

Fubon FHC (2881.TW/2881 TT)

Business momentum will extend into 2024F; higher-than-peers dividend payout ability

FTSE4Good TIP Taiwan ESG Index stock

Outperform · Maintained

Price as of November 17 (NT\$)	63.20
12M target price (NT\$)	70.00
Previous target price (NT\$)	70.00
Unchanged (%)	0.0
Upside (%)	10.8

Key message

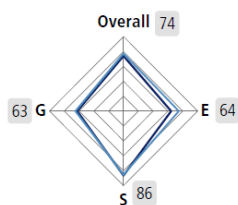
1. Bank and securities units boosted FHC earnings by 74% in 3Q23.
2. Management expects continued improvements in pre-hedging recurring yield in 2024F.
3. Bank and life insurance business momentum will extend into 2024F. FHC's dividend payout ability will be greater than its industry peers.

Trading data

Mkt cap (NT\$bn/US\$m)	823 / 25,695
Outstanding shares (mn)	13,015
Foreign ownership (mn)	2,455
3M avg. daily trading (mn)	8.70
52-week trading range (NT\$)	55.00 –66.50

Performance	3M	6M	12M
Absolute (%)	1.1	5	13.9
Relative (%)	-3.1	-3.1	-4.5

ESG score card



— 2881 TT — Taiwan sector average

Source: Refinitiv, KGI securities

Event

Fubon FHC posted 1Q-3Q23 EPS of NT\$4.94, with net profit decline slowing to 19% YoY.

Impact

3Q23 earnings growth of 74%, on banking and securities income. Fubon FHC posted net profit of NT\$24.86bn in 3Q23, up 74% YoY but down 14% QoQ, as Taipei Fubon Bank (TFB) and the securities unit grew earnings by a respective 1.2% and 70% YoY, on higher investment income. The P&C unit remained profitable, offsetting an earnings decline of 17% YoY, at Fubon Life (FL). In January-October, Fubon FHC garnered net profit of NT\$71.8bn, down by a narrowed 8% YoY. While Fubon Life's investment income could be hurt in 4Q23F by higher hedging costs, we forecast FHC earnings will resume growth in 2023F, thanks to the low 4Q22 base caused by Covid-insurance losses at the P&C unit.

FL's pre-hedging recurring yield in 2024F is still improving. FL's booked investment return of 4.33% in 1Q-3Q23, down a slower 1.22% YoY, was attributable to NT dollar depreciation of 3.55% in 3Q23, which lowered hedging costs to just 0.12% in 1Q-3Q23. Dividend income and a rise in new-money yields boosted the pre-hedge recurring yield by 20bps YoY, to 3.66% in 1Q-3Q23, the highest it has been since 3Q19. The value of new business (VNB) grew 26% in 1Q-3Q23, on a continued focus upon selling participating policies. Management expects double digit VNB growth YoY in 2024F, and continued improvement in pre-hedging recurring yield in 2024F.

Core bank earnings continued growing. In 3Q23, TFB's NIM grew 6bp QoQ to 1.19%. If FX swap income is included, 1Q-3Q23 NIM rose 1bp, compared to 1H23. Strong wealth management and credit card business in 3Q23 accelerated fee income growth to 38% in 1Q-3Q23. Asset quality was stable, lowering the NPL ratio to 0.11% in 3Q23. Management guides credit costs in 2024F will be very close to the 2023F level of 0.15%. As distributable earnings, excluding special reserves, exceeded NT\$200bn in 1Q-3Q23, we predict a 2023F cash dividend of at least NT\$2.

Valuation & Action

We expect net interest and fee income will extend a strong run for TFB into 2024F. The Fed interest rate pause will help boost FL's investment yield recover. Participating policy sales will continue to quicken VNB and CSM growth. Moreover, Fubon FHC has a stronger-than-peers dividend payout ability. Our target price is NT\$70, derived from 2024F PB of 1.15x on the sum-of-the-parts valuation model. Maintain Outperform.

Risks

Weak global financial markets and life investment yield; surge in bank credit costs.

Key financials and valuations

	Dec-20A	Dec-21A	Dec-22A	Dec-23F	Dec-24F
Net revenue (NT\$m)	476,506	485,832	259,458	302,048	393,933
Provision charges (NT\$m)	(310,746)	(248,370)	(128,621)	(141,198)	(212,428)
PPOP (NT\$m)	413,874	413,959	189,567	229,555	319,990
Net profit (NT\$m)	90,272	144,559	46,926	78,144	95,598
EPS (NT\$)	8.82	12.25	3.79	6.00	7.35
BVPS (NT\$)	67.12	72.31	37.89	50.85	61.79
Cash DPS (NT\$)	3.00	3.50	1.50	2.00	2.50
EPS growth (%)	54.3	38.8	(69.1)	58.6	22.3
Net profit growth (%)	54.3	60.1	(67.5)	66.5	22.3
PE (x)	7.2	5.2	16.7	10.5	8.6
PB (x)	0.9	0.9	1.7	1.2	1.0
Dividend yield (%)	4.7	5.5	2.4	3.2	4.0
Return on average equity (%)	14.8	18.8	7.1	13.8	13.0
Return on average assets (%)	1.0	1.5	0.4	0.7	0.8

Source: Company data, KGI Research estimates

Figure 1: In 3Q23, FHC net profit grew 74% YoY, but declined 14% QoQ

NT\$m	2022			1Q23		2Q23		3Q23			Jan-Oct 23			Achieved of 2023 (%)
	Earnings	YoY (%)	EPS	Earnings	YoY (%)	Earnings	YoY (%)	Earnings	YoY (%)	QoQ (%)	Earnings	YoY (%)	YoY (%)	
Fubon FHC	46,926	(67.5)	3.5	13,983	(69.9)	28,922	26.1	24,864	73.8	(14.0)	71,830	(8.3)	5.3	91.9
Taipei Fubon Bank	22,796	21.8	1.8	6,908	5.9	6,396	23.2	7,116	1.2	11.2	22,180	8.2	1.6	84.8
Fubon Life Insurance	65,537	(35.9)	5.9	7,248	(80.1)	18,979	(29.4)	16,904	(17.0)	(10.9)	44,600	(53.2)	4.0	100.7
Fubon P&C	(39,983)	N.A.	(108.6)	(4,254)	N.A.	1,030	N.A.	813	N.A.	(21.0)	(2,240)	N.A.	(2.2)	127.2
Fubon Securities	2,744	(61.1)	2.6	1,534	100.6	1,811	233.7	2,050	70.0	13.2	5,730	70.5	3.5	87.5

