Malaysia Company Update

17 October 2025

Financial Services | Banks

Public Bank (PBK MK)

Buy (from Neutral)

Capital Management Theme Gathering Momentum

Target Price (Return):	MYR5.00 (+19%)
Price (Market Cap):	MYR4.22 (USD19,351m)
ESG score:	3.1 (out of 4)
Avg Daily Turnover (MYR/USD)	73.9m/17.5m

- **Upgrade to BUY from Neutral, new MYR5.00 TP from MYR4.75, 19% upside with c.5% FY25F yield.** We turn more positive on the stock post an update meeting. A combination of upcoming events – LPI (LPI MK, NR) disposing off its stake in PBK, and the adoption of the new credit risk capital framework – may lead to PBK unlocking up to an estimated MYR2.9bn (14.8 sen/share) in excess capital that can be returned to shareholders and lift ROE by up to 55bps. We think that, collectively, these could catalyse a rerating in valuations – which justifies our stock rating upgrade to BUY.
- **Excess capital building up, thanks to LPI's special dividends...** In April, LPI obtained shareholders' approval to dispose of its 1.1% stake in PBK, to comply with cross-holding restrictions. At the current market price, LPI's stake in PBK is worth MYR930m and it has stated its intention to distribute about 70% of the sale proceeds as special dividends. Based on PBK's 44.2% stake in LPI, it stands to receive MYR287m (+10bps to bank CET-1).
- **...and adoption of new Basel rules for credit risk.** A bigger uplift, though, is set to be derived from the adoption of the central bank's new capital framework for credit risk. We estimate the move (effective 1 Jul 2026) could free up MYR1.3-2.6bn in capital, based on: i) Discussions with PBK, which point to a 50-100bps uplift in CET-1 ratios at bank and group levels upon the guidelines implementation; and ii) 2Q25 bank and group CET-1 ratios of 12% and 14% are already at management's comfortable levels, which means any potential uplift would be excess capital. Our estimates above are based on bank-level, ie more conservative, vs the estimated MYR1.7-3.4bn excess capital at group. In total, PBK may have between MYR1.6bn (8 sen/share) and MYR2.9bn (14.8 sen/share) available to return to shareholders.
- **Potential options for PBK to use the excess capital** include special dividends, share buybacks and higher regular dividend payouts. PBK does not seem keen on share buybacks, and we think that it will lean towards an option that allows for a quicker return of capital to shareholders, as this would have a more immediate, positive impact on ROEs. Assuming it pays out the entire MYR2.9bn via a special dividend, we calculate this could lift ROE by c.55bps.
- **Domestic operations still resilient.** Meantime, loan growth is on track to meet the 5-6% target but NIM remains a headwind, due to the Overnight Policy Rate (OPR) cut in July, yield dilution from new mortgages and SME loans while deposit competition is creeping up. PBK has not seen any major red flags on asset quality and aims to keep LLC at ≥125% (2Q25: 154%), which suggests c.MYR675m out of the MYR1bn management overlay stock can be written back. As this potential writeback is gradual, we have not factored this in our calculation on excess capital. Finally, the Rule of 78 abolishment is not expected to be material. Early settlements for auto loans tend to take place around the 5-year mark vs PBK's average auto loan tenures of 7-8 years.
- **Forecasts unchanged but TP increases to MYR5.00** (includes a 2% ESG premium) from MYR4.75, after a roll forward in valuations.

Forecasts and Valuation	Dec-23	Dec-24	Dec-25F	Dec-26F	Dec-27F
Reported net profit (MYRm)	6,649	7,147	7,232	7,550	7,933
Net profit growth (%)	8.7	7.5	1.2	4.4	5.1
Recurring net profit (MYRm)	6,649	7,147	7,232	7,550	7,933
Recurring EPS (MYR)	0.34	0.37	0.37	0.39	0.41
BVPS (MYR)	2.82	2.95	3.11	3.28	3.45
DPS (MYR)	0.19	0.21	0.22	0.23	0.25
Recurring P/E (x)	12.32	11.46	11.33	10.85	10.33
P/B (x)	1.50	1.43	1.36	1.29	1.22
Dividend Yield (%)	4.5	5.0	5.3	5.5	5.8
Return on average equity (%)	12.7	12.8	12.3	12.2	12.2

Source: Company data, RHB

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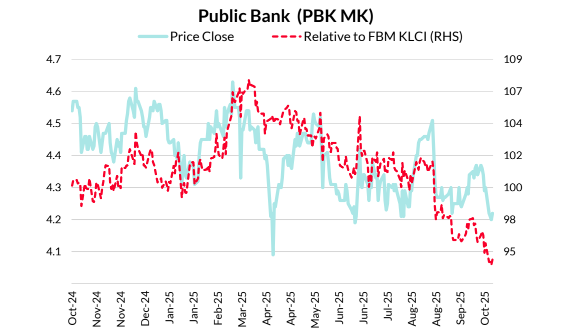
Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(7.5)	(0.7)	(0.2)	(1.9)	(5.4)
Relative	(5.7)	(1.5)	(6.9)	(11.1)	(4.1)
52-wk Price low/high (MYR)					4.09 –4.63



Source: Bloomberg

Overall ESG Score: 3.1 (out of 4)

E Score: 2.8 (GOOD)
S Score: 3.5 (EXCELLENT)
G Score: 3.5 (EXCELLENT)
Please refer to the ESG analysis on the next page

Emissions And ESG

Trend analysis

Public Bank's greenhouse gas emissions rose 11% YoY - one of the reasons being higher Scope 3 emissions as it added two additional categories to the calculation.

Emissions (tCO2e)	Dec-22	Dec-23	Dec-24	Dec-25
Scope 1	2,460	2,891	3,964	na
Scope 2	62,590	62,793	65,992	na
Scope 3	26,305	24,257	30,011	na
Total emissions	91,355	89,941	99,967	na

Source: Company data, RHB

Latest ESG-Related Developments

Raising sustainability commitments: Public Bank raised its sustainable finance target to MYR100bn by 2030 from MYR48bn by 2025.

Government Guarantee Scheme Madani: Public Bank is a participant of the government's Government Guarantee Scheme Madani (GGSM), a scheme for extending government-guaranteed financing to SMEs with a focus on the high technology, agriculture, manufacturing and tourism sectors.

Financed emissions: Loans used to estimate the finance emissions encompass 88% of total group loans.

ESG Unbundled

Overall ESG Score: 3.1 (out of 4)

Last Updated: 17 Apr 2025

E Score: 2.8 (GOOD)

Public Bank's commitments include achieving carbon neutral position by 2030, and net zero carbon by 2050. It has mobilised MYR68bn of sustainable finance since 2020, which includes MYR46bn for low emissions vehicle financing, MYR9bn of social agenda financing, MYR5bn of corporate loans and MYR4bn under green financing facilities.

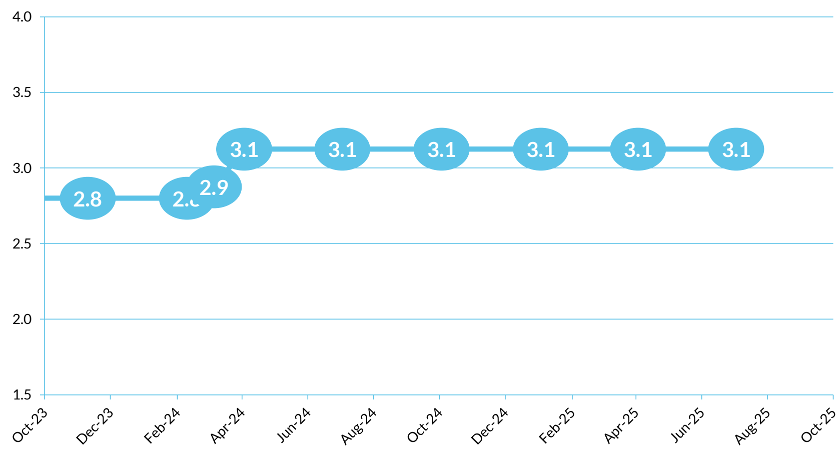
S Score: 3.5 (EXCELLENT)

Public Bank offers affordable rates to first-time homebuyers under its PB First Home Loan initiative. Embraces gender diversity with 46% of women in at senior management level and 44% of women in the Board of Directors. Has a low staff attrition rate of 8.7%.

