AmInvestment Bank

Company Report

FINANCIAL SERVICES

HONG LEONG FINANCIAL GROUP

(HLFG MK EQUITY, HLCB.KL)

29 May 2025

Earnings supported by HLBB's robust topline expansion

BUY

(Maintained)

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Rationale for report: Company Result

Price	**RM16.70**
Fair Value	**RM23.80**
52-week High/Low	RM20.18/RM15.70

Key Changes

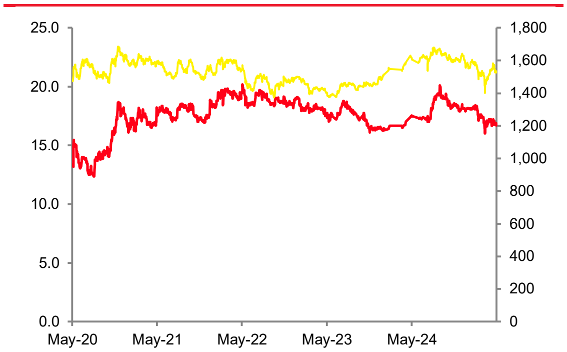
Fair value	⇔
EPS	⇔

YE to Dec	FY24	FY25F	FY26F	FY27F
Total income (RM mil)	6,650.7	7,134.0	7,435.8	7,521.5
Core net profit (RM mil)	3,197.7	3,416.7	3,571.5	3,686.1
FD Core EPS (sen)	282.0	301.3	314.9	325.0
FD Core EPS growth (%)	11.0	6.9	4.5	3.2
Consensus Net Profit (RM mil)	-	3,336.0	3,551.0	3,745.0
DPS (sen)	54.0	60.3	63.0	49.0
BV/share (RM)	26.53	28.62	31.47	34.06
PE (x)	5.9	5.5	5.3	5.1
Div yield (%)	2.9	3.3	3.4	2.7
P/BV (x)	0.6	0.6	0.5	0.5
ROE (%)	11.2	10.9	10.5	9.9

Stock and Financial Data

Shares Outstanding (million)	1,134.0
Market Cap (RMmil)	18,938.6
Book Value (RM/Share)	26.53
P/BV (x)	0.6
ROE (%)	11.2
Major Shareholders	Hong Leong Company (Malaysia) Bhd (52.0%) Guoco Group Ltd (25.4%)
Free Float	22.5
Avg Daily Value (RMmil)	3.7

Price performance	3mth	6mth	12mth
Absolute (%)	(8.3)	(10.0)	(4.5)
Relative (%)	(4.7)	(5.4)	1.3



Investment Highlights

9MFY25 total income grew 8.2% YoY, driven by strong commercial banking earnings. NII and NOII benefited from NIM expansion, robust loan growth at HLBB, and higher fee income. Earnings remain supported by HLBB's resilient asset quality, with the stock trading at an attractive FY26 PE of 5.3x and PB of 0.5x

- **Recommendation and valuation.** Reaffirm BUY on HLFG with an unchanged TP of RM23.80/share, backed by SOP valuation and a neutral 3-star ESG rating. Our earnings projection remains unchanged.

- **9MFY25 core earnings within expectations, making up 72.3% of our estimate and 74.0% of consensus projection.** Excluding HLBB's one-off RM399 million management overlay release and RM408 million dilution loss, 9M25 normalized earnings rose 3.3% YoY to RM2.47 billion, driven by stronger commercial banking profits. The non-cash dilution loss was due to completion of BOCD's CBond holders' conversion into equity. This lowers HLBB's stake in BOCD from 19.8% to 17.8%. Insurance division's PBT fell 13.5% YoY on weaker investment income and lower life insurance gains, while IB PBT dropped 23.6% YoY due to reduced equity investment gains. QoQ, core net profit declined 6.7% on lower total income.

- **HLBB's 9MFY25 core PBT rose 4.1% YoY to RM4 billion, driven by loan growth, expansion in NIM, and NOII.** HLBB's loans expanded 7.2% YoY, with domestic growth at 7.1% YoY, surpassing the industry's 5.2% YoY. NIM improved 5bps YoY to 1.90%, while the CI ratio strengthened to 38.8%, driven by a 3% YoY positive JAW. Asset quality remained solid, with a 0.57% GIL ratio, and normalized credit cost stayed low at 0.01% in 9MFY25.

