BANKING

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Investment Research

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Company Update

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RHB CAPITAL

BUY

Price	**RM2.70**
Target	**RM3.50**

Share Profile / Statistics	
Bloomberg Ticker	RHBC MK
KLCI	965.23
Issued share capital (m)	1823.475
Market Capitalisation (RMm)	4996.321
52 week High (RM)	2.95
52 week Low (RM)	2.11
Average Volume (3m) '000	1515.062
YTD Returns (%)	23.982
Beta (x)	1.5
ROC/WACC (x)	1.0
5 yr Average ROE (%)	7.02
5 yr Average ROA (%)	0.4
Latest ROE (%)	9.1
Latest ROA (%)	0.4
Gross Loans Growth (%)	7.3
Loan Loss Coverage (%)	61.1
Net NPL Ratio (%)	5.52
CCR (%)	8.99
RWCR (%)	13.16
NTA/share (RM)	1.92
Foreign Shareholding (%)	13.3

Major Shareholders (%)	
1. RHB	64.87
2. Skim Ama. Saham Bumi.	1.52
3. PNB	1.19

Share Performance

(%)	1m	3m	6m	12m
Absolute	3.4	1.1	19.0	13.6
Relative	0.3	(5.1)	10.9	9.0

Growth Profile (%)

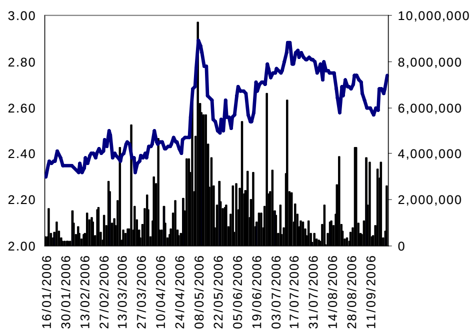
	04a	05a	06f	07f
Total Inc.	49.8	-20.5	14.4	9.6
Pre-Tax	73.3	-22.9	34.0	19.3
Net Profit	82.4	-30.9	27.7	19.3

% To Total Income

	04a	05a	06f	07f
Overheads	51.1	48.7	46.7	46.7
Provisions	20.9	21.0	21.4	21.4

Historical Price Ratio

(x)	01a	02a	03a	04a
P/Sales	1.07	1.33	0.9	1.14
P/Earnings	16.67	33.57	12.34	13.98
P/Book	1.05	1.15	0.8	1.01



The Merger Talks Continue

Latest Development. Over the weekend, The Edge Weekly reported that Utama Banking Group's (UTAMA) asking price may be between RM1.45 and RM1.65/share on a fully diluted basis for its entire stake in RHB (inclusive the 32.8%-stake, 449m-ICULS-A as well as 357m-ICULS-B of RHB). The above pricing translates into total amount of RM1.5bn and RM1.7bn, which is in line with our earlier expectation.

UTAMA Holds:-	m shares	Fully Diluted Share Cap of RHB	m shares
Conversion via ICULS-A	449.21	Outstanding Share Cap	726.15
Conversion via ICULS-B	357.05	Additional # of shares	451.02
Existing Shareholdings	238.13	Additional # of shares	535.63
Fully Diluted	**1,044.39**	**Enlarged Share Cap**	**1,712.80**

A Recap. As per our 3Q06 Investment Strategy, we had presumed UTAMA to demand for RM1.68bn or RM1.60/share (fully diluted basis), after incorporating its book value of RHB-stake with an estimated impairment losses of about RM600m that was written off earlier.

	Total Amount (RM'bn)	Price per RHB share (RM)	Comments
Our Earliest Estimate	1.08	1.03	Almost at UTAMA's book costs on a fully diluted basis
Earlier Reported	1.26	1.20	Share @RM2 each, ICULS A & B @ market price
Our Highest Estimate	1.68	1.60	Book Cost incorporating RM600m impairment on a fully diluted basis

Comments. We reckon EPF could re-negotiate for a lower pricing threshold as at RM1.65/share (fully diluted) should imply RHBCAP value at a hefty RM5.00/share as compared to our RM3.50 fair value. Whilst RHB could have a direct exposure in the potential GO, the risk that EPF could ask for a waiver persists. As such, an indirect exposure in UTAMA could be a better bet, as the Group ultimately would be a cash rich company from the deal. We estimate UTAMA's book value could ballooned to RM2.31/share should it manage to sell its entire RHB-stake at RM1.60/share (fully diluted). Incorporating a 30% discount for the uncertainty of capital repayment, UTAMA could be valued at RM1.62/share. Meanwhile an indirect exposure in RHBCAP could be the safest as it is the crown jewel of the Group. We maintain our BUY call with immediate target at RM2.90 and RM3.50 next, irrespective of the M&A premium.

FYE Dec (RMm)	FY03	FY04	FY05a	FY06f	FY07f
Net Interest Income	1,382.90	2,078.66	1,626.25	1,964.52	2,188.19
Islamic Banking Income	105.00	197.07	147.67	188.06	212.68
Other Non-Interest Inc.	657.55	938.96	781.99	771.26	802.89
Total Income	2,145.45	3,214.69	2,555.92	2,923.83	3,203.76
Net Profit	250.60	457.21	315.78	403.27	481.29
Consensus Net Profit	-	-	-		
EPS (sen)	13.7	25.1	17.3	22.1	26.4
Book Value/share (RM)	2.12	2.31	2.46	2.63	2.85
NTA/share (RM)	1.47	1.67	1.82	1.83	1.92
Gross DPS (sen)	7.5	10.0	3.5	5.0	5.0
Gross Div. Yield (%)	2.8	3.7	1.3	1.9	1.9
PER (x)	19.6	10.8	15.6	12.2	10.2
P/BV (x)	1.3	1.2	1.1	1.0	0.9
P/NTA (x)	1.8	1.6	1.5	1.5	1.4
ROE (%)	6.7	11.3	7.3	8.7	9.6
ROA (%)	0.4	0.6	0.4	0.4	0.5

OSK Research Guide to Investment Ratings

Buy: Total return of the stock may exceed 10% OR outperform the relevant benchmark index over the next 12 months, whichever is higher

Trading Buy: Total return of the stock may exceed 10% over the next 3 months, however longer-term outlook remains uncertain

Neutral: Total return of the stock may fall within the range of +/- 10% (inclusive) over the next 12 months OR is not expected to outperform or underperform the relevant benchmark index by the same quantum over the same period

Take Profit: Target price has been attained. Look to accumulate at lower levels.

Sell: Total return of the stock may fall more than 10% OR underperform the underlying benchmark index over the next 12 months

** Total Return (capital gain + dividend yield)*

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