

Public Bank Bhd

(1295 | PBK MK) Financial Services | Finance

Positions well covered

KEY INVESTMENT HIGHLIGHTS

- **The Group posted 1QFY20 earnings that was within ours and consensus' expectations**
- **Earnings were dragged by lower NII**
- **NOII growth moderated the weak NII**
- **Higher provision could be preemptive. Position well covered with loan loss coverage of more than 100%**
- **Asset quality remain strong**
- **Decent loans and deposits growth**
- **No change to earnings forecast**
- **Maintain BUY with revised TP of RM17.20 (from RM17.00)**

Within expectations. The Group posted 1QFY20 earnings of RM1.33b. This was within ours and consensus' expectations at 27.0% and 23.9% of respective full year estimates.

Earnings pull back on weak income... Net profit fell -5.7%yoy as total income declined -1.9%yoy. The income weakness came from contraction in NII. It fell -2.3%yoy, impacted by the OPR cuts in 1QFY20 which caused NIM compression of -14bp yoy.

...moderated by NOII growth. However, the weak NII was moderated by NOII growth. NOII expanded +5.7%yoy supported by unit trust income and stock broking income which grew +8.4%yoy to RM238.3m and +74.7%yoy to RM38.8m respectively.

OPEX creeping up but still well contained. OPEX grew +8.1%yoy led by increase in personnel cost as it grew +10.1%yoy to RM727.9m. Other costs were well contained though, with establishment cost increasing +3.8%yoy to RM180.3m, admin & general expenses growing +3.9%yoy to RM58.1m and marketing cost declining -2.9%yoy to RM33.2m. In terms of the CI ratio, the Group continues to be the lowest in the industry with 35.7%.

Higher provisions but position well covered. Provisions saw an increase of >100%yoy and +42%qoq. We believe that this could be due to preemptive measures on the back of deteriorating economic conditions. However, we noted that the Group's position is well covered as loan loss coverage ratio stood at 131.9%.

Asset quality expected to remain strong. The Group GIL ratio was stable at 0.5% as at 1QFY20. We expect that there will be some deterioration in asset quality given the economic impact of the Covid-19 pandemic and the movement control order. Nevertheless, we do not expect a dramatic spike in GIL ratio and the management expect that it will remain manageable.

Decent loans growth despite challenging environment. Group gross loans grew +3.9%yoy to RM332.9b supported by expansion in housing and hire purchase loans. These rose +8.5%yoy to RM124.0b and +2.4%yoy to RM51.6b respectively.

Stable deposits growth. Total deposits grew +3.5%yoy to RM355.1b. However, we expect NII may remain under pressure as fixed deposits grew +5.9%yoy to RM207.3b. Meanwhile, CASA expanded +3.2%yoy to RM90.2b, which may moderate some of the expected impact.

Maintain BUY

Revised Target Price: RM17.20

(from RM17.00)

RETURN STATISTICS

Price @ 22 nd May 2020 (RM)	15.26
Expected share price return (%)	+12.7
Expected dividend yield (%)	+4.8
Expected total return (%)	+17.5

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-3.2	-7.7
3 months	-4.0	-7.9
12 months	-33.0	-25.5


KEY STATISTICS

FBM KLCI	1,436.76
Syariah compliant	No
Issue shares (m)	3882.14
Estimated free float (%)	56.40
Market Capitalisation (RM'm)	59241.43
52-wk price range	RM12.5 - RM23.9
Beta vs FBM KLCI (x)	1.12
Monthly velocity (%)	0.00
Monthly volatility (%)	8.18
3-mth average daily volume (m)	6.14
3-mth average daily value (RM'm)	96.61
Top Shareholders (%)	
Consolidated Teh Holdings Sdn Bhd	22.78
Employees Provident Fund Board	15.53
Kumpulan Wang Persaraan Diperbadan	3.12

Analyst

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No change in earnings forecast. We are maintaining our earnings forecast for FY20, FY21 and FY22 as the Group's result were within expectations.

