

1 September 2021

Financial Services | Banks

Hong Leong Bank (HLBK MK)

Buy (Maintained)

Optimism With a Dash Of Caution; BUY

- **Keep BUY with lower TP MYR21.70 from MYR22.50, 13% upside and c.3% yield.** Hong Leong Bank's FY21 (Jun) results came in within our and consensus estimates although actual credit cost overshoot guidance. A 35.22 sen final DPS was proposed (FY21: 50 sen, 36% payout). Management sounded optimistic on FY22F recovery prospects and confident on asset quality. We conservatively assume a slightly higher credit cost for FY22F given the low visibility surrounding asset quality. Our TP values HL Bank at 1.4x FY22F P/BV.
- **Outlook and guidance.** Management sounded optimistic on FY22F. Notable FY22F targets include ROE: >10%, NIM: >2.05%, and credit cost: c.20bps (see Figure 2 for all targets). We believe the 20bps credit could be a tad too optimistic given the low visibility on the actual asset quality. We conservatively assume 25bps credit cost for FY22F. Management is still undecided on the subscription amount of Bank of Chengdu's (associate) convertible securities at the moment.
- **FY21 in line.** HL Bank printed MYR2,861m in PATAMI which was 15% higher YoY. The results were in line with our and consensus estimates. Full-year ROE came in at 10.1%, a tad above the guided range of 9.5-10%. The lender declared a final DPS of 35.22 sen, taking full-year DPS to 50 sen, implying a 36% payout.
- **4QFY21 earnings drivers.** PATAMI was up 21% YoY but fell 11% QoQ as management booked in further overlays during the quarter. PIOP declined 8% QoQ as non-II eased 34% QoQ on tapering investment gains. NII was up 4% QoQ as loans grew 2% QoQ while NIM was steady at 2.20%. CIR drifted slightly higher to 40% from 37% a quarter, largely due to the weak income although opex was up 4% QoQ. Credit cost came in higher than management's guidance at 50bps as it further built provision buffers in view of the prolonged lockdown and increase in percentage of borrowers on relief program.
- **Other highlights.** The percentage of borrowers on relief doubled to 21% of total gross loans as at end-July, driven entirely by the latest round of moratorium. Loan growth was strong at 2% QoQ (FY21: +7% YoY) largely due to strengths in mortgages and SME loans. GIL ratio fell to 0.46% from 0.53% a quarter ago. Deposits grew another 1.4% QoQ (FY21: +5% YoY) but CASA ratio was at an impressive 32.3%.
- **Earnings and TP.** We cut our FY22-23F earnings by 7% and 4% mainly on higher credit cost, lower loan growth and NIM assumptions. Our TP is lower at MYR21.70 as a result. We value HL Bank at 1.4x FY22F P/BV.

Target Price (Return): MYR21.7 (13.0%)
 Price: MYR19.2
 Market Cap: USD10,006m
 Avg Daily Turnover (MYR/USD) 15.1m/3.62m

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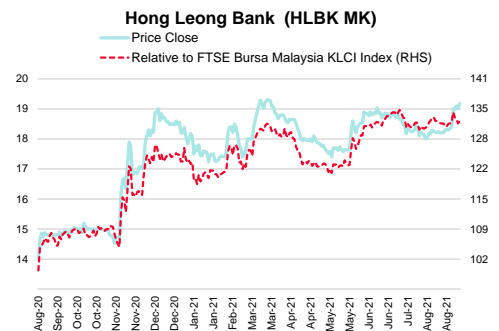


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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	5.4	6.6	3.1	6.6	37.0
Relative	7.0	(0.5)	2.7	5.1	32.0
52-wk Price low/high (MYR)				14.5	19.3



Source: Bloomberg

Overall ESG Score: 3.1 (out of 4)

E: Good

HL Bank reported a decrease in total greenhouse gas emissions of 800 tCO₂e in FY20. Being a retail-focused bank, lending exposures to the commodities and oil & gas sectors are insignificant. The bank has a strong focus on digitalisation, with 86% of transactions completed digitally in FY20.

S: Good

Embraces gender diversity, with 39% of women in senior management and 37.5% of women in the Board of Directors. In FY20, the staff attrition rate was reduced by 26%. Actively assists customers in financial difficulties.

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 seven Non-Executive Directors, of which five are Independent Non-Executive Directors.

Forecasts and Valuation	Jun-20	Jun-21	Jun-22F	Jun-23F	Jun-24F
Reported net profit (MYRm)	2,495	2,861	3,018	3,414	3,606
Net profit growth (%)	(6.4)	14.7	5.5	13.1	5.6
Recurring net profit (MYRm)	2,495	2,861	3,018	3,414	3,606
Recurring EPS (MYR)	1.22	1.40	1.47	1.67	1.76
BVPS (MYR)	13.31	14.40	15.08	16.20	17.35
DPS (MYR)	0.36	0.50	0.53	0.60	0.64
Recurring P/E (x)	15.74	13.72	13.01	11.50	10.89
P/B (x)	1.44	1.33	1.27	1.18	1.11
Dividend Yield (%)	1.9	2.6	2.8	3.1	3.3
Return on average equity (%)	9.5	10.1	10.0	10.7	10.5

Source: Company data, RHB

Financial Exhibits

Asia	Financial summary (MYR)	Jun-20	Jun-21	Jun-22F	Jun-23F	Jun-24F
Malaysia	EPS	1.22	1.40	1.47	1.67	1.76
Financial Services	Recurring EPS	1.22	1.40	1.47	1.67	1.76
Hong Leong Bank	DPS	0.36	0.50	0.53	0.60	0.64
HLBK MK	BVPS	13.31	14.40	15.08	16.20	17.35
Buy						
Valuation basis	Valuation metrics	Jun-20	Jun-21	Jun-22F	Jun-23F	Jun-24F
Our GGM assumes:	Recurring P/E (x)	15.74	13.72	13.01	11.50	10.89
i) cost of equity of 7.8%;	P/B (x)	1.4	1.3	1.3	1.2	1.1
ii) ROE of 10.4%; and	Dividend Yield (%)	1.9	2.6	2.8	3.1	3.3
iii) long-term growth of 2.0%.						
Key drivers	Income statement (MYRm)	Jun-20	Jun-21	Jun-22F	Jun-23F	Jun-24F
Our earnings forecasts are most sensitive to changes in:	Interest income	7,775	7,116	7,301	8,206	9,180
i) Net interest margin;	Interest expense	(4,370)	(2,806)	(2,882)	(3,567)	(4,292)
ii) Loan impairment allowances; and	Net interest income	3,406	4,310	4,419	4,639	4,888
iii) Contributions from associates.	Non interest income	1,373	1,157	982	1,050	1,115
	Total operating income	4,778	5,467	5,401	5,690	6,003
	Overheads	(2,104)	(2,078)	(2,159)	(2,254)	(2,357)
	Pre-provision operating profit	2,675	3,389	3,243	3,435	3,646
	Loan impairment allowances	(328)	(654)	(400)	(182)	(204)
	Other impairment allowances	0	(0)	-	-	-
	Income from associates	642	736	773	811	852
	Pre-tax profit	2,989	3,471	3,615	4,064	4,295
	Taxation	(495)	(610)	(597)	(651)	(689)
	Reported net profit	2,495	2,861	3,018	3,414	3,606
	Recurring net profit	2,495	2,861	3,018	3,414	3,606
Key risks	Profitability ratios	Jun-20	Jun-21	Jun-22F	Jun-23F	Jun-24F
The downside risks include:	Return on average assets (%)	1.2	1.2	1.2	1.3	1.4
i) weaker-than-expected loan growth;	Return on average equity (%)	9.5	10.1	10.0	10.7	10.5
ii) softer-than-expected NIMs;	Return on IEAs (%)	3.8	3.3	3.2	3.4	3.6
iii) lower-than-expected non-interest income; and	Cost of funds (%)	2.4	1.5	1.4	1.7	1.9
iv) lower-than-expected profits from Bank of Chengdu.	Net interest spread (%)	1.4	1.8	1.8	1.7	1.7
	Net interest margin (%)	1.7	2.0	1.9	1.9	1.9
	Non-interest income / total income (%)	28.7	21.2	18.2	18.5	18.6
	Cost to income ratio (%)	44.0	38.0	40.0	39.6	39.3
	Credit cost (bps)	23.1	43.3	25.0	10.8	11.5
Company Profile	Balance sheet (MYRm)	Jun-20	Jun-21	Jun-22F	Jun-23F	Jun-24F
The group 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	145,954	155,840	164,411	173,454	182,126
	Other interest earning assets	65,068	70,284	72,075	74,829	77,714
	Total gross IEAs	211,022	226,124	236,486	248,283	259,840
	Total provisions	(1,259)	(1,769)	(1,759)	(1,908)	(2,003)
	Net loans to customers	144,695	154,071	162,652	171,546	180,123
	Total net IEAs	209,763	224,355	234,726	246,375	257,837
	Total non-IEAs	11,515	12,774	13,826	14,632	14,231
	Total assets	221,278	237,129	248,552	261,007	272,067
	Customer deposits	173,849	184,435	195,501	206,254	215,535
	Other interest-bearing liabilities	12,068	15,371	14,894	14,591	14,296
	Total IBLs	185,917	199,806	210,395	220,844	229,831
	Total non-IBLs	8,127	7,864	7,296	7,012	6,738
	Total liabilities	194,044	207,670	217,691	227,856	236,569
	Share capital	7,739	7,739	7,739	7,739	7,739
	Shareholders' equity	27,234	29,459	30,861	33,150	35,498
	Asset quality and capital	Jun-20	Jun-21	Jun-22F	Jun-23F	Jun-24F
	Reported NPLs / gross cust loans (%)	0.6	0.5	0.6	0.6	0.6
	Total provisions / reported NPLs (%)	141.5	246.6	186.7	187.4	176.6
	CET-1 ratio (%)	12.8	12.2	12.4	12.8	13.5
	Tier-1 ratio (%)	13.4	12.8	12.9	13.2	13.9
	Total capital ratio (%)	15.6	14.9	14.9	15.1	15.7

Source: Company data, RHB

Results At a Glance

Figure 1: Summary of HL Bank's 4QFY21 and FY21 results

FYE June (MYR'm)	4QFY20	3QFY21	4QFY21	QoQ (%)	YoY (%)	FY20	FY21	YoY (%)	Comments – 4QFY21 vs 3QFY21
Net int inc	773	1,096	1,140	4.0	47.4	3,406	4,310	26.5	
NIM	1.62	2.20	2.20	0.0	58.0	1.88	2.14	26.0	Flat QoQ as the lender booked in some modification losses.
Non-int inc	423	290	193	-33.6	-54.5	1,373	1,158	-15.7	Lower QoQ as investment gains eased.
Non-Int/total Inc	35.4	20.9	14.5			28.7	21.2		
Op income	1,197	1,386	1,332	-3.9	11.3	4,778	5,467	14.4	
Overheads	(521)	(513)	(532)	3.9	2.2	(2,104)	(2,078)	-1.2	
CIR (%)	43.5	37.0	40.0			44.0	38.0		
Pre-prov profit	676	873	800	-8.4	18.4	2,675	3,389	26.7	
Impairment	(0)	0	(0)	>100	2.7	0	(0)	>100	
LLP	(191)	(114)	(194)	70.0	1.5	(328)	(654)	99.5	
Credit cost	53	30	50			23	43		
Op profit	484	759	605	-20.2	25.0	2,347	2,735	16.5	
Associates	164	182	219	20.5	33.3	642	736	14.6	
Pre-tax profit	649	941	825	-12.3	27.1	2,989	3,471	16.1	
Tax	(79)	(169)	(135)			(495)	(610)		
ETR	12.2	18.0	16.4			16.6	17.6		
Profit after tax	569	771	689	-10.6	21.1	2,495	2,861	14.7	
	569	771	689	-10.6	21.1	2,405	2,861	19.0	
Other key data and ratios									
Gross loans	145,932	152,800	155,822	2.0	6.8				
Customer deposits	173,849	180,603	184,435	2.1	6.1				
Gross impaired loans	890	808	717	-11.2	-19.4				
Total assets	221,278	233,629	237,129	1.5	7.2				
Shareholders' funds	27,234	28,548	29,459	3.2	8.2				
ROAA	1.04	1.34	1.17			1.16	1.25		
ROAE	8.5	10.9	9.5			9.5	10.1		
LDR	83.2	83.7	83.5						
Gross impaired loan	0.61	0.53	0.46						
LLC	141.5	209.7	246.6						

Source: Company data, RHB

Figure 2: HL Bank – 9MFY21 achievements and revised FY21 targets

	FY21F targets	FY21 achievements	FY22F targets	Comment
Loan growth	~6%	6.8%	5-6%	
NIM	>2.0%	2.14%	>2.05%	• Included impact of modification losses.
CIR	<40%	38%	≤40%	
GIL ratio	<1%	0.46%	<0.8%	
Credit cost	~30bps	42bps	~20bps	
ROE	9.5-10%	10.1%	>10%	
CASA mix	>26%	32.3%	>30%	

Source: RHB

Revisions in earnings forecast

We cut FY22-23F buy 7% and 4% on higher credit cost, lower loan growth and NIM assumptions.

Figure 3: HL Bank – revisions to forecasts

FYE June	Net profit (MYRm)			EPS (MYR)			DPS (MYR)		
	Previous	Revised	% Chg	Previous	Revised	% Chg	Previous	Revised	% Chg
2022F	3,246	3,018	-7.0	1.59	1.47	-7.0	0.58	0.53	-8.6
2023F	3,539	3,414	-3.5	1.73	1.67	-3.5	0.65	0.60	-7.7
2024F	n.a.	3,606	n.m.	n.a.	1.76	n.m.	n.a.	0.64	n.m.

Source: RHB

Valuation and TP

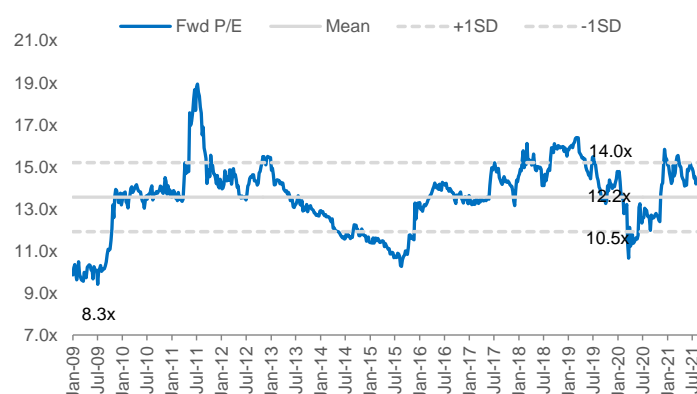
Our GGM-derived TP is lower at MYR21.70 as a result of the earnings revision.

Figure 4: GGM valuation

Cost of equity (COE) computation:		Sustainable ROE (%)	10.4
Risk free rate (%)	3.5	COE (%)	7.8
Equity premium (%)	4.8	Long-term growth (g)	2.0
Beta (x)	0.9	Implied P/BV (x)	1.4
Cost of equity - CAPM (%)	7.8	BVPS – FY22F	MYR15.08
		Target price	MYR21.73
		TP (rounded)	MYR21.70

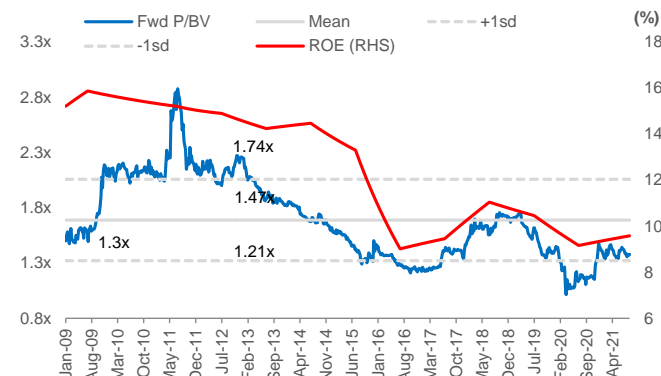
Source: Company data, RHB

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



Source: Bloomberg, RHB

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



Source: Bloomberg, RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2021-05-27	Buy	22.5	18.3
2020-12-16	Buy	21.9	18.7
2020-11-16	Buy	19.6	17.1
2020-08-31	Buy	18.3	14.0
2020-06-10	Buy	18.2	15.2
2020-05-31	Buy	15.8	13.6
2020-03-31	Buy	16.2	13.5
2020-02-27	Buy	17.6	15.5
2019-11-28	Buy	19.2	17.3
2019-08-29	Buy	18.7	16.5
2019-05-29	Neutral	20.0	18.6

Source: RHB, Bloomberg

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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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