



AmInvestment Bank

Sector Report 5 Jan 2026

Paul Yap Ee Xing, CFA

paul.ee-xing@ambankgroup.com

+603 2036 2281

BANKING

Still have fuel in the tank

OVERWEIGHT

(Upgraded)

Rationale for report: Sector Re-initiation

Investment Highlights

Stock Universe

HLFG

TP: RM21.60 → RM31.20

Rec: BUY

Upside/Downside: +68%

HLB

TP: RM23.75 → RM25.80

Rec: BUY

Upside/Downside: +21%

CIMB

TP: RM8.65 → RM9.20

Rec: BUY

Upside/Downside: +18%

Public

TP: RM5.20 → RM5.10

Rec: BUY

Upside/Downside: +18%

BIMB

TP: RM2.30 → RM2.50

Rec: HOLD

Upside/Downside: +15%

RHB

TP: RM7.70 → RM8.10

Rec: BUY → HOLD

Upside/Downside: +11%

MBSB

TP: RM0.62 → RM0.73

Rec: HOLD

Upside/Downside: +10%

Maybank

TP: RM9.60 → RM10.80

Rec: HOLD

Upside/Downside: +9%

Alliance

TP: RM4.80 → RM5.20

Rec: HOLD

Upside/Downside: +7%

We believe Malaysian financiers are only at the cusp of the capital management story, with further scope for re-rating into 2026. This follows a familiar path seen in Singapore, thanks to well-capitalized balance sheets, durable ROE generation, and undemanding valuations. Notably, Malaysian banks are still early into this journey (just 2 months in), while Singapore peers drifted higher even 10 months post-capital management announcements. Despite the recent rally, local funds positioning remained light at c.12% of AUM and foreign ownership is low, indicating scope for incremental buying. We see sector profit growing +4.9% in 2026 with 9.5% ROE output, a level where it has traded at 1.2x P/B before vs 0.92x today. Hence, we upgrade the sector to Overweight (from Neutral). Top picks are HLFG, HLB, and CIMB.

- Not yet at full throttle.** We upgrade Malaysia banks to Overweight (from Neutral) despite rallying strongly in recent months. In our view, the sector still has room to re-rate into 2026, underpinned by: (i) an early-stage capital management cycle, (ii) undemanding valuations at 0.92x P/B, trading -2SD below the pre-Covid mean of 1.21x, (iii) resilient earnings visibility, along with (iv) Fed easing cycle supporting foreign buying and EM rotation play. Overall, we believe the sector's risk-reward is skewed favorably to the upside and we advocate a broad-based accumulation strategy, where 4 of the 9 stocks under our coverage are Buys and the remaining 5 are Holds. Our top picks are HLFG, HLB, and CIMB, with the former 2 banks offering a blend of value, dividend upside, and durable ROE generation potential, while the latter serves as an exposure to ride the return of foreign liquidity.
- Capital management in motion.** From our assessment and management guidance, most banks retain excess capital post-implementation of the new credit risk framework. That said, HLFG, HLB, and Public emerge as the strongest dividend upside candidates, thanks to low DPRs of 45-60% (vs Maybank's sector-leading 73%) and gearings of <10x (vs Maybank's 11.5x). Also, the trio's dividend yields of 4-5% already exceed their 5-/10-year averages of 3-4%. Overall, we believe the sector has room to re-rate further in 2026 as investors are just cozying up to the capital management story. Compared to Singapore (banks there continued to drift higher even 10 months after their capital management announcements), Malaysian lenders are still early in the cycle (just 2 months into this phase), with a relative regional P/B-ROE valuation gap (trading at only 15% above the regression line vs Singapore's 24%).
- Not yet a crowded lane.** Despite the recent rally, local funds positioning in banks remained relatively light at c.12% of AUM, below prior peaks of c.14%, suggesting investors are not yet fully committed to the sector. Also, Malaysian banks are still attractively priced, trading at: (i) 9ppt discount to peers across the causeway from a P/B-ROE regression basis and (ii) 0.92x P/B, which is -2SD below the pre-Covid mean of 1.21x. These inexpensive valuations should help to renew foreign interest, especially since their ownership in Malaysian equities are already low and a Fed easing cycle could act as an incremental push for them to return; we reckon after 3 consecutive years of foreign net selling, the odds now favor a reversal. As such, we believe Malaysian lenders are poised to mirror the re-rating path of their Singapore counterparts, indicating runway for further price appreciation.
- Supportive fundamentals.** 2026 outlook for banks appear steadfast, driven by (i) sustained credit growth of +5.5% in line with chugging economy, (ii) +2bp NIM expansion on the back of downward FD repricing, (iii) resilient NOII, supported by a +2.9% uptick - off a high base, and (iv) stable NCC of 23bp, well within the normalized pre-Covid range of 20-30bp. As a result, sector profit is projected to grow by +4.9% in 2026 (vs +0.9% in 2025), while ROE is expected to hold up at 9.5%. At this ROE level, the sector has traded as high as 1.2x P/B before over the past decade (vs 0.92x now); this is echoed on a P/E basis, where valuations sit near long-term mean at 10.5x, well below the 13x peak seen for comparable ROE output. Meanwhile, dividend yields remained compelling at >5%, with a modest 62% DPR (beneath Maybank's elevated 73%), suggesting tangible scope for capital management.

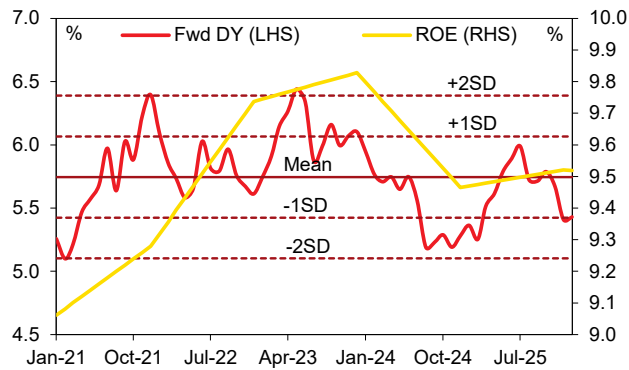
Still have fuel in the tank

Not yet at full throttle

Even though banking stocks have rallied strongly over the past 6 months, we still believe the sector has legs to re-rate in 2026. Our bullish stance is underpinned by:

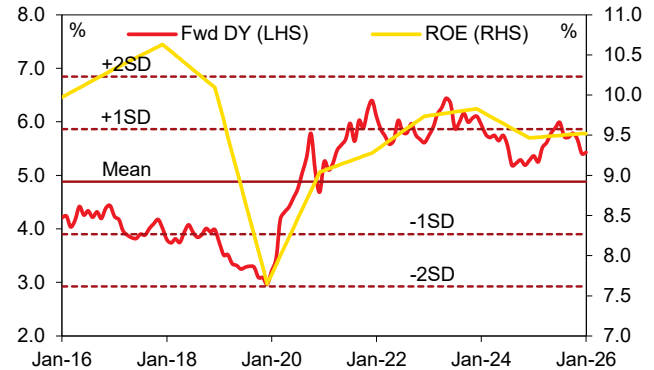
- (i) The capital management story is still at a nascent stage and has yet to run its course. Also, the sector continues to offer attractive carry proposition, with dividend yield above its 10-year mean of >5%, while the average DPR is only 62% (lower vs Maybank's sector-leading 73%); this highlights banks' headroom to sustain and step up shareholder returns.

EXHIBIT 1: 5-YR FORWARD SECTOR DY BAND



Source: AmlInvestment Bank, Bloomberg

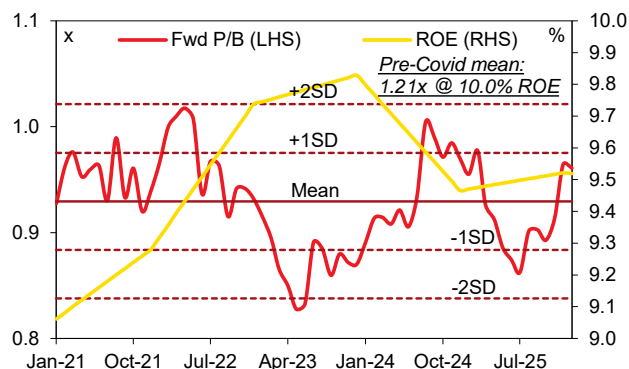
EXHIBIT 2: 10-YR FORWARD SECTOR DY BAND



Source: AmlInvestment Bank, Bloomberg

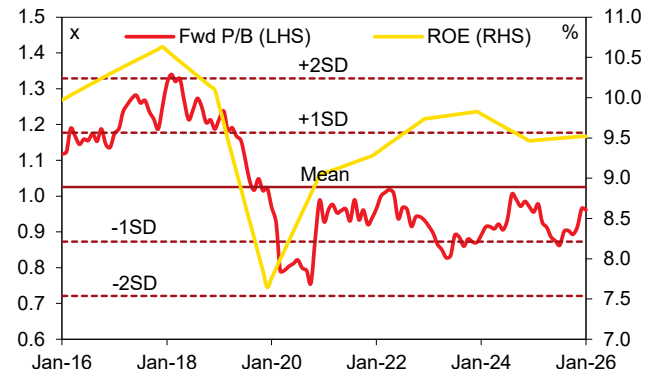
- (ii) Cheap valuations at 0.92x P/B, seeing it is still trading below the 5-year pre-Covid mean of 1.21x (at -2SD) and with current ROE output of 9.5%, we have seen it traded as high as 1.2x over the past decade. Also, it is just only trading near to long-term average P/E levels.

EXHIBIT 3: 5-YR FORWARD SECTOR P/B BAND



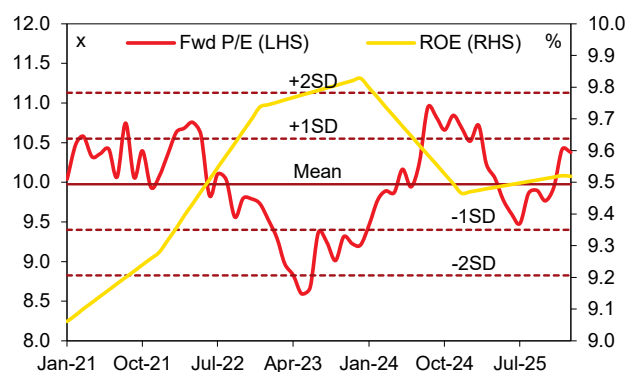
Source: AmlInvestment Bank, Bloomberg

EXHIBIT 4: 10-YR FORWARD SECTOR P/B BAND



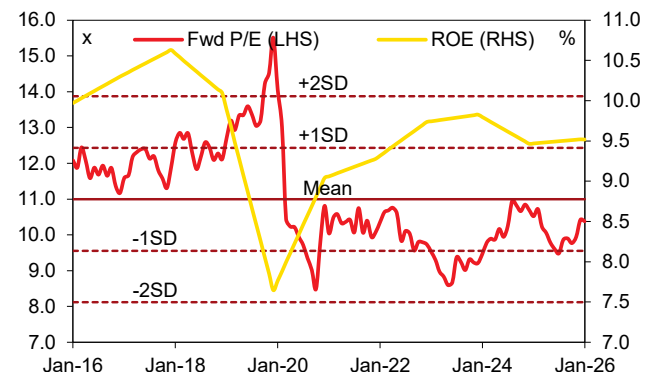
Source: AmlInvestment Bank, Bloomberg

EXHIBIT 5: 5-YR FORWARD SECTOR P/E BAND



Source: AmlInvestment Bank, Bloomberg

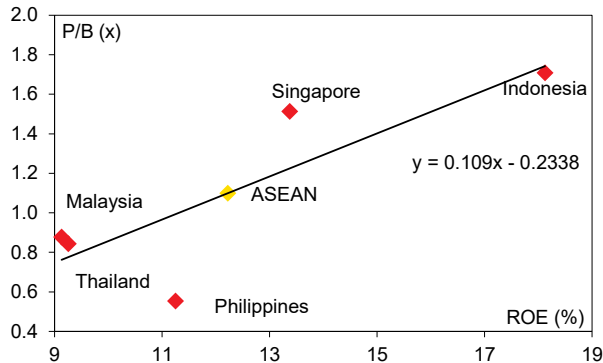
EXHIBIT 6: 10-YR FORWARD SECTOR P/E BAND



Source: AmlInvestment Bank, Bloomberg

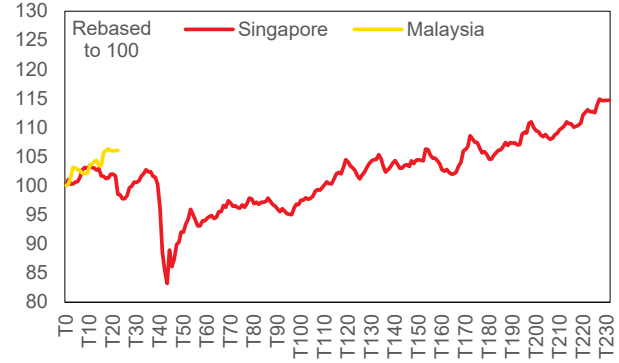
- (iii) The familiar path seen in Singapore, where banks there drifted higher even 10 months post-capital management announcements, while Malaysian lenders are still early in the cycle (just 2 months into this journey). Besides, we find Singaporean financiers are trading further away from the regional P/B-ROE regression line (24%) vs Malaysian banks (15%); this implies the latter is relatively more attractively priced.

EXHIBIT 7: P/B-ROE REGRESSION ANALYSIS



Source: AmlInvestment Bank, Bloomberg

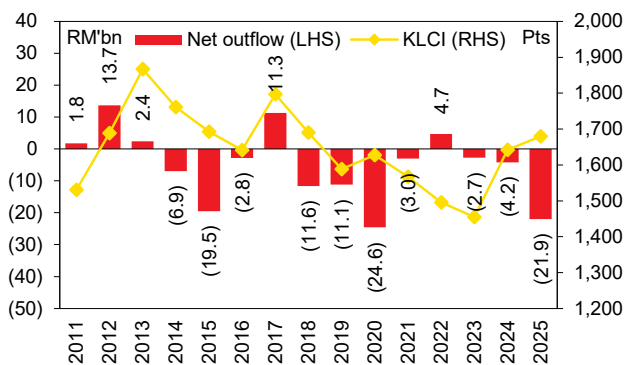
EXHIBIT 8: PRICE REACTION TO CAPITAL MANAGEMENT



Source: Bloomberg

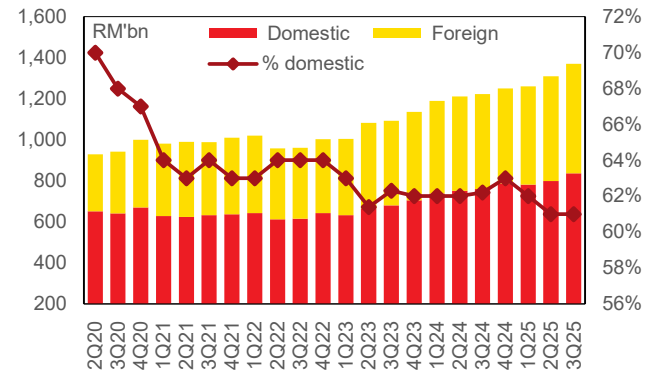
- (iv) Fed easing cycle supporting foreign buying and EM rotation play, which make banks prime beneficiaries given their large-cap and index-heavy weight stature. In 2025, we saw heavy foreign net selling of -RM22bn, comparable to Covid-19 lockdown period (2020: -RM25bn), but it appears disproportionate against Malaysia's relatively steady macro landscape. Also, we reckon after 3 consecutive years of foreign net selling, the odds now favor a reversal.
- (v) Beyond potential foreign interest, EPF's commitment to invest >70% of its annual allocation in the domestic market (9M25: 61%) will help to drive and support local market liquidity, along with large cap stock performance as well.

EXHIBIT 9: ANNUAL NET FOREIGN EQUITY FLOWS



Source: Bursa

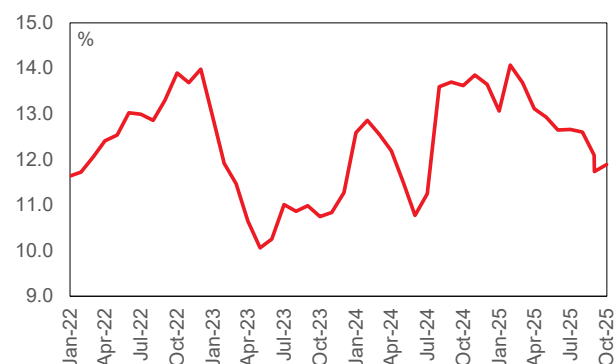
EXHIBIT 10: BREAKDOWN OF EPF'S AUM



Source: EPF

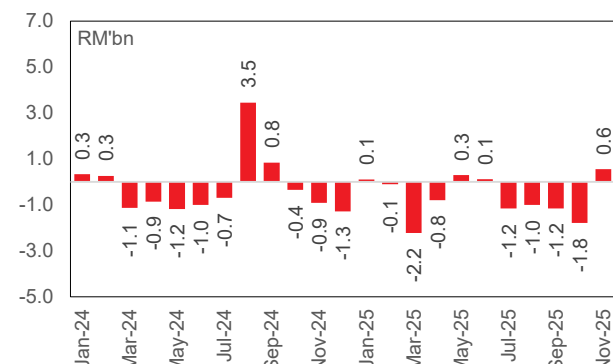
- (vi) Local funds positioning in banks remained relatively light at c.12% of AUM, below prior peaks of c.14%, suggesting investors are not yet fully committed to the sector. Also, consistent with broader market data, foreigners were net sellers of Malaysian banks for most of 2025 (7 out of 11 months). Taken together, these indicate scope for incremental buying.
- (vii) Resilient financial outlook where we are projecting sector ROE of 9.5% this year (unchanged vs 2025), on the back of +4.9% earnings growth (2025: +0.9%); buoyed by sustained credit growth, NIM expansion, resilient NOII, and stable NCC.

EXHIBIT 11: FINANCIALS AS A % OF AUM



Source: AmlInvestment Bank

EXHIBIT 12: FOREIGN INSTI FUND FLOW ON BANKS



Source: Dibots

Overall, we believe the sector's risk-reward is skewed favorably to the upside and we advocate a broad-based accumulation strategy, where 4 of the 9 stocks under our coverage are Buys and the balance 5 are Holds. Thus, we upgrade banks to Overweight and we effectively transfer the sector coverage to our new analyst. Top picks are HLFG (TP: RM31.20), HLB (TP: RM25.80), and CIMB (TP: RM9.20), with the former 2 banks offering a mix of value, dividend upside, and durable ROE generation potential, while the latter serves as an exposure to ride on the return of foreign liquidity; furthermore, it remains the most inexpensive large cap bank in Malaysia.

EXHIBIT 13: SUMMARY OF CHANGES TO EARNINGS

RM'm	New			Old			Change (%)		
	FY25F	FY26F	FY27F	FY25F	FY26F	FY27F	FY25F	FY26F	FY27F
Alliance	808	858	880	776	834	962	4.2	2.8	-8.6
BIMB	514	568	614	544	598	726	-5.5	-5.0	-15.4
CIMB	7,834	8,279	8,539	7,914	8,530	9,453	-1.0	-2.9	-9.7
HLB	4,405	4,659	4,908	4,542	4,819	5,110	-3.0	-3.3	-4.0
HLFG	3,320	3,520	3,724	3,398	3,604	3,854	-2.3	-2.3	-3.4
Maybank	10,440	10,935	11,178	10,497	10,722	11,396	-0.5	2.0	-1.9
MBSB	400	432	451	438	524	612	-8.6	-17.5	-26.3
Public	7,202	7,564	7,849	7,431	7,878	8,458	-3.1	-4.0	-7.2
RHB	3,286	3,368	3,512	3,283	3,415	3,775	0.1	-1.4	-7.0

Source: AmlInvestment Bank

EXHIBIT 14: CHANGES TO TARGET PRICE AND CALL

RM'm	New TP (RM)	Old TP (RM)	Rating	Valuation basis (Gordon Growth Model)
Alliance	5.20	4.80	HOLD (unchg)	0.98x FY27 P/B with 9.5% ROE, 9.7% COE, 3.0% LTG
BIMB	2.50	2.30	HOLD (unchg)	0.70x FY26 P/B with 7.2% ROE, 9.0% COE, 3.0% LTG
CIMB	9.20	8.65	BUY (unchg)	1.30x FY26 P/B with 11.2% ROE, 9.3% COE, 3.0% LTG
HLB	25.80	23.75	BUY (unchg)	1.20x FY27 P/B with 10.8% ROE, 9.6% COE, 3.0% LTG
HLFG	31.20	21.60	BUY (unchg)	0.95x FY27 P/B with 9.8% ROE, 10.1% COE, 3.0% LTG
Maybank	10.80	9.60	HOLD (unchg)	1.30x FY26 P/B with 11.0% ROE, 9.2% COE, 3.0% LTG
MBSB	0.73	0.62	HOLD (unchg)	0.60x FY26 P/B with 4.3% ROE, 5.3% COE, 3.0% LTG
Public	5.10	5.20	BUY (unchg)	1.56x FY26 P/B with 12.2% ROE, 8.9% COE, 3.0% LTG
RHB	8.10	7.70	HOLD (downgrade)	1.00x FY26 P/B with 9.7% ROE, 9.7% COE, 3.0% LTG

Source: AmlInvestment Bank

EXHIBIT 15: 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	2.35	-	N.R.	10.0	8.7	5.9	15.4	0.5	0.5	3.1	3.7	4.7	5.3
Alliance	5.05	5.20	HOLD	10.8	10.2	7.7	6.3	1.0	0.9	4.1	4.4	9.8	9.5
BIMB	2.29	2.50	HOLD	9.1	8.5	10.6	8.0	0.6	0.6	6.6	7.1	7.2	7.6
CIMB	8.25	9.20	BUY	10.7	10.3	5.7	3.1	1.2	1.1	6.1	6.3	11.2	11.1
HLB	22.14	25.80	BUY	10.3	9.7	3.1	5.8	1.1	1.0	4.5	4.8	10.9	10.8
HLFG	19.06	31.20	BUY	6.5	6.1	2.0	6.0	0.6	0.6	4.1	4.3	9.9	9.8
Maybank	10.48	10.80	HOLD	11.6	11.3	4.7	2.2	1.3	1.2	6.3	6.5	11.0	10.9
MBSB	0.71	0.73	HOLD	13.4	12.9	8.0	4.2	0.6	0.6	6.0	6.2	4.3	4.5
Public	4.54	5.10	BUY	11.6	11.2	5.0	3.8	1.4	1.3	5.2	5.4	12.2	12.1
RHB	7.71	8.10	HOLD	9.9	9.5	2.5	4.2	0.9	0.9	6.1	6.3	9.7	9.8
Sector				10.4	9.8	5.5	5.9	0.9	0.9	5.2	5.5	9.1	9.1
Sector (ex-Bank A)				10.4	10.0	5.5	4.9	1.0	0.9	5.4	5.7	9.6	9.6

Source: AmlInvestment Bank

EXHIBIT 16: REGIONAL BANKING SECTOR COMPARISON

	P/E (x)		CAGR (%)	P/B (x)		Div. yield (%)		ROE (%)	
	2026	2027		2026	2027	2026	2027	2026	2027
Malaysia	10.4	9.8	5.7	0.9	0.9	5.2	5.5	9.1	9.1
Singapore	12.1	11.4	7.1	1.6	1.5	5.3	5.5	13.1	13.4
Indonesia	10.2	9.3	9.3	1.8	1.7	7.3	7.9	17.5	18.1
Thailand	9.2	8.9	1.2	0.9	0.8	6.2	6.6	9.3	9.3
Philippines	5.4	5.0	10.7	0.6	0.6	3.2	3.4	11.1	11.3
ASEAN	9.5	8.9	6.8	1.2	1.1	5.4	5.8	12.1	12.2

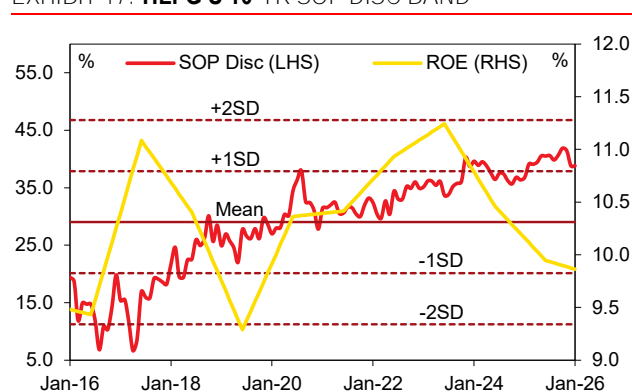
Source: AmlInvestment Bank

Recommendations

HLFG (BUY, TP: RM21.60 → RM31.20)

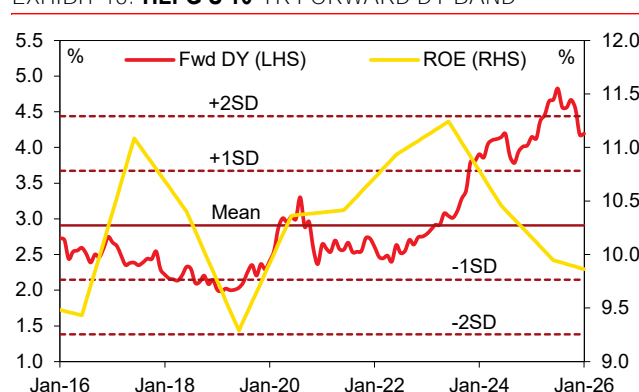
We maintain our Buy call on HLFG but with a higher TP of RM31.20 (from RM21.60; now using the GGM method instead of the typical SOP valuation employed by the street), based on 0.95x FY27 P/B with assumptions of 9.8% ROE, 10.1% COE, and 3.0% LTG. This is broadly in line with the valuations of RHB and Alliance (0.98x-1.00x) given similar ROE generation (9.5-9.7%), which prices HLFG within its 5-year pre-Covid mean of 1.06x (comparable ROE vs 2015-19 period). We believe the stock offers deep value and is one of the cheapest listed bank in Malaysia (trading at only 0.58x P/B and 6.1x P/E). In our opinion, HLFG deserves a re-rating given its holding co has turned net cash (but yet the discount has widened to 39% vs 5-/10-year mean of 35%/29%, which we feel is unwarranted) and the market is underpricing its strong potential yield upside. At present, the stock is already providing dividend yield of 4.3%, above its 5-/10-year average of 3.4%/2.9% and is still under-owned by investors.

EXHIBIT 17: HLFG'S 10-YR SOP DISC BAND



Source: AmlInvestment Bank, Bloomberg

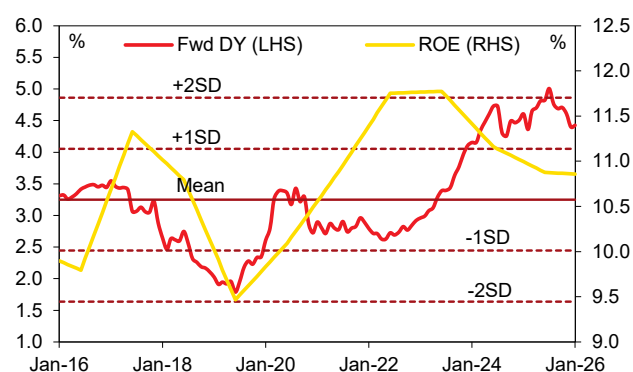
EXHIBIT 18: HLFG'S 10-YR FORWARD DY BAND



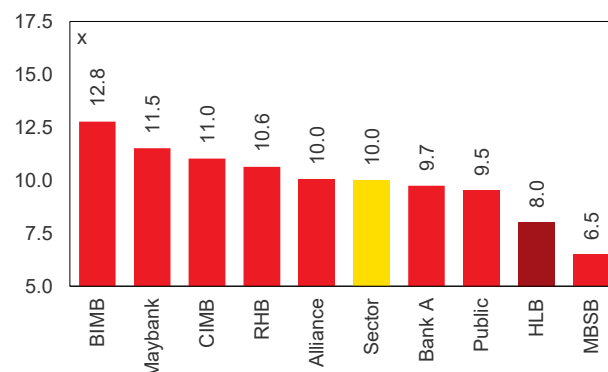
Source: AmlInvestment Bank, Bloomberg

HLB (BUY, TP: RM23.75 → RM25.80)

We maintain our Buy call on HLB but with a higher GGM-TP of RM25.80 (from RM23.75), based on 1.20x FY27 P/B with assumptions of 10.8% ROE, 9.6% COE, and 3.0% LTG. This is just a tad lower vs the valuations of CIMB and Maybank (1.30x) given slightly smaller ROE output, which prices HLB broadly within its 5-year pre-Covid mean of 1.33x (similar ROE generation vs 2015-19 level) but above sector's 0.92x (the premium is warranted considering its ROE is 2ppt higher vs industry's average). Following the higher DPR introduction of 46% (from 33%), HLB now offers 4.8% dividend yield and this is above its 5-/10-year average of 3.6%/3.3%. Also, we believe HLB has scope to raise DPR further and execute capital management (guided CET1 ratio enhancement of 50bp from the final Basel III reforms). Besides, the bank boasts a flexible balance sheet with a fairly low LDR/gearing level of 89%/8.0x and these underpin our confidence in the durability of its ROE trajectory.

EXHIBIT 19: HLB'S 10-YR FORWARD DY BAND

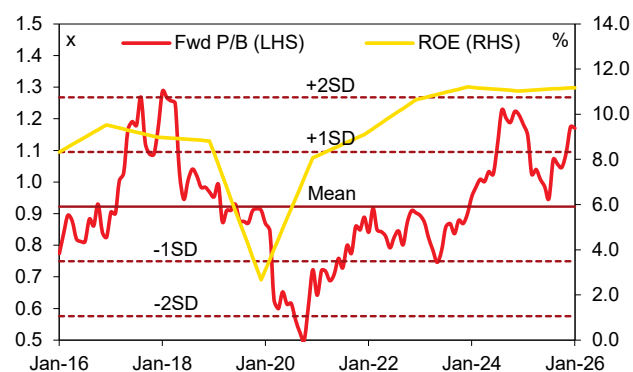
Source: AmlInvestment Bank, Bloomberg

EXHIBIT 20: LOW GEARING LEVEL

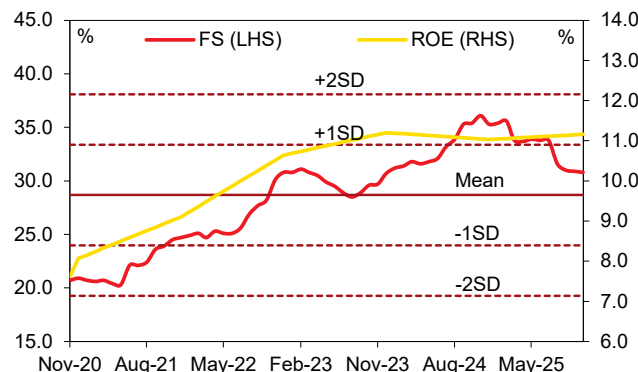
Source: Companies

CIMB (BUY, TP: RM8.65 → RM9.20)

We maintain our Buy rating on CIMB but with a higher GGM-TP of RM9.20 (from RM8.65), based on 1.30x FY26 P/B with assumptions of 11.2% ROE, 9.3% COE, and 3.0% LTG. This is on par to Maybank's valuation of 1.30x given similar ROE output, which effectively prices CIMB at close to +2SD above its 5-year pre-pandemic mean level. The premium is justifiable given its stronger ROE generation of 2ppt vs 2015-19 period. We continue to like CIMB for being the most inexpensive large-cap bank under our coverage, from both P/E and P/B standpoint, trading at 10.3x and 1.12x respectively. Also, the bank's commitment to capital management ensures dividend yield remains attractive at >6% vs sector average's 5%. Besides, foreign shareholding has eased to 31% from its 1-year peak of 36% and hence, we reckon CIMB will be a strong beneficiary if foreign investors return to top up their position.

EXHIBIT 21: CIMB'S 10-YR FORWARD P/B BAND

Source: AmlInvestment Bank, Bloomberg

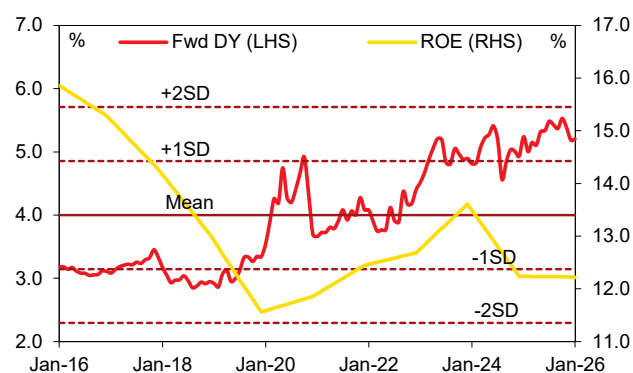
EXHIBIT 22: CIMB'S FOREIGN SHAREHOLDING

Source: AmlInvestment Bank, Bloomberg, CIMB

Public (BUY, TP: RM5.20 → RM5.10)

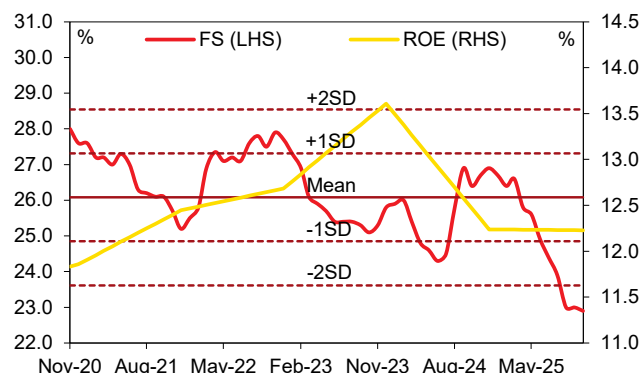
We maintain our Buy call on Public but with a slightly lower GGM-TP of RM5.10 (from RM5.20), based on 1.56x FY26 P/B with assumptions of 12.2% ROE, 8.9% COE, and 3.0% LTG. This is above the sector's P/B of 0.92x but broadly in line with its 5-year mean of 1.50x (not ascribing pre-pandemic P/B since its current ROE generation trends below pre-Covid levels by 2ppt). However, the premium is fair since its ROE output is 3ppt higher vs industry's average. Overall, the stock offers 5.4% dividend yield and this is a level not seen for a long time i.e. above 5-/10-year average of 4.7%/4.0%. In addition, we find Public has the ability to raise DPR further and conduct capital management (guided CET1 ratio enhancement of 50-100bp from the final Basel III reforms). Besides, its foreign shareholding is at multi-year low (23% vs Mar-11 trough of 24% and Mar-18 high of 40%) and traditionally it is a darling among foreign investors.

EXHIBIT 23: PUBLIC'S 10-YR FORWARD DY BAND



Source: AmlInvestment Bank, Bloomberg

EXHIBIT 24: PUBLIC'S FOREIGN SHAREHOLDING

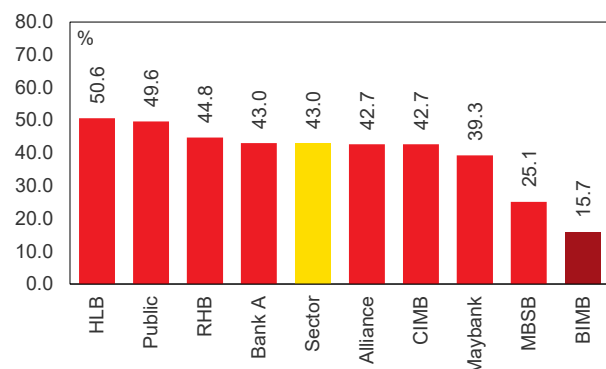


Source: AmlInvestment Bank, Bloomberg, Public

BIMB (HOLD, TP: RM2.30 → RM2.50)

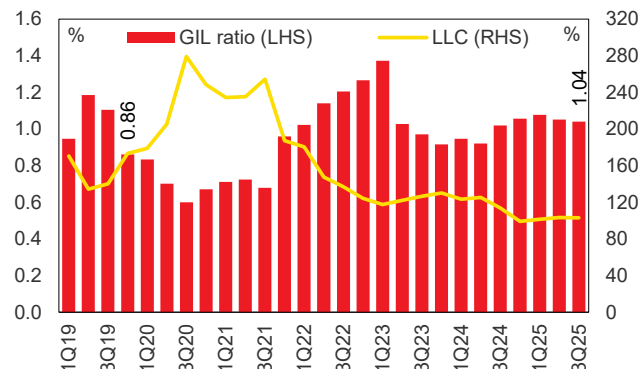
We retain our Hold call on BIMB but with a higher GGM-TP of RM2.50 (from RM2.30), based on 0.70x FY26 P/B with assumptions of 7.2% ROE, 9.0% COE, and 3.0% LTG. The valuation is close to -1SD of its 5-year mean P/B, considering its ROE output is anemic at 1ppt below FY20-24 level. In our view, BIMB's risk-reward profile is balanced, despite undemanding price point (trading at 0.63x P/B) and attractive dividend yield offering of >6%, seeing that its ROE generation continues to be softer vs pre-pandemic level, while most peers have already fully recovered. Overall, NFM continued to decline and is now 40-50bp lower vs 5-6 years ago. Also, its retail deposit franchise is weak where BIMB has a small exposure to this space, making up only 16% of total deposits vs sector average of 43%. Besides, the lower financing loss coverage of 103%, which has been falling for quite some time now (pre-Covid: >130%), does not help in lifting investors' confidence as well.

