Hong Leong Bank Berhad

(5819 | HLBK MK) Main | Financial Services

ESG 4 Stars

FTSE4Good

Corporate Update

Maintain **BUY**

Revised Target Price **RM24.60** (from RM22.76)

2QFY25 Results Review Within Expectations

Maintain BUY call: Revised GGM-TP of RM 24.60. Hong Leong Bank's earnings were robust driven by robust loans and deposits growth, improvements in NIMs and strong NOII. We expect that this performance has a high likelihood to continue given our expectation of stable economic growth and unchanged OPR. We believe that this should provide investors with a defensive option given the current volatile market condition especially the attractive dividend yield of circa 6%. Hence, we maintain our BUY call. The revision in TP is due to rolling over our valuation to FY26. The TP is based on an unchanged FY26F P/BV of 1.16x. (GGM assumptions: FY26F ROE of 11.6%, LTG of 4.0% & COE of 10.5%).

Within expectations. Hong Leong Bank's 1HFY25 core net profit (NP) of RM2,238m came in within/within our/street forecasts at 50%/51% of full-year forecasts.

1HFY25's core NP of RM2,238m up by +5.7%yoy. Underpinned by robust growth in NII (+8%yoy to RM2.47b) and NOII (+31.0%yoy to RM758m). NII growth was contributed by improvement in NIMs (+6bps yoy) and robust gross loans growth. Meanwhile, NOII expansion was due to wealth management business, Global Market franchise sales and improved treasury activities**.**

2QFY25's Core NP of RM1,148m up by +5%qoq. This was mainly due to growth in NOII which rose +14%qoq to RM404m.

Gross loans grew by +2.6%qoq, coming up to +7.7%yoy. The growth trajectory underpinned by expansion in mortgages, auto loans, SME and commercial banking as well as key oversea markets. These expanded +5.9%yoy to RM97.7b, +11.2%yoy to RM22.9b, +11.6%yoy to RM38.2b and +7.8%yoy to RM65.0b. Meanwhile, gross loans in Singapore and Vietnam grew +6.5%yoy to RM9.9b and +6.9%yoy to RM2.2b respectively.

Deposits grew by +0.2%qoq, coming up to +7.4%yoy. Main contributor coming from CASA (+7.9%yoy to RM71.0b), bringing CASA ratio to 31.3%. Meanwhile, FD expanded marginally by +0.2%yoy to RM115.2b.

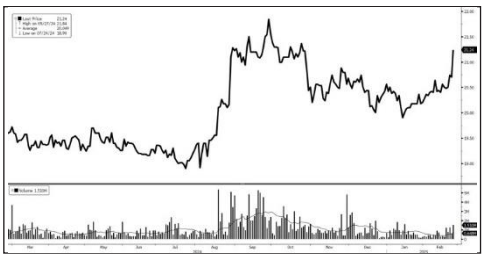
GIL moved marginally +1bps to 0.55%, LLC currently at 139%. This was a marginal increase and not concerning. We observed resilience in asset quality across all key segments.

Higher dividends at 28sen.

No change to earnings estimates. We maintain our earnings estimates given that results were within expectations.

RETURN STATISTICS	
Price @ 26th Feb 2025 (RM)	21.24
Expected share price return (%)	+15.8
Expected dividend yield (%)	+3.9
Expected total return (%)	+19.7

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	5.3	3.3
3months	3.3	3.1
12 months	8.5	6.4

INVESTMENT STATISTICS

FYE Jun	2025F	2026F	2027F
Core NP (RM m)	4,476	4,855	5,201
CNP growth (%)	7	8	7
Div yield (%)	3.6	3.9	4.2
Gross DPS (sen)	76.4	82.9	88.8
P/BV (x)	1.1	1.0	0.9
BVPS (RM)	19.6	21.2	23.2
ROE (%)	11.6	11.6	11.4

KEY STATISTICS

FBM KLCI	1,588.71
Issue shares (m)	2,049.85
Estimated free float (%)	33.49
Market Capitalisation (RM'm)	46,042.33
52-wk price range	RM18.7 – RM21.8
3-mth average daily volume (m)	0.84
3-mth average daily value (RM'm)	17.20
Top Shareholders (%)	
HLFG	61.82
EPF	8.65
ASNB	3.25

