Corporate Update

Hong Leong Bank Berhad

(5819 | HLBK MK) Main | Financial Services

FTSE4Good ESG 4 Stars

Maintain **BUY**

Revised Target Price **RM21.71**
(from RM23.09)

4QFY25 Results Review
Huge Dividend Cheer

To Conclude	**Solid set of earnings, as forecasted.** **Management's tone: Neutral** **Expect: Recurring questions on the sustainability of the higher dividend payout ratio.**
Our Verdict	**The higher dividend payout (if sustainable) is a powerful share rerating driver. Aside from BOCD's volatility, HLBK should see a pretty straightforward FY26 earnings-wise.**
Valuations	**Current P/BV of 1.06x is inexpensive, trading near -1SD of the 10-year P/BV mean of 1.32x.** **The company is currently trading at a forward FY26F P/BV of 0.97x with a +5.2% dividend yield.**
Yays	1. Potential leap in stable dividend payout. 2. Excellent NOII growth. 3. Cost savings coming earlier than expected.
Nays	1. Volatility from BOCD. 2. NIM compression expected.
Okays	1. Not much room for further writebacks. 2. Conscious to grow regional offerings, reducing BOCD reliance.

Results in a nutshell:

▲ **12MFY25's Core NP of RM4,681m was *Within/Above* our/street forecasts: *100%/107%* of full-year forecasts.**

▲ **Dividends announced.** DPS of 96.0 sen translates to a payout of 46% for 12MFY25. This was well above our and consensus' expectations.

▲ **12MFY25's Core net profit (NP) of RM4,681m up by +12%yoy.** The increase was due to better NII and NOII results, as well as lower provisions. This offset weaker BOCD income and higher tax and OPEX expenses.

▼ **4QFY25's Core NP of RM1,089m down by -20%qoq.** There was not any huge writeback this time around.

Have a look at:

► **FY26's lower ROE target is a lot more achievable – BOCD's performance is the deciding factor.** Factoring out one-offs (a large overlay writeback and dilution loss last quarter), FY25's full-year ROE of 11.4% is well below management's targeted 12.0%. At 11.5-12.0%, management's FY26 ROE target is a lot more conservative.

RETURN STATISTICS

Price @ 27 August 2025 (RM)	19.74
Expected share price return (%)	+10.0
Expected dividend yield (%)	+5.2
Expected total return (%)	**+15.2**

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	3.5	-0.6
3 months	1.2	-3.6
12 months	-1.7	0.7

INVESTMENT STATISTICS

FYE Jun	FY26F	FY27F	FY28F
Core NP (RM m)	**4,476**	**4,751**	**5,040**
CNP growth (%)	(4)	6	6
Div yield (%)	**5.2**	**5.5**	**5.9**
Gross DPS (sen)	102.6	108.9	115.5
P/BV (x)	**1.0**	**0.9**	**0.9**
BVPS (RM)	20.3	21.5	22.7
ROE (%)	**11.1**	**11.1**	**11.1**
% Street CNP (%)	**97**	**97**	**100**

KEY STATISTICS

FBM KLCI	1,587.91
Issue shares (m)	2,049.8
Estimated free float (%)	34.8
Market Capitalisation (RM'm)	43,007.5
52-wk price range	RM18.4 – RM21.8
3-mth average daily volume (m)	0.7
3-mth average daily value (RM'm)	13.8
Top Shareholders (%)	
Hong Leong Financial Group Bhd	61.8
EPF Board	8.4
Hong Leong Bank Sdn Bhd	3.3

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Topline movements are predictable: Declining NIM (OPR cut results in 3-4bps hit to NIM) can be softened due to the present high liquidity situation. NIM decline should also be offset by improved NOII result, coming from better fee income and falling rate fuelled investment income. Savings resulting from tech spend are coming in faster than expected, hence management believes it can score a better CIR of 39%. What is less certain is the BOCD result: Management has already reduced stake (and thus capping BOCD's ability to buoy earnings) and the Chinese environment is far from rosy. Regardless, we believe that this year's BOCD contribution will likely be much higher than FY25's exceptionally poor result.

