# Hong Leong Financial Group Berhad

(1082 | HLFG MK) Financial Services | Finance

**1QFY25 Results: Twin Engines Running**

***Maintain* BUY**

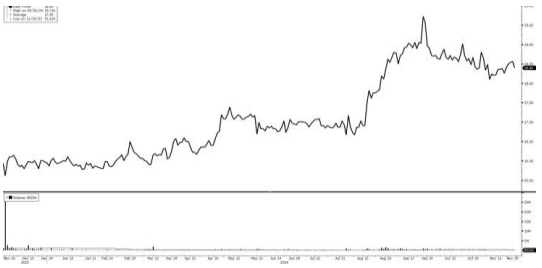
***Unchanged* Target Price: RM23.13**

## KEY INVESTMENT HIGHLIGHTS

- **3MFY25's Core NP of RM848m was *Within/Within* our/street forecasts: *26%/27%* of full-year forecasts**
- **Core themes: (a) Solid Banking contributions, (b) Continuing improvement HLA performance, (c) Weakness in HLC performance**
- **Forecasts unchanged**
- **Maintain BUY | Unchanged TP of RM23.13 | based on SOTP Valuation**

| RETURN STATISTICS | |
|---|---|
| Price @ 28 November 2024 (RM) | 18.40 |
| Expected share price return (%) | +25.7 |
| Expected dividend yield (%) | +3.1 |
| **Expected total return (%)** | **+28.8** |

**SHARE PRICE CHART**



| Price performance (%) | Absolute | Relative |
|---|---|---|
| 1 month | -3.2 | -2.4 |
| 3 months | -4.8 | 4.1 |
| 12 months | 11.2 | 0.8 |

**INVESTMENT STATISTICS**

| FYE Jun | FY25F | FY26F | FY27F |
|---|---|---|---|
| **Core NP (RM m)** | **3,263** | **3,545** | **3,809** |
| CNP growth (%) | 2 | 9 | 7 |
| **Div yield (%)** | **0.6** | **0.6** | **0.5** |
| Gross DPS (sen) | 57.5 | 62.5 | 67.2 |
| **P/BV (x)** | **0.6** | **0.6** | **0.5** |
| BVPS (RM) | 28.8 | 31.3 | 34.0 |
| **ROE (%)** | **10.4** | **10.4** | **10.3** |
| **MIDF/Street CNP (%)** | **103** | **106** | |

| KEY STATISTICS | |
|---|---|
| FBM KLCI | 1,597.49 |
| Issue shares (m) | 1134.26 |
| Estimated free float (%) | 15.84 |
| Market Capitalisation (RM'm) | 21,072.49 |
| 52-wk price range | RM16.0 - RM20.1 |
| 3-mth avg daily volume (m) | 0.35 |
| 3-mth avg daily value (RM'm) | 6.67 |
| Top Shareholders (%) | |
| Hong Leong Co Malaysia Bhd | 52.04 |
| Guoco Group Ltd | 25.42 |
| EPF Board | 4.61 |

**Results in a nutshell:**

▲ **3MFY25's Core net profit (NP) of RM848m up by +14%yoy.** Driven by higher contributions from banking and insurance divisions.

▲ **1QFY25's Core NP of RM848m up by +5%qoq.**

On a segmental basis,

▲ **HLBK posted core NP of RM848m, up by +5%qoq and +6%yoy.** Driven by strong net income growth with both NII and NOII expansion. NII grew +10.5%yoy to RM1.24b. This was due to NIM expansion of +8bps on the back of strong CASA growth. Robust yearly gross loans growth was also a factor.

Meanwhile, wealth management business and GM franchise sales gained traction and drove NOII increase. These grew +32.4%yoy to RM74.2m and +60.3%yoy to RM105.2m.

▲ **HLA reported 1QFY25 PBT of RM237m, up from last quarter's RM153m by +55%qoq.** Driven mainly by higher insurance service income of RM87.7m and higher insurance/reinsurance finance income & others of RM21.7m. This was offset by lower investment income of RM67.4m and lower share of profit from associated company of RM9.3m.

▲ **HLA reported 3MFY25 PBT of RM237m, up from last year's RM98m by +142%yoy.** Driven by higher investment income of RM343.0m and higher insurance service income of RM62.9m. However, this was offset by higher insurance/reinsurance finance expenses & others of RM262.7m and lower share of profit from associated company of RM3.8m.

▼ **HLC reported 1QFY25 PBT of RM22m, up from last quarter's RM48m by -55%qoq.** All operating divisions saw a lower contribution.

