

Cathay FHC (2882.TW/2882 TT)

2Q24 net worth up QoQ; 2H24F positive

FTSE4Good TIP Taiwan ESG Index stock

Outperform · Maintained

Price as of August 23 (NT\$)	61.50
12M target price (NT\$)	70.00
Previous target price (NT\$)	64.00
Revised up (%)	9.4
Upside (%)	13.8

Key message

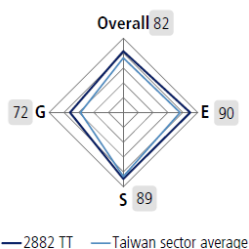
- In 2Q24, Cathay Life's (CL) ROI rose on capital gains; VNB and CSM also grew.
- 2Q24 bank NIM was up QoQ and asset quality was stable.
- We expect 2024F CL's net worth and FHC dividend payout will rise, reflecting higher valuations of investments spurred by US interest rate cuts.

Trading data

Mkt cap (NT\$/US\$mn)	902 / 27,683
Outstanding shares (mn)	14,669
Foreign ownership (mn)	3,440
3M avg. daily trading (mn)	30.83
52-week trading range (NT\$)	43.30 –65.70

Performance	3M	6M	12M
Absolute (%)	12.2	38.4	37.6
Relative (%)	9.7	21.1	3.9

ESG score card



Source: Refinitiv, KGI securities

Event

In 1H24, net profit soared 121% YoY to NT\$71.76bn on strong life insurance and banking businesses, boosting ROE to 16.9%.

Impact

2Q24 earnings beat on life insurance & bank earnings. Cathay FHC posted net profit of NT\$33.68bn in 2Q24, up 32% YoY, beating our forecast by 70%. Growth drivers were: (1) life insurance earnings of NT\$22.82bn, up 53% YoY on higher capital gains and improved hedging costs, the latter due to NT dollar depreciation of 1.4% in 2Q24; and (2) bank earnings growth of 18%, as net interest and fee income growth of a respective 17% and 22% offset bad debt expense increase of 18% YoY. In 2Q24, Cathay FHC's BVPS increased NT\$1 QoQ to NT\$53.4, driven by a QoQ increase of NT\$12.1bn in unrealized gains on financial assets (thereof over NT\$120bn on stocks).

Cathay Life's ROI & CSM improved in 2Q24. Taking profit on the robust stock market in 2Q24, Cathay Life (CL) disposed of stock holdings with capital gains up 165% YoY, while hedging costs rebounded to 1.21% in 1H24 on adding FX price volatility reserves amid NT dollar depreciation. Pre-hedge recurring yield narrowed 6bps YoY. Overall ROI rose to 4.28% in 1H24, up 0.82ppts YoY, compared with liability costs of 3.77%, up just 1bp YoY. Management guides US interest rate cuts will lower currency swap recurring hedge costs. With FX reserves now at NT\$51.5bn, hedge costs will stay at 1-1.5% despite growing pressure on NT dollar appreciation in 2H24F. It also expects the International Capital Standard (ICS) ratio to go up by 3% if the US cuts rates by 100bps and Taiwan by around 30bps, with net interest income also to drop 2.4-2.5bps. While first-year premiums (FYP) declined 26% YoY in 2Q24, value of new business (VNB) and contractual service margin (CSM) grew 21% and 35%, respectively, on hot sales of higher-margin regular-premium policies.

2H24F banking outlook positive. Due to a wider spread and well-contained funding costs, Cathay United Bank's NIM increased 2bps QoQ in 2Q24 to 1.48%. In 1H24, fee income grew 33%, driven by wealth management (WM) and credit card fee income. Management has raised 2024F NIM guidance to above 1.5%, WM fee income growth to +30% and loan growth to low teens. Credit costs will be around 30bps from general provisions, amid stable asset quality.

Valuation & action

We expect the banking unit will continue to adjust deposit and loan structures, which will help net interest income to grow. We expect CL's net worth and Cathay FHC's dividend payout will rise this year, reflecting a pick up in investment valuations on US interest rate cuts. Interim measures for adopting IFRS17/ ICS will ease capital increase pressure for CL. Our target price is NT\$70, on 2024F and 2025F average PB of 1.1x (sum-of-the-parts valuation model). Maintain Outperform.

Risks

Weakening financial markets; poor ROI for CL.

Key financials and valuations

	Dec-21A	Dec-22A	Dec-23A	Dec-24F	Dec-25F
Net revenue (NT\$mn)	625,963	341,434	304,173	384,001	375,871
Provision charges (NT\$mn)	(380,893)	(202,876)	(143,207)	(160,159)	(166,874)
PPOP (NT\$mn)	540,419	252,823	201,676	279,186	270,007
Net profit (NT\$mn)	139,514	37,359	50,929	106,036	90,131
EPS (NT\$)	10.59	2.55	3.47	7.23	6.14
BVPS (NT\$)	61.51	34.55	47.45	58.55	67.93
Cash DPS (NT\$)	3.50	0.90	2.00	2.70	2.40
EPS growth (%)	87.1	(76.0)	36.3	108.2	(15.0)
Net profit growth (%)	87.1	(73.2)	36.3	108.2	(15.0)
PE (x)	5.8	24.1	17.7	8.5	10.0
PB (x)	1.0	1.8	1.3	1.1	0.9
Dividend yield (%)	5.7	1.5	3.3	4.4	3.9
Return on average equity (%)	17.3	5.7	8.5	13.6	9.7
Return on average assets (%)	1.2	0.3	0.4	0.8	0.7

Source: Company data, KGI Research estimates

Figure 1: 2Q24 net profit grew 32% YoY to NT\$33.65bn, with CL & bank earnings up 53% & 17% YoY; January-July earnings growth quickened to 90%

NT\$m	2023			2024			Jan-Jul 24		Achieved of 2024F (%)
	Earnings	Earnings	YoY (%)	Earnings	QoQ (%)	YoY (%)	Earnings	YoY(%)	
Cathay FHC	50,929	38,109	443.7	33,652	(11.7)	32.0	93,100	90.1	87.8
Cathay Life	16,343	25,735	N.A.	22,818	(11.3)	53.1	65,090	152.4	97.7
Cathay United Bank	28,805	10,354	13.6	9,691	(6.4)	16.8	24,080	18.0	66.3
Cathay P&C	1,246	868	N.A.	436	(49.8)	(42.4)	1,650	266.7	63.9

Source: Company data; KGI Research

Figure 2: Breakdown of Cathay FHC's 2024 & 2025 earnings forecasts

NT\$m	2024F				2025F			
	Revision	Previous Change (%)	YoY (%)	YoY (%)	Revision	Previous Change (%)	YoY (%)	YoY (%)
Cathay FHC	106,036	90,116	17.7	108.2	90,131	89,118	1.1	(15.0)
Cathay Life	66,625	49,825	33.7	307.7	49,233	48,114	2.3	(26.1)
Cathay United Bank	36,310	35,873	1.2	26.0	38,735	37,920	2.1	6.7
Cathay P&C	2,584	2,918	(11.4)	107.5	3,057	3,146	(2.8)	18.3

