

RHB BANK

(RHBBANK MK EQUITY, RHBC.KL)

HOLD

(MAINTAINED)

Price: RM8.14

Target Price (% return): RM8.30 (8%)

52-week High/Low: RM8.50/RM6.07

Financial Services

Rationale for report: Company Update

Thin upside

Maintain HOLD on RHB with a GGM-TP of RM8.30. We are less bullish on the stock as valuations are not appealing (>+2SD) and yield is at a 5-year low (but still 80bp better vs peers). Besides, final Basel III reforms could shave 80-85bp off CET1 ratio and growth capital needs limit meaningful payout capacity. That said, we see sequentially positive profit momentum in 4Q25 and we raise FY25-27 earnings by 2%. Overall, we continue to observe better risk-reward investing in HLFG (>30% capital return potential).

- HOLD at GGM-TP of RM8.30 (from RM8.10)**, pegged to 1.0x FY26 P/B. Even though RHB is chugging along well operationally, valuations are not compelling as the stock trades >+2SD above its 5-/10-year mean levels. Instead, we see better risk-reward investing in HLFG (>30% capital return potential).
- Frothy valuations, yields less attractive.** We lift FY25-27 earnings by 2% on higher NIM and lower NCC assumptions. Despite this, its valuations are frothy (>+2SD) and yield is at a 5-year low (but still 80bp better vs peers). Though RHB hinted capital management, final Basel III reforms could shave 80-85bp off CET1 ratio, potentially restricting payout capacity. Also, growth capital needs further constrain flexibility, given DPR hovered at c.60% and CET1 ratio narrowed to <16% (from >17%) over the past 5 years.
- Top-line spark.** We expect NIM to recover sequentially from: (i) the full 3 month effect of expensive FD releases post-RM1.3bn banca takaful fee collection, (ii) downward FD repricing, and (iii) benign seasonal FD rivalry. Hence, our FY25 NIM assumption of -6bp is a tad conservative (guidance: 3-6bp slippage). Separately, we see loans growth holding up at c.6% (guidance: +5-6%), driven by its domestic portfolio, while fee and treasury income remained resilient QoQ.
- Asset quality boost**, considering it should be better QoQ (guidance: 1.4-1.5% vs 9M25: 1.5%), while FY25 NCC is likely to land at the lower range of its 15-20bp guidance (9M25: 17bp), below our 19bp projection. However, we do not anticipate meaningful QoQ CIR improvement, as RHB's cost initiatives will take time to filter through, with benefits more visible from FY26 onwards; 9M25 opex optimization stands at RM90m, with further take-out underway as RHB targets RM500m reduction by FY27.

Analyst (s)

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Key Changes

Target Price: [👉](#)
EPS: [👉](#)

Stock and Financial Data

| | |
|------------------------------|----------|
| Shares Outstanding (million) | 4,361.9 |
| Market Cap (RMmil) | 35,506.0 |
| Book Value (RM/Share) | 7.48 |
| P/BV (x) | 1.1 |
| ROE (%) | 9.8 |
| Free Float | 80.2 |
| Avg Daily Value (RMmil) | 46.5 |

Major Shareholders

| | |
|------|---------|
| EPF | (38.0%) |
| OSK | (10.3%) |
| KWAP | (5.4%) |

| Price performance | 3mth | 6mth | 12mth |
|-------------------|------|------|-------|
| Absolute(%) | 19.4 | 30.0 | 25.8 |
| Relative(%) | 11.5 | 15.7 | 15.1 |

Source: RHB Bank, AmInvestment Bank Bhd.

| YE to Dec | FY24 | FY25F | FY26F | FY27F |
|-------------------------------|---------|---------|---------|---------|
| Total income (RM mil) | 8,604.9 | 8,796.4 | 9,229.0 | 9,578.7 |
| Core net profit (RM mil) | 3,120.2 | 3,362.3 | 3,424.4 | 3,585.7 |
| FD Core EPS (sen) | 71.8 | 77.4 | 78.8 | 82.5 |
| FD Core EPS growth (%) | 11.2 | 7.8 | 1.8 | 4.7 |
| Consensus Net Profit (RM mil) | - | 3,306.0 | 3,419.0 | 3,631.0 |
| DPS (sen) | 43.0 | 47.0 | 48.0 | 50.0 |
| BV/share (RM) | 7.48 | 7.82 | 8.14 | 8.47 |
| PE (x) | 11.3 | 10.5 | 10.3 | 9.9 |
| Div yield (%) | 5.3 | 5.8 | 5.9 | 6.1 |
| P/BV (x) | 1.1 | 1.0 | 1.0 | 1.0 |
| ROE (%) | 9.8 | 10.1 | 9.9 | 9.9 |

Source: RHB Bank, AmInvestment Bank Bhd.

