Hong Leong Bank Berhad

(5819 | HLBK MK) Financial Services | Finance

Maintain BUY

Strong loan growth trends continue

***Revised* Target Price: RM24.90**

(Previously RM24.88)

KEY INVESTMENT HIGHLIGHTS

- **1HFY23's CNP of RM2.0b was Within our forecast**
- **Excellent loan growth in lucrative segments, solid asset quality and low NCC. Mgmt points to the possibility of mgmt overlays sometime in Apr-Jun**
- **As with other banks, the central issue is further NIM compression in subsequent quarters**
- **Maintain BUY | TP of RM24.90 | based on an unchanged FY24F P/BV of 1.45x**

Highlights from Hong Leong Bank's 2QFY23 results:

- **1HFY23 CNP:** Rose +27%yoy. Due to higher topline and associate contributions.
- **2QFY23 CNP:** Rose +6%qoq. Due to higher NOII and BOCD contribution.
- **2QFY23 NIM:** Worsened -9bps qoq. Deposit competition + SRR changes were the cause.
- **1HFY23 NOII:** Rose +22%yoy.
- **1HFY23 OPEX**: up by +7%yoy, CIR now at 36.4%. Still within mgmt's guidance of <38%.
- **Solid loan growth:** Gross loans grew by +7.6%yoy, +1.7%qoq, with double digit growth in targeted segments.
- **Muted deposit growth:** Deposits grew by +4.7%yoy, +0.6%qoq. CASA direction -0.3%yoy, -2.5%qoq. CASA ratio stands at 31.8% -- the mix has shifted towards wholesale rather than retail.
- **GIL ratio improves:** Down -1bps qoq, with notable improvements in SME and retail portfolios.
- **Light NCC:** 2QFY23 NCC of 6bps, with 1HFY23 averaging 8bps
- **Dividend announced:** 21.0 sen, low payout of 21% -- mgmt stresses it will maintain it at 35%.

Our thoughts. We favour HLB as a defensive pick due to its superb asset quality and low NCC. It continues to report double-digit growth in international and SME segments, while its BOCD contribution continues to post significant growth. Mgmt has guided for overlay writebacks somewhere in Apr-Jun.

RETURN STATISTICS	
Price @ 28 February 2023 (RM)	20.54
Expected share price return (%)	+21.2
Expected dividend yield (%)	+3.5
Expected total return (%)	**+24.8**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-1.6	-0.1
3 months	-1.3	-3.6
12 months	0.7	9.4

KEY STATISTICS	
FBM KLCI	1,454.19
Syariah compliant	No
F4GBM Index	Yes
ESG Grading Band (Star rating)	☆☆☆☆
Issue shares (m)	2048.35
Estimated free float (%)	33.45
Market Capitalisation (RM m)	44,004.68
52-wk price range	RM19.2 - RM21.8
Beta vs FBM KLCI (x)	0.69
3-mth average daily volume (m)	1.50
3-mth average daily value (RM m)	30.88
Top Shareholders (%)	
Hong Leong Financial Group Bhd	61.82
Employees Provident Fund Board	9.55
Amanah Saham Nasional Bhd	2.96

Analyst
Samuel Woo
samuel.woo@midf.com.my
03-2173 1669

1HFY23's CNP of RM2.0b was *Within/Within* our/consensus forecasts: *52%/52%* of full-year forecasts.

1HFY23's CNP rose by +27%yoy largely due to higher topline and associate contributions coupled with lower tax expenses.

2QFY23's CNP of RM1.0b rose by +6%qoq due to higher NOII and associate contributions. It rose by +41%yoy.

Guidance. FY23 ROE: >12.0%. Mgmt does mention the 13.0% range can be breached – provided NIM can be maintained at 2.14%.

NIM. 2QFY23's NIM of 2.09% worsened by -9bps qoq. SRR impact: 2-3bps – remainder was due to deposit competition. Interestingly, mgmt believes that HLB was not as affected by the SRR impact as its peers (6-7bps reduction) due to the fact the kept the LCR high, which contributed to increased funding cost.