▼ **HLC reported 3MFY25 PBT of RM22m, down from last year's RM27m by -19%yoy.** This was attributed to lower NOII earned from the Investment Banking division.

**Forecasts unchanged.**

***Key downside risks.*** *(1) Weaker associate contributions, (2) NIM compression, (3) Steep cost inflation persists.*

**Maintain BUY call: Unchanged SOTP-TP of RM 23.13.**

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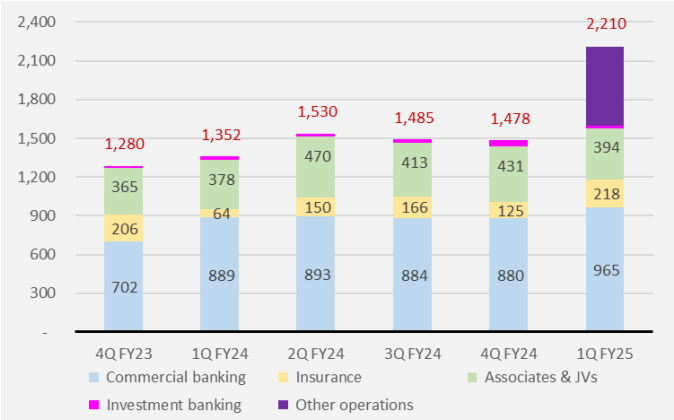
**Fig 1: SOTP Valuation**

| Companies | Shs' fund (RM mil) | As of | Equity stake (%) | BV (X) | Valuation (RM mil) | Comments |
|---|---|---|---|---|---|---|
| **HLBK** | **40,210** | **FY25** | **64%** | **1.16** | **30,038** | **FY25F ROE of 11.6%** |
| **HLC** | **995** | **end Sept-24** | **70%** | **1.0** | **700** | **1x Book value** |
| **HLA (Components)** | | | | | **4,272** | |
| HLA (Embedded value) | 4,267 | end Jun-24 | 70% | 1.0 | 2,987 | 1x Embedded value |
| MSIG | 3,189 | end Jun-24 | 30% | 1.2 | 1,148 | In line with peers |
| HL MSIG Takaful | 211 | end Jun-24 | 65% | 1.0 | 137 | 1x Book value |
| **(-) HLFG net debt** | | **end Sept-24** | | | **81** | |
| | | | | | | |
| **Total sum-of-parts** | | | | | **35,092** | |
| (÷) HLFG share cap (mil) | | | | | 1,134 | |
| | | | | | | |
| **Fair value (RM)** | | | | | **30.94** | |
| (-) Holding co. discount | | | | | 25% | |
| **Target price (RM)** | | | | | **23.13** | |

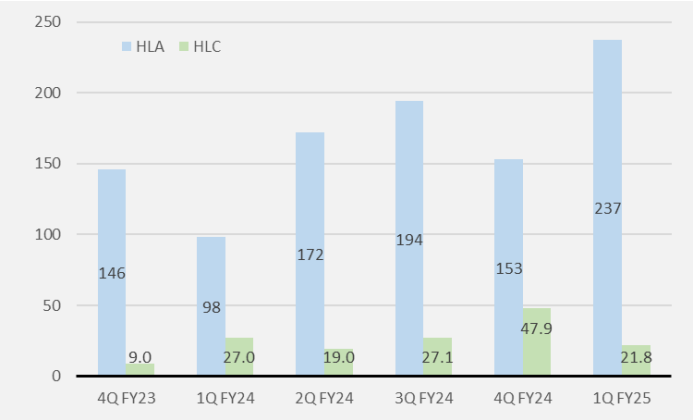
*Source: Hong Leong Financial Group, MIDFR*

