

PUBLIC BANK

(PBK MK EQUITY, PUBM.KL)

BUY

(MAINTAINED)

Price: RM4.87

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

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

Financial Services

Rationale for report: Company Update

A bigger prize?

Keep BUY on Public with unchanged TP of RM5.60. Beyond near-term special DPS, the bigger prize lies in what comes next: a credible path for elevated 75% DPR to become the new normal beyond FY28, as regulators grow comfortable with Public's ability to pay more. At c.6% yield (some 180bp above 10-year mean), this dovetails neatly with the MY Value Up initiative; a structural optionality that remains unpriced.

- **BUY with unchanged TP of RM5.60**, pegged to 1.64x FY27 P/B (+1SD to 5-year average and above sector's 0.92x), given the 3ppt ROE premium to peers. In our view, the market continues to underappreciate Public's evolution into a compelling dividend paymaster of c.6%, while the optionality of a structurally higher DPR beyond FY28 is still unpriced. Meanwhile, concerns surrounding the Teh family's ROFS stake sale are overstated.
- **Beyond specials.** We incorporate Public's 3-year capital return plan of RM3.5bn into our forecasts; DPR assumption lifted to 75% from 60% and this raises dividend yield to c.6% (some 180bp above 10-year historical average). More importantly, it marks an inflection point for Public to demonstrate its capability to pay more and could pave the way for a structurally higher DPR beyond FY28 (graduating from one-off specials). In our view, the investment fraternity has yet to appreciate this option value.
- **Overhang, overblown?** Recently, 2 tranches of Public shares entered the market (LPI's 1% disposal at RM4.75/share along with 1% staff ROFS at RM4.38/share) but stock price held firm. The initial market reaction was resilient, suggesting concerns over the balance c.11% progressive stake sale (by 2029) could be overstated. We believe the market has sufficient capacity to absorb the additional supply; assuming an orderly sell-down of c.3-4% p.a. (30-40% of its buyback mandate), daily ROFS represents only c.15% of ADV.
- **Rock solid.** Despite the Middle East conflict, AQ stays sturdy, with GIL ratio holding flat QoQ at 0.51%. Our channel checks suggest R&R activity is stable and no underlying signs of stress; loans past due >1 mth is 160bp below pre-Covid level of 3.6%. Separately, the RM800m of untouched management overlays stand ready to absorb any AQ weakness, equivalent to c.18bp of NCC or 3.6x cover vs an average normalized 5bp annual run-rate. Moreover, LLC remains elevated at 147% (vs c.124% pre-Covid).

Analyst (s)

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Key Changes

Target Price:	↔
EPS:	↔

Stock and Financial Data

Shares Outstanding (million)	19,410.7
Market Cap (RMmil)	95,112.4
Book Value (RM/Share)	3.09
P/BV (x)	1.6
ROE (%)	12.3
Free Float	72.2
Avg Daily Value (RMmil)	112.1

Major Shareholders

Consolidated Teh	(20.1%)
EPF	(16.9%)
KWAP	(5.8%)

Price performance	3mth	6mth	12mth
Absolute(%)	0.6	8.2	16.4
Relative(%)	1.8	6.3	2.8

Source: Public Bank, AmInvestment Bank Bhd.

YE to Dec	FY25	FY26F	FY27F	FY28F
Total income (RM mil)	14,695.2	15,338.7	15,911.2	16,589.4
Core net profit (RM mil)	7,224.4	7,528.6	7,793.7	8,125.6
FD Core EPS (sen)	37.2	38.8	40.2	41.9
FD Core EPS growth (%)	(5.2)	4.2	3.5	4.3
Consensus Net Profit (RM mil)	-	7,469.0	7,885.0	8,349.0
DPS (sen)	22.5	29.0	30.0	31.3
BV/share (RM)	3.09	3.30	3.40	3.52
PE (x)	13.2	12.6	12.2	11.7
Div yield (%)	4.6	6.0	6.2	6.4
P/BV (x)	1.6	1.5	1.4	1.4
ROE (%)	12.3	12.1	12.0	12.1

Source: Public Bank, AmInvestment Bank Bhd.

