

01 April 2026

Banking

BNM 2HCY25 FSR: Oil-Bound Uncertainties

OVERWEIGHT

By Clement Chua | clement.chua@kenanga.com.my

BNM released its 2HCY25 Financial Stability Review (FSR), highlighting emerging inflationary concerns stemming from potential oil price shocks amid ongoing Middle East tensions. For CY26, BNM guides for headline inflation in the range of 1.5%-2.5% (CY25: 1.3%), with pressures expected to be more pronounced in 2HCY26. We note that this represents a narrower range compared with the earlier CY25 guidance of 2.0%-3.5% amid US tariff uncertainties then, suggesting improved visibility on the current inflation outlook. Meanwhile, it presented a GDP outlook to 4.0%-5.0% (CY25: 5.2%), reflecting a normalization from the higher base and anticipating moderation across key sectors (manufacturing and services).

BNM's annual stress tests indicate that the banking system remains resilient, with total capital ratios projected to hold at c.15% (from 18.1% in 4QCY25) even under adverse macroeconomic scenarios. Overall, BNM emphasised the importance of maintaining price stability, and we continue to expect the OPR to remain unchanged at 2.75% throughout CY26.

Maintain OVERWEIGHT on the sector with our Top Pick for 2QCY26 being 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.

Uncertainty takes a different form. As global uncertainties shift away from earlier US-led tariff concerns following the reduction of tariffs to 10% (from Malaysia's initial 19% after the US Supreme Court overturned the reciprocal tariff policy), attention has turned to heightened volatility in Brent crude oil prices driven by the ongoing Middle East conflict involving Iran and the Strait of Hormuz. Brent prices surged from c.USD60/bbl in Dec 2025 to a peak of c.USD120/bbl in early Mar 2026, before moderating to USD100-USD110/bbl as of this report.

Main implications are cost-push inflation from elevated energy prices, alongside higher transportation and logistics costs that could cascade through the broader supply chain. In response, the government has taken steps to ease fiscal pressures, including temporary adjustments to fuel subsidies. That said, Malaysia remains partially cushioned by its net energy export position, particularly through liquefied natural gas (LNG) revenues.

Against this backdrop, BNM guides for **CY26 headline inflation of 1.5%-2.5%** (CY25: 1.3%). Our in-house estimate stands at 2.1%, within guidance range, with inflationary pressures expected to be more pronounced in 2HCY26 as cost pass-through effects materialize, depending on the duration of oil prices staying elevated. **BNM's base case assumes average Brent prices of USD70-USD90/bbl** with a resolution to the conflict within two months. In contrast, its stress scenarios account for oil prices of USD90-USD110/bbl and >USD110/bbl, with resolution timelines of 2-6 months and beyond six months, respectively.

Despite the abovementioned pressures, BNM remains confident in Malaysia's growth resilience, guiding for **GDP growth of 4.0%-5.0% in CY26** (CY25: 5.2%), with our in-house estimate at 4.5%. Export momentum remains encouraging, particularly from the semiconductor sector, while private consumption is expected to stay supported by relatively firm income prospects despite rising inflationary pressures. That said, downside risks remain tied to the duration of the Middle East conflict, as a prolonged period of elevated oil prices could dampen global economic activity and, in turn, weigh on Malaysia's external demand outlook.

Preemptive cut likely to stay. With BNM having undertaken a pre-emptive 25 bps OPR cut in July 2025 amid macro uncertainties, we believe the policy stance remains appropriate, albeit with risks now shifting from tariffs to oil price shocks. Notably, the current CY26 inflation guidance of 1.5%-2.5% is lower than the earlier CY25 range of 2.0%-3.5%, suggesting that BNM has a firmer handle on near-term inflation dynamics. As such, we **maintain our view that the OPR is likely to remain at 2.75% throughout CY26**, unless oil prices persist above USD110/bbl for a prolonged period, in line with BNM's more adverse stress scenario.

