

Company Report

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HONG LEONG BANK

(HLBK MK EQUITY, HLBB.KL)

FINANCIAL SERVICES

27 Aug 2025

Resilient Performance with Upside Potential

BUY

(Maintained)

Rationale for report: Company Result

Price RM19.74
Fair Value RM23.75
52-week High/Low RM21.88/RM18.42

Key Changes

Fair value 
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)	-	4,385.0	4,634.0	4,900.0
DPS (sen)	96.0	103.6	109.9	116.5
BV/share (RM)	19.06	20.34	21.58	22.96
PE (x)	9.3	9.0	8.4	8.0
Div yield (%)	4.9	5.2	5.6	5.9
P/BV (x)	1.0	1.0	0.9	0.9
ROE (%)	11.2	11.2	11.2	11.1

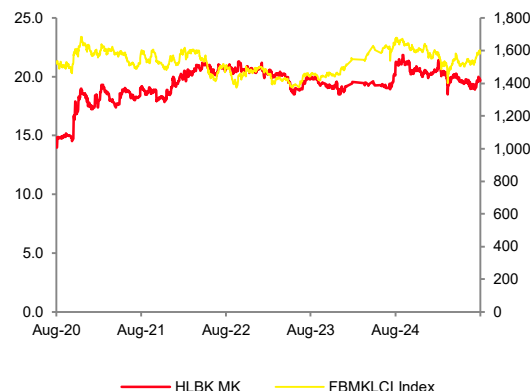
Stock and Financial Data

Shares Outstanding (million) 2,049.5
Market Cap (RMmil) 40,456.9
Book Value (RM/Share) 19.06
P/BV (x) 1.0
ROE (%) 11.2

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

Free Float 29.0
Avg Daily Value (RMmil) 14.1

Price performance	3mth	6mth	12mth
Absolute (%)	(0.7)	(7.3)	(2.1)
Relative (%)	(4.6)	(7.4)	1.9



Investment Highlights

12MFY25 earnings were in line with expectations, supported by a solid 10.9% YoY income growth. Cost efficiency improved, with the CI ratio down to 38.7%, backed by a 4.9% positive JAW. Asset quality remained strong, with a low 0.54% GIL ratio and high 259.5% loan loss coverage, including regulatory reserves. Credit cost stayed minimal at 1bps, well within guidance. Liquidity was robust, with a 131.6% LCR exceeding regulatory requirements. At a FY26F P/BV of 1.0x, HLBB offers upside potential, underpinned by its 11.2% ROE. We maintain our BUY rating, supported by resilient asset quality and strong topline momentum.

- Recommendation and valuation.** We reiterate our BUY call with a revised target price of RM23.75 (from RM26.40), reflecting a lower CY26 blended BVPS estimate after factoring in actual FY25 results, based on a forward P/BV of 1.1x and ROE of 11.2%. We have revised our FY26F/27F earnings forecasts downward by 1.7% and 6.0%, respectively, to reflect lower total income estimate following adjustments to our NII and NOII projections. FY27F earnings have revised more primarily due to a more significant reduction in our NII estimate.
- 12MFY25 core earnings of RM4.38 billion met expectations at 99.4% of our and 99.8% of consensus estimates.** 12MFY25 normalized earnings rose 4.3% YoY, driven by higher NII (+5.5%) and NOII (+33.4%) from wealth, bancassurance, and Global Markets franchise sale. Excluding RM408m BOCD dilution loss, associate profits fell 7.8% YoY. The group met all FY25 targets except ROE, which came in at 11.2% vs. 12% target. 4Q25 core earnings grew 3.6% QoQ, supported by higher income, partly offset by increased OPEX. BOCD remained solid in 6MFY25, with 6% operating income growth, 0.66% GIL ratio, and 453% loan loss coverage. Final dividend of 68 sen lifts total FY25 payout to 96 sen (47%), up from FY24's 68 sen (34%).
- Loan growth accelerated to 7.8% YoY from 7.2% YoY in the preceding quarter while NIM improved 3bps QoQ in 4QFY25.** Domestic loan growth gained traction to 8% YoY, outpacing the industry's 5.1% YoY with notable growth in transport vehicles and community SME loans. Overseas loan growth eased to 5.1% YoY, down from 8.1%, with Singapore driving expansion. NIM rose 4bps YoY to 1.90% in 12MFY25, with funding duration shortened ahead of the July OPR cut. NIM is projected to decline by 3–4bps, with FY26 guidance at 1.8–1.9%, reflecting the impact of the 25bps OPR cut in Malaysia effective July 2025.
- GIL ratio stable at 0.54% with normalised credit cost staying low.** The domestic GIL ratio improved marginally QoQ to 0.53%, while the overseas GIL ratio declined 2bps QoQ to 0.77% in 4QFY25. 12MFY25 normalized net credit cost excluding the management overlay release of RM399mil in 3QFY25 stayed low at 1bps, below management's <10bps FY25 guidance. Loan loss coverage, including regulatory reserves, rose to 259.5% up from 251.7% in the previous quarter with an outstanding management overlay kept at RM175 million.

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.

