



AmInvestment Bank

# PUBLIC BANK

(PBK MK EQUITY, PUBM.KL)

01 Dec 2022

## Company report

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Rationale for report: Company results/update

# HOLD

(Maintained)

Price	RM4.50
Fair Value	RM4.70
52-week High/Low	RM4.79/RM3.88

### Key Changes

Fair value	↕
EPS	↕

YE to Dec	FY21	FY22F	FY23F	FY24F
Total income (RM mil)	12,544.5	13,601.2	14,320.9	14,939.4
Core net profit (RM mil)	5,734.5	6,377.6	7,110.5	7,476.5
FD Core EPS (sen)	29.5	32.9	36.6	38.5
FD Core EPS growth (%)	11.0	11.2	11.5	5.1
Consensus Net Profit (RM mil)	-	5,857.0	6,982.0	7,368.0
DPS (sen)	15.2	14.8	18.3	19.3
BV/share (RM)	2.48	2.61	2.78	2.95
PE (x)	15.2	13.7	12.3	11.7
Div yield (%)	0.7	0.7	0.9	0.9
P/BV (x)	1.8	1.7	1.6	1.5
ROE (%)	11.9	12.4	13.6	13.4

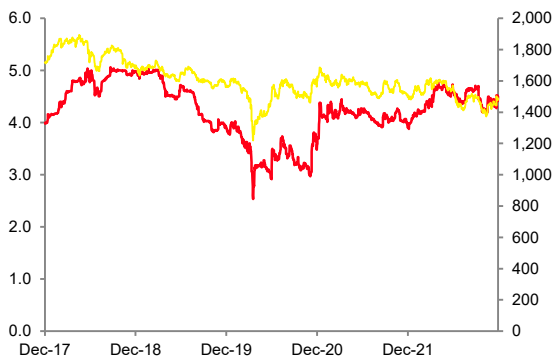
### Stock and Financial Data

Shares Outstanding (million)	19,410.7
Market Cap (RM mil)	87,348.1
Book Value (RM/share)	2.48
P/BV (x)	1.8
ROE (%)	11.9

Major Shareholders	Consolidated Teh Holdings(21.6%) Employees Provident Fund(14.5%)
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Free Float	63.8
Avg Daily Value (RM mil)	87.3

Price performance	3mth	6mth	12mth
Absolute (%)	(4.5)	(4.9)	14.2
Relative (%)	(3.0)	0.3	16.1



— PBK MK — FBMKLCI Index

### Investment Highlights

- We maintain our HOLD call on Public Bank (PBB) with an unchanged fair value of RM4.70/share. This is supported by ROE of 13.6% leading to FY23F P/BV of 1.7x. No change to our neutral 3-star ESG rating.
- Core earnings for 9MFY22 were within our expectation, accounting for 75.4% of our estimate and were slightly above consensus forecast at 81.9% of street's.
- Hence, we fine-tuned our FY22F/23F/24F earnings by +0.2%/-0.6%/-2.1% after adjusting net interest margin (NIM) and loan growth assumptions.
- PBB reported core earnings of RM4.8bil in 9MFY22, a growth of 10 %YoY. Stronger NII from loan expansion and higher net interest margin (NIM) as well as lower loan loss allowances were partially offset by a decrease in NOII due to a decline in unit trust, stock broking and gains from financial instruments.
- PBT of Public Mutual fell 9.8% YoY to RM580mil in 9MFY22. Net asset value of funds under management declined QoQ to RM88.7bil. The retail market share of Public Mutual slipped slightly QoQ to 34.4%. Meanwhile, for bancassurance business, annualised new premiums (ANP) slipped 22.3% YoY to RM309.8mil.
- The group reported an underlying net profit excluding the impact of Cukai Makmur in 3Q22 of RM1.7bil (+10% QoQ). The improved earnings were driven largely by higher net interest income (NII) and non-interest income (NOII), partially offset by the increase in provisions.
- The group's loans (domestic and overseas) gained momentum to register a higher growth rate of 5.7% YoY in 3QFY22. Domestic loans grew by 5.2% YoY vs. the industry's 6.4% YoY growth. Meanwhile, international loans expanded at a faster pace of 11.9% YoY.
- Growth in CASA moderated to 4.8% YoY leading to a lower CASA ratio of 30.7% in 3QFY22 compared to 31.8% in 2QFY22.
- In 3QFY22, NIM expanded by 13bps QoQ to 2.42% contributed by OPR hikes. YTD NIM climbed by 10bps to 2.32% (7-8bps were contributed by higher OPR with remaining 2-3bps supported by higher CASA balances).
- Asset quality remained stable albeit a slight uptick in GIL ratio to 0.33%. 9MFY22 credit cost of 10bps was within management guidance of between 10-15bps for FY22F.
- Total cumulative conservative provisions remained at RM1.7bil with no additional management overlays raised in 9MFY22.
- A 2<sup>nd</sup> interim dividend of 4 sen/share has been declared. This brings 9MFY22 total dividends to 12 sen/share, representing a payout of 52.9%.

