Corporate Update

Hong Leong Financial Group Berhad

(1082 | HLFG MK) Main | Financial Services

4 Stars

FTSE4Good

Maintain **BUY**

Revised Target Price **RM24.70** (from RM23.13)

2QFY25 Results Review Within Expectations

Maintain BUY call: Revised SOTP-TP of RM 24.70. The revision is due to our revision of Hong Leong Bank's target price as we rollover the valuation to FY26. Given our expectation of continued performance of its banking segment, we maintain our BUY call.

6MFY25's Core net profit (NP) of RM1,687m up by +7%yoy. Driven by higher contributions from banking and insurance divisions. Meanwhile, 2QFY25's Core NP of RM839m down by -1%qoq due to weakness in all segments except the banking segment.

On a segmental basis,

HLBK posted 1HFY25's core NP of RM2,238m up by +5.7%yoy. Underpinned by robust growth in NII (+8%yoy to RM2.47b) and NOII (+31.0%yoy to RM758m). NII growth was contributed by improvement in NIMs (+6bps yoy) and robust gross loans growth. Meanwhile, NOII expansion was due to wealth management business, Global Market franchise sales and improved treasury activities.

Gross loans grew by +2.6%qoq, coming up to +7.7%yoy underpinned by expansion in mortgages, auto loans, SME and commercial banking as well as key oversea markets.

HLAH posted 1HFY25 PBT of RM394m. This was a +28.8%yoy increase, contributed by higher net insurance service results and stronger investment income. However, it was partially offsetting the lower share of profits from its associate, MSIG Insurance (Malaysia) Bhd. The stronger investment income in 1HFY25 was driven by equity fair value gains, which increased by RM37m, following heightened activities on the local bourse in Malaysia and Hong Kong in line with improved performance of the Hang Seng Index and FTSE Bursa Malaysia KLCI. In terms of gross premiums, its life insurance and family takaful's gross premiums / contribution grew by +5.1%yoy.

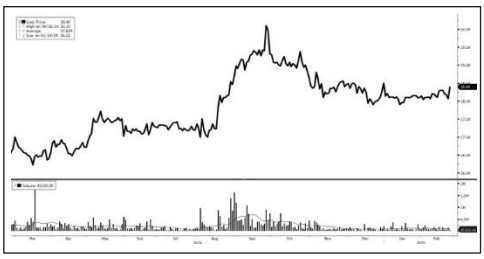
HLC recorded 1HFY25 PBT of RM41m. This was a 12.1%yoy decline, was primarily attributable to lower income from investment banking (IB) and asset management division, as well as lower returns on equity investments. Stockbroking PBT improved by +17.7%yoy which was supported by Bursa Malaysia's higher average daily trading value. IB division registered a PBT decline -45.1%yoy to RM3.9m due to lower profit contribution from our Debt Markets and Treasury & Markets.

Forecasts unchanged.

Higher dividends at 20 sen.

RETURN STATISTICS	
Price @ 26th Feb 2025 (RM)	18.40
Expected share price return (%)	+34.3
Expected dividend yield (%)	+3.1
Expected total return (%)	+37.4

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	1.3	-0.6
3months	-0.5	0.2
12 months	11.5	9.4

INVESTMENT STATISTICS

FYE Jun	2025F	2026F	2027F
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

KEY STATISTICS

FBM KLCI	1,588.71
Issue shares (m)	1,134.26
Estimated free float (%)	15.27
Market Capitalisation (RM'm)	21,072.49
52-wk price range	RM16.0 – RM20.1
3-mth average daily volume (m)	0.10
3-mth average daily value (RM'm)	1.89
Top Shareholders (%)	
Hong Leong Co Malaysia Bhd	52.0
Guoco Group Ltd	25.4
EPF	4.6

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SOTP VALUATION

Companies	Shs' fund (RM mil)	As of	Equity stake (%)	BV (X)	Valuation (RM mil)	Comments
HLBK	**43,417**	**FY26**	**64%**	**1.16**	**32,434**	**FY25F ROE of 11.6%**
HLC	**1,003**	**end Dec-24**	**70%**	**1.0**	**706**	**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 Dec-24**			**85**	
Total sum-of-parts					**37,497**	
(÷) HLFG share cap (mil)					1,134	
Fair value (RM)					**33.06**	
(-) Holding co. discount					25%	
Target price (RM)					**24.70**	

2QFY25 RESULTS SUMMARY

FYE Jun (RM m)	2Q FY25	1Q FY25	2Q FY24	Yoy (%)	Qoq (%)	1H FY25	1H FY24	Yoy (%)
Net interest inc.	1,016	1,036	976	*4*	*-2*	2,052	1,924	*7*
Islamic banking inc.	297	288	241	*23*	*3*	585	472	*24*
Non-interest inc.	542	568	444	*22*	*-5*	1,110	832	*33*
Net income	**1,855**	**1,892**	**1,662**	***12***	***-2***	**3,747**	**3,227**	***16***
OPEX	(690)	(691)	(607)	*14*	*-0*	(1,381)	(1,248)	*11*
PPOP	**1,166**	**1,201**	**1,055**	***11***	***-3***	**2,366**	**1,979**	***20***
Loan provisions	(5)	(7)	6	*-188*	*-33*	(12)	57	*-121*
Other provisions	1	(0)	0	*n.m.*	*n.m.*	1	(0)	*n.m.*
JV & Associates	414	394	470	*-12*	*5*	808	848	*-5*
PBT	**1,575**	**1,587**	**1,530**	***3***	***-1***	**3,163**	**2,883**	***10***
Tax	(311)	(318)	(285)	*9*	*-2*	(630)	(522)	*21*
NCI	(425)	(421)	(414)	*3*	*1*	(846)	(787)	*7*
Reported NP	**839**	**848**	**832**	***1***	***-1***	**1,687**	**1,574**	***7***
Core NP	**839**	**848**	**832**	***1***	***-1***	**1,687**	**1,574**	***7***
Segments								
Commercial banking	1,000	965	893	*12*	*4*	1,965	1,781	*10*
Investment banking	19	22	19	*-0*	*-11*	41	47	*-12*
Insurance	142	218	150	*-5*	*-35*	360	214	*68*
Other operations	(1)	(11)	(2)	*-68*	*-95*	(12)	(7)	*71*
Associates & JVs	414	394	470	*-12*	*5*	808	848	*-5*

Ratios	2Q FY25	1Q FY25	2Q FY24	Yoy (ppts)	Qoq (ppts)	1H FY25	1H FY24	Yoy (ppts)
Gross DPS (sen)	**20.0**	**-**	**18.0**	***n.m.***	***n.m.***	**20.0**	**18.0**	***n.m.***
Core EPS (sen)	74.0	74.7	73.4	*0.9*	*-1.0*	148.8	138.8	*7.2*
Cost/Income (%)	0.4	0.4	0.4	*0.0*	*0.0*	0.4	0.4	*(0.0)*

Source: Company, 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: Bloomberg, 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	The stock price is expected to rise by >10% within 3 months after a Trading Buy rating has been assigned due to positive news flow.
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	The stock price is expected to fall by >10% within 3 months after a Trading Sell rating has been assigned due to negative news flow.

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