Banking

POSITIVE (Maintain)

1QCY26 Results Preview: War and Aid

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HIGHLIGHTS

- **1QCY26: We expect a solid quarter, as the war impact on asset quality and growth was still relatively minor. Expect recovery from deposit competition, as well as ongoing momentum of strong earnings, topline and loan growth.**
- **BNM's banking stats support this: A surge in business loans supports 1QCY26's overall loan growth. However, we do not think this momentum will persist in subsequent quarters as cost pressures are expected to ramp up.**
- **In upcoming briefings, we look for clarity on asset quality and provisioning impact, renewed loan and cost-cutting strategies.**
- **To maintain ease impact to public, inflationary and cost-of-living pressures must be managed. Alongside fuel subsidies, we foresee the likelihood of further economic aid packages and some probability of OPR cuts to manage cost pressure and stimulate growth.**
- **At the same time, these initiatives must be funded from elsewhere – we are already seeing budget cuts, and there is a small likelihood of a prosperity tax (though more likely to target non-bank sectors).**
- **Maintain POSITIVE call: While there are headwinds, the banking sector remains a solid defensive pick.**

Sector Verdict

Backed by Malaysia's geopolitical stability and decent economic growth, tailwinds still outweigh headwinds. We like the sector's dividend yields, abundant liquidity, and NOII prospects. Headwinds come in the form of slowing loan growth and asset quality/provisioning issues – unfortunately, the ongoing Middle East war adds a layer of uncertainty to the overall outlook.

Core Themes

1. ▲ **Core beneficiary of emerging market inflows.** Our robust economic outlook, high dividend yields with upside possibility, excellent asset quality, and superior geopolitical stability (relative to neighbouring peers) make our banks look particularly attractive.
2. ▲ **Dividend outlook remains extremely bright.** We think the possibility of special dividends and other forms of capital release remains very high, though there may be a delay in announcements. While capital is fairly elevated and Basel IV transition should be capital accretive in most cases, most banks want further certainty before pulling the trigger.
3. ▲ **NIMs to benefit from both asset yield and COF optimisation.** Most banks are very positive on NIM, guiding for NIM expansion on the back of FD release and interest rate stability. On the asset side, expect more aggressive loan rebalancing, favouring higher-yielding business loans.
4. ▲ **Expect fee income to drive topline in the near term.** Wealth management, bancassurance, and debt capital markets are major drivers of the fee side – especially as market performance, loan growth, and economic sentiment improve. Forex volatility aside, the stabilisation of interest rates should result in some moderation in investment income.
5. ▲ **Liquidity situation is improving.** Liquidity has improved significantly since the last quarter, with more readily available cheap CASA in the market. The Indonesian and Singapore situation has also improved. As most loan growth targets are not overly lofty, we doubt that most banks will run into any crippling liquidity shortages.
6. ▲ **With most major recoveries already sorted, the system GIL ratio is the best it's ever been – only idiosyncratic shocks expected.** Further recoveries are still expected, and several banks' NCC guidance is on the low side. But for now, asset quality issues are largely idiosyncratic and do not hint towards more prevailing trends.
7. ► **OPEX growth is a mixed bag and will vary from bank to bank.** While we expect further tech efficiencies to come online, tech spend remains the primary cause of drag for most banks. Expect further rapid OPEX growth among rapidly expanding smaller banks.
8. ► **Neutral on loan growth.** Business loans have been dwindling as of late, as working capital continues to weaken – particularly the SME segment. Retail loan growth has been on a downward trajectory for several years. For the most part, banks are not guiding for very strong local figures either – particularly the large banks.

COMPANY *IN FOCUS*

HL Bank

Maintain BUY | Target Price: RM30.50
Price @ 7 May 2026: RM22.60

- Loan growth is very high for a mid-sized bank.
- Defensive pick: Asset quality and provisioning remain the industry's best.
- Sharp NOII growth persists from regional offerings. "Low-hanging fruit" is still close.

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AMMB

Maintain BUY | Target Price: RM7.57
Price @ 7 May 2026: RM6.47

- Excellent cost discipline, which helps with earning certainty.
- NIM outlook remains bright, with ongoing asset-liability management.
- Upside to dividend payouts. Breaking the 50% payout level is possible, given the Group's high capital levels.

SHARE PRICE CHART



What are we expecting this quarter?

