

Out think. Out perform.

Steady start for the year

There was little surprise in Public Bank's 1Q17 results as net profit grew at a steady pace of 1.5% yoy and was within our and street's estimates. PBB continued to maintain a sound asset quality (GIL ratio 0.5%, LLC at 104.0% in 1Q17) while NIM surprised on the upside, rising from 11bps yoy. Maintain BUY, with PT of RM23.25.

1Q17 a steady quarter, net profit rose 1.5% yoy, but down 15.8% qoq

Public Bank Berhad (PBB) reported a decent 1Q17, as net profit grew by 1.5% yoy although it was lower 15.8% qoq from the seasonally stronger 4Q16. Stronger net interest income was mitigated by weaker non-interest income and higher operating expenses while credit costs was relatively stable. Overall, 1Q17 results were largely in-line with both the street's and our estimates. We anticipate that earnings in the coming quarters will gradually improve, with stronger momentum in loan growth.

1Q17 operating results held up well, driven by fund-based income

Group fund-based income grew strongly (+8.4% yoy, +2.0% qoq) to RM2.07bn, thanks to a stronger net interest margin of 2.31% (+11bps yoy, +9bps qoq). Gross loans remained relatively flat ytd (+0.9%) while deposits grew by a stronger 2% ytd, aided by strong CASA growth of 12.2% yoy and 3.2% qoq (which aided in lowering funding pressure while improving the LDR on a qoq basis to 93.3% from 94.3%).

Rising overheads a challenge, CIR edged up t 34.4%

Despite the higher fund-based income, group PPOP was relatively flat due to lower non-interest income (caused by lower foreign exchange income) and higher operating expenses (mainly due to higher personnel and administration costs). The CIR inched up to 34.4%, slightly above its internal target of 33-34% as operating expenses (+12.5% yoy, +10.1% qoq) outpaced the growth in operating income (+3.3% yoy, +1.0% qoq).

Moving forward, we believe there may be little room for PBB cut overheads as its staff force is already quite optimal. We believe that the group will more likely achieve its CIR target through operating income expansion from loans and non-interest income growth. On a more positive note, PBB's CIR is still significantly below the industry average of 48% in 2016.

Asset quality remains sound

Gross impaired loans ratio remains steady at 0.49% while the group has ample buffer with a loan loss cover of 104.0% (while including regulatory reserves, at 255.0%). There are no indications or imminent concerns of delinquencies or significant deterioration in Public Bank's asset quality.

Earnings & Valuation Summary

FYE 31 Dec	2015	2016	2017E	2018E	2019E
Total income (RMm)	9,545.8	9,956.5	10,754.8	11,211.9	11,711.8
PPOP (RMm)	6,630.6	6,745.0	7,404.4	7,771.3	8,110.5
Pretax profit (RMm)	6,491.4	6,554.0	7,103.9	7,474.8	7,794.3
Net profit (RMm)	5,062.2	5,206.9	5,336.6	5,616.6	5,857.5
EPS (sen)	131.1	134.8	137.5	144.7	150.9
Core net profit (RMm)	4,955.1	5,146.4	5,336.6	5,616.6	5,857.5
Core EPS (sen)	128.3	133.3	137.5	144.7	150.9
Core EPS growth (%)	3.7	3.9	3.1	5.2	4.3
Core PER (x)	15.5	14.9	14.5	13.8	13.2
ROE (%)	17.1	15.9	14.9	14.4	13.9
BVPS (RM)	8.09	8.81	9.61	10.43	11.32
PBV (x)	2.5	2.3	2.1	1.9	1.8
Net DPS (sen)	56.0	58.0	60.0	62.0	64.0
Dividend Yield (%)	2.8	2.9	3.0	3.1	3.2
Chg in EPS (%)			-	-	-
Affin/Consensus (x)			1.0	1.0	1.0

Source: Company, Affin Hwang estimates

Results Note

Public Bank

PBK MK
Sector: Banking

RM19.92 @ 20 Apr 2017

BUY (maintain)

Upside 16.7%

Price Target: RM23.25

Previous Target: RM23.25



Price Performance

	1M	3M	12M
Absolute	-1.1%	-0.9%	+4.7%
Rel to KLCI	-0.6%	-5.3%	+2.8%

Stock Data

Issued shares (m)	3,861.5
Mkt cap (RMm)/(US\$m)	76,921/17,489.2
Avg daily vol - 6mth (m)	5.6
52-wk range (RM)	18.52-20.28
Est free float	57.8%
NAV per share (RM)	8.86
P/NAV (x)	2.25
Net cash/ (debt) (RMm) (4Q16)	n.m.
ROE (2017F)	14.9%
Derivatives	Nil
Shariah Compliant	No

Key Shareholders

Tan Sri Teh Hong Piow	22.9%
EPF	13.7%

Source: Affin Hwang, Bloomberg

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Outthink. Outperform.

Reaffirm BUY rating, PT at RM23.25

We reiterate our **BUY** call on PBB with a 12-month **PT** of **RM23.25** based on a 2.42x P/BV multiple on a 2017E ROE of 14.9%. For 2017E, we expect fund-based income growth to remain robust and NIM to remain steady, with slight improvement yoy. We continue to like Public Bank for its superior management execution strategies, solid market shares in the retail and SME segments, sound asset quality and a well-capitalized balance sheet (CET 1 ratio at 11.4%, TCR 15.2%).

Key risks

The key downside risks include NIM compression, moderation in consumer/business sentiment, inevitable increase in overheads, increase in delinquency rates.

