PUBLIC BANK

(PBK MK EQUITY, PUBM.KL)

BUY

(MAINTAINED)

Price: RM4.90

Target Price (% return): RM5.40 (16%)

52-week High/Low: RM5.29/RM4.24

Financial Services

Rationale for report: Company Result

Profitability-first strategy

Public's 3Q26 results were lacklustre, causing management to lower its ROE guidance to 12% (from 12-13%) on sharper NIM compression and higher NCC. Still, fee income remained a bright spot, while AQ held firm. We expect a brighter 2027 as profitability takes precedence over growth, anchored by resilient NOII and normalizing NCC. More importantly, the share price correction since our downgrade has brought value back into focus. With dividend yield at c.6%, we believe the risk-reward is favourable.

- **BUY with lower TP of RM5.40 (from RM5.60),** pegged to 1.57x FY27 P/B (+1SD to 5-year mean and above sector's 0.86x); the premium is fair considering its ROE output is c.2ppt higher vs peers and attractive c.6% yield (exceeding historical average of c.4-5%).
- **Met consensus but shy of ours.** Public registered 3Q26 profit of RM1.8bil (-4% YoY, -3% QoQ), bringing 9M26 sum to RM5.4bil (flat YoY). This fell short of our expectations at just 71% of full-year forecasts, but was in line with consensus at 75%; this stemmed primarily from higher-than-expected loan loss allowances. Adding to this, Public now guides for sharper NIM slippage of 9-10bp vs previous mid-single-digit decline target. Accordingly, we trim FY26-28 earnings forecasts by 3-5%.
- **Solid AQ.** 3Q26 NCC stays elevated at 11bp vs 1H26 run-rate of 8bp and just 1bp in 3Q25, largely reflecting prudent provisioning against macro risks. Consequently, management raised its NCC guidance to 10bp from single digit expectation. Nevertheless, we see little cause for concern, as underlying AQ indicators remain robust: GIL held steady at 0.55%, LLC healthy at 135%, while loans past due >1 month improved by another 10bp QoQ to 1.5%. Taken together, these suggest little evidence of emerging credit stress.
- **Temporary pain.** Top-line hits a rough patch, with NIM contracting 5bp QoQ alongside a modest treasury-related loss. Neither came as a surprise, given the spike in MGS yields and intense promo FD rivalry during 3Q26. While margin pressure is likely to persist into 4Q26, we expect a shift in focus towards profitability over growth, with greater emphasis on preserving NIM heading into 2027. On a brighter note, fee income continues to show healthy traction at >RM600mil/qtr vs 2025 run-rate of c.RM560mil; this is positive due to its relatively sticky nature, which increases NOII resilience.

YE to Dec	FY25	FY26F	FY27F	FY28F
Total income (RM mil)	14,695.2	15,192.4	15,759.4	16,428.4
Core net profit (RM mil)	7,224.4	7,178.1	7,545.9	7,901.7
FD Core EPS (sen)	37.2	37.0	38.9	40.7
FD Core EPS growth (%)	(5.2)	(0.6)	5.1	4.7
Consensus Net Profit (RM mil)	-	7,162.0	7,791.0	8,288.0
DPS (sen)	22.5	28.5	29.5	30.5
BV/share (RM)	3.09	3.30	3.41	3.52
PE (x)	13.2	13.3	12.6	12.0
Div yield (%)	4.6	5.8	6.0	6.2
P/BV (x)	1.6	1.5	1.4	1.4
ROE (%)	12.3	11.6	11.6	11.8

Source: Public Bank, AmInvestment Bank Bhd.

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	71.4
Avg Daily Value (RMmil)	99.0

Major Shareholders

Consolidated Teh	(20.1%)
EPF	(15.1%)
KWAP	(5.9%)

Price performance	3mth	6mth	12mth
Absolute(%)	(6.3)	2.3	15.0
Relative(%)	0.7	11.2	15.2

Source: Public Bank, AmInvestment Bank Bhd.

