

# INVESTOR PRESENTATION

24 August 2017

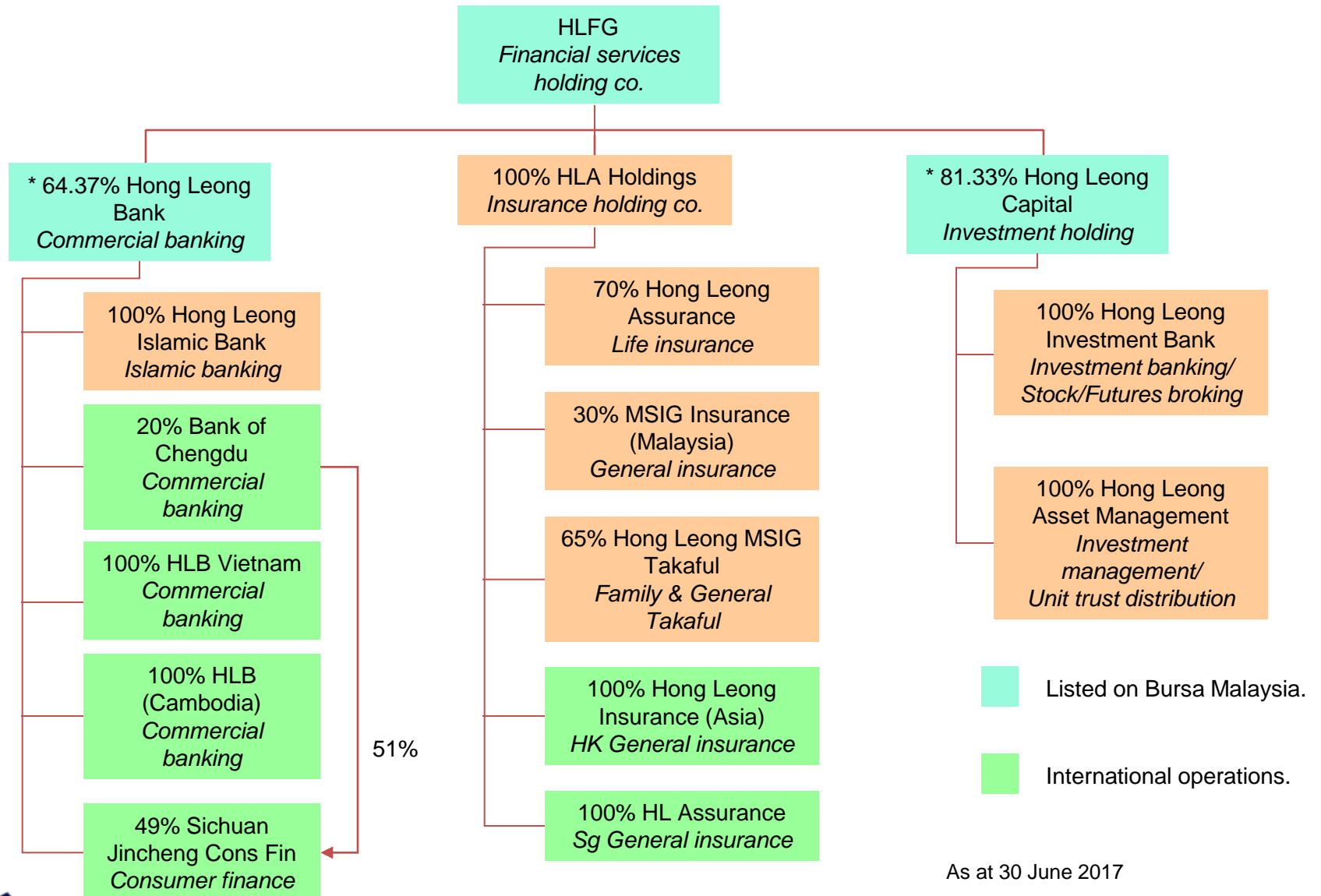
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# Corporate Structure / Principal Businesses



# FY17 Results Highlights

## Financial Group (HLFG)

- HLFG's FY17 PBT of RM3.09bn increased 20.5% yoy.
- Excluding FY16's HLB MSS cost, normalised PBT increased 12.9% yoy to a **record RM3.09bn** in FY17.
- Book Value per share +8.2% yoy to RM14.52.

## Commercial Bank (HLB)

- HLB's FY17 PBT of RM2.75bn increased 15.4% yoy.
- Excluding FY16's MSS cost, HLB's normalised PBT increased 7.6% yoy to RM2.75bn in FY17.
- Awarded 'Malaysia's Best Bank' at the Euromoney Awards for Excellence 2017, in recognition of HLB's ongoing transformation towards being a highly digital and innovative ASEAN financial services company.
- Awarded Highest Return to Shareholders in the Finance sector for market capitalisation above RM10bn (3 Years) – Gold (The Edge Billion RM Club Corporate Awards 2017).

[For the full HLB results analysis, please refer to its own analyst presentation.]

## FY17 Results Highlights

### Insurance (HLAH)

- HLAH PBT of RM337.8m increased 71.0% yoy in FY17, mainly contributed by HLA's 58.3% yoy increase in PBT to RM245.0m, and RM26.3m yoy improvement in HLIA's PBT (investment/forex gains).
- **HLA gross premiums +8.1% yoy to a record RM3.01 bn** in FY17, despite slower economy. **New business regular premiums +8.3% yoy to a record RM585.7m.**
- HLA's Non-Par/Par ratio maintained upward trend, improving from 50:50 (FY16) to 56:44 (FY17).
- HLA has been awarded the **Domestic Life Insurer of the Year** by Asian Banking and Finance's inaugural Insurance Asia Awards 2016.

