

PP14767/09/2012(030761)

## Public Bank Berhad

## “Proves to be Bellwether”

We recommend investors to accumulate Public Bank Bhd (PBB) given its (1) above average ROE in banking industry; (2) dominance in domestic household loans segment; and (3) impressive asset quality and cost control. We value PBB at RM21.38 as we incorporate +0.5 standard deviation above mean of P/BV of 3.02x. The stock is a BUY.

Domestic loans to slow in line with industry. The unexciting macro-economic conditions have inflicted some pain on PBB's domestic loan potential despite its entrenched position. We expect PBB's retail and hire purchase loan would take a hit in FY16 as predicted by the industry. Hence, PBB is moderating its loans growth outlook in FY16 to 8%-9% vs. 10.3% in FY15. Nevertheless, we expect contribution from ex-Malaysia, especially from Indo-China to accelerate steadily.

**Moderating KPI outlook.** PBB is moderating its KPI outlook in FY16 despite achieving most of its KPI in 2015 except for deposit growth which missed expectation marginally. Notwithstanding that, we believe PBB's colossal position in banking sector is under threat with the current macro-economic conditions. We opine that PBB's KPI guidance is fair given its steady position in residential and non-residential loans, along with getting stronger in non-interest income (NOII) segment.

**Eyeing on SME segment.** The slowdown in HH and slow pace of business loan may drive PBB to accelerate loans to SME segment. This is underpinned by government continuous initiative to nurture this segment. PBB believes there is abundance of opportunity for SME segment in the trading and manufacturing segments.

**Non-interest income to pick up.** PBB recorded encouraging growth of NOII in FY15. This was driven by all segments, notably in forex income. Entering into FY16, we are seeing

Wednesday, April 27, 2016

## BUY (Target Price: RM21.38)

Current Price (RM)	RM18.78
New Fair Value (RM)	RM21.38
Previous Fair Value (RM)	RM20.60
Previous Recommend.	BUY
Upside To Fair Value	13%
Dividend Yield (FY16)	3%

## Stock Code

Bloomberg	PBK MK
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## Stock &amp; Market Data

Listing	MAIN MARKET	
Sector	Finance	
Shariah Compliance	No	
Issued Shares (mn)	3,861.5	
Market Cap (RM mn)	73,518	
YTD Chg In Share Price	1.4%	
Beta (x)	0.91	
52-week Hi/Lo (RM)	RM20.36	/RM17.40
3M Average Volume (shrs)	4.515mn	
Estimated Free Float	52.7%	

## Major Shareholders

Teh Holdings	21.7%
EPF	13.7%
Sekuriti Pejal	2.3%

PBB's NOII could grow even higher, driven by the sale of unit trust. This is to capitalize on the uncertainty in macro-economic conditions which may make people elevate their investment in well managed portfolio.

**Succession plan going smooth.** PBB has injected new vein into the top management after appointing Datuk Chang Kat Kiam as Deputy Chief Executive CEO and will join PBB's founder and chairman Tan Sri Teh Hong Piow and his managing director (MD)/CEO Tan Sri Tay Ah Lek at the apex management group. With the appointment, we expect this could ease the pressure of young person heading the operations. At this stage, we don't expect Datuk Chang Kat Kiam to be the direct candidate to replace the current CEO, Tan Sri Tay Ah Lek, as the management is in the process of grooming other executives.

