

# Hong Leong Financial Group Berhad

(1082 | HLFGB MK) Financial Services | Finance

## 1QFY24 Results: Strong Quarter Driven by HLBK and HLC

### KEY INVESTMENT HIGHLIGHTS

- 1QFY24's Core NP of RM742m was *Within/Within* our/*street* forecasts: **27%/24%** of full-year forecasts
- Core themes: (a) HLBK remains strong, (b) HLA weakness, (c) HLC improvement
- Forecasts unchanged
- **Maintain BUY | Revised TP of RM20.65 | based on SOTP valuation**

**1QFY24 Core net profit (NP) rose by +18%qoq.** Largely driven by higher NII, NOII and Associate contributions as well as improved OPEX and net writebacks. This offset higher tax income.

On a segmental basis, Stronger associate, commercial and investment banking incomes offset slightly weaker insurance performance.

**Core NP rose +11%yoy.** The gain was largely driven by far stronger Associate incomes and NOII, offsetting higher OPEX and weaker NII charges. There was a higher NCI loss as well.

**HLBK has +15%qoq growth.** This was driven by improvements NOII and NII, though likely at the expense of balance sheet growth. There was also a sizeable loan provision and lower OPEX.

**HLA sees a reduction.** HLA's PBT of RM88m fell by -26%qoq, largely due to lower revenue and lower life fund surplus. This was offset by improved Associate income and lower OPEX.

**HLC sees strong improvement.** HLC PBT tripled on a sequential quarter basis, reporting higher contributions across all operating divisions.

**Forecasts unchanged.** We make no changes to our earnings.

**Key downside risks.** (1) Disruptions to associate contributions, (2) Higher than expected OPEX, (3) Further NIM compression.

**Maintain BUY call: Revised SOTP-TP of RM20.65 (from RM23.71).** The reduction was due to lower P/BV basis of 1.11x for HLBK valuation (following negative sentiment in China), as well as reducing our MSIG P/BV valuation and increasing our holding company discount to 25% (from 20% previously).



**Maintain BUY**

**Revised Target Price: RM20.65**

(Previously RM23.71)

### RETURN STATISTICS

Price @ 30 November 2023 (RM)	16.10
Expected share price return (%)	+28.2
Expected dividend yield (%)	+3.1
<b>Expected total return (%)</b>	<b>+31.3</b>

### SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-4.9	-5.4
3 months	-6.3	-9.5
12 months	-12.7	-11.1

### 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>0.6</b>	<b>0.6</b>	<b>0.5</b>
Gross DPS (sen)	49.4	53.3	56.1
<b>P/BV (x)</b>	<b>0.6</b>	<b>0.6</b>	<b>0.5</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>97</b>	<b>97</b>	<b>101</b>

### KEY STATISTICS

FBM KLCI	1,452.74
Issue shares (m)	1,134.1
Estimated free float (%)	16.3
Market Capitalisation (RM'm)	18,988.1
52-wk price range	RM16.3 - RM19.1
3-mth avg daily volume (m)	0.5
3-mth avg daily value (RM'm)	8.1
Top Shareholders (%)	
Hong Leong Co Malaysia Bhd	52.1
Guoco Group Ltd	25.4
EPF Board	3.4

