

Hong Leong Bank (HLBK MK)

FY25 results within expectations

BUY maintained

HL Bank's FY25 results were within expectations and positively, the group's dividend payout ratio has risen to 46% from 33% in FY24. Our forecasts are maintained, but we have raised our payout ratio assumption to 46% as well. The higher dividend payout now positions HL Bank closer to its banking peers, lifting its dividend yield >5%. We maintain our TP of MYR22.80 (CY25 PBV: 1.2x. COE: 10.3%. ROE: 11.2%, LT growth: 4%). We continue to like HL Bank for its strong asset quality, liquid balance sheet and management's proactive stance in driving faster domestic growth.

Within expectations, higher payout ratio

HL Bank's 4QFY25 core net profit of 1.09b (+5.3% YoY, +3.5% QoQ) took FY25 core net profit to MYR4.38b (+4.3% YoY) - within expectations at 100% of our forecast and consensus. Loan growth was a robust 7.8% YoY, NIM improved YoY and JAWS was positive. These were, however, offset by higher provisions and lower associate contributions. Positively, the bank surprised with a higher final DPS of 68sen, bringing the full-year DPS to 96sen vs 68sen in FY24 - a higher payout ratio of 46% versus 33% in FY24.

FY26E targets

Management's targets for FY26E include: a) loan growth of 6-7% (FY25: 7.8%), NIM of 1.8-1.9% (FY25: 1.9%), CIR 39% (FY25: 38.7%), GIL ratio <0.65% (FY25: 0.54%), net credit cost <10bps (FY25: 1bp), CASA mix > 32% (FY25: 32.9%), ROE 11.5-12% (FY25: 11.4%).

Forecasts maintained

Our FY26E forecasts are maintained, assuming a) loan growth of 5.5%, b) NIM of 1.85%, c) CIR 38.9% and d) net credit cost of 3bps. Our FY26E ROE of 11.3% trails management's target of 11.5-12%. Our forecast for FY27E is maintained as well, and we introduce our forecast for FY28E. We have nevertheless raised our dividend payout assumptions to 46% from 33%.

FYE Jun (MYR m)	FY24A	FY25A	FY26E	FY27E	FY28E
Operating income	5,771	6,398	6,765	7,154	7,587
Pre-provision profit	3,432	3,919	4,140	4,388	4,670
Core net profit	4,196	4,378	4,546	4,817	5,123
Core EPS (MYR)	2.05	2.14	2.22	2.35	2.50
Core EPS growth (%)	8.6	4.3	3.8	6.0	6.3
Net DPS (MYR)	0.68	0.96	1.02	1.08	1.15
Core P/E (x)	9.4	9.2	8.9	8.4	7.9
P/BV (x)	1.1	1.1	1.0	1.0	0.9
Net dividend yield (%)	3.5	4.9	5.2	5.5	5.8
Book value (MYR)	17.20	18.12	19.12	20.27	21.50
ROAE (%)	11.8	11.4	11.3	11.3	11.3
ROAA (%)	1.5	1.4	1.4	1.4	1.4
Consensus net profit	-	-	4,638	4,902	na
MIBG vs. Consensus (%)	-	-	(2.0)	(1.7)	na

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BUY

Share Price	MYR 19.74
12m Price Target	MYR 22.80 (+18%)
Previous Price Target	MYR 22.80

Company Description

Hong Leong Bank offers integrated financial services and is predominantly a retail bank. It also holds a 17.8% stake in Bank of Chengdu, China.

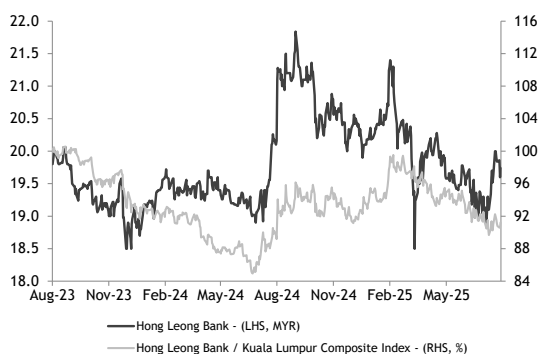
Statistics

52w high/low (MYR)	21.84/18.50
3m avg turnover (USDm)	3.3
Free float (%)	216,771.9
Issued shares (m)	2,168
Market capitalisation	MYR42.8B
	USD10.2B

