

Company Report

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PUBLIC BANK

(PBK MK EQUITY, PUBM.KL)

FINANCIAL SERVICES

21 May 2025

Resilient asset quality with positive momentum in NOII

BUY

(Maintained)

Rationale for report: Company Result

Price RM4.43
Fair Value RM5.20
52-week High/Low RM4.84/RM3.98

Key Changes

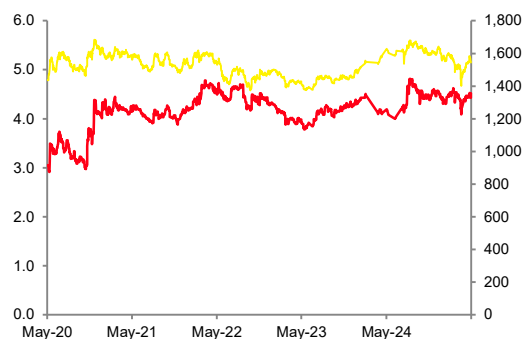
Fair value 
EPS 

YE to Dec	FY24	FY25F	FY26F	FY27F
Total income (RM mil)	14,010.7	14,866.0	15,812.3	16,754.9
Core net profit (RM mil)	7,147.0	7,431.3	7,878.4	8,458.0
FD Core EPS (sen)	36.8	38.3	40.6	43.6
FD Core EPS growth (%)	7.5	4.0	6.0	7.4
Consensus Net Profit (RM mil)	-	7,492.0	7,842.0	8,277.0
DPS (sen)	21.0	23.0	24.4	26.1
BV/share (RM)	2.95	3.18	3.44	3.73
PE (x)	12.0	11.6	10.9	10.2
Div yield (%)	4.7	5.2	5.5	5.9
P/BV (x)	1.5	1.4	1.3	1.2
ROE (%)	12.8	12.5	12.3	12.2

Stock and Financial Data

Shares Outstanding (million)	19,313.4
Market Cap (RMmil)	85,558.5
Book Value (RM/Share)	2.95
P/BV (x)	1.5
ROE (%)	12.8
Major Shareholders	Consolidated Teh Holdings (21.6%) Employees Provident Fund (15.3%)
Free Float	63.1
Avg Daily Value (RMmil)	85.4

Price performance	3mth	6mth	12mth
Absolute (%)	(1.6)	0.7	5.7
Relative (%)	1.4	3.5	11.0



— PBK MK — FBMKLCI Index

Public Bank's 1Q25 earnings aligned with expectations, supported by a 6.5% YoY rise in total income, boosting ROE to 12.2%. Positive JAW of 1.4%YoY improved the CI ratio to 35.0%. Loan growth of 6.1%YoY surpassed deposits (+4.0% YoY), raising the gross LDR to 98.4%. Robust asset quality and loan loss cover of 233.4%, including regulatory reserves, provide resilience against tariff-driven economic slowdowns. Higher FY25 dividend payout at 60%, up from 57% in FY24. Bancassurance business remains strong. Meanwhile, LPI Capital's consolidation following Public Bank's 44.15% stake acquisition in December 2024 will enhance NOII and facilitate the cross-selling of unit trusts and bancassurance products.

- **Recommendation and valuation.** Coverage on Public Bank is reinstated following its removal from our blackout list. We maintain a BUY rating with an upgraded target price of RM5.20/share (previously RM5.10/share), rolling forward our valuation to CY26. FY25F and FY26F earnings are adjusted by +3%/+0.2%, factoring in a projected 5.8% growth in Islamic banking income, alongside higher non-interest income estimates of 19.8%/18.6% and increased provisions.
- **1Q25 net profit of RM1.75 billion (+5.6% YoY) met expectations** It accounted for 24.0% of our estimate and 23.3% of the consensus forecast. Earnings growth was supported by higher total income, with modest NII and stronger NOII, while lower provisions helped offset rising OPEX. QoQ, earnings fell 3% due to NIM contraction to 2.19% (-2bps), weaker NOII, and increased OPEX and ECL. Management adjusted FY25 NIM compression guidance to mid-single digit, citing competitive loan yields and wholesale deposit rates. The recent 100bps SRR reduction to 1% is expected to have a negligible impact on NIM, improving by less than 1bps.
- **Group loan growth eased to 6.1% YoY, impacted by slower overseas loans in Hong Kong, China, and Cambodia.** Domestic loan growth rose to 6.8% YoY in 1Q25, outpacing the industry's 5.2% increase. NOII climbed 18.9% YoY, boosted by financial instrument and FX gains, as well as income from LPI Capital's acquisition. Public Mutual's PBT declined 3.1% YoY due to market challenges, with NAV at RM97 billion. Meanwhile, annualised new premiums for bancassurance surged 47.6% YoY.
- **Asset quality remained stable with a low credit cost.** The group GIL ratio edged up to 0.53% in 1Q25, while the domestic ratio stayed stable at 0.4%, with key loan segments maintaining strong asset quality. Overdue loans remained low at 1.9% of domestic loans. Credit cost dropped to 4bps, aligning with FY25 guidance. Loan loss cover declined to 159.9%, but total coverage, including RM1.68 billion in regulatory reserves, reached 233.4%. A RM50 million provisions writeback in 1Q25 kept management overlays at RM1.2 billion.

