

# Hong Leong Financial Group (HLFG MK)

## FY22 results within expectations

### BUY maintained

HLFG's results were within expectations whereby higher earnings from HL Bank were offset by lower contributions from insurance and investment banking. Our FY23/FY24E net profit for HLFG are raised by 2% each following our earnings upgrade for HL Bank; we introduce FY25E. Our SOP-derived TP is raised marginally to MYR22.35 (+25sen) to factor in a higher TP for HL Bank and a higher embedded value for HLA.

### Within expectations

HLFG's 4QFY22 net profit of MYR675m (+18% YoY, +40% QoQ) took FY22 core net profit to MYR2.45b (+8% YoY). The results were within expectations as slightly higher-than-expected earnings at HL Bank (HLBK MK, BUY, TP: MYR24.90) was offset by lower contributions from insurance and investment banking.

### Robust earnings from HL Bank

HL Bank's 4QFY22 core net profit of MYR908m (+32% YoY, +16% QoQ) took FY22 core net profit to MYR3.29b (+15% YoY) - slightly above expectations at 105%/103% of our full-year forecast/consensus respectively. Loan growth was strong at 8% YoY while NIMs were stable YoY. The drag was in NOII which declined 14% YoY in FY22 but this was offset by stable expenses and lower YoY credit cost. FY22 associate income surged 40% YoY with higher contributions from 18%-owned Bank of Chengdu, which made up 24% of group pretax profit in FY22.

### Lower earnings from HLA Holdings

HLA Holdings reported a net profit of MYR339m (-14% YoY) for FY22, led by a 0.9% YoY decline in HLA's earnings to MYR256.8m (-0.9% YoY), and FV losses of on its bond portfolio. HLA's gross premiums rose 1% YoY, while new business regular premiums declined 13% YoY due to disruptions brought about by the MCO. HLA's EV increased 14% YoY to MYR3.26b while NBEV rose to MYR200m (+13% YoY; 8.5% discount rate). NBEV margin improved to 35.7% from 28.5% in FY21.

| FYE Jun (MYR m)        | FY21A | FY22A | FY23E | FY24E | FY25E |
|------------------------|-------|-------|-------|-------|-------|
| Operating income       | 6,199 | 6,252 | 6,551 | 6,798 | 7,112 |
| Pre-provision profit   | 3,806 | 3,893 | 4,069 | 4,198 | 4,387 |
| Core net profit        | 2,265 | 2,452 | 2,617 | 2,732 | 2,930 |
| Core EPS (MYR)         | 2.00  | 2.16  | 2.31  | 2.41  | 2.58  |
| Core EPS growth (%)    | 17.7  | 8.3   | 6.7   | 4.4   | 7.2   |
| Net DPS (MYR)          | 0.40  | 0.46  | 0.50  | 0.52  | 0.56  |
| Core P/E (x)           | 8.9   | 8.6   | 8.4   | 8.1   | 7.5   |
| P/BV (x)               | 0.9   | 0.9   | 0.8   | 0.8   | 0.7   |
| Net dividend yield (%) | 2.2   | 2.5   | 2.6   | 2.7   | 2.9   |
| Book value (MYR)       | 19.89 | 21.15 | 22.93 | 24.79 | 26.78 |
| ROAE (%)               | 10.4  | 10.4  | 10.3  | 10.0  | 9.9   |
| ROAA (%)               | 0.9   | 0.9   | 0.9   | 0.9   | 0.9   |
| Consensus net profit   | -     | -     | 2,769 | 2,977 | na    |
| MKE vs. Consensus (%)  | -     | -     | (5.5) | (8.2) | na    |

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# BUY

|                       |                  |
|-----------------------|------------------|
| Share Price           | MYR 19.42        |
| 12m Price Target      | MYR 22.35 (+15%) |
| Previous Price Target | MYR 22.10        |

### Company Description

HLFG holds a 64% stake in Hong Leong Bank, a 70% stake in Hong Leong Assurance, 30% of MSIG Insurance, and 81% of Hong Leong Capital, among others.

