

Hong Leong Bank Berhad

(5819 | HLBK MK) Financial Services | Finance

3QFY23 Results

KEY INVESTMENT HIGHLIGHTS

- **9MFY23's Core NP of RM2,954m was *Within/Within* our/*street* forecasts: **76%/76%** of full-year forecasts**
- **Core themes: (a) Loan growth prospects, (b) Defensive deposit strategy (c) Wealth management as potential driver**
- **FY25F Core NP adjusted by +2%.**
- **Maintain BUY | Revised TP of RM24.91 | based on a revised FY24F P/BV of 1.37x (formerly 1.45x)**

Weak quarter but expected. Core net profit (NP) fell by -11%qoq despite tax normalisation and NOII coming in stronger than expected (+26%qoq), as result of higher provisioning and weaker NII (-14%qoq) and BOCD contributions (-16%qoq).

9MFY23 showed excellent improvement. Core NP rose by +24%yoy: although NII was flattish, NOII (+44%yoy), BOCD contributions (+32%yoy) and provisioning saw huge improvement.

Have a look at:

Management is confident in maintaining strong growth, despite declining demand and strong competition. Despite heavy competition in the SME space, application volume is still good. HLBK also has the advantage of its community SME banking line – which has a refined network and approach and an excellent track record.

While transport and residential mortgage demand has been a bit softer as of late, the Group has seen good demand recovery in May for transport segment (though they will mostly avoid the “used” car loans, given higher delinquency rates) and in affordable housing.

Possible future growth driver in wealth management. 9MFY23's performance was disappointing, dipping -13%yoy. It contributed RM130m, 3% of the topline, which is at the lower end of its peers. Management attributes this to a department restructuring 15 months ago.

Despite peers vying to capture market share, HLBK is well positioned to capitalise on its customer base, given that a large chunk of its SME base are business owners, and they can leverage strong multi-year relationships on the commercial and corporate side.

Verdict: Great defensive pick and growth prospects

Yays	1. Great asset quality, LLC and low NCC. 2. No major disruptions to BOCD contributions for now. 3. Strong loan growth can persist at least for a year.
Nays	n/a
OKs	1. Possible future growth driver via wealth management. 2. Having put the effort into acquiring new deposit accounts in the previous quarter, HLBK can take it slightly easier, not having to sacrifice NIMs to drive funding.

Maintain BUY

Revised Target Price: RM24.91
(Previously RM24.90)

RETURN STATISTICS

Price @ 31 May 2023 (RM)	19.36
Expected share price return (%)	+28.7
Expected dividend yield (%)	+28.7
Expected total return (%)	+32.4

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-3.6	-3.1
3 months	-3.3	-0.2
12 months	-7.1	1.2

INVESTMENT STATISTICS

FYE Jun	FY23F	FY24F	FY25F
Core NP (RM m)	3,861	4,241	4,631
CNP growth (%)	17	10	9
Div yield (%)	3.4	3.7	4.1
Gross DPS (sen)	66.0	72.5	79.1
P/BV (x)	1.2	1.1	1.0
BVPS (RM)	16.5	18.2	19.9
ROE (%)	11.9	11.9	11.9
MIDF/Street CNP (%)	99	103	103

KEY STATISTICS

FBM KLCI	1,387.12
Issue shares (m)	2,048.4
Estimated free float (%)	32.1
Market Capitalisation (RM'm)	42,487.3
52-wk price range	RM19.5 - RM21.8
3-mth avg daily volume (m)	0.8
3-mth avg daily value (RM'm)	16.7
Top Shareholders (%)	
Hong Leong Financial Group Bhd	61.8
EPF Board	10.1
Hong Leong Bank Sdn Bhd	1.8

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Forecasts revised: FY25F Core NP tweaked by +2%. To reflect improved fee income from wealth management offerings. For FY23F/24F, we do make some adjustments for the revised NIM outlook and improved NOII, but there is no net change to Core NP.

Key downside risks. (1) Cost unable to be contained effectively, (2) lacklustre loan growth, (3) Softer BOCB contributions.