Analyst

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2QFY25 RESULTS SUMMARY

FYE Jun (RM m)	2Q FY25	1Q FY25	2Q FY24	Yoy (%)	Qoq (%)	1H FY25	1H FY24	Yoy (%)
Net interest inc.	993	1,010	950	*4.5*	*-1.7*	2,003	1,872	*7.0*
Islamic banking inc.	297	288	241	*23.2*	*3.3*	585	472	*24.1*
Non-interest inc.	342	300	273	*25.1*	*14.0*	642	516	*24.5*
Net income	**1,632**	**1,598**	**1,465**	***11.4***	***2.1***	**3,230**	**2,859**	***13.0***
OPEX	(627)	(626)	(578)	*8.6*	*0.3*	(1,253)	(1,134)	*10.5*
PPOP	**1,005**	**972**	**887**	***13.2***	***3.3***	**1,977**	**1,725**	***14.6***
Loan provisions	(5)	(7)	6	*-181.8*	*-37.4*	(12)	57	*-121.3*
Other provisions	1	(0)	0	*n.m.*	*n.m.*	0	(0)	*n.m.*
JV & Associates	400	375	448	*-10.7*	*6.8*	775	803	*-3.5*
PBT	**1,401**	**1,339**	**1,341**	***4.4***	***4.6***	**2,740**	**2,584**	***6.0***
Tax	(252)	(249)	(253)	*-0.2*	*1.2*	(502)	(466)	*7.6*
NCI	-	-	-	*n.m.*	*n.m.*	-	-	*n.m.*
Reported NP	**1,148**	**1,090**	**1,088**	***5.5***	***5.3***	**2,238**	**2,118**	***5.7***
Core NP	**1,148**	**1,090**	**1,088**	***5.5***	***5.3***	**2,238**	**2,118**	***5.7***
Total NII	1,228	1,244	1,156	*6*	*-1*	2,472	2,282	*8*
Total NOII	404	354	309	*31*	*14*	758	577	*31*
Gross DPS (sen)	**28.0**	**-**	**25.0**	***n.m.***	***n.m.***	**28.0**	**25.0**	***n.m.***
Core EPS (sen)	55.7	52.9	53.1	*5*	*5*	108.6	103.3	*5*
Gross loans	199,373	194,232	185,165	*8*	*3*			
Gross impaired loans	1,092	1,049	1,033	*6*	*4*			
Customer deposits	219,895	219,437	211,184	*4*	*0*			
CASA	70,995	70,358	65,778	*8*	*1*			

Ratios (%)	2Q FY25	1Q FY25	2Q FY24	Yoy (ppts)	Qoq (ppts)	1H FY25	1H FY24	Yoy (ppts)
ROE (Ann.)	**12.5**	**12.3**	**12.9**	***-0.4***	***0.1***	**12.2**	**12.5**	***-0.4***
NIM (Reported)	**1.90**	**1.92**	**1.85**	***0.05***	***-0.02***	**1.91**	**1.85**	***0.06***
NOII/Net income	24.8	22.1	21.1	*3.7*	*2.6*	24.8	21.1	*3.7*
Cost/Income	38.4	39.1	39.4	*-1.0*	*-0.7*	38.8	39.7	*-0.9*
NCC (Ann.) (bps)	1	2	(1)	*2*	*-1*	1	(6)	*8*
GIL ratio	0.55	0.54	0.56	*-0.01*	*0.01*			
Loan loss coverage	139	146	163	*-24*	*-7*			
CASA ratio	32.3	32.1	31.1	*1.1*	*0.2*			
L/D ratio	90.0	87.8	86.9	*3.1*	*2.2*			
CET-1	0.1	13.2	12.9	*-12.8*	*-13.0*			

Source: Company, MIDFR

FINANCIAL SUMMARY

INCOME STATEMENT

FYE Jun (RM m)	FY23	FY24	FY25F	FY26F	FY27F
Net interest income	**3,684**	**3,822**	**4,183**	**4,516**	**4,768**
Islamic banking inc.	963	986	1,141	1,232	1,301
Other operating inc.	1,038	963	1,117	1,122	1,155
Net income	**5,686**	**5,771**	**6,441**	**6,870**	**7,224**
OPEX	(2,233)	(2,339)	(2,641)	(2,817)	(2,962)
PPOP	**3,452**	**3,432**	**3,800**	**4,053**	**4,262**
Loan allowances	(115)	114	(202)	(215)	(229)
Other allowances	0	(1)	(0)	(0)	(0)
JV & Associates	1,289	1,589	1,827	2,047	2,272
PBT	**4,627**	**5,134**	**5,426**	**5,884**	**6,304**
Tax & zakat	(808)	(938)	(949)	(1,030)	(1,103)
NCI	-	-	-	-	-
Reported NP	**3,818**	**4,196**	**4,476**	**4,855**	**5,201**
Core NP	**3,852**	**4,196**	**4,476**	**4,855**	**5,201**
Total NII	4,552	4,669	5,164	5,575	5,887
Total NOII	1,134	1,102	1,277	1,294	1,337

