

FINANCIALS EQUITY RESEARCH

PRICE PERFORMANCE

Hong Leong Finance Limited

SGX: S41

Bloomberg: HLF:SP

ISIN code: SG1M04001939

Country: Singapore

Industry: Banking & Investment Services

28 December 2021

RECOMMENDATION: BUY

Current price: S\$2.410

Target price: S\$2.903

Issued units: 446.61 million (30 June 2021)

Market capitalisation: S\$1,078.73 million

52-week range: S\$2.330-S\$2.550



COMPANY DESCRIPTION

Hong Leong Finance Limited and its subsidiaries (collectively defined herein as HLF) is a Singapore-based financial service company. HLF's core business involves taking deposits and savings from the public and providing financing solutions and services that include corporate and consumer loans, government assistance for SMEs, corporate finance and advisory services. Currently, HLF has a network of 28 branches and 12 SME Centres islandwide.

SUMMARY

For the half year ended 30 June 2021 (1H2021), HLF recorded a 30.9% yoy decrease in interest income/ hiring charges to S\$123.1 million. However, during the same period, interest expense also decreased by 64.7% yoy to S\$33.8 million. Consequently, the net interest income for the first half of 2021 increased by 8.6% yoy to S\$89.2 million as HLF adjusted its funding strategies to pare down the deposit base to manage the downward pressure on net interest margin. Net allowances for loans and other financial assets for 1H2021 was a net write-back of S\$3.0 million arising from lower allowances for credit-impaired loan and non-credit-impaired loans as compared to corresponding period. Consequently, HLF reported a net attributable profit of S\$44.7 million translating to an earnings per share of 9.98 cents. Meanwhile, HLF declared an interim dividend of 3.75 cents per share compared to 3.50 cents per share interim dividend declared a year ago.

RECOMMENDATION

HLF reported NAV per share of S\$4.33 and annualised earnings per share of 19.97 cents as at 30 June 2021. Our peer comparison analysis results show that HLF's P/B of 0.56x is slightly higher compared to its peer average P/B of 0.55x. Further, HLF's P/E of 12.07x is also higher than its peer average P/E of 9.82x. Meanwhile, HLF is relatively attractive in terms of dividend yield. However, our evaluation of the peer comparison analysis lead us to believe that HLF's significantly higher market capitalisation, relatively attractive dividend yield and having a strong parent company could justify its higher P/B and P/E multiples. Further, considering the positive outlook in Singapore's economy and a potential interest rate hike in 2022, we are expecting an improvement in HLF's revenue, earnings and distribution for FY2021 and FY2022. Given the above, we estimate a target price of S\$2.903, which is the average of the target price derived from the peer average P/B, P/E and dividend yield peer comparison analysis. This target price represents a 20.46% upside from the current price of S\$2.410. Accordingly, we believe a buy recommendation is warranted on HLF.

KEY FINANCIALS Year ended Dec 31	Revenue (S\$ million)	Profit ⁽¹⁾ (S\$ million)	EPS (cents)	P/E (x)	DPS (cents)	Dividend		NAV per unit (S\$)	P/B (x)
						yield (%)			
2019 actual	396.4	103.1	23.10	10.43	15.00	6.2%		4.28	0.56
2020 actual	310.8	63.9	14.30	16.85	9.00	3.7%		4.29	0.56
2021 forecast ⁽²⁾	257.3	85.6	19.12	12.60	11.66	4.8%		4.33	0.56
2022 forecast	329.4	97.7	21.83	11.04	13.32	5.5%		-	-

Figures have been rounded. P/E, P/B and dividend yield figures are based on current price of S\$2.410

(1) Profit attributable to owners of the company

(2) NAV as at 30 June 2021

Source: Hong Leong Finance Limited, FPA Financial

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COMPANY OVERVIEW

In this section, we will discuss HLF's corporate profile, its substantial shareholders and an overview of HLF's portfolio

(I) Corporate Profile

HLF is a Singapore-based financial service company and a member of Hong Leong Group Singapore. HLF's principal activities are those relating to financing business and provision of corporate advisory services and provision of nominee services. Its core business involves taking deposits and savings from the public and providing financing solutions and services that include corporate and consumer loans, government assistance for small and medium enterprises (SMEs) corporate finance and advisory services. Its deposits include business current account and fixed deposits. Its SME loans include SME working capital loan, SME fixed assets loan, vehicle-green loan, equipment and commercial vehicle loan, medical and dental equipment loan and property development loan. Its corporate advisory services include capital restructuring, project and investment evaluation, financial modelling and mergers and acquisitions.

As at 30 June 2021, HLF had approximately total assets of S\$13.0 billion and equity attributable to owners of the Company of S\$1.9 billion.

(II) Substantial Shareholders

As at 4 March 2021, Hong Leong Investment Holdings is HLF's largest substantial shareholder with 46.0% stake, followed by Hong Realty (Private) Limited with 10.49% stake and Hong Leong Enterprises Pte Ltd at 5.46% stake as shown in **Exhibit 1**.

Exhibit 1: HLF's Register of Substantial Shareholders

Shareholders	Direct interest	Deemed interest	Total interest	Percentage of shares held ⁽¹⁾
Hong Leong Enterprises Pte Ltd	4,485,047	19,968,812	24,453,859	5.46%
Hong Realty (Private) Limited	23,271,370	23,678,335	46,949,705	10.49%
Hong Leong Investment Holdings Pte Ltd	116,507,363	89,353,395	205,860,758	46.00%

⁽¹⁾ Based on the no. of issued shares as at 04.03.21

Source: HLF

According to Singapore's Companies Act, where a body corporate has an interest in a share and – (a) the body corporate is, or its directors are, accustomed or under an obligation whether formal or informal to act in accordance with the directions, instructions or wishes of a person; or (b) a person has a controlling interest in the body corporate, - the body corporate shall be deemed to have an interest in that share.

Hong Leong Investment Holdings Pte. Ltd. (HLIH) operates as a holding company. HLIH, through its subsidiaries, invests in property and real estate sectors. HLIH has a total interest of 205,860,758 shares comprising of direct interest of 116,507,363 shares and is deemed to have an interest in the 89,353,398 shares held directly by companies in which it is entitled to exercise or control the exercise of not less than 20% of the votes attached to the voting shares thereof, which includes (i) 24,453,859 shares held directly and indirectly by Hong Leong Enterprise Pte Ltd and (ii) 46,949,705 shares held directly and indirectly by Hong Realty (Private) Limited.

(III) Overview of HLF's Portfolio

Currently, HLF has a network of 28 branches and 12 SME Centres islandwide.

Branches

HLF's 28 branches are strategically situated in Singapore. Other than the main branch, 27 of them are located in residential estates where its customers live and play. Over the years, HLF has earned the customer's trust and pride itself in offering personalised services to them and meeting their daily needs. The HLF brand has become a household name and is recognised among the Top 100 Singaporean Brands by Brand Finance.

The 28 HLF branches are summarized in **Exhibit 2**.

Exhibit 2: List of the 28 HLF's Branches

Main Branch 16 Raffles Quay #01-05 Hong Leong Building Singapore 048581 T : 6415 9118 F : 6222 8790	City Square Mall Branch 180 Kitchener Road #B2-41 City Square Mall Singapore 208539 T : 6509 8200 F : 6509 8100	Jurong East Branch Blk 134 Jurong Gateway Road #01-313 Singapore 600134 T : 6564 3880 F : 6564 3787	Serangoon Garden Branch 8 Kensington Park Road Serangoon Garden Estate Singapore 557260 T : 6280 5665 F : 6285 2195
Ang Mo Kio Ave 1 Branch Blk 338 Ang Mo Kio Ave 1 #01-1641 Singapore 560338 T : 6452 8735 F : 6454 3524	Clementi West Branch Blk 725 Clementi West Street 2 #01-216 Singapore 120725 T : 6778 6271 F : 6775 2751	Jurong West Branch Blk 504 Jurong West Street 51 #01-211 Singapore 640504 T : 6569 0361 F : 6569 5918	Tampines Grande Branch 9 Tampines Grande #01-12 Singapore 528735 T : 6784 7326 F : 6784 9057
Balestier Branch 288 Balestier Road #01-02 Balestier 288 Singapore 329731 T : 6250 1083 F : 6254 8801	Ghim Moh Branch Blk 21 Ghim Moh Road #01-209/211 Singapore 270021 T : 6467 3715 F : 6468 3273	Kallang Bahru Branch Blk 66 Kallang Bahru #01-521 Singapore 330066 T : 6296 8067 F : 6294 2907	Toa Payoh Branch Blk 520 Lorong 6 Toa Payoh #02-54 HDB Hub Singapore 310520 T : 6253 4821 F : 6256 5676
Bedok Branch Blk 203 Bedok North Street 1 #01-451 Singapore 460203 T : 6449 0601 F : 6444 3827	Holland Drive Branch Blk 45 Holland Drive #01-351 Singapore 270045 T : 6778 4169 F : 6775 2836	Marine Parade Branch Blk 80 Marine Parade Central #01-790 Singapore 440080 T : 6346 2036 F : 6346 2035	Upper Bukit Timah Branch 140 Upper Bukit Timah Road #01-19/21 Beauty World Plaza Singapore 588176 T : 6469 7438 F : 6468 4181
Bukit Batok Central Branch Blk 641 Bukit Batok Central #01-48 Singapore 650641 T : 6564 8801 F : 6564 9643	Hong Lim Branch Blk 531 Upper Cross Street #01-50 Hong Lim Complex Singapore 050531 T : 6534 5767 F : 6534 5868	Potong Pasir Branch 51 Upper Serangoon Road #01-60/61 The Poiz Centre Singapore 347697 T : 6214 9462 F : 6214 9463	Upper Thomson Branch 219 Upper Thomson Road Singapore 574351 T : 6453 3266 F : 6454 1913
Bukit Merah Branch Blk 125 Bukit Merah Lane 1 #01-156 Singapore 150125 T : 6273 0360 F : 6272 7158	Hougang Branch Blk 208 Hougang Street 21 #01-211/213 Singapore 530208 T : 6288 2396 F : 6281 3046	Redhill (Jln Tiong) Branch Blk 75D Redhill Road #01-100 Singapore 154075 T : 6479 0277 F : 6479 0218	Woodlands Branch Blk 306 Woodlands Street 31 #01-43 Singapore 730306 T : 6368 7928 F : 6368 1448
City Plaza Branch 810 Geylang Road #01-111/114 City Plaza Singapore 409286 T : 6746 8084 F : 6748 2422	Joo Chiat Branch 278 Joo Chiat Road Singapore 427532 T : 6344 8842 F : 6440 2864	Sengkang Branch 1 Sengkang Square #02-35 Compass One Singapore 545078 T : 6384 3696 F : 6386 3364	Yishun Branch Blk 743 Yishun Ave 5 #01-542/544 Singapore 760743 T : 6758 3711 F : 6753 5001

Source: HLF

SME Centres

In order to maintain market leadership and deliver services effectively to its SME customers, HLF maintains a strong network of 12 SME Centres within its branch network to stay close to the business community as shown in **Exhibit 3**.