G Score: 3.5 (EXCELLENT)

Has not had any material data security or privacy issues over the past few years. The Board of Directors is decently diverse, with well-defined roles and responsibilities for each member. Board members, senior management, and employees undergo training on matters of compliance, good governance and banking best practices.

ESG Rating History



Source: RHB

Financial Exhibits

Asia
Malaysia
Financial Services
Public Bank
PBK MK
Buy

Valuation basis

GGM-derived intrinsic value with an ESG overlay. Key GGM assumptions are:

i. COE of 9.5%,
ii. ROE of 12.5%, and
iii. 3.5% long-term growth.

Key drivers

Our earnings are most sensitive to changes in:

i. net interest margin;
ii. credit cost; and
iii. non-interest income growth.

Key risks

Downside risks include:

i. weaker-than-expected NIMs;
ii. sharper-than-expected deterioration in asset quality; and
iii. weaker-than-expected non-interest income.

Company Profile

Public Bank is Malaysia's third largest banking group by assets. The group also has overseas operations in Cambodia, Vietnam, Laos and Hong Kong.

Financial summary (MYR)	**Dec-23**	**Dec-24**	**Dec-25F**	**Dec-26F**	**Dec-27F**
EPS	0.34	0.37	0.37	0.39	0.41
Recurring EPS	0.34	0.37	0.37	0.39	0.41
DPS	0.19	0.21	0.22	0.23	0.25
BVPS	2.82	2.95	3.11	3.28	3.45

Valuation metrics	**Dec-23**	**Dec-24**	**Dec-25F**	**Dec-26F**	**Dec-27F**
Recurring P/E (x)	12.32	11.46	11.33	10.85	10.33
P/B (x)	1.5	1.4	1.4	1.3	1.2
Dividend Yield (%)	4.5	5.0	5.3	5.5	5.8

Income statement (MYRm)	**Dec-23**	**Dec-24**	**Dec-25F**	**Dec-26F**	**Dec-27F**
Interest income	22,083	23,249	23,875	24,968	26,228
Interest expense	(11,467)	(12,091)	(12,425)	(13,059)	(13,733)
Net interest income	**10,617**	**11,158**	**11,450**	**11,909**	**12,495**
Non interest income	2,476	2,853	3,346	3,556	3,755
Total operating income	**13,093**	**14,011**	**14,796**	**15,465**	**16,250**
Overheads	(4,415)	(4,828)	(5,094)	(5,348)	(5,613)
Pre-provision operating profit	**8,678**	**9,183**	**9,703**	**10,117**	**10,636**
Loan impairment allowances	(157)	(1)	(195)	(192)	(207)
Other impairment allowances	(1)	(492)	-	-	-
Income from associates	19	241	100	105	110
Pre-tax profit	**8,539**	**8,932**	**9,608**	**10,030**	**10,540**
Taxation	(1,884)	(1,913)	(2,114)	(2,207)	(2,319)
Minority interests	(6)	128	(262)	(274)	(288)
Reported net profit	**6,649**	**7,147**	**7,232**	**7,550**	**7,933**
Recurring net profit	**6,649**	**7,147**	**7,232**	**7,550**	**7,933**

