

PP14767/09/2012(030761)

Public Bank Berhad

“Unshakable Routine”

Results Review

- Actual vs. expectations.** Public Bank Berhad (PBB) reported pleasing growth in its top and bottomline 9M16 financial results. 3Q16 net profit came up to RM1.25 billion (+3% y-o-y, -1% q-o-q), bringing 9M16 net profit soaring to RM3.7 billion (+4% y-o-y), in line with ours and consensus estimates respectively, accounting 74.1% and 76% of ours and consensus full year net profit forecast. 9M16 earnings were anchored by 1) Islamic income (+14% y-o-y) 2) net interest income (+8% y-o-y) 3) slower loan loss allowance (-8% y-o-y).
- Dividend.** No dividend was declared in the quarter.
- Topline vs. Bottomline.** PBB's net income reached RM7.4 billion (+5% y-o-y) aided by 1) Islamic banking income (+14% y-o-y) 2) net interest income of RM5.12 billion (+8% y-o-y). However, net income was offset by slower gains on financial instrument of RM74 million (-58% y-o-y). Operating expenses still high at RM2.4 billion (+11% y-o-y) hampered by 1) personnel cost of RM1.69 billion (+9.4% y-o-y) 2) establishment cost of RM440 million (+12% y-o-y). However, pre-provision profit stabilized at RM4.99 billion (+2% y-o-y).
- Loans growth in line guidance.** PBB's annualised loan growth grew commendably at 7.2% against the industry growth of 2.8% and in-line with guidance of 9% for full year. Domestically, PBB's loan growth was at 7.8% of annualized growth underpinned by annualized growth in the residential properties and SME loans of 8.7% and 9.2% respectively. Geographically, both Hong Kong and Cambodia loan growth touched annualized growth of -8.9% and -3.2%.

Friday, October 21, 2016

HOLD (TP: RM21.38)

Current Price (RM)	RM19.80
New Fair Value (RM)	RM21.38
Previous Fair Value (RM)	RM21.38
Previous Recommend.	BUY
Upside To Fair Value	8%
Dividend Yield (FY16F)	2.7%

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)	76,457	
YTD Chg In Share Price	6.9%	
Beta (x)	0.86	
52-week Hi/Lo (RM)	RM20.1	RM17.74
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 picks up pace.** The group's annualized deposit growth touched 7.4% while annualized domestic growth was at 7.8%. As a result, the Group loan-to-deposit ratio (LDR) improved to 90.6% vs. 91% in 6M16. The group's CASA ratio was unchanged at 29.4% despite the acceleration in the fixed deposits that was offset by the expansion in current deposit.
- **NIM sturdy at 2.17%.** PBB's NIM was unchanged at 2.17% despite the rise in fixed deposits in 9M16. We reckon the on-going promotional rate has been in contraction mode since OPR cut had helped PBB's NIM to breathe. Despite that, we believe the management is maintaining the 8-10bps compression guidance given its large quantum of BR cut of 23bps in response to the OPR cut.
- **Non-interest income (NOII) declined.** NOII fell to RM1.56 billion (-8.7% y-o-y) in 9M16, as evidence of weaknesses across the board, except unit trust and fee and commission income. Forex income dropped to RM242.2 million (-31.1% y-o-y) whilst investment and stockbroking income tanked significantly to RM73.9 million (-135.8% y-o-y) and RM58.8 million (-18.5% y-o-y) in 9M16.
- **Stable asset quality.** Asset quality was stable with gross impaired loans (GIL) unchanged at 0.5%. Segmental impaired loan ratios were still very stable and enviable at just 0.5% for residential properties, 0.6% for auto and 0.3% for SME financing. The net credit charge was just 11bps - still very benign. Loan loss coverage was stable at 109.5%.
- **Outlook.** PBB seems unperturbed with the sluggish environment banking sector. We reckon that all the numbers are in line with guidance albeit in marginal dispersion. The rock solid performance is expected to continue to the end of FY16 underpinned by retail segment, especially in the residential and hire purchase. We believe the spur of various models launch in October after the announcement of Budget 2017 will further expand PBB's loans growth. Nevertheless, we expect NIM compression will continue at the back of further deposits competition.
- **Change to forecast.** No change to our FY16 and FY17 forecast numbers. At this juncture, FY16's earnings are expected to drop marginally by 0.7% y-o-y but grow by 14% y-o-y in FY17 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. We reduced our call to HOLD due to share price rally recently. 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
			FY16	FY17	FY16	FY17	FY16	FY17				
AFG	Mac	3.85	0.3	0.4	11.7	11.2	1.3	1.3	10.8	2.0	4.00	Hold
AMMB	Mac	4.11	0.4	0.4	10.3	10.2	0.9	0.9	10.7	4.5	4.45	Hold
BIMB	Dec	4.31	0.4	0.4	10.3	9.8	1.7	1.5	17.2	3.3	4.28	Hold
CIMB	Dec	4.93	0.5	0.5	10.4	9.2	1.0	0.9	7.3	2.9	4.75	Hold
Maybank	Dec	7.60	0.7	0.7	12.9	12.3	1.4	1.3	11.9	6.4	8.70	Buy
RHB Bank	Dec	4.71	0.6	0.6	9.8	9.2	0.8	0.8	7.2	1.0	4.90	Hold
Public Bank	Dec	19.80	1.3	1.4	14.8	14.0	2.3	2.0	17.1	3.0	21.38	Buy
Affin	Dec	2.18	0.2	0.3	9.8	9.0	0.6	0.5	4.5	1.3	NR	NR
MBSB	Dec	0.91	0.1	0.1	11.0	11.2	0.8	0.8	5.4	7.5	NR	NR
STMB	Dec	4.30	0.2	0.2	20.1	17.8	5.0	NA	24.5	1.8	NR	NR
HL Bank	Jun	13.28	1.0	1.1	13.3	12.5	1.3	1.3	11.1	3.0	NR	NR
Average			0.6	0.7	12.8	11.4	1.5	1.1	11.1	3.9		