Major shareholders:

Hong Leong Financial Group Bhd.	62.0%
Employees Provident Fund	9.2%
Hong Leong Bank Bhd.	3.7%

Price Performance



	-1M	-3M	-12M
Absolute (%)	2	(1)	(2)
Relative to index (%)	(1)	(4)	2

Source: FactSet

Figure 1: HL Bank's results

	Quarterly					Cumulative		
FYE June (MYR m)	4Q25	4Q24	% YoY	3Q25	% QoQ	FY25	FY24	% YoY
Interest income	2,246.7	2,242.0	0.2	2,170.8	3.5	8,889.0	8,783.2	1.2
Interest expense	(1,224.9)	(1,260.9)	(2.9)	(1,207.8)	1.4	(4,901.5)	(4,961.4)	(1.2)
Net interest income	1,021.8	981.1	4.2	963.0	6.1	3,987.5	3,821.8	4.3
Islamic banking income	302.6	259.9	16.4	272.0	11.3	1,159.8	985.9	17.6
Non-interest income	295.7	235.6	25.5	313.1	(5.6)	1,250.7	963.3	29.8
Operating income	1,620.1	1,476.6	9.7	1,548.0	4.7	6,398.0	5,771.0	10.9
Operating expenses	(625.7)	(628.1)	(0.4)	(600.5)	4.2	(2,479.2)	(2,338.9)	6.0
Operating profit	994.5	848.5	17.2	947.4	5.0	3,918.8	3,432.1	14.2
Loan loss provisions	(3.0)	31.2	NM	398.4	NM	383.3	114.3	>100
Other provisions	0.1	0.0	>100	(0.2)	NM	0.3	(1.1)	NM
Associates & jvs	366.6	402.1	(8.8)	(83.5)	NM	1,057.9	1,588.9	(33.4)
Pretax Profit	1,358.2	1,281.8	6.0	1,262.2	7.6	5,360.3	5,134.2	4.4
Taxation	(269.6)	(247.8)	8.8	(315.5)	(14.6)	(1,086.9)	(938.0)	15.9
Minority interest	-	-	-	-	-	0.0	0.0	-
Net profit	1,088.6	1,034.0	5.3	946.7	15.0	4,273.4	4,196.2	1.8
Recurring net profit	1,088.6	1,034.0	5.3	1,051.3	3.5	4,378.0	4,196.2	4.3
EPS (sen)	52.8	50.4	4.8	45.9	15.0	207.3	204.7	1.3
Net DPS (sen)	68.0	43.0	58.1	0.0	nm	96.0	68.0	41.2
Cost-to-income (%)	38.6	42.5	(3.9)	38.8	(0.2)	38.7	40.5	(4.4)
Tax rate (%)	19.8	19.3	0.5	25.0	(5.1)	20.3	18.3	2.0
Balance sheet (MYR'm)	Jun 25	Jun24	YoY chg	Mar 25	QoQ chg	Jun 25	Dec 24	YTD Chg
Gross loans & advances	210,064	194,927	7.8	201,247	4.4	210,064	199,373	5.4
Net loans & advances	208,965	193,304	8.1	200,154	4.4	208,965	197,847	5.6
Deposits from customers	241,195	222,599	8.4	227,268	6.1	241,195	228,641	5.5
			ppt chg		ppt chg			ppt chg
Gross LDR (%)	87.1	87.6	(0.5)	88.6	(1.5)	87.1	87.2	(0.1)
Gross NPL ratio (%)	0.5	0.5	0.0	0.6	(0.0)	0.5	0.5	(0.0)
Loan loss coverage (%)	96.8	155.0	(58.2)	95.0	1.9	96.8	139.0	(42.2)

Source: Bank

Key highlights

Loan growth: Loan growth was a robust 7.8% YoY end-Jun 2025. Domestically, mortgages and auto financing rose 6.0% and 10.1% YoY respectively, while unsecured loans increased 12.8%. Loans to domestic business enterprises and SMEs rose 7.5% and 8.1% respectively. In local currency, lending in Singapore and Vietnam rose 16.8% and 2.4% respectively.

Deposit growth: Deposits rose 8.4% YoY end-Jun 2025. Fixed deposits increased 7.7% YoY while CASA grew 9.6% YoY. The group's CASA ratio was a better 32.9% end-Jun 2025, against 30.4% end-Mar 2025. Its balance sheet remains very liquid, with a loan/deposit ratio of 87.1%, and a liquidity coverage ratio of 133%.

