

# PUBLIC BANK

(PBK MK EQUITY, PUBM.KL)

**BUY**

(MAINTAINED)

Price: RM4.83

Target Price (% return): RM5.60 (21%)

52-week High/Low: RM5.18/RM4.17

## Financial Services

Rationale for report: Company Result

## Capital management flex

Keep BUY on Public with unchanged TP of RM5.60. While 1Q26 profit was fairly muted (-7% QoQ, flat YoY), the bigger takeaway was its firmer stance on capital management. Beyond the 18sen special DPS spread over 3 years (lifting yields to c.6%), the exercise could enhance ROE by c.70bp. Also, we view the share buyback plan positively, given its multi-faceted role in supporting share price performance.

- **BUY with unchanged TP of RM5.60**, pegged to 1.6x FY27 P/B (+1SD to its 5-year mean and above sector's 0.95x), given the 2ppt ROE premium to peers. While results were fairly muted, the bigger takeaway was Public's firmer stance on capital management, which is a key re-rating catalyst that we have been stressing. Thus, value optionality is starting to crystallize, with shareholders now set to reap the rewards.
- **Broadly in-line.** Public inked 1Q26 profit of RM1.8bn (-7% QoQ, flat YoY), largely meeting both our and consensus expectations at 23% of forecasts. The quarter was marked by a normalization in provisions (vs writebacks in 4Q25, +34% YoY) alongside a modest rise in CIR (+50bp QoQ/YoY) given NIM slippage (-1bp QoQ). Encouragingly, the bank is still confident of delivering its 12-13% ROE target this year. No changes to our estimates.
- **Capital management in overdrive.** As expected, Public intends to return the 1ppt CET1 surplus from the final Basel III reforms to shareholders over the next 3 years; the excess capital amounts to RM3.5bn (18sen/share) i.e. 3.7% yield upside (c.1.2% p.a.). Separately, we welcome Public's share buyback plan as another capital management lever; it makes strategic sense, in our opinion, given (i) ROE > COE, (ii) increasingly competitive lending landscape, while also (iii) helping to absorb potential overhang from its upcoming ROFS exercise via being a natural buyer.
- **Normalization, not deterioration.** The higher impaired loan allowances largely reflect normalization from a low base in 2025 and should not be read negatively. Moreover, AQ remains resilient, with GIL ratio flat QoQ at 0.51%, while elevated LLC of 147% continues to provide strong buffer against any potential second-order spillovers from the Middle East conflict. Although loans past due >1mth has edged up 20bp QoQ to 2.0%, this stays well below pre-pandemic level of 3.6%, which should keep concerns at bay for now.

## Analyst (s)

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## Key Changes

Target Price:	↔
EPS:	↔

## Stock and Financial Data

Shares Outstanding (million)	19,410.7
Market Cap (RMmil)	93,753.6
Book Value (RM/Share)	3.09
P/BV (x)	1.6
ROE (%)	12.3
Free Float	68.7
Avg Daily Value (RMmil)	112.2

## Major Shareholders

Consolidated Teh	(21.6%)
EPF	(17.4%)
KWAP	(5.4%)

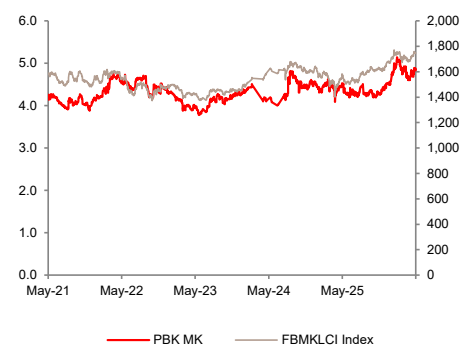
Price performance	3mth	6mth	12mth
Absolute(%)	(4.2)	12.6	6.6
Relative(%)	(4.5)	4.9	(3.3)

Source: Public Bank, AmInvestment Bank Bhd.

