

Financial sector

January FHC earnings grew on investment & fee income

Key message

1. The aggregate earnings of fourteen FHCs in Taiwan grew 130% YoY in January, with insurance-centric FHCs outperforming bank- and brokerage-centric peers.
2. The probability of the Fed announcing a rate cut in March has dropped below 20%. We now expect rate cuts will come to the fore in 2Q24F, which in turn should boost stock and bond valuations for insurers and banks. Banks and brokerages would also benefit from a potential pivot to monetary policy easing by the US Fed.
3. Within the financial sector, we still prefer banks, brokerages and life insurers over leasing companies.

Event

Excluding Shin Kong FHC (2888 TT, NT\$8.33, NR), which booked a loss of NT\$2.2bn, the aggregate earnings of fourteen FHCs in Taiwan grew 130% YoY and 894% MoM in January, with insurance-centric FHCs pulling off 423% YoY profit growth, outstripping bank- and brokerage-centric peers' 51% and 169% growth. We attribute the outperformance of insurance-centric FHCs to forex gains from 1.8% depreciation of the NT dollar, and realized capital gains from both stocks and bonds. Bank-centric FHCs benefitted from forex swap gains, along with rebounding investment income in January, one-off fee income from large syndicated loans, robust sales of financial products, which shored up fee income, and lower provisions. Brokerage-centric FHCs recognized increased fee income, as the daily turnover of the Taiex soared 57% YoY to NT\$384.8bn in January, with their investment positions also incurring valuation gains.

Analysis

Bank-centric FHCs — Growing fee income & reduced bad loan provisions offset the impact of declining forex swap gains. CTBC FHC (2891 TT, NT\$28.40, OP) reported a preliminary net profit of NT\$8.8bn in January, up 251% YoY and 705% MoM, achieving 15% of our full-year forecast. CTBC Bank saw January earnings rise 31% YoY and 56% MoM, as fee income increased on growing contributions from the syndicated loan, wealth management and credit card businesses. Meanwhile, investment income also rebounded on capital gains from bond disposals and valuation gains from other financial instruments. Taiwan Life posted January earnings of NT\$4.17bn, turning profitable both on a MoM and YoY basis, thanks to increased forex gains, capital gains from stock investments, and valuation gains. Mega FHC (2886 TT, NT\$37.8, N) and First FHC (2892 TT, NT\$26.75, N) registered 2.7% and 16% YoY growth in January earnings, owing to higher fee income from wealth management and syndicated loans, which, alongside reduced bad loan provisions, offset the impact of a MoM decline in forex swap gains.

Insurance-centric FHCs — Riding capital gains & reduced forex losses. Fubon FHC's (2881 TT, NT\$65.30, OP) January earnings rebounded to NT\$14.07bn, up 131% YoY and achieving 15% of our full-year forecast, as Fubon Life reported January profits of NT\$9.08bn, up 553% YoY, on realized capital gains from stock and fund investments which increased by NT\$8.1bn MoM to NT\$13.5bn, and 1.8% depreciation of the NT dollar, which shaved hedging costs by NT\$4.8bn MoM. Taipei Fubon Bank delivered January net profits of NT\$3.49bn, up 14% YoY, on increased interest and fee income, up by a respective 12% and 73% YoY. Fubon Insurance contributed a net profit of NT\$540mn, while Fubon Securities posted 37% earnings growth YoY. Cathay FHC (2882 TT, NT\$44.5, OP) reported January net profits of NT\$9.41bn, up 444% YoY, achieving 12% of our 2024F estimate, as Cathay Life turned profitable MoM and YoY, with earnings of NT\$4.72bn, on realized capital gains, increased recurring income, and lower hedging costs, with forex reserves increased NT\$1.5bn MoM. Cathay United Bank saw January net profit rise 36% YoY to a monthly high of NT\$3.97bn, as, boosted by wealth management and credit card businesses, fee income jumped 40% YoY, and investment income rebounded.

Stocks for Action

The US Federal Reserve released a hawkish statement after the January FOMC meeting. At the same time, YoY US CPI growth turned out to be higher than expected, and thus the market expects the Fed to postpone the first rate cut of 25bps to 2Q24F. So far, the Taiex, S&P 500 and US Dollar indices have remained in an uptrend since January, and we think this will keep insurers' forex gains and valuations of stock investments afloat. With the US 10-year Treasury yield rebounding to 4.1-4.4%, we think insurers and banks will continue to expand their overseas bond positions. As the average cost of currency swaps has retreated to 4.23% since the beginning of 1Q24, we estimate banks' FX swap income will narrow in coming quarters, although the cost of currency swaps could stay well above 4% in 1Q24F. Coupled with realization of bond investment gains and growing demand for loans, we believe banks' NIMs will narrow slightly or stay flat QoQ in 1Q24F. As a potential rate cut by the US Fed in 2024F will be favorable to life insurers, banks' stocks, bond investment valuations, recurring hedging costs with currency swaps, wealth management fee income and brokerages' operations. Within the financial sector, we prefer banks, brokerages and life insurers over leasing firms. Our top picks are CTBC FHC, Yuanta FHC (2885 TT, NT\$27, OP), Cathay FHC, and Fubon FHC.

Risks

Weakening global financial markets; high credit costs for banks.

