

Company Report

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Rationale for report: Company Result

FINANCIAL SERVICES

HONG LEONG BANK

(HLBK MK EQUITY, HLBB.KL)

29 May 2025

Robust revenue expansion supported by stable and resilient asset quality

BUY

(Maintained)

Price RM19.90
Fair Value RM26.40
52-week High/Low RM21.88/RM18.42

Key Changes

Fair value ⇄
EPS ⇄

YE to Jun	FY24	FY25F	FY26F	FY27F
Total income (RM mil)	5,771.0	6,455.6	6,928.8	7,712.7
Core net profit (RM mil)	4,196.2	4,402.6	4,623.2	5,126.1
FD Core EPS (sen)	204.7	214.8	225.6	250.1
FD Core EPS growth (%)	9.9	4.9	5.0	10.9
Consensus Net Profit (RM mil)	-	4,438.0	4,696.0	5,056.0
DPS (sen)	68.0	73.0	76.7	85.0
BV/share (RM)	18.20	20.17	22.37	25.07
PE (x)	9.7	9.3	8.8	8.0
Div yield (%)	3.4	3.7	3.9	4.3
P/BV (x)	1.1	1.0	0.9	0.8
ROE (%)	11.8	11.2	10.6	10.5

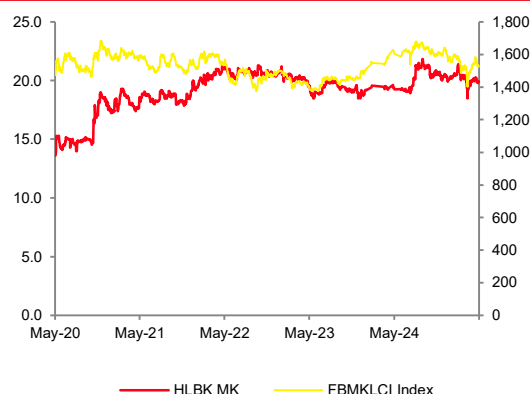
Stock and Financial Data

Shares Outstanding (million) 2,049.5
Market Cap (RMmil) 40,784.8
Book Value (RM/Share) 18.20
P/BV (x) 1.1
ROE (%) 11.8

Major Shareholders
Hong Leong Financial Group (61.8%)
Employees Provident Fund (8.4%)

Free Float 29.8
Avg Daily Value (RMmil) 23.0

Price performance	3mth	6mth	12mth
Absolute (%)	(7.0)	(3.2)	3.0
Relative (%)	(3.9)	1.5	9.2



Investment Highlights

9MFY25 earnings met expectations, driven by 11.3% YoY income growth. CI ratio improved to 38.8%, supported by a 3% YoY positive JAW. Asset quality remained solid, with a 0.57% GIL ratio and 251.27% LLC, including regulatory reserves. Normalised credit cost stayed low at 1bps, well within guidance. Liquidity remained strong, with 87.9% LDR and 132% LCR, exceeding the 100% regulatory minimum. HLBB's FY26F P/BV of 0.9x offers upside potential, reflecting its 10.9% ROE. We reaffirm BUY, given its resilient asset quality amid macroeconomic uncertainties from tariff impacts.

- **Recommendation and valuation.** We maintain our BUY recommendation with an unchanged TP of RM26.40/share, based on a blended forward CY26 P/BV of 1.1x, with no revisions to earnings estimates.
- **9M25 core earnings of RM3.29 billion met expectations at 74% of estimates.** 9M25 normalized earnings rose 4% YoY, driven by higher NII and NOI from wealth management and Global Markets franchise sale contributions. Excluding a RM399 million one-off management overlay release and RM408 million dilution losses, associate profits declined 7.4% YoY. HLBB's stake in BOCD dropped from 19.8% to 17.8% following the full CBond conversion by other bondholders, while equity in JCCFC fell to 2% after a 10% stake sale. 3Q25 core earnings declined 8.5% QoQ due to lower total income. BOCD's financial performance remains solid for the quarter ended 31 March 2025, with a low GIL ratio of 0.66% and high loan loss coverage of 456%
- **Loan growth slowed to 7.2% YoY from 7.7% YoY in the preceding quarter while NIM improved.** Domestic loan growth remained strong at 7.1% YoY, outpacing the industry's 5.2% YoY. Overseas loans grew 8.1% YoY, driven by expansion in Singapore and Vietnam. NIM rose 5bps YoY to 1.90% in 9M25, with a 100bps SRR cut expected to lift NIM by 2bps. The CI ratio improved to 38.8% in 9M25, down from 39.8% in 9M24, supported by a 3% YoY positive JAW.
- **GIL ratio stable at 0.57% with a low normalised credit cost.** The domestic GIL ratio remained steady at 0.55%, while the overseas GIL ratio rose to 0.79% in 3Q25, up from 0.71% in 2Q25, due to the impairment of a fully secured loan in Singapore. 9M25 normalized net credit cost stayed low at 1bps, below management's <10bps FY25 guidance. Loan loss coverage, including regulatory reserves, fell to 251.47% from 261.2% in the previous quarter after management overlay releases, with RM175 million still retained.

