Hong Leong Financial Group Berhad

(1082 | HLFG MK) Financial Services | Finance

Maintain BUY

HLB presses onward

***Revised* Target Price: RM23.69**

(Previously RM23.51)

KEY INVESTMENT HIGHLIGHTS

- **Earnings were within our expectations**
- **Maintaining our earnings forecast for now**
- **HLB continued to provide strong contributions, offsetting HLA's and HLC's weaker performance**
- **HLA continues to disappoint, suffering from lower life fund surplus**
- **Note that HLC did see sequential quarter improvement**
- **Maintain BUY call with upgraded TP of RM23.69 as we update our SOTP valuation parameters**

Within our and consensus expectations. HLFG's 1QFY23 core net profit of RM682m made up 25% of our and consensus full-year forecasts respectively. As before, strong contributions from HLB offset poorer contributions from both HLC and HLA.

HLB. HLB reported +8%qoq growth in quarterly earnings, as result of lower tax expenses offsetting weaker BOCD contributions. Improvements in NIM and subsequently NII helped offset the weaker quarterly NOII, which was dragged by poorer non-fee income.

Loan growth continues to be solid, with HLB checking in gross loan growth of +9%yoy, driven by its foreign segments, SME and transport vehicle loans. Unfortunately, its BOCD contributions fell by -14%qoq, as the city of Chengdu was subject to lockdowns. Nevertheless, its outlook remains intact – BOCD is expected to register +30% PAT growth in CY22.

HLA. HLA reported a PBT of RM68m (-24%qoq), mainly due to lower life fund surplus of RM0.2m, higher OPEX of RM13.5m and lower associate contributions of RM7.5m.

Its PBT fell by -38%, attributable to lower life fund surplus of RM17m, and lower associate share of RM14.5m as well as higher OPEX.

HLC. HLC reported a PBT of RM20.8m for the quarter (+68%qoq) due to higher contributions from investment holding, investment banking and stockbroking divisions. PBT fell -44%yoy as it experienced lower contribution across all operating divisions.

No dividend announced. HLFG typically divvies in the 2nd and 4th quarter. 20% payout expected.

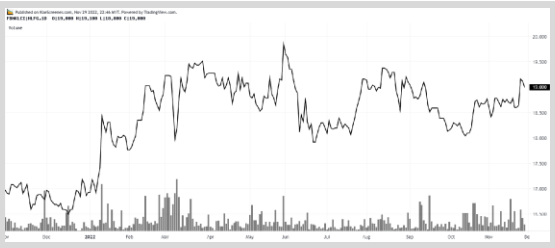
Earnings maintained. We make no changes to our earnings forecast.

Valuation and recommendation. We are optimistic on HLFG's long-term prospects for several reasons, mainly premised on HLB's strong growth prospects.

Thus, we maintain our **BUY** with a higher **TP of RM23.69**, as we update our SOTP valuation parameters.

RETURN STATISTICS	
Price @ 29 November 2022 (RM)	19.00
Expected share price return (%)	+24.7
Expected dividend yield (%)	+2.8
Expected total return (%)	**+27.5**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	0.6	-2.0
3 months	3.6	-1.1
12 months	10.9	12.8

KEY STATISTICS	
FBM KLCI	1,467.26
Syariah compliant	No
F4GBM Index	Yes
ESG Grading Band (Star rating)	☆☆
Issue shares (m)	1133.95
Estimated free float (%)	16.12
Market Capitalisation (RM'm)	21,897.07
52-wk price range	RM16.9 - RM20.3
Beta vs FBM KLCI (x)	0.88
3-mth average daily volume (m)	0.23
3-mth average daily value (RM'm)	4.32
Top Shareholders (%)	
Hong Leong Co Malaysia Bhd	52.04
Guoco Group Ltd	25.42
Employees Provident Fund Board	3.07

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

EXHIBIT 1: QUARTERLY RESULTS

FYE Jun (RM m)	1QFY23	4QFY22	1QFY22	Yoy (%)	Qoq (%)	3MFY23	3MFY22	Yoy (%)
Net interest income	1,012	950	953	6%	7%	1,012	953	6%
Islamic banking income	252	239	208	21%	5%	252	208	21%
Other operating income	382	456	398	-4%	-16%	382	398	-4%
Net income	**1,645**	**1,645**	**1,559**	**6%**	**0%**	**1,645**	**1,559**	**6%**
OPEX	(621)	(608)	(579)	7%	2%	(621)	(579)	7%
PPOP	**1,024**	**1,037**	**980**	**4%**	**-1%**	**1,024**	**980**	**4%**
Loan provisions	(37)	(30)	(49)	n.m.	n.m.	(37)	(49)	n.m.
Other provisions	0	1	0	82%	-37%	0	0	82%
Profit before tax	**1,262**	**1,334**	**1,174**	**7%**	**-5%**	**1,262**	**1,174**	**7%**
Tax	(223)	(327)	(210)	6%	-32%	(223)	(210)	6%
Reported net profit	**682**	**675**	**641**	**6%**	**1%**	**682**	**641**	**6%**
Core net profit	**682**	**675**	**641**	**6%**	**1%**	**682**	**641**	**6%**
DPS (sen)	**-**	**31.0**	**-**	**n.m.**	**n.m.**	**-**	**-**	**n.m.**
EPS (sen)	**60.1**	**59.5**	**56.5**	**6%**	**1%**	**60.1**	**56.5**	**6%**

Source: HLFG, MIDFR

EXHIBIT 2: QUARTERLY FINANCIAL RATIOS

Financial Ratios (%)	1QFY23	4QFY22	1QFY22	Yoy (+/- ppts)	QoQ (+/- ppts)	3MFY23	3MFY22	Yoy (+/- ppts)
Commercial banking	922	909	824	12%	1%	922	824	12%
Investment banking	21	12	37	-44%	67%	21	37	-44%
Insurance	57	71	84	-32%	-19%	57	84	-32%
Other operations	(13)	16	(13)	n.m.	n.m.	(13)	(13)	n.m.
Associates & JVs	275	327	243	13%	-16%	275	243	13%
Profit before tax	**1,262**	**1,334**	**1,174**	**7%**	**-5%**	**1,262**	**1,174**	**7%**

Source: HLFG, MIDFR

EXHIBIT 3: SOTP VALUATION

Companies	Shs' fund (RM mil)	As of	Equity stake (%)	BV (X)	Valuation (RM mil)	Comment
HLB	34,620	FY23	64%	1.45	32,328	FY24 ROE of 12.6%
HLC	945	end Jun-22	70%	1.0	665	1x book value
HLA Holdings components						
HLA (Embedded value)	3,259	end Jun-22	70%	1.0	2,281	1x Embedded value
MSIG	3,039	end Jun-22	30%	1.5	1,368	In line with peers
HL MSIG Takaful	209	end Jun-22	65%	1.0	136	1x book value
					36,778	
(-) Holding co net debt		end Jun-22			(2,794)	
Total sum-of-parts					**33,984**	
No of shares (mil)					1,148	
Fair value (RM)					29.62	
Holding co discount					20%	
Target price (RM)					**23.69**	

INVESTMENT STATISTICS

INCOME STATEMENT

FYE Jun (RM m)	FY21	FY22	FY23F	FY24F	FY25F
Interest income	5,795	5,944	7,542	8,526	9,177
Interest expense	(2,236)	(2,087)	(3,429)	(4,136)	(4,511)
Net interest income	**3,559**	**3,857**	**4,113**	**4,390**	**4,666**
Islamic banking income	919	905	1,003	1,107	1,178
Other operating income	1,720	1,490	1,490	1,577	1,668
Total income	**6,199**	**6,252**	**6,606**	**7,074**	**7,512**
OPEX	(2,393)	(2,358)	(2,603)	(2,773)	(2,945)
PPOP	**3,806**	**3,893**	**4,003**	**4,301**	**4,567**
Loan allowances	(650)	(163)	(173)	(184)	(193)
Other allowances	(1)	1	(0)	(0)	(0)
JV & Associates	816	1,109	1,157	1,254	1,290
Pretax profit	**3,972**	**4,840**	**4,987**	**5,371**	**5,664**
Taxation and zakat	(595)	(1,157)	(854)	(928)	(1,012)
NCI	(1,111)	(1,231)	(1,364)	(1,466)	(1,535)
Reported net profit	**2,265**	**2,452**	**2,769**	**2,977**	**3,117**
Core net profit	**2,265**	**2,452**	**2,769**	**2,977**	**3,117**

BALANCE SHEET

FYE Jun (RM m)	FY21	FY22	FY23F	FY24F	FY25F
Cash and ST funds	14,121	10,907	10,388	10,641	10,855
Investment securities	88,534	90,532	94,753	101,914	109,781
Net loans	154,779	167,177	177,806	188,610	196,283
Other IEAs	-	-	-	-	-
Non-IEAs	15,846	18,304	20,536	22,014	23,505
Total assets	**273,280**	**286,921**	**303,483**	**323,179**	**340,423**
Customer & bank deposits	197,093	208,281	221,829	233,853	243,053
Other IBLs	4,608	8,548	8,446	10,025	12,071
Non-IBLs	37,645	34,103	28,215	31,614	32,305
Total liabilities	**239,347**	**250,931**	**258,489**	**275,492**	**287,429**
Share capital	2,267	2,267	2,267	2,267	2,267
Reserves & retained profit	20,790	22,245	28,309	30,125	33,703
Treasury shares	(239)	(236)	(236)	(236)	(236)
Shareholders' funds	**22,818**	**24,276**	**30,340**	**32,156**	**35,734**
NCI	11,115	11,714	14,654	15,531	17,260
Total equity	**33,933**	**35,990**	**44,994**	**47,688**	**52,994**
Total liabilities & equity	**273,280**	**286,921**	**303,483**	**323,179**	**340,423**

VALUATION METRICS

FYE Jun (RM m)	FY21	FY22	FY23F	FY24F	FY25F
Valuation metrics					
Core EPS (sen)	199.8	216.3	244.2	262.5	274.9
Gross DPS (sen)	40.0	46.0	48.8	52.5	55.0
Div payout ratio (%)	20.0	21.3	20.0	20.0	20.0
BVPS (RM)	20.1	21.4	26.8	28.4	31.5
Core P/E (x)	9.5	8.8	7.8	7.2	6.9
Dividend yield (%)	2.1	2.4	2.6	2.8	2.9
P/BV (x)	0.9	0.9	0.7	0.7	0.6

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