

RHB BANK BERHAD THAILAND

No. 88/2019
17 June 2019

FINANCIAL INSTITUTIONS

Issuer Rating:	AA
Short-Term Issuer Rating:	T1+
Outlook:	Stable

Last Review Date: : 22/06/18

Company Rating History:

Date	Rating	Outlook/Alert
21/04/17	AA	Stable

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RATIONALE

TRIS Rating affirms the issuer rating on RHB Bank Berhad Thailand (RHB) at “AA” and also affirms RHB’s short-term issuer rating at “T1+” with “stable” outlook. The ratings reflect the credit profile of the head office, RHB Bank Berhad, Malaysia (RHB Bank Berhad), and strong liquidity position of RHB Bank Berhad Thailand. Based on its branch legal status, RHB Bank Berhad Thailand is assigned the same rating as RHB Bank Berhad in Malaysia.

The issuer rating is based on TRIS Rating’s assessment of RHB Bank Berhad relative to its peers within the Malaysian banking industry. The rating takes into consideration RHB Bank’s relatively stable business profile supported by diversified earnings, strong capital, good asset quality, and healthier impaired loan coverage. These strengths are, however, constrained by modest profitability and a relatively high reliance on wholesale funding due to its moderate deposit franchise, relative to its peers.

As RHB Bank Berhad’s main business operation is in Malaysia, the rating also takes into consideration the strengths and risk profile of Malaysia’s economy and banking industry.

KEY RATING CONSIDERATIONS

A mid-sized Malaysian banking group with diversified earnings

RHB Bank Berhad is the fourth largest commercial bank in Malaysia, among a total of eight local banks. Apart from its commercial banking operations, RHB Bank Berhad also has significant operations in securities brokerage, insurance, and asset management businesses through its subsidiaries -- RHB Investment Bank Berhad, RHB Insurance Berhad, and RHB Asset Management Sdn Bhd.

RHB Bank Berhad has a relatively stable business profile based on its market position and earnings mix. Market share in domestic gross loans for December 2018 was at 9%¹, similar to the previous year. Net interest income represented 73% of total revenue² in 2018. Net fee income contributed 14% of total revenue in the same period. Revenue contribution from retail banking (including insurance), corporate and investment banking, and business banking to the group represented 36%, 22%, and 15% in 2018, respectively.

RHB Bank Berhad has a presence in almost all member countries in the Association of Southeast Asian Nations (ASEAN). However, overseas revenues remain modest. In 2018, its international business contributed 7% of total revenue and loans from overseas operations made up 9% of its total loan portfolio. The most established international presence is in Singapore.

A targeted focus on domestic growth and digitisation

Retail customers are RHB Bank Berhad’s largest customer segment, based on revenue contribution. From the loan portfolio perspective, retail lending and, in particular, mortgage lending accounted for 50% and 32%, respectively, of its total loan portfolio. Large domestic corporate and domestic small and medium enterprise (SME) segments made up 26% and 14% of total loans, respectively, as of December 2018.

Starting in 2018, RHB Bank Berhad has embarked on a 5-year strategy called

¹ Including Malaysia and Labuan Offshore

² Including net interest income, net fee and commission income, and other income

“FIT22”. The priorities are targeted growth in Malaysia with focus on affluent-retail and SME clients³, and niche opportunities overseas. The strategy is supported by the digital transformation programme and the implementation of the AGILE way of working to boost performance, improve operational efficiency, and deliver service excellence.

Solid capital position

RHB Bank Berhad has strong capital. Its Basel-III compliant common equity tier-1 (CET-1) capital ratio was 15.5%⁴, accounting for 83% of total capital at the end of 2018. TRIS Rating views that this level is sufficient to support business expansion over the next few years. Diversified earnings also support the strong capital position.

Stronger profitability

TRIS Rating expects some pressure on the bank’s profitability over the medium term despite steady improvement seen in 2017 and 2018. Return on average assets (ROAA) of the bank improved to 0.97% in 2018, from 0.84% in 2017, as its net interest margin (NIM) improved and credit costs dropped. As a result, risk-adjusted NIM also improved to 2.11% in 2018, from 1.80% in 2017. However, the Bank Negara Malaysia’s (BNM) decision to lower its overnight policy rate (OPR) by 25 basis points (bps) in May 2019 and fierce competition in mortgage as one of RHB’s key lending segment may compress its NIM over the next few years. To improve its profitability further, RHB Bank Berhad places strategic focus on expanding high-yield SME segments and low-cost deposit base, and controlling its operating expenses. The bank also expects to maintain a cost-to-income target around the current level of 49% in 2019, with planned investments in digital initiatives over the next few years.

