

Flash Note



Refer to important disclosures at the end of this report

AllianceDBS Research, Malaysia Equity

26 Oct 2018

Public Bank (PBK MK) : BUY

Mkt. Cap: US\$23,187m | 3m Avg. Daily Val: US\$31.5m

Last Traded Price (25 Oct 2018): RM24.90

Price Target 12-mth: RM28.20 (13% upside) (Prev RM28.20)

Analyst

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Resilient despite a tough market

- Earnings in line with expectations, stable in spite of NIM compression and lower non-interest income
- Loans growth underpinned by property sector; corporate segment may pick up once Budget 2019 overhang is removed
- Franchise strength in key markets should help weather near-term challenges
- Maintain BUY with RM28.20 TP

Forecasts and Valuation

FY Dec (RMm)	2017A	2018F	2019F	2020F
Pre-prov. Profit	7,319	7,570	8,251	9,029
Net Profit	5,470	5,669	6,194	6,792
Net Pft (Pre Ex.)	5,470	5,669	6,194	6,792
Net Pft Gth (Pre-ex) (%)	5.1	3.6	9.3	9.6
EPS (sen)	142	146	160	175
EPS Pre Ex. (sen)	142	146	160	175
EPS Gth Pre Ex (%)	5	3	9	10
Diluted EPS (sen)	142	146	160	175
PE Pre Ex. (X)	17.6	17.1	15.6	14.2
Net DPS (sen)	61.0	64.0	69.0	77.0
Div Yield (%)	2.4	2.6	2.8	3.1
ROAE Pre Ex. (%)	15.3	14.4	14.4	14.6
ROAE (%)	15.3	14.4	14.4	14.6
ROA (%)	1.4	1.4	1.5	1.5
BV Per Share (sen)	968	1,061	1,151	1,249
P/Book Value (x)	2.6	2.3	2.2	2.0

Source of all data on this page: Company, AllianceDBS, Bloomberg Finance L.P.

What's New

Earnings remained stable and within expectations. Public Bank's (PBK) 3Q18 performance was largely uneventful – net profit was stable y-o-y at RM1.38bn (-1.5% y-o-y, -0.9% q-o-q), as better net interest income and lower provisions were offset by lower non-interest income (lower investment and forex income) and higher overheads. The group's annualised return on equity (ROE) stood at 14.7% as at end-September 2018, at the top end of its 15.0% target. Meanwhile, asset quality was strong with a gross impaired loans (GIL) ratio of 0.5%; the group registered a healthy annualised net credit cost of 6bps during the same period. Separately, capital ratios were stable. Overall, PBK's 9M18 showing was in line with our and consensus' expectations at 74% and 73% of FY18E earnings, respectively.

Net interest income grew despite NIM compression. PBK's improved net interest income y-o-y was attributed to resilient loans growth of 4% (q-o-q: 1%), though less than its target of 5%. Mortgages continued to account for the bulk of this, contributing more than 65% of total loans growth. But corporate loans growth was relatively slow at 2% y-o-y, in line with the industry trend. Net interest margin (NIM) fell both annually and sequentially to 2.16% (3Q17 and 2Q18: 2.24%) mainly from higher funding costs. Fixed deposits were the primary source of deposit growth for PBK.

PBK's cost efficiency the best-in-class. There was no change in PBK's positioning within the industry in cost efficiency –



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its cost-to-income (CTI) ratio of 33% was still far below major peers'. Personnel expenses (71% of total overheads) grew the most y-o-y at 8%, partially moderated by lower administrative expenses (y-o-y growth: -17%; 6% of total overheads).

Outlook

NIM and loans growth the key indicators to watch. We think PBK should be able to maintain its NIM guidance of low-to-mid single-digit bps decline from FY17's level (2.28%), provided funding costs do not escalate further. Indications of more aggressive hikes in fixed deposit rates remain faint. Loans growth should pick up in 4Q18 following the announcement of the new Malaysian government's budget in November, supported by a robust retail segment and PBK's strong SME franchise. We expect the group to easily attain its other 2018 targets, i.e. ROE of 14-15%, CTI of 33-34%, deposit growth of 5%, GIL ratio of less than 1%.

Valuation and recommendation

Maintain BUY with RM28.20 TP. We believe PBK will be able to maintain its steady earnings delivery despite the more muted market environment and macro-driven uncertainties, given its franchise in key growth markets. Our TP, which implies 2.4x FY19F BV, is based on the Gordon's Growth Model – assuming 9% cost of equity, 4% long-term growth and 15% ROE.

