

Hong Leong Financial Group Berhad

(1082 | HLFGB MK) Financial Services | Finance

4QFY24 Results: Above our Expectations

KEY INVESTMENT HIGHLIGHTS

- FY24's Core NP of RM3,199m was *Above/Above* our/street forecasts: **109%/106%** of full-year forecasts
- Core themes: (a) Solid Associate contributions, (b) Improved HLA performance, (c) Improved HLC performance
- Forecasts revised: FY25F/26F Core NP adjusted by **8%/11%**
- **Maintain BUY | Revised TP of RM23.13 | based on SOTP Valuation**

Results in a nutshell:

▲ **FY24's Core net profit (NP) of RM3,199m up by +11%yoy.** Driven by topline and Associate contribution improvements, as well as net writebacks.

On a segmental basis, investment banking income doubled last year's result, while associate contributions saw sharp growth. Commercial banking saw a respectable +6%yoy improvement.

Earnings surpassed expectations, largely due to better-than-expected Associate contributions and higher writebacks.

▼ **4QFY24's Core NP of RM806m down by -2%qoq.** Driven by sharp cost inflation offsetting slight improvements in NOII and NII.

► **HLBK showed -1%qoq growth in 4QFY24.** Driven by sharp cost inflation offsetting improvements in topline and higher writebacks.

▼ **HLA reported 4QFY24 PBT of RM153m, down from last quarter's RM194m by -21%qoq.** Driven by lower insurance service income and lower investment income.

▲ **HLA reported FY24 PBT of RM607m, up from last year's RM526m by +15%qoq.** Driven by higher investment income and associate contributions.

▲ **HLC reported 4QFY24 PBT of RM48m, up from last quarter's RM27m by +77%qoq.** Driven by fair value gain on investment and higher contribution from investment banking and stockbroking divisions.

▲ **HLC reported FY24 PBT of RM121m, up from last year's RM62m by +96%qoq.** Driven by fair value gain on investment and higher contribution across all operating divisions.

Forecasts revised: FY25F/26F Core NP adjusted by 8%/11%. To reflect revised changes to our HLBK forecasts.

Key downside risks. (1) Weaker associate contributions, (2) NIM compression, (3) Steep cost inflation persists.

Maintain BUY call: Revised SOTP-TP of RM 23.13 (from RM20.94). The TP change is due to our revised HLBK forecasts, as well as updated information for other subsidiaries.

Maintain BUY

Revised Target Price: RM23.13
(Previously RM20.94)

RETURN STATISTICS

Price @ 29 August 2024 (RM)	18.46
Expected share price return (%)	+25.3
Expected dividend yield (%)	+3.1
Expected total return (%)	+28.4

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	1.3	1.1
3 months	1.0	-1.7
12 months	-5.3	-16.5

INVESTMENT STATISTICS

FYE Jun	FY25F	FY26F	FY27F
Core NP (RM m)	3,263	3,545	3,809
CNP growth (%)	2	9	7
Div yield (%)	0.6	0.6	0.5
Gross DPS (sen)	57.5	62.5	67.2
P/BV (x)	0.6	0.6	0.5
BVPS (RM)	28.8	31.3	34.0
ROE (%)	10.4	10.4	10.3
MIDF/Street CNP (%)	103	106	

KEY STATISTICS

FBM KLCI	1,653.55
Issue shares (m)	1,134.1
Estimated free float (%)	16.3
Market Capitalisation (RM'm)	19,996.0
52-wk price range	RM16.0 - RM18.7
3-mth avg daily volume (m)	0.2
3-mth avg daily value (RM'm)	2.8
Top Shareholders (%)	
Hong Leong Co Malaysia Bhd	52.1
Guoco Group Ltd	25.4
EPF Board	3.4