**Analyst**

Samuel Woo

samuel.woo@midf.com.my

Fig 1: Quarterly results

FYE Jun (RM m)	1Q FY24	4Q FY23	1Q FY23	Yoy (%)	Qoq (%)	3M FY24	3M FY23	Yoy (%)
Net interest inc.	948	918	1,012	-6	3	948	1,012	-6
Islamic banking inc.	230	230	252	-8	0	230	252	-8
Non-interest inc.	387	318	340	14	22	387	340	14
<b>Net income</b>	<b>1,565</b>	<b>1,465</b>	<b>1,603</b>	<b>-2</b>	<b>7</b>	<b>1,565</b>	<b>1,603</b>	<b>-2</b>
OPEX	(641)	(675)	(600)	7	-5	(641)	(600)	7
<b>PPOP</b>	<b>924</b>	<b>790</b>	<b>1,003</b>	<b>-8</b>	<b>17</b>	<b>924</b>	<b>1,003</b>	<b>-8</b>
Loan provisions	51	(14)	(37)	-237	-458	51	(37)	-237
Other provisions	(0)	1	0	n.m.	n.m.	(0)	0	n.m.
/ & Associates	378	354	275	37	7	378	275	37
<b>PBT</b>	<b>1,352</b>	<b>1,131</b>	<b>1,241</b>	<b>9</b>	<b>20</b>	<b>1,352</b>	<b>1,241</b>	<b>9</b>
ax	(237)	(187)	(220)	8	27	(237)	(220)	8
CI	(373)	(318)	(352)	6	18	(373)	(352)	6
<b>Reported NP</b>	<b>742</b>	<b>626</b>	<b>669</b>	<b>11</b>	<b>18</b>	<b>742</b>	<b>669</b>	<b>11</b>
<b>Core NP</b>	<b>742</b>	<b>626</b>	<b>669</b>	<b>11</b>	<b>18</b>	<b>742</b>	<b>669</b>	<b>11</b>
<b>Segments</b>								
Commercial banking	889	702	922	-4	27	889	922	-4
Investment banking	27	9	21	32	209	27	21	32
Insurance	64	68	37	74	-6	64	37	74
Other operations	(5)	(3)	(13)	-62	98	(5)	(13)	-62
Associates & JVs	378	354	275	37	7	378	275	37
<b>PBT</b>	<b>1,352</b>	<b>1,131</b>	<b>1,242</b>	<b>9</b>	<b>20</b>	<b>1,352</b>	<b>1,242</b>	<b>9</b>
<b>Ratios</b>								
	1Q FY24	4Q FY23	1Q FY23	Yoy (ppts)	Qoq (ppts)	3M FY24	3M FY23	Yoy (ppts)
<b>Gross DPS (sen)</b>	-	<b>32.0</b>	-	n.m.	n.m.	-	-	n.m.
Core EPS (sen)	65.4	55.2	59.0	10.8	18.4	65.4	59.0	10.8
Cost/Income (%)	41.0	46.1	37.4	3.5	(5.1)	41.0	37.4	3.5

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	39,481	FY25	64%	1.11	28,223	FY25F ROE of 11.2%
HLC	965	end Jun-23	70%	1.0	679	1x Book value
<b>HLA (Components)</b>					<b>3,907</b>	
HLA (Embedded value)	3,779	end Jun-23	70%	1.0	2,645	1x Embedded value
MSIG	3,127	end Jun-23	30%	1.2	1,126	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>(1,586)</b>	
<b>Total sum-of-parts</b>					<b>31,223</b>	
(-) HLFG share cap (mil)					1,134	
<b>Fair value (RM)</b>					<b>27.53</b>	
(-) Holding co. discount					25%	
<b>Target price (RM)</b>					<b>20.65</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)	7.4	6.5	6.5	6.0	5.7
<b>Div yield (%)</b>	<b>2.9</b>	<b>3.0</b>	<b>3.1</b>	<b>3.3</b>	<b>3.5</b>
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	

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (197501002077 (23878 – X)).  
(Bank Pelaburan)  
(A Participating Organisation of Bursa Malaysia Securities Berhad)

## DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (197501002077 (23878 – X)) for distribution to and use by its clients to the extent permitted by applicable law or regulation.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that MIDF Investment believes are reliable at the time of publication. All information, opinions and estimates contained in this report are subject to change at any time without notice. Any update to this report will be solely at the discretion of MIDF Investment.

MIDF Investment makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such. MIDF Investment and its affiliates and related BNM and each of their respective directors, officers, employees, connected parties, associates and agents (collectively, "Representatives") shall not be liable for any direct, indirect or consequential loss, loss of profits and/or damages arising from the use or reliance by anyone upon this report and/or further communications given in relation to this report.

This report is not, and should not at any time be construed as, an offer, invitation or solicitation to buy or sell any securities, investments or financial instruments. The price or value of such securities, investments or financial instruments may rise or fall. Further, the analyses contained herein are based on numerous assumptions. This report does not take into account the specific investment objectives, the financial situation, risk profile and the particular needs of any person who may receive or read this report. You should therefore independently evaluate the information contained in this report and seek financial, legal and other advice regarding the appropriateness of any transaction in securities, investments or financial instruments mentioned or the strategies discussed or recommended in this report.

The Representatives may have interest in any of the securities, investments or financial instruments and may provide services or products to any company and affiliates of such BNM mentioned herein and may benefit from the information herein.

This document may not be reproduced, copied, distributed or republished in whole or in part in any form or for any purpose without MIDF Investment's prior written consent. This report is not directed or intended for distribution to or use by any person or entity where such distribution or use would be contrary to any applicable law or regulation in any jurisdiction concerning the person or entity.

### 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