Corporate Update

Hong Leong Bank Berhad

(5819 | HLBK MK) Main | Financial Services

FTSE4Good ESG 4 Stars

Maintain **BUY**

Revised Target Price **RM23.09** (from RM22.10)

3QFY25 Results Review
Several One-Offs

To Conclude	**Excellent set of earnings, coming above expectations.** **Management's tone: Optimistic** **Expect: HLBK to continue posting excellent results.**
Our Verdict	**HLBK remains an excellent pick due to its inexpensive valuations, rising dividend yields and solid growth prospects. It has made a conscious effort to grow its regional offerings to reduce reliance on BOCD contributions.**
Valuations	**Current P/BV of 1.06x is inexpensive, trading below -1SD of the 5-year P/BV mean of 1.23x.** **The company is currently trading at a forward FY26F P/BV of 0.94x with a +4.0% dividend yield.**
Yays	1. Defensive pick. 2. Strong NOII growth. 3. Excellent cost control to persist. 4. Solid loan growth. 5. Inexpensive valuations. 6. Conscious effort to improve dividend yields.
Nays	1. BOCD's contributions may be affected by NIM compression.
Okays	1. No further room for major writebacks. 2. Conscious effort to grow regional offerings, while reducing reliance on BOCD.

Results in a nutshell:

▲ **9MFY25's Core NP of RM3,593m was *Above/Above* our/street forecasts: *82%/81%* of full-year forecasts.** A large overlay writeback pushed earnings above our expectations.

► **No dividend announcement.**

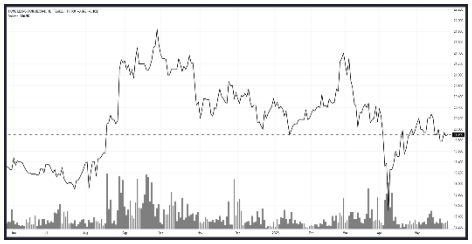
▲ **9MFY25's Core net profit (NP) of RM3,593m up by +14%yoy.** Aside from stronger NII and NOII result, a large overlay writeback drove the increase in earnings.

▲ **3QFY25's Core NP of RM1,355m up by +18%qoq.** This was largely due to the large overlay writeback.

RETURN STATISTICS

Price @ 28 May 2025 (RM)	19.90
Expected share price return (%)	+16.0
Expected dividend yield (%)	+4.0
Expected total return (%)	**+20.0**

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	1.2	-1.7
3 months	-1.8	0.3
12 months	1.9	7.9

INVESTMENT STATISTICS

FYE Jun	FY25F	FY26F	FY27F
Core NP (RM m)	**4,692**	**4,643**	**4,932**
CNP growth (%)	12	(1)	6
Div yield (%)	**4.0**	**4.0**	**4.2**
Gross DPS (sen)	80.1	79.3	84.2
P/BV (x)	**1.0**	**0.9**	**0.9**
BVPS (RM)	19.7	21.2	22.8
ROE (%)	**12.1**	**11.1**	**10.9**
% Street CNP (%)	**106**	**99**	**98**

KEY STATISTICS

FBM KLCI	1,523.48
Issue shares (m)	2,049.8
Estimated free float (%)	33.5
Market Capitalisation (RM'm)	42,877.5
52-wk price range	RM18.4 – RM21.8
3-mth average daily volume (m)	1.2
3-mth average daily value (RM'm)	23.6
Top Shareholders (%)	
Hong Leong Financial Group Bhd	61.8
EPF Board	8.4
Hong Leong Bank Sdn Bhd	3.3

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Have a look at:

► **BOCD dilution loss one-off.** HLBK incurred a large, RM399m one-off expense this quarter. This dilution loss came about after BOCD's minority shareholders exercised their convertible bonds (C-bonds) at a lower share price. The price differential forms the basis of dilution effect impact. As a result, HLBK now has a reduced stake in BOCD (from 19.76% to 17.78%), which is still worth approximately RM9b. No further conversions of this scale are expected. Further dilutions (if any) will be extremely minor, and will come from either placements or rights issues.

► **Apart from NIM compression, BOCD's outlook remains decent.** Although manufacturing makes up 6-7% of loan base, management is not expecting any major changes in BOCD's standard NCC or loan growth level. The tariff is expected to have an intangible impact on asset quality. Management points towards NIM compression from potential rate cuts in China as being the main threat in 2HCY25.