Maintain BUY call: Revised GGM-TP of RM 24.91 (from RM24.90). The TP is based on a revised FY24F P/BV of 1.37x (formerly 1.45x), to reflect altered earnings prospects and ROE-based valuations. We add a bit of a discount to factor poor global banking outlook, but its effects on forecasted share price are largely offset by changes facilitating higher BVPS. (**GGM assumptions:** FY24F ROE of 11.9%, LTG of 4.0% & COE of 9.8%)

Fig 1: Quarterly results

FYE Jun (RM m)	3Q FY23	2Q FY23	3Q FY22	Yoy (%)	Qoq (%)	9M FY23	9M FY22	Yoy (%)
Net interest inc.	847	955	948	-11	-11	2,791	2,827	-1
Islamic banking inc.	209	273	224	-7	-24	734	665	10
Non-interest inc.	341	258	176	94	32	858	607	41
Net income	1,396	1,486	1,348	4	-6	4,382	4,099	7
OPEX	(559)	(546)	(518)	8	2	(1,646)	(1,538)	7
PPOP	837	940	830	1	-11	2,736	2,561	7
Loan provisions	(38)	(25)	(51)	-26	50	(101)	(133)	-24
Other provisions	0	(1)	(0)	n.m.	n.m.	(0)	0	n.m.
JV & Associates	313	373	253	24	-16	951	722	32
PBT	1,112	1,287	1,031	8	-14	3,586	3,149	14
Tax	(182)	(245)	(246)	-26	-26	(633)	(768)	-18
NCI	-	-	-	n.m.	n.m.	-	-	n.m.
Reported NP	930	1,042	785	19	-11	2,954	2,382	24
Core NP	930	1,042	785	19	-11	2,954	2,382	24
Total Nil	1,033	1,198	1,162	-11	-14	3,463	3,459	0
Total NOII	363	288	186	95	26	919	640	44
Gross DPS (sen)	-	21.0	-	n.m.	n.m.	21.0	18.0	n.m.
Core EPS (sen)	45.4	50.9	38.3	19	-11	144.1	116.2	24
Gross loans	174,228	172,281	162,494	7.2	1.1			
Gross impaired loans	904	838	779	16.0	7.8			
Customer deposits	199,733	195,713	188,605	5.9	2.1			
CASA	60,405	62,162	62,987	-4.1	-2.8			
Ratios (%)	3Q FY23	2Q FY23	3Q FY22	Yoy (ppts)	Qoq (ppts)	9M FY23	9M FY22	Yoy (ppts)
ROE (Ann.)	12.3	13.4	10.7	1.6	-1.2	13.0	10.8	2.2
NIM (Reported)	1.82	2.09	2.15	-0.33	-0.27	2.03	2.16	-0.13
NOII/Net income	26.0	19.4	13.8	12.2	6.6	26.0	13.8	12.2
Cost/Income	40.1	36.7	38.4	1.6	3.3	37.6	37.5	0.0
NCC (Ann.) (bps)	9	6	13	-4	3	8	11	-3
GIL ratio	0.52	0.49	0.48	0.04	0.03			
Loan loss coverage	197	210	218	-21	-14			
CASA ratio	30.2	31.8	33.4	-3.2	-1.5			
L/D ratio	86.3	87.1	81.7	4.6	-0.8			
CET-1	12.9	13.0	12.7	0.2	-0.1			

Source: Hong Leong Bank, MIDFR

Fig 2: Retrospective performance (Income Statement)

