Banking

OVERWEIGHT

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Long-Term Stance Unhindered by Inflation

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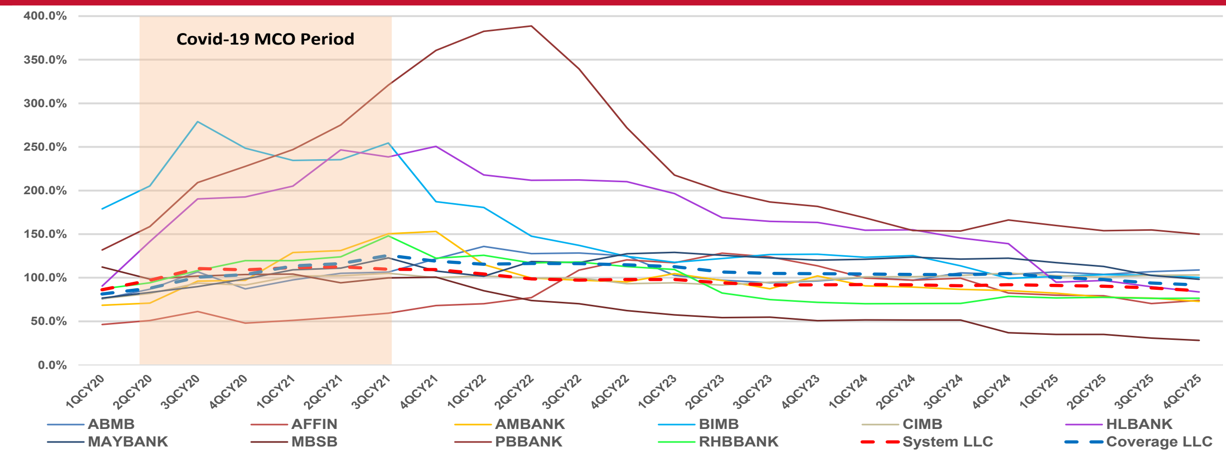
We maintain our OVERWEIGHT call on the banking sector. Following strong accumulation in 1QCY26 and a subsequent pullback amid heightened geopolitical tensions involving Iran, we believe the sector's longer-term resilience remains intact. That said, we flag potential credit cost risks heading into the upcoming May reporting season, where we expect banks are likely to raise macroeconomic overlays by 5–10 bps, translating to a c.3.5%–7.0% earnings impact. This is in response to rising inflationary pressures from oil price volatility, which could drive higher transportation and logistics costs and, in turn, weigh on borrowers' repayment capacity. That said, as we are anticipating tensions to gradually ease with commodity prices to normalise toward the year-end, we believe said provisions could be written back by 4QCY26, leading us to keep our earnings estimates for now. We also maintain our view that the OPR will remain unchanged at 2.75% throughout CY26.

For 2QCY26, our top pick is CIMB (OP; TP: RM8.45) as it pivots towards less capital-intensive growth channels, striking a better balance between expansion and shareholder returns. Its sustainable dividend yield of >6% positions CIMB as a sector leader on income appeal. Meanwhile, PBBANK (OP; TP: RM5.75) is an interesting tactical pick in our opinion, riding on our estimated special dividend potential of up to c.3.5%, on top of the group's commitment to pay out 60% of its earnings in the near-term.

Within the NBFI space, we still prefer TAKAFUL (OP; TP: RM4.40) for its continued growth in its key credit-related products backed by its renewed bancatakaful partnership with RHBBANK. Its increased pay-out expectations (6% yield) could also attract yield-seeking shariah investors. Following their share price correction which brings them to more favourable risk-reward levels, we upgrade our calls from BIMB (TP: RM2.55), MAYBANK (TP: RM12.30) and MBSB (TP: RM0.730) to OUTPERFORM from MARKET PERFORM.

