Hong Leong Bank (HLBK MK)

1QFY27: Within Expectations With NIM Easing Amid Strong Lending

Highlights

- HLB's 1QFY27 net profit of RM1.15b was broadly in line, accounting for 24% of our full-year forecast.
- Loans grew 7.5% yoy, ahead of industry growth, while asset quality remained sound with a 0.57% GIL ratio and 1bps net credit cost. NIM stood at 1.82%.
- Maintain BUY and target price of RM24.50 (11.5% ROE and 1.19x FY26F P/B). Valuations remains compelling at 1.0SD below its historical mean P/B.

1QFY27 Results

Year to 30 Jun (RMm)	1QFY26	4QFY26	1QFY27	qoq%	yoy%
Net Interest Income	1,025.1	1,036.4	1,066.3	2.9	4.0
Islamic Banking	317.7	315.8	313.0	(0.9)	(1.5)
Fees & Commissions	187.6	236.9	224.4	(5.3)	19.6
Trading Income	123.3	93.2	58.6	(37.2)	(52.5)
Other Income	31.1	78.8	47.7	(39.5)	53.4
Total Income	**1,684.8**	**1,761.2**	**1,709.9**	**(2.9)**	**1.5**
Operating Expenses	(606.9)	(681.2)	(616.8)	(9.4)	1.6
PPOP	1,078.0	1,080.0	1,093.0	1.2	1.4
Provisions	(38.0)	32.6	(28.3)	n.a.	(25.5)
Associate	311.1	352.7	348.4	(1.2)	12.0
PBT	**1,351.1**	**1,465.3**	**1,413.1**	**(3.6)**	**4.6**
Net Profit	**1,091.0**	**1,242.7**	**1,146.9**	**(7.7)**	**5.1**
EPS (sen)	53.2	60.6	55.9	(7.8)	5.1
DPS (sen)	0.0	80.0	0.0	n.a.	n.a.
BVPS (sen)	19.0	20.4	20.1	(1.3)	5.9
Financial Ratios (%)	**1QFY26**	**4QFY26**	**1QFY27**	**qoq +/- ppt**	**yoy +/- ppt**
NIM	1.84	1.85	1.82	(0.03)	(0.02)
Loan Growth, yoy	9.1	7.7	7.5	(0.2)	(1.6)
Deposit Growth, yoy	7.7	5.5	4.5	(1.0)	(3.2)
Loan/Deposit Ratio	88.1	88.7	90.6	1.9	2.5
Cost/Income Ratio	36.0	38.7	36.1	(2.6)	0.1
ROE	11.2	12.1	11.0	(1.1)	(0.2)
NPL Ratio	0.57	0.57	0.57	0.0	0.0
Credit Costs (bp)	7.1	(5.7)	4.9	10.6	(2.2)
CET-1 CAR	12.7	12.9	13.0	0.1	0.3

Source: Hong Leong Bank, UOB Kay Hian

Analysis

- **In line.** Hong Leong Bank (HLB) reported 1QFY27 net profit of RM1.15b (+0.1% yoy, +0.2% qoq). Earnings are deemed in line, with the quarter representing 24% of our full-year forecast. Net interest income rose 4.5% yoy and associate contributions grew 12.0%, offsetting a 7.9% decline in non-interest income, while impairment allowances fell 25.5%.

Key Financials

Year to 30 Jun (RMm)	2025	2026	2027F	2028F	2029F
Net interest income	3,988	4,062	4,116	4,245	4,536
Non-Interest Income	1,251	1,389	1,499	1,590	1,656
Net profit (rep./act.)	4,681	4,531	4,768	5,082	5,419
Net profit (adj.)	5,089	4,531	4,768	5,082	5,419
EPS (sen)	225.2	218.0	229.4	244.5	260.7
PE (x)	8.6	9.7	9.2	8.6	8.1
P/B (x)	1.1	1.1	1.0	1.0	0.9
Dividend yield (%)	4.5	5.2	6.0	6.4	6.8
Net int margin (%)	1.79	1.75	1.73	1.72	1.73
Cost/income Ratio (%)	38.7	37.6	37.4	37.0	37.0
Loan loss cover (%)	96.8	79.5	76.7	121.8	123.7
Consensus net profit	-	-	4,765	5,050	5,369
UOBKH/Consensus (x)	-	-	1.00	1.01	1.01

Source: Hong Leong Bank, UOB Kay Hian

Analyst

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BUY (Maintained)

Share Price	RM21.28
Target Price	RM24.50
Upside	15.1%

Stock Data

Sector	Financials
Bloomberg ticker	HLBK MK
Shares issued (m)	2,167.7
Market cap (RMm)	46,129.0
Market cap (US$m)	11,201.4
3-mth avg daily t'over (US$m)	6.7

Price Performance (%)

52-week high/low				RM25.80/RM20.80
1mth	**3mth**	**6mth**	**1yr**	**YTD**
0.4	(7.5)	(2.8)	(1.0)	(3.9)

Major Shareholders (%)

Hong Leong Financial Group Berhad	61.8
Employees Provident Fund Board	9.2

Balance Sheet Metrics

FY27F NAV/Share (RM)	21.02
FY27F CAR Tier -1 (%)	14.1

Price Chart



Source: Bloomberg

Company Description

This is fourth largest bank in term of asset size focusing on retail banking with presence in China through 18% owned Bank of Chengdu.

