



AmResearch

Company report

RHB CAPITAL

(RHBC MK, RHBC.KL)

5 December 2012

Validated by mimicry

BUY

(Maintained)

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Rationale for report: Company Update

Price	RM7.52
Fair Value	RM8.60
52-week High/Low	RM8.03/RM6.80

Key Changes

Fair value	Unchanged
EPS	Unchanged

YE to Dec	FY11	FY12F	FY13F	FY14F
Total income (RMmil)	4,307.8	4,610.8	5,023.6	5,345.9
Core net profit (RMmil)	1,501.5	1,691.4	1,921.8	1,999.3
Core EPS (Sen)	68.1	67.7	74.8	75.7
EPS growth (%)	3.3	n/a	10.5	1.2
Consensus EPS (Sen)	n/a	74.5	81.1	88.0
DPS (Sen)	25.4	20.6	22.6	22.6
BV/share (RM)	5.19	5.90	6.44	6.97
PE (x)	11.0	11.1	10.1	9.9
Div yield (%)	3.4	2.8	3.0	3.0
P/BV (x)	1.4	1.3	1.2	1.1
ROE (%)	14.0	12.9	12.3	11.4

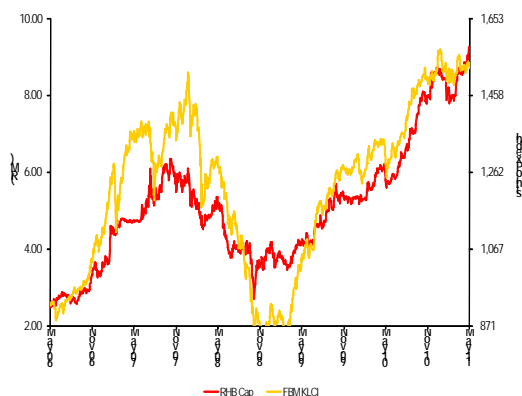
Stock and Financial Data

Shares Outstanding (million)	2,204.82
Market Cap (RMmil)	16,580.2
Book value (RM/share)	5.19
P/BV (x)	1.4
ROE (%)	14.0

Major Shareholders	Employees Provident Fund (41.4%) Aabar Investments PJS (22.4%)
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Free Float (%)	46.0
Avg Daily Value (RMmil)	8.7

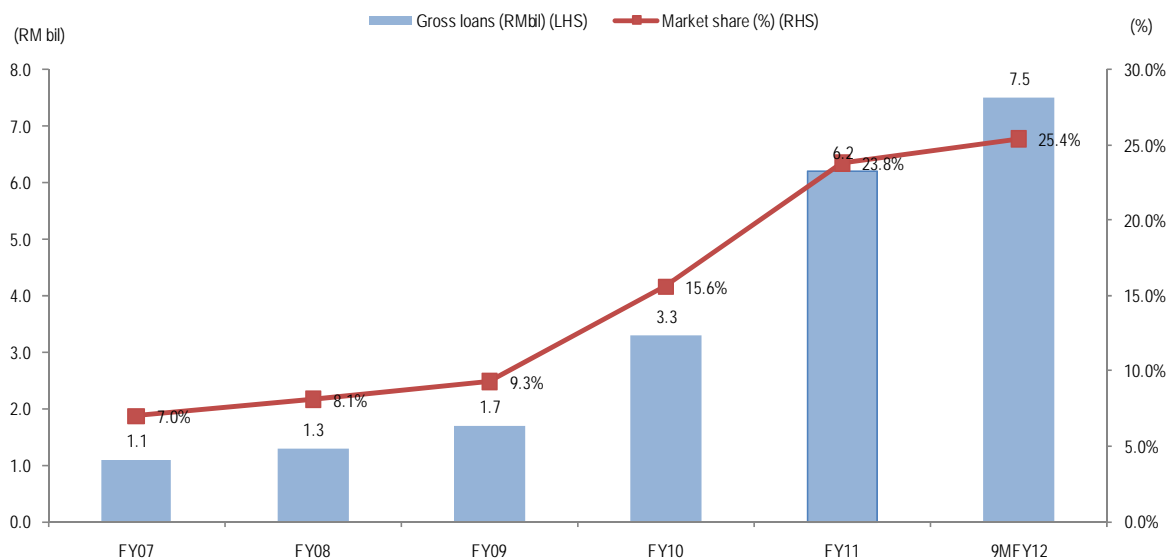
Price performance	3mth	6mth	12mth
Absolute (%)	3.7	3.7	1.2
Relative (%)	6.5	0.4	(6.8)



