

Public Bank (PBK MK)

To acquire 44.15% of LPI

BUY

Share Price	MYR 4.57
12m Price Target	MYR 5.40 (+18%)
Previous Price Target	MYR 5.40

BUY maintained

Public Bank's proposed acquisition of a 44.15% stake in LPI Capital (LPI) for MYR1.72b is mildly positive to the group, in our view, with a marginal 1.4% enhancement in FY25E earnings and a slight uplift in ROEs. Positively, capital ratios would still be comfortable, post the acquisition. Our forecasts are maintained, as is our BUY on Public Bank, with an unchanged TP of MYR5.40 (FY25E PBV of 1.7x; ROE: 12.7%).

MYR1.72b for 44.15%

Public Bank has proposed the acquisition of a 44.15% stake in LPI Capital (LPI MK, CP: MYR13.00; Not Rated) for a total cash consideration of MYR1.72b or MYR9.80/share (25% discount to current share price of MYR13.00). The 44.15% comprises 1.41% from the Estate of the Late Tan Sri Dato Sri Dr Teh Hong Piow, and 42.74% as held by Consolidated Teh Holdings Sdn Bhd. Public Bank will be making a Mandatory General Offer (MGO) for the remaining shares at MYR9.80/LPI share, but given the large discount, we expect little acceptance, if any. Public Bank states its intention to maintain LPI's listing status.

Mildly positive to Public Bank

At MYR9.80/share, this is a 25% discount to LPI's current share price of MYR13.00. At this offer price, the stake is being purchased at a forward FY24E PER of 10.5x and a PBV of 1.7x, based on consensus estimates. Based on the acquisition value of MYR1.72b, we expect Public Bank's CET1 ratio at the commercial bank to decline to 12.4% from 13.0%, and to 14.3% from 14.5% at the group, which are still comfortable levels, in our opinion. We estimate a marginal 1.4% enhancement to Public Bank's FY25E earnings and a slight enhancement in FY25E ROAE to 12.9% from 12.7%.

Paring of stakes

Consolidated Teh Holdings and the estate of the late Tan Sri Teh hold a combined 23.4% stake in Public Bank, which is to be pared down to 10% over the next 5 years, via a restricted offer for sale to eligible employees, directors and investors. Separately, LPI holds 212.6m shares (1.1% stake) in Public Bank, which is today worth MYR972m or MYR2.44/LPI share. This shareholding is expected to be disposed off over the next 6-12 months, and we would not rule out the possibility of a special dividend.

FYE Dec (MYR m)	FY22A	FY23A	FY24E	FY25E	FY26E
Operating income	13,438	13,093	13,866	14,638	15,465
Pre-provision profit	9,203	8,678	9,024	9,578	10,177
Core net profit	6,119	6,649	7,015	7,406	7,869
Core EPS (MYR)	0.32	0.34	0.36	0.38	0.41
Core EPS growth (%)	8.2	8.7	5.5	5.6	6.3
Net DPS (MYR)	0.17	0.19	0.21	0.23	0.24
Core P/E (x)	13.7	12.5	12.6	12.0	11.3
P/BV (x)	1.7	1.5	1.6	1.5	1.4
Net dividend yield (%)	3.9	4.4	4.6	5.0	5.3
Book value (MYR)	2.59	2.82	2.93	3.09	3.25
ROAE (%)	12.4	12.7	12.6	12.7	12.8
ROAA (%)	1.3	1.3	1.3	1.3	1.3
Consensus net profit	-	-	6,987	7,390	7,750
MIBG vs. Consensus (%)	-	-	0.4	0.2	1.5

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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)	4.82/4.00
3m avg turnover (USDm)	30.7
Free float (%)	59.6
Issued shares (m)	19,411
Market capitalisation	MYR88.7B
	USD20.7B

Major shareholders:

Consolidated Teh Holdings Sdn. Bhd.	21.6%
Employees Provident Fund	15.6%
Kumpulan Wang Persaraan	4.1%

Price Performance



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

	-1M	-3M	-12M
Absolute (%)	(5)	10	11
Relative to index (%)	(4)	9	(3)

Source: FactSet

1. To acquire LPI Capital

1.1 To acquire a 44.2% stake

Public Bank has proposed the acquisition of a 44.15% stake in LPI Capital (LPI) for a total cash consideration of MYR1.72b or MYR9.80/share. The 44.15% comprises 1.41% from the Estate of the Late Tan Sri Dato Sri Dr Teh Hong Piow, and 42.74% as held by Consolidated Teh Holdings Sdn Bhd.