- **HLA Holdings' PBT dropped 13.5% YoY to RM489 million.** HLA's gross premiums/contributions for life and family takaful rose 4.1% YoY, with new business premiums growing 23% YoY, mainly driven by bancassurance, followed by agency. HLA's average case size increased 37% YoY. Savings and protection plans made up 66% and 34% of annualized premiums, respectively. By March 2025, HLA's CSM balance reached RM1.67 billion, while YTD new business value stood at RM123 million, with a new business CSM of RM165 million.

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 FY24, Commercial and Islamic banking accounted for 88% of the group's profit before tax (PBT), with Insurance contributing 10% and Investment Banking & Asset Management making up the remaining 2%.

Investment thesis and catalysts

The stock remains attractively valued, trading at a low FY26 PE of 5.3x and PB of 0.5x, providing a cost-effective entry into HLBB. Despite a 10.6% ROE, HLBB is undervalued, with an FY26 P/BV of 0.9x. HLBB's topline growth is solid, supported by resilient asset quality amid macroeconomic uncertainties from tariff impacts.

Valuation methodology

Our TP of RM23.80 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)	3Q24	2Q25	3Q25	% QoQ	% YoY	9M24	9M25	%
Interest income	2,276	2,279	2,235	-1.9	-1.8	6,735	6,834	1.
Interest expense	-1,285	-1,264	-1,244	-1.6	-3.2	-3,820	-3,791	-0
Net interest income	**992**	**1,016**	**991**	-2.4	0.0	**2,915**	**3,043**	4.
Islamic banking income	254	297	272	-8.6	6.9	726	857	18
Non-interest income	518	542	441	-18.7	-15.0	1,397	1,553	11
Total income	**1,764**	**1,855**	**1,704**	-8.2	-3.4	**5,038**	**5,454**	8.
Overhead expenses	-652	-690	-665	-3.6	2.0	-1,900	-2,046	7.
Pre-provision profit	**1,112**	**1,166**	**1,039**	-10.9	-6.6	**3,138**	**3,408**	8.
Loan impairment allowances	26	-5	398	>-100	>100	83	386	36
Other allowances	-1	1	0	-85.2	-112.2	-1	1	-15
Associates and JV income	413	414	-63	-115.3	-115.4	1,260	745	-4
Pretax profit	**1,551**	**1,575**	**1,374**	-12.8	-11.4	**4,480**	**4,539**	1.
Income tax	-327	-311	-309	-0.8	-5.6	-896	-941	5.
Minority interest	-405	-425	-351	-17.3	-13.5	-1,192	-1,197	0.
Net profit	**818**	**839**	**714**	-14.9	-12.7	**2,392**	**2,401**	0.
Core net profit	**818**	**839**	**783**	-6.7	-4.3	**2,392**	**2,470**	3.
Core EPS (sen)	72.1	74.0	69.0	-6.8	-4.3	210.9	217.8	3.

Segmental Analysis (RM m, FYE 30 Jun)	3Q24	2Q25	3Q25	% QoQ	% YoY	9M24	9M25	%
Commercial Banking	884	1,000	1,346	34.5	52.2	2,666	3,311	24
Investment Banking	27	19	15	-20.9	-43.4	74	57	-2
Insurance	231	142	73	-48.4	-68.3	492	436	-1
Others	333	98	375	284.0	12.7	950	1,084	14
Eliminations	-337	-98	-372	278.3	10.3	-961	-1,093	13
Share of profit from associates	413	414	-63	-115.3	-115.4	1,260	745	-4
Share of profit from JVs	0	0	0	n.m.	n.m.	0	0	
Pretax profit	**1,551**	**1,575**	**1,374**	-12.8	-11.4	**4,480**	**4,539**	1.