Profitability ratios	**Dec-23**	**Dec-24**	**Dec-25F**	**Dec-26F**	**Dec-27F**
Return on average assets (%)	1.3	1.4	1.3	1.3	1.3
Return on average equity (%)	12.7	12.8	12.3	12.2	12.2
Return on IEAs (%)	4.5	4.5	4.4	4.4	4.4
Cost of funds (%)	2.6	2.7	2.6	2.6	2.6
Net interest spread (%)	1.9	1.9	1.8	1.8	1.8
Net interest margin (%)	2.2	2.2	2.1	2.1	2.1
Non-interest income / total income (%)	18.9	20.4	22.6	23.0	23.1
Cost to income ratio (%)	33.7	34.5	34.4	34.6	34.5
Credit cost (bps)	4.04	0.01	4.48	4.19	4.29

Balance sheet (MYRm)	**Dec-23**	**Dec-24**	**Dec-25F**	**Dec-26F**	**Dec-27F**
Total gross loans	398,997	424,171	445,130	469,337	494,875
Other interest earning assets	97,860	102,398	106,808	111,416	116,230
Total gross IEAs	496,856	526,569	551,938	580,753	611,105
Total provisions	(4,247)	(3,699)	(3,931)	(3,802)	(3,687)
Net loans to customers	394,750	420,472	441,198	465,535	491,188
Total net IEAs	492,610	522,870	548,007	576,951	607,418
Total non-IEAs	17,988	19,994	22,689	22,892	23,207
Total assets	510,598	542,863	570,695	599,843	630,625
Customer deposits	412,897	433,264	457,094	482,234	508,757
Other interest-bearing liabilities	26,956	32,865	33,060	33,159	33,281
Total IBLs	439,853	466,129	490,153	515,393	542,038
Total non-IBLs	14,365	17,087	17,539	18,015	18,515
Total liabilities	454,218	483,216	507,693	533,408	560,553
Share capital	9,418	9,418	9,418	9,418	9,418
Shareholders' equity	54,674	57,335	60,429	63,588	66,936
Minority interests	1,706	2,311	2,574	2,848	3,135

Asset quality and capital	**Dec-23**	**Dec-24**	**Dec-25F**	**Dec-26F**	**Dec-27F**
Reported NPLs / gross cust loans (%)	0.6	0.5	0.5	0.5	0.5
Total provisions / reported NPLs (%)	181.8	166.2	169.8	162.0	149.0
CET-1 ratio (%)	14.7	14.3	14.4	14.4	14.4
Tier-1 ratio (%)	14.7	14.3	14.4	14.4	14.4
Total capital ratio (%)	17.6	16.9	17.0	16.8	16.7

Source: Company data, RHB

Capital Management In Focus

We recently met up with management for an update. While it is business as usual operationally for the group, we expect the combination of upcoming events to cast the spotlight on capital management.

Excess capital building up, thanks to LPI's special dividends... According to the Companies Act, LPI will need to dispose of its 1.1% stake in PBK to avoid contravening the law on cross-holdings. LPI had, in April, obtained its shareholders' mandate to dispose the shares. Last month, it announced that it had received approval from the Companies Commission of Malaysia (SSM) for an extension of time until 3 Jun 2026 to complete the share disposal. Based on the current market price, LPI's PBK stake is worth MYR930m, and it has stated its intention to distribute c. 70% of the proceeds in special dividends. Based on this, the dividends PBK could receive based on its 44.2% stake in LPI would amount to MYR287m (+10bps to bank CET-1 ratio).

...and adoption of new Basel rules for credit risk. A bigger uplift, though, is set to be derived from the adoption of Bank Negara Malaysia's (BNM) new capital framework for credit risk that banks under the standardised approach will need to follow from 1 Jul 2026 onwards. Under the new guidelines, average risk weights for certain credit exposures such as residential mortgages are expected to decline, leading to a reduction in overall risk weighted assets (RWA) and freeing up capital. We estimate the move could free up MYR1.3-2.6bn in capital based on:

i. Discussions with management, which point to a potential 50-100bps uplift in CET-1 ratios at the bank and group levels. There is a good possibility the actual uplift could end up at the higher end of the range;

ii. Management's guidance that it sees bank and group CET-1 ratios of 12% and 13-14% as levels that it is comfortable to operate at. As at end-2Q25, bank and group CET-1 ratios stood at 12.1% and 14%, ie already at comfortable levels. Hence, we see the uplift in capital ratios above as excess capital PBK has available to return to shareholders.

Note that our excess capital estimates above are based on bank-level, ie more conservative. Based on group figures, the estimated excess capital available would rise to MYR1.7-3.4bn.

In total (LPI special dividends plus capital released from the new capital framework), we estimate PBK may have between MYR1.6bn (8 sen/share) and MYR2.9bn (14.8 sen/share) available to return to shareholders.

Possible methods for excess capital return. Taking a cue from its Singapore peers, potential options for PBK would include special dividends, share buybacks and higher regular dividend payouts, or some combination of these. From our conversations, management does not seem keen on share buybacks. Rather, we think that it prefers an option that allows for a quicker return of capital to shareholders, as this would have a more immediate positive impact on ROEs. Assuming it pays out the entire MYR2.9bn via a special dividend, we calculate this could raise ROE by about 55bps.

How long will shareholders need to wait? Looking back at the Singapore banks' experience last year, we would not be surprised if PBK only sheds more light on its excess capital and capital return plans once the guidelines go live and are reflected in the 3Q26 results. We think it is also possible that if PBK opts to pay special dividends to return excess capital, the returns could be staggered across financial years – similar with the practice by Singapore banks. Taking the mid-point of the potential excess capital estimate, ie 11.6 sen per share, and assuming this is returned as special dividends over FY26 and FY27, this would result in an attractive total dividend yield of c.7% pa.

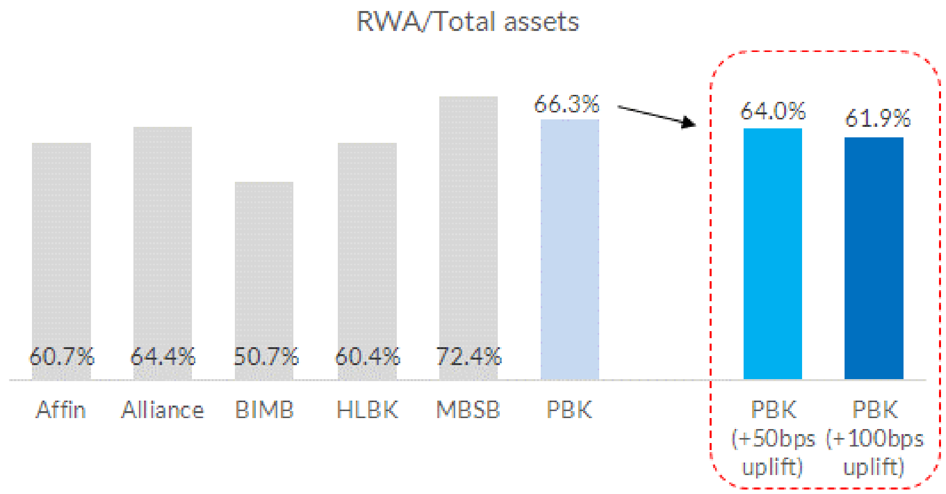
Room for regular dividend payout to rise? Apart from a one-off uplift to capital ratios from the new capital framework, its adoption will also lead to a lower capital consumption for organic growth. All else being equal and assuming profitability, eg ROA, is sustained, we estimate there may be room for higher regular dividend payouts as well vs the current payout guidance of 60%. Such possible changes, though, may be even further down the horizon.

