

# Hong Leong Financial Group Berhad

(1082 | HLFG MK) Financial Services | Finance

## 3QFY24 Results: A Strong Quarter

### KEY INVESTMENT HIGHLIGHTS

- **9MFY24's Core NP of RM2,393m was *Above/Above* our/*street* forecasts: *85%/82%* of full-year forecasts**
- **Core themes: (a) Moderating BOCD contributions affect HLBK's performance, (b) HLA sees strong recovery, (c) HLC sees strong improvement**
- **Forecasts revised: FY24F/25F/26F Core NP adjusted by +5%/+4%/+4%.**
- **Maintain BUY | Revised TP of RM20.94 | based on SOTP Valuation**

### Results in a nutshell:

▲ **9MFY24's Core net profit (NP) of RM2,393m up by +8%yoy.** Driven largely by improved NII, net writebacks and stronger associate contributions.

On a segmental basis, insurance, associate contributions, and investment banking showed strong improvement.

▼ **3QFY24's Core NP of RM819m down by -2%qoq.** The stronger OPEX and weaker associate income offset improvements in NII/NOII and higher net writebacks.

▼ **HLBK showed -4%qoq growth in 3QFY24.** Despite a slightly larger NII and provision writebacks, weaker NOII and BOCD performance dragged earnings. Note that BOCD's contribution in 2QFY24 was exceptional – these are just high-base effects.

▲ **HLA reported 3QFY24 PBT of RM194m, up from last quarter's RM172m by +13%qoq.** Driven by higher revenue and higher share of associate profits – which offset higher OPEX and lower life fund surplus.

▲ **HLA reported 9MFY24 PBT of RM454m, up from last year's RM380m by +19%qoq.** Driven by higher life fund surplus and associate profits – which offset lower revenue and higher OPEX.

▲ **HLC reported 3QFY24 PBT of RM27m, up from last quarter's RM19m by +43%qoq.** Driven by FV gain from investment and higher contribution from IB and stockbroking divisions.

▲ **HLC reported 9MFY24 PBT of RM73m, up from last year's RM53m by +39%qoq.** Driven by FV gain on investment and higher contribution from IB and stockbroking divisions.

## Maintain BUY

**Revised Target Price: RM20.94**  
(Previously RM20.79)

### RETURN STATISTICS

|                                  |              |
|----------------------------------|--------------|
| Price @ 30 May 2024 (RM)         | 17.50        |
| Expected share price return (%)  | +19.7        |
| Expected dividend yield (%)      | +3.2         |
| <b>Expected total return (%)</b> | <b>+22.8</b> |

### SHARE PRICE CHART



| Price performance (%) | Absolute | Relative |
|-----------------------|----------|----------|
| 1 month               | 5.4      | 0.3      |
| 3 months              | 5.4      | 1.4      |
| 12 months             | -3.2     | -15.0    |

### INVESTMENT STATISTICS

| FYE Jun               | FY24F        | FY25F        | FY26F        |
|-----------------------|--------------|--------------|--------------|
| <b>Core NP (RM m)</b> | <b>2,944</b> | <b>3,138</b> | <b>3,318</b> |
| CNP growth (%)        | 5            | 7            | 6            |
| <b>Div yield (%)</b>  | <b>0.7</b>   | <b>0.6</b>   | <b>0.6</b>   |
| Gross DPS (sen)       | 51.9         | 55.3         | 58.5         |
| <b>P/BV (x)</b>       | <b>0.7</b>   | <b>0.6</b>   | <b>0.6</b>   |
| BVPS (RM)             | 25.7         | 27.9         | 30.3         |
| <b>ROE (%)</b>        | <b>10.5</b>  | <b>10.3</b>  | <b>10.1</b>  |
| MIDF/Street CNP (%)   | 102          | 101          | 106          |

### KEY STATISTICS

|                              |                 |
|------------------------------|-----------------|
| FBM KLCI                     | 1,604.26        |
| Issue shares (m)             | 1,134.1         |
| Estimated free float (%)     | 16.3            |
| Market Capitalisation (RM'm) | 20,018.9        |
| 52-wk price range            | RM16.0 - RM18.8 |
| 3-mth avg daily volume (m)   | 0.2             |
| 3-mth avg daily value (RM'm) | 4.0             |
| Top Shareholders (%)         |                 |
| Hong Leong Co Malaysia Bhd   | 52.1            |
| Guoco Group Ltd              | 25.4            |
| EPF Board                    | 3.4             |

**Analyst**

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**Forecasts revised: FY24F/25F/26F Core NP adjusted by +5%/+4%/+4%.** To reflect better insurance and investment bank contributions.

