Corporate Update

Hong Leong Bank Berhad

(5819 | HLBK MK) Main | Financial Services

FTSE4Good ESG 4 Stars

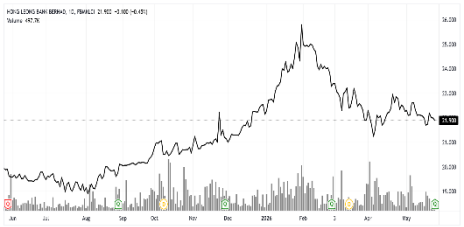
Maintain **BUY**

Unchanged Target Price **RM30.50**

3QFY26 Results Review
Bright Outlook Ahead

RETURN STATISTICS	
Price @ 26 May 2026 (RM)	21.90
Expected share price return (%)	+39.3
Expected dividend yield (%)	+5.0
Expected total return (%)	**+44.2**

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-3.4	-2.9
3 months	0.5	-6.5
12 months	11.2	-0.2

INVESTMENT STATISTICS			
FYE Jun	**FY26F**	**FY27F**	**FY28F**
Core NP (RM m)	**4,476**	**4,751**	**5,040**
CNP growth (%)	(4)	6	6
Div yield (%)	**4.7**	**5.0**	**5.3**
Gross DPS (sen)	102.6	108.9	115.5
P/BV (x)	**1.1**	**1.0**	**1.0**
BVPS (RM)	20.3	21.5	22.7
ROE (%)	**11.1**	**11.1**	**11.1**
% Street CNP (%)	**98**	**97**	**97**

KEY STATISTICS	
FBM KLCI	1,699.02
Issue shares (m)	2,050.2
Estimated free float (%)	34.7
Market Capitalisation (RM'm)	47,689.8
52-wk price range	RM18.8 – RM25.8
3-mth average daily volume (m)	1.4
3-mth average daily value (RM'm)	30.8
Top Shareholders (%)	
Hong Leong Financial Group Bhd	61.8
EPF Board	8.4
Hong Leong Bank Sdn Bhd	3.3

Salient Points

Slightly weaker set of earnings, though within forecasts.

Management's tone: Optimistic

Expect: After shrugging off a few hits this quarter, expect a steadier outlook.

Our Verdict

HLBK has improved pre-BOCD contributions significantly, and its fundamental outlook remains intact. BOCD, however, hasn't been performing that strongly as of late. HLBK's dividend yields could use some work, though there is an active intent to increase it sustainably.

Valuations

An unchanged FY27F P/BV of 1.42x

Current P/BV of 1.12x is inexpensive, trading near -1SD of the 10-year P/BV mean of 1.30x. 0.19

The company is currently trading at a forward FY27F P/BV of 1.02x with a 5.0% 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. So far, HLBK has done an admirable job in maintaining profitability post-share-paredown.
2. ▲ Rapid fee income growth to persist, with "low-hanging fruit" still close, particularly from SG's wealth segment.
3. ▲ Cost control is the best in the industry, with much room for further cost optimisation. Some uptick from higher marketing costs expected.
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 with an intent to raise further, but limited further upside potential (unless a further BOCD stake sale occurs).
7. ► Slow NIM recovery expected in subsequent quarters.
8. ► Possible uncertainty on BOCD's earnings outlook.

Results in a nutshell:

► **9MFY26's Core NP of RM3,288m was *Within*/*Within* our/street forecasts: *73%*/*72%* of full-year forecasts.**

► **No dividend announcement.**

▼ **9MFY26's Core net profit (NP) of RM3,288m down by -8%yoy.** Driven by weaker NII and provisions, which offset stronger NOII and OPEX performance.

Analyst

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► **3QFY26's Core NP of RM1,029m flattish, growing at -12%qoq.** Higher NOII and better OPEX performance, which offset weaker NII and higher provisions.

Have a look at:

▼ **FY26 ROE target should not be met.** The Group acknowledges that BOCD's lower contribution (due to lower shareholdings and weaker results) and recent OPR cuts are the main culprits. There are multiple other factors: Slow NIM recovery, weaker NOII sentiment, and higher marketing spend.

► **NIM recovery is taking longer than expected, but is recovering regardless.** Sequential quarter growth in NIM was less than expected – we think some element of this is due to the increased deposit competition. Regardless, the Group does expect NIM to move on a positive trajectory in the couple of quarters.

► **Short-term weakness in NOII.** This quarter had a weak NOII showing due to seasonal impact, but management is positive on the overall trajectory. Wealth management was impacted by a risk-off sentiment brought about by the war, but it has since recovered in Apr-26. Bancassurance might see short-term weakness, but this is due to the Group undergoing a restructuring.

► **Brand revamp is spiking marketing costs.** Expect this to persist: the Group will be rebranding its HL SME focus, HL priority and other business lines. It has already rebranded some of its business lines in previous quarters. We think it's to have a more neutral-sounding name to better penetrate the underserved Malay population. Notably, the Group seems optimistic on the newly HLB Islamic, which will be the main driver to penetrate this segment. Regardless, FY26 CIR target is maintained.

▲ **Still an intent to raise dividend payout further.** Despite already having increased its dividend payout sharply over the last couple of years, management voices its intent to continue, as the priority is maintaining competitive dividend yields (and HLBK's share price has already appreciated). We think the main restriction is HLBK's low CET 1 ratio of 12.4% coupled with high loan growth, though management seems optimistic about the Basel III uplift of +60bps.

▲ **Asset quality is solid, but some stress is emerging.** The Group mentions that it sees beginning signs of stress in the business loan segment in the second half of May-26. Repayment assistance programmes see minimal uptake thus far. Regardless, they don't sound overly bothered: There is no change to NCC or GIL ratio guidance, and the overlay stash remains intact at RM175m.

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

Maintain BUY call: Unchanged GGM-TP of RM 30.50. The TP is based on an unchanged FY27F P/BV of 1.42x.
(GGM assumptions: *FY27F ROE of 11.1%, LTG of 4.0% & COE of 9.0%)*

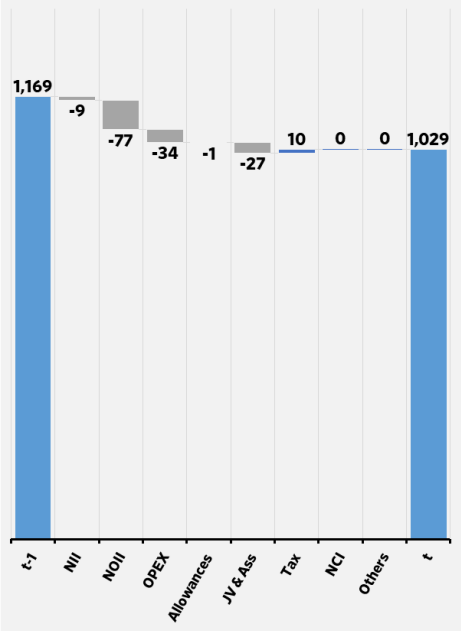
FIG 1: Quarterly results

FYE Jun (RM m)	3Q FY26	2Q FY26	3Q FY25	Yoy (%)	Qoq (%)	9M FY26	9M FY25	Yoy (%)
Net interest inc.	999	1,002	963	4	-0	3,026	2,966	2
Islamic banking inc.	298	311	272	10	-4	926	857	8
Non-interest inc.	284	354	313	-9	-20	980	955	3
Net income	**1,580**	**1,667**	**1,548**	**2**	**-5**	**4,932**	**4,778**	**3**
OPEX	(630)	(596)	(601)	5	6	(1,833)	(1,854)	-1
PPOP	**950**	**1,071**	**947**	**0**	**-11**	**3,099**	**2,924**	**6**
Loan provisions	(37)	(37)	398	-109	2	(112)	386	-129
Other provisions	(0)	0	(0)	n.m.	n.m.	(0)	0	n.m.
JV & Associates	345	372	(83)	-515	-7	1,027	692	49
PBT	**1,258**	**1,407**	**1,263**	**-0**	**-11**	**4,015**	**4,003**	**0**
Tax	(228)	(238)	(315)	-28	-4	(727)	(817)	-11
NCI	-	-	-	n.m.	n.m.	-	-	n.m.
Reported NP	**1,029**	**1,169**	**947**	**9**	**-12**	**3,288**	**3,185**	**3**
Core NP	**1,029**	**1,169**	**1,355**	**-24**	**-12**	**3,288**	**3,593**	**-8**
Profit ex-BOCD	**685**	**797**	**1,030**	**-34**	**-14**	**2,260**	**2,494**	**-9**
Total NII	1,255	1,264	1,191	5	-1	3,793	3,663	4
Total NOII	325	403	357	-9	-19	1,139	1,115	2
Gross DPS (sen)	**-**	**30.0**	**-**	**n.m.**	**n.m.**	**30.0**	**28.0**	**n.m.**
Core EPS (sen)	49.9	56.7	65.7	-24	-12	159.5	174.3	-9
Gross loans	218,183	215,658	201,247	8.4	1.2			
Gross impaired loans	1,315	1,276	1,145	14.8	3.0			
Customer deposits	243,542	242,045	224,964	8.3	0.6			
CASA	77,872	79,559	68,278	14.1	-2.1			

Ratios (%)	3Q FY26	2Q FY26	3Q FY25	Yoy (ppts)	Qoq (ppts)	9M FY26	9M FY25	Yoy (ppts)
ROE (Ann.)	**10.5**	**12.0**	**14.5**	**-4.0**	**-1.5**	**11.1**	**12.8**	**-1.7**
ROE (Pre-BOCD) (Ann.)	**7.0**	**8.2**	**11.0**	**-4.1**	**-1.2**	**7.7**	**8.9**	**-1.2**
NIM (Reported)	**1.84**	**1.83**	**1.87**	**-0.03**	**0.01**	**1.83**	**1.90**	**-0.07**
NOII/Net income	20.6	24.2	23.1	-2.5	-3.6	20.6	23.1	-2.5
Cost/Income	39.9	35.7	38.8	1.1	4.1	37.2	38.8	-1.6
NCC (Ann.) (bps)	7	7	(82)	89	0	7	(26)	34
GIL ratio	0.60	0.59	0.57	0.03	0.01			
Loan loss coverage	81	84	95	-14	-3			
CASA ratio	32.0	32.9	30.4	1.6	-0.9			
L/D ratio	89.2	88.7	89.0	0.2	0.5			
CET-1	12.4	12.6	12.8	-0.4	-0.2			

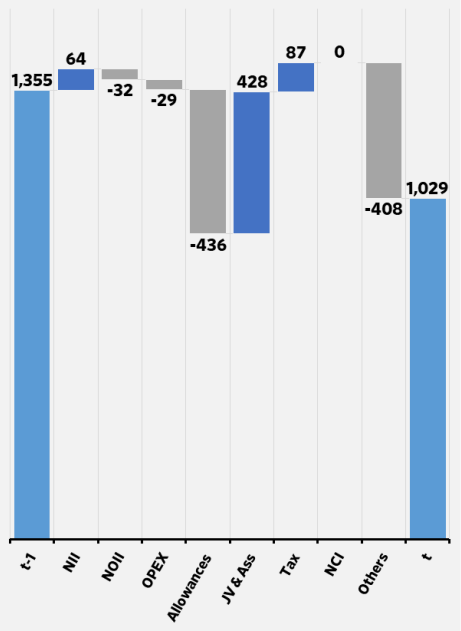
Source: Company, MBSBR

FIG 2: QoQ P/L walk (Quarterly)



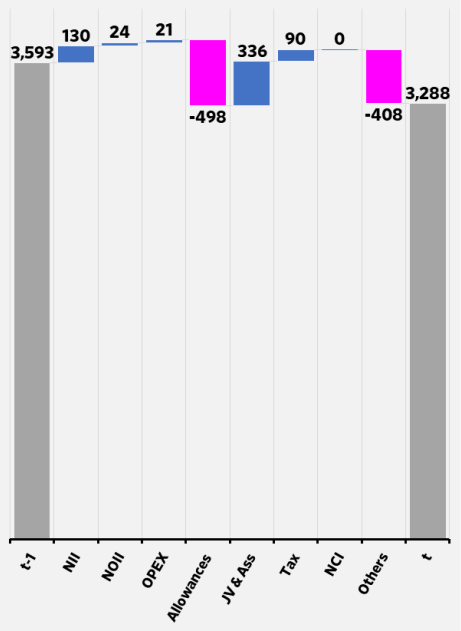
Source: Company, MBSBR

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	FY26	9M FY26	Notes (Red: New guidance, ~~Strikethrough: Guidance is no longer pertinent~~)
ROE	11.5 – 12.0	11.1	Unlikely to be achieved.
CIR	39	37.2	
NIM	1.80 – 1.90 (from 1.90)	1.83	
NOII		2% (yoy)	
Associates		49% (yoy)	
Loans	6 – 7	3.9 (YTD)	
Deposits		1.9 (YTD)	
% CASA	>32	32.0	
Loan/Depo		89.2	
GIL ratio	<0.65	0.60	
NCC (bps)	<10	7	
CET 1		12.4	
Div payout		-	

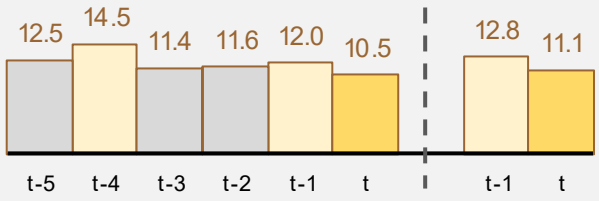
Source: Company, MBSBR

INCOME STATEMENT (QUARTERLY & CUMULATIVE)

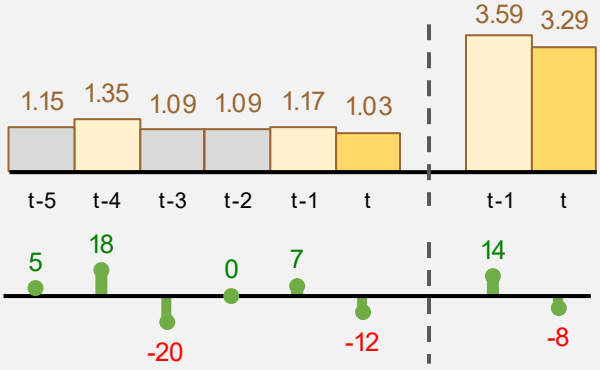
3QFY26 / 9MFY26 results

Earnings:	**Within our full-year forecasts**	**(73%)**
	Within street full-year forecasts	(72%)
Dividend:	**NO**	
YTD payout:	-	

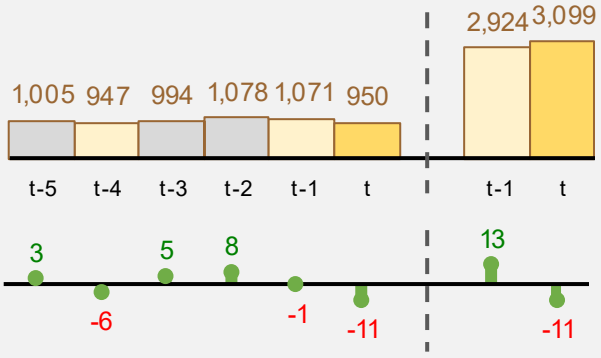
ROE (%)



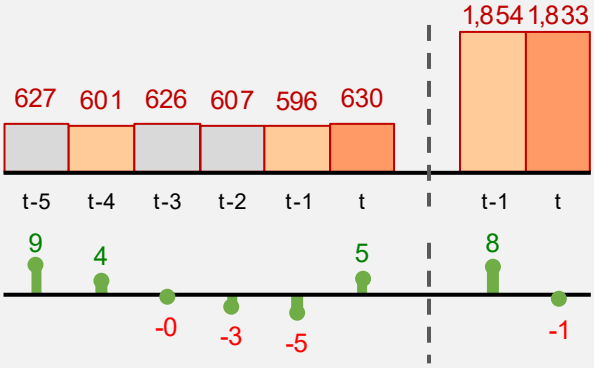
Core Net Profit (RM b)
Growth -- qoq (Qtr) & yoy (Cum) (%)



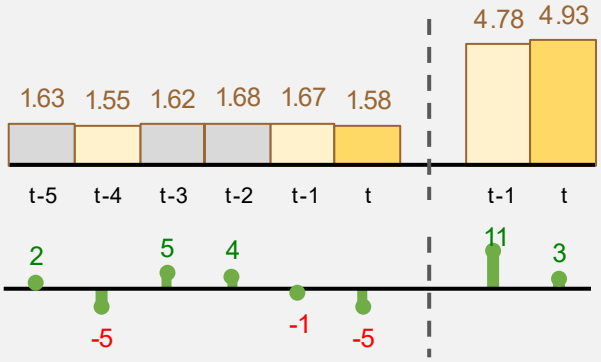
Pre-Provisioning Operating Profit (RM m)
Growth -- qoq (Qtr) & yoy (Cum) (%)



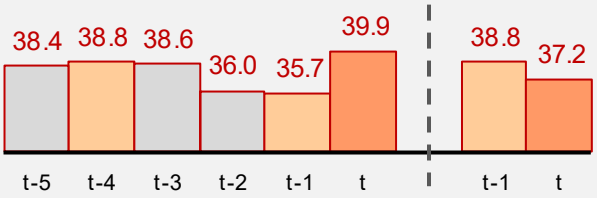
OPEX (RM m)
Growth -- yoy only! (Qtr & Cum) (%)



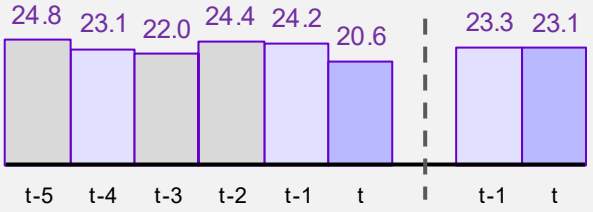
Topline (RM b)
Growth -- qoq (Qtr) & yoy (Cum) (%)



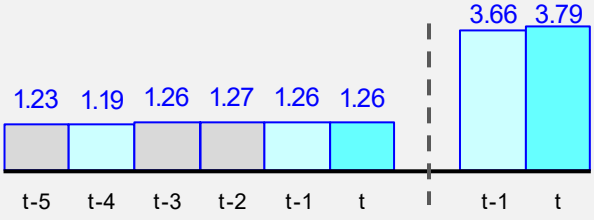
Cost/Income ratio (%)



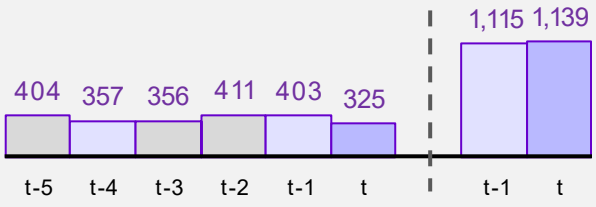
% NOII as topline (%)



Net interest income (RM b)

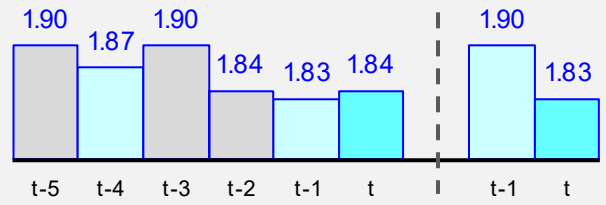


Non-interest income (RM m)

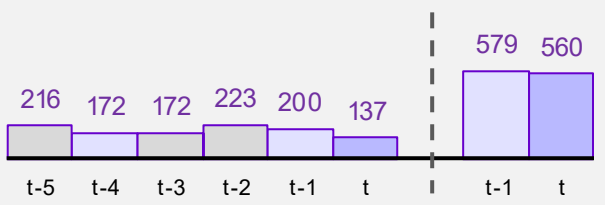


Source: Company, MBSBR

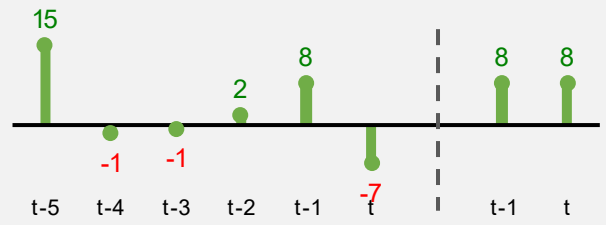
NIM (%)



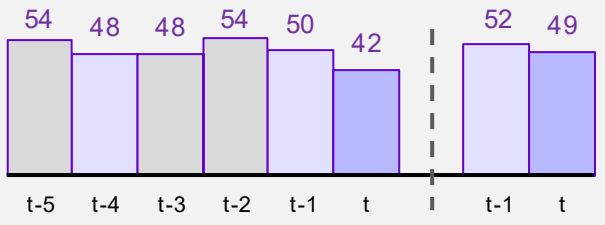
Non-fee NOII (RM m)



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

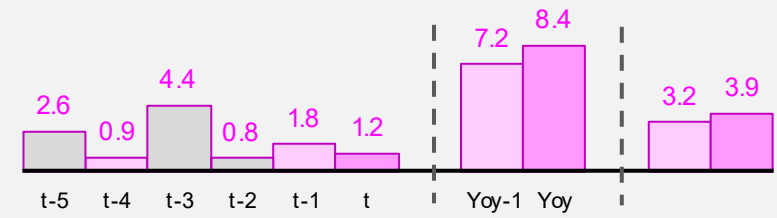


% Non-fee income as NOII (%)

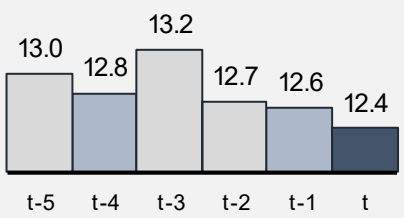


BALANCE SHEET

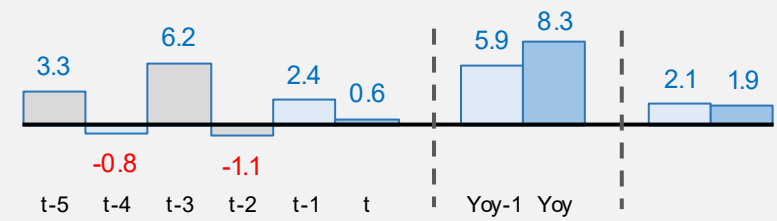
Loan growth -- qoq, yoy, FYTD (%)



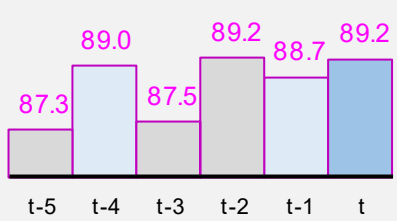
CET 1 ratio (%)



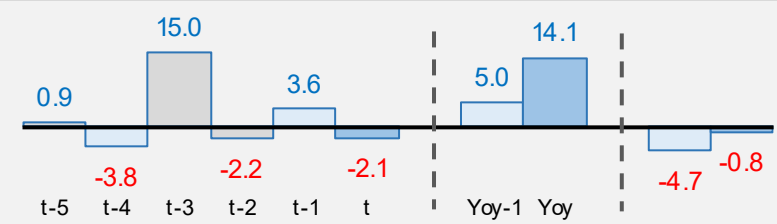
Deposit growth -- qoq, yoy, FYTD (%)



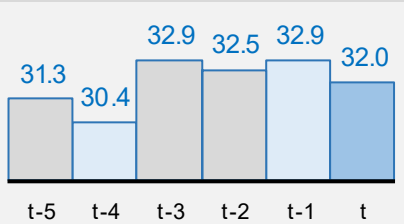
Loan/Deposit ratio (%)



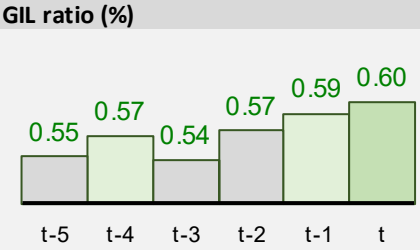
CASA growth -- qoq, yoy, FYTD (%)



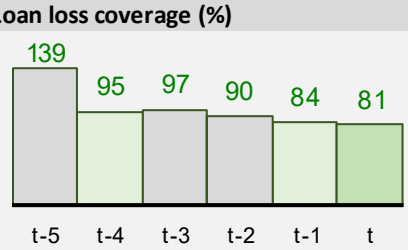
CASA ratio (%)



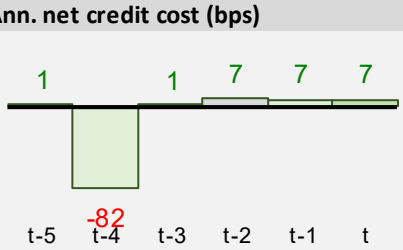
GIL ratio (%)



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	1,029	Qtrly ROE	Qtr value	10.5%
	23% of FY CNP				
	Qoq	-12%		t-1	12.0%
	Yoy	-24%		t-4	14.5%
Cum Core NP	RM mil	3,288	Cum ROE	Cum value	11.1%
	Within our forecast				
	73% of FY CNP				
	Within consensus				
	72% of FY CNP				
	Yoy	-8%		t-1	12.8%
NII	As expected		NIM	As expected	
				Qtr value	1.84
				Cum value	1.83
	Qtr (Qoq)	-1%		Qtr (Qoq)	+1bps
	Qtr (Yoy)	5%		Qtr (Yoy)	-3bps
	Cum (Yoy)	4%		Cum (Yoy)	-7bps
NOII	As expected		Qtr	% NII	79%
	Qtr (Qoq)	-19%		% NOII	21%
	Qtr (Yoy)	-9%	Cum	% NII	79%
	Cum (Yoy)	2%		% NOII	21%
OPEX	As expected		Cost/ Inc.	As expected	
				Qtr value	39.9%
				Cum value	37.2%
	Qtr (Qoq)	6%		Qtr (Qoq)	+4.1%
	Qtr (Yoy)	5%		Qtr (Yoy)	+1.1%
	Cum (Yoy)	-1%		Cum (Yoy)	-1.6%
JV & Asso-ciates	-ve surprise				
	Qtr (Qoq)	-7%			
	Qtr (Yoy)	-515%			
	Cum (Yoy)	49%			

Metric	Surprise? Qoq/Yoy		Metric	Surprise? Qoq/Yoy	
Loans	As expected				
	Qoq	1.2%			
	Yoy	8.4%			
	YTD (FY)	3.9%			
Depo. grwth	As expected		CASA grwth	As expected	
	Qoq	0.6%		Qoq	-2.1%
	Yoy	8.3%		Yoy	14.1%
	YTD (FY)	1.9%		YTD (FY)	-0.8%
CASA ratio	As expected		L/D ratio	As expected	
	Value now	32.0%		Value now	89.2%
	Qoq	-0.9%		Qoq	+0.5%
	Yoy	+1.6%		Yoy	+0.2%
GIL ratio	As expected		LLC ratio	As expected	
	Value now	0.60%		Value now	81%
	Qoq	+1bps		Qoq	-3%
	Yoy	+3bps		Yoy	-14%
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	-82bps		t-4	-26bps
CET 1	Healthy level		Div payout	No divvy	
	As expected			As expected	
	Value now	12.4%		Payout	-
	Qoq	-0.2%			

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)	10.7	9.6	10.0	9.4	8.9
Div yield (%)	**3.1**	**4.4**	**4.7**	**5.0**	**5.3**
P/BV (x)	1.2	1.1	1.1	1.0	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