

Hong Leong Bank Berhad

(5819 | HLBK MK) Financial Services | Finance

2QFY24 Results: Concerns About the SME Segment

KEY INVESTMENT HIGHLIGHTS

- 6MFY24's Core NP of RM2,118m was *Within/Within* our/*street* forecasts: **53%/52%** of full-year forecasts
- Management's tone: **Cautiously optimistic**
- Core themes: (a) Still room for L/D optimisation, (b) Conservative NCC guidance maintained, (c) Huge CASA influx
- Forecasts unchanged
- **Maintain BUY | Unchanged TP of RM21.38 | based on an unchanged FY25F P/BV of 1.11x**

Verdict: Still a good defensive pick, despite SME segment fears.

Yays	<ol style="list-style-type: none"> 1. Excellent asset quality and provisioning buffer. 2. Intention to elevate L/D ratio offers space for further NIM optimisation. 3. High profitability, low CIR.
Nays	<ol style="list-style-type: none"> 1. Some asset quality skittishness centred on the SME segment.
OKs	<ol style="list-style-type: none"> 1. YTD loans growth has been a bit slow. 2. Management seems confident in its CASA accumulation franchise.

Results in a nutshell:

▲ **6MFY24's Core net profit (NP) of RM2,118m up by +5%yoy.** Associate contributions and net writebacks offset higher OPEX and weaker NII income.

▲ **2QFY24's Core NP of RM1,088m up by +6%qoq.** Stronger NII, NOII and strong BOCD result offset higher tax and OPEX charges, as well as weaker writebacks.

► **Gross loans grew by +1.9%qoq, coming up to +1.9%YTD.** Loan growth was on the weaker side, as management intends to preserve NIMs.

▼ **Deposits grew by -1.0%qoq, coming up to -2.2%YTD.** HLBK continues paring down on pricier Global Market deposits.

▲ **GIL moved by -1bps to 0.56%, LLC currently at 163%.**

Have a look at:

► **NCC stance is very conservative, despite concerns about SME segment.** HLBK foresees SME GILs to continue rising (though at a moderate delta). There has been no writeback in pre-emptive buffers in 1HFY24 – management intends to keep overlays intact.

Despite currently being in a net writeback position, HLBK refuses to lower its FY24 10bps NCC guidance. Thankfully, they do not foresee a massive provision in 2HFY24 that could lift up FY24's cumulative level hovering at the 10bps level. Instead, they cite their intention to push deeper into the riskier SME space as well as less reliance on recovery incidences in 2HFY24 as being the reason for maintaining current NCC guidance.

Maintain BUY
Unchanged Target Price: RM21.38

RETURN STATISTICS

Price @ 28 February 2024 (RM)	19.62
Expected share price return (%)	+9.0
Expected dividend yield (%)	+3.7
Expected total return (%)	+12.7

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	2.2	-0.9
3 months	3.7	-4.5
12 months	-3.3	-9.3

INVESTMENT STATISTICS

FYE Jun	FY24F	FY25F	FY26F
Core NP (RM m)	4,028	4,279	4,503
CNP growth (%)	5	6	5
Div yield (%)	3.5	3.7	3.9
Gross DPS (sen)	68.8	73.1	76.9
P/BV (x)	1.1	1.0	0.9
BVPS (RM)	17.9	19.3	20.7
ROE (%)	11.4	11.2	11.0
MIDF/Street CNP (%)	99	98	95

KEY STATISTICS

FBM KLCI	1,545.59
Issue shares (m)	2,049.0
Estimated free float (%)	32.2
Market Capitalisation (RM'm)	42,487.3
52-wk price range	RM18.4 - RM20.6
3-mth avg daily volume (m)	0.8
3-mth avg daily value (RM'm)	15.1
Top Shareholders (%)	
Hong Leong Financial Group Bhd	61.8
EPF Board	9.3
Hong Leong Bank Sdn Bhd	2.3

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▲ **NIM optimisation drove 1HFY24's balance sheet movements.** In an outlier move, HLBK managed to boast an impressive +1bps qoq gain in NIM (when the rest of the industry saw declines). They employed various NIM optimisation measures: (1) Slowing down on loan growth to focus on more targeted segments, (2) Continued paring down of pricier Global Market deposits this quarter, (3) Huge CASA inflow on a sequential-quarter basis, which the Group attributes to cash management solutions, and opportunities in the SME segment (We think it may have to do with the large number of business deposit accounts created early last year).

► **L/D ratio not quite optimised yet.** Although HLBK was guiding for L/D ratio to be increased by this quarter, it has barely moved at all (and thus played no part in the NIM improvements). As mentioned above, the paring of deposits was offset by weak loan growth. This implies that the Group is willing to work on both numerator and denominator in optimising its L/D ratio, as opposed to relying on straight loan growth. It has alluded to possible further instances of deposit paring.

Forecasts unchanged. We make no changes to our forecasts.

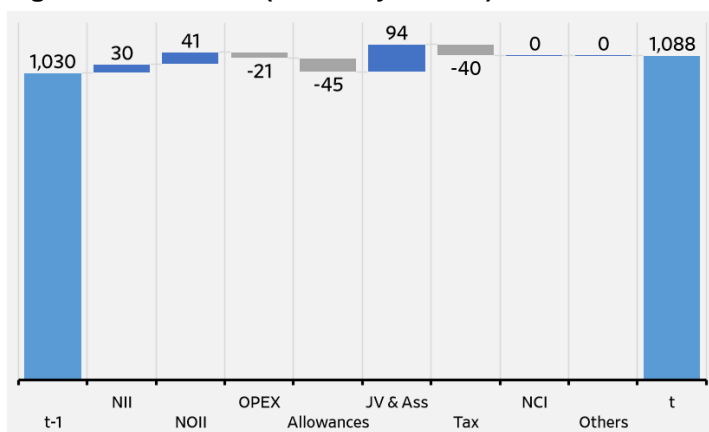
Key downside risks. (1) Associate contributions weaken, (2) Higher-than-expected NOII, (3) NIM compression.

Maintain BUY call: Unchanged GGM-TP of RM 21.38. The TP is based on an unchanged FY25F P/BV of 1.11x.

(GGM assumptions: FY25F ROE of 11.2%, LTG of 4.0% & COE of 10.5%)

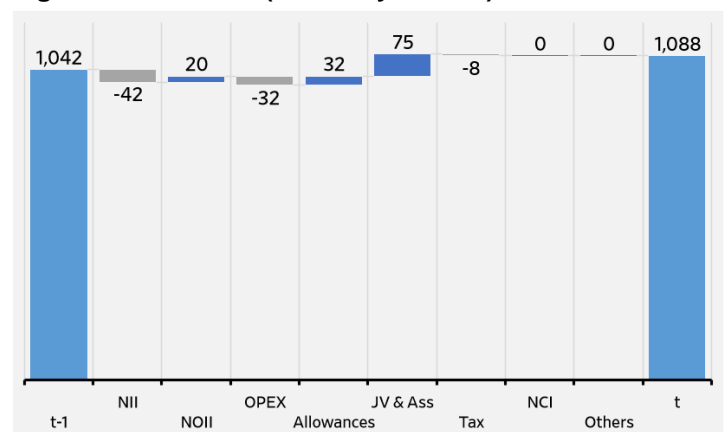


Fig 1: QoQ P/L walk (Quarterly results)



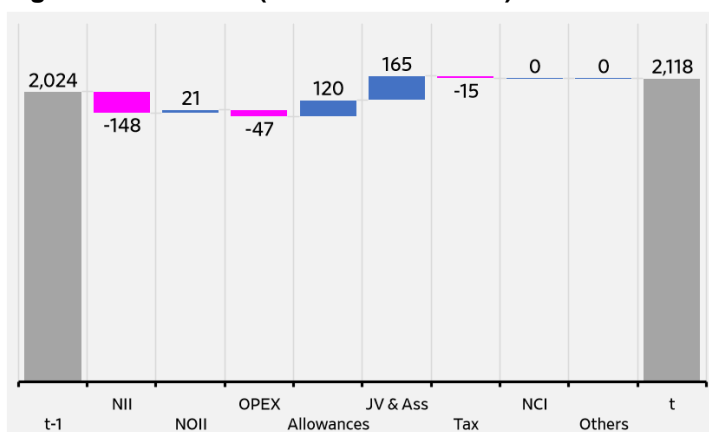
Source: Hong Leong Bank, MIDFR

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)	2Q FY24	1Q FY24	2Q FY23	Yoy (%)	Qoq (%)	1H FY24	1H FY23	Yoy (%)
Net interest inc.	950	922	955	-0	3	1,872	1,944	-4
Islamic banking inc.	241	230	273	-12	5	472	525	-10
Non-interest inc.	273	242	258	6	13	516	517	-0
Net income	1,465	1,394	1,486	-1	5	2,859	2,986	-4
OPEX	(578)	(556)	(546)	6	4	(1,134)	(1,087)	4
PPOP	887	838	940	-6	6	1,725	1,900	-9
Loan provisions	6	51	(25)	-122	-89	57	(63)	-190
Other provisions	0	(0)	(1)	n.m.	n.m.	(0)	(0)	n.m.
JV & Associates	448	354	373	20	26	803	638	26
PBT	1,341	1,243	1,287	4	8	2,584	2,475	4
Tax	(253)	(213)	(245)	3	19	(466)	(451)	3
NCI	-	-	-	n.m.	n.m.	-	-	n.m.
Reported NP	1,088	1,030	1,042	4	6	2,118	2,024	5
Core NP	1,088	1,030	1,042	4	6	2,118	2,024	5
Total NII	1,156	1,126	1,198	-4	3	2,282	2,430	-6
Total NOII	309	268	288	7	15	577	556	4
Gross DPS (sen)	25.0	-	21.0	n.m.	n.m.	25.0	21.0	n.m.
Core EPS (sen)	53.1	50.2	50.9	4	6	103.3	98.7	5
Gross loans	185,165	181,726	172,281	7.5	1.9			
Gross impaired loans	1,033	1,030	838	23.2	0.3			
Customer deposits	206,990	209,163	197,292	4.9	-1.0			
CASA	65,778	61,913	62,162	5.8	6.2			
Ratios (%)	2Q FY24	1Q FY24	2Q FY23	Yoy (ppts)	Qoq (ppts)	1H FY24	1H FY23	Yoy (ppts)
ROE (Ann.)	12.9	12.6	13.4	-0.5	0.3	12.5	13.0	-0.5
NIM (Reported)	1.85	1.84	2.09	-0.24	0.01	1.85	2.14	-0.29
NOII/Net income	21.1	19.2	19.4	1.7	1.8	21.1	19.4	1.7
Cost/Income	39.4	39.9	36.7	2.7	-0.5	39.7	36.4	3.3
NCC (Ann.) (bps)	(1)	(12)	6	-7	10	(6)	8	-14
GIL ratio	0.56	0.57	0.49	0.07	-0.01			
Loan loss coverage	163	165	210	-47	-1			
CASA ratio	31.8	29.6	31.5	0.3	2.2			
L/D ratio	88.6	86.1	86.4	2.2	2.6			
CET-1	12.9	12.6	13.0	-0.1	0.3			

Source: Hong Leong Bank, MIDFR

Fig 5: Retrospective performance (Income Statement)

Metric	Surprise? Qoq/Yoy		Metric	Surprise? Qoq/Yoy	
Qtrly Core NP	RM mil	1,088	Qtrly ROE	Qtr value	12.9%
	27% of FY CNP				
	Qoq	6%		t-1	12.6%
	Yoy	4%		t-4	13.4%
Cum Core NP	RM mil	2,118	Cum ROE	Cum value	12.5%
	Within our forecast				
	53% of FY CNP				
	Within consensus				
	52% of FY CNP				
Yoy	5%	t-1	13.0%		
NII	As expected		NIM	+ve surprise	
				Qtr value	1.85
				Cum value	1.85
	Qtr (Qoq)	3%		Qtr (Qoq)	+1bps
	Qtr (Yoy)	-4%		Qtr (Yoy)	-24bps
Cum (Yoy)	-6%	Cum (Yoy)	-29bps		
NOII	As expected		Qtr	% NII	79%
	Qtr (Qoq)	15%		% NOII	21%
	Qtr (Yoy)	7%	Cum	% NII	79%
	Cum (Yoy)	4%		% NOII	21%
OPEX	As expected		Cost/ Inc.	As expected	
				Qtr value	39.4%
				Cum value	39.7%
	Qtr (Qoq)	4%		Qtr (Qoq)	-0.5%
	Qtr (Yoy)	6%		Qtr (Yoy)	+2.7%
Cum (Yoy)	4%	Cum (Yoy)	+3.3%		
JV & Associates	+ve surprise				
	Qtr (Qoq)	26%			
	Qtr (Yoy)	20%			
	Cum (Yoy)	26%			

Source: Hong Leong Bank, MIDFR

Notes (Cum = Cumulative, Qtr = Quarterly)

It was a strong quarter.

Thanks to heavy NIM optimisation measures, HLBK was able to actually see sequential NIM improvement.

Forex and trading incomes were excellent.

Controlled OPEX inflation.

A phenomenal quarter – management thinks we could see further instances of this level of earnings.

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					
	Qoq	1.9%				
	Yoy	7.5%				
	YTD (FY)	1.9%				
Depo. grwth	-ve surprise		CASA grwth	+ve surprise		Management initially guided that Global Market deposit paring would not recur this quarter. Regardless, CASA growth is strong and welcome.
	Qoq	-1.0%		Qoq	6.2%	
	Yoy	4.9%		Yoy	5.8%	
	YTD (FY)	-2.2%		YTD (FY)	1.0%	
CASA ratio	As expected		L/D ratio	As expected		Management warns not too rely on too many recoveries in 2HFY24.
	Value now	31.8%		Value now	88.6%	
	Qoq	+2.2%		Qoq	+2.6%	
	Yoy	+0.3%		Yoy	+2.2%	
GIL ratio	As expected		LLC ratio	As expected		
	Value now	0.56%		Value now	163%	
	Qoq	-1bps		Qoq	-1%	
	Yoy	+7bps		Yoy	-47%	
Qtrly Net CC	As expected		Cum Net CC	As expected		
	Decent provision			Decent provision		
	Value now	-1bps		Value now	-6bps	
	t-1	-12bps				
			t-4	8bps		
CET 1	Healthy level		Div payout	Div announced		The Group wants to raise its dividend payouts to be more in line with its peers – but it must achieve a more stable CET 1 ratio first.
	As expected			As expected		
	Value now	12.9%		Payout	24	
	Qoq	0.3%				
Others:						

Source: Hong Leong Bank, MIDFR

Fig 7: Targets, Achievements, and Outlook

Targets	FY24F	1H FY24	Notes (Red: New guidance, Strikethrough: Guidance is no longer pertinent)
ROE	~12	12.5	
CIR	<40	39.7	
NIM	1.8-1.9 (FY23: 1.98)	1.85	Should remain >1.85% in 2HFY24.
NOII		4% (yoy)	
Associates		26% (yoy)	
Loans	6-7	1.9 (YTD)	YTD loan growth is still far from target – but L/D ratio is still far from intended level, offering room to grow.
Deposits		-2.2 (YTD)	HLBK continues to pare down on its pricier Global Markets deposits.
% CASA	>30	31.8	
Loan/Depo		88.6	
GIL ratio	<0.70	0.56	
NCC (bps)	~10	(6)	10bps is way too conservative, despite concerns over SME segment. Management does not believe 2HFY24 will go up to drastic levels.
LLC		163	
CET 1		12.9	
Div payout		24	HLBK wants to lift its dividend yield closer to that of industry peers – but a prerequisite is to sustain CET 1 ratio at >13%.

