

26 October 2018 | 3QFY18 Results Review

## Public Bank Berhad

*Mortgages still the driver*

### INVESTMENT HIGHLIGHTS

- **No earnings surprise**
- **Net profit driven by Islamic Banking income and lower provisions**
- **NIM pressure persisted**
- **Asset quality remains stable as always**
- **No change to FY18 and FY19 forecast**
- **Maintain BUY with unchanged TP of RM27.30 based on pegging FY19 BVPS to 2.4x**

**No major surprise in earnings.** The Group's 9MFY18 net profit came in within ours and consensus' expectations at 72.3% and 73.1% of respective full year estimates. The earnings grew +5.0%yoy due to strong expansion in Islamic Banking income and lower provisions.

**Net income driven by Islamic Banking.** Net income in 9MFY18 grew +2.2%yoy driven by +6.4%yoy expansion in Islamic Banking income. NOII for 9MFY18 was flat owing to lower gains on financial instruments (-45.2%yoy to RM43.5m) and lower forex income (-14.9%yoy to RM206.0m), which negated the growth in unit trust fee income (+6.0%yoy to RM710.6m). Meanwhile, NII rose at a slower pace of +2.3%yoy (vs. +3.1%yoy in 1HFY18) as 3QFY18 NII increased by +0.7%yoy only. This was due to the NIM compression of -8bps yoy.

**NIM pressure continues.** We believe that the NIM compression in 3QFY18 was due to deposit repricing. Interest expense grew +13.0%yoy to RM2.27b. However, we do not believe that there was undue deposits competition that could affect NIM. We opine that one indicator for competition will be growth in FD. However, FD as at 3QFY18 grew +3.4%yoy to RM194.4b as oppose to total deposits rise of +3.8%yoy to RM334.9b and CASA growth of +4.1%yoy to RM85.4b.

**Better recoveries led to lower provisions.** Provisions fell by -24.9%yoy in the 9MFY18. This was due to better recoveries as it went up by +15.3%yoy to RM190.3m.

**Conservative lending ensure good asset quality.** Total gross loans as at 3QFY18 expanded +4.4%yoy to RM314.5b. The steady loans growth was supported by retail loans (housing, credit cards and others) which grew +5.9%yoy to RM217.8b. More specifically, mortgages expanded +8.5%yoy to RM109.9b. Meanwhile, domestic retail loans grew +5.5%yoy to RM202.0b, whereby mortgages grew +9.0%yoy to RM108.2b. We believe that the Group's conservatism is positive as it ensures good asset quality. GIL ratio was steady at 0.5%.

**Maintain BUY**

**Unchanged Target Price (TP): RM27.30**

#### RETURN STATS

Price (25 October 2018)	RM24.90
Target Price	RM27.30
Expected Share Price Return	+9.6%
Expected Dividend Yield	+2.5%
<b>Expected Total Return</b>	<b>+12.1%</b>

#### STOCK INFO

KLCI	1,686.59
Bursa / Bloomberg	1295 / PBK MK
Board / Sector	Main / Finance
Syariah Compliant	No
Issued shares (mil)	3,882.1
Market cap. (RM'm)	96,665.2
Price over NA	2.5x
52-wk price Range	RM19.90 – RM26.16
Beta (against KLCI)	0.81
3-mth Avg Daily Vol	5.35m
3-mth Avg Daily Value	RM131.9m
Major Shareholders	
Consolidated Teh Holdings	22.78%
EPF	12.02%
State Street Corp	3.13%

#### Some banking abbreviations used in this report:


CA = Collective Impairment Allowance
CI = Cost-Income Ratio
CET1 = Common Equity Tier 1
GIL = Gross Impaired Loan
FD = Fixed deposits
LD = Loan-Deposit
NII = Net Interest Income
NOII = Non-interest income
NIM = Net Interest margin
CASA = Current and Savings Accounts
COF = Cost of Funds
OPEX = Operating Expenses
LLC = Loan Loss Coverage
NAV = Net Asset Value

**No issues to reach FY18 targets.** Recall, the Group guided its FY18 targets of: i) ROE of 14-15%, ii) Total capital ratio of >13%, iii) GIL ratio < 1%, iv) CI ratio of 33.0-34.0%, v) Loans growth of 5% (revised to 4-5%) and vi) Deposit growth of 5%. We do not expect the Group will face much difficulty in achieving its FY18 targets.

## FORECASTS

We maintain our FY18 and FY19 forecast given the result were in line with our expectation.

