MBSB BERHAD

(MBSB MK EQUITY, MBSS.KL)

HOLD

(MAINTAINED)

Price: RM0.61
Target Price (% return): RM0.60 (9%)
52-week High/Low: RM0.79/RM0.60

Financial Services
Rationale for report: Company Result

No quick fix

Retain HOLD on MBSB with a lower TP of RM0.60 (from RM0.68). Unfortunately, 2Q26 marks the second successive earnings miss, weighed down by weak NFM and elevated loss provisions. That said, we acknowledge management has inherited a difficult task of repositioning an under-optimized franchise, and fine-tuning the balance sheet to establish a clearer growth runway will naturally take time. The silver lining is valuation: the stock trades at a depressed -1.5SD to its 5-year pre-Covid mean, while a c.6% yield provides some compensation as investors wait for a more meaningful turnaround.

- **HOLD with lower TP of RM0.60 (from RM0.68),** pegged to 0.49x FY27 P/B (from 0.55x). The valuation is near to -1.5SD of its 5-year pre-Covid mean, considering its ROE output is anaemic at 3ppt beneath 2015-19 levels.
- **Missed estimates.** MBSB inked 2Q26 earnings of RM44mil (-54% YoY, +47% QoQ), taking 1H26 sum to RM74mil (-59% YoY); this makes up just 22-24% of our and consensus full-year forecasts. The shortfall stemmed from softer-than-anticipated NFM coupled with elevated financing loss provisions, prompting us to cut FY26-28 profit by 7-21%. A DPS of 0.9sen was declared (-57% YoY).
- **Tough NFM outlook.** Considering the late surge in corporate financing in 1Q26, income uplift was expected to flow through in 2Q26. However, this failed to materialize as sharp repayments eroded the benefit, compounded by a shift towards variable-rate financing and intense deposit rivalry, leaving NFM flat QoQ vs expectations of an improvement. In turn, MBSB trimmed its FY26 NFM guidance by 40bp, marking a 30bp YoY compression from FY25. Going forward, seeing FDR is already stretched at 109%, we believe there is less room for optimization and NFM repair looks like an uphill task.
- **Some bright spots.** On a more positive note, cheaper CASA is gaining momentum, with balances up 87/28% YoY/QoQ, lifting the CASA ratio by 7/3ppt YoY/QoQ to a record 18%; MBSB is targeting 20% by end-26 to help improve the funding mix. Meanwhile, MBSB is still lightly geared at just c.7x vs sector's c.10x, along with robust CET1 of 17%. Together, these provide balance sheet scope to accelerate asset growth and potentially boost ROE over the longer term.

YE to Dec	FY25	FY26F	FY27F	FY28F
Total income (RM mil)	1,504.8	1,534.2	1,619.6	1,693.7
Core net profit (RM mil)	279.5	248.4	313.8	345.0
FD Core EPS (sen)	3.4	3.0	3.8	4.2
FD Core EPS growth (%)	(31.3)	(11.1)	26.3	9.9
Consensus Net Profit (RM mil)	-	340.3	441.3	518.3
DPS (sen)	3.2	2.7	3.4	3.8
BV/share (RM)	1.20	1.23	1.23	1.24
PE (x)	17.8	20.0	15.9	14.4
Div yield (%)	5.3	4.5	5.7	6.2
P/BV (x)	0.5	0.5	0.5	0.5
ROE (%)	2.8	2.5	3.1	3.4

Source: MBSB BERHAD, AmInvestment Bank Bhd.

Analyst (s)

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Key Changes

Target Price:	⇩
EPS:	⇩

Stock and Financial Data

Shares Outstanding (million)	8,222.3
Market Cap (RMmil)	4,974.5
Book Value (RM/Share)	1.20
P/BV (x)	0.5
ROE (%)	2.8
Free Float	40.9
Avg Daily Value (RMmil)	1.9

Major Shareholders

EPF	(56.6%)
Yayasan Pelaburan	(12.6%)
HSBC	(1.6%)

Price performance	3mth	6mth	12mth
Absolute(%)	(8.3)	(15.4)	(13.6)
Relative(%)	(10.6)	(15.8)	(21.1)

Source: MBSB BERHAD, AmInvestment Bank Bhd.

