

# Hong Leong Bank Bhd

(5819 | HLBK MK) Financial Services | Finance

**Upgrade to BUY** (from NEUTRAL)

**Revised Target Price: RM17.00**  
(from RM17.70)

## Positive JAWS with strong PPOP growth

### KEY INVESTMENT HIGHLIGHTS

- Results were within expectations
- Another quarter of strong PPOP growth
- Loans growth was solid and asset quality remained stable
- CASA saw good pickup
- Interim dividend of 16sen per share
- Revising FY19 and FY20 earnings forecast downwards by -4.6% and -6.6%
- Upgrade to BUY with revised TP of RM17.00 (from RM17.70)

**Within expectations.** Hong Leong Bank (HLB) reported 1HFY20 net profit of RM1.39b which was within ours and consensus expectations at 47.5% and 51.1% of respective full year estimates. Earnings for 1HFY20 were flat but excluding the one-off gains of RM90m last year, the normalised earnings grew +6.6%yoy.

**Strong PPOP growth.** On normalized basis, PPOP expanded strongly by +10.9%yoy as NII and NOII grew +4.5%yoy and +12.6%yoy respectively. Moreover HLB posted positive JAWS of +5.4%. NII growth was attributed to continued recovery in NIM in 2QFY20 where it increased +1bp qoq, and solid loans growth momentum. NOII expansion was supported by better trading and investment income (+50.6%yoy to RM250m) and fee income (+6.8%yoy to RM315m) from +19.9%yoy to RM66m in wealth management income.

**Solid loans growth continued.** Gross loans expanded +7.3%yoy to RM141.3b as at 2QFY20. Major drivers were residential properties and domestic business enterprise despite the cautious business sentiment. These grew +9.8%yoy to RM70.6b and +7.4%yoy to RM42.2b respectively. In terms of business enterprise segment, the key contributors were SME and community SME banking as it expanded +7.9%yoy to RM20.8b and +37.7%yoy to RM6.7b respectively.

**Asset quality stable.** Asset quality had a slight uptick of +3bp qoq to 0.84%. However, we consider this to be very stable and below the industry's GIL ratio. The increase came at its overseas loans book with 2 isolated cases in Singapore of circa RM77m.

**Good pickup in CASA.** Deposits grew +2.7%yoy to RM167.0b. This was due to lower business enterprise deposits which contracted -4.0%yoy to RM64.8b. Meanwhile, individual deposits expanded +5.8%yoy to RM89.7b. Overall, CASA saw good growth with +7.3%yoy to RM43.2b outpacing FD growth of +5.4%yoy to RM97.6b.

**Can recover from recent OPR cut, but another one is likely.** HLB had shown good income resilience in light of the OPR cut last year. We also expect the same trend to continue with the recent OPR cut in Jan-20. However, should there be another OPR cut, we believe that its NIM will be under pressure.

**Revision of earnings forecast.** We are revising downwards our earnings forecast for FY20 and FY21 by -4.6% and -6.6% respectively given the higher probability of another OPR cut.

### RETURN STATISTICS

Price @ 26 <sup>th</sup> Feb. 2020 (RM)	15.18
Expected share price return (%)	+12.0
Expected dividend yield (%)	+3.2
<b>Expected total return (%)</b>	<b>+15.2</b>

### SHARE PRICE CHART




Share price performance (%)	Absolute	Relative
1 month	-5.9	-1.1
3 months	-12.3	-4.4
12 months	-28.7	-18.3

### KEY STATISTICS

FBM KLCI	1,495.19
Syariah compliant	No
Issue shares (m)	2046.43
Estimated free float (%)	23.37
Market Capitalisation (RM'm)	32,905.96
52-wk price range	RM14.8 - RM21.6
Beta vs FBM KLCI (x)	0.79
Monthly velocity (%)	23.84
Monthly volatility (%)	8.30
3-mth average daily volume (m)	1.20
3-mth average daily value (RM'm)	19.75
Top Shareholders (%)	
Hong Leong Financial Group Bhd	61.82
Employees Provident Fund Board	10.54
Hong Leong Bank Sdn Bhd	1.85

**Analyst**  
**Imran** Yassin Yusof  
imran.yassin@midf.com.my  
03-2173 8395

**Valuation and recommendation.** HLB had exhibited some resiliency in its earnings with the 1HFY20 performance. We liked that NIM continued to recover and impacted positively to NII. Loans growth was also strong and asset quality remains stable as ever. We were pleasantly surprised at the resiliency of HLB earnings. Given current climate, we believe that having an earnings potential with solid asset quality is a plus. Hence, we are upgrading our call to **BUY** (from NEUTRAL) with a revised **TP of RM17.00** (from RM17.70) based on PBV of 1.3x. Our TP revision is due to our earnings adjustments. 

