

Public Bank Berhad

(1295 | PBK MK) Financial Services | Finance

Weighed by higher cost

KEY INVESTMENT HIGHLIGHTS

- **Earnings declined but within expectations**
- **OPEX came in higher**
- **NIM compression was the main factor for flattish NII**
- **Loans growth decent matched with deposits growth**
- **Asset quality remains solid, which means stability should there be any economic shocks**
- **Final dividend of 40sen, full year 73sen**
- **Revising earnings FY20 and FY21 earnings forecast downwards by -2.9%yoy and -4.6%yoy respectively**
- **Revised to TRADING BUY with revised TP of RM19.00**

Within expectations. The Group registered FY19 earnings of RM5.51b. This was within ours and consensus' expectations coming in at 97.5% and 96.3% of respective full year estimates.

Higher OPEX weighed earnings. The Group's PATAMI fell -1.4%yoy as it posted negative JAWS of -4.5%. OPEX was higher by +6.9%yoy due to increased personnel and establishment costs. These grew +8.5%yoy to RM2.74b and +9.0%yoy to RM710.9m respectively.

NII affected by lower NIM. NII was relatively flat for FY19 as it grew just +0.1%yoy. This was attributable to the NIM compression of -7bp yoy coming from the OPR cut in May-19. However, NIM did recover in 4QFY19, increasing by +5bp yoy possibly as more expensive FDs matured and re-priced lower. We expect the Group will face some NIM pressure this year from the OPR cut in Jan-20 and with potentially another one coming.

NOII and Islamic banking income supported total income. NOII grew +8.4%yoy and Islamic banking income rose +5.9%yoy to moderate the pressure to NII. NOII growth was supported by >100% growth in trading income to RM167.7b and forex income growth of +37.9%yoy to RM336.1b.

Gross loans growth remained decent. Gross loans growth was maintained at decent pace of +4.1%yoy to RM330.5b. Retail loans continued to be dominant, expanding +5.2%yoy to RM215.2b with housing loans the main driver. This grew +8.6%yoy to RM120.0b.

Deposits growth matched loans growth. Total deposits grew +4.2%yoy to RM353.3b. However, CASA growth hardly grew in 4QFY19, expanding +0.5%qoq to RM88.8b. On a sequential year basis, CASA rose +2.0%yoy. Meanwhile, FD grew +4.6%yoy to RM205.8b.

Asset quality, always dependable. The Group GIL ratio was stable at 0.5% as at 4QFY19. In the meantime, allowance for loan losses fell -8.7%yoy, keeping credit cost to circa 5bp.

Revision to earnings forecast. We revising downwards our earnings forecast for FY20 and FY21 by -2.9%yoy and -4.6%yoy to reflect the pressure we expect to NIM this year.

Revised to TRADING BUY

(from BUY)

Revised Target Price: RM19.00

(from RM24.00)

RETURN STATISTICS

Price @ 27 th Feb. 2020 (RM)	17.20
Expected share price return (%)	+10.5
Expected dividend yield (%)	+4.2
Expected total return (%)	+14.7

SHARE PRICE CHART




Share price performance (%)	Absolute	Relative
1 month	-10.3	-5.7
3 months	-11.5	-7.5
12 months	-31.4	-21.3

KEY STATISTICS

FBM KLCI	1,495.19
Syariah compliant	No
Issue shares (m)	3882.14
Estimated free float (%)	58.40
Market Capitalisation (RM'm)	66,772.78
52-wk price range	RM17.2 - RM25.0
Beta vs FBM KLCI (x)	0.88
Monthly velocity (%)	23.84
Monthly volatility (%)	8.18
3-mth average daily volume (m)	3.78
3-mth average daily value (RM'm)	72.15
Top Shareholders (%)	
Consolidated Teh Holdings Sdn Bhd	22.78
Employees Provident Fund Board	13.54
Kumpulan Wang Persaraan Diperdanan	3.12

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Valuation and recommendation. The Group's FY19 earnings declined by was within our expectations. Main cause of concern was the higher OPEX and NIM compression. We have yet to be learned of any initiative of the increasing OPEX. Meanwhile, we expect NIM to continue to be under pressure from the OPR cut in Jan-20 and possibly another one coming. However, a positive factor is the Group's asset quality. We opine that the Group's asset quality and conservative approach will mean that the Group will be able to weather any potential stress to the banking system better. We believe that the Group's valuation does not reflect this at current juncture. Hence, we believe that this may represent some trading opportunities. We revise our call to **TRADING BUY** (from BUY). We also revise our **TP to RM19.00** (from RM24.00) based on pegging FY20 BVPS to 1.6x which is 1.5 standard deviation below its 5 year historical average. 