1HFY23's NIM averaged 2.14%, worsening -2bps yoy.

Guidance. Unofficial FY23F NIM target: 2.10%.

NOII. 1HFY23's NOII rose by +22%yoy. While fee income was flattish, investment income shown significant growth.

Operating expenses. 1HFY23's CIR improved to 36.4%, with its OPEX flattish qoq.

Guidance. FY23F: <38%.

Loans. Gross loans grew by +7.6%yoy, +1.7%qoq – retail mortgages and transport vehicle loans were drivers on retail end – SME loan growth was double-digits. International operations reported +24.4%yoy growth.

Guidance. Leading indicators remain robust, mgmt is confident it should reach +7-7.5% FY23F loan growth target.

Deposits. Deposits grew by +4.7%yoy, +0.6%qoq.

Loan/Deposit ratio stands at 87.1%, rising from previous quarter's 86.2%.

CASA. CASA contracted by -0.3%yoy, -2.5%qoq. CASA ratio stands at 31.8%, falling from previous quarter's 32.8%

Guidance. Focus seems to have shifted from retail CASA to wholesale mix. Corporate and SMEs balances are growing quite well – via more client acquisitions and using HLB as their main bank.

Asset quality. Current GIL ratio stands at 0.49%, improving -1bps qoq – while residential properties and SME showed improvement, there was a slight uptick in vehicle loans – and a sharper one for oversea loans.

Current LLC stands at 210%, which mgmt seems happy about.

Provisioning. 2QFY23's NCC stood at 6bps, falling from previous quarter's 9bps.

1HFY23's NCC averaged 8bps falling from previous period's 11bps.

Guidance. We could see some writebacks in Apr-Jun.

Capital ratios. Current CET-1 ratio is 13.0%.

Dividend announced. The Group announced a dividend of 21.0 sen in the quarter, which translates to a low 21% dividend payout – mgmt stresses that it will try to maintain the payout at 35%, given that there is enough capital to maintain the ratio.

Key downside risks. (1) BOCD growth or ability to function is compromised, (2) Above-forecasted OPEX, (3) Lacklustre NOII income.

Forecasts revised: FY24F CNP adjusted by +1%. To reflect NII contributions from higher gross loan forecasts

Maintain BUY call: Revised GGM-TP of RM 24.90 ***(from RM24.88).*** The TP is based on an unchanged FY24F P/BV of 1.45x to reflect improved earnings prospects.

*(**GGM assumptions:** FY24F ROE of 12.6%, LTG of 3.5% and COE of 9.8%.)*

Exhibit 1: Quarterly results

FYE Jun (RM m)	2Q FY23	1Q FY23	2QFY 22	Yoy (%)	Qoq (%)	1H FY23	1H FY22	Yoy (%)
Net interest inc.	955	990	960	-1	-4	1,944	1,879	3
Islamic banking inc.	273	252	233	17	9	525	441	19
Non-interest inc.	258	259	178	45	-0	517	431	20
Net income	**1,486**	**1,500**	**1,371**	**8**	**-1**	**2,986**	**2,751**	**9**
OPEX	(546)	(541)	(513)	6	1	(1,087)	(1,020)	7
PPOP	**940**	**959**	**858**	**10**	**-2**	**1,900**	**1,731**	**10**
Loan provisions	(25)	(38)	(33)	-24	-32	(63)	(82)	-23
Other provisions	(1)	0	0	n.m.	n.m.	(0)	1	n.m.
JV & Associates	373	265	251	49	41	638	469	36
PBT	**1,287**	**1,187**	**1,077**	**20**	**8**	**2,475**	**2,119**	**17**
Tax	(245)	(206)	(338)	-27	19	(451)	(522)	-14
NCI	-	-	-	n.m.	n.m.	-	-	n.m.
Reported NP	**1,042**	**981**	**739**	**41**	**6**	**2,024**	**1,597**	**27**
Core NP	**1,042**	**981**	**739**	**41**	**6**	**2,024**	**1,597**	**27**
Total NII	1,198	1,232	1,176	2	-3	2,430	2,297	6
Total NOII	288	268	195	48	8	556	454	22
Gross DPS (sen)	**21.0**	**-**	**18.0**	**n.m.**	**n.m.**	**21.0**	**18.0**	**n.m.**
Core EPS (sen)	50.9	47.9	36.0	41	6	98.7	77.9	27
Gross loans	172,281	169,452	160,063	7.6	1.7			
Gross impaired loans	838	837	732	14.6	0.1			
Customer deposits	195,713	194,557	186,900	4.7	0.6			
CASA	62,162	63,731	62,331	-0.3	-2.5			