▲ **Huge dividend surprise – but management refrains from promising a repeat.** Management has been guiding for increased dividend payout for the longest time. Regardless, we were expecting something more gradual – not the immense 47% payout this time around (our previous expectation: 35%). Note that management does not give any confirmation as to whether 47% (or a similarly elevated result) will be the new stable state. Capital constraints do not seem to pose that much of an issue: Basel III is expected to increase capital by +50bps.

► **Some concerns regarding asset quality.** While there is not too much strain in the loan portfolio, management has pre-emptively reduced SME loan growth since a couple of quarters ago in light of poorer economic conditions. Hire purchase GILs saw some uptick this quarter – while not yet an issue, management highlights potential risks coming from the EV segment.

Forecasts revised: FY26F/FY27F Core NP adjusted by -4%/-4%. To account for management's new FY26 guidance – we cut our NIM expectations. We also adjust our forward dividend payouts to a similar level as FY25's.
Key downside risks. *(1) Steeper-than-expected NIM compression, (2) Weak NOII performance, (3) Weak BOCD result.*

Maintain BUY call: Revised GGM-TP of RM 21.71 ***(from RM23.09)***. The TP is based on a revised FY26F P/BV of 1.07x *(formerly 1.09x)*, to reflect altered earnings prospects and ROE-based valuations.
(GGM assumptions: *FY26F ROE of 11.1%, LTG of 4.0% & COE of 10.6%)*

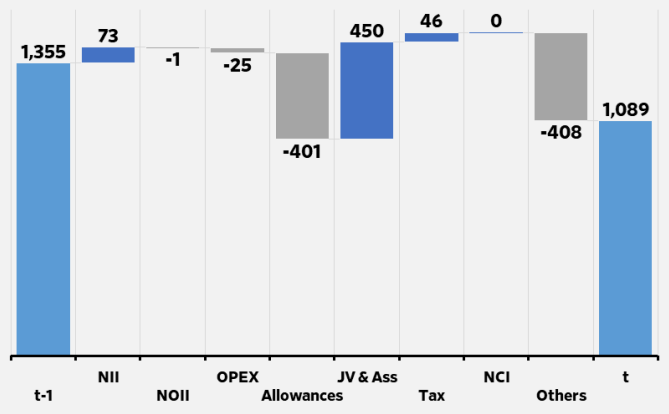
FIG 1: Quarterly results

FYE Jun (RM m)	4Q FY25	3Q FY25	4Q FY24	Yoy (%)	Qoq (%)	FY25	FY24	Yoy (%)
Net interest inc.	1,022	963	981	4	6	3,988	3,821	4
Islamic banking inc.	303	272	260	16	11	1,160	986	18
Non-interest inc.	296	313	236	25	-6	1,251	963	30
Net income	**1,620**	**1,548**	**1,477**	**10**	**5**	**6,398**	**5,770**	**11**
OPEX	(626)	(601)	(628)	-0	4	(2,479)	(2,339)	6
PPOP	**994**	**947**	**848**	**17**	**5**	**3,919**	**3,432**	**14**
Loan provisions	(3)	398	31	-110	-101	383	114	235
Other provisions	0	(0)	0	n.m.	n.m.	0	(1)	n.m.
JV & Associates	367	(83)	402	-9	-542	1,058	1,589	-33
PBT	**1,358**	**1,263**	**1,282**	**6**	**8**	**5,361**	**5,134**	**4**
Tax	(270)	(315)	(248)	9	-15	(1,087)	(938)	16
NCI	-	-	-	n.m.	n.m.	-	-	n.m.
Reported NP	**1,089**	**947**	**1,034**	**5**	**15**	**4,274**	**4,196**	**2**
Core NP	**1,089**	**1,355**	**1,034**	**5**	**-20**	**4,681**	**4,196**	**12**
Profit ex-BOCD	**722**	**1,030**	**632**	**14**	**-30**	**3,216**	**2,607**	**23**
Total NII	1,264	1,191	1,206	5	6	4,927	4,669	6
Total NOII	356	357	271	32	-0	1,471	1,101	34
Gross DPS (sen)	**68.0**	**-**	**43.0**	**n.m.**	**n.m.**	**96.0**	**68.0**	**n.m.**
Core EPS (sen)	52.8	65.7	50.4	5	-20	227.1	204.7	11
Gross loans	210,064	201,247	194,927	7.8	4.4			
Gross impaired loans	1,144	1,145	1,041	9.9	-0.1			
Customer deposits	238,926	224,964	220,433	8.4	6.2			
CASA	78,527	68,278	71,617	9.6	15.0			

