Banking

2QCY25 Results Preview

NEUTRAL (Maintain)

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HIGHLIGHTS

- **Topline: Expect drag from NIM compression, with NOII windfall providing some offset**
- **Provisioning: Most banks are already well-buffered, hence expect only a few instances of larger macroeconomic provisions. Major recoveries of a large O&G exposure are only expected to begin in 2HCY25**
- **Asset quality: While overall asset quality should not worsen dramatically, expect an uptick in select segments, with several banks highlighting rising impairments in residential mortgages**
- **BNM: Sluggish loan growth this quarter, though leading indicators saw a promising recovery from last quarter's festive slump**
- **Maintain NEUTRAL call: Headwinds persist, while tailwinds vary on a case-by-case basis. Watch this week's key economic data release**

Our Verdict	**An improved/worsening economic outlook remains the core rerating driver. We will be keeping an eye on key economic data being released later this week. An overly negative result increases the likelihood of further OPR cuts, which are bad for earnings and valuations.** **The usual themes persist: Headwinds such as NIM compression, possible asset quality and provisioning issues, and weak economic growth prospects afflict the industry, while tailwinds vary on a case-by-case basis. Hence, we continue to advocate for our bottom-up approach to stocks with a preference for defensive names.**
Core Themes	1. ▲ Dividend yields remain especially attractive, with several banks intending to increase payouts. 2. ▲ Positive on NOII. Expect solid trading incomes, while fee income outlook is brighter in subsequent quarters. 3. ► Mediocre loan growth outlook. 4. ► Some banks may face asset quality pressures, though recoveries provide more upside. 5. ▼ Local economic outlook remains weak, slowing growth prospects and dampening investors' sentiment. 6. ▼ NIM compression is guided by most banks. 7. ▼ Geopolitical uncertainty continues to keep valuations depressed.

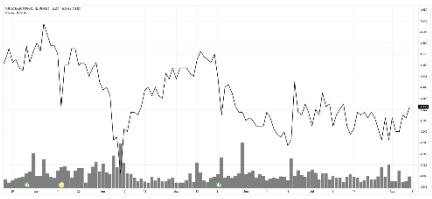
COMPANY *IN FOCUS*

Public Bank

Maintain BUY | Target Price: RM4.77
Price @ 8 August 2025: RM4.33

- 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 @ 8 August 2025: RM19.10

- 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



FIG 1: This Quarter's Notable Income Statement/Balance Sheet Expected Trends

Topline: Topline should see drag from NIM compression, though offset by NOII windfall.

▼ **NIM.** Most banks should see NIM compression coming from the recent OPR hike. We are not expecting anything overly dramatic – there is some offset coming from SRR relaxation. The liquidity situation is said to improve in 2HCY25.

A few banks believe that they are poised to outperform others on this front. Namely, **AFFIN** and **RHB**, which are both expecting to see a large influx of CASA balances this quarter.

▲ **NOII.** We are expecting a strong NOII quarter, as positive bond yield movements and currency volatility bode well for the trading and FX income front. While some banks are guiding for improving fee income momentum, poor market conditions this quarter could impact unit trust and private banking segments. **AMMB** management has guided for this in their recent results day; **PBK** may also be affected, given its large dependence on its unit trust income.

Asset Quality and Provisioning: As most banks are already well-buffered, expect only a few instances of large overlay allocations. Asset quality should see some uptick in select segments.

►▼ **Provisioning.** Banks have already revised NCC guidance in the previous quarter – we expect most to adhere to the renewed guidance. Most have expressed contentment with the current level of loan loss coverage; hence, we think instances of heavy provisions will be few. Except for **BIMB**, none of the renewed guidance seems to deviate too far from NCC levels seen in previous years.

We are more optimistic on 2HCY25's provisioning outlook, as recoveries related to a large O&G exposure should begin flooding then.