## FY17 Results Highlights

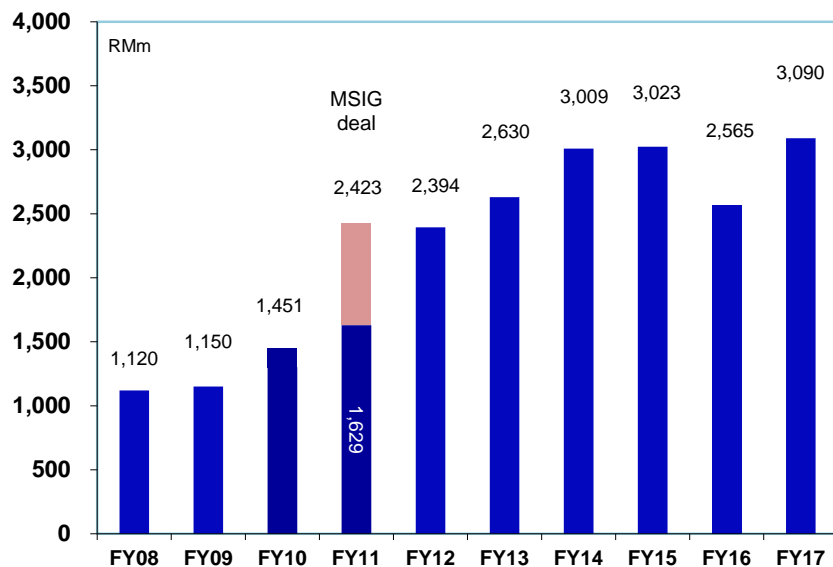
### Investment Banking (HLCB)

- PBT of RM84.0m increased 30.3% yoy, despite subdued capital markets.
- All 3 divisions of investment banking, stockbroking & asset management recorded higher PBT.
- HLIB Top 3 Best Retail Equities (Bursa Excellence Awards 2016).
- HLAM won 2 Lipper awards in 2017: Best Group in Equity & Best RM Equity Fund (3 Years) for the Hong Leong Penny Stock Fund.

# HLFG Key Trends

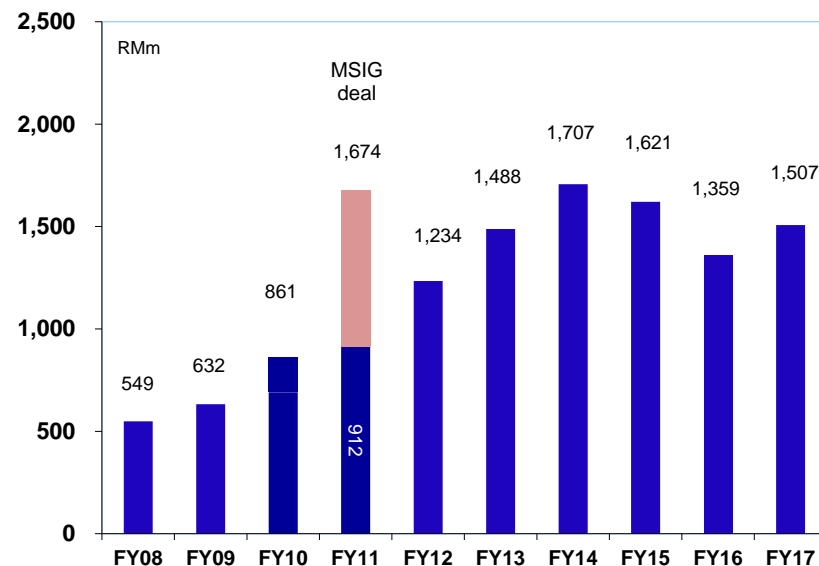
- Record PBT despite subdued economy.

## PBT



Denotes non-recurring portion

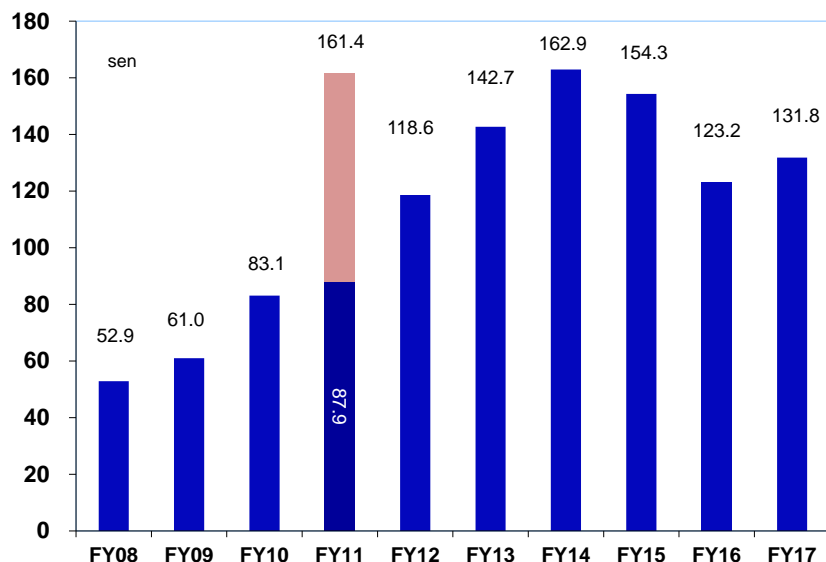
## Net Profit (PATAMI)



## HLFG Key Trends

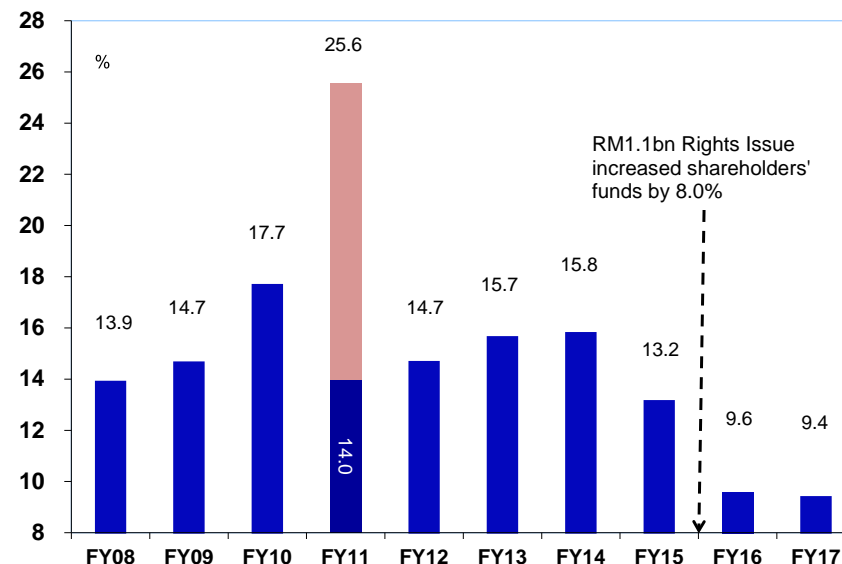
- Higher shareholders' funds base from our Dec 2015 Rights Issue (9:100) has impacted ROE.

### Earnings Per Share



Denotes non-recurring portion

### Return on Equity

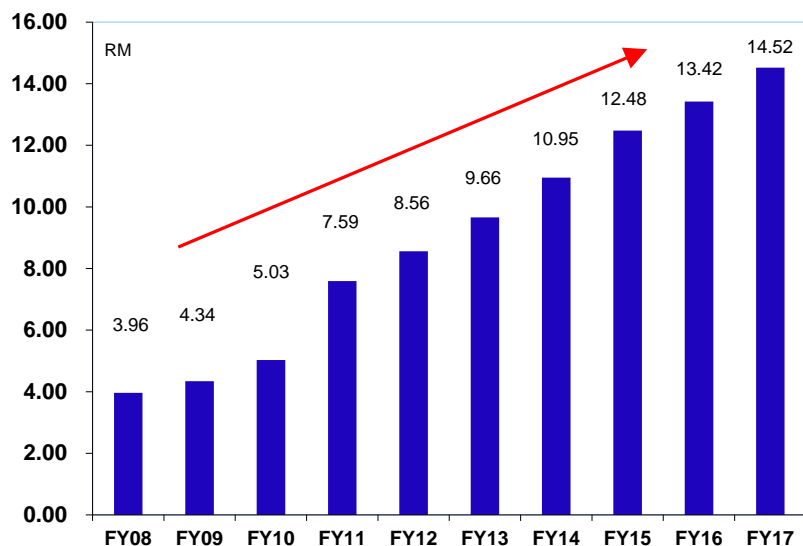




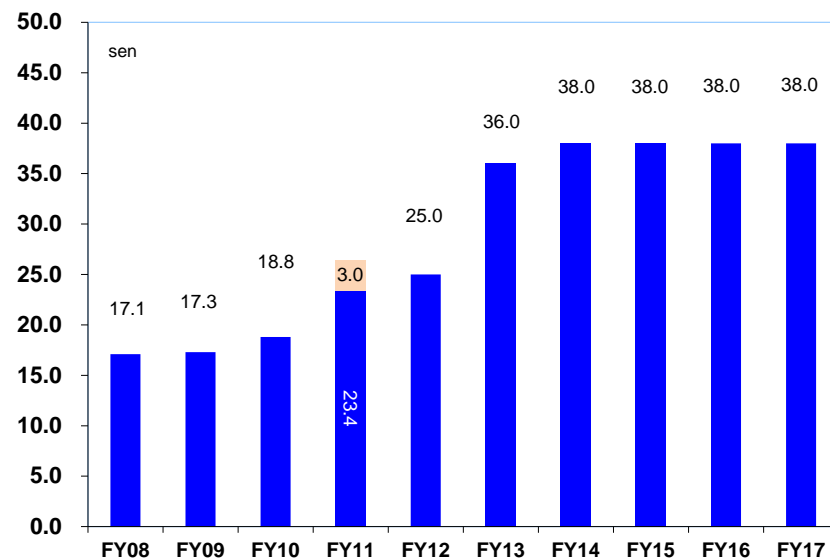
## HLFG Key Trends

- Book value/share +8.2% yoy to RM14.52.
- Net DPS maintained at a record 38.0 sen in FY17.

### Book Value Per Share



### Net Dividend Per Share



Denotes special dividend.

## Highlights: Hong Leong Bank (HLB)

- For further information on HLB, please refer to the HLB analyst information slides.

## Highlights: Insurance Division

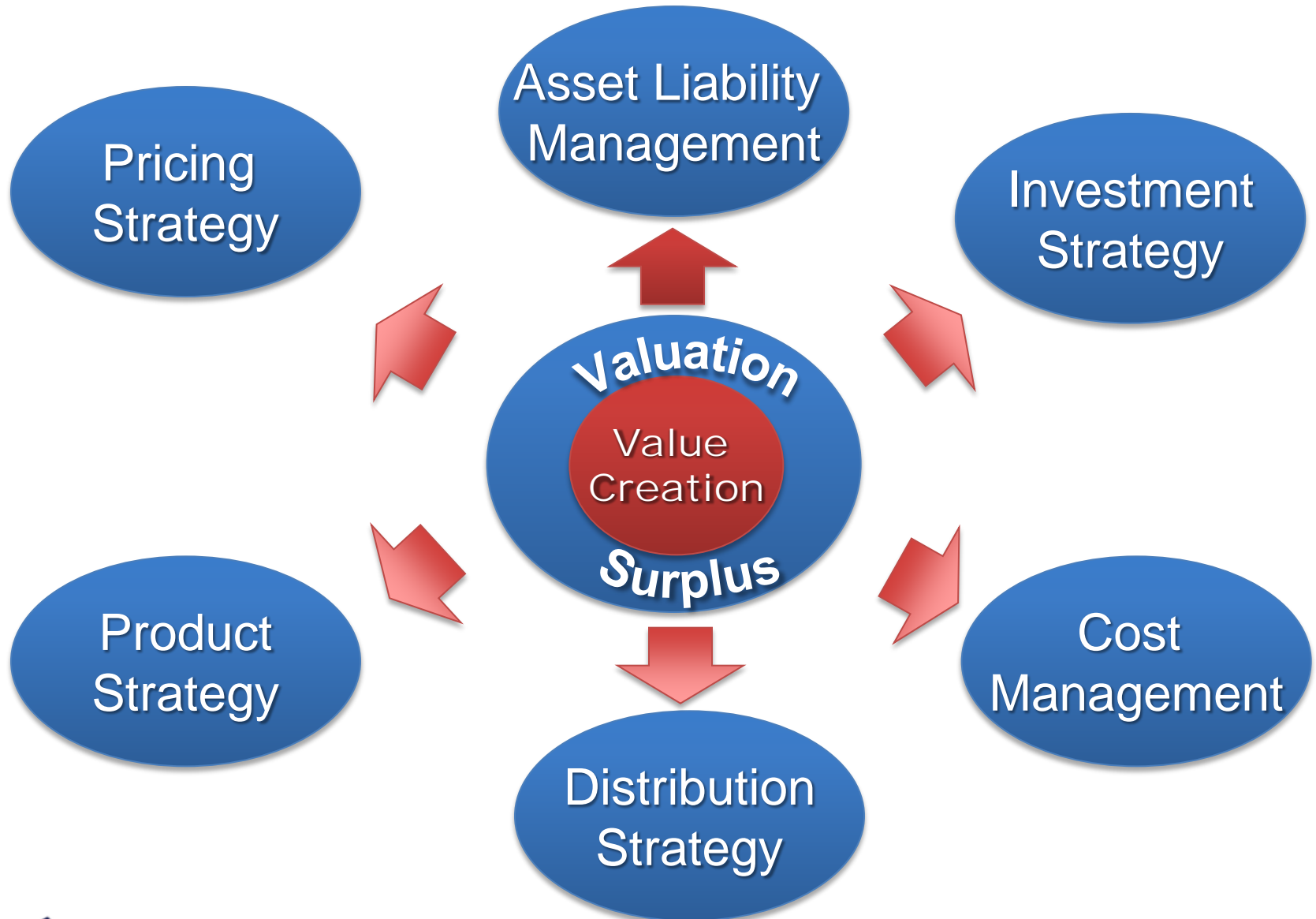
- Results Overview & Trend
- Recap Summary Strategy
- Market Position
- Revenue/Distribution Highlights
- Key Ratios

