

## Hong Leong Financial Group Berhad

(1082 | HLFM MK) Financial Services | Finance

### 4QFY23 Results: Dragged by Weaker NOII

#### KEY INVESTMENT HIGHLIGHTS

- **FY23's Core NP of RM2.8b was *Within/Within* our/*street* forecasts: **101%/100%** of full-year forecasts**
- **FY24F/25F Core NP adjusted by -7%/-5%.**
- **Maintain BUY | Revised TP of RM23.71 | based on SOTP valuation**

**FY23 Core net profit (NP) rose by +14%yoy.** This was largely attributable to stronger NOII and BOCD contributions as well as tax normalisation offsetting weaker NII income and higher OPEX.

In terms of segments, Insurance and Associate contributions improved, while the commercial banking segment remained flattish. Investment banking contracted.

**4QFY23 Core NP fell by -12%qoq.** A huge fall in NOII offset improvements in NII, Associate contributions and lower loan provisions. Elevated 4Q effects were also visible in OPEX. In terms of segments, all segments apart from Associates performed weaker – but this could be from HLBK's increased stake in BOCD.

**HLBK has had a good year.** Core NP was up +24%yoy. Reflecting improved NOII, provisioning and BOCD performance, as well as controlled OPEX growth and NII compression. There were also one-offs pertaining to BOCD convertible bond gains that affected FY23's earnings positively and FY22's negatively

**HLA improves.** HLAS's full-year PBT of RM441m increased by +12%yoy, largely driven by higher revenue. Offsetting factors were lower life fund surplus, higher OPEX and lower Associate contributions.

**HLC doesn't do as well.** HLC's full-year PBT of RM61m fell by -37%yoy, mainly due to lower contributions from investment banking & stockbroking as well as fund management & unit trust management divisions.

**Forecasts revised: FY24F/25F Core NP adjusted by -7%/-5%.** To reflect revised HLBK figures (mainly lowered due to elevated costs and lacklustre NIM outlook.

**Key downside risks.** (1) BOCD contributions weaken, (2) Higher-than-expected OPEX, (3) Further NIM compression.

**Maintain BUY call: Revised SOTP-TP of RM23.71 (from RM22.79).** Despite using a lower FY24F P/BV basis of 1.26x for HLBK valuation (following downward revisions to HLBK's earnings forecast), higher Shareholders' fund values in various components push the SOTP-TP upward.


**Maintain BUY**

**Revised Target Price: RM23.71**  
(Previously RM22.79)

#### RETURN STATISTICS

Price @ 30 August 2023 (RM)	18.22
Expected share price return (%)	+30.1
Expected dividend yield (%)	+2.7
<b>Expected total return (%)</b>	<b>+32.8</b>

#### SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	1.0	0.7
3 months	4.1	0.5
12 months	-5.8	-2.8

#### INVESTMENT STATISTICS

FYE Jun	FY24F	FY25F	FY26F
<b>Core NP (RM m)</b>	<b>2,798</b>	<b>3,025</b>	<b>3,182</b>
CNP growth (%)	0	8	5
<b>Div yield (%)</b>	<b>0.7</b>	<b>0.6</b>	<b>0.6</b>
Gross DPS (sen)	49.4	53.3	56.1
<b>P/BV (x)</b>	<b>0.7</b>	<b>0.6</b>	<b>0.6</b>
BVPS (RM)	25.6	27.7	30.0
<b>ROE (%)</b>	<b>10.0</b>	<b>10.0</b>	<b>9.7</b>
<b>MIDF/Street CNP (%)</b>	<b>93</b>	<b>92</b>	<b>97</b>

#### KEY STATISTICS

FBM KLCI	1,451.94
Issue shares (m)	1,133.9
Estimated free float (%)	16.1
Market Capitalisation (RM'm)	21,049.6
52-wk price range	RM17 - RM19.5
3-mth avg daily volume (m)	0.2
3-mth avg daily value (RM'm)	3.4
Top Shareholders (%)	
Hong Leong Co Malaysia Bhd	52.1
Guoco Group Ltd	25.4
EPF Board	3.1

