Hong Leong Financial Group Berhad

(1082 | HLFG MK) Financial Services | Finance

***Maintain* BUY**

Commercial division carries 1HFY23 performance

***Revised* Target Price: RM24.79**

(Previously RM23.69)

KEY INVESTMENT HIGHLIGHTS

- **1HFY23's CNP was Within expectations**
- **As expected, HLA and HLC report weak contributions – at least their recovery prospects look better at this period**
- **HLB saw strong growth, largely to do with its BOCD stake and recovery in topline**
- **Going forward, we expect HLC to recover further in light of improving market conditions, while HLB might see some margin compression from rampant deposit competition**

1HFY23's CNP of RM1.4b was *Within/Within* our/consensus forecasts: *50%/50%* of full-year forecasts. 1HFY23 CNP rose by +21%, largely to reflect higher contributions from commercial banking divisions. Unsurprisingly earnings from the HLA and HLC declined by -4% and -38% respectively – though performance from the subsidiaries should see more improvement as market conditions continue to improve.

HLB. HLB's 1HFY23 CNP of RM2.0b grew by +27%yoy, driven by improved topline and BOCD contributions, as well as lower tax expenses. While facing NIM compression in the following FY24, HLB seems poised to perform well through NOII improvements and higher BOCD contributions. BOCD's contribution, in particular, rose by +36%yoy.

HLA. HLA reported a 1HFY23 PBT of RM208m, -4.1%yoy. Due to a lower life fund surplus of RM31m and associated company contributions, as well as higher OPEX expenses.

HLC. HLC reported a 1HFY23 PBT of RM35m, -38%qoq. Due to lower contributions from investment banking & stockbroking, as well as fund management & unit trust management divisions.

Key downside risks. (1) Above-expected OPEX, (2) Failure of fee income to recover, (3) lower fund surplus.

Forecasts revised: 24F CNP adjusted by +1%. To reflect the higher contribution from HL Bank.

Maintain BUY call: Revised SOTP-TP of RM24.79 *(from RM23.69).* Our SOTP-TP is raised as we upgrade our TP for HLB to RM24.90 (FY24 P/BV of 1.45x, ROE: 12.6%).

RETURN STATISTICS	
Price @ 28 February 2023 (RM)	18.22
Expected share price return (%)	+36.1
Expected dividend yield (%)	+2.9
Expected total return (%)	**+38.9**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-4.9	-3.4
3 months	-3.1	-5.9
12 months	-7.6	0.4

KEY STATISTICS	
FBM KLCI	1,454.19
Syariah compliant	No
F4GBM Index	Yes
ESG Grading Band (Star rating)	☆☆
Issue shares (m)	1,133.95
Estimated free float (%)	16.13
Market Capitalisation (RM m)	20,637.30
52-wk price range	RM17.9 - RM20.3
Beta vs FBM KLCI (x)	0.80
3-mth average daily volume (m)	0.28
The 3-mth average daily value (RM	5.13
Top Shareholders (%)	
Hong Leong Co Malaysia Bhd	52.08
Guoco Group Ltd	25.42
Employees Provident Fund Board	3.07

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Exhibit 1: Quarterly results

FYE Jun (RM m)	2Q FY23	1Q FY23	2Q FY22	Yoy (%)	Qoq (%)	1H FY23	1H FY22	Yoy (%)
Net interest inc.	980	1,012	986	-1	-3	1,991	1,938	3
Islamic banking inc.	273	252	233	17	9	525	441	19
Non-interest inc.	451	382	326	38	18	833	724	15
Net income	**1,704**	**1,645**	**1,544**	**10**	**4**	**3,349**	**3,104**	**8**
OPEX	(629)	(621)	(581)	8	1	(1,250)	(1,161)	8
PPOP	**1,075**	**1,024**	**963**	**12**	**5**	**2,099**	**1,943**	**8**
Loan provisions	(25)	(37)	(33)	-24	-33	(63)	(82)	-23
Other provisions	(1)	0	0	-326	-383	(1)	1	n.m.
JV & Associates	387	275	271	n.m.	n.m.	662	514	29
PBT	**1,435**	**1,262**	**1,202**	**19**	**14**	**2,698**	**2,376**	**14**
Tax	(275)	(223)	(363)	-24	23	(498)	(573)	-13
NCI	(390)	(357)	(279)	40	9	(747)	(603)	24
Reported NP	**771**	**682**	**559**	**38**	**13**	**1,452**	**1,200**	**21**
Core NP	**771**	**682**	**559**	**38**	**13**	**1,452**	**1,200**	**21**
Segments								
Commercial banking	914	922	825	11	-1	1,837	1,649	11
Investment banking	15	21	21	-28	-26	36	58	-38
Insurance	127	57	88	44	120	184	172	7
Other operations	(8)	(13)	(4)	73	-44	(21)	(18)	18
Associates & JVs	387	275	271	43	41	662	514	29
PBT	**1,436**	**1,262**	**1,202**	**19**	**14**	**2,698**	**2,376**	**14**