Ratios (%)	4Q FY25	3Q FY25	4Q FY24	Yoy (ppts)	Qoq (ppts)	FY25	FY24	Yoy (ppts)
ROE (Ann.)	**11.4**	**14.5**	**11.6**	**-0.2**	**-3.1**	**12.2**	**11.8**	**0.5**
ROE (Pre-BOCD) (Ann.)	**7.5**	**11.0**	**7.1**	**0.5**	**-3.5**	**8.4**	**7.3**	**1.1**
NIM (Reported)	**1.90**	**1.87**	**1.89**	**0.01**	**0.03**	**1.90**	**1.86**	**0.04**
NOII/Net income	22.0	23.1	18.3	3.7	-1.1	22.0	18.3	3.7
Cost/Income	38.6	38.8	42.5	-3.9	-0.2	38.7	40.5	-1.8
NCC (Ann.) (bps)	1	(82)	(7)	7	83	(19)	(6)	-13
GIL ratio	0.54	0.57	0.53	0.01	-0.02			
Loan loss coverage	97	95	155	-58	2			
CASA ratio	32.9	30.4	32.5	0.4	2.5			
L/D ratio	87.5	89.0	87.7	-0.2	-1.5			
CET-1	13.2	12.8	13.3	-0.1	0.4			

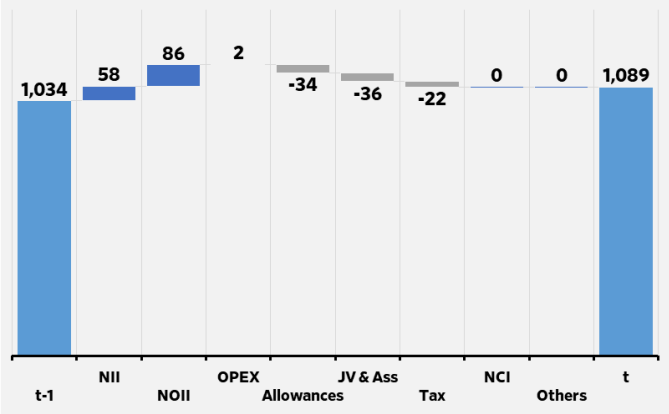
Source: Company, MBSBR

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



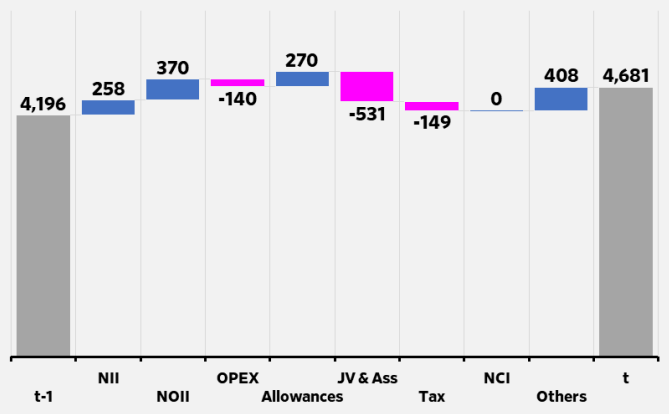
Source: Company, MBSBR

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



Source: Company, MBSBR

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



Source: Company, MBSBR

INCOME STATEMENT (QUARTERLY & CUMULATIVE)

4QFY25 / 12MFY25 results

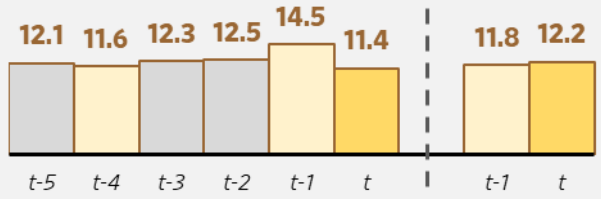
Earnings: Within/Above our/street forecasts

