

COMPANY RESULTS

Public Bank (PBK MK)

2Q24: Sustained By Write-backs And Strong Non-interest Income

Public Bank's 2Q24 earnings were in line, bolstered by provision write-backs and strong non-interest income growth. Management has also raised its ROE targets for 2024 to >12.5% from 12.0% on improved NIM outlook. Maintain BUY with a higher target price of RM5.35 (1.75x 2025F P/B, 12.5% ROE) as we roll over our target price to 2025. The stock is trading at an attractive 1.0SD below its historical mean and remains an excellent, liquid and quality laggard play within the sector.

RESULTS

- In line.** Public Bank reported 2Q24 net profit of RM1,781.7m (+10.1% yoy, +7.7% qoq), bringing 1H24 earnings to RM3,453.0m (+3.1% yoy). 1H24 earnings met expectations, accounting for 50% of both our and consensus' full-year forecasts. Earnings edged up by 3% yoy, driven by fee and treasury income, but partially offset by a 2bp NIM compression and higher net credit cost of 3bp compared to 1bp in 1H23.
- QOQ trend: Sustained by lower provisions.** 2Q24 earnings increased by 8% qoq, driven by a lower net credit cost of 1bp compared to 6bp in 1Q24, due to excess provision write-backs amounting to RM120m. Pre-provision operating profit was flattish, inching up 1% qoq as stronger non-interest income growth of 4%, fueled by continued traction in wealth management income, was offset by a 2bp compression in NIM. Operating Jaws remained neutral, with both income and expenses inching up by 1%.
- YOY trend: Lower provisions and strong non-interest income growth.** 2Q24 earnings rose 10% yoy, driven by a significant 79% yoy decline in provisions due to write-backs. Pre-provision operating profit increased by a solid 5% yoy, supported by strong non-interest income growth of 12%, primarily from a 14% yoy rise in wealth management fees due to improved equity market performance, commendable loan growth of 6% and a 1bp improvement in NIM. However, this was partially offset by elevated operating expenses, which grew by 9% yoy. We expect these expenses to start normalising downward in 2H24, given the higher cost base comparison in 2H23.
- NIM declined sequentially but remains on par with guidance.** NIM declined 2bp qoq to 2.19%, bringing 1H24 NIM to 2.20% (2023: 2.20%) on stiffer loans competition. Despite the sequential decline, 1H24 NIM is still in line with management's guidance of a flat to a low single digit NIM compression for 2024. We project a flat NIM trend for 2024.
- Loans growth tracking upper end of guidance.** In 2Q24, group loan growth expanded 6.0% (5.9% in 2023), coming in at the upper end of management's 5-6% target and in line with our 6% assumption. Growth was broad based across three key segments: mortgages (+5.0%), auto loans (+14.8%) and non-residential property loans (+4.0%).

KEY FINANCIALS

| Year to 31 Dec (RMm)   | 2022  | 2023  | 2024F | 2025F  | 2026F  |
|------------------------|-------|-------|-------|--------|--------|
| Net interest income    | 9,167 | 9,055 | 9,511 | 10,088 | 10,744 |
| Non-interest income    | 2,414 | 2,476 | 2,689 | 2,837  | 2,970  |
| Net profit (rep./act.) | 6,119 | 6,649 | 6,932 | 7,388  | 7,853  |
| Net profit (adj.)      | 6,119 | 7,138 | 6,932 | 7,388  | 7,853  |
| EPS (sen)              | 31.5  | 36.8  | 35.7  | 38.1   | 40.4   |
| PE (x)                 | 14.8  | 12.7  | 13.1  | 12.3   | 11.6   |
| P/B (x)                | 1.8   | 1.7   | 1.6   | 1.5    | 1.5    |
| Dividend yield (%)     | 3.6   | 4.1   | 4.2   | 4.5    | 4.8    |
| Net int margin (%)     | 2.4   | 2.2   | 2.2   | 2.2    | 2.2    |
| Cost/income (%)        | 31.5  | 33.7  | 34.3  | 34.2   | 34.0   |
| Loan loss cover (%)    | 272.0 | 181.8 | 140.8 | 149.2  | 145.3  |
| Consensus net profit   | -     | -     | 6,971 | 7,340  | 7,687  |
| UOBKH/Consensus (x)    | -     | -     | 0.99  | 1.01   | 1.02   |

