Banking

To Rally Further

POSITIVE (Maintain)

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HIGHLIGHTS

- **We think the banking sector will continue to rally, with a robust economic outlook and further room for capital management activities as the main drivers. The market is looking ahead into a strong CY27**
- **However, we are wary that 2QCY26's results season may come in weak (and there is little room for positive dividend surprises), so there is a possibility of another knee-jerk sell-off post-results. If this happens, this should correct itself immediately, as the larger themes are just so much more positive. Headwinds come from many angles, but the most prominent is NIM compression. Higher provisioning, cost inflation, and weaker non-fee NOII are secondary risks**
- **We think smaller banks are worth revisiting, particularly ABMB. Fears may be overblown. Unlike their large-to-mid-sized counterparts, they have yet to rally**
- **BNM's banking stats indicate strong growth and interest in bonds and repos. System GIL remained flattish**
- **Maintain POSITIVE call: A weaker earnings season will do little to dent the sector's impressive momentum**

Sector Verdict

Multiple headwinds may dent CY26's earnings performance, but the market is already looking ahead to a better CY27. A robust economic outlook, banks' defensive nature and room for further capital management should continue to drive the sector's valuations upwards. Do be wary that a weak 2QCY26 could lead to another knee-jerk sell-off post-results (like the last two quarters), but should recover immediately after.

Core Themes

1. ▲ **Core beneficiary of emerging market inflows.** Our robust economic growth outlook, geopolitical stability, excellent dividend yields, and superior asset quality give our banks a more defensive nature, making them an attractive pick.
2. ▲ **Dividend outlook remains very bright.** There is room for further capital management initiatives ahead, and Basel transition is largely capital accretive. While the coming quarter's dividend outlook is mostly predictable, 2HCY26 may host further surprises.
3. ▲ **Expect fee income to drive the topline, though non-fee income could see some normalisation.** Wealth management, bancassurance, and debt capital markets are major drivers. Forex volatility aside, the stabilisation of interest rates should result in some moderation in investment income from CY25's strong result. A Fed rate hike could further adversely affect non-fee NOII.
4. ▲ **Loan growth is ramping up, as economic sentiment improves.** So far, a robust economic performance is driving loan demand – particularly for business loans. The momentum should remain intact. However, banks with large international exposure may be impacted by currency fluctuations.
5. ► **Liquidity is getting tighter.** CASA growth remains strong, and non-deposit funding is still in high demand. Despite this, we get a sense that banks were not expecting such strong loan demand – as a result, an ongoing scramble for deposits is elevating FD rates.
6. ▼ **NIM compression before stability in 2H26.** Several banks see limited room for further optimisation, especially as deposit competition ramps up in response to better-than-expected loan demand. On the asset side, expect more aggressive loan rebalancing, favouring higher-yielding business loans.
7. ▼ **Rising cost pressures may pressure OPEX.** While tech efficiencies are starting to take effect, multiple banks are still investing heavily in tech and business expansion. Cost inflation remains very high.
8. ▼ **Minimal asset quality issues ahead – but provisions are a different issue.** Oil prices have improved from a couple of months back. However, heightened cost pressures will take some time to abate as supply chains normalise. So far only a few banks have sounded alarm bells for asset quality – so do not expect anything overly severe. However, since geopolitical volatility is here to stay, expect some large overlay allocations in subsequent quarters.

COMPANY *IN FOCUS*

HL Bank

Maintain BUY | Target Price: RM30.50
Price @ 13 August 2026: RM22.34

- 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.

SHARE PRICE CHART



ABMB

Maintain BUY | Target Price: RM5.92
Price @ 13 August 2026: RM4.81

- Extremely high loan growth and market share capture to continue.
- Expect lower cost pressure, as the brunt of costs was frontloaded in the beginning stages of ACCELER8.
- Fee income is ramping up, particularly from the wealth management end.

