Corporate Update

Malayan Banking Berhad

(1155 | MAY MK) Main | Financial Services

FTSE4Good | ESG 3 Stars

Maintain **BUY**

Revised Target Price **RM12.36**
(from 12.27)

2QFY26 Results Review
A Better Second Half

Salient Points

Solid set of earnings, as forecasted.

Management's tone: Cautiously optimistic

Expect: A better 2HFY26, after a lacklustre first half.

Our Verdict

MAY's dividend yields and profitability levels are solid but are also constrained by limitations. Capital reductions limit the space for dividend upside, while NIM compression and elevated spending crimp the ROE outlook. Despite a weak start, 2HFY26's outlook is positive, premised on (1) Loan growth recovery, (2) Non-fee NOII picking up, and (3) the MAHB acquisition lifting the bottom line. Regardless, MAY's market-leading position (and above-average asset quality) makes it the core proxy for the local banking sector (and by extension, the economy) – and with recent GDP figures beating expectations again, don't bet against it.

Valuations

A revised FY27F P/BV of 1.48x (from 1.47x)

Current P/BV of 1.38x is trading near +1SD 10-year P/BV mean of 1.27x, but we think this is warranted, given the bank's improved dividend and profitability profile.

The company is currently trading at a forward FY27F P/BV of 1.27x with a +6.2% dividend yield.

Themes

1. ▲ Dividend yields remain among the best, backed by sizeable capital reserves. Not much room for positive surprises in the near-term, however.
2. ▲ NOII is a core component of ROAR30's success. Main drivers are wealth management and Islamic finance. The acquisition of MAHB drives it further. However, weakness in non-fee income dragged 1HFY26's result, but management is optimistic about the coming quarters' prospects.
3. ► Further NIM compression ahead, but 1HFY26's NII run-rate should be preserved on the back of better asset growth.
4. ► Moderate loan growth figures, with a deeper focus on the SME segment. ID's loan growth has recovered, and SG and MY should also drive growth.
5. ► Asset quality seems benign, as the Group continues to undergo a "soft rerisking", but that's an issue for the future. NCC is manageable so far.
6. ▼ Negative on OPEX outlook, with higher tech spend ahead. This acts as the main downside to earnings growth in the next few years.

Results in a nutshell:

► **6MFY26's Core NP of RM5,171m is *Within/Within* our/street forecasts: *49%/49%* of full-year forecasts.**

RETURN STATISTICS	
Price @ 27 August 2026 (RM)	10.62
Expected share price return (%)	+16.4
Expected dividend yield (%)	+6.2
Expected total return (%)	**+22.6**

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-3.6	-4.3
3 months	-1.7	-4.4
12 months	7.7	-1.6

INVESTMENT STATISTICS			
FYE Dec	**FY26F**	**FY27F**	**FY28F**
Core NP (RM m)	**10,545**	**10,989**	**11,420**
CNP growth (%)	0	4	4
Div yield (%)	**5.9**	**6.2**	**6.4**
Gross DPS (sen)	62.8	65.4	67.9
P/BV (x)	**1.3**	**1.3**	**1.2**
BVPS (RM)	8.0	8.3	8.7
ROE (%)	**11.1**	**11.1**	**11.1**
% Street CNP (%)	**100**	**99**	**97**

KEY STATISTICS	
FBM KLCI	1,741.72
Issue shares (m)	12,081.1
Estimated free float (%)	57.8
Market Capitalisation (RM'm)	128,123.2
52-wk price range	RM9.68 – RM12.4
3-mth average daily volume (m)	13.1
3-mth average daily value (RM'm)	142.4
Top Shareholders (%)	
Amanah Saham Nasional Bhd	36.1
EPF Board	13.0
Yayasan Pelaburan Bumiputra	6.6

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► **Dividends announced.** DPS of 31.0 sen translates to a payout of 73% for 6MFY26.

▼ **6MFY26's Core net profit (NP) of RM5,171m down by -1%yoy.** The decrease was driven by a huge fall in non-fee NOII, which offset improvements in NII, OPEX, and provisioning.

▲ **2QFY26's Core NP of RM2,690m up by +8%qoq.** The increase was driven by better NOII, which offset weaker NII, OPEX and tax charges. 1HFY26's NIM is currently at the 2.12% level – MAY wants to end FY26 closer to the 2.08-2.09% level.