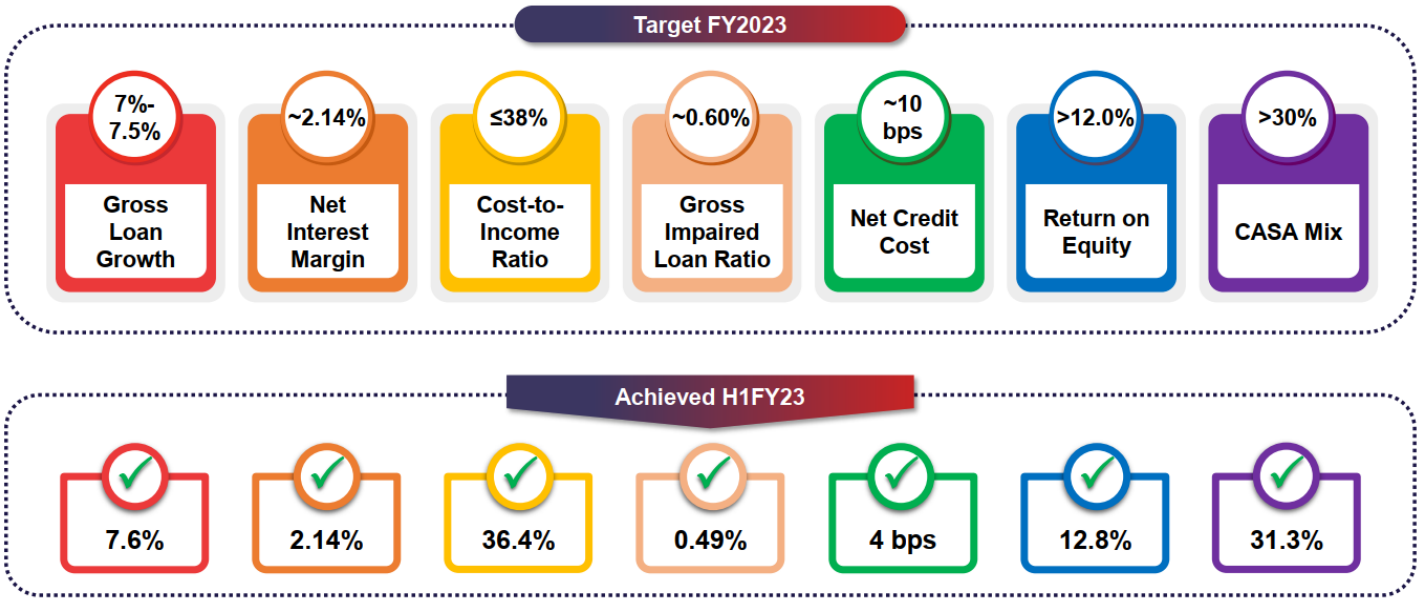
Source: Hong Leong Bank, MIDFR

Exhibit 2: Quarterly financial ratios

Ratios (%)	2Q FY23	1Q FY23	2QFY 22	Yoy (ppts)	QoQ (ppts)	1H FY23	1H FY22	Yoy (ppts)
ROE (Ann.)	**13.4**	**13.0**	**10.1**	**3.3**	**0.5**	**13.0**	**11.0**	**2.1**
NIM (Reported)	**2.09**	**2.18**	**2.19**	**-0.10**	**-0.09**	**2.14**	**2.16**	**-0.02**
NOII/Net income	19.4	17.9	14.2	5.2	1.5	19.4	14.2	5.2
Cost/Income	36.7	36.0	37.4	-0.7	0.7	36.4	37.1	-0.7
NCC (Ann.) (bps)	6	9	9	-2	-3	8	11	-3
GIL ratio	0.49	0.49	0.46	0.03	-0.01			
Loan loss coverage	210	212	251	-41	-2			
CASA ratio	31.8	32.8	33.3	-1.6	-1.0			
L/D ratio	87.1	86.2	84.7	2.5	0.9			
CET-1	13.0	12.9	13.1	-0.1	0.0			