►▼ **Asset Quality.** Asset quality should remain neutral for the most part, but we expect some banks to see some worsening in select segments. The residential mortgages segment has been earmarked as a source of potential concern (**ABMB, AFFIN; BIMB** showed concerning GIL uptick on this front last quarter, but is guiding for improvement). Out of the banks under our coverage, **RHB** seems the most pessimistic, explicitly guiding for a GIL ratio worsening to accelerate in 2HCY25.

Source: Company, MBSBR

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

Top downside risks include:

1. Economic slowdown affects growth prospects.
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	9.61	10.20	6.1	115.9	11.2	11.0	1.2	1.2	10.9	10.7	7.2	7.3
CIMB	BUY	6.86	8.22	19.8	73.4	9.5	9.3	1.0	1.0	11.0	10.8	5.8	5.9
PBK	BUY	4.33	4.77	10.2	84.0	11.4	10.9	1.4	1.3	12.4	12.3	4.6	5.1
RHB	NEUTRAL	6.34	6.70	5.7	27.1	8.8	8.3	0.8	0.8	9.3	9.5	6.6	6.9
HLBK	BUY	19.10	23.09	20.9	39.1	8.3	8.4	1.0	0.9	12.1	11.1	4.2	4.2
AMMB	NEUTRAL	5.31	5.30	-0.2	17.5	8.9	8.6	0.8	0.8	9.3	9.3	5.0	5.3
BIMB	NEUTRAL	2.32	2.36	1.7	5.2	9.0	8.7	0.7	0.7	7.6	7.8	6.6	6.9
AFFIN	NEUTRAL	2.33	2.46	5.8	5.8	9.8	9.1	0.5	0.5	5.0	5.1	3.1	3.2
ABMB	NEUTRAL	4.53	4.20	-7.3	7.7	9.7	9.3	0.9	0.9	9.9	9.8	4.1	4.3
Simple avg (ex-HLFG)						**9.6**	**9.3**	**0.9**	**0.9**	**9.7**	**9.6**	**5.2**	**5.4**
Weighted avg (ex-HLFG)						**10.2**	**10.0**	**1.1**	**1.1**	**11.0**	**10.8**	**5.7**	**5.9**

**Closing prices from 08 Aug 2025.*

^AMMB and ABMB use FY26F/27F values.

Source: MBSBR

FIG 2: BNM Banking Stats: Quarterly Figures

Qoq figures	2Q24	3Q24	4Q24	1Q25	2Q25
Growth (%qoq)					
Industry	**1.2**	**0.8**	**2.1**	**1.1**	**1.0**
Retail loans	**1.5**	**1.8**	**1.7**	**1.3**	**1.4**
Res mortgages	1.6	1.8	1.6	1.4	1.4
Passenger cars	2.0	2.0	1.5	1.8	1.6
Credit cards	0.9	3.0	4.3	-1.2	2.5
Personal use	0.3	1.1	1.2	0.6	0.3
Business loans	**0.8**	**-0.3**	**2.5**	**0.8**	**0.6**
Working cap	0.5	-0.4	3.0	0.9	0.4
Non-res property	1.7	2.1	2.3	1.5	1.2
Construction	0.5	-1.9	1.4	1.1	3.1
Approval rate (%)	**52**	**53**	**56**	**49**	**53**
Appl. (RM m)	365	410	382	353	390
Retail (RM m)	200	208	196	186	200
Business (RM m)	165	202	186	167	190
Appr. (RM m)	191	216	213	173	205
Deposits + repo	**-0.0**	**-0.2**	**1.9**	**1.3**	**-0.2**
Deposits only	**-0.2**	**-0.3**	**2.3**	**0.8**	**1.0**
CASA	0.2	-0.3	3.0	0.5	2.0
FD	-0.4	1.3	0.7	0.7	0.0
Retail FDs	0.9	0.5	2.4	1.3	0.9
Business FDs	-1.2	-0.1	-1.4	-2.1	-0.3
L/D ratio (%)	**91.2**	**92.2**	**92.0**	**92.3**	**92.3**
LCR (%)	**155**	**147**	**161**	**152**	**161**
GIL ratios (%)					
Industry	**1.59**	**1.54**	**1.44**	**1.42**	**1.42**
Retail	**1.24**	**1.20**	**1.14**	**1.13**	**1.14**
Res mortgages	1.27	1.21	1.16	1.13	1.15
Passenger cars	0.50	0.52	0.51	0.52	0.60
Credit cards	0.88	0.84	0.84	0.89	0.87
Personal use	2.49	2.48	2.29	2.32	2.22
Business	**2.02**	**1.97**	**1.81**	**1.77**	**1.77**
Working cap	2.33	2.25	2.09	2.08	2.08
Non-res property	1.61	1.58	1.48	1.45	1.49
Construction	3.95	4.00	3.53	3.06	2.95
LLC	**91.5**	**90.8**	**91.4**	**91.2**	**90.5**
Bond Issuance (RM b)	**30.1**	**36.1**	**33.4**	**30.4**	**30.1**