Price Chart

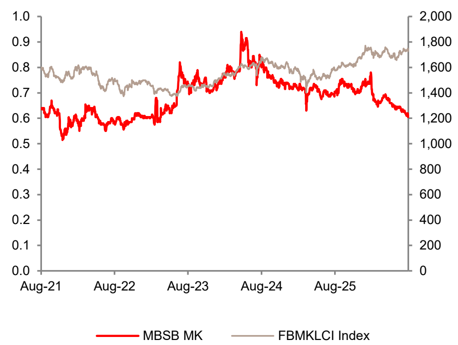


EXHIBIT 1. 2Q26 Results Summary

FYE Dec (RMmil)	2Q26	2Q25	YoY (%)	1Q26	QoQ (%)	1H26	1H25	YoY (%)
Net financing income	272.6	356.4	-23.5	261.1	4.4	533.7	692.0	-22.9
Non-financing income	79.8	68.1	17.1	73.0	9.3	152.8	111.1	37.5
Total income	**352.4**	**424.5**	**-17.0**	**334.1**	**5.5**	**686.4**	**803.1**	**-14.5**
Operating expenses	-229.7	-233.1	-1.4	-219.7	4.6	-449.4	-466.9	-3.7
Pre-provision profit	**122.6**	**191.4**	**-35.9**	**114.4**	**7.2**	**237.0**	**336.2**	**-29.5**
Loan loss provisions	-62.7	-57.1	9.8	-72.6	-13.6	-135.3	-85.2	59.0
Operating profit	**59.9**	**134.3**	**-55.4**	**41.8**	**43.4**	**101.7**	**251.1**	**-59.5**
Others	1.5	-0.4	n.m.	-0.9	n.m.	0.6	-0.6	n.m.
Pre-tax profit	**61.4**	**133.8**	**-54.1**	**40.8**	**50.4**	**102.2**	**250.5**	**-59.2**
Tax & minority interest	-17.2	-38.3	-55.0	-10.7	61.0	-27.9	-70.3	-60.3
Net Profit	**44.2**	**95.6**	**-53.7**	**30.1**	**46.7**	**74.4**	**180.2**	**-58.7**
EPS (sen)	**0.5**	**1.2**	**-53.7**	**0.4**	**46.7**	**0.9**	**2.2**	**-58.7**
DPS (sen)	**0.9**	**2.0**	**-57.0**	**0.0**	**n.m.**	**0.9**	**3.8**	**-77.4**
BVPS (RM)	**1.18**	**1.21**	**-2.2**	**1.18**	**0.5**	**1.18**	**1.21**	**-2.2**

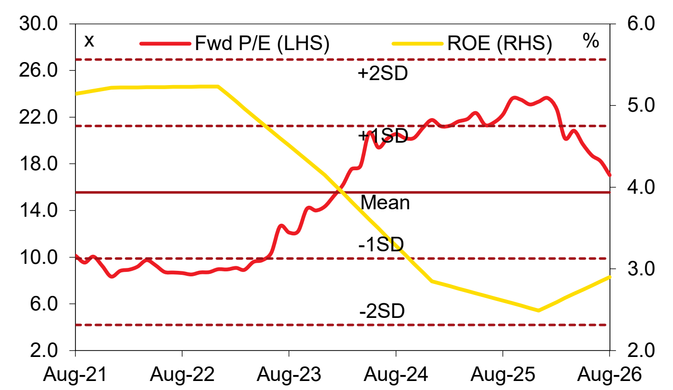
Source: MBSB, AmInvestment Bank Bhd.

