

Public Bank Berhad

(1295 | PBK MK) Financial Services | Finance

2QFY23 Results: Steady Earnings

KEY INVESTMENT HIGHLIGHTS

- 6MFY23's Core NP of RM3,333m was *Within/Within* our/*street* forecasts: *47%/49%* of full-year forecasts
- Management's tone: Slightly optimistic
- Core themes: (a) Slower deposit growth, (b) Disappointing NOII figures, (c) Continual uptake in market share
- Forecasts unchanged
- Maintain BUY | Unchanged TP of RM4.76 | based on an unchanged FY24F P/BV of 1.59x

Verdict: PBK remains cheap from a valuation standpoint.

Yays	1. Excellent asset quality, provision writeback likely (though delayed). 2. PBK continues to acquire loan and deposit market share.
Nays	1. NOII recovery has been a bit underwhelming.
OKs	1. OPEX distribution is as smooth as any of its peers.

6MFY23's Core net profit (NP) of RM3,333m is up by 18%yoy.

Improvements were seen in NII, NOII, lower credit costs and tax normalisation. The only underperformer was OPEX.

2QFY23's Core NP of RM1,619m down by -6%qoq. Dragged by both weaker NII and NOII contributions, as well as higher provisions.

Loan growth rose by a healthy +1.5%qoq, while deposits grew by a more muted +0.7%qoq.

Have a look at:

Deposit-wise, taking it easy and focusing on retail. PBK has frontloaded its deposit accumulation into 1QFY23, where it experienced +2.3%qoq growth. Following a slower 2Q, YTD growth is 2.8% -- the target is 4-5% for FY23F (management believes upper bound range will be met).

As always, the Group will be focusing on acquiring cheaper retail segment deposits. Wholesale deposit customers tend to have a bit more bargaining power when setting rates – hence their deposits are a bit on the pricier end.

Disappointing NOII. We were hoping for improving market conditions to provide some unit trust income uplift. Unfortunately, this has been dragged by weaker stockbroking income and MTM losses – proving that PBK's NOII sources remain volatile for now. Fee income also remains underwhelming.

Forecasts unchanged. We make no changes to earnings forecast.

Key downside risks. (1) Higher-than-expected NCC, (2) Weak loan growth, (3) Lacklustre NOII recovery.

Maintain BUY

Unchanged Target Price: RM4.76

RETURN STATISTICS

Price @ 29 August 2023 (RM)	4.14
Expected share price return (%)	+15.0
Expected dividend yield (%)	+4.5
Expected total return (%)	+19.5

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-0.7	-1.0
3 months	6.8	2.1
12 months	-11.2	-8.3

INVESTMENT STATISTICS

FYE Dec	FY23F	FY24F	FY25F
Core NP (RM m)	7,121	7,231	7,331
CNP growth (%)	16	2	1
Div yield (%)	4.4	4.5	4.6
Gross DPS (sen)	18.3	18.6	18.9
P/BV (x)	1.5	1.4	1.3
BVPS (RM)	2.8	3.0	3.2
ROE (%)	13.6	12.9	12.2
MIDF/Street CNP (%)	105	103	100

KEY STATISTICS

FBM KLCI	1,454.44
Issue shares (m)	19,410.7
Estimated free float (%)	55.0
Market Capitalisation (RM'm)	79,777.9
52-wk price range	RM3.78 - RM4.72
3-mth avg daily volume (m)	14.1
3-mth avg daily value (RM'm)	55.9
Top Shareholders (%)	
Consolidated Teh Holdings Sdn Bhd	21.6
EPF Board	15.1
Kumpulan Wang Persaraan Diperbadan	4.1

