

18 April 2023

## Public Bank

### Well Polished to Take On Some Heat

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We maintain our GGM-derived PBV TP of RM4.90 (COE: 9.7%, TG: 4.0%, ROE: 13.0%) and OP call. The group anticipates moderation in loan growth pressurised by domestic and global macros and net interest margins (NIMs) softness. That said, we frame PBBANK as a highly sustainable bank given its high-quality books. Its industry-leading gross impaired loan (GIL) could win favours amidst softer sentiment in the banking sector. PBBANK is one of our 2QCY23 Top Picks.

Key takeaways from our recent meeting with the group are as follows:

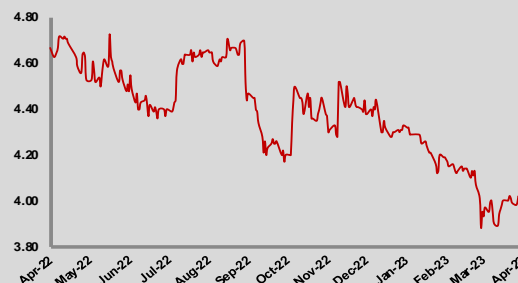
- i. **Loans quality over quantity.** For FY23, the group indicated a loans growth target of 4%-5% which we gathered is among some of the most conservative against its peers, in lieu of highly prudent credit assessment to selectively imbue assets of better quality. That said, it is indicated that the demand of residential properties remains strong, mainly led by owner-occupied transactions. Meanwhile, its hire purchase books could see a sequential boost led by 2022 SST exemption in the earlier periods but will moderate subsequently.
- ii. With regards to SMEs, the group believes present conditions allow for more aggressive participation where it had cautiously shied away due to pandemic-induced uncertainties. However, we anticipate this space to be highly competitive as the industry has marked it to be of "high growth" post Covid-19 lull.
- iii. Given this, a **credit cost target of <10 bps (FY22: 10 bps)** is still intact, with an existing management overlay of c.RM1.7b on tow to be utilised when needed. Gradual exhaustion will lead to Loan Loss Coverage ratios to normalise to pre-Covid's 120% levels from 272% in 4QFY22. However, the quantum and timing of provision of write-backs are still dependent on developing uncertainties.
- iv. **NIMs pressured by deposits competition.** The increasingly attractive deposit rates (mainly termed deposit products) is a consequence of rising OPR (+100 bps from May 2022 to Nov 2022). As BNM has temporarily pause OPR hikes, it is likely that the banks will ease on their respective interest rate pricing as forward expectation for OPR changes.
- v. The group hints of a **double-digit compression of NIMs**. As most of the aggressive pricing was conducted in the later half of FY22, the spill-over from the refreshing of maturing deposits will heighten the cost of funds. We expect this to be more prominent in 1HFY23. However, given that it saw a +17 bps improvement during the OPR up-cycle, this guidance merely indicates a normalisation of group margins.
- vi. **Better hopes for non-interest income (NOII).** FY22 NOII declined by 8% owing to a drag in unit trust fee and stockbroking income. While this could be due to a strong FY21 equities performance, the group anticipates for better readings as market activities pick up. The group is also highly focused on domestic investment products which performances are seen as not vulnerable to adverse foreign market movements. That said, NOII which only makes up 20% of the group's total income will require significantly stronger traction to carry overall earnings.

**Forecasts.** Post updates, we leave our FY23F/FY24F assumptions unchanged as guidances are maintained, pending 1QFY23 results' release next month. We anticipate FY23F to see a 14% earnings growth mainly on the back on the lapse of FY22 prosperity tax.

## OUTPERFORM ↔

Price : RM3.97  
Target Price : RM4.90 ↔

### Share Price Performance



KLCI	1,434.90
YTD KLCI chg	-4.1%
YTD stock price chg	-8.1%

### Stock Information

Shariah Compliant	No
Bloomberg Ticker	PBK MK Equity
Market Cap (RM m)	77,060.4
Shares Outstanding	19,410.7
52-week range (H)	4.73
52-week range (L)	3.88
3-mth avg daily vol	17,380,140
Free Float	55%
Beta	1.0

### Major Shareholders

Consolidated Teh Holdings	21.6%
Employees Provident Fund	15.1%
Kumpulan Wang Persaraan	4.1%

### Summary Earnings Table

FY Dec (RM m)	2022A	2023F	2024F
Net interest income	11,024	11,407	11,693
Non-interest income	2,414	2,237	2,300
<b>Total income</b>	<b>13,438</b>	<b>13,644</b>	<b>13,994</b>
Operating expenses	-4,235	-4,278	-4,321
<b>Total impairment</b>	<b>-379</b>	<b>-331</b>	<b>-337</b>
Pre-tax profit	8,831	9,046	9,336
<b>Net Profit</b>	<b>6,119</b>	<b>6,964</b>	<b>7,188</b>
<b>Core Net Profit</b>	<b>6,119</b>	<b>6,964</b>	<b>7,188</b>
Consensus NP	-	6,963	7,242
Earnings revision	-	-	-
Core EPS (RM)	0.32	0.36	0.37
EPS growth (%)	8.2	13.8	3.2
NDPS (RM)	0.17	0.18	0.19
BV/share (RM)	2.59	2.76	2.94
NTA/share (RM)	2.45	2.63	2.81
ROE (%)	12.4	13.4	13.0
PER (x)	12.6	11.1	10.7
P/BV (x)	1.5	1.4	1.35
Net Div. Yield (%)	4.3	4.5	4.8