Source: Company, AmInvestment Bank

EXHIBIT 2: VALUATION: HLFG

SOP per share for HLB	RM29.10
SOP per share for HLC	RM0.74
SOP per share for HLA	RM2.60
SOP per share for MSIG	RM1.40
SOP per share for HLMSIG Takaful	RM0.13
SOP per share for HLAI	RM0.10
SOP Valuation	RM34.00
Holding company discount	RM10.20
ESG Premium	0% premium
12-month target price	**RM23.80**

Source: AmInvestment Bank

EXHIBIT 3: VALUATIONS

Companies	Shareholders' funds (RM Mil)	Equity Stake	Book Value Multiple	Basis	Valuation (RM mil)	Sum of parts per share (RM)
HLB	48,747	64.4%	1.1	Based on CY26 estimated shareholders' equity	32,963	29.1
HLC	1,027	81.3%	1.0		835	0.74
Insurance companies under HLA Holdings						
HLA	4,267	70%		1x Embedded value of FY24	2,987	2.6
MSIG	3,189	30%	1.6		1,531	1.4
HLMSIG Takaful	231	65%	1.0		150	0.13
HLAI	130	100%	1.0		130	0.1
SOP Valuation					**38,596**	**34.0**
Holding company discount			30%		11,579	10.2
SOP Valuation after holding company discount					**27,017**	**23.8**
No of shares					1,134	
Fair Value					**RM23.80**	

Source: Company, AmInvestment Bank

EXHIBIT 4: ESG SCORE

	Environmental assessment	Parameters	Weightage	Rating					Rationale
1	Allocation of investments in high risk ESG sectors	% of total investments allocated	40%	*	*	*			
2	Scope 1 GHG Emissions to total income	t/Co2e/RM'Mil	15%	*	*	*			0.04 in FY2023 vs. 0.03 in FY2022
3	Scope 2 GHG Emissions to total income	t/Co2e/RM'Mil	15%	*	*	*			5.11 in FY2023 vs. 5.26 in FY2022
4	Scope 3 GHG Emissions to total income	t/Co2e/RM'Mil	15%	*	*				Increased to 2.22 in FY2023 vs. 1.69 in FY22022
5	Electricity consumption to total income	MWh/RM'Mil	10%	*	*	*			Stable at 6.2 in 2023
6	Water consumption to total income	m3/RM'Mil	5%	*	*	*			Increased to of 13.5 in 2023 vs. 11.8 in 2022
	Weighted score for environmental assessment		**100%**	*	*	*			
	Social assessment								
1	Customer policy renewal ratio	%	30%	*	*	*			
2	Corporate Social Responsibilty investments or spend	% of operating expenses	25%	*	*	*			
3	Claims settlement ratio	%	20%	*	*	*			
4	Workforce diversity - women in senior management and above (excluding board directors)	% of total workforce	15%	*	*	*			
5	Average training hours per employee	hours	10%	*	*	*			13hrs in 2023
	Weighted score for social assessment		**100%**	*	*	*			
	Governance assessment								
1	Board age diversity	% under the 61 to 70 years old category	20%	*	*	*			
2	Board women representation	% of total board directors	15%	*	*	*			57.1% representation
3	Directors with tenure of 3-6 years	% in the 3 to 6 years or more category	15%	*	*	*			
4	Independent board directors	% of total board directors	20%	*	*	*	*		71.4% independent directors
5	Remuneration to directors	% of operating expenses	10%	*	*	*	*		Stable at RM13mil - 0.5% of 2023 total operating expenses
6	Cybersecurity, Privacy and Data Protection	Confirmed incidents	20%	*	*	*			
	Weighted score for governance assessment		**100%**	*	*	*			
	Environmental score		40%	*	*	*			
	Social score		25%	*	*	*			
	Governance score		35%	*	*	*			
	Overall ESG Score		**100%**	*	*	*			

Source: Company, AmInvestment Bank

EXHIBIT 5: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY23	FY24	FY25F	FY26F	FY27F
Net interest income	3,786.7	3,922.5	4,236.3	4,434.3	4,304.1
Non-interest income	1,726.5	1,742.2	1,868.5	1,927.6	2,104.3
Islamic banking income	963.4	985.9	1,029.2	1,073.9	1,113.1
Total income	**6,476.6**	**6,650.7**	**7,134.0**	**7,435.8**	**7,521.5**
Overhead expenses	(2,479.2)	(2,609.4)	(2,568.2)	(2,676.9)	(2,632.5)
Pre-provision profit	3,997.3	4,041.3	4,565.8	4,758.9	4,889.0
Loan loss provisions	(115.2)	114.4	(82.8)	(178.7)	(193.0)
Impairment & others	0.3	(1.2)	(0.3)	(0.4)	(0.5)
Associates	1,368.9	1,691.0	1,736.3	1,921.0	2,013.9
Pretax profit	**5,251.3**	**5,845.6**	**6,219.0**	**6,500.8**	**6,709.4**
Tax	(919.2)	(1,058.4)	(1,119.4)	(1,170.1)	(1,207.7)
Minority interests	(1,451.2)	(1,589.5)	(1,682.9)	(1,759.1)	(1,815.6)
Core net profit	**2,880.9**	**3,197.7**	**3,416.7**	**3,571.5**	**3,686.1**
Balance Sheet (RMmil, YE 31 Dec)	**FY23**	**FY24**	**FY25F**	**FY26F**	**FY27F**
Cash & deposits with FIs	9,848.4	7,548.2	4,301.6	2,594.5	887.4
Marketable securities	103,266.2	110,762.8	107,471.3	116,086.2	125,455.2
Total current assets	**113,114.6**	**118,311.0**	**111,772.8**	**118,680.6**	**126,342.6**
Net loans & advances	180,567.4	193,613.4	207,082.8	223,616.4	241,472.6
Statutory deposits	nm	nm	nm	nm	nm
Long-term investments	3,449.3	3,275.7	4,753.6	5,133.9	5,544.6
Fixed assets	1,686.5	1,617.5	1,558.2	1,499.2	1,444.7
Intangible assets	2,992.8	2,983.7	2,974.6	2,974.6	2,974.6
Other long-term assets	12,836.4	16,167.4	42,290.5	63,802.0	89,897.8
Total LT assets	**202,151.2**	**217,894.5**	**258,795.4**	**297,089.6**	**341,367.3**
Total assets	**315,265.8**	**336,205.5**	**370,568.2**	**415,770.3**	**467,709.9**
Customer deposits	211,467.4	220,075.3	237,681.4	256,695.9	277,231.5
Deposits of other FIs	12,452.1	14,178.8	18,611.1	24,362.6	31,934.9
Subordinated debts	2,206.7	2,205.2	2,204.2	2,203.3	2,202.3
Hybrid capital securities	7,881.6	7,559.3	8,857.0	10,880.4	13,617.6
Other liabilities	41,628.4	47,818.1	55,182.2	68,806.3	85,558.9
Total liabilities	**275,636.2**	**291,836.7**	**322,535.9**	**362,948.4**	**410,545.2**
Shareholders' funds	26,791.7	30,090.7	32,454.3	35,690.5	38,624.8
Minority interests	12,837.9	14,278.1	15,578.1	17,131.4	18,539.9
Key Ratios (YE 31 Dec)	**FY23**	**FY24**	**FY25F**	**FY26F**	**FY27F**
Total income growth (%)	3.6	2.7	7.3	4.2	1.2
Pre-provision profit growth (%)	2.7	1.1	13.0	4.2	2.7
Core net profit growth (%)	8.5	11.0	6.9	4.5	3.2
Net interest margin (%)	1.7	1.6	1.7	1.7	1.5
Cost-to-income ratio (%)	38.3	39.2	36.0	36.0	35.0
Effective tax rate (%)	17.5	18.1	18.0	18.0	18.0
Dividend payout (%)	19.3	19.2	20.0	20.0	15.1
Key Assumptions (YE 31 Dec)	**FY23**	**FY24**	**FY25F**	**FY26F**	**FY27F**
Loan growth (%)	7.9	7.1	7.0	8.0	8.0
Deposit growth (%)	7.1	4.1	8.0	8.0	8.0
Loan-deposit ratio (%)	86.2	88.7	87.9	87.9	87.9
Gross NPL (%)	0.6	0.5	0.6	0.5	0.5
Net NPL (%)	0.6	0.5	0.6	0.5	0.5
Credit charge-off rate (%)	-	-	-	0.1	0.1
Loan loss reserve (%)	168.9	155.0	158.4	177.2	199.9

SOURCE: COMPANY, AMINVESTMENT BANK BHD ESTIMATES

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