Public Bank Berhad

(1295 | PBK MK) Financial Services | Finance

1QFY23 Results

Maintain BUY

Revised Target Price: RM4.76
(Previously RM5.08)

KEY INVESTMENT HIGHLIGHTS

- **3MFY23's Core NP of RM1,714m was _within/within_ our/street forecasts: _25%/25%_ of full-year forecasts**
- **Core themes: (a) Aggressive FD accumulation and future NIM optimisation strategy, (c) Possible further overlays and delay in writeback, (d) NOII recovery despite unit trust weakness**
- **FY23F/24F Core NP adjusted by +2%/+1%.**
- **Maintain BUY | Revised TP of RM4.76 | based on a revised FY24F P/BV of 1.59x _(formerly 1.90x, from FY23F)_**

Not the best quarter but was able to offset most of the sharp NIM compression. Core Net Profit (NP) was flattish quarter-on-quarter, with stronger NOII (+7%qoq), negligible NCC and tax normalisation offsetting OPEX increases (+5%qoq) and sharp downturn in NII (-13%qoq).

Deposits saw a sharp increase (+2.3%qoq) even with CASA declines: FDs grew by a whopping +4.0%qoq, which contributed to the sizeable NIM compression of -32bps.

Have a look at:

Underlying NIM compression: FD accumulation might have been a bit too aggressive... PBK, unlike its peers, saw sharp NIM improvement in 4QFY22 – and now it might be paying the price. Aside from the aggressive hoarding of deposits at unfavourable rates, they had to manage demands of corporate clients for higher paying deposits.

Going forward, management intends maintaining a fair share of retail deposits, and thus will be continuing promotional campaigns (though these have since come down). They believe NIMs could continue compressing, but we believe this is overstated.

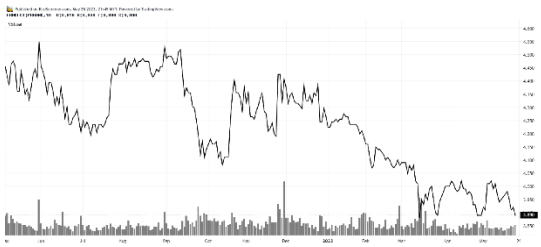
...but PBK has options. The good news is that PBK is much closer to reaching its FY23F deposit goal, which is a load off its shoulders. Its Liquidity Coverage Ratio (LCR) is also above its ideal 120-130% range (currently 137%), offering some scope for NIM optimisation. One core goal is to reduce its share of expensive corporate deposits. We think aggressive loan uptake could be another option, but this is dependent on the supply of borrowers meeting PBK's strict underwriting standards.

Verdict: +ve risk/reward – but uncertainties plague valuations.

Yays	1. Defensive pick, safer retail-oriented loanbook – delinquency trends likely better than peers. 2. Very low NCC, even with possible delay in overlay release.
Nays	1. Succession uncertainty, even though valuations are cheap. 2. Market is terrible – unit trust contributions languish.
OKs	1. Valuations are cheap, but too much uncertainty attached. 2. PBK may see further NIM compression– but there is much scope for rectification. 3. ROE has likely peaked or is close to peaking unless PBK improves its RWA efficiency.

RETURN STATISTICS	
Price @ 25 May 2023 (RM)	3.89
Expected share price return (%)	+22.4
Expected dividend yield (%)	+22.4
Expected total return (%)	**+27.2**

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-0.5	-0.1
3 months	-2.3	-2.3
12 months	-13.9	-6.2

INVESTMENT STATISTICS

FYE Dec	FY23F	FY24F	FY25F
Core NP (RM m)	**7,121**	**7,231**	**7,331**
CNP growth (%)	16	2	1
Div yield (%)	**4.7**	**4.8**	**4.9**
Gross DPS (sen)	18.3	18.6	18.9
P/BV (x)	**1.4**	**1.3**	**1.2**
BVPS (RM)	2.8	3.0	3.2
ROE (%)	**13.6**	**12.9**	**12.2**
MIDF/Street CNP (%)	**103**	**101**	**97**

KEY STATISTICS

FBM KLCI	1,402.48
Issue shares (m)	19,410.7
Estimated free float (%)	55.0
Market Capitalisation (RM'm)	75,895.8
52-wk price range	RM3.88 - RM4.73
3-mth avg daily volume (m)	15.3
3-mth avg daily value (RM'm)	61.1
Top Shareholders (%)	
Consolidated Teh Holdings Sdn Bhd	21.6
EPF Board	15.1
Kumpulan Wang Persaraan Diperbadan	4.1

Analyst
Samuel Woo
samuel.woo@midf.com.my

Forecasts revised: FY23F/24F Core NP adjusted by +2%/+1%. Lower NCC forecasts for both years offset lower unit trust contributions.

