Public Bank Berhad

(1295 | PBK MK) Financial Services | Finance

Low FY23F NCC guidance

***Maintain* BUY**

***Revised* Target Price: RM5.08**

(Previously RM5.39)

KEY INVESTMENT HIGHLIGHTS

- **FY22's CNP of RM6.1b was within our forecast**
- **PBB could potentially see net writebacks in FY23F, given its low NCC guidance. PBB can also look to recovering unit trust income**
- **We give a discount to prior valuation methods, given the negative repricing pressure brought about by succession uncertainty**
- **Maintain BUY | TP of RM5.08 | based on a revised FY23F P/BV of 1.82x**

RETURN STATISTICS	
Price @ 27 February 2023 (RM)	4.15
Expected share price return (%)	+22.4
Expected dividend yield (%)	+4.3
Expected total return (%)	**+26.8**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-3.7	-2.3
3 months	-3.7	-5.3
12 months	-5.7	2.5

Highlights from Public Bank's 4QFY22 results:

- **FY22 CNP:** Rose +8%yoy. Due to lower provisions and stronger NII offsetting higher tax and OPEX.
- **4QFY22 CNP:** Rose +8%qoq. Due to stronger NII contributions.
- **4QFY22 NIM:** Improved +16bps qoq. Expect double-digit decline in FY23.
- **FY22 NOII:** Worsened -10%yoy on poorer unit trust and stockbroking income.
- **FY22's OPEX**: up by +7%yoy, CIR flattish 31.5% on qoq basis.
- **Decent loan growth:** Gross loans grew by +5.3%yoy, +0.9%qoq, driven by consumer portfolio.
- **Muted deposit growth:** Deposits grew by +3.8%yoy, +0.4%qoq. CASA direction contracted -2.3%qoq. CASA ratio stands at 29.9%.
- **GIL ratio worsens:** Up +9bps qoq, mostly in commercial property segment.
- **NCC as expected:** 4QFY22 NCC of 10bps, with FY22 NCC averaging 10bps. FY23F NCC outlook also <10bps – we could see positive surprises.
- **Dividend announced:** 5.0 sen, full-year payout of 54%.

KEY STATISTICS	
FBM KLCI	1455.50
Syariah compliant	No
F4GBM Index	Yes
ESG Grading Band (Star rating)	☆☆☆
Issue shares (m)	19,410.69
Estimated free float (%)	55.03
Market Capitalisation (RM m)	80,748.48
52-wk price range	RM4.1 - RM4.79
Beta vs FBM KLCI (x)	0.94
3-mth average daily volume (m)	20.05
3-mth average daily value (RM m)	86.97
Top Shareholders (%)	
Consolidated Teh Holdings Sdn Bhd	21.64
Employees Provident Fund Board	14.84
Kumpulan Wang Persaraan Diperbadan	4.10

Our thoughts. We favour Public Bank as a defensive pick, considering its superb asset quality, low NCC and high market share in retail loans. PBB is particularly sensitive to recovery in capital market conditions, given that its unit trust income takes up a sizeable chunk of net income (~8-10%). Given its low NCC guidance, we could see net writebacks in FY23F. While NII should see some sharp compression in FY23F, NOII recovery should offset some of the weakness.

PBB's share price has performed poorly following its chairman's passing away on Dec-22. From a management perspective, we believe there should be no major issues concerning succession and continue to view share price weakness as an opportunity for accumulation.

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FY22's CNP of RM6.1b was within our and consensus expectations at 104% and 103% of respective full-year forecasts.

FY22's CNP rose by +8%yoy due to lower provisions and stronger NII offsetting higher tax and OPEX as well as weaker NOII contributions.

4QFY22's CNP of RM1.7b rose by +8%qoq due to stronger NII contributions offsetting higher tax expenses. It rose by +24%yoy.

Guidance. FY23F ROE target is very conservative: 12-13%. (FY22 ROE: 12.8%).

NIM. 4QFY22's NIM of 2.58% leapt by +16bps qoq due to OPR hike effects. FY22's NIM averaged 2.39%, improving +17bps yoy.

Guidance. Mgmt believes that FY23 NIM could fall by double digits (factoring 1 OPR hike in 2023) considering prolonged deposit competition, CASA rundown and SRR normalisation. Mgmt does express difficulty in giving guidance, given there is still much uncertainty scoping out the environment at this period.

