

COMPANY UPDATE

Public Bank (PBK MK)

Multiple Catalysts On The Horizon?

With the strongest provision buffers in the sector, the stock is best positioned to weather global geopolitical risks, in our opinion. We also highlight three potential catalysts for relative outperformance, which should support share price resilience. That said, we trim our target price to RM5.00 (1.64x 2025F P/B, 12.5% ROE) from RM5.35, reflecting a lower long-term growth rate to account for geopolitical impacts on overall growth. Foreign shareholding (end-Feb 24) of 26.4% is near its 15-year low of 25.2%.

WHATS NEW

- **Multiple catalysts on the horizon?** We identified three key catalysts that could drive a re-rating of Public Bank's share price, which has underperformed the sector over the past year: a) credit cost tailwinds – we estimate up to RM917m in potential provision writebacks over the next 2-3 years, b) capital management upside – the group is poised to be a net beneficiary of the adoption of Basel 3 reforms for credit risk with its CET1 ratio potentially rising to 15.0% from 14.3% which could facilitate a further increase in dividend payout, and c) clarity of Restricted Offer for Sale (ROS) of Teh Family's 13% stake – further details in 2H25 could help alleviate current share overhang concerns.
- **Catalyst 1: Ample scope for further provisions writeback.** We gather from management that the group is seeking to gradually reduce its loans loss coverage (LLC) ratio down to the pre-COVID-19 average of 125% assuming overall asset quality remains stable. Despite the current domestic delinquency rate of 1.5% and a GIL ratio of 0.38% – both well below pre-COVID-19 averages of 3.4% and 0.44%, respectively – the group's LLC stands at 166%, significantly exceeding the pre-COVID-19 average of 125%. Theoretically, the group is well-positioned to optimise its LLC below pre-COVID-19 levels of 125%, given that delinquency rates are now even lower than pre-pandemic levels, in our view.
- **Equate to a potential sustained net writeback over the next three years.** If the group gradually lowers its LLC to 125% while maintaining stable asset quality, we estimate a potential provision writeback of approximately RM917m – equivalent to 12% of our 2025 earnings forecast. Should this be phased over three years, it could translate into a net credit cost writeback of 3bp pa, compared to our current assumption of a +4bp charge-off.
- **Asset quality in Public Bank's Hong Kong operations has improved,** with the GIL ratio declining to 2.29% in 4Q24 from a peak of 4.16% in 1Q24. Given that Hong Kong loans account for just 4.5% of total group loans, even in a worst-case scenario, any further asset quality deterioration is unlikely to have a material impact.

KEY FINANCIALS

Year to 31 Dec (RMm)	2023	2024	2025F	2026F	2027F
Net interest income	9,055	9,451	9,905	10,548	11,224
Non-interest income	2,476	2,823	2,980	3,123	3,273
Net profit (rep./act.)	6,649	7,118	7,513	7,931	8,365
Net profit (adj.)	7,138	7,118	7,513	7,931	8,365
EPS (sen)	34.3	36.7	38.7	40.8	43.1
PE (x)	11.5	11.5	10.9	10.3	9.8
P/B (x)	1.5	1.4	1.4	1.3	1.3
Dividend yield (%)	4.5	4.5	5.5	5.8	6.1
Net int margin (%)	2.19	2.20	2.17	2.17	2.17
Cost/income (%)	33.7	34.5	35.4	35.7	36.0
Loan loss cover (%)	181.8	166.2	183.3	233.6	262.6
Consensus net profit	-	-	7,489	7,839	8,294
UOBKH/Consensus (x)	-	-	1.00	1.01	1.01

Source: Public Bank, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM4.22
Target Price	RM5.00
Upside	+18.5%
(Previous TP)	RM5.35

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):	81,913.1
Market cap (US\$m):	18,243.5
3-mth avg daily t'over (US\$m):	26.1

Price Performance (%)