▲ **Huge macroeconomic overlay writeback.** There was a large overlay release worth RM399m, bringing HLBK's LLC down from 139% to 95%. RM175m worth of overlays remain. Management is comfortable with the current LLC level (so don't expect any major overlay allocations), as the current GIL ratio is to be maintained (with only a few one-off impairments expected in overseas markets).

▲ **Optimistic on achieving CASA target (ignoring one-offs).** This quarter saw a large outflow of CASA from a collection account in SG, which management is treating as a one-off. Its worth noting that domestic CASA levels are 32.3%, which is still above the 32% target. Management is looking at several initiatives to boost CASA growth, though this may only be apparent in 2HCY25.

▲ **Several tie-ups.** HLBK announced its strategic alliance with Lombard Odier, a Swiss banking group. There is a focus on Lombard Odier providing investment strategy perspectives and wealth management solutions. This is helpful in enabling HLBK to maintain its strong fee income growth. Earlier, HLBK also announced a strategic alliance with WeBank Technology Services, though this is more geared towards streamlining its technology operations.

Forecasts revised: FY25F/FY26F/FY27F Core NP adjusted by +7%/+3%/+3%. To reflect the large overlay writeback taken this quarter, as well as lower CIR for subsequent years.
Key downside risks. *(1) Weak BOCD result, (2) NIM compression, (3) Weak loan growth.*

Maintain BUY call: Revised GGM-TP of RM 23.09 ***(from RM22.10)***. The TP is based on a revised FY26F P/BV of 1.09x *(formerly 1.05x)*, to reflect altered earnings prospects and ROE-based valuations.

(GGM assumptions: *FY26F ROE of 11.1%, LTG of 4.0% & COE of 10.5%)*

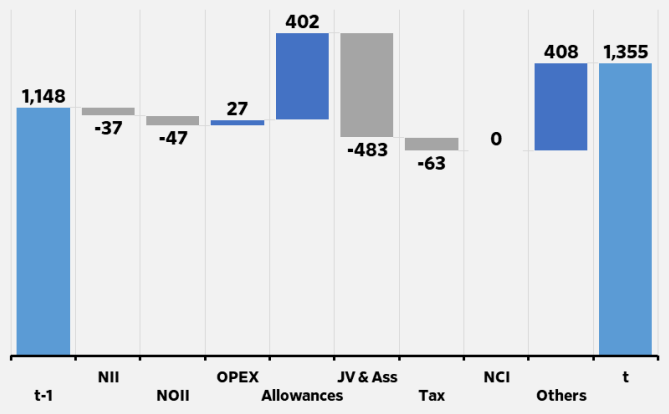
FIG 1: Quarterly results

FYE Jun (RM m)	3Q FY25	2Q FY25	3Q FY24	Yoy (%)	Qoq (%)	9M FY25	9M FY24	Yoy (%)
Net interest inc.	963	993	968	-1	-3	2,966	2,840	4
Islamic banking inc.	272	297	254	7	-9	857	726	18
Non-interest inc.	313	342	212	48	-8	955	728	31
Net income	**1,548**	**1,632**	**1,435**	**8**	**-5**	**4,778**	**4,294**	**11**
OPEX	(601)	(627)	(577)	4	-4	(1,854)	(1,711)	8
PPOP	**947**	**1,005**	**858**	**10**	**-6**	**2,924**	**2,583**	**13**
Loan provisions	398	(5)	26	>500	<-500	386	83	365
Other provisions	(0)	1	(1)	n.m.	n.m.	0	(1)	n.m.
JV & Associates	(83)	400	384	-122	-121	692	1,187	-42
PBT	**1,263**	**1,401**	**1,268**	**-0**	**-10**	**4,003**	**3,852**	**4**
Tax	(315)	(252)	(224)	41	25	(817)	(690)	18
NCI	-	-	-	n.m.	n.m.	-	-	n.m.
Reported NP	**947**	**1,148**	**1,044**	**-9**	**-18**	**3,185**	**3,162**	**1**
Core NP	**1,355**	**1,148**	**1,044**	**30**	**18**	**3,593**	**3,162**	**14**
Profit ex-BOCD	**1,030**	**748**	**660**	**56**	**38**	**2,494**	**1,975**	**26**
Total NII	1,191	1,228	1,181	1	-3	3,663	3,463	6
Total NOII	357	404	254	41	-12	1,115	831	34
Gross DPS (sen)	**-**	**28.0**	**-**	**n.m.**	**n.m.**	**28.0**	**25.0**	**n.m.**
Core EPS (sen)	65.7	55.7	50.9	29	18	174.3	154.2	13
Gross loans	201,247	199,373	187,810	7.2	0.9			
Gross impaired loans	1,145	1,092	1,074	6.6	4.9			
Customer deposits	224,964	226,734	212,417	5.9	-0.8			
CASA	68,278	70,995	65,005	5.0	-3.8			

