

03 June 2026

## MBSB

### A More Grounded View

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MBSB's 1QFY26 net profit (-64% YoY) missed expectations, which we anticipate could spill over in the upcoming quarters from lower-than-expected net income and higher-than-expected credit cost. This led us to cut our FY26F/FY27F earnings by 35%/25%. Though the group retains most of its headline targets for now, we opt for a more conservative view on the stock and lower our GGM ROE expectations, deriving a lower TP of RM0.60 (from RM0.73). **Downgrade to MARKET PERFORM (from OUTPERFORM).**

**1QFY26 below expectations.** MBSB's 1QFY26 net profit of RM30.1m came in at only 7% of both our full-year forecast and consensus full-year estimate. The negative deviation is attributed to lower-than-expected net Islamic income as interest margins continued to soften in addition to higher-than-expected credit costs.

**YoY,** net Islamic income fell by 28% even with an 8% expansion to gross financing base as NIMs were eroded to 1.61% (-53 bps) with asset yields being heavily compressed by the Jul 2025 OPR cut. The lower income led to CIR rising to 65.8% (+4.1 ppt) in spite of operating expenses narrowing by 6% from better cost discipline.

While PPOP fell by 21%, a higher credit cost of 66 bps (+40 bps) from greater BAU staging requirements and fewer recoveries during the period led to 1QFY26 net earnings plunging by 64%.

**QoQ,** 1QFY26 net profit rose by >700%, thought this is mainly due to 4QFY25's significantly higher credit cost of 124 bps from a large corporate R&R exercise conducted. Net Islamic income improved by 4% following the gradual drawdown of its RM5b syndicated financing pipeline. NIMs did still compress (-28 bps) from relatively higher funding cost.

**Highlights.** MBSB retained most of its FY26 guidance for now, preferring to monitor developments surrounding ongoing geopolitical tensions. That said, it had revised its credit cost guidance to 40-50 bps (from 30-40 bps), reflecting rising repayment concerns amid elevated fuel prices and inflationary pressures.

The group continues to believe its 7%-8% financing growth target remains achievable, supported primarily by its corporate financing pipeline, although with a lower preference on trade-related exposures. Meanwhile, its 2.00% NIM target remains challenged by elevated funding costs, particularly from expensive wholesale deposits. However, the group expects sequential improvement from its initiatives to grow CASA and eventual maturity of said deposits. Collectively, these could move the group closer to its CIR target of below 53% and ROE target of 5%-6%.

**Forecasts.** We cut our FY26F/FY27F earnings by 35%/25%. Our key adjustments are: (i) lower NIMs to 1.73%/1.92% from 1.89%/2.19%; and (ii) higher FY26F credit cost of 55 bps from 34 bps, beyond the upper range of the group's revised guidance on greater precaution.

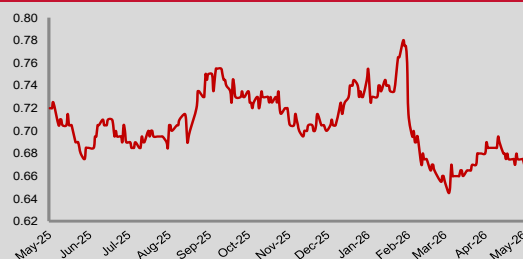
While the group had not revised its FY26 financing growth target of 7%-8%, we held our assumption at 5% to be conservative.

**Downgrade to MARKET PERFORM with a lower TP of RM0.60 (from RM0.73),** mainly as we lower of GGM ROE inputs to 5.5% (from 6.0%) amid an unchanged COE of 8.7% and TG of 3.0%. This resulted in a lower PBV of 0.44x (from 0.53x). Despite the 10% capital downside from current share price, the stock is still expected to retain a payout policy of 80%, resulting in dividend yields of up to 7% in the medium-term. This could be attractive for risk-tolerant investors, particularly those who believe geopolitical tensions and inflationary pressures could ease sooner-than-expected.