Net interest margin (NIM): NIM improved 3bps QoQ to 1.90% in 4QFY25, and averaged 1.90% in FY25, up 4bps YoY. This was within management's NIM guidance of 1.85-1.95% for the year.

Non-interest income (NOII): FY25 NOII rose 30% YoY, led predominantly by higher trading, investment and forex income. Positively, wealth management and bancassurance income jumped 25% YoY. Global market franchise sales increased 39.1% YoY, this being the forex and hedging solutions that HL Bank provides its customers.

Operating expenses: Operating expenses rose 6.0% YoY in FY25, led predominantly by higher marketing and admin costs. Against operating income growth of 10.9% YoY, JAWS was positive and the group's cost/income ratio was a lower 38.7% in FY25 against 40.5% in FY24.

Asset quality: Absolute gross impaired loans (GILs) was stable QoQ and the group's GIL ratio was a benign 0.54% end-Jun 2025 (0.57% end-Mar 2025). Malaysia's GIL ratio was stable QoQ at 0.53%, as was its overseas GIL ratio at 0.77%.

Credit cost: With strong asset quality, credit cost was a mere 1bp in FY25. The bank took the opportunity to write back MYR399m of its MYR574m management overlays, leaving a balance of MYR175m. Its loan loss coverage was 97%, 167% including regulatory reserves.

Bank of Chengdu (BOCD): BOCD reported a 7% YoY rise in its 1H25 net profit (FYE Dec). Loan growth was a robust 18% YoY while its GIL ratio was a solid 0.66%, with a loan loss coverage of 453%. Its cost/income ratio was 24.4%. The bank achieved an ROE of 15.9% in 1H25.

In 3QFY25, management put through a one-off dilution loss of MYR407.6m. This stems from HL Bank's reduced equity interest in BOCD of 17.78% from 19.76% previously, with the full conversion of the latter's convertible bonds. The dilution loss is the differential between HL Bank's carrying value of BOCD in its books and the conversion price of BOCD's convertible bonds at that point in time.

BOCD's share price has been rising and is currently almost equal to its book value. As such, any further dilution in stake is unlikely to result in much further loss, if the share price sustains.

HL Bank's BOCD acquisition cost of MYR2.05b back in 2008 has been fully recouped through MYR2.15b worth of dividends since then.

Capital ratios: The group's CET1 ratio was 13.2% end-Jun 2025. On an overall basis, management estimates a +50bps accretion (operational, credit and market risk) from the adoption of the revised Basel III risk weights.

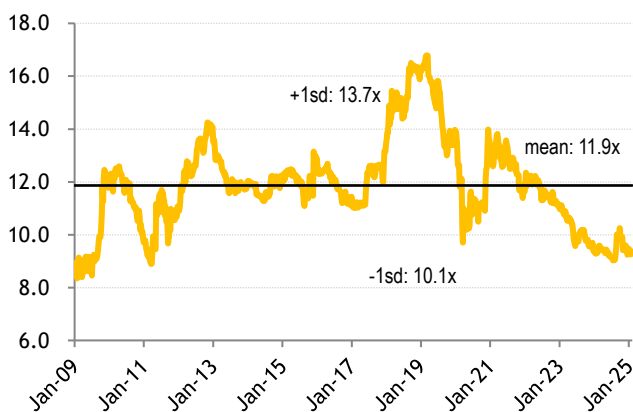
Dividends: The bank pleasantly surprised with a higher final DPS of 68sen (43sen in FY24), bringing the full-year DPS to 96sen vs 68sen in FY24. This is a higher payout ratio of 46% versus 33% in FY24.

