

Hong Leong Bank (HLBK MK)

A very decent FY22

BUY

Share Price MYR 20.90
 12m Price Target MYR 24.90 (+22%)
 Previous Price Target MYR 24.70

Fundamentals robust

Normalizing earnings for *Cukai Makmur*, HL Bank's FY22 core net profit would have jumped 26% YoY to MYR3.6b. Fundamentals remain robust and we upgrade FY23-25E earnings by 5-6%. Management's FY23 ROE target of 11% is conservative and we estimate it to be higher at about 12%. BUY maintained with a slightly higher TP of MYR24.90 (+20sen) (unchanged CY23E PBV of 1.4x, ROE: 11.8%).

Slightly above expectations

HL Bank's 4QFY22 core net profit of MYR908m (+32% YoY, +16% QoQ) took FY22 core net profit to MYR3.29b (+15% YoY) - slightly above expectations at 105%/103% of our full-year forecast/consensus respectively. Loan growth was strong at 8% YoY while NIMs were stable YoY. The drag was in NOII which declined 14% YoY in FY22 but this was offset by stable expenses and lower YoY credit cost. FY22 associate income surged 40% YoY with higher contributions from 18%-owned Bank of Chengdu, which made up 24% of group pretax profit in FY22.

Guidance for FY23

Management's FY23 targets are as follows: a) loan growth of 7% (FY22: 8%; MIBG: 5.9%), b) NIM >2.1% (FY22: 2.14%; MIBG: 2.12%), c) credit cost of 10-15bps (FY22: 10bps; MIBG: 15bps), d) CIR <40% (FY22: 37.5%; MIBG: 36.9%), e) ROE ~11% (FY22: 10.9%, MIBG: 12%).

Revision in earnings

We lower our credit cost assumption to 15bps from 20bps for FY23 and maintain at 15bps for FY24 on prudent grounds. On the back of the lower credit cost assumptions, we raise our FY23-25E earnings forecasts by 5-6%. Management's ROE target of 11% is nevertheless conservative against our FY23E ROE estimate of 12%.

Company Description

Hong Leong Bank offers integrated financial services and is predominantly a retail bank. It also holds an 18% stake in Bank of Chengdu, China.

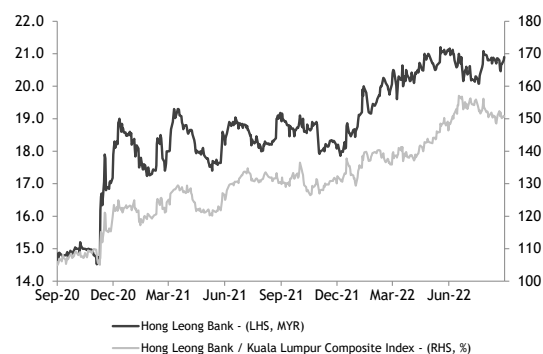
Statistics

52w high/low (MYR)	21.20/17.86
3m avg turnover (USDm)	5.5
Free float (%)	216,771.9
Issued shares (m)	2,168
Market capitalisation	MYR45.3B
	USD10.1B

Major shareholders:

Hong Leong Financial Group Bhd.	62.1%
Employees Provident Fund	10.0%
Hong Leong Bank Bhd.	3.7%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(0)	(1)	9
Relative to index (%)	(1)	2	16

Source: FactSet

FYE Jun (MYR m)	FY21A	FY22A	FY23E	FY24E	FY25E
Operating income	5,467	5,597	5,969	6,174	6,448
Pre-provision profit	3,389	3,499	3,768	3,877	4,051
Core net profit	2,861	3,289	3,865	4,035	4,340
Core EPS (MYR)	1.40	1.61	1.89	1.97	2.12
Core EPS growth (%)	9.9	15.0	17.5	4.4	7.5
Net DPS (MYR)	0.50	0.55	0.66	0.69	0.74
Core P/E (x)	13.4	12.7	11.1	10.6	9.9
P/BV (x)	1.4	1.4	1.4	1.3	1.2
Net dividend yield (%)	2.7	2.7	3.2	3.3	3.5
Book value (MYR)	13.59	14.30	15.46	16.67	17.97
ROAE (%)	10.1	10.9	12.0	11.6	11.6
ROAA (%)	1.2	1.3	1.5	1.5	1.5
Consensus net profit	-	-	3,751	4,089	na
MKE vs. Consensus (%)	-	-	3.0	(1.3)	na

