



## Still top of the class

PBB delivered another strong set of results which was largely within our and market expectations. Operational performance and KPI measures remained robust and well ahead of peers'. Maintain BUY, with TP unchanged at RM21.80 (based on 2.5x P/B).

### Another robust quarter as expected

Public Bank Berhad (PBB) reported a 2Q16 net profit of RM1,256.2m (+5.0% yoy) with the annualised net profit largely within our and market expectations. There were no major negative surprises whereby its net profit was mainly supported by strong growth in net interest income (9.3% yoy) which was in turn underpinned by a better net interest margin (NIM) and higher average loan balance. This was, however, mitigated by weaker non-interest income (-9.7% yoy) and higher operating expenses (+11.2% yoy). Cost-to-income ratio (CIR) saw an uptick to 33.1% in the quarter (2Q15: 31.2%), but remained the lowest in the industry.

### NIM compression likely to remain well contained

NIM for the industry has remained under pressure in recent years due to deposit competition which resulted in a higher cost of fund. The recent OPR cut by BNM could also impact the NIM due to the repricing gap, especially in the coming 3Q16. However, we believe that NIM compression, if any, should remain relatively well contained moving forward as competition for deposit eases. The repricing gap impact would also be temporary and relatively minimal on PBB as it has raised its base rate by 10bps prior to the OPR cut.

### Reaffirm BUY rating, target price of RM21.80

We reaffirm our **BUY** call on PBB and 12-month **TP** of **RM21.80**, based on a 2.5x P/BV multiple on a 2016E ROE of 14.5%. While valuations remain lofty relative to its peers, we believe that the premium is well justified by its strong fundamentals and above-industry KPI measures (see Fig 3).

### Key risks – deterioration in macroeconomics trends

Potential deterioration in macroeconomic trends, e.g. prolonged budget deficit, declining trade surplus and regional growth slowdown, may weaken demand for business loans. Meanwhile, poor consumer sentiment arising from the weak Ringgit and higher cost of living could undermine the purchase of big-ticket items.

### Earnings & Valuation Summary

FYE 31 Dec (RMm)	2014	2015	2016E	2017E	2018E
Total income	8,673.4	9,545.8	9,877.4	10,573.0	11,367.1
Pre-provisioning profit	6,067.5	6,630.6	6,790.3	7,163.2	7,699.3
Pretax profit	5,814.3	6,491.4	6,275.1	6,655.8	7,200.9
Net profit	4,518.8	5,062.2	4,724.3	5,012.3	5,425.2
Core net profit	4,518.8	4,955.1	4,724.3	5,012.3	5,425.2
Core EPS (sen)	123.7	128.3	121.7	129.1	139.7
Core EPS growth (%)	6.6	3.7	(5.2)	6.1	8.2
Core PER (x)	15.8	15.2	16.1	15.1	14.0
ROE (%)	18.7	17.1	14.5	14.3	14.2
BV / share	7.27	8.09	8.69	9.41	10.21
P/BV	2.7	2.4	2.2	2.1	1.9
DPS (sen)	54.0	56.0	57.0	59.0	62.0
Dividend Yield (%)	2.8	2.9	2.9	3.0	3.2
Affin/Consensus (x)			0.95	0.95	0.95
Chg in EPS (%)			-	-	-

Source: Company, Affin Hwang forecasts, Bloomberg

Affin Hwang Investment Bank Bhd (14389-U)  
(Formerly known as HwangDBS Investment Bank Bhd)

## Results Note

# Public Bank

PBK MK

Sector: Banking

**RM19.56 @ 28 July 2016**

**BUY (maintain)**

Upside 11.5%

**Price Target: RM21.80**

Previous Target: RM21.80



## Price Performance

	1M	3M	12M
Absolute	+2.0%	+4.6%	+4.2%
Rel to KLCI	+0.7%	+5.8%	+6.9%

## Stock Data

Issued shares (m)	3,861.5
Mkt cap (RMm)/(US\$m)	75,530.8/18,635.8
Avg daily vol - 6mth (m)	5.7
52-wk range (RM)	17.04-19.68
Est free float	55.3%
NAV per share (RM)	8.40
P/NAV (x)	2.3
Net cash/ (debt) (RMm) (4Q15)	n.m.
ROE (2016F)	14.5%
Derivatives	Nil
Shariah Compliant	No

