Public Bank

MARKET PERFORM ↓

Price : **RM4.95**

Target Price : **RM5.15** ↓

Revised Guidance

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PBBANK's 9MFY26 net profit was broadly in line, but NIM guidance was revised down on deposit competition. Loan was a bright spot, with PBBANK more evidently focused into SME, which will allow it to improve cross sell and fees. RM3.5b capital release will commence with the 4Q26f results. We trim core net profit by 3/2% in FY26/FY27, and lower sustainable ROE to 12.4%, closer to guidance of c12% (2026). TP is cut to RM5.15 (from RM5.95). Having also outperformed its large banks peers with a 9% share price return YTD, the upside now maps to a MARKET PERFORM (from OUTPERFORM), supported by a yield of c6%. 3-year ROE is at 0.6sd below average, with Price-to-book at 3-year average.

Within expectations. PBBANK's 9MFY26 net profit of RM3.58b was essentially flat (-0.2% YoY), at 71% of Kenanga's full-year forecast, on the back of a weak NOII in 3Q26 which was expected on high bond yields irritation. Not a dividends quarter, but PBBANK affirmed its capital release by 4Q26, during which it will also unveil its MyValue Up medium-term plans.

Good news comes later amid OPR hike outlook. Citing more deposit competition (on the retail front), PBBANK is widening its NIM slippage guidance to 9-10 bp from mid-single digit compression (Kenanga: -8 bps). It envisages scope for 4 bps NIM uplift upon a 25 bps hike which it expects by 1Q27 (aligned with Kenanga's view). The softening of the NIM of YTD of 8 bps (3 bps from assets) justifies a more aggressive push into SMEs, with most opportunities for cross-sell. Elsewhere, QoQ PBBANK reduced mildly (by 36 bps) its mix of investment securities to 14.8% of assets, and we also observed a higher proportion of longer-term deposits (in the 6 month to 1 year bucket at 22.8%) – both signs consistent with preparing for a rate hike ahead.

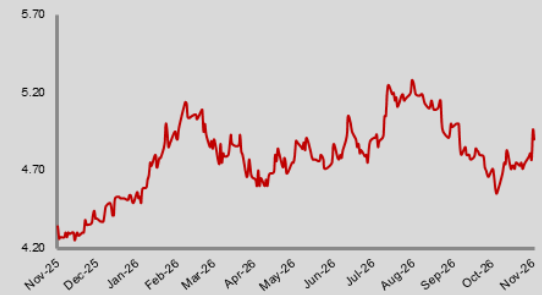
Loan still eclipsing guidance with tilt towards higher yield. Loan growth at 6.2% annualized (+6.5% for domestic) had led PBBANK to up guidance (to exceeding 4-5% now), where QoQ it is still advancing market share in domestic SMEs, hire purchase save for mortgages. NIM would have also been flattered by deposit growth that is still playing catch up (+4.1% annualized), resulting in loans-to-funds ratio that has inched up to 96%. Not a concern for us as liquidity coverage ratio has been stable (said between 120-130 bps).

NOII rebound seen in 4Q26. NOII was affected by a small negative in the net losses on financial instruments in 3Q26, compounded with unit trust income failed to repeat the highs of 2Q26 (partly attributable to more promotional events) resulted in a 7% QoQ NOII decline although this should rebound. Bancassurance continues to be a bright spot.

Pressure in asset quality inching up slightly. Credit cost ratio rises to 9 bps for 9MFY26. GIL ratio inched up 1bps QoQ to 0.55% with irritation domestically and in Cambodia, resulting in LLC marginally lower at 135%, slightly lower QoQ. Delinquent loans stayed manageable at 1.5%. CET1 ratio rose QoQ to 14.5% following adopting Basel III final reforms.

Forecast. We lower our earnings forecast by 3.5/4.5% respectively. We had earlier pencilled in that shareholders could expect a special dividend payment of 5.9 sen/share over the next three years. This is notwithstanding PBBANK's guidance of increasing ordinary dividend payout ratio of 60% in FY26. We have incorporated some rate hike expectation in FY27, but also increased credit cost ratio to 8 bps.

Share Price Performance



KLCI	1,616.58
YTD KLCI chg	-3.8%
YTD stock price chg	7.9%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	pbk mk equity
Market Cap (RM m)	95,112.4
Shares Outstanding	19,410.7
52-week range (H)	5.28
52-week range (L)	4.25
3-mth avg. daily vol.	20,420,596
Free Float	71%
Beta	1.08

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	11,656	12,269
Non-interest Income	2,965	3,013	3,164
Total Income	**14,388**	**14,669**	**15,433**
Operating Expenses	-5,129	-5,246	-5,546
Loan Impairment	**-67**	**-425**	**-396**
Pre-tax Profit	9,543	8,576	9,890
Net Profit	**7,224**	**6,461**	**7,654**
Core Profit	**7,224**	**7,261**	**7,654**
Consensus NP	-	7,162	7,791
Earnings Revision (%)	-	-3.2	-1.7
Core EPS (RM)	0.37	0.37	0.39
EPS Growth (%)	1.1	0.5	5.4
NDPS (sen)	22.5	29.4	30.4
BV/Share (RM)	3.09	3.13	3.22
NTA/Share (RM)	2.93	2.97	3.06
ROE (%)	12.3	12.0	12.4
PER (x)	13.8	13.2	12.6
P/BV (x)	1.67	1.58	1.54
Net Div. Yield (%)	4.4	5.9	6.1

Lowered TP to RM5.15. Our GGM ROE input is reduced from previously 13.5% to 12.4%, closer to guidance for FY26. Other GGM variables are unchanged (COE: 9.4%, TG: 4.0%), mapping to a PBV of 1.57x against our FY26F BVPS of RM3.13. A 5% premium to our TP is on our 4-star ESG rating, led by its strong green financing pipeline.

