

26 February 2021

Financial Services | Banks

Public Bank (PBK MK)

Neutral (Maintained)

Recovery In The Price

- **Stay NEUTRAL and MYR4.30 TP, 3% upside with 3% yield.** FY20 PATAMI was in line with our and Street's estimates. A 13 sen DPS was announced, which implies a 52% payout. Management expects a vaccine-induced recovery in 2021, although near-term risks linger. Our TP values Public Bank at 1.7x FY21F P/BV against a 3-year forward average ROE of c.11.6%. We see the current valuation as fair and believe the recovery outlook has been largely priced in.
- **FY20 earnings in line, 13 sen DPS announced.** Public Bank reported MYR4,872m (-12% YoY) in PATAMI. The earnings were in line with our and consensus estimates. PIOP was 1.6% higher YoY, as strong in non-IL growth (+18% YoY) cushioned the 2.4% lower NII due to rate cuts and modification losses (net impact: MYR388m). CIR inched up 0.2ppts to 34.6%, as opex grew 2.4% YoY. Full-year credit costs climbed to 33bps vs guidance of 30-35bps (2019: 5bps), as management booked in pre-emptive provisions (c.MYR600m). A 13 sen DPS was announced (payout: c.52%). Reported ROE fell to 11.2% from 13.6% in 2019.
- **4Q20 earnings drivers.** PATAMI fell 18% QoQ/YoY to MYR1,148m. PIOP declined 5% QoQ on 7% lower non-IL, although NII was flat QoQ. Opex grew 5% QoQ on higher personnel cost (+8%) – CIR was higher at 32.7% vs 3Q20's 30.7%. Credit cost jumped to 65bps vs 3Q20's 40bps. Loans grew 1% QoQ while deposits grew 2% QoQ. GIL ratio saw a mild uptick to 0.36% (3Q20: 0.33%, 4Q19: 0.49%) due to higher GILs in auto and working capital loans. Reported LLC ratio stood at a high 227.7%.
- **2021 outlook and guidance.** Economic recovery is expected to gain steam in 2021 as vaccines get wider deployment. There are pockets of near-term risks arising from MCO 2.0, which will weigh on near-term earnings, in our view. There are ~11% of its domestic loans currently on the targeted repayment assistance programme: 10% of total individual and 13% of total non-individual borrowers. Key 2021 targets: 3-4% loan growth, 10-15bps NIM expansion (management not expecting rate cuts), credit cost of 20-25bps with GIL ratio <1%, and ROE of at least 9%.
- **Earnings and TP.** Our FY21F earnings remain unchanged, as the NIM expansion effect guided by management is partly curbed by our expectation of one rate cut, according to RHB economists. Our GGM-derived TP is unchanged at MYR4.30, which values Public Bank at 1.7x FY21F P/BV.

Target Price (Return): MYR4.30 (+3.1%)
 Price: MYR4.17
 Market Cap: USD20,035m
 Avg Daily Turnover (MYR/USD) 133m/32.7m

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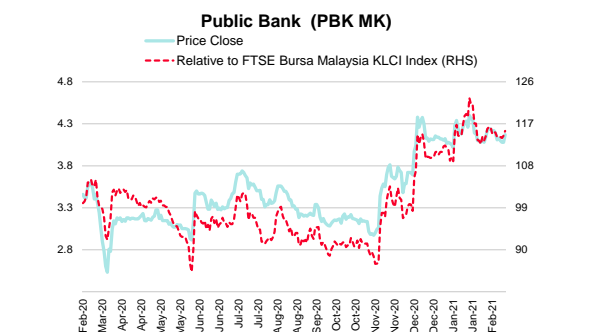


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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	1.2	(2.1)	10.2	22.9	19.0
Relative	4.0	(2.4)	11.2	21.2	13.6
52-wk Price low/high (MYR)	2.53 – 4.40				



Source: Bloomberg

Overall ESG Score: 2.9 (out of 4)

E: Moderate

Public Bank reports on greenhouse gas emissions, which has not seen a material reduction since 2017. It has immaterial exposure to the oil & gas and aviation sectors. In 2019, the group approved more than MYR17m in loans for green technology.

S: Excellent

Public Bank embraces gender diversity, with 47% of women in management, 48% in top management, and 33% of women on the board of directors. The group has a low staff attrition rate of 5.4% and actively assists customers in financial difficulty.

G: Excellent

Public Bank has not had any material data security or privacy issues over the past few years. The board of directors comprises only one executive director and eight non-executive directors, of which five are independent non-executive directors. That said, four of the nine directors are over the age of 70.

Forecasts and Valuation	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Reported net profit (MYRm)	5,530	4,743	5,341	6,053	6,548
Net profit growth (%)	(1.4)	(14.2)	12.6	13.3	8.2
Recurring net profit (MYRm)	5,530	4,743	5,341	6,053	6,548
Recurring EPS (MYR)	0.29	0.24	0.28	0.31	0.34
BVPS (MYR)	2.25	2.43	2.58	2.69	2.89
DPS (MYR)	0.15	0.13	0.14	0.14	0.15
Recurring P/E (x)	14.60	17.02	15.12	13.34	12.33
P/B (x)	1.86	1.71	1.62	1.55	1.44
Dividend Yield (%)	3.5	3.1	3.3	3.5	3.7
Return on average equity (%)	13.1	10.4	11.0	11.8	12.1

Source: Company data, RHB

Financial Exhibits

Asia	Financial summary (MYR)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Malaysia	EPS	0.29	0.24	0.28	0.31	0.34
Financial Services	Recurring EPS	0.29	0.24	0.28	0.31	0.34
Public Bank	DPS	0.15	0.13	0.14	0.14	0.15
PBK MK	BVPS	2.25	2.43	2.58	2.69	2.89
Neutral						
Valuation basis	Valuation metrics	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Our GGM assumes:	Recurring P/E (x)	14.60	17.02	15.12	13.34	12.33
i. COE of 7.7%;	P/B (x)	1.9	1.7	1.6	1.5	1.4
ii. ROE of 11.6%;	Dividend Yield (%)	3.5	3.1	3.3	3.5	3.7
iii. 2% long-term growth.						
Key drivers	Income statement (MYRm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Our FY20 earnings are most sensitive to changes in:	Interest income	19,365	16,797	17,941	18,988	20,070
i. NIM;	Interest expense	(10,645)	(8,434)	(8,682)	(9,099)	(9,610)
ii. Credit cost;	Net interest income	8,720	8,363	9,259	9,889	10,461
iii. Non-II growth.	Non interest income	2,401	2,821	2,668	2,838	2,998
	Total operating income	11,121	11,184	11,927	12,727	13,459
	Overheads	(3,819)	(3,909)	(4,123)	(4,332)	(4,547)
	Pre-provision operating profit	7,301	7,274	7,804	8,395	8,912
	Loan impairment allow ances	(154)	(1,106)	(883)	(556)	(433)
	Other impairment allow ances	2	(14)	(7)	(2)	(2)
	Income from associates	3	2	5	5	5
	Pre-tax profit	7,153	6,157	6,919	7,841	8,481
	Taxation	(1,555)	(1,353)	(1,508)	(1,709)	(1,849)
	Minority interests	(68)	(61)	(70)	(78)	(85)
	Reported net profit	5,530	4,743	5,341	6,053	6,548
	Recurring net profit	5,530	4,743	5,341	6,053	6,548
Key risks	Profitability ratios	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Downside risks include:	Return on average assets (%)	1.3	1.1	1.2	1.3	1.3
i. Weaker-than-expected NIMs;	Return on average equity (%)	13.1	10.4	11.0	11.8	12.1
ii. Sharper-than-expected deterioration in asset quality;	Return on IEAs (%)	4.7	3.9	4.0	4.0	4.0
iii. Weaker-than-expected non-II.	Cost of funds (%)	2.9	2.2	2.2	2.2	2.2
	Net interest spread (%)	1.8	1.7	1.8	1.8	1.8
	Net interest margin (%)	2.1	1.9	2.0	2.1	2.1
	Non-interest income / total income (%)	21.6	25.2	22.4	22.3	22.3
	Cost to income ratio (%)	34.3	35.0	34.6	34.0	33.8
	Credit cost (bps)	4.77	32.72	25.13	15.24	11.37
The converse represents upside risks.						
Company Profile	Balance sheet (MYRm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Public Bank is Malaysia's third-largest banking group by assets. It also has overseas operations in Cambodia, Vietnam, Laos, and Hong Kong.	Total gross loans	330,468	345,651	357,367	373,042	389,443
	Other interest earning assets	86,086	97,636	107,706	112,708	117,946
	Total gross IEAs	416,554	443,287	465,073	485,750	507,389
	Total provisions	(1,992)	(2,848)	(3,796)	(4,136)	(4,501)
	Net loans to customers	328,476	342,803	353,571	368,906	384,942
	Total net IEAs	414,562	440,439	461,277	481,614	502,888
	Total non-IEAs	18,268	10,818	4,116	4,654	6,247
	Total assets	432,831	451,257	465,393	486,268	509,135
	Customer deposits	353,340	365,871	376,847	395,689	415,474
	Other interest-bearing liabilities	22,017	24,138	24,590	24,838	24,294
	Total IBLs	375,357	390,009	401,437	420,527	439,767
	Total non-IBLs	12,727	12,821	12,607	12,108	11,940
	Total liabilities	388,084	402,830	414,044	432,634	451,707
	Share capital	9,418	9,418	9,418	9,418	9,418
	Shareholders' equity	43,594	47,248	50,101	52,307	56,017
	Minority interests	1,152	1,178	1,248	1,327	1,412
	Asset quality and capital	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Reported NFLs / gross cust loans (%)	0.5	0.4	0.6	0.6	0.6
	Total provisions / reported NFLs (%)	124.1	227.7	177.0	201.6	210.2
	CET-1 ratio (%)	12.7	12.7	13.3	14.0	14.4
	Tier-1 ratio (%)	12.7	12.8	13.3	14.1	14.4
	Total capital ratio (%)	16.0	15.9	16.7	17.4	17.7

Source: Company data, RHB

Results At a Glance

Figure 1: Summary of Public Bank's 4Q20 and FY20 results

FYE Dec (MYRm)	4Q19	3Q20	4Q20	QoQ (%)	YoY (%)	FY19	FY20	YoY (%)	Comments – 4Q20 vs 3Q20
NII (+Islamic banking)	2,232	2,307	2,307	0	3	8,701	8,491	-2	
NIM (%)	2.17	2.09	0.00			2.15	1.92		
Non-II	618	780	722	-7	17	2,401	2,821	18	Lower QoQ due to lower realised investment gains.
Non-II/total income (%)	21.7	25.3	23.8			21.6	24.9		
Operating income	2,850	3,088	3,029	-2	6	11,102	11,312	2	
Overhead expenses	(985)	(948)	(992)	5	1	(3,819)	(3,909)	2	Higher QoQ on increased staff costs.
CIR (%)	34.6	30.7	32.7			34.4	34.6		
Pre-impairment profit	1,865	2,139	2,038	-5	9	7,283	7,403	2	
Impairments on financial assets	(0)	(4)	(5)	18	>100	2	(14)	>100	
Impairments losses on loans & advances	(43)	(335)	(557)	66	>100	(154)	(1,106)	>100	Further pre-emptive provisions made during 4Q20.
Credit cost (bps) - annualised	5	40	65			5	33		
Operating profit	1,822	1,801	1,476	-18	-19	7,131	6,283	-12	
Associates	1	2	(2)	>100	>100	3	2	-37	
Pre-tax profit	1,822	1,803	1,475	-18	-19	7,134	6,285	-12	
Tax	(402)	(389)	(309)	-21	-23	(1,555)	(1,353)	-13	
Effective tax rate (%)	22.1	21.6	21.0	-3	-5	21.8	21.5	-1	
Minorities	(14)	(21)	(17)	-15	21	(68)	(61)	-11	
Net profit	1,406	1,393	1,148	-18	-18	5,512	4,872	-12	
Gross loans	330,468	342,342	345,651	1	5				
Customer deposits	353,340	363,803	365,871	1	4				
Gross impaired loans	1,605	1,115	1,251	12	-22				
Total assets	432,831	450,310	451,257	0	4				
Shareholders' funds	43,594	46,082	47,248	3	8				
ROAA (%)	1.32	1.27	1.03			1.3	1.1		
ROAE (%)	13.0	12.3	9.8			13.0	10.7		
LDR (%)	93.0	93.5	93.7						
Gross impaired loan ratio (%)	0.49	0.33	0.36						
Loan loss coverage (%)	124.1	209.1	227.7						

