

COMPANY UPDATE

Public Bank (PBK MK)

Acquiring Stake In General Insurer

Public Bank surprised the market by announcing an all-cash acquisition of a 44.15% stake in LPI Capital from the estate of the late Tan Sri Teh Hong Piow and Consolidated Teh Holdings. We deem the acquisition to be neutral to slightly positive as it will lift the group's earnings and CET1 ratio by a marginal 1.5% and 20bp respectively. Maintain BUY with an unchanged target price of RM5.35 (1.75x 2025F P/B, 12.5% ROE). Its valuation remains appealing at -1SD to the historical mean P/B.

WHATS NEW

- Surprise acquisition of LPI.** Public Bank has announced a full-cash acquisition of a 44.15% stake in LPI Capital at RM9.80 per share, totalling RM1.72b. This move will trigger a mandatory general offer (MGO). The acquisition comes as a surprise, as the current trend among banks is to pursue a distribution model for their insurance businesses, considering them as non-core assets. This approach typically allows banks to free up capital for growth in their core banking operations, where they possess greater expertise.
- Smallish acquisition at palatable valuations.** Despite the abovementioned, the 44.15% stake in LPI Capital represents only 3% of Public Bank's net assets and can be easily funded from the group's RM12.3b cash reserves as of Jun 24. This stake consists of a 42.74% share held by Consolidated Teh Holdings and a 1.41% share owned by the estate of the late Tan Sri Teh Hong Piow. The acquisition price suggests a valuation of 10.5x 2024F PE and 1.6x 2024F P/B, based on consensus earnings forecasts. Notably, this is below the average M&A P/B of 1.9x for general insurers in Malaysia.
- Steep discount to prevailing price likely to leave Public Bank with only a 44.15% stake.** The offer price of RM9.80 per share for LPI represents a 25% discount to LPI's closing share price. Consequently, minority shareholders are unlikely to accept the MGO, leaving Public Bank with a 44.15% stake in LPI. However, with management control, Public Bank has indicated that it will be able to consolidate LPI's financials.
- Financial impact: Neutral to slightly positive.** Our estimates suggest that Public Bank's 44.15% all-cash acquisition of LPI could lift the group's 2025 earnings by 1.5% and raise ROE by 20bp to 12.7%, after accounting for forgone interest income. Although the acquisition is likely to reduce group- and bank-level CET1 ratios by 50-70bp, they should still remain at comfortable levels of 14.6% and 13.1% respectively, above the internally guided thresholds of 13% and 12%. Consequently, our dividend payout ratio forecast of 55% is likely to remain intact. Overall, the immediate financial impact is expected to be neutral to slightly positive.

KEY FINANCIALS

Year to 31 Dec (RMm)	2022	2023	2024F	2025F	2026F
Net interest income	9,167	9,055	9,511	10,088	10,744
Non-interest income	2,414	2,476	2,689	2,837	2,970
Net profit (rep./act.)	6,119	6,649	6,932	7,388	7,853
Net profit (adj.)	6,119	7,138	6,932	7,388	7,853
EPS (sen)	31.5	34.3	35.7	38.1	40.4
PE (x)	14.5	12.4	12.8	12.0	11.3
P/B (x)	1.8	1.6	1.6	1.5	1.4
Dividend yield (%)	3.7	4.2	4.3	4.6	4.9
Net int margin (%)	2.38	2.19	2.20	2.19	2.19
Cost/income (%)	31.5	33.7	34.3	34.2	34.0
Loan loss cover (%)	272.0	181.8	140.8	149.2	145.3
Consensus net profit			6,984	7,319	7,719
UOBKH/Consensus (x)			0.99	1.01	1.02

Source: Public Bank, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM4.57
Target Price	RM5.35
Upside	+17.1%

COMPANY DESCRIPTION

Public Bank is the third-largest domestic banking group in Malaysia by assets with about 14.8% of system assets and 16.2% loan market share.

STOCK DATA

GICS sector	Financials
Bloomberg ticker:	PBK MK
Shares issued (m):	19,410.7
Market cap (RMm):	88,706.9
Market cap (US\$m):	20,665.6
3-mth avg daily t'over (US\$m):	19.4

Price Performance (%)

52-week high/low	RM4.68/RM4.00			
<b>1mth</b>	<b>3mth</b>	<b>6mth</b>	<b>1yr</b>	<b>YTD</b>
(5.0)	12.7	11.4	15.7	11.4

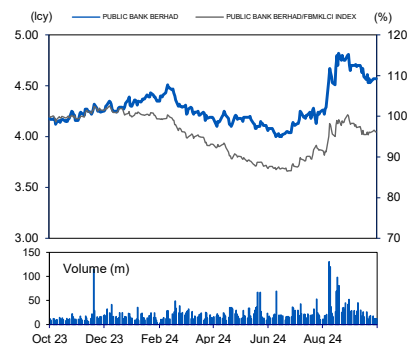
Major Shareholders

Consolidated Teh Holdings Sdn Bhd	23.4
EPF	14.7

FY24 NAV/Share (RM) 2.93

FY24 CAR Tier-1 (%) 15.03

PRICE CHART



Source: Bloomberg

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- Rationale and benefits.** Management emphasised potential synergies from an expanded distribution network and cross-selling opportunities. That said, LPI already generates 20-25% of its business from Public Bank, reflected in its strong position in the fire insurance segment (42% of LPI's premiums), thanks to Public Bank's robust mortgage portfolio. As the sixth largest general insurer in Malaysia while boasting strong financial metrics, including the lowest combined ratio at 79.5% (industry average: 92%) and the highest ROE at 16% (industry average: 11%). Management believes LPI will contribute positively to Public Bank's non-interest income growth potential. In 2023, LPI reported a 5.3% premium growth vs the industry's 7.5% growth.

- Family to gradually trim stake in Public Bank.** On a separate note, the Teh family is reportedly looking to gradually reduce its stake in Public Bank to 10% (from 23.4%) over the next five years by conducting a restricted offer for sale to eligible employees, investors and directors to comply with the Financial Service Act (FSA).

- Minimal overhang envisaged.** We view this potential stake reduction by the Teh family positively for two reasons: a) it eliminates a key uncertainty, and b) the 13.4% stake sale will be spread over a five-year period, alleviating concerns about a potential share overhang. Compared with ANZ's larger 16.5% stake disposal in AMMB and Aabar's typical block size stake sale of 3-6% in RHB, both AMMB and RHB saw their share prices recover within 1-2 months after the disposal. Given Public Bank's greater liquidity and the potentially smaller % block sales (2.7% per year, assuming equal distribution over five years), we anticipate minimal share price overhang.

### EARNINGS REVISION/RISK

- Our earnings forecasts remain unchanged.

### VALUATION/RECOMMENDATION

- Maintain BUY and target price of RM5.35 (1.75x 2025F P/B, ROE: 12.5%).** We continue to like Public Bank for its potential credit cost tailwinds and attractive valuations. Its valuation remains attractive at -0.1SD below its historical P/B mean which we deem attractive given its strong defensive qualities. Public Bank also stands to benefit from potential provisions write-backs.

### ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

#### • Environmental

- **Green loan commitment.** Launched a campaign in 2020 offering preferential rates for selected energy efficient vehicles (EEV) under its AITAB Hire Purchase-i, to promote the usage of EEVs.
- **Paperless initiative.** Moving towards paperless operations with its enhanced Go Green initiatives in its daily operations, such as migrating reports to online verification module, issuing electronic statements and notices as well as introducing electronic signatures (eSignature) in new deposit account openings.

#### • Social

- **Board and upper management gender diversity.** Maintained 33% female directors on the Board and 48% for Top and Senior Management.

#### • Governance

- **Non-independent board of directors composition.** Composition of Independent Non-Executive Directors (INED) – 55%.

Source: Company, UOB Kay Hian

### KEY ASSUMPTIONS

(%)	2024F	2025F	2026F
Loan Growth	6.0	6.2	6.2
Credit Cost (bp)	5.0	4.0	4.0
ROE	12.2	12.5	12.7

Source: UOB Kay Hian

### EARNINGS IMPACT FROM LPI ACQUISITION

#### Net Profit Impact

	(RMm)
Assuming 44.1% stake	
Public Bank	7,388
LPI Capital @ 44.1% stake	173
Less: Interest income forgone	-60
<b>(@ 3.50% 3-months KLIBOR)</b>	
Total	7,501
Earnings enhancement	113
% enhancement	1.5%

Source: UOB Kay Hian

### ROE IMPACT FROM LPI ACQUISITION

	(RMm)
Current 25f Net Profit	7,388
Post 44% stake acquisition of LPI	7,501
Shareholders funds (25F)	59,228
<b>ROE (44.1% stake in LPI)</b>	
Current 25f	12.47%
Post acquisition	12.66%
Enhancement	0.2ppts

Source: UOB Kay Hian

### CET1 IMPACT FROM LPI ACQUISITION

	Group	Bank
CET1 (RMm)	51,741	35,708
RWA (RMm)	343,668	259,410
CET1 ratio	15.1%	13.8%
<b>Assuming 44.1% stake in LPI</b>		
CET1 (RMm)	50,021	33,988
CET1 ratio	14.6%	13.1%
Decline	-0.5ppts	-0.7ppts

Source: UOB Kay Hian

### PROFIT & LOSS

Year to 31 Dec (RMm)	2023	2024F	2025F	2026F
Interest income	18,040	16,395	17,294	18,334
Interest expense	(8,985)	(6,883)	(7,206)	(7,590)
Net interest income	9,055	9,511	10,088	10,744
Fees & commissions	1,950	2,145	2,274	2,387
Other income	526	544	563	583
Non-interest income	2,476	2,689	2,837	2,970
Income from islamic banking	1,562	1,640	1,722	1,808
<b>Total income</b>	<b>13,093</b>	<b>13,840</b>	<b>14,646</b>	<b>15,522</b>
Staff costs	(3,196)	(3,484)	(3,693)	(3,914)
Other operating expense	(1,219)	(1,263)	(1,310)	(1,358)
Pre-provision profit	8,678	9,093	9,644	10,249
Loan loss provision	(157)	(211)	(180)	(191)
Other provisions	(1)	0	0	0
Associated companies	19	21	23	25
Pre-tax profit	8,539	8,902	9,487	10,083
Tax	(1,884)	(1,964)	(2,093)	(2,224)
Minorities	(6)	(6)	(6)	(6)
<b>Net profit</b>	<b>6,649</b>	<b>6,932</b>	<b>7,388</b>	<b>7,853</b>
Net profit (adj.)	7,138	6,932	7,388	7,853

### OPERATING RATIOS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
<b>Capital Adequacy</b>				
Tier-1 CAR	14.7	15.0	15.1	15.4
Total CAR	17.6	17.2	17.3	17.5
Total assets/equity (x)	9.3	9.5	9.7	10.0
Tangible assets/tangible common equity (x)	9.8	10.0	10.2	10.5
<b>Asset Quality</b>				
NPL ratio	0.6	0.7	0.6	0.5
Loan loss coverage	181.8	140.8	149.2	145.3
Loan loss reserve/gross loans	1.0	0.9	0.8	0.7
Increase in NPLs	47.4	20.7	(9.2)	(5.5)
Credit cost (bp)	4.0	5.0	4.0	4.0
<b>Liquidity</b>				
Loan/deposit ratio	95.6	96.6	97.4	97.8
Liquid assets/short-term liabilities	7.3	7.3	7.2	7.0
Liquid assets/total assets	6.1	6.0	5.8	5.6

### BALANCE SHEET

Year to 31 Dec (RMm)	2023	2024F	2025F	2026F
Cash with central bank	7,527	8,459	8,983	9,567
Govt treasury bills & securities	23,568	24,039	24,520	25,010
Interbank loans	0	0	0	0
Customer loans	394,750	418,970	445,341	474,840
Investment securities	63,163	68,059	73,299	78,907
Derivative receivables	415	508	601	694
Associates & JVs	142	164	181	199
Fixed assets (incl. prop.)	1,258	1,458	1,658	1,858
Other assets	19,775	19,988	20,813	26,617
<b>Total assets</b>	<b>510,598</b>	<b>541,645</b>	<b>575,396</b>	<b>617,693</b>
Interbank deposits	12,602	11,530	10,548	9,651
Customer deposits	412,897	433,542	457,387	485,745
Derivative payables	354	319	287	258
Debt equivalents	0	0	0	0
Other liabilities	28,364	37,660	46,229	58,603
<b>Total liabilities</b>	<b>454,218</b>	<b>483,050</b>	<b>514,451</b>	<b>554,257</b>
Shareholders' funds	54,674	56,882	59,228	61,712
Minority interest - accumulated	1,706	1,712	1,718	1,724
<b>Total equity &amp; liabilities</b>	<b>510,598</b>	<b>541,645</b>	<b>575,396</b>	<b>617,693</b>

### KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
<b>Growth</b>				
Net interest income, yoy chg	(1.2)	5.0	6.1	6.5
Fees & commissions, yoy chg	1.8	10.0	6.0	5.0
Pre-provision profit, yoy chg	(5.7)	4.8	6.1	6.3
Net profit, yoy chg	8.7	4.3	6.6	6.3
Net profit (adj.), yoy chg	16.6	(2.9)	6.6	6.3
Customer loans, yoy chg	5.9	6.1	6.3	6.6
Customer deposits, yoy chg	4.6	5.0	5.5	6.2
<b>Profitability</b>				
Net interest margin	2.2	2.2	2.2	2.2
Cost/income ratio	33.7	34.3	34.2	34.0
Adjusted ROA	1.4	1.3	1.3	1.3
Reported ROE	12.7	12.4	12.7	13.0
Adjusted ROE	13.6	12.4	12.7	13.0
<b>Valuation</b>				
P/BV (x)	1.6	1.6	1.5	1.4
P/NTA (x)	1.7	1.6	1.6	1.5
Adjusted P/E (x)	12.4	12.8	12.0	11.3
Dividend Yield	4.2	4.3	4.6	4.9
Payout ratio	55.5	55.0	55.0	55.0

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