EXHIBIT 25: WEAK RETAIL DEPOSIT FRANCHISE



Source: Companies

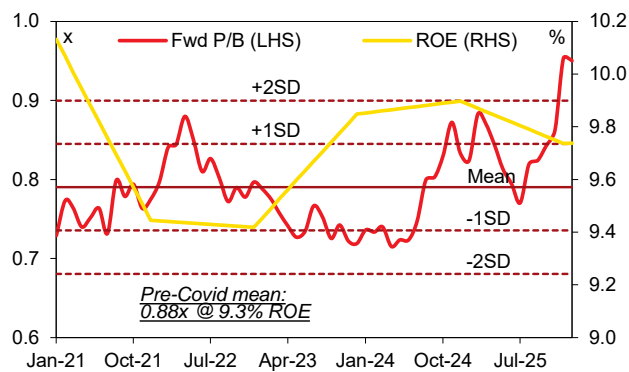
EXHIBIT 26: LOSS COVERAGE HAS DRIFTED DOWN



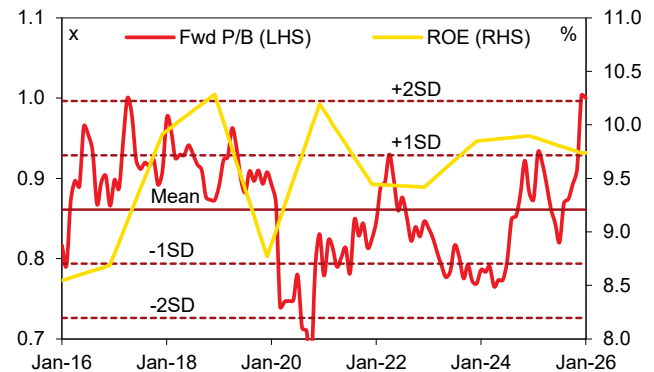
Source: BIMB

RHB (BUY → HOLD, TP: RM7.70 → RM8.10)

We downgrade RHB to Hold but with a higher GGM-TP of RM8.10 (from RM7.70), based on 1.00x FY26 P/B with assumptions of 9.7% ROE, 9.7% COE, and 3.0% LTG. This is on par to Alliance's valuation (0.98x) given similar ROE output, which effectively values RHB at close to +2SD above its 5-year pre-pandemic mean level. The premium is warranted, considering its status as a generous dividend paymaster, providing attractive yields of c.6%. However, we are turning less bullish on the bank given its strong price rally over the past 5 months (+26%) that caused P/B to now trade above +1SD of its 5-year pre-Covid mean. Hence, we reckon easy money has already been made and the risk-reward to further plow money into the stock is unfavorable. At this juncture, we see more capital upside and much better payoff profile investing in other mid-sized banks like HLFG (especially this) and HLB.

EXHIBIT 27: RHB'S 5-YR FORWARD P/B BAND

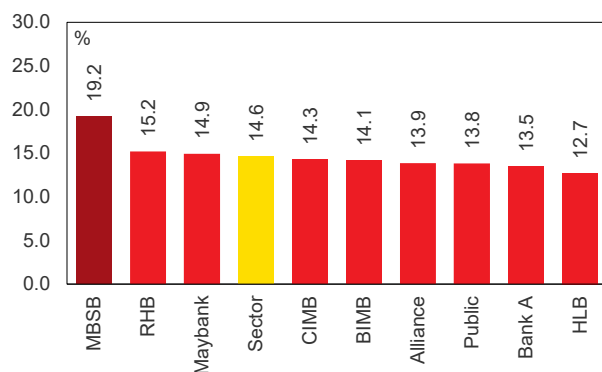
Source: AmlInvestment Bank, Bloomberg

EXHIBIT 28: RHB'S 10-YR FORWARD P/B BAND

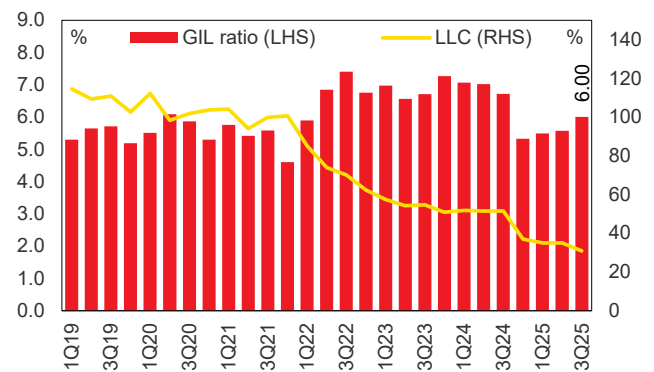
Source: AmlInvestment Bank, Bloomberg

MBSB (HOLD, TP: RM0.62 → RM0.73)

We maintain our Hold call on MBSB but with a higher GGM-TP of RM0.73 (from RM0.62), based on 0.60x FY26 P/B with assumptions of 4.3% ROE, 5.3% COE, and 3.0% LTG. The valuation is close to -1SD of its 5-year pre-Covid mean level, considering its ROE generation is anemic at 1ppt below 2015-19. There are some existing matters that prevent us to be more bullish on MBSB: (i) weak retail deposit franchise, (ii) low CASA ratio, (iii) elevated FDR, (iv) high GIF ratio, and (v) low financing loss coverage. However, MBSB plans to perform capital management to strategically lift ROE and would in turn allow the bank to provide robust dividend yield of 6.2% (sector: 5.5%); the flexibility to do so stems from its elevated CET1 ratio of 19.2% (sector: 14.6%). Besides, the bank's low gearing level (6.5x vs sector's 10.0x) offer scope to leverage up its balance sheet and generate incremental ROE, once outstanding issues are resolved.

EXHIBIT 29: HIGH CET1 RATIO

Source: Companies

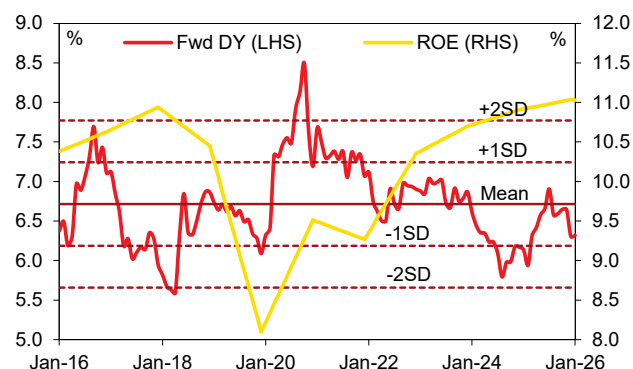
EXHIBIT 30: LOSS COVERAGE AT LOW LEVELS

Source: MBSB

Maybank (HOLD, TP: RM9.60 → RM10.80)

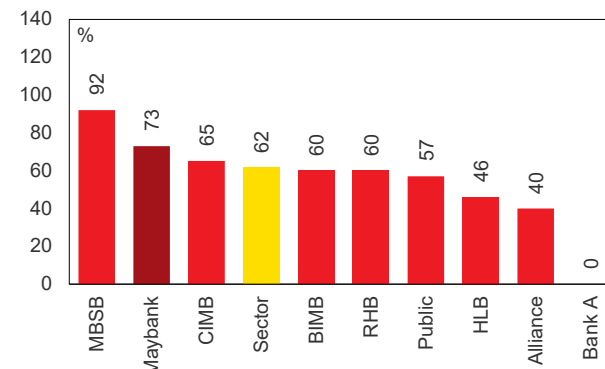
We maintain our Hold rating on Maybank but with a higher GGM-TP of RM10.80 (from RM9.60), based on 1.30x FY26 P/B with assumptions of 11.0% ROE, 9.2% COE, and 3.0% LTG. This is broadly within its 5-year pre-Covid average of 1.27x (similar ROE generation vs 2015-19 level) but above sector's 0.92x (the premium is fair considering its regional exposure, leadership position, and higher dividend yield). Although Maybank is a good dividend paymaster, offering attractive yields of 6.5% (1ppt above peers), we reckon the bank's ability to reward shareholders much more is capped given that its DPR is already elevated at 73% vs sector average's 62%; in our view, there will be competing need to balance longer-term sustainable high DPR run-rate and retaining capital for future growth purposes, leaving Maybank with lesser room to maneuver unless it revert back to oldways of implementing DRP but may affect ROE trajectory in the process.

EXHIBIT 31: MAYBANK'S 10-YR FORWARD DY BAND



Source: AmlInvestment Bank, Bloomberg

EXHIBIT 32: DPR ABOVE SECTOR AVERAGE

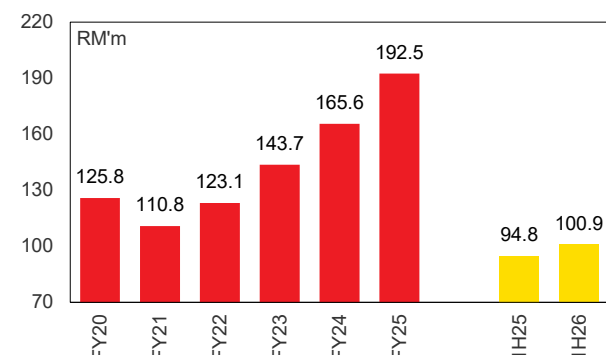


Source: Companies

Alliance (HOLD, TP: RM4.80 → RM5.20)

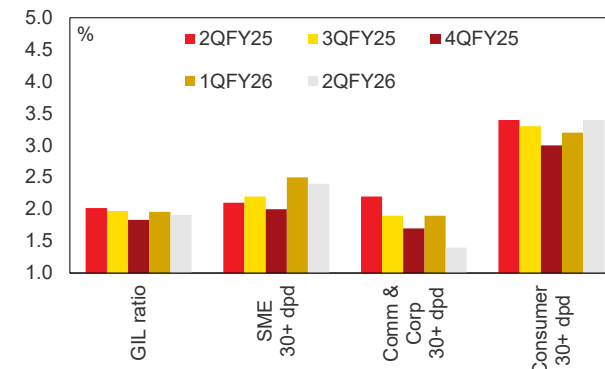
We retain our Hold call on Alliance but with a higher GGM-TP of RM5.20 (from RM4.80), based on 0.98x FY27 P/B with assumptions of 9.5% ROE, 9.7% COE, and 3.0% LTG. This is valued at +2SD to its 5-year mean and just slightly above sector's 0.92x. The premium is fair considering its ROE generation is 1ppt higher vs the average for the past 5 years. We laud management's strong execution in gaining loans market share from rivals and in ramping up its fee-income engine (have grown by a solid 15-16% YoY over the past two years). However, there are some budding worries over its rising GIL ratio (+80bp vs 4QFY25). Overall, we are not bullish because its P/B is on par to peers like RHB who have similar ROE profile but can provide better yield of 2ppt. That said, we are cognizant the potential DBS M&A news flow could still excite the market and lift share price.

EXHIBIT 33: STRONG FEE-INCOME ENGINE



Source: Alliance

EXHIBIT 34: BUDDING CONCERNS OVER ASSET QUALITY



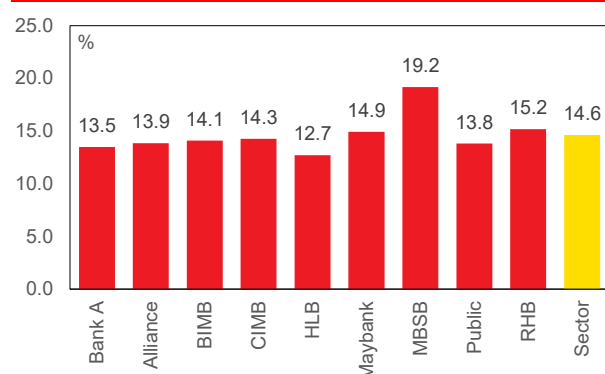
Source: Alliance

Capital management in motion

Clearer path to reward shareholders

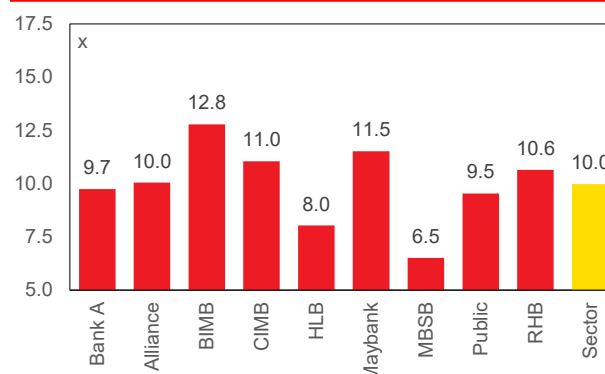
We find Malaysian banks to be well capitalized with the sector CET1 ratio sitting comfortably at an average of 14.6%. Based on our channel checks, banks are generally contented operating with a level >13.5%. However, the final Basel III reforms from 2025 onwards would have some capital repercussion on banks. So far, the adoption of the new operational risk framework last year had limited impact; the average CET1 ratio in 3Q25 stood at 14.6%, representing a modest -30bp drop vs 3Q/4Q24 of 14.9%/14.9% respectively. That said, this is largely because operational risk makes up only 9% of banks' total RWA, unlike credit risk which represents a larger share of 86%.

EXHIBIT 35: CET1 RATIO AT COMFORTABLE LEVELS



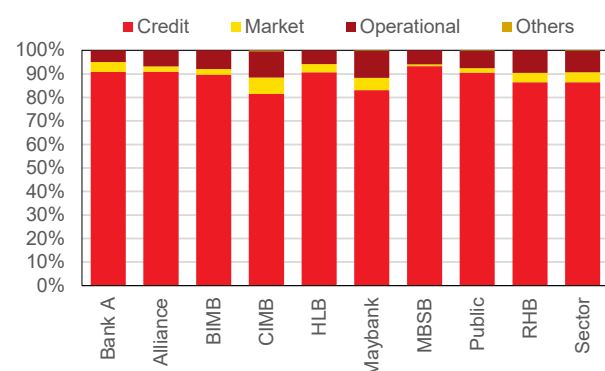
Source: Companies

EXHIBIT 36: GEARING LEVEL OF RESPECTIVE BANKS



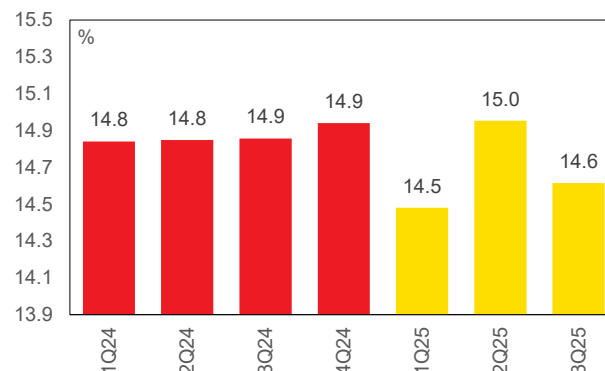
Source: Companies

EXHIBIT 37: RWA MIX OF RESPECTIVE BANKS



Source: Companies

EXHIBIT 38: LIMITED IMPACT FROM NEW OPS RISK



Source: Companies

Accordingly, the implementation of the new credit risk framework (set to commence from mid-2026 onwards) could have a more meaningful impact on banks. To recap, this aims to narrow the capital gap between lenders applying the standardized (SA) and internal ratings-based (IRB) approaches in calculating credit risk RWA to improve comparability.

In turn, SA banks (Bank A, Alliance, BIMB, HLB, MBSB, Public) could see their CET1 ratio being enhanced, thanks to more granularity, risk-sensitive measurements and less reliance on external credit rating. On the other hand, IRB banks (CIMB, Maybank, RHB) may experience a drop due to the application of output floors on modelled parameters; once fully phased in (by 2028-29), banks must hold capital equal to at least 72.5% of the amount required by SA.

From our analysis, most banks under our coverage (CIMB, RHB, Alliance, BIMB, MBSB, Public), would still be able to print CET1 ratio of >13.5% on a fully loaded basis, indicating room for capital management. More importantly, we do not see the final Basel III reforms to pose threat of needing to raise equity capital.

EXHIBIT 39: EVALUATION OF BANKS' CAPITAL MANAGEMENT CAPABILITY (BALANCE SHEET PROFILE AS AT 30 SEP 2025)

	IRB banks			SA banks					
	CIMB	Maybank	RHB	Bank A	Alliance	BIMB	HLB	MBSB	Public
Credit RWA (RM'm)	312,047	370,972	146,269	63,341	51,014	46,808	171,723	44,279	333,242
Other RWA (RM'm)	70,736	75,584	23,019	6,364	5,045	5,403	17,677	3,174	34,920
Total assets (RM'm)	778,530	1,067,384	358,240	118,430	86,494	102,717	312,722	64,389	555,638
<u>RWA intensity (%)</u>									
Credit RWA	40.1	34.8	40.8	53.5	59.0	45.6	54.9	68.8	60.0
Total RWA	49.2	41.8	47.3	58.9	64.8	50.8	60.6	73.7	66.3
Avg credit RWA intensity of SA banks (%) = 57%									
<u>Credit RWA (RM'm)</u>									
Using SA intensity	443,762	608,409	204,197						
@ 72.5% output floor	321,727	441,096	148,043						
Current CET1 (RM'm)	54,590	66,674	25,715	9,403	7,769	7,365	24,075	9,096	50,845
<u>CET1 ratio (%)</u>									
Current	14.3	14.9	15.2	13.5	13.9	14.1	12.7	19.2	13.8
Potential fully-loaded	13.9	12.9	15.0	13.5	13.9	14.1	12.7	19.2	13.8
Optimal CET1 ratio	13.5	13.5	13.5	13.5	13.5	13.5	13.5	13.5	13.5
Excess capital (bp)	40.9	-59.6	153.2	-1.0	35.9	60.6	-78.9	567.0	31.0
Dividend upside (RM'm)	1,607	-3,078	2,621	-7	201	316	-1,494	2,690	1,143
Market cap (RM'm)	89,026	126,610	33,630	5,955	8,738	5,190	47,993	5,797	88,125
% to market cap	1.8	-2.4	7.8	-0.1	2.3	6.1	-3.1	46.4	1.3
Fwd dividend yield (%)	6.3	6.5	6.3	3.7	4.4	7.1	4.8	6.2	5.4
Old DPR (%)	65.1	73.0	59.9	0.0	40.0	60.0	46.1	92.0	57.0
Total assets / equities (x)	11.0	11.5	10.6	9.7	10.0	12.8	8.0	6.5	9.5

Source: AmlInvestment Bank, Companies

EXHIBIT 40: MANAGEMENT GUIDANCE ON FINAL BASEL III REFORMS FOR THE NEW CREDIT RISK FRAMEWORK

RM'm	Mgmt guidance	Other considerations
Bank A	+20-30bp	-
Alliance	c.15bp	-
BIMB	n.a.	-
CIMB	Positive	-
HLB	+50bp	Every 1% BOCD stake sale estimated to lift CET1 ratio by 20bp.
HLFG	n.a.	-
Maybank	Positive	-
MBSB	n.a.	-
Public	+50-100bp	1.1% stake sale by LPI seen to lift the bank's CET1 ratio by 10bp given 70% proceeds payout.
RHB	-80-85bp	-

Source: AmlInvestment Bank, Companies

After reconciling our assessment with management guidance, HLFG, HLB, and Public emerge as the strongest dividend upside candidates, backed by low DPRs of 45-60% (vs Maybank's sector-leading 73%) and gearings of <10x (vs Maybank's 11.5x). In addition, the trio's dividend yields of 4-5% already exceed their 5-/10-year averages of 3-4%.

Earnings trend and outlook

Supportive fundamentals at work

The 2026 outlook for banks appear steadfast, driven by (i) sustained credit growth of +5.5% in line with chugging economy, (ii) +2bp NIM expansion given downward FD repricing, (iii) resilient NOII, backed by a +2.9% uptick - off a high base, and (iv) stable NCC of 23bp, well within the normalized pre-Covid range of 20-30bp. As a result, sector profit is projected to grow +4.9% in 2026 (vs +0.9% in 2025), while ROE is expected to hold up well at a 9.5%.

Key events to look out for in 2026 include: (i) any delayed impact from Trump's tariff policies, even though the global economy has thus far shown resilience, (ii) the trajectory of domestic OPR and US Fed's rate, (iii) Ringgit's performance vs USD, (iv) political mood ahead of GE16, coupled with (v) the competitive landscape for both loans and deposits. That said, our 2026 base case is for: (i) Malaysia's economy to chug along with GDP growth of 4.5%, (ii) OPR to be maintained at 2.75%, and (iii) benign rivalry among banks.

EXHIBIT 41: KEY EARNINGS ASSUMPTIONS

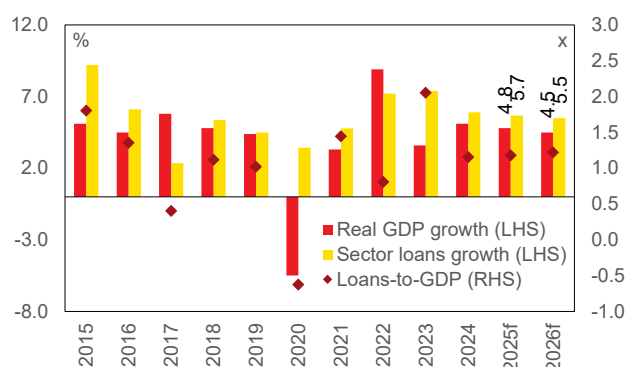
	FY25F (RM'm)	FY26F (RM'm)	FY27F (RM'm)	FY25F (% chg)	FY26F (% chg)	FY27F (% chg)
Net interest income	66,440	69,850	72,461	2.4	5.1	3.7
Non-interest income	23,692	24,380	25,054	7.0	2.9	2.8
Total income	90,132	94,230	97,515	3.6	4.5	3.5
Operating expenses	-40,913	-42,302	-43,521	3.1	3.4	2.9
Pre-provision profit	49,219	51,927	53,994	4.0	5.5	4.0
Net profit	34,810	36,526	37,802	0.9	4.9	3.5
Financial ratios						
Loans growth (%)	5.7	5.5	5.3	-0.2	-0.2	-0.2
Deposits growth (%)	6.4	5.3	5.0	0.5	-1.1	-0.3
NIM (%)	2.00	2.02	2.01	-0.08	0.02	-0.01
Cost / Income (%)	47.4	46.8	46.5	-0.1	-0.6	-0.3
Net credit cost (bp)	19.8	23.0	23.6	1.0	3.2	0.6
GIL ratio (%)	1.86	1.88	1.90	0.09	0.02	0.02
LLC (%)	94.1	90.9	88.6	-10.9	-3.2	-2.3
Return on equity (%)	9.5	9.5	9.5	-0.4	0.0	0.0

Source: AmlInvestment Bank

Loan wheel still turning

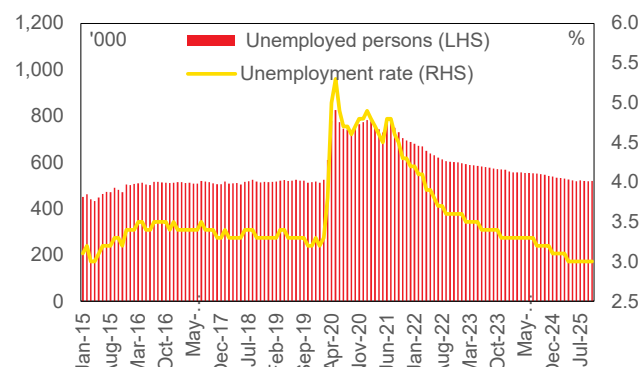
Following a year of slower growth amid global trade uncertainty stemming from President Trump's policies, the Malaysia's economy is expected to chug along in 2026. Our economics team forecasts GDP growth of 4.5% this year (MOF projection: 4-4.5%) vs 4.8% in 2025; it will be underpinned by resilient private consumption from favorable labor market conditions (where unemployment rate stood at a 10-year low of 3.0%), alongside salary growth, sustained government cash assistance, and civil servant pay hike.

EXHIBIT 42: RESILIENT GDP GROWTH



Source: AmlInvestment Bank, DOSM

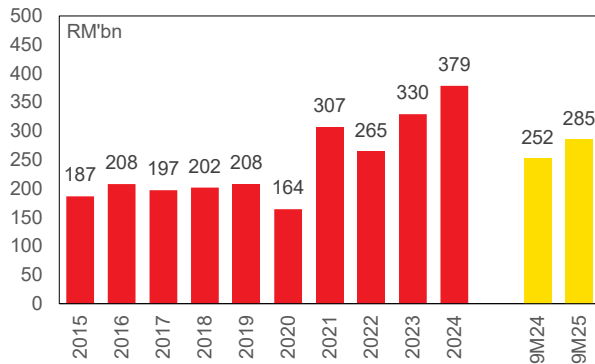
EXHIBIT 43: LOW UNEMPLOYMENT RATE



Source: DOSM

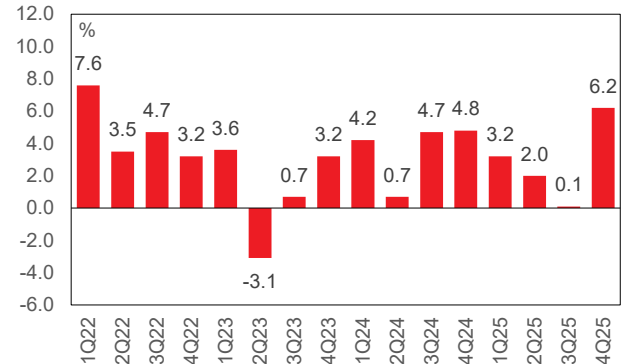
Besides, the implementation of large approved investment projects from 2024-25, and improving business confidence are further drivers lifting the local economy. Another catalyst is Visit Malaysia Year 2026, where tourism (accounting for 15% of GDP) and its multiplier effects are expected to accelerate services sector momentum. As such, we expect credit demand to persist across both the household (HH) and business (Biz) segments, fueling prospects for banking sector revenue.

EXHIBIT 44: ROBUST APPROVED INVESTMENTS



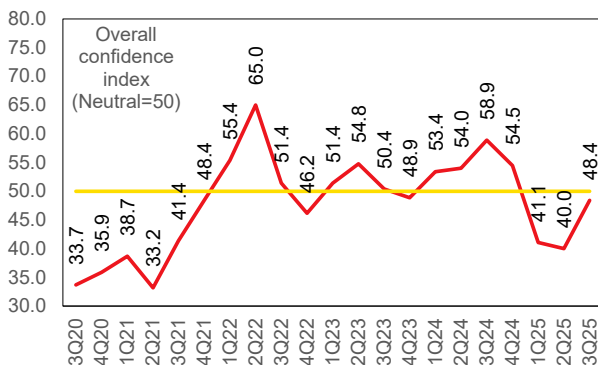
Source: MIDA

EXHIBIT 45: BIZ CONFIDENCE INDICATOR REBOUNDED



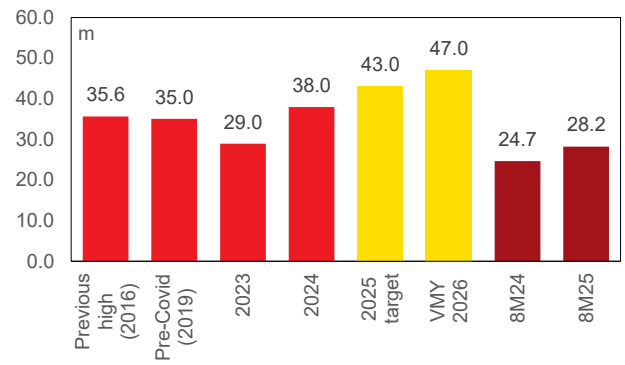
Source: DOSM

EXHIBIT 46: IMPROVING BIZ CONFIDENCE INDEX



Source: RAM

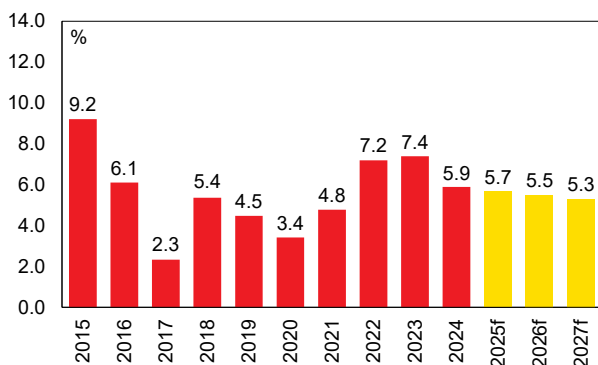
EXHIBIT 47: FOREIGN VISITOR FIGURES & TARGETS



Source: Tourism Malaysia

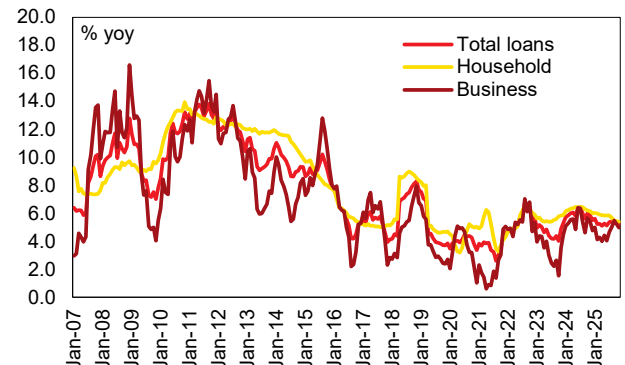
Hence, we are forecasting sector loans growth of 5.5% for 2026; this translates to loans-to-GDP growth ratio of 1.2x, which is within historical 10-year range of 0.4-2.1x.

EXHIBIT 48: LOANS GROWTH CHUGGING ALONG



Source: AmlInvestment Bank

EXHIBIT 49: SYSTEM LOANS GROWTH TREND

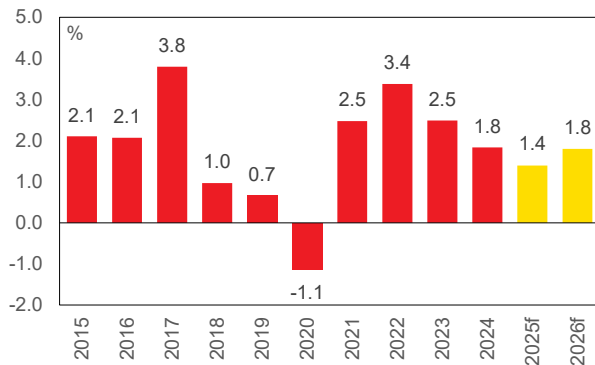


Source: BNM

NIM engine back online

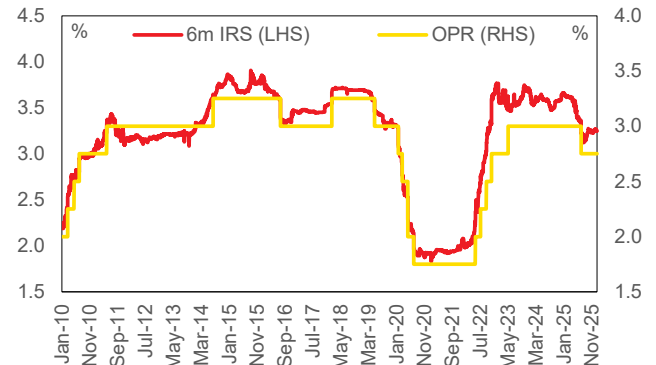
We expect BNM to maintain its accommodative monetary policy and keep OPR at 2.75% in 2026 (following the pre-emptive cut in Jul-25), to sustain robust economic growth. Also, headline inflation is projected to be at a manageable level of 1.8% this year (vs MOF estimation of 1.3-2.0%; 2025: 1.4%). Notably, we noticed that Malaysian interest rate swaps are not trending any lower as well, lending strength to our view.

EXHIBIT 50: TAME INFLATION



Source: AmlInvestment Bank, DOSM

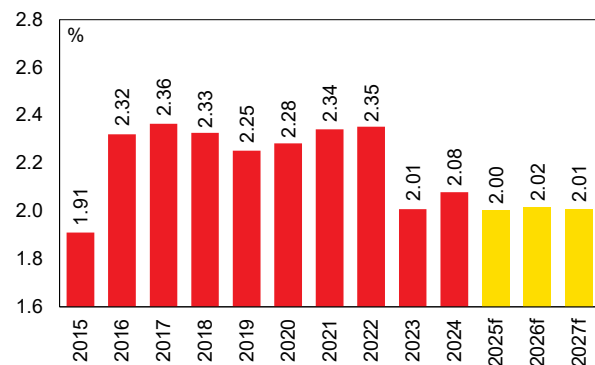
EXHIBIT 51: IRS MARKET INDICATING NO OPR CUTS



Source: Bloomberg

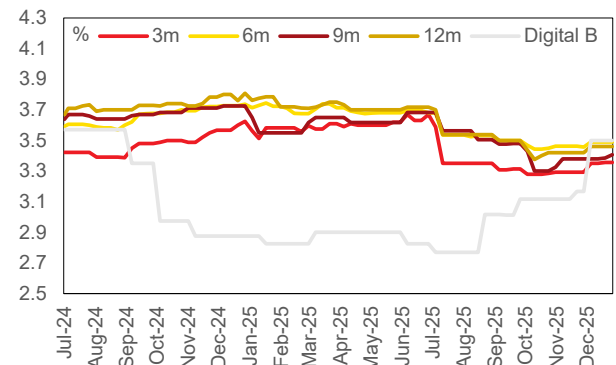
Without any further OPR reductions seen in the horizon, 2026 sector NIM is expected to broaden 2bp (vs 2025: -8bp) considering most expensive FD would have to be repriced down, typically 6-9 months after the initial policy rate reduction.

EXHIBIT 52: NIM EXPECTED TO EXPAND



Source: AmlInvestment Bank

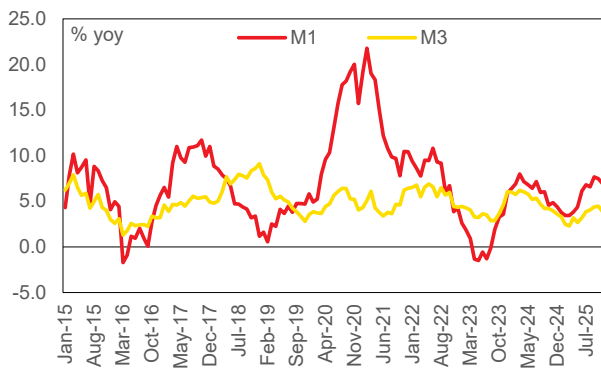
EXHIBIT 53: PRICEY PROMO FD RATE TREND



Source: AmlInvestment Bank, Companies

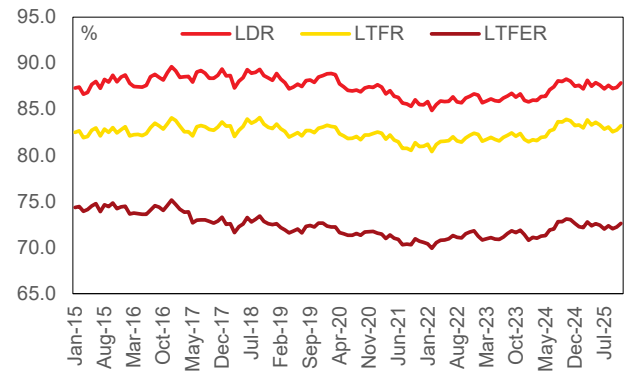
Besides, we expect FD competition to be fairly benign seeing that: (i) liquidity is ample where broad money supply (M3) continues to rise at a robust clip of 4% YoY, (ii) banks still has room to optimize funding cost and loan-to-funding ratio (LTFR; low system average of only 83%), (iii) 'lazy deposits' remained at large and low rates are tolerable, given sector CASA ratio continues to be elevated at 33% vs pre-pandemic level of 26% and board FD rates across the different maturity buckets are 60-70bp below pre-Covid era, and (iv) banks are not competing aggressively for loan market share but instead adopting a selective lending strategy to preserve margins.

