Hong Leong Financial Group Berhad

(1082 | HLFG MK) Financial Services | Finance

3QFY23 Results

***Maintain* BUY**

***Revised* Target Price: RM22.79**

(Previously RM24.79)

KEY INVESTMENT HIGHLIGHTS

- **9MFY23's Core NP of RM2,165m was *Within*/*Within* our/street forecasts: *78%*/*77%* of full year forecasts**
- **FY25F Core NP adjusted by +2%.**
- **Maintain BUY | Revised TP of RM22.79 | based on SOTP valuation**

Softer quarter but expected. 3QFY22's Core net profit (NP) fell by -8%qoq. In terms of business segments, the only segment which performed better was investment banking (which has small contribution anyway), improving +7%qoq – the rest fell.

9MFY22's Core NP was a lot more positive. It rose by +22%yoy, with higher contributions from commercial banking, insurance and BOCD were core drivers – this was lightly offset by weaker investment banking incomes.

HLBK saw good growth. HLBK reported growth of +24%yoy for 9MFY23 – despite NIM compression, it has demonstrated great improvement in BOCD contribution level and NOII while likely to sustain strong loan growth rates in future. Loan growth remains strong +7.2%yoy and CIR remains the second best in industry.

HLA demonstrates recovery, while HLCB still flounders. HLA's 9MFY23 PBT grew by +17%yoy, mainly due to higher topline offsetting increases in OPEX and lower life fund surplus.

HLCB's 9MFY23 PBT fell by -38%yoy as market conditions remained poor. There was lower contribution from investment banking and stockbroking, as well as fund management divisions.

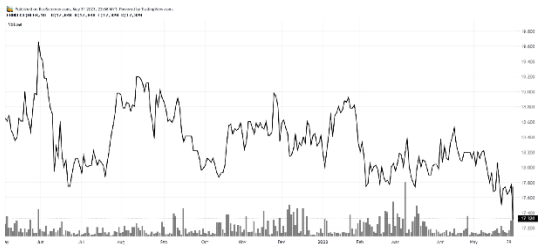
Forecasts revised: FY25F Core NP adjusted by +2%. To factor in stronger wealth management contributions to HLBK.

Key downside risks. *(1) Poor macroeconomic outlook dents HLA's earnings prospects, (2) Cost unable to be contained, (3) Lack of recovery in stockbroking income.*

Maintain BUY call: Revised SOTP-TP of RM22.79 ***(from RM24.79).*** Our SOTP-TP is lower as we use a lower P/BV for our TP valuation for HLB (FY24 P/BV of 1.37x).

RETURN STATISTICS	
Price @ 31 May 2023 (RM)	17.32
Expected share price return (%)	+31.6
Expected dividend yield (%)	+3.1
Expected total return (%)	**+34.6**

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-3.3	-2.9
3 months	-2.1	0.7
12 months	-8.2	0.0

INVESTMENT STATISTICS

FYE Jun	FY23F	FY24F	FY25F
Core NP (RM m)	**2,769**	**2,999**	**3,201**
CNP growth (%)	8	13	8
Div yield (%)	**0.6**	**0.6**	**0.5**
Gross DPS (sen)	48.8	52.9	56.5
P/BV (x)	**0.6**	**0.6**	**0.5**
BVPS (RM)	26.8	28.4	31.5
ROE (%)	**10.1**	**9.6**	**0.0**
MIDF/Street CNP (%)	**99**	**99**	**98**

KEY STATISTICS

FBM KLCI	1,387.12
Issue shares (m)	16.1
Estimated free float (%)	20,202.1
Market Capitalisation (RM'm)	RM17.5 - RM20.1
52-wk price range	0.3
3-mth avg daily volume (m)	4.7
3-mth avg daily value (RM'm)	
Top Shareholders (%)	52.1
Hong Leong Co Malaysia Bhd	25.4
Guoco Group Ltd	3.1
EPF Board	1,133.9

