Banking

OVERWEIGHT

(MAINTAINED)

Rationale for report: Sector Update

Analyst (s)

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Look again

Recent weakness in Malaysian banks has created a compelling re-entry opportunity. Investors are now uneasy over: (i) elevated 10-year US Treasury (UST) yields potentially luring capital back to the US, pushing MGS yields higher and eroding banks' dividend appeal, and (ii) intense FD competition squeezing margins. However, we believe much of this pessimism is already priced in, with the sector trading at 0.86x P/B and offering a c.6% dividend yield (c.240bp spread vs MGS). Importantly, strong domestic liquidity and resilient institutional demand should help to contain any sustained spike in MGS yields. Meanwhile, prospects of OPR normalization in 2027 could boost NIM, offering an additional catalyst for re-rating. Also, we see scope for incremental buying as sector weighting is light (c.16% of local funds' AUM). Therefore, we maintain OVERWEIGHT.

- **Compelling entry point.** Banks have once again become the market's preferred source of liquidity, with sector weighting frequently trimmed when investors require cash (now at a thin c.7%). That said, positioning is far from crowded as local funds' sector exposure has fallen to c.16% from c.22% in Mar-26, while foreigners have offloaded a net RM2.3bil YTD. Currently, M'sian banks trade at steep P/B discounts of 20-60% to S'porean and Thai peers, despite offering attractive dividend yield of c.6% and c.240bp spread over MGS (both near +1SD to their respective 10-year averages).

- **Robust domestic liquidity bolsters MGS resilience.** We are not overly concerned about a sustained spike in MGS yields, given 2 structural supports: (i) EPF and banks collectively add c.RM30bil annually to their MGS holdings, and (ii) banks hold c.RM120bil in excess liquidity. Notably, these domestic buffers have historically helped absorb foreign selling, including RM9bil in net outflows during the 2022 Fed tightening cycle, before foreigners returned as net buyers in 2023 (+RM17bil). Also, our analysis reveals just a modest 23% correlation between foreign MGS flows and UST-MGS spread, suggesting investor flows are influenced by factors beyond yield differentials alone.

- **Historical MGS yield spikes rarely last.** In 2022, the 10-year MGS yield briefly peaked at 4.6% but averaged <4.1% for the year. More recently, it slipped back <4% after touching 4.2%. Our economics team forecasts an average of 3.96% for 2027, reinforcing our view that any spikes are unlikely to persist. Meanwhile, elevated UST and US corporate bond yields have yet to propel the DXY back to its 2022 highs, indicating high returns do not guarantee a capital flight to the US. Adding weight to this argument, foreign ownership of UST is down by c.2/20ppt since 2025/08, highlighting a broader diversification away from UST. Taken together, fears of a sustained MGS yield surge may be overdone.

- **Overlooked catalyst in OPR normalization.** While FD rivalry has intensified and promo rates have surpassed pre-OPR cut levels in Jul-25, we believe equity investors are placing excessive emphasis on near-term NIM pressure, while underappreciating profit upside from better pricing discipline and potential OPR hike in 2027 (as implied by KLIBOR/IRS markets). Banks stand to gain as loans reprice faster than FDs, while funding costs need not rise in tandem. From our sensitivity analysis, every 25bp increase could widen sector NIM by 5-6bp and lift annual earnings by 3-4%: Alliance and BIMB poised to benefit the most vs Maybank and Public the least. All told, NIM outlook is not as bleak as feared.

Top picks

Sorted by upside

HLFG
TP: RM33.00
Rec: BUY
Upside/Downside: +92%

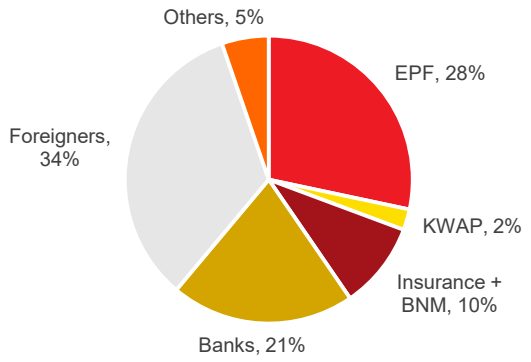
CIMB
TP: RM9.80
Rec: BUY
Upside/Downside: +47%