**Analyst**

Samuel Woo

samuel.woo@midf.com.my

Fig 1: Quarterly results

FYE Jun (RM m)	4Q FY23	3Q FY23	4Q FY22	Yoy (%)	Qoq (%)	FY23	FY22	Yoy (%)
Net interest inc.	918	876	950	-3	5	3,786	3,857	-2
Islamic banking inc.	230	209	239	-4	10	963	905	6
Non-interest inc.	318	529	456	-30	-40	1,680	1,490	13
<b>Net income</b>	<b>1,465</b>	<b>1,615</b>	<b>1,645</b>	<b>-11</b>	<b>-9</b>	<b>6,429</b>	<b>6,252</b>	<b>3</b>
OPEX	(675)	(644)	(608)	11	5	(2,570)	(2,358)	9
<b>PPOP</b>	<b>790</b>	<b>971</b>	<b>1,037</b>	<b>-24</b>	<b>-19</b>	<b>3,860</b>	<b>3,893</b>	<b>-1</b>
Loan provisions	(14)	(38)	(30)	-53	-62	(115)	(163)	-29
Other provisions	1	0	1	48	550	0	1	n.m.
JV & Associates	354	341	327	n.m.	n.m.	1,358	1,109	22
<b>PBT</b>	<b>1,131</b>	<b>1,274</b>	<b>1,334</b>	<b>-15</b>	<b>-11</b>	<b>5,102</b>	<b>4,840</b>	<b>5</b>
Tax	(187)	(210)	(327)	-43	-11	(895)	(1,157)	-23
NCI	(318)	(351)	(333)	-5	-10	(1,416)	(1,231)	15
<b>Reported NP</b>	<b>626</b>	<b>712</b>	<b>675</b>	<b>-7</b>	<b>-12</b>	<b>2,791</b>	<b>2,452</b>	<b>14</b>
<b>Core NP</b>	<b>626</b>	<b>712</b>	<b>675</b>	<b>-7</b>	<b>-12</b>	<b>2,791</b>	<b>2,452</b>	<b>14</b>
<b>Segments</b>								
Commercial banking	702	799	909	-23	-12	3,337	3,336	0
Investment banking	9	16	12	-29	-46	61	97	-37
Insurance	68	120	71	-4	-43	373	315	18
Other operations	(3)	(3)	16	-116	-18	(27)	(18)	51
Associates & JVs	354	341	327	8	4	1,358	1,109	22
<b>PBT</b>	<b>1,131</b>	<b>1,274</b>	<b>1,334</b>	<b>-15</b>	<b>-11</b>	<b>5,102</b>	<b>4,840</b>	<b>5</b>
<b>Ratios</b>								
	4Q FY23	3Q FY23	4Q FY22	Yoy (ppts)	Qoq (ppts)	FY23	FY22	Yoy (ppts)
<b>Gross DPS (sen)</b>	<b>32.0</b>	-	<b>31.0</b>	<i>n.m.</i>	<i>n.m.</i>	<b>49.0</b>	<b>46.0</b>	<i>n.m.</i>
Core EPS (sen)	55.2	62.8	59.5	-7.2	-12.1	246.1	216.3	13.8
Cost/Income (%)	46.1	39.9	37.0	9.1	6.2	40.0	37.7	2.2

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
HLBK	37,336	FY24	64%	1.26	30,296	FY24F ROE of 11.3%
HLC	965	end Jun-23	70%	1.0	679	1x Book value
<b>HLA (Components)</b>					<b>4,204</b>	
HLA (Embedded value)	3,779	end Jun-23	70%	1.0	2,645	1x Embedded value
MSIG	3,162	end Dec-22	30%	1.5	1,423	In line with peers
HL MSIG Takaful	209	end Dec-22	65%	1.0	136	1x Book value
<b>(-) HLFG net debt</b>		<b>end Jun-23</b>			<b>(1,576)</b>	
<b>Total sum-of-parts</b>					<b>33,603</b>	
(-) HLFG share cap (mil)					1,134	
<b>Fair value (RM)</b>					<b>29.64</b>	
(-) Holding co. discount					20%	
<b>Target price (RM)</b>					<b>23.71</b>	