Investment Highlights

- We maintain our BUY rating on RHB Capital Bhd (RHB Cap), with an unchanged fair value of RM8.60/share, based on an ROE of 12.3%, and a fair P/BV of 1.3x FY13F.
- Major competitor Malayan Banking (Maybank) had recently unveiled a new banking service called Maybank One Solution (Maybank One), which is a new kiosk banking concept that includes approval of personal loans within 10 minutes to 20 minutes (vs. a few days previously). Recall Maybank had alluded to planning a kiosk banking concept since early this year. Maybank One's kiosks banking concept thus mimics that of RHB Cap's kiosk banking niche, Easy.
- There will be seven services provided from Maybank One's kiosks: Personal Saver, Flexi Saver Plan, Personal Cash, Amanah Saham Bumi (ASB) Flexi Loan (unit trust financing), ASB Flexi Cash, Premium PA Plus and Domestic Travel Care. The types of products being offered are therefore similar to RHB Cap's Easy's ASB financing, personal loan, savings and insurance products.
- We expect Maybank One's kiosks banking to require some gestation time before taking off. Maybank currently has 25 kiosks, with a target to raise it to 33-35 by end-2012 and to 45 by end-2013. In contrast, RHB Cap already has 245 Easy kiosks nationwide.
- RHB Cap has been gaining market share in terms of ASB unit trust financing, rising nearly 3-fold to 25.4% currently from 9.3% three years ago in FY09, before Easy took off in a big way. The other two banks which are involved in ASB financing are Maybank, and CIMB Group Holdings (CIMB). We estimate Maybank's market share of ASB financing at 58%, and CIMB's at 16% currently.
- We expect Maybank to be more cautious in terms of its kiosks banking outlet expansion, given that there may be some cannibalisation effect. This is because Maybank currently has the largest number of branch network locally at 385, compared with RHB Cap's 197.
- So in a nutshell, we do not anticipate a major impact from Maybank's new kiosks banking concept. On the other hand, with Maybank now venturing into kiosk banking, this validates RHB Cap's Easy kiosk banking niche market.
- For RHB Cap, we expect the following to rerate its share price:- (a) stabilisation in gross impaired loans; (b) better-than-expected loan loss provisions; (c) higher fee income from its investment bank; (d) reassurance on capital; and (e) newsflow on management team; (f) finalisation of rights issue for Bank Mestika.

CHART 1: ASB FINANCING



Source: Company / AmResearch6

❑ RHB Cap's EASY was launched in 2009

Recall that RHB launched its first two Easy outlets in mid-2009. The number of outlets was increased to 14 by end-2009, 111 at end-2010, 236 at end-2011 and to 245 currently.

Easy is based on the concept of providing simple and convenient banking to the under-served mass market segment, not unlike the concept of AirAsia providing low-cost travel.

Key unique features of its Easy outlets are fast turnaround time of 10 minutes or less, and paperless transactions. Besides this, such outlets are equipped with ATM and cash deposit machines to offer convenient banking services.

Easy's major product offerings are:- (a) personal financing; (b) unit trust (ASB) financing; (c) debit cards; (d) life insurance plans (e) PA insurance protection plans; and (f) structured deposits.

❑ Similar target locations for both

Maybank One's kiosks are located at branch self-service terminal areas, shopping malls and hypermarkets.

The locations are thus similar to RHB Cap's Easy, which are primarily located in hypermarkets and post offices, besides standalone locations.

❑ 25 kiosks for Maybank One currently compared with 245 for RHB Cap's Easy

Maybank added that of the 33 kiosks targeted by end-2013, 15 are in existing branches, eight in shopping malls and 10 in hypermarkets.

As for RHB Cap's Easy, of the 245 EASY outlets, 128 are standalone outlets; 42 are located in Tesco hypermarkets, 50 in post offices and 25 at LRT stations.

For Maybank, it had alluded to introducing this outside of Malaysia, but added that further studies would be required before it decides to do so.

❑ Maybank One aimed at raising cross-selling ratio as well as lower cost of branches

Maybank is aiming to convert part its mass market customers into Maybank One Solution customers. Maybank said that it has added 400,000 new accounts, out of which 90% were mass market accounts.