Have a look at:

► **Further NIM compression expected, but NII to be maintained.** The goal is to end FY26 at the 2.08-2.09% level (1HFY26's NIM: 2.12%). Pressure comes from intensifying deposit competition and the issuance of new instruments in preparation for the upcoming Etiqa/MAHB deal's impact on capital. That being said, NII should maintain its current run rate, thanks to stronger asset growth.

This quarter's NIM decline came from all 3 main markets. MY saw higher deposit competition, especially when it desperately needed liquidity to fund high loan growth. SG was hit by the SORA decline (but this should normalise). ID saw an interest rate hike, but not enough pass-through in loan yields.

► **Non-fee weakness should not persist – allowing for a better 2HFY26.** 1HFY26 was dragged by poor investment income, but MAY is optimistic that the latter half will not face similar weakness. On the flipside, fee income growth is very strong and sustainable: there's a lot of potential from asset management services for both pre-existing and new-to-bank customers.

▼ **Tech spend is still an issue.** Management warns that CIR could spike up to 50-51% in subsequent periods, but will prevent it from moving up any further than that. A lot of this comes from topline weakness. Good news: Savings from tech spend are already coming in, and the Group has reduced headcount pretty significantly as a result.

▲ **Strong loan growth recovery, mostly from overseas segments.** After multiple lacklustre quarters stemming from currency impact, loan momentum has picked up once again. ID in particular saw a sharp +4.3%qoq growth (coming from commercial mid-cap and large-cap segments), resulting in international loan growth of +3.0%qoq.

MY retail also performed well – more so on the HP portfolio than residential mortgages. This is part of MAY's plan to tap into the individual customer segment to better cross-sell – a move that may cause exacerbate NIM dilution in exchange for cross-selling opportunities.

► **GIL pickup isn't a big concern.** This quarter saw some pickup in SG and MY GILs, though ID showed improvement. In MY, corporate, residential mortgage and auto segments saw some deterioration. Further pickup is expected in the MY SME, residential mortgage and auto segments, but nothing serious – though the auto portfolio may take time to correct.

Management topped up its overlay stash this quarter. It saw some recoveries this quarter and expects further recoveries in 2HFY26.

Forecasts revised: FY26F/FY27F/FY28F Core NP adjusted by +2%/+1%/+1%. To reflect slightly lower provisions expectations.
Key downside risks. *(1) Steeper-than-expected NIM compression, (2) Weak NOII performance, (3) Weaker-than-expected loans growth.*

Maintain BUY call: Revised GGM-TP of RM 12.36. The TP is based on a revised FY27F P/BV of 1.48x (from 1.47x), to account for altered ROE and earnings expectations.

