

29 August 2018 | 4QFY18 Results Review

Hong Leong Financial Group

Ending the year strong

INVESTMENT HIGHLIGHTS

- Earnings met expectations
- Hong Leong Bank Bhd remains a key driver
- Insurance division grew robustly despite one-off adjustment
- Hong Leong Capital dragged by investment banking
- Full year dividend of 40 sen
- No change to forecast
- Maintain NEUTRAL on HLFG with an adjusted TP of RM19.00 (from RM18.70) based on SOTP valuation

HLFG FY18 earnings met expectations. HLFG full year net profit met expectations as it came in at 101.4% and 101.9% of ours and consensus' estimates respectively. The main driver for the +26.6%yoy earnings growth was the strong performance of its commercial banking arm (i.e. Hong Leong Bank).

Strong HLB earnings growth due to PPOP growth. NOII and Islamic Banking income were the main contributors for HLB's income growth. These income segments went up by +10.3%yoy and +17.4%yoy to RM1.8b and RM646m respectively. The strong growth in NOII was due to trading and investment. Meanwhile, NII expansion was decent at +1.4%yoy to RM2.9b. However, there was pressure to net interest margins in 4QFY18 which led to 4QFY18 NII to drop by -5.3%yoy.

On the cost side, HLB's OPEX was well contained as it grew +2.6%yoy. Personnel cost fell on lower headcount. Main cost item continue to be IT expenses where it rose +11.2%yoy to RM164.3m as the Group continue to investment in digitisation.

HLB's gross loans growth was decent at +3.1%yoy. The main driver was residential properties loans which grew +7.9%yoy to RM61.4b. However, deposits for HLB were disappointing as it grew by only +1.4%yoy to RM157.4b. Nevertheless, we noted there was good CASA momentum.

Maintain NEUTRAL
Adjusted Target Price (TP): 19.00

RETURN STATS	
Price (28 August 2018)	RM18.64
Target Price	RM19.00
Expected Share Price Return	+1.9%
Expected Dividend Yield	+2.1%
Expected Total Return	+4.0%

STOCK INFO	
KLCI	1,826.90
Bursa / Bloomberg	1082 / HLFG MK
Board / Sector	Main/ Finance
Syariah Compliant	No
Issued shares (mil)	1,145.2m
Market cap (RM'm)	21,347.3
Price over NA	1.2x
52-wk price Range	RM15.40 – RM20.40
Beta (against KLCI)	1.06
3-mth Avg Daily Vol	0.22m
3-mth Avg Daily Value	RM3.96m
Major Shareholders	
Hong Leong Co Malaysia	77.62%
EPF	1.92%
ING Groep NV	1.83%

Insurance division growth curtailed by one-off adjustment. Insurance division (HLAH) PBT grew +3.0%yoy to RM348.0m. This was mainly due to Hong Leong Assurance's (HLA) +8.4%yoy PBT expansion to RM265.5m. However, we understand that there was a one-off adjustment of RM58.5m. Discounting this adjustment, HLA and HLAH PBT would have grown +31.1%yoy and +20.3%yoy respectively.

Meanwhile, HLA's gross premiums came in at RM2.95b, down from RM3.01b a year ago. New business regular premiums also went down from RM586m to RM537.5m.


On cost efficiency, HLA's management expense ratio was 5.9%.

Investment Banking business under Hong Leong Cap (HLC) declined due to market conditions. The Investment Banking PBT under Hong Leong Cap (HLC) fell -6.4%yoy to RM78.6m. This was due to subdued market conditions. The drag came from investment banking as PBT fell -25%yoy to RM29.3m. However, this was moderated by stockbroking and asset management where PBT grew +11%yoy and +53%yoy to RM32.6m and RM12.4m respectively.

FORECAST

We are maintaining our forecasts.

VALUATION

In our opinion, the Group continues to be driven by the performance of HLB, which we expect will continue to deliver on its earnings potential. In addition, we believe that the insurance division will play a supporting role given its commendable growth. However, we believe that all the positive have been fully priced in. Therefore, we are maintaining our NEUTRAL call with unchanged TP to RM19.00. 

SOTP Valuation

Companies	Shareholder fund (RM'Mil)	As of	Equity Stake (%)	Book Value Multiple (X)	Basis	Valuation (RM'Mil)	RNAV per share (RM)
HLB	25,721		65.7%	1.5	Base on forecast for FY19	25,362	22.09
HLC	766	30/6/18	81.3%	1.5	Unaudited FY18 result	934	0.81
Insurance companies under HLA Holdings							
HLA	1,572	30/6/17	70.00%	1.5	Audited FY17 result	1,651	1.82
MSIG	2,609	30/6/17	30.00%	1.5	Interim FY17 result	1,174	1.3
HLMSIG Takaful	81	30/6/17	65.00%	1.5	Audited FY17 result	79	0.09
SOP Valuation						29,200	25.44
Holding company discount				25%		(7,387)	(6.44)
SOP Valuation after holding company discount						21,812	
No of shares (Mil)						1,148	
Target Price (TP)						19.00	

INVESTMENT STATISTICS

FYE 30 June (RM'Mil)	FY17	FY18	FY19F	FY20F
Net Interest Income	2,822	2,871	3,341	3,574
Income from Islamic Banking	550	646	741	815
Non interest income	1,663	1,834	1,898	2,015
Net/total income	5,035	5,351	5,980	6,403
Pre-provisioning operating profit	2,812	3,056	3,452	3,705
Profit before tax	3,090	3,579	3,959	4,207
Profit after tax	1,507	1,907	2,143	2,277
EPS (sen)	131.8	166.8	186.7	198.4
EPS Growth (%)	7.0	26.6	13.9	6.3
PER (x)	12.2	11.2	10.0	9.4
Net Dividend (sen)	38	40	41	42
Dividend yield (%)	2.4	2.1	2.2	2.3
Book Value Per Share (RM)	14.52	15.55	16.61	18.00
PBV (x)	1.1	1.2	1.1	1.0
ROE (%)	9.9	10.8	11.2	11.0

