

# Public Bank (PBK MK)

## Founder passes on

### HOLD maintained

Tan Sri Teh's demise marks the departure of an icon in the banking industry. Nevertheless, he leaves the bank in much capable hands and it should be business as usual at Public Bank. We maintain a HOLD call with an unchanged TP of MYR5.00, which pegs FY23E valuation to a PBV of 1.9x for an ROE of 13%. We prefer HL Bank (HLBK MK; BUY; CP: MYR20.58; TP: MYR24.10) for exposure to the retail banking space.

### A 23.4% stake in the bank

With much regret, Public Bank's founder, Tan Sri Dato' Sri Dr Teh Hong Piow, aged 92, has passed away. He founded the bank at the age of 35, back in 1965. Tan Sri Teh retired as Non-Executive Chairman of the bank on 31 Dec 2018 and was conferred the title of Chairman Emeritus and Adviser of Public Bank on 1 Jan 2019.

### Business as usual

Much as his presence will be missed, it should be business as usual at the banking group, for he has left the bank in capable hands. The management of Public Bank remains intact with Lai Wan (aged 79) as Chairman, Tan Sri Tay Ah Lek (79) as MD, and Dato' Chang Kat Kam (67) as Deputy CEO. The two Senior Chief Operating Officers are Ms Chang Siew Yen (53) and Dato' Sulaiman Abd Manap (65).

### Valuations are high

Tan Sri Teh holds a 23.4% stake in the bank, which at the closing price of MYR4.40 would be worth MYR19.9b. Public Bank trades at a sector-leading historical PBV of 1.7x, though this is justified in terms of its ROE (FY22E: 12%) which is also the highest in the industry. Any M&A being considered could prove to be a costly exercise for any domestic acquiror, in our view. We would expect the shareholding to go into a family trust, at this stage.

FYE Dec (MYR m)	FY20A	FY21A	FY22E	FY23E	FY24E
Operating income	11,312	12,544	13,336	13,890	14,470
Pre-provision profit	7,403	8,579	9,082	9,371	9,740
Core net profit	5,250	5,657	5,955	6,866	7,192
Core EPS (MYR)	0.27	0.29	0.31	0.35	0.37
Core EPS growth (%)	(4.7)	7.7	5.3	15.3	4.7
Net DPS (MYR)	0.13	0.15	0.17	0.19	0.20
Core P/E (x)	15.2	14.3	14.3	12.4	11.9
P/BV (x)	1.7	1.7	1.7	1.6	1.5
Net dividend yield (%)	3.2	3.7	3.8	4.3	4.5
Book value (MYR)	2.43	2.48	2.63	2.80	2.97
ROAE (%)	11.6	11.9	12.0	13.0	12.8
ROAA (%)	1.2	1.2	1.3	1.4	1.4
Consensus net profit	-	-	5,869	6,867	7,217
MKE vs. Consensus (%)	-	-	1.5	(0.0)	(0.3)

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# HOLD

Share Price	MYR 4.40
12m Price Target	MYR 5.00 (+14%)
Previous Price Target	MYR 5.00

### Company Description

Public Bank is a leading retail bank with a dominant market share in the residential property, commercial property and auto financing segments.

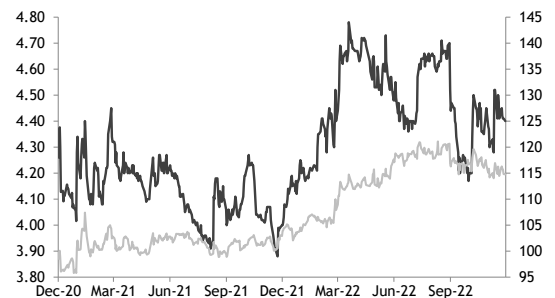
### Statistics

52w high/low (MYR)	4.78/4.00
3m avg turnover (USDm)	21.9
Free float (%)	60.9
Issued shares (m)	19,411
Market capitalisation	MYR85.4B
	USD19.3B

### Major shareholders:

Consolidated Teh Holdings Sdn. Bhd.	21.6%
Employees Provident Fund	14.5%
Kumpulan Wang Persaraan	4.1%