100%/107% of full-year estimates

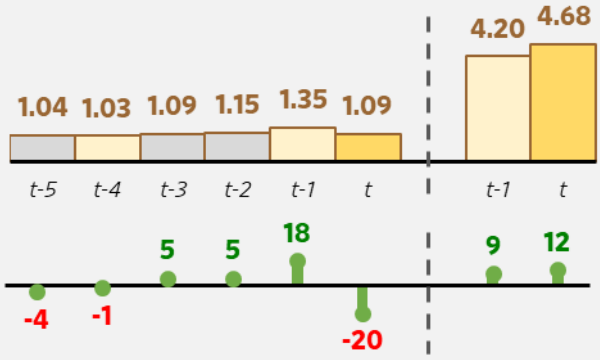
Dividend: YES

YTD payout: 46%

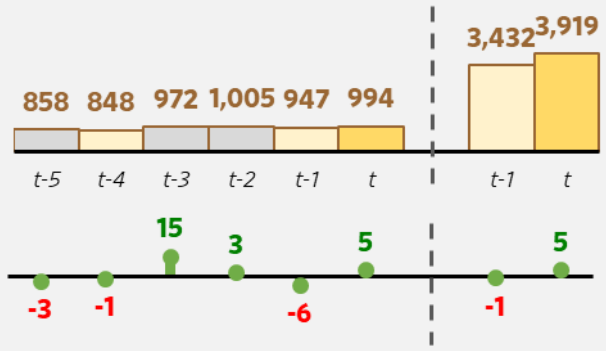
ROE (%)



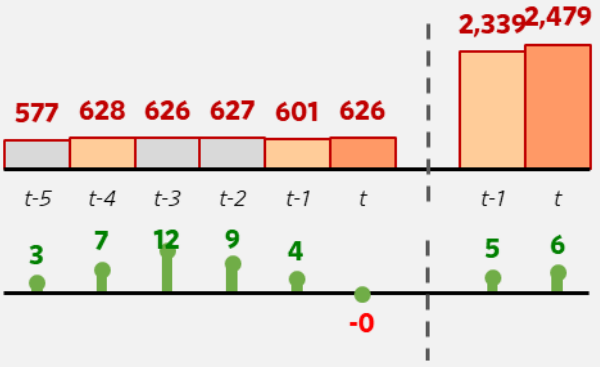
Core Net Profit (RM b)
Growth – qoq (Qtr) & yoy (Cum) (%)



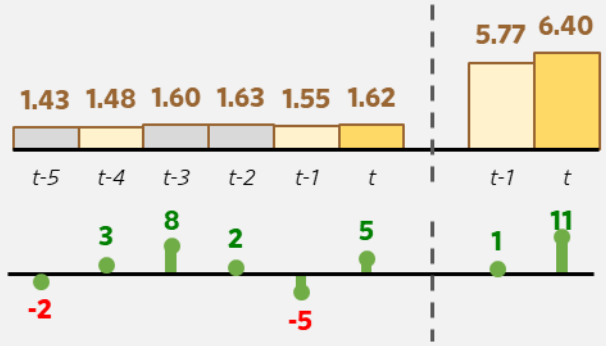
Pre-Provisioning Operating Profit (RM b)
Growth – qoq (Qtr) & yoy (Cum) (%)



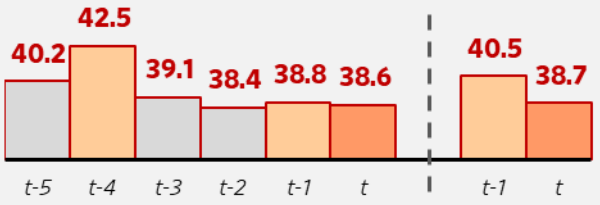
OPEX – (RM b)
Growth – yoy only! (Qtr & Cum) (%)



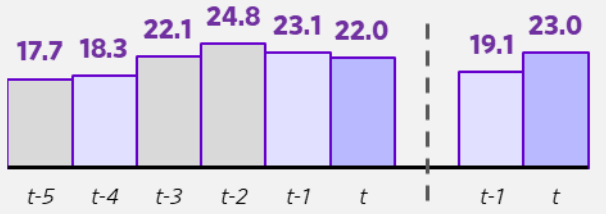
Topline – (RM b)
Growth – qoq (Qtr) & yoy (Cum) (%)