18 April 2023

**Maintain OUTPERFORM and TP of RM4.90.** Our TP is based on: (i) an unchanged GGM-derived PBV of 1.58x (COE: 9.7%, TG: 4.0%, ROE: 13.0%) on FY24F BVPS of RM2.94 and (ii) a further 5% premium top-up based on our 4-star ESG rating, led by the stock's strong green financing pipeline.

PBBANK is expected to continue commanding the leading GIL ratio amongst peers (0.4% vs. peers' average of 1.7%) which could be attributable to its densely collateralised housing loan portfolio. While the stock may not have the highest dividend yield, the possibility for more dividend payment frequencies to the current biannual payment could interest certain investors. We believe investors will seek banks with higher safety nets on the back of softness in appetite for financial institutions. Further clarity in PBBANK's shareholding structure could also serve as a positive re-rating for the stock in due course. **PBBANK is one of our 2QCY23 Top Picks.**

**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) slowdown in capital market activities, (v) unfavourable currency fluctuations, and (vi) changes to OPR.

**Income Statement**

FY Dec (RM m)	2020A	2021A	2022A	2023F	2024F
Net interest income	8,491	9,929	11,024	11,407	11,693
Non-interest income	2,821	2,616	2,414	2,237	2,300
<b>Total income</b>	<b>11,312</b>	<b>12,544</b>	<b>13,438</b>	<b>13,644</b>	<b>13,994</b>
Operating expenses	-3,909	-3,965	-4,235	-4,278	-4,321
<b>PPOP</b>	<b>7,403</b>	<b>8,579</b>	<b>9,203</b>	<b>9,367</b>	<b>9,673</b>
Loan impairments	-1,106	-1,201	-366	-321	-337
Other impairments	-14	-6	-13	-10	-10
Associates	2	-5	7	10	10
<b>Pre-tax profit</b>	<b>6,285</b>	<b>7,367</b>	<b>8,831</b>	<b>9,046</b>	<b>9,336</b>
Tax and zakat	-1,353	-1,637	-2,661	-1,990	-2,054
Minority interest	-61	-73	-50	-92	-95
<b>Net Profit</b>	<b>4,872</b>	<b>5,657</b>	<b>6,119</b>	<b>6,964</b>	<b>7,188</b>
<b>Core Net Profit</b>	<b>4,872</b>	<b>5,657</b>	<b>6,119</b>	<b>6,964</b>	<b>7,188</b>

**Balance Sheet**

FY Dec (RM m)	2020A	2021A	2022A	2023F	2024F
Cash & ST funds	19,901	17,531	21,771	22,655	23,112
Investment securities	77,735	80,431	81,387	84,691	86,398
Loans and financing	342,803	354,052	372,583	392,195	400,098
Other assets	8,400	8,266	14,983	17,708	23,748
Intangible assets	2,418	2,459	2,539	2,539	2,539
<b>Total Assets</b>	<b>451,257</b>	<b>462,739</b>	<b>493,263</b>	<b>519,789</b>	<b>535,895</b>
Customer deposits	365,871	380,394	394,719	418,920	435,930
Deposits & placements	10,742	8,124	13,775	14,334	14,916
Borrowings	16,772	16,464	17,123	17,819	18,542
Other liabilities	9,445	8,332	16,120	13,721	8,011
<b>Total liabilities</b>	<b>402,830</b>	<b>413,314</b>	<b>441,737</b>	<b>464,793</b>	<b>477,399</b>
Share capital	9,418	9,418	9,418	9,418	9,418
Retained earnings	34,580	37,061	39,259	42,729	46,229
Regulatory reserves	1,220	248	314	314	314
Other reserves	2,031	1,436	1,188	1,188	1,188
<b>Shareholders' funds</b>	<b>47,248</b>	<b>48,163</b>	<b>50,179</b>	<b>53,649</b>	<b>57,149</b>
Minority interest	1,178	1,263	1,347	1,347	1,347
<b>Total liabilities and equity</b>	<b>451,257</b>	<b>462,739</b>	<b>493,263</b>	<b>519,789</b>	<b>535,895</b>