Exhibit 3: List of the 12 HLF's SME Centres

<p>Balestier 288 Balestier Road #01-02 Balestier 288 Singapore 329731 T : 6397 4946 F : 6254 8801</p>	<p>City Plaza 810 Geylang Road #01-111/114 City Plaza Singapore 409286 T : 6846 9710 F : 6748 2422</p>	<p>Hong Lim Blk 531 Upper Cross Street #01-50 Hong Lim Complex Singapore 050531 T : 6534 1909 F : 6534 5868</p>	<p>Potong Pasir 51 Upper Serangoon Road #01-60/61 The Poiz Centre Singapore 347697 T : 6214 9473 F : 6214 9463</p>
<p>Bedok Blk 203 Bedok North Street 1 #01-451 Singapore 460203 T : 6446 7320 F : 6444 3827</p>	<p>City Square 180 Kitchener Road #B2-41 City Square Mall Singapore 208539 T : 6634 4087 F : 6834 3280</p>	<p>Hougang Blk 208 Hougang Street 21 #01-211/213 Singapore 530208 T : 6383 2807 F : 6281 3046</p>	<p>Upper Bukit Timah 140 Upper Bukit Timah Road #01-19/21 Beauty World Plaza Singapore 588176 T : 6463 1365 F : 6468 4181</p>
<p>Bukit Merah Blk 125 Bukit Merah Lane 1 #01-156 Singapore 150125 T : 6274 7535 F : 6272 7158</p>	<p>Clementi West Blk 725 Clementi West Street 2 #01-216 Singapore 120725 T : 6873 3056 F : 6775 2751</p>	<p>Jurong East Blk 134 Jurong Gateway Road #01-313 Singapore 600134 T : 6665 1950 F : 6564 3787</p>	<p>Yishun Blk 743 Yishun Ave 5 #01-542/544 Singapore 760743 T : 6758 3711 F : 6753 5001</p>

Source: HLF

HLF prides itself to be an SME Specialist with close to six decades of experience in serving the SME community, HLF has supported many local business enterprises with customised financial solutions that enabled them to operate successfully and expand swiftly. To help SMEs achieve greater efficiency and scale greater heights, HLF was the first to launch a Business Current Account in 2007 and is the only one among the finance companies with full sponsorship status for the SGX Catalist Board. HLF provides financial advisory and fundraising services to SMEs aiming to list on Catalist, support companies in their mergers and acquisitions and underwrite the sale of shares by listed companies.

HLF's Core Business

HLF's core business involves taking deposits and savings from the public and providing financing solutions and services that include corporate and consumer loans, government assistance for SMEs, corporate finance and advisory services.

The services that HLF provides to individuals include fixed deposits & savings, loans (car, property and shares) and Covid-19 home loan reliefs while the services to SME & corporates include loans (government assistance scheme, working capital, green loans, equipment, medical and property), deposits, corporate finance advisory services and Covid-19 business loan reliefs as shown in **Exhibit 4** on the next page.

Exhibit 4: Summary of HLF's Core Business

Personal	Types of loans	SME & Corporate	Types of loans
Fixed Deposits & Savings	Fixed Deposits Silver 40 Plus Golden 55 Plus Fixed Savings Account Savings Account Savers Plus	Working Capital Loan	HDB SME Loan Accounts Receivable Financing Term Loan/Credit Line Suppliers' Invoice Financing/Letters of Credit SME CARE Programme SME Working Capital Loan
Car Loan	Vehicle-Green Loan New Car Loan Used Car Loan	Green Loan	Vehicle-Green Loan Charger-Green Loan
Property Loan	HDB Home Loan Private Property Home Loan Mortgage Equity @50	Equipment Loan	Equipment and Commercial Vehicle Loan SME CARE Programme
Shares Loan	Credit Plus Share Loan	Medical Loan	Medical & Dental Equipment Loan Medical & Dental Property Loan
COVID-19 Home Loan Reliefs		Property Loan	Enhanced SME Property Loan Property Development Loan
		Government Assistance Schemes Loan	SME Working Capital Loan Temporary Bridging Loan Programme SME Fixed Assets Loan Enhanced EFS Trade Loan
		Deposits	Fixed Deposits Business Current Account
		Corporate Finance	Corporate Finance Advisory Services
		COVID-19 Home Loan Reliefs	

Source: HLF

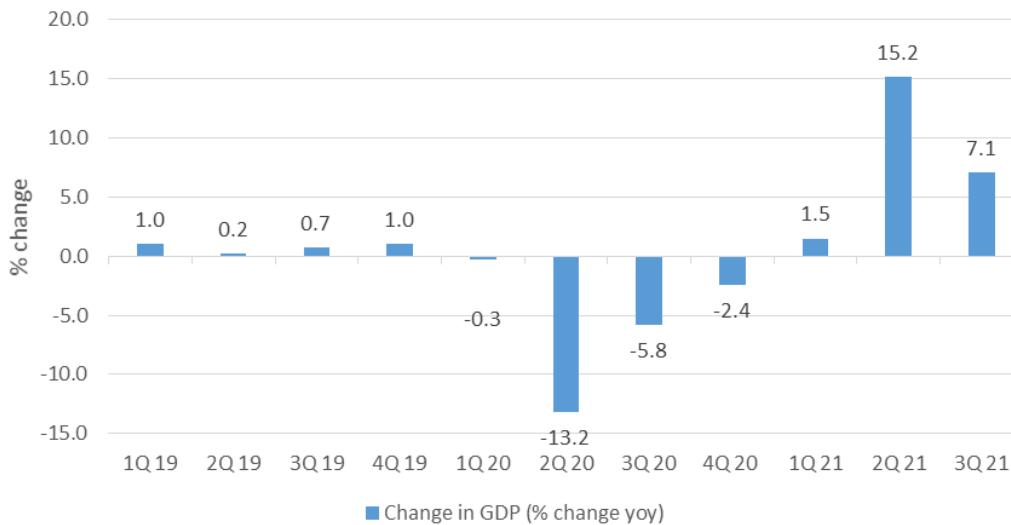
MARKET OUTLOOK

HLF's principal activities relate to financing business augmented by secondary non-lending activities such as provision of corporate advisory services and provision of nominee services. All activities are carried out in the Republic of Singapore. Hence, in this section, we will provide a review of Singapore's outlook.

(I) Singapore's Economy

The Ministry of Trade and Industry (MTI) reported that in the third quarter of 2021, Singapore economy grew by 7.1% on a year-on-year (yoy) basis, slower than the 15.2% expansion recorded in the previous quarter as shown in **Exhibit 5**. This brought GDP growth in the first three quarters of 2021 to 7.7%.

Exhibit 5: Change in Singapore quarterly GDP (% change yoy)



Source: MTI

In Q3 2021, most sectors expanded from a year ago. Notable growth were seen in the construction sector (+66.3%), real estate sector (+16.8%), Information & communication sector (+10.4%) and finance and insurance sector (+9.0%). However, during the same period, contractions were seen in 3 sectors, namely, food & beverage services sector (-4.2%), accommodation sector (-4.1%) and administrative & support services sector (-1.3%), as shown in **Exhibit 6** on the next page.

Exhibit 6: Sectoral Growth Rates (% change yoy)

	3Q20	4Q20	2020	1Q21	2Q21	3Q21
	Year-on-Year % Change					
Total	-5.8	-2.4	-5.4	1.5	15.2	7.1
Goods Producing Industries	1.1	3.9	0.3	5.8	22.8	11.1
Manufacturing	11.0	10.3	7.3	11.2	17.9	7.2
Construction	-52.5	-27.4	-35.9	-23.2	117.5	66.3
Services Producing Industries	-8.3	-4.7	-6.9	-0.4	10.9	6.3
Wholesale Trade	-5.0	1.8	-2.4	3.8	3.4	5.9
Retail Trade	-8.6	-4.7	-16.0	1.7	51.1	0.7
Transportation & Storage	-29.0	-27.4	-25.4	-16.4	20.1	8.2
Accommodation	-20.5	-19.7	-28.7	16.5	15.8	-4.1
Food & Beverage Services	-24.1	-19.0	-25.1	-9.1	36.9	-4.2
Information & Communications	1.4	2.6	2.1	6.3	10.4	10.4
Finance & Insurance	4.2	4.9	5.0	5.4	9.8	9.0
Real Estate	-17.7	-10.8	-14.2	-2.7	26.3	16.8
Professional Services	-10.7	-7.5	-9.7	-4.5	10.8	4.4
Administrative & Support Services	-19.4	-14.9	-15.1	-15.5	0.0	-1.3
Other Services Industries	-8.7	-5.7	-8.9	0.6	16.1	4.4

Source: MTI

According to MTI, travel and domestic restrictions have continued to weigh on the recovery of aviation- and tourism-related sectors such as air transport and arts, entertainment & recreation, as well as consumer-facing sectors such as food & beverage services and retail trade. However, growth in outward-oriented sectors such as electronics and finance & insurance has been stronger than expected, bolstered by robust demand for semiconductors, and insurance products and fund management services, respectively. The recent easing of border restrictions on the entry of migrant workers from South Asia and Myanmar will also alleviate some of the ongoing labour shortages and supports the recovery of the construction and marine & offshore engineering sectors. Given the above, MTI expects Singapore GDP to grow by around 7.0% in 2021.

For 2022, MTI expects GDP growth in most advanced economies to moderate as compared to 2021 but remain above pre-COVID trend rates. By contrast, key Southeast Asian economies are projected to see faster growth in 2022 as they progressively resume more economic activities. Meanwhile, supply bottlenecks and disruptions could continue to weigh on industrial production in some external economies in the near term. Domestically, Singapore's high vaccination rate and steady rollout of booster shots will continue to facilitate the progressive easing of domestic and border restrictions, which will support the recovery of consumer-facing sectors and alleviate labour shortages in sectors that are reliant on migrant workers. Air travel and visitor arrivals are also expected to improve with the loosening of travel restrictions and expansion of Vaccinated Travel Lanes. Considering the above, MTI expects Singapore to grow by 3.0% to 5.0% in 2022.

(II) Consumer and Corporate Capital Expenditures

As at 8 December 2021, in Singapore, 96% of eligible population has completed the full vaccination regime and the overall ICU utilization rate was 49.8%. On the back of high vaccination rate and with Singapore economy recovering from the Covid-19 pandemic, we believe consumer spending would increase and companies would ramp up their expansion plans. In addition, if variant-related transmissions remain under check, the government would continue to ease measures, which ought to help consumer and business sentiments, pushing up retail sales, travel/tourism, events-related spending, loans and investment.

In FY2020, HLF's mortgage loan from residential and commercial sectors made up 73% of total portfolio compared to 71% in FY2019. The housing and HDB loans component stood at 11% of the total, of which HDB home loans made up of 7%. HP Vehicles formed 14% of total loan portfolio for FY2020 with remaining portfolios supporting small and medium enterprise ("SME") loans as shown in **Exhibit 7**.

Exhibit 7: Breakdown of HLF's Loans

	2020		2019	
	\$mil	%	\$mil	%
Property Loans - Residential/ Commercial	7,961	73	8,159	71
Housing and HDB Home Loans	1,186	11	1,403	12
HP Industrial/Vehicles	1,585	14	1,765	15
Share Loans	108	1	138	1
Others	135	1	109	1
Total	10,975	100	11,574	100

Source: HLF

Car Demand and Sales

According to Automobile Association of Singapore (AAS), the Certificate of Entitlement (COE) premiums closed mixed in the latest bidding exercise on 22 December 2021. In the latest tender, the COE price for smaller cars (category A) hit a six-year high and reached S\$58,801 compared to S\$57,010 in 8 December 2021, which was the second highest recorded. Category B and D recorded an increase in COE premium of S\$588 and S\$200 respectively, while Category C and E recorded decrease in COE premium of S\$1,000 and S\$1,111 respectively. On a 6-month basis, the COE premium increased across all categories, with Category E recording the highest increase of S\$22,777 followed by Category B of S\$20,880 as shown in **Exhibit 8**. In addition, a total of 2,522 bids were received, with a quota of 1,822 COEs available.

