F·P·A FINANCIAL
Investment Perspectives
27 April 2023

FINANCIALS EQUITY RESEARCH

Hong Leong Finance Limited

SGX: S41
Bloomberg: HLF:SP
ISIN code: SG1M04001939

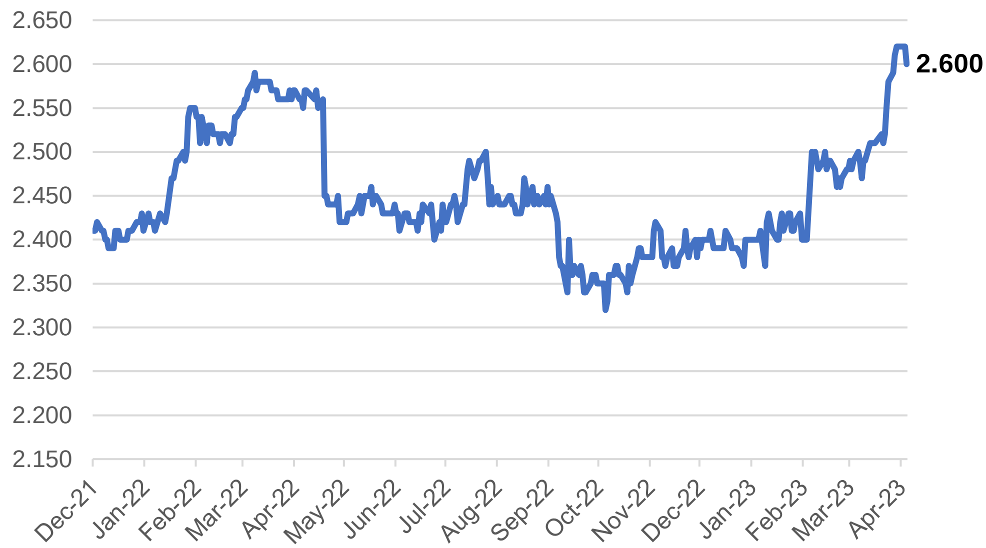
Country: Singapore
Industry: Banking & Investment Services

27 April 2023
RECOMMENDATION: BUY

Current price: S$2.600
Target price: S$3.021
Issued units: 448.131 million (31 Dec 2022)
Market capitalisation: S$1,165.14 million

52-week range: S$2.310-S$2.620

PRICE PERFORMANCE



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 full year ended 31 December 2022 (FY2022), HLF recorded a 40.5% yoy increase in interest income/ hiring charges to S$337.2 million. At the same time, interest expense also increased by 53.1% yoy to S$94.9 million. Accordingly, the net interest income for FY2022 increased by 36.1% to S$242.2 million owing to the upside momentum from rising benchmark rates with effective interest rate repricing management. Net allowances for loans and other financial assets for FY2022 was a net allowance of $2.8 million arising from higher allowances for non-credit-impaired loans as compared to the corresponding period. Consequently, HLF reported a net attributable profit to owners of the company of S$130.9 million, translating to an annualized earnings per share of 29.21 cents. Meanwhile, an interim dividend of 3.75 cents per share was paid on 1 September 2022. With the proposed payment of a final dividend of 13.25 cents per share in respect of the financial year ended 31 December 2022, the total distribution for FY2022 amounts to 17 cents per share.

RECOMMENDATION

HLF's reported NAV per share of S$4.55 and annualized earnings per share of 29.21 cents as at 31 December 2022. Our peer comparison analysis results show that HLF's P/B of 0.57x is slightly higher compared to its peer average P/B of 0.56x. Meanwhile, HLF's P/E of 8.90x is lower than its peer average P/E of 10.91x. Meanwhile, HLF is relatively attractive in terms of dividend yield. Adopting a relative valuation approach, we estimate a target price of S$2.548, S$3.187 and S$3.328 if HLF were to adjust to the peer average P/B, P/E and dividend yield respectively. By taking the average of our 3 estimated target price from peer comparison analysis, we derived an estimated target price of S$3.021, representing an upside potential of 16.19%. We believe this upside could be justified by the stable Singapore's economy outlook and a high interest rate environment which could potentially improve HLF's financial performance. Further, in an event of a privatisation or a sale, we estimate a privatisation offer/ sale price of S$3.594 per share, representing a price premium of 38.2%. Given the above, we maintain our buy recommendation on HLF.

KEY FINANCIALS

Year ended Dec 31	Revenue (S$ million)	Profit [(1)] (S$ million)	EPS (cents)	P/E (x)	DPS (cents)	Dividend yield (%)	NAV per unit (S$)	P/B (x)
2021 actual	240.0	84.8	18.95	13.72	12.00	4.6%	4.38	0.59
2022 actual	337.2	130.9	29.21	8.90	17.00	6.5%	4.55	0.57
2023 forecast	384.8	135.6	30.26	8.59	17.00	6.5%	-	-
2024 forecast	392.9	136.0	30.36	8.57	17.00	6.5%	-	-

Figures have been rounded. P/E, P/B and dividend yield figures are based on current price of S$2.600

(1) Profit attributable to owners of the company

Source: Hong Leong Finance Limited, FPA Financial

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FINANCIAL REVIEW FOR FY2022

(I) Financial performance

For the full year under review from 1 January 2022 to 31 December 2022 (FY2022), interest on loans and other interest income rose by 48.0% and 92.0% yoy respectively to S$266.0 million and S$29.8 million respectively. However, hiring charges fell by 7.5% yoy to S$41.3 million in FY2022 from S$44.7 million in FY2021. Accordingly, the total interest income/ hiring charges amounted to S$337.2 million in FY2022, representing an increase of 40.5% yoy compared to S$240.0 million in FY2021.

Interest expense increased by 53.1% yoy to S$94.9 million in FY2022 from S$62.0 million in FY2021. Consequently, the net interest income for FY2022 increased by 36.1% yoy to S$242.2 million compared to S$178.0 million the same period a year ago, owing to the upside momentum from rising benchmark rates with effective interest rate repricing management.

Meanwhile, fee and commission income, mainly comprised of fee income from lending and corporate finance activities increased by 46.3% yoy to S$16.4 million largely due to fee income from rebound lending activities.

Total staff expenses increased by 13.8% yoy to $73.4 million for FY2022 on lower base last year and annual increment as well as investment in resources to strengthen its key transformation initiatives, compliance & risk management. Other operating expenses increased by 17.9% yoy to $17.6 million mainly attributed to higher business transaction, marketing promotion expenses and premises cost.

Net allowances for loans and other financial assets increased to $2.8 million due to higher allowance for non-credit-impaired loans on revised risk parameters and higher loan portfolio. Asset quality remained sound as HLF continued to exercise prudence in its credit risk management and underwriting parameters with adequate loss allowances to cover the loan portfolio. The non-performing loans comprised 1.6% (2021: 1.5%) secured loan and 0.1% (2021: 0.1%) unsecured loan of the total portfolio. There are no loans and advances graded as doubtful as at 31 December 2022 and 2021.

As a result, HLF reported a profit before tax of S$157.1 million in FY2022, improving by 54.1% yoy from FY2021. The improvement was driven by strong loan growth and uplift of asset yields outpacing higher cost of deposit amid the ongoing interest rate hikes.

For the period, income tax expense of S$26.2 million was recorded compared to S$17.1 million a year ago. After adjusting for income tax expense, the profit attributable to owners of the company amounted to S$130.9 million in FY2022, which represents an increase of 54.3% compared to S$84.8 million in FY2021. Accordingly, HLF reported an earnings per share of 29.21 cents for FY2022.

HLF's FY2022 and FY2021 financial results are summarised in **Exhibit 1** on the next page.

Exhibit 1: HLF's FY2022 and FY2021 Financial Results

S$'000	FY2022	FY2021	y-o-y change
Interest on loans	266,018	179,765	48.0%
Hiring charges	41,322	44,668	-7.5%
Other interest income	29,837	15,544	92.0%
Interest income/hiring charges	**337,177**	**239,977**	**40.5%**
Less: Interest expense	(94,944)	(62,011)	53.1%
Net Interest income/ hiring charges	**242,233**	**177,966**	**36.1%**
Fee and commission income	16,359	11,181	46.3%
Other operating income	149	270	-44.8%
Income before operating expenses	**258,741**	**189,417**	**36.6%**
Less: Staff costs	(73,380)	(64,506)	13.8%
Depreciation of property, plant and equipment	(7,940)	(8,011)	-0.9%
Other operating expenses	(17,556)	(14,896)	17.9%
Total operating expenses	**(98,876)**	**(87,413)**	**13.1%**
Profit from operations before allowances	**159,865**	**102,004**	**56.7%**
Add/(less): (allowance for)/ reversal or recovery of doubtful debts and other financial assets	(2,753)	(60)	4488.3%
Profit before tax	**157,112**	**101,944**	**54.1%**
Less: Income tax expense	(26,233)	(17,123)	53.2%
Profit for the period attributable to owners of the company	**130,879**	**84,821**	**54.3%**
Number of issued shares	448,043,000	447,652,000	0.1%
Earnings per share (cents)	29.21	18.95	54.2%
Annualised earnings per share (cents)	**29.21**	**18.95**	**54.2%**

Source: HLF, FPA Financial

Dividends

An interim dividend of 3.75 cents per share (tax exempt one-tier) was paid on 1 September 2022. With the proposed payment of a final dividend of 13.25 cents per share (tax exempt one-tier) in respect of the financial year ended 31 December 2022, the total distribution for FY2022 at 17 cents per share will amount to approximately $76.2 million, compared to 12 cents per share amounting to $53.8 million for 2021. This represents a dividend payout ratio of 58.2% for FY2022, as compared with 63.4% in FY2021. The summary of the dividend distribution for FY2022 is shown in **Exhibit 2**.

Exhibit 2: HLF's Dividend Announcement for FY2022

(i)	Name of Dividend	Final (Proposed)
	Dividend Type	Cash
	Dividend Rate	13.25 cents per share
	Total Dividend	$59,377,000*
	Tax Rate	Tax exempt one-tier
(ii)	Name of Dividend	Interim (Paid on 1 September 2022)
	Dividend Type	Cash
	Dividend Rate	3.75 cents per share
	Total Dividend	$16,804,000
	Tax Rate	Tax exempt one-tier

Source: HLF, FPA Financial

(II) Capital Management

Review of Balance Sheet

HLF reported net loan assets of S$11,651 million as at 31 December 2022, compared to S$10,695 million as at 31 December 2021, representing an increase of 8.9% or S$955 million. Accordingly, total assets increased to S$14,275 million as at 31 December 2022 from S$12,952 million as at 31 December 2021.