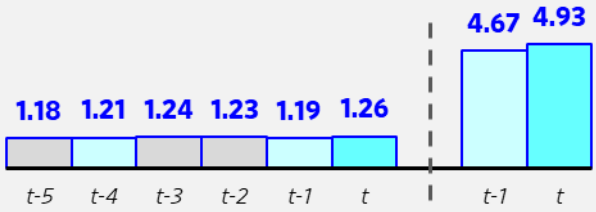
Cost/Income ratio (%)



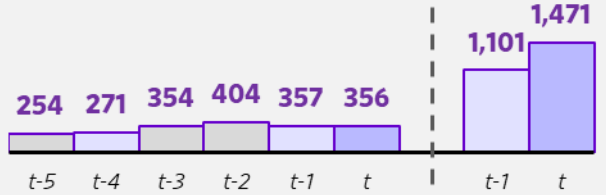
% NOII as topline (%)



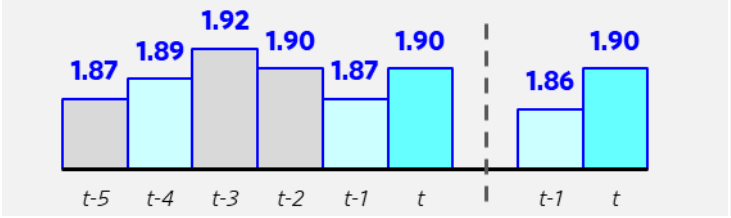
Net interest income (RM b)



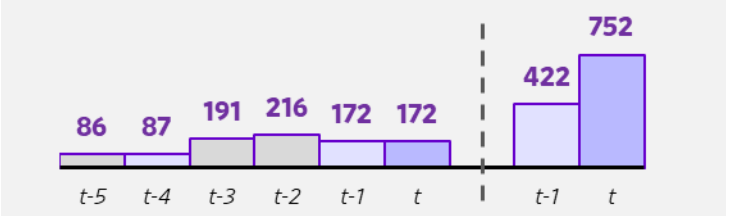
Non-interest income (RM b)



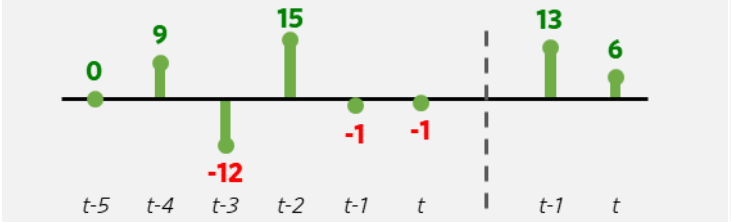
NIM (%)



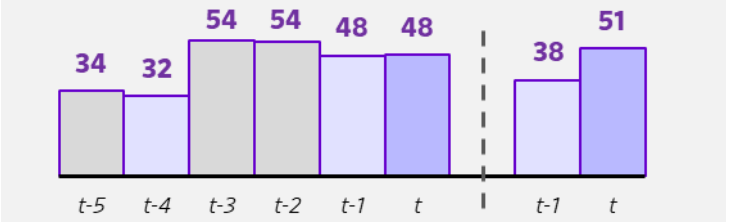
Non-fee NOII (RM b)



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

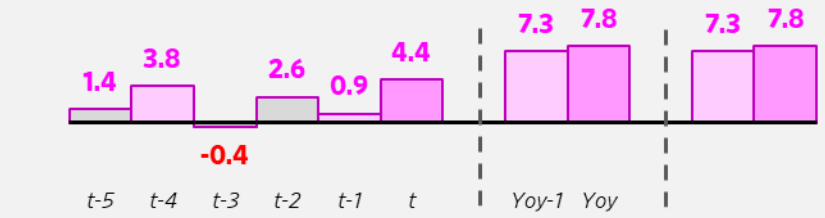


% Non-fee income as NOII (%)