1.2 Pricing is at a 25% discount to LPI's current share price

The offer price of MYR9.80/LPI share is a 25% discount to LPI's current share price of MYR13.00. Public Bank will be making a Mandatory General Offer (MGO) for the remaining shares at MYR9.80/LPI share, but given the large discount, we expect little acceptance, if any. Public Bank states its intention to maintain LPI's listing status.

2. Pricing is decent

2.1 Offer price at FY24E PER of 10.5x

At MYR9.80/share, the stake is being purchased at a forward FY24E PER of 10.5x and a PBV of 1.7x, based on consensus estimates. Comparatively, Allianz Malaysia (ALLZ MK; CP: MYR20.40; BUY; TP: MYR24.85) trades at a forward FY24E PER of 8.7x and PBV of 1.3x.

3. Neutral impact on Public Bank's financials

3.1 CET1 ratio at the commercial bank level of 12.4%

Based on the acquisition value of MYR1.72b, we expect Public Bank's CET1 ratio at the commercial bank to decline to 12.4% from 13.0%, and to 14.3% from 14.5% at the group, which are still comfortable levels, in our opinion. Public Bank's dividend payout guidance of 50-60% is maintained.

3.2 Mildly positive on earnings

Based on consensus' forecasted FY25E net profit of MYR393m for LPI, we estimate a marginal 1.4% enhancement to Public Bank's FY25E earnings and a slight enhancement in ROAE to 12.9% from 12.7%.

3.3 Will consolidate earnings

With a 44.15% stake and board control, Public Bank will look to consolidate, instead of equity account, LPI's earnings.

4. Synergistic benefits

4.1 Cross-selling opportunities

LPI and Public Bank have had a long-standing relationship by virtue of its similar shareholder, and there have been much cross-selling opportunity over the years. Public Bank's strength in the retail segment, particularly in the mortgage and auto financing markets, have opened up doors for the cross-selling of fire and auto insurance from LPI to Public Bank's customers. Today, LPI derives about 20-23% of its business from Public Bank.

4.2 Enhancement to non-interest income

Public Bank's fee income ratio is the highest among peers, at 14.9% of total income in FY23. A major contributor here has been Public Mutual, which is the largest private mutual fund in the country. Its non-interest income (NOII) ratio of 18.9% in FY23 was, however, lower than peers, due to lower investment and forex income. Contributions from LPI will no doubt go a long way towards bolstering the group's fee income and NOII ratios.

4.3 Integrated products and combined distribution channels

The acquisition of LPI will accelerate the group's push towards a Universal Banking Model, and facilitate the development of integrated products and services. Moreover, LPI's distribution channels, including its 21 physical branches in Malaysia, can be integrated into the group without significant additional investment.

5. Paring of stakes

5.1 Paring of the family's stake in Public Bank to 10%

Consolidated Teh Holdings and the estate of the late Tan Sri Teh currently hold a combined 23.4% stake in Public Bank. The intention is to gradually pare down this stake to 10% over the next five years, via a restricted offer for sale of these shares to eligible employees, directors and investors.

5.2 Sale of LPI's 1.1% in Public Bank - a special dividend?

LPI currently holds 212.6m shares (a 1.1% stake) in Public Bank, which is today worth MYR972m. This shareholding is expected to be disposed off over the next 6-12 months. MYR972m works out to be MYR2.44 per LPI share, and we would not rule out the possibility of a special dividend from this.