In tandem with strong loan growth, deposits and balances of customers increased to $12,030 million as at 31 December 2022, representing an increase of 11.3% or $1,223 million over the previous year's base of $10,807 million as at 31 December 2021. The increase in total liabilities to S$12,235 million as at 31 December 2022 from S$10,990 million was mainly due to the increase in deposits.

Overall, we believe HLF balance sheet remained robust with strong liquidity and capital to support lending activities and well positioned to ride through current market uncertainties.

Consequently, HLF recorded total equity attributable to owners of the Company of S$2,041 million as at 31 December 2022 compared to S$1,963 million as at 31 December 2021. Accordingly, HLF's net asset value (NAV) per share increased slightly to S$4.55 as at 31 December 2022 from S$4.38 as at 31 December 2021.

HLF's balance sheet data is summarised in **Exhibit 3**.

Exhibit 3: Summary of HLF's Balance Sheet

S$'000	30-Dec-22	31-Dec-21
Loans net of allowance	11,650,972	10,695,494
Total assets	14,275,512	12,952,263
Deposits	12,030,183	10,806,871
Total liabilities	12,234,816	10,989,716
Equity attributable to owners of the Company	2,040,696	1,962,547
No. of shares in issue	448,131,733	447,817,233
Net asset value per share (S$)	4.55	4.38

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 16.1% as at the end of FY2022 compared to 16.9% as at the end of FY2021, higher than the prescribed requirement by MAS of 10%.

HLF's regulatory capital adequacy position is summarised in **Exhibit 4** on the next page.

Exhibit 4: Breakdown of HLF's Capital Adequacy Ratio

S$'000	FY2022	FY2021	y-o-y change
Share capital	890,553	889,771	0.1%
Accumulated profits	240,411	230,648	4.2%
Statutory reserve	765,950	744,744	2.8%
Capital reserve	2,307	2,307	0.0%
Share option reserve	2,468	2,397	3.0%
Eligible total capital	**1,901,689**	**1,869,867**	**1.7%**
Risk-weighted assets	11,790,124	11,031,725	6.9%
Capital adequacy ratio	**16.1%**	**16.9%**	**0.8 percentage points**

Source: HLF, FPA Financial

The carrying amounts of other financial assets and financial liabilities with a maturity of less than one year (including other receivables, other deposits, cash, trade payables and other payables) are estimated to approximate their fair values in view of the short period to maturity. The aggregate net fair values of these financial assets and financial liabilities are shown in **Exhibit 5**.

Exhibit 5: Carrying Amount of Net Financial Assets As at 31 December 2022

S$'000	Carrying amount	
	31-Dec-22	31-Dec-21
Financial assets		
Loans, advances and receivables	11,650,972	10,695,494
Singapore Government debt securities, MAS bills and MAS FRN	1,625,349	1,357,675
	13,276,321	12,053,169
Financial liabilities		
Deposits and balances of customers	(12,030,183)	(10,806,871)
Net financial assets	**1,246,138**	**1,246,298**

Source: HLF

OPERATIONAL UPDATE

Since our last update report on December 2022, there has been a new development announced by HLF. We will now provide an operational update on the development.

(I) Award and Accolades

HLF is an award-winning financial services arm of Hong Leong Group Singapore. It was first listed on the Stock Exchange of Singapore in 1974 as the then Singapore Finance Ltd.

HLF was awarded the Best Performing Bank in Singapore 2022, an accolade awarded by The Banker for two consecutive years since the inauguration of the ranking in 2021. HLF announced that it will continue to invest and grow its capabilities to offer better service to its customers in the future.

In addition, other awards, such as Euromoney Market Leaders in Singapore 2022 for Corporate Banking and SME Banking and ASEAN Finance Company 2022 by Asian Banking and Finance, are a testament to its positive contributions towards its customers in the face of changes and unforeseen challenges.

HLF's sustainable corporate governance efforts are also highly regarded by the investor community. HLF was awarded the ASEAN Corporate Governance Scorecard Asset Class 2022 and was ranked in the Top 80 in the Singapore Governance and Transparency Index 2022 among public listed companies.

The summary of the awards and accolades in FY2022 is shown in **Exhibit 6**.

Exhibit 6: HLF's Awards And Accolades In FY2022

Source: HLF

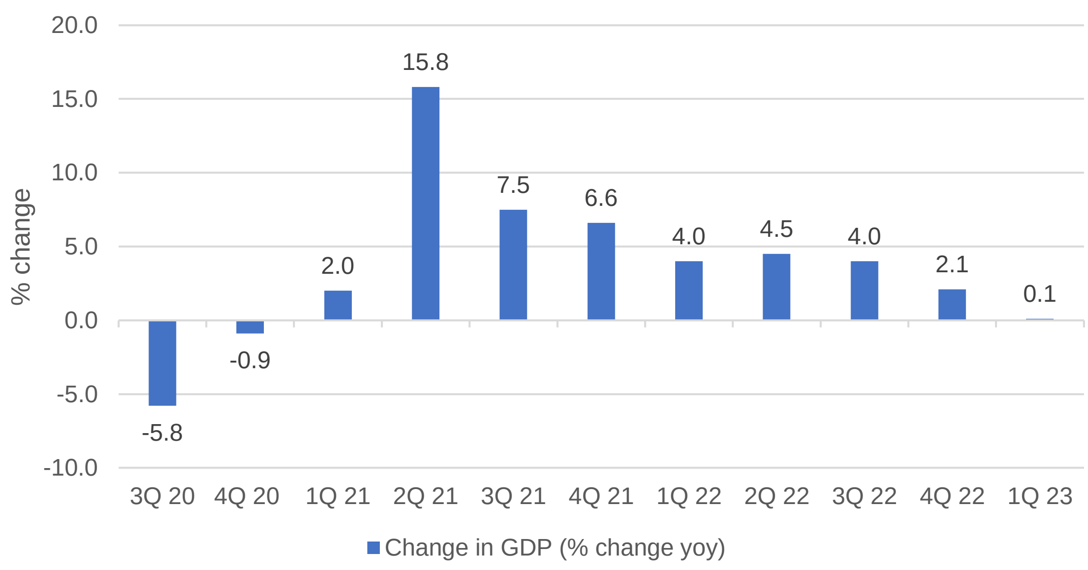
MARKET OUTLOOK

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 economic outlook.

(I) Singapore's Economy

The Ministry of Trade and Industry (MTI) reported that based on advance estimates, the Singapore economy grew by 0.1% on a yoy basis in the first quarter of 2023, moderating from the 2.1% yoy growth in the previous quarter as shown in **Exhibit 7**. For the whole of 2022, the economy grew by 3.6% yoy.

Exhibit 7: Change in Singapore quarterly GDP (%, yoy)



Source: MTI

In 1Q 2023, most sectors expanded from a year ago. Notable growth was seen in the construction (+8.5%) and Accommodation & Food Services, Real Estate, Administrative & Support Services and Other Services (+6.7%) However, during the same period, contraction was seen in the Manufacturing sector (-6.0%) and Wholesale & Retail Trade and Transportation & Storage (-1.1%) as shown in **Exhibit 8** on the next page.

Exhibit 8: Sectoral Growth Rates (% change yoy)

	1Q22	2Q22	3Q22	4Q22	2022	**1Q23***
Percentage change over corresponding period of previous year						
Overall GDP	4.0	4.5	4.0	2.1	3.6	**0.1**
Goods Producing Industries	5.3	5.8	1.8	-1.1	2.9	**-4.1**
Manufacturing	5.8	6.1	1.1	-2.6	2.5	**-6.0**
Construction	3.3	5.5	8.1	10.0	6.7	**8.5**
Services Producing Industries	4.9	4.8	5.5	4.0	4.8	**1.8**
Wholesale & Retail Trade and Transportation & Storage	4.2	2.9	5.1	2.4	3.6	**-1.1**
Information & Communications, Finance & Insurance and Professional Services	6.4	4.9	3.6	2.5	4.3	**1.9**
Accommodation & Food Services, Real Estate, Administrative & Support Services and Other Services	3.6	7.7	9.5	9.0	7.4	**6.7**

Source: MTI

Outlook

For 2023, MTI expects GDP growth rates in most major economies to moderate further from 2022 levels, with sharp slowdowns projected in the US and Eurozone. Meanwhile, global supply disruptions are likely to continue into 2023 as the war in Ukraine drags on, even though the extent and frequency of disruptions are expected to ease. MTI also highlighted significant uncertainties and downside risks in the global economy. First, with many advanced economies raising interest rates simultaneously to combat high inflation, the impact of tightening financial conditions on global growth could be larger than expected. Second, financial stability risks could intensify if there are disorderly market adjustments to monetary policy tightening in the advanced economies. A sharp re-pricing of assets could trigger capital outflows from the region and increase debt servicing burdens, thereby dampening regional economies' growth outlook. Third, further escalations in the war in Ukraine and geopolitical tensions among major global powers could worsen supply disruptions, dampen consumer and business confidence, as well as weigh on global trade.

Considering the above, MTI expects the growth of outward-oriented sectors in Singapore to weaken in tandem with the deterioration in external demand conditions. However, the growth prospects of several sectors remain positive. In particular, the continued recovery in air travel and international visitor arrivals will support the expansion of aviation- and tourism-related sectors. Taking these factors into account, and barring the materialisation of downside risks, MTI expects the Singapore economy to grow by "0.5 to 2.5 per cent" in 2023.

(II) Property Loans

In FY2022, HLF continues to focus on its key pillar business with mortgage loans for residential, commercial and industrial properties made up 45% of total portfolio (2021: 48%). Mixed development made up 13% of total portfolio (2021: 12%). Hotels and other properties component stood at 13% of the total (2021: 14%) of which Hotels made up of 10% (2021: 11%). Other properties loan include dormitories, association and church/temple. The housing and HDB loans component stood at 12% of the total (2021: 9%) of which HDB home loans made up of 7% (2021: 6%). Hire Purchase Vehicles formed 14% of total loan portfolio as at 31 December 2022 (2021: 13%) with remaining portfolios supporting other corporate loans (Hire Purchase Industrial/Equipment/Trade Finance) as shown in **Exhibit 9**.