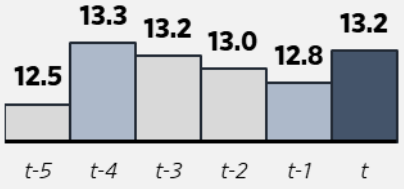


BALANCE SHEET

Loan growth – qoq, yoy, FYTD (%)



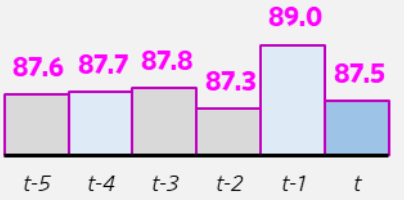
CET 1 ratio (%)



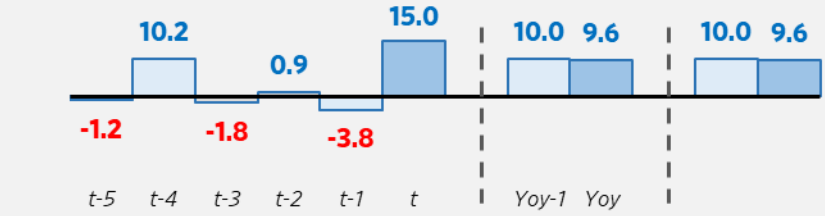
Deposit growth – qoq, yoy, FYTD (%)



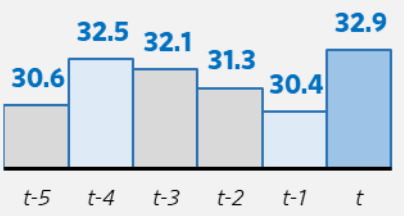
Loan/Deposit ratio (%)



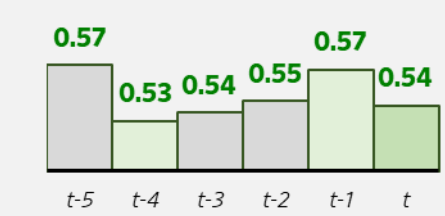
CASA growth – qoq, yoy, FYTD (%)



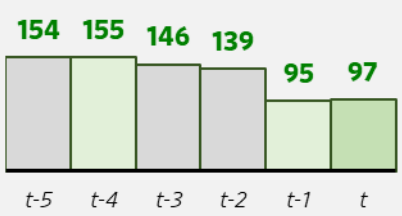
CASA ratio (%)



GIL ratio (%)



Loan loss coverage (%)



Ann. net credit cost (bps)

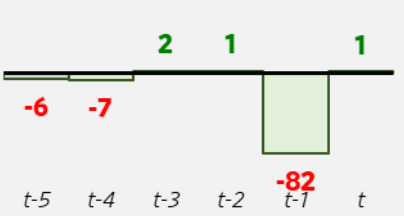


FIG 5: Retrospective performance (Income Statement)

Metric	Surprise? *Qoq/Yoy*		Metric	Surprise? *Qoq/Yoy*		Notes *(Cum = Cumulative, Qtr = Quarterly)*
Qtrly Core NP	RM mil	***1,089***	**Qtrly ROE**	Qtr value	***11.4%***	
	23% of FY CNP					
	Qoq	*-20%*		t-1	*14.5%*	
	Yoy	*5%*		t-4	*11.6%*	
Cum Core NP	RM mil	***4,681***	**Cum ROE**	Cum value	***12.2%***	
	Within our forecast					
	100% of FY CNP					
	Within consensus					
	107% of FY CNP					
	Yoy	*12%*		t-1	*11.8%*	
NII	As expected		**NIM**	As expected		
				Qtr value	***1.90***	
				Cum value	***1.90***	
	Qtr (Qoq)	*6%*		Qtr (Qoq)	*+3bps*	
	Qtr (Yoy)	*5%*		Qtr (Yoy)	*+1bps*	
	Cum (Yoy)	*6%*		Cum (Yoy)	*+4bps*	
NOII	As expected		**Qtr**	% NII	***78%***	
	Qtr (Qoq)	*-0%*		% NOII	***22%***	
	Qtr (Yoy)	*32%*	**Cum**	% NII	***78%***	
	Cum (Yoy)	*34%*		% NOII	***22%***	
OPEX	As expected		**Cost/ Inc.**	As expected		
				Qtr value	***38.6%***	
				Cum value	***38.7%***	
	Qtr (Qoq)	*4%*		Qtr (Qoq)	*-0.2%*	
	Qtr (Yoy)	*-0%*		Qtr (Yoy)	*-3.9%*	
	Cum (Yoy)	*6%*		Cum (Yoy)	*-1.8%*	
JV & Asso-ciates	As expected					
	Qtr (Qoq)	*-542%*				
	Qtr (Yoy)	*-9%*				
	Cum (Yoy)	*-33%*				