INVESTMENT STATISTICS

Financial year ending 31 December (in RM'm, unless otherwise stated)	2018A	2019A	2020F	2021F	2022F
Net interest income (RM'm)	7,563	7,572	7,655	7,608	7,701
Islamic banking income (RM'm)	1,066	1,129	1,203	1,263	1,326
Non-interest income (RM'm)	2,215	2,401	2,504	2,616	2,731
Total income (RM'm)	10,843	11,102	11,362	11,487	11,759
Pretax profit (RM'm)	7,101	7,134	7,332	7,442	7,606
Net profit	5,591	5,512	5,603	5,687	5,812
Core Net profit (RM'm)	5,591	5,512	5,603	5,687	5,812
Core EPS (sen)	144.4	142.0	144.3	146.5	149.7
Core EPS growth (%)	1.9	-1.7	1.6	1.5	2.2
PER (x)	11.9	12.1	11.9	11.7	11.5
Net Dividend (sen)	69	73	73	73	75
Net Dividend Yield (%)	4.0	4.2	4.2	4.2	4.4
Book value per share (sen)	10.55	11.23	11.92	12.51	13.10
PBV (x)	1.6	1.5	1.4	1.4	1.3
ROE (%)	14.3	13.6	12.5	12.0	11.7

Source: Company, MIDFR

Some banking abbreviations used in this report:

CI = Cost to Income
 CET1 = Common Equity Tier 1
 GIL = Gross Impaired Loan
 LD = Loan-Deposit
 NII = Net Interest Income
 NOII = Non-interest income
 NIM = Net Interest margin
 CASA = Current and Savings Accounts
 FD = Fixed Deposits
 COF = Cost of Funds
 IB = Investment Banking
 LLC = Loan Loss Coverage
 PPOP = Pre-Provisioning Operating Profit
 FVTPL = Fair Value Through Profit Or Loss
 OPEX = Operating Expenses
 OPR = Overnight Policy Rate

Table 1: Comparison of quarterly results

FYE Dec (RM m)	Reported Quarterly results					Reported Cumulative results		
	4Q19	3Q19	4Q18	Yoy	Qoq	FY19	FY18	Yoy
Net Interest Income	1,945.5	1,896.3	1,908.4	1.9%	2.6%	7,572.3	7,563.0	0.1%
Islamic Banking Income	286.3	299.5	272.4	5.1%	-4.4%	1,129.1	1,065.9	5.9%
Non-interest Income	618.3	562.9	529.8	16.7%	9.8%	2,400.9	2,214.6	8.4%
Net/Total income	2,850.1	2,758.7	2,710.6	5.1%	3.3%	11,102.3	10,843.4	2.4%
OPEX	(985.1)	(952.7)	(886.2)	11.2%	3.4%	(3,819.2)	(3,573.5)	6.9%
PPOP	1,865.0	1,806.0	1,824.5	2.2%	3.3%	7,283.1	7,269.9	0.2%
Provision for loan losses	(43.2)	(49.2)	(34.4)	25.6%	-12.1%	(154.5)	(169.3)	-8.7%
Pre-tax profit	1,822.5	1,761.8	1,789.7	1.8%	3.4%	7,134.1	7,101.2	0.5%
Taxation	(402.3)	(383.0)	(364.7)	10.3%	5.0%	(1,554.7)	(1,436.3)	8.2%
Net Profit (PATAMI)	1,405.9	1,362.7	1,405.4	0.0%	3.2%	5,511.6	5,590.6	-1.4%
EPS (sen)	36.2	34.3	36.2	0.0%	5.5%	142.0	144.4	-1.7%

Table 2: Comparison of financial ratios based on reported numbers

Financial Ratios (%)	4Q19	3Q19	4Q18	Yoy (+/- ppts)	Qoq (+/- ppts)	FY19	FY18	Yoy (+/- ppts)
CET 1* capital	13.5	13.1	13.1	0.4	0.4	13.5	13.1	0.4
Tier 1* capital	13.5	13.5	13.7	-0.2	0.0	13.5	13.7	-0.2
Total* capital	16.8	16.5	16.3	0.5	0.3	16.8	16.3	0.5
GIL	0.5	0.5	0.5	0	0	0.5	0.5	0
LLC	124.1	117.6	126.0	-1.9	6.5	124.1	126.0	-1.9
Credit cost	0.05	0.06	0.05	0.00	-0.01	0.05	0.05	0.00
CI	34.6	34.5	32.7	1.9	0.0	34.4	33.0	1.4
Net LD ratio	93.0	93.7	93.0	0.0	-0.7	93.0	93.0	0.0
NIM	2.17	2.12	2.18	-0.01	0.05	2.15	2.22	-0.07
ROEA	12.9	12.5	13.7	-0.8	0.5	13.6	14.8	-1.2

*Group level capital ratio after deduction of interim dividend

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.