Source: BNM, MBSBR

▼ **Domestic loan growth sees a sluggish quarter.** Working capital loans were hit hard by the Trump tariff announcements, but business segment leading indicators show promise. Also, it seems that there were major drawdowns in construction loans.

More concerning is the weakening in retail loans, particularly in the residential mortgages and passenger cars segments, which together make up the majority of retail loans. While we think passenger car demand is still strong, we are not so optimistic about the residential mortgages outlook (due to narrowing yields), even with recent stimulatory rate cuts.

▲ **Leading indicators recover from festive sluggishness.** Business loans (particularly working capital) were the larger contributors to the increase.

► **Some reduction in repo usage, while deposit growth was buoyed by an increase in CASA.** This comes alongside negative growth in FDs – we expect this trend to persist, spurred by the recent OPR cut. Banks talked about liquidity issues affecting deposit growth, with liquidity stuck in interbank lending and corporates holding onto foreign-currency deposits (yet to be repatriated).

► **A flattish quarter for asset quality.** Industry GIL ratio was flattish – the two main components, retail and business GIL ratios, were also flattish.

FIG 3: Our expectations, Bank by Bank

Banks	Possible guidance revisions (Or, if 4Q, likelihood of overshooting/outperforming target): (↑)(↓)(↑)(↓) ▲ Promising, ▼ Less promising, ► Neutral, ▲▼Could swing either way.
MAY	**NCC (↓)** ▲ **The current NCC guidance is overly conservative.** MAY expects possible recoveries from a large O&G corporate exposure in as early as 3QFY25. Although 1QFY25's NCC came in at a low 23bps (FY25 target: <30bps), we do not see the group making large overlay allocations in subsequent quarters, as it has already topped up balances earlier on (its LLC is a healthy 117%). Hence, while we are expecting some degree of overlays, we think the 2QFY25 allocation will remain more moderate in size.
CIMB	▲▼ **A recap of management's pre-blackout season briefing highlights.** Expect: (1) Flattish NIMs, (2) Larger overlays (though asset quality remains benign), (3) Loan growth performance is still decent, with consumer and commercial segments outperforming business banking and non-retail segments, (4) Excellent NOII result, with a repeat of 1QFY25's trading and FX income windfall as well as an improved fee income result (driven by the wholesale segment).
PBK	**NIM (↓), ROE (↓)** ▼ **With OPR cut, ROE target downgrade is highly likely.** PBK's initial FY25 NIM and ROE guidance did not factor in any OPR cut. Even without the OPR cut, we felt that PBK's initial ROE target may have been too lofty to achieve. The Group was over-reliant on fee income and overlay writebacks to compensate for compressing NIMs.
RHB	**NIM (↓)** ► **RHB's initial NIM target did not factor in any OPR cuts, but there's still a slim chance that the FY25 target can be met.** Unlike most banks, they were expecting their NIM to increase, driven by liability management initiatives (Group is still expecting multiple levers to NIM appreciation in the upcoming quarters). Despite achieving 1.84% in 1QFY25, management maintained its FY26 target of 1.86-1.90% -- depending on how well RHB can execute its plans, there's a possibility that NIM targets can still be met. ▲ **Despite this, we are expecting RHB to display impressive topline.** The Group is guiding for windfall in trading balances, and seems to have more levers to reduce the scale of NIM compression than some of its peers. ▼ **Tariff reduction in Thailand – is the outlook as grim as before?** The US announced a lighter 19% tariff on Thailand last week, from an earlier threatened 36%. RHB's Thai segment had a much poorer outlook to begin with, with major recoveries delayed to 2HFY25. Persistent asset quality issues are also slowing loan growth, as the Group switches from SME loans to mid-to-large-sized corporate loans.
HLBK	▲ **ROE target still achievable, should this be a more normalised quarter.** Last quarter, HLBK was hit by multiple one-offs: A sizeable provision by BOCD and a large CASA outflow from a collection account in SG. This quarter should be more typical. Despite HLBK's 9MFY25 ROE figure of 11.6% (ex-one-offs) trailing slightly behind its FY25 target of ~12.0%, we think HLBK's FY25 ROE target is still achievable. While BOCD should see a more normalised quarter, we do not discount some level of topline reduction coming from NIM compression. As for provisioning, BOCD has already taken multiple instances of heavy provisioning in previous quarters, so we think a repeat of the past quarter's large provision is unlikely.
AMMB	**NIM (↓)** ▲ **This quarter is on track to achieve the FY26's RM2.0b consensus net profit figure.** Implying a quarterly result close to RM500m. This was mentioned in the recent Investor Day briefing. This was despite a lacklustre stock performance impacting this quarter's unit trust and private banking results (though these have seen recovery since Jun-25, suggesting a better nine months ahead).

