

30 November 2021

Hong Leong Bank Bhd

1QFY22 Broadly Within Expectations

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1QFY22 net earnings of RM858.3m (+18%) is deemed to be broadly within expectations, as we are cautious of lumpier provisioning to come from assistance programs. Management also maintains its guidance for now. The group's existing operating framework and buffers could sufficiently shelter against headwinds but we are modest with the delivery of its returns. Maintain MP and GGM-derived PBV TP of RM18.20.

1QFY22 broadly within. 1QFY22 net profit of RM858.3m is deemed to be broadly within expectations. It made up 31%/27% of our/consensus expectations. We anticipate more provisions to be booked in the coming quarters, making up closer to management's credit cost expectations (1QFY22: 13bps, vs. 20bps target). No dividend was declared this quarter, as expected.

YoY, 1QFY22 total income rose slightly (+2%) as better NII (+6%), driven by loans growth (+5%) amidst easing NIM (our computed 1.89%, -2 bps) was mitigated by weakness in NOII (-9%) owing to diminished investment gains. On the flipside, operating expenses improved by 3% on more streamlined personnel cost, leading to a CIR of 36.8% (-180 bps). Impairment allowances were softer this year (-53%) from a better comparative landscape from FY21 with an annualised credit cost of 13 bps (-16bps). 18%-owned associate, Bank of Chengdu provided stronger shared profits (+31%) thanks to better loans and operating performance. This translated to an 18% earnings growth for 1QFY22 at RM858.3m.

QoQ, 1QFY22 total income's 4% gain was thanks to stronger fees and investment income propelling NOII (+67%). Meanwhile, NII fell by 7% as loans portfolio was stagnant amidst suppressed NIMs, no thanks to modification loss (-8bps impact) during the quarter. Meanwhile, provisions were 75% lower as 4QFY21 saw some frontloading of overlays against the implemented lockdown. 1QFY22 closed with a 25% net profit improvement.

Key briefing's highlight. In spite of the strong delivery of this quarter results, management is still cautious with the group's near-term prospects. While current URUS applications are few, a possible influx in the coming quarters could inflate provisioning. That said, the group is currently sitting on significant buffers (RM835m overlays) which could soften sudden shifts in the market. Immediate loans performance may be tepid but could be made up by the clearing of backlog in applications going forward. Cost-wise, there may be further traction from its cost streamlining efforts as it moves to digitalize its processes. Meanwhile, Bank of Chengdu is expected to continue reporting buoyant growth thanks to a more sustainable economic performance. In line with its conservatism, management maintains its FY22 guidance for now.

Post results, we tweak our FY22E/FY23E earnings from model updates.

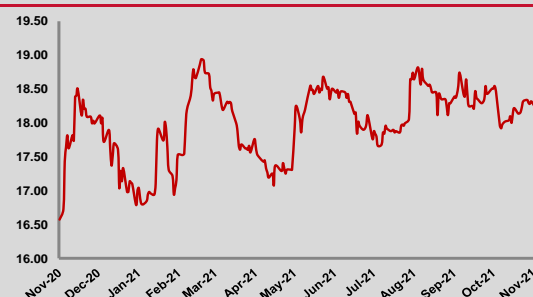
Maintain MARKET PERFORM and TP of RM18.20. Our call is based on an unchanged GGM-derived PBV of 1.17x (1.0SD below mean) on a CY22E BV of RM15.64. The stock seems to be well positioned to ride through uncertainties arising from a possible worsening of Covid-19, with one of the lowest GIL ratio and highest LLC amongst its peers. However, this is offset by our soft ROE and dividend yield projections at the moment, evening out its risk-to-reward.

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

MARKET PERFORM ↔

Price : RM18.20
Target Price : RM18.20 ↔

Share Price Performance



KLCI	1,510.57
YTD KLCI chg	-7.2%
YTD stock price chg	0.0%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	HLBK MK Equity
Market Cap (RM m)	39,452.5
Shares Outstanding	2,167.7
52-week range (H)	18.94
52-week range (L)	16.73
3-mth avg daily vol	939,614
Free Float	25%
Beta	1.1

Major Shareholders

Hong Leong Financial Group	62.0%
Employees Provident Fund	8.9%
Hong Leong Bank Sdn Bhd	1.9%

Summary Earnings Table

FY Jun (RM m)	2021A	2022E	2023E
Net interest income	4,377	4,272	4,356
Non-interest income	1,090	1,199	1,279
Total income	5,467	5,471	5,634
Operating expenses	-2,020	-2,111	-2,154
Loan impairment	-654	-297	-120
Pre-tax profit	3,471	3,762	4,110
PATAMI	2,861	2,773	3,029
Core PATAMI	2,861	2,773	3,029
Consensus NP		3,140	3,576
Earnings revision		+0.6%	-0.6%
Core EPS (RM)	1.40	1.35	1.48
EPS growth	15%	-3%	9%
NDPS (RM)	0.50	0.55	0.58
BV/share (RM)	14.38	15.19	16.09
NTA/share (RM)	13.37	14.18	15.08
ROE (%)	10.1	9.2	9.5
PER (x)	13.0	13.4	12.3
P/BV (x)	1.27	1.20	0.88
Net Div. Yield (%)	2.7	3.0	3.2

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Results Highlights

	1Q	4Q	QoQ	1Q	YoY	3M	3M	YoY
FYE Jun (RM m)	FY22	FY21	Chg	FY21	Chg	FY22	FY21	Chg
Net interest income	1,075	1,150	-6.5%	1,015	6.0%	1,075	1,015	6.0%
Non-interest income	304	182	66.9%	334	-8.8%	304	334	-8.8%
Total income	1,380	1,332	3.6%	1,349	2.3%	1,380	1,349	2.3%
Operating expenses	-507	-532	-4.7%	-521	-2.7%	-507	-521	-2.7%
Pre-impairment profit	873	800	9.1%	828	5.4%	873	828	5.4%
(Allowances)/ write-backs	-49	-194	-74.9%	-104	-53.3%	-49	-104	-53.3%
(Allowances)/ write-backs on other assets	0	0	-177.8%	0	-164.4%	0	0	-164.4%
Operating profit	824	606	36.0%	724	13.8%	824	724	13.8%
Associate gains / (losses)	218	219	-0.6%	167	30.5%	218	167	30.5%
Profit before tax	1,042	825	26.3%	891	16.9%	1,042	891	16.9%
Taxation	-184	-135	36.1%	-161	14.0%	-184	-161	14.0%
Minority interest	0	0	N.M	0	N.M.	0	0	N.M
Net PATAMI	858	689	24.5%	729	17.7%	858	729	17.7%
Core PATAMI	858	689	24.5%	729	17.7%	858	729	17.7%
Gross loans	155,779	155,822	0.0%	148,126	5.2%	155,779	148,126	5.2%
Gross impaired loans	755	717	5.2%	705	7.2%	755	705	7.2%
Customer deposits	181,652	182,840	-0.6%	174,692	4.0%	181,652	174,692	4.0%
Current and savings account (CASA)	59,156	59,242	-0.1%	50,606	16.9%	59,156	50,606	16.9%
Total assets	242,355	237,129	2.2%	225,632	7.4%	242,355	225,632	7.4%
Shareholders' equity	29,434	29,459	-0.1%	28,070	4.9%	29,434	28,070	4.9%
Est. annualised NIM	1.89%	2.06%		1.91%		1.89%	1.91%	
Cost-to-income ratio	36.8%	40.0%		38.6%		36.8%	38.6%	
Est. Annualised credit cost (bps)	12.5	50.4		28.4		12.5	28.4	
Effective tax rate	17.6%	16.4%		18.1%		17.6%	18.1%	
Annualised ROA	1.4%	1.2%		1.3%		1.4%	1.3%	
Annualised ROE	11.7%	9.5%		10.5%		11.7%	10.5%	
Gross impaired loans ratio	0.5%	0.5%		0.5%		0.5%	0.5%	
Loan loss coverage ratio (LLC)	238.5%	246.6%		190.4%		238.5%	190.4%	
LLC plus regulatory reserves	296.4%	300.6%		190.4%		296.4%	190.4%	
Loan-to-deposit ratio	85.5%	84.8%		84.6%		85.5%	84.6%	
CASA-to-deposit ratio	32.6%	32.4%		29.0%		32.6%	29.0%	
CET-1 capital (Group level)	13.0%	13.6%		12.5%		13.0%	12.5%	

Source: Company, Kenanga Research

Management Guidance

	FY22 Targets	FY21 Performance
Gross loans growth	5 – 6 %	6.8%
Net interest margin	>2.05%	2.14%
Cost-to-income ratio	<40%	38.0%
GIL ratio	<0.8%	0.48%
Net credit cost	~20 bps	43 bps
Return on equity	>10%	10.1%
CASA mix	>30%	32.3%

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.				
Stocks Under Coverage																			
AFFIN BANK BHD	1.65	3,504.7	N	12/2021	-13.1%	5.5%	80.4%	6.5%	14.9	8.3	7.8	0.4	0.3	4.3%	3.0%	1.55	MP		
ALLIANCE BANK MALAYSIA BHD	2.82	4,365.7	N	03/2022	-7.2%	1.4%	53.0%	4.8%	12.2	8.0	7.6	0.7	0.7	8.5%	5.0%	2.65	MP		
AMMB HOLDINGS BHD	3.08	10,203.8	N	03/2022	-3.6%	1.4%	30.2%	11.5%	9.9	8.3	7.5	0.6	0.7	8.1%	2.8%	3.15	MP		
BIMB HOLDINGS BHD	2.91	6,040.8	Y	12/2021	0.2%	-2.3%	14.8%	-7.1%	14.4	12.5	13.5	1.2	1.1	9.0%	4.8%	3.20	OP		
CIMB GROUP HOLDINGS BHD	5.11	52,231.6	N	12/2021	-1.0%	2.1%	257.5%	8.1%	42.6	11.9	11.0	0.9	0.9	7.4%	4.1%	4.75	MP		
HONG LEONG BANK BHD	18.20	39,452.5	N	06/2022	0.7%	5.1%	-3.1%	9.2%	13.0	13.4	12.3	1.3	1.2	9.2%	3.0%	18.20	MP		
MALAYAN BANKING BHD	8.05	95,578.9	N	12/2021	-8.5%	3.2%	19.4%	2.2%	14.0	11.7	11.5	1.1	1.1	9.1%	7.0%	10.55	OP		
MALAYSIA BUILDING SOCIETY BHD	0.605	4,338.7	N	12/2021	55.4%	6.8%	94.0%	25.9%	15.3	7.9	6.3	0.5	0.4	5.8%	4.0%	0.540	UP		
PUBLIC BANK BHD	3.96	76,866.3	N	12/2021	-3.6%	2.3%	14.3%	-0.7%	15.8	13.8	13.9	1.6	1.5	11.4%	3.5%	3.85	MP		
RHB BANK BHD	5.26	21,791.8	N	12/2021	-6.4%	7.2%	14.2%	0.7%	10.4	9.1	9.0	0.8	0.7	8.4%	5.7%	6.10	OP		
Simple Average					1.3%	3.3%	57.5%	6.1%	16.2	10.5	10.0	0.9	0.9	8.1%	4.3%				

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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