

HONG LEONG FINANCIAL GROUP

(HLFG MK EQUITY, HLCB.KL)

BUY

(MAINTAINED)

Price: RM22.00

Target Price (% return): RM31.20 (46%)

52-week High/Low: RM22.06/RM15.70

Financial Services

Rationale for report: Company Update

Quietly paying, shouting value

Keep BUY on HLFG with a GGM-TP of RM31.20. Dividend momentum is strengthening and we increase our FY26-28 holding-co DPR assumption to 72% (from 60%), implying >4% yield; this is also supported by resilient earnings ahead. Meanwhile, HLFG's assets remain significantly mispriced and we believe meaningful value optionality is not yet reflected by the market.

- **BUY at GGM-TP of RM31.20.** This is based on 0.96x FY27 P/B, in line with the valuations of RHB and Alliance (0.98x-1.00x) given similar ROE output (9.5-9.7%), which prices HLFG within its 5-year pre-Covid mean of 1.06x (comparable ROE vs 2015-19 period). The stock offers deep value and is one of the cheapest domestically listed bank.
- **Dividend gaining traction...** We now see potential DPS of 90sen for FY26 (vs our earlier 78sen), underpinned by a higher holding co DPR of 72% (from 60%), translating into a yield of >4%. This highlights HLFG's willingness to reward shareholders, a trend already evident in recent years. Moreover, the final Basel III reforms could lift CET1 ratio by 30bp, equivalent to 50sen of excess capital, or 2-3% yield if fully returned via special DPS.
- **...supported by resilient profit as well.** For HLB (85% contributor), we expect: (i) stable sequential NIM amid less intense year-end FD rivalry, (ii) steady loans growth, (iii) robust NOII from its fee engine, (iv) no material opex swings, along with (v) benign asset quality. Accordingly, pre-BOCD profit (key to dividends) is seen to grow QoQ. Meanwhile, HLA's bottom-line (14% contributor) should rebound, backed by better investment income (good equity market showing) and easing claims experience.
- **Shouting value.** HLFG's assets are significantly mispriced, with multiple levers for value unlocking over time. Drawing parallel to Telco A, clearer capital management has led to its SOP discount narrowing to 20% from 40%; a similar re-rating is conceivable should HLFG embark on the same journey. Taking HLA as an illustration (observing heightened insurance M&As over the past 5 years), its RM4.4bn EV implies RM2.70/share for HLFG's 70% stake at 1x P/EV, or 13% yield if fully distributed. Such meaningful value optionality is not yet reflected by the market.

Analyst (s)

Paul Yap Ee Xing, CFA
paul.lee-xing@ambankgroup.com
+603 2036 2281

Key Changes

Target Price:	↔
EPS:	↔

Stock and Financial Data

Shares Outstanding (million)	1,145.2
Market Cap (RMmil)	25,035.0
Book Value (RM/Share)	28.24
P/BV (x)	0.8
ROE (%)	10.5
Free Float	16.1
Avg Daily Value (RMmil)	6.1

Major Shareholders

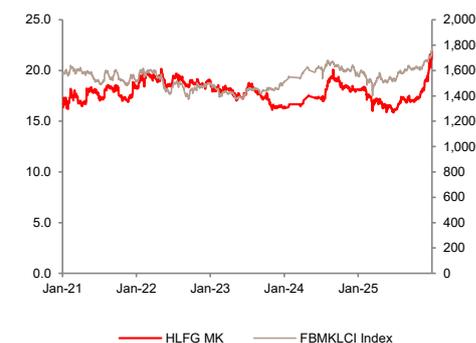
Hong Leong Co	(52.0%)
Guoco Group	(25.4%)
EPF	(6.0%)

Price performance	3mth	6mth	12mth
Absolute(%)	28.3	35.3	20.4
Relative(%)	17.2	17.1	5.9

Source: Hong Leong Financial Group, AmInvestment Bank Bhd.

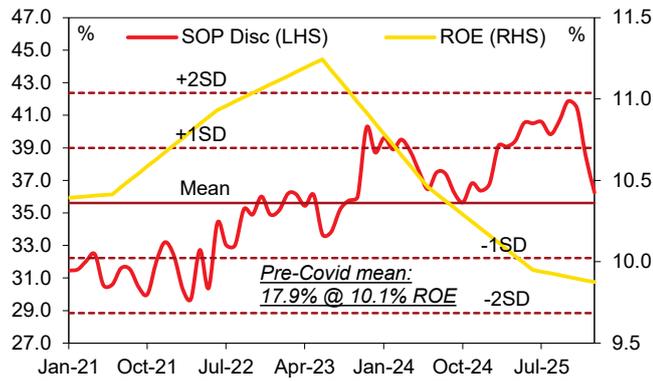
YE to Jun	FY25	FY26F	FY27F	FY28F
Total income (RM mil)	7,216.6	7,574.5	7,988.4	8,470.7
Core net profit (RM mil)	3,254.7	3,320.2	3,518.6	3,719.4
FD Core EPS (sen)	285.9	291.7	309.1	326.7
FD Core EPS growth (%)	1.4	2.0	6.0	5.7
Consensus Net Profit (RM mil)	-	3,392.0	3,597.0	3,810.0
DPS (sen)	72.0	90.0	94.0	98.0
BV/share (RM)	28.24	30.39	32.56	34.87
PE (x)	7.6	7.5	7.1	6.7
Div yield (%)	3.3	4.1	4.3	4.5
P/BV (x)	0.8	0.7	0.7	0.6
ROE (%)	10.5	9.9	9.8	9.7

Price Chart



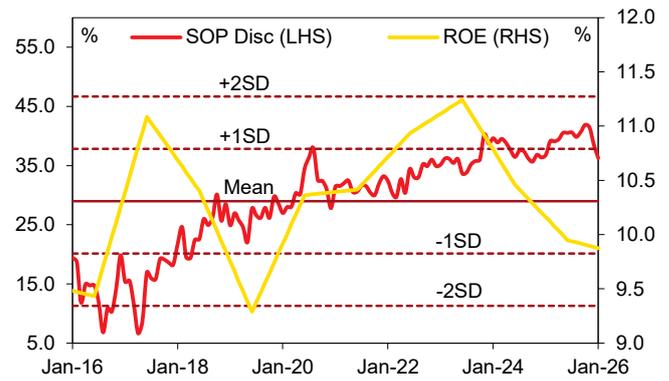
Source: Hong Leong Financial Group, AmInvestment Bank Bhd.

EXHIBIT 1. 5-YR FORWARD SOP DISC BAND



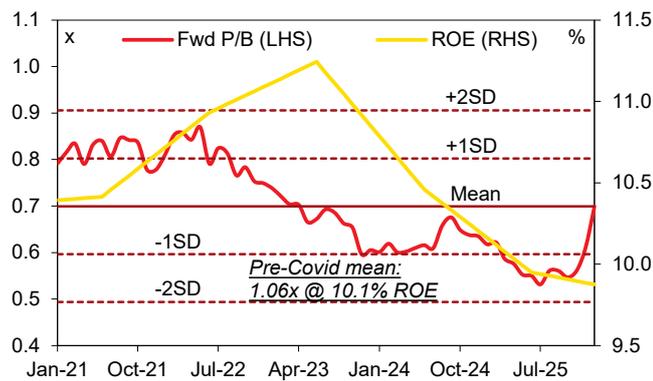
Source: AmInvestment Bank, Bloomberg

EXHIBIT 2. 10-YR FORWARD SOP DISC BAND



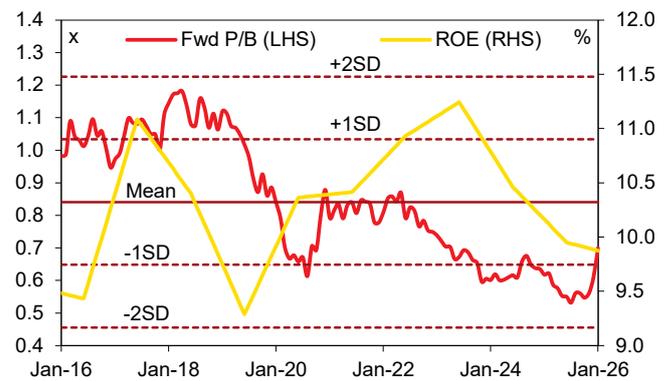
Source: AmInvestment Bank, Bloomberg

EXHIBIT 3. 5-YR FORWARD P/B BAND



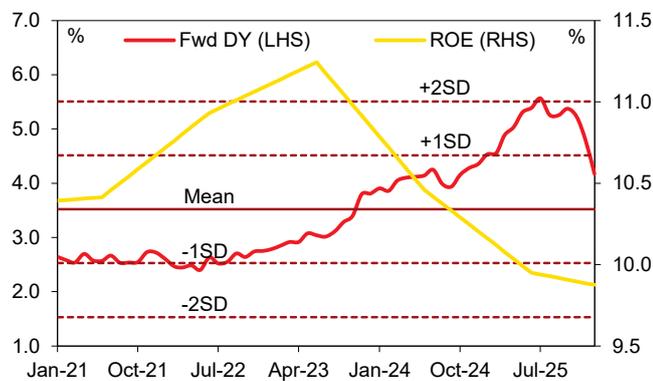
Source: AmInvestment Bank, Bloomberg

EXHIBIT 4. 10-YR FORWARD P/B BAND



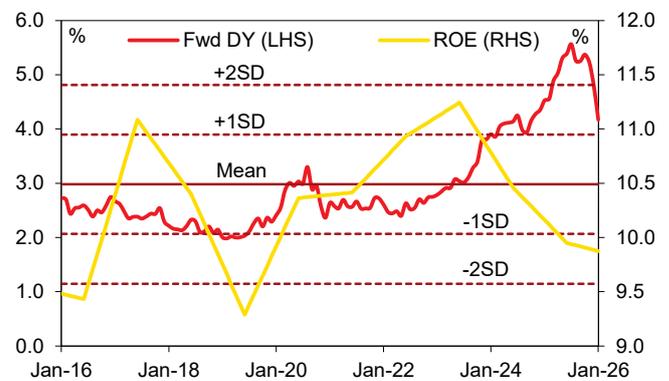
Source: AmInvestment Bank, Bloomberg

EXHIBIT 5. 5-YR FORWARD DY BAND



Source: AmInvestment Bank, Bloomberg

EXHIBIT 6. 10-YR FORWARD DY BAND



Source: AmInvestment Bank, Bloomberg

EXHIBIT 7. PEERS COMPARISON

	Price (RM)	Target (RM)	Call	P/E (x)		EPS growth (%)		P/B (x)		Div. yield (%)		ROE (%)	
				2026	2027	2026	2027	2026	2027	2026	2027	2026	2027
Bank A	2.70	-	N.R.	11.4	10.1	5.8	13.6	0.5	0.5	2.8	3.4	4.8	5.3
Alliance	5.21	5.20	HOLD	11.2	10.5	7.7	6.3	1.0	1.0	3.7	4.0	9.8	9.5
BIMB	2.46	2.50	HOLD	9.8	9.1	10.6	8.0	0.7	0.7	6.1	6.6	7.2	7.6
CIMB	8.75	9.20	BUY	11.3	11.0	5.7	3.1	1.2	1.2	5.7	5.9	11.2	11.1
HLB	25.14	25.80	BUY	11.7	11.1	3.1	5.8	1.2	1.2	4.0	4.3	10.9	10.8
HLFG	22.00	31.20	BUY	7.5	7.1	2.0	6.0	0.7	0.7	4.1	4.3	9.9	9.8
Maybank	11.78	10.80	HOLD	13.0	12.7	4.7	2.2	1.4	1.4	5.6	5.7	11.0	10.9
MBSB	0.75	0.73	HOLD	14.2	13.6	8.0	4.2	0.6	0.6	5.6	5.9	4.3	4.5
Public	4.95	5.10	BUY	12.7	12.2	5.0	3.8	1.5	1.4	4.7	4.9	12.2	12.1
RHB	8.36	8.10	HOLD	10.8	10.3	2.5	4.2	1.0	1.0	5.6	5.8	9.7	9.8
Sector				11.4	10.8	5.5	5.7	1.0	1.0	4.8	5.1	9.1	9.1
Sector (ex-Bank A)				11.4	10.8	5.5	4.8	1.1	1.0	5.0	5.3	9.6	9.6

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 FY25, HLB accounted for 88% of group's PBT, with HLA contributing 11%, 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 0.68x P/B and 7.1x 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 36% vs 5-/10-year pre-Covid mean of 18%/29%, which we feel is unjustified) and the market is underpricing its strong potential yield upside. Presently, HLFG is already offering dividend yield of 4.3%, above its 5-/10-year average of 3.5%/3.0% 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 RM31.20 for HLFG and it is based on 0.96x FY27 P/B with assumptions of 9.8% ROE, 10.1% COE, and 3.0% LTG. This is broadly in line with the valuations of RHB and Alliance (0.98x-1.00x) given similar ROE output (9.5-9.7%), 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.

EXHIBIT 8. VALUATIONS

Return on equity (ROE)	9.8%
Cost of equity (COE)	10.1%
Long-term growth rate (LTG)	3.0%
Target P/B	0.96x
FY26 BVPS	RM32.56
ESG premium	-
12-month target price	RM31.20

Source: AmInvestment Bank

EXHIBIT 9. CHANGE IN DPS

(sen)	FY26			FY27			FY28		
	New	Old	%	New	Old	%	New	Old	%
DPS	90.0	78.0	15.4	94.0	82.0	14.6	98.0	86.0	14.0

Source: AmInvestment Bank

Financial Summary

Income Statement (RMmil)

YE to Jun	FY24	FY25	FY26F	FY27F	FY28F
Net interest income	3,922.5	4,056.0	4,056.8	4,244.8	4,467.7
Non-interest income	1,742.2	2,000.8	2,222.8	2,392.7	2,566.2
Islamic banking income	985.9	1,159.8	1,294.9	1,351.0	1,436.8
Total income	6,650.7	7,216.6	7,574.5	7,988.4	8,470.7
Overhead expenses	(2,609.4)	(2,633.1)	(2,717.9)	(2,822.5)	(2,982.8)
Pre-provision profit	4,041.3	4,583.5	4,856.6	5,165.9	5,487.9
Loan loss provisions	114.4	383.3	(88.1)	(98.9)	(121.6)
Impairment & others	(1.2)	0.6	-	-	-
Associates	1,691.0	1,135.2	1,380.0	1,449.0	1,521.5
Pretax profit	5,845.6	6,102.7	6,148.5	6,516.0	6,887.8
Tax	(1,058.4)	(1,236.6)	(1,229.7)	(1,303.2)	(1,377.6)
Minority interests	(1,589.5)	(1,611.4)	(1,598.6)	(1,694.2)	(1,790.8)
Net profit	3,197.7	3,254.7	3,320.2	3,518.6	3,719.4
Core net profit	3,197.7	3,254.7	3,320.2	3,518.6	3,719.4

Balance Sheet (RMmil)

YE to Jun	FY24	FY25	FY26F	FY27F	FY28F
Cash & deposits with FIs	7,548.2	11,704.4	4,809.5	3,825.7	4,009.4
Marketable securities	81,581.1	86,547.6	95,930.1	100,379.5	105,056.0
Total current assets	89,129.3	98,252.0	100,739.6	104,205.3	109,065.3
Net loans & advances	193,613.4	209,235.4	223,865.5	238,440.7	252,721.7
Statutory deposits	nm	nm	nm	nm	nm
Long-term investments	32,457.4	27,893.2	29,287.9	30,752.3	32,289.9
Fixed assets	1,145.9	1,093.8	1,093.6	1,089.8	1,082.3
Intangible assets	2,797.1	2,780.8	2,719.8	2,657.3	2,593.5
Other long-term assets	17,062.4	15,940.9	15,940.9	15,940.9	15,940.9
Total LT assets	247,076.2	256,944.0	272,907.7	288,881.1	304,628.4
Total assets	336,205.5	355,196.1	373,647.3	393,086.3	413,693.7
Customer deposits	222,241.9	240,149.9	254,558.9	269,832.4	286,022.3
Deposits of other FIs	24,002.4	19,439.5	19,439.5	19,439.5	19,439.5
Subordinated debts	9,785.9	10,085.1	10,085.1	10,085.1	10,085.1
Hybrid capital securities	-	-	-	-	-
Other liabilities	35,806.4	38,290.9	38,290.9	38,290.9	38,290.9
Total liabilities	291,836.7	307,965.3	322,374.3	337,647.8	353,837.8
Shareholders' funds	30,090.7	32,147.1	34,590.8	37,062.1	39,688.7
Minority interests	14,278.1	15,083.6	16,682.2	18,376.4	20,167.2

Key Ratios

YE to Jun	FY24	FY25	FY26F	FY27F	FY28F
Total income growth (%)	3.4	8.5	5.0	5.5	6.0
Pre-provision profit growth (%)	4.7	13.4	6.0	6.4	6.2
Core net profit growth (%)	14.6	1.8	2.0	6.0	5.7
Net interest margin (%)	1.5	1.5	1.4	1.4	1.4
Cost-to-income ratio (%)	39.2	36.5	35.9	35.3	35.2
Effective tax rate (%)	18.1	20.3	20.0	20.0	20.0
Dividend payout (%)	19.2	25.2	30.9	30.4	30.0

Key Assumptions

YE to Jun	FY24	FY25	FY26F	FY27F	FY28F
Loan growth (%)	7.1	7.7	7.0	6.5	6.0
Deposit growth (%)	4.1	8.1	6.0	6.0	6.0
Loan-deposit ratio (%)	87.8	87.6	88.4	88.8	88.8
Gross NPL (%)	0.5	0.5	0.6	0.6	0.6
Net NPL (%)	0.3	0.4	0.4	0.4	0.5
Credit charge-off rate (%)	(0.1)	(0.2)	-	-	-
Loan loss reserve (%)	155.0	96.9	92.3	88.8	86.8

Source: Company, AmInvestment Bank Bhd.

DISCLOSURE AND DISCLAIMER

This report is prepared for information purposes only and it is issued by AmInvestment Bank Berhad ("AmInvestment") without regard to your individual financial circumstances and objectives. Nothing in this report shall constitute an offer to sell, warranty, representation, recommendation, legal, accounting or tax advice, solicitation or expression of views to influence any one to buy or sell any real estate, securities, stocks, foreign exchange, futures or investment products. AmInvestment recommends that you evaluate a particular investment or strategy based on your individual circumstances and objectives and/or seek financial, legal or other advice on the appropriateness of the particular investment or strategy.

The information in this report was obtained or derived from sources that AmInvestment believes are reliable and correct at the time of issue. While all reasonable care has been taken to ensure that the stated facts are accurate and views are fair and reasonable, AmInvestment has not independently verified the information and does not warrant or represent that they are accurate, adequate, complete or up-to-date and they should not be relied upon as such. All information included in this report constitute AmInvestment's views as of this date and are subject to change without notice. Notwithstanding that, AmInvestment has no obligation to update its opinion or information in this report. Facts and views presented in this report may not reflect the views of or information known to other business units of AmInvestment's affiliates and/or related corporations (collectively, "AmBank Group").

This report is prepared for the clients of AmBank Group and it cannot be altered, copied, reproduced, distributed or republished for any purpose without AmInvestment's prior written consent. AmInvestment, AmBank Group and its respective directors, officers, employees and agents ("Relevant Person") accept no liability whatsoever for any direct, indirect or consequential losses, loss of profits and/or damages arising from the use or reliance of this report and/or further communications given in relation to this report. Any such responsibility is hereby expressly disclaimed.

AmInvestment is not acting as your advisor and does not owe you any fiduciary duties in connection with this report. The Relevant Person may provide services to any company and affiliates of such companies in or related to the securities or products and/or may trade or otherwise effect transactions for their own account or the accounts of their customers which may give rise to real or potential conflicts of interest.

This report is not directed to or intended for distribution or publication outside Malaysia. If you are outside Malaysia, you should have regard to the laws of the jurisdiction in which you are located. If any provision of this disclosure and disclaimer is held to be invalid in whole or in part, such provision will be deemed not to form part of this disclosure and disclaimer. The validity and enforceability of the remainder of this disclosure and disclaimer will not be affected.