

RHB BANK BERHAD THAILAND

No. 123/2022
27 July 2022

FINANCIAL INSTITUTIONS

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

Last Review Date: 30/06/21

Company Rating History:

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

Contacts:

Annop Supachayanont, CFA
annop@trisrating.com

Jantana Taveeratanasilp
jantana@trisrating.com

Jittrapan Pantaleard
jittrapan@trisrating.com

Narumol Charnchanavivat
narumol@trisrating.com



WWW.TRISRATING.COM

RATIONALE

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

The issuer rating on RHB Bank Berhad Thailand is based on TRIS Rating’s assessment of RHB Bank Berhad’s performance relative to its peers within the Malaysian banking industry. The rating takes into consideration RHB Bank Berhad’s relatively stable business profile supported by diversified earnings, strong capital, and conservative risk management. These strengths are, however, constrained by the bank’s average profitability and a moderate deposit franchise.

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

RHB Bank Berhad is a mid-sized bank with well-executed strategies

Our assessment of RHB Bank Berhad’s business risk profile reflects its mid-sized commercial banking operations with a stable and diversified franchise. The bank operates strong capital market, wealth management, and insurance businesses through its subsidiaries. The bank is also primarily domestic focused, with moderate contribution from international businesses at around 9% of total revenue in 2021.

In early 2022, RHB Bank Berhad introduced a new three-year strategy – “Together We Progress 2024” (TWP24). The strategy outlined further room to grow through deepening engagements with target customer segments. Domestically, these include affluent and mass affluent retails, small- and medium-sized enterprises (SMEs), and small- and mid-cap corporations. At the same time, the bank seeks to mobilise niche strategies across ASEAN countries.

Additionally, we expect the benefits from the bank’s recent acquisition in 2022 of a digital banking licence via a joint venture with Axiata Group Berhad (Axiata) to be two-fold. First, the new digital bank could be an extension of RHB Bank Berhad’s digital banking platform. Second, it should allow RHB Bank Berhad to tap into new under-served segments. We expect the initial contribution from the new digital banking operations to be modest. The digital bank is expected to commence its operation in 2023.

Strong capital supported by average profitability

RHB Bank Berhad’s strong capitalisation continues to be the strength in its credit profile. We expect the bank’s core equity tier-1 (CET-1) ratio to be around 17% over 2022-2023, factoring in an organic loan growth of around 5% as the domestic economy gradually recovers. RHB Bank Berhad has the strongest capital ratio across domestic Malaysian banks, based on its CET-1 ratio after proposed dividends of 16.8% as of March 2022. The CET-1 made up 87% of total capital indicates high-quality capital.

The following recent developments support the bank's strong capital: 1) the management's supportive policy to maintain the bank's strong capital, whilst maintaining a dividend guidance of no less than 30%; 2) recent rounds of capital increase through a "Dividend Reinvestment Plan" (DRP) since 2021 contributed an additional MYR976.1 million to shareholders' equity; and 3) relatively low risk weights assigned to sizable residential mortgage exposure further enhance the bank's capital ratio.

Profitability of RHB Bank Berhad based on the return on average assets (ROAA) is average when compared with other Malaysian peers. We expect the bank's ROAA to gradually improve to 1.0% in 2022-2023. This is based on an economic-recovery scenario, with our assumptions of a net interest margin (NIM) improvement from a higher overnight policy rate (OPR) towards 2.75%, cautionary expected credit costs (ECL) of 35 basis points (bps), and a cost-to-income ratio (CIR) of 45% in 2022. The bank's ROAA was 0.94% in 2021, improving from 0.77% in 2020, as the ECL trended down in subsequent rounds of the movement controls.

Cautiously optimistic on asset quality

We expect gradual improvements to RHB Bank Berhad's asset quality to be supported by loan exposure with relatively low risks, prudent provisioning, and continued recovery in local economic activities. Retail segments made up around 60% of the bank's domestic lending in March 2022, around two-thirds of which were secured owner-occupied mortgage loans.

