



AmInvestment Bank

HONG LEONG FINANCIAL GROUP

(HLFG MK EQUITY, HLCB.KL)

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Company Report

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Rationale for report: Company Result

BUY

(Maintained)

Price RM17.30
Target price RM21.60
52-week High/Low RM18.64/RM15.70

Key Changes

Target price ⇄
EPS ⇄

YE to Dec	FY25	FY26F	FY27F	FY28F
Total income (RM mil)	7,216.6	7,666.2	8,281.4	9,101.1
Core net profit (RM mil)	3,254.7	3,397.8	3,604.4	3,854.0
FD Core EPS (sen)	287.0	299.6	317.8	339.8
FD Core EPS growth (%)	1.8	4.4	6.1	6.9
Consensus Net Profit (RM mil)	-	-	-	-
DPS (sen)	72.0	74.9	79.5	85.0
BV/share (RM)	28.35	30.72	33.25	35.93
PE (x)	6.0	5.8	5.4	5.1
Div yield (%)	4.3	4.4	4.7	5.0
P/BV (x)	0.6	0.6	0.5	0.5
ROE (%)	10.5	10.1	9.9	9.8

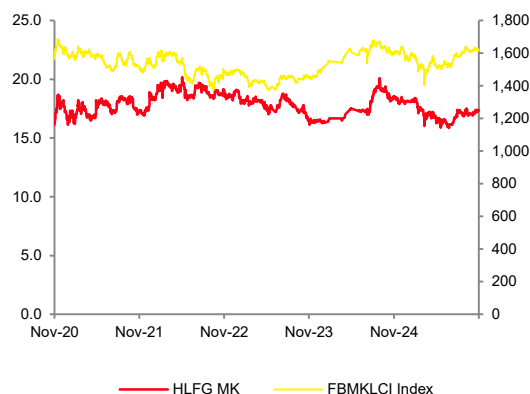
Stock and Financial Data

Shares Outstanding (million)	1,134.0
Market Cap (RMmil)	19,619.0
Book Value (RM/Share)	28.35
P/BV (x)	0.6
ROE (%)	10.5

Major Shareholders
Hong Leong Company (Malaysia) Bhd (52.0%)
Guoco Group Ltd (25.4%)

Free Float 16.9
Avg Daily Value (RMmil) 1.8

Price performance	3mth	6mth	12mth
Absolute (%)	2.2	3.6	(6.8)
Relative (%)	0.4	(2.3)	(7.6)



Investment Highlights

1QFY26 total income rose 2.6% YoY, supported by stronger NII and NOI. Prudent cost control and minimal loan impairments kept earnings steady. HLBB's solid asset quality underpins performance, with the stock trading at an attractive FY26 valuation of 5.4x PE and 0.5x P/B.

- Recommendation and valuation.** Reaffirm BUY on HLFG with an unchanged TP of RM21.60 based on SOP valuation. Our earnings estimates are 3-star neutral ESG rating are unchanged.
- 1QFY26 earnings met expectations, reaching 24.8% of both our estimate and % of consensus.** Earnings were flat at -0.7% YoY to RM841 million. Modest increase in total income and lower operating expenses were offset by increase in allowances for loan impairments. Commercial Banking PBT was flat at +0.9% YoY, while Insurance PBT fell 8.5% YoY on higher claims and lower CSM recognition, partly offset by stronger contributions from MSIG Malaysia and Singapore's general insurance business. Investment Banking PBT rose 13.0% YoY, driven by improved investment banking income and equity gains, despite weaker stockbroking earnings.
- HLBB's loan growth accelerated to 9.1% YoY from 7.8% in the previous quarter.** Domestic loans expanded 9% YoY outpacing the industry's 5.5%—driven by credit cards, personal loans, auto financing, and SME segments. Overseas loans grew faster at 10.1% YoY, led by Singapore and Vietnam. NIM contracted 6bps QoQ to 1.84% in 1QFY26 after July's 25bps OPR cut. Cost efficiency improved with CI ratio at 36.0% and positive JAW of 8.4%. Asset quality remained strong, with GIL at 0.57% and loan loss coverage at 244%, including regulatory reserves. Annualised credit cost stayed low at 7bps.
- HLA's life and family takaful gross premiums grew 2.4% YoY, while new business premiums fell 7.5% YoY on weaker bancassurance and agency contributions.** HLA's average case size declined 4.8% YoY, while agent count fell 9.7% to 14,473. CSM balance rose 1.3% YTD (+RM23m) to RM1.79b, driven by new business CSM of RM54m, exceeding CSM release of RM40m.

