Public Bank (PBK MK)

3Q26: Below Forecasts Due To NIM Pressure And Higher Credit Cost

Highlights

- 3Q26 earnings were marginally below expectations due to higher-than-expected credit cost.
- Maintain HOLD, with a lower target price of RM5.20 (1.64x 2027F P/B; ROE: 12.5%) from RM5.45 following our earnings revisions.
- Even factoring in potential special dividends of up to RM3.5b, subject to BNM approval, the stock's dividend yield remains broadly in line with peers. As such, we believe the current valuation adequately reflects its capital return prospects, which were the key catalyst to its share price performance.

3Q26 Results

Year to 31 Dec (RMm)	3Q26	3Q25	yoy%	9M26	yoy%
Net Interest Income	2,438.7	2,370.8	2.9	7,233.0	1.0
Islamic Banking	472.2	466.6	1.2	1,416.0	2.8
Fees & Commissions	611.6	565.0	8.3	1,802.1	10.3
Net Investment Income	(1.5)	89.2	(101.7)	81.9	(58.4)
Other Operating Income	262.3	233.2	12.5	725.2	19.4
Total Income	3,783.2	3,724.8	1.6	11,258.2	2.6
Operating Expenses	(1,315.7)	(1,268.7)	3.7	(3,936.5)	2.8
PPOP	2,467.6	2,456.1	0.5	7,321.7	2.4
Provision on loans and investments	(138.2)	(15.3)	803.2	(314.7)	241.1
PBT	2,345.0	2,452.6	(4.4)	7,053.4	(0.6)
Net Profit	1,773.1	1,842.6	(3.8)	5,349.4	0.0
EPS (sen)	9.2	9.5	(3.8)	27.6	0.0
DPS (sen)	0.0	0.0	n.a.	10.5	0.0
BVPS (RM)	3.13	3.02	3.8	3.17	4.6
Financial Ratios (%)	**3Q26**	**3Q25**	**yoy +/- ppt**	**2Q26**	**qoq +/- ppt**
NIM	2.03	2.10	(0.07	2.08	(0.05)
Loan Growth, yoy	4.9	6.5	(1.5)	5.5	(0.6)
Deposit Growth, yoy	3.3	5.0	(1.6)	3.8	(0.5)
Loan/Deposit Ratio	100.4	98.1	2.3	99.5	0.9
Cost/Income Ratio	34.8	34.1	0.7	34.7	0.1
ROE	11.6	12.6	(1.0)	12.1	(0.5)
NPL Ratio	0.6	0.5	0.0	0.5	0.0
Credit Costs (bp)	11.0	1.0	10.0	10.0	0.9
CET-1 CAR	14.5	13.8	0.7	13.9	0.6

Source: Public Bank, UOB Kay Hian

Analysis

- **Marginally below expectations.** Public Bank delivered 3Q26 net profit of RM1.77b (-3.8% yoy, -2.8% qoq), bringing 9M26 earnings to RM5.34b (flattish yoy). 3Q26 earnings came in below expectations, with 9M26 earnings accounting for 72% and 73% of our and consensus full-year estimates, respectively. The earnings shortfall was primarily attributable to higher-than-expected credit costs, largely pre-emptive in nature to account for potential macro shocks.

Key Financials

Year to 31 Dec (RMm)	2024	2025	2026F	2027F	2028F
Net interest income	9,451	9,584	9,460	9,935	10,369
Non-Interest Income	2,853	3,272	3,499	3,791	4,110
Net profit (rep./act.)	7,147	7,224	7,120	7,700	8,109
Net profit (adj.)	7,147	7,224	7,120	7,700	8,109
EPS (sen)	36.8	37.2	36.7	39.7	41.8
PE (x)	13.3	13.2	13.4	12.4	11.7
P/B (x)	1.7	1.6	1.6	1.5	1.5
Dividend yield (%)	4.3	4.6	5.6	6.1	6.4
Net int margin (%)	2.20	2.14	2.03	2.01	1.98
Cost/income Ratio (%)	34.5	34.9	35.9	35.5	35.6
Loan loss cover (%)	166.2	149.9	124.0	117.4	100.8
Consensus net profit			7,162	7,791	8,288
UOBKH/Consensus (x)			0.99	0.99	0.98

Source: Public Bank, Bloomberg, UOB Kay Hian

Analyst(s)

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HOLD (Maintained)

Share Price	RM4.90
Target Price	RM5.20
Upside	6.2%
Previous TP	RM5.45

Stock Data

Sector	Financials
Bloomberg ticker	PBK MK
Shares issued (m)	19,410.7
Market cap (RMm)	95,112.4
Market cap (US$m)	23,433.6
3-mth avg daily t'over (US$m)	24.4

Price Performance (%)

52-week high/low				RM5.29/RM4.24
1mth	**3mth**	**6mth**	**1yr**	**YTD**
4.9	(6.3)	2.2	14.0	7.9

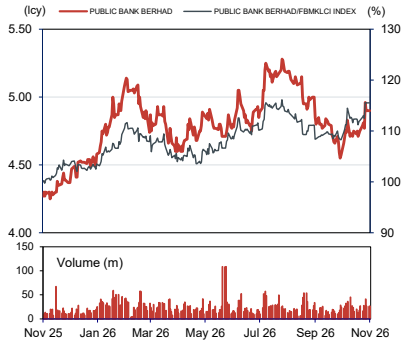
Major Shareholders (%)

Consolidated Teh Holdings Sdn Bhd	20.1
EPF	15.1

Balance Sheet Metrics

FY26F NAV/Share (RM)	3.17
FY26F CAR Tier -1 (%)	15.4

Price Chart



Source: Bloomberg

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.

- **9M26 earnings remained broadly flat yoy,** as a 7% increase in non-interest income, driven by stronger wealth management fees and forex income, was offset by an 8bps yoy contraction in NIM and higher credit costs, amid the absence of management overlay writebacks.
- **3Q26 earnings.** 3Q26 earnings declined 4% yoy, weighed by lower trading income amid higher bond yields, higher credit costs arising from additional pre-emptive provisioning, and a 7bps NIM compression. These were partly cushioned by a robust 20% yoy growth in unit trust income, supporting a 7% increase in overall fee income. On a qoq basis, earnings fell 3%, primarily due to higher credit costs and 5bps NIM compression.
- **NIM edged downwards.** 3Q26 NIM declined 5bps qoq, reflecting mortgage yield compression and stiffer deposit competition, bringing 9M26 compression to 8bps. Management guides for a 9-10bps full-year NIM decline in 2026, implying further compression in 4Q26 amid intensified seasonal year-end deposit campaigns. Expectations of a potential 25bps OPR hike in 1Q27 could provide some relief in 2027, with every 25bps hike estimated to lift NIM by 4bps on a full-year basis. Meanwhile, the bank is gradually repricing new mortgages upwards and targeting stronger SME loan growth to improve portfolio yields. We pencil in NIM compression of 11bps/3bps in 2026/27, respectively.
- **Loans growth remains firm.** 3Q26 group loan growth accelerated with 9M26 annualised loans growth coming in at 6.2% (in line with our full-year estimates) vs 5.9% in 2Q26, driven by domestic loan growth of 6.5%. By segment, SME and auto financing were the key growth drivers, expanding 12% and 6% respectively. Management maintained its 2026's 4-5% loan growth guidance.
- **GIL remains stable.** Public Bank Group's GIL ratio remained stable at 0.55% (2Q26: 0.54%)**.** Domestic loans, which comprise 95% of group loans, experienced fairly stable asset quality with GIL ratio steady at 0.35%. Domestic asset quality was broadly stable across key loan segments, including SMEs, with only a marginal uptick in the auto portfolio. Encouragingly, the domestic loan ageing profile continued to improve, with loans more than one month past due declining to 1.5% in 3Q26 from 1.6% in 2Q26, well below the 3.8% pre-pandemic average.
- **Raising net credit cost assumption.** Net credit cost edged upwards qoq to 11bps in 3Q26 from 10bps in 2Q26, driven by higher pre-emptive provisions for macro risks. This brought 9M26 net credit cost to 9bps, above our 6bp full-year estimates. Consequently, we raise our 2026-28 net credit cost assumption to 9bp/6bp/6bp from 6bp/4bp/4bp respectively. Loan loss coverage remained robust at 135%, rising to 234% including regulatory reserves, with both metrics comfortably above the industry average. Management overlays remained stable at RM800m, with our forecasts assuming no write-backs.
- **2026 key guidance retained:** a) ROE: 12.0%-13.0%; b) loan growth: 4-5%; c) Non-interest income: Double-digit percentage growth; d) Net credit cost: Single-digit; e) NIM: 9-10bp compression; f) Double-digit non-interest income growth; and g) Recurring dividend payout ratio of about 60%.

