Corporate Update

Public Bank Berhad

(1295 | PBK MK) Main | Financial Services

FTSE4Good ESG 4 Stars

Maintain **BUY**

Revised Target Price **RM5.55**
(from RM5.53)

Impairments and Takeovers

Our Verdict

Ideal defensive pick, industry-high ROE levels, and large enough to be favoured as a proxy for the local banking sector. FY26's lower-than-normal OPEX growth (due to currency fluctuations) gives a lift to fundamentals. Special dividends aside, more potential for dividend upside coming from LPI's share disposal proceeds and possible HK unit capital upshoring.

Valuations

A revised FY27F P/BV of 1.70x *(formerly 1.68x)*

Current P/BV of 1.52x is inexpensive, trading near -1SD of the 10-year P/BV mean of 1.79x.

The company is currently trading at a forward FY27F P/BV of 1.48x with a +6.1% dividend yield.

Themes

1. ▲ BAU dividend payout is at a healthy 60%, bolstered by a RM3.5b special dividend programme over 3 years. The ~1% boost to CET 1 ratio via Basel changes only reinforce their dividend certainty. Newsflow surrounding further capital release opportunities remain rich: Particularly HK privatisation and potential LPI sale.
2. ▲ PBK is gunning for double-digit fee income growth, driven mainly by bancassurance and unit trust income segments. An improvement in market conditions bodes well for unit trust sales, and enhanced cross-sell capabilities are well overdue.
3. ▲ Superb cost control in FY26 so far, bolstered by positive currency effects.
4. ▲ Loan growth is strong and should come in well above target.
5. ▲ While asset quality remains stellar, a lower overlay balance implies less room for writebacks, and thus a more normalised provisioning outlook.
6. ▼ NIM concerns: Largely from competitive loan yields, though deposit competition remains another pressing issue. One of the most pessimistic on this front.

RETURN STATISTICS

Price @ 16 October 2026 (RM)	4.83
Expected share price return (%)	+14.9
Expected dividend yield (%)	+6.1
Expected total return (%)	**+21.0**

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	1.3	4.9
3 months	2.8	-0.9
12 months	15.0	15.0

INVESTMENT STATISTICS

FYE Dec	FY26F	FY27F	FY28F
Core NP (RM m)	**7,113**	**7,574**	**8,025**
CNP growth (%)	(2)	6	6
Div yield (%)	**5.7**	**6.1**	**6.4**
Gross DPS (sen)	27.5	29.3	31.0
P/BV (x)	**1.5**	**1.5**	**1.4**
BVPS (RM)	3.2	3.3	3.4
ROE (%)	**11.7**	**12.2**	**12.5**

KEY STATISTICS

FBM KLCI	1,607.76
Issue shares (m)	19,410.7
Estimated free float (%)	71.5
Market Capitalisation (RM'm)	93,753.6
52-wk price range	RM4.18 – RM5.29
3-mth average daily volume (m)	22.1
3-mth average daily value (RM'm)	110.5
Top Shareholders (%)	
Consolidated Teh Holdings	21.6
EPF Board	15.3
Kumpulan Wang Persaraan Diperbadan	4.1

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1. MSAD Rumoured to Consider a Takeover of LPI Capital

FIG 1: Core Details: Potential LPI takeover by MSIG

Context

According to Bloomberg news, Japan's MS&AD Insurance Group (MSAD) is exploring a takeover of LPI. Discussions remain preliminary: At this juncture, neither party (PBK, LPI or MSAD) have made any official announcements. MSAD is a major shareholder of MSIG Malaysia, and upon takeover will likely seek to combine both LPI and MSIG into a single enlarged entity.

Valuations: An attractive deal for PBK?

No purchase consideration or any further details yet. At present share price of RM12.76, a 100% stake purchase implies a purchase consideration of MYR 5.08b. PBK currently has a 44.15% stake (175.9m shares) in LPI – hence they stand to receive RM2.24b in gross proceeds. This would imply ~RM520m gain over LPI's previous RM1.72b price tag (@RM9.80/share, P/B of 1.7x).