EXHIBIT 54: AMPLE DOMESTIC LIQUIDITY



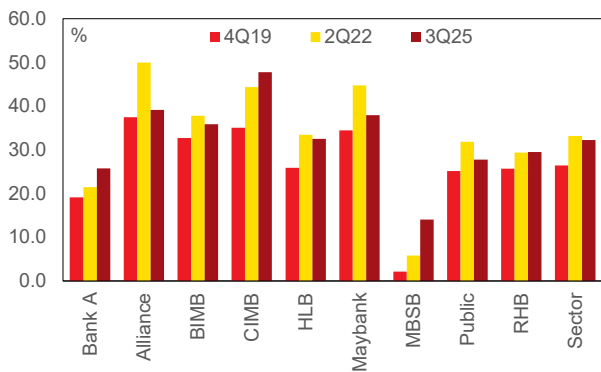
Source: BNM

EXHIBIT 55: SCOPE FOR BALANCE SHEET OPTIMIZATION



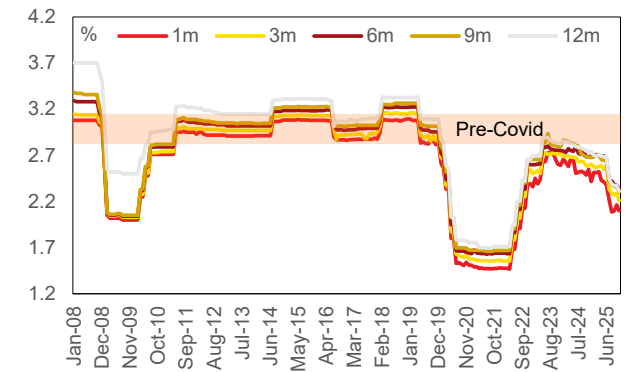
Source: BNM

EXHIBIT 56: CASA LEVELS REMAIN ELEVATED



Source: Companies

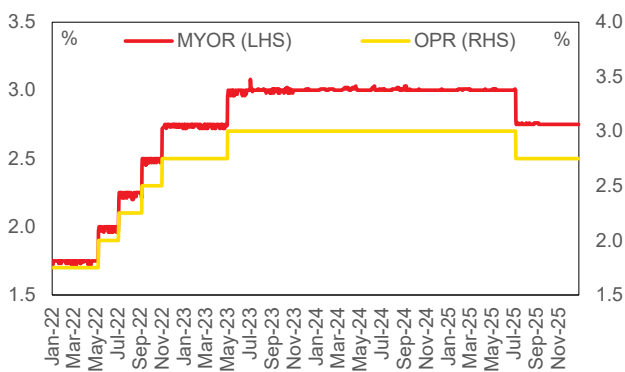
EXHIBIT 57: BOARD FD BELOW PRE-COVID ERA



Source: BNM

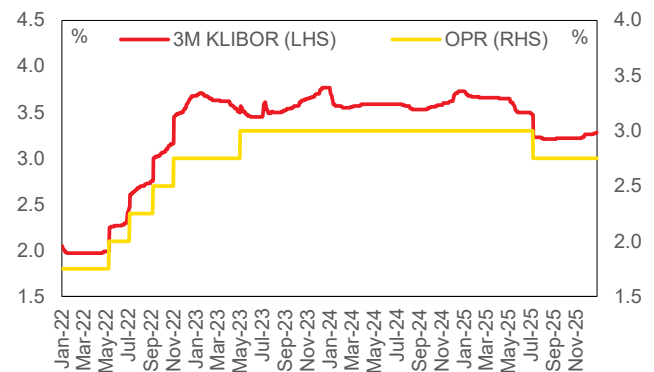
In addition, both MYOR and KLIBOR have remained largely stable post-OPR reduction in Jul-25, indicating that we are in a comfortable liquidity environment.

EXHIBIT 58: STABLE MYOR VS OPR



Source: Bloomberg

EXHIBIT 59: STEADY KLIBOR VS OPR

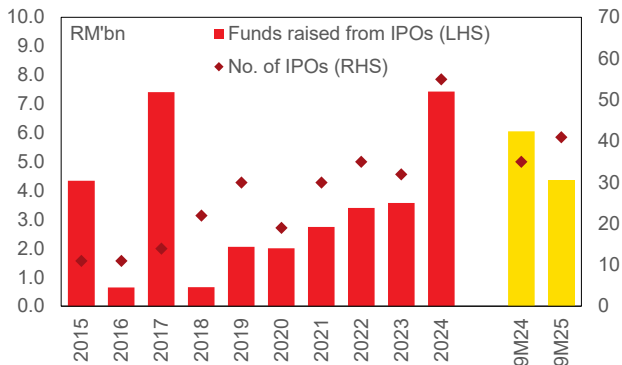


Source: Bloomberg

NOII spark flickers on

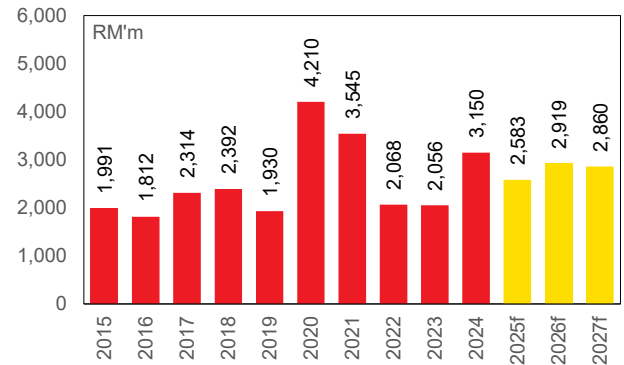
Against a backdrop of rising risk-on sentiment and increasingly vibrant capital markets, we reckon local IB deal flows would gain momentum into 2026. Within the equity space, IB could benefit from increased IPO activities, with listings expected to exceed 60 this year (vs 60/55 in 2025/24, despite a challenging macro environment), supplemented with big potential listings like IOIPG Reit, Chubb Insurance, Big Caring, and SkyeChip.

EXHIBIT 60: INCREASED IPO ACTIVITIES



Source: BNM, Bursa

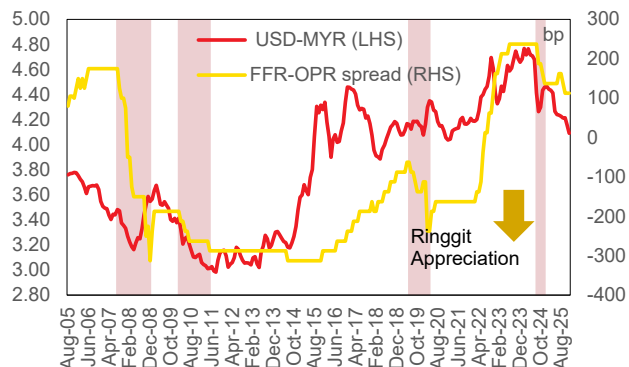
EXHIBIT 61: REBOUND IN ADV



Source: AmlInvestment Bank, Bursa

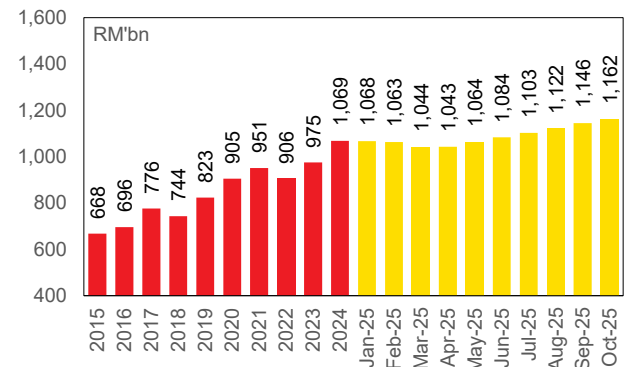
Moreover, average daily trading value (ADV) is expected to rebound this year (>RM2.9bn vs 2025: RM2.6bn) as we envision stronger foreign participation, led partially by Ringgit strength and Fed easing cycle. This should help lift the brokerage business. Besides, vibrant capital markets would drive up the wealth management segment in 2026 (AUM of funds in Malaysia has grown 9% YTD in Oct-25 even where the year was marked by string of challenging months).

EXHIBIT 62: NARROW FFR-OPR SPREAD → STRONG RM



Source: Bloomberg

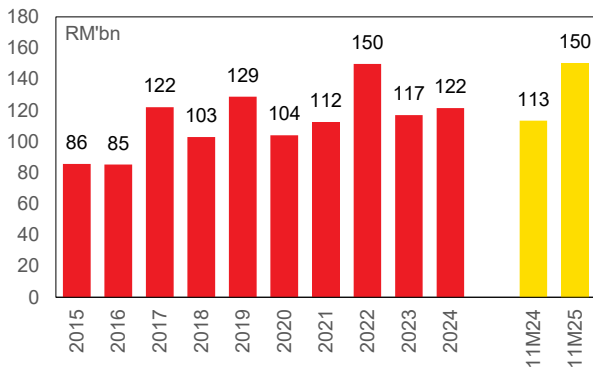
EXHIBIT 63: AUM STILL GROWING



Source: Securities Commission

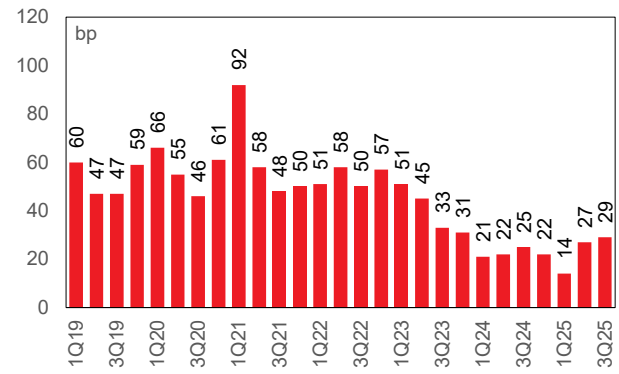
In addition, the outlook for debt market funding activities is positive due to low interest rate climate and tight credit spreads (<30bp vs pre-Covid of >40bp). Separately, commercial banking-related fees is anticipated to chug along in tandem with loans growth. Similarly for the treasury business, we are of the view that the larger FVOCI reserve (doubled since the end-4Q24) can help to largely sustain the good showing vs 2025, although downside to MGS yield is limited (<10-15bp). Overall, we projecting sector NOII to grow 2.9% in 2026.

EXHIBIT 64: ROSY DEBT MARKET (NEW ISSUANCE)



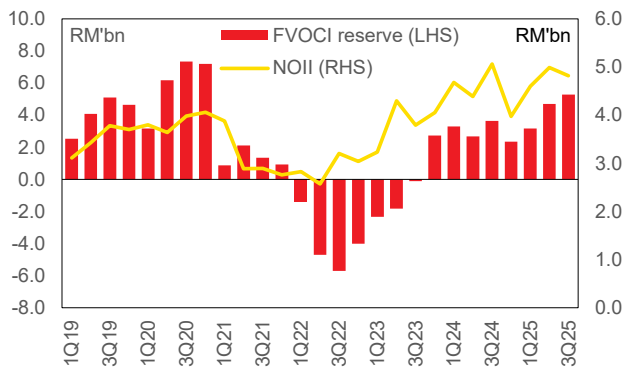
Source: BNM

EXHIBIT 65: TIGHTER CREDIT SPREAD



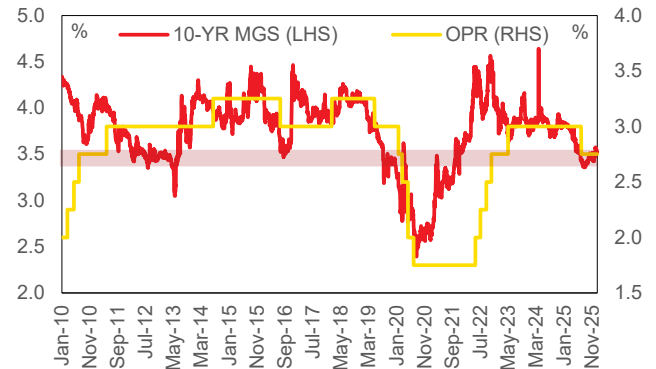
Source: BIX Malaysia

EXHIBIT 66: BUILT UP IN FVOCI RESERVE



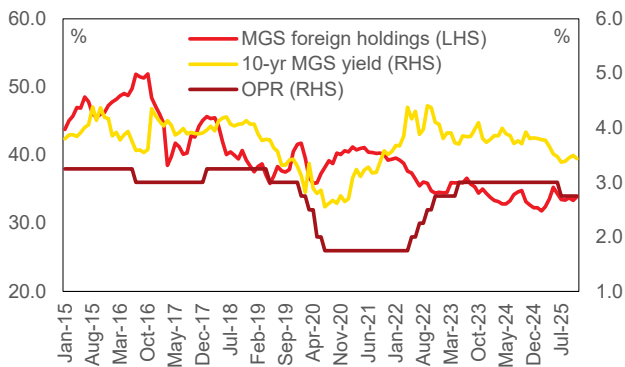
Source: AmlInvestment Bank, Companies

EXHIBIT 67: LIMITED 10-YR MGS YIELD DOWNSIDE



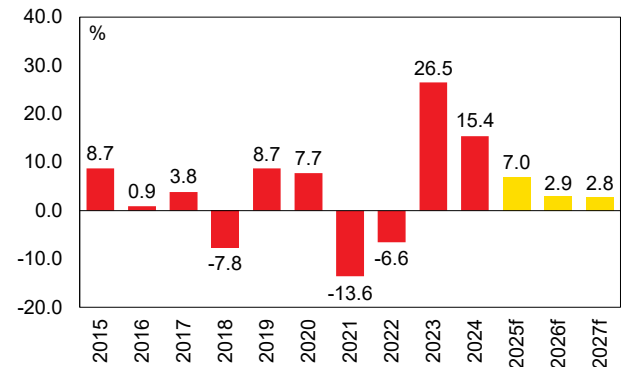
Source: Bloomberg

EXHIBIT 68: FOREIGN HOLDINGS OF MGS



Source: BNM, Bloomberg

EXHIBIT 69: NOI GROWING ON A LARGER BASE



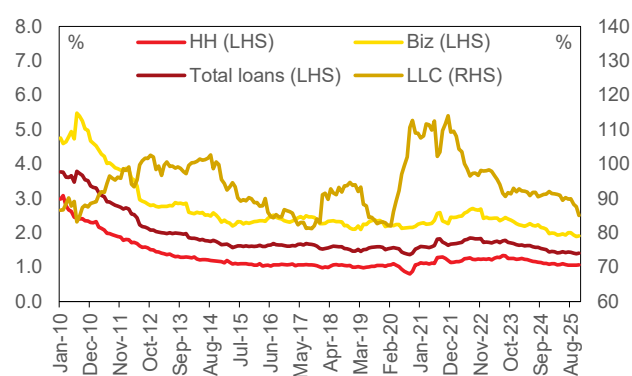
Source: AmlInvestment Bank

Asset quality not throwing a spanner

Despite a challenging macro backdrop for much of 2025, we are pleased to see that the banking sector's GIL ratio stayed fairly stable, thanks to a larger lending base. This is expected to continue into 2026 as banks are also stepping up efforts to identify and remediate delinquent loans to avoid impairment. More importantly, we have past peak tariff uncertainty and we are comforted by the fact that the economy remains open and functioning, unlike during Covid-19 lockdowns.

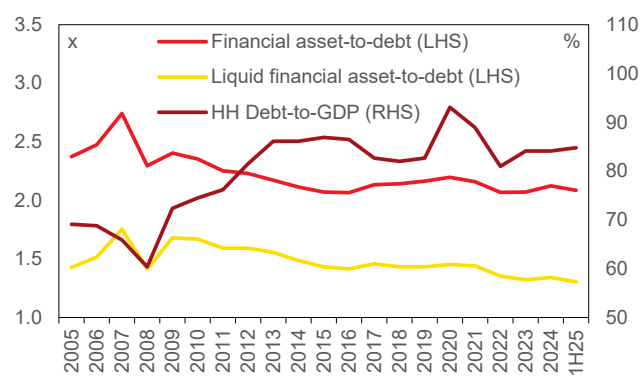
Hence, we are not overly concerned with the elevated total HH debt-to-GDP of 85%, considering borrowings are well secured by properties and principal-guaranteed investments, which effectively reduces net exposure. Moreover, the HH sector's aggregate financial asset-to-debt is at 2.1x and if we were to take into consideration only liquid financial asset, the debt cover is 1.3x. Also, HHs were still borrowing within their means, where the median debt service ratio (DSR) for outstanding/new lending were 33%/41% respectively. In addition, the share of outstanding HH loans held by riskier borrowers (those with high DSR of >60% and low monthly net disposable income <RM1k) has fallen 20bp to 9.1% (2024: 9.3%).

EXHIBIT 70: BENIGN ASSET QUALITY



Source: BNM

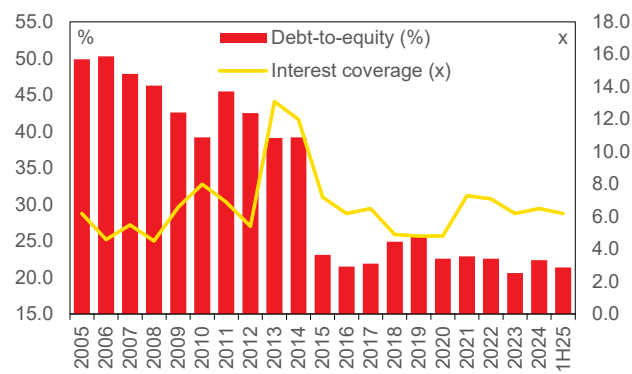
EXHIBIT 71: HH IS IN PINK OF HEALTH



Source: BNM

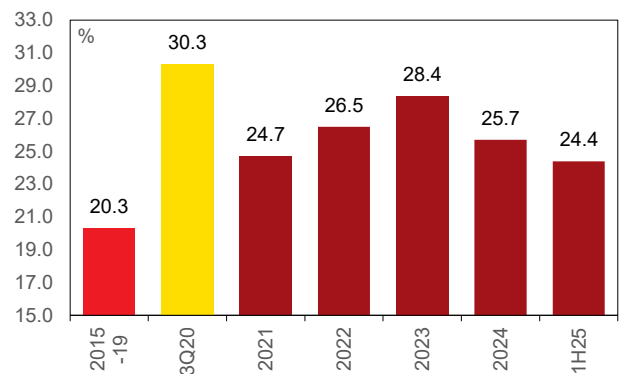
As for Biz, the interest coverage ratio dropped to 6.2x (2024: 6.5x) but this is not alarming as the cash-to-short-term-debt ratio stayed steady at 1.5x (2024: 1.5x). Besides, the debt-to-equity ratio saw a slight downtick to 21.4% (2024: 22.4%). Positively, the share of firms-at-risk has also inched down to 24.4% (2024: 25.7%) and is below 3Q20's peak of 30.3%, while the share of Stage 2 Biz loans were unchanged at 11.9% (2024: 11.9%). In sum, we find that both the HH and Biz sectors are in pink of health and we do not expect any material deterioration in asset quality.

EXHIBIT 72: BIZ ARE CRUISING ALONG



Source: BNM

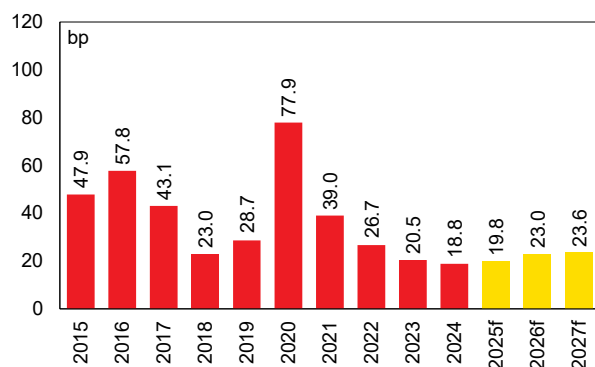
EXHIBIT 73: SHARE OF FIRMS-AT-RISK HAS DECLINED



Source: BNM

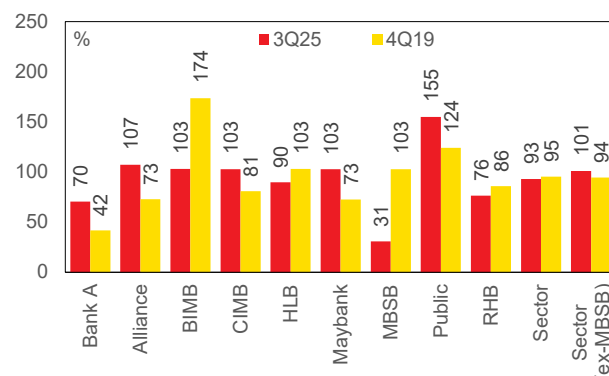
With that, sector NCC is seen to remain fairly stable at 23bp in 2026 and is within the normalized pre-pandemic run-rate of 20-30bp. In any case, sector loan loss coverage (LLC) ex-MBSB is still hovering at a fairly elevated 101%, which is higher than the beginning of Covid-19 level of 94%. Furthermore, the sector has lofty collateral value vs gross loans (77%). As such, these provide a healthy cushion to manage soft earnings during rainy days, either through pre-emptive provision write-backs or perform only marginal provision top-up in the event of any deterioration in GIL ratio. Thus, we are not worried on any asset quality weakness as we find banks are better equipped vs prior slumps.

EXHIBIT 74: NCC TO STAY FAIRLY STABLE



Source: AmlInvestment Bank

EXHIBIT 75: LLC STILL HIGHER VS PRE-COVID LEVELS



Source: Companies

EXHIBIT 76: ASSET QUALITY & BAD LOANS PROVISION LEVELS (BALANCE SHEET PROFILE AS AT 30 SEP 2025)

	Bank A	Alliance	BIMB	CIMB	HLB	Maybank	MBSB	Public	RHB	Sector
GIL ratio (%)	1.86	1.91	1.04	1.91	0.57	1.32	6.00	0.52	1.50	1.85
<u>Loan loss coverage ratio (%)</u>										
Performing	0.7	1.2	0.7	0.9	0.4	0.8	0.8	0.6	0.6	0.8
Impaired	35.5	44.2	33.8	56.3	24.0	41.2	18.7	31.5	34.3	35.5
Group level	70.3	107.1	103.0	102.8	89.6	102.6	30.8	154.8	76.3	93.0
<u>Loan loss coverage + regulatory reserve ratio (%)</u>										
Group level	116.6	116.7	146.1	125.2	244.7	125.4	40.4	244.3	126.8	142.9
% collateral	82.1	73.5	n.a.	68.6	88.0	67.0	68.3	91.2	77.8	77.1
<u>Share of loans classified as exhibiting higher credit risk (Stage 2 loans) - %</u>										
FY24	6.6	5.8#	4.8	6.2	3.1#	5.8	6.2	5.7	4.9	5.5
FY23	8.7	7.6*	5.6	6.1	3.5*	5.7	4.3	7.2	5.2	6.0
% change	-2.0	-1.8	-0.7	0.1	-0.4	0.1	1.9	-1.5	-0.3	-0.5

Source: AmlInvestment Bank, Companies *refers to FY24 / # refers to FY25

2025 banking sector highlights

The year that zoomed past

KLFIN started 2025 on a slow footing, weighed down by the unwinding of window-dressing trades and continued foreign selling. Besides, sentiment was further dampened by Trump's inauguration, which saw an escalation in tariff rhetoric. Heading into February, investors took a liking for banks given the perception of defensiveness and the sector's domestic-centricity, helped KLFIN to rally. However, this was short-lived as foreign selling intensified amid heightened trade tensions, while CIMB was hit given its large exposure to Indonesia, which experienced a market meltdown.

The weakness persisted into early April as Trump unveiled hostile reciprocal tariffs, stoking fears of a US recession and global retaliation. That said, Trump later softened his stance by pausing the reciprocal tariffs for 90 days and in turn, markets (including KLFIN) saw a relief rebound. Crossing over to May, the momentum continued for the first half of the month and the SRR got cut 100bp to 1% (a positive for banks). Unfortunately, profit-taking soon emerged as Liberation Day losses were fully recouped and investors grew wary of rising complacency.

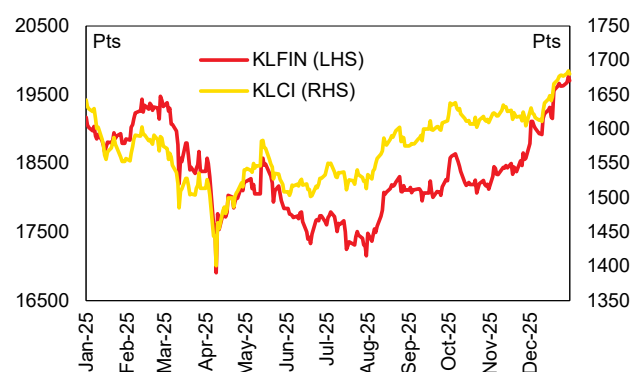
From June to mid-July, KLFIN's performance remained lackluster given the 12-day war between Israel and Iran, alongside a 25bp OPR reduction by BNM. In late-July, risk appetite improved as investors turned risk-on and deployed cash into markets to chase portfolio returns, driving KLFIN higher through to late September. This was also backed by a resilient reporting season by banks, with 2Q25 sector profit rising 2-3% QoQ and YoY (led by robust total income), despite an uncertain macro backdrop. Moreover, foreign investors turned net buyers in September.

However, the market took a breather in October after 2 straight months of gains and KLFIN was not spared. During the month, sector-specific news included the abolishment of flat rate and Rule of 78 interest computation method for hire purchase and personal loans (these have limited impact on banks). Separately, the stronger-than-anticipated advance 3Q25 GDP print of +5.2% YoY also failed to lift sentiment of banking stocks.

In early part of November, market stayed subdued before turning decisively positive during results season, following CIMB's announcement of its capital return plans. This reignited interest in banks and catalyzed KLFIN's rally. Also, the move was reinforced by solid 3Q25 financial reporting, with sector profit rising 4% QoQ and 1% YoY, led by lower provision for bad loans. In addition, it was spurred on by its laggard status (relative to KLCI) and the upswing carried through into December. We saw price boost from the typical year-end window dressing as well.

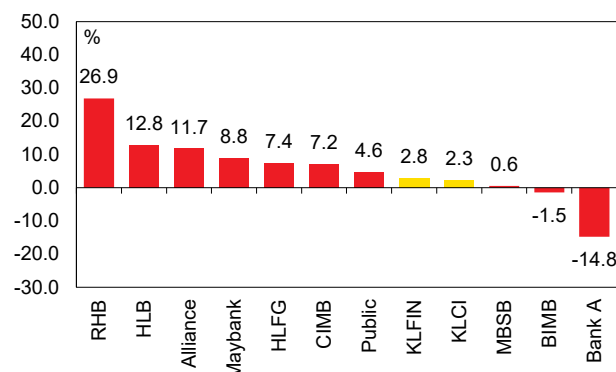
Overall, KLFIN outperformed KLCI by 50bp in 2025. Within the sector, RHB outshined peers given valuation re-rating over its capital management intention and good profit delivery. However, Bank A was bottom of the pack due to investor preference for larger banks and high dividend yielders.

EXHIBIT 77: KLFIN VS KLCI PERFORMANCE IN 2025



Source: Bloomberg

EXHIBIT 78: BANKS PRICE PERFORMANCE IN 2025



Source: Bloomberg



AmInvestment Bank

HONG LEONG FINANCIAL GROUP

(HLFG MK EQUITY, HLCB.KL)

05 Jan 2026

Hiding in plain sight

Company Report

Paul Yap Ee Xing, CFA

paul.ee-xing@ambankgroup.com

+603 2036 2281

Rationale for report: Company Update**BUY**

(Maintained)

Price RM19.06
Fair Value RM31.20
52-week High/Low RM19.22/RM15.70

Key Changes

Fair value 
EPS 

YE to Jun	FY25	FY26F	FY27F	FY28F
Total income (RM mil)	7,216.6	7,574.9	7,991.4	8,478.3
Core net profit (RM mil)	3,254.7	3,320.4	3,520.2	3,723.5
FD Core EPS (sen)	285.9	291.7	309.2	327.1
FD Core EPS growth (%)	1.4	2.0	6.0	5.8
Consensus Net Profit (RM mil)	-	-	-	-
DPS (sen)	72.0	78.0	82.0	86.0
BV/share (RM)	28.24	30.41	32.69	35.12
PE (x)	6.7	6.5	6.2	5.8
Div yield (%)	3.8	4.1	4.3	4.5
P/BV (x)	0.7	0.6	0.6	0.5
ROE (%)	10.5	9.9	9.8	9.6

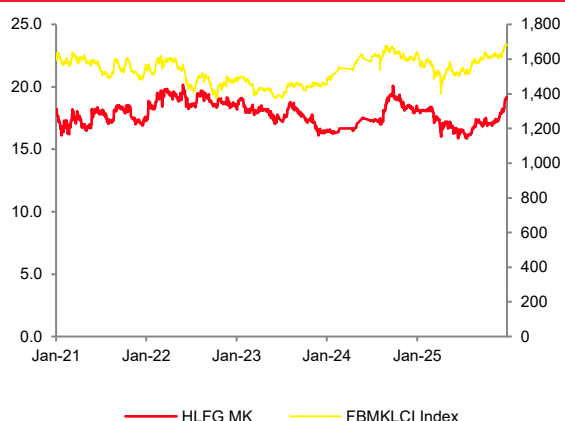
Stock and Financial Data

Shares Outstanding (million) 1,145.2
Market Cap (RMmil) 21,828.4
Book Value (RM/Share) 28.24
P/BV (x) 0.7
ROE (%) 10.5

Major Shareholders
Hong Leong Co (52.0%)
Guoco Group (25.4%)
EPF (6.0%)

Free Float 16.1
Avg Daily Value (RMmil) 3.4

Price performance	3mth	6mth	12mth
Absolute (%)	9.7	15.5	3.0
Relative (%)	6.9	6.6	0.1

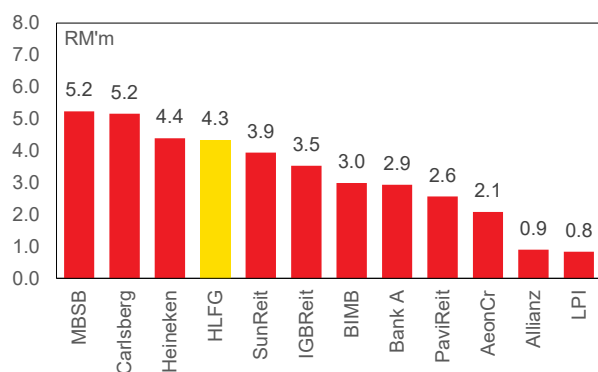


Investment Highlights

We retain our BUY call on HLFG but with a higher TP of RM31.20 (from RM21.60), based on 0.95x FY27 P/B. It provides deep value play and is one of the most inexpensive listed bank in Malaysia (trading at only 0.58x P/B and 6.1x P/E). In our opinion, the stock deserves a re-rating given its holding co has turned net cash and the market is underpricing its strong potential yield upside. Even now, HLFG is already offering dividend yield of 4.3%, above its 5-/10-year average of 3.4%/2.9% and is still not yet widely owned by investors.

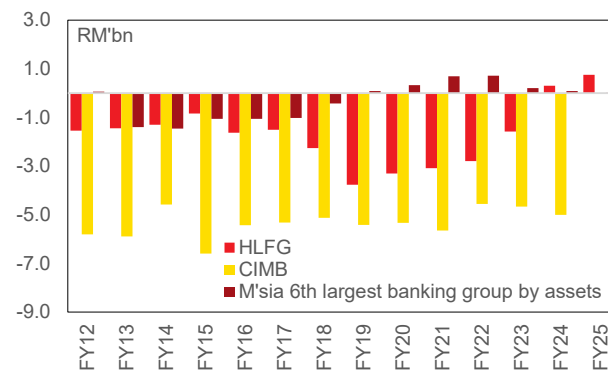
- Recommendation and valuation.** We maintain our BUY call on HLFG but with higher TP of RM31.20 (from RM21.60; now using the GGM method instead of the typical SOP valuation employed by the street), based on 0.95x FY27 P/B. This is in line with the valuations of RHB and Alliance (0.98x-1.00x) given similar ROE generation (9.5-9.7%), which prices HLFG within its 5-year pre-Covid mean of 1.06x (comparable ROE vs 2015-19 period). We believe the stock provides deep value and is one of the cheapest listed bank in Malaysia (trading at only 0.58x P/B and 6.1x P/E).
- Richer yields ahead?** The optionality to invest directly into 64%-owned HLB is a common reason used to rationalize the valuation discount, but we think this overlooks the stronger potential yield upside within HLFG itself. The group currently pays out just 60% of dividends received from its OpCos (5-/10-year average: 64%/63%); if this is raised to 100%, HLFG's yield could expand to a blue-sky 7.1%. Even now, the stock is already offering dividend yield of 4.3%, above its 5-/10-year average of 3.4%/2.9%. In our opinion, HLFG has strong prospects of replicating the recent re-rating success achieved by another local bank.
- Valuation disconnect.** The holding co structure is also regularly cited as the cause behind HLFG's discount but we believe this narrative is overstated. Several listed co such as Sunway, PPB, OSK and even Berkshire do not suffer from such steep penalty (holding co discount <20% if any). Likewise, banks with similar structures, past or present (RHB Capital, CIMB, and Malaysia's sixth largest banking group by assets), have not encounter the same treatment. Also, HLFG's holding co has turned net cash but yet its discount has expanded to 39% vs 5-/10-year average of 35%/29%, which we feel is unwarranted.
- Misjudged illiquidity.** Stock illiquidity is another perceived fault line raised by investors, although data suggests otherwise. We find HLFG's average daily trading value (ADV) of RM4.3m/day (2020-25) is higher vs numerous financial names (Bank A, BIMB, AeonCr, Allianz, LPI: RM0.8m-3.0m/day) and surpasses that of quality REITs (PaviReit, SunReit, IGBReit: RM2.6m-3.9m/day), while comparable to high-yielding consumer stock like Heineken (RM4.4m/day). Moreover, HLFG's narrow bid-ask spread further dispels the illiquid narrative.

EXHIBIT 1: ADV FROM 2020-25; HLFG IS NOT ILLIQUID



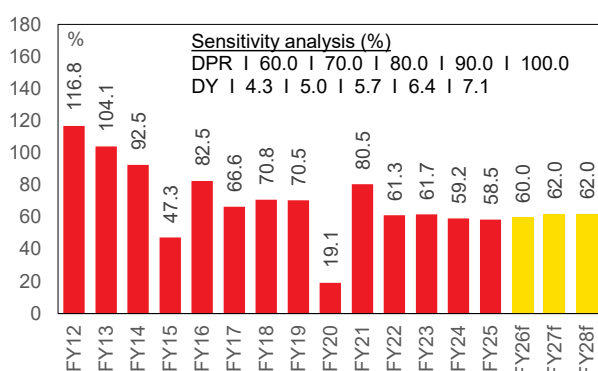
Source: AmlInvestment Bank, Bloomberg

EXHIBIT 2: HLFG'S HOLDING CO HAS TURNED NET CASH



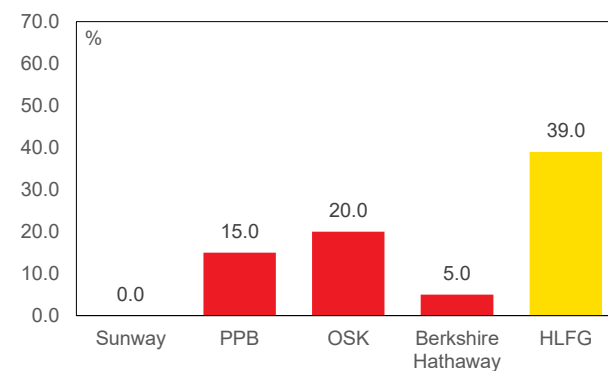
Source: AmlInvestment Bank, Companies

EXHIBIT 3: DPR SENSITIVITY AT HOLDING CO LEVEL



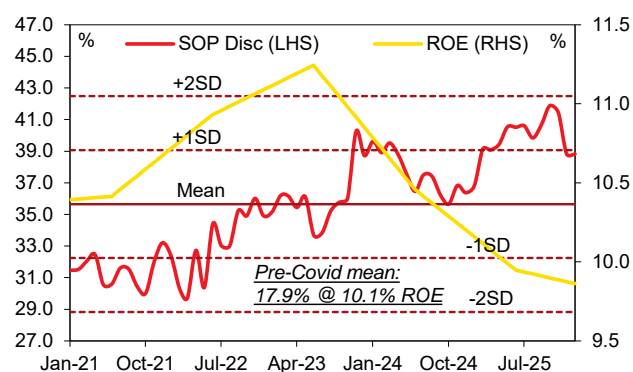
Source: AmlInvestment Bank, HLFG

EXHIBIT 4: STEEP IRRATIONAL HOLDING CO DISCOUNT



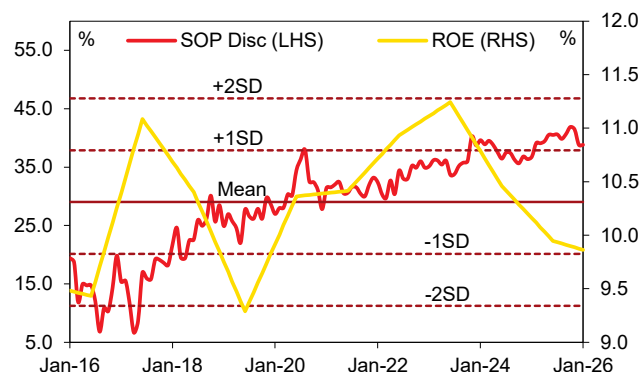
Source: AmlInvestment Bank, Companies

EXHIBIT 5: 5-YR FORWARD SECTOR SOP DISC BAND



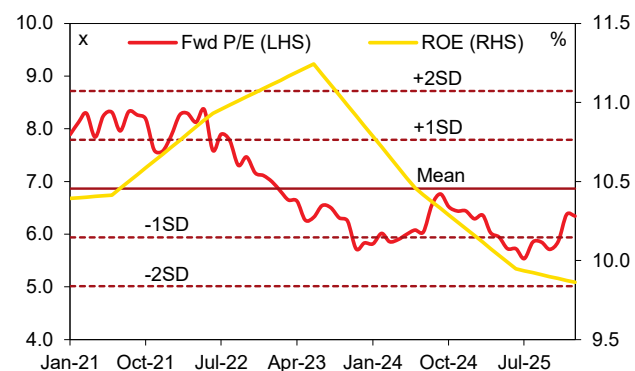
Source: AmlInvestment Bank, Bloomberg

EXHIBIT 6: 10-YR FORWARD SECTOR SOP DISC BAND



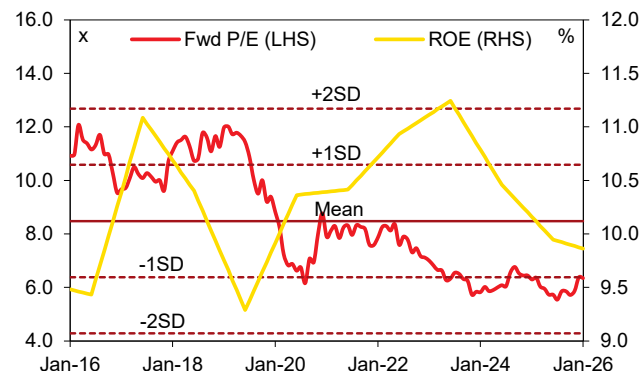
Source: AmlInvestment Bank, Bloomberg

EXHIBIT 7: 5-YR FORWARD SECTOR P/E BAND



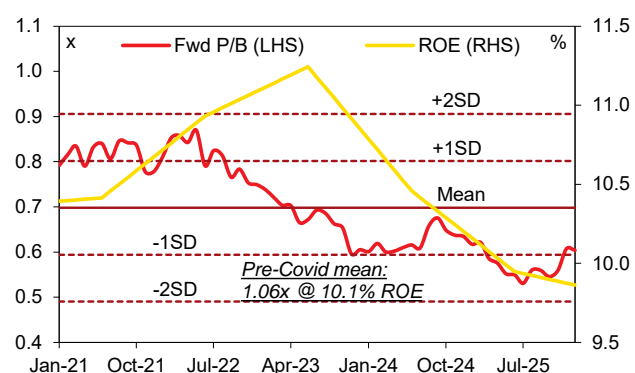
Source: AmlInvestment Bank, Bloomberg

EXHIBIT 8: 10-YR FORWARD SECTOR P/E BAND



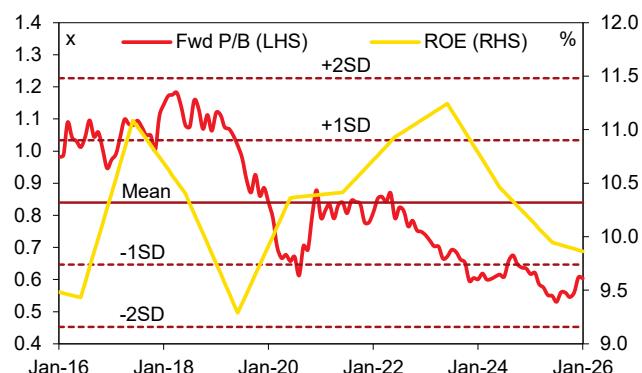
Source: AmlInvestment Bank, Bloomberg

EXHIBIT 9: 5-YR FORWARD SECTOR P/B BAND



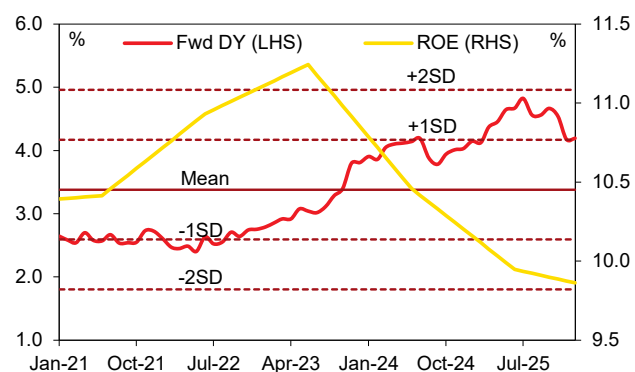
Source: AmlInvestment Bank, Bloomberg

EXHIBIT 10: 10-YR FORWARD SECTOR P/B BAND



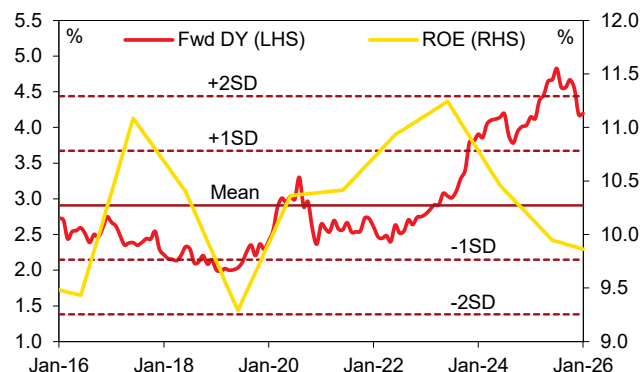
Source: AmlInvestment Bank, Bloomberg

EXHIBIT 11: 5-YR FORWARD SECTOR DY BAND



Source: AmlInvestment Bank, Bloomberg

EXHIBIT 12: 10-YR FORWARD SECTOR DY BAND



Source: AmlInvestment Bank, Bloomberg

Company profile

HLFG is an investment holding company with 3 key business segments: (i) commercial and Islamic banking under HLB, (ii) insurance and takaful under HLA, coupled with (iii) investment bank and asset management under HLCap.

In FY25, HLB accounted for 88% of group PBT, with HLA contributing 11%, while HLCap making up the remaining 1%.

Investment thesis and catalysts

We like HLFG for its deep value offering and is one of the cheapest listed bank in Malaysia (trading at only 0.58x P/B and 6.1x P/E). In our view, HLFG deserves a re-rating given its holding co has turned net cash (but yet the discount has widened to 39% vs 5-/10-year mean of 35%/29%, which we feel is unwarranted) and the market is underpricing its strong potential yield upside. At present, HLFG is already providing dividend yield of 4.3%, above its 5-/10-year average of 3.4%/2.9% and is still under-owned by investors.

Valuation methodology

We value HLFG 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%).

Thus, we derived a TP of RM31.20 for HLFG and it is based on 0.95x FY27 P/B with assumptions of 9.8% ROE, 10.1% COE, and 3.0% LTG. This is broadly in line with the valuations of RHB and Alliance (0.98x-1.00x) given similar ROE output (9.5-9.7%), which prices HLFG within its 5-year pre-Covid mean of 1.06x (comparable ROE vs 2015-19 period).

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 may exert downward pressure on NIM.
- iii) Stronger RM relative to key operating currencies (notably CNY) could lead to unfavorable forex translation effects on consolidated earnings, capital and dividends.

EXHIBIT 13: VALUATIONS

Return on equity (ROE)	9.8%
Cost of equity (COE)	10.1%
Long-term growth rate (LTG)	3.0%
Target P/B	0.95x
FY27 BVPS	RM32.69
ESG premium	-
12-month target price	RM31.20

Source: AmlInvestment Bank

EXHIBIT 14: FINANCIAL DATA

Income Statement (RMmil, YE 31 Jun)	FY24	FY25	FY26F	FY27F	FY28F
Net interest income	3,922.5	4,056.0	4,057.1	4,247.1	4,473.5
Non-interest income	1,742.2	2,000.8	2,222.8	2,392.7	2,566.2
Islamic banking income	985.9	1,159.8	1,295.0	1,351.7	1,438.6
Total income	6,650.7	7,216.6	7,574.9	7,991.4	8,478.3
Overhead expenses	(2,609.4)	(2,633.1)	(2,717.9)	(2,822.5)	(2,982.8)
Pre-provision profit	4,041.3	4,583.5	4,857.0	5,168.9	5,495.5
Loan loss provisions	114.4	383.3	(88.1)	(98.9)	(121.6)
Impairment & others	(1.2)	0.6	-	-	-
Associates	1,691.0	1,135.2	1,380.0	1,449.0	1,521.5
Pretax profit	5,845.6	6,102.7	6,148.8	6,518.9	6,895.4
Tax	(1,058.4)	(1,236.6)	(1,229.8)	(1,303.8)	(1,379.1)
Minority interests	(1,589.5)	(1,611.4)	(1,598.7)	(1,694.9)	(1,792.8)
Core net profit	3,197.7	3,254.7	3,320.4	3,520.2	3,723.5
Balance Sheet (RMmil, YE 31 Jun)	FY24	FY25	FY26F	FY27F	FY28F
Cash & deposits with FIs	7,548.2	11,704.4	4,832.6	3,976.4	4,302.7
Marketable securities	81,581.1	86,547.6	95,930.1	100,379.5	105,056.0
Total current assets	89,129.3	98,252.0	100,762.7	104,355.9	109,358.7
Net loans & advances	193,613.4	209,235.4	223,865.5	238,440.7	252,721.7
Statutory deposits	nm	nm	nm	nm	nm
Long-term investments	32,457.4	27,893.2	29,287.9	30,752.3	32,289.9
Fixed assets	1,145.9	1,093.8	1,093.6	1,089.8	1,082.3
Intangible assets	2,797.1	2,780.8	2,719.8	2,657.3	2,593.5
Other long-term assets	17,062.4	15,940.9	15,940.9	15,940.9	15,940.9
Total LT assets	247,076.2	256,944.0	272,907.7	288,881.1	304,628.4
Total assets	336,205.5	355,196.1	373,670.4	393,237.0	413,987.1
Customer deposits	222,241.9	240,149.9	254,558.9	269,832.4	286,022.3
Deposits of other FIs	24,002.4	19,439.5	19,439.5	19,439.5	19,439.5
Subordinated debts	9,785.9	10,085.1	10,085.1	10,085.1	10,085.1
Hybrid capital securities	-	-	-	-	-
Other liabilities	35,806.4	38,290.9	38,290.9	38,290.9	38,290.9
Total liabilities	291,836.7	307,965.3	322,374.3	337,647.8	353,837.8
Shareholders' funds	30,090.7	32,147.1	34,613.7	37,211.9	39,979.2
Minority interests	14,278.1	15,083.6	16,682.3	18,377.3	20,170.1
Key Ratios (YE 31 Jun)	FY24	FY25	FY26F	FY27F	FY28F
Total income growth (%)	3.4	8.5	5.0	5.5	6.1
Pre-provision profit growth (%)	4.7	13.4	6.0	6.4	6.3
Core net profit growth (%)	14.6	1.8	2.0	6.0	5.8
Net interest margin (%)	1.5	1.5	1.4	1.4	1.4
Cost-to-income ratio (%)	39.2	36.5	35.9	35.3	35.2
Effective tax rate (%)	18.1	20.3	20.0	20.0	20.0
Dividend payout (%)	19.2	25.2	26.7	26.5	26.3
Key Assumptions (YE 31 Jun)	FY24	FY25	FY26F	FY27F	FY28F
Loan growth (%)	7.1	7.7	7.0	6.5	6.0
Deposit growth (%)	4.1	8.1	6.0	6.0	6.0
Loan-deposit ratio (%)	87.8	87.6	88.4	88.8	88.8
Gross NPL (%)	0.5	0.5	0.6	0.6	0.6
Net NPL (%)	0.3	0.4	0.4	0.4	0.5
Credit charge-off rate (%)	(0.1)	(0.2)	-	-	-
Loan loss reserve (%)	155.0	96.9	92.3	88.8	86.8

Source: Company, AmlInvestment Bank Bhd estimates



AmInvestment Bank

Company Report

Paul Yap Ee Xing, CFA

paul.ee-xing@ambankgroup.com

+603 2036 2281

HONG LEONG BANK

(HLBK MK EQUITY, HLBB.KL)

05 Jan 2026

Room to accelerate

BUY

(Maintained)

Rationale for report: Company Update

Price RM22.14
Fair Value RM25.80
52-week High/Low RM22.60/RM18.42

Key Changes

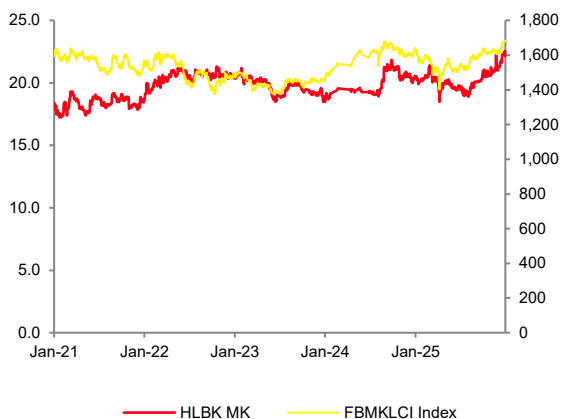
Fair value 
EPS 

YE to Jun	FY25	FY26F	FY27F	FY28F
Total income (RM mil)	6,398.0	6,824.2	7,209.7	7,602.6
Core net profit (RM mil)	4,273.4	4,404.8	4,658.5	4,907.7
FD Core EPS (sen)	208.5	214.9	227.2	239.4
FD Core EPS growth (%)	1.8	3.1	5.8	5.3
Consensus Net Profit (RM mil)	-	-	-	-
DPS (sen)	96.0	100.0	107.0	114.0
BV/share (RM)	19.16	20.34	21.58	22.89
PE (x)	10.6	10.3	9.7	9.2
Div yield (%)	4.3	4.5	4.8	5.1
P/BV (x)	1.2	1.1	1.0	1.0
ROE (%)	11.2	10.9	10.8	10.8

Stock and Financial Data

Shares Outstanding (million)	2,167.7
Market Cap (RMmil)	47,993.3
Book Value (RM/Share)	19.16
P/BV (x)	1.2
ROE (%)	11.2
Major Shareholders	HLFG (61.8%) EPF (9.6%) Amanah Saham (2.7%)
Free Float	34.7
Avg Daily Value (RMmil)	32.7

Price performance	3mth	6mth	12mth
Absolute (%)	6.4	13.7	7.7
Relative (%)	3.8	4.9	4.7

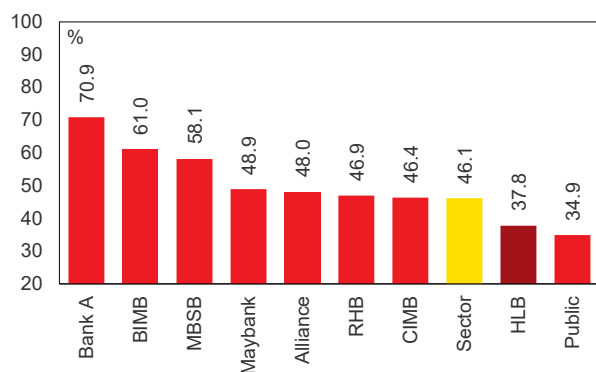


Investment Highlights

We maintain our BUY rating on HLB but with a higher GGM-TP of RM25.80 (from RM23.75), based on 1.20x FY27 P/B. The stock offers 4.8% dividend yield and this exceeds its 5-/10-year mean of 3.6%/3.3%. That said, we believe HLB still has scope to raise DPR higher and execute capital management. Besides, the bank boasts a flexible balance sheet with a fairly low LDR of 89% and this lends confidence to the durability of its ROE trajectory.

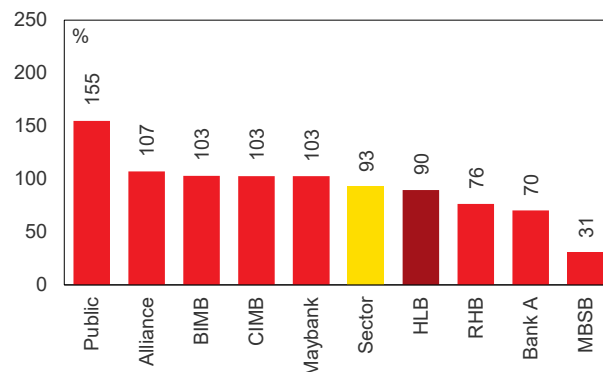
- **Recommendation and valuation.** We maintain our BUY rating on HLB but with a higher GGM-TP of RM25.80 (from RM23.75), based on 1.20x FY27 P/B. This is just a tad below the valuations of CIMB and Maybank (1.30x) given slightly smaller ROE output, which prices HLB broadly within its 5-year pre-Covid average of 1.33x (similar ROE generation vs 2015-19) but above sector's 0.92x (the premium is fair considering its ROE is 2ppt higher vs industry's mean).
- **Well-oiled machine.** HLB is one of the most prudently-run listed bank in Malaysia, seeing it has the second lowest CIR in town (38% vs sector: 46%) and its asset quality track record is stellar (low 0.57% GIL ratio vs sector: 1.85%). However, HLB's LLC has fallen to 90% but this is not something overly concerning to us as it is in line with industry average of 93% and we find collateral backing remains solid at 88% of gross loans. Also, we expect the credit environment to stay benign.
- **Extra fuel in the tank.** The bank's fairly low LDR of 89% (sector: 95%) provides optimization headroom, should NIM come under sharp pressure. Meanwhile, focus on NOII has begun to bear fruit, with its contribution to total income climbing by 2ppt to 20% between FY23-25, following the arrival of GMD Kevin Lam. With broad-based traction seen across its wealth management, GM franchise sales, and credit card segments, we believe HLB has a credible path to reach its >25% NOII ratio aspiration by FY28.
- **Revving up returns.** After the uplift in DPR to 46% (from 33%), HLB's dividend yield now stands at 4.8%, exceeding its 5-/10-year mean of 3.6%/3.3%. Similar to Public, we also reckon HLB has the ability to increase DPR higher (sector: 62%) as it is a SA bank, set to benefit from the final Basel III reforms (guided CET1 ratio enhancement of 50bp) and thus, creating scope for capital management. Moreover, its 17.8%-stake in BOCD offers latent upside, given the associate's relatively low DPR of just c.30%.

EXHIBIT 1: AN EFFICIENT BANK WITH LOW CIR



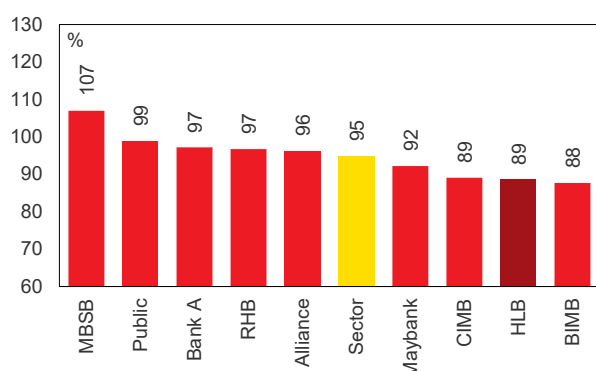
Source: AmlInvestment Bank, Companies

EXHIBIT 2: LLC IN LINE WITH INDUSTRY



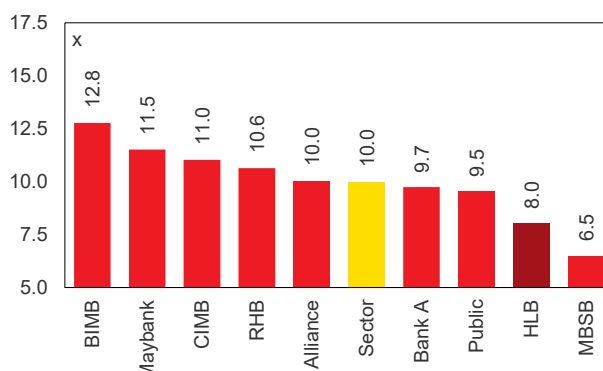
Source: AmlInvestment Bank, Companies

EXHIBIT 3: LOW LDR → OPTIMIZATION HEADROOM



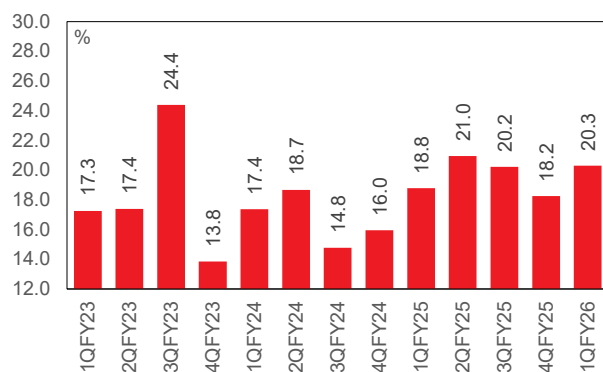
Source: AmlInvestment Bank, Companies

EXHIBIT 4: LOW GEARING → FLEXIBLE BALANCE SHEET



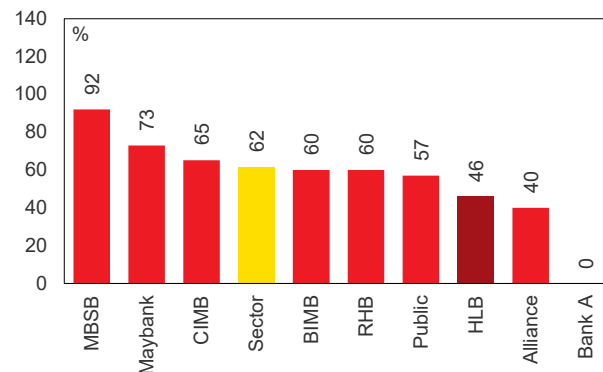
Source: AmlInvestment Bank, Companies

EXHIBIT 5: FOCUS ON NOI BEARING FRUIT



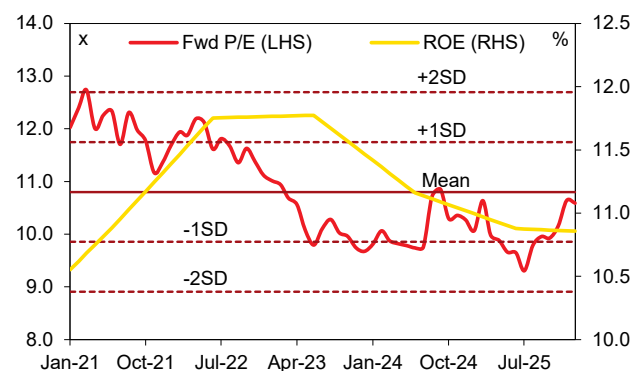
Source: AmlInvestment Bank, HLB

EXHIBIT 6: LOW DPR WITH SCOPE FOR CAPITAL MGMT



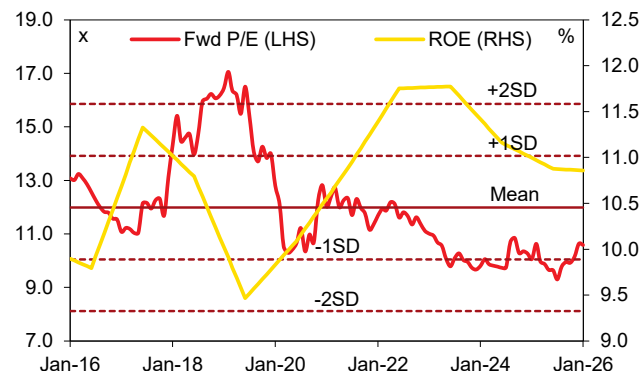
Source: AmlInvestment Bank, Companies

EXHIBIT 7: 5-YR FORWARD SECTOR P/E BAND



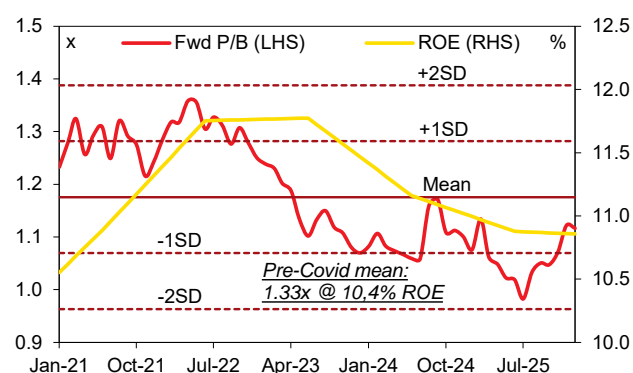
Source: AmlInvestment Bank, Bloomberg

EXHIBIT 8: 10-YR FORWARD SECTOR P/E BAND



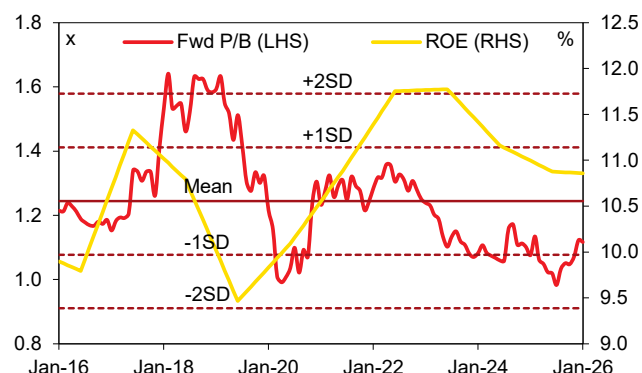
Source: AmlInvestment Bank, Bloomberg

EXHIBIT 9: 5-YR FORWARD SECTOR P/B BAND



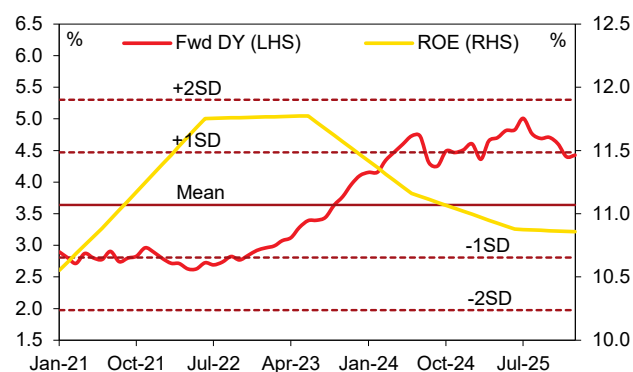
Source: AmlInvestment Bank, Bloomberg

EXHIBIT 10: 10-YR FORWARD SECTOR P/B BAND



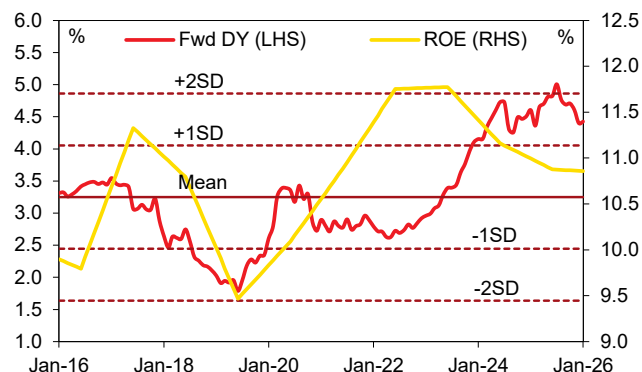
Source: AmlInvestment Bank, Bloomberg

EXHIBIT 11: 5-YR FORWARD SECTOR DY BAND



Source: AmlInvestment Bank, Bloomberg

EXHIBIT 12: 10-YR FORWARD SECTOR DY BAND



Source: AmlInvestment Bank, Bloomberg

Company profile

HLB is the fifth largest bank in Malaysia (by assets), offering comprehensive suite of financial and banking solutions tailored to the evolving needs of individuals, SMEs, and corporations.

Key markets for HLB are Malaysia and China contributing c.70% and c.20% to group PBT in FY25. Separately, the bank also has presence across Singapore, Hong Kong, Vietnam, and Cambodia. In total, the bank has a network of close to 230 branches.

Investment thesis and catalysts

We like HLB for its potential to raise DPR further and execute capital management (guided CET1 ratio enhancement of 50bp from the final Basel III reforms). Following the higher DPR introduction of 46% (from 33%), HLB is already offering 4.8% dividend yield and is above its 5-/10-year average of 3.6%/3.3%. Besides, the bank boasts a flexible balance sheet with a fairly low LDR/gearing level of 89%/8.0x and these underpin our confidence in the durability of its ROE trajectory.

Valuation methodology

We value HLB 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%).

Thus, we derived a TP of RM25.80 for HLB and this is based on 1.20x FY27 P/B with assumptions of 10.8% ROE, 9.6% COE, and 3.0% LTG. This is just a tad lower vs the valuations of CIMB and Maybank (1.30x) given slightly smaller ROE output, which prices HLB broadly within its 5-year pre-Covid mean of 1.33x (similar ROE generation vs 2015-19) but above sector's 0.92x (the premium is warranted considering its ROE is 2ppt higher vs industry's average).

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 may exert downward pressure on NIM.
- iii) Stronger RM relative to key operating currencies (notably CNY) could lead to unfavorable forex translation effects on consolidated earnings, capital and dividends.

EXHIBIT 13: VALUATIONS

Return on equity (ROE)	10.8%
Cost of equity (COE)	9.6%
Long-term growth rate (LTG)	3.0%
Target P/B	1.20x
FY27 BVPS	RM21.58
ESG premium	-
12-month target price	RM25.80

Source: AmlInvestment Bank

EXHIBIT 14: FINANCIAL DATA

Income Statement (RMmil, YE 31 Jun)	FY24	FY25	FY26F	FY27F	FY28F
Net interest income	3,821.8	3,987.5	4,105.1	4,370.6	4,608.7
Non-interest income	963.3	1,250.7	1,425.1	1,488.0	1,554.4
Islamic banking income	985.9	1,159.8	1,294.0	1,351.1	1,439.5
Total income	5,771.0	6,398.0	6,824.2	7,209.7	7,602.6
Overhead expenses	(2,338.9)	(2,479.2)	(2,531.2)	(2,652.6)	(2,779.9)
Pre-provision profit	3,432.1	3,918.8	4,293.0	4,557.1	4,822.7
Loan loss provisions	114.3	383.3	(86.9)	(99.0)	(121.4)
Impairment & others	(1.1)	0.3	-	-	-
Associates	1,588.9	1,057.9	1,300.0	1,365.0	1,433.3
Pretax profit	5,134.2	5,360.3	5,506.1	5,823.1	6,134.6
Tax	(938.0)	(1,086.9)	(1,101.2)	(1,164.6)	(1,226.9)
Minority interests	-	-	-	-	-
Core net profit	4,196.2	4,273.4	4,404.8	4,658.5	4,907.7
Balance Sheet (RMmil, YE 31 Jun)	FY24	FY25	FY26F	FY27F	FY28F
Cash & deposits with FIs	5,790.2	9,990.9	3,063.9	2,178.6	2,463.5
Marketable securities	50,050.4	53,333.9	61,242.1	64,081.6	67,067.6
Total current assets	55,840.5	63,324.8	64,306.0	66,260.2	69,531.2
Net loans & advances	193,304.5	208,964.6	223,576.9	238,133.4	252,396.0
Statutory deposits	nm	nm	nm	nm	nm
Long-term investments	31,152.2	26,704.4	28,039.6	29,441.6	30,913.7
Fixed assets	994.4	953.7	959.4	961.0	958.7
Intangible assets	2,184.8	2,165.9	2,119.5	2,071.6	2,022.3
Other long-term assets	14,312.8	12,504.7	12,504.7	12,504.7	12,504.7
Total LT assets	241,948.6	251,293.3	267,200.1	283,112.4	298,795.5
Total assets	297,789.1	314,618.1	331,506.1	349,372.6	368,326.6
Customer deposits	222,599.3	241,195.1	255,666.8	271,006.8	287,267.2
Deposits of other FIs	21,194.6	16,460.4	16,460.4	16,460.4	16,460.4
Subordinated debts	8,851.3	9,585.7	9,585.7	9,585.7	9,585.7
Hybrid capital securities	-	-	-	-	-
Other liabilities	7,849.7	8,090.1	8,090.1	8,090.1	8,090.1
Total liabilities	260,495.0	275,331.1	289,802.9	305,142.9	321,403.3
Shareholders' funds	37,294.1	39,287.0	41,703.3	44,229.7	46,923.4
Minority interests	-	-	-	-	-
Key Ratios (YE 31 Jun)	FY24	FY25	FY26F	FY27F	FY28F
Total income growth (%)	1.5	10.9	6.7	5.6	5.4
Pre-provision profit growth (%)	(0.6)	14.2	9.5	6.2	5.8
Core net profit growth (%)	9.9	1.8	3.1	5.8	5.3
Net interest margin (%)	1.7	1.6	1.6	1.6	1.6
Cost-to-income ratio (%)	40.5	38.7	37.1	36.8	36.6
Effective tax rate (%)	18.3	20.3	20.0	20.0	20.0
Dividend payout (%)	33.2	46.1	46.5	47.1	47.6
Key Assumptions (YE 31 Jun)	FY24	FY25	FY26F	FY27F	FY28F
Loan growth (%)	7.3	7.8	7.0	6.5	6.0
Deposit growth (%)	4.1	8.4	6.0	6.0	6.0
Loan-deposit ratio (%)	87.6	87.1	87.9	88.3	88.3
Gross NPL (%)	0.5	0.5	0.6	0.6	0.6
Net NPL (%)	0.3	0.4	0.4	0.4	0.5
Credit charge-off rate (%)	(0.1)	(0.2)	-	-	-
Loan loss reserve (%)	155.0	96.8	92.4	88.8	86.8

Source: Company, AmlInvestment Bank Bhd estimates



AmInvestment Bank

Company Report

CIMB GROUP

(CIMB MK EQUITY, CIMB.KL)

05 Jan 2026

Steady as she goes

BUY

(Maintained)

Paul Yap Ee Xing, CFA

paul.ee-xing@ambankgroup.com

+603 2036 2281

Rationale for report: Company Update

Price RM8.25
Fair Value RM9.20
52-week High/Low RM8.35/RM6.16

Key Changes

Fair value 
EPS 

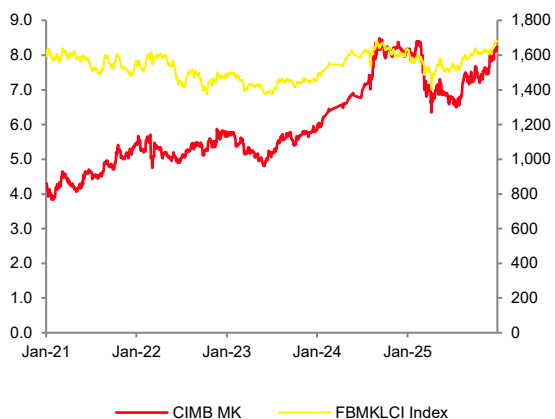
YE to Dec	FY24	FY25F	FY26F	FY27F
Total income (RM mil)	22,303.9	22,642.2	23,585.7	24,296.4
Core net profit (RM mil)	7,728.0	7,834.0	8,279.1	8,538.8
FD Core EPS (sen)	72.2	73.1	77.3	79.7
FD Core EPS growth (%)	10.2	1.4	5.7	3.1
Consensus Net Profit (RM mil)	-	-	-	-
DPS (sen)	47.0	47.5	50.2	51.8
BV/share (RM)	6.48	6.78	7.06	7.35
PE (x)	11.4	11.3	10.7	10.3
Div yield (%)	5.7	5.8	6.1	6.3
P/BV (x)	1.3	1.2	1.2	1.1
ROE (%)	11.2	11.0	11.2	11.1

Stock and Financial Data

Shares Outstanding (million) 10,791.0
Market Cap (RMmil) 89,025.5
Book Value (RM/Share) 6.48
P/BV (x) 1.3
ROE (%) 11.2

Major Shareholders Khazanah Nasional (21.4%)
EPF (18.3%)
KWAP (6.5%)
Free Float 69.8
Avg Daily Value (RMmil) 90.6

Price performance	3mth	6mth	12mth
Absolute (%)	11.7	23.3	1.5
Relative (%)	8.9	13.8	(1.4)

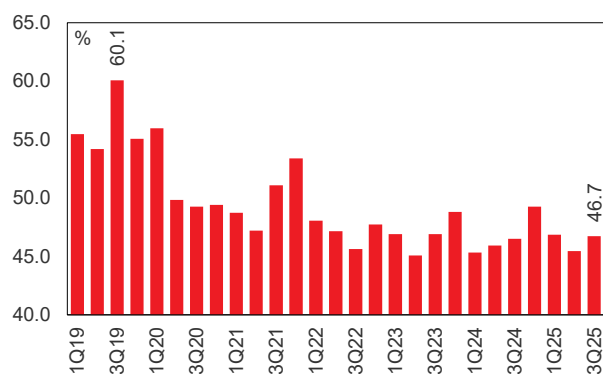


Investment Highlights

We maintain our **BUY** rating on CIMB but with a higher GGM-TP of RM9.20 (from RM8.65), based on 1.30x FY26 P/B. We still like CIMB for its exemplary execution track record and inexpensive valuations. Also, the bank's commitment to capital management ensures dividend yield stays attractive at >6% vs sector mean's 5%. Also, foreign shareholding has eased to 31% from its 1-year peak of 36% and thus, we think CIMB will be a strong beneficiary if foreign investors return to top up their position.