Company profile

HLFG operates as an investment holding company with three key business segments:

1. Commercial and Islamic banking under Hong Leong Bank.
2. Insurance and Family Takaful, managed through its insurance holding arm, HLA Holdings.
3. Investment banking and asset management, overseen by Hong Leong Capital.

In FY25, Commercial and Islamic banking accounted for 88% of the group's profit before tax (PBT), with Insurance contributing 11% and Investment Banking & Asset Management making up the remaining 1%.

Investment thesis and catalysts

The stock remains attractively valued, trading at a low FY26 PE of 5.4x and PB of 0.5x. HLBB offers value trading an FY26 P/BV of 1x with an ROE of 11.2%. HLBB's topline growth is solid, supported by resilient asset quality amid macroeconomic uncertainties from tariff impacts.

Valuation methodology

Our TP of RM21.60 is derived based on sum-of-parts valuation

Risk factors

Potential risks to our projections include:

- i) A slowdown in global economic growth that could negatively affect loan demand and insurance premium expansion.
- ii) An unforeseen rise in funding costs. If CASA growth lags expectations, it may intensify deposit competition.
- iii) Elevated insurance claims exceeding forecasts, which could strain earnings in the insurance sector.
- iv) Prolonged high interest rates in developed markets, leading to a decline in bond and securities portfolio valuations, thereby affecting non-interest income (NOII).

EXHIBIT 1: RESULTS SUMMARY

Income Statement (RM m, FYE 30 Jun)	1Q25	4Q25	1Q26	% QoQ	% YoY
Interest income	2,319	2,255	2,309	2.4	-0.5
Interest expense	-1,283	-1,242	-1,266	1.9	-1.3
Net interest income	1,036	1,013	1,043	2.9	0.6
Islamic banking income	288	303	318	5.0	10.4
Non-interest income	568	448	580	29.6	2.1
Total income	1,892	1,763	1,940	10.1	2.6
Overhead expenses	-691	-587	-646	10.0	-6.6
Pre-provision profit	1,201	1,176	1,295	10.1	7.8
Loan impairment allowances	-7	-3	-38	>100	>100
Other allowances	0	0	-1	>-100	>100
Associates and JV income	394	390	333	-14.7	-15.5
Pretax profit	1,587	1,563	1,589	1.7	0.1
Income tax	-318	-296	-334	13.1	5.1
Minority interest	-421	-414	-414	-0.1	-1.8
Net profit	848	853	841	-1.4	-0.7
Core net profit	848	853	841	-1.4	-0.7
Core EPS (sen)	74.7	75.2	74.2	-1.3	-0.7
Segmental Analysis (RM m, FYE 30 Jun)	1Q25	4Q25	1Q26	% QoQ	% YoY
Commercial Banking	965	992	1,040	4.9	7.8
Investment Banking	22	22	25	12.3	13.0
Insurance	237	154	195	26.7	-17.8
Others	612	2	944	>100	54.3
Eliminations	-623	3	-947	>-100	52.0
Share of profit from associates	375	390	333	-14.7	-11.1
Share of profit from JVs	0	0	0	n.m.	n.m.
Pretax profit	1,587	1,563	1,589	1.7	0.1

Source: Company, AmlInvestment Bank

EXHIBIT 2: VALUATION: HLFGB

SOP per share for HLB	RM25.80
SOP per share for HLC	RM0.74
SOP per share for HLA	RM2.70
SOP per share for MSIG	RM1.40
SOP per share for HLMSIG Takaful	RM0.21
SOP per share for HLAJ	RM0.10
SOP Valuation	RM30.90
Holding company discount	RM9.30
ESG Premium	0% premium
12-month target price	RM21.60

Source: AmlInvestment Bank

EXHIBIT 3: VALUATIONS

Companies	Shareholders' funds (RM Mil)	As of	Equity Stake	Book Value Multiple	Basis	Valuation (RM mil)	Sum of parts per share (RM)
HLB	43,213		64.4%	1.1	Based on CY26 estimated	29,221	25.8
HLC	1,027	6/30/2024	81.3%	1.0		835	0.74
Insurance companies under HLA Holdings							
HLA	4,400	6/30/2025	70%		1x Embedded value of FY25	3,080	2.7
MSIG	3,189	6/30/2024	30%	1.6		1,531	1.4
HLMSIG Takaful	362	12/31/2023	65%	1.0	1x Embedded value of FY25	235	0.21
HLAI	130		100%	1.0		130	0.1
SOP Valuation						35,032	30.9
Holding company discount				30%		10,510	9.3
SOP Valuation after holding company discount						24,522	21.6
No of shares						1,134	
Target price						21.6	

Source: Company, AmInvestment Bank

EXHIBIT 4: ESG SCORE

Environmental assessment	Parameters	Weightage	Rating				Rationale
Allocation of investments in high risk ESG sectors	% of total investments allocated	40%	*	*	*		
Scope 1 GHG Emissions to total income	t/Co2e/RM'Mil	15%	*	*	*		0.03 IN FY24 vs. 0.04 in FY23
Scope 2 GHG Emissions to total income	t/Co2e/RM'Mil	15%	*	*	*		Marginally lower at 4.8 in FY24 vs. 5.2 in FY23
Scope 3 GHG Emissions to total income	t/Co2e/RM'Mil	15%	*	*			Increased to 2.4 in FY24 vs. 2.2 in FY23
Electricity consumption to total income	MWh/RM'Mil	10%	*	*	*		Increased to 7.2 in FY24 vs. 6.8 in FY23
Water consumption to total income	m3/RM'Mil	5%	*	*	*		Stable at 0.04 in FY24
Weighted score for environmental assessment		100%	*	*	*		
Social assessment							
Customer policy renewal ratio	%	30%	*	*	*		
Corporate Social Responsibility investments or spend	% of operating expenses	25%	*	*	*		
Claims settlement ratio	%	20%	*	*	*		
Workforce diversity - women in senior management and above (excluding board directors)	% of total workforce	15%	*	*	*		
Average training hours per employee	hours	10%	*	*	*		Average 73hrs in 2024
Weighted score for social assessment		100%	*	*	*		
Governance assessment							
Board age diversity	% under the 61 to 70 years old category	20%	*	*	*		
Board women representation	% of total board directors	15%	*	*	*		57.1% representation
Directors with tenure of 3-6 years	% in the 3 to 6 years or more category	15%	*	*	*		
Independent board directors	% of total board directors	20%	*	*	*	*	71.4% independent directors
Remuneration to directors	% of operating expenses	10%	*	*	*		
Cybersecurity, Privacy and Data Protection	Confirmed incidents	20%	*	*	*	*	Zero complaints on breaches of customer privacy and loss of data
Weighted score for governance assessment		100%	*	*	*		
Environmental score		40%	*	*	*		
Social score		25%	*	*	*		
Governance score		35%	*	*	*		
Overall ESG Score		100%	*	*	*		