Current P/B is high but backed by recent transactions. At the current share price of RM12.76, LPI is currently trading at a high 2.1x P/B, though this figure is inflated by its ongoing special dividend giveaway. While this figure seems a bit high, PBK is backed by two recent acquisitions (Etiqa and Takaful Ikhlas) happening at roughly 1.8-2.0x P/B – though note that these differed slightly, as they involved life/composite acquisitions or a takaful entity (which is more valuable, given the difficulty in attaining a license). But LPI's unique, high-fire-concentration, higher-yielding product mix might give it an edge in valuations.

LPI's contribution is minimal – for now. LPI's contribution to PBK is still minimal. Its FY25 contribution of RM307m made up 9% of NOII and 2% of total topline. But PBK mentioned that synergy was a work in progress, and that LPI made up a crucial component in its NOII diversification push.

Synergies and Benefits

Scale Game: General Insurance's new market leader? Based on the general insurance industry's FY25 GWP of RM24.2b, LPI holds an 8.3% market share while MSIG holds 8.0%. Their combined 16.3% would make them the industry's market leader, surpassing ALLZ's 15.6% figure (in 1HFY26).

Better technical expertise and knowledge base. Foreign players usually have more sophisticated tech and a wider knowledge base, which gives them a tremendous competitive advantage over local players. More on this below.

Product mix with large fire exposure and closer relationship with PBK. MSIG could benefit from LPI's product mix, which is unique due to its high concentration of higher-yielding fire premiums. This has resulted in LPI's unusually low claims and combined ratio (45.4% and 75.9% in FY25). MSIG's product mix is far more typical, with a much higher proportion of lower-yielding motor products, leading to much less impressive claims and combined ratios of 55.4% and 83.8% in FY25.

What is more impressive is LPI's ability to scale up fire premiums very quickly, well above industry levels. Some aspect of this may be due to its close partnership with PBK, a heavily retail-driven bank. At one point, LPI derived roughly 25% of its income from PBK clientele. If MSIG has this access, it can gradually improve its product mix to a higher yielding one.

A cleaner capital structure. The sale provides opportunities for capital release from PBK's end.

Other Considerations

Could PBK be vying for a stake in the enlarged entity? Shareholding complexities make this difficult. Recall that PBK pegged insurance as one of its core NOII growth engines – hence we are sceptical of such a hasty disposal. There is a possibility they could be doing what RHB may be doing in its RHB Insurance-Tokio Marine deal – maintaining a minority stake in the enlarged entity.

The thing is, MSIG Malaysia is already 30% owned by HLFG. BNM only allows 70% foreign ownership. It could come to a scenario where either bank buys off the other's stake.

Source: Company, MBSBR

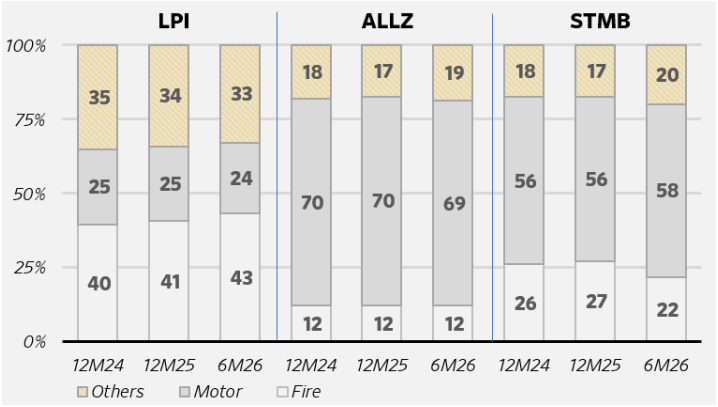
Foreign buyout in the industry: Not the first, will not be the last. In the industry, we have seen multiple M&A proposals and actions recently. It makes sense: BNM is supporting this consolidation, competition is intense, and listed players have traded at chronically undervalued prices over the last couple of years. Unlike with banks, BNM seems to be more flexible with the prospect of foreign players owning a larger chunk of the insurance space. Perhaps this could change, if local insurers are too overburdened by competition.