Source: Company data; KGI Research

Figure 2: Breakdown of 2023 and 2024 earnings forecasts

NT\$m	2023F			2024F				
	Revision	Previous	Change (%)	YoY (%)	Revision	Previous	Change (%)	YoY (%)
Fubon FHC	78,144	84,769	(7.8)	66.5	95,598	98,527	(3.0)	22.3
Taipei Fubon Bank	26,144	24,442	7.0	14.7	26,993	24,902	8.4	3.3
Fubon Life Insurance	44,311	50,392	(12.1)	(32.4)	54,789	60,494	(9.4)	23.6
Fubon P&C	(1,760)	126	(1,494.5)	(95.6)	5,181	6,500	(20.3)	(394.3)
Fubon Securities	6,546	6,885	(4.9)	138.6	7,217	7,209	0.1	10.2

Source: KGI Research

Figure 3: In 1Q-3Q23, VNB grew 26% on participating policy sales

NT\$m	2022		1Q23		1H23		1-3Q23	
	YoY (%)		YoY (%)		YoY (%)		YoY (%)	
VNB	16,600	(6.7)	6,100	29.8	11,100	29.1	15,700	25.6
VNB/FYP (%)	15.6	1.60 ppts	25.5	12.8 ppts	23.2	9.1 ppts	21.5	7.2 ppts
VNB/FYPE (%)	59.1	(2.90)ppts	61.0	3.7 ppts	57.8	(0.7)ppts	52.3	(5.8)ppts
FYP composition	2022	YoY (%)	1Q23	YoY (%)	1H23	YoY (%)	1-3Q23	YoY (%) Weighting (%)
Interest crediting annuity	1,701	(93.7)	96	(94.1)	239	(85.5)	292	(82.4) 0.4
Investment-linked	52,619	(9.7)	8,040	(61.5)	15,870	(50.7)	21,724	(52.3) 29.8
Health, accident & other	6,059	(11.6)	1,968	36.0	4,015	36.9	6,488	45.9 8.9
Traditional - Single paid	19,347	55.4	4,488	(29.7)	9,656	(13.6)	15,163	(3.4) 20.8
Traditional - Regular paid	26,575	17.6	9,408	39.3	18,021	37.2	29,233	47.0 40.1
Traditional	45,922	31.0	13,896	5.8	27,676	13.8	44,396	24.8 60.9
Total FYP	106,300	(16.3)	24,000	(35.3)	47,800	(21.8)	72,900	(16.4) 100

Source: Company data; KGI Research

Figure 4: In 1-3Q23, Fubon Life total investment income fell by a narrowed 22.9% YoY, as forex & capital gains rose in 3Q23

NT\$bn	2016	2017	2018	2019	2020	2021	2022	YoY (%)	1-3Q23	YoY (%)
Recurring investment income	106.1	114.9	126.5	137.2	137.4	130.3	152.3	16.9	125.6	7.3
Cash dividend income from equity investment	14.9	18.8	18.9	20.5	20.4	20.0	22.6	13.0	22.0	0.9
Realized capital gains	34.2	39.6	35.3	44.6	75.3	118.9	57.4	(51.7)	29.3	(50.9)
Realized gains from fixed income investment	23.9	14.1	8.9	26.2	34.7	31.5	(2.8)	N.A.	(1.8)	N.A.
Realized gains from equity investment	10.3	25.5	26.4	18.4	40.6	87.4	60.2	(31.1)	31.1	(45.2)
FX and others	(16.0)	(28.9)	(34.8)	(36.4)	(27.0)	(14.2)	(7.2)	N.A.	(7.8)	N.A.
Investment property fair value movement	(0.3)	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Investment income	124.3	125.6	127.0	145.4	185.7	235.1	202.4	(13.9)	147.1	(22.9)
Total investment assets	3,118.4	3,386.3	3,622.3	4,042.4	4,398.9	4,729.3	4,590.2	(2.9)	4,880.4	4.2
Investment return (%)	4.30	3.93	3.62	3.83	4.49	5.27	4.48	(0.79)	4.33	(1.22)

Source: Company data; KGI Research

Figure 5: Fubon Life saw net interest spreads widen to 0.66% in 1Q-3Q23

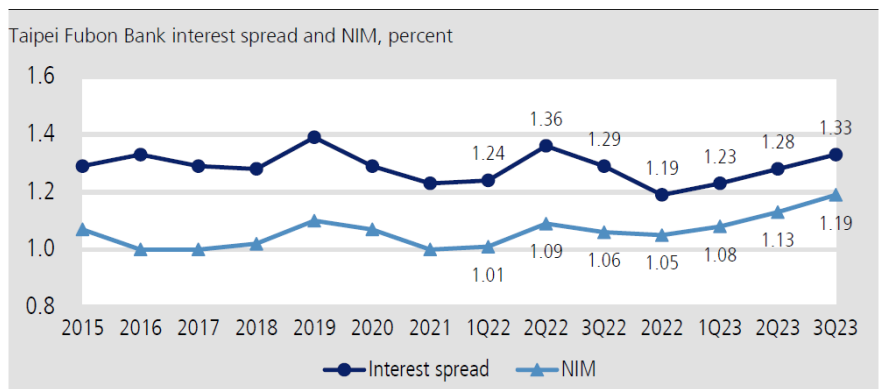
Investment yield & cost of liabilities, percent	2017	2018	2019	2020	2021	2022	YoY	1Q23	YoY	1H23	YoY	1-3Q23	YoY
Investment yield (after-hedging)	3.93	3.62	3.83	4.49	5.27	4.48	(0.79)	3.32	(3.36)	4.06	(1.88)	4.33	(1.22)
Recurring yield (pre-hedging)	3.56	3.60	3.61	3.38	3.04	3.36	0.32	3.08	0.30	3.50	0.41	3.66	0.20
Cost of liability (reserve base)	3.72	3.67	3.56	3.34	3.29	3.11	(0.18)	3.12	0.02	3.14	0.05	3.15	0.05
Cost of liability (investment portfolio base)	3.45	3.66	3.45	3.17	3.04	3.11	0.07	3.01	0.10	3.01	(0.03)	3.00	(0.05)
Investment yield less cost of liability (investment portfolio base)	0.48	(0.04)	0.38	1.32	2.23	1.37	(0.86)	0.31	(3.46)	1.05	(1.85)	1.33	(1.12)
Recurring yield (pre-hedging) less cost of liability (investment portfolio base)	0.11	(0.06)	0.16	0.21	(0.00)	0.25	0.25	0.07	0.20	0.49	0.44	0.66	0.30
Hedging cost	1.33	1.56	1.41	0.93	0.71	0.02	(0.69)	1.88	2.44	0.88	1.40	0.12	0.91
Recurring yield (after-hedging)	3.01	2.74	2.98	3.07	2.91	3.03	0.12	2.17	(0.44)	2.57	(0.33)	2.71	(0.54)
Capital gains & others	0.92	0.88	0.85	1.42	2.36	1.45	(0.91)	1.15	(2.92)	1.49	(1.55)	1.62	(0.68)
Recurring yield (after-hedging) accounted total investment	76.6	75.7	77.8	68.4	55.2	67.6	12.4	65.4	26.3	63.3	14.5	62.6	4.0
Capital gains & others accounted total investment	23.4	24.3	22.2	31.6	44.8	32.4	(12.4)	34.6	(26.3)	36.7	(14.5)	37.4	(4.0)