## EXHIBIT 1: RESULTS COMPARISON

Income Statement (RM mil, FYE 31 Dec)	3Q21	2Q22	3Q22	% QoQ	% Yoy	9M21	9M22	% Yoy
Interest income	3,346	3,501	3,859	10.2%	15.3%	10,103	10,720	6.1%
Interest expense	-1,297	-1,283	-1,471	14.7%	13.5%	-3,873	-4,011	3.6%
Net interest income	2,049	2,218	2,387	7.7%	16.5%	6,229	6,709	7.7%
Islamic banking income	386	415	449	8.1%	16.1%	1,224	1,266	3.4%
Non interest income	635	545	626	14.8%	-1.5%	2,038	1,813	-11.0%
Total income	3,071	3,177	3,462	8.9%	12.7%	9,492	9,788	3.1%
Overhead expenses	-976	-1,073	-1,078	0.5%	10.4%	-3,004	-3,195	6.3%
Pre-provision profit	2,095	2,105	2,384	13.3%	13.8%	6,487	6,593	1.6%
Loan impairment allowances	-324	-80	-96	20.0%	-70.4%	-919	-276	-70.0%
Other allowances	-2	-3	-2	-10.7%	10.7%	-2	-7	>100%
Associates and JV income	-2	0	1	>100%	>-100%	-6	0	-97.4%
Pretax profit	1,766	2,023	2,287	13.1%	29.5%	5,560	6,310	13.5%
Income tax	-386	-591	-683	15.5%	77.1%	-1,229	-1,861	51.4%
Minority interest	-19	-15	-14	-4.5%	-27.2%	-56	-43	-23.0%
Net profit	1,361	1,417	1,590	12.2%	16.8%	4,276	4,406	3.0%
Normalised net profit	1,440	1,568	1,725	10.0%	19.8%	4,354	4,800	10.2%
Normalised EPS (sen)	7.4	8.1	8.9	9.9%	20.3%	22.4	24.7	10.3%
<b>Balance Sheet (RM mil, FYE 31 Dec)</b>	<b>3Q21</b>	<b>2Q22</b>	<b>3Q22</b>	<b>% QoQ</b>	<b>% Yoy</b>	<b>9M21</b>	<b>9M22</b>	<b>% Yoy</b>
Gross loans and advances	353,512	367,965	373,577	1.5%	5.7%	353,512	373,577	5.7%
Net loans and advances	349,798	363,821	369,332	1.5%	5.6%	349,798	369,332	5.6%
Customer deposits	378,909	388,252	393,308	1.3%	3.8%	378,909	393,308	3.8%
Gross impaired loans	1,157	1,066	1,251	17.3%	8.0%	1,157	1,251	8.0%
Average shareholders' funds	47,138	48,544	49,156	1.26%	4.3%	47,119	48,688	3.3%
<b>Profit by segments (RM mil)</b>								
Hire purchase	32	226	218	-3.9%	>100%	94	545	>100%
Retail operations	1,026	974	1,131	16.1%	10.3%	2,994	3,150	5.2%
Corporate Lending	75	139	-3	>-100%	>-100%	317	290	-8.6%
Treasury and capital market	74	98	83	-15.3%	12.7%	358	260	-27.3%
Investment banking	20	16	9	-44.5%	-55.2%	76	43	-43.0%
Fund management	219	190	188	-1.0%	-13.9%	644	580	-9.8%
Others	-8	-8	-8	0.4%	6.2%	-23	-22	-5.2%
Head Office	158	274	451	64.2%	>100%	611	985	61.3%
Total domestic operations	1,595	1,910	2,069	8.3%	29.7%	5,071	5,831	15.0%
Total overseas operations	173	113	217	92.9%	25.3%	495	479	-3.2%
Share of profit from JV and associates	-2	0	1	>100%	>-100%	-6	0	-97.4%
Group pretax profit	1,766	2,023	2,287	13.1%	29.5%	5,560	6,310	13.5%
<b>Ratios (%)</b>								
NIM	2.15%	2.29%	2.42%			2.27%	2.32%	
Net LD	92.3%	93.7%	93.9%			92.3%	93.9%	
CASA	30.4%	31.8%	30.7%			30.4%	30.7%	
Cost to income	31.8%	33.8%	31.1%			31.7%	32.6%	
Credit cost	0.37%	0.09%	0.10%			0.35%	0.10%	
Loan loss coverage	320.8%	388.8%	339.5%			320.8%	339.5%	
Loan loss coverage including regulatory reserves	358.5%	407.2%	359.6%			358.5%	359.6%	
GIL/Gross NPL	0.3%	0.3%	0.3%			0.3%	0.3%	
ROE	11.6%	11.7%	12.9%			12.1%	12.0%	
Underlying ROE	12.2%	12.9%	14.0%			12.3%	13.1%	
CET1 capital	14.1%	14.1%	14.0%			14.1%	14.0%	
Tier 1 capital	14.1%	14.2%	14.0%			14.1%	14.0%	
Total capital	17.2%	17.2%	17.1%			17.2%	17.1%	

