

02 March 2026

Hong Leong Bank

Keeping Sight on Strategic Opportunities

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HLBANK's 1HFY26 net profit (+1% YoY) and dividends declared were within expectations. Investors will track the stock closely for developments of its BOCD stake sale, which may provide up to 4% special dividend returns if sold at current prices, per our estimates. With more favourable risk-reward at current price points, we upgrade it to **OUTPERFORM** with an unchanged SoP-derived TP of RM25.95.

1HFY26 within expectations. HLBANK's 1HFY26 net earnings of RM2.26b made up 48% of our full-year forecast and 51% of consensus full-year estimates. An interim dividend of 30 sen was declared. We deem this to be within our anticipated RM1.05 payment (46% payout) for the year, with a backloaded 2HFY payment.

YoY, 1HFY26 net profit was flattish (+1%) on the back of lower contributions from BOCD (-12%) following the group's stake dilution from 19.8% to 17.8% in 3QFY25.

NII grew by 3% from an 8% expansion in loans book against an 8 bps compression to NIMs (1.83%) from a tighter deposit competition. Note that the Jul 2025 OPR cut came into effect in early 1QFY26. On the other hand, NOII grew by 8% led by better fee-based results. CIR improved to 35.9% (-2.9 pts) from lower personnel expenses while credit cost normalised to 7 bps (+6 bps). Overall, pre-BOCD operating profits improved by 6%.

QoQ, 2QFY26 net earnings increased by 7% thanks to better sequential results from BOCD. Pre-BOCD operating profits declined slightly (-1%) mainly from softer NII (-2%) amid funding cost pressures.

Highlights. The group is tracking closely its FY26 targets, while exceeding on its loans growth trajectory with a greater share on mortgages and hire purchases, while SMEs have also seen favourable traction. Near-term priorities include priming up its wealth management presence to provide the group access to more affluent consumer accounts for more effective cross-selling.

Meanwhile, the group had expressed the possibility of disposing up to 5% of its stake in BOCD. BOCD's market capitalisation stood at approximately RM38.9b (RMB68.5b), implying that HLBANK's current stake is valued at around RM6.9b, with a potential 5% disposal worth approximately RM1.95b. Having initially acquired its 19.99% stake for RM877.5m in July 2008, HLBANK has already generated a substantial uplift on its original investment.

That said, BOCD is currently trading at c.0.8x PBV, below our GGM-derived PBV of 1.08x. Assuming it sells around prevailing traded share price for BOCD, each 1% stake divested could unlock proceeds of c.RM400m in addition to a revaluation loss of c.RM80m. A 1% stake reduction could also reduce annual profit contribution by c.RM76m.

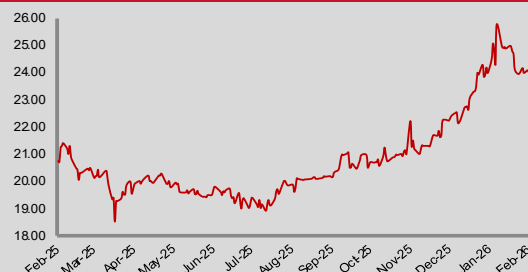
While no details on the potential divestee were disclosed, it would most likely be with strategic partners whom could elevate BOCD's earnings. The group has also yet to come forth with how it may decide to utilise the proceeds from the divestment, with distributions to shareholders being a high possibility, in our opinion.

Forecasts. We tweak our FY26F/FY27F earnings post-2QFY26 model updates.

OUTPERFORM

Price : **RM23.28**
Target Price : **RM25.95** 

Share Price Performance



KLCI	1,716.61
YTD KLCI chg	2.2%
YTD stock price chg	5.1%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	HLBK MK Equity
Market Cap (RM m)	50,464.5
Shares Outstanding (m)	2,167.7
52-week range (H)	25.80
52-week range (L)	18.50
3-mth avg. daily vol.	1,557,745
Free Float	35%
Beta	0.84

Major Shareholders

Hong Leong Financial Group	61.8%
Employees Provident Fund	10.7%
Amanah Saham Nasional	2.7%

Summary Earnings Table

FY Jun (RM m)	2025A	2026F	2027F
Net interest Income	5,147	5,231	5,401
Non-interest Income	1,251	1,309	1,368
Total Income	6,398	6,540	6,768
Operating Expenses	-2,479	-2,503	-2,560
Loan Impairment	384	-94	-163
Pre-tax Profit	5,360	5,444	5,646
Net Profit	4,273	4,655	4,836
Core Net Profit	4,681	4,655	4,836
Consensus NP	-	4,462	4,797
Earnings Revision (%)	-	-1.7	-1.2
Core EPS (RM)	2.28	2.27	2.36
EPS Growth (%)	11.6	-0.6	3.9
NDPS (RM)	0.96	1.05	1.10
BV/Share (RM)	19.17	20.44	21.70
NTA/Share (RM)	18.11	19.38	20.64
ROE (%)	11.2	11.5	11.2
PER (x)	10.2	10.2	9.9
P/BV (x)	0.82	0.88	0.93
Net Div. Yield (%)	4.1	4.5	4.7

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Upgrade to OUTPERFORM (from MARKET PERFORM) with an unchanged TP of RM25.95. Following our downgrade of HLBANK in our 2 Feb 2026 Banking Sector update, which was driven by its earlier share price strength, we believe the recent price retracement now presents a more attractive entry opportunity. This comes as the group continues to pursue strategies to sustainably reduce its reliance on BOCD's operations. Assuming full distribution to shareholders, every 1% stake in BOCD sold translates to special dividends of c.18 sen (or c.0.8% yield). However, we find a full distribution scenario to be unlikely as HLBANK may be keen to pursue other strategic opportunities to compensate for the reduced earnings contributions from BOCD.

Our TP has a c.30 sen sensitivity for every 1% held in BOCD. Assuming 5% of its stake would be disposed, and distributed as dividends, our ex-dividend TP could be reduced to RM24.45.

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

	2Q	1Q	QoQ	2Q	YoY	6M	6M	YoY
FYE Jun (RM m)	FY26	FY26	Chg	FY25	Chg	FY26	FY25	Chg
Net interest income	1,313	1,343	-2.2%	1,290	1.8%	2,656	2,588	2.6%
Non-interest income	354	342	3.5%	342	3.5%	696	642	8.4%
Total income	1,667	1,685	-1.1%	1,632	2.1%	3,352	3,230	3.8%
Operating expenses	-596	-607	-1.8%	-627	-5.0%	-1,203	-1,253	-4.0%
Pre-impairment profit	1,071	1,078	-0.6%	1,005	6.6%	2,149	1,977	8.7%
(Allowances)/ write-backs	-37	-38	-2.0%	-5	687.9%	-74	-12	513.1%
(Allowances)/ write-backs on other assets	0	0	1.7%	-1	-8.6%	-1	0	139.9%
Operating profit	1,034	1,040	-0.6%	999	3.4%	2,074	1,964	5.6%
Associate gains / (losses)	372	311	19.5%	400	-7.1%	683	775	-11.9%
Profit before tax	1,406	1,351	4.0%	1,400	0.4%	2,757	2,739	0.6%
Taxation	-238	-260	-8.5%	-252	-5.7%	-498	-502	-0.8%
Minority interest	0	0	N.M	0	N.M.	0	0	N.M
Net Profit	1,169	1,091	7.1%	1,148	1.8%	2,260	2,238	1.0%
Core Net Profit	1,169	1,091	7.1%	1,148	1.8%	2,260	2,238	1.0%
Gross loans	215,658	211,817	1.8%	199,373	8.2%	215,658	199,373	8.2%
Gross impaired loans	1,276	1,215	5.0%	1,092	16.8%	1,276	1,092	16.8%
Customer deposits	235,016	229,694	2.3%	219,895	6.9%	235,016	219,895	6.9%
Current and savings account (CASA)	79,559	76,761	3.6%	70,995	12.1%	79,559	70,995	12.1%
Total assets	316,096	312,722	1.1%	296,252	6.7%	316,096	296,252	6.7%
Shareholders' equity	39,841	38,953	2.3%	38,054	4.7%	39,841	38,054	4.7%
Reported. annualised NIM	1.83%	1.84%		1.90%		1.83%	1.91%	
Cost-to-income ratio	35.7%	36.0%		38.4%		35.9%	38.8%	
Est. Annualised credit cost (bps)	6.9	7.1		0.9		7.1	1.3	
Effective tax rate	16.9%	19.2%		18.0%		18.1%	18.3%	
Annualised ROA	1.5%	1.4%		1.6%		1.4%	1.5%	
Annualised ROE	11.9%	11.3%		12.4%		11.4%	11.9%	
Gross impaired loans ratio	0.59%	0.57%		0.55%		0.59%	0.55%	
Loan loss coverage ratio (LLC)	83.7%	89.6%		139.0%		83.7%	139.0%	
LLC plus regulatory reserves	241.3%	244.7%		261.2%		241.3%	261.2%	
Loan-to-deposit ratio	92.0%	93.0%		91.4%		92.0%	91.4%	
CASA-to-deposit ratio	33.9%	33.4%		32.3%		33.9%	32.3%	
CET-1 capital (Group level)	12.6%	12.7%		13.0%		12.6%	13.0%	

Source: Company, Kenanga Research

Management Guidance

	FY26 Targets	FY25 Performance
Gross loans growth	6%-7%	7.8%
Net interest margin	1.80%-1.90%	1.79%
Cost-to-income ratio	~39%	38.7%
GIL ratio	<0.65%	0.54%
Net credit cost	<10 bps	-19 bps
Return on equity	11.5%-12.0%	12.2%
CASA mix	>32%	34%

Source: Company, Kenanga Research

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Sum of Parts

	Gordon-Growth Model Inputs (%)			PBV (x)	CY26 Book Value (RM b)	Effective Value (RM b)
	Cost of Equity	Terminal Growth	Return on Equity			
HLBANK*	9.0	2.5	11.0	1.30	32,499	42,335
BOCD (17.8%-owned)	13.2	3.0	14.0	1.08	10,062	10,852
						53,187
				Total HLBANK Shares (m)		2,049
				Per share (RM)		25.95

* Adjusted for BOCD's contribution to book value and ROE

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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																	
Affin Bank Bhd	MP	2.67	2.50	-6.4%	6,765.3	N	12/2026	22.4	24.0	4.9%	7.1%	11.9	11.1	0.5	4.6%	9.0	3.4%
Alliance Bank Malaysia Bhd	MP	5.04	5.20	3.2%	8,720.3	N	03/2026	48.0	50.3	10.7%	4.6%	10.5	10.0	1.1	10.5%	19.5	3.9%
AMMB Holdings Bhd	OP	6.43	7.45	15.9%	21,266.0	N	03/2026	64.2	67.0	6.0%	4.5%	10.0	9.6	1.0	10.0%	34.0	5.3%
Bank Islam Malaysia Bhd	MP	2.47	2.55	3.2%	5,598.2	Y	12/2026	26.5	28.5	7.9%	7.5%	9.3	8.7	0.7	7.5%	16.0	6.5%
CIMB Group Holdings Bhd	OP	8.04	8.45	5.1%	86,805.1	N	12/2026	78.6	83.9	6.9%	6.8%	10.2	9.6	1.1	11.4%	50.0	6.2%
Hong Leong Bank Bhd	OP	23.28	25.95	11.5%	50,464.5	N	06/2026	227.1	236.0	-0.6%	3.9%	10.2	9.9	1.1	11.5%	105.0	4.5%
Malayan Banking Bhd	MP	11.96	12.30	2.8%	144,490.0	N	12/2026	89.0	90.4	2.1%	1.6%	13.4	13.2	1.4	11.0%	64.0	5.4%
MBSB Bhd	MP	0.715	0.730	2.1%	5,879.0	Y	12/2026	5.7	7.7	45.4%	36.4%	12.6	9.3	0.5	4.1%	4.5	6.3%
Public Bank Bhd	OP	4.93	5.75	16.6%	95,694.7	N	12/2026	38.6	40.0	3.7%	3.6%	12.8	12.3	1.5	12.2%	23.5	4.8%
RHB Bank Bhd	MP	8.40	8.40	0.0%	36,640.1	N	12/2026	75.5	79.9	-2.7%	5.8%	11.1	10.5	1.0	9.5%	47.0	5.6%
SECTOR AGGREGATE					462,323					3.5%	4.5%	11.8	11.3	1.2	10.3%		5.2%

Name	Terminal growth (%)	Sustainable ROE (%)	Cost of Equity (%)	Applied PBV (x)	Target Price (RM)	Call	Remarks
Affin Bank Bhd	3.00	6.25	9.4	0.51	2.50	MP	
Alliance Bank Malaysia Bhd	3.00	10.0	10.0	1.00	5.20	MP	+5% ESG Premium
AMMB Holdings Bhd	3.00	10.0	9.4	1.10	7.45	OP	
Bank Islam Malaysia Bhd	3.50	8.0	9.7	0.73	2.55	MP	
CIMB Group Holdings Bhd	3.50	11.5	10.7	1.12	8.45	OP	+5% ESG Premium
Hong Leong Bank Bhd	-	-	-	-	25.95	OP	Sum-of-Parts
Malayan Banking Bhd	3.50	11.5	9.0	1.45	12.30	OP	
MBSB Bhd	3.00	6.0	8.7	0.53	0.730	MP	
Public Bank Bhd	4.00	13.	9.4	1.68	5.75	OP	+5% ESG Premium
RHB Bank Bhd	2.50	10.0	9.7	1.05	8.40	MP	

Source: Kenanga Research

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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