Source: Company data; KGI Research

Figure 6: Key financials 2017 – 3Q23

Investment portfolio (NT\$m)	FY17	FY18	FY19	FY20	FY21	FY22	YoY(%)	1Q23	YoY(%)	2Q23	YoY(%)	3Q23	YoY(%)	QoQ(%)
Cash & cash equivalents	163,500	170,500	226,600	265,400	185,800	203,500	9.5	192,700	(30.7)	158,400	(14.3)	271,700	17.2	71.5
Equities - Domestic	376,200	320,000	390,000	530,500	633,200	405,800	(35.9)	464,900	(12.1)	478,500	13.0	384,900	0.8	(19.6)
Equities - International	200,400	187,100	208,100	221,300	266,800	248,500	(6.9)	251,500	(6.2)	301,500	13.6	271,000	5.1	(10.1)
Bonds - Domestic	414,100	466,400	597,000	554,900	529,300	574,500	8.5	609,100	14.3	606,100	7.6	587,200	7.3	(3.1)
Bonds - International	1,837,500	2,056,700	2,141,900	2,281,800	2,564,800	2,624,500	2.3	2,695,200	4.0	2,744,900	4.5	2,840,300	4.2	3.5
Mortgage loans	126,500	143,900	159,700	160,700	139,800	118,900	(14.9)	113,700	(15.4)	108,800	(15.8)	103,800	(16.2)	(4.6)
Policy loans	63,200	69,100	71,500	72,600	76,400	76,200	(0.3)	74,900	(0.7)	75,600	(0.5)	76,800	0.9	1.6
Real estate	204,900	208,600	247,600	311,700	333,200	338,300	1.5	338,600	(0.5)	346,800	2.4	344,800	2.4	(0.6)
Others	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Total investments	3,386,300	3,622,300	4,042,400	4,398,900	4,729,300	4,590,200	(2.9)	4,740,500	(0.2)	4,820,700	4.6	4,880,400	4.2	1.2
Investment weighting (%)	FY17	FY18	FY19	FY20	FY21	FY22	YoY (ppts)	1Q23	YoY (ppts)	2Q23	YoY (ppts)	3Q23	YoY (ppts)	QoQ (ppts)
Cash & cash equivalents	4.8	4.7	5.6	6.0	3.9	4.4	0.5	4.1	(1.8)	3.3	(0.7)	5.6	0.6	2.3
Equities - Domestic	11.1	8.8	9.6	12.1	13.4	8.8	(4.5)	9.8	(1.3)	9.9	0.7	7.9	(0.3)	(2.0)
Equities - International	5.9	5.2	5.1	5.0	5.6	5.4	(0.2)	5.3	(0.3)	6.3	0.5	5.6	0.0	(0.7)
Bonds - Domestic	12.2	12.9	14.8	12.6	11.2	12.5	1.3	12.8	1.6	12.6	0.3	12.0	0.3	(0.5)
Bonds - International	54.3	56.8	53.0	51.9	54.2	57.2	2.9	56.9	2.3	56.9	(0.1)	58.2	(0.0)	1.3
Mortgage loans	3.7	4.0	4.0	3.7	3.0	2.6	(0.4)	2.4	(0.4)	2.3	(0.5)	2.1	(0.5)	(0.1)
Policy loans	1.9	1.9	1.8	1.7	1.6	1.7	0.0	1.6	(0.0)	1.6	(0.1)	1.6	(0.1)	0.0
Real estate	6.1	5.8	6.1	7.1	7.0	7.4	0.3	7.1	(0.0)	7.2	(0.2)	7.1	(0.1)	(0.1)
Others	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Total investments	100.0	100.0	100.0	100.0	100.0	100.0		100.0		100.0		100.0		
Investment return (%)	FY17	FY18	FY19	FY20	FY21	FY22	YoY (ppts)	1Q23	YoY (ppts)	1H23	YoY (ppts)	1-3Q23	YoY (ppts)	QoQ (ppts)
Cash & cash equivalents	0.46	0.58	0.73	0.33	0.17	0.62	0.45	1.11	0.88	1.20	0.90	1.23	0.79	0.03
Equities - Domestic	11.48	8.80	7.53	11.00	18.10	14.02	(4.08)	13.52	(13.53)	14.35	(6.74)	12.97	(5.20)	(1.38)
Equities - International	3.24	7.23	5.50	8.08	12.67	11.36	(1.31)	6.74	(7.43)	7.60	(7.06)	7.06	(5.12)	(0.54)
Bonds - Domestic	2.70	2.90	5.40	5.33	2.99	1.76	(1.23)	2.34	0.89	2.31	0.76	2.31	0.62	0.00
Bonds - International	5.00	4.64	4.89	4.88	4.72	3.80	(0.92)	3.83	(0.65)	3.78	(0.45)	3.88	(0.12)	0.10
Mortgage loans	1.66	1.65	1.64	1.38	1.32	1.71	0.39	2.01	0.60	2.07	0.52	2.08	0.44	0.01
Policy loans	5.05	4.97	4.91	4.81	4.69	4.54	(0.15)	4.46	(0.01)	4.48	(0.02)	4.52	(0.01)	0.04
Real estate	2.82	3.11	2.08	1.17	2.14	0.88	(1.26)	3.71	2.30	3.78	1.66	2.23	0.94	(1.55)
Total investments	3.93	3.62	3.83	4.49	5.27	4.48	(0.79)	3.32	(3.36)	4.06	(1.88)	4.33	(1.22)	0.27
Unrealized gains/ losses (NT\$m)	24.0	(52.7)	62.0	155.5	183.2	(197.9)		(67.5)		(47.1)		(81.6)		

Source: Company data; KGI Research

Figure 7: Interest Spread & NIM


Source: Company data; KGI Research

Figure 8: Fee Income, Taipei Fubon Bank

NT\$m	2Q22	YoY (%)	1H23	YoY (%)	3Q23	YoY (%)	1-3Q23	YoY (%)	weighting(%)
Wealth management	2,045	2.6	6,328	24.6	3,327	4.1	9,655	29.9	85.2
Credit card	(28)	(163.6)	461	514.7	387	275.7	848	2,322.9	7.5
Syndication loans	172	(12.7)	369	(10.4)	201	(27.4)	570	10.3	5.0
Others	112	(5.9)	138	(20.2)	125	N.A.	263	2.7	2.3
Net fee income	2,301	(2.3)	7,296	27.1	4,040	13.3	11,336	37.6	100.0

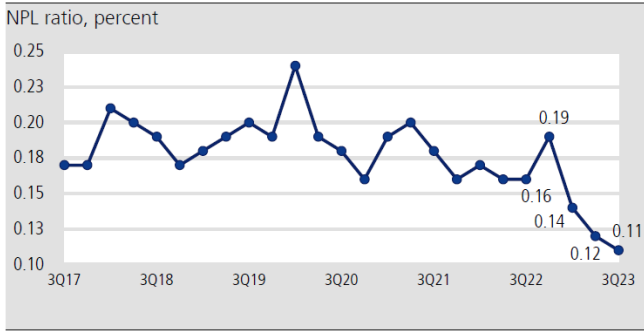
Source: KGI Research

Figure 9: Sum-of-the-parts valuation for Fubon FHC

SOTP	Total (NT\$m)	Per share (NT\$)
Fubon Life (0.6X 2024 EV)	573,614	44.1
Taipei Fubon Bank (1.15X 2024 BV)	364,523	28.0
Fubon P&C (0.8X 2024 BV)	18,845	1.4
Fubon Securities (0.9X 2024 BV)	42,233	3.2
Fubon Bank(HK) (0.9X 2024 BV)	56,313	4.3
Fubon FHC net debt (1X 2024 net debt)	(140,928)	(10.8)
Total	914,601	70.3
Outstanding Shares(mn shares)	13,015	
Target Price (around 2024 1.15X PB)		70.3

