RHB Bank (RHBBANK MK)

1H26: Resilient 1H26, Better 2H26 Ahead

Highlights

- 1H26 earnings came in within expectations, supported by higher NII, positive JAWS and lower credit costs.
- 2Q26 earnings fell qoq on weaker NOII and NIM compression, partly cushioned by higher NII and lower NCC.
- Downgrade to HOLD with an unchanged RM9.10 target price (1.11x 2027F P/B, 10.3% ROE). Risk-reward is now more balanced following the strong ytd performance.

2Q26 Results

Year to 31 Dec (RMm)	2Q26 (RMm)	2Q25 (RMm)	yoy % chg	1H26 (RMm)	yoy % chg
Net Interest Income	1,038.4	953.0	9.0	2,045.8	6.4
Islamic Banking	694.0	345.2	101.1	1,355.8	50.2
Fees & Commissions	269.8	232.4	16.1	556.6	22.2
Net Trading Income	120.3	160.6	(25.1)	255.7	5.3
Other Operating Income	38.4	463.8	(91.7)	142.8	(79.0)
Total Income	2,160.8	2,155.0	0.3	4,356.8	3.7
Operating Expenses	(1,022.3)	(1,015.5)	0.7	(2,037.4)	2.6
PPOP	1,138.5	1,139.5	(0.1)	2,319.4	4.6
Provision on loans	(80.1)	(89.4)	(10.4)	(170.4)	(12.7)
PBT	1,058.4	1,050.0	0.8	2,149.0	6.3
Net Profit	807.2	803.5	0.5	1,664.0	7.1
EPS (sen)	20.1	20.0	0.5	41.5	7.1
DPS (sen)	15.0	15.0	0.0	15.0	0.0
BVPS (RM)	7.81	7.66	1.9	7.81	1.9
Financial Ratios (%)	2Q26 %	2Q25 %	yoy +/-ppt	1H26	yoy +/-ppt
NIM	1.82	1.81	0.01	1.82	0.01
Loan Growth, yoy	7.0	5.9	1.1	5.7	1.3
Deposit Growth, yoy	6.9	4.4	2.5	4.0	2.9
Loan/Deposit Ratio	95.3	95.1	0.2	97.2	(1.9)
Cost/Income Ratio	47.3	47.1	0.2	46.2	1.1
ROE	9.6	9.8	(0.2)	10.2	(0.6)
NPL Ratio	1.5	1.5	(0.0)	1.5	(0.0)
Credit Costs (bp)	12.4	14.8	(2.4)	14.3	(1.9)
Loan Loss Cov	73.5	77.5	(4.0)	38.7	34.8
CET-1 CAR	14.8	15.9	(1.1)	14.7	0.1

Source: RHB Bank, UOB Kay Hian

Analysis

- **In line.** RHB Bank (RHB) posted 2Q26 net profit of RM807m (+0.5% yoy, -5.8% qoq), lifting 1H26 earnings to RM1,664.0m (+7.1% yoy). Results are in line, at 47%/48% of our/consensus full- year estimates respectively. 1H26 earnings grew 7.1% yoy, supported by higher NII (+5.3%), lower credit allowances and positive operating JAWS. Net credit cost improved to 13bps, while flat NOII reflected a weaker treasury income that was offset by stronger wealth fees.

Key Financials

Year to 31 Dec (RMm)	2024	2025	2026F	2027F	2028F
Net interest income	3,869	3,880	4,285	4,573	4,870
Non-Interest Income	2,560	2,735	2,865	2,951	3,010
Net profit (rep./act.)	3,120	3,365	3,541	3,699	3,856
Net profit (adj.)	3,120	3,365	3,541	3,699	3,856
EPS (sen)	71.4	77.0	81.0	84.6	88.2
PE (x)	12.2	11.3	10.7	10.3	9.8
P/B (x)	1.2	1.1	1.1	1.1	1.0
Dividend yield (%)	5.0	5.8	5.6	5.8	6.1
Net int margin (%)	1.82	1.74	1.80	1.79	1.78
Cost/income Ratio (%)	46.7	47.3	46.9	47.0	47.0
Loan loss cover (%)	78.6	76.6	82.6	87.8	92.6
Consensus net profit	-	-	3,420	3,628	3,811
UOBKH/Consensus (x)	-	-	1.04	1.02	1.01

Source: RHB Bank, Bloomberg, UOB Kay Hian

Analyst(s)