Exhibit 9: Breakdown of HLF's Loans

	2022		2021	
	$mil	%	$mil	%
Mortgage properties	5,307	45	5,190	48
Mixed Development	1,497	13	1,323	12
Hotels and other properties	1,569	13	1,468	14
Housing and HDB Home Loans	1,385	12	1,001	9
Hire Purchase Vehicles/Industrial	1,711	15	1,476	14
Share Loans	83	1	93	1
Others	124	1	171	2
Total	**11,676**	**100**	**10,722**	**100**

Source: HLF

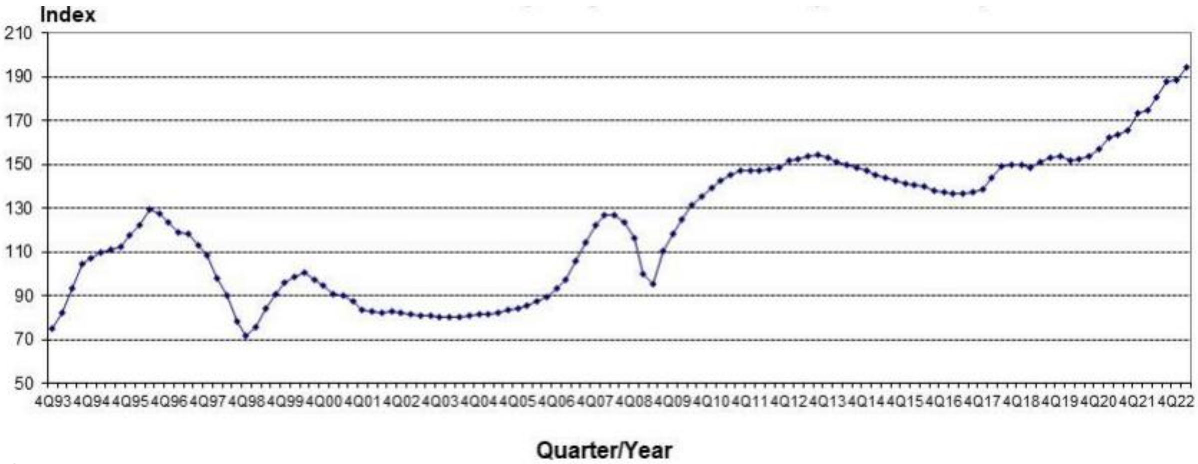
(III) Singapore Private Residential Market

(a) Overview

Considering that property loans are a key pillar to HLF's portfolio, we would also review Singapore's private residential industry.

According to flash estimate data from URA, the private residential property index increased by 6.0 points from 188.6 points in 4th Quarter 2022 to 194.6 points in 1st Quarter 2023. This represents an increase of 3.2%, compared to the 0.4% increase in the previous quarter as shown in **Exhibit 10**.

Exhibit 10: Property Price Index of Private Residential Properties (flash estimate)



Source: URA

Prices of landed properties increased by 5.7% qoq in 1st Quarter 2023, compared with the 0.6% qoq increase in the previous quarter. Prices of non-landed properties increased by 2.5% qoq in 1st Quarter 2023, compared with the 0.3% qoq increase in the previous quarter.

Prices of non-landed properties in Core Central Region (CCR) increased by 1.0% qoq in 1st Quarter 2023, compared with the 0.7% qoq increase in the previous quarter. Prices of non-landed properties in Rest of Central Region (RCR) increased by 4.0%, qoq in 1st Quarter 2023 compared with the 3.1% qoq increase in the previous quarter. Prices of non-landed properties in Outside Central Region (OCR) increased by 1.9% qoq in 1st Quarter 2023, compared with the 2.6% qoq decrease in the previous quarter, as shown in **Exhibit 11**.

Exhibit 11: Breakdown of URA Property Price Index for 4Q22 and 1Q23

	Price Index		% Change over Previous Quarter	
	4Q22	1Q23	4Q22	1Q23
Residential (1Q09 = 100)	188.6	194.6	0.4	3.2
Landed Property	216.0	228.3	0.6	5.7
Non-Landed Property	182.1	186.7	0.3	2.5
CCR[1]	145.4	146.9	0.7	1.0
RCR[2]	204.9	213.1	3.1	4.0
OCR[3]	218.2	222.3	-2.6	1.9

(1) Core Central Region (CCR) comprises Postal Districts 9, 10, 11 Downtown Core Planning Area and Sentosa

(2) Rest of Central Region (RCR) comprises area within Central Region that is outside those covered by CCR

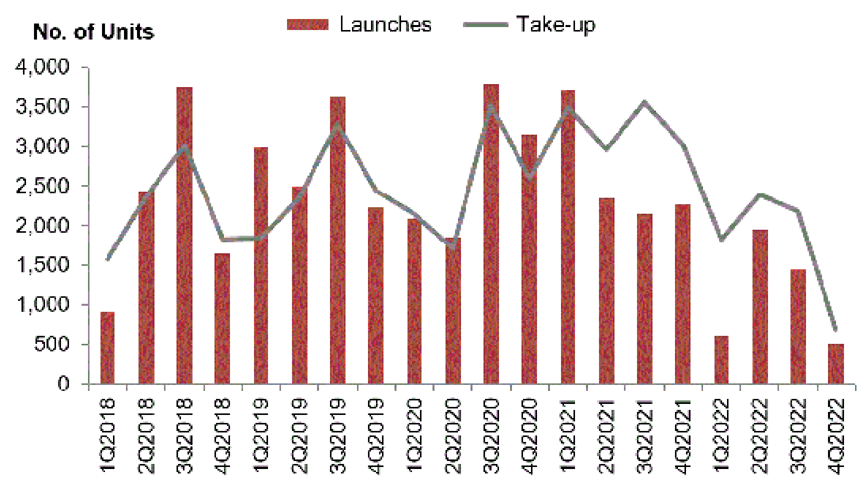
(3) Outside Central Region (OCR)

Source: Compiled data from URA

URA also noted that developers launched 504 uncompleted private residential units (excluding ECs) for sale in 4th Quarter 2022, compared with the 1,455 units in the previous quarter. For the whole of 2022, developers launched 4,528 uncompleted private residential properties for sale, compared with the 10,496 units in the previous year.

Developers sold 690 private residential units (excluding ECs) in 4th Quarter 2022, compared with the 2,187 units sold in the previous quarter. For the whole of 2022, developers sold 7,099 private residential units, compared with the 13,027 units in the previous year. The summary of the launches and take-up on residential property is shown in **Exhibit 12**.

Exhibit 12: Number Of Private Housing Units Launched And Sold By Developers (excluding ECs)



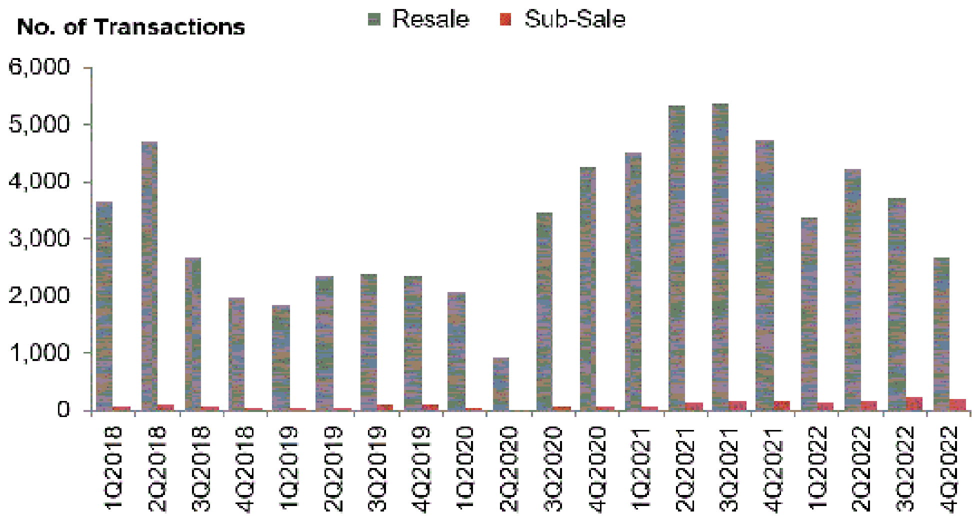
Source: URA

Developers launched 1,257 EC units for sale in 4th Quarter 2022 and sold 1,127 EC units in the quarter. For the whole of 2022, developers launched 1,873 EC units for sale and sold 1,479 EC units, compared with the 1,609 units launched and 2,119 units sold in 2021.

URA noted that there were 2,694 resale transactions in 4th Quarter 2022, compared with the 3,719 units transacted in the previous quarter. Resale transactions accounted for 75.1% of all sale transactions in 4th Quarter 2022, compared with 60.5% in the previous quarter. For the whole of 2022, there were 14,026 resale transactions, compared with the 19,962 resale transactions in 2021.

There were 204 sub-sale transactions in 4th Quarter 2022, compared with the 242 units transacted in the previous quarter. Sub-sales accounted for 5.7% of all sale transactions in 4th Quarter 2022, compared with 3.9% in the previous quarter. For the whole of 2022, there were 765 sub-sale transactions, compared with the 568 sub-sale transactions in 2021. the summary of the resale and sub-sales is shown in **Exhibit 13**.

Exhibit 13: Number Of Resale And Sub-sale Transactions For Private Residential Units (excluding ECs)

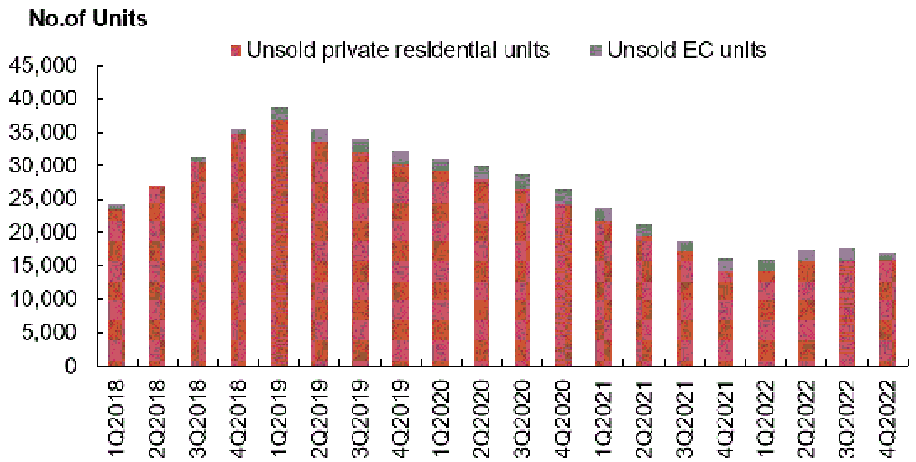


Source: URA

As at the end of 4th Quarter 2022, there was a total supply of 46,041 uncompleted private residential units (excluding ECs) in the pipeline with planning approvals, compared with the 49,384 units in the previous quarter. Of this number, 16,024 units remained unsold as at the end of 4th Quarter 2022, compared with the 15,677 units in the previous quarter.