The guidance factors in one +25bps OPR hike FY23F.

NOII. FY22's NOII fell by -10%yoy on the back of poor market sentiment limiting unit trust and stockbroking income. The Group did see some improvement in investment and other core fee income.

Operating expenses. 4QFY22's CIR improved to 28.5%, with its OPEX down by -3%qoq.

FY22's CIR of 31.5% was flattish, with its OPEX up by +7%yoy, driven by higher personnel and admin costs.

Loans. Gross loans grew by +5.3%yoy, +0.9%qoq – most growth was centred on consumer portfolio.

Guidance. Mgmt will grow loans in line with industry, maintaining market share in core segments such as residential mortgages, hire-purchase and SMEs. Mgmt is working towards improving its market position in the SME lending segment.

Deposits. Deposits grew by +3.8%yoy, +0.4%qoq.

Loan/Deposit ratio stands at 94.4%, rising from previous quarter's 93.9%

CASA. CASA contracted by -2.3%qoq. CASA ratio stands at 29.9%, falling from previous quarter's 30.7%. Mgmt expects CASA ratio to normalise back to the pre-pandemic's range of ~25% -- however, a full normalisation is unlikely to be achieved within FY23F.

Asset quality. Current GIL ratio stands at 0.42%, worsening ++9bps qoq. Pockets of deterioration were mostly in the commercial property segment (certain corporate lending accounts).

Current LLC has fallen to 272% from last quarter's 339%. Mgmt has not timeline as to when LLC will return to pre-covid levels – the writeback environment is mostly depending on the macro environment.

Provisioning. 4QFY22's NCC stood at 10bps, falling from previous quarter's 11bps.

FY22's NCC averaged 10bps, falling from previous period's 34bps.

Guidance. Mgmt is guiding for <10bps NCC in FY23 – note that this factors some management overlay writebacks (though conservative). Should everything run smoothly, we could see net writebacks.

Writebacks would likely be skewed towards the latter half of the year, with no writebacks expected in 1QFY23.

Capital ratios. Current CET-1 ratio is 14.6%, rising from last quarter's 14.0%.

Dividend announced. The Group announced a dividend of 5.0 sen in the quarter, bringing its total to 17.0 sen for FY22 (54% payout). This is within our expectations. It has split its 2HFY22 dividend issuance into 2 quarters – this may recur in the right economic setting.

Key downside risks. (1) Above-forecasted OPEX, (2) Market conditions remain lacklustre, limiting unit trust fee income recovery, (3) Negative asset quality surprises.

Forecasts revised: FY23F/24F CNP adjusted by +3%/+1%. To reflect revised mgmt guidance, most notably sharper NOII recovery.

Maintain BUY call: Revised GGM-TP of RM 5.08 *(from RM5.39)*. The TP is based on a revised FY23F P/BV of 1.82x *(formerly 1.90x)*. We lower our P/BV basis to negative repricing pressure brought about by the leadership and succession uncertainty following the PBB founder's recent passing away.

*(**GGM assumptions:** FY23F ROE of 13.4%, LTG of 3.5% and COE of 8.9%.)*

Exhibit 1: Quarterly results

FYE Dec (RM m)	4Q FY23	3Q FY22	4Q FY21	Yoy (%)	Qoq (%)	FY22	FY21	Yoy (%)
Net interest inc.	2,458	2,387	2,086	*18*	*3*	9,167	8,315	*10*
Islamic banking inc.	592	449	389	*52*	*32*	1,856	1,614	*15*
Non-interest inc.	601	626	578	*4*	*-4*	2,414	2,616	*-8*
Net income	**3,650**	**3,462**	**3,053**	***20***	***5***	**13,437**	**12,544**	***7***
OPEX	(1,040)	(1,078)	(961)	*8*	*-3*	(4,234)	(3,965)	*7*
PPOP	**2,610**	**2,384**	**2,092**	***25***	***9***	**9,203**	**8,579**	***7***
Loan provisions	(90)	(96)	(282)	*-68*	*-6*	(366)	(1,201)	*-70*
Other provisions	(6)	(2)	(4)	*n.m.*	*n.m.*	(13)	(6)	*n.m.*
JV & Associates	7	1	0	*n.m.*	*n.m.*	7	(5)	*n.m.*
PBT	**2,521**	**2,287**	**1,806**	***40***	***10***	**8,831**	**7,367**	***20***
Tax	(800)	(683)	(408)	*96*	*17*	(2,661)	(1,637)	*63*
NCI	(7)	(14)	(18)	*-59*	*-47*	(50)	(73)	*-32*
Reported NP	**1,714**	**1,590**	**1,381**	***24***	***8***	**6,119**	**5,657**	***8***
Core NP	**1,714**	**1,590**	**1,381**	***24***	***8***	**6,119**	**5,657**	***8***
Total NII	3,028	2,816	2,465	*23*	*8*	10,949	9,793	*12*
Total NOII	622	646	588	*6*	*-4*	2,488	2,751	*-10*
Gross DPS (sen)	**5.0**	**4.0**	**7.7**	***n.m.***	***n.m.***	**17.0**	**15.2**	***n.m.***
Core EPS (sen)	8.8	8.2	7.1	*24*	*8*	31.5	29.1	*8*
Gross loans	376,892	373,577	358,027	*5.3*	*0.9*			
Gross impaired loans	1,584	1,251	1,102	*43.8*	*26.7*			
Customer deposits	394,719	393,308	380,394	*3.8*	*0.4*			
CASA	118,033	120,800	118,001	*0.0*	*-2.3*			

Source: Public Bank, MIDFR

Exhibit 2: Quarterly financial ratios

Ratios (%)	4Q FY23	3Q FY22	4Q FY21	Yoy (ppts)	QoQ (ppts)	FY22	FY21	Yoy (ppts)
ROE (Ann.)	**13.7**	**12.9**	**11.5**	***2.2***	***0.7***	**12.2**	**11.7**	***0.5***
NIM (Reported)	**2.58**	**2.42**	**2.18**	***0.40***	***0.16***	**2.39**	**2.22**	***0.17***
NOII/Net income	17.0	18.7	19.3	*-2.2*	*-1.6*	18.5	21.9	*-3.4*
Cost/Income	28.5	31.1	31.5	*-3.0*	*-2.6*	31.5	31.6	*-0.1*
NCC (Ann.) (bps)	10	11	32	*-22*	*-1*	10	34	*-24*
GIL ratio	0.42	0.33	0.31	*0.11*	*0.09*			
Loan loss coverage	272	339	361	*-89*	*-67*			
CASA ratio	29.9	30.7	31.0	*-1.1*	*-0.8*			
L/D ratio	94.4	93.9	93.1	*1.3*	*0.5*			
CET-1	14.6	14.0	14.5	*0.0*	*0.6*			

Source: Public Bank, MIDFR

INVESTMENT STATISTICS

INCOME STATEMENT

FYE Dec (RM m)	FY20	FY21	FY22	FY23F	FY24F
Interest income	14,184	13,475	14,932	17,308	18,569
Interest expense	(7,004)	(5,160)	(5,765)	(8,012)	(9,010)
Net interest income	**7,180**	**8,315**	**9,167**	**9,296**	**9,559**
Islamic banking inc.	1,311	1,614	1,857	1,823	1,874
Other operating inc.	2,821	2,616	2,414	2,768	2,874
Net income	**11,312**	**12,544**	**13,438**	**13,887**	**14,308**
OPEX	(3,909)	(3,965)	(4,235)	(4,444)	(4,578)
PPOP	**7,403**	**8,579**	**9,203**	**9,443**	**9,729**
Loan allowances	(1,106)	(1,201)	(366)	(460)	(480)
Other allowances	(14)	(6)	(13)	9	9
JV & Associates	2	(5)	7	5	5
PBT	**6,285**	**7,367**	**8,831**	**8,998**	**9,264**
Tax & zakat	(1,353)	(1,637)	(2,661)	(1,934)	(1,992)
NCI	(61)	(73)	(50)	(85)	(87)
Reported NP	**4,872**	**5,657**	**6,119**	**6,978**	**7,185**
Core NP	**4,872**	**5,657**	**6,119**	**6,978**	**7,185**
Total NII	8,304	9,793	10,949	10,936	11,246
Total NOII	3,008	2,751	2,489	2,951	3,061