Figure 1: Estimated excess capital

		Bank	Group	Comments
1)Potential excess capital from new Basel guidelines				
CET-1 capital (end-June 2025)	MYRm	33,666	50,746	
RWA (end-June 2025)	MYRm	279,373	362,368	
CET-1 ratio		12.1%	14.0%	
Average risk weights (RWA/total assets)		67.6%	66.3%	
Assuming a 50bps uplift to CET-1 ratio from new guideline				
Average risk weights (RWA/total assets)		65.0%	64.0%	
Potential excess capital – (a)	**MYRm**	**1,341**	**1,749**	
Excess capital/share	MYR	0.07	0.09	
Assuming a 100bps uplift to CET-1 ratio from new guideline				
Average risk weights (RWA/total assets)		62.5%	61.9%	
Potential excess capital – (b)	**MYRm**	**2,580**	**3,382**	
Excess capital/share	MYR	0.13	0.17	
2)Potential excess capital from LPI special dividends				
PBK shares held by LPI	m	220.29		
PBK share price	MYR	4.22		
Proceeds from disposal	MYRm	930		
Special dividends (70% of proceeds)	MYRm	651		
PBK share of special dividends (44.2%) – (c)	**MYRm**	**287**		
Potential total excess capital - 50bps capital uplift + LPI special dividends				
Excess capital	**MYRm**	**1,629**		(a) + (c)
Per share	**MYR**	**0.08**		
Potential total excess capital - 100bps capital uplift + LPI special dividends				
Excess capital	**MYRm**	**2,867**		(b) + (c)
Per share	**MYR**	**0.148**		

Source: Company data, RHB

Figure 2: PBK's average risk weights still look conservative after capital savings from the new Basel regime – so would there by room for further RWA management?



Note: Computation based on most recent FYE and adjusted for investment in associates
Source: Company data, RHB

Figure 3: Management's guidance and financial targets

	2024 achieved	1H25 achieved	FY25 targets	Comments
Reported ROE	13.2%	12.6%	c. 13%	Management still targeting a catch-up in 2H from non-II (unit trust, bancassurance and insurance) and sees room for further management overlay writebacks. Downside risks stem from NIM and credit cost, ie more conservative overlay writebacks if economic growth pans out slower than expected, inflationary pressures, etc.
Loans growth	+6.3%	+5.8% YoY	5 – 6%	Supported by resilient residential property loan growth, as well as the auto and SME segments.
Deposits growth	+4.9%	+3.8% YoY	4 – 5% (from 5 – 6%)	Deposit growth is expected to track closer to loan growth going forward, as management intends to maintain the LDR at current levels.
NIM change	+1bp vs 2023 (2024: 2.21%)	-2bps vs 2024	Mid- to high-single-digit squeeze (from mid-single digit squeeze)	NIM pressure from both loan yields (mortgages and business loans) and deposit cost. The revised guidance takes into account that 1H25 NIM is already down by 2bps vs 2024's level as well as the impact from July's OPR cut (-3bps impact to NIM).
Credit cost	Nil	3bps	Single digit	c.MYR1bn in management overlay remains in the books. While management sees room for more writebacks, the quantum remains uncertain and PBK intends to keep to the conservative side due to the uncertainties ahead.
Dividend payout	57%	58%	c. 60%	

Source: Company data, RHB

Valuation and TP

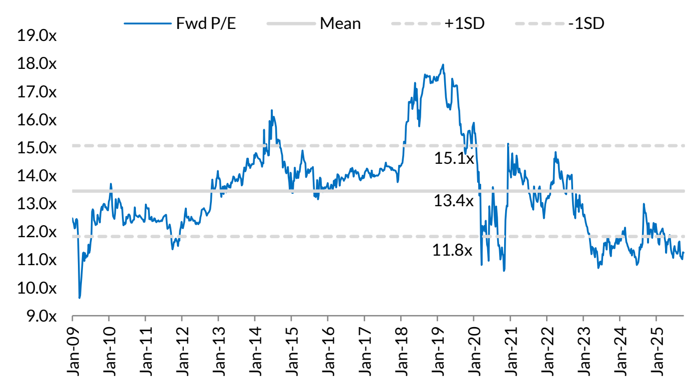
We roll forward our valuation base year to FY26F, which leads to an upward revision in our TP to MYR5.00 from MYR4.75. There is no change to our GGM-based P/BV of 1.5x nor the 2% ESG premium ascribed. The ESG premium is based on our in-house methodology, taking into account PBK's ESG score of 3.1 out of 4, which is one notch above the country median of 3.0.