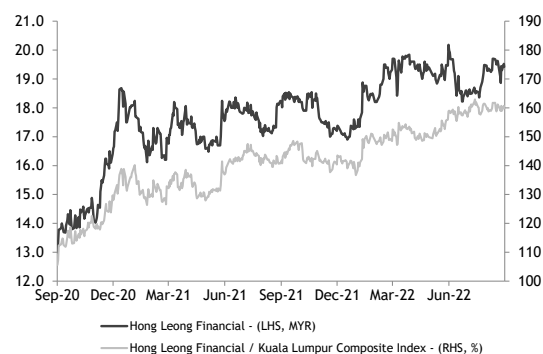
### Statistics

|                        |                     |
|------------------------|---------------------|
| 52w high/low (MYR)     | 20.18/16.90         |
| 3m avg turnover (USDm) | 0.6                 |
| Free float (%)         | 16.0                |
| Issued shares (m)      | 1,148               |
| Market capitalisation  | MYR22.3B<br>USD5.0B |

### Major shareholders:

|                                    |       |
|------------------------------------|-------|
| Hong Leong Company (Malaysia) Bhd. | 51.9% |
| Guoco Group Ltd.                   | 25.4% |
| Employees Provident Fund           | 3.1%  |

### Price Performance



|                       |     |     |      |
|-----------------------|-----|-----|------|
|                       | -1M | -3M | -12M |
| Absolute (%)          | (0) | (0) | 6    |
| Relative to index (%) | (1) | 3   | 14   |

Source: FactSet

## HLFG's results

| FYE June (MYR m)           | Quarterly      |                |             |                |              | Cumulative     |                |             |
|----------------------------|----------------|----------------|-------------|----------------|--------------|----------------|----------------|-------------|
|                            | 4Q22           | 4Q21           | % YoY       | 3Q22           | % QoQ        | FY22           | FY21           | % YoY       |
| Interest income            | 1,527.6        | 1,432.1        | 6.7         | 1,485.2        | 2.9          | 5,943.7        | 5,795.1        | 2.6         |
| Interest expense           | (577.9)        | (494.0)        | 17.0        | (508.6)        | 13.6         | (2,087.2)      | (2,236.1)      | (6.7)       |
| <b>Net interest income</b> | <b>949.7</b>   | <b>938.1</b>   | <b>1.2</b>  | <b>976.6</b>   | <b>(2.8)</b> | <b>3,856.5</b> | <b>3,559.0</b> | <b>8.4</b>  |
| Islamic banking income     | 239.3          | 232.0          | 3.2         | 224.4          | 6.6          | 904.8          | 919.4          | (1.6)       |
| Non-interest income        | 456.4          | 331.0          | 37.9        | 309.8          | 47.3         | 1,490.2        | 1,720.5        | (13.4)      |
| <b>Operating income</b>    | <b>1,645.4</b> | <b>1,501.0</b> | <b>9.6</b>  | <b>1,510.8</b> | <b>8.9</b>   | <b>6,251.5</b> | <b>6,198.9</b> | <b>0.8</b>  |
| Operating expenses         | (608.0)        | (597.7)        | 1.7         | (589.6)        | 3.1          | (2,358.2)      | (2,392.5)      | -1.4        |
| <b>Operating profit</b>    | <b>1,037.3</b> | <b>903.4</b>   | <b>14.8</b> | <b>921.2</b>   | <b>12.6</b>  | <b>3,893.3</b> | <b>3,806.3</b> | <b>2.3</b>  |
| Loan loss provisions       | (30.2)         | (194.2)        | (84.4)      | (51.2)         | (41.0)       | (163.1)        | (650.0)        | (74.9)      |
| Other provisions           | 0.5            | (0.2)          | nm          | (0.1)          | nm           | 1.0            | (0.7)          | nm          |
| Associates & jvs           | 326.5          | 244.4          | 33.6        | 268.1          | 21.8         | 1,108.8        | 815.8          | 35.9        |
| <b>Pretax Profit</b>       | <b>1,334.2</b> | <b>953.4</b>   | <b>39.9</b> | <b>1,138.0</b> | <b>17.2</b>  | <b>4,840.0</b> | <b>3,971.5</b> | <b>21.9</b> |
| Taxation                   | (326.6)        | (98.4)         | >100        | (362.8)        | (10.0)       | (1,157.1)      | (595.1)        | 94.4        |
| Minority interest          | (333.0)        | (281.7)        | 18.2        | (294.3)        | 13.1         | (1,230.7)      | (1,111.1)      | 10.8        |
| <b>Net profit</b>          | <b>674.7</b>   | <b>573.4</b>   | <b>17.7</b> | <b>481.0</b>   | <b>40.3</b>  | <b>2,452.2</b> | <b>2,265.3</b> | <b>8.3</b>  |
| Recurring net profit       | 674.7          | 573.4          | 17.7        | 577.5          | 16.8         | 2,452.2        | 2,265.3        | 8.3         |
| <b>Segmental analysis</b>  |                |                |             |                |              |                |                |             |
| Commercial bank            | 908.5          | 605.4          | 50.1        | 778.3          | 16.7         | 3,336.3        | 2,735.0        | 22.0        |
| Investment bank            | 12.4           | 24.4           | (48.9)      | 26.5           | (53.1)       | 97.2           | 177.4          | (45.2)      |
| Insurance                  | 71.1           | 94.8           | (25.0)      | 72.3           | (1.6)        | 315.4          | 326.7          | (3.5)       |
| Other segments             | 15.6           | (15.4)         | Nm          | (15.4)         | Nm           | (17.7)         | (83.3)         | (78.8)      |
| Associates/JVs             | 326.5          | 244.4          | 33.6        | 268.1          | 21.8         | 1,108.8        | 815.8          | 35.9        |
| <b>Pretax profit</b>       | <b>1,334.2</b> | <b>953.4</b>   | <b>39.9</b> | <b>1,129.8</b> | <b>18.1</b>  | <b>4,840.0</b> | <b>3,971.5</b> | <b>21.9</b> |
| EPS (sen)                  | 59.5           | 50.6           | 17.6        | 50.9           | 16.9         | 216.3          | 199.8          | 8.3         |
| Gross DPS (sen)            | 31.0           | 29.2           | 6.2         | -              | nm           | 46.0           | 40.0           | 15.0        |
| Cost-to-income (%)         | 37.0           | 39.8           | (2.9)       | 39.0           | (2.1)        | 37.7           | 38.6           | (0.9)       |
| Tax rate (%)               | 24.5           | 10.3           | 14.2        | 31.9           | (7.4)        | 23.9           | 15.0           | 8.9         |