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Figure 1: HL Bank's results

FYE June (MYR m)	Quarterly					Cumulative		
	4Q22	4Q21	% YoY	3Q22	% QoQ	FY22	FY21	% YoY
Interest income	1,479.0	1,379.5	7.2	1,429.0	3.5	5,722.9	5,556.7	3.0
Interest expense	(550.5)	(461.5)	19.3	(481.4)	14.4	(1,967.5)	(2,099.0)	(6.3)
Net interest income	928.6	917.9	1.2	947.6	(2.0)	3,755.3	3,457.7	8.6
Islamic banking income	239.3	232.0	3.2	224.4	6.6	904.8	919.4	(1.6)
Non-interest income	330.5	182.4	81.2	175.9	87.9	937.3	1,089.8	(14.0)
Operating income	1,498.4	1,332.3	12.5	1,347.9	11.2	5,597.4	5,466.9	2.4
Operating expenses	(560.1)	(532.5)	5.2	(518.2)	8.1	(2,098.4)	(2,077.8)	1.0
Operating profit	938.3	799.8	17.3	829.7	13.1	3,499.0	3,389.1	3.2
Loan loss provisions	(30.2)	(194.3)	(84.5)	(51.3)	(41.1)	(163.6)	(653.8)	(75.0)
Other provisions	0.4	(0.2)	(271.3)	(0.1)	(451.8)	0.9	(0.3)	(427.3)
Associates & jvs	308.8	219.3	40.8	252.5	22.3	1,030.5	736.0	40.0
Pretax Profit	1,217.3	824.6	47.6	1,030.8	18.1	4,366.8	3,470.9	25.8
Taxation	(309.7)	(135.1)	129.2	(246.0)	25.9	(1,077.5)	(610.3)	76.6
Minority interest	-	-	nm	-	nm	-	-	nm
Net profit	907.6	689.5	31.6	784.8	15.7	3,289.3	2,860.6	15.0
Recurring net profit	907.6	689.5	31.6	784.8	15.7	3,289.3	2,860.6	15.0
EPS (sen)	44.3	33.7	31.5	38.3	15.7	160.6	139.7	15.0
Net DPS (sen)	37.0	35.2	5.1	-	nm	55.0	50.0	10.0
Cost-to-income (%)	37.4	40.0	(2.6)	38.4	(1.1)	37.5	38.0	(1.4)
Tax rate (%)	25.4	16.4	9.1	23.9	1.6	24.7	17.6	7.1
Balance sheet (MYR m)	Jun 22	Jun 21	YoY chg	Mar 21	QoQ chg	Jun 22	Dec 21	YTD Chg
Gross loans & advances	168,234	155,822	8.0	162,494	3.5	168,234	160,063	5.1
Net loans & advances	166,488	154,071	8.1	160,802	3.5	166,488	158,240	5.2
Deposits from customers	199,961	184,435	8.4	193,044	3.6	199,961	189,591	5.5
			ppt chg		ppt chg			ppt chg
Gross LDR (%)	84.1	84.5	(0.4)	84.2	(0.0)	84.1	84.4	(0.3)
Gross NPL ratio (%)	0.5	0.5	0.0	0.5	(0.0)	0.5	0.5	0.0
Loan loss coverage (%)	211.8	246.6	(34.8)	217.8	(6.0)	211.8	250.6	(38.8)

Source: Bank

Key highlights

Repayment assistance: Loans under Payment Relief Assistance amounted to just MYR4.2b end-Jul 2022, down from MYR7.4n end-Mar 2022. This represents just 2.6% of total gross loans and comprises 86% retail customers and 14% SME/ corporates.

