

Mega FHC (2886.TW/2886 TT)

Bank's 2024F earnings growth faces challenges; valuation topish

FTSE4Good TIP Taiwan ESG Index stock

Neutral · Maintained

Price as of November 29 (NT\$)	39.15
12M target price (NT\$)	37.00
Previous target price (NT\$)	35.00
Revised up (%)	5.7
Downside (%)	5.5

Key message

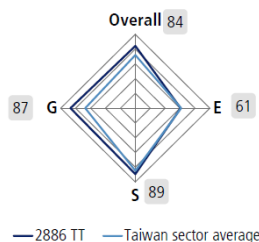
- 3Q23 CKI turned profitable. However, bank earnings were down 12% QoQ, mainly on slowing investment income.
- 3Q23 NIM slipped, reflecting rising funding costs and US dollar funds switching to FX swaps
- We expect Mega FHC to pay a cash dividend of NT\$1.6 per share, yielding 4%.

Trading data

Mkt cap (NT\$/US\$mn)	550 / 17,454
Outstanding shares (mn)	14,051
Foreign ownership (mn)	3,043
3M avg. daily trading (mn)	11.81
52-week trading range (NT\$)	30.25 -40.60

Performance	3M	6M	12M
Absolute (%)	7	8.1	24.3
Relative (%)	2.5	3.7	6.2

ESG score card



Source: Refinitiv, KGI securities

Event

Mega FHC posted 1Q-3Q23 EPS of 1.92, up 96% YoY, but 1Q-3Q23 ROE decelerated to 11.65%.

Impact

3Q23 Chung Kuo Insurance (CKI) turned profitable. 3Q23 Mega FHC earnings arrived at NT\$8.26bn, up 45% YoY and 3.4% QoQ, mainly as CKI turned a profit of NT\$195mn in 3Q23, versus a loss of NT\$2.55bn in 3Q22, on provisions for COVID-19 insurance policies. FHC earnings excluding CKI were down 2% YoY and 11% QoQ, while bank earnings fell 2% YoY and 12% QoQ. Pre-provision operating profit was down 21% QoQ, as net interest and investment income decreased, despite the Securitas unit earnings being up 53% YoY, on better investment gains and securities brokerage fees.

Investment income and NIM both narrowed. Mega Bank's NIM dropped 2% QoQ, mainly as NIM declined by 8bp QoQ to 0.94% in 3Q23, with US dollar NIM dropping to negative 15bps on higher FCY funding costs and US dollar funds switching to FX swaps. NT dollar NIM sank 1bp QoQ on a lower CASA ratio and LDR. Corporate lending demand recovery drove total loans up by 3% QoQ, versus a 5% QoQ decline for FCY loans. Investment income declined 28% QoQ, to NT\$4.63bn, with FX swap gains dropping by NT\$1.7bn QoQ, and stock holdings suffering valuation losses of NT\$1.7bn. 3Q23 fee income rose 24% YoY, reflecting solid sales from wealth management products. The NPL ratio was down 0.03ppts to 0.22%, and 3Q23 credit costs declined to 17bps, on the recovery of bad debts from Dongfeng Yulon Motor (CN).

2023F cash dividend yields of 4%. Mega FHC announced the issuance of 350mn common shares, diluting 2023F EPS by 2.5%. Management will not disclose its 2024F outlook due to imposition of a quiet period before the share issue is completed in 1Q24F. We expect FX swap income will decline QoQ in 2024F, but NIM may rebound to 0.95%-1% in 2024F on a better LDR. CKI negotiated reimbursement of NT\$11.2bn for COVID-19 insurance claims with global reinsurers in 3Q23, and has tentatively recognized reserves of NT\$2.44bn, equivalent to 22% of the reimbursement. Management stated that no more further provisions will be recognized this year, but the situation will be re-evaluated in 2024F. On 2023F earnings growth of 80%, we expect Mega FHC to pay a cash dividend of at least NT\$1.6 per share, yielding 4%.

Valuation & Action

Shares are at 2023F PB of 1.55x, higher than FHC peers' average of 1.2x. Given Mega Bank's 2024F earnings growth faces challenges from lower FX swap income and potentially higher credit costs, and there are still remaining uncertainties surrounding reimbursement of COVID-19 insurance claims from reinsurers by CKI, we maintain a Neutral rating for the counter with a target price of NT\$37, on 1.45x 2024F BVPS.

Risks

Disappointing NIM and investment income; faster deterioration of asset quality.

Key financials and valuations

	Dec-20A	Dec-21A	Dec-22A	Dec-23F	Dec-24F
Net revenue (NT\$mn)	60,810	60,231	56,050	73,745	76,871
Provision charges (NT\$mn)	(2,379)	(1,969)	(5,234)	(3,638)	(5,597)
PPOP (NT\$mn)	31,709	30,625	26,379	40,966	42,489
Net profit (NT\$mn)	25,018	25,731	18,335	33,459	32,859
EPS (NT\$)	1.84	1.89	1.32	2.38	2.34
BVPS (NT\$)	24.01	24.15	21.51	23.20	25.54
Cash DPS (NT\$)	1.58	1.40	1.24	1.60	1.60
EPS growth (%)	(13.6)	2.9	(30.5)	81.0	(1.8)
Net profit growth (%)	(13.6)	2.9	(28.7)	82.5	(1.8)
PE (x)	21.3	20.7	29.8	16.4	16.7
PB (x)	1.6	1.6	1.8	1.7	1.5
Dividend yield (%)	4.0	3.6	3.2	4.1	4.1
Return on average equity (%)	7.7	7.9	5.8	10.7	9.6
Return on average assets (%)	0.7	0.6	0.4	0.8	0.8