Sources: Company, Maybank IBG Research

## SOTP TP raised to MYR22.35

Our SOTP TP is raised marginally to MYR22.35 (+25sen) as we update the valuation parameters. HL Assurance’s Embedded Value as at end-June 2022 was MYR3.26b vs MYR2.87 end-June 2021. We have also raised HL Bank’s TP to MYR24.90 from MYR24.70 (CY23E PBV of 1.4x; ROE: 11.8%).

### Sum-of-the-parts

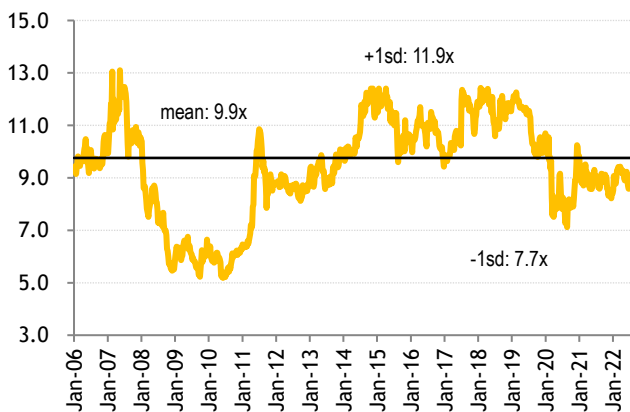
| Entity                     | Shs' funds (MYR'm) | As at      | Multiple (x) | Sharehdg | Value (MYR'm)   | Comments           |
|----------------------------|--------------------|------------|--------------|----------|-----------------|--------------------|
| HL Bank                    | 32,246             | CY23E      | 1.5          | 64.4%    | 30,304.9        | CY23 ROE of 11.8%  |
| HL Assurance (EV)          | 3,259              | end-Jun 22 | 1.0          | 70.0%    | 2,281.3         | 1x Embedded Value  |
| MSIG                       | 3,039              | end-Jun 22 | 1.5          | 30.0%    | 1,367.6         | In line with peers |
| HL MSIG Takaful            | 206                | end-Dec 21 | 1.0          | 65.0%    | 124.0           | At book value      |
| HL Capital                 | 927                | end-Dec 21 | 1.0          | 81.3%    | 754.3           | At book value      |
|                            |                    |            |              |          | <b>34,832.1</b> |                    |
| Actual holding co net debt |                    | end-Dec 21 |              |          | (2,794.2)       |                    |
| <b>Total sum-of-parts</b>  |                    |            |              |          | <b>32,037.9</b> |                    |
| Share capital              |                    |            |              |          | 1,147.5         |                    |
| Fair value (MYR)           |                    |            |              |          | 27.92           |                    |
| Holding co discount        |                    |            |              |          | 20%             |                    |
| <b>Target price (MYR)</b>  |                    |            |              |          | <b>22.34</b>    |                    |

Source: Company, Maybank IBG Research

## Risk statement

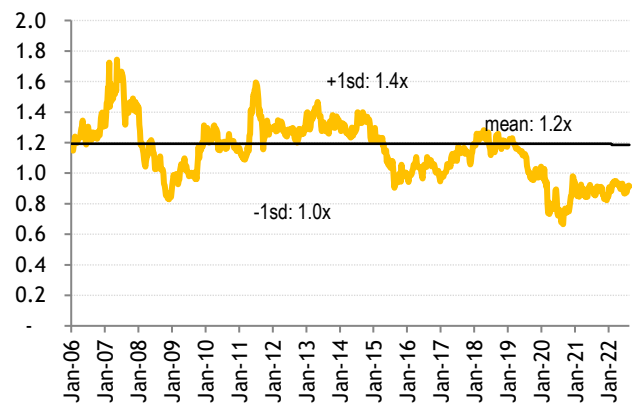
There are several risk factors for our earnings estimates, target price and rating for HLFH. Any slowdown in the domestic economy would have a negative impact on the HL Bank’s earnings, as would a pick-up in deposit competition. Meanwhile, deterioration in China’s economic outlook, particularly in Sichuan Province where 18%-owned Bank of Chengdu is located, would negatively impact associate contributions. 70%-owned HLA’s premium growth is dependent on consumer sentiment while its financial performance would be susceptible to fluctuations in interest rates. 30%-owned MSIG operates in a competitive environment whereby the ‘detrification’ of motor and fire tariffs is likely to result in price competition. HL Capital, meanwhile, is subject to capital-market volatility.

HLFG: One-year forward rolling PER (x)



Source: Bank, Maybank IBG Research

HLFG: One-year forward rolling P/BV (x)



