

## Hong Leong Bank Berhad

(5819 | HLBK MK) Financial Services | Finance

### 3QFY24 Results: BOCD Contributions Moderate

#### KEY INVESTMENT HIGHLIGHTS

- 9MFY24's Core NP of RM3,162m was *Within/Within* our/street forecasts: **78%/78%** of full-year forecasts
- Management's tone: **Neutral**
- Core themes: (a) Full-year of writebacks, (b) BOCD concerns, (c) Loan growth and NIM optimism
- Forecasts unchanged
- **Maintain BUY | Unchanged TP of RM21.38 | based on an unchanged FY25F P/BV of 1.11x**

**Verdict:** Despite BOCD income expected to moderate, HLBK's valuations remain attractive, while boasting the best GIL ratio in the industry.

Yays	<ol style="list-style-type: none"> <li>Next quarter will likely see net writebacks and strong loan and deposit growth.</li> <li>CIR still highly efficient, despite a temporary increase in CIR.</li> </ol>
Nays	<ol style="list-style-type: none"> <li>BOCD-related sentiment still dragging HLBK's valuations.</li> </ol>
OKs	<ol style="list-style-type: none"> <li>BOCD's contributions to normalise, management is sure that we will not see any overly negative surprises.</li> <li>Management is hard at work driving regional contributions, as it plans to reduce BOCD reliance (and shareholdings).</li> </ol>

#### Results in a nutshell:

▲ **9MFY24's Core net profit (NP) of RM3,162m up by +7%yoy.** This was largely driven by net writebacks and stronger BOCD contributions, which offset muted OPEX growth and poorer NOII performance.

▼ **3QFY24's Core NP of RM1,044m down by -4%qoq.** Despite a slightly larger NII and provision writebacks, weaker NOII and BOCD performance dragged earnings. Note that BOCD's contribution in 2QFY24 was exceptional – these were just high-base effects.

► **Gross loans grew by +1.4%qoq, coming up to +0.0%YTD.** Regardless, HLBK expects FY24 loan growth to hit the upper bound of its 6-7% target. Fourth quarter of the financial year tends to be stronger on the loan front.

▼ **Deposits grew by +0.6%qoq, coming up to +0.4%YTD.** Weaker sequential quarter growth was due to festive season withdrawals.

▲ **GIL moved by +1bps to 0.57%, LLC currently at 154%.**

#### Have a look at:

► **BOCD's outlook is not entirely ideal.** Management guides that BOCD's profits will be more moderate from here on out. Downsides related to the Chinese property segment are not expected to be steep. The Group reiterates that it has a very active role in managing BOCD (as opposed to a "passive investment" type relationship) and believes it can provide further knowledge sharing.

**Maintain BUY**
**Unchanged Target Price: RM21.38**

#### RETURN STATISTICS

Price @ 30 May 2024 (RM)	19.26
Expected share price return (%)	+11.0
Expected dividend yield (%)	+3.8
<b>Expected total return (%)</b>	<b>+14.8</b>

#### SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	0.1	-4.8
3 months	0.7	-3.9
12 months	-2.3	-14.2

#### INVESTMENT STATISTICS

FYE Jun	FY24F	FY25F	FY26F
<b>Core NP (RM m)</b>	<b>4,028</b>	<b>4,279</b>	<b>4,503</b>
CNP growth (%)	5	6	5
<b>Div yield (%)</b>	<b>3.6</b>	<b>3.8</b>	<b>4.0</b>
Gross DPS (sen)	68.8	73.1	76.9
<b>P/BV (x)</b>	<b>1.1</b>	<b>1.0</b>	<b>0.9</b>
BVPS (RM)	17.9	19.3	20.7
<b>ROE (%)</b>	<b>11.4</b>	<b>11.2</b>	<b>11.0</b>
MIDF/Street CNP (%)	99	98	95