Asset quality and reserves improve steadily

We expect RHB Bank Berhad to maintain sound asset quality amid uncertainties over future economic growth. Its asset quality improved further in 2018, thanks largely to reclassification of an account from impaired to performing. Gross impaired loan ratio fell to 2.06% at the end of 2018, from 2.23% a year earlier, whilst the amount fell by 2.4%. Credit costs similarly dropped to 19 bps in 2018 from 26 bps in 2017. The bank expects credit cost to remain around this level in 2019. Post-MFRS9 impaired loan coverage ratio, excluding regulatory reserves, also improved to 93% at the end of 2018, comparable to several other Malaysian banks. The figure was 51% at the end of 2017.

Average funding for a mid-sized bank

RHB Bank Berhad’s funding is average relative to other Malaysian banks. The bank relies more on wholesale funding⁵ when compared with some of its larger peers, as its retail deposit franchise remains moderate. Borrowings made up 14% of total funding at the end of 2018. Business enterprises continued to dominate customer deposits, around 59%, at the end of 2018. The bank’s current account and savings account (CASA) ratio at 26% at the end of 2018 still trailed some of its larger Malaysian peers. Its loan-to-deposit ratio of 94.4% at the end of 2018 was close to the industry average.

Liquidity is adequate

RHB Bank Berhad’s liquidity position is in line with the industry with its liquid assets to total deposits including bills and acceptances at 32.4% at the end of 2018. The majority of its financial investments were in liquid government securities, money market instruments, and private debt securities. The bank’s liquidity coverage ratio (LCR) was well above the minimum requirement.⁶

SHORT-TERM ISSUER RATING FACTORS

The short-term issuer rating at “T1+” reflects RHB Bank Berhad Thailand’s long-term credit profile and its strong liquidity position. RHB, as a foreign branch bank, is subject to the regulatory liquidity requirement of the Bank of Thailand (BOT). The bank is required to maintain adequate liquidity to support normal business operations. Access to funding from its head office, interbank markets, and standing facilities from the BOT also provides additional liquidity support for RHB. The bank’s LCR was well above the minimum requirement.⁷

³ The strategic targets are to: i) expand SME client base as a driver for growth, ii) focus on wealth and affluent clients among SME client base, and iii) increase share of wallet and penetration among corporate clients.

⁴ After proposed dividend

⁵ This includes deposits from banks and other financial institutions and various forms of borrowings.

⁶ > 100% in Malaysia

⁷ > 90% in 2019 in Thailand

RATING OUTLOOK

The “stable” outlook reflects TRIS Rating’s expectation that RHB Bank Berhad will maintain its market position, stable business profile, and strong capital position and that there is no significant deterioration in its asset quality, as well as funding and liquidity positions.

RATING SENSITIVITIES

RHB Bank Berhad’s credit profile could be negatively affected if there is a significant deterioration in its capital position, asset quality, funding, or liquidity. Positive rating actions will depend on RHB Bank Berhad’s ability to consistently improve its market position, funding capability, and profitability on a sustained basis.

COMPANY OVERVIEW

RHB Bank Berhad is Malaysia's oldest and first local bank. Kwong Yik (Selangor) Banking Corporation (Kwong Yik Bank) was incorporated in July 1913. The merger between Kwong Yik Bank Berhad and DCB Bank Berhad, founded in 1966, formed RHB Bank Berhad in 1997. The merger created the third-largest financial service group in Malaysia. Mergers with Sime Bank Berhad and Utama Banking Group took place in 1999 and 2003, respectively. In 2005, RHB Banking Group received a licence for RHB Islamic Bank Berhad, its Islamic banking arm. In 2012, RHB Capital, the Group's holding company, acquired OSK Investment Bank. A corporate restructuring commenced in April 2015 and was completed on 28 June 2016. RHB Bank Berhad assumed the listing status of RHB Capital Berhad after acquiring the equity interests of all of the subsidiaries of RHB Capital. As a result, RHB Bank Berhad became the ultimate holding company of the RHB Banking Group.

Starting in 2018, RHB Bank Berhad has embarked on a 5-year strategy called “FIT22”, with three top priorities. First, target growth strategy in Malaysia including: i) growing SME client base; ii) offering wealth products to the affluent clients in the SME segment; and iii) increasing share of wallet and penetration among large- and mid-sized corporate clients. Second, leverage on its strength in the capital market business to identify niche opportunities overseas. Third, undertake the “Digital Transformation Program” involving investment in digital initiatives and personnel development. The digitisation program will lead to a faster work process, customer centricity, talent development, and enhanced digital offerings to clients.

The RHB Bank Group consists of RHB Bank Berhad and its subsidiaries, including RHB Investment Bank Berhad, RHB Islamic Bank Berhad, RHB Insurance Berhad, and RHB Asset Management Sdn Bhd. The Group offers financial products and services covering commercial banking, Islamic banking, transaction banking, investment banking, treasury services, stock brokerage and offshore banking, as well as non-bank offerings in general insurance, unit trust management, and asset management/nominee and custodian services. The products and services are tailored to meet the demands of the retail, commercial, SME, and corporate customer segments. The Group's products and services are made available through both physical and digital distribution channels covering over 9 ASEAN countries plus Hong Kong and China. Operations in Singapore are the largest overseas contributors in terms of asset size and revenue.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS¹

RHB Bank Berhad, Malaysia

Unit: MYR million

	Year Ended 31 December				
	2018	2017	2016	2015 ²	2014 ³
Total assets	243,166	230,210	236,679	227,938	204,637
Average assets	236,688	233,444	232,309	n.a. ⁶	189,397
Investment in securities	50,469	47,427	48,799	46,897	37,524
Gross loans, advances and financing	168,879	160,124	154,469	151,386	141,328
Allowance for impaired loans	3,252	1,826	2,132	1,795	1,757
Deposits	178,856	166,158	165,636	158,158	154,857
Borrowings ⁴	29,645	30,743	36,514	36,928	28,559
Total equity ⁵	23,396	23,184	21,774	17,692	15,435
Average equities ⁵	23,290	22,479	19,733	16,684	14,423
Total revenue	6,806	6,384	6,190	6,175	4,985
Net interest income	3,655	3,522	3,453	3,408	3,242
Islamic business income	1,428	1,079	977	876	733
Allowance for impairment losses on loans	322	417	595	343	243
Net fee and commission income	960	1,040	1,062	1,192	552
Gains on trading	490	443	384	442	369
Other operating income	1,722	1,784	1,759	1,891	1,010
Operating expenses	3,358	3,184	3,095	3,630	2,412
Net profit	2,309	1,956	1,688	1,669	1,867

1 Consolidated financial statements

2 Restated

3 RHB Bank Group before corporate restructuring excludes investment banking and insurance subsidiaries. As such, the numbers are not directly comparable.

4 Including deposits and placements of other financial institutions, obligations on securities sold under repurchase agreements, bills and acceptance-payables, borrowings, subordinated obligations, hybrid Tier-1 capital securities, and senior debt securities.

5 Including non-controlling interests from fiscal year 2015 (FY2015) to FY2017

6 Figures are not comparable due to corporate restructuring.

Unit: %

	Year Ended 31 December				
	2018	2017	2016	2015 ²	2014 ³
Earnings					
Return on average assets	0.97	0.84	0.72	0.75	0.99
Return on average equities	9.91	8.69	8.55	9.98	12.94
Interest spread ⁴	1.97	1.86	1.82	n.a. ⁷	1.98
Net interest margins ⁴	2.25	2.09	2.04	2.10	2.19
Net fee and commission income/total revenue	14.10	16.29	17.16	19.31	11.07
Gains on trading/total revenue	7.20	6.93	6.20	7.16	7.40
Cost-to-income	49.3	49.9	50.0	58.8	48.39
Capitalisation					
CET-1 ratio ⁵	15.92	14.23	13.33	10.71	11.06
Tier-1 ratio ⁵	16.13	14.49	13.61	11.04	11.45
Total capital ratio ⁵	19.21	17.50	17.41	15.18	15.48
CET-1/total capital ratio ⁵	82.86	81.30	76.57	70.54	71.48
Asset Quality					
Credit costs	0.19	0.26	0.39	0.23	0.19
Impaired loan formation/average gross loans	n.a.	0.49	0.94	n.a. ⁷	0.31
Gross impaired loans/gross loans	2.06	2.23	2.43	1.88	1.93
Loan loss coverage ratio (excluding regulatory reserve)	93.34	51.18	56.86	63.19	64.35
Funding & Liquidity					
CASA ratio	25.94	30.24	25.64	23.98	22.18
Loan-to-deposit ratio	94.42	95.96	93.27	95.71	91.25
Deposit from customers/total liabilities	81.38	80.60	77.07	75.23	81.85
Liquid assets/total deposits ⁶	32.37	31.10	34.34	33.98	30.62
Gross loans/total assets	69.45	69.56	65.27	66.41	69.05

1 Consolidated financial statements

2 Restated

3 RHB Bank Group before corporate restructuring excludes investment banking and insurance subsidiaries. As such, the numbers are not directly comparable.

4 Based on TRIS Rating's calculation

5 Group basis before proposed dividend

6 Including bills and acceptance-payable

7 Figures are not comparable due to corporate restructuring.

n.a. Not available

RELATED CRITERIA

- Commercial Banks, 30 March 2017

- Short-Term Rating, 31 October 2007

RHB Bank Berhad Thailand (RHB)

Issuer Rating:	AA
Short-term Issuer Rating	T1+
Rating Outlook:	Stable

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