

Public Bank

Solid Cushions in Provisions and Tax

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1QFY23 net profit of RM1.71b (+23%) came within expectations. PBBANK saw sustained interest income growth but this may ease in subsequent quarters as lower margins set in from higher funding cost. 1QFY23 nearly incurred zero credit charges from pre-emptive provisions, but this may rise later on. The lapse of prosperity tax was a key contributor to earnings, a trend that should persist for FY23. Maintain OUTPERFORM and GGM-derived PBV TP of RM4.90. PBBANK is one of our 2QCY23 Top Picks.

1QFY23 within expectations. 1QFY23's net profit of RM1.71b made up 25% each of both our full-year forecast and consensus full-year estimates. No dividend was declared, as expected given the group's typical biannual payments.

YoY, 1QFY23 total income grew 5% on stronger net interest income (+6%), thanks to loans growth of 5% with stable net interest margin (NIM) of 2.22% (+2 bps), although this is expected to see compression in the coming quarters owing to funding cost pressures. This was more prevalent on a QoQ basis as NIM was slashed by 36 bps. Non-interest income saw a minor uptick as softer unit trust sales were offset by growth in other items. Cost-income ratio was stable at 33.1% (-0.1 ppt) as operating expenses increased in tandem with the higher top line.

Credit cost came at only 0.2 bps (1QFY22: 11.1 bps) thanks to the utilisation of pre-emptive provisions. This led pre-tax profit to report a 10% increase. Adding the normalisation of effective tax post prosperity tax, 1QFY23 net profits came in at RM1.71b (+23%).

Briefing highlights. The group opines that current macros are accounted for, keeping with its FY23 targets.

1. Loans growth appears broad-based with demand for residential properties still healthy in the group's books, seconded by hire purchase.
2. The double-digit NIMs compression is likely to come at <20 bps (FY22: 2.39%), suggesting that 1QFY23 readings could be stable. The 25 bps OPR hike in May 2023 should ease margin pressures but it is not likely able to support the high base gained from previous pricing strategies.
3. Optimisation of deposits by repricing downwards could ease funding cost. We opine that an existing liquidity coverage ratio of 137% could provide allowance for possibly slower deposits growth. Loan-to-deposit ratio is now reporting at c.95%.
4. The maintenance of credit cost guidance of <10 bps is in anticipation of prospective top ups should macros condition indicate any worsening. That said, the existing management overlays of RM1.8b remains untouched and consideration for writebacks could still be reserved for later periods.

Forecasts. Post results, we keep our FY23F/FY24F earnings largely unchanged, with minor tweaks following 1QFY23's inputs.

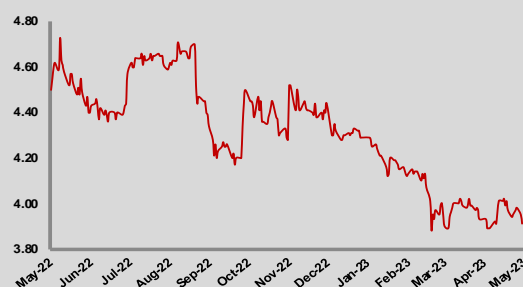
Maintain OUTPERFORM and TP of RM4.90. Our TP is based on an unchanged GGM-derived PBV of 1.58x (COE: 9.7%, TG: 4.0%, ROE: 13.0%) on FY24F BVPS of RM2.95. We also applied a 5% premium to our TP based on our 4-star ESG rating, led by the stock's strong green financing pipeline.

PBBANK 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 a more than biannual dividend payment could be of interest to certain investors. PBBANK is one of our 2QCY23 Top Picks.

OUTPERFORM ↔

Price : RM3.89
Target Price : RM4.90 ↔

Share Price Performance



KLCI 1,402.48
YTD KLCI chg -6.2%
YTD stock price chg -10.0%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	PBK MK Equity
Market Cap (RM m)	75,507.6
Shares Outstanding	19,410.7
52-week range (H)	4.73
52-week range (L)	3.88
3-mth avg daily vol	15,265,940
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	11,445	11,731
Non-interest income	2,414	2,237	2,300
Total income	13,438	13,682	14,031
Operating expenses	-4,235	-4,278	-4,321
Loan impairment	-379	-342	-338
Pre-tax profit	8,831	9,073	9,373
Net Profit	6,119	6,985	7,216
Core Profit	6,119	6,985	7,216
Consensus NP	-	6,888	7,173
Earnings revision (%)	-	-0.3	-0.5
Core EPS (RM)	0.32	0.36	0.37
EPS growth (%)	8.2	14.1	3.3
NDPS (RM)	0.17	0.18	0.19
BV/share (RM)	2.59	2.76	2.95
NTA/share (RM)	2.45	2.63	2.82
ROE (%)	12.4	13.5	13.0
PER (x)	12.3	10.8	10.5
P/BV (x)	1.5	1.4	1.32
Net Div. Yield (%)	4.4	4.6	4.9



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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, (v) adverse currency fluctuations, and (vi) changes to OPR.