Key downside risks. *(1) Sharp NIM compression, (2) Continued poor unit trust contributions, (3) Further mgmt overlays.*

Maintain BUY call: Revised GGM-TP of RM 4.76 ***(from RM5.08).*** The TP is based on a revised FY24F P/BV of 1.59x *(formerly 1.90x, rolled on from FY23F)*, to reflect improved earnings prospects but lower ROE-based valuations (FY24F's ROE is lower than FY23F's, capped by RWA optimisation). We add a discount to account for succession-related uncertainty.*(GGM assumptions: FY24F ROE of 12.9%, LTG of 3.5% & COE of 9.4%)*

Fig 1: Quarterly results

FYE Dec (RM m)	1Q FY23	4Q FY22	1Q FY22	Yoy (%)	Qoq (%)	3M FY23	3M FY22	Yoy (%)
Net interest inc.	2,259	2,458	2,104	7	-8	2,259	2,104	7
Islamic banking inc.	397	592	402	-1	-33	397	402	-1
Non-interest inc.	647	601	642	1	8	647	642	1
Net income	**3,303**	**3,650**	**3,149**	**5**	**-10**	**3,303**	**3,149**	**5**
OPEX	(1,094)	(1,040)	(1,044)	5	5	(1,094)	(1,044)	5
PPOP	**2,209**	**2,610**	**2,104**	**5**	**-15**	**2,209**	**2,104**	**5**
Loan provisions	(2)	(90)	(100)	-98	-98	(2)	(100)	-98
Other provisions	2	(6)	(2)	n.m.	n.m.	2	(2)	n.m.
JV & Associates	(0)	7	(2)	n.m.	n.m.	(0)	(2)	n.m.
PBT	**2,209**	**2,521**	**2,001**	**10**	**-12**	**2,209**	**2,001**	**10**
Tax	(486)	(800)	(587)	-17	-39	(486)	(587)	-17
NCI	(9)	(7)	(14)	-37	23	(9)	(14)	-37
Reported NP	**1,714**	**1,714**	**1,399**	**23**	**0**	**1,714**	**1,399**	**23**
Core NP	**1,714**	**1,714**	**1,399**	**23**	**0**	**1,714**	**1,399**	**23**
Total NII	2,635	3,028	2,490	6	-13	2,635	2,490	6
Total NOII	668	622	659	1	7	668	659	1
Gross DPS (sen)	**-**	**5.0**	**-**	**n.m.**	**n.m.**	**-**	**-**	**n.m.**
Core EPS (sen)	8.8	8.8	7.2	23	0	8.8	7.2	23
Gross loans	381,591	376,892	362,732	5.2	1.2			
Gross impaired loans	1,968	1,584	1,061	85.5	24.3			
Customer deposits	403,660	394,719	384,752	4.9	2.3			
CASA	116,729	118,033	120,177	-2.9	-1.1			

Ratios (%)	1Q FY23	4Q FY22	1Q FY22	Yoy (ppts)	Qoq (ppts)	3M FY23	3M FY22	Yoy (ppts)
ROE (Ann.)	**13.4**	**13.7**	**11.7**	**1.7**	**-0.3**	**13.4**	**11.7**	**1.7**
NIM (Reported)	**2.26**	**2.58**	**2.24**	**0.02**	**-0.32**	**2.26**	**2.24**	**0.02**
NOII/Net income	20.2	17.0	20.9	-0.7	3.2	20.2	20.9	-0.7
Cost/Income	33.1	28.5	33.2	-0.0	4.6	33.1	33.2	-0.0
NCC (Ann.) (bps)	0	10	11	-11	-10	0	11	-11
GIL ratio	0.52	0.42	0.29	0.22	0.10			
Loan loss coverage	218	272	383	-165	-54			
CASA ratio	28.9	29.9	31.2	-2.3	-1.0			
L/D ratio	93.5	94.4	93.2	0.2	-0.9			
CET-1	14.6	14.6	14.3	0.3	0.1			

Source: Public Bank, MIDFR

Fig 2: Retrospective performance (Income Statement)

