

# Malaysia Banking

## OPR cut by 25bps to 2.75%

# NEUTRAL [Unchanged

#### **NEUTRAL** maintained on sector

That BNM has cut the OPR by 25bps is within our expectations and this has been factored into our forecasts. Our Economics Team expects no further rate cuts this year and our earnings are unchanged. We remain NEUTRAL on the sector and our BUYs are on PBK, AMMB, HLBK and HLFG, in that order of preference.

## A 25bp cut to OPR

BNM yesterday, announced a 25bp cut in the Overnight Policy Rate (OPR) to 2.75%. We have already anticipated, and factored in, the impact of one rate cut in 2H25, for which we had recently trimmed our NIMs by 2-3bps on average, across the board - our earnings forecasts are thus unchanged. For the banks in our coverage, we expect an aggregate NIM compression of 2bps to an average of 2.06% in 2025 and flat NIMs in 2026. Our Economics Team expects no further rate cuts this year.

## A 2-3bp impact to NIMs

Generally, every 25bp cut in the Overnight Policy Rate results in a 2-3bp NIM compression on average, which leads to a 1-2%-pt reduction in earnings. Based on our estimates, there is a slightly larger 3-4bps impact to the NIMs of ABMB, PBK and RHB.

### There are, however, mitigating factors

There are several factors that should serve to buffer the compression in NIM, in our view. These include: a) the recent 1%-point SRR cut, which released about MYR19b of liquidity into the banking system, b) a declining KLIBOR, which is indicative of reduced funding pressure, and c) lower bond yields, which could contribute to potential marked-to-market gains on Fair Value To P&L (FVTPL) investments.

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Banking Sector - Peer \	Valuation	Summary
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Stock	Rec	Shr px	Mktcap	TP	Upside	PER (x)	PER (x)	P/B (x)	P/B (x)	ROAE (%)	ROAE (%)	Net yield	Net yield
	(MYR)	(MYR m)	(MYR)	(%)	CY 25E	CY 26E	CY 25E	CY 26E	CY 25E	CY 26E	CY 25E	CY 26E	
Maybank *	NR	9.70	117,187	NR	NA	11.5	11.0	1.2	1.2	10.7	10.9	6.3	6.6
Public Bank	BUY	4.26	82,690	5.05	19%	11.4	10.8	1.4	1.3	12.4	12.5	5.2	5.6
CIMB	HOLD	6.57	70,648	7.60	16%	9.1	8.7	1.0	0.9	10.9	10.8	6.1	6.2
HL Bank	BUY	19.36	41,967	22.80	18%	8.9	8.5	1.0	0.9	11.1	11.1	3.9	4.1
RHB Bank	HOLD	6.31	27,524	7.10	13%	9.1	8.5	0.8	0.8	9.2	9.4	6.8	7.1
HLFG	BUY	16.38	18,796	21.50	31%	5.6	5.3	0.6	0.5	10.8	10.5	3.4	3.4
AMMB	BUY	5.09	16,869	6.05	19%	8.4	8.2	0.8	0.8	9.6	9.5	5.9	6.1
ABMB	HOLD	4.47	7,734	4.70	5%	10.0	9.7	0.9	0.9	9.5	9.2	4.1	4.2
BIMB	HOLD	2.28	5,168	2.50	10%	9.1	8.7	0.7	0.6	7.3	7.5	6.6	6.9
Simple avg			388,583			9.2	8.8	0.9	0.9	10.2	10.1	5.4	5.6
MC-wtd						10.1	9.6	1.1	1.0	10.9	11.0	5.6	5.9

<sup>\*</sup> Consensus estimates Source: Maybank IBG Research



## 1. Mitigating factors

## 1.1 An average 2-3bps impact to NIM

Generally, every 25bp cut in the Overnight Policy Rate is likely to result in a 2-3bp NIM compression on average, which leads to a 1-2%-pt reduction in earnings. Based on our estimates, there is a slightly larger 3-4bps impact to the NIMs of ABMB, PBK and RHB. Nevertheless, there are various mitigating factors that should serve to somewhat buffer the compression in NIMs.

Fig 1: Estimated of a 25bps cut in the OPR on NIMs

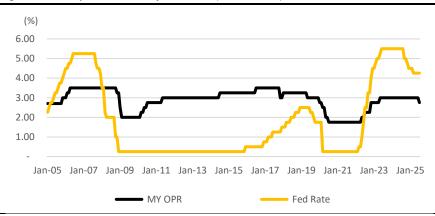
Bank	NIM impact	Bank	NIM impact
ABMB	3-4	HLBK	2
AMMB	2	MAY	2
BIMB	2	PBK	3-4
CIMB	2-3	RHB	3-4

Source: Maybank IBG Research

## 1.2 150-175bps gap to the Federal Funds Rate (FFR)

The gap between the OPR at 2.75% and the FFR of 4.25-4.50% currently stands at 150-175bps.

Fig 2: Statutory Reserve Requirement (1990-2025)

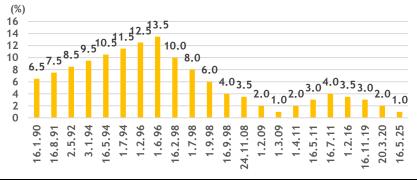


Source: BNM, Bloomberg

## 1.3 Mitigating factor 1: The recent cut in SRR

Buffering NIMs is the recent 1%-point cut in the Statutory Reserve Requirement (SRR) to 1%, which has released MYR19b of liquidity, and for which banks estimate will enhance their NIMs by about 1-2bps.

Fig 3: Statutory Reserve Requirement (1990-2025)



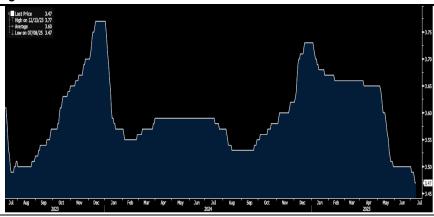
Source: BNM



## 1.4 Mitigating factor 2: Improved liquidity positions...

Using the 3-month KLIBOR as a gauge of interbank liquidity, the liquidity position within the banking system appears to be much improved, with the 3-month KLIBOR having eased to 3.47% currently from a recent peak of close to 3.75% in 4Q24. This would suggest that deposit competition within the banking system is less intense today than it was in 4Q24, which is positive for overall NIMs.

Fig 4: 3-month KLIBOR



Source: Bloomberg

## 1.5 Mitigating factor 3: Declining bond yields

The 10-year MGS yield has declined by about 33bps from 3.81% in Dec 2024 to 3.48% presently. This could potentially contribute to marked-to-market gains on banks' FVTPL investments, that could partially compensate for the compression in margins.

Fig 5: 10-year MGS yield



Source: BNM

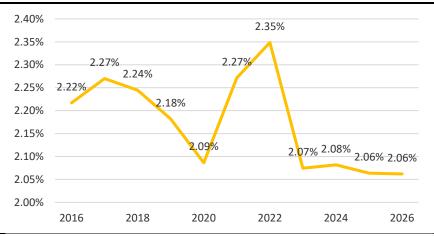


## 2. No change in earnings

## 2.1 Already factored into our forecasts

We have already anticipated, and factored in, the impact of one rate cut in 2H25. Consequently, we had recently trimmed our NIMs by 2-3bps on average, across the board. We now expect an average NIM compression of 2bps to an average of 2.06% in 2025 and flat NIMs in 2026.

Fig 6: Sector NIM trends (2016-2026E)



Source: Banks, Maybank IBG Research

## 2.2 No further cuts expected this year

At this stage, our Economics Team does not expect any further rate cuts this year. Our earnings across the sector, as such, are unchanged.

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## 3. Historical trends in monetary policy

The table below summarizes the policy changes to the OPR and statutory reserve requirement (SRR) since 2005.

Fig 7: Historical OPR and SRR changes

rig 7: Historical				
2005-06	OPR hike	OPR hike	OPR hike	Total impact
	(30 Nov '05)	(22 Feb '06)	(26 Apr '06)	
OPR	3.00% (+30bps)	3.25% (+25bps)	3.50% (+25bps)	+80bps
SRR	4.00% (no chg)	4.00% (no chg)	4.00% (no chg)	no chg
2008-09	OPR/SRR cut	OPR/SRR cut	OPR/SRR cut	Total impact
	(24 Nov '08)	(21 Jan '09)	(24 Feb '09)	
OPR	3.25% (-25bps)	2.50% (-75bps)	2.00% (-50bps)	-150bps
SRR	3.50% (-50bps)	2.00% (-150bps)	1.00% (-100bps)	-300bps
2010	OPR hike	OPR hike	OPR hike	Total impact
	(4 Mar '10)	(13 May '10)	(8 Jul '10)	
OPR	2.25% (+25bps)	2.50% (+25bps)	2.75% (+25bps)	+75bps
SRR	1.00% (no chg)	1.00% (no chg)	1.00% (no chg)	no chg
2011	SRR hike	OPR/SRR hike	SRR hike	Total impact
	(1 Apr '11)	(16 May '11)	(7 July '11)	
OPR	2.75% (no chg)	3.00% (+25bps)	3.00% (no chg)	+25bps
SRR	2.00% (+100bps)	3.00% (+100bps)	4.00% (100bps)	+300bps
2014-16	OPR hike	SRR cut	OPR cut	Total impact
	(10 Jul '14)	(21 Jan'16)	(13 Jul '16)	
OPR	3.25% (+25bps)	3.25% (no chg)	3.00% (-25bps)	0 bps
SRR	4.00% (no chg)	3.50% (-50bps)	3.50% (no chg)	-50bps
2018-19	OPR hike	OPR cut	SRR cut	Total impact
2018-19	OPR hike (25 Jan '18)	OPR cut (7 May '19)	SRR cut (10 Nov '19)	Total impact
<b>2018-19</b> OPR				Total impact
	(25 Jan '18)	(7 May '19)	(10 Nov '19)	·
OPR	(25 Jan '18) 3.25% (+25bps)	(7 May '19) 3.00% (-25bps)	(10 Nov '19) 3.00% (no chg)	-25bps
OPR SRR	(25 Jan '18) 3.25% (+25bps) 3.50% (no chg)	(7 May '19) 3.00% (-25bps) 3.50% (no chg)	(10 Nov '19) 3.00% (no chg) 3.00% (-50 bps)	-25bps -50bps
OPR SRR	(25 Jan '18) 3.25% (+25bps) 3.50% (no chg)  OPR cut	(7 May '19) 3.00% (-25bps) 3.50% (no chg)  OPR cut	(10 Nov '19) 3.00% (no chg) 3.00% (-50 bps)  SRR cut	-25bps -50bps
OPR SRR 2020	(25 Jan '18) 3.25% (+25bps) 3.50% (no chg)  OPR cut (22 Jan '20)	(7 May '19) 3.00% (-25bps) 3.50% (no chg)  OPR cut (3 Mar '20)	(10 Nov '19) 3.00% (no chg) 3.00% (-50 bps)  SRR cut (19 Mar '20)	-25bps -50bps Total impact
OPR SRR 2020 OPR	(25 Jan '18) 3.25% (+25bps) 3.50% (no chg)  OPR cut (22 Jan '20) 2.75% (-25bps)	(7 May '19) 3.00% (-25bps) 3.50% (no chg)  OPR cut (3 Mar '20) 2.50% (-25bps)	(10 Nov '19) 3.00% (no chg) 3.00% (-50 bps)  SRR cut (19 Mar '20) 2.50% (no chg)	-25bps -50bps <b>Total impact</b> -50bps
OPR SRR 2020 OPR SRR	(25 Jan '18) 3.25% (+25bps) 3.50% (no chg)  OPR cut (22 Jan '20) 2.75% (-25bps) 3.00% (no chg)	(7 May '19) 3.00% (-25bps) 3.50% (no chg)  OPR cut (3 Mar '20) 2.50% (-25bps) 3.00% (no chg)	(10 Nov '19) 3.00% (no chg) 3.00% (-50 bps)  SRR cut (19 Mar '20) 2.50% (no chg) 2.00% (-100bps)	-25bps -50bps Total impact -50bps -100bps
OPR SRR 2020 OPR SRR	(25 Jan '18) 3.25% (+25bps) 3.50% (no chg)  OPR cut (22 Jan '20) 2.75% (-25bps) 3.00% (no chg)  OPR cut	(7 May '19) 3.00% (-25bps) 3.50% (no chg)  OPR cut (3 Mar '20) 2.50% (-25bps) 3.00% (no chg)  OPR cut	(10 Nov '19) 3.00% (no chg) 3.00% (-50 bps)  SRR cut (19 Mar '20) 2.50% (no chg) 2.00% (-100bps)  OPR hike	-25bps -50bps Total impact -50bps -100bps
OPR SRR  2020  OPR SRR  2020-22	(25 Jan '18) 3.25% (+25bps) 3.50% (no chg)  OPR cut (22 Jan '20) 2.75% (-25bps) 3.00% (no chg)  OPR cut (5 May '20)	(7 May '19) 3.00% (-25bps) 3.50% (no chg)  OPR cut (3 Mar '20) 2.50% (-25bps) 3.00% (no chg)  OPR cut (7 Jul '20)	(10 Nov '19) 3.00% (no chg) 3.00% (-50 bps)  SRR cut (19 Mar '20) 2.50% (no chg) 2.00% (-100bps)  OPR hike (11 May '22)	-25bps -50bps  Total impact -50bps -100bps  Total impact

