

## Public Bank Berhad

(1295 | PBK MK) Financial Services | Finance

### 3QFY23 Results: Forex Gains Drive NOII

#### KEY INVESTMENT HIGHLIGHTS

- 9MFY23's Core NP of RM3,333m was *Below/Within* our/*street* forecasts: **47%/49%** of full-year forecasts
- Management's tone: **Neutral**
- Core themes: (a) Possible downside to loan growth, (b) NOII unsustainable, (c) Dividend payout increase
- Forecasts revised: FY23F/24F/25F Core NP adjusted by **-3%/-1%/-1%**.
- **Maintain BUY**, with revised TP of **RM4.69**, based on a revised FY24F P/BV of **1.58x** (*previously 1.59x*)

**Verdict: Still a great pick, but core rerating drivers are shrouded in uncertainty.**

Yays	<ol style="list-style-type: none"> <li>1. Sizeable overlay writeback is still very likely in FY24.</li> <li>2. Great cost control and CIR.</li> <li>3. Defensive pick.</li> <li>4. Dividend payouts have been gradually growing over the last few years, sustainable at &gt;50% now.</li> </ol>
Nays	<ol style="list-style-type: none"> <li>1. Possible downside to loan growth in next few quarters, given strict focus on profitability and asset quality.</li> </ol>
OKs	<ol style="list-style-type: none"> <li>1. Core rerating driver is certainty about shareholders and return of foreign investors – both hard to predict.</li> <li>2. NOII may not be as good in FY24.</li> </ol>

#### Results in a nutshell:

▲ **9MFY23's Core net profit (NP) of RM3,333m up by +18%yoy.** Largely driven by tax normalisation, improved NOII and provisioning. Earnings came below expectations – stronger NII figures.

▲ **3QFY23's Core NP of RM1,619m up by -6%qoq.** Observe improvement in both NII and NOII offsetting increased provisions and OPEX.

▲ **Gross loans grew by +1.5%qoq, coming up to +2.8%YTD.**

▶ **Deposits grew by +0.7%qoq, coming up to +3.0%YTD.** The Group has frontloaded deposits in 1HFY23.

▶ **GIL moved by +4bps to 0.55%, LLC currently at 199%.**

#### Have a look at:

▶ **Potentially lacklustre loan growth in subsequent quarters.** PBK is retaining its FY23 guidance of 5%yoy - when its YTD growth has already reached 4.5%. Residential mortgages, one of its core drivers, have been reporting thin margins. Management prioritises ROE, asset quality and low provisioning, and is thus willing to give up market share to preserve them. We may see an uptick in SME growth, but we doubt it will be able to offset the decline in mortgage volumes. Corporate lending is expected to remain prudent. Funding doesn't seem too severe an issue for now, given PBK's extensive deposit franchise and still healthy LCR.

## Maintain BUY

**Revised Target Price: RM4.69**

(Previously RM4.76)

#### RETURN STATISTICS

Price @ 30 November 2023 (RM)	4.24
Expected share price return (%)	+10.6
Expected dividend yield (%)	+4.6
Expected total return (%)	+15.2

#### SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	1.9	1.4
3 months	4.7	3.0
12 months	-3.6	-1.8

#### INVESTMENT STATISTICS

FYE Dec	FY23F	FY24F	FY25F
<b>Core NP (RM m)</b>	<b>6,909</b>	<b>7,160</b>	<b>7,256</b>
CNP growth (%)	13	4	1
<b>Div yield (%)</b>	<b>4.4</b>	<b>4.6</b>	<b>4.7</b>
Gross DPS (sen)	18.5	19.6	19.8
<b>P/BV (x)</b>	<b>1.5</b>	<b>1.4</b>	<b>1.3</b>
BVPS (RM)	2.8	3.0	3.1
<b>ROE (%)</b>	<b>13.3</b>	<b>12.8</b>	<b>12.2</b>
MIDF/Street CNP (%)	102	101	99