Source: Bank, Maybank IBG Research

| FYE 30 Jun                            | FY21A            | FY22A            | FY23E            | FY24E            | FY25E            |
|---------------------------------------|------------------|------------------|------------------|------------------|------------------|
| <b>Key Metrics</b>                    |                  |                  |                  |                  |                  |
| Core P/E (x)                          | 8.9              | 8.6              | 8.4              | 8.1              | 7.5              |
| Core FD P/E (x)                       | 8.9              | 8.6              | 8.4              | 8.1              | 7.5              |
| P/BV (x)                              | 0.9              | 0.9              | 0.8              | 0.8              | 0.7              |
| P/NTA (x)                             | 1.0              | 1.0              | 0.9              | 0.9              | 0.8              |
| Net dividend yield (%)                | 2.2              | 2.5              | 2.6              | 2.7              | 2.9              |
| <b>INCOME STATEMENT (MYR m)</b>       |                  |                  |                  |                  |                  |
| Interest income                       | 5,795.1          | 5,943.7          | 8,943.6          | 9,444.6          | 9,917.4          |
| Interest expense                      | (2,236.1)        | (2,087.2)        | (4,668.1)        | (5,003.7)        | (5,244.6)        |
| <b>Net interest income</b>            | <b>3,559.0</b>   | <b>3,856.5</b>   | <b>4,275.5</b>   | <b>4,440.9</b>   | <b>4,672.8</b>   |
| Islamic banking income                | 919.4            | 904.8            | 931.9            | 959.9            | 988.7            |
| Net insurance income                  | 0.0              | 0.0              | 0.0              | 0.0              | 0.0              |
| Net fees and commission               | 0.0              | 0.0              | 0.0              | 0.0              | 0.0              |
| Other income                          | 0.0              | 0.0              | 0.0              | 0.0              | 0.0              |
| <b>Total non-interest income</b>      | <b>1,720.5</b>   | <b>1,490.2</b>   | <b>1,343.1</b>   | <b>1,397.0</b>   | <b>1,450.3</b>   |
| <b>Operating income</b>               | <b>6,198.9</b>   | <b>6,251.5</b>   | <b>6,550.6</b>   | <b>6,797.8</b>   | <b>7,111.8</b>   |
| Staff costs                           | 0.0              | 0.0              | 0.0              | 0.0              | 0.0              |
| Other operating expenses              | 0.0              | 0.0              | 0.0              | 0.0              | 0.0              |
| <b>Operating expenses</b>             | <b>(2,392.5)</b> | <b>(2,358.2)</b> | <b>(2,481.2)</b> | <b>(2,599.8)</b> | <b>(2,724.8)</b> |
| <b>Pre-provision profit</b>           | <b>3,806.3</b>   | <b>3,893.3</b>   | <b>4,069.3</b>   | <b>4,198.0</b>   | <b>4,387.0</b>   |
| Loan impairment allowances            | (650.0)          | (163.1)          | (233.7)          | (245.4)          | (154.7)          |
| Other allowances                      | (0.7)            | 1.0              | 0.2              | 0.2              | 0.2              |
| Associates & JV income                | 815.8            | 1,108.8          | 1,240.2          | 1,341.2          | 1,450.4          |
| <b>Pretax profit</b>                  | <b>3,971.5</b>   | <b>4,840.0</b>   | <b>5,076.1</b>   | <b>5,294.0</b>   | <b>5,682.8</b>   |
| Income tax                            | (595.1)          | (1,157.1)        | (1,069.7)        | (1,110.1)        | (1,191.3)        |
| Minorities                            | (1,111.1)        | (1,230.7)        | (1,389.8)        | (1,451.6)        | (1,561.6)        |
| Discontinued operations               | 0.0              | 0.0              | 0.0              | 0.0              | 0.0              |
| <b>Reported net profit</b>            | <b>2,265.3</b>   | <b>2,452.2</b>   | <b>2,616.6</b>   | <b>2,732.3</b>   | <b>2,929.8</b>   |
| <b>Core net profit</b>                | <b>2,265.3</b>   | <b>2,452.2</b>   | <b>2,616.6</b>   | <b>2,732.3</b>   | <b>2,929.8</b>   |
