

Hong Leong Bank (HLBK MK)

A robust 1HFY22

BUY maintained, TP: MYR24.70

We raise HL Bank's FY22-24E net profit by 6-8% on higher NIM estimates and faster growth in Bank of Chengdu's earnings. Fundamentals are impeccable and we expect the group's ROE to improve to 11.7% in FY23E from 10.6% in FY22 (Cukai Makmur effect). We roll forward valuations and raise our TP to MYR24.70 from MYR20.80, supported by a CY23 ROE of 11.6%. BUY maintained.

Above expectations

HL Bank's 2QFY22 core net profit of MYR739m (+10% YoY, -17% QoQ) was above expectations, taking 1HFY22 core net profit to MYR1,629m (+16.4% YoY) or 53%/54% of our full-year forecast/consensus respectively. The variance arose predominantly from further NIM expansion QoQ and much stronger earnings from Bank of Chengdu (BOCD), which saw its pretax profit contribution jump 40% YoY. BOCD now contributes to 22% of group pretax, up from 20% in 1HFY21. We understand that the bank has no exposure to troubled property developers in China.

Targets revised

Loans under Payment Relief Assistance amounted to just 6% of total loans in Feb 2022. Credit cost averaged just 5bps in 1HFY22 and loan loss coverage is very comfortable at 321%. Management now lifts its FY22 loan growth target to 6-7% from 5-6% previously, its NIM target to >2.1% from >2.05%, credit cost of 10bps from 20bps and ROE of >10.5% from >10%.

Earnings raised

We raise our NIM assumption and BOCD earnings growth estimates, resulting in a 6%/8%/7% upward revision in FY22/23/24E earnings. Our FY22E ROE of 10.6% compares against management's >10.5% target, and would be 11.6% excluding Cukai Makmur. We expect ROEs to improve to 11.7% in FY23.

FYE Jun (MYR m)	FY20A	FY21A	FY22E	FY23E	FY24E
Operating income	4,778	5,467	5,800	6,146	6,413
Pre-provision profit	2,675	3,389	3,666	3,954	4,160
Core net profit	2,602	2,861	3,220	3,830	4,048
Core EPS (MYR)	1.27	1.40	1.57	1.87	1.98
Core EPS growth (%)	1.1	9.9	12.5	19.0	5.7
Net DPS (MYR)	0.36	0.50	0.59	0.71	0.75
Core P/E (x)	11.1	13.4	12.8	10.7	10.1
P/BV (x)	1.1	1.4	1.4	1.3	1.2
Net dividend yield (%)	2.6	2.7	2.9	3.5	3.7
Book value (MYR)	12.56	13.59	14.50	15.60	16.76
ROAE (%)	9.9	10.1	10.6	11.7	11.5
ROAA (%)	1.2	1.2	1.3	1.5	1.5
Consensus net profit	-	-	3,034	3,576	3,931
MKE vs. Consensus (%)	-	-	5.1	7.1	3.0

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BUY

Share Price	MYR 20.06
12m Price Target	MYR 24.70 (+26%)
Previous Price Target	MYR 20.80

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.

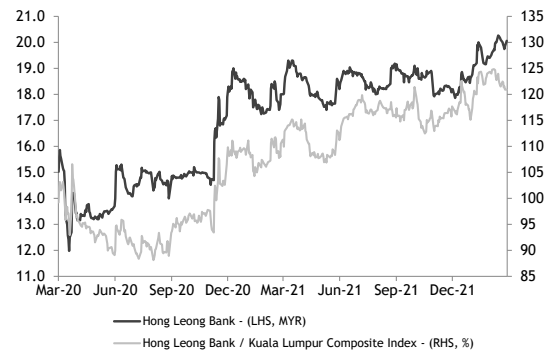
Statistics

52w high/low (MYR)	20.26/17.40
3m avg turnover (USDm)	4.8
Free float (%)	216,771.9
Issued shares (m)	2,168
Market capitalisation	MYR43.5B USD10.4B

Major shareholders:

Hong Leong Financial Group Bhd.	62.1%
Employees Provident Fund	9.2%
Hong Leong Bank Bhd.	3.7%