Ratios (%)	3Q FY25	2Q FY25	3Q FY24	Yoy (ppts)	Qoq (ppts)	9M FY25	9M FY24	Yoy (ppts)
ROE (Ann.)	**14.5**	**12.5**	**12.1**	**2.4**	**2.0**	**12.8**	**12.2**	**0.6**
ROE (Pre-BOCD) (Ann.)	**11.0**	**8.1**	**7.6**	**3.4**	**2.9**	**8.9**	**7.6**	**1.3**
NIM (Reported)	**1.87**	**1.90**	**1.87**	**0.00**	**-0.03**	**1.90**	**1.85**	**0.05**
NOII/Net income	23.1	24.8	17.7	5.4	-1.7	23.1	17.7	5.4
Cost/Income	38.8	38.4	40.2	-1.4	0.3	38.8	39.8	-1.0
NCC (Ann.) (bps)	(82)	1	(6)	-76	-83	(26)	(6)	-20
GIL ratio	0.57	0.55	0.57	-0.00	0.02			
Loan loss coverage	95	139	154	-59	-44			
CASA ratio	30.4	31.3	30.6	-0.3	-1.0			
L/D ratio	89.0	87.3	87.6	1.3	1.7			
CET-1	12.8	13.0	12.5	0.3	-0.2			

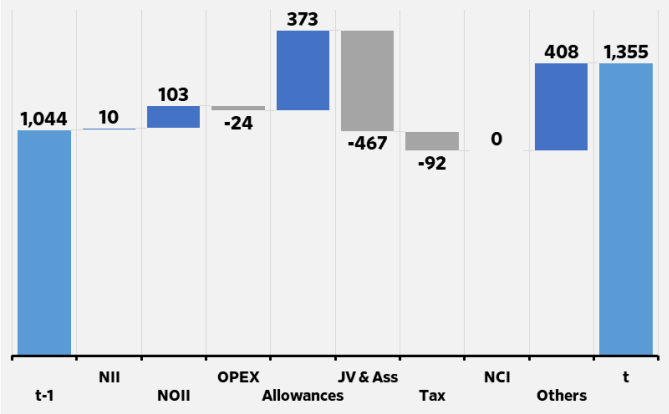
Source: Company, MIDFR

FIG 2: QoQ P/L walk (Quarterly results)



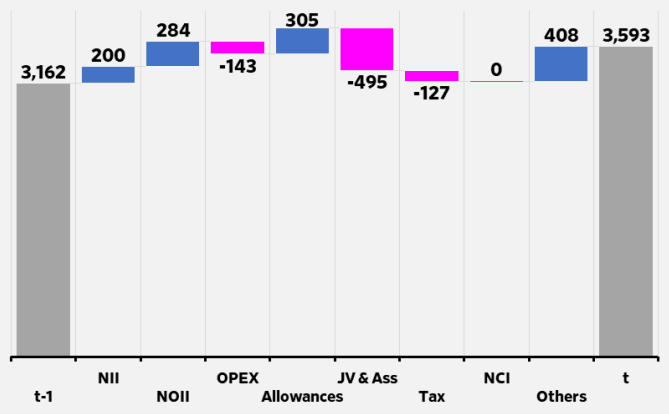
Source: Company, MIDFR

FIG 3: YoY P/L walk (Quarterly results)



Source: Company, MIDFR

FIG 4: YoY P/L walk (Cumulative results)



Source: Company, MIDFR

INCOME STATEMENT (QUARTERLY & CUMULATIVE)