| <b>BALANCE SHEET (MYR m)</b>          |                  |                  |                  |                  |                  |
| Cash & deposits with banks            | 14,121.2         | 10,906.6         | 5,280.0          | 4,374.5          | 4,415.9          |
| Sec. under resale agreements          | 0.0              | 0.0              | 0.0              | 0.0              | 0.0              |
| Derivatives financial assets          | 0.0              | 0.0              | 0.0              | 0.0              | 0.0              |
| Dealing securities                    | 28,039.2         | 29,470.6         | 30,060.0         | 30,661.2         | 31,274.5         |
| Available-for-sale securities         | 60,495.3         | 61,061.8         | 65,403.1         | 70,054.2         | 75,037.3         |
| Investment securities                 | 0.0              | 0.0              | 0.0              | 0.0              | 0.0              |
| Loans & advances                      | 154,778.8        | 167,177.3        | 177,606.6        | 186,487.0        | 194,943.5        |
| Central bank deposits                 | 0.0              | 0.0              | 0.0              | 0.0              | 0.0              |
| Investment in associates/JVs          | 6,872.9          | 7,660.8          | 8,612.5          | 9,642.1          | 10,755.9         |
| Insurance assets                      | 0.0              | 0.0              | 0.0              | 0.0              | 0.0              |
| Fixed assets                          | 2,035.5          | 1,960.3          | 2,195.6          | 2,459.1          | 2,754.1          |
| Intangible assets                     | 2,670.6          | 2,735.6          | 2,734.0          | 2,732.4          | 2,730.8          |
| Other assets                          | 4,266.5          | 5,947.7          | 7,433.0          | 7,687.8          | 6,568.7          |
| <b>Total assets</b>                   | <b>273,280.0</b> | <b>286,920.8</b> | <b>299,324.9</b> | <b>314,098.3</b> | <b>328,480.8</b> |
| Deposits from customers               | 182,914.0        | 200,051.3        | 210,659.5        | 221,192.4        | 231,222.7        |
| Deposits from banks & FIs             | 14,179.5         | 8,229.5          | 8,641.0          | 9,073.0          | 9,526.7          |
| Derivatives financial instruments     | 0.0              | 0.0              | 0.0              | 0.0              | 0.0              |
| Subordinated debt                     | 0.0              | 0.0              | 0.0              | 0.0              | 0.0              |
| Other securities in issue             | 0.0              | 0.0              | 0.0              | 0.0              | 0.0              |
| Other borrowings                      | 3,675.8          | 4,334.9          | 4,334.9          | 4,334.9          | 4,334.9          |
| Insurance liabilities                 | 17,731.8         | 17,524.2         | 19,627.1         | 21,982.3         | 24,620.2         |
| Other liabilities                     | 20,845.6         | 20,791.2         | 16,642.0         | 14,512.4         | 11,926.2         |
| <b>Total liabilities</b>              | <b>239,346.5</b> | <b>250,931.1</b> | <b>259,904.4</b> | <b>271,095.1</b> | <b>281,630.6</b> |
| Share capital                         | 2,267.0          | 2,267.0          | 2,267.0          | 2,267.0          | 2,267.0          |
| Reserves                              | 20,551.4         | 22,008.6         | 24,049.5         | 26,180.8         | 28,466.0         |
| Shareholders' funds                   | 22,818.4         | 24,275.6         | 26,316.5         | 28,447.8         | 30,733.0         |
| Preference shares                     | 0.0              | 0.0              | 0.0              | 0.0              | 0.0              |
| Minority interest                     | 11,115.0         | 11,714.1         | 13,103.9         | 14,555.5         | 16,117.1         |
| Total equity                          | 33,933.4         | 35,989.7         | 39,420.4         | 43,003.2         | 46,850.1         |
| <b>Total liabilities &amp; equity</b> | <b>273,280.0</b> | <b>286,920.8</b> | <b>299,324.9</b> | <b>314,098.3</b> | <b>328,480.8</b> |

