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Maybank increases its market value lead over Public Bank

by
Ranjit Singh

Public Bank Bhd has seen its position as the second-largest component of the FBM KLCI slip to third place owing to persistent weakness in its share price.

Malayan Banking Bhd (Maybank) retained its pole position but Tenaga Nasional Bhd climbed to second place among the 30-member FBM KLCI based on market capitalisation.

As at Nov 12, Maybank's market capitalisation was RM98.8 bil, Tenaga's market capitalisation stood at RM77.8 bil while Public Bank was at RM77.6 bil.

Public Bank shares hit a 52-week high on Jan 22 at RM25.18. The lender, which has the highest return on equity (ROE) among Malaysian banks, has since seen its share price persistently dropping. On Oct 23, its shares hit a 52-week low at RM19.06.

Bank Negara Malaysia's decision to cut the Overnight Policy Rate (OPR) in May this year by 25 basis points (bps) to 3% had an adverse effect on the interest income of banks, and Public Bank was not spared.

Maybank IB Research in a research report dated Nov 7 says Public Bank's third-quarter (3Q) results were "subdued". Its net profit for 9MFY19 was down marginally by 2% year-on-year to RM4.1 bil, while ROE is expected to slip further to 12.7% in FY20 compared to 13.2% in FY19.

Public Bank's total annualised 9MFY19 group loan growth of 4% was in line with the research firm's full-year estimate of 4.1%. Domestically, the group's residential property financing portfolio expanded at a faster annualised rate of 8.1% versus 7.4% in 2QFY19, but its commercial property financing growth slowed to 2.8% from 4.2% previously. Its auto financing expanded 1.9% versus 2.5% previously.

Public Bank has seen its share price dropping since January this year

The question remains: What were the main reasons for Public Bank's 24% decline in its share price in 2019?

The central bank's decision to reduce the OPR in May by 25bps had cut into Public Bank's net interest margins (NIMs) which had declined by 7bps in 2Q. Maybank IB Research says that Public Bank's NIMs had stabilised at 2.12% in 3Q.

The bank always had the lowest cost-to-income ratio (CIR) among banks in Malaysia, but its CIR spiked upwards from 33% in 3QFY18 to 34.5% in 3QFY19.

A banking analyst who tracks the stock at a bank-based broker tells ***FocusM*** that Public Bank's share price under-performance could be attributed to three factors.

"Firstly, for the greater part of 2019, there has been aggressive selling of the stock by foreigners, but this is also in line with the weakness in the FBM KLCI, and the selling had a greater impact on Public Bank as it has a large weight on the index.

"Secondly, the bank's ROE had been falling consistently. Recall that the ROE was at 18.7% in 2014 and it's moving towards sub-13% levels towards the end of 2019.

"Thirdly, as the most prominent retail bank, Public Bank suffered as a result of weakening retail sentiment," says the analyst.

JP Morgan in a research note dated Aug 22 issued an "Underweight" recommendation for Public Bank in light of its weaker metrics because the bank had "gone from being ahead of the curve on loan growth to behind the curve".

The research firm says the weak loan growth was reflected in six quarters of loan market share losses and weaker automation levels at branches.

"The current phase of higher cost growth and elevated CIR should continue. As a result, the bank's ROE gap to peers is reducing from 850bps in the last 10 years to 220bps by 2021F. This should lead to a lower valuation premium," says JP Morgan.

Pong Teng Siew, head of research at Inter-Pacific Securities Sdn Bhd, tells ***FocusM*** that Public Bank's focus on retail banking is deemed as "less exciting" by investors as the growth is lethargic.

"Public Bank has always been strong in the retail banking domain but this segment is seen as less exciting by investors and may be one of the main reasons for the share price under-performance," he says.

Pong adds that the banking sector as a whole is seeing lower loan growth and this has an adverse effect on ROEs.

JP Morgan says that other banks have been more successful in growing their loan book than Public Bank in 2019, especially in real-estate-backed and Credit Guarantee Corp-guaranteed SME loans.

Industry statistics show that consumer loans are key drivers of growth while business credit stays lacklustre. The research firm says that, ideally, Public Bank should have delivered market share gains in this environment, but this is not so.

The bank's management contends that this is due solely to underwriting rigour, but JP Morgan says it may be partly due to improved operational ability by the competition to scale up with better use of technology. The only place Public Bank appears to have done well is in its residential property loan, which remains a mainstay but is a lower-yield product.

One of the reasons JP Morgan attributed to Public Bank's under-performance was that it had under-invested in technology. The research firm adds that it is likely that Public Bank had only started investing in technology in a meaningful way in the last three years. Yet it's likely too early to create a competitive advantage from this spend. Moreover, other banks had probably started spending earlier, so it should take a while for Public Bank to catch up. It also believes that CIR for the bank will remain elevated for the next two to three years.

Going forward, the prospects for Public Bank do not look very encouraging, according to Pong.

"Banks that traditionally rely on interest income growth will see that growth will be flattish in the coming quarters. They have to rely more on alternative revenue streams such as fee-based income," he says. FocusM

Public Bank Bhd

BANKING

KEY BOARD MEMBERS AND MANAGEMENT
Tan Sri Teh Hong Piow (chairman)
Tan Sri Tay Ah Lek (MD)

MAJOR SHAREHOLDERS
Consolidated Teh Holdings Sdn Bhd
22.78%
EPF
12.22%

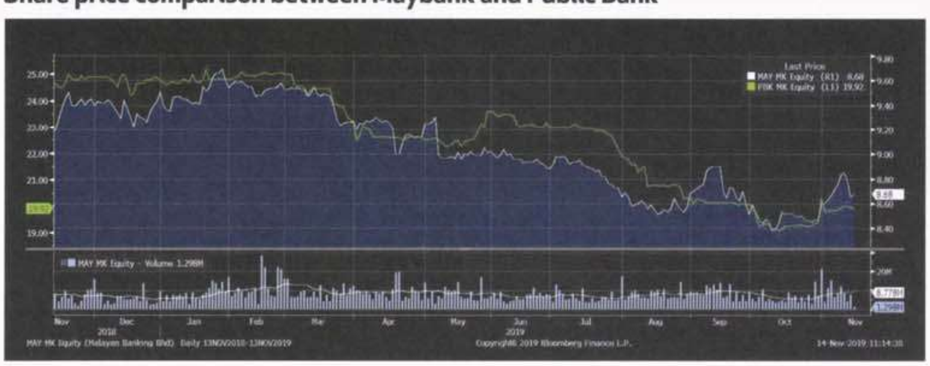
MARKET CAP (Nov 14)
RM77.3b
Share price (Nov 5)
RM19.92
52-week high (Jan 22)
RM25.18
52-week low (Oct 23)
RM19.08

FINANCIAL RESULTS
(3Q ended Sept 30, 2019)
Revenue
RM2.75b
Net profit
RM1.36b

One-year price chart

SOURCE: BLOOMBERG

Share price comparison between Maybank and Public Bank



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