Source: MIDFR, Company

DAILY PRICE CHART

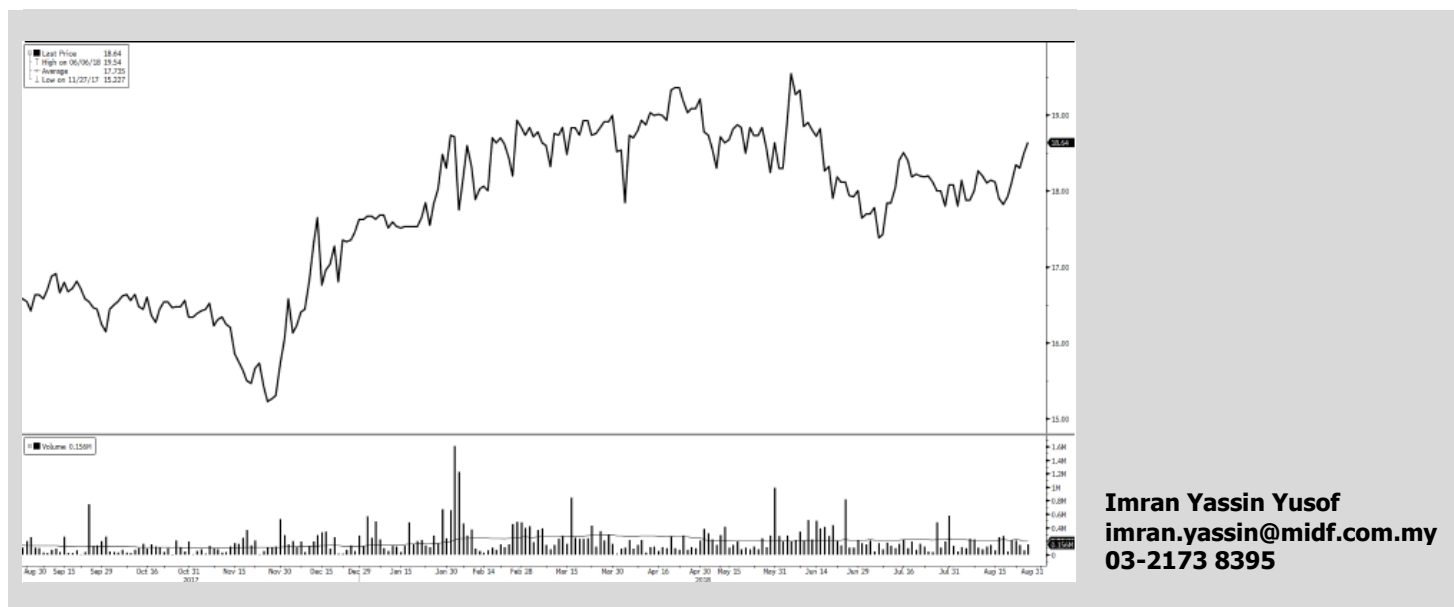


Table 1: Quarterly results

Quarterly results					
FYE June (RM m)	4Q18	3Q18	4Q17	Yoy (+/- %)	Qoq (+/- %)
Net Interest Income	690	706	717	-3.8%	-2.3%
Islamic Banking Income	163	167	143	14.0%	-2.4%
Non interest Income	467	514	414	13.0%	-9.0%
Net/Total income	1,320	1,386	1,273	3.7%	-4.8%
OPEX	(572)	(593)	(571)	0.2%	-3.5%
PPOP	748	794	702	6.5%	-5.8%
Write back/(Provision) for loan losses	(12)	(11)	(62)	-80.8%	7.3%
Share of results from associate	129	155	124	4.1%	-16.6%
Share of results from JV	6	5	4	25.6%	4.2%
Pre-tax profit	871	943	768	13.3%	-7.7%
Net Profit	454	503	259	75.5%	-9.6%
EPS (sen)	39.7	43.9	22.6	75.7%	-9.6%

Source: Company

Table 2: PBT of key segments (RM'Mil)

Business segments	FY18	FY17	Change (%)	Comments
Commercial Banking (HLB)	2,710	2,384	13.6%	Strong PPOP growth from contained OPEX and income growth.
Investment Banking	79	84	-6.5%	Dragged by Investment Banking.
Insurance (HLA)	285	264	7.8%	Higher revenue and lower OPEX.

Table 3: Comparison of cumulative results and ratios (RM'Mil)

Cumulative results & ratios			
FYE June (RM m)	FY18	FY17	Yoy
Net Interest Income	2,871	2,822	1.7%
Islamic Banking Income	646	550	17.4%
Non Interest Income	1,834	1,663	10.3%
Net/Total Income	5,351	5,035	6.3%
OPEX	(2,295)	(2,222)	3.3%
PPOP	3,056	2,812	8.7%
Writeback/(Provision) for loan losses	(77)	(160)	-51.8%
Share of results from associate, BOC	579	416	39.1%
Share of results from JV	21	21	-2.9%
Pre-tax profit	3,579	3,090	15.8%
Taxation and zakat	1,907	1,507	26.6%
Net Profit	166.8	131.8	26.6%
EPS (sen)	2,871	2,822	1.7%
			(+/-ppts)
ROE (%)	14.7	12.5	2.3
CI ratio (%)	42.9	44.1	-1.2

Source: Company

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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 <i>rise</i> 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	<i>Negative</i> total return is expected, by -10% or more, over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> 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.