

Company Report

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HONG LEONG BANK

(HLBK MK EQUITY, HLBB.KL)

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Operational efficiency alongside strong loan momentum

BUY

(Maintained)

Rationale for report: Company Result

Price RM21.20
Target price RM23.75
52-week High/Low RM22.22/RM18.42

Key Changes

Target price ⇄
EPS ⇄

YE to Jun	FY25	FY26F	FY27F	FY28F
Total income (RM mil)	6,398.0	6,850.1	7,405.3	8,059.5
Core net profit (RM mil)	4,378.4	4,542.3	4,819.1	5,109.7
FD Core EPS (sen)	212.4	220.4	233.8	247.9
FD Core EPS growth (%)	3.7	3.7	6.1	6.0
Consensus Net Profit (RM mil)	-	4,589.0	4,830.0	5,159.0
DPS (sen)	96.0	103.6	109.9	116.5
BV/share (RM)	19.06	20.34	21.58	22.96
PE (x)	10.0	9.6	9.1	8.6
Div yield (%)	4.6	4.9	5.2	5.5
P/BV (x)	1.1	1.0	1.0	0.9
ROE (%)	11.2	11.2	11.2	11.1

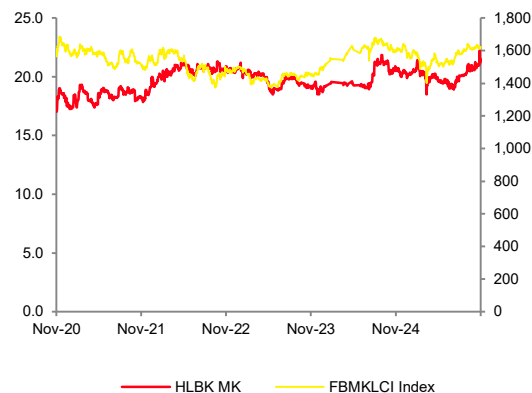
Stock and Financial Data

Shares Outstanding (million) 2,049.5
Market Cap (RMmil) 43,449.1
Book Value (RM/Share) 19.06
P/BV (x) 1.1
ROE (%) 11.2

Major Shareholders
Hong Leong Financial Group (61.8%)
Employees Provident Fund (9.2%)

Free Float 29.0
Avg Daily Value (RMmil) 34.1

Price performance	3mth	6mth	12mth
Absolute (%)	7.4	6.6	1.9
Relative (%)	5.4	0.6	1.1



Investment Highlights

1QFY26 results were in line with expectations, supported by 5.4% YoY income growth and strong loan expansion of 9.1%, outpacing industry trends. Cost efficiency improved with CI ratio at 36.0% and positive JAW of 8.4%. Asset quality remained solid with GIL ratio at 0.57% and loan loss coverage at 244%, including regulatory reserves. Annualised credit cost stayed low at 7bps, within guidance, while liquidity was robust with LCR at 132.8%. Opportunities to grow wealth management and expand lending in key overseas markets, particularly Singapore and Vietnam.

- Recommendation and valuation.** We reaffirm our BUY call with an unchanged target price of RM23.75, anchored on a forward CY26 P/BV of 1.1x and ROE of 11.2%. Earnings forecasts and our 4-star ESG rating are maintained. At FY26F P/BV of 1.0x, HLBB offers attractive upside potential, supported by strong topline growth and resilient asset quality.
- 1QFY26 earnings of RM1.09 billion met expectations at 24.0% of our and 23.8% of consensus estimates.** 1QFY26 net profit was largely unchanged, rising just 0.1% YoY. This was supported by a 5.4% YoY increase in total income, driven by higher NII (+2.4%) and NOI (+16.3%) from wealth management, investment gains, and credit card-related fees. However, these gains were partly offset by higher loan provisions. The group remains on track to achieve most of its FY26 targets, with ROE at 11.2%, slightly below the 11.5%-12.0% target range. BOCD delivered resilient performance in 9MFY25, posting 3% growth in operating income, an ROE of 15.2%, a GIL ratio of 0.68%, robust loan loss coverage of 433%, and a total capital ratio of 14.4%.
- Loan growth maintained strong momentum, rising to 9.1% YoY from 7.8% previously, pushing LDR to 88.1%.** Domestic loan growth gained traction to 9.0% YoY, outpacing the industry's 5.5% YoY with notable growth in unsecured (credit card and personal loans), transport vehicles and community SME loans. Overseas loans grew at a faster pace of 10.1% YoY, led by Singapore and Vietnam. NIM eased 6bps QoQ to 1.84% in 1QFY26 after the July 2025 OPR cut of 25bps. Management reiterated FY26 NIM guidance of a 3–4bps decline to 1.8–1.9%.
- GIL ratio edged up to 0.57% due to impairment of a well-collateralized SGD39m loan in Singapore, while credit costs remained low.** Domestic GIL ratio inched up to 0.50% QoQ, while overseas GIL rose to 1.57% in 1QFY26 from 0.77% in 4QFY25, driven by impairment of a well-secured Singapore loan with recovery underway. Annualised net credit cost stayed low at 7bps, within the <10bps FY26 guidance. Loan loss coverage, including regulatory reserves, remained strong at 244.7% with RM175m management overlay intact.

