

# Hong Leong Financial Group Berhad

(1082 | HLFGB MK) Financial Services | Finance

**Maintain NEUTRAL**

**Revised Target Price: RM16.30**  
(from RM17.00)

## Strong contribution from HLB

### KEY INVESTMENT HIGHLIGHTS

- **Results were within expectations**
- **HLB earnings boosted by solid PPOP growth**
- **HLAH was dragged by lower interest rates and a number of one-offs**
- **HLC saw higher contribution from asset management**
- **Revising FY20 and FY21 earnings forecast downwards**
- **Maintain NEUTRAL with revised TP of RM16.30 (from RM17.00)**

**Meeting expectations.** HLFGB 1HFY20 net profit was within our and consensus' expectations coming in at 48.3% and 50.5% of respective full year estimates. PATAMI grew marginally by +0.6%yoy but this was due to the one-off gains at Hong Leong Bank (HLB) level. Normalising for this we estimate net profit grew by +10.7%yoy.

**HLB earnings supported by solid PPOP growth.** On normalized basis, HLB's PPOP expanded strongly by +10.9%yoy as NII and NOII grew +4.5%yoy and +12.6%yoy respectively. Moreover HLB posted positive JAWS of +5.4%. NII growth was attributed to continued recovery in NIM in 2QFY20 where it increased +1bp qoq, and solid loans growth momentum. HLB had shown good income resilience in light of the OPR cut last year. We also expect the same trend to continue with the recent OPR cut in Jan-20. However, should there be another OPR cut, we believe that its NIM will be under pressure.

Gross loans expanded +7.3%yoy to RM141.3b as at 2QFY20. Major drivers were residential properties and domestic business enterprise despite the cautious business sentiment. These grew +9.8%yoy to RM70.6b and +7.4%yoy to RM42.2b respectively.

Deposits grew +2.7%yoy to RM167.0b. Overall, CASA saw good growth with +7.3%yoy to RM43.2b outpacing FD growth of +5.4%yoy to RM97.6b.

HLB's asset quality had a slight uptick of +3bp qoq to 0.84%. However, we consider this to be very stable and below the industry's GIL ratio. The increase came at its overseas loans book with 2 isolated cases in Singapore of circa RM77m.

**Insurance division became a drag.** Insurance division (HLAH) was a drag to overall Group earnings. Its segmental profits were -22.3%yoy lower. It was impacted by lower interest rates and a number of one-offs including the new Minimum Allocation Rate rules implemented effective 1 July 2019. However, HLA continues to make good progress in creating higher New Business Embedded Value through the growth of its Non Participating and Investment Link new business premiums. Meanwhile, its management expense ratio was 6.0% in 1HFY20.

**Growth in Investment Banking PBT.** Investment Banking recorded PBT growth of 26.7% due to higher contribution from the asset management division. Its net profit grew 71%yoy to RM13.8m while average AUM increased by +8.7%yoy to RM19.1b.

### RETURN STATISTICS

Price @ 26 <sup>th</sup> Feb. 2020 (RM)	15.72
Expected share price return (%)	+3.7
Expected dividend yield (%)	+2.5
<b>Expected total return (%)</b>	<b>+6.2</b>

### SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-4.1	0.8
3 months	-7.0	-0.4
12 months	-20.4	-8.8


### KEY STATISTICS

FBM KLCI	1,495.19
Syariah compliant	No
Issue shares (m)	1136.07
Estimated free float (%)	14.98
Market Capitalisation (RM'm)	18,003.24
52-wk price range	RM15.5 - RM19.9
Beta vs FBM KLCI (x)	0.99
Monthly velocity (%)	23.84
Monthly volatility (%)	9.18
3-mth average daily volume (m)	0.21
3-mth average daily value (RM'm)	3.49
Top Shareholders (%)	
Hong Leong Co Malaysia Bhd	77.46
Employees Provident Fund Board	2.84
Kumpulan Wang Persaraan Diperbadan	1.41

### Analyst

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**No change in earnings forecast.** We revising our earnings forecast downwards by -4.5% and -6.3% for FY20 and FY21 respectively as we adjusted the earnings of HLB.

**Valuation and recommendation.** We believe the main driver for Group's performance continues to be HLB. Nevertheless, we believe that the Group's other divisions have not able to give significant support. Therefore, we are maintaining our **NEUTRAL** call. Besides revising our earnings forecast, we are also revising our **TP to RM16.30** (from RM17.00). Our TP is based on SOTP valuation. 