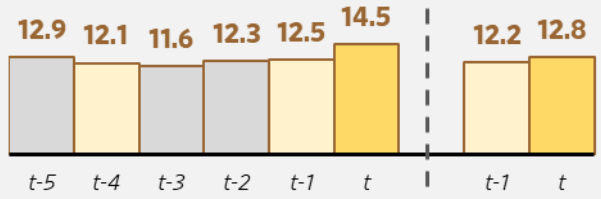
3QFY25 / 9MFY25 results

Earnings: Above/Above our/street forecasts

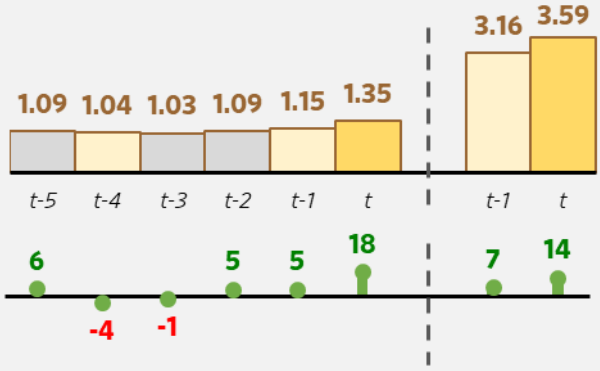
82%/81% of full-year estimates

Dividend: NO

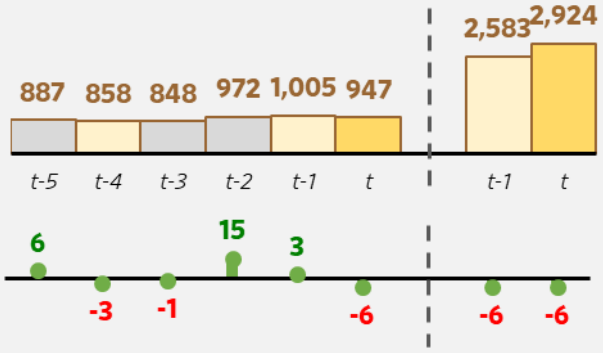
ROE (%)



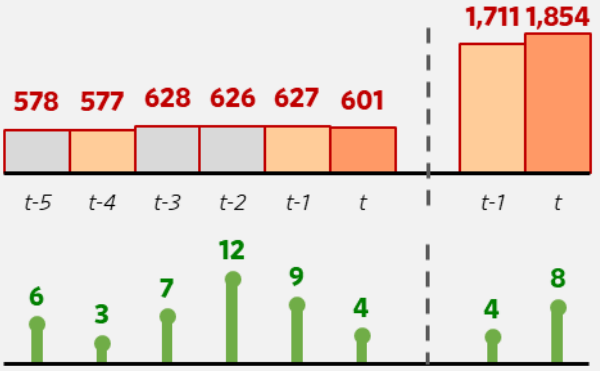
Core Net Profit (RM b)
Growth – qoq (Qtr) & yoy (Cum) (%)



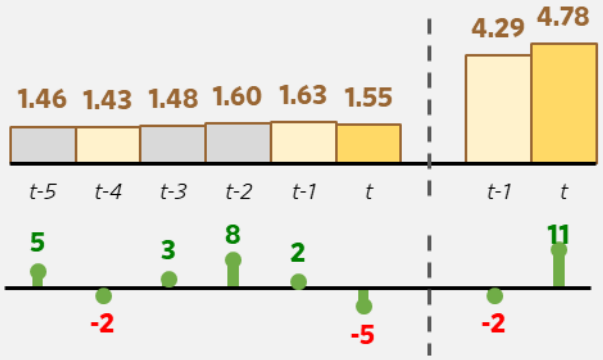
Pre-Provisioning Operating Profit (RM b)
Growth – qoq (Qtr) & yoy (Cum) (%)



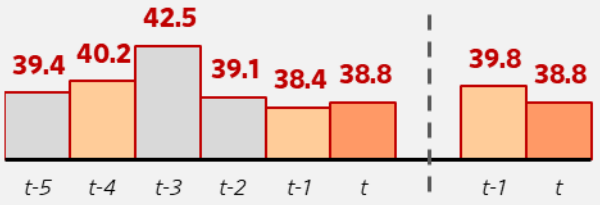
OPEX – (RM b)
Growth – yoy only! (Qtr & Cum) (%)