Price Chart

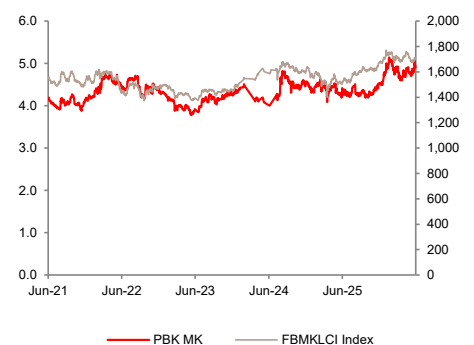
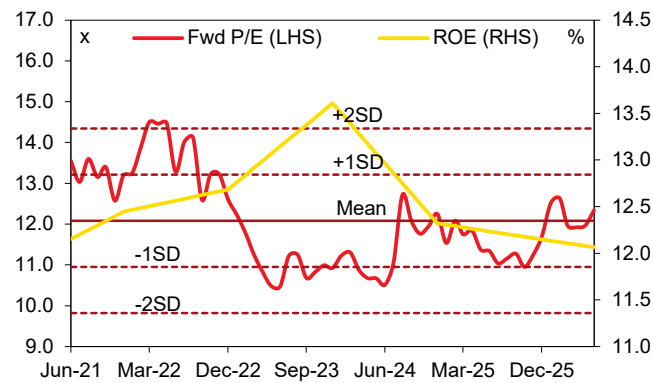
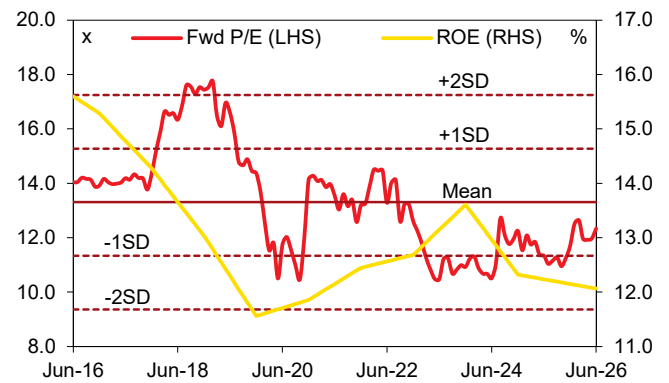