Price Performance



	-1M	-3M	-12M
Absolute (%)	3	11	11
Relative to index (%)	(2)	6	10

Source: FactSet

Figure 1: HL Bank's results

FYE June (MYR m)	Quarterly					Cumulative		
	2Q22	2Q21	% YoY	1Q22	% QoQ	6MFY22	6MFY21	% YoY
Interest income	1,428.8	1,410.9	1.3	1,386.1	3.1	2,814.8	2,814.9	(0.0)
Interest expense	(468.4)	(544.3)	(13.9)	(467.3)	0.3	(935.7)	(1,152.0)	(18.8)
Net interest income	960.3	866.7	10.8	918.8	4.5	1,879.1	1,663.0	13.0
Islamic banking income	233.0	234.2	(0.5)	208.1	12.0	441.1	452.8	(2.6)
Non-interest income	177.8	299.2	(40.6)	253.0	(29.7)	430.9	633.2	(32.0)
Operating income	1,371.2	1,400.1	(2.1)	1,379.9	(0.6)	2,751.1	2,748.9	0.1
Operating expenses	(512.9)	(511.7)	0.2	(507.2)	1.1	(1,020.1)	(1,032.7)	-1.2
Operating profit	858.3	888.4	(3.4)	872.7	(1.7)	1,731.0	1,716.2	0.9
Loan loss provisions	(33.3)	(240.9)	(86.2)	(48.8)	(31.8)	(82.1)	(345.3)	(76.2)
Other provisions	0.4	0.1	364.3	0.2	>100	0.6	(0.2)	nm
Associates & jvs	251.1	167.7	49.8	218.0	15.2	469.2	334.8	40.1
Pretax Profit	1,076.5	815.3	32.0	1,042.1	3.3	2,118.6	1,705.5	24.2
Taxation	(337.9)	(144.5)	133.9	(183.9)	83.8	(521.8)	(305.8)	70.6
Minority interest	-	-	nm	-	nm	-	-	nm
Net profit	738.6	670.8	10.1	858.3	(13.9)	1,596.8	1,399.7	14.1
Recurring net profit	738.6	670.8	10.1	890.2	(17.0)	1,628.8	1,399.7	16.4
EPS (sen)	36.1	32.8	10.1	41.9	(13.8)	78.0	68.4	14.0
Net DPS (sen)	18.0	14.8	21.8	0.0	nm	18.0	14.8	21.8
Cost-to-income (%)	37.4	36.5	0.9	36.8	0.6	37.1	37.6	(1.3)
Tax rate (%)	31.4	17.7	13.7	17.6	13.7	24.6	17.9	6.7

Source: Bank

Key highlights

Repayment assistance: Loans under Payment Relief Assistance amounted to MYR26.4b end-Jan 2022, representing 16.5% of total loans. This comprised 79% retail customers and 21% SME/corporates. The percentage has dropped since then and averaged just about 6% in February. Applications under URUS total about 853, amounting to MYR222m.

Loan growth: Loans rose a decent 6.7% YoY. This was led by strong domestic business enterprise loans growth of 13.3%, driven by SME loan growth of 16.6% while community SME loans rose 17.9% YoY. On the consumer front, residential property loans rose 5.5% YoY to buffer a contraction of 1% for transport vehicles. The Singapore loans portfolio saw strong growth of 18.9% and there was strong growth in Vietnam (+51.5% YoY) and Cambodia (+34.2% YoY) as well. Management has revised up its FY22 loan growth target to 6-7% from 5-6% previously.

Deposit growth: Deposits kept pace with a growth of 6.8% YoY, as fixed deposits increased 3.5% YoY but CASA jumped 18.6% YoY, to account for 33% of total deposits.

Net interest margin (NIM): NIM rose 6bps QoQ to 2.19% in 2QFY22 and averaged 2.16% (including mod loss) in 1HFY22 versus 2.08% in 1HFY21. Management has raised its NIM target to >2.1% from >2.05% previously. Every 25bps increase in the OPR impacts the bank's NIM by 1-2bps.