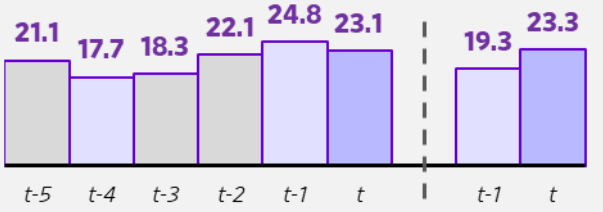
Topline – (RM b)
Growth – qoq (Qtr) & yoy (Cum) (%)



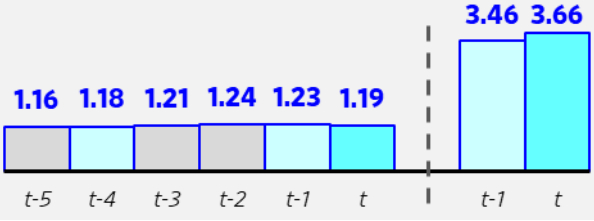
Cost/Income ratio (%)



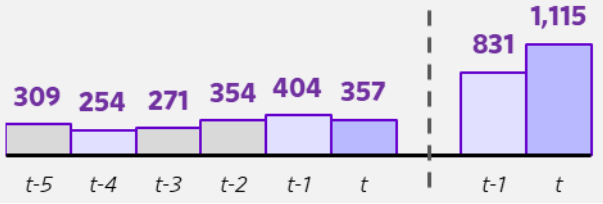
% NOII as topline (%)



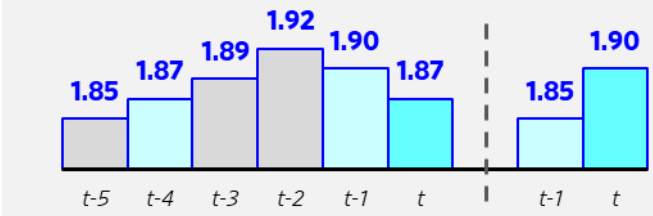
Net interest income (RM b)



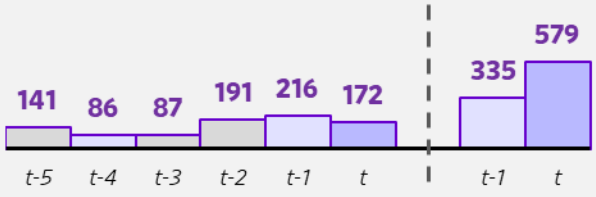
Non-interest income (RM b)



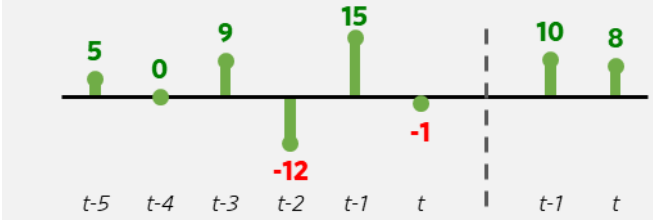
NIM (%)



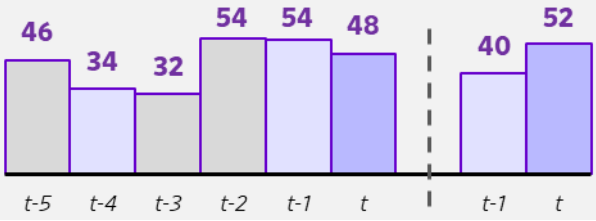
Non-fee NOII (RM b)



Fee income growth – qoq (Qtr) & yoy (Cum) (%)

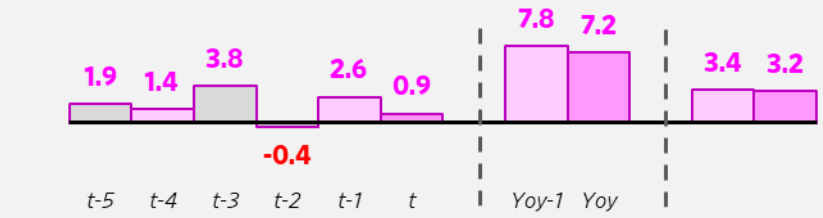


% Non-fee income as NOII (%)