6. About LPI Capital

6.1 Operations in Malaysia, Singapore and Cambodia

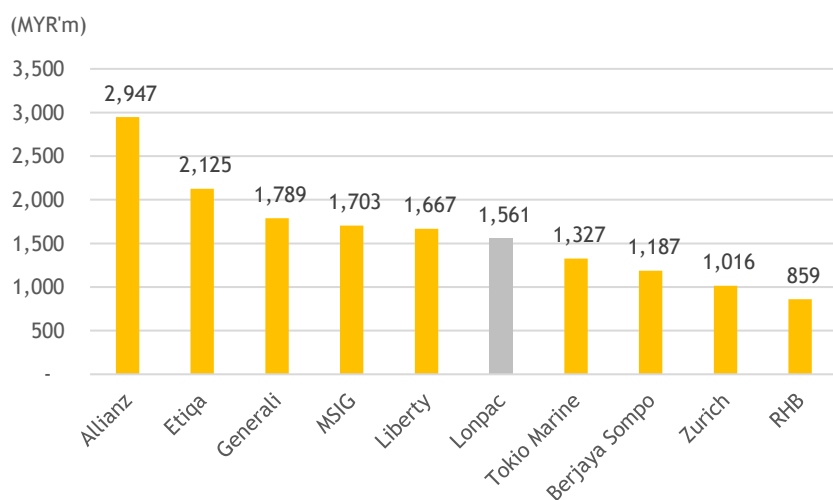
LPI's 100% subsidiary, Lonpac Insurance Bhd, is the sole operational arm for the group's insurance activities in Malaysia and Singapore. Meanwhile the group also has insurance operations in Cambodia under 45%-owned Campu Lonpac Insurance PLC. Public Bank holds the other 55% stake in Campu Lonpac Insurance. LPI has 21 physical branches in Malaysia and 1 in Singapore.

6.2 LPI's size relative to its general insurance peers

There are presently 19 conventional general insurance companies in Malaysia. In 2023, the top six players, with cumulative gross direct premiums of over MYR11.8b, accounted for a 58% of market share. Back then, LPI's 100%-owned subsidiary, Lonpac Insurance, ranked sixth, with a market share of about 7.5% of gross direct premiums.

In 2023, it ranked 1st among peers in Fire insurance with a 16.1% market share, in terms of gross direct premiums. It ranked 2nd in Medical & Health with an 11.8% market share, 3rd in Marine, Aviation & Transport (MAT) with a 6.7% market share, and 9th in Motor insurance with a 3.7% market share.

Fig 1: Gross direct premiums of the 10 largest general insurers (2023)

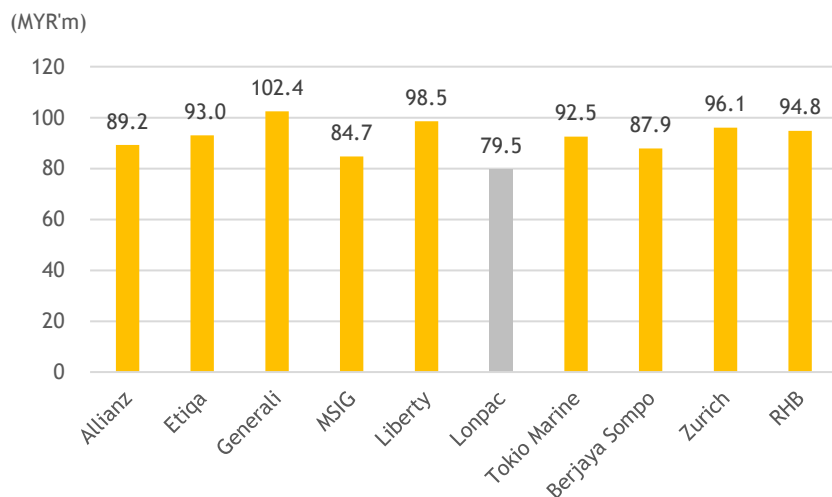


Source: Vital Factor Consulting, Maybank IBG Research

6.3 Lowest combined ratio

A testament to Lonpac's profitability is its combined ratio, which in 2023, was just 79.5%, which compared very favourably against the industry average of 92.1%. Moreover, the ratio was by far the lowest among that of the top 10 general insurers, and is testimony to high level of profitability.

