

Rizal Commercial Banking Corp. (RCB)

1-year Chart



Recommendation LONG-TERM BUY

Last: P16.00 (06/09/09)	High: P19.00 (05/28/08)
	Low: P 8.80 (03/12/09)

Technical Analysis

Support 1: P15.00	Resistance 1: P15.50
Support 2: P14.50	Resistance 2: P16.00

- ❖ Corrections to either P14.50-P15 might occur over the near-term, following RCB's rise from its most recent base at P13, to P17.50 recently. Thereafter, movements might move sideways between P14.50-P15.50, to allow the stock to form a secure base. Notice that the stock's MACDs have already diverged from overbought territory & volumes have consequently receded. Position when prices consolidate.

Corporate Snapshot:

- ❖ **Flat 1Q09 earnings.** RCB 1Q09 earnings available to equity holders was flat at P780mn (+0.9% year-on-year) as growth in net interest income (+17.4% P2.3bn) was offset by higher operating charges due to branch & network expansions (+12.9% at P2.2bn). Also, non-interest income was 8.9% lower at P423mn due to a non-recurring gain last year from the sale of JAKA lot. Simulated lending yield improved to 8.11%, as loan assets expanded 27%. Meanwhile, deposit funding cost was slightly up at 2.82%, backed by 24% growth in the bank's deposit base.
- ❖ **Asset re-classification to HTM.** Nearly 96% of RCB's investment securities were government bonds, with 7% effective interest, the balance accounted for by corporate & equity securities & derivatives. For 1Q09, financial assets under fair value to profit & loss statement (FVPL) was reduced to P7.4bn (-36.1%) & yielded P233mn gain in trading securities for the quarter, a reversal of prior year's P179mn loss. Available for Sale (AFS) investments also fell 25.2% to P34.2bn, resulting to P808mn loss against 1Q08's P59mn gain. The declines were prompted by re-classification of assets under AFS & FVPL, aggregately worth P20.8bn, to HTM. The re-classifications were undertaken last year as allowed by the central bank (BSP). Nearly 98% of these reclassified investments, comprised of private & government debt securities, were formerly lodged under AFS. These HTM investments have maturities of 10-20 years, at an effective interest rate of at least 6%, which the bank sees to recover entirely. As of 31 March, HTM investments were flat at P20.6bn.

In Pmn	1Q09	1Q08	% change
Interest Income	3676	4289	+16.7
Net Interest Income	2023	2349	+16.1
Forex gains	80	(12)	---
Trading & Investment securities gain (loss)	233	(179)	---
Net Income av. to equity holders	780	773	+0.9
	As of 31 March 2009	As of 31 December 2008	
Capital Adequacy Ratio (%)	17.02	17.30	
ROE (%)	11.46	7.40	
ROA (%)	1.16	0.87	

❖ **Q-O-Q easing in MTM losses on AFS investments.** Quarter-on-quarter, RCB showed easing mark-to-market (MTM) losses on its AFS investments. The appreciation of the latter reduced revaluation reserves loss by nearly P790mn, bringing end March 2009's level to an P808mn loss against end 2008's P1.6bn loss. The improvement could also be attributed to increased AFS investments (+50.6% at P34bn) following re-allocation of low-yielding interbank loan receivables to higher-yielding AFS. This was done via sale of nearly P12bn interbank loans, proceeds from which were used to purchase additional AFS investments.

❖ **Lehman exposure update.** RCB made P980mn provision for Lehman in September last year, representing 70% of the entire P1.4bn exposure. The remaining 30%, or P420mn, accounts for the portion that RCB deems 'recoverable'. Based on recent update, RCB is still in discussions with BSP with regard to provisioning schedule for full coverage of said exposure, as certain portion of excess reserves must be maintained under BSP rules.

In Pmn	2008A	2009F	2010F	2011F
Net Interest Income	8,470	9,858	10,883	12,145
Net Income	2,173	2,400	2,641	2,873
EPS (P)	2.50	2.76	3.03	3.30
EPS growth	-15.7	+10.4	+9.8	+9.0
P/E (x)	9	6	5	5
BV/share	23.74	26.50	29.54	32.84
P/BV	0.64	0.57	0.52	0.46