

29 August 2019

# Hong Leong Bank Berhad

## In Line with Resilient Asset Quality

By Ahmad Ramzani Ramli | [ahmadramzani@kenanga.com.my](mailto:ahmadramzani@kenanga.com.my)

Results are in line, but earnings growth was soft due to compressing NIM and weak fee-based income despite loans exceeding expectations. Nevertheless, asset quality improved with negligible credit loss while BOCD stayed resilient. Moving forward, we subscribe to a lower 5-year mean FY20E PBV (with a slightly risk premium); thus, reducing our TP to RM17.30. Maintained at MARKET PERFORM.

**In line.** 12M19 CNP of RM2.67b is in line, accounting for 99%/98% of our/market estimates. A final DPS of 34.0 sen was declared bringing total DPS to 50.0 sen (vs expectation of 48.0 sen).

**YoY**, overall, growth was soft as CNP was marginally up (+1%) as top-line fell 2% led by both NII (-5%) and NOII (-4%) with Islamic Income pushing ahead at >+9%. Its 18% associate BOCD continued to improve, with PBT contribution recording 2ppt uptick to 18% or RM563m in PBT. NOII fell, dragged by weakness in trading income (-36%) to RM396m (coming from soft gains in sale of financial assets; -73% to RM64m and lower MTM to RM53m or -50%). Despite loans growth (+7%) coming above expectation/industry (~+5%/~4%), the widening NIM compression (reported: 14bps) dragged NII. Asset quality continued to be healthy with GIL at 0.78% (2<sup>nd</sup> after PBANK) with credit charge down (5bps) to 0.01%. While gross credit charge saw an uptick in the last three quarters, consistently strong credit recoveries saw muted credit costs. Its 18% associate BOCD continued to improve, with PBT contribution recording 2ppt uptick to 18% or RM563m in PBT.

**QoQ**, CNP growth was marginal (+0.4%) to RM636m as higher NIM compression and impairment allowances dragged earnings. The flattish top-line was mitigated by a strong NOII (+13%) to RM324m, driven by investment & trading income; +48% to RM137m due strong gains from sale of financial assets (>+100% to RM117m). The declining NII (-3%) was dragged NIM compression (reported: 11bps) despite loans charting a strong performance (+3%) since 4Q15. Opex grew in tandem with revenue holding CIR stable at 45%. Asset quality was mixed with GIL shedding 2bps to 0.78% while credit costs saw an uptick of 13bps due to uptick in gross credit loss of 11bps to 0.28%.

**Management guided for a ROE of ~11%** driven by healthy loans (+5-6%), with NIM expected to improve above 2%. Loans will be driven by retail, mortgages, SME and PF. NIMs look likely to improve with deposits intake to be subdued with the low LDR (84%). Given that more focus on unsecured retail provisioning is likely to be higher, management guided for a credit charge of 10-12bps. We believe that BOCD will still play major part in the Group's growth given that its LDR of 57% provides plenty of room for growth with NII the main driver. Note that 74% of its loans are from corporates and SMEs plus the added positive that BOCD are focused more on its domestic region.

**Forward earnings revised.** Our FY20E earnings are revised by -9% based on these conservative assumptions; (i) loans at ~+5.5% (from +4%), (ii) CIR at 43% (unchanged), (iii) 4bps compression in NIM (from 1bps), (iv) credit charge at 0.10% (unchanged) and BOCD growth of ~7% (from +9%). We introduced our FY21E earnings, where we expect slight improvement in earnings by ~7% to RM2.8b on account of higher loans, higher NIM and better contribution from NOII.

**TP lowered, and call maintained** We reduced our TP to RM17.30 from (RM20.05) subscribing to a lower FY20E PBV of 1.3x (from 1.5x) implying a 0.25SD below mean to reflect SLIGHT concerns ON BOCD with the uncertainties still prevailing. We feel this is justifiable as HLBANK added advantage of excellent asset quality. Valuations are stretched despite the recent downturn in its share price; reiterate MARKET PERFORM.

**The key risks to our forecasts** are: (i) steeper margin squeeze, (ii) slower-than-expected loans growth, (iii) worse-than-expected deterioration in asset quality, and (iv) weaker-than expected contribution from BoCD.

