

01 December 2022

Public Bank

Stability Well Supported

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9MFY22 PATAMI of RM4.41b (+3%) came in as expected with a surprise interim dividend declared, albeit at expected payout rate. The group's leading position in retail markets should continue to hold ground in terms of sustainability and asset quality. However, even with solid ROEs, long-term returns may seem less attractive at current levels. Downgrade to MP with an unchanged GGM-derived PBV TP of RM4.70.

9MFY22 within expectations. 9MFY22 PATAMI of RM4.41b made up 77% of our full-year forecast and 75% of consensus full-year estimate. A 4.0 sen interim declared was a surprise to us as the group typically pays biannually. However, the payout is still within our anticipated full-year expectation of 15.5 sen (c.50%).

YoY, 9MFY22 total income rose slightly (+3%), supported by a strengthening loans book (+6%) and improving net interest margins (NIMs) of 2.30% (+7bps). On the flipside, non-interest income waned from softer unit trust fees and stockbroking performance. Cost-income ratio bumped slightly to 32.6% (+0.9ppt) on generally higher operating expenses in an expansionary climate. Meanwhile, credit cost was significantly better at 10 bps (-25bps) thanks to lower provisional concerns. This translated to a profit before tax growth of 14%, but due to the one-off prosperity tax, 9MFY22 PATAMI only gained 3%, at RM4.41b.

Briefing's highlights. Buoyed by better economic activity, the group believes that its loans and deposits initiatives will continue to see favourable results until the year-end. Key markets continue to be residential, hire purchase and SME segments which are also seeing a revival from improving employment markets. That said, toppish NIMs in the recent quarter are likely to normalise as the boost from OPR transitions should not be long-term as rates correct amidst price competition. In terms of credit cost, the group is assured by its asset quality standing and does not expect significant bookings in the last 4Q period. This led to a more refined credit cost guidance of 10 bps (from a range of 10-15 bps).

Meanwhile, the group alluded that the out-of-season interim dividend arose from an assessment of earnings and capital level to reward shareholders. We do not discount that we might see more frequent payments from PBBANK in future periods, albeit still within the guided payout of 50%.

Forecasts. Post results, we slightly tweak our FY22F/FY23F earnings from model updates.

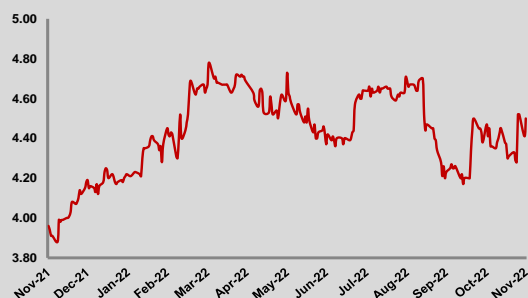
Downgrade to MARKET PERFORM with a TP of RM4.70. Our TP is based on an unchanged GGM-derived PBV of 1.58x (COE: 9.7%, TG: 4.0%, ROE: 13.0%) on our FY23F BVPS. We also applied a 5% premium to our TP based on our 4-star ESG rating, led by the stock's strong green financing pipeline. PBBANK commands the leading GIL ratio amongst peers (0.3% vs. peer average of 2.1%) which could be attributable to its densely collateralised housing loan portfolio. However, current price points bring dividend prospects to a more moderate level as opposed to its peers in addition to limited capital opportunities.

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

MARKET PERFORM ↓

Price : RM4.50
Target Price : RM4.70 ↔

Share Price Performance



KLCI 1,488.80
YTD KLCI chg -5.0%
YTD stock price chg 8.2%

Stock Information

Shariah Compliant No
Bloomberg Ticker PBK MK Equity
Market Cap (RM m) 87,348.1
Shares Outstanding 19,410.7
52-week range (H) 4.78
52-week range (L) 3.88
3-mth avg daily vol 19,891,200
Free Float 55%
Beta 1.1

Major Shareholders

Consolidated Teh Holdings 21.6%
Employees Provident Fund 14.6%
Kumpulan Wang Persaraan 4.1%