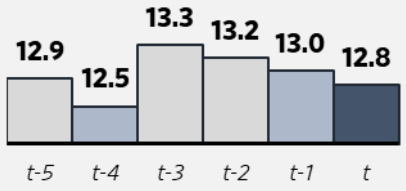


BALANCE SHEET

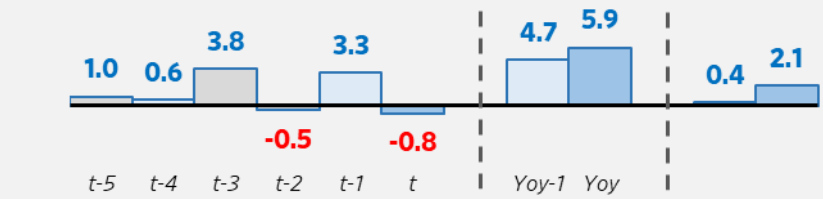
Loan growth – qoq, yoy, FYTD (%)



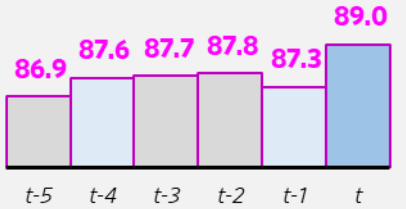
CET 1 ratio (%)



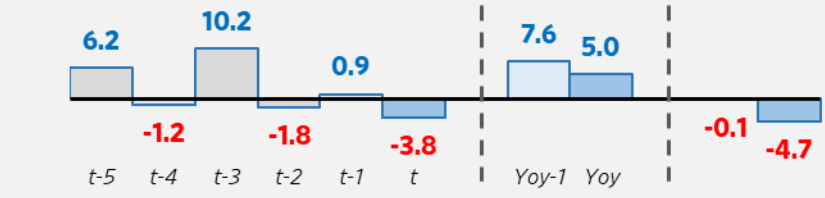
Deposit growth – qoq, yoy, FYTD (%)



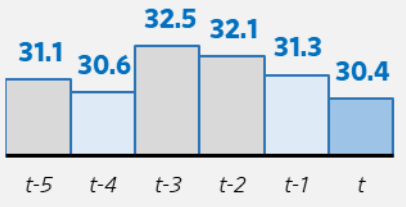
Loan/Deposit ratio (%)



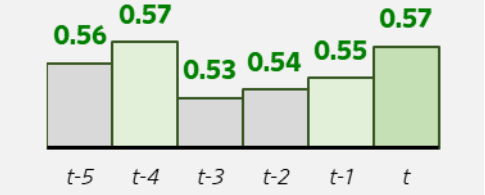
CASA growth – qoq, yoy, FYTD (%)



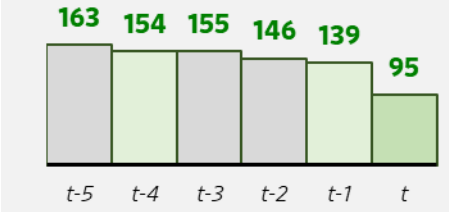
CASA ratio (%)



GIL ratio (%)



Loan loss coverage (%)



Ann. net credit cost (bps)

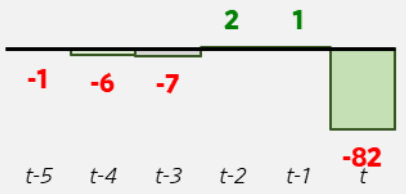


FIG 5: Retrospective performance (Income Statement)

