

01 June 2023

Hong Leong Bank

Balanced Operations to Support

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9MFY23 net profit of RM2.95b (+24%) came within expectations. HLBANK is expecting some moderation in its loans and interest margins. However, they still maintain stellar asset quality readings from prudent management and strategies. Even if there is slowing growth in domestic operations, its associate Bank of Chengdu (BOCD) remains bullish in its earnings delivery. Maintain **OUTPERFORM** with a higher rolled-over GGM-derived PBV TP of RM25.00 (from RM23.35).

9MFY23 within expectations. 9MFY23 net profit of RM2.95b made up 73% of our full-year forecast and 76% of consensus full-year estimates. No dividend was declared this quarter as the group typically announces its dividends biannually.

YoY, 9MFY23 net interest income was flattish as a 7% loans growth was offset by 13 bps compression in net interest margins (NIM). On the flipside, non-interest income spiked 41% from a strong recovery in treasury and investment activities. Cost-income ratio was also relatively stagnant at 37.6% as higher operating expense (+7%) was in tandem with income growth. Meanwhile, credit cost registered at 8 bps (-3 bps) as asset quality staging improves. The group's 17.6%-owned associate, BOCD delivered sustained growth (+32%) from its strong positioning in Chengdu. Overall, 9MFY23 reported net earnings of RM2.95b (+24%).

Briefing's highlights. Prospects on local soil may appear more neutral in the near-term, but we believe BOCD would continue to be a solid contributor to bottomline.

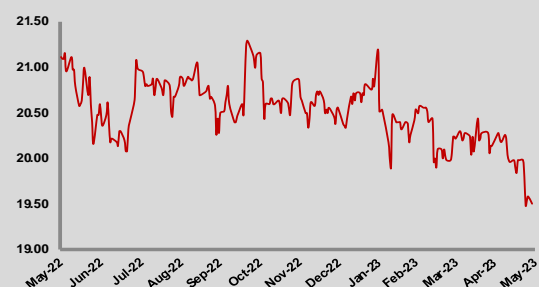
1. Narrower loans growth target at 7% (from 7.0%-7.5%) was updated as there could be moderating demand in key residential property and transport vehicles segments. That said, the group is persistent in its SME acquisition strategies.
2. NIMs may remain stable in the immediate, albeit at a lower level than 1HFY23 owing to pre-rated offerings. While the 25 bps OPR hike in May could help support NIMs, the group opines it may close the year at a 2.00%, lowering its initial 2.14% guidance.
3. Focusing on its key markets, the group may not adopt overly aggressive pricing strategies to secure liquidity, which it believes is ample. This could help to defend NIMs as industry rate normalises.
4. Asset quality remains un concerning, with gross impaired loans being mostly held by specific accounts. The existing overlay of RM614m (-RM16m QoQ) is maintained in lieu of revisions possibly arising from a pending stress test in June.
5. BOCD saw strong earnings momentum given its high penetration in an accelerated corporate landscape in Chengdu, making up to 80% of its portfolio. Its 30% loans growth will likely offset the impact towards earnings from rate hikes in China.

Forecasts. Post results, we slightly adjust our FY23F/FY24F earnings from model updates. Although the group toned down their loans growth and NIM guidance, we had already factored conservative levels in our assumptions, hence leaving them mostly unchanged (i.e. loans growth 6%, NIMs <2.00%).

OUTPERFORM ↔

Price : RM19.36
Target Price : RM25.00 ↑

Share Price Performance



KLCI 1,387.12
YTD KLCI chg -7.2%
YTD stock price chg -5.8%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	HLBK MK Equity
Market Cap (RM m)	41,967.0
Shares Outstanding	2,167.7
52-week range (H)	21.30
52-week range (L)	19.36
3-mth avg daily vol	786,679
Free Float	32%
Beta	0.7

Major Shareholders

Hong Leong Financial Group	61.8%
Employees Provident Fund	10.2%
Amanah Saham Nasional	1.8%

Summary Earnings Table

FY Jun (RM m)	2022A	2023F	2024F
Net interest income	4,660	4,851	4,977
Non-interest income	937	995	1,041
Total income	5,597	5,846	6,018
Operating expenses	-2,098	-2,150	-2,205
Loan impairment	-163	-130	-154
Pre-tax profit	4,367	4,666	4,859
Net Profit	3,289	3,953	4,127
Core Net Profit	3,289	3,953	4,127
Consensus NP	-	3,877	4,106
Earnings revision (%)	-	-2.2	0.1
Core EPS (RM)	1.61	1.93	2.02
EPS growth (%)	15.0	20.2	4.4
NDPS (RM)	0.55	0.70	0.74
BV/share (RM)	15.13	16.36	17.64
NTA/share (RM)	14.09	15.32	16.59
ROE (%)	10.9	12.3	11.9
PER (x)	12.1	10.0	9.6
P/BV (x)	1.28	0.85	0.91
Net Div. Yield (%)	2.8	3.6	3.8

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Maintain OUTPERFORM with a higher TP of RM25.00 (from RM23.35). On an unchanged GGM-derived PBV of 1.37x (COE: 9.7%, TG: 3.5%, ROE: 12.0%), we roll over our valuation base year to CY24F BVPS of RM18.25 (from CY23F BVPS of RM17.05). We continue to view the stock as a solid pick for investors seeking stability, as the group's GIL ratio remains to be one of the lowest amongst peers whilst it is still able to generate better-than-industry loans growth. Meanwhile, BOCD is expected to be a sustainable contributor in the near-term. That said, dividend expectations are moderate against the group's emphasis for sustainable payments. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us.

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

Results Highlights

	3Q	2Q	QoQ	3Q	YoY	9M	9M	YoY
FYE Jun (RM m)	FY23	FY23	Chg	FY22	Chg	FY23	FY22	Chg
Net interest income	1,056	1,228	-14.0%	1,172	-9.9%	3,525	3,492	0.9%
Non-interest income	341	258	31.8%	176	93.6%	858	607	41.4%
Total income	1,396	1,486	-6.1%	1,348	3.6%	4,382	4,099	6.9%
Operating expenses	-559	-546	2.4%	-518	7.9%	-1,646	-1,538	7.0%
Pre-impairment profit	837	940	-11.0%	830	0.9%	2,736	2,561	6.9%
(Allowances)/ write-backs	-38	-25	49.9%	-51	-25.9%	-101	-133	-24.3%
(Allowances)/ write-backs on other assets	0	1	-107.1%	0	-133.0%	0	0	-130.6%
Operating profit	799	915	-12.8%	779	2.6%	2,636	2,427	8.6%
Associate gains / (losses)	313	373	-16.1%	253	23.9%	951	722	31.8%
Profit before tax	1,112	1,288	-13.7%	1,031	7.8%	3,587	3,149	13.9%
Taxation	-182	-245	-25.9%	-246	-26.1%	-633	-768	-17.6%
Minority interest	0	0	N.M	0	N.M.	0	0	N.M
Net Profit	930	1,042	-10.8%	785	18.5%	2,953	2,382	24.0%
Core Net Profit	930	1,042	-10.8%	785	18.5%	2,953	2,382	24.0%
Gross loans	174,228	172,281	1.1%	162,494	7.2%	174,228	162,494	7.2%
Gross impaired loans	904	838	7.8%	779	16.0%	904	779	16.0%
Customer deposits	199,733	195,713	2.1%	188,605	5.9%	199,733	188,605	5.9%
Current and savings account (CASA)	60,405	62,162	-2.8%	62,987	-4.1%	60,405	62,987	-4.1%
Total assets	269,408	265,189	1.6%	251,882	7.0%	269,408	251,882	7.0%
Shareholders' equity	32,932	32,083	2.6%	30,361	8.5%	32,932	30,361	8.5%
Est. annualised NIM	1.82%	2.09%		2.15%		2.03%	2.16%	
Cost-to-income ratio	40.1%	36.7%		38.4%		37.6%	37.5%	
Est. Annualised credit cost (bps)	8.8	5.9		12.9		7.9	11.2	
Effective tax rate	16.4%	19.0%		23.9%		17.6%	24.4%	
Annualised ROA	1.4%	1.6%		1.3%		1.5%	1.3%	
Annualised ROE	11.4%	13.2%		10.4%		12.3%	10.6%	
Gross impaired loans ratio	0.5%	0.5%		0.5%		0.5%	0.5%	
Loan loss coverage ratio (LLC)	196.6%	210.1%		217.8%		196.6%	217.8%	
LLC plus regulatory reserves	293.2%	310.8%		289.7%		293.2%	289.7%	
Loan-to-deposit ratio	87.8%	88.1%		86.0%		87.8%	86.0%	
CASA-to-deposit ratio	30.2%	31.8%		33.4%		30.2%	33.4%	
CET-1 capital (Group level)	12.9%	13.0%		12.7%		12.9%	12.7%	

Source: Company, Kenanga Research

Management Guidance

	FY23 Targets	FY22 Performance
Gross loans growth	7.0% (from 7.0-7.5%)	8.0%
Net interest margin	~2.00% (from ~2.14%)	2.14%
Cost-to-income ratio	<38%	37.5%
GIL ratio	~0.60%	0.49%
Net credit cost	~10 bps	10 bps
Return on equity	>12.0%	10.9%
CASA mix	>30%	34%

Source: Company, Kenanga Research

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Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
ALLIANCE BANK MALAYSIA BHD	OP	3.45	4.40	27.5%	5,341	N	03/2024	48.8	52.9	11.3%	8.4%	7.1	6.5	0.7	10.9%	24.5	7.1%
AMMB HOLDINGS BHD	OP	3.64	5.05	38.7%	12,038	N	03/2024	56.3	62.0	7.4%	10.2%	6.5	5.9	0.6	9.9%	19.5	5.4%
BANK ISLAM MALAYSIA BHD	MP	1.85	2.25	21.6%	4,193	Y	12/2023	24.0	25.0	5.1%	4.1%	7.7	7.4	0.6	7.5%	15.5	8.4%
CIMB GROUP HOLDINGS BHD	OP	4.82	6.55	35.9%	51,406	N	12/2023	61.1	68.2	17.2%	11.5%	7.9	7.1	0.8	9.9%	30.0	6.2%
HONG LEONG BANK BHD	OP	19.36	25.00	29.1%	41,967	N	06/2023	193.0	201.5	20.2%	4.4%	10.0	9.6	1.2	12.3%	70.0	3.6%
MALAYAN BANKING BHD	OP	8.65	10.10	16.8%	104,268	N	12/2023	80.3	80.0	16.8%	-0.5%	10.8	10.8	1.2	11.1%	68.0	7.9%
PUBLIC BANK BHD	OP	3.81	4.90	28.6%	73,955	N	12/2023	36.0	37.2	14.1%	3.3%	10.6	10.2	1.4	13.5%	18.0	4.7%
RHB BANK BHD	OP	5.35	7.10	32.7%	22,932	N	12/2023	77.5	77.7	15.9%	0.3%	6.9	6.9	0.7	10.7%	43.0	8.0%
SECTOR AGGREGATE					316,100							9.5	9.1	1.0	10.9%		6.4%

Source: Kenanga Research

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Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★	☆	
	Community Investment	★	★	★	☆	
	Workforce Safety & Wellbeing	★	★	★		
	Corporate Governance	★	★	★	★	
	Anti-corruption Policy	★	★	★		
	Emissions Management	★	★	★		
SPECIFIC	Green Financing	★	★	★		
	Financial Inclusion	★	★	★		
	Cybersecurity/Data Privacy	★	★	★		
	Digitalisation & Innovation	★	★	★	☆	
	Diversity & Inclusion	★	★	★		
	Customer Experience	★	★	★		
	OVERALL	★	★	★		

☆ denotes half-star
 ★ -10% discount to TP
 ★★ -5% discount to TP
 ★★★ TP unchanged
 ★★★★ +5% premium to TP
 ★★★★★ +10% premium to TP

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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