Exhibit 8: Singapore's COE Premium as at 22 December 2021

Category	Current COE premium (S\$)	Previous COE premium (S\$)	Change (S\$)	6 months change (S\$)
A - Car (1,600cc & below)	58,801	57,010	1,791	10,291
B- Car (above 1,600cc)	80,989	80,401	588	20,880
C - Goods vehicle & bus	44,000	45,000	(1,000)	6,998
D - Motorcycle	9,601	9,401	200	898
E- Open	83,889	85,000	(1,111)	22,777

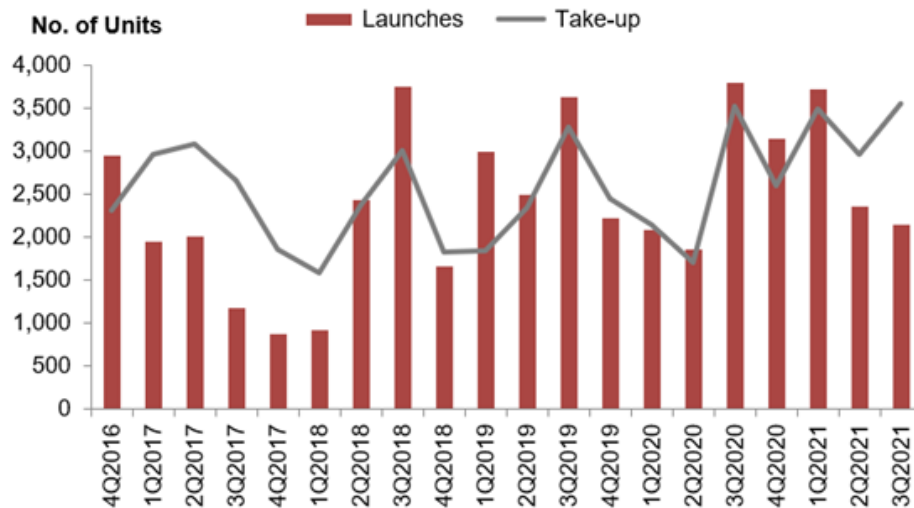
Source: Automobile Association of Singapore

According to Department of Statistic of Singapore (Singstat), motor vehicle sales (at current prices) decreased by 13.1% yoy in October. However, data from ASEAN Automotive Federation shows that in Singapore, from January to November, the number of motor vehicles sold increased by 7.0% to 54,953 units from the same period a year ago. This show that while Singapore's motor vehicle sales (at current prices) may have slowed in October, from January to November, the number of motor vehicle units sold appears to remain strong in FY2021.

Property Sales and Demand

According to Urban Redevelopment Authority (URA), developers launched 2,149 uncompleted private residential units (excluding ECs) for sale in 3rd Quarter 2021, compared with 2,356 units in the previous quarter. At the same time, 3,550 private residential units (excluding ECs) were sold in 3rd Quarter 2021, compared with the 2,966 units sold in the previous quarter, representing an increase of 19.7% quarter-on-quarter (qoq), as shown in **Exhibit 9**.

Exhibit 9: Number Of Private Housing Units Launched And Sold By Developers (excluding ECs)



Source: URA

Sales of new private homes in Singapore rose 69.8% in November compared to the previous month. Excluding executive condominiums (ECs), developers sold 1,547 units last month, up from 911 in October. This is the highest figure since July when 1,602 units were sold. Compared to a year ago, new sales - excluding ECs - surged by 99.9%. Further, Jones Lang LaSalle (JLL) reported that between January and November, approximately 12,460 new private homes have been sold, which represent an increase of about 42% yoy. JLL also expects more than 13,000 new units to be sold by the end of 2021, which would be the best performance in eight years.

Despite the Covid-19 pandemic, demand for houses has remained high. According to Straits Times, private housing prices have risen by about 9% since the first quarter of last year, while HDB resale flat prices are also recovering sharply after a six-year decline, rising about 15% in the same time period. The authorities recently introduced cooling measures in response to a sustained rise in property prices despite the Covid-19 pandemic, in an unexpected move that will result in property buyers paying higher stamp duties. The additional buyer's stamp duty (ABSD) that must be paid for purchases of residential properties will be raised. Further, the total debt servicing ratio (TDSR) for borrowers will also be tightened, while Housing Board loans will be lowered from 90 per cent to 85 per cent of a property's purchase price. Hence, the tightening of threshold could potentially slow the growth of HLF's interest income in the future.

Thus, the sustained rise in prices and the relatively high demand for both car and property bodes well for HLF. With the increase in consumer spending for big-ticket items, the demand for such loans would increase. Hence, it could potentially improve HLF's interest income.

Corporate Capital Expenditures

According to MTI's Economic Survey released on 24 November 2021, fixed asset investment (FAI) commitments in Singapore rose to \$3.7 billion in the July to September period this year from \$3.6 billion in the previous quarter and \$2.07 billion for the same period last year. FAI comprises the amount invested in building, land, machinery and equipment, as well as infrastructure related to a project. HLF also stands to gain from the increased in FAI commitments as companies takes up more loans to expand their operations

(III) Interest Rates

The Monetary Authority of Singapore (MAS) unexpectedly tightened its monetary policy in October, delivering its first such move in three years, amid mounting cost pressures caused by supply constraints and a recovery in the global economy. MAS, which manages its policy through exchange rate settings, said it would raise slightly the slope of its currency policy band, from zero percent previously.

Meanwhile, Singapore's headline consumer price index, or overall inflation increased to 3.8% yoy in November compared to 3.2% yoy in the previous month. November's headline inflation was the highest since February 2013, when it was 4.9%. At the same time, Singapore's core inflation rose to 1.6% in November from 1.5% in October. According to the MAS and MTI, rising imported and labour costs, alongside the recovery in domestic economic activity, will support a steady increase in core inflation in the quarters ahead. On inflation outlook, MAS and MTI raise their 2021 forecasts, but has not changed the 2022 outlook significantly. The MAS and MTI raised the official 2021 full-year forecast to 2.3% for headline inflation, up from "around 2%" before. The authorities also narrowed the full-year core inflation forecast to 0.9%, compared with a previous forecast of "near the upper end of the 0 to 1%". Meanwhile, they maintained their official forecasts for 2022, with core inflation to be between 1 and 2%, and headline inflation to average 1.5 to 2.5%. Hence, if the high inflation persist, there is a possibility that MAS would adopt a more hawkish monetary stance in its April 2022 meeting.

In addition, Federal Reserve (Fed) officials in early November agreed to reduce their then-\$120 billion-a-month in bond purchases by \$15 billion a month, to \$90 billion this month. In the December Federal Open Market Committee (FOMC) meeting, officials said they would accelerate that wind-down beginning next month, reducing purchases by \$30 billion a month. As a result, they will purchase \$60 billion in Treasury and mortgage securities in January, putting the program on track to end by March instead of June. Further, Fed officials also project three interest rate rises in 2022. According to MAS, Singapore's domestic interest rates are largely influenced by global market movements and especially by US rates. Hence, an upside implication on Singapore benchmark rate could be expected in the near future.

RECENT SHARE PRICE DEVELOPMENT

In 2021 year to date (YTD), HLF's share price was trading between S\$2.330 and S\$2.550. HLF's share price remained relatively stable in the first two months of 2021. However, in late March, HLF's share price started to rise and reached its high of S\$2.550 in mid April. During the period, HLF launched Singapore's first green loan for vehicle rental companies and released its annual report for FY2020.

HLF's share price reached its low of S\$2.330 in mid-May. During the period, the Singapore government extended the circuit breaker until June and restrictions were further tightened. This could have negatively impacted HLF's share price.

From June to July, HLF's share price remained stable, trading between S\$2.400 and S\$2.450. In August, HLF's share price rose to S\$2.480, amid the release of its half-year results for the 6 months ended 30 June 2021 which saw HLF's 1H2021 net profit increased by 22.4%. The company also declared an interim dividend of 3.75 Singapore cents to be paid on September 8.

Since September, HLF's share price has been relatively stable despite the uncertainties regarding the new Covid-19 variant, Omicron, which could potentially derail the economic recovery of Singapore. However, if Omicron proved to be more contagious and could cause more severe diseases compared to infections with other variants, it could negatively affect HLF's share price.

FINANCIAL ANALYSIS

In this section, we will provide a review of the HLF's financial performance and capital management.

(I) Financial review

Review of Half Year 2021 Results

For the half year under review from 1 January 2021 to 30 June 2021 (1H2021), interest on loans, hiring charges and other interest income fell by 30.7%, 15.4% and 55.0% yoy to S\$91.7 million, S\$23.0 million and S\$8.4 million respectively. However, interest expense also decreased by 64.7% yoy from S\$96.1 million in 1H2020 to S\$33.8 million in 1H2021. Consequently, the net interest income for 1H2021 increased by 8.6% to \$89.2 million compared to the same period a year ago as HLF adjusted its funding strategies to pare down the deposit base to manage the downward pressure on net interest margin, on the back of sustained low benchmark interest rate.

Meanwhile, fee and commission income, mainly comprise of fee income from lending and corporate finance activities remained stable at \$4.7 million for 1H2021.

Total staff and operating expenses increased by 15.1% yoy to \$43.5 million for 1H2021 on lower base last year, due to offset of budget relief measures from Singapore Government. Excluding budget relief grants totalling \$0.1 million in the current period and \$7.9 million mainly for the offset of staff cost from Jobs Support Scheme last year, total staff and operating expenses decreased by 4.6% with disciplined cost management.

Net allowances for loans and other financial assets for the first half 2021 was a net write-back of \$3.0 million arising from lower allowances for credit-impaired loan and non-credit-impaired loans as compared to the same period a year ago, which included the conservative build-up of \$4.5 million in general allowances at the outset of Covid-19 pandemic

As a result, HLF reported a profit before tax of S\$53.6 million in 1H2021, improving 2.6% from the same period last year. The improvement was driven by the lower interest expense and loan loss allowances. For the period, income tax expense of S\$8.9 million was recorded compared to S\$6.0 million a year ago, mainly due to tax effect of exempt income not taxable for tax purposes including Jobs Support Scheme in 1H2020. After adjusting for income tax expense, the profit attributable to owners of the company amounted to S\$44.7 million in 1H2021, which represent an increase of 22.4% yoy compared to S\$36.5 million in 1H2020. Accordingly, HLF reported an annualised earnings per share of 19.97 cents for FY2021.

HLF's 1H2021 financial results are summarized in **Exhibit 10** on the next page.

