

26 February 2021

Public Bank Bhd

FY20 Above Our Expectations

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FY20 PATAMI of RM4.87b (-12%) came above our expectation but within consensus as we were conservative with our interest income assumptions. A 13.0 sen dividend is also better-than-expected. Management is cautious that headwinds could persist in 1HFY21 no thanks to the MCO 2.0. Having booked more provisioning in 4QFY20, this should lighten the load for FY21E. Upgrade to OP (from MP) with a higher GGM-derived PBV TP of RM4.55 (from RM4.05), which is undemanding given the group's high ROEs and higher yield prospects.

FY20 PATAMI of RM4.87b is above our expectations but is deemed within consensus. It made up 106% and 102% of the respective full-year estimates. The positive deviation was due to better-than-expected interest income from sustained loans growth. 13.0 sen dividend declared is unexpected, which we had anticipated to be 9.4 sen (52% payout vs our estimated 40%).

YoY, FY20 total operating income was slightly lifted to RM11.31b (+2%). Net interest income fell by 2% despite a 6% expansion in gross loans (driven by vehicle hire purchase and housing loans) as NIMs (2.00%, -16 bps) were undermined by OPR cuts during the year. That said, growth in CASA-to-deposits ratio to 28.9% (+3.8pts) could have also contributed to the easing interest expense. On the flipside, NOII improved by 18% on better net fees and commissions in the unit trust and brokerage businesses. CIR was relatively stable at 34.6% (+0.2 ppt). Elevated loan provision was booked from heightened economic risks from Covid-19, leading to a 600% increase in impairments (RM1.12b) and driving credit cost to 33 bps (FY19: 4.8bps). No thanks to the loan moratorium, the group incurred a net modification loss of RM498.4m. Despite challenging macro environment, GIL remained well contained at 0.4% (FY19: 0.5%) as strict asset screening was still adhered to. Overall, FY20 PATAMI came in at RM4.87b (-12%) from the above pre-emptive provisioning charges.

QoQ, 4QFY20 income dipped by 2% as flattish net interest income was met by an 8% decrease in NOII due to lower investment gains. CIR enlarged by 2.0 ppt to 32.7% as the group progressively expands its operations coinciding with the anticipated economic recovery. A lofty provisioning of RM557m was registered during the quarter but also as pre-emptive buffer against uncertainties in FY21. 4QFY20 PATAMI was reported at RM1.15b (-18%).

Key briefing highlights. Closing up FY20, management believes that industry challenges will persist in 1HFY21 but is confident that the group could enjoy some NIM improvements (+10-15 bps) with the absence of another rate cut (where a 25 bps OPR reduction could drag yearly NIM by 3-4bps). Given the attached risks, more provisions are likely pending, particularly on SMEs and consumers who are at risk, with FY21 credit cost looking to linger around 20-25 bps. 2HFY21 should be better staged to promote economic recovery as vaccinations are progressively administered. Pegging to this, management aspires for loans growth to come in at 3-4% while operating expenses to grow by 5-6%. On the back of a greener business landscape, management opines that ROE should sustain above 11% for FY21.

Post results, we raise our FY21E earnings by 5% mainly to account for better interest-based income while softening cost assumptions. We also introduce our FY22E earnings which translates to a 3% YoY boost.

Upgrade to OUTPERFORM (from MARKET PERFORM) with a higher TP of RM4.55 (from RM4.05). Our higher TP is based on a rolled over FY22E GGM-derived PBV of 1.67x (1SD below 5-year mean, from 1.60x). While we capture a higher risk-free rate of 3.1% (from 2.7%), we also account for a more sustainable ROE of 12.5% (from 12.0%) for the group given its sticky retail mix, applaudably low GIL ratios and high ROE against the industry. The increased liquidity from the share split should also benefit the stock.

