

15 August 2019

Public Bank Berhad

As Consistent As Ever

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No surprises with PBBANK's 6M19 core earnings coming in within expectations, accounting for 49%/48% of our/market estimates. While making no changes to our conservative earnings estimates; we raised TP to RM25.20 (as we roll-over to FY20E) with an upgraded OUTPERFORM call. Despite challenging loans growth, operational efficiency will see stable asset quality supporting earnings ahead.

In line. 6M19 CNP of RM2.73b (-2.1% YoY) is in line, accounting for 49%/48% of our/consensus estimates. While NII came under pressure, both Islamic Banking and NOII improved while asset quality held. An interim DPS of 33 sen (1H18: 32 sen) was declared (in line).

YoY, loans growth on par with asset quality consistent as ever. 6M19 CNP was supported by improvement in both Islamic Banking (+3%) and NOII (+8%) while NII fell (-1%) on account of narrowing NIM. NOII was supported by strong improvements in other operating income (+12% to RM226m) and gains on financial instruments (>100% to RM113m while net fee and commission income fell (-2%) to RM880m. Loans growth was commendable at +4.2% (vs system of +4.2% vs target: +5%). NIM compressed by 12 bps (vs 5-10bps target) due to OPR cut in May 2019 (vs OPR being raised in Jan 2018) and competitive lending. Asset quality was mixed as credit charge saw a 2bps uptick to 8bps (but still within target and guidance of 10-15bps) while GIL remained steady at 0.5%. PBANK remained consistently efficient with CIR at 34% (vs industry's 48%).

QoQ, CNP of RM1.33b fell 5% as topline growth was marginal (<1%) vs higher opex (+3%). The quarter saw the absence of gains (1Q: RM3.3M) as impairments jumped >100% to RM65m. Loans was stable (+1%) while NIM saw compression by 6bps due to the May 2019 cut. For the quarter, asset quality was still mixed as credit charge jumped 8bps (due to the absence of writebacks) while GIL remained constant at 0.5%.

Expect improvement in loans in 2H. Given the global trade friction and volatilities in the financial markets, PBANK expects moderate growth in the banking system but expects its loan target of +5% to be achievable as 2H is expected to be driven by the retail segment. We expect lending pressure to remain but believe asset pricing has bottomed out, which will see NIM compression for FY19E to be under high single-digit (as re-pricing of deposits kicks in by end of the year). However, we do not discount additional uptick in NIM compression in the event of another OPR cut in Sep 2019. We believe that PBANK's risk appetite for retail loans is still sustainable given that its asset quality is still consistently strong (GIL; <0.5% with credit costs the lowest in the industry (8bps vs 21bps) and at the same time the low interest rate environment will support credit demand and credit recoveries.

Earnings unchanged. As results came in line, we maintain our FY19E CNP of RM5.6b based on these unchanged assumptions; (i) loans to grow at ~4.5%, (ii) NIMs at high single-digit compression, (iii) credit cost of 6-10bps, (iv) CIR of 34%, and (v) ROE of 13.7%.

TP raised to RM25.20 (from RM24.10) as we roll-over to FY20E with an unchanged PBV target of 2.22x (implying a +0.8SD above mean) We feel this is justifiable given PBANK's operational efficiency and excellent asset quality which will support earnings ahead in spite of the challenging loans and NIM. Valuations are attractive and undemanding with the recent drop in share price unjustified given the consistent asset quality and still manageable growth. Given that its share price is almost bottoming out, we raised PBBANK's rating to **OUTPERFORM**.

OUTPERFORM ↑

Price : **RM20.80**
Target Price : **RM25.20** ↑

Share Price Performance



KLCI	1,600.31
YTD KLCI chg	-5.3%
YTD stock price chg	-16.0%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	PBK MK Equity
Market Cap (RM m)	80,748.5
Shares Outstanding	3,882.1
52-week range (H)	26.16
52-week range (L)	20.46
3-mth avg daily vol:	4,262,143
Free Float	62%
Beta	0.8

Major Shareholders

Consolidated Teh Holdings	22.8%
Employees Provident Fund	12.4%
State Street Corp	3.1%

Summary Earnings Table

FYE Dec (RM'm)	2018A	2019E	2020E
Net interest inc.	7,563	8,083	8,439
Islamic banking inc.	1,066	795	814
Non-interest inc.	2,215	2,166	2,286
Total Income	10,843	11,043	11,539
Pre-tax profit	7,101	7,096	7,341
Net profit (NP)	5,591	5,584	5,777
Consensus NP		5,695	5,932
Earnings Revision (%)			
EPS (RM)	1.4	1.45	1.50
EPS growth (%)	2.2	(0.1)	3.5
DPS (RM)	0.69	0.68	0.65
BV/share (RM)	10.6	10.48	11.32
NTA/share (RM)	9.9	9.9	10.7
ROE (%)	14.3	13.68	13.65
PER (x)	14.4	14.4	13.9
Price/Book (x)	2.0	2.0	1.8
Price/NTA (x)	2.1	2.1	1.9
Dividend yield (%)	3.3	3.3	3.1

15 August 2019

Key risks to our earnings estimates are: (i) lower-than-expected margin squeeze, (ii) higher-than-expected loans & deposits growth, (iii) higher-than-expected rise in credit charge and further slowdown in capital market activities, and (iv) adverse currency fluctuations.

Results Highlight								
Y/E : Dec (RM m)	2Q19	1Q19	QoQ Chg.	2Q18	YoY Chg.	6M19	6M18	YoY Chg.
Net interest income	1,851.3	1,879.3	-1.5%	1,879.7	-1.5%	3,730.6	3,777.1	-1.2%
Net income from Islamic banking	268.5	274.7	-2.3%	262.6	2.3%	543.2	528.3	2.8%
Non-interest Income	634.5	585.1	8.4%	533.9	18.9%	1,219.7	1,128.6	8.1%
Total income	2,754.3	2,739.1	0.6%	2,676.2	2.9%	5,493.5	5,434.0	1.1%
Other operating expenses	(956.5)	(924.9)	3.4%	(898.3)	6.5%	(1,881.4)	(1,797.6)	4.7%
Operating profit	1,797.8	1,814.3	-0.9%	1,777.8	1.1%	3,612.1	3,636.4	-0.7%
(Allowances) / write-backs	(65.3)	3.3	-2106.6%	(17.5)	273.0%	(62.0)	(86.0)	-27.9%
(Allowances) / write-backs on other assets	(0.8)	(0.4)	128.4%	(1.1)	-25.4%	(1.2)	(2.0)	-38.5%
Operating gains / (losses)	(1.2)	2.1	-154.8%	(1.5)	-22.6%	1.0	3.2	-70.0%
Pre-tax profit	1,730.6	1,819.3	-4.9%	1,757.7	-1.5%	3,549.8	3,551.7	-0.1%
Taxation & minorities	(397.6)	(409.2)	-2.8%	(361.5)	10.0%	(806.8)	(750.1)	7.6%
Net profit	1,332.9	1,410.1	-5.5%	1,396.2	-4.5%	2,743.0	2,801.6	-2.1%
EPS (sen)	34.3	36.3	-5.5%	36.2	-5.0%	70.7	72.6	-2.6%
DPS declared (sen)	33.0	-	N.a	32.0	3.1%	33.0	32.0	3.1%
Gross loans	323,693	320,422	1.0%	310,658	4.2%	323,693	310,658	4.2%
Net loans	321,699	318,438	1.0%	308,829	4.2%	321,699	308,829	4.2%
Customer deposits	349,099	343,000	1.8%	329,900	5.8%	349,099	329,900	5.8%
Current and savings account	88,233	87,409	0.9%	84,358	4.6%	88,233	84,358	4.6%
BV/share (RM)	10.92	10.56	3.5%	10.23	6.8%	10.92	10.23	6.8%
NTA/share (RM)	10.29	9.93	3.6%	9.60	7.2%	10.29	9.60	7.2%
Net interest margin (ann.)	2.06%	2.12%		2.20%		2.07%	2.19%	
Cost-to-income ratio	34.7%	33.8%		33.6%		34.2%	33.1%	
Effective tax rate	21.8%	21.5%		19.5%		21.7%	20.1%	
Effective minorities interest	1.5%	1.2%		1.4%		1.1%	1.0%	
G. loan-to-deposit ratio	92.7%	93.4%		94.2%		92.7%	94.2%	
N. loan-to-deposit ratio	92.2%	92.8%		93.6%		92.2%	93.6%	
% of CASA to total customer deposits	25.3%	25.5%		25.6%		25.3%	25.6%	
Gross impaired loans ratio	0.48%	0.5%		0.5%		0.5%	0.5%	
Total allowances-to-loans	0.6%	0.6%		0.5%		0.6%	0.5%	
Loan loss coverage	127.8%	127.2%		100.7%		127.8%	100.7%	
Annualised credit charge (writeback) ratio	0.08%	0.00%		0.06%		0.08%	0.06%	
CET1 capital	13.6%	12.9%		13.2%		13.6%	13.2%	
Tier 1 capital	14.0%	13.4%		13.8%		14.0%	13.8%	
Total capital	16.5%	16.0%		16.8%		16.5%	16.8%	
Annualised ROE	13.0%	14.0%		14.5%		13.2%	14.5%	