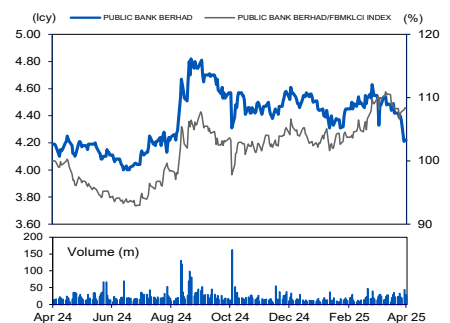
52-week high/low	RM4.84/RM3.98			
1mth	3mth	6mth	1yr	YTD
(7.3)	(7.0)	(7.7)	0.7	(7.1)

Major Shareholders

	%
Consolidated Teh Holdings Sdn Bhd	21.6
EPF	14.8

FY24 NAV/Share (RM)	2.93
FY24 CAR Tier-1 (%)	15.03

PRICE CHART



Source: Bloomberg

ANALYST(S)

Keith Wee Teck Keong
 +603 2147 1981
 keithwee@uobkayhian.com

- Catalyst 2: Potential capital management upside.** Malaysian banks will implement the Basel III reforms for credit risk starting 1 Jul 26. While no specific guidance was provided, management indicated that the adoption is expected to positively impact the CET1 ratio, driven by lower risk-weighted asset (RWA) intensity for certain loan portfolios – particularly those backed by relatively low loan-to-value ratios.
- Assessing quantum of potential CET1 ratio uplift.** As shown in the RHS table, if the group manages to reduce its risk-weighted asset (RWA) intensity from the current 64% to between 62% and 60%, it could see a potential uplift of 50-100bp in its CET1 ratio – raising it from 14.3% to between 14.8% and 15.3%. Assuming an optimal CET1 ratio of 14.0% post Basel III reforms, we estimate that the group could release excess capital of approximately RM2.8b to RM4.4b, potentially lifting its ROE from 12.5% to between 13.1% and 13.5%. Over a three-year period, such capital management initiatives could also raise our dividend yield forecast from the current 5.5% to between 6.6% and 7.2% pa.
- Catalyst 3: Restricted ROS clarity to remove share overhang.** Management indicated it will provide more clarity on the planned reduction of the Teh Family's 13% stake in Public Bank in 2H25 to 10% in compliance with Financial Service Act 2013 (FSA). Assuming healthy uptake by institutional shareholders and employees, this could serve as a positive catalyst for share price recovery, as the sizeable stake and five-year divestment timeline have been seen as a key overhang. Note that even on a worst-case scenario where we assume the Teh Family's stake disposal is equally spread over a five-year period, it equates to a palatable 9% (2m shares) of Public Bank's average daily trading volume (22m shares).
- Historical precedent points to a faster-than-expected post-placement recovery.** AMMB disposal by ANZ (back in Mar 24 for a 16.5% stake, May 24 for 5.2% stake at 3-8% discount), its share price took only a short one month to recover. Similarly, the RHB disposal by Aabar (back in Aug 18, Mar 19, Jun 19, Dec 20 at 3-5% discount for bite-sized blocks of 3-6%), it took roughly 1-2 months to bounce back.

EARNINGS REVISION/RISK

- Earnings revision: None.**

VALUATION/RECOMMENDATION

- Maintain BUY with a lower target price of RM5.00 (1.64x 2025F P/B, ROE: 12.5%)** from RM5.35 as we lower our long-term growth rate to factor in the current geopolitical uncertainties on overall growth. We remain positive on Public Bank as its valuation has degraded to near pandemic lows (-1.5SD below its historical mean P/B). Additionally, its robust provision buffers present potential for significant writebacks, which are not yet reflected in our or consensus estimates.

ASSESSMENT OF PUBLIC BANK'S ADDITIONAL CAPACITY FOR PROVISION WRITEBACKS

	(RMm)
Current Group LLC	166%
Current Group Provision Balance (A)	3,698
Assuming pre-COVID-19 LLC	125%
Required provisions (B)	2,781
Potential excess provision that can be released (A – B)	917.0
% of 2025 earnings forecast	12.0%
Potential excess credit cost that can be written back	-22bp
Potential credit cost that can be written back pa (spread over 3 years)	-7bp
BAU net credit cost	4bp
Potential net credit cost writeback pa	-3bp