## FY17 Results: HLA

- Excluding the impact of interest rate movements/lumpy items, HLA's operating profit maintained at RM228m.
- Provision for Equity Impairment refers to prolonged but *unrealised* losses which have to be booked under accounting standards.
- New business regular premiums +8.3% yoy to a record RM586m, despite slower economy.
- Non Par/Par ratio improved from 50:50 (FY16) to 56:44 (FY17).

HLA RM 'mil	FY13	FY14	FY15	FY16	FY17
Operating profit	146.3	203.8	203.6	231.4	227.9
Impact of interest rate movements	2.5	47.1	(10.4)	(15.3)	32.1
Provision for equity impairment	(3.3)	(1.2)	(29.5)	(48.7)	(1.3)
Other lumpy items	(21.1)	36.9	69.0	(12.6)	(13.7)
Pretax Profit (HLFG Level)	124.4	286.6	232.7	154.8	245.0

## HLA: Value Creation Strategy



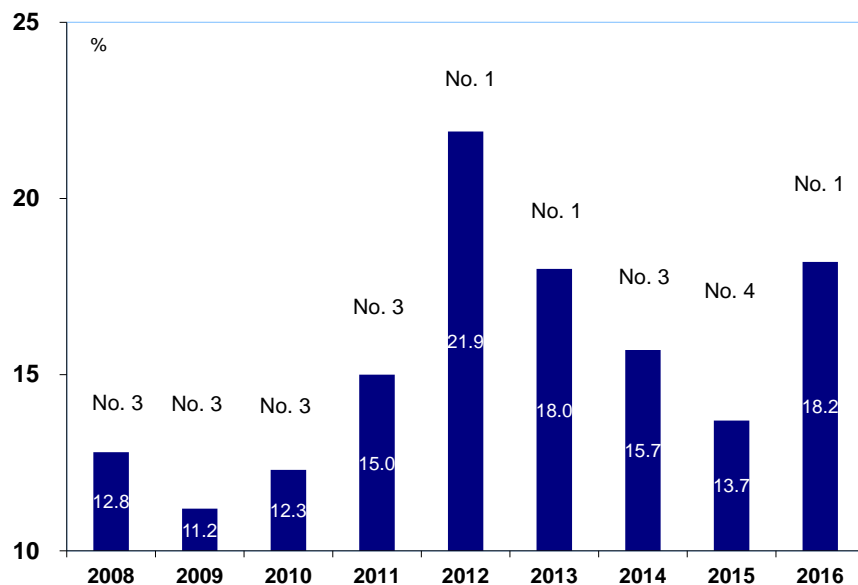
## HLA: Strategy

- Built up distribution network (agency). 11,113 agents (June 2017). Able to compete with the market leaders in distribution.
- Built up leading (No. 1) market position in Ordinary Life segment.
- **Non-Participating / Participating ratio for new business has improved significantly from 22:78 (FY13) to 56:44 (FY17).**
- Also building up bancassurance (taking advantage of sister bank HLB's circa 300 branch network). Reworking new 5-year plan.
- Competitive products.

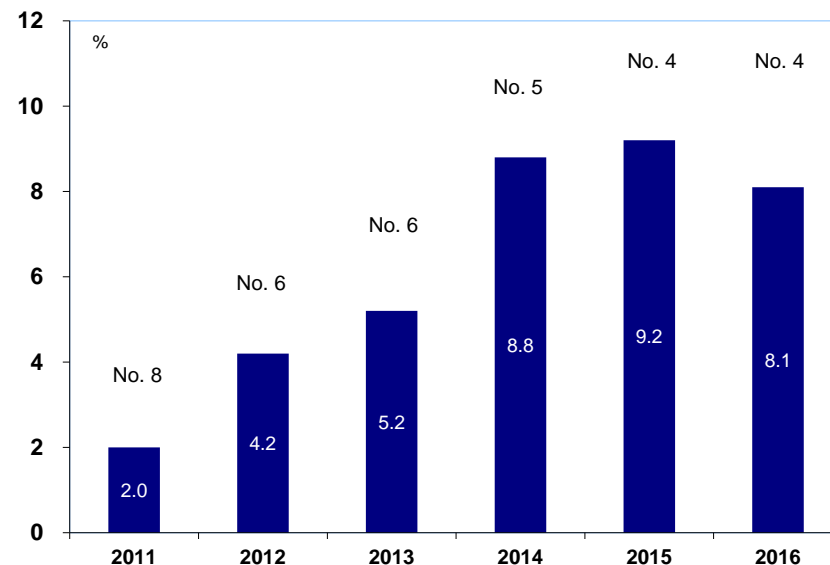
## HLA: Market Position

- **Regained No. 1 position** in the **Ordinary Life** segment with **18.2% market share** of New Business Regular Premiums (“NBRP”).
- Emphasis on Non-Participating business has caused Investment-Linked market share to grow by 4x in the last 5 years. Maintained No. 4 position.

Ordinary Life Market Share of NBRP (%)



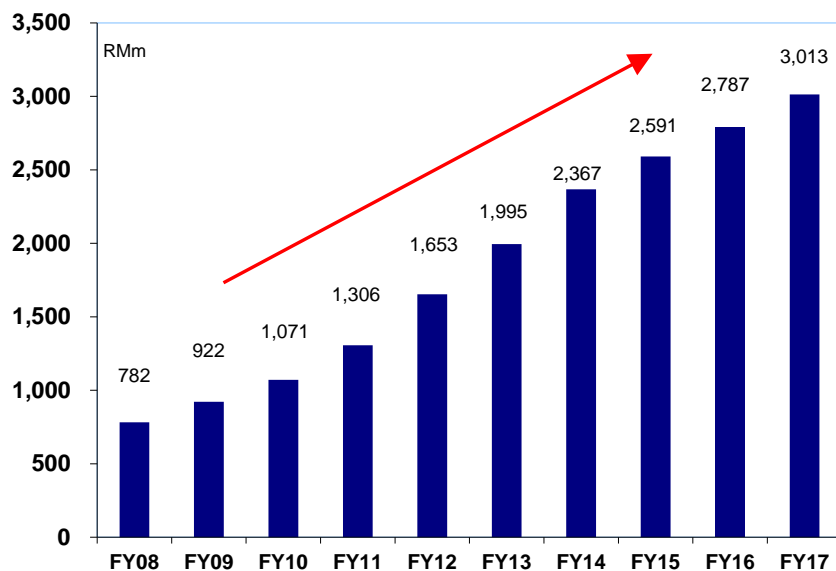
Investment-Linked Market Share of NBRP (%)