HLB
TP: RM28.00
Rec: BUY
Upside/Downside: +37%

Alliance
TP: RM5.50
Rec: BUY
Upside/Downside: +25%

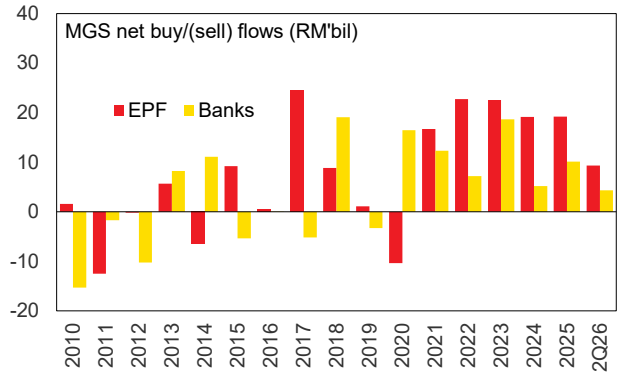
Public
TP: RM5.60
Rec: BUY
Upside/Downside: +22%

EXHIBIT 1. EPF & banks dominate MGS holdings



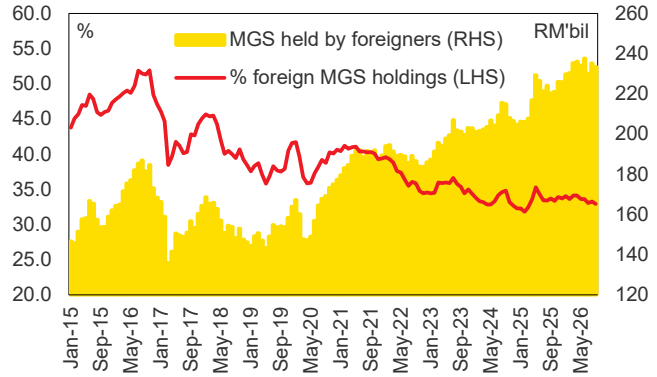
Source: BNM

EXHIBIT 2. EPF & banks add c.RM30bil of MGS p.a.