(GGM assumptions: *FY27F ROE of 11.1%, LTG of 3.0% & COE of 8.5%)*

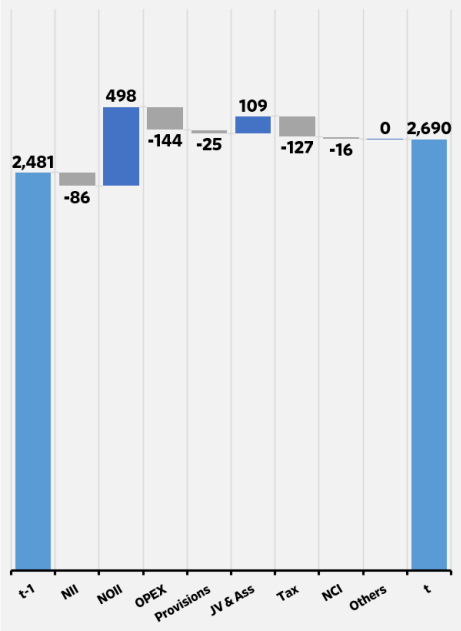
FIG 1: Quarterly results

FYE Dec (RM m)	2Q FY26	1Q FY26	2Q FY25	Yoy (%)	Qoq (%)	1H FY26	1H FY25	Yoy (%)
Net interest inc.	3,095	3,269	3,173	-2	-5	6,364	6,395	-0
Islamic banking inc.	2,293	2,185	2,210	4	5	4,478	4,275	5
Non-interest inc.	2,123	1,645	2,301	-8	29	3,769	4,727	-20
Net income	**7,511**	**7,100**	**7,684**	**-2**	**6**	**14,611**	**15,397**	**-5**
OPEX	(3,689)	(3,546)	(3,785)	-3	4	(7,235)	(7,528)	-4
PPOP	**3,822**	**3,554**	**3,899**	**-2**	**8**	**7,376**	**7,869**	**-6**
Loan provisions	(313)	(485)	(423)	-26	-35	(798)	(808)	-1
Other provisions	83	279	(51)	-262	-70	362	(93)	-487
JV & Associates	51	(58)	87	-41	-188	(7)	138	-105
PBT	**3,642**	**3,290**	**3,512**	**4**	**11**	**6,933**	**7,106**	**-2**
Tax	(869)	(743)	(809)	7	17	(1,612)	(1,760)	-8
NCI	(83)	(67)	(74)	12	23	(150)	(129)	17
Reported NP	**2,690**	**2,481**	**2,628**	**2**	**8**	**5,171**	**5,217**	**-1**
Core NP	**2,690**	**2,481**	**2,628**	**2**	**8**	**5,171**	**5,217**	**-1**
Total NII	5,026	5,112	4,935	2	-2	10,138	9,887	3
Total NOII	2,485	1,988	2,750	-10	25	4,473	5,510	-19
Gross DPS (sen)	**31.0**	**-**	**30.0**	***n.m.***	***n.m.***	**31.0**	**30.0**	***n.m.***
Core EPS (sen)	22.2	20.5	21.8	2	8	42.8	43.2	-1
Gross loans	695,941	684,470	677,588	2.7	1.7			
Gross impaired loans	9,362	9,195	8,822	6.1	1.8			
Customer deposits	700,920	687,086	718,937	-2.5	2.0			
CASA	276,647	267,775	257,251	7.5	3.3			

Ratios (%)	2Q FY26	1Q FY26	2Q FY25	Yoy (ppts)	Qoq (ppts)	1H FY26	1H FY25	Yoy (ppts)
ROE (Ann.)	**11.6**	**11.0**	**11.2**	***0.4***	***0.6***	**11.1**	**11.1**	***0.0***
NIM (Reported)	**2.10**	**2.14**	**2.00**	***0.10***	***-0.04***	**2.12**	**2.02**	***0.10***
NOII/Net income	33.1	28.0	35.8	-2.7	5.1	30.6	35.8	-5.2
Cost/Income	49.1	49.9	49.3	-0.1	-0.8	49.5	48.9	0.6
NCC (Ann.) (bps)	18	28	25	-7	-10	23	24	-1
GIL ratio	1.35	1.34	1.30	0.04	0.00			
Loan loss coverage	96	97	113	-17	-1			
CASA ratio	39.5	39.0	35.8	3.7	0.5			
L/D ratio	98.0	98.3	92.9	5.1	-0.3			
CET-1	15.7	15.0	15.5	0.2	0.7			

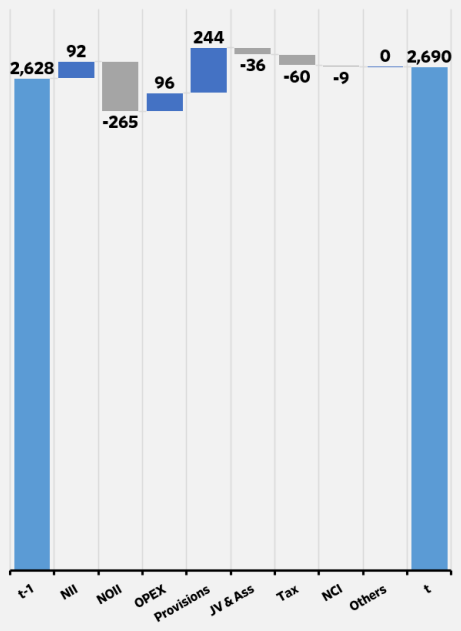
Source: Company, MBSBR

FIG 2: QoQ P/L walk (Quarterly)