Loan growth: Loan growth of 8% for FY22 was much better than guidance of 6-7%. This was led by domestic business enterprise growth of 13.3%, of which SME loan growth was 15.7% and community SME loan growth was 17% YoY. Regional growth was also robust with Singapore loans up 23% YoY and 39% and 32% higher YoY respectively in Vietnam and Cambodia. On the domestic retail front, loan growth was 5.1% YoY as mortgages rose 6.8% YoY while hire purchase and unsecured financing increased 5.3% and 5.1% respectively.

Deposit growth: Deposits rose at a fairly similarly pace to loan growth of 7.6% YoY. CASA growth was a more robust 11.5% YoY compared to fixed deposit growth of 2.1%, leading to a CASA ratio of 33.5%.

Net interest margin (NIM): NIM slipped 5bps QoQ in 4QFY22 to 2.1% and NIM averaged 2.14% in FY22 - unchanged YoY. This is still within management’s NIM target of >2.1% in FY22. Management guides that every 25bps increase in the OPR improves the bank’s NIM by about 4bps, but with the bank building up its longer-term fixed deposits, the bank did not benefit from the interest rate hike last quarter. Nevertheless, NIMs have since improved to about 2.18% currently.

Non-interest income (NOII): NOII bucked industry trends and surged 81% YoY in 4QFY22, but on a cumulative basis, was still down 14% YoY in FY22. The 4QFY22 improvement was brought about by MTM gains on investments and forex gains (versus losses in 4QFY21). Fee income was 4% higher YoY in 4QFY22.

Operating expenses: Operating expenses rose 5% YoY in 4QFY22, but was flat (+1% YoY) in FY22. The group’s cost/income ratio improved to 37.5% in FY22 from 38% in FY21.

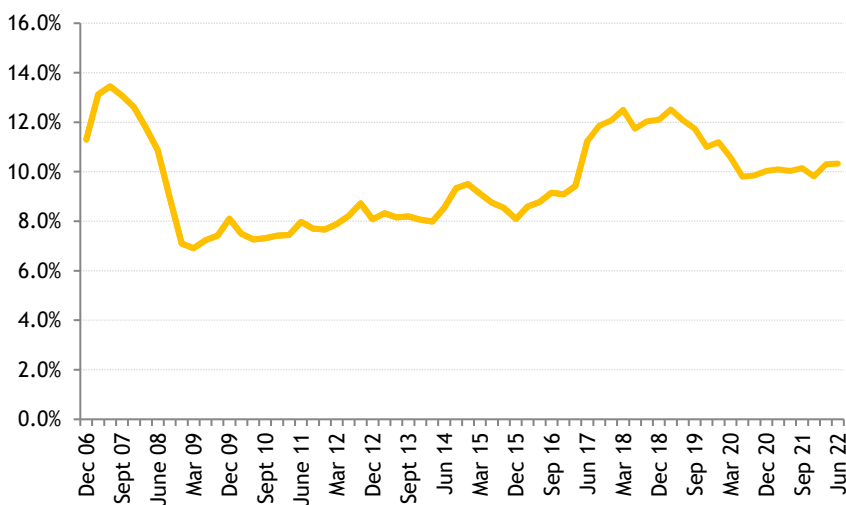
Asset quality: Absolute gross impaired loans (GILs) rose 14% YoY, with an uptick in its GIL ratio to 0.49% from 0.46% end-June 2021. Asset quality nevertheless remains impeccable. The GIL ratio ticked up to 0.51% end-Jun 2022 from 0.48% end-Jun 2021 for its Malaysia operations, with a higher GIL ratio of 0.38% (from 0.35%) for residential properties and 1.25% (from 1.1%) for SME financing.

Credit cost: Credit cost was just 7bps in 4QFY22 versus 13bps in 3QFY22. Credit cost averaged just 10bps in FY22 versus 43bps in FY21. The group still has MYR629m of outstanding pre-emptive provisions.

