Banking

Changes to Foreign Ownership Limits?

NEUTRAL (Maintain)

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HIGHLIGHTS

- **Purpose: We may be looking at an increase in foreign shareholding limits in domestic banks. Malaysia has some of the strictest restrictions within the region**
- **Financial liberalisation does have multiple benefits, most notably driving FDI interest and industry-wide improvements in efficiency and profitability. Unfortunately, this may come with large-scale rationalization of work force**
- **We think more interest will come from regional players rather than the US – especially countries such as China and Singapore which have a strategic stake in Malaysia. Smaller banks such as AMMB, MBSB and AFFIN are potential targets**
- **Maintain NEUTRAL call: The banking sector continues to face headwinds, but recent banking stats could imply a positive reversal to some fundamental aspects (should trends keep up)**

Our Verdict	**We continue to advocate for a bottom-up approach to stocks, with a preference for defensive names. This is due to the presence of industry-wide headwinds, while tailwinds vary on a case-by-case basis. An improved economic outlook remains the core rerating driver, but we are not expecting this anytime soon. Sentiment is further weighed down by any possible reinstatement of GST and petrol subsidy removal.**
Core Themes	1. ▲ Defensive yields remain attractive, with several banks intending to increase payouts. 2. ▲ Mildly positive on NOII, mostly coming from possible windfall from non-fee side. The fee income outlook is not as bad as once feared. 3. ► Loan growth to be mediocre at best. 4. ► Neutral provisioning outlook, though recoveries provide some upside risk. 5. ▼ A weak local economic outlook (now exacerbated by GSP reinstatement and petrol subsidy removal) slows growth prospects. 6. ▼ NIM compression expected. 7. ▼ Geopolitical uncertainty to keep valuations depressed.

Minister of Investment, Trade & Industry Tengku Zafrul announced recently that the US has asked Malaysia to lift foreign equity restrictions in strategic sectors as part of its tariff negotiations. The current ruling stipulates that commercial banks must have a 30% cap on foreign ownership, while investment banks and Islamic banks have a 70% cap. However, this rule has been bypassed multiple times – we think this is to avoid single exposure risk, as there are not sufficient domestic investors**.**

As observed below, Malaysia's commercial banks have some of the strictest restrictions imposed – hence a liberalisation measure could put it more in line with the rest of the region.

COMPANY *IN FOCUS*

Public Bank

Maintain BUY | Target Price: RM4.77
Price @ 17 July 2025: RM4.25

- Defensive pick, given its excellent asset quality and NCC.
- The Group is always retail-led, hence less dependent on business loans.
- Solid dividend yields, with payout expected to increase over time.

SHARE PRICE CHART



HL Bank

Maintain BUY | Target Price: RM23.09
Price @ 17 July 2025: RM19.30

- Defensive pick, given its excellent asset quality and NCC.
- We see an extremely high rate of income growth being maintained.
- Rising dividend yields are expected.

SHARE PRICE CHART



FIG 1: Current Foreign Ownership Limits for Banking Sector in the Region

Country	Notes
Malaysia	**30%:** Commercial banks (Officially). This is not a hard and fast rule – CIMB and PBK have since gone over the limit. **70%:** Investment banks, Islamic banks & takaful operations.
Singapore	**40%:** Domestic banks.
Vietnam	**49%:** Certain domestic banks. This took effect on 19 May 2025 – the previous limit was **30%.**
Thailand	**25%:** For commercial banks.
Indonesia	**40%:** Commercial banks. To go above 40%, the owning bank must obtain the approval of Bank Indonesia and must meet several requirements, including being publicly listed and being able to fulfil capital requirements.

Source: Company, MIDFR

This form of financial liberalisation comes with several benefits… and some downsides:

1. ▲ Increasing the sector's overall competitiveness by introducing global banking expertise, advanced technology and improved risk management practices. This could lead to improved transparency and corporate management practices.
2. ▲ Higher investments from global financial institutions, increasing overall capital inflow to Malaysia.
3. ▲ Domestic banks may face heightened competition from foreign-backed institutions, potentially driving industry-wide improvements in efficiency and service quality. This leads to higher profitability levels (namely ROE), which leads to better valuations.
4. ▼ Rationalisation of pre-existing work force, especially if consolidation activities occur. Most banks are already lowering headcounts, as more banking processes are being digitised.

Although the US is requesting the lifting of foreign equity restrictions, we think more interest will come from regional players. Recall that western players (Citibank and Standard Chartered) have pulled operations from ASEAN recently, due to over competitiveness. Instead, we think that regional players who have a deeper strategic stake in Malaysia are more interested: **Singapore** (due to its geographical proximity, and deeper ties with Malaysia) as well as **China**, which has been forging strategic partnership with ASEAN as of late. We have seen steady increase in these foreign populations as well.

Smaller banks such as AMMB, MBSB, AFFIN may be potential targets of foreign players. AMMB remains a long-discussed M&A target, due to its relatively smaller size and fundamental improvements seen over the last couple of years – coupled with talk that its key shareholder (founder Tan Sri Azman Hashim) is willing to part with some shares if valuation is acceptable. In the case of AFFIN, Bank of East Asia is said to have been looking to dispose of its holdings for quite some time.

Maintain NEUTRAL call. (Our comprehensive list of sector drivers is on the first page).

Top downside risks include:

1. Worsening economic outlook.
2. Steeper-than-expected NIM compression.

Top Picks: Public Bank (BUY, TP: RM4.77) and **HL Bank (BUY, TP: RM23.09).**

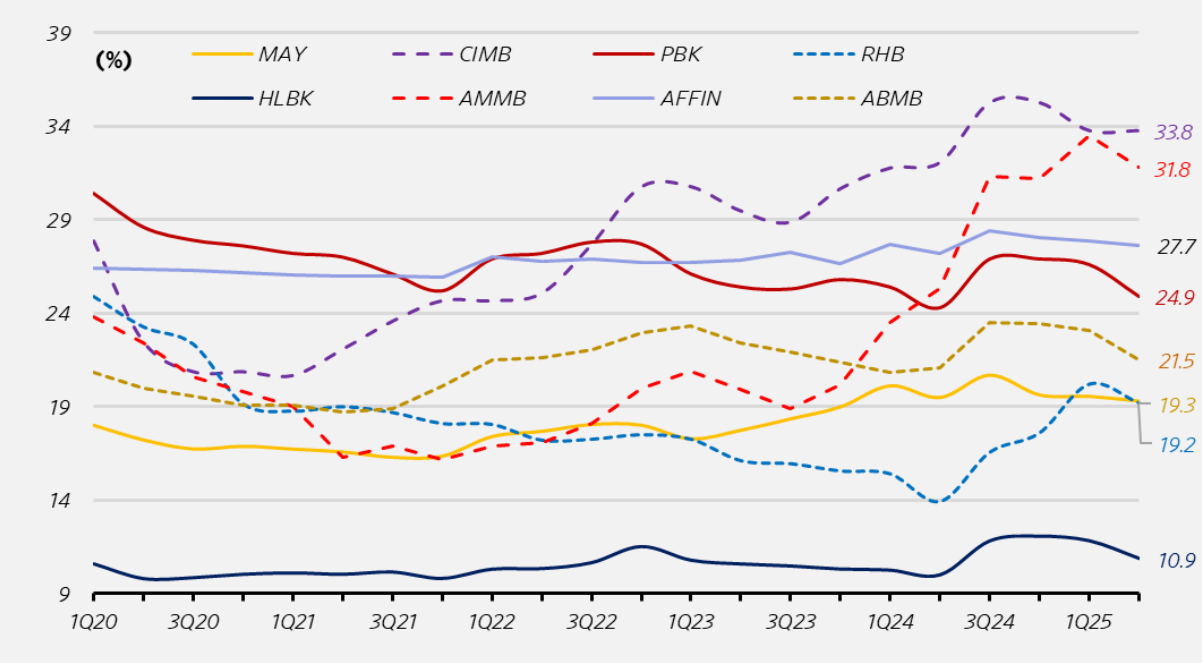
PEER COMPARISON

Bank	Rec	Share P*	Target P	Upside	Mkt Cap	P/E (x)		P/B (x)		ROE (%)		Div Yield (%)	
		(RM)	(RM)	(%)	(RM b)	FY25	FY26	FY25	FY26	FY25	FY26	FY25	FY26
MAY	NEUTRAL	9.53	10.20	7.0	114.9	11.1	10.9	1.2	1.2	10.9	10.7	7.2	7.3
CIMB	BUY	6.50	8.10	24.6	69.5	9.0	8.8	1.0	0.9	11.0	10.8	6.1	6.2
PBK	BUY	4.25	4.77	12.2	82.5	11.2	10.7	1.4	1.3	12.4	12.3	4.7	5.2
RHB	NEUTRAL	6.18	6.70	8.4	26.5	8.6	8.1	0.8	0.8	9.3	9.5	6.8	7.1
HLBK	BUY	19.30	23.09	19.7	39.6	8.4	8.5	1.0	0.9	12.1	11.1	4.2	4.1
AMMB	NEUTRAL	5.09	5.30	4.1	16.8	8.6	8.2	0.8	0.7	9.3	9.3	5.2	5.5
BIMB	NEUTRAL	2.26	2.36	4.4	5.1	8.8	8.4	0.7	0.6	7.6	7.8	6.8	7.1
AFFIN	NEUTRAL	2.50	2.46	-1.4	6.3	10.5	9.8	0.5	0.5	5.0	5.1	2.9	3.0
ABMB	NEUTRAL	4.48	4.20	-6.2	7.6	9.6	9.2	0.9	0.9	9.9	9.8	4.2	4.4
Simple avg (ex-HLFG)						**9.5**	**9.2**	**0.9**	**0.9**	**9.7**	**9.6**	**5.3**	**5.5**
Weighted avg (ex-HLFG)						**10.1**	**9.8**	**1.1**	**1.0**	**11.0**	**10.8**	**5.9**	**6.0**

**Closing prices from 17 Jul 2025.*
^AMMB and ABMB use FY26F/27F values.

Source: MIDFR

FIG 2: Current Foreign Ownership levels of Local Banks



Source: Company, MIDFR

Income Statement	Balance Sheet	Valuations & Sector
Core NP – Core Net Profit	LCR – Liquidity Coverage ratio	ROE – Return on Equity
PPOP – Pre-Provisioning Operating Profit	L/D ratio – Loan/Deposit ratio	GGM – Gordon Growth Model
NII – Net Interest Income	CASA – Current & Savings accounts	P/BV – Price to Book Value
NIM – Net Interest Margin	FD – Fixed Deposits	BVPS – Book Value per Share
COF – Cost of Funds	GIL – Gross Impaired Loans	BNM – Bank Negara Malaysia
NOII – Non-Interest Income	NIL – Net Impaired Loans	OPR – Overnight Policy Rate
MTM – Mark to Market	LLC – Loan Loss Coverage	SRR – Statutory Reserve Requirement
CIR – Cost to Income Ratio	NCC – Net Credit Costs	SBR – Standardised Base Rate
OPEX – Operational Expenses	GCC – Gross Credit Costs	ALR – Average Lending Rate
	CET 1 – Common Equity Tier 1	

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STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	The stock price is expected to rise by >10% within 3 months after a Trading Buy rating has been assigned due to positive news flow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	The stock price is expected to fall by >10% within 3 months after a Trading Sell rating has been assigned due to negative news flow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.

ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell

☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology