Public Bank Berhad

(1295 | PBK MK) Financial Services | Finance

Maintain BUY

NIM skyrockets

***Revised* Target Price: RM5.39**

(Previously RM5.67)

KEY INVESTMENT HIGHLIGHTS

- **Earnings were within our expectations**
- **Maintaining our earnings forecast for now**
- **Core drivers: Excellent defensive pick, Significant loan market share (especially retail segment), excellent cost management ability**
- **Key risks: Inability to manage OPEX, Poor NOII performance, esp. in unit trust business, Potential asset quality issues in commercial properties loan portfolio**
- **Maintain BUY call with reduced TP of RM5.39**

Highlights from Public Bank's 3QFY22 quarterly results:

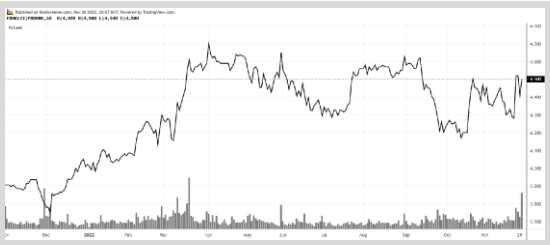
1. Public Bank's YTD earnings of RM4.4b rose by +3%yoy due to lower NCC and stronger NII.
2. Oct-22 RA loans fell to 4% of gross loans (Jul-22: 6%).
3. GIL ratio rose +2bps qoq to 0.33%, with a notable jump in commercial properties GIL
4. NCC of 11bps in the quarter, bringing 9MFY22's average to 10bps.
5. 3QFY22's NIM rose by +13bps qoq to 2.42%, its highest figure in years. This figure is not sustainable.
6. 3QFY22's NOII up by +15%qoq, due to better forex income.
7. Meager loan growth: gross loans grew by +6%yoy, driven by residential mortgages and hire purchase loans. SME segment and commercial properties were lacklustre.
8. Deposit growth muted, growing +4%yoy. CASA contracted -2%qoq.
9. Quarterly OPEX flattish, 9MFY22 OEPX grew by +6%yoy. Hence YTD CIR increased to 32.6%.

FINANCIAL SUMMARY

FYE Dec	FY20	FY21	FY22F	FY23F	FY24F
NII (RM m)	8,304	9,793	10,496	10,995	11,463
NOII (RM m)	3,008	2,751	2,955	3,053	3,163
Total income (RM m)	11,312	12,544	12,959	13,509	14,185
PPOP (RM m)	7,403	8,579	8,812	9,186	9,646
Core net profit (RM m)	4,872	5,657	5,869	6,779	7,120
Core EPS (sen)	25.1	29.1	30.2	34.9	36.7
Core P/E (x)	17.9	15.4	14.9	12.9	12.3
Gross DPS (sen)	13.0	15.2	15.1	17.5	18.3
Dividend yield (%)	2.9	3.4	3.4	3.9	4.1
BVPS (RM)	2.4	2.5	2.6	2.8	3.0
P/BV (x)	1.8	1.8	1.7	1.6	1.5
ROE (%)	10.7	11.9	11.9	12.9	12.5

RETURN STATISTICS	
Price @ 30 November 2022 (RM)	4.50
Expected share price return (%)	+19.8
Expected dividend yield (%)	+3.9
Expected total return (%)	**+23.6**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	3.2	0.5
3 months	6.9	-1.5
12 months	14.1	16.1

KEY STATISTICS	
FBM KLCI	1,488.80
Syariah compliant	No
F4GBM Index	Yes
ESG Grading Band (Star rating)	☆☆☆
Issue shares (m)	19410.69
Estimated free float (%)	55.35
Market Capitalisation (RM m)	87,736.33
52-wk price range	RM3.88 - RM4.79
Beta vs FBM KLCI (x)	1.12
3-mth average daily volume (m)	19.58
3-mth average daily value (RM m)	85.99
Top Shareholders (%)	
Consolidated Teh Holdings Sdn Bhd	21.64
Employees Provident Fund Board	14.52
Kumpulan Wang Persaraan Diperbadan	4.10

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Within our and consensus expectations. Public Bank's 9MFY22 core net profit of RM4.4b made up 75% of our and consensus full-year forecasts respectively.

YTD earnings rose by a muted +3%yoy as lower loan provisions and stronger NII offset weaker NOII and higher OPEX and tax.

Quarterly earnings of RM1.59b rose by +12%qoq as result of stronger NII and NOII offsetting higher loan provisions and tax expenses.