EXHIBIT 1. 5-YR FORWARD P/E BAND



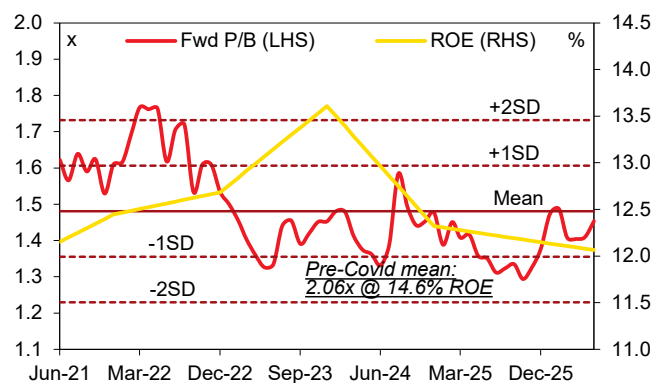
Source: AmInvestment Bank, Bloomberg

EXHIBIT 2. 10-YR FORWARD P/E BAND



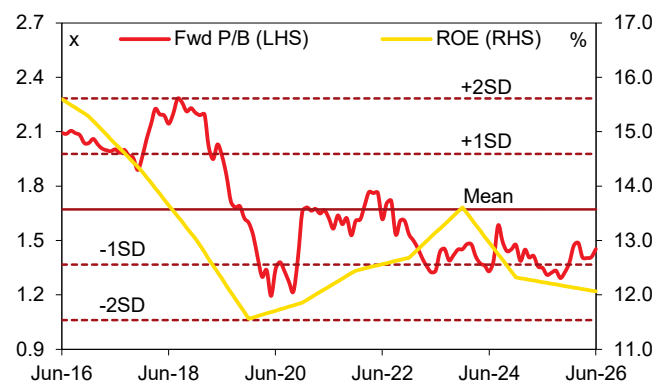
Source: AmInvestment Bank, Bloomberg

EXHIBIT 3. 5-YR FORWARD P/B BAND



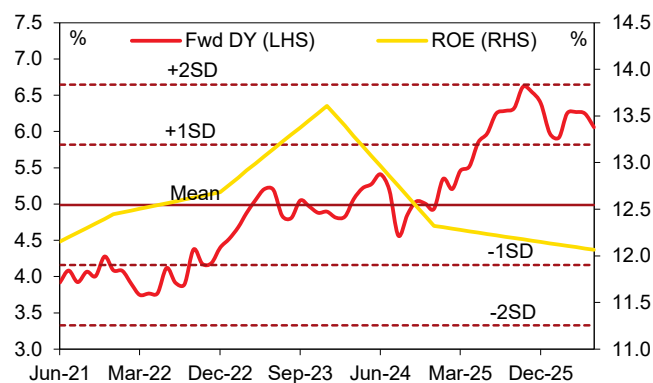
Source: AmInvestment Bank, Bloomberg

EXHIBIT 4. 10-YR FORWARD P/B BAND



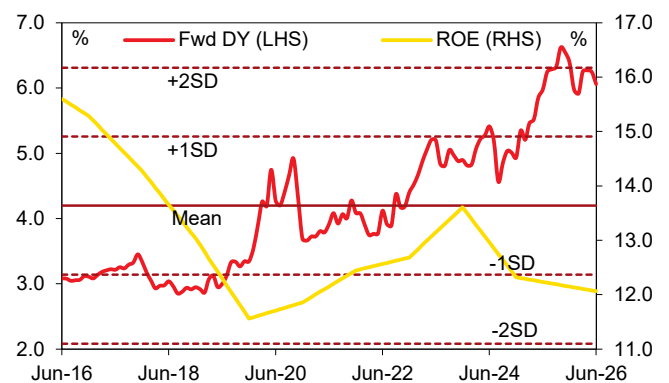
Source: AmInvestment Bank, Bloomberg

EXHIBIT 5. 5-YR FORWARD DY BAND



Source: AmInvestment Bank, Bloomberg

EXHIBIT 6. 10-YR FORWARD DY BAND



Source: AmInvestment Bank, Bloomberg

EXHIBIT 7. PEERS COMPARISON

	Price (RM)	Target (RM)	Call	P/E (x)		EPS growth (%)		P/B (x)		Div. yield (%)		ROE (%)	
				2026	2027	2026	2027	2026	2027	2026	2027	2026	2027
Bank A	2.25	-	N.R.	10.1	8.8	4.6	15.2	0.5	0.4	3.9	4.4	4.6	5.2
Alliance*	4.82	4.70	HOLD	9.8	9.4	3.2	4.0	0.9	0.9	4.1	4.5	9.5	9.4
BIMB	2.15	2.40	HOLD	9.7	9.4	-9.6	3.1	0.6	0.6	6.1	6.3	6.2	6.3
CIMB	7.61	10.30	BUY	9.8	9.5	5.3	3.2	1.1	1.1	6.5	6.7	11.4	11.3
HLB	21.96	28.00	BUY	10.2	9.7	3.1	5.8	1.1	1.0	4.6	4.9	10.9	10.8
HLFG	18.52	33.00	BUY	6.3	6.0	2.0	6.0	0.6	0.6	4.9	5.1	9.9	9.8
Maybank	10.88	11.20	HOLD	12.7	12.3	-1.6	2.8	1.3	1.3	5.8	5.9	10.9	10.8
MBSB	0.65	0.68	HOLD	17.0	15.0	11.9	13.3	0.5	0.5	5.3	6.0	3.1	3.5
Public	4.87	5.60	BUY	12.6	12.1	4.2	3.5	1.5	1.4	6.0	6.2	12.1	12.0
RHB	8.33	8.80	HOLD	10.5	10.1	2.1	4.5	1.0	1.0	6.1	6.4	9.9	10.0
Sector				10.9	10.2	2.5	6.2	0.9	0.9	5.3	5.6	8.9	8.9
Sector (ex-Bank A)				11.0	10.4	2.3	5.1	1.0	0.9	5.5	5.8	9.3	9.3

* refers to FY27 & FY28

Source: AmInvestment Bank, Bloomberg

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 1ppt CET1 surplus from the final Basel III reforms to shareholders over the next 3 years. Beyond near-term special DPS, the bigger prize lies in what comes next: a credible path for higher DPR of 75% to be the new normal beyond FY28, as regulators grow comfortable with the bank's ability to pay more. At c.6% yield (some 180bp above 10-year mean), this dovetails neatly with the MY Value Up initiative.

Meanwhile, concerns around the Teh family's ROFS stake sale are overstated. Recently, 2 tranches of Public shares entered the market (LPI's 1% disposal at RM4.75/share along with 1% staff ROFS at RM4.38/share) but yet stock price held firm. We believe the market has sufficient capacity to absorb the additional supply; assuming an orderly sell-down of c.3-4% p.a., daily ROFS represents only c.15% of ADV. Besides, Public's share buyback program provides a demand buffer; annual ROFS forms just 30-40% of its authorized mandate.

Separately, its foreign shareholding is at multi-year low (25% 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 is based on 1.64x FY27 P/B with assumptions of 12.0% ROE, 8.5% COE, and 3.0% LTG. This is valued at +1SD to its 5-year average and above sector's 0.92x. The premium is fair since its ROE output is 3ppt higher vs industry's mean. Also, Public's evolution into a compelling dividend paymaster of c.6% is being overlooked, while the optionality of a structurally higher DPR beyond FY28 is still unpriced.

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 8. VALUATIONS

Return on equity (ROE)	12.0%
Cost of equity (COE)	8.5%
Long-term growth rate (LTG)	3.0%
Target P/B	1.64x
FY27 BVPS	RM3.40
ESG premium	-
12-month target price	RM5.60

Source: AmInvestment Bank

EXHIBIT 9. CHANGE IN FORECASTS

(sen)	FY26			FY27			FY28		
	New	Old	%	New	Old	%	New	Old	%
Dividend per share	29.0	23.5	23.4	30.0	24.5	22.4	31.3	25.7	21.6

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	9,889.8	10,207.3	10,609.0
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	1,938.1	2,016.6	2,106.5
Total income	14,010.7	14,695.2	15,338.7	15,911.2	16,589.4
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	10,012.3	10,404.4	10,896.7
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
Pretax profit	9,405.4	9,542.9	9,893.0	10,241.4	10,677.5
Tax	(1,912.6)	(2,135.7)	(2,176.5)	(2,253.1)	(2,349.0)
Minority interests	128.0	(182.7)	(188.0)	(194.6)	(202.9)
Net profit	7,147.0	7,224.4	7,528.6	7,793.7	8,125.6
Core net profit	7,620.8	7,224.4	7,528.6	7,793.7	8,125.6

Balance Sheet (RMmil)

YE to Dec	FY24	FY25	FY26F	FY27F	FY28F
Cash & deposits with FIs	15,469.0	16,828.7	8,398.6	8,483.1	8,714.5
Marketable securities	66,144.0	58,844.5	69,918.8	71,728.2	73,595.0
Total current assets	81,613.0	75,673.2	78,317.4	80,211.4	82,309.4
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
Total LT assets	461,250.1	485,977.9	507,805.6	531,647.3	556,604.5
Total assets	542,863.1	561,651.2	586,123.0	611,858.6	638,913.9
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
Total liabilities	483,216.1	499,209.5	519,421.1	542,894.6	567,541.7
Shareholders' funds	57,335.5	59,937.7	64,010.0	66,077.5	68,282.8
Minority interests	2,311.5	2,503.9	2,691.9	2,886.5	3,089.4

Key Ratios

YE to Dec	FY24	FY25	FY26F	FY27F	FY28F
Total income growth (%)	7.0	4.9	4.4	3.7	4.3
Pre-provision profit growth (%)	5.8	4.2	4.7	3.9	4.7
Core net profit growth (%)	7.5	1.1	4.2	3.5	4.3
Net interest margin (%)	2.1	2.0	2.0	2.0	2.0
Cost-to-income ratio (%)	34.5	34.9	34.7	34.6	34.3
Effective tax rate (%)	21.4	22.4	22.0	22.0	22.0
Dividend payout (%)	57.0	60.5	74.8	74.7	74.7

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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