Banking

OVERWEIGHT

(Maintained)

Rationale for report: Sector Update

Analyst (s)
Paul Yap Ee Xing, CFA
paul.ee-xing@ambankgroup.com
+603 2036 2281

Music on, party on

After another sharp price spurt over the past 2 mths (+c.10%), we believe the sector still retains scope for further re-rating. Our bullish view is backed by: (i) incremental local and foreign buying, since funds positioning in banks are relatively light (20%), while FS is modest at 22%, along with (ii) undemanding valuations as MY banks are less pricey vs SG peers, trading at only 1.0x P/B and 10x P/E. Furthermore, the capital management story for MY banks is fairly nascent and investors have yet to enjoy the potential dividend upside, indicating runway for the theme over the next 1-2 years. However, we are cognizant of how quickly the sector has rallied and advocate greater selectivity, focusing on banks that offer a combination of: (i) defensiveness, (ii) capital management headroom, and (iii) capacity for incremental foreign buying. Overall, we believe there are identi fiable alpha generators, even in a beta-driven trade. Maintain OVERWEIGHT; top picks are HLFG, HLB, Public and CIMB.

- **Stay OVERWEIGHT.** We remain bullish and believe banks still have legs to run. However, we are cognizant of how fast the sector has sprinted (albeit not ahead of fundamentals; +c.10% over the past 2 months) and advocate greater selectivity, focusing on banks that offer a combination of: (i) defensiveness, (ii) capital management headroom, along with (iii) capacity for incremental foreign buying. Even in a beta-driven trade, we reckon there are still identifiable alpha generators. The trio of HLFG, HLB, and Public best fit the above profile. Separately, CIMB continues to be attractive as the cheapest large-cap bank, with further capital management upside.

- **Incremental local and foreign buying.** Banks have typically served as the funding leg for alpha, leaving many local funds structurally UW the sector; current exposure (20%) remains well beneath index weights (35-44%), indicating potential for a catch-up trade, otherwise risks higher tracking error. Meanwhile, foreign flows are turning supportive (+RM1.4bn) after sizeable 2025 outflows (-RM22.0bn), with ownership below historical peaks (22%), while (i) potential EM rotation amid Fed rate reductions, (ii) MSCI-related developments, together with (iii) introduction of Value-Up initiatives (à la Korea/Japan) could further help rekindle interest in the sector.

- **Still inexpensive valuations.** Despite the recent strong gains, MY banks still trade at 1.0x P/B and 10x P/E, which appear undemanding given 9.5% ROE delivery and this supports fairer valuations closer to 1.2x P/B and 12-13x P/E. Relative to SG counterparts, MY banks are also attractively priced despite comparable yields (c.5%), with consensus yet to bake in higher DPR from capital management (sensitivity shows every 5ppt rise in DPR could lift sector yields by 40-50bp). Moreover, the yield spread vs 10-year MGS remains broad (160bp) and will only compress to pre-Covid levels (50bp) even with another 25% share price appreciation, indicating scope for price upside.

- **Re-rating still unfolding.** The capital management story for MY banks is fairly nascent and investors have yet to enjoy the potential dividend upside, suggesting runway for the theme in 2026 and beyond. Accordingly, we revisit the valuation of banks under our coverage and now peg them to higher P/B multiples of 0.6x-1.6x, cross-checked against implied valuations of 10x-14x P/E and 3-6% DY, while also benchmarking to SG peers for calibration. The 3 metrics are assessed jointly amid an ongoing capital management-led sector re-rating. Conservatively, we arrive at an intrinsic sector P/B of 1.1x (from 1.0x); it implies 11.9x P/E and 4.8% DY, with a 130bp yield spread (vs 50bp pre-Covid).

