15 JUL, 2025

Banking sector viewed as undervalued

The Star, Malaysia

# Banking sector viewed as undervalued

## Utilities attractive on new capacity bids, redevelopment

**STOCK MARKET**

**PETALING JAYA:** Kenanga Research believes the banking sector is fundamentally at a bargain level, as the share prices of the banking stocks are reflecting return on equities commensurating with a loan growth for the system of 3.4% – which was essentially levels seen during Covid-19.

"This, thus, gives us confidence that the banks are undervalued. In the very immediate term, should bull-steepening bias materialise, historically it would be an uphill task for banks to outperform during such a stretch," it said.

Kenanga Research said Bank Negara's overnight policy rate (OPR) cut last week came as a negative surprise to its forecast.

However, it shared that based on historical patterns, other than during the Covid-19 period, the FBM KLCI has always bounced back higher post-rate cut on a 12-month basis and the most reliable sector to see outperformance would be banks.

It has kept its 1,655 year-end FBM KLCI target for now.

The research house's top pick remained AMMB Holdings Bhd, which has prioritised profitability over market share goals.

Kenanga Research pointed out that banks' valuations are still appealing, although the immediate catalyst of averting a rate cut didn't play out.

"Our market earnings estimate post-OPR cut is revised lower to 3% from 3.5%, with the adjustments purely made from the perspective of an earnings cut due to putting through net interest margin impact for the banks, which ranged from 0% to 1.7% for financial year 2025 (FY25) and 1% to 4% for FY26 on an annualised basis.

> "Based on historical patterns, other than during the Covid-19 period, the FBM KLCI has always bounced back higher post-rate cut on a 12-month basis."
>
> Kenanga Research

"However, we haven't given any compensating benefit of non-interest operating income or NOII uplift to the banks, which could materialise should banks crystalise some of their bond holdings that may have experienced positive revaluation gains.

"This could spell some upside to our banks' earnings forecast of 3.7%," it added.

Overall, the research house continued to prefer laggard plays within key sectors, as liquidity shored up is being put to use.

It said this benefits the likes of YTL Power International Bhd, IJM Corp Bhd, Sime Darby Property Bhd, IHH Healthcare Bhd and CIMB Group Holdings Bhd.

Meanwhile, Kenanga Research said utilities generally beat even telecommunications companies, which were relatively steady, while also outstripping the banking sector's returns.

"We also highlight that the utilities sector is not short of catalysts in the near term in the form of new capacity bids and brownfield opportunities.

"We believe Tenaga Nasional Bhd and Malakoff Corp Bhd are strong contenders due to their existing brownfield assets. We also expect YTL Power to be keen to explore new power plant projects," the research house added.

It pointed out that Gas Malaysia Bhd makes a strong argument for being able to offer attractive dividend yields of 5.7%.

Kenanga Research also said a rate cut without expectation of an economic contraction is bullish for real estate investment trusts (REITs), but largely priced in current levels of Malaysian Government Securities or MGS.

"Risk to the REIT sector earnings growth would be from the implementation of the service tax, although a rate cut without gross domestic product growth cut would likely be positive for the sector," it explained.