Metric	Surprise? *Qoq/Yoy*		Metric	Surprise? *Qoq/Yoy*		Notes *(Cum = Cumulative, Qtr = Quarterly)*
Qtrly Core NP	RM mil	***1,355***	**Qtrly ROE**	Qtr value	***14.5%***	
	31% of FY CNP					
	Qoq	*18%*		t-1	*12.5%*	
	Yoy	*30%*		t-4	*12.1%*	
Cum Core NP	RM mil	***3,593***	**Cum ROE**	Cum value	***12.8%***	
	Above our forecast					
	82% of FY CNP					
	Above consensus					
	81% of FY CNP					
	Yoy	*14%*		t-1	*12.2%*	
NII	As expected		**NIM**	As expected		
				Qtr value	***1.87***	
				Cum value	***1.90***	
	Qtr (Qoq)	*-3%*		Qtr (Qoq)	*-3bps*	
	Qtr (Yoy)	*1%*		Qtr (Yoy)	*+0bps*	
	Cum (Yoy)	*6%*		Cum (Yoy)	*+5bps*	
NOII	As expected		**Qtr**	% NII	***77%***	
	Qtr (Qoq)	*-12%*		% NOII	***23%***	
	Qtr (Yoy)	*41%*	**Cum**	% NII	***77%***	
	Cum (Yoy)	*34%*		% NOII	***23%***	
OPEX	As expected		**Cost/ Inc.**	+ve surprise		
				Qtr value	***38.8%***	
				Cum value	***38.8%***	
	Qtr (Qoq)	*-4%*		Qtr (Qoq)	*+0.3%*	
	Qtr (Yoy)	*4%*		Qtr (Yoy)	*-1.4%*	
	Cum (Yoy)	*8%*		Cum (Yoy)	*-1.0%*	
JV & Asso-ciates	-ve surprise					
	Qtr (Qoq)	*-121%*				
	Qtr (Yoy)	*-122%*				
	Cum (Yoy)	*-42%*				

Source: Company, MIDFR

FIG 6: Retrospective performance (Balance Sheet, Dividends, and anything extra)

Metric	Surprise? *Qoq/Yoy*		Metric	Surprise? *Qoq/Yoy*		**Notes** *(Cum = Cumulative, Qtr = Quarterly)*
Loans	As expected					
	Qoq	*0.9%*				
	Yoy	*7.2%*				
	YTD (FY)	*3.2%*				
Depo. grwth	As expected		**CASA grwth**	As expected		
	Qoq	*-0.8%*		Qoq	*-3.8%*	
	Yoy	*5.9%*		Yoy	*5.0%*	
	YTD (FY)	*2.1%*		YTD (FY)	*-4.7%*	
CASA ratio	As expected		**L/D ratio**	As expected		
	Value now	***30.4%***		Value now	***89.0%***	
	Qoq	*-1.0%*		Qoq	*+1.7%*	
	Yoy	*-0.3%*		Yoy	*+1.3%*	
GIL ratio	As expected		**LLC ratio**	As expected		
	Value now	***0.57%***		Value now	***95%***	
	Qoq	*+2bps*		Qoq	*-44%*	
	Yoy	*-0bps*		Yoy	*-59%*	
Qtrly Net CC	+ve surprise		**Cum Net CC**	As expected		
	Net writebacks			Net writebacks		
	Value now	***-82bps***		Value now	***-26bps***	
	t-1	*1bps*				
	t-4	*-6bps*		t-4	*-6bps*	
CET 1	Healthy level		**Div payout**	No divvy		
	As expected			As expected		
	Value now	***12.8%***		**Payout**	*-*	
	Qoq	*-0.2%*				

Source: Company, MIDFR

FIG 7: Targets, Achievements, and Outlook

Targets	FY25	9M FY25	Notes (Red: New guidance, ~~Strikethrough: Guidance is no longer pertinent~~)
ROE	12	12.8	
CIR	40	38.8	
NIM	1.85 – 1.95	1.90	
NOII		34% (yoy)	
Associates		-42% (yoy)	
Loans	6 – 7	3.2 (YTD)	
Deposits		2.1 (YTD)	
% CASA	>32	30.4	
Loan/Depo		89.0	
GIL ratio	<0.65	0.57	
NCC (bps)	<10	(26)	
LLC		95	
CET 1		12.8	
Div payout	>33	-	