## MARKET PERFORM ↓

Price : **RM0.66**  
Target Price : **RM0.60** ↓

### Share Price Performance



KLCI	1,683.07
YTD KLCI chg	0.2%
YTD stock price chg	-6.4%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	MBSB MK Equity
Market Cap (RM m)	5,426.7
Shares Outstanding	8,222.3
52-week range (H)	0.78
52-week range (L)	0.65
3-mth avg. daily vol.	4,431,222
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	1,154	1,310
Non-interest Income	280	364	382
<b>Total Income</b>	<b>1,505</b>	<b>1,517</b>	<b>1,692</b>
Operating Expenses	-871	-902	-920
<b>Loan Impairment</b>	<b>-249</b>	<b>-240</b>	<b>-181</b>
Pre-tax Profit	390	376	591
<b>Net Profit</b>	<b>280</b>	<b>265</b>	<b>417</b>
<b>Core Net Profit</b>	<b>280</b>	<b>265</b>	<b>417</b>
Consensus NP	-	441	541
Earnings Revision (%)	-	-34.8	-24.7
Core EPS (RM)	3.9	3.7	5.8
EPS Growth (%)	-31.3	-5.3	57.5
NDPS (RM)	3.2	3.0	4.6
BV/Share (RM)	1.37	1.37	1.38
NTA/Share (RM)	1.33	1.32	1.34
ROE (%)	2.8	2.7	4.2
PER (x)	0.2	0.2	0.1
P/BV (x)	0.48	0.48	0.48
Net Div. Yield (%)	4.9	4.5	7.0

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**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

	1Q	4Q	QoQ	1Q	YoY	3M	3M	YoY
FYE Dec (RM m)	FY26	FY25	Chg	FY25	Chg	FY26	FY25	Chg
Net Islamic income	247.0	238.4	3.6%	319.8	-22.8%	247.0	319.8	-22.8%
Net interest income	14.1	17.9	-21.3%	15.8	-10.7%	14.1	15.8	-10.7%
Non-interest income	73.0	65.4	11.6%	43.0	69.8%	73.0	43.0	69.8%
Modification loss	0.0	0.0	N.M	0.0	N.M.	0.0	0.0	N.M
<b>Total income</b>	<b>334.1</b>	<b>321.7</b>	<b>3.8%</b>	<b>378.6</b>	<b>-11.8%</b>	<b>334.1</b>	<b>378.6</b>	<b>-11.8%</b>
Operating expenses	-219.7	-183.5	19.7%	-233.8	-6.0%	-219.7	-233.8	-6.0%
<b>Pre-impairment profit</b>	<b>114.4</b>	<b>138.2</b>	<b>-17.2%</b>	<b>144.8</b>	<b>-21.0%</b>	<b>114.4</b>	<b>144.8</b>	<b>-21.0%</b>
(Allowances)/ write-backs	-72.6	-140.8	-48.4%	-28.0	159.4%	-72.6	-28.0	159.4%
(Allowances)/ write-backs on other assets	-0.9	5.0	-118.9%	0.2	-723.0%	-0.9	0.2	-723.0%
<b>Operating profit</b>	<b>40.8</b>	<b>2.5</b>	<b>1558.0%</b>	<b>117.0</b>	<b>-65.1%</b>	<b>40.8</b>	<b>117.0</b>	<b>-65.1%</b>
Extraordinary Items	0.0	0.0	N.M	0.0	N.M.	0.0	0.0	N.M
<b>Profit before tax</b>	<b>40.8</b>	<b>2.5</b>	<b>1558.0%</b>	<b>117.0</b>	<b>-65.1%</b>	<b>40.8</b>	<b>117.0</b>	<b>-65.1%</b>
Taxation	-10.7	1.2	-1013.1%	-32.0	-66.6%	-10.7	-32.0	-66.6%
<b>Net Profit</b>	<b>30.1</b>	<b>3.6</b>	<b>729.1%</b>	<b>84.7</b>	<b>-64.4%</b>	<b>30.1</b>	<b>84.7</b>	<b>-64.4%</b>
<b>Core Net Profit</b>	<b>30.1</b>	<b>3.6</b>	<b>729.1%</b>	<b>84.7</b>	<b>-64.4%</b>	<b>30.1</b>	<b>84.7</b>	<b>-64.4%</b>
Gross financing	45,835	43,929	4.3%	42,635	7.5%	45,835	42,635	7.5%
Gross impaired financing	2,804	2,780	0.9%	2,343	19.7%	2,804	2,343	19.7%
Customer deposits	47,880	47,071	1.7%	47,031	1.8%	47,880	47,031	1.8%
Current and savings account	6,073	6,638	-8.5%	3,934	54.4%	6,073	3,934	54.4%
Total assets	67,959	65,198	4.2%	62,723	8.3%	67,959	62,723	8.3%
Shareholders' equity	9,686	9,859	-1.8%	9,753	-0.7%	9,686	9,753	-0.7%
Est. annualised NIM*	1.61%	1.89%		2.14%		1.61%	2.14%	
Cost-to-income ratio*	65.8%	57.0%		61.7%		65.8%	61.7%	
Annualised credit cost (bps)	65.6	123.5		26.0		65.6	26.0	
Effective tax rate	26.2%	-47.5%		27.4%		26.2%	27.4%	
Annualised ROA	0.2%	0.0%		0.5%		0.2%	0.5%	
Annualised ROE	1.2%	0.1%		3.5%		1.2%	3.5%	
Gross impaired loans ratio	6.1%	6.3%		5.5%		6.1%	5.5%	
Loan loss coverage ratio (LLC)	28.2%	28.1%		35.1%		28.2%	35.1%	
LLC plus regulatory reserves	39.7%	39.7%		46.0%		39.7%	46.0%	
Loan-to-deposit ratio	94.1%	91.7%		88.9%		94.1%	88.9%	
CASA-to-deposit ratio	12.7%	14.1%		8.4%		12.7%	8.4%	
CET-1 capital (Group level)	18.9%	18.9%		19.4%		18.9%	19.4%	

