Hong Leong Bank

Sixth consecutive quarter of NIM expansion

- HLB's 1QFY6/25 net profit was within our expectations, accounting for 24% of our full-year forecast.
- We regard HLB as among the best Malaysian banks from a NIM perspective, as reflected by the qoq expansion of its NIM over the past six quarters.
- Reiterate Add, given its above-industry loan growth in FY25F and one of the lowest credit charge-off rates in the sector.

Malaysia

ADD *(no change)*

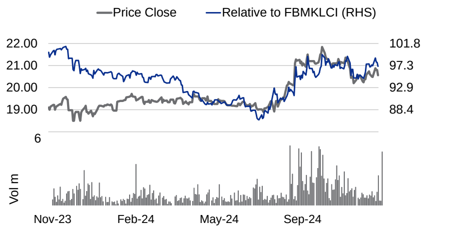
Consensus ratings*: Buy 17 Hold 0 Sell 0

Current price:	RM20.56
Target price: ▲	RM31.40
Previous target:	RM30.00
Up/downside:	52.7%
CGSI / Consensus:	25.4%
Reuters:	HLBB.KL
Bloomberg:	HLBK MK
Market cap:	US$10,023m
	RM44,568m
Average daily turnover:	US$8.94m
	RM38.47m
Current shares o/s:	2,168m
Free float:	25.6%

**Source: Bloomberg*

Key changes in this note

- No change.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-1.4	-2.6	8.2
Relative (%)	-0.6	2.1	-2.1

Major shareholders	% held
Hong Leong Financial Group	64.4
EPF	10.0
Amanah Saham Bumiputera	1.9

1QFY6/24 net profit within our expectations

Hong Leong Bank's (HLB) 1QFY6/25 net profit was within our expectations, accounting for 24% of our full-year forecast. However, the results were below street estimates at 23% of the full-year Bloomberg consensus estimate.

NIM expansion over a period of one and half years

We regard HLB as among the best banks from a net interest margin (NIM) perspective, as its NIM has expanded qoq over the past six quarters (from 1.82% in 3QFY23 to 1.92% in 1QFY25), vs. volatile NIM trends for most of its Malaysian banking peers during the same period. This NIM expansion has enabled HLB to achieve strong yoy growth in its net interest income over the past three quarters, i.e. +14.5% in 3QFY24, +9.8% in 4QFY24 and +9.6% in 1QFY25.

Projecting 5.8% yoy growth in 2QFY25F net profit

We expect HLB's 2QFY25F net profit to be close to the level of RM1.09bn recorded in 1QFY25. With this, its 2QFY25F net profit would increase by a decent 5.8% yoy, underpinned by the continuous expansion of its net interest income, growth in associate contribution from Bank of Chengdu (BOC), and benign credit costs.

Meeting all the FY25F KPIs

Based on its financial performance in 1QFY25, HLB met all its FY25F KPIs, including (1) gross loan growth of 6-7%, (2) NIM of between 1.85% and 1.95%, (3) cost-to-income ratio of circa 41%, (4) gross impaired loan ratio of less than 0.65%, (5) net credit cost of less than 10bp, (6) current account savings account mix of more than 32%, and (7) return on equity of circa 12%.

Our top pick among Malaysian banks

We reaffirm our Add call on HLB, which is our top pick among Malaysian banks, predicated on the potential re-rating catalysts of (1) above-industry loan growth, (2) potential write-back in management overlay, and (3) strong growth in associate contribution from BOC. The potential downside risks would be material deterioration in loan growth and asset quality. We retain our FY25-27F EPS forecasts but raise our DDM-based target price (TP) (cost of equity of 9.5%; terminal growth rate of 4%) from RM30.00 to RM31.40 as we roll over our TP to end-2025F.

Financial Summary	Jun-23A	Jun-24A	Jun-25F	Jun-26F	Jun-27F
Net Interest Income (RMm)	3,684	3,822	3,969	4,119	4,307
Total Non-Interest Income (RMm)	2,001	1,949	2,264	2,378	2,536
Operating Revenue (RMm)	5,686	5,771	6,233	6,496	6,843
Total Provision Charges (RMm)	(115.4)	114.2	(71.3)	(86.9)	(101.2)
Net Profit (RMm)	3,818	4,196	4,453	4,710	5,023
Core EPS (RM)	1.76	1.94	2.05	2.17	2.32
Core EPS Growth	15.0%	9.9%	6.1%	5.8%	6.7%
FD Core P/E (x)	11.67	10.62	10.01	9.46	8.87
DPS (RM)	0.59	0.68	0.82	0.87	0.93
Dividend Yield	2.87%	3.31%	4.00%	4.23%	4.51%
BVPS (RM)	15.68	17.20	18.33	19.70	21.17
P/BV (x)	1.31	1.20	1.12	1.04	0.97
ROE	11.8%	11.8%	11.6%	11.4%	11.3%
% Change In Core EPS Estimates			0.000%	0.001%	0.002%
EPS/Consensus EPS (x)			0.94	0.93	0.91

SOURCES: CGSI RESEARCH, COMPANY REPORTS

Analyst(s)

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Figure 1: Hong Leong Bank - results comparisons for 1QFY25

