AmInvestment Bank

Company Report

28 Aug 2026

HONG LEONG FINANCIAL GROUP

(HLFG MK EQUITY, HLCB.KL)

BUY

(MAINTAINED)

Price: RM19.14
Target Price (% return): RM33.00 (77%)
52-week High/Low: RM23.10/RM16.78

Financial Services
Rationale for report: Company Result

More please...

Keep BUY on HLFG and RM33.00 TP. 4QFY26 results had the makings of a celebration, but the lower-than-expected DPS took some shine off the party. While disappointing, we remain unperturbed as the investment thesis is fundamentally intact: optionality for higher DPS and value unlocking remain firmly on the table, with no cash leakage.

- **BUY with unchanged TP of RM33.00,** based on 0.97x CY27 P/B. This is in line with RHB and sector valuations (0.95x-1.04x) given similar ROE generation (9.3-10%), which prices HLFG within its 5-year pre-Covid average of 1.06x (comparable ROE vs 2015-19 period). The stock offers deep value and is one of the cheapest domestically listed bank.
- **Dividend letdown.** HLFG inked 4QFY26 earnings of RM946mil (+11% YoY, +26% QoQ), taking FY26 total to RM3.4bil (+6% YoY); this forms 103-104% of our and consensus full-year forecasts, largely on stronger BOCD contribution. However, the earnings beat was overshadowed by a disappointing payout, with FY26 DPS of just 79sen (4QFY26: 57sen), falling short of our expectation of 90sen. Hence, we raise FY27-28 profit by 2-3% but cut our holding co DPR assumption by 10ppt. Also, we introduce FY29 forecasts.
- **Loosen the purse strings.** HLFG's holding co DPR eased to 62% in FY26 from 75% a year ago and its 5-year mean of 70%, somewhat surprising given 65%-owned HLB raised its payout by 3ppt. Meanwhile, cash equivalents have built up to RM1.03/share (+55% YoY), and a higher DPR would better support ROE trajectory. HLB's experience provides a clear blueprint where a higher payout can meaningfully enhance shareholder returns. On top of this, final Basel III adds further optionality; we estimate a 40bp CET1 uplift, equivalent to 69sen/share or c.4ppt yield upside. Silver lining: there is no value leakage and excess cash remains available for future deployment.
- **Thesis intact, not broken.** The slimmer dividend, while slightly disappointing, does not impair the investment thesis: optionality for higher dividends and value unlocking still very much on the table. Deep value continues to anchor the stock where HLFG's stake in HLB alone is worth c.RM30/share, with HLA at c.RM2.90/share; yet the SOP discount has widened to c.40% (vs. 5-/10-year pre-Covid mean of 18%/30%). We stay patient and trust HLFG will revisit its dividend framework when the time is right.

YE to Jun	FY26	FY27F	FY28F	FY29F
Total income (RM mil)	7,603.2	7,960.3	8,381.4	8,875.2
Core net profit (RM mil)	3,434.7	3,618.7	3,804.2	4,018.2
FD Core EPS (sen)	301.7	317.9	334.2	353.0
FD Core EPS growth (%)	5.5	5.4	5.1	5.6
Consensus Net Profit (RM mil)	-	3,516.0	3,731.0	-
DPS (sen)	79.0	87.0	94.0	98.0
BV/share (RM)	30.49	32.76	35.21	37.78
PE (x)	6.3	6.0	5.7	5.4
Div yield (%)	4.1	4.5	4.9	5.1
P/BV (x)	0.6	0.6	0.5	0.5
ROE (%)	10.3	10.1	9.8	9.7

Source: Hong Leong Financial Group, AmInvestment Bank Bhd.

Analyst (s)

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Key Changes

Target Price:	⇔
EPS:	⇧

Stock and Financial Data

Shares Outstanding (million)	1,145.2
Market Cap (RMmil)	21,920.0
Book Value (RM/Share)	30.49
P/BV (x)	0.6
ROE (%)	10.3
Free Float	16.1
Avg Daily Value (RMmil)	1.6

Major Shareholders

Hong Leong Co	(52.0%)
Guoco Group	(25.4%)
EPF	(6.5%)

Price performance	3mth	6mth	12mth
Absolute(%)	2.4	(10.1)	13.1
Relative(%)	(0.2)	(11.4)	3.1

Source: Hong Leong Financial Group, AmInvestment Bank Bhd.

Price Chart

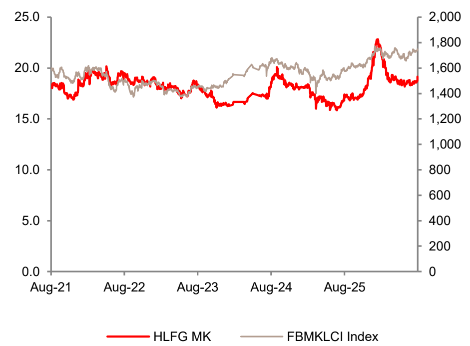


EXHIBIT 1. 4QFY26 Results Summary

FYE Jun (RMmil)	4QFY26	4QFY25	YoY (%)	3QFY26	QoQ (%)	FY26	FY25	YoY (%)
Net interest income	1,054.7	1,012.9	4.1	1,016.5	3.8	4,133.1	4,056.0	1.9
Islamic banking	315.8	302.6	4.4	298.1	6.0	1,242.3	1,159.8	7.1
Non-interest income	680.2	447.6	52.0	379.3	79.3	2,227.8	1,998.4	11.5
Total income	**2,050.8**	**1,763.1**	**16.3**	**1,693.9**	**21.1**	**7,603.2**	**7,214.1**	**5.4**
Operating expenses	-722.2	-587.2	23.0	-667.3	8.2	-2,671.5	-2,633.1	1.5
Pre-provision profit	**1,328.6**	**1,175.9**	**13.0**	**1,026.6**	**29.4**	**4,931.7**	**4,581.0**	**7.7**
Loan loss provisions	32.4	-3.0	n.m.	-37.4	n.m.	-79.3	383.3	n.m.
Operating profit	**1,361.0**	**1,172.9**	**16.0**	**989.2**	**37.6**	**4,852.4**	**4,964.4**	**-2.3**
Others	366.4	390.5	-6.2	364.0	0.7	1,455.8	1,135.8	28.2
Pre-tax profit	**1,727.4**	**1,563.4**	**10.5**	**1,353.2**	**27.7**	**6,308.1**	**6,100.2**	**3.4**
Tax & minority interest	-781.9	-710.0	10.1	-604.5	29.3	-2,873.5	-2,845.5	1.0
Net Profit	**945.5**	**853.5**	**10.8**	**748.7**	**26.3**	**3,434.7**	**3,254.7**	**5.5**
EPS (sen)	**83.4**	**75.2**	**10.8**	**66.0**	**26.3**	**302.8**	**286.9**	**5.5**
DPS (sen)	**57.0**	**52.0**	**9.6**	**0.0**	**n.m.**	**79.0**	**72.0**	**9.7**
BVPS (RM)	**30.60**	**28.34**	**8.0**	**29.56**	**3.5**	**30.60**	**28.34**	**8.0**

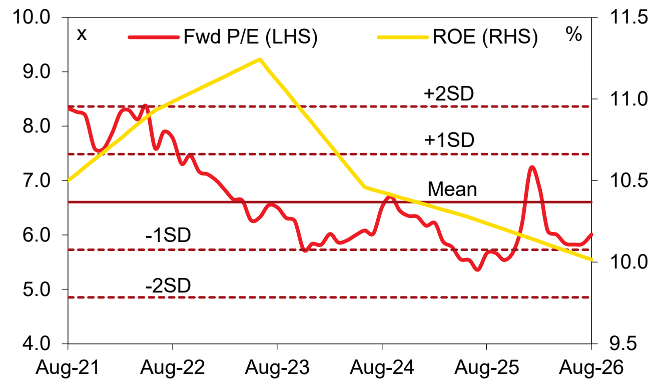
Source: HLFG, AmInvestment Bank Bhd.

EXHIBIT 2. Financial ratios

FYE Jun (%)	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26	2QFY26	3QFY26	4QFY26
Net interest margin	1.92	1.90	1.87	1.90	1.84	1.83	1.84	1.85
Cost / income ratio	36.5	37.2	39.0	33.3	33.3	33.2	39.4	35.2
Return on equity	11.5	11.2	9.3	11.0	10.6	11.1	9.1	11.3
Loans growth, yoy	6.9	7.6	7.1	7.7	9.0	8.2	8.4	7.7
Deposits growth, yoy	5.4	6.6	5.6	8.1	7.6	7.7	8.3	3.7
Loan / deposit ratio	88.1	88.3	89.0	87.6	89.3	88.6	89.1	91.0
Gross impaired loans ratio	0.54	0.55	0.57	0.54	0.57	0.59	0.60	0.57
Loan loss coverage	145.5	139.0	95.0	96.9	89.6	83.7	81.1	79.6
Net credit cost (bp)	1.5	1.0	-80.6	0.6	7.3	7.0	7.0	-5.9
CET1 ratio	11.3	11.2	11.1	12.1	11.3	11.5	11.1	12.1

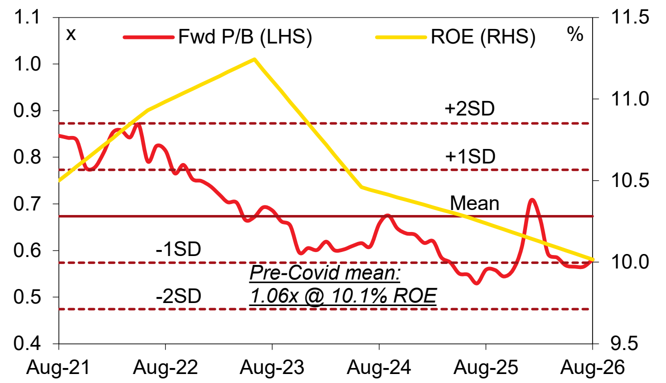
Source: HLFG, AmInvestment Bank Bhd.

EXHIBIT 3. 5-YR FORWARD P/E BAND



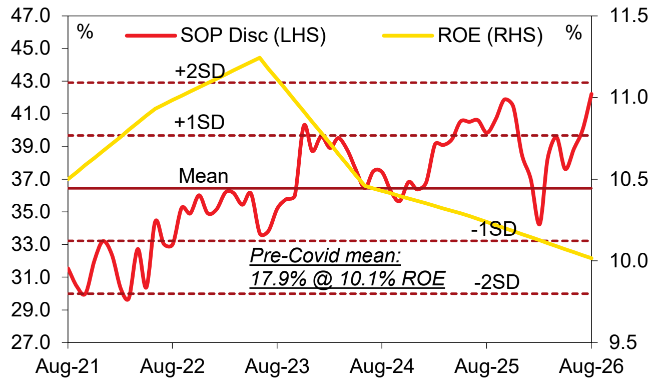
Source: AmInvestment Bank, Bloomberg

EXHIBIT 4. 5-YR FORWARD P/B BAND



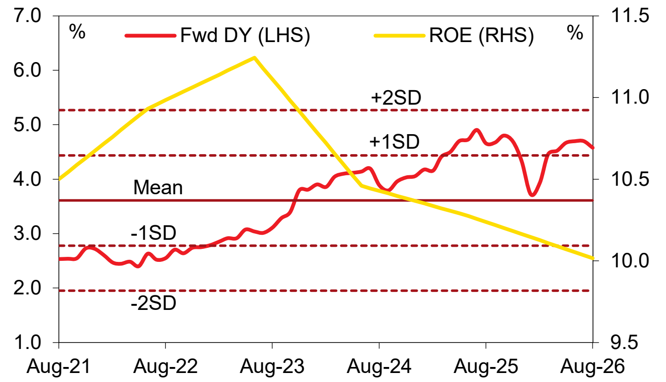
Source: AmInvestment Bank, Bloomberg

EXHIBIT 5. 5-YR FORWARD SOP DISC BAND



Source: AmInvestment Bank, Bloomberg

EXHIBIT 6. 5-YR FORWARD DY BAND



Source: AmInvestment Bank, Bloomberg

EXHIBIT 7. CHANGE IN FORECASTS

	FY27			FY28			FY29		
(RM'm)	New	Old	%	New	Old	%	New	Old	%
Net interest income	4,237.1	4,244.8	-0.2	4,413.8	4,467.7	-1.2	4,675.3	-	-
Islamic banking	1,330.6	1,351.0	-1.5	1,401.3	1,436.8	-2.5	1,456.1	-	-
Operating expenses	-2,797.6	-2,822.5	-0.9	-2,946.2	-2,982.8	-1.2	-3,113.6	-	-
Loan loss provisions	-111.6	-98.9	12.8	-123.2	-121.6	1.4	-140.9	-	-
Others	1,528.5	1,449.0	5.5	1,604.9	1,521.5	5.5	1,685.1	-	-
Taxation	-1,250.1	-1,303.2	-4.1	-1,314.2	-1,377.6	-4.6	-1,388.1	-	-
Core profit	3,618.7	3,518.6	2.8	3,804.2	3,719.4	2.3	4,018.2	-	-

Source: AmInvestment Bank

EXHIBIT 8. VALUATIONS

Return on equity (ROE)	9.9% (from 9.8%)
Cost of equity (COE)	10.2% (from 9.9%)
Long-term growth rate (LTG)	3.0%
Target P/B	0.97x (from 0.98x)
CY27 BVPS	RM33.98 (from RM33.71)
ESG premium	-
12-month target price	RM33.00

Source: AmInvestment Bank

Company profile

HLFG is an investment holding company with 3 key business segments: (i) commercial and Islamic banking under HLB, (ii) insurance and takaful under HLA, (iii) investment bank and asset management under HLCap.

In FY26, HLB accounted for 87% of group's PBT, with HLA contributing 12%, while HLCap making up the remaining 1%.

Investment thesis and catalysts

We like HLFG for its deep value offering and is one of the cheapest listed bank in Malaysia (trading at only 0.58x P/B and 6.0x P/E). Besides, we believe meaningful value optionality is not yet reflected in share price. Also, in our opinion, HLFG deserves a re-rating, given its holding co has turned net cash (but yet the discount has broadened to 40% vs 5-/10-year pre-Covid mean of 18%/30%, which we feel is unjustified) and the market is underpricing its strong potential yield upside over the longer-term. Presently, HLFG is already offering dividend yield of c.5%, above its 5-/10-year average of 3.8%/3.1% and is still under-owned by investors.

Valuation methodology

We value HLFG using the Gordon Growth Model (GGM), since it incorporates both P/B and ROE into a single formula; notably, ROE plays an important role to the valuation of banking stocks as it has a strong correlation to P/B (87%).

We derived a TP of RM33.00 for HLFG and it is based on 0.97x CY27 P/B with assumptions of 9.9% ROE, 10.2% COE, and 3.0% LTG. This is largely within the valuations of RHB and the sector (0.95x-1.04x) given similar ROE output (9.3-10%), which prices HLFG within its 5-year pre-Covid mean of 1.06x (comparable ROE vs 2015-19 period).

Risk factors

Key downside risks include:

i) Sharp slowdown in global economic growth, giving rise to a spike in NPL formation; this could weigh on NCC and earnings.

ii) Intense rivalry for both loans and deposits may exert downward pressure on NIM.

iii) Stronger RM vs key operating currencies (notably CNY) may lead to unfavourable forex translation effects on consolidated earnings, capital and dividends.

Financial Summary

Income Statement (RMmil)

YE to Jun	FY25	FY26	FY27F	FY28F	FY29F
Net interest income	4,056.0	4,133.1	4,237.1	4,413.8	4,675.3
Non-interest income	2,000.8	2,227.8	2,392.7	2,566.2	2,743.7
Islamic banking income	1,159.8	1,242.3	1,330.6	1,401.3	1,456.1
Total income	**7,216.6**	**7,603.2**	**7,960.3**	**8,381.4**	**8,875.2**
Overhead expenses	(2,633.1)	(2,671.5)	(2,797.6)	(2,946.2)	(3,113.6)
Pre-provision profit	4,583.5	4,931.7	5,162.7	5,435.1	5,761.6
Loan loss provisions	383.3	(79.3)	(111.6)	(123.2)	(140.9)
Impairment & others	0.6	0.1	-	-	-
Associates	1,135.2	1,455.7	1,528.5	1,604.9	1,685.1
Pretax profit	**6,102.7**	**6,308.1**	**6,579.5**	**6,916.8**	**7,305.8**
Tax	(1,236.6)	(1,162.6)	(1,250.1)	(1,314.2)	(1,388.1)
Minority interests	(1,611.4)	(1,710.8)	(1,710.7)	(1,798.4)	(1,899.5)
Net profit	**3,254.7**	**3,434.7**	**3,618.7**	**3,804.2**	**4,018.2**
Core net profit	3,254.7	3,434.7	3,618.7	3,804.2	4,018.2

Balance Sheet (RMmil)

YE to Jun	FY25	FY26	FY27F	FY28F	FY29F
Cash & deposits with FIs	11,704.4	13,405.8	7,526.8	8,118.5	8,782.9
Marketable securities	86,547.6	83,393.4	93,023.9	97,480.3	102,164.3
Total current assets	**98,252.0**	**96,799.2**	**100,550.6**	**105,598.8**	**110,947.2**
Net loans & advances	209,235.4	225,483.9	239,999.3	254,245.8	269,324.4
Statutory deposits	nm	nm	nm	nm	nm
Long-term investments	27,893.2	26,149.0	27,456.4	28,829.3	30,270.7
Fixed assets	1,093.8	1,163.4	1,089.8	1,082.3	1,071.1
Intangible assets	2,780.8	2,764.6	2,657.3	2,593.5	2,528.3
Other long-term assets	15,940.9	17,466.1	17,466.1	17,466.1	17,466.1
Total LT assets	**256,944.0**	**273,026.9**	**288,669.0**	**304,217.0**	**320,660.6**
Total assets	**355,196.1**	**369,826.1**	**389,219.6**	**409,815.8**	**431,607.8**
Customer deposits	240,149.9	251,678.4	266,779.1	282,785.8	299,752.9
Deposits of other FIs	19,439.5	16,047.5	16,047.5	16,047.5	16,047.5
Subordinated debts	10,085.1	9,915.2	9,915.2	9,915.2	9,915.2
Hybrid capital securities	-	-	-	-	-
Other liabilities	38,290.9	41,415.4	41,415.4	41,415.4	41,415.4
Total liabilities	**307,965.3**	**319,056.4**	**334,157.2**	**350,163.9**	**367,131.0**
Shareholders' funds	32,147.1	34,705.7	37,287.7	40,078.8	43,004.2
Minority interests	15,083.6	16,064.0	17,774.7	19,573.1	21,472.6

Key Ratios

YE to Jun	FY25	FY26	FY27F	FY28F	FY29F
Total income growth (%)	8.5	5.4	4.7	5.3	5.9
Pre-provision profit growth (%)	13.4	7.6	4.7	5.3	6.0
Core net profit growth (%)	1.8	5.5	5.4	5.1	5.6
Net interest margin (%)	1.5	1.5	1.4	1.4	1.4
Cost-to-income ratio (%)	36.5	35.1	35.1	35.2	35.1
Effective tax rate (%)	20.3	18.4	19.0	19.0	19.0
Dividend payout (%)	25.2	26.2	27.4	28.1	27.8

Key Assumptions

YE to Jun	FY25	FY26	FY27F	FY28F	FY29F
Loan growth (%)	7.7	7.7	6.5	6.0	6.0
Deposit growth (%)	8.1	4.8	6.0	6.0	6.0
Loan-deposit ratio (%)	87.6	90.0	90.4	90.4	90.4
Gross NPL (%)	0.5	0.6	0.6	0.6	0.6
Net NPL (%)	0.4	0.4	0.4	0.4	0.5
Credit charge-off rate (%)	(0.2)	-	-	-	0.1
Loan loss reserve (%)	96.9	79.6	87.9	97.0	106.7

Source: Company, AmInvestment Bank Bhd.

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