Company profile

Hong Leong Bank, with assets totaling RM296 billion, provides a wide range of financial solutions catering to individuals, SMEs, and corporates. The group operates 231 branches across Asia, complemented by full-service call centers and 1,093 self-service terminals.

Internationally, it has established a presence in Singapore, Hong Kong, Vietnam, and Cambodia. Contributions from its Chinese associates—BOC and Sichuan Jincheng Consumer Finance Limited—amounted to RM775 million, representing 28.3% of the group's 1HFY25 PBT.

Investment thesis and catalysts

We still view the stock as a laggard, though its valuation remains attractive at 0.9x FY26F P/BV, supported by a solid ROE of 10.6%, exceeding the sector average's 10.1%. Given its low valuation, we anticipate an improvement to a P/BV of 1.1x.

Its alliance with Lombard Odier creates avenues for expanding wealth management services, while the collaboration with WeBank Technology Services in China is poised to accelerate digitalization, automation, AI-driven innovations, and overall operational efficiency.

Valuation methodology

The stock's valuation is based on a Gordon growth model-derived P/BV of 1.1x, underpinned by a cost of equity (COE) of 10.7%, a beta of 1, a market risk premium of 6.5%, a risk-free rate of 3.5%, and a long-term growth rate of 3%.

Risk factors

Potential downside risks to our projections include:

- Slower global economic growth, which could dampen loan expansion.
- A sudden rise in funding costs—particularly if CASA growth falls short of expectations—intensifying competition for deposits.
- Prolonged high interest rates in developed markets, potentially reducing the valuation of bonds and securities portfolios, thereby affecting banks' non-interest income (NOII).

EXHIBIT 1: VALUATIONS

COE	10.7%
Beta	1
Market risk premium	6.5%
Risk free rate	3.5%
Long term growth rate	3%
P/BV	1.1x
CY26 BVPS	RM20.96
TP	RM23.05
ESG Premium	RM0.70
Adjusted TP	RM23.75