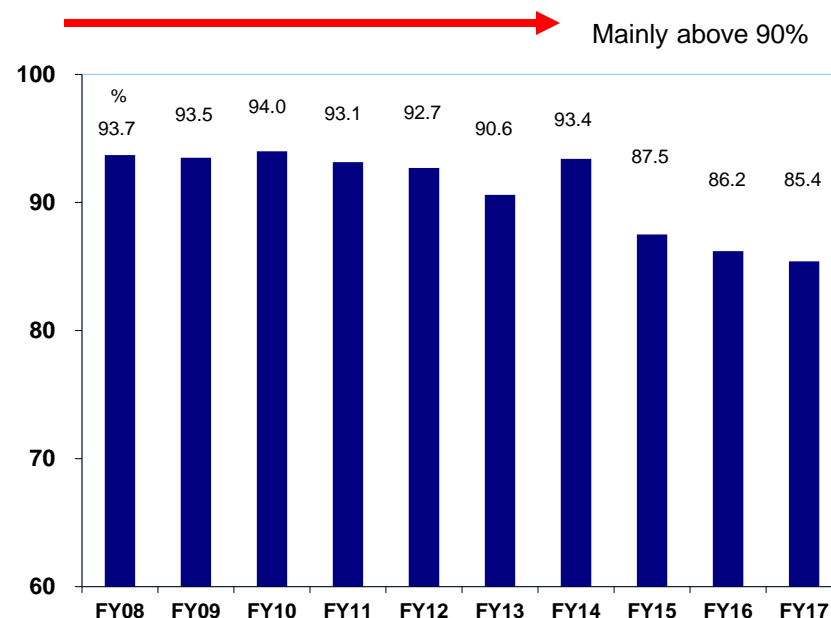
# HLA

- **New Business** ↑ + **Persistency/Renewals** → **Gross Premiums** ↑
- A high Persistency Ratio (~ 90%) ensures that New Business is translated into Renewal Premiums in later years.

## Gross Premiums



## Persistency Ratio





## HLA: Product Category Segments

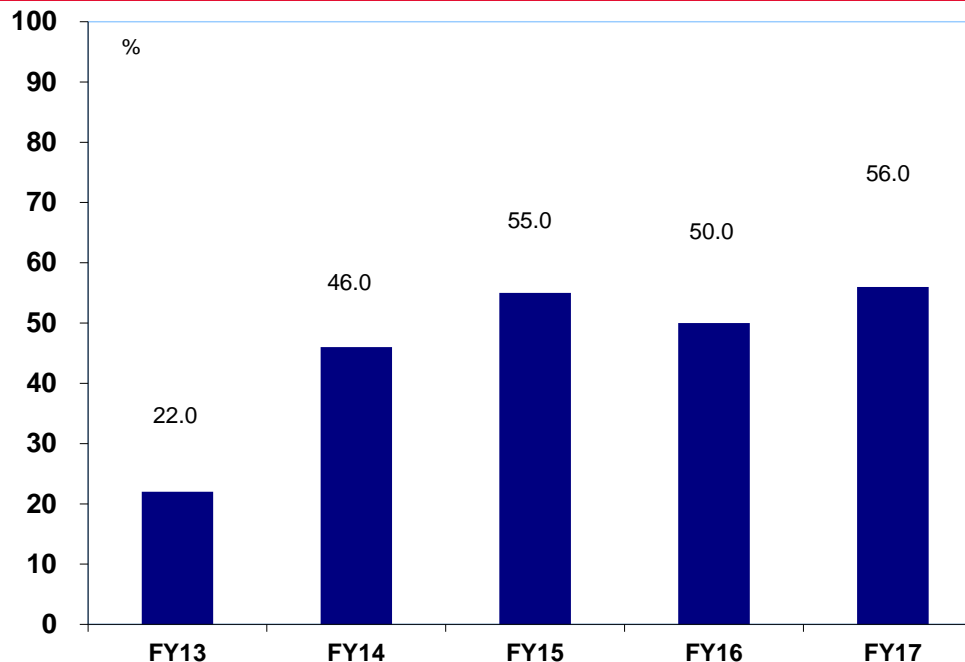
- Enhancing IL contribution (+31% yoy in FY17) to 30% of total gross premiums, whilst regaining No. 1 position in the OL segment.

Gross Premiums (RMm) Segment	FY13	FY14	FY15	FY16	FY17	Yoy (%)	Contri (%)	Comments
1. Ordinary Life ("OL")	1,709	1,898	1,957	2,030	2,045	1	68	<ul style="list-style-type: none"> <li><b>No. 1 among all life insurers in this segment</b> by annualised New Business Regular Premiums ("NBRP").</li> <li><b>18.2% market share</b> of NBRP in this segment.</li> </ul>
2. Investment-Linked ("IL")	236	414	567	697	915	31	30	<ul style="list-style-type: none"> <li>Building up this segment on the back of stronger distribution force.</li> <li><b>No. 4 in this segment.</b></li> <li><b>Market share (NBRP) 8.1% in 2016.</b></li> </ul>
3. Credit Life	50	55	67	60	53	(11)	2	<ul style="list-style-type: none"> <li>Mainly MRTA (captive market from HLB).</li> <li>Non-recurring single premium business.</li> </ul>
Total	1,995	2,367	2,591	2,787	3,013	8	100	<ul style="list-style-type: none"> <li><b>No. 1 among domestic life insurers (OL + IL)</b> by NBRP.</li> <li><b>Top 4 among all insurers (OL + IL)</b> by NBRP.</li> </ul>

## HLA: Non-Par/Par Ratio

- Higher Non-Participating/Participating ratio = Higher New Business Embedded Value (EV) Margin.
- In general, Investment-Linked policies have higher EV margins than Ordinary Life policies.
- **Non-Par/Par ratio resumed uptrend in FY17 to highest ever ratio. Targeting further improvement.**