Price Chart

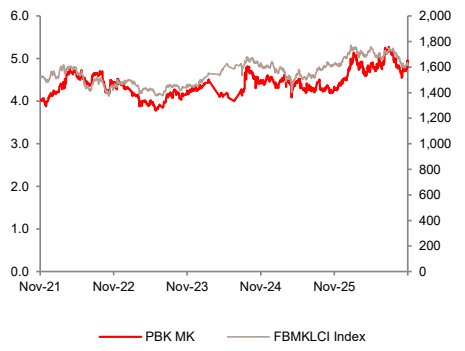


EXHIBIT 1. 3Q26 Results Summary

FYE Dec (RMmil)	3Q26	3Q25	YoY (%)	2Q26	QoQ (%)	9M26	9M25	YoY (%)
Net interest income	2,438.7	2,370.8	2.9	2,406.8	1.3	7,233.0	7,161.8	1.0
Islamic banking	472.2	466.6	1.2	474.7	-0.5	1,416.0	1,377.6	2.8
Non-interest income	872.4	887.4	-1.7	943.7	-7.6	2,609.2	2,437.6	7.0
Total income	**3,783.2**	**3,724.8**	**1.6**	**3,825.2**	**-1.1**	**11,258.2**	**10,977.0**	**2.6**
Operating expenses	-1,315.7	-1,268.7	3.7	-1,325.8	-0.8	-3,936.5	-3,827.6	2.8
Pre-provision profit	**2,467.6**	**2,456.1**	**0.5**	**2,499.4**	**-1.3**	**7,321.7**	**7,149.3**	**2.4**
Loan loss provisions	-127.2	-10.8	n.m.	-115.2	10.4	-294.5	-83.9	n.m.
Operating profit	**2,340.4**	**2,445.3**	**-4.3**	**2,384.2**	**-1.8**	**7,027.2**	**7,065.4**	**-0.5**
Others	4.7	7.2	-35.6	8.9	-47.8	26.2	33.4	-21.4
Pre-tax profit	**2,345.0**	**2,452.6**	**-4.4**	**2,393.1**	**-2.0**	**7,053.4**	**7,098.8**	**-0.6**
Tax & minority interest	-571.9	-610.0	-6.2	-568.6	0.6	-1,704.0	-1,750.6	-2.7
Net Profit	**1,773.1**	**1,842.6**	**-3.8**	**1,824.6**	**-2.8**	**5,349.4**	**5,348.1**	**0.0**
EPS (sen)	**9.1**	**9.5**	**-3.8**	**9.4**	**-2.8**	**27.6**	**27.6**	**0.0**
DPS (sen)	**0.0**	**0.0**	**n.m.**	**10.5**	**n.m.**	**10.5**	**10.5**	**0.0**
BVPS (RM)	**3.13**	**3.00**	**4.3**	**3.17**	**-1.2**	**3.13**	**3.00**	**4.3**

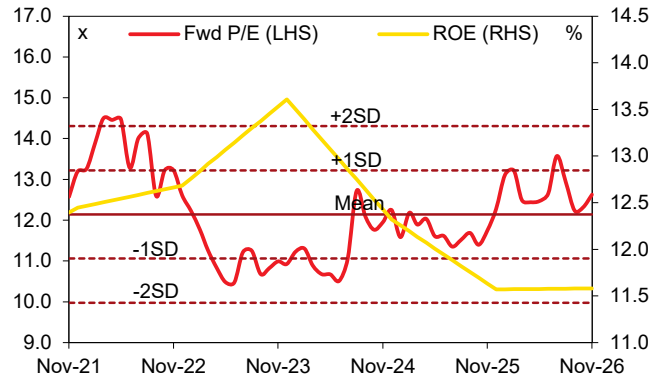
Source: Public, AmInvestment Bank Bhd.

EXHIBIT 2. Financial ratios

FYE Dec (%)	4Q24	1Q25	2Q25	3Q25	4Q25	1Q26	2Q26	3Q26
Net interest margin	2.21	2.19	2.18	2.10	2.12	2.11	2.08	2.03
Cost / income ratio	33.1	35.0	35.6	34.1	35.0	35.5	34.7	34.8
Return on equity	16.3	12.4	12.3	12.8	12.8	11.9	12.2	11.8
Loans growth, yoy	6.3	6.1	5.8	6.5	5.1	5.1	5.5	5.7
Deposits growth, yoy	4.9	4.0	3.8	5.0	3.2	3.7	3.8	3.3
Loan / deposit ratio	97.9	98.4	98.6	98.9	99.7	99.8	100.3	101.2
Gross impaired loans ratio	0.52	0.53	0.54	0.52	0.51	0.51	0.54	0.55
Loan loss coverage	166.2	159.9	153.9	154.8	149.9	147.0	138.9	135.0
Net credit cost (bp)	-4.0	3.7	3.2	1.0	-1.6	4.7	10.3	11.2
CET1 ratio	14.9	14.0	14.6	13.8	14.5	13.7	14.4	14.5