After adding the supply of 5,706 EC units in the pipeline, there were 51,747 units in the pipeline with planning approvals. Of the EC units in the pipeline, 937 units remained unsold. In total, 16,961 units with planning approvals (including ECs) remained unsold, compared to 17,737 units in the previous quarter and 16,139 units a year ago as shown in **Exhibit 14** on the next page.

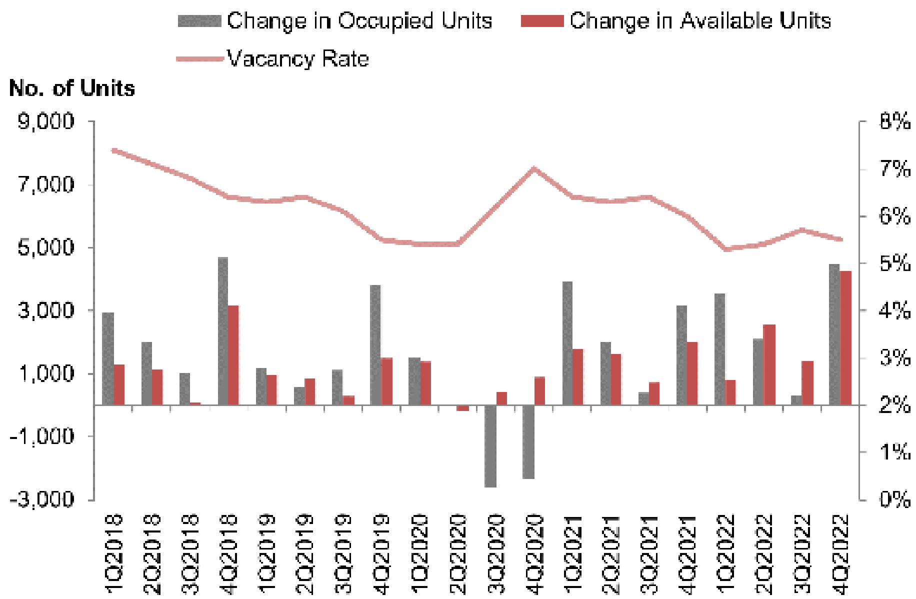
Exhibit 14: Total Number Of Unsold Private Residential Units In The Pipeline



Source: URA

The stock of completed private residential units (excluding ECs) increased by 4,245 units in 4th Quarter 2022, compared with the increase of 1,424 units in the previous quarter. The stock of occupied private residential units (excluding ECs) increased by 4,496 units in 4th Quarter 2022, compared with the increase of 291 units in the previous quarter. As a result, the vacancy rate of completed private residential units (excluding ECs) decreased to 5.5% as at the end of 4th Quarter 2022, from 5.7% in the previous quarter as shown in **Exhibit 15**.

Exhibit 15: Stock And Vacancy Of Private Residential Units (excluding ECs)



Source: URA

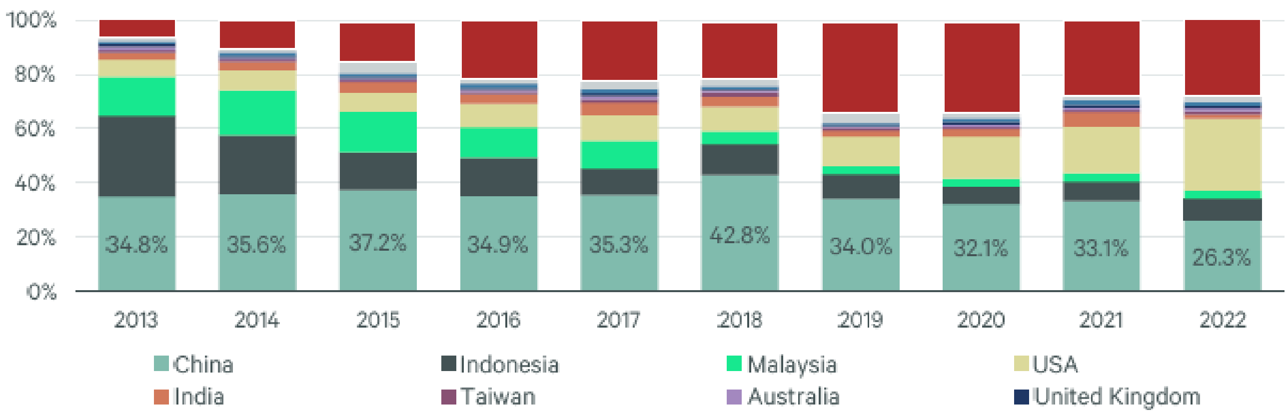
(b) Healthy Launch Pipeline to Support Sales

CBRE noted that new home sales in 2022 hit a 14-year low amid repeated rounds of cooling measures, a softening economic backdrop and sharp mortgage rate hikes. As noted on page 7, 7,099 new private homes changed hands in 2022, even lower than the 7,316 units in 2014, following 2013's cooling measures. Take-up was also held back by limited supply from new launches as developers stood on the sideline after December 2021's and September 2022's cooling measures, coupled with the souring global macroeconomic backdrop. CBRE believes that the take-up is likely to pick up significantly in 2023 as deadline for Additional Buyer's Stamp Duty (ABSD) remission draws nearer for numerous projections. An estimated 10,000 – 12,000 units could potentially be launched in 2023, with the bulk of supply in the RCR and OCR from Government Land Sales (GLS) and collective sale sites acquired in 2021 and 2022.

(c) Returning of Chinese Buyers

CBRE highlighted that foreign buying dwindled in 2022 despite the full reopening of Singapore's borders. This was largely attributed to less participation from Chinese buyers due to strict travel restrictions and lockdowns. Since 2013, Chinese investors have been the top foreign homebuyers in Singapore by nationality, typically accounting for about 32%-37% of foreigner private home sales as shown in **Exhibit 16.**

Exhibit 16: Percentage of Foreigner Sales By Nationality (2013-2022)



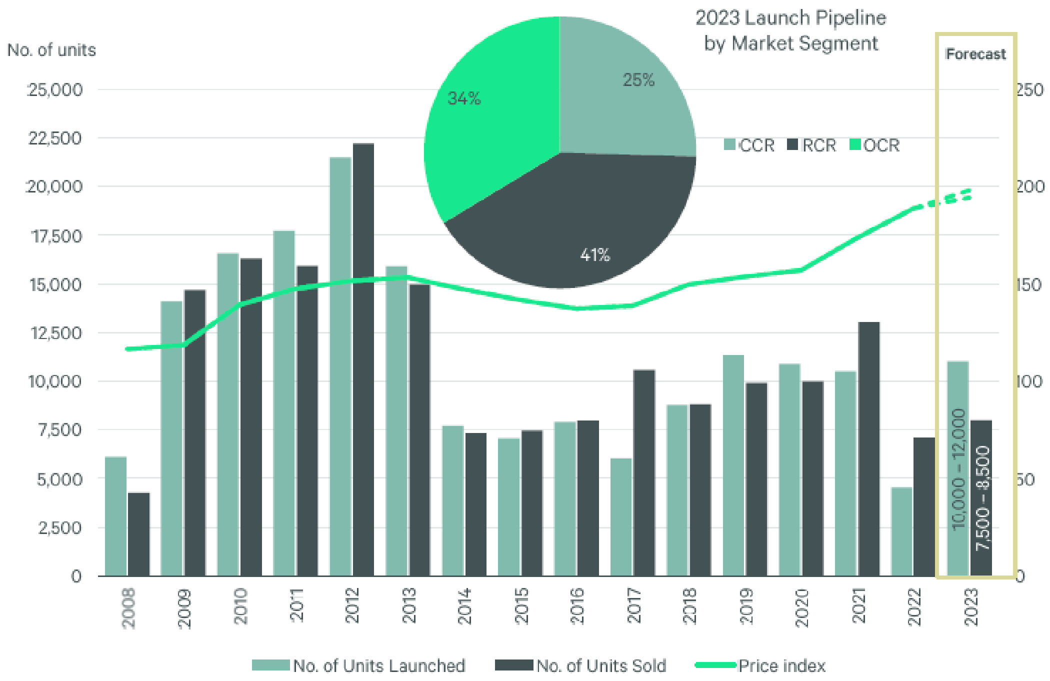
Source: CBRE

CBRE noted that the percentage of foreigner's sales declined significantly to 26.3% in 2022. Looking ahead, the earlier-than-expected reopening of China borders from 8 Jan 2023 is expected to bode well for foreigner sales. With increased activity and pent-up demand from mainlanders, CBRE believes the number of units sold to Chinese homebuyers in 2023 could normalize to 350 – 400 units, recovering from 2022's low level

(d) Outlook

In view of the healthy pipeline of launches which could provide homebuyers with more options, CBRE expects new home sales to improve to 7,500 – 8,500 units in 2023 as shown in **Exhibit 17**. Correspondingly, barring widespread retrenchments and a sustained recession, private home prices which rose 8.6% in 2022 are projected to moderate to 3- 5% in 2023 due mainly to a weaker economic outlook.

<u>Exhibit 17: CBRE New Home Launch and Sales Volume Forecast</u>



Source: CBRE

C&W noted that while underlying private residential demand remains strong, a confluence of headwinds has dampened demand. This includes rising financing costs, an uncertain economic outlook and another round of cooling measures in September 2022. However, this is balanced by a robust rental market, low levels of unsold inventory and rising property replacement costs. As such, private residential prices could still inch higher, by up to 3% in 2023. On the other hand, volumes are expected to fall as some buyers might hold their purchases given a combination of higher borrowing costs, weaker economic growth and an expected slowdown in resale HDB prices. As such, total private residential volumes in 2023 could moderate to below 20,000 units.

In addition, Knight Frank noted that even though some 17,000 plus new private homes are slated for completion in 2023, the leasing market is unlikely to cool off immediately in 2023 due to the persistent leasing demand in the private residential market. Private home downgrades affected by the latest cooling measures would also put pressure on the leasing market. The lack of saleable inventory continues to crimp transaction activity with homeowners hesitant to sell their homes without securing a new one to occupy, even though price premiums were offered. However, come 2023, some 34 new projects could possibly launch island-wide consisting of around 12,000 units that will bring some relief to the undersupplied situation and provide homebuyers with more product choices in a buffet spread of locations. However, the greater volume and variety of new private stock comes at a time of economic uncertainty, employee layoffs in the technology sector, continued rising interest rates as well as the increased cost of consumption. Therefore in 2023, demand might turn more conservative with 7,000 to 8,000 new sales and an estimated overall private residential transaction volume ranging between 21,000 to 25,000 units. In view of the above, private home prices are projected to grow by a more moderate 5% to 7% for the whole of 2023.

For 2023, Savills believes that if mortgage rates move towards 5% and buyers hold the expectation that they will remain sticky, both new and resale demand may be softer than this year. However, as the successful land bid prices in the 2022 land tenders did not moderate, and with inflation still at heady levels, the total cost of production for new launches should be higher than this year. Higher new sale prices would then lend support to resale prices. Savills is forecasting overall prices to rise 7% yoy in 2023. If interest rates begin to fall by mid-2023, this would boost buyer confidence and may see prices rise by up to 10%.

(e) Summary

In terms of private home prices, while underlying private residential demand remains strong, a confluence of headwinds has dampened demand. Additionally, there are rising financing costs, a cloudy economic future, and additional cooling measures beginning in September 2022. Volumes are also expected to decline as some buyers decide to hold off on making purchases due to a combination of higher borrowing costs, slower economic growth, and anticipated price declines for resale HDB units. Various real estate firms believe that demand might turn more conservative and private home prices are projected to grow by a more moderate 3% to 10% for the whole of 2023 as shown in **Exhibit 18**.

Exhibit 18: Summary Of Real Estate Firms' 2023 Residential Price Growth Forecast

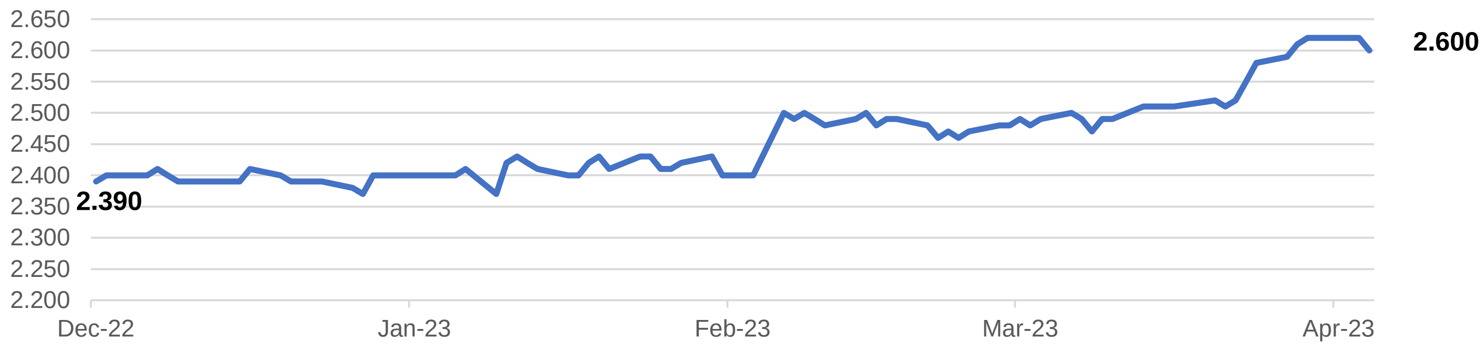
	2023 Growth Forecast
	Price
CBRE	3%-5%
C&W	3%
Knight Frank	5%-7%
Savills	7%-10%

Source: Respectively real estate firms

SHARE PRICE DEVELOPMENT REVIEW

Since our update report issued on 22 December 2022, when HLF's share price closed at S$2.390, we note that the share price has risen. From then till present, the share price is up by about 8.79% to the current price of S$2.600 as shown in **Exhibit 19**.

Exhibit 19: HLF's Share Price



Source: Yahoo Finance, FPA Financial

Over the past one year, the share price traded between S$2.310 to S$2.620. The 52-week low of S$2.310 was reached on 26 October 2022 and the 52-week high of S$2.620 was reached on 18 April 2023.

On 12 February 2023, it was reported that Hong Leong Foundation held its annual charity event at M Hotel with more than 80 elderly people dancing and exercising to reggae and rock-and-roll music. The event, Silver Sports Day, was specially customised for the senior residents from three senior homes. Aged 60 to 100, the elderly folks were aided and joined by around 50 staff volunteers across Hong Leong Group, including those from City Developments Limited (CDL), Hong Leong Holdings and Millennium Hotels and Resorts. To commemorate the event, the foundation also donated about S$450,000 to more than 3,000 beneficiaries under the Ministry of Social and Family Development's ComCare Long-Term Assistance scheme. Upon the news, HLF's share price rose by 0.83% to S$2.430 the following day.

On 24 February 2023, HLF announced revenue of S$337.2 million and profit of S$130.9 million for full year ended 31 December 2022 (FY2022), representing a 40.5% and 54.3% yoy increase respectively. HLF also declared a final dividend of 13.25 Singapore cents per share, up from the 8.25 cents per share in the year earlier to be paid on 26 May 2023. According to HLF's chairman, HLF will continue to focus on sourcing strategic opportunities, accelerating digital adoption and innovation, and exercising financial prudence. Upon the release of its financial results and the outlook from its Chairman, HLF's share price rose by 4.17% to S$2.500 on the next trading day.

On 13 April 2023, Business Times (BT) reported that investors appear to value HLF much more conservatively than they do the three locally listed banks. Based on share prices as at 12 April 2023, the three banks traded at premiums to end-2022 NAV of between 11% and 53%. HLF traded at a discount to its end-2022 NAV of 45%. Over 2022, the share prices of DBS, OCBC and UOB rose by between 4 per cent and 14 per cent. HLF's share price was flat. The BT article noted that the best solution may be to sell HLF to another financial group to unlock the shareholder value of HLF. It added that the timing may be fairly opportune for a sale. Like the banks, HLF is benefiting from rising interest rates. The going could get much tougher for lenders should a weaker economy lead to interest rates falling, worsening credit quality, and slowing loan growth. Also, investors who are working with a higher cost of equity could lean even more towards leaders among financial stocks. Hence, HLF could consider engineering a sale of the firm for a premium to a group that will bring HLF to greater heights. HLF's share price rose by 1.18% to S$2.580 one day after the release of the news.

POTENTIAL CATALYSTS

(I) High Interest Rates

The MAS has announced that it will maintain its current monetary policy, putting a halt to its five consecutive tightening decisions since October 2021. According to the central bank, its previous tightening moves have helped to slow down the momentum of price increases, even though inflation remains elevated. The MAS believes that the effects of its previous policy adjustments are still working through the economy and will further dampen inflation. As such, it will keep the current rate of appreciation of the Singapore dollar nominal effective exchange rate policy band unchanged, with no modifications to its width or level. While the MAS expects inflation to remain high in the coming months due to accumulated business costs leading to higher consumer prices, it predicts that inflation will slow down more clearly in the second half of the year, ending the year at a significantly lower rate.

In addition, in its March meeting, the Federal Reserve (Fed) officials approved another quarter-percentage-point interest-rate increase but signaled that banking-system turmoil might end its rate-rise campaign soon. The decision marked the Fed’s ninth consecutive rate increase aimed at battling inflation over the past year. It will bring its benchmark federal-funds rate to a range between 4.75% and 5%, the highest level since September 2007. Furthermore, in the newly released economic projections, most Fed officials penciled in plans to keep the fed-funds rate to a peak level of 5.1% in 2023.

According to MAS, Singapore’s domestic interest rates are largely influenced by global market movements and especially by US rates. Hence, a further upside implication on Singapore benchmark rate could be expected which could provide more upside to HLF.

FINANCIAL PROJECTION

In this section, we will be providing our projections for HLF's revenue, earnings and dividend distribution in FY2023 and FY2024.

(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 20**, HLF's interest income as a percentage of interest-bearing assets was between 1.86% and 2.75% from FY2019 to FY2022.

Exhibit 20: HLF's Historical Interest Income as a Percentage of Interest-Bearing Assets

	Actual			
S$'000	FY2019	FY2020	FY2021	FY2022
Interest income/ hiring charges	396,356	310,785	239,977	337,177
Interest bearing assets (1)	14,394,048	13,303,809	12,896,938	14,225,581
Interest income as a percentage of interest bearing assets	2.75%	2.34%	1.86%	2.37%

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

Source: HLF, FPA Financial

According to Monetary Authority of Singapore (MAS), the average Singapore's SGS 10-year bond yield for FY2022 was 2.73% while the average 10-year bond yield for the first 4 months of FY2023 was 3.03%. The average Singapore's SGS 10- year bond yield for the first 4 months of FY2023 increased by 0.30 percentage points (ppts) = [3.03% (FY2023) – 2.73% (FY2022)] versus the average yield for FY2022 as shown in **Exhibit 21**.

Exhibit 21: Singapore SGS 10-Year Bond Yield

FY2022	10-year bond yield (%)	FY2023	10-year bond yield (%)
Jan-22	1.77%	Jan-23	2.97%
Feb-22	1.90%	Feb-23	3.34%
Mar-22	2.34%	Mar-23	2.94%
Apr-22	2.35%	Apr-23 (1)	2.85%
May-22	2.71%		
Jun-22	2.98%		
Jul-22	2.66%		
Aug-22	2.98%		
Sep-22	3.48%		
Oct-22	3.43%		
Nov-22	3.07%		
Dec-22	3.09%		
Average	**2.73%**	**Average**	**3.03%**

(1) As at 23 April 2023

Source: MAS, FPA Financial

As noted on page 3, for FY2022, HLF's total interest income/ hiring charges increased by 40.5% yoy to S$337.2 million. Even though Singapore's economy grew by 0.1% on a yoy basis in 1Q2023, Singapore's Ministry of Trade and Industry (MTI) expects the Singapore economy to grow by 0.5 to 2.5 per cent" in FY2023. In addition, there is also a possibility that consumer spending on large ticket items could increase, which could increase the interest-bearing assets of HLF. Further, as noted on page 19, the Fed officials have raised fed fund rate at its March meeting by 25 basis points to a range between 4.75% and 5.00%, a 15-year high. The high interest rate environment would be beneficial to HLF and increase its interest income/ hiring charges.