Non-Participating/Participating Ratio for New Business (%)



## HLA: Distribution Channels

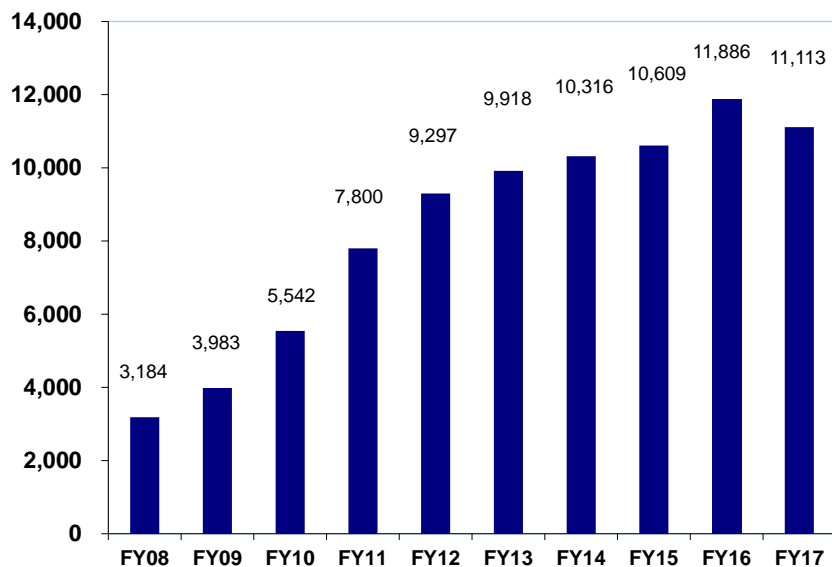
- **Bancassurance plan** to tap on HLB's circa 300 branches **bearing fruit (banca premiums have doubled in 4 years)**, but Agency will continue to be the main distribution channel (84% share of gross premium).

Gross Premiums (RMm)	FY13	FY14	FY15	FY16	FY17	Yoy (%)	Contri (%)	Comments
1. Agents	1,767	2,048	2,222	2,406	2,525	5	84	<ul style="list-style-type: none"> <li>▪ HLA's core distribution channel.</li> <li>▪ <b>11,113 agents</b> as at Jun 17.</li> </ul>
2. Bancassurance	181	265	333	325	407	25	14	<ul style="list-style-type: none"> <li>▪ Access to HLB, the <b>5th largest bank</b> with the <b>2nd largest branch network (circa 300 branches)</b>.</li> <li>▪ 5-year Group Bancassurance Plan + insurance specialist model.</li> </ul>
3. Telemarketing/ Alternative Channels	47	54	36	55	82	47	3	
<b>Total</b>	<b>1,995</b>	<b>2,367</b>	<b>2,591</b>	<b>2,787</b>	<b>3,013</b>	<b>8</b>	<b>100</b>	

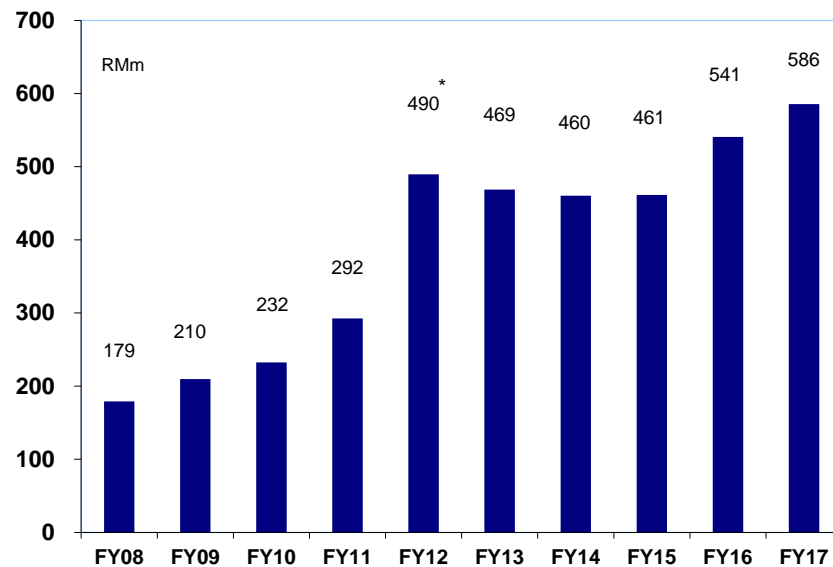
## HLA: Agency

- No. of Agents ↑ + Agent Productivity = New Business ↑
- Agency growth has slowed in recent years due to higher base as well as non-productive agents leaving. Focus on building a productive agency force.
- **New business regular premiums +8.3% yoy to a record RM585.7m.**
- New Business Regular Premiums are critical to growing total premiums (new business + renewals).