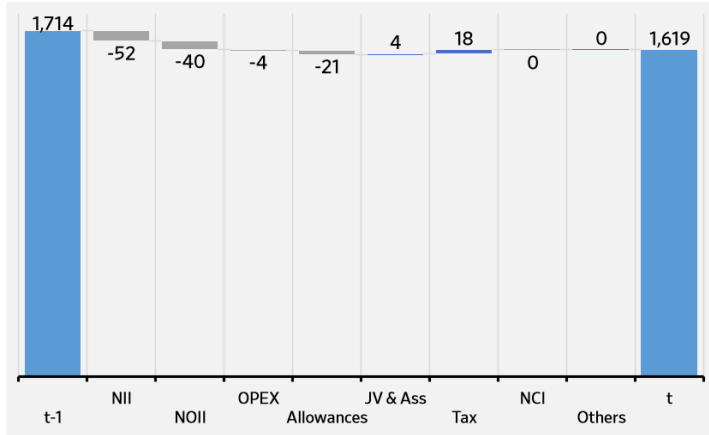
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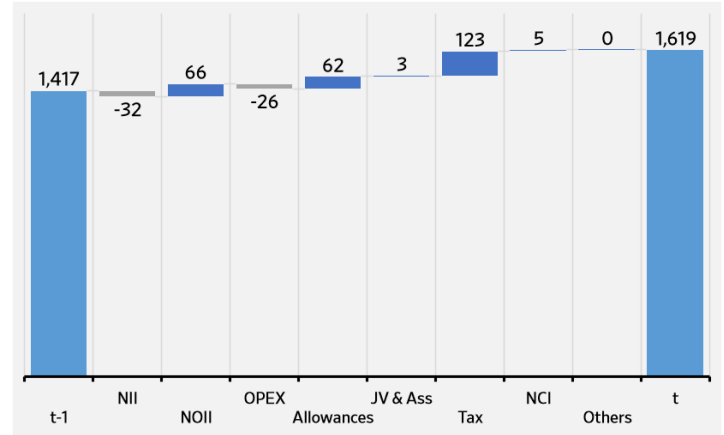
Maintain BUY call: Unchanged GGM-TP of RM 4.76. The TP is based on an unchanged FY24F P/BV of 1.59x. *(GGM assumptions: FY24F ROE of 12.9%, LTG of 3.5% & COE of 9.4%)*

Fig 1: QoQ P/L walk (Quarterly results)



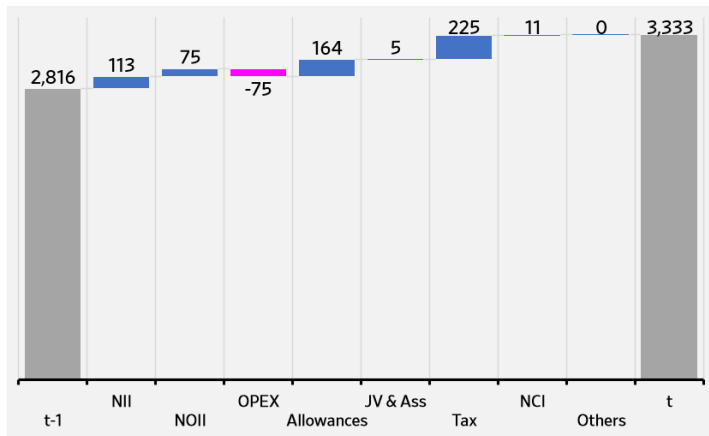
Source: Public Bank, MIDFR

Fig 2: YoY P/L walk (Quarterly results)



Source: Public Bank, MIDFR

Fig 3: YoY P/L walk (Cumulative results)



Source: Public Bank, MIDFR

Fig 4: Quarterly results

FYE Dec (RM m)	2Q FY23	1Q FY23	2Q FY22	Yoy (%)	Qoq (%)	1H FY23	1H FY22	Yoy (%)
Net interest inc.	2,211	2,259	2,218	-0	-2	4,470	4,322	3
Islamic banking inc.	395	397	415	-5	-0	792	817	-3
Non-interest inc.	605	647	545	11	-6	1,252	1,187	5
Net income	3,211	3,303	3,177	1	-3	6,514	6,326	3
OPEX	(1,098)	(1,094)	(1,073)	2	0	(2,192)	(2,117)	4
PPOP	2,113	2,209	2,105	0	-4	4,322	4,209	3
Loan provisions	(24)	(2)	(80)	-70	1,467	(26)	(180)	-86
Other provisions	3	2	(3)	n.m.	n.m.	5	(5)	n.m.
JV & Associates	3	(0)	0	n.m.	n.m.	3	(1)	n.m.
PBT	2,095	2,209	2,023	4	-5	4,304	4,023	7
Tax	(468)	(486)	(591)	-21	-4	(954)	(1,179)	-19
NCI	(9)	(9)	(15)	-37	2	(18)	(29)	-37
Reported NP	1,619	1,714	1,417	14	-6	3,333	2,816	18
Core NP	1,619	1,714	1,417	14	-6	3,333	2,816	18
Total NII	2,583	2,635	2,615	-1	-2	5,218	5,105	2
Total NOII	628	668	562	12	-6	1,296	1,221	6
Gross DPS (sen)	9.0	-	8.0	n.m.	n.m.	9.0	8.0	n.m.
Core EPS (sen)	8.3	8.8	7.3	14	-6	17.2	14.5	18
Gross loans	387,158	381,591	367,965	5.2	1.5			
Gross impaired loans	2,148	1,968	1,066	101.5	9.1			
Customer deposits	406,486	403,660	388,252	4.7	0.7			
CASA	118,118	116,729	123,495	-4.4	1.2			
Ratios (%)	2Q FY23	1Q FY23	2Q FY22	Yoy (ppts)	Qoq (ppts)	1H FY23	1H FY22	Yoy (ppts)
ROE (Ann.)	12.1	13.4	11.2	0.9	-1.2	12.5	11.2	1.3
NIM (Reported)	2.18	2.26	2.29	-0.11	-0.08	2.22	2.26	-0.04
NOII/Net income	19.6	20.2	17.7	1.9	-0.7	19.9	19.3	0.6
Cost/Income	34.2	33.1	33.8	0.4	1.1	33.7	33.5	0.2
NCC (Ann.) (bps)	3	0	9	-6	2	1	10	-9
GIL ratio	0.55	0.52	0.29	0.27	0.04			
Loan loss coverage	199	218	389	-190	-19			
CASA ratio	29.1	28.9	31.8	-2.7	0.1			
L/D ratio	94.2	93.5	93.7	0.5	0.7			
CET-1	14.6	14.6	14.1	0.4	-0.1			

Source: Public Bank, MIDFR

Fig 5: Retrospective performance (Income Statement)

Metric	Surprise? Qoq/Yoy		Metric	Surprise? Qoq/Yoy	
Qtrly Core NP	RM mil	1,619	Qtrly ROE	Qtr value	12.1%
	23% of FY CNP				
	Qoq	-6%		t-1	13.4%
	Yoy	14%		t-4	11.2%
Cum Core NP	RM mil	3,333	Cum ROE	Cum value	12.5%
	Within our forecast				
	47% of FY CNP				
	Within consensus				
	49% of FY CNP				
Yoy	18%	t-1	11.2%		
NII	As expected		NIM	As expected	
				Qtr value	2.18
				Cum value	2.22
	Qtr (Qoq)	-2%		Qtr (Qoq)	-8bps
	Qtr (Yoy)	-1%		Qtr (Yoy)	-11bps
Cum (Yoy)	2%	Cum (Yoy)	-4bps		
NOII	-ve surprise		Qtr	% NII	80%
	Qtr (Qoq)	-6%		% NOII	20%
	Qtr (Yoy)	12%	Cum	% NII	80%
	Cum (Yoy)	6%		% NOII	20%
OPEX	As expected		Cost/ Inc.	As expected	
				Qtr value	34.2%
				Cum value	33.7%
	Qtr (Qoq)	0%		Qtr (Qoq)	+1.1%
	Qtr (Yoy)	2%		Qtr (Yoy)	+0.4%
Cum (Yoy)	4%	Cum (Yoy)	+0.2%		

Source: Public Bank, MIDFR

Notes (Cum = Cumulative, Qtr = Quarterly)

Fairly lacklustre – we were expecting more NOII uplift.

NIM compression was to be expected.

Group had already been guiding for NIM compression within the past quarter.

Disappointing.

While unit trust income did improve qoq, it was dragged by declines in stockbroking income and MTM losses.

As usual, well well-contained.

Unlike its peers, Public Bank has always provided for higher personnel costs – hence their OPEX is a lot smoother.