EXHIBIT 2. Financial ratios

FYE Dec (%)	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25	1Q26	2Q26
Net financing margin	2.30	2.70	2.10	2.10	2.00	1.40	1.60	1.60
Cost / income ratio	52.7	53.3	61.7	54.9	58.1	57.0	65.8	65.2
Return on equity	5.0	6.2	3.5	3.9	3.9	0.1	1.2	1.8
Financing growth, yoy	6.4	2.2	-0.7	-1.7	2.1	2.2	7.5	9.2
Deposits growth, yoy	9.2	4.0	2.0	-3.3	11.6	0.9	3.1	11.3
Financing / deposit ratio	116.9	106.6	105.9	111.1	107.0	107.9	110.4	109.0
Gross impaired financing ratio	6.72	5.33	5.49	5.58	6.00	6.33	6.12	6.23
Financing loss coverage	51.4	37.0	35.1	35.0	30.8	28.1	28.2	27.9
Net credit cost (bp)	37.9	-8.3	26.0	53.3	21.2	129.8	65.8	55.5
CET1 ratio	20.0	19.2	19.4	19.8	19.2	19.2	17.9	17.4

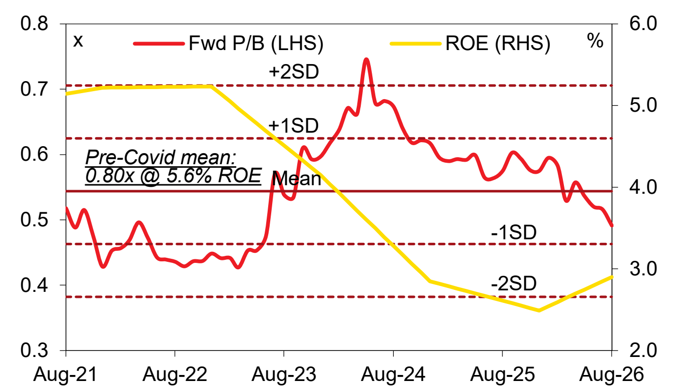
Source: MBSB, AmInvestment Bank Bhd.