### Number of Agents



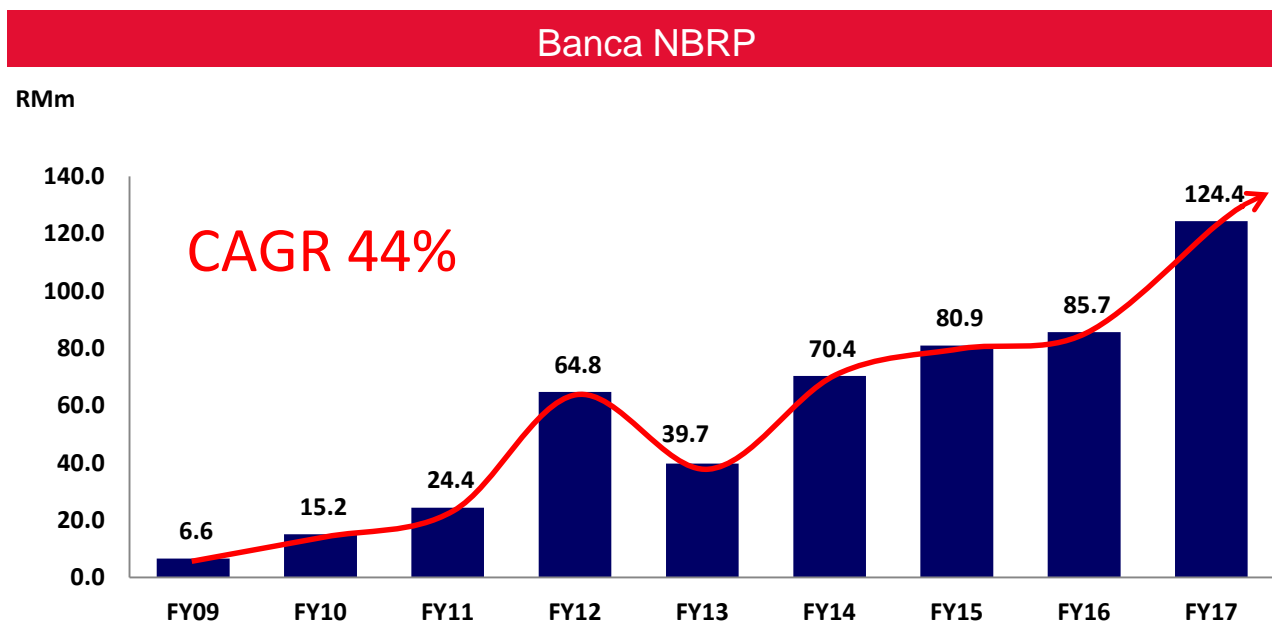
### New Business Regular Premium



\* One-off close-ended product of RM41m.

## HLA: Bancassurance

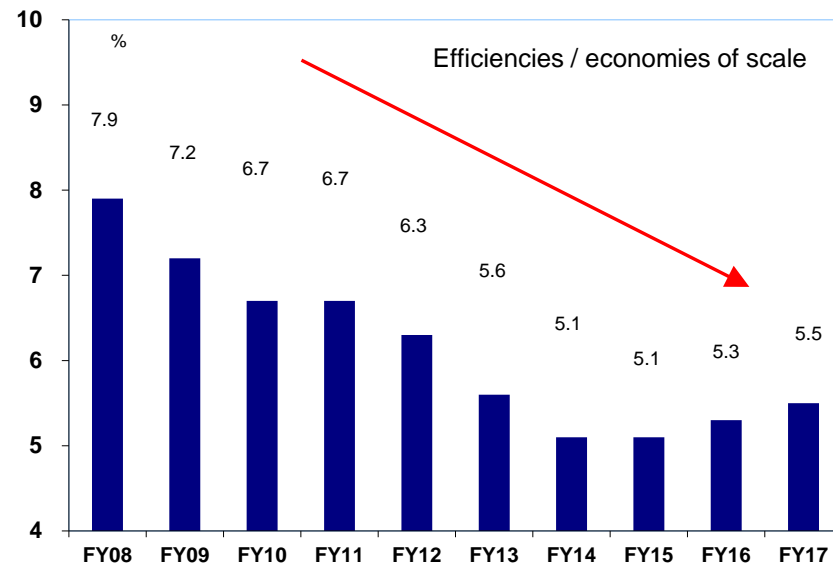
- **No. 5 in Non-Agency (primarily bancassurance) New Business Regular Premiums with 9.8% market share.**
- Taking advantage of sister bank's (HLB) circa 300 branches.
- Growing **Banca Consultants' team.**
- Aligned with profitability targets/strategy. Bancassurance tends to have a **higher proportion of non-participating policies.**
- A cheaper distribution channel.
- **5-year plan with ambitious targets.**



## HLA: Cost Efficiency

- Gross Premiums  $\uparrow$   $\rightarrow$  Economies of Scale  $\rightarrow$  Management Expense Ratio  $\downarrow$
- Gross Premiums  $\uparrow$  + Management Expense Ratio  $\downarrow$   $\rightarrow$  PBT  $\uparrow$
- With the lowest Management Expense Ratio in the industry & greater economies of scale, we have started spending selectively on marketing & branding.
- Accounts & half-year results available at [hla.com.my](http://hla.com.my)

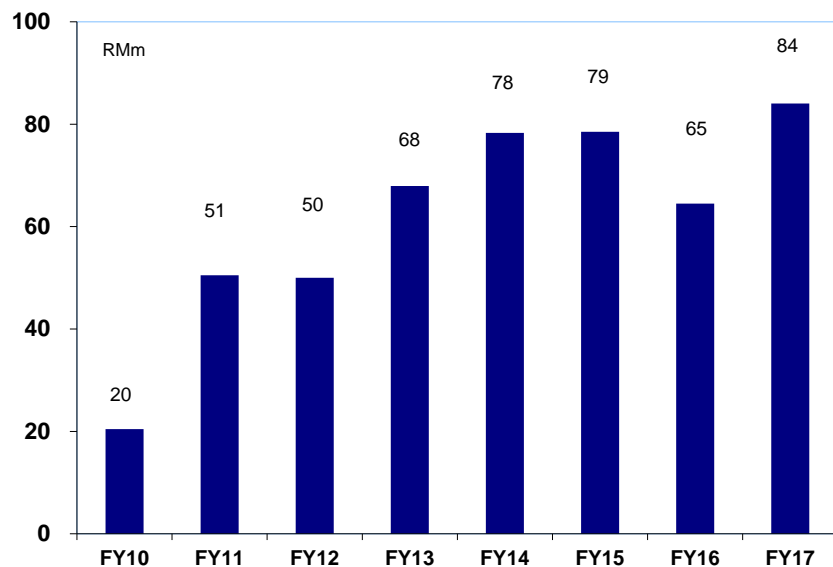
### Management Expense Ratio



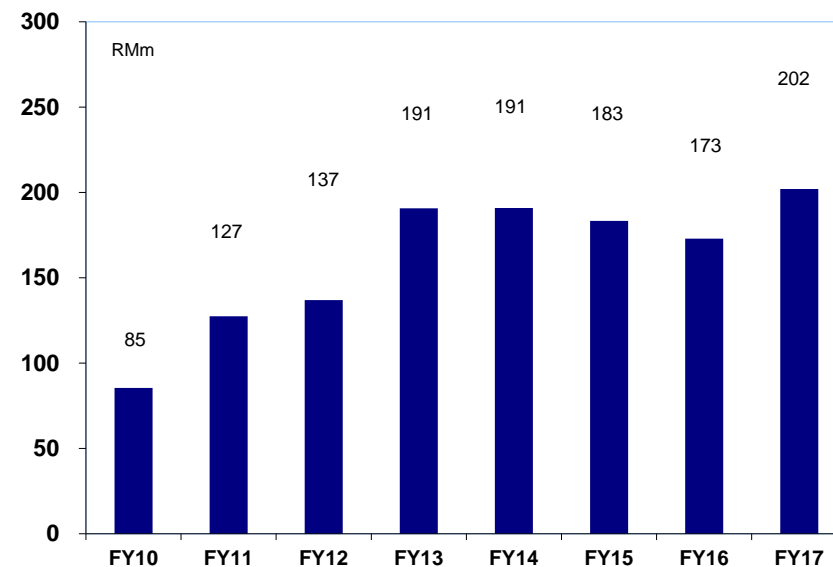
## Highlights: Hong Leong Capital (HLCB)

- Seasoned management team since 2010.
- Record PBT/revenue. Holding up despite subdued capital markets.

