

13 April 2021

Hong Leong Bank Bhd

Holding Steady

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We came away from a conference call with Malkit Singh, its CFO, feeling reassured on the near-term outlook of HLBANK. The impact from MCO 2.0 on the group's retail loan portfolio is mitigated by more international trades. Higher PRAP was booked in but management see no reason for alarm and maintains its guidance. NIMs should benefit from the higher CASA mix while stronger NOII should buffer against higher CIR in 2HFY21. We believe any positives are already fairly priced in at current level. Maintain MP and TP of RM17.80.

Unshaken by MCO 2.0. The implementation of MCO 2.0 in Jan 2021 inevitably slowed the momentum of economic recovery with opportunities lost on heavy CNY restrictions. That said, loan demand benefitted from more international trades which offset the decline in domestic accounts. In 3QFY21, the group had extended its PRAP (Payment Relief Assistance Program) by RM2.4b (outstanding of RM12.7b, total issued of RM18.4b) owing to retail accounts which we believe is telling of the impact from prolonged economic weakness. Still, management is unhindered as most of these accounts are mortgage-secured (c.90%) while the previous at-risk accounts are regaining financial health and resuming payments. The group's FY21 target for loans growth is c.6% (1HFY21: 6.2% vs our FY21E: 5.2%).

Credit cost buffers intact. The group has frontloaded on loan provisions in 1HFY21 as a prudent measure against higher impact uncertainties from Covid-19, booking a total credit cost of 23 bps. Management is confident that previous guidance of 30 bps should sustain up till 4QFY21 despite the abovementioned PRAP, being supported by older accounts regaining their financial health.

High CASA levels should be favourable to NIMs. During the 1HFY21 results release, management updated its FY21 NIMs target to be greater than 2% (vs our applied FY21E: 1.8%). It also posted a CASA-to-deposit ratio of c.30%. Management highlighted that CASA deposits are continuing to grow given customers' appetite to hold cash which should translate to lower cost of funds in the coming quarters. This should support further expansion of NIMs. On the flipside, **NOII is expected to be buoyant** as wealth management products are performing favourably with credit card transactions picking up in March with the loosening of movement controls. However, trading income suffered some setbacks due to less vibrant market conditions.

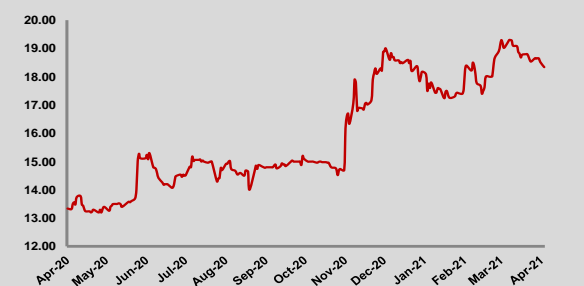
Operating expense to pick up with festivities. Making up for the lull in 1HFY21, management look towards increasing its marketing activities that coincide with the upcoming Hari Raya celebrations. That said, CIR is expected to remain in check, within the group's guidance of <43% (vs our FY21E: 39%, 1HFY21: 37.6%). Operationally, the growing adoption of digital mediums could also help to ease back-end costs.

Post-update, we left feeling assured by the group's position in the market. HLBANK has also been touted for having a light operating structure while also keeping its asset quality at high but sustainable levels (<1%). Given these buffers, the group should have much leeway to navigate around potential worsening of market conditions. Management also aspire to alleviate dividend payments back to its pre-Covid rate of close to 40% when conditions are favourable. However, we **maintain MARKET PERFORM and TP of RM17.60.** Our TP is based on a GGM-derived CY22E PBV of 1.10x (0.5SD below 5-year mean). At current price level, we believe all positives have been fully priced in. At the same time, the group dull in comparison to its peers in terms of dividend payments could give little incentive to new investors. We recommend accumulation only on weakness when potential capital gains are more favourable.

MARKET PERFORM ↔

Price : RM18.34
Target Price : RM17.80 ↔

Share Price Performance



KLCI	1,608.42
YTD KLCI chg	-1.2%
YTD stock price chg	0.8%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	HLBK MK Equity
Market Cap (RM m)	39,755.9
Shares Outstanding	2,167.7
52-week range (H)	19.30
52-week range (L)	13.20
3-mth avg daily vol	1,275,907
Free Float	24%
Beta	1.2

Major Shareholders

Hong Leong Financial Group	62.0%
Employees Provident Fund	10.1%
Hong Leong Bank Sdn Bhd	1.9%

Summary Earnings Table

FY Jun (RM m)	2020A	2021E	2022E
Net Interest Income	2,764	3,313	3,510
Islamic Banking Inc.	847	737	885
Non Interest Income	1,167	1,171	1,471
Total Income	4,778	5,221	5,866
PBT	2,989	3,565	3,802
Net Profit (NP)	2,495	2,852	3,041
Consensus NP		2,737	3,054
Earnings Revision		0.0%	0.0%
EPS (sen)	121.9	139.4	148.6
EPS growth (%)	-6.4	14.3	6.6
DPS (sen)	36.0	36.0	50.0
BV/Share (RM)	13.31	14.34	15.5
NTA/Share	12.32	13.38	14.47
ROE (%)	9.47	10.08	9.5
PER (x)	15.0	13.2	12.3
Price/NTA (x)	1.3	1.2	1.1
Price/Book (x)	1.17	1.08	1.0
Dividend Yield (%)	2.0	2.0	2.7



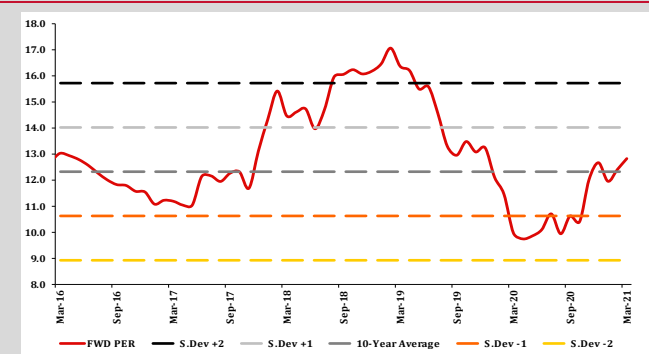
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Risks to our call include: (i) higher/lower-than-expected margin squeeze, (ii) higher/lower-than-expected loans growth, (iii) better/worse-than-expected improvement in asset quality, (iv) stronger/weaker capital market activities, and (v) favourable/unfavourable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

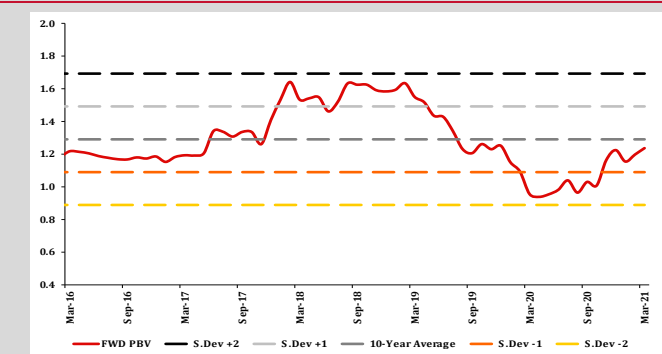
Income Statement						Financial Data & Ratios					
FY Jun (RM m)	2018A	2019A	2020A	2021E	2022E	FY Jun	2018A	2019A	2020A	2021E	2022E
Interest Income	6,358	6,285	5,912	7,229	7,687	Growth					
Interest Expense	-3,464	-3,918	-3,416	-4,184	-4,446	Net Interest Income	1.4%	-4.5%	0.0%	19.9%	5.9%
Net Interest Inc.	2,893	2,764	2,764	3,313	3,510	Total Income	6.3%	-2.3%	1.1%	9.3%	12.4%
Islamic Ops.	646	707	847	737	885	Pre-tax Profit	18.1%	-1.9%	-6.2%	19.3%	6.6%
Non-Interest Inc.	1,300	1,254	1,167	1,171	1,471	Net Profit	23.0%	1.0%	-6.4%	14.3%	6.6%
Total Income	4,840	4,726	4,778	5,221	5,866	Core Net Profit	23.0%	1.0%	-6.4%	14.3%	6.6%
Overhead Exp.	-2,060	-1,905	-1,855	-1,825	-2,579	Gross Loans	3.1%	6.6%	6.1%	5.2%	6.7%
Loan Loss Prov.	-77	-12	-328	-304	-221	Net Loans	3.3%	6.4%	6.1%	5.2%	6.8%
Others	544	564	643	691	736	Customer Deposits	1.4%	3.6%	6.4%	4.4%	5.9%
Pre-tax Profit	3,246	3,186	2,989	3,565	3,802	Operating metrics					
Taxation	-608	-522	-495	-713	-760	Avg. Lending Yield	4.0%	3.9%	3.7%	4.0%	4.0%
Minority Interest	0	0	0	0	0	Avg. Cost of Funds	2.5%	2.8%	2.4%	2.7%	2.6%
Net Profit	2,638	2,665	2,495	2,852	3,041	Net Interest Margin	1.9%	1.8%	1.8%	1.8%	1.9%
Core Net Profit	2,638	2,665	2,495	2,852	3,041	Cost-to-Income	42.6%	40.3%	44.0%	39.1%	48.0%
Balance Sheet						Credit Charge	0.1%	0.1%	0.2%	0.2%	0.1%
FY Jun (RM m)	2018A	2019A	2020A	2021E	2021E	Loan/Deposit Ratio	82.0%	84.4%	84.1%	84.7%	0.0%
Cash & ST Funds	9,269	6,147	9,615	7,728	7,833	Loan Loss Coverage	89.5%	117.8%	141.5%	167.6%	152.0%
Net Loans	128,059	136,308	144,695	152,208	162,565	G. Impaired Loans	0.9%	1.2%	1.1%	1.1%	1.2%
Invest. Securities	52,270	51,139	55,453	56,973	58,752	Return on Equity	11.3%	10.8%	9.5%	10.1%	9.5%
Intangible Assets	1,984	1,957	2,019	1,965	2,032	Return on Assets	1.3%	1.3%	1.2%	1.2%	1.2%
Other Assets	11,130	11,819	9,243	13,665	8,873	Valuations					
Total Asset	202,891	207,369	221,278	239,295	249,069	EPS (sen)	129.0	130.3	121.9	139.4	148.6
Cust. Deposits	157,414	163,070	173,493	181,191	191,886	PER (x)	14.2	14.1	15.0	13.2	12.3
Bank Deposits	7,237	7,358	6,501	6,781	7,108	DPS (sen)	48.0	50.0	36.0	36.0	50.0
Debt Securities	8,396	5,801	6,616	6,616	6,616	Dividend Payout (%)	37.2	38.4	29.5	25.8	33.6
Other Liabilities	5,951	5,656	6,836	6,836	6,836	Dividend Yield (%)	2.6	2.7	2.0	2.0	2.7
Total Liabilities	178,999	181,886	193,446	201,424	212,446	BV/Share (RM)	11.7	12.5	13.3	14.3	15.5
Share Capital	7,739	7,739	7,739	7,739	7,739	Price/Book (x)	1.3	1.2	1.2	1.1	1.0
Other Reserves	16,885	18,463	20,219	22,334	24,639	NTA/Share (RM)	10.7	11.5	12.3	13.4	14.5
Minority interest	0	0	0	0	0	Price/NTA (x)	1.4	1.3	1.3	1.2	1.1
Total Equity	23,892	25,474	27,234	29,350	31,655						
Total Liabilities & Equity	202,891	207,369	221,278	239,738	249,933						

Source: Kenanga Research

Fwd PER Band



Fwd PBV Band



Source: Bloomberg, 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.				
Stocks Under Coverage																		
AFFIN BANK BHD	1.82	3,785.2	N	12/2021	-4.6%	2.7%	46.5%	11.2%	16.4	11.2	10.1	0.4	0.4	3.5%	2.7%	1.35	UP	
ALLIANCE BANK MALAYSIA BHD	2.67	4,133.4	N	03/2021	-10.1%	-6.4%	-14.7%	34.8%	9.7	11.4	8.5	0.7	0.7	5.9%	2.2%	2.30	UP	
AMMB HOLDINGS BHD	3.13	9,415.4	N	03/2021	-10.9%	4.6%	-205.4%	190.0%	7.0	N.A.	8.2	0.5	0.5	-7.9%	0.0%	2.40	UP	
BIMB HOLDINGS BHD	3.94	7,303.4	Y	12/2021	7.6%	3.9%	6.1%	0.8%	10.2	9.6	9.6	1.2	1.1	11.5%	3.6%	5.15	OP	
CIMB GROUP HOLDINGS BHD	4.25	42,172.6	N	12/2021	-0.3%	4.5%	176.0%	35.0%	35.3	12.8	9.5	0.8	0.7	5.8%	3.1%	3.50	UP	
HONG LEONG BANK BHD	18.34	39,755.9	N	06/2021	14.8%	9.6%	14.3%	6.3%	15.0	13.2	12.4	1.4	1.3	10.1%	2.0%	17.80	MP	
MALAYAN BANKING BHD	8.32	94,964.4	N	12/2022	-4.7%	2.8%	8.8%	19.7%	13.8	12.7	10.6	1.1	1.1	8.7%	6.7%	10.60	OP	
MALAYSIA BUILDING SOCIETY BHD	0.665	4,638.6	N	12/2021	66.6%	3.0%	173.9%	14.4%	16.8	6.1	5.4	0.5	0.5	8.1%	4.5%	0.720	OP	
PUBLIC BANK BHD	4.21	81,719.0	N	12/2021	1.4%	2.3%	15.6%	3.1%	16.8	14.5	14.1	1.7	1.6	11.6%	3.3%	4.40	MP	
RHB BANK BHD	5.35	21,453.7	N	12/2021	-6.6%	-2.6%	-18.1%	16.0%	8.6	10.6	9.1	0.8	0.8	7.7%	3.3%	6.25	OP	
Simple Average					5.3%	2.4%	20.3%	33.1%	15.0	11.3	9.7	0.9	0.9	6.5%	3.1%			

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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