Expecting provision top ups amid emerging macro concerns. Arising from the recent Iran conflict, the surge in crude oil prices is expected to intensify inflationary pressures. The government has already announced a reduction in the subsidised RON95 quota to 200 litres (from 300 litres), while diesel prices have risen sharply to RM5.52/litre from RM3.12/litre (+77%) at time of writing. These developments are likely to drive higher transportation and logistics costs across industries, potentially weighing on borrowers' repayment capacity and leading to further top-ups in management overlays as more accounts-at-risk emerge. Reflecting this, we have **raised our CY26 CPI forecast to 2.1% (from 1.9%),** with inflationary pressures expected to be more pronounced in 2HCY26.

Exhibit 1: Historical LLC Trends



Source: Companies, Kenanga Research

Based on BNM's statistics, industry loan loss coverage (LLC) stood at 85.0% as of 4QCY25, below the typically prudent threshold of 100%, with our total coverage LLC (excluding regulatory reserves) hovering at 92%. Banks within our coverage are comforted by their heavily secured/collateralised loans, notably with MBSB being the outlier with c.30% coverage. On the other end of the spectrum, PBBANK remains highly prudent with the highest coverage of c.150%. The last instance of industry LLC exceeding 100% was in May 2022, following post-pandemic writebacks, although new uncertainties soon emerged with the escalation of the Russia-Ukraine conflict.

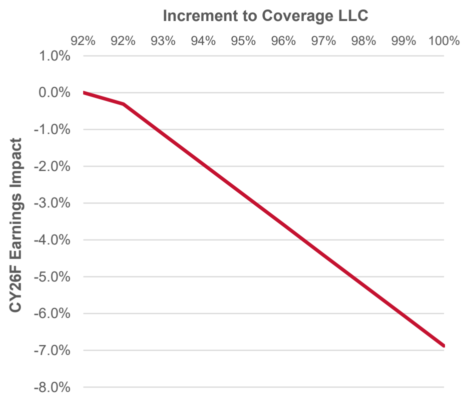
In line with past provision top up instances, **we expect most banks to top up credit costs by 5-10 bps to account for macroeconomic overlays (regardless of respective LLCs)** in the upcoming 1QCY26 reporting season, implying a 3.5%-7.0% impact to our CY26F. This appears broadly reflective of the provisioning required to lift coverage levels closer to 100%. However, given the possibility of gradual geopolitical de-escalation and a potential correction in oil prices, which could ease medium-term pressures, we have kept our earnings forecasts unchanged for now, as provision writebacks may still materialise before the end of CY26.

Exhibit 2: Estimated Impact to Earnings to Prime Up LLC

Banks	CY26F Net Earnings (RM m)
ABMB*	860
AFFIN	567
AMBANK*	2,193
BIMB	601
CIMB	8,404
HLBANK*	4,746
MAYBANK	10,730
MBSB	406
PBBANK	7,495
RHBBANK	3,272
TOTAL	**39,274**

** Calendarised*

4QCY25 Total Coverage LLC				
NPL (RM m)	Provisions (RM m)		Loan Loss Coverage	CY26F Earnings Impact
32,259	29,557		91.6%	0.0%
LLC Increment	29,678		92%	-0.3%
	30,000		93%	-1.1%
	30,323		94%	-2.0%
	30,646		95%	-2.8%
	30,968		96%	-3.6%
	31,291		97%	-4.4%
	31,613		98%	-5.2%
	31,936		99%	-6.1%
	32,259		100%	-6.9%



Source: Companies, Kenanga Research

Concerns on the ground start to rise. In relation to the above, we expect banks with higher exposure to consumer credit (personal financing and credit cards) and SMEs to face relatively greater provisioning pressure, given their higher sensitivity to economic shocks.

ABMB has the largest SME mix within its loan portfolio, reflecting its targeted strategy and smaller base. On the consumer side, **BIMB** and **MBSB** have relatively high exposures at 31% and 40%, respectively, largely driven by their participation in salary deduction schemes/structured repayment programmes. Excluding these two, **ABMB** appears to have the highest consumer credit mix, which also helps explain its relatively higher GIL within the sector (excluding **MBSB**, whose elevated levels are attributed to its i-Ihsan EPF deduction scheme and legacy corporate exposures).