Source: Company, MBSBR

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	*4.4%*				
	Yoy	*7.8%*				
	YTD (FY)	*7.8%*				
Depo. grwth	As expected		**CASA grwth**	As expected		
	Qoq	*6.2%*		Qoq	*15.0%*	
	Yoy	*8.4%*		Yoy	*9.6%*	
	YTD (FY)	*8.4%*		YTD (FY)	*9.6%*	
CASA ratio	As expected		**L/D ratio**	As expected		
	Value now	***32.9%***		Value now	***87.5%***	
	Qoq	*+2.5%*		Qoq	*-1.5%*	
	Yoy	*+0.4%*		Yoy	*-0.2%*	
GIL ratio	As expected		**LLC ratio**	As expected		
	Value now	***0.54%***		Value now	***97%***	
	Qoq	*-2bps*		Qoq	*+2%*	
	Yoy	*+1bps*		Yoy	*-58%*	
Qtrly Net CC	As expected		**Cum Net CC**	+ve surprise		
	Small provision			Net writebacks		
	Value now	***1bps***		Value now	***-19bps***	
	t-1	*-82bps*				
	t-4	*-7bps*		t-4	*-6bps*	
CET 1	Healthy level		**Div payout**	Div announced		
	As expected			+ve surprise		
	Value now	***13.2%***		**Payout**	***46%***	
	Qoq	*0.4%*				

Source: Company, MBSBR

FIG 7: Targets, Achievements, and Outlook

Targets	FY26	FY25	FY25	Notes (Red: New guidance, ~~Strikethrough: Guidance is no longer pertinent~~)
ROE	11.5 – 12.0	12	12.2	
CIR	39	40	38.7	
NIM	1.80 – 1.90 from 1.90	1.85 – 1.95	1.90	
NOII			34% (yoy)	
Associates			-33% (yoy)	
Loans	6 – 7	6 – 7	7.8 (YTD)	
Deposits			8.4 (YTD)	
% CASA	>32	>32	32.9	
Loan/Depo			87.5	
GIL ratio	<0.65	<0.65	0.54	
NCC (bps)	<10	<10	(19)	
LLC			97	
CET 1			13.2	
Div payout		>33	46	

Source: Company, MBSBR

FINANCIAL SUMMARY

INCOME STATEMENT

FYE Jun (RM m)	FY24	FY25	FY26F	FY27F	FY28F
Net interest income	**3,822**	**3,988**	**4,145**	**4,352**	**4,552**
Islamic banking inc.	986	1,160	1,200	1,260	1,318
Other operating inc.	963	1,251	1,473	1,511	1,558
Net income	**5,771**	**6,398**	**6,818**	**7,124**	**7,428**
OPEX	(2,339)	(2,479)	(2,659)	(2,778)	(2,897)
PPOP	**3,432**	**3,919**	**4,159**	**4,345**	**4,531**
Loan allowances	114	383	(108)	(115)	(122)
Other allowances	(1)	0	(0)	(0)	(0)
JV & Associates	1,589	1,058	1,428	1,585	1,760
PBT	**5,134**	**5,360**	**5,479**	**5,815**	**6,169**
Tax & zakat	(938)	(1,087)	(1,003)	(1,064)	(1,129)
NCI	-	-	-	-	-
Reported NP	**4,196**	**4,273**	**4,476**	**4,751**	**5,040**
Core NP	**4,196**	**4,681**	**4,476**	**4,751**	**5,040**
Total NII	4,669	4,927	5,117	5,373	5,620
Total NOII	1,102	1,471	1,701	1,751	1,808

BALANCE SHEET

FYE Jun (RM m)	FY24	FY25	FY26F	FY27F	FY28F
Cash & ST funds	6,452	13,240	13,370	13,506	13,646
Investment securities	75,667	72,023	71,272	70,901	70,893
Net loans	193,304	208,965	222,140	236,247	251,154
Other IEAs	297	479	479	479	479
Non-IEAs	22,069	19,911	21,639	23,448	26,005
Total assets	**297,789**	**314,618**	**328,901**	**344,580**	**362,176**
Customer deposits	220,433	238,926	254,217	270,487	287,798
Other IBLs	26,863	22,622	20,916	21,354	21,795
Non-IBLs	13,199	13,783	12,185	8,716	5,967
Total liabilities	**260,495**	**275,331**	**287,319**	**300,558**	**315,560**
Share capital	7,739	7,739	7,739	7,739	7,739
Reserves	29,555	31,548	33,843	36,284	38,877
Shareholders' funds	**37,294**	**39,287**	**41,582**	**44,023**	**46,616**
NCI	-	-	-	-	-
Total equity	**37,294**	**39,287**	**41,582**	**44,023**	**46,616**
Total L&E	**297,789**	**314,618**	**328,901**	**344,580**	**362,176**
Total IEAs	275,720	294,708	307,261	321,132	336,172
Total IBLs	247,296	261,548	275,133	291,842	309,593
Gross loans	194,927	210,064	223,298	237,366	252,320
CASA	71,617	78,527	83,892	91,966	97,851

FINANCIAL RATIOS

FYE Jun (RM m)	FY24	FY25	FY26F	FY27F	FY28F
Interest (%)					
NIM	1.75	1.73	1.70	1.71	1.71
Return on IEAs	3.28	3.12	3.07	3.04	2.97
Cost of funds	2.06	1.93	1.90	1.83	1.73
Net interest spread	1.22	1.19	1.17	1.21	1.24
Profitability (%)					
ROE	**11.8**	**12.2**	**11.1**	**11.1**	**11.1**
ROA	1.5	1.5	1.4	1.4	1.4
NOII/Net income	19.1	23.0	25.0	24.6	24.3
Effective tax rate	18.3	20.3	18.3	18.3	18.3
Cost/Income	40.5	38.7	39.0	39.0	39.0
Liquidity (%)					
Loan/Deposit	87.7	87.5	87.4	87.3	87.3
CASA ratio	32.5	32.9	33.0	34.0	34.0
Asset Quality (%)					
GIL ratio	0.53	0.54	0.55	0.50	0.49
LLC ratio	155	97	95	95	95
LLC (w. reserves)	276	259	196	199	195
Net CC (bps)	-6	-19	5	5	5
Capital (%)					
CET 1	13.3	13.2	14.2	14.4	14.5
Tier 1 capital	14.3	14.2	15.1	15.2	15.3
Total capital	16.3	16.3	17.3	17.3	17.4
Growth (%)					
Total NII	2.6	5.5	3.9	5.0	4.6
Total NOII	-2.8	33.5	15.7	2.9	3.3
Net income	1.5	10.9	6.6	4.5	4.3
OPEX	4.7	6.0	7.3	4.5	4.3
Core NP	8.9	11.6	-4.4	6.1	6.1
Gross loans	7.3	7.8	6.3	6.3	6.3
Customer deposits	4.1	8.4	6.4	6.4	6.4
CASA	10.0	9.6	6.8	9.6	6.4
Valuation metrics					
Core EPS (sen)	204.8	228.4	218.4	231.8	245.9
Gross DPS (sen)	68.0	96.0	102.6	108.9	115.5
Div payout (%)	33	42	47	47	47
BVPS (RM)	18.2	19.2	20.3	21.5	22.7
Core P/E (x)	9.6	8.6	9.0	8.5	8.0
Div yield (%)	**3.4**	**4.9**	**5.2**	**5.5**	**5.9**
P/BV (x)	1.1	1.0	1.0	0.9	0.9

Source: Company, MBSBR

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MBSB INVESTMENT BANK (formerly known MIDF 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