

29 November 2024

Financial Services | Banks

Hong Leong Bank (HLBK MK)

Buy (Maintained)

Home Operations Pick Up Pace; BUY

Target Price (Return): MYR26.60 (29.4%)
 Price (Market Cap): MYR20.60 (USD10,023m)
 ESG score: 3.1 (out of 4)
 Avg Daily Turnover (MYR/USD) 38.5m/8.94m

- **Keep BUY and MYR26.60 TP, 29% upside and c.4% FY25F (Jun) yield.** Hong Leong Bank's (HLB) 1QFY25 results were in line with expectations, with pre-associates profits growth outpacing that of Bank of Chengdu (BOCD) contributions – as is management's strategic aim. Hong Leong Bank remains our preferred defensive pick for its stable earnings and resilient asset quality, while valuations are also undemanding.
- **Results review.** HLB's 1QFY25 net profit of MYR1.09bn (+6% YoY, +5% QoQ) was in line, forming 25% and 24% of our and Street's full-year estimates. YoY growth was driven by both NII (+10%) and non-II (+32%), with opex up by a softer 12%. PIOP was up 16%, but was met with impairment allowances of MYR7m (vs net write-back of MYR51m in 1QFY24). Similar trends were observed on a QoQ basis, with NII (+3%), non-II (+31%) and opex (flat) bringing PIOP up 15%. Pre-associates PBT was up 9% YoY (QoQ: +10%), and BOCD contributions added a further MYR375m (+6% YoY, -7% QoQ) to the bottomline. 1QFY25 ROE of 11.8% (1QFY24: 12.1%, 4QFY24: 11.2%) was largely in line with the guidance of c.12% for FY25F.
- **Non-II was a key driver of 1QFY25 profits**, up 32% YoY to MYR354m. While the bulk of the gains came from the more volatile treasury and markets income, franchise sales of MYR105m was a 60% YoY increase, which adds to the sustainability of the non-II base, in our view. Wealth management income – another of management's areas of focus – was up 32% YoY.
- **Loans growth continued its strong momentum**, adding 7% YoY (QoQ: flat) – key drivers were residential mortgages (+6% YoY, +1% QoQ), hire purchase loans (+12% YoY, +1% QoQ), and SMEs (+11% YoY, -1% QoQ). Regionally, YoY growth in Singapore and Vietnam was also strong at 10% and 15% on a local currency basis. Deposits growth was slightly more muted at 5% YoY (QoQ: flat), but encouragingly, CASA growth was a robust 14% YoY (QoQ: -2%). While it sees some NIM pressure arising from the year-end deposit competition, management thinks it should still end the financial year within the guided range of 1.85-1.95% (1QFY25: 1.92%).
- **Other highlights.** Asset quality was stable during the quarter with the GIL ratio at 0.54% (4QFY24: 0.53%, 1QFY24: 0.57%). Credit costs of 2bps in 1QFY24 broke the trend of net write-backs throughout FY24, but remains well below management's guidance of <10bps. With CET-1 ratio now above 13%, HLB aims to gradually raise its dividend payout ratios to levels that are more in line vs its peers (ie 5-6% yield). Elsewhere, HLB hopes to bring BOCD contributions to group PBT down to c.25% (1QFY25: 28%) via a natural dilution of its stake (to 17.8%; currently at 19.2%).

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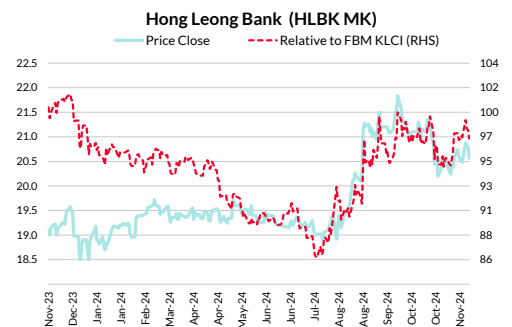


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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	8.8	(1.4)	(2.6)	6.4	8.2
Relative	(1.0)	(0.6)	2.1	7.5	(2.1)
52-wk Price low/high (MYR)				18.5	-21.8



Source: Bloomberg

Overall ESG Score: 3.1 (out of 4)

E: GOOD

HLB's operational emissions (ie Scope 1 and 2) declined by 24% against its FY19 baseline - this falls within the group's 15-25% reduction target by FY26. HLB has also begun tracking Scope 3 financed emissions for its mortgage and hire purchase portfolios. It has MYR2.5bn in outstanding green bond proceeds to be channelled towards loans for ESG-linked purposes (eg large scale solar projects, purchase of green properties).

S: EXCELLENT

HLB embraces gender diversity, with 42% of women in senior management and 38% of women in the Board of Directors. Employee diversity, retention and training metrics are also decent.

G: EXCELLENT

Four out of the seven Board members are independent directors. The Group Managing Director and select senior management members are assessed against objectives that are aligned with the bank's sustainability and climate-related targets and strategy.

Forecasts and Valuation	Jun-23	Jun-24	Jun-25F	Jun-26F	Jun-27F
Reported net profit (MYRm)	3,818	4,196	4,384	4,718	5,073
Net profit growth (%)	16.1	9.9	4.5	7.6	7.5
Recurring net profit (MYRm)	3,818	4,196	4,384	4,718	5,073
Recurring EPS (MYR)	1.86	2.05	2.14	2.30	2.47
BVPS (MYR)	16.59	18.20	19.33	20.86	22.49
DPS (MYR)	0.59	0.68	0.74	0.81	0.88
Recurring P/E (x)	11.03	10.04	9.61	8.93	8.31
P/B (x)	1.24	1.13	1.06	0.99	0.91
Dividend Yield (%)	2.9	3.3	3.6	3.9	4.3
Return on average equity (%)	11.8	11.8	11.4	11.5	11.4

Source: Company data, RHB

Financial Exhibits

Asia	Financial summary (MYR)	Jun-23	Jun-24	Jun-25F	Jun-26F	Jun-27F
Malaysia	EPS	1.86	2.05	2.14	2.30	2.47
Financial Services	Recurring EPS	1.86	2.05	2.14	2.30	2.47
Hong Leong Bank	DPS	0.59	0.68	0.74	0.81	0.88
HLBK MK	BVPS	16.59	18.20	19.33	20.86	22.49
Buy						
	Valuation metrics	Jun-23	Jun-24	Jun-25F	Jun-26F	Jun-27F
	Recurring P/E (x)	11.03	10.04	9.61	8.93	8.31
	P/B (x)	1.2	1.1	1.1	1.0	0.9
	Dividend Yield (%)	2.9	3.3	3.6	3.9	4.3
	Income statement (MYRm)	Jun-23	Jun-24	Jun-25F	Jun-26F	Jun-27F
	Interest income	9,708	11,333	11,877	12,371	12,938
	Interest expense	(5,155)	(6,664)	(6,962)	(7,226)	(7,584)
	Net interest income	4,552	4,669	4,915	5,144	5,354
	Non interest income	1,133	1,102	1,193	1,272	1,388
	Total operating income	5,686	5,771	6,108	6,416	6,743
	Overheads	(2,233)	(2,339)	(2,469)	(2,606)	(2,750)
	Pre-provision operating profit	3,452	3,432	3,639	3,810	3,992
	Loan impairment allowances	(115)	114	(107)	(129)	(168)
	Other impairment allowances	0	(1)	1	1	1
	Income from associates	1,289	1,589	1,788	2,011	2,262
	Pre-tax profit	4,627	5,134	5,320	5,693	6,087
	Taxation	(808)	(938)	(936)	(976)	(1,013)
	Reported net profit	3,818	4,196	4,384	4,718	5,073
	Recurring net profit	3,818	4,196	4,384	4,718	5,073
	Profitability ratios	Jun-23	Jun-24	Jun-25F	Jun-26F	Jun-27F
	Return on average assets (%)	1.4	1.5	1.4	1.5	1.5
	Return on average equity (%)	11.8	11.8	11.4	11.5	11.4
	Return on IEAs (%)	3.9	4.2	4.2	4.2	4.2
	Cost of funds (%)	2.3	2.7	2.7	2.8	2.8
	Net interest spread (%)	1.6	1.5	1.5	1.4	1.4
	Net interest margin (%)	1.8	1.7	1.7	1.7	1.7
	Non-interest income / total income (%)	19.9	19.1	19.5	19.8	20.6
	Cost to income ratio (%)	39.3	40.5	40.4	40.6	40.8
	Credit cost (bps)	6.60	(6.07)	5.37	6.13	7.62
	Balance sheet (MYRm)	Jun-23	Jun-24	Jun-25F	Jun-26F	Jun-27F
	Total gross loans	181,662	194,918	204,098	215,323	226,089
	Other interest earning assets	79,379	82,416	85,216	88,459	91,856
	Total gross IEAs	261,041	277,334	289,314	303,783	317,946
	Total provisions	(1,759)	(1,614)	(1,653)	(1,702)	(1,743)
	Net loans to customers	179,903	193,304	202,445	213,621	224,347
	Total net IEAs	259,282	275,720	287,661	302,081	316,203
	Total non-IEAs	20,568	22,069	19,892	19,423	20,067
	Total assets	279,850	297,789	307,553	321,503	336,270
	Customer deposits	213,902	222,599	233,729	244,247	255,238
	Other interest-bearing liabilities	23,398	28,523	23,933	23,202	22,501
	Total IBLs	237,301	251,123	257,662	267,449	277,739
	Total non-IBLs	8,563	9,372	10,283	11,296	12,410
	Total liabilities	245,864	260,495	267,945	278,745	290,149
	Share capital	2,168	2,169	2,169	2,169	2,169
	Shareholders' equity	33,987	37,294	39,608	42,759	46,121
	Asset quality and capital	Jun-23	Jun-24	Jun-25F	Jun-26F	Jun-27F
	Reported NPLs / gross cust loans (%)	0.6	0.5	0.5	0.4	0.4
	Total provisions / reported NPLs (%)	168.8	155.0	169.4	180.7	185.0
	CET-1 ratio (%)	13.0	13.6	13.1	13.0	13.0
	Tier-1 ratio (%)	14.1	14.6	14.0	13.9	13.8
	Total capital ratio (%)	16.2	16.6	15.9	15.7	15.5

Source: Company data, RHB

Results At a Glance

Figure 1: HLB - summary of 1QFY25 results

FYE 30 Jun (MYRm)	1QFY24	4QFY24	1QFY25	QoQ (%)	YoY (%)	Comments
NII (+Islamic Banking)	1,126	1,206	1,244	3	10	YoY driven by 7% growth in loans, while NIM was also up 8bps.
NIM (%) - reported	1.84	1.89	1.92			
Non-II	268	271	354	31	32	Of this, wealth management and bancassurance income grew 32% YoY, while franchise sales was up 60% YoY.
Non-II/Total income (%)	19.2	18.3	22.2			
Operating income	1,394	1,477	1,598	8	15	
Overhead expenses	(556)	(628)	(626)	(0)	12	
CIR (%)	39.9	42.5	39.1			
PIOP	838	849	972	15	16	
Impairment on other assets	(0)	0	(0)	>100	(56)	
Loan loss provisions	51	31	(7)	>100	>100	
Annualised credit cost (bps)	(11)	(7)	2			Still well below management's guidance of <10bps.
Operating profit	889	880	965	10	9	
Associates	354	402	375	(7)	6	BOCD's 9M24 (FYE Dec) net profit of CNY9bn was up 11% YoY, with 22% gross loans growth and 3% operating income growth.
Pretax profit	1,243	1,282	1,339	4	8	
Tax	(213)	(248)	(249)	1	17	
Effective tax rate (%)	17.2	19.3	18.6			
Net profit	1,030	1,034	1,090	5	6	Forms 25%/24% of our/consensus' full-year estimates.
Other key data and ratios						
Gross loans	181,677	187,810	194,927	4	7	Driven by hire purchase loans (+12% YoY), residential mortgages (+6%), and SME loans (+11%). By geography, SG and VN loans were up by a slower 3% and 1% YoY due to forex movements - growth on a local currency basis was +10% and +15%.
Customer deposits	211,278	222,599	221,752	(0)	5	CASA deposits added 14% YoY, leading to a CASA ratio expansion to 32.1% from 29.6% in the previous year.
Gross impaired loans	1,030	1,041	1,049	1	2	
Total assets	282,574	297,789	292,918	(2)	4	
Shareholders' funds	34,189	37,294	36,442	(2)	7	
ROAA (%)	1.48	1.42	1.49			
ROAE (%)	12.1	11.2	11.8			
LDR (%)	85.2	86.8	86.9			
GIL ratio (%)	0.57	0.53	0.54			
LLC (%) - excluding regulatory reserves	164.6	155.0	145.5			
CET-1 ratio (%)	12.6	13.3	13.2			

