

Hong Leong Financial Group Berhad

(1082 | HLFGB MK) Financial Services | Finance

2QFY24 Results: Solid Associate Contributions

KEY INVESTMENT HIGHLIGHTS

- 6MFY24's Core NP of RM1,574m was *Above/Within* our/street forecasts: *56%/54%* of full-year forecasts
- Improved HLBK result
- HLA also saw good sequential quarter growth
- HLC was underwhelming
- Forecasts unchanged
- Maintain BUY | Revised TP of RM20.79 | based on SOTP Valuation**

Results in a nutshell:

▲ **6MFY24's Core net profit (NP) of RM1,574m up by +6%yoy.** Driven solely by outstanding Associate contributions and overlay writeback, offsetting weaknesses in revenue.

On a segmental basis, commercial bank saw slight weakening of -3%yoy, whereas investment banking, insurance and associate income saw huge improvements.

▲ **2QFY24's Core NP of RM832m up by +12%qoq.** Driven by lower OPEX, better topline and Associate contributions offsetting a heavier loan provision.

▲ **HLBK showed +6%qoq growth in 2QFY24.** Driven by stronger topline and BOCD results offsetting higher tax and OPEX charges.

▲ **HLA reported 2QFY24 PBT of RM172m, up from last quarter's RM88m by +95%qoq.** Driven by higher life fund surplus and lower operating expenses, which was offset by the lower revenue and Associate contribution.

▼ **HLC reported 2QFY24 PBT of RM19m, down from last quarter's RM27m by -30%qoq.** Driven by lower contributions across all operating divisions.

Forecasts unchanged. We make no changes to earnings forecasts.

Key downside risks. (1) Further NIM compression, (2) BOCD underperforms, (3) Lacklustre investment banking volumes.

Maintain BUY call: Revised SOTP-TP of RM 20.79 (from RM20.65). The TP change is to account for several updated equity stake values used in our valuation.



Maintain BUY

Revised Target Price: RM20.79
(Previously RM20.65)

RETURN STATISTICS

Price @ 28 February 2024 (RM)	16.10
Expected share price return (%)	+29.1
Expected dividend yield (%)	+3.1
Expected total return (%)	+32.2

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	2.5	-0.7
3 months	1.5	-5.3
12 months	-7.0	-12.8

INVESTMENT STATISTICS

FYE Jun	FY24F	FY25F	FY26F
Core NP (RM m)	2,798	3,025	3,182
CNP growth (%)	0	8	5
Div yield (%)	0.6	0.6	0.5
Gross DPS (sen)	49.4	53.3	56.1
P/BV (x)	0.6	0.6	0.5
BVPS (RM)	25.6	27.7	30.0
ROE (%)	10.0	10.0	9.7
MIDF/Street CNP (%)	97	97	101

KEY STATISTICS

FBM KLCI	1,545.59
Issue shares (m)	1,134.1
Estimated free float (%)	16.3
Market Capitalisation (RM'm)	19,102.7
52-wk price range	RM16.1 - RM18.8
3-mth avg daily volume (m)	1.0
3-mth avg daily value (RM'm)	15.6
Top Shareholders (%)	
Hong Leong Co Malaysia Bhd	52.1
Guoco Group Ltd	25.4
EPF Board	3.4

Analyst

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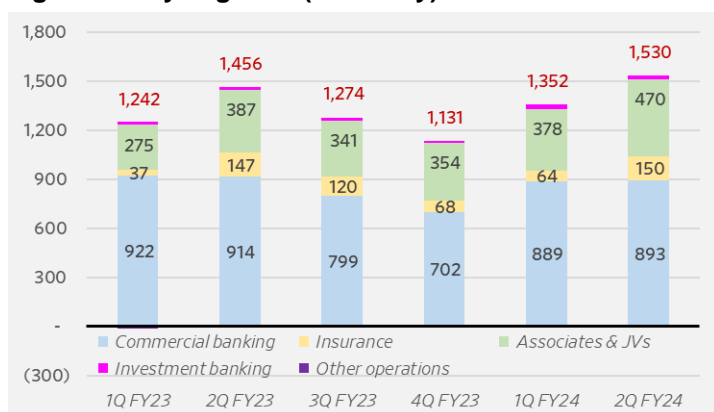
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Fig 1: SOTP Valuation

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
HLA (Components)					3,921	
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	231	end Dec-23	65%	1.0	150	1x Book value
(-) HFLG net debt		end Dec-23			(1,390)	
Total sum-of-parts					31,433	
(÷) HFLG share cap (mil)					1,134	
Fair value (RM)					27.72	
(-) Holding co. discount					25%	
Target price (RM)					20.79	