Source: Company data; KGI Research

Figure 3: While FYP declined 26% YoY, VNB & CSM grew 21% & 35% on hot sales of higher-margin regular-premium policies

NT\$m	2023	YoY(%)	1Q24	YoY(%)	2Q24	YoY(%)	1H24	YoY(%)	
VNB	27,600	4.9	8,900	30.9	7,500	10.3	16,400	20.6	
VNB/FYP (%)	21.0	1.0	33.0	10.0	31.0	11.0	31.0	11.0	
VNB/FYPE (%)	58.0	(4.0)	58.0	2.0	60.0	3.0	60.0	3.0	
FYP breakdown	2023	YoY(%)	1Q24	YoY(%)	2Q24	YoY(%)	1H24	YoY(%)	比重 (%)
Traditional - Savings	32,029	(1.3)	11,179	8.6	8,644	(19.0)	17,973	(2.2)	34.3
Traditional - Protection	5,582	(11.9)	1,333	(7.8)	1,285	(21.4)	2,672	(5.1)	5.1
Traditional	37,611	(3.0)	12,512	6.6	9,929	(19.3)	20,646	(2.6)	39.4
Health and accident	9,702	12.0	3,509	74.9	3,402	34.2	7,074	62.1	13.5
Investment-linked & Interest sensitive annuity	81,999	4.5	10,227	(31.2)	9,475	(62.1)	22,742	(47.2)	43.4
Others	3,588	6.7	789	(7.8)	932	(8.8)	1,939	10.2	3.7
Total FYP	132,900	2.8	27,200	(7.8)	25,200	(38.4)	52,400	(25.6)	100.0
FYPE breakdown	2023	YoY(%)	1Q24	YoY(%)	2Q24	YoY(%)	1H24	YoY(%)	比重 (%)
Traditional - Savings	20,050	25.4	8,696	40.9	5,855	4.7	13,481	22.0	49.2
Traditional - Protection	5,641	(10.7)	1,333	(8.2)	1,131	(20.7)	2,603	(7.6)	9.5
Traditional	25,691	15.2	10,029	31.6	6,985	(0.5)	16,084	16.0	58.7
Health and accident	9,717	12.9	3,503	74.4	3,070	39.1	7,069	62.1	25.8
Investment-linked & Interest sensitive annuity	8,437	4.2	1,039	(35.0)	1,012	(55.7)	2,329	(48.3)	8.5
Others	3,555	4.8	930	6.7	833	(6.7)	1,918	8.7	7.0
Total FYPE	47,400	11.8	15,500	28.1	11,900	(4.0)	27,400	11.8	100.0

Source: Company data; KGI Research

Figure 4: CL's ROI rose 0.84ppts YoY in 1H24 on capital gains, widening positive spreads to 92bps in 1H24

CL investment yield and cost of liability, percent	2019	2020	2021	2022	2023	YoY	1Q24	YoY	1H24	YoY
Investment yield (After-hedging)	3.95	3.93	4.92	3.73	3.28	(0.45)	4.39	1.70	4.28	0.84
Recurring yield (Pre-hedging)	3.65	3.19	3.02	3.37	3.45	0.08	3.23	0.08	3.30	(0.06)
Cost of liability (Reserve base)	3.95	3.83	3.77	3.74	3.77	0.03	3.77	0.02	3.77	0.01
Cost of liability (Investment portfolio base)	3.50	3.36	3.33	3.47	3.42	(0.05)	3.40	(0.06)	3.36	(0.08)
Investment yield less cost of liability (Investment portfolio base)	0.45	0.57	1.59	0.26	(0.14)	(0.40)	0.99	1.76	0.92	0.92
Recurring yield (Pre-hedging) less cost of liability (Investment portfolio base)	0.15	(0.17)	(0.31)	(0.10)	0.03	0.13	(0.17)	0.14	(0.06)	0.02
Hedging cost	1.40	1.72	1.10	0.14	0.96	0.82	1.21	(0.60)	1.21	0.34
Recurring yield (After-hedging)	2.72	2.06	2.29	3.28	2.78	(0.50)	2.38	0.50	2.46	(0.30)
Capital gain & others	1.23	1.87	2.63	0.45	0.50	0.05	2.01	1.20	1.82	1.14
Recurring yield (After-hedging) accounted total investment	68.8	52.4	46.5	87.8	84.6	(3.2)	54.3	(15.7)	57.4	(22.6)
Capital gain& others accounted total investment	31.2	47.6	53.5	12.2	15.4	3.2	45.7	15.7	42.6	22.6

Source: Company data; KGI Research

Figure 5: In 2Q24, CL's investment income grew 4.4% YoY on capital gains growth of 165% YoY

NT\$bn	2019	2020	2021	2022	2023	YoY (%)	1Q24	YoY (%)	2Q24	YoY (%)	QoQ (%)	1H24	YoY (%)
Recurring investment income	228.0	212.2	215.0	242.6	259.9	7.1	63.3	7.2	67.0	0.1	5.9	130.3	3.4
Realized gains from fixed income investment	36.4	65.0	63.1	5.6	4.2	(25.4)	0.9	(58.5)	0.4	(66.7)	(58.5)	1.3	(61.3)
Realized gains from equity investment	38.9	75.0	116.2	23.3	40.9	75.8	39.1	191.7	30.4	164.9	(22.2)	69.5	179.3
Realized gains from capital market	75.3	140.0	179.3	28.9	45.1	56.3	40.0	155.8	30.8	143.7	(23.0)	70.8	150.4
FX and others	(61.7)	(90.2)	(46.4)	(2.9)	(51.6)	N.A	(17.0)	N.A	(16.9)	N.A	N.A	(33.9)	N.A
Investment property fair value movement	0.9	1.9	1.1	2.7	(0.1)	N.A	(0.0)	N.A	2.0	N.A	N.A	2.0	N.A
Investment income	242.6	263.9	348.9	271.3	253.3	(6.6)	86.3	67.3	82.9	4.4	(3.9)	169.2	29.2
Total investment assets	6,415	6,945	7,254	7,331	7,638.1	4.2	7,815.3	5.5	7,937.0	5.4	1.6	15,752.3	109.2
Investment return	3.95	3.93	4.92	3.73	3.28	(0.45)	4.39	1.70	4.28	24.42	(2.51)	8.67	152.03

Source: Company data; KGI Research

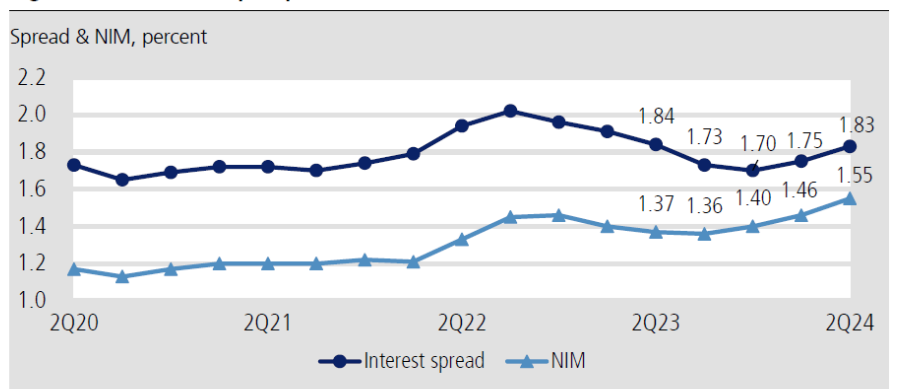
Figure 6: In 1H24, CL's ROI was 4.28%; in 2Q24, unrealized losses on financial assets decreased NT\$12bn QoQ to NT\$31.2bn, with NT\$120bn in unrealized gains on stocks