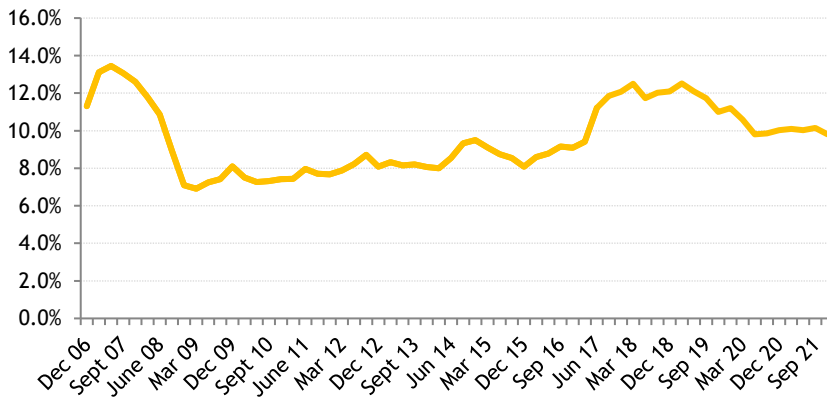
Non-interest income (NOII): NOII dropped 32% YoY in 1HFY22, due largely to lower trading and investment income as well as credit card related fees. The group's NOII ratio declined to 16.5% in 1HFY22 from 24.5% in 1HFY21.

Operating expenses: Operating expenses were flat YoY in 1HFY22 as personnel costs declined. The group’s cost/income ratio was lower at 37.1% in 1HFY22 versus 37.6% in 1HFY21. Management continues to guide for a CTI ratio of <40% for FY22.

Asset quality: Asset quality continued to be stable, and the GIL ratio was flat at 0.46%. Pre-emptive provisions amounted to MYR61m in 1HFY22, much lower than the total provisions of MYR511m in FY21 and MYR301m in FY20. Credit cost in 1HFY22 was just 5bps and management has lowered its FY22 guidance to circa 10bps from 20bps previously.

Capital ratios: The group’s CET1 ratio stood at 13.1% end-Dec 2021, which is comfortable, in our view.

Figure 2: Foreign shareholding in HL Bank (9.8% end-Dec 2021)