Repayment assistance (RA) loans. As of Oct-22, Public Bank has RM14.6b worth of RA loans, which translates to 4% of its gross loan portfolio. Previously, in of Jul-22, this figure was RM20.8, translating to 6% of its previous gross loans. Both individual customers and non-individual customers saw a fair amount of run-off.

90% of RA loans resumed regular payments – encouragingly, 96% of those resuming payments are still classified as stage 1 loans.

Asset quality. The Group's GIL ratio crept upward +2bps qoq to 0.33%. There was a notable +12bps qoq jump in commercial properties GIL – management notes that this was due to multiple accounts. Elsewhere, residential mortgages and transport vehicle segment GIL continued to improve.

The Group's LLC (including regulatory reserve) currently stood at 360%, having declined from last quarter's 383%.

Provisioning. The Group reported an NCC of 11bps for the quarter, bringing 9MFY22's total to 10bps (well in line with management guidance).

NIM and NII. Quarterly NIM widened by a whopping +13bps qoq to 2.42% (its highest figure in years) and averaged 2.32% in 9MFY22. NIM is expected to normalise in the coming quarters, as it is not sustainable.

Similarly, 9MFY22 NII was up 17%yoy.

NOII. 3QFY22 NOII was up +15%qoq due to due to stronger forex income, offsetting reductions in unit trust, fee and investment income. 9MFY22 NOII fell -14%yoy due to poorer investment income.

Loan growth. Gross loans expanded at a decent pace of +6%yoy. Core drivers were residential properties and hire purchase loans. It was offset by lacklustre performances in commercial properties and SME segment. Management cites tighter underwriting standards for SME loans, given the weak macroeconomic outlook. The Group's loan growth target for FY22 remains at a muted +5%yoy.

Deposit growth. Group deposit growth grew at a muted pace of +4%yoy. CASA growth contracted by of -2%qoq. Loan/Deposit ratio currently stands at 93.9%, ticking +2bps upward in the quarter.

Cost efficiency. Quarterly OPEX was flattish on a sequential quarter basis. 9MFY22 OPEX grew by +6%yoy.

Public Bank's reported a YTD CIR of 32.6%, up from last year's 31.7%, due to higher OPEX.

Capital ratios. The Group's CET-1 ratio remained at a healthy 14.0%.

Dividend announced. Although Public Bank typically divvies in the 2nd and 4th quarter, it has opted split its 2nd dividend twice, over the 3rd and 4th quarter. Hence, it will divvy once again in the following quarter. FY22 payout is still slated to be at least 50%. Management refuses to confirm whether this is a recurring act.

Earnings maintained. We make no changes to our earnings forecast.

Key risks. Key risks to earnings include (1) Inability to manage OPEX, (2) Poor NOII performance, especially in its unit trust business, (3) Potential asset quality issues in its commercial properties loan portfolio.

Valuation and recommendation. We are optimistic on Public Bank's long-term prospects for several reasons: (1) As a defensive pick, given its best-in-class asset quality and heavily collateralised retail loan portfolio, (2) Excellent cost management ability, (3) Significant market share in loans, especially in the retail segment.

Thus, we maintain our **BUY** with a reduced **TP of RM5.39**, as we peg its FY23 BVPS to a decreased P/BV of 1.90x (formerly 2.00x), which we believe is closer to the Group's five-year average and sector average. (GGM assumptions: FY23 ROE of 12.9%, LTG of 3.5% and COE of 8.4%.)