## VALUATION AND RECOMMENDATION

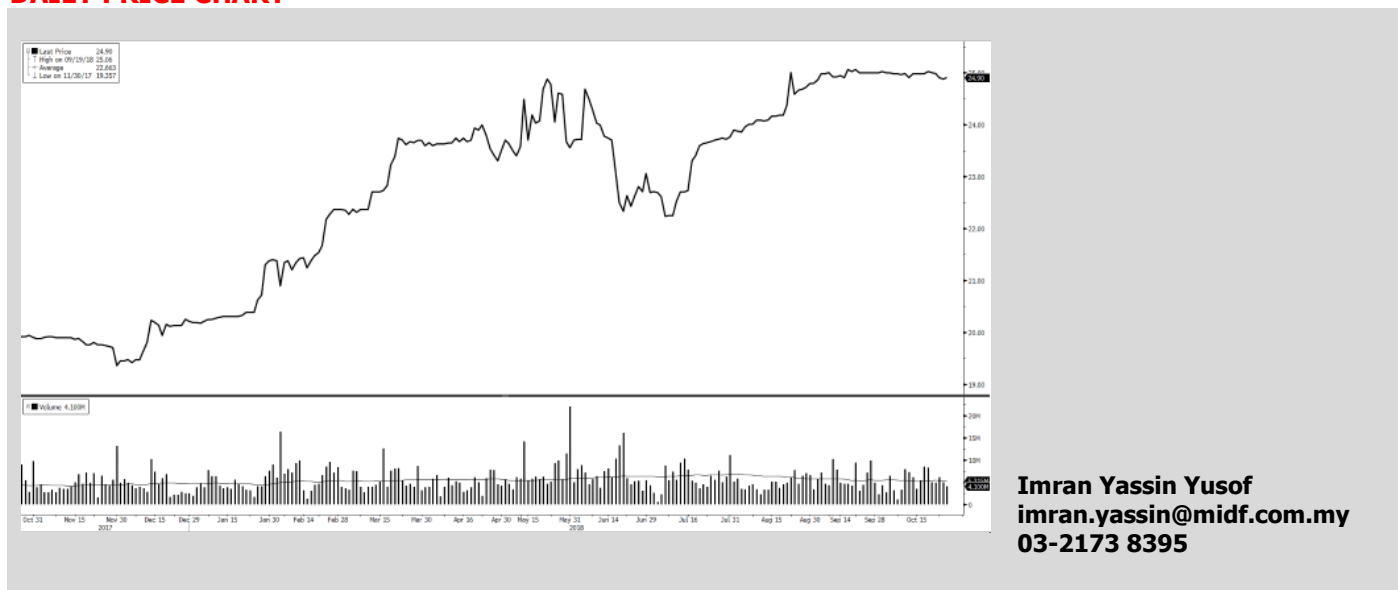
We continue to like the Group's ability to maintain its profitability even though it is at a steadier pace. We believe that the management conservatism bodes well for current period of external uncertainty as its stable asset quality should mean that it will be able to weather any economic shocks. This should give some value for investors looking for stable stocks. Moreover, we believe that the Group will stand to benefit for being retail-centric, especially in the mortgage segment, given there seem to be a focus on affordable housing from the Government. Therefore, we maintain our BUY call for the stock with unchanged TP of RM27.30. Our TP is based on pegging FY19 BVPS to 2.4x PBV which is its 5 year historical PB multiple. 

## INVESTMENT STATISTICS

FYE Dec	FY16	FY17	FY18F	FY19F
Net interest income (RM'm)	6,920	7,417	7,917	8,405
Islamic banking income (RM'm)	942	999	1,049	1,112
Non-interest income (RM'm)	2,094	2,331	2,524	2,642
Total income (RM'm)	9,956	10,747	11,490	12,159
Pretax profit (RM'm)	6,554	7,118	7,486	7,892
Net profit (RM'm)	5,207	5,470	5,787	6,101
Core net profit (RM'm)	5,207	5,470	5,787	6,101
Core EPS (sen)	134.8	141.7	149.9	158.0
Core EPS growth (%)	5.1	5.1	5.8	5.4
PER (x)	18.5	17.6	16.6	15.8
Net dividend (sen)	58	61	63	66
Net dividend yield (%)	2.3	2.4	2.5	2.7
Book value per share (RM)	8.86	9.68	10.69	11.39
PBV (x)	2.8	2.6	2.3	2.2
ROE (%)	15.9	15.3	14.7	14.3