Source: Company, AmlInvestment Bank Bhd estimates.

### **LOWER LOANS UNDER ACTIVE REPAYMENT ASSISTANCE (RA) DUE TO RESUMPTION OF REPAYMENTS FOR MOST LOANS AFTER THE EXPIRY OF THE PEMULIH MORATORIUM**

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The active outstanding loans under RA decreased to RM14.6bil (4% of total domestic loans) as at 31 Oct 2022. This compared to RM20.8bil or 6% of total domestic loans as at 31 July 2022.

10% of the expired Pemulih RA loans had applied for future relief of repayments. 90% of the expired RA loans have resumed payments and the stage 1 loan ratio was 96%.

### **HIGHER SENSITIVITY TO INTEREST RATE CHANGES AFTER INCREASE IN CASA MIX OVER THE LAST 2 YEARS**

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Management alluded to higher sensitivity to OPR hikes after an increase in CASA mix over the last 2 years. We understand that on a full-year impact, every 25bps increase in OPR will uplift the group's NIM by 5bps compared to 3-4 bps previously.

## EXHIBIT 2: BREAKDOWN OF LOANS

Loan By Economic Purpose (RM mil)	3Q21	4Q21	1Q22	2Q22	3Q22
Purchase of Securities	4,212	3,807	3,841	3,882	3,950
Purchase of Transport Vehicles	54,773	56,214	57,592	59,023	60,420
Purchase of landed properties					
for which: residential	144,695	147,680	150,567	153,200	156,229
non-residential	81,804	81,732	81,855	82,028	82,406
Purchase of Fixed Assets	469	456	447	457	473
Personal use	13,100	13,218	13,291	13,517	13,826
Credit Card	1,905	2,182	2,147	2,211	2,333
Purchase of consumer durables	1	1	1	1	1
Construction	7,687	7,663	7,536	7,516	7,429
M&A	0	0	0	0	0
Working capital	40,774	40,837	41,032	41,918	42,332
Other Purpose	4,092	4,238	4,423	4,213	4,179
Gross Loans and advances	353,512	358,027	362,732	367,965	373,577
Excl Hse fin sold to CAGAMAS					
TOTAL	353,512	358,027	362,732	367,965	373,577
OoQ growth (%)	3Q21	4Q21	1Q22	2Q22	3Q22
Purchase of Securities	-7.7%	-9.6%	0.9%	1.1%	1.8%
Purchase of Transport Vehicles	-2.1%	2.6%	2.5%	2.5%	2.4%
Purchase of landed properties					
for which : residential	2.3%	2.1%	2.0%	1.7%	2.0%
non-residential	0.2%	-0.1%	0.2%	0.2%	0.5%
Purchase of Fixed Assets	-1.9%	-2.8%	-2.0%	2.3%	3.4%
Personal use	-5.9%	0.9%	0.6%	1.7%	2.3%
Credit Card	4.7%	14.5%	-1.6%	3.0%	5.5%