Metric	Surprise? Qoq/Yoy		Metric	Surprise? Qoq/Yoy		Notes (Cum = Cumulative, Qtr = Quarterly)
Qtrly Core NP	RM mil	930	Qtrly ROE	Qtr value	12.3%	Weak quarter but expected.
	24% of FY CNP					
	Qoq	-11%		t-1	13.4%	
	Yoy	19%		t-4	10.7%	
Cum Core NP	RM mil	2,954	Cum ROE	Cum value	13.0%	Solid improvement – well in line to beats its ROE target of 12.0% by a comfortable margin.
	Within our forecast					
	76% of FY CNP					
	Within consensus					
	76% of FY CNP					
Yoy	24%	t-1	10.8%			
NII	As expected		NIM	As expected		NIM compression was expected. HLBK sacrificed NIMs to acquire more deposit accounts in the past few quarters – as balances will start pouring in the next 8-9 months, there is less pressure for them to pursue expensive funding. This is evidenced by their subdued promo rates (as of now).
				Qtr value	1.82	
				Cum value	2.03	
	Qtr (Qoq)	-14%		Qtr (Qoq)	-27bps	
	Qtr (Yoy)	-11%		Qtr (Yoy)	-33bps	
Cum (Yoy)	0%	Cum (Yoy)	-13bps			
NOII	As expected		Qtr	% NII	74%	Excellent qoq recovery. Largely driven by recovery in treasury and trading income. Fee income was largely flattish in the past.
	Qtr (Qoq)	26%		% NOII	26%	
	Qtr (Yoy)	95%	Cum	% NII	74%	
	Cum (Yoy)	44%		% NOII	26%	
OPEX	As expected		Cost/ Inc.	As expected		No major issues on this front.
				Qtr value	40.1%	
				Cum value	37.6%	
	Qtr (Qoq)	2%		Qtr (Qoq)	+3.3%	
	Qtr (Yoy)	8%		Qtr (Yoy)	+1.6%	
Cum (Yoy)	7%	Cum (Yoy)	+0.0%			
JV & Associates	As expected				Despite qoq dip, BOCD is still doing well. China is experiencing interest rate hike issues – but this shouldn't be much issue.	
	Qtr (Qoq)	-16%				
	Qtr (Yoy)	24%				
	Cum (Yoy)	32%				

Source: Hong Leong Bank, MIDFR

Fig 3: Retrospective performance (Balance Sheet, Dividends, and anything extra)

Metric	Surprise? Qoq/Yoy		Metric	Surprise? Qoq/Yoy		Notes (Cum = Cumulative, Qtr = Quarterly)
Loans	As expected					HLBK still very confident on strong loan growth, despite slowing demand in certain segments and heightened competition from other banks.
	Qoq	1.1%				
	Yoy	7.2%				
	YTD (FY)	3.6%				
Depo. grwth	+ve surprise		CASA grwth	As expected		Deposit growth quarter-on-quarter was very strong. Of the quarter-on-quarter decline, CASA downturn was mostly on retail end, with wholesale CASA growing by RM0.5b. HLBK's strategy will be more defensive, having to retain the deposit accounts they've accumulated rather than pursuing new ones. This is easier than pursuing an aggressive acquisition strategy, which puts stress on costs of funds. HLBK will also be maintaining its liquidity ratios – don't expect to see it to sacrifice too much of this to drive funding growth.
	Qoq	2.1%		Qoq	-2.8%	
	Yoy	5.9%		Yoy	-4.1%	
	YTD (FY)	2.3%		YTD (FY)	-8.5%	
CASA ratio	As expected		L/D ratio	As expected		
	Value now	30.2%		Value now	86.3%	
	Qoq	-1.5%		Qoq	-0.8%	
	Yoy	-3.2%		Yoy	+4.6%	
GIL ratio	As expected		LLC ratio	As expected		Some uptick in transport vehicles and overseas GIL – but these are minor. Mangement will assess release of overlays in 2H.
	Value now	0.52%		Value now	197%	
	Qoq	+3bps		Qoq	-14%	
	Yoy	+4bps		Yoy	-21%	
Qtrly Net CC	As expected		Cum Net CC	As expected		
	Decent provision			Decent provision		
	Value now	9bps		Value now	8bps	
	t-1	6bps		t-4	11bps	
CET 1	Healthy level		Div payout	No divvy		Healthy.
	As expected			As expected		
	Value now	12.9%		Payout	-	
	Qoq	-0.1%				

Others:

