

Hong Leong Financial Group Bhd

(1082 | HLFM MK) Financial Services | Finance

Maintain NEUTRAL

Impacted by challenging environment

Revised Target Price: RM14.10
(from RM17.00)

KEY INVESTMENT HIGHLIGHTS

- **Results met with expectations**
- **HLB's earnings dragged by lower income and higher provisions**
- **Slowdown in insurance division**
- **Small growth in investment banking**
- **No change to earnings forecast**
- **Maintain NEUTRAL with revised TP of RM14.10 (from RM17.00)**

Met expectations. HLFM 9MFY20 net profit of RM1.33b met our expectations but below consensus'. It came at 73.1% of our revised full year estimates while at 69.4% of consensus' full year estimates. The earnings was weighed down by Hong Leong Bank (HLB) and insurance segment's performance.

HLB earnings affected by lower income and higher provisions. HLB's PPOP in 3QFY20 PPOP fell -7.2%yoy, moderating its 9MFY20 PPOP to grow +4.9%yoy. NII in 3QFY20 came in lower by -2.1%yoy due to NIM compression of -16bp yoy following from the OPR cuts in the quarter.

In terms of provisions, it increased in 3QFY20 with credit cost going up +34bp yoy. This was due to ECL buffers of RM65m set aside to take into account the effect of Covid-19 pandemic and the movement control order (MCO).

However, gross loans expanded strongly, by +6.6%yoy to RM142.4b as at 3QFY20. Major drivers were residential properties, domestic business enterprise and surprisingly in Singapore. These grew +8.9%yoy to RM71.8b, +4.6%yoy to RM40.5b and +14.2%yoy to RM5.6b respectively. In terms of business enterprise segment, the key contributors were SME and community SME banking as it expanded +1.7%yoy to RM21.2b and +33.5%yoy to RM7.1b respectively.

HLB's GIL ratio saw another uptick on a sequential quarter basis. GIL ratio went up +14bp qoq to 0.98%. However, we consider this to be still very manageable and the management expect it to normalize in 4QFY20.

Deposits grew +3.0%yoy to RM167.9b. CASA saw good growth with +11.8%yoy to RM44.3b outpacing FD growth of +3.9%yoy to RM95.6b. This could be due to depositors ensuring sufficient cashflows.

Slowdown in insurance division. Insurance division (HLAH) segmental profits fell -86.1%yoy. This was due to lower interest rates and a few one-offs impact. HLA's management expense ratio was 6.3% in 9MFY20, remaining among the lowest in the industry.

Growth in Investment Banking results. Investment Banking recorded improved performance as its PBT grew +3.8%yoy. This was mainly due to higher contribution from the asset management, investment banking and stockbroking divisions.

RETURN STATISTICS

Price @ 29 th May 2020 (RM)	13.40
Expected share price return (%)	+5.2
Expected dividend yield (%)	+3.0
Expected total return (%)	+8.2

SHARE PRICE CHART




Share price performance (%)	Absolute	Relative
1 month	2.3	-2.3
3 months	-2.0	-11.9
12 months	-29.4	-20.9

KEY STATISTICS

FBM KLCI	1473.25
Syariah compliant	No
Issue shares (m)	1136.07
Estimated free float (%)	14.98
Market Capitalisation (RM'm)	15346.27
52-wk price range	RM9.75 - RM19.0
Beta vs FBM KLCI (x)	1.23
Monthly velocity (%)	0.00
Monthly volatility (%)	9.18
3-mth average daily volume (m)	0.27
3-mth average daily value (RM'm)	3.59
Top Shareholders (%)	
Hong Leong Co Malaysia Bhd	77.46
Employees Provident Fund Board	2.84
Kumpulan Wang Persaraan Diperbadan	1.41

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No change in earnings forecast. We are maintaining our earnings forecast for FY20, FY21 and FY22 as the result were within expectations.

Valuation and recommendation. We believe the main driver for Group's performance continues to be HLB. Therefore, any weakness in HLB's performance will have a large impact to the Group's earnings. We expect that current headwinds will put a dampener to HLB's earnings and in our view, HLB currently lacks an earnings catalyst. Furthermore, the Group's other divisions have not able to give significant support. Therefore, we are maintaining our **NEUTRAL** call. We are revising our TP to RM14.10 (from RM17.00) due to our earlier revision of HLB's TP which we have not yet reflect in the Group's TP. 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	26,356	65.7%	1.1	18,174	15.83
HLC	844	81.3%	1.2	824	0.72
Insurance companies under HLA Holdings					
HLA	1,814	70.0%	1.2	1,523	1.33
MSIG	2,828	30.0%	1.2	1,018	0.89
HLMSIG Takaful	191	65.0%	1.2	149	0.13
SOP Valuation				21,688	18.89
Holding company discount			25%	(5,498)	(4.79)
SOTP Valuation after holding company discount				16,190	
No of shares (Mil)				1,148	
Target Price (TP)				14.10	

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	2,823	3,073	3,273
Income from Islamic Banking	646	707	693	714	735
Non interest income	1,834	1,596	1,673	1,789	1,837
Net/total income	5,351	5,278	5,189	5,576	5,845
Pre-provisioning operating profit	3,056	2,897	2,924	3,136	3,310
Profit before tax	3,579	3,506	3,366	3,483	3,740
Profit after tax	1,907	1,919	1,822	1,885	2,024
EPS (sen)	166.8	167.8	158.8	164.3	176.4
EPS Growth (%)	26.6	0.6	-5.4	3.5	7.4
PER (x)	8.0	8.0	8.4	8.2	7.6
Net Dividend (sen)	40	42	40	42	43
Dividend yield (%)	3.0	3.1	3.0	3.1	3.2
Book Value Per Share (RM)	15.55	16.78	17.81	19.13	20.51
PBV (x)	0.9	0.8	0.8	0.7	0.7
ROE (%)	10.7	10.3	8.9	8.6	8.6

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		
	3QFY20	2QFY20	3QFY19	Yoy (+/- %)	Qoq (+/- %)	9MFY20	9MFY19	Yoy (+/- %)
Net Interest Income	740	787	687	7.8%	-5.9%	2,283	2,077	9.9%
Islamic Banking Income	206	206	188	9.5%	-0.1%	612	532	15.1%
Non interest Income	196	367	432	-54.7%	-46.6%	933	1,327	-29.7%
Net/Total income	1,142	1,360	1,308	-12.6%	-16.0%	3,829	3,936	-2.7%
OPEX	(599)	(601)	(600)	-0.2%	-0.3%	(1,783)	(1,765)	1.0%
PPOP	543	759	707	-23.2%	-28.4%	2,046	2,171	-5.8%
Write back/(Provision) for loan losses	(127)	(21)	(3)	>100%	>100%	(140)	35	<-100%
Share of results from associate & JV	188	187	155	21.0%	0.4%	535	460	16.5%
Pre-tax profit	603	924	859	-29.8%	-34.7%	2,441	2,666	-8.4%
Net Profit	339	503	463	-26.8%	-32.6%	1,332	1,451	-8.2%
EPS (sen)	29.9	44.3	40.5	-26.2%	-32.5%	117	127	-7.4%

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

PBT (RM m)	9MFY20	9MFY19	Yoy (+/- %)
Commercial Banking (HLB)	1,863	2,032	-8.3%
Investment Banking	58	56	3.8%
Insurance (HLA)	26	186	-86.1%

Source: Company, MIDFR

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	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.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <10% over the next 12 months.
TRADING SELL	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

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