Source: Company, AmlInvestment Bank

EXHIBIT 5: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY24	FY25	FY26F	FY27F	FY28F
Net interest income	3,922.5	4,056.0	4,121.2	4,344.1	4,582.6
Non-interest income	1,742.2	2,000.8	2,286.1	2,562.2	2,983.9
Islamic banking income	985.9	1,159.8	1,258.9	1,375.1	1,534.6
Total income	6,650.7	7,216.6	7,666.2	8,281.4	9,101.1
Overhead expenses	(2,609.4)	(2,633.1)	(2,951.5)	(3,105.5)	(3,412.9)
Pre-provision profit	4,041.3	4,583.5	4,714.7	5,175.9	5,688.2
Loan loss provisions	114.4	383.3	(110.7)	(118.5)	(126.7)
Impairment & others	(1.2)	0.6	(0.4)	(0.5)	0.5
Associates	1,691.0	1,135.2	1,581.1	1,503.7	1,453.0
Pretax profit	5,845.6	6,102.7	6,184.6	6,560.6	7,014.9
Tax	(1,058.4)	(1,236.6)	(1,113.2)	(1,180.9)	(1,262.7)
Minority interests	(1,589.5)	(1,611.4)	(1,673.6)	(1,775.3)	(1,898.2)
Core net profit	3,197.7	3,254.7	3,397.8	3,604.4	3,854.0
Balance Sheet (RMmil, YE 31 Dec)	FY24	FY25	FY26F	FY27F	FY28F
Cash & deposits with FIs	7,548.2	11,704.4	2,594.5	1,521.1	548.4
Marketable securities	110,762.8	112,385.4	123,239.3	133,348.5	142,648.5
Total current assets	118,311.0	124,089.8	125,833.8	134,869.6	143,196.9
Net loans & advances	193,613.4	209,235.4	221,490.0	236,978.4	253,551.0
Statutory deposits	nm	nm	nm	nm	nm
Long-term investments	3,275.7	2,055.5	2,521.5	2,698.0	2,886.9
Fixed assets	1,617.5	1,567.5	1,509.4	1,459.2	1,410.1
Intangible assets	2,983.7	2,973.7	2,974.6	2,974.6	2,974.6
Other long-term assets	16,167.4	15,097.7	28,158.0	26,676.4	27,977.8
Total LT assets	217,894.5	231,106.3	256,747.9	270,846.3	288,835.0
Total assets	336,205.5	355,196.1	382,581.7	405,715.9	432,031.9
Customer deposits	220,075.3	237,880.8	252,153.7	269,804.4	288,690.7
Deposits of other FIs	14,178.8	12,686.0	14,633.4	14,866.2	15,100.3
Subordinated debts	2,205.2	2,301.5	2,333.5	2,400.4	2,468.6
Hybrid capital securities	7,559.3	7,807.9	8,549.4	9,490.6	10,554.8
Other liabilities	47,818.1	47,289.2	53,352.5	53,352.0	54,916.7
Total liabilities	291,836.7	307,965.3	331,022.5	349,913.7	371,731.2
Shareholders' funds	30,090.7	32,147.1	34,837.3	37,704.2	40,743.7
Minority interests	14,278.1	15,083.6	16,721.9	18,098.0	19,557.0
Key Ratios (YE 31 Dec)	FY24	FY25	FY26F	FY27F	FY28F
Total income growth (%)	2.7	8.5	6.2	8.0	9.9
Pre-provision profit growth (%)	1.1	13.4	2.9	9.8	9.9
Core net profit growth (%)	11.0	1.8	4.4	6.1	6.9
Net interest margin (%)	1.6	1.6	1.6	1.6	1.6
Cost-to-income ratio (%)	39.2	36.5	38.5	37.5	37.5
Effective tax rate (%)	18.1	20.3	18.0	18.0	18.0
Dividend payout (%)	19.2	25.1	25.0	25.0	25.0
Key Assumptions (YE 31 Dec)	FY24	FY25	FY26F	FY27F	FY28F
Loan growth (%)	7.1	7.7	6.0	7.0	7.0
Deposit growth (%)	4.1	8.1	6.0	7.0	7.0
Loan-deposit ratio (%)	88.7	88.4	88.4	88.4	88.4
Gross NPL (%)	0.5	0.5	0.6	0.5	0.5
Net NPL (%)	0.5	0.5	0.6	0.5	0.5
Credit charge-off rate (%)	-	(0.1)	-	-	-
Loan loss reserve (%)	155.0	96.9	119.5	132.7	148.9

SOURCE: COMPANY, AMINVESTMENT BANK BHD ESTIMATES

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