

Hong Leong Bank (HLBK MK)

1QFY23 earnings above our expectations

BUY maintained, TP raised

HL Bank's earnings momentum continues to be robust, supported by stable domestic earnings and strong contributions from Bank of Chengdu. We have revised up FY23/24 earnings by 5%/2%, but our FY23 ROE forecast of 11.7% remains conservative relative to management's guidance of >12%. BUY maintained with a higher TP of MYR24.10 (+50sen; CY23E PBV of 1.4x, ROE: 11.6%).

Above our expectations

HL Bank's 1QFY23 core net profit of MYR981m (+10% YoY, +8% QoQ) was slightly above our expectations but within consensus, at 28% and 26% of our and consensus forecasts respectively. The variance arose predominantly from better NIMs and lower credit costs. Loan growth was strong at 8.8% YoY while NIMs improved 8bps YoY. NOII was stable YoY and the group sustained positive JAWS, with operating income growth of 9% YoY outpacing expense growth (+7% YoY). FY22 associate income jumped 22% YoY with higher contributions from 18%-owned Bank of Chengdu, which made up 22% of group pretax profit in 1QFY23.

FY23 guidance raised

In light of the commendable performance in 1QFY23, management's FY23 targets are raised: FY23 loan growth of 7-7.5% from 7% (MIBG: 7%), NIM of 2.14% from >2.1% (MIBG: 2.1%), CIR of <38% from <40% (MIBG: 37%), GIL ratio of <0.6% from <0.75% (MIBG: 0.5%), credit cost of 10bps from 10-15bps (MIBG: 15bps) and ROE of >12% from ~11% (MIBG: 11.7%).

Earnings marginally raised

Factoring in stronger loans growth, we raise our FY23 and FY24 earnings by 5%/2% respectively. We have nevertheless maintained conservative credit cost and NIM estimates relative to management's and our FY23 ROE estimate of 11.7% trails management's guidance of >12%.

FYE Jun (MYR m)	FY21A	FY22A	FY23E	FY24E	FY25E
Operating income	5,467	5,597	5,949	6,281	6,560
Pre-provision profit	3,389	3,499	3,748	3,984	4,163
Core net profit	2,861	3,289	3,773	4,001	4,265
Core EPS (MYR)	1.40	1.61	1.84	1.95	2.08
Core EPS growth (%)	9.9	14.9	14.7	6.1	6.6
Net DPS (MYR)	0.50	0.55	0.64	0.68	0.73
Core P/E (x)	13.4	12.7	11.3	10.7	10.0
P/BV (x)	1.4	1.4	1.4	1.3	1.2
Net dividend yield (%)	2.7	2.7	3.1	3.3	3.5
Book value (MYR)	13.59	14.30	15.43	16.63	17.91
ROAE (%)	10.1	10.9	11.7	11.5	11.4
ROAA (%)	1.2	1.3	1.4	1.4	1.5
Consensus net profit	-	-	3,829	3,988	4,365
MKE vs. Consensus (%)	-	-	(1.5)	0.3	(2.3)

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BUY

Share Price	MYR 20.88
12m Price Target	MYR 24.10 (+18%)
Previous Price Target	MYR 23.60

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.

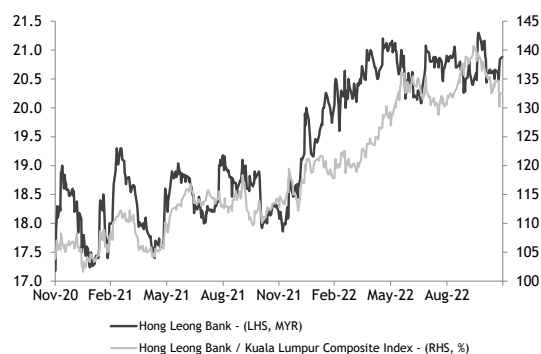
Statistics

52w high/low (MYR)	21.30/17.86
3m avg turnover (USDm)	7.0
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	9.4%
Hong Leong Bank Bhd.	3.7%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(1)	0	15
Relative to index (%)	(4)	1	17

Source: FactSet

Figure 1: HL Bank's results

FYE June (MYR m)	Quarterly					Cumulative		
	1Q23	1Q22	% YoY	4Q22	% QoQ	3MFY23	3MFY22	% YoY
Interest income	1,691.0	1,386.1	22.0	1,479.0	14.3	1,691.0	1,386.1	22.0
Interest expense	(701.4)	(467.3)	50.1	(550.5)	27.4	(701.4)	(467.3)	50.1
Net interest income	989.6	918.8	7.7	928.6	6.6	989.6	918.8	7.7
Islamic banking income	251.5	208.1	20.9	239.3	5.1	251.5	208.1	20.9
Non-interest income	258.8	253.0	2.3	330.5	(21.7)	258.8	253.0	2.3
Operating income	1,499.9	1,379.9	8.7	1,498.4	0.1	1,499.9	1,379.9	8.7
Operating expenses	(540.6)	(507.2)	6.6	(560.1)	(3.5)	(540.6)	(507.2)	6.6
Operating profit	959.4	872.7	9.9	938.3	2.2	959.4	872.7	9.9
Loan loss provisions	(37.6)	(48.8)	(23.0)	(30.2)	24.4	(37.6)	(48.8)	(23.0)
Other provisions	0.3	0.2	91.6	0.4	(12.9)	0.3	0.2	91.6
Associates & jvs	265.0	218.0	21.6	308.8	(14.2)	265.0	218.0	21.6
Pretax Profit	1,187.1	1,042.1	13.9	1,217.3	(2.5)	1,187.1	1,042.1	13.9
Taxation	(205.7)	(183.9)	11.9	(309.7)	(33.6)	(205.7)	(183.9)	11.9
Minority interest	-	-	nm	-	nm	-	-	nm
Net profit	981.4	858.3	14.3	907.6	8.1	981.4	858.3	14.3
Recurring net profit	981.4	890.2	10.2	907.6	8.1	981.4	890.2	10.2
EPS (sen)	47.9	41.9	14.3	44.3	8.1	47.9	41.9	14.3
Net DPS (sen)	0.0	0.0	-	37.0	-	-	-	-
Cost-to-income (%)	36.0	36.8	(0.7)	37.4	(1.3)	36.0	36.8	(2.0)
Tax rate (%)	17.3	17.6	(0.3)	25.4	(8.1)	17.3	17.6	(0.3)
Balance sheet (MYR'm)	Sep 22	Sep 21	YoY chg	Jun 22	QoQ chg	Sep 22	Dec 21	YTD Chg
Gross loans & advances	169,452	155,779	8.8	168,234	0.7	169,452	160,063	5.9
Net loans & advances	167,660	153,994	8.9	166,488	0.7	167,660	158,240	6.0
Deposits from customers	199,678	184,424	8.3	199,961	(0.1)	199,678	189,591	5.3
			ppt chg		ppt chg			ppt chg
Gross LDR (%)	84.9	84.5	0.4	84.1	0.7	84.9	84.4	0.4
Gross NPL ratio (%)	0.5	0.5	0.0	0.5	(0.0)	0.5	0.5	0.0
Loan loss coverage (%)	212.2	238.5	(26.4)	211.8	0.3	212.2	250.6	(38.4)

Source: Bank

Key highlights

Repayment assistance: Loans under Payment Relief Assistance declined to just MYR2.4b end-Oct 2022 from MYR4.2b end-Jul 2022, representing just 1.4% of total gross loans.

