F	FY27F
Total income growth (%)	(6.5)	10.7	3.6	4.4	6.0
Pre-provision profit growth (%)	(11.1)	12.3	5.0	5.4	7.0
Core net profit growth (%)	(6.2)	11.2	2.0	5.2	11.4
Net interest margin (%)	1.9	1.8	1.8	1.8	1.8
Cost-to-income ratio (%)	47.5	46.7	46.0	45.5	45.0
Effective tax rate (%)	25.1	22.3	24.0	24.0	24.0
Dividend payout (%)	60.9	59.7	60.0	60.0	60.0

Key Assumptions (YE 31 Dec)	FY23	FY24	FY25F	FY26F	FY27F
Loan growth (%)	4.8	6.9	6.0	7.0	8.0
Deposit growth (%)	7.9	1.8	6.0	7.0	8.0
Loan-deposit ratio (%)	89.6	94.2	94.0	93.8	94.0
Gross NPL (%)	1.7	1.5	1.6	1.5	1.5
Net NPL (%)	1.1	1.5	1.0	0.9	0.9
Credit charge-off rate (%)	0.2	0.2	0.3	0.3	0.2
Loan loss reserve (%)	71.7	78.6	86.1	99.5	95.3

Source: Company, AmInvestment Bank Bhd estimates

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