

15 May 2026

Public Bank

Special Returns Inbound

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PBBANK's 1QFY26 net profit met expectations with delinquency risk still low despite prolonged geopolitical tensions and elevated oil prices. From the upcoming Basel III, a capital release of RM3.5b allows the group to declare a capital return plan, potentially equating to annual special dividends of c.5.9sen/share (1.2% yield) over the next 3 years. We believe this places PBBANK as the leading contender amongst its peers with a strong balance of dividend returns while having stellar asset quality security. We maintain our OUTPERFORM call with a higher GGM-derived PBV TP of RM5.95 (from RM5.75) as we raise our long-term ROE assumptions by 50 bps, in line with the capital release from the special dividends. PBBANK is one of our 2QCY26 Top Picks.

1QFY26 within expectations. PBBANK's 1QFY26 net profit of RM1.75b came in at 23% of both our full-year forecast and consensus full-year expectations. No dividend was declared this quarter as the group typically pays on a bi-annual basis.

YoY, 1QFY26 net earnings came in flattish. This was largely due to CIR widening to 35.5% (+0.5 ppt) as personnel cost (+5%) grew faster than total income (+1%).

Net interest income improved slightly (+1%) as a higher loans base (+5%) was met with diminishing NIMs (2.11%, -8 bps) amid intense rate competition from both loans and deposits. Meanwhile, NOI gained 3% with better insurance results offsetting treasury losses. We note that while credit cost increased, albeit marginally (5 bps, +1bps), this is still within the group's pre-pandemic readings. Management overlay balances of RM800m remained unchanged during the quarter.

QoQ, 1QFY26 net profit decreased by 7%, attributed by lower NIMs (2.11%, -1 bps), lower fee-based income and relatively higher credit cost, of which 4QFY25 reported a net writeback.

Highlights. The group maintained all of its headline targets. In spite of ongoing concerns surrounding inflation and higher living costs, PBBANK believes it is managing asset quality well with vulnerable accounts within sectors such as logistics, agriculture and hospitality making up <1% of their total books. As such, the group believes its LLC balance of 147% remains highly sufficient. Though NIM pressures are expected to persist as asset yields strain, alternative sources of funding via commercial papers should ease funding costs going forward, giving the group some relief away from deposit as rates remain competitive.

In line with the upcoming 100 bps capital release from Basel III implementation in July 2026, PBBANK announced its own **RM3.5b capital return plan over the span of three years**. With the first distribution expected to come together with its 4QFY26 earnings report (i.e. Feb 2027), shareholders could expect a special dividend payment of 5.9 sen/share (1.2% yield) over the next three years with ROEs increasing by close to 50 bps. This is notwithstanding group's guidance of increasing ordinary dividend payout ratio of 60% in FY26.

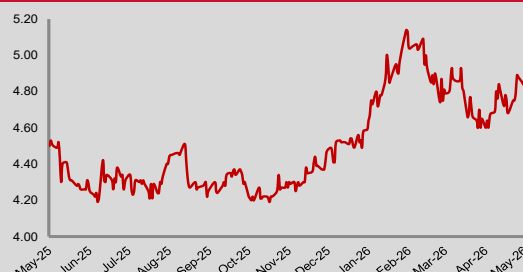
Forecast. Our FY26F/FY27F earnings are largely unchanged. That said, we reflected the additional special dividend distribution which raises our dividend yield to above 6% in the near-to-medium term.

Maintain OUTPERFORM with a higher TP of RM5.95 (from RM5.75), as we raise our GGM ROE input to 13.5% from 13.0%, reflecting the long-term ROE accretion from the group's capital return plan. Our other GGM variables are unchanged (COE: 9.4%, TG: 4.0%), resulting in a higher PBV of 1.78x (from 1.68x) against our FY26F BVPS of RM3.18. 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.