Overall loans under the repayment assistance (RA) programme dropped to 5% of total domestic loans at the end of May 2022, down from 12% at the end of January 2022. Among the most notable reduction was the retail segment as most borrowers were able to resume their monthly instalments. Improvements could, however, be more gradual for SME borrowers in the real-estate and construction sectors as they continued to face challenges of weak demand and falling rental income. SME loans under the RA programme stood at 11% at the end of May 2022, falling from 19% at the end of January 2022.

We expect prudent provisioning to provide RHB Bank Berhad's cushions to potential downside risks from asset quality. This may occur if, for instance, a resurgence of new Coronavirus Disease 2019 (COVID-19) variants derails the recovery trajectory of the domestic economy. A slight uptick of the bank's stage-2 loans to 7.27% in the first quarter of 2022, after a decline from 10.45% a year earlier, further reflects our cautious view. As such, we expect the bank's ECL to stay above a pre-pandemic level at 35 bps for 2022. The bank's loan loss coverage, as a result, sustained at a favourable 125.7% in March 2022. Its ECL of 29 bps in 2021 was below that of several domestic Malaysian banks. The ratio of gross impaired loans (GIL) fell to 1.50% in March 2022, from 1.66% a year earlier.

Maintaining the funding strategy

RHB Bank Berhad continues to improve its funding profile as a mid-sized bank by expanding its reach in the affluent retail, SME, and commercial segments. Its funding strategy highlights growth in sticky current account-savings accounts (CASA) deposits beyond traditional branch channels, including digital banking and company payrolls. Year-on-year (y-o-y) growth in customer deposits was 3.9% as of March 2022, driven by growth from these targeted segments. The CASA ratio, however, slightly dropped to 29% in March 2022, due to expansion in fixed deposits. The bank sustained its mid-sized deposit market shares, with retail deposit market shares of 8.7% in March 2022, an improvement from 8.5% in March 2021. The loan-to-deposit ratio (LDR) was at a healthy 88.9% in March 2022.

Adequate liquidity

RHB Bank Berhad's liquidity remained healthy with its liquid assets to total deposits at 36% in March 2022. The majority of its financial investments were in cash, liquid government securities, money market instruments, and private debt securities. The bank's liquidity coverage ratio (LCR) as of March 2022 was 145%, well above the minimum requirement.¹

SHORT-TERM ISSUER RATING FACTORS

The short-term issuer rating at "T1+" assigned to RHB Bank Berhad Thailand reflects its long-term credit profile and its strong liquidity position. RHB Bank Berhad Thailand, as a branch of a foreign bank, is subject to the regulatory liquidity requirements of the Bank of Thailand (BOT). The bank is required to maintain adequate liquidity to support normal business operations. Access to funding from its headquarters, interbank markets, and standing facilities from the BOT provide additional liquidity support for RHB Bank Berhad Thailand. The bank's LCR was above the minimum requirement.²

¹ > 100% in Malaysia

² > 100% in 2020 in Thailand

RATING OUTLOOK

The “stable” outlook reflects TRIS Rating’s expectation that RHB Bank Berhad will maintain its stable business profile and strong capital position. We also expect the bank to maintain a healthy level of asset quality, as well as an adequate funding and liquidity position.

RATING SENSITIVITIES

The ratings on RHB Bank Berhad Thailand could be revised downwards if there is a material deterioration in RHB Bank Berhad’s capital position, asset quality, funding, or liquidity. Positive rating actions will depend on the RHB Bank Berhad’s ability to consistently improve its market position, funding profile, and/or 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 the subsidiaries of RHB Capital. As a result, RHB Bank Berhad became the ultimate holding company of the RHB Banking Group.

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 nine ASEAN countries. 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: Mil. MYR

	-----Year Ended 31 December -----				
	Jan-Mar 2022	2021	2020 *	2019 *	2018
Total assets	297,599	289,541	271,150	257,592	243,166
Average assets	293,570	280,346	264,371	250,379	236,688
Investment in securities	64,450	61,881	63,371	58,678	50,469
Gross loans, advances, and financing	201,348	198,512	186,114	176,175	168,879
Allowance for impaired loans	3,800	3,610	3,806	2,980	3,252
Deposits	226,527	218,733	203,471	190,555	178,856
Borrowings ²	32,812	32,679	29,094	31,046	29,645
Total equity	28,101	28,031	27,057	25,811	23,396
Average equities	28,066	27,544	26,434	24,603	23,290
Total revenue	1,903 ³	8,034 ³	7,604 ³	7,057	6,806
Net interest income	990	4,062	3,761	3,603	3,655
Islamic business income	519	2,117	1,666	1,614	1,428
Allowance for impairment losses on loans	146	575	1,075	319	322
Net fee and commission income	227	1,094	1,028	897	960
Gains on trading	66	417	796	590	490
Other operating income	405	1,876	2,177	1,840	1,722
Operating expenses	859	3,522	3,387	3,387	3,358
Net profit	601	2,623	2,039	2,488	2,309