Forecast by MIDFR

## DAILY PRICE CHART



**Table 1: Comparison of quarterly results**

FYE Dec (RM m)	Reported Quarterly results					Comments
	3Q18	2Q18	3Q17	Yoy	Qoq	
Net Interest Income	1,877.5	1,879.7	1,864.2	0.7%	-0.1%	Due to continued NIM compression in the quarter
Islamic Banking Income	265.1	262.6	250.7	5.8%	1.0%	
Non-interest Income	556.2	533.9	608.8	-8.6%	4.2%	Lower gains on financial instruments (-67.3%yoy to RM17.4m)
Net/Total income	2,698.8	2,676.2	2,723.7	-0.9%	0.8%	
OPEX	(889.7)	(898.3)	(845.8)	5.2%	-1.0%	Higher personnel cost (+7.6%yoy to RM628.7m)
PPOP	1,809.0	1,777.8	1,877.9	-3.7%	1.8%	
Provision for loan losses	(48.9)	(17.5)	(85.9)	-43.1%	179.3%	Higher recoveries (+64.5%yoy to RM81.1m)
Pre-tax profit	1,759.8	1,757.7	1,793.0	-1.9%	0.1%	
Taxation	(358.2)	(342.2)	(368.7)	-2.8%	4.7%	
Net Profit (PATAMI)	1,383.7	1,396.2	1,404.8	-1.5%	-0.9%	
EPS (sen)	35.6	36.1	36.4	-2.2%	-1.4%	

**Table 2: Comparison of financial ratios based on reported numbers**

Financial Ratios (%)	3Q18	2Q18	3Q17	Yoy (* /- ppts)	Qoq (* /- ppts)
CET 1* capital	12.6	12.7	11.7	0.9	-0.1
Tier 1* capital	13.2	13.4	12.4	0.8	-0.2
Total* capital	15.8	16.3	15.4	0.4	-0.5
GIL	0.5	0.5	0.5	0	0
LLC	110.2	117.3	98.2	12	-7.1
Credit cost	0.06	0.02	0.11	-0.05	0.04
CI	33.0	33.6	31.1	1.9	-0.6
Net LD ratio	93.4	93.6	93.0	0.4	-0.2
NIM	2.16	2.24	2.24	-0.08	-0.08
ROEA	13.9	14.1	15.65	-1.8	-0.2

\*Group level capital ratio after deduction of interim dividend

**Table 3: Comparison of cumulative results**

Reported Cumulative results				Comments
FYE Dec (RM m)	9MFY18	9MFY17	Yoy	
Net Interest Income	5,654.6	5,529.5	2.3%	Continued NIM compression in 3QFY18
Islamic Banking Inc	793.5	745.9	6.4%	
Other Operating Income	1,684.7	1,684.9	0.0%	Strong income growth from fund management fee moderated the lower net gains on financial instruments
Net/Total income	8,132.8	7,960.2	2.2%	
OPEX	(2,687.3)	(2,614.5)	2.8%	Higher personnel cost (+4.3%yoy to RM1.9b)
PPOP	5,445.5	5,345.7	1.9%	
Provision for loan losses	(134.8)	(179.5)	-24.9%	Higher recoveries
Pre-tax Profit	5,311.4	5,160.4	2.9%	
Tax & zakat	(1,071.6)	(1,118.8)	-4.2%	
Net Profit	4,185.3	3,984.6	5.0%	
EPS (sen)	108.2	103.2	4.8%	
<b>Ratios (%)</b>			<b>(+/- ppts)</b>	
CI	33.0	32.8	0.2	Controlled OPEX vs. higher increase in income
NIM	2.24	2.27	-0.03	Compression in 2QFY18 and 3QFY18
ROEA	14.7	15.4	-0.7	
Credit cost	0.06	0.08	0.0	

**Table 4: Comparison of pretax profits by business segments (RM m)**

Business segments	9MFY18	9MFY17	Change (%)	Comments
Hire purchase	240.0	289.3	-17.0%	Lower NII due to NIM compression and higher loan impairment allowance
Retail operations	2,733.3	2,712.8	0.8%	Higher net writeback of loan impairment allowance and higher NOII. Partially offset by higher OPEX
Corporate Lending	384.0	407.2	-5.7%	Higher loan impairment allowance and lower fee income
Treasury & Capital Market Operations	558.7	526.2	6.2%	Higher NII on treasury gapping, funding and liquidity management activities
Investment Banking	39.1	35.7	9.5%	Higher fee income and better OPEX
Fund Management	509.2	483.4	5.3%	Higher management fee earned on higher average net asset value of funds under management
Overseas Operation	503.2	505.2	-0.4%	Unfavourable impact of forex movements
Others	343.8	200.7	71.3%	Higher NII

Source: Company

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### 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 <i>rise</i> 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	<i>Negative</i> total return is expected, by -10% or more, over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> 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.