SHARE PRICE CHART



1. **Capital management activities should continue to drive valuations.**

FIG 1: Further dividend upside opportunities in the next several months

Banks	Basel Impact (bps)	Potential div further upside this FY?	Additional notes
MAY	**Neutral to a bit -ve (FY27)**	▼ **Unlikely.**	Dividend payout will likely remain close to standard ~70% for now. Post-MAHB transaction, there will be a one-off DRP to lift the capital gap.
CIMB	**Mild uplift**	▲ **Yes.**	High chance of front-loading special dividends to achieve FY26 ROE targets.
PBK	**+100**	▲ **Yes (But only a slim chance).**	Little possibility of front-loading some special dividends in FY26, since we have no word on the payout timeframe. Also, maybe some extra from LPI's PBK share disposal proceeds.
RHB	**+100 (FY28)**	▲ **Yes.**	RHB does not usually issue special dividends. Instead, it adheres to a standard payout of 60% but will increase the final dividend payout to get rid of excess capital. There's a high chance of this excess capital removal in FY26 – RHB will likely want to keep its dividend yields competitive.
HLBK	**+60**	▲ **Yes (But room is limited).**	Management has voiced its intention to keep its dividend yields competitive by increasing dividend payout. However, capital is a bit tight – so there's only room to increase dividend payout by a few per cent. A special dividend announcement is unlikely.
AMMB	**Neutral / +ve**	► **Following the announcement, nothing else much.**	Management has already voiced its intention to lift dividend payout to 60% in FY27. Any special dividends or further increases to the payout figure will likely only come in FY28 – even though the bank has excess capital.
BIMB	**+35 – 40**	▼ **Unlikely.**	Capital too tight, loan growth too fast.
AFFIN	**+10 – 30** **+200 (FY29)**	▼ **Unlikely.**	Capital too tight, loan growth too fast.
ABMB	**+30 – 37**	▼ **Unlikely.**	Capital too tight, loan growth too fast.

Source: Company, MBSBR

Capital management: A talking point for more years to come. Capital management has been a hot topic in the last few quarters and is responsible for multiple share price rallies. This is a trend that should persist, and there are multiple drivers to support it:

a. Banks continue to divest and reallocate capital among subsidiaries.
b. BNM's newer regulatory requirements for banks practising the IRB approach to credit risk could lead to excess capital being freed up from FY27 onward.
c. Banks still practising the Standardised approach for credit risk can pivot to the IRB approach to elevate their capital efficiency.
d. A gradual lowering in system CET1 ratio is possible, on the back of improving economic prospects and more normalised oil prices, which reduces the need for such high capital levels.
e. More pressure for smaller banks to maintain competitive dividend yields, especially when most large-to-mid-sized banks have already done so.

That being said, 2QCY26 leaves little room for surprises (only **HLBK** and **CIMB** have the propensity to do so). More action is expected in 2HCY26, when banks have more clarity on their ability to hit ROE targets and the necessary capital giveaway needed to achieve it.

More pressure on smaller banks to maintain their competitiveness. In recent quarters, large-to-mid-sized banks have offered much clarity on their capital reserves and future intentions. Smaller banks, on the other hand, have fallen behind on this front. A lot of the pressure comes from higher loan growth, which reduces the volume of excess capital available for distribution. It is possible that there is pressure on smaller banks to increase their payout or risk falling further behind. A switch to the IRB approach to credit risk seems like the most reasonable option, especially when smaller banks are increasingly pressured to increase their payouts. **AFFIN** already has plans to switch.

Perhaps dividend upside within CY26 may be a stretch, but by CY27, smaller banks will have more time to reposition and strategise to be in a better position to do so. At least in the case of **ABMB**, it has voiced its intention to slow down on loan growth, which gives it some room to rebuild its capital levels and increase dividend payout to the former 50% level.

2. <u>Economic growth momentum is coming in above expectations, and this is more important than 2QCY26's weak results season.</u>

Expect weaker earnings this results season, from a variety of sources. These could persist until the end of CY26.

a. The main drag on earnings comes from NIM compression, as funding costs remain elevated. It is not just the high levels of deposit competition; BNM's banking stats show a much greater demand for repos and bonds this quarter. With no OPR hike expected in CY26, there are no major drivers for NIM expansion in the near-term.
b. Higher provisioning levels are a secondary issue – the impact should be limited. Most banks are guiding for some asset quality deterioration but nothing particularly concerning. Also, at the height of the crisis, oil prices never really stayed above the >USD100pb levels (which banks specified as the "danger-zone" used in their stress tests), and prices have since come down. Nevertheless, we expect at least a low level of threat to remain, as the current situation hints at a constantly volatile, tenuous geopolitical situation in the Middle East.
c. With expectations of global interest rate hikes, the threat of adverse bond price and currency movements will provide some downside pressure to non-fee NOII.
d. High-cost inflation should persist as it takes some time for supply chains to normalise. Heavy tech spend should remain.

But the market is already looking ahead to CY27, with better profitability and growth prospects. Stronger-than-expected economic data took us by surprise this quarter – both GDP and loan growth figures remain very strong. It was not just data centres: export figures came well above expectations (we believe it was an attempt by foreign importers to lock in on products before cost inflation ramped up further). This, alongside further confirmations of capital release, was likely responsible for the surge in foreign funds seen this quarter.

This growth momentum should persist. Improved business sentiment aside, oil prices have come down. This implies less pressure to maintain subsidies, giving more room for government spending. We also expect private investments to drive CY27 growth, with infrastructure and data-centre projects coming to fruition. And unlike other countries, we observed that Malaysia's OPR does not follow the US Fed Funds rate so closely – implying that the OPR is unlikely to hike as drastically as global interest rates, removing the possibility of any drag on growth.

From an earnings standpoint, CY27 is expected to outperform CY26. A big reason is more normalised provisions (unless another significant adverse geopolitical event takes place), and a higher possibility of writebacks (especially since overlays for the trade tariffs last year remain largely untouched). NIM performance has a slight positive skew given the Fed's more hawkish stance – and if there is no OPR hike, the surge in higher-yielding business loans this year should drive NII growth. Unless inflation unexpectedly spikes up, the strong economic growth momentum should remain, which bodes well for asset growth and fee income prospects. Cost pressure should also be more normalised following the waning of supply-side disruptions. The largest threat we foresee is the hiking of global interest rates and the possible adverse impact on bond prices and currency it brings.

3. Pay attention to smaller banks.

Smaller banks have underperformed as of late. We want to go into further detail on **AFFIN, BIMB** and **ABMB** to clarify the issues they face – and why the market may have overlooked them.

ABMB has the stigma of being a "weaker asset quality" bank, and one that should be avoided during periods of tougher economic stress. We do not think ABMB deserves its valuation discount: the Group has done a fantastic job in de-risking its loan portfolio through its ACCELER8 plan, namely through growing safer end-financing mortgage loans. Its loan book is a lot safer than it previously was, when riskier mortgage refinancing and personal financing loans made up a larger portion of its loan book. Management does allude to some asset quality deterioration this quarter – but it is unlikely to be that much worse than what its peers are facing.

ABMB is past its phase of aggressive loan growth, so it can focus on refinement and capital accumulation. Having grown a sizeable loan base, ABMB mentioned that the first phase of ACCELER8 plan is over, and it can taper down slightly on loan growth. The Group can now shift its attention and resources to things that make it a more well-rounded bank. There are 3 things to look at: (1) The lowering OPEX, especially when the intention was to frontload marketing costs within the first few years of ACCELER8; (2) The reaccumulating of capital, allowing them to increase dividend payout to its former levels of 50% (from the current 40%); and (3) Further attention on NOII by expanding their investment banking and fee income franchise, since now they have the resources and customer base to do so.

BIMB will give further clarity on its plans, which should lift some of the share overhang. A major source of its share overhang comes from the lack of certainty on its direction, at current juncture. While we do not expect a full multi-year plan to be laid out, management let out a few pointers during its recent AGM, though a lot of it sounds like previous plans. Some highlights:

a. ROE should be >8% within 3 years, and double digits in 5 years.
b. Its dividend policy allows for >60% payout – but management also reinforces that its dividend yield was among the highest in the industry.
c. 3-year target to reduce CIR to <60%.
d. To deepen digital adoption, especially for digital payments and cloud adoption. The idea is not to rebuild their tech infrastructure from scratch but to pursue a "hollow out" strategy – i.e. building a new layer on its existing system.

Perhaps the achievability of such targets may be questioned, but it sounds like the Group is making a move to improve profitability levels, though clarity on dividend plans remains lacking. Such an overhaul may impose high costs in the coming years, crimping profitability. **However, we believe these fears are already priced in; hence, further clarity on plans should serve to improve share price post-results.**

We are not worried about BIMB facing any asset quality issues this time. Most major asset quality problems it faced after the pandemic were centred on its corporate book – and the Middle East crisis was not severe enough to warrant any major threat to it this time. Its retail book was largely healthy during the pandemic, and we expect it to remain healthy this time as well.

However, we are not so sure about AFFIN. AFFIN sounded more negative on potential asset quality issues than any of its peers and has a history of issuing lumpy provisions. Unlike its peers, we do not see too much room for positive dividend payout surprises in the near term, as its loan growth target remains very high and it seems more likely to engage in acquisitions than its peers. Management mentioned there could be some capital release when it converts to the IRB regime, but this may realistically take place several years from now.

FIG 2: BNM Banking Stats: Quarterly Figures

Qoq figures	3Q24	4Q24	1Q25	2Q25	3Q25
Growth (%qoq)					
Industry loans	**0.8**	**2.1**	**1.1**	**1.0**	**1.2**
Retail loans	**1.8**	**1.7**	**1.3**	**1.4**	**1.3**
Res mortgages	1.8	1.6	1.4	1.4	1.5
Passenger cars	2.0	1.5	1.8	1.6	1.6
Credit cards	3.0	4.3	-1.2	2.5	2.3
Personal use	1.1	1.2	0.6	0.3	-0.6
Business loans	**-0.3**	**2.5**	**0.8**	**0.6**	**1.0**
Working cap	-0.4	3.0	0.9	0.4	-0.6
Non-res property	2.1	2.3	1.5	1.2	1.9
Construction	-1.9	1.4	1.1	3.1	1.1
Approval rate (%)	**53**	**56**	**49**	**53**	**52**
Appl. (RM m)	410	382	353	390	412
Retail (RM m)	208	196	186	200	213
Business (RM m)	202	186	167	190	199
Appr. (RM m)	216	213	173	205	215
Deposits + repo	**-0.2**	**1.9**	**1.3**	**-0.2**	**0.9**
Deposits only	**-0.3**	**2.3**	**0.8**	**1.0**	**1.1**
CASA	-0.3	3.0	0.5	2.0	2.4
FD	1.3	0.7	0.7	0.0	-0.2
Retail FDs	0.5	2.4	1.3	0.9	0.1
Business FDs	-1.5	-4.3	-0.1	2.4	-1.6
L/D ratio (%)	**92.2**	**92.0**	**92.3**	**92.3**	**92.4**
LCR (%)	**147**	**161**	**152**	**161**	**152**
GIL ratios (%)					
Industry	**1.54**	**1.44**	**1.42**	**1.42**	**1.41**
Retail	**1.20**	**1.14**	**1.13**	**1.14**	**1.12**
Res mortgages	1.21	1.16	1.13	1.15	1.13
Passenger cars	0.52	0.51	0.52	0.60	0.56
Credit cards	0.84	0.84	0.89	0.87	0.91
Personal use	2.48	2.29	2.32	2.22	2.17
Business	**1.97**	**1.81**	**1.77**	**1.77**	**1.77**
Working cap	2.25	2.09	2.08	2.08	2.09
Non-res property	1.58	1.48	1.45	1.49	1.45
Construction	4.00	3.53	3.06	2.95	3.23
LLC	**90.8**	**91.4**	**91.2**	**90.5**	**89.0**
Bond Issuance (RM b)	**36.1**	**33.4**	**30.4**	**30.1**	**59.6**

Source: BNM, MBSBR

▲ **Business loans continue their strong momentum, while retail loans remain stable.** Interestingly, working capital loans saw a contraction; the main driver was non-residential property, followed by more moderate construction offerings.