| FYE 30 Jun                   | FY21A | FY22A  | FY23E | FY24E | FY25E |
|------------------------------|-------|--------|-------|-------|-------|
| <b>Key Ratios</b>            |       |        |       |       |       |
| <b>Growth (%)</b>            |       |        |       |       |       |
| Net interest income          | 19.8  | 8.4    | 10.9  | 3.9   | 5.2   |
| Non-interest income          | 19.5  | (13.4) | (9.9) | 4.0   | 3.8   |
| Operating expenses           | 1.4   | (1.4)  | 5.2   | 4.8   | 4.8   |
| Pre-provision profit         | 31.3  | 2.3    | 4.5   | 3.2   | 4.5   |
| Core net profit              | 17.6  | 8.3    | 6.7   | 4.4   | 7.2   |
| Gross loans                  | na    | na     | na    | na    | na    |
| Customer deposits            | 6.6   | 9.4    | 5.3   | 5.0   | 4.5   |
| Total assets                 | 7.8   | 5.0    | 4.3   | 4.9   | 4.6   |
| <b>Profitability (%)</b>     |       |        |       |       |       |
| Non-int. income/Total income | 27.8  | 23.8   | 20.5  | 20.6  | 20.4  |
| Average lending yields       | 2.62  | 2.52   | 3.49  | 3.49  | 3.48  |
| Average cost of funds        | 1.13  | 0.99   | 2.12  | 2.15  | 2.15  |
| Net interest margin          | 2.06  | 2.05   | 2.03  | 1.99  | 1.99  |
| Cost/income                  | 38.6  | 37.7   | 37.9  | 38.2  | 38.3  |
| <b>Liquidity (%)</b>         |       |        |       |       |       |
| Loans/customer deposits      | 84.6  | 83.6   | 84.3  | 84.3  | 84.3  |
| <b>Asset quality (%)</b>     |       |        |       |       |       |
| Net NPL                      | 0.3   | 0.3    | 0.3   | 0.2   | 0.2   |
| Gross NPL                    | 0.5   | 0.5    | 0.5   | 0.4   | 0.3   |
| (SP+GP)/average gross loans  | 0.4   | 0.1    | 0.2   | 0.1   | 0.1   |
| Loan loss coverage           | 246.6 | 211.8  | 166.7 | 214.3 | 250.0 |
| <b>Capital adequacy (%)</b>  |       |        |       |       |       |
| CET1                         | 14.0  | 13.9   | 13.8  | 14.6  | 15.4  |
| Tier 1 capital               | 14.6  | 15.1   | 14.5  | 15.2  | 16.0  |
| Risk-weighted capital        | 16.7  | 17.2   | 16.0  | 16.7  | 17.4  |
| <b>Returns (%)</b>           |       |        |       |       |       |
| ROAE                         | 10.4  | 10.4   | 10.3  | 10.0  | 9.9   |
| ROAA                         | 0.9   | 0.9    | 0.9   | 0.9   | 0.9   |
| Shareholders equity/assets   | 8.3   | 8.5    | 8.8   | 9.1   | 9.4   |