FYE Jun (RM m)	1QFY25	1QFY24	yoy % chg	4QFY24	qoq % chg	Prev. FY25F	Comments
Net interest income	1,010.0	921.7	9.6	981.1	2.9	3,968.8	In line. Strong loan growth.
Non-interest income	300.0	242.2	23.9	235.6	27.3	1,199.4	In line. A yoy surge.
Islamic income	287.8	230.2	25.0	259.9	10.7	1,064.8	Above.
Total income	1,597.8	1,394.1	14.6	1,476.6	8.2	6,233.0	In line. Double-digit growth.
Overhead expenses	(625.5)	(556.3)	12.4	(628.1)	(0.4)	(2,475.1)	In line. Double-digit growth.
Pre-provision profit	972.3	837.8	16.1	848.5	14.6	3,757.9	In line. Wider jaws due to strong topline growth.
Loan loss provisions	(7.4)	51.1	(114.5)	31.2	(123.7)	(71.3)	Below. Low provision in 1QFY25.
Associates and others	374.5	354.2	5.7	402.1	(6.9)	1,744.4	Below. Contributions from BOC.
Pretax profit	**1,339.4**	**1,243.1**	**7.7**	**1,281.8**	**4.5**	**5,431.1**	In line. 25% of CGSI.
Tax	(249.4)	(213.3)	16.9	(247.8)	0.6	(977.6)	In line.
Tax rate (%)	18.6	17.2	-	19.3	-	18.0	In line.
Minority interests	-	-	-	-	-	-	
Net profit	**1,090.0**	**1,029.8**	**5.8**	**1,034.0**	**5.4**	**4,453.5**	Within CGSI (24%) but slightly below Bloomberg consensus estimate (23%).
EPS (sen)	53.2	50.3	5.8	50.5	5.3	205.4	

SOURCES: CGSI RESEARCH ESTIMATES, COMPANY REPORTS

1QFY6/25 conference call

HLB held a web-based conference call on 28 Nov 2024 following the release of its 1QFY6/25 financial results. The call was hosted by its Group MD/CEO Mr Kevin Lam and CFO Malkit Singh. The key highlights were HLB's key performance indicators (KPIs) for FY25F and the financial performance of its 19.2%-owned associate company, Bank of Chengdu (BOC).

Achieved all its FY25F KPIs ›

Based on its financial performance in 1QFY25, HLB achieved all of its KPIs for FY25F (the numbers in brackets are the actual performance in 1QFY25), as illustrated in the following:

- Loan growth of 6-7% (6.9% yoy at end-Sep 24)
- Net interest margin in the region of 1.85-1.95% (1.92%)
- Cost-to-income ratio of circa 41% (39.1%)
- Gross impaired loan ratio of less than 0.65% (0.54%)
- Net credit cost of less than 10bp (almost 0bp)
- Current account savings account (CASA or low-cost deposit) mix of more than 32% (32.1%)
- ROE of c.12% (11.8%).

Financial performance of BOC ›

BOC, which has a financial year-end of Dec vs. Jun for HLB, recorded a growth of 3% yoy in operating income and 11% yoy in net profit in 9MFY24 (ended Sep 24). Its gross loans surged by 22% yoy in 9MFY24 and it also recorded a solid ROE of 17.5% in 9MFY24.

Its gross impaired loan ratio declined by 5bp yoy to 0.66% in 9MFY24, while its loan loss coverage was solid at 497% in 9MFY24.

Downside risks ›

The potential downside risks to our Add call are a material deterioration in its loan growth and asset quality. If these occur, HLB could see weaker growth in its net interest income and a possible hike in loan loss provisioning in FY6/25F. Another potential downside risk would be a decline in associate contribution from Bank of Chengdu.