Purchase of consumer durables	-23.7%	6.7%	4.8%	6.6%	2.7%
Construction	0.8%	-0.3%	-1.7%	-0.3%	-1.2%
M&A	na	na	na	na	na
Working capital	1.2%	0.2%	0.5%	2.2%	1.0%
Other Purpose	-5.7%	3.6%	4.4%	-4.8%	-0.8%
Total gross loans	0.4%	1.3%	1.3%	1.4%	1.5%
YoY growth (%)	3Q21	4Q21	1Q22	2Q22	3Q22
Purchase of Securities	-2.1%	-12.7%	-14.3%	-14.9%	-6.2%
Purchase of Transport Vehicles	1.4%	2.2%	3.3%	5.5%	10.3%
Purchase of landed properties					
for which : residential	8.6%	8.6%	8.2%	8.3%	8.0%
non-residential	-1.6%	-1.4%	-0.3%	0.5%	0.7%
Purchase of Fixed Assets	6.9%	2.8%	-3.4%	-4.4%	0.7%
Personal use	-5.0%	-3.8%	-4.4%	-2.9%	5.5%
Credit Card	-1.3%	9.3%	10.0%	21.5%	22.4%
Purchase of consumer durables	-15.8%	-11.8%	-13.9%	-9.0%	22.4%
Construction	3.6%	3.6%	0.2%	-1.5%	-3.4%
M&A	na	na	na	na	na
Working capital	4.4%	5.0%	2.4%	4.0%	3.8%
Other Purpose	-18.0%	-14.6%	0.8%	-2.9%	2.1%
Total gross loans	3.3%	3.6%	3.7%	4.5%	5.7%

Source: Company, AmlInvestment Bank Bhd estimates.

**EXHIBIT 3: GROSS IMPAIRED LOANS**

Impaired loans By Economic Purpose (RM mil)	3Q21	4Q21	1Q22	2Q22	3Q22
Purchase of securities	0	34	34	35	36
Purchase of transport vehicles	208	152	148	137	158
Purchase of landed prop:-					
Residential	378	336	309	278	310
Non-residential	167	178	163	170	279
Purchase of fixed assets	11	11	10	11	10
Personal use	93	87	87	92	98
Credit Card	13	8	8	11	16
Purchase of consumer durables	0	0	0	0	0
Construction	16	15	16	15	15
M&A	0	0	0	0	0
Working Capital	266	276	281	313	325
Other purpose	5	5	5	4	3
<b>TOTAL</b>	<b>1,157</b>	<b>1,102</b>	<b>1,061</b>	<b>1,066</b>	<b>1,251</b>

Gross impaired/NPL ratios by Economic Purpose (%)	3Q21	4Q21	1Q22	2Q22	3Q22
Purchase of securities	0.0%	0.9%	0.9%	0.9%	0.9%
Purchase of transport vehicles	0.4%	0.3%	0.3%	0.2%	0.3%
Purchase of landed property:-					
Residential	0.3%	0.2%	0.2%	0.2%	0.2%
Non-residential	0.2%	0.2%	0.2%	0.2%	0.3%
Purchase of fixed assets	2.4%	2.3%	2.3%	2.5%	2.1%
Personal use	0.7%	0.7%	0.7%	0.7%	0.7%
Credit Card	0.7%	0.4%	0.4%	0.5%	0.7%
Purchase of consumer durables	0.2%	0.1%	0.0%	0.0%	0.0%
Construction	0.2%	0.2%	0.2%	0.2%	0.2%
M&A	0.0%	0.0%	0.0%	0.0%	0.0%
Working Capital	0.7%	0.7%	0.7%	0.7%	0.8%
Other purpose	0.1%	0.1%	0.1%	0.1%	0.1%
Total GIL ratio	0.33%	0.31%	0.29%	0.29%	0.33%

Source: Company, AmlInvestment Bank Bhd estimates.