**Key downside risks.** (1) Weaker associate contributions, (2) Higher-than-expected cost inflation, (3) Weak investment performance.

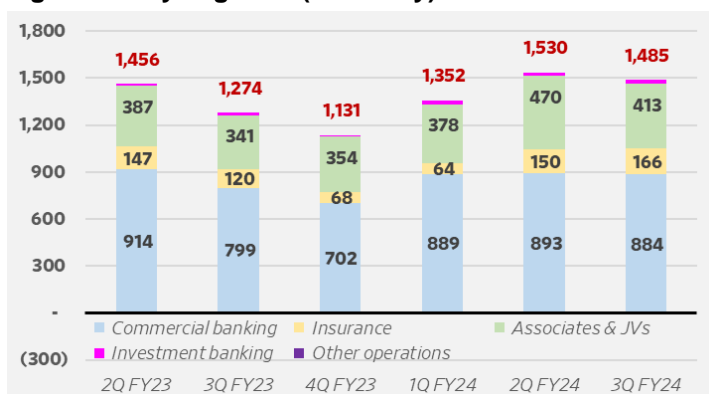
**Maintain BUY call: Revised SOTP-TP of RM 20.94 (from RM20.79).** The changes reflect the latest available data used for our SOTP valuation. 

**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   | 990                | end Mar-24        | 70%              | 1.0    | 697                    | 1x Book value      |
| <b>HLA (Components)</b>                               |                    |                   |                  |        | <b>3,921</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                                       | 231                | end Dec-23        | 65%              | 1.0    | 150                    | 1x Book value      |
| <b>(-) HLFG net debt</b>                              |                    | <b>end Mar-24</b> |                  |        | <b>(1,175)</b>         |                    |
| <b>Total sum-of-parts</b><br>(÷) HLFG snare cap (mil) |                    |                   |                  |        | <b>31,666</b><br>1,134 |                    |
| <b>Fair value (RM)</b>                                |                    |                   |                  |        | <b>27.92</b>           |                    |
| (-) Holding co. discount                              |                    |                   |                  |        | 25%                    |                    |
| <b>Target price (RM)</b>                              |                    |                   |                  |        | <b>20.94</b>           |                    |

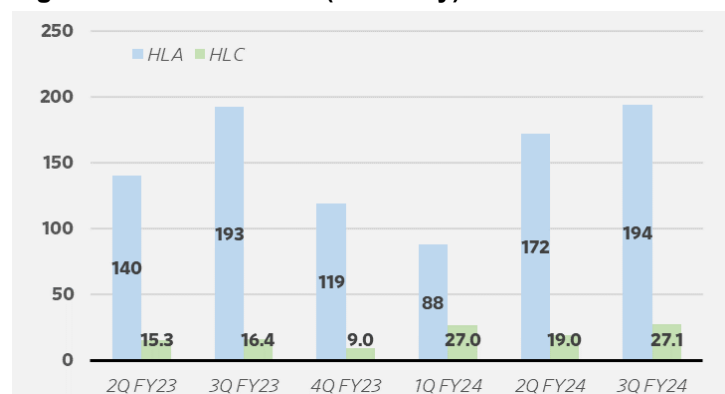
Source: Hong Leong Financial Group, MIDFR