Exhibit 10: HLF's 1H2021 Financial Results

S\$'000	1H2021	1H2020	y-o-y change
Interest on loans	91,659	132,234	-30.7%
Hiring charges	23,035	27,232	-15.4%
Other interest income	8,408	18,703	-55.0%
Interest income/hiring charges	123,102	178,169	-30.9%
Less: Interest expense	(33,879)	(96,001)	-64.7%
Net Interest income/ hiring charges	89,223	82,168	8.6%
Fee and commission income	4,671	4,813	-3.0%
Other operating income	157	83	89.2%
Income before operating expenses	94,051	87,064	8.0%
Less: Staff costs	(32,558)	(27,115)	20.1%
Depreciation of property, plant and equipment	(3,991)	(3,953)	1.0%
Other operating expenses	(6,945)	(6,731)	3.2%
Total operating expenses	(43,494)	(37,799)	15.1%
Profit from operations before allowances	50,557	49,265	2.6%
Add/(less): (allowance for)/ reversal or recovery of doubtful debts and other financial assets	3,039	(6,747)	-145.0%
Profit before tax	53,596	42,518	26.1%
Less: Income tax expense	(8,911)	(5,999)	48.5%
Profit for the period attributable to owners of the company	44,685	36,519	22.4%
Number of issued shares	447,605,573	447,552,473	0.0%
Earnings per share (cents)	9.98	8.16	22.3%
Annualised earnings per share (cents)	19.97	16.32	22.3%

Source: HLF

Review of Historical Financials

We also reviewed HLF's historical financial results to evaluate how it has performed prior to the Covid-19 pandemic. We note that over the period of FY2016 to FY2020, HLF recorded interest income/ hiring charges between S\$307 million and S\$396 million. Even though interest income/ hiring charges increased from S\$349.9 million in FY2018 to S\$396.4 million in FY2019, net interest income/hiring charges decreased by 4.9% to \$201.7 million in FY2019 from S\$212.1 million in FY2018, driven by competitive deposit rates on enlarge deposit base to support the loan growth. In FY2020, net interest income decreased by 27.2% yoy to S\$146.8 million owing to compressed net interest margin as the dip in interest rate yields outweighed the saving in lower cost of funding amid falling interest rate. In FY2020, HLF also announced that in light of sustained lower interest rate environment, it will moderate its loan growth and pare down its deposit base to manage the downside pressure on interest margin. HLF will also calibrate on its lending and funding strategies to enhance its earnings.

Excluding FY2020, total operating expenses remained relatively stable between S\$84 million and S\$91 million. For FY2020, total operating expenses were S\$76.3 million, which includes the budget relief measures from Singapore Government. Excluding the offset from Jobs Support Scheme, Covid-19 support grant and rebates totaling S\$10.4 million, total expenses would have reduced by 4.0% as staff compensation and discretionary expenses were tightly managed.

Meanwhile, in FY2018, the net loan allowance write-back of S\$2.3 million compared to the allowance of S\$3.8 million in the previous year for doubtful debts and other financial assets were due to bad debts recovered in FY2018. In FY2020, in line with industry practice, higher general loan loss allowances were set aside against inherent credit risk amid uncertainties arising from Covid-19 pandemic. Hence, allowance for doubtful debts were S\$7.7 million in FY2020 compared to the S\$1.6 million in FY2019.

With lower net interest income, HLF's profit attributable to owners of the company also decreased from S\$103.1 million in FY2019 to S\$63.9 million in FY2020. Consequently, earnings per share also decreased in line with the lower profits recorded in FY2020. Earnings per share decreased from 23.1 cents in FY2019 to 14.3 cents in FY2020. Similarly, dividends also decreased from 15.0 cents to 9.0 cents owing to lower profits. However, the dividend payout ratio, as computed by dividing dividends by earnings per share, remained relative stable at 62.9% in FY2020 compared to 64.9% in FY2019. Over the past 5 years, we note that the dividend payout ratio is the lowest in FY2018 despite declaring the highest dividend of 15.0 cents. The decline in dividend payout ratio was mainly due to better earnings performance in FY2018.

We have summarized HLF's historical financial figures in **Exhibit 11**.

Exhibit 11: HLF's Historical Financials

S\$'000	For year ended 31 December				
	FY2016	FY2017	FY2018	FY2019	FY2020
Interest income/hiring charges	307,205	301,786	349,942	396,356	310,785
Net Interest income/ hiring charges	136,669	175,402	212,119	201,704	146,848
Total operating expenses	(84,292)	(84,814)	(88,029)	(90,206)	(76,339)
Add/(less): (allowance for)/ reversal or recovery of doubtful debts and other financial assets	(1,108)	(3,819)	2,276	(1,578)	(7,733)
Profit for the period attributable to owners of the company	53,066	85,685	118,343	103,085	63,909
Earnings per share (cents)	12.0	19.3	26.6	23.1	14.3
Dividends (cents)	9.0	13.0	15.0	15.0	9.0
Dividend payout (%)	75.0%	67.4%	56.4%	64.9%	62.9%

Source: HLF

(II) Capital Management**Review of Balance Sheet**

HLF reported net loan assets of S\$10,631 million as at 30 June 2021 compared to S\$10,948 million as at 31 December 2020, representing a decrease of 2.9% or S\$317 million. Accordingly, total assets also decreased from S\$13,365 million as at 31 December 2020 to S\$13,008 million as at 30 June 2021.

In tandem with the slower loan growth and to optimise loan funding, deposits and balances of customers were managed down to \$10,830 million as at 30 June 2021, representing a decrease of 3.3% or \$364 million over the previous year's base of \$11,194 million as at 31 December 2020. The decrease in total liabilities from S\$11,447 million in FY2020 to S\$11,070 million in 1H2021 was due to the decreased in deposits.

Consequently, HLF recorded total equity attributable to owners of the Company of S\$1,938 million as at 30 June 2021 compared to S\$1,918 million as at 31 December 2020. Accordingly, HLF's net asset value (NAV) per share stood at S\$4.33 based on 447.6 million issued shares.

HLF's balance sheet data are summarised in **Exhibit 12**.

Exhibit 12: Summary of HLF's Balance Sheet

S\$'000	30-Jun-21	31-Dec-20
Loans net of allowance	10,630,513	10,947,909
Total assets	13,008,282	13,365,062
Deposits	10,830,293	11,194,359
Total liabilities	11,069,805	11,446,949
Equity attributable to owners of the Company	1,938,477	1,918,113
No. of shares in issue	447,605,573	447,552,473
Net asset value per share (S\$)	4.33	4.29

Source: HLF

HLF's policy is to maintain a strong capital base so as to maintain investor, customer and market confidence and to sustain future development of the business. The Assets and Liabilities Committee reviews the adequacy of capital by monitoring the levels of major assets and liabilities taking into account the underlying risks of HLF's businesses and compliance with regulatory capital requirements.

HLF's eligible total capital includes share capital, accumulated profits, statutory reserve, capital reserve and share option reserve. Risk-weighted assets are determined according to regulatory requirements that reflect the varying levels of risk attached to assets and off-balance sheet exposures. Thus, the capital adequacy ratio, as computed by dividing eligible total capital over the total risk-weighted assets stood approximately at 16.4% as at the end of FY2020 compared to 15.0% as at the end of FY2019, higher than the prescribed requirement by MAS of 10%.

HLF's regulatory capital adequacy position are summarised in **Exhibit 13** on the next page.

Exhibit 13: Breakdown of HLF's Capital Adequacy Ratio

S\$'000	FY2020	FY2019	y-o-y change
Share capital	889,117	889,051	0.0%
Accumulated profits	214,585	196,357	9.3%
Statutory reserve	728,766	702,994	3.7%
Capital reserve	2,307	2,307	0.0%
Share option reserve	3,279	4,755	-31.0%
Eligible total capital	1,838,054	1,795,464	2.4%
Risk-weighted assets	11,211,746	11,950,853	-6.2%
Capital adequacy ratio	16.4%	15.0%	-

Source: HLF

Further, we note from HLF's 5-year historical data as shown in **Exhibit 14** that pre-pandemic, its loans net of allowance and deposits have been increasing yoy from FY2016 to FY2019. However, net loan assets fell from S\$11,554 million in FY2019 to S\$10,948 million in FY2020 on the backdrop of slower business momentum triggered by the global lockdown and restriction.

At the same time, HLF's deposits have also been increasing yoy from FY2016 to FY2019. However, in tandem with the lower loan balances, deposits and balances of customers were pared down to \$11,194 million in FY2020, a drop of 9.0% or \$1,113 million over the previous year's base of \$12,307 million in FY2019, as shown in **Exhibit 14**.

Further, we also note that HLF's equity attributable to owners of the company has also increased yoy over the past 5 years. Similarly, the number of shares in issue also increased yoy due to the issuance of shares under its share option scheme. Consequently, its NAV per share has also improved inline with the increase in equity attributable to owners of the company. HLF's capital adequacy ratio also remained relatively stable between 15.0% and 16.4%, above the minimum regulatory capital requirement of 10%, as shown in **Exhibit 14**.

Exhibit 14: HLF's 5-year Historical year-end Balance Sheet

S\$'000	For year ended 31 December				
	FY2016	FY2017	FY2018	FY2019	FY2020
Loans net of allowance	9,514,927	9,876,579	10,277,663	11,554,302	10,947,909
Total assets	12,313,100	12,542,886	13,381,255	14,460,780	13,365,062
Deposits	10,441,758	10,658,850	11,337,820	12,307,049	11,194,359
Total liabilities	10,615,992	10,801,034	11,506,904	12,546,537	11,446,949
Equity attributable to owners of the Company	1,697,108	1,741,852	1,874,351	1,914,243	1,918,113
No. of shares in issue	443,784,033	445,173,033	445,818,433	447,526,473	447,552,473
Net asset value per share (S\$)	3.82	3.91	4.20	4.28	4.29
Capital adequacy ratio	16.4%	15.8%	15.7%	15.0%	16.4%

Source: HLF

FINANCIAL PROJECTION

In this section, we will be providing our projections for HLF's revenue, earnings and dividend distribution in FY2021 and FY2022

(I) Revenue Projection

In our revenue projections, we would consider HLF's historical interest income as a percentage of interest-bearing assets. With reference to **Exhibit 15**, HLF's interest income as a percentage of interest-bearing assets was between 2.34% and 2.75% from FY2018 to FY2020. In the first half of 2021, HLF interest income represented 0.95% of its interest-bearing assets.

Exhibit 15: HLF's Historical Interest Income as a Percentage of Interest Bearing Assets

S\$'000	FY2018	FY2019	FY2020	1H2021
Interest income/ hiring charges	349,942	396,356	310,785	123,102
Interest bearing assets ⁽¹⁾	13,361,179	14,394,048	13,303,809	12,950,284
Interest income as a percentage of interest bearing assets	2.62%	2.75%	2.34%	0.95%

(1) Calculated by: total asset less property, plant and equipment

Source: HLF, FPA Financial

FY2021

As noted on page 14, in the first half of 2021, HLF's interest income/ hiring charges decreased by 30.9% yoy to S\$123.1 million. For FY2021, we note a positive outlook for Singapore's economy. According to Singapore's Ministry of Trade and Industry (MTI), Singapore's GDP grew by 7.1% in the third quarter and is expected to maintain a growth of around 7.0% in 2021. On the back of a positive economy outlook, we expect consumer spending on large ticket items to increase. For example, as noted on page 9, the number of motor vehicles sold in Singapore have remained high and has increased by 7.0% from January to November 2021 compared to the same period a year ago. Further, as noted on page 10, property sales have been strong and JLL expects more than 13,000 units to be sold in FY2021, which would represent the best performance in eight years. Fixed asset investment commitments also increased in Q3 2021. We believe these bode well for HLF as increase in spending by both individual and corporations would increase the demand for loans, which would improve HLF's profitability.

