

PP14767/09/2012(030761)

Tuesday, April 21, 2015

Public Bank Berhad

“Steady 1Q15”

We advise investors to accumulate Public Bank Berhad (PBB) given (1) above average ROE for banking industry; (2) dominance in domestic household loans; and (3) impressive asset quality and cost control. We value PBB at RM20.60 based on 2.6x P/BV and the stock is a HOLD.

Results Review

- Actual vs. expectations.** Public Bank Berhad (PBB) started FY15 with bright performance after posting 1Q15 revenue of RM4.6 billion that was higher by 17% y-o-y and 2% q-o-q. The performance was again supported by non-interest income (NOI), however, as expected, net interest income (NII) growth was halted due to the escalating cost of deposits.
- Bottomline.** PAT touched RM1.18 billion in 1Q15, surging 15% y-o-y, but weakened 6% q-o-q on seasonally higher personnel cost due to bonuses and increment. However, remaining expenses still under control. 3M15’s PAT of RM1.18 billion was in line with our forecast, representing 24.9% of our forecast and 25% consensus forecast respectively.
- Dividend.** No dividend declared in this quarter, however the prospect of 2.6% yield remains intact.
- Loans growth was resilient.** PBB’s gross loans growth still resilient despite the industry’s slowdown in several sectors. PBB’s loans growth in 1Q15 was at 11.7% y-o-y vs. 9%-10% for full year guidance. Notably, PBB’s domestic gross loans growth remained strong at 10.9% y-o-y. However, we notice that the sluggish property market now starting to take effect. PBB’s residential property rose marginally by 2.5% y-o-y, with unchanged market share of 19.3%.

HOLD (Target Price: RM20.60)

Current Price (RM)	RM19.60
New Fair Value (RM)	RM20.60
Previous Fair Value (RM)	RM20.60
Previous Recommend.	BUY
Upside To Fair Value	5.1%
Dividend Yield (FY15)	2.6%

Stock Code

Bloomberg	PBK MK
-----------	--------

Stock & Market Data

Listing	MAIN MARKET	
Sector	Finance	
Shariah Compliance	No	
Issued Shares (mn)	3,861.5	
Market Cap (RM mn)	75,685.3	
YTD Chg In Share Price	7.1%	
Beta (x)	0.84	
52-week Hi/Lo (RM)	RM20.93	RM17.40
3M Average Volume (shrs)	18.9mn	
Estimated Free Float	52.7%	

Major Shareholders

Teh Holding	21.7%
EPF	14.0%
Sekuriti Pejal	5.4%

- **Deposit growth recovered well.** PBB's "PB FD Xtra" deposit campaign that expired in February 2015 continued to impress, contributing to the deposit growth of 10.2% y-o-y and well within management target growth of 9%-10%. Additionally, PBB continued to sustain higher level of loan to deposit ratio (LDR) of 88.6% with the target capped at 90%.
- **Pressure on Net interest margin (NIM).** Despite managing to grow deposits, the compression in NIM was inevitable due to offering rate of deposits campaign that saw NIM declined further by 5 bps q-o-q to 2.15%. Similarly, the impact of portfolio rebalancing will add to the compression and we expect the rebalancing will continue for another three years before stabilizing but the magnitude of impact will reduce over time.
- **Asset quality at remains impressive.** Asset quality continued to improve with gross impaired loans (GIL) ratio dropping to 0.6% vs. 0.61% in 12M14. In line with this, annualised credit cost ratio was also lower at 10bps (- 6bps). Meanwhile, loan loss coverage (LLC) ratio remained >100% or at 128.1% (+5.7ppts) vs. of industry 106%.
- **Capitalization.** PBK's common equity ratio tier 1 (CET1) now stood comfortably at 10.5% post-right issue. Similarly, Tier 1 and total capital were also higher at 11.7% and 15.2% respectively.
- **Outlook.** Once again, PBB sustained its territory in big ticket items by retaining its market share in property loans segment with market shares of 19.3% for residential mortgages and 33.8% for non-residential mortgages. Additionally, PPB aspirations to grow its NOII contribution likely to be met this year, judging from PBB's 1Q15 annualized premium equivalent (APE) that poised to hit net high in FY15. We predict PBB will be able to safely pass through the sluggish banking environment in FY15 thanks to its sound risk management and careful selective loans portfolio.
- **Change to forecast.** PBB's PAT for FY15 and FY16 is expected to grow by 5% and 4.8% respectively assisted by 1) dominance in domestic loans; 2) initiatives to rebalance loans book; and 3) prudent asset quality management
- **Valuation & recommendation.** We maintain our fair value on PBB at RM20.60 based on 2.6x P/BV and the stock is a **HOLD** call. Re-rating catalyst for PBB could emanate from 1) tie partnership to boost bancassurance products; 2) listing of unit trust division; and 3) swift succession planning.