Local, smaller insurers are in a vulnerable position. Larger, foreign-owned combined entities have two main benefits:

1. **Economies of scale save costs.** These savings can be diverted elsewhere, such as (1) Higher claims for improved customer satisfaction, allowing for better retention rates, or (2) Directly pricing down products to capture market share.
2. **Foreign players have the tech and knowledge advantage.** Foreign players such as FWD, Zurich and Allianz have both superior technology and a foreign knowledge base to position themselves in better consumer touchpoints. E.g. Shopee partners with Zurich instead of local players because it has adequate technical expertise for its platform. Another e.g.: Allianz has better experience in pricing EVs as it operates in countries which have much higher rates of EV adoption than Malaysia – it can draw down on this knowledge for better underwriting capability.

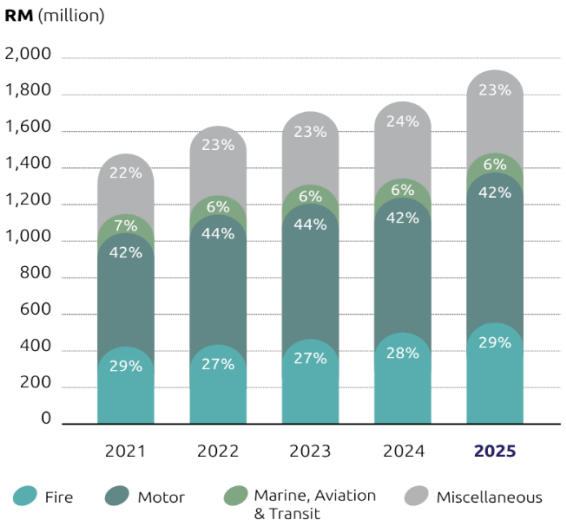
The bottom line is this: This is an era where changes are happening quicker. Insurers need more sophisticated tech advancements and a wider knowledge base to react quicker to changes – failure to keep up means getting left behind and losing market share. Larger global players have this advantage over smaller local players, and it is very difficult to bridge the tech gap so soon. Global players recognise that Malaysia's fragmented local market is something they can easily penetrate and scale via M&As, seeing that valuations have been depressed for the longest time. This foreign buyout is not the first, and it will not be the last.

FIG 2: LPI (and other General player's) product mix



Source: Insurers, MBSBR

FIG 3: MSIG's Product Mix (FY25)



Source: MSIG, MBSBR

FIG 4: Previous Insurance Sector M&As

Life/ Composite Insurer	Acquiror	Acquiree	Stake acquired (%)	Transaction (RM m)	Implied P/B (x)	Implied P/E (x)
2010	Mitsui Sumitomo Insurance	Hong Leong Assurance	30	940	6.5	
2011	Zurich Insurance	Malaysian Assurance Alliance	100	344	1.4	
2012	AIA Group	ING Group NV	100	5,300	2.2	
2012	MetLife Intl Holdings	AmLife Insurance & AmFamily Takaful	50	812	3.0	
2013	Sun Life Financial Inc	CIMB Group and Aviva PLC	50	1,800	3.2	
2014	Prudential Insurance co (70%) & BSN (30%)	UniAsia Capital	100	518	1.4	
2016	Zurich Insurance	MAA Takaful	100	525	4.8	
2022	Generali Asia	MPI Capital	51	508	1.4	
2026	Maybank	Maybank Ageas Holdings	31	4,830	2.0	15.3
2026	Bank Rakyat	Takaful Ikhlas	100	1,640	1.8	15.1
Average					**2.8**	**15.2**

General Insurer	Acquiror	Acquiree	Stake acquired (%)	Transaction (RM m)	Implied P/B (x)	Implied P/E (x)
2010	ACE Insurance	Jerneh Insurance	100	454	2.2	
2010	MSIG Malaysia	Hong Leong Insurance	100	619	1.3	
2010	Fairfax Asia	Pacific Insurance	100	201	1.7	
2011	Sompo Japan	Berjaya Sompo	40	496	3.3	
2012	AmG Insurance	Kurnia Insurance	100	1,550	2.1	
2012	Tokio Marine	MUI Continental	100	180	1.1	
2012	Tune Insurance	Oriental Capital	83	153	1.2	
2012	Sanlam Ltd	Pacific & Orient	49	270	2.5	
2014	Sanlam Ltd	MCIS Zurich	51	388	1.7	
2014	Liberty Mutual Insurance	Uni Asia General	68	375	1.1	
2015	Generali Asia	Multipurpose Insurance	49	356	2.5	
2017	Affin Holdings	AXA Affin General	13	181	1.5	
2021	Liberty Insurance	AmGeneral Insurance	51	1,170	1.4	
2022	Generali Asia	AXA Affin General	21	765	1.6	
2024	Public Bank	LPI Capital	45	1,720	1.7	12.4
Average					**1.8**	**12.4**
Still in discussions						
2026	Tokio Marine	RHB Insurance	95			