Source: Hong Leong Bank, MIDFR

Exhibit 3: Management guidance



Source: Hong Leong Bank, MIDFR

INVESTMENT STATISTICS

INCOME STATEMENT

FYE Jun (RM m)	FY21	FY22	FY23F	FY24F	FY25F
Interest income	5,557	5,723	7,421	8,441	9,018
Interest expense	(2,099)	(1,968)	(3,338)	(4,035)	(4,400)
Net interest income	**3,458**	**3,755**	**4,083**	**4,406**	**4,618**
Islamic banking inc.	919	905	1,008	1,123	1,178
Other operating inc.	1,090	937	954	1,100	1,380
Net income	**5,467**	**5,597**	**6,045**	**6,629**	**7,176**
OPEX	(2,078)	(2,098)	(2,297)	(2,519)	(2,727)
PPOP	**3,389**	**3,499**	**3,748**	**4,110**	**4,449**
Loan allowances	(654)	(164)	(174)	(185)	(194)
Other allowances	(0)	1	(0)	(0)	(0)
JV & Associates	736	1,030	1,123	1,217	1,290
PBT	**3,471**	**4,367**	**4,698**	**5,142**	**5,546**
Tax & zakat	(610)	(1,078)	(831)	(910)	(982)
NCI	-	-	-	-	-
Reported NP	**2,861**	**3,289**	**3,866**	**4,232**	**4,564**
Core NP	**2,861**	**3,289**	**3,866**	**4,232**	**4,564**
Total NII	4,310	4,618	5,041	5,439	5,702
Total NOII	1,157	979	1,004	1,190	1,475

BALANCE SHEET

FYE Jun (RM m)	FY21	FY22	FY23F	FY24F	FY25F
Cash & ST funds	3,953	6,937	7,179	7,417	7,614
Investment securities	66,332	65,799	70,399	77,439	85,183
Net loans	154,071	166,488	177,411	188,213	195,884
Other IEAs	-	-	-	-	-
Non-IEAs	12,774	15,107	19,407	20,879	22,365
Total assets	**237,129**	**254,331**	**274,396**	**293,947**	**311,045**
Cust. & FI deposits	196,565	206,283	219,148	231,159	240,346
Other IBLs	3,241	7,431	7,738	9,313	11,356
Non-IBLs	7,864	9,629	15,642	18,281	20,571
Total liabilities	**207,670**	**223,342**	**242,528**	**258,753**	**272,273**
Share capital	7,739	7,739	7,739	7,739	7,739
Reserves	21,720	23,250	24,129	27,455	31,033
Shareholders' funds	**29,459**	**30,989**	**31,868**	**35,194**	**38,772**
NCI	-	-	-	-	-
Total equity	**29,459**	**30,989**	**31,868**	**35,194**	**38,772**
Total L&E	**237,129**	**254,331**	**274,396**	**293,947**	**311,045**
Total IEAs	224,355	239,224	254,989	273,068	288,680
Total IBLs	199,806	213,714	226,886	240,472	251,702
Gross loans	155,822	168,234	179,169	189,919	197,516
CASA	59,232	66,051	64,953	64,043	64,193

