

## Banking

**OVERWEIGHT**

(MAINTAINED)

Rationale for report: Sector Update

**Analyst (s)**

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## Rainbows do exist

MY banks are well-positioned to navigate macro uncertainty, thanks to strong capital, liquidity, and provision buffers; BNM's stress tests are reassuring as well. The HH sector is more insulated, backed by ongoing policy measures, with banks skewed toward residential mortgages (HLFG, HLB, Public) offering a more defensive tilt. That said, pockets of weakness could emerge in the Biz segment from rising opex, with resilience likely leaning to large corporates (RHB, Maybank, CIMB), while SMEs (Alliance) remain more vulnerable.

- **Maintain OVERWEIGHT.** The sector enters this precarious period from a position of strength, with stable AQ and undemanding valuations (trading near -2SD to pre-Covid levels), plus compelling dividend yields of >5% (c.210bp spread over 10-year MGS). Our BUY ratings include: HLFG, HLB, Public and CIMB.
- **Raincoats ready.** Despite uncertainties from the Middle East war, we believe MY banking system is resilient, anchored by strong capital and liquidity buffers: CET1 at 14.2%, LCR at 155%, and NSFR at 116%. In our opinion, MY banks can absorb macro shocks, as reinforced by BNM's conservative stress tests: even under a severe scenario where GIL ratio spikes to 8.7% (from 1.4% in 2025), CET1 ratio would decrease to just 12.0%, still well above the 4.5% regulatory floor and internal comfort levels. More importantly, such deterioration is unlikely given available mitigation levers (e.g. R&R, special funds) and evidenced during Covid-19, when it peaked at only 1.9% in a crippled economy. Besides, system LLC+RR remains elevated at 127% (vs 2015-19 average: 114%), underscoring the sector's ability to weather rainy days.
- **Some stay drier.** The HH sector is well-insulated, with leverage not overstretched. Debt-to-GDP is steady at 84.8%, while borrowing discipline is intact: median DSR at 33% and DTI stable at 1.3x. In addition, buffers are healthy, with financial assets covering debt by 2.1x and 1.3x on a liquid basis, providing solid downside protection. Also, the share of HH loans labelled as having higher credit risk (borrowers with DSR >60% and <RM1k/mth net disposable income) has fallen 20bp HoH to 8.9%. Overall, continued policy support (through subsidies and cash aids) should help to anchor resilience and keep AQ in check. That said, banks with big residential mortgage exposure, namely HLFG, HLB and Public (42-48% vs sector: 37%), offer an added layer of defence, given borrowers' priority to protect their homes and strong collateral backing.
- **Some feel the rain.** Biz fundamentals remained robust, with solid debt servicing capacity (interest coverage at 6.4x; cash/ST debt at 1.8x) and improving leverage (21.2% debt-to-equity). Also, firms-at-risk (ICR <2x) dropped to 23.7% (-2.2ppt HoH), well below the 3Q20 peak (30.3%), though still above pre-Covid norms (2015-19 mean: 20.3%). Besides, AQ improved, with Stage 2 loans easing to 10.7% (-1.2ppt HoH), while impaired SME loans broadly stable at 3.5% (-10bp HoH). That said, pockets of weakness may emerge from higher operating costs, leaving the sector somewhat less insulated vs HH. We expect big corporates to be relatively more resilient than SMEs; RHB, Maybank and CIMB have stronger franchises in the former (31-34% vs sector: 26%), while Alliance is more exposed to the latter (34% vs sector: 17%).

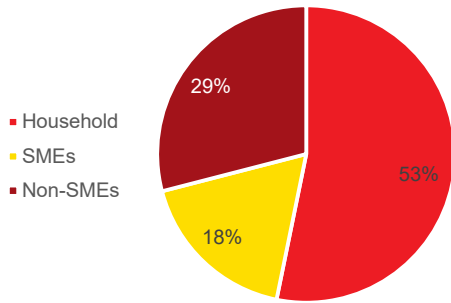
Quick Take

**EXHIBIT 1. Macro stress test - Key assumptions and shock parameters applied under assumed adverse scenarios**

Key Assumptions	Adverse Scenario 1 (AS1)	Adverse Scenario 2 (AS2)
Annual domestic real GDP growth	Up to -6.0%	Up to -3.5%
Annual unemployment rate	Up to 5.4%	Up to 6.0%
Market risk shocks		
- Increase in 10Y MGS yield	Up to 300 basis points	Up to 270 basis points
- Increase in 10Y AAA corporate bond yield	Up to 420 basis points	Up to 370 basis points
- Decline in FBM KLCI	Up to 30%	Up to 30%
OPR hike	Up to 100 basis points	Up to 100 basis points
MYR depreciation against USD	Up to 30%	Up to 20%
Quarterly headline inflation	Up to 7.5%	Up to 5.4%