Price Chart

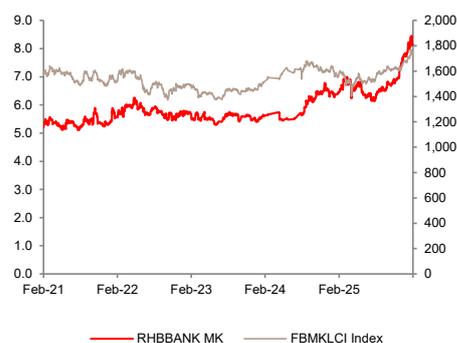
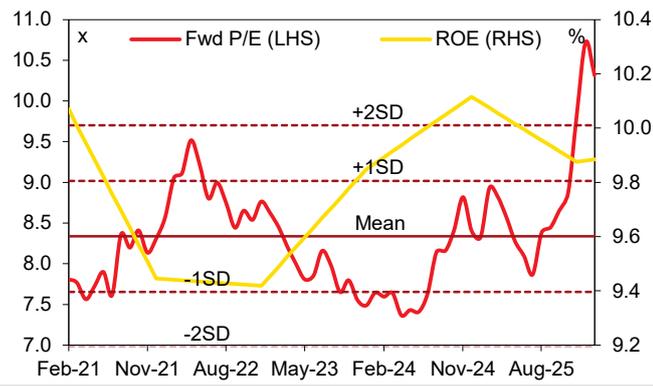
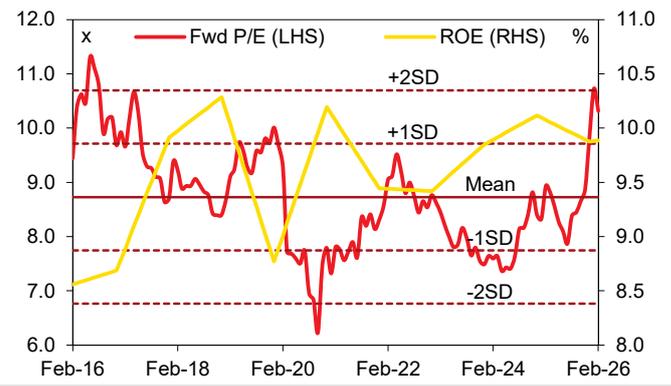