Source: Bloomberg, M&A Securities

Table 2: Financial Summary

YE: Dec (RM million)	3Q16	2Q16	3Q15	y-o-y	q-o-q	9M16	9M15	y-o-y
Revenue	5,031	5,021	4,915	2%	0%	15,089	14,253	6%
Gross Interest income	3,801	3,772	3,620	5%	1%	11,254	10,609	6%
Interest expense	-2,064	-2,072	-1,991	4%	0%	-6,133	-5,887	4%
Net interest income	1,736	1,700	1,629	7%	2%	5,121	4,723	8%
Islamic banking income	249	233	211	18%	7%	710	624	14%
Fee and commission income	389	383	392	-1%	2%	1,153	1,150	0%
Net gains and losses on financial instrument	15	18	52	-71%	-19%	74	174	-58%
Other income	78	91	188	-59%	-14%	339	378	-10%
Net income	2,467	2,425	2,471	0%	2%	7,396	7,049	5%
Operating expenses	-815	-803	-741	10%	1%	-2,406	-2,166	11%
Pre-provision income	1,652	1,622	1,730	-4%	2%	4,990	4,883	2%
Allowance loan loss	-92	-70	-114	-19%	32%	-230	-251	-8%
Writeback of impairment	-1	1	-3	-57%	-226%	0	-2	-111%
Operating profit	1,559	1,553	1,613	-3%	0%	4,760	4,630	3%
Associate	0	-1	1	-153%	-67%	1	3	-60%
PBT	1,558	1,552	1,614	-3%	0%	4,761	4,634	3%
Taxation	-306	-281	-397	-23%	9%	-993	-1,020	-3%
PAT	1,253	1,271	1,217	3%	-1%	3,768	3,614	4%
EPS (sen)	32.1	32.5	31.11			96.41	92.44	
Dividend - sen	0.0	26	0			26	24	
Dividend payment (RMm)	0.0	1,004	0			1,004	926	
Dividend payout (%)	0.0	79%	0			27%	26%	
Cost to income	-33%	-33%	-30%			-33%	-31%	
Tax Rate	-20%	-18%	-25%			-21%	-22%	