Given the above, we expect HLF's collection of interest income/ hiring charges to increase. As noted on page 7, Singapore's Finance & Insurance sector grew by 9.0% in Q3 2021. Using the growth in the Finance & Insurance sector as a proxy, we would assume the interest income/ hiring charges in 2H2021 to increase by 9.0% compared to 1H2021. We would also assume the interest-bearing assets to increase to the amount recorded in FY2020 of S\$13,304 million. Accordingly, the projected interest income/ hiring charges in 2H2021 and FY2021 would be as follows:

- Projected interest income/ hiring charges in 2H2021 = S\$123.1 million (actual 1H2021) x 109% = S\$134.2 million
- Projected interest income/ hiring charges in FY2021 = S\$123.1 million (actual 1H2021) + S\$134.2 million (projected 2H2021) = S\$257.3 million

FY2022

Looking ahead towards FY2022, we would expect a stronger interest income/ hiring charges performance for HLF, given Singapore's high vaccination rate and steady rollout of booster shots. According to MTI, Singapore's economy is expected to grow by 3.0% to 5.0% in 2022. We believe this positive outlook would allow individuals and corporations to further increase their expenditures. Further, amid the high inflation and the slightly hawkish stance from Federal Reserve, signalling up to 3 rate hikes in 2022, there is a possibility that interest rates may also increase in Singapore. This could potentially increase interest income/ hiring charges for HLF.

Considering the above, we would expect both the interest-bearing assets and the interest income/ hiring charges to increase. Hence, we would assume a 6% yoy growth for HLF's interest-bearing assets in FY2022. Further, with the improved outlook in the economy, we believe there is a possibility that interest rate could increase. Hence, we would assume the interest income as a percentage of interest-bearing assets to increase back to the level recorded in FY2020 at 2.34%. Accordingly, the projected interest-bearing assets and interest income/ hiring charges in FY2022 would be as follows:

- Projected interest-bearing assets in FY2022 = S\$13,303.8 million (projected FY2021) x 106% = S\$14,102.0 million
- Projected interest income/ hiring charges in FY2022 = 2.34% x S\$14,102.0 million (projected FY2022) = S\$329.4 million

Our projected interest income/ hiring charges for FY2021 and FY2022 are summarized in **Exhibit 16**.

Exhibit 16: Projected Interest Income/ Hiring Charges for FY2021 And FY2022

S\$'000	Actual				Forecast		
	FY2018	FY2019	FY2020	1H2021	2H2021	FY2021	FY2022
Interest income/ hiring charges	349,942	396,356	310,785	123,102	134,181	257,283	329,432
Interest bearing assets ⁽¹⁾	13,361,179	14,394,048	13,303,809	12,950,284	13,303,809	13,303,809	14,102,038
Interest income as a percentage of interest bearing assets	2.62%	2.75%	2.34%	0.95%	1.01%	1.93%	2.34%

(1) Calculated by: total asset less property, plant and equipment

Source: HLF, FPA Financial

(II) Earnings Projection

Given our projected revenue figures for FY2021 and FY2022, we will now estimate HLF's earnings for these periods.

Net Interest Income

According to Monetary Authority of Singapore (MAS), the average Singapore's SGS 10-year bond yield for the first half of 2021 was 1.45% while, including the 10-year bond yield as at 28 December, the average 10-year bond yield was 1.57% for the second half of 2021. On average, Singapore's SGS 10-year bond yield increased by 0.12% from 1H2021 to 2H2021 as shown in **Exhibit 17**.

Exhibit 17: Singapore SGS 10-Year Bond Yield

1H2021	10-year bond yield (%)	2H2021	10-year bond yield (%)
Jan	1.00	Jul	1.30
Feb	1.33	Aug	1.41
Mar	1.74	Sep	1.59
Apr	1.59	Oct	1.84
May	1.48	Nov	1.70
Jun	1.58	Dec ⁽¹⁾	1.60
Average	1.45	Average	1.57

(1) As at 28.12.21

Source: MAS, FPA Financial

For our net interest income projections, we will consider HLF's historical interest expense as a percentage of total deposits. With reference to **Exhibit 18**, between FY2018 to FY2020, the interest expense as a percentage of total deposits varies between 1.22% and 1.58%. We also note that the interest expense as a percentage of total deposits was 0.31% in 1H2021.

Exhibit 18: HLF's Historical Net Interest Income

S\$'000	Actual			
	FY2018	FY2019	FY2020	1H2021
Interest income/ hiring charges (1)	349,942	396,356	310,785	123,102
Interest expense (2)	137,823	194,652	163,937	33,879
Total deposits	11,337,820	12,307,049	11,194,359	10,830,293
Interest expense as a percentage of total deposits	1.22%	1.58%	1.46%	0.31%
Net interest income (1) - (2)	212,119	201,704	146,848	89,223

Source: HLF, FPA Financial

Considering that the SGS 10-year bond yield increased by 0.12% in 2H2021 from 1H2021, we would assume the increase in the 10-year bond yield as a proxy for the increase in interest expense as a percentage of total deposits in 2H2021. Accordingly, the interest expense as a percentage of deposits would be projected to increase to 0.43% in 2H2021 = [0.31% (1H2021) + 0.12%]. Assuming the deposits to remain unchanged in 2H2021 from 1H2021, the projected interest expense for 2H2021 and FY2021 would be as follows:

- Projected interest expense in 2H2021 = 0.43% x S\$10,830.3 million (projected total deposits for 2H2021) = S\$46.7 million
- Projected interest expense in FY2021 = S\$33.9 million (actual 1H2021) + S\$46.7 million (projected 2H2021) = S\$80.8 million

In FY2022, with the increase in interest income/ hiring charges, we expect the total deposits and interest expense to increase. We note from our revenue projections on the page 19 that we are projecting a 6% yoy increase in interest-bearing assets in FY2022. We would assume the same 6% yoy growth for HLF's total deposits in FY2022. Further, as mentioned on page 19, interest income as a percentage of interest-bearing assets increased by 0.41% from 1.93% in FY2021 to 2.34% in FY2022. Hence, we would also assume for the interest expense as a percentage of deposits to increase by 0.41% from 0.75% in FY2021 to 1.16% in FY2022. Accordingly, the projected total deposits and interest expense for FY2022 would be as follows:

- Projected total deposits in FY2022 = S\$10,830.3 million (projected FY2021) x 106% = S\$11,480.1 million
- Projected interest expense in FY2022 = 1.16% x S\$11,480.1 million (projected FY2022) = S\$132.7 million

Consequently, net interest income for FY2021 and FY2022 would be S\$176.5 million and S\$196.8 million respectively as shown in **Exhibit 19**.

Exhibit 19: Projected Net Interest Income for FY2021 and FY2022

S\$'000	Actual		Forecast	
	1H2021	2H2021	FY2021	FY2022
Interest income/ hiring charges (1)	123,102	134,181	257,283	329,432
Interest expense (2)	33,879	46,875	80,754	132,668
Total deposits	10,830,293	10,830,293	10,830,293	11,480,111
Interest expense as a percentage of total deposits	0.31%	0.43%	0.75%	1.16%
Net interest income (1) - (2)	89,223	87,306	176,529	196,764

Source: HLF, FPA Financial

Fee and Commission Income

Fee and commission income is mainly fee income generated from lending and corporate activities. Similar to our interest income/ hiring charges projections, we would expect the fee and commission income in 2H2021 to increase by 5.0% compared to 1H2021. As we have a positive outlook for FY2022, we would assume the fee and commission income to increase return to S\$10.2 million, as recorded for FY2020. Accordingly, the projected fee and commission income for FY2021 and FY2022 would be S\$9.8 million and S\$10.2 million as shown in **Exhibit 20**.

Exhibit 20: Projected Fee and Commission Income for FY2021 and FY2022

S\$'000	Actual				Forecast		
	FY2018	FY2019	FY2020	1H2021	2H2021	FY2021	FY2022
Fee and commission income	15,337	13,714	10,229	4,671	5,091	9,762	10,229

Source: HLF, FPA Financial

Other Operating Income

Other operating income mainly comprises of gain on disposal of plant and equipment and “other operating income”. We note that in FY2020, other operating income was significantly higher due to the gain of disposal of plant and equipment of S\$1.4 million. For 2H2021, we would assume the same other operating income of S\$157,000 as recorded in 1H2021 and for the other operating income to remain unchanged in FY2022 from FY2021, as shown in **Exhibit 21**.

Exhibit 21: Projected Other Operating Income for FY2021 and FY2022

S\$'000	Actual				Forecast		
	FY2018	FY2019	FY2020	1H2021	2H2021	FY2021	FY2022
Other operating income	614	324	1,714	157	157	314	314

Source: HLF, FPA Financial

Total Operating Expenses

Total operating expenses comprises of staff cost, depreciation of property, plant & equipment and other operating expenses. As noted on page 15, staff cost for FY2020 was significantly lower due to budget relief measures from the Singapore Government. Staff cost amounted to S\$32.6 million in 1H2021. For 2H2021, we would assume the same amount of S\$32.6 million. This would imply a staff cost of S\$65.1 million for FY2021. For FY2022, as we are projecting an increase in interest income/ hiring charges, we would expect the staff cost to increase. Hence, we would use FY2019's staff cost as a proxy and assume staff cost to be S\$67.7 million in FY2022.

For depreciation of property, plant & equipment, we note that in FY2019, HLF included the depreciation of right-of-use asset of S\$6.4 million on the adoption of Singapore Financial Reporting Standards (1) 16. Depreciation of property, plant and equipment amounted to S\$4.0 million in 1H2020. For 2H2021, we would assume the same amount of S\$4.0 million. This would imply that the depreciation of property, plant & equipment would be S\$8.0 million. We would assume the same amount for FY2022.

Other operating expenses comprise of audit fees and non audit fees to auditors, operating lease expenses, IT-related expenses and other expenses. We would also assume other operating expenses to remain unchanged in 2H2021 as in 1H2021. Accordingly, other operating expenses would amount to S\$13.9 million for FY2021. With the increase in interest income/ hiring charges, we also expect other operating expenses to increase. Hence, we would assuming FY2019's other operating expenses as a proxy for our FY2022 projection and assuming other operating expenses to be S\$14.5 million.

Accordingly, total operating expenses amounted to S\$87.0 million and S\$90.1 million for FY2021 and FY2022 respectively.

The summary of HLF's total projected operating expenses for FY2021 and FY2022 is shown in **Exhibit 22**.

Exhibit 22: Projected Total Operating Expenses for FY2021 and FY2022

S\$'000	Actual				Forecast		
	FY2018	FY2019	FY2020	1H2021	2H2021	FY2021	FY2022
Staff cost	(66,933)	(67,675)	(54,678)	(32,558)	(32,558)	(65,116)	(67,675)
Depreciation of property, plant and equipment	(1,955)	(8,071)	(7,922)	(3,991)	(3,991)	(7,982)	(7,982)
Other operating expenses	(19,321)	(14,460)	(13,739)	(6,945)	(6,945)	(13,890)	(14,460)
Total operating expenses	(88,209)	(90,206)	(76,339)	(43,494)	(43,494)	(86,988)	(90,117)

Source: HLF, FPA Financial

Allowance for Doubtful Debts and Other Financial Assets

As noted on page 13, the net write back of S\$3.0 million in 1H2021 was due to a lower allowances for credit impaired loan and non-credit impaired loans. However, given the uncertainties in the allowance for/ recovery of doubtful debts, we would assume it to be zero for both 2H2021 and FY2022, as shown in **Exhibit 23**.