#### KEY STATISTICS

FBM KLCI	1,466.07
Issue shares (m)	19,410.7
Estimated free float (%)	54.4
Market Capitalisation (RM'm)	82,495.4
52-wk price range	RM3.78 - RM4.55
3-mth avg daily volume (m)	13.0
3-mth avg daily value (RM'm)	54.4
Top Shareholders (%)	
Consolidated Teh Holdings Sdn Bhd	21.6
EPF Board	15.7
Kumpulan Wang Persaraan Diperbadan	4.1

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- ▶ **NOII uplift likely unsustainable.** PBK managed to retain an impressive quarterly NOII figure, largely due to non-operational forex income – which is non-recurring.
- ▶ **Bucking the trend by posting a qoq decline in CASA balances.** PBK reported a CASA decline of -1.3%%qoq – possibly the first bank (so far) to report a sequential-quarter drop. Do note it still retains CASA a lot better than its peers – as evidenced by its current CASA ratio compared to pre-pandemic times.
- ▶ **GIL ratio creeps up slowly, still not entirely out of the woods.** Management has pointed out that a notable increase in residential mortgage GILs in the quarter (in comparison to peers, who have seen stability) was likely due to RA programme structure, leading to the recognition of impairments being more delayed than its peers.

Management has also highlighted further Hong Kong and Vietnam-related impairments are expected.

▲ **Gradual increases in dividend payout.** PBK has been gradually increasing its payout from 50% to ~52% as of late. Management has confirmed that such increases are sustainable, and the Group will continue increasing the payout gradually.

**Forecasts revised: FY23F/24F/25F Core NP adjusted by -3%/-1%/-1%.** To reflect lower fee income growth.

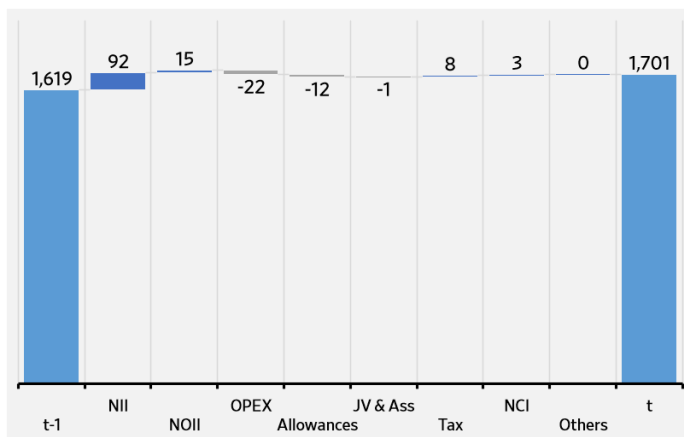
**Key downside risks.** (1) Lower-than-expected loan growth, (2) Steep NIM decline, (3) Elevated OPEX figures.

**Maintain BUY call: Revised GGM-TP of RM 4.69 (from RM4.76).** The TP is based on a revised FY24F P/BV of 1.58x (previously 1.59x), to reflect altered earnings prospects and ROE-based valuations.

**(GGM assumptions: FY24F ROE of 12.8%, LTG of 3.5% & COE of 9.4%)**

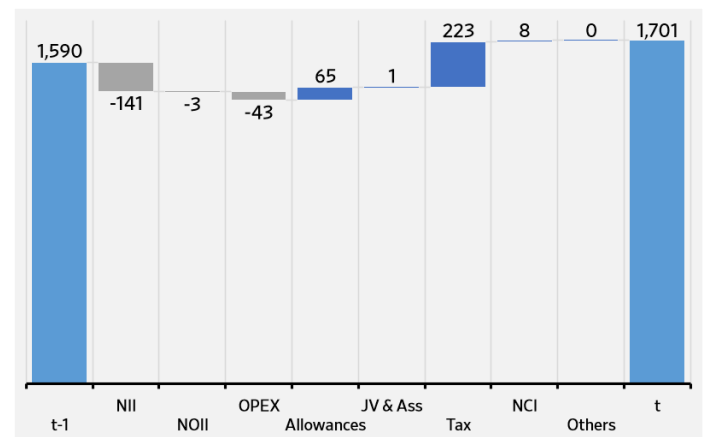


Fig 1: QoQ P/L walk (Quarterly results)