**Earnings outlook.** We introduce our new FY16 and FY17 forecast due to the changes in recoveries rate in collective allowance. 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 P/BV of 3.02x given PBB steady performance despite sluggish banking industry performance. That said, we maintain our **BUY** call on PBB. 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	4.15	0.3	0.4	11.7	11.2	1.3	1.3	10.8	2.0	4.00	Hold
AMMB	Mac	4.60	0.4	0.4	10.3	10.2	0.9	0.9	10.7	4.5	4.90	Hold
BIMB	Dec	3.85	0.4	0.4	10.3	9.8	1.7	1.5	17.2	3.3	4.28	Buy
CIMB	Dec	4.85	0.5	0.5	10.4	9.2	1.0	0.9	7.3	2.9	4.75	Hold
Maybank	Dec	9.02	0.7	0.7	12.9	12.3	1.4	1.3	11.9	6.4	9.10	Buy
RHB Cap	Dec	5.90	0.6	0.6	9.8	9.2	0.8	0.8	7.2	1.0	5.80	Hold
Public Bank	Dec	18.78	1.3	1.4	14.8	14.0	2.3	2.0	17.1	3.0	21.38	Buy
Affin	Dec	2.34	0.2	0.3	9.8	9.0	0.6	0.5	4.5	1.3	NR	NR
MBSB	Dec	1.37	0.1	0.1	11.0	11.2	0.8	0.8	5.4	7.5	NR	NR
STMB	Dec	4.10	0.2	0.2	20.1	17.8	5.0	NA	24.5	1.8	NR	NR
HL Bank	Jun	13.50	1.0	1.1	13.3	12.5	1.3	1.3	11.1	3.0	NR	NR
Average					12.8	11.4	1.5	1.1	11.1	3.9		

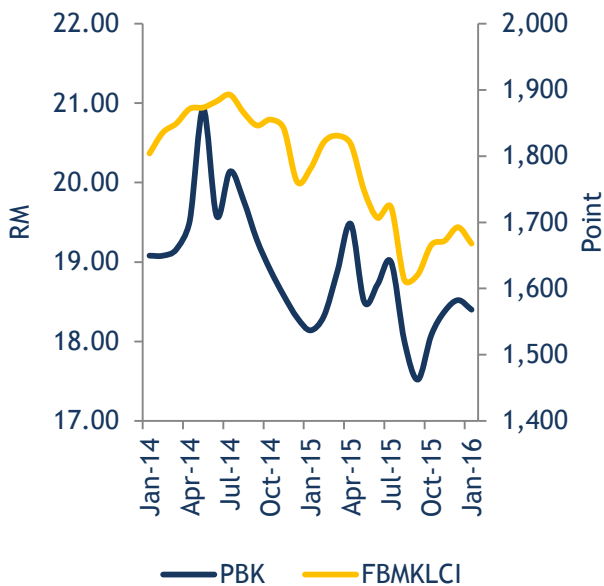
Source: Bloomberg, M&A Securities

Table 2: Financial Forecast

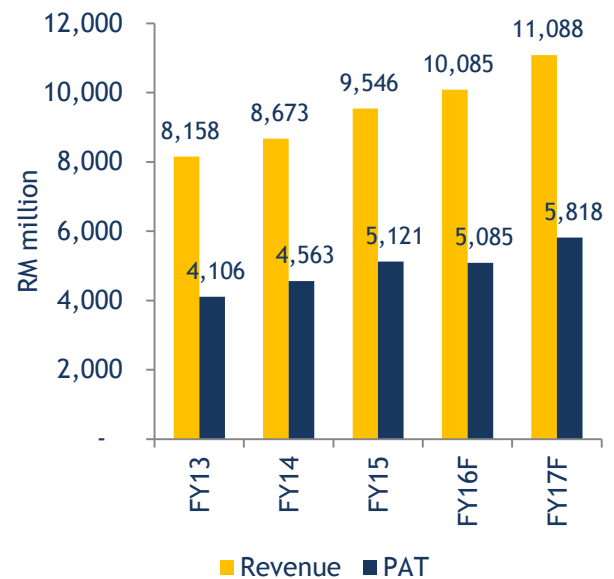
YE: Dec (RM million)	FY13	FY14	FY15	FY16F	FY17F
Gross Interest income	11,366	12,636	14,218	14,371	15,635
Interest expense	(5,796)	(6,706)	(7,841)	(7,576)	(8,008)
Net interest income	5,571	5,930	6,377	6,794	7,627
Islamic banking income	837	831	829	853	879
Fee and commission income	1,275	1,382	1,553	1,678	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&amp;A Securities