- **1QFY27 earnings trend.** Net profit rose 5.1% yoy to RM1.15b. Net interest income grew 4.5% on stronger loans, while lower impairment charges and a 12.0% increase in BOCD associate contribution supported earnings. Non-interest income fell 7.9% on lower treasury gains. Operating JAWS was broadly neutral, with income up 1.5% against a 1.6% rise in expenses.
- **Softer qoq earnings despite positive JAWS.** Net profit fell 7.7% qoq as non-interest income declined 19.1% and loan impairments swung from a RM33m reversal to a RM28m charge. Operating expenses fell 9.4%, outpacing the 2.9% decline in income and lifting pre-provision operating profit 1.2%. BOCD associate contribution eased 1.2% qoq.
- **Above-industry loans growth sustained.** Gross loans expanded 7.5% yoy, ahead of the domestic industry's growth rate, supported by retail, business and overseas operations. Residential mortgages, transport vehicle loans and unsecured loans grew 6.4%, 7.8% and 4.2% yoy respectively. Domestic business loans rose 12.2% yoy, including 10.9% growth in SME loans. International loans increased 26.2% yoy, led by Singapore (+33.7%) and Vietnam (+17.0%).
- **NIM compressed amid persistent deposit competition.** NIM fell 3bps qoq to 1.82% in 1QFY27 as higher funding costs outweighed the continued CASA growth of 6.5% yoy. Management maintained its full-year NIM guidance of 1.80-1.90%, but now expects to land at the lower end of the range. Funding costs and loan pricing are being managed to defend margins, while deposit competition could keep NIM under pressure over the near term.
- **Asset quality broadly stable.** GIL ratio held at 0.57% in 1QFY27. Domestic GIL was unchanged at 0.50%, while the overseas ratio improved to 1.40% from 1.47% in 4QFY26. SME GIL eased to 0.96%, although transport vehicle GIL edged up to 0.53%. Loan-impairment coverage stood at 79% (4QFY26: 80%), or 248% including regulatory reserves (4QFY26: 244%). Net credit cost remained low at 1bp.
- **Outlook.** FY27 key guidance are as follows: a) loans growth: 6-7%, b) net credit cost: <10bp, c) ROE: 11.0-11.5%, d) GIL ratio: <0.65%, e) CIR: <39%, f) NIM: 1.80-1.90%
- **Data centre exposure remains limited.** HLB primarily finances contractors building supporting infrastructure, with negligible direct lending to data centres. Management said the wider ecosystem exposure is below 1% of total loans.

Valuation/Recommendation

- **Maintain BUY and target price of RM24.50** (10.9% ROE and 1.11x FY27F P/B). Our target P/B multiple of 1.11x is broadly in line with the stock's historical mean. We continue to favour Hong Leong Bank given its unique position of delivering above-industry growth while maintaining impeccable asset quality. It also offers a compelling dividend yield of 6.0-6.8%, with scope to potentially raise payouts further.

Earnings Revision/Risk

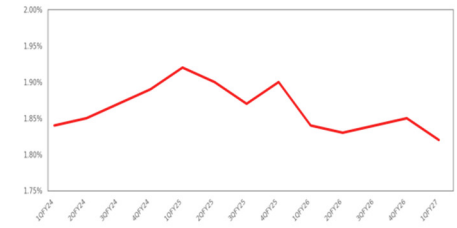
- No revision to our forecasts.

Key Assumptions

(%)	2027F	2028F	2029F
Loan Growth	6.4	6.2	6.5
Credit Cost (bp)	6.3	3.9	3.3
ROE	10.9	11.1	11.3

Source: UOB Kay Hian

NIM Trend



Source: Hong Leong Bank, UOB Kay Hian

GIL Ratio Trend



Source: Hong Leong Bank, UOB Kay Hian

Environmental, Social, Governance (ESG) Updates

Environmental

- **Carbon emission commitment**. Reduce Scope 1 and 2 emissions by 40%-50% by 2031
- **Raising market share for hybrid vehicle financing**. HLBank's market share for hybrid vehicle financing has rose to 9% in 2021, comprising 2.8% of the group's outstanding HP loans.

Social

- **Gender diversity**. Female comprises 40% of the group's upper management.

