Malayan Banking (MAY MK)

2Q26: Recovery In Non-interest Income

Highlights

- Maybank reported an in-line 2Q26 net profit.
- Positively, non-interest income recovered and provisions declined qoq, although the 4bp qoq decline in NIM remains a near-term earnings drag.
- Maintain HOLD and target price of RM11.58 (1.27x 2027F P/B, ROE: 11.2%). The stock is currently trading at historical mean P/B, which we deem as fair given the limited scope to raise dividend payouts further in the near term.

2Q26 Results

Year to 31 Dec (RMm)	2Q26	2Q25	yoy%	1H26	yoy%
Net Interest Income	3,095.3	3,172.5	(2.4)	6,364.4	(0.5)
Islamic Banking	2,292.6	2,210.4	3.7	4,477.8	4.7
Fees & Commissions	1,098.5	958.2	14.6	2,120.2	11.7
Net insurance income	(805.7)	(377.4)	113.5	(272.6)	427.3
Net trading income	1,474.1	462.0	219.1	1,277.0	133.3
Other Operating Income	356.6	1,258.7	(71.7)	644.1	(72.4)
Total Income	7,511.4	7,684.4	(2.3)	14,610.9	(5.1)
Operating Expenses	(3,689.1)	(3,785.0)	(2.5)	(7,234.7)	(3.9)
PPOP	3,822.2	3,899.4	(2.0)	7,376.2	(6.3)
Provisions	(313.5)	(423.4)	(26.0)	(798.2)	(1.2)
Writeback/(Impairment)	82.7	(51.2)	(261.6)	361.8	(487.2)
Associate	51.0	86.8	(41.3)	(6.9)	(105.0)
PBT	3,642.5	3,511.6	3.7	6,932.9	(2.4)
Net Profit	2,690.4	2,628.0	2.4	5,171.0	(0.9)
EPS (sen)	23.9	23.3	2.3	45.9	(0.9)
DPS (sen)	31.0	30.0	3.3	31.0	3.3
Financial Ratios (%)	2Q26	2Q25	yoy +/- ppt	1Q26	qoq +/- ppt
Loan Growth, yoy	2.8	1.3	1.5	0.9	1.9
Loan/Deposit Ratio	97.9	92.7	5.3	98.1	(0.2)
Cost/Income Ratio	49.1	49.3	(0.1)	49.9	(0.8)
ROE	11.7	11.3	0.5	10.8	0.9
Gross Impairment Loan Ratio	1.3	1.3	0.0	1.3	0.0
Credit Costs (bp)	18.0	25.0	(7.0)	28.4	(10.4)

Source: Maybank, UOB Kay Hian

Analysis

- **In line.** Malayan Banking (Maybank) reported a 2Q26 net profit of RM2.69b (+2.4% yoy, +8.5% qoq), bringing 1H26 net profit to RM5.17b (-0.9% yoy). Overall, we view the results as broadly in line, with 1H26 earnings accounting for 48%/49% of our/consensus 2026 estimates. 1H26 net profit declined a modest 0.9% yoy to RM5.17b, weighed down by a 15% yoy contraction in non-interest income from lower forex income and a 22% yoy drop in net insurance income, primarily due to higher claims expenses. This was partly offset by lower net credit costs, driven by recoveries, alongside strong cost discipline, with operating expenses declining 3% yoy.

Key Financials

Year to 31 Dec (RMm)	2024	2025	2026F	2027F	2028F
Net interest income	12,807	13,157	12,818	13,506	14,279
Non-Interest Income	8,419	8,569	8,922	9,326	9,611
Net profit (rep./act.)	10,089	10,514	10,669	11,090	11,743
Net profit (adj.)	10,089	10,514	10,669	11,090	11,743
EPS (sen)	89.7	93.5	97.8	99.9	103.9
PE (x)	11.8	11.4	10.9	10.6	10.2
P/B (x)	1.3	1.3	1.2	1.2	1.1
Dividend yield (%)	5.7	5.9	6.3	6.5	6.9
Net int margin (%)	2.17	2.20	2.20	2.21	2.22
Cost/income Ratio (%)	48.9	48.8	50.4	50.4	50.7
Loan loss cover (%)	122.4	98.3	124.0	129.9	131.2
Consensus net profit	-	-	10,513	11,196	11,805
UOBKH/Consensus (x)	-	-	1.01	0.99	0.99