Figure 2: Sector Comparison

Company	Bbg Ticker	Recom.	Price (local)	Target Price (local)	Market Cap (US$ m)	Core P/E (x) CY2024F	Core P/E (x) CY2025F	3-year EPS CAGR (%)	P/BV (x) CY2024F	Recurr. ROE (%) CY2024F	P/PPOPS (x) CY2024F	Div Yield (%) CY2024F
DBS Group	DBS SP	Hold	42.25	43.00	89,416	10.3	10.8	-2.0%	1.84	18.7%	8.8	5.3%
OCBC	OCBC SP	Add	16.28	17.70	54,505	9.5	9.4	5.0%	1.30	14.3%	8.2	5.2%
United Overseas Bank	UOB SP	Add	36.50	39.50	45,398	9.5	9.2	5.5%	1.24	13.4%	7.3	5.1%
Singapore average						**9.9**	**10.0**	**3.4%**	**1.49**	**15.7%**	**8.2**	**5.2%**
Agricultural Bank of China	1288 HK	Add	3.88	6.20	228,804	5.0	4.8	1.8%	0.49	10.3%	2.9	6.4%
Bank of China	3988 HK	Add	3.58	4.70	184,635	4.5	4.4	0.6%	0.41	9.5%	2.5	7.1%
Bank of Communications	3328 HK	Reduce	5.65	5.50	65,627	4.6	4.5	2.0%	0.40	9.2%	2.5	7.2%
China CITIC Bank	998 HK	Add	4.95	7.50	46,014	3.4	3.2	6.3%	0.35	10.6%	1.6	8.1%
China Construction Bank	939 HK	Add	5.85	11.10	191,346	4.1	4.1	1.2%	0.43	10.8%	2.7	7.4%
China Minsheng Bank	1988 HK	Reduce	3.00	2.20	22,472	3.8	3.7	3.5%	0.22	5.8%	1.4	7.8%
ICBC	1398 HK	Add	4.55	6.80	280,844	4.3	4.3	0.8%	0.41	10.0%	2.9	7.2%
Hong Kong average						**4.4**	**4.3**	**1.5%**	**0.42**	**9.9%**	**2.6**	**7.1%**
Bank Central Asia	BBCA IJ	Add	10,000	11,800	77,668	22.5	21.0	7.9%	4.73	22.1%	17.4	2.9%
Bank Mandiri	BMRI IJ	Add	6,450	8,000	37,928	10.6	9.8	7.8%	2.12	20.8%	6.6	5.7%
Bank Rakyat Indonesia	BBRI IJ	Add	4,330	6,000	41,346	10.6	9.9	5.8%	2.00	19.5%	6.0	7.6%
Bank Negara Indonesia	BBNI IJ	Add	5,025	6,500	11,808	8.4	7.3	12.2%	1.20	14.8%	5.4	6.0%
Bank Tabungan Negara	BBTN IJ	Add	1,290	1,600	1,141	5.2	4.7	4.2%	0.55	11.1%	2.6	3.9%
Bank Neo Commerce	BBYB IJ	Add	272	595	212	77.3	18.4	na	1.06	1.4%	1.6	0.0%
Indonesia average						**13.4**	**12.3**	**na**	**2.49**	**19.4%**	**8.5**	**4.9%**
Affin Bank Berhad	ABANK MK	Reduce	2.91	2.76	1,571	14.7	13.4	10.8%	0.61	4.1%	9.8	2.7%
Alliance Bank Malaysia Berhad	ABMB MK	Add	4.88	5.27	1,699	9.9	9.1	9.4%	0.98	10.2%	6.6	5.1%
AMMB Holdings	AMM MK	Add	5.37	6.14	3,998	9.4	9.1	6.9%	0.88	9.3%	6.6	4.2%
Bank Islam Malaysia Bhd	BIMB MK	Add	2.70	3.03	1,376	10.8	9.8	6.8%	0.83	7.5%	5.8	4.6%
CIMB Group Holdings Bhd	CIMB MK	Add	8.25	9.00	19,893	11.5	10.6	8.3%	1.22	10.8%	7.1	5.7%
Hong Leong Bank	HLBK MK	Add	20.56	31.40	10,023	10.3	9.7	7.9%	1.16	11.5%	12.4	3.7%
Malayan Banking Bhd	MAY MK	Add	10.20	12.80	27,681	11.8	11.3	7.6%	1.22	10.5%	8.2	6.0%
Public Bank Bhd	PBK MK	Add	4.41	5.40	19,251	12.5	11.7	7.6%	1.44	11.6%	9.5	4.0%
RHB Bank Bhd	RHBBANK MK	Add	6.67	7.00	6,539	9.6	9.0	9.9%	0.78	8.6%	6.8	5.2%
Malaysia average						**11.3**	**10.7**	**8.2%**	**1.15**	**10.3%**	**8.2**	**5.0%**
Bangkok Bank	BBL TB	Add	147.0	195.0	8,154	6.3	6.0	na	0.50	8.1%	3.1	4.8%
Kasikornbank	KBANK TB	Add	150.0	188.0	10,328	7.3	6.9	na	0.63	8.7%	3.3	5.0%
Kiatnakin Phatra Bank	KKP TB	Hold	50.0	52.0	1,208	9.2	9.2	na	0.67	7.4%	4.0	5.4%
Krung Thai Bank	KTB TB	Hold	19.8	20.9	8,042	6.9	6.6	na	0.64	9.6%	3.2	4.8%
Tisco Financial Group	TISCO TB	Hold	96.5	92.5	2,246	11.3	12.8	-5.4%	1.79	16.0%	7.7	8.0%
Thailand average						**7.1**	**6.8**	**na**	**0.62**	**8.9%**	**3.3**	**5.1%**

SOURCES: CGSI RESEARCH ESTIMATES, BLOOMBERG, COMPANY REPORTS (AS AT 28 NOV 2024)

Figure 3: Hong Leong Bank - Quarterly profit and loss statements

FYE June (RM m)	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	
	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	**Remarks for 1QFY25**
Quarterly								
Interest income	1,905.0	2,028.6	2,135.2	2,194.1	2,212.0	2,242.0	2,252.7	
Interest expense	(1,058.4)	(1,135.4)	(1,213.5)	(1,244.1)	(1,243.0)	(1,260.9)	(1,242.7)	
Net interest income (RMm)	846.6	893.2	921.7	950.0	969.0	981.1	1,010.0	
Non-interest income (RMm)	340.6	180.3	242.2	273.3	212.1	235.6	300.0	
Islamic banking income (RMm)	208.9	229.6	230.2	241.4	254.5	259.9	287.8	
Total Income (RMm)	1,396.1	1,303.1	1,394.1	1,464.7	1,435.6	1,476.6	1,597.8	
Overhead expenses (RMm)	(559.4)	(587.4)	(556.3)	(577.6)	(576.9)	(628.1)	(625.5)	
Pre-provision profit (RMm)	836.7	715.7	837.8	887.1	858.7	848.5	972.3	
Loan loss provisions (RMm)	(38.0)	(14.4)	51.1	5.7	26.3	31.2	(7.4)	
Associates and others (RMm)	313.0	339.0	354.2	448.2	383.4	402.1	374.5	
Pretax profit (RMm)	1,111.7	1,040.3	1,243.1	1,341.0	1,268.4	1,281.8	1,339.4	
Tax (RMm)	(181.7)	(175.6)	(213.3)	(253.1)	(223.9)	(247.8)	(249.4)	
Tax rate (%)	16.3	16.9	17.2	18.9	17.7	19.3	18.6	
Minority interest (RMm)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Net profit (RMm)	930.0	864.7	1,029.8	1,087.9	1,044.5	1,034.0	1,090.0	
EPS (sen)	45.4	42.2	50.3	53.1	51.0	50.5	53.2	
YoY % growth								
Interest income	33.3%	37.2%	26.3%	15.1%	16.1%	10.5%	5.5%	
Interest expense	119.9%	106.2%	73.0%	30.7%	17.4%	11.1%	2.4%	
Net interest income (RMm)	-10.7%	-3.8%	-6.9%	-0.5%	14.5%	9.8%	9.6%	Margin expansion and strong loan growth.
Non-interest income (RMm)	93.6%	-45.4%	-6.4%	5.8%	-37.7%	30.7%	23.9%	Higher investment income and foreign exchange gain.
Islamic banking income (RMm)	-6.9%	-4.1%	-8.5%	-11.7%	21.8%	13.2%	25.0%	
Total Income (RMm)	3.6%	-13.0%	-7.1%	-1.5%	2.8%	13.3%	14.6%	Strong net and non-interest income growth.
Overhead expenses (RMm)	8.0%	4.9%	2.9%	5.8%	3.1%	6.9%	12.4%	Above the normalised growth of around 5%.
Pre-provision profit (RMm)	0.8%	-23.7%	-12.7%	-5.7%	2.6%	18.6%	16.1%	Wider jaws thanks to strong topline expansion.
Loan loss provisions (RMm)	-25.9%	-52.3%	235.9%	122.4%	169.2%	316.7%	-114.5%	Back to provisioning from write-back in past four quarters
Associates and others (RMm)	24.0%	9.6%	33.5%	20.3%	22.5%	18.6%	5.7%	From Bank of Chengdu contributions.
Pretax profit (RMm)	7.8%	-14.5%	4.7%	4.2%	14.1%	23.2%	7.7%	
Tax (RMm)	-26.1%	-43.3%	3.7%	3.2%	23.2%	41.1%	16.9%	
Minority interest (RMm)	-	-	-	-	-	-	-	
Net profit (RMm)	18.5%	-4.7%	4.9%	4.4%	12.3%	19.6%	5.8%	Underpinned by strong topline growth.
EPS (sen)	18.5%	-4.7%	5.0%	4.3%	12.3%	19.7%	5.8%	
Key ratios								
Annualised ROAE	11.8%	10.6%	12.6%	12.9%	12.1%	11.6%	12.3%	Largely stable yoy.
Annualised ROAA	1.4%	1.3%	1.5%	1.6%	1.5%	1.4%	1.5%	
Cost-to-income ratio	40.1%	45.1%	39.9%	39.4%	40.2%	42.5%	39.1%	Slight improvement yoy due to strong topline.
Non-interest income ratio	24.4%	13.8%	17.4%	18.7%	14.8%	16.0%	18.8%	
Annualised average cost of fund	1.97%	2.07%	2.17%	2.21%	2.16%	2.13%	2.12%	
Annualised net interest margin	1.82%	1.83%	1.84%	1.85%	1.87%	1.89%	1.92%	Sixth consecutive quarter of expansion.
Annualised credit charge-off rate	0.09%	0.03%	-0.12%	-0.01%	-0.06%	-0.07%	0.02%	Back to provisioning from net write-backs