Metric	Surprise? *Qoq/Yoy*		Metric	Surprise? *Qoq/Yoy*		Notes *(Cum = Cumulative, Qtr = Quarterly)*
Qtrly Core NP	RM mil	***1,714***	**Qtrly ROE**	Qtr value	***13.4%***	**Tax normalisation pulls up qoq performance.**
	25% of FY CNP					Core downward pressure was by NIM compression, secondary was by OPEX uptick.
	Qoq	*0%*		t-1	*13.7%*	There was good improvement via stronger NOII and tax normalisation, as well as very low NCC in the quarter.
	Yoy	*23%*		t-4	*11.7%*	
Cum Core NP	RM mil	***1,714***	**Cum ROE**	Cum value	***13.4%***	
	Within our forecast					
	25% of FY CNP					
	Within consensus					
	25% of FY CNP					
	Yoy	*23%*		t-1	*11.7%*	
NII	As expected		**NIM**	-ve surprise		**NIM compression was even sharper than expected.**
				Qtr value	***2.26***	Unfortunately, the aggressive uptake in high-cost deposits and corporate clients' demands over the quarter resulted in a sizeable drop.
				Cum value	***2.26***	
	Qtr (Qoq)	*-13%*		Qtr (Qoq)	*-32bps*	
	Qtr (Yoy)	*6%*		Qtr (Yoy)	*+2bps*	
	Cum (Yoy)	*6%*		Cum (Yoy)	*+2bps*	
NOII	As expected		**Qtr**	% NII	***80%***	**Pretty solid improvements, despite poor unit trust income trend persisting.**
	Qtr (Qoq)	*7%*		% NOII	***20%***	While a recovery in stockbroking income was encouraging, the main contributors were forex and investment income contributions.
	Qtr (Yoy)	*1%*	**Cum**	% NII	***80%***	
	Cum (Yoy)	*1%*		% NOII	***20%***	
OPEX	As expected		**Cost/ Inc.**	As expected		**OPEX crept up but unlikely to be much concern.**
				Qtr value	***33.1%***	PBK continues to acclimatise to high inflationary pressure. On the CIR, our concern is more on the income side.
				Cum value	***33.1%***	
	Qtr (Qoq)	*5%*		Qtr (Qoq)	*+4.6%*	
	Qtr (Yoy)	*5%*		Qtr (Yoy)	*-0.0%*	
	Cum (Yoy)	*5%*		Cum (Yoy)	*-0.0%*	

Source: Public Bank, MIDFR

Fig 3: Retrospective performance (Balance Sheet, Dividends, and anything extra)

Metric	Surprise? *Qoq/Yoy*		Metric	Surprise? *Qoq/Yoy*		**Notes** *(Cum = Cumulative, Qtr = Quarterly)*
Loans	As expected					**Healthy.**
	Qoq	*1.2%*				
	Yoy	*5.2%*				
	YTD (FY)	*1.3%*				
Depo. grwth	As expected		**CASA grwth**	As expected		**Impressive growth, but not necessarily a good thing.** FD uptake was significant, as the management utilised a conservative approach of locking in funding, even though rates were not ideal. CASA decline was not too bad quarter-on-quarter.
	Qoq	*2.3%*		Qoq	*-1.1%*	
	Yoy	*4.9%*		Yoy	*-2.9%*	
	YTD (FY)	*2.3%*		YTD (FY)	*-1.1%*	
CASA ratio	As expected		**L/D ratio**	As expected		
	Value now	***28.9%***		Value now	***93.5%***	
	Qoq	*-1.0%*		Qoq	*-0.9%*	
	Yoy	*-2.3%*		Yoy	*+0.2%*	
GIL ratio	As expected		**LLC ratio**	As expected		**Asset quality saw a sharp uptick, but no worrying trends.** 1-M, 2-M non-repayment and impaired loan rates still below pre-covid levels – management confident that they can keep it that way. Loans under RA programmes have lowered to 2% of gross loans (from 4% in the previous quarter). As for graduates, >90% have resumed full repayments. One major delinquency in HK, an isolated case involving a property development corporate company – no notable overlays required.
	Value now	***0.52%***		Value now	***218%***	
	Qoq	*+10bps*		Qoq	*-54%*	
	Yoy	*+22bps*		Yoy	*-165%*	
Qtrly Net CC	As expected		**Cum Net CC**	As expected		**NCC was great.** Keep in mind, however, that management may delay the writeback of overlays due to current headwinds. Overlay balance unchanged at RM1.8b.
	Decent provision			Decent provision		
	Value now	***0bps***		Value now	***0bps***	
	t-1	*10bps*				
	t-4	*11bps*		t-4	*11bps*	
CET 1	Healthy level		**Div payout**	No divvy		**No issues on this front.** Div payout likely to remain at 50% range. Management decline to share whether dividends will be split into multiple quarters, ala FY22.
	As expected			As expected		
	Value now	***14.6%***		**Payout**	-	
	Qoq	*0.1%*				
Others:						