Fig 2: Combined ratios of the 10 largest general insurers (2023)



Source: Vital Factor Consulting, Maybank IBG Research

6.4 Historical earnings

There was a decline in earnings, in FY22. In FY22, gross written premiums rose 4.3% but gross earned premiums (GEP) declined 3.4% YoY due to higher provisions for unearned premium reserves. Net claims incurred, however, jumped 17.8% YoY due to the resumption of economic and social activities following from the pandemic, resulting in a higher claims ratio of 44% versus 36.5% in FY21. The group's commission expense rose 1.7% YoY and management expenses increased 5% YoY.

As a result, LPI's combined ratio was a higher 71.2% in FY22 versus 62.5% in FY21, resulting in a 22% YoY decline in pretax profit.

Fig 3: LPI's historical earnings

(MYR m)	2023	2022	2021	2020	2019
GWP	2,023	2,022	2,021	2,020	2,019
Pretax profit	394.9	341.7	437.3	433.6	414.7
Net profit	313.7	252.2	344.7	336.7	322.4
ROE	13.7%	11.4%	16.1%	16.2%	16.3%
ROA	6.9%	5.2%	7.0%	7.5%	8.0%

Source: Company, Maybank IBG Research

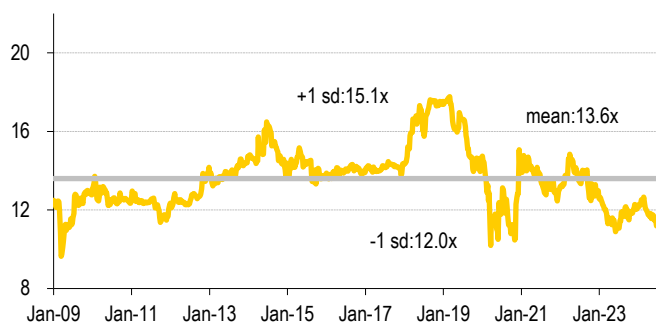
7. Foreign shareholding and valuation bands

Fig 4: Public Bank's foreign shareholding (24.84% end-Aug 2024)



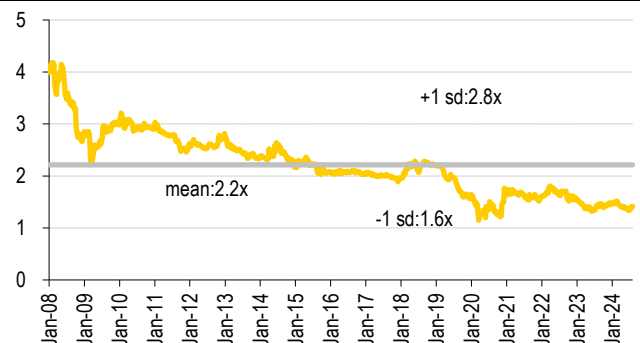
Source: Bank, Maybank IBG Research

Fig 5: Public Bank: One-year forward rolling PER (x)



Source: Bank, Maybank IBG Research

Fig 6: Public Bank: One-year forward rolling P/BV (x)



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.

