



First Republic Bank

“Fundamentals Remain Intact”

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

Valuation / Recommendation

Despite the qoq decline in FRB's net interest margin in 3Q22, we opine that FRB's fundamentals remain strong. The Group continues to deliver commendable growth in deposits and loans while maintaining a high quality asset base. Furthermore, we think that the qoq decline in net interest margin (2.71% in 3Q22 vs. 2.80% in the prior quarter) is temporary and should improve over the long-term once the yields on interest-earning assets move higher to catch up with the increase in funding costs.

We are, therefore, maintaining our **BUY** recommendation and target price of USD181.50 for FRB. At our target price, FRB would have a Price/Tangible Book ratio of about 2.5x which we think is fair due to its track record of achieving commendable growth while maintaining a prudent loan portfolio.

Investment Highlights

Net interest income within expectations. The 20.6% yoy increase in net interest income to USD1.3 bn in 3Q22 was attributed to growth in average interest-earning assets and higher net interest margin compared to the previous year corresponding quarter. Non-interest income rose 1.8% yoy to USD254 m in 3Q22 on higher brokerage and investment fees, partially offset by lower investment management fees. FRB's 3Q22 PATMI increased 17.4% to USD405 m in line with our expectations.

Deposits and loan book continue to grow at a healthy pace. Total deposits increased by 18.6% yoy to USD172.4 bn as at 30 September 2022. Loans rose by 23.7% yoy to USD158.8 bn. Wealth management assets stood at USD249.5 bn as at 30 September 2022, down by only 0.9% despite a steep decline in equity markets.

Credit quality remains strong. Non-performing assets stood at only 6 basis points of total assets as at 30 September 2022. FRB has been conservative in underwriting loans with weighted average loan-to-value (LTV) ratios at origination of 58% for single family residential real estate loans, 50% for home equity line of credit (presented on a combined LTV basis, including the first residential mortgage and a second lien, when applicable), 51% for multifamily real estate loans, and 46% for commercial real estate loans.

Risk factors. A recession could result in higher loan defaults which will hurt 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. Malaysian investors in FRB will experience a negative impact on returns if the USD weakens against the Ringgit.

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	1058	1185
PATMI (USD M)	881	1,005	1,379	1436	1,684
EPS (USD)	5.25	5.85	7.78	7.94	9.18
Tangible Book Value Per Share (USD)	50.24	57.30	67.10	74.89	82.72
Price/Earnings Ratio (x)*	22.1	25.0	15.1	14.8	12.8
Price/Tangible Book Ratio (x)*	2.3	2.5	1.7	1.6	1.4
Return on Average Assets (%)	0.88	0.82	0.89	0.81	0.80
Return on Average Equity (%)	10.6	10.6	12.2	11.0	11.5
Deposits Growth (%)	14.0	27.5	36.0	17	14
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	0.8	0.9	1.0

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.

NYSE
FINANCIAL SERVICES
BUY
TP: USD181.50
Price: USD117.21

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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.

RESULTS

(USD m)			qoq		yoy
FY Dec 31	3Q22	2Q22	% chg	3Q21	% chg
Net Interest Income	1,269	1,246	1.8	1,052	20.6
Provision for Credit Losses	36	31	-	34	-
Non-Interest Income	254	263	(3.4)	251	1.2
PATMI	405	392	3.3	345	17.4
EPS (USD)	2.23	2.18	2.3	1.94	14.9

Stock Return Information

S&P 500 (pts)	3,720.0
Expected Capital Gains (%)	54.9
Expected Gross Dividend Yield (%)*	1.0
Expected Total Gross Return (%)	55.9

*Dividends paid by US companies are subject to 30% withholding tax

Stock Information

Market Cap (USD bn)	21.4
Issued Shares (m)	182.4
52W High (USD)	222.86
52W Low (USD)	110.79
Estimated Free Float (%)	99.3
Adj. Beta vs S&P 500	1.1
65-Day Average Vol. ('000)	1,069

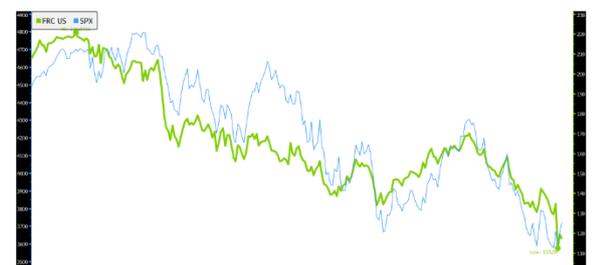
Top 3 Shareholders (%)

The Vanguard Group Inc	10.77
The Capital Group Cos Inc	8.76
BlackRock Inc	6.92

Price Performance

	1m	3m	12m
Absolute (%)	(17.3)	(23.3)	(43.5)
Relative to S&P 500 (%)	(13.3)	(20.4)	(26.4)

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



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

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