**SLIGHT UPTICK IN GIL RATIO TO 0.33%**

Marginal increase in the group's impaired loan (GIL) ratio was contributed by QoQ upticks in GIL ratio of HP, loans for purchase of residential, commercial properties, credit cards and working capital. We gather that the increase in GIL ratio for commercial property loans were contributed by multiple accounts and not just on 1 loan.

Including regulatory reserves of RM252mil, the group's loan loss cover stood at 359.6%, significantly higher than the industry's 115.2%.

**CREDIT COST WAS SIGNIFICANTLY LOWER IN 9MFY22 WITH NO FURTHER MANAGEMENT OVERLAYS ADDED**

Recall management alluded to no release of management overlays in FY22. Any significantly write back of provisions will only be likely in FY23F. The group continues to be prudent on provisions with the adoption of an observation period of 6 months after the expiry of loans from RA before considering any release of management overlays.

## NO CHANGES IN FY22F GUIDANCE EXCEPT NIM AND CREDIT COST

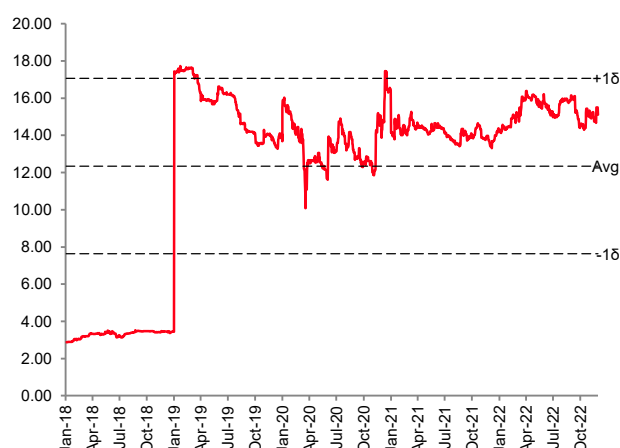
- i. ROE: 12% (No change)
- ii. NIM: expansion of 12-15bps (previously improvement of 8 to 10bps from FY21 margin);
- iii. Loan growth: 5% (unchanged);
- iv. Deposit growth: 5% (unchanged);
- v. C/I ratio: 34-35% (unchanged)
- vi. Credit cost: 10bps (previously: 10-15bps); and
- vii. Dividend payout: 50% (unchanged).

The stock is trading at 1.6x FY23F PB/V which is at a premium to the sector average PB/V of between 0.9 to 1x. Hence, we continue to see with limited upside potential on this stock.

### EXHIBIT 4: PB BAND CHART



### EXHIBIT 5: PE BAND CHART



### EXHIBIT 6: ESG RATING

Overall	★	★	★		
Board composition	★	★	★		
Employee welfare and environmental protection	★	★	★		
Corporate social responsibility	★	★	★		
Earnings quality	★	★	★	★	
Balance sheet strength	★	★	★	★	
Accessibility & transparency	★	★	★		

We accord a discount/premium of -6%, -3%, 0%, +3% and +6% on fundamental fair value based on the overall ESG rating as appraised by us, from 1-star to 5-star

## EXHIBIT 7: FINANCIAL DATA

Income Statement (RMmil, YE31 Dec)	FY20	FY21	FY22F	FY23F	FY24F
Net interest income	7,179.8	8,315.0	8,941.8	9,104.1	9,255.5
Non-interest income	2,821.2	2,615.8	2,730.3	2,877.0	2,866.4
Islamic banking income	1,311.4	1,613.7	1,929.1	2,339.8	2,817.5
Total income	11,312.4	12,544.5	13,601.2	14,320.9	14,939.4
Overhead expenses	(3,909.5)	(3,965.3)	(4,624.4)	(4,869.1)	(5,079.4)
Pre-provision profit	7,402.9	8,579.2	8,976.8	9,451.8	9,860.0
Loan loss provisions	(1,106.3)	(1,201.2)	(557.1)	(465.4)	(411.0)
Impairment & others	(13.7)	(5.9)	-	-	-
Associates	2.1	(5.5)	0.6	0.6	0.6
Pretax profit	6,285.1	7,366.6	8,420.3	8,987.0	9,449.6
Tax	(1,352.8)	(1,636.7)	(2,610.3)	(1,797.4)	(1,889.9)
Minority interests	(60.6)	(73.3)	(63.9)	(79.1)	(83.2)
Net profit	4,871.7	5,656.5	5,746.1	7,110.5	7,476.5
Core net profit	5,166.6	5,734.5	6,377.6	7,110.5	7,476.5
<b>Balance Sheet (RMmil, YE31 Dec)</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22F</b>	<b>FY23F</b>	<b>FY24F</b>
Cash & deposits with FIs	19,698.1	17,530.6	31,327.1	30,267.9	36,858.4
Marketable securities	78,224.8	80,571.8	73,395.4	80,234.1	80,741.0
Total current assets	97,922.9	98,102.4	104,722.5	110,502.0	117,599.4
Net loans & advances	342,802.8	354,052.5	371,396.7	387,848.1	411,007.7
Statutory deposits	nm	nm	nm	nm	nm
Long-term investments	1,134.9	1,222.2	1,222.2	1,222.2	1,222.2
Fixed assets	3,410.2	3,183.2	3,222.5	3,211.2	3,243.4
Intangible assets	2,417.7	2,459.4	2,459.4	2,459.4	2,459.4
Other long-term assets	3,568.4	3,719.8	3,989.9	4,522.6	4,695.4
Total LT assets	353,334.0	364,637.0	382,290.6	399,263.5	422,628.2
Total assets	451,256.9	462,739.5	487,013.2	509,765.5	540,227.5
Customer deposits	365,870.8	380,394.2	399,413.9	423,378.8	448,781.5
Deposits of other FIs	10,742.2	8,123.8	7,719.4	7,479.6	6,637.4
Subordinated debts	-	-	-	-	-
Hybrid capital securities	1,123.5	1,223.9	856.6	758.2	618.7
Other liabilities	25,093.8	23,572.2	26,793.0	22,643.7	25,164.4
Total liabilities	402,830.2	413,314.0	434,782.9	454,260.3	481,202.0
<b>Shareholders' funds</b>	<b>47,248.3</b>	<b>48,162.7</b>	<b>50,709.0</b>	<b>53,888.5</b>	<b>57,306.4</b>
Minority interests	1,178.4	1,262.7	1,521.3	1,616.7	1,719.2
<b>Key Ratios (YE31 Dec)</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22F</b>	<b>FY23F</b>	<b>FY24F</b>
Total income growth (%)	1.9	10.9	8.4	5.3	4.3
Pre-provision profit growth (%)	1.6	15.9	4.6	5.3	4.3
Core net profit growth (%)	(6.3)	11.0	11.2	11.5	5.1
Net interest margin (%)	2.0	2.2	2.3	2.3	2.3
Cost-to-income ratio (%)	34.6	31.6	34.0	34.0	34.0
Effective tax rate (%)	21.5	22.2	31.0	20.0	20.0
Dividend payout (%)	51.7	52.2	50.0	50.0	50.0
<b>Key Assumptions (YE31 Dec)</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22F</b>	<b>FY23F</b>	<b>FY24F</b>
Loan growth (%)	4.6	3.6	5.0	4.5	6.0
Deposit growth (%)	3.5	4.0	5.0	6.0	6.0
Loan-deposit ratio (%)	93.7	93.1	93.0	91.6	91.6
Gross NPL (%)	0.4	0.3	0.5	0.4	0.4
Net NPL (%)	0.4	0.3	0.5	0.4	0.4
Credit charge-off rate (%)	0.3	0.3	0.2	0.1	0.1
Loan loss reserve (%)	227.7	360.7	267.9	318.0	324.7

Source: Company, AmlInvestment Bank Bhd estimates

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