

COMPANY RESULTS

Public Bank (PBK MK)

1Q23: Provision Writebacks Buffer NIM Compression

Public Bank's 1Q23 earnings are in line as weaker-than-expected NIM was offset by provision writebacks. On a yoy comparison, the group was still able to register a commendable 5% growth in pre-provision operating profit on the back of stable loans growth and cost control. Maintain BUY and target price of RM5.10 (1.80x 2023F P/B, 12.8% ROE). Valuations have declined to a highly attractive 1.5SD below its historical mean while hefty provision buffers provide potential credit cost tailwinds.

RESULTS

- **In line.** Public Bank reported 1Q23 net profit of RM1,717.0m (+22.6% yoy, +0.4% qoq). This is in line, representing 25.4%/24.7% of our/consensus' full-year estimates.
- **1Q23 earnings were flat qoq** as negative operating JAWS (revenue: -10% qoq vs opex: flattish) was offset by lower tax expense (due to the absence of the prosperity tax) and significantly lower provisions. The sequential decline in revenue was largely impacted by a 32bp qoq decline in NIM but partially mitigated by an 8% qoq improvement in non-interest income on the back of stronger marked-to-market treasury gains.
- **1Q23 earnings expanded 22.6% yoy** underpinned by: a) lower tax expense on the absence of the prosperity tax, b) 2bp yoy expansion in NIM, c) stable loans growth of 5%, d) higher marked-to-market treasury gains, and e) writeback in provisions. The group experienced neutral operating JAWS with opex expanding by a commendable 4.9%.
- **Loans growth remained stable.** The group's loans growth edged marginally downwards to 5.0% in 1Q23 from 5.2% in 2022. That said, loans growth remains at the upper end of management's 2023 target of 4-5% and our 4.5% assumption. Growth was supported largely by mortgages (+6.1% yoy) and auto loans (+11.5% yoy), while loans growth for non-residential property remained sluggish at 3.1% yoy.
- **NIM compression underway.** 1Q23 NIM declined 13bp to 2.26% from 2.39% in 2022. Despite the recent overnight policy rate hike in May 23, management is still guiding for further sequential NIM slippage. This could result in NIM compression landing nearer to 15-18bp vs our current 12bp assumption. As such, we have raised our NIM compression assumption to 17bp from 12bp. Higher-than-expected competition for deposits was the key negative surprise.
- **Targeted loans assistance continued to decline.** Loans under targeted assistance declined to about 2% (as of end-Mar 23) from 4% of total loans (end-Jan 23). Delinquency rates remained stable as over 90% of borrowers exiting the repayment assistance programme had normalised their repayments.

KEY FINANCIALS

Year to 31 Dec (RMm)	2021	2022	2023F	2024F	2025F
Net interest income	8,315	9,167	8,856	9,330	9,823
Non-interest income	2,616	2,414	2,508	2,627	2,752
Net profit (rep./act.)	5,657	6,119	6,718	7,086	7,503
Net profit (adj.)	5,657	6,608	6,718	7,086	7,503
EPS (sen)	29.1	34.0	34.6	36.5	38.6
PE (x)	13.3	11.4	11.2	10.7	10.1
P/B (x)	1.6	1.5	1.4	1.4	1.3
Dividend yield (%)	3.9	4.4	4.4	4.7	5.0
Net int margin (%)	2.2	2.4	2.2	2.2	2.2
Cost/income (%)	31.6	31.5	33.5	33.3	33.2
Loan loss cover (%)	359.7	271.3	147.3	152.0	137.5
Consensus net profit	-	-	6,884	7,162	7,528
UOBKH/Consensus (x)	-	-	0.98	0.99	1.00

Source: Public Bank, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM3.89
Target Price	RM5.10
Upside	+31.1%

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.

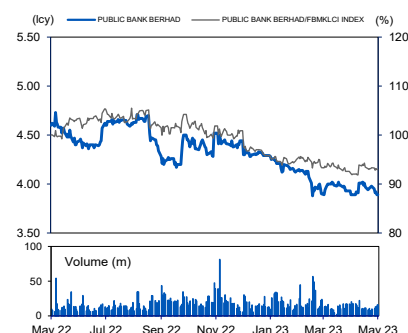
STOCK DATA

GICS sector	Financials
Bloomberg ticker:	PBK MK
Shares issued (m):	19,410.7
Market cap (RMm):	75,507.6
Market cap (US\$m):	16,320.7
3-mth avg daily t'over (US\$m):	13.2

Price Performance (%)

52-week high/low				RM4.78/RM3.88
1mth	3mth	6mth	1yr	YTD
(1.0)	(5.8)	(13.9)	(14.5)	(10.0)
Major Shareholders				%
Tan Sri Dato' Sri Dr. Teh Hong Piow				23.9
EPF				12.7
FY23 NAV/Share (RM)				2.71
FY23 CAR Tier-1 (%)				15.21

PRICE CHART



Source: Bloomberg

ANALYST(S)

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- **GIL ratio edged up.** Group GIL ratio edged up to 0.52% from 0.42% in 4Q22, largely due to a single corporate loan in the property development sector in Hong Kong amounting to roughly RM300m. Given that the loan is highly collateralised, management did not deem to require any provision, as some form of recovery could materialise within the year. The group's stock of pre-emptive provisions remains robust at RM1.8b as reflected in the group's current loans-loss coverage ratio of 217% vs pre-COVID-19's 117%.
- **Net credit cost declined significantly on writebacks.** Net credit cost declined to 0.2bp in 1Q23 vs 10bp in 4Q22 as the group wrote back some of its excess provisions. This was supported by relatively benign GIL formation and a robust stock of pre-emptive provisions in place. Incorporating 1Q23's provision writebacks into our forecast, we tweak downwards our 2023 net credit cost assumption to 3bp from 7bp.
- **Outlook retained.** Management's key 2023 key guidance are as follows: a) loans growth: 4-5%, b) deposit growth: 4-5%, c) NIM: -10bp, d) net credit cost: below 10bp, and e) ROE: 12%-13%. This is broadly in line with our assumptions and ROE forecast of 12.8%.

EARNINGS REVISION/RISK

- Unchanged as lower NIM forecast is offset with lower net credit cost assumptions.

VALUATION/RECOMMENDATION

- **Maintain BUY and target price of RM5.10 (1.87x 2023F P/B, ROE: 12.8%)** which is in line with its historical mean P/B. Current P/B valuation of 1.40x values the stock at 1.5SD below its historical P/B mean which we deem attractive given its strong defensive qualities which should gain prominence in the current period of uncertainty. Public Bank also stands to benefit when macroeconomic conditions improve, as it has the strongest headroom for potential provision writebacks.

KEY ASSUMPTIONS

(%)	2023F	2024F	2025F
Loan Growth	5.0	5.2	5.2
Credit Cost (bp)	3.0	3.0	2.0
ROE	12.8	12.8	12.9

Source: UOB Kay Hian

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

<ul style="list-style-type: none"> • Environmental <ul style="list-style-type: none"> - Green loan commitment. 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. - Paperless initiative. 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.
<ul style="list-style-type: none"> • Social <ul style="list-style-type: none"> - Board and upper management gender diversity. Maintained 33% female directors on the Board and 48% for Top and Senior Management.
<ul style="list-style-type: none"> • Governance <ul style="list-style-type: none"> - Non-independent board of directors composition. Composition of Independent Non-Executive Directors (INED) – 55%.

Source: Public Bank, UOB Kay Hian

1Q23 RESULTS

Profit & Loss (RMm)	1Q23	1Q22	yoy % chg	4Q22	qoq % chg	Remarks
Net Interest Income	2,259.4	2,104.3	7.4	2,457.5	(8.1)	NIM decline 13bp
Islamic Banking	397.1	400.8	(0.9)	591.6	(32.9)	
Fees & Commissions	482.3	497.3	(3.0)	472.3	2.1	Weaker unit trust income
Net Investment Income	44.9	32.3	39.1	2.3	>100	
Other Operating Income	119.4	112.7	5.9	126.6	(5.7)	
Core Total Income	3,303.1	3,147.4	4.9	3,650.2	(9.5)	
Operating Expenses	(1,094.2)	(1,043.5)	4.9	(1,040.3)	5.2	
PPOP	2,209.0	2,104.0	5.0	2,609.9	(15.4)	
Provision on loans and investments	0.2	(102.0)	n.a.	(96.1)	n.a.	
PBT	2,209.0	2,000.3	10.4	2,520.9	(12.4)	
Core Net Profit	1,714.0	1,398.6	22.6	1,707.1	0.4	In line
EPS (sen)	8.8	7.2	22.6	8.8	0.4	
DPS (sen)	0.0	0.0	0.0	5.0	(100.0)	
BVPS (RM)	2.64	2.47	6.9	2.59	2.1	
Financial Ratios (%)	1Q23	1Q22	yoy chg (ppt)	4Q22	qoq chg (ppt)	Remarks
NIM	2.26	2.24	0.02	2.58	(0.3)	
Loan Growth, yoy	5.2	3.7	1.5	5.3	(0.1)	
Deposit Growth, yoy	4.9	4.4	0.5	3.8	1.1	
Loan/Deposit Ratio	93.5	93.2	0.2	94.4	(0.9)	
Cost/Income Ratio	33.1	33.2	(0.0)	28.5	4.6	
ROE	13.5	11.6	1.9	13.7	(0.2)	
NPL Ratio	0.5	0.3	0.2	0.4	0.1	
Credit Costs (bp)	(0.0)	11.2	(11.3)	10.2	(10.2)	
Loan Loss Coverage	217.8	360.7	(142.9)	291.8	(74.0)	
CET-1 CAR	14.6	14.6	0.0	14.6	0.0	