Top picks

Sorted by upside

HLFG
TP: RM31.20 → RM33.00
Rec: BUY
Upside/Downside: +52%

CIMB
TP: RM9.20 → RM10.30
Rec: BUY
Upside/Downside: +28%

HLB
TP: RM25.80 → RM28.00
Rec: BUY
Upside/Downside: +21%

Public
TP: RM5.10 → RM5.60
Rec: BUY
Upside/Downside: +16%

BIMB
TP: RM2.50 → RM2.70
Rec: HOLD
Upside/Downside: +15%

RHB
TP: RM8.30 → RM8.80
Rec: HOLD
Upside/Downside: +13%

Alliance
TP: RM5.20 → RM5.55
Rec: HOLD
Upside/Downside: +11%

Maybank
TP: RM10.80 → RM12.00
Rec: HOLD
Upside/Downside: +4%

MBSB
TP: RM0.73 → RM0.74
Rec: HOLD
Upside/Downside: +3%

Re-rating still unfolding

Bumping up our TPs

We revisit the valuation of banks under our coverage and now peg them with higher P/B multiples of 0.6x-1.6x, corroborated by implied valuations of 10x-14x P/E and 3-6% DY as a sanity check. Also, we benchmark against where SG banks are currently trading to ensure a rational valuation approach. In our view, all 3 metrics (P/B, P/E, DY) should be considered concurrently as we are in the midst of a re-rating cycle driven by the capital management theme. In addition, we roll forward our valuation base year to end-2027.

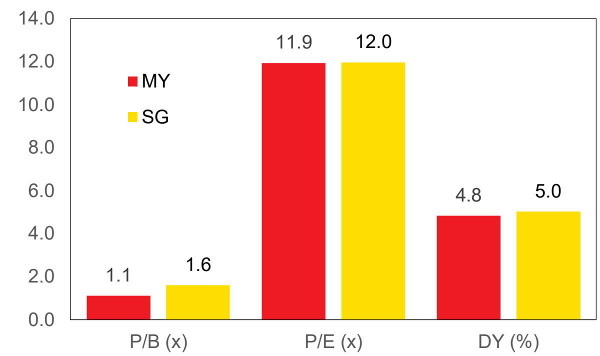
We conservatively arrive at an intrinsic sector P/B valuation of 1.1x (from 1.0x); this remains a tad beneath the historical 10-year trend of 1.2x P/B with 9.5% ROE delivery. The implied sector P/E is 11.9x, while DY stood at 4.8%, translating into a 130bp yield spread (still above the 50bp pre-Covid mean). Relative to SG banks, P/B (1.6x) is lower, while P/E (12.0x) and DY (5.0%) are broadly in line.

EXHIBIT 1. Valuation before and after

	P/B		Implied	Implied
	New	Old	P/E	DY
Alliance	0.99	0.97	11.0	4.0
BIMB	0.75	0.70	10.0	6.0
CIMB	1.40	1.30	12.9	5.0
HLB	1.26	1.20	12.0	3.9
HLFG	0.98	0.96	10.4	2.9
Maybank	1.39	1.30	12.9	5.6
MBSB	0.60	0.60	13.6	5.9
Public	1.64	1.56	13.9	4.4
RHB	1.03	1.02	10.6	5.7
Sector	**1.12**	**1.07**	**11.9**	**4.8**