PBT



Revenue (Total Income)



## Highlights: Investment Banking Division

- Strong PBT growth recorded in all 3 divisions.
- Stockbroking 4.2% market share (FY17).
- HLAM AUM RM11.1bn (Jun 17).
- HLIB Top 3 Best Retail Equities (Bursa Excellence Awards 2016).
- HLAM won 2 Lipper awards in 2017: Best Group in Equity & Best RM Equity Fund (3 Years) for the Hong Leong Penny Stock Fund.

HLCB Group RMm	FY16	% contribution	FY17	% contribution	yoy (%)
Investment banking	32.9	51	38.8	46	18
Stockbroking	24.7	38	29.2	35	18
Asset management	2.2	3	8.1	10	260
Others	4.6	7	8.0	9	73
Pretax Profit	64.5	100	84.0	100	30



# Appendix: Further Information



## FY17 Results Summary – Segmental PBT

Group (Y E June) RMm	FY16	% contribution	FY17	% contribution	yoy (%)
HLB operating profit + Sichuan Jincheng JV	2,241.0	81.9	2,405.3	77.8	7.3
Bank of Chengdu @ 20%	312.2	11.4	342.9	11.1	9.8
<b>Banking (HLB)</b>	<b>2,553.2</b>	<b>93.3</b>	<b>2,748.3</b>	<b>88.9</b>	<b>7.6</b>
HLA (Life + Shareholders' Fund)	154.8	5.7	245.0	7.9	58.3
MSIG @ 30% (General insurance)	68.9	2.5	73.5	2.4	6.7
Others: HLIA, HLMT & Others	(26.2)	(1.0)	19.4	0.6	(174.0)
<b>Insurance</b>	<b>197.5</b>	<b>7.2</b>	<b>337.9</b>	<b>10.9</b>	<b>71.0</b>
<b>Investment banking (HLCB)</b>	<b>64.5</b>	<b>2.4</b>	<b>84.0</b>	<b>2.7</b>	<b>30.3</b>
Others	(78.2)	(2.9)	(80.2)	(2.6)	2.5
<b>Pretax profit (Normalised)</b>	<b>2,737.0</b>	<b>100.0</b>	<b>3,089.9</b>	<b>100.0</b>	<b>12.9</b>
Major Non Recurring Items	(172.0)		0.0		<i>n.m.</i>
<b>Pretax profit (Actual)</b>	<b>2,565.0</b>		<b>3,089.9</b>		<b>20.5</b>
Taxation	(501.5)		(773.1)		54.2
Profit after taxation	2,063.5		2,316.9		12.3
Non-controlling interests	(704.6)		(810.1)		15.0
<b>Net Profit (Actual)</b>	<b>1,358.9</b>		<b>1,506.8</b>		<b>10.9</b>
EPS (sen)	123.2		131.8		7.0
<b>Net Profit (Normalised)</b>	<b>1,444.5</b>		<b>1,506.8</b>		<b>4.3</b>

## MSIG (General Insurance)

- Record Profit After Tax.
- Liberalisation of general insurance tariffs will limit earnings growth in the near term.

MSIG Y E Dec RMm	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16
<b>Gross Premiums</b>	<b>710.1</b>	<b>757.8</b>	<b>801.7</b>	<b>965.1</b>	<b>1,241.8</b>	<b>1,326.3</b>	<b>1,425.9</b>	<b>1,486.7</b>	<b>1,535.4</b>	<b>1,522.5</b>
Reinsurance	(159.9)	(156.5)	(171.2)	(179.6)	(238.4)	(289.1)	(306.3)	(295.1)	(292.9)	(296.6)
Net Premiums	550.2	601.3	630.5	785.5	1,003.4	1,037.2	1,119.7	1,191.5	1,242.5	1,225.9
Change in Unearned Premium Prov	(12.2)	(18.7)	(18.5)	(40.1)	(27.3)	(61.4)	(47.5)	(38.3)	(124.1)	19.1
Earned Premiums	538.0	582.6	612.0	745.4	976.2	975.7	1,072.2	1,153.2	1,118.4	1,245.0
Net Claims	(288.2)	(308.0)	(339.6)	(441.2)	(568.2)	(580.3)	(615.2)	(645.9)	(682.6)	(685.1)
Underwriting Surplus	76.1	111.7	108.3	106.1	147.6	135.7	168.5	193.2	173.5	206.7
Investment & Other Income	77.8	9.2	42.3	54.8	69.1	96.4	88.3	85.2	88.3	106.8
Profit Before Taxation	153.9	120.9	150.5	160.8	216.7	232.1	256.8	278.4	261.8	313.6
Taxation	(36.6)	(25.7)	(32.5)	(36.8)	(50.1)	(50.0)	(53.0)	(63.4)	(61.7)	(64.8)
<b>Profit After Taxation</b>	<b>117.3</b>	<b>95.3</b>	<b>118.0</b>	<b>124.0</b>	<b>166.6</b>	<b>182.1</b>	<b>203.9</b>	<b>215.0</b>	<b>200.1</b>	<b>248.8</b>
<b>Shareholders' Funds</b>	<b>1,023.2</b>	<b>1,015.6</b>	<b>1,043.2</b>	<b>1,862.6</b>	<b>1,969.4</b>	<b>2,071.2</b>	<b>2,189.5</b>	<b>2,298.4</b>	<b>2,401.4</b>	<b>2,548.0</b>
Retention Ratio (%)	77.5	79.3	78.6	81.4	80.8	78.2	78.5	80.1	80.9	80.5
Claims Ratio (%)	53.6	52.9	55.5	59.2	58.2	59.5	57.4	56.0	61.0	55.0
Underwriting Margin (%)	14.1	19.2	17.7	14.2	15.1	13.9	15.7	16.7	15.5	16.6
Return On Equity (%)	11.8	9.3	11.5	8.5	8.7	9.0	9.6	9.6	8.5	10.1

- Annual report & half-year results available at [msig.com.my](http://msig.com.my)

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**Chew Seong Aun**

Group Chief Financial Officer

Tel: +603 2080 9888

E-mail: [cfo-hlfg@hongleong.com.my](mailto:cfo-hlfg@hongleong.com.my)