

01 March 2021

# Hong Leong Bank Bhd

## 2QFY21 Within Expectations

By **Clement Chua** | [clement.chua@kenanga.com.my](mailto:clement.chua@kenanga.com.my)

**6MFY20 earnings of RM1.40b (+1%) and interim dividend of 14.8sen are within expectations. The group stands on solid foundations against Covid-19 implications, but management opted to exercise caution and raised its pre-emptive provisioning measures. However, we believe the stock is fairly priced at current levels with dividend prospects lacking. Maintain MARKET PERFORM and TP of RM18.50.**

**1HFY21 within expectations.** 1HFY21 net profit of RM1.40b came in within expectations, at 49%/51% of our/consensus respective full-year estimates. An interim dividend of 14.8 sen was declared, which we also deem to be in line with expectations.

**YoY**, 6MFY21 income of RM2.75b came from growth at all fronts, as (i) conventional NII and Islamic contributions increased by 16% and 12%, respectively, as the group was quick to reprice its deposits, raising NIM to 1.99% (+15 bps) while (ii) NOII upped 3% mainly thanks to better investment gains. The stronger revenues also drove CIR down to 37.6% (-5.2ppt) as operating expenses were relatively unchanged. That said, operating profits dipped slightly (-2%) as higher loan provision was booked, coinciding with lingering uncertainties from Covid-19. This translates to a credit charge of 47bps (from FY20: 2bps), although the stress could be significantly lower in 2HFY21 from this frontloading. Following better profits from associates and lower effective taxes, 6MFY21 net earnings came in at RM1.40b (+1%). GIL still lingered at lower levels (0.54%, -30bps) from tight asset quality controls. Meanwhile, CASA-to-deposit ratio bumped to 29.8% (+3.9ppt) as customer sought to keep their funds more accessible.

**QoQ**, 2QFY21 total income increased by 4% as NII benefited from lower cost of funds, but this was offset by a 10% weaker NOII on softer trading yields. More provisions were booked during the quarter from frontloading of impairments, translating to an 8% decline in 2QFY21 net profit to RM670.8m.

**Key briefing's highlights.** So far, management appears satisfied with the overall operating structure it has in placed to ride out the currently unprecedented economic landscape. The group is also confident that it should continue to garner market support to carry its loans growth and its reactivity in repricing its books should keep NIMs buoyant for the rest of FY21. That said, they are still realistic of possible risks of delinquencies that could arise from muted business activities and have sought to provide for higher impairments to come, raising their credit cost guidance to 30bps (from 15-20bps) in FY21.

**Post results**, we leave our FY21E/FY22E assumptions unchanged for now. Our credit charge assumptions were already conservative at 29 bps prior to the revision in guidance, which we believe should be adequate for now.

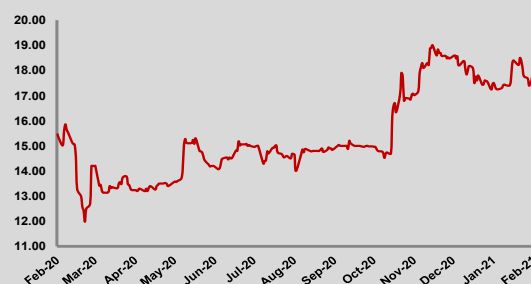
**Maintain MARKET PERFORM and TP of RM18.50.** Our TP is based on a GGM-derived CY22E PBV of 1.14x (0.5SD below 5-year mean). The stock is applauded for its success in sustaining its stellar asset quality while also keeping operating costs light. However, we reckon that the positives are priced-in at current levels, especially given the indication that certain peers are also as resilient amidst the economic challenges brought by Covid-19. In addition, dividend prospects are less exciting for HLBANK. We recommend accumulation on weakness when capital gains are more favourable.

**Risks to our call include:** (i) higher/lower-than-expected margin squeeze, (ii) higher/lower-than-expected loans growth, (iii) better/worse-than-expected improvement in asset quality, (iv) stronger/weaker capital market activities, and (v) favourable/unfavourable currency fluctuations.

## MARKET PERFORM ↔

**Price :** RM18.00  
**Target Price :** RM18.50 ↔

### Share Price Performance



KLCI	1,577.75
YTD KLCI chg	-3.0%
YTD stock price chg	-1.1%

### Stock Information

Shariah Compliant	No
Bloomberg Ticker	HLBK MK Equity
Market Cap (RM m)	39,018.9
Shares Outstanding	2,167.7
52-week range (H)	19.00
52-week range (L)	11.98
3-mth avg daily vol	1,151,990
Free Float	23%
Beta	1.2

### Major Shareholders

Hong Leong Financial Group	62.0%
Employees Provident Fund	10.5%
Hong Leong Bank Sdn Bhd	1.9%

### Summary Earnings Table

FY Jun (RM m)	2020E	2021E	2022E
<b>Net Interest Income</b>	<b>2,764</b>	<b>3,313</b>	<b>3,510</b>
Islamic Banking Inc.	847	737	885
Non Interest Income	1,167	1,171	1,471
<b>Total Income</b>	<b>4,778</b>	<b>5,221</b>	<b>5,866</b>
PBT	2,989	3,565	3,790
<b>Net Profit (NP)</b>	<b>2,495</b>	<b>2,852</b>	<b>3,032</b>
Consensus NP		2,757	3,071
Earnings Revision		-	-
EPS (sen)	121.9	139.4	148.1
EPS growth (%)	-6.4	14.3	6.3
DPS (sen)	36.0	36.0	50.0
BV/Share (RM)	13.3	14.3	15.5
NTA/Share (RM)	12.3	13.4	14.5
ROE (%)	9.5	10.1	9.5
PER (x)	14.8	12.9	12.2
Price/NTA (x)	1.3	1.2	1.1
Price/Book (x)	1.17	1.08	1.0
Dividend Yield (%)	2.0	2.0	2.8

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### Results Highlights

	2Q	1Q	QoQ	2Q	YoY	6M	6M	YoY
FYE Jun (RM m)	FY21	FY21	Chg	FY20	Chg	FY21	FY20	Chg
Net Interest Income	867	796	8.8%	729	18.9%	1,663	1,433	16.0%
Net Income from Islamic Banking	234	219	7.2%	206	13.5%	453	406	11.5%
Non Interest Income	299	334	-10.4%	302	-1.0%	633	613	3.2%
<b>Total Income</b>	<b>1,400</b>	<b>1,349</b>	<b>3.8%</b>	<b>1,238</b>	<b>13.1%</b>	<b>2,749</b>	<b>2,453</b>	<b>12.1%</b>
Operating Expenses	-512	-521	-1.8%	-527	-2.9%	-1,033	-1,049	-1.6%
(Allowances)/write-backs	-241	-104	130.8%	-19	1141.9%	-345	-11	N.M.
Other (Impairments)/Writebacks	0	0	-130.2%	-2	-105.5%	0	-2	-88.2%
<b>Operating Profit</b>	<b>648</b>	<b>723</b>	<b>-10.4%</b>	<b>690</b>	<b>-6.1%</b>	<b>1,371</b>	<b>1,391</b>	<b>-1.5%</b>
Others	168	167	0.3%	167	0.2%	335	312	7.2%
<b>Pre-Tax Profit</b>	<b>815</b>	<b>890</b>	<b>-8.4%</b>	<b>857</b>	<b>-4.9%</b>	<b>1,706</b>	<b>1,704</b>	<b>0.1%</b>
Tax & Minority Interest	-145	-161	-10.4%	-155	-6.9%	-306	-313	-2.3%
<b>Net Profit</b>	<b>671</b>	<b>729</b>	<b>-8.0%</b>	<b>702</b>	<b>-4.4%</b>	<b>1,400</b>	<b>1,390</b>	<b>0.7%</b>
<b>EPS (sen)</b>	<b>32.8</b>	<b>35.6</b>	<b>-8.0%</b>	<b>34.3</b>	<b>-4.5%</b>	<b>68.4</b>	<b>67.9</b>	<b>0.6%</b>
DPS (sen)	14.8	-		16.0		14.8	16.0	
Gross Loans	149,994	148,126	1.3%	141,273	6.2%	149,994	141,273	6.2%
Net Loans	148,462	146,809	1.1%	140,063	6.0%	148,462	140,063	6.0%
Total Customer Deposits	176,488	174,692	1.0%	166,998	5.7%	176,488	166,998	5.7%
CASA / Low Cost Deposits	52,544	50,606	3.8%	43,239	21.5%	52,544	43,239	21.5%
Book value/share (RM)	13.80	13.71	0.6%	12.73	8.4%	13.80	12.73	8.4%
NTA/share (RM)	13.70	13.61	0.6%	12.65	8.3%	13.70	12.65	8.3%
Est. Annualised NIM	2.07%	1.94%		1.87%		1.99%	1.84%	
Reported NIM	2.08%	2.00%		2.04%		2.08%	2.03%	
Cost-to-Income Ratio	36.5%	38.6%		42.6%		37.6%	42.8%	
Est. Annualised Credit Charge Ratio	0.66%	0.29%		0.06%		0.47%	0.02%	
Effective Tax Rate	17.7%	18.1%		18.1%		17.9%	18.4%	
G.Loan-to-Deposit Ratio	85.0%	84.8%		84.6%		85.0%	84.6%	
N.Loan-to-Deposit Ratio	84.1%	84.0%		83.9%		84.1%	83.9%	
CASA-to-Deposits	29.8%	29.0%		25.9%		29.8%	25.9%	
Total Allowances-to-Loans	1.04%	0.91%		0.86%		1.04%	0.86%	
Gross Impaired Loans Ratio	0.54%	0.48%		0.84%		0.54%	0.84%	
Loan Loss Coverage	192.7%	190.4%		103.0%		192.7%	103.0%	
CET1 Capital	14.0%	13.8%		13.3%		14.0%	13.3%	
Total Capital	16.8%	16.6%		16.1%		16.8%	16.1%	
Est. Annualised ROE	9.8%	10.8%		11.0%		10.2%	10.9%	

Source: Company, Kenanga Research

### Management Guidance

	FY21 Targets	FY20 Performance
Gross loans growth	~6% (revised from 5-6%)	6.1%
Net interest margin	>2% (revised from 1.95-2.0%)	1.88%
Cost-to-income ratio	~40% (revised from <43%)	44.0%
GIL ratio	<1%	0.61%
Net credit cost	~30 bps (revised from 15-20 bps)	23 bps
Return on equity	9.5 – 10.0%	9.5%
CASA mix	>26%	27.9%

Source: Company, Kenanga Research

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### Peer Table 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.			
<b>Stocks Under Coverage</b>																		
AFFIN BANK BHD	1.76	3,660.4	N	12/2021	-2.6%	3.0%	46.1%	9.8%	15.9	10.9	9.9	0.4	0.4	3.5%	2.8%	1.40	UP	
ALLIANCE BANK MALAYSIA BHD	2.65	4,102.5	N	03/2021	2.4%	2.9%	-15.5%	35.1%	9.7	11.4	8.5	0.7	0.7	5.9%	2.4%	2.50	MP	
AMMB HOLDINGS BHD	3.16	9,510.4	N	03/2021	0.3%	4.5%	-27.4%	35.3%	7.1	9.8	7.2	0.5	0.5	5.1%	3.6%	3.70	OP	
BIMB HOLDINGS BHD	4.06	7,525.8	Y	12/2021	7.6%	3.9%	6.1%	0.8%	10.5	9.9	9.8	1.2	1.1	11.5%	3.4%	5.25	OP	
CIMB GROUP HOLDINGS BHD	4.33	42,966.4	N	12/2021	-9.3%	-0.3%	-73.8%	176.0%	9.4	36.0	13.0	0.8	0.8	2.1%	1.1%	3.60	UP	
HONG LEONG BANK BHD	18.00	39,018.9	N	06/2021	14.8%	9.6%	14.3%	6.3%	14.8	12.9	12.2	1.4	1.3	10.1%	2.0%	18.50	MP	
MALAYAN BANKING BHD	8.03	91,654.4	N	12/2022	-4.7%	2.8%	8.8%	19.7%	13.3	12.2	10.2	1.1	1.1	8.7%	7.0%	9.10	OP	
MALAYSIA BUILDING SOCIETY BHD	0.675	4,708.4	N	12/2021	66.6%	3.0%	173.9%	14.4%	17.1	6.2	5.5	0.5	0.5	8.1%	4.4%	0.820	OP	
PUBLIC BANK BHD	4.16	80,748.5	N	12/2021	1.4%	2.3%	15.6%	3.1%	16.6	14.3	13.9	1.7	1.6	11.6%	3.4%	4.55	OP	
RHB BANK BHD	5.42	21,734.4	N	12/2021	-6.6%	-2.6%	-18.1%	16.0%	8.8	10.7	9.2	0.8	0.8	7.7%	3.3%	6.40	OP	
<b>Simple Average</b>					<b>7.0%</b>	<b>2.9%</b>	<b>13.0%</b>	<b>31.6%</b>	<b>12.3</b>	<b>13.4</b>	<b>9.9</b>	<b>0.9</b>	<b>0.9</b>	<b>7.4%</b>	<b>3.3%</b>			

Source: 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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**KENANGA INVESTMENT BANK BERHAD (15678-H)**

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia

Telphone: (603) 2172 0880 Website: [www.kenanga.com.my](http://www.kenanga.com.my) E-mail: [research@kenanga.com.my](mailto:research@kenanga.com.my)