Loan growth: Loan growth was robust at 8.8% YoY in 1QFY23, 2.9% on an annualized basis. The YoY growth was led by domestic business enterprise growth of 13%, of which SME loan growth was 14.5% and community SME loan growth was 18.1% YoY. Regional growth was also robust at 32.5% YoY in Singapore, 52.3% in Vietnam and 27.9% in Cambodia. On the domestic retail front, loan growth was 9.2% YoY as mortgages rose 8.4% YoY while hire purchase and unsecured financing increased 10.1% and 6.2% respectively.

Deposit growth: Deposits rose 7.7% YoY. CASA growth was also 7.7% YoY, while fixed deposits rose at a slower pace of 4.4%, leading to a CASA ratio of 32.3%.

Net interest margin (NIM): NIM improved 8bps QoQ to 2.18% in 1QFY23, driven by the recent rate hikes. Management has raised its NIM guidance to 2.14% for FY23 from >2.1% previously. It is of the opinion that some of the NIM pressure stemming from issues such as a) the replacement of the SRR and b) moderate outflows into USD, should ease into 2023. HL Bank’s domestic interest rate estimate is for one final rate hike in Jan 2023.

Non-interest income (NOII): NOII bucked industry trends and was stable YoY (+2%) but was 22% lower QoQ. While fee income was stable QoQ, the group reported larger MTM investment losses QoQ.

Operating expenses: Operating expenses rose 7% YoY in 1QFY23. While personnel costs were flat YoY, the jump came mainly from higher marketing (+75% YoY) and admin (+24% YoY) expenses. The group’s cost/income ratio improved to 36% in 1QFY23 from 37.4% in 4QFY22.

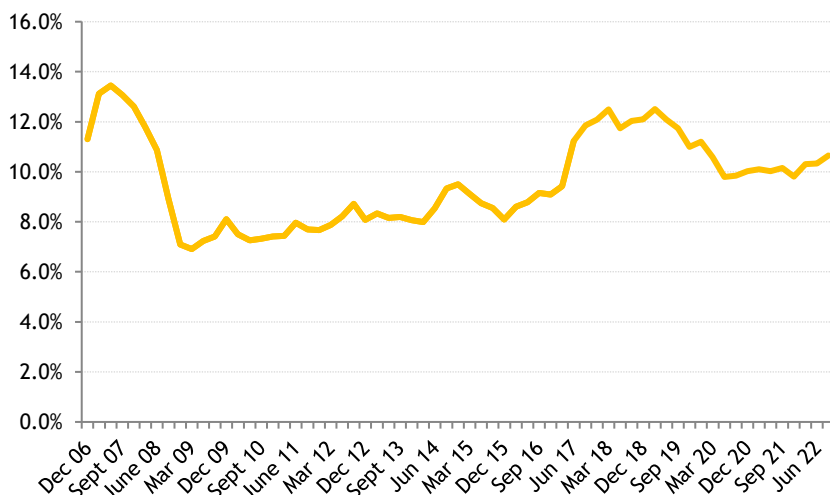
Asset quality: Absolute gross impaired loans (GILs) rose 11% YoY, but the group’s GIL ratio was stable and impeccable at 0.49% end-Sep 2022. Management sees pockets of stress in the SME sector and is monitoring the liquidity situation in Cambodia amid rising US interest rates.

Credit cost: Credit cost was just 9bps in 1QFY23 versus 7bps in 4QFY22. Its loan loss coverage remained high at 212% end-Sep 2022 (282% including regulatory reserves). Pre-emptive provisions are unchanged at MYR629m and management does not foresee any major write-backs in the near term.

Bank of Chengdu (BOCD): BOCD continued to see strong growth, with its 9M22 (FY Dec) operating income up 16% YoY while net profit jumped 32% YoY. Gross loans rose at a robust 31% YoY while its GIL ratio improved to just 0.81% from 1.06% end-Sep 2021, with a solid LLC of 498%.

Capital ratios: The group’s CET1 ratio stood at 12.9% end-Sep 2022, which is comfortable, in our view.

Figure 2: Foreign shareholding in HL Bank (10.7% end-Sep 2022)

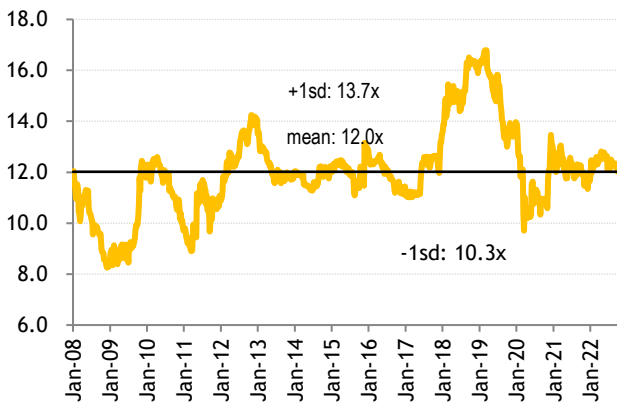


Source: Bank

Risk statement

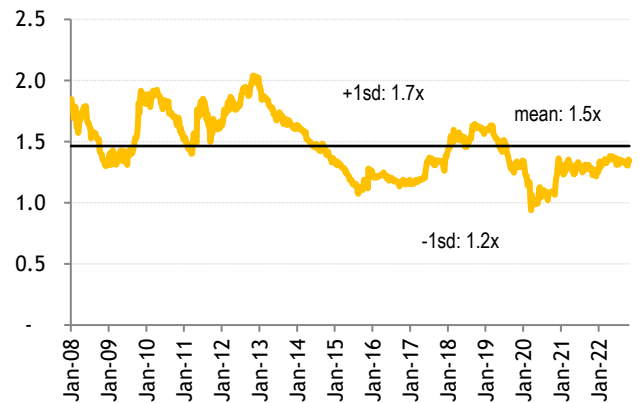
There are several risk factors for our earnings estimates, price target, and rating for HL Bank. Any slowdown in the domestic economy would have a negative impact on the group’s earnings, as would a pick-up in deposit rate competition. Meanwhile, a deterioration in China’s economic outlook, particularly 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	11.3	10.7	10.0
Core FD P/E (x)	13.4	12.7	11.3	10.7	10.0
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	3.1	3.3	3.5
INCOME STATEMENT (MYR m)					
Interest income	5,556.7	5,722.9	8,643.3	9,159.1	9,617.5
Interest expense	(2,099.0)	(1,967.5)	(4,582.7)	(4,813.6)	(5,040.7)
Net interest income	3,457.7	3,755.3	4,060.6	4,345.5	4,576.8
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	5,948.5	6,280.5	6,560.2
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	3,747.9	3,983.8	4,162.7
Loan impairment allowances	(653.8)	(163.6)	(264.3)	(273.5)	(182.9)
Other allowances	(0.3)	0.9	0.0	0.0	0.0
Associates & JV income	736.0	1,030.5	1,082.0	1,136.1	1,192.9
Pretax profit	3,470.9	4,366.8	4,565.6	4,846.5	5,172.7
Income tax	(610.3)	(1,077.5)	(792.8)	(845.0)	(907.4)
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	3,772.8	4,001.4	4,265.3
Core net profit	2,860.6	3,289.3	3,772.8	4,001.4	4,265.3
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	178,622.5	187,553.6	196,062.1
Central bank deposits	493.6	520.7	217.4	228.3	238.7
Investment in associates/JVs	5,501.5	6,455.5	7,267.0	8,119.1	9,013.8
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	3,795.0	3,937.4	2,693.3
Total assets	237,129.2	254,331.4	269,014.4	283,332.2	296,839.9
Deposits from customers	184,434.9	199,960.9	211,638.0	222,219.9	232,301.1
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	235,563.3	247,272.5	258,009.9
Share capital	7,739.1	7,739.1	7,739.1	7,739.1	7,739.1
Reserves	21,720.1	23,249.9	25,712.0	28,320.7	31,090.9
Shareholders' funds	29,459.1	30,989.0	33,451.0	36,059.7	38,829.9
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	33,451.0	36,059.7	38,829.9
Total liabilities & equity	237,129.2	254,331.4	269,014.4	283,332.2	296,839.9