Source: Public Bank, MIDFR

Fig 4: Targets, Achievements, and Outlook

Targets	FY23F	3M FY23	**Notes** (Blue: New guidance, ~~Strikethrough: former guidance is no longer pertinent~~)
ROE	12-13	13.4	Guidance is conservative.
CIR		33.1	
NIM	-10 to -20bps from 2.39	2.26	Factored in one +25bps OPR hike. Management guides for further NIM compression in coming quarters, but we believe their guidance is still conservative.
NOII		1% (yoy)	
Loans	4-5%	1.3 (YTD)	The focus is on maintaining market share in residential mortgages and hire-purchase. Working to improve SME market position.
Deposits	4-5%	2.3 (YTD)	Deposit growth is entirely dependent on loan growth.
CASA		28.9	CASA ratio expected to fully normalise to pre-pandemic's ~25% -- though not within the year.
Loan/Depo.		93.5	
GIL ratio		0.52	
NCC (bps)	<10	0	**Guidance factors in some overlay writebacks -- we could see net writebacks** *(Provisions: RM1.8b).* Writebacks skewed towards 2H. Unfortunately, we could see a larger chunk delayed to 1HCY23, as management has stated further overlay allocations could be on the cards. *(Pre-pandemic average: 5bps)*
LLC		218	Long-term goal: Pre-pandemic's 120% range.
CET 1		14.6	
Div payout	>50	53	Dividend may be split across 3-4 quarters, instead of usual biyearly payout.

Source: Public Bank, MIDFR

FINANCIAL SUMMARY

INCOME STATEMENT

FYE Dec (RM m)	FY21	FY22	FY23F	FY24F	FY25F
Interest income	13,475	14,932	17,219	17,410	17,692
Interest expense	(5,160)	(5,765)	(8,012)	(8,012)	(8,012)
Net interest income	**8,315**	**9,167**	**9,207**	**9,398**	**9,680**
Islamic banking inc.	1,614	1,857	1,949	1,989	2,049
Other operating inc.	2,616	2,414	2,711	2,876	2,990
Net income	**12,544**	**13,438**	**13,867**	**14,263**	**14,719**
OPEX	(3,965)	(4,235)	(4,368)	(4,493)	(4,636)
PPOP	**8,579**	**9,203**	**9,499**	**9,770**	**10,082**
Loan allowances	(1,201)	(366)	(193)	(321)	(502)
Other allowances	(6)	(13)	(11)	(11)	(11)
JV & Associates	(5)	7	5	5	5
PBT	**7,367**	**8,831**	**9,300**	**9,443**	**9,574**
Tax & zakat	(1,637)	(2,661)	(2,093)	(2,125)	(2,154)
NCI	(73)	(50)	(86)	(88)	(89)
Reported NP	**5,657**	**6,119**	**7,121**	**7,231**	**7,331**
Core NP	**5,657**	**6,119**	**7,121**	**7,231**	**7,331**
Total NII	9,793	10,949	10,961	11,189	11,524
Total NOII	2,751	2,489	2,905	3,075	3,195

BALANCE SHEET

FYE Dec (RM m)	FY21	FY22	FY23F	FY24F	FY25F
Cash & ST funds	17,531	21,767	17,935	17,780	17,780
Investment securities	80,431	81,387	77,124	74,525	72,669
Net loans	354,052	372,583	390,709	407,701	424,824
Other IEAs	0	4	4	4	4
Non-IEAs	10,725	17,522	24,608	29,420	34,298
Total assets	**462,739**	**493,263**	**510,380**	**529,431**	**549,575**
Customer deposits	380,394	394,719	412,481	429,805	447,857
Other IBLs	25,811	37,989	33,494	31,574	29,996
Non-IBLs	7,108	9,029	8,680	8,471	8,274
Total liabilities	**413,314**	**441,737**	**454,655**	**469,851**	**486,126**
Share capital	9,418	9,418	9,418	9,418	9,418
Reserves	38,745	40,762	44,895	48,652	52,424
Shareholders' funds	**48,163**	**50,179**	**54,313**	**58,070**	**61,841**
NCI	1,263	1,347	1,412	1,510	1,608
Total equity	**49,425**	**51,526**	**55,725**	**59,580**	**63,449**
Total L&E	**462,739**	**493,263**	**510,380**	**529,431**	**549,575**
Total IEAs	452,014	475,741	485,771	500,010	515,277
Total IBLs	406,206	432,708	445,975	461,380	477,853
Gross loans	358,027	376,892	393,475	410,001	427,221
CASA	118,001	118,033	115,495	111,749	111,964

