

## Public Bank Berhad

(1295 | PBK MK) Financial Services | Finance

### 1QFY24 Results: Solid NIM Improvement

#### KEY INVESTMENT HIGHLIGHTS

- **3MFY24's Core NP of RM1,653m was within our/street forecasts: 24%/23% of full-year forecasts**
- **Management's tone: Neutral**
- **Core themes: (a) OPEX growth, (b) NIM improvements, (c) SME loan growth recovery**
- **Forecasts unchanged**
- **Upgrade to BUY | Revised TP of RM4.78 | based on a revised FY25F P/BV of 1.51x (formerly 1.50x, from FY24F)**

**Verdict:** Valuations remain cheap, backed with solid dividend yields.

Yays	1. CIR still among lowest in the industry, despite being elevated this year. Cost optimisation efforts ongoing.
	2. Steadily improving dividend payouts.
	3. Overall writeback still highly likely.
	4. Improved market conditions could buoy NOII this year.
	5. SME loan growth seems to be improving.
Nays	1. OPEX should grow sharply this year due to elevated personnel costs – regardless, likely within CIR guidance.
OKs	1. Overseas delinquencies to continue, but not expected to be anything severe.

#### Results in a nutshell:

▼ **1QFY24's Core net profit (NP) of RM1,653m down by -4%yoy.** This was due to higher OPEX and provision charges offsetting improvements in NII.

▲ **1QFY24's Core NP of RM1,653m up by +2%qoq.** This increase was due to better NII and NOII offsetting the increase in OPEX.

▲ **Gross loans grew by +1.6%qoq, coming up to +1.6%YTD.** Notably, there was some pick-up in the SME segment, which has shown weaker growth historically.

▲ **Deposits grew by +1.8%qoq, coming up to +1.8%YTD.**

▼ **GIL moved by +3bps to 0.62%, LLC currently at 169%.** We expect this figure to further increase, largely driven by overseas impairments (especially on the Hong Kong and Vietnam front).

#### Have a look at:

▼ **Personnel costs drive heavy OPEX this quarter.** These are due to union-related and other forms of salary adjustments. These will likely remain at a similar level in the remaining quarters. Unlike its peers, PBK sets aside some provisions for these cost adjustments yearly to avoid a steep one-off markup in costs during union wage negotiations. Regardless, this is all already factored in the higher 35% CIR target this year (usually 33%).

### Upgrade to BUY

(Previously NEUTRAL)

### Revised Target Price: RM4.78

(Previously RM4.48)

#### RETURN STATISTICS

Price @ 20 May 2024 (RM)	4.19
Expected share price return (%)	+14.1
Expected dividend yield (%)	+4.7
Expected total return (%)	+18.7

#### SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	1.0	-4.0
3 months	-0.7	-10.6
12 months	5.3	-7.6

#### INVESTMENT STATISTICS

FYE Dec	FY24F	FY25F	FY26F
<b>Core NP (RM m)</b>	<b>6,774</b>	<b>7,153</b>	<b>7,403</b>
CNP growth (%)	2	6	3
<b>Div yield (%)</b>	<b>4.4</b>	<b>4.7</b>	<b>4.8</b>
Gross DPS (sen)	18.5	19.5	20.2
<b>P/BV (x)</b>	<b>1.4</b>	<b>1.3</b>	<b>1.2</b>
BVPS (RM)	3.0	3.2	3.4
<b>ROE (%)</b>	<b>12.0</b>	<b>12.0</b>	<b>11.7</b>
MIDF/Street CNP (%)	96	97	96

#### KEY STATISTICS

FBM KLCI	1,627.50
Issue shares (m)	19,410.7
Estimated free float (%)	54.4
Market Capitalisation (RM'm)	81,330.8
52-wk price range	RM3.78 -
3-mth avg daily volume (m)	20.7
3-mth avg daily value (RM'm)	88.2
Top Shareholders (%)	
Consolidated Teh Holdings Sdn Bhd	21.6
EPF Board	15.9
Kumpulan Wang Persaraan Diperbadan	4.1

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▲ **On a more positive note, some cost optimisation measures are underway.** Some examples are slowing down recruitment and streamlining operational efficiency (especially in overseas segments). Tech costs are to be kept reasonable.