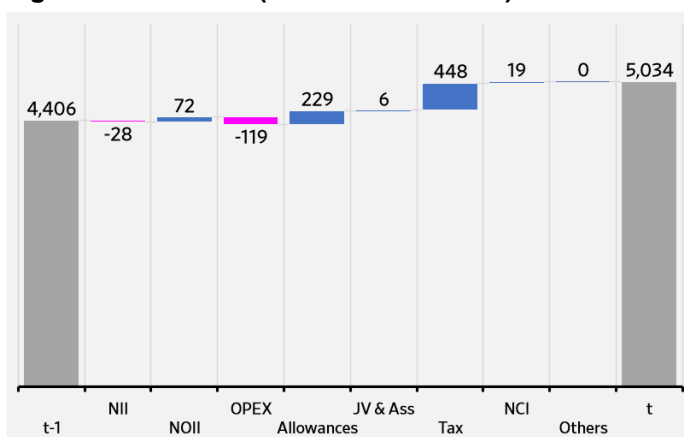
Source: Public Bank, MIDFR

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)	3Q FY23	2Q FY23	3Q FY22	Yoy (%)	Qoq (%)	9M FY23	9M FY22	Yoy (%)
Net interest inc.	2,285	2,211	2,387	-4	3	6,755	6,709	1
Islamic banking inc.	411	395	449	-8	4	1,203	1,266	-5
Non-interest inc.	622	605	626	-1	3	1,874	1,813	3
<b>Net income</b>	<b>3,318</b>	<b>3,211</b>	<b>3,462</b>	<b>-4</b>	<b>3</b>	<b>9,832</b>	<b>9,788</b>	<b>0</b>
OPEX	(1,121)	(1,098)	(1,078)	4	2	(3,313)	(3,195)	4
<b>PPOP</b>	<b>2,197</b>	<b>2,113</b>	<b>2,384</b>	<b>-8</b>	<b>4</b>	<b>6,519</b>	<b>6,593</b>	<b>-1</b>
Loan provisions	(34)	(24)	(96)	-65	40	(60)	(276)	-78
Other provisions	1	3	(2)	n.m.	n.m.	6	(7)	n.m.
JV & Associates	3	3	1	n.m.	n.m.	6	(0)	n.m.
<b>PBT</b>	<b>2,167</b>	<b>2,095</b>	<b>2,287</b>	<b>-5</b>	<b>3</b>	<b>6,471</b>	<b>6,311</b>	<b>3</b>
Tax	(460)	(468)	(683)	-33	-2	(1,413)	(1,861)	-24
NCI	(6)	(9)	(14)	-58	-37	(24)	(43)	-44
<b>Reported NP</b>	<b>1,701</b>	<b>1,619</b>	<b>1,590</b>	<b>7</b>	<b>5</b>	<b>5,034</b>	<b>4,406</b>	<b>14</b>
<b>Core NP</b>	<b>1,701</b>	<b>1,619</b>	<b>1,590</b>	<b>7</b>	<b>5</b>	<b>5,034</b>	<b>4,406</b>	<b>14</b>
Total NII	2,675	2,583	2,816	-5	4	7,893	7,921	-0
Total NOII	643	628	646	-0	2	1,939	1,867	4
<b>Gross DPS (sen)</b>	<b>-</b>	<b>9.0</b>	<b>4.0</b>	<b>n.m.</b>	<b>n.m.</b>	<b>9.0</b>	<b>12.0</b>	<b>n.m.</b>
Core EPS (sen)	8.8	8.3	8.2	7	5	25.9	22.7	14
Gross loans	393,580	387,158	373,577	5.4	1.7			
Gross impaired loans	2,282	2,148	1,251	82.4	6.2			
Customer deposits	408,627	406,486	393,308	3.9	0.5			
CASA	116,576	118,118	120,800	-3.5	-1.3			
<b>Ratios (%)</b>	<b>3Q FY23</b>	<b>2Q FY23</b>	<b>3Q FY22</b>	<b>Yoy (ppts)</b>	<b>Qoq (ppts)</b>	<b>9M FY23</b>	<b>9M FY22</b>	<b>Yoy (ppts)</b>
<b>ROE (Ann.)</b>	<b>12.8</b>	<b>12.1</b>	<b>12.9</b>	<b>-0.1</b>	<b>0.6</b>	<b>12.6</b>	<b>11.9</b>	<b>0.7</b>
<b>NIM (Reported)</b>	<b>2.21</b>	<b>2.18</b>	<b>2.42</b>	<b>-0.21</b>	<b>0.03</b>	<b>2.22</b>	<b>2.32</b>	<b>-0.10</b>
NOII/Net income	19.4	19.6	18.7	0.7	-0.2	19.7	19.1	0.7
Cost/Income	33.8	34.2	31.1	2.6	-0.4	33.7	32.6	1.1
NCC (Ann.) (bps)	4	3	11	-7	1	2	10	-8
GIL ratio	0.58	0.55	0.33	0.24	0.03			
Loan loss coverage	231	199	339	-109	32			
CASA ratio	28.5	29.1	30.7	-2.2	-0.5			
L/D ratio	95.3	94.2	93.9	1.4	1.1			
CET-1	14.5	14.6	14.0	0.5	-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	1,701	Qtrly ROE	Qtr value	12.8%
	24% of FY CNP				
	Qoq	5%		t-1	12.1%
	Yoy	7%		t-4	12.9%
Cum Core NP	RM mil	5,034	Cum ROE	Cum value	12.6%
	Below our forecast				
	71% of FY CNP				
	Within consensus				
	75% of FY CNP				
Yoy	14%	t-1	11.9%		
NII	As expected		NIM	As expected	
				Qtr value	2.21
				Cum value	2.22
	Qtr (Qoq)	4%		Qtr (Qoq)	+3bps
	Qtr (Yoy)	-5%		Qtr (Yoy)	-21bps
Cum (Yoy)	-0%	Cum (Yoy)	-10bps		
NOII	As expected		Qtr	% NII	81%
	Qtr (Qoq)	2%		% NOII	19%
	Qtr (Yoy)	-0%	Cum	% NII	80%
	Cum (Yoy)	4%		% NOII	20%
OPEX	As expected		Cost/ Inc.	As expected	
				Qtr value	33.8%
				Cum value	33.7%
	Qtr (Qoq)	2%		Qtr (Qoq)	-0.4%
	Qtr (Yoy)	4%		Qtr (Yoy)	+2.6%
Cum (Yoy)	4%	Cum (Yoy)	+1.1%		

