

PP14767/09/2012(030761)

Public Bank Berhad

“No Slowdown”

Results Review

- Actual vs. expectations.** Public Bank Berhad (PBB) 1H15 net profit of RM2.39 billion that soared by 14.4% y-o-y came in line with ours and consensus estimates respectively, accounting 53% and 50% of ours and consensus full year net profit forecast. The encouraging earnings were aided by the growth in non-interest income (NOII) by 15.2% y-o-y as well as prudent cost that kept allowance loan loss lower by 9% in 1H15.
- Dividend.** In view of higher earnings, PBB announced higher dividend of 24 cent in 1H15 vs. 23 cent in 1H14, equivalent to 39% payout ratio.
- Topline vs. Bottomline.** 1H15 net income gained satisfactorily to RM4.5 billion (10% y-o-y) mainly due to the immense gains in NOII of RM1.07 billion (+15% y-o-y). However, despite pressure in cost of funds, net interest income (NII) jumped to RM3.1 billion (+10% y-o-y). Pre-provision profit stabilized at RM688 million (+1% y-o-y).
- Decent momentum of loans growth.** PBB’s gross loans growth still resilient despite the industry’s slowdown in several sectors. PBB’s loans growth in 1H15 was at 11.4% y-o-y, or +11.2% at annualized basis vs. 9%-10% full year guidance, aided by strengthening of the USD vs. Ringgit and improving retail operation by +5.4% YTD or 10.7% y-o-y. HK/China and Cambodia saw loans jumped 24% y-o-y and 32% y-o-y respectively, supported in part by currency gains.

Friday, July 31, 2015

BUY (Target Price: RM21.70)

Current Price (RM)	RM18.88
New Fair Value (RM)	RM21.70
Previous Fair Value (RM)	RM21.70
Previous Recommend.	BUY
Upside To Fair Value	15%
Dividend Yield (FY15F)	3%

Stock Code

Bloomberg	PBK MK
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Stock & Market Data

Listing	MAIN MARKET	
Sector	Finance	
Shariah Compliance	No	
Issued Shares (mn)	3,861.5	
Market Cap (RM mn)	72,905	
YTD Chg In Share Price	3.17%	
Beta (x)	0.9	
52-week Hi/Lo (RM)	RM19.90	RM17.40
3M Average Volume (shrs)	4.515mn	
Estimated Free Float	52.7%	

Major Shareholders

Teh Holdings	21.7%
EPF	15.2%
Sekuriti Pejal	5.4%

- **Deposit growth kept pace.** Deposits continued to be buoyant, rising 11.6% y-o-y as a result from 3 deposits campaign offerings. The growth was fuelled by core deposit by 4% y-o-y while competition for wholesale deposit intensified with only 2% y-o-y growth. PBB continued to sustain higher level of loan to deposit ratio (LDR) of 87% with the target capped at 90%.
- **Pressure on Net interest margin (NIM).** Compression in NIM was inevitable derailed by above-average deposits growth as well as ongoing substitution of the mortgage book with newer, lower yielding loans that shaved NIM by 9bps YTD. For FY15, PBB targets NIM to compress by 12bps and hence, we expect the rebalancing portfolio to slowdown in coming quarters and this will drive NIM to stabilize further.
- **Asset quality at remains impressive.** Asset quality continued to improve with gross impaired loans (GIL) ratio dropping to 0.5% vs. 0.6% in FY14. In line with this, annualised credit cost ratio was also lower at 10bps (- 6bps). Meanwhile, loan loss coverage (LLC) ratio remained >100% or at 129.2% (+6.8ppts) vs. of industry 106%.
- **Capitalization.** PBK's common equity ratio tier 1 (CET1) now stood comfortably at 10.7% post-right issue. Similarly, Tier 1 and total capital were also higher at 11.9% and 15.4% respectively.
- **Outlook.** Despite sluggish sentiment post-GST implementation that may slow-down private consumption, PBB seems unperturbed with no slower performance recorded. NOII contribution is likely to be met this year with contribution to total income rising by 1bps to 24%. We predict PBB will be able to safely pass through the sluggish banking environment in FY15 thanks to its sound risk management and selective loans portfolio.
- **Change to forecast.** We have done some housekeeping exercise and came out with new FY15 and FY16 earning forecast. In that, we have cut our earning assumption by 5% in FY15, but we raised our forecast by 3.7% in FY16. Given this, FY15's earnings are expected to drop marginally by 1% y-o-y and to grow by 9% y-o-y in FY16 driven by 1) dominance in domestic loans; 2) initiatives to rebalance loans book; and 3) prudent asset quality management.
- **Valuation & recommendation.** We have a **BUY** call on a stock with unchanged TP of RM21.70 pegged at 3-year average P/BV of 3.1x. 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	4.23	0.4	0.4	12.7	12.0	1.7	1.6	14.3	1.9	5.05	Buy
AMMB	March	5.58	0.6	0.6	11.0	11.0	1.4	1.3	14.1	4.5	6.80	Buy
BIMB	Dec	4.20	0.3	0.4	11.7	11.3	1.8	2.0	16.0	5.8	4.84	Buy
CIMB	Dec	5.22	0.5	0.6	12.1	10.4	1.3	1.5	9.2	3.5	6.10	Buy
Maybank	Dec	9.02	0.7	0.8	12.6	11.9	1.5	1.5	13.6	6.2	10.70	Buy
RHB Cap	Dec	7.40	0.8	0.9	9.7	9.1	1.1	1.1	11.5	1.3	8.35	Buy
Public Bank	Dec	18.90	1.2	1.3	15.3	14.2	2.6	2.8	18.7	2.9	21.70	Buy
Affin	Dec	2.52	0.3	0.3	9.0	8.5	0.7	0.7	7.8	5.1	NR	NR
MBSB	Dec	1.78	0.2	0.3	9.1	8.4	1.2	1.1	29.6	2.3	NR	NR
STMB	Dec	3.94	NA	NA	NA	NA	NA	NA	24.3	6.6	NR	NR
HL Bank	June	13.56	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&amp;A Securities

