

25 August 2017 | 4QFY17 Results Review

## Hong Leong Financial Group Berhad

*Strong growth within expectations*

### INVESTMENT HIGHLIGHTS

- **Within expectations.**
- **All business units contributed to growth in net profit.**
- **Strong income growth led the performance.**
- **Investment Banking business also grew robustly.**
- **No change to forecast.**
- **Maintain NEUTRAL with an unchanged TP of RM17.64 based on SOP valuation.**

**Earnings was within expectations.** HLFGB's FY17 net profit was within expectations coming in at 99.3% and 99.4% of ours and consensus' full year estimates respectively.

**Robust growth from HLB driven by strong income growth.** HLB PBT grew +16.4%yoy due to the solid growth in income. Net interest income grew +9.1%yoy as Net Interest Margins improved +15bps yoy to 2.09%. This was largely contributed by effective funding cost management. Meanwhile, Non-interest income grew +8.4%yoy on the back of higher trading and investment income.

Loans and deposit growth was decent as at 4QFY17, coming in at +3.8%yoy and +4.5%yoy respectively. Asset quality was slight concern as gross impaired loans ratio of went up to 0.96% from 0.88% last quarter.

**Solid performance from Insurance division.** Insurance division PBT grew +71.0%yoy to RM337.8m. This was due to higher life fund surplus of RM61.3m, higher revenue of RM45.2m, lower allowance for impairment losses on securities of RM40.5m and higher share of profit from an associated company of RM4.6m.

Gross premiums grew +8.1%yoy to RM3.01b, while new business premiums rose +8.3%yoy to RM585.7m. Its management expense ratio was 5.5%.

**Similarly from Investment Banking business under Hong Leong Cap (HLC).** The Investment Banking business under Hong Leong Cap (HLC) grew +30.2%yoy to RM84.0m. This was attributable to IB, fund management and stockbroking segment recording a higher PBT. □

**Maintain NEUTRAL**

**Unchanged Target Price (TP): RM17.64**

RETURN STATS	
Price (24 Aug. 2017)	RM16.70
Target Price	RM17.64
Expected Share Price Return	+5.6%
Expected Dividend Yield	+2.3%
<b>Expected Total Return</b>	<b>+7.9%</b>

STOCK INFO	
KLCI	1,775.50
Bursa / Bloomberg	1082 / HLFGB MK
Board / Sector	Main/ Finance
Syariah Compliant	No
Issued shares (mil)	1,147.5m
Market cap (RM'm)	19,125.6
Price over NA	1.1x
52-wk price Range	RM14.10 - RM18.00
Beta (against KLCI)	1.04
3-mth Avg Daily Vol	0.15m
3-mth Avg Daily Value	RM2.52m
Major Shareholders	
Hong Leong Co Malaysia	77.47%
Khalid Ahmad Sulaiman	4.84%
ING Groep NV	1.83%

## FORECAST

No change to our forecast.

## VALUATION

We believe that the Group had a very good year in FY17. We expect this to continue in line with our expectation of the banking FY18 performance. However, we believe that investors have fully priced in the prospect of the Group as reflected in its share price. Therefore, we maintain our NEUTRAL call with an unchanged TP of RM17.64 based on SOP valuation.



## SOP Valuation

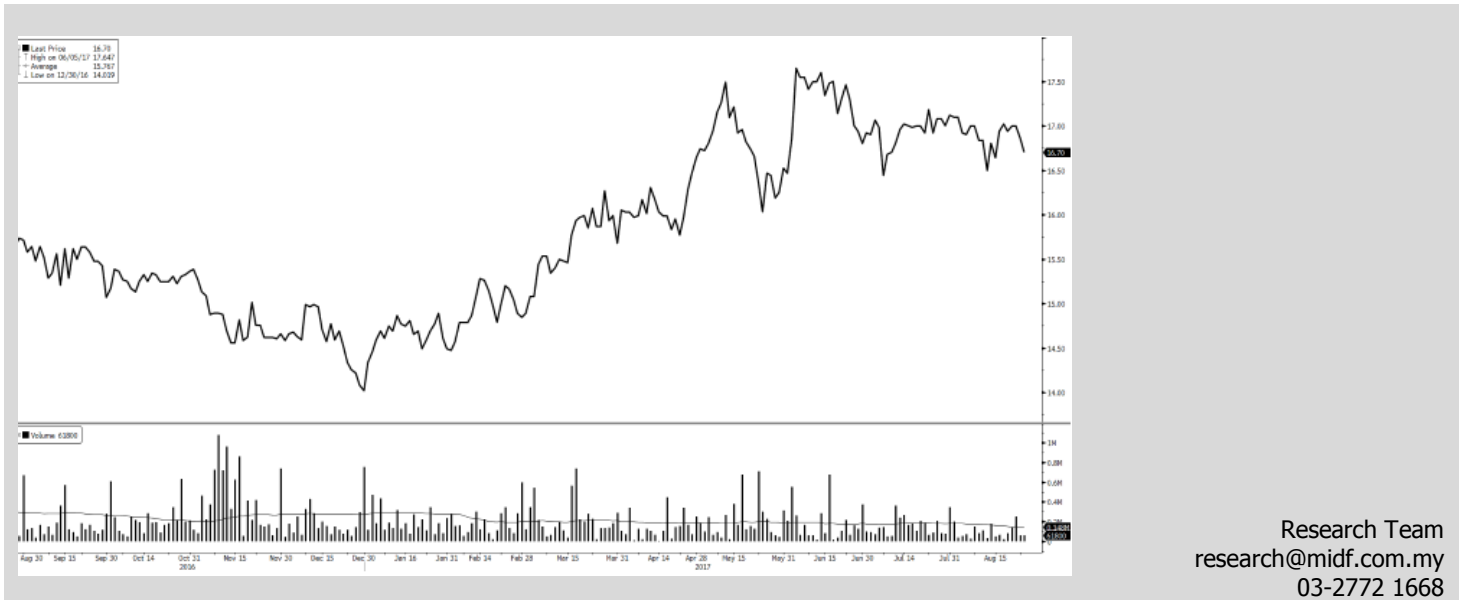
Companies	Shareholders' fund (RM'Mil)	As of	Equity Stake (%)	Book Value Multiple (X)	Basis	Valuation (RM'Mil)	RNAV per share (RM)
HLB	22,967		65.7%	1.4	Base on forecast for FY18	21,085	18.37
HLC	745	30/6/17	81.3%	1.5	Interim FY17 result	909	0.79
<b>Insurance companies under HLA Holdings</b>							
HLA	1,439	30/6/16	70.0%	2.0	Audited FY16 result	1,964	1.71
MSIG	2,609	30/6/17	30.0%	2.0	Interim FY17 result	1,565	1.36
HLMSIG Takaful	80	30/6/16	65.0%	2.0	Audited FY16 result	104	0.09
<b>SOP Valuation</b>						25,572	22.28
Holding company discount				21%		(5,382)	(4.69)
SOP Valuation after holding company discount						20,245	
<b>No of shares (Mil)</b>						1,148	
<b>Target Price (TP)</b>						<b>17.64</b>	