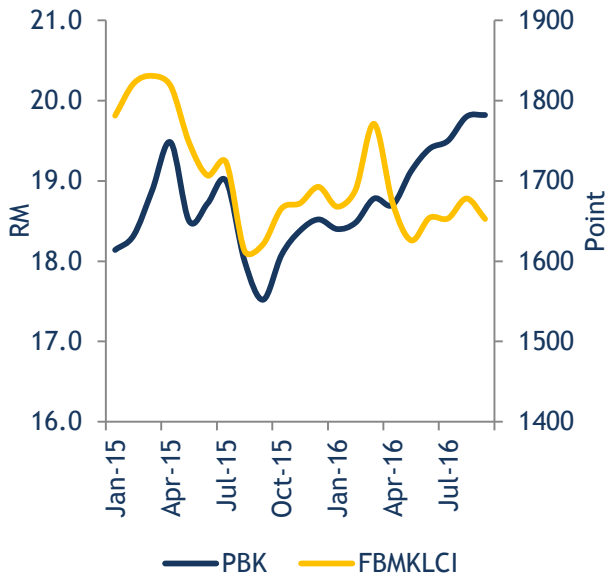
Source: Bursa Malaysia, M&A Securities

Table 3: Financial Forecast

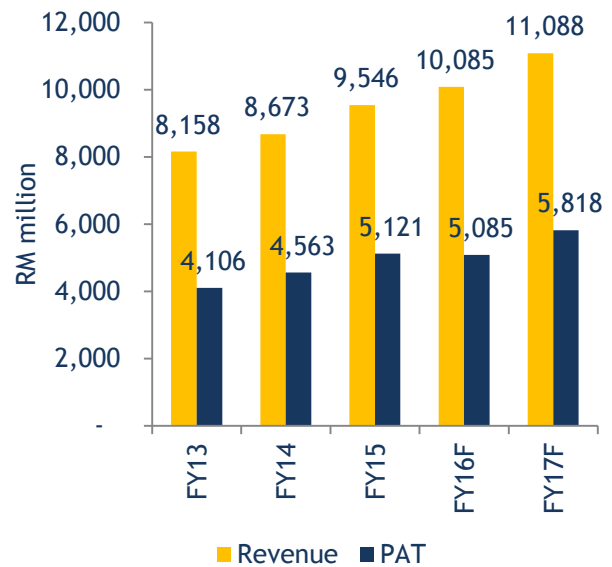
YE: Dec (RM million)	FY13	FY14	FY15	FY16F	FY17F
Gross Interest income	11,366	12,636	14,218	14,371	15,635
Interest expense	(5,796)	(6,706)	(7,841)	(7,576)	(8,008)
Net interest income	5,571	5,930	6,377	6,794	7,627
Islamic banking income	837	831	829	853	879
Fee and commission income	1,275	1,382	1,553	1,678	1,810
Net gains and losses on financial instrument	167	197	236	252	260
Other income	308	333	551	507	512
Net income	8,158	8,673	9,546	10,085	11,088
Operating expenses	(2,504)	(2,606)	(2,915)	(3,013)	(3,141)
Pre-provision income	5,655	6,067	6,631	7,072	7,948
Allowance loan loss	(351)	(259)	(146)	(302)	(199)
Writeback of impairment	0	1	(1)	1	1
Operating profit	5,304	5,809	6,484	6,771	7,749
Associate	6	5	8	8	8
PBT	5,310	5,814	6,491	6,779	7,757
Taxation	(1,204)	(1,251)	(1,370)	(1,695)	(1,939)
PAT	4,106	4,563.34	5,121	5,085	5,818
No of Share	3,502	3,862	3,862	3,862	3,862
EPS (sen)	116.1	123.7	132.6	131.7	150.7
Dividend - sen	52	54	56	59	68
Dividend payment (RMm)	1821	2085	2162	2288	2618
Dividend payout (%)	44%	46%	42%	45%	45%
Retained Earnings	2285	2478	2959	2796	3200
PER (x)	16.2	14.8	14.1	14.2	12.4
BV	4.25	5.71	6.47	7.17	7.98
P/BV	4.42	3.20	2.89	2.62	2.36

