

Hong Leong Bank Berhad

(5819 | HLBK MK) Financial Services | Finance

4QFY23 Results: Higher Costs Incoming

KEY INVESTMENT HIGHLIGHTS

- FY23's Core NP of RM3,852m was *Within/Within* our/*street* forecasts: **100%/100%** of full-year forecasts
- Management's tone: **Neutral**
- Core themes: (a) Elevated OPEX guided, (b) BOCD issues, (c) Strong balance sheet growth.
- Forecasts revised: FY24F/25F Core NP adjusted by **-5%/-8%**.
- **Maintain BUY | Revised TP of RM22.96 | based on a revised FY24F P/BV of 1.26x (formerly 1.37x)**

Verdict: Still good, but possible difficulty in achieving 12% ROE target.

Yays	1. Loan growth should remain strong. 2. Excellent asset quality and overlay writeback possibility.
Nays	1. Wary of possible cost elevation in the medium term, as multi-year plans are rolled out.
OKs	1. BOCD outlook is mixed. 2. CET1 could be better but should see recovery in subsequent quarters.

FY23's Core net profit (NP) of RM3,852m up by +24%oyoy. Reflecting improved NOII, provisioning and BOCD performance, as well as controlled OPEX growth and NII compression. There were also one-offs pertaining to BOCD convertible bond gains that affected FY23's earnings positively and FY22's negatively.

4QFY23's Core NP of RM899m down by -3%qoq. NOII fell by close to -41%qoq due to treasury losses, while end-year OPEX was heavy. This offset improved NII, loan provisions and Associate contributions (which might have benefitted from HLBK's temporarily enlarged stake in BOCD).

Both gross loans and deposits grew by a significant +4.3%qoq. SME and overseas loans grew by an impressive +5.4%qoq and +7.0%qoq respectively. HLBK did guide for an easier deposit outlook in past quarters (given that they have been frontloading business accounts).

Have a look at:

New CEO, big plans, elevated OPEX. Kevin Lam is the new CEO of HLBK. He has announced multiple ambitious plans. While these may make compelling stories for now, we are wary of the additional cost component that often accompanies it – CIR guidance for FY24F is 40%, higher than the usual 38% -- and we see further possible downside risks to OPEX.

Another certainty seems to be the revamp of the wealth management division. This division has contributed to lacklustre earnings in FY23, largely due to a major restructuring within the department at that time. Based on HLBK's pre-existing SME and business-heavy customer base, we believe that HLBK should have no issue tapping this source of wealth.

Maintain BUY

Revised Target Price: RM22.96
(Previously RM24.91)

RETURN STATISTICS

Price @ 31 August 2023 (RM)	19.96
Expected share price return (%)	+15.0
Expected dividend yield (%)	+3.4
Expected total return (%)	+18.5

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	1.9	1.7
3 months	5.1	-1.3
12 months	-4.2	-1.1

INVESTMENT STATISTICS

FYE Jun	FY24F	FY25F	FY26F
Core NP (RM m)	4,028	4,279	4,503
CNP growth (%)	5	6	5
Div yield (%)	3.4	3.7	3.9
Gross DPS (sen)	68.8	73.1	76.9
P/BV (x)	1.1	1.0	0.9
BVPS (RM)	18.2	19.8	21.3
ROE (%)	11.3	11.0	10.7
MIDF/Street CNP (%)	100	98	98

KEY STATISTICS

FBM KLCI	1,451.94
Issue shares (m)	2,048.4
Estimated free float (%)	32.1
Market Capitalisation (RM'm)	43,180.9
52-wk price range	RM18.4 - RM21.5
3-mth avg daily volume (m)	1.0
3-mth avg daily value (RM'm)	19.2
Top Shareholders (%)	
Hong Leong Financial Group Bhd	61.8
EPF Board	10.1
Hong Leong Bank Sdn Bhd	1.8

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Failure to reach some FY23 targets, while some FY24F targets are too conservative or ambitious.

Disappointingly, HLBK has failed to achieve its 12% FY23 ROE target, falling short at 11.9%. This was somewhat derailed by worse-than-expected NIM. With that in mind, we think that there is a lot of downside risk to HLBK's FY24F ROE target of 12% (though keep in mind this target does not factor in overlay writebacks) – most notably higher cost pressure and lacklustre BOCD contributions.

We believe that HLBK's FY24F loan growth guidance of 6-7% and NIM guidance of 1.8-1.9% (which implies -8-18bps of compression in FY24) is way too conservative, despite a lacklustre macro environment. Add this to HLBK's current discussions to elevate its Loan/Deposit ratio from its standard ~85% level to a more optimal range (which, in turn, would provide some upside to NIM).

HLBK temporarily increases its stake in BOCD. Via convertible bonds, HLBK has in this quarter temporarily increased its stake in Bank of Chengdu (BOCD) to 19.7% (From 17.6% before bond conversion). As a result, HLBK may see slightly higher associate contributions from BOCD, though only in the near term. This is because other shareholders are expected to increase their respective stakes within the next 12 months – possibly diluting HLBK's stake back down to the initial ~18% range.

The BOCD bond conversion had an -67bps impact on HLBK's CET1, which may have led to a lower dividend payout of 32% (from the standard >35% range).

Management has also confirmed that Country Gardens is not a borrower. However, we still remain a bit wary of BOCD's prospects, given negative property-related newsflow on asset quality and adverse interest rate movements in China.

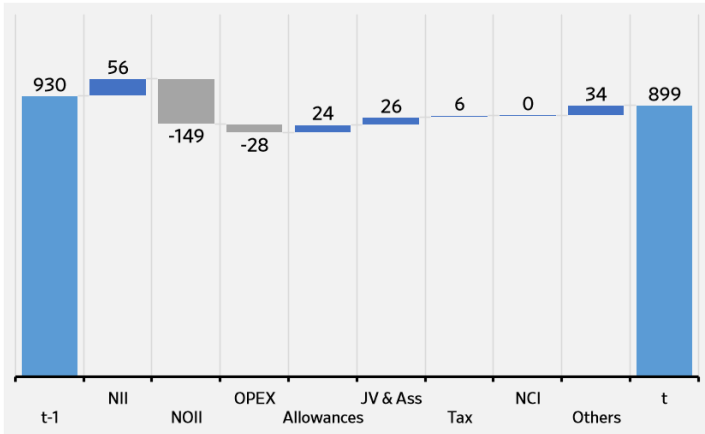
Forecasts revised: FY24F/25F Core NP adjusted by -5%/-8%. To reflect the latest guidance, most notably higher costs. We are wary of possible ROE compression, especially amid less optimistic NIM and cost outlook, and we believe there's a high chance that HLBK will be unable to meet its FY24F ROE target of 12%.

Key downside risks. (1) Severe NIM compression, (2) Lacklustre NOII, (3) Weaker-than-anticipated NCC outlook.

Maintain BUY call: Revised GGM-TP of RM 22.96 (from RM24.91). The TP is based on a revised FY24F P/BV of 1.26x (formerly 1.37x), to reflect altered earnings prospects and ROE-based valuations. **(GGM assumptions: FY24F ROE of 11.3%, LTG of 4.0% & COE of 9.8%)**

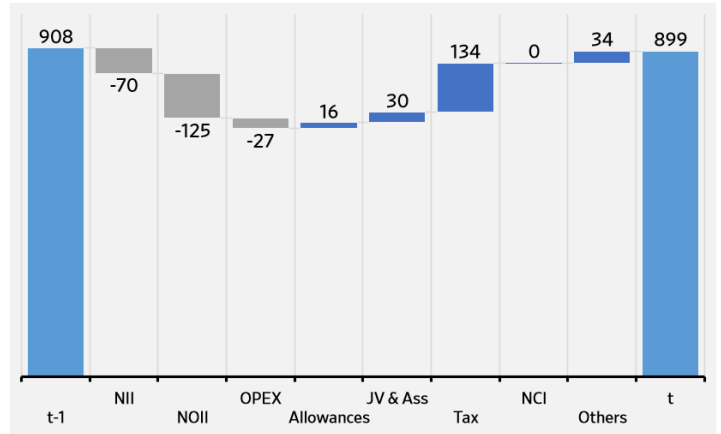


Fig 1: QoQ P/L walk (Quarterly results)



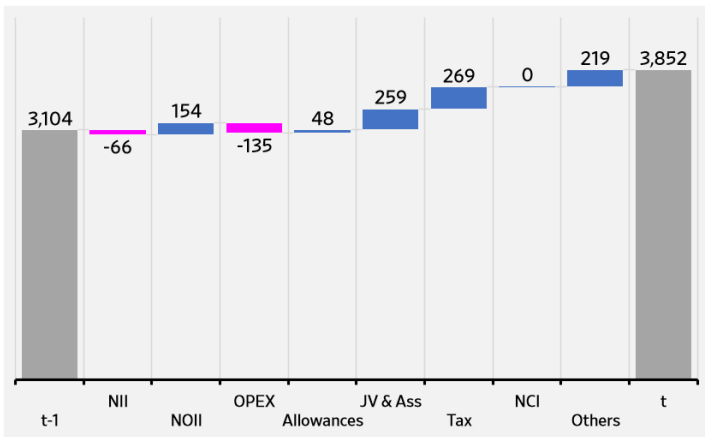
Source: Hong Leong Bank, MIDFR

Fig 2: YoY P/L walk (Quarterly results)



Source: Hong Leong Bank, MIDFR

Fig 3: YoY P/L walk (Cumulative results)



Source: Hong Leong Bank, MIDFR

Fig 4: Quarterly results

FYE Jun (RM m)	4Q FY23	3Q FY23	4Q FY22	Yoy (%)	Qoq (%)	FY23	FY22	Yoy (%)
Net interest inc.	893	847	929	-4	6	3,684	3,755	-2
Islamic banking inc.	230	209	239	-4	10	963	905	6
Non-interest inc.	180	341	331	-45	-47	1,038	937	11
Net income	1,303	1,396	1,498	-13	-7	5,686	5,597	2
OPEX	(587)	(559)	(560)	5	5	(2,233)	(2,098)	6
PPOP	716	837	938	-24	-14	3,452	3,499	-1
Loan provisions	(14)	(38)	(30)	-52	-62	(115)	(164)	-29
Other provisions	0	0	0	n.m.	n.m.	0	1	n.m.
JV & Associates	339	313	309	10	8	1,289	1,030	25
PBT	1,040	1,112	1,217	-15	-6	4,627	4,367	6
Tax	(176)	(182)	(310)	-43	-3	(808)	(1,078)	-25
NCI	-	-	-	n.m.	n.m.	-	-	n.m.
Reported NP	865	930	908	-5	-7	3,818	3,289	16
Core NP	899	930	908	-1	-3	3,852	3,104	24
Total NII	1,089	1,033	1,159	-6	5	4,552	4,618	-1
Total NOII	214	363	339	-37	-41	1,134	979	16
Gross DPS (sen)	38.0	-	37.0	n.m.	n.m.	59.0	55.0	n.m.
Core EPS (sen)	43.8	45.4	44.3	-1	-3	188.0	151.5	24
Gross loans	181,677	174,228	168,234	8.0	4.3			
Gross impaired loans	1,042	904	820	27.1	15.3			
Customer deposits	211,652	202,956	195,227	8.4	4.3			
CASA	65,097	60,405	66,051	-1.4	7.8			
Ratios (%)	4Q FY23	3Q FY23	4Q FY22	Yoy (ppts)	Qoq (ppts)	FY23	FY22	Yoy (ppts)
ROE (Ann.)	11.1	11.8	12.0	-0.9	-0.7	11.9	10.3	1.6
NIM (Reported)	1.83	1.82	2.10	-0.27	0.01	1.98	2.14	-0.16
NOII/Net income	16.4	26.0	22.7	-6.2	-9.6	16.4	22.7	-6.2
Cost/Income	45.1	40.1	37.4	7.7	5.0	39.3	37.5	1.8
NCC (Ann.) (bps)	3	9	7	-4	-6	7	10	-4
GIL ratio	0.57	0.52	0.49	0.09	0.05			
Loan loss coverage	(169)	197	212	-381	-365			
CASA ratio	30.8	29.8	33.8	-3.1	1.0			
L/D ratio	85.0	85.0	85.3	-0.3	0.0			
CET-1	12.8	12.9	13.4	-0.6	-0.0			

Source: Hong Leong Bank, MIDFR

Fig 5: Retrospective performance (Income Statement)

Metric	Surprise? Qoq/Yoy		Metric	Surprise? Qoq/Yoy	
Qtrly Core NP	RM mil	899	Qtrly ROE	Qtr value	11.1%
	23% of FY CNP				
	Qoq	-3%		t-1	11.8%
	Yoy	-1%		t-4	12.0%
Cum Core NP	RM mil	3,852	Cum ROE	Cum value	11.9%
	Within our forecast				
	100% of FY CNP				
	Within consensus				
	100% of FY CNP				
Yoy	24%	t-1	10.3%		
NII	As expected		NIM	As expected	
				Qtr value	1.83
				Cum value	1.98
	Qtr (Qoq)	5%		Qtr (Qoq)	+1bps
	Qtr (Yoy)	-6%		Qtr (Yoy)	-27bps
Cum (Yoy)	-1%	Cum (Yoy)	-16bps		
NOII	As expected		Qtr	% NII	84%
	Qtr (Qoq)	-41%		% NOII	16%
	Qtr (Yoy)	-37%	Cum	% NII	84%
	Cum (Yoy)	16%		% NOII	16%
OPEX	As expected		Cost/ Inc.	As expected	
				Qtr value	45.1%
				Cum value	39.3%
	Qtr (Qoq)	5%		Qtr (Qoq)	+5.0%
	Qtr (Yoy)	5%		Qtr (Yoy)	+7.7%
Cum (Yoy)	6%	Cum (Yoy)	+1.8%		
JV & Asso- ciates	As expected				
	Qtr (Qoq)	8%			
	Qtr (Yoy)	10%			
	Cum (Yoy)	25%			

Source: Hong Leong Bank, MIDFR

Notes (Cum = Cumulative, Qtr = Quarterly)

A disappointing quarter, dragged by huge NOII losses.**Good retention. HLBK's business account accumulation in previous quarters is paying off.**

Despite this, the cumulative value of 1.98% fell below HLBK's 2.00% target – which leads us to believe that they were expecting a stronger 4QFY23 NIM.

Huge falloff due to treasury income.**Higher 4Q effects were expected.****Good increase in contribution but be wary some of it is due to a temporarily increased stake in BOCD.**

Fig 6: Retrospective performance (Balance Sheet, Dividends, and anything extra)

Metric	Surprise? Qoq/Yoy		Metric	Surprise? Qoq/Yoy		Notes (Cum = Cumulative, Qtr = Quarterly)
Loans	As expected		CASA grwth	As expected		
	Qoq	4.3%		Qoq	7.8%	
	Yoy	8.0%		Yoy	-1.4%	
	YTD (FY)	8.0%		YTD (FY)	-1.4%	
Depo. grwth	As expected		L/D ratio	As expected		<p>Uptick but v manageable. Big leap in overseas loans, while local residential properties see an increase (well in line with industry).</p>
	Qoq	4.3%		Value now	85.0%	
	Yoy	8.4%		Qoq	+0.0%	
CASA ratio	As expected		LLC ratio	As expected		<p>CET1 took a dip following BOCD convertible bond activation. As a result, payout took a dip from the usual >35% range.</p>
	Value now	30.8%		Value now	-169%	
	Qoq	+1.0%		Qoq	-365%	
Yoy	-3.1%		Yoy	-381%	<p>Qtrly Net CC</p> <p>As expected</p> <p>Decent provision</p> <p>Value now 3bps</p> <p>t-1 9bps</p> <p>t-4 7bps</p>	
	+9bps		Yoy	-381%		
	+9bps		Yoy	-381%		
GIL ratio	As expected		Cum Net CC	As expected		<p>Div payout</p> <p>Div announced</p> <p>-ve surprise</p> <p>Payout 32%</p>
	Value now	0.57%		Value now	7bps	
	Qoq	+5bps		t-1		
Qtrly Net CC	As expected		CET 1	As expected		<p>Healthy level</p> <p>As expected</p> <p>Value now 12.8%</p> <p>Qoq -0.0%</p>
	Decent provision			Value now	32%	
	Value now	3bps		t-1		
LLC ratio	As expected		CET 1	As expected		<p>Div announced</p> <p>-ve surprise</p> <p>Payout 32%</p>
	Value now	7bps		Value now	32%	
	Qoq	+5bps		t-1		
Yoy	+9bps		Yoy	-381%	<p>Healthy level</p> <p>As expected</p> <p>Value now 12.8%</p> <p>Qoq -0.0%</p>	
	+9bps		Yoy	-381%		
	+9bps		Yoy	-381%		

Source: Hong Leong Bank, MIDFR

Fig 7: Targets, Achievements, and Outlook

Targets	FY24F	FY23F	FY23	Notes (Red: New guidance, Strikethrough: Guidance is no longer pertinent)
ROE	~12	>12	11.9	Elevated OPEX may prevent HLBK from hitting the 12% level.
CIR	<40	<38.0	39.3	Expect higher OPEX in the next couple of years as HLBK unveils major plans.
NIM	1.8-1.9 (FY23: 1.98)	~2.00	1.98	
NOII			16% (yoy)	
Associates			25% (yoy)	
Loans	6-7	~7	8.0 (YTD)	We feel that HLBK's loan growth target is a bit lenient.
Deposits			8.4 (YTD)	
% CASA	>30	>30	30.8	
Loan/Depo			85.0	HLBK may be considering permanently shifting its L/D to more optimal levels from its usual ~85% range.
GIL ratio	<0.70	~0.60	0.57	
NCC (bps)	~10	~10	7	
LLC			(169)	
CET 1			12.8	
Div payout			32	Usually 30-38% range.

Source: Hong Leong Bank, MIDFR

FINANCIAL SUMMARY

INCOME STATEMENT

FYE Jun (RM m)	FY22	FY23	FY24F	FY25F	FY26F
Interest income	5,723	7,531	7,980	8,363	8,990
Interest expense	(1,968)	(3,847)	(3,924)	(4,069)	(4,520)
Net interest income	3,755	3,684	4,056	4,294	4,470
Islamic banking inc.	905	963	1,034	1,095	1,140
Other operating inc.	937	1,038	996	1,132	1,188
Net income	5,597	5,686	6,085	6,522	6,797
OPEX	(2,098)	(2,233)	(2,434)	(2,609)	(2,719)
PPOP	3,499	3,452	3,651	3,913	4,078
Loan allowances	(164)	(115)	(187)	(259)	(274)
Other allowances	1	0	(0)	(0)	(0)
JV & Associates	1,030	1,289	1,418	1,532	1,654
PBT	4,367	4,627	4,882	5,186	5,459
Tax & zakat	(1,078)	(808)	(854)	(908)	(955)
NCI	-	-	-	-	-
Reported NP	3,289	3,818	4,028	4,279	4,503
Core NP	3,104	3,852	4,028	4,279	4,503
Total NII	4,618	4,552	5,007	5,302	5,518
Total NOII	979	1,134	1,079	1,220	1,279

BALANCE SHEET

FYE Jun (RM m)	FY22	FY23	FY24F	FY25F	FY26F
Cash & ST funds	6,937	8,644	6,994	7,193	7,211
Investment securities	65,799	70,736	69,198	68,060	67,296
Net loans	166,488	179,903	191,563	203,549	215,589
Other IEAs	0	0	0	0	0
Non-IEAs	15,107	20,568	20,426	22,749	28,889
Total assets	254,331	279,850	288,181	301,550	318,985
Customer deposits	197,292	211,652	225,409	238,934	252,792
Other IBLs	16,421	22,677	17,685	17,885	18,299
Non-IBLs	9,629	11,535	7,751	4,183	4,271
Total liabilities	223,342	245,864	250,845	261,001	275,362
Share capital	7,739	7,739	7,739	7,739	7,739
Reserves	23,250	26,248	29,597	32,809	35,885
Shareholders' funds	30,989	33,987	37,336	40,548	43,624
NCI	0	0	0	0	0
Total equity	30,989	33,987	37,336	40,548	43,624
Total L&E	254,331	279,850	288,181	301,550	318,985
Total IEAs	239,224	259,282	267,755	278,801	290,097
Total IBLs	213,714	234,328	243,095	256,819	271,090
Gross loans	168,234	181,677	193,122	204,710	216,788
CASA	66,051	65,097	65,369	66,901	70,782

FINANCIAL RATIOS

FYE Jun (RM m)	FY22	FY23	FY24F	FY25F	FY26F
Interest (%)					
NIM	1.99	1.83	1.90	1.94	1.94
Return on IEAs	2.47	3.02	3.03	3.06	3.16
Cost of funds	0.95	1.72	1.64	1.63	1.71
Net interest spread	1.52	1.30	1.38	1.43	1.45
Profitability (%)					
ROE	10.3	11.9	11.3	11.0	10.7
ROA	1.3	1.4	1.4	1.5	1.5
NOII/Net income	17.5	19.9	17.7	18.7	18.8
Effective tax rate	24.7	17.5	17.5	17.5	17.5
Cost/Income	37.5	39.3	40.0	40.0	40.0
Liquidity (%)					
Loan/Deposit	84.4	85.0	85.0	85.2	85.3
CASA ratio	33.5	30.8	29.0	28.0	28.0
Asset Quality (%)					
GIL ratio	0.49	0.57	0.50	0.40	0.39
LLC ratio	212	169	160	140	140
LLC (w. reserves)	292	265	224	216	213
Net CC (bps)	10	7	10	13	13
Capital (%)					
CET 1	13.9	12.8	13.4	13.5	13.6
Tier 1 capital	15.1	13.9	14.4	14.5	14.5
Total capital	17.2	15.9	16.4	16.5	16.4
Growth (%)					
Total NII	7.1	-1.4	10.0	5.9	4.1
Total NOII	-15.3	15.7	-4.8	13.1	4.8
Net income	2.4	1.6	7.0	7.2	4.2
OPEX	1.0	6.4	9.0	7.2	4.2
Core NP	8.5	24.1	4.6	6.2	5.3
Gross loans	8.0	8.0	6.3	6.0	5.9
Customer deposits	7.6	7.3	6.5	6.0	5.8
CASA	11.5	-1.4	0.4	2.3	5.8
Valuation metrics					
Core EPS (sen)	151.5	188.0	196.5	208.8	219.8
Gross DPS (sen)	55.0	59.0	68.8	73.1	76.9
Div payout (%)	36	31	35	35	35
BVPS (RM)	15.1	16.6	18.2	19.8	21.3
Core P/E (x)	13.2	10.6	10.2	9.6	9.1
Div yield (%)	2.8	3.0	3.4	3.7	3.9
P/BV (x)	1.3	1.2	1.1	1.0	0.9

Source: Hong Leong Bank, MIDFR

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MIDF AMANAH INVESTMENT BANK: GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
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	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

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