Philip Wong
philipwong@uobkh.com
(603) 2147 1996

Keith Wee Teck Keong
keithwee@uobkh.com
(603) 2147 1981

HOLD (Downgraded)

Share Price	RM8.68
Target Price	RM9.10
Upside	4.8%

Stock Data

Sector	Financials
Bloomberg ticker	RHBBANK MK
Shares issued (m)	4,360.0
Market cap (RMm)	37,893.7
Market cap (US$m)	9.402.4
3-mth avg daily t'over (US$m)	57.0

Price Performance (%)

52-week high/low				RM8.88/RM6.54
1mth	3mth	6mth	1yr	YTD
2.2	2.7	2.9	32.0	12.9

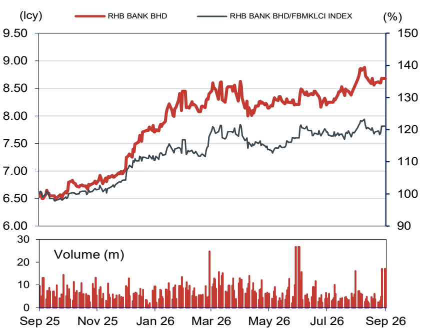
Major Shareholders (%)

EPF	39.0
OSK Holdings	10.3

Balance Sheet Metrics

FY26F NAV/Share (RM)	8.1
FY26F CAR Tier -1 (%)	17.9

Price Chart



Source: Bloomberg

Company Description

Fifth largest fully integrated financial services groups in Malaysia by total assets size. Provides universal banking services to customers.

- **2Q26 earnings rose 0.5% yoy**, supported by higher NII (+6.0%) and lower credit allowances (-10.4%). This was partly offset by weaker NOII (-12.6%), dragged by treasury income (-36.4%). NIM improved 1bp yoy to 1.82%, while mildly negative operating JAWS kept PPOP broadly flat (-0.1%).
- **2Q26 earnings fell 5.8% qoq,** mainly due to weaker NOII (-9.4%), dragged by lower treasury income. NII still rose 1.6%, supported by 1.7% loan growth, despite a 4bp NIM compression to 1.82%. A lower net credit cost of 12bps (1Q26: 14bps) provided some cushion, but negative operating JAWS drove PPOP down 3.6%.
- **NIM softened qoq.** Group NIM fell 4bps to 1.82% in 2Q26, as reduced benefits from fixed deposit repricing and higher interbank funding costs weighed on domestic margins, partly cushioned by an improvement in Singapore NIM on lower SORA. Management expects 2H26 NIM to improve off a better funding mix and higher-yielding loan growth, and maintains its 2026 guidance of 1.83–1.86%.
- **Loan growth remained healthy.** RHB's 1H26 loan growth stood at 6.1% annualised, slightly ahead of management's 5-6% guidance, with yoy growth at 7.0%. Key contributors were mortgages (+7.0% yoy), auto financing (+8.9%), corporate (+9.0%) and commercial banking (+12.4%), while SME loans remained soft (-0.7%). Singapore was also strong at +13.2% yoy.
- **NOII remained subdued.** 2Q26 NOII fell 9.4% qoq and 12.6% yoy, dragged by weaker treasury income (-12.5% qoq, -36.4% yoy) as securities gains declined sharply and forex/derivative income softened. This was partly cushioned by resilient fee income (+20.4% yoy), led by wealth management (+74.5%). Management expects wealth income to remain supportive in 2H26.
- **GIL ratio stable.** Group GIL held steady qoq at 1.47% in 2Q26, while domestic GIL improved 1bp to 1.27%, mainly from a sharp recovery in commercial banking, with SME and corporate asset quality also improving. Stage 2 loans eased to 4.60%. LLC stood at 73.5%, or a healthy 115.4% including regulatory reserves, while management retained its RM339m overlay.
- **Net credit cost continued to improve.** Net credit cost fell 2bps qoq to 12bps in 2Q26, bringing 1H26 to 13bps vs 18bps in 1H25 and within management's 13-14bps guidance. The improvement reflected corporate rating upgrades and RM26m of recoveries, alongside the absence of last year's RM35m US-tariff overlay. Management expects 2H26 credit cost to remain around current levels or potentially improve further.
- **Aligning payout assumption.** We lower our dividend payout assumption to 60% from 65%, to better align with management's 50-60% payout guidance. While RHB's capital position remains comfortable, a more measured payout is appropriate as the group balances its capital management priorities and growth in higher-yielding segments, which are relatively more capital-intensive.
- **Outlook.** 2026 key guidance are as follows: a) Loans growth: 5-6%, b) net credit cost: 13-14bp, c) ROE: 10.8-11.0%, d) GIL ratio: 1.35-1.40%, e) CIR: 46-47%, and f) NIM: 1.83-1.86%.
- **Stronger 2H26 expected.** Expect ROE momentum to improve in 2H26, supported by: a) NIM recovery from a better CASA mix and higher-yielding commercial/middle-market loan growth, b) stronger NOII from wealth management, c) further credit recoveries, and d) continued cost optimisation.