Source: Maybank, Bloomberg, UOB Kay Hian

Analyst(s)

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HOLD (Maintained)

Share Price	RM10.62
Target Price	RM11.58
Upside	9.0%

Stock Data

Sector	Financials
Bloomberg ticker	MAY MK
Shares issued (m)	12,095.6
Market cap (RMm)	128,455.1
Market cap (US$m)	31,440.2
3-mth avg daily t'over (US$m)	35.6

Price Performance (%)

52-week high/low: RM12.42/RM9.68

1mth	3mth	6mth	1yr	YTD
(2.6)	(2.9)	(11.2)	8.5	1.3

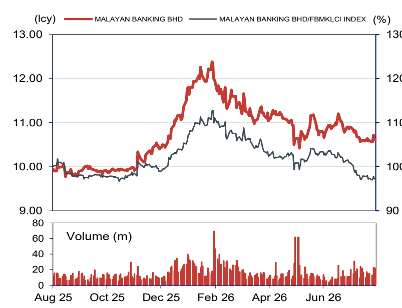
Major Shareholders (%)

Amanah Saham Nasional	33.7
Employees Provident Fund Board	12.7

Balance Sheet Metrics

FY26F NAV/Share (RM)	8.64
FY26F CAR Tier -1 (%)	16.0

Price Chart



Source: Bloomberg

Company Description

The largest banking group in Malaysia in terms of asset size. Maybank also has sizeable exposure to foreign markets, with foreign loans, mainly in Singapore and Indonesia, making up 33% of its loan base.

- **2Q26 qoq trend.** Sequentially, net profit increased 8.5% qoq, driven primarily by a sharp 165% qoq recovery in non-interest income, as trading income swung from a net loss to a net gain, alongside lower net credit costs on improved recoveries. This was, however, partly tempered by a 4bp qoq compression in NIM and a 4% qoq increase in operating expenses, mainly due to higher IT spending.
- **2Q26 yoy trend. 2Q26 net profit grew 2.4% yoy,** supported by lower impairment charges, a 9% yoy increase in non-interest income driven by stronger trading, wealth management and investment banking income, as well as continued cost discipline, with opex declining 3% yoy. This was, however, partly offset by weaker insurance income.
- **NIM moderated but remains above 2026 guidance.** Group NIM declined 4bp qoq to 2.10% in 2Q26, with pressure across Malaysia, Singapore and Indonesia due to higher deposit competition and mortgage yield pressure in Malaysia, declining SORA rates in Singapore with assets re-pricing faster than deposits and rising funding costs in Indonesia as deposits reprice faster than assets in the current rising interest rate environment. Despite this, 1H26 NIM averaged 2.12%, up 10bp yoy and above management's 2026 guidance of 2.05-2.10%. We expect modest sequential NIM moderation in 2H26, particularly as the group looks to raise longer-term capital securities at higher funding costs.
- **Loan growth momentum gained traction.** Overall group loans grew 1.7% qoq and 2.7% yoy (vs -0.3% qoq in 1Q26). Excluding forex impact, loans grew a stronger 4.6% yoy. Growth remained broad-based across the key home markets, with Malaysia loans up 0.9% qoq, Singapore 1.0% qoq and Indonesia 4.3% qoq. On a constant-currency basis, management highlighted healthy loan momentum across its key markets and retained its 2026 group loan growth guidance of 4-5%.
- **Asset quality remained manageable.** Asset quality remained relatively stable with group GIL ratio inching up by only 1bp qoq to 1.35%. A slight deterioration was driven by selected corporate accounts in Singapore and incremental contributions from the auto and SME portfolios in Malaysia.
- **Higher management overlays but overall net credit cost remained within guidance.** Management overlay increased to RM2.6b from RM2.4b in 1Q26, reflecting heightened macro risks from geopolitical tensions and retail model adjustments. Nevertheless, net credit costs declined qoq to 18bp from 28bp in 1Q26, as recoveries from restructured portfolios more than offset the RM200m increase in overlays. 1H26 net credit cost of 18bp remained well within management's full-year guidance of 20bp while LLC remained comfortable at 103.1%.
- **Limited scope to raise dividend payouts meaningfully.** The group declared a 1H26 interim dividend of 31 sen/share, comprising 26 sen in cash and 5 sen via DRP, vs 30 sen/share in pure cash previously, translating into a 73% payout ratio. Given Maybank's already high payout ratio of 73% vs the 58% peer average, we see limited scope for further upside to dividend payouts.
- **2026 targets:** Apart from the cost-to-income ratio, management's key 2026 guidance is largely retained as follows: a) ROE: around 11.8%, b) loans growth: 4-5% (constant currency), c) net credit cost: 20bp, d) NIM: stable to +5bp, and e) cost-to-income ratio of around 49% (from 49% or below) due to emphasis on IT spending.