YE to Dec	FY25	FY26F	FY27F	FY28F
Total income (RM mil)	14,695.2	15,345.0	15,946.9	16,671.4
Core net profit (RM mil)	7,224.4	7,533.4	7,820.9	8,188.0
FD Core EPS (sen)	37.2	38.8	40.3	42.2
FD Core EPS growth (%)	(5.2)	4.3	3.8	4.7
Consensus Net Profit (RM mil)	-	7,523.0	7,929.0	8,390.0
DPS (sen)	22.5	23.5	24.5	25.7
BV/share (RM)	3.09	3.31	3.48	3.65
PE (x)	13.0	12.4	12.0	11.5
Div yield (%)	4.7	4.9	5.1	5.3
P/BV (x)	1.6	1.5	1.4	1.3
ROE (%)	12.3	12.1	11.9	11.8

Source: Public Bank, AmInvestment Bank Bhd.

## Price Chart



## EXHIBIT 1. 1Q26 Results Summary

FYE Dec (RMmil)	1Q26	1Q25	YoY (%)	4Q25	QoQ (%)
Net interest income	2,387.5	2,380.4	0.3	2,421.9	-1.4
Islamic banking	469.2	448.1	4.7	461.8	1.6
Non-interest income	793.1	772.1	2.7	834.5	-5.0
<b>Total income</b>	<b>3,649.8</b>	<b>3,600.6</b>	<b>1.4</b>	<b>3,718.2</b>	<b>-1.8</b>
Operating expenses	-1,295.1	-1,259.5	2.8	-1,301.1	-0.5
<b>Pre-provision profit</b>	<b>2,354.7</b>	<b>2,341.1</b>	<b>0.6</b>	<b>2,417.1</b>	<b>-2.6</b>
Loan loss provisions	-52.1	-39.0	33.5	17.1	nm
<b>Operating profit</b>	<b>2,302.6</b>	<b>2,302.1</b>	<b>0.0</b>	<b>2,434.2</b>	<b>-5.4</b>
Others	12.6	10.5	20.5	9.9	28.0
<b>Pre-tax profit</b>	<b>2,315.3</b>	<b>2,312.6</b>	<b>0.1</b>	<b>2,444.1</b>	<b>-5.3</b>
Tax & minority interest	-563.5	-567.2	-0.7	-567.8	-0.8
<b>Net Profit</b>	<b>1,751.8</b>	<b>1,745.3</b>	<b>0.4</b>	<b>1,876.3</b>	<b>-6.6</b>
<b>EPS (sen)</b>	<b>9.0</b>	<b>9.0</b>	<b>0.4</b>	<b>9.7</b>	<b>-6.6</b>
<b>DPS (sen)</b>	<b>0.0</b>	<b>0.0</b>	<b>nm</b>	<b>12.0</b>	<b>nm</b>
<b>BVPS (RM)</b>	<b>3.05</b>	<b>2.93</b>	<b>3.8</b>	<b>3.09</b>	<b>-1.3</b>

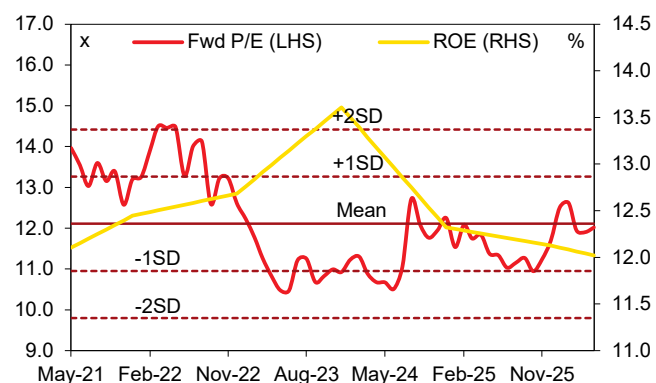
Source: Public, AmInvestment Bank Bhd.

## EXHIBIT 2. Financial ratios

FYE Dec (%)	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25	1Q26
Net interest margin	2.19	2.24	2.21	2.19	2.18	2.10	2.12	2.11
Cost / income ratio	35.2	34.2	33.1	35.0	35.6	34.1	35.0	35.5
Return on equity	13.0	13.8	16.3	12.4	12.3	12.8	12.8	11.9
Loans growth, yoy	6.1	5.3	6.3	6.1	5.8	6.5	5.1	5.1
Deposits growth, yoy	4.5	4.0	4.9	4.0	3.8	5.0	3.2	3.7
Loan / deposit ratio	96.7	97.5	97.9	98.4	98.6	98.9	99.7	99.8
Gross impaired loans ratio	0.64	0.62	0.52	0.53	0.54	0.52	0.51	0.51
Loan loss coverage	154.2	153.6	166.2	159.9	153.9	154.8	149.9	147.0
Net credit cost (bp)	-0.1	-2.0	-4.0	3.7	3.2	1.0	-1.6	4.7
CET1 ratio	15.1	14.3	14.9	14.0	14.6	13.8	14.5	13.7

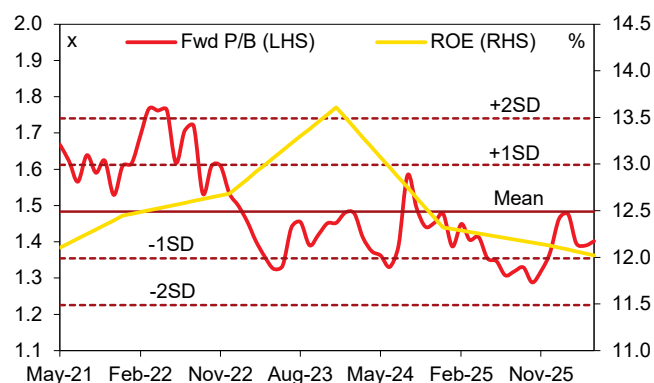
Source: Public, AmInvestment Bank Bhd.

## EXHIBIT 3. 5-YR FORWARD P/E BAND



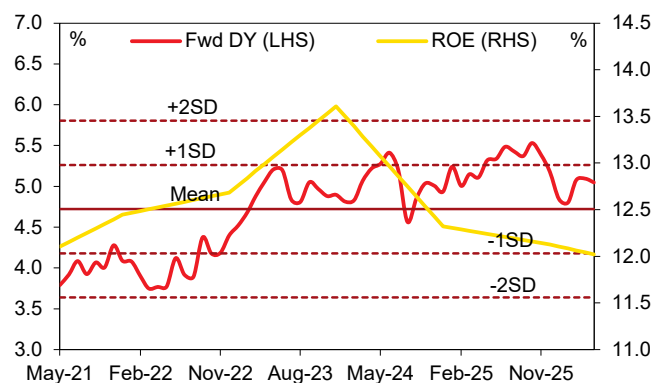
Source: AmInvestment Bank, Bloomberg

## EXHIBIT 4. 5-YR FORWARD P/B BAND



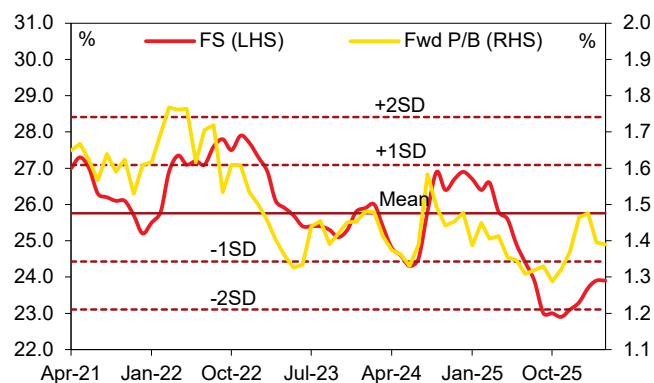
Source: AmInvestment Bank, Bloomberg

## EXHIBIT 5. 5-YR FORWARD DY BAND



Source: AmInvestment Bank, Bloomberg

## EXHIBIT 6. PUBLIC'S FOREIGN SHAREHOLDING



Source: AmInvestment Bank, Public

## Company profile

Public is the third largest banking group in Malaysia (by assets), offering a comprehensive suite of financial products & services, including personal, commercial, Islamic, investment banking, share broking, trustee services, nominee services, unit trust, bancassurance, and general insurance.