## Key Shareholders

Tan Sri Teh Hong Piow	22.9%
EPF	12.5%

Source: Affin Hwang, Bloomberg

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Fig 1: Results Comparison

FYE Dec (RMm)	2Q16	2Q15	Yoy (%)	1Q16	Q-q (%)	Comments
Interest Income	3,771.9	3,534.4	6.7	3,681.1	2.5	Group loans growth was 9.5% yoy, 2.3% qoq.
Interest Expense	(2,072.4)	(1,974.8)	4.9	(1,996.4)	3.8	Deposit base grew 5.5% yoy and 1.6% qoq.
<b>Net Interest Income</b>	<b>1,699.5</b>	<b>1,559.6</b>	<b>9.0</b>	<b>1,684.7</b>	<b>0.9</b>	Strong growth yoy due to higher average loan balance and expansion of NIM by 6bps.
Islamic Banking	233.1	208.9	11.6	227.5	2.5	
<b>NII after Islamic Banking</b>	<b>1,932.7</b>	<b>1,768.5</b>	<b>9.3</b>	<b>1,912.2</b>	<b>1.1</b>	.
Non-Interest Income	491.8	544.6	(9.7)	592.0	(16.9)	Decrease mainly due to lower foreign exchange income (-31.9% yoy, -68.2% qoq) and investment income (-71.9% yoy, -55.4% qoq).
<b>Operating Income</b>	<b>2,424.5</b>	<b>2,313.1</b>	<b>4.8</b>	<b>2,504.2</b>	<b>(3.2)</b>	
Operating Expenses	(802.8)	(722.2)	11.2	(788.5)	1.8	Growth in expenses mainly due to higher personnel cost (+8.5% yoy, -0.2 qoq) and establishment cost (+15.6% yoy, +7.0% qoq). CIR saw an uptick in 2Q16 to 33.1% but still well below industry average.
<b>Pre-provision Profit</b>	<b>1,621.7</b>	<b>1,590.9</b>	<b>1.9</b>	<b>1,715.7</b>	<b>(5.5)</b>	
Allowance for impairment	(69.9)	(60.9)	14.8	(67.5)	3.6	Despite an increase in absolute amount for impairment allowance, credit cost remained largely flat on yoy and qoq basis.
Impairment Loss & Others	1.0	0.4	118.9	0.5	106.2	
Profit from associates	(1.2)	0.7	(263.3)	2.9	(142.0)	
<b>Pre-Tax Profit</b>	<b>1,551.5</b>	<b>1,531.1</b>	<b>1.3</b>	<b>1,651.6</b>	<b>(6.1)</b>	
Taxation	(280.9)	(318.2)	(11.7)	(406.5)	(30.9)	
Minority Interests	(14.4)	(16.1)	(10.3)	(15.3)	(5.4)	
<b>Net Profit</b>	<b>1,256.2</b>	<b>1,196.8</b>	<b>5.0</b>	<b>1,229.8</b>	<b>2.1</b>	Annualized 1H16 net profit is largely in line with Affin's and consensus estimates.
<b>Core Net Profit</b>	<b>1,256.2</b>	<b>1,196.8</b>	<b>5.0</b>	<b>1,229.8</b>	<b>2.1</b>	
<b>EPS (sen)</b>	<b>32.5</b>	<b>31.0</b>	<b>4.9</b>	<b>31.8</b>	<b>2.1</b>	
<b>Core EPS (sen)</b>	<b>32.5</b>	<b>31.0</b>	<b>4.9</b>	<b>31.8</b>	<b>2.1</b>	
<b>Single-tier DPS (sen)</b>	<b>26.00</b>	<b>24.00</b>	<b>8.3</b>	-	-	Proposed interim dividend of RM0.26 (1Q15: RM0.24)
Net Yield (%)	1.3	1.2	0.1	-	-	

