

30 November 2021

Public Bank Bhd

9HFY21 Within Expectations

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9MFY21 PATAM of RM4.28b (+15%) is within expectations. FY21 is expected to align with management's expectations with moratorium and URUS take-up being manageable. Economic recovery should persist throughout the rest of the year and deliver better-than-expected ROEs. Maintain MP but raise our GGM-derived PBV TP slightly to RM3.85 (from RM3.80) as we recalibrate for prosperity tax exposure in FY22.

9MFY21 within expectations. 9MFY21 PATAMI of RM4.28b came in within expectations, making up 77% of both our and consensus full-year estimates. No dividend was declared this quarter, as expected.

YoY, 9MFY21 total operating income came in 15% stronger at RM9.49b. This was mainly thanks to NII accelerating by 21% on the back of a NIMs expansion to 2.23% (+29bps) on favourable repricing of deposits on the back of a 3% loans growth. NOII fell slightly (-3%) as while fee and commission income grew by 17%, trading gains were 67% worse off. CIR improved to 31.7% (-3.6ppt) with operating expenses only increasing by 3% with higher personnel cost. On the flipside, credit cost rose to 35bps (+13bps) with lumpy pre-emptive provisions only being made in 4QFY20. Meanwhile, the three quarters in FY21 were consistently lofty on prudent measures. Still, 9MFY21 earnings managed to come in at RM4.28b (+15%), in line with top-line.

QoQ, 3QFY21 total income declined by 4% on normalising NOII. NII declined from a NIM reduction of 8bps, accounting for modification losses during the quarter. Absent this, NIM would have been 1bps higher. That said, operating expenses saw a sequential decline in a more optimised environment while allowances eased by 18% from better loans staging (credit cost: 37bps, -8bps). However, due to the slower income, 3QFY21 PATAMI reported a slight decline to RM1.36b (-2%).

Key briefing's highlights. Overall, management is confident that it could deliver its targets comfortably in FY22. For now, URUS applications are only a handful with further applications expected to surface in its 3 months period. That said, approved applications may not be significant, with a total impact anticipated to be less than RM100m. With a credit cost guidance remaining at around 35bps (9MFY21: 35bps), it is possible that we may see a net write-back situation in 4QFY21. Most of management's guidance for FY21E is unchanged, with a clearer target for ROE at 12% (from at least 11%). This hinges on movement controls being less restrictive, which we believe should not shift meaningfully for now.

Post results, we adjust our FY22E earnings by 3.7% to be reflective of management's guidance on the impact of prosperity taxes, being 80% of the group's businesses, which we had underestimated.

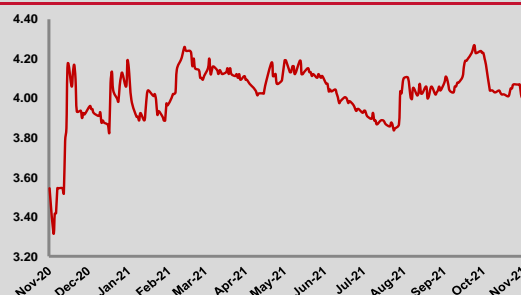
Maintain MARKET PERFORM and TP of RM3.85 (from RM3.80), following the model updates above. Our GGM-derived PBV of 1.42x (1.0SD below mean) remain unchanged. We believe the stock is fairly valued at current price points, with dividend prospects expected to be moderate as compared to other large cap peers. That said, efficiency-focused investors may bank on its leading ROE, albeit affected in the short term no thanks to the one-off prosperity tax in FY22.

Risks to our call include: (i) higher/lower-than-expected margin squeeze, (ii) higher/lower-than-expected loans growth, (iii) better/worse-than-expected deterioration in asset quality, (iv) improvement/slowdown in capital market activities, (v) favourable/unfavourable currency fluctuations, and (vi) changes to OPR.

MARKET PERFORM ↔

Price : RM3.96
Target Price : RM3.85 ↑

Share Price Performance



KLCI	1,510.57
YTD KLCI chg	-7.2%
YTD stock price chg	-3.9%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	PBK MK Equity
Market Cap (RM m)	76,866.3
Shares Outstanding	19,410.7
52-week range (H)	4.27
52-week range (L)	3.32
3-mth avg daily vol	15,712,480
Free Float	55%
Beta	1.4

Major Shareholders

Consolidated Teh Holdings	21.6%
Employees Provident Fund	14.8%
Kumpulan Wang Persaraan	4.1%

Summary Earnings Table

FY Dec (RM m)	2020A	2021E	2022E
Net interest income	8,491	9,934	10,081
Non-interest income	2,821	2,551	2,627
Total income	11,312	12,485	12,708
Operating expenses	-3,909	-4,100	-4,284
Loan impairment	-1,120	-1,155	-347
Pre-tax profit	6,285	7,234	8,080
PATAMI	4,872	5,569	5,527
Core PATAMI	4,872	5,569	5,527
Consensus NP		5,545	6,115
Earnings revision		0.0%	-3.7%
Core EPS (RM)	0.25	0.29	0.28
EPS growth (%)	-11.6	14.3	-0.7
NDPS (RM)	0.13	0.14	0.14
BV/share (RM)	2.43	2.58	2.73
NTA/share (RM)	2.31	2.46	2.60
ROE (%)	10.7	11.4	10.7
PER (x)	15.8	13.8	13.9
P/BV (x)	1.6	1.5	1.5
Net Div. Yield (%)	3.3	3.5	3.5



30 November 2021

Results Highlights

	3Q	2Q	QoQ	3Q	YoY	9M	9M	YoY
FYE Dec (RM m)	FY21	FY21	Chg	FY20	Chg	FY21	FY20	Chg
Net interest income	2,436	2,512	-3.0%	2,307	5.6%	7,454	6,184	20.5%
Non-interest income	635	682	-6.9%	780	-18.6%	2,038	2,099	-2.9%
Total income	3,071	3,194	-3.9%	3,088	-0.5%	9,492	8,283	14.6%
Operating expenses	-976	-1,001	-2.5%	-948	2.9%	-3,004	-2,918	3.0%
Pre-impairment profit	2,095	2,193	-4.5%	2,139	-2.1%	6,487	5,365	20.9%
(Allowances)/ write-backs	-324	-396	-18.1%	-335	-3.0%	-919	-550	67.2%
(Allowances)/ write-backs on other assets	2	1	57.8%	-4	-151.2%	2	-9	-120.8%
Operating profit	1,772	1,799	-1.5%	1,801	-1.6%	5,570	4,807	15.9%
Non-operating gains / (losses)	-2	-3	-36.3%	2	-195.0%	-7	4	-296.3%
Profit before tax	1,770	1,795	-1.4%	1,803	-1.8%	5,563	4,810	15.6%
Taxation	-386	-394	-2.1%	-389	-1.0%	-1,229	-1,043	17.8%
Minority interest	-19	-17	11.5%	-21	-6.7%	-56	-43	28.9%
Net PATAMI	1,363	1,384	-1.5%	1,393	-2.1%	4,278	3,724	14.9%
Core PATAMI	1,363	1,384	-1.5%	1,393	-2.1%	4,278	3,724	14.9%
Gross loans	353,512	352,071	0.4%	342,342	3.3%	353,512	342,342	3.3%
Gross impaired loans	1,157	1,242	-6.8%	1,115	3.8%	1,157	1,115	3.8%
Customer deposits	378,909	375,152	1.0%	363,803	4.2%	378,909	363,803	4.2%
Current and savings account (CASA)	115,285	111,505	3.4%	103,513	11.4%	115,285	103,513	11.4%
Total assets	461,227	456,244	1.1%	450,310	2.4%	461,227	450,310	2.4%
Shareholders' equity	46,991	47,286	-0.6%	46,082	2.0%	46,991	46,082	2.0%
Est. annualised NIM	2.17%	2.25%		2.12%		2.23%	1.94%	
Cost-to-income ratio	31.8%	31.3%		30.7%		31.7%	35.2%	
Annualised credit cost (bps)	36.8	45.1		39.5		35.0	22.0	
Effective tax rate	21.8%	21.9%		21.6%		22.1%	21.7%	
Annualised ROA	1.2%	1.2%		1.3%		1.3%	1.1%	
Annualised ROE	11.6%	11.9%		12.3%		12.1%	11.1%	
Gross impaired loans ratio	0.3%	0.4%		0.3%		0.3%	0.3%	
Loan loss coverage ratio (LLC)	320.8%	275.1%		209.1%		320.8%	209.1%	
LLC plus regulatory reserves	358.5%	331.5%		362.0%		358.5%	362.0%	
Loan-to-deposit ratio	93.5%	94.1%		95.0%		93.5%	95.0%	
CASA-to-deposit ratio	30.4%	29.7%		28.5%		30.4%	28.5%	
CET-1 capital (Group level)	14.1%	14.3%		13.6%		14.1%	13.6%	