Valuation/Recommendation

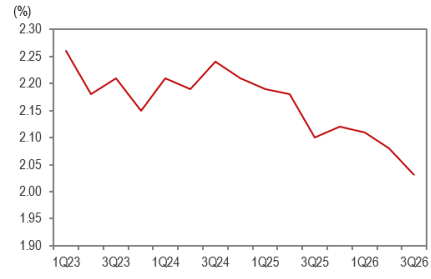
- **Maintain HOLD with a lower target price of RM5.20 (1.64x 2027F P/B, ROE: 12.4%)** from RM5.54 after earnings revision. The stock's current dividend yield of 5.7% is broadly in line with peers, even after factoring in RM3.5b of special dividends spread evenly over three years. In our view, this suggests that the market has largely priced in the group's medium-term capital management upside. Structurally lower yields from its sizeable mortgage portfolio, coupled with an above-industry loans-to-funding ratio of 96% (vs industry: 84%), are likely to remain a drag on NIM. On balance, however, the group's sound asset quality, above-industry provisioning

Key Assumptions

(%)	2026F	2027F	2028F
Loan Growth	6.0	6.0	6.3
Credit Cost (bp)	9.0	6.0	6.0
ROE	11.7	12.5	12.9

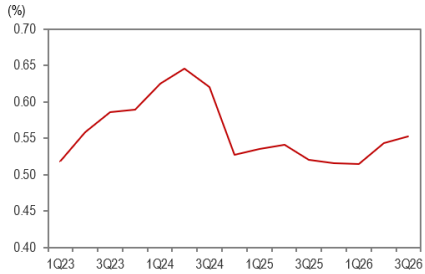
Source: UOB Kay Hian

NIM Trend



Source: Public Bank, UOB Kay Hian

GIL Ratio Trend



Source: Maybank, UOB Kay Hian

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 – 55%.

Source: Public Bank, UOB Kay Hian

buffers and share buyback programme, on top of its committed special dividends, should provide downside support to the share price.

Earnings Revision/Risk

- We trim our 2026-28 earnings by 4-5% to factor in our higher credit cost and lower NIM assumption.
- Weaker-than-expected NIM.

Share Price Catalyst

- Stronger-than-expected non-interest income growth.
- Provision writebacks from robust provision buffers.

Profit & Loss

Year to 31 Dec (RMm)	2025	2026F	2027F	2028F
Interest income	18,896	17,378	18,487	19,541
Interest expense	(9,312)	(7,918)	(8,551)	(9,172)
Net interest income	9,584	9,460	9,935	10,369
Fees & commissions	2,226	2,404	2,644	2,908
Net Trading Income	739	773	808	846
Other income	3,272	3,499	3,791	4,110
Income from Islamic banking	1,839	1,931	2,028	2,129
Total income	**14,695**	**14,891**	**15,754**	**16,608**
Staff costs	(3,696)	(3,807)	(3,997)	(4,277)
Other operating expense	(1,433)	(1,540)	(1,596)	(1,633)
Pre-provision profit	9,566	9,544	10,161	10,698
Loan loss provision	(67)	(425)	(301)	(319)
Other provisions	(13)	0	0	0
Associated companies	56	62	68	75
Pre-tax profit	9,543	9,181	9,928	10,454
Tax	(2,136)	(2,055)	(2,222)	(2,340)
Minorities	(183)	(6)	(6)	(5)
Net profit	**7,224**	**7,120**	**7,700**	**8,109**
Net profit (adj.)	7,224	7,120	7,700	8,109

Balance Sheet

Year to 31 Dec (RMm)	2025	2026F	2027F	2028F
Cash with central bank	4,441	9,450	10,017	10,618
Govt treasury bills & securities	24,520	25,010	25,511	26,021
Interbank loans	0	0	0	0
Customer loans	442,333	469,297	497,878	528,274
Investment securities	60,478	65,361	70,597	76,211
Derivative receivables	225	318	411	504
Associates & JVs	441	495	544	598
Fixed assets (incl. prop.)	1,310	1,510	1,710	1,910
Other assets	27,903	35,294	50,399	107,994
Total assets	**561,651**	**606,735**	**657,066**	**752,131**
Interbank deposits	14,625	15,894	17,274	18,772
Customer deposits	447,114	474,835	504,274	534,531
Derivative payables	156	159	162	165
Debt equivalents	642	577	520	468
Other liabilities	36,673	51,979	70,639	133,052
Total liabilities	499,210	543,444	592,869	686,988
Shareholders' funds	59,938	60,781	61,681	62,622
Minority interest - accumulated	2,504	2,510	2,516	2,521
Total equity & liabilities	**561,651**	**606,735**	**657,066**	**752,131**

Cash Flow

Year to 31 Dec (RMm)	2025	2026F	2027F	2028F
Capital Adequacy				
Tier-1 CAR	13.9	15.2	14.6	13.8
Total CAR	16.6	17.3	16.7	15.7
Total assets/equity (x)	9.4	10.0	10.7	12.0
Tangible assets/tangible common equity (x)	9.8	10.5	11.3	12.8
Asset Quality				
NPL Ratio	0.5	0.6	0.5	0.5
Loan Loss Coverage	149.9	124.0	117.4	100.8
Loan Loss Reserve/Gross Loans	0.8	0.7	0.6	0.5
Increase in NPLs	2.7	13.2	(2.0)	2.9
Credit Cost (bp)	1.8	9.0	6.0	6.0
Liquidity				
Loan/Deposit Ratio	98.9	98.8	98.7	98.8
Liquid Assets/Short-Term Liabilities	6.3	7.0	6.8	6.6
Liquid Assets/Total Assets	5.2	5.7	5.4	4.9

Key Metric

Year to 31 Dec (%)	2025	2026F	2027F	2028F
Growth				
Net Interest Income, yoy Chg	1.4	(1.3)	5.0	4.4
Fees & Commissions, yoy Chg	1.8	8.0	10.0	10.0
Pre-Provision Profit, yoy Chg	4.2	(0.2)	6.5	5.3
Net Profit, yoy Chg	1.1	(1.4)	8.1	5.3
Customer Loans, yoy Chg	5.2	6.1	6.1	6.1
Customer Deposits, yoy Chg	3.2	6.2	6.2	6.0
Profitability				
Net Interest Margin	2.1	2.0	2.0	2.0
Cost/Income Ratio	34.9	35.9	35.5	35.6
Adjusted ROA	1.3	1.2	1.2	1.2
Reported ROE	12.1	11.7	12.5	12.9
Adjusted ROE	12.1	11.7	12.5	12.9
Valuation				
P/BV (x)	1.6	1.6	1.5	1.5
P/NTA (x)	1.7	1.7	1.6	1.6
Adjusted P/E (x)	13.2	13.4	12.4	11.7
Dividend Yield	4.6	5.6	6.1	6.4
Payout ratio	60.5	75.0	75.0	75.0

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