Figure 5: In January, SCSB's (5876, NT\$44.1, N) net revenue rose 7.5% YoY & 9% MoM, resulting in net profit of NT\$1.36bn, or 7% of our full-year forecast

NT\$m	1Q23	YoY(%)	2Q23	YoY(%)	3Q23	YoY(%)	4Q23	YoY(%)	2023	YoY(%)	Jan-24	YoY(%)	MoM(%)
Net interest income	8,857	31.2	9,814	26.0	10,463	14.6	9,803	2.4	38,810	18.3	3,196	6.6	(0.9)
Net fee income	1,482	(14.6)	1,450	(1.1)	1,501	12.9	1,090	(2.3)	5,819	(3.4)	691	28.1	123.7
Investment income	862	(24.6)	2,108	143.1	1,110	(56.0)	146	(43.7)	4,174	(13.8)	296	99.6	205.9
Others	190	(52.5)	177	5.8	57	(62.8)	186	(4.4)	649	(26.9)	(123)	(233.6)	(274.9)
Net revenue	11,391	13.6	13,550	31.7	13,131	(0.0)	11,226	0.7	49,452	11.0	4,060	7.5	9.7

Source: Company data, KGI Research

Figure 6: Securities earnings grew 81% YoY & 20% MoM in January; Taiex daily turnover soared 57% YoY to NT\$384.8bn, in addition to investment valuation gains

NT\$m	1Q23		2Q23		3Q23		4Q23		2023		Jan-24				
FHC ticker	Subsidiary name	Earnings	YoY (%)	Earnings	YoY (%)	Earnings	YoY (%)	Earnings	YoY (%)	Earnings	YoY (%)	Earnings	YoY (%)	MoM (%)	EPS (NT\$)
2880 TT	Hua Nan Securities	220	(35.9)	469	88.4	486	51.8	331	69.8	1,505	36.0	130	170.8	6.6	0.20
2881 TT	Fubon Securities	1,534	100.6	1,811	233.7	2,050	70.0	1,550	573.1	7,040	155.1	630	37.0	10.5	0.39
2882 TT	Cathay Securities	467	18.1	578	66.1	537	38.9	520	85.7	2,110	49.6	320	357.1	45.5	0.41
2883 TT	KGI Securities	1,892	31.0	1,803	159.6	1,695	211.5	1,903	101.3	7,293	99.0	1,155	70.6	51.6	0.64
2884 TT	E.Sun Securities	286	(0.7)	326	19.0	(612)	N.A.	326	(67.5)	1,288	28.4	146	175.5	29.2	0.36
2885 TT	Yuanta Securities	3,039	(13.2)	4,100	33.7	3,907	23.9	2,748	17.8	13,793	14.4	1,366	92.4	31.0	0.21
2886 TT	Mega Securities	465	168.9	622	3,146.1	541	53.5	374	537.3	2,003	232.2	335	477.6	21.8	0.29
2887 TT	Taishin Securities	430	104.9	443	2,359.3	238	(18.1)	431	18,501.6	1,550	198.1	120	20.0	(47.8)	0.17
2888 TT	MasterLink Securities	770	N.A.	773	N.A.	446	64.9	506	17.2	2,496	589.5	224	6.2	(20.3)	0.14
2890 TT	SinoPac Securities	805	1.9	919	800.3	1,332	519.7	771	62.1	3,828	142.3	483	113.7	25.8	0.30
2892 TT	First Securities	331	168.5	333	485.4	167	(26.5)	148	N.A.	978	142.7	51	(16.4)	(27.1)	0.08
2855 TT	President Securities	458	N.A.	1,170	194.1	823	21.3	428	97.3	2,879	294.7	412	208.2	20.9	0.28
5880 TT	Taiwan Cooperative Securities	41	(58.6)	93	87.9	(134)	N.A.	(31)	N.A.	202	(29.4)	34	N.A.	142.9	0.07
6005 TT	Capital Securities	1,109	291.8	1,089	N.A.	1,073	341.6	960	66.4	4,560	288.7	400	(4.5)	(8.0)	0.17
Total of 15 brokerages		11,846	44.7	14,529	148.5	12,549	59.4	10,965	45.8	51,525	86.3	5,806	81.4	19.5	

Source: Company data, KGI Research

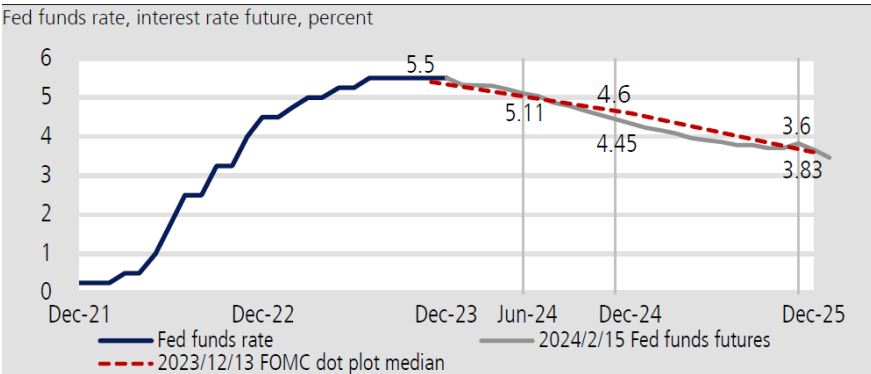
Figure 7: In January, Yulon Finance's (9941, NT\$166.5, OP) earnings fell 29% YoY to NT\$410mn; Hotai Finance's (6592, NT\$121, OP) sales grew 23.5% YoY; Chailease's (5871, NT\$170, N) sales rose 6% YoY on better Taiwan and ASEAN sales

NT\$m	1