Investment portfolio (NT\$m)	FY19	FY20	FY21	FY22	FY23	YoY (%)	1Q24	YoY (%)	2Q24	YoY (%)	QoQ (%)
Cash & cash equivalents	237,000	335,000	316,000	300,000	199,000	(33.7)	194,000	(32.9)	270,000	1.5	39.2
Equities - Domestic	322,000	438,000	519,000	373,000	504,000	35.1	569,000	31.4	547,000	24.9	(3.9)
Equities - International	370,000	407,000	465,000	408,000	427,000	4.7	436,000	3.1	429,000	2.6	(1.6)
Bonds - Domestic	505,000	553,000	572,000	517,000	622,000	20.3	631,000	20.2	636,000	12.0	0.8
Bonds - International	3,777,000	4,028,000	4,189,000	4,539,000	4,718,000	3.9	4,818,000	5.3	4,886,000	4.8	1.4
Mortgage loans	341,000	311,000	308,000	280,000	230,000	(17.9)	224,000	(15.5)	221,000	(11.6)	(1.3)
Policy loans	171,000	167,000	170,000	167,000	170,000	1.8	169,000	3.0	166,000	0.0	(1.8)
Real estate	526,000	537,000	548,000	562,000	577,000	2.7	583,000	3.4	590,000	4.1	1.2
Others	165,000	168,000	168,000	182,000	192,000	5.5	190,000	11.8	194,000	0.5	2.1
Total investments	6,415,000	6,945,100	7,254,100	7,330,600	7,638,100	4.2	7,815,300	5.5	7,937,000	5.4	1.6

Investment portfolio (%)	FY19	FY20	FY21	FY22	FY23	YoY (ppts)	1Q24	YoY (ppts)	2Q24	YoY (ppts)	QoQ (ppts)
Cash & cash equivalents	3.7	4.8	4.4	4.1	2.6	(1.5)	2.5	(1.4)	3.4	(0.1)	0.9
Equities - Domestic	5.0	6.3	7.2	5.1	6.6	1.5	7.3	1.4	6.9	1.1	(0.4)
Equities - International	5.8	5.9	6.4	5.6	5.6	0.0	5.6	(0.1)	5.4	(0.1)	(0.2)
Bonds - Domestic	7.9	8.0	7.9	7.1	8.1	1.1	8.1	1.0	8.0	0.5	(0.1)
Bonds - International	58.9	58.0	57.7	61.9	61.8	(0.1)	61.6	(0.1)	61.6	(0.4)	(0.1)
Mortgage loans	5.3	4.5	4.2	3.8	3.0	(0.8)	2.9	(0.7)	2.8	(0.5)	(0.1)
Policy loans	2.7	2.4	2.3	2.3	2.2	(0.1)	2.2	(0.1)	2.1	(0.1)	(0.1)
Real estate	8.2	7.7	7.6	7.7	7.6	(0.1)	7.5	(0.2)	7.4	(0.1)	(0.0)
Others	2.6	2.4	2.3	2.5	2.5	0.0	2.4	0.1	2.4	(0.1)	0.0
Total investments	100.0	100.0	100.0	100.0	100.0		100.0		100		

Investment return (%)	FY19	FY20	FY21	FY22	FY23	YoY (ppts)	1Q24	YoY (ppts)	1H24	YoY (ppts)	QoQ (ppts)
Cash & cash equivalents	0.60	0.40	0.20	0.70	2.00	1.30	2.50	1.20	2.70	1.10	0.20
Equities - Domestic	7.90	13.50	20.90	8.20	7.40	(0.80)	14.80	7.90	16.40	8.40	1.60
Equities - International	6.50	5.50	11.60	4.80	5.50	0.70	19.20	13.80	14.50	7.60	(4.70)
Bonds - Domestic	5.70	4.60	1.70	3.20	4.80	1.60	5.30	(0.80)	5.10	0.00	(0.20)
Bonds - International	5.30	5.50	5.40	3.70	3.80	0.10	3.80	0.00	3.80	0.00	0.00
Mortgage loans	2.10	1.70	1.40	2.10	2.50	0.40	2.50	(0.10)	2.50	0.00	0.00
Policy loans	5.60	5.60	5.40	5.30	5.10	(0.20)	4.90	(0.10)	5.00	(0.10)	0.10
Real estate	2.70	2.90	2.40	2.70	2.40	(0.30)	2.50	0.00	3.10	0.70	0.60
Total investments	3.95	3.93	4.92	3.73	3.28	(0.45)	4.39	1.70	4.28	0.84	(0.11)
Hedging cost	1.40	1.72	1.10	0.14	0.96	0.82	1.21	(0.60)	1.21	0.34	0.00

Source: Company data; KGI Research

Figure 7: 2Q24 NIM up 9bps to 1.55%


Source: Company data; KGI Research

Figure 8: In 2Q24, YoY loan growth rose to 14%, with corporate & mortgage loans growth of 7% & 16.5% YoY

NT\$bn	2018	2019	2020	2021	2022	2023	1Q24	2Q24	weighting(%)
Corporate loans	680.9	635.1	626.5	653.2	709.7	778.0	819.0	819.2	33.7
Mortgage	724.7	698.9	783.3	856.5	999.0	1,128.5	1,180.0	1,217.5	50.1
Personal loans	151.7	179.9	210.8	251.8	285.6	325.4	347.5	374.3	15.4
Total loans	1,557	1,514	1,621	1,780	2,013	2,251	2,365	2,431	100.0
YoY (%)	2018	2019	2020	2021	2022	2023	1Q24	2Q24	QoQ
Corporate loans	10.5	(6.7)	(1.4)	4.3	8.6	9.6	7.1	7.2	0.0
Mortgage	7.8	(3.6)	12.1	9.3	16.6	13.0	16.3	16.5	3.2
Personal loans	14.1	18.6	17.2	19.4	13.4	13.9	20.6	26.4	7.7
Total loans	9.5	(2.8)	7.0	9.8	13.1	11.8	13.4	14.4	2.8

Source: Company data; KGI Research

Figure 9: 1H24 fee income up 33% on WM, credit card fee income

NT\$m	2023	YoY (%)	1Q24	YoY (%)	2Q24	YoY (%)	1H24	YoY (%)	Share of total fee(%)
Wealth management	11,344	7.1	4,612	41.7	3,704	38.7	8,316	40.4	59.4
Credit card	6,997	34.7	2,372	61.5	1,982	(0.2)	4,354	26.0	31.1
Foreign exchange	62	(61.9)	15	(41.9)	(1)	(128.0)	14	(55.6)	0.1
Syndicated loans	580	3.3	223	75.6	141	(3.5)	364	33.3	2.6
Others	1,739	9.6	477	14.0	489	18.9	966	16.5	6.9
Bank fee income	20,700	14.4	7,700	45.3	6,300	21.2	14,000	33.3	100.0