Bank of Chengdu (BOCD): BOCD continued to see strong growth, with its 1H22 (FY Dec) operating income up 17% YoY while net profit jumped 32% YoY.

Capital ratios: The group’s CET1 ratio stood at 13.4% end-Jun 2022, which is comfortable, in our view.

Figure 2: Foreign shareholding in HL Bank (10.3% end-Jun 2022)

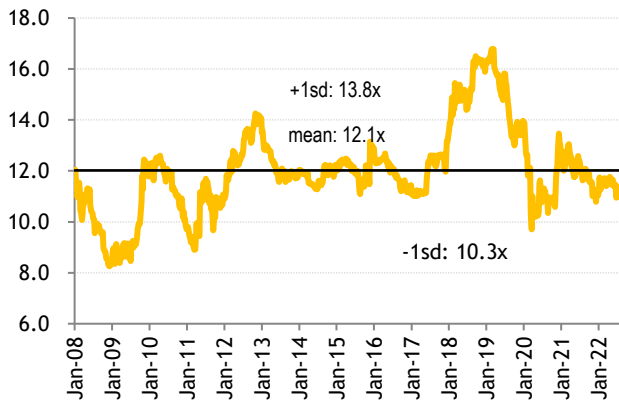


Source: Bank

Risk statement

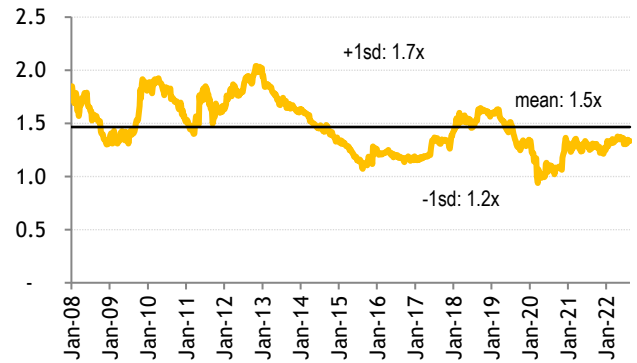
There are several risk factors for our earnings estimates, price target, and rating for HL Bank. Any slowdown in the domestic economy would have a negative impact on the group’s earnings, as would a pick-up in deposit rate competition. Meanwhile, a deterioration in China’s economic outlook, particularly in the Sichuan Province where associate Bank of Chengdu is located, would negatively impact associate contributions.

Figure 3: One-year forward rolling PER (x)



Source: Bloomberg, Maybank IBG Research

Figure 4: One-year forward rolling P/BV (x)