Exhibit 23: Allowance for Doubtful Debts and Other Financial Assets for FY2021 and FY2022

S\$'000	Actual				Forecast		
	FY2018	FY2019	FY2020	1H2021	2H2021	FY2021	FY2022
Add/(less): (allowance for)/ reversal or recovery of doubtful debts and other financial assets	2,276	(1,578)	(7,733)	3,039	-	3,039	-

Source: HLF, FPA Financial

Profit before Tax

Given the above projections, we would estimate a profit before tax of S\$102.7 million in FY2021 and S\$117.2 million in FY2022 as shown in **Exhibit 24**.

Exhibit 24: Projected Profit Before Taxation for FY2021 and FY2022

S\$'000	Actual	Forecast		
	1H2021	2H2021	FY2021	FY2022
Interest income/hiring charges	123,102	134,181	257,283	329,432
Less: Interest expense	(33,879)	(46,875)	(80,754)	(132,668)
Net Interest income/ hiring charges	89,223	87,306	176,529	196,764
Fee and commission income	4,671	5,091	9,762	10,229
Other operating income	157	157	314	314
Income before operating expenses	94,051	92,554	186,605	207,307
Less: Staff costs	(32,558)	(32,558)	(65,116)	(67,675)
Depreciation of property, plant and equipment	(3,991)	(3,991)	(7,982)	(7,982)
Other operating expenses	(6,945)	(6,945)	(13,890)	(14,460)
Total operating expenses	(43,494)	(43,494)	(86,988)	(90,117)
Profit from operations before allowances	50,557	49,060	99,617	117,190
Add/(less): (allowance for)/ reversal or recovery of doubtful debts and other financial assets	3,039	-	3,039	-
Profit before tax	53,596	49,060	102,656	117,190

Source: HLF, FPA Financial

Income tax expense

We note that excluding FY2020, HLF's effective tax rate has remained at 17%. The lower effective tax rate in FY2020 was mainly due to tax effect of exempt income not taxable for tax purposes, including Jobs Support Scheme. Considering the above, we would assume an effective tax rate of 17% to derive the income tax expense for FY2021 and FY2022. Accordingly, the income tax expense in FY2021 and FY2022 would amount to S\$17.1 million and S\$19.5 million as shown in **Exhibit 25**.

Exhibit 25: Projected Income Tax Expense for FY2021 and FY2022

S\$'000	Actual				Forecast		
	FY2018	FY2019	FY2020	1H2021	2H2021	FY2021	FY2022
Profit before tax	142,137	123,958	74,719	53,596	49,060	102,656	117,190
Income tax expense	23,794	20,873	10,810	8,911	8,157	17,068	19,484
Effective tax rate	17%	17%	14%	17%	17%	17%	17%

Source: HLF, FPA Financial

Profit after Tax

Adjusting for income tax expense, the projected profit after tax for FY2021 and FY2022 would be S\$85.6 million and S\$97.7 million respectively. Assuming the same number of issued shares in 1H2021 for FY2021 and FY2022, we projected an earnings per share of 19.12 cents and 21.83 cents for FY2021 and FY2022 respectively. We have summarized our projected earnings in **Exhibit 26**.

Exhibit 26: Earnings Projections for FY2021 and FY2022

S\$'000	Actual	Forecast		
	1H2021	2H2021	FY2021	FY2022
Interest income/hiring charges	123,102	134,181	257,283	329,432
Less: Interest expense	(33,879)	(46,875)	(80,754)	(132,668)
Net Interest income/ hiring charges	89,223	87,306	176,529	196,764
Fee and commission income	4,671	5,091	9,762	10,229
Other operating income	157	157	314	314
Income before operating expenses	94,051	92,554	186,605	207,307
Less: Staff costs	(32,558)	(32,558)	(65,116)	(67,675)
Depreciation of property, plant and equipment	(3,991)	(3,991)	(7,982)	(7,982)
Other operating expenses	(6,945)	(6,945)	(13,890)	(14,460)
Total operating expenses	(43,494)	(43,494)	(86,988)	(90,117)
Profit from operations before allowances	50,557	49,060	99,617	117,190
Add/(less): (allowance for)/ reversal or recovery of doubtful debts and other financial assets	3,039	-	3,039	-
Profit before tax	53,596	49,060	102,656	117,190
Less: Income tax expense	8,911	8,157	17,068	19,484
Profit after tax	44,685	40,903	85,588	97,706
Number of issued shares	447,605,573	447,605,573	447,605,573	447,605,573
Earnings per share (cents)	9.98	9.14	19.12	21.83

Source: HLF, FPA Financial

(III) Dividend Distribution Projection

With our projected profit after tax, we would now estimate HLF's dividend payment to owners of the company. We note that the dividend payout ratio average at 61% between FY2018 to FY2020 = $[(56\% \text{ (FY2018)} + 65\% \text{ (FY2019)} + 63\% \text{ (FY2020)}) / 3]$. Hence, we would assume the dividend payout ratio for FY2021 and FY2022 to be 61% of its profit after tax. Accordingly, the projected dividend distribution would amount to 11.7 cents and 13.3 cents for FY2021 and FY2022 respectively as shown in **Exhibit 27**.

Exhibit 27: Projected Dividend Distribution for FY2021 and FY2022

S\$'000	Actual				Forecast		
	FY2018	FY2019	FY2020	1H2021	2H2021	FY2021	FY2022
Profit after tax	118,343	103,085	63,909	44,685	40,903	85,588	97,706
EPS	26.6	23.1	14.3	10.0	9.1	19.1	21.8
Dividend (cents)	15.00	15.00	9.00	3.75	7.9	11.7	13.3
Dividend payout ratio (%)	56%	65%	63%	38%	87%	61%	61%

Source: HLF, FPA Financial

VALUATION ANALYSIS

(I) Peer Comparison Analysis

We performed a peer comparison analysis to review how HLF is faring against industry peers in terms of valuation metrics. We selected peer companies that are similar to HLF in terms of industry and business operations and did a comparison by considering the peer's P/E and P/B as shown in **Exhibit 28**.

Exhibit 28: Peer Comparison

Company	Stock code	Price (\$) as at 28 Dec 2021	Market cap (\$ million)	EPS ⁽¹⁾ (cents)	P/E (x)	DPU ⁽²⁾ (cents)	Dividend yield (%)	NAV per share ⁽³⁾ (\$)	P/B (x)
Hong Leong Finance Limited	S41	2.410	1,078.73	19.97	12.07	9.25	3.84	4.33	0.56
Peer companies:									
Sing Investments & Finance Limited	S35	1.500	236.44	23.27	6.45	3.60	2.40	2.52	0.60
Singapura Finance Ltd	S23	0.815	129.33	6.18	13.19	1.50	1.84	1.60	0.51
Peer average	-	-	182.88	-	9.82	-	2.12	-	0.55

Figures have been rounded.

(1) Annualised earnings per share

(2) Trailing 12-month data

(3) NAV as at 30 Jun 21

Source: Respective company data, FPA Financial

Based on the results in **Exhibit 28** above, we note that HLF is currently trading at a P/B multiple of 0.56x, which is higher than the peer average P/B of 0.55x. Adopting a relative valuation approach, we estimate a target price of S\$2.382 if HLF were to trade at the peer average P/B multiple of 0.55x as follows:

➤ Estimated target price = [peer average P/B] x [HLF's NAV per share] = 0.55 x S\$4.33 = S\$2.382

The estimated target price of S\$2.382 would imply a downside potential of 1.16% from the current price of S\$2.410.

Furthermore, based on the results in **Exhibit 28** above, we note that HLF is currently trading at a P/E multiple of 12.07x, which is higher than the peer average P/B of 9.82x. Similarly, adopting a relative valuation approach, we estimate a target price of S\$1.961 if HLF were to trade at the peer average P/E of 9.82x as follows:

➤ Estimated target price = [peer average P/E] x [HLF's EPS] = 9.82 x S\$0.1997 = S\$1.961

The estimated target price of S\$1.961 would imply a downside potential of 18.63% from the current price of S\$2.410.

However, based on the results in **Exhibit 28** above, we note that HLF's dividend yield of 3.84% is relatively more attractive than the peer average dividend yield of 2.12%. Adopting a relative valuation approach, we estimate a target price of S\$4.365 as follows:

➤ Estimated target price = [(HLF's dividend yield/ peer average dividend yield) x HLF's current price] = (3.84%/2.12%) x S\$2.410 = S\$4.365

The estimated target price of S\$4.365 would imply an upside potential of 81.12% from the current price of S\$2.410.

(II) Factors for Higher Valuation

Based on our peer comparison results, we note that HLF is trading above its peer average P/B and P/E of 0.55x and 9.2x. However, we believe there could be three reasons why HLF could be trading at a higher P/B and P/E multiple.

Market Capitalization

As noted on the previous page, HLF's market cap of S\$1,078.73 million is significantly higher than its peer average market cap of S\$182.88. With a higher market cap, it may suggest that investors are valuing HLF at a higher valuation compared to its peers. A higher market cap may also represent the market's perception of its financial stability, because it reflects what investors are willing to pay for its stock. Hence, with a higher market cap, we believe it could potentially justify HLF's higher P/B and P/E multiples as compared to its peers.

Dividend Yield

Another potential reason for HLF's higher P/B and P/E multiples could be due to its dividend yield. As noted on the previous page, HLF is relatively more attractive in terms of dividend yield as compared to its peers. In general, dividend-paying stocks allow investors to profit in two ways: through the stock's price appreciation and through the company's distributions. In addition dividend yield can also be a useful tool to help with valuation. Hence, with a higher dividend yield, HLF may be deemed to be more attractive, especially during periods of economic uncertainty arising from the Covid-19 pandemic, which may justify higher P/B and P/E multiples.

Strong Parent Company

HLF is the financial services arm of the Hong Leong Group. The Hong Leong Group is a globally-diversified company with gross assets of over S\$40billion. It employs over 20,000 people across Asia-Pacific, the Middle East, Europe and North America. The Group's four core businesses are property development, hotels, financial services and trade & industry. With a strong parent company, it could provide confidence to investors that the parent company could step in to help manage or alleviate any potential problems. For example, should HLF face any financial difficulty, there is a possibility that Hong Leong Group would provide support to help HLF repay its debts.

(III) Valuation Summary

Considering HLF's higher market capitalisation, relatively attractive dividend yield and having a strong parent company together with the positive outlook in Singapore's economy and a potential interest rate hike in 2022, we believe there could be upside potential to HLF's share price. Based on our target price of S\$2.382, S\$1.961 and S\$4.365 from our P/B, P/E and dividend yield peer comparison analysis, we derived a target price of S\$2.903, which is the average of our estimated target price based on the peer average P/B, P/E and dividend yield as follows:

- Estimated target price = [(Estimated target price from P/B analysis + Estimated target price from P/E analysis + Estimated target price from dividend yield analysis) / 3] = (S\$2.382 + S\$1.961 + S\$4.365) / 3 = S\$2.903

The estimated target price of S\$2.903 would imply a upside potential of 20.46% from the current price of S\$2.410

SWOT AND COMPETITIVE ANALYSIS

In this section, we undertake a SWOT analysis in **Exhibit 29** to evaluate the various components of the analysis thus far.

Exhibit 29: SWOT analysis

SWOT analysis

<u>Strengths</u> <ul style="list-style-type: none"> • Brand recognition • Adequate capital and liquidity 	<u>Weaknesses</u> <ul style="list-style-type: none"> • Limited geographical diversification
<u>Opportunities</u> <ul style="list-style-type: none"> • Emergence of Fintech 	<u>Threats</u> <ul style="list-style-type: none"> • Strong competition • Risk related to online hacking

(I) Strengths

We note that HLF has been awarded with numerous accolades over the years. HLF was crowned its eighth consecutive ASEAN Finance Company of the Year for 2021. The good track record is a testament of HLF's success in introducing outstanding products and services that successfully met customers' needs and adapted with the rapidly evolving tech landscape. Faced with overwhelming challenges during the Covid-19 pandemic, HLF helped its customers swiftly and responsibly by implementing loan relief measures for businesses and individuals to tide over the difficult times. New services were also introduced to enable continued financial services to its customers without disruption. HLF was also ranked 1st in the Best-Performing Banks in Singapore 2021, attributed primarily to its top scores in three of the eight categories, namely Asset Quality, Soundness and Leverage and listed in the Top 1000 World Banks 2021 for its robust Tier 1 Capital. This is the fourth consecutive year that the company is in the leader board by The Bankers. In addition, HLF is in the Top 100 ASEAN Banks 2021 by The Banker, an international publication owned by The Financial Times Ltd. This is HLF's fourth consecutive years to be admitted into the prestigious list, in recognition of the company's healthy Tier 1 Capital.

HLF also has a robust capital base, which ensures capital adequacy to facilitate organic and inorganic growth with the secured and unsecured nature of its lending. Sound capital management and moderate risk-weighted asset growth enabled the company to strengthen its capital base. As mentioned on page 16, in FY2020 HLF reported capital adequacy ratio of 16.4% compared to the 15.0% in the previous year. The increase was due to the growth in total capital and a lower risk-weighted assets. The capital adequacy ratio of both years are also well above the minimum requirement of 10% set by the MAS.

In addition, cash and cash equivalents including statutory deposit with the Monetary Authority of Singapore ("MAS") together with Singapore Government debt securities, MAS Bills and MAS FRN held as liquid assets amounted to \$2,306 million as at 30 June 2021 as compared to the S\$2,337 million as at 31 December 2020. Hence, HLF's balance sheet remained resilient with ample liquidity and strong capital to sustain lending activities and weather the pandemic.

(II) Weaknesses

As noted on page 7, HLF's business activities are all carried out in Singapore. Hence, HLF's performance is solely reliant on Singapore's economic conditions. In 2020, Singapore's GDP contracted by 5.4% yoy owing the Covid-19 pandemic. Consequently, in FY2020, HLF's profit for the year decreased by 38.0% yoy to S\$63.9 million from S\$103.1 million in FY2019 on the back of a Covid-19 pandemic-induced economic recession. With the recent emergence of the Omicron variant, we believe there is a possibility that the virus would continue to mutate and new variants may be expected in the future. Therefore, we believe the challenging operating environment may continue in the near future. Hence, it would be vital for HLF to manage its concentration risks and its portfolio according to Singapore's market conditions, in order to maintain its financial performance.

(III) Opportunities

HLF could benefit by venturing into the FinTech area, which is essentially changing the way banking is carried out and challenging the regulatory structure. FinTech innovations such as crowd-funding, mobile payments, distributed ledgers, peer-to-peer lending, and online marketplace lending are cost-effective and have been giving tough competition to banking institutions. In response, financial institutions are increasingly pursuing opportunities to establish FinTech capabilities through partnerships or strategic collaborations, venture funding, development of in-house capabilities, establishment of business accelerators, and/or acquisitions. FinTech could result in cost savings for financial institutions facing margin pressures from low-interest rates. They also have the potential to help expand intermediation services to the underserved.

(IV) Threats

HLF operates in a highly competitive environment, which could impact its business, profitability and market position. It faces competition from other finance companies serving the Singapore market. The Monetary Authority of Singapore (MAS) announced last year that it had awarded 2 new digital full banking licences and 2 digital wholesale banking licences. Digital full banks will be allowed to take deposits from retail customers, while digital wholesale banks will generally cater to SMEs and other non-retail segments. MAS also expects the new digital banks to commence operations from early 2022. Digital banks do not have to cover the costs of physical branches or the manpower required to staff them. They are able to streamline their operational processes and cut costs further thanks to automation in various processes. With these cost savings, digital banks will be able to offer higher interest rates on deposits and lower fees for financial products. Hence, the intense competition may cause HLF to increase interest rate offerings or to incur higher cost to provide higher quality services which may impact HLF's financial performance.

With the advancement in technology, the adoption of digital services and the long-term shift in customer behaviour, it has resulted in more customers turning to digital solutions and services. HLF has also adapted and has integrated digital services in its operations. For example, HLF's customers can now place deposits and repay loans from the comfort of their home, using the using the Paynow platform. However, these IT-enabled business operations are prone to various security threats and may impact operations, which in turn, may impact its financials. This exposes the company to online identity theft and hacking. Although the company's online portal operations contain diverse security mechanisms, they are still vulnerable to unauthorized attacks, which would be disruptive to HLF's daily operations and could negatively impact the company.

INVESTMENT RECOMMENDATION

Based on HLF's reported book value of S\$4.33 as at 30 June 2021, it currently has a P/B multiple of 0.56x and is trading at a discount of approximately 44% to NAV. Our peer comparison analysis results show that HLF's P/B of 0.56x is higher than the peer average P/B of 0.55x. We adopted a relative valuation approach to derive an estimated target price of S\$2.382 if HLF were to trade at its peer average P/B of 0.55x.

At the same time, based on HLF's annualised earnings per share of 19.97 cents as at 30 June 2021, it currently has a P/E multiple of 12.07x. Our peer comparison analysis results show that HLF's P/E of 12.07x is higher than the peer average P/E of 9.82x. Adopting a relative valuation approach, we estimate a target price of S\$1.961 if HLF were to trade at the peer average P/E of 9.82x

Further, our peer comparison analysis results also show that that HLF's dividend yield of 3.84% is relatively more attractive than the peer average dividend yield of 2.12%. Adopting a relative valuation approach, we estimate a target price of S\$4.365

Meanwhile, our evaluation of the peer comparison analysis lead us to believe that HLF's significantly higher market capitalisation as compared to its peers could justify its higher P/B and P/E multiples. HLF's attractive dividend yield could also boost investors sentiment amid the uncertainties arising from the Covid-19 pandemic. In addition, having a strong parent company could further provide confidence to investors.

Considering the positive outlook in Singapore's economy and a potential interest rate hike in 2022, we are expecting an improvement in HLF's revenue, earnings and distribution for FY2021 and FY2022 and we believe there could be upside potential to HLF's share price. Hence, we derived a target price of S\$2.903, which is the average of our estimated target price based on the P/B, P/E and dividend yield peer comparison analysis = $[(S\$2.382 + S\$1.961 + S\$4.365) / 3]$.

Given the above, we believe a buy recommendation is warranted on HLF. Our target price of S\$2.903 implies an upside potential of 20.46% from the current share price of S\$2.410. However, there are still risks to our target price which we will highlight in the next section.

RISKS TO THE TARGET PRICE

In this section, we highlight below risk factors that may limit the potential upside to HLF's target price.

(I) Weak Economic Recovery in Singapore

High vaccination rates, the loosening of safe management measures (SMM) and the gradual reopening of international borders have largely contributed to a gradual recovery in Singapore's economy. However, the rapid spread of Delta variant and the threat of a new Omicron variant have increased the uncertainty about how quickly the pandemic can be overcome. The uncertainties could cause consumers and corporations to cut back on spending and capital expenditures, reducing the demand for loans. Further, if the Omicron variant proved to be more contagious and could cause more severe diseases compared to infections with other variants, Singapore government may tighten its SMM and restrict international travel to cope with the spread of the Covid-19. This could derail Singapore's economic recovery and negatively impact HLF's financial performance.

(II) Prolonged Low-Interest-Rate Environment

Owing to the Covid-19 pandemic, central banks like in the US and Eurozone have kept interest rate low to stimulate economic growth. A prolonged low-interest rate environment could also pose significant challenges to HLF. It could result in significant changes in their business model. A low interest rate environment is likely to entail flattened yield curves, which lower the banks' earnings and present long-term challenges for insurers.

In addition, with low interest rate, it would increase the amount of debt consumer are willing to take on. However, it could be a problem for consumers when the interest eventually rise. As seen in the US, the Fed recently announced that it may start raising interest rate in 2022. Hence, raising interest rate after a long period of low interest rate could increase the rate of default among individuals and corporations and could potentially result in higher bad debts for HLF.

(III) Slowing Home Sales

As mentioned on page 10, the Singapore government recently introduced cooling measures to the property market in response to a sustained rise in property prices. According to JLL, between January and November, excluding executive condominiums, developers sold 12,460 units, already higher than the 9,982 units sold in 2020. However, the higher additional buyer's stamp duty is likely to cause new private home sales to ease in 2022. Straits Times reported that analysts from OrangeTee, Savills and Huttons project that the sales tally for new private homes in 2022 could range from 8,000 to 9,000 units, while PropNex and CBRE put the figure at 9,000 to 10,000 units. Hence, the lower home sales in 2022 could potentially lower the HLF's loans and its interest income/ hiring charges which could negatively affect its financial performance.

CORPORATE GOVERNANCE

(I) Remuneration

Remuneration Policy

In reviewing the remuneration package of the key management personnel (KMP), the remuneration committee (RC), with the assistance of HLF's Head of Human Resources (HR Head), considers the level of remuneration based on HLF's remuneration policy for the KMP which is substantially aligned with that of the employees and which comprises the following three distinct objectives:

- (a) to ensure that the remuneration packages are competitive in attracting and retaining employees capable of meeting the Company's needs;
- (b) to ensure that the remuneration reflects employees' duties and responsibilities; and
- (c) to reward employees for achieving corporate and individual perform

HLF adopts a performance-based remuneration framework that is flexible and responsive to the market, and the performance of HLF and the KMP. In designing the remuneration framework for the KMP, HLF seeks to ensure that the level and mix of remuneration is competitive, relevant and appropriate finding a balance between the current and longer-term objectives of the HLF.

Based on the remuneration framework, the compensation packages for the KMP comprise a fixed component (in the form of a base salary and where applicable, fixed allowances), a variable component (which would normally comprise short-term incentives in the form of variable bonuses and long-term incentives in the form of the grant of share options subject to a vesting schedule) and benefits-in-kind, if any.

In determining the fixed and variable component for a KMP, the KMP's individual performance is taken into consideration together with any annual guidance from the National Wages Council, competitive market practices and information gathered from market surveys conducted by the Company's Human Resources department. This is then reviewed along with HLF's performance, taking into consideration HLF's financial performance including specific performance indicators tracked over time as well as other factors (internal or external) which may have impacted HLF's performance during the year. Besides profitability, these specific indicators include those that track the growth and the quality of HLF's core business especially the size and quality of its loan assets, level and growth of deposits and percentage of non-performing loans. The monitoring and management of interest spreads, loan/deposits ratio, profitability, are also considered. HLF exercises its discretion and independent judgement in ensuring that the amount and mix of compensation are aligned with the interests of shareholders and promote the long-term success of the Company. The overall level of remuneration is not considered to be at a level which is likely to promote behavior contrary to HLF's risk profile.