Source: Company data, RHB

Management guidance

Figure 2: HLB - management guidance and financial targets

	FY24 actual	FY25 targets	1Q25 achieved	Comments
Reported ROE	11.8%	c.12%	11.8%	
Reported NIM	1.86%	1.85-1.95%	1.92%	Management sees some NIM pressure arising from the seasonal deposit competition, but will continue to focus on retail/SME CASA acquisition to bring cost of funds down sustainably.
CIR	40.5%	c.41%	39.1%	Guidance is for slightly higher CIR YoY partly to factor in costs related to business expansion in Singapore.
Reported credit cost	-6bps	<10bps	2bps	
Loans growth	7.3%	6-7%	6.9%	In the 1QFY25 results briefing, management highlighted the SME segment as a major driver for loans growth moving forward. We also expect sustained momentum in the residential mortgages and hire purchase portfolios. Regionally, Singapore is also showing good growth, coming mostly from the commercial and SME space.

Source: Company data, RHB

Earnings forecasts

We adjust our forecasts slightly for housekeeping adjustments post release of the FY24 annual audited accounts. The net impact to our earnings forecasts is very minimal.

Figure 3: HLB - revisions to earnings forecasts

	Previous FY25F	Previous FY26F	Previous FY27F	Revised FY25F	Revised FY26F	New FY27F	% Change FY25F	% Change FY26F	% Change FY27F
FYE Dec (MYRm)									
Net interest income	5,060	5,293	5,510	4,915	5,144	5,354	-2.9%	-2.8%	-2.8%
Non-interest income	1,048	1,119	1,228	1,193	1,272	1,388	13.9%	13.7%	13.1%
Operating expenses	(2,469)	(2,606)	(2,750)	(2,469)	(2,606)	(2,750)	0.0%	0.0%	0.0%
PIOP	3,639	3,806	3,987	3,639	3,810	3,992	0.0%	0.1%	0.1%
Impairment charges	(107)	(128)	(168)	(107)	(128)	(168)	0.0%	0.0%	0.0%
Pretax profit	5,320	5,689	6,082	5,320	5,693	6,087	0.0%	0.1%	0.1%
Net profit	4,384	4,714	5,070	4,384	4,718	5,073	0.0%	0.1%	0.1%
EPS (MYR)	2.14	2.30	2.47	2.14	2.30	2.47	0.0%	0.1%	0.1%
DPS (MYR)	0.74	0.81	0.88	0.74	0.81	0.88	0.0%	0.0%	0.0%
Loan growth (%)	6.5	5.5	5.0	6.5	5.5	5.0			
NIM (%)	1.80	1.80	1.78	1.74	1.74	1.73			
CIR (%)	40.4	40.6	40.8	40.4	40.6	40.8			
Credit cost (bps)	5	6	8	5	6	8			

Source: Company data, RHB

Valuation and TP

Our TP is kept at MYR26.60, and is based on an unchanged GGM-derived P/BV of 1.30x, near -0.5SD from the mean. No changes were made to our model inputs following the 1QFY25 results release. Our TP includes an unchanged 2% ESG premium, as its ESG score of 3.1 is one notch above the country median.

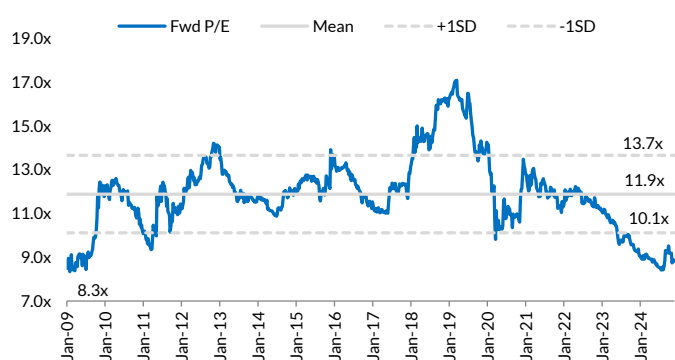
We consider HLB to be a major laggard play in the sector. With its undemanding valuation (-1.5SD from mean P/BV) and its solid operating fundamentals – including a focus on regional operations to reduce its reliance on BOCD contributions – we maintain our BUY call on the counter.

Figure 4: HLB - GGM valuation with ESG overlay

Cost of equity (COE) computation:		Sustainable ROE (%)	11.3
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)	1.30
Cost of equity - CAPM (%)	9.5	BVPS - CY25F	MYR20.09
		Intrinsic value	MYR26.10
ESG premium/(discount) (%)	2.0	ESG premium/(discount)	MYR0.52
		TP (rounded)	MYR26.60

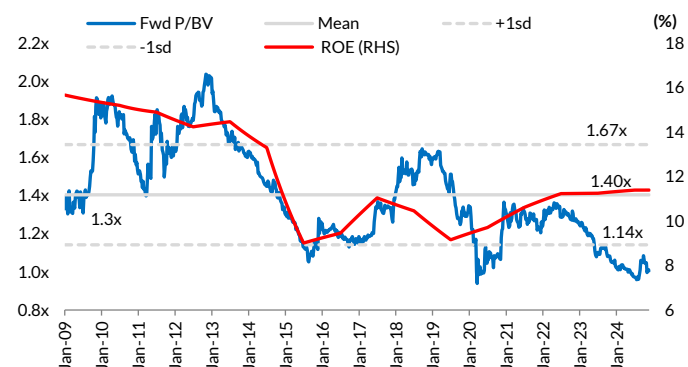
Source: Company data, RHB

Figure 5: HLB's 12-month forward consensus P/E



Source: Bloomberg, RHB

Figure 6: HLB's 12-month forward consensus P/BV



Source: Bloomberg, RHB

Emissions And ESG

Trend analysis

In FY24 (Jun), the group recorded a 24% reduction in group-wide operational emissions (ie scope 1 and 2) compared to its baseline year of FY19. This is ahead of the group's short-term goal of 15-25% reduction by FY26.

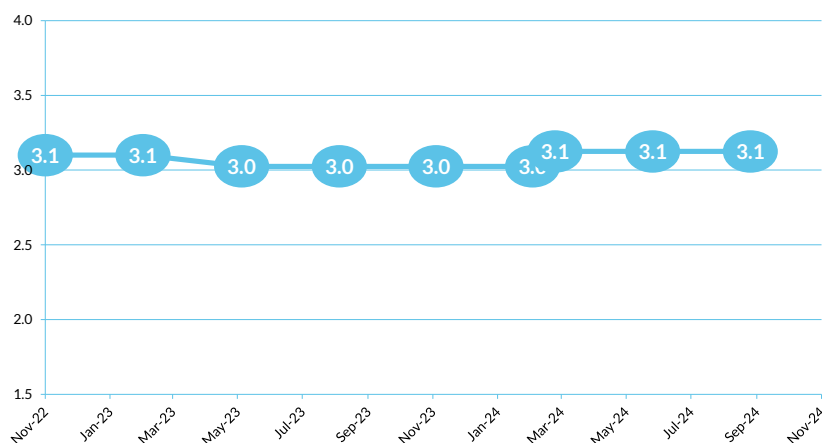
Emissions (tCO2e)	Jun-22	Jun-23	Jun-24
Scope 1	110	141	121
Scope 2	28,447	27,614	26,278
Scope 3	9,357	12,336	13,824
Total emissions	37,914	40,091	40,223

Source: Company data, RHB

Latest ESG-Related Developments

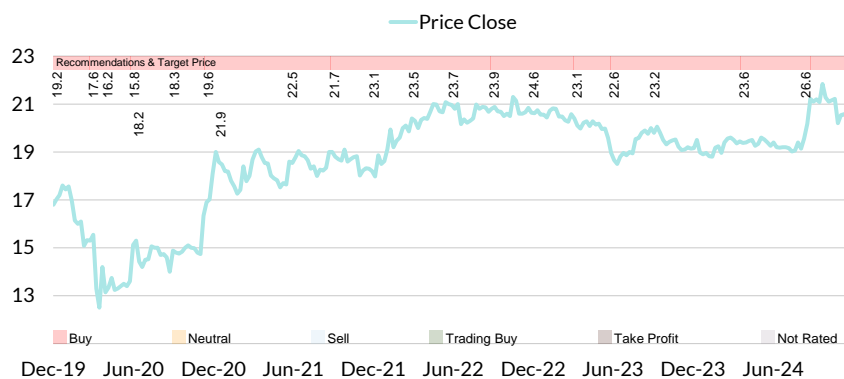
- Launches e-payment programme in rural Selangor:** HLB recently launched the e-Duit Desa programme in Sabak Bernam, Selangor, providing residents with access to e-payments and other financial solutions as part of its financial inclusion agenda.
- ESG awards:** HLB was recently awarded the Bank of the 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
2024-08-30	Buy	26.6	21.2
2024-05-31	Buy	23.6	19.3
2024-03-21	Buy	23.6	19.3
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

Source: RHB, Bloomberg

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

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