Valuation/Recommendation

- **Maintain HOLD and target price of RM11.58 (1.27x 2027F P/B, ROE: 11.2%).** Given Maybank's limited near-term scope to raise its dividend payout, we prefer CIMB, given its more attractive valuations and greater headroom to increase dividends. That said, given Maybank's already depressed share price and attractive dividend yield of around 6%, we view the stock's current risk-to-reward profile as balanced.

Earnings Revision/Risk

- No changes.

Share Price Catalyst

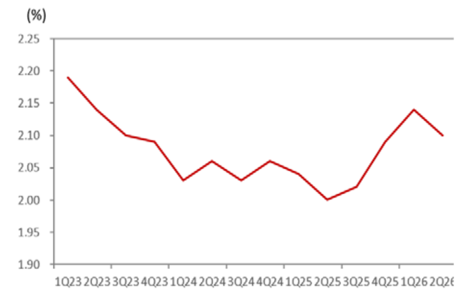
- Stronger-than-expected wealth management income.
- Stronger-than-expected NIM trend.

Key Assumptions

(%)	2026F	2027F	2028F
Loan Growth	5.0	5.0	5.5
Credit Cost (bp)	20.0	20.0	20.0
ROE	11.2	11.4	11.9

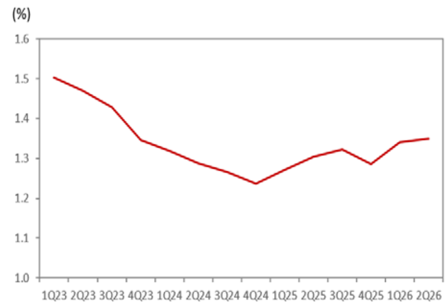
Source: UOB Kay Hian

NIM Trend



Source: Maybank, UOB Kay Hian

GIL Ratio Trend



Source: Maybank, UOB Kay Hian

Environmental, Social, Governance (ESG) Updates

Environmental
- Green loan commitment. To provide RM50b in sustainable financing by 2025. - Zero new coal financing. Transition all stakeholders to zero carbon emission by 2050.
Social
- Board and upper management gender diversity. Maintained 25% female directors on the Board and 40% females in senior management. - Enhanced financial inclusion to B40. Provide greater financial inclusion for vulnerable communities (affordable housing financing) and welfare assistance to vulnerable communities, especially the B40 consumers.
Governance
- Composition of independent directors. Composition of Independent Directors (INED) – 75%.

Profit & Loss

Year to 31 Dec (RMm)	2025	2026F	2027F	2028F
Interest income	29,351	29,496	31,040	32,754
Interest expense	(16,194)	(16,678)	(17,534)	(18,475)
Net interest income	13,157	12,818	13,506	14,279
Fees & commissions	3,995	4,195	4,446	4,580
Other income	4,574	4,727	4,880	5,031
Non-interest income	8,569	8,922	9,326	9,611
Income from islamic banking	8,653	9,432	9,998	10,598
Total income	30,380	31,172	32,830	34,487
Staff costs	(8,734)	(9,433)	(9,999)	(10,599)
Other operating expense	(6,105)	(6,291)	(6,536)	(6,873)
Pre-provision profit	15,540	15,448	16,294	17,016
Loan loss provision	(562)	(1,440)	(1,519)	(1,603)
Other provisions	(919)	0	0	0
Associated companies	274	291	308	327
Other non-operating income	0	0	0	0
Pre-tax profit	14,334	14,299	15,084	15,740
Tax	(3,502)	(3,335)	(3,686)	(3,670)
Minorities	(317)	(296)	(308)	(326)
Net profit	10,514	10,669	11,090	11,743
Net profit (adj.)	10,514	10,669	11,090	11,743

Balance Sheet

Year to 31 Dec (RMm)	2025	2026F	2027F	2028F
Cash with central bank	11,959	7,199	7,595	8,013
Govt treasury bills & securities	52,572	53,623	54,696	55,790
Interbank loans	14,030	14,171	14,312	14,456
Customer loans	676,981	708,576	747,505	788,527
Investment securities	204,151	218,349	233,518	249,725
Derivative receivables	17,640	17,640	17,640	17,640
Associates & JVs	1,832	1,832	1,832	1,832
Fixed assets (incl. prop.)	4,382	4,601	4,832	5,073
Other assets	70,035	74,623	79,686	85,287
Total assets	1,053,584	1,100,615	1,161,616	1,226,342
Interbank deposits	42,587	43,865	45,181	46,536
Customer deposits	730,993	767,543	809,758	854,294
Derivative payables	24,536	24,536	24,536	24,536
Debt equivalents	16,030	16,030	16,030	16,030
Other liabilities	142,595	147,746	161,018	175,434
Total liabilities	956,742	999,719	1,056,523	1,116,830
Shareholders' funds	93,445	97,202	101,091	105,184
Minority interest - accumulated	3,397	3,694	4,002	4,328
Total equity & liabilities	1,053,584	1,100,615	1,161,616	1,226,342

Cash Flow

Year to 31 Dec (RMm)	2024	2025F	2026F	2027F
Capital Adequacy				
Tier-1 CAR	16.4	16.0	15.7	15.5
Total CAR	20.0	21.3	20.9	20.5
Total assets/equity (x)	11.2	11.3	11.4	11.6
Tangible assets/tangible common equity (x)	12.0	12.0	12.2	12.4
Asset Quality				
NPL Ratio	1.3	1.3	1.2	1.2
Loan Loss Coverage	98.3	124.0	129.9	131.2
Loan Loss Reserve/Gross Loans	1.6	1.6	1.6	1.6
Increase in NPLs	5.8	3.9	1.0	5.2
Credit Cost (bp)	8.2	20.0	20.0	20.0
Liquidity				
Loan/Deposit Ratio	92.6	92.3	92.3	92.3
Liquid Assets/Short-Term Liabilities	10.1	9.2	8.9	8.7
Liquid Assets/Total Assets	7.5	6.8	6.6	6.4

Key Metric

Year to 31 Dec (%)	2024	2025F	2026F	2027F
Growth				
Net Interest Income, yoy Chg	2.7	(2.6)	5.4	5.7
Fees & Commissions, yoy Chg	4.3	5.0	6.0	3.0
Pre-Provision Profit, yoy Chg	2.8	(0.6)	5.5	4.4
Net Profit, yoy Chg	4.2	1.5	4.0	5.9
Customer Loans, yoy Chg	0.0	0.0	0.0	0.0
Customer Deposits, yoy Chg	2.1	4.7	5.5	5.5
Profitability	(1.5)	5.0	5.5	5.5
Net Interest Margin				
Cost/Income Ratio	2.20	2.20	2.21	2.22
Adjusted ROA	48.8	50.4	50.4	50.7
Reported ROE	1.0	1.0	1.0	1.0
Adjusted ROE	11.3	11.0	11.2	11.6
Valuation	11.3	11.0	11.2	11.6
P/BV (x)				
P/NTA (x)	1.3	1.2	1.2	1.1
Adjusted P/E (x)	1.4	1.3	1.3	1.2
Dividend Yield	11.4	10.9	10.6	10.2
Payout ratio	5.9	6.3	6.5	6.9