OUTPERFORM ↑

Price : RM4.17
Target Price : RM4.55 ↑

Share Price Performance



KLCI	1,581.54
YTD KLCI chg	-2.8%
YTD stock price chg	1.2%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	PBK MK Equity
Market Cap (RM m)	80,942.6
Shares Outstanding	19,410.7
52-week range (H)	4.40
52-week range (L)	2.53
3-mth avg daily vol	34,494,880
Free Float	54%
Beta	1.4

Major Shareholders

Consolidated Teh Holdings	21.6%
Employees Provident Fund	15.2%
Kumpulan Wang Persaraan	4.1%

Summary Earnings Table

FY Dec (RM m)	2020A	2021E	2022E
Net interest income	8,491	9,427	9,505
Non-interest income	2,821	2,551	2,627
Total income	11,312	11,978	12,132
Operating expenses	-3,909	-3,992	-4,172
Loan impairment	-1,120	-675	-419
Pre-tax profit	6,285	7,314	7,544
PATAMI	4,872	5,631	5,808
Core PATAMI	4,872	5,631	5,808
Consensus NP		5,306	5,747
Earnings revision		5.0%	-
Core EPS (RM)	0.25	0.29	0.30
EPS growth (%)	-12	16	3
NDPS (RM)	0.13	0.14	0.15
BV/share (RM)	2.4	2.6	2.7
NTA/share (RM)	2.3	2.5	2.6
ROE (%)	10.7	11.6	11.3
PER (x)	16.6	14.4	13.9
P/BV (x)	0.58	0.62	0.66
Net Div. Yield (%)	3.1	3.4	3.6

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Risks to our call include: (i) higher-than-expected margin squeeze, (ii) lower-than-expected loans growth, (iii) worse-than-expected deterioration in asset quality, (iv) further slowdown in capital market activities, and (v) adverse currency fluctuations.

Results Highlights								
	4Q	3Q	QoQ	3Q	YoY	12M	12M	YoY
FYE Dec (RM m)	FY20	FY20	Chg	FY19	Chg	FY20	FY19	Chg
Net interest income	2,307	2,307	0.0%	2,232	3.4%	8,491	8,701	-2.4%
Non-interest income	722	780	-7.5%	618	16.8%	2,821	2,401	17.5%
Total income	3,029	3,088	-1.9%	2,850	6.3%	11,312	11,102	1.9%
Operating expenses	-992	-948	4.6%	-985	0.7%	-3,909	-3,819	2.4%
Pre-impairment profit	2,038	2,139	-4.8%	1,865	9.3%	7,403	7,283	1.6%
(Allowances)/ write-backs	-557	-335	66.3%	-43	1187.1%	-1,106	-154	616.2%
(Allowances)/ write-backs on other assets	-5	-4	17.6%	0	N.M.	-14	2	-728.4%
Operating profit	1,476	1,801	-18.0%	1,822	-19.0%	6,283	7,131	-11.9%
Non-operating gains / (losses)	-6	2	-389.7%	1	-836.0%	-3	3	-178.7%
Profit before tax	1,470	1,803	-18.5%	1,822	-19.3%	6,280	7,134	-12.0%
Taxation	-309	-389	-20.6%	-402	-23.1%	-1,353	-1,555	-13.0%
Minority interest	-17	-21	-15.1%	-14	21.3%	-61	-68	-10.8%
Net PATAMI	1,148	1,393	-17.6%	1,406	-18.3%	4,872	5,512	-11.6%
Core PATAMI	1,148	1,393	-17.6%	1,406	-18.3%	4,872	5,512	-11.6%
Gross loans	345,651	342,342	1.0%	324,968	6.4%	345,651	324,968	6.4%
Gross impaired loans	1,251	1,115	12.2%	1,605	-22.0%	1,251	1,605	-22.0%
Customer deposits	365,871	363,803	0.6%	353,340	3.5%	365,871	353,340	3.5%
Current and savings account (CASA)	105,600	103,513	2.0%	88,839	18.9%	105,600	88,839	18.9%
Total assets	451,257	450,310	0.2%	432,831	4.3%	451,257	432,831	4.3%
Shareholders' equity	47,248	46,082	2.5%	43,594	8.4%	47,248	43,594	8.4%
Est. annualised NIM*	2.10%	2.12%		2.18%		2.00%	2.16%	
Cost-to-income ratio*	32.7%	30.7%		34.6%		34.6%	34.4%	
Annualised credit cost (bps)	64.7	39.5		5.3		33.0	4.9	
Effective tax rate	21.0%	21.6%		22.1%		21.5%	21.8%	
Annualised ROA	1.0%	1.3%		1.3%		1.1%	1.3%	
Annualised ROE	9.8%	12.3%		13.0%		10.7%	13.0%	
Gross impaired loans ratio	0.4%	0.3%		0.5%		0.4%	0.5%	
Loan loss coverage ratio (LLC)	227.7%	209.1%		124.1%		227.7%	124.1%	
LLC plus regulatory reserves	325.1%	362.0%		249.8%		325.1%	249.8%	
Loan-to-deposit ratio	94.9%	95.0%		93.0%		94.9%	93.0%	
CASA-to-deposit ratio	28.9%	28.5%		25.1%		28.9%	25.1%	
CET-1 capital (Group level)	14.0%	13.6%		13.5%		14.0%	13.5%	

Note:

* Excluding modification losses

Source: Company, Kenanga Research

Management Guidance

	FY21 Targets	FY20 Performance
Credit cost	20 – 25 bps	33 bps
Net interest margin	+10 – 15 bps	2.00%
Loan growth	+ 3 – 4 %	6.4%
Operating expense	+ 5 – 6 %	+2.4%
ROE	At least 11%	10.7%

Source: Company, Kenanga Research

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Peer Table Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)		Net Div Yld (%)	Target Price (RM)	Rating
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.			
Stocks Under Coverage																		
AFFIN BANK BHD	1.78	3,702.0	N	12/2020	-4.5%	-0.6%	-28.1%	12.5%	7.2	10.5	9.4	0.4	0.4	3.7%	2.8%	1.50	UP	
ALLIANCE BANK MALAYSIA BHD	2.70	4,179.9	N	03/2021	2.4%	2.9%	-15.1%	36.2%	9.9	11.7	8.6	0.7	0.7	5.9%	2.4%	2.70	OP	
AMMB HOLDINGS BHD	3.23	9,721.0	N	03/2021	0.3%	4.5%	-27.4%	35.3%	7.3	10.0	7.4	0.5	0.5	5.1%	3.5%	3.70	OP	
BIMB HOLDINGS BHD	4.05	7,507.3	Y	12/2020	1.2%	6.2%	-13.3%	11.1%	9.3	11.3	10.5	1.2	1.2	11.2%	5.1%	4.95	OP	
CIMB GROUP HOLDINGS BHD	4.33	42,966.4	N	12/2020	-10.8%	7.0%	-67.9%	127.2%	9.0	28.0	12.7	0.8	0.8	2.7%	1.4%	3.90	MP	
HONG LEONG BANK BHD	17.62	38,195.2	N	06/2021	14.8%	9.6%	14.3%	6.3%	14.5	12.6	11.9	1.3	1.2	10.1%	2.0%	18.50	MP	
MALAYAN BANKING BHD	8.09	92,339.2	N	12/2021	-4.7%	2.8%	8.8%	19.7%	13.4	12.3	10.3	1.1	1.1	8.7%	6.9%	9.10	OP	
MALAYSIA BUILDING SOCIETY BHD	0.680	4,743.3	N	12/2021	66.6%	3.0%	173.9%	14.4%	17.2	6.3	5.5	0.5	0.5	8.1%	4.4%	0.820	OP	
PUBLIC BANK BHD	4.17	80,942.6	N	12/2021	1.4%	2.3%	15.6%	3.1%	16.6	14.4	13.9	1.7	1.6	11.6%	3.4%	4.55	OP	
RHB BANK BHD	5.39	21,614.1	N	12/2020	-2.1%	4.3%	-22.1%	9.6%	8.7	11.2	10.2	0.8	0.8	7.4%	3.6%	6.30	OP	
Simple Average					6.5%	4.2%	3.9%	27.5%	11.3	12.8	10.0	0.9	0.9	7.4%	3.6%			

Source: Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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