Source: Public Bank, Bloomberg, UOB Kay Hian

BUY

(Maintained)

|              |        |
|--------------|--------|
| Share Price  | RM4.68 |
| Target Price | RM5.35 |
| Upside       | +14.4% |
| Previous     | RM5.10 |

COMPANY DESCRIPTION

Public Bank is the third-largest domestic banking group in Malaysia by assets with about 14.8% of system assets and 16.2% loan market share.

STOCK DATA

|                                 |            |
|---------------------------------|------------|
| GICS sector                     | Financials |
| Bloomberg ticker:               | PBK MK     |
| Shares issued (m):              | 19,410.7   |
| Market cap (RMm):               | 90,842.0   |
| Market cap (US\$m):             | 20,892.8   |
| 3-mth avg daily t'over (US\$m): | 24.8       |

Price Performance (%)

|                  |               |             |            |            |
|------------------|---------------|-------------|------------|------------|
| 52-week high/low | RM4.68/RM4.00 |             |            |            |
| <b>1mth</b>      | <b>3mth</b>   | <b>6mth</b> | <b>1yr</b> | <b>YTD</b> |
| 11.2             | 13.3          | 4.7         | 14.7       | 9.1        |

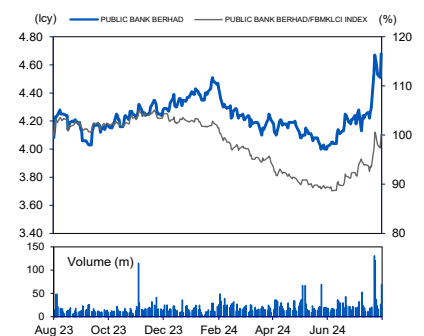
Major Shareholders

|                                   |      |
|-----------------------------------|------|
| Consolidated Teh Holdings Sdn Bhd | 21.6 |
| EPF                               | 15.0 |

FY24 NAV/Share (RM) 2.93

FY24 CAR Tier-1 (%) 15.03

PRICE CHART



Source: Bloomberg

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- **Stable GIL ratio.** The group's gross impaired loan (GIL) ratio was fairly stable at 0.64% (1Q24: 0.62%). Notably, the asset quality of its Hong Kong operations, previously a key drag, showed improvement, with the GIL ratio decreasing to 3.8% from 4.16% in 1Q24. Meanwhile, the group's domestic loan delinquency rate declined to 1.7% from 2.2% in 1Q24, significantly lower than the pre-pandemic level of 4%, indicating potential for further write-backs.
- **Net credit cost benefiting from writeback.** Net credit cost declined to just 1bp in 2Q24 (from 6bp in 1Q24), arising from write-backs in provisions. This brought 1H24 net credit cost to 3bp which is below both our 5bp assumption and management's guidance of 5-10bp.
- **The robust provision buffer in place provides scope for further write-backs.** The group maintains a strong stock of pre-emptive provisions at RM1.6b (39bp), which is evident in the current loans-loss coverage ratio of 154% (inclusive of regulatory reserves: 192%), compared with the pre-COVID-19 level of 117%. In terms of earnings sensitivity, a 10bp writeback in credit cost could potentially result in a 6% increase in our 2024 earnings estimates.
- **2024 outlook: Raising 2024 ROE guidance.** With a more optimistic NIM outlook (now expecting low single-digit compression to stable compared to high single-digit compression to stable previously), management has raised its 2024 ROE guidance from 12.0% to over 12.5%. Other key 2024 guidance remains unchanged: a) loan growth: 5%-6%, b) deposit growth: 5%-6%, and c) net credit cost: 5bp-10bp.

### EARNINGS REVISION/RISK

- **Earnings revision: None.**

### VALUATION/RECOMMENDATION

- **Maintain BUY with a higher target price of RM5.35 (1.75x 2025F P/B, ROE: 12.5%)** from RM5.10 as we roll over our target price to 2025, which is in line with its historical mean P/B. Valuations remains attractive at -0.1SD below its historical P/B mean which we deem attractive given its strong defensive qualities. Public Bank also stands to benefit once macroeconomic conditions improve as it has the strongest headroom for potential provision write-backs.

### 2024 RESULTS

| Profit & Loss (RMm)                | 2Q24      | 2Q23      | yoy % chg     | 1H24      | yoy % chg     | Remarks |
|------------------------------------|-----------|-----------|---------------|-----------|---------------|---------|
| Net Interest Income                | 2,318.0   | 2,210.6   | 4.9           | 4,635.5   | 3.7           |         |
| Islamic Banking                    | 417.0     | 395.4     | 5.5           | 830.2     | 4.8           |         |
| Fees & Commissions                 | 541.3     | 478.0     | 13.2          | 1,075.7   | 12.0          |         |
| Net Investment Income              | 43.1      | (13.4)    | (420.8)       | 58.2      | 85.1          |         |
| Other Operating Income             | 90.4      | 140.8     | (35.8)        | 190.5     | (26.8)        |         |
| Total Income                       | 3,409.7   | 3,211.3   | 6.2           | 6,790.1   | 4.2           |         |
| Operating Expenses                 | (1,199.4) | (1,098.3) | 9.2           | (2,397.5) | 9.4           |         |
| PPOP                               | 2,210.3   | 2,113.0   | 4.6           | 4,392.6   | 1.6           |         |
| Provision on loans and investments | (4.4)     | (20.9)    | (79.2)        | (69.2)    | 232.9         |         |
| PBT                                | 2,280.0   | 2,095.5   | 8.8           | 4,411.8   | 2.5           |         |
| Net Profit                         | 1,781.7   | 1,618.6   | 10.1          | 3,435.0   | 3.1           |         |
| EPS (sen)                          | 9.2       | 8.4       | 10.1          | 17.7      | 3.1           |         |
| DPS (sen)                          | 10.0      | 9.0       | 11.1          | 10.0      | 11.1          |         |
| BVPS (RM)                          | 2.90      | 2.75      | 5.6           | 2.9       | 5.6           |         |
| Financial Ratios (%)               | 2Q24      | 2Q23      | yoy chg (ppt) | 1Q24      | yoy chg (ppt) | Remarks |
| NIM                                | 2.19      | 2.18      | 0.1           | 2.21      | (0.2)         |         |
| Loan Growth, yoy                   | 6.3       | 5.1       | 1.2           | 6.2       | 0.1           |         |
| Deposit Growth, yoy                | 4.5       | 4.7       | (0.2)         | 4.1       | 0.4           |         |
| Loan/Deposit Ratio                 | 95.8      | 94.2      | 1.6           | 95.4      | 0.3           |         |
| Cost/Income Ratio                  | 35.2      | 34.2      | 1.0           | 35.4      | (0.3)         |         |
| ROE                                | 12.9      | 12.4      | 0.5           | 12.1      | 0.7           |         |
| NPL Ratio                          | 0.6       | 0.6       | 0.1           | 0.6       | 0.0           |         |
| Credit Costs (bp)                  | 0.4       | 2.2       | (1.7)         | 6.4       | (6.0)         |         |
| CET-1 CAR                          | 14.5      | 15.2      | (0.7)         | 14.6      | (0.1)         |         |

Source: Public Bank, UOB Kay Hian

### KEY ASSUMPTIONS

| (%)              | 2024F | 2025F | 2026F |
|------------------|-------|-------|-------|
| Loan Growth      | 6.0   | 6.2   | 6.2   |
| Credit Cost (bp) | 5.0   | 4.0   | 4.0   |
| ROE              | 12.2  | 12.5  | 12.7  |