EXHIBIT 3. 5-YR FORWARD P/E BAND



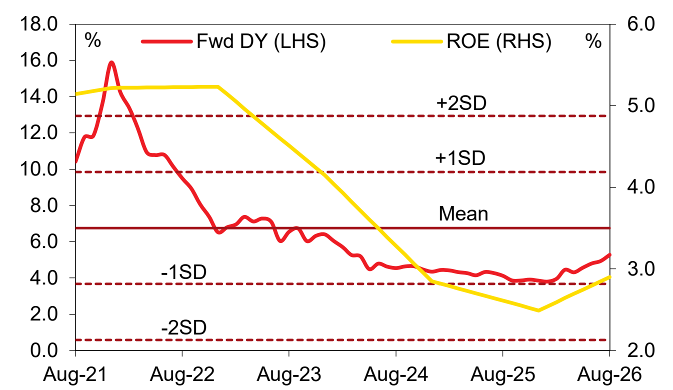
Source: AmInvestment Bank, Bloomberg

EXHIBIT 4. 5-YR FORWARD P/B BAND



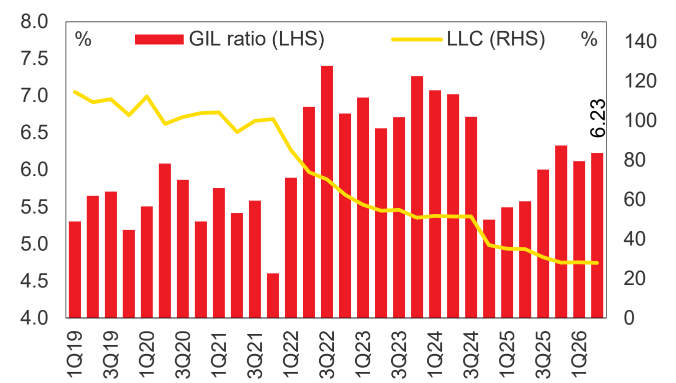
Source: AmInvestment Bank, Bloomberg

EXHIBIT 5. 5-YR FORWARD DY BAND



Source: AmInvestment Bank, Bloomberg

EXHIBIT 6. LLC CONTINUES TO BE LOW



Source: AmInvestment Bank, MBSB

EXHIBIT 7. CHANGE IN FORECASTS

(RM'm)	FY26 New	FY26 Old	FY26 %	FY27 New	FY27 Old	FY27 %	FY28 New	FY28 Old	FY28 %
Total income	1,534.2	1,600.3	-4.1	1,619.6	1,673.5	-3.2	1,693.7	1,735.5	-2.4
Loan loss provisions	-241.2	-218.0	10.7	-213.5	-210.9	1.2	-221.6	-229.5	-3.4
Core profit	248.4	312.7	-20.6	313.8	354.4	-11.5	345.0	369.4	-6.6

Source: AmInvestment Bank

EXHIBIT 8. VALUATIONS

Long-term return on equity (LT ROE)	5.0% (from 3.5%; 1-yr Fwd ROE)
Cost of equity (COE)	7.1% (from 3.9%)
Long-term growth rate (LTG)	3.0%
Target P/B	0.49x (from 0.55x)
FY27 BVPS	RM1.23 (from RM1.24)
ESG premium	-
12-month target price	RM0.60 (from RM0.68)

Source: AmInvestment Bank

Company profile

MBSB is the only one of the two pure listed Islamic banks on Bursa. It offers banking and financial solutions that adhere to the Shariah rules and principles. On top of its commercial banking services, MBSB provides investment banking and asset management services.

The bank's footprint is entirely in Malaysia, supported by a branch network of close to 70 locations.

Investment thesis and catalysts

There are some persistent challenges that prevents us to be more bullish on MBSB given: (i) weak retail deposit franchise, (ii) sub-par CASA ratio, (iii) elevated FDR, (iv) high GIF ratio, along with (v) low financing loss coverage. That said, the bank's low gearing level provides scope to leverage up its balance sheet and boost ROE, once existing issues are resolved.

Also, another silver lining is valuation: the stock trades at a depressed -1.5SD to its 5-year pre-Covid average, while a c.6% dividend yield provides some compensation as investors wait for a more meaningful turnaround.

Valuation methodology

We value MBSB using the Gordon Growth Model (GGM), since it incorporates both P/B and ROE into a single formula; notably, ROE plays an important role to the valuation of banking stocks as it has a strong correlation to P/B (87%).

We derived a TP of RM0.60 for MBSB and this is based on 0.49x FY27 P/B with assumptions of 5.0% LT ROE, 7.1% COE, and 3.0% LTG. The valuation is close to -1.5SD of its 5-year pre-Covid mean level, considering its ST ROE generation is anaemic at 3ppt beneath 2015-19 levels. Moreover, it is below sector average of 0.95x and we reckon this is reasonable due to MBSB's weaker ST ROE output of 6ppt.

Risk factors

Key downside risks include:

i) Sharp slowdown in global economic growth, giving rise to a spike in NPL formation; this could weigh on NCC and earnings.

ii) Intense competition for both loans and deposits could exert downward pressure on NFM. Its weak retail deposit franchise can compound the slippage as well.

iii) ROE continues to slide and in turn, suppress valuations.