Table 1: Peers Comparison

Company	Year Ended	Price (RM)	EPS (RM)		P/E (x)		P/B (X)		ROE (%)	Div Yield (%)	TP (RM)	Call
			FY15	FY16	FY15	FY16	FY15	FY16				
AFG	March	4.78	0.4	0.4	12.7	12.0	1.7	1.6	14.3	1.9	5.05	Hold
AMMB	March	6.42	0.6	0.6	11.0	11.0	1.4	1.3	14.1	4.5	7.00	Hold
BIMB	Dec	4.01	0.3	0.4	11.7	11.3	1.8	2.0	16.0	5.8	4.84	Buy
CIMB	Dec	6.15	0.5	0.6	12.1	10.4	1.3	1.5	9.2	3.5	6.10	Hold
Maybank	Dec	9.48	0.7	0.8	12.6	11.9	1.5	1.5	13.6	6.2	10.70	Buy
RHB Cap	Dec	7.85	0.8	0.9	9.7	9.1	1.1	1.1	11.5	1.3	8.30	Hold
PBB	Dec	19.60	1.2	1.3	15.3	14.2	2.6	2.8	18.7	2.9	20.60	Hold
Affin	Dec	2.97	0.3	0.3	9.0	8.5	0.7	0.7	7.8	5.1	NR	NR
MBSB	Dec	2.28	0.2	0.3	9.1	8.4	1.2	1.1	29.6	2.3	NR	NR
STMB	Dec	14.78	NA	NA	NA	NA	NA	NA	24.3	6.6	NR	NR
HL Bank	June	14.04	1.2	1.3	12.0	11.2	1.6	1.5	14.7	2.9	NR	NR
Average			0.6	0.7	11.5	10.8	1.5	1.5	15.8	3.9		

Source: Bloomberg, M&A Securities

Table 2: Financial Summary

YE: Dec (RM million)	1Q15	4Q14	1Q14	y-o-y	q-o-q	3M15	3M14	y-o-y
Revenue	4,600	4,529	3,948	17%	2%	4,600	3,948	17%
Net Interest Income	1,534	1,555	1,403	9%	-1%	1,534	1,403	9%
Islamic Banking Income	204	206	206	-1%	-1%	204	206	-1%
Non-interest income	370	356	323	15%	4%	370	323	15%
Operating income	2,109	2,117	1,931	9%	0%	2,109	1,931	9%
Operating expenses	(703)	(635)	(656)	7%	11%	(703)	(656)	7%
Pre-provision income	1,406	1,482	1,275	10%	-5%	1,406	1,275	10%
Allowances for loan loss	(76)	(63)	(85)	-11%	20%	(76)	(85)	-11%
Impairment	0	0	1	-50%	42%	0	1	-50%
Others	157	146	132	18%	8%	157	132	18%
Associates/joint venture	2	3	3	-50%	-38%	2	3	-50%
PBT	1,489	1,567	1,327	12%	-5%	1,489	1,327	12%
PAT	1,184	1,266	1,027	15%	-6%	1,184	1,027	15%
EPS (sen)	30.3	32.5	29.0	4%	-7%	30.3	29.0	4%
NII margin	33%	34%	36%			33%	36%	
Non-II margin	8%	8%	8%			8%	8%	
PBT Margin	32%	35%	34%			32%	34%	
PAT Margin	26%	28%	26%			26%	26%	