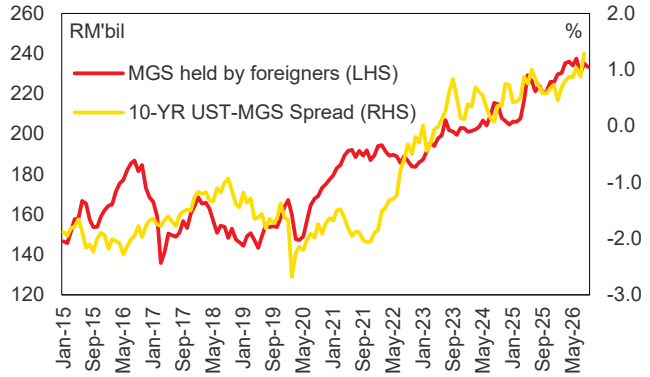
Source: BNM

EXHIBIT 3. MGS continues to attract foreign demand…



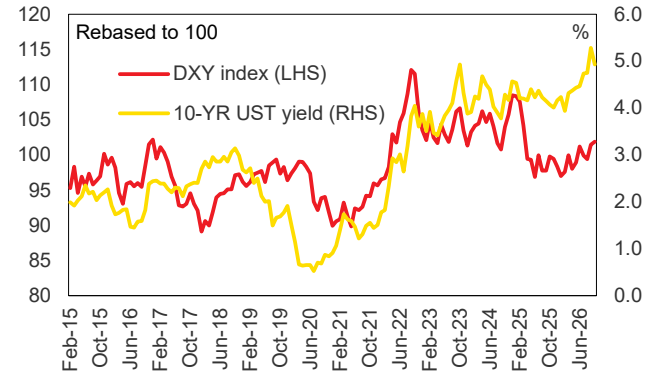
Source: BNM

EXHIBIT 4. …wider UST-MGS spread not a deterrent



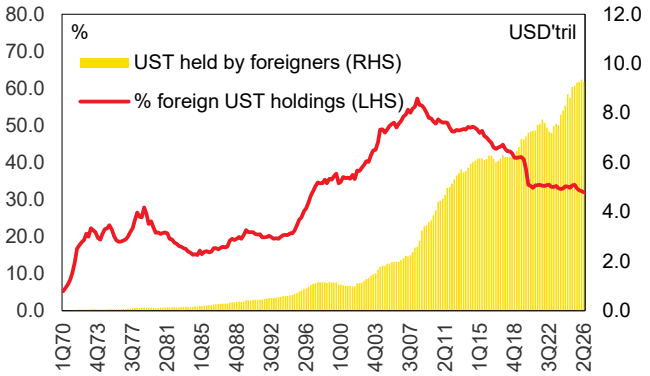
Source: BNM, Bloomberg

EXHIBIT 5. DXY not at 2022 highs despite elevated UST yields



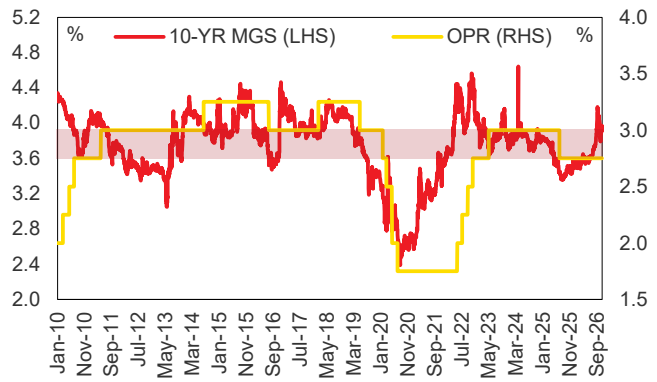
Source: Bloomberg

EXHIBIT 6. UST foreign ownership continues to dwindle



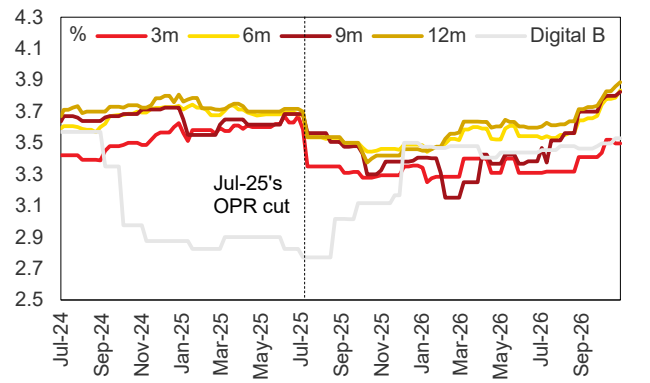
Source: Board of Governors of the Federal Reserve System

