HLIB Research
PP 9484/12/2012 (031413)

Raymond Ng
raymond.ngiy@hlib.hongleong.com.my
(603) 2083 1727

Public Bank

Unlocking the vault

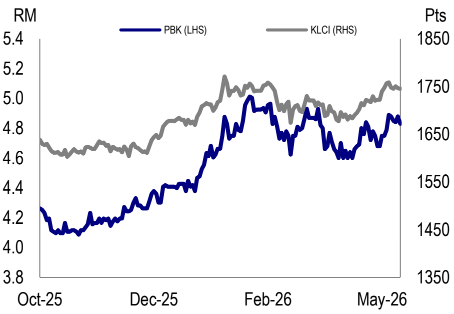
BUY (Maintain)

Target Price:	**RM5.50**
Previously:	**RM5.50**
Current Price:	**RM4.83**

Capital upside	13.9%
Dividend yield	6.5%
Expected total return	20.4%

Sector coverage: Banking
Company description: Public Bank is the third largest banking group by assets in Malaysia. It is a leader in financing for residential property, passenger vehicle, and commercial property.

Share price



Historical return (%)	1M	3M	12M
Absolute	4.1	-4.2	6.6
Relative	0.4	-4.5	-3.9

Stock information

Bloomberg ticker	PBK MK
Bursa code	1295
Issued shares (m)	19,411
Market capitalisation (RM m)	93,754
3-mth average volume ('000)	23,273
SC Shariah compliant	No
F4GBM Index member	Yes
ESG rating	★★★★

Major shareholders

Consolidated Teh Holdings	21.6%
EPF	17.3%
KWAP	5.3%

Earnings summary

FYE (Dec)	FY25	FY26f	FY27f
PATMI - core (RM m)	7,224.4	7,550.6	8,013.4
EPS - core (sen)	37.4	39.1	41.5
P/E (x)	12.9	12.4	11.6

PBBANK's 1Q26 net profit came in at RM1.8bn (-6.6% QoQ, +0.4% YoY), accounting for 22.7%/23.3% of our/consensus full-year estimates. QoQ, earnings softened on lower NII (-1.4%) and NOII (-5.0%), weighed by NIM compression and lower treasury gain, partly cushioned by stronger insurance income. YoY, revenue grew modestly (+1.4%) but earnings were flat due to negative Jaws. Asset quality remained solid with GIL at 0.51% and LLC at 147%. Looking ahead, PBBANK reaffirmed a 60% dividend payout and announced a RM3.5bn special dividend programme over three years, with first potential payout in 4QFY26. Maintain BUY with GGM-TP of RM5.50.

Within expectations. Public Bank (PBBANK) logged 1Q26 net profit of RM1.8bn (-6.6% QoQ, +0.4% YoY). The results were in line, accounting for 22.7% of ours and 23.3% of the consensus' full-year estimates.

Dividend. None.

QoQ. Total income and core earnings declined by 1.8% and 6.6% respectively, primarily dragged by lower net interest income (NII, -1.4%) and a 5.0% contraction in non-interest income (NOII). Performance was weighed down by persistent NIM compression and lower treasury gain, though partially mitigated by stronger insurance income. Profitability was further impacted by higher provisioning, reflecting a prudent build-up of buffers against potential retail sector volatility.

YoY. Despite a marginal 1.4% uptick in total revenue, core earnings growth remained flat due to negative Jaws, as opex growth outpaced total income growth by 1.4ppts.

Other key trends. Loan growth remained firm at +5.1% YoY (4Q25: +5.1%), while deposit momentum accelerated to +3.7% YoY (+5bps QoQ). Asset quality stayed resilient with the gross impaired loan (GIL) ratio holding steady at 0.51%, supported by a robust loan loss coverage (LLC) of 147.0% (-2.9bps QoQ)

Outlook. Management maintained its FY26 loan growth target of 5%, supported by resilient domestic demand, though it remains cautiously optimistic amidst global geopolitical tensions. Intense competition is expected to drive mid-single-digit NIM compression, which the group aims to mitigate by optimising its funding mix through CASA and commercial papers. Asset quality remains solid, guided by low single-digit credit costs and an RM800m management overlay. PBBANK targets double-digit NOII growth via wealth management and bancassurance, despite potential forex volatility.

On capital management, PBBANK reaffirmed its 60% ordinary dividend payout policy and introduced a RM3.5bn capital return programme via special dividends over the next three years. This is supported by Basel III reforms effective July 2026, expected to lift capital ratios by c.1%. The programme remains subject to regulatory approval, with earliest payout likely alongside FY26 year-end results. While payment schedule is not fixed, distributions are expected to be balanced over the three-year period, with flexibility to optimise capital and shareholder returns.

Forecast. Factoring in FY25 audited earnings, we have recalibrated our FY26/27f earnings projections lower by 2.2% and 1.2% respectively. We also introduce our FY28 earnings estimates, implying 5.9% YoY earnings growth.

Maintain BUY with GGM-TP of RM5.50, based on 1.5x FY27 P/B (12.0% ROE, 8.8% COE, and 3.0% LTG). This valuation sits above +2SD of its 5-year mean of 1.20x (not ascribing pre-pandemic P/B since its current ROE generation trends below pre-Covid levels by 2ppt). However, we believe a re-rating is on the horizon, underpinned by the capital return programme which drives projected FY27 dividend yields to >6.5%. The premium remains justified as PBBANK delivers ~2ppt higher ROE versus the industry average alongside the lowest GIL ratio, reinforcing its superior quality and defensive profile.

Financial Forecast

All items in (RM m) unless otherwise stated

Balance Sheet

FYE Dec	FY24	FY25	FY26f	FY27f	FY28f
Cash & ST funds	15,475.1	16,830.4	13,010.9	11,850.5	11,096.8
Invest. securities	86,922.7	84,998.0	88,770.9	92,722.4	96,861.9
Net loans	420,471.7	442,333.2	464,520.2	487,941.1	512,335.3
Intangible assets	3,246.1	3,085.6	3,085.6	3,085.6	3,085.6
Other assets	17,194.3	14,403.9	18,223.6	18,598.7	18,982.2
Assets	**543,309.9**	**561,651.2**	**587,611.2**	**614,198.3**	**642,361.8**
Cust. & bank deposits	446,721.9	461,739.0	484,094.6	507,568.1	532,215.2
Debt securities	24,407.5	24,630.2	24,883.2	25,141.3	25,404.5
Other liabilities	12,250.9	12,840.4	12,406.3	11,991.2	11,594.4
Liabilities	**483,380.3**	**499,209.5**	**521,384.2**	**544,700.6**	**569,214.1**
Shareholder's equity	57,335.5	59,937.7	65,176.3	68,350.7	71,898.7
Minority interest	2,594.1	2,503.9	2,594.7	2,691.1	2,793.0
Equity	**59,929.6**	**62,441.6**	**67,771.0**	**71,041.7**	**74,691.7**

Income Statement

FYE Dec	FY24	FY25	FY26f	FY27f	FY28f
Net interest income	**9,451.1**	**9,583.7**	**10,124.2**	**10,726.3**	**11,374.1**
Islamic operations	1,707.0	1,839.4	1,815.8	1,914.3	1,969.0
Non-interest income	2,852.6	3,272.1	3,394.5	3,554.4	3,696.8
Total income	**14,010.7**	**14,695.2**	**15,334.6**	**16,195.0**	**17,039.9**
Overhead expenses	(4,828.1)	(5,128.7)	(5,357.6)	(5,618.2)	(5,862.9)
Loan loss provision	(0.6)	(66.8)	(230.3)	(229.7)	(219.2)
Others	(250.3)	43.2	50.0	50.0	50.0
Pre-tax profit	**8,931.6**	**9,542.9**	**9,796.7**	**10,397.1**	**11,007.8**
Taxation	(1,912.6)	(2,135.7)	(2,155.3)	(2,287.4)	(2,421.7)
Minority interest	128.0	(182.7)	(90.8)	(96.3)	(102.0)
Net profit	**7,147.0**	**7,224.4**	**7,550.6**	**8,013.4**	**8,484.1**
Exceptionals	473.8	-	-	-	-
Core net profit	**7,620.8**	**7,224.4**	**7,550.6**	**8,013.4**	**8,484.1**
HLIB/ Consensus			100%	101%	101%

Financial Ratios

FYE Dec	FY24	FY25	FY26f	FY27f	FY28f
Operational (%)					
Avg. lending yield	4.53	4.36	4.53	4.57	4.60
Avg. cost of funds	2.67	2.55	2.72	2.73	2.74
Net interest margin	2.13	2.07	2.09	2.12	2.14
Cost/ income	34.5	34.9	34.9	34.7	34.4
Profitability (%)					
ROE	13.61	12.32	12.07	12.00	12.10
ROA	1.45	1.31	1.31	1.33	1.35
Liquidity (%)					
Loan/ deposit	97.9	99.7	99.7	99.7	99.7
Asset quality (%)					
Gross impaired loans	0.52	0.51	0.66	0.70	0.70
Loan loss coverage	166.2	147.2	114.8	102.2	101.9
Net credit cost (bp)	0.0	1.5	5.0	4.8	4.4
Capital adequacy (%)					
CET 1 capital	14.8	14.5	15.0	14.8	15.0
Tier 1	14.8	14.5	15.0	14.8	15.0
Total capital	17.6	17.2	17.7	17.4	17.4

Valuation Ratios

FYE Dec	FY24	FY25	FY26f	FY27f	FY28f
Core EPS (sen)	39.5	37.4	39.1	41.5	43.9
P/E (x)	12.2	12.9	12.4	11.6	11.0
BVPS (RM)	2.97	3.10	3.37	3.54	3.72
P/B (x)	1.63	1.56	1.43	1.36	1.30
DPS (sen)	21.0	22.5	28.7	31.6	32.5
Total dividend yield (%)	4.3	4.7	5.9	6.5	6.7
Reported payout ratio (%)	53.5	60.5	73.7	76.4	74.3
Core payout ratio (%)	53.5	60.5	60.4	60.8	59.5

Growth

FYE Dec	FY24	FY25	FY26f	FY27f	FY28f
Income statement (%)					
Net interest income	4.4	1.4	5.6	5.9	6.0
Total income	7.0	4.9	4.4	5.6	5.2
Pre-tax profit	4.6	6.8	2.7	6.1	5.9
Net profit	7.5	1.1	4.5	6.1	5.9
Core net profit	14.6	(5.2)	4.5	6.1	5.9
Balance sheet (%)					
Gross loans	6.3	5.1	5.0	5.0	5.0
Customer deposits	4.9	3.2	5.0	5.0	5.0

Figure #1 Quarterly results comparison

FYE Dec (RM m)	1QFY25	4QFY25	1QFY26	*QoQ (%)*	*YoY (%)*
Net interest income	**2,380.4**	**2,421.9**	**2,387.5**	***-1.4%***	***0.3%***
Islamic banking	448.1	461.8	469.2	*1.6%*	*4.7%*
Non-interest income	772.1	834.5	793.1	*-5.0%*	*2.7%*
Total income	**3,600.6**	**3,718.2**	**3,649.8**	***-1.8%***	***1.4%***
Operating expenses	-1,259.5	-1,301.1	-1,295.1	*-0.5%*	*2.8%*
Pre-provision profit	**2,341.1**	**2,417.1**	**2,354.7**	***-2.6%***	***0.6%***
Loan loss provisions	-39.0	17.1	-52.1	*N.M.*	*33.5%*
Operating profit	**2,302.1**	**2,434.2**	**2,302.6**	***-5.4%***	***0.0%***
Others	10.5	9.9	12.6	*28.0%*	*20.5%*
Pre-tax profit	**2,312.6**	**2,444.1**	**2,315.3**	***-5.3%***	***0.1%***
Tax & minority interest	-567.2	-567.8	-563.5	*-0.8%*	*-0.7%*
Net Profit	**1,745.3**	**1,876.3**	**1,751.8**	***-6.6%***	***0.4%***
Core Net Profit	**1,745.3**	**1,876.3**	**1,751.8**	***-6.6%***	***0.4%***
EPS (sen)	**9.0**	**9.7**	**9.1**	*-6.6%*	*0.4%*
DPS (sen)	**0.0**	**12.0**	**0.0**	***-100.0%***	***N.M.***
Book value/share (RM)	**2.95**	**3.10**	**3.06**	***-1.3%***	***3.8%***

Bursa, HLIB Research

- The YoY rise in NOII was thanks to general insurance and forex income, albeit partly muted by lower fees income and treasury gain.
- QoQ decline in total income and earnings largely underpinned by lower NII and NOII, owing to intensified market competition and softened NIM.
- Higher provisioning was made in 1Q26 to prudently buffer the potential retail sector volatility.

Figure #2 Financial ratios

FYE Dec (%)	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26
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

Bursa, HLIB Research

- NIM was 1bps QoQ lower, owing to slower recovery in loan yields. Management is guiding FY26 NIM to stable or mid-single digit (1Q26: -1bp QoQ / FY25: -6bp).
- GIL ratio continued to be stable at 0.51%. Public Bank sees FY26 NCC to be at low single digit bp (maintained; FY25: 2bp / FY24: 0bp).
- Management expects lending growth remained unchanged at +5% YoY in FY26 (FY25: +5.1% / FY24: +6.3%).
- For ROE, management is expecting 0.7% upliftment post-Basel III Reform effective July this year. (FY25: 12.8%).

Figure #3 PBBANK FY26 Targets/Guidance

Key Metric	Target/Guidance
Loans growth	+5% YoY
NIM	Stable
NOII growth	Double-digit
Credit costs	1-3bps
Ordinary dividend payout	~60%
Capital return programme	RM3.5bn via special dividend (FY26-28)

HLIB Research

ESG Snapshot

F4GBM Index member	:	Yes
FTSE Russell ESG rating	:	★★★★
MSCI ESG rating	:	AA

The goal of this section is to give an overview of Public Bank's ESG trends and developments. Information presented here are from financial year FY23 and will only be updated when new data are available. Overall, we find the bank has no glaring ESG issues as most indicators met expectations and were in line with sector's performance.

Environmental (E) indicators

- Targeting to mobilize RM100bn in ESG-friendly financing by 2030 (2023: RM53.9bn).
- Looking to achieve Carbon Neutral and Net Zero Carbon Equivalent positions by 2030 and 2050 respectively (4Q23: -3% against 2022 baseline).
- High risk ESG financing (which consist of Agriculture, Mining & Quarrying sectors) accounted for 0.8% of total loans (vs 2022: 0.9%; below sector's 2.4%).
- Sustainable financing made up 10.6% of total assets (vs 2022: 8.5%; above sector's 7.2%).
- GHG emission intensity stood at 6.6 tCO_2e/RM'm (vs 2022: 6.7 tCO_2e/RM'm; above sector's 5.0 tCO_2e/RM'm).
- Financed emission intensity came in at 461 tCO_2e/RM'm (vs 2022: 440 tCO_2e/RM'm).
- Intensity of energy consumption was at 6.7 MWh/RM'm (vs 2022: 6.5 MWh/RM'm; in line with sector's 6.7 MWh/RM'm).
- Reported water consumption intensity per revenue of 36.6 m^3/RM'm (vs 2022: 34.3 m^3/RM'm; below sector's 43.3 m^3/RM'm).

Comments: The bank must find ways to bring down both its GHG and financed emission intensity further. However, we are comforted by its small high risk ESG financing mix and elevated sustainable financing composition. Otherwise, the rest are performing up to expectations.

Social (S) indicators

- Has a talent retention rate of 91% (vs 2022: 92%; in line with sector's 90%).
- Composition of female Board of Directors stood at 44% (vs 2022: 37%; above sector's 36%).
- Females accounted for 49% of senior management team (vs 2022: 48%; above sector's 37%).
- The average training hours per employee was at 61 hours (vs 2022: 62 hours; in line with sector's 59 hours).
- Percentage of learning & development opex to total income stood at 0.4% (vs 2022: 0.4%; in line with sector's 0.5%).
- Community investment & zakat contribution was 0.1% of net profit (vs 2022: <0.1%; below sector's 1.1%).

Comments: We feel Public Bank needs to step up a lot more on its community programs. That said, the bank is good at retaining talents and willing to invest in them. Also, it has strong gender equality focus, from our observation.

Governance (G) indicators

- Board size of 9 directors (vs 2022: 8 directors; in line with sector's 9 directors) where 56% were independent (vs 2022: 63%; below sector's 73%) with a mean tenure of 7.0 years (vs 2022: 6.9 years; above sector's 4.5 years). Meeting attendance was 99% (vs 2022: 100%; in line with sector's 99%).
- Independent directors form 100% / 63% / 67% of audit / risk / nomination & remuneration committee (vs 2022: 100% / 71% / 83%; sector: 100% / 86% / 79%).
- Has a CEO pay ratio of 324x vs sector average of 85x (2022: 291x).
- The percentage of executive & non-executive directors pay to total income stood at 0.5% (vs 2022: 0.6%; above sector's 0.3%).

Comments: We are not overly concerned with the low composition of independent directors, long tenure of service, and high compensation package for CEO, executive & non-executive directors, considering these were primarily distorted by 1 individual i.e. Managing Director Tan Sri Tay Ah Lek, whom have many years of experience and stewardship that helped Public Bank to remain a well-oiled machine.

Bursa, HLIB Research

Disclaimer

1. As of 15 May 2026, Hong Leong Investment Bank Berhad has proprietary interest in the following securities covered in this report:
(a) -.

2. As of 15 May 2026, the analyst(s) whose name(s) appears on the front page, who prepared this report, has interest in the following securities covered in this report:
(a) -.

Published & printed by:

Hong Leong Investment Bank Berhad (10209-W)
Level 28, Menara Hong Leong,
No. 6, Jalan Damanlela,
Bukit Damansara,
50490 Kuala Lumpur
Tel: (603) 2083 1800
Fax: (603) 2083 1766

Stock rating guide

BUY	Expected absolute return of +10% or more over the next 12 months.
HOLD	Expected absolute return of -10% to +10% over the next 12 months.
SELL	Expected absolute return of -10% or less over the next 12 months.
UNDER REVIEW	Rating on the stock is temporarily under review which may or may not result in a change from the previous rating.
NOT RATED	Stock is not or no longer within regular coverage.

Sector rating guide

OVERWEIGHT	Sector expected to outperform the market over the next 12 months.
NEUTRAL	Sector expected to perform in-line with the market over the next 12 months.
UNDERWEIGHT	Sector expected to underperform the market over the next 12 months.

The stock rating guide as stipulated above serves as a guiding principle to stock ratings. However, apart from the abovementioned quantitative definitions, other qualitative measures and situational aspects will also be considered when arriving at the final stock rating. Stock rating may also be affected by the market capitalisation of the individual stock under review.