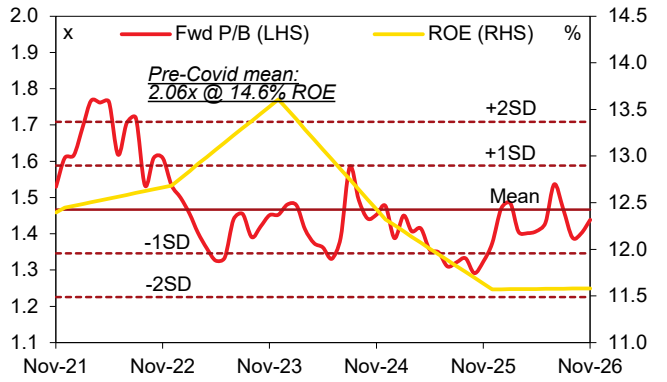
Source: Public, AmInvestment Bank Bhd.

EXHIBIT 3. 5-YR FORWARD P/E BAND



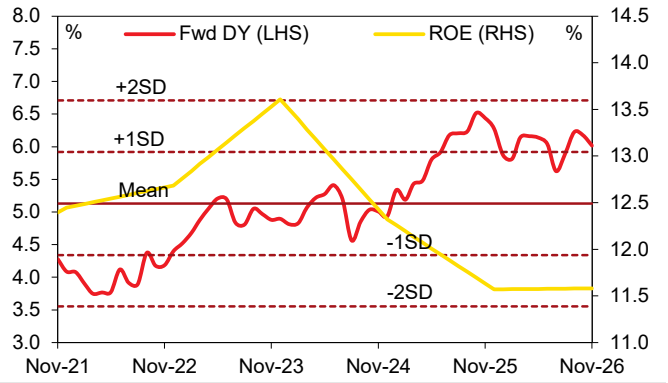
Source: AmInvestment Bank, Bloomberg

EXHIBIT 4. 5-YR FORWARD P/B BAND



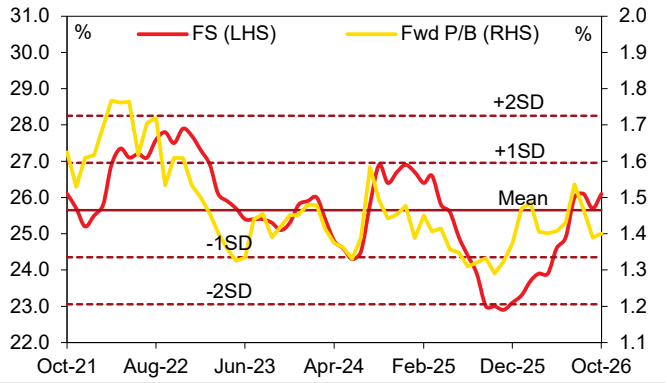
Source: AmInvestment Bank, Bloomberg

EXHIBIT 5. 5-YR FORWARD DY BAND



Source: AmInvestment Bank, Bloomberg

EXHIBIT 6. PUBLIC'S FOREIGN SHAREHOLDING



Source: AmInvestment Bank, Public

EXHIBIT 7. CHANGE IN FORECASTS

(RM'mil)	FY26 New	FY26 Old	FY26 %	FY27 New	FY27 Old	FY27 %	FY28 New	FY28 Old	FY28 %
Net interest income	9,772.9	9,889.8	-1.2	10,086.1	10,207.3	-1.2	10,480.3	10,609.0	-1.2
Islamic banking income	1,908.7	1,938.1	-1.5	1,986.1	2,016.6	-1.5	2,074.2	2,106.5	-1.5
Loan loss provisions	-473.5	-169.3	179.8	-376.9	-213.0	76.9	-392.3	-269.2	45.8
Core profit	7,178.1	7,528.6	-4.7	7,545.9	7,793.7	-3.2	7,901.7	8,125.6	-2.8