OUTPERFORM ↔

Price : **RM4.83**
Target Price : **RM5.95** ↑

Share Price Performance



KLCI 1,745.58
YTD KLCI chg 3.9%
YTD stock price chg 6.4%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	PBK MK Equity
Market Cap (RM m)	93,753.6
Shares Outstanding	19,410.7
52-week range (H)	5.14
52-week range (L)	4.19
3-mth avg. daily vol.	23,272,670
Free Float	68%
Beta	1.05

Major Shareholders

Consolidated Teh Holdings	21.6%
Employees Provident Fund	17.4%
Kumpulan Wang Persaraan	5.4%

Summary Earnings Table

FY Dec (RM m)	2025A	2026F	2027F
Net interest Income	11,423	11,694	12,190
Non-interest Income	2,965	3,013	3,164
Total Income	14,388	14,707	15,354
Operating Expenses	-5,129	-5,320	-5,585
Loan Impairment	-67	-86	-109
Pre-tax Profit	9,543	9,684	10,058
Net Profit	7,224	7,499	7,784
Core Profit	7,224	7,499	7,784
Consensus NP	-	7,523	7,929
Earnings Revision (%)	-	0.1	0.3
Core EPS (RM)	0.37	0.39	0.40
EPS Growth (%)	1.1	3.8	3.8
NDPS (sen)	22.5	29.4	30.4
BV/Share (RM)	3.09	3.18	3.28
NTA/Share (RM)	2.93	3.02	3.12
ROE (%)	12.3	12.3	12.4
PER (x)	13.0	12.5	12.0
P/BV (x)	1.56	1.52	1.47
Net Div. Yield (%)	4.7	6.1	6.3



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With rejuvenated dividend yield prospects of >6%, we believe PBBANK would be a stronger standout against its peers, especially with its leading ROE of >12% and GIL ratio of c.0.5%. This could be a particularly important metric especially as uncertainty looms amid the prolonged Middle East conflicts and elevated oil prices. Additionally, synergies with LPI would open more cross selling and cost saving opportunities to both parties as their integration progresses. **PBBANK is one of our 2QCY26 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) 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)	FY26	FY25	Chg	FY25	Chg	FY26	FY25	Chg
Net interest income	2,857	2,884	-0.9%	2,828	1.0%	2,857	2,828	1.0%
Non-interest income	793	835	-5.0%	772	2.8%	793	772	2.8%
Total income	3,650	3,718	-1.8%	3,600	1.4%	3,650	3,600	1.4%
Operating expenses	-1,295	-1,301	-0.5%	-1,259	2.8%	-1,295	-1,259	2.8%
Pre-impairment profit	2,355	2,417	-2.6%	2,341	0.6%	2,355	2,341	0.6%
(Allowances)/ write-backs	-52	17	-404.5%	-39	33.5%	-52	-39	33.5%
(Allowances)/ write-backs on other assets	-4	-4	-11.8%	-4	-9.0%	-4	-4	-9.0%
Operating profit	2,299	2,430	-5.4%	2,297	0.1%	2,299	2,297	0.1%
Non-operating gains / (losses)	17	14	15.6%	15	11.9%	17	15	11.9%
Profit before tax	2,315	2,444	-5.3%	2,312	0.1%	2,315	2,312	0.1%
Taxation	-522	-544	-4.1%	-520	0.4%	-522	-520	0.4%
Minority interest	-42	-24	75.7%	-48	-11.9%	-42	-48	-11.9%
Net Profit	1,752	1,876	-6.6%	1,745	0.4%	1,752	1,745	0.4%
Core Net Profit	1,752	1,876	-6.6%	1,745	0.4%	1,752	1,745	0.4%
Gross loans	452,116	445,758	1.4%	430,065	5.1%	452,116	430,065	5.1%
Gross impaired loans	2,315	2,285	1.3%	2,288	1.2%	2,315	2,288	1.2%
Customer deposits	453,075	447,114	1.3%	437,056	3.7%	453,075	437,056	3.7%
Current and savings account (CASA)	125,856	125,315	0.4%	120,229	4.7%	125,856	120,229	4.7%
Total assets	570,313	561,651	1.5%	549,714	3.7%	570,313	549,714	3.7%
Shareholders' equity	59,138	59,938	-1.3%	56,951	3.8%	59,138	56,951	3.8%
Reported NIM	2.11%	2.12%		2.19%		2.11%	2.19%	
Cost-to-income ratio	35.5%	35.0%		35.0%		35.5%	35.0%	
Annualised credit cost (bps)	4.6	-1.5		3.7		4.6	3.7	
Effective tax rate	22.5%	22.3%		22.5%		22.5%	22.5%	
Annualised ROA	1.2%	1.3%		1.3%		1.2%	1.3%	
Annualised ROE	11.8%	12.7%		12.2%		11.8%	12.2%	
Gross impaired loans ratio	0.51%	0.51%		0.53%		0.51%	0.53%	
Loan loss coverage ratio (LLC)	147.0%	149.9%		159.9%		147.0%	159.9%	
LLC plus regulatory reserves	251.2%	248.7%		233.4%		251.2%	233.4%	
Loan-to-deposit ratio	100.4%	100.3%		98.7%		100.4%	98.7%	
CASA-to-deposit ratio	27.8%	28.0%		27.5%		27.8%	27.5%	
CET-1 capital (Group level)	13.7%	13.9%		14.0%		13.7%	14.0%	