EXHIBIT 7. MGS typically ranged 3.6-4.0%; >4.0% short-lived



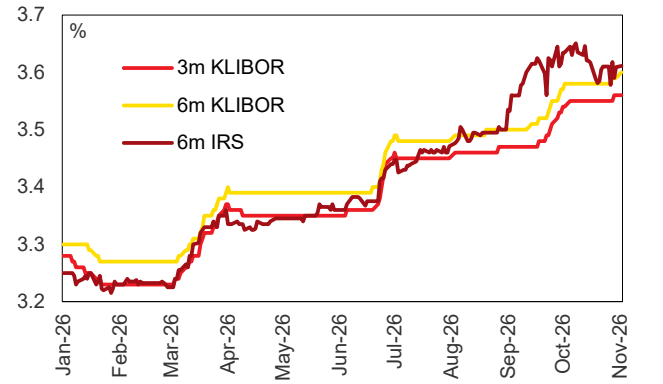
Source: Bloomberg

EXHIBIT 8. Promo FD rates have surpassed pre-OPR cut levels



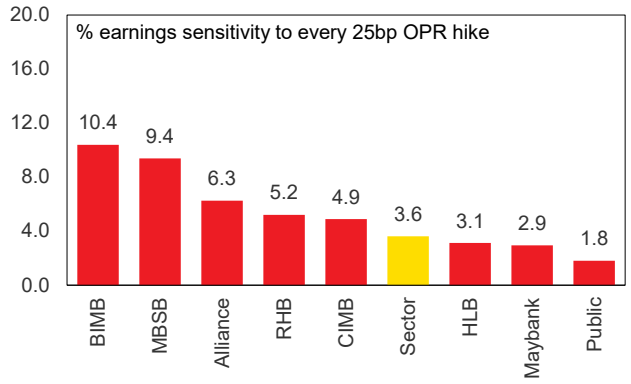
Source: AmInvestment Bank, Companies

EXHIBIT 9. Rate markets are pricing in an OPR hike…



Source: Bloomberg

EXHIBIT 10. …and if materialize, banks stand to benefit



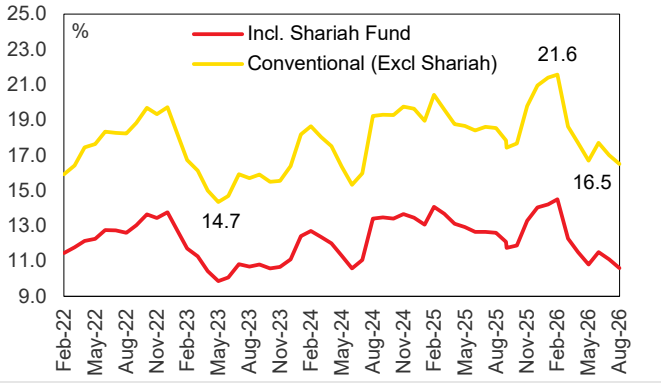
Source: AmInvestment Bank

EXHIBIT 11. Earnings sensitivity impact from a 25bp hike in OPR rate (balance sheet profile as at 30 Jun 2026)

Banks	Alliance	BIMB	CIMB	HLB	Maybank	MBSB	Public	RHB	Sector
Loans									
- Variable rate	58,069	65,855	358,539	186,404	486,629	44,287	359,154	237,566	1,796,503
- Fixed rate	9,740	12,044	99,544	39,883	209,312	2,568	99,791	20,736	493,617
Total	67,808	77,899	458,082	226,288	695,941	46,855	458,945	258,302	2,290,120
Loans mix									
- Variable rate	86	85	78	82	70	95	78	92	78
- Fixed rate	14	15	22	18	30	5	22	8	22
Total	100	100	100	100	100	100	100	100	100
Deposits									
- CASA	26,580	31,810	224,534	87,386	276,647	7,797	127,828	74,100	856,683
- Non-CASA	43,879	55,108	259,201	164,678	424,273	34,083	329,732	194,124	1,505,078
Total	70,459	86,918	483,735	252,064	700,920	41,880	457,560	268,224	2,361,761
Deposits mix									
- CASA	38	37	46	35	39	19	28	28	36
- Non-CASA	62	63	54	65	61	81	72	72	64
Total	100	100	100	100	100	100	100	100	100
Impact on net profit (1 year forward)									
Current forecast	903	519	8,226	4,998	10,633	314	7,794	3,567	36,953
After 25bp rate hike	960	573	8,628	5,154	10,944	343	7,935	3,752	38,289
% change	6.3	10.4	4.9	3.1	2.9	9.4	1.8	5.2	3.6