Figure 2: Foreign shareholding in HL Bank (10.9% end-Jun 2025)


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	FY24A	FY25A	FY26E	FY27E	FY28E
Key Metrics					
Core P/E (x)	9.4	9.2	8.9	8.4	7.9
Core FD P/E (x)	9.4	9.2	8.9	8.4	7.9
P/BV (x)	1.1	1.1	1.0	1.0	0.9
P/NTA (x)	1.1	1.1	1.0	1.0	0.9
Net dividend yield (%)	3.5	4.9	5.2	5.5	5.8
INCOME STATEMENT (MYR m)					
Interest income	8,783.2	8,889.0	10,562.0	11,126.6	11,753.5
Interest expense	(4,961.4)	(4,901.5)	(6,317.3)	(6,647.9)	(6,965.2)
Net interest income	3,821.8	3,987.5	4,244.7	4,478.7	4,788.3
Islamic banking income	985.9	1,159.8	1,194.6	1,230.5	1,267.4
Net insurance income	0.0	0.0	0.0	0.0	0.0
Net fees and commission	679.6	719.5	733.9	748.6	763.6
Other income	283.7	531.2	591.8	696.4	768.2
Total non-interest income	963.3	1,250.7	1,325.7	1,445.0	1,531.7
Operating income	5,771.0	6,398.0	6,765.1	7,154.2	7,587.4
Staff costs	(1,284.4)	(1,333.1)	(1,413.0)	(1,483.7)	(1,557.9)
Other operating expenses	(1,054.4)	(1,146.1)	(1,212.0)	(1,283.0)	(1,359.4)
Operating expenses	(2,338.9)	(2,479.2)	(2,625.1)	(2,766.7)	(2,917.3)
Pre-provision profit	3,432.1	3,918.8	4,140.0	4,387.5	4,670.2
Loan impairment allowances	114.3	383.3	(70.5)	(75.0)	(77.4)
Other allowances	(1.1)	0.3	0.0	0.0	0.0
Associates & JV income	1,588.9	1,057.9	1,452.7	1,539.9	1,632.3
Pretax profit	5,134.2	5,360.3	5,522.2	5,852.5	6,225.1
Income tax	(938.0)	(1,086.9)	(976.7)	(1,035.0)	(1,102.3)
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	4,196.2	4,273.4	4,545.5	4,817.4	5,122.8
Core net profit	4,196.2	4,378.0	4,545.5	4,817.4	5,122.8
BALANCE SHEET (MYR m)					
Cash & deposits with banks	6,451.7	13,240.4	11,347.0	11,447.4	11,550.8
Sec. under resale agreements	0.0	0.0	0.0	0.0	0.0
Derivatives financial assets	1,362.7	2,258.5	2,371.4	2,490.0	2,614.5
Dealing securities	3,415.2	7,990.8	8,150.6	9,373.2	10,779.2
Available-for-sale securities	72,251.4	64,032.7	68,643.1	73,585.4	78,883.5
Investment securities	0.0	0.0	0.0	0.0	0.0
Loans & advances	193,304.5	208,964.6	219,955.1	229,853.1	241,345.8
Central bank deposits	3,214.5	2,027.7	3,942.7	4,121.7	4,328.8
Investment in associates/JVs	9,639.4	9,210.6	10,300.2	11,455.1	12,679.3
Insurance assets	0.0	0.0	0.0	0.0	0.0
Fixed assets	1,347.8	1,288.3	1,314.1	1,340.3	1,367.2
Intangible assets	1,999.0	1,987.7	1,987.7	1,987.7	1,987.7
Other assets	4,803.0	3,616.8	4,198.9	2,954.0	1,845.5
Total assets	297,789.1	314,618.1	332,210.7	348,607.8	367,382.2
Deposits from customers	222,599.3	241,195.1	255,761.8	267,271.1	280,634.6
Deposits from banks & FIs	11,370.9	9,935.8	10,432.5	10,954.2	11,501.9
Derivatives financial instruments	0.0	0.0	0.0	0.0	0.0
Subordinated debt	1,500.5	1,901.5	1,901.5	1,901.5	1,901.5
Other securities in issue	2,268.6	2,521.3	2,521.3	2,521.3	2,521.3
Other borrowings	9,995.0	6,684.6	7,989.5	9,555.4	11,434.5
Insurance liabilities	0.0	0.0	0.0	0.0	0.0
Other liabilities	12,760.6	13,093.0	12,162.1	12,458.4	12,776.5
Total liabilities	260,495.0	275,331.1	290,768.7	304,661.8	320,770.3
Share capital	7,739.1	7,739.1	7,739.1	7,739.1	7,739.1
Reserves	29,555.0	31,547.9	33,703.0	36,207.0	38,872.9
Shareholders' funds	37,294.1	39,287.0	41,442.0	43,946.0	46,611.9
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	37,294.1	39,287.0	41,442.0	43,946.0	46,611.9
Total liabilities & equity	297,789.1	314,618.1	332,210.7	348,607.8	367,382.2