EXHIBIT 1. 5-YR FORWARD P/E BAND



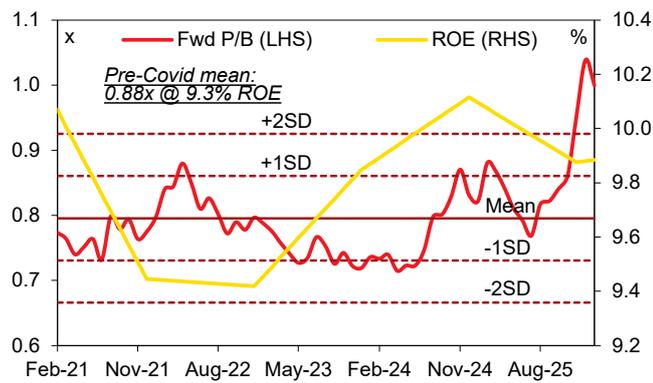
Source: AmInvestment Bank, Bloomberg

EXHIBIT 2. 10-YR FORWARD P/E BAND



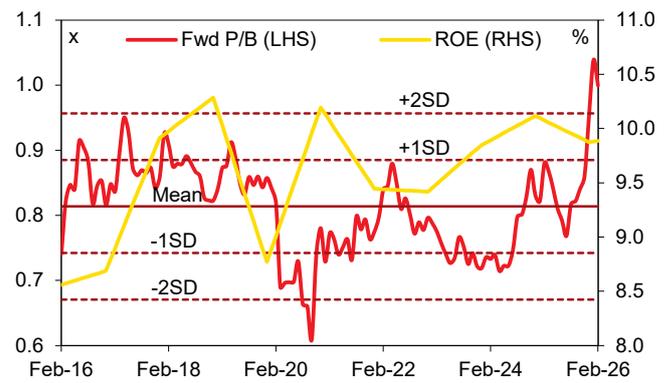
Source: AmInvestment Bank, Bloomberg

EXHIBIT 3. 5-YR FORWARD P/B BAND



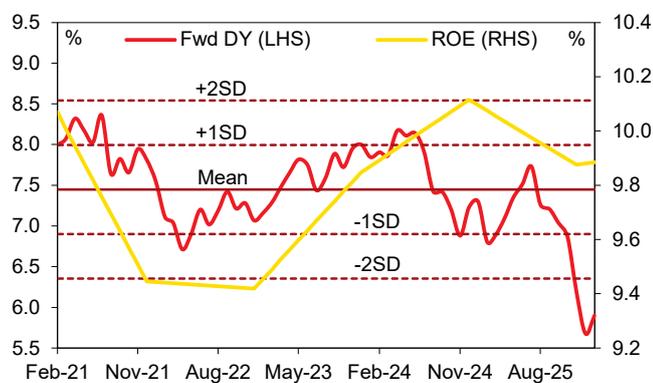
Source: AmInvestment Bank, Bloomberg

EXHIBIT 4. 10-YR FORWARD P/B BAND



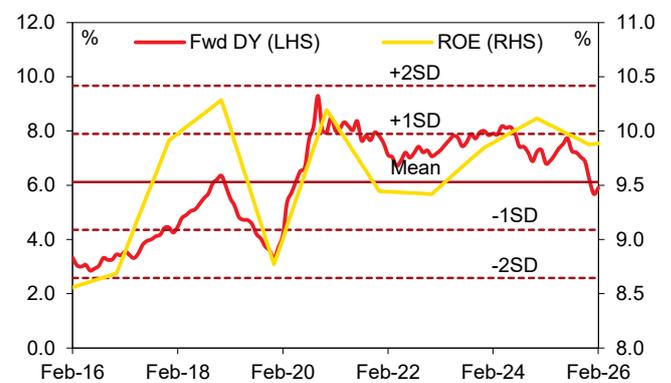
Source: AmInvestment Bank, Bloomberg

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) | | EPS growth (%) | | P/B (x) | | Div. yield (%) | | ROE (%) | |
|---------------------------|------------|-------------|------|-------------|-------------|----------------|------------|------------|------------|----------------|------------|------------|------------|
| | | | | 2026 | 2027 | 2026 | 2027 | 2026 | 2027 | 2026 | 2027 | 2026 | 2027 |
| Bank A | 2.64 | - | N.R. | 11.2 | 9.9 | 5.8 | 13.6 | 0.5 | 0.5 | 2.8 | 3.4 | 4.8 | 5.3 |
| Alliance | 5.29 | 5.20 | HOLD | 11.3 | 10.7 | 7.7 | 6.3 | 1.0 | 1.0 | 3.7 | 4.0 | 9.8 | 9.5 |
| BIMB | 2.46 | 2.50 | HOLD | 9.8 | 9.1 | 10.6 | 8.0 | 0.7 | 0.7 | 6.1 | 6.6 | 7.2 | 7.6 |
| CIMB | 8.47 | 9.20 | BUY | 10.9 | 10.6 | 5.7 | 3.1 | 1.2 | 1.2 | 5.9 | 6.1 | 11.2 | 11.1 |
| HLB | 24.76 | 25.80 | BUY | 11.5 | 10.9 | 3.1 | 5.8 | 1.2 | 1.1 | 4.0 | 4.3 | 10.9 | 10.8 |
| HLFG | 22.50 | 31.20 | BUY | 7.7 | 7.3 | 2.0 | 6.0 | 0.7 | 0.7 | 4.0 | 4.2 | 9.9 | 9.8 |
| Maybank | 11.92 | 10.80 | HOLD | 13.2 | 12.9 | 4.7 | 2.2 | 1.4 | 1.4 | 5.5 | 5.7 | 11.0 | 10.9 |
| MBSB | 0.74 | 0.73 | HOLD | 14.0 | 13.4 | 8.0 | 4.2 | 0.6 | 0.6 | 5.7 | 6.0 | 4.3 | 4.5 |
| Public | 4.94 | 5.10 | BUY | 12.7 | 12.2 | 5.0 | 3.8 | 1.5 | 1.4 | 4.8 | 5.0 | 12.2 | 12.1 |
| RHB | 8.15 | 8.30 | HOLD | 10.3 | 9.9 | 1.8 | 4.7 | 1.0 | 1.0 | 5.9 | 6.1 | 9.9 | 9.9 |
| Sector | | | | 11.3 | 10.7 | 5.4 | 5.8 | 1.0 | 1.0 | 4.9 | 5.1 | 9.1 | 9.2 |
| Sector (ex-Bank A) | | | | 11.3 | 10.8 | 5.4 | 4.9 | 1.0 | 1.0 | 5.1 | 5.3 | 9.6 | 9.6 |