**Fig 2: PBT by segment (Quarterly)**




*Source: Hong Leong Financial Group, MIDFR*

**Fig 3: HLA & HLC's PBT (Quarterly)**




*Source: Hong Leong Financial Group, MIDFR*

## Fig 4: Quarterly results

| FYE Jun (RM m) | 1Q FY25 | 4Q FY24 | 1Q FY24 | Yoy (%) | Qoq (%) | 3M FY25 | 3M FY24 | Yoy (%) |
|---|---|---|---|---|---|---|---|---|
| Net interest inc. | 1,036 | 1,007 | 948 | *9* | *3* | 1,036 | 948 | *9* |
| Islamic banking inc. | 288 | 260 | 230 | *25* | *11* | 288 | 230 | *25* |
| Non-interest inc. | 568 | 458 | 387 | *47* | *24* | 568 | 387 | *47* |
| **Net income** | **1,892** | **1,725** | **1,565** | ***21*** | ***10*** | **1,892** | **1,565** | ***21*** |
| OPEX | (691) | (709) | (641) | *8* | *-3* | (691) | (641) | *8* |
| **PPOP** | **1,201** | **1,016** | **924** | ***30*** | ***18*** | **1,201** | **924** | ***30*** |
| Loan provisions | (7) | 31 | 51 | *-114* | *-123* | (7) | 51 | *-114* |
| Other provisions | (0) | (0) | (0) | *n.m.* | *n.m.* | (0) | (0) | *n.m.* |
| JV & Associates | 394 | 431 | 378 | *4* | *-9* | 394 | 378 | *4* |
| **PBT** | **1,587** | **1,478** | **1,352** | ***17*** | ***7*** | **1,587** | **1,352** | ***17*** |
| Tax | (318) | (274) | (237) | *34* | *16* | (318) | (237) | *34* |
| NCI | (421) | (397) | (373) | *13* | *6* | (421) | (373) | *13* |
| **Reported NP** | **848** | **806** | **742** | ***14*** | ***5*** | **848** | **742** | ***14*** |
| **Core NP** | **848** | **806** | **742** | ***14*** | ***5*** | **848** | **742** | ***14*** |
| | | | | | | | | |
| **Segments** | | | | | | | | |
| Commercial banking | 965 | 880 | 889 | *9* | *10* | 965 | 889 | *9* |
| Investment banking | 22 | 48 | 27 | *-21* | *-55* | 22 | 27 | *-21* |
| Insurance | 218 | 125 | 64 | *241* | *75* | 218 | 64 | *241* |
| Other operations | (11) | (5) | (5) | *123* | *111* | (11) | (5) | *123* |
| Associates & JVs | 394 | 431 | 378 | *4* | *-9* | 394 | 378 | *4* |

| Ratios | 1Q FY25 | 4Q FY24 | 1Q FY24 | Yoy (ppts) | Qoq (ppts) | 3M FY25 | 3M FY24 | Yoy (ppts) |
|---|---|---|---|---|---|---|---|---|
| **Gross DPS (sen)** | **-** | **36.0** | **-** | ***n.m.*** | ***n.m.*** | **-** | **-** | ***n.m.*** |
| Core EPS (sen) | 74.7 | 71.1 | 65.4 | *14.3* | *5.2* | 74.7 | 65.4 | *14.3* |
| Cost/Income (%) | 0.4 | 0.4 | 0.4 | *(0.0)* | *(0.0)* | 0.4 | 0.4 | *(0.0)* |

*Source: Hong Leong Financial Group, MIDFR*

## FINANCIAL SUMMARY

**INCOME STATEMENT**

| FYE Jun (RM m) | FY23 | FY24 | FY25F | FY26F | FY27F |
|---|---|---|---|---|---|
| Interest income | 7,763 | 9,042 | 9,383 | 9,836 | 10,210 |
| Interest expense | (3,977) | (5,120) | (5,167) | (5,282) | (5,398) |
| **Net interest income** | **3,787** | **3,923** | **4,216** | **4,554** | **4,812** |
| Islamic banking inc. | 963 | 986 | 1,141 | 1,232 | 1,301 |
| Other operating inc. | 1,726 | 1,742 | 1,733 | 1,801 | 1,904 |
| **Net income** | **6,477** | **6,651** | **7,090** | **7,587** | **8,016** |
| OPEX | (2,479) | (2,609) | (2,807) | (2,999) | (3,163) |
| **PPOP** | **3,997** | **4,041** | **4,283** | **4,588** | **4,853** |
| Loan allowances | (115) | 114 | (201) | (215) | (229) |
| Other allowances | 0 | (1) | (0) | (0) | (0) |
| JV & Associates | 1,369 | 1,691 | 1,827 | 2,047 | 2,272 |
| **PBT** | **5,251** | **5,846** | **5,909** | **6,419** | **6,896** |
| Tax & zakat | (919) | (1,058) | (1,038) | (1,128) | (1,211) |
| NCI | (1,451) | (1,590) | (1,607) | (1,746) | (1,876) |
| **Reported NP** | **2,881** | **3,198** | **3,263** | **3,545** | **3,809** |
| **Core NP** | **2,881** | **3,198** | **3,263** | **3,545** | **3,809** |

