Corporate Update

Hong Leong Bank Berhad

(5819 | HLBK MK) Main | Financial Services

FTSE4Good ESG 4 Stars

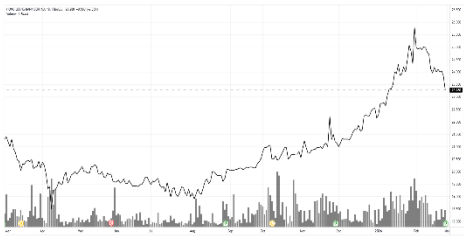
Maintain **BUY**

Revised Target Price **RM30.50**
(from RM29.22)

2QFY26 Results Review
Exceptional Cost Control

RETURN STATISTICS	
Price @ 27 February 2026 (RM)	23.28
Expected share price return (%)	+31.0
Expected dividend yield (%)	+4.7
Expected total return (%)	**+35.7**

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	0.6	-1.3
3 months	8.4	4.8
12 months	17.2	6.4

INVESTMENT STATISTICS			
FYE Jun	**FY26F**	**FY27F**	**FY28F**
Core NP (RM m)	**4,476**	**4,751**	**5,040**
CNP growth (%)	(4)	6	6
Div yield (%)	**4.4**	**4.7**	**5.0**
Gross DPS (sen)	102.6	108.9	115.5
P/BV (x)	**1.1**	**1.1**	**1.0**
BVPS (RM)	20.3	21.5	22.7
ROE (%)	**11.1**	**11.1**	**11.1**
% Street CNP (%)	**100**	**99**	**98**

KEY STATISTICS	
FBM KLCI	1,716.61
Issue shares (m)	2,050.2
Estimated free float (%)	34.7
Market Capitalisation (RM'm)	52,025.2
52-wk price range	RM18.4 – RM25.8
3-mth average daily volume (m)	1.6
3-mth average daily value (RM'm)	37.7
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 expected. Particularly impressive loan growth showing.

Management's tone: Optimistic

Expect: Further quarters to be similarly impressive.

Our Verdict

While its dividends may not be as impressive as higher-yielding peers, HLBK's profitability levels and growth prospects should remain the industry's best, even after its BOCD stake pare down.

Valuations

A revised FY27F P/BV of 1.42x ***(formerly 1.44x)***

Current P/BV of 1.20x is inexpensive, trading below the 10-year P/BV mean of 1.31x.

The company is currently trading at a forward FY27F P/BV of 1.08x with a 4.7% dividend yield.

Themes

1. ▲ The Group's intention to further pare down its BOCD stake should further free the Group from persistent share price overhang.
2. ▲ Rapid fee income growth to persist, with "low-hanging fruit" still close.
3. ▲ Cost control is the best in the industry, with much room for further cost optimisation.
4. ▲ Loan growth is the highest among large-to-mid-sized banks – even comparable to smaller peers.
5. ▲ Asset quality and provisioning remain among the industry's best, with further recoveries expected.
6. ► Decent dividend yields, but limited further upside potential (unless a further BOCD stake sale occurs).
7. ▼ Expect further NIM compression, though management thinks NIM will recover by end-FY26.

Results in a nutshell:

► **6MFY26's Core NP of RM2,259m was *Within*/*Within* our/street forecasts: *50%*/*51%* of full-year forecasts.**

► **Dividends announced.** DPS of 30.0 sen translates to a payout of 27% for 6MFY26.

► **6MFY26's Core net profit (NP) of RM2,259m up by 1%yoy.** The increase was driven by topline and OPEX, which offset higher provisioning and weaker associate income.

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▲ **2QFY26's Core NP of RM1,169m up by 7%qoq.** The improvement primarily came from an improved associate result.

Have a look at:

▲ **No change to multi-year ROE target, despite running behind.** Management is maintaining its >12.5% ROE target by FY28, despite unintended developments such as the BOCD divestment and Trump tariffs.

► **We do not foresee capital release as a means to achieve the target.** Management maintains the need for sufficient capital to maintain its high growth. Despite the Basel IV transition expected to result in 60bps worth of capital accretion, the current CET 1 level is 12.6%, which is under the Group's ideal level of 13%. Although the Group does not confirm any increases in dividend payout or special dividends, they intend to keep dividend yield near the current level.

▲ **Despite CIR outperforming FY26 target thus far, management refuses to revise.** HLBK's 1HFY26 CIR of 35.9% is well below its 39% target. However, management refuses to change this figure until 2HFY26 – and they are wary of further cost run-up from further marketing and tech-related capex. Management remains very optimistic on multiple avenues for further cost optimisation.

One driver of the Group's successful cost containment is its effective revamp of branches. Over the last two years, the Group has 17 branches, but reopened 8 specialised "Figital" branches, which operate at a 1/10th of the original cost. Thus, the Group can save on costs while maintaining its physical touchpoints.

▲ **Optimistic about the pipeline and forays into unsecured loans.** The Group's pipeline has recovered significantly since the introduction of tariffs. While business loans remain the primary focus, the Group has been growing unsecured loans as of late to improve loan yields, and because it goes well with their hyper-personalisation plans, with there being tremendous cross-sell potential. Despite the higher risk associated, management is not worried as they still make up a much smaller portion of the loan portfolio as compared to its peers.

► **The Group did see some irritation in the overseas portfolio, particularly in their Cambodian and SG accounts.** Regardless, these are well provisioned for – they maintain their view that the actual NCC figure will come well below their 10bps NCC guidance. Note that nearly half of overseas impairments come from a single case in SG worth SGD 39m, which management is convinced will be fully recovered.

Forecasts unchanged. We make no changes to our earnings forecasts.
Key downside risks. *(1) Poor BOCD result, (2) Poor cost control, (3) Weak NOII performance.*

Maintain BUY call: Revised GGM-TP of RM 30.50 ***(from RM29.22).*** The TP is based on a revised FY27F P/BV of 1.42x *(formerly 1.44x, rolled on from FY26F),* to reflect altered earnings prospects and ROE-based valuations.
(GGM assumptions: *FY27F ROE of 11.1%, LTG of 4.0% & COE of 9.0%)*

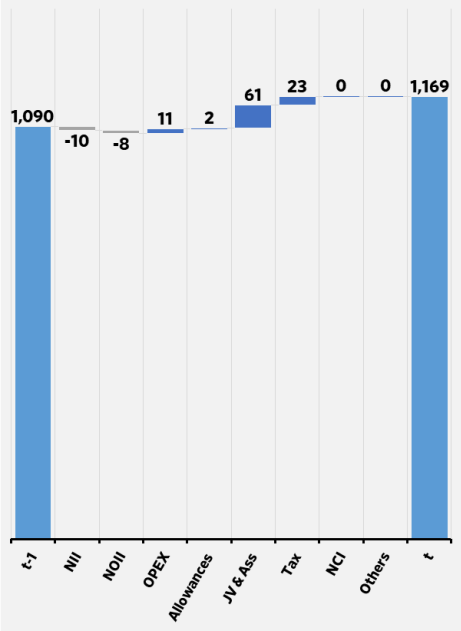
FIG 1: Quarterly results

FYE Jun (RM m)	2Q FY26	1Q FY26	2Q FY25	Yoy (%)	Qoq (%)	1H FY26	1H FY25	Yoy (%)
Net interest inc.	1,002	1,025	993	1	-2	2,027	2,003	1
Islamic banking inc.	311	318	297	4	-2	628	585	7
Non-interest inc.	354	342	342	3	3	696	642	8
Net income	**1,667**	**1,685**	**1,632**	**2**	**-1**	**3,352**	**3,230**	**4**
OPEX	(596)	(607)	(627)	-5	-2	(1,203)	(1,253)	-4
PPOP	**1,071**	**1,078**	**1,005**	**7**	**-1**	**2,149**	**1,977**	**9**
Loan provisions	(37)	(38)	(5)	>500	-2	(74)	(12)	>500
Other provisions	0	(0)	1	n.m.	n.m.	0	0	n.m.
JV & Associates	372	311	400	-7	20	683	775	-12
PBT	**1,407**	**1,351**	**1,401**	**0**	**4**	**2,758**	**2,740**	**1**
Tax	(238)	(261)	(252)	-6	-9	(499)	(502)	-1
NCI	-	-	-	n.m.	n.m.	-	-	n.m.
Reported NP	**1,169**	**1,090**	**1,148**	**2**	**7**	**2,259**	**2,238**	**1**
Core NP	**1,169**	**1,090**	**1,148**	**2**	**7**	**2,259**	**2,238**	**1**
Profit ex-BOCD	**797**	**779**	**748**	**7**	**2**	**1,576**	**1,463**	**8**
Total NII	1,264	1,274	1,228	3	-1	2,538	2,472	3
Total NOII	403	411	404	-0	-2	814	758	7
Gross DPS (sen)	**30.0**	**-**	**28.0**	**n.m.**	**n.m.**	**30.0**	**28.0**	**n.m.**
Core EPS (sen)	56.7	52.9	55.7	2	7	109.6	108.6	1
Gross loans	215,658	211,817	199,373	8.2	1.8			
Gross impaired loans	1,276	1,215	1,092	16.8	5.0			
Customer deposits	242,045	236,294	226,734	6.8	2.4			
CASA	79,559	76,761	70,995	12.1	3.6			

Ratios (%)	2Q FY26	1Q FY26	2Q FY25	Yoy (ppts)	Qoq (ppts)	1H FY26	1H FY25	Yoy (ppts)
ROE (Ann.)	**12.0**	**11.6**	**12.5**	**-0.5**	**0.4**	**11.6**	**12.2**	**-0.6**
ROE (Pre-BOCD) (Ann.)	**8.2**	**8.3**	**8.1**	**0.1**	**-0.1**	**8.1**	**8.0**	**0.1**
NIM (Reported)	**1.83**	**1.84**	**1.90**	**-0.07**	**-0.01**	**1.83**	**1.91**	**-0.08**
NOII/Net income	24.2	24.4	24.8	-0.6	-0.2	24.2	24.8	-0.6
Cost/Income	35.7	36.0	38.4	-2.7	-0.3	35.9	38.8	-2.9
NCC (Ann.) (bps)	7	7	1	6	-0	7	1	6
GIL ratio	0.59	0.57	0.55	0.04	0.02			
Loan loss coverage	84	90	139	-55	-6			
CASA ratio	32.9	32.5	31.3	1.6	0.4			
L/D ratio	88.7	89.2	87.3	1.4	-0.5			
CET-1	12.6	12.7	13.0	-0.3	-0.1			

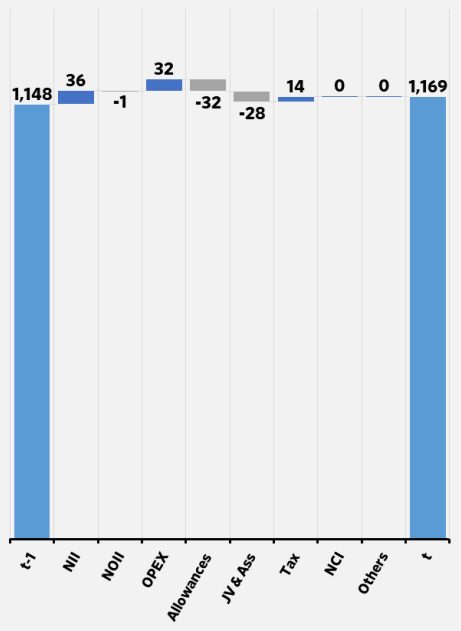
Source: Company, MBSBR

FIG 2: QoQ P/L walk (Quarterly)



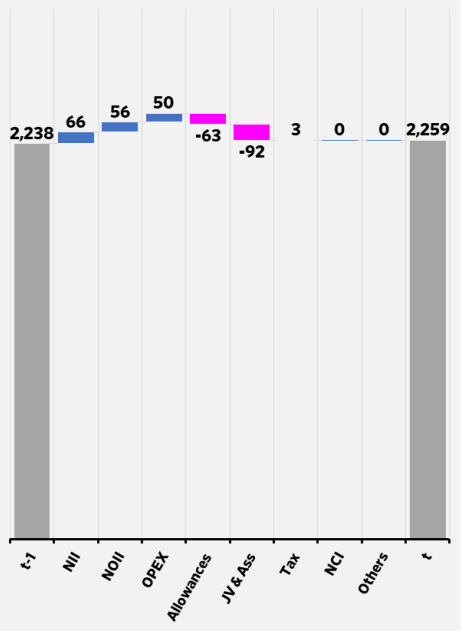
Source: Company, MBSBR

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	FY26 Actual	Notes (Red: New guidance, ~~Strikethrough: Guidance is no longer pertinent~~)
ROE	11.5 – 12.0	11.6	
CIR	39	35.9	Management seems wary of possible marketing and tech cost run-up in 2HFY26.
NIM	1.80 – 1.90 (from 1.90)	1.83	
NOII		7% (yoy)	
Associates		-12% (yoy)	
Loans	6 – 7	2.7 (YTD)	
Deposits		1.3 (YTD)	
% CASA	>32	32.9	
Loan/Depo		88.7	
GIL ratio	<0.65	0.59	
NCC (bps)	<10	7	Actual figures is expected to fall well under 10bps.
CET 1		12.6	
Div payout		27	

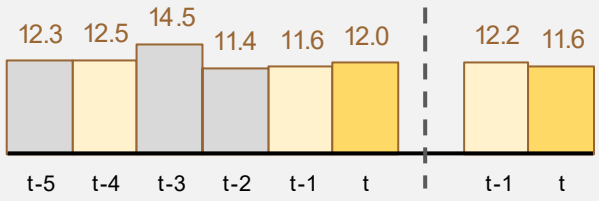
Source: Company, MBSBR

INCOME STATEMENT (QUARTERLY & CUMULATIVE)

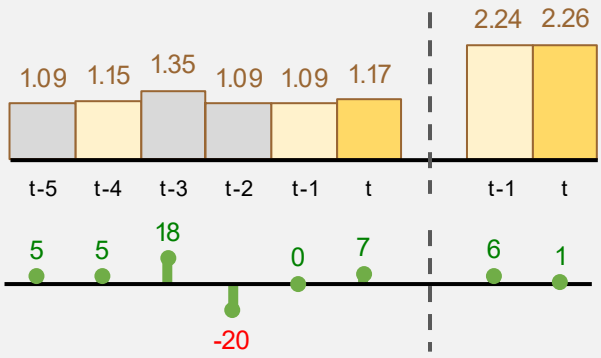
2QFY26 / 6MFY26 results

Earnings:	**Within our full-year forecasts**	**(50%)**
	Within street full-year forecasts	(51%)
Dividend:	**YES**	
YTD payout:	**27%**	

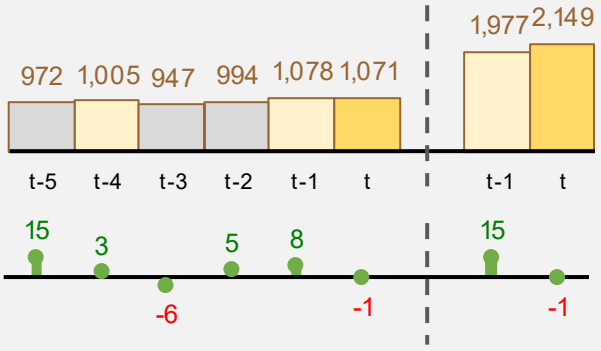
ROE (%)



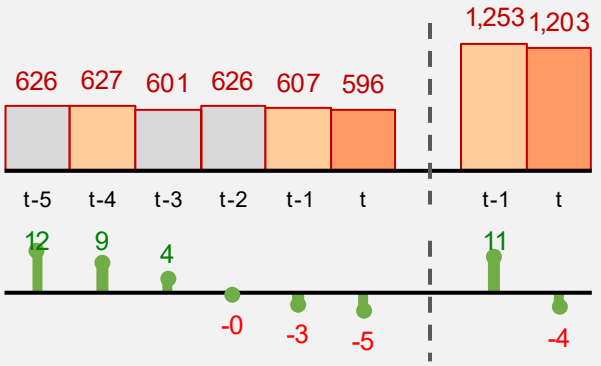
Core Net Profit (RM b)
Growth -- qoq (Qtr) & yoy (Cum) (%)



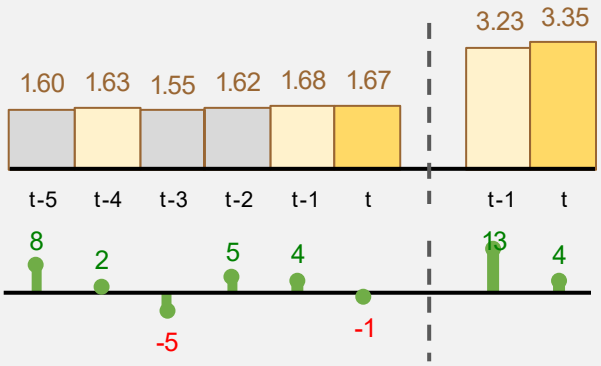
Pre-Provisioning Operating Profit (RM m)
Growth -- qoq (Qtr) & yoy (Cum) (%)



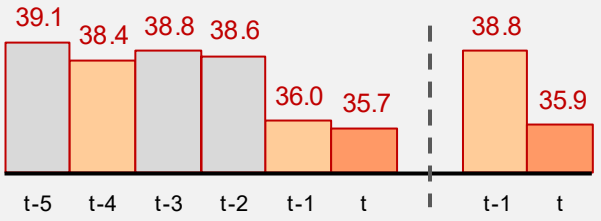
OPEX (RM m)
Growth -- yoy only! (Qtr & Cum) (%)



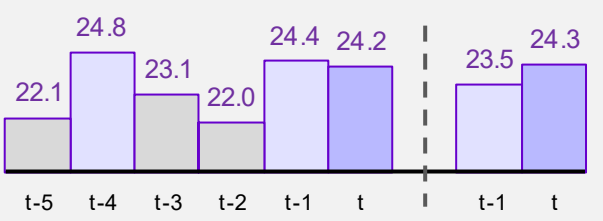
Topline (RM b)
Growth -- qoq (Qtr) & yoy (Cum) (%)



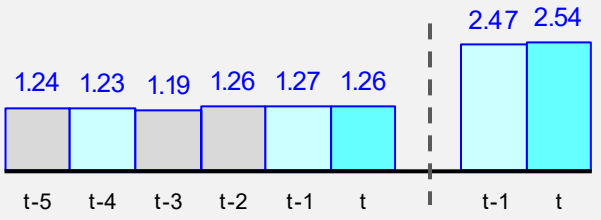
Cost/Income ratio (%)



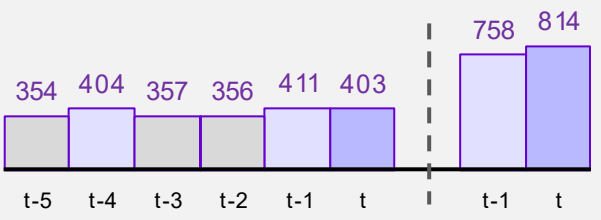
% NOII as topline (%)



Net interest income (RM b)

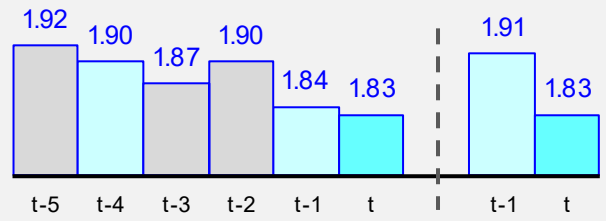


Non-interest income (RM m)

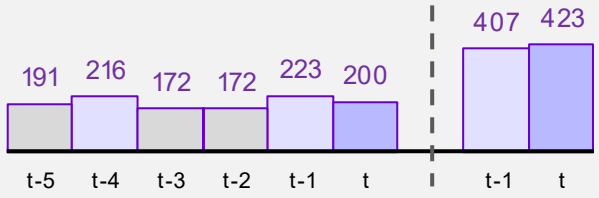


Source: Company, MBSBR

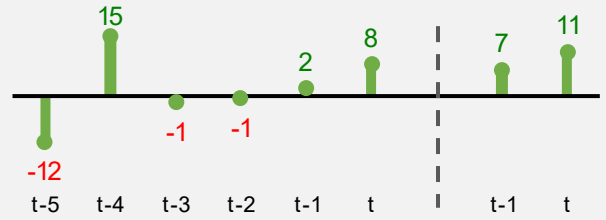
NIM (%)



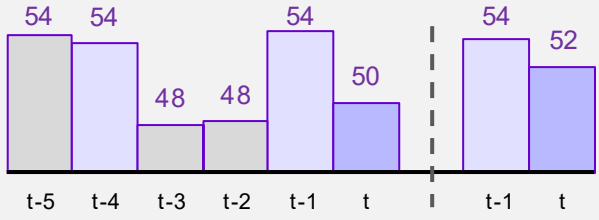
Non-fee NOII (RM m)



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

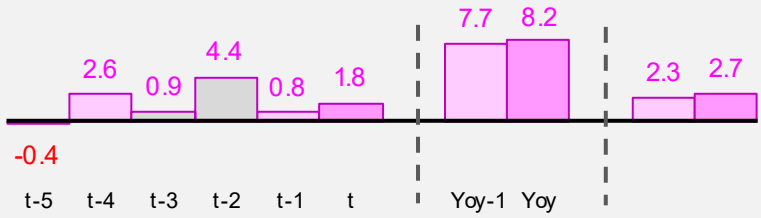


% Non-fee income as NOII (%)

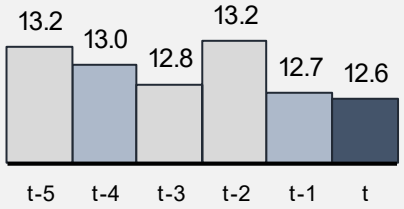


BALANCE SHEET

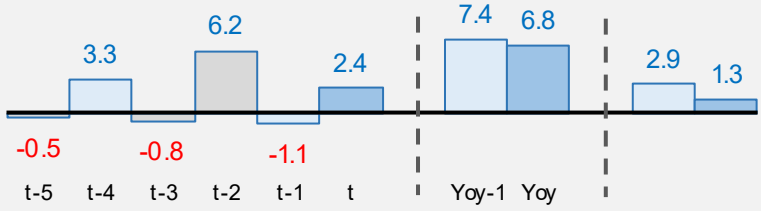
Loan growth -- qoq, yoy, FYTD (%)



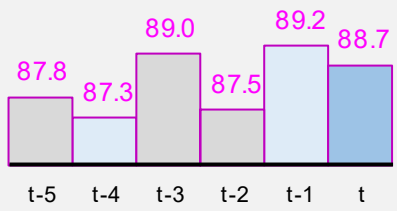
CET 1 ratio (%)



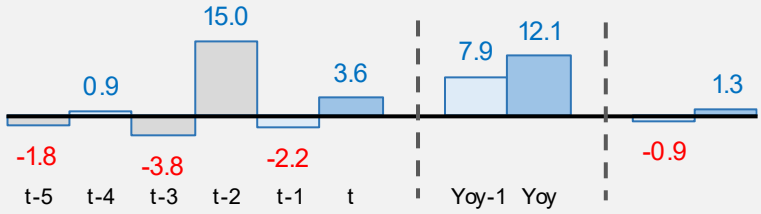
Deposit growth -- qoq, yoy, FYTD (%)



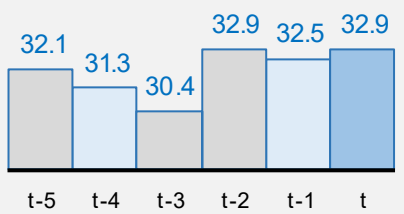
Loan/Deposit ratio (%)



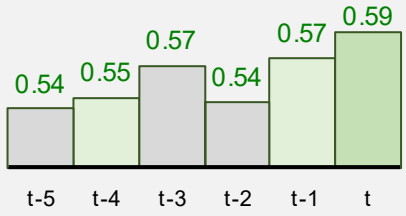
CASA growth -- qoq, yoy, FYTD (%)



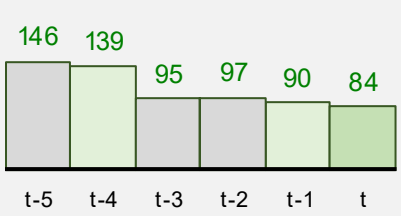
CASA ratio (%)



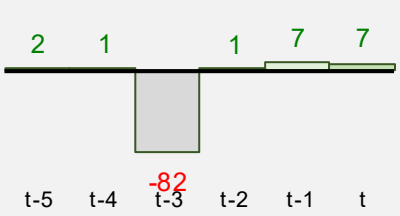
GIL ratio (%)



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	1,169	Qtrly ROE	Qtr value	12.0%
	26% of FY CNP				
	Qoq	7%		t-1	11.6%
	Yoy	2%		t-4	12.5%
Cum Core NP	RM mil	2,259	Cum ROE	Cum value	11.6%
	Within our forecast				
	50% of FY CNP				
	Within consensus				
	51% of FY CNP				
	Yoy	1%		t-1	12.2%
NII	As expected		NIM	As expected	
				Qtr value	1.83
				Cum value	1.83
	Qtr (Qoq)	-1%		Qtr (Qoq)	-1bps
	Qtr (Yoy)	3%		Qtr (Yoy)	-7bps
	Cum (Yoy)	3%		Cum (Yoy)	-8bps
NOII	As expected		Qtr	% NII	76%
	Qtr (Qoq)	-2%		% NOII	24%
	Qtr (Yoy)	-0%	Cum	% NII	76%
	Cum (Yoy)	7%		% NOII	24%
OPEX	+ve surprise		Cost/ Inc.	+ve surprise	
				Qtr value	35.7%
				Cum value	35.9%
	Qtr (Qoq)	-2%		Qtr (Qoq)	-0.3%
	Qtr (Yoy)	-5%		Qtr (Yoy)	-2.7%
	Cum (Yoy)	-4%		Cum (Yoy)	-2.9%
JV & Asso-ciates	As expected				
	Qtr (Qoq)	20%			
	Qtr (Yoy)	-7%			
	Cum (Yoy)	-12%			

Metric	Surprise? Qoq/Yoy		Metric	Surprise? Qoq/Yoy	
Loans	As expected				
	Qoq	1.8%			
	Yoy	8.2%			
	YTD (FY)	2.7%			
Depo. grwth	As expected		CASA grwth	As expected	
	Qoq	2.4%		Qoq	3.6%
	Yoy	6.8%		Yoy	12.1%
	YTD (FY)	1.3%		YTD (FY)	1.3%
CASA ratio	As expected		L/D ratio	As expected	
	Value now	32.9%		Value now	88.7%
	Qoq	+0.4%		Qoq	-0.5%
	Yoy	+1.6%		Yoy	+1.4%
GIL ratio	As expected		LLC ratio	As expected	
	Value now	0.59%		Value now	84%
	Qoq	+2bps		Qoq	-6%
	Yoy	+4bps		Yoy	-55%
Qtrly Net CC	As expected		Cum Net CC	As expected	
	Decent provision			Decent provision	
	Value now	7bps		Value now	7bps
	t-1	7bps			
	t-4	1bps		t-4	1bps
CET 1	Healthy level		Div payout	Div announced	
	As expected			As expected	
	Value now	12.6%		Payout	27%
	Qoq	-0.1%			

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	3.04	3.04	2.97
Cost of funds	2.06	1.93	1.86	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)	11.4	10.2	10.7	10.0	9.5
Div yield (%)	**2.9**	**4.1**	**4.4**	**4.7**	**5.0**
P/BV (x)	1.3	1.2	1.1	1.1	1.0

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