Source: Bloomberg, Maybank IBG Research

FYE 30 Jun	FY21A	FY22A	FY23E	FY24E	FY25E
Key Metrics					
Core P/E (x)	13.4	12.7	11.1	10.6	9.9
Core FD P/E (x)	13.4	12.7	11.1	10.6	9.9
P/BV (x)	1.4	1.4	1.4	1.3	1.2
P/NTA (x)	1.4	1.4	1.4	1.3	1.2
Net dividend yield (%)	2.7	2.7	3.2	3.3	3.5
INCOME STATEMENT (MYR m)					
Interest income	5,556.7	5,722.9	8,611.4	9,093.7	9,548.9
Interest expense	(2,099.0)	(1,967.5)	(4,530.5)	(4,855.1)	(5,084.1)
Net interest income	3,457.7	3,755.3	4,080.9	4,238.6	4,464.8
Islamic banking income	919.4	904.8	931.9	959.9	988.7
Net insurance income	0.0	0.0	0.0	0.0	0.0
Net fees and commission	570.5	609.7	621.9	634.3	647.0
Other income	519.3	327.6	334.2	340.9	347.7
Total non-interest income	1,089.8	937.3	956.0	975.2	994.7
Operating income	5,466.9	5,597.4	5,968.8	6,173.6	6,448.2
Staff costs	(1,191.6)	(1,153.8)	(1,211.5)	(1,272.0)	(1,335.6)
Other operating expenses	(886.2)	(944.6)	(989.1)	(1,024.7)	(1,061.9)
Operating expenses	(2,077.8)	(2,098.4)	(2,200.6)	(2,296.7)	(2,397.5)
Pre-provision profit	3,389.1	3,499.0	3,768.2	3,876.9	4,050.7
Loan impairment allowances	(653.8)	(163.6)	(261.7)	(273.4)	(182.7)
Other allowances	(0.3)	0.9	0.0	0.0	0.0
Associates & JV income	736.0	1,030.5	1,154.1	1,246.5	1,346.2
Pretax profit	3,470.9	4,366.8	4,660.7	4,850.0	5,214.1
Income tax	(610.3)	(1,077.5)	(795.4)	(815.0)	(874.5)
Minorities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	2,860.6	3,289.3	3,865.3	4,035.0	4,339.7
Core net profit	2,860.6	3,289.3	3,865.3	4,035.0	4,339.7
BALANCE SHEET (MYR m)					
Cash & deposits with banks	3,953.0	6,937.2	3,367.8	2,793.8	2,820.6
Sec. under resale agreements	0.0	0.0	0.0	0.0	0.0
Derivatives financial assets	1,005.2	1,863.3	1,956.5	2,054.3	2,157.0
Dealing securities	8,246.4	7,244.5	7,389.4	7,537.2	7,687.9
Available-for-sale securities	58,085.1	58,554.7	62,770.7	67,290.1	72,135.0
Investment securities	0.0	0.0	0.0	0.0	0.0
Loans & advances	154,070.7	166,487.6	176,873.9	185,717.6	194,139.2
Central bank deposits	493.6	520.7	216.3	227.2	237.5
Investment in associates/JVs	5,501.5	6,455.5	7,321.1	8,255.9	9,265.6
Insurance assets	0.0	0.0	0.0	0.0	0.0
Fixed assets	1,412.5	1,415.4	1,585.2	1,775.4	1,988.5
Intangible assets	2,073.6	2,043.0	2,043.0	2,043.0	2,043.0
Other assets	2,287.5	2,809.5	4,468.8	4,576.0	3,303.0
Total assets	237,129.2	254,331.4	267,992.7	282,270.6	295,777.4
Deposits from customers	184,434.9	199,960.9	210,564.2	221,092.4	231,118.1
Deposits from banks & FIs	12,130.0	6,322.3	6,638.4	6,970.3	7,318.8
Derivatives financial instruments	0.0	0.0	0.0	0.0	0.0
Subordinated debt	1,502.3	1,502.2	1,502.2	1,502.2	1,502.2
Other securities in issue	806.4	1,715.7	1,715.7	1,715.7	1,715.7
Other borrowings	952.5	4,182.3	4,380.9	4,589.3	4,808.3
Insurance liabilities	0.0	0.0	0.0	0.0	0.0
Other liabilities	7,843.9	9,659.1	9,688.2	10,275.1	10,363.9
Total liabilities	207,670.1	223,342.4	234,489.5	246,145.0	256,827.0
Share capital	7,739.1	7,739.1	7,739.1	7,739.1	7,739.1
Reserves	21,720.1	23,249.9	25,764.1	28,386.5	31,211.3
Shareholders' funds	29,459.1	30,989.0	33,503.1	36,125.6	38,950.4
Preference shares	0.0	0.0	0.0	0.0	0.0
Minority interest	0.0	0.0	0.0	0.0	0.0
Total equity	29,459.1	30,989.0	33,503.1	36,125.6	38,950.4
Total liabilities & equity	237,129.2	254,331.4	267,992.7	282,270.6	295,777.4

FYE 30 Jun	FY21A	FY22A	FY23E	FY24E	FY25E
Key Ratios					
Growth (%)					
Net interest income	25.1	8.6	8.7	3.9	5.3
Non-interest income	(6.7)	(14.0)	2.0	2.0	2.0
Operating expenses	(1.2)	1.0	4.9	4.4	4.4
Pre-provision profit	26.7	3.2	7.7	2.9	4.5
Core net profit	9.9	15.0	17.5	4.4	7.5
Gross loans	6.8	8.0	5.9	5.0	4.5
Customer deposits	6.1	8.4	5.3	5.0	4.5
Total assets	7.2	7.3	5.4	5.3	4.8
Profitability (%)					
Non-int. income/Total income	19.9	16.7	16.0	15.8	15.4
Average lending yields	2.62	2.52	3.49	3.49	3.48
Average cost of funds	1.13	0.99	2.12	2.15	2.15
Net interest margin	2.14	2.14	2.12	2.08	2.07
Cost/income	38.0	37.5	36.9	37.2	37.2
Liquidity (%)					
Loans/customer deposits	83.5	83.3	84.0	84.0	84.0
Asset quality (%)					
Net NPL	0.3	0.3	0.3	0.2	0.2
Gross NPL	0.5	0.5	0.5	0.4	0.3
(SP+GP)/average gross loans	0.4	0.1	0.2	0.1	0.1
Loan loss coverage	246.6	211.8	166.7	214.3	250.0
Capital adequacy (%)					
CET1	14.0	13.9	13.8	14.6	15.4
Tier 1 capital	14.6	15.1	14.5	15.2	16.0
Risk-weighted capital	16.7	17.2	16.0	16.7	17.4
Returns (%)					
ROAE	10.1	10.9	12.0	11.6	11.6
ROAA	1.2	1.3	1.5	1.5	1.5
Shareholders equity/assets	12.4	12.2	12.5	12.8	13.2

Source: Company; Maybank IBG Research

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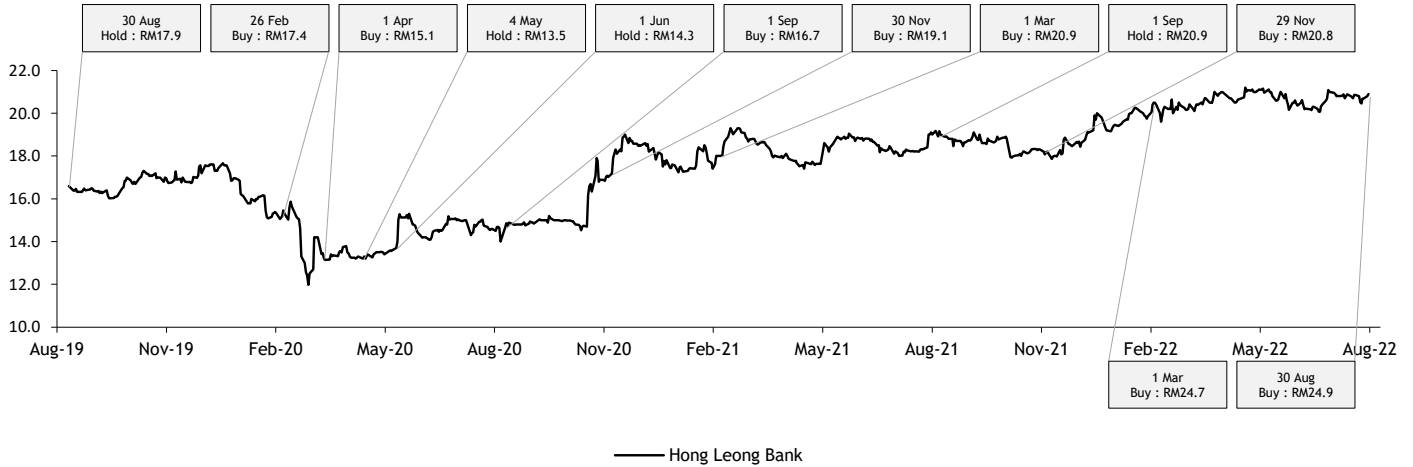
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