Fig 6: Retrospective performance (Balance Sheet, Dividends, and anything extra)

Metric	Surprise? Qoq/Yoy		Metric	Surprise? Qoq/Yoy		Notes (Cum = Cumulative, Qtr = Quarterly)
Loans	As expected					Strong, this was to be expected. PBK shouldn't have any issues achieving targets.
	Qoq	1.5%				
	Yoy	5.2%				
	YTD (FY)	2.8%				
Depo. grwth	As expected		CASA grwth	As expected		PBK has already frontloaded in 1Q – it can afford to take it easier this quarter.
	Qoq	0.7%		Qoq	1.2%	
	Yoy	4.7%		Yoy	-4.4%	
	YTD (FY)	3.0%		YTD (FY)	0.1%	
CASA ratio	As expected		L/D ratio	As expected		Minor uptick, but well manageable. Most trouble comes from overseas operations. Housing loans showed some uptick, especially those coming out of PHRA programmes. Nothing else is of major concern. Don't expect any major overlay writebacks in 2HFY23, given the challenging macro environment.
	Value now	29.1%		Value now	94.2%	
	Qoq	+0.1%		Qoq	+0.7%	
	Yoy	-2.7%		Yoy	+0.5%	
GIL ratio	As expected		LLC ratio	As expected		Very healthy.
	Value now	0.55%		Value now	199%	
	Qoq	+4bps		Qoq	-19%	
	Yoy	+27bps		Yoy	-190%	
Qtrly Net CC	As expected		Cum Net CC	As expected		
	Decent provision			Decent provision		
	Value now	3bps		Value now	1bps	
	t-1	0bps				
			t-4	10bps		
CET 1	Healthy level		Div payout	No divvy		
	As expected			As expected		
	Value now	14.6%		Payout	52%	
	Qoq	-0.1%				

Others:

Source: Public Bank, MIDFR

Fig 7: Targets, Achievements, and Outlook

Targets	FY23F	1H FY23	Notes (Red: New guidance, Strikethrough: Guidance is no longer pertinent)
ROE	12-13	12.5	
CIR		33.7	OPEX to experience mid-single-digit growth.
NIM	-10 to -20bps from 2.39	2.22	NIMs to stabilise or show slight improvement in next two quarters.
NOII		6% (yoy)	
Loans	4-5	2.8 (YTD)	The focus is on maintaining market share in residential mortgages and hire-purchases. Working to improve SME market position. Loan growth likely to hit upper end of guidance range.
Deposits	4-5	3.0 (YTD)	
% CASA		29.1	
Loan/Depo		94.2	
GIL ratio		0.55	
NCC (bps)	<10	1	Current overlays: RM1.8b.
LLC		199	Long-term goal: Pre-pandemic's 120% range.
CET 1		14.6	
Div payout	>50	52	Dividend may be split across 3-4 quarters, instead of usual biyearly payout.

Source: Public Bank, MIDFR

FINANCIAL SUMMARY

INCOME STATEMENT

FYE Dec (RM m)	FY21	FY22	FY23F	FY24F	FY25F
Interest income	13,475	14,932	17,219	17,410	17,692
Interest expense	(5,160)	(5,765)	(8,012)	(8,012)	(8,012)
Net interest income	8,315	9,167	9,207	9,398	9,680
Islamic banking inc.	1,614	1,857	1,949	1,989	2,049
Other operating inc.	2,616	2,414	2,711	2,876	2,990
Net income	12,544	13,438	13,867	14,263	14,719
OPEX	(3,965)	(4,235)	(4,368)	(4,493)	(4,636)
PPOP	8,579	9,203	9,499	9,770	10,082
Loan allowances	(1,201)	(366)	(193)	(321)	(502)
Other allowances	(6)	(13)	(11)	(11)	(11)
JV & Associates	(5)	7	5	5	5
PBT	7,367	8,831	9,300	9,443	9,574
Tax & zakat	(1,637)	(2,661)	(2,093)	(2,125)	(2,154)
NCI	(73)	(50)	(86)	(88)	(89)
Reported NP	5,657	6,119	7,121	7,231	7,331
Core NP	5,657	6,119	7,121	7,231	7,331
Total NII	9,793	10,949	10,961	11,189	11,524
Total NOII	2,751	2,489	2,905	3,075	3,195

