Corporate Update

Hong Leong Bank Berhad

(5819 | HLBK MK) Main | Financial Services

FTSE4Good ESG 4 Stars

Maintain **BUY**

Unchanged Target Price **RM23.94**
(from RM23.13)

1QFY26 Results Review
Eyes on Vietnam

RETURN STATISTICS	
Price @ 27 November 2025 (RM)	21.20
Expected share price return (%)	+12.9
Expected dividend yield (%)	+4.8
Expected total return (%)	**+17.8**

SHARE PRICE CHART

Price performance (%)	Absolute	Relative
1 month	2.0	1.8
3 months	2.9	5.2
12 months	3.1	1.4

INVESTMENT STATISTICS			
FYE Jun	**FY26F**	**FY27F**	**FY28F**
Core NP (RM m)	**4,476**	**4,751**	**5,040**
CNP growth (%)	(4)	6	6
Div yield (%)	**4.8**	**5.1**	**5.5**
Gross DPS (sen)	102.6	108.9	115.5
P/BV (x)	**1.0**	**1.0**	**0.9**
BVPS (RM)	20.3	21.5	22.7
ROE (%)	**11.1**	**11.1**	**11.1**
% Street CNP (%)	**98**	**98**	**98**

KEY STATISTICS	
FBM KLCI	1,617.46
Issue shares (m)	2,050.2
Estimated free float (%)	34.7
Market Capitalisation (RM'm)	45,782.2
52-wk price range	RM18.4 – RM21.4
3-mth average daily volume (m)	1.6
3-mth average daily value (RM'm)	32.3
Top Shareholders (%)	
Hong Leong Financial Group Bhd	61.8
EPF Board	8.4
Hong Leong Bank Sdn Bhd	3.3

Salient Points

Solid set of earnings, as forecasted.

Management's tone: Optimistic

Expect: A lot more questions on the release of the BOCD stake.

Our Verdict

HLBK has strong growth prospects and is gradually increasing its dividend payout. Most importantly, the Group has announced a further intention to pare down its BOCD stake, which should free the Group from its persistent share price overhang and provide special dividends.

Valuations

A revised FY26F P/BV of 1.18x *(formerly 1.14x)*

Current P/BV of 1.09x is inexpensive, trading near -1SD of the 10-year P/BV mean of 1.31x.

The company is currently trading at a forward FY26F P/BV of 1.04x with a +4.8% dividend yield.

Themes

1. ▲ The Group's intention to further pare down its BOCD stake should free the Group from its persistent share price overhang.
2. ▲ A conscious effort to increase dividend payout. BOCD stake sale should also result in special dividends.
3. ▲ Further fee income optimisation and strong NOII growth.
4. ▲ Strong loan growth, especially from overseas segments.
5. ▲ Remarkable cost control, with further savings from tech investments expected to come online soon.
6. ▲ Excellent asset quality, though with little room for remaining writebacks.
7. ▼ Expect some degree of NIM compression, though management thinks NIM will recover by end-FY26.

Results in a nutshell:

► **3MFY26's Core NP of RM1,090m was *Within/Within* our/street forecasts: *24%/24%* of full-year forecasts.**

► **No dividend announcement.**

► **3MFY26's Core net profit (NP) of RM1,090m were flat, growing by +0%yoy.** Improvements in topline were offset by reduced Associate contributions.

► **1QFY26's Core NP of RM1,090m was flat, growing by +0%qoq.** Improvements in NOII and reduced OPEX were offset by reduced Associate contributions and higher provisions.

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Have a look at:

▲ **HLBK confirms its intention to further pare down BOCD stake.** The intention is to reduce the stake from 17.8% to somewhere closer to >10%. There is no fixed timeline, and management is in no rush: The profit contribution from its BOCD stake has already moderated. A stake reduction of 5% (minus 25-26% for tax and other expenses) will lead to a 90bps increase in the CET 1 ratio – the Group intends to release this added capital by issuing special dividends.

▲ **The intention is to remain a strategic shareholder and partner to BOCD.** This primes HLBK to receive flows from Hong Kong and China companies intending to expand into the SEA region, though note that we believe HLBK needs to ramp up its regional presence first.

▲ **To achieve long-term ambitions, HLBK must first be among the three largest banks in Malaysia.** HLBK intends to be a leading bank in the SEA region, which connects East Asia with the SEA region. It acknowledges that before it becomes a leading SEA region bank, it must first strive to be among the largest banks in the country. They are open to potential M&As, particularly on Malaysian soil.

▲ **Ongoing loan rebalancing exercise remains.** As part of the multi-year plan, HLBK intends to grow its business loans – shifting the portfolio to a more even 50:50 retail/business mix. However, management has now taken a laxer approach to deadlines. If opportunities in the retail space emerge, that takes priority – SG wealth lending is an example.

▲ **SG to remain main driver of overseas loans – Vietnam still needs time to ramp up.** Overseas loans mostly comprise business loans. Overseas loans make up 7% of the present loanbook – by the end of the multi-year plan, the intention is to bump the value up to 13%. At end-FY26, the Group intends to achieve the 9% mark.

Management is aggressively growing the SG portfolio, particularly the corporate banking and JS-SEZ-related segments. For Vietnam, the Group is still working on its deposit acquisition infrastructure, to confidently acquire funding before splurging on loans. M&As are unlikely in overseas regions: The Group prefers undertaking strategic partnerships and ecosystem plays.

▼ **Expect NIM compression of 3-5bps in the following quarter.** Management expects NIM to recover by end-FY26. L/D ratio sees little room for optimisation and will thus remain near the current ~88% level.

► **Further non-fee windfall unlikely, but still room for further fee income optimisation.** There is a conscious effort to increase client fee income to 50% of Global Markets Franchise income.

► **FY26 CIR target maintained, though tech spend benefits are coming in quicker than expected.** Despite posting a low CIR of 36% in 1QFY26, the Group retains its FY26 target of 39%. We think the Group has to maintain a decent level of spending to retain its high level of growth. HLBK also strikes us as taking digitalisation a lot more seriously than most of its peers – its efforts should reap rewards soon.

► **The Group is cautious on loan growth, citing asset quality concerns.** Despite the rapid loan growth in 1QFY26, management is sticking to its initial FY26 guidance of 6-7%. It believes it will achieve or slightly exceed the upper bound figure. One reason for this is that the Group has slowed down its SME loan growth in the last couple of quarters.

HLBK is not overly worried about the large SG impairment seen this quarter, as it is already fully collateralised. As a result, management is comfortable with this quarter's lowered LLC figure of 90%. Overlay balance is untouched, remaining at RM175m.

Forecasts unchanged. We make no changes to our earnings forecasts.
Key downside risks. *(1) Steeper-than-expected NIM compression, (2) Higher-than-expected OPEX growth, (3) Poor BOCD results.*

Maintain BUY call: Unchanged GGM-TP of RM 23.94 ***(from RM23.13).*** The TP is based on a revised FY26F P/BV of 1.18x. Confirmation that HLBK intends to further pare down its stake in BOCD should reduce the share price overhang stemming from negative China sentiment. Also, the possibility of special dividends to release the capital proceeds.

(GGM assumptions: *FY26F ROE of 11.1%, LTG of 4.0% & COE of 10.0%)*

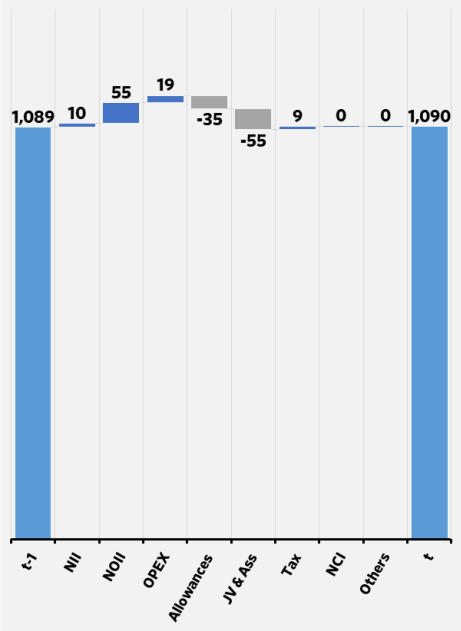
FIG 1: Quarterly results

FYE Jun (RM m)	1Q FY26	4Q FY25	1Q FY25	Yoy (%)	Qoq (%)	3M FY26	3M FY25	Yoy (%)
Net interest inc.	1,025	1,022	1,010	1	0	1,025	1,010	1
Islamic banking inc.	318	303	288	10	5	318	288	10
Non-interest inc.	342	296	300	14	16	342	300	14
Net income	**1,685**	**1,620**	**1,598**	**5**	**4**	**1,685**	**1,598**	**5**
OPEX	(607)	(626)	(626)	-3	-3	(607)	(626)	-3
PPOP	**1,078**	**994**	**972**	**11**	**8**	**1,078**	**972**	**11**
Loan provisions	(38)	(3)	(7)	404	>500	(38)	(7)	404
Other provisions	(0)	0	(0)	n.m.	n.m.	(0)	(0)	n.m.
JV & Associates	311	367	375	-17	-15	311	375	-17
PBT	**1,351**	**1,358**	**1,339**	**1**	**-1**	**1,351**	**1,339**	**1**
Tax	(261)	(270)	(249)	5	-3	(261)	(249)	5
NCI	-	-	-	n.m.	n.m.	-	-	n.m.
Reported NP	**1,090**	**1,089**	**1,090**	**0**	**0**	**1,090**	**1,090**	**0**
Core NP	**1,090**	**1,089**	**1,090**	**0**	**0**	**1,090**	**1,090**	**0**
Profit ex-BOCD	**779**	**722**	**715**	**9**	**8**	**779**	**715**	**9**
Total NII	1,274	1,264	1,244	2	1	1,274	1,244	2
Total NOII	411	356	354	16	15	411	354	16
Gross DPS (sen)	**-**	**68.0**	**-**	**n.m.**	**n.m.**	**-**	**-**	**n.m.**
Core EPS (sen)	52.9	52.8	52.9	-0	0	52.9	52.9	-0
Gross loans	211,817	210,064	194,232	9.1	0.8			
Gross impaired loans	1,215	1,144	1,049	15.9	6.2			
Customer deposits	236,294	238,926	219,437	7.7	-1.1			
CASA	76,761	78,527	70,358	9.1	-2.2			

Ratios (%)	1Q FY26	4Q FY25	1Q FY25	Yoy (ppts)	Qoq (ppts)	3M FY26	3M FY25	Yoy (ppts)
ROE (Ann.)	**11.6**	**11.4**	**12.3**	**-0.8**	**0.2**	**11.6**	**12.3**	**-0.8**
ROE (Pre-BOCD) (Ann.)	**8.3**	**7.5**	**8.1**	**0.2**	**0.7**	**8.3**	**8.1**	**0.2**
NIM (Reported)	**1.84**	**1.90**	**1.92**	**-0.08**	**-0.06**	**1.84**	**1.92**	**-0.08**
NOII/Net income	24.4	22.0	22.1	2.2	2.4	24.4	22.1	2.2
Cost/Income	36.0	38.6	39.1	-3.1	-2.6	36.0	39.1	-3.1
NCC (Ann.) (bps)	7	1	2	6	7	7	2	6
GIL ratio	0.57	0.54	0.54	0.03	0.03			
Loan loss coverage	90	97	146	-56	-7			
CASA ratio	32.5	32.9	32.1	0.4	-0.4			
L/D ratio	89.2	87.5	87.8	1.4	1.7			
CET-1	12.7	13.2	13.2	-0.5	-0.5			

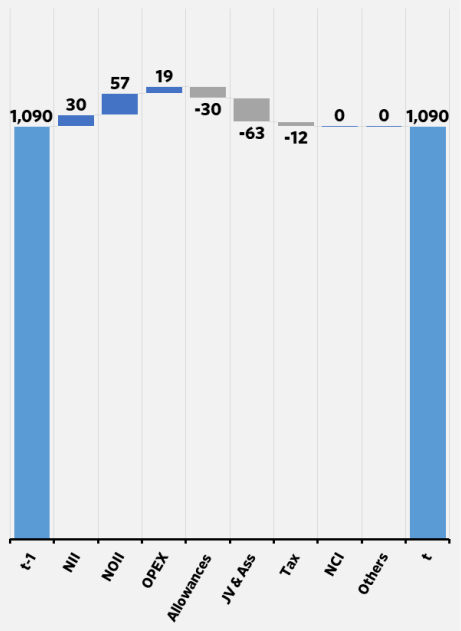
Source: Company, MBSBR

FIG 2: QoQ P/L walk (Quarterly)



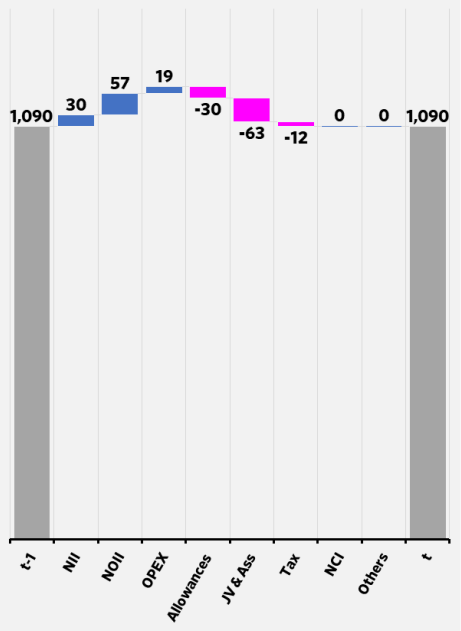
Source: Company, MBSBR

FIG 3: QoQ P/L walk (Quarterly)



Source: Company, MBSBR

FIG 4: QoQ P/L walk (Cumulative)



Source: Company, MBSBR

FIG 5: Targets, Achievements, and Outlook

Targets	FY26F	3M FY26	Notes (Red: New guidance, ~~Strikethrough: Guidance is no longer pertinent~~)
ROE	11.5 – 12.0	11.6	
CIR	39	36.0	
NIM	1.80 – 1.90 (from 1.90)	1.84	
NOII		16% (yoy)	
Associates		-17% (yoy)	
Loans	6 – 7	0.8 (YTD)	
Deposits		-1.1 (YTD)	
% CASA	>32	32.5	
Loan/Depo		89.2	
GIL ratio	<0.65	0.57	
NCC (bps)	<10	7	
CET 1		12.7	
Div payout		-	

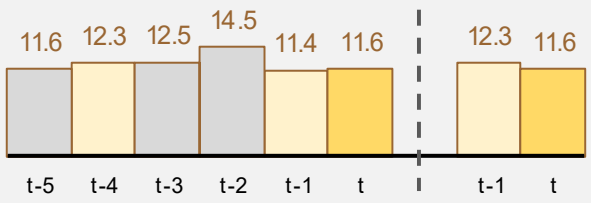
Source: Company, MBSBR

INCOME STATEMENT (QUARTERLY & CUMULATIVE)

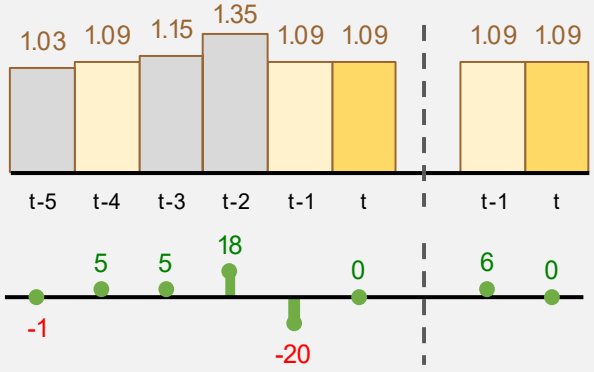
1QFY26 / 3MFY26 results

Earnings:	Within our full-year forecasts	(24%)
	Within street full-year forecasts	(24%)
Dividend:	NO	
YTD payout:	-	

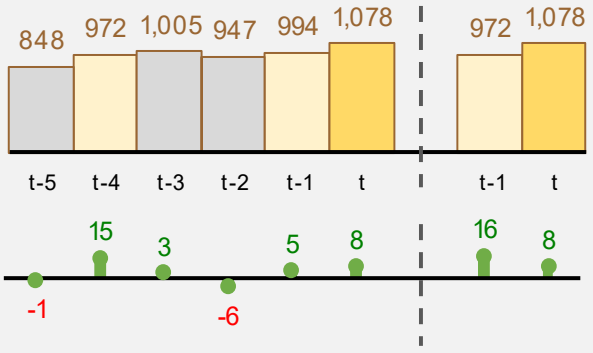
ROE (%)



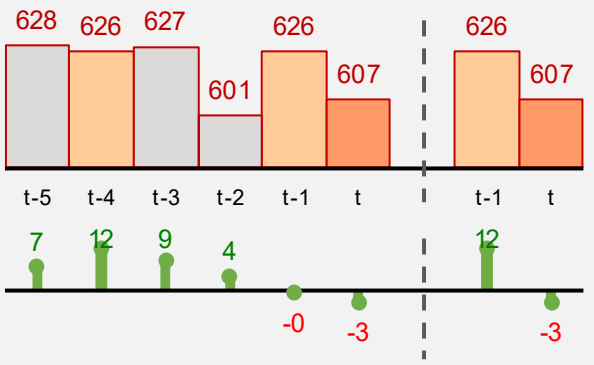
Core Net Profit (RM b)
Growth -- qoq (Qtr) & yoy (Cum) (%)



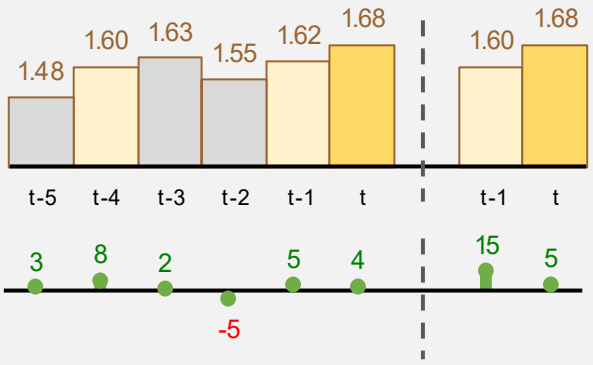
Pre-Provisioning Operating Profit (RM m)
Growth -- qoq (Qtr) & yoy (Cum) (%)



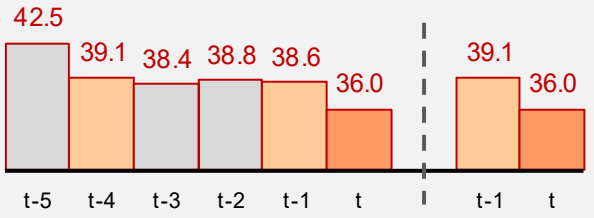
OPEX (RM m)
Growth -- yoy only! (Qtr & Cum) (%)



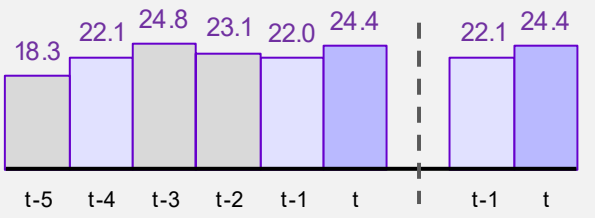
Topline (RM b)
Growth -- qoq (Qtr) & yoy (Cum) (%)



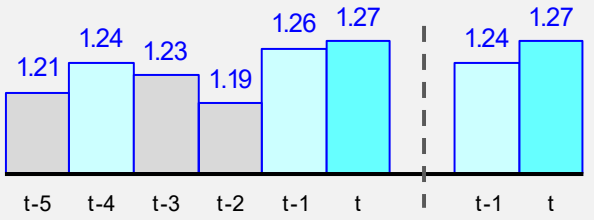
Cost/Income ratio (%)



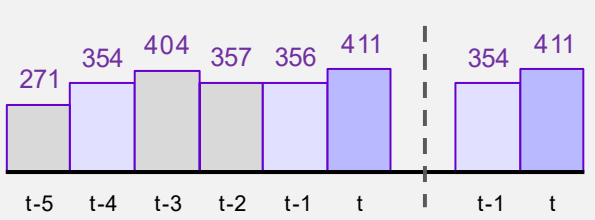
% NOII as topline (%)



Net interest income (RM b)

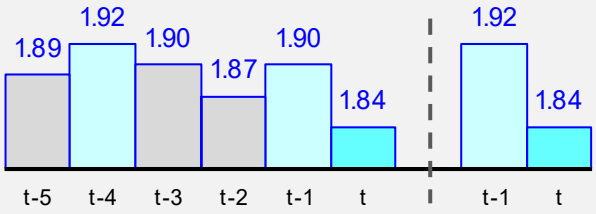


Non-interest income (RM m)

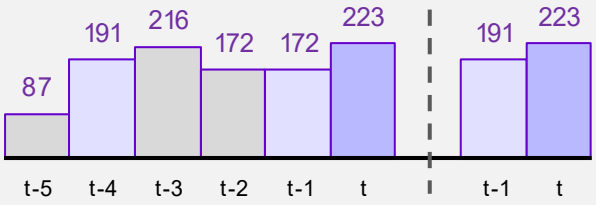


Source: Company, MBSBR

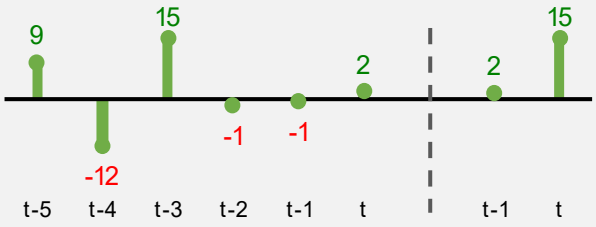
NIM (%)



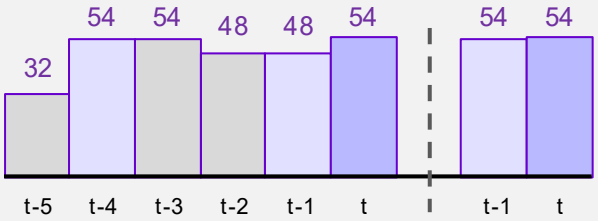
Non-fee NOII (RM m)



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

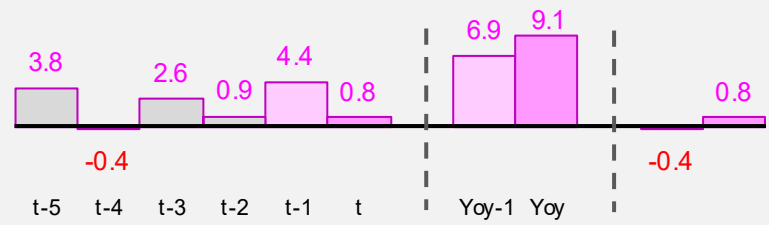


% Non-fee income as NOII (%)

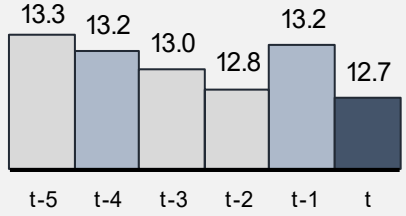


BALANCE SHEET

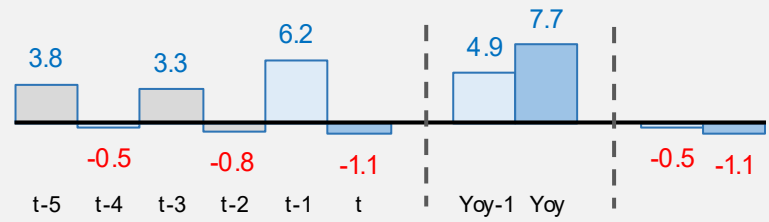
Loan growth -- qoq, yoy, FYTD (%)



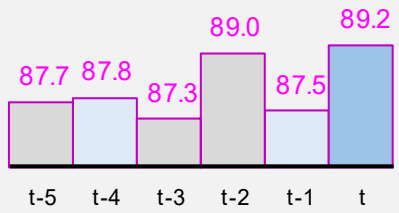
CET 1 ratio (%)



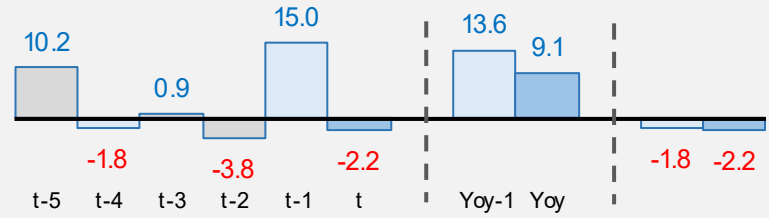
Deposit growth -- qoq, yoy, FYTD (%)



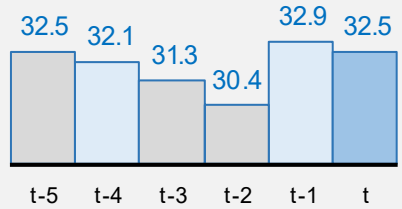
Loan/Deposit ratio (%)



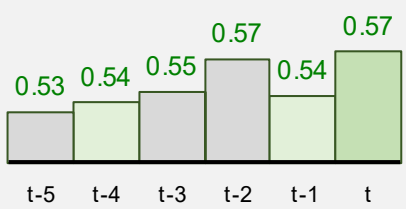
CASA growth -- qoq, yoy, FYTD (%)



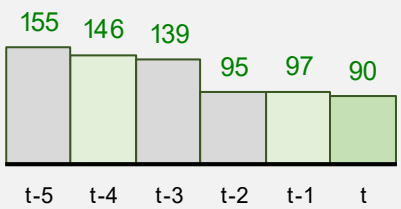
CASA ratio (%)



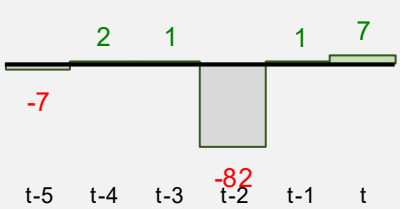
GIL ratio (%)



Loan loss coverage (%)



Ann. net credit cost (bps)



Source: Company, MBSBR

FIG 6: Retrospective performance

Metric	Surprise? Qoq/Yoy		Metric	Surprise? Qoq/Yoy	
Qtrly Core NP	RM mil	1,090	Qtrly ROE	Qtr value	11.6%
	24% of FY CNP				
	Qoq	0%		t-1	11.4%
	Yoy	0%		t-4	12.3%
Cum Core NP	RM mil	1,090	Cum ROE	Cum value	11.6%
	Within our forecast				
	24% of FY CNP				
	Within consensus				
	24% of FY CNP				
	Yoy	0%		t-1	12.3%
NII	As expected		NIM	As expected	
				Qtr value	1.84
				Cum value	1.84
	Qtr (Qoq)	1%		Qtr (Qoq)	-6bps
	Qtr (Yoy)	2%		Qtr (Yoy)	-8bps
	Cum (Yoy)	2%		Cum (Yoy)	-8bps
NOII	As expected		Qtr	% NII	76%
	Qtr (Qoq)	15%		% NOII	24%
	Qtr (Yoy)	16%	Cum	% NII	76%
	Cum (Yoy)	16%		% NOII	24%
OPEX	As expected		Cost/ Inc.	As expected	
				Qtr value	36.0%
				Cum value	36.0%
	Qtr (Qoq)	-3%		Qtr (Qoq)	-2.6%
	Qtr (Yoy)	-3%		Qtr (Yoy)	-3.1%
	Cum (Yoy)	-3%		Cum (Yoy)	-3.1%
JV & Asso-ciates	As expected				
	Qtr (Qoq)	-15%			
	Qtr (Yoy)	-17%			
	Cum (Yoy)	-17%			

Metric	Surprise? Qoq/Yoy		Metric	Surprise? Qoq/Yoy	
Loans	As expected				
	Qoq	0.8%			
	Yoy	9.1%			
	YTD (FY)	0.8%			
Depo. grwth	As expected		CASA grwth	As expected	
	Qoq	-1.1%		Qoq	-2.2%
	Yoy	7.7%		Yoy	9.1%
	YTD (FY)	-1.1%		YTD (FY)	-2.2%
CASA ratio	As expected		L/D ratio	As expected	
	Value now	32.5%		Value now	89.2%
	Qoq	-0.4%		Qoq	+1.7%
	Yoy	+0.4%		Yoy	+1.4%
GIL ratio	As expected		LLC ratio	As expected	
	Value now	0.57%		Value now	90%
	Qoq	+3bps		Qoq	-7%
	Yoy	+3bps		Yoy	-56%
Qtrly Net CC	As expected		Cum Net CC	As expected	
	Small provision			Small provision	
	Value now	7bps		Value now	7bps
	t-1	1bps			
	t-4	2bps		t-4	2bps
CET 1	Healthy level		Div payout	No divvy	
	As expected			As expected	
	Value now	12.7%		Payout	-
	Qoq	-0.5%			

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)	10.4	9.3	9.7	9.1	8.6
Div yield (%)	**3.2**	**4.5**	**4.8**	**5.1**	**5.5**
P/BV (x)	1.2	1.1	1.0	1.0	0.9

Source: Company, MBSBR

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MBSB INVESTMENT BANK (formerly known as 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