▲ **Strong NIM improvement this quarter.** Attributable to this quarter's steep NIM bump was the effect of previous FD rate repricing which has begun to kick in. The Management expects COF to remain roughly stable, while the brunt of loan yield compression effects will likely be reflected only in subsequent years.

▶ **Changes in deposit mix are not alarming.** PBK has been growing its longer-duration FDs – but management assures us that these longer-tenured FDs are not much more expensive than shorter-tenured FDs. This is not part of PBK's liquidity strategy, rather the growth is purely demand-driven.

Also, CASA growth this quarter pales in comparison with the rest of the industry – regardless, PBK remains optimistic that COF should remain stable (provided no further bouts of deposit competition occur).

▲ **PBK seems to be making serious efforts on the SME loan front.** We are pleased to note that PBK's SME growth seems to be creeping up once again. We believe that this pivot in strategy can be reflected by heightened personnel costs, with the hiring of new relationship managers and the training of pre-existing staff.

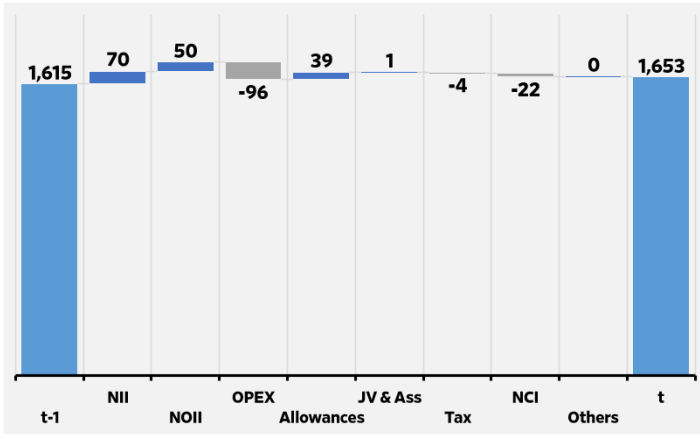
**Forecasts unchanged. We make no changes to earnings forecasts.**

**Key downside risks.** (1) Weak NOII performance, (2) Steeper-than-expected NIM compression, (3) Cost inflation persists.

**Upgrade to BUY call: Revised GGM-TP of RM 4.78 (from RM4.48).** The TP is based on a revised FY25F P/BV of 1.51x (formerly 1.50x, rolled on from FY24F), to reflect altered earnings prospects and ROE-based valuations. PBK's share price has fallen recently, making valuations more attractive.

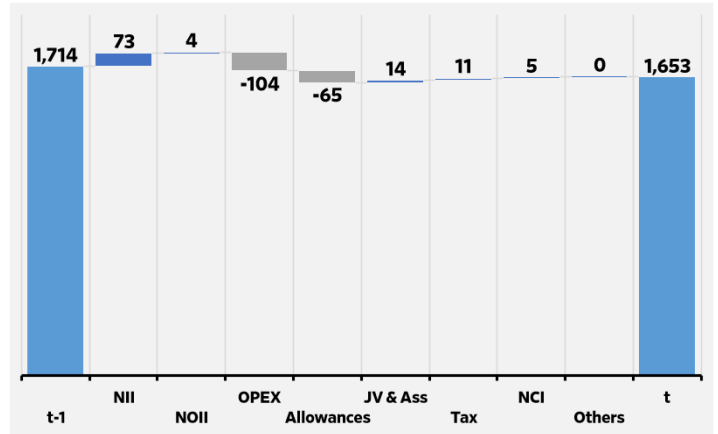
**(GGM assumptions: FY25F ROE of 12.0%, LTG of 3.5% & COE of 9.1%)** 