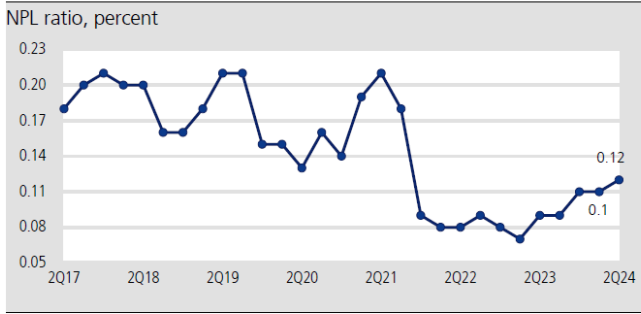
Source: KGI Research

Figure 10: Cathay FHC's valuation

SOTP valuation	Total (NT\$m)	Per share (NT\$)
Cathay Life (0.5x 2025F EV)	696,346	47.5
Cathay United Bank (1.25x 2025F BV)	435,238	29.7
Cathay P&C (1x 2025F BV)	18,207	1.2
Cathay FHC net debt (1x 2025F net debt)	(122,548)	(8.4)
Total	1,027,244	70.0
Outstanding common shares(mn shares)	14,669	
Target price (around average 2024-25F PB of 1.1x)		70.0

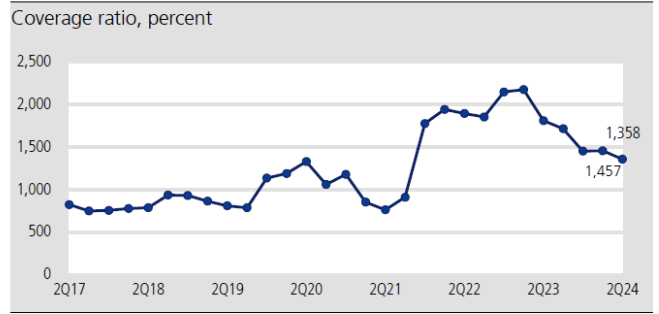
Source: KGI Research

Figure 11: 2Q24 NPL ratio



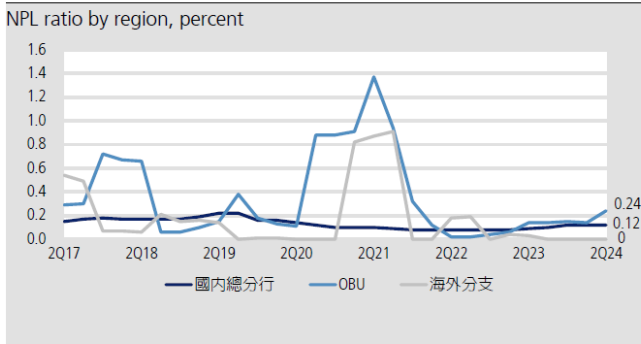
Source: TEJ; KGI Research

Figure 12: 2Q24 coverage ratio was 1,358%



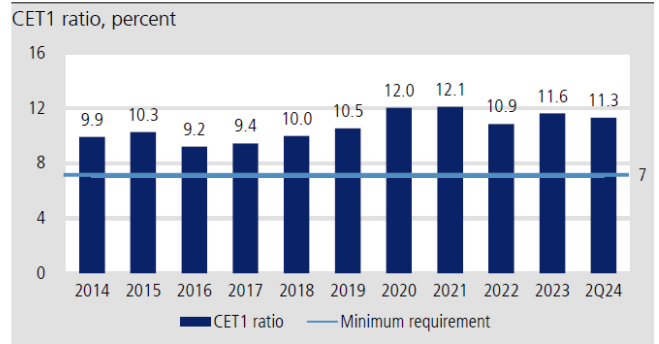
Source: TEJ; KGI Research

Figure 13: NPL ratio by region



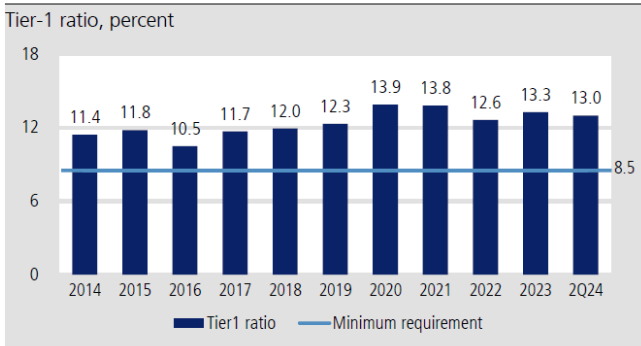
Source: TEJ; KGI Research

Figure 14: CET1 ratio



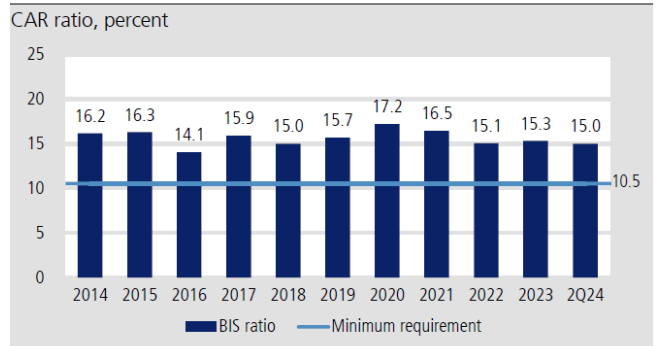
Source: TEJ; KGI Research

Figure 15: CUB's Tier-1 ratio



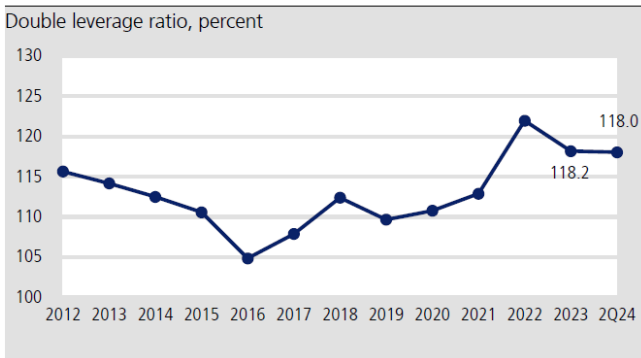
Source: Company data; KGI Research

Figure 16: CUB's BIS ratio



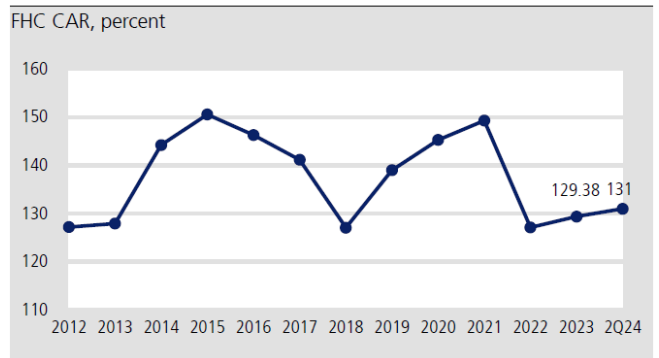
Source: Company data; KGI Research

Figure 17: FHC's 1H24 double leverage ratio



Source: Company data; KGI Research

Figure 18: Cathay FHC CAR



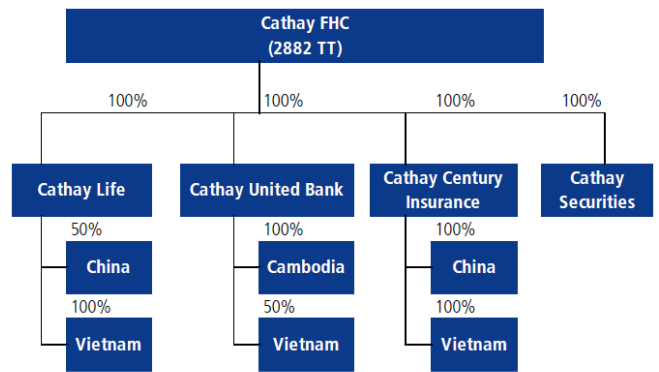
Source: Company data; KGI Research

Figure 19: Company profile

Founded in 2001, Cathay is the largest FHC in Taiwan and is focused on insurance and banking. As of June 2014, assets were US\$217bn. Businesses include life insurance, property insurance, banking, securities and asset management. Life insurance assets totaled NT\$4.4tn in 2014, with premium market share of 22%. In 1H14, bank deposits and loan market share were a respective 5.2% and 4.5%, ranking eighth and tenth in Taiwan. Cathay FHC has been aggressively developing Asian markets other than Taiwan, with Cathay Life and Cathay United Bank penetrating Vietnam and China. The FHC has also expanded its asset management business in recent years. In 2014, it announced a partnership with Conning (US), establishing an asset management platform spanning the US, Europe and Asia.