## INVESTMENT STATISTICS

Financial year ending 30 June (in RM'm, unless otherwise stated)	2018A	2019A	2020E	2021F	2022F
Net interest income (RM'm)	2,893	2,764	3,106	3,263	3,765
Islamic banking income (RM'm)	646	707	741	778	833
Non-interest income (RM'm)	1,300	1,254	1,330	1,415	1,442
Total income (RM'm)	4,840	4,726	5,177	5,456	6,039
Pretax profit (RM'm)	3,246	3,186	3,527	3,725	4,099
Net profit	2,638	2,665	2,793	2,943	3,246
Core Net profit (RM'm)	2,638	2,665	2,793	2,943	3,246
Core EPS (sen)	128.7	130.0	136.6	143.9	158.7
PER (x)	11.8	11.7	11.1	10.6	9.6
Net Dividend (sen)	48	50	52	54	56
Net Dividend Yield (%)	3.2	3.3	3.4	3.6	3.7
Book value per share (sen)	11.68	12.45	12.94	13.20	14.05
PBV (x)	1.3	1.2	1.2	1.2	1.1
ROE (%)	11.3	10.8	10.7	11.0	11.6

Source: Company, MIDFR

### Some banking abbreviations used in this report:

CI = Cost to Income  
 CET1 = Common Equity Tier 1  
 GIL = Gross Impaired Loan  
 LD = Loan-Deposit  
 NII = Net Interest Income  
 NOII = Non-interest income  
 NIM = Net Interest margin  
 CASA = Current and Savings Accounts  
 COF = Cost of Funds  
 IB = Investment Banking  
 LLC = Loan Loss Coverage  
 PPOP = Pre-Provisioning Operating Profit  
 FVTPL = Fair Value Through Profit Or Loss  
 OPEX = Operating Expenses  
 OPR = Overnight Policy Rate

**Table 1: Quarterly & Cumulative results (base on reported financials)**

FYE June (RM m)	Quarterly results					Cumulative results		
	2QFY20	1QFY20	2QFY19*	Yoy (+/- %)	Qoq (+/- %)	1HFY20	1HFY19*	Yoy (+/- %)
Net Interest Income	912	882	864	5.5%	3.4%	1,793	1,716	4.5%
Non-interest Income	326	334	260	25.2%	-2.4%	659	585	12.6%
Net/Total income	1,238	1,215	1,124	10.1%	1.9%	2,453	2,301	6.6%
OPEX	(527)	(522)	(511)	3.2%	1.0%	(1,049)	(1,036)	1.3%
PPOP	711	693	614	15.8%	2.6%	1,403	1,265	10.9%
Write back/(Provision) for loan losses	(21)	9	58	<-100%	<-100%	(12)	39	<-100%
Share of profit from associate and JV	167	145	133	25.3%	15.2%	312	280	11.4%
Pre-tax profit	857	847	805	6.4%	1.2%	1,704	1,584	7.6%
Net Profit	702	689	670	4.8%	1.9%	1,390	1,304	6.6%

\* Excluding one-off gain on divestment of joint venture of RM72m in 1QFY19 and RM18m in 2QFY19

**Table 2: Financial Ratios**

Financial Ratios (%)	2QFY20	1QFY20	2QFY19*	Yoy (+/- ppts)	Qoq (+/- ppts)	1HFY20	1HFY19*	Yoy (+/- ppts)
CET1 <sup>^</sup>	13.1	12.8	12.7	0.4	0.3	13.1	12.7	0.4
Tier 1 Capital <sup>^</sup>	13.7	13.4	13.3	0.4	0.3	13.7	13.3	0.4
Total Capital <sup>^</sup>	15.9	15.7	16.3	-0.4	0.2	15.9	16.3	-0.4
NIM	2.04	2.03	1.98	0.06	0.01	2.03	1.98	0.05
GIL	0.84	0.81	0.8	0.04	0.03	0.84	0.8	0.04
Loan loss Coverage	103	110	122	-19	-7	103	122	-19
Credit charge-off	0.05	-0.03	-0.04	0.09	0.08	0.01	-0.06	0.07
Cost to income	42.6	43.0	45.4	-2.8	-0.4	42.6	45.4	-2.8
Net LD	84.6	84.1	81.0	3.6	0.5	84.6	81.0	3.6
ROEA	10.8	10.7	11.3	-0.5	0.1	10.8	10.8	0.0

<sup>^</sup>After deducting proposed dividend

\* Excluding one-off gain on divestment of joint venture of RM72m in 1QFY19 and RM18m in 2QFY19

**Table 3: PBT by key segments (based on reported financials)**

PBT (RM m)	1HFY20	1HFY19	Yoy (+/- %)
Personal Financial Services	653.8	569.8	14.7%
Business and Corporate Banking	383.1	435.9	-12.1%
Global Markets	269.8	155.7	73.3%
International Banking	16.6	14.9	11.1%
Others and Inter-Segment Elimination	68.0	217.5	-68.8%
Total segment profit before tax	1,391.2	1,393.9	-0.2%

Source: Company, MIDFR

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (197501002077 (23878 – X)).  
 (Bank Pelaburan)  
 (A Participating Organisation of Bursa Malaysia Securities Berhad)

## DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (197501002077 (23878 – X)). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This document may not be reproduced, distributed or published in any form or for any purpose.

### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

<b>BUY</b>	Total return is expected to be >10% over the next 12 months.
<b>TRADING BUY</b>	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
<b>NEUTRAL</b>	Total return is expected to be between -10% and +10% over the next 12 months.
<b>SELL</b>	Total return is expected to be <10% over the next 12 months.
<b>TRADING SELL</b>	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

#### SECTOR RECOMMENDATIONS

<b>POSITIVE</b>	The sector is expected to outperform the overall market over the next 12 months.
<b>NEUTRAL</b>	The sector is to perform in line with the overall market over the next 12 months.
<b>NEGATIVE</b>	The sector is expected to underperform the overall market over the next 12 months.