Financial Summary

Income Statement (RMmil)

YE to Dec	FY24	FY25	FY26F	FY27F	FY28F
Net interest income	1,493.4	1,224.9	1,251.5	1,310.7	1,358.3
Non-interest income	159.1	279.9	282.7	308.9	335.3
Islamic banking income	-	-	-	-	-
Total income	**1,652.5**	**1,504.8**	**1,534.2**	**1,619.6**	**1,693.7**
Overhead expenses	(907.3)	(870.9)	(953.1)	(975.4)	(998.0)
Pre-provision profit	745.1	633.8	581.2	644.3	695.7
Loan loss provisions	(171.5)	(248.8)	(241.2)	(213.5)	(221.6)
Impairment & others	12.7	5.0	5.0	5.0	5.0
Associates	-	-	-	-	-
Pretax profit	**586.3**	**390.0**	**344.9**	**435.8**	**479.1**
Tax	(179.6)	(110.5)	(96.6)	(122.0)	(134.2)
Minority interests	-	-	-	-	-
Net profit	**406.8**	**279.5**	**248.4**	**313.8**	**345.0**
Core net profit	406.8	279.5	248.4	313.8	345.0

Balance Sheet (RMmil)

YE to Dec	FY24	FY25	FY26F	FY27F	FY28F
Cash & deposits with FIs	1,263.0	1,161.7	1,157.8	1,018.5	966.5
Marketable securities	15,271.0	16,416.2	17,159.6	17,523.6	17,897.1
Total current assets	**16,534.0**	**17,577.9**	**18,317.3**	**18,542.2**	**18,863.5**
Net loans & advances	42,136.1	43,148.7	45,866.5	48,257.6	50,696.2
Statutory deposits	nm	nm	nm	nm	nm
Long-term investments	4,152.5	3,099.5	3,161.5	3,224.8	3,289.2
Fixed assets	316.6	302.2	292.3	277.0	259.6
Intangible assets	312.9	339.9	496.7	487.8	475.8
Other long-term assets	811.9	729.8	729.8	729.8	729.8
Total LT assets	**47,730.0**	**47,620.1**	**50,546.8**	**52,977.0**	**55,450.6**
Total assets	**64,264.0**	**65,197.9**	**68,864.1**	**71,519.2**	**74,314.1**
Customer deposits	40,339.8	40,697.3	43,139.2	45,727.5	48,471.2
Deposits of other FIs	9,624.8	9,451.9	9,451.9	9,451.9	9,451.9
Subordinated debts	3,597.3	4,707.7	5,707.7	5,707.7	5,707.7
Hybrid capital securities	-	-	-	-	-
Other liabilities	924.0	481.6	481.6	481.6	481.6
Total liabilities	**54,485.9**	**55,338.5**	**58,780.3**	**61,368.7**	**64,112.3**
Shareholders' funds	9,777.8	9,859.2	10,083.5	10,150.2	10,201.6
Minority interests	0.2	0.2	0.2	0.2	0.2

Key Ratios

YE to Dec	FY24	FY25	FY26F	FY27F	FY28F
Total income growth (%)	18.8	(8.9)	2.0	5.6	4.6
Pre-provision profit growth (%)	9.6	(14.9)	(8.3)	10.9	8.0
Core net profit growth (%)	(17.3)	(31.3)	(11.1)	26.3	9.9
Net interest margin (%)	2.4	2.0	1.9	1.9	1.9
Cost-to-income ratio (%)	54.9	57.9	62.1	60.2	58.9
Effective tax rate (%)	30.6	28.3	28.0	28.0	28.0
Dividend payout (%)	92.0	94.7	90.0	90.0	90.0

Key Assumptions

YE to Dec	FY24	FY25	FY26F	FY27F	FY28F
Loan growth (%)	2.2	2.2	6.0	5.0	5.0
Deposit growth (%)	4.0	0.9	6.0	6.0	6.0
Loan-deposit ratio (%)	106.6	107.9	107.9	106.9	105.9
Gross NPL (%)	5.3	6.3	6.2	6.1	6.1
Net NPL (%)	4.2	5.1	5.3	5.4	5.4
Credit charge-off rate (%)	0.4	0.6	0.5	0.4	0.4
Loan loss reserve (%)	37.0	28.1	24.1	21.3	20.4

Source: Company, AmInvestment Bank Bhd.

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