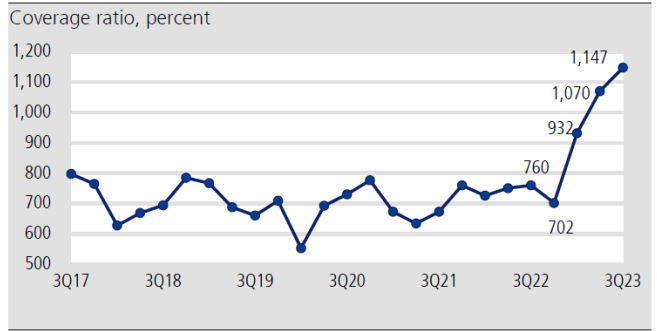
Source: KGI Research

Figure 10: 3Q23 NPL ratio



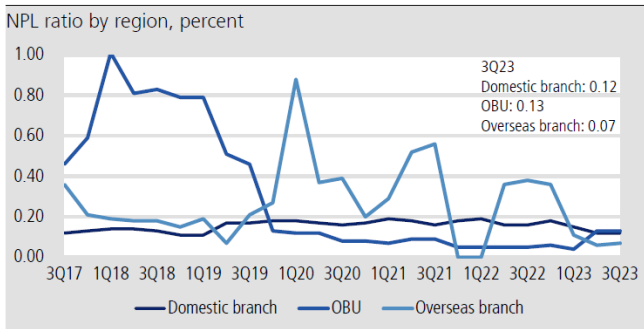
Source: TEJ; Company data; KGI Research

Figure 11: 3Q23 coverage ratio



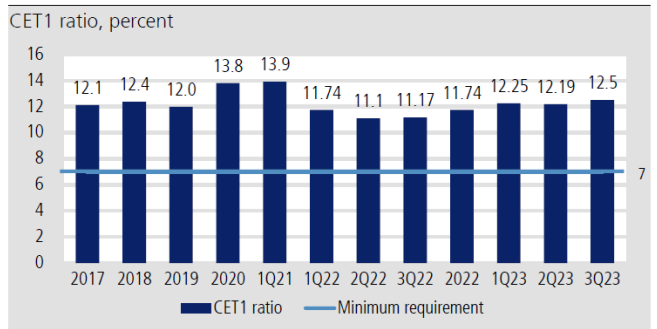
Source: TEJ; Company data; KGI Research

Figure 12: Bank NPL ratio by region



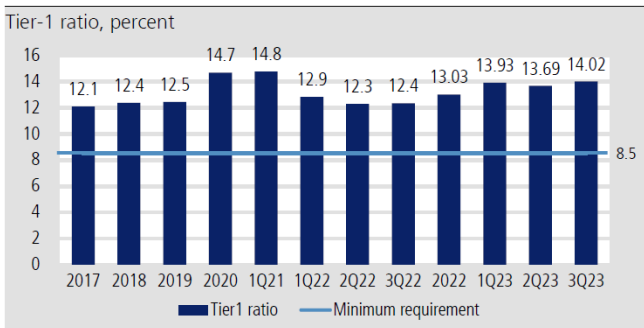
Source: TEJ; Company data; KGI Research

Figure 13: Bank CET1 ratio



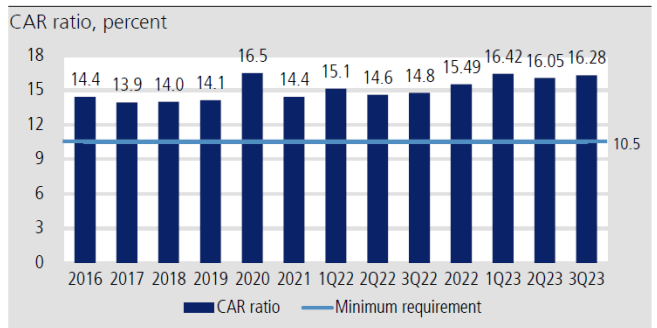
Source: TEJ; Company data; KGI Research

Figure 14: Bank Tier-1 ratio



Source: TEJ; Company data; KGI Research

Figure 15: Bank CAR ratio

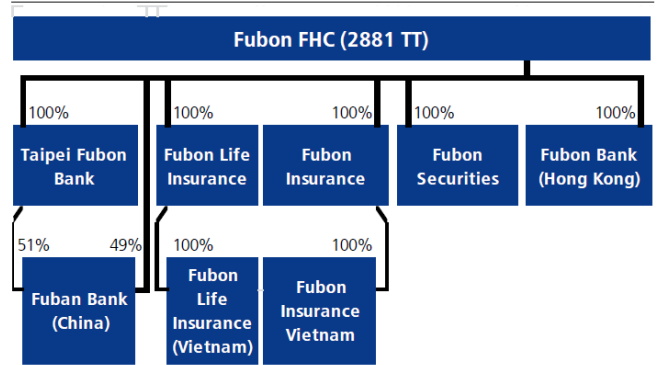


Source: TEJ; Company data; KGI Research

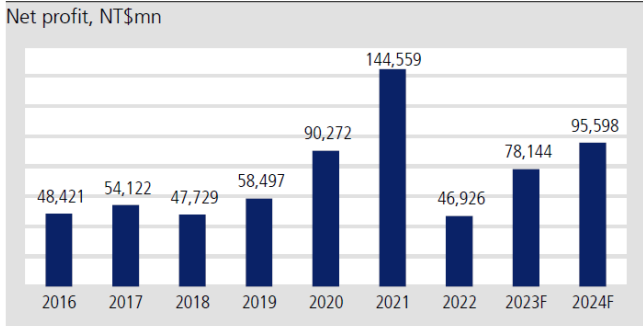
Figure 16: Company profile

Established in 2001, Fubon FHC is involved in insurance, banking, securities brokerage, investment trusts, and other businesses. As of September 2022, assets were NT\$10.7tn, second among the 16 FHCs in Taiwan. Fubon FHC has grown both via M&As and internally, making it one of the fastest growing FHCs. In 2002, it bought Taipei Bank. In 2003, it acquired Int'l Bank of Asia and rebranded it Fubon Bank (HK). In 2008, it acquired 20% of Xiamen Bank (CN). In January 2014, it purchased 80% of First Sino Bank of China, making it the only Taiwan financial institution to have banking subsidiaries in Taiwan, HK, and China. Fubon FHC acquired ING Life Taiwan in 2009. The newly formed Fubon Life is now the second largest life insurer in Taiwan by premium revenue. Fubon Insurance is the top-ranked P&C insurer in Taiwan (24% market share).