Valuation/Recommendation

- **Downgrade to HOLD with an unchanged target price of RM9.10 (1.11x 2027F P/B, 10.3% ROE).** Valuations have become less compelling following its stellar ytd share price performance, making it the best performing bank. The stock now trades at 1.1x P/B, in line with the sector average but above +2SD of RHB's own seven-year historical P/B band, despite offering a comparable 10.3% ROE and dividend yield of 5.6-6.1%. With much of the re-rating already reflected in the share price, we see a more balanced risk-reward from current levels.

Earnings Revision/Risk

- No revision to earnings.
- **Risks.** Key downside risks include: a) weaker-than-expected SME asset quality trends, particularly from second-order oil price/geopolitical spillovers; b) heightened deposit competition which could pressure NIM; and c) softer market-sensitive NOII, especially from weaker brokerage, trading income and forex gains.

Key Assumptions

(%)	2026F	2027F	2028F
Loan Growth	5.5	5.0	4.8
Credit Cost (bp)	13	13	13
ROE	10.1	10.3	10.5

Source: UOB Kay Hian

Environmental, Social, Governance (ESG) Updates

Environmental

- Green loan commitment. RHB remains committed to Net Zero by 2050 and Carbon Neutral Operations by 2030. Operational GHG emissions were reduced by 49.9% against its 2016 baseline, ahead of its 2025 target of 47.5%.

Social

- Board and upper management gender diversity. RHB maintained strong diversity progress, with women accounting for 39.9% of top and senior management, ahead of its 33.3% target by 2027.
- Community impact initiatives supported over 1.5m cumulative beneficiaries, 29,916 SMEs, 228,198 individuals through financial literacy and 1,073 micro-SMEs, with RHB Foundation and RHB Bank investing RM5.4m and RM6.8m respectively.

Governance

- Non-independent board of directors composition. Board independence remained healthy, with Independent Directors making up 60% of the Board in 2025. The Chairman and GMD/CEO roles are held by separate individuals, supporting independent oversight and avoiding concentration of authority.

Source: RHB Bank, UOB Kay Hian

Profit & Loss

Year to 31 Dec (RMm)	2025	2026F	2027F	2028F
Interest income	9,812	8,957	9,577	10,148
Interest expense	(5,931)	(4,672)	(5,005)	(5,277)
Net interest income	3,880	4,285	4,573	4,870
Fees & commissions	991	1,040	1,071	1,093
Net Trading Income	608	633	652	665
Other income	1,136	1,193	1,228	1,253
Income from Islamic banking	2,159	2,224	2,291	2,360
Total income	8,774	9,374	9,815	10,240
Staff costs	(2,466)	(2,664)	(2,837)	(2,993)
Other operating expense	(1,688)	(1,732)	(1,777)	(1,823)
Pre-provision profit	4,620	4,979	5,201	5,424
Loan loss provision	(214)	(344)	(361)	(378)
Other provisions	0	0	0	0
Associated companies	(28)	(28)	(28)	(28)
Pre-tax profit	4,378	4,607	4,812	5,017
Tax	(1,010)	(1,062)	(1,110)	(1,157)
Minorities	(4)	(4)	(4)	(4)
Net profit	3,365	3,541	3,699	3,856
Net profit (adj.)	3,365	3,541	3,699	3,856