SOURCES: CGSI RESEARCH, COMPANY REPORTS

Figure 4: Hong Leong Bank - Quarterly balance sheet

RM m	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Remarks for Sep 24
Cash and short-term funds	8,206.8	8,051.5	5,324.9	6,758.3	5,790.2	11,998.1	
Deposits with other FI's	436.9	11.2	564.8	697.7	661.5	662.8	
Securities purchased under resale agreement	0.0	149.0	199.8	199.1	297.3	474.1	
Securities held-for-trading	5,654.9	4,963.3	4,875.4	3,689.9	3,415.2	3,317.1	
Securities available-for-sale (Dealing securities)	33,886.7	37,323.8	38,271.3	40,024.8	41,099.1	33,029.1	
Securities held-to-maturity	31,194.1	31,253.4	31,549.8	32,458.6	31,152.2	29,519.3	
Loans,advances and financing	179,902.8	180,017.2	183,464.6	186,141.0	193,304.5	192,698.7	+7% yoy
Other assets	4,798.7	5,040.2	5,055.9	4,744.5	5,774.0	5,471.4	
Goodwill on consolidation	1,831.3	1,831.3	1,831.3	1,831.3	1,831.3	1,831.3	
Statutory deposits	3,396.9	3,423.7	3,108.6	3,319.2	3,214.5	3,324.0	
Property and equipment	1,055.4	1,034.9	1,012.6	1,012.9	994.3	975.9	
Investment in associates / JV	8,713.0	8,688.2	9,187.5	9,665.3	9,639.4	9,055.3	
Deferred tax assets	410.5	422.7	267.6	246.8	262.1	223.4	
Takaful fund assets	0.0	0.0	0.0	0.0	0.0	0.0	
Intangible assets	362.5	363.8	368.0	360.9	353.5	337.6	
TOTAL ASSETS	**279,850.5**	**282,574.2**	**285,082.1**	**291,150.3**	**297,789.1**	**292,918.1**	
Deposits from customers	211,651.8	209,162.6	211,184.4	212,417.2	220,432.8	219,436.9	+4.9% yoy
Deposits from other FI's	9,593.8	10,899.8	8,742.8	11,132.4	11,370.9	5,994.7	
Obligations on repurchase agreement securities	7,399.6	9,644.1	11,182.6	12,488.4	9,823.6	9,920.8	
Bill and acceptances payable	211.4	202.8	256.6	257.7	282.6	246.2	
Floating rate certificate of deposits	0.0	0.0	0.0	0.0	0.0	0.0	
Floating rate certificate of deposits	2,972.2	3,274.5	3,278.3	3,276.7	3,277.0	2,675.4	
Other liabilities	10,763.4	11,900.2	11,249.6	11,532.8	11,367.2	13,728.1	
Provision for taxation	50.3	56.2	117.9	152.3	171.8	196.5	
Subordinated bonds	1,501.8	1,517.7	1,802.8	1,926.1	2,050.4	2,553.0	
Tier-1 instruments	1,719.5	1,727.4	1,721.3	1,729.1	1,718.7	1,724.9	
Syndicated loan facility	0.0	0.0	0.0	0.0	0.0	0.0	
Short-term corporate placements	0.0	0.0	0.0	0.0	0.0	0.0	
Takaful liabilities	0.0	0.0	0.0	0.0	0.0	0.0	
TOTAL LIABILITIES	**245,863.8**	**248,385.3**	**249,536.3**	**254,912.7**	**260,495.0**	**256,476.5**	
Share capital	7,739.1	7,739.1	7,739.1	7,739.1	7,739.1	7,739.1	
Reserves	26,956.4	27,157.7	28,511.1	29,201.2	30,257.7	29,404.3	
Treasury shares	(708.8)	(707.9)	(704.4)	(702.7)	(702.7)	(701.8)	
Shareholders' funds	**33,986.7**	**34,188.9**	**35,545.8**	**36,237.6**	**37,294.1**	**36,441.6**	
Minority Interest	0.0	0.0	0.0	0.0	0.0	0.0	
TOTAL LIABILITIES AND SHF	279,850.5	282,574.2	285,082.1	291,150.3	297,789.1	292,918.1	

SOURCES: CGSI RESEARCH, COMPANY REPORTS

Figure 5: Hong Leong Bank - Breakdown of loans

FYE Jun	4Q23	1Q24	2Q24	3Q24	4Q24	1Q25	Remarks for Sep 24
(RM m)	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	
Sectorial breakdown of loans							
Construction	4,197.9	4,555.7	4,866.9	5,580.1	5,836.5	6,020.8	
Residential mortgages	89,114.5	90,773.8	92,294.7	93,659.2	94,770.0	95,974.7	
Non-residential mortgages	21,976.1	22,315.2	22,682.0	22,896.5	23,825.9	24,281.5	
Purchase of securities	946.0	901.6	961.6	1,011.3	1,134.7	1,119.0	
Auto loans	19,574.9	19,910.7	20,588.0	21,199.5	21,938.6	22,243.2	
Personal use	3,885.2	3,882.6	3,949.8	4,026.5	4,110.9	4,118.7	
Credit card	3,202.6	3,320.5	3,391.9	3,420.1	3,489.2	3,493.2	
Purchase of consumer durables	0.0	0.0	0.0	0.0	0.0	0.0	
Working capital	35,949.3	33,302.5	33,603.4	33,145.1	36,876.7	34,162.1	
Others	2,830.2	2,763.8	2,826.3	2,872.0	2,944.9	2,818.7	
TOTAL	***181,676.7***	***181,726.4***	***185,164.6***	***187,810.3***	***194,927.4***	***194,231.9***	
Breakdown of loans (%)							
Construction	2.3%	2.5%	2.6%	3.0%	3.0%	3.1%	
Residential mortgages	49.1%	50.0%	49.8%	49.9%	48.6%	49.4%	Biggest loan segment; about half of the total loan.
Non-residential mortgages	12.1%	12.3%	12.2%	12.2%	12.2%	12.5%	
Purchase of securities	0.5%	0.5%	0.5%	0.5%	0.6%	0.6%	
Auto loans	10.8%	11.0%	11.1%	11.3%	11.3%	11.5%	
Personal use	2.1%	2.1%	2.1%	2.1%	2.1%	2.1%	
Credit card	1.8%	1.8%	1.8%	1.8%	1.8%	1.8%	
Purchase of consumer durables	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Working capital	19.8%	18.3%	18.1%	17.6%	18.9%	17.6%	
Others	1.6%	1.5%	1.5%	1.5%	1.5%	1.5%	
TOTAL	***100.0%***	***100.0%***	***100.0%***	***100.0%***	***100.0%***	***100.0%***	
yoy growth rate							
Construction	18.9%	28.1%	26.6%	39.6%	39.0%	32.2%	
Residential mortgages	8.1%	7.5%	7.2%	6.8%	6.3%	5.7%	A moderation in yoy growth.
Non-residential mortgages	7.1%	8.6%	6.1%	5.8%	8.4%	8.8%	
Purchase of securities	-3.1%	1.9%	10.7%	10.1%	19.9%	24.1%	
Auto loans	10.9%	9.2%	10.1%	10.6%	12.1%	11.7%	Sustained at above 10% yoy in the past 4 quarters.
Personal use	4.8%	4.1%	8.0%	6.7%	5.8%	6.1%	
Credit card	9.5%	10.3%	6.9%	7.7%	8.9%	5.2%	
Purchase of consumer durables	-	-	-	-	-	-	
Working capital	6.5%	3.1%	5.7%	6.1%	2.6%	2.6%	Weak growth at 2.6% yoy in past 2 quarters.
Others	4.1%	0.6%	3.1%	9.5%	4.1%	2.0%	
TOTAL	***8.0%***	***7.2%***	***7.5%***	***7.8%***	***7.3%***	***6.9%***	Above the industry's growth rate of 5.6% yoy.