Given the above, we expect HLF's collection of interest income/ hiring charges to increase. With reference to **Exhibit 22**, HLF's interest income as percentage of interest-bearing assets was 2.37% for FY2022. Considering that the SGS 10 year bond yield increased by 0.30 ppts in the first 4 months of FY2023 from the FY2022 we would assume the increase in SGS 10 year bond yield as a proxy for the increase in interest income as percentage of interest-bearing assets for FY2023 Accordingly, the interest income as percentage of interest-bearing assets for FY2023 would be 2.67% =[2.37% (FY2022) + 0.30ppts]. For FY2024 we would assume the interest income as percentage of interest-bearing assets to remain unchanged at 2.67%.

We would also expect the amount of interest bearing assets to increase in FY2023 and FY2024. We note that in IMF's latest World Economic Outlook (WEO) report, Singapore's economy is expected to grow by 1.5% in FY2023 and 2.1% in FY2024. This stable outlook would allow consumers to regain confidence in the economy and improve consumer sentiment. Hence, we would assume IMF's GDP growth projection for Singapore as a proxy for the growth in HLF's interest bearing assets for FY2023 and FY2024. Accordingly, the projected interest-bearing assets for FY2023 and FY2024 would be as follows:

- Projected interest-bearing assets in FY2023 = S$14,225.6 million (FY2022 actual) x 101.5% = S$14,439.0 million

- Projected interest-bearing assets in FY2024 = S$14,439.0 million (FY2023 projected) x 102.1% = S$14,742.2 million

Given the above projection for interest income as percentage of interest-bearing assets and interest bearing assets, the projected interest income/ hiring charges for FY2023 and FY2024 are as follows:

- Projected interest income/ hiring charges in FY2023 = 2.67% x S$14,439.0 million (projected FY2023) = S$384.8 million

- Projected interest income/ hiring charges in FY2024 = 2.67% x S$14,742.2 million (projected FY2024) = S$392.9 million

Our projected interest income/ hiring charges for FY2023 and FY2024 are summarized in **Exhibit 22**.

Exhibit 22: Projected Interest Income/ Hiring Charges for FY2023 And FY2024

	Actual				Forecast	
S$'000	**FY2019**	**FY2020**	**FY2021**	**FY2022**	**FY2023**	**FY2024**
Interest income/ hiring charges	396,356	310,785	239,977	337,177	384,830	392,911
Interest bearing assets (1)	14,394,048	13,303,809	12,896,938	14,225,581	14,438,965	14,742,183
Interest income as a percentage of interest	2.75%	2.34%	1.86%	2.37%	2.67%	2.67%

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

Source: HLF, FPA Financial

(II) Earnings Projection

Given our projected revenue figures for FY2023 and FY2024, we will now estimate HLF's earnings for these periods.

Net Interest Income

For our net interest income projections, we will consider HLF's historical interest expense as a percentage of total deposits. We note that between FY2019 and FY2022, the interest expense as a percentage of total deposits varies between 0.57% and 1.58% as shown in **Exhibit 23**.

Exhibit 23: HLF's Historical Net Interest Income

S$'000	Actual			
	FY2019	FY2020	FY2021	FY2022
Interest income/ hiring charges (1)	396,356	310,785	239,977	337,177
Interest expense (2)	(194,652)	(163,937)	(62,011)	(94,944)
Total deposits	12,307,049	11,194,359	10,806,871	12,030,183
Interest expense as a percentage of total deposits	1.58%	1.46%	0.57%	0.79%
Net interest income (1) + (2)	**201,704**	**146,848**	**177,966**	**242,233**

Source: HLF, FPA Financial

We would adopt the same assumptions for our projections for interest expense as a percentage of total deposits and total deposits as for the projection for interest income as percentage of interest-bearing assets and interest bearing assets.

As we are assuming the interest income as percentage of interest-bearing assets to increase by 0.30ppts, we would assume the interest expense as a percentage of total deposits to also increase by 0.30ppts. Accordingly, the interest expense as a percentage of total deposits for FY2023 would be 1.08% =[0.79% (FY2022) + 0.30ppts]. For FY2024 we would assume the interest expense as a percentage of total deposits to remain unchanged at 1.08%.

Similarly, we would also assume total deposits to increase based on the IMF's growth projection of Singapore's economy for FY2023 and FY2024 of 1.50% and 2.10% respectively. Accordingly, the projected total deposits for FY2023 and FY2024 would be as follows:

- Projected total deposits in FY2023 = S$12,030.2 million (FY2022 actual) x 101.5% = S$12,210.6 million

- Projected total deposits in FY2024 = S$12,210.6 million (FY2023 projected) x 102.1% = S$12,467.1 million

Given the above projection for interest expense as a percentage of total deposits total deposits, the projected interest expense for FY2023 and FY2024 are as follows:

- Projected interest expense in FY2023 = 1.08% x S$12,210.6 million (projected FY2023) = S$132.4 million

- Projected interest expense in FY2024 = 1.08% x S$12,467.1 million (projected FY2024) = S$135.2 million

Consequently, net interest income for FY2023 and FY2024 would be S$252.4 million and S$257.7 million respectively as shown in **Exhibit 24**.

Exhibit 24: Projected Net Interest Income for FY2023 and FY2024

	Actual				Forecast	
S$'000	**FY2019**	**FY2020**	**FY2021**	**FY2022**	**FY2023**	**FY2024**
Interest income/ hiring charges (1)	396,356	310,785	239,977	337,177	384,830	392,911
Interest expense (2)	(194,652)	(163,937)	(62,011)	(94,944)	(132,390)	(135,170)
Total deposits	12,307,049	11,194,359	10,806,871	12,030,183	12,210,636	12,467,059
Interest expense as a percentage of total deposit	1.58%	1.46%	0.57%	0.79%	1.08%	1.08%
Net interest income (1) + (2)	**201,704**	**146,848**	**177,966**	**242,233**	**252,440**	**257,741**

Source: HLF, FPA Financial

Fee and Commission Income

Fee and commission income mainly comprise of fee income from lending and corporate finance activities. It increased by 46.3% yoy to S$16.4 million in FY2022 largely due to fee income from rebound lending activities. For FY2023 and FY2024, we would expect the lending activities to remain high. Hence, for FY2023 and FY2024, we would assume the same fee and commission income of S$16.4 million recorded in FY2022 as shown in **Exhibit 25**.

Exhibit 25: Projected Fee and Commission Income for FY2023 and FY2024

	Actual				Forecast	
S$'000	**FY2019**	**FY2020**	**FY2021**	**FY2022**	**FY2023**	**FY2024**
Fee and commission income	13,714	10,229	11,181	16,359	16,359	16,359

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 on disposal of plant and equipment of S$1.4 million. For FY2023 and FY2024, we would assume the same other operating income of S$149,000 as recorded in FY2022, as shown in **Exhibit 26**.

Exhibit 26: Projected Other Operating Income for FY2023 and FY2024

	Actual				Forecast	
S$'000	**FY2019**	**FY2020**	**FY2021**	**FY2022**	**FY2023**	**FY2024**
Other operating income	324	1,714	270	149	149	149

Source: HLF, FPA Financial

Total Operating Expenses

Total operating expenses comprise of staff cost, depreciation of property, plant & equipment and other operating expenses.

As noted on page 3, staff cost increased by 13.8% yoy to S$73.4 million for FY2022 due to lower base last year and annual increment as well as investment in resources to strengthen its key transformation initiatives, compliance & risk management. For FY2023 and FY2024, as we are projecting an increase in interest income/ hiring charges, we would expect the staff cost to increase. Hence, we would assume a 5% increase in staff cost for FY2023 and FY2024. Accordingly, the projected staff cost for FY2023 would be S$77.0 million =[S$73.4 million (actual FY2022) x 105% (projected growth)] and for FY2024 would be S$80.9 million =[(S$77.0 million (projected FY2023) x 105% (projected growth)].

For depreciation of property, plant & equipment, we note that it has remained relatively stable between S$7.9 million and S$8.1 million between FY2019 and FY2022. We also note that the depreciation expense was S$7.9 million in FY2022. For FY2023 and FY2024, we would assume the same amount of depreciation expense of S$7.9 million.

As noted on page 3, other operating expenses increased by 17.9% yoy to S$17.6 million in FY2022 mainly attributed to higher business transaction, marketing promotion expenses and premises cost. For FY2023 and FY2024, as we are projecting an increase in interest income/ hiring charges, we would expect other operating expenses to increase. Hence, we would assume a 5% increase in other operating expenses for FY2023 and FY2024. Accordingly, the projected other operating expense for FY2023 would amount to S$18.4 million =[S$17.6 million (actual FY2022) x 105% (projected growth)] and the projected other operating expense for FY2024 would amount to S$19.4 million =[S$18.4 million (projected FY2023) x 105% (projected growth)].

Accordingly, total operating expenses amounted to S$103.4 million and S$108.2 million for FY2023 and FY2024 respectively as shown in **Exhibit 27**.

Exhibit 27: Projected Total Operating Expenses for FY2023 and FY2024

	Actual				Forecast	
S$'000	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024
Staff cost	(67,675)	(54,678)	(64,506)	(73,380)	(77,049)	(80,901)
Depreciation of property, plant and equipment	(8,071)	(7,922)	(8,011)	(7,940)	(7,940)	(7,940)
Other operating expenses	(14,460)	(13,739)	(14,896)	(17,556)	(18,434)	(19,355)
Total operating expenses	**(90,206)**	**(76,339)**	**(87,413)**	**(98,876)**	**(103,423)**	**(108,197)**

Source: HLF, FPA Financial

Allowance for Doubtful Debts and Other Financial Assets

As noted on page 3, the net allowance of S$2.8 million in FY2022 was due to a higher allowance for non-credit-impaired loans. Given the uncertainties in the allowance for/ recovery of doubtful debts, we would assume the allowance for/ recovery of doubtful debts to remain at S$2.8 million for both FY2023 and FY2024, as shown in **Exhibit 28**.