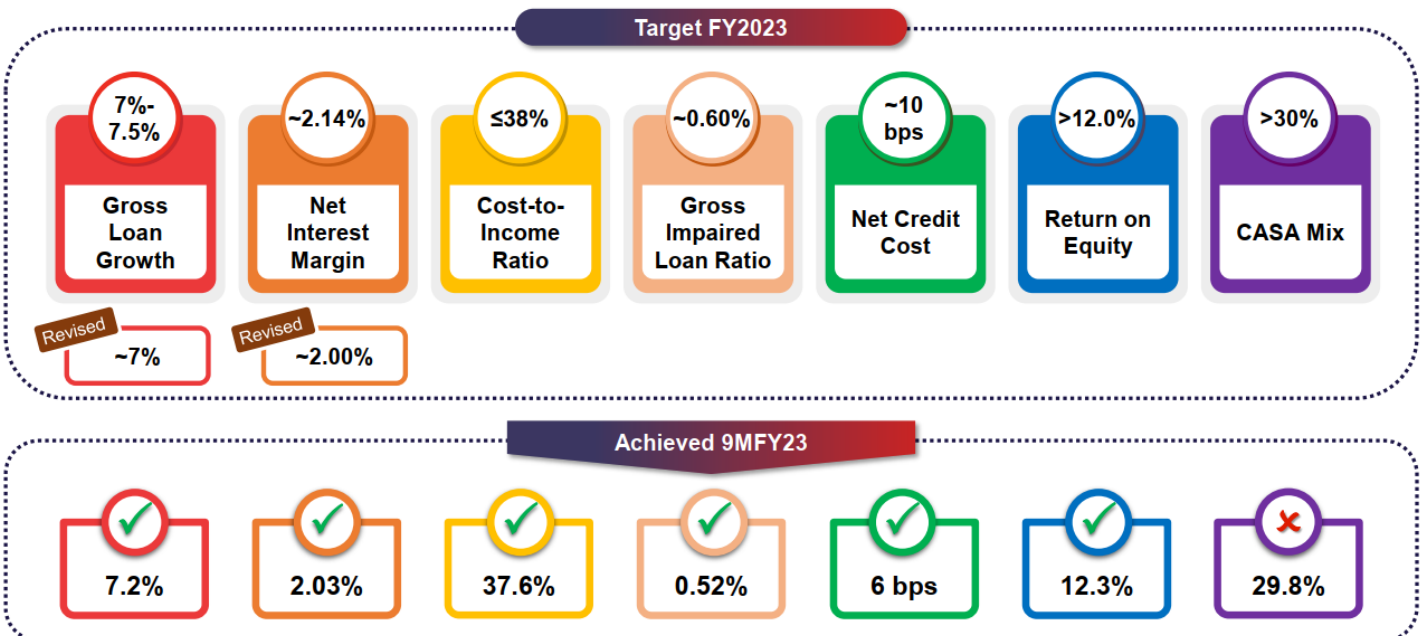
Source: Hong Leong Bank, MIDFR

Fig 4: Targets, Achievements, and Outlook

Targets	FY23F	9M FY23	Notes (Red: New guidance, Strikethrough: former guidance is no longer pertinent)
ROE	>12	13.0	
CIR	<38%	37.6	
NIM	2.00 2.14	2.03	Can expect NIM to show slight improvement next quarter. Unofficial target: 2.10% .
NOII		44% (yoy)	
Associates		32% (yoy)	
Loans	7 7-7.5	3.6 (YTD)	
Deposits		2.3 (YTD)	
CASA	>30	30.2	Skew towards corporate and SME deposit acquisition.
Loan/Depo		86.3	(Actual current value is closer to ~84% -- expect it to remain at this level in next quarter, as liquidity is highly prioritised). Comfortable ceiling is 85%.
GIL ratio	~0.60	0.52	
NCC (bps)	~10	8	Potential writebacks in Apr-Jun. (Provisions: RM630m.)
LLC		197	
CET 1		12.9	

Source: Hong Leong Bank, MIDFR

Fig 5: HLBK FY23F targets



Source: Hong Leong Bank, MIDFR

FINANCIAL SUMMARY

INCOME STATEMENT

FYE Jun (RM m)	FY21	FY22	FY23F	FY24F	FY25F
Interest income	5,557	5,723	7,145	8,200	8,868
Interest expense	(2,099)	(1,968)	(3,338)	(4,035)	(4,400)
Net interest income	3,458	3,755	3,807	4,165	4,468
Islamic banking inc.	919	905	960	1,062	1,139
Other operating inc.	1,090	937	1,023	1,121	1,435
Net income	5,467	5,597	5,790	6,347	7,043
OPEX	(2,078)	(2,098)	(2,200)	(2,412)	(2,676)
PPOP	3,389	3,499	3,590	3,935	4,367
Loan allowances	(654)	(164)	(174)	(186)	(256)
Other allowances	(0)	1	(0)	(0)	(0)
JV & Associates	736	1,030	1,237	1,360	1,469
PBT	3,471	4,367	4,652	5,110	5,580
Tax & zakat	(610)	(1,078)	(791)	(869)	(949)
NCI	-	-	-	-	-
Reported NP	2,861	3,289	3,861	4,241	4,631
Core NP	2,861	3,289	3,861	4,241	4,631
Total NII	4,310	4,618	4,700	5,142	5,517
Total NOII	1,157	979	1,090	1,206	1,526

BALANCE SHEET

FYE Jun (RM m)	FY21	FY22	FY23F	FY24F	FY25F
Cash & ST funds	3,953	6,937	7,196	7,451	7,668
Investment securities	66,332	65,799	70,399	77,439	85,183
Net loans	154,071	166,488	177,948	189,619	201,362
Other IEAs	0	0	0	0	0
Non-IEAs	12,774	15,107	19,588	20,959	22,692
Total assets	237,129	254,331	275,132	295,468	316,904
Customer deposits	183,290	197,292	209,525	223,144	236,532
Other IBLs	16,516	16,421	20,430	23,288	32,779
Non-IBLs	7,864	9,629	11,325	11,776	6,912
Total liabilities	207,670	223,342	241,280	258,208	276,223
Share capital	7,739	7,739	7,739	7,739	7,739
Reserves	21,720	23,250	26,112	29,521	32,942
Shareholders' funds	29,459	30,989	33,851	37,260	40,681
NCI	0	0	0	0	0
Total equity	29,459	30,989	33,851	37,260	40,681
Total L&E	237,129	254,331	275,132	295,468	316,904
Total IEAs	224,355	239,224	255,544	274,509	294,212
Total IBLs	199,806	213,714	229,955	246,432	269,311
Gross loans	155,822	168,234	180,010	191,351	202,832
CASA	59,232	66,051	62,857	64,712	66,229

FINANCIAL RATIOS

FYE Jun (RM m)	FY21	FY22	FY23F	FY24F	FY25F
Interest (%)					
NIM	1.99	1.99	1.90	1.94	1.94
Return on IEAs	2.56	2.47	2.89	3.09	3.12
Cost of funds	1.09	0.95	1.50	1.69	1.71
Net interest spread	1.47	1.52	1.38	1.40	1.41
Profitability (%)					
ROE	10.1	10.9	11.9	11.9	11.9
ROA	1.2	1.3	1.5	1.5	1.5
NOII/Net income	21.2	17.5	18.8	19.0	21.7
Effective tax rate	17.6	24.7	17.0	17.0	17.0
Cost/Income	38.0	37.5	38.0	38.0	38.0
Liquidity (%)					
Loan/Deposit	84.1	84.4	84.9	85.0	85.1
CASA ratio	32.3	33.5	30.0	29.0	28.0
Asset Quality (%)					
GIL ratio	0.46	0.49	0.60	0.50	0.40
LLC ratio	247	212	190	180	180
LLC (w. reserves)	306	292	247	245	256
Net CC (bps)	43	10	10	10	13
Capital (%)					
CET 1	14.0	13.9	13.1	12.9	12.7
Tier 1 capital	14.6	15.1	14.1	13.9	13.7
Total capital	16.7	17.2	16.2	15.9	15.6
Growth (%)					
Total NII	26.5	7.1	1.8	9.4	7.3
Total NOII	-15.7	-15.3	11.3	10.6	26.6
Net income	14.4	2.4	3.4	9.6	11.0
OPEX	-1.2	1.0	4.9	9.6	11.0
Core NP	9.9	15.0	17.4	9.8	9.2
Gross loans	6.8	8.0	7.0	6.3	6.0
Customer deposits	5.6	7.6	6.2	6.5	6.0
CASA	22.5	11.5	-4.8	3.0	2.3
Valuation metrics					
Core EPS (sen)	139.6	160.5	188.4	207.0	226.0
Gross DPS (sen)	50.0	55.0	66.0	72.5	79.1
Div payout (%)	36	34	35	35	35
BVPS (RM)	14.4	15.1	16.5	18.2	19.9
Core P/E (x)	13.9	12.1	10.3	9.4	8.6
Div yield (%)	2.6	2.8	3.4	3.7	4.1
P/BV (x)	1.3	1.3	1.2	1.1	1.0

Source: Hong Leong Bank, MIDFR

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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 <i>rise</i> 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 <i>fall</i> 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