Source: UOB Kay Hian

### ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

|  |
|--|
| <ul style="list-style-type: none"> <li>• <b>Environmental</b> <ul style="list-style-type: none"> <li>- <b>Green loan commitment.</b> Launched a campaign in 2020 offering preferential rates for selected energy efficient vehicle (EEV) under its AITAB Hire Purchase-i, to promote the usage of EEVs.</li> <li>- <b>Paperless initiative.</b> Moving towards paperless operations with its enhanced Go Green initiatives in its daily operations, such as migrating reports to online verification module, issuing electronic statements and notices as well as introducing electronic signatures (eSignature) in new deposit account openings.</li> </ul> </li> <li>• <b>Social</b> <ul style="list-style-type: none"> <li>- <b>Board and upper management gender diversity.</b> Maintained 33% female directors on the Board and 48% for Top and Senior Management.</li> </ul> </li> <li>• <b>Governance</b> <ul style="list-style-type: none"> <li>- <b>Non-independent board of directors composition.</b> Composition of Independent Non-Executive Directors (INED) – 55%.</li> </ul> </li> </ul> |
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Source: Public Bank, UOB Kay Hian

### PROFIT & LOSS

| Year to 31 Dec (RMm)        | 2023          | 2024F         | 2025F         | 2026F         |
|-----------------------------|---------------|---------------|---------------|---------------|
| Interest income             | 18,040        | 16,395        | 17,294        | 18,334        |
| Interest expense            | (8,985)       | (6,883)       | (7,206)       | (7,590)       |
| Net interest income         | 9,055         | 9,511         | 10,088        | 10,744        |
| Fees & commissions          | 1,950         | 2,145         | 2,274         | 2,387         |
| Other income                | 526           | 544           | 563           | 583           |
| Non-interest income         | 2,476         | 2,689         | 2,837         | 2,970         |
| Income from islamic banking | 1,562         | 1,640         | 1,722         | 1,808         |
| <b>Total income</b>         | <b>13,093</b> | <b>13,840</b> | <b>14,646</b> | <b>15,522</b> |
| Staff costs                 | (3,196)       | (3,484)       | (3,693)       | (3,914)       |
| Other operating expense     | (1,219)       | (1,263)       | (1,310)       | (1,358)       |
| Pre-provision profit        | 8,678         | 9,093         | 9,644         | 10,249        |
| Loan loss provision         | (157)         | (211)         | (180)         | (191)         |
| Other provisions            | (1)           | 0             | 0             | 0             |
| Associated companies        | 19            | 21            | 23            | 25            |
| Pre-tax profit              | 8,539         | 8,902         | 9,487         | 10,083        |
| Tax                         | (1,884)       | (1,964)       | (2,093)       | (2,224)       |
| Minorities                  | (6)           | (6)           | (6)           | (6)           |
| <b>Net profit</b>           | <b>6,649</b>  | <b>6,932</b>  | <b>7,388</b>  | <b>7,853</b>  |
| Net profit (adj.)           | 7,138         | 6,932         | 7,388         | 7,853         |

### OPERATING RATIOS

| Year to 31 Dec (%)                         | 2023  | 2024F | 2025F | 2026F |
|--|-------|-------|-------|-------|
| <b>Capital Adequacy</b>                    |       |       |       |       |
| Tier-1 CAR                                 | 14.7  | 15.0  | 15.1  | 15.4  |
| Total CAR                                  | 17.6  | 17.2  | 17.3  | 17.5  |
| Total assets/equity (x)                    | 9.3   | 9.5   | 9.7   | 10.0  |
| Tangible assets/tangible common equity (x) | 9.8   | 10.0  | 10.2  | 10.5  |
| <b>Asset Quality</b>                       |       |       |       |       |
| NPL ratio                                  | 0.6   | 0.7   | 0.6   | 0.5   |
| Loan loss coverage                         | 181.8 | 140.8 | 149.2 | 145.3 |
| Loan loss reserve/gross loans              | 1.0   | 0.9   | 0.8   | 0.7   |
| Increase in NPLs                           | 47.4  | 20.7  | (9.2) | (5.5) |
| Credit cost (bp)                           | 4.0   | 5.0   | 4.0   | 4.0   |
| <b>Liquidity</b>                           |       |       |       |       |
| Loan/deposit ratio                         | 95.6  | 96.6  | 97.4  | 97.8  |
| Liquid assets/short-term liabilities       | 7.3   | 7.3   | 7.2   | 7.0   |
| Liquid assets/total assets                 | 6.1   | 6.0   | 5.8   | 5.6   |

