Corporate Update

Hong Leong Bank Berhad

(5819 | HLBK MK) Main | Financial Services

FTSE4Good ESG 4 Stars

Maintain **BUY**

Revised Target Price **RM29.80**
(from RM30.50)

4QFY26 Results Review
Dividend Cheer

Salient Points

Earnings came as forecasted. But DPS came above expectations.

Management's tone: Cautiously optimistic

Expect: A deeper push into overseas segments.

Our Verdict

HLBK is our top pick. In a period of uncertainty, it is a fast-growing defensive pick, now backed by competitive dividend yields and a widening regional presence. As with its peers, HLBK faces short-term headwinds (NIM compression and cost inflation) but nothing too serious. Its widening regional presence gives it tremendous growth potential: Rapid loan growth and fee income growth are clear recipients. A further BOCD stake pare-down is on the cards, but not too soon: This could lead to further capital release (supporting long-term dividend upside) and lift share price overhang from volatile China environment exposure.

Valuations

A revised FY27F P/BV of 1.39x *(formerly 1.42x)*

Current P/BV of 1.17x is inexpensive, trading near -1SD of the 10-year P/BV mean of 1.30x.

The company is currently trading at a forward FY27F P/BV of 1.11x with a 5.2% dividend yield.

Themes

1. ▲ An intention to reduce BOCD stake by 5% should further free the Group from persistent share price overhang and free up some capital. Timeline is uncertain. Pre-BOCD profit has improved enough for HLBK to move on.
2. ▲ Solid dividend yields with an intent to raise payout every year. HLBK is confident that capital is sufficient to sustain this.
3. ▲ Its widening regional presence gives it more growth opportunities than local peers: Rapid fee income, CASA and loan growth is supported by this.
4. ▲ Asset quality and provisioning remain among the industry's best, with further recoveries expected.
5. ► NIMs to remain flat, but there's some possibility of downside. To maintain asset quality, loan yields should compress, but CASA growth strategies can provide an offset.
6. ► Cost control is the best in the industry, but a combination of high tech costs and weaker NIMs could elevate near-term CIR.
7. ► Persistent uncertainty around BOCD's earnings outlook.

RETURN STATISTICS	
Price @ 27 August 2026 (RM)	23.88
Expected share price return (%)	+24.8
Expected dividend yield (%)	+5.2
Expected total return (%)	**+30.0**

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	0.6	0.0
3 months	4.6	2.1
12 months	14.7	4.7

INVESTMENT STATISTICS			
FYE Jun	**FY27F**	**FY28F**	**FY29F**
Core NP (RM m)	**4,699**	**5,016**	**5,388**
CNP growth (%)	4	7	7
Div yield (%)	**5.2**	**5.8**	**6.6**
Gross DPS (sen)	123.8	139.4	157.7
P/BV (x)	**1.1**	**1.1**	**1.0**
BVPS (RM)	21.4	22.5	23.5
ROE (%)	**11.0**	**11.1**	**11.4**
% Street CNP (%)	**99**	**99**	

KEY STATISTICS	
FBM KLCI	1,741.72
Issue shares (m)	2,050.2
Estimated free float (%)	34.7
Market Capitalisation (RM'm)	48,513.5
52-wk price range	RM19.4 – RM25.8
3-mth average daily volume (m)	1.1
3-mth average daily value (RM'm)	23.8
Top Shareholders (%)	
Hong Leong Financial Group Bhd	61.8
EPF Board	8.4
Hong Leong Bank Sdn Bhd	3.3

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Results in a nutshell:

► **FY26's Core NP of RM4,531m is *Within/Within* our/street forecasts: *101%/102%* of full-year forecasts.**

▲ **Dividends announced – beating expectations.** DPS of 110.0 sen translates to a payout of 50% for FY26. This was above our expectations – we were expecting an increase, but only to 47% (from FY25's 42%).

▼ **FY26's Core net profit (NP) of RM4,531m down by -3%yoy.** The decrease was driven by higher provisions, which offset better topline and associate income.

▲ **4QFY26's Core NP of RM1,243m up by 21%qoq.** The increase was driven by stronger NOII and net writebacks, offsetting higher OPEX.

Have a look at:

▲ **Dividend payout increased above our expectations – and this will persist.** Management announced a payout of 50%. Although we were expecting an increase, we only forecasted 47% (from FY25's 42%). Management has enough capital to increase this yearly without needing to compromise the current growth levels. The 70bps capital release from Basel III changes remains unused.

▼ **NIM poses the most significant threat to FY27's ROE target.** Management expects NIM to remain close to current levels, but there's room for downside. Expect asset yield compression, as HLBK is willing to take more loans with competitive rates to maintain its solid asset quality – though the compression will likely remain minor. To offset this, HLBK is looking at COF improvements via CASA growth. Management sees great potential in ConnectPro and the wealth lending programme in MY and SG, which was initiated in 1HCY26.

▲ **More selective loan growth, but high growth is still expected.** The priority is asset quality during more volatile times – HLBK is willing to trade off some asset yields to maintain its defensive nature. We think the FY27 loan growth target of 6-7% is markedly lower than FY26's actual 7.7% growth – but HLBK tends to set overly conservative guidance and will grow selectively to maintain its asset quality profile. Hoarding capital for dividends will not be an impediment to loan growth.

▲ **No asset quality concerns.** We saw net writebacks due to larger recoveries – there were no overlay writebacks. The overlay stash is intact at RM175m. Its LLC is notably low at 80% – but there's no fear, given high collateralisation rates.

► **Proceedings to pare down BOCD stake.** The Group intends to pare down its BOCD stake by up to 5% (Current levels: 17.8%), to reduce PAT contribution from 30% to ~25%. They've initiated proceedings but expect it to be lengthy – no timeline yet. There is no rush: The initial fear was BOCD's earnings contribution spiralling out of control, but it seems BOCD's PAT growth has moderated to 4%yoy – close to HLBK's. We are optimistic, as it reduces share price overhang as well as provides the necessary capital to maintain HLBK's current capital release trajectory. HLBK's pre-BOCD contributions have also strengthened since a couple of years ago.

▲ **Widening regional presence – back in Hong Kong.** HLBK has reactivated its HK branch. Not so much for loan growth, but as a springboard to partner with Chinese companies coming over to HK or MY. We think HLBK will double down on its regional presence: They admit the cross-sell potential is immense.

Forecasts revised: FY27F/FY28F Core NP adjusted by -1%/-1%. To reflect weaker NIMs, offset by stronger loan growth. We also increased our FY27F/FY28F dividend payout to 54%/57% from 47%/47%.
Key downside risks. *(1) Poor BOCD results, (2) Steeper-than-expected NIM compression, (3) Weak NOII performance.*

Maintain BUY call: Revised GGM-TP of RM 29.80 ***(from RM30.50).*** The TP is based on a revised FY27F P/BV of 1.39x *(formerly 1.42x),* to reflect altered earnings prospects, dividend payouts, and ROE-based valuations.

(GGM assumptions: *FY27F ROE of 11.0%, LTG of 4.0% & COE of 9.0%)*

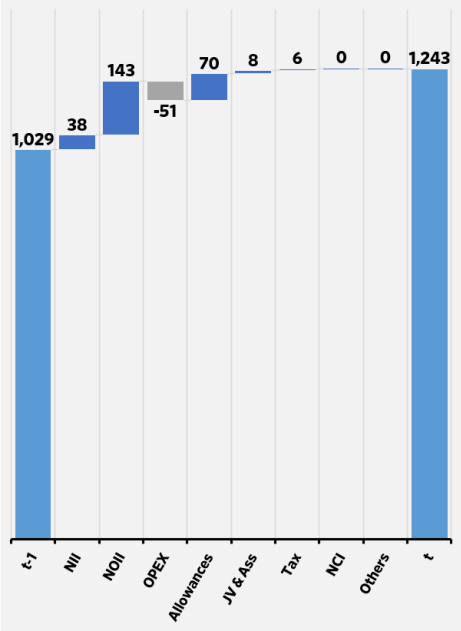
FIG 1: Quarterly results

FYE Jun (RM m)	4Q FY26	3Q FY26	4Q FY25	Yoy (%)	Qoq (%)	FY26	FY25	Yoy (%)
Net interest inc.	1,036	999	1,022	1	4	4,062	3,988	2
Islamic banking inc.	316	298	303	4	6	1,242	1,160	7
Non-interest inc.	409	284	296	38	44	1,389	1,251	11
Net income	**1,761**	**1,580**	**1,620**	**9**	**11**	**6,693**	**6,398**	**5**
OPEX	(681)	(630)	(626)	9	8	(2,514)	(2,479)	1
PPOP	**1,080**	**950**	**994**	**9**	**14**	**4,179**	**3,919**	**7**
Loan provisions	32	(37)	(3)	<-500	-187	(79)	383	-121
Other provisions	0	(0)	0	n.m.	n.m.	0	0	n.m.
JV & Associates	353	345	367	-4	2	1,380	1,058	30
PBT	**1,465**	**1,258**	**1,358**	**8**	**17**	**5,480**	**5,361**	**2**
Tax	(223)	(228)	(270)	-17	-3	(950)	(1,087)	-13
NCI	-	-	-	n.m.	n.m.	-	-	n.m.
Reported NP	**1,243**	**1,029**	**1,089**	**14**	**21**	**4,531**	**4,274**	**6**
Core NP	**1,243**	**1,029**	**1,089**	**14**	**21**	**4,531**	**4,681**	**-3**
Profit ex-BOCD	**890**	**685**	**722**	**23**	**30**	**3,150**	**3,216**	**-2**
Total NII	1,293	1,255	1,264	2	3	5,086	4,927	3
Total NOII	468	325	356	31	44	1,607	1,471	9
Gross DPS (sen)	**80.0**	**-**	**68.0**	**n.m.**	**n.m.**	**110.0**	**96.0**	**n.m.**
Core EPS (sen)	60.3	49.9	52.8	14	21	219.7	227.1	-3
Gross loans	226,288	218,183	210,064	7.7	3.7			
Gross impaired loans	1,299	1,315	1,144	13.6	-1.2			
Customer deposits	252,064	243,542	238,926	5.5	3.5			
CASA	87,386	77,872	78,527	11.3	12.2			

Ratios (%)	4Q FY26	3Q FY26	4Q FY25	Yoy (ppts)	Qoq (ppts)	FY26	FY25	Yoy (ppts)
ROE (Ann.)	**12.3**	**10.5**	**11.4**	**0.9**	**1.8**	**11.2**	**12.2**	**-1.1**
ROE (Pre-BOCD) (Ann.)	**8.8**	**7.0**	**7.5**	**1.2**	**1.8**	**7.8**	**8.4**	**-0.6**
NIM (Reported)	**1.85**	**1.84**	**1.90**	**-0.05**	**0.01**	**1.84**	**1.90**	**-0.06**
NOII/Net income	26.6	20.6	22.0	4.6	6.0	26.6	22.0	4.6
Cost/Income	38.7	39.9	38.6	0.1	-1.2	37.6	38.7	-1.2
NCC (Ann.) (bps)	(6)	7	1	-7	-13	4	(19)	23
GIL ratio	0.57	0.60	0.54	0.03	-0.03			
Loan loss coverage	80	81	97	-17	-2			
CASA ratio	34.7	32.0	32.9	1.8	2.7			
L/D ratio	89.4	89.2	87.5	1.9	0.2			
CET-1	12.9	12.4	13.2	-0.3	0.5			

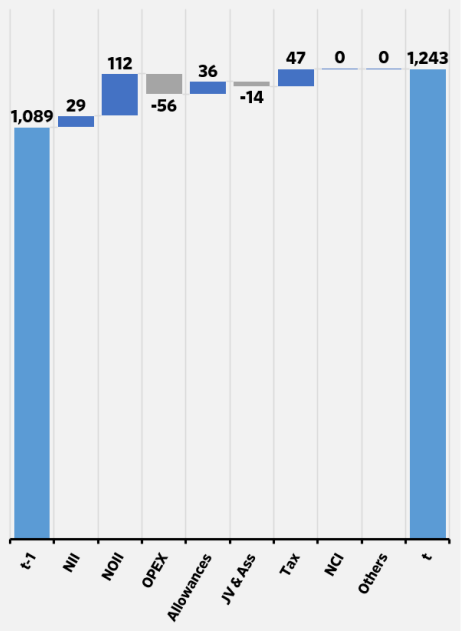
Source: Company, MBSBR

FIG 2: QoQ P/L walk (Quarterly)



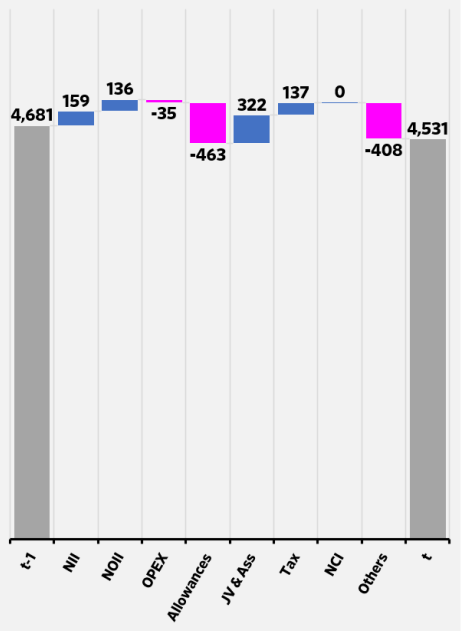
Source: Company, MBSBR

FIG 3: YoY P/L walk (Quarterly)



Source: Company, MBSBR

FIG 4: YoY P/L walk (Cumulative)



Source: Company, MBSBR

FIG 5: Targets, Achievements, and Outlook

Targets	FY27F	FY26F	FY26A	Notes (Red: New guidance, ~~Strikethrough: Guidance is no longer pertinent~~)
ROE	11.0 – 11.5	11.5 – 12.0	11.2	
CIR	<39	39	37.6	
NIM	1.80 – 1.90 (from 1.84)	1.80 – 1.90 (from 1.90)	1.84	
NOII			9% (yoy)	
Associates			30% (yoy)	
Loans	6 – 7	6 – 7	7.7 (YTD)	
Deposits			5.5 (YTD)	
% CASA	~35	>32	34.7	
Loan/Depo			89.4	
GIL ratio	<0.65	<0.65	0.57	
NCC (bps)	<10	<10	4	
CET 1			12.9	
Div payout	>50		50	Will increase every year.

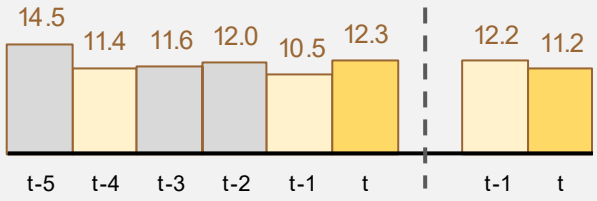
Source: Company, MBSBR

INCOME STATEMENT (QUARTERLY & CUMULATIVE)

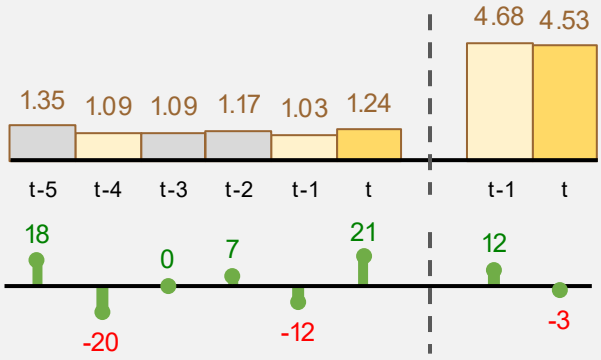
4QFY26 / FY26 results

Earnings:	**Within our full-year forecasts**	**(101%)**
	Within street full-year forecasts	(102%)
Dividend:	**YES**	
YTD payout:	**50%**	

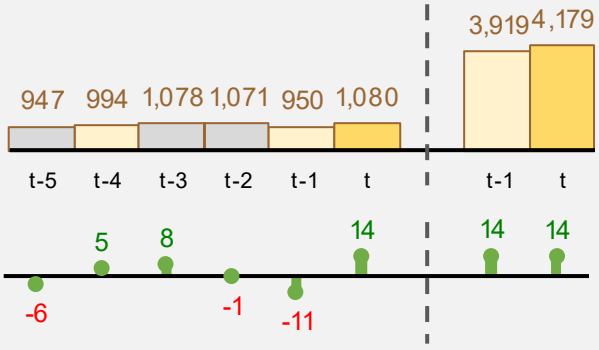
ROE (%)



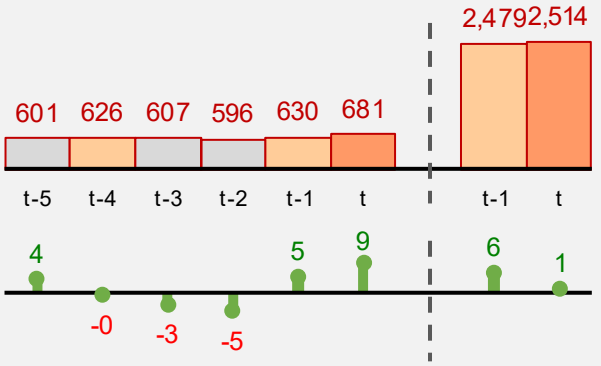
Core Net Profit (RM b)
Growth -- qoq (Qtr) & yoy (Cum) (%)



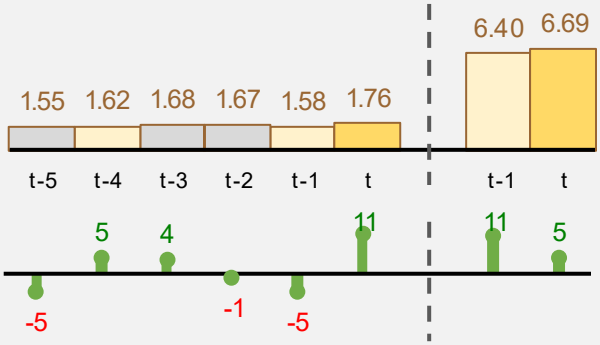
Pre-Provisioning Operating Profit (RM m)
Growth -- qoq (Qtr) & yoy (Cum) (%)



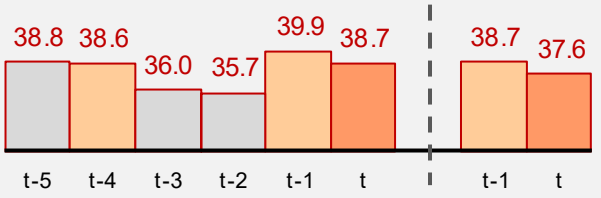
OPEX (RM m)
Growth -- yoy only! (Qtr & Cum) (%)



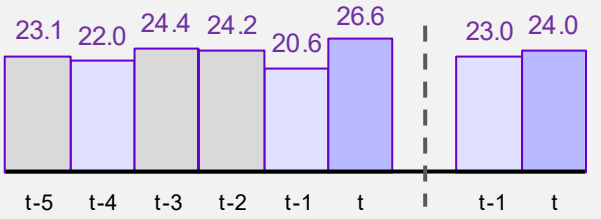
Topline (RM b)
Growth -- qoq (Qtr) & yoy (Cum) (%)



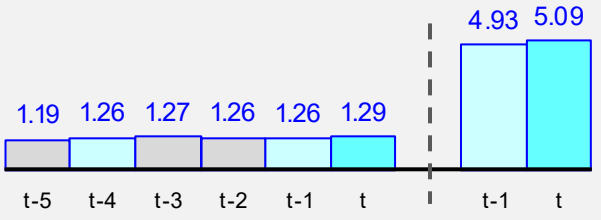
Cost/Income ratio (%)



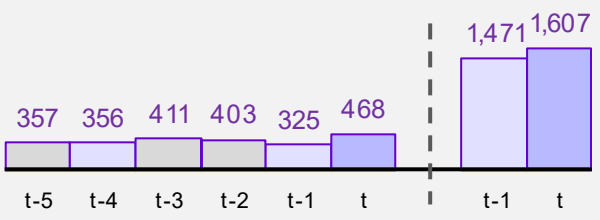
% NOII as topline (%)



Net interest income (RM b)

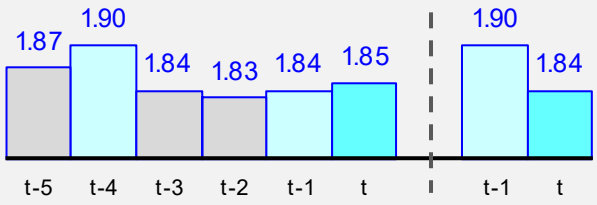


Non-interest income (RM m)

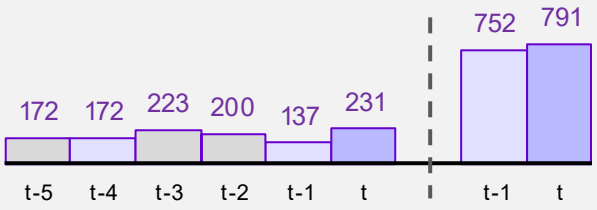


Source: Company, MBSBR

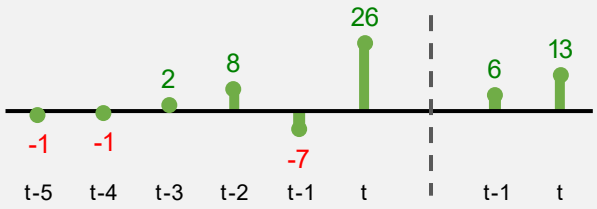
NIM (%)



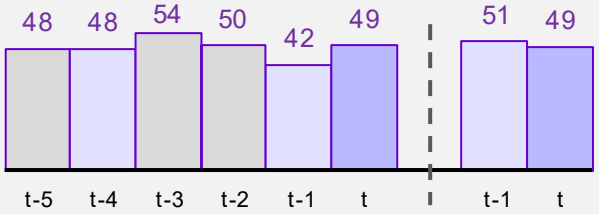
Non-fee NOII (RM m)



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

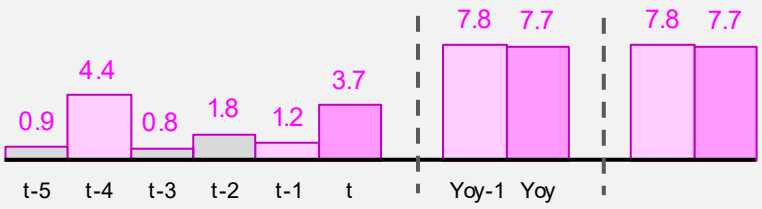


% Non-fee income as NOII (%)

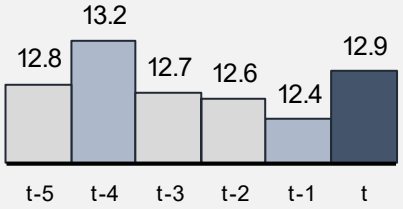


BALANCE SHEET

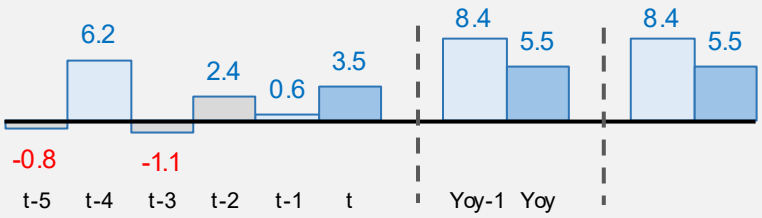
Loan growth -- qoq, yoy, FYTD (%)



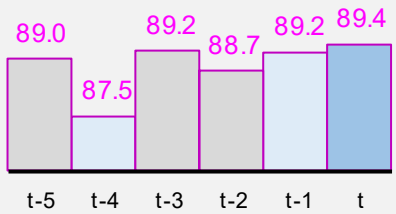
CET 1 ratio (%)



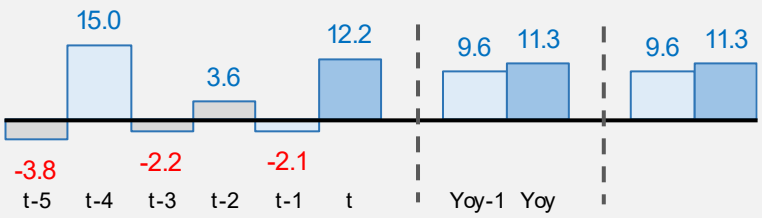
Deposit growth -- qoq, yoy, FYTD (%)



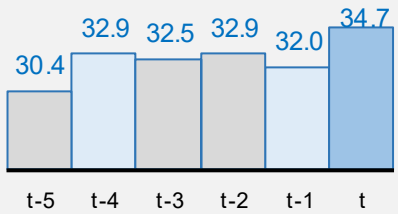
Loan/Deposit ratio (%)



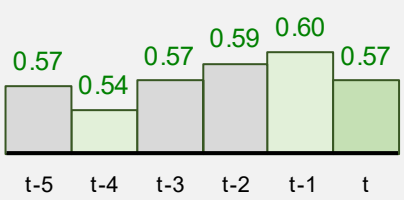
CASA growth -- qoq, yoy, FYTD (%)



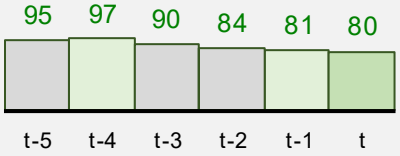
CASA ratio (%)



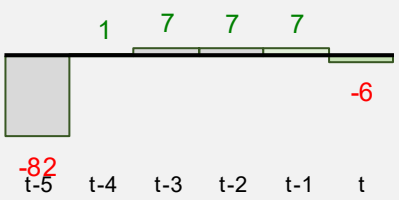
GIL ratio (%)



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	1,243	Qtrly ROE	Qtr value	12.3%
	28% of FY CNP				
	Qoq	21%		t-1	10.5%
	Yoy	14%		t-4	11.4%
Cum Core NP	RM mil	4,531	Cum ROE	Cum value	11.2%
	Within our forecast				
	101% of FY CNP				
	Within consensus				
	102% of FY CNP				
	Yoy	-3%		t-1	12.2%
NII	As expected		NIM	+ve surprise	
				Qtr value	1.85
				Cum value	1.84
	Qtr (Qoq)	3%		Qtr (Qoq)	+1bps
	Qtr (Yoy)	2%		Qtr (Yoy)	-5bps
	Cum (Yoy)	3%		Cum (Yoy)	-6bps
NOII	As expected		Qtr	% NII	73%
	Qtr (Qoq)	44%		% NOII	27%
	Qtr (Yoy)	31%	Cum	% NII	73%
	Cum (Yoy)	9%		% NOII	27%
OPEX	As expected		Cost/ Inc.	As expected	
				Qtr value	38.7%
				Cum value	37.6%
	Qtr (Qoq)	8%		Qtr (Qoq)	-1.2%
	Qtr (Yoy)	9%		Qtr (Yoy)	+0.1%
	Cum (Yoy)	1%		Cum (Yoy)	-1.2%
JV & Asso-ciates	As expected				
	Qtr (Qoq)	2%			
	Qtr (Yoy)	-4%			
	Cum (Yoy)	30%			

Metric	Surprise? Qoq/Yoy		Metric	Surprise? Qoq/Yoy	
Loans	+ve surprise				
	Qoq	3.7%			
	Yoy	7.7%			
	YTD (FY)	7.7%			
Depo. grwth	As expected		CASA grwth	As expected	
	Qoq	3.5%		Qoq	12.2%
	Yoy	5.5%		Yoy	11.3%
	YTD (FY)	5.5%		YTD (FY)	11.3%
CASA ratio	As expected		L/D ratio	As expected	
	Value now	34.7%		Value now	89.4%
	Qoq	+2.7%		Qoq	+0.2%
	Yoy	+1.8%		Yoy	+1.9%
GIL ratio	As expected		LLC ratio	As expected	
	Value now	0.57%		Value now	80%
	Qoq	-3bps		Qoq	-2%
	Yoy	+3bps		Yoy	-17%
Qtrly Net CC	+ve surprise		Cum Net CC	As expected	
	Net writebacks			Decent provision	
	Value now	-6bps		Value now	4bps
	t-1	7bps			
	t-4	1bps		t-4	-19bps
CET 1	Healthy level		Div payout	Div announced	
	As expected			+ve surprise	
	Value now	12.9%		Payout	50%
	Qoq	0.5%			

Source: Company, MBSBR

FINANCIAL SUMMARY

INCOME STATEMENT

FYE Jun (RM m)	FY25	FY26	FY27F	FY28F	FY29F
Net interest income	**3,988**	**4,062**	**4,374**	**4,627**	**4,898**
Islamic banking inc.	1,160	1,242	1,245	1,317	1,394
Other operating inc.	1,251	1,389	1,490	1,538	1,645
Net income	**6,398**	**6,693**	**7,109**	**7,482**	**7,937**
OPEX	(2,479)	(2,514)	(2,772)	(2,918)	(3,095)
PPOP	**3,919**	**4,179**	**4,336**	**4,564**	**4,841**
Loan allowances	383	(79)	(117)	(125)	(134)
Other allowances	0	0	(0)	(0)	(0)
JV & Associates	1,058	1,380	1,532	1,700	1,887
PBT	**5,360**	**5,480**	**5,751**	**6,139**	**6,595**
Tax & zakat	(1,087)	(949)	(1,052)	(1,123)	(1,207)
NCI	-	-	-	-	-
Reported NP	**4,273**	**4,531**	**4,699**	**5,016**	**5,388**
Core NP	**4,681**	**4,531**	**4,699**	**5,016**	**5,388**
Total NII	4,927	5,086	5,400	5,713	6,047
Total NOII	1,471	1,607	1,709	1,770	1,890

BALANCE SHEET

FYE Jun (RM m)	FY25	FY26	FY27F	FY28F	FY29F
Cash & ST funds	13,240	10,907	10,908	10,909	10,910
Investment securities	72,023	69,582	71,431	73,387	75,458
Net loans	208,965	225,265	241,073	258,010	276,114
Other IEAs	479	1,209	1,209	1,209	1,209
Non-IEAs	19,911	21,448	19,747	21,495	23,450
Total assets	**314,618**	**328,411**	**344,368**	**365,010**	**387,141**
Customer deposits	238,926	252,064	269,709	288,589	308,790
Other IBLs	22,622	21,826	22,177	22,496	22,828
Non-IBLs	13,783	12,731	8,555	7,864	7,330
Total liabilities	**275,331**	**286,621**	**300,440**	**318,948**	**338,947**
Share capital	7,739	7,739	7,739	7,739	7,739
Reserves	31,548	34,051	36,189	38,323	40,455
Shareholders' funds	**39,287**	**41,790**	**43,928**	**46,062**	**48,194**
NCI	-	-	-	-	-
Total equity	**39,287**	**41,790**	**43,928**	**46,062**	**48,194**
Total L&E	**314,618**	**328,411**	**344,368**	**365,010**	**387,141**
Total IEAs	294,708	306,963	324,621	343,515	363,691
Total IBLs	261,548	273,890	291,885	311,084	331,618
Gross loans	210,064	226,288	242,128	259,077	277,212
CASA	78,527	87,386	91,701	98,120	104,989

FINANCIAL RATIOS

FYE Jun (RM m)	FY25	FY26	FY27F	FY28F	FY29F
Interest (%)					
NIM	1.73	1.69	1.71	1.71	1.71
Return on IEAs	3.12	2.94	3.03	2.94	2.86
Cost of funds	1.93	1.78	1.84	1.72	1.62
Net interest spread	1.19	1.15	1.19	1.22	1.24
Profitability (%)					
ROE	**12.2**	**11.2**	**11.0**	**11.1**	**11.4**
ROA	1.5	1.4	1.4	1.4	1.4
NOII/Net income	23.0	24.0	24.0	23.7	23.8
Effective tax rate	20.3	17.3	18.3	18.3	18.3
Cost/Income	38.7	37.6	39.0	39.0	39.0
Liquidity (%)					
Loan/Deposit	87.5	89.4	89.4	89.4	89.4
CASA ratio	32.9	34.7	34.0	34.0	34.0
Asset Quality (%)					
GIL ratio	0.54	0.57	0.55	0.52	0.50
LLC ratio	97	80	80	80	80
LLC (w. reserves)	259	246	243	241	236
Net CC (bps)	-19	4	5	5	5
Capital (%)					
CET 1	13.2	12.9	13.9	13.9	13.9
Tier 1 capital	14.2	13.8	14.7	14.7	14.6
Total capital	16.3	16.2	17.1	17.0	16.9
Growth (%)					
Total NII	5.5	3.2	6.2	5.8	5.8
Total NOII	33.5	9.3	6.3	3.6	6.8
Net income	10.9	4.6	6.2	5.3	6.1
OPEX	6.0	1.4	10.3	5.3	6.1
Core NP	11.6	-3.2	3.7	6.7	7.4
Gross loans	7.8	7.7	7.0	7.0	7.0
Customer deposits	8.4	5.5	7.0	7.0	7.0
CASA	9.6	11.3	4.9	7.0	7.0
Valuation metrics					
Core EPS (sen)	228.4	221.1	229.3	244.8	262.9
Gross DPS (sen)	96.0	110.0	123.8	139.4	157.7
Div payout (%)	42	50	54	57	60
BVPS (RM)	19.2	20.4	21.4	22.5	23.5
Core P/E (x)	10.5	10.8	10.4	9.8	9.1
Div yield (%)	**4.0**	**4.6**	**5.2**	**5.8**	**6.6**
P/BV (x)	1.2	1.2	1.1	1.1	1.0

Source: Company, MBSBR

MBSB RESEARCH is part of MBSB Investment Bank Berhad 197501002077 (24878-X).

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MBSB 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