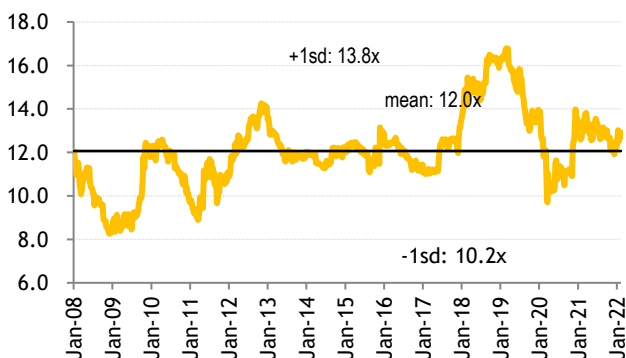


Source: Bank

Risk statement

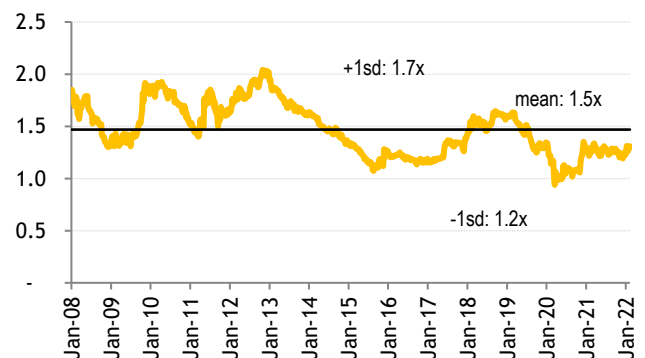
There are several risk factors for our earnings estimates, price target, and rating for HL Bank. Any slowdown in the domestic economy would have a negative impact on the group’s earnings, as would a pick-up in deposit rate competition. Meanwhile, a deterioration in China’s economic outlook, particularly 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	FY20A	FY21A	FY22E	FY23E	FY24E
Key Metrics					
Core P/E (x)	11.1	13.4	12.8	10.7	10.1
Core FD P/E (x)	11.1	13.4	12.8	10.7	10.1
P/BV (x)	1.1	1.4	1.4	1.3	1.2
P/NTA (x)	1.1	1.4	1.4	1.3	1.2
Net dividend yield (%)	2.6	2.7	2.9	3.5	3.7
INCOME STATEMENT (MYR m)					
Interest income	6,180.8	5,556.7	8,141.8	8,614.6	9,047.4
Interest expense	(3,416.4)	(2,099.0)	(4,400.6)	(4,577.4)	(4,795.1)
Net interest income	2,764.4	3,457.7	3,741.2	4,037.2	4,252.3
Islamic banking income	846.5	919.4	947.0	975.4	1,004.7
Net insurance income	0.0	0.0	0.0	0.0	0.0
Net fees and commission	520.5	570.5	581.9	593.5	605.4
Other income	646.9	519.3	529.7	540.3	551.1
Total non-interest income	1,167.4	1,089.8	1,111.6	1,133.8	1,156.5
Operating income	4,778.4	5,466.9	5,799.8	6,146.4	6,413.4
Staff costs	(1,166.0)	(1,191.6)	(1,239.2)	(1,288.8)	(1,340.4)
Other operating expenses	(937.8)	(886.2)	(895.0)	(903.9)	(912.9)
Operating expenses	(2,103.8)	(2,077.8)	(2,134.2)	(2,192.7)	(2,253.3)
Pre-provision profit	2,674.6	3,389.1	3,665.5	3,953.7	4,160.1
Loan impairment allowances	(327.7)	(653.8)	(164.2)	(162.4)	(181.8)
Other allowances	0.2	(0.3)	0.0	0.0	0.0
Associates & JV income	642.3	736.0	844.6	912.1	985.1
Pretax profit	2,989.4	3,470.9	4,345.9	4,703.4	4,963.4
Income tax	(494.8)	(610.3)	(1,158.2)	(873.4)	(915.4)
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	2,494.6	2,860.6	3,187.7	3,830.0	4,048.0
Core net profit	2,602.5	2,860.6	3,219.6	3,830.0	4,048.0
BALANCE SHEET (MYR m)					
Cash & deposits with banks	9,614.5	3,953.0	3,301.4	3,016.4	2,431.9
Sec. under resale agreements	0.0	0.0	0.0	0.0	0.0
Derivatives financial assets	1,111.5	1,005.2	1,055.5	1,108.3	1,163.7
Dealing securities	8,069.4	8,246.4	8,411.3	8,579.5	8,751.1
Available-for-sale securities	47,384.0	58,085.1	62,267.3	66,750.5	71,556.6
Investment securities	0.0	0.0	0.0	0.0	0.0
Loans & advances	144,695.0	154,070.7	164,568.5	172,797.0	180,623.4
Central bank deposits	418.1	493.6	208.2	218.6	228.5
Investment in associates/JVs	4,644.5	5,501.5	6,135.0	6,819.1	7,557.9
Insurance assets	0.0	0.0	0.0	0.0	0.0
Fixed assets	1,553.0	1,412.5	1,582.0	1,771.9	1,984.5
Intangible assets	2,018.8	2,073.6	2,073.6	2,073.6	2,073.6
Other assets	1,769.1	2,287.5	2,522.2	2,470.7	2,358.2
Total assets	221,277.9	237,129.2	252,124.9	265,605.5	278,729.4
Deposits from customers	173,849.1	184,434.9	195,914.9	205,710.7	215,027.8
Deposits from banks & FIs	6,501.1	12,130.0	12,736.5	13,373.4	14,042.0
Derivatives financial instruments	0.0	0.0	0.0	0.0	0.0
Subordinated debt	1,502.2	1,502.3	1,502.3	1,502.3	1,502.3
Other securities in issue	806.3	806.4	806.4	806.4	806.4
Other borrowings	3,365.3	952.5	989.6	1,028.6	1,069.6
Insurance liabilities	0.0	0.0	0.0	0.0	0.0
Other liabilities	8,019.5	7,843.9	8,736.1	9,368.6	9,953.2
Total liabilities	194,043.6	207,670.1	220,685.9	231,790.1	242,401.3
Share capital	7,739.1	7,739.1	7,739.1	7,739.1	7,739.1
Reserves	19,495.2	21,720.1	23,699.9	26,076.4	28,589.0
Shareholders' funds	27,234.3	29,459.1	31,439.0	33,815.5	36,328.1
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	27,234.3	29,459.1	31,439.0	33,815.5	36,328.1
Total liabilities & equity	221,277.9	237,129.2	252,124.9	265,605.5	278,729.4