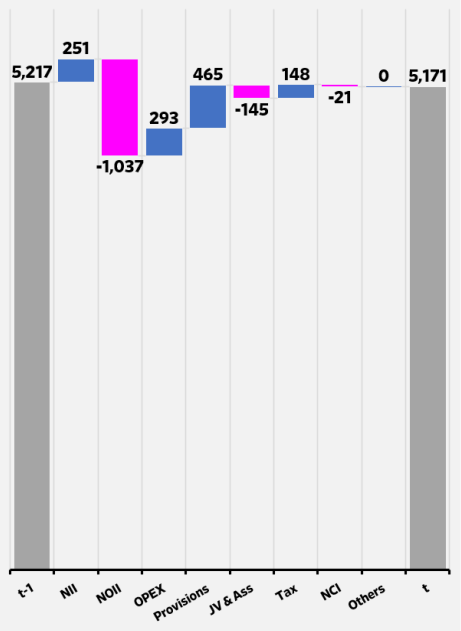
Source: Company, MBSBR

FIG 3: YoY P/L walk (Quarterly)



Source: Company, MBSBR

FIG 4: YoY P/L walk (Cumulative)



Source: Company, MBSBR

FIG 5: Targets, Achievements, and Outlook

Targets	FY26F	1H FY26	Notes (Red: New guidance, ~~Strikethrough: Guidance is no longer pertinent~~)
ROE	>11.8	11.1	
CIR	<49	49.5	
NIM	2.05 – 2.10 (from 2.05)	2.12	Compression expected: MAY want to end FY26 at the 2.08-2.09% level.
NOII		-19% (yoy)	
Loans	4 – 5 (CC)	1.4 (YTD)	
Deposits		0.4 (YTD)	
% CASA		39.5	
Loan/Depo		98.0	
GIL ratio		1.35	
NCC (bps)	20	23	
CET 1		15.7	
Div payout	~72	73	DRP one-off in FY26, for the MAHB deal.

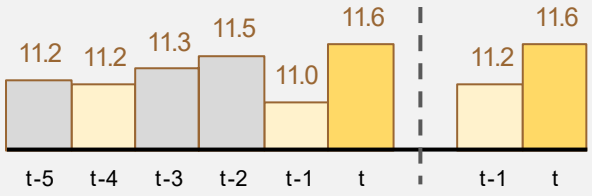
Source: Company, MBSBR

INCOME STATEMENT (QUARTERLY & CUMULATIVE)

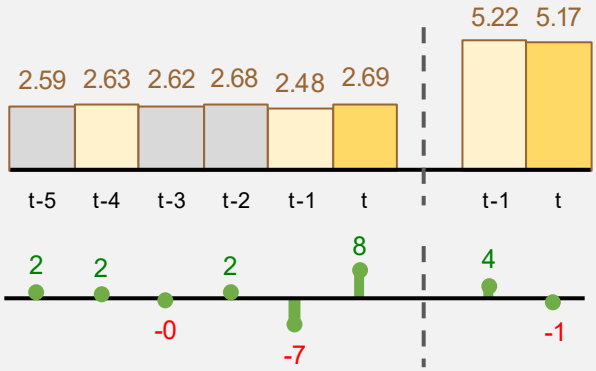
2QFY26 / 6MFY26 results

Earnings:	Within our full-year forecasts	(49%)
	Within street full-year forecasts	(49%)
Dividend:	YES	
YTD payout:	73%	

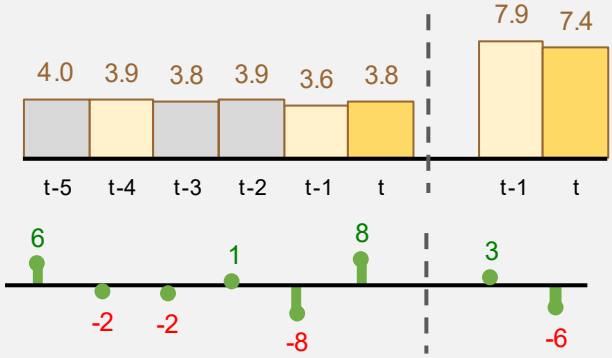
ROE (%)



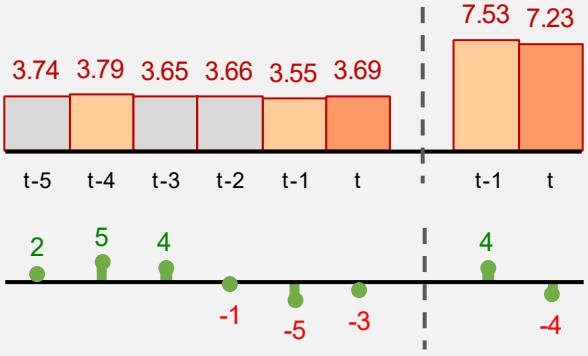
Core Net Profit (RM b)
Growth -- qoq (Qtr) & yoy (Cum) (%)



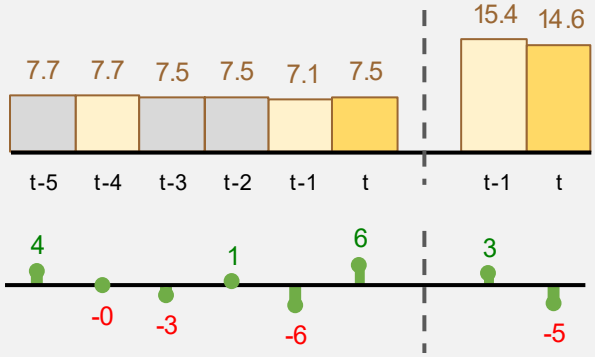
Pre-Provisioning Operating Profit (RM b)
Growth -- qoq (Qtr) & yoy (Cum) (%)



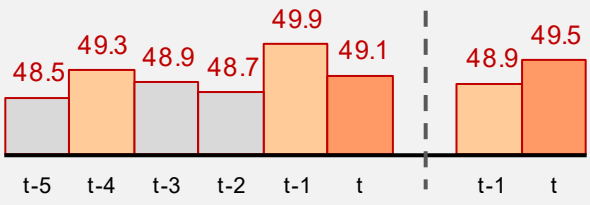
OPEX (RM b)
Growth -- yoy only! (Qtr & Cum) (%)



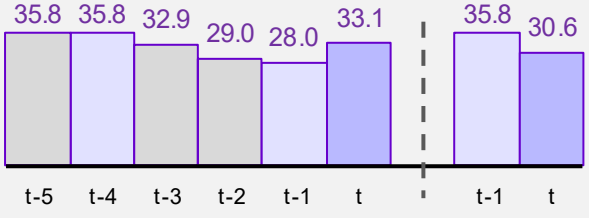
Topline (RM b)
Growth -- qoq (Qtr) & yoy (Cum) (%)



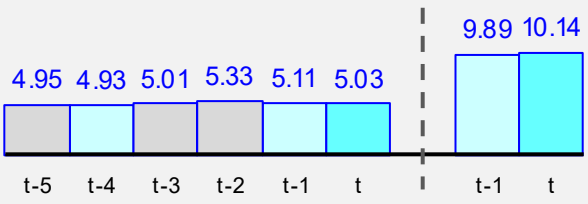
Cost/Income ratio (%)



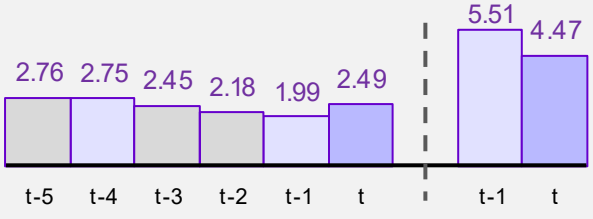
% NOII as topline (%)



Net interest income (RM b)

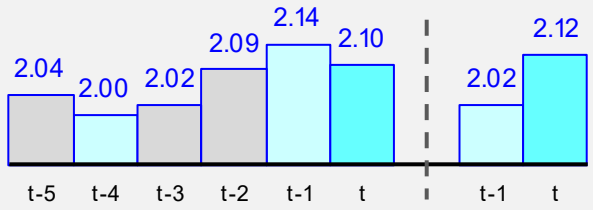


Non-interest income (RM b)

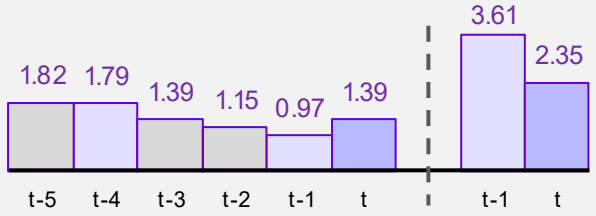


Source: Company, MBSBR

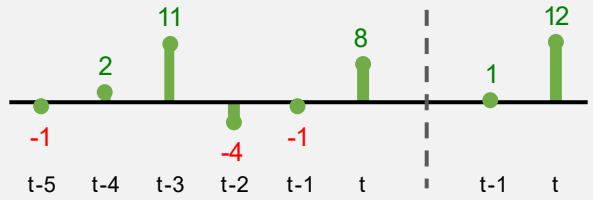
NIM (%)