SOURCES: CGSI RESEARCH, COMPANY REPORTS

ESG in a nutshell

LSEG ESG Scores

A	A+	A	A	A-	A+
ESG Grade	ESG Controversies Grade	ESG Combined Grade	ESG Environment Pillar Grade	ESG Social Pillar Grade	ESG Governance Pillar Grade

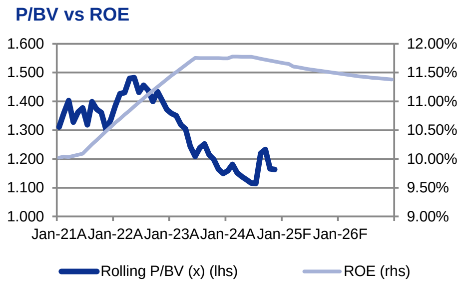
Hong Leong Bank (HLB) is one of our ESG picks among Malaysian banks, as it: 1) takes the initiative to help its borrowers improve their ESG standards, 2) incorporates ESG evaluation into its loan approval process, and 3) has better disclosures for ESG-related information than most other banks. The five ESG themes for HLB are (1) digital at the core, (2) workforce readiness, (3) socially responsible business, (4) environmental management, and (5) community investment.

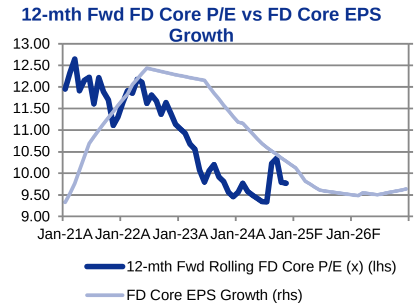
Going forward, we believe HLB will focus on: 1) fully integrating ESG evaluation into all of its decision-making processes, 2) increasing the size of its sustainable financing, and 3) quantifying and disclosing the impact of and exposure to the risks from climate change. HLB is committed to achieving its target of Net Zero greenhouse gas (GHG) emission (for Scope 1, 2 and 3) by 2050.

Keep your eye on	Implications
HLB revised its renewable energy financing commitment upwards from a RM500m target for a period of 5 years starting in 2019 to RM4bn by FY6/25. This financing would include working capital loans, term financing, contract financing and trade lines.	Renewable energy financing is the mainstay of the ESG-related financing. We believe this would be the area for growth for HLB in the next few years, although the share of this financing (over its total loan) would remain small in the medium term (in the next 3-5 years).
ESG highlights	**Implications**
Like all other Malaysian banks, HLB has adopted Climate Change and Principle-based Taxonomy (CCPT; introduced by Bank Negara Malaysia) by Jul 2022. This will lay the foundation for the bank to improve its analysis of the risks from climate change and segmentise its loan portfolio based on the criteria for climate change.	Based on the classification under CCPT, 95% of HLB's business banking financing portfolio was classified as C1, C2, and C3 as at 30 Jun 2022, while only 5% in the categories of C4 and C5. The top three sectors for C4 and C5 categories are (1) manufacturing, (2) transportation and storage and (3) electricity, steam, gas and air-condition supply. (Note: Classification based on CCPT – C1 for climate supporting, C2 and C3 for transitioning, and C4 and C5 for watchlist).
Trends	**Implications**
HLB met its green financing targets in FY6/23 – (1) approval of RM2.9bn for renewable energy financing (achieved RM3.2bn), (2) disbursement of RM240m for green auto loans (achieved RM429m), and (3) green and affordable mortgage loans of RM12.1bn (achieved RM17.3bn).	HLB has set the following green financing targets for FY6/24F – (1) approval of RM3.4bn for renewable energy financing, (2) disbursement of RM960m for green auto loans, and (3) green and affordable mortgage loans of RM18.8bn. Given HLB's strong management and good track record, we are confident that these targets will be achieved.

SOURCES: CGSI RESEARCH, LSEG

BY THE NUMBERS





Profit & Loss

(RMm)	Jun-23A	Jun-24A	Jun-25F	Jun-26F	Jun-27F
Net Interest Income	3,684	3,822	3,969	4,119	4,307
Total Non-Interest Income	2,001	1,949	2,264	2,378	2,536
Operating Revenue	**5,686**	**5,771**	**6,233**	**6,496**	**6,843**
Total Non-Interest Expenses	(2,233)	(2,339)	(2,475)	(2,577)	(2,684)
Pre-provision Operating Profit	**3,452**	**3,432**	**3,758**	**3,919**	**4,159**
Total Provision Charges	(115)	114	(71)	(87)	(101)
Operating Profit After Provisions	**3,337**	**3,546**	**3,687**	**3,832**	**4,058**
Pretax Income/(Loss) from Assoc.	1,290	1,589	1,748	1,923	2,077
Operating EBIT (incl Associates)	**4,626**	**5,135**	**5,435**	**5,755**	**6,135**
Non-Operating Income/(Expense)	0	(1)	(4)	(11)	(9)
Profit Before Tax (pre-EI)	**4,627**	**5,134**	**5,431**	**5,744**	**6,126**
Exceptional Items	0	0	0	0	0
Pre-tax Profit	**4,627**	**5,134**	**5,431**	**5,744**	**6,126**
Taxation	(809)	(938)	(978)	(1,034)	(1,103)
Consolidation Adjustments & Others	0	0	0	0	0
Exceptional Income - post-tax	0	0	0	0	0
Profit After Tax	**3,818**	**4,196**	**4,453**	**4,710**	**5,023**
Minority Interests	0	0	0	0	0
Pref. & Special Div	0	0	0	0	0
FX And Other Adj.	0	0	0	0	0
Net Profit	**3,818**	**4,196**	**4,453**	**4,710**	**5,023**
Recurring Net Profit	3,818	4,196	4,453	4,710	5,023

Balance Sheet Employment

	Jun-23A	Jun-24A	Jun-25F	Jun-26F	Jun-27F
Gross Loans/Cust Deposits	84.9%	87.6%	87.5%	87.6%	87.5%
Avg Loans/Avg Deposits	84.5%	86.3%	87.6%	87.6%	87.5%
Avg Liquid Assets/Avg Assets	28.5%	28.0%	27.2%	26.9%	27.2%
Avg Liquid Assets/Avg IEAs	30.5%	30.2%	29.4%	28.9%	29.2%
Net Cust Loans/Assets	64.3%	64.9%	65.9%	65.9%	65.9%
Net Cust Loans/Broad Deposits	77.9%	79.3%	80.0%	79.9%	79.7%
Equity & Provns/Gross Cust Loans	19.7%	20.0%	20.7%	21.1%	21.5%
Asset Risk Weighting	63.5%	63.3%	63.3%	63.2%	63.2%
Provision Charge/Avg Cust Loans	0%	0%	0%	0%	0%
Provision Charge/Avg Assets	0%	0%	0%	0%	0%
Total Write Offs/Average Assets	0.120%	0.104%	(0.422%)	(0.082%)	(0.081%)

SOURCES: CGSI RESEARCH, COMPANY REPORTS

BY THE NUMBERS… cont'd

Balance Sheet

(RMm)	Jun-23A	Jun-24A	Jun-25F	Jun-26F	Jun-27F
Total Gross Loans	182,099	195,877	209,259	222,884	236,918
Liquid Assets & Invst. (Current)	70,736	75,667	76,316	81,277	86,559
Other Int. Earning Assets	0	0	0	0	0
Total Gross Int. Earning Assets	**252,835**	**271,544**	**285,575**	**304,160**	**323,477**
Total Provisions/Loan Loss Reserve	(1,759)	(1,614)	(3,217)	(3,823)	(4,453)
Total Net Interest Earning Assets	**251,075**	**269,930**	**282,358**	**300,338**	**319,025**
Intangible Assets	2,194	2,185	2,185	2,185	2,185
Other Non-Interest Earning Assets	18,375	19,884	20,558	21,148	21,388
Total Non-Interest Earning Assets	**20,568**	**22,069**	**22,743**	**23,333**	**23,572**
Cash And Marketable Securities	**8,207**	**5,790**	**4,376**	**5,175**	**6,851**
Long-term Investments	0	0	0	0	0
Total Assets	**279,851**	**297,789**	**309,477**	**328,845**	**349,448**
Customer Interest-Bearing Liabilities	213,902	222,599	236,707	251,952	268,188
Bank Deposits	16,993	21,195	18,425	19,444	20,524
Interest Bearing Liabilities: Others	3,221	3,219	3,316	3,415	3,518
Total Interest-Bearing Liabilities	**234,117**	**247,013**	**258,447**	**274,811**	**292,230**
Bank's Liabilities Under Acceptances	3,184	3,560	3,577	3,597	3,617
Total Non-Interest Bearing Liabilities	8,563	9,922	7,714	7,723	7,705
Total Liabilities	**245,864**	**260,495**	**269,739**	**286,131**	**303,552**
Shareholders' Equity	**33,987**	**37,294**	**39,738**	**42,714**	**45,896**
Minority Interests	0	0	0	0	0
Total Equity	**33,987**	**37,294**	**39,738**	**42,714**	**45,896**

Key Ratios

	Jun-23A	Jun-24A	Jun-25F	Jun-26F	Jun-27F
Total Income Growth	1.57%	1.50%	8.01%	4.23%	5.34%
Operating Profit Growth	(1.34%)	(0.59%)	9.49%	4.29%	6.13%
Pretax Profit Growth	5.9%	11.0%	5.8%	5.8%	6.7%
Net Interest To Total Income	64.8%	66.2%	63.7%	63.4%	62.9%
Cost Of Funds	1.70%	2.03%	1.94%	1.94%	1.93%
Return On Interest Earning Assets	3.02%	3.28%	3.18%	3.16%	3.12%
Net Interest Spread	1.32%	1.25%	1.24%	1.22%	1.19%
Net Interest Margin (Avg Deposits)	1.78%	1.75%	1.73%	1.69%	1.66%
Net Interest Margin (Avg RWA)	2.17%	2.09%	2.07%	2.04%	2.01%
Provisions to Pre Prov. Operating Profit	3.34%	(3.33%)	1.90%	2.22%	2.43%
Interest Return On Average Assets	1.38%	1.32%	1.31%	1.29%	1.27%
Effective Tax Rate	17.5%	18.3%	18.0%	18.0%	18.0%
Net Dividend Payout Ratio	33.5%	35.1%	40.0%	40.0%	40.0%
Return On Average Assets	1.43%	1.45%	1.47%	1.48%	1.48%

Key Drivers

	Jun-23A	Jun-24A	Jun-25F	Jun-26F	Jun-27F
Loan growth (%)	8.0%	5.5%	6.3%	6.5%	6.3%
Gross impaired loan ratio (%)	0.6%	0.5%	0.5%	0.5%	0.5%
Loan loss coverage (%)	168.8%	155.0%	284.7%	322.4%	351.2%
Cost-to-income ratio (%)	39.3%	40.5%	39.7%	39.7%	39.2%
Non-interest income ratio (%)	18.3%	16.7%	19.2%	18.9%	18.9%
Common equity Tier-1 capital ratio (%)	15.7%	14.8%	15.5%	16.0%	16.5%
Stage-1 ECL coverage (%)	113.9%	136.9%	147.8%	163.2%	175.4%
Stage-2 ECL coverage (%)	22.4%	15.0%	6.7%	-0.8%	-9.3%
Stage-3 ECL coverage (%)	67.1%	103.8%	130.2%	160.0%	185.0%
Total provision over loans (%)	1.0%	0.8%	1.6%	1.7%	1.9%
Return on equity (%)	11.8%	11.8%	11.6%	11.4%	11.3%
Return on asset (%)	1.4%	1.5%	1.5%	1.5%	1.5%

SOURCES: CGSI RESEARCH, COMPANY REPORTS

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Score Range:	90 - 100	80 – 89	70 - 79	Below 70	No Survey Result
Description:	Excellent	Very Good	Good	N/A	N/A

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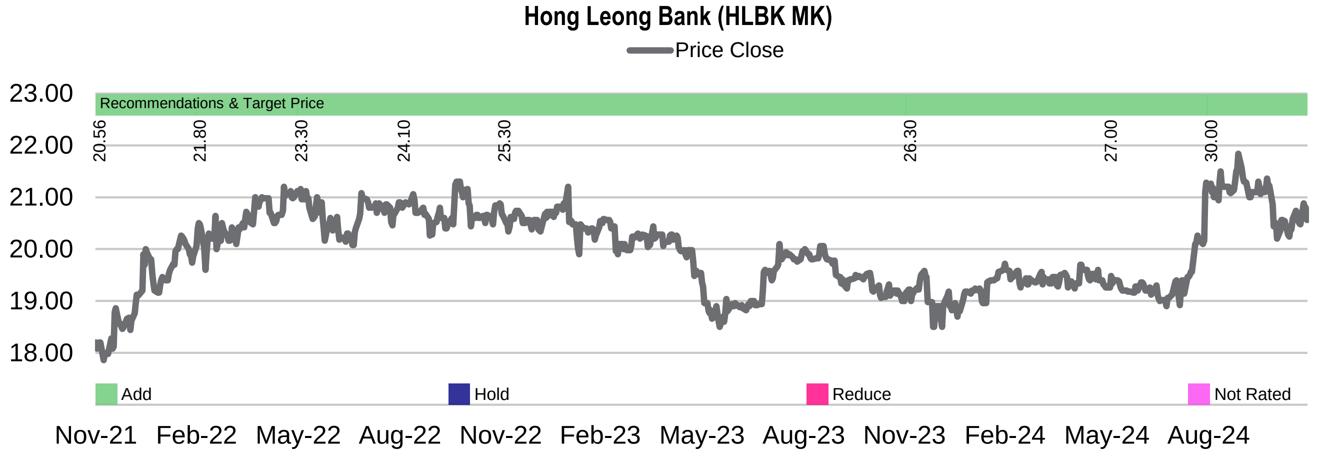
Distribution of stock ratings and investment banking clients for quarter ended on 30 September 2024
588 companies under coverage for quarter ended on 30 September 2024

	Rating Distribution (%)	Investment Banking clients (%)
Add	67.0%	0.5%
Hold	23.5%	0.9%
Reduce	9.5%	0.2%

Spitzer Chart for stock being researched (2 year data)



Recommendation Framework

Stock Ratings	Definition:
Add	The stock's total return is expected to exceed 10% over the next 12 months.
Hold	The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
Reduce	The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

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Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

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Overweight	An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
Neutral	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
Underweight	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.

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