Results Highlights

	1Q	4Q	QoQ	1Q	YoY	3M	3M	YoY
FYE Dec (RM m)	FY23	FY22	Chg	FY22	Chg	FY23	FY22	Chg
Net interest income	2,657	3,049	-12.9%	2,507	6.0%	2,657	2,507	6.0%
Non-interest income	647	601	7.6%	642	0.7%	647	642	0.7%
Total income	3,303	3,650	-9.5%	3,149	4.9%	3,303	3,149	4.9%
Operating expenses	-1,094	-1,040	5.2%	-1,045	4.7%	-1,094	-1,045	4.7%
Pre-impairment profit	2,209	2,610	-15.4%	2,104	5.0%	2,209	2,104	5.0%
(Allowances)/ write-backs	-2	-90	-98.3%	-100	-98.5%	-2	-100	-98.5%
(Allowances)/ write-backs on other assets	2	-6	-128.3%	-2	-176.0%	2	-2	-176.0%
Operating profit	2,209	2,514	-12.1%	2,002	10.3%	2,209	2,002	10.3%
Non-operating gains / (losses)	0	7	-102.3%	-2	-90.7%	0	-2	-90.7%
Profit before tax	2,209	2,521	-12.4%	2,000	10.4%	2,209	2,000	10.4%
Taxation	-486	-800	-39.2%	-587	-17.3%	-486	-587	-17.3%
Minority interest	-9	-7	23.3%	-14	-36.6%	-9	-14	-36.6%
Net Profit	1,714	1,714	0.0%	1,399	22.6%	1,714	1,399	22.6%
Core Net Profit	1,714	1,714	0.0%	1,399	22.6%	1,714	1,399	22.6%
Gross loans	381,591	376,892	1.2%	362,732	5.2%	381,591	362,732	5.2%
Gross impaired loans	1,968	1,584	24.3%	1,061	85.5%	1,968	1,061	85.5%
Customer deposits	403,660	394,719	2.3%	384,752	4.9%	403,660	384,752	4.9%
Current and savings account (CASA)	116,729	118,033	-1.1%	120,177	-2.9%	116,729	120,177	-2.9%
Total assets	498,830	493,263	1.1%	470,579	6.0%	498,830	470,579	6.0%
Shareholders' equity	51,309	50,179	2.3%	47,991	6.9%	51,309	47,991	6.9%
Est. annualised NIM	2.22%	2.58%		2.20%		2.22%	2.20%	
Cost-to-income ratio	33.1%	28.5%		33.2%		33.1%	33.2%	
Annualised credit cost (bps)	0.2	9.6		11.1		0.2	11.1	
Effective tax rate	22.0%	31.7%		29.4%		22.0%	29.4%	
Annualised ROA	1.4%	1.4%		1.2%		1.4%	1.2%	
Annualised ROE	13.5%	13.8%		11.6%		13.5%	11.6%	
Gross impaired loans ratio	0.5%	0.4%		0.3%		0.5%	0.3%	
Loan loss coverage ratio (LLC)	217.8%	272.0%		382.5%		217.8%	382.5%	
LLC plus regulatory reserves	239.6%	291.8%		402.7%		239.6%	402.7%	
Loan-to-deposit ratio	94.7%	95.7%		94.2%		94.7%	94.2%	
CASA-to-deposit ratio	28.9%	29.9%		31.2%		28.9%	31.2%	
CET-1 capital (Group level)	14.6%	14.6%		14.3%		14.6%	14.3%	

Source: Company, Kenanga Research

Management Guidance

	FY23 Targets	FY22 Performance
Loans growth	+4.0-5.0%	+5.3%
Deposits growth	+4.0-5.0%	+4.2%
Credit cost	<10 bps	10 bps
Net interest margin	Double digit bps compression	2.37%
ROE	12.0-13.0%	12.4%

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. 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																	
ALLIANCE BANK MALAYSIA BHD	OP	3.32	4.40	32.5%	5,140	N	03/2023	44.7	50.0	20.9%	11.8%	7.4	6.6	0.8	10.5%	22.0	6.6%
AMMB HOLDINGS BHD	OP	3.50	5.00	42.9%	11,575	N	03/2023	51.0	55.8	12.0%	9.4%	6.9	6.3	0.6	9.7%	16.0	4.6%
BANK ISLAM MALAYSIA BHD	MP	1.83	2.30	25.7%	4,148	Y	12/2023	26.3	27.4	14.9%	4.2%	7.0	6.7	0.6	8.2%	15.5	8.5%
CIMB GROUP HOLDINGS BHD	OP	4.96	6.55	32.1%	52,899	N	12/2023	59.9	68.8	14.8%	15.0%	8.3	7.2	0.8	9.7%	30.0	6.0%
HONG LEONG BANK BHD	OP	19.54	23.35	19.5%	42,357	N	06/2023	197.3	201.2	22.9%	2.0%	9.9	9.7	1.2	12.5%	70.0	3.6%
MALAYAN BANKING BHD	OP	8.56	10.10	18.0%	103,183	N	12/2023	80.3	80.0	16.8%	-0.5%	10.7	10.7	1.2	11.1%	68.0	7.9%
PUBLIC BANK BHD	OP	3.89	4.90	26.0%	75,508	N	12/2023	36.0	37.2	14.1%	3.3%	10.8	10.5	1.4	13.5%	18.0	4.6%
RHB BANK BHD	OP	5.46	7.10	30.0%	23,403	N	12/2023	78.4	78.3	17.3%	-0.2%	7.0	7.0	0.7	10.8%	43.0	7.9%
SECTOR AGGREGATE					318,213					16.4%	4.4%	9.6	9.2	1.1	10.9%		6.2%

Source: Kenanga Research

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Stock ESG Ratings:

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