Astute
Fund Management

Portfolio Manager’s Views

Investment Team

October 2025

www.astutefm.com.my

1. Executive Summary

1. **Special Feature: Why are we invested in the Banking Sector?**

2. **The Fed cut rates by 25bps in September** as the labour market weakens and expects more cuts as the labour market softness will force the Fed to ease further. Nonfarm payrolls missed expectation. However, August inflation surprised to the upside (CPI +2.9% YoY). U.S. Treasury yields remained range-bound (10yr at ~4.18%), while the USD weakened 2.2% MoM (-9.7% YTD). These trends continue to support emerging markets such as Malaysia.

3. **FBM KLCI rose 2.2% in September 2025**. Foreign investors have turned net buyers (RM76.7 million) for the first time in five months. We expect the FBM KLCI to be pushed higher into year-end, supported by expectations of stronger 2026 EPS growth and a softer USD. The upcoming Budget 2026 should help underpin market sentiment and investor confidence.

4. **KLCI's valuations are undemanding** ie. FY26 PER of 15x (10Y range 11.7x to 17.5x), PBR of 1.4x (10Y range 1.1x to 1.8x) and forecast DY of 4.1% (10Y range 3.1% to 5.0%) [source: Bloomberg]. We have exposure to domestic-oriented stocks and avoid risk from the tariff related uncertainty. We find stronger value opportunities within the FBM70, supported by robust CY26 earnings growth compared to the FBM30.

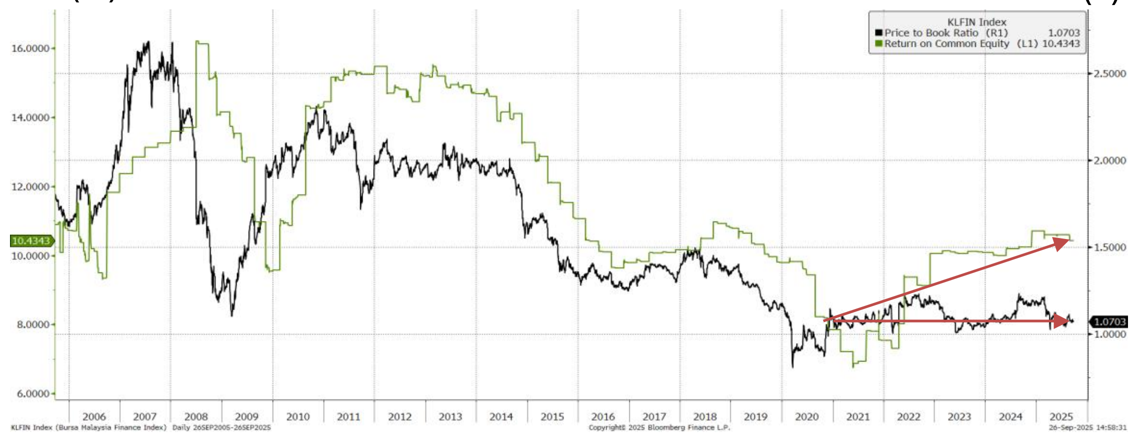
2. Feature: Banking Sector

We remain positive on the sector, with Alliance Bank as our top pick.

Exhibit 1: KLFIN Index Trailing 12-month Price-to-Book Ratio (PBR) vs Return on Equity (ROE)

ROE (%)

PB (x)



Source: Bloomberg

1 KLFIN valuations yet to reflect the ROE upturn, with PBR still subdued.

The FBM Financial Index (KLFIN) ROE has recovered from 8% to 10.4% since Covid-19. Meanwhile, the PBR is trading flat at 1.07x and has yet to reflect the ROE recovery.

Exhibit 2: KLFIN T12M PBR relative to FBM KLCI T12M PBR

(x)

Source: Bloomberg

2 KLFIN valuations are undemanding compared to the broader market.

KLFIN PBR relative to FBM KLCI stands at 0.73x (or 27% discount to FBM KLCI), close to its -1sd of 0.72x.

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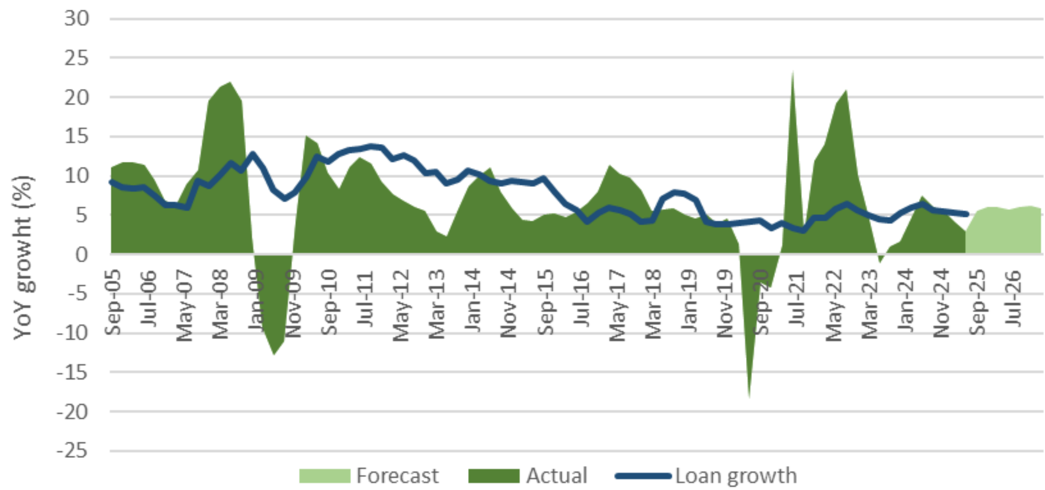
Exhibit 3: Nominal GDP vs Banking system loan growth (2005-2027)

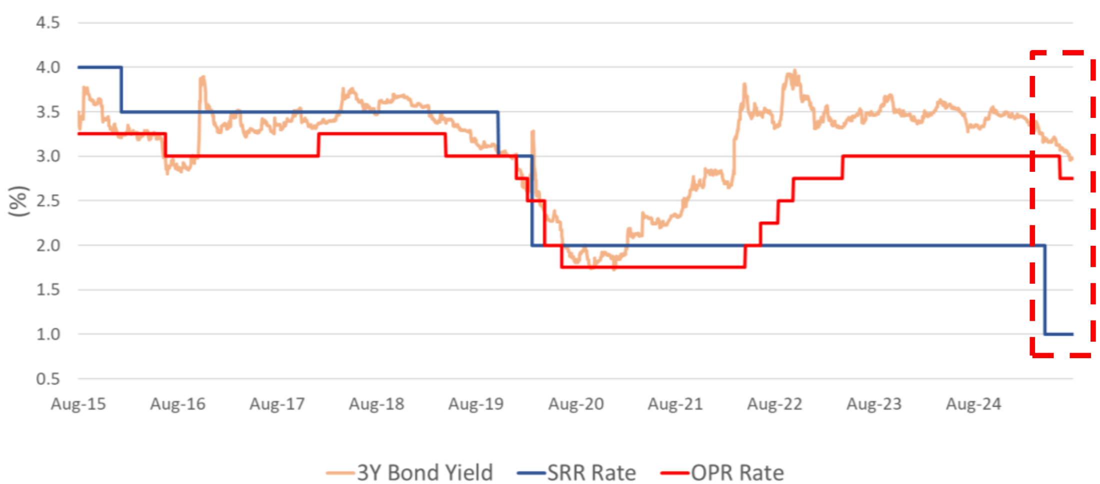


Source: Bloomberg

3 **Malaysia loan growth is expected to sustain at 5% between 2025-2027, supported by GDP growth >4%.**

The loan growth has a 25% correlation with the nominal GDP growth. The 2025-2027 GDP forecast is expected to stay flat above 4%. Thus, loan growth momentum should sustain.

Exhibit 4: OPR rate vs SRR rate vs Malaysia 3Y Bond Yield



Source: Bloomberg

4 **Net Interest Margin (NIM) should stay stable in 4Q25 and 2026 as no additional OPR cuts are expected.**

The Malaysian 3Y Bond Yield and SRR rate, leading indicators of the OPR rate, were stable after the 25bps cut in July 2025.

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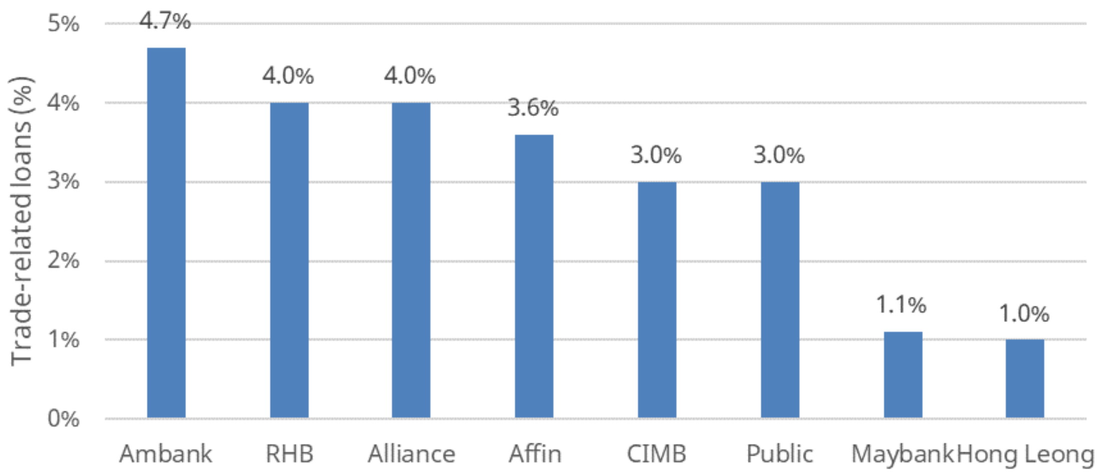
Exhibit 5: Trade-related loans as % of total loans

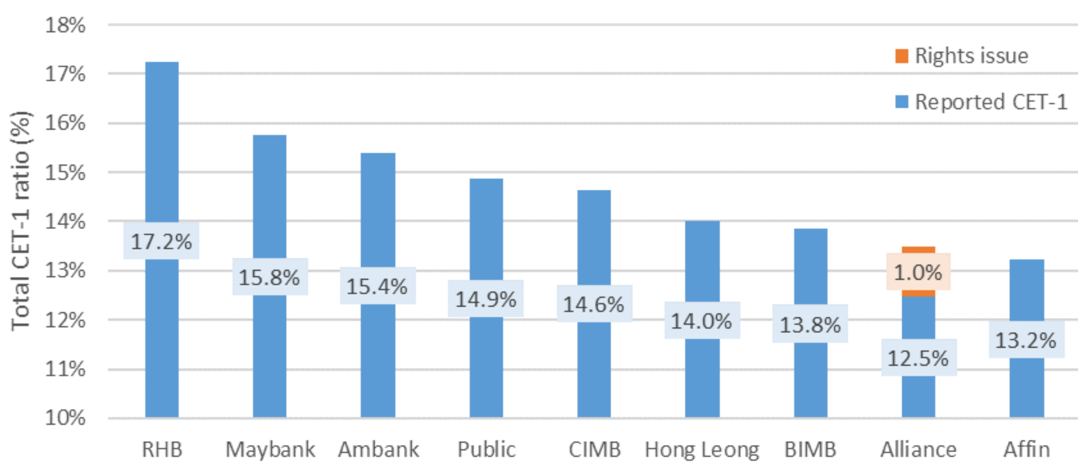


Source: CIMB Securities

5 **Banks are relatively insulated from the direct impact of Trump Tariffs.**

Exposure to the trade-related loans is low, between 1% (Hong Leong) and 4.7% (Ambank) of the total loans.