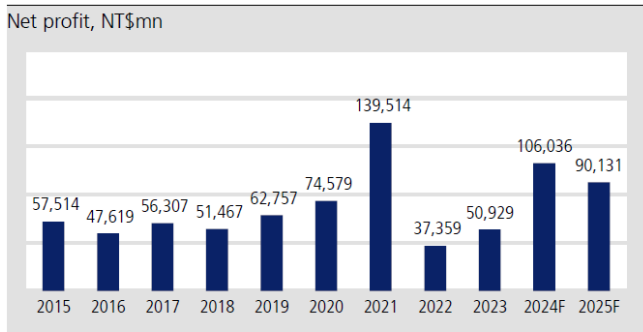
Source: KGI Research

Figure 20: Organization chart



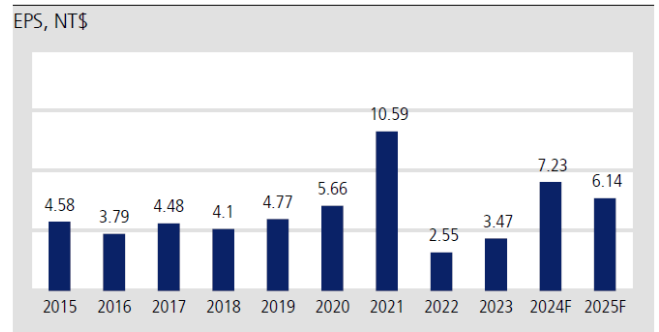
Source: Company data; KGI Research

Figure 21: Net profit



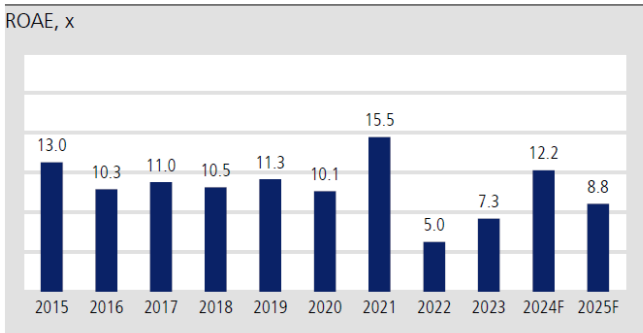
Source: KGI Research

Figure 22: EPS



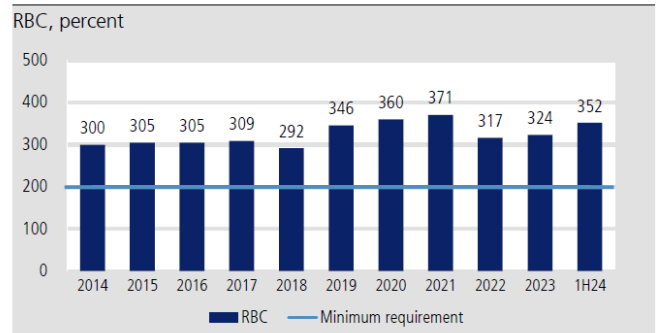
Source: KGI Research

Figure 23: ROAE



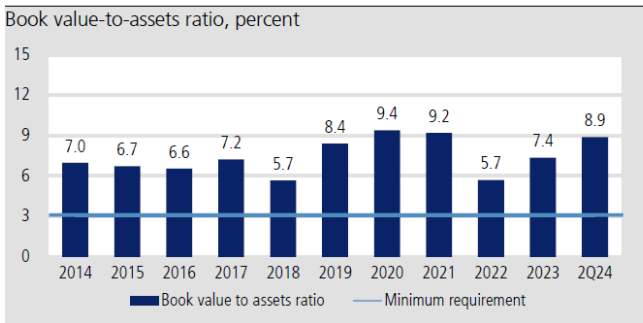
Source: KGI Research

Figure 24: CL's RBC was 352% in 1H24



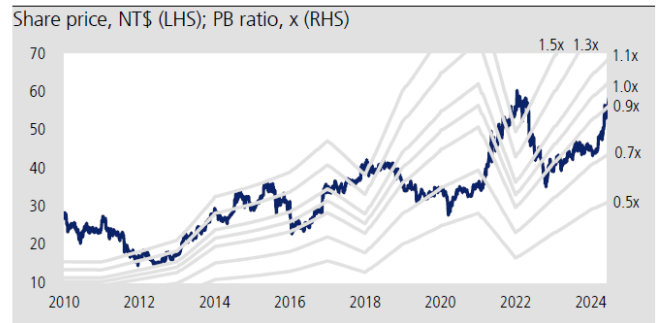
Source: Company data; KGI Research

Figure 25: CL's 2Q24 net worth/assets rebounded to 9%



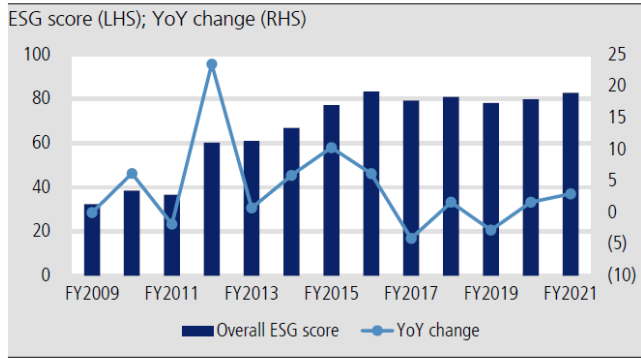
Source: Company data; KGI Research

Figure 26: Cathay FHC's 12M forward PB



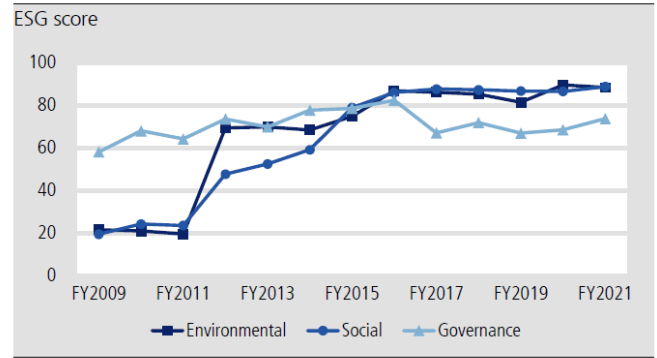
Source: TEJ; KGI Research

Figure 27: Overall ESG score



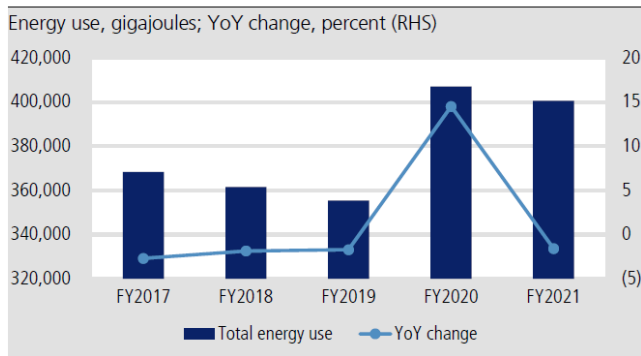
Source: Refinitiv, KGI Research, company

Figure 28: ESG scores



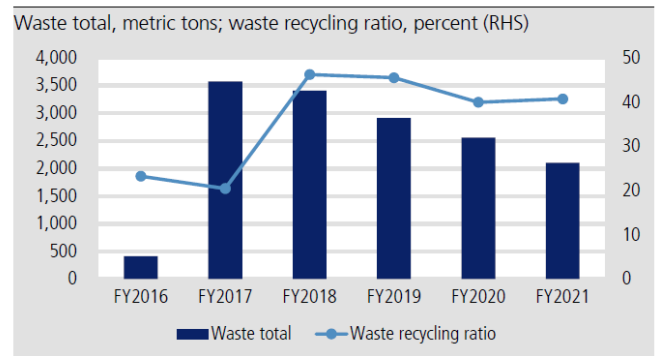
Source: Refinitiv, KGI Research, company

Figure 29: Energy use



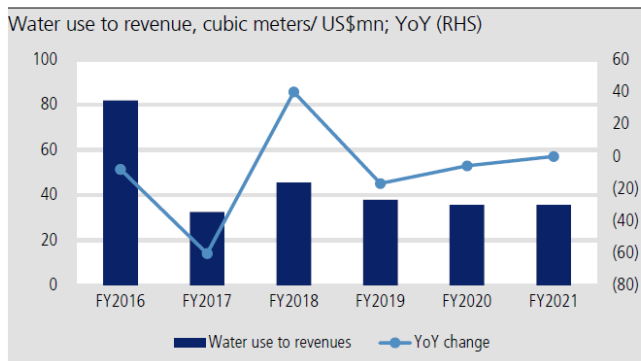
Source: Refinitiv, KGI Research, company

Figure 30: Waste total



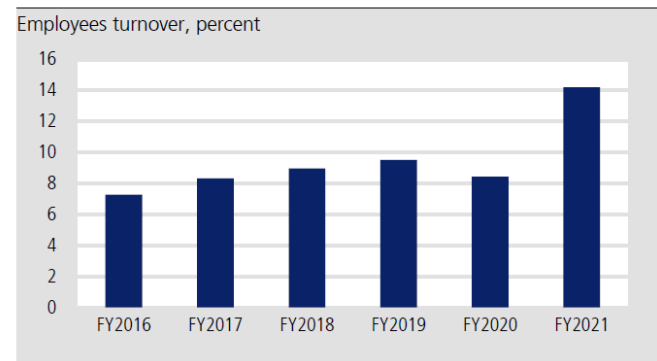
Source: Refinitiv, KGI Research, company

Figure 31: Water use to revenue



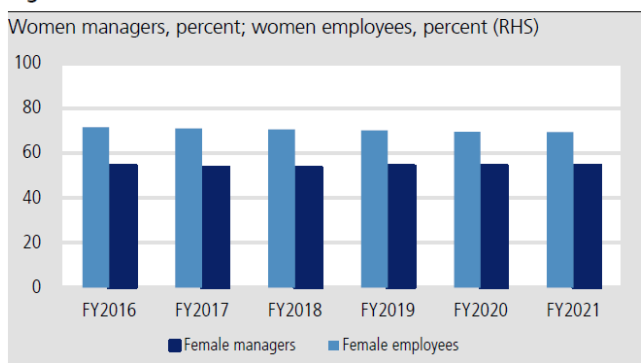
Source: Refinitiv, KGI Research, company

Figure 32: Employee turnover



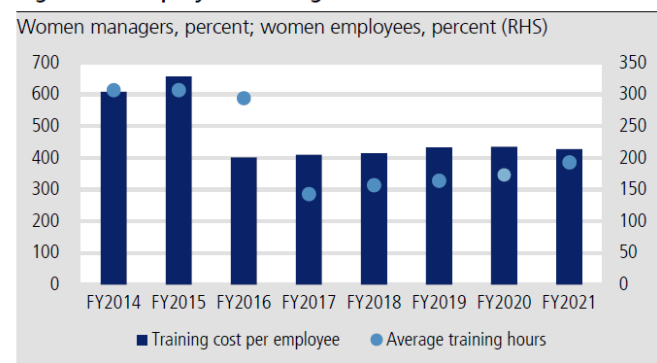
Source: Refinitiv, KGI Research, company

Figure 33: Gender diversification



Source: Refinitiv, KGI Research, company

Figure 34: Employee training



Source: Refinitiv, KGI Research, company

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 of 272,000 kWh in 2020, greatly up from 156,000 kWh in 2019.
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)	CO2 emission of 53,732 metric tons in 2020, down 6.76% from 2016.
CO2 equivalent emissions to sales	Direct CO2 and CO2 equivalent emissions (metric tons) to sales (NT\$mn) - 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	
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	Voluntary departure (including retirement) 8.24% and non-voluntary departure 0.2% in 2020.
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	Women managers 54% and senior women managers 28.49% in 2020, both up from before.
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	Slightly down from 71% in 2019 to 69% in 2020.
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	173 hours in 2020; growth continued in 2017-2020.