EXHIBIT 1: QUARTERLY RESULTS

FYE Dec (RM m)	3QFY22	2QFY22	3QFY21	Yoy (%)	Qoq (%)	9MFY22	9MFY21	Yoy (%)
Net interest income	2,387	2,218	2,049	16%	8%	6,709	6,229	8%
Islamic banking income	449	415	386	16%	8%	1,264	1,224	3%
Non-interest income	626	545	635	-1%	15%	1,813	2,038	-11%
Net income	**3,462**	**3,177**	**3,071**	**13%**	**9%**	**9,787**	**9,492**	**3%**
OPEX	(1,078)	(1,073)	(976)	10%	0%	(3,194)	(3,004)	6%
PPOP	**2,384**	**2,105**	**2,095**	**14%**	**13%**	**6,593**	**6,487**	**2%**
Loan provisions	(96)	(80)	(324)	-70%	20%	(276)	(919)	-70%
Other provisions	(2)	(3)	(2)	n.m.	n.m.	(7)	(2)	n.m.
JV & Associates	1	0	(2)	n.m.	n.m.	(0)	(6)	n.m.
Profit before tax	**2,287**	**2,023**	**1,766**	**30%**	**13%**	**6,310**	**5,560**	**13%**
Tax	(683)	(591)	(386)	77%	16%	(1,861)	(1,229)	51%
NCI	(14)	(15)	(19)	-27%	-5%	(43)	(56)	-23%
Reported net profit	**1,590**	**1,417**	**1,361**	**17%**	**12%**	**4,406**	**4,276**	**3%**
Core net profit	**1,590**	**1,417**	**1,361**	**17%**	**12%**	**4,406**	**4,276**	**3%**
Total NII	**2,816**	**2,615**	**2,412**	**17%**	**8%**	**7,921**	**7,328**	**8%**
Total NOII	**646**	**562**	**659**	**-2%**	**15%**	**1,866**	**2,164**	**-14%**
Gross DPS (sen)	**4.0**	**8.0**	**-**	**n.m.**	**n.m.**	**8.0**	**7.5**	**n.m.**
Core EPS (sen)	**8.2**	**7.3**	**7.0**	**17%**	**12%**	**22.7**	**22.0**	**3%**
Gross loans	373,577	367,965	353,512	6%	2%			
Gross impaired loans	1,251	1,066	1,157	8%	17%			
Customer deposits	393,308	388,252	378,909	4%	1%			
CASA	120,800	123,495	115,285	5%	-2%			

Source: Public Bank, MIDFR

EXHIBIT 2: QUARTERLY FINANCIAL RATIOS

Financial Ratios (%)	3QFY22	2QFY22	3QFY21	Yoy (+/- ppts)	QoQ (+/- ppts)	9MFY22	9MFY21	Yoy (+/- ppts)
NIM (Reported)	**2.42**	**2.29**	**2.15**	**0.27**	**0.13**	**2.32**	**2.23**	**0.09**
NOII/Total income	18.7	17.7	21.5	-2.8	0.9	19.1	22.8	-3.7
ROE (Ann.)	**12.9**	**11.2**	**11.6**	**1.3**	**1.7**	**11.9**	**12.1**	**-0.2**
Cost-to-income ratio	31.1	33.8	31.8	-0.7	-2.6	32.6	31.7	1.0
Net credit costs (Ann.) (bps)	11	9	37	-27	2	10	35	-25
GIL ratio	0.33	0.29	0.33	0.01	0.05			
Loan loss coverage	339.5	388.8	320.8	18.6	-49.3			
L/D ratio	93.9	93.7	92.3	1.6	0.2			
CASA ratio	30.7	31.8	30.4	0.3	-1.1			
CET1	14.0	14.1	14.1	-0.1	-0.1			
Tier-1	14.0	14.2	14.1	-0.1	-0.1			
Total Capital	17.1	17.2	17.2	-0.2	-0.2			

Source: Public Bank, MIDFR

INVESTMENT STATISTICS

INCOME STATEMENT

FYE Dec (RM m)	FY20	FY21	FY22F	FY23F	FY24F
Interest income	14,184	13,475	14,936	16,391	17,905
Interest expense	(7,004)	(5,160)	(5,980)	(7,012)	(8,123)
Net interest income	**7,180**	**8,315**	**8,956**	**9,379**	**9,782**
Islamic banking income	1,311	1,614	1,710	1,796	1,868
Other operating income	2,821	2,616	2,293	2,335	2,536
Total income	**11,312**	**12,544**	**12,959**	**13,509**	**14,185**
OPEX	(3,909)	(3,965)	(4,147)	(4,323)	(4,539)
PPOP	**7,403**	**8,579**	**8,812**	**9,186**	**9,646**
Loan allowances	(1,106)	(1,201)	(440)	(460)	(480)
Other allowances	(14)	(6)	(11)	9	9
JV & Associates	2	(5)	5	5	5
Pretax profit	**6,285**	**7,367**	**8,367**	**8,741**	**9,180**
Taxation and zakat	(1,353)	(1,637)	(2,426)	(1,879)	(1,974)
NCI	(61)	(73)	(71)	(82)	(86)
Reported net profit	**4,872**	**5,657**	**5,869**	**6,779**	**7,120**
Core net profit	**4,872**	**5,657**	**5,869**	**6,779**	**7,120**
Total NII	8,304	9,793	10,496	10,995	11,463
Total NOII	3,008	2,751	2,955	3,053	3,163

BALANCE SHEET

FYE Dec (RM m)	FY20	FY21	FY22F	FY23F	FY24F
Cash and ST funds	19,698	17,531	18,061	17,935	17,780
Investment securities	77,735	80,431	82,654	85,693	90,230
Net loans	342,803	354,052	371,996	388,983	405,768
Other IEAs	203	-	-	-	-
Non-IEAs	10,818	10,725	10,843	21,608	22,168
Total assets	**451,257**	**462,739**	**483,554**	**514,219**	**535,946**
Customer & bank deposits	376,613	388,518	406,717	425,014	442,647
Other IBLs	17,896	17,688	16,546	15,297	14,056
Non-IBLs	8,321	7,108	8,748	17,424	19,057
Total liabilities	**402,830**	**413,314**	**432,011**	**457,734**	**475,760**
Share capital	9,418	9,418	9,418	9,418	9,418
Reserves & retained profit	37,831	38,745	40,819	45,636	49,243
Shareholders' funds	**47,248**	**48,163**	**50,237**	**55,054**	**58,661**
NCI	1,178	1,263	1,306	1,431	1,525
Total equity	**48,427**	**49,425**	**51,543**	**56,485**	**60,186**
Total liabilities & equity	**451,257**	**462,739**	**483,554**	**514,219**	**535,946**
Total IEAs	440,439	452,014	472,711	492,611	513,778
Total IBLs	394,509	406,206	423,263	440,310	456,703
Gross loans	345,651	358,027	374,996	391,483	408,068
CASA	105,600	118,001	122,063	126,946	132,024

FINANCIAL RATIOS

FYE Dec (RM m)	FY20	FY21	FY22F	FY23F	FY24F
Interest (%)					
NIM	1.95	2.22	2.27	2.28	2.28
Return on IEAs	3.32	3.02	3.23	3.40	3.56
Cost of funds	1.81	1.29	1.44	1.62	1.81
Net interest spread	1.51	1.73	1.79	1.77	1.75
Profitability (%)					
ROE	10.7	11.9	11.9	12.9	12.5
ROA	1.1	1.2	1.2	1.4	1.4
NOII/Total income	26.6	21.9	22.8	22.6	22.3
Effective tax rate	21.5	22.2	29.0	21.5	21.5
Liquidity & Efficiency (%)					
Cost-to-income ratio	34.6	31.6	32.0	32.0	32.0
Loan/Deposit ratio	93.7	93.1	93.4	93.4	93.6
CASA ratio	28.9	31.0	30.6	30.5	30.4
Asset Quality (%)					
GIL ratio	0.36	0.31	0.42	0.37	0.33
NIL ratio	0.29	0.24	0.28	0.21	0.17
LLC ratio	227.7	360.7	189.0	172.1	170.5
LLC (incl. reserves)	325.1	383.2	206.3	266.8	276.7
Gross credit cost (bps)	39	40	18	18	18
Net credit cost (bps)	33	34	12	12	12
% Floating rate loans	21.9	21.4	21.0	21.0	21.0
% Domestic loans	93.7	93.5	93.5	93.5	93.5
Capital (%)					
CET 1	14.8	15.0	14.8	14.5	14.2
Tier 1 capital	14.8	15.0	14.8	14.5	14.2
Total capital	17.9	18.2	17.9	17.3	17.0
Growth (%)					
Total NII	(3.5)	17.9	7.2	4.8	4.3
Total NOII	20.7	(8.5)	7.4	3.3	3.6
Core net profit	(11.6)	16.1	3.8	15.5	5.0
Gross loans	0.0	0.0	0.0	0.0	0.0
Customer deposits	3.5	4.0	4.7	4.5	4.2
CASA	18.9	11.7	3.4	4.0	4.0
Valuation metrics					
Core EPS (sen)	25.1	29.1	30.2	34.9	36.7
Gross DPS (sen)	13.0	15.2	15.1	17.5	18.3
Div payout ratio (%)	51.8	52.2	50.0	50.0	50.0
BVPS (RM)	2.4	2.5	2.6	2.8	3.0
Core P/E (x)	17.9	15.4	14.9	12.9	12.3
Dividend yield (%)	2.9	3.4	3.4	3.9	4.1
P/BV (x)	1.8	1.8	1.7	1.6	1.5

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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 *rise* 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 *fall* 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.
ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell	
☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology