

28 May 2026

Hong Leong Bank

Softer Note Expected

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HLBANK's 9MFY26 core net profit (-9% YoY) met expectations, although the group anticipates a potential shortfall against its 11.5% ROE target for the year. The group is still counting on supportive loan growth and a recovery in NIMs as deposit competition is expected to gradually eases. We trim our FY26F earnings by 3% to reflect slightly lower NII assumptions and higher expected credit costs. Maintain OUTPERFORM with a marginally lower SoP-derived TP of RM25.80 (from RM25.95).

9MFY26 within expectations. HLBANK's 9MFY26 core net earnings of RM3.29b made up 71% of our full-year forecast and 72% of consensus full-year estimate. No dividend was declared this quarter as the group typically pays on a bi-annual basis.

YoY, 9MFY26 core net profit fell by 9%, after stripping out 9MFY25's one-off dilution loss from BOCD of RM408m. The group had also written back on management overlays amounting to RM399m, which if included in our adjustments would have led 9MFY26 earnings to mark a 3% improvement.

The group had managed to report a PPOP gain of 6% with: (i) NII (+3%) expanding from its enlarged loans book (+8%) amid a 7 bps reduction in NIMs, alongside (ii) NII (+3%) seeing better fee-based income from wealth management and gains from derivative sales.

QoQ, 3QFY26 declined by 12% owing to sequentially softer fees and investment gains. We noted that NIMs saw a slight uptick (+1 bps) from relatively higher asset yields as deposits competition remain intense.

Highlights. While HLBANK is slated to achieve most of its headline targets, we anticipate the group to potentially miss its 11.5% ROE target, having achieved 11.0% in 9MFY26.

We believe this is largely due to challenges in expanding NIMs, particularly amid the repricing of retail deposits. While further provisioning may be required should delinquencies rise in the near term, the group's high LLC of 237% (including regulatory reserves) provides substantial buffer.

HLBANK expects a c.60 bps CET-1 uplift from the upcoming Basel III reforms. While this could support accelerated loan growth, we believe management may first assess macro conditions before deciding whether capital deployment or shareholder distribution would be the better use of excess capital.

Forecasts. We trim our FY26F earnings by 3%, adjusting for slightly lower NII while raising our credit cost from 5 bps to 6 bps, in line with the recent quarters' trends.

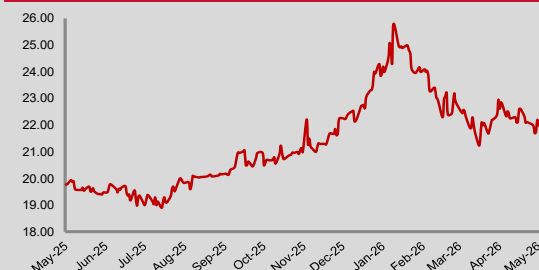
Maintain OUTPERFORM but with a slightly lower SoP-TP of RM25.80 (from RM25.95), following a slight decline to our BVPS for HLBANK from the above updates. Our SoP applies: (i) a GGM-derived PBV of 1.30x on HLBANK's adjusted book value, and (ii) a GGM-derived PBV of 1.08x on HLBANK's effective stake of BOCD's book value. Despite the potential softening of its earnings prospects, we opine investors may still take interest in HLBANK for its stellar asset quality (GIL: 0.60% vs industry 1.4%) amid times of uncertainty.

Additionally, the potential sale of its stake in BOCD could also unlock some value to the group. Assuming full distribution to shareholders, every 1% stake in BOCD sold translates to special dividends of c.17 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.

OUTPERFORM ↔

Price : RM21.90
Target Price : RM25.80 ↓

Share Price Performance



KLCI	1,699.02
YTD KLCI chg	1.1%
YTD stock price chg	-1.1%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	HLBK MK Equity
Market Cap (RM m)	47,473.0
Shares Outstanding (m)	2,167.7
52-week range (H)	25.80
52-week range (L)	18.90
3-mth avg. daily vol.	1,384,016
Free Float	35%
Beta	0.93

Major Shareholders

Hong Leong Financial Group	61.8%
Employees Provident Fund	9.2%
Amanah Saham Nasional	2.7%

Summary Earnings Table

FY Jun (RM m)	2025A	2026F	2027F
Net interest Income	5,147	5,215	5,364
Non-interest Income	1,251	1,309	1,368
Total Income	6,398	6,524	6,731
Operating Expenses	-2,479	-2,503	-2,560
Loan Impairment	384	-128	-164
Pre-tax Profit	5,360	5,294	5,607
Net Profit	4,273	4,515	4,806
Core Net Profit	4,681	4,515	4,806
Consensus NP	-	4,563	4,874
Earnings Revision (%)	-	-3.0	-0.6
Core EPS (RM)	2.28	2.20	2.34
EPS Growth (%)	11.6	-3.6	6.4
NDPS (RM)	0.96	1.05	1.10
BV/Share (RM)	19.17	20.32	21.57
NTA/Share (RM)	18.11	19.27	20.51
ROE (%)	11.2	11.2	11.2
PER (x)	9.6	9.9	9.3
P/BV (x)	0.88	0.93	0.98
Net Div. Yield (%)	4.4	4.8	5.0

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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 RM24.30.