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



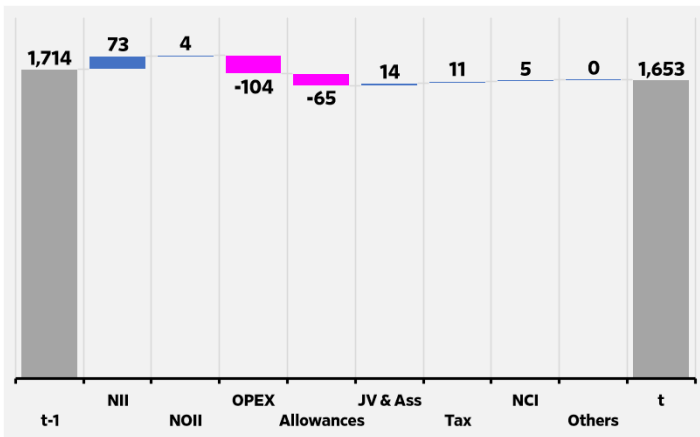
Source: Public Bank, MIDFR

**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)	1Q FY24	4Q FY23	1Q FY23	Yoy (%)	Qoq (%)	3M FY24	3M FY23	Yoy (%)
Net interest inc.	2,318	2,300	2,259	3	1	2,318	2,259	3
Islamic banking inc.	413	358	397	4	15	413	397	4
Non-interest inc.	650	602	647	0	8	650	647	0
<b>Net income</b>	<b>3,380</b>	<b>3,260</b>	<b>3,303</b>	<b>2</b>	<b>4</b>	<b>3,380</b>	<b>3,303</b>	<b>2</b>
OPEX	(1,198)	(1,102)	(1,094)	10	9	(1,198)	(1,094)	10
<b>PPOP</b>	<b>2,182</b>	<b>2,158</b>	<b>2,209</b>	<b>-1</b>	<b>1</b>	<b>2,182</b>	<b>2,209</b>	<b>-1</b>
Loan provisions	(63)	(97)	(2)	4,006	-35	(63)	(2)	4,006
Other provisions	(1)	(7)	2	n.m.	n.m.	(1)	2	n.m.
JV & Associates	14	13	(0)	n.m.	n.m.	14	(0)	n.m.
<b>PBT</b>	<b>2,132</b>	<b>2,068</b>	<b>2,209</b>	<b>-3</b>	<b>3</b>	<b>2,132</b>	<b>2,209</b>	<b>-3</b>
Tax	(475)	(471)	(486)	-2	1	(475)	(486)	-2
NCI	(4)	18	(9)	-58	-121	(4)	(9)	-58
<b>Reported NP</b>	<b>1,653</b>	<b>1,615</b>	<b>1,714</b>	<b>-4</b>	<b>2</b>	<b>1,653</b>	<b>1,714</b>	<b>-4</b>
<b>Core NP</b>	<b>1,653</b>	<b>1,615</b>	<b>1,714</b>	<b>-4</b>	<b>2</b>	<b>1,653</b>	<b>1,714</b>	<b>-4</b>
Total NII	2,708	2,638	2,635	3	3	2,708	2,635	3
Total NOII	672	622	668	1	8	672	668	1
<b>Gross DPS (sen)</b>	<b>-</b>	<b>10.0</b>	<b>-</b>	<b>n.m.</b>	<b>n.m.</b>	<b>-</b>	<b>-</b>	<b>n.m.</b>
Core EPS (sen)	8.5	8.3	8.8	-4	2	8.5	8.8	-4
Gross loans	405,273	398,997	381,591	6.2	1.6			
Gross impaired loans	2,512	2,335	1,968	27.6	7.6			
Customer deposits	420,180	412,897	403,660	4.1	1.8			
CASA	117,870	117,295	116,729	1.0	0.5			
<b>Ratios (%)</b>	<b>1Q FY24</b>	<b>4Q FY23</b>	<b>1Q FY23</b>	<b>Yoy (ppts)</b>	<b>Qoq (ppts)</b>	<b>3M FY24</b>	<b>3M FY23</b>	<b>Yoy (ppts)</b>
<b>ROE (Ann.)</b>	<b>12.1</b>	<b>11.8</b>	<b>13.4</b>	<b>-1.2</b>	<b>0.3</b>	<b>12.1</b>	<b>13.4</b>	<b>-1.2</b>
<b>NIM (Reported)</b>	<b>2.21</b>	<b>2.15</b>	<b>2.26</b>	<b>-0.05</b>	<b>0.06</b>	<b>2.21</b>	<b>2.26</b>	<b>-0.05</b>
NOII/Net income	19.9	19.1	20.2	-0.3	0.8	19.9	20.2	-0.3
Cost/Income	35.4	33.8	33.1	2.3	1.7	35.4	33.1	2.3
NCC (Ann.) (bps)	6	10	0	6	-4	6	0	6
GIL ratio	0.62	0.59	0.52	0.10	0.03			
Loan loss coverage	169	182	218	-49	-13			
CASA ratio	28.1	28.4	28.9	-0.9	-0.4			
L/D ratio	95.4	95.6	93.5	2.0	-0.2			
CET-1	14.5	14.7	14.6	-0.1	-0.2			