FYE 30 Jun	FY24A	FY25A	FY26E	FY27E	FY28E
Key Ratios					
Growth (%)					
Net interest income	3.7	4.3	6.5	5.5	6.9
Non-interest income	(7.2)	29.8	6.0	9.0	6.0
Operating expenses	4.7	6.0	5.9	5.4	5.4
Pre-provision profit	(0.6)	14.2	5.6	6.0	6.4
Core net profit	8.6	4.3	3.8	6.0	6.3
Gross loans	7.3	7.8	5.5	4.5	5.0
Customer deposits	4.1	8.4	6.0	4.5	5.0
Total assets	6.4	5.7	5.6	4.9	5.4
Profitability (%)					
Non-int. income/Total income	16.7	19.5	19.6	20.2	20.2
Average lending yields	3.35	3.19	3.50	3.50	3.50
Average cost of funds	2.17	2.03	2.40	2.40	2.40
Net interest margin	1.86	1.90	1.85	1.84	1.86
Cost/income	40.5	38.7	38.8	38.7	38.4
Liquidity (%)					
Loans/customer deposits	86.8	86.6	86.0	86.0	86.0
Asset quality (%)					
Net NPL	0.3	0.4	0.4	0.4	0.4
Gross NPL	0.5	0.5	0.5	0.5	0.5
(SP+GP)/average gross loans	(0.1)	(0.2)	0.0	0.0	0.0
Loan loss coverage	155.0	96.8	150.0	150.0	150.0
Capital adequacy (%)					
CET1	13.9	14.0	12.6	12.5	12.9
Tier 1 capital	14.8	15.9	13.3	13.1	13.5
Risk-weighted capital	16.8	18.2	15.3	15.0	15.3
Returns (%)					
ROAE	11.8	11.4	11.3	11.3	11.3
ROAA	1.5	1.4	1.4	1.4	1.4
Shareholders equity/assets	12.5	12.5	12.5	12.6	12.7

Source: Company; Maybank IBG Research

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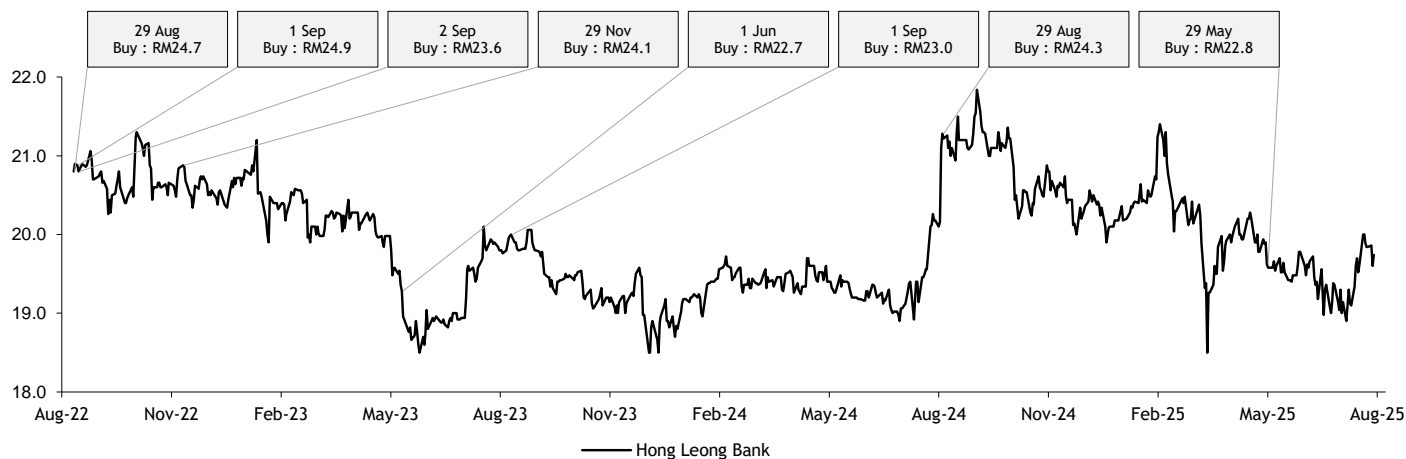
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