### Price Performance

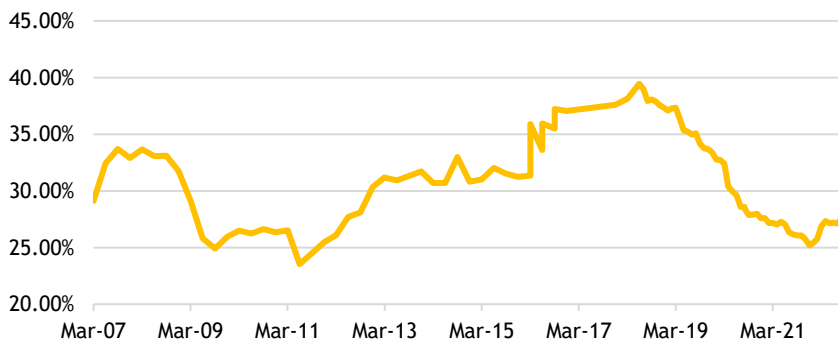


— Public Bank - (LHS, MYR) — Public Bank / Kuala Lumpur Composite Index - (RHS, %)

	-1M	-3M	-12M
Absolute (%)	(1)	(6)	10
Relative to index (%)	(2)	(5)	11

Source: FactSet

**Fig 1: Public Bank’s foreign shareholding (27.5% end-Oct 2022)**

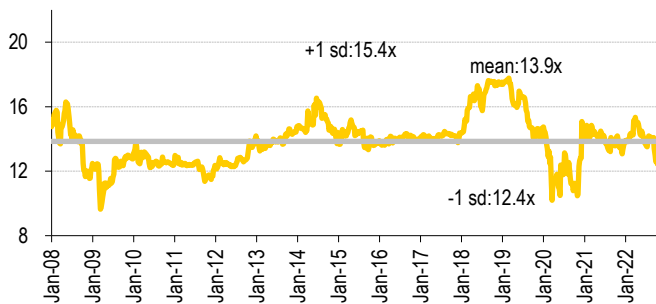


Source: Bank, Maybank IBG Research

**Risk statement**

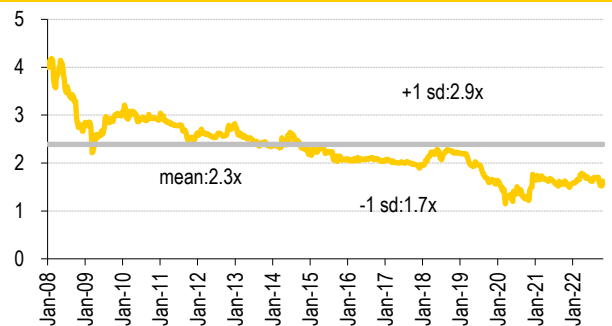
As the third largest domestic financial institution in Malaysia in terms of asset size, any economic slowdown in the country would have a knock-on effect on the group’s operating performance. Predominantly a retail bank, any slowdown in domestic consumption would adversely affect loan demand.