Fig 1: Results Comparison

FYE Dec (RMm)	1Q17	Yoy (%)	Qoq (%)	4Q16	Comments
Interest Income	3,732.8	1.4	(2.1)	3,814.0	Group loans growth was up +7.0% yoy, +0.9% qoq.
Interest Expense	(1,908.6)	(4.4)	(5.2)	(2,014.1)	Deposit base grew +3.1% yoy and +2.0% qoq.
Net Interest Income	1,824.2	8.3	1.3	1,799.9	Strong growth yoy due to higher average loan balance and expansion of NIM by +11bps, effectively driven by lower average funding cost (down 20bps yoy and qoq). CASA growth was up 12.2% yoy, with CASA ratio at 25.5% in 1Q17 (1Q16: 23.4%).
Islamic Banking	247.7	8.9	6.8	232.0	
Total Fund-based Income	2,071.9	8.4	2.0	2,031.9	1Q17 net interest income growth remained strong due to an ease in funding pressure, resulting in NIM expansion of +11bps yoy and +9bps qoq to 2.31%.
Non-Interest Income	514.5	(13.1)	(2.7)	528.9	Decrease yoy mainly due to lower foreign exchange income (-46.0% yoy, +153.1% qoq) but mitigated by higher fee income (+6.7% yoy, -1.1% qoq).
Operating Income	2,586.4	3.3	1.0	2,560.8	
Operating Expenses	(886.9)	12.5	10.1	(805.5)	Growth in expenses mainly due to higher personnel cost (+10.2% yoy, +10.5% qoq) and administration cost (+29.4% yoy, +22.9% qoq). CIR saw an uptick in 1Q17 to 34.3% as growth in expenses outpaced growth in operating income, but still well below industry average.
Pre-provision Profit	1,699.5	(0.9)	(3.2)	1,755.3	
Allowance for impairment	(67.1)	(0.6)	<100	37.1	Credit cost remained largely flat as gross impaired loans cost remained steady at 0.49%.
Impairment Loss & Others	(0.4)	<100	<100	0.2	
Profit from associates	(0.5)	<100	<100	0.1	
Pre-Tax Profit	1,631.5	(1.2)	(9.0)	1,792.7	
Taxation	(366.1)	(9.9)	24.8	(293.4)	
Minority Interests	(17.4)	13.7	5.3	(16.5)	
Net Profit	1,248.0	1.5	(15.8)	1,482.8	Annualized 1Q17 net profit is largely in-line with Affin and consensus' estimate.
Core Net Profit	1,248.0	1.5	(12.3)	1,482.8	
EPS (sen)	32.3	1.5	(15.8)	38.4	
Core EPS (sen)	32.3	1.5	(12.3)	38.4	
Single-tier DPS (sen)	-	n.m.	n.m.	32.00	No dividend was proposed.
Net Yield (%)	-	n.m.	n.m.	1.6	

Source: Affin Hwang, Company data

Fig 2: Public Bank: Key financial ratios

FYE Dec (RMm)	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16	4Q16	1Q17
Key Financial Ratios:									
Profitability									
Net asset yield (%)	4.14	4.17	4.17	4.17	4.20	4.25	4.25	4.31	4.06
Cost of funds (%)	2.44	2.47	2.45	2.45	2.42	2.49	2.46	2.42	2.22
NIMs (after Islamic income) (%)	2.15	2.11	2.16	2.19	2.20	2.17	2.17	2.22	2.31
Average spread (%)	1.70	1.70	1.72	1.72	1.78	1.76	1.79	1.88	1.84
Fee income ratio (%)	23.2	23.5	25.5	25.5	23.6	20.3	19.5	20.7	19.9
Cost to income ratio (%)	31.0	31.2	30.0	30.0	31.5	33.1	33.0	31.5	34.3
Annualised ROE (%)	17.8	16.7	16.7	20.1	15.8	15.8	15.5	18.1	14.9
Balance Sheet									
Gross loans (RMm)	253,051.8	258,806.6	268,048.5	273,447.1	277,186.4	283,460.2	288,263.6	293,959.2	296,584.7
Customer deposits (RMm)	285,414.7	295,299.3	296,338.8	301,157.1	306,646.8	311,535.1	317,934.7	309,973.6	316,241.9
Net loan/deposit ratio (%)	88.0	87.0	89.8	90.3	89.9	90.5	90.2	94.3	93.3
Asset Quality									
Gross Impaired Loans (RMm)	1,419.6	1,393.3	1,417.8	1,351.8	1,335.1	1,383.0	1,488.2	1,489.4	1,453.9
Gross Impaired Loan ratio (%)	0.56	0.54	0.53	0.49	0.48	0.49	0.52	0.51	0.49
Impaired loans cover (%)	117.1	123.0	130.8	120.8	120.1	116.3	109.5	102.7	104.0
Impaired loans cover with regulatory reserves (%)	233.7	241.4	244.2	258.6	265.1	261.2	246.6	248.5	255.0
Impaired loans formation (RMm)	168.3	217.5	263.2	204.7	223.5	267.8	347.8	231.8	188.5
Capital									
CET-1 (%)	10.48	10.70	10.20	10.90	10.80	11.05	11.00	11.40	11.40
Tier-1 CAR (%)	11.71	11.90	11.40	12.00	11.80	12.02	11.90	12.20	12.20
Total Capital Ratio (%)	15.24	15.40	14.80	15.40	15.18	15.38	15.20	15.50	15.20

Source: Company data, compiled by Affin Hwang

Fig 3: KPIs vs peers and internal targets

	1Q17 results	2016 industry average	Public Bank internal targets
Loan growth	3.6%*	5.3%	6%-7%
Deposit growth	8.1%*	1.5%	5%-6%
ROE	14.9%	9.8%	14-15%
Cost-to-income ratio	34.3%	48.4%	<33%
Gross impaired loan ratio	0.5%	1.61%	<1%

Source: Company data, compiled by Affin Hwang

* Annualised growth

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	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.

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