FYE 30 Jun	FY20A	FY21A	FY22E	FY23E	FY24E
Key Ratios					
Growth (%)					
Net interest income	0.0	25.1	8.2	7.9	5.3
Non-interest income	(6.9)	(6.7)	2.0	2.0	2.0
Operating expenses	0.6	(1.2)	2.7	2.7	2.8
Pre-provision profit	1.5	26.7	8.2	7.9	5.2
Core net profit	1.1	9.9	12.5	19.0	5.7
Gross loans	6.1	6.8	6.4	5.0	4.5
Customer deposits	6.6	6.1	6.2	5.0	4.5
Total assets	6.7	7.2	6.3	5.3	4.9
Profitability (%)					
Non-int. income/Total income	24.4	19.9	19.2	18.4	18.0
Average lending yields	3.15	2.62	3.51	3.51	3.50
Average cost of funds	1.95	1.13	2.15	2.12	2.12
Net interest margin	1.88	2.14	2.10	2.12	2.11
Cost/income	44.0	38.0	36.8	35.7	35.1
Liquidity (%)					
Loans/customer deposits	83.2	83.5	84.0	84.0	84.0
Asset quality (%)					
Net NPL	0.4	0.3	0.3	0.2	0.2
Gross NPL	0.6	0.5	0.4	0.3	0.3
(SP+GP)/average gross loans	0.2	0.4	0.1	0.1	0.1
Loan loss coverage	141.5	246.6	187.5	250.0	250.0
Capital adequacy (%)					
CET1	13.9	14.0	14.5	15.1	15.8
Tier 1 capital	14.5	14.6	14.8	15.4	16.1
Risk-weighted capital	16.7	16.7	16.2	16.8	17.5
Returns (%)					
ROAE	9.9	10.1	10.6	11.7	11.5
ROAA	1.2	1.2	1.3	1.5	1.5
Shareholders equity/assets	12.3	12.4	12.5	12.7	13.0

Source: Company; Maybank

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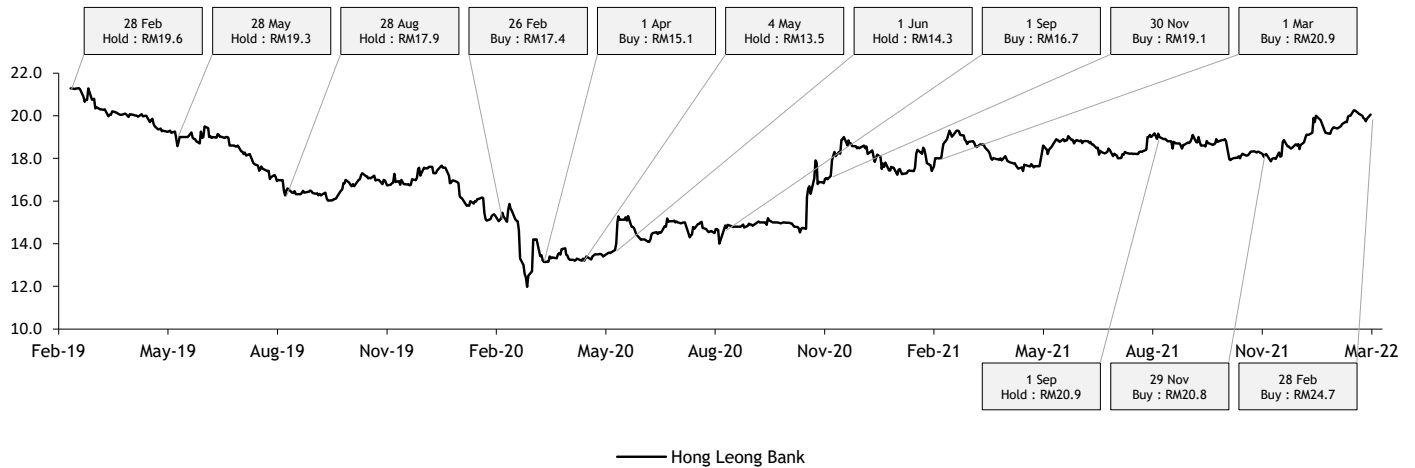
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