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Fig 1: Quarterly results

FYE Jun (RM m)	3Q FY23	2Q FY23	3Q FY22	Yoy (%)	Qoq (%)	9M FY23	9M FY22	Yoy (%)
Net interest inc.	876	980	968	-10	-11	2,868	2,907	-1
Islamic banking inc.	209	273	224	-7	-24	734	665	10
Non-interest inc.	529	451	310	71	17	1,362	1,034	32
Net income	**1,615**	**1,704**	**1,503**	**7**	**-5**	**4,964**	**4,606**	**8**
OPEX	(644)	(629)	(590)	9	2	(1,894)	(1,750)	8
PPOP	**971**	**1,075**	**913**	**6**	**-10**	**3,070**	**2,856**	**7**
Loan provisions	(38)	(25)	(51)	-25	51	(101)	(133)	-24
Other provisions	0	(1)	(0)	-195	-113	(1)	0	n.m.
JV & Associates	341	387	268	n.m.	n.m.	1,003	782	28
PBT	**1,274**	**1,435**	**1,130**	**13**	**-11**	**3,971**	**3,506**	**13**
Tax	(210)	(275)	(258)	-19	-24	(708)	(831)	-15
NCI	(351)	(390)	(294)	19	-10	(1,099)	(898)	22
Reported NP	**712**	**771**	**577**	**23**	**-8**	**2,165**	**1,778**	**22**
Core NP	**712**	**771**	**577**	**23**	**-8**	**2,165**	**1,778**	**22**
Segments								
Commercial banking	799	914	778	3	-13	2,635	2,428	9
Investment banking	16	15	27	-38	7	53	85	-38
Insurance	120	127	72	67	-5	304	244	25
Other operations	(3)	(8)	(15)	-80	-58	(24)	(33)	-28
Associates & JVs	341	387	268	27	-12	1,003	782	28
PBT	**1,274**	**1,436**	**1,130**	**13**	**-11**	**3,972**	**3,506**	**13**

Ratios	3Q FY23	2Q FY23	3Q FY22	Yoy (ppts)	Qoq (ppts)	9M FY23	9M FY22	Yoy (ppts)
Gross DPS (sen)	**-**	**17.0**	**-**	***n.m.***	***n.m.***	**17.0**	**15.0**	***n.m.***
Core EPS (sen)	62.8	68.0	50.9	23.4	-7.6	190.9	156.8	21.8
Cost/Income (%)	39.9	36.9	39.2	0.7	3.0	38.2	38.0	0.2

Source: Hong Leong Financial Group, MIDFR

Fig 2: SOTP valuation

Companies	Shs' fund (RM mil)	As of	Equity stake (%)	BV (X)	Valuation (RM mil)	Comments
HLB	**33,931**	**FY24**	**64%**	**1.37**	**29,937**	**FY24F ROE of 11.9%**
HLC	**956**	**end Mar-23**	**70%**	**1.0**	**673**	**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 Dec-22	65%	1.0	136	1x Book value
(-) HLFG net debt		**end Mar-23**			**(2,089)**	
Total sum-of-parts					**32,305**	
(÷) HLFG share cap (mil)					1,134	
Fair value (RM)					**28.49**	
(-) Holding co. discount					20%	
Target price (RM)					**22.79**	

Source: Hong Leong Financial Group, MIDFR

FINANCIAL SUMMARY

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	1,875
Net income	**6,199**	**6,252**	**6,606**	**7,127**	**7,718**
OPEX	(2,393)	(2,358)	(2,603)	(2,794)	(3,026)
PPOP	**3,806**	**3,893**	**4,003**	**4,333**	**4,693**
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**	**5,790**
Tax & zakat	(595)	(1,157)	(854)	(928)	(1,012)
NCI	(1,111)	(1,231)	(1,364)	(1,477)	(1,577)
Reported NP	**2,265**	**2,452**	**2,769**	**2,999**	**3,201**
Core NP	**2,265**	**2,452**	**2,769**	**2,999**	**3,201**

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**
Customer deposits	181,769	197,383	210,288	221,606	230,031
Others	57,578	53,548	48,201	53,886	57,398
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**

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	17.5
Cost/Income	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	282.3
Gross DPS (sen)	40.0	46.0	48.8	52.9	56.5
Div payout (%)	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	6.5
Div yield (%)	**2.2**	**2.5**	**2.7**	**2.9**	**3.1**
P/BV (x)	0.9	0.9	0.7	0.6	0.6

Source: Hong Leong Financial Group, 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 *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