FYE 30 Jun	FY21A	FY22A	FY23E	FY24E	FY25E
Key Ratios					
Growth (%)					
Net interest income	25.1	8.6	8.1	7.0	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	7.1	6.3	4.5
Core net profit	9.9	15.0	14.7	6.1	6.6
Gross loans	6.8	8.0	7.0	5.0	4.5
Customer deposits	6.1	8.4	5.8	5.0	4.5
Total assets	7.2	7.3	5.8	5.3	4.8
Profitability (%)					
Non-int. income/Total income	19.9	16.7	16.1	15.5	15.2
Average lending yields	2.62	2.52	3.49	3.49	3.48
Average cost of funds	1.13	0.99	2.14	2.12	2.12
Net interest margin	2.14	2.14	2.10	2.10	2.10
Cost/income	38.0	37.5	37.0	36.6	36.5
Liquidity (%)					
Loans/customer deposits	83.5	83.3	84.4	84.4	84.4
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	14.5	15.3
Tier 1 capital	14.6	15.1	14.4	15.1	15.9
Risk-weighted capital	16.7	17.2	16.0	16.6	17.3
Returns (%)					
ROAE	10.1	10.9	11.7	11.5	11.4
ROAA	1.2	1.3	1.4	1.4	1.5
Shareholders equity/assets	12.4	12.2	12.4	12.7	13.1

Source: Company; Maybank IBG Research

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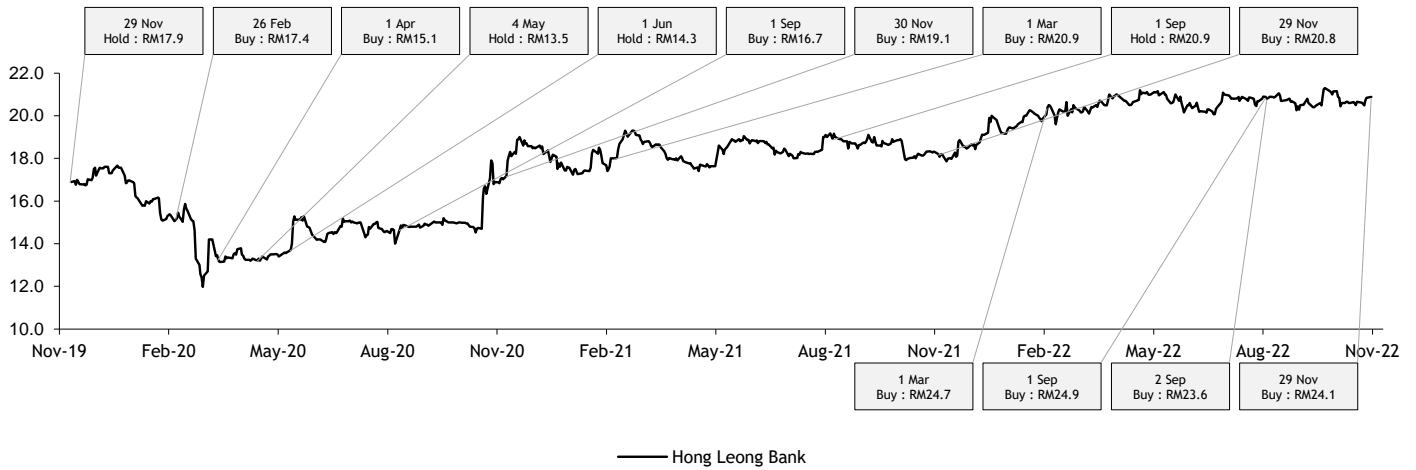
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