Source: Public Bank, MIDFR

Notes (Cum = Cumulative, Qtr = Quarterly)

We were expecting stronger NII and NOII figures.

Uplift from May-23 OPR hike has benefited NIMs this quarter.

Forex income drove NOII this quarter – but these were non-recurring.

Good cost control.

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					Good loan growth.
	Qoq	1.7%				
	Yoy	5.4%				
	YTD (FY)	4.5%				
Depo. grwth	As expected		CASA grwth	-ve surprise		PBK has already frontloaded deposits in 1HFY23, hence we were expecting a lower figure.
	Qoq	0.5%		Qoq	-1.3%	
	Yoy	3.9%		Yoy	-3.5%	
	YTD (FY)	3.5%		YTD (FY)	-1.2%	
CASA ratio	As expected		L/D ratio	As expected		
	Value now	28.5%		Value now	95.3%	
	Qoq	-0.5%		Qoq	+1.1%	
	Yoy	-2.2%		Yoy	+1.4%	
GIL ratio	As expected		LLC ratio	As expected		Upward creep was nothing particularly concerning.
	Value now	0.58%		Value now	187%	
	Qoq	+3bps		Qoq	-12%	
	Yoy	+24bps		Yoy	-153%	
Qtrly Net CC	As expected		Cum Net CC	As expected		
	Decent provision			Decent provision		
	Value now	4bps		Value now	2bps	
	t-1	3bps				
			t-4	10bps		
CET 1	Healthy level		Div payout	No divvy		Healthy.
	As expected			As expected		
	Value now	14.5%		Payout	-	
	Qoq	-0.1%				

## Others:

Source: Public Bank, MIDFR

Fig 7: Targets, Achievements, and Outlook

Targets	FY23F	9M FY23	Notes (Red: New guidance, Strikethrough: Guidance is no longer pertinent)
ROE	12-13	12.6	
CIR		33.7	OPEX to experience mid-single-digit growth.
NIM	-10-20bps from 2.39	2.22	NIMs to remain stable in 4Q.
NOII		4% (yoy)	
Loans	4-5	4.5 (YTD)	
Deposits	4-5	3.5 (YTD)	
% CASA		28.5	
Loan/Depo		95.3	LCR is the preferred measure of liquidity.
GIL ratio		0.58	
NCC (bps)	<10	2	Current overlays: RM1.8b.
LLC		231	Long-term goal: Pre-pandemic's 120% range.
CET 1		14.5	
Div payout	>50	-	The Group has been gradually increasing its payout over several years – we think >52% is sustainable.

Source: Public Bank, MIDFR

## FINANCIAL SUMMARY

## INCOME STATEMENT

FYE Dec (RM m)	FY21	FY22	FY23F	FY24F	FY25F
Interest income	13,475	14,932	17,019	17,497	17,782
Interest expense	(5,160)	(5,765)	(8,012)	(8,012)	(8,012)
<b>Net interest income</b>	<b>8,315</b>	<b>9,167</b>	<b>9,007</b>	<b>9,485</b>	<b>9,770</b>
Islamic banking inc.	1,614	1,857	1,906	2,007	2,068
Other operating inc.	2,616	2,414	2,551	2,644	2,749
<b>Net income</b>	<b>12,544</b>	<b>13,438</b>	<b>13,464</b>	<b>14,136</b>	<b>14,587</b>
OPEX	(3,965)	(4,235)	(4,241)	(4,453)	(4,595)
<b>PPOP</b>	<b>8,579</b>	<b>9,203</b>	<b>9,223</b>	<b>9,683</b>	<b>9,992</b>
Loan allowances	(1,201)	(366)	(194)	(326)	(510)
Other allowances	(6)	(13)	(11)	(11)	(11)
JV & Associates	(5)	7	5	5	5
<b>PBT</b>	<b>7,367</b>	<b>8,831</b>	<b>9,023</b>	<b>9,351</b>	<b>9,476</b>
Tax & zakat	(1,637)	(2,661)	(2,030)	(2,104)	(2,132)
NCI	(73)	(50)	(84)	(87)	(88)
<b>Reported NP</b>	<b>5,657</b>	<b>6,119</b>	<b>6,909</b>	<b>7,160</b>	<b>7,256</b>
<b>Core NP</b>	<b>5,657</b>	<b>6,119</b>	<b>6,909</b>	<b>7,160</b>	<b>7,256</b>
Total NII	9,793	10,949	10,723	11,291	11,631
Total NOII	2,751	2,489	2,742	2,845	2,956

## 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	395,191	412,251	429,713
Other IEAs	0	4	4	4	4
Non-IEAs	10,725	17,522	23,823	28,476	32,926
<b>Total assets</b>	<b>462,739</b>	<b>493,263</b>	<b>514,076</b>	<b>533,036</b>	<b>553,092</b>
Customer deposits	380,394	394,719	416,428	433,918	452,143
Other IBLs	25,811	37,989	33,494	31,574	29,996
Non-IBLs	7,108	9,029	8,680	8,471	8,274
<b>Total liabilities</b>	<b>413,314</b>	<b>441,737</b>	<b>458,602</b>	<b>473,964</b>	<b>490,412</b>
Share capital	9,418	9,418	9,418	9,418	9,418
Reserves	38,745	40,762	44,651	48,158	51,674
<b>Shareholders' funds</b>	<b>48,163</b>	<b>50,179</b>	<b>54,068</b>	<b>57,575</b>	<b>61,092</b>
NCI	1,263	1,347	1,406	1,497	1,588
<b>Total equity</b>	<b>49,425</b>	<b>51,526</b>	<b>55,474</b>	<b>59,072</b>	<b>62,680</b>
<b>Total L&amp;E</b>	<b>462,739</b>	<b>493,263</b>	<b>514,076</b>	<b>533,036</b>	<b>553,092</b>
Total IEAs	452,014	475,741	490,253	504,560	520,166
Total IBLs	406,206	432,708	449,922	465,493	482,138
Gross loans	358,027	376,892	399,505	416,285	433,769
CASA	118,001	118,033	116,600	112,819	113,036