Governance

- Non-independent board of directors composition. *Composition of Independent Non-Executive Directors (INED) – 55 %*

Source: Hong Leong Bank, UOB Kay Hian

Profit & Loss

Year to 30 Jun (RMm)	2026	2027F	2028F	2029F
Interest income	8,831	10,032	10,486	11,092
Interest expense	(4,768)	(5,917)	(6,241)	(6,556)
Net interest income	4,062	4,116	4,245	4,536
Fees & commissions	816	881	952	1,009
Net Trading Income	377	414	427	431
Other income	196	204	212	216
Income from islamic banking	1,242	1,379	1,531	1,607
Total income	**6,693**	**6,994**	**7,366**	**7,799**
Staff costs	(1,378)	(1,447)	(1,519)	(1,626)
Other operating expense	(1,136)	(1,170)	(1,205)	(1,263)
Pre-provision profit	4,179	4,378	4,642	4,911
Loan loss provision	(79)	(24)	(26)	(27)
Other provisions	0	4	5	5
Associated companies	1,380	1,518	1,640	1,787
Pre-tax profit	5,480	5,876	6,261	6,676
Tax	(949)	(1,107)	(1,180)	(1,258)
Minorities	0	0	0	0
Net profit	**4,531**	**4,768**	**5,082**	**5,419**
Net profit (adj.)	4,531	4,768	5,082	5,419

Balance Sheet

Year to 30 Jun (RMm)	2026	2027F	2028F	2029F
Cash with central bank	2,143	4,816	5,129	5,462
Govt treasury bills & securities	44,521	46,302	48,154	50,081
Interbank loans	24	25	26	27
Customer loans	225,265	239,722	254,684	271,267
Investment securities	25,061	26,189	27,367	28,599
Derivative receivables	2,217	2,217	2,217	2,217
Associates & JVs	10,352	10,352	10,352	10,352
Fixed assets (incl. prop.)	1,175	1,222	1,271	1,322
Other assets	17,652	20,436	24,592	28,919
Total assets	**328,411**	**351,281**	**373,793**	**398,245**
Interbank deposits	7,356	7,798	8,266	8,762
Customer deposits	254,738	270,022	283,523	297,700
Derivative payables	2,324	2,510	2,711	2,928
Debt equivalents	5,181	5,175	5,174	5,174
Other liabilities	17,021	22,004	28,241	35,560
Total liabilities	**286,621**	**307,510**	**327,916**	**350,124**
Shareholders' funds	41,790	43,771	45,877	48,122
Minority interest - accumulated	0	0	0	0
Total equity & liabilities	**328,411**	**351,281**	**373,793**	**398,245**

Operating Ratios

Year to 30 Jun (RMm)	2026	2027F	2028F	2029F
Capital Adequacy				
Tier-1 CAR	12.9	14.5	14.7	14.8
Total CAR	16.2	18.2	18.2	18.2
Total assets/equity (x)	7.9	8.0	8.1	8.3
Tangible assets/tangible common equity (x)	8.2	8.4	8.5	8.6
Asset Quality				
NPL Ratio	0.6	0.6	0.6	0.5
Loan Loss Coverage	79.5	76.7	121.8	123.7
Loan Loss Reserve/Gross Loans	0.5	0.4	0.7	0.7
Increase in NPLs	13.6	6.3	3.9	3.3
Credit Cost (bp)	3.5	1.0	1.0	1.0
Liquidity				
Loan/Deposit Ratio	88.4	88.8	89.8	91.1
Liquid Assets/Short-Term Liabilities	17.8	18.4	18.2	18.1
Liquid Assets/Total Assets	14.2	14.6	14.3	14.0

Key Metric

Year to 30 Jun (%)	2026	2027F	2028F	2029F
Growth				
Net Interest Income, yoy Chg	1.9	1.3	3.1	6.9
Fees & Commissions, yoy Chg	13.4	8.0	8.0	6.0
Pre-Provision Profit, yoy Chg	6.6	4.7	6.0	5.8
Net Profit, yoy Chg	(3.2)	5.2	6.6	6.6
Customer Loans, yoy Chg	7.8	6.4	6.2	6.5
Customer Deposits, yoy Chg	5.6	6.0	5.0	5.0
Profitability				
Net Interest Margin	1.8	1.7	1.7	1.7
Cost/Income Ratio	37.6	37.4	37.0	37.0
Adjusted ROA	1.4	1.4	1.4	1.4
Reported ROE	10.8	10.9	11.1	11.3
Adjusted ROE	10.8	10.9	11.1	11.3
Valuation				
P/BV (x)	1.1	1.0	1.0	0.9
P/NTA (x)	1.1	1.1	1.0	1.0
Adjusted P/E (x)	9.8	9.3	8.7	8.2
Dividend Yield	5.2	5.9	6.3	6.7
Payout ratio	50.5	55.0	55.0	55.0

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