Source: AmInvestment Bank

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 are Malaysia and Singapore contributing 90% and 7% to group PBT in 2024. 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. Also, its dividend yield is at a 5-year low (but still 80bp better vs peers). Although RHB has hinted at capital management, final Basel III reforms could shave 80-85bp off CET1 ratio, potentially capping payout capacity. Besides, growth capital needs further limit flexibility, given DPR hovered at c.60% and CET1 ratio dropped to $<16%$ (from $>17%$) over the past 5 years.

Overall, we see more capital upside and much better payoff profile investing in other mid-sized banks like HCFG (especially this) and HLB.

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 RM8.30 for RHB and it is based on 1.0x FY26 P/B with assumptions of 9.9% ROE, 9.7% COE, and 3.0% LTG. This is on par with the valuations of HCFG and Alliance (0.96-0.97x) given similar ROE output (9.5-9.8%), which effectively values RHB at close to $+2SD$ above its 5-year pre-pandemic mean level. Also, it is in line to sector average of 1.0x with ROE generation of 9.6%.

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) | 9.9% (from 9.7%) |
| Cost of equity (COE) | 9.8% |
| Long-term growth rate (LTG) | 3.0% |
| Target P/B | 1.02x (from 1.00x) |
| FY26 BVPS | RM8.14 (from RM8.12) |
| ESG premium | - |
| 12-month target price | RM8.30 (from RM8.10) |

Source: AmInvestment Bank

EXHIBIT 9. CHANGE IN FORECASTS

| (RM'm) | FY26 | | | FY27 | | | FY28 | | |
|------------------------|---------|---------|-------|---------|---------|------|---------|---------|------|
| | New | Old | % | New | Old | % | New | Old | % |
| Net interest income | 3,953.6 | 3,929.6 | 0.6 | 4,075.8 | 4,049.8 | 0.6 | 4,219.1 | 4,192.2 | 0.6 |
| Islamic banking income | 2,217.1 | 2,205.0 | 0.5 | 2,418.8 | 2,405.4 | 0.6 | 2,514.2 | 2,500.3 | 0.6 |
| Loan loss provisions | -391.5 | -454.5 | -13.9 | -497.1 | -530.5 | -6.3 | -511.6 | -567.1 | -9.8 |
| Core profit | 3,362.3 | 3,286.1 | 2.3 | 3,424.4 | 3,368.5 | 1.7 | 3,585.7 | 3,511.5 | 2.1 |

Source: AmInvestment Bank

Financial Summary

Income Statement (RMmil)

| YE to Dec | FY23 | FY24 | FY25F | FY26F | FY27F |
|------------------------|----------------|----------------|----------------|----------------|----------------|
| Net interest income | 3,559.6 | 3,869.3 | 3,953.6 | 4,075.8 | 4,219.1 |
| Non-interest income | 1,844.4 | 2,559.6 | 2,625.7 | 2,734.4 | 2,845.4 |
| Islamic banking income | 2,366.4 | 2,176.0 | 2,217.1 | 2,418.8 | 2,514.2 |
| Total income | 7,770.4 | 8,604.9 | 8,796.4 | 9,229.0 | 9,578.7 |
| Overhead expenses | (3,689.3) | (4,021.4) | (4,102.6) | (4,248.8) | (4,374.4) |
| Pre-provision profit | 4,081.1 | 4,583.5 | 4,693.8 | 4,980.1 | 5,204.3 |
| Loan loss provisions | (344.7) | (524.8) | (391.5) | (497.1) | (511.6) |
| Impairment & others | 43.2 | (12.3) | 100.0 | - | - |
| Associates | (26.3) | (26.2) | (30.0) | (30.0) | (30.0) |
| Pretax profit | 3,753.3 | 4,020.1 | 4,372.3 | 4,453.1 | 4,662.8 |
| Tax | (942.8) | (896.0) | (1,005.6) | (1,024.2) | (1,072.4) |
| Minority interests | (4.3) | (3.9) | (4.4) | (4.5) | (4.7) |
| Net profit | 2,806.2 | 3,120.2 | 3,362.3 | 3,424.4 | 3,585.7 |
| Core net profit | 2,806.2 | 3,120.2 | 3,362.3 | 3,424.4 | 3,585.7 |