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	<b>40-50 bps</b> (from 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.
<b>Stocks Under Coverage</b>																	
Affin Bank Bhd	MP	2.38	2.50	5.0%	6,030.5	N	12/2026	22.3	23.5	4.7%	5.1%	10.7	10.1	0.5	4.6%	9.0	3.8%
Alliance Bank Malaysia Bhd	OP	4.67	5.50	17.8%	8,080.1	N	03/2027	50.4	52.7	5.5%	4.5%	9.3	8.9	0.9	9.7%	20.0	4.3%
AMMB Holdings Bhd	OP	6.48	7.45	15.0%	21,427.6	N	03/2027	66.4	68.8	4.5%	3.6%	9.8	9.4	0.9	9.9%	38.0	5.9%
Bank Islam Malaysia Bhd	MP	2.20	2.05	-6.8%	4,986.2	Y	12/2026	24.1	26.5	-2.1%	10.3%	9.1	8.3	0.6	6.7%	14.5	6.6%
CIMB Group Holdings Bhd	OP	7.48	8.45	13.0%	80,810.7	N	12/2026	78.3	84.0	6.5%	7.3%	9.6	8.9	1.0	11.4%	50.0	6.7%
Hong Leong Bank Bhd	OP	20.88	25.80	23.6%	45,262.0	N	06/2026	220.3	234.5	-3.6%	6.4%	9.5	8.9	1.0	11.2%	105.0	5.0%
Malayan Banking Bhd	OP	10.64	12.30	15.6%	128,694.3	N	12/2026	87.3	89.7	0.1%	2.8%	12.2	11.9	1.3	10.8%	64.0	6.0%
MBSB Bhd	MP	0.660	0.600	-9.1%	5,426.7	Y	12/2026	3.7	5.8	-5.3%	57.5%	17.9	11.3	0.5	2.7%	3.0	4.5%
Public Bank Bhd	OP	4.71	5.95	26.3%	91,424.4	N	12/2026	38.7	40.1	4.0%	3.6%	12.2	11.7	1.5	12.3%	29.4	6.2%
RHB Bank Bhd	MP	8.21	8.40	2.3%	35,811.3	N	12/2026	77.9	82.1	0.3%	5.4%	10.5	10.0	1.0	9.8%	47.0	5.7%
<b>SECTOR AGGREGATE</b>					<b>427,954</b>					<b>2.1%</b>	<b>5.2%</b>	<b>11.0</b>	<b>10.5</b>	<b>1.1</b>	<b>10.2%</b>		<b>5.5%</b>

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	5.50	OP	+5% ESG Premium
AMMB Holdings Bhd	3.00	10.0	9.4	1.10	7.45	OP	
Bank Islam Malaysia Bhd	3.50	7.5	9.7	0.57	2.05	MP	
CIMB Group Holdings Bhd	3.50	11.5	10.7	1.12	8.45	OP	+5% ESG Premium
Hong Leong Bank Bhd	-	-	-	-	25.80	OP	Sum-of-Parts
Malayan Banking Bhd	3.50	11.5	9.0	1.45	12.30	OP	
MBSB Bhd	3.00	5.5	8.7	0.44	0.60	MP	
Public Bank Bhd	4.00	13.5	9.4	1.78	5.95	OP	+5% ESG Premium
RHB Bank Bhd	2.50	10.0	9.7	1.05	8.40	MP	

Source: Kenanga Research

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**Stock ESG Ratings:**

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

☆ 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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