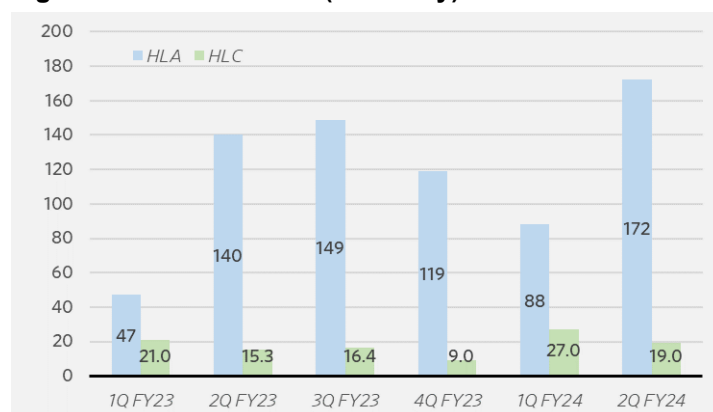
Source: Hong Leong Financial Group, MIDFR

Fig 2: PBT by segment (Quarterly)



Source: Hong Leong Financial Group, MIDFR

Fig 3: HLA & HLC's PBT (Quarterly)



Source: Hong Leong Financial Group, MIDFR

Fig 4: Quarterly results

FYE Jun (RM m)	2Q FY24	1Q FY24	2Q FY23	Yoy (%)	Qoq (%)	1H FY24	1H FY23	Yoy (%)
Net interest inc.	976	948	980	-0	3	1,924	1,991	-3
Islamic banking inc.	241	230	273	-12	5	472	525	-10
Non-interest inc.	444	387	493	-10	15	832	833	-0
Net income	1,662	1,565	1,746	-5	6	3,227	3,349	-4
OPEX	(607)	(641)	(607)	-0	-5	(1,248)	(1,207)	3
PPOP	1,055	924	1,138	-7	14	1,979	2,142	-8
Loan provisions	6	51	(25)	-122	-89	57	(63)	-191
Other provisions	0	(0)	(1)	n.m.	n.m.	(0)	(1)	n.m.
JV & Associates	470	378	387	21	24	848	662	28
PBT	1,530	1,352	1,499	2	13	2,883	2,740	5
Tax	(285)	(237)	(283)	1	20	(522)	(503)	4
NCI	(414)	(373)	(405)	2	11	(787)	(756)	4
Reported NP	832	742	811	3	12	1,574	1,481	6
Core NP	832	742	811	3	12	1,574	1,481	6
Segments								
Commercial banking	893	889	914	-2	0	1,781	1,837	-3
Investment banking	19	27	15	27	-29	47	36	30
Insurance	150	64	147	2	135	214	184	16
Other operations	(2)	(5)	(8)	-75	-62	(7)	(21)	-67
Associates & JVs	470	378	387	21	24	848	662	28
Ratios								
Gross DPS (sen)	18.0	-	17.0	<i>n.m.</i>	<i>n.m.</i>	18.0	17.0	<i>n.m.</i>
Core EPS (sen)	73.4	65.4	71.5	2.5	12.2	138.8	130.6	6.3
Cost/Income (%)	0.4	0.4	0.3	0.0	(0.0)	0.4	0.4	0.0

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)
Net interest income	3,857	3,786	4,085	4,322	4,495
Islamic banking inc.	905	963	1,034	1,095	1,140
Other operating inc.	1,490	1,680	1,270	1,522	1,601
Net income	6,252	6,429	6,389	6,939	7,235
OPEX	(2,358)	(2,570)	(2,552)	(2,734)	(2,853)
PPOP	3,893	3,860	3,837	4,204	4,382
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
PBT	4,840	5,102	5,069	5,478	5,763
Tax & zakat	(1,157)	(895)	(892)	(963)	(1,013)
NCI	(1,231)	(1,416)	(1,378)	(1,490)	(1,567)
Reported NP	2,452	2,791	2,798	3,025	3,182
Core NP	2,452	2,791	2,798	3,025	3,182

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
Total assets	286,921	315,266	334,182	354,233	375,487
Customer deposits	197,383	211,467	224,155	237,605	251,861
Others	53,548	64,169	67,085	70,107	73,339
Total liabilities	250,931	275,636	291,241	307,712	325,200
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)
Shareholders' funds	24,276	26,792	29,031	31,450	33,996
NCI	11,714	12,838	13,911	15,070	16,290
Total equity	35,990	39,630	42,941	46,521	50,287
Total L&E	286,921	315,266	334,182	354,233	375,487

Source: Hong Leong Financial Group, MIDFR

FINANCIAL RATIOS

FYE Jun (RM m)	FY22	FY23	FY24F	FY25F	FY26F
Profitability (%)					
ROE	10.4	10.9	10.0	10.0	9.7
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
Capital (%)					
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
Growth (%)					
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
Valuation metrics					
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
Div yield (%)	2.9	3.0	3.1	3.3	3.5
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	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