System fundamentals remain grounded and stress-ready. Against ongoing headwinds, we take comfort that the banking system remains fundamentally sound, with an industry liquidity coverage ratio of 155% and total capital ratio of 18.1 (above the 8% regulatory minimum), providing sufficient buffer to withstand funding stress, liquidity shocks, and absorb unexpected impairments across the sector. Notably, industry GIL remains low at c.1.4% as of Dec 2025, reflecting increasingly stringent and effective asset quality management.



01 April 2026

Following updates to its stress test as well as accounting for the highlighted parameters for oil prices, BNM concludes that the overall system is able to weather through a prolonged conflict should it occur. This includes bearish scenarios of: (i) GDP potentially trailing at c.3.5%; (ii) unemployment rates creeping up to 6.0%; (iii) quarterly headline inflation to soar up to 5.4%; as well as a (iv) 100 bps hike to OPR. Even with these assumptions, total capital ratio for the banking system could still hover between 15%-16%.

Exhibit 1: Stress Test Key Assumptions and Shock Parameters

Key Assumptions	AS1	AS2
Annual domestic real GDP growth	Up to -6.0%	Up to -3.5%
Annual unemployment rate	Up to 5.4%	Up to 6.0%
Market risk shocks		
- Increase in 10Y MGS yield	Up to 300 basis points	Up to 270 basis points
- Increase in 10Y AAA corporate bond yield	Up to 420 basis points	Up to 370 basis points
- Decline in FBM KLCI	Up to 30%	Up to 30%
OPR hike ¹	Up to 100 basis points	Up to 100 basis points
MYR depreciation against USD	Up to 30%	Up to 20%
Quarterly headline inflation ²	Up to 7.5%	Up to 5.4%

¹ The assumption of an OPR hike may not, in certain circumstances, be consistent with the broader macroeconomic scenarios but is assumed by design to account for potential downside risks.

² The assumption for the quarterly headline inflation reflects stress from global shocks that could exert upward pressure on commodity prices, particularly energy, and downward pressure on the ringgit.

Source: BNM

Exhibit 2: Capital Ratios Under Stress Test Assumptions

Note: Capital ratio data shown in this section may be different from data cited in 'The Banking Sector' section as the macro stress test exercise was conducted using December 2025 preliminary data.

Source: BNM

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.

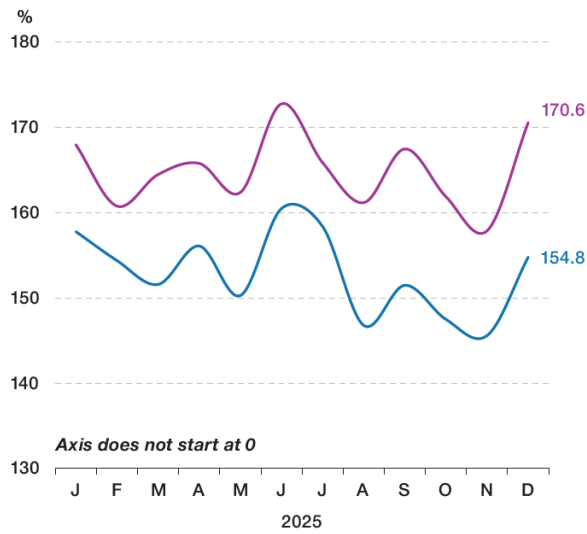
For 2QCY26, we highlight **CIMB** as our top pick. We find the stock compelling at current levels, as its strategic pivot towards less capital-intensive growth alleviates prior concerns over balancing expansion with capital distribution. With projected sustainable dividend yields of >6%, including payouts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

Appendix

Snapshots on Banking System

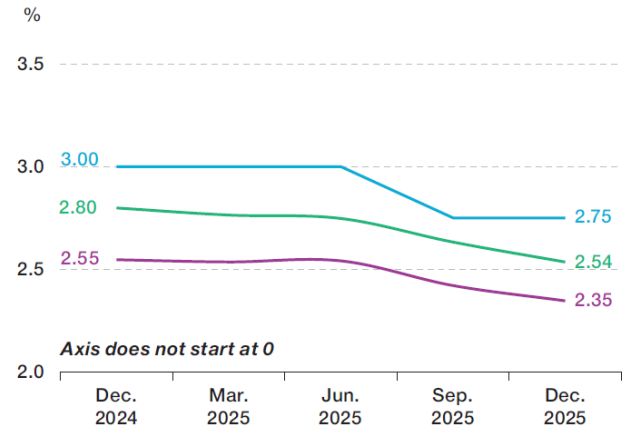
Liquidity Coverage Ratio



Note: 1. MYR LCR is calculated based on high-quality liquid assets (HQLA) and expected net cash outflows denominated in ringgit.
2. Overall LCR is calculated based on HQLA and expected net cash outflows denominated in all currencies.

Source: BNM

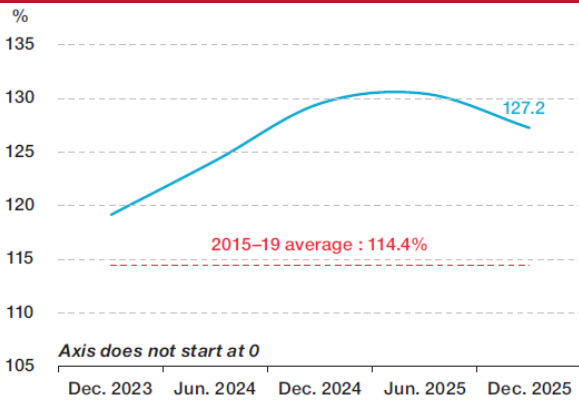
Average Cost of Deposits and Cost of Funds



Legend:
 - Weighted average cost of deposits (purple line)
 - Weighted average cost of funds (green line)
 - Overnight Policy Rate (OPR) (blue line)

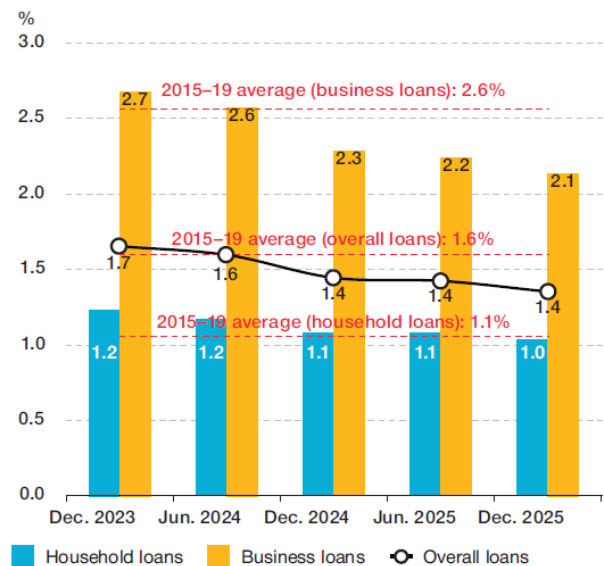
Source: BNM

Loan Loss Coverage (Including Regulatory Reserves)



Source: BNM

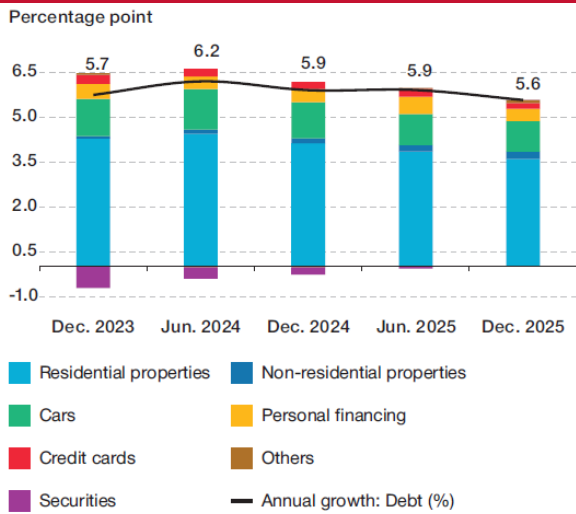
Gross Impaired Loans Ratio



Source: BNM

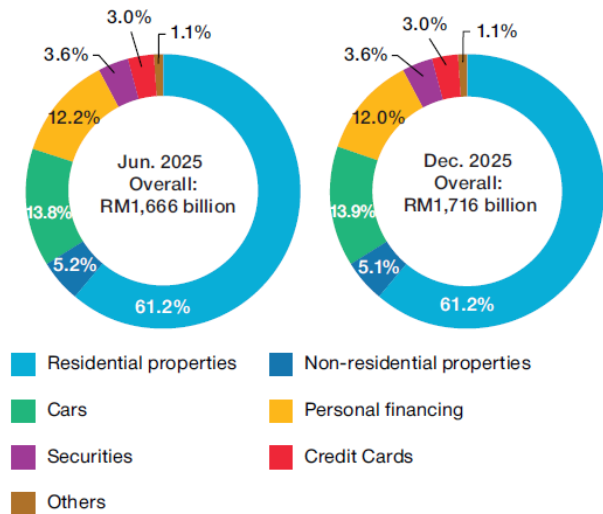
Snapshots on Household Sector

Household Debt Growth



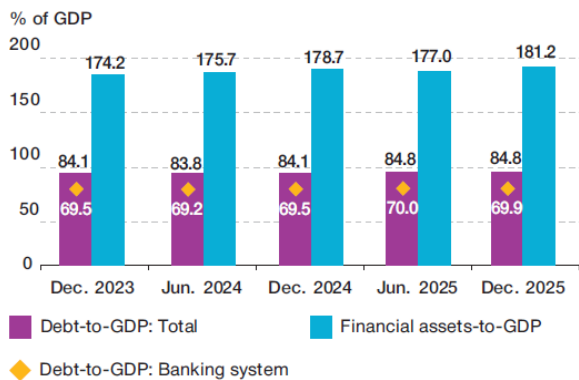
Source: BNM

Composition of Debt by Purpose



Note: Figures may not add up due to rounding.
Source: BNM

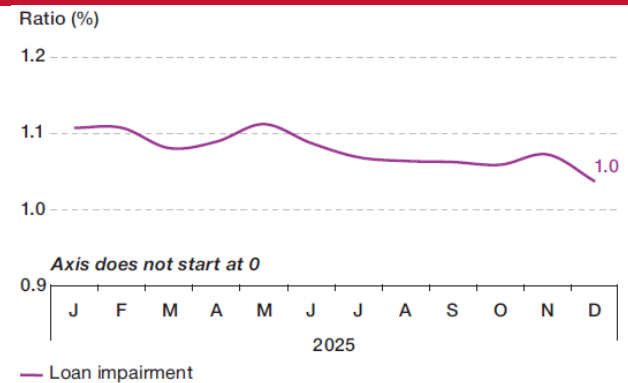
Household Sectors – Key Ratios



Note: Data for the 'Total' debt series covers banking system, development financial institution (DFI) and selected non-bank financial institution (NBF) loans.

Source: BNM, Bursa Malaysia, DOSM, EPF and Securities Commission Malaysia

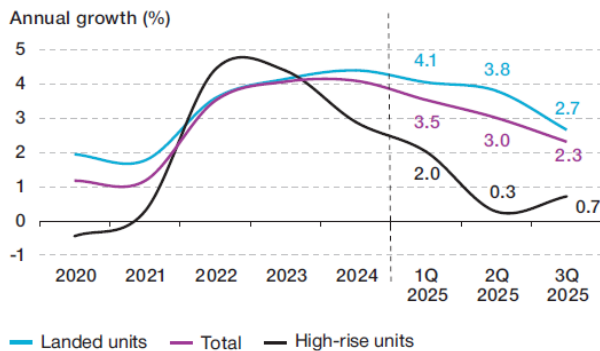
Loan Impairment Ratio



Note: Data refers to banking system and development financial institution (DFI) loans.