In contrast, retail loans saw steady growth from most segments – though personal use loans saw some decline (understandably, given asset quality fears).

▲ **A further uptick in leading indicators.** There were a couple of winners: residential and non-residential property and working capital segments come to mind.

▲ **The market remains hungry for liquidity – especially for repos.** CASA saw a sharp uptick in growth, coming mostly from the expiry of business FDs. The aggressive capture of liquidity stems from strong economic growth, which is driving better-than-expected loan demand. The use of repos, particularly, has skyrocketed during the quarter to shore up short-term liquidity.

► **System GIL was flattish.** Minor irritation seen in credit card and construction portfolios. Loan loss coverage saw some decline, implying several write-offs or recoveries.

▲ **Notably, bond issuance was extremely hot this quarter – with the amount nearly doubling.**

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. An exacerbation in deposit competition, which will compress NIMs.
3. Further asset quality flare-ups and instances of higher provisioning.

Top Picks: HL Bank (BUY, TP: RM30.50) and **ABMB (BUY, TP: RM5.92).**

PEER COMPARISON

Bank	Call	Share P	Target P	Upside	Mkt Cap	FY Basis	P/B	ROE	LTG	COE	P/E (x)		P/B (x)		ROE (%)		Div Yield (%)	
	^Top Pick	(RM)	(RM)	(%)	(RM b)		(x)	(%)	(%)	(%)	FY26	FY27	FY26	FY27	FY26	FY27	FY26	FY27
MAY	BUY	10.60	12.27	15.8	128.2	FY27F	1.47	11.1	3.0	8.5	12.2	11.7	1.32	1.27	11.1	11.1	5.9	6.2
CIMB	BUY	7.95	9.29	16.9	85.0	FY27F	1.33	10.9	4.0	9.2	11.0	10.6	1.17	1.14	10.8	10.9	5.9	6.1
PBK	NEUTRAL	5.16	4.96	-3.9	99.7	FY27F	1.50	12.1	3.5	9.2	14.0	13.2	1.61	1.56	11.7	12.1	5.4	5.7
RHB	BUY	8.69	9.17	5.5	38.1	FY27F	1.08	9.4	4.0	9.0	11.4	11.1	1.07	1.02	9.6	9.4	5.3	5.4
HLBK	^BUY	22.34	30.50	36.5	45.8	FY27F	1.42	11.1	4.0	9.0	10.2	9.6	1.10	1.04	11.1	11.1	4.6	4.9
AMMB	BUY	7.35	7.67	4.4	24.3	FY27F	1.13	9.5	4.0	8.9	11.6	11.3	1.08	1.05	9.5	9.4	5.2	5.3
BIMB	NEUTRAL	2.12	2.30	8.5	4.8	FY27F	0.64	6.9	4.0	8.5	9.1	8.8	0.61	0.59	6.6	6.9	6.6	6.8
AFFIN	NEUTRAL	2.22	2.39	7.5	5.7	FY27F	0.47	4.8	3.0	6.8	10.2	9.3	0.45	0.44	4.5	4.8	3.9	4.2
ABMB	^BUY	4.81	5.92	23.1	8.3	FY27F	1.09	9.8	5.0	9.4	9.3	8.9	0.89	0.83	9.8	9.6	4.4	4.6
Total Weighted avg											11.9	11.4	1.27	1.23	10.8	10.9	5.5	5.7
Large-Cap	MAY, CIMB, PBK										12.4	11.8	1.37	1.33	11.2	11.4	5.7	6.0
Mid-Cap	RHB, HLBK, AMMB										10.9	10.5	1.09	1.04	10.2	10.1	5.0	5.1
Small-Cap	BIMB, AFFIN, ABMB										9.5	9.0	0.68	0.65	7.4	7.5	4.8	5.1

**Closing prices from 13 Aug 2026.*
**AMMB and ABMB use FY27F/28F values.* ~HL Bank & HL FG uses FY23F/24F 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	

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MBSB 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