## MARKET PERFORM ↔

Price : RM16.26  
Target Price : RM17.30 ↓

### Share Price Performance



KLCI 1,589.82  
YTD KLCI chg -6.0%  
YTD stock price chg -20.3%

### Stock Information

Shariah Compliant No  
Bloomberg Ticker HLBK MK Equity  
Market Cap (RM m) 35,247.1  
Shares Outstanding 2,167.7  
52-week range (H) 21.66  
52-week range (L) 16.22  
3-mth avg daily vol: 766,078  
Free Float 24%  
Beta 0.9

### Major Shareholders

Hong Leong Financial Group 65.5%  
Employees Provident Fund 12.5%  
Hong Leong Bank Berhad 2.0%

### Summary Earnings Table

FYE June (RM'm)	2019A	2020E	2021E
Net Interest Income	2,764	2,860	2,924
Islamic Banking Inc.	707	614	629
Non Interest Income	1,254	1,599	1,760
Total Income	4,726	5,073	5,313
PBT	3,186	3,347	3,558
Net Profit (NP)	2,665	2,678	2,847
Consensus NP		2,871	3,071
Earnings Revision (%)		-8.7%	
EPS (sen)	130.3	130.9	139.2
EPS growth (%)	1.0	0.5	6.3
DPS (sen)	50.0	50.0	50.0
BV/Share (RM)	12.45	13.26	14.15
NTA/Share	11.5	12.5	13.4
ROE (%)	10.79	10.18	10.15
PER	12.5	12.4	11.7
Price/NTA (x)	1.3	1.2	1.2
Price/Book (x)	1.25	1.17	1.10
Dividend Yield (%)	3.1	3.1	3.1

29 August 2019

Results Highlight								
Y/E : 30-June (RM'm)	4Q19	3Q19	QoQ Chg.	4Q18	YoY Chg.	12M19	12M18	YoY Chg.
Net Interest Income	668.3	691.3	-3.3%	690.4	-3.2%	2,764.2	2,893.1	-4.5%
Net Income from Islamic Banking	175.0	188.5	-7.2%	162.7	7.5%	707.3	646.1	9.5%
Non-Interest Income	324.6	287.0	13.1%	323.2	0.4%	1,254.4	1,300.4	-3.5%
<b>Total Income</b>	<b>1,167.8</b>	<b>1,166.8</b>	<b>0.1%</b>	<b>1,176.3</b>	<b>-0.7%</b>	<b>4,725.8</b>	<b>4,839.6</b>	<b>-2.3%</b>
Operating Expenses	(530.1)	(525.5)	0.9%	(510.8)	3.8%	(2,091.6)	(2,060.4)	1.5%
(Allowances)/write-backs	(47.0)	(4.7)	902.2%	(9.8)	379.5%	(12.3)	(76.7)	-83.9%
Other (Impairments)/Writebacks	0.3	1.4	-82.3%	4.6	-94.6%	1.0	7.1	-86.4%
<b>Operating Profit</b>	<b>591.0</b>	<b>638.0</b>	<b>-7.4%</b>	<b>660.3</b>	<b>-10.5%</b>	<b>2,622.9</b>	<b>2,709.6</b>	<b>-3.2%</b>
Others	142.0	140.6	1.0%	117.3	21.0%	563.1	536.7	4.9%
<b>Pre-Tax Profit</b>	<b>733.0</b>	<b>778.7</b>	<b>-5.9%</b>	<b>777.6</b>	<b>-5.7%</b>	<b>3,186.0</b>	<b>3,246.2</b>	<b>-1.9%</b>
Tax & Minority Interest	(96.6)	(144.8)	-33.3%	(151.6)	-36.3%	(521.5)	(608.2)	-14.2%
<b>Net Profit</b>	<b>636.4</b>	<b>633.9</b>	<b>0.4%</b>	<b>626.0</b>	<b>1.7%</b>	<b>2,664.5</b>	<b>2,638.1</b>	<b>1.0%</b>
<b>EPS (sen)</b>	<b>31.1</b>	<b>31.0</b>	<b>0.4%</b>	<b>30.6</b>	<b>1.7%</b>	<b>130.2</b>	<b>129.0</b>	<b>1.0%</b>
<b>DPS (sen)</b>	<b>34.0</b>	<b>-</b>	<b>#DIV/0!</b>	<b>32.0</b>	<b>6.3%</b>	<b>50.0</b>	<b>48.0</b>	<b>4.2%</b>
Gross Loans	137,566.4	133,590.1	3.0%	129,068.6	6.6%	137,566.4	129,068.6	6.6%
Net Loans	136,304.7	132,340.4	3.0%	128,059.1	6.4%	136,304.7	128,059.1	6.4%
Total Customer Deposits	163,070.3	162,992.6	0.0%	157,414.1	3.6%	163,070.3	157,414.1	3.6%
CASA / Low Cost Deposits	41,725.4	39,606.6	5.3%	41,202.3	1.3%	41,725.4	41,202.3	1.3%
Book value/share (RM)	12.45	12.17	2.3%	11.68	6.6%	12.45	11.68	6.6%
NTA/share (RM)	12.39	11.22	10.4%	10.71	15.7%	12.39	10.71	15.7%
Est. Ann. Net Interest Margin	1.68%	1.74%		1.73%		1.73%	1.79%	
Reported Net Interest Margin	1.89%	2.00%		2.03%		1.96%	2.10%	
Cost-to-Income Ratio	45.4%	45.0%		43.4%		44.3%	42.6%	
Est. Annualised Credit Charge (Writeback) Ratio	0.14%	0.01%		0.03%		0.01%	0.06%	
Effective Tax Rate	13.2%	18.6%		19.5%		16.4%	18.7%	
G.Loan-to-Deposit Ratio	84.4%	82.0%		82.0%		84.4%	82.0%	
N.Loan-to-Deposit Ratio	83.6%	81.2%		81.4%		83.6%	81.4%	
% of CASA to Total Customer Deposits	25.6%	24.3%		26.2%		25.6%	26.2%	
Total Allowances-to-Loans	0.92%	0.94%		0.78%		0.92%	0.78%	
Gross Impaired Loans Ratio	0.78%	0.80%		0.87%		0.78%	0.87%	
Loan Loss Coverage	117.8%	116.4%		89.5%		117.8%	89.5%	
CET1 Capital	13.6%	12.6%		13.1%		13.6%	13.1%	
Total Capital	16.8%	16.4%		16.8%		16.8%	16.8%	
Est. Annualised ROE	10.3%	10.4%		10.7%		10.7%	11.3%	

Source: Company, Kenanga Research

29 August 2019

### Peer Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div Yld (%)	Target Price (RM)	Rating
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.			
<b>BANKING</b>																	
AFFIN BANK BHD	2.00	3,972.0	N	12/2019	8.2%	5.3%	9.3%	15.9%	7.9	7.2	6.2	0.5	0.4	6.2%	2.8%	2.40	OP
ALLIANCE BANK MALAYSIA BHD	3.02	4,675.3	N	03/2020	5.9%	7.2%	-1.5%	10.9%	8.7	8.8	8.0	0.8	0.8	9.0%	5.4%	3.45	OP
AMMB HOLDINGS BHD	4.09	12,328.0	N	03/2020	10.4%	4.5%	-0.4%	2.8%	8.2	8.2	8.0	0.7	0.6	7.8%	4.9%	4.75	OP
BIMB HOLDINGS BHD	4.05	7,145.3	Y	12/2019	10.0%	6.6%	7.6%	13.6%	10.4	10.1	9.2	1.4	1.3	14.0%	4.0%	4.80	OP
CIMB GROUP HOLDINGS BHD	4.98	48,442.5	N	12/2019	4.6%	5.0%	-16.2%	2.6%	8.3	10.3	10.4	0.9	0.8	8.5%	4.5%	6.45	OP
HONG LEONG BANK BERHAD	16.26	35,247.1	N	06/2020	4.1%	5.1%	1.0%	0.5%	12.6	12.5	12.4	1.4	1.3	10.8%	3.1%	17.30	MP
MALAYAN BANKING BHD	8.53	95,888.8	N	12/2019	4.2%	4.3%	-0.5%	3.2%	11.6	11.7	11.3	1.2	1.1	9.9%	6.7%	10.35	OP
MALAYSIA BUILDING SOCIETY	0.82	5,505.0	N	12/2019	-1.0%	5.3%	-10.7%	10.2%	8.2	9.2	8.7	0.7	0.7	7.2%	6.1%	1.15	OP
PUBLIC BANK BERHAD	20.32	78,885.1	N	12/2019	3.9%	5.2%	-0.1%	3.5%	14.0	14.1	13.6	1.9	1.9	13.7%	3.3%	25.20	OP
RHB BANK BHD	5.68	22,777.1	N	12/2019	6.0%	4.8%	3.7%	5.7%	9.9	9.5	9.0	1.0	0.9	9.9%	3.7%	6.05	OP
<b>Simple Average</b>					<b>5.6%</b>	<b>5.3%</b>	<b>-0.8%</b>	<b>6.9%</b>	<b>10.0</b>	<b>10.1</b>	<b>9.7</b>	<b>1.0</b>	<b>1.0</b>	<b>9.7%</b>	<b>4.4%</b>		

Source: Bloomberg, Kenanga Research

29 August 2019

**Stock Ratings are defined as follows:**

**Stock Recommendations**

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%  
 MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%  
 UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

**Sector Recommendations\*\*\***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%  
 NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%  
 UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

**\*\*\*Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

---

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies.

---

Published and printed by:

**KENANGA INVESTMENT BANK BERHAD (15678-H)**

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia  
 Telephone: (603) 2172 0880 Website: [www.kenanga.com.my](http://www.kenanga.com.my) E-mail: [research@kenanga.com.my](mailto:research@kenanga.com.my)