## INVESTMENT STATISTICS

FYE 30 June (RM'Mil)	FY16	FY17	FY18F	FY19F
Net Interest Income	2,641	2,822	3,126	3,077
Income from Islamic Banking	467	550	522	532
Non interest income	1,435	1,663	2,079	2,263
Net/total income	4,543	5,035	5,726	5,872
Pre-provisioning operating profit	2,259	2,812	2,865	2,941
Profit before tax	2,565	3,090	3,094	3,168
Profit after tax	1,359	1,507	1,675	1,715
EPS (sen)	123.2	131.8	145.9	149.4
EPS Growth (%)	-20.2	7.0	10.7	2.4
PER (x)	13.6	12.7	11.4	11.2
Net Dividend (sen)	38	38	38	39
Dividend yield (%)	2.3	2.3	2.3	2.3
Book Value Per Share (sen)	13.91	14.52	15.16	16.27
PBV (x)	1.2	1.2	1.1	1.0
ROE (%)	8.9	9.9	9.6	9.2

Source: MIDFR, Company

## DAILY PRICE CHART



**Table 1: Quarterly results**

FYE June (RM m)	Quarterly results					Comments
	4Q17	3Q17	4Q16	Yoy (+/- %)	Qoq (+/- %)	
Net Interest Income	717	719	659	8.8%	-0.3%	Due to NIM improvement and loans growth for HLB.
Islamic Banking Income	143	139	121	17.9%	2.5%	
Non interest Income	414	367	426	-3.0%	12.6%	
Net/Total income	1,273	1,226	1,207	5.5%	3.9%	
OPEX	(571)	(553)	(552)	3.4%	3.3%	Higher personnel and IT expenses.
PPOP	702	673	654	7.3%	4.3%	
Write back/(Provision) for loan losses	(62)	(43)	28	<-100%	43.6%	Higher individual allowance in relation to an account in HLB.
Share of results from associate	124	129	100	23.5%	-4.3%	Due normalizing of earnings from BOC.
Share of results from JV	4	5	6	-28.0%	-7.5%	
Pre-tax profit	768	764	789	-2.6%	0.6%	
Net Profit	259	419	393	-34.2%	-38.2%	Due to higher provisions.
EPS (sen)	22.6	36.6	34.4	-34.3%	-38.3%	

Source: Company

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

Business segments	FY17	FY16	Change (%)	Comments
Commercial Banking (HLB)	2,384	2,048	16.4%	Due broad based growth in NII and NOII.
Investment Banking	84	65	30.3%	Higher contribution from the investment banking, asset management and stockbroking divisions.
Insurance (HLA)	338	198	71.0%	Due to higher life fund surplus, higher, lower allowance for impairment losses on securities and higher share of profit from an associate.

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

Cumulative results & ratios				Comments
FYE June (RM m)	FY17	FY16	Yoy	
Net Interest Income	2,822	2,641	6.8%	Contributed by expansion in loan book and NIM expansion at HLB, reflecting better yield and funding cost management.
Islamic Banking Income	550	467	17.7%	
Non Interest Income	1,663	1,435	15.9%	Supported by higher net income from insurance business and trading & investment income.
Net/Total Income	5,035	4,543	10.8%	
OPEX	(2,222)	(2,284)	-2.7%	Lower due to MSS cost of RM172m in 2QFY16.
PPOP	2,812	2,259	24.5%	
Writeback/(Provision) for loan losses	(160)	(96)	66.5%	Due to lower higher provisions at HLB in 4QFY17 in relation to an account.
Share of results from associate, BOC	416	381	9.3%	Turnaround in 3QFY17 as earnings normalized.
Share of results from JV	21	21	0.5%	
Pre-tax profit	3,090	2,565	20.5%	
Taxation and zakat	(773)	(501)	54.2%	
Net Profit	1,507	1,359	10.9%	
EPS (sen)	131.8	123.2	7.0%	
			(+/- ppts)	
ROE (%)	9.1	8.9	0.2	
CI ratio (%)	44.1	50.3	-6.1	

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### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	<i>Negative</i> total return is expected, by -15% or more, over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% 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.