Also, Maybank added that a kiosk instead of a branch offers cost savings of up to 80%. The 45 new kiosks for next year would cost about RM40,000 each.

❑ RHB Cap's Easy has been gaining market share in ASB financing

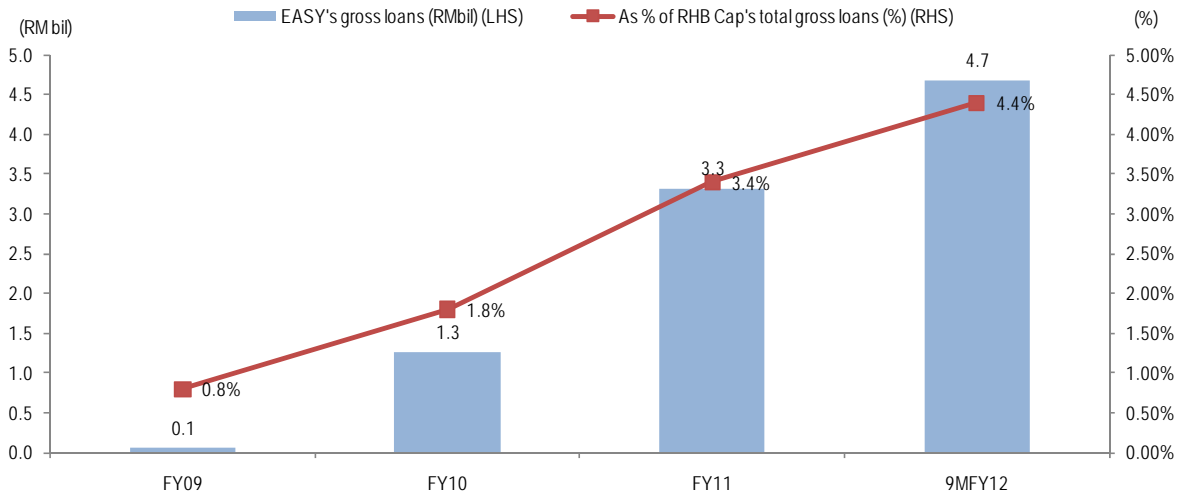
RHB Cap's Easy loans are primarily driven by Amanah Saham Nasional (ASB) unit trust financing and personal loans.

ASB financing makes up 75% of the total loan base for Easy, while the balance 25% comes from personal loans.

As such, RHB Cap had been gaining market share in terms of ASB financing. Market share for ASB loans rose nearly 3-fold to 25.4% currently from 9.3% three years ago in FY09 (see Chart 1 above).

The other two banks which are involved in ASB financing are Maybank, and CIMB Group Holdings (CIMB). We estimate Maybank's market share of ASB financing at 58%, and CIMB's at 16% currently.

CHART 2: EASY'S TOTAL GROSS LOANS



Source: Company / AmResearch

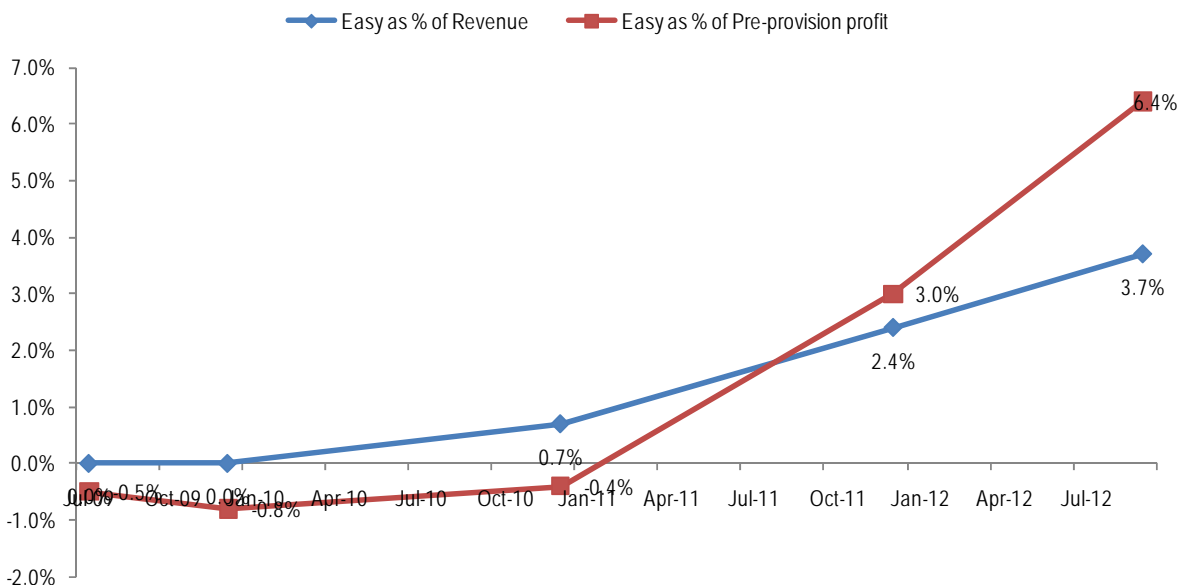
□ New competition for RHB Cap's Easy looks muted in the medium term

We expect Maybank to be more cautious in terms of its kiosks banking outlet expansion, given that there may be some cannibalisation effect. This is because Maybank currently has the largest number of branch network locally at 385, compared with RHB Cap's 197.

So in a nutshell, we do not anticipate a major impact from Maybank's new kiosks banking concept. On the other hand, with Maybank now venturing into kiosk banking, this validates RHB Cap's Easy kiosk banking niche market.

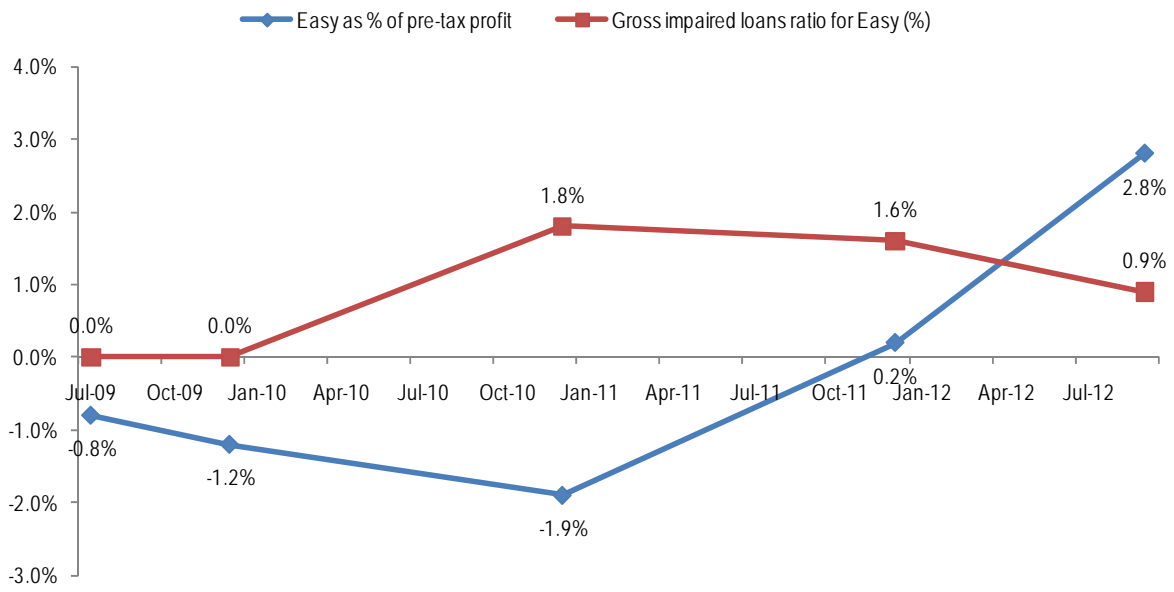
For RHB Cap, we expect the following to rerate its share price:- (a) stabilisation in gross impaired loans; (b) better-than-expected loan loss provisions; (c) higher fee income from its investment bank; (d) reassurance on capital; and (e) newsflow on management team; (f) finalisation of rights issue for Bank Mestika.

CHART 3: EASY NOW CONTRIBUTES 6.4% TO TOTAL PREPROVISIONING PROFIT



Source: Company / AmResearch

CHART 4: EASY'S GROSS IMPAIRED LOANS RATIO REMAINS LOW



Source: Company / AmResearch

TABLE 1 : FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	2010	2011	2012F	2013F	2014F
Net interest income	2,673.2	2,787.3	2,773.1	3,003.7	3,269.1
Non-interest income	1,043.3	1,081.5	1,368.1	1,517.3	1,539.1
Islamic banking income	333.8	438.9	469.6	502.5	537.7
Total income	4,050.3	4,307.8	4,610.8	5,023.6	5,345.9
Overhead expenses	(1,639.6)	(1,903.3)	(1,865.5)	(1,989.8)	(2,129.0)
Pre-provision profit	2,410.6	2,404.5	2,745.4	3,033.8	3,216.9
Loan loss provisions	(415.6)	(327.5)	(492.3)	(473.5)	(553.3)
Impairment & others	(96.6)	(77.3)	0.0	0.0	0.0
Associates	0.8	0.4	5.0	5.0	5.0
Pretax profit	1,899.3	2,000.1	2,258.1	2,565.3	2,668.5
Tax	(470.7)	(496.5)	(564.5)	(641.3)	(667.1)
Minority interests	(8.3)	(2.1)	(2.1)	(2.1)	(2.1)
Net profit	1,420.3	1,501.5	1,691.4	1,921.8	1,999.3
Core net profit	1,420.3	1,501.5	1,691.4	1,921.8	1,999.3
Balance Sheet (RMmil, YE 31 Dec)	2010	2011	2012F	2013F	2014F
Cash & deposits with FIs	14,754.5	20,358.5	26,320.3	31,582.9	37,263.4
Marketable securities	26,627.5	27,815.6	27,970.4	28,147.2	28,346.9
Total current assets	41,382.0	48,174.1	54,290.7	59,730.1	65,610.3
Net loans & advances	81,228.1	94,823.5	102,414.2	111,123.3	120,561.2
Statutory deposits	0.0	0.0	0.0	0.0	0.0
Long-term investments	459.6	3,282.6	5,708.7	6,185.9	6,705.8
Fixed assets	1,023.2	1,106.5	1,117.6	1,128.7	1,140.0
Intangible assets	3,806.9	3,806.9	5,619.0	5,619.0	5,619.0
Other long-term assets	1,425.8	1,200.2	1,223.8	1,247.9	1,272.5
Total LT assets	87,943.5	104,219.6	116,083.3	125,305.0	135,298.6
Total assets	129,325.5	152,393.7	170,374.1	185,035.1	200,908.9
Customer deposits	94,433.8	115,860.6	129,796.4	141,468.5	154,191.0
Deposits of other FIs	10,066.2	10,031.4	10,833.9	11,700.6	12,636.6
Subordinated debts	7,929.0	7,719.6	7,303.6	7,251.7	7,200.4
Hybrid capital securities	4,608.3	5,174.2	5,422.9	5,684.1	5,958.1
Other liabilities	2,315.2	2,157.6	2,265.5	2,378.8	2,497.7
Total liabilities	119,352.5	140,943.4	155,622.3	168,483.7	182,483.9
Shareholders' funds	9,962.2	11,438.4	14,737.7	16,535.2	18,406.8
Minority interests	10.8	11.9	14.0	16.2	18.3
Key Ratios (YE 31 Dec)	2010	2011	2012F	2013F	2014F
Total income growth (%)	10.5	6.4	7.0	9.0	6.4
Pre-provision profit growth (%)	14.8	n/a	14.2	10.5	6.0
Core net profit growth (%)	18.2	5.7	12.6	13.6	4.0
Net interest margin (%)	2.6	2.4	2.2	2.1	2.1
Cost-to-income ratio (%)	40.5	44.2	40.5	39.6	39.8
Effective tax rate (%)	24.8	24.8	25.0	25.0	25.0
Net dividend payout (%)	28.8	30.0	30.4	30.2	29.8
Key Assumptions (YE 31 Dec)	2010	2011	2012F	2013F	2014F
Loan growth (%)	20.2	16.2	7.8	8.3	8.4
Deposit growth (%)	11.3	22.7	12.0	9.0	9.0
Loan-deposit ratio (%)	88.6	84.0	80.8	80.3	79.8
Gross NPL (%)	4.4	3.4	3.5	3.0	2.4
Credit charge-off rate (%)	(0.5)	(0.4)	(0.5)	(0.4)	(0.5)
Loan loss reserve (%)	67.6	73.8	67.2	72.5	85.5
RWCR (%)	13.8	15.8	18.3	18.4	18.5
Core (%)	10.5	12.3	12.9	13.4	13.8

Source: Company, AmResearch estimates

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