#### KEY STATISTICS

FBM KLCI	1,604.26
Issue shares (m)	2,049.0
Estimated free float (%)	32.2
Market Capitalisation (RM'm)	42,313.9
52-wk price range	RM18.4 - RM20.1
3-mth avg daily volume (m)	0.8
3-mth avg daily value (RM'm)	14.9
Top Shareholders (%)	
Hong Leong Financial Group Bhd	61.8
EPF Board	9.3
Hong Leong Bank Sdn Bhd	2.3

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The Group maintains its intention to pare down on its ownership in BOCD, to avoid profits from being overly reliant on BOCD’s contribution. Management is currently working hard to achieve improved regional ROE and profitability profiles – one area of focus is on SMEs.

**Forecasts unchanged.** We make no changes to our earnings forecasts.

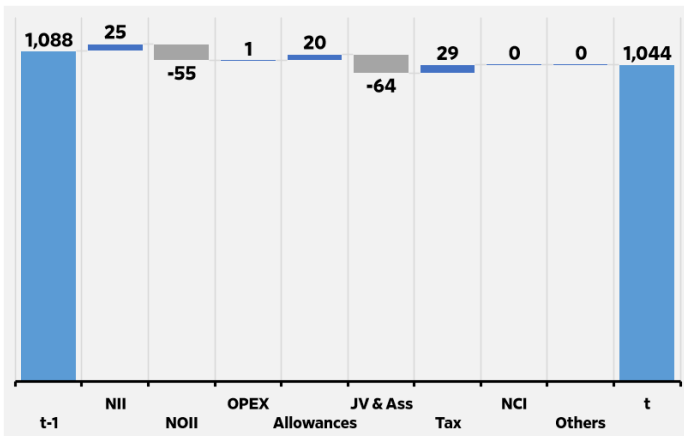
**Key downside risks.** (1) Further shocks to BOCD, (2) Lacklustre NIM performance, (3) NOII weakness.

