



HONG LEONG BANK

(HLBK MK EQUITY, HLBB.KL)

1 March 2022

Lower credit cost; higher share of profit from associates

BUY

(Maintained)

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Rationale for report: Company results/update

Price	RM20.06
Fair Value	RM22.90
52-week High/Low	RM20.50/RM17.34

Key Changes

Fair value	↑
EPS	↑

YE to Jun	FY21	FY22F	FY23F	FY24F
Total income (RM mil)	5,466.9	5,721.5	6,191.3	6,696.2
Core net profit (RM mil)	2,860.6	3,329.9	3,822.8	4,215.6
FD Core EPS (sen)	139.8	162.7	186.8	206.0
FD Core EPS growth (%)	8.5	16.4	14.8	10.3
Consensus Net Profit (RM mil)	-	3,041.0	3,564.0	3,928.0
DPS (sen)	50.0	53.6	74.7	82.4
BV/share (RM)	14.39	15.32	16.36	17.55
PE (x)	14.4	12.3	10.7	9.7
Div yield (%)	2.5	2.7	3.7	4.1
P/BV (x)	1.4	1.3	1.2	1.1
ROE (%)	10.1	10.9	11.8	12.1

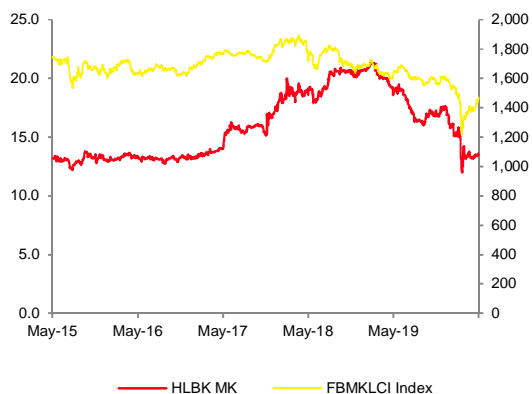
Stock and Financial Data

Shares Outstanding (million)	2,046.0
Market Cap (RM mil)	41,042.7
Book Value (RM/share)	14.39
P/BV (x)	1.4
ROE (%)	10.1

Major Shareholders: Hong Leong Financial Group (61.8%), Employees Provident Fund (10.5%)

Free Float: 27.6%
Avg Daily Value (RM mil): 20.7

Price performance	3mth	6mth	12mth
Absolute (%)	11.0	4.6	11.4
Relative (%)	4.4	4.1	9.3



Investment Highlights

- We maintain our BUY call on Hong Leong Bank (HLBB) with a higher fair value of RM22.90/share from RM21.10/share after rolling over our valuation to FY23. We peg the stock to a P/BV of 1.4x based on FY23 ROE of 11.8%.
- Our FY22/23/24 earnings have been raised by 0.6%/4.8%/4.4% to account for lower credit cost and higher NIM assumptions.
- 2Q22 core earnings came in modestly higher at RM868mil (+1.2% YoY) with lower provisions and higher share of profits from associates partially offset by slight decline in total income.
- 6M22 core earnings of RM1.7bil (+23.3% YoY) were within expectations, making up 52.1% of our estimate. Meanwhile, it was slightly ahead of consensus estimate, accounting for 56.8% of street numbers.
- The group's loans expanded by 6.7% YoY with domestic loans growing at 5.7% YoY, ahead of the industry's 4.5% YoY. Meanwhile, overseas' loan growth picked up pace to 25.7% YoY.
- Underlying NIM in 1Q22 rose by 6bps QoQ at 2.19% in 2Q22. For 6M22, NIM expanded by 12bps YoY to 2.20%.
- CI ratio for 6M22 improved to 37.1% with positive jaws of 1.3% YoY.
- Share of profits from its 18.0% stake in Bank of Chengdu (BOC) and the remaining 12.0% in Sichuan Jincheng Consumer Finance Limited's (both associate companies) continued to be robust at RM469mil (+40.1% YoY). It accounted for 22.1% of the group's underlying 6M22 PBT.
- GIL ratio inched lower to 0.46%, attributed to lower impairments of HP, mortgage and personal loans. 6M22 net credit cost of 0.10% was within management's credit cost guidance of 0.20% for FY22. An additional pre-emptive provision of RM38mil was set aside during the quarter. This brought the total pre-emptive provisions to RM61mil for 6M22 and RM873mil since FY20.
- An interim dividend of 18 sen/share has been declared (payout: 21.4%) based on core EPS.

