Hong Leong Financial Group Berhad

(1082 | HLFG MK) Financial Services | Finance

Maintain BUY

Strong contribution from banking arm

***Revised* Target Price: RM23.51**

(Previously RM23.16)

KEY INVESTMENT HIGHLIGHTS

- **Earnings were within expectations**
- **Maintaining our earnings forecast for now.**
- **HLB continues to provide excellent contributions.**
- **HLA dips as result of MCO disruptions, especially in new business regular premiums.**
- **HLC showed sharp decline in incomes as result of lower market activity, asset management offers a buffer**
- **Maintain BUY call with higher TP of RM23.51**

RETURN STATISTICS	
Price @ 30 August 2022 (RM)	19.42
Expected share price return (%)	+21.1
Expected dividend yield (%)	+2.9
Expected total return (%)	**+24.0**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-0.9	-1.4
3 months	4.3	2.0
12 months	5.8	13.0

KEY STATISTICS	
FBM KLCI	1,512.05
Syariah compliant	No
F4GBM Index	Yes
ESG Grading Band (Star rating)	
Issue shares (m)	1133.78
Estimated free float (%)	16.66
Market Capitalisation (RM m)	22,103.21
52-wk price range	RM16.9 - RM20.3
Beta vs FBM KLCI (x)	0.96
Monthly velocity (%)	
Monthly volatility (%)	9.18
3-mth average daily volume (m)	0.15
3-mth average daily value (RM m)	2.79
Top Shareholders (%)	0
Hong Leong Co Malaysia Bhd	52.04
Guoco Group Ltd	25.42
Employees Provident Fund Board	3.09

Within our and consensus expectations. HLFG's FY22 core net profit of RM2.45b made up 101% and 102% of full-year forecasts respectively. FY22's earnings rose by fell by -26% as result of higher taxation charges, despite boasting better net income and lower loan loss provisions. In terms of segments, higher contribution from commercial banking and associates contributed to the sharp increase in PBT.

Hong Leong Bank (HLB) shines. HLB continues to provide excellent contributions to HLFG, via its fast loan growth rate, low level of NCC and stake in Bank of Chengdu.

Hong Leong Insurance Division (HLA) dips. Stripping away FY21's one-off tax credit item, HLA's FY22 earnings declined by -3.1%yoy to RM339m, largely as result of reductions in new business regular premiums, declining by -13%yoy to RM641m. This was attributable to lower contributions from agency channels disrupted by movement restrictions. Gross premiums, on the other hand did remain relatively flattish, rising +1%yoy to RM3.17b as it was supported by persistency levels remaining over 85%.

HLA did see improvements in its embedded value (EV) and new business embedded value (NBEV), rising by +14% and +13% respectively, driven by positive impact from higher long term MGS rate.

In terms of product segmentation, HLA continues to drive growth of its investment-linked gross premium, which rose by +12%yoy. Investment-linked market share of NBRP stands at 13%, coming in at number 4. This replaces its ordinary life gross premium, which has declined close to RM200m per year on a consistent basis.

Unfortunately, Hong Leong MSIG Takaful did record net losses of RM3m for FY22, despite boasting a +62%yoy increase in Takaful gross contribution in FY22.

HLC incurred sharp decline. HLC's FY22 profit declined by -64% to RM203m on a sequential year basis, mostly attributable to a drop-in stockbroking activity – trading volume fell by -47%yoy. Investment banking additionally was affected by delays in completion of mandated deals caused by MCO disruptions.

Analyst
Samuel Woo
samuel.woo@midf.com.my
03-2173 1669

HLC's asset management did contribute more reliable earnings, with its FY22 contribution of RM19m increasing by +2.3%yoy.

Earnings maintained. We maintain our earnings forecasts.

Valuation and recommendation. Overall, we remain largely optimistic on HLFG's outlook – it can look to a reopening of its economy and removal of movement restrictions for better HLA performance, as well as increased market activity and potential risk-taking activity in FY23 to spur its HLC arm. HLB is performing exceptionally well.

Thus, we maintain our **BUY** call with our SOTP TP raised to **RM23.51** (from RM23.16)**.** The TP revision is due to rolling forward our valuation and inputting a higher TP for Hong Leong Bank of RM23.96, based on P/BV of 1.5x FY23BVPS.

EXHIBIT 1: QUARTERLY RESULTS

FYE Jun (RM m)	4QFY22	3QFY22	4QFY21	Yoy (%)	Qoq (%)	FY22	FY21	Yoy (%)
Net interest income	950	968	938	1.2%	-1.9%	3,857	3,559	8.4%
Islamic banking income	239	224	232	3.2%	6.6%	905	919	-1.6%
Other operating income	456	310	331	37.9%	47.3%	1,490	1,720	-13.4%
Net income	**1,645**	**1,503**	**1,501**	**9.6%**	**9.5%**	**6,252**	**6,199**	**0.8%**
OPEX	(608)	(590)	(598)	1.7%	3.1%	(2,358)	(2,393)	-1.4%
PPOP	1,037	913	903	14.8%	13.6%	3,893	3,806	2.3%
Loan provisions	(30)	(51)	(194)	n.m.	n.m.	(163)	(650)	n.m.
Other provisions	1	(0)	(0)	n.m.	n.m.	1	(1)	n.m.
Profit before tax	**1,334**	**1,130**	**953**	**39.9%**	**18.1%**	**4,840**	**3,972**	**21.9%**
Tax	(327)	(258)	(327)	0.0%	26.6%	(1,157)	(823)	40.5%
Net profit	675	577	909	-25.7%	16.8%	2,452	2,600	-5.7%
Core net profit	**675**	**577**	**909**	**-25.7%**	**16.8%**	**2,452**	**2,600**	**-5.7%**
DPS (sen)	31.0	-	29.2	n.m.	n.m.	46.0	40.0	n.m.
EPS (sen)	59.5	50.9	80.1	-25.7%	16.8%	216.3	229.4	-5.7%

Source: Hong Leong Financial Group, MIDFR

EXHIBIT 2: SEGMENTAL BREAKDOWN

FYE Jun (RM m)	4QFY22	3QFY22	4QFY21	Yoy (%)	Qoq (%)	FY22	FY21	Yoy (%)
Commercial banking	909	778	605	50.1%	16.7%	3,336	2,735	22.0%
Investment banking	12	27	24	-48.9%	-53.1%	97	177	-45.2%
Insurance	71	72	95	-25.0%	-1.6%	315	327	-3.5%
Other operations	16	(15)	(15)	-201.0%	-200.9%	(18)	(83)	-78.8%
Associates & JVs	327	268	244	33.6%	21.8%	1,109	816	35.9%
Pretax profit	**1,334**	**1,130**	**953**	**39.9%**	**18.1%**	**4,840**	**3,972**	**21.9%**

Source: Hong Leong Financial Group, MIDFR

EXHIBIT 3: SOTP VALUATION

Companies	Shareholders' fund (RM'Mil)	As of	Equity Stake (%)	Book Value Multiple (X)	Valuation (RM'Mil)
HLB	34,621	FY23	64.4%	1.5	33,444
HLC	927	end Dec-21	81.3%	1.1	829
Insurance companies under HLA Holdings					
HLA	2,867	end Jun-21	70.0%	1.2	2,408
MSIG	3,223	end Jun-21	30.0%	1.2	1,160
HL MSIG Takaful	206	end Dec-21	65.0%	1.2	161
SOP Valuation					38,002
Holding company discount				29%	(11,021)
SOP Valuation after holding company discount					26,982
No of shares (Mil)					1,148
Target Price (TP)					**23.51**

Source: Hong Leong Financial Group, MIDFR

INVESTMENT STATISTICS

FYE Jun (RM m)	FY20	FY21	FY22	FY23F	FY24F
Net interest income	**2,971**	**3,559**	**3,857**	**4,090**	**4,441**
Islamic banking income	847	919	905	994	1,024
Other operating income	1,440	1,720	1,490	1,778	1,881
Total income	**5,258**	**6,199**	**6,252**	**6,863**	**7,346**
PPOP	2,898	3,806	3,893	4,159	4,467
Pretax profit	3,300	3,972	4,840	4,873	5,240
Net profit	1,858	2,265	2,452	2,769	2,977
Core Net profit	**1,858**	**2,265**	**2,452**	**2,769**	**2,977**
Core EPS (sen)	163.8	199.8	216.3	244.2	262.6
Gross DPS (sen)	38.0	40.0	46.0	56.2	60.4
Dividend yield (%)	2.0	2.1	2.4	2.9	3.1

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (197501002077(23878 – X)).
(Bank Pelaburan)
(A Participating Organisation of Bursa Malaysia Securities Berhad)

DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (197501002077 (23878 – X)) for distribution to and use by its clients to the extent permitted by applicable law or regulation.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that MIDF Investment believes are reliable at the time of publication. All information, opinions and estimates contained in this report are subject to change at any time without notice. Any update to this report will be solely at the discretion of MIDF Investment.

MIDF Investment makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such. MIDF Investment and its affiliates and related companies and each of their respective directors, officers, employees, connected parties, associates and agents (collectively, "Representatives") shall not be liable for any direct, indirect or consequential loess, loss of profits and/or damages arising from the use or reliance by anyone upon this report and/or further communications given in relation to this report.

This report is not, and should not at any time be construed as, an offer, invitation or solicitation to buy or sell any securities, investments or financial instruments. The price or value of such securities, investments or financial instruments may rise or fall. Further, the analyses contained herein are based on numerous assumptions. This report does not take into account the specific investment objectives, the financial situation, risk profile and the particular needs of any person who may receive or read this report. You should therefore independently evaluate the information contained in this report and seek financial, legal and other advice regarding the appropriateness of any transaction in securities, investments or financial instruments mentioned or the strategies discussed or recommended in this report.

The Representatives may have interest in any of the securities, investments or financial instruments and may provide services or products to any company and affiliates of such companies mentioned herein and may benefit from the information herein.

This document may not be reproduced, copied, distributed or republished in whole or in part in any form or for any purpose without MIDF Investment's prior written consent. This report is not directed or intended for distribution to or use by any person or entity where such distribution or use would be contrary to any applicable law or regulation in any jurisdiction concerning the person or entity.

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 *rise* 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 *fall* 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.
ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell	
☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology