

31 May 2024

Hong Leong Bank

Likely to Beat Targets

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HLBANK's 9MFY24 net profit (+7% YoY) met expectations, seemingly poised to overachieve on its loans growth and credit cost targets. Its associate, Bank of Chengdu (BOCD) appears to be moderating in terms of contributions but this could be compensated by the group's overall stronger operations and market share. We raise our FY24F-FY25F earnings by 2%-1%, maintain our OUTPERFORM rating and raise our GGM-derived PBV TP by 8.3% to RM26.20 as we roll over our valuation base year.

Within expectations. HLBANK's 9MFY24 net profit of RM3.16b made up 79% of our full-year forecast and 78% of consensus full-year estimate. No dividend was declared this quarter as the group typically pays biannually.

YoY, 9MFY24 net interest income grew slightly (+1%) as continued stress in NIMs (1.78%, -12 bps) offset the 8% growth in loans book. Meanwhile, non-interest income dipped by 15% due to softer treasury and forex gains. Though total income declined by 2%, 9MFY24 net profit grew by 7% on the back of the group's net write-back position of RM83m (9MFY24 net impairment: RM101m) while its associate, BOCD showed sustained growth in its contributions (+25%).

QoQ, 3QFY24 total income fell by 2%, no thanks to softer investment performance. Net profit declined further by 4% mainly from BOCD's performance moderating (-14%) from a softening operating environment there.

Briefing highlights. All targets are on track for HLBANK with the group believing that it could close the year with some outperformance.

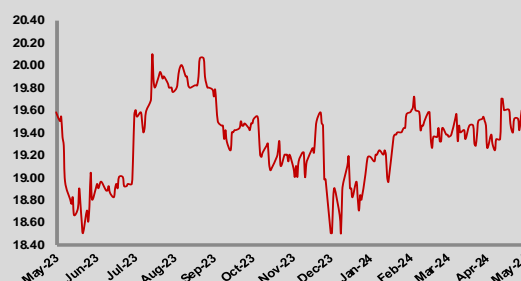
1. Despite reporting an 8% loans growth which is above its 6%-7% target, the group did not revise its guidance but offers that retail mortgage and SME loans continue to be highly supported.
2. While NIMs are lower on a YoY-basis, its continued recovery on a QoQ-basis (+2 bps) is landing well within its guidance of 1.8%-1.9%. The group has made headways in optimising its liability management and could likely see further sequential gains.
3. The group had remained in a net writeback position over the last three quarters. In spite of this, the group still holds an unchanged management overlay of RM574m which it is likely to maintain as it engages in continued stress testing. That said, in lieu of accounting requirements, the group would likely be required to utilise this balance in the upcoming FY25 while keeping its 10 bps credit cost guidance for FY25.
4. With regards to non-interest income, the group appears to be experiencing unfavourable trading conditions which may continue to drag overall performance. On the flipside, its fee-based income streams appear to be holding up, likely thanks to its growing loans and deposit books.
5. BOCD appears to begin showing some easing QoQ with minor stress arising from headwinds in the Chengdu market. However, the group opines that downside risks are well-managed with collaborative efforts with the group looking to bolster operational capabilities

Forecasts. Slightly increased from 3QFY24's model inputs.

OUTPERFORM ↔

Price : RM19.26
Target Price : RM26.20 ↑

Share Price Performance



KLCI	1,604.26
YTD KLCI chg	10.3%
YTD stock price chg	1.9%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	HLBK MK Equity
Market Cap (RM m)	41,750.2
Shares Outstanding	2,167.7
52-week range (H)	20.10
52-week range (L)	18.50
3-mth avg daily vol	775,574
Free Float	32%
Beta	0.7

Major Shareholders

Hong Leong Financial Group	61.8%
Employees Provident Fund	9.4%
Amanah Saham Nasional	2.3%

Summary Earnings Table

FY Jun (RM m)	2023A	2024F	2025F
Net interest Income	4,647	4,715	5,105
Non-interest Income	1,038	1,099	1,125
Total Income	5,686	5,815	6,230
Operating Expenses	-2,233	-2,357	-2,404
Loan Impairment	-115	-98	-129
Pre-tax Profit	4,627	4,760	5,146
Net Profit	3,818	4,088	4,407
Core Net Profit	3,818	4,088	4,407
Consensus NP	-	4,072	4,378
Earnings Revision (%)	-	+1.8	+1.0
Core EPS (RM)	1.86	2.00	2.15
EPS Growth (%)	16.1	7.1	7.8
NDPS (RM)	0.59	0.60	0.63
BV/Share (RM)	16.59	17.99	19.51
NTA/Share (RM)	15.52	16.92	18.44
ROE (%)	11.8	11.5	11.5
PER (x)	10.3	9.6	9.0
P/BV (x)	0.86	0.93	1.01
Net Div. Yield (%)	3.1	3.1	3.3