Source: Company data, KGI Research estimates

Figure 1: 3Q23 net profit up 45% YoY and 3% QoQ

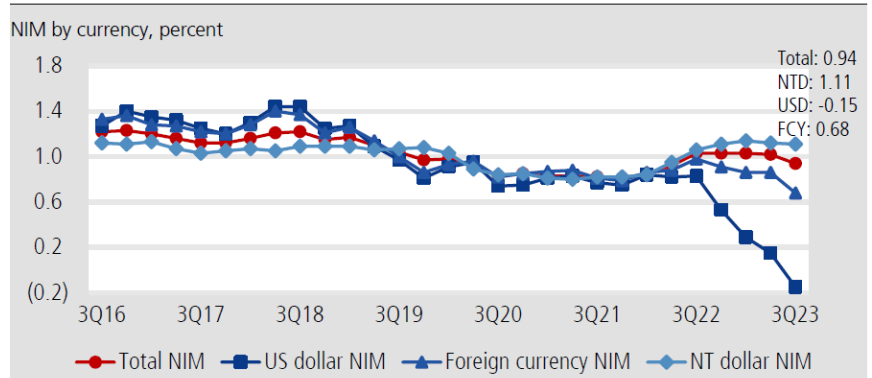
NT\$m	2022			1Q23		2Q23		3Q23			Jan- Oct 23			Achieved of 2023 (%)
	Earnings	YoY (%)	EPS (NT\$)	Earnings	QoQ (%)	Earnings	QoQ (%)	Earnings	YoY (%)	QoQ (%)	Earnings	YoY (%)	EPS (NT\$)	
Mega FHC	18,335	(28.7)	1.3	10,776	130.5	7,991	(25.8)	8,261	44.8	3.38	28,826	81.2	2.05	86.2
Mega Bank	24,181	31.0	2.8	10,508	35.8	7,997	(23.9)	7,037	(2.4)	(12.00)	27,470	48.7	3.22	87.3
Mega Securities	603	(78.5)	0.5	466	690.6	622	33.5	540	53.4	(13.18)	1,427	235.8	1.23	83.5
Mega Bill	3,040	(7.3)	2.3	476	(26.8)	505	6.2	537	(15.0)	6.18	1,633	(37.0)	1.25	81.5
Mega P&C	(9,524)	N.A.	(28.9)	(651)	N.A.	(1,089)	N.A.	195	N.A.	N.A.	(1,521)	N.A.	(3.04)	N.A.

Source: Company data; KGI Research

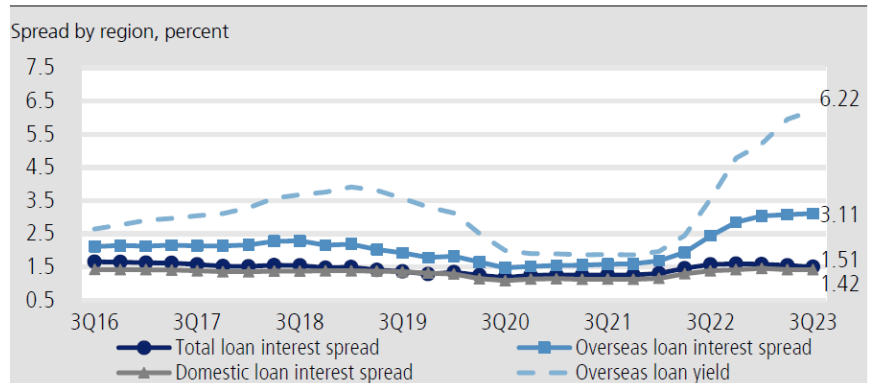
Figure 2: Breakdown of 2023 & 2024 earnings forecasts – FHC & subsidiaries

NT\$m	2023F				2024F			
	Revision	Previous	Chg. (%)	YoY (%)	Revision	Previous	Chg. (%)	YoY (%)
Mega FHC	33,458	32,955	1.5	82.5	32,859	32,030	2.6	(1.8)
Mega Bank	31,459	30,773	2.2	30.1	29,204	28,052	4.1	(7.2)
Mega Securities	1,708	1,888	(9.5)	183.1	1,759	1,920	(8.4)	3.0
Mega Bill	2,004	2,006	(0.1)	(34.1)	2,038	2,064	(1.3)	1.7
Mega P&C	(1,465)	(1,440)	N.M.	N.M.	389	400	(2.8)	N.M.

Source: KGI Research

Figure 3: Bank's NIM fell 8bps QoQ to 0.94% in 3Q23


Source: Company data; KGI Research

Figure 4: Bank's 3Q23 overall deposit/ loan interest spread


Source: Company data; KGI Research

Figure 5: Mega Bank's 3Q23 total loans were up 3% QoQ

NT\$bn	2016	2017	2018	2019	2020	2021	2022	1Q23	2Q23	3Q23	weighting(%)
Corporate Loans	1,278	1,310	1,406	1,393	1,345	1,413	1,481	1,435	1,441	1,509	70.6
Large corporate loans	676	679	749	716	633	640	687	644	649	702	32.9
SME corporate loans	602	631	657	677	712	773	794	791	792	807	37.8
Government	55	56	43	62	59	62	60	77	91	90	4.2
Mortgage	301	308	328	345	405	472	444	436	432	434	20.3
Other personal loans	94	101	102	83	92	99	103	101	102	103	4.8
Total loans (quarterly end balance)	1,728	1,775	1,879	1,883	1,901	2,046	2,088	2,049	2,066	2,136	100.0
YoY (%)	2016	2017	2018	2019	2020	2021	2022	1Q23	2Q23	3Q23	QoQ (%)
Corporate Loans	(3.9)	2.5	7.3	(0.9)	(3.4)	5.1	4.8	(0.8)	(3.4)	(1.6)	4.7
Large corporate loans	(8.0)	0.4	10.3	(4.4)	(11.6)	1.1	7.3	(3.9)	(5.1)	(2.2)	8.2
SME corporate loans	1.2	4.8	4.1	3.0	5.2	8.6	2.7	1.9	(2.0)	(1.1)	1.9
Government	(8.3)	1.8	(23.2)	44.2	(4.8)	5.1	(3.2)	22.2	35.8	38.5	(1.1)
Mortgage	1.7	2.3	6.5	5.2	17.4	16.5	(5.9)	(5.6)	(4.6)	(3.1)	0.5
Other personal loans	(1.1)	7.4	1.0	(18.6)	10.8	7.6	4.0	(1.9)	(2.9)	1.0	1.0
Total loans (quarterly end balance)	(3.0)	2.7	5.9	0.2	1.0	7.6	2.1	(1.2)	(2.4)	(0.6)	3.4

Source: Company data; KGI Research

Figure 6: 3Q23 NT-dollar loan growth rebounded to 2.3% QoQ, and US-dollar loan also rose 1% QoQ