Exhibit 28: Allowance for Doubtful Debts and Other Financial Assets for FY2023 and FY2024

	Actual				Forecast	
S$'000	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024
(Less): allowance for recovery of doubtful debts and other financial assets	(1,578)	(7,733)	(60)	(2,753)	(2,753)	(2,753)

Source: HLF, FPA Financial

Profit before Tax

Given the above projections, we would estimate a profit before tax of S$162.8 million in FY2023 and S$163.3 million in FY2024 as shown in **Exhibit 29**.

Exhibit 29: Projected Profit Before Taxation for FY2023 and FY2024

S$'000	Actual	Forecast	
	FY2022	FY2023	FY2024
Interest income/hiring charges	337,177	384,830	392,911
Less: Interest expense	(94,944)	(132,390)	(135,170)
Net Interest income/ hiring charges	**242,233**	**252,440**	**257,741**
Fee and commission income	16,359	16,359	16,359
Other operating income	149	149	149
Income before operating expenses	**258,741**	**268,948**	**274,249**
Less: Staff costs	(73,380)	(77,049)	(80,901)
Depreciation of property, plant and equipment	(7,940)	(7,940)	(7,940)
Other operating expenses	(17,556)	(18,434)	(19,355)
Total operating expenses	**(98,876)**	**(103,423)**	**(108,197)**
Profit from operations before allowances	**159,865**	**165,525**	**166,052**
Add/(less): (allowance for)/ reversal or recovery of doubtful debts and other financial assets	(2,753)	(2,753)	(2,753)
Profit before tax	**157,112**	**162,772**	**163,299**

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 FY2023 and FY2024. Accordingly, the income tax expense in FY2023 and FY2024 would amount to S$27.2 million and S$27.3 million as shown in **Exhibit 30**.

Exhibit 30: Projected Income Tax Expense for FY2023 and FY2024

	Actual				Forecast	
S$'000	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024
Profit before tax	123,958	74,719	101,944	157,112	162,772	163,299
Income tax expense	(20,873)	(10,810)	(17,123)	(26,233)	(27,178)	(27,266)
Effective tax rate	17%	14%	17%	17%	17%	17%

Source: HLF, FPA Financial

Profit after Tax

Adjusting for income tax expense, the projected profit after tax for FY2023 and FY2024 would be S$135.6 million and S$136.0 million respectively. Assuming the total number of issued shares in FY2022 of 448,131,733 for FY2023 and FY2024, we projected an earnings per share of 30.26 cents and 30.36 cents for FY2023 and FY2024 respectively. We have summarized our projected earnings in **Exhibit 31**.

Exhibit 31: Earnings Projections for FY2023 and FY2024

S$'000	Actual	Forecast	
	FY2022	FY2023	FY2024
Interest income/hiring charges	337,177	384,830	392,911
Less: Interest expense	(94,944)	(132,390)	(135,170)
Net Interest income/ hiring charges	**242,233**	**252,440**	**257,741**
Fee and commission income	16,359	16,359	16,359
Other operating income	149	149	149
Income before operating expenses	**258,741**	**268,948**	**274,249**
Less: Staff costs	(73,380)	(77,049)	(80,901)
Depreciation of property, plant and equipment	(7,940)	(7,940)	(7,940)
Other operating expenses	(17,556)	(18,434)	(19,355)
Total operating expenses	**(98,876)**	**(103,423)**	**(108,197)**
Profit from operations before allowances	**159,865**	**165,525**	**166,052**
Add/(less): (allowance for)/ reversal or recovery of doubtful debts and other financial assets	(2,753)	(2,753)	(2,753)
Profit before tax	**157,112**	**162,772**	**163,299**
Less: Income tax expense	(26,233)	(27,178)	(27,266)
Profit after tax	**130,879**	**135,594**	**136,033**
Number of issued shares	448,043,000	448,131,733	448,131,733
Earnings per share (cents)	**29.21**	**30.26**	**30.36**

Source: HLF, FPA Financial

(III) Dividends Projection

With our projected profit after tax, we would now estimate HLF's dividend payment to the owners of the company. We note that the dividend payout ratio remained relatively stable between 58% and 65% between FY2019 and FY2022. In addition, we also noted on page 4 that HLF increased its dividend per share to 17 cents in FY2022, which is in line with the increase in profit after tax recorded in FY2022.

Considering the above, as we are projecting the profit after tax for FY2023 and FY2024 to remain at levels similar to FY2022, we would assume the dividend distribution for FY2023 and FY2024 to be at 17 cents per share. Accordingly, this would represent a dividend payout ratio of 56% for both FY2023 and FY2024 as shown in **Exhibit 32**.

Exhibit 32: Projected Dividend Distribution for FY2023 and FY2024

	Actual				Forecast	
S$'000	**FY2019**	**FY2020**	**FY2021**	**FY2022**	**FY2023**	**FY2024**
Profit after tax	103,085	63,909	84,821	130,879	135,594	136,033
EPS	23.10	14.28	18.95	29.21	30.26	30.36
Dividend (cents)	15.00	9.00	12.00	17.00	17.00	17.00
Dividend payout ratio (%)	65%	63%	63%	58%	56%	56%

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, dividend yield and P/B as shown in **Exhibit 33**.

Exhibit 33: Peer Comparison

Company	Stock code	Price (S$) as at 27 April 2023	Market cap (S$ million)	EPS (1) (cents)	P/E (x)	DPU (2) (cents)	Dividend yield (%)	NAV per share (3) (S$)	P/B (x)
Hong Leong Finance Limited	S41	2.600	1,165.14	29.21	8.90	17.00	6.54	4.55	0.57
Peer companies:									
Sing Investments & Finance Limited	S35	1.650	260.08	23.60	6.99	10.00	6.06	2.63	0.63
Singapura Finance Ltd	S23	0.780	123.77	5.26	14.83	3.25	4.17	1.59	0.49
Peer average	-		**191.93**	-	**10.91**	-	**5.11**	-	**0.56**

(1) Annualised earnings per share

(2) Trailing 12-month data

(3) NAV as at 31 December 22

Source: Respective company data, FPA Financial

(a) P/B Multiple

Based on the results in **Exhibit 33**, we note that HLF is currently trading at a P/B multiple of 0.57x, which is slightly higher than the peer average P/B of 0.56x. Adopting a relative valuation approach, we estimate a target price of S$2.548 if HLF were to trade at the peer average P/B multiple of 0.56x as follows:

- Estimated target price = [peer average P/B] x [HLF's NAV per share] = 0.56 x S$4.55 = S$2.548

The estimated target price of S$2.548 would imply a downside potential of 2.00% from the current price of S$2.600.

(b) P/E Multiple

Based on the results in **Exhibit 33**, we note that HLF is currently trading at a P/E multiple of 8.90x, which is lower than the peer average P/E of 10.91x, which may suggest that it is undervalued at the current share price of S$2.600. Adopting a relative valuation approach, we estimate a target price of S$3.187 as follows:

- Estimated target price = [peer average P/E] x [HLF's EPS] = 10.91 x S$0.2921 = S$3.187

The estimated target price of S$3.187 would imply a upside potential of 22.58% from the current price of S$2.600.

(c) Dividend Yield

In addition, based on the results in **Exhibit 33** on the previous page, we note that HLF's dividend yield of 6.54% is relatively more attractive than the peer average dividend yield of 5.11%. Adopting a relative valuation approach, we estimate a target price of S$3.328 as follows:

- Estimated target price = [(HLF's dividend yield/ peer average dividend yield) x HLF's current price] = (6.54% / 5.11%) x S$2.390 = S$3.328

The estimated target price of S$3.328 would imply an upside potential of 28.00% from the current price of S$2.600.

(d) Estimated Target Price

Considering the above, by adopting a relative valuation approach, we estimate a target price of S$2.548, S$3.187 and S$3.328 based on the peer average P/B, P/E and dividend yield comparison analysis respectively. Accordingly, we derived a target price of S$3.021, which is the average of our estimated target price based on the peer P/B, P/E and dividend yield analysis 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$2.548 + S$3.187 + SS$3.328) / 3] = S$3.021

The estimated target price of S$3.021 would imply a upside potential of 16.19% from the current price of S$2.600.

(II) Potential HLF Privatisation

We note that as at 6 March 2023, HLF's substantial shareholder, Hong Leong Investment Holdings Pte Ltd (HLIH) has a total interest of 45.94%, representing 205,860,758 shares. This comprise of 116,507,363 direct interest and 89,353,395 deemed interest. We also note that the Singapore Exchange (SGX) had seen an increasing trend of privatization offer during the past 2 years. In addition, HLF is currently trading at a 43% discount to its NAV per share of S$4.55. Considering the above, we identify the possibility of a privatisation offer for HLF by HLIH.

To estimate the potential takeover cost for HLF, we will consider privatization offers for SGX-listed companies. We note that the average price premium was 38.2% across the 22 privatization offers as shown in **Exhibit 34**.

Exhibit 34: Privatization offers for SGX-listed Companies

Target	Acquirer	Currency	Last transaction (1)		Offer price per share	Price premium (2)
			Date	Price		
CEI	AEM Holdings Ltd	SGD	7-Jan-21	0.990	1.150	16.2%
GL Limited	Guoco Group Limited	SGD	14-Jan-21	0.560	0.800	42.9%
Jardine Strategic Holdings Limited	Jardine Matheson Holdings Limited	USD	7-Mar-21	27.450	33.000	20.2%
World Class Global Limited	Aspial Corporation Limited	SGD	11-Mar-21	0.099	0.210	112.1%
Singapore Reinsurance	Fairfax Asia Limited	SGD	17-Mar-21	0.300	0.354	17.8%
Sin Ghee Huat Corporation	HHH Co Pte. Ltd	SGD	20-Apr-21	0.215	0.270	25.6%
Top Global Limited	SW Investment Holding Pte Ltd	SGD	30-Apr-21	0.385	0.390	1.3%
Cheung Woh Technologies	Woh Seng Holdings Pte. Ltd	SGD	4-May-21	0.150	0.285	90.0%
Dutech Holdings	TSI Metals HK Limited	SGD	28-May-21	0.250	0.400	60.0%
Fragrance Group Limited	JK Global Treasures Pte Ltd	SGD	8-Jul-21	0.118	0.138	16.9%
SPH	Cuscaden Peak Pte Ltd	SGD	2-Aug-21	1.500	2.360	57.3%
Roxy-Pacific Holdings Limited	TKL & Family Pte Ltd	SGD	14-Sep-21	0.405	0.485	19.8%
SingHaiyi Group	Haiyi Treasure Pte. Ltd	SGD	8-Nov-21	0.108	0.117	8.3%
Koufu	Dominus Capital Pte. Ltd	SGD	28-Dec-21	0.665	0.770	15.7%
Singapore O&G Group	NewMedCo Group	SGD	7-Mar-22	0.255	0.295	15.7%
Hwa Hong Corporation Limited	Sanjuro United Pte. Ltd.	SGD	17-May-22	0.290	0.400	37.9%
T T J HOLDINGS LIMITED	THC Venture Pte. Ltd	SGD	20-May-22	0.169	0.230	36.1%
Frasers Hospitality Trust	Frasers Property	SGD	7-Apr-22	0.570	0.700	22.8%
GYP Properties Limited	Rumah & Co. Pte. Ltd.	SGD	8-Jul-22	0.149	0.200	34.2%
SP Corporation	Tuan Sing Holdings	SGD	20-Aug-22	0.590	1.590	169.5%
Singapore Medical Group Limited	TLW Success Pte. Ltd.	SGD	8-Sep-22	0.325	0.370	13.8%
Boustead Projects	Boutstead Singapore	SGD	6-Feb-23	0.840	0.900	7.1%
Average						**38.2%**

(1) Refers to last transaction prior to takeover announcement

(2) Refers to premium of offer price over last traded share price prior to takeover announcement

Source: Respective companies' announcements

In the case of HLF, as mentioned earlier, HLIH hold approximately 45.94% stake in HLF, which means that it would need to acquire the remaining 54.06% to privatise the company. This equates to S$629.88 million in market capitalisation at the current price of S$2.600 =[54.06% x current market capitalisation of S$1,165.14 million].

