

02 March 2026

MBSB

Impairment Strikes Back

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MBSB's FY25 net profit (-31% YoY) and interim dividend fell short of expectations due to heavy impairments and restructuring on a single corporate account, while PPOP declined 15% amid continued NIM pressure. We cut our FY26F earnings by 20% to reflect a more cautious outlook. That said, the gradual drawdown of its RM5b syndicated financing pipeline should support near-term earnings visibility. Maintain MARKET PERFORM with a lower GGM-PBV TP of RM0.73 (from RM0.755).

FY25 below expectations. MBSB's FY25 net profit of RM279.5m only made up 77% of our full-year forecast and 69% of consensus full-year estimate. The negative deviation appears to be owing to a large corporate R&R exercise conducted in 4QFY25 which led to backloaded impairments. An interim dividend of 1.22 sen was declared for a full-year payment of 3.22 sen (83% payout) is below our anticipated 4.6 sen in line with the miss in profit.

YoY, FY25 net earnings dipped by 31%, no thanks to the abovementioned lumpy impairments, which are expected to sufficiently provide for said troubled accounts.

That said, net Islamic income fell by 20% as NIMs deteriorated to 1.95% (-41 bps) no thanks to asset yields compressing following the July 2025 OPR cut as well as the group's proactive move to convert its fixed-rate personal financing portfolio toward a variable-rate structure. Though the group is able to see lower operating expenses (-4%) from synergies post-MIDF merger, the lower income still resulted in a higher CIR (57.9%, +3.0ppt) and softer PPOP (-15%).

QoQ, 4QFY25 net profit plunged by 96%, owing to the same reasons mentioned. NIMs continued a sequential decline to 1.63% (-14 bps).

Highlights. Though the group fell short of most of its headline targets, they look to reiterate them in FY26, notably with a larger loan growth target of 7%-8% from 5%-6%. This is expected to be driven by the progressive drawdown of its RM5b syndicated financing pipeline, which previously experienced delays due to execution challenges faced by borrowers.

On margin recovery, the group is focusing on non-retail opportunities to strengthen its funding base, noting that several existing corporate borrowers do not currently maintain deposit relationships with MBSB. Converting these relationships into deposit accounts could help support funding costs. Management also highlighted that, despite its lending rates being above industry averages, any potential OPR cuts would still provide some relief through lower funding costs and improved interest spreads. Meanwhile, the group looks to provide update on its plans to dispose its asset management arm in 2QCY25.

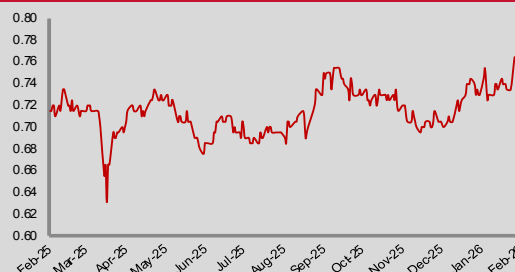
Forecasts. We cut our FY26F earnings by 20%. While the earnings shortfall was largely driven by higher impairments, we have also turned more cautious on the group's top-line outlook following the margin pressure and weaker NIM exit rate in 4QFY25. Although management aims to improve funding costs by increasing its CASA mix, the current focus on corporate CASA may yield less savings than retail CASA, though the latter may be more challenging to expand in given the current competitive rate. We also introduce our FY27F earnings.

Maintain MARKET PERFORM with a lower TP of RM0.73 (from RM0.755). Our TP is based on an unchanged GGM-derived PBV of 0.53x (COE: 8.7%, TG: 3%, ROE: 6%) but against a lower FY26F BVPS of RM1.36 (from RM1.40) after our model updates.

MARKET PERFORM ↔

Price : **RM0.715**
Target Price : **RM0.730** ↓

Share Price Performance



KLCI	1,716.61
YTD KLCI chg	2.2%
YTD stock price chg	1.4%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	MBSB MK Equity
Market Cap (RM m)	5,879.0
Shares Outstanding	8,222.3
52-week range (H)	0.78
52-week range (L)	0.63
3-mth avg. daily vol.	6,358,318
Free Float	41%
Beta	0.85

Major Shareholders

Employees Provident Fund	56.6%
Yayasan Pelaburan Bumiputra	12.6%
HSBC Holdings PLC	1.6%

Summary Earnings Table

FY Dec (RM m)	2025A	2026F	2027F
Net Interest Income	1,225	1,235	1,486
Non-interest Income	280	364	375
Total Income	1,505	1,598	1,861
Operating Expenses	-871	-880	-897
Loan Impairment	-249	-152	-191
Pre-tax Profit	390	567	773
Net Profit	280	406	554
Core Net Profit	280	406	554
Consensus NP	-	509	603
Earnings Revision (%)	-	-20.1	NEW
Core EPS (RM)	3.9	5.7	7.7
EPS Growth (%)	-31.3	45.4	36.4
NDPS (RM)	3.2	4.5	6.2
BV/Share (RM)	1.37	1.39	1.40
NTA/Share (RM)	1.33	1.34	1.35
ROE (%)	2.8	4.1	5.5
PER (x)	0.2	0.1	0.1
P/BV (x)	0.52	0.52	0.51
Net Div. Yield (%)	4.5	6.3	8.7

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While believing the market is anticipating stronger earnings for MBSB post-merger with MIDF, it may still require a longer track record to deliver on its better fundamentals given its previously volatile earnings. Still, we believe investors are willing to support a recovery and high growth angle, even if its ROE largely underperforms its peers average of c.10%. Its high payout ratio of c.80% and prospective dividend yields of >6% could become a key attraction, particularly once operational execution and earnings stability improve.

Risks to our call include: (i) higher/lower-than-expected margins, (ii) higher/lower-than-expected loans growth, (iii) better/worse-than-expected asset quality, (iv) surge in capital market activities, (v) favourable currency fluctuations, and (vi) changes to OPR.

Results Highlights

	4Q	3Q	QoQ	4Q	YoY	12M	12M	YoY
FYE Dec (RM m)	FY25	FY25	Chg	FY24	Chg	FY25	FY24	Chg
Net Islamic income	238.4	261.9	-9.0%	386.2	-38.3%	1,146.8	1,436.0	-20.1%
Net interest income	17.9	14.6	22.4%	14.2	25.8%	78.0	57.4	36.1%
Non-interest income	65.4	103.4	-36.7%	14.4	355.5%	279.9	159.1	75.9%
Modification loss	0.0	0.0	N.M	0.0	N.M.	0.0	0.0	N.M
Total income	321.7	379.9	-15.3%	414.8	-22.4%	1,504.8	1,652.5	-8.9%
Operating expenses	-183.5	-220.6	-16.8%	-221.2	-17.1%	-870.9	-907.3	-4.0%
Pre-impairment profit	138.2	159.3	-13.2%	193.6	-28.6%	633.8	745.1	-14.9%
(Allowances)/ write-backs	-140.8	-22.9	515.3%	9.0	N.M.	-248.8	-171.5	45.1%
(Allowances)/ write-backs on other assets	5.0	0.6	725.2%	17.6	-71.5%	6.5	12.3	-47.1%
Operating profit	2.5	137.1	-98.2%	220.1	-98.9%	391.5	586.0	-33.2%
Extraordinary Items	0.0	0.0	N.M	0.0	N.M.	0.0	0.0	N.M
Profit before tax	2.5	137.1	-98.2%	220.1	-98.9%	391.5	586.0	-33.2%
Taxation	1.2	-41.4	-102.8%	-68.7	-101.7%	-110.5	-179.6	-38.5%
Net Profit	3.6	95.6	-96.2%	151.4	-97.6%	279.5	406.8	-31.3%
Core Net Profit	3.6	95.6	-96.2%	151.4	-97.6%	279.5	406.8	-31.3%
Gross financing	43,929	44,048	-0.3%	42,983	2.2%	43,929	42,983	2.2%
Gross impaired financing	2,780	2,645	5.1%	2,291	21.4%	2,780	2,291	21.4%
Customer deposits	47,071	45,459	3.5%	48,606	-3.2%	47,071	48,606	-3.2%
Current and savings account	6,638	5,767	15.1%	4,763	39.4%	6,638	4,763	39.4%
Total assets	65,198	64,389	1.3%	64,264	1.5%	65,198	64,264	1.5%
Shareholders' equity	9,859	9,896	-0.4%	9,778	0.8%	9,859	9,778	0.8%
Est. annualised NIM*	1.63%	1.77%		2.62%		1.95%	2.36%	
Cost-to-income ratio*	57.0%	58.1%		53.3%		57.9%	54.9%	
Annualised credit cost (bps)	123.5	20.5		-24.7		55.8	37.4	
Effective tax rate	-47.5%	30.2%		31.2%		28.2%	30.6%	
Annualised ROA	0.0%	0.6%		1.0%		0.4%	0.6%	
Annualised ROE	0.1%	3.9%		6.2%		2.8%	4.1%	
Gross impaired loans ratio	6.3%	6.0%		5.3%		6.3%	5.3%	
Loan loss coverage ratio (LLC)	28.1%	30.8%		37.0%		28.1%	37.0%	
LLC plus regulatory reserves	39.7%	40.4%		48.2%		39.7%	48.2%	
Loan-to-deposit ratio	91.7%	95.1%		86.7%		91.7%	86.7%	
CASA-to-deposit ratio	14.1%	12.7%		9.8%		14.1%	9.8%	
CET-1 capital (Group level)	18.9%	19.2%		18.8%		18.9%	18.8%	

Source: Company, Kenanga Research

Management Guidance

	FY26 Targets	FY25 Performance
Financing growth	7-8%	2.2%
Gross impaired financing	4-5%	5.2%
		(Excluding ihsan-i)
NIM	2.0%	1.95%
Cost-Income Ratio	<53%	57.9%
Credit cost	30-40 bps	41 bps
ROE	5-6%	4.1%