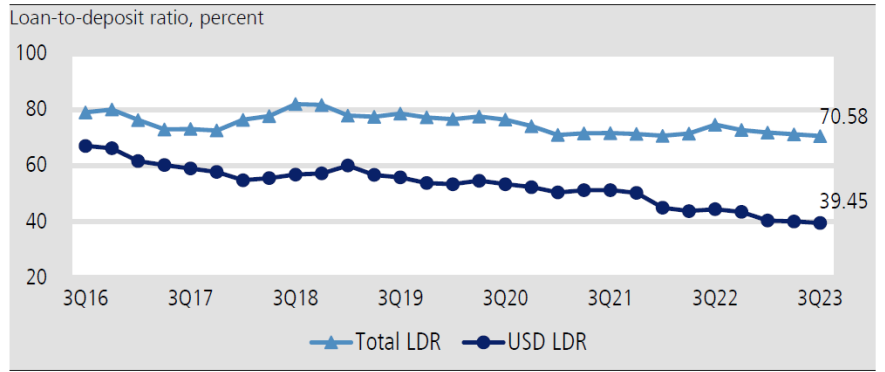
NT\$bn	2016	2017	2018	2019	2020	2021	2022	1Q23	2Q23	3Q23	weighting(%)
NT dollar loans	1,089	1,124	1,169	1,174	1,268	1,420	1,467	1,459	1,462	1,495	71.4
US dollar loans	515	468	526	481	425	430	439	405	400	404	19.3
Other foreign currency loans	122	137	175	180	196	184	186	183	183	194	9.3
Total loans (quarterly average balance)	1,726	1,729	1,870	1,835	1,889	2,034	2,092	2,047	2,045	2,093	100.0
YoY (%)	2016	2017	2018	2019	2020	2021	2022	1Q23	2Q23	3Q23	QoQ (%)
NT dollar loans	0.6	3.2	4.0	0.4	8.0	12.0	3.3	1.5	1.9	1.6	2.3
US dollar loans	(7.2)	(9.1)	12.4	(8.6)	(11.6)	1.2	2.1	(5.4)	(13.0)	(14.0)	1.0
Other foreign currency loans	(19.7)	12.3	27.7	2.9	8.9	(6.1)	1.1	0.0	(1.1)	3.7	6.0
Total loans (quarterly average balance)	(3.5)	0.2	8.2	(1.9)	2.9	7.7	2.9	(0.0)	(1.7)	(1.7)	2.3

Source: Company data; KGI Research

Figure 7: 3Q23 deposits & demand deposit ratio

NT\$bn	2016	2017	2018	2019	2020	2021	2022	1Q23	2Q23	3Q23	weighting(%)
NTD demand deposit	638	662	666	713	819	911	941	908	922	936	32.0
Foreign currency demand deposit	501	521	436	428	510	614	513	457	442	420	14.4
NTD time deposit	548	628	558	565	694	846	651	710	759	790	27.0
Foreign currency time deposit	468	560	637	732	571	575	720	741	798	778	26.6
Total deposit	2,155	2,371	2,297	2,468	2,593	2,947	2,824	2,816	2,922	2,925	100.0
YoY (%)	2016	2017	2018	2019	2020	2021	2022	1Q23	2Q23	3Q23	QoQ (%)
NTD demand deposit	5.5	3.8	0.6	7.1	14.9	11.2	3.3	(1.1)	1.3	(0.3)	1.5
Foreign currency demand deposit	(1.2)	4.0	(16.3)	(1.8)	19.2	20.4	(16.4)	(27.6)	(24.8)	(26.2)	(5.0)
NTD time deposit	(8)	15	(11)	1	23	21.9	(23.0)	(16.8)	4.0	21.4	4.1
Foreign currency time deposit	(7.5)	19.7	13.8	14.9	(22.0)	0.7	25.2	17.8	25.3	7.3	(2.5)
Total deposit	(2.8)	10.0	(3.1)	7.4	5.1	13.7	(4.2)	(7.1)	2.0	1.4	0.1

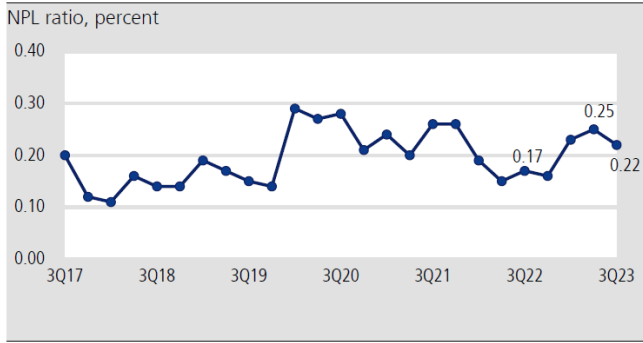
Source: Company data; KGI Research

Figure 8: 3Q23 overall loan-to-deposit ratio dropped to 70.58%

Figure 9: 3Q23 fee income rose to 24% YoY on strong sales of wealth management products

NT\$m	2022	YoY (%)	1Q23	YoY (%)	2Q23	YoY (%)	3Q23	YoY (%)	QoQ (%)	1-3Q23	YoY (%)	weighting (%)
Wealth Management	2,616	(7.9)	800	4.3	793	20.3	909	43.4	14.6	2,502	21.5	44.4
FX	1,043	3.9	253	0.4	264	2.7	270	0.4	2.3	787	1.2	14.0
Corporate loan	2,712	17.6	566	(6.1)	689	(8.6)	713	16.7	3.5	1,968	0.0	34.9
Custodian	244	8.4	58	(3.3)	62	5.1	62	3.3	0.0	182	1.7	3.2
Credit card	144	(39.2)	47	6.8	21	16.7	60	106.9	185.7	128	40.7	2.3
Other	84	(39.1)	22	(62.7)	27	(30.8)	19	(69.8)	(29.6)	68	(57.8)	1.2
Net fee income	6,843	1.4	1,746	(2.1)	1,857	2.1	2,032	24.3	9.4	5,635	7.6	100