FYE 31 Dec	FY22A	FY23A	FY24E	FY25E	FY26E
Key Metrics					
Core P/E (x)	13.7	12.5	12.6	12.0	11.3
Core FD P/E (x)	13.7	12.5	12.6	12.0	11.3
P/BV (x)	1.7	1.5	1.6	1.5	1.4
P/NTA (x)	1.8	1.6	1.6	1.5	1.5
Net dividend yield (%)	3.9	4.4	4.6	5.0	5.3
INCOME STATEMENT (MYR m)					
Interest income	14,931.9	18,040.2	19,342.8	20,450.9	21,528.5
Interest expense	(5,765.0)	(8,984.9)	(9,973.3)	(10,478.1)	(11,004.9)
Net interest income	9,166.9	9,055.3	9,369.5	9,972.8	10,523.6
Islamic banking income	1,857.2	1,561.5	1,655.2	1,754.6	1,859.8
Net insurance income	0.0	0.0	0.0	0.0	0.0
Net fees and commission	961.1	929.9	2,236.7	2,279.8	2,423.4
Other income	1,453.1	1,545.8	604.5	630.9	658.6
Total non-interest income	2,414.2	2,475.7	2,841.2	2,910.7	3,082.0
Operating income	13,438.2	13,092.6	13,865.9	14,638.1	15,465.4
Staff costs	(3,043.8)	(3,196.2)	(3,595.7)	(3,775.5)	(3,964.2)
Other operating expenses	(1,191.6)	(1,218.6)	(1,246.6)	(1,284.6)	(1,324.0)
Operating expenses	(4,235.4)	(4,414.8)	(4,842.3)	(5,060.1)	(5,288.3)
Pre-provision profit	9,202.9	8,677.8	9,023.6	9,578.0	10,177.1
Loan impairment allowances	(365.6)	(156.7)	(123.2)	(130.3)	(137.2)
Other allowances	(13.2)	(1.3)	0.0	0.0	0.0
Associates & JV income	6.9	19.0	102.0	56.0	58.8
Pretax profit	8,831.1	8,538.8	9,002.3	9,503.7	10,098.7
Income tax	(2,661.4)	(1,883.8)	(1,980.5)	(2,090.8)	(2,221.7)
Minorities	(50.1)	(5.7)	(6.3)	(7.0)	(7.8)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	6,119.5	6,649.3	7,015.5	7,405.9	7,869.2
Core net profit	6,119.5	6,649.3	7,015.5	7,405.9	7,869.2
BALANCE SHEET (MYR m)					
Cash & deposits with banks	21,766.9	11,127.4	11,683.8	12,268.0	12,881.4
Sec. under resale agreements	4.2	0.9	0.9	0.9	1.0
Derivatives financial assets	446.6	414.8	0.0	0.0	0.0
Dealing securities	949.3	2,637.6	2,690.4	2,744.2	2,799.1
Available-for-sale securities	80,437.5	84,093.7	89,139.3	94,487.7	100,157.0
Investment securities	0.0	0.0	0.0	0.0	0.0
Loans & advances	372,583.1	394,750.0	418,466.3	441,390.7	463,521.8
Central bank deposits	6,882.4	7,526.8	8,767.2	9,247.4	9,711.0
Investment in associates/JVs	120.2	141.7	243.7	299.7	358.5
Insurance assets	0.0	0.0	0.0	0.0	0.0
Fixed assets	2,483.9	2,501.5	2,576.6	2,653.9	2,733.5
Intangible assets	2,539.0	2,589.6	2,589.6	2,589.6	2,589.6
Other assets	5,049.6	4,814.0	4,964.4	5,121.6	5,286.0
Total assets	493,262.8	510,598.0	541,122.3	570,803.7	600,038.9
Deposits from customers	394,718.8	412,897.0	436,812.4	460,741.8	483,843.2
Deposits from banks & FIs	13,774.8	12,602.4	13,232.6	13,894.2	14,588.9
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	23,899.9	19,261.8	19,924.8	20,674.0	21,520.6
Insurance liabilities	0.0	0.0	0.0	0.0	0.0
Other liabilities	9,343.4	9,456.7	12,542.1	13,819.3	15,178.6
Total liabilities	441,737.0	454,217.9	482,511.9	509,129.3	535,131.4
Share capital	9,417.7	9,417.7	9,417.7	9,417.7	9,417.7
Reserves	40,761.6	45,256.7	47,467.6	50,503.7	53,722.8
Shareholders' funds	50,179.2	54,674.3	56,885.2	59,921.4	63,140.4
Preference shares	0.0	0.0	0.0	0.0	0.0
Minority interest	1,346.6	1,705.8	1,725.1	1,753.0	1,767.1
Total equity	51,525.8	56,380.1	58,610.3	61,674.3	64,907.5
Total liabilities & equity	493,262.8	510,598.0	541,122.3	570,803.7	600,038.9

FYE 31 Dec	FY22A	FY23A	FY24E	FY25E	FY26E
Key Ratios					
Growth (%)					
Net interest income	10.2	(1.2)	3.5	6.4	5.5
Non-interest income	(7.7)	2.6	14.8	2.4	5.9
Operating expenses	6.8	4.2	9.7	4.5	4.5
Pre-provision profit	7.3	(5.7)	4.0	6.1	6.3
Core net profit	8.2	8.7	5.5	5.6	6.3
Gross loans	5.3	5.9	5.9	5.5	5.1
Customer deposits	3.8	4.6	5.8	5.5	5.0
Total assets	6.6	3.5	6.0	5.5	5.1
Profitability (%)					
Non-int. income/Total income	18.0	18.9	20.5	19.9	19.9
Average lending yields	3.62	4.05	4.14	4.14	4.14
Average cost of funds	1.66	2.47	2.60	2.58	2.57
Net interest margin	2.39	2.20	2.18	2.19	2.20
Cost/income	31.5	33.7	34.9	34.6	34.2
Liquidity (%)					
Loans/customer deposits	94.4	95.6	95.8	95.8	95.8
Asset quality (%)					
Net NPL	0.3	0.4	0.7	0.6	0.5
Gross NPL	0.4	0.6	0.7	0.7	0.7
(SP+GP)/average gross loans	0.1	0.0	0.0	0.0	0.0
Loan loss coverage	272.0	181.8	138.5	145.9	152.9
Capital adequacy (%)					
CET1	14.6	14.7	14.3	14.3	14.3
Tier 1 capital	14.6	14.7	14.3	14.3	14.3
Risk-weighted capital	17.6	17.6	16.8	16.6	16.5
Returns (%)					
ROAE	12.4	12.7	12.6	12.7	12.8
ROAA	1.3	1.3	1.3	1.3	1.3
Shareholders equity/assets	10.2	10.7	10.5	10.5	10.5

Source: Company; Maybank IBG Research

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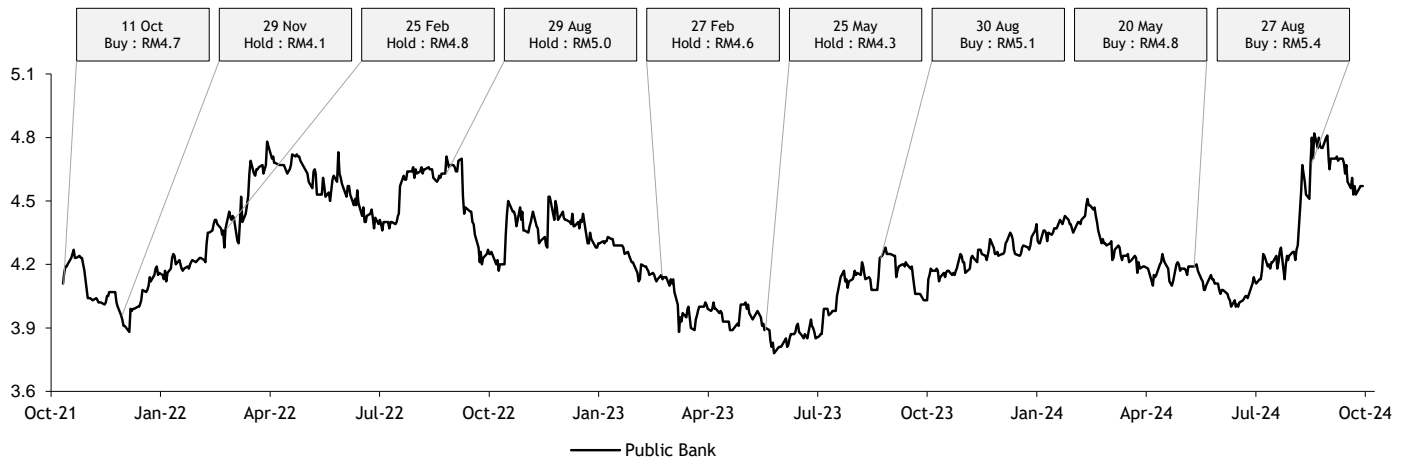
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