We believe PBBANK remains a standout against its peers, especially with its leading ROE of >12% and GIL ratio of c.0.5%. The lowering of PBBANK considers as well that it has outperformed its larger bank peers. More enduringly, synergies with LPI would open more cross selling and cost saving opportunities to both parties as their integration progresses.

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

FYE Dec (RM m)	3Q FY26	2Q FY26	QoQ Chg	3Q FY25	YoY Chg	9M FY26	9M FY25	YoY Chg
Net interest income	2,911	2,881	1.0%	2,837	2.6%	8,649	8,539	1.3%
Non-interest income	872	944	-7.6%	887	-1.7%	2,609	2,438	7.0%
Total income	**3,783**	**3,825**	**-1.1%**	**3,725**	**1.6%**	**11,258**	**10,977**	**2.6%**
Operating expenses	-1,316	-1,326	-0.8%	-1,269	3.7%	-3,937	-3,828	2.8%
Pre-impairment profit	**2,468**	**2,499**	**-1.3%**	**2,456**	**0.5%**	**7,322**	**7,149**	**2.4%**
(Allowances)/ write-backs	-127	-115	10.4%	-11	1078.8%	-294	-84	250.9%
(Allowances)/ write-backs on other assets	-11	-5	108.6%	-5	143.4%	-20	-8	142.6%
Operating profit	**2,329**	**2,379**	**-2.1%**	**2,441**	**-4.6%**	**7,007**	**7,057**	**-0.7%**
Non-operating gains / (losses)	16	14	10.2%	12	33.0%	46	42	11.3%
Profit before tax	**2,345**	**2,393**	**-2.0%**	**2,453**	**-4.4%**	**7,053**	**7,099**	**-0.6%**
Taxation	-517	-533	-3.0%	-545	-5.1%	-1,571	-1,592	-1.3%
Minority interest	-55	-36	53.3%	-65	-15.4%	-133	-159	-16.1%
Net Profit	**1,773**	**1,825**	**-2.8%**	**1,843**	**-3.8%**	**5,349**	**5,348**	**0.0%**
Core Net Profit	**1,773**	**1,825**	**-2.8%**	**1,843**	**-3.8%**	**5,349**	**5,348**	**0.0%**
Gross loans	466,511	458,945	1.6%	441,239	5.7%	466,511	441,239	5.7%
Gross impaired loans	2,562	2,481	3.3%	2,281	12.3%	2,562	2,281	12.3%
Customer deposits	460,952	457,560	0.7%	446,209	3.3%	460,952	446,209	3.3%
Current and savings account (CASA)	128,581	127,828	0.6%	123,879	3.8%	128,581	123,879	3.8%
Total assets	590,344	582,121	1.4%	555,638	6.2%	590,344	555,638	6.2%
Shareholders' equity	63,706	64,565	-1.3%	58,251	9.4%	63,706	58,251	9.4%
Reported NIM	2.0%	2.1%		2.1%		2.06%	2.14%	
Cost-to-income ratio	34.8%	34.7%		34.1%		35.0%	34.9%	
Annualised credit cost (bps)	11.0	10.1		1.0		8.6	2.6	
Effective tax rate	22.0%	22.3%		22.2%		22.3%	22.4%	
Annualised ROA	1.2%	1.3%		1.3%		1.2%	1.3%	
Annualised ROE	11.1%	11.8%		12.6%		11.5%	12.3%	
Gross impaired loans ratio	0.55%	0.54%		0.52%		0.55%	0.52%	
Loan loss coverage ratio (LLC)	135.0%	138.9%		154.8%		135.0%	154.8%	
LLC plus regulatory reserves	233.6%	241.3%		244.3%		233.6%	244.3%	
Loan-to-deposit ratio	101.8%	100.9%		99.5%		101.8%	99.5%	
CASA-to-deposit ratio	27.9%	27.9%		27.8%		27.9%	27.8%	
CET-1 capital (Group level)	14.5%	13.9%		13.8%		14.5%	13.8%	

Source: Company, Kenanga Research

Management Guidance

	FY26 Targets (superseded)	FY26 Targets (revised during 3Q results)
Loans growth	4%-5%	Exceeding 4%-5%
NOII growth	Double digit	Double digit (for wealth)
Credit cost	Single digit	Single digit
Net interest margin	Mid-single digit compression	9-10 bps compression
Dividend Payout	~60%	~60%
Net ROE	12-13%	Around 12%

Source: Company, Kenanga Research

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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