Source: Hong Leong Bank, MIDFR

FINANCIAL SUMMARY

INCOME STATEMENT

FYE Jun (RM m)	FY22	FY23	FY24F	FY25F	FY26F
Interest income	5,723	7,531	7,787	8,208	8,898
Interest expense	(1,968)	(3,847)	(3,924)	(4,069)	(4,520)
Net interest income	3,755	3,684	3,863	4,139	4,378
Islamic banking inc.	905	963	985	1,055	1,116
Other operating inc.	937	1,038	996	1,132	1,188
Net income	5,597	5,686	5,844	6,327	6,681
OPEX	(2,098)	(2,233)	(2,338)	(2,531)	(2,673)
PPOP	3,499	3,452	3,507	3,796	4,009
Loan allowances	(164)	(115)	(112)	(199)	(274)
Other allowances	1	0	(0)	(0)	(0)
JV & Associates	1,030	1,289	1,470	1,588	1,715
PBT	4,367	4,627	4,864	5,185	5,449
Tax & zakat	(1,078)	(808)	(851)	(907)	(954)
NCI	-	-	-	-	-
Reported NP	3,289	3,818	4,013	4,278	4,496
Core NP	3,104	3,852	4,028	4,279	4,503
Total NII	4,618	4,552	4,770	5,110	5,405
Total NOII	979	1,134	1,075	1,217	1,277

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	20,477	21,941	27,692
Total assets	254,331	279,850	288,233	300,742	317,788
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	8,436	4,448	4,271
Total liabilities	223,342	245,864	251,531	261,267	275,362
Share capital	7,739	7,739	7,739	7,739	7,739
Reserves	23,250	26,248	28,963	31,736	34,688
Shareholders' funds	30,989	33,987	36,702	39,475	42,427
NCI	0	0	0	0	0
Total equity	30,989	33,987	36,702	39,475	42,427
Total L&E	254,331	279,850	288,233	300,742	317,788
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	1.81	1.87	1.90
Return on IEAs	2.47	3.02	2.96	3.00	3.13
Cost of funds	0.95	1.72	1.64	1.63	1.71
Net interest spread	1.52	1.30	1.31	1.38	1.42
Profitability (%)					
ROE	10.3	11.9	11.4	11.2	11.0
ROA	1.3	1.4	1.4	1.5	1.5
NOII/Net income	17.5	19.9	18.4	19.2	19.1
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	6	10	13
Capital (%)					
CET 1	13.9	12.8	13.4	13.6	13.6
Tier 1 capital	15.1	13.9	14.4	14.5	14.5
Total capital	17.2	15.9	16.4	16.6	16.5
Growth (%)					
Total NII	7.1	-1.4	4.8	7.1	5.8
Total NOII	-15.3	15.7	-5.2	13.2	4.9
Net income	2.4	1.6	2.8	8.3	5.6
OPEX	1.0	6.4	4.7	8.3	5.6
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	17.9	19.3	20.7
Core P/E (x)	13.0	10.4	10.0	9.4	8.9
Div yield (%)	2.8	3.0	3.5	3.7	3.9
P/BV (x)	1.3	1.2	1.1	1.0	0.9

Source: Hong Leong Bank, MIDFR

Income Statement	Balance Sheet	Valuations & Sector
Core NP – Core Net Profit	LCR – Liquidity Coverage ratio	ROE – Return on Equity
PPOP – Pre-Provisioning Operating Profit	L/D ratio – Loan/Deposit ratio	GGM – Gordon Growth Model
NII – Net Interest Income	CASA – Current & Savings accounts	P/BV – Price to Book Value
NIM – Net Interest Margin	FD – Fixed Deposits	BVPS – Book Value per Share
COF – Cost of Funds	GIL – Gross Impaired Loans	BNM – Bank Negara Malaysia
NOII – Non-Interest Income	NIL – Net Impaired Loans	OPR – Overnight Policy Rate
MTM – Mark to Market	LLC – Loan Loss Coverage	SRR – Statutory Reserve Requirement
CIR – Cost to Income Ratio	NCC – Net Credit Costs	SBR – Standardised Base Rate
OPEX – Operational Expenses	GCC – Gross Credit Costs	ALR – Average Lending Rate
	CET 1 – Common Equity Tier 1	

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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