

28 November 2019

Hong Leong Bank Berhad

Underpinned by Retail and BOCD

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Results in line, with earnings underpinned by strong loans and normalized NIM. Asset quality remains strong as ever coupled with a resilient BOCD. Moving forward, we roll over our valuation to FY21E PBV, subscribing to higher PBV (5-year mean) – TP raised to RM18.90 with an upgraded call to **OUTPERFORM**.

In line. 1QFY20 CNP of RM689m is in line, accounting for both our/market estimates each at 25%. No dividend declared as expected.

Resilient BOCD. YoY, CNP of RM686m improved 8% on account of stripping out RM72m in divestment gain (in 1QFY19). Excluding this one-off gain, top-line improved 3% to RM1,215m underpinned by Islamic Banking (+17%, with financing at +16%) as NOII fell 18% to RM311m. NOII fell due to: (i) the absence of the RM72m divestment gain, (ii) decline in forex (-67% to RM11.6m), and (iii) unrealised loss of RM72m. Its 18% associate BOCD continued to be resilient contributing 19% of PBT despite PAT contribution falling 1% - this period is the weakest quarter for BOCD (YoY, BOCD 9M19 PAT growth at +18% with loans growth at +28%). NIM improved by 7bps on account of repricing of deposits, mostly coming in 4QFY19 and 1QFY20. Loans growth at +6.8% (above guidance/estimation of +6%) driven by residential properties (+10.2%) and SMEs (+8.9%). Asset quality continued to be healthy at 0.81% (2nd after PBBANK) with a credit recovery of 3bps (due to bad debt recoveries of RM53m).

QoQ, CNP surged 8% on account of strong top-line growth of 4%, underpinned by NII and Islamic Income growth at +5.4% and +14.2%, respectively. Both benefitted from re-pricing of deposits as NIM surged 14bps. NOII fell due to unrealised loss of RM72m and decline in forex gain by 59% to only RM11m. Slight uptick in asset quality seen as GIL went up by 3bps to 0.81%. While loans moderated by 220bps to 0.8%, we are encouraged by its resilience in residential properties (+10bps to 2.4%) and PF (+220bps to 4.0%). As expected, moderation in loans was due to decline in working capital (-4%). BOCD's contribution continued to be steady, up by 2%.

BOCD looking resilient. No change in management's guidance with outlook to be driven by healthy loans (+5-6%), and NIM expected to improve above 2%. Loans will be driven by retail, mortgages, SMEs and PF. NIMs look likely to improve with deposits intake likely to be subdued with the low LDR (84%). Given that with more focus on unsecured retail and provisioning likely to be higher, management guided for a credit charge of 10-12bps. We believe that BOCD will still play major part in the Group's growth given that its LDR of 57% provides plenty of room for growth with NII the main driver. Note that 73% of its loans are from corporates and SMEs with the added positive of BOCD focused more on its domestic region.

Earnings maintained. No change in FY20E/FY21E earnings at RM2.7b/RM2.8b based on these unchanged conservative assumptions; (i) loans growth at +5.6%/6%, (ii) CIR at 43% for both FYs, (iii) NIM at -4bps/-3bps, (iv) credit charge at 9%/13bps, and (v) BOCD growth of ~7% for both FYs.

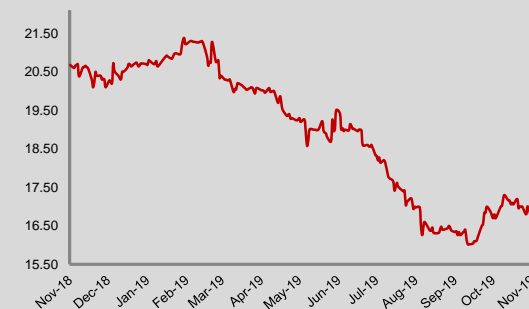
TP and Call raised. We raised our TP to RM18.90 (from TP RM17.30) as we roll over to FY21E subscribing to its 5-year PBV mean of 1.33x. We felt this is justified as concerns over BOCD are unsubstantiated given its resilience nature (in the on-going trade friction). On strong asset quality with resilient retail loans plus undemanding valuations, we raised it to **OUTPERFORM**.

The key risks to our forecasts are: (i) steeper margin squeeze, (ii) slower-than-expected loans growth, (iii) worse-than-expected deterioration in asset quality, and (iv) weaker-than expected contribution from BOCD.