Source: BNM

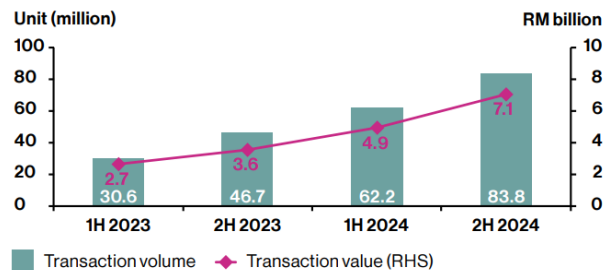
Property Market – Annual Growth of Malaysian House Price Index



Note: High-rise units include condominiums, apartments and flats, but excludes serviced apartments and small office, home office (SOHO).

Source: BNM, NAPIC

Household Sector – BNPL Transaction Value and Volume

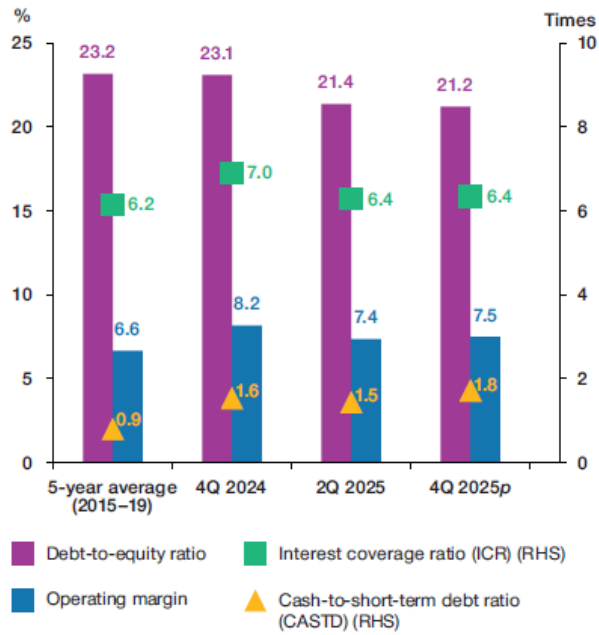


Note: Data refers to BNPL transactions with non-bank providers.

Source: BNM, Consumer Credit Oversight Board Task Force

Snapshots on Business Sector

Business Sector – Key Ratios

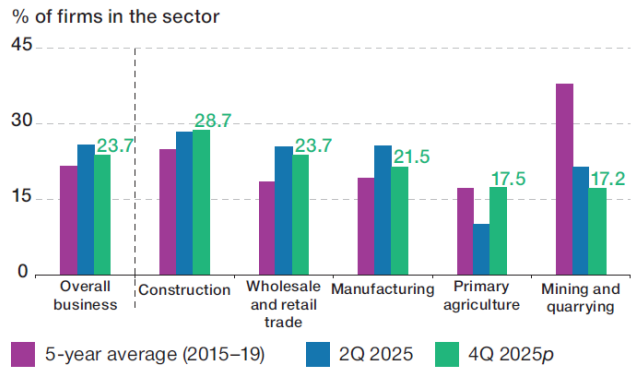


p Preliminary

Note: Prudent thresholds for ICR and CASTD are two times and one time respectively.

Source: S&P Capital IQ, BNM

Firms-at-risk for Selected Sectors



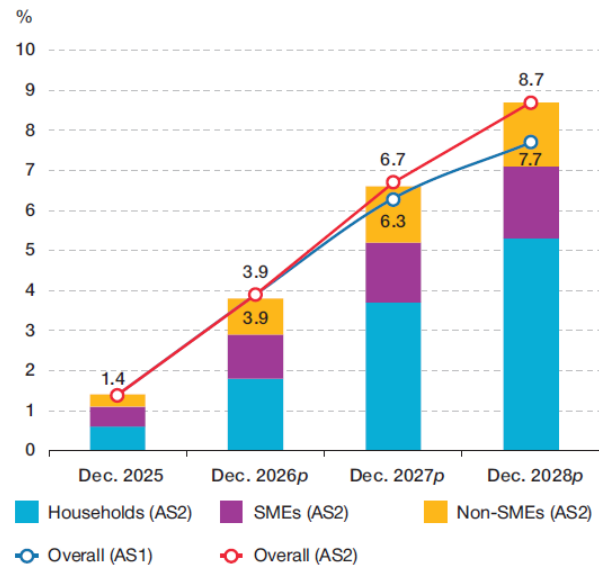
p Preliminary

Note: Sectors shown in the chart collectively account for over 50% of total financial institution exposures to the business sector as of 4Q 2025. Financial institutions' exposures refer to loans extended by onshore banks and holdings of domestic bonds.