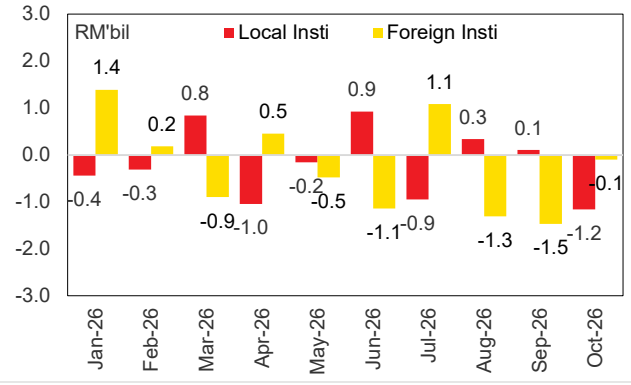
Source: AmInvestment Bank, Companies

EXHIBIT 12. Local funds still lightly positioned in banks…



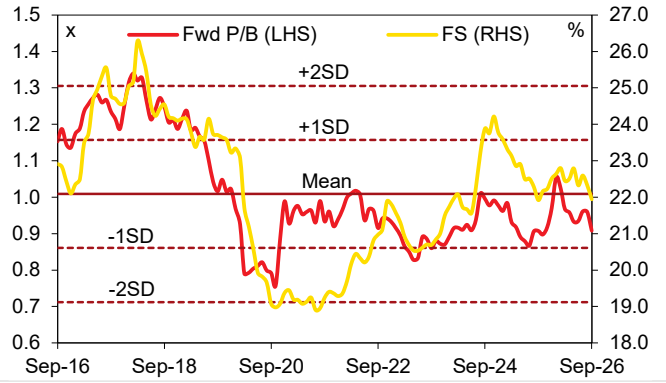
Source: AmInvestment Bank

EXHIBIT 13. …but foreign net selling has tapered



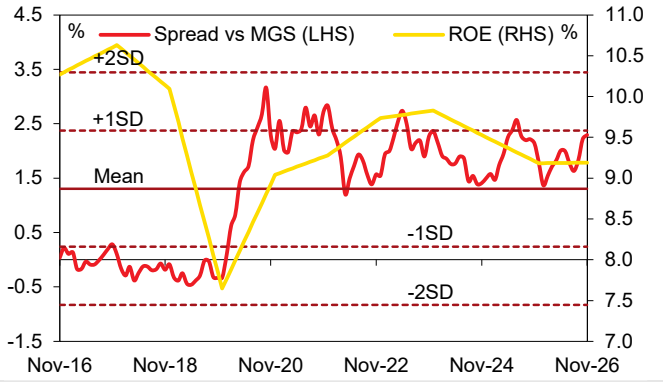
Source: AmInvestment Bank, Dibots

EXHIBIT 14. Foreign shareholding of the banking sector



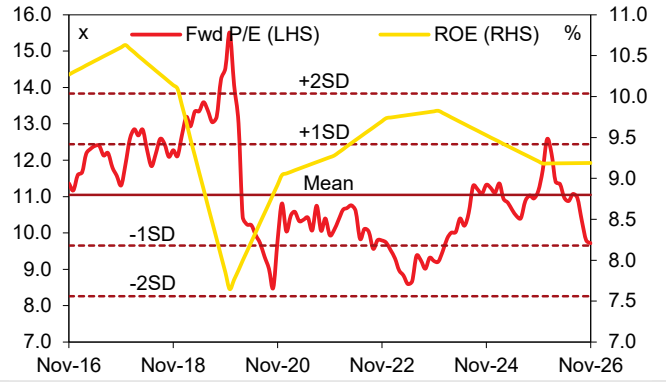
Source: AmInvestment Bank, Bloomberg

EXHIBIT 15. Spread of banks' yield vs 10-year MGS



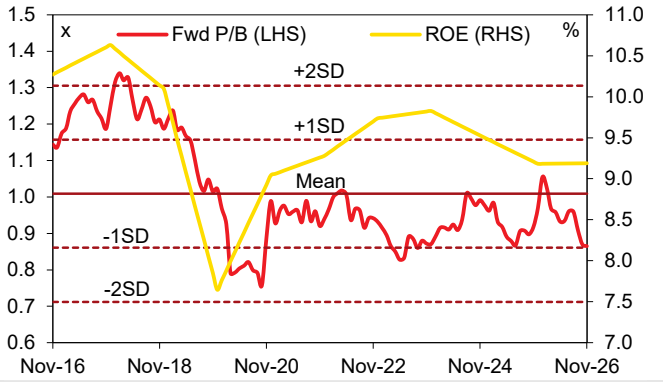
Source: AmInvestment Bank, Bloomberg

EXHIBIT 16. 10-year forward sector P/E band



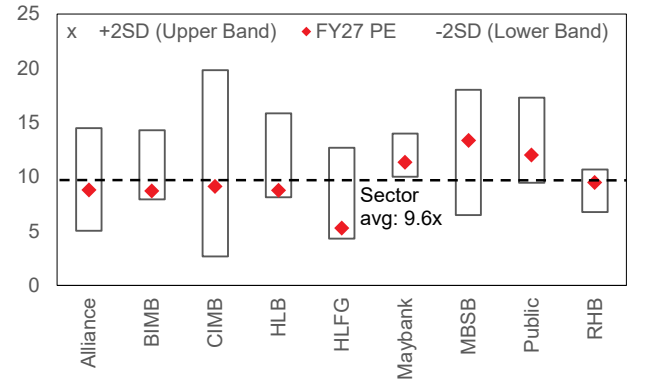
Source: AmInvestment Bank, Bloomberg

EXHIBIT 17. 10-year forward sector P/B band



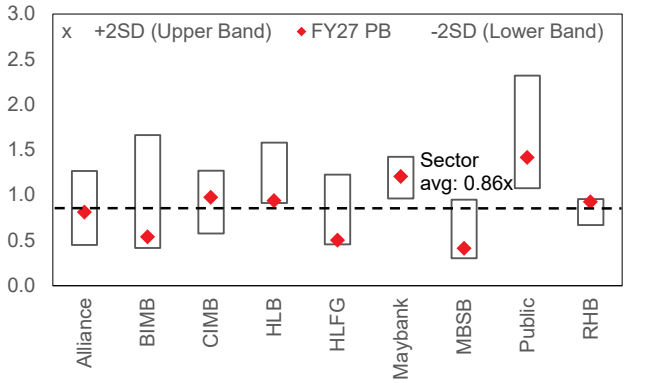
Source: AmInvestment Bank, Bloomberg

EXHIBIT 18. Banks' P/E vs their respective +/-2SD levels



Source: AmInvestment Bank, Bloomberg

EXHIBIT 19. Banks' P/B vs their respective +/-2SD levels



Source: AmInvestment Bank, Bloomberg

EXHIBIT 20. Peers comparison