Source: Company, Kenanga Research

Management Guidance

	FY26 Targets	FY25 Performance
Loans growth	4%-5%	+5.1%
NOII growth	Double digit	15%
Credit cost	Single digit	2 bps
Net interest margin	Stable to mid-single digit compression	2.15%
Net ROE	12.0%-13.0%	12.8%
Dividend Payout	~60%	60.5%

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) 1-Yr. Fwd.	Net Div Yld. 1-Yr. Fwd.
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.				
Stocks Under Coverage																	
Affin Bank Bhd	MP	2.45	2.50	2.0%	6,207.9	N	12/2026	22.4	24.0	4.9%	7.1%	10.9	10.2	0.5	4.6%	9.0	3.7%
Alliance Bank Malaysia Bhd	MP	4.94	5.20	5.3%	8,547.3	N	03/2026	48.0	50.3	10.7%	4.6%	10.3	9.8	1.0	10.5%	19.5	3.9%
AMMB Holdings Bhd	OP	6.44	7.45	15.7%	21,295.4	N	03/2026	64.2	67.0	6.0%	4.5%	10.0	9.6	1.0	10.0%	34.0	5.3%
Bank Islam Malaysia Bhd	OP	2.33	2.55	9.4%	5,280.9	Y	12/2026	26.5	28.5	7.9%	7.5%	8.8	8.2	0.7	7.5%	16.0	6.9%
CIMB Group Holdings Bhd	OP	7.90	8.45	7.0%	85,345.4	N	12/2026	78.6	83.9	6.9%	6.8%	10.1	9.4	1.1	11.4%	50.0	6.3%
Hong Leong Bank Bhd	OP	22.10	25.95	17.4%	47,906.6	N	06/2026	227.1	236.0	-0.6%	3.9%	9.7	9.4	1.1	11.5%	105.0	4.8%
Malayan Banking Bhd	OP	11.18	12.30	10.0%	135,225.8	N	12/2026	89.0	90.4	2.1%	1.6%	12.6	12.4	1.3	11.0%	64.0	5.7%
MBSB Bhd	OP	0.680	0.730	7.4%	5,591.2	Y	12/2026	5.7	7.7	45.4%	36.4%	12.0	8.8	0.5	4.1%	4.5	6.6%
Public Bank Bhd	OP	4.83	5.95	23.2%	93,753.6	N	12/2026	38.6	40.1	3.8%	3.8%	12.5	12.0	1.5	12.3%	29.4	6.1%
RHB Bank Bhd	MP	8.31	8.40	1.1%	36,247.5	N	12/2026	75.5	79.9	-2.7%	5.8%	11.0	10.4	1.0	9.5%	47.0	5.7%
SECTOR AGGREGATE					445,402					3.5%	4.5%	11.4	10.9	1.2	10.3%		5.5%

Name	Terminal growth (%)	Sustainable ROE (%)	Cost of Equity (%)	Applied PBV (x)	Target Price (RM)	Call	Remarks
Affin Bank Bhd	3.00	6.25	9.4	0.51	2.50	MP	
Alliance Bank Malaysia Bhd	3.00	10.0	10.0	1.00	5.20	MP	+5% ESG Premium
AMMB Holdings Bhd	3.00	10.0	9.4	1.10	7.45	OP	
Bank Islam Malaysia Bhd	3.50	8.0	9.7	0.73	2.55	OP	
CIMB Group Holdings Bhd	3.50	11.5	10.7	1.12	8.45	OP	+5% ESG Premium
Hong Leong Bank Bhd	-	-	-	-	25.95	OP	Sum-of-Parts
Malayan Banking Bhd	3.50	11.5	9.0	1.45	12.30	OP	
MBSB Bhd	3.00	6.0	8.7	0.53	0.730	OP	
Public Bank Bhd	4.00	13.5	9.4	1.78	5.95	OP	+5% ESG Premium
RHB Bank Bhd	2.50	10.0	9.7	1.05	8.40	MP	

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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