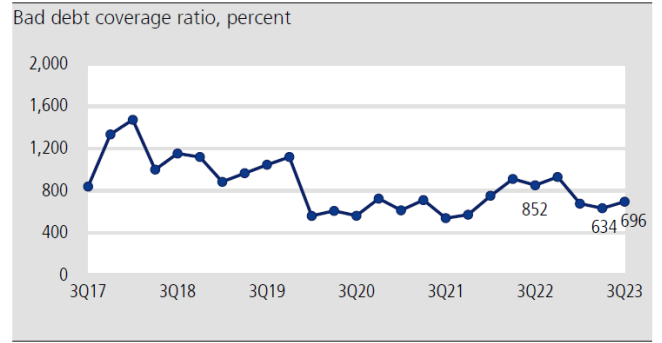
Source: KGI Research

Figure 10: 3Q23 NPL ratio



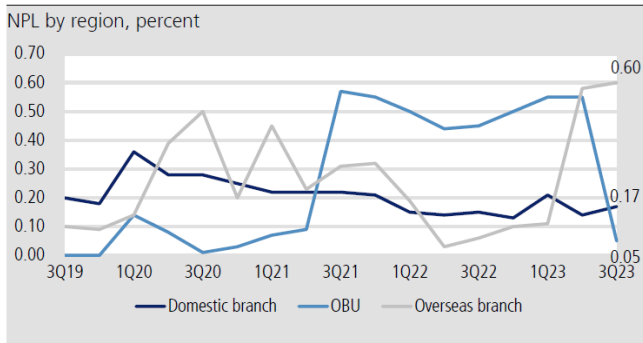
Source: TEJ; KGI Research

Figure 11: 3Q23 bad debt coverage ratio



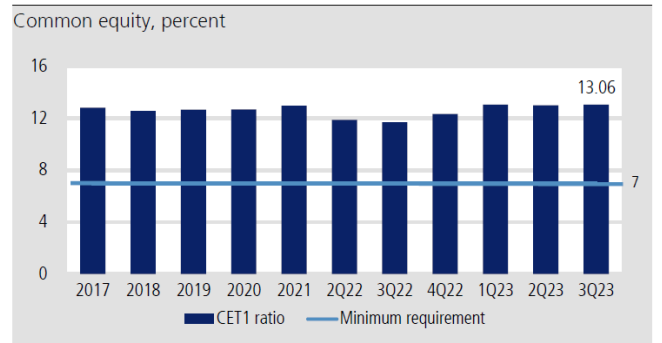
Source: TEJ; KGI Research

Figure 12: NPL by region



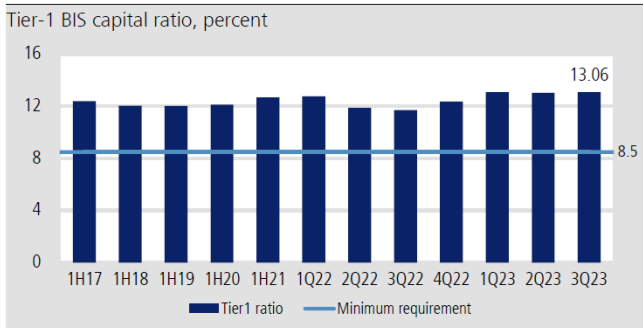
Source: TEJ; KGI Research

Figure 13: Mega Bank common equity ratio



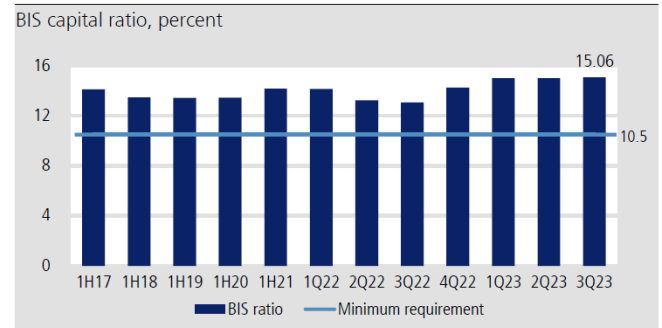
Source: TEJ; KGI Research

Figure 14: Tier-1 BIS capital ratio



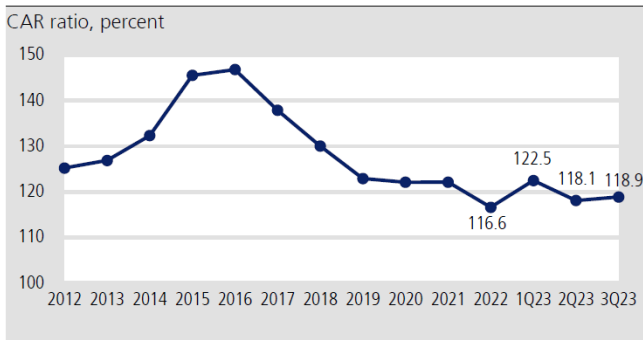
Source: Company data; KGI Research

Figure 15: BIS capital ratio



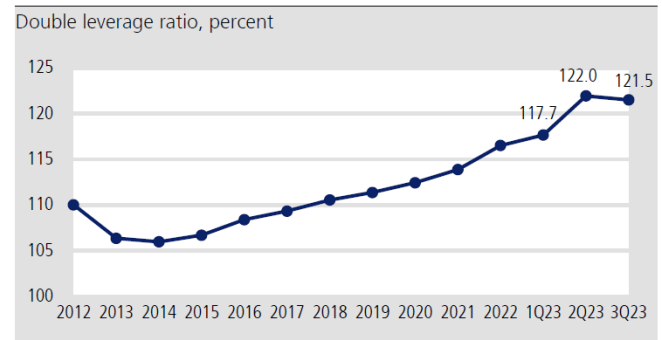
Source: Company data; KGI Research

Figure 16: Mega FHC's CAR ratio



Source: Company data; KGI Research

Figure 17: Mega FHC's double leverage ratio

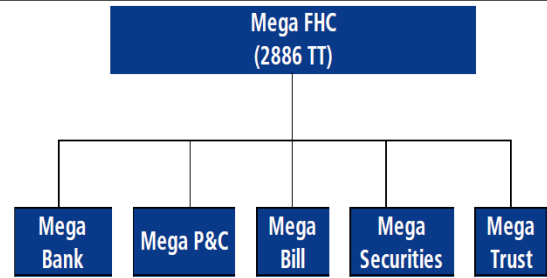


Source: Company data; KGI Research

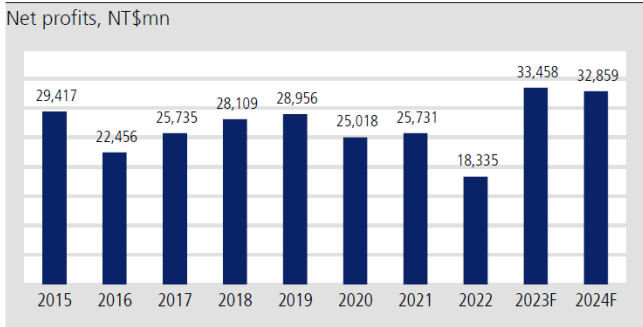
Figure 19: Company profile

Mega FHC was formed in February 2002, with Chiao Tung FHC being the predecessor. Total assets stood at US\$107.7bn as of September 2014. It ranks fifth among the 16 Taiwanese