EXHIBIT 1: SUMMARY OF RESULTS

Income Statement (RM m, FYE 30 Jun)	2Q21	1Q22	2Q22	% QoQ	% YoY	6M21	6M22	% YoY
Interest income	1,411	1,386	1,429	3.1%	1.3%	2,815	2,815	0.0%
Interest expense	-544	-467	-468	0.3%	-13.9%	-1,152	-936	-18.8%
Net interest income	867	919	960	4.5%	10.8%	1,663	1,879	13.0%
Islamic banking income	234	208	233	12.0%	-0.5%	453	441	-2.6%
Non interest income	299	253	178	-29.7%	-40.6%	633	431	-32.0%
Total income	1,400	1,380	1,371	-0.6%	-2.1%	2,749	2,751	0.1%
Overhead expenses	-512	-507	-513	1.1%	0.2%	-1,033	-1,020	-1.2%
Pre-provision profit	888	873	858	-1.7%	-3.4%	1,716	1,731	0.9%
Loan impairment allowances	-241	-49	-33	-31.8%	-86.2%	-345	-82	-76.2%
Other allowances	0	0	0	117.9%	364.3%	0	1	-393.3%
Associates and JV income	168	218	251	15.2%	49.8%	335	469	40.1%
Pretax profit	815	1,042	1,077	3.3%	32.0%	1,706	2,119	24.2%
Income tax	-145	-184	-338	83.8%	133.9%	-306	-522	70.6%
Minority interest								
Net profit	671	858	739	-13.9%	10.1%	1,400	1,597	14.1%
Core net profit	671	858	868	1.2%	29.4%	1,400	1,726	23.3%
Core EPS (sen)	32.8	41.9	42.4	1.2%	29.2%	68.4	84.3	23.2%
PBT by segments (RM m)								
Personal financials services	158	316	466	47.6%	195.2%	462	782	69.4%
Business & corporate banking	248	227	152	-33.3%	-39.0%	480	379	-21.0%
Global markets	246	237	173	-27.1%	-29.8%	502	409	-18.4%
Overseas and international operations	17	35	26	-26.1%	54.6%	-50	61	-222.7%
Others and intersegment elimination	-22	9	9	0.9%	-141.0%	-22	18	-180.6%
Share of profit from associates	168	218	251	-95.9%	49.8%	335	469	40.1%
Share of profit from JV	0	0	0	na	na	0	0	na
Group pretax profit	815	1,042	1,077	3.3%	32.0%	1,706	2,119	24.2%
Balance Sheet (RM m, FYE 30 Jun)								
Gross loans and advances	149,994	155,779	160,063	2.7%	6.7%	149,994	160,063	6.7%
Net loans and advances	148,462	153,994	158,240	2.8%	6.6%	148,462	158,240	6.6%
Customer deposits	176,488	183,221	188,552	2.9%	6.8%	176,488	188,552	6.8%
Gross impaired loans	807	755	732	-3.1%	-9.3%	807	732	-9.3%
Average shareholders funds	28,166	29,446	29,750	1.0%	5.6%	27,748	29,763	7.3%
Ratios (%)								
NetLD	84.1%	84.0%	83.9%			84.1%	83.9%	
CASA	29.8%	32.3%	33.1%			29.8%	33.1%	
Cost to income	36.5%	36.8%	37.4%			37.6%	37.1%	
Credit cost	0.64%	0.13%	0.08%			0.46%	0.10%	
Loan loss coverage	192.7%	238.5%	250.6%			192.7%	250.6%	
Loan loss coverage (inclusive of regulatory reserves)	264.0%	296.4%	317.9%			264.0%	317.9%	
GIL/Gross NPL	0.54%	0.48%	0.46%			0.54%	0.46%	
NIM	2.15%	2.13%	2.19%			2.08%	2.16%	
Underlying NIM	2.15%	2.21%	2.19%			2.08%	2.20%	
ROE (based on core net profit)	9.5%	11.7%	11.7%			10.1%	11.6%	
CET1 capital	13.8%	13.0%	13.1%			13.8%	13.1%	
Tier 1 capital	14.4%	13.5%	13.6%			14.4%	13.6%	
Total capital	16.6%	15.7%	15.7%			16.6%	15.7%	