Source: BNM, MIBG Research



## Historical OPR and SRR changes (continued...)

OPR hike	OPR hike	OPR hike	Total impact
(6 Jul '22)	(8 Sep '22)	(3 Nov '22)	
2.25% (+25bps)	2.50% (+25bps)	2.75% (+25bps)	+125bps
2.00% (no chg)	2.00% (no chg)	2.00% (no chg)	0 bps
OPR hike (3 May '23)	SRR cut (8 May '25)	OPR cut (9 Jul '25)	Total impact
3.00% (+25bps)	3.00% (no chg)	2.75% (-25bps)	no chg
2.00% (no chg)	1.00% (-100bps)	1.00% (no chg)	-100 bps
	(6 Jul '22) 2.25% (+25bps) 2.00% (no chg)  OPR hike (3 May '23) 3.00% (+25bps)	(6 Jul '22) (8 Sep '22) 2.25% (+25bps) 2.50% (+25bps) 2.00% (no chg) 2.00% (no chg)  OPR hike SRR cut (3 May '23) (8 May '25) 3.00% (+25bps) 3.00% (no chg)	(6 Jul '22)       (8 Sep '22)       (3 Nov '22)         2.25% (+25bps)       2.50% (+25bps)       2.75% (+25bps)         2.00% (no chg)       2.00% (no chg)       2.00% (no chg)         OPR hike       SRR cut       OPR cut         (3 May '23)       (8 May '25)       (9 Jul '25)         3.00% (+25bps)       3.00% (no chg)       2.75% (-25bps)

Source: BNM, MIBG Research

## 4. Risk statement

**Upside risks:** (i) Stronger-than-expected GDP growth, which would contribute to stronger loan growth and lower credit risks; as well as (ii) improved liquidity, which would help to sustain interest margins.

**Downside risks:** (i) Weaker-than-expected GDP growth, which could lead to slower loan growth and asset-quality issues; (ii) potential interest rate cuts that could negatively impact interest margins in the short term; and (iii) a slowdown in CASA growth.



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