Source: Public Bank, MIDFR

Fig 5: Retrospective performance (Income Statement)

Metric		Surprise? Qoq/Yoy		Metric		Surprise? Qoq/Yoy	
Qtrly Core NP	RM mil		1,653	Qtrly ROE	Qtr value		12.1%
	24% of FY CNP						
	Qoq		2%		t-1		11.8%
	Yoy		-4%		t-4		13.4%
Cum Core NP	RM mil		1,653	Cum ROE	Cum value		12.1%
	Within our forecast						
	24% of FY CNP						
	Within consensus						
	23% of FY CNP						
Yoy		-4%		t-1		13.4%	
NII	As expected			NIM	As expected		
					Qtr value		2.21
					Cum value		2.21
	Qtr (Qoq)		3%		Qtr (Qoq)		+6bps
	Qtr (Yoy)		3%		Qtr (Yoy)		-5bps
Cum (Yoy)		3%	Cum (Yoy)		-5bps		
NOII	As expected			Qtr	% NII		80%
	Qtr (Qoq)		8%		% NOII		20%
	Qtr (Yoy)		1%	Cum	% NII		80%
	Cum (Yoy)		1%		% NOII		20%
OPEX	-ve surprise			Cost/ Inc.	As expected		
					Qtr value		35.4%
					Cum value		35.4%
	Qtr (Qoq)		9%		Qtr (Qoq)		+1.7%
	Qtr (Yoy)		10%		Qtr (Yoy)		+2.3%
Cum (Yoy)		10%	Cum (Yoy)		+2.3%		

Source: Public Bank, MIDFR

Notes (Cum = Cumulative, Qtr = Quarterly)

Personnel costs came in high.

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					
	Qoq	1.6%				
	Yoy	6.2%				
	YTD (FY)	1.6%				
Depo. grwth	As expected		CASA grwth	As expected		
	Qoq	1.8%		Qoq	0.5%	
	Yoy	4.1%		Yoy	1.0%	
	YTD (FY)	1.8%		YTD (FY)	0.5%	
CASA ratio	As expected		L/D ratio	As expected		
	Value now	28.1%		Value now	95.4%	
	Qoq	-0.4%		Qoq	-0.2%	
	Yoy	-0.9%		Yoy	+2.0%	
GIL ratio	As expected		LLC ratio	As expected		
	Value now	0.62%		Value now	169%	
	Qoq	+3bps		Qoq	-13%	
	Yoy	+10bps		Yoy	-49%	
Qtrly Net CC	As expected		Cum Net CC	As expected		
	Decent provision			Decent provision		
	Value now	6bps		Value now	6bps	
	t-1	10bps				
	t-4	0bps		t-4	0bps	
CET 1	Healthy level		Div payout	No divvy		
	As expected			As expected		
	Value now	14.5%		Payout	56%	
	Qoq	-0.2%				