Exhibit 3: Est. SME and Consumer Credit Loan Mix

4QCY25	Total Gross Loans (RM m)	Gross Impaired Loan (%)	% of loans SME Financing	% of loans Consumer Credit*
ABMB	65,763	1.89%	34.1%	11.3%
AFFIN	79,511	1.64%	14.1%	8.6%
AMBANK	142,692	1.76%	21.3%	4.7%
BIMB	74,726	0.97%	3.6%	30.5%
CIMB	452,947	1.72%	13.7%	8.5%
HLBANK	215,658	0.59%	19.2%	4.2%
MAYBANK	686,549	1.28%	17.3%	4.1%
MBSB	43,929	6.33%	9.8%	40.4%
PBBANK	445,758	0.51%	18.7%	4.1%
RHBBANK	250,643	1.41%	14.4%	6.6%

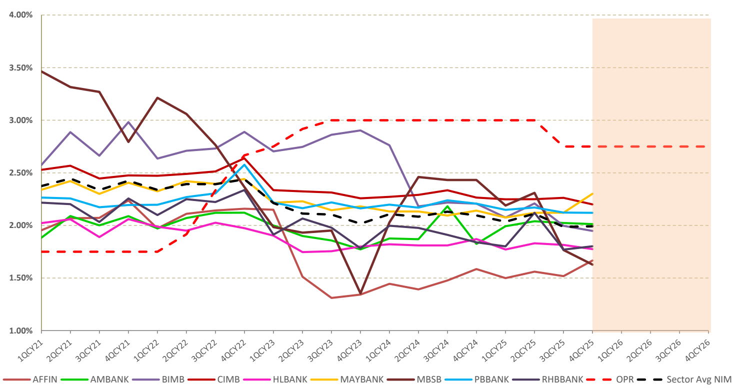
** Pertains to personal financing and credit card*

Source: Companies, Kenanga Research

NIMs trajectory skewed to some upside, though some remain concerned. Against a backdrop of rising inflationary pressures, we expect BNM to keep the OPR unchanged at 2.75% throughout CY26, allowing banks to continue re-optimising their funding mix which was a key drag on NIMs in CY24-CY25.

Still, banks such as **MAYBANK** and **PBBANK** remain cautious, noting that NIMs could stay compressed as competition shifts towards asset yields in CY26. Other banks are more optimistic, expecting improved performance through a more targeted loan acquisition strategy with a reduced emphasis on lower-yield segments such as mortgages and towards higher-yield portfolios, including corporate and SME lending.

Exhibit 4: Estimated Annualised NIMs



Source: Kenanga Research

Revised Reference Rate Framework to see improved standardized rate adjustments. BNM has issued a revised Reference Rate Framework Policy Document, effective 1 July 2026, to strengthen the timeliness and efficacy of monetary policy transmission. This sets tighter expectations for financial institutions to promptly reflect changes in benchmark rate, namely the OPR, via the Standardised Base Rate into customers' monthly instalments for floating-rate retail loans and financing facilities. This arises from the lack of standardized method or timeline previously for banks to implement newly adjusted rates, leading to some banks to appear to lag behind others during instances of rate cuts, which borrowers may perceive as unfair.

Under a phased approach to minimum turnaround time, Phase 1 will implement a 60 calendar days turnaround time, effective 1 July 2026, followed by Phase 2 with 30 calendar days effective 2 January 2028.

The revised framework is primarily intended to enhance and standardize industry practices, improve transparency, and reduce potential disputes between banks and borrowers. That said, we do not expect any material financial impact to banks, as the changes do not alter the final lending rates charged to customers, but rather the speed and consistency at which such adjustments are implemented. As such, profitability and net interest margins should remain largely unaffected.

