Banking

POSITIVE (Maintain)

CY2026 Outlook: Year of the Business Loan

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

HIGHLIGHTS

- **NIM: Intense deposit competition could return as banks hoard liquidity in anticipation of better loan prospects. Loan yields to act as more important determinants of NIM success, instead of purely determined by COF**
- **NOII: Non-fee income windfall will not reach CY25's highs, but stronger fee income evens things out**
- **OPEX: We expect smaller banks to continue growing OPEX at a disproportionally high rate relative to larger counterparts. Cost-cutting as a means of ROE optimisation may be of lower priority, in light of improved ROE drivers in CY26**
- **Loans: Corridor of economic growth states, Visit Malaysia 2026 to spur growth. We question if interest rate cuts are enough to reinvigorate retail loan growth, especially in Indonesia**
- **Deposits: Liquidity situation could reverse quickly, given ongoing NIM optimisation and stronger loan demand expectation.**
- **Asset quality: Watch 2HCY26 for any possible discernible asset quality deterioration**
- **Maintain POSITIVE call: Malaysia's improved growth prospects bode well for the banking sector**

Sector Verdict

We have grown a lot more positive on the banking sector's outlook, as Malaysia's growth prospects are buoyed by an improved economic outlook and geopolitical stability. Solid fundamentals and high dividend yields make us one of the core recipients of emerging market flows. Weaknesses and uncertainties in core aspects such as NIM, loan growth, capital, asset quality, and provisioning have diminished greatly over the last several months.

Core Themes

1. ▲ **Core beneficiary of emerging market inflows, should the narrowing between the OPR-Fed Funds Rate persist (given its dovish stance).** Robust earnings, high dividend yields, (relatively) stable asset quality, and the lack of geopolitical/political issues (especially in light of recent regional events) make our banks look particularly attractive.
2. ▲ **Dividend outlook is bright.** Better clarity on Basel IV implementation and BNM's new capital framework on credit risk should lead to more banks unlocking excess capital. There are hints of higher dividend payouts at CY25's end.
3. ▲ **NOII to remain core topline driver in the near term.** Wealth management, bancassurance, and debt capital markets are common drivers of the fee side. Forex volatility and lowering bond yields bolster these returns – though whether or not investment-related windfall may persist in CY26 remains to be seen.
4. ▲ **Liquidity outlook is bright… for now.** Currently, most banks boast elevated liquidity ratios, with space for pricier FD release or loan/deposit optimisation. This can offset NIM compression in subsequent quarters. However, we are wary that CY26 may see stronger loan demand, which may signify a return to more intense deposit competition.
5. ▲ **Loan growth has picked up again.** We expect business loans to act as the core engine of growth (backed by state drivers and improved economic outlook), as regulatory changes and compressing loan yields make retail loans less attractive. Down the line, asset quality issues, particularly for SME loans, may act as a ceiling to the business segment's upside.
6. ► **More stability in NIM, but upside is capped.** A low-interest-rate environment is good for CASA growth and COF in general, but a pickup in loan growth should also lead to the return of intense deposit competition. Expect more aggressive loan rebalancing as business loans surpass retail loans, making loan yield optimisation a more prominent discourse topic.
7. ► **Provisioning has upside skew.** Large recoveries are expected in subsequent quarters. Most banks have already taken large provisions, but further large allocations are very likely. More banks seem comfortable with lower stable LLC levels – we like this confidence.
8. ▼ **Potential asset quality issues down the line.** While recoveries are expected in the next few quarters, we think tariff impact may have a discernible impact on borrowers' financials by 2HCY26 (as inventory stockpiles need time to deplete). We are already seeing some degree of GIL pickup in the SME segment.

COMPANY *IN FOCUS*

RHB Bank

Maintain BUY | Target Price: RM7.94
Price @ 7 November 2025: RM6.77

- High dividend yields, with the possibility of higher-than-average dividend payout in FY25.
- Recoveries expected in multiple loan categories, particularly SME and foreign segments.
- Solid NOII to buoy topline in 2HFY25

SHARE PRICE CHART



Public Bank

Maintain BUY | Target Price: RM5.05
Price @ 7 November 2025: RM4.27

- Defensive pick: Asset quality and provisioning remain the best.
- Possible special dividends from LPI's PBK shares disposal and adoption of BNM's new capital framework for credit risk.
- Capital release could lead to a significant ROE uplift of up to 55bps.

SHARE PRICE CHART



What we've been guiding thus far	Newer Details
NIM	
We have seen NIM compression across multiple countries as regional interest rates fall. Although Indonesian loan yields compressed faster than COF in recent quarters, an improved liquidity situation could bode well for the ID's NIM outlook. Most banks have highlighted possibilities, commonly citing higher loan growth in 2HCY25 or the release of pricier FDs. So far, depositors have responded well to a promo-rate cut by multiple banks in the past few months. Non-deposit funding remains big, with several banks already having benefited heavily from its lower rates.	► **While interest rate cuts will be less severe, CY26's better loan demand could cause intense deposit competition to return as banks hoard liquidity.** ► **Loan yields to be more important determinants of NIM success: Business segment is replacing the retail segment as the core loan driver.** Back in CY24, multiple banks have announced their intention to rebalance their loan prioritising higher-yielding business loans. Retail loans saw compressed yields. However, rebalancing plans were put on hold due to geopolitical concerns. As the situation normalises, expect banks to lean further back into rebalancing activities, especially as BNM's latest regulation makes certain retail loan categories (personal financing and mortgage refinancing) less attractive.
NOII	
Fee income to pick up in 2HCY25 – and windfall in non-fee balances due to forex volatility and declining interest rates.	▲ **CY26's non-fee income windfall might not CY25's highs, but stronger fee income evens things out and provides stability.** Instability on a global scale should drive forex volatility, and some degree of interest rate cuts will persist, but do not expect CY25's level of non-fee income windfall. ▲ **Singapore is benefitting from global wealth management inflows – could Malaysia follow suit?** Affluent investors from North and South Asia, the Middle East and Europe have been relocating their assets to Singapore. Chinese investors have contributed significantly, as traditional investments such as property have failed to perform. DBS continues to see windfall in its wealth management as a result. Local banks have been aggressively targeting the wealth management space. Given the current levels of saturation, a new client base could jumpstart this competitive segment. While Malaysia lacks the "financial hub" status that Singapore has, we feel that ASEAN's increased global relevance and closer Malaysia-China ties could allow local banks with a regional presence to at least see spill over gains from this huge windfall.
OPEX	
OPEX growth remains elevated due to tech investment, though some banks (notably HLBK) have started seeing cost savings coming about. Some banks have spoken about arriving at the tail-end of their tech spending periods – but technology has advanced so quickly in the last couple of years, we feel further tech spend is necessary.	▼ **Smaller banks have disproportionately high OPEX growth: this may persist.** This is not purely attributable to higher tech costs. Smaller banks have seen much sharper OPEX growth over the last twelve months as they are going through rapid business expansion or transformative efforts. We'll break it down bank by bank: 1. **ABMB** is to sustain its rapid business expansion in market share. 2. **BIMB's** is due to its branch revamp, as it increases its range of services**.** It is also increasing its headcount. 3. **AFFIN's** is due to branch openings and higher establishment costs in Sarawak (and some other states). 4. **AMMB's** branch restructuring exercises. It has also managed cost growth very well in the last year, so some inflation is warranted. We expect all of these transformative efforts to persist in CY26 – implying that CY26's OPEX growth should remain elevated. ► **With multiple ROE drivers in CY26, cost-cutting as a means of ROE optimisation is of lower priority.** On certain occasions, cost-cutting is used as a last-ditch effort to hit the bank's ROE target, when other drivers are looking lacklustre. CY26 sees a multitude of ROE drivers, with the release of excess capital (upon the implementation of BNM's new credit risk guidelines), better NIMs, and strong NOII results. We think there is little need for banks to undergo a strict revaluation of costs to achieve their intended result.

What we've been guiding thus far	Newer Details
Loans	
Loan growth has picked up in 2HCY25, as geopolitical concerns wane and economic sentiment improves. CY26 is the year of the business loan: the business segment continues to gain momentum while retail loans slow down.	▲ **"Corridor of economic growth" states (Penang and Sarawak) have yet to come online.** Back in CY24, three states (Penang, Sarawak and Johor) were pegged as state drivers: However, only Johor has shown to be a consistent overperformer from a loan growth perspective. We think Sarawak and Penang's time may come soon – Penang has already seen a notable leap in growth in Sep-25. BNM's banking stats also show that Perak and Selangor have seen a fair amount of growth in recent times. ▲ **Visit Malaysia 2026 provides a boost to economic backwater, tourism-oriented states.** State-based construction/developments have long been a growth theme… but the added boost from tourism could spur stronger SME loan growth in quieter, tourism driven states, such as Sabah, Terengganu and Kelantan. Given Thailand's waning appeal, Malaysia should capture a far larger share of tourists from key markets such as China and India. ▼ **We question if interest rate cuts are enough to reinvigorate retail loan growth, especially in Indonesia.** While compressing loan retail yields (particularly in the residential mortgage segment) have dragged growth for quite some time. BNM's newer regulations make personal financing and mortgage refinancing loan segments less attractive – forcing more banks into the highly competitive primary mortgage market. We do not believe that the -25bps OPR cut in CY25 is enough to make a marked difference. While SG may see a fair amount of loan demand as SORA rates continue to tumble, we think the situation in Indonesia is far more precarious. Despite lowered rates, larger banks are aggressively stealing residential mortgage market share – making it harder for smaller peers to find high-quality loans with sufficient yields.
Deposits and Liquidity	
A lower interest rate environment implies that liquidity should be flushed. Over the past few months, we have seen a surge in CASA balances, as depositors refrain from renewing FDs. Higher CASA balances may be partially due to anticipated higher spending activity.	▼ **Liquidity situation could sour very quickly, given ongoing NIM optimisation and expectations of stronger loan demand in CY26.** While we think liquidity in 3QCY25 should at least remain bountiful (given the recent CASA influx), we are more wary of subsequent quarters' outlook. The priority for most banks seems to be to releasing costlier liquidity sources, but there's no guarantee whether the recent CASA influx is able to make up for the depleted liquidity.
Asset Quality and Provisioning	
Asset quality concerns are really only a problem for certain names: particularly ABMB (Consumer), AMMB (RSME and unsecured loans), and RHB (Commercial). Recoveries are expected across the board in a variety of loan segments, not solely concentrated on banks with Vantris Energy exposure. Banks display varying degrees of concern for the tariff impact, but the consensus is that it is unlikely to escalate to overly severe levels – though we will be keeping tabs on smaller names with higher SME exposure (ABMB and AMMB). Expect moderate provisioning: While large provisions have been taken (and further instances are very likely), large recoveries and writebacks are guided for in 2HCY25. Both should cancel each other out.	▼ **While tariffs began months ago, we think that adverse impacts, if any, will only have a discernible impact on borrowers' financials in CY27 (though warning signs may show by 2HCY26).** The delay is attributable to inventory stockpiles needing some time to deplete (before being forced to purchase higher-priced goods), and some months have to pass before loans can officially be classified as impaired. ▼ **Industry SME GIL ratio (when compared to system GIL ratio) has seen a worrying uptick in the last couple of months.** Not everyone has pegged the SME segment as an area of concern, but we think the sentiment will grow far more apparent by 2HCY26, when the full-fledged impact of geopolitical volatility and weaker economic sentiment on smaller businesses kicks in. ► **Banks are hovering at increasingly lower LLC levels, implying that provisioning has more upside risk than downside.** We think that banks are likely to maintain or lower current LLC levels (except RHB, which has guided for a higher figure for the longest time). Larger GIL recoveries expected in subsequent quarters imply a lot of room for provision writebacks, provided that there is no intention to increase revert LLC to higher levels once again.