Source: AmInvestment Bank

EXHIBIT 2. Our valuation vs SG banks



Source: AmInvestment Bank, Bloomberg

EXHIBIT 3. Changes to target price and call

	New TP (RM)	Old TP (RM)	Rating	Valuation basis (Gordon Growth Model)
Alliance	5.55	5.20	HOLD (unchg)	0.99x CY27 P/B with 9.3% ROE, 9.4% COE, 3.0% LTG
BIMB	2.70	2.50	HOLD (unchg)	0.75x FY27 P/B with 7.6% ROE, 9.1% COE, 3.0% LTG
CIMB	10.30	9.20	BUY (unchg)	1.40x FY27 P/B with 11.1% ROE, 8.8% COE, 3.0% LTG
HLB	28.00	25.80	BUY (unchg)	1.26x CY27 P/B with 10.8% ROE, 9.2% COE, 3.0% LTG
HLFG	33.00	31.20	BUY (unchg)	0.98x CY27 P/B with 9.8% ROE, 9.9% COE, 3.0% LTG
Maybank	12.00	10.80	HOLD (unchg)	1.39x FY27 P/B with 10.9% ROE, 8.7% COE, 3.0% LTG
MBSB	0.74	0.73	HOLD (unchg)	0.60x FY27 P/B with 4.5% ROE, 5.5% COE, 3.0% LTG
Public	5.60	5.10	BUY (unchg)	1.64x FY27 P/B with 12.1% ROE, 8.6% COE, 3.0% LTG
RHB	8.80	8.30	HOLD (unchg)	1.03x FY27 P/B with 9.9% ROE, 9.7% COE, 3.0% LTG

Source: AmInvestment Bank

Music on, party on

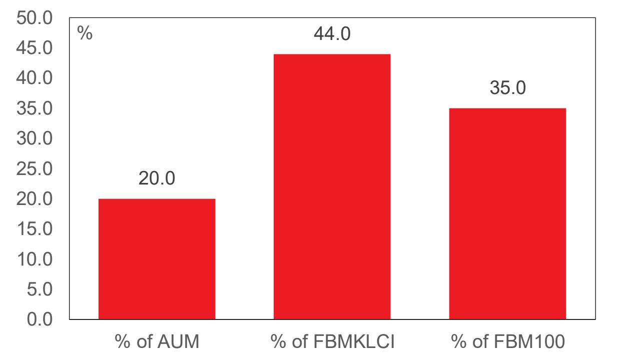
Rally not done yet

After another round of sharp price spurt over the past 2 months (+c.10%), we believe the sector can still push higher. Our bullish view is premised on:

(i) **Incremental local and foreign buying.** Typically, banks have served as the funding leg for alpha generation, leaving many local funds underweighting the sector. This is still the case even after the recent spike and some position top-ups. From the non-Shariah funds we track, the exposure to banks stand at 20% (+2ppt MoM) vs FBMKLCI/FBM100 weights of 44%/35%, suggesting sector positioning continues to be relatively light.

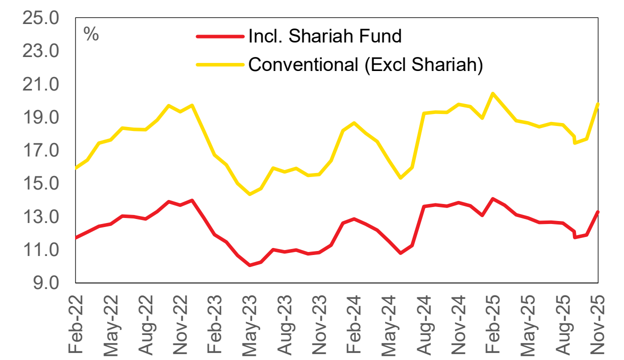
While diversification also helps to explain the current underweight, being too thinly exposed risks underperformance and may elevate tracking error in today's investment climate, especially when we expect further upside for the sector. We believe 30-35% allocation (vs 20% currently) is more appropriate, with banks potentially shaping up to be catch-up trade, given investors are not entirely committed to the sector.

EXHIBIT 4. Banks weightage of funds vs FBMKLCI & FBM100



Source: AmInvestment Bank, Bloomberg

EXHIBIT 5. Financials as a % of AUM

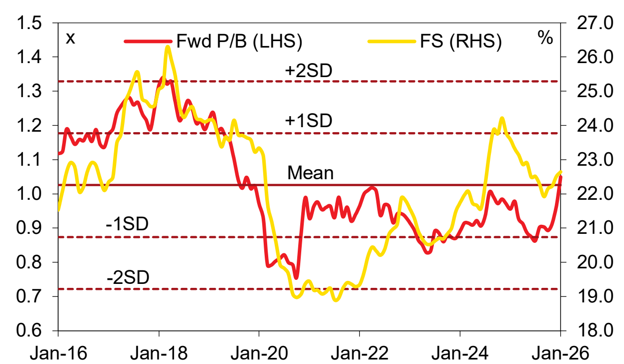


Source: AmInvestment Bank

Moreover, foreign flows are turning supportive. Net buying rebounded to +RM1.4bn from -RM5.9bn in 4Q25. Seeing foreigners only just returning after a sizeable RM22bn outflow in 2025, there is potential for sustained accumulation. Presently, banks' foreign shareholding is at a relatively low at 22% (based on market cap) vs the 10-year peak of 26%, indicating further scope for participation.

Besides, MSCI-related concerns in Indonesia (alongside Moody's outlook downgrade), potential Greece's graduation to DM status, and wider EM rotation amid Fed rate cuts could help rekindle foreign interest in local stocks, with banks being key beneficiaries. Also, an introduction of a Value-Up program (similar to those in Korea/Japan) offers an additional catalyst for their comeback.

EXHIBIT 6. Foreign shareholding of the banking sector



Source: AmInvestment Bank, Bloomberg

EXHIBIT 7. Snapshot of banks' foreign shareholding level

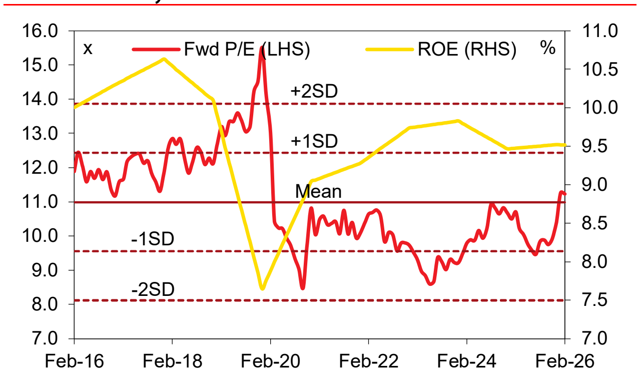
FS (%)	Jan-26	2025 average	10-yr average	10-yr peak	10-yr low
Affin	28.0	28.2	26.8	28.9	25.9
Alliance	20.7	21.5	24.8	32.3	18.7
BIMB	3.6	3.9	2.3	5.4	1.2
CIMB	31.0	32.9	27.9	36.1	20.3
HLB	10.7*	11.2	10.7	12.5	8.1
Maybank	22.4	20.1	18.6	22.5	15.7
Public	23.3	24.7	30.5	39.5	22.9
RHB	21.4	19.6	15.4	21.5	9.1

* Dec-25 data

Source: AmInvestment Bank, Companies

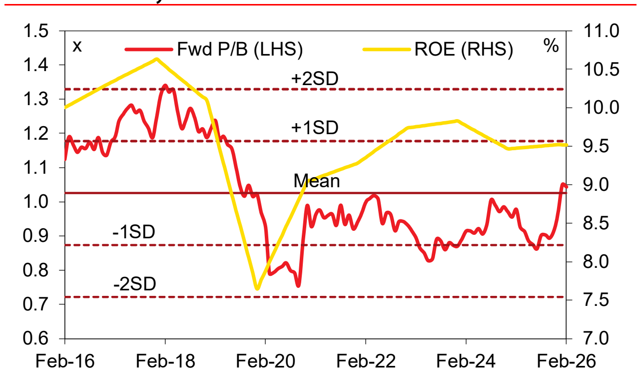
(ii) **Still inexpensive valuations.** Despite the strong share price showing, banks trade at only 1.0x P/B. While this is near to its 10-year average, current ROE generation of 9.5% suggests P/B should gravitate closer to the 1.2x level. Similarly, from a P/E basis, the sector trades at 10x vs what we view as a fairer 12-13x range, particularly with capital management acting as a re-rating catalyst.