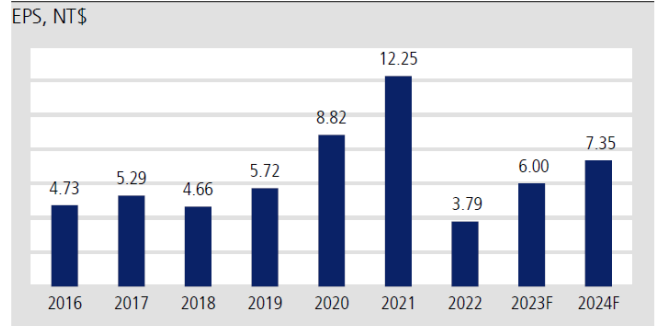
Source: KGI Research

Figure 17: Organization chart


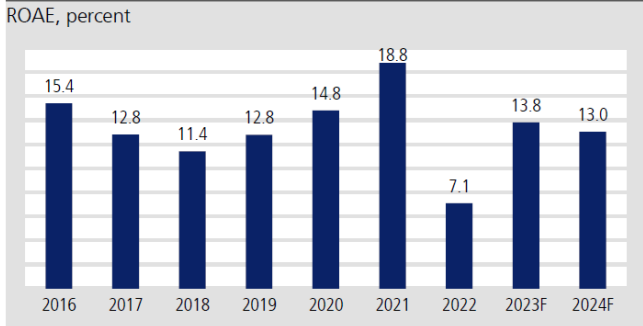
Source: KGI Research

Figure 18: Net profit


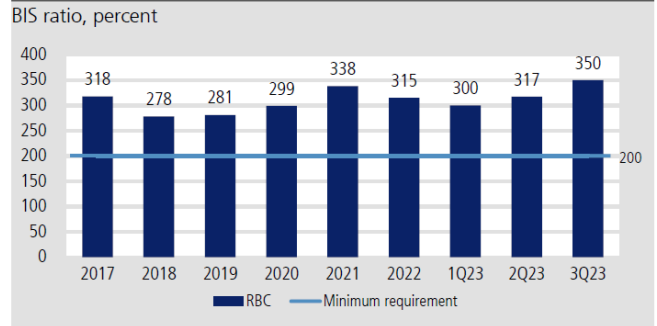
Source: KGI Research

Figure 19: EPS


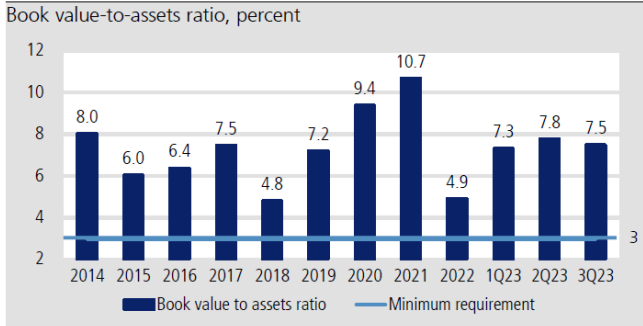
Source: KGI Research

Figure 20: ROAE


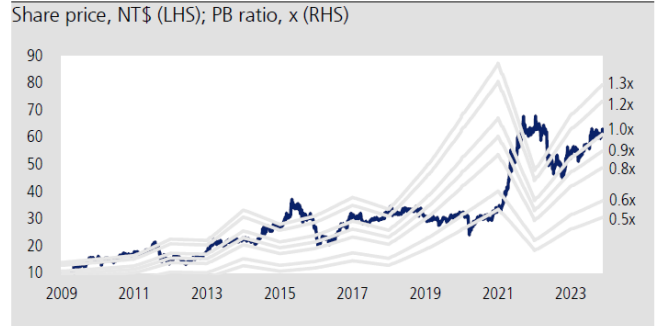
Source: KGI Research

Figure 21: FL's RBC ratio rose to 350% in 3Q23


Source: Company data; KGI Research

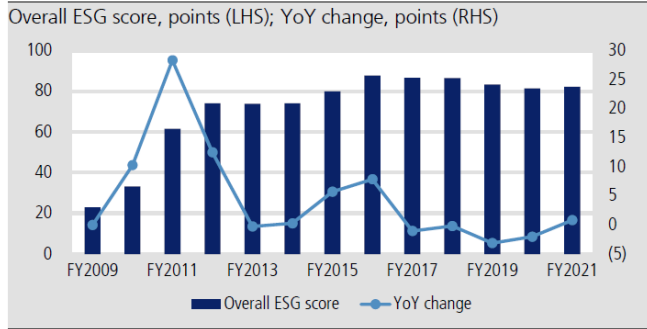
Figure 22: FL's 3Q23 book value-to-assets ratio fell to 7.5%


Source: Company data; KGI Research

Figure 23: Fubon FHC's 12M forward PB


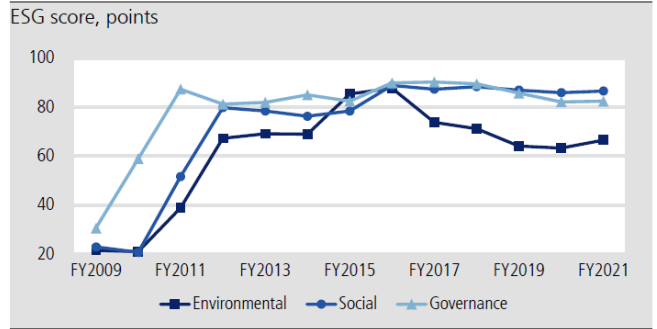
Source: TEJ; KGI Research

Figure 24: Overall ESG score



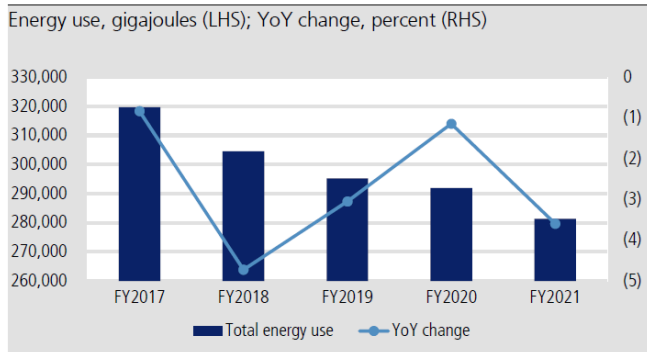
Source: Refinitiv; KGI Research; Company data

Figure 25: ESG score by category



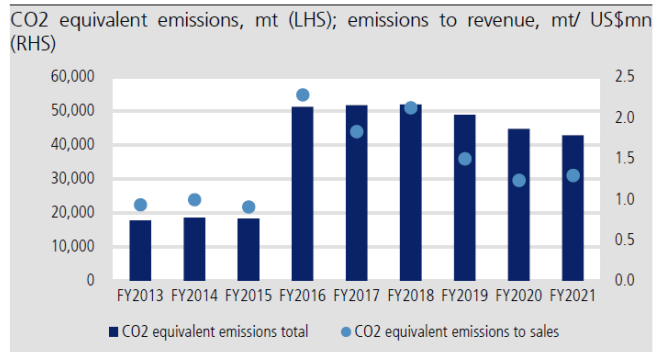
Source: Refinitiv; KGI Research; Company data

Figure 26: Energy use



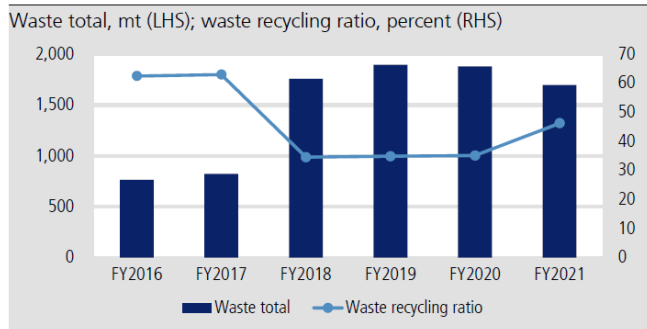
Source: Refinitiv; KGI Research; Company data

Figure 27: CO2 equivalent emissions



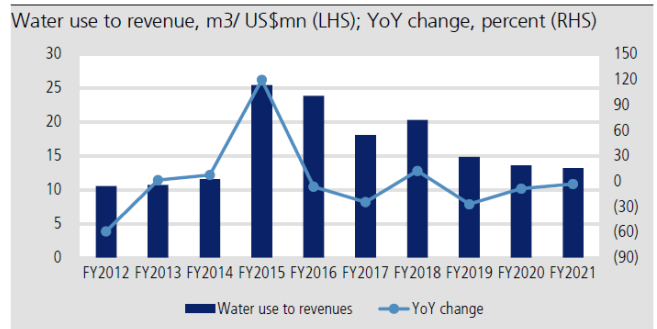
Source: Refinitiv; KGI Research; Company data

Figure 28: Waste total



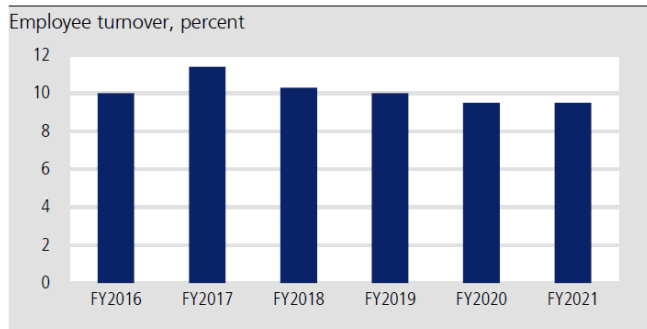
Source: Refinitiv; KGI Research; Company data

Figure 29: Water use to revenue



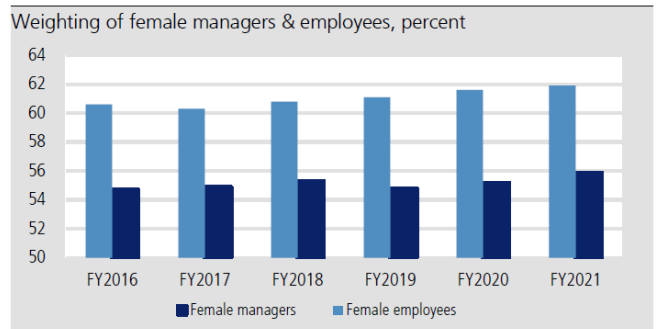
Source: Refinitiv; KGI Research; Company data

Figure 30: Employee turnover



Source: Refinitiv; KGI Research; Company data

Figure 31: Gender diversification



Source: Refinitiv; KGI Research; Company data

ESG chart definition

Item	Definition	Remarks
Energy use	<p>Total direct and indirect energy consumption in gigajoules.</p> <ul style="list-style-type: none"> - the total amount of energy that has been consumed within the boundaries of the company's operations - total energy use = total direct energy consumption + indirect energy consumption - purchased energy and produced energy are included in total energy use - for utilities, transmission/ grid loss as part of its business activities is considered as total energy consumed and data does not consider electricity produced to answer energy use (utility company produces to sell) - for utilities, raw materials such as coal, gas or nuclear used in the production of energy are not considered under 'total energy use' 	In 2020, average power use per worker was 2,133 kWh, up 67 kWh YoY but down from 2017 and 2018.
Renewable energy purchased	<p>Total primary renewable energy purchased in gigajoules.</p> <ul style="list-style-type: none"> - energy consumed by the company from various sources and among the purchased energy, how much energy is renewable in nature (solar, wind, hydro, biomass, geothermal) are in scope - if there is no evidence that renewable energy is produced by the company, then we consider the reported energy figure as renewable energy purchased 	Green purchase amount on the rise YoY via buying energy-savings certified products. The amount was NT\$373mn in 2020, up 3.3% YoY.
Renewable energy use ratio	Renewable energy to total energy used	
CO2 equivalent emissions	<p>Direct CO2 and CO2 equivalent emissions in metric tons.</p> <ul style="list-style-type: none"> - direct emissions from sources that are owned or controlled by the company (scope 1 emissions) - following gases are relevant: carbon dioxide (CO2), methane (CH4), nitrous oxide (N2O), hydrofluorocarbons (HFCs), perfluorinated compound (PFCS), sulfur hexafluoride (SF6), nitrogen trifluoride (NF3) 	In 2020, greenhouse gas emission was 44,825mt, down 8.4% YoY, achieving 444% of target.
CO2 equivalent emissions to sales	<p>Direct CO2 and CO2 equivalent emissions (metric tons) to sales (NT\$m)</p> <ul style="list-style-type: none"> - direct emissions from sources that are owned or controlled by the company (scope 1 emissions) - following gases are relevant: carbon dioxide (CO2), methane (CH4), nitrous oxide (N2O), hydrofluorocarbons (HFCs), perfluorinated compound (PFCS), sulfur hexafluoride (SF6), nitrogen trifluoride (NF3) 	
Waste total	<p>Total amount of waste produced in metric tons.</p> <ul style="list-style-type: none"> - total waste = non-hazardous waste + hazardous waste - only solid waste is taken into consideration, exceptionally if liquid waste is reported in metric tons, then we do the summation to derive total including liquid waste - for sectors like mining, oil & gas, waste generation like tailings, waste rock, coal and fly ash are also considered 	In 2020, overall waste weighed 842,099 kilograms, down 1.63% YoY.
Waste recycling ratio	<p>The waste recycling ratio as reported by the company.</p> <ul style="list-style-type: none"> - waste recycling ratio = waste recycled/total waste*100 - waste to energy or waste incinerated with energy recovery are considered as waste recycled - waste recovered via composting is considered as recycled waste 	
Water withdrawal total	<p>Total water withdrawal in cubic meters.</p> <ul style="list-style-type: none"> - the total volume of water withdrawn from any water source that was either withdrawn directly by the reporting organization or through intermediaries such as water utilities - different sources of water like wells, town/utility/municipal water, river water, and surface water are considered 	In 2020, an off-site work program was implemented to curb infections. Water use increased to 495,192 cubic meters to maintain staff hygiene, up 1.84% YoY. The average water use per worker was 13.02 cubic meters, up 6.29% YoY.
Environmental expenditures	<p>Total amount of environmental expenditures.</p> <ul style="list-style-type: none"> - all environmental investment & expenditures for environmental protection or to prevent, reduce, control environmental aspects, impacts, and hazards. It also includes disposal, treatment, sanitation, and clean-up expenditures 	
Turnover of employees	<p>Percentage of employee turnover.</p> <ul style="list-style-type: none"> - includes employees who left the company for any reason (voluntary or involuntary), such as resignations, retirement, natural departure/death, medical incapacitation, redundancy, layoffs, restructuring, dismissal, retrenchment or end of a fixed-term contract - employees turnover rate = (employees leaving/average number of employees)*100 - where the average number of employees = (employees at the end of the current year + employees at the end of the previous year)/2 - employees at the end of the current fiscal year = employees at the end of the previous fiscal year + new employees - employees leaving 	The total turnover rate is in decline YoY, at 9.5% in 2020 with the voluntary departure rate of 8.3%.
Women managers	<p>Percentage of women managers.</p> <ul style="list-style-type: none"> - percentage of women managers among total managers of the company - if there is a breakdown by category in percentage, such as top, senior, middle, and junior management, then we consider the percentage of middle women managers - percentage of women managers = number of women managers/total number of managers*100 	In 2020, women managers (all levels combined) were 55.2% of the total, versus 54.8% in 2019.
Women employees	<p>Percentage of women employees.</p> <ul style="list-style-type: none"> - percentage of women employees to the total number of employees of the company - percentage of women employees = number of women/total number of employees*100 	In 2020, 61.6% was women employees, up from 61.1% in 2019.
Training hours total	<p>Total training hours performed by all employees.</p> <ul style="list-style-type: none"> - consider only employee training hours - includes all types of training given to general employees (such as health & safety, environmental, emergency response, skills & career development training) - if the value is given in days, multiply by 8, assuming that 1 day = 8 hours worked 	
Training hours per employee	Training hours per employee per year	In 2020, the average training per worker was 35.9 hours, or 4.5 days.