FINANCIAL RATIOS

FYE Jun (RM m)	FY21	FY22	FY23F	FY24F	FY25F
Interest (%)					
NIM	1.99	1.99	2.04	2.06	2.03
Return on IEAs	2.56	2.47	3.00	3.20	3.21
Cost of funds	1.09	0.95	1.52	1.73	1.79
Net interest spread	1.47	1.52	1.49	1.47	1.42
Profitability (%)					
ROE	**10.1**	**10.9**	**12.3**	**12.6**	**12.3**
ROA	2.4	2.6	2.8	2.9	2.9
NOII/Net income	21.2	17.5	16.6	17.9	20.5
Effective tax rate	17.6	24.7	17.7	17.7	17.7
Cost/Income ratio	38.0	37.5	38.0	38.0	38.0
Liquidity (%)					
Loan/Deposit ratio	84.1	84.4	84.7	85.2	85.4
CASA ratio	32.3	33.5	31.0	29.0	28.0
Asset Quality (%)					
GIL ratio	0.46	0.49	0.55	0.54	0.53
LLC ratio	247	212	176	164	155
LLC (w. reserves)	306	292	235	222	213
Net CC (bps)	43	10	10	10	10
Capital (%)					
CET 1	14.0	14.0	14.3	14.3	14.2
Tier 1 capital	14.6	14.6	14.8	14.8	14.7
Total capital	16.7	16.7	17.0	17.0	16.9
Growth (%)					
Total NII	26.5	7.1	9.2	7.9	4.8
Total NOII	(15.7)	(15.3)	2.5	18.5	24.0
Net income	14.4	2.4	8.0	9.6	8.3
OPEX	(1.2)	1.0	9.5	9.6	8.3
Core NP	9.9	15.0	17.5	9.5	7.8
Gross loans	6.8	8.0	6.5	6.0	4.0
Cust. & FI deposits	5.6	7.6	6.2	5.4	3.8
CASA	22.5	11.5	(1.7)	(1.4)	0.2
Valuation metrics					
Core EPS (sen)	139.6	160.5	188.7	206.5	222.7
Gross DPS (sen)	50.0	55.0	66.1	72.3	78.0
Div payout ratio (%)	36	34	35	35	35
BVPS (RM)	14.4	15.1	15.6	17.2	18.9
Core P/E (x)	14.7	12.8	10.9	9.9	9.2
Dividend yield (%)	**2.4**	**2.7**	**3.2**	**3.5**	**3.8**
P/BV (x)	1.4	1.4	1.3	1.2	1.1

Source: Hong Leong Bank, 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)) for distribution to and use by its clients to the extent permitted by applicable law or regulation.

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 MIDF Investment believes are reliable at the time of publication. All information, opinions and estimates contained in this report are subject to change at any time without notice. Any update to this report will be solely at the discretion of MIDF Investment.

MIDF Investment 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. MIDF Investment and its affiliates and related companies and each of their respective directors, officers, employees, connected parties, associates and agents (collectively, "Representatives") shall not be liable for any direct, indirect or consequential loss, loss of profits and/or damages arising from the use or reliance by anyone upon this report and/or further communications given in relation to this report.

This report is not, and should not at any time be construed as, an offer, invitation or solicitation to buy or sell any securities, investments or financial instruments. The price or value of such securities, investments or financial instruments may rise or fall. Further, the analyses contained herein are based on numerous assumptions. This report does not take into account the specific investment objectives, the financial situation, risk profile and the particular needs of any person who may receive or read this report. You should therefore independently evaluate the information contained in this report and seek financial, legal and other advice regarding the appropriateness of any transaction in securities, investments or financial instruments mentioned or the strategies discussed or recommended in this report.

The Representatives may have interest in any of the securities, investments or financial instruments and may provide services or products to any company and affiliates of such companies mentioned herein and may benefit from the information herein.

This document may not be reproduced, copied, distributed or republished in whole or in part in any form or for any purpose without MIDF Investment's prior written consent. This report is not directed or intended for distribution to or use by any person or entity where such distribution or use would be contrary to any applicable law or regulation in any jurisdiction concerning the person or entity.

MIDF AMANAH INVESTMENT BANK: GUIDE TO RECOMMENDATIONS	
STOCK RECOMMENDATIONS	
BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to *rise* by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to *fall* by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.
SECTOR RECOMMENDATIONS	
POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.
ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell	
☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology