

PP14767/09/2012(030761)

Public Bank Berhad

“NIM Improve”

Results Review

- **Actual vs. expectations.** Public Bank Berhad (PBB) 9M15 net profit of RM3.6 billion soared 10% y-o-y and it came in line with ours and consensus estimates respectively, accounting 80% and 76% of ours and consensus full year net profit forecast. The steady earnings were aided by steady growth in non-interest income (NOII) that jumped by 10% y-o-y as well as forex translation gain that lifted by 69% y-o-y.
- **Dividend.** No dividend declared in this quarter.
- **Topline vs. Bottomline.** 9M15 net income gained satisfactorily to RM7.05 billion (10% y-o-y) mainly due to immense gains in NOII of RM1.15 billion (+12% y-o-y) as well as gains in available for sale dividend by 9.6% y-o-y to RM135 million. Surprisingly, interest expense eased to 17% y-o-y in 3Q15 vs. 23% y-o-y in 2Q15 as a result of lower interest on bank deposits by 4.5% q-o-q. Pre-provision profit stabilized at RM4.88 billion (+10% y-o-y).
- **Loans growth still decent.** PBB's gross loans growth was still resilient at 9.3% y-o-y in 9M15, or +12.5% at annualized basis vs. 9%-10% full year guidance, aided by the strengthening of USD vs. Ringgit and lifted by overseas operation such as HK/China and Cambodia that saw loans growth jumped by 28.1% y-o-y and 36.2% y-o-y respectively. Segmentally, domestic retail operation and corporate lending rose 7.9% and 10.2% on annualized basis and pushing domestic loans growth to 7.8% (annualized) in 9M15 vs. 5.2% (annualized) in 6M15.

Friday, October 23, 2015

BUY (TP: RM21.38)

Current Price (RM)	RM18.64
New Fair Value (RM)	RM21.38
Previous Fair Value (RM)	RM21.70
Previous Recommend.	BUY
Upside To Fair Value	14.7%
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)	71,978	
YTD Chg In Share Price	1.86%	
Beta (x)	0.59	
52-week Hi/Lo (RM)	RM19.90	RM17.04
3M Average Volume (shrs)	5.05mn	
Estimated Free Float	52.7%	

Major Shareholders

Teh Holdings	21.7%
EPF	15.4%
Vanguard	2.3%

- **Deposit growth slows down.** Deposits pace slowed down to 9.5% on annualized vs. 13.6% in 6M15 due to discontinuation of deposits offering in August 2015. As a result, domestic deposits growth slowed down to 7.4% annualized vs. 11.9% annualized in 6M15. Nevertheless, the growth was still above industry average of 0.4% annualized. PBB continued to sustain higher level of loan to deposit ratio (LDR) of 90.5% with the target capped at 90%.
- **Relieved on Net interest margin (NIM).** The slower deposits growth drove NIM higher by 5bps to 2.16%. However, we believe the 12bps guidance compression is still intact due to the ongoing substitution of the mortgage book (whereby newer, lower yielding loans replacing older, higher yielding ones) where it did have some impact on the compression but not significantly.
- **Asset quality at remains impressive.** Asset quality improved with gross impaired loans (GIL) ratio dropping to 0.5% vs. 0.6% in FY14. This reduction emanated principally from its residential property portfolio, which saw its NPL ratio slipping by a similar quantum to 0.5%. The NPL ratio for auto HP was stable at 0.7% as was SME financing of just 0.4%. Credit cost rose by 17bps in 3Q15 vs 10bps in 2Q15. Overall loan loss coverage remained very healthy at 130%.
- **Capitalization.** PBK's common equity ratio tier 1 (CET1) now stood comfortably at 10.2% post-right issue. Similarly, Tier 1 and total capital were also higher at 11.4% and 14.8% respectively.
- **Higher opex in 3Q15.** Opex rose by 14.2% y-o-y in 9M15 as a result of higher personnel cost and establishment cost by 12% y-o-y and 17% y-o-y respectively. However, PBB overhead cost was still low compared to other banks with cost to income was at 30.7% vs. 31.1% in 6M15. At this juncture, we discount the possibility of PBB offering mutual separation scheme (MSS) to its staff as its prudent cost management will be key in averting that.
- **Outlook.** PBB once again set the tone for other banks with impressive results and strong loans growth. NOII contribution is likely to offset the weakness in interest income in the future with total contribution 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 maintain our FY15 and FY16 earnings as 9M15 results were within our expectation. At this juncture, 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 value PBB at RM21.38 as we incorporate +0.5 standard deviation above mean of P/BV of 3.02x given PBB steady performance despite sluggish banking industry performance. That said, we maintain our **BUY** call on PBB. 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	YE	Price (RM)	EPS (RM)		P/E (x)		P/B (X)		ROE (%)	Div Yield (%)	TP (RM)	Call
			FY15	FY16	FY15	FY16	FY15	FY16				
AFG	Mac	3.63	0.4	0.4	12.7	12.0	1.7	1.6	14.3	1.9	4.00	Hold
AMMB	Mac	4.90	0.6	0.6	11.0	11.0	1.4	1.3	14.1	4.5	5.10	Hold
BIMB	Dec	4.20	0.3	0.4	11.7	11.3	1.8	2.0	16.0	5.8	4.60	Buy
CIMB	Dec	4.89	0.5	0.6	12.1	10.4	1.3	1.5	9.2	3.5	4.90	Hold
Maybank	Dec	8.59	0.7	0.8	12.6	11.9	1.5	1.5	13.6	6.2	9.92	Buy
RHB Cap	Dec	6.21	0.8	0.9	9.7	9.1	1.1	1.1	11.5	1.3	6.60	Hold
Public Bank	Dec	18.64	1.2	1.3	15.3	14.2	2.6	2.8	18.7	2.9	19.14	Hold
Affin	Dec	2.43	0.3	0.3	9.0	8.5	0.7	0.7	7.8	5.1	NR	NR
MBSB	Dec	1.61	0.2	0.3	9.1	8.4	1.2	1.1	29.6	2.3	NR	NR
STMB	Dec	3.90	NA	NA	NA	NA	NA	NA	24.3	6.6	NR	NR
HL Bank	Jun	14.16	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)	3Q15	2Q15	3Q14	y-o-y	q-o-q	9M15	9M14	y-o-y
Revenue	2,471	2,313	2,248	10%	7%	7,049	6,411	10%
Gross Interest income	3,620	3,534	3,247	11%	2%	10,609	9,216	15%
Interest expense	-1,991	-1,975	-1,696	17%	1%	-5,887	-4,840	22%
Net interest income	1,629	1,560	1,551	5%	4%	4,723	4,376	8%
Islamic banking income	211	209	216	-2%	1%	624	625	0%
Fee and commission income	392	389	356	10%	1%	1,150	1,025	12%
Net gains and losses on financial instrument	52	65	50	3%	-21%	174	150	16%
Other income	188	91	75	151%	106%	378	234	61%
Net income	2,471	2,313	2,248	10%	7%	7,049	6,411	10%
Operating expenses	-741	-722	-649	14%	3%	-2,166	-1,970	10%
Pre-provision income	1,730	1,591	1,599	8%	9%	4,883	4,440	10%
Allowance loan loss	-114	-61	-47	144%	87%	-251	-196	28%
Writeback of impairment	-3	0	0	608%	-742%	-2	0	-532%
Operating profit	1,613	1,530	1,552	4%	5%	4,630	4,245	9%
Associate	1	1	0	1144%	3%	3	2	37%
PBT	1,614	1,531	1,552	4%	5%	4,634	4,247	9%
Taxation	-397	-318	-350	13%	25%	-1,020	-950	7%
PAT	1,217	1,213	1,202	1%	0%	3,614	3,297	10%
<u>Margin</u>								
NII	66%	67%	69%			67%	68%	
NOII	26%	24%	21%			24%	22%	
PPOP	70%	69%	71%			69%	69%	
PBT	65%	66%	69%			66%	66%	
PAT	49%	52%	53%			51%	51%	
EPS (sen)	31.1	24	31.9			92.4	91.2	