EXHIBIT 8. 10-year forward sector P/E band



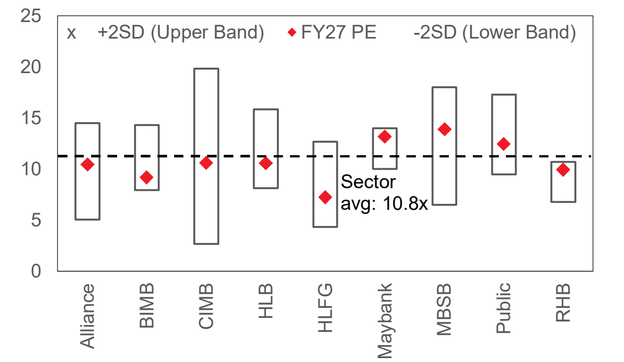
Source: AmInvestment Bank, Bloomberg

EXHIBIT 9. 10-year forward sector P/B band



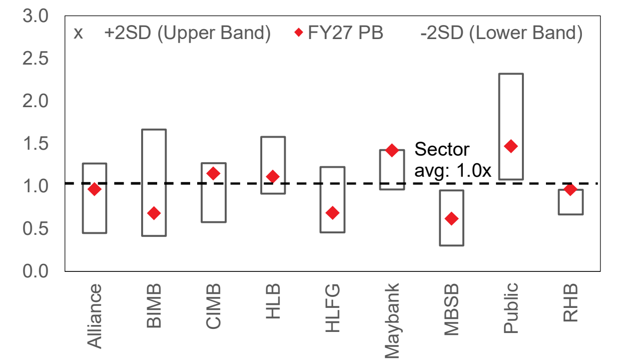
Source: AmInvestment Bank, Bloomberg

EXHIBIT 10. Banks' P/E vs their respective +/-2SD levels



Source: AmInvestment Bank, Bloomberg

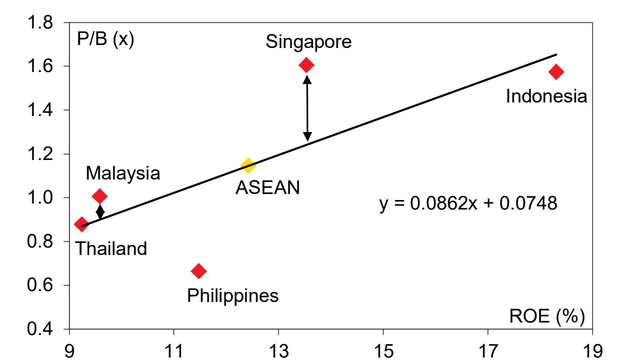
EXHIBIT 11. Banks' P/B vs their respective +/-2SD levels



Source: AmInvestment Bank, Bloomberg

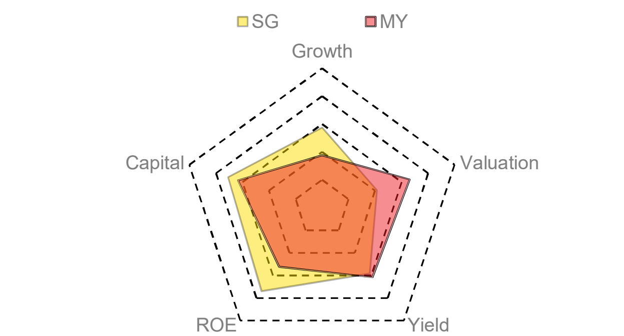
Comparing valuations to lenders across the causeway, we also find MY banks are more attractively priced; the former continues to trade further away from the regional P/B-ROE regression line (29%) vs the latter (12%). This coupled with SG financiers' 1.6x P/B valuation and 14% ROE output, we deduce P/B multiple re-rating potential from the capital management theme is +0.2x. This lends credence to our thesis that MY banks should be valued closer to 1.2x P/B vs 1.0x currently.