Source: Affin Hwang, Company data



Fig 2: Public Bank: Key financial ratios

FYE Dec (RMm)	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16
<b>Key Financial Ratios:</b>										
<b>Profitability</b>										
Net asset yield (%)	3.98	4.03	4.27	4.39	4.14	4.17	4.17	4.17	4.20	4.25
Cost of funds (%)	2.17	2.24	2.35	2.52	2.44	2.47	2.45	2.45	2.42	2.49
NIMs (after Islamic income) (%)	2.28	2.20	2.29	2.20	2.15	2.11	2.16	2.19	2.20	2.17
Average spread (%)	1.81	1.79	1.92	1.87	1.70	1.70	1.72	1.72	1.78	1.76
Fee income ratio (%)	22.0	22.6	21.4	22.2	23.2	23.5	25.5	25.5	23.6	20.3
Cost to income ratio (%)	31.8	31.7	28.9	28.1	31.0	31.2	30.0	30.0	31.5	33.1
Annualised ROE (%)	19.9	20.2	20.2	20.7	17.8	16.7	16.7	20.1	16.1	16.2
<b>Balance Sheet</b>										
Gross loans (RMm)	226,611.7	232,158.7	237,474.7	245,044.1	253,051.8	258,806.6	268,048.5	273,447.1	277,186.4	283,460.2
Customer deposits (RMm)	258,913.6	264,536.7	268,373.6	276,540.2	285,414.7	295,299.3	296,338.8	301,157.1	306,646.8	311,535.1
Net loan/deposit ratio (%)	86.8	87.1	87.8	88.0	88.0	87.0	89.8	90.3	89.9	90.5
<b>Asset Quality</b>										
Gross Impaired Loans (RMm)	1,490.4	1,513.2	1,541.7	1,488.7	1,419.6	1,393.3	1,417.8	1,351.8	1,335.1	1,383.0
Gross Impaired Loan ratio (%)	0.66	0.65	0.65	0.61	0.56	0.54	0.53	0.49	0.48	0.49
Impaired loans cover (%)	119.1	117.6	117.1	118.1	117.1	123.0	130.8	120.8	120.1	116.3
Impaired loans formation (RMm)	198.0	254.8	216.1	154.7	168.3	217.5	263.2	204.7	223.5	267.8
<b>Capital</b>										
CET-1 (%)	8.53	8.91	10.40	10.40	10.48	10.70	10.20	10.90	10.80	11.05
Tier-1 CAR (%)	10.07	10.43	11.90	11.90	11.71	11.90	11.40	12.00	11.80	12.02
Total Capital Ratio (%)	13.26	13.82	15.80	15.80	15.24	15.40	14.80	15.50	15.18	15.38

Source: Company data, compiled by Affin Hwang

Fig 3: KPIs remained well ahead of peers'

	1H16 results*	Industry average	Public Bank internal targets
Loan growth	7.3%	2.2%	8%-9%
Deposit growth	6.9%	0.1%	7%-8%
ROE	16.2%	9.8%	>15%
Cost-to-income ratio	32.3%	48.8%	<33%
Gross impaired loan ratio	0.5%	1.6%	<1%

\* Annualised

Source: Company data, compiled by Affin Hwang



## Equity Rating Structure and Definitions

<b>BUY</b>	Total return is expected to exceed +10% over a 12-month period
<b>HOLD</b>	Total return is expected to be between -5% and +10% over a 12-month period
<b>SELL</b>	Total return is expected to be below -5% over a 12-month period
<b>NOT RATED</b>	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

*The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.*

<b>OVERWEIGHT</b>	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
<b>NEUTRAL</b>	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
<b>UNDERWEIGHT</b>	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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