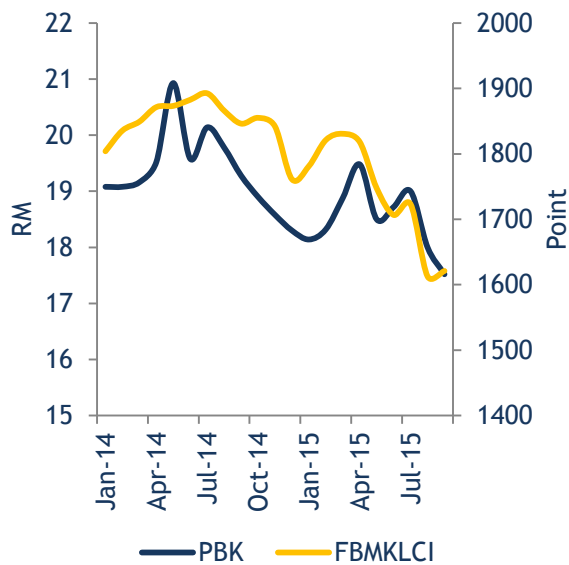
Source: Bursa Malaysia, M&A Securities

Table 3: Financial Forecast

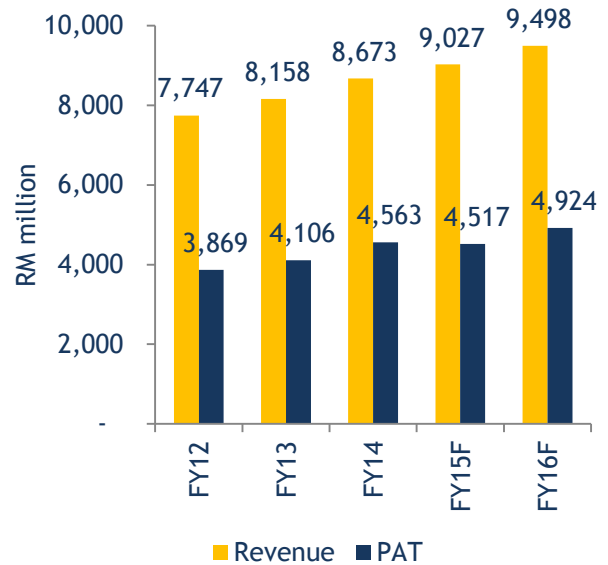
YE: Dec (RM million)	FY12	FY13	FY14	FY15F	FY16F
Gross Interest income	10,404	11,366	12,636	13,315	14,100
Interest expense	(5,150)	(5,796)	(6,706)	(7,169)	(7,621)
Net interest income	5,255	5,571	5,930	6,147	6,480
Islamic banking income	844	837	831	856	882
Fee and commission income	1,165	1,275	1,382	1,451	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&A Securities

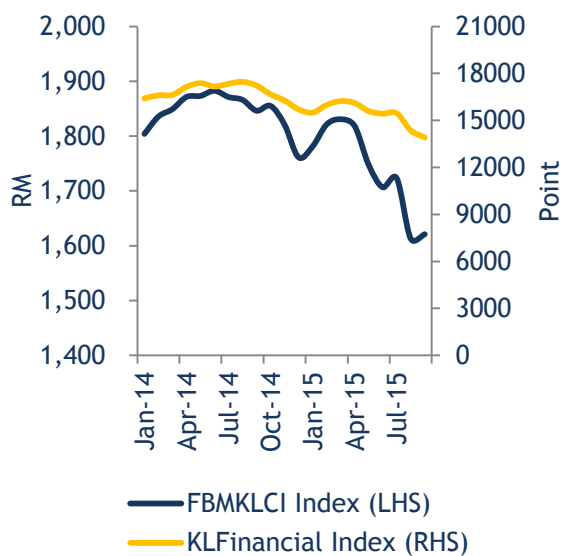
Public Bank Share Price vs. KLCI
(Jan14 -YTD)



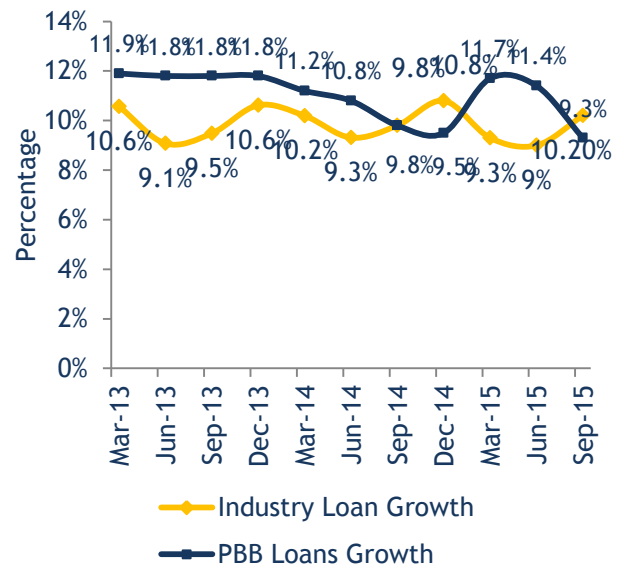
Revenue and Net Profit
(FY12-FY16F)



FBM KLCI vs Financial Index
(Jan14 -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.

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