What we've been guiding thus far	Newer Details
Dividends and Capital	
CY25's dividend outlook was bright. Low loan growth and better clarity on the Basel IV situation have led to banks being comfortable with releasing excess capital. We expect some instances of special dividends this year, particularly as a means to achieve ROE targets. We expect large and mid-sized banks to continue gradually upping their dividend payouts, while smaller banks could experience constraints from high growth levels.	▼ **Very small likelihood that some banks may be forced to maintain high CET 1 ratios if asset quality deteriorates.** This prevents any further space for CET 1 ratio reduction. ▲ **If ROE targets are looking to be met, banks could prioritise gradually increasing payout over several years instead of special dividend one-offs.** This decision varies from bank to bank – some prefer a more measured release over several years (if in a position of comfort) while others make it a point to streamline ROE as much as possible, regardless of performance.

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

Top downside risks include:

1. Weaker-than-expected GDP growth, which could lead to slower asset growth and asset quality issues,
2. Potential OPR cuts that will compress NIMs in the short term,
3. Asset quality flare-ups, which could lead to instances of heavier provisioning.

Top Picks: RHB Bank (BUY, TP: RM7.94) and **Public Bank (BUY, TP: RM5.05).**

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	BUY	9.91	10.59	6.9	119.5	11.6	11.4	1.2	1.2	10.8	10.7	6.9	7.0
CIMB	BUY	7.53	8.50	12.9	80.5	10.4	10.2	1.1	1.1	11.0	10.8	5.3	5.3
PBK	BUY	4.27	5.05	18.3	82.9	11.3	10.7	1.4	1.3	12.4	12.3	4.7	5.1
RHB	BUY	6.77	7.94	17.3	29.0	9.4	8.9	0.9	0.8	9.3	9.5	6.2	6.5
HLBK	BUY	20.74	23.13	11.5	42.5	9.5	8.9	1.0	1.0	11.1	11.1	4.9	5.3
AMMB	BUY	5.75	6.15	7.0	19.0	9.7	9.3	0.9	0.8	9.3	9.3	4.6	4.9
BIMB	BUY	2.27	2.42	6.6	5.1	9.9	8.9	0.7	0.6	6.8	7.5	6.0	6.7
AFFIN	BUY	2.31	2.53	9.6	5.8	9.7	9.1	0.5	0.5	5.0	5.1	3.1	3.3
ABMB	BUY	4.48	4.98	11.1	7.8	9.3	8.9	0.9	0.9	10.5	10.3	4.3	4.5
Simple avg (ex-HLFG)						**10.1**	**9.6**	**1.0**	**0.9**	**9.6**	**9.6**	**5.1**	**5.4**
Weighted avg (ex-HLFG)						**10.7**	**10.3**	**1.1**	**1.1**	**10.9**	**10.8**	**5.6**	**5.8**

**Closing prices from 07 Nov 2025.*

^HLBK, HLFG, AMMB and ABMB use FY26F/27F values.

Source: 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	

MBSB RESEARCH (formerly known as MIDF Research) is part of MBSB Investment Bank Berhad (formerly known as MIDF Amanah Investment Bank Berhad) 197501002077 (24878-X).

(Bank Pelaburan) (A Participating Organisation of Bursa Malaysia Securities Berhad)

DISCLOSURES AND DISCLAIMER

This report has been prepared by MBSB INVESTMENT BANK BERHAD (formerly known as MIDF Amanah Investment Bank Berhad) 197501002077 (24878-X).

It is for distribution only under such circumstances as may be permitted by applicable law. Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MBSB INVESTMENT BANK BERHAD (formerly known as MIDF Amanah Investment Bank Berhad) makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such. This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MBSB INVESTMENT BANK BERHAD (formerly known as MIDF Amanah Investment Bank Berhad). The directors, employees and representatives of MBSB INVESTMENT BANK BERHAD (formerly known as MIDF Amanah Investment Bank Berhad) may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MBSB Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein This document may not be reproduced, distributed or published in any form or for any purpose.

MBSB INVESTMENT BANK (formerly known as 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