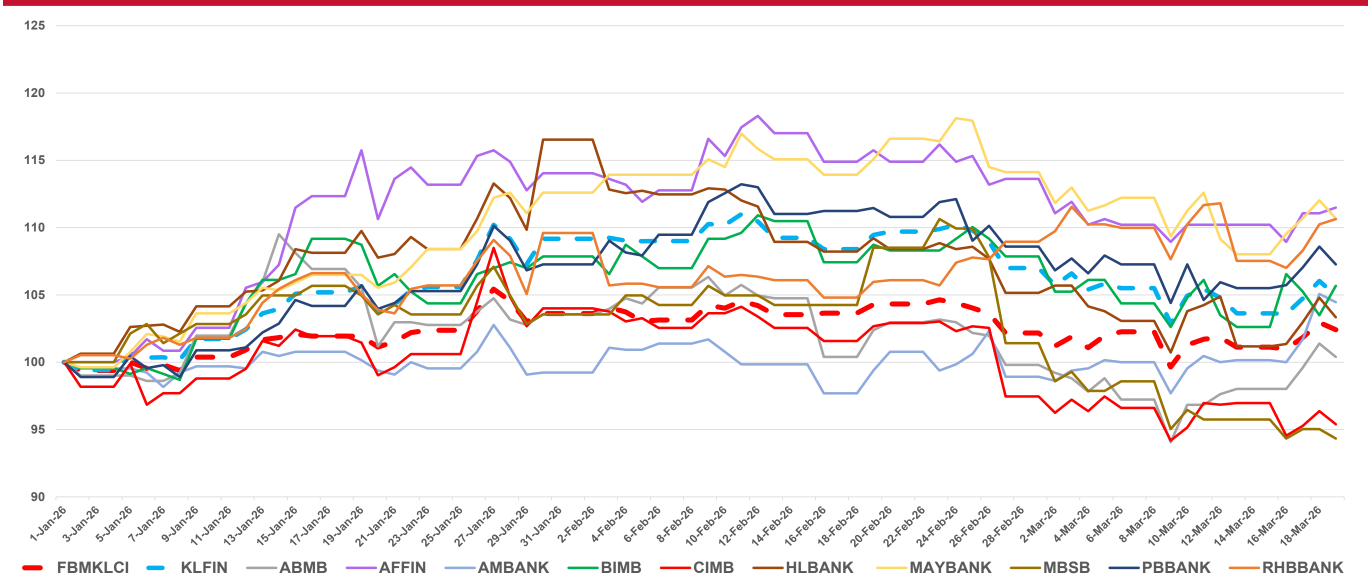
We maintain our OVERWEIGHT stance on the banking sector. We believe the effects of inflation could be back loaded as and thus we prefer to stay selective to banks that are more insulated to inflationary pressures. We believe the sector's resilience remains intact, supported by attractive and sustainable dividend yields of c.5%, which continue to position banks as a defensive haven for investors.

For 2QCY26, we highlight **CIMB** as our top pick. We find the stock compelling at current levels, as its strategic pivot towards less capital-intensive growth alleviates prior concerns over balancing expansion with capital distribution. With projected sustainable dividend yields of >6%, including payouts under its capital return plan, CIMB now compares favourably against MAYBANK and RHBBANK, traditionally viewed as the sector's dividend leaders.

We also introduce **PBBANK** as our second Top Pick, supported by nearer-term dividend catalysts, including potential special dividend yields of up to 3.6% upon the implementation of Basel III reforms on 1 July 2026. In addition, management's commitment to a 60% payout ratio enhances dividend visibility and stability. This is further underpinned by industry-leading asset quality, with a 4QCY25 GIL ratio of 0.51% versus the industry average of 1.37%. While its current ordinary dividend yield of 4.8% is slightly below the industry average of 5.2%, it remains well above its historical level of c.3.0%, suggesting valuations remain attractive as investors continue to assign a premium to its high-quality and resilient asset base.