1. ▲ **NIM expansion** on a sequential quarter basis, as year-end deposit competition normalises. The abundance of cheap CASA and liquidity supports this. Banks with larger regional exposure may see some noise from overseas regions.
2. ▲ **A strong NOII quarter**. Trading income is expected to perform well (though nowhere near the highs of CY25), and fee income should do well.
3. ► **Not much on an asset quality or provisioning front.** Cost pressures from the war have yet to have a serious impact in 1QCY26. This is more of a concern for subsequent quarters. While we are expecting higher provisions in the latter parts of CY26, do not expect overly large provisions in this quarter, as there is a sufficient amount left over from last year's trade war. Some banks also prefer issuing macroeconomic provisions in the second quarter of the year.
4. ▲ **Loan growth should maintain the strong momentum seen in 2HCY25**. BNM's figures back this up – while retail loan performance was nothing special, business loans saw a huge comeback.
5. ► **Very slim probability of dividend upside surprises by AMMB.** Only two companies will be issuing standard dividends this quarter – ABMB and AMMB. ABMB is too capital constrained for any upside surprises. On the other hand, AMMB has a solid CET 1 ratio (particularly on a bank level), with Basel IV transition effects expected to be neutral or positive. It has already achieved its (overly conservative) WT29 dividend payout of 50% way before schedule, and positive surprises are not out of the realm of possibility. The bank refrained from providing any concrete guidance in the last results briefing.

In upcoming briefings, what do we want more clarity on?

1. **Scale of war impact on asset quality and additional provisioning.**
   a. The first-order impact of the war is limited, but even banks are having trouble determining the **second and third-order impacts**. By the sounds of it, virtually every segment is facing some degree of cost pressure.
   b. Some banks have resumed **repayment assistance** programmes – how are these faring? We think a moratorium is still out of the question – especially since cost pressures are expected to normalise over time, regardless of whether the war ends.
   c. We have heard of irritation in SME and consumer segments – but will it get to the point of **big-name, corporate delinquencies**?

2. **Loan portfolio repositioning. Will an asset-yield approach to NIM optimisation be sidelined again, due to weak loan demand?**
   a. **Business loan demand will be hit as cost inflation escalates.** SME loan growth is crucial to the sector's ongoing strategies. Multiple banks are relying on this segment to fund their cross-selling and NIM optimisation strategy. However, as business sentiment dwindles, will banks double down on pre-existing strategies, fall back on consumer loans as a backup, or opt to completely reposition loan capital elsewhere?
   b. **Retail loans have already been declining for a long time – will this accelerate?** Cost pressures are now directly affecting mass-market consumers. Banks have traditionally relied on retail loans as a failsafe in times of business loan weaknesses. This time, do we have less wiggle room for portfolio repivoting?
   c. **Have most banks tightened underwriting standards?** Which segments are of most concern?
   d. **Will BNM cut the OPR?** What is the downside risk to NIM?

3. **Spending patterns could go either way.** To preserve profitability, all banks are expected to undergo some level of cost-cutting. Will they cut down on tech spend, or is this too crucial to ignore? As for banks undergoing drastic transformation/business expansion plans, will this be put on hold?

To maintain local geopolitical stability and predictability, inflationary and cost-of-living pressures must be managed to reduce impact to public. This maintains local geopolitical stability, which influences foreign cash flows. The government is doing its best to ease the impact of the war to the public by easing inflationary and cost-of-living pressures to do so while simultaneously supporting economic growth. Unfortunately, the public continues to face mounting cost pressures that should only worsen in the months ahead. We may see the rolling out of beneficial initiatives sooner than expected, with varying effects on the banking sector.

Economic stimulus and aid packages to jumpstart business and retail loans. These include welfare assistance, SME business support, cash handouts, and wage subsidies – multiple initiatives to stimulate growth. Initiatives such as stamp duty and first-time buyer exemptions previously buoyed residential mortgage loans; Sales tax exemptions drove hire purchase loans. Recall the strength of retail loan growth during the pandemic, which offset the lacklustre business loan performance.

A greater likelihood of OPR cuts? While a -25bps OPR cut is unlikely to stimulate economic growth by a significant margin, it reduces financing costs for property owners, providing short-term cost pressure alleviation. Although an OPR cut is good for debt-servicing ability, banks will suffer from NIM compression. Do note that our house view maintains a 2.75% OPR in the foreseeable future, with economic growth sufficient enough to warrant stability.

Return of the moratorium? Extremely unlikely, given a more obvious recovery timeframe. The moratorium was good for periods of uncertainty – in times of more certainty, pure asset quality shocks can be largely remedied by repayment assistance programmes. Unlike the pandemic, we have much less severe impact and a clearer recovery timeframe: Oil prices are expected to start falling in end-2026 or 2027 (and cost pressures soon after). It is a matter of time before oil-producing countries start making up for the oil deficit.

Maintaining fuel subsidies is crucial, but it needs to be funded from somewhere. A removal of fuel subsidies will lead to a significant increase in cost pressure. But at the same time, artificially low fuel prices cannot be maintained indefinitely. Adding multiple economic stimulus packages into the mix could provide further pressure.

Budget cuts in certain sectors are already happening. Recently, the Finance Ministry proposed an RM5.4b reduction in operating expenditure across health and higher education. We could see further budget cuts in other sectors (or at least project delays in sectors such as construction and property) – a possible downside to business loan growth in the mid-term. Project delays in sectors such as these make more sense than cancellations, as cost pressure on building materials is expected to normalise just a couple of quarters ahead.

Could we see a prosperity tax in subsequent years? As we've seen in the past, some degree of the subsidies can be funded by higher taxes, usually levied on companies experiencing a windfall. In the past, we have seen the plantation, glove, and banking sectors being affected. This time around, oil and gas and plantation players are likely the few winners from this ongoing war. Unlike CY22, the banking sector is unlikely to be subject to the prosperity tax. Recall in CY22 that the banking sector benefited from OPR hikes and stronger loan growth – in CY26, we see no such tailwinds.

FIG 1: BNM Banking Stats: Quarterly Figures

Qoq figures	1Q25	2Q25	3Q25	4Q25	1Q26
Growth (%qoq)					
Industry loans	**1.1**	**1.0**	**1.2**	**1.4**	**1.6**
Retail loans	**1.3**	**1.4**	**1.3**	**1.5**	**1.0**
Res mortgages	1.4	1.4	1.5	1.5	1.1
Passenger cars	1.8	1.6	1.6	1.6	1.4
Credit cards	-1.2	2.5	2.3	2.5	-1.3
Personal use	0.6	0.3	-0.6	0.7	0.6
Business loans	**0.8**	**0.6**	**1.0**	**1.4**	**2.3**
Working cap	0.9	0.4	-0.6	1.2	2.1
Non-res property	1.5	1.2	1.9	1.6	2.0
Construction	1.1	3.1	1.1	1.2	1.3
Approval rate (%)	**49**	**53**	**52**	**56**	**54**
Appl. (RM m)	353	390	412	401	365
Retail (RM m)	186	200	213	202	183
Business (RM m)	167	190	199	199	181
Appr. (RM m)	173	205	215	224	195
Deposits + repo	**1.3**	**-0.2**	**0.9**	**1.4**	**2.0**
Deposits only	**0.8**	**1.0**	**1.1**	**1.6**	**1.0**
CASA	0.5	2.0	2.4	2.2	2.5
FD	0.7	0.0	-0.2	1.0	-0.7
Retail FDs	1.3	0.9	0.1	0.5	0.3
Business FDs	-0.1	2.4	-1.6	-0.1	-2.1
L/D ratio (%)	**92.3**	**92.3**	**92.4**	**92.3**	**92.8**
LCR (%)	**152**	**161**	**151**	**155**	**145**
GIL ratios (%)					
Industry	**1.42**	**1.42**	**1.41**	**1.37**	**1.40**
Retail	**1.13**	**1.14**	**1.12**	**1.09**	**1.12**
Res mortgages	1.13	1.15	1.13	1.08	1.10
Passenger cars	0.52	0.60	0.56	0.57	0.60
Credit cards	0.89	0.87	0.91	0.88	0.91
Personal use	2.32	2.22	2.17	2.23	2.34
Business	**1.77**	**1.77**	**1.77**	**1.72**	**1.73**
Working cap	2.08	2.08	2.09	1.98	2.02
Non-res property	1.45	1.49	1.45	1.45	1.47
Construction	3.06	2.95	3.23	3.21	3.11
LLC	**91.2**	**90.5**	**88.3**	**84.8**	**83.0**
Bond Issuance (RM b)	**30.4**	**30.1**	**59.6**	**53.2**	**40.2**

Source: BNM, MBSBR

▲ **Thankfully, a boost from business loans lifted overall quarterly loan growth – but the rebound might be short-lived.** Banks have been guiding a strong business loan pipeline, and we are seeing it play out. It's worth noting, however, that retail loans took a big hit this quarter, dragged primarily by weaker residential mortgages and credit card performance.