Ratios	2Q FY23	1Q FY23	2Q FY22	Yoy (ppts)	QoQ (ppts)	1H FY23	1H FY22	Yoy (ppts)
Gross DPS (sen)	**17.0**	**-**	**15.0**	***n.m.***	***n.m.***	**17.0**	**15.0**	***n.m.***
Core EPS (sen)	68.0	60.1	49.3	37.7	13.0	128.1	105.8	21.0
Cost/Income (%)	36.9	37.8	37.6	(0.7)	(0.8)	37.3	37.4	(0.1)

Source: Hong Leong Financial Group, MIDFR

Exhibit 2: SOTP valuation

Companies	Shs' fund (RM mil)	As of	Equity stake (%)	BV (X)	Valuation (RM mil)	Comments
HLB	**35,194**	**FY24**	**64%**	**1.45**	**32,864**	**FY24 ROE of 12.6%**
HLC	**915**	**end Sep-22**	**70%**	**1.0**	**644**	**1x Book value**
HLA (Components)					**3,785**	
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
(-) HLFG net debt		**end Dec-22**			**(2,152)**	
Total sum-of-parts					**35,141**	
(÷) HLFG share cap (mil)					1,134	
Fair value (RM)					**30.99**	
(-) Holding co. discount					20%	
Target price (RM)					**24.79**	

Source: Hong Leong Financial Group, MIDFR

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 inc.	919	905	1,003	1,107	1,178
Other operating inc.	1,720	1,490	1,490	1,630	1,725
Net income	**6,199**	**6,252**	**6,606**	**7,127**	**7,568**
OPEX	(2,393)	(2,358)	(2,603)	(2,794)	(2,967)
PPOP	**3,806**	**3,893**	**4,003**	**4,333**	**4,601**
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
PBT	**3,972**	**4,840**	**4,987**	**5,403**	**5,699**
Tax & zakat	(595)	(1,157)	(854)	(928)	(1,012)
NCI	(1,111)	(1,231)	(1,364)	(1,477)	(1,547)
Reported NP	**2,265**	**2,452**	**2,769**	**2,999**	**3,140**
Core NP	**2,265**	**2,452**	**2,769**	**2,999**	**3,140**

BALANCE SHEET

FYE Jun (RM m)	FY21	FY22	FY23F	FY24F	FY25F
Cash & 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
Others	15,846	18,304	20,536	22,014	23,505
Total assets	**273,280**	**286,921**	**303,483**	**323,179**	**340,423**
Cust. & FI deposits	197,093	208,281	221,829	233,853	243,053
Others	42,253	42,650	36,661	41,639	44,376
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	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 L&E	**273,280**	**286,921**	**303,483**	**323,179**	**340,423**

Source: Hong Leong Financial Group, MIDFR

FINANCIAL RATIOS

FYE Jun (RM m)	FY21	FY22	FY23F	FY24F	FY25F
Profitability (%)					
ROE	**10.4**	**10.4**	**10.1**	**9.6**	**0.0**
ROA	0.9	0.9	0.9	1.0	0.0
Effective tax rate	15.0	23.9	17.1	17.2	17.8
Cost/Income ratio	38.6	37.7	39.4	39.2	39.2
Capital (%)					
CET 1	11.7	11.8	11.7	11.7	11.6
Tier 1 capital	12.6	13.0	13.0	13.0	12.9
Total capital	15.5	15.9	15.9	15.9	15.8
Growth (%)					
Net income	(0.4)	17.9	0.8	5.7	7.9
OPEX	(0.9)	1.4	(1.4)	10.4	7.3
Core NP	(3.2)	22.0	8.3	12.9	8.3
Valuation metrics					
Core EPS (sen)	199.8	216.3	244.2	264.5	276.9
Gross DPS (sen)	40.0	46.0	48.8	52.9	55.4
Div payout ratio (%)	20	21	20	20	20
BVPS (RM)	20.1	21.4	26.8	28.4	31.5
Core P/E (x)	9.1	8.4	7.5	6.9	6.6
Dividend yield (%)	**2.2**	**2.5**	**2.7**	**2.9**	**3.0**
P/BV (x)	0.9	0.9	0.7	0.6	0.6

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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 *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