Source: UOB Kay Hian

ASSESSMENT OF PUBLIC BANK'S CAPITAL MANAGEMENT POTENTIAL

	Current	Scenario 1	Scenario 2
RWA (RMm)	349,571	336,575	325,718
Total Assets (RMm)	542,863	542,863	542,863
RWA Intensity	64%	62%	60%
CET1	49,970	49,970	49,970
CET1 ratio	14.3%	14.8%	15.3%
Assume Optimal CET1 ratio	14.0%	14.0%	14.0%
Potential excess CET1 ratio	0.3%	0.8%	1.3%
Potential excess capital to be released (RMm)	1,030	2,849	4,370
% of Market Capitalisation	1.2%	3.3%	5.0%
ROE	12.7%	13.1%	13.5%
Current ROE	12.5%		

Source: UOB Kay Hian

KEY ASSUMPTIONS

(%)	2025F	2026F	2027F
Loan Growth	6.0	6.2	6.2
Credit Cost (bp)	4.0	4.0	4.0
ROE	12.5	12.5	12.7

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

PROFIT & LOSS

Year to 31 Dec (RMm)	2024	2025F	2026F	2027F
Interest income	18,871	17,237	18,297	19,441
Interest expense	(9,420)	(7,332)	(7,749)	(8,216)
Net interest income	9,451	9,905	10,548	11,224
Fees & commissions	2,187	2,318	2,434	2,556
Other income	636	662	689	717
Non-interest income	2,823	2,980	3,123	3,273
Income from islamic banking	1,707	1,792	1,882	1,976
Total income	13,981	14,677	15,552	16,473
Staff costs	(3,551)	(3,871)	(4,180)	(4,515)
Other operating expense	(1,277)	(1,324)	(1,373)	(1,423)
Pre-provision profit	9,153	9,483	9,999	10,535
Loan loss provision	(1)	(180)	(192)	(204)
Other provisions	(492)	0	0	0
Associated companies	241	265	292	321
Pre-tax profit	8,902	9,568	10,099	10,652
Tax	(1,913)	(2,049)	(2,163)	(2,281)
Minorities	128	(6)	(6)	(6)
Net profit	7,118	7,513	7,931	8,365
Net profit (adj.)	7,118	7,513	7,931	8,365

BALANCE SHEET

Year to 31 Dec (RMm)	2024	2025F	2026F	2027F
Cash with central bank	7,650	9,009	9,595	10,219
Govt treasury bills & securities	24,039	24,520	25,010	25,511
Interbank loans	0	0	0	0
Customer loans	420,472	446,179	474,548	504,761
Investment securities	62,883	67,819	73,105	78,768
Derivative receivables	568	661	754	848
Associates & JVs	384	431	475	521
Fixed assets (incl. prop.)	1,273	1,473	1,673	1,873
Other assets	25,593	25,957	33,093	46,650
Total assets	542,863	576,050	618,254	669,150
Interbank deposits	13,458	14,371	15,346	16,387
Customer deposits	433,264	457,094	485,434	515,531
Derivative payables	263	269	274	280
Debt equivalents	353	318	286	257
Other liabilities	35,878	42,339	53,138	70,695
Total liabilities	483,216	514,391	554,477	603,149
Shareholders' funds	57,335	59,342	61,453	63,671
Minority interest - accumulated	2,311	2,317	2,323	2,329
Total equity & liabilities	542,863	576,050	618,254	669,150

OPERATING RATIOS

Year to 31 Dec (%)	2024	2025F	2026F	2027F
Capital Adequacy				
Tier-1 CAR	14.3	15.1	15.2	14.5
Total CAR	14.3	17.1	17.2	16.4
Total assets/equity (x)	9.5	9.7	10.1	10.5
Tangible assets/tangible common equity (x)	9.9	10.2	10.6	11.1
Asset Quality				
NPL ratio	0.5	0.5	0.5	0.5
Loan loss coverage	166.2	183.3	233.6	262.6
Loan loss reserve/gross loans	0.9	1.0	1.1	1.2
Increase in NPLs	(4.7)	5.2	(4.9)	5.6
Credit cost (bp)	11.6	4.0	4.0	4.0
Liquidity				
Loan/deposit ratio	97.0	97.6	97.8	97.9
Liquid assets/short-term liabilities	7.1	7.1	6.9	6.7
Liquid assets/total assets	5.8	5.8	5.6	5.3