BALANCE SHEET

FYE Dec (RM m)	FY21	FY22	FY23F	FY24F	FY25F
Cash & ST funds	17,531	21,767	17,935	17,780	17,780
Investment securities	80,431	81,387	77,124	74,525	72,669
Net loans	354,052	372,583	390,709	407,701	424,824
Other IEAs	0	4	4	4	4
Non-IEAs	10,725	17,522	24,608	29,420	34,298
Total assets	462,739	493,263	510,380	529,431	549,575
Customer deposits	380,394	394,719	412,481	429,805	447,857
Other IBLs	25,811	37,989	33,494	31,574	29,996
Non-IBLs	7,108	9,029	8,680	8,471	8,274
Total liabilities	413,314	441,737	454,655	469,851	486,126
Share capital	9,418	9,418	9,418	9,418	9,418
Reserves	38,745	40,762	44,895	48,652	52,424
Shareholders' funds	48,163	50,179	54,313	58,070	61,841
NCI	1,263	1,347	1,412	1,510	1,608
Total equity	49,425	51,526	55,725	59,580	63,449
Total L&E	462,739	493,263	510,380	529,431	549,575
Total IEAs	452,014	475,741	485,771	500,010	515,277
Total IBLs	406,206	432,708	445,975	461,380	477,853
Gross loans	358,027	376,892	393,475	410,001	427,221
CASA	118,001	118,033	115,495	111,749	111,964

FINANCIAL RATIOS

FYE Dec (RM m)	FY21	FY22	FY23F	FY24F	FY25F
Interest (%)					
NIM	2.19	2.36	2.28	2.27	2.27
Return on IEAs	3.02	3.22	3.58	3.53	3.49
Cost of funds	1.29	1.37	1.82	1.77	1.71
Net interest spread	1.73	1.84	1.76	1.77	1.78
Profitability (%)					
ROE	11.9	12.4	13.6	12.9	12.2
ROA	1.2	1.3	1.4	1.4	1.4
NOII/Net income	21.9	18.5	21.0	21.6	21.7
Effective tax rate	22.2	30.1	22.5	22.5	22.5
Cost/Income	31.6	31.5	31.5	31.5	31.5
Liquidity (%)					
Loan/Deposit	93.1	94.4	94.7	94.9	94.9
CASA ratio	31.0	29.9	28.0	26.0	25.0
Asset Quality (%)					
GIL ratio	0.31	0.42	0.37	0.33	0.33
LLC ratio	361	272	190	170	170
LLC (w. reserves)	383	292	213	205	203
Net CC (bps)	34	10	5	8	12
Capital (%)					
CET 1	15.0	14.9	14.4	13.7	13.1
Tier 1 capital	15.1	14.9	14.4	13.7	13.1
Total capital	18.2	17.9	17.4	16.8	16.1
Growth (%)					
Total NII	17.9	11.8	0.1	2.1	3.0
Total NOII	-8.5	-9.5	16.7	5.8	3.9
Net income	15.8	10.2	0.4	2.1	3.0
OPEX	1.4	6.8	3.1	2.9	3.2
Core NP	16.1	8.2	16.4	1.5	1.4
Gross loans	3.6	5.3	4.4	4.2	4.2
Customer deposits	4.0	3.8	4.5	4.2	4.2
CASA	11.7	0.0	-2.2	-3.2	0.2
Valuation metrics					
Core EPS (sen)	29.1	31.5	36.7	37.3	37.8
Gross DPS (sen)	15.2	17.0	18.3	18.6	18.9
Div payout (%)	52	54	50	50	50
BVPS (RM)	2.5	2.6	2.8	3.0	3.2
Core P/E (x)	14.2	13.1	11.3	11.1	11.0
Div yield (%)	3.7	4.1	4.4	4.5	4.6
P/BV (x)	1.7	1.6	1.5	1.4	1.3

Source: Public Bank, MIDFR

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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	Total return is expected to be <-10% 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.

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