Source: Public Bank, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Interest income	14,932	15,717	16,529	17,414
Interest expense	(5,765)	(6,861)	(7,199)	(7,590)
Net interest income	9,167	8,856	9,330	9,823
Fees & commissions	1,915	1,991	2,091	2,195
Other income	500	517	536	557
Non-interest income	2,414	2,508	2,627	2,752
Income from Islamic banking	1,857	1,950	2,048	2,150
Total income	13,438	13,314	14,004	14,725
Staff costs	(3,044)	(3,226)	(3,388)	(3,557)
Other operating expense	(1,192)	(1,235)	(1,280)	(1,327)
Pre-provision profit	9,203	8,853	9,336	9,841
Loan loss provision	(366)	(119)	(125)	(88)
Other provisions	(13)	0	0	0
Associated companies	7	8	8	9
Pre-tax profit	8,831	8,742	9,220	9,763
Tax	(2,661)	(1,942)	(2,049)	(2,169)
Minorities	(50)	(82)	(86)	(91)
Net profit	6,119	6,718	7,086	7,503
Net profit (adj.)	6,608	6,718	7,086	7,503

BALANCE SHEET

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Cash with central bank	6,882	11,872	12,466	13,151
Govt treasury bills & securities	23,106	23,568	24,039	24,520
Interbank loans	0	0	0	0
Customer loans	372,583	391,792	411,612	434,638
Investment securities	58,281	62,703	67,426	72,470
Derivative receivables	447	540	633	726
Associates & JVs	120	139	153	169
Fixed assets (incl. prop.)	1,196	1,396	1,596	1,796
Other assets	30,647	31,256	32,410	53,615
Total assets	493,263	523,266	550,335	601,086
Interbank deposits	13,775	23,357	39,605	67,154
Customer deposits	394,719	411,297	429,805	450,866
Derivative payables	496	446	402	362
Debt equivalents	0	0	0	0
Other liabilities	32,747	34,078	23,742	23,077
Total liabilities	441,737	469,178	493,553	541,459
Shareholders' funds	50,179	52,660	55,268	58,022
Minority interest - accumulated	1,347	1,428	1,514	1,605
Total equity & liabilities	493,263	523,266	550,335	601,086

OPERATING RATIOS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Capital Adequacy				
Tier-1 CAR	14.6	15.2	15.1	14.5
Total CAR	17.6	17.6	17.4	16.7
Total assets/equity (x)	9.8	9.9	10.0	10.4
Tangible assets/tangible common equity (x)	10.3	10.4	10.5	10.9
Asset Quality				
NPL ratio	0.4	0.7	0.6	0.6
Loan loss coverage	271.3	147.3	152.0	137.5
Loan loss reserve/gross loans	1.1	1.0	0.9	0.9
Increase in NPLs	44.2	68.5	(3.8)	5.6
Credit cost (bp)	10.0	3.0	3.0	2.0
Liquidity				
Loan/deposit ratio	94.4	95.3	95.8	96.4
Liquid assets/short-term liabilities	7.3	8.1	7.8	7.3
Liquid assets/total assets	6.1	6.8	6.6	6.3

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Growth				
Net interest income, yoy chg	10.2	(3.4)	5.3	5.3
Fees & commissions, yoy chg	(10.8)	4.0	5.0	5.0
Pre-provision profit, yoy chg	7.3	(3.8)	5.5	5.4
Net profit, yoy chg	8.2	9.8	5.5	5.9
Net profit (adj.), yoy chg	16.8	1.7	5.5	5.9
Customer loans, yoy chg	5.2	5.2	5.1	5.6
Customer deposits, yoy chg	3.8	4.2	4.5	4.9
Profitability				
Net interest margin	2.4	2.2	2.2	2.2
Cost/income ratio	31.5	33.5	33.3	33.2
Adjusted ROA	1.4	1.3	1.3	1.3
Reported ROE	12.4	13.1	13.1	13.2
Adjusted ROE	13.4	13.1	13.1	13.2
Valuation				
P/BV (x)	1.5	1.4	1.4	1.3
P/NTA (x)	1.6	1.5	1.4	1.4
Adjusted P/E (x)	11.4	11.2	10.7	10.1
Dividend Yield	4.4	4.4	4.7	5.0
Payout ratio	53.9	50.0	50.0	50.0

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