FHCs, with businesses include banking, insurance, securities and investment, and trust. In November 2006, subsidiaries Chiao Tung Bank and International Commercial Bank of China were merged, with the resulting bank named Mega Bank. The firm's foreign-currency deposit and import/export letters of credit businesses led domestic banks as of June 2014. Corporate lending market share was 7.4% in October 2014, the third highest among domestic peers. Mega Bank is the only domestic bank focused on corporate banking and foreign exchange businesses.

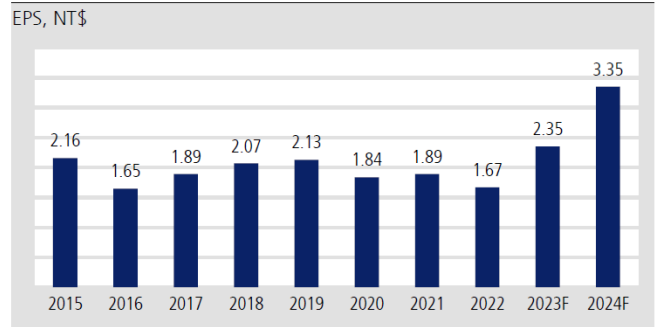
Source: KGI Research

Figure 20: Organization chart


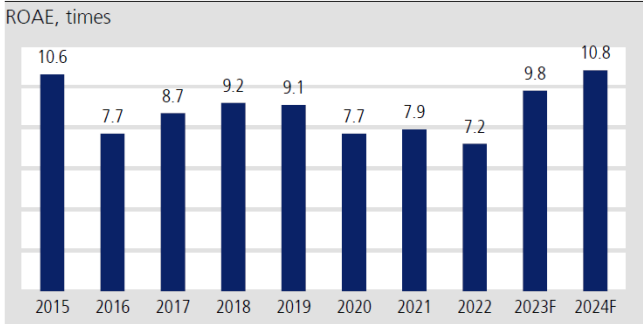
Source: Company data; KGI Research

Figure 21: Net profits


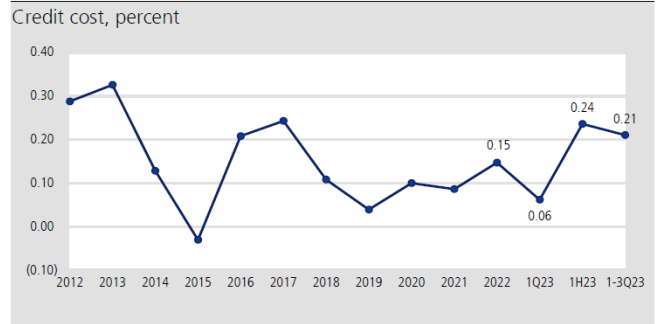
Source: KGI Research

Figure 22: EPS


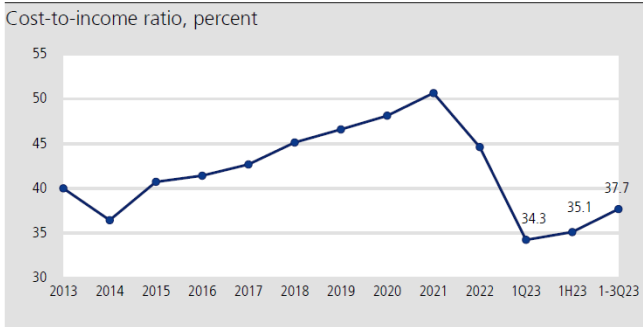
Source: KGI Research

Figure 23: ROAE


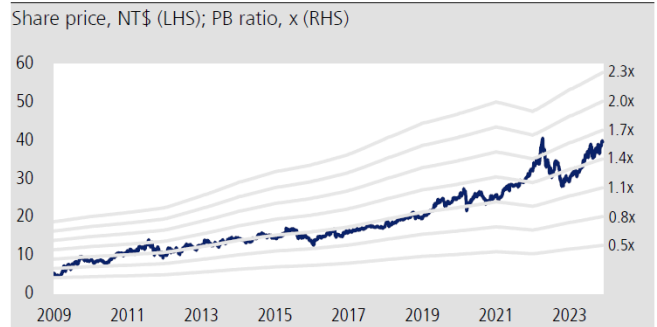
Source: KGI Research

Figure 24: Credit costs was 21bps in 1-3Q23


Source: Company data; KGI Research

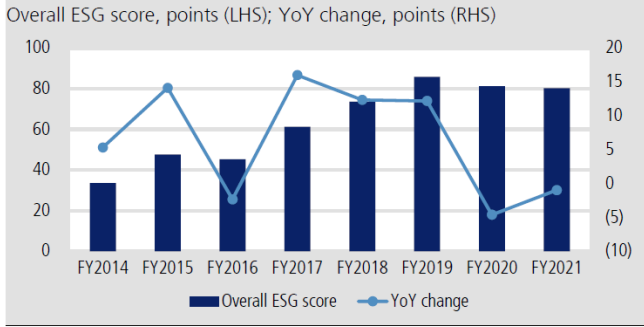
Figure 25: Cost-to-income ratio rose to 38% in 1-3Q23