Table 2: Financial Summary

YE: Dec (RM million)	2Q15	1Q15	2Q14	y-o-y	q-o-q	6M15	6M14	y-o-y
Revenue	2,313	2,265	2,100	10%	2%	4,578	4,163	10%
Gross Interest income	3,534	3,455	3,031	17%	2%	6,990	5,969	17%
Interest expense	-1,975	-1,921	-1,609	23%	3%	-3,896	-3,144	24%
Net interest income	1,560	1,534	1,422	10%	2%	3,094	2,825	10%
Islamic banking income	209	204	204	3%	2%	413	409	1%
Fee and commission income	389	370	347	12%	5%	759	670	13%
Net gains and losses on financial instrument	65	58	47	39%	12%	123	100	22%
Other income	91	98	81	13%	-7%	190	159	19%
Net income	2,313	2,265	2,100	10%	2%	4,578	4,163	10%
Operating expenses	-722	-703	-666	8%	3%	-1,425	-1,322	8%
Pre-provision income	1,591	1,562	1,434	11%	2%	3,153	2,841	11%
Allowance loan loss	-61	-76	-65	-6%	-20%	-137	-150	-9%
Writeback of impairment	0	0	0	-401%	-10%	1	1	11%
Operating profit	1,530	1,487	1,369	12%	3%	3,017	2,693	12%
Associate	1	2	-1	-168%	-55%	2	2	6%
PBT	1,531	1,488	1,368	12%	3%	3,020	2,695	12%
Taxation	-318	-304	-300	6%	5%	-623	-600	4%
PAT	1,213	1,184	1,068	14%	2%	2,397	2,095	14%
<u>Margin</u>								
NII	67%	68%	68%			68%	68%	
NOII	24%	23%	23%			23%	22%	
PPOP	69%	69%	68%			69%	68%	
PBT	66%	66%	65%			66%	65%	
PAT	52%	52%	51%			52%	50%	
EPS (sen)	31		30.2			61.3	59.2	

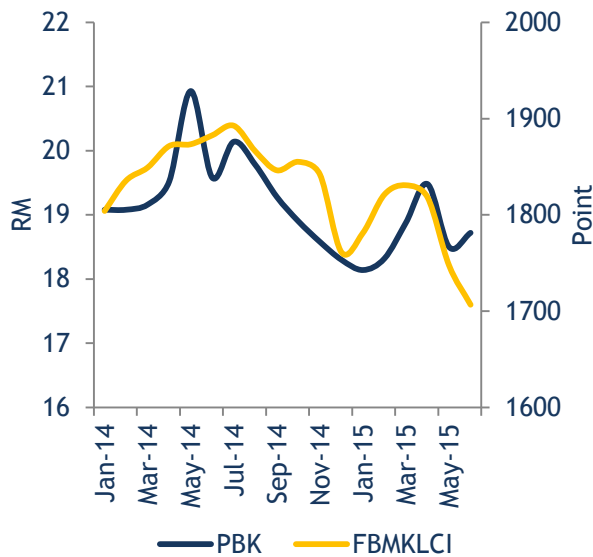
Source: Bursa Malaysia, M&amp;A Securities