Source: S&P Capital IQ, BNM

2HCY25's Stress Test Exercise

Sensitivity Analysis: Impaired Loans Ratio

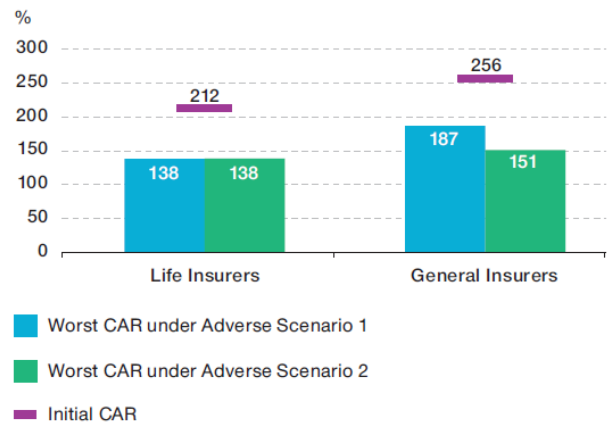


p Projected

Note: Impairment figures are inclusive of exposures from selected DBGs' overseas operations.

Source: BNM

Sensitivity Analysis: Capital Adequacy Ratio for Insurers



Source: BNM

01 April 2026

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	2.47	2.50	1.2%	6,258.6	N	12/2026	22.4	24.0	4.9%	7.1%	11.0	10.3	0.5	4.6%	9.0	3.6%
Alliance Bank Malaysia Bhd	MP	4.82	5.20	7.9%	8,339.7	N	03/2026	48.0	50.3	10.7%	4.6%	10.0	9.6	1.0	10.5%	19.5	4.0%
AMMB Holdings Bhd	OP	6.59	7.45	13.1%	21,791.4	N	03/2026	64.2	67.0	6.0%	4.5%	10.3	9.8	1.0	10.0%	34.0	5.2%
Bank Islam Malaysia Bhd	OP	2.40	2.55	6.3%	5,439.5	Y	12/2026	26.5	28.5	7.9%	7.5%	9.0	8.4	0.7	7.5%	16.0	6.7%
CIMB Group Holdings Bhd	OP	7.55	8.45	11.9%	81,575.1	N	12/2026	78.6	83.9	6.9%	6.8%	9.6	9.0	1.0	11.4%	50.0	6.6%
Hong Leong Bank Bhd	OP	21.90	25.95	18.5%	47,473.0	N	06/2026	227.1	236.0	-0.6%	3.9%	9.6	9.3	1.1	11.5%	105.0	4.8%
Malayan Banking Bhd	OP	11.36	12.30	8.3%	137,241.4	N	12/2026	89.0	90.4	2.1%	1.6%	12.8	12.6	1.3	11.0%	64.0	5.6%
MBSB Bhd	OP	0.650	0.730	12.3%	5,344.5	Y	12/2026	5.7	7.7	45.4%	36.4%	11.5	8.4	0.5	4.1%	4.5	6.9%
Public Bank Bhd	OP	4.68	5.75	22.9%	90,842.0	N	12/2026	38.6	40.0	3.7%	3.6%	12.1	11.7	1.4	12.2%	23.5	5.0%
RHB Bank Bhd	MP	8.44	8.40	-0.5%	36,814.6	N	12/2026	75.5	79.9	-2.7%	5.8%	11.2	10.6	1.0	9.5%	47.0	5.6%
SECTOR AGGREGATE					441,120					3.5%	4.5%	11.3	10.8	1.2	10.3%		5.4%

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.***

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies. Kenanga Investment Bank Berhad being a full-service investment bank offers investment banking products and services and acts as issuer and liquidity provider with respect to a security that may also fall under its research coverage.

Published by:

KENANGA INVESTMENT BANK BERHAD (15678-H)

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my