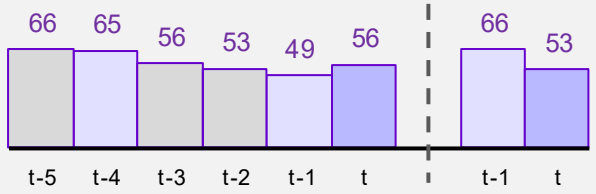
Non-fee NOII (RM b)



Fee income growth -- qoq (Qtr) & yoy (Cum) (%)

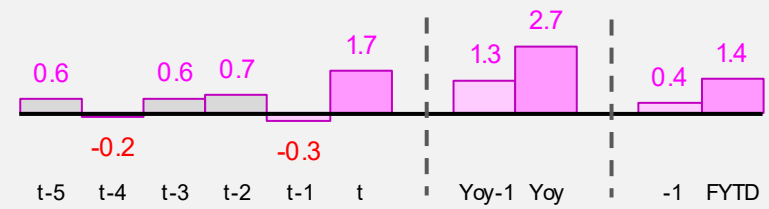


% Non-fee income as NOII (%)

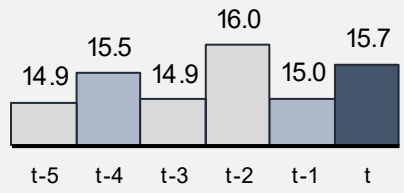


BALANCE SHEET

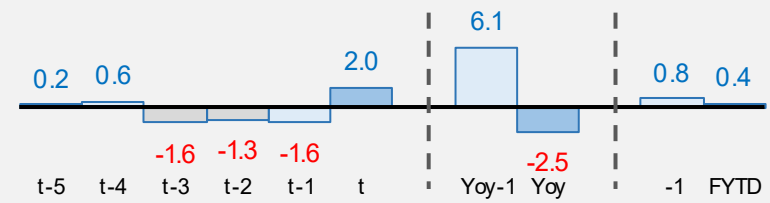
Loan growth -- qoq, yoy, FYTD (%)



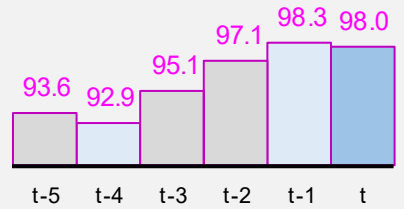
CET 1 ratio (%)



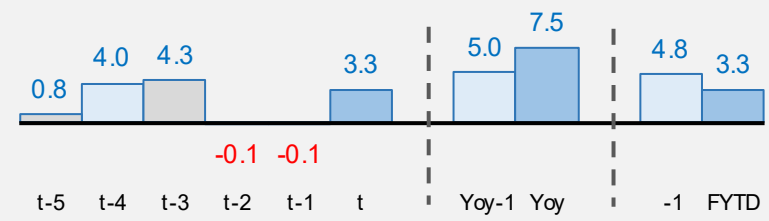
Deposit growth -- qoq, yoy, FYTD (%)



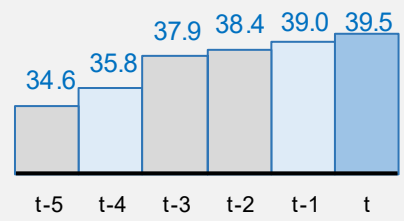
Loan/Deposit ratio (%)



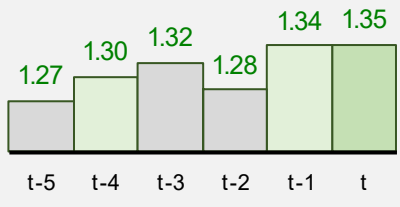
CASA growth -- qoq, yoy, FYTD (%)



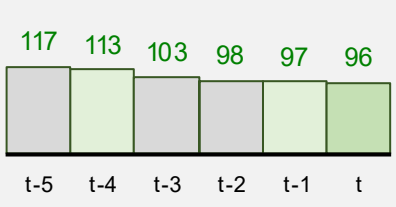
CASA ratio (%)



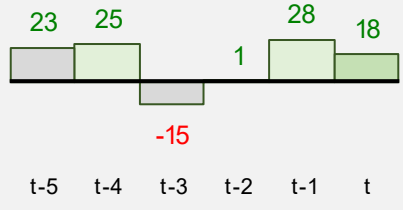
GIL ratio (%)



Loan loss coverage (%)



Ann. net credit cost (bps)



Source: Company, MBSBR

FIG 6: Retrospective performance

Metric	Surprise? Qoq/Yoy		Metric	Surprise? Qoq/Yoy	
Qtrly Core NP	RM mil	2,690	Qtrly ROE	Qtr value	11.6%
	26% of FY CNP				
	Qoq	8%		t-1	11.0%
	Yoy	2%		t-4	11.2%
Cum Core NP	RM mil	5,171	Cum ROE	Cum value	11.1%
	Within our forecast				
	49% of FY CNP				
	Within consensus				
	49% of FY CNP				
	Yoy	-1%		t-1	11.1%
NII	As expected		NIM	As expected	
				Qtr value	2.10
				Cum value	2.12
	Qtr (Qoq)	-2%		Qtr (Qoq)	-4bps
	Qtr (Yoy)	2%		Qtr (Yoy)	+10bps
	Cum (Yoy)	3%		Cum (Yoy)	+10bps
NOII	As expected		Qtr	% NII	67%
	Qtr (Qoq)	25%		% NOII	33%
	Qtr (Yoy)	-10%	Cum	% NII	69%
	Cum (Yoy)	-19%		% NOII	31%
OPEX	As expected		Cost/ Inc.	As expected	
				Qtr value	49.1%
				Cum value	49.5%
	Qtr (Qoq)	4%		Qtr (Qoq)	-0.8%
	Qtr (Yoy)	-3%		Qtr (Yoy)	-0.1%
	Cum (Yoy)	-4%		Cum (Yoy)	+0.6%

Metric	Surprise? Qoq/Yoy		Metric	Surprise? Qoq/Yoy	
Loans	As expected				
	Qoq	1.7%			
	Yoy	2.7%			
	YTD (FY)	1.4%			
Depo. grwth	As expected		CASA grwth	As expected	
	Qoq	2.0%		Qoq	3.3%
	Yoy	-2.5%		Yoy	7.5%
	YTD (FY)	0.4%		YTD (FY)	3.3%
CASA ratio	As expected		L/D ratio	As expected	
	Value now	39.5%		Value now	98.0%
	Qoq	+0.5%		Qoq	-0.3%
	Yoy	+3.7%		Yoy	+5.1%
GIL ratio	As expected		LLC ratio	As expected	
	Value now	1.35%		Value now	96%
	Qoq	+0bps		Qoq	-1%
	Yoy	+4bps		Yoy	-17%
Qtrly Net CC	As expected		Cum Net CC	As expected	
	Decent provision			Decent provision	
	Value now	18bps		Value now	23bps
	t-1	28bps			
	t-4	25bps		t-4	24bps
CET 1	Very healthy level		Div payout	Div announced	
	As expected			As expected	
	Value now	15.7%		Payout	73%
	Qoq	0.7%			

Source: Company, MBSBR

FINANCIAL SUMMARY

INCOME STATEMENT

FYE Dec (RM m)	FY24	FY25	FY26F	FY27F	FY28F
Net interest income	**12,807**	**13,157**	**13,907**	**14,472**	**14,983**
Islamic banking inc.	8,346	8,653	8,965	9,329	9,659
Other operating inc.	8,419	8,569	7,709	8,046	8,440
Net income	**29,573**	**30,380**	**30,581**	**31,847**	**33,082**
OPEX	(14,460)	(14,839)	(14,832)	(15,446)	(16,045)
PPOP	**15,112**	**15,540**	**15,749**	**16,401**	**17,037**
Loan allowances	(1,671)	(562)	(1,401)	(1,457)	(1,515)
Other allowances	24	(919)	(328)	(333)	(339)
JV & Associates	236	274	283	295	307
PBT	**13,702**	**14,334**	**14,304**	**14,907**	**15,490**
Tax & zakat	(3,195)	(3,502)	(3,433)	(3,578)	(3,718)
NCI	(418)	(317)	(326)	(340)	(353)
Reported NP	**10,089**	**10,514**	**10,545**	**10,989**	**11,420**
Core NP	**10,089**	**10,514**	**10,545**	**10,989**	**11,420**
Total NII	19,693	20,232	20,452	21,283	22,034
Total NOII	9,880	10,148	10,130	10,565	11,048