Exhibit 6: Malaysia Banks' CET-1 ratio



Source: Bloomberg, Astute Fund Management

6 **Banks are well-capitalized, cushioning against potential earnings headwind.**

The Common Equity Tier-1 (CET-1) ratio is a measure of a bank's capital adequacy. All the banks have a CET-1 ratio above 13%. It is sufficient to sustain banks' dividends even if earnings disappoint amid slower economic growth.

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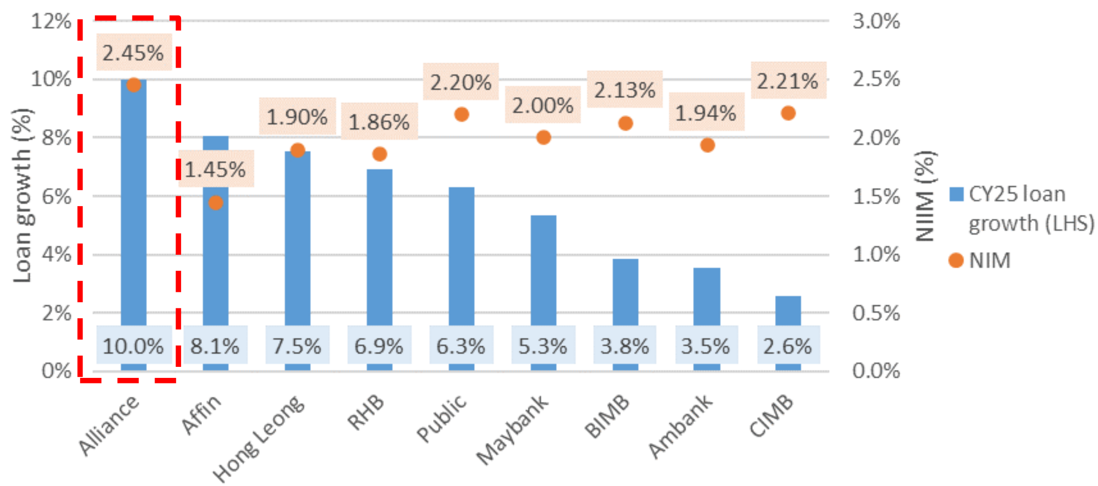
Exhibit 7: Bank's CY25 loan growth

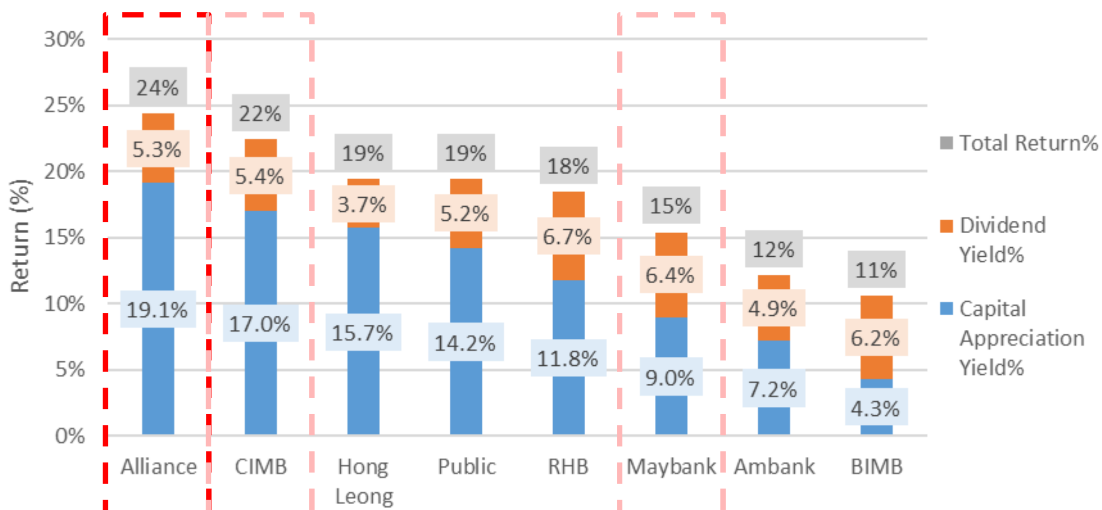


Source: Bloomberg

7 **Alliance Bank is our top pick among the local banks.**

Alliance Bank has the strongest CY25 loan growth of 10% compared to other local banks. They are actively demanding market share while still holding an industry-high NIM of 2.45%.

Exhibit 8: Expected Total Investment Return (Dividend Yield + Capital Appreciation Yield)



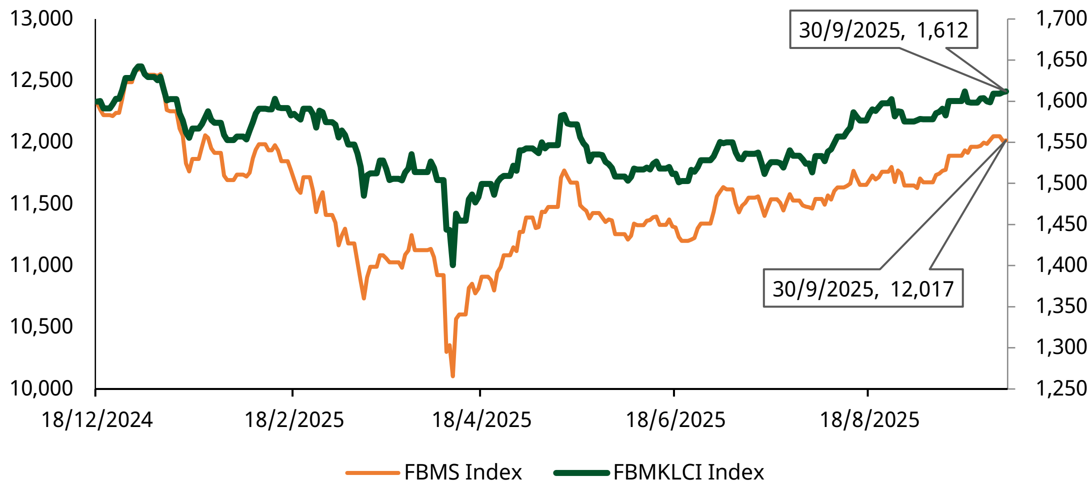
Source: Bloomberg, Astute Fund Management

8 **Alliance Bank is expected to generate the highest total return.**

Its faster-than-industry loan growth (10% vs 5.1%) is key for the bank to outperform the sector. Besides, we also prefer CIMB and Maybank as large-cap defensive stocks in our portfolio.

Appendices

Exhibit 9: KLCI & Shariah Index

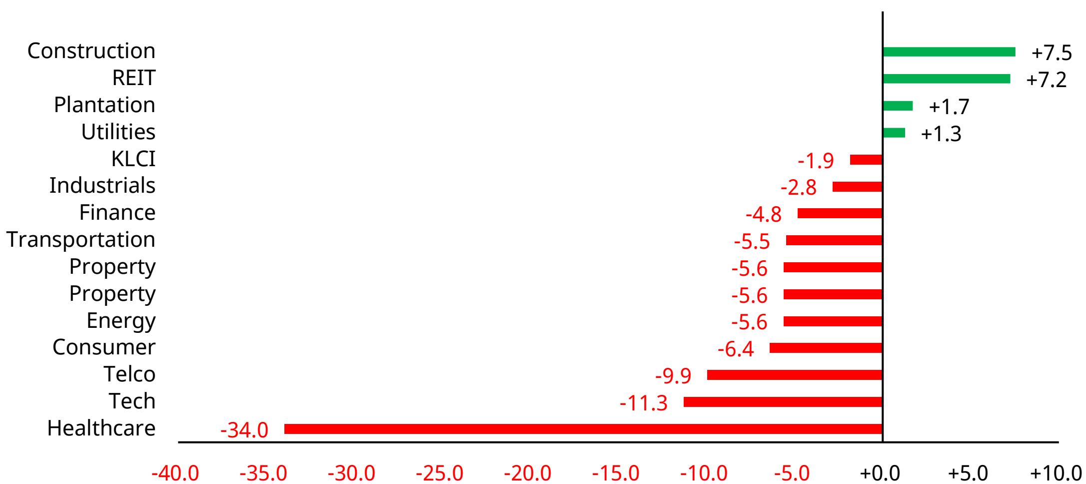


Source: Bloomberg

1 **The KLCI has rebounded amid broad base buying.**

The KLCI recovered by +15% from the trough during Trump's tariff announcement. This is supported by optimism that the worst may be over as research houses lifted their outlook on Corporate Malaysia.

Exhibit 10: Sector Performances Year-to-Date (2/1/25 – 30/9/25, %)



Source: Bloomberg

2 **KLCI kept in the red due to external pressures.**

The healthcare and technology sectors were the top losers. Trump signaled future tariffs on semiconductors despite initial exemptions. Rising costs could reduce Malaysian tech exports' competitiveness in the U.S., negatively impacting the outlook for local technology firms.

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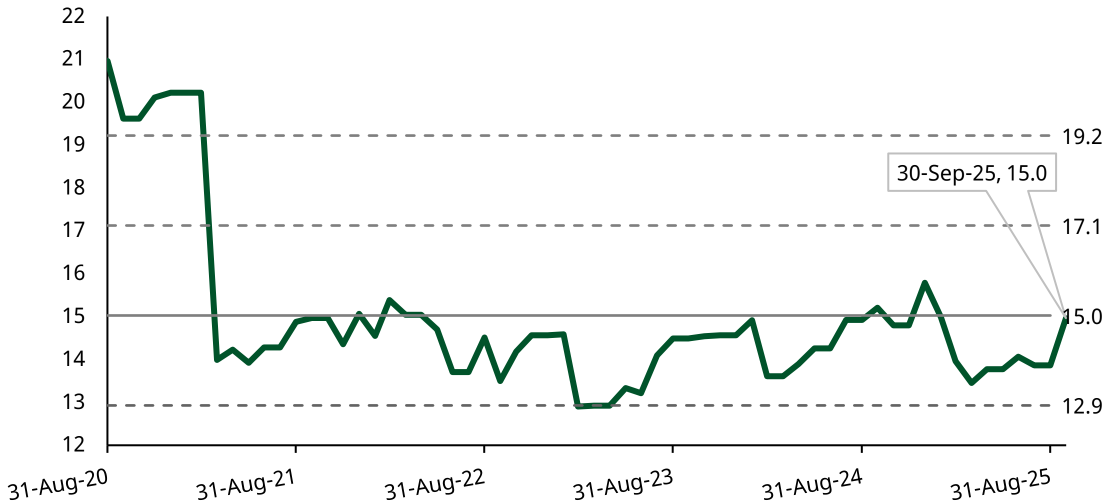
Exhibit 11: KLCI's 12M Forward PER (x)

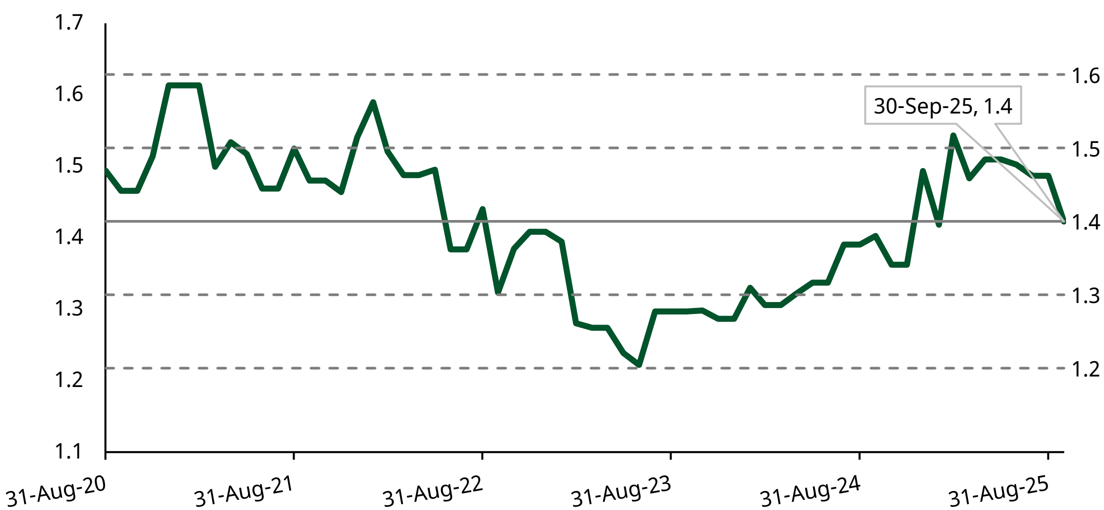


Source: Bloomberg

3 **The KLCI's valuation is fairly valued at the 5Y mean.**

The KLCI trades at a 12-month forward PER of 15x (5Y range 12.9x to 21.0x, 5Y mean of 15.0x).

Exhibit 12: KLCI's 12M Forward PBR (x)



Source: Bloomberg

4 **This is the same for KLCI's PBR.**

The KLCI trades at a 12-month forward PBR of 1.4x (5Y range 1.2x to 1.6x, 5Y mean 1.4x).

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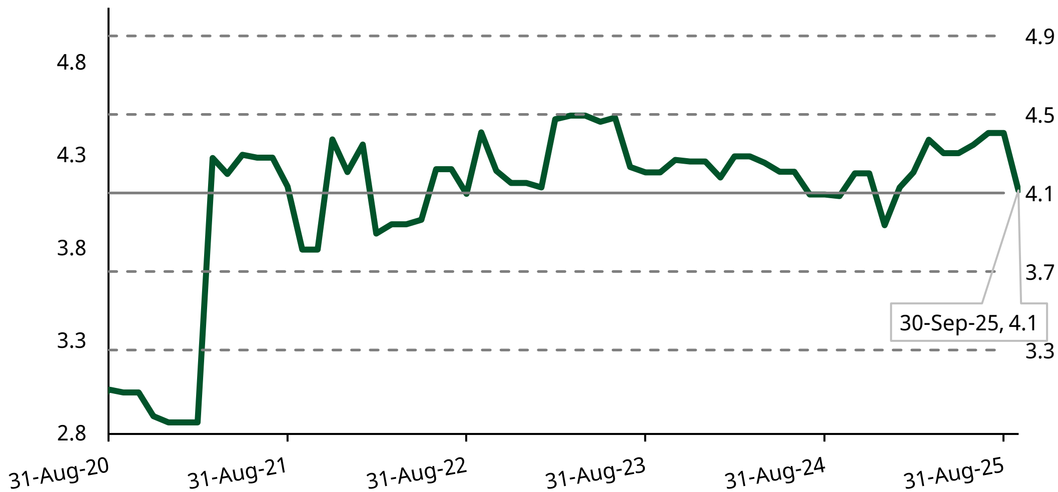
Exhibit 13: KLCI's 12M Forward DY (%)