Balance Sheet

Year to 31 Dec (RMm)	2025	2026F	2027F	2028F
Cash with central bank	2,286	1,817	1,938	2,059
Govt treasury bills & securities	89,698	97,548	106,092	115,395
Interbank loans	549	604	664	731
Customer loans	247,910	261,349	274,204	287,139
Investment securities	0	0	0	0
Derivative receivables	2,453	2,344	2,235	2,127
Associates & JVs	65	65	65	65
Fixed assets (incl. prop.)	1,101	1,117	1,134	1,153
Other assets	14,042	14,769	15,602	16,583
Total assets	358,104	379,613	401,935	425,251
Interbank deposits	31,018	33,499	36,179	39,074
Customer deposits	252,537	267,689	283,751	300,776
Derivative payables	283	295	306	319
Debt equivalents	7,020	7,020	7,020	7,020
Other liabilities	33,056	36,178	38,790	41,188
Total liabilities	323,914	344,681	366,046	388,376
Shareholders' funds	34,146	34,883	35,836	36,818
Minority interest - accumulated	44	48	53	57
Total equity & liabilities	358,104	379,613	401,935	425,251

Cash Flow

Year to 31 Dec (RMm)	2024	2025F	2026F	2027F
Capital Adequacy				
Tier-1 CAR	15.2	17.8	17.3	16.9
Total CAR	17.6	20.1	19.5	19.0
Total assets/equity (x)	10.5	10.9	11.2	11.6
Tangible assets/tangible common equity (x)	11.6	12.0	12.3	12.6
Asset Quality				
NPL Ratio	1.4	1.4	1.4	1.4
Loan Loss Coverage	76.6	82.6	87.8	92.6
Loan Loss Reserve/Gross Loans	1.1	1.2	1.2	1.3
Increase in NPLs	1.5	4.5	5.3	5.7
Credit Cost (bp)	8.5	13.0	13.0	13.0
Liquidity				
Loan/Deposit Ratio	98.2	97.6	96.6	95.5
Liquid Assets/Short-Term Liabilities	32.6	33.2	33.9	34.7
Liquid Assets/Total Assets	25.8	26.3	27.0	27.8

Key Metric

Year to 31 Dec (%)	2024	2025F	2026F	2027F
Growth				
Net Interest Income, yoy Chg	0.3	10.4	10.4	10.4
Fees & Commissions, yoy Chg	1.5	5.0	5.0	5.0
Pre-Provision Profit, yoy Chg	0.8	7.8	7.8	7.8
Net Profit, yoy Chg	7.8	5.2	5.2	5.2
Customer Loans, yoy Chg	5.5	5.4	5.4	5.4
Customer Deposits, yoy Chg	1.2	6.0	6.0	6.0
Profitability				
Net Interest Margin	1.74	1.80	1.79	1.78
Cost/Income Ratio	47.3	46.9	47.0	47.0
Adjusted ROA	1.1	1.0	1.0	1.0
Reported ROE	9.9	10.2	10.3	10.5
Adjusted ROE	9.9	10.2	10.3	10.5
Valuation				
P/BV (x)	1.1	1.1	1.1	1.0
P/NTA (x)	1.2	1.2	1.2	1.1
Adjusted P/E (x)	11.3	10.7	10.3	9.8
Dividend Yield	5.8	5.6	5.8	6.1
Payout ratio	65.0	60.0	60.0	60.0

IMPORTANT NOTICE - DISCLOSURES AND DISCLAIMERS

This report is provided subject to various disclosures and disclaimers (the "Disclosures / Disclaimers") which form an integral part of this report and are available at this link or by scanning the QR code below:

The Disclosures / Disclaimers contain important information, including without limitation, (a) exclusions of liability, (b) confidentiality obligations, (c) restrictions on publication, circulation, reproduction, distribution and use of the report, (d) potential conflicts of interest, and (e) disclosures and requirements specific to recipients in the United States and other applicable jurisdictions.

Specifically, this report is intended for general circulation and informational purposes only and does not take into account the specific investment objectives, financial situation, or particular needs of any individual person. It is not intended to constitute personal investment advice or a recommendation to buy or sell any investment product or security. You should independently evaluate the information and, where necessary, seek advice from a qualified financial adviser regarding the suitability of any investment, taking into account your specific objectives, financial situation and needs, before making any investment decision. Analyst certifications required under applicable regulations, including SEC Regulation AC (where relevant), are included in this report.

Recipients of this report must carefully read, review and understand the full Disclosures / Disclaimers before using or relying on any information in this report. By accessing, receiving or using this report, you acknowledge and confirm that you have read, understood, accepted and agreed to be bound by the Disclosures / Disclaimers (as may be amended or updated from time to time) in full."