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)	FY26	FY26	Chg	FY25	Chg	FY26	FY25	Chg
Net interest income	1,297	1,313	-1.2%	1,235	5.0%	3,952	3,823	3.4%
Non-interest income	284	354	-19.8%	313	-9.3%	980	955	2.6%
Total income	1,580	1,667	-5.2%	1,548	2.1%	4,932	4,778	3.2%
Operating expenses	-630	-596	5.7%	-601	4.9%	-1,833	-1,854	-1.1%
Pre-impairment profit	950	1,071	-11.3%	947	0.3%	3,099	2,924	6.0%
(Allowances)/ write-backs	-37	-37	1.6%	398	-109.4%	-112	386	-128.9%
(Allowances)/ write-backs on other assets	0	0	-85.7%	0	-68.6%	-1	-1	66.0%
Operating profit	913	1,034	-11.7%	1,346	-32.1%	2,987	3,310	-9.8%
Associate gains / (losses)	345	372	-7.3%	-83	-512.9%	1,027	691	48.6%
Profit before tax	1,258	1,406	-10.5%	1,262	-0.4%	4,014	4,001	0.3%
Taxation	-228	-238	-4.0%	-315	-27.6%	-726	-817	-11.1%
Minority interest	0	0	N.M	0	N.M.	0	0	N.M
Net Profit	1,029	1,169	-11.9%	947	8.7%	3,289	3,185	3.3%
Core Net Profit	1,029	1,169	-11.9%	1,355	-24.0%	3,289	3,593	-8.5%
Gross loans	218,183	215,658	1.2%	201,247	8.4%	218,183	201,247	8.4%
Gross impaired loans	1,315	1,276	3.0%	1,146	14.7%	1,315	1,146	14.7%
Customer deposits	234,245	235,016	-0.3%	217,396	7.8%	234,245	217,396	7.8%
Current and savings account (CASA)	77,872	79,559	-2.1%	68,278	14.1%	77,872	68,278	14.1%
Total assets	317,310	316,096	0.4%	300,905	5.5%	317,310	300,905	5.5%
Shareholders' equity	40,201	39,841	0.9%	38,493	4.4%	40,201	38,493	4.4%
Reported. annualised NIM	1.84%	1.83%		1.87%		1.83%	1.90%	
Cost-to-income ratio	39.9%	35.7%		38.8%		37.2%	38.8%	
Est. Annualised credit cost (bps)	6.9	6.9		-79.6		7.0	-26.0	
Effective tax rate	18.2%	16.9%		25.0%		18.1%	20.4%	
Annualised ROA	1.3%	1.5%		1.3%		1.4%	1.6%	
Annualised ROE	10.4%	11.9%		10.1%		11.0%	12.6%	
Gross impaired loans ratio	0.60%	0.59%		0.57%		0.60%	0.57%	
Loan loss coverage ratio (LLC)	81.1%	83.7%		95.0%		81.1%	95.0%	
LLC plus regulatory reserves	238.6%	241.3%		251.7%		238.6%	251.7%	
Loan-to-deposit ratio	93.5%	92.0%		93.2%		93.5%	93.2%	
CASA-to-deposit ratio	33.2%	33.9%		31.4%		33.2%	31.4%	
CET-1 capital (Group level)	12.4%	12.6%		12.8%		12.4%	12.8%	

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	32,303	42,081
BOCD (17.8%-owned)	13.2	3.0	14.0	1.08	10,022	10,808
						52,889
				Total HLBANK Shares (m)		2,049
				Per share (RM)		25.80

* 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	2.38	2.50	5.0%	6,030.5	N	12/2026	22.3	23.5	4.7%	5.1%	10.7	10.1	0.5	4.6%	9.0	3.8%
Alliance Bank Malaysia Bhd	OP	4.78	5.50	15.1%	8,270.5	N	03/2027	50.4	52.7	5.5%	4.5%	9.5	9.1	0.9	9.7%	20.0	4.2%
AMMB Holdings Bhd	OP	6.56	7.45	13.6%	21,692.2	N	03/2026	64.2	67.0	6.0%	4.5%	10.2	9.8	1.0	10.0%	34.0	5.2%
Bank Islam Malaysia Bhd	MP	2.26	2.05	-9.3%	5,122.2	Y	12/2026	24.1	26.5	-2.1%	10.3%	9.4	8.5	0.6	6.7%	14.5	6.4%
CIMB Group Holdings Bhd	OP	7.68	8.45	10.0%	82,969.4	N	12/2026	78.3	84.0	6.5%	7.3%	9.8	9.1	1.1	11.4%	50.0	6.5%
Hong Leong Bank Bhd	OP	21.90	25.80	17.8%	47,473.0	N	06/2026	220.3	234.5	-3.6%	6.4%	9.9	9.3	1.1	11.2%	105.0	4.8%
Malayan Banking Bhd	OP	10.94	12.30	12.4%	132,322.9	N	12/2026	89.0	90.4	2.1%	1.6%	12.3	12.1	1.3	11.0%	64.0	5.9%
MBSB Bhd	OP	0.675	0.730	8.1%	5,550.1	Y	12/2026	5.7	7.7	45.4%	36.4%	11.9	8.7	0.5	4.1%	4.5	6.7%
Public Bank Bhd	OP	4.80	5.95	24.0%	93,171.3	N	12/2026	38.7	40.1	4.0%	3.6%	12.4	12.0	1.5	12.3%	29.4	6.1%
RHB Bank Bhd	MP	8.29	8.40	1.3%	36,160.3	N	12/2026	75.5	79.9	-2.7%	5.8%	11.0	10.4	1.0	9.5%	47.0	5.7%
SECTOR AGGREGATE					438,762					2.8%	4.9%	11.3	10.7	1.2	10.3%		5.5%

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	5.50	OP	+5% ESG Premium
AMMB Holdings Bhd	3.00	10.0	9.4	1.10	7.45	OP	
Bank Islam Malaysia Bhd	3.50	7.5	9.7	0.57	2.05	MP	
CIMB Group Holdings Bhd	3.50	11.5	10.7	1.12	8.45	OP	+5% ESG Premium
Hong Leong Bank Bhd	-	-	-	-	25.80	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	OP	
Public Bank Bhd	4.00	13.5	9.4	1.78	5.95	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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