**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%)

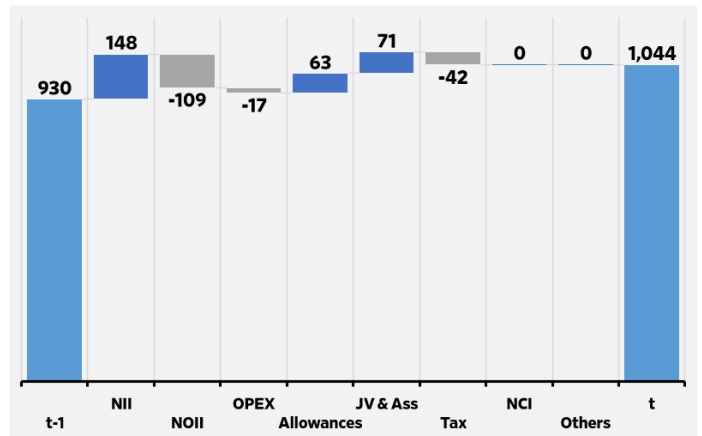


**Fig 1: QoQ P/L walk (Quarterly results)**



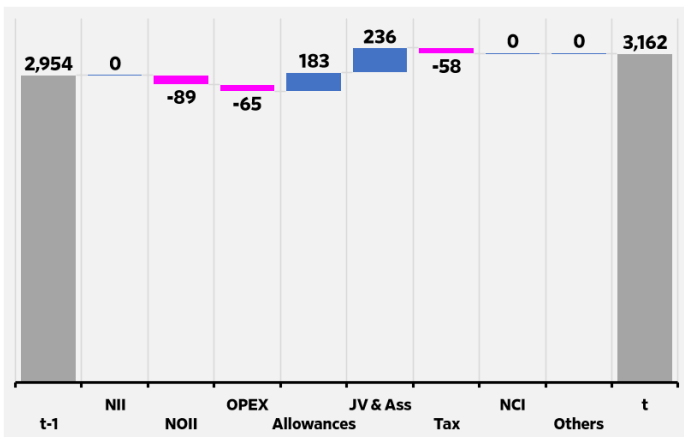
Source: Hong Leong Bank, MIDFR

**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)	3Q FY24	2Q FY24	3Q FY23	Yoy (%)	Qoq (%)	9M FY24	9M FY23	Yoy (%)
Net interest inc.	968	950	847	14	2	2,840	2,791	2
Islamic banking inc.	254	241	209	22	5	726	734	-1
Non-interest inc.	212	273	341	-38	-22	728	858	-15
<b>Net income</b>	<b>1,435</b>	<b>1,465</b>	<b>1,396</b>	<b>3</b>	<b>-2</b>	<b>4,294</b>	<b>4,382</b>	<b>-2</b>
OPEX	(577)	(578)	(559)	3	-0	(1,711)	(1,646)	4
<b>PPOP</b>	<b>858</b>	<b>887</b>	<b>837</b>	<b>3</b>	<b>-3</b>	<b>2,583</b>	<b>2,736</b>	<b>-6</b>
Loan provisions	26	6	(38)	-169	361	83	(101)	-182
Other provisions	(1)	0	0	n.m.	n.m.	(1)	(0)	n.m.
JV & Associates	384	448	313	23	-14	1,187	951	25
<b>PBT</b>	<b>1,268</b>	<b>1,341</b>	<b>1,112</b>	<b>14</b>	<b>-5</b>	<b>3,852</b>	<b>3,586</b>	<b>7</b>
Tax	(224)	(253)	(182)	23	-12	(690)	(633)	9
NCI	-	-	-	n.m.	n.m.	-	-	n.m.
<b>Reported NP</b>	<b>1,044</b>	<b>1,088</b>	<b>930</b>	<b>12</b>	<b>-4</b>	<b>3,162</b>	<b>2,954</b>	<b>7</b>
<b>Core NP</b>	<b>1,044</b>	<b>1,088</b>	<b>930</b>	<b>12</b>	<b>-4</b>	<b>3,162</b>	<b>2,954</b>	<b>7</b>
Total NII	1,181	1,156	1,033	14	2	3,463	3,463	0
Total NOII	254	309	363	-30	-18	831	919	-10
<b>Gross DPS (sen)</b>	<b>-</b>	<b>25.0</b>	<b>-</b>	<b>n.m.</b>	<b>n.m.</b>	<b>25.0</b>	<b>21.0</b>	<b>n.m.</b>
Core EPS (sen)	50.9	53.1	45.4	12	-4	154.2	144.1	7
Gross loans	187,810	185,165	174,228	7.8	1.4			
Gross impaired loans	1,074	1,033	904	18.9	4.0			
Customer deposits	212,417	211,184	202,956	4.7	0.6			
CASA	65,005	65,778	60,405	7.6	-1.2			
<b>Ratios (%)</b>	<b>3Q FY24</b>	<b>2Q FY24</b>	<b>3Q FY23</b>	<b>Yoy (ppts)</b>	<b>Qoq (ppts)</b>	<b>9M FY24</b>	<b>9M FY23</b>	<b>Yoy (ppts)</b>
<b>ROE (Ann.)</b>	<b>12.1</b>	<b>12.9</b>	<b>11.8</b>	<b>0.3</b>	<b>-0.8</b>	<b>12.2</b>	<b>12.4</b>	<b>-0.3</b>
<b>NIM (Reported)</b>	<b>1.87</b>	<b>1.85</b>	<b>1.82</b>	<b>0.05</b>	<b>0.02</b>	<b>1.85</b>	<b>2.03</b>	<b>-0.18</b>
NOII/Net income	17.7	21.1	26.0	-8.3	-3.4	17.7	26.0	-8.3
Cost/Income	40.2	39.4	40.1	0.1	0.8	39.8	37.6	2.3
NCC (Ann.) (bps)	(6)	(1)	9	-15	-5	(6)	8	-14
GIL ratio	0.57	0.56	0.52	0.05	0.01			
Loan loss coverage	154	163	197	-42	-9			
CASA ratio	30.6	31.1	29.8	0.8	-0.5			
L/D ratio	87.6	86.9	85.0	2.7	0.8			
CET-1	12.5	12.9	12.9	-0.3	-0.4			