BALANCE SHEET

FYE Jun (RM m)	FY23	FY24	FY25F	FY26F	FY27F
Cash & ST funds	8,644	6,452	7,408	7,716	7,864
Investment securities	70,736	75,667	74,126	72,968	72,166
Net loans	179,903	193,304	207,103	220,676	235,052
Other IEAs	0	297	0	0	0
Non-IEAs	20,568	22,069	21,305	26,265	33,386
Total assets	**279,850**	**297,789**	**309,942**	**327,624**	**348,468**
Customer deposits	211,652	220,433	236,084	251,193	267,269
Other IBLs	22,677	26,863	27,081	27,554	28,062
Non-IBLs	11,535	13,199	6,567	5,461	5,581
Total liabilities	**245,864**	**260,495**	**269,732**	**284,208**	**300,912**
Share capital	7,739	7,739	7,739	7,739	7,739
Reserves	26,248	29,555	32,471	35,677	39,816
Shareholders' funds	**33,987**	**37,294**	**40,210**	**43,417**	**47,555**
NCI	0	0	0	0	0
Total equity	**33,987**	**37,294**	**40,210**	**43,417**	**47,555**
Total L&E	**279,850**	**297,789**	**309,942**	**327,624**	**348,468**
Total IEAs	259,282	275,720	288,637	301,360	315,082
Total IBLs	234,328	247,296	263,165	278,747	295,331
Gross loans	181,677	194,927	208,572	222,130	236,568
CASA	65,097	71,617	75,547	82,894	90,872

FINANCIAL RATIOS

FYE Jun (RM m)	FY23	FY24	FY25F	FY26F	FY27F
Interest (%)					
NIM	1.83	1.75	1.83	1.89	1.91
Return on IEAs	3.02	3.28	3.25	3.26	3.23
Cost of funds	1.72	2.06	1.96	1.88	1.81
Net interest spread	1.30	1.22	1.30	1.38	1.42
Profitability (%)					
ROE	**11.9**	**11.8**	**11.6**	**11.6**	**11.4**
ROA	1.4	1.5	1.5	1.5	1.5
NOII/Net income	19.9	19.1	19.8	18.8	18.5
Effective tax rate	17.5	18.3	17.5	17.5	17.5
Cost/Income	39.3	40.5	41.0	41.0	41.0
Liquidity (%)					
Loan/Deposit	85.0	87.7	87.7	87.9	87.9
CASA ratio	30.8	32.5	32.0	33.0	34.0
Asset Quality (%)					
GIL ratio	0.57	0.53	0.50	0.50	0.49
LLC ratio	169	155	140	130	130
LLC (w. reserves)	265	276	199	186	183
Net CC (bps)	7	-6	10	10	10
Capital (%)					
CET 1	12.8	13.3	13.9	14.0	14.0
Tier 1 capital	13.9	14.3	14.9	14.9	14.8
Total capital	15.9	16.3	16.8	16.8	16.7
Growth (%)					
Total NII	-1.4	2.6	10.6	8.0	5.6
Total NOII	15.7	-2.8	15.9	1.4	3.3
Net income	1.6	1.5	11.6	6.7	5.2
OPEX	6.4	4.7	12.9	6.7	5.2
Core NP	24.1	8.9	6.7	8.5	7.1
Gross loans	8.0	7.3	7.0	6.5	6.5
Customer deposits	7.3	4.1	7.1	6.4	6.4
CASA	-1.4	10.0	5.5	9.7	9.6
Valuation metrics					
Core EPS (sen)	188.0	204.8	218.4	236.9	253.8
Gross DPS (sen)	59.0	68.0	76.4	82.9	88.8
Div payout (%)	31	33	35	35	35
BVPS (RM)	16.6	18.2	19.6	21.2	23.2
Core P/E (x)	11.3	10.4	9.7	9.0	8.4
Div yield (%)	**2.8**	**3.2**	**3.6**	**3.9**	**4.2**
P/BV (x)	1.3	1.2	1.1	1.0	0.9

Source: Bloomberg, MIDFR

Income Statement	Balance Sheet	Valuations & Sector
Core NP – Core Net Profit	LCR – Liquidity Coverage ratio	ROE – Return on Equity
PPOP – Pre-Provisioning Operating Profit	L/D ratio – Loan/Deposit ratio	GGM – Gordon Growth Model
NII – Net Interest Income	CASA – Current & Savings accounts	P/BV – Price to Book Value
NIM – Net Interest Margin	FD – Fixed Deposits	BVPS – Book Value per Share
COF – Cost of Funds	GIL – Gross Impaired Loans	BNM – Bank Negara Malaysia
NOII – Non-Interest Income	NIL – Net Impaired Loans	OPR – Overnight Policy Rate
MTM – Mark to Market	LLC – Loan Loss Coverage	SRR – Statutory Reserve Requirement
CIR – Cost to Income Ratio	NCC – Net Credit Costs	SBR – Standardised Base Rate
OPEX – Operational Expenses	GCC – Gross Credit Costs	ALR – Average Lending Rate
	CET 1 – Common Equity Tier 1	

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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	The stock price is expected to rise by >10% within 3 months after a Trading Buy rating has been assigned due to positive news flow.
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	The stock price is expected to fall by >10% within 3 months after a Trading Sell rating has been assigned due to negative news flow.

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