Public Bank (PBK MK)

2Q26: Capital Management Upside Priced In; Downgrade To HOLD

Analyst(s)

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Highlights

- 2Q26 earnings were marginally below expectations due to higher-than-expected credit costs.
- We downgrade the stock to HOLD, with a lower target price of RM5.54 (1.74x 2027F P/B; ROE: 13.1%) from RM5.65 following our earnings revisions. Given its strong share price performance (+15% ytd vs +3% for the sector), making it the sector's top performer, we see limited near-term upside and take the opportunity to downgrade our recommendation.
- 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 have been the key catalyst for its share price performance.

2Q26 Results

Year to 31 Dec (RMm)	2Q26	2Q25	yoy%	1H26	yoy%
Net Interest Income	2,406.8	2,410.7	(0.2)	4,794.3	0.1
Islamic Banking	474.7	462.9	2.5	943.8	3.6
Fees & Commissions	648.4	525.6	23.4	1,190.5	11.4
Net Investment Income	60.9	73.4	(17.0)	83.4	(22.3)
Other Operating Income	234.4	179.1	30.9	462.9	23.7
Total Income	3,825.2	3,651.6	4.8	7,475.0	3.1
Operating Expenses	(1,325.8)	(1,299.5)	2.0	(2,620.9)	2.4
PPOP	2,499.4	2,352.1	6.3	4,854.1	3.4
Provision on loans and investments	(120.5)	(33.6)	258.6	(176.5)	129.4
PBT	2,393.1	2,333.6	2.5	4,708.4	1.3
Net Profit	1,824.6	1,760.2	3.7	3,576.3	2.0
EPS (sen)	9.4	9.1	3.7	18.5	2.0
DPS (sen)	10.5	10.5	0.0	10.5	0.0
BVPS (RM)	3.17	3.03	4.6	3.17	4.6
Financial Ratios (%)	**2Q26**	**2Q25**	**yoy +/- ppt**	**1Q26**	**qoq +/- ppt**
NIM	2.08	2.18	(0.1)	2.11	(0.03)
Loan Growth, yoy	5.5	5.8	(0.3)	5.1	0.4
Deposit Growth, yoy	3.8	3.8	0.0	3.7	0.1
Loan/Deposit Ratio	99.5	97.8	1.7	99.0	0.5
Cost/Income Ratio	34.7	35.6	(0.9)	35.5	(0.8)
ROE	12.1	12.2	(0.1)	11.8	0.3
NPL Ratio	0.5	0.5	0.0	0.5	0.0
Credit Costs (bp)	10.0	3.1	6.9	4.6	5.4
CET-1 CAR	13.9	14.0	(0.1)	13.7	0.2

Source: Public Bank, UOB Kay Hian

Analysis

- **Marginally below expectations.** Public Bank delivered a 2Q26 net profit of RM1.82b (+3.7% yoy, +4.1% qoq), bringing 1H26 earnings to RM3.58b (+2.0% yoy). 1H26 earnings came in marginally below expectations, at 46%/47% of our/consensus 2026 estimates, primarily due to higher-than-expected credit costs. 1H26 earnings rose 2% yoy, underpinned by a robust 11% yoy increase in non-interest income, driven by stronger wealth management fees and forex income, alongside positive operating jaws. This was partly offset by a 10bp yoy NIM compression and higher credit costs, which tempered overall earnings growth.

Key Financials

Year to 31 Dec (RMm)	2024	2025	2026F	2027F	2028F
Net interest income	9,451	9,584	9,824	10,417	11,052
Non-Interest Income	2,853	3,272	3,499	3,719	3,953
Net profit (rep./act.)	7,147	7,224	7,512	8,096	8,683
Net profit (adj.)	7,147	7,224	7,512	8,096	8,683
EPS (sen)	36.8	37.2	38.7	41.7	44.7
PE (x)	14.0	13.8	13.3	12.4	11.5
P/B (x)	1.7	1.7	1.6	1.6	1.6
Dividend yield (%)	4.1	4.4	5.6	6.1	6.5
Net int margin (%)	2.20	2.14	2.10	2.09	2.09
Cost/income Ratio (%)	34.5	34.9	35.0	34.6	34.5
Loan loss cover (%)	166.2	149.9	142.2	126.4	108.3
Consensus net profit			7,451	7,898	8,381
UOBKH/Consensus (x)			1.01	1.03	1.04

Source: Public Bank, Bloomberg, UOB Kay Hian

HOLD (Downgraded)

Share Price	RM5.15
Target Price	RM5.54
Upside	7.6%
Previous TP	RM5.65

Stock Data

Sector	Financials
Bloomberg ticker	PBK MK
Shares issued (m)	19,410.7
Market cap (RMm)	99,965.1
Market cap (US$m)	24,805.2
3-mth avg daily t'over (US$m)	29.7

Price Performance (%)

52-week high/low RM5.29/RM4.18

1mth	3mth	6mth	1yr	YTD
(0.6)	7.3	3.0	16.5	14.7

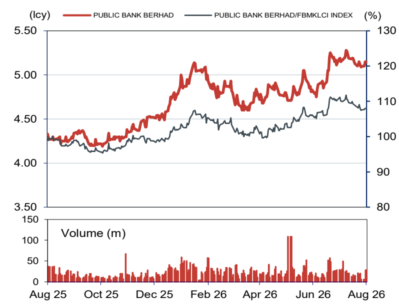
Major Shareholders (%)

Consolidated Teh Holdings Sdn Bhd	21.6
EPF	17.3

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.

- **2Q26 earnings.** 2Q26 earnings grew 3% yoy, driven by a strong 21% yoy increase in non-interest income, led by wealth management (+54%) and forex income (+29%), alongside positive operating jaws. This was partly offset by a 10bp NIM compression and higher credit costs. Qoq, earnings were again supported by a 22% surge in non-interest income, which more than offset NIM and credit cost headwinds.
- **NIM edged downwards.** 2Q26 NIM slipped 3bp qoq, mainly due to yield compression on new mortgage loans and an increase in deposit competition within the wholesale segment. Management is guiding for mid-single-digit NIM compression in 2026, while seeking to mitigate elevated wholesale deposit costs by tapping cheaper fixed-income securities as an alternative funding source.
- **Loan growth remained firm.** 2Q26 group loan growth accelerated with 1H26 annualised loans growth coming in at 5.9% (in line with our full-year estimate) vs 5.7% in 1Q26, driven by domestic loan growth of 6.2%. By segment, SME and auto financing were the key growth drivers, expanding 12% and 6% respectively. Management alluded that loan growth is expected to remain resilient, supported by a healthy approval SME pipeline despite more cautious business investment sentiment amid elevated oil prices and ongoing geopolitical uncertainty. That said, management maintained its 2026 4-5% loan growth guidance.
- **GIL uptick from Cambodia while domestic asset quality remained stable.** Public Bank's group GIL ratio edged up to 0.54% in 2Q26 from 0.51% in 1Q26, primarily driven by deterioration in its Cambodia portfolio (1% of group loans), where GIL rose to 5.46% from 4.87%. Importantly, 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 1.6% in 2Q26 from 2.0% in 1Q26, well below the 3.8% pre-pandemic average.
- **Raising net credit cost assumption.** Net credit cost increased qoq to 10bp in 2Q26 from 5bp in 1Q26, driven by higher ECL charges for the Cambodia portfolio, domestic auto and lower recoveries during the quarter. This brought 1H26 net credit cost to 7bp, above our previous 2026 assumption of 4bp. Given the above, we prudently raise our 2026-27 net credit cost assumptions to 6bp and 4bp, respectively, from 4bp and 2bp previously. Loan loss coverage remained robust at 139%, rising to 240% including regulatory reserves, with both metrics comfortably above the industry average. Management overlays remained stable at RM800m, with our forecasts assuming no write-backs in 2026 and only a marginal write-back in 2027.
- **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: mid-single-digit compression, f) double-digit non-interest income growth, and g) recurring dividend payout ratio of around 60%.

Valuation/Recommendation

- **Downgrade to HOLD with lower target price of RM5.54 (1.74x 2027F P/B, ROE: 13.1%)** from RM5.65 following the earnings revision. Given the stock's strong share price performance (+15% ytd vs +3% for the sector), making it the sector's top performer, we take the opportunity to downgrade our recommendation to HOLD. 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 at 5.5% for 2026 and 5.9% for 2027, based on our assumed 75% payout ratio (ex-special dividend payout ratio: 60%). In our view, this suggests the market has largely priced in the group's medium-term capital management upside. Structurally lower yields from its sizeable mortgage exposure may continue to weigh on NIM, alongside a rising cost-to-income ratio, remain longer-term concerns that could constrain further share price outperformance.

Earnings Revision/Risk

- We trim our 2026-27 earnings forecasts by 2% each to factor in our higher credit cost assumption.
- Weaker-than-expected NIM.

Share Price Catalyst

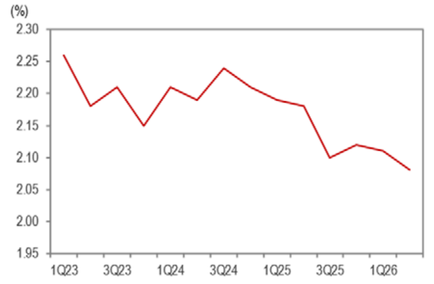
- Stronger-than-expected non-interest income growth.
- Provision write-backs from robust provision buffers.

Key Assumptions

(%)	2026F	2027F	2028F
Loan Growth	6.0	6.0	6.3
Credit Cost (bp)	6.0	4.0	2.0
ROE	12.4	13.1	13.8

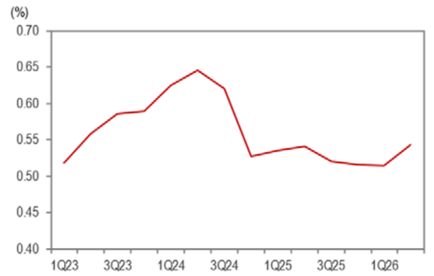
Source: UOB Kay Hian

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%.

Profit & Loss

Year to 31 Dec (RMm)	2025	2026F	2027F	2028F
Interest income	18,896	17,546	18,605	19,731
Interest expense	(9,312)	(7,722)	(8,189)	(8,678)
Net interest income	9,584	9,824	10,417	11,052
Fees & commissions	2,226	2,404	2,572	2,752
Net Trading Income	739	773	808	846
Other income	3,272	3,499	3,719	3,953
Income from Islamic banking	1,839	1,931	2,028	2,129
Total income	14,695	15,254	16,163	17,135
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	9,908	10,570	11,225
Loan loss provision	(67)	(284)	(200)	(106)
Other provisions	(13)	0	0	0
Associated companies	56	62	68	75
Pre-tax profit	9,543	9,686	10,438	11,193
Tax	(2,136)	(2,168)	(2,336)	(2,505)
Minorities	(183)	(6)	(6)	(5)
Net profit	7,224	7,512	8,096	8,683
Net profit (adj.)	7,224	7,512	8,096	8,683

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	51,941	70,564	132,921
Total liabilities	499,210	543,406	592,793	686,858
Shareholders' funds	59,938	60,819	61,757	62,753
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)	2024	2025F	2026F	2027F
Capital Adequacy				
Tier-1 CAR	13.9	15.2	14.7	13.9
Total CAR	16.6	17.3	16.7	15.8
Total assets/equity (x)	9.4	10.0	10.6	12.0
Tangible assets/tangible common equity (x)	9.8	10.5	11.3	12.8
Asset Quality				
NPL Ratio	0.5	0.5	0.5	0.5
Loan Loss Coverage	149.9	142.2	126.4	108.3
Loan Loss Reserve/Gross Loans	0.8	0.7	0.6	0.5
Increase in NPLs	2.7	(1.3)	4.4	3.2
Credit Cost (bp)	1.8	6.0	4.0	2.0
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 (%)	2024	2025F	2026F	2027F
Growth				
Net Interest Income, yoy Chg	1.4	2.5	6.0	6.1
Fees & Commissions, yoy Chg	1.8	8.0	7.0	7.0
Pre-Provision Profit, yoy Chg	4.2	3.6	6.7	6.2
Net Profit, yoy Chg	1.1	4.0	7.8	7.3
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	2.1	2.1	2.1
Cost/Income Ratio	34.9	35.0	34.6	34.5
Adjusted ROA	1.3	1.2	1.3	1.3
Reported ROE	12.1	12.4	13.1	13.8
Adjusted ROE	12.1	12.4	13.1	13.8
Valuation				
P/BV (x)	1.7	1.6	1.6	1.6
P/NTA (x)	1.8	1.7	1.7	1.7
Adjusted P/E (x)	13.8	13.3	12.4	11.5
Dividend Yield	4.4	5.6	6.1	6.5
Payout ratio	60.5	75.0	75.0	75.0