Source: Refinitiv, KGI Research

Balance sheet

NT\$m	Dec-20A	Dec-21A	Dec-22A	Dec-23F	Dec-24F
Gross loans to customers	2,137,036	2,491,994	2,607,846	2,719,175	2,846,359
Net loans & advances	2,108,076	2,471,955	2,573,222	2,691,562	2,818,434
Due from banks & call loans	298,288	405,764	415,991	376,242	391,519
FVOCIandAC	5,160,927	5,682,036	5,755,769	6,033,380	6,278,360
Other interest earning assets	0	(0)	-	(0)	(0)
Cash and equivalents	274,648	404,474	316,597	365,139	379,965
Long-term equity investments	33,977	35,303	57,813	57,178	57,178
Net fixed assets	58,090	63,191	65,272	66,010	66,010
Total intangible assets	33,170	41,309	34,192	36,485	37,966
Other non-interest earning assets	-	-	-	-	-
Total non-interest earning assets	1,677,162	1,971,729	1,842,775	2,109,853	2,170,410
Total assets	9,244,453	10,531,483	10,587,757	11,211,037	11,658,722
Due to banks and call loans from banks	474,379	528,269	458,081	535,692	562,477
Deposits from mutual loans accounts	2,702,569	3,352,099	3,656,770	3,856,693	4,093,353
Other interest bearing liabilities	190,848	240,657	246,973	241,637	253,719
Total interest-bearing liabilities	3,367,796	4,121,025	4,361,824	4,634,022	4,909,549
Reserve for operation	4,283,877	4,489,306	4,710,170	4,814,119	4,985,319
Other non-interest bearing liabilities	815,997	939,623	942,154	996,707	855,291
Total non-interest bearing liabilities	5,099,874	5,428,929	5,652,324	5,810,826	5,840,610
Total liabilities	8,467,670	9,549,954	10,014,148	10,444,848	10,750,160
Common stocks	102,336	118,050	123,952	130,150	130,150
Proceeds - new issued	-	-	-	-	-
Share capital	102,336	118,050	123,952	130,150	130,150
Retained earnings reserve	369,824	478,852	481,144	530,401	625,999
Capital and other reserves	214,709	256,668	(135,406)	1,237	48,013
Shareholders' funds	686,869	853,570	469,691	661,788	804,162
Minority interests	13,914	31,960	7,919	8,401	8,401
Preferred shareholders funds	76,000	96,000	96,000	96,000	96,000
Total equity	776,783	981,530	573,609	766,189	908,563
Total liabilities & equity	9,244,453	10,531,483	10,587,756	11,211,037	11,658,722

Key ratios

	Dec-20A	Dec-21A	Dec-22A	Dec-23F	Dec-24F
Growth					
Net interest income growth	0.4%	4.5%	15.2%	2.3%	2.3%
Operating profit growth	7.5%	0.0%	(54.2%)	21.1%	39.4%
Net profit growth	54.3%	60.1%	(67.5%)	66.5%	22.3%
EPS growth	54.3%	38.8%	(69.1%)	58.6%	22.3%
Profitability					
Return on average assets	1.0%	1.5%	0.4%	0.7%	0.8%
Return on average equity	14.8%	18.8%	7.1%	13.8%	13.0%
Per share data					
EPS (NT\$)	8.82	12.25	3.79	6.00	7.35
BVPS (NT\$)	67.12	72.31	37.89	50.85	61.79
Cash DPS (NT\$)	3.00	3.50	1.50	2.00	2.50

Source: Company data, KGI Research estimates

Profit & loss

NT\$m	Dec-20A	Dec-21A	Dec-22A	Dec-23F	Dec-24F
Interest income	170,367	168,725	214,650	262,770	274,848
Interest expense	(33,072)	(25,253)	(49,438)	(93,717)	(101,935)
Net interest revenue	137,294	143,472	165,212	169,053	172,913
Commissions & fees [net]	(5,573)	7,628	407	(392)	(400)
Net insurance income	238,047	160,920	(49,521)	(85,043)	(88,299)
Trading income	103,558	169,485	139,251	89,377	79,653
Other non-interest income	3,180	4,328	4,110	129,054	230,066
Non interest income	339,212	342,361	94,246	132,995	221,020
Net revenue	476,506	485,832	259,458	302,048	393,933
Operating expenses	(62,632)	(71,873)	(69,891)	(72,494)	(73,944)
Operating profit	413,874	413,959	189,567	229,555	319,990
Charge for bad debts	(4,372)	(4,588)	(5,768)	(5,964)	(4,880)
Provision bad debts on credit card	-	-	-	-	-
Provision of insurance duty	(306,374)	(243,782)	(122,853)	(135,234)	(207,548)
Provision charges	(310,746)	(248,370)	(128,621)	(141,198)	(212,428)
Pre-tax profit	103,128	165,589	60,946	88,356	107,561
Current taxation	(12,156)	(18,354)	(13,081)	(9,024)	(10,762)
Ordinary income	90,972	147,235	47,864	79,332	96,800
Consolidated net income	90,972	147,235	47,864	79,332	96,800
Minorities	(699)	(2,676)	(939)	(1,188)	(1,202)
Net profit	90,272	144,559	46,926	78,144	95,598
Dividends	(30,701)	(41,317)	(18,593)	(26,030)	(32,537)
Retained earnings reserve	59,572	103,242	28,333	52,114	63,060
Normalised net profit	90,272	144,559	46,926	78,144	95,598

Source: Company data, KGI Research estimates

Fubon FHC – Recommendation & target price history


Date	Rating	Target	Price
2023-08-24	Outperform	70.00	63.30
2023-06-12	Outperform	71.50	61.20
2023-05-18	Neutral	64.00	61.10
2023-03-16	Neutral	54.00	55.10
2022-11-25	Neutral	52.50	57.90
2022-11-01	Neutral	49.00	52.00
2022-08-19	Neutral	63.00	60.00
2022-05-20	Neutral	68.00	61.80
2022-03-11	Outperform	84.00	72.70
2021-11-25	Outperform	83.00	74.30

Source: TEJ, KGI Research

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