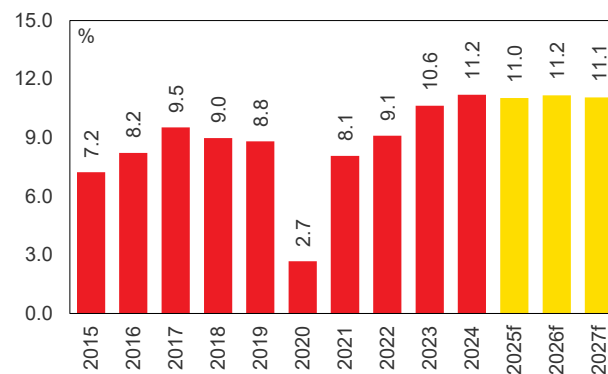
- Recommendation and valuation.** We maintain our BUY rating on CIMB but with a higher GGM-TP of RM9.20 (from RM8.65), based on 1.30x FY26 P/B. This is on par to Maybank's valuation of 1.30x given similar ROE output, which effectively prices CIMB at close to +2SD above its 5-year pre-pandemic mean level. The premium is fair given its stronger ROE output of 2ppt vs 2015-19 level. We continue to like CIMB for being the cheapest large-cap bank under our coverage. In addition, foreign shareholding has eased to 31% from its 1-year peak and we reckon CIMB will be a strong beneficiary of foreign investors returning.
- In safe hands.** CIMB's execution track record over the past 4-5 years has been exemplary. We find its deliberate pivot towards a retail-led portfolio, with the application of RAROC principles, has allowed the bank to enhance returns. Concurrently, stringent cost discipline has driven a notable 10ppt improvement in CIR. These strategic and operational gains have collectively led to a structurally higher ROE, making CIMB one of the rare banks to exceed pre-pandemic ROE levels (up 2ppt).
- Engineered for resilience.** Again, given its RAROC approach, we saw NCC falling >10bp below pre-Covid years. Also, asset quality has strengthened with GIL ratio now at a 10-year low of 1.91%. Moreover, it is accompanied by robust and high LLC of 103% vs pre-pandemic of c.75%, serving as an earnings buffer during difficult times. Besides, its modest LDR of 89% (sector: 95%) provides additional balance-sheet flexibility to defend NIM and reinforce earnings.
- Built to pay.** We find the bank has scope to retain its elevated DPR of 65% last year, considering its resilient financial showing YTD (9M25 profit flat YoY) and robust CET1 ratio of 14.3%. This is reinforced by its commitment to capital management, ensuring dividend yield remains attractive at >6% vs sector average's 5%. Moreover, its DPR is below Maybank's sector-leading 73% and gearing level is 50bp beneath its largest rival as well, suggesting runway for even higher DPR over time.

EXHIBIT 1: NOTABLE IMPROVEMENT IN CIR



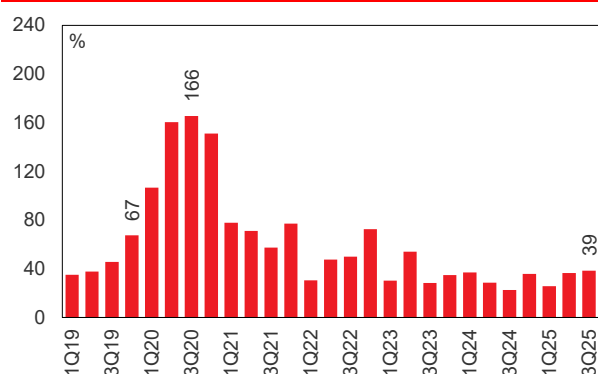
Source: AmlInvestment Bank, CIMB

EXHIBIT 2: STRUCTURALLY HIGHER ROE



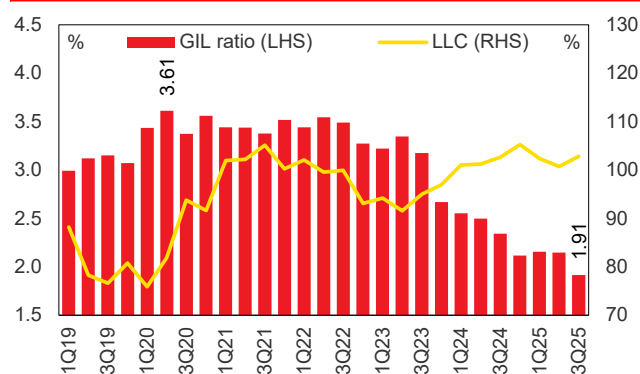
Source: AmlInvestment Bank, CIMB

EXHIBIT 3: NCC HAS COME OFF MEANINGFULLY



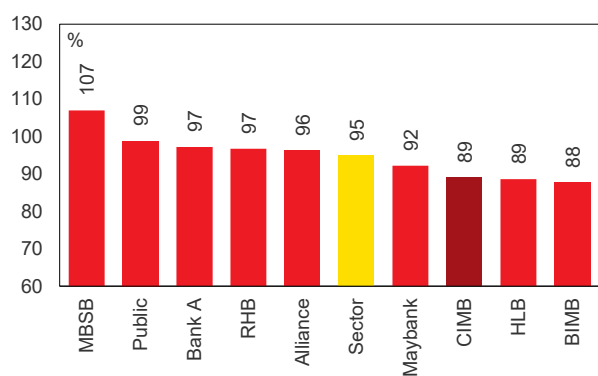
Source: AmlInvestment Bank, CIMB

EXHIBIT 4: STRONG ASSET QUALITY WITH HIGH LLC



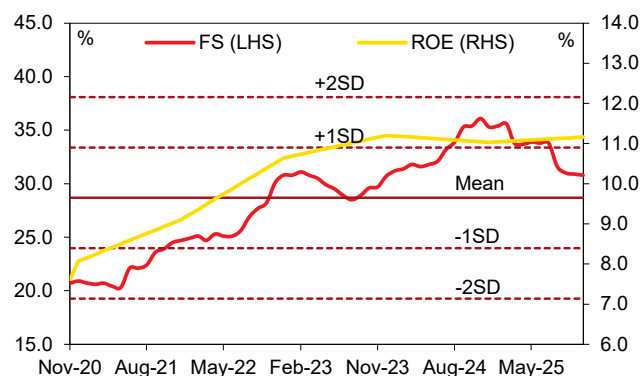
Source: AmlInvestment Bank, CIMB

EXHIBIT 5: FLEXIBLE BALANCE SHEET GIVEN LOW LDR



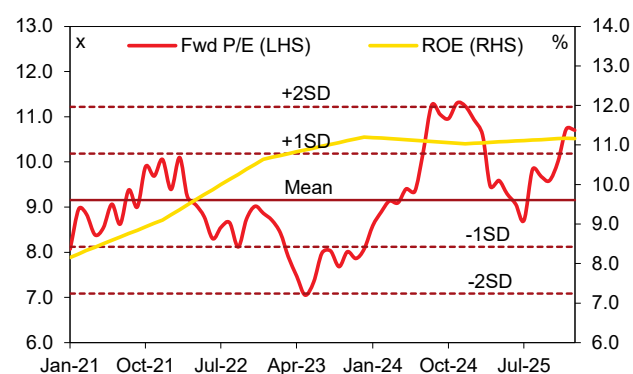
Source: AmlInvestment Bank, CIMB

EXHIBIT 6: FOREIGN SHAREHOLDING HAS EASED



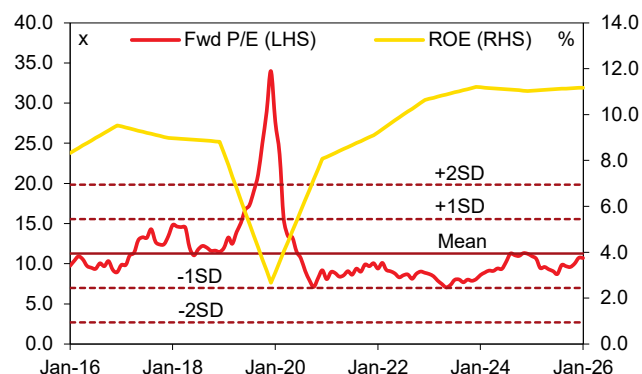
Source: AmlInvestment Bank, Bloomberg, CIMB

EXHIBIT 7: 5-YR FORWARD SECTOR P/E BAND



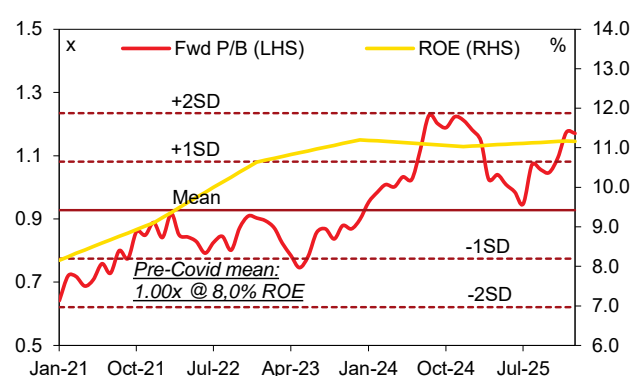
Source: AmlInvestment Bank, Bloomberg

EXHIBIT 8: 10-YR FORWARD SECTOR P/E BAND



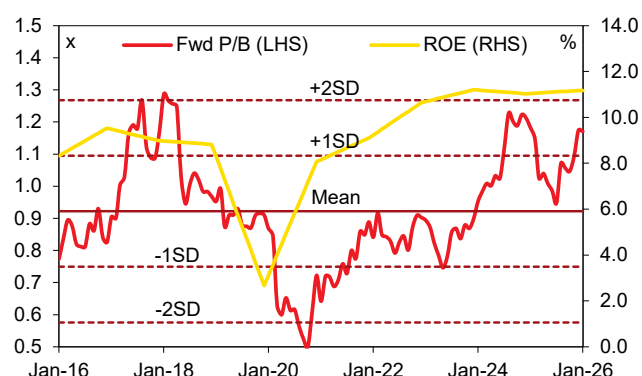
Source: AmlInvestment Bank, Bloomberg

EXHIBIT 9: 5-YR FORWARD SECTOR P/B BAND



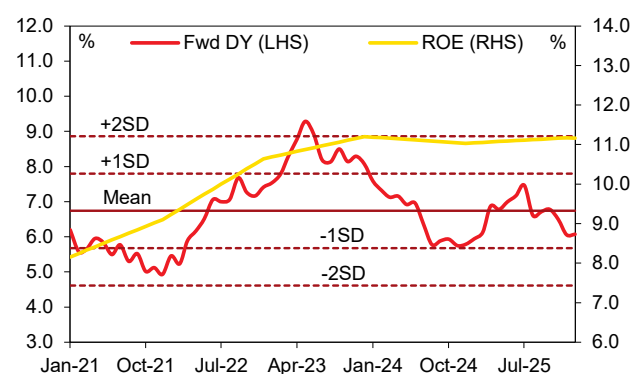
Source: AmlInvestment Bank, Bloomberg

EXHIBIT 10: 10-YR FORWARD SECTOR P/B BAND



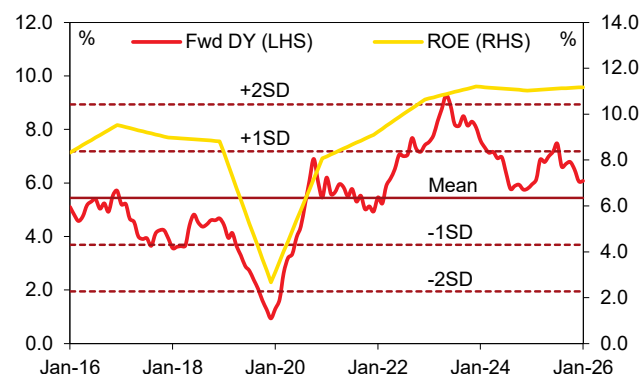
Source: AmlInvestment Bank, Bloomberg

EXHIBIT 11: 5-YR FORWARD SECTOR DY BAND



Source: AmlInvestment Bank, Bloomberg

EXHIBIT 12: 10-YR FORWARD SECTOR DY BAND



Source: AmlInvestment Bank, Bloomberg

Company profile

CIMB is the second largest banking group in Malaysia, offering consumer, commercial, wholesale, Islamic banking, wealth management, along with digital payment products and services.

Key home markets for CIMB are Malaysia, Indonesia, and Singapore, contributing 57%, 25% and 13% to group PBT in 2024. The bank operates across 10 global markets with a network of close to 600 branches.

Investment thesis and catalysts

We like CIMB for being the most inexpensive large-cap bank under our coverage, from both P/E and P/B standpoint, trading at 10.3x and 1.12x respectively. Also, the bank's commitment to capital management ensures dividend yield remains attractive at >6% vs sector average's 5%. Besides, foreign shareholding has eased to 31% from its 1-year peak of 36% and hence, we reckon CIMB will be a strong beneficiary if foreign investors return to top up their position.

Valuation methodology

We value CIMB 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%).

Thus, we derived a TP of RM9.20 for CIMB and this is based on 1.30x FY26 P/B with assumptions of 11.2% ROE, 9.3% COE, and 3.0% LTG. This multiple is on par to Maybank's valuation of 1.30x given similar ROE generation, which effectively prices CIMB at near to +2SD above its 5-year pre-pandemic mean level. The premium is warranted considering its stronger ROE output of 2ppt vs 2015-19 period.

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 may exert downward pressure on NIM. Also, an increasingly tight liquidity environment in Indonesia can compound the slippage.
- iii) Stronger RM relative to key operating currencies (notably IDR & SGD) may lead to unfavorable forex translation effects on consolidated earnings and capital.

EXHIBIT 13: VALUATIONS

Return on equity (ROE)	11.2%
Cost of equity (COE)	9.3%
Long-term growth rate (LTG)	3.0%
Target P/B	1.30x
FY26 BVPS	RM7.06
ESG premium	-
12-month target price	RM9.20

Source: AmlInvestment Bank

EXHIBIT 14: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY23	FY24	FY25F	FY26F	FY27F
Net interest income	11,087.5	11,366.6	11,342.2	12,008.8	12,431.4
Non-interest income	5,670.4	6,196.7	6,283.5	6,397.6	6,515.0
Islamic banking income	4,260.3	4,740.6	5,016.5	5,179.3	5,350.0
Total income	21,018.2	22,303.9	22,642.2	23,585.7	24,296.4
Overhead expenses	(9,865.1)	(10,420.2)	(10,560.2)	(10,782.8)	(11,009.1)
Pre-provision profit	11,153.2	11,883.6	12,082.0	12,803.0	13,287.4
Loan loss provisions	(1,534.4)	(1,368.8)	(1,524.0)	(1,645.2)	(1,779.6)
Impairment & others	(57.0)	(135.0)	-	-	-
Associates	(17.2)	18.8	-	-	-
Pretax profit	9,544.5	10,398.6	10,557.9	11,157.8	11,507.8
Tax	(2,378.6)	(2,476.5)	(2,533.9)	(2,677.9)	(2,761.9)
Minority interests	(181.1)	(191.3)	(190.0)	(200.8)	(207.1)
Core net profit	6,981.0	7,728.0	7,834.0	8,279.1	8,538.8
Balance Sheet (RMmil, YE 31 Dec)	FY23	FY24	FY25F	FY26F	FY27F
Cash & deposits with FIs	34,772.5	29,608.6	32,736.7	26,596.5	20,311.5
Marketable securities	160,417.8	173,677.4	185,562.2	193,286.7	201,397.4
Total current assets	195,190.3	203,286.0	218,298.9	219,883.2	221,709.0
Net loans & advances	429,450.0	442,163.5	461,333.8	485,487.1	510,591.1
Statutory deposits	nm	nm	nm	nm	nm
Long-term investments	78,498.2	78,663.5	82,596.6	86,726.5	91,062.8
Fixed assets	2,055.3	1,962.8	1,991.1	2,002.9	1,998.3
Intangible assets	8,390.9	8,297.3	8,235.9	8,157.0	8,060.6
Other long-term assets	19,987.4	20,757.7	20,757.7	20,757.7	20,757.7
Total LT assets	538,381.9	551,844.7	574,915.1	603,131.1	632,470.4
Total assets	-	755,130.7	793,214.1	823,014.3	854,179.4
Customer deposits	482,426.2	496,394.2	531,141.8	557,698.9	585,583.8
Deposits of other FIs	89,669.8	92,672.7	92,672.7	92,672.7	92,672.7
Subordinated debts	66,246.9	69,364.4	69,364.4	69,364.4	69,364.4
Hybrid capital securities	-	-	-	-	-
Other liabilities	25,390.4	25,860.6	25,860.6	25,860.6	25,860.6
Total liabilities	663,733.3	684,291.8	719,039.4	745,596.5	773,481.4
Shareholders' funds	68,527.0	69,443.8	72,589.5	75,631.9	78,704.8
Minority interests	1,311.9	1,395.1	1,585.1	1,786.0	1,993.1
Key Ratios (YE 31 Dec)	FY23	FY24	FY25F	FY26F	FY27F
Total income growth (%)	6.0	6.1	1.5	4.2	3.0
Pre-provision profit growth (%)	6.5	6.5	1.7	6.0	3.8
Core net profit growth (%)	28.3	10.7	1.4	5.7	3.1
Net interest margin (%)	2.1	2.1	2.0	2.0	2.0
Cost-to-income ratio (%)	46.9	46.7	46.6	45.7	45.3
Effective tax rate (%)	24.9	23.8	24.0	24.0	24.0
Dividend payout (%)	65.7	65.1	65.0	65.0	65.0
Key Assumptions (YE 31 Dec)	FY23	FY24	FY25F	FY26F	FY27F
Loan growth (%)	8.3	2.6	4.0	5.0	5.0
Deposit growth (%)	8.0	2.9	7.0	5.0	5.0
Loan-deposit ratio (%)	91.4	91.1	88.6	88.6	88.6
Gross NPL (%)	2.7	2.1	2.0	2.0	2.0
Net NPL (%)	1.2	0.8	0.9	1.0	1.0
Credit charge-off rate (%)	0.4	0.3	0.3	0.3	0.4
Loan loss reserve (%)	97.0	105.3	97.5	85.3	76.5

Source: Company, AmlInvestment Bank Bhd estimates



AmInvestment Bank

Company Report

Paul Yap Ee Xing, CFA

paul.ee-xing@ambankgroup.com

+603 2036 2281

PUBLIC BANK

(PBK MK EQUITY, PUBM.KL)

05 Jan 2026

Stood the test of time

BUY

(Maintained)

Rationale for report: Company Update

Price RM4.54
Fair Value RM5.10
52-week High/Low RM4.70/RM4.03

Key Changes

Fair value
EPS

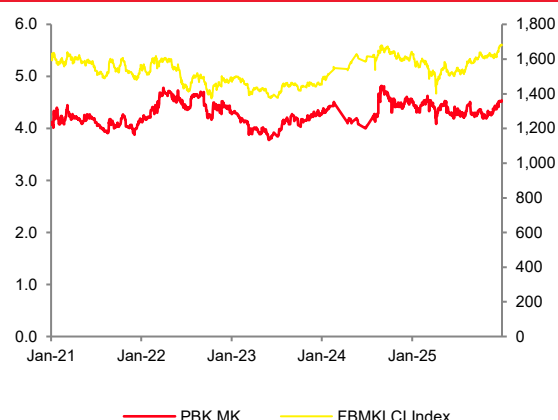
YE to Dec	FY24	FY25F	FY26F	FY27F
Total income (RM mil)	14,010.7	14,761.5	15,531.1	16,144.3
Core net profit (RM mil)	7,620.8	7,202.0	7,564.5	7,849.4
FD Core EPS (sen)	39.3	37.1	39.0	40.4
FD Core EPS growth (%)	14.6	(5.5)	5.0	3.8
Consensus Net Profit (RM mil)	-	-	-	-
DPS (sen)	21.0	22.5	23.5	24.5
BV/share (RM)	2.95	3.11	3.26	3.43
PE (x)	11.6	12.2	11.6	11.2
Div yield (%)	4.6	5.0	5.2	5.4
P/BV (x)	1.5	1.5	1.4	1.3
ROE (%)	12.8	12.2	12.2	12.1

Stock and Financial Data

Shares Outstanding (million)	19,410.7
Market Cap (RMmil)	88,124.5
Book Value (RM/Share)	2.95
P/BV (x)	1.5
ROE (%)	12.8

Major Shareholders	Consolidated Teh (21.6%) EPF (18.1%) KWAP (4.1%)
Free Float	69.7
Avg Daily Value (RMmil)	58.8

Price performance	3mth	6mth	12mth
Absolute (%)	4.1	6.6	(0.4)
Relative (%)	1.5	(1.7)	(3.2)

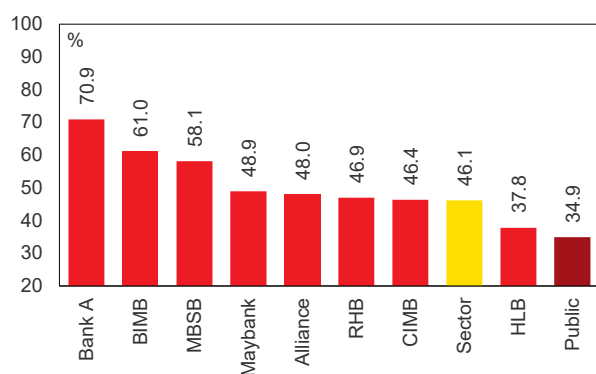


Investment Highlights

We retain our BUY call on Public but with a slightly lower GGM-TP of RM5.10 (from RM5.20), based on 1.56x FY26 P/B. The stock offers 5.4% yield and this is a level not seen for a long time i.e. above 5-/10-year mean of 4.7%/4.0%. Also, we find Public has the ability to increase DPR further and conduct capital management. In addition, its foreign shareholding is at multi-year low (23% vs Mar-11 trough of 24% and Mar-18 high of 40%) and traditionally it is a darling among foreign investors.

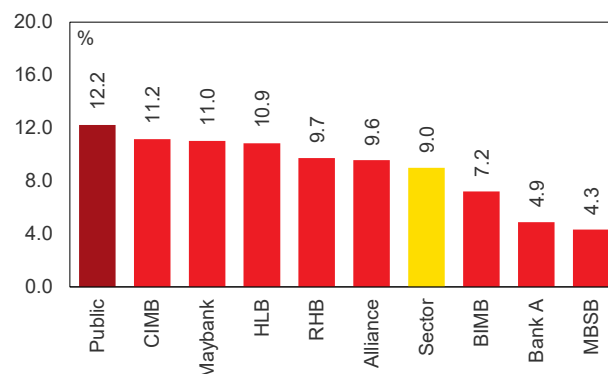
- Recommendation and valuation.** We retain our BUY rating on Public but with a tad lower GGM-TP of RM5.10 (from RM5.20), based on 1.56x FY26 P/B. This is above the sector's P/B of 0.92x but in line with its 5-year mean of 1.50x (not ascribing pre-Covid P/B since its current ROE generation trends below pre-pandemic levels by 2ppt). However, the premium is justifiable since its ROE output is 3ppt higher vs industry's average. Currently, Public's foreign shareholding is at multi-year low (23% vs Mar-11 trough of 24% and Mar-18 high of 40%) and traditionally it is a darling among foreign investors.
- Solid as a rock.** Public is fundamentally a conservative, retail-centric bank with principal exposure to residential, commercial property, and auto financing. In addition, it continues to be the most well-run listed bank in Malaysia, evidenced by its best-in-class CIR (35% vs sector: 46%) and ROE (12% vs sector: 9%). Also, it has superior asset quality track record (given low 0.52% GIL ratio vs sector: 1.85%) and the highest LLC of 155% in town (average: 93%).
- Room to be generous.** The stock offers 5.4% yield and this is a level not observed for a long time i.e. above 5-/10-year average of 4.7%/4.0%. In addition, we find Public has the ability to raise DPR further, considering it is only dishing out 57% vs Maybank's 73%. Besides, it is a SA bank, which would benefit from the final Basel III reforms (guided CET1 ratio enhancement of 50-100bp). Also, its 44.2%-owned LPI is poised to dispose the 1.1% stake in Public and this could potentially translate to a 10bp CET1 ratio uplift at the bank level to 12% (comfortable threshold for bank/group: 12%/13-14%). Collectively, these provide room for capital management.
- Overhang myth.** As for the planned 13% gradual stake disposal of Public's shares by the Teh family, we are not concerned since the ROFS is stretched over a 4-year period (due to a delay). To put it into perspective, if the sale is done systematically on a daily basis throughout 4 years, it represents only <15% of the average daily trading volume (2019-current). In any case, looking at the RHB disposal by Aabar (back in Aug-18, Mar-19, Jun-19, Dec-20, at 3-5% discount for bite-sized blocks of 3-6%), it took share price roughly just 1-2 months to bounce back.

EXHIBIT 1: BEST IN CLASS CIR



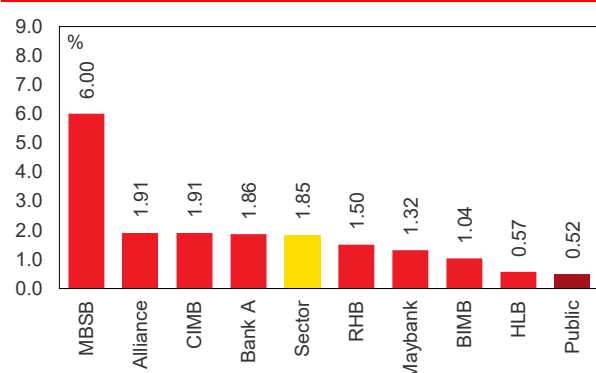
Source: AmlInvestment Bank, Companies

EXHIBIT 2: HIGHEST ROE IN TOWN



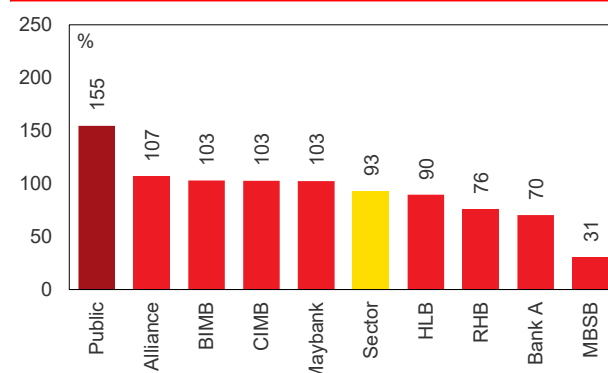
Source: AmlInvestment Bank, Companies

EXHIBIT 3: SUPERIOR GIL RATIO TRACK RECORD



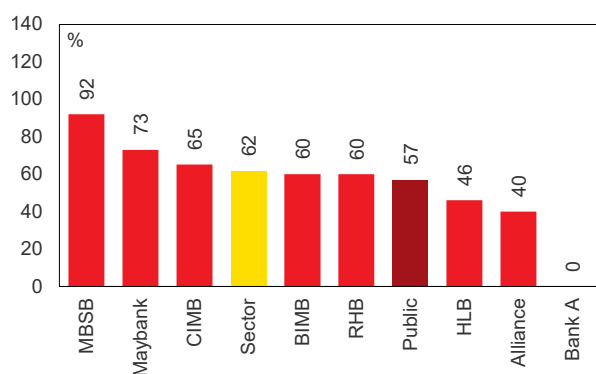
Source: AmlInvestment Bank, Companies

EXHIBIT 4: HAVE THE MOST PROVISION (LLC) BUFFER



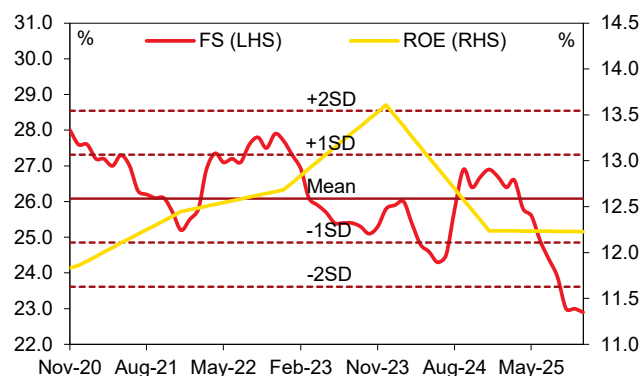
Source: AmlInvestment Bank, Companies

EXHIBIT 5: PLENTY OF ROOM TO RAISE DPR



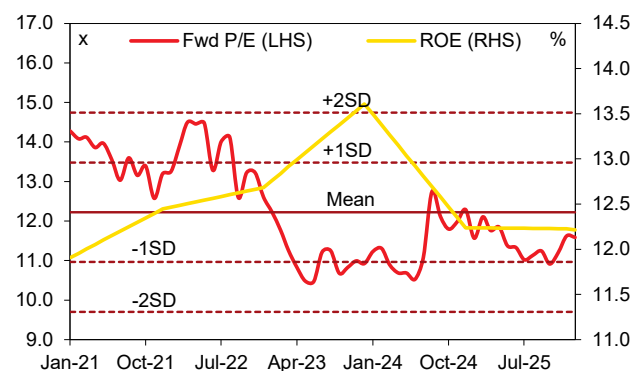
Source: AmlInvestment Bank, Companies

EXHIBIT 6: FOREIGN SHAREHOLDING HAS FALLEN



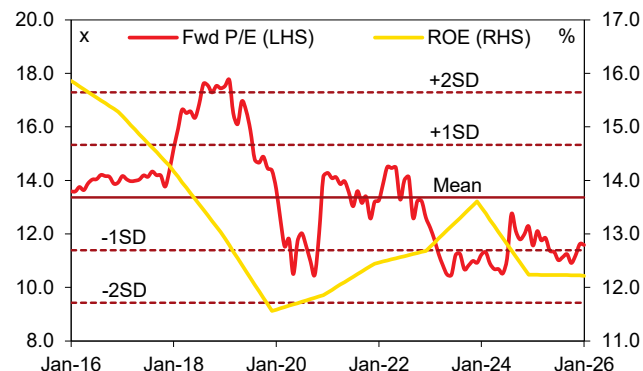
Source: AmlInvestment Bank, Bloomberg, Public

EXHIBIT 7: 5-YR FORWARD SECTOR P/E BAND



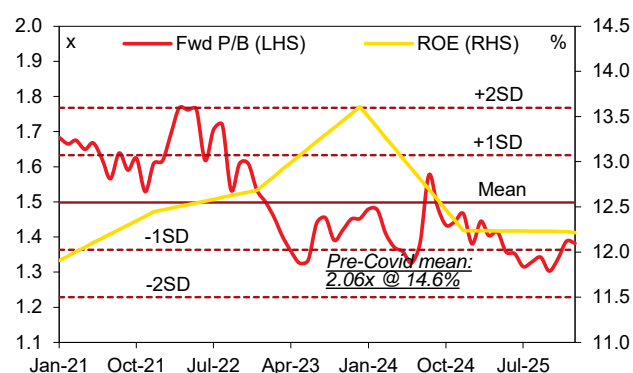
Source: AmlInvestment Bank, Bloomberg

EXHIBIT 8: 10-YR FORWARD SECTOR P/E BAND



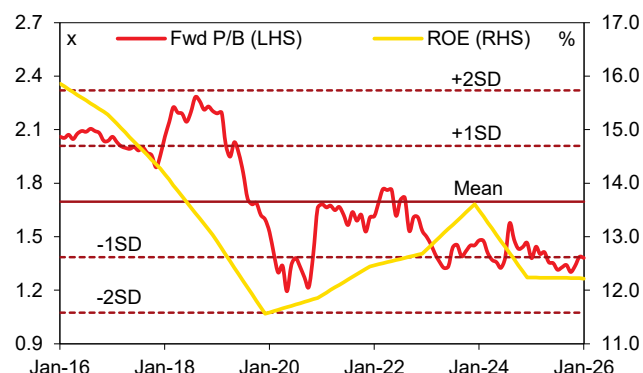
Source: AmlInvestment Bank, Bloomberg

EXHIBIT 9: 5-YR FORWARD SECTOR P/B BAND



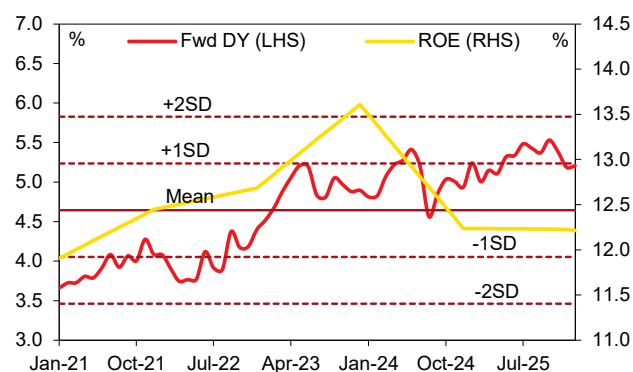
Source: AmlInvestment Bank, Bloomberg

EXHIBIT 10: 10-YR FORWARD SECTOR P/B BAND



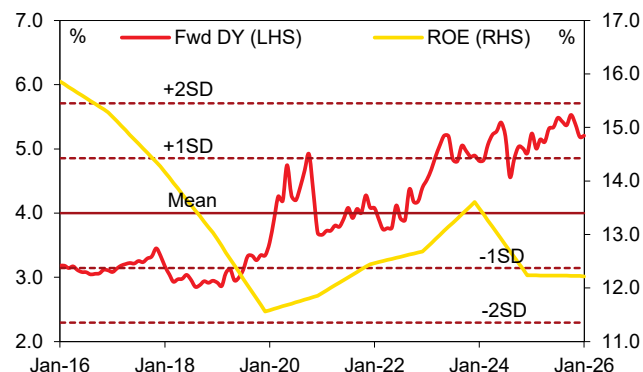
Source: AmlInvestment Bank, Bloomberg

EXHIBIT 11: 5-YR FORWARD SECTOR DY BAND



Source: AmlInvestment Bank, Bloomberg

EXHIBIT 12: 10-YR FORWARD SECTOR DY BAND



Source: AmlInvestment Bank, Bloomberg

Company profile

Public is the third largest banking group in Malaysia (by assets), offering a comprehensive suite of financial products & services, including personal, commercial, Islamic, investment banking, share broking, trustee services, nominee services, unit trust, bancassurance, and general insurance.

Key market for Public is Malaysia, which contributes >90% to group PBT in 2024. Separately, the bank also has presence across Singapore, Hong Kong, China, Cambodia, Vietnam, Laos, and Sri Lanka. In total, the bank has a network of close to 500 branches.

Investment thesis and catalysts

We like Public for its potential to raise DPR further and execute capital management (guided CET1 ratio enhancement of 50-100bp from the final Basel III reforms). Currently, the stock already offers 5.4% dividend yield and this is a level not observed for a long time i.e. above 5-/10-year mean of 4.7%/4.0%. Separately, its foreign shareholding is at multi-year low (23% vs Mar-11 trough of 24% and Mar-18 high of 40%) and traditionally it is a darling among foreign investors.

Valuation methodology

We value Public using the Gordon Growth Model (GGM), as 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 RM5.10 for Public and this is based on 1.56x FY26 P/B with assumptions of 12.2% ROE, 8.9% COE, and 3.0% LTG. This is above the sector's P/B of 0.92x but broadly in line with its 5-year mean of 1.50x (not ascribing pre-pandemic P/B since its current ROE output trends below pre-Covid levels by 2ppt). However, the premium is warranted since its ROE generation is 3ppt higher vs industry's average.

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 may exert downward pressure on NIM. Also, LDR is now at a decade high, leaving the bank with limited headroom for optimization.
- iii) Higher-than-expected opex, driven by the need to play catch up in the IT and digital services space.

EXHIBIT 13: VALUATIONS

Return on equity (ROE)	12.2%
Cost of equity (COE)	8.9%
Long-term growth rate (LTG)	3.0%
Target P/B	1.56x
FY26 BVPS	RM3.26
ESG premium	-
12-month target price	RM5.10

Source: AmlInvestment Bank

EXHIBIT 14: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY23	FY24	FY25F	FY26F	FY27F
Net interest income	9,055.3	9,451.1	9,692.9	10,246.6	10,645.5
Non-interest income	2,475.7	2,852.6	3,252.5	3,370.7	3,495.7
Islamic banking income	1,561.5	1,707.0	1,816.2	1,913.8	2,003.1
Total income	13,092.6	14,010.7	14,761.5	15,531.1	16,144.3
Overhead expenses	(4,414.8)	(4,828.1)	(5,123.8)	(5,374.1)	(5,575.8)
Pre-provision profit	8,677.8	9,182.5	9,637.7	10,157.0	10,568.5
Loan loss provisions	(156.7)	(0.6)	(151.3)	(191.1)	(225.7)
Impairment & others	(1.3)	(17.8)	(10.0)	(10.0)	(10.0)
Associates	19.0	241.2	50.0	50.0	50.0
Pretax profit	8,538.8	9,405.4	9,526.4	10,005.9	10,382.8
Tax	(1,883.8)	(1,912.6)	(2,191.1)	(2,301.4)	(2,388.0)
Minority interests	(5.7)	128.0	(133.4)	(140.1)	(145.4)
Core net profit	6,649.3	7,620.8	7,202.0	7,564.5	7,849.4
Balance Sheet (RMmil, YE 31 Dec)	FY23	FY24	FY25F	FY26F	FY27F
Cash & deposits with FIs	11,127.4	15,469.0	7,232.7	8,447.7	9,852.1
Marketable securities	64,718.4	66,144.0	73,300.0	75,163.9	77,085.6
Total current assets	75,845.8	81,613.0	80,532.7	83,611.6	86,937.7
Net loans & advances	394,750.0	420,471.7	445,844.4	468,122.5	491,484.0
Statutory deposits	nm	nm	nm	nm	nm
Long-term investments	29,955.4	29,003.2	29,583.2	30,174.9	30,778.4
Fixed assets	1,258.1	1,272.8	1,225.5	1,166.3	1,095.0
Intangible assets	2,589.6	2,799.4	2,799.4	2,799.4	2,799.4
Other long-term assets	6,199.1	7,703.1	7,703.1	7,703.1	7,703.1
Total LT assets	434,752.2	461,250.1	487,155.6	509,966.1	533,859.9
Total assets	510,598.0	542,863.1	567,688.3	593,577.7	620,797.6
Customer deposits	412,897.0	433,264.3	454,927.5	477,673.9	501,557.6
Deposits of other FIs	15,620.2	21,587.2	21,587.2	21,587.2	21,587.2
Subordinated debts	16,598.5	16,367.7	16,367.7	16,367.7	16,367.7
Hybrid capital securities	-	-	-	-	-
Other liabilities	9,102.2	11,997.0	11,997.0	11,997.0	11,997.0
Total liabilities	454,217.9	483,216.1	504,879.3	527,625.7	551,509.4
Shareholders' funds	54,674.3	57,335.5	60,364.2	63,367.1	66,557.9
Minority interests	1,705.8	2,311.5	2,444.9	2,584.9	2,730.3
Key Ratios (YE 31 Dec)	FY23	FY24	FY25F	FY26F	FY27F
Total income growth (%)	(2.6)	7.0	5.4	5.2	3.9
Pre-provision profit growth (%)	(5.7)	5.8	5.0	5.4	4.1
Core net profit growth (%)	8.7	7.5	0.8	5.0	3.8
Net interest margin (%)	2.1	2.1	2.0	2.1	2.1
Cost-to-income ratio (%)	33.7	34.5	34.7	34.6	34.5
Effective tax rate (%)	22.1	21.4	23.0	23.0	23.0
Dividend payout (%)	55.5	57.0	60.6	60.3	60.6
Key Assumptions (YE 31 Dec)	FY23	FY24	FY25F	FY26F	FY27F
Loan growth (%)	5.9	6.3	6.0	5.0	5.0
Deposit growth (%)	4.6	4.9	5.0	5.0	5.0
Loan-deposit ratio (%)	96.6	97.9	98.8	98.8	98.8
Gross NPL (%)	0.6	0.5	0.5	0.5	0.6
Net NPL (%)	0.4	0.4	0.4	0.4	0.4
Credit charge-off rate (%)	-	-	-	-	-
Loan loss reserve (%)	181.8	166.2	158.3	154.2	148.6

Source: Company, AmlInvestment Bank Bhd estimates



BANK ISLAM MALAYSIA

(BIMB MK EQUITY, BIMB.KL)

05 Jan 2026

More work ahead

Company Report

Paul Yap Ee Xing, CFA

paul.ee-xing@ambankgroup.com

+603 2036 2281

Rationale for report: Company Update

HOLD

(Maintained)

Price RM2.29
Fair Value RM2.50
52-week High/Low RM2.60/RM2.19

Key Changes

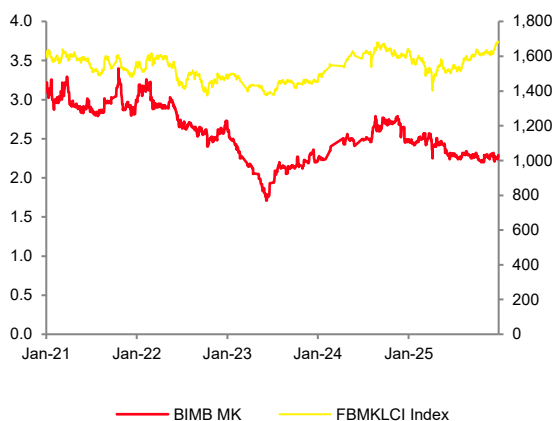
Fair value 
EPS 

YE to Dec	FY24	FY25F	FY26F	FY27F
Total income (RM mil)	2,574.6	2,706.0	2,820.6	2,950.8
Core net profit (RM mil)	571.1	514.0	568.4	614.0
FD Core EPS (sen)	25.2	22.7	25.1	27.1
FD Core EPS growth (%)	2.6	(10.0)	10.6	8.0
Consensus Net Profit (RM mil)	-	-	-	-
DPS (sen)	15.1	13.6	15.0	16.3
BV/share (RM)	3.38	3.43	3.53	3.64
PE (x)	9.1	10.1	9.1	8.5
Div yield (%)	6.6	5.9	6.6	7.1
P/BV (x)	0.7	0.7	0.6	0.6
ROE (%)	7.6	6.7	7.2	7.6

Stock and Financial Data

Shares Outstanding (million)	2,266.5
Market Cap (RMmil)	5,190.2
Book Value (RM/Share)	3.38
P/BV (x)	0.7
ROE (%)	7.6
Major Shareholders	LTH (48.9%) EPF (16.7%) Amanah Saham (7.6%)
Free Float	33.6
Avg Daily Value (RMmil)	4.5

Price performance	3mth	6mth	12mth
Absolute (%)	(1.3)	-	(7.3)
Relative (%)	(3.8)	(7.7)	(9.9)

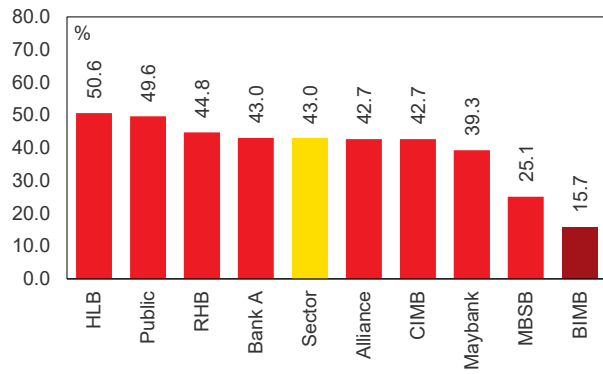


Investment Highlights

We retain our HOLD rating on BIMB but with a higher GGM-TP of RM2.50 (from RM2.30), based on 0.70x FY26 P/B. In our view, the bank needs to optimize its FDR to lift NFM and rein in costs after several years of relatively loose purse strings. Moreover, asset-quality trends and the drop in financing loss coverage are areas of concern. Overall, BIMB's risk-reward profile is balanced: while valuations are undemanding (trading at 0.63x P/B) and the yield is attractive at >6%, ROE delivery continues to trail pre-pandemic levels, unlike peers that have already fully normalized.

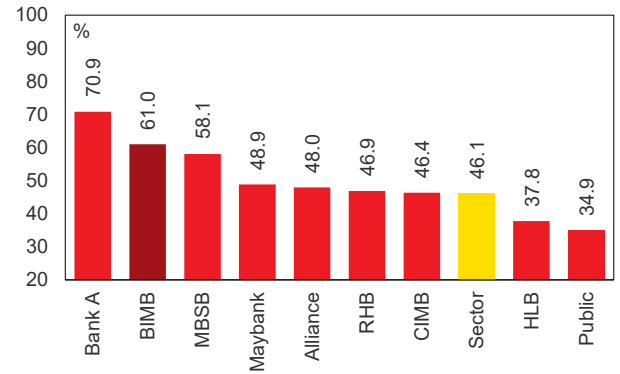
- Recommendation and valuation.** We retain our HOLD call on BIMB but with higher GGM-TP of RM2.50 (from RM2.30), based on 0.70x FY26 P/B. The valuation is close to -1SD of its 5-year mean P/B, considering its ROE output is anemic at 1ppt below FY20-24. In our opinion, BIMB's risk-reward profile is balanced, despite undemanding price-tag (trading at 0.63x P/B) and strong dividend yield offering of >6%, seeing that its ROE generation continues to be softer vs pre-pandemic level (even after stripping away STMB's contribution), while most peers have already fully recovered.
- Time to shift gears.** We note NFM continued to slide down and is now some 50bp lower vs 5-6 years ago. Also, its retail deposit franchise remains weak where BIMB has a small exposure to this space, making up only 16% of total deposits vs sector mean of 43%; funding cost of retail deposits tend to be cheaper and stickier. Moreover, we felt the bank's low FDR of 88% could be optimized a little better to help lift NFM.
- Purse strings need tightening.** CIR stays high at 61% (sector: 46%) and has risen 5-10 ppt in recent years, signaling the need for tighter cost discipline ahead; this was driven by the increase in headcount to support business expansion; employee numbers ballooned to 5,668 from 4,731 between 2021-24 (3-year CAGR: 6%), with staff costs rising at a 9% CAGR. Besides, strategic IT spending also climbed, with establishment costs growing at a 3-year CAGR of 13% as it upgraded infrastructure, strengthened risk and compliance, and enhanced client experience.
- Asset quality conundrum.** Despite being a retail-centric bank with a big mix of package-based financing (90% for housing and 50% for personal), BIMB's GIF ratio has nonetheless crept up to >1%, higher vs Public and HLB's 0.5%; the upward drift is rather contrary to expectations for a packaged book. Besides, the lower financing loss coverage of 103%, which has been falling for quite some time now (pre-pandemic: >130%), does not help in lifting investors' confidence as well.

EXHIBIT 1: SMALL RETAIL DEPOSITS EXPOSURE



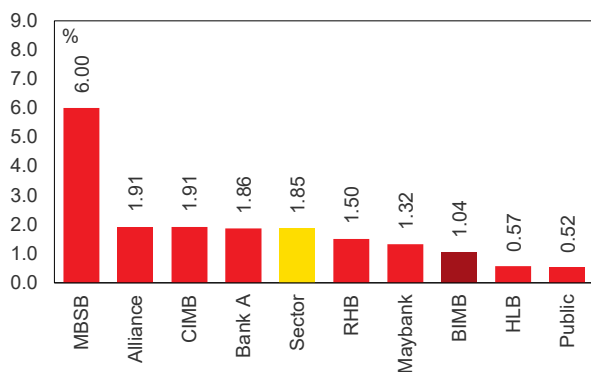
Source: AmlInvestment Bank, Companies

EXHIBIT 2: ELEVATED CIR ABOVE SECTOR AVERAGE



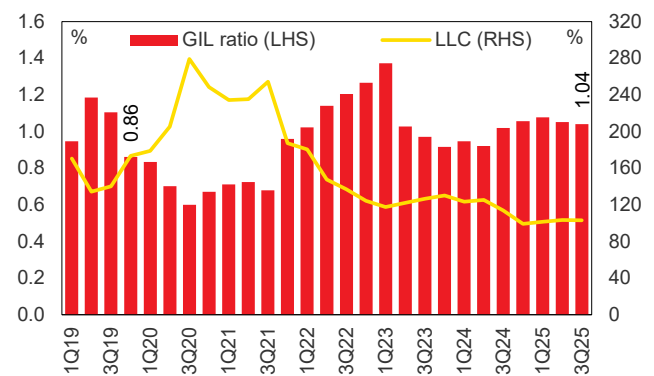
Source: AmlInvestment Bank, Companies

EXHIBIT 3: GIF RATIO HIGHER VS PUBLIC & HLB



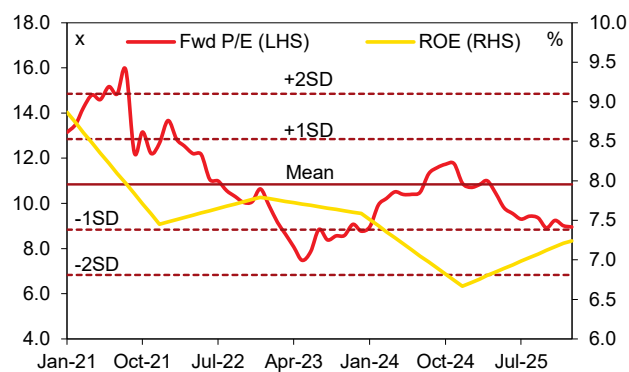
Source: AmlInvestment Bank, Companies

EXHIBIT 4: LLC HAS BEEN SLIDING DOWN



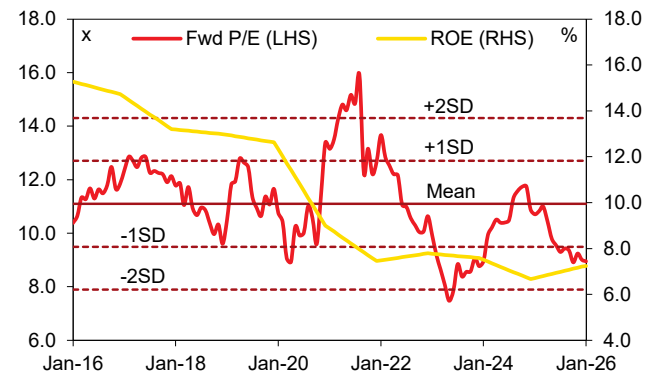
Source: AmlInvestment Bank, BIMB

EXHIBIT 5: 5-YR FORWARD SECTOR P/E BAND



Source: AmlInvestment Bank, Bloomberg

EXHIBIT 6: 10-YR FORWARD SECTOR P/E BAND



Source: AmlInvestment Bank, Bloomberg

EXHIBIT 7: 5-YR FORWARD SECTOR P/B BAND

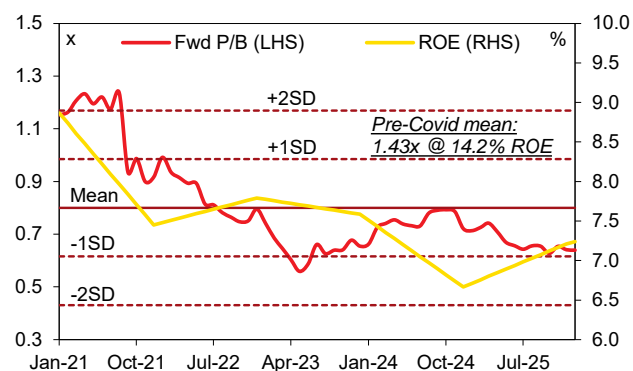


EXHIBIT 8: 10-YR FORWARD SECTOR P/B BAND

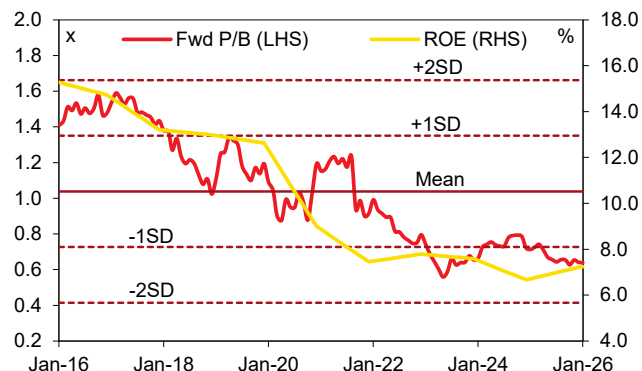


EXHIBIT 9: 5-YR FORWARD SECTOR DY BAND

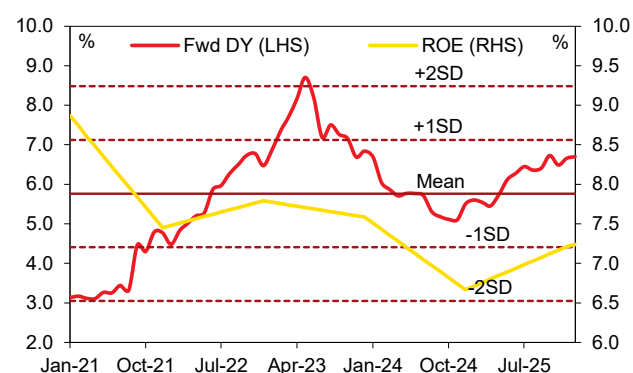
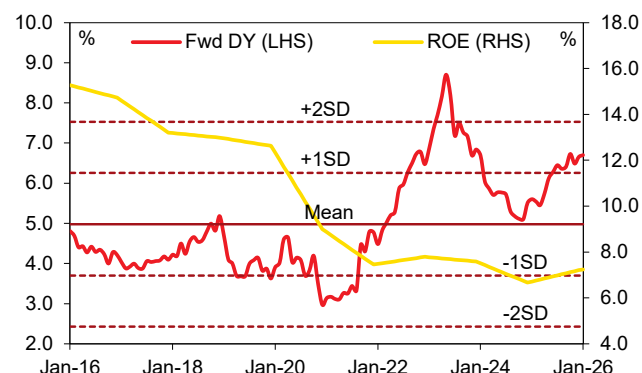


EXHIBIT 10: 10-YR FORWARD SECTOR DY BAND



Company profile

BIMB is the only one of the two pure listed Islamic banking group on Bursa. It offers banking and financial solutions that strictly adhere to the Shariah rules and principles. On top of its commercial banking services, it offers investment and stockbroking services.

The bank's footprint is entirely in Malaysia, supported by a branch network of near to 140 locations.

Investment thesis and catalysts

In our view, BIMB's risk-reward profile is balanced, despite undemanding price point (trading at 0.63x P/B) and attractive dividend yield offering of >6%, seeing that its ROE generation continues to be softer vs pre-pandemic level, while most peers have already fully recovered.

Valuation methodology

We value BIMB using the Gordon Growth Model (GGM), as 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 RM2.50 for BIMB and this is based on 0.70x FY26 P/B with assumptions of 7.2% ROE, 9.0% COE, and 3.0% LTG. The valuation is close to -1SD of its 5-year average P/B, considering its ROE output is anemic at 1ppt below FY20-24 level.

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.

EXHIBIT 11: VALUATIONS

Return on equity (ROE)	7.2%
Cost of equity (COE)	9.0%
Long-term growth rate (LTG)	3.0%
Target P/B	0.70x
FY26 BVPS	RM3.53
ESG premium	-
12-month target price	RM2.50

Source: AmlInvestment Bank

EXHIBIT 12: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY23	FY24	FY25F	FY26F	FY27F
Net income from investment of depositor's and investment account funds	1,927.2	2,003.6	2,037.7	2,150.2	2,241.7
Income from investment of shareholders' funds	550.0	571.0	668.3	670.4	709.1
Net income from takaful	-	-	-	-	-
Total income	2,477.1	2,574.6	2,706.0	2,820.6	2,950.8
Overhead expenses	(1,439.8)	(1,573.5)	(1,627.1)	(1,679.5)	(1,733.4)
Pre-provision profit	1,037.3	1,001.1	1,078.9	1,141.1	1,217.5
Loan loss provisions	(175.3)	(94.6)	(204.3)	(193.0)	(207.8)
Impairment & others	(115.2)	(134.8)	(180.0)	(180.0)	(180.0)
Associates	-	1.4	-	-	-
Pretax profit	746.8	773.1	694.6	768.1	829.7
Tax	(193.8)	(202.0)	(180.6)	(199.7)	(215.7)
Minority interests	-	-	-	-	-
Core net profit	553.1	571.1	514.0	568.4	614.0
Balance Sheet (RMmil, YE 31 Dec)	FY23	FY24	FY25F	FY26F	FY27F
Cash & deposits with FIs	4,714.5	4,325.2	3,846.8	3,211.8	2,523.3
Marketable securities	14,793.8	16,968.8	18,164.9	18,741.8	19,337.6
Total current assets	19,508.3	21,293.9	22,011.7	21,953.5	21,860.9
Net loans & advances	66,817.1	69,481.3	74,374.8	78,825.4	83,546.5
Statutory deposits	nm	nm	nm	nm	nm
Long-term investments	3,120.2	4,607.9	4,746.2	4,888.6	5,035.2
Fixed assets	252.8	297.7	326.6	349.9	367.5
Intangible assets	50.4	52.2	52.2	52.2	52.2
Other long-term assets	1,213.2	1,070.1	1,070.1	1,070.1	1,070.1
Total LT assets	71,453.6	75,509.2	80,569.9	85,186.2	90,071.6
Total assets	90,961.9	96,803.2	102,581.7	107,139.7	111,932.5
Customer deposits	76,089.3	80,947.1	86,613.4	90,944.1	95,491.3
Deposits of other FIs	2,356.1	2,213.1	2,213.1	2,213.1	2,213.1
Subordinated debts	2,380.1	3,704.8	3,704.8	3,704.8	3,704.8
Hybrid capital securities	-	-	-	-	-
Other liabilities	2,736.2	2,282.1	2,282.1	2,282.1	2,282.1
Total liabilities	83,561.7	89,147.1	94,813.4	99,144.0	103,691.2
Shareholders' funds	7,400.2	7,656.1	7,768.3	7,995.7	8,241.3
Minority interests	-	-	-	-	-
Key Ratios (YE 31 Dec)	FY23	FY24	FY25F	FY26F	FY27F
Total income growth (%)	7.2	3.9	5.1	4.2	4.6
Pre-provision profit growth (%)	4.5	(3.5)	7.8	5.8	6.7
Core net profit growth (%)	12.5	3.3	(10.0)	10.6	8.0
Net interest margin (%)	2.2	2.2	2.1	2.1	2.1
Cost-to-income ratio (%)	58.1	61.1	60.1	59.5	58.7
Effective tax rate (%)	25.9	26.1	26.0	26.0	26.0
Dividend payout (%)	68.9	60.0	60.0	60.0	60.0
Key Assumptions (YE 31 Dec)	FY23	FY24	FY25F	FY26F	FY27F
Loan growth (%)	2.6	3.8	7.0	6.0	6.0
Deposit growth (%)	1.2	6.4	7.0	5.0	5.0
Loan-deposit ratio (%)	88.9	86.7	86.7	87.6	88.4
Gross NPL (%)	0.9	1.1	1.0	1.1	1.1
Net NPL (%)	0.6	0.7	0.8	0.8	0.8
Credit charge-off rate (%)	0.3	0.1	0.3	0.2	0.3
Loan loss reserve (%)	130.2	99.3	96.4	95.7	94.9

Source: Company, AmlInvestment Bank Bhd estimates



AmInvestment Bank

Company Report

Paul Yap Ee Xing, CFA

paul.ee-xing@ambankgroup.com

+603 2036 2281

RHB BANK

(RHBBANK MK EQUITY, RHBC.KL)

05 Jan 2026

*Easy money has been made***HOLD**

(Downgraded)

Rationale for report: Company Update

Price RM7.71
Fair Value RM8.10
52-week High/Low RM7.83/RM6.07

Key Changes

Fair value 
EPS 

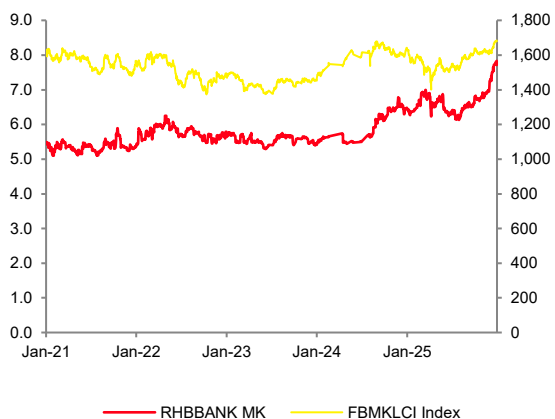
YE to Dec	FY24	FY25F	FY26F	FY27F
Total income (RM mil)	8,604.9	8,760.3	9,189.6	9,537.9
Core net profit (RM mil)	3,120.2	3,286.1	3,368.5	3,511.5
FD Core EPS (sen)	71.8	75.6	77.5	80.8
FD Core EPS growth (%)	11.2	5.3	2.5	4.2
Consensus Net Profit (RM mil)	-	-	-	-
DPS (sen)	43.0	46.0	47.0	48.5
BV/share (RM)	7.48	7.80	8.12	8.46
PE (x)	10.7	10.2	9.9	9.5
Div yield (%)	5.6	6.0	6.1	6.3
P/BV (x)	1.0	1.0	0.9	0.9
ROE (%)	9.8	9.9	9.7	9.8

Stock and Financial Data

Shares Outstanding (million) 4,361.9
Market Cap (RMmil) 33,630.4
Book Value (RM/Share) 7.48
P/BV (x) 1.0
ROE (%) 9.8

Major Shareholders
EPF (38.1%)
OSK (10.3%)
KWAP (5.3%)
Free Float 80.2
Avg Daily Value (RMmil) 41.4

Price performance	3mth	6mth	12mth
Absolute (%)	15.8	20.8	19.0
Relative (%)	12.9	11.5	15.6

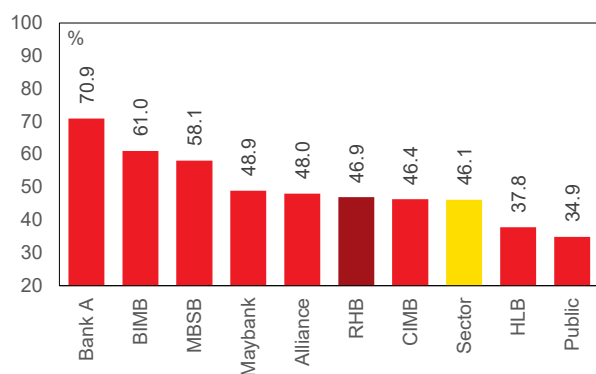


Investment Highlights

We downgrade RHB to a HOLD call but with a higher GGM-TP of RM8.10 (from RM7.70), based on 1.00x FY26 P/B. Although RHB remains a generous paymaster (offering yields of c.6%), we are now less bullish on the stock given its strong price rally over the past 5 months (+26%), causing P/B to trade near to +2SD above its 5-year pre-Covid average. At this point, we see more capital upside investing in other mid-sized banks like HLFG and HLB.

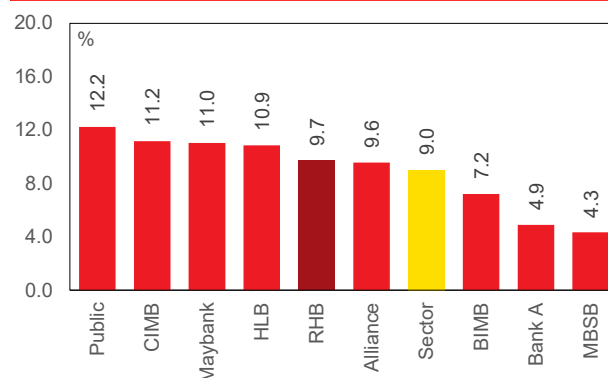
- **Recommendation and valuation.** We are downgrading RHB to a HOLD but with a higher GGM-TP of RM8.10 (from RM7.70), based on 1.00x FY26 P/B. This is on par to Alliance's valuation (0.98x) given similar ROE output, which effectively values RHB at close to +2SD above its 5-year pre-pandemic mean level. The premium is fair, considering its status as a generous dividend paymaster, providing attractive yields of c.6%. However, we are now less bullish on the stock given its strong price rally over the past 5 months (+26%).
- **Powering through.** Even though ROE held broadly steady at 9-10% vs pre-pandemic levels, this resilience is notable given the disruptive backdrop of Covid-19 pandemic and Trump's trade tensions. Nevertheless, we commend management for keeping a firm grip on costs, successfully cutting CIR by 1-2ppt between 2019-25. In addition, RHB has improved its asset quality profile, bringing GIL ratio down by c.50bp over the same period.
- **Safety net in place.** Despite the above achievements, we saw LLC has fallen 10-15ppt between 2019-25. However, we are not overly worried as LLC+RR have risen 9-10ppt, while collateral coverage against gross loans remains a robust 79%. Moreover, RHB's sizeable FVOCI reserve provides flexibility to crystallize investment gains when required, effectively serving as a profit buffer in weaker cycles (monetization could contribute 28% to its annual profit vs sector average of 22%).
- **More to share.** RHB's current DPR is only 60% vs Maybank's 73%, suggesting headroom for higher payout and it has already indicated plans to carry out capital management. Although the final Basel III reforms is anticipated to impact CET1 ratio by 80-85bp (since RHB is an IRB bank), we are not overly concerned as it would stay high at an estimated 15.2% vs industry's 14.6%. In our opinion, this is a right move to reinforce its prevailing ROE profile as well.

EXHIBIT 1: CIR COMPARABLE TO INDUSTRY LEVELS



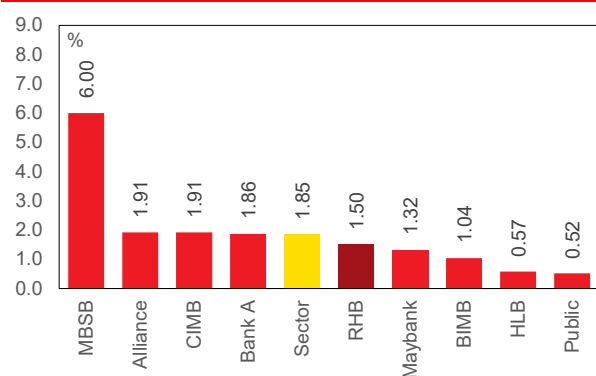
Source: AmlInvestment Bank, Companies

EXHIBIT 2: ROE A TAD HIGHER VS SECTOR



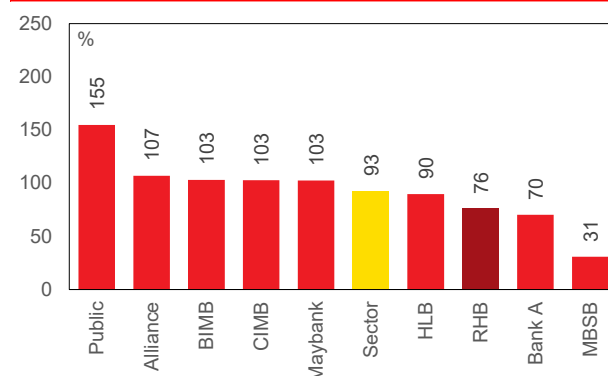
Source: AmlInvestment Bank, Companies

EXHIBIT 3: GIL RATIO BETTER THAN PEERS



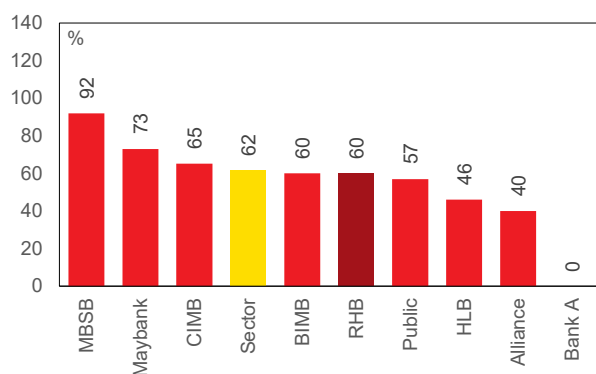
Source: AmlInvestment Bank, Companies

EXHIBIT 4: LLC ON THE LOW SIDE



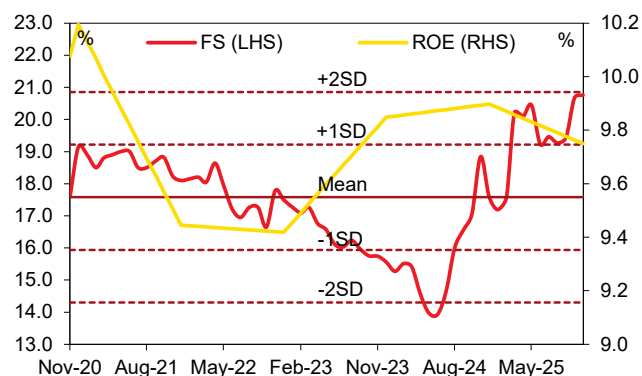
Source: AmlInvestment Bank, Companies

EXHIBIT 5: HEADROOM TO RAISE DPR



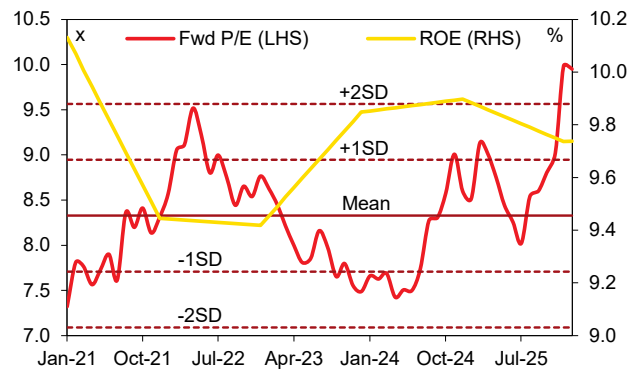
Source: AmlInvestment Bank, Companies

EXHIBIT 6: FOREIGN SHAREHOLDING CLIMBING



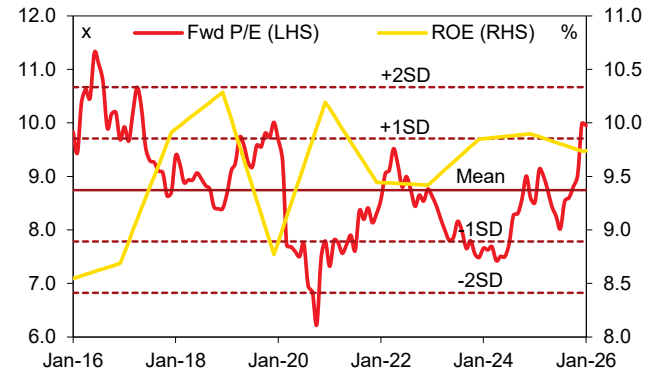
Source: AmlInvestment Bank, Bloomberg, RHB

EXHIBIT 7: 5-YR FORWARD SECTOR P/E BAND



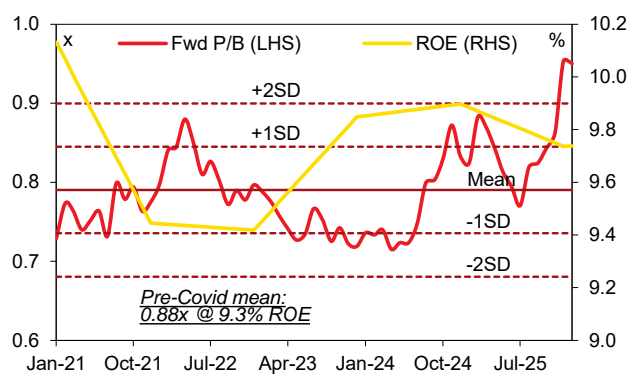
Source: AmlInvestment Bank, Bloomberg

EXHIBIT 8: 10-YR FORWARD SECTOR P/E BAND



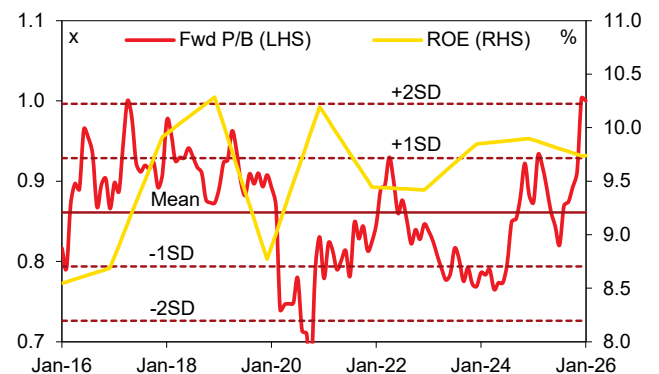
Source: AmlInvestment Bank, Bloomberg

EXHIBIT 9: 5-YR FORWARD SECTOR P/B BAND



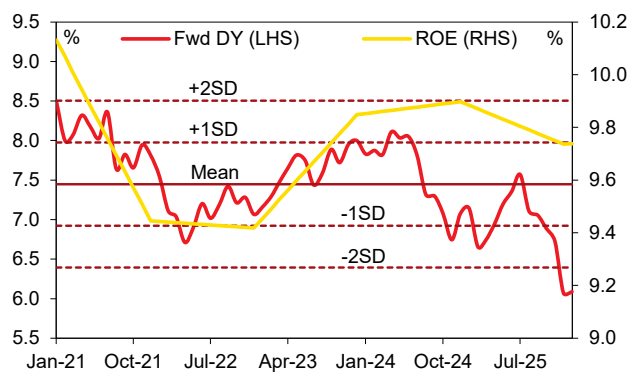
Source: AmlInvestment Bank, Bloomberg

EXHIBIT 10: 10-YR FORWARD SECTOR P/B BAND



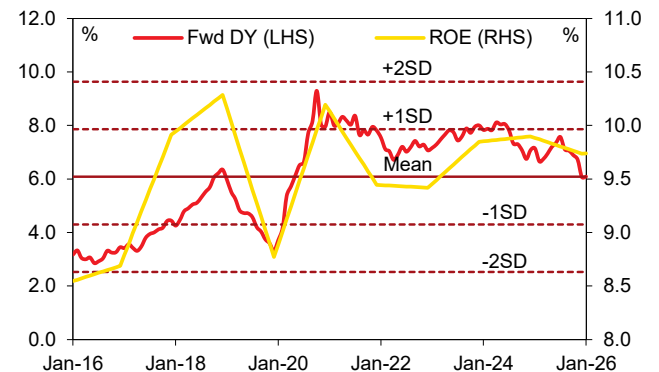
Source: AmlInvestment Bank, Bloomberg

EXHIBIT 11: 5-YR FORWARD SECTOR DY BAND



Source: AmlInvestment Bank, Bloomberg

EXHIBIT 12: 10-YR FORWARD SECTOR DY BAND



Source: AmlInvestment Bank, Bloomberg

Company profile

RHB is the fourth largest banking group in Malaysia (by assets), providing community, wholesale, Islamic banking, international business, and insurance.

Key markets for RHB are Malaysia and Singapore contributing 90% and 7% to group PBT in 2024. The bank has presence in 7 countries, with a network of close to 300 branches and offices.

Investment thesis and catalysts

We are now less bullish on RHB seeing its strong price rally over the past 5 months (+26%) which caused P/B to trade near to +2SD above its 5-year pre-Covid mean. Hence, we reckon easy money has already been reaped and the risk-reward to further plow money into the stock is unfavorable. At this juncture, we see more capital upside and much better payoff profile investing in other mid-sized banks like HLFGB (especially this) and HLB.

Valuation methodology

We value RHB using the Gordon Growth Model (GGM), as 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 RM8.10 for RHB and it is based on 1.00x FY26 P/B with assumptions of 9.7% ROE, 9.7% COE, and 3.0% LTG. This is on par to Alliance's valuation (0.98x) given similar ROE output, which effectively values RHB at close to +2SD above its 5-year pre-pandemic mean level. The premium is fair, considering its status as a generous dividend paymaster, providing attractive yields of c.6%.

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 NIM. Also, a drastic SORA rate decline in Singapore can compound the slippage.
- iii) Higher-than-expected RWA inflation under the final Basel III reforms; this could affect CET1 ratio and potentially dividend payout.

EXHIBIT 13: VALUATIONS

Return on equity (ROE)	9.7%
Cost of equity (COE)	9.7%
Long-term growth rate (LTG)	3.0%
Target P/B	1.00x
FY26 BVPS	RM8.12
ESG premium	-
12-month target price	RM8.10

Source: AmlInvestment Bank

EXHIBIT 14: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY23	FY24	FY25F	FY26F	FY27F
Net interest income	3,559.6	3,869.3	3,929.6	4,049.8	4,192.2
Non-interest income	1,844.4	2,559.6	2,625.7	2,734.4	2,845.4
Islamic banking income	2,366.4	2,176.0	2,205.0	2,405.4	2,500.3
Total income	7,770.4	8,604.9	8,760.3	9,189.6	9,537.9
Overhead expenses	(3,689.3)	(4,021.4)	(4,102.6)	(4,248.8)	(4,374.4)
Pre-provision profit	4,081.1	4,583.5	4,657.7	4,940.8	5,163.5
Loan loss provisions	(344.7)	(524.8)	(454.5)	(530.5)	(567.1)
Impairment & others	43.2	(12.3)	100.0	-	-
Associates	(26.3)	(26.2)	(30.0)	(30.0)	(30.0)
Pretax profit	3,753.3	4,020.1	4,273.2	4,380.3	4,566.4
Tax	(942.8)	(896.0)	(982.8)	(1,007.5)	(1,050.3)
Minority interests	(4.3)	(3.9)	(4.3)	(4.4)	(4.6)
Core net profit	2,806.2	3,120.2	3,286.1	3,368.5	3,511.5
Balance Sheet (RMmil, YE 31 Dec)	FY23	FY24	FY25F	FY26F	FY27F
Cash & deposits with FIs	14,145.4	11,551.6	7,024.4	6,193.6	5,416.0
Marketable securities	58,171.9	64,925.3	70,755.9	72,928.7	75,174.7
Total current assets	72,317.3	76,476.9	77,780.3	79,122.4	80,590.7
Net loans & advances	219,562.6	234,967.6	249,226.0	261,634.4	274,660.5
Statutory deposits	nm	nm	nm	nm	nm
Long-term investments	28,214.6	30,112.5	31,015.8	31,946.3	32,904.7
Fixed assets	1,066.2	1,018.3	961.3	898.9	831.1
Intangible assets	3,467.3	3,487.6	3,475.2	3,457.5	3,434.5
Other long-term assets	4,064.1	3,851.8	3,851.8	3,851.8	3,851.8
Total LT assets	256,374.8	273,437.7	288,530.1	301,788.8	315,682.6
Total assets	328,692.1	349,914.6	366,310.4	380,911.2	396,273.3
Customer deposits	245,083.1	249,565.5	264,539.4	277,766.4	291,654.7
Deposits of other FIs	25,993.0	40,617.4	40,617.4	40,617.4	40,617.4
Subordinated debts	19,284.4	18,225.0	18,225.0	18,225.0	18,225.0
Hybrid capital securities	-	-	-	-	-
Other liabilities	7,420.6	8,975.4	8,975.4	8,975.4	8,975.4
Total liabilities	297,781.0	317,383.3	332,357.2	345,584.2	359,472.5
Shareholders' funds	30,874.6	32,492.2	33,909.7	35,279.2	36,748.4
Minority interests	36.5	39.1	43.4	47.8	52.4
Key Ratios (YE 31 Dec)	FY23	FY24	FY25F	FY26F	FY27F
Total income growth (%)	(4.8)	10.7	1.8	4.9	3.8
Pre-provision profit growth (%)	(10.4)	12.3	1.6	6.1	4.5
Core net profit growth (%)	4.8	11.2	5.3	2.5	4.2
Net interest margin (%)	1.8	1.8	1.7	1.7	1.7
Cost-to-income ratio (%)	47.5	46.7	46.8	46.2	45.9
Effective tax rate (%)	25.1	22.3	23.0	23.0	23.0
Dividend payout (%)	61.9	59.9	60.8	60.6	60.0
Key Assumptions (YE 31 Dec)	FY23	FY24	FY25F	FY26F	FY27F
Loan growth (%)	4.8	6.9	6.0	5.0	5.0
Deposit growth (%)	7.9	1.8	6.0	5.0	5.0
Loan-deposit ratio (%)	90.8	95.3	95.3	95.3	95.3
Gross NPL (%)	1.7	1.5	1.5	1.5	1.5
Net NPL (%)	1.1	1.0	1.1	1.1	1.1
Credit charge-off rate (%)	0.2	0.2	0.2	0.2	0.2
Loan loss reserve (%)	71.7	78.6	74.1	74.3	74.6

Source: Company, AmlInvestment Bank Bhd estimates



AmInvestment Bank

Company Report

Paul Yap Ee Xing, CFA

paul.ee-xing@ambankgroup.com

+603 2036 2281

MBSB BERHAD

(MBSB MK EQUITY, MBSS.KL)

05 Jan 2026

*A tough nut to crack***HOLD**

(Maintained)

Rationale for report: Company Update

Price RM0.71
Fair Value RM0.73
52-week High/Low RM0.77/RM0.62

Key Changes

Fair value 
EPS 

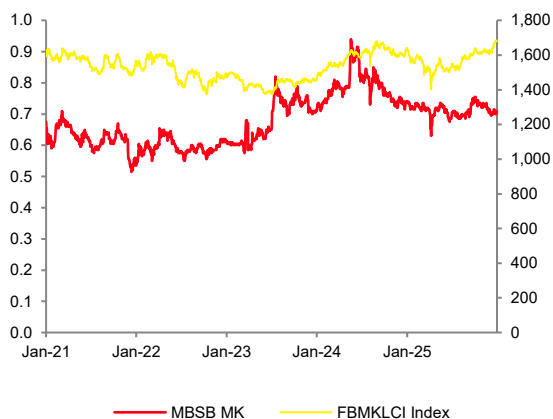
YE to Dec	FY24	FY25F	FY26F	FY27F
Total income (RM mil)	1,652.5	1,654.0	1,725.9	1,784.2
Core net profit (RM mil)	406.8	400.2	432.4	450.5
FD Core EPS (sen)	4.9	4.9	5.3	5.5
FD Core EPS growth (%)	(25.2)	(1.6)	8.0	4.2
Consensus Net Profit (RM mil)	-	-	-	-
DPS (sen)	4.6	3.9	4.2	4.4
BV/share (RM)	1.19	1.20	1.22	1.23
PE (x)	14.3	14.5	13.4	12.9
Div yield (%)	6.5	5.5	6.0	6.2
P/BV (x)	0.6	0.6	0.6	0.6
ROE (%)	4.1	4.1	4.3	4.5

Stock and Financial Data

Shares Outstanding (million) 8,222.3
Market Cap (RMmil) 5,796.7
Book Value (RM/Share) 1.19
P/BV (x) 0.6
ROE (%) 4.1

Major Shareholders EPF (56.5%)
Yayasan Pelaburan (12.8%)
HSBC (1.6%)
Free Float 40.9
Avg Daily Value (RMmil) 2.7

Price performance	3mth	6mth	12mth
Absolute (%)	(5.4)	1.4	(4.7)
Relative (%)	(7.8)	(6.4)	(7.4)

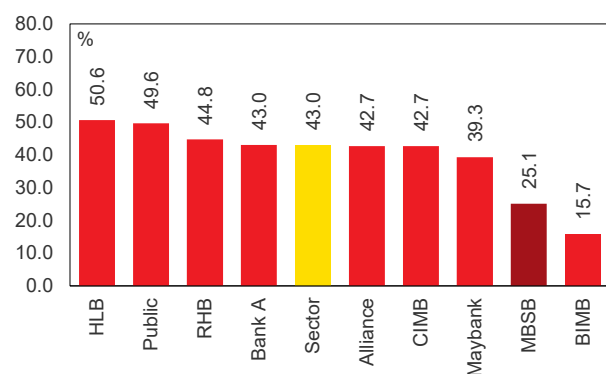


Investment Highlights

We maintain our HOLD call on MBSB but with a higher GGM-TP of RM0.73 (from RM0.62), based on 0.60x FY26 P/B. Even though MBSB is exploring capital management initiatives to lift ROE and offers high dividend yield of 6.2% (sector: 5.5%), there are some persistent challenges that prevents us to be more bullish on the stock: (i) weak retail deposit franchise, (ii) low 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 and boost ROE, once existing issues are resolved.

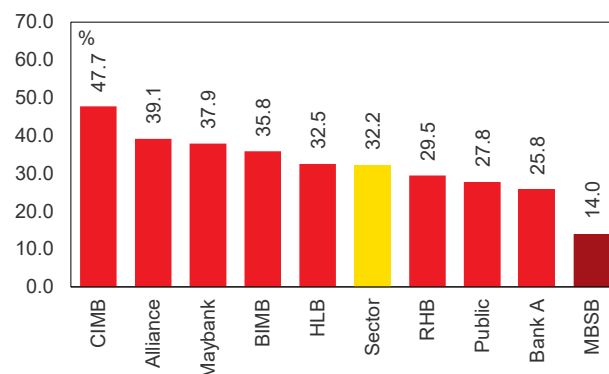
- **Recommendation and valuation.** We maintain our HOLD call on MBSB but with a higher GGM-TP of RM0.73 (from RM0.62), based on 0.60x FY26 P/B. The valuation is close to -1SD of its 5-year pre-Covid mean level, considering its ROE generation is anemic at 1ppt below 2015-19. In our view, MBSB's risk-reward profile is balanced, although it has nagging weak financial spots but is compensated by its robust dividend yield of 6.0% (sector: 5.3%), along with the bank's low gearing provides headroom to leverage up and lift ROE, once existing issues are settled.
- **Lacking retail firepower.** One key reason preventing us to be bullish on the stock is its relatively weak retail deposit franchise. To note, MBSB has a small exposure to this space (like BIMB), accounting for only 25% of total deposits vs industry's 43%. Also, CASA ratio remains low at 14% (sector: 32%) but we have seen some improvement in the past 4 years (+10ppt). That said, these less expensive funding sources are inherently not easy to grow and typically requires considerable time and effort.
- **Comfort in cost cushion.** With the above, we believe near-term NFM outlook will continue to be challenging, especially since its already high FDR of >100% does not permit much optimization leeway as well. That said, we find the bank has a better grip on cost vs some smaller peers (Bank A, BIMB), seeing its CIR is 3-13ppt lower than them. However, MBSB's CIR of 58% still sits above sector mean (46%), indicating there is room for efficiency gains. Also, the bank's low gearing level (6.5x vs sector's 10.0x) provides scope to leverage up its balance sheet and generate incremental ROE, once outstanding issues are resolved.
- **Thin on provisions.** The bank's asset quality remains weak with GIF ratio standing at a lofty 6.00% and it has a low financing loss coverage of 31% vs sector's 93%; after incorporating regulatory reserves, this is still subdued at 40%. Seeing limited flexibility to manage its stock of bad financing provision, we expect NCC to remain elevated at >30bp and there is also a risk that additional allowance top-ups may be required, potentially weighing on its bottom-line growth trajectory.

EXHIBIT 1: SMALL RETAIL DEPOSITS EXPOSURE



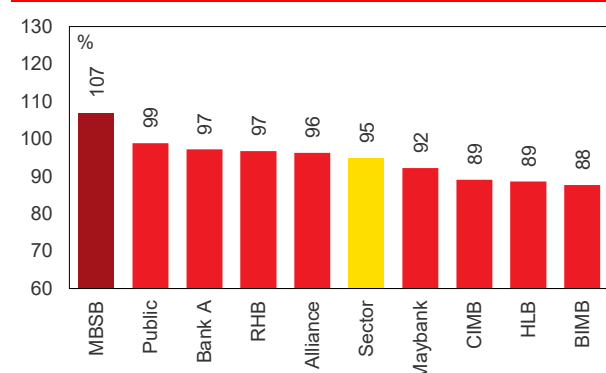
Source: AmInvestment Bank, Companies

EXHIBIT 2: WEAK CASA FRANCHISE



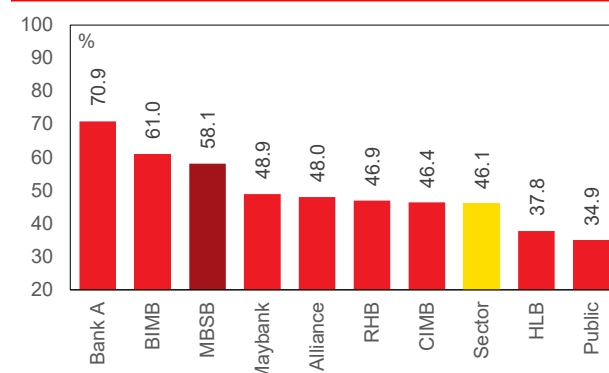
Source: AmInvestment Bank, Companies

EXHIBIT 3: FDR IS STRETCHED



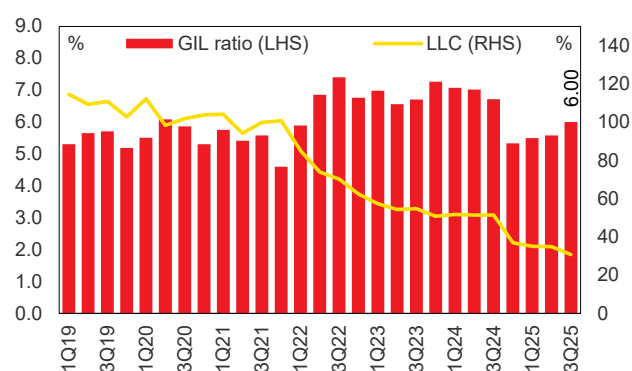
Source: AmInvestment Bank, Companies

EXHIBIT 4: CIR SITTING ABOVE SECTOR MEAN



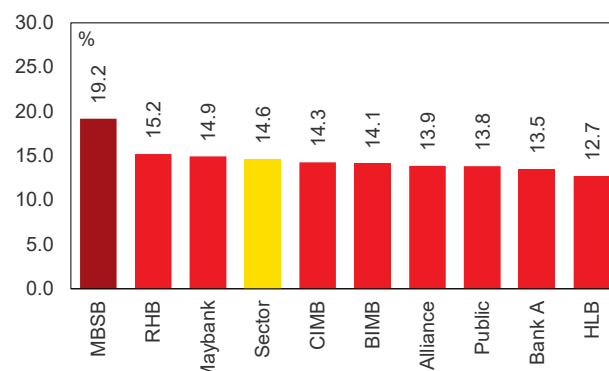
Source: AmInvestment Bank, Companies

EXHIBIT 5: WEAK ASSET QUALITY WITH LOW LLC



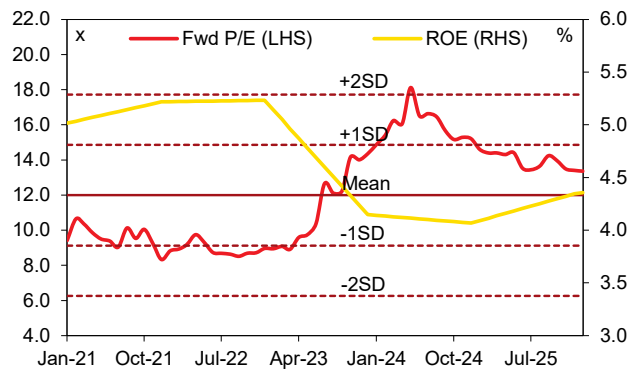
Source: AmInvestment Bank, MBSB

EXHIBIT 6: ELEVATED CET1 RATIO



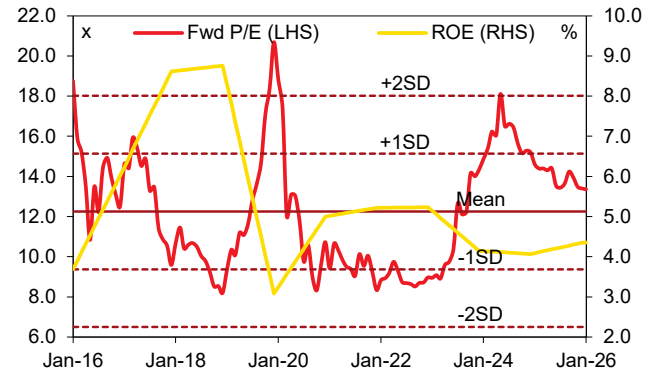
Source: AmInvestment Bank, Companies

EXHIBIT 7: 5-YR FORWARD SECTOR P/E BAND



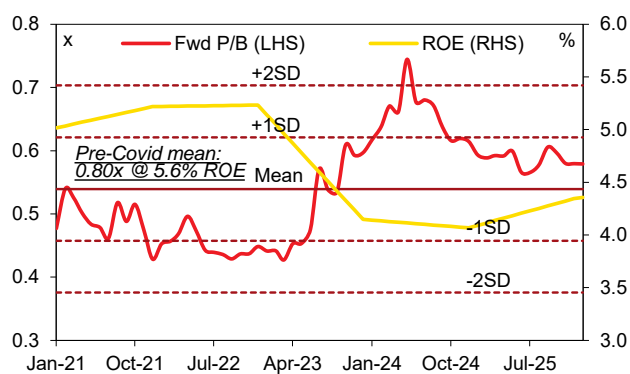
Source: AmlInvestment Bank, Bloomberg

EXHIBIT 8: 10-YR FORWARD SECTOR P/E BAND



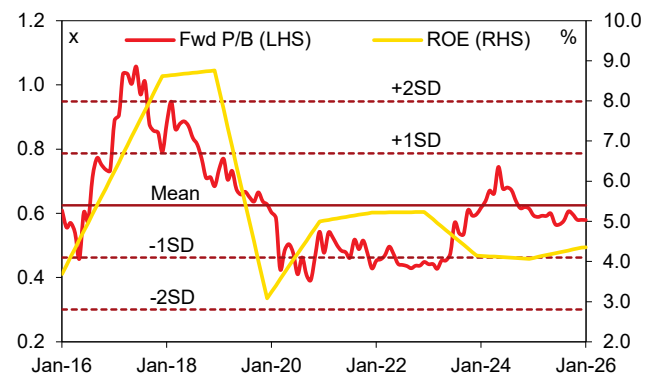
Source: AmlInvestment Bank, Bloomberg

EXHIBIT 9: 5-YR FORWARD SECTOR P/B BAND



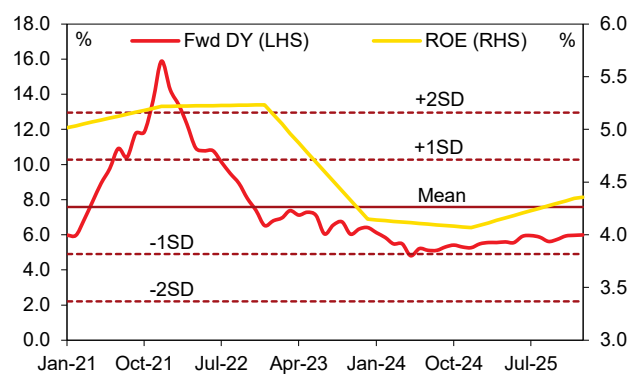
Source: AmlInvestment Bank, Bloomberg

EXHIBIT 10: 10-YR FORWARD SECTOR P/B BAND



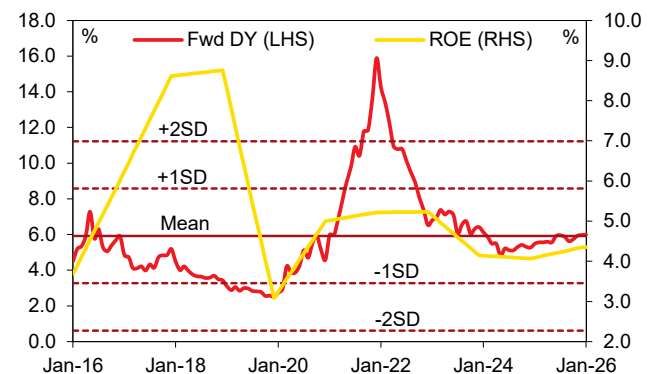
Source: AmlInvestment Bank, Bloomberg

EXHIBIT 11: 5-YR FORWARD SECTOR DY BAND



Source: AmlInvestment Bank, Bloomberg

EXHIBIT 12: 10-YR FORWARD SECTOR DY BAND



Source: AmlInvestment Bank, Bloomberg

Company profile

MBSB is the only one of the two pure listed Islamic banking group on Bursa. It offers banking and financial solutions that strictly adhere to the Shariah rules and principles. On top of its commercial banking services, MBSB offers 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 current matters that are preventing us to be more bullish on MBSB: (i) weak retail deposit franchise, (ii) low CASA ratio, (iii) elevated FDR, (iv) high GIF ratio, and (v) low financing loss coverage. However, MBSB plans to perform capital management to strategically lift ROE and would in turn allow the bank to offer high dividend yield of 6.2% (sector: 5.5%); the flexibility to do so stems from its high CET1 ratio of 19.2% (sector: 14.6%). Besides, the bank's low gearing level provides scope to leverage up its balance sheet and generate incremental ROE, once outstanding issues are resolved.

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 RM0.73 for MBSB and this is based on 0.60x FY26 P/B with assumptions of 4.3% ROE, 5.3% COE, and 3.0% LTG. The valuation is close to -1SD of its 5-year pre-Covid mean level, considering its ROE generation is anemic at 1ppt below 2015-19.

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.

EXHIBIT 13: VALUATIONS

Return on equity (ROE)	4.3%
Cost of equity (COE)	5.3%
Long-term growth rate (LTG)	3.0%
Target P/B	0.60x
FY26 BVPS	RM1.22
ESG premium	-
12-month target price	RM0.73

Source: AmlInvestment Bank

EXHIBIT 14: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY23	FY24	FY25F	FY26F	FY27F
Net interest income	998.1	1,493.4	1,347.1	1,393.1	1,425.3
Non-interest income	393.4	159.1	306.9	332.7	358.9
Islamic banking income	-	-	-	-	-
Total income	1,391.5	1,652.5	1,654.0	1,725.9	1,784.2
Overhead expenses	(711.7)	(907.3)	(936.1)	(953.1)	(975.4)
Pre-provision profit	679.8	745.1	717.9	772.8	808.8
Loan loss provisions	(97.7)	(171.5)	(146.1)	(155.1)	(165.3)
Impairment & others	(22.4)	12.7	-	-	-
Associates	-	-	-	-	-
Pretax profit	559.7	586.3	571.8	617.8	643.6
Tax	(67.9)	(179.6)	(171.5)	(185.3)	(193.1)
Minority interests	-	-	-	-	-
Core net profit	491.8	406.8	400.2	432.4	450.5
Balance Sheet (RMmil, YE 31 Dec)	FY23	FY24	FY25F	FY26F	FY27F
Cash & deposits with FIs	5,607.3	1,263.0	929.4	576.5	218.9
Marketable securities	14,533.2	15,271.0	15,521.5	15,833.0	16,151.5
Total current assets	20,140.6	16,534.0	16,450.9	16,409.6	16,370.4
Net loans & advances	40,491.5	42,136.1	43,484.1	45,223.4	47,027.6
Statutory deposits	nm	nm	nm	nm	nm
Long-term investments	4,608.5	4,152.5	4,235.5	4,320.2	4,406.7
Fixed assets	324.8	316.6	305.5	292.3	277.0
Intangible assets	309.2	312.9	310.5	304.8	296.0
Other long-term assets	788.7	811.9	811.9	811.9	811.9
Total LT assets	46,522.7	47,730.0	49,147.5	50,952.7	52,819.2
Total assets	66,663.3	64,264.0	65,598.4	67,362.3	69,189.6
Customer deposits	38,800.1	40,339.8	41,550.0	43,212.0	44,940.5
Deposits of other FIs	10,828.8	9,624.8	9,624.8	9,624.8	9,624.8
Subordinated debts	6,438.2	3,597.3	3,597.3	3,597.3	3,597.3
Hybrid capital securities	-	-	-	-	-
Other liabilities	758.0	924.0	924.0	924.0	924.0
Total liabilities	56,825.0	54,485.9	55,696.1	57,358.1	59,086.6
Shareholders' funds	9,838.0	9,777.8	9,902.0	10,003.9	10,102.7
Minority interests	0.2	0.2	0.2	0.2	0.2
Key Ratios (YE 31 Dec)	FY23	FY24	FY25F	FY26F	FY27F
Total income growth (%)	(8.5)	18.8	0.1	4.3	3.4
Pre-provision profit growth (%)	(21.8)	9.6	(3.7)	7.7	4.7
Core net profit growth (%)	6.9	(17.3)	(1.6)	8.0	4.2
Net interest margin (%)	1.7	2.4	2.2	2.2	2.2
Cost-to-income ratio (%)	51.1	54.9	56.6	55.2	54.7
Effective tax rate (%)	12.1	30.6	30.0	30.0	30.0
Dividend payout (%)	58.5	92.0	80.0	80.0	80.0
Key Assumptions (YE 31 Dec)	FY23	FY24	FY25F	FY26F	FY27F
Loan growth (%)	9.0	2.2	3.0	4.0	4.0
Deposit growth (%)	25.0	4.0	3.0	4.0	4.0
Loan-deposit ratio (%)	108.4	106.6	106.6	106.6	106.6
Gross NPL (%)	7.3	5.3	6.1	6.1	6.1
Net NPL (%)	4.7	4.2	5.1	5.2	5.2
Credit charge-off rate (%)	0.2	0.4	0.3	0.3	0.4
Loan loss reserve (%)	50.8	37.0	29.3	29.2	29.3

Source: Company, AmlInvestment Bank Bhd estimates



AmInvestment Bank

Company Report

Paul Yap Ee Xing, CFA

paul.ee-xing@ambankgroup.com

+603 2036 2281

MALAYAN BANKING

(MAY MK EQUITY, MBBM.KL)

05 Jan 2026

Yet to find its roar

HOLD

(Maintained)

Rationale for report: Company Update

Price RM10.48
Fair Value RM10.80
52-week High/Low RM10.76/RM9.32

Key Changes

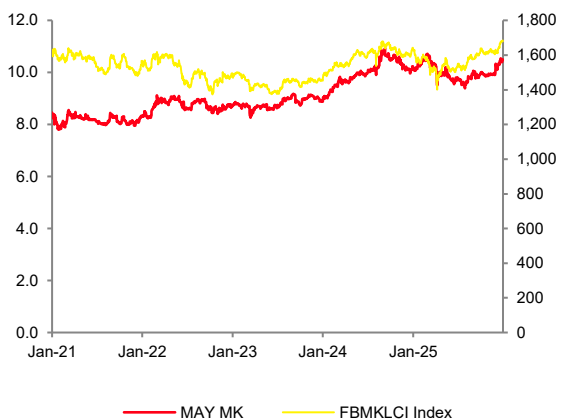
Fair value
EPS

YE to Dec	FY24	FY25F	FY26F	FY27F
Total income (RM mil)	29,572.5	30,571.9	31,747.9	32,664.5
Core net profit (RM mil)	10,088.7	10,440.5	10,934.7	11,177.7
FD Core EPS (sen)	83.6	86.5	90.6	92.6
FD Core EPS growth (%)	7.8	3.5	4.7	2.2
Consensus Net Profit (RM mil)	-	-	-	-
DPS (sen)	61.0	63.2	66.2	67.6
BV/share (RM)	7.79	8.08	8.34	8.60
PE (x)	12.5	12.1	11.6	11.3
Div yield (%)	5.8	6.0	6.3	6.5
P/BV (x)	1.3	1.3	1.3	1.2
ROE (%)	10.7	10.9	11.0	10.9

Stock and Financial Data

Shares Outstanding (million)	12,081.1
Market Cap (RMmil)	126,610.0
Book Value (RM/Share)	7.79
P/BV (x)	1.3
ROE (%)	10.7
Major Shareholders	Amanah Saham (33.9%) EPF (11.4%) Yayasan Pelaburan (6.4%)
Free Float	51.0
Avg Daily Value (RMmil)	104.9

Price performance	3mth	6mth	12mth
Absolute (%)	5.3	7.8	2.3
Relative (%)	2.7	(0.5)	(0.5)

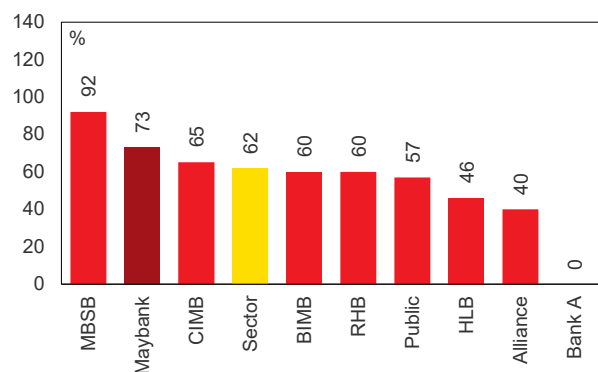


Investment Highlights

We maintain our HOLD call on Maybank but with a higher GGM-TP of RM10.80 (from RM9.60), based on 1.30x FY26 P/B. We find there is a less pricey investment alternative available in CIMB to play the large-cap Malaysian banking sector and historically, it is not a preferred no.1 buy pick among foreign investors. Even though Maybank is a good and reliable dividend paymaster, we reckon its ability to reward shareholders much more is capped given that its DPR is already elevated.