KEY METRICS

Year to 31 Dec (%)	2024	2025F	2026F	2027F
Growth				
Net interest income, yoy chg	4.4	4.8	6.5	6.4
Fees & commissions, yoy chg	12.2	6.0	5.0	5.0
Pre-provision profit, yoy chg	5.5	3.6	5.4	5.4
Net profit, yoy chg	7.0	5.6	5.6	5.5
Net profit (adj.), yoy chg	(0.3)	5.6	5.6	5.5
Customer loans, yoy chg	6.5	6.1	6.4	6.4
Customer deposits, yoy chg	4.9	5.5	6.2	6.2
Profitability				
Net interest margin	2.2	2.2	2.2	2.2
Cost/income ratio	34.5	35.4	35.7	36.0
Adjusted ROA	1.3	1.3	1.4	1.3
Reported ROE	12.4	12.7	12.9	13.1
Adjusted ROE	12.4	12.7	12.9	13.1
Valuation				
P/BV (x)	1.4	1.4	1.3	1.3
P/NTA (x)	1.5	1.5	1.4	1.4
Adjusted P/E (x)	11.5	10.9	10.3	9.8
Dividend Yield	4.5	5.5	5.8	6.1
Payout ratio	51.8	60.0	60.0	60.0

Disclosures/Disclaimers

This report is prepared by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser in Singapore.

This report is provided for information only and is not an offer or a solicitation to deal in securities or to enter into any legal relations, nor an advice or a recommendation with respect to such securities.

This report is prepared for general circulation. It does not have regard to the specific investment objectives, financial situation and the particular needs of any recipient hereof. Advice should be sought from a financial adviser regarding the suitability of the investment product, taking into account the specific investment objectives, financial situation or particular needs of any person in receipt of the recommendation, before the person makes a commitment to purchase the investment product.

This report is confidential. This report may not be published, circulated, reproduced or distributed in whole or in part by any recipient of this report to any other person without the prior written consent of UOBKH. This report is not directed to or intended for distribution to or use by any person or any entity who is a citizen or resident of or located in any locality, state, country or any other jurisdiction as UOBKH may determine in its absolute discretion, where the distribution, publication, availability or use of this report would be contrary to applicable law or would subject UOBKH and its connected persons (as defined in the Financial Advisers Act, Chapter 110 of Singapore) to any registration, licensing or other requirements within such jurisdiction.

The information or views in the report ("Information") has been obtained or derived from sources believed by UOBKH to be reliable. However, UOBKH makes no representation as to the accuracy or completeness of such sources or the Information and UOBKH accepts no liability whatsoever for any loss or damage arising from the use of or reliance on the Information. UOBKH and its connected persons may have issued other reports expressing views different from the Information and all views expressed in all reports of UOBKH and its connected persons are subject to change without notice. UOBKH reserves the right to act upon or use the Information at any time, including before its publication herein.

Except as otherwise indicated below, (1) UOBKH, its connected persons and its officers, employees and representatives may, to the extent permitted by law, transact with, perform or provide broking, underwriting, corporate finance-related or other services for or solicit business from, the subject corporation(s) referred to in this report; (2) UOBKH, its connected persons and its officers, employees and representatives may also, to the extent permitted by law, transact with, perform or provide broking or other services for or solicit business from, other persons in respect of dealings in the securities referred to in this report or other investments related thereto; (3) the officers, employees and representatives of UOBKH may also serve on the board of directors or in trustee positions with the subject corporation(s) referred to in this report. (All of the foregoing is hereafter referred to as the "Subject Business"); and (4) UOBKH may otherwise have an interest (including a proprietary interest) in the subject corporation(s) referred to in this report.

As of the date of this report, no analyst responsible for any of the content in this report has any proprietary position or material interest in the securities of the corporation(s) which are referred to in the content they respectively author or are otherwise responsible for.

IMPORTANT DISCLOSURES FOR U.S. PERSONS

This research report was prepared by UOBKH, a company authorized, as noted above, to engage in securities activities in Singapore. UOBKH is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution by UOBKH (whether directly or through its US registered broker dealer affiliate named below) to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"). All US persons that receive this document by way of distribution from or which they regard as being from UOBKH by their acceptance thereof represent and agree that they are a major institutional investor and understand the risks involved in executing transactions in securities.

Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through UOB Kay Hian (U.S.) Inc ("UOBKHUS"), a registered broker-dealer in the United States. Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through UOBKH.

UOBKHUS accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to and intended to be received by a U.S. person other than a major U.S. institutional investor.

The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA") and may not be an associated person of UOBKHUS and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

Analyst Certification/Regulation AC

Each research analyst of UOBKH who produced this report hereby certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject corporation(s) and securities in this report; (2) the report was produced independently by him/her; (3) he/she does not carry out, whether for himself/herself or on behalf of UOBKH or any other person, any of the Subject Business involving any of the subject corporation(s) or securities referred to in this report; and (4) he/she has not received and will not receive any compensation that is directly or indirectly related or linked to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. However, the compensation received by each such research analyst is based upon various factors, including UOBKH's total revenues, a portion of which are generated from UOBKH's business of dealing in securities.

Reports are distributed in the respective countries or jurisdictions by the respective entities and are subject to the additional restrictions listed in the following table.

General	This report is not intended for distribution, publication to or use by any person or entity who is a citizen or resident of or located in any country or jurisdiction where the distribution, publication or use of this report would be contrary to applicable law or regulation.
Hong Kong	This report is distributed in Hong Kong by UOB Kay Hian (Hong Kong) Limited ("UOBKHHK"), which is regulated by the Securities and Futures Commission of Hong Kong. Neither the analyst(s) preparing this report nor his associate, has trading and financial interest and relevant relationship specified under Para. 16.4 of Code of Conduct in the listed corporation covered in this report. UOBKHHK does not have financial interests and business relationship specified under Para. 16.5 of Code of Conduct with the listed corporation covered in this report. Where the report is distributed in Hong Kong and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKHHK (and not the relevant foreign research house) in Hong Kong in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Hong Kong who is not a professional investor, or institutional investor, UOBKHHK accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Indonesia	This report is distributed in Indonesia by PT UOB Kay Hian Sekuritas, which is regulated by Financial Services Authority of Indonesia ("OJK"). Where the report is distributed in Indonesia and contains research analyses or reports from a foreign research house, please note recipients of the analyses or reports are to contact PT UOBKH (and not the relevant foreign research house) in Indonesia in respect of any matters arising from, or in connection with, the analysis or report.
Malaysia	Where the report is distributed in Malaysia and contains research analyses or reports from a foreign research house, the recipients of the analyses or reports are to contact UOBKHM (and not the relevant foreign research house) in Malaysia, at +603-21471988, in respect of any matters arising from, or in connection with, the analysis or report as UOBKHM is the registered person under CMSA to distribute any research analyses in Malaysia.
Singapore	This report is distributed in Singapore by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser regulated by the Monetary Authority of Singapore. Where the report is distributed in Singapore and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKH (and not the relevant foreign research house) in Singapore in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Singapore who is not an accredited investor, expert investor or institutional investor, UOBKH accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Thailand	This report is distributed in Thailand by UOB Kay Hian Securities (Thailand) Public Company Limited, which is regulated by the Securities and Exchange Commission of Thailand.
United Kingdom	This report is being distributed in the UK by UOB Kay Hian (U.K.) Limited, which is an authorised person in the meaning of the Financial Services and Markets Act and is regulated by The Financial Conduct Authority. Research distributed in the UK is intended only for institutional clients.
United States of America ('U.S.')	This report cannot be distributed into the U.S. or to any U.S. person or entity except in compliance with applicable U.S. laws and regulations. It is being distributed in the U.S. by UOB Kay Hian (US) Inc, which accepts responsibility for its contents. Any U.S. person or entity receiving this report and wishing to effect transactions in any securities referred to in the report should contact UOB Kay Hian (US) Inc. directly.

Copyright 2025, UOB Kay Hian Pte Ltd. All rights reserved.

<http://research.uobkayhian.com>

RCB Regn. No. 197000447W