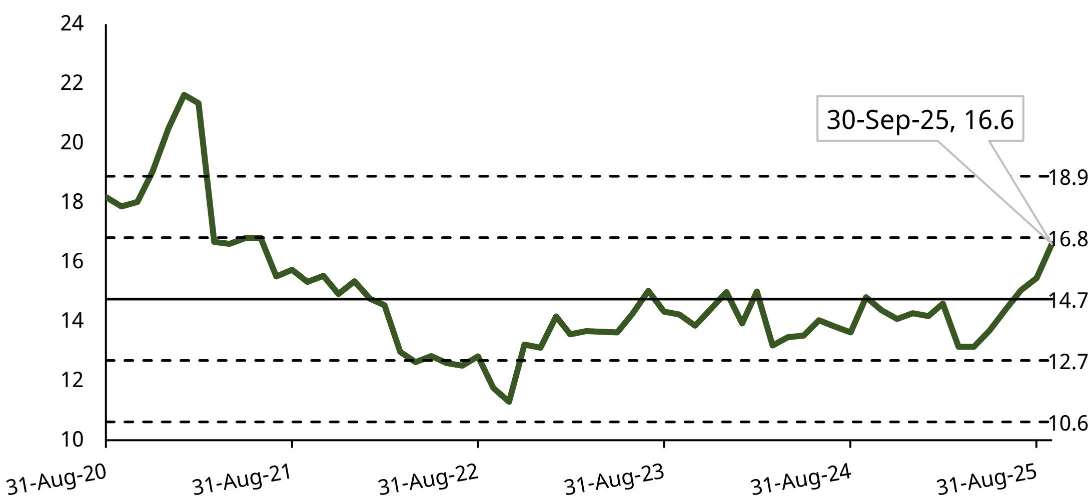


Source: Bloomberg

5 The KLCI dividend yield is attractive.

The KLCI trades at a 12-month forward forecast DY of 4.1% (5Y mean). The appealing dividend yield is likely to support share prices.

Exhibit 14: MSCI AxJ Index's 12M Forward PER (x)



Source: Bloomberg

6 Asia ex Japan is above historical averages.

The MSCI AC Asia ex Japan index trades at a 12-month forward PER of 16.6x (5Y range 11.3x to 21.6x, mean of 14.7x).

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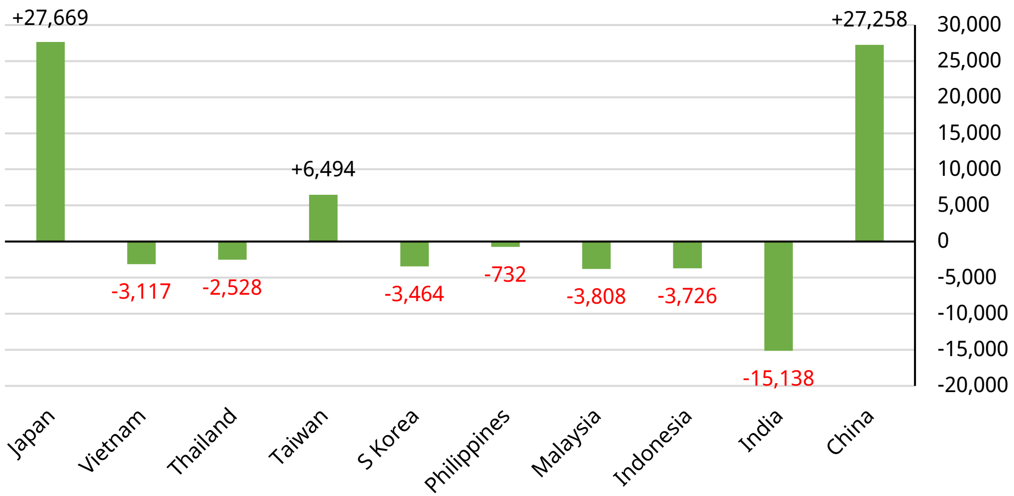
Exhibit 15: Selected ASEAN Markets (Net USD mil)



Source: Bloomberg, data as of 11 September 2025, China's data is as of 31 June 2025.

7

Inflows were the highest in Japan and China. Southeast Asia sees outflows.

Overseas investors turned net buyers in North Asia countries, except South Korea. Fears of Trump’s trade policies remain a key tail risk.

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