Source: Hong Leong Bank, MIDFR

Fig 5: Retrospective performance (Income Statement)

Metric		Surprise? Qoq/Yoy		Metric		Surprise? Qoq/Yoy	
Qtrly Core NP	RM mil		<b>1,044</b>	Qtrly ROE	Qtr value		<b>12.1%</b>
	26% of FY CNP						
	Qoq		<b>-4%</b>		t-1		<b>12.9%</b>
	Yoy		12%		t-4		11.8%
Cum Core NP	RM mil		<b>3,162</b>	Cum ROE	Cum value		<b>12.2%</b>
	Within our forecast						
	78% of FY CNP						
	Within consensus						
	78% of FY CNP						
Yoy		7%		t-1		<b>12.4%</b>	
NII	As expected			NIM	As expected		
					Qtr value		<b>1.87</b>
					Cum value		<b>1.85</b>
	Qtr (Qoq)		2%		Qtr (Qoq)		+2bps
	Qtr (Yoy)		14%		Qtr (Yoy)		+5bps
	Cum (Yoy)		0%		Cum (Yoy)		<b>-18bps</b>
NOII	As expected			Qtr	% NII		<b>82%</b>
	Qtr (Qoq)		<b>-18%</b>		% NOII		<b>18%</b>
	Qtr (Yoy)		<b>-30%</b>	Cum	% NII		<b>82%</b>
	Cum (Yoy)		<b>-10%</b>		% NOII		<b>18%</b>
OPEX	As expected			Cost/ Inc.	As expected		
					Qtr value		<b>40.2%</b>
					Cum value		<b>39.8%</b>
	Qtr (Qoq)		-0%		Qtr (Qoq)		<b>+0.8%</b>
	Qtr (Yoy)		<b>3%</b>		Qtr (Yoy)		<b>+0.1%</b>
Cum (Yoy)		<b>4%</b>	Cum (Yoy)		<b>+2.3%</b>		
JV & Asso- ciates	As expected						
	Qtr (Qoq)		<b>-14%</b>				
	Qtr (Yoy)		23%				
	Cum (Yoy)		25%				

Notes (Cum = Cumulative, Qtr = Quarterly)

Source: Hong Leong Bank, MIDFR

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	1.4%				
	Yoy	7.8%				
	YTD (FY)	3.4%				
Depo. grwth	As expected		CASA grwth	As expected		
	Qoq	0.6%		Qoq	-1.2%	
	Yoy	4.7%		Yoy	7.6%	
	YTD (FY)	0.4%		YTD (FY)	-0.1%	
CASA ratio	As expected		L/D ratio	As expected		
	Value now	30.6%		Value now	87.6%	
	Qoq	-0.5%		Qoq	+0.8%	
	Yoy	+0.8%		Yoy	+2.7%	
GIL ratio	As expected		LLC ratio	As expected		
	Value now	0.57%		Value now	154%	
	Qoq	+1bps		Qoq	-9%	
	Yoy	+5bps		Yoy	-42%	
Qtrly Net CC	+ve surprise		Cum Net CC	As expected		
	Net writebacks			Net writebacks		
	Value now	-6bps		Value now	-6bps	
	t-1	-1bps				
	t-4	9bps		t-4	8bps	
CET 1	Could be better		Div payout	No divvy		
	As expected			As expected		
	Value now	12.5%		Payout	-	
	Qoq	-0.4%				

HLBK looks to be having net writebacks for every quarter in FY24.