Source: Company, AmInvestment Bank Bhd

EXHIBIT 2: BREAKDOWN OF LOANS

Loan by economic purposes (RM mil)	2Q21	3Q21	4Q21	1Q22	2Q22	%QoQ	%YoY
Purchase of Securities	880	958	951	1,059	1,062	0.3%	20.7%
Purchase of transport vehicles	17,151	16,932	16,769	16,550	16,959	2.5%	-1.1%
Purchase of landed prop:-							
Residential	75,422	76,471	77,191	77,908	79,563	2.1%	5.5%
Non-residential	17,943	18,381	18,524	18,690	19,282	3.2%	7.5%
Total purchase of landed prop	93,365	94,851	95,716	96,597	98,845	2.3%	5.9%
Purchase of fixed assets	1,240	1,384	1,432	1,445	1,336	-7.5%	7.8%
Personal use	3,417	3,443	3,441	3,579	3,637	1.6%	6.4%
Credit Card	2,993	2,928	2,831	2,861	3,017	5.5%	0.8%
Purchase of consumer durables	0	0	0	0	0		
Construction	2,654	2,822	2,823	3,000	3,274	9.1%	23.4%
Working Capital	26,864	28,045	30,259	29,032	30,238	4.2%	12.6%
Others	1,430	1,439	1,601	1,656	1,693	2.3%	18.4%
M&A	0	0	0	0	0		
Total gross loans	149,994	152,800	155,822	155,779	160,063	2.7%	6.7%

Loan by customers (RM Mil)	2Q21	3Q21	4Q21	1Q22	2Q22	%QoQ	%YoY
Domestic bkg Fis							
Domestic non-bkg Fis	1,532	1,554	1,719	1,654	1,652	-0.1%	7.8%
Domestic biz ent:-							
SMEs	24,145	25,181	26,019	26,389	28,149	6.7%	16.6%
Others	20,360	21,222	22,742	22,076	22,259	0.8%	9.3%
Total business ent loans	44,504	46,402	48,762	48,464	50,408	4.0%	13.3%
Government and statutory bodies	2	2	2	2	6	292.2%	248.0%
Individuals	100,478	101,337	101,785	102,216	104,573	2.3%	4.1%
Other domestic entities	718	616	626	324	272	-16.0%	-62.2%
Foreign entities	2,759	2,890	2,930	3,118	3,152	1.1%	14.2%
Total gross loans	149,994	152,800	155,822	155,779	160,063	2.7%	6.7%

	2Q21	3Q21	4Q21	1Q22	2Q22
Growth of loans to SMEs (%QoQ)	1.4%	4.3%	3.3%	1.4%	6.7%
Growth of loans to SMEs (%YoY)	16.2%	18.6%	14.9%	10.8%	16.6%
Growth of loans to Business Ent (%QoQ)	2.8%	4.3%	5.1%	-0.6%	4.0%
Growth of loans to Business Ent (%YoY)	10.3%	14.4%	12.6%	11.9%	13.3%
Growth of loans to Individuals (%QoQ)	0.8%	0.9%	0.4%	0.4%	2.3%
Growth of loans to Individuals (%YoY)	3.9%	4.2%	3.7%	2.5%	4.1%

Source: Company, AmInvestment Bank Bhd estimates.

assistance, it has received 179 applications amounting to RM152mil.

LOWER OUTSTANDING PRAP

As of end-31 Jan 2022, outstanding loans under the payment relief assistance plan (PRAP) declined to RM26.4bil vs. Dec 2021's RM33.5bil. This comprised PRAP of RM20.9bil to retail borrowers and RM5.5bil to SME and corporate borrowers.

Of the PRAP matured, reapplications (3rd time or more) amounted to RM3.3bil for retail loans and RM1.1bil for SME and corporate loans.

As of end-Feb 2022, the total PRAP loan shrank further to RM10bil, amounting to 6.0% of the group's total loans.

On URUS, we gather that the group has received 853 applications amounting to RM222mil while for flood

EXHIBIT 3: GROSS IMPAIRED LOAN RATIO

Gross impaired loans/NPL by purpose (RM Mil)	2Q21	3Q21	4Q21	1Q22	2Q22	%QoQ	%YoY
Purchase of securities	2	0	0	0	0	-17.2%	-84.4%
Purchase of transport vehicles	89	89	72	86	49	-43.5%	-45.1%
Purchase of landed properties:-							
Residential	280	276	267	299	283	-5.3%	1.2%
Non-residential	138	127	125	127	142	11.7%	2.4%
Purchase of fixed asset (excl landed properties)	1	1	1	1	1	-10.0%	-62.9%
Personal Use	36	52	45	46	32	-30.1%	-11.8%
Credit Card	25	32	21	19	17	-12.5%	-33.7%
Purchase of consumer durables	0	0	0	0	0	#DIV/0!	#DIV/0!
Construction	7	8	8	8	15	85.1%	104.4%
Working Capital	165	145	148	137	162	17.7%	-2.2%
Others	64	77	32	32	33	1.2%	-48.6%
Total impaired loans	807	808	717	755	732	-3.1%	-9.3%