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%, a beta of 1, a market risk premium of 6.3%, a risk-free rate of 3.7%, 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	10.0%
Beta	1
Market risk premium	6.3% (from 6.1%)
Risk free rate	3.7% (from 3.9%)
Long term growth rate	3%
P/BV	1.1x
CY26 BVPS	RM23.72
TP	RM25.62
ESG Premium	RM0.74
Adjusted TP	RM26.40

EXHIBIT 2: RESULTS SUMMARY

Income Statement (RM m, FYE 30 Jun)	3Q24	2Q25	3Q25	% QoQ	% YoY	9M24	9M25	% YoY
Interest income	2,212	2,219	2,171	-2.2	-1.9	6,541	6,642	1.5%
Interest expense	-1,243	-1,226	-1,208	-1.5	-2.8	-3,701	-3,677	-0.6%
Net interest income	969	993	963	-3.0	-0.6	2,841	2,966	4.4%
Islamic banking income	254	297	272	-8.6	6.9	726	857	18.1%
Non-interest income	212	342	313	-8.4	47.6	728	955	31.2%
Total income	1,436	1,632	1,548	-5.2	7.8	4,294	4,778	11.3%
Overhead expenses	-577	-627	-601	-4.3	4.1	-1,711	-1,854	8.3%
Pre-provision profit	859	1,005	947	-5.7	10.3	2,584	2,924	13.2%
Loan impairment allowances	26	-5	398	>100	>100	83	386	>100
Other allowances	-1	1	0	-141.5	-73.4	-1	0	-116.4%
Associates and JV income	384	400	-83	-120.9	-121.7	1,187	691	-41.8%
Pretax profit	1,268	1,401	1,262	-9.9	-0.5	3,852	4,002	3.9%
Income tax	-224	-252	-315	25.0	40.9	-690	-817	18.4%
Minority interest								
Net profit	1,044	1,148	947	-17.5	-9.4	3,162	3,185	0.7%
Core Net profit	1,044	1,148	1,051	-8.5	0.6	3,162	3,289	4.0%
Core EPS (sen)	51.0	56.0	51.3	-8.4	0.6	154.3	160.4	4.0%
PBT by segments (RM m)								
Personal financials services	490	486	509	4.8	3.8	1,444	1,463	1.4%
Business & corporate banking	351	403	366	-9.2	4.3	1,076	1,159	7.8%
Global markets	-53	33	-15	-144.6	-72.4	-53	25	-146.7%
Overseas and international operations	43	29	24	-17.2	-43.7	92	115	24.4%
Others and intersegment elimination	53	49	461	831.9	770.8	107	548	411.8%
Share of profit from associates	384	400	-83	-120.9	-121.7	1,187	691	-41.8%
Share of profit from JV	0	0	0	n.m.	n.m.	0	0	n.m.
Group pretax profit	1,268	1,401	1,262	-9.9	-0.5	3,852	4,002	3.9%
Balance Sheet (RM m, FYE 30 Jun)								
Gross loans and advances	187,810	199,373	201,247	0.9	7.2	187,810	201,247	7.2%
Net loans and advances	186,141	197,847	200,154	1.2	7.5	186,141	200,154	7.5%
Customer deposits	212,417	219,437	224,964	2.5	5.9	212,417	224,964	5.9%
Gross impaired loans	1,074	1,042	1,146	10.0	6.7	1,074	1,146	6.7%
Average shareholders funds	35,892	37,248	38,274	2.8	6.6	35,112	37,894	7.9%
Ratios (%)								
Net LD	87.6%	87.8%	89.0%			87.6%	89.0%	
CASA	30.6%	31.3%	30.4%			30.6%	30.4%	
Cost to income	40.2%	38.4%	38.8%			39.8%	38.8%	
Annualised credit cost	-0.06%	0.01%	-0.20%			-0.06%	-0.26%	
Loan loss coverage	154.4%	139.0%	95.0%			154.4%	95.0%	
Loan loss coverage (inclusive of regulatory reserves)	265.0%	261.2%	251.7%			265.0%	251.7%	
GIL	0.57%	0.55%	0.57%			0.57%	0.57%	
NIM	1.87%	1.90%	1.87%			1.85%	1.90%	
ROE	11.6%	12.3%	9.9%			18.0%	16.8%	
CET1 capital	12.5%	13.0%	12.8%			12.5%	12.8%	
Tier 1 capital	13.5%	14.0%	13.7%			13.5%	13.7%	
Total capital	15.5%	15.9%	15.7%			15.5%	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)	FY23	FY24	FY25F	FY26F	FY27F
Net interest income	3,684.1	3,821.8	4,352.2	4,769.0	5,446.7
Non-interest income	1,038.1	963.3	1,074.2	1,085.8	1,152.8
Islamic banking income	963.4	985.9	1,029.2	1,073.9	1,113.1
Total income	5,685.5	5,771.0	6,455.6	6,928.8	7,712.7
Overhead expenses	(2,233.3)	(2,338.9)	(2,582.2)	(2,702.2)	(2,930.8)
Pre-provision profit	3,452.2	3,432.1	3,873.4	4,226.5	4,781.8
Loan loss provisions	(115.4)	114.3	(82.8)	(334.8)	(361.3)
Impairment & others	0.3	(1.1)	-	-	-
Associates	1,289.5	1,588.9	1,578.4	1,746.4	1,830.8
Pretax profit	4,626.6	5,134.2	5,369.1	5,638.1	6,251.4
Tax	(808.4)	(938.0)	(966.4)	(1,014.9)	(1,125.2)
Minority interests	-	-	-	-	-
Core net profit	3,818.2	4,196.2	4,402.6	4,623.2	5,126.1
Balance Sheet (RMmil, YE 31 Jun)	FY23	FY24	FY25F	FY26F	FY27F
Cash & deposits with FIs	8,206.8	5,790.2	17,597.1	21,424.6	24,478.1
Marketable securities	71,172.5	76,625.4	88,742.8	101,552.1	118,403.4
Total current assets	79,379.4	82,415.5	106,339.9	122,976.7	142,881.5
Net loans & advances	179,902.8	193,304.5	206,875.8	223,226.8	240,886.1
Statutory deposits	nm	nm	nm	nm	nm
Long-term investments	3,396.9	3,214.5	4,717.3	5,094.6	5,502.2
Fixed assets	1,055.4	994.4	935.1	883.5	833.2
Intangible assets	2,369.7	2,352.5	1,999.3	1,999.3	1,999.3
Other long-term assets	13,746.3	15,507.7	18,103.8	21,337.8	26,085.4
Total LT assets	200,471.1	215,373.5	232,631.4	252,542.1	275,306.2
Total assets	279,850.5	297,789.1	338,971.3	375,518.8	418,187.7
Customer deposits	211,651.8	220,432.8	235,863.1	254,732.1	275,110.7
Deposits of other FIs	9,593.8	11,370.9	15,249.6	20,391.4	27,306.8
Subordinated debts	1,501.8	1,500.5	1,501.8	1,501.8	1,501.8
Hybrid capital securities	7,822.1	7,531.3	8,753.4	9,627.3	11,381.2
Other liabilities	15,294.4	19,659.4	36,258.3	43,421.4	51,500.4
Total liabilities	245,863.8	260,495.0	297,626.2	329,674.0	366,800.9
Shareholders' funds	33,986.7	37,294.1	41,345.1	45,844.8	51,386.8
Minority interests	-	-	-	-	-
Key Ratios (YE 31 Jun)	FY23	FY24	FY25F	FY26F	FY27F
Total income growth (%)	1.6	1.5	11.9	7.3	11.3
Pre-provision profit growth (%)	(1.3)	(0.6)	12.9	9.1	13.1
Core net profit growth (%)	6.1	9.9	4.9	5.0	10.9
Net interest margin (%)	2.0	1.9	1.9	1.9	1.9
Cost-to-income ratio (%)	39.3	40.5	40.0	39.0	38.0
Effective tax rate (%)	17.5	18.3	18.0	18.0	18.0
Dividend payout (%)	31.7	33.2	34.0	34.0	34.0
Key Assumptions (YE 31 Jun)	FY23	FY24	FY25F	FY26F	FY27F
Loan growth (%)	8.0	7.3	7.0	8.0	8.0
Deposit growth (%)	7.3	4.1	7.0	8.0	8.0
Loan-deposit ratio (%)	85.6	87.2	88.4	88.4	88.4
Gross NPL (%)	0.6	0.5	0.6	0.5	0.5
Net NPL (%)	0.6	0.5	0.6	0.5	0.5
Credit charge-off rate (%)	0.1	(0.1)	-	0.2	0.2
Loan loss reserve (%)	168.8	155.0	135.6	180.4	196.7

Source: Company, AmlInvestment Bank Bhd estimates

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