Source: Company, Kenanga Research

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Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside	Market Cap (RM m)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE	Net Div. (sen)	Net Div Yld.
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
Affin Bank Bhd	MP	2.67	2.50	-6.4%	6,765.3	N	12/2026	22.4	24.0	4.9%	7.1%	11.9	11.1	0.5	4.6%	9.0	3.4%
Alliance Bank Malaysia Bhd	MP	5.04	5.20	3.2%	8,720.3	N	03/2026	48.0	50.3	10.7%	4.6%	10.5	10.0	1.1	10.5%	19.5	3.9%
AMMB Holdings Bhd	OP	6.43	7.45	15.9%	21,266.0	N	03/2026	64.2	67.0	6.0%	4.5%	10.0	9.6	1.0	10.0%	34.0	5.3%
Bank Islam Malaysia Bhd	MP	2.47	2.55	3.2%	5,598.2	Y	12/2026	26.5	28.5	7.9%	7.5%	9.3	8.7	0.7	7.5%	16.0	6.5%
CIMB Group Holdings Bhd	OP	8.04	8.45	5.1%	86,805.1	N	12/2026	78.6	83.9	6.9%	6.8%	10.2	9.6	1.1	11.4%	50.0	6.2%
Hong Leong Bank Bhd	OP	23.28	25.95	11.5%	50,464.5	N	06/2026	227.1	236.0	-0.6%	3.9%	10.2	9.9	1.1	11.5%	105.0	4.5%
Malayan Banking Bhd	MP	11.96	12.30	2.8%	144,490.0	N	12/2026	89.0	90.4	2.1%	1.6%	13.4	13.2	1.4	11.0%	64.0	5.4%
MBSB Bhd	MP	0.715	0.730	2.1%	5,879.0	Y	12/2026	5.7	7.7	45.4%	36.4%	12.6	9.3	0.5	4.1%	4.5	6.3%
Public Bank Bhd	OP	4.93	5.75	16.6%	95,694.7	N	12/2026	38.6	40.0	3.7%	3.6%	12.8	12.3	1.5	12.2%	23.5	4.8%
RHB Bank Bhd	MP	8.40	8.40	0.0%	36,640.1	N	12/2026	75.5	79.9	-2.7%	5.8%	11.1	10.5	1.0	9.5%	47.0	5.6%
SECTOR AGGREGATE					462,323					3.5%	4.5%	11.8	11.3	1.2	10.3%		5.2%

Name	Terminal growth (%)	Sustainable ROE (%)	Cost of Equity (%)	Applied PBV (x)	Target Price (RM)	Call	Remarks
Affin Bank Bhd	3.00	6.25	9.4	0.51	2.50	MP	
Alliance Bank Malaysia Bhd	3.00	10.0	10.0	1.00	5.20	MP	+5% ESG Premium
AMMB Holdings Bhd	3.00	10.0	9.4	1.10	7.45	OP	
Bank Islam Malaysia Bhd	3.50	8.0	9.7	0.73	2.55	MP	
CIMB Group Holdings Bhd	3.50	11.5	10.7	1.12	8.45	OP	+5% ESG Premium
Hong Leong Bank Bhd	-	-	-	-	25.95	OP	Sum-of-Parts
Malayan Banking Bhd	3.50	11.5	9.0	1.45	12.30	MP	
MBSB Bhd	3.00	6.0	8.7	0.53	0.730	MP	
Public Bank Bhd	4.00	13.	9.4	1.68	5.75	OP	+5% ESG Premium
RHB Bank Bhd	2.50	10.0	9.7	1.05	8.40	MP	

Source: Kenanga Research

Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★	☆	
	Community Investment	★	★	★	☆	
	Workforce Safety & Wellbeing	★	★	★		
	Corporate Governance	★	★	★	★	
	Anti-corruption Policy	★	★	★		
	Emissions Management	★	★	★		
SPECIFIC	Green Financing	★	★	★		
	Financial Inclusion	★	★	★		
	Cybersecurity/Data Privacy	★	★	★		
	Digitalisation & Innovation	★	★	★		
	Diversity & Inclusion	★	★	★		
	Customer Experience	★	★	★		
OVERALL		★	★	★		

☆ denotes half-star
 ★ -10% discount to TP
 ★★ -5% discount to TP
 ★★★ TP unchanged
 ★★★★ +5% premium to TP
 ★★★★★ +10% premium to TP

Stock Ratings are defined as follows:

Stock Recommendations

OUTPERFORM : A particular stock’s Expected Total Return is MORE than 10%
 MARKET PERFORM : A particular stock’s Expected Total Return is WITHIN the range of -5% to 10%
 UNDERPERFORM : A particular stock’s Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT : A particular sector’s Expected Total Return is MORE than 10%
 NEUTRAL : A particular sector’s Expected Total Return is WITHIN the range of -5% to 10%
 UNDERWEIGHT : A particular sector’s Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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