**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 1: Quarterly results

| FYE Jun (RM m)         | 3Q FY24      | 2Q FY24      | 3Q FY23      | Yoy (%)    | Qoq (%)    | 9M FY24      | 9M FY23      | Yoy (%)    |
|------------------------|--------------|--------------|--------------|------------|------------|--------------|--------------|------------|
| Net interest inc.      | 992          | 976          | 876          | 13         | 2          | 2,915        | 2,868        | 2          |
| Islamic banking inc.   | 254          | 241          | 209          | 22         | 5          | 726          | 734          | -1         |
| Non-interest inc.      | 453          | 444          | 551          | -18        | 2          | 1,284        | 1,383        | -7         |
| <b>Net income</b>      | <b>1,699</b> | <b>1,662</b> | <b>1,636</b> | <b>4</b>   | <b>2</b>   | <b>4,926</b> | <b>4,985</b> | <b>-1</b>  |
| OPEX                   | (652)        | (607)        | (621)        | 5          | 7          | (1,900)      | (1,829)      | 4          |
| <b>PPOP</b>            | <b>1,047</b> | <b>1,055</b> | <b>1,014</b> | <b>3</b>   | <b>-1</b>  | <b>3,026</b> | <b>3,156</b> | <b>-4</b>  |
| Loan provisions        | 26           | 6            | (38)         | -169       | 373        | 83           | (101)        | -182       |
| Other provisions       | (1)          | 0            | 0            | n.m.       | n.m.       | (1)          | (1)          | n.m.       |
| JV & Associates        | 413          | 470          | 341          | 21         | -12        | 1,260        | 1,003        | 26         |
| <b>PBT</b>             | <b>1,485</b> | <b>1,530</b> | <b>1,318</b> | <b>13</b>  | <b>-3</b>  | <b>4,368</b> | <b>4,058</b> | <b>8</b>   |
| Tax                    | (262)        | (285)        | (217)        | 21         | -8         | (784)        | (720)        | 9          |
| NCI                    | (404)        | (414)        | (365)        | 11         | -2         | (1,191)      | (1,121)      | 6          |
| <b>Reported NP</b>     | <b>819</b>   | <b>832</b>   | <b>736</b>   | <b>11</b>  | <b>-2</b>  | <b>2,393</b> | <b>2,216</b> | <b>8</b>   |
| <b>Core NP</b>         | <b>819</b>   | <b>832</b>   | <b>736</b>   | <b>11</b>  | <b>-2</b>  | <b>2,393</b> | <b>2,216</b> | <b>8</b>   |
| <b>Segments</b>        |              |              |              |            |            |              |              |            |
| Commercial banking     | 884          | 893          | 799          | 11         | -1         | 2,666        | 2,635        | 1          |
| Investment banking     | 27           | 19           | 16           | 65         | 39         | 74           | 53           | 41         |
| Insurance              | 166          | 150          | 120          | 37         | 10         | 379          | 304          | 25         |
| Other operations       | (4)          | (2)          | (3)          | 38         | 126        | (11)         | (24)         | -53        |
| Associates & JVs       | 413          | 470          | 341          | 21         | -12        | 1,260        | 1,003        | 26         |
| <b>Ratios</b>          |              |              |              |            |            |              |              |            |
|                        | 3Q FY24      | 2Q FY24      | 3Q FY23      | Yoy (ppts) | Qoq (ppts) | 9M FY24      | 9M FY23      | Yoy (ppts) |
| <b>Gross DPS (sen)</b> | -            | 18.0         | -            | n.m.       | n.m.       | 18.0         | 17.0         | n.m.       |
| Core EPS (sen)         | 72.2         | 73.4         | 64.9         | 11.3       | -1.6       | 211.0        | 195.4        | 7.9        |
| Cost/Income (%)        | 0.4          | 0.4          | 0.4          | 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        | 8,150        | 8,551        | 9,196        |
| 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>4,091</b> | <b>4,335</b> | <b>4,516</b> |
| Islamic banking inc.       | 905          | 963          | 1,034        | 1,095        | 1,140        |
| Other operating inc.       | 1,490        | 1,680        | 1,529        | 1,720        | 1,836        |
| <b>Net income</b>          | <b>6,252</b> | <b>6,429</b> | <b>6,654</b> | <b>7,150</b> | <b>7,492</b> |
| OPEX                       | (2,358)      | (2,570)      | (2,555)      | (2,742)      | (2,865)      |
| <b>PPOP</b>                | <b>3,893</b> | <b>3,860</b> | <b>4,099</b> | <b>4,408</b> | <b>4,627</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>5,330</b> | <b>5,682</b> | <b>6,008</b> |
| Tax & zakat                | (1,157)      | (895)        | (936)        | (998)        | (1,055)      |
| NCI                        | (1,231)      | (1,416)      | (1,450)      | (1,546)      | (1,634)      |
| <b>Reported NP</b>         | <b>2,452</b> | <b>2,791</b> | <b>2,944</b> | <b>3,138</b> | <b>3,318</b> |
| <b>Core NP</b>             | <b>2,452</b> | <b>2,791</b> | <b>2,944</b> | <b>3,138</b> | <b>3,318</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         | 66,913         | 69,801         | 72,872         |
| <b>Total liabilities</b>   | <b>250,931</b> | <b>275,636</b> | <b>291,069</b> | <b>307,406</b> | <b>324,733</b> |
| Share capital              | 2,267          | 2,267          | 2,267          | 2,267          | 2,267          |
| Reserves                   | 22,245         | 24,758         | 27,113         | 29,624         | 32,278         |
| Treasury shares            | (236)          | (233)          | (233)          | (233)          | (233)          |
| <b>Shareholders' funds</b> | <b>24,276</b>  | <b>26,792</b>  | <b>29,147</b>  | <b>31,657</b>  | <b>34,312</b>  |
| NCI                        | 11,714         | 12,838         | 13,966         | 15,169         | 16,441         |
| <b>Total equity</b>        | <b>35,990</b>  | <b>39,630</b>  | <b>43,113</b>  | <b>46,827</b>  | <b>50,753</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>10.5</b> | <b>10.3</b> | <b>10.1</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        | 38.4        | 38.3        | 38.2        |
| <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         | 3.5         | 7.5         | 4.8         |
| OPEX                     | (1.4)       | 9.0         | (0.6)       | 7.3         | 4.5         |
| Core NP                  | 8.3         | 13.8        | 5.5         | 6.6         | 5.7         |
| <b>Valuation metrics</b> |             |             |             |             |             |
| Core EPS (sen)           | 216.3       | 246.2       | 259.6       | 276.8       | 292.6       |
| Gross DPS (sen)          | 46.0        | 49.0        | 51.9        | 55.3        | 58.5        |
| Div payout (%)           | 21          | 20          | 20          | 20          | 20          |
| BVPS (RM)                | 21.4        | 23.6        | 25.7        | 27.9        | 30.3        |
| Core P/E (x)             | 8.1         | 7.1         | 6.7         | 6.3         | 6.0         |
| <b>Div yield (%)</b>     | <b>2.6</b>  | <b>2.8</b>  | <b>3.0</b>  | <b>3.2</b>  | <b>3.3</b>  |
| P/BV (x)                 | 0.8         | 0.7         | 0.7         | 0.6         | 0.6         |

### Income Statement

Core NP – Core Net Profit  
PPOP – Pre-Provisioning Operating Profit  
NII – Net Interest Income  
NIM – Net Interest Margin  
COF – Cost of Funds  
NOII – Non-Interest Income  
MTM – Mark to Market  
CIR – Cost to Income Ratio  
OPEX – Operational Expenses

### Balance Sheet

LCR – Liquidity Coverage ratio  
L/D ratio – Loan/Deposit ratio  
CASA – Current & Savings accounts  
FD – Fixed Deposits  
GIL – Gross Impaired Loans  
NIL – Net Impaired Loans  
LLC – Loan Loss Coverage  
NCC – Net Credit Costs  
GCC – Gross Credit Costs  
CET 1 – Common Equity Tier 1

### Valuations & Sector

ROE – Return on Equity  
GGM – Gordon Growth Model  
P/BV – Price to Book Value  
BVPS – Book Value per Share  
BNM – Bank Negara Malaysia  
OPR – Overnight Policy Rate  
SRR – Statutory Reserve Requirement  
SBR – Standardised Base Rate  
ALR – Average Lending Rate

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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