Source: Hong Leong Financial Group, MIDFR

## FINANCIAL SUMMARY

### INCOME STATEMENT

FYE Jun (RM m)	FY22	FY23	FY24F	FY25F	FY26F
Interest income	5,944	7,763	8,144	8,538	9,175
Interest expense	(2,087)	(3,977)	(4,059)	(4,216)	(4,680)
<b>Net interest income</b>	<b>3,857</b>	<b>3,786</b>	<b>4,085</b>	<b>4,322</b>	<b>4,495</b>
Islamic banking inc.	905	963	1,034	1,095	1,140
Other operating inc.	1,490	1,680	1,270	1,522	1,601
<b>Net income</b>	<b>6,252</b>	<b>6,429</b>	<b>6,389</b>	<b>6,939</b>	<b>7,235</b>
OPEX	(2,358)	(2,570)	(2,552)	(2,734)	(2,853)
<b>PPOP</b>	<b>3,893</b>	<b>3,860</b>	<b>3,837</b>	<b>4,204</b>	<b>4,382</b>
Loan allowances	(163)	(115)	(187)	(258)	(273)
Other allowances	1	0	(0)	(0)	(0)
JV & Associates	1,109	1,358	1,418	1,532	1,654
<b>PBT</b>	<b>4,840</b>	<b>5,102</b>	<b>5,069</b>	<b>5,478</b>	<b>5,763</b>
Tax & zakat	(1,157)	(895)	(892)	(963)	(1,013)
NCI	(1,231)	(1,416)	(1,378)	(1,490)	(1,567)
<b>Reported NP</b>	<b>2,452</b>	<b>2,791</b>	<b>2,798</b>	<b>3,025</b>	<b>3,182</b>
<b>Core NP</b>	<b>2,452</b>	<b>2,791</b>	<b>2,798</b>	<b>3,025</b>	<b>3,182</b>

### BALANCE SHEET

FYE Jun (RM m)	FY22	FY23	FY24F	FY25F	FY26F
Cash & ST funds	10,907	10,928	11,912	12,984	14,152
Investment securities	90,532	99,951	96,228	97,795	99,551
Net loans	167,177	180,567	191,401	202,886	215,059
Others	18,304	23,819	34,641	40,568	46,725
<b>Total assets</b>	<b>286,921</b>	<b>315,266</b>	<b>334,182</b>	<b>354,233</b>	<b>375,487</b>
Customer deposits	197,383	211,467	224,155	237,605	251,861
Others	53,548	64,169	67,085	70,107	73,339
<b>Total liabilities</b>	<b>250,931</b>	<b>275,636</b>	<b>291,241</b>	<b>307,712</b>	<b>325,200</b>
Share capital	2,267	2,267	2,267	2,267	2,267
Reserves	22,245	24,758	26,997	29,417	31,962
Treasury shares	(236)	(233)	(233)	(233)	(233)
<b>Shareholders' funds</b>	<b>24,276</b>	<b>26,792</b>	<b>29,031</b>	<b>31,450</b>	<b>33,996</b>
NCI	11,714	12,838	13,911	15,070	16,290
<b>Total equity</b>	<b>35,990</b>	<b>39,630</b>	<b>42,941</b>	<b>46,521</b>	<b>50,287</b>
<b>Total L&amp;E</b>	<b>286,921</b>	<b>315,266</b>	<b>334,182</b>	<b>354,233</b>	<b>375,487</b>

Source: Hong Leong Financial Group, MIDFR

### FINANCIAL RATIOS

FYE Jun (RM m)	FY22	FY23	FY24F	FY25F	FY26F
<b>Profitability (%)</b>					
<b>ROE</b>	<b>10.4</b>	<b>10.9</b>	<b>10.0</b>	<b>10.0</b>	<b>9.7</b>
ROA	0.9	0.9	0.9	0.9	0.9
Effective tax rate	23.9	17.5	17.6	17.6	17.6
Cost/Income	37.7	40.0	39.9	39.4	39.4
<b>Capital (%)</b>					
CET 1	11.8	11.8	11.7	11.6	11.6
Tier 1 capital	13.0	13.0	13.0	12.9	12.9
Total capital	15.9	15.9	15.9	15.8	15.8
<b>Growth (%)</b>					
Net income	0.8	2.8	(0.6)	8.6	4.3
OPEX	(1.4)	9.0	(0.7)	7.2	4.3
Core NP	8.3	13.8	0.3	8.1	5.2
<b>Valuation metrics</b>					
Core EPS (sen)	216.3	246.2	246.8	266.8	280.7
Gross DPS (sen)	46.0	49.0	49.4	53.3	56.1
Div payout (%)	21	20	20	20	20
BVPS (RM)	21.4	23.6	25.6	27.7	30.0
Core P/E (x)	8.0	7.0	7.0	6.5	6.2
<b>Div yield (%)</b>	<b>2.7</b>	<b>2.8</b>	<b>2.8</b>	<b>3.1</b>	<b>3.2</b>
P/BV (x)	0.8	0.7	0.7	0.6	0.6

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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	Total return is expected to be <-10% 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.

#### 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