Source: Refinitiv; KGI Research

Balance Sheet - Cathay Life					
NT\$mn	Dec-21A	Dec-22A	Dec-23A	Dec-24F	Dec-25F
Cash & Cash equivalents	316,000	300,000	199,000	200,167	207,288
Equities - Domestic	519,000	373,000	504,000	466,131	315,702
Equities - International	465,000	408,000	427,000	449,859	465,863
Bonds - Domestic	572,000	517,000	622,000	651,057	674,219
Bonds - International	4,188,000	4,539,000	4,718,000	5,092,103	5,440,271
Mortgage loans	308,000	280,000	230,000	231,120	239,342
Policy loans	170,000	167,000	170,000	174,372	180,575
Real estate	548,000	562,000	577,000	601,531	622,932
Total Investments	7,278,000	7,328,000	7,638,100	8,063,720	8,350,595
Non-investment assets	812,312	844,430	897,902	1,005,492	1,005,492
Total Assets	8,090,312	8,172,430	8,536,002	9,069,212	9,356,087
Reserve for insurance operations & liabilities	6,413,221	6,726,563	6,875,085	7,115,139	7,304,364
Other financial liabilities	934,959	960,078	1,033,041	1,201,592	1,201,592
Total Liabilities	7,348,180	7,706,641	7,908,127	8,316,730	8,505,956
Common Stocks	58,515	63,515	63,515	63,515	63,515
Preferred Stocks	0	0	0	0	0
Capital Reserve	60,595	90,924	91,588	91,907	91,907
Retained earnings reserve	529,718	531,546	548,076	614,795	664,028
Other Reserves	85,615	-229,169	-84,761	-28,190	20,226
Total Equity	742,133	465,789	627,875	752,482	850,131
Profit & Loss - Cathay Life					
NT\$mn	Dec-21A	Dec-22A	Dec-23A	Dec-24F	Dec-25F
Gross written premium (GWP)	501,639	412,891	404,105	351,022	289,660
- First year premium	201,823	129,300	132,700	107,676	113,690
Net earned premium (NEP)	498,398	409,196	400,118	348,714	287,838
Net claims	-287,462	-397,984	-428,733	-429,581	-378,500
Underwriting costs & commissions	-34,445	-30,977	-33,700	-36,254	-32,114
Net commission	10,715	10,804	11,728	12,869	13,126
Net change in policyholder reserves	-376,771	-188,389	-147,994	-151,380	-189,225
Investment income	348,947	271,296	253,289	351,926	368,467
Other operating expenses	-35,562	-36,119	-41,293	-23,602	-10,074
Net non-operating expenses	698	1,997	2,724	-1,585	-1,743
Operating Expenses	-34,863	-34,122	-38,569	-25,187	-11,817
Pre-Tax Income	126,081	41,682	18,891	72,438	57,921
Income Tax Expense	-12,916	-7,513	-2,125	-7,059	-8,688
Net Profit	113,231	33,667	16,343	66,625	49,233
EPS	19.34	5.38	2.64	10.29	7.75
ROAE	15.5%	5.7%	3.1%	9.5%	6.1%
BI/PS	125.51	71.92	97.37	116.83	132.20
Net Profit Growth	116.9%	-70.0%	-51.5%	307.7%	-26.1%
P/EP Growth	25.5%	-35.9%	2.6%	-18.9%	5.6%
NEP Growth	-14.0%	-17.9%	-2.2%	-12.8%	-17.5%
Cathay FHC Earning Breakdown					
NT\$mn	Dec-21A	Dec-22A	Dec-23A	Dec-24F	Dec-25F
Cathay United Bank	23,345	25,591	28,806	36,310	38,735
Cathay Life	112,231	33,667	16,343	66,625	49,233
Cathay P&C	2,175	-19,622	1,246	2,584	3,057
Cathay FHC	139,514	37,359	50,929	106,036	90,131

Source: Company data, KGI Research estimates

Balance Sheet - Cathay United Bank					
NT\$mn	Dec-21A	Dec-22A	Dec-23A	Dec-24F	Dec-25F
Gross Loans to Customers	1,834,662	2,072,668	2,308,157	3,034,392	3,242,057
Net Loans & Advances	27,585	27,586	27,586	42,996	43,645
Due from banks & call loans	234,546	266,322	356,769	306,775	319,232
Investments P/OCI and AC	1,170,908	1,231,345	1,296,106	1,249,991	1,300,746
Other Interest Earning Assets	108,242	119,639	116,604	115,051	119,723
Cash and equivalents	65,389	119,617	103,838	89,300	92,926
Long-term equity investments	1,832	1,622	1,793	1,859	1,934
Property investments					
Net Fixed Assets	25,162	26,482	26,661	26,453	26,453
Other Non-Interest Earning Assets	4,347	0	154	172	179
Total Non-Interest Earning Assets	44,138	54,157	45,103	49,817	49,817
Total Assets	3,499,323	3,887,031	4,233,701	4,861,203	5,141,044
Due to banks & call loans from banks	75,681	97,309	117,131	327,296	380,643
Deposits from mutual loans accounts	2,935,694	3,246,162	3,543,558	3,577,635	3,672,996
Other Interest Bearing Liabilities	186,902	223,330	210,260	565,451	657,614
Total Interest-Bearing Liabilities	3,198,278	3,566,801	3,870,949	4,470,383	4,711,253
Reserve for operation	50,318	78,506	86,886	81,600	81,600
Other Non-Interest Bearing Liabilities	50,318	78,506	86,886	81,600	81,600
Total Non-Interest Bearing Liabilities	50,318	78,506	86,886	81,600	81,600
Total Liabilities	3,248,596	3,645,307	3,957,835	4,551,983	4,792,853
Common Stocks	106,986	108,599	108,599	108,599	108,599
Retained earnings reserve	98,502	104,852	130,620	167,354	206,325
Capital Reserve	38,687	38,859	38,869	38,869	38,869
Other Reserves	2,176	-14,575	-6,156	-5,602	-5,602
Shareholders' Funds	246,351	237,734	271,931	309,219	348,191
Minority interests	4,376	3,990	3,934	4,144	4,144
Preferred shareholders funds					
Total Equity	250,727	241,724	275,866	313,363	352,334
Total Liabilities & Equity	3,494,947	3,887,031	4,233,701	4,861,203	5,141,044
Profit & Loss - Cathay United Bank					
NT\$mn	Dec-21A	Dec-22A	Dec-23A	Dec-24F	Dec-25F
Interest Income	49,075	70,174	109,474	127,739	134,328
Interest Expense	10,536	21,469	57,731	68,376	72,286
Interest Net Revenue	38,539	48,704	51,743	59,364	62,042
Commissions & Fees	18,346	18,246	20,844	25,325	26,591
Trading Income	6,956	6,711	13,476	16,488	14,066
Other non-interest income	502	1,180	835	725	739
Non Interest Income	0	0	0	0	0
Total Operating Income	64,342	74,841	86,898	101,902	103,438
Operating Expenses	33,677	38,307	45,752	50,045	50,994
Operating Profit	30,466	36,534	41,146	51,857	52,444
Total Provision Charges	2,986	5,524	5,077	8,101	7,129
Pre-tax Profit	27,479	31,010	36,069	43,756	45,315
Current taxation	3,670	5,298	7,101	7,223	6,344
Ordinary Income	23,809	25,713	28,968	36,532	38,971
Consolidated net income	23,809	25,713	28,968	36,532	38,971
Minorities	464	122	161	222	237
Net Profit	23,345	25,591	28,806	36,310	38,735
Dividends	-16,048	-2,056	-16,290	-25,573	-27,280
Retained earning reserve	7,297	23,536	12,517	10,738	11,455
EPS	2.23	2.37	2.67	3.36	3.59
ROAE	9.74%	10.62%	11.37%	12.57%	11.86%
NPL Ratio	0.09%	0.08%	0.11%	0.09%	0.09%
Coverage Ratio	1198%	1386%	1563%	1568%	1424%
Credit cost	0.16%	0.27%	0.22%	0.27%	0.22%
Cost-income Ratio	52.65%	51.18%	52.65%	49.11%	49.30%
NM	1.21%	1.36%	1.38%	1.51%	1.50%
Loan to Deposit Ratio	62.6%	64.1%	65.5%	84.8%	88.2%
Loan Growth	8.7%	13.3%	11.8%	31.6%	7.0%
Fee Growth	12.3%	-0.5%	14.2%	21.5%	5.0%
PPOP Growth	4.3%	19.9%	12.6%	26.0%	1.1%
Net Profit Growth	6.8%	9.6%	12.6%	26.1%	6.7%