BALANCE SHEET

FYE Dec (RM m)	FY24	FY25	FY26F	FY27F	FY28F
Cash & ST funds	62,798	42,359	42,499	42,641	42,784
Investment securities	240,829	243,817	250,324	257,009	263,879
Net loans	662,741	676,981	704,729	732,918	762,234
Other IEAs	29,564	21,718	22,634	23,593	24,598
Non-IEAs	79,390	68,708	50,982	51,885	52,827
Total assets	**1,075,322**	**1,053,584**	**1,071,167**	**1,108,046**	**1,146,322**
Customer deposits	712,915	698,210	726,139	755,184	785,392
Other IBLs	163,018	156,543	161,863	167,440	173,289
Non-IBLs	102,182	101,989	82,949	81,272	79,412
Total liabilities	**978,115**	**956,742**	**970,950**	**1,003,896**	**1,038,093**
Share capital	54,736	54,882	54,882	54,882	54,882
Reserves	39,234	38,562	42,227	46,038	49,991
Shareholders' funds	**93,971**	**93,445**	**97,110**	**100,920**	**104,873**
NCI	3,237	3,397	3,108	3,229	3,356
Total equity	**97,207**	**96,842**	**100,217**	**104,150**	**108,229**
Total L&E	**1,075,322**	**1,053,584**	**1,071,167**	**1,108,046**	**1,146,322**
Total IEAs	995,932	984,875	1,020,185	1,056,161	1,093,496
Total IBLs	875,933	854,753	888,001	922,624	958,680
Gross loans	674,969	686,549	714,011	742,571	772,274
CASA	245,485	267,912	275,933	286,970	298,449

FINANCIAL RATIOS

FYE Dec (RM m)	FY24	FY25	FY26F	FY27F	FY28F
Interest (%)					
NIM	2.01	2.02	2.04	2.05	2.05
Return on IEAs	3.36	2.96	2.98	2.94	2.88
Cost of funds	2.34	1.87	1.84	1.77	1.70
Net interest spread	1.02	1.09	1.15	1.17	1.18
Profitability (%)					
ROE	**10.7**	**11.2**	**11.1**	**11.1**	**11.1**
ROA	1.0	1.0	1.0	1.0	1.0
NOII/Net income	33.4	33.4	33.1	33.2	33.4
Effective tax rate	23.3	24.4	24.0	24.0	24.0
Cost/Income	48.9	48.8	48.5	48.5	48.5
Liquidity (%)					
Loan/Deposit	93.0	97.0	97.1	97.1	97.1
CASA ratio	34.4	38.4	38.0	38.0	38.0
Asset Quality (%)					
GIL ratio	1.23	1.28	1.30	1.30	1.30
LLC ratio	122	98	100	100	100
LLC (w. reserves)	157	122	123	122	121
Net CC (bps)	25	8	20	20	20
Capital (%)					
CET 1	15.8	16.0	13.3	13.5	13.7
Tier 1 capital	16.1	16.4	13.7	13.9	14.1
Total capital	18.9	20.0	17.3	17.6	17.9
Growth (%)					
Total NII	2.0	2.7	1.1	4.1	3.5
Total NOII	22.6	2.7	-0.2	4.3	4.6
Net income	8.1	2.7	0.7	4.1	3.9
OPEX	8.0	2.6	-0.0	4.1	3.9
Core NP	7.9	4.2	0.3	4.2	3.9
Gross loans	5.3	1.7	4.0	4.0	4.0
Customer deposits	6.3	-2.1	4.0	4.0	4.0
CASA	5.0	9.1	3.0	4.0	4.0
Valuation metrics					
Core EPS (sen)	83.4	87.0	87.2	90.9	94.4
Gross DPS (sen)	61.0	63.0	62.8	65.4	67.9
Div payout (%)	73	72	72	72	72
BVPS (RM)	7.8	7.7	8.0	8.3	8.7
Core P/E (x)	12.7	12.2	12.2	11.7	11.2
Div yield (%)	**5.7**	**5.9**	**5.9**	**6.2**	**6.4**
P/BV (x)	1.4	1.4	1.3	1.3	1.2

Source: Company, MBSBR

MBSB RESEARCH is part of MBSB Investment Bank Berhad 197501002077 (24878-X).

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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