Company profile

Public Bank, Malaysia's third-largest banking group, holds RM542.86 billion in assets as of December 2024. It offers a wide range of financial services, including personal, commercial, and Islamic banking, as well as investment banking, share broking, trustee services, unit trust management, bancassurance, and general insurance. The group operates 472 branches across Malaysia, Cambodia, Singapore, Hong Kong, Vietnam, China, Laos, and Sri Lanka.

Investment thesis and catalysts

We remain positive on this stock with a BUY recommendation premised on the following:

- Strong asset quality and loan loss coverage of 233.4%, including regulatory reserves, ensuring stability amid tariff-induced economic challenges.
- FY25 dividend payout increased to 60%, up from 57% in FY24, with bancassurance business maintaining solid performance.
- LPI Capital's consolidation after Public Bank's 44.15% stake acquisition in December 2024 strengthens NOII and boosts cross-selling of unit trusts and bancassurance products.

Valuation methodology

The stock valuation is based on a Gordon growth model, yielding a price-to-book ratio of 1.5x. This assessment considers an 8.7% cost of equity, a beta of 0.8, a 6.3% market risk premium, a 3.7% risk-free rate, and a 2% long-term growth rate.

Risk factors

Downside risks to our estimates:

- Slower global economic growth weighing on loan expansion.
- Rising funding costs and sluggish CASA growth intensifying deposit competition.
- Prolonged high interest rates in developed markets reducing bond/securities valuations, affecting NOII.

EXHIBIT 1: VALUATIONS

COE	8.7%	P/BV	FY26 1.5x (from FY25 1.6x)
Beta	0.8	FY26 BVPS	RM3.45 (from FY25 BVPS RM3.16)
Market risk premium	6.3%	TP	RM5.20 (from RM5.10)
Risk free rate	3.7%	ESG Premium	0
Long term growth rate	2%	Adjusted TP	RM5.20 (RM5.10)

EXHIBIT 2: RESULTS SUMMARY

Income Statement (RM mil, FYE 31 Dec)	1Q24	4Q24	1Q25	% QoQ	% YoY
Interest income	4,667	4,787	4,751	-0.8%	1.8%
Interest expense	-2,350	-2,378	-2,370	-0.3%	0.9%
Net interest income	2,318	2,409	2,380	-1.2%	2.7%
Islamic banking income	413	439	448	2.0%	8.4%
Non-interest income	650	794	772	-2.8%	18.9%
Total income	3,380	3,643	3,601	-1.2%	6.5%
Overhead expenses	-1,198	-1,207	-1,259	4.4%	5.1%
Pre-provision profit	2,182	2,436	2,341	-3.9%	7.3%
Loan impairment allowances	-63	41	-39	>-100%	-38.4%
Other allowances	-1	-480	-4	-99.1%	>100%
Associates and JV income	14	74	15	-80.0%	4.2%
Pretax profit	2,132	2,071	2,313	11.7%	8.5%
Income tax	-475	-401	-520	29.5%	9.5%
Minority interest	-4	130	-48	-136.7%	>100%
Net profit	1,653	1,799	1,745	-3.0%	5.6%
Normalised EPS (sen)	8.5	9.3	9.0	-2.7%	6.1%
Balance Sheet (RM mil, FYE 31 Dec)	1Q24	4Q24	1Q25	% QoQ	% YoY
Gross loans and advances	405,273	424,171	430,065	1.4%	6.1%
Net loans and advances	401,035	420,472	426,408	1.4%	6.3%
Customer deposits	420,180	433,264	437,056	0.9%	4.0%
Gross impaired loans	2,512	2,225	2,288	2.8%	-8.9%
Average shareholders' funds	54,631	56,408	57,143	1.3%	4.6%
Profit by segments (RM mil)					
Hire purchase	191	477	197	-58.7%	2.9%
Retail operations	1,064	985	1,085	10.2%	2.0%
Corporate Lending	182	289	193	-33.0%	6.4%
Treasury and capital market	-6	58	44	-23.3%	>100%
Investment banking	18	17	18	7.1%	-1.8%
Fund management	215	220	208	-5.3%	-3.1%
Others	-11	33	92	>100%	>100%
Head Office and Funding Center	330	375	332	-11.4%	0.7%
Total domestic operations	1,984	2,453	2,170	-11.5%	9.4%
Total overseas operations	133	-456	128	>100%	-4.3%
Share of profit from JV and associates	14	74	15	-80.0%	4.2%
Group pretax profit	2,132	2,071	2,313	11.7%	8.5%
Ratios (%)					
NIM	2.21%	2.21%	2.19%		
Net LD	95.4%	97.0%	97.6%		
CASA	28.1%	27.8%	27.5%		
Cost to income	35.4%	33.1%	35.0%		
Credit cost	0.06%	-0.04%	0.04%		
Loan loss coverage	168.7%	166.2%	159.9%		
Loan loss coverage including regulatory reserves	200.0%	237.7%	233.4%		
GIL	0.62%	0.52%	0.53%		
ROE	12.1%	12.8%	12.2%		
Underlying ROE	12.1%	12.8%	12.2%		
CET1 capital	14.5%	14.3%	14.0%		
Tier 1 capital	14.5%	14.3%	14.1%		
Total capital	17.4%	17.1%	16.8%		