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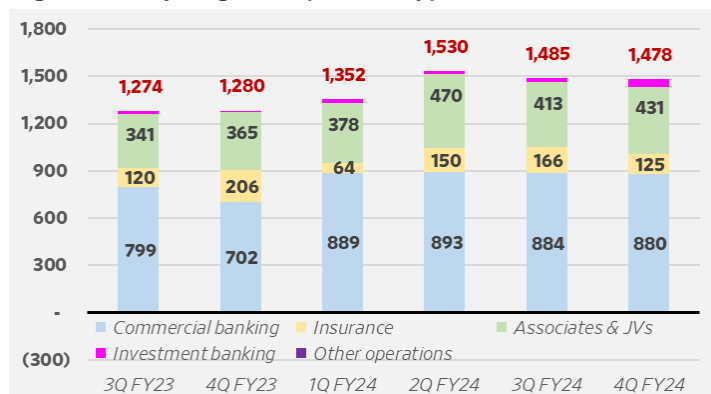


Fig 1: SOTP Valuation

Companies	Shs' fund (RM mil)	As of	Equity stake (%)	BV (X)	Valuation (RM mil)	Comments
HLBK	40,210	FY25	64%	1.16	30,038	FY25F ROE of 11.6%
HLC	1,027	end Jun-24	70%	1.0	723	1x Book value
HLA (Components)					4,285	
HLA (Embedded value)	4,267	end Jun-23	70%	1.0	2,987	1x Embedded value
MSIG	3,189	end Jun-24	30%	1.2	1,148	In line with peers
HL MSIG Takaful	231	end Dec-23	65%	1.0	150	1x Book value
(-) HLFG net debt		end Jun-24			(64)	
Total sum-of-parts					34,983	
(÷) HLFG share cap (mil)					1,134	
Fair value (RM)					30.84	
(-) Holding co. discount					25%	
Target price (RM)					23.13	

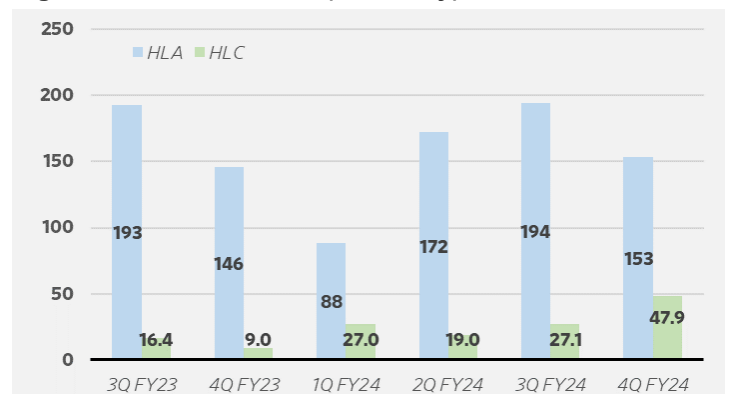
Source: Hong Leong Financial Group, MIDFR