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Maintain OUTPERFORM with a higher TP of RM26.20 (from RM24.20), as we roll over our valuation base year to CY25F BVPS of RM20.26. This is against an unchanged GGM-derived PBV of 1.29x (COE: 9.9%, TG: 2.5%, ROE: 12.0%) 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)	FY24	FY24	Chg	FY23	Chg	FY24	FY23	Chg
Net interest income	1,223	1,191	2.7%	1,056	15.9%	3,567	3,525	1.2%
Non-interest income	212	273	-22.4%	341	-37.7%	728	858	-15.2%
Total income	1,436	1,465	-2.0%	1,396	2.8%	4,294	4,382	-2.0%
Operating expenses	-577	-578	-0.1%	-559	3.1%	-1,711	-1,646	3.9%
Pre-impairment profit	859	887	-3.2%	837	2.6%	2,584	2,736	-5.6%
(Allowances)/ write-backs	26	6	361.2%	-38	-169.2%	83	-101	-182.3%
(Allowances)/ write-backs on other assets	1	0	-4090.5%	0	-2364.9%	1	0	697.9%
Operating profit	886	893	-0.8%	799	10.9%	2,668	2,636	1.2%
Associate gains / (losses)	384	448	-14.3%	313	22.8%	1,187	951	24.8%
Profit before tax	1,270	1,341	-5.3%	1,112	14.2%	3,855	3,587	7.5%
Taxation	-224	-253	-11.5%	-182	23.2%	-690	-633	9.1%
Minority interest	0	0	N.M	0	N.M.	0	0	N.M
Net Profit	1,044	1,088	-4.0%	930	12.3%	3,162	2,953	7.1%
Core Net Profit	1,044	1,088	-4.0%	930	12.3%	3,162	2,953	7.1%
Gross loans	187,810	185,165	1.4%	174,228	7.8%	187,810	174,228	7.8%
Gross impaired loans	1,074	1,033	4.0%	904	18.9%	1,074	904	18.9%
Customer deposits	207,807	206,990	0.4%	199,733	4.0%	207,807	199,733	4.0%
Current and savings account (CASA)	65,005	65,778	-1.2%	60,405	7.6%	65,005	60,405	7.6%
Total assets	291,150	285,082	2.1%	269,408	8.1%	291,150	269,408	8.1%
Shareholders' equity	36,238	35,546	1.9%	32,932	10.0%	36,238	32,932	10.0%
Est. annualised NIM	1.82%	1.80%		1.68%		1.78%	1.90%	
Cost-to-income ratio	40.2%	39.4%		40.1%		39.8%	37.6%	
Est. Annualised credit cost (bps)	-5.6	-1.2		8.8		-6.1	7.9	
Effective tax rate	17.6%	18.9%		16.4%		17.9%	17.6%	
Annualised ROA	1.5%	1.5%		1.4%		1.5%	1.5%	
Annualised ROE	11.6%	12.5%		11.4%		12.0%	12.3%	
Gross impaired loans ratio	0.6%	0.6%		0.5%		0.6%	0.5%	
Loan loss coverage ratio (LLC)	154.4%	163.4%		196.6%		154.4%	196.6%	
LLC plus regulatory reserves	265.0%	271.4%		293.2%		265.0%	293.2%	
Loan-to-deposit ratio	91.2%	90.2%		87.8%		91.2%	87.8%	
CASA-to-deposit ratio	31.3%	31.8%		30.2%		31.3%	30.2%	
CET-1 capital (Group level)	12.5%	12.9%		12.9%		12.5%	12.9%	

Source: Company, Kenanga Research

Management Guidance

	FY24 Targets	FY23 Performance
Gross loans growth	6%-7%	8.0%
Net interest margin	1.8%-1.9%	1.85%
Cost-to-income ratio	<40%	39.3%
GIL ratio	<0.70%	0.57%
Net credit cost	~10 bps	6.6 bps
Return on equity	~12.0%	11.8%
CASA mix	>30%	31%

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. 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																	
AFFIN BANK BHD	UP	2.42	1.80	-25.6%	5,679	N	12/2024	21.0	27.7	20.4%	31.9%	11.5	8.7	0.5	4.3%	8.0	3.3%
ALLIANCE BANK MALAYSIA BHD	OP	3.87	4.60	18.9%	5,991	N	03/2025	50.2	52.7	12.5%	5.2%	7.7	7.3	0.8	10.5%	25.0	6.5%
AMMB HOLDINGS BHD	OP	4.22	5.20	23.2%	13,955	N	03/2025	55.3	56.3	17.5%	1.8%	7.6	7.5	0.7	9.1%	22.0	5.2%
BANK ISLAM MALAYSIA BHD	MP	2.41	2.25	-6.6%	5,462	Y	12/2024	25.2	29.0	3.3%	14.9%	9.6	8.3	0.7	7.6%	17.0	7.1%
CIMB GROUP HOLDINGS BHD	MP	6.84	6.60	-3.5%	73,074	N	12/2024	67.1	69.8	2.6%	3.9%	10.2	9.8	1.0	10.3%	44.0	6.4%
HONG LEONG BANK BHD	OP	19.26	26.20	36.0%	41,750	N	06/2024	199.6	215.2	7.1%	7.8%	9.7	9.0	1.1	11.5%	60.0	3.1%
MALAYAN BANKING BHD	OP	9.90	11.00	11.1%	119,463	N	12/2024	80.0	83.6	3.2%	4.5%	12.4	11.8	1.2	10.1%	62.0	6.3%
MALAYSIA BUILDING SOCIETY BHD	UP	0.885	0.590	-33.3%	7,277	Y	12/2024	3.9	6.6	104.4%	68.2%	22.6	13.4	0.6	2.8%	2.0	2.3%
PUBLIC BANK BHD	OP	4.08	5.10	25.0%	79,196	N	12/2024	37.3	39.3	9.0%	5.4%	10.9	10.4	1.4	12.9%	21.0	5.1%
RHB BANK BHD	OP	5.48	7.25	32.3%	23,890	N	12/2024	70.8	73.5	8.3%	3.9%	7.7	7.5	0.7	9.7%	43.0	7.8%
SECTOR AGGREGATE					375,736					6.6%	5.8%	10.7	10.1	1.1	10.0%		5.3%

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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