Source: Company, AmlInvestment Bank

EXHIBIT 3: CHANGE IN EARNINGS

RMm	FY25F			FY26F		
	Previous	Revised	Chg	Previous	Revised	Chg
Earnings	7,270.7	7,486.8	3.0%	7,918.2	7,937.3	0.2%
Islamic Banking income	1,708.6	1,808.2	5.8%	1,809.9	1,915.5	5.8%
Non-interest income	2,717.9	3,255.8	19.8%	2,990.1	3,547.0	18.6%
Loan loss provisions	209.2	220.8	5.5%	226.2	280.9	24.2%

EXHIBIT 4: ESG SCORE

	Environmental assessment	Parameters	Weightage	Rating					Rationale
1	Exposure to sustainable financing out of total loans	% of loan book	30%	*	*	*	*		RM67.9bil sustainable finance mobilised since 2020 > 67% of RM100bil target by 2030
2	% of financing to high risk ESG sectors out of total loans	% of loan book	30%	*	*	*	*		
3	Scope 1 GHG Emissions to total income	t/Co2e/RM'Mil	10%	*	*	*	*		Low at 0.28 in 2024 vs. 0.22 in 2023
4	Scope 2 GHG Emissions to total income	t/Co2e/RM'Mil	10%	*	*	*	*		Stable at 4.7 in 2024
5	Scope 3 GHG Emissions to total income	t/Co2e/RM'Mil	10%	*	*	*	*	*	Lower at 2.72 in 2024 vs. 4.74 in 2023
6	Electricity consumption to total income	Electricity consumption to total income	5%	*	*	*	*	*	
7	Water consumption to total income	m3/RM'Mil	5%	*	*	*			
	Weighted score for environmental assessment		100%	*	*	*	*		
	Social assessment								
1	Corporate Social Responsibility investments or spend	% of total income	35%	*	*				0.18% in 2024 vs. 0.11 in 2023
2	Investments in training	% of total income	20%	*	*	*			Average 3.2hrs of sustainability training completed in 2024
3	Workforce diversity - women in senior management and above (excluding Board Directors)	% of total workforce	10%	*	*	*			46.2% in 2024 vs. 47.4% in 2023
4	Average training hours per employee	hours	25%	*	*	*	*		Stable at 61.2 in FY23 vs. 62.2 in FY22
5	Financial literacy programmes	No of participants educated through programmes	10%	*	*	*			
	Weighted score for social assessment		100%	*	*	*			
	Governance assessment								
1	Board age diversity	% under the 61 to 70 years old category	20%	*	*	*			30% in 2024 below age of 60
2	Board women representation	% of total board directors	10%	*	*	*	*		44.4% in 2024 unchanged from 2023
3	Directors with tenure of 3-6 years	% in the 3 to 6 years or more category	20%	*	*	*			
4	Independent board directors	% of total board directors	20%	*	*	*			50% in 2024 unchanged from 2023
5	Remuneration to directors	% of total operating expenses	10%	*	*	*			
6	Cybersecurity, Privacy and Data Protection	Confirmed incidents	20%	*	*	*			2 in 2024 and zero in 2023
	Weighted score for governance assessment		100%	*	*	*			
	Environmental score		40%	*	*	*	*		
	Social score		25%	*	*	*			
	Governance score		35%	*	*	*			
	Overall ESG Score		100%	*	*	*			

Source: AmlInvestment Bank, Company

EXHIBIT 5: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY23	FY24	FY25F	FY26F	FY27F
Net interest income	9,055.3	9,451.1	9,801.9	10,349.9	10,968.4
Non-interest income	2,475.7	2,852.6	3,255.8	3,547.0	3,757.5
Islamic banking income	1,561.5	1,707.0	1,808.2	1,915.5	2,029.1
Total income	13,092.6	14,010.7	14,866.0	15,812.3	16,754.9
Overhead expenses	(4,414.8)	(4,828.1)	(5,054.4)	(5,376.2)	(5,612.9)
Pre-provision profit	8,677.8	9,182.5	9,811.5	10,436.1	11,142.0
Loan loss provisions	(156.7)	(0.6)	(220.8)	(280.9)	(248.1)
Impairment & others	(1.3)	(491.5)	-	-	-
Associates	19.0	241.2	42.6	57.5	70.2
Pretax profit	8,538.8	8,931.6	9,633.3	10,212.8	10,964.2
Tax	(1,883.8)	(1,912.6)	(2,119.3)	(2,246.8)	(2,412.1)
Minority interests	(5.7)	128.0	(82.7)	(87.6)	(94.1)
Core net profit	6,649.3	7,147.0	7,431.3	7,878.4	8,458.0
Balance Sheet (RMmil, YE 31 Dec)	FY23	FY24	FY25F	FY26F	FY27F
Cash & deposits with FIs	11,127.4	15,469.0	21,076.8	22,865.9	25,287.5
Marketable securities	87,147.0	87,496.9	93,347.5	99,065.3	105,107.6
Total current assets	98,274.4	102,965.9	114,424.3	121,931.2	130,395.2
Net loans & advances	394,750.0	420,471.7	441,680.2	468,122.1	496,200.2
Statutory deposits	nm	nm	nm	nm	nm
Long-term investments	7,526.8	7,650.3	4,658.7	4,940.1	5,246.2
Fixed assets	3,246.5	3,269.2	3,335.7	3,385.2	3,450.2
Intangible assets	2,589.6	2,799.4	2,799.4	2,799.4	2,799.4
Other long-term assets	4,210.7	5,706.7	6,217.0	6,597.8	7,266.8
Total LT assets	412,323.5	439,897.2	458,691.0	485,844.6	514,962.7
Total assets	510,598.0	542,863.1	573,115.4	607,775.7	645,357.9
Customer deposits	412,897.0	433,264.3	454,927.5	482,223.1	511,156.5
Deposits of other FIs	12,602.4	13,457.6	15,896.7	16,666.3	18,276.7
Subordinated debts	-	-	-	-	-
Hybrid capital securities	3,210.0	8,393.0	9,145.5	9,460.5	9,759.2
Other liabilities	25,508.5	28,101.2	29,566.8	30,555.5	31,666.8
Total liabilities	454,217.9	483,216.1	509,536.5	538,905.5	570,859.2
Shareholders' funds	54,674.3	57,335.5	61,727.0	66,864.3	72,328.9
Minority interests	1,705.8	2,311.5	1,851.8	2,005.9	2,169.9
Key Ratios (YE 31 Dec)	FY23	FY24	FY25F	FY26F	FY27F
Total income growth (%)	(2.6)	7.0	6.1	6.4	6.0
Pre-provision profit growth (%)	(5.7)	5.8	6.8	6.4	6.8
Core net profit growth (%)	-	7.5	4.0	6.0	7.4
Net interest margin (%)	2.2	2.2	2.1	2.1	2.1
Cost-to-income ratio (%)	33.7	34.5	34.0	34.0	33.5
Effective tax rate (%)	22.1	21.4	22.0	22.0	22.0
Dividend payout (%)	55.5	57.0	60.0	60.0	60.0
Key Assumptions (YE 31 Dec)	FY23	FY24	FY25F	FY26F	FY27F
Loan growth (%)	5.9	6.3	5.0	6.0	6.0
Deposit growth (%)	4.6	4.9	5.0	6.0	6.0
Loan-deposit ratio (%)	95.6	97.0	97.1	97.1	97.1
Gross NPL (%)	0.6	0.5	0.5	0.5	0.5
Net NPL (%)	0.6	0.5	0.5	0.5	0.5
Credit charge-off rate (%)	-	-	0.1	0.1	0.1
Loan loss reserve (%)	181.8	166.2	166.1	168.6	169.0

SOURCE: COMPANY, AMINVESTMENT BANK BHD ESTIMATES

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