BALANCE SHEET

FYE Dec (RM m)	FY20	FY21	FY22	FY23F	FY24F
Cash & ST funds	19,698	17,531	21,767	17,935	17,780
Investment securities	77,735	80,431	81,387	79,216	76,849
Net loans	342,803	354,052	372,583	388,983	405,768
Other IEAs	203	-	4	-	-
Non-IEAs	10,818	10,725	17,522	22,067	30,121
Total assets	**451,257**	**462,739**	**493,263**	**508,200**	**530,517**
Cust. & FI deposits	376,613	388,518	408,494	425,014	442,647
Other IBLs	17,896	17,688	24,214	19,818	20,075
Non-IBLs	8,321	7,108	9,029	7,772	8,120
Total liabilities	**402,830**	**413,314**	**441,737**	**452,603**	**470,842**
Share capital	9,418	9,418	9,418	9,418	9,418
Reserves	37,831	38,745	40,762	44,770	48,745
Shareholders' funds	**47,248**	**48,163**	**50,179**	**54,188**	**58,163**
NCI	1,178	1,263	1,347	1,409	1,512
Total equity	**48,427**	**49,425**	**51,526**	**55,597**	**59,675**
Total L&E	**451,257**	**462,739**	**493,263**	**508,200**	**530,517**
Total IEAs	440,439	452,014	475,741	486,134	500,397
Total IBLs	394,509	406,206	432,708	444,831	462,722
Gross loans	345,651	358,027	376,892	391,483	408,068
CASA	105,600	118,001	118,033	116,567	112,735

FINANCIAL RATIOS

FYE Dec (RM m)	FY20	FY21	FY22	FY23F	FY24F
Interest (%)					
NIM	1.94	2.19	2.36	2.28	2.28
Return on IEAs	3.32	3.02	3.22	3.61	3.76
Cost of funds	1.81	1.29	1.37	1.84	1.99
Net interest spread	1.51	1.73	1.84	1.77	1.78
Profitability (%)					
ROE	**10.7**	**11.9**	**12.4**	**13.4**	**12.8**
ROA	1.1	1.2	1.3	1.4	1.4
NOII/Net income	26.6	21.9	18.5	21.2	21.4
Effective tax rate	21.5	22.2	30.1	21.5	21.5
Cost/Income ratio	34.6	31.6	31.5	32.0	32.0
Liquidity (%)					
Loan/Deposit ratio	93.7	93.1	94.4	93.4	93.6
CASA ratio	28.9	31.0	29.9	28.0	26.0
Asset Quality (%)					
GIL ratio	0.36	0.31	-	0.37	0.33
LLC ratio	228	361	272	172	170
LLC (w. reserves)	325	383	292	267	277
Net CC (bps)	33	34	10	12	12
Capital (%)					
CET 1	14.8	14.5	14.6	14.5	14.2
Tier 1 capital	14.8	14.6	14.6	14.5	14.2
Total capital	17.9	17.7	17.6	17.3	17.0
Growth (%)					
Total NII	(3.5)	17.9	11.8	(0.1)	2.8
Total NOII	20.7	(8.5)	(9.5)	18.5	3.8
Net income	1.9	10.9	7.1	3.3	3.0
OPEX	2.4	1.4	6.8	4.9	3.0
Core NP	(11.6)	16.1	8.2	14.0	3.0
Gross loans	4.6	3.6	5.3	3.9	4.2
Cust. & FI deposits	4.1	3.2	5.1	4.0	4.1
CASA	18.9	11.7	0.0	(1.2)	(3.3)
Valuation metrics					
Core EPS (sen)	25.1	29.1	31.5	36.0	37.0
Gross DPS (sen)	13.0	15.2	20.2	18.0	18.5
Div payout ratio (%)	52	52	64	50	50
BVPS (RM)	2.4	2.5	2.6	2.8	3.0
Core P/E (x)	16.5	14.2	13.2	11.5	11.2
Dividend yield (%)	**3.1**	**3.7**	**4.9**	**4.3**	**4.5**
P/BV (x)	1.7	1.7	1.6	1.5	1.4

Source: Public Bank, MIDFR

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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