BIMB	▼ **Further details on how new personal financing guidelines are affecting home financing yields.** Previously, management noted a discernible impact from new BNM regulations. BNM proposed that financial service providers treat several types of home financing products and personal financing products, and cap the financing tenure to a maximum of 10 years. ▲▼ **Is capital enough?** BIMB's CET 1 ratio was already stretched in 1QFY25: 13.0% for Group, 12.6% on a bank level. Given the high rate of asset growth, management is banking on a surge in Investment Account (IA) growth to shore up capital figures. If this does not suffice, a DRP or even a rights issuance may be on the cards.
AFFIN	**ROE (↓), Loan growth (↓)** ▼ **Expect negative revisions to multiple targets.** As with previous years, Affin has set overly optimistic targets (Management refrains from revising targets in the first quarter). ▼ **Management guides for worsening in residential mortgage asset quality.** Apart from that, management doesn't seem overly worried about other loan categories, though it flags the Enterprise Banking segment as having a particularly high volume of Stage 2 loans. ▲ **But topline performance should be solid.** Contrary to its peers, Affin has multiple positive drivers for NII. On the NOII front, Affin guided for normalised fee income balances (from 1QFY25's weak result) in subsequent quarters. Despite a lofty NIM target and negative impact coming from the recent OPR cut, we think Affin still has a shot at reaching its NIM target. Aside from the sizeable inflow of low-cost CASA balances from Sarawak, the Group has made a more aggressive FD rate slash than its peers (post OPR cut, FD promo rates are cut by 35-50bps, whereas peers only cut up to 25bps).
ABMB	▼ **Expect heavier provisions this quarter, but FY26 NCC target is expected to remain unchanged.** This is more due to a frontloading of provisions (as opposed to asset quality concerns), as the first quarter usually incurs lower collections. We still think FY26's 30-35bps NCC target is conservative (ABMB's LLC is at a healthy 107%), as larger recoveries are expected in the remaining quarters. We are not overly worried about asset quality concerns from tariff impact, as ABMB's loanbook exposure is similar to its peers: <4% of ABMB's loanbook is exposed to tariff-affected sectors, with <1% consisting of directed imports.

Source: Company, MBSBR

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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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