Source: AmInvestment Bank

EXHIBIT 8. VALUATIONS

Return on equity (ROE)	11.6% (from 12.0%)
Cost of equity (COE)	8.5%
Long-term growth rate (LTG)	3.0%
Target P/B	1.57x (from 1.64x)
FY27 BVPS	RM3.41 (from RM3.40)
ESG premium	-
12-month target price	RM5.40 (from RM5.60)

Source: AmInvestment Bank

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 have turned bullish on Public again, as its share price retreat since our downgrade has brought value back into focus. With yield appeal returning (c.6%) and downside contained (share buyback as a support mechanism), we see risk-reward tilted to the upside. Also, its defensive franchise and smaller treasury books (15% of assets vs peers' 24%) provide an added layer of comfort.

Beyond near-term special DPS (from the RM3.5bil capital return plan over 3 years), in our view, 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 may grow comfortable with the bank's ability to pay more. At c.6% yield, this is near +1.5SD above its 10-year average of 4.3%.

Separately, its foreign shareholding is at multi-year low (26% vs Mar-11 trough of 24% and Mar-18 high of 40%), making less susceptible to selloffs.

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 RM5.40 for Public and is based on 1.57x FY27 P/B with assumptions of 11.6% ROE, 8.5% COE, and 3.0% LTG. This is valued at +1SD to its 5-year average and above sector's 0.86x. The premium is fair since its ROE output is 2ppt higher vs industry's mean.

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.

Financial Summary

Income Statement (RMmil)

YE to Dec	FY24	FY25	FY26F	FY27F	FY28F
Net interest income	9,451.1	9,583.7	9,772.9	10,086.1	10,480.3
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	1,908.7	1,986.1	2,074.2
Total income	**14,010.7**	**14,695.2**	**15,192.4**	**15,759.4**	**16,428.4**
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	9,866.0	10,252.7	10,735.7
Loan loss provisions	(0.6)	(66.8)	(473.5)	(376.9)	(392.3)
Impairment & others	(17.8)	(12.8)	(20.0)	(20.0)	(20.0)
Associates	241.2	56.0	60.0	60.0	60.0
Pretax profit	**9,405.4**	**9,542.9**	**9,432.5**	**9,915.8**	**10,383.4**
Tax	(1,912.6)	(2,135.7)	(2,075.2)	(2,181.5)	(2,284.3)
Minority interests	128.0	(182.7)	(179.2)	(188.4)	(197.3)
Net profit	**7,147.0**	**7,224.4**	**7,178.1**	**7,545.9**	**7,901.7**
Core net profit	7,620.8	7,224.4	7,178.1	7,545.9	7,901.7

Balance Sheet (RMmil)

YE to Dec	FY24	FY25	FY26F	FY27F	FY28F
Cash & deposits with FIs	15,469.0	16,828.7	8,828.9	8,917.9	9,132.4
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**	**78,747.7**	**80,646.2**	**82,727.3**
Net loans & advances	420,471.7	442,333.2	464,395.2	487,615.0	511,995.7
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**	**507,501.4**	**531,278.7**	**556,217.5**
Total assets	**542,863.1**	**561,651.2**	**586,249.1**	**611,924.8**	**638,944.8**
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	64,144.8	66,158.7	68,334.3
Minority interests	2,311.5	2,503.9	2,683.2	2,871.6	3,068.8

Key Ratios

YE to Dec	FY24	FY25	FY26F	FY27F	FY28F
Total income growth (%)	7.0	4.9	3.4	3.7	4.2
Pre-provision profit growth (%)	5.8	4.2	3.1	3.9	4.7
Core net profit growth (%)	7.5	1.1	(0.6)	5.1	4.7
Net interest margin (%)	2.1	2.0	2.0	2.0	2.0
Cost-to-income ratio (%)	34.5	34.9	35.1	34.9	34.7
Effective tax rate (%)	21.4	22.4	22.0	22.0	22.0
Dividend payout (%)	57.0	60.5	77.1	75.9	74.9

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	0.6	0.6	0.6
Net NPL (%)	0.4	0.3	0.4	0.4	0.4
Credit charge-off rate (%)	-	-	0.1	0.1	0.1
Loan loss reserve (%)	166.2	149.9	141.1	140.2	137.5

Source: Company, AmInvestment Bank Bhd.

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