EXHIBIT 12. P/B-ROE regression analysis



Source: AmInvestment Bank, Bloomberg

EXHIBIT 13. Relative fundamental snapshot vs SG banks



Source: AmInvestment Bank, Bloomberg

EXHIBIT 14. Regional banking sector comparison

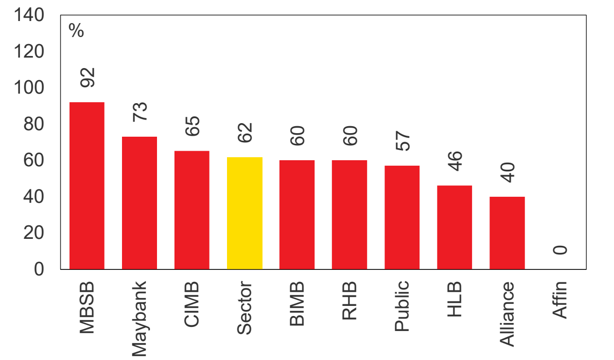
	P/E (x)		CAGR	P/B (x)		Div. yield (%)		ROE (%)	
	2026	2027	(%)	2026	2027	2026	2027	2026	2027
Malaysia	11.3	10.8	5.1	1.1	1.0	5.1	5.3	9.6	9.6
Singapore	12.6	12.0	7.9	1.7	1.6	5.0	5.0	13.4	13.5
Indonesia	9.4	8.5	9.3	1.7	1.6	7.7	8.6	17.8	18.3
Thailand	9.6	9.3	3.3	0.9	0.9	6.2	6.1	9.3	9.2
Philippines	6.5	5.7	13.7	0.7	0.7	4.3	4.5	11.2	11.5
ASEAN	**9.9**	**9.3**	**7.9**	**1.2**	**1.1**	**5.7**	**5.9**	**12.2**	**12.4**

Source: AmInvestment Bank, Bloomberg

Separately, dividend yields for banks in both countries are largely similar at this point (c.5%), but consensus has yet to bake in higher DPR assumptions for MY banks, making their risk-reward profile more compelling; we estimate every 5ppt rise in DPR could lift sector yields by 40-50bp. Notably, foreigners are keen buyers of 10-year MGS, despite yielding a lower 3.5%.

Taking a closer look at the yield spread between MY banks' dividend yield and the 10-year MGS, it is wide at 160bp. We estimate even with another 25% price appreciation (ex-capital management), the yield spread would compress by 100-110bp, bringing it to only pre-Covid-19 levels of c.50bp; this indicates runway for price upside and sector valuations are not close to overheated territory.

EXHIBIT 15. DPR of respective banks



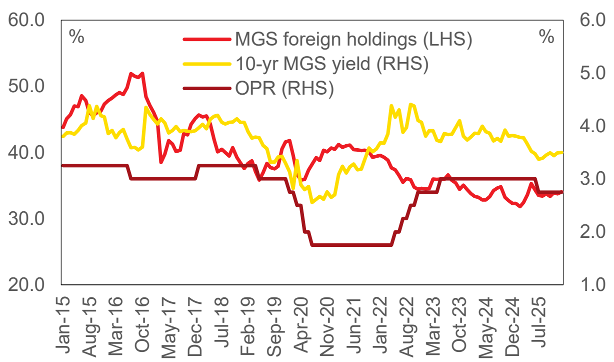
Source: AmInvestment Bank, Companies

EXHIBIT 16. DPR-DY sensitivity analysis

	Current DPR	DPR @ 65%	DPR @ 70%	DPR @ 75%
Alliance	4.1	6.2	6.7	7.2
BIMB	6.6	7.1	7.6	8.2
CIMB	6.1	6.1	6.6	7.1
HLB	4.5	5.1	5.5	5.8
HLFG	4.2	5.0	5.3	5.6
Maybank	5.5	4.9	5.3	5.7
MBSB	5.8	4.7	5.0	5.4
Public	4.9	5.2	5.6	6.0
RHB	6.1	6.6	7.1	7.6
Sector	**5.3**	**5.7**	**6.1**	**6.5**

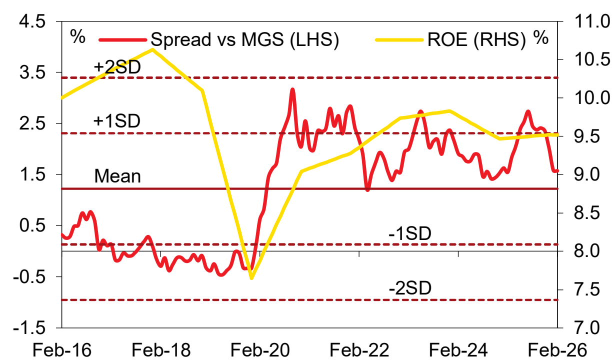
Source: AmInvestment Bank, Companies

EXHIBIT 17. MGS foreign shareholding



Source: AmInvestment Bank, BNM

EXHIBIT 18. Yield spread of banks' DY vs 10-year MGS



Source: AmInvestment Bank, Bloomberg

Finding alpha within a beta trade

Overweight call intact

While we remain bullish and believe banks still have legs to run, we are cognizant of how quickly the sector has sprinted (albeit not ahead of fundamentals) and advocate greater selectivity, focusing on banks that offer a mix of: (i) defensiveness, (ii) capital management scope, and (iii) capacity for incremental foreign buying. Even in a beta-driven trade (where a rising tide lifts all boats), we believe there are still identifiable alpha generators.

HLFG (TP: RM33.00), HLB (TP: RM28.00) and Public (TP: RM5.60) best fit the above profile. Separately, CIMB (TP: RM10.30) remains compelling as the cheapest large-cap bank, with further capital management upside.

EXHIBIT 19. Peers comparison

	Price (RM)	Target (RM)	Call	P/E (x) 2026	P/E (x) 2027	EPS growth (%) 2026	EPS growth (%) 2027	P/B (x) 2026	P/B (x) 2027	Div. yield (%) 2026	Div. yield (%) 2027	ROE (%) 2026	ROE (%) 2027
Bank A	2.69	-	N.R.	11.4	10.1	6.8	12.7	0.5	0.5	2.8	3.4	4.8	5.3
Alliance	5.18	5.55	HOLD	11.1	10.4	7.7	6.3	1.0	1.0	3.7	4.1	9.8	9.5
BIMB	2.48	2.70	HOLD	9.9	9.2	10.6	8.0	0.7	0.7	6.1	6.6	7.2	7.6
CIMB	8.45	10.30	BUY	10.9	10.6	5.7	3.1	1.2	1.1	5.9	6.1	11.2	11.1
HLB	24.00	28.00	BUY	11.2	10.6	3.1	5.8	1.2	1.1	4.2	4.5	10.9	10.8
HLFG	22.30	33.00	BUY	7.6	7.2	2.0	6.0	0.7	0.7	4.0	4.2	9.9	9.8
Maybank	12.20	12.00	HOLD	13.5	13.2	4.7	2.2	1.5	1.4	5.4	5.5	11.0	10.9
MBSB	0.76	0.74	HOLD	14.5	13.9	8.0	4.2	0.6	0.6	5.5	5.8	4.3	4.5
Public	5.03	5.60	BUY	12.9	12.4	5.0	3.8	1.5	1.5	4.7	4.9	12.2	12.1
RHB	8.18	8.80	HOLD	10.4	9.9	1.8	4.7	1.0	1.0	5.9	6.1	9.9	9.9
Sector				**11.3**	**10.7**	**5.5**	**5.7**	**1.0**	**1.0**	**4.8**	**5.1**	**9.1**	**9.2**
Sector (ex-Bank A)				**11.3**	**10.8**	**5.4**	**4.9**	**1.1**	**1.0**	**5.1**	**5.3**	**9.6**	**9.6**

Source: AmInvestment Bank, Bloomberg

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