### SOTP Valuation

Companies	Shareholder fund (RM'Mil)	Equity Stake (%)	Book Value Multiple (X)	Valuation (RM'Mil)	RNAV per share (RM)
HLB	26,611	65.7%	1.3	22,604	19.69
HLC	844	81.3%	1.4	961	0.84
<b>Insurance companies under HLA Holdings</b>					
HLA	2,163	70.0%	1.4	1,754	1.53
MSIG	2,957	30.0%	1.4	1,289	1.12
HLMSIG Takaful	80	65.0%	1.4	175	0.15
<b>SOP Valuation</b>				26,783	23.33
Holding company discount			28%	(8,075)	(7.03)
SOTP Valuation after holding company discount				18,708	
<b>No of shares (Mil)</b>				1,148	
<b>Target Price (TP)</b>				<b>16.30</b>	

### INVESTMENT STATISTICS

Financial year ending 30 June (in RM'm, unless otherwise stated)	2018A	2019A	2020E	2021F	2022F
Net Interest Income	2,871	2,975	3,137	3,294	3,794
Income from Islamic Banking	646	707	741	778	833
Non interest income	1,834	1,596	1,673	1,789	1,837
Net/total income	5,351	5,278	5,551	5,861	6,463
Pre-provisioning operating profit	3,056	2,897	3,148	3,312	3,692
Profit before tax	3,579	3,506	3,629	3,788	4,161
Profit after tax	1,907	1,919	1,964	2,050	2,252
EPS (sen)	166.8	167.8	171.1	178.7	196.3
EPS Growth (%)	26.6	0.6	2.0	4.4	9.8
PER (x)	9.4	9.4	9.2	8.8	8.0
Net Dividend (sen)	40	42	44	46	48
Dividend yield (%)	2.5	2.7	2.8	2.9	3.1
Book Value Per Share (RM)	15.55	16.78	17.90	19.25	20.80
PBV (x)	1.0	0.9	0.9	0.8	0.8
ROE (%)	10.7	10.3	9.6	9.3	9.4

Source: Company, MIDFR

**Some banking abbreviations used in this report:**

CI = Cost to Income  
 CET1 = Common Equity Tier 1  
 GIL = Gross Impaired Loan  
 LD = Loan-Deposit  
 NII = Net Interest Income  
 NOII = Non-interest income  
 NIM = Net Interest margin  
 CASA = Current and Savings Accounts  
 COF = Cost of Funds  
 IB = Investment Banking  
 LLC = Loan Loss Coverage  
 PPOP = Pre-Provisioning Operating Profit  
 FVTPL = Fair Value Through Profit Or Loss  
 OPEX = Operating Expenses  
 OPR = Overnight Policy Rate

**Table 1: Quarterly & Cumulative results (base on reported financials)**

FYE June (RM m)	Quarterly results					Cumulative results		
	2QFY20	1QFY20	2QFY19	Yoy (+/- %)	Qoq (+/- %)	1HFY20	1HFY19	Yoy (+/- %)
Net Interest Income	787	756	699	12.5%	4.0%	1,543	1,390	11.0%
Islamic Banking Income	206	200	173	19.5%	3.3%	406	344	18.1%
Non interest Income	367	370	374	-1.7%	-0.8%	737	895	-17.6%
Net/Total income	1,360	1,326	1,245	9.2%	2.6%	2,686	2,628	2.2%
OPEX	(601)	(582)	(573)	4.9%	3.3%	(1,184)	(1,165)	1.6%
PPOP	759	744	672	12.9%	2.0%	1,503	1,464	2.7%
Write back/(Provision) for loan losses	(21)	9	58	-136.1%	-343.7%	(12)	38	-132.3%
Share of results from associate & JV	187	161	147	26.8%	16.0%	348	305	14.2%
Pre-tax profit	924	914	878	5.3%	1.2%	1,838	1,807	1.7%
Net Profit	503	490	482	4.4%	2.6%	993	987	0.6%
EPS (sen)	44.3	43.1	42.1	5.2%	2.8%	87	86	1.4%

**Table 2: PBT by key segments (based on reported financials)**

PBT (RM m)	1HFY20	1HFY19	Yoy (+/- %)
Commercial Banking (HLB)	1,391	1,394	-0.2%
Investment Banking	48	38	26.7%
Insurance (HLA)	91	117	-22.3%

Source: Company, MIDFR

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### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

<b>BUY</b>	Total return is expected to be >10% over the next 12 months.
<b>TRADING BUY</b>	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
<b>NEUTRAL</b>	Total return is expected to be between -10% and +10% over the next 12 months.
<b>SELL</b>	Total return is expected to be <10% over the next 12 months.
<b>TRADING SELL</b>	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

#### SECTOR RECOMMENDATIONS

<b>POSITIVE</b>	The sector is expected to outperform the overall market over the next 12 months.
<b>NEUTRAL</b>	The sector is to perform in line with the overall market over the next 12 months.
<b>NEGATIVE</b>	The sector is expected to underperform the overall market over the next 12 months.