Source: Company, MIDFR

FINANCIAL SUMMARY

INCOME STATEMENT

FYE Jun (RM m)	FY23	FY24	FY25F	FY26F	FY27F
Net interest income	**3,684**	**3,822**	**4,035**	**4,204**	**4,385**
Islamic banking inc.	963	986	1,101	1,147	1,196
Other operating inc.	1,038	963	1,685	1,122	1,155
Net income	**5,686**	**5,771**	**6,821**	**6,472**	**6,736**
OPEX	(2,233)	(2,339)	(2,660)	(2,524)	(2,627)
PPOP	**3,452**	**3,432**	**4,161**	**3,948**	**4,109**
Loan allowances	(115)	114	402	(107)	(113)
Other allowances	0	(1)	(0)	(0)	(0)
JV & Associates	1,289	1,589	1,160	1,786	1,983
PBT	**4,627**	**5,134**	**5,722**	**5,628**	**5,978**
Tax & zakat	(808)	(938)	(1,030)	(985)	(1,046)
NCI	-	-	-	-	-
Reported NP	**3,818**	**4,196**	**4,692**	**4,643**	**4,932**
Core NP	**3,852**	**4,196**	**4,692**	**4,643**	**4,932**
Total NII	4,552	4,669	4,982	5,190	5,413
Total NOII	1,134	1,102	1,839	1,282	1,322

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	205,632	218,588	232,382
Other IEAs	-	297	-	-	-
Non-IEAs	20,568	22,069	20,589	25,776	32,436
Total assets	**279,850**	**297,789**	**307,755**	**325,047**	**344,848**
Customer deposits	211,652	220,433	233,659	248,613	264,524
Other IBLs	22,677	26,863	27,081	27,554	28,062
Non-IBLs	11,535	13,199	6,665	5,461	5,581
Total liabilities	**245,864**	**260,495**	**267,405**	**281,628**	**298,167**
Share capital	7,739	7,739	7,739	7,739	7,739
Reserves	26,248	29,555	32,611	35,680	38,942
Shareholders' funds	**33,987**	**37,294**	**40,350**	**43,419**	**46,681**
NCI	-	-	-	-	-
Total equity	**33,987**	**37,294**	**40,350**	**43,419**	**46,681**
Total L&E	**279,850**	**297,789**	**307,755**	**325,047**	**344,848**
Total IEAs	259,282	275,720	287,166	299,271	312,411
Total IBLs	234,328	247,296	260,740	276,167	292,586
Gross loans	181,677	194,927	206,623	219,640	233,478
CASA	65,097	71,617	74,771	82,042	89,938

FINANCIAL RATIOS

FYE Jun (RM m)	FY23	FY24	FY25F	FY26F	FY27F
Interest (%)					
NIM	1.83	1.75	1.77	1.77	1.77
Return on IEAs	3.02	3.28	3.21	3.17	3.13
Cost of funds	1.72	2.06	1.97	1.90	1.83
Net interest spread	1.30	1.22	1.24	1.27	1.31
Profitability (%)					
ROE	**11.9**	**11.8**	**12.1**	**11.1**	**10.9**
ROA	1.4	1.5	1.5	1.5	1.5
NOII/Net income	19.9	19.1	27.0	19.8	19.6
Effective tax rate	17.5	18.3	18.0	17.5	17.5
Cost/Income	39.3	40.5	39.0	39.0	39.0
Liquidity (%)					
Loan/Deposit	85.0	87.7	88.0	87.9	87.8
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	95	95	95
LLC (w. reserves)	265	276	215	208	203
Net CC (bps)	7	-6	-20	5	5
Capital (%)					
CET 1	12.8	13.3	14.0	14.2	14.1
Tier 1 capital	13.9	14.3	15.0	15.1	15.0
Total capital	15.9	16.3	16.9	17.0	16.9
Growth (%)					
Total NII	-1.4	2.6	6.7	4.2	4.3
Total NOII	15.7	-2.8	66.9	-30.3	3.1
Net income	1.6	1.5	18.2	-5.1	4.1
OPEX	6.4	4.7	13.7	-5.1	4.1
Core NP	24.1	8.9	11.8	-1.1	6.2
Gross loans	8.0	7.3	6.0	6.3	6.3
Customer deposits	7.3	4.1	6.0	6.4	6.4
CASA	-1.4	10.0	4.4	9.7	9.6
Valuation metrics					
Core EPS (sen)	188.0	204.8	229.0	226.6	240.7
Gross DPS (sen)	59.0	68.0	80.1	79.3	84.2
Div payout (%)	31	33	35	35	35
BVPS (RM)	16.6	18.2	19.7	21.2	22.8
Core P/E (x)	10.6	9.7	8.7	8.8	8.3
Div yield (%)	**3.0**	**3.4**	**4.0**	**4.0**	**4.2**
P/BV (x)	1.2	1.1	1.0	0.9	0.9

Source: Company, 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	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