Source: Company data, RHB

Figure 2: Public Bank – FY20 achievements and FY21F management guidance

	FY20 achievements	FY21 targets	Comments
NIM	1.95%	+10-15bps	<ul style="list-style-type: none"> The expansion will be driven by the void of modification loss; No OPR cut is expected by management.
Loan growth	4.6%	3-4%	<ul style="list-style-type: none"> Loan growth depends on how quickly the economic activities pick up.
Credit cost	33bps	20-25bps	<ul style="list-style-type: none"> Expect lower YoY as the economy recovers, but to remain elevated, as near-term risks linger (eg MCO 2.0).
ROE	11.2%	≥11%	<ul style="list-style-type: none"> Uplift mainly from YoY lower credit cost.
GIL ratio	0.33%	<1%	<ul style="list-style-type: none"> Management expects some slippages in asset quality, but largely manageable.

Source: Company data, RHB

Revisions in earnings forecast

Our FY21F earnings are unchanged, as the NIM expansion effect guided by management is partly curbed by our expectation of one rate cut, according to RHB economists.

Figure 3: Public Bank – revisions to forecasts

	Net profit (MYRm)			EPS (MYR)			DPS (MYR)		
FYE Dec	Previous	Revised	% Chg	Previous	Revised	% Chg	Previous	Revised	% Chg
2021F	5,340	5,341	0.0	0.28	0.28	0.0	0.12	0.14	13.3
2022F	5,940	6,053	1.9	0.31	0.31	1.9	0.14	0.14	0.0
2023F	n.a.	6,548	n.m.	n.a.	0.34	n.m.	n.a.	0.15	n.m.

Source: RHB

Valuation and TP

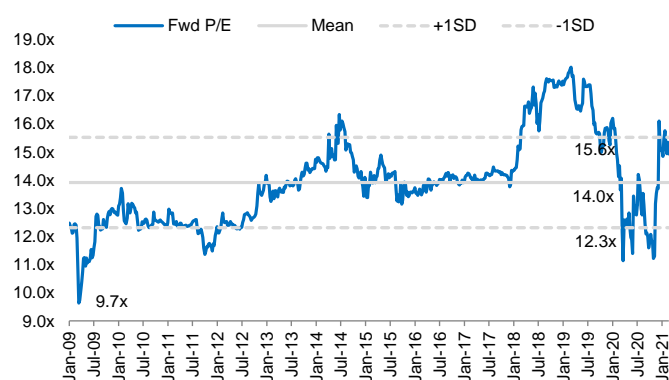
Our GGM-derived TP is unchanged at MYR4.30, which values Public Bank at 1.7x FY21F P/BV against 11.6% ROE.

Figure 4: GGM valuation

Cost of equity (COE) computation:		Sustainable ROE (%)	11.6
Risk free rate (%)	2.9	COE (%)	7.7
Equity premium (%)	5.5	Long-term growth (g)	2.0
Beta (x)	0.9	Implied P/BV (x)	1.7
Cost of equity - CAPM (%)	7.7	BVPS – FY21F	MYR2.61
		Target price	MYR4.33
		TP (rounded)	MYR4.30

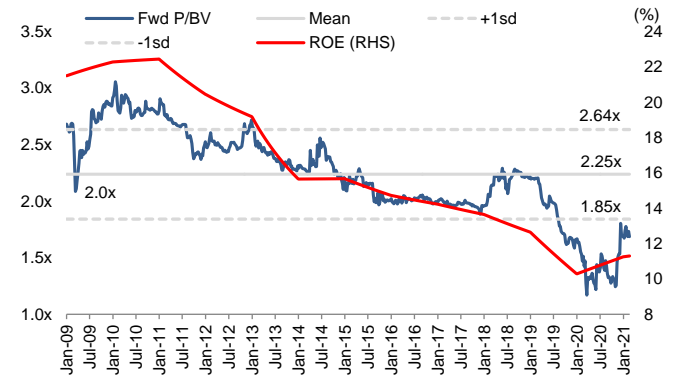
Source: Company data, RHB

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



Source: Bloomberg, RHB

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



Source: Bloomberg, RHB

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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
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Not Rated:	Stock is not within regular research coverage

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