Source: Company; Maybank IBG Research

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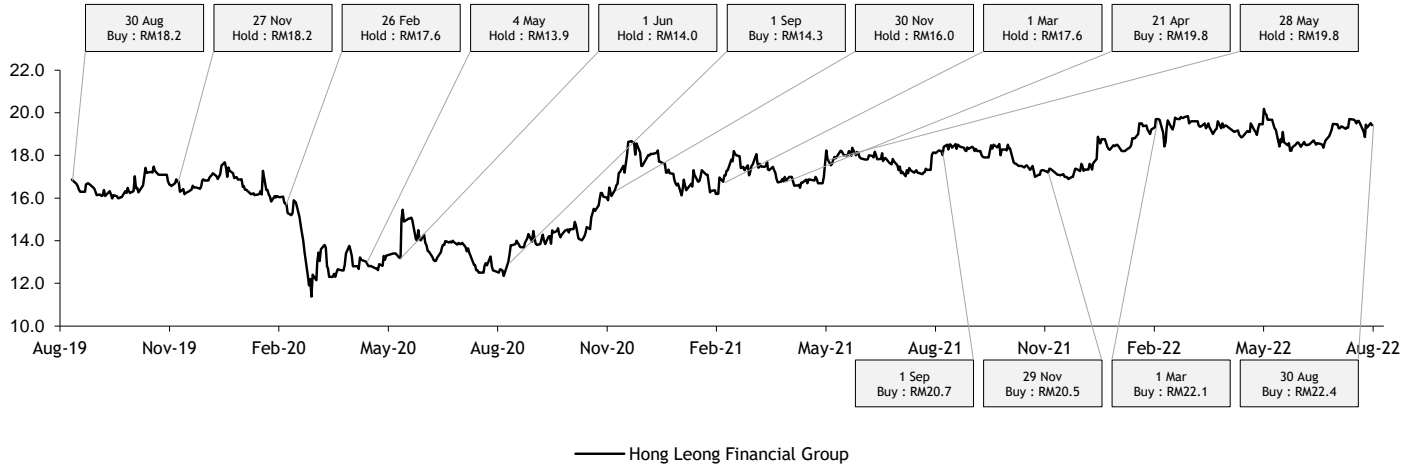
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