Source: BNM

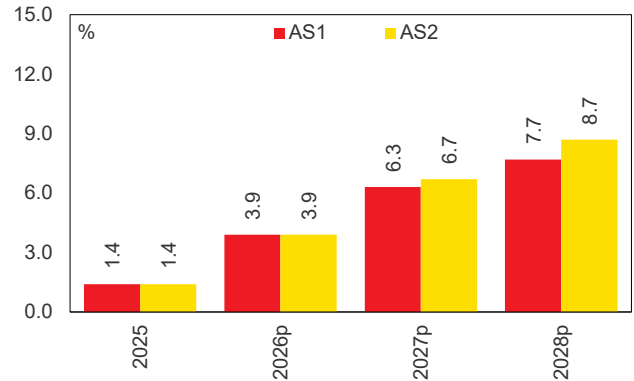
**EXHIBIT 2. Drivers of cumulative credit losses under AS2**



Cumulative credit losses (2026-28p): RM90.6bn

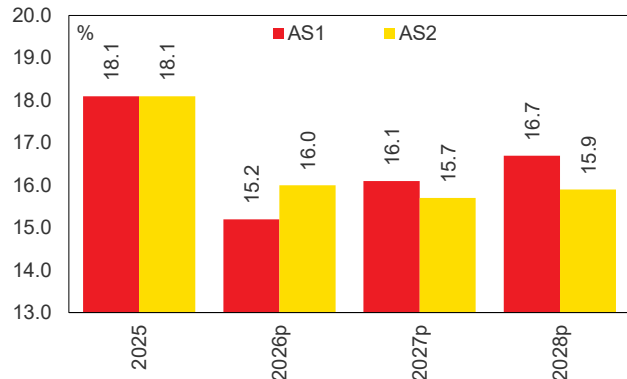
Source: BNM

**EXHIBIT 3. GIL ratio under AS1 and AS2**



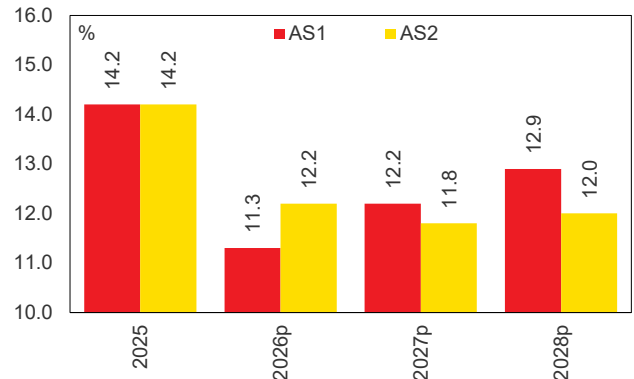
Source: BNM

**EXHIBIT 4. Total capital ratio under AS1 and AS2**



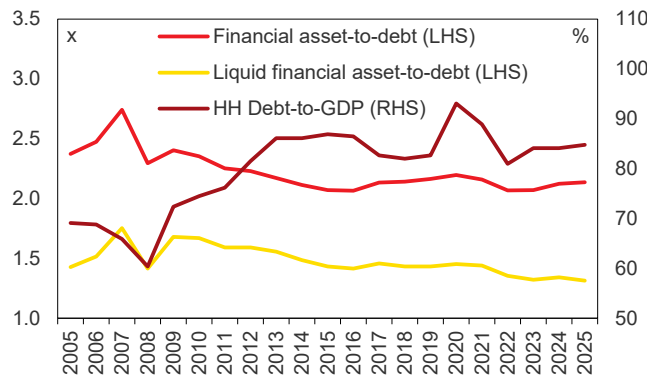
Source: BNM

**EXHIBIT 5. CET1 ratio under AS1 and AS2**



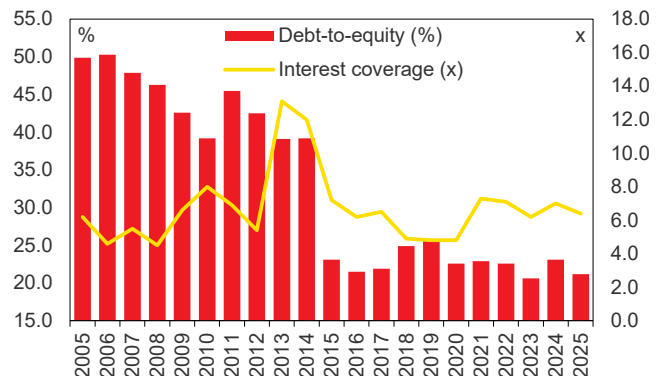
Source: BNM

**EXHIBIT 6. Key ratios for HH sector**



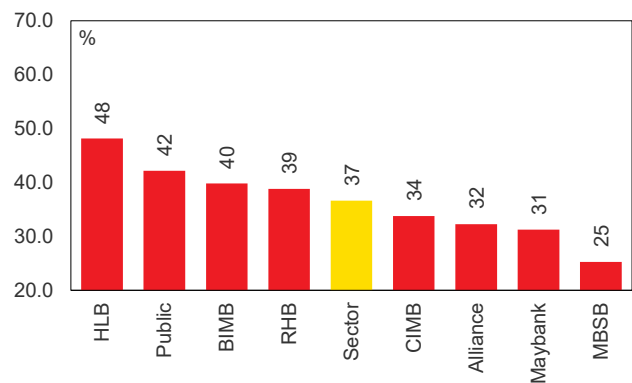
Source: BNM

**EXHIBIT 7. Key ratios for Biz sector**



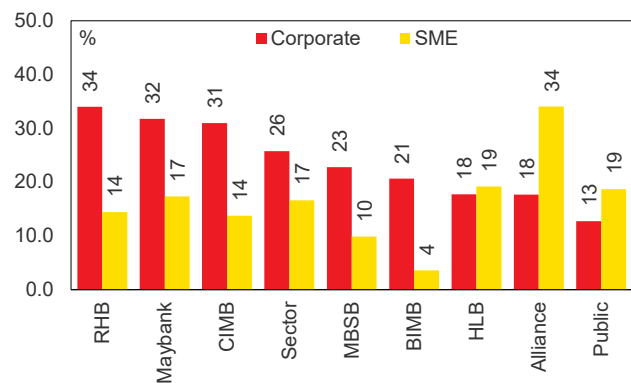
Source: BNM

EXHIBIT 8. Residential mortgage % to total loans



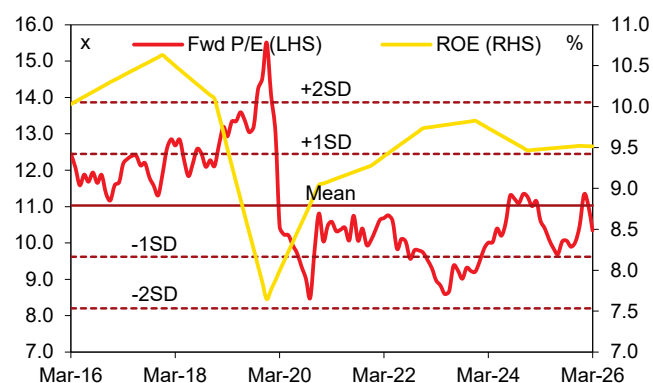
Source: Companies

EXHIBIT 9. Corporate & SME lending % to total loans



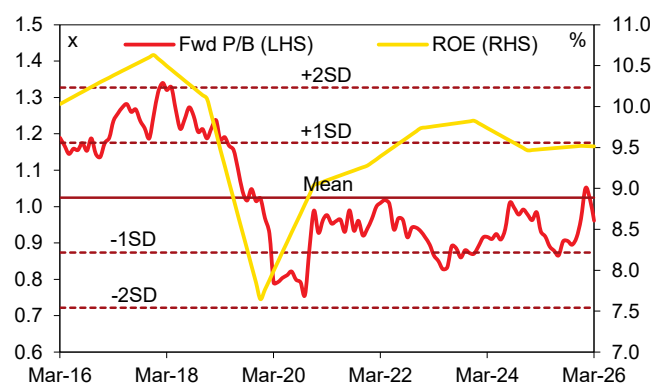
Source: Companies

EXHIBIT 10. 10-year forward sector P/E band



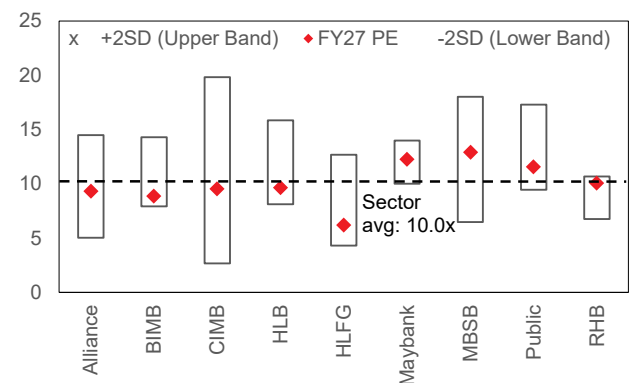
Source: AmInvestment Bank, Bloomberg

EXHIBIT 11. 10-year forward sector P/B band



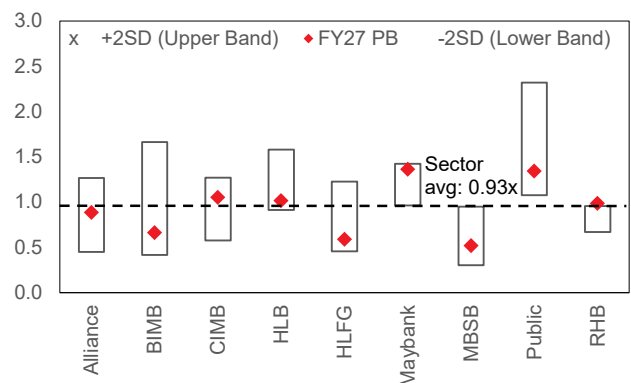
Source: AmInvestment Bank, Bloomberg

EXHIBIT 12. Banks' P/E vs their respective +/-2SD levels



Source: AmInvestment Bank, Bloomberg

EXHIBIT 13. Banks' P/B vs their respective +/-2SD levels



Source: AmInvestment Bank, Bloomberg

EXHIBIT 14. Peers comparison

	Price (RM)	Target (RM)	Call	P/E (x)		EPS growth (%)		P/B (x)		Div. yield (%)		ROE (%)	
				2026	2027	2026	2027	2026	2027	2026	2027	2026	2027
Bank A	2.48	-	N.R.	9.4	8.6	14.3	9.5	0.5	0.5	4.2	4.6	5.2	5.5