Source: Company, Kenanga Research

Management Guidance

	FY21 Targets	FY20 Performance
Loans growth	+ 3.0%	+4.4%
Deposits growth	+ 3.0%	+3.5%
Credit cost	35 bps	33 bps
Net interest margin	+ 20 – 25 bps	2.00%
Operating expense	+ 5 – 6 %	+2.4%
Cost-to-income ratio	Less than 35%	34.6%
ROE	12%	10.7%
	(from at least 11%)	

Source: Company, Kenanga Research

30 November 2021

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	1.65	3,504.7	N	12/2021	-13.1%	5.5%	80.4%	6.5%	14.9	8.3	7.8	0.4	0.3	4.3%	3.0%	1.55	MP		
ALLIANCE BANK MALAYSIA BHD	2.82	4,365.7	N	03/2022	-7.2%	1.4%	53.0%	4.8%	12.2	8.0	7.6	0.7	0.7	8.5%	5.0%	2.65	MP		
AMMB HOLDINGS BHD	3.08	10,203.8	N	03/2022	-3.6%	1.4%	30.2%	11.5%	9.9	8.3	7.5	0.6	0.7	8.1%	2.8%	3.15	MP		
BIMB HOLDINGS BHD	2.91	6,040.8	Y	12/2021	0.2%	-2.3%	14.8%	-7.1%	14.4	12.5	13.5	1.2	1.1	9.0%	4.8%	3.20	OP		
CIMB GROUP HOLDINGS BHD	5.11	52,231.6	N	12/2021	-1.0%	2.1%	257.5%	8.1%	42.6	11.9	11.0	0.9	0.9	7.4%	4.1%	4.75	MP		
HONG LEONG BANK BHD	18.20	39,452.5	N	06/2022	0.7%	5.1%	-3.1%	9.2%	13.0	13.4	12.3	1.3	1.2	9.2%	3.0%	18.20	MP		
MALAYAN BANKING BHD	8.05	95,578.9	N	12/2021	-8.5%	3.2%	19.4%	2.2%	14.0	11.7	11.5	1.1	1.1	9.1%	7.0%	10.55	OP		
MALAYSIA BUILDING SOCIETY BHD	0.605	4,338.7	N	12/2021	55.4%	6.8%	94.0%	25.9%	15.3	7.9	6.3	0.5	0.4	5.8%	4.0%	0.540	UP		
PUBLIC BANK BHD	3.96	76,866.3	N	12/2021	-3.6%	2.3%	14.3%	-0.7%	15.8	13.8	13.9	1.6	1.5	11.4%	3.5%	3.85	MP		
RHB BANK BHD	5.26	21,791.8	N	12/2021	-6.4%	7.2%	14.2%	0.7%	10.4	9.1	9.0	0.8	0.7	8.4%	5.7%	6.10	OP		
Simple Average					1.3%	3.3%	57.5%	6.1%	16.2	10.5	10.0	0.9	0.9	8.1%	4.3%				

Source: Kenanga Research

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30 November 2021

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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Published and printed by:

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