Source: Company, Kenanga Research

15 August 2019

Peer Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div Yld (%)	Target Price (RM)	Rating
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.			
BANKING																	
AFFIN BANK BHD	1.99	3,952.2	N	12/2019	8.2%	5.3%	9.3%	15.9%	7.9	7.2	6.2	0.5	0.4	6.2%	2.8%	2.40	OP
ALLIANCE BANK MALAYSIA BHD	3.36	5,201.6	N	03/2020	9.4%	8.0%	7.2%	9.2%	9.7	9.0	8.3	0.9	0.9	9.8%	5.3%	4.25	OP
AMMB HOLDINGS BHD	3.96	11,936.2	N	03/2020	9.7%	4.8%	-4.4%	2.8%	7.9	8.3	8.1	0.6	0.6	7.5%	5.1%	5.10	OP
BIMB HOLDINGS BHD	4.08	7,198.3	Y	12/2019	7.8%	8.5%	7.6%	13.6%	10.5	10.1	9.3	1.4	1.4	14.0%	3.9%	4.80	MP
CIMB GROUP HOLDINGS BHD	5.09	49,512.6	N	12/2019	4.6%	5.0%	-16.2%	2.6%	8.5	10.5	10.6	0.9	0.9	8.5%	4.4%	6.45	OP
HONG LEONG BANK BERHAD	17.42	37,761.6	N	06/2019	5.8%	5.7%	2.0%	9.0%	13.5	13.2	12.2	1.5	1.4	11.0%	2.8%	20.05	MP
MALAYAN BANKING BHD	8.59	96,563.3	N	12/2019	4.2%	4.3%	-0.5%	3.2%	11.7	11.8	11.4	1.2	1.1	9.9%	6.7%	10.35	OP
MALAYSIA BUILDING SOCIETY	0.84	5,639.3	N	12/2019	-1.0%	5.3%	-10.7%	10.2%	8.4	9.4	8.9	0.7	0.7	7.2%	6.0%	1.15	OP
PUBLIC BANK BERHAD	20.80	80,748.5	N	12/2019	3.9%	5.2%	-0.1%	3.5%	14.4	14.4	13.9	2.0	2.0	13.7%	3.3%	25.20	OP
RHB BANK BHD	5.56	22,295.9	N	12/2019	6.0%	4.8%	3.7%	3.6%	9.7	9.3	9.0	1.0	0.9	9.9%	3.8%	6.05	OP
Simple Average					5.9%	5.7%	-0.2%	7.4%	10.2	10.3	9.8	1.1	1.0	9.8%	4.4%		

Source: Bloomberg, Kenanga Research

15 August 2019

Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%
NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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