Alliance	4.78	5.70	HOLD	10.0	9.3	10.4	6.9	0.9	0.9	4.1	4.3	10.1	9.8
BIMB	2.40	2.70	HOLD	9.6	8.9	10.6	8.0	0.7	0.7	6.3	6.8	7.2	7.6
CIMB	7.59	10.30	BUY	9.8	9.5	5.3	3.2	1.1	1.1	6.5	6.7	11.4	11.3
HLB	21.90	28.00	BUY	10.2	9.6	3.1	5.8	1.1	1.0	4.6	4.9	10.9	10.8
HLFG	19.12	33.00	BUY	6.6	6.2	2.0	6.0	0.6	0.6	4.7	4.9	9.9	9.8
Maybank	11.36	12.00	HOLD	12.5	12.3	3.9	2.3	1.4	1.4	5.8	6.0	11.4	11.3
MBSB	0.65	0.70	HOLD	13.7	12.9	39.5	6.2	0.5	0.5	5.8	6.2	3.9	4.0
Public	4.66	5.60	BUY	12.0	11.6	4.3	3.8	1.4	1.3	5.0	5.3	12.1	11.9
RHB	8.31	8.80	HOLD	10.5	10.1	2.1	4.5	1.0	1.0	6.1	6.4	9.9	10.0
Sector				10.4	9.9	9.6	5.6	0.9	0.9	5.3	5.6	9.2	9.2
Sector (ex-Bank A)				10.5	10.0	9.0	5.2	1.0	0.9	5.4	5.7	9.7	9.6

Source: AmInvestment Bank, Bloomberg

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