Others:

Source: Hong Leong Bank, MIDFR

Fig 7: Targets, Achievements, and Outlook

Targets	FY24F	9M FY24	Notes (Red: New guidance, Strikethrough: Guidance is no longer pertinent)
ROE	~12	12.2	
CIR	<40	39.8	
NIM	1.8-1.9 (from 1.98)	1.85	Management expects NIM to come in at upper bound of guidance.
NOII		-10% (yoy)	
Associates		25% (yoy)	
Loans	6-7	3.4 (YTD)	Seasonally, 4Q of the financial year tends to see sharper growth.
Deposits		0.4 (YTD)	
% CASA	>30	30.6	
Loan/Depo		87.6	
GIL ratio	<0.70	0.57	
NCC (bps)	~10	(6)	Further writebacks likely in following quarter.
LLC		154	
CET 1		12.5	
Div payout		-	Intention to increase payout ratio persists.

Source: Hong Leong Bank, MIDFR

## FINANCIAL SUMMARY

## INCOME STATEMENT

FYE Jun (RM m)	FY22	FY23	FY24F	FY25F	FY26F
<b>Net interest income</b>	<b>3,755</b>	<b>3,684</b>	<b>3,863</b>	<b>4,139</b>	<b>4,378</b>
Islamic banking inc.	905	963	985	1,055	1,116
Other operating inc.	937	1,038	996	1,132	1,188
<b>Net income</b>	<b>5,597</b>	<b>5,686</b>	<b>5,844</b>	<b>6,327</b>	<b>6,681</b>
OPEX	(2,098)	(2,233)	(2,338)	(2,531)	(2,673)
<b>PPOP</b>	<b>3,499</b>	<b>3,452</b>	<b>3,507</b>	<b>3,796</b>	<b>4,009</b>
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
<b>PBT</b>	<b>4,367</b>	<b>4,627</b>	<b>4,864</b>	<b>5,185</b>	<b>5,449</b>
Tax & zakat	(1,078)	(808)	(851)	(907)	(954)
NCI	-	-	-	-	-
<b>Reported NP</b>	<b>3,289</b>	<b>3,818</b>	<b>4,013</b>	<b>4,278</b>	<b>4,496</b>
<b>Core NP</b>	<b>3,104</b>	<b>3,852</b>	<b>4,028</b>	<b>4,279</b>	<b>4,503</b>
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
<b>Total assets</b>	<b>254,331</b>	<b>279,850</b>	<b>288,233</b>	<b>300,742</b>	<b>317,788</b>
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
<b>Total liabilities</b>	<b>223,342</b>	<b>245,864</b>	<b>251,531</b>	<b>261,267</b>	<b>275,362</b>
Share capital	7,739	7,739	7,739	7,739	7,739
Reserves	23,250	26,248	28,963	31,736	34,688
<b>Shareholders' funds</b>	<b>30,989</b>	<b>33,987</b>	<b>36,702</b>	<b>39,475</b>	<b>42,427</b>
NCI	0	0	0	0	0
<b>Total equity</b>	<b>30,989</b>	<b>33,987</b>	<b>36,702</b>	<b>39,475</b>	<b>42,427</b>
<b>Total L&amp;E</b>	<b>254,331</b>	<b>279,850</b>	<b>288,233</b>	<b>300,742</b>	<b>317,788</b>
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
<b>Interest (%)</b>					
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
<b>Profitability (%)</b>					
<b>ROE</b>	<b>10.3</b>	<b>11.9</b>	<b>11.4</b>	<b>11.2</b>	<b>11.0</b>
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
<b>Liquidity (%)</b>					
Loan/Deposit	84.4	85.0	85.0	85.2	85.3
CASA ratio	33.5	30.8	29.0	28.0	28.0
<b>Asset Quality (%)</b>					
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
<b>Capital (%)</b>					
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
<b>Growth (%)</b>					
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
<b>Valuation metrics</b>					
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)	12.7	10.2	9.8	9.2	8.8
<b>Div yield (%)</b>	<b>2.9</b>	<b>3.1</b>	<b>3.6</b>	<b>3.8</b>	<b>4.0</b>
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