EXHIBIT 2: RESULTS SUMMARY

Income Statement (RM m, FYE 30 Jun)	1Q25	4Q25	1Q26	% QoQ	% YoY
Interest income	2,253	2,247	2,259	0.5	0.3
Interest expense	-1,243	-1,225	-1,234	0.7	-0.7
Net interest income	1,010	1,022	1,025	0.3	1.5
Islamic banking income	288	303	318	5.0	10.4
Non-interest income	300	296	342	15.7	14.0
Total income	1,598	1,620	1,685	4.0	5.4
Overhead expenses	-626	-626	-607	-3.0	-3.0
Pre-provision profit	972	994	1,078	8.4	10.9
Loan impairment allowances	-7	-3	-38	>100	>100
Other allowances	0	0	0	>-100	>100
Associates and JV income	375	367	311	-15.1	-16.9
Pretax profit	1,339	1,358	1,351	-0.5	0.9
Income tax	-249	-270	-260	-3.5	4.3
Minority interest					
Net profit	1,090	1,089	1,091	0.2	0.1
Core Net profit	1,090	1,089	1,091	0.2	0.1
Core EPS (sen)	53.2	53.1	53.2	0.2	0.0
PBT by segments (RM m)					
Personal financial services	469	497	504	1.3	7.5
Business & corporate banking	390	409	406	-0.8	4.0
Global markets	7	42	91	119.7	>100
Overseas and international operations	62	49	34	-30.9	-45.2
Others and intersegment elimination	38	-5	5	-198.2	-85.9
Share of profit from associates	375	367	311	-15.1	-16.9
Share of profit from JV	0	0	0	n.m.	n.m.
Group pretax profit	1,339	1,358	1,351	-0.5	0.9
Balance Sheet (RM m, FYE 30 Jun)					
Gross loans and advances	194,232	210,064	211,817	0.8	9.1
Net loans and advances	192,699	208,965	210,741	0.9	9.4
Customer deposits	219,437	238,926	236,294	-1.1	7.7
Gross impaired loans	1,049	1,144	1,215	6.2	15.9
Average shareholders' funds	36,868	38,890	39,120	0.6	6.1
Ratios (%)					
Net LD	87.8%	87.5%	89.2%		
CASA	32.1%	32.9%	32.5%		
Cost to income	39.1%	38.6%	36.0%		
Annualised credit cost	0.02%	-0.20%	0.07%		
Loan loss coverage	145.5%	96.8%	89.6%		
Loan loss coverage (inclusive of regulatory reserves)	265.1%	259.5%	244.7%		
GIL	0.54%	0.54%	0.57%		
NIM	1.92%	1.90%	1.84%		
ROE	11.8%	11.2%	11.2%		
CET1 capital	13.2%	13.2%	12.7%		
Tier 1 capital	14.2%	14.2%	13.6%		
Total capital	16.2%	16.3%	15.7%		

Source: Company, AmlInvestment Bank

EXHIBIT 3: ESG SCORE

	Assessment	Parameters	Weightage	Rating					Rationale
1	Exposure to sustainable financing out of total loans	% of loan book	30%	*	*	*	*	*	RM20.9bil sustainable finance mobilised in FY23 (11.5% of total gross financing)
2	% of financing to high risk ESG sectors out of total loans	% of loan book	30%	*	*	*	*	*	RM4.7bil or 9.5% of BCB segment's exposure to high risk ESG sectors. To total group financing, this amounted to 2.6%
3	Scope 1 GHG Emissions to total income	t/Co2e/RM'Mil	10%	*	*	*	*	*	Low at 0.02 in FY23 similar to FY22
4	Scope 2 GHG Emissions to total income	t/Co2e/RM'Mil	10%	*	*				4.87 in FY23 vs. 5.11 in FY22
5	Scope 3 GHG Emissions to total income	t/Co2e/RM'Mil	10%	*	*	*			2.18 in FY23 vs. 1.67 in FY22
6	Electricity consumption to total income	Electricity consumption to total income	5%	*	*				
7	Water consumption to total income	m3/RM'Mil	5%	*	*	*	*	*	
	Weighted score for environmental assessment		100%	*	*	*	*	*	
1	Corporate Social Responsibility investments or spend	% of total income	35%	*	*	*			
2	Investments in training	% of total income	20%	*					
3	Workforce diversity - women in senior management and above (excluding Board Directors)	% of total workforce	10%	*	*	*	*	*	41.3% in FY23
4	Average training hours per employee	hours	25%	*	*	*	*	*	79hr. Increased 2% YoY in FY23
5	Financial literacy programs	No of participants educated through programs	10%	*	*	*			
	Weighted score for social assessment		100%	*	*	*			
1	Board age diversity	% under the 61 to 70 years old category	20%	*	*	*			77.8%
2	Board women representation	% of total board directors	10%	*	*	*	*	*	43% higher than sector average
3	Directors with tenure of 3-6 years	% in the 3 to 6 years or more category	20%	*	*	*			
4	Independent board directors	% of total board directors	20%	*	*	*			62.5% in FY23
5	Remuneration to directors	% of total operating expenses	10%	*	*	*			
6	Cybersecurity, Privacy and Data Protection	Confirmed incidents	20%	*	*	*			
	Weighted score for governance assessment		100%	*	*	*			
	Environmental score		40%	*	*	*	*	*	
	Social score		25%	*	*	*			
	Governance score		35%	*	*	*			
	Overall ESG Score		100%	*	*	*	*	*	