Summary Earnings Table

FY Dec (RM m)	2021A	2022F	2023F
Net interest income	9,929	10,817	11,662
Non-interest income	2,616	2,633	2,688
Total income	12,544	13,450	14,350
Operating expenses	-3,965	-4,144	-4,351
Loan impairment	-1,207	-898	-403
Pre-tax profit	7,367	8,399	9,586
PATAMI	5,657	5,745	7,380
Core PATAMI	5,657	5,745	7,380
Consensus NP		5,857	6,982
Earnings revision (%)		+0.1	+0.3
Core EPS (RM)	0.29	0.30	0.38
EPS growth (%)	16.1	1.6	28.4
NDPS (RM)	0.15	0.16	0.18
BV/share (RM)	2.48	2.62	2.82
NTA/share (RM)	2.35	2.50	2.70
ROE (%)	11.9	11.6	14.0
PER (x)	15.4	15.2	11.8
P/BV (x)	1.8	1.7	1.6
Net Div. Yield (%)	3.4	3.4	4.0



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Results Highlights

	3Q	2Q	QoQ	3Q	YoY	9M	9M	YoY
FYE Dec (RM m)	FY22	FY22	Chg	FY21	Chg	FY22	FY21	Chg
Net interest income	2,836	2,632	7.7%	2,436	16.4%	7,974	7,454	7.0%
Non-interest income	626	545	14.8%	635	-1.5%	1,813	2,038	-11.0%
Total income	3,462	3,177	8.9%	3,071	12.7%	9,787	9,492	3.1%
Operating expenses	-1,078	-1,073	0.5%	-976	10.4%	-3,194	-3,004	6.3%
Pre-impairment profit	2,384	2,105	13.3%	2,095	13.8%	6,593	6,487	1.6%
(Allowances)/ write-backs	-96	-80	20.0%	-324	-70.4%	-276	-919	-70.0%
(Allowances)/ write-backs on other assets	-2	-2	21.6%	-2	10.7%	-6	-2	180.9%
Operating profit	2,286	2,023	13.0%	1,768	29.3%	6,311	5,566	13.4%
Non-operating gains / (losses)	1	0	435.4%	-2	-161.7%	0	-6	-97.4%
Profit before tax	2,287	2,023	13.0%	1,766	29.5%	6,311	5,560	13.5%
Taxation	-683	-591	15.5%	-386	77.1%	-1,861	-1,229	51.4%
Minority interest	-14	-15	-4.5%	-19	-27.2%	-43	-56	-23.0%
Net PATAMI	1,590	1,417	12.2%	1,361	16.8%	4,406	4,276	3.0%
Core PATAMI	1,590	1,417	12.2%	1,361	16.8%	4,406	4,276	3.0%
Gross loans	373,577	367,965	1.5%	353,512	5.7%	373,577	353,512	5.7%
Gross impaired loans	1,251	1,066	17.3%	1,157	8.0%	1,251	1,157	8.0%
Customer deposits	393,308	388,252	1.3%	378,909	3.8%	393,308	378,909	3.8%
Current and savings account (CASA)	120,800	123,495	-2.2%	115,285	4.8%	120,800	115,285	4.8%
Total assets	481,913	478,813	0.6%	461,227	4.5%	481,913	461,227	4.5%
Shareholders' equity	49,214	49,098	0.2%	46,991	4.7%	49,214	46,991	4.7%
Est. annualised NIM	2.42%	2.27%		2.17%		2.30%	2.23%	
Cost-to-income ratio	31.1%	33.8%		31.8%		32.6%	31.7%	
Annualised credit cost (bps)	10.3	8.7		36.8		10.0	35.0	
Effective tax rate	29.9%	29.2%		21.8%		29.5%	22.1%	
Annualised ROA	1.3%	1.2%		1.2%		1.2%	1.2%	
Annualised ROE	12.9%	11.7%		11.6%		12.1%	12.1%	
Gross impaired loans ratio	0.3%	0.3%		0.3%		0.3%	0.3%	
Loan loss coverage ratio (LLC)	339.5%	388.8%		320.8%		339.5%	320.8%	
LLC plus regulatory reserves	359.6%	407.2%		358.5%		359.6%	358.5%	
Loan-to-deposit ratio	94.8%	94.6%		93.5%		94.8%	93.5%	
CASA-to-deposit ratio	30.7%	31.8%		30.4%		30.7%	30.4%	
CET-1 capital (Group level)	14.0%	14.1%		14.1%		14.0%	14.1%	