Following the recent correction in the sector, we take the opportunity to upgrade **MAYBANK** to **OUTPERFORM** (from MARKET PERFORM). While we expect flattish earnings growth in CY26F relative to peers due to ongoing investments under its ROAR30 strategic initiatives, current valuations appear more compelling for investors seeking a lower-risk regional banking exposure, supported by its relatively lower exposure to Indonesia. Meanwhile, we also upgrade **BIMB** and **MBSB** to **OUTPERFORM** (from MARKET PERFORM), underpinned by their attractive dividend yields of >6%. For BIMB, we expect sentiment to improve with the onboarding of a new management team. As for MBSB, we anticipate a normalisation in earnings following the weak 4QCY25 performance from unforeseen provisions, which undermined the gradual recognition of its syndicated financing pipeline.

Exhibit 5: YTD CY26 Performance of Banking Stocks Against FBM KLCI and KLFIN (as of 19 Mar 2026)



Source: Bloomberg

Peer Table Comparison

Name	Rating	Last Price as of 19 Mar 2026 (RM)	Target Price (RM)	Upside	Market Cap (RM m)	Shariah Compliant	Current FYE	Core EPS (sen) 1-Yr. Fwd.	Core EPS (sen) 2-Yr. Fwd.	Core EPS Growth 1-Yr. Fwd.	Core EPS Growth 2-Yr. Fwd.	PER (x) - Core Earnings 1-Yr. Fwd.	PER (x) - Core Earnings 2-Yr. Fwd.	PBV (x) 1-Yr. Fwd.	ROE 1-Yr. Fwd.	Net. Div. (sen) 1-Yr. Fwd.	Net Div Yld. 1-Yr. Fwd.
Stocks Under Coverage																	
Affin Bank Bhd	MP	2.61	2.50	-4.2%	6,613.3	N	12/2026	22.4	24.0	4.9%	7.1%	11.7	10.9	0.5	4.6%	9.0	3.4%
Alliance Bank Malaysia Bhd	MP	5.03	5.20	3.4%	8,703.0	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	6.61	7.45	12.7%	21,857.5	N	03/2026	64.2	67.0	6.0%	4.5%	10.3	9.9	1.0	10.0%	34.0	5.1%
Bank Islam Malaysia Bhd	OP	2.41	2.55	5.8%	5,462.2	Y	12/2026	26.5	28.5	7.9%	7.5%	9.1	8.5	0.7	7.5%	16.0	6.6%
CIMB Group Holdings Bhd	OP	7.86	8.45	7.5%	84,921.5	N	12/2026	78.6	83.9	6.9%	6.8%	10.0	9.4	1.1	11.4%	50.0	6.4%
Hong Leong Bank Bhd	OP	22.80	25.95	13.8%	49,424.0	N	06/2026	227.1	236.0	-0.6%	3.9%	10.0	9.7	1.1	11.5%	105.0	4.6%
Malayan Banking Bhd	OP	11.60	12.30	6.0%	140,140.8	N	12/2026	89.0	90.4	2.1%	1.6%	13.0	12.8	1.4	11.0%	64.0	5.5%
MBSB Bhd	OP	0.670	0.730	9.0%	5,508.9	Y	12/2026	5.7	7.7	45.4%	36.4%	11.8	8.7	0.5	4.1%	4.5	6.7%
Public Bank Bhd	OP	4.86	5.75	18.3%	94,336.0	N	12/2026	38.6	40.0	3.7%	3.6%	12.6	12.2	1.5	12.2%	23.5	4.8%
RHB Bank Bhd	MP	8.35	8.40	0.6%	36,422.0	N	12/2026	75.5	79.9	-2.7%	5.8%	11.1	10.4	1.0	9.5%	47.0	5.6%
SECTOR AGGREGATE					**453,389**					**3.5%**	**4.5%**	**11.6**	**11.1**	**1.2**	**10.3%**		**5.3%**

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	OP	
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	OP	
MBSB Bhd	3.00	6.0	8.7	0.53	0.730	OP	
Public Bank Bhd	4.00	13.0	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 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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