Banking

OPR to 2.75%

NEUTRAL (Maintain)

Analyst
Samuel Woo
samuelwoo.cy@midf.com.my
03-2173 8461

HIGHLIGHTS

- **BNM announced a -25bps OPR cut. We have already factored this possibility into our forecasts, and the market has already priced it in.**
- **This will negatively impact earnings through NIM compression. Subsequent rate cuts will reduce earnings by -1-2% across the sector. Smaller banks will take a larger hit due to their larger local loan exposure.**
- **We are not expecting any further OPR reductions this year, especially since this was done in a "pre-emptive" manner ahead of the potential materialisation of weaker economic data in subsequent quarters.**
- **Maintain NEUTRAL call: Due to a lack of sector-wide tailwinds, we continue to advocate for defensive picks and foresee no convincing positive rerating catalyst in the near future.**

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, especially with the expansion of SST and the expected petrol subsidy removal.
Core Themes	1. ▲ Dividend yields remain especially 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 isn't as bad as once feared. 3. ► Loan outlook is not as strong as it formerly was. 4. ► Neutral provisioning outlook, though recoveries provide some upside risk. 5. ▼ A weak local economic outlook (now exacerbated by GST reinstatement and petrol subsidy removal) slows growth prospects. 6. ▼ NIM compression expected especially with the reduction of the OPR. 7. ▼ Geopolitical uncertainty to keep valuations depressed.

BNM has decided to reduce the OPR rate from 3.00% to 2.75%. As one rate cut in 2HCY25 forecasts was already factored into our estimates, we make no changes to our pre-existing forecasts. We are expecting no further rate cuts in CY25. We have provided a scenario analysis should another 25bps OPR cut happen. From an earnings standpoint, smaller banks are more impacted by any further OPR reduction, largely due to their nearly 100% exposure to local loans.

Maintain NEUTRAL call. (Our comprehensive list of sector drivers is on the first page).
Top downside risks include:
Further economic slowdown.
A severe asset quality deterioration.
Top Picks: Public Bank (BUY, TP: RM4.77) and **HL Bank (BUY, TP: RM23.09).**

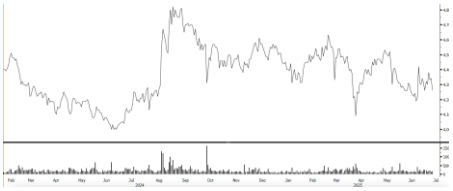
COMPANY *IN FOCUS*

Public Bank

Maintain BUY | Target Price: RM4.77
Price @ 9 July 2025: RM4.26

- 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

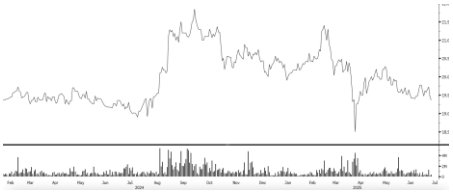


HL Bank

Maintain BUY | Target Price: RM23.09
Price @ 9 July 2025: RM19.36

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

SHARE PRICE CHART



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	9.70	10.20	5.2	116.9	11.3	11.1	1.2	1.2	10.9	10.7	7.1	7.2
CIMB	BUY	6.57	8.10	23.3	70.3	9.1	8.9	1.0	0.9	11.0	10.8	6.0	6.1
PBK	BUY	4.26	4.77	12.0	82.7	11.2	10.7	1.4	1.3	12.4	12.3	4.7	5.2
RHB	NEUTRAL	6.31	6.70	6.2	27.0	8.8	8.3	0.8	0.8	9.3	9.5	6.7	6.9
HLBK	BUY	19.36	23.09	19.3	39.7	8.5	8.5	1.0	0.9	12.1	11.1	4.1	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	2.28	2.36	3.5	5.1	8.9	8.5	0.7	0.6	7.6	7.8	6.7	7.0
AFFIN	NEUTRAL	2.63	2.46	-6.3	6.6	11.0	10.3	0.5	0.5	5.0	5.1	2.7	2.9
ABMB	NEUTRAL	4.47	4.20	-6.0	7.6	9.6	9.1	0.9	0.9	9.9	9.8	4.2	4.4
Simple avg (ex-HLFG)						9.7	9.3	0.9	0.9	9.7	9.6	5.3	5.5
Weighted avg (ex-HLFG)						10.2	9.9	1.1	1.1	11.0	10.8	5.8	6.0

Closing prices from 09 Jul 2025.
^AMMB and ABMB use FY26F/27F values.

Source: MIDFR

FIG 1: Banks' Sensitivity Analysis to -25bps OPR Cut

Bank	NIM impact (bps)*	Current NIM forecasts (%)		Revised NIM forecasts (%)				Impact on earnings (%)		Current Share Price (RM)	Target Price		
		FY25F/ FY26F	FY26F/ FY27F	FY25F/ FY26F		FY26F/ FY27F		FY25F/ FY26F	FY26F/ FY27F		Current (RM)	Adjusted (RM)	Change (%)
MAY	2	2.02	2.05	2.00	(-0.02)	2.03	(-0.02)	-0.8%	-0.8%	9.70	10.20	10.12	-1%
CIMB	2 - 3	2.19	2.19	2.16	(-0.03)	2.16	(-0.03)	-1.2%	-1.2%	6.57	8.10	7.96	-2%
PBK	3 - 4	2.18	2.20	2.15	(-0.03)	2.17	(-0.03)	-1.1%	-1.1%	4.26	4.77	4.67	-2%
RHB	3 - 4	1.75	1.78	1.71	(-0.04)	1.74	(-0.04)	-1.8%	-1.8%	6.31	6.70	6.54	-2%
HLBK	3	1.77	1.77	1.74	(-0.03)	1.74	(-0.03)	-1.0%	-1.0%	19.36	23.09	22.65	-2%
AMMB	2	1.91	1.93	1.89	(-0.02)	1.91	(-0.02)	-0.9%	-0.9%	5.09	5.30	5.23	-1%
BIMB	2	2.20	2.21	2.18	(-0.02)	2.19	(-0.02)	-0.9%	-0.9%	2.28	2.36	2.30	-3%
AFFIN	4 - 5	1.52	1.53	1.48	(-0.04)	1.49	(-0.04)	-2.0%	-2.0%	2.63	2.46	2.37	-4%
ABMB	3 - 4	2.45	2.45	2.41	(-0.04)	2.41	(-0.04)	-1.8%	-1.8%	4.47	4.20	4.05	-4%

^HLBK, ABMB and AMMB use FY26F and FY27F instead

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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MIDF AMANAH INVESTMENT BANK: GUIDE TO RECOMMENDATIONS

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