Source: Bursa Malaysia, M&A Securities

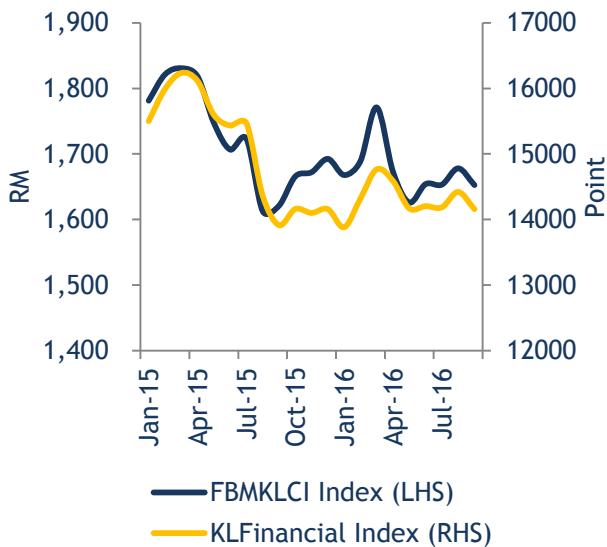
Public Bank Share Price vs. KLCI
(Jan15 -YTD)



Revenue and Net Profit
(FY13-FY17F)



FBM KLCI vs Financial Index
(Jan15 -YTD)



Industry Loan Growth vs PBK Loan Growth
(Jan13-YTD)

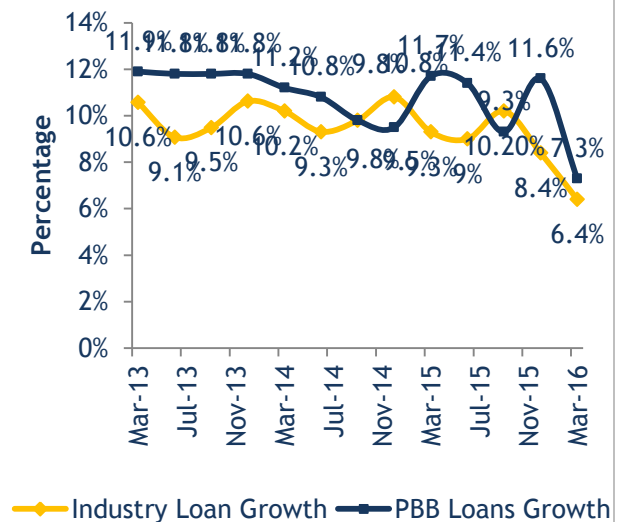


Table 3: Operational Ratio

YE: Dec (RM million)	FY13	FY14	FY15	FY16F	FY17F
<u>Margin</u>					
NII Margin	68%	68%	67%	67%	69%
NOII Margin	21%	22%	25%	24%	23%
PPOP Margin	69%	70%	69%	70%	72%
PBT Margin	65%	67%	68%	67%	70%
PAT Margin	50%	53%	54%	50%	52%
<u>Growth</u>					
NII	6%	6%	8%	7%	12%
NOII	6%	9%	22%	4%	6%
Operating expenses	4%	4%	12%	3%	4%
Pre-provision profit	6%	7%	9%	7%	12%
Core net profit	6%	11%	12%	-1%	14%
Gross loans	12%	11%	12%	9%	9%
Customer deposits	11%	10%	9%	5%	7%
Total assets	11%	13%	5%	6%	7%
<u>Profitability</u>					
Average Lending Yield	3%	3%	3%	3%	3%
Average Cost of funds	1%	2%	2%	2%	2%
NIM	2.36%	2.24%	2.16%	2.11%	2.10%
Cost/income	31%	30%	31%	30%	28%
<u>Asset Quality</u>					
Net NPL	0.6%	0.6%	0.4%	0.5%	0.5%
Gross NPL	0.7%	0.7%	0.6%	0.6%	0.6%
<u>Return</u>					
ROA	1%	1%	1%	1%	1%
ROE	19%	16%	16%	15%	15%

Source: Bursa Malaysia, M&A Securities

Table 4: Key Performance Indicator

Item	2015 Target	Achievement	2016 Target
Return on Equity	>16%	17.8%	>15%
Total Capital Ratio	>13%	15.5%	>13%
Gross Impaired Loan Ratio	<1%	0.5%	<1%
Cost to income Ratio	<32%	30.5%	<33%
Loans Growth			
-Domestic	9%-10%	10.3%	8%-9%
-Group		11.6%	
Deposit Growth			
-Domestic	9%-10%	7.5%	7%-8%
-Group		8.9%	

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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