## Others:

Source: Public Bank, MIDFR

Fig 7: Targets, Achievements, and Outlook

Targets	FY24F	3M FY24	Notes (Red: New guidance, Strikethrough: Guidance is no longer pertinent)
ROE	12	12.1	
CIR	35	35.4	5-6% OPEX growth. But OPEX growth could end up even higher than target, should management maintain its current level of spending.
NIM	-0-5bps from 2.20	2.21	COF should remain flattish, while loan yield compression effects should only be felt in subsequent years.
NOII		1% (yoy)	
Loans	5-6	1.6 (YTD)	Mortgages, hire purchase and SME loans to see mid-single-digit level growth.
Deposits	5-6	1.8 (YTD)	
% CASA		28.1	
Loan/Depo		95.4	
GIL ratio		0.62	
NCC (bps)	5-10	6	
LLC		169	
CET 1		14.5	14% is the long-term goal.
Div payout	50-60	-	Management is gradually increasing payout ratio year by year.

Source: Public Bank, MIDFR

## FINANCIAL SUMMARY

### INCOME STATEMENT

FYE Dec (RM m)	FY22	FY23	FY24F	FY25F	FY26F
<b>Net interest income</b>	<b>9,167</b>	<b>9,055</b>	<b>9,226</b>	<b>9,666</b>	<b>9,981</b>
Islamic banking inc.	1,857	1,562	1,953	2,046	2,112
Other operating inc.	2,414	2,476	2,667	2,685	2,809
<b>Net income</b>	<b>13,438</b>	<b>13,093</b>	<b>13,845</b>	<b>14,396</b>	<b>14,902</b>
OPEX	(4,235)	(4,415)	(4,707)	(4,751)	(4,918)
<b>PPOP</b>	<b>9,203</b>	<b>8,678</b>	<b>9,138</b>	<b>9,646</b>	<b>9,985</b>
Loan allowances	(366)	(157)	(326)	(341)	(355)
Other allowances	(13)	(1)	(11)	(11)	(11)
JV & Associates	7	19	12	12	12
<b>PBT</b>	<b>8,831</b>	<b>8,539</b>	<b>8,813</b>	<b>9,306</b>	<b>9,631</b>
Tax & zakat	(2,661)	(1,884)	(1,956)	(2,066)	(2,138)
NCI	(50)	(6)	(82)	(87)	(90)
<b>Reported NP</b>	<b>6,119</b>	<b>6,649</b>	<b>6,774</b>	<b>7,153</b>	<b>7,403</b>
<b>Core NP</b>	<b>6,119</b>	<b>6,649</b>	<b>6,774</b>	<b>7,153</b>	<b>7,403</b>
Total NII	10,949	10,531	10,983	11,507	11,882
Total NOII	2,489	2,562	2,862	2,889	3,020

### BALANCE SHEET

FYE Dec (RM m)	FY22	FY23	FY24F	FY25F	FY26F
Cash & ST funds	21,767	11,127	17,780	17,780	17,780
Investment securities	81,387	86,731	84,318	82,923	82,848
Net loans	372,583	394,750	412,911	430,401	448,478
Other IEAs	4	1	1	1	1
Non-IEAs	17,522	17,988	22,904	23,351	23,834
<b>Total assets</b>	<b>493,263</b>	<b>510,598</b>	<b>537,914</b>	<b>554,456</b>	<b>572,941</b>
Customer deposits	394,719	412,897	431,477	449,599	468,483
Other IBLs	37,989	32,056	30,199	28,660	27,381
Non-IBLs	9,029	9,264	16,720	13,112	10,313
<b>Total liabilities</b>	<b>441,737</b>	<b>454,218</b>	<b>478,396</b>	<b>491,371</b>	<b>506,177</b>
Share capital	9,418	9,418	9,418	9,418	9,418
Reserves	40,762	45,257	48,592	52,068	55,654
<b>Shareholders' funds</b>	<b>50,179</b>	<b>54,674</b>	<b>58,009</b>	<b>61,486</b>	<b>65,072</b>
NCI	1,347	1,706	1,508	1,599	1,692
<b>Total equity</b>	<b>51,526</b>	<b>56,380</b>	<b>59,517</b>	<b>63,084</b>	<b>66,764</b>
<b>Total L&amp;E</b>	<b>493,263</b>	<b>510,598</b>	<b>537,914</b>	<b>554,456</b>	<b>572,941</b>
Total IEAs	475,741	492,610	515,010	531,105	549,106
Total IBLs	432,708	444,953	461,676	478,259	495,864
Gross loans	376,892	398,997	416,951	434,463	452,711
CASA	118,033	117,295	112,184	112,400	117,121

### FINANCIAL RATIOS

FYE Dec (RM m)	FY22	FY23	FY24F	FY25F	FY26F
<b>Interest (%)</b>					
NIM	2.36	2.18	2.18	2.20	2.20
Return on IEAs	3.22	3.73	3.42	3.38	3.33
Cost of funds	1.37	2.05	1.77	1.70	1.64
Net interest spread	1.84	1.68	1.65	1.67	1.69
<b>Profitability (%)</b>					
<b>ROE</b>	<b>12.4</b>	<b>12.7</b>	<b>12.0</b>	<b>12.0</b>	<b>11.7</b>
ROA	1.3	1.3	1.3	1.3	1.3
NOII/Net income	18.5	19.6	20.7	20.1	20.3
Effective tax rate	30.1	22.1	22.2	22.2	22.2
Cost/Income	31.5	33.7	34.0	33.0	33.0
<b>Liquidity (%)</b>					
Loan/Deposit	94.4	95.6	95.7	95.7	95.7
CASA ratio	29.9	28.4	26.0	25.0	25.0
<b>Asset Quality (%)</b>					
GIL ratio	0.42	0.59	0.57	0.55	0.55
LLC ratio	272	182	170	170	170
LLC (w. reserves)	292	213	190	190	189
Net CC (bps)	10	4	8	8	8
<b>Capital (%)</b>					
CET 1	14.9	14.2	14.2	14.0	13.8
Tier 1 capital	14.9	14.7	14.7	14.5	14.3
Total capital	17.9	17.6	17.6	17.5	17.3
<b>Growth (%)</b>					
Total NII	11.8	-3.8	4.3	4.8	3.3
Total NOII	-9.5	2.9	11.7	0.9	4.5
Net income	10.2	-1.2	1.9	4.8	3.3
OPEX	6.8	4.2	6.6	0.9	3.5
Core NP	8.2	8.7	1.9	5.6	3.5
Gross loans	5.3	5.9	4.5	4.2	4.2
Customer deposits	3.8	4.6	4.5	4.2	4.2
CASA	0.0	-0.6	-4.4	0.2	4.2
<b>Valuation metrics</b>					
Core EPS (sen)	31.5	34.3	34.9	36.9	38.1
Gross DPS (sen)	17.0	19.0	18.5	19.5	20.2
Div payout (%)	54	55	53	53	53
BVPS (RM)	2.6	2.8	3.0	3.2	3.4
Core P/E (x)	13.3	12.2	12.0	11.4	11.0
<b>Div yield (%)</b>	<b>4.1</b>	<b>4.5</b>	<b>4.4</b>	<b>4.7</b>	<b>4.8</b>
P/BV (x)	1.6	1.5	1.4	1.3	1.2

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