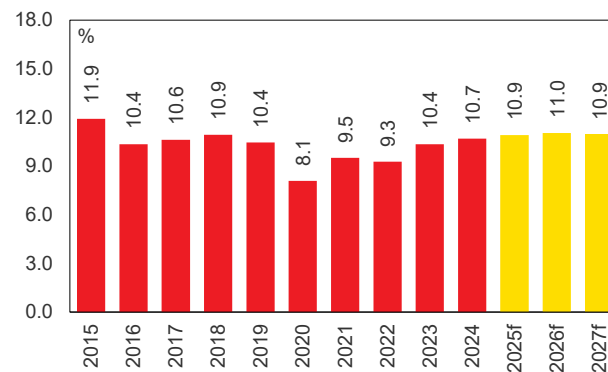
- Recommendation and valuation.** We retain our HOLD call on Maybank but with a higher GGM-TP of RM10.80 (from RM9.60), based on 1.30x FY26 P/B. This is broadly within its 5-year pre-Covid mean of 1.27x (similar ROE generation vs 2015-19 level) but above sector's 0.92x (the premium is fair given its regional exposure, leadership position, and higher yield). We find there is a less pricey investment alternative available in CIMB to play the large-cap Malaysian banking sector and historically, it is not a preferred no.1 buy pick among foreign investors.
- Payout ceiling.** While Maybank is a good dividend paymaster, offering attractive yields of 6.5% (1ppt above peers), we reckon the bank's ability to reward shareholders much more is capped given that its DPR is already elevated at 73% vs sector average's 62%; in our view, there will be competing need to balance longer-term sustainable DPR run-rate and preserving capital for future growth purposes, leaving Maybank with less room to maneuver unless it revert back to oldways of implementing DRP but may affect ROE trajectory in the process.
- Cost curve needs bending.** ROE stays broadly similar to pre-pandemic levels at 10-11%, offering limited impetus for market excitement. The primary constraint on further uplift stems from opex, which have grown quicker vs top-line by 1ppt CAGR over 2019-25 and resulting in a 2ppt increase in CIR. As such, more attention to rein in costs is needed to spur earnings. That said, the bank has made meaningful strides in de-risking, with NCC improving by c.20bp vs pre-Covid norms.
- Toolkit well-stocked.** Near-term, its large Singapore operation (makes up 19% of PBT) may be affected by the low SORA rate of 1.3% but we believe there is scope to optimize LDR of 85% to cushion the impact. Besides, Maybank has RM2.5bn of provision overlay balance that serves as a net profit lever in times of need; LLC is at 103% vs pre-pandemic level of c.73%. Also, the bank's huge FVOCI reserve provides monetization potential that could contribute 33% to annual earnings (sector: 22%). Hence, these offer flexibility to reinforce its current ROE profile.

EXHIBIT 1: DPR IS ALREADY ELEVATED



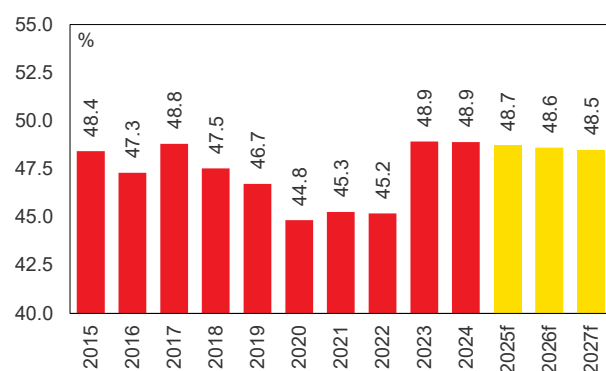
Source: AmlInvestment Bank, Companies

EXHIBIT 2: ROE LARGELY SIMILAR TO PRE-COVID LEVELS



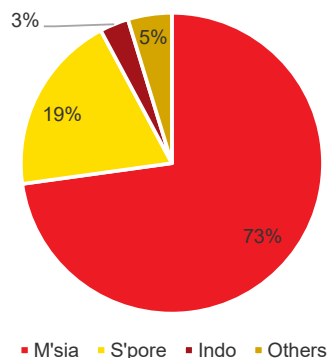
Source: AmlInvestment Bank, Maybank

EXHIBIT 3: CIR INCHED UP OVER THE YEARS



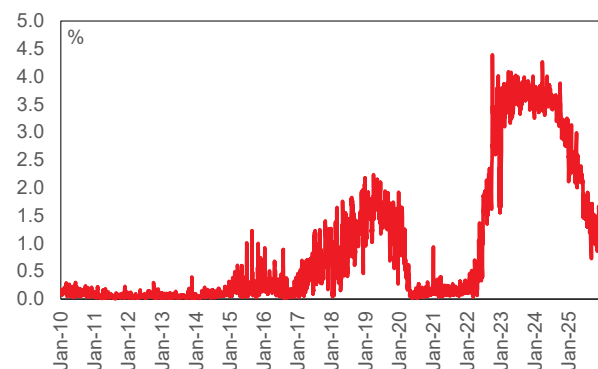
Source: AmlInvestment Bank, Maybank

EXHIBIT 4: PBT MIX BY GEOGRAPHICAL MARKETS



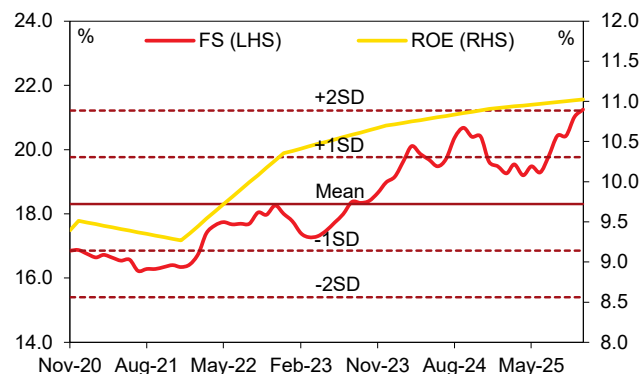
Source: AmlInvestment Bank, Maybank

EXHIBIT 5: SORA RATE IS NOT AT ITS LOWEST YET



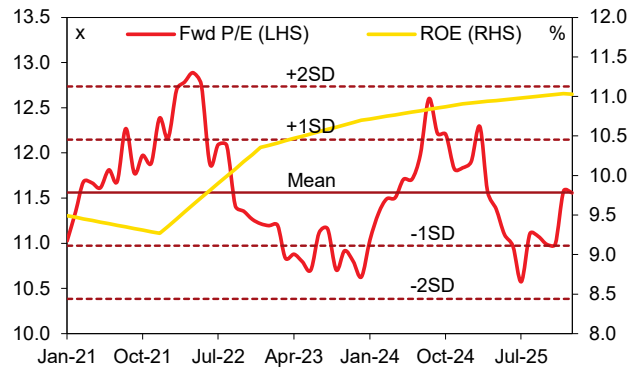
Source: AmlInvestment Bank, Bloomberg

EXHIBIT 6: FOREIGN SHAREHOLDING HAS RISEN



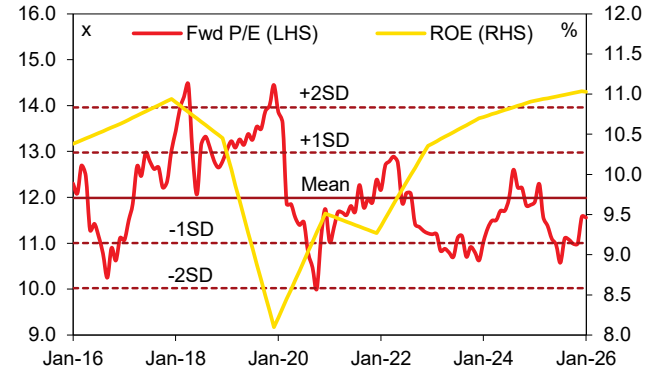
Source: AmlInvestment Bank, Bloomberg, Maybank

EXHIBIT 7: 5-YR FORWARD SECTOR P/E BAND



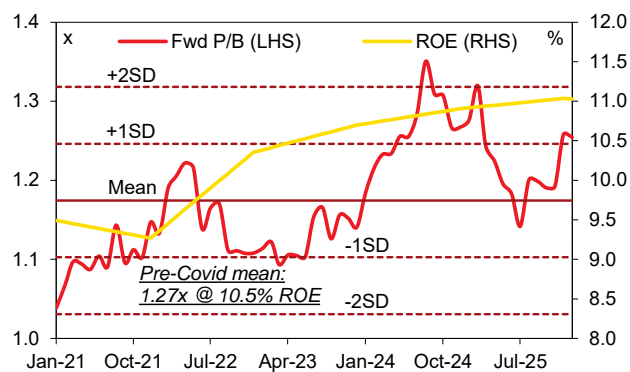
Source: AmInvestment Bank, Bloomberg

EXHIBIT 8: 10-YR FORWARD SECTOR P/E BAND



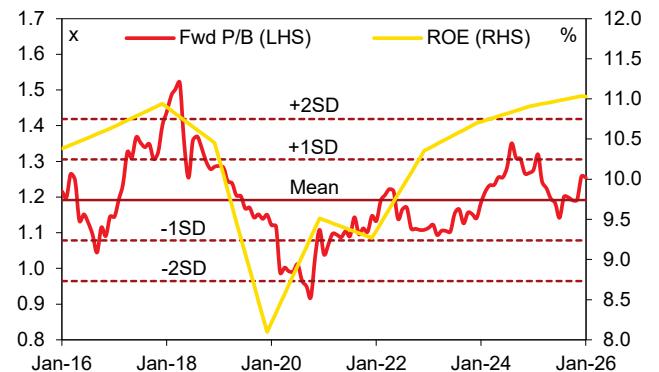
Source: AmInvestment Bank, Bloomberg

EXHIBIT 9: 5-YR FORWARD SECTOR P/B BAND



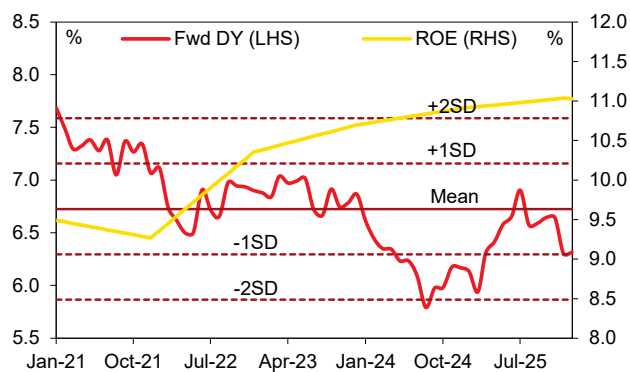
Source: AmInvestment Bank, Bloomberg

EXHIBIT 10: 10-YR FORWARD SECTOR P/B BAND



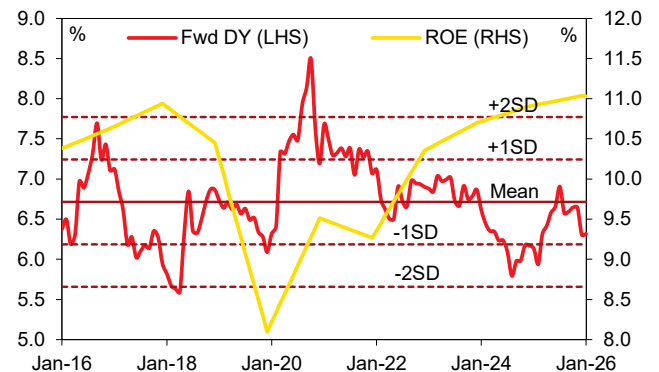
Source: AmInvestment Bank, Bloomberg

EXHIBIT 11: 5-YR FORWARD SECTOR DY BAND



Source: AmInvestment Bank, Bloomberg

EXHIBIT 12: 10-YR FORWARD SECTOR DY BAND



Source: AmInvestment Bank, Bloomberg

Company profile

Maybank is the largest banking group in Malaysia, offering a wide range of products and services, including consumer, business, investment, Islamic banking, insurance and takaful, coupled with asset management.

Key home markets for Maybank are Malaysia, Singapore, and Indonesia, contributing 73%, 19%, and 3% to group PBT in 2024. The bank operates across 18 countries, leveraging a network of over 2,600 branches and offices worldwide.

Investment thesis and catalysts

Even though Maybank is a good dividend paymaster, offering attractive yields of 6.5% (1ppt above peers), we reckon the bank's ability to reward shareholders much more is capped given that its DPR is already elevated at 73% vs sector average's 62%; in our opinion, there will be competing need to balance longer-term sustainable high DPR run-rate and retaining capital for future growth purposes, leaving Maybank with less room to maneuver unless it revert to oldways of implementing DRP but may affect ROE trajectory in the process.

Valuation methodology

We value Maybank using the Gordon Growth Model (GGM), as 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 RM10.80 for Maybank and this is based on 1.30x FY26 P/B with assumptions of 11.0% ROE, 9.2% COE, and 3.0% LTG. This is broadly within its 5-year pre-Covid average of 1.27x (similar ROE generation vs 2015-19 level) but above sector's 0.92x (premium is warranted considering its regional exposure, leadership position, and higher dividend yield).

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 may exert downward pressure on NIM. Also, a drastic SORA rate decline in Singapore can compound the slippage.
- iii) Stronger RM relative to key operating currencies (notably SGD & IDR) may lead to unfavorable forex translation effects on consolidated earnings and capital.

EXHIBIT 13: VALUATIONS

Return on equity (ROE)	11.0%
Cost of equity (COE)	9.2%
Long-term growth rate (LTG)	3.0%
Target P/B	1.30x
FY26 BVPS	RM8.34
ESG premium	-
12-month target price	RM10.80

Source: AmlInvestment Bank

EXHIBIT 14: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY23	FY24	FY25F	FY26F	FY27F
Net interest income	12,791.5	12,807.4	12,757.4	13,368.7	13,778.8
Non-interest income	6,992.4	8,418.7	8,911.1	9,096.6	9,284.2
Islamic banking income	7,577.2	8,346.4	8,903.4	9,282.7	9,601.5
Total income	27,361.1	29,572.5	30,571.9	31,747.9	32,664.5
Overhead expenses	(13,388.8)	(14,460.2)	(14,899.1)	(15,430.4)	(15,837.3)
Pre-provision profit	13,972.3	15,112.3	15,672.7	16,317.5	16,827.2
Loan loss provisions	(1,826.2)	(1,670.5)	(1,018.0)	(1,720.4)	(1,899.4)
Impairment & others	145.1	23.5	(700.0)	30.0	30.0
Associates	240.3	236.3	250.0	250.0	250.0
Pretax profit	12,531.6	13,701.6	14,204.7	14,877.1	15,207.7
Tax	(2,916.7)	(3,195.2)	(3,338.1)	(3,496.1)	(3,573.8)
Minority interests	(265.1)	(417.7)	(426.1)	(446.3)	(456.2)
Core net profit	9,349.8	10,088.7	10,440.5	10,934.7	11,177.7
Balance Sheet (RMmil, YE 31 Dec)	FY23	FY24	FY25F	FY26F	FY27F
Cash & deposits with FIs	28,904.0	40,522.5	41,231.4	34,702.2	27,814.2
Marketable securities	249,734.4	253,875.2	268,797.7	279,121.4	289,961.3
Total current assets	278,638.4	294,397.7	310,029.1	313,823.6	317,775.5
Net loans & advances	630,422.0	664,774.1	686,041.2	720,489.2	756,513.7
Statutory deposits	nm	nm	nm	nm	nm
Long-term investments	84,384.4	79,377.5	83,346.4	87,513.7	91,889.4
Fixed assets	2,309.2	2,283.1	2,339.9	2,376.3	2,392.3
Intangible assets	7,361.9	6,993.3	7,120.6	7,239.1	7,348.7
Other long-term assets	24,558.6	27,496.3	27,496.3	27,496.3	27,496.3
Total LT assets	749,036.2	780,924.3	806,344.3	845,114.6	885,640.4
Total assets	1,027,674.6	1,075,322.0	1,116,373.4	1,158,938.1	1,203,415.9
Customer deposits	696,834.7	741,897.3	778,992.2	817,941.8	858,838.9
Deposits of other FIs	82,749.6	79,882.9	79,882.9	79,882.9	79,882.9
Subordinated debts	77,862.4	80,432.6	80,432.6	80,432.6	80,432.6
Hybrid capital securities	-	-	-	-	-
Other liabilities	72,579.7	75,902.0	75,902.0	75,902.0	75,902.0
Total liabilities	930,026.5	978,114.8	1,015,209.7	1,054,159.3	1,095,056.4
Shareholders' funds	94,641.6	93,970.6	97,501.1	100,669.9	103,794.3
Minority interests	3,006.5	3,236.5	3,662.7	4,109.0	4,565.2
Key Ratios (YE 31 Dec)	FY23	FY24	FY25F	FY26F	FY27F
Total income growth (%)	3.3	8.1	3.4	3.8	2.9
Pre-provision profit growth (%)	(3.8)	8.2	3.7	4.1	3.1
Core net profit growth (%)	17.5	7.9	3.5	4.7	2.2
Net interest margin (%)	2.0	2.0	2.0	2.0	2.0
Cost-to-income ratio (%)	48.9	48.9	48.7	48.6	48.5
Effective tax rate (%)	23.3	23.3	23.5	23.5	23.5
Dividend payout (%)	77.4	73.0	73.0	73.0	73.0
Key Assumptions (YE 31 Dec)	FY23	FY24	FY25F	FY26F	FY27F
Loan growth (%)	9.1	5.3	3.0	5.0	5.0
Deposit growth (%)	9.0	6.5	5.0	5.0	5.0
Loan-deposit ratio (%)	92.0	91.0	89.2	89.2	89.2
Gross NPL (%)	1.3	1.2	1.3	1.4	1.4
Net NPL (%)	0.6	0.5	0.8	0.9	0.9
Credit charge-off rate (%)	0.3	0.3	0.1	0.2	0.3
Loan loss reserve (%)	120.1	122.4	99.4	96.1	95.1

Source: Company, AmlInvestment Bank Bhd estimates



ALLIANCE BANK MALAYSIA

(ABMB MK EQUITY, ALLI.KL)

05 Jan 2026

Punching above its weight

Company Report

HOLD

(Maintained)

Paul Yap Ee Xing, CFA

paul.ee-xing@ambankgroup.com

+603 2036 2281

Rationale for report: Company Update

Price RM5.05
Fair Value RM5.20
52-week High/Low RM5.26/RM3.83

Key Changes

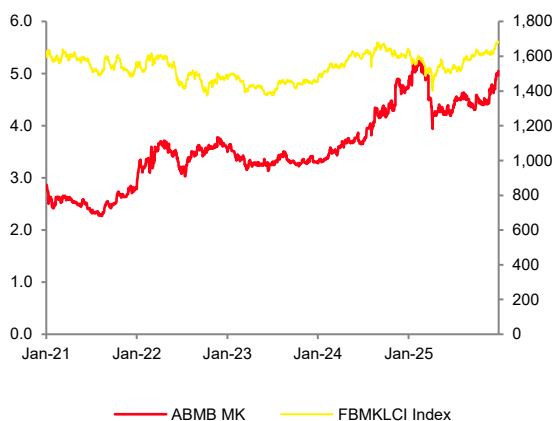
Fair value
EPS

YE to March	FY25	FY26F	FY27F	FY28F
Total income (RM mil)	2,269.9	2,476.0	2,654.2	2,750.1
Core net profit (RM mil)	750.7	807.9	857.5	879.6
FD Core EPS (sen)	43.4	46.7	49.6	50.8
FD Core EPS growth (%)	8.7	7.6	6.1	2.6
Consensus Net Profit (RM mil)	-	-	-	-
DPS (sen)	19.4	20.9	22.2	22.8
BV/share (RM)	4.43	5.06	5.34	5.62
PE (x)	11.6	10.8	10.2	9.9
Div yield (%)	3.8	4.1	4.4	4.5
P/BV (x)	1.1	1.0	0.9	0.9
ROE (%)	10.1	9.8	9.5	9.3

Stock and Financial Data

Shares Outstanding (million)	1,730.2
Market Cap (RMmil)	8,737.6
Book Value (RM/Share)	4.43
P/BV (x)	1.1
ROE (%)	10.1
Major Shareholders	Vertical Theme (29.1%) EPF (4.5%) Global Success (4.5%)
Free Float	60.9
Avg Daily Value (RMmil)	8.3

Price performance	3mth	6mth	12mth
Absolute (%)	14.3	16.4	7.1
Relative (%)	11.4	7.4	4.1

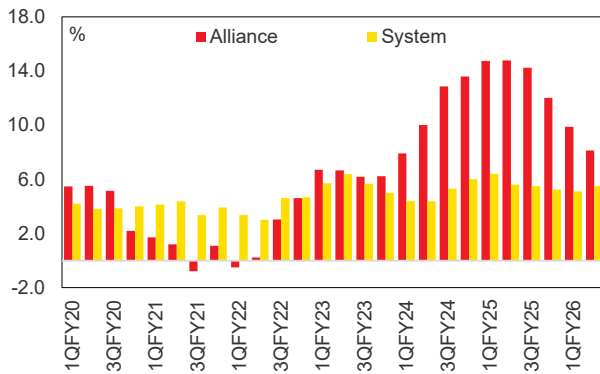


Investment Highlights

We maintain our HOLD rating on Alliance but with a higher GGM-TP of RM5.20 (from RM4.80), based on 0.98x FY27 P/B. We laud management's strong execution in gaining loans market share from rivals and in ramping up its fee-income engine. However, there are some budding concerns over its rising GIL ratio (+80bp vs 4QFY25). Overall, we are not bullish because its P/B is on par to peers like RHB who have similar ROE profile but can provide better yield of 2ppt. That said, we are cognizant the potential DBS M&A news flow could still excite the market and lift share price.

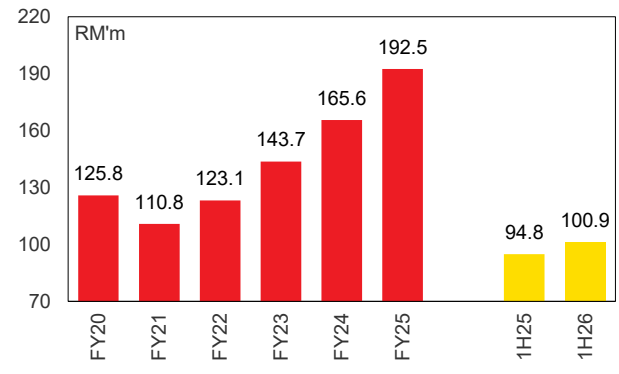
- Recommendation and valuation.** We keep our HOLD rating on Alliance but with a higher GGM-TP of RM5.20 (from RM4.80), based on 0.98x FY27 P/B. This is valued at +2SD to its 5-year mean and just slightly above sector's 0.92x. The premium is fair considering its ROE generation is 1ppt higher vs the average for the past 5 years. We are not entirely bullish on the stock because its P/B is on par to peers like RHB who have similar ROE profile but can provide better yield of 2ppt. That said, we are cognizant on the potential DBS M&A news flow, which could again drive up its share price.
- The gameplan works!** We believe Alliance has been punching above its weight. Credit must be given where it is due, where the management team has strong execution capabilities on well-laid strategic plans under Acceler8; the bank was able to take market share away from competitors over the past 3 years, seeing its loans growth was faster by 7ppt vs the system. Moreover, it did not come at a huge expense of NIM as the erosion was kept at <10bp and overall it still remains 38bp above sector average.
- More in the tank.** The bank has been cranking up its fee-income engine by deepening cross-selling after onboarding business customers into its ecosystem and supporting them across their lifecycle. Notably, transaction-related fees (FX and trade) have grown a solid 15-16% YoY over the past 2 years. We believe this traction can be sustained, seeing Alliance still has scope to grow loans faster than peers. Also, we find it can optimize LDR/LFR ratios (96%/87%) and allow NIM to have some breathing space.
- Chinks in the armor.** Recently, there are some budding worries over its rising GIL ratio (+80bp vs 4QFY25) due to weakness at its retail books, particularly from classic mortgage and Alliance One Account. Also, delinquency rates here have generally ticked up across the board by 40-60bp. However, we note 70% of its GIL is secured and can help to contain downside risks. Besides, Alliance has RM130m of provision overlay balance and the high LLC of 107% provides sufficient buffer to pad any asset quality deterioration (pre-pandemic level of 70-80%).

EXHIBIT 1: LOANS GROWTH OUTSTRIPPED SYSTEM



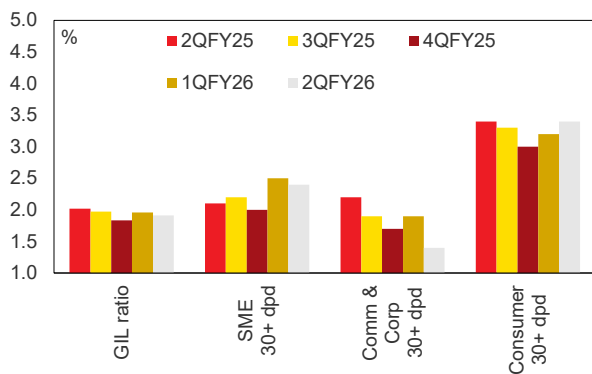
Source: AmlInvestment Bank, Alliance

EXHIBIT 2: STRONG FEE-INCOME ENGINE



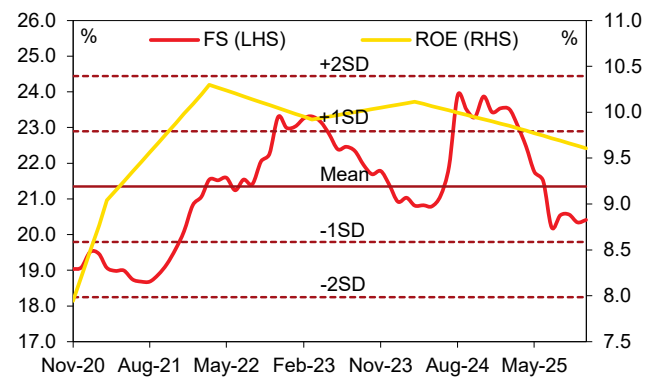
Source: AmlInvestment Bank, Alliance

EXHIBIT 3: BUDDING CONCERNS OVER ASSET QUALITY



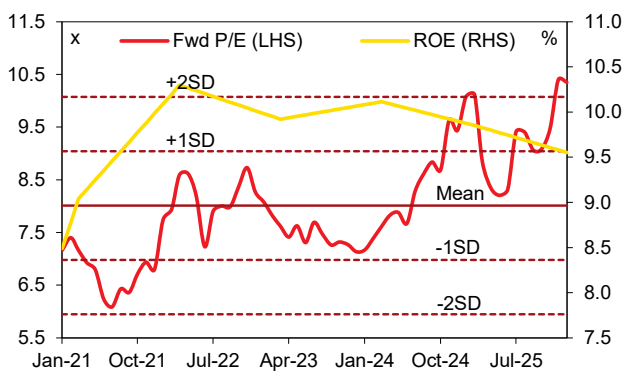
Source: AmlInvestment Bank, Alliance

EXHIBIT 4: FOREIGN SHAREHOLDING CAME OFF



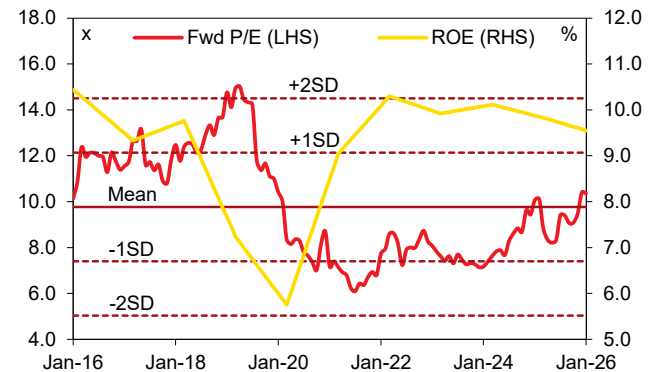
Source: AmlInvestment Bank, Bloomberg, Alliance

EXHIBIT 5: 5-YR FORWARD SECTOR P/E BAND



Source: AmlInvestment Bank, Bloomberg

EXHIBIT 6: 10-YR FORWARD SECTOR P/E BAND



Source: AmlInvestment Bank, Bloomberg

EXHIBIT 7: 5-YR FORWARD SECTOR P/B BAND

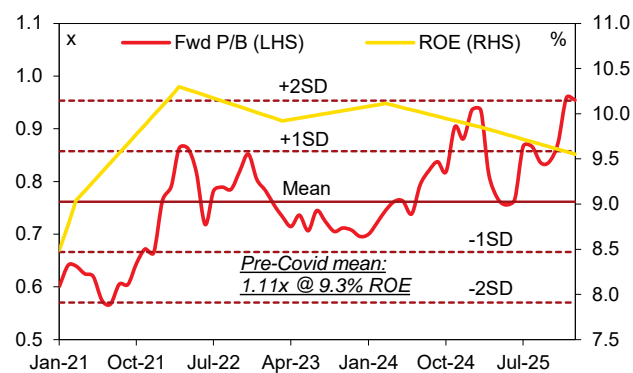


EXHIBIT 8: 10-YR FORWARD SECTOR P/B BAND

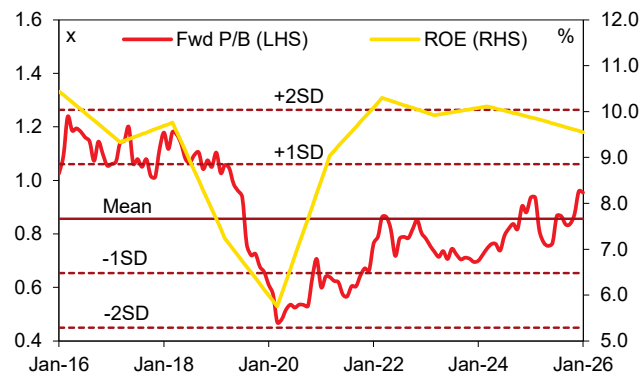


EXHIBIT 9: 5-YR FORWARD SECTOR DY BAND

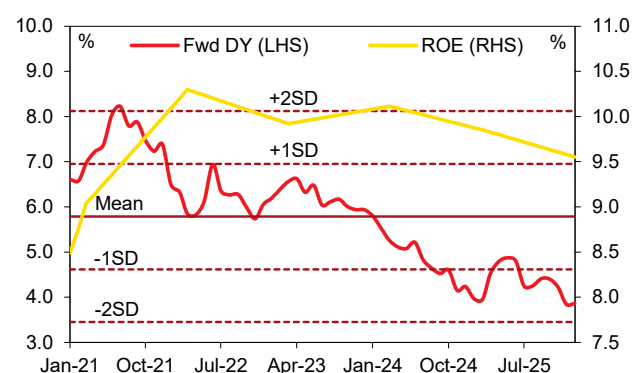
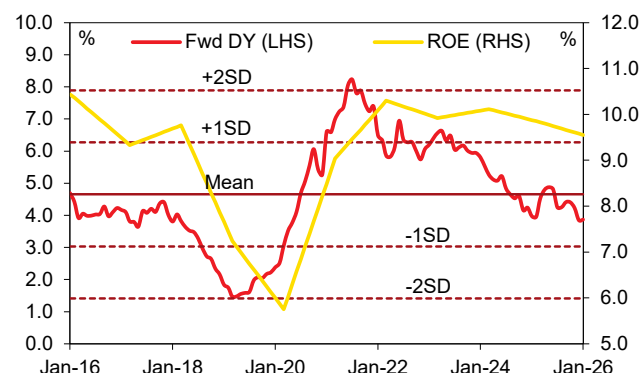


EXHIBIT 10: 10-YR FORWARD SECTOR DY BAND



Company profile

Alliance is the 9th smallest banking outfit by assets under our coverage, offering financial solutions through its consumer, SME, commercial, and Islamic banking businesses.

Malaysia is Alliance's sole operating market, where it maintains a nationwide network of nearly 80 branches.

Investment thesis and catalysts

We are not entirely bullish on Alliance because its P/B is on par to peers like RHB who have similar ROE profile but can provide better yield of 2ppt. Also, there are some budding concerns over its rising GIL ratio (+80bp vs 4QFY25). That said, we laud management's strong execution in gaining loans market share from rivals and in ramping up its fee-income engine (have grown by a solid 15-16% YoY over the past two years). Furthermore, we are cognizant on the potential DBS M&A news flow, which could again drive up its share price.

Valuation methodology

We value Alliance 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 RM5.20 for Alliance and this is based on 0.98x FY27 P/B with assumptions of 9.5% ROE, 9.7% COE, and 3.0% LTG. This is valued at +2SD to its 5-year mean and just slightly above sector's 0.92x. The premium is fair considering its ROE output is 1ppt higher vs the average for the past 5 years.

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 may exert downward pressure on NIM.
- iii) Subdued performance from its treasury operations.

EXHIBIT 11: VALUATIONS

Return on equity (ROE)	9.5%
Cost of equity (COE)	9.7%
Long-term growth rate (LTG)	3.0%
Target P/B	0.98x
FY27 BVPS	RM5.34
ESG premium	-
12-month target price	RM5.20

Source: AmlInvestment Bank

EXHIBIT 12: FINANCIAL DATA

Income Statement (RMmil, YE 31 March)	FY24	FY25	FY26F	FY27F	FY28F
Net interest income	1,309.6	1,451.1	1,562.2	1,692.4	1,762.5
Non-interest income	270.8	271.7	318.1	321.7	325.4
Islamic banking income	440.1	547.1	595.7	640.1	662.2
Total income	2,020.5	2,269.9	2,476.0	2,654.2	2,750.1
Overhead expenses	(973.7)	(1,088.5)	(1,182.4)	(1,261.5)	(1,311.7)
Pre-provision profit	1,046.7	1,181.4	1,293.6	1,392.7	1,438.4
Loan loss provisions	(134.9)	(187.9)	(230.6)	(264.3)	(281.0)
Impairment & others	(0.5)	(0.6)	-	-	-
Associates	-	-	-	-	-
Pretax profit	911.3	992.9	1,063.0	1,128.4	1,157.4
Tax	(220.8)	(242.2)	(255.1)	(270.8)	(277.8)
Minority interests	-	-	-	-	-
Core net profit	690.5	750.7	807.9	857.5	879.6
Balance Sheet (RMmil, YE 31 March)	FY24	FY25	FY26F	FY27F	FY28F
Cash & deposits with FIs	4,596.7	4,588.9	7,051.4	6,879.6	6,603.4
Marketable securities	11,691.0	13,545.1	13,947.4	14,269.0	14,585.1
Total current assets	16,287.7	18,134.0	20,998.7	21,148.6	21,188.6
Net loans & advances	54,720.8	61,418.5	66,152.9	70,776.3	75,000.0
Statutory deposits	nm	nm	nm	nm	nm
Long-term investments	3,870.4	4,065.0	4,146.3	4,229.2	4,313.8
Fixed assets	234.1	491.6	477.0	461.8	446.0
Intangible assets	462.4	517.0	515.8	510.6	501.5
Other long-term assets	1,370.8	591.1	591.1	591.1	591.1
Total LT assets	60,658.5	67,083.3	71,883.1	76,569.1	80,852.4
Total assets	76,946.1	85,217.3	92,881.8	97,717.6	102,040.9
Customer deposits	57,397.5	65,835.0	72,418.4	76,763.6	80,601.7
Deposits of other FIs	4,077.8	3,779.4	3,779.4	3,779.4	3,779.4
Subordinated debts	5,014.8	5,411.7	5,411.7	5,411.7	5,411.7
Hybrid capital securities	-	-	-	-	-
Other liabilities	3,280.9	2,522.8	2,522.8	2,522.8	2,522.8
Total liabilities	69,771.0	77,548.9	84,132.4	88,477.5	92,315.6
Shareholders' funds	7,175.1	7,668.4	8,749.4	9,240.2	9,725.3
Minority interests	-	-	-	-	-
Key Ratios (YE 31 March)	FY24	FY25	FY26F	FY27F	FY28F
Total income growth (%)	5.2	12.3	9.1	7.2	3.6
Pre-provision profit growth (%)	0.8	12.9	9.5	7.7	3.3
Core net profit growth (%)	1.9	8.7	7.6	6.1	2.6
Net interest margin (%)	2.4	2.5	2.4	2.4	2.4
Cost-to-income ratio (%)	48.2	48.0	47.8	47.5	47.7
Effective tax rate (%)	24.2	24.4	24.0	24.0	24.0
Dividend payout (%)	55.9	44.7	44.7	44.8	44.8
Key Assumptions (YE 31 March)	FY24	FY25	FY26F	FY27F	FY28F
Loan growth (%)	13.6	12.0	8.0	7.0	6.0
Deposit growth (%)	12.9	14.7	10.0	6.0	5.0
Loan-deposit ratio (%)	97.1	94.9	93.1	94.0	94.9
Gross NPL (%)	2.1	1.8	1.9	1.9	1.9
Net NPL (%)	1.7	1.4	1.4	1.4	1.4
Credit charge-off rate (%)	0.3	0.3	0.4	0.4	0.4
Loan loss reserve (%)	100.6	106.6	102.3	101.4	101.9

Source: Company, AmlInvestment Bank Bhd estimates

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