



First Republic Bank

“Commendable Growth with Strong Focus on High Net Worth Clientele”

Bloomberg: FRC:US | Reuters: FRC.N | Stock Code: FRC

NYSE
FINANCIAL SERVICES
BUY
TP: USD 178.02
Price: USD157.41

Justin Teo
Justin-teo@mersec.com.my

Valuation / Recommendation

We have a **BUY** recommendation on First Republic Bank (FRB) with a target price of USD178.02 which represents potential upside of 13.1% from the current price. Our target price is based on price/tangible book of 2.6x (approximately the average price/tangible book ratio for FY19-FY21) and tangible book value of USD68.47 per share as at 31 March 2022.

Investment Highlights

Ability to attract low-cost deposits provide a valuable competitive edge; cost of total deposits of 0.05% in 1Q22. FRB achieved a CAGR of 21% in total deposits from 31 December 2016 through 31 March 2022. As at 31 March 2022, FRB had USD162.1 bn in total deposits which represents a 26.7% yoy increase from USD127.9 bn in the prior year. Of FRB’s total deposits, USD72.4 bn or 44.7% are made up of noninterest-bearing checking deposits as at 31 March 2022.

Strong growth in private wealth management business. Private wealth management assets under management or administration grew at a CAGR of 25.4% from 31 December 2016 through 31 March 2022 standing at USD274.2 bn as at end 1Q22. Private wealth management fee income grew by a CAGR of 21.2% from 31 December 2016 through 31 December 2021 to reach USD760m for FY21.

High credit quality with non-performing assets to total assets of only 0.08% as at 31 March 2022. FRB has prudent loan underwriting standards with loan-to-value ratio standing at a conservative 58% for single family residential real estate in 1Q22. Single family residential real estate made up 60.5% of FRB’s loan portfolio as at 31 March 2022.

Risk factors. An economic recession could result in higher loan defaults which will negatively impact FRB’s profitability. Profitability could also be negatively impacted if the structure of assets and liabilities are not appropriate for an environment of rising interest rates.

INVESTMENT STATISTICS FY Dec	FY19	FY20	FY21	FY22F	FY23F
Net Interest Income (USD M)	2,764	3,262	4,114	5,020	5,895
Provision for credit losses (USD M)	62	157	59	281	213
Total Non-Interest Income (USD M)	577	655	920	1,058	1,185
Net Income Available to Common Shareholders (USD M)	881	1,005	1,379	1,436	1,684
EPS (USD)	5.25	5.85	7.78	7.98	9.31
Tangible Book Value Per Common Share (USD)	50.24	57.30	67.10	73.84	81.62
PE (x)*	22.1	25.0	20.2	19.7	16.9
Price/Tangible Book (x)*	2.3	2.5	2.3	2.1	1.9
Return on Average Assets (%)	0.88	0.82	0.89	0.81	0.81
Return on Average Common Shareholders' Equity (%)	10.6	10.6	12.2	11.1	11.8
Deposits Growth (%)	14.0	27.5	36.0	17.0	14.0
CET1 ratio (%)	9.86	9.67	9.65	9.65	9.65
Nonperforming Assets/Total Assets (%)	0.12	0.13	0.08	0.10	0.10
Gross Dividend Yield (%)*	0.7	0.5	0.6	0.7	0.8

Sources: Mercury Securities, Company

*PE, price/tangible book and gross dividend yield for FY19-20 are based on the closing share price of the last trading day of FY19-20.

Business Overview

First Republic Bank (FRB) is a California-chartered commercial bank and trust company headquartered in San Francisco with deposits insured by the FDIC. FRB offer private banking, private business banking and private wealth management, including investment, trust and brokerage services.

As at 31 March 2022, FRB had USD162.1 bn in total deposits. Business deposits made up 60% of total deposits while consumer deposits made up the remaining 40%. The average business and consumer deposit account size stood at USD481,000 and USD149,000 respectively as at 31 March 2022.

Stock Return Information

S&P 500 (pts)	4,158.24
Expected Capital Gains (%)	13.1
Expected Gross Dividend Yield (%)	0.7
Expected Total Gross Return (%)	13.8

Price Performance

	1M	3M	12M
Absolute (%)	4.0	(8.1)	(17.6)
Relative to Index (%)	4.6	(3.0)	(16.6)

Share Information

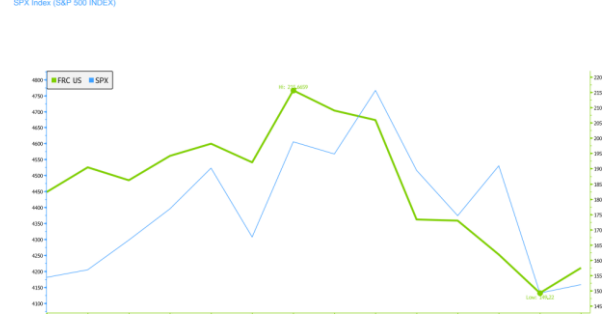
Market Cap (USD bn)	28.3
Issued Shares (m)	179.7
52W High (USD)	222.86
52W Low (USD)	136.31
Estimated Free Float (%)	99.31
Beta vs S&P 500	1.16
65-Day Average Vol. ('000)	1,236

Top 3 Shareholders

	%
Vanguard Group Inc	10.8
Capital Group Cos Inc	8.0
BlackRock Inc	7.2

Sources: Mercury Securities, Company, Bloomberg, Wall Street Journal

FRC US Equity (First Republic Bank/CA)
SPX Index (S&P 500 INDEX)



Bloomberg

DISCLAIMERS AND DISCLOSURES

Disclaimers

This report is prepared primarily for the use of Mercury Securities' clients in Malaysia and not for publication purposes, should not be reproduced, altered in any way, transmitted to, copied or distributed to any other party in whole or in part in any form or manner without the prior express written consent of Mercury Securities. Mercury Securities, companies and individuals related to it accept no liability whatsoever for the actions of third parties in this respect.

This research report is prepared for general circulation and for information purposes only and under no circumstances should it be considered or intended as an offer to sell or a solicitation of an offer to buy the stocks or securities referred to in the report. Investors should note that the price, values or fundamentals of any securities may fluctuate over time. Past performance of any securities may not be an accurate guide to its future performance.

This report is not intended to provide personal investment advice and does not take into account the investment objectives, financial situation and risk appetite of persons who may receive or read this report. Investors are advised to trade at their own absolute discretion, and to seek financial, legal and other pertinent professional advice regarding the appropriateness of investing in any securities or the investment strategies discussed or recommended in this report.

Any information, views, opinions, recommendations and advice in this report are given in good faith but without any legal responsibility or liability to Mercury Securities and connected parties. Information contained in this report has been obtained from public sources believed to be reliable but such sources are not independently verified by Mercury Securities and consequently no representation is made as to the accuracy or completeness of this information and it should not be relied upon as such. The views, recommendations and opinions in this research report are our own as of the date hereof and are subject to change without prior notice.

Mercury Securities expressly disclaims any obligation to update or revise any views, recommendations, forward looking statements and forecasts in a timely manner to reflect new information, events or circumstances after the date of this report publication or to reflect the occurrence of unanticipated events. Our views and recommendations are based on our own analysis of publicly available information. A subject company's fundamentals and prospects are subject to various risks and uncertainties that could cause its actual performance to differ from our opinion.

As such, Mercury Securities and its directors, officers, associates, connected parties and employees shall not be liable for any direct, indirect or consequential losses or damages that may arise from the use of or reliance on this research report.

Disclosures

Mercury Securities Sdn Bhd Registration No. 198401000672 (113193-W) is a Participating Organisation of Bursa Malaysia Securities Berhad and a principal holding a Capital Markets Services Licence ("CMSL") issued by the Securities Commission ("SC") of Malaysia. Its research analysts hold a Capital Markets Services Representative's Licence ("CMSRL"). Principals holding a CMSL and representatives holding a CMSRL are regulated by SC in accordance with the Capital Markets and Services Act 2007 ("CMSA").

Mercury Securities, companies or individuals connected with it may have used research material before publication and may have positions in or may be materially interested in any stocks or securities in the markets mentioned. Some of the subject companies covered by Mercury Securities for research purposes may be a client of Mercury Securities in the past, current or may be a potential client in the future. Possible business dealings may include, but is not limited to share trading, market making, underwriting, corporate finance and corporate advisory services.

RECOMMENDATION RATING

Mercury Securities maintains a list of stock coverage. Stock can be added or dropped subject to needs with or without notice. Hence, the recommendation rating only applicable to stocks under the list. Stocks out of the coverage list will not carry recommendation rating as the analyst may not follow the stocks adequately.

Mercury Securities has the following recommendation rating:

BUY	Stock's total return is expected to be +10% or better over the next 12 months (including dividend yield)
HOLD	Stock's total return is expected to be within +10% or -10% over the next 12 months (including dividend yield)
SELL	Stock's total return is expected to be -10% or worse over the next 12 months (including dividend yield)

Published and printed by:

MERCURY SECURITIES SDN BHD

Registration No. 198401000672 (**113193-W**)

L-7-2, No 2, Jalan Solaris, Solaris Mont' Kiara, 50480 Kuala Lumpur

Telephone: (603) - 6203 7227 Website: www.mercurysecurities.com.my

Email: mercurykl@mersec.com.my