Source: Company data; KGI Research

Figure 26: Mega FHC's 12M forward PB


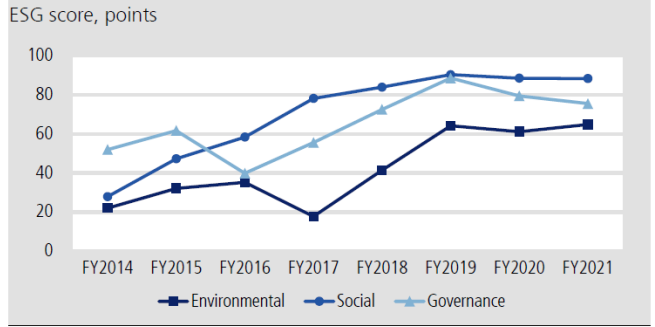
Source: TEJ; KGI Research

Figure 27: Overall ESG score



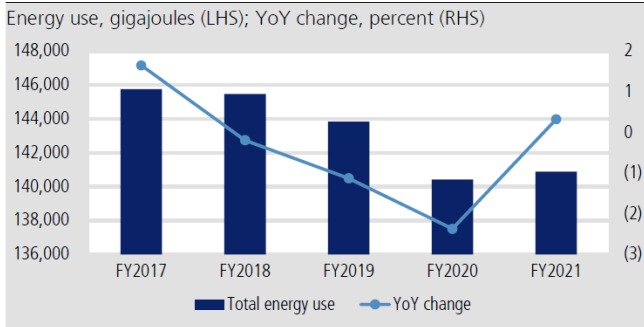
Source: Refinitiv; KGI Research; Company data

Figure 28: ESG score by category



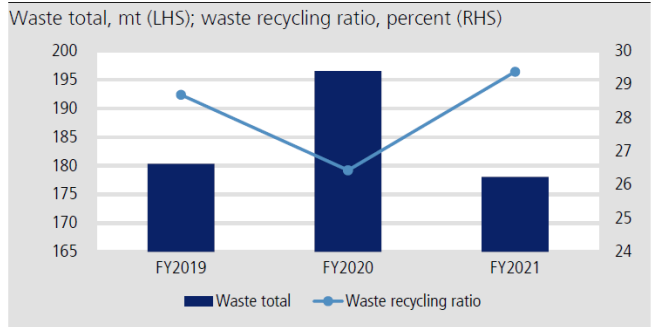
Source: Refinitiv; KGI Research; Company data

Figure 29: Energy use



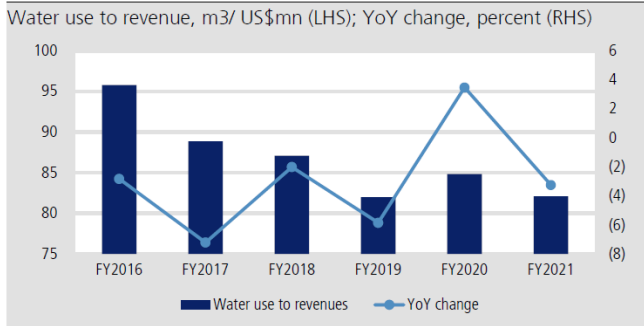
Source: Refinitiv; KGI Research; Company data

Figure 30: Waste total



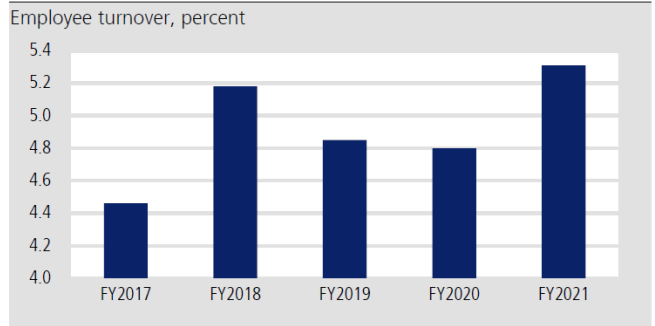
Source: Refinitiv; KGI Research; Company data

Figure 31: Water use to revenue



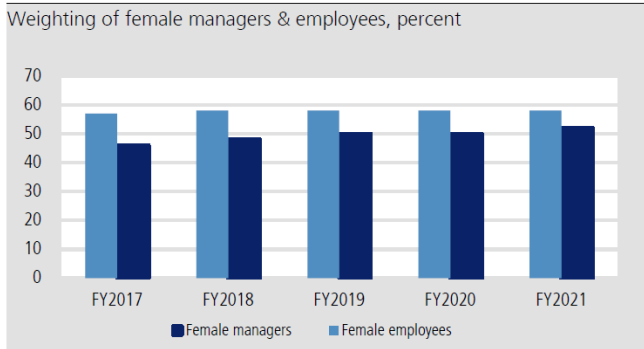
Source: Refinitiv; KGI Research; Company data

Figure 32: Employee turnover



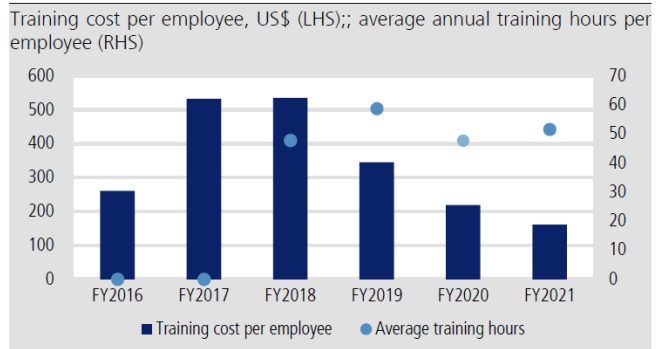
Source: Refinitiv; KGI Research; Company data

Figure 33: Gender diversification



Source: Refinitiv; KGI Research; Company data

Figure 34: Employee training



Source: Refinitiv; KGI Research; Company data

ESG chart definition

Item	Definition	Remarks
Energy use	Total direct and indirect energy consumption in gigajoules. - 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'	
Renewable energy purchased	Total primary renewable energy purchased in gigajoules. - 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	
Renewable energy use ratio	Renewable energy to total energy used	
CO2 equivalent emissions	Direct CO2 and CO2 equivalent emissions in metric tons. - 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)	Scope 1 and 2 emissions fell 11.93% in 2020 from base year 2017, achieving group's target of 5% annual reduction within five years from 2017 earlier than planned.
CO2 equivalent emissions to sales	Direct CO2 and CO2 equivalent emissions (metric tons) to sales (NT\$m) - 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	Total amount of waste produced in metric tons. - 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	
Waste recycling ratio	The waste recycling ratio as reported by the company. - 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	Total water withdrawal in cubic meters. - 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	Little impact on the environment, as water source mainly comes from daily life-use water. Target is saving water by 1% annually and implementing water management by buying equipment certified as water-saving.
Environmental expenditures	Total amount of environmental expenditures. - 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	Percentage of employee turnover. - 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	
Women managers	Percentage of women managers. - 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	Has long been paying attention to gender equality. In 2020, women managers increased by 18 YoY, accounting for 51% of total managers.
Women employees	Percentage of women employees. - 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	
Training hours total	Total training hours performed by all employees. - 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	