Source: Company data, KGI Research estimates

Balance sheet

NT\$m	Dec-21A	Dec-22A	Dec-23A	Dec-24F	Dec-25F
Gross loans to customers	2,314,700	2,523,103	2,712,106	3,443,833	3,665,925
Net loans & advances	2,287,115	2,495,517	2,684,520	3,400,838	3,622,280
Due from banks & call loans	234,546	266,322	336,769	276,686	296,645
FVTOclandAC	6,900,930	7,152,961	7,657,505	7,385,051	7,684,913
Other interest earning assets	-	-	(0)	0	-
Cash and equivalents	467,635	412,014	320,832	226,142	242,454
Long-term equity investments	32,615	32,883	34,212	34,212	34,212
Net fixed assets	97,852	108,551	109,370	108,518	108,518
Total intangible assets	51,544	51,637	49,670	49,670	49,670
Other non-interest earning assets	-	-	-	-	-
Total non-interest earning assets	2,171,770	2,156,086	2,132,326	2,087,200	2,145,235
Total assets	11,594,361	12,070,886	12,811,120	13,149,775	13,749,073
Due to banks and call loans from banks	280,950	303,337	369,601	1,060,257	1,233,068
Deposits from mutual loans accounts	2,871,960	3,185,436	3,496,983	3,530,612	3,624,720
Other interest bearing liabilities	121,432	230,486	185,642	481,408	559,872
Total interest-bearing liabilities	3,274,343	3,719,259	4,052,225	5,072,277	5,417,660
Reserve for operation	6,448,259	6,842,132	6,958,614	7,216,668	7,427,774
Other non-interest bearing liabilities	957,721	897,786	998,836	(103,409)	(198,167)
Total non-interest bearing liabilities	7,405,980	7,739,918	7,957,450	7,113,260	7,229,607
Total liabilities	10,680,323	11,459,178	12,009,675	12,185,537	12,647,267
Common stocks	131,692	146,692	146,692	146,692	146,692
Proceeds - new issued	-	-	-	-	-
Share capital	131,692	146,692	146,692	146,692	146,692
Retained earnings reserve	477,987	454,847	501,697	607,733	697,864
Capital and other reserves	200,359	(94,699)	47,666	104,422	151,859
Shareholders' funds	810,038	506,840	696,055	858,847	996,415
Minority interests	12,001	12,868	13,391	13,391	13,391
Preferred shareholders funds	92,000	92,000	92,000	92,000	92,000
Total equity	914,039	611,708	801,446	964,238	1,101,806
Total liabilities & equity	11,594,361	12,070,886	12,811,120	13,149,775	13,749,073

Key ratios

	Dec-21A	Dec-22A	Dec-23A	Dec-24F	Dec-25F
Growth					
Net interest income growth	2.1%	16.1%	8.6%	6.9%	4.9%
Operating profit growth	(1.2%)	(53.2%)	(20.2%)	38.4%	(3.3%)
Net profit growth	87.1%	(73.2%)	36.3%	108.2%	(15.0%)
EPS growth	87.1%	(76.0%)	36.3%	108.2%	(15.0%)
Profitability					
Return on average assets	1.2%	0.3%	0.4%	0.8%	0.7%
Return on average equity	17.3%	5.7%	8.5%	13.6%	9.7%
Per share data					
EPS (NT\$)	10.59	2.55	3.47	7.23	6.14
BVPS (NT\$)	61.51	34.55	47.45	58.55	67.93
Cash DPS (NT\$)	3.50	0.90	2.00	2.70	2.40

Source: Company data, KGI Research estimates

Profit & loss

NT\$m	Dec-21A	Dec-22A	Dec-23A	Dec-24F	Dec-25F
Interest income	207,813	250,520	307,577	335,917	352,914
Interest expense	(12,931)	(24,357)	(61,947)	(73,305)	(77,462)
Net interest revenue	194,882	226,163	245,630	262,612	275,453
Commissions & fees [net]	12,649	15,421	17,751	17,650	18,019
Net insurance income	218,484	1,436	(30,069)	(14,162)	(8,219)
Trading income	192,751	134,451	41,272	97,490	101,540
Other non-interest income	7,197	(36,038)	29,588	20,412	(10,922)
Non interest income	431,080	115,271	58,543	121,389	100,418
Net revenue	625,963	341,434	304,173	384,001	375,871
Operating expenses	(85,543)	(88,610)	(102,496)	(104,816)	(105,864)
Operating profit	540,419	252,823	201,676	279,186	270,007
Charge for bad debts	(3,484)	(4,778)	(4,103)	(8,020)	(7,129)
Provision bad debts on credit card	-	-	-	-	-
Provision of insurance duty	(377,408)	(198,098)	(139,104)	(152,138)	(159,745)
Provision charges	(380,893)	(202,876)	(143,207)	(160,159)	(166,874)
Pre-tax profit	159,526	49,948	58,469	119,027	103,133
Current taxation	(18,637)	(11,986)	(6,955)	(13,887)	(13,764)
Ordinary income	140,889	37,962	51,514	105,140	89,369
Consolidated net income	140,889	37,962	51,514	105,140	89,369
Minorities	(1,375)	(603)	(585)	896	761
Net profit	139,514	37,359	50,929	106,036	90,131
Dividends	(46,092)	(13,202)	(29,338)	(39,607)	(35,206)
Retained earnings reserve	93,422	24,157	21,590	66,429	54,925
Normalised net profit	139,514	37,359	50,929	106,036	90,131

Source: Company data, KGI Research estimates

Cathay FHC – Recommendation & target price history



Date	Rating	Target	Price
2024-05-24	Outperform	64.00	54.90
2023-11-24	Outperform	54.00	46.30
2023-08-25	Outperform	52.00	44.50
2023-05-26	Outperform	50.00	43.90
2023-03-22	Neutral	41.00	41.35
2022-10-20	Neutral	42.00	37.85
2022-08-29	Neutral	48.00	45.60
2022-05-23	Neutral	58.00	52.30
2022-03-22	Outperform	70.50	63.60
2021-11-16	Outperform	70.00	60.00

Source: TEJ, KGI Research

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