

29 February 2024

Financial Services | Banks

## Hong Leong Bank (HLBK MK)

**Buy** (Maintained)

### In The Pursuit Of Higher ROEs

Target Price (Return): MYR23.20 (+18%)  
 Price (Market Cap): MYR19.60 (USD8,933m)  
 ESG score: 3.0 (out of 4)  
 Avg Daily Turnover (MYR/USD) 14.6m/3.10m

- **Keep BUY and MYR23.20 TP, 18% upside and c.3% FY24F (Jun) yield.** Hong Leong Bank's 2QFY24 results met expectations and its key financial metrics are well on track to achieve FY24 targets. Management had previously said it was willing to allow LDR to rise to a more optimal level as part of its pursuit to achieve an ROE of 12-12.5% under its Transformative 3-5 Year Plan. From yesterday's briefing, a higher dividend payout could now be on the cards as well.
- **2QFY24 results in line**, with net profit of MYR1.1bn (+6% QoQ, +4% YoY) bringing 1HFY24 net profit to MYR2.1bn (+5% YoY) – 52% of our and consensus FY24F PATMI. Annualised ROE of 12.2% is tracking slightly ahead of the 12% target (FY23: 11.8%) while CET-1 ratio improved 30bps QoQ to 12.9% (FY23: 12.8%). An interim DPS of 25 sen was declared (1HFY23: 21 sen), which represents an increased interim payout of 24.6% vs 1HFY23: 21.7%, and above our 21 sen expectation.
- **Results highlights.** 2QFY24 net profit rose 6% QoQ on a combination of higher PIOP (+6% QoQ, -6% YoY) and associates contribution (+26% QoQ, +20% YoY), partly offset by lower net writeback in loan impairments. NIM ticked up 1bp QoQ – the third consecutive QoQ increase thanks to a pickup in loan growth (+2% QoQ, +7% YoY) and shedding of costlier deposits from the optimisation of its asset liability mix. QoQ, loan growth was driven by broad segments of SME, corporate and retail while by geography, this came mainly from Singapore. Meanwhile, net loan impairment writeback declined QoQ to MYR6m from MYR51m. We think this largely reflects the ECL for loan growth as asset quality metrics were largely stable QoQ – GIL ratio was 0.56% while LLC stood at 163%.
- **No change to FY24 guidance:** HL Bank is on track to achieve all its FY24 guidance. Notable highlights include 7.5% loans growth, exceeding the guidance of 6-7%, and a net credit cost of -7bps vs c.10bps charge guided, which was retained. That said, management said this does not necessarily imply a spike in 2HFY24 credit cost. Also positive was NIM trajectory, where the bank thinks could end up at the upper half of its 1.8-1.9% guidance (1HFY24: 1.85%). There is no change to the MYR574m in overlays that HL Bank has on its books and management intends to hold on to as much of this as possible. There are no overlay writebacks planned for FY24F while for FY25F, it is looking at the possibility of reallocating the amount via a recalibration of its credit models.
- **Other highlights.** CASA was up 6% QoQ but we note this has been volatile. On an absolute basis, CASA has been hovering around the MYR60-66bn level for the past nine quarters. Management sees good CASA opportunities in the SME space, where the bank has traditionally been good at lending but now, intends to take its fair deposit share via its cash management suite. Finally, on dividends, management sees room to increase payouts to levels closer to peers with more headroom once its CET-1 ratio crosses above the 13% mark.
- **No change to forecasts and TP.** Our TP factors in a 0% ESG premium/discount as HL Bank's ESG score of 3.0 is in line with the country median.

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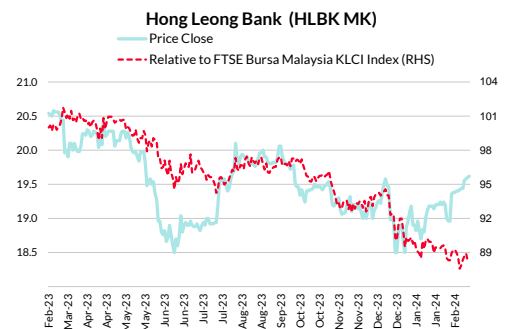


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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	3.8	2.3	3.3	(0.9)	(4.5)
Relative	(3.4)	(1.2)	(4.4)	(8.8)	(11.7)
52-wk Price low/high (MYR)				18.5	20.6



Source: Bloomberg

Forecasts and Valuation	Jun-22	Jun-23	Jun-24F	Jun-25F	Jun-26F
Reported net profit (MYRm)	3,289	3,818	4,041	4,255	4,445
Net profit growth (%)	15.0	16.1	5.8	5.3	4.5
Recurring net profit (MYRm)	3,289	3,818	4,041	4,255	4,445
Recurring EPS (MYR)	1.61	1.86	1.97	2.08	2.17
BVPS (MYR)	15.13	16.59	17.85	19.29	20.80
DPS (MYR)	0.55	0.59	0.62	0.65	0.68
Recurring P/E (x)	12.22	10.53	9.95	9.45	9.05
P/B (x)	1.30	1.18	1.10	1.02	0.94
Dividend Yield (%)	2.8	3.0	3.2	3.3	3.5
Return on average equity (%)	10.9	11.8	11.5	11.2	10.8

Source: Company data, RHB

#### Overall ESG Score: 3.0 (out of 4)

##### E: GOOD

Committed to GHG emissions reduction of 15-25% by 2026, net zero Scope 1 & 2 by 2030, and carbon neutral by 2050. Being a retail-focused bank, lending exposures to the commodities and oil & gas sectors are insignificant. Targets to approve MYR4.0bn in renewable energy financing by FY25 (FY23: 3.2bn) while by FY23, it had exceeded its MYR12bn green and affordable mortgages by MYR1.2bn.

##### S: GOOD

Embraces gender diversity, with 41% of women in senior management and 43% of women in the Board of Directors.

##### G: EXCELLENT

Has not had any material data security or privacy issues over the past few years. The Board of Directors comprises one Executive Director and six Non-Executive Directors, of which five are Independent Non-Executive Directors.

## Financial Exhibits

<b>Asia</b>	<b>Financial summary (MYR)</b>	<b>Jun-22</b>	<b>Jun-23</b>	<b>Jun-24F</b>	<b>Jun-25F</b>	<b>Jun-26F</b>
Malaysia	EPS	1.61	1.86	1.97	2.08	2.17
Financial Services	Recurring EPS	1.61	1.86	1.97	2.08	2.17
<b>Hong Leong Bank</b>	DPS	0.55	0.59	0.62	0.65	0.68
HLBK MK	BVPS	15.13	16.59	17.85	19.29	20.80
Buy						
<b>Valuation basis</b>	<b>Valuation metrics</b>	<b>Jun-22</b>	<b>Jun-23</b>	<b>Jun-24F</b>	<b>Jun-25F</b>	<b>Jun-26F</b>
GGM derived intrinsic value with an ESG overlay. Key GGM assumptions are:	Recurring P/E (x)	12.22	10.53	9.95	9.45	9.05
i. Cost of equity of 9.5%;	P/B (x)	1.3	1.2	1.1	1.0	0.9
ii. ROE of 11.0%; and	Dividend Yield (%)	2.8	3.0	3.2	3.3	3.5
iii. Long-term growth of 3.5%.						
<b>Key drivers</b>	<b>Income statement (MYRm)</b>	<b>Jun-22</b>	<b>Jun-23</b>	<b>Jun-24F</b>	<b>Jun-25F</b>	<b>Jun-26F</b>
Our earnings forecasts are most sensitive to changes in:	Interest income	7,327	9,708	10,983	11,428	11,888
i. Net interest margin;	Interest expense	(2,709)	(5,155)	(6,329)	(6,634)	(6,962)
ii. Loan impairment allowances; and	<b>Net interest income</b>	<b>4,618</b>	<b>4,552</b>	<b>4,655</b>	<b>4,794</b>	<b>4,926</b>
iii. Contributions from associates.	Non interest income	979	1,133	1,224	1,323	1,407
	<b>Total operating income</b>	<b>5,597</b>	<b>5,686</b>	<b>5,879</b>	<b>6,117</b>	<b>6,333</b>
	Overheads	(2,098)	(2,233)	(2,325)	(2,417)	(2,511)
	<b>Pre-provision operating profit</b>	<b>3,499</b>	<b>3,452</b>	<b>3,555</b>	<b>3,700</b>	<b>3,823</b>
	Loan impairment allowances	(164)	(115)	(172)	(178)	(203)
	Other impairment allowances	1	0	1	1	1
	Income from associates	1,030	1,289	1,418	1,525	1,639
	<b>Pre-tax profit</b>	<b>4,367</b>	<b>4,627</b>	<b>4,802</b>	<b>5,048</b>	<b>5,260</b>
	Taxation	(1,078)	(808)	(761)	(793)	(815)
	<b>Reported net profit</b>	<b>3,289</b>	<b>3,818</b>	<b>4,041</b>	<b>4,255</b>	<b>4,445</b>
	<b>Recurring net profit</b>	<b>3,289</b>	<b>3,818</b>	<b>4,041</b>	<b>4,255</b>	<b>4,445</b>
<b>Key risks</b>						
The downside risks include:	<b>Profitability ratios</b>	<b>Jun-22</b>	<b>Jun-23</b>	<b>Jun-24F</b>	<b>Jun-25F</b>	<b>Jun-26F</b>
i. Weaker-than-expected loan growth;	Return on average assets (%)	1.3	1.4	1.4	1.4	1.4
ii. Softer-than-expected NIMs;	Return on average equity (%)	10.9	11.8	11.5	11.2	10.8
iii. Lower-than-expected non-interest income; and	Return on IEAs (%)	3.1	3.9	4.1	4.1	4.1
iv. Lower-than-expected profits from Bank of Chengdu.	Cost of funds (%)	1.3	2.3	2.6	2.6	2.7
	Net interest spread (%)	1.8	1.6	1.5	1.5	1.4
	Net interest margin (%)	2.0	1.8	1.7	1.7	1.7
	Non-interest income / total income (%)	17.5	19.9	20.8	21.6	22.2
	Cost to income ratio (%)	37.5	39.3	39.5	39.5	39.6
	Credit cost (bps)	10.1	6.6	9.2	9.1	9.9
<b>Company Profile</b>	<b>Balance sheet (MYRm)</b>	<b>Jun-22</b>	<b>Jun-23</b>	<b>Jun-24F</b>	<b>Jun-25F</b>	<b>Jun-26F</b>
Hong Leong Bank is involved in the provision of conventional and Islamic banking services. The group's operations span across Malaysia, Singapore, Hong Kong, Vietnam, Cambodia and China, via its strategic shareholding in Bank of Chengdu.	Total gross loans	168,224	181,662	190,305	199,820	208,812
	Other interest earning assets	72,736	79,379	82,521	85,813	89,265
	Total gross IEAs	240,960	261,041	272,825	285,633	298,076
	Total provisions	(1,736)	(1,759)	(2,036)	(2,138)	(2,235)
	Net loans to customers	166,488	179,903	188,268	197,682	206,576
	Total net IEAs	239,224	259,282	270,789	283,495	295,841
	Total non-IEAs	15,107	20,568	20,663	21,347	21,952
	Total assets	254,331	279,850	291,452	304,842	317,793
	Customer deposits	199,961	213,902	226,736	238,073	248,787
	Other interest-bearing liabilities	13,753	23,398	19,815	19,228	18,665
	Total IBLs	213,714	237,301	246,551	257,301	267,451
	Total non-IBLs	9,629	8,563	8,333	8,007	7,695
	Total liabilities	223,342	245,864	254,884	265,309	275,146
	Share capital	2,168	2,168	2,168	2,168	2,168
	Shareholders' equity	30,989	33,987	36,568	39,533	42,647
	<b>Asset quality and capital</b>	<b>Jun-22</b>	<b>Jun-23</b>	<b>Jun-24F</b>	<b>Jun-25F</b>	<b>Jun-26F</b>
	Reported NPLs / gross cust loans (%)	0.5	0.6	0.6	0.6	0.6
	Total provisions / reported NPLs (%)	211.8	168.8	178.3	181.3	175.3
	CET-1 ratio (%)	17.1	13.0	14.2	15.2	16.2
	Tier-1 ratio (%)	18.2	14.1	15.2	16.2	17.2
	Total capital ratio (%)	20.3	16.2	17.2	18.1	19.0

Source: Company data, RHB

## Results At a Glance

Figure 1: HL Bank's 2QFY24 and 1HFY24 results summary

FYE Jun (MYRm)	2QFY23	1QFY24	2QFY24	QoQ (%)	YoY (%)	1HFY23	1HFY24	YoY (%)	Comments –1HFY24 vs 1HFY23
NII (+Islamic banking)	1,198	1,126	1,156	3	(4)	2,430	2,282	(6)	NIM compression of 29bps due to higher funding cost, cushioned by 7% YoY loan growth
NIM (%) - reported	2.09	1.84	1.85			2.14	1.85		
Non-II	288	268	309	15	7	556	577	4	Higher fees of MYR328m (1HFY23: MYR305m), forex (MYR146m vs 1HFY23: MYR99m) and lower realised losses from investments (MYR15m vs 1HFY23: MYR82m loss) offset by lower MTM gains of MYR3m (1HFY23: MYR147m gain)
Non-II/total income (%)	19.4	19.2	21.1			18.6	20.2		
Operating income	1,486	1,394	1,465	5	(1)	2,986	2,859	(4)	
Overhead expenses	(546)	(556)	(578)	4	6	(1,087)	(1,134)	4	
CIR (%)	36.7	39.9	39.4			36.4	39.7		
PIOP	940	838	887	6	(6)	1,899	1,725	(9)	
Impairments on financial assets	(1)	(0)	0	>100	>100	(0)	(0)	58	
Impairments losses on loans	(25)	51	6	(89)	>100	(63)	57	>100	
Annualised credit cost (bps)	6	(11)	(1)			8	(7)		Under c.10bps target
Operating profit	914	889	893	1	(2)	1,836	1,782	(3)	
Associates	373	354	448	26	20	638	803	26	
Pre-tax profit	1,287	1,243	1,341	8	4	2,474	2,584	4	
Tax	(245)	(213)	(253)	19	3	(451)	(466)	3	
Effective tax rate (%)	19.1	17.2	18.9			18.2	18.0		
Net profit	1,042	1,030	1,088	6	4	2,023	2,118	5	
<b>Other key data and ratios</b>									
Gross loans	172,281	181,726	185,165	2	7				YTD growth of 2% mainly from domestic (+2%)
Customer deposits	201,171	211,278	213,283	1	6				YTD growth of 1% with fixed deposits rising 2% while CASA expanded 1%. CASA ratio stood at 31.8% (1QFY24: 29.6% 4QFY23: 30.8%)
Gross impaired loans	838	1,030	1,033	0	23				YoY rise mainly from domestic while by sectors, impaired residential and non-residential mortgages as well as working capital loans led the increase
Total assets	265,189	282,574	285,082	1	8				
Shareholders' funds	32,083	34,189	35,546	4	11				
ROAA (%)	1.58	1.48	1.55			1.56	1.52		
ROAE (%)	13.2	12.1	12.5			12.8	12.2		In line with its FY24 target of c.12%
LDR (%)	84.8	85.2	86.0						
GIL ratio (%)	0.49	0.57	0.56						
Loan loss coverage (%)	210.1	164.6	163.4						
CET-1 ratio (%)	13.2	12.6	12.9						

Source: Company data, RHB

## Management guidance

Figure 2: Management guidance and financial targets

	FY23	1HFY24	FY24 targets	Comments
Reported ROE	11.8%	12.2%	c. 12%	
Gross loan growth	8%	7.5% YoY	6-7%	Loan growth drivers are unchanged, i.e. SME, commercial banking, retail and overseas
NIM	1.98%	1.85%	1.8-1.9%	
CIR	39.3%	39.7%	<40%	
GIL	0.57%	0.56%	<0.7%	Reaping the efforts of more stringent credit underwriting standards earlier
Net credit cost	7bps	-7bps (annualised)	c. 10bps	Overlays unchanged at MYR574m
CASA mix	30.8%	31.1%	>30%	

Source: Company data, RHB

## Valuation and TP

No change to our MYR23.20 TP, which is based on a GGM-derived P/BV of 1.25x – a discount to the stock's historical mean of 1.44x partly to reflect the macroeconomic headwinds China is going through. There is a 0% ESG premium/discount applied to our intrinsic value as HL Bank's ESG score of 3.0 is in line with the country median score of 3.0.

Figure 3: HL Bank – GGM valuation with ESG overlay

<b>Cost of equity (COE) computation:</b>		Sustainable ROE (%)	11.0
Risk free rate (%)	4.0	COE (%)	9.5
Equity premium (%)	5.5	Long-term growth (g)	3.5
Beta (x)	1.0	Implied P/BV (x)	1.25
Cost of equity - CAPM (%)	9.5	BVPS – 12-month forward	MYR18.58
		Intrinsic value	MYR23.21
ESG premium/(discount) (%)	0	ESG premium/(discount)	0
		<b>TP (rounded)</b>	<b>MYR23.20</b>

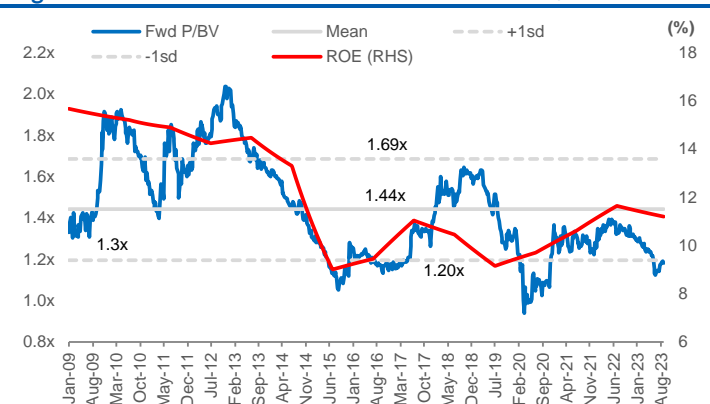
Source: Company data, RHB

Figure 4: HL Bank's 12-month forward consensus P/E



Source: Bloomberg, RHB

Figure 5: HL Bank's 12-month forward consensus P/BV



Source: Bloomberg, RHB

## Emissions And ESG

### Trend analysis

Hong Leong Bank's GHG emissions disclosures include emissions data from its Malaysia, Singapore and Hong Kong operations. In FY23 (Jun), the group recorded a 19% reduction in total emissions across the three markets.

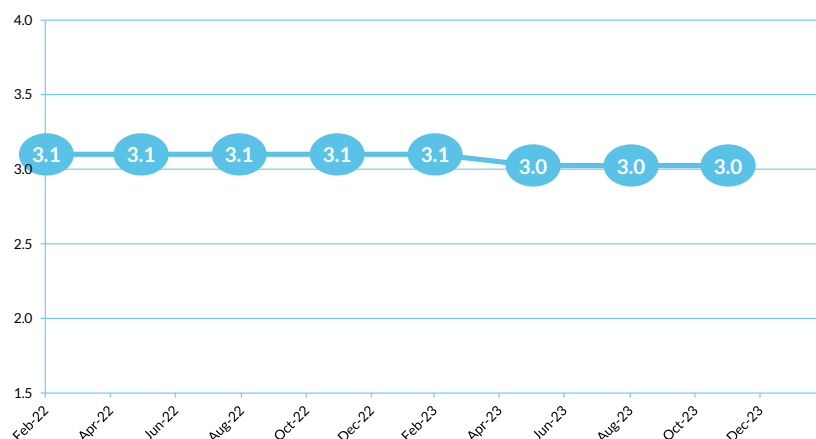
Emissions (tCO2e)	Jun-21	Jun-22	Jun-23
Scope 1	146	97	130
Scope 2	30,436	28,575	27,699
Scope 3	7,691	9,360	12,384
Total emissions	38,273	38,032	40,213

Source: Company data, RHB

## Latest ESG-Related Developments

- Launches e-payment programme in rural Selangor:** Hong Leong Bank recently launched the e-Duit Desa programme in Sabak Bernam, Selangor, providing residents with access to e-payments and other financial solutions as part of its financial inclusion agenda.
- ESG awards:** Hong Leong Bank was recently awarded the Bank of the Year - ESG Leadership Award at the 2023 Sustainability & CSR Malaysia Awards ceremony, its first win in an ESG category.

## ESG Rating History



Source: RHB

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-02-19	Buy	23.2	19.4
2023-12-01	Buy	23.2	19.1
2023-09-01	Buy	23.2	20.0
2023-05-31	Buy	22.6	19.4
2023-03-08	Buy	23.1	20.6
2022-11-30	Buy	24.6	20.9
2022-08-31	Buy	23.9	20.9
2022-05-30	Buy	23.7	21.1
2022-03-01	Buy	23.5	20.4
2021-11-30	Buy	23.1	18.1
2021-08-31	Buy	21.7	19.2
2021-05-27	Buy	22.5	18.3
2021-02-28	Buy	21.9	18.0
2020-12-16	Buy	21.9	18.7
2020-11-29	Buy	19.6	17.0

Source: RHB, Bloomberg

## RHB Guide to Investment Ratings

<b>Buy:</b>	Share price may exceed 10% over the next 12 months
<b>Trading Buy:</b>	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
<b>Neutral:</b>	Share price may fall within the range of +/- 10% over the next 12 months
<b>Take Profit:</b>	Target price has been attained. Look to accumulate at lower levels
<b>Sell:</b>	Share price may fall by more than 10% over the next 12 months
<b>Not Rated:</b>	Stock is not within regular research coverage

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