Source: Bursa Malaysia, M&A Securities

Table 3: Financial Forecast

YE: Dec (RM million)	FY12	FY13	FY14	FY15F	FY16F
Interest Income	10,404	11,366	12,636	14,728	15,906.31
Interest expense	(5,150)	(5,796)	(6,706)	(7,975)	(8,772.54)
Net Interest Income (RM'mn)	5,255	5,571	5,930	6,753	7,134
Islamic Banking Income (RM'mn)	844	837	831	970	1,067
Net insurance income	-	-	-	-	-
Net fees and commission	1,165	1,275	1,381	1,525	1,636
Other income	483	475	333	386	388.6
Total non-interest income	1,648	1,751	2,213	1,911	2,025
Operating income	7,747	8,158	8,143	9,633	10,225
Staff costs	(1,668)	(1,745)	(1,878)	(2,092)	(2,259)
Other expenses	(750)	(759)	(727)	(813)	(829)
Pre-provision income	5,329	5,655	5,537	6,729	7,138
Loan impairment allowance	(279)	(351)	(259)	(508)	(609)
Other allowance	(7)	0	1	0	0.1
Associates/joint venture	4	6	5	9	10
PBT	5,047	5,310	5,814	6,230	6,539
Taxation	(1,178)	(1,204)	(1,251)	(1,433)	(1,504)
Minority Interest	(43)	(41)	(45)	(52)	(59)
Net Profit (RM'mn)	3,827	4,065	4,519	4,745	4,976
EPS (sen)	109.3	116.1	123.7	126.5	131.8
PER (x)	12.7	14.7	15.6	14.3	14.5
P/BV (x)	3.0	3.1	3.2	2.1	2.8

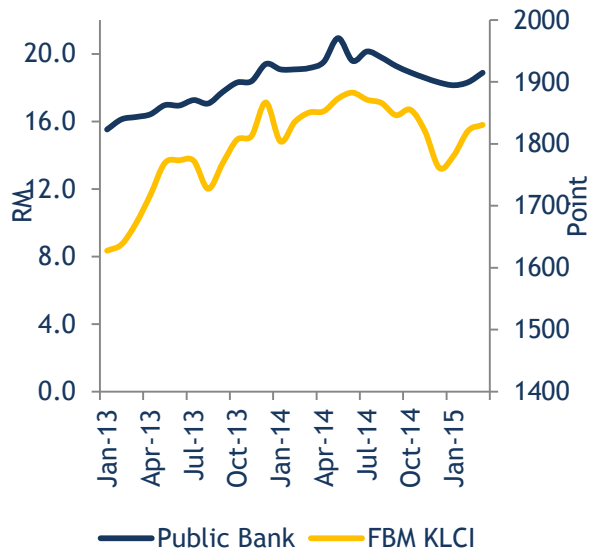
Source: Bursa Malaysia, M&A Securities

Table 4: Operational Ratio

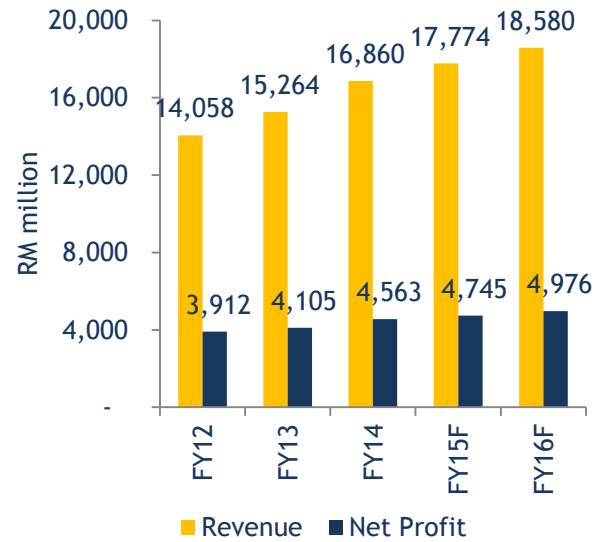
YE: Dec (RM million)	FY12	FY13	FY14	1Q15
Asset Quality				
Gross Impairment (%)	0.7	0.7	0.6	0.6
Allowance/loan loss Coverage (%)	126	118.5	122.4	128
Profitability				
ROA (%)	1.9	1.8	1.8	1.5
ROE (%)	22.9	22.4	19.9	17.1
Cost to income (%)	31.2	30.7	30	30
Lending and Deposit				
Loan Growth (%)	13.5	11.8	10.8%	11.7
Deposit Growth (%)	12.3	11.6	10.2%	10.2
Loan-to-Deposit Ratio (%)	87.89	87.5	88	88
Capital Strength				
CET1	-	8.8	10.8	10.5%
Tier 1	10.8	10.5	12.2	11.7%
Total Capital	14.1	13.8	15.8	15.2%