Source: Refinitiv; KGI Research

Balance Sheet - Mega Bank

NTSmn	Dec-20A	Dec-21A	Dec-22A	Dec-23F	Dec-24F
Gross Loans to Customers	1,919,124	2,067,693	2,111,263	2,182,481	2,288,777
Net Loans & Advances	29,166	30,338	31,822	33,462	37,292
Due from banks & call loans	377,465	443,742	416,666	444,650	449,096
Investments FVTPL, OCI and AC	984,207	1,107,968	1,021,839	1,120,126	1,131,327
Other Interest Earning Assets	38,041	39,122	45,673	57,805	58,383
Cash and equivalents	115,111	133,744	109,396	67,949	68,628
Long-term equity investments	5,409	5,340	4,854	4,928	4,928
Property investments					
Net Fixed Assets	15,419	15,386	15,437	15,322	15,322
Other Non-Interest Earning Assets	108	246	271	438	442
Total Non-Interest Earning Assets	15,710	14,541	14,061	16,219	16,219
Total Assets	3,451,678	3,798,147	3,708,588	3,881,106	4,000,528
Due to banks and call loans from banks	410,648	416,790	412,540	450,040	461,918
Deposits from mutual loans accounts	2,617,464	2,971,732	2,849,503	2,934,010	3,009,522
Other Interest Bearing Liabilities	83,073	67,049	99,908	107,183	110,012
Total Interest-Bearing Liabilities	3,111,185	3,455,570	3,361,951	3,491,233	3,581,451
Reserve for operation					
Other Non-Interest Bearing Liabilities	45,910	43,471	56,680	65,674	65,674
Total Non-Interest Bearing Liabilities	45,910	43,471	56,680	65,674	65,674
Total Liabilities	3,157,095	3,499,041	3,418,631	3,556,907	3,647,125
Common Stocks	85,362	85,362	85,362	85,362	85,362
Retained earnings reserve	135,754	141,653	152,146	167,597	196,801
Capital Reserve	62,220	62,220	62,220	62,220	62,220
Other Reserves	11,247	9,872	(9,772)	9,020	9,020
Shareholders' Funds	294,583	299,106	289,957	324,199	353,403
Minority interests					
Preferred shareholders funds					
Total Equity	294,583	299,106	289,957	324,199	353,403
Total Liabilities & Equity	3,451,678	3,798,147	3,708,588	3,881,106	4,000,528

Mega FHC Earning Breakdown

NTSmn	Dec-20A	Dec-21A	Dec-22A	Dec-23F	Dec-24F
Mega Bank	20,332	18,457	24,181	31,459	29,204
Mega Securities	1,547	2,808	603	1,708	1,759
Mega Bill	2,931	3,278	3,040	2,004	2,038
Mega P&C	301	505	(9,524)	(1,465)	389
Mega FHC	25,018	25,731	18,335	33,458	32,859

Source: Company data, KGI Research estimates

Balance sheet

NTSmn	Dec-20A	Dec-21A	Dec-22A	Dec-23F	Dec-24F
Gross loans to customers	1,920,705	2,069,190	2,112,813	2,185,304	2,290,479
Net loans & advances	1,889,958	2,037,355	2,079,441	2,149,019	2,251,485
Due from banks & call loans	375,465	441,542	416,666	443,125	475,090
FVIOCIandAC	1,324,665	1,395,707	1,295,875	1,413,663	1,471,063
Other interest earning assets	-	(0)	-	0	-
Cash and equivalents	119,428	140,618	113,662	45,441	48,719
Long-term equity investments	5,519	5,449	4,938	5,120	5,120
Net fixed assets	21,951	21,671	21,637	21,562	21,562
Total intangible assets	961	1,017	1,319	1,226	1,276
Other non-interest earning assets					
Total non-interest earning assets	266,288	293,661	269,005	217,446	225,094
Total assets	3,856,377	4,168,265	4,060,987	4,223,253	4,422,733
Due to banks and call loans from banks	466,052	470,859	463,160	517,187	579,001
Deposits from mutual loans accounts	2,613,890	2,959,790	2,847,367	2,932,296	3,007,764
Other interest bearing liabilities	290,628	245,661	291,138	322,083	360,578
Total interest-bearing liabilities	3,370,570	3,676,309	3,601,664	3,771,566	3,947,343
Reserve for operation					
Other non-interest bearing liabilities	159,217	163,557	159,514	125,629	116,471
Total non-interest bearing liabilities	159,217	163,557	159,514	125,629	116,471
Total liabilities	3,529,788	3,839,866	3,761,178	3,897,194	4,063,815
Common stocks	135,998	135,998	139,398	140,513	140,513
Proceeds - new issued	-	-	-	-	-
Share capital	135,998	135,998	139,398	140,513	140,513
Retained earnings reserve	108,208	113,046	107,543	122,471	155,331
Capital and other reserves	82,383	79,354	52,869	63,074	63,074
Shareholders' funds	326,589	328,399	299,809	326,059	358,918
Minority interests	-	-	-	-	-
Preferred shareholders funds	-	-	-	-	-
Total equity	326,589	328,399	299,809	326,059	358,918
Total liabilities & equity	3,856,377	4,168,265	4,060,987	4,223,253	4,422,733

Key ratios

	Dec-20A	Dec-21A	Dec-22A	Dec-23F	Dec-24F
Growth					
Net interest income growth	(10.0%)	2.9%	16.1%	(2.8%)	11.5%
Operating profit growth	(7.8%)	(3.4%)	(13.9%)	55.3%	3.7%
Net profit growth	(13.6%)	2.9%	(28.7%)	82.5%	(1.8%)
EPS growth	(13.6%)	2.9%	(30.5%)	81.0%	(1.8%)
Profitability					
Return on average assets	0.7%	0.6%	0.4%	0.8%	0.8%
Return on average equity	7.7%	7.9%	5.8%	10.7%	9.6%
Per share data					
EPS (NT\$)	-1.84	1.89	1.32	-2.38	2.34
BVPS (NT\$)	24.01	24.15	21.51	23.20	25.54
Cash DPS (NT\$)	1.58	1.40	1.24	1.60	1.60