Source: Company, Kenanga Research

Management Guidance

	FY22 Targets	FY21 Performance
Loans growth	+5.0%	+3.6%
Deposits growth	+5.0%	+4.0%
Credit cost	~10 bps (from 10 – 15 bps)	34 bps
Net interest margin	+8 – 10 bps	2.22%
Operating expenses	+6.0 – 7.0 %	+1.4%
ROE	11.0–12.0%	11.9%

Source: Company, Kenanga Research

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Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
AFFIN BANK BHD	MP	2.15	2.25	4.7%	4,756.5	N	12/2022	12.9	25.1	-48.3%	94.6%	16.7	8.6	0.5	2.8%	29.1	13.5%
ALLIANCE BANK MALAYSIA BHD	OP	3.87	4.20	8.5%	5,991.2	N	03/2023	45.5	52.1	22.9%	14.6%	8.5	7.4	0.9	10.7%	22.0	5.7%
AMMB HOLDINGS BHD	OP	4.17	4.75	13.9%	13,810.0	N	03/2023	49.9	54.3	9.7%	8.7%	8.3	7.7	0.8	9.5%	16.0	3.8%
BANK ISLAM MALAYSIA BHD	MP	2.56	2.45	-4.3%	5,517.5	Y	12/2022	19.7	24.5	-10.1%	24.5%	13.0	10.5	0.9	7.4%	10.0	3.9%
CIMB GROUP HOLDINGS BHD	OP	5.80	6.40	10.3%	61,857.6	N	12/2022	52.2	66.4	12.6%	27.1%	11.1	8.7	0.9	8.7%	26.0	4.5%
HONG LEONG BANK BHD	OP	20.86	23.35	11.9%	45,218.6	N	06/2023	197.2	201.4	22.8%	2.1%	10.6	10.4	1.3	12.5%	70.0	3.4%
MALAYAN BANKING BHD	OP	8.63	10.40	20.5%	104,027.1	N	12/2022	73.5	87.5	5.5%	19.1%	11.7	9.9	1.1	9.9%	60.0	7.0%
PUBLIC BANK BHD	MP	4.50	4.70	4.4%	87,348.1	N	12/2022	29.6	38.0	1.6%	28.4%	15.2	11.8	1.7	11.6%	15.5	3.4%
RHB BANK BHD	OP	5.62	7.00	24.6%	23,870.2	N	12/2022	66.0	80.5	-4.6%	21.9%	8.5	7.0	0.8	9.3%	32.0	5.7%
Simple Average										3.0%	28.2%	11.2	8.8	0.9	8.8%		5.7%

Source: Kenanga Research

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Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★	☆	
	Corporate Social Responsibility	★	★	★		
	Management/Workforce Diversity	★	★	★	★	
	Accessibility & Transparency	★	★	★	★	
	Corruption-Free Pledge	★	★	★		
	Carbon-Neutral Initiatives	★	★	★	☆	
SPECIFIC	Green Financing	★	★	★	★	☆
	Cybersecurity/Data Privacy	★	★	★		
	Digital Transformation	★	★	☆		
	Staff Welfare & Training	★	★	★		
OVERALL		★	★	★	★	

☆ denotes half-star
 ★ -10% discount to TP
 ★★ -5% discount to TP
 ★★★ TP unchanged
 ★★★★ +5% premium to TP
 ★★★★★ +10% premium to TP

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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