Source: Company, MBSBR

2. Public Financial Holdings Ltd (PFH) takes a HKD1.964b Goodwill Impairment

FIG 5: Core Details: PFH Goodwill Impairment

Context
PFH, which is PBK's Hong Kong-based 73.2% owned subsidiary, is taking a HKD 1.9b (MYR 1.1b) non-cash goodwill impairment. This comes as PBK proposes to privatise PFH, thus acquiring the remaining 26.8% stake at HKD 2.50/share (MYR 382m purchase consideration). PFH and its shares have been underperforming in the last couple of years; this development is slightly disappointing but not surprising. PBK has ongoing plans for privatisation: Rather than salvage the underperforming entity, the intention is to divert capital to better-performing markets. While this privatisation will not bring any material changes to the bottom line, it allows PBK to reduce listing expenses, simplify its Group structure and streamline its capital.
Financial Impact
Reported Net Profit: ▼ MYR 748m (11% of FY26's Group-level Earnings) **Core Net Profit:** None – it's a non-cash one-off **Reported EPS:** ▼ 4 sen **NAV/share:** ▼ 4 sen **CET 1:** ~20bps (13.7% Group level – from 13.9% in June-26) **Dividends:** None – it's a non-cash one-off

Source: Company, MBSBR

All in all, an immaterial development. There is only an impact on Reported NP, while dividends and Core NP remain untouched. Slight impact on CET 1 ratio, but this will be offset by the huge ~1% increase brought about by Basel changes by end-FY26.

Forecasts revised: FY26F reported NP adjusted by -11% to account for the HK goodwill impairment. Please note that this is for Reported Net Profit, while Core Net Profit and Dividend Expectations remain unchanged. There are some slight changes to book value, which may affect valuations slightly.
Key downside risks. *(1) Steeper-than-expected NIM compression, (2) Weaker-than-expected loan growth, (3) Weak NOII performance.*

Maintain BUY call: Revised GGM-TP of RM 5.55 ***(from RM5.53).*** The TP is based on a revised FY27F P/BV of 1.70x *(formerly 1.68x)*, to reflect altered earnings prospects and ROE-based valuations. Despite the negative impact on book value, we see an increase to the target price. This is due to the reduction in shareholders' equity slightly increasing ROE, warranting slightly higher P/B valuations.
(GGM assumptions: *FY27F ROE of 12.2%, LTG of 3.5% & COE of 8.6%)*

FINANCIAL SUMMARY

INCOME STATEMENT

FYE Dec (RM m)	FY24	FY25	FY26F	FY27F	FY28F
Net interest income	**9,451**	**9,584**	**9,433**	**9,936**	**10,362**
Islamic banking inc.	1,707	1,839	1,797	1,893	1,974
Other operating inc.	2,853	3,272	3,366	3,709	4,127
Net income	**14,011**	**14,695**	**14,596**	**15,538**	**16,463**
OPEX	(4,828)	(5,129)	(5,036)	(5,361)	(5,680)
PPOP	**9,183**	**9,566**	**9,560**	**10,177**	**10,783**
Loan allowances	(1)	(67)	(228)	(238)	(249)
Other allowances	(492)	(13)	(11)	(11)	(11)
JV & Associates	241	56	(692)	56	56
PBT	**8,932**	**9,543**	**8,630**	**9,984**	**10,579**
Tax & zakat	(1,913)	(2,136)	(1,916)	(2,217)	(2,349)
NCI	128	(183)	(168)	(194)	(206)
Reported NP	**7,147**	**7,224**	**6,546**	**7,574**	**8,025**
Core NP	**7,147**	**7,224**	**7,113**	**7,574**	**8,025**
Total NII	11,069	11,304	11,230	11,829	12,336
Total NOII	2,942	3,391	3,366	3,709	4,127

BALANCE SHEET

FYE Dec (RM m)	FY24	FY25	FY26F	FY27F	FY28F
Cash & ST funds	15,469	16,829	16,829	16,829	16,829
Investment securities	86,923	84,998	88,323	91,796	95,424
Net loans	420,472	442,333	462,556	483,372	505,123
Other IEAs	6	2	2	2	2
Non-IEAs	20,440	17,490	17,257	17,566	17,902
Total assets	**543,310**	**561,651**	**584,967**	**609,565**	**635,280**
Customer deposits	433,264	447,114	467,234	488,259	510,231
Other IBLs	37,865	39,256	38,624	38,372	38,414
Non-IBLs	12,251	12,840	15,266	16,984	18,458
Total liabilities	**483,380**	**499,210**	**521,123**	**543,616**	**567,103**
Share capital	9,418	9,418	9,418	9,418	9,418
Reserves	47,918	50,520	51,853	53,873	56,012
Shareholders' funds	**57,335**	**59,938**	**61,270**	**63,291**	**65,429**
NCI	2,594	2,504	2,573	2,658	2,748
Total equity	**59,930**	**62,442**	**63,844**	**65,949**	**68,177**
Total L&E	**543,310**	**561,651**	**584,967**	**609,565**	**635,280**
Total IEAs	522,870	544,162	567,710	591,998	617,378
Total IBLs	471,129	486,369	505,857	526,631	548,645
Gross loans	424,171	445,758	465,817	486,779	508,684
CASA	120,325	125,315	116,808	122,065	127,558

FINANCIAL RATIOS

FYE Dec (RM m)	FY24	FY25	FY26F	FY27F	FY28F
Interest (%)					
NIM	2.14	2.07	2.02	2.04	2.04
Return on IEAs	3.72	3.54	3.37	3.32	3.25
Cost of funds	2.06	1.95	1.88	1.80	1.73
Net interest spread	1.66	1.60	1.49	1.52	1.52
Profitability (%)					
ROE	**12.8**	**12.3**	**11.7**	**12.2**	**12.5**
ROA	1.4	1.3	1.2	1.3	1.3
NOII/Net income	21.0	23.1	23.1	23.9	25.1
Effective tax rate	21.4	22.4	22.2	22.2	22.2
Cost/Income	34.5	34.9	34.5	34.5	34.5
Liquidity (%)					
Loan/Deposit	97.0	98.9	99.0	99.0	99.0
CASA ratio	27.8	28.0	25.0	25.0	25.0
Asset Quality (%)					
GIL ratio	0.52	0.51	0.50	0.50	0.50
LLC ratio	166	150	140	140	140
LLC (w. reserves)	238	249	160	159	159
Net CC (bps)	0	2	5	5	5
Capital (%)					
CET 1	14.2	13.9	13.8	13.8	13.8
Tier 1 capital	14.2	13.9	13.9	13.9	13.9
Total capital	17.0	16.6	16.6	16.6	16.6
Growth (%)					
Total NII	5.1	2.1	-0.7	5.3	4.3
Total NOII	14.8	15.3	-0.7	10.2	11.3
Net income	4.4	1.4	-1.6	5.3	4.3
OPEX	9.4	6.2	-1.8	6.5	6.0
Core NP	7.5	1.1	-1.5	6.5	6.0
Gross loans	6.3	5.1	4.5	4.5	4.5
Customer deposits	4.9	3.2	4.5	4.5	4.5
CASA	2.6	4.1	-6.8	4.5	4.5
Valuation metrics					
Core EPS (sen)	36.8	37.2	36.7	39.0	41.4
Gross DPS (sen)	21.0	22.5	27.5	29.3	31.0
Div payout (%)	57	60	75	75	75
BVPS (RM)	3.0	3.1	3.2	3.3	3.4
Core P/E (x)	13.1	13.0	13.2	12.4	11.7
Div yield (%)	**4.3**	**4.7**	**5.7**	**6.1**	**6.4**
P/BV (x)	1.6	1.6	1.5	1.5	1.4

Source: Company, MBSBR

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MBSB INVESTMENT BANK: GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	The stock price is expected to rise by >10% within 3 months after a Trading Buy rating has been assigned due to positive news flow.
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	The stock price is expected to fall by >10% within 3 months after a Trading Sell rating has been assigned due to negative news flow.

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