Valuation and recommendation. Although the Group posted lower earnings, it was within our expectations. It is understandable at current juncture given the OPR cuts and weakened economic conditions. However, we opine that the Group's asset quality and conservative approach to its credit profile will mean that the Group will be able to weather any potential stress to the banking system better. Also, we like the Group borrowers' profile whereby it is more skewed towards retail segment and we believe that this will ensure asset quality to be more manageable. This is premised on our expectation that SME and corporate segment may be facing more stress comparatively from the MCO. Taking all into consideration, we maintain our **BUY** call for the stock. We revised our **TP to RM17.20** (from RM17.00) as we rollover our valuation to FY21. Our TP is based on PBV of 1.4x. 

INVESTMENT STATISTICS

Financial year ending 31 December (in RM'm, unless otherwise stated)	2018A	2019A	2020E	2021F	2022F
Net interest income (RM'm)	7,563	7,572	6,915	7,146	7,679
Islamic banking income (RM'm)	1,066	1,129	1,174	1,233	1,295
Non-interest income (RM'm)	2,215	2,401	2,504	2,610	2,723
Total income (RM'm)	10,843	11,102	10,594	10,990	11,697
Pretax profit (RM'm)	7,101	7,134	6,436	7,147	7,613
Net profit	5,591	5,512	4,918	5,461	5,817
Core Net profit (RM'm)	5,591	5,512	4,918	5,461	5,817
Core EPS (sen)	144.4	142.0	126.7	140.7	149.8
Core EPS growth (%)	1.9	-1.7	-10.8	11.0	6.5
PER (x)	10.6	10.7	12.0	10.8	10.2
Net Dividend (sen)	69	73	74	73	75
Net Dividend Yield (%)	4.5	4.8	4.8	4.8	4.9
Book value per share (sen)	10.55	11.23	11.75	12.27	12.87
PBV (x)	1.4	1.4	1.3	1.2	1.2
ROE (%)	14.3	13.6	11.0	11.7	11.9

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
 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				
	1Q20	4Q19	1Q19	Yoy	Qoq
Net Interest Income	1,836.4	1,945.5	1,879.3	-2.3%	-5.6%
Islamic Banking Income	341.3	286.3	274.7	24.3%	19.2%
Non-interest Income	618.3	618.3	585.1	5.7%	0.0%
Net/Total income	2,796.1	2,850.1	2,739.1	2.1%	-1.9%
OPEX	(999.5)	(985.1)	(924.9)	8.1%	1.5%
PPOP	1,796.5	1,865.0	1,814.3	-1.0%	-3.7%
Provision for loan losses	(61.4)	(43.2)	3.3	<-100%	42.0%
Pre-tax profit	1,727.1	1,822.5	1,819.3	-5.1%	-5.2%
Taxation	(385.2)	(402.3)	(392.1)	-1.7%	-4.2%
Net Profit (PATAMI)	1,329.1	1,405.9	1,410.1	-5.7%	-5.5%
EPS (sen)	34.2	36.2	36.3	-5.8%	-5.5%

Table 2: Comparison of financial ratios based on reported numbers

Financial Ratios (%)	1Q20	4Q19	1Q19	Yoy (+/- ppts)	Qoq (+/- ppts)
CET 1* capital	13.3	13.5	13.1	0.2	-0.2
Tier 1* capital	13.3	13.5	13.7	-0.4	-0.2
Total* capital	16.5	16.8	16.3	0.2	-0.3
GIL	0.5	0.5	0.5	0	0
LLC	131.9	124.1	126.0	5.9	7.8
Credit cost	0.07	0.05	0.00	0.07	0.02
CI	35.7	34.6	33.8	2.0	1.2
Net LD ratio	93.2	93.0	92.8	0.4	0.2
NIM	2.05	2.17	2.19	-0.14	-0.12
ROEA	12.5	12.9	13.8	-1.3	-0.4

*Group level capital ratio after deduction of interim dividend

Table 3: Comparison of pretax profits by business segments (RM m)

Business segments	1QFY20	1QFY19	Change (%)
Hire purchase	78.6	88.2	-10.9%
Retail operations	899.8	894.6	0.6%
Corporate Lending	175.8	155.6	13.0%
Treasury & Capital Market Operations	(10.1)	118.1	-108.5%
Investment Banking	14.7	8.0	84.3%
Fund Management	162.2	158.6	2.3%
Overseas Operation	156.7	187.7	-16.6%
Others	253.9	206.4	23.0%

Source: Company

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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.