**Fig 2: Public Bank: One-year forward rolling PER (x)**



Source: Bank, Maybank IBG Research

**Fig 3: Public Bank: One-year forward rolling P/BV (x)**



Source: Bank, Maybank IBG Research

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Key Metrics</b>					
Core P/E (x)	15.2	14.3	14.3	12.4	11.9
Core FD P/E (x)	15.2	14.3	14.3	12.4	11.9
P/BV (x)	1.7	1.7	1.7	1.6	1.5
P/NTA (x)	1.8	1.8	1.8	1.6	1.5
Net dividend yield (%)	3.2	3.7	3.8	4.3	4.5
<b>INCOME STATEMENT (MYR m)</b>					
Interest income	14,184.2	13,474.6	14,879.8	15,660.3	16,435.6
Interest expense	(7,004.5)	(5,159.5)	(5,682.5)	(6,117.8)	(6,526.7)
<b>Net interest income</b>	<b>7,179.8</b>	<b>8,315.0</b>	<b>9,197.3</b>	<b>9,542.5</b>	<b>9,908.9</b>
Islamic banking income	1,311.4	1,613.7	1,694.4	1,779.1	1,868.0
Net insurance income	0.0	0.0	0.0	0.0	0.0
Net fees and commission	1,145.8	1,264.7	2,018.9	2,115.2	2,210.4
Other income	1,675.4	1,351.1	425.1	453.5	482.8
<b>Total non-interest income</b>	<b>2,821.2</b>	<b>2,615.8</b>	<b>2,444.1</b>	<b>2,568.7</b>	<b>2,693.2</b>
<b>Operating income</b>	<b>11,312.4</b>	<b>12,544.5</b>	<b>13,335.7</b>	<b>13,890.3</b>	<b>14,470.1</b>
Staff costs	(2,866.5)	(2,896.2)	(3,041.0)	(3,193.1)	(3,352.7)
Other operating expenses	(1,042.9)	(1,069.1)	(1,212.7)	(1,326.3)	(1,377.2)
<b>Operating expenses</b>	<b>(3,909.5)</b>	<b>(3,965.3)</b>	<b>(4,253.7)</b>	<b>(4,519.4)</b>	<b>(4,729.9)</b>
<b>Pre-provision profit</b>	<b>7,402.9</b>	<b>8,579.2</b>	<b>9,082.0</b>	<b>9,370.9</b>	<b>9,740.2</b>
Loan impairment allowances	(1,106.3)	(1,201.2)	(550.6)	(461.5)	(401.9)
Other allowances	(13.7)	(5.9)	0.0	0.0	0.0
Associates & JV income	2.1	(5.5)	(5.7)	(6.0)	(6.3)
<b>Pretax profit</b>	<b>6,285.1</b>	<b>7,366.6</b>	<b>8,525.7</b>	<b>8,903.4</b>	<b>9,332.0</b>
Income tax	(1,352.8)	(1,636.7)	(2,500.6)	(1,958.7)	(2,053.0)
Minorities	(60.6)	(73.3)	(70.4)	(78.2)	(86.8)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
<b>Reported net profit</b>	<b>4,871.7</b>	<b>5,656.5</b>	<b>5,954.7</b>	<b>6,866.5</b>	<b>7,192.2</b>
<b>Core net profit</b>	<b>5,250.5</b>	<b>5,656.5</b>	<b>5,954.7</b>	<b>6,866.5</b>	<b>7,192.2</b>
<b>BALANCE SHEET (MYR m)</b>					
Cash & deposits with banks	19,698.1	17,530.6	18,407.1	19,327.5	20,293.9
Sec. under resale agreements	202.8	0.0	0.0	0.0	0.0
Derivatives financial assets	287.0	140.4	0.0	0.0	0.0
Dealing securities	1,583.5	1,016.0	1,036.3	1,057.1	1,078.2
Available-for-sale securities	76,151.4	79,415.4	84,180.3	89,231.1	94,585.0
Investment securities	0.0	0.0	0.0	0.0	0.0
Loans & advances	342,802.8	354,052.5	372,129.7	390,987.0	408,505.4
Central bank deposits	1,134.9	1,222.2	1,170.8	1,230.1	1,285.1
Investment in associates/JVs	78.4	115.4	109.7	103.7	97.4
Insurance assets	0.0	0.0	0.0	0.0	0.0
Fixed assets	2,697.3	2,577.1	2,654.4	2,734.0	2,816.1
Intangible assets	2,417.7	2,459.4	2,459.4	2,459.4	2,459.4
Other assets	4,202.8	4,210.4	4,344.5	4,484.7	4,631.3
<b>Total assets</b>	<b>451,256.9</b>	<b>462,739.5</b>	<b>486,492.4</b>	<b>511,614.6</b>	<b>535,751.7</b>
Deposits from customers	365,870.8	380,394.2	400,139.5	420,416.1	439,253.1
Deposits from banks & FIs	10,742.2	8,123.8	8,530.0	8,956.5	9,404.3
Derivatives financial instruments	0.0	0.0	0.0	0.0	0.0
Subordinated debt	0.0	0.0	0.0	0.0	0.0
Other securities in issue	0.0	0.0	0.0	0.0	0.0
Other borrowings	17,686.5	17,465.6	18,193.6	19,016.2	19,945.8
Insurance liabilities	0.0	0.0	0.0	0.0	0.0
Other liabilities	8,530.8	7,330.5	7,251.1	7,590.4	8,108.2
<b>Total liabilities</b>	<b>402,830.2</b>	<b>413,314.0</b>	<b>434,114.2</b>	<b>455,979.2</b>	<b>476,711.4</b>
Share capital	9,417.7	9,417.7	9,417.7	9,417.7	9,417.7
Reserves	37,830.6	38,745.0	41,683.0	44,924.4	48,309.9
Shareholders' funds	47,248.3	48,162.7	51,100.6	54,342.0	57,727.6
Preference shares	0.0	0.0	0.0	0.0	0.0
Minority interest	1,178.4	1,262.7	1,277.6	1,293.4	1,312.7
<b>Total equity</b>	<b>48,426.6</b>	<b>49,425.4</b>	<b>52,378.2</b>	<b>55,635.4</b>	<b>59,040.3</b>
<b>Total liabilities &amp; equity</b>	<b>451,256.9</b>	<b>462,739.5</b>	<b>486,492.4</b>	<b>511,614.6</b>	<b>535,751.7</b>