Quarterly / Interim Income Statement (RMm)

FY Dec	3Q2017	2Q2018	3Q2018	% chg yoy	% chg qoq
Net Interest Income	1,864	1,880	1,877	0.7	(0.1)
Islamic Income	251	263	265	5.8	5.8
Non-Interest Income	609	534	556	(8.6)	4.2
Operating Income	2,724	2,676	2,699	(0.9)	0.8
Operating Expenses	(846)	(898)	(890)	5.2	(1.0)
Pre-Provision Profit	1,878	1,778	1,809	(3.7)	1.8
Provisions	(85.7)	(18.6)	(48.8)	(43.0)	162.4
Associates	0.69	(1.5)	(0.4)	nm	(70.4)
Exceptionals	0.0	0.0	0.0	nm	nm
Pretax Profit	1,793	1,758	1,760	(1.9)	0.1
Taxation	(369)	(342)	(358)	(2.8)	4.7
Minority Interests	(19.5)	(19.3)	(17.9)	8.1	(7.1)
Net Profit	1,405	1,396	1,384	(1.5)	(0.9)

Growth (%)

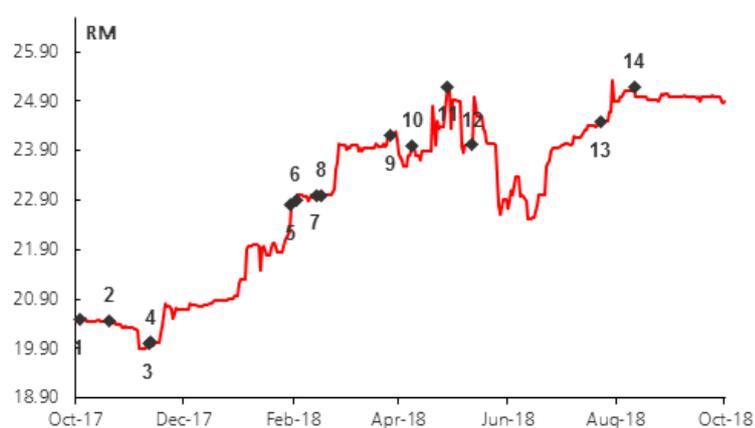
Net Interest Income Gth	1.3	(0.9)	(0.1)
Net Profit Gth	5.5	(0.7)	(0.9)

Key ratio (%)

NIM	2.3	2.2	2.2
NPL ratio	0.5	0.5	0.5
Loan-to deposit	93.0	93.6	93.4
Cost-to-income	31.1	33.6	33.0
Total CAR	15.4	16.3	15.8

Source of all data: Company, AllianceDBS

Target Price & Ratings History



Note: Share price and Target price are adjusted for corporate actions.

S. No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	27 Oct 17	20.48	24.20	BUY
2:	13 Nov 17	20.46	24.20	BUY
3:	05 Dec 17	20.00	24.20	BUY
4:	06 Dec 17	20.02	24.20	BUY
5:	23 Feb 18	22.80	24.20	BUY
6:	26 Feb 18	22.90	24.20	BUY
7:	09 Mar 18	23.00	24.20	BUY
8:	12 Mar 18	23.00	24.20	BUY
9:	20 Apr 18	24.20	26.80	BUY
10:	02 May 18	24.00	26.80	BUY
11:	22 May 18	25.20	26.80	BUY
12:	05 Jun 18	24.02	26.80	BUY
13:	16 Aug 18	24.48	28.20	BUY
14:	04 Sep 18	25.18	28.20	BUY

Source: AllianceDBS

Analyst: CHIN Jin Han, CFA

DISCLOSURE

Stock rating definitions

STRONG BUY	-	> 20% total return over the next 3 months, with identifiable share price catalysts within this time frame
BUY	-	> 15% total return over the next 12 months for small caps, >10% for large caps
HOLD	-	-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps
FULLY VALUED	-	negative total return > -10% over the next 12 months
SELL	-	negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame

Commonly used abbreviations

Adex = advertising expenditure	EPS = earnings per share	PBT = profit before tax
bn = billion	EV = enterprise value	P/B = price / book ratio
BV = book value	FCF = free cash flow	P/E = price / earnings ratio
CF = cash flow	FV = fair value	PEG = P/E ratio to growth ratio
CAGR = compounded annual growth rate	FY = financial year	q-o-q = quarter-on-quarter
Capex = capital expenditure	m = million	RM = Ringgit
CY = calendar year	M-o-m = month-on-month	ROA = return on assets
Div yld = dividend yield	NAV = net assets value	ROE = return on equity
DCF = discounted cash flow	NM = not meaningful	TP = target price
DDM = dividend discount model	NTA = net tangible assets	trn = trillion
DPS = dividend per share	NR = not rated	WACC = weighted average cost of capital
EBIT = earnings before interest & tax	p.a. = per annum	y-o-y = year-on-year
EBITDA = EBIT before depreciation and amortisation	PAT = profit after tax	YTD = year-to-date

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