Source: Company data, KGI Research estimates

Profit & Loss - Mega Bank

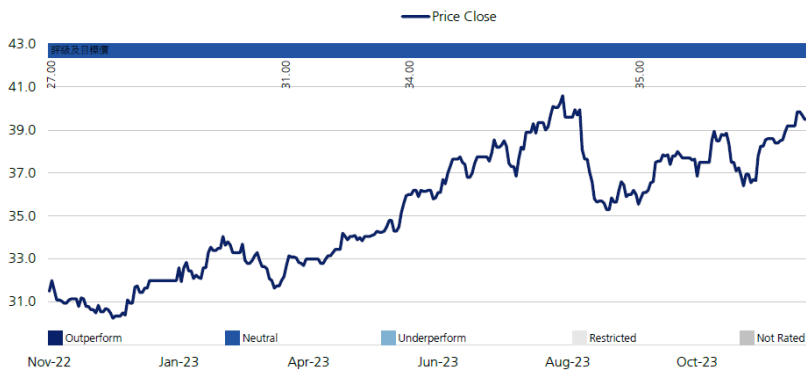
NTSmn	Dec-20A	Dec-21A	Dec-22A	Dec-23F	Dec-24F
Interest Income	46,746	39,959	67,164	111,781	121,587
Interest Expense	16,937	9,685	30,307	74,448	82,235
Interest Net Revenue	29,809	30,274	36,857	37,333	39,353
Commissions & Fees	6,581	6,751	6,843	7,481	8,118
Trading Income	12,111	7,934	9,802	22,021	18,418
Other non-interest income	405	360	483	427	314
Non Interest Income	19,097	15,045	17,127	29,929	26,850
Total Operating Income	48,906	45,318	53,985	67,262	66,202
Operating Expenses	23,529	22,945	24,084	26,761	28,352
Operating Profit	25,377	22,373	29,901	40,501	37,851
Total Provision Charges	1,917	1,782	3,100	4,598	4,973
Pre-tax Profit	23,460	20,591	26,801	35,903	32,877
Current taxation	3,128	2,134	2,620	4,444	3,673
Ordinary Income	20,332	18,457	24,181	31,459	29,204
Consolidated net income	20,332	18,457	24,181	31,459	29,204
Minorities	0	0	0	0	0
Net Profit	20,332	18,457	24,181	31,459	29,204
Dividends	(13,146)	(12,804)	(4,268)	(21,707)	(20,151)
Retained earnings reserve	7,186	5,653	19,913	9,752	9,053
EPS	2.38	2.16	2.83	3.69	3.42
ROAE	6.94%	6.22%	8.21%	10.24%	8.62%
NPL Ratio	0.21%	0.25%	0.16%	0.23%	0.22%
Coverage Ratio	726%	577%	94221%	673%	750%
Credit cost	0.10%	0.09%	0.15%	0.21%	0.22%
Cost-income Ratio	48.1%	50.6%	44.6%	39.8%	42.8%
NIM	0.90%	0.82%	0.96%	0.98%	0.96%
Loan to Deposit Ratio	0.0%	0.0%	0.0%	0.0%	0.0%
Nil Growth	-12.4%	1.6%	21.7%	1.3%	5.4%
Fee Growth	-0.1%	2.6%	1.4%	9.3%	8.5%
PPOP Growth	-12.9%	-11.8%	33.6%	35.4%	-6.5%
Net Profit Growth	-17.5%	-9.2%	31.0%	30.1%	-7.2%

Source: Company data, KGI Research estimates

Profit & loss

NTSmn	Dec-20A	Dec-21A	Dec-22A	Dec-23F	Dec-24F
Interest income	49,724	42,797	69,936	115,771	127,383
Interest expense	(18,173)	(10,328)	(32,253)	(79,146)	(86,536)
Net interest revenue	31,551	32,468	37,683	36,625	40,847
Commissions & fees (net)	9,876	12,037	10,335	11,065	11,678
Net insurance income	2,043	2,235	(5,811)	(5,524)	2,219
Trading income	16,126	12,327	12,475	26,419	18,904
Other non-interest income	1,214	1,164	1,367	5,161	3,223
Non interest income	29,259	27,763	18,367	37,121	36,024
Net revenue	60,810	60,231	56,050	73,745	76,871
Operating expenses	(29,101)	(29,605)	(29,671)	(32,779)	(34,381)
Operating profit	31,709	30,625	26,379	40,966	42,489
Charge for bad debts	(2,152)	(1,904)	(2,877)	(7,017)	(4,973)
Provision bad debts on credit card	-	-	-	-	-
Provision of insurance duty	(2,277)	(65)	(2,358)	3,380	(624)
Provision charges	(2,379)	(1,969)	(5,234)	(3,638)	(5,597)
Pre-tax profit	29,331	28,656	21,144	37,329	36,892
Current taxation	(4,313)	(2,925)	(2,809)	(3,870)	(4,033)
Ordinary income	25,018	25,731	18,335	33,459	32,859
Consolidated net income	25,018	25,731	18,335	33,459	32,859
Minorities	-	-	-	-	-
Net profit	25,018	25,731	18,335	33,459	32,859
Dividends	(21,488)	(19,040)	(17,285)	(22,482)	(22,482)
Retained earnings reserve	3,530	6,691	1,050	10,976	10,377
Normalised net profit	25,018	25,731	18,335	33,459	32,859

Source: Company data, KGI Research estimates

Mega FHC – Recommendation & target price history


Date	Rating	Target	Price
2023-09-06	Neutral	35.00	35.55
2023-05-19	Neutral	34.00	36.00
2023-03-21	Neutral	31.00	32.20
2022-11-01	Neutral	27.00	29.75
2022-09-01	Outperform	39.00	35.15
2022-06-01	Outperform	42.50	38.20
2022-04-14	Outperform	47.00	43.10
2021-12-09	Outperform	38.50	35.30
2021-09-09	Outperform	36.00	32.30
2021-05-31	Outperform	36.00	33.10

Source: TEJ, KGI Research

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