	Price	Target	Call	P/E (x)		EPS growth (%)		P/B (x)		Div. yield (%)		ROE (%)	
	(RM)	(RM)		2026	2027	2026	2027	2026	2027	2026	2027	2026	2027
Bank A	2.01	-	N.R.	9.6	8.4	-2.0	14.4	0.4	0.4	4.1	4.8	4.3	5.0
Alliance*	4.59	5.50	BUY	9.0	8.8	7.3	1.9	0.9	0.8	4.6	4.8	9.8	9.5
BIMB	1.99	2.25	HOLD	9.0	8.7	-9.6	3.1	0.5	0.5	6.6	6.8	6.2	6.3
CIMB	6.99	9.80	BUY	9.6	9.1	-1.1	5.9	1.0	1.0	6.6	7.0	10.8	10.9
HLB*	21.32	28.00	BUY	9.2	8.7	4.5	5.6	1.0	0.9	5.6	6.0	11.0	11.0
HLFG*	17.64	33.00	BUY	5.5	5.3	5.4	5.1	0.5	0.5	4.9	5.3	10.1	9.8
Maybank	10.00	11.20	HOLD	11.7	11.3	-1.6	2.8	1.2	1.2	6.3	6.4	10.9	10.8
MBSB	0.51	0.60	HOLD	16.9	13.4	-11.1	26.3	0.4	0.4	5.3	6.7	2.5	3.1
Public	4.82	5.60	BUY	12.4	12.0	4.2	3.5	1.5	1.4	6.0	6.2	12.1	12.0
RHB	7.78	8.70	HOLD	9.9	9.5	1.4	4.6	1.0	0.9	6.6	6.9	9.8	9.9
Sector				**10.3**	**9.5**	**-0.3**	**7.3**	**0.8**	**0.8**	**5.7**	**6.1**	**8.7**	**8.8**
Sector (ex-Bank A)				**10.4**	**9.6**	**-0.1**	**6.5**	**0.9**	**0.9**	**5.8**	**6.2**	**9.2**	**9.3**

* refers to FY27 & FY28

Source: AmInvestment Bank, Bloomberg

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