Source: Bursa Malaysia, M&A Securities

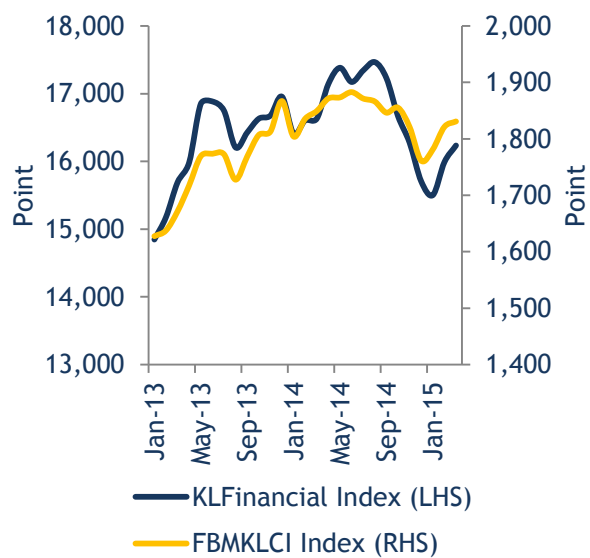
Public Bank Share Price vs. KLCI
(Jan13 -YTD)



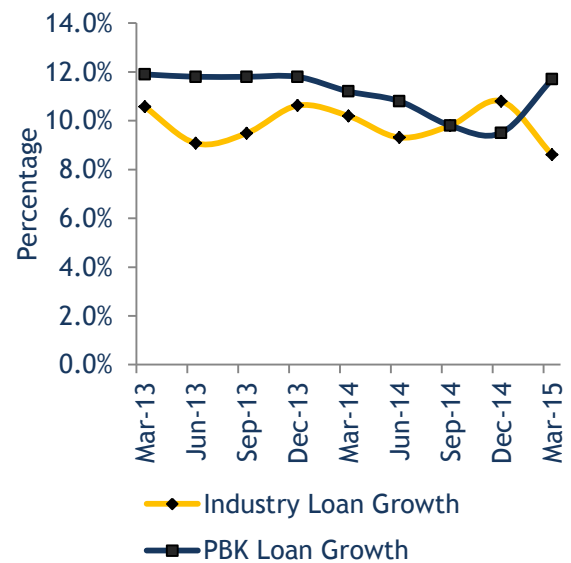
Revenue and Net Profit
(FY12-FY16F)



FBM KLCI vs Financial Index
(Jan13 -YTD)



Industry Loan Growth vs PBK Loan Growth
(Jan13-YTD)



M&A Securities

STOCK RECOMMENDATIONS

BUY	Share price is expected to be $\geq +10\%$ over the next 12 months.
TRADING BUY	Share price is expected to be $\geq +10\%$ within 3-months due to positive newsflow.
HOLD	Share price is expected to be between -10% and $+10\%$ over the next 12 months.
SELL	Share price is expected to be $\geq -10\%$ over the next 12 months.

SECTOR RECOMMENDATIONS

OVERWEIGHT	The sector is expected to outperform the FBM KLCI over the next 12 months.
NEUTRAL	The sector is expected to perform in line with the FBM KLCI over the next 12 months.
UNDERWEIGHT	The sector is expected to underperform the FBM KLCI over the next 12 months.

DISCLOSURES AND DISCLAIMER

This report has been prepared by M&A SECURITIES SDN BHD. Readers should be fully aware that this report is for informational purposes only and no representation or warranty, expressed or implied is made as to the accuracy, completeness or reliability of the information or opinion contained herein. The recommendation and opinion are based on information obtained or derived from sources believed to be reliable.

This report contains financial forecast/projection based on our assumptions which may defer from the actual financial results announced by the companies under coverage. All opinions, estimates and assumptions are subject to change without notice. Analysts will initiate, update and cease coverage solely at the discretion of M&A SECURITIES SDN BHD.

Investors are to be cautioned that value of any securities invested may fluctuate from time to time. We advise investors to seek financial, legal and other advice for investing based on the recommendation of our report as we have not taken into account each investors' specific investment objectives, risk tolerance and financial position.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. M&A SECURITIES SDN BHD can accept no liability for any consequential loss or damage whether direct or indirect. Investment should be made at investors' own risks.

M&A SECURITIES SDN BHD and INSAS GROUP of companies, their respective directors, officers, employees and connected parties may have interest in any of the securities mentioned and may benefit from the information herein. M&A SECURITIES SDN BHD and INSAS GROUP of companies and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This report may not be reproduced, distributed or published in any form or for any purpose.

M & A Securities Sdn Bhd (15017-H)
(A wholly-owned subsidiary of INSAS BERHAD)
A Participating Organisation of Bursa Malaysia Securities Berhad

Principal Office:
Level 1,2,3 No.45 & 47,43-6
The Boulevard, Mid Valley City,
Lingkaran Syed Putra,
59200 Kuala Lumpur
Tel: +603 - 2282 1820 Fax: +603 - 2283 1893
Website: www.mnaonline.com.my