FINANCIAL RATIOS

FYE Dec (RM m)	FY21	FY22	FY23F	FY24F	FY25F
Interest (%)					
NIM	2.19	2.36	2.28	2.27	2.27
Return on IEAs	3.02	3.22	3.58	3.53	3.49
Cost of funds	1.29	1.37	1.82	1.77	1.71
Net interest spread	1.73	1.84	1.76	1.77	1.78
Profitability (%)					
ROE	**11.9**	**12.4**	**13.6**	**12.9**	**12.2**
ROA	1.2	1.3	1.4	1.4	1.4
NOII/Net income	21.9	18.5	21.0	21.6	21.7
Effective tax rate	22.2	30.1	22.5	22.5	22.5
Cost/Income	31.6	31.5	31.5	31.5	31.5
Liquidity (%)					
Loan/Deposit	93.1	94.4	94.7	94.9	94.9
CASA ratio	31.0	29.9	28.0	26.0	25.0
Asset Quality (%)					
GIL ratio	0.31	0.42	0.37	0.33	0.33
LLC ratio	361	272	190	170	170
LLC (w. reserves)	383	292	213	205	203
Net CC (bps)	34	10	5	8	12
Capital (%)					
CET 1	15.0	14.9	14.4	13.7	13.1
Tier 1 capital	15.1	14.9	14.4	13.7	13.1
Total capital	18.2	17.9	17.4	16.8	16.1
Growth (%)					
Total NII	17.9	11.8	0.1	2.1	3.0
Total NOII	-8.5	-9.5	16.7	5.8	3.9
Net income	15.8	10.2	0.4	2.1	3.0
OPEX	1.4	6.8	3.1	2.9	3.2
Core NP	16.1	8.2	16.4	1.5	1.4
Gross loans	3.6	5.3	4.4	4.2	4.2
Customer deposits	4.0	3.8	4.5	4.2	4.2
CASA	11.7	0.0	-2.2	-3.2	0.2
Valuation metrics					
Core EPS (sen)	29.1	31.5	36.7	37.3	37.8
Gross DPS (sen)	15.2	20.2	18.3	18.6	18.9
Div payout (%)	52	64	50	50	50
BVPS (RM)	2.5	2.6	2.8	3.0	3.2
Core P/E (x)	13.3	12.3	10.6	10.4	10.3
Div yield (%)	**3.9**	**5.2**	**4.7**	**4.8**	**4.9**
P/BV (x)	1.6	1.5	1.4	1.3	1.2

Source: Public Bank, MIDFR

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (197501002077 (23878 – X)).
(Bank Pelaburan)
(A Participating Organisation of Bursa Malaysia Securities Berhad)

DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (197501002077 (23878 – X)) for distribution to and use by its clients to the extent permitted by applicable law or regulation.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that MIDF Investment believes are reliable at the time of publication. All information, opinions and estimates contained in this report are subject to change at any time without notice. Any update to this report will be solely at the discretion of MIDF Investment.

MIDF Investment makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such. MIDF Investment and its affiliates and related BNM and each of their respective directors, officers, employees, connected parties, associates and agents (collectively, "Representatives") shall not be liable for any direct, indirect or consequential loess, loss of profits and/or damages arising from the use or reliance by anyone upon this report and/or further communications given in relation to this report.

This report is not, and should not at any time be construed as, an offer, invitation or solicitation to buy or sell any securities, investments or financial instruments. The price or value of such securities, investments or financial instruments may rise or fall. Further, the analyses contained herein are based on numerous assumptions. This report does not take into account the specific investment objectives, the financial situation, risk profile and the particular needs of any person who may receive or read this report. You should therefore independently evaluate the information contained in this report and seek financial, legal and other advice regarding the appropriateness of any transaction in securities, investments or financial instruments mentioned or the strategies discussed or recommended in this report.

The Representatives may have interest in any of the securities, investments or financial instruments and may provide services or products to any company and affiliates of such BNM mentioned herein and may benefit from the information herein.

This document may not be reproduced, copied, distributed or republished in whole or in part in any form or for any purpose without MIDF Investment's prior written consent. This report is not directed or intended for distribution to or use by any person or entity where such distribution or use would be contrary to any applicable law or regulation in any jurisdiction concerning the person or entity.

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