**Financial Data & Ratios**

FY Dec	2020A	2021A	2022A	2023F	2024F
<b>Growth</b>					
Net interest income	-2.4%	16.9%	11.0%	3.5%	2.5%
Non-interest income	17.5%	-7.3%	-7.7%	-7.3%	2.8%
Total income	1.9%	10.9%	7.1%	1.5%	2.6%
Operating expenses	2.4%	1.4%	6.8%	1.0%	1.0%
PPOP	1.6%	15.9%	7.3%	1.8%	3.3%
Loan impairment	616.2%	8.6%	-69.6%	-12.2%	4.9%
Pre-tax profit	-11.9%	17.2%	19.9%	2.4%	3.2%
Net Profit	-11.6%	16.1%	8.2%	13.8%	3.2%
Core Net Profit	-11.6%	16.1%	8.2%	13.8%	3.2%
Gross loans	4.4%	3.3%	5.2%	5.3%	2.0%
Customer deposits	3.5%	4.0%	3.8%	6.1%	4.1%

**Operating metrics**

Est. avg. asset yield	3.95%	3.61%	3.90%	4.21%	4.27%
Est. avg. funding cost	2.15%	1.55%	1.69%	2.24%	2.31%
Est NIM	1.99%	2.22%	2.38%	2.34%	2.32%
Cost-to-Income ratio	34.6%	31.6%	31.5%	31.4%	30.9%
Credit cost (bps)	33.0	34.5	10.1	8.4	8.5
Loan-to-deposit ratio	93.7%	93.1%	94.4%	93.6%	91.8%
GIL ratio	0.4%	0.3%	0.4%	0.5%	0.5%
LLC Ratio	227.7%	360.7%	272.0%	270.0%	270.0%
LLC Ratio (+ reg reserves)	325.1%	383.2%	291.8%	287.6%	285.8%
ROA	1.1%	1.2%	1.3%	1.4%	1.4%
ROE	10.7%	11.9%	12.4%	13.4%	13.0%

**Valuations**

EPS (RM)	0.25	0.29	0.32	0.36	0.37
PER (x)	15.82	13.62	12.59	11.07	10.72
Div yield (%)	3.3	3.8	4.3	4.5	4.8
BV/share (RM)	2.43	2.48	2.59	2.76	2.94
P/BV (x)	1.63	1.60	1.54	1.44	1.35

Source: Kenanga Research

18 April 2023

## 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.
<b>Stocks Under Coverage</b>																	
ALLIANCE BANK MALAYSIA BHD	OP	3.35	4.40	31.3%	5,186	N	03/2023	44.7	49.4	20.9%	10.4%	7.5	6.8	0.8	10.5%	22.0	6.6%
AMMB HOLDINGS BHD	OP	3.70	5.00	35.1%	12,236	N	03/2023	51.0	54.8	12.0%	7.4%	7.3	6.8	0.7	9.7%	16.0	4.3%
BANK ISLAM MALAYSIA BHD	MP	2.05	2.30	12.2%	4,600	Y	12/2023	26.2	27.2	14.4%	4.2%	7.8	7.5	0.6	8.1%	15.5	7.6%
CIMB GROUP HOLDINGS BHD	OP	5.26	6.55	24.5%	56,098	N	12/2023	59.7	68.4	14.3%	14.7%	8.8	7.7	0.8	9.7%	30.0	5.7%
HONG LEONG BANK BHD	OP	20.44	23.35	14.2%	44,308	N	06/2023	197.0	199.7	22.7%	1.4%	10.4	10.2	1.2	12.5%	70.0	3.4%
MALAYAN BANKING BHD	OP	8.70	10.10	16.1%	104,871	N	12/2023	79.6	79.3	15.7%	-0.3%	10.9	11.0	1.2	11.0%	68.0	7.8%
PUBLIC BANK BHD	OP	3.97	4.90	23.4%	77,060	N	12/2023	35.9	37.0	13.8%	3.2%	11.1	10.7	1.4	13.4%	18.0	4.5%
RHB BANK BHD	OP	5.55	7.10	27.9%	23,573	N	12/2023	77.4	77.6	15.8%	0.2%	7.2	7.2	0.7	10.7%	43.0	7.7%
<b>SECTOR AGGREGATE</b>					<b>327,934</b>					<b>15.7%</b>	<b>4.2%</b>	<b>10.0</b>	<b>9.6</b>	<b>1.1</b>	<b>10.9%</b>		<b>6.0%</b>

Source: Kenanga Research

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18 April 2023

**Stock ESG Ratings:**

	Criterion	Rating				
<b>GENERAL</b>	Earnings Sustainability & Quality	★	★	★	☆	
	Community Investment	★	★	★	☆	
	Workforce Safety & Wellbeing	★	★	★		
	Corporate Governance	★	★	★	★	
	Anti-corruption Policy	★	★	★		
	Emissions Management	★	★	★		
<b>SPECIFIC</b>	Green Financing	★	★	★	★	★
	Financial Inclusion	★	★	★	☆	
	Cybersecurity/Data Privacy	★	★	★		
	Digitalisation & Innovation	★	★	☆		
	Diversity & Inclusion	★	★	★	★	
	Customer Experience	★	★	★		
<b>OVERALL</b>		★	★	★	★	

☆ 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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