### BALANCE SHEET

| Year to 31 Dec (RMm)                  | 2023           | 2024F          | 2025F          | 2026F          |
|---------------------------------------|----------------|----------------|----------------|----------------|
| Cash with central bank                | 7,527          | 8,459          | 8,983          | 9,567          |
| Govt treasury bills & securities      | 23,568         | 24,039         | 24,520         | 25,010         |
| Interbank loans                       | 0              | 0              | 0              | 0              |
| Customer loans                        | 394,750        | 418,970        | 445,341        | 474,840        |
| Investment securities                 | 63,163         | 68,059         | 73,299         | 78,907         |
| Derivative receivables                | 415            | 508            | 601            | 694            |
| Associates & JVs                      | 142            | 164            | 181            | 199            |
| Fixed assets (incl. prop.)            | 1,258          | 1,458          | 1,658          | 1,858          |
| Other assets                          | 19,775         | 19,988         | 20,813         | 26,617         |
| <b>Total assets</b>                   | <b>510,598</b> | <b>541,645</b> | <b>575,396</b> | <b>617,693</b> |
| Interbank deposits                    | 12,602         | 11,530         | 10,548         | 9,651          |
| Customer deposits                     | 412,897        | 433,542        | 457,387        | 485,745        |
| Derivative payables                   | 354            | 319            | 287            | 258            |
| Debt equivalents                      | 0              | 0              | 0              | 0              |
| Other liabilities                     | 28,364         | 37,660         | 46,229         | 58,603         |
| <b>Total liabilities</b>              | <b>454,218</b> | <b>483,050</b> | <b>514,451</b> | <b>554,257</b> |
| Shareholders' funds                   | 54,674         | 56,882         | 59,228         | 61,712         |
| Minority interest - accumulated       | 1,706          | 1,712          | 1,718          | 1,724          |
| <b>Total equity &amp; liabilities</b> | <b>510,598</b> | <b>541,645</b> | <b>575,396</b> | <b>617,693</b> |

### KEY METRICS

| Year to 31 Dec (%)            | 2023  | 2024F | 2025F | 2026F |
|-------------------------------|-------|-------|-------|-------|
| <b>Growth</b>                 |       |       |       |       |
| Net interest income, yoy chg  | (1.2) | 5.0   | 6.1   | 6.5   |
| Fees & commissions, yoy chg   | 1.8   | 10.0  | 6.0   | 5.0   |
| Pre-provision profit, yoy chg | (5.7) | 4.8   | 6.1   | 6.3   |
| Net profit, yoy chg           | 8.7   | 4.3   | 6.6   | 6.3   |
| Net profit (adj.), yoy chg    | 16.6  | (2.9) | 6.6   | 6.3   |
| Customer loans, yoy chg       | 5.9   | 6.1   | 6.3   | 6.6   |
| Customer deposits, yoy chg    | 4.6   | 5.0   | 5.5   | 6.2   |
| <b>Profitability</b>          |       |       |       |       |
| Net interest margin           | 2.2   | 2.2   | 2.2   | 2.2   |
| Cost/income ratio             | 33.7  | 34.3  | 34.2  | 34.0  |
| Adjusted ROA                  | 1.4   | 1.3   | 1.3   | 1.3   |
| Reported ROE                  | 12.7  | 12.4  | 12.7  | 13.0  |
| Adjusted ROE                  | 13.6  | 12.4  | 12.7  | 13.0  |
| <b>Valuation</b>              |       |       |       |       |
| P/BV (x)                      | 1.7   | 1.6   | 1.5   | 1.5   |
| P/NTA (x)                     | 1.7   | 1.7   | 1.6   | 1.6   |
| Adjusted P/E (x)              | 12.7  | 13.1  | 12.3  | 11.6  |
| Dividend Yield                | 4.1   | 4.2   | 4.5   | 4.8   |
| Payout ratio                  | 55.5  | 55.0  | 55.0  | 55.0  |

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