Figure 4: GGM valuation with ESG overlay

Cost of equity (COE) computation:		Sustainable ROE (%)	12.5
Risk free rate (%)	4.0	COE (%)	9.5
Equity premium (%)	5.5	Long-term growth (g)	3.5
Beta (x)	1.0	Implied P/BV (x)	1.50
Cost of equity - CAPM (%)	9.5	BVPS – FY26F	MYR3.28
		Intrinsic value	MYR4.91
ESG premium/(discount) (%)	2.0	ESG premium/(discount)	**MYR0.10**
		TP (rounded)	**MYR5.00**

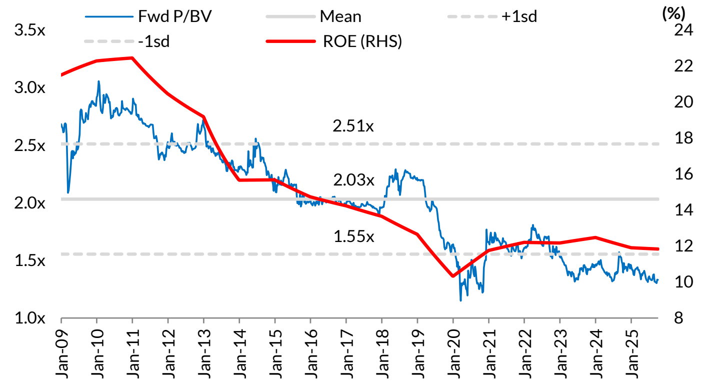
Source: Company data, RHB

Figure 5: PBK's 12-month forward consensus P/E



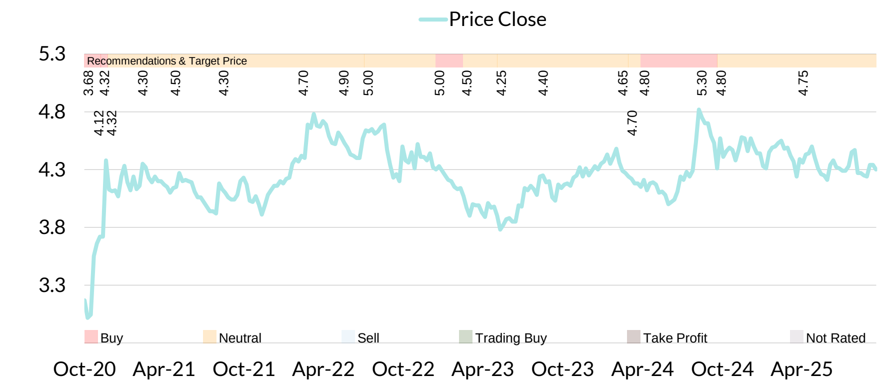
Source: Bloomberg, RHB

Figure 6: PBK's 12-month forward consensus P/BV



Source: Bloomberg, RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2025-08-27	Neutral	4.75	4.33
2025-04-18	Neutral	4.75	4.39
2025-02-27	Neutral	4.80	4.49
2025-02-11	Neutral	4.80	4.45
2024-12-01	Neutral	4.80	4.47
2024-10-11	Neutral	4.80	4.31
2024-08-28	Buy	5.30	4.80
2024-05-21	Buy	4.80	4.19
2024-04-18	Buy	4.80	4.14
2024-03-21	Neutral	4.70	4.22
2024-02-29	Neutral	4.65	4.40
2024-02-19	Neutral	4.40	4.43
2023-11-29	Neutral	4.40	4.24
2023-08-29	Neutral	4.40	4.14
2023-05-26	Neutral	4.25	3.90

Source: RHB, Bloomberg

RHB Guide to Investment Ratings

Buy:	Share price may exceed 10% over the next 12 months
Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
Take Profit:	Target price has been attained. Look to accumulate at lower levels
Sell:	Share price may fall by more than 10% over the next 12 months
Not Rated:	Stock is not within regular research coverage

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