While we are not aware of any proposed privatisation plan, in the event that a privatisation was to happen, we projected 3 scenarios for the estimated acquisition cost with a price premium of 15.7%, 38.2% and 60.0% for scenario 1, 2 and 3 respectively. Scenario 1 represents the 25th percentile, scenario 2 represents the average and scenario 3 represents the 85th percentile of the 22 privatization offers. The estimated acquisition cost for scenario 1, 2 and 3 would be S$728.7 million, S$870.8 million and S$1,007.8 million respectively as shown in **Exhibit 35** on the next page.

Our base scenario would be scenario 2. With a 38.2% average privatisation price premium, the estimated acquisition cost to privatise HLF would be approximately S$3.594 per share which would be equivalent to a total cost of S$870.8 million =[138.2% x S$629.88 million] as shown in **Exhibit 35**.

Exhibit 35: Estimated Total Cost for the Potential HLF Privatisation

Scenario	Current share price (S$)	Price premium	Estimated offer price per share (S$)	Estimated total cost (S$ million)
1	2.600	15.7%	3.008	728.7
2	2.600	38.2%	3.594	870.8
3	2.600	60.0%	4.160	1,007.8

Source: FPA Financial

(III) Potential HLF Sale

According to a recent Business Times (BT) article as noted on page 18, investors appear to value HLF less than the three locally listed banks, which could indicate a conservative valuation. The article suggests that a sale may be the best solution to unlock the value of HLF and increase its share price.

The article points out that HLF may face difficulties in securing a competitive advantage, as the local banks have strong regional footprints and are also interested in serving small and medium-sized enterprises (SMEs). While HLF is introducing new digital initiatives, the local banks, equipped with larger technology budgets, may have an advantage in digital transformation.

A sale at this time may be advantageous for HLF, as rising interest rates benefit both the banks and HLF, but if the economy weakens, falling interest rates could cause more challenges for lenders, leading to lower credit quality and slower loan growth. Additionally, investors who have a higher cost of equity may favor leaders in the financial stocks even more.

Considering the above, while we are not aware of any proposed sale, in the event that a sale were to happen, we estimate a sale premium of 38.2%, which is the average privatisation price premium. Accordingly, a sale premium of 38.2% would lead to a sale price of S$3.594 per share =[138.2% x S$2.600]

(IV) Valuation Summary

The results from our peer comparison analysis show that HLF has a slightly higher P/B compared to its peer average. Meanwhile, HLF's P/E is lower than its peer average P/E. At the same time, HLF is relatively attractive in terms of dividend yield.

Considering the above, by taking the average of our target price of S$2.548, S$3.187 and S$3.328 based on its P/B, P/E and dividend yield analysis respectively, we derived an estimated target price of S$3.021 =[(S$2.548 + S$3.187 + SS$3.328) / 3]. Accordingly, our estimated target price of S$3.021 implies a potential upside of 16.19% from the current price of S$2.600.

Meanwhile, our base case is that HLF will continue to be listed publicly. However, we note that Hong Leong Investment Holdings Pte Ltd is deemed to hold 45.94% stake in the company and that HLF is trading at 43% discount to NAV. In addition, it was recently reported in a Business Times (BT) article that investors appear to value HLF much more conservatively than they do the three locally listed banks and the best solution may be to consider a sale. We believe that there is a is a possibility for HLF to be taken private or sold. If HLF were to be privatized or sold, based on our base scenario we estimate a privatisation offer price/ sale price of S$3.594 per share based on the average price premium of 38.2% across the 22 privatisation offers for SGX-listed companies.

INVESTMENT RECOMMENDATION

Based on HLF's reported book value of S$4.55 as at 31 December 2022, it currently has a P/B multiple of 0.57x and is trading at a discount of approximately 43% to NAV. Our peer comparison analysis results show that HLF's P/B of 0.57x is slightly higher than the peer average P/B of 0.56x. We adopted a relative valuation approach to derive an estimated target price of S$2.548 if HLF were to trade at its peer average P/B of 0.56x.

At the same time, based on HLF's trailing 12 months earnings of 29.21 cents as at 31 December 2022, it currently has a P/E of 8.90x. Our peer comparison analysis results show that HLF's P/E of 8.90x is lower than the peer average P/E of 10.91x, which suggest that it could be undervalued. We adopted a relative valuation approach to derive an estimated target price of S$3.187 if HLF were to trade at its peer average P/E of 10.91x

Further, our peer comparison analysis results also show that HLF's dividend yield of 6.54% is relatively more attractive than the peer average dividend yield of 5.11%. Adopting a relative valuation approach, we estimate a target price of S$3.328.

In addition, while we note that there is no indication of a privatisation or a sale of HLF, our base scenario estimates a privatisation offer / sale price of S$3.594 per share, representing a price premium of 38.2%.

Considering the stable Singapore's economy outlook and a high interest rate environment, we are expecting an improvement in HLF's revenue, earnings & distribution for FY2023 and FY2024. Hence, we believe there could be upside potential to HLF's share price. Accordingly, we derived a target price of S$3.021, which is the average of our estimated target price based on the P/B, P/E and dividend yield peer comparison analysis =[(S$2.548 + S$3.187 + SS$3.328) / 3].

Given the above, we will maintain our buy recommendation on HLF. Our target price of S$3.021 implies an upside potential of 16.19% from the current share price of S$2.600. 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

The Ministry of Trade and Industry (MTI) has stated that the aviation and tourism sectors in Singapore's economy are expected to experience improved growth in 2023 due to the anticipated acceleration in international air travel and inbound tourism, following China's faster-than-expected relaxation of border restrictions. These sectors comprise air transport, accommodation, and arts, entertainment & recreation, including the aerospace segment within the transport engineering cluster.

However, outward-oriented sectors are projected to experience weak growth due to the global economic slowdown. For example, the electronics cluster's semiconductors segment is expected to be negatively affected by weaker global semiconductor demand, while the precision engineering cluster may be impacted by a reduction in capital spending by semiconductor manufacturers. Furthermore, the slowdown in major external economies will also dampen growth in the wholesale trade, water transport, and finance & insurance sectors. This could derail Singapore's economic recovery and negatively impact HLF's financial performance

(II) Risk Of Default of Loans

Owing to elevated inflation, central banks in the US and Eurozone have increased interest rates. Amidst a high interest rate environment, it is important for HLF to manage the interest rate volatility and asset quality amid the global economic headwinds. In FY2021 and early FY2022 when the interest rate was low, consumers took on a high amount of debt. This could be a problem when the interest rate rises and remains at elevated levels. This could increase the default risk and the amount of non-performing loans for HLF, which could potentially negatively affect HLF financial performance.

(III) Additional Buyer's Stamp Duty

On 26 Apr 2023, the Singapore government announced that the Additional Buyer's Stamp Duty (ABSD) rates will be raised with effect from 27 Apr 2023, to promote a sustainable property market. There is a transitional ABSD remission for residential properties acquired on or after 27 Apr 2023, subject to the remission conditions being met.

For Singapore citizens, ABSD will be raised to 20% from 17% for the purchase of their second property, and to 30% from 25% for their third and subsequent properties. Singapore permanent residents (PRs) will have ABSD increased to 30% from 25% on their second property, and to 35% from 30% for their third and subsequent properties. ABSD rates will double to 60% from 30% for foreigners purchasing any residential property. Excluding housing developers, any entities or trusts purchasing residential properties will experience ABSD rates rise to 65% from 35% as shown in **Exhibit 36** on the next page.

Considering the above, there is a possibility that the additional buyer's stamp duty is likely to cause new private home sales to ease in 2023. As noted on page 10, property loans remain a key pillar to HLF's business. Hence, the increase in ABSD could potentially slow the growth of HLF's interest income in the future.

Exhibit 36: ABSD Rate Structure

Profile of buyer	**Old ABSD Rates** 16 Dec 2021 to 26 Apr 2023	**New ABSD Rates** On or after 27 Apr 2023
SC^ buying 1st residential property	0%	0%
SC buying 2nd residential property	17%	20%
SC buying 3rd and subsequent residential property	25%	30%
SPR* buying 1st residential property	5%	5%
SPR buying 2nd residential property	25%	30%
SPR buying 3rd and subsequent residential property	30%	35%
Foreigners (FR) buying any residential property	30%	60%
Entities buying any residential property	35%	65%
Housing Developers# buying any residential property	35% Plus additional 5% *(non-remittable)*	35% Plus additional 5% *(non-remittable)*
Trustees buying any residential property	35% (wef 9 May 2022)	65%

^SC refers to Singapore Citizens
**SPR refers to Singapore Permanent Residents*
#Housing Developers refer to entities in the business of housing development (i.e. construction and sale of housing units) with respect to the subject property acquired.
(Note: This definition of Housing Developer is the condensed version. You may refer to paragraph (1) of Article 3 to the Stamp Duties Act for the full definition.)

Source: Inland Revenue Authority of Singapore

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