While the positive momentum is encouraging, we aren't as optimistic for the loan growth outlook in subsequent quarters. Cost pressure has graduated from being largely confined to businesses to affecting mass-market consumers. We expect a weakening in business loans – this time without the safety net of retail loans as a buffer.

► **Loan applications are much weaker than in previous quarters.** Only Mar-26 saw a return to form; weaker Jan-26 and Feb-26 figures dragged overall figures. Weaker residential property demand was the main source of the decline.

► **Repo as a form of funding seems to be making a comeback; otherwise, deposits underperform loan growth.** Businesses are not renewing FDs, leading to a surge of CASA balances (implying that cheap liquidity is still abundant). Notably, L/D ratio remains extremely elevated.

► **Some uptick in GIL ratio, but nothing concerning yet.** Some irritation was found in virtually every segment. This is not yet reflective of the Middle East war cost pressures.

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

Top downside risks include:

1. Disruptions to economic 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: HL Bank (BUY, TP: RM30.50) and **AMMB (BUY, TP: RM7.57).**

PEER COMPARISON

Bank	Call	Share P	Target P	Upside	Mkt Cap	FY	P/B	ROE	LTG	COE	P/E (x)		P/B (x)		ROE (%)		Div Yield (%)	
	^Top Pick	(RM)	(RM)	(%)	(RM b)	Basis	(x)	(%)	(%)	(%)	FY26	FY27	FY26	FY27	FY26	FY27	FY26	FY27
MAY	NEUTRAL	11.26	12.29	9.1	136.1	FY26F	1.53	11.1	3.0	8.3	12.8	12.4	1.40	1.35	11.1	11.1	5.6	5.8
CIMB	BUY	8.04	9.29	15.5	86.0	FY26F	1.37	10.9	4.0	9.0	11.1	10.6	1.19	1.15	10.9	11.0	5.8	6.0
PBK	NEUTRAL	4.89	5.05	3.3	94.4	FY26F	1.55	11.9	3.5	8.9	13.0	12.3	1.50	1.43	11.9	11.9	4.6	4.9
RHB	BUY	8.33	9.11	9.4	36.6	FY26F	1.12	9.6	4.0	9.0	10.9	10.7	1.02	0.98	9.6	9.4	5.5	5.6
HLBK	^BUY	22.60	30.50	35.0	46.3	FY27F	1.42	11.1	4.0	9.0	10.3	9.7	1.11	1.05	11.1	11.1	4.5	4.8
AMMB	^BUY	6.47	7.57	17.0	21.4	FY27F	1.10	9.4	4.0	8.9	10.6	10.3	0.99	0.94	9.5	9.4	4.2	4.4
BIMB	NEUTRAL	2.35	2.32	-1.3	5.3	FY26F	0.67	7.0	4.0	8.5	9.5	9.1	0.68	0.65	7.0	7.3	6.3	6.6
AFFIN	NEUTRAL	2.54	2.39	-6.1	6.5	FY27F	0.47	4.8	3.0	6.8	11.7	10.6	0.52	0.50	4.5	4.8	3.4	3.7
ABMB	BUY	4.89	6.08	24.2	8.5	FY27F	1.20	10.3	5.0	9.4	10.1	9.7	1.03	0.97	10.5	10.3	4.0	4.1
Total Weighted avg											11.9	11.4	1.27	1.22	10.9	10.9	5.2	5.4
Large-Cap	MAY, CIMB, PBK										12.4	11.9	1.37	1.32	11.3	11.3	5.4	5.6
Mid-Cap	RHB, HLBK, AMMB										10.6	10.2	1.06	1.00	10.2	10.1	4.8	5.0
Small-Cap	BIMB, AFFIN, ABMB										10.5	9.8	0.77	0.73	7.7	7.7	4.4	4.6

**Closing prices from 07 May 2026.*

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
	CASA – Current & Savings accounts	P/BV – Price to Book Value
NII – Net Interest Income	FD – Fixed Deposits	BVPS – Book Value per Share
NIM – Net Interest Margin	GIL – Gross Impaired Loans	BNM – Bank Negara Malaysia
COF – Cost of Funds	NIL – Net Impaired Loans	OPR – Overnight Policy Rate
NOII – Non-Interest Income	LLC – Loan Loss Coverage	SRR – Statutory Reserve Requirement
MTM – Mark to Market	NCC – Net Credit Costs	SBR – Standardised Base Rate
CIR – Cost to Income Ratio	GCC – Gross Credit Costs	ALR – Average Lending Rate
OPEX – Operational Expenses	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