Source: AmlInvestment Bank

EXHIBIT 4: FINANCIAL DATA

Income Statement (RMmil, YE 31 Jun)	FY24	FY25	FY26F	FY27F	FY28F
Net interest income	3,821.8	3,987.5	4,146.9	4,419.6	4,616.4
Non-interest income	963.3	1,250.7	1,444.3	1,610.7	1,908.5
Islamic banking income	985.9	1,159.8	1,258.9	1,375.1	1,534.6
Total income	5,771.0	6,398.0	6,850.1	7,405.3	8,059.5
Overhead expenses	(2,338.9)	(2,479.2)	(2,637.3)	(2,777.0)	(3,022.3)
Pre-provision profit	3,432.1	3,918.8	4,212.8	4,628.3	5,037.2
Loan loss provisions	114.3	383.3	(110.7)	(118.5)	(126.7)
Impairment & others	(1.1)	0.3	-	-	-
Associates	1,588.9	1,057.9	1,437.3	1,367.0	1,320.9
Pretax profit	5,134.2	5,360.3	5,539.4	5,876.9	6,231.3
Tax	(938.0)	(1,086.9)	(997.1)	(1,057.8)	(1,121.6)
Minority interests	-	-	-	-	-
Core net profit	4,196.2	4,378.4	4,542.3	4,819.1	5,109.7
Balance Sheet (RMmil, YE 31 Jun)	FY24	FY25	FY26F	FY27F	FY28F
Cash & deposits with FIs	5,790.2	9,990.9	8,148.0	5,013.5	6,717.8
Marketable securities	76,625.4	75,752.1	84,298.9	90,695.1	97,195.6
Total current assets	82,415.5	85,742.9	92,446.8	95,708.6	103,913.4
Net loans & advances	193,304.5	208,964.6	221,448.9	236,917.1	253,468.2
Statutory deposits	nm	nm	nm	nm	nm
Long-term investments	3,214.5	2,027.7	2,532.6	2,709.9	2,899.6
Fixed assets	994.4	953.7	906.9	862.7	823.1
Intangible assets	2,352.5	2,322.3	2,333.9	2,333.9	2,333.9
Other long-term assets	15,507.7	14,606.9	16,341.1	18,515.4	19,888.5
Total LT assets	215,373.5	228,875.2	243,563.4	261,339.1	279,413.4
Total assets	297,789.1	314,618.1	336,010.3	357,047.6	383,326.7
Customer deposits	220,432.8	238,926.0	253,261.6	270,989.9	289,959.2
Deposits of other FIs	11,370.9	9,935.8	11,534.3	11,616.8	11,699.1
Subordinated debts	1,500.5	1,901.5	2,055.3	2,279.6	2,616.9
Hybrid capital securities	7,531.3	7,708.4	8,288.5	9,022.0	9,471.4
Other liabilities	19,659.4	16,859.4	18,936.7	18,646.4	22,247.6
Total liabilities	260,495.0	275,331.1	294,076.4	312,554.7	335,994.1
Shareholders' funds	37,294.1	39,287.0	41,933.9	44,492.9	47,332.6
Minority interests	-	-	-	-	-
Key Ratios (YE 31 Jun)	FY24	FY25	FY26F	FY27F	FY28F
Total income growth (%)	1.5	10.9	7.1	8.1	8.8
Pre-provision profit growth (%)	(0.6)	14.2	7.5	9.9	8.8
Core net profit growth (%)	9.9	4.3	3.7	6.1	6.0
Net interest margin (%)	1.9	1.9	1.9	1.9	1.9
Cost-to-income ratio (%)	40.5	38.7	38.5	37.5	37.5
Effective tax rate (%)	18.3	20.3	18.0	18.0	18.0
Dividend payout (%)	33.2	46.3	47.0	47.0	47.0
Key Assumptions (YE 31 Jun)	FY24	FY25	FY26F	FY27F	FY28F
Loan growth (%)	7.3	7.8	6.0	7.0	7.0
Deposit growth (%)	4.1	8.4	6.0	7.0	7.0
Loan-deposit ratio (%)	87.2	88.2	87.9	87.9	42.5
Gross NPL (%)	0.5	0.5	0.6	0.5	0.5
Net NPL (%)	0.4	0.4	0.4	0.4	0.3
Credit charge-off rate (%)	(0.1)	(0.2)	0.1	0.1	0.1
Loan loss reserve (%)	155.0	96.8	99.5	112.2	127.6

Source: Company, AmlInvestment Bank Bhd estimates

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