## FINANCIAL RATIOS

FYE Dec (RM m)	FY21	FY22	FY23F	FY24F	FY25F
<b>Interest (%)</b>					
NIM	2.19	2.36	2.22	2.27	2.27
Return on IEAs	3.02	3.22	3.52	3.52	3.47
Cost of funds	1.29	1.37	1.82	1.75	1.69
Net interest spread	1.73	1.84	1.71	1.77	1.78
<b>Profitability (%)</b>					
<b>ROE</b>	<b>11.9</b>	<b>12.4</b>	<b>13.3</b>	<b>12.8</b>	<b>12.2</b>
ROA	1.2	1.3	1.4	1.4	1.3
NOII/Net income	21.9	18.5	20.4	20.1	20.3
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
<b>Liquidity (%)</b>					
Loan/Deposit	93.1	94.4	94.9	95.0	95.0
CASA ratio	31.0	29.9	28.0	26.0	25.0
<b>Asset Quality (%)</b>					
GIL ratio	0.31	0.42	0.60	0.57	0.55
LLC ratio	361	272	180	170	170
LLC (w. reserves)	383	292	194	190	190
Net CC (bps)	34	10	5	8	12
<b>Capital (%)</b>					
CET 1	15.0	14.9	14.3	13.6	13.0
Tier 1 capital	15.1	14.9	14.3	13.7	13.0
Total capital	18.2	17.9	17.3	16.6	16.0
<b>Growth (%)</b>					
Total NII	17.9	11.8	-2.1	5.3	3.0
Total NOII	-8.5	-9.5	10.1	3.8	3.9
Net income	15.8	10.2	-1.7	5.3	3.0
OPEX	1.4	6.8	0.1	5.0	3.2
Core NP	16.1	8.2	12.9	3.6	1.3
Gross loans	3.6	5.3	6.0	4.2	4.2
Customer deposits	4.0	3.8	5.5	4.2	4.2
CASA	11.7	0.0	-1.2	-3.2	0.2
<b>Valuation metrics</b>					
Core EPS (sen)	29.1	31.5	35.6	36.9	37.4
Gross DPS (sen)	15.2	17.0	18.5	19.6	19.8
Div payout (%)	52	54	52	53	53
BVPS (RM)	2.5	2.6	2.8	3.0	3.1
Core P/E (x)	14.5	13.4	11.9	11.5	11.3
<b>Div yield (%)</b>	<b>3.6</b>	<b>4.0</b>	<b>4.4</b>	<b>4.6</b>	<b>4.7</b>
P/BV (x)	1.7	1.6	1.5	1.4	1.3

Source: Public Bank, MIDFR

Income Statement	Balance Sheet	Valuations & Sector
Core NP – Core Net Profit	LCR – Liquidity Coverage ratio	ROE – Return on Equity
PPOP – Pre-Provisioning Operating Profit	L/D ratio – Loan/Deposit ratio	GGM – Gordon Growth Model
NII – Net Interest Income	CASA – Current & Savings accounts	P/BV – Price to Book Value
NIM – Net Interest Margin	FD – Fixed Deposits	BVPS – Book Value per Share
COF – Cost of Funds	GIL – Gross Impaired Loans	BNM – Bank Negara Malaysia
NOII – Non-Interest Income	NIL – Net Impaired Loans	OPR – Overnight Policy Rate
MTM – Mark to Market	LLC – Loan Loss Coverage	SRR – Statutory Reserve Requirement
CIR – Cost to Income Ratio	NCC – Net Credit Costs	SBR – Standardised Base Rate
OPEX – Operational Expenses	GCC – Gross Credit Costs	ALR – Average Lending Rate
	CET 1 – Common Equity Tier 1	



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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