Balance Sheet (RMmil)

| YE to Dec | FY23 | FY24 | FY25F | FY26F | FY27F |
|-----------------------------|------------------|------------------|------------------|------------------|------------------|
| Cash & deposits with FIs | 14,145.4 | 11,551.6 | 7,037.7 | 6,203.1 | 5,381.0 |
| Marketable securities | 58,171.9 | 64,925.3 | 70,755.9 | 72,928.7 | 75,174.7 |
| Total current assets | 72,317.3 | 76,476.9 | 77,793.6 | 79,131.9 | 80,555.7 |
| Net loans & advances | 219,562.6 | 234,967.6 | 249,289.0 | 261,713.8 | 274,771.7 |
| Statutory deposits | nm | nm | nm | nm | nm |
| Long-term investments | 28,214.6 | 30,112.5 | 31,015.8 | 31,946.3 | 32,904.7 |
| Fixed assets | 1,066.2 | 1,018.3 | 961.3 | 898.9 | 831.1 |
| Intangible assets | 3,467.3 | 3,487.6 | 3,475.2 | 3,457.5 | 3,434.5 |
| Other long-term assets | 4,064.1 | 3,851.8 | 3,851.8 | 3,851.8 | 3,851.8 |
| Total LT assets | 256,374.8 | 273,437.7 | 288,593.1 | 301,868.2 | 315,793.8 |
| Total assets | 328,692.1 | 349,914.6 | 366,386.6 | 381,000.1 | 396,349.5 |
| Customer deposits | 245,083.1 | 249,565.5 | 264,539.4 | 277,766.4 | 291,654.7 |
| Deposits of other FIs | 25,993.0 | 40,617.4 | 40,617.4 | 40,617.4 | 40,617.4 |
| Subordinated debts | 19,284.4 | 18,225.0 | 18,225.0 | 18,225.0 | 18,225.0 |
| Hybrid capital securities | - | - | - | - | - |
| Other liabilities | 7,420.6 | 8,975.4 | 8,975.4 | 8,975.4 | 8,975.4 |
| Total liabilities | 297,781.0 | 317,383.3 | 332,357.2 | 345,584.2 | 359,472.5 |
| Shareholders' funds | 30,874.6 | 32,492.2 | 33,985.9 | 35,367.9 | 36,824.3 |
| Minority interests | 36.5 | 39.1 | 43.5 | 48.0 | 52.6 |

Key Ratios

| YE to Dec | FY23 | FY24 | FY25F | FY26F | FY27F |
|---------------------------------|--------|------|-------|-------|-------|
| Total income growth (%) | (4.8) | 10.7 | 2.2 | 4.9 | 3.8 |
| Pre-provision profit growth (%) | (10.4) | 12.3 | 2.4 | 6.1 | 4.5 |
| Core net profit growth (%) | 4.8 | 11.2 | 7.8 | 1.8 | 4.7 |
| Net interest margin (%) | 1.8 | 1.8 | 1.7 | 1.7 | 1.7 |
| Cost-to-income ratio (%) | 47.5 | 46.7 | 46.6 | 46.0 | 45.7 |
| Effective tax rate (%) | 25.1 | 22.3 | 23.0 | 23.0 | 23.0 |
| Dividend payout (%) | 61.9 | 59.9 | 60.7 | 60.9 | 60.6 |

Key Assumptions

| YE to Dec | FY23 | FY24 | FY25F | FY26F | FY27F |
|----------------------------|------|------|-------|-------|-------|
| Loan growth (%) | 4.8 | 6.9 | 6.0 | 5.0 | 5.0 |
| Deposit growth (%) | 7.9 | 1.8 | 6.0 | 5.0 | 5.0 |
| Loan-deposit ratio (%) | 90.8 | 95.3 | 95.3 | 95.3 | 95.3 |
| Gross NPL (%) | 1.7 | 1.5 | 1.4 | 1.5 | 1.5 |
| Net NPL (%) | 1.1 | 1.0 | 1.0 | 1.0 | 1.1 |
| Credit charge-off rate (%) | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 |
| Loan loss reserve (%) | 71.7 | 78.6 | 75.9 | 75.8 | 75.4 |

Source: Company, AmInvestment Bank Bhd.

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