Key market for Public is Malaysia, which contributes >90% to group PBT in 2025. Also, the bank has presence across Singapore, Hong Kong, China, Cambodia, Vietnam, Laos, and Sri Lanka. In total, the bank has a network of close to 500 branches.

## Investment thesis and catalysts

We continue to like Public for its capital management plans where it intends to return the 1ppt CET1 surplus from the final Basel III reforms to shareholders over the next 3 years; the excess capital amounts to RM3.5bn (18sen/share) i.e. 3.7% yield upside (c.1.2% p.a.). The stock currently offers 5.1% BAU yield (based on 60% DPR) and this is already above its 10-year average of 4.0%.

In addition, we welcome Public's share buyback initiative as another capital management lever; it makes strategic sense, in our view, given (i) ROE > COE, (ii) increasingly competitive lending landscape, while also (iii) helping to absorb potential overhang from its upcoming ROFS exercise via being a natural buyer.

Separately, its foreign shareholding is at multi-year low (24% vs Mar-11 trough of 24% and Mar-18 high of 40%) and traditionally, Public is a darling among foreign investors.

## Valuation methodology

We value Public using the Gordon Growth Model (GGM), as it incorporates both P/B and ROE into a single formula; notably, ROE plays an important role to the valuation of banking stocks as it has a strong correlation to P/B (87%).

We derived a TP of RM5.60 for Public and it is based on 1.60x FY27 P/B with assumptions of 11.9% ROE, 8.6% COE, and 3.0% LTG. This is valued at +1SD to its 5-year mean and above sector's 0.95x. The premium is fair since its ROE output is 2ppt higher vs industry's average. Also, the bank is evolving into a solid dividend paymaster.

## Risk factors

Key downside risks include:

- i) Sharp slowdown in global economic growth, giving rise to a spike in NPL formation; this could weigh on NCC and earnings.
- ii) Intense rivalry for both loans and deposits may exert downward pressure on NIM. Also, LDR is now at a decade high, leaving the bank with limited headroom for optimization.
- iii) Higher-than-expected opex, driven by the need to play catch up in the IT and digital services space.

### EXHIBIT 7. VALUATIONS

Return on equity (ROE)	11.9%
Cost of equity (COE)	8.6%
Long-term growth rate (LTG)	3.0%
Target P/B	1.60x
FY27 BVPS	RM3.48
ESG premium	-
12-month target price	RM5.60

Source: AmInvestment Bank

## Financial Summary

### Income Statement (RMmil)

YE to Dec	FY24	FY25	FY26F	FY27F	FY28F
Net interest income	9,451.1	9,583.7	9,895.0	10,237.0	10,677.1
Non-interest income	2,852.6	3,272.1	3,510.8	3,687.2	3,874.0
Islamic banking income	1,707.0	1,839.4	1,939.1	2,022.6	2,120.3
<b>Total income</b>	<b>14,010.7</b>	<b>14,695.2</b>	<b>15,345.0</b>	<b>15,946.9</b>	<b>16,671.4</b>
Overhead expenses	(4,828.1)	(5,128.7)	(5,326.4)	(5,506.7)	(5,692.7)
Pre-provision profit	9,182.5	9,566.5	10,018.5	10,440.2	10,978.7
Loan loss provisions	(0.6)	(66.8)	(169.3)	(213.0)	(269.2)
Impairment & others	(17.8)	(12.8)	(10.0)	(10.0)	(10.0)
Associates	241.2	56.0	60.0	60.0	60.0
<b>Pretax profit</b>	<b>9,405.4</b>	<b>9,542.9</b>	<b>9,899.3</b>	<b>10,277.1</b>	<b>10,759.5</b>
Tax	(1,912.6)	(2,135.7)	(2,177.8)	(2,261.0)	(2,367.1)
Minority interests	128.0	(182.7)	(188.1)	(195.3)	(204.4)
<b>Net profit</b>	<b>7,147.0</b>	<b>7,224.4</b>	<b>7,533.4</b>	<b>7,820.9</b>	<b>8,188.0</b>
Core net profit	7,620.8	7,224.4	7,533.4	7,820.9	8,188.0