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Key Ratios</b>					
<b>Growth (%)</b>					
Net interest income	(5.2)	15.8	10.6	3.8	3.8
Non-interest income	17.5	(7.3)	(6.6)	5.1	4.8
Operating expenses	2.4	1.4	7.3	6.2	4.7
Pre-provision profit	1.6	15.9	5.9	3.2	3.9
Core net profit	(4.7)	7.7	5.3	15.3	4.7
Gross loans	4.6	3.6	5.1	4.5	4.5
Customer deposits	3.5	4.0	5.2	5.1	4.5
Total assets	4.3	2.5	5.1	5.2	4.7
<b>Profitability (%)</b>					
Non-int. income/Total income	24.9	20.9	18.3	18.5	18.6
Average lending yields	3.62	3.38	3.57	3.57	3.57
Average cost of funds	2.11	1.53	1.63	1.67	1.70
Net interest margin	1.95	2.22	2.34	2.31	2.29
Cost/income	34.6	31.6	31.9	32.5	32.7
<b>Liquidity (%)</b>					
Loans/customer deposits	93.7	93.1	93.0	93.0	93.0
<b>Asset quality (%)</b>					
Net NPL	0.3	0.2	0.3	0.2	0.2
Gross NPL	0.4	0.3	0.3	0.3	0.3
(SP+GP)/average gross loans	0.3	0.3	0.2	0.1	0.1
Loan loss coverage	227.7	360.7	354.5	209.6	216.6
<b>Capital adequacy (%)</b>					
CET1	14.0	14.9	14.5	14.6	14.8
Tier 1 capital	14.0	14.9	14.5	14.6	14.8
Risk-weighted capital	17.1	18.1	17.2	17.2	17.3
<b>Returns (%)</b>					
ROAE	11.6	11.9	12.0	13.0	12.8
ROAA	1.2	1.2	1.3	1.4	1.4
Shareholders equity/assets	10.5	10.4	10.5	10.6	10.8

Source: Company; Maybank IBG Research

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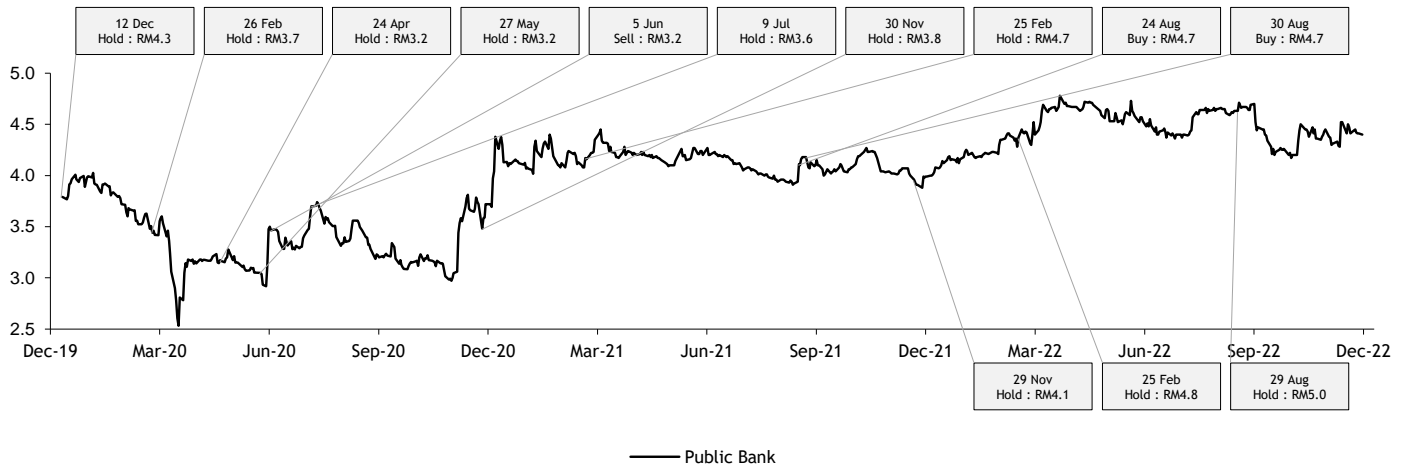
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## Historical recommendations and target price: Public Bank (PBK MK)



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