**BALANCE SHEET**

| FYE Jun (RM m) | FY23 | FY24 | FY25F | FY26F | FY27F |
|---|---|---|---|---|---|
| Cash & ST funds | 10,928 | 9,200 | 10,028 | 10,931 | 11,915 |
| Investment securities | 99,951 | 107,424 | 108,913 | 110,619 | 112,546 |
| Net loans | 180,567 | 193,613 | 205,230 | 217,544 | 230,597 |
| Others | 23,440 | 25,968 | 32,207 | 38,667 | 45,369 |
| **Total assets** | **314,886** | **336,205** | **356,378** | **377,760** | **400,426** |
| | | | | | |
| Customer deposits | 211,467 | 220,075 | 233,280 | 247,277 | 262,113 |
| Others | 63,213 | 71,761 | 74,880 | 78,083 | 81,419 |
| **Total liabilities** | **274,681** | **291,837** | **308,159** | **325,360** | **343,532** |
| | | | | | |
| Share capital | 2,267 | 2,267 | 2,267 | 2,267 | 2,267 |
| Reserves | 25,168 | 28,054 | 30,665 | 33,501 | 36,548 |
| Treasury shares | (233) | (230) | (230) | (230) | (230) |
| **Shareholders' funds** | **27,202** | **30,091** | **32,701** | **35,538** | **38,585** |
| NCI | 13,004 | 14,278 | 15,517 | 16,863 | 18,309 |
| **Total equity** | **40,206** | **44,369** | **48,218** | **52,401** | **56,894** |
| **Total L&E** | **314,886** | **336,205** | **356,378** | **377,760** | **400,426** |

*Source: Hong Leong Financial Group, MIDFR*

**FINANCIAL RATIOS**

| FYE Jun (RM m) | FY23 | FY24 | FY25F | FY26F | FY27F |
|---|---|---|---|---|---|
| **Profitability (%)** | | | | | |
| **ROE** | **11.2** | **11.2** | **10.4** | **10.4** | **10.3** |
| ROA | 1.0 | 1.0 | 0.9 | 1.0 | 1.0 |
| Effective tax rate | 17.5 | 18.1 | 17.6 | 17.6 | 17.6 |
| Cost/Income | 38.3 | 39.2 | 39.6 | 39.5 | 39.5 |
| | | | | | |
| **Capital (%)** | | | | | |
| CET 1 | 11.0 | 11.5 | 11.6 | 11.6 | 11.6 |
| Tier 1 capital | 12.1 | 12.4 | 12.9 | 12.9 | 12.9 |
| Total capital | 14.6 | 14.3 | 15.8 | 15.8 | 15.8 |
| | | | | | |
| **Growth (%)** | | | | | |
| Net income | 3.6 | 2.7 | 6.6 | 7.0 | 5.7 |
| OPEX | 5.1 | 5.2 | 7.6 | 6.9 | 5.5 |
| Core NP | 17.5 | 11.0 | 2.1 | 8.6 | 7.4 |
| | | | | | |
| **Valuation metrics** | | | | | |
| Core EPS (sen) | 254.1 | 282.0 | 287.8 | 312.7 | 335.9 |
| Gross DPS (sen) | 49.0 | 54.0 | 57.5 | 62.5 | 67.2 |
| Div payout (%) | 19 | 19 | 20 | 20 | 20 |
| BVPS (RM) | 24.0 | 26.5 | 28.8 | 31.3 | 34.0 |
| | | | | | |
| Core P/E (x) | 7.2 | 6.5 | 6.4 | 5.9 | 5.5 |
| **Div yield (%)** | **2.7** | **2.9** | **3.1** | **3.4** | **3.7** |
| P/BV (x) | 0.8 | 0.7 | 0.6 | 0.6 | 0.5 |

| Income Statement | Balance Sheet | Valuations & Sector |
|---|---|---|
| Core NP – Core Net Profit | LCR – Liquidity Coverage ratio | ROE – Return on Equity |
| PPOP – Pre-Provisioning Operating Profit | L/D ratio – Loan/Deposit ratio | GGM – Gordon Growth Model |
| NII – Net Interest Income | CASA – Current & Savings accounts | P/BV – Price to Book Value |
| NIM – Net Interest Margin | FD – Fixed Deposits | BVPS – Book Value per Share |
| COF – Cost of Funds | GIL – Gross Impaired Loans | BNM – Bank Negara Malaysia |
| NOII – Non-Interest Income | NIL – Net Impaired Loans | OPR – Overnight Policy Rate |
| MTM – Mark to Market | LLC – Loan Loss Coverage | SRR – Statutory Reserve Requirement |
| CIR – Cost to Income Ratio | NCC – Net Credit Costs | SBR – Standardised Base Rate |
| OPEX – Operational Expenses | GCC – Gross Credit Costs | ALR – Average Lending Rate |
| | CET 1 – Common Equity Tier 1 | |

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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