* Restated

1 Consolidated financial statements

2 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 unsecured debt securities

3 Excluding modification loss

Unit: %

	-----Year Ended 31 December -----				
	Jan-Mar 2022	2021	2020 *	2019 *	2018
Earnings					
Return on average assets ³	0.82	0.94	0.77	0.99	0.98
Return on average equities ³	8.57	9.52	7.71	10.11	9.91
Interest spread ^{3,4}	1.95	2.10	1.91	1.90	1.98
Net interest margins ^{3,4}	2.10	2.26	2.12	2.18	2.25
Net fee and commission income/total revenue	11.9	13.6	13.5	12.7	14.1
Gains on trading/total revenue	3.5	5.2	10.5	8.4	7.2
Cost-to-income	45.1	45.2	47.1	48.0	49.3
Capitalisation					
CET-1 ratio ⁵	17.41	17.83	16.42	16.88	15.92
Tier-1 ratio ⁵	17.41	17.83	16.42	16.88	16.13
Total capital ratio ⁵	20.03	20.46	18.60	19.21	19.21
CET-1/total capital ratio ⁵	86.88	87.17	88.27	87.90	82.86
Asset Quality					
Credit costs ³	0.29	0.29	0.58	0.18	0.19
Gross impaired loans/gross loans	1.50	1.49	1.71	1.97	2.06
Loan loss coverage ratio (excluding regulatory reserve)	125.7	122.4	119.7	85.7	93.3
Funding & Liquidity					
CASA ratio	29.0	30.0	30.9	25.7	25.9
Loan-to-deposit ratio	88.9	90.8	91.5	92.5	94.4
Deposit from customers/total liabilities	84.1	83.6	83.4	82.2	81.4
Liquid assets/total deposits ⁶	36.1	35.2	34.9	33.6	32.4
Gross loans/total assets	67.7	68.6	68.6	68.4	69.4

* Restated

1 Consolidated financial statements

2 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 unsecured debt securities

3 Annualised

4 Based on TRIS Rating's calculation

5 Group basis before proposed dividend

6 Including bills and acceptance-payable

RELATED CRITERIA

- Banks Rating Methodology, 3 March 2020

- Short-Term Rating, 31 October 2007

RHB Bank Berhad Thailand (RHB Thailand)

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

TRIS Rating Co., Ltd.

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: +66 2 098 3000

© Copyright 2022, TRIS Rating Co., Ltd. All rights reserved. Any unauthorized use, disclosure, copying, republication, further transmission, dissemination, redistribution or storing for subsequent use for any purpose, in whole or in part, in any form or manner or by any means whatsoever, by any person, of the credit rating reports or information is prohibited, without the prior written permission of TRIS Rating Co., Ltd. The credit rating is not a statement of fact or a recommendation to buy, sell or hold any debt instruments. It is an expression of opinion regarding credit risks for that instrument or particular company. The opinion expressed in the credit rating does not represent investment or other advice and should therefore not be construed as such. Any rating and information contained in any report written or published by TRIS Rating has been prepared without taking into account any recipient's particular financial needs, circumstances, knowledge and objectives. Therefore, a recipient should assess the appropriateness of such information before making an investment decision based on this information. Information used for the rating has been obtained by TRIS Rating from the company and other sources believed to be reliable. Therefore, TRIS Rating does not guarantee the accuracy, adequacy, or completeness of any such information and will accept no liability for any loss or damage arising from any inaccuracy, inadequacy or incompleteness. Also, TRIS Rating is not responsible for any errors or omissions, the result obtained from, or any actions taken in reliance upon such information. All methodologies used can be found at www.trisrating.com/rating-information/rating-criteria