Table 3: Financial Forecast

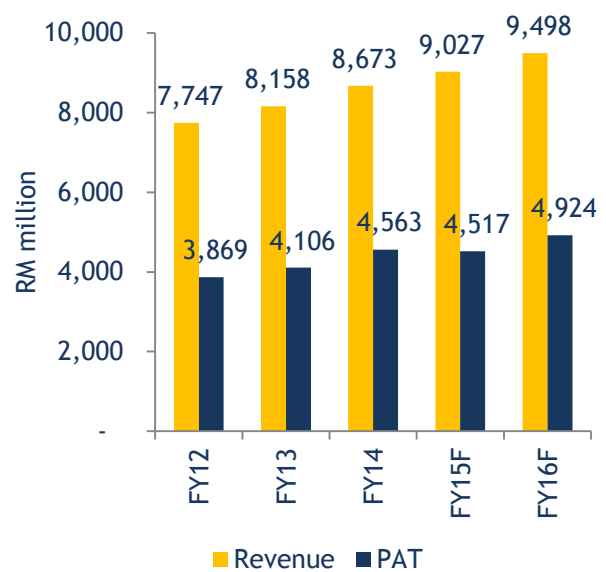
YE: Dec (RM million)	FY12	FY13	FY14	FY15F	FY16F
Gross Interest income	10,404	11,366	12,636	13,315	14,100
Interest expense	(5,150)	(5,796)	(6,706)	(7,169)	(7,621)
Net interest income	5,255	5,571	5,930	6,147	6,480
Islamic banking income	844	837	831	856	882
Fee and commission income	1,165	1,275	1,382	1,451	1,545
Net gains and losses on financial instrument	170	167	197	227	235
Other income	313	308	333	347	357
Net income	7,747	8,158	8,673	9,027	9,498
Operating expenses	(2,418)	(2,504)	(2,606)	(2,683)	(2,759)
Pre-provision income	5,329	5,655	6,067	6,344	6,739
Allowance loan loss	(279)	(351)	(259)	(328)	(179)
Writeback of impairment	(7)	0	1	1	1
Operating profit	5,043	5,304	5,809	6,017	6,561
Associate	4	6	5	5	5
PBT	5,047	5,310	5,814	6,022	6,566
Taxation	(1,178)	(1,204)	(1,251)	(1,506)	(1,641)
PAT	3,869	4,106	4,563.34	4,517	4,924
No of Share	3,502	3,502	3,862	3,862	3,862
EPS (sen)	109.3	116.1	123.7	117.0	127.5
Dividend - sen	50	52	54	53	57
Dividend payment (RMm)	1751	1821	2085	2032	2216
Dividend payout (%)	45%	44%	46%	45%	45%
Retained Earnings	2118	2285	2478	2484	2708
PER (x)	12.3	14.4	16.2	14.8	14.7
BV	3.59	4.25	5.71	6.34	7.02
P/BV	4.40	4.42	3.20	2.97	2.68

Source: Bursa Malaysia, M&amp;A Securities

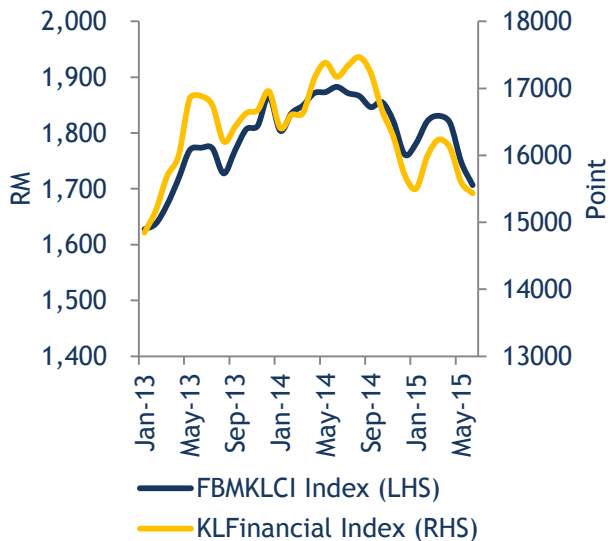
Public Bank Share Price vs. KLCI  
(Jan14 -YTD)



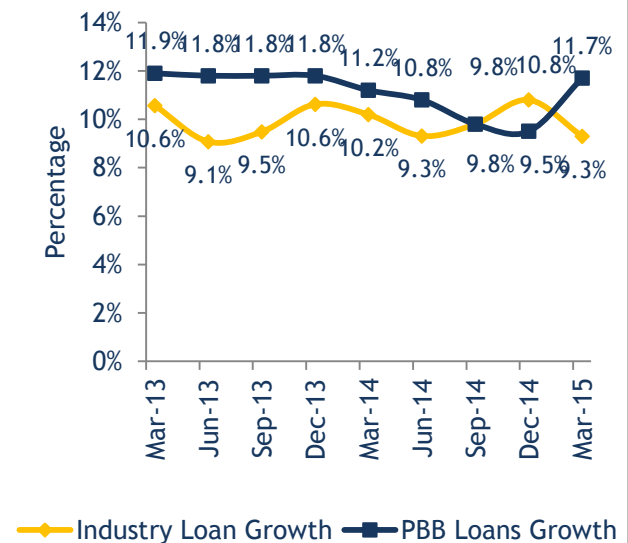
Revenue and Net Profit  
(FY12-FY16F)



FBM KLCI vs Financial Index  
(Jan13 -YTD)



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



# M&A Securities

## STOCK RECOMMENDATIONS

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

## SECTOR RECOMMENDATIONS

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

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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](http://www.mnaonline.com.my)