Each of the Directors receives a base Director's fee, with the MD receiving an additional fee for serving as the Board Chairman. The Lead ID also receives an additional fee to reflect his expanded responsibility. Directors who serve on the various Board Committees also receive additional fees in respect of each Board Committee that they serve on, with the chairmen of the Board Committees receiving a higher fee in respect of their service as chairman of the respective committees. The structure of fees payable to Directors of the Company for FY 2020 is shown in **Exhibit 30** on the next page.

Exhibit 30: Disclosure of Remuneration of Directors

Appointment	Fees per annum (\$)
Director	75,000 (Basic fee)
Additional Fees:	
Board Chairman	20,000
Lead Independent Director	10,000
Executive Committee (Exco)	
- Exco Chairman	30,000
- Exco Member	20,000
Nominating Committee (NC)	
- NC Chairman	18,000
- NC Member	12,000
Remuneration Committee (RC)	
- RC Chairman	18,000
- RC Member	12,000
Hong Leong Finance Share Option Scheme 2001 Committee (SOSC)	
- SOSC Chairman	4,000
- SOSC Member	3,000
Audit Committee (AC)	
- AC Chairman	60,000
- AC Member	40,000
Board Risk Committee (BRC)	
- BRC Chairman	120,000
- BRC Member	40,000
Board Sustainability Committee (BSC)	
- BSC Chairman	6,000
- BSC Member	4,000

Source: HLF

We note that the structure of fees payable to Directors of the company remained unchanged in FY2020 as compared to FY2019.

Disclosure of Remuneration

Given the above, the remuneration of each Director for FY2019 and FY2020 rounded off to the nearest thousand dollars including a breakdown in percentage terms earned through base salary, variable bonuses/ allowances, fees, share option grants and other benefits are shown in **Exhibit 31** and **Exhibit 32** on the next page.

Exhibit 31: Disclosure of Remuneration of Directors (FY2019)

Name of Director	Total Remuneration (nearest thousand) \$	Base Salary ⁽¹⁾ %	Variable Bonuses/ Allowances ⁽¹⁾ %	Board/ Board Committee Fees ⁽²⁾ %	Share Option Grants ⁽²⁾ %	Other Benefits %	Total %
Executive Director							
1. Kwek Leng Beng (MD)	2,668	41	50	7	1	1	100
Non-executive Directors							
2. Kwek Leng Peck	138	-	-	100	-	-	100
3. Kwek Leng Kee	75	-	-	100	-	-	100
4. Chng Beng Hua	75	-	-	100	-	-	100
5. Cheng Shao Shiong @ Bertie Cheng	271	-	-	98	-	2	100
6. Po'ad bin Shaik Abu Bakar Mattar	167	-	-	100	-	-	100
7. Ter Kim Cheu	156	-	-	100	-	-	100
8. Raymond Lim Siang Keat	137	-	-	100	-	-	100
9. Kevin Hangchi	119	-	-	100	-	-	100
10. Peter Chay Fook Yuen	76	-	-	100	-	-	100
11. Tan Tee How	87	-	-	100	-	-	100
12. Tan Siew San	44	-	-	100	-	-	100

Notes:

- (1) The salary and variable bonuses/allowances are inclusive of employer's central provident fund contributions.
(2) These fees comprise Board and Board Committee fees for FY 2019, which are subject to approval by shareholders as a lump sum at the 2020 AGM.
(3) These relate to options granted during FY 2019. The fair value of the options as at the date of grant is \$0.0843 for each share under option taking into account the vesting schedule using the Black-Scholes Option Pricing Formula.

Source: HLF

Exhibit 32: Disclosure of Remuneration of Directors (FY2020)

Name of Director	Total Remuneration (nearest thousand) \$	Base Salary ⁽¹⁾ %	Variable Bonuses/ Allowances ⁽¹⁾ %	Board/ Board Committee Fees ⁽²⁾ %	Share Option Grants ⁽³⁾ %	Other Benefits %	Total %
Executive Director							
1. Kwek Leng Beng (MD)	2,298	48	42	8	1	1	100
Non-executive Directors							
2. Kwek Leng Peck	138	-	-	100	-	-	100
3. Kwek Leng Kee	75	-	-	100	-	-	100
4. Kevin Hangchi	119	-	-	100	-	-	100
5. Chng Beng Hua	75	-	-	100	-	-	100
6. Cheng Shao Shiong @ Bertie Cheng	253	-	-	98	-	2	100
7. Po'ad bin Shaik Abu Bakar Mattar	157	-	-	100	-	-	100
8. Ter Kim Cheu	156	-	-	100	-	-	100
9. Raymond Lim Siang Keat	135	-	-	100	-	-	100
10. Peter Chay Fook Yuen	137	-	-	100	-	-	100
11. Tan Tee How	155	-	-	100	-	-	100
12. Tan Siew San	79	-	-	100	-	-	100
13. Christian Gautier de Charnace	31	-	-	100	-	-	100

- Notes:
- (1) The salary and variable bonuses/allowances paid/payable are inclusive of employer's central provident fund contributions.
- (2) These fees comprise Board and Board Committee fees for FY 2020, which are subject to approval by shareholders as a lump sum at the 2021 AGM.
- (3) These relate to options granted during FY 2020. The fair value of the options as at the date of grant is \$0.1767 for each share under option taking into account the vesting schedule using the Black-Scholes Option Pricing Formula.

Source: HLF

Given the above, we note that the remuneration of Directors have decreased from S\$4,013,000 in FY2019 to S\$3,808,000 in FY2020 amid the Covid-19 pandemic. In particular, for Mr Kwek Leng Beng, the variable bonuses/allowances have decreased from 50% in FY2019 to 42% in FY2020. This is inline with its remuneration policy that the remuneration would be reviewed along with HLF's performance as its profit attributable to owners of the company decreased from S\$103.1 million to S\$63.9 million, as mentioned on page 15.







SUSTAINABILITY INFORMATION

Sustainability at HLF is about having a long-term outlook in managing the material issues that affect its business. Its approach continues to be guided by its Sustainability Framework which enables its business to continue thriving and remain profitable, even as HLF deliver on its social responsibilities as a desirable employer and member of the community. HLF remains dedicated to taking progressive steps yearly in its ongoing sustainability journey.

Sustainability Framework

HLF conducted a materiality review in 2019 to ensure that its ESG issues remain relevant in its industry. There are no major changes to the six material issues, which have been categorised under 'Sustainable Business Priorities' and 'Responsible Business Practices' as shown in **Exhibit 33**.

Exhibit 33: HLF's Sustainability Framework

MATERIAL ISSUES	WHY THEY ARE IMPORTANT TO US
Sustainable Business Priorities	
Driving Value Creation 	It is vital for us to drive our business in a way that creates value for our customers. To do so, we invest in digitalisation and constantly upgrade our suite of products and services to meet the changing needs of our SME and individual customers.
Employee Well-Being and Development 	We promote a culture of diversity and inclusion, and wellness activities to protect the well-being of our employees. We also focus on attracting new talent while retaining our people by developing and re-training them with new skills.
Responsible Business Practices	
Responsible Finance 	We are strongly committed towards guarding against ESG risks in our lending activities, and ensure we have a robust lending approach by integrating ESG factors in our credit risk analysis.
Corporate Governance 	Corporate governance is at the core of our DNA, achieved through the cultivation of strong values and putting in place a robust governance framework and stringent internal controls. To build a high level of trust with our customers, we provide them with accurate, transparent and fair advice so they can make the best-informed decisions.
Data Protection, Data Privacy and Cybersecurity 	To manage the growing threats related to data privacy and cybersecurity, we continue to invest in efforts to ensure data privacy and to strengthen cybersecurity across our business.
Environmental Management 	In line with growing environmental concerns, we seek to reduce our ecological footprint and minimise the use of resources, including managing our paper and energy consumption. These initiatives have helped us to reduce additional costs.

Source: HLF

Stakeholder Engagement



According to HLF, its stakeholders help ensure that its products and services are relevant, and its business is conducted in a responsible manner. HLF engages in active dialogue with our stakeholders through various formats as shown in **Exhibit 34** and **Exhibit 35** on the next page.

Exhibit 34: HLF’s Stakeholder Engagement

OUR KEY STAKEHOLDERS	FORMS OF ENGAGEMENT	KEY TOPICS RAISED	OUR RESPONSE
 <p>CUSTOMERS</p>	<ul style="list-style-type: none"> Website feedback form Calls to Customer Service Centre Formal correspondence Face-to-face meetings Newsletters, emails, SMS alerts SR Annual Report (“AR”) 	<ul style="list-style-type: none"> Customers’ own challenges and priorities caused by Covid-19 Feedback on products and services 	<ul style="list-style-type: none"> Introduced Covid-19 Loan Reliefs and additional support to help customers with their challenges and priorities Formed the Customer Experience Committee (“CEC”) to oversee customer feedback and implement customer delivery improvements Continue to enhance products and services for customers
 <p>INVESTORS</p>	<ul style="list-style-type: none"> Annual General Meeting (“AGM”) AGM presentation slides and minutes released via SGXNet Disclosure of material information through SGXNet and press releases Half-yearly results announcements AR SR Website 	<ul style="list-style-type: none"> Corporate governance Accurate and timely disclosures of material information relating to the Company and its financial performance HLF’s plans towards digital transformation Dividend payment policy 	<ul style="list-style-type: none"> Ongoing digitalisation initiatives Maintained good practices in corporate governance, business ethics and integrity
 <p>LOCAL COMMUNITY</p>	<ul style="list-style-type: none"> Community engagement activities, donations 	<ul style="list-style-type: none"> Community projects, local charities 	<ul style="list-style-type: none"> Supported community projects and organisations

Source: HLF

Exhibit 35: HLF’s Stakeholder Engagement (continued)

OUR KEY STAKEHOLDERS	FORMS OF ENGAGEMENT	KEY TOPICS RAISED	OUR RESPONSE
EMPLOYEES 	<ul style="list-style-type: none"> ▪ Performance appraisals ▪ Seminars and training sessions ▪ Employee orientation ▪ Sports and Recreation Club for employees and their family members ▪ SR 	<ul style="list-style-type: none"> ▪ Employee welfare, health and safety ▪ Upgrading of skills ▪ Career development 	<ul style="list-style-type: none"> ▪ Rolled out workplace Safe Management Measures (“SMM”) and work-from-home ▪ Launched new training programmes, including future-enabled skills ▪ Hosted trainings via e-learning platform due to Covid-19
REGULATORS 	<ul style="list-style-type: none"> ▪ Consultations and meetings ▪ Inspection reports ▪ Survey, business and financial information updates ▪ Clearance for half-yearly financial statements, annual audited financial statements, submission of regulatory and tax returns/surveys as prescribed by Monetary Authority of Singapore (“MAS”) Notices and SGX circulars and regulations ▪ SR 	<ul style="list-style-type: none"> ▪ Prevention of financial fraud and money laundering and countering the financing of terrorism ▪ Regulations, accounting, taxes and financial reporting ▪ Enhancements in IT security to address IT risks such as cyberattacks 	<ul style="list-style-type: none"> ▪ Compliance with regulatory guidelines, advisories and notices by the relevant authorities ▪ Implemented policies and procedures to ensure business and operations meet the stipulated standards and requirements by the relevant authorities ▪ Actively participated in consultation papers issued by regulators ▪ Implemented revised IT security policies ▪ Hosted regular IT Security Awareness Employee Training

Source: HLF

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