OUTPERFORM ↑

Price : RM16.86
Target Price : RM18.90 ↑

Share Price Performance



KLCI	1,587.18
YTD KLCI chg	-6.1%
YTD stock price chg	-17.4%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	HLBK MK Equity
Market Cap (RM m)	36,547.7
Shares Outstanding	2,167.7
52-week range (H)	21.66
52-week range (L)	15.82
3-mth avg daily vol:	1,329,171
Free Float	23%
Beta	0.9

Major Shareholders

Hong Leong Financial Group	61.8%
Employees Provident Fund	11.2%
Hong Leong Bank Sdn Bhd	1.9%

Summary Earnings Table

FYE June (RM'm)	2019A	2020E	2021E
Net Interest Income	2,764	2,860	2,940
Islamic Banking Inc.	707	613	627
Non Interest Income	1,254	1,599	1,760
Total Income	4,726	5,072	5,328
PBT	3,186	3,349	3,572
Net Profit (NP)	2,665	2,680	2,858
Consensus NP		2722.4	2905.8
<i>Earnings Revision (%)</i>			
EPS (sen)	130.3	131.0	139.7
EPS growth (%)	1.0	0.6	6.6
DPS (sen)	50.0	50.0	50.0
BV/Share (RM)	12.45	13.26	14.16
NTA/Share	11.5	12.5	13.4
ROE (%)	10.79	10.19	10.19
PER (x)	12.9	12.9	12.1
Price/NTA (x)	1.3	1.2	1.2
Price/Book (x)	1.25	1.17	1.10
Dividend Yield (%)	3.0	3.0	3.0

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Results Highlight								
Y/E : 30-June (RM m)	1Q20	4Q19	QoQ Chg.	1Q19	YoY Chg.	3M20	3M19	YoY Chg.
Net Interest Income	704.3	668.3	5.4%	698.2	0.9%	704.3	698.2	0.9%
Net Income from Islamic Banking	199.8	175.0	14.2%	171.1	16.8%	199.8	171.1	16.8%
Non-Interest Income	311.0	324.6	-4.2%	379.7	-18.1%	311.0	379.7	-18.1%
Total Income	1,215.1	1,167.8	4.0%	1,249.0	-2.7%	1,215.1	1,249.0	-2.7%
Total Income*						1,215.1	1,177.0*	3.2%
Operating Expenses	(522.3)	(530.1)	-1.5%	(525.2)	-0.6%	(522.3)	(525.2)	-0.6%
(Allowances)/write-backs	8.9	(47.0)	-118.9%	(18.8)	-147.4%	8.9	(18.8)	-147.4%
Other (Impairments)/Writebacks	(0.1)	0.3	-140.0%	0.1	-278.6%	(0.1)	0.1	-278.6%
Operating Profit	701.6	591.0	18.7%	705.2	-0.5%	1,916.7	1,882.2	1.8%
Others	144.9	142.0	2.1%	146.0	-0.7%	(1,070.2)	(1,031.0)	3.8%
Pre-Tax Profit	846.6	733.0	15.5%	851.1	-0.5%	846.6	851.1	-0.5%
Tax & Minority Interest	(158.0)	(96.6)	63.6%	(144.2)	9.5%	(158.0)	(144.2)	9.5%
Net Profit	688.6	636.4	8.2%	706.9	-2.6%	688.6	706.9	-2.6%
Core Net Profit	688.6	636.4	8.2%			688.6	635.0*	8.4%
EPS (sen)	33.6	31.1	8.2%	34.6	-2.6%	33.6	34.6	-2.6%
EPS (sen)*	33.6	31.1				33.6	31.04	8%
DPS (sen)	-	34.0	N.A	-	N.A	-	-	N.A
Gross Loans	138,694.0	137,566.4	0.8%	129,834.9	6.8%	138,694.0	129,834.9	6.8%
Net Loans	137,466.2	136,308.2	0.8%	128,484.7	7.0%	137,466.2	128,484.7	7.0%
Total Customer Deposits	163,543.3	163,070.3	0.3%	158,821.4	3.0%	163,543.3	158,821.4	3.0%
CASA / Low Cost Deposits	41,827.8	41,725.4	0.2%	39,655.8	5.5%	41,827.8	39,655.8	5.5%
Book value/share (RM)	12.74	12.45	2.3%	11.91	7.0%	12.74	11.91	7.0%
NTA/share (RM)	12.68	12.39	2.4%	10.94	15.9%	12.68	10.94	15.9%
Est. Ann. Net Interest Margin	1.80%	1.66%		1.73%		1.80%	1.73%	
Reported Net Interest Margin	2.03%	1.89%		1.98%		2.03%	2.13%	
Cost-to-Income Ratio	43.0%	45.4%		42.0%		43.0%	42.0%	
Est. Annualised Credit Charge (Writeback) Ratio	-0.03%	0.14%		0.06%		-0.03%	0.06%	
Effective Tax Rate	18.7%	13.2%		16.9%		18.7%	16.9%	
G.Loan-to-Deposit Ratio	84.8%	84.4%		81.7%		84.8%	81.7%	
N.Loan-to-Deposit Ratio	84.1%	83.6%		80.9%		84.1%	80.9%	
% of CASA to Total Customer Deposits	25.6%	25.6%		25.0%		25.6%	25.0%	
Total Allowances-to-Loans	0.89%	0.92%		1.04%		0.89%	1.04%	
Gross Impaired Loans Ratio	0.81%	0.78%		0.81%		0.81%	0.81%	
Loan Loss Coverage	109.7%	117.8%		128.4%		109.7%	128.4%	
CET1 Capital	13.3%	13.6%		12.9%		13.3%	12.9%	
Total Capital	16.2%	16.8%		16.6%		16.2%	16.6%	
Est. Annualised ROE	10.9%	10.3%		11.9%		10.9%	11.9%	

* Excluding the RM72m one-off gains
Source: Company, Kenanga Research

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Peer Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div Yld (%)	Target Price (RM)	Rating
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.		
BANKING																	
AFFIN BANK BHD	1.98	3,932.3	N	12/2019	4.1%	2.9%	15.0%	15.8%	7.8	6.8	5.8	0.5	0.4	6.5%	2.8%	2.45	OP
ALLIANCE BANK MALAYSIA BHD	2.69	4,164.4	N	03/2020	5.6%	8.6%	-9.4%	19.0%	8.4	7.7	8.6	0.8	0.7	8.3%	6.2%	3.45	OP
AMMB HOLDINGS BHD	4.09	12,328.0	N	03/2020	10.4%	4.5%	-0.4%	2.8%	8.2	8.2	8.0	0.7	0.6	7.8%	4.9%	4.75	OP
BIMB HOLDINGS BHD	4.18	7,374.7	Y	12/2019	10.0%	6.6%	7.6%	13.6%	10.7	10.4	9.5	1.5	1.4	14.0%	3.9%	4.80	OP
CIMB GROUP HOLDINGS BHD	5.25	52,095.6	N	12/2019	4.6%	5.0%	-15.8%	4.1%	8.8	10.8	10.7	0.9	0.9	8.6%	4.3%	6.45	OP
HONG LEONG BANK BERHAD	16.86	36,547.7	N	06/2020	4.1%	5.1%	1.0%	0.6%	13.1	12.9	12.9	1.4	1.4	10.8%	3.0%	17.30	OP
MALAYAN BANKING BHD	8.58	96,450.9	N	12/2019	3.8%	4.3%	-2.2%	4.7%	11.7	11.9	11.4	1.2	1.1	9.7%	6.5%	9.70	OP
MALAYSIA BUILDING SOCIETY	0.85	5,672.8	N	12/2019	-4.2%	4.5%	-17.8%	8.6%	8.4	10.3	9.8	0.7	0.7	6.7%	5.9%	1.10	OP
PUBLIC BANK BERHAD	19.74	76,633.4	N	12/2019	3.9%	5.2%	-0.1%	3.4%	13.6	13.7	13.2	1.9	1.9	13.7%	3.5%	22.10	OP
RHB BANK BHD	5.77	23,138.0	N	12/2019	6.0%	4.8%	4.1%	5.7%	10.0	9.6	9.1	1.0	0.9	9.9%	3.6%	6.05	MP
Simple Average					4.8%	5.1%	-1.8%	7.8%	10.1	10.2	9.9	1.0	1.0	9.6%	4.5%		

Source: Bloomberg, Kenanga Research

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Stock Ratings are defined as follows:

Stock Recommendations

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%
NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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