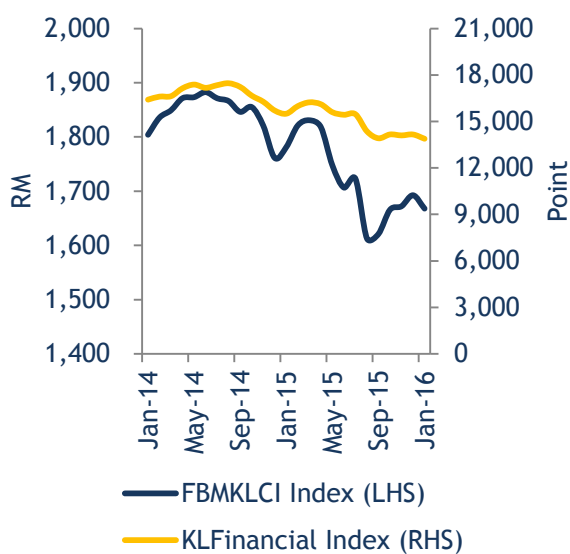
Public Bank Share Price vs. KLCI  
(January 2014 - YTD)



Revenue and Net Profit  
(FY13 - FY17F)



FBM KLCI vs. Financial Index  
(January 2014 - YTD)



Industry Loan Growth vs. PBK Loan Growth  
(January 2013 - YTD)

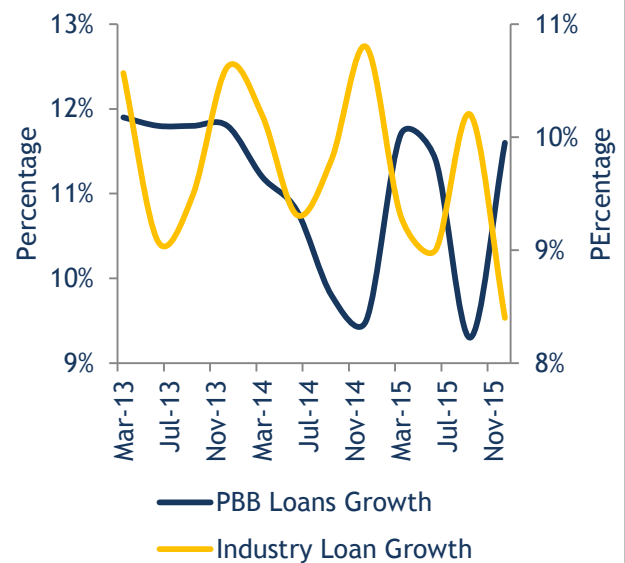


Table 3: Operational Ratio

YE: Dec (RM million)	FY12	FY13	FY14	FY15
<b>Asset Quality</b>				
Gross Impairment (%)	0.7	0.7	0.6	0.5%
Allowance/loan loss Coverage (%)	126	118.5	122.4	120.8%
<b>Profitability</b>				
ROA (%)	1.9	1.8	1.8	1.5
ROE (%)	22.9	22.4	19.9	17.8%
Cost to income (%)	31.2	30.7	30	30.5%
<b>Lending and Deposit</b>				
Loan Growth (%)	13.5	11.8	10.8%	11.6%
Deposit Growth (%)	12.3	11.6	10.2%	8.9%
Loan-to-Deposit Ratio (%)	87.89	87.5	88	90.3%
<b>Capital Strength</b>				
CET1	-	8.8	10.8	10.9%
Tier 1	10.8	10.5	12.2	12.0%
Total Capital	14.1	13.8	15.8	15.5%

Source: Bursa Malaysia, M&amp;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

<b>BUY</b>	Share price is expected to be $\geq +10\%$ over the next 12 months.
<b>TRADING BUY</b>	Share price is expected to be $\geq +10\%$ within 3-months due to positive newsflow.
<b>HOLD</b>	Share price is expected to be between $-10\%$ and $+10\%$ over the next 12 months.
<b>SELL</b>	Share price is expected to be $\geq -10\%$ over the next 12 months.

## SECTOR RECOMMENDATIONS

<b>OVERWEIGHT</b>	The sector is expected to outperform the FBM KLCI over the next 12 months.
<b>NEUTRAL</b>	The sector is expected to perform in line with the FBM KLCI over the next 12 months.
<b>UNDERWEIGHT</b>	The sector is expected to underperform the FBM KLCI over the next 12 months.

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