### Balance Sheet (RMmil)

YE to Dec	FY24	FY25	FY26F	FY27F	FY28F
Cash & deposits with FIs	15,469.0	16,828.7	8,694.6	9,874.6	11,198.7
Marketable securities	66,144.0	58,844.5	69,918.8	71,728.2	73,595.0
<b>Total current assets</b>	<b>81,613.0</b>	<b>75,673.2</b>	<b>78,613.4</b>	<b>81,602.8</b>	<b>84,793.6</b>
Net loans & advances	420,471.7	442,333.2	464,699.5	487,983.6	512,382.7
Statutory deposits	nm	nm	nm	nm	nm
Long-term investments	29,003.2	30,821.0	31,437.4	32,066.2	32,707.5
Fixed assets	1,272.8	1,309.8	1,166.3	1,095.0	1,011.8
Intangible assets	2,799.4	3,085.6	2,799.4	2,799.4	2,799.4
Other long-term assets	7,703.1	8,428.3	7,703.1	7,703.1	7,703.1
<b>Total LT assets</b>	<b>461,250.1</b>	<b>485,977.9</b>	<b>507,805.6</b>	<b>531,647.3</b>	<b>556,604.5</b>
<b>Total assets</b>	<b>542,863.1</b>	<b>561,651.2</b>	<b>586,419.1</b>	<b>613,250.1</b>	<b>641,398.2</b>
Customer deposits	433,264.3	447,113.6	469,469.3	492,942.8	517,589.9
Deposits of other FIs	21,587.2	20,249.9	21,587.2	21,587.2	21,587.2
Subordinated debts	16,367.7	19,491.6	16,367.7	16,367.7	16,367.7
Hybrid capital securities	-	-	-	-	-
Other liabilities	11,997.0	12,354.4	11,997.0	11,997.0	11,997.0
<b>Total liabilities</b>	<b>483,216.1</b>	<b>499,209.5</b>	<b>519,421.1</b>	<b>542,894.6</b>	<b>567,541.7</b>
Shareholders' funds	57,335.5	59,937.7	64,305.9	67,468.2	70,764.7
Minority interests	2,311.5	2,503.9	2,692.0	2,887.3	3,091.7

### Key Ratios

YE to Dec	FY24	FY25	FY26F	FY27F	FY28F
Total income growth (%)	7.0	4.9	4.4	3.9	4.5
Pre-provision profit growth (%)	5.8	4.2	4.7	4.2	5.2
Core net profit growth (%)	7.5	1.1	4.3	3.8	4.7
Net interest margin (%)	2.1	2.0	2.0	2.0	2.0
Cost-to-income ratio (%)	34.5	34.9	34.7	34.5	34.1
Effective tax rate (%)	21.4	22.4	22.0	22.0	22.0
Dividend payout (%)	57.0	60.5	60.6	60.8	60.9

### Key Assumptions

YE to Dec	FY24	FY25	FY26F	FY27F	FY28F
Loan growth (%)	6.3	5.1	5.0	5.0	5.0
Deposit growth (%)	4.9	3.2	5.0	5.0	5.0
Loan-deposit ratio (%)	97.9	99.7	99.7	99.7	99.7
Gross NPL (%)	0.5	0.5	0.5	0.5	0.5
Net NPL (%)	0.4	0.3	0.4	0.4	0.4
Credit charge-off rate (%)	-	-	-	-	0.1
Loan loss reserve (%)	166.2	149.9	136.8	133.9	131.2

Source: Company, AmInvestment Bank Bhd.

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