GIL ratio by purpose (%)	2Q21	3Q21	4Q21	1Q22	2Q22
Purchase of securities	0.17%	0.03%	0.03%	0.03%	0.02%
Purchase of transport vehicles	0.5%	0.5%	0.4%	0.5%	0.3%
Purchase of landed properties:-					
Residential	0.4%	0.4%	0.3%	0.4%	0.4%
Non-residential	0.8%	0.7%	0.7%	0.7%	0.7%
Personal Use	1.1%	1.5%	1.3%	1.3%	0.9%
Credit Card	0.8%	1.1%	0.7%	0.7%	0.6%
Purchase of consumer durables	0.0%	0.0%	0.0%	0.0%	0.0%
Construction	0.3%	0.3%	0.3%	0.3%	0.5%
Working Capital	0.6%	0.5%	0.5%	0.5%	0.5%
Others	4.5%	5.4%	2.0%	2.0%	1.9%
Total GIL ratio	0.54%	0.53%	0.46%	0.48%	0.46%

Source: Company, AmInvestment Bank Bhd estimates.

LOWER CREDIT COST IN 2Q22

Gross impaired loans declined by 3.1% QoQ in 2Q22 leading to lower GIL ratio to 0.46%.

By country, GIL ratio for Malaysia's loans declined to 0.48% while the ratio for overseas loans inched higher QoQ to 0.15%.

CHANGES TO LOAN GROWTH, NIM, CREDIT COST AND ROE GUIDANCE FOR FY22

- i. Loan growth: 6.0–7.0% (previously: 5.0–6.0%);
- ii. NIM of > 2.10 (previously: > 2.05%);
- iii. Cost-to-income ratio of ≤ 40.0% (unchanged);
- iv. GIL ratio: <0.8% (unchanged);
- v. Credit cost: 10bp (previously: 20bps);
- vi. ROE of > 10.5% (previously: >10.0%); and
- vii. CASA mix or ratio: 30.0% (unchanged).

EXHIBIT 4: PB BAND CHART

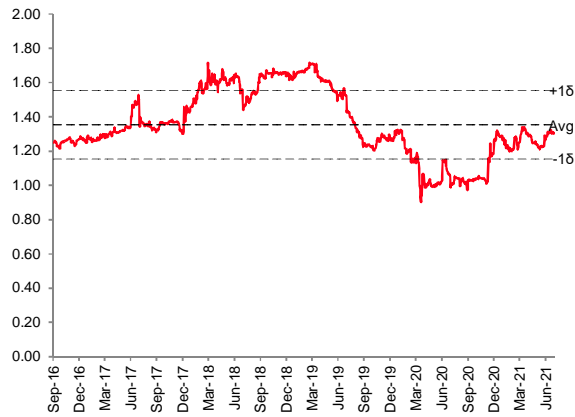


EXHIBIT 5: PE BAND CHART

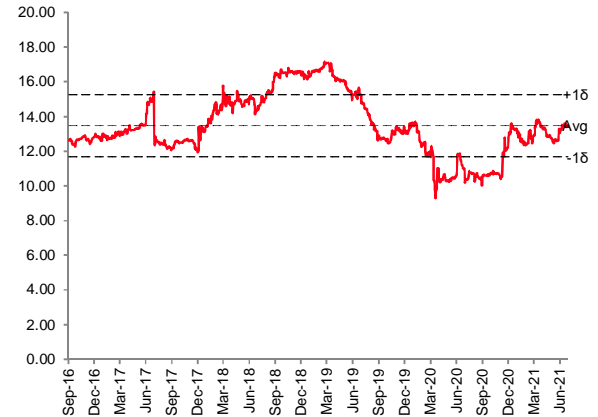


EXHIBIT 6: ESG RATING

Overall	★	★	★	★	
Board composition	★	★	★		
Employee welfare and environmental protection	★	★	★	★	
Corporate social responsibility	★	★	★	★	
Earnings quality	★	★	★	★	
Balance sheet strength	★	★	★	★	
Accessibility & transparency	★	★	★		

We accord a discount/premium of -6%, -3%, 0%, +3% and +6% on fundamental fair value based on the overall ESG rating as appraised by us, from 1-star to 5-star

EXHIBIT 7: FINANCIAL DATA

Income Statement (RMmil, YE30 Jun)	FY20	FY21	FY22F	FY23F	FY24F
Net interest income	2,764.4	3,457.7	3,660.5	4,087.6	4,533.7
Non-interest income	1,167.4	1,089.8	1,028.0	962.7	903.4
Islamic banking income	846.5	919.4	1,032.9	1,141.0	1,259.1
Total income	4,778.4	5,466.9	5,721.5	6,191.3	6,696.2
Overhead expenses	(2,103.8)	(2,077.8)	(2,174.2)	(2,352.7)	(2,544.5)
Pre-provision profit	2,674.6	3,389.1	3,547.3	3,838.6	4,151.6
Loan loss provisions	(327.7)	(653.8)	(326.2)	(139.6)	(112.1)
Impairment & others	0.2	(0.3)	-	-	-
Associates	642.3	736.0	841.4	962.9	1,101.4
Pretax profit	2,989.4	3,470.9	4,062.5	4,661.9	5,141.0
Tax	(494.8)	(610.3)	(1,015.6)	(839.1)	(925.4)
Minority interests	-	-	-	-	-
Net profit	2,494.6	2,860.6	3,046.9	3,822.8	4,215.6
Core net profit	2,637.1	2,860.6	3,329.9	3,822.8	4,215.6
Balance Sheet (RMmil, YE30 Jun)	FY20	FY21	FY22F	FY23F	FY24F
Cash & deposits with FIs	8,562.2	3,466.2	5,870.3	4,373.2	3,690.3
Marketable securities	56,505.8	66,818.3	78,883.1	92,166.0	108,589.3
Total current assets	65,067.9	70,284.5	84,553.4	96,539.3	112,279.6
Net loans & advances	144,695.0	154,070.7	163,076.2	174,498.6	186,757.9
Statutory deposits	nm	nm	nm	nm	nm
Long-term investments	418.1	493.6	241.4	183.4	139.8
Fixed assets	1,299.9	1,197.8	1,133.7	1,061.8	993.3
Intangible assets	2,271.9	2,288.4	2,326.4	2,326.4	2,326.4
Other long-term assets	7,525.1	8,794.3	10,755.9	12,749.9	15,265.9
Total LT assets	156,210.0	166,844.8	177,533.7	190,820.2	205,483.3
Total assets	221,277.9	237,129.2	262,087.1	287,359.5	317,762.9
Customer deposits	173,492.7	183,289.8	194,287.2	207,887.3	222,439.4
Deposits of other FIs	6,501.1	12,130.0	14,383.8	21,395.3	31,698.4
Subordinated debts	1,502.2	1,502.3	1,502.3	1,502.4	1,502.4
Hybrid capital securities	2,838.0	3,278.3	3,373.8	3,265.3	2,744.4
Other liabilities	9,709.6	7,469.7	17,178.0	19,823.5	23,459.3
Total liabilities	194,043.6	207,670.1	230,725.1	253,873.8	281,843.9
Shareholders' funds	27,234.3	29,459.1	31,362.0	33,485.7	35,919.0
Minority interests	-	-	-	-	-
Key Ratios (YE30 Jun)	FY20	FY21	FY22F	FY23F	FY24F
Total income growth (%)	1.1	14.4	4.7	8.2	8.2
Pre-provision profit growth (%)	1.5	26.7	4.7	8.2	8.2
Core net profit growth (%)	3.5	8.5	16.4	14.8	10.3
Net interest margin (%)	1.8	2.1	2.1	2.2	2.2
Cost-to-income ratio (%)	44.0	38.0	38.0	38.0	38.0
Effective tax rate (%)	16.6	17.6	25.0	18.0	18.0
Dividend payout (%)	29.5	35.8	36.0	40.0	40.0
Key Assumptions (YE30 Jun)	FY20	FY21	FY22F	FY23F	FY24F
Loan growth (%)	6.1	6.8	6.0	7.0	7.0
Deposit growth (%)	6.4	5.6	6.0	7.0	7.0
Loan-deposit ratio (%)	84.2	84.6	85.0	85.0	85.0
Gross NPL (%)	0.6	0.5	0.6	0.5	0.5
Net NPL (%)	0.6	0.5	0.3	0.2	0.3
Credit charge-off rate (%)	0.2	0.4	0.2	0.1	0.1
Loan loss reserve (%)	141.5	246.6	211.4	252.9	248.2

Source: Company, AmInvestment Bank Bhd estimates

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