The group's liquid balance sheet, with an LDR of 87%—lower than most peers—provides room for funding cost optimization. Its strategic alliance with WeBank Technology Services in China aims to enhance digitalization, automation, AI-driven solutions, and overall 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% from 10.0%
Beta	1
Market risk premium	6.5% (from 6.3%)
Risk free rate	3.5% (from 3.7%)
Long term growth rate	3%
P/BV	1.1x
CY26 BVPS	RM20.96 (from RM23.72)
TP	RM23.05 (from RM25.62)
ESG Premium	RM0.70 (from RM0.74)
Adjusted TP	RM23.75 (from RM26.40)

EXHIBIT 2: RESULTS SUMMARY

Income Statement (RM m, FYE 30 Jun)	4Q24	3Q25	4Q25	% QoQ	% YoY	12M24	12M25	% YoY
Interest income	2,242	2,171	2,247	3.5	0.2	8,783	8,889	1.2
Interest expense	-1,261	-1,208	-1,225	1.4	-2.9	-4,961	-4,901	-1.2
Net interest income	981	963	1,022	6.1	4.2	3,822	3,988	4.3
Islamic banking income	260	272	303	11.3	16.4	986	1,160	17.6
Non-interest income	236	313	296	-5.6	25.5	963	1,251	29.8
Total income	1,477	1,548	1,620	4.7	9.7	5,771	6,398	10.9
Overhead expenses	-628	-601	-626	4.2	-0.4	-2,339	-2,479	6.0
Pre-provision profit	848	947	994	5.0	17.2	3,432	3,919	14.2
Loan impairment allowances	31	398	-3	-100.8	-109.7	114	383	>100
Other allowances	0	0	0	-144.4	>100	-1	0	-125.6
Associates and JV income	402	-83	367	>100	-8.8	1,589	1,058	-33.4
Pretax profit	1,282	1,262	1,358	7.6	6.0	5,134	5,360	4.4
Income tax	-248	-315	-270	-14.6	8.8	-938	-1,087	15.9
Minority interest								
Net profit	1,034	947	1,089	15.0	5.3	4,196	4,273	1.8
Core Net profit	1,034	1,051	1,089	3.6	5.3	4,196	4,378	4.3
Core EPS (sen)	50.5	51.3	53.1	3.5	5.1	204.7	213.6	4.3
PBT by segments (RM m)								
Personal financial services	482	509	497	-2.3	3.1	1,926	1,961	1.8
Business & corporate banking	383	366	409	11.7	6.7	1,459	1,568	7.5
Global markets	-64	-15	42	>100	-165.4	-117	67	-156.9
Overseas and international operations	39	24	49	102.9	25.7	131	164	24.8
Others and intersegment elimination	39	461	-5	-101.2	-113.9	146	543	>100
Share of profit from associates	402	-83	367	>100	-8.8	1,589	1,058	-33.4
Share of profit from JV	0	0	0	n.m.	n.m.	0	0	n.m.
Group pretax profit	1,282	1,262	1,358	7.6	6.0	5,134	5,360	4.4
Balance Sheet (RM m, FYE 30 Jun)								
Gross loans and advances	194,927	201,247	210,064	4.4	7.8	194,927	210,064	7.8
Net loans and advances	193,304	200,154	208,965	4.4	8.1	193,304	208,965	8.1
Customer deposits	220,433	224,964	238,926	6.2	8.4	220,433	238,926	8.4
Gross impaired loans	1,041	1,146	1,144	-0.2	9.9	1,041	1,144	9.9
Average shareholders' funds	36,766	38,274	38,890	1.6	5.8	35,640	38,291	7.4
Ratios (%)								
Net LD	87.7%	89.0%	87.5%			87.7%	87.5%	
CASA	32.5%	30.4%	32.9%			32.5%	32.9%	
Cost to income	42.5%	38.8%	38.6%			40.5%	38.7%	
Annualised credit cost	-0.06%	-0.20%	0.01%			-0.06%	-0.18%	
Loan loss coverage	155.0%	95.0%	96.8%			155.0%	96.8%	
Loan loss coverage (inclusive of regulatory reserves)	276.0%	251.7%	259.5%			276.0%	259.5%	
GIL	0.53%	0.57%	0.54%			0.53%	0.54%	
NIM	1.89%	1.87%	1.90%			1.86%	1.90%	
ROE	11.2%	9.9%	11.2%			11.8%	11.2%	
CET1 capital	13.3%	12.8%	13.2%			13.3%	13.2%	
Tier 1 capital	14.3%	13.7%	14.2%			14.3%	14.2%	
Total capital	16.3%	15.7%	16.3%			16.3%	16.3%	

Source: Company, AmlInvestment Bank

EXHIBIT 3: CHANGE IN EARNINGS

RMm	FY26F			FY27F		
	Old	New	%	Old	New	%
Net interest income	4,769	4,147	-13.0%	5,447	4,420	-18.9%
NOII	1,086	1,444	33.0%	1,153	1,611	39.7%
Net income	6,929	6,850	-1.1%	7,713	7,405	-4.0%
Net profit	4,623	4,542	-1.7%	5,126	4,819	-6.0%

Source: Company, AmlInvestment Bank

EXHIBIT 4: MANAGEMENT GUIDANCE FOR FY26

Gross Loans Growth	6.0%-7.0%
Net Interest Margin	1.80%-1.90%
Cost-to-Income Ratio	~39.0%
GIL Ratio	<0.65%
Net Credit Cost	<10 bps
CASA Mix	>32.0%
Return on Equity	11.5%-12.0%

Source: AmlInvestment Bank

EXHIBIT 5: 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 6: 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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