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)	4Q FY24	3Q FY24	4Q FY23	Yoy (%)	Qoq (%)	FY24	FY23	Yoy (%)
Net interest inc.	1,007	992	918	10	2	3,923	3,786	4
Islamic banking inc.	260	254	230	13	2	986	963	2
Non-interest inc.	458	453	343	33	1	1,742	1,726	1
Net income	1,725	1,699	1,491	16	2	6,651	6,476	3
OPEX	(709)	(652)	(650)	9	9	(2,609)	(2,479)	5
PPOP	1,016	1,047	841	21	-3	4,041	3,997	1
Loan provisions	31	26	(14)	-318	18	114	(115)	-199
Other provisions	(0)	(1)	1	n.m.	n.m.	(1)	0	n.m.
JV & Associates	431	413	365	18	4	1,691	1,369	24
PBT	1,478	1,485	1,193	24	-1	5,846	5,251	11
Tax	(274)	(262)	(199)	38	5	(1,058)	(919)	15
NCI	(397)	(404)	(330)	20	-2	(1,589)	(1,451)	9
Reported NP	806	819	664	21	-2	3,199	2,880	11
Core NP	806	819	664	21	-2	3,199	2,880	11
Segments								
Commercial banking	880	884	702	25	-1	3,545	3,337	6
Investment banking	48	27	9	440	77	122	61	98
Insurance	125	166	206	-40	-25	504	510	-1
Other operations	(5)	(4)	(3)	110	24	(17)	(27)	-37
Associates & JVs	431	413	365	18	4	1,691	1,369	24
Ratios								
	4Q FY24	3Q FY24	4Q FY23	Yoy (ppts)	Qoq (ppts)	FY24	FY23	Yoy (ppts)
Gross DPS (sen)	36.0	-	32.0	n.m.	n.m.	54.0	49.0	n.m.
Core EPS (sen)	71.1	72.2	58.5	21.4	-1.6	282.0	254.0	11.0
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)	FY23	FY24	FY25F	FY26F	FY27F
Interest income	7,763	9,042	9,383	9,836	10,210
Interest expense	(3,977)	(5,120)	(5,167)	(5,282)	(5,398)
Net interest income	3,787	3,923	4,216	4,554	4,812
Islamic banking inc.	963	986	1,141	1,232	1,301
Other operating inc.	1,726	1,742	1,733	1,801	1,904
Net income	6,477	6,651	7,090	7,587	8,016
OPEX	(2,479)	(2,609)	(2,807)	(2,999)	(3,163)
PPOP	3,997	4,041	4,283	4,588	4,853
Loan allowances	(115)	114	(201)	(215)	(229)
Other allowances	0	(1)	(0)	(0)	(0)
JV & Associates	1,369	1,691	1,827	2,047	2,272
PBT	5,251	5,846	5,909	6,419	6,896
Tax & zakat	(919)	(1,058)	(1,038)	(1,128)	(1,211)
NCI	(1,451)	(1,590)	(1,607)	(1,746)	(1,876)
Reported NP	2,881	3,198	3,263	3,545	3,809
Core NP	2,881	3,198	3,263	3,545	3,809

BALANCE SHEET

FYE Jun (RM m)	FY23	FY24	FY25F	FY26F	FY27F
Cash & ST funds	10,928	9,200	10,028	10,931	11,915
Investment securities	99,951	107,424	108,913	110,619	112,546
Net loans	180,567	193,613	205,230	217,544	230,597
Others	23,440	25,968	32,207	38,667	45,369
Total assets	314,886	336,205	356,378	377,760	400,426
Customer deposits	211,467	220,075	233,280	247,277	262,113
Others	63,213	71,761	74,880	78,083	81,419
Total liabilities	274,681	291,837	308,159	325,360	343,532
Share capital	2,267	2,267	2,267	2,267	2,267
Reserves	25,168	28,054	30,665	33,501	36,548
Treasury shares	(233)	(230)	(230)	(230)	(230)
Shareholders' funds	27,202	30,091	32,701	35,538	38,585
NCI	13,004	14,278	15,517	16,863	18,309
Total equity	40,206	44,369	48,218	52,401	56,894
Total L&E	314,886	336,205	356,378	377,760	400,426

Source: Hong Leong Financial Group, MIDFR

FINANCIAL RATIOS

FYE Jun (RM m)	FY23	FY24	FY25F	FY26F	FY27F
Profitability (%)					
ROE	11.2	11.2	10.4	10.4	10.3
ROA	1.0	1.0	0.9	1.0	1.0
Effective tax rate	17.5	18.1	17.6	17.6	17.6
Cost/Income	38.3	39.2	39.6	39.5	39.5
Capital (%)					
CET 1	11.0	11.5	11.6	11.6	11.6
Tier 1 capital	12.1	12.4	12.9	12.9	12.9
Total capital	14.6	14.3	15.8	15.8	15.8
Growth (%)					
Net income	3.6	2.7	6.6	7.0	5.7
OPEX	5.1	5.2	7.6	6.9	5.5
Core NP	17.5	11.0	2.1	8.6	7.4
Valuation metrics					
Core EPS (sen)	254.1	282.0	287.8	312.7	335.9
Gross DPS (sen)	49.0	54.0	57.5	62.5	67.2
Div payout (%)	19	19	20	20	20
BVPS (RM)	24.0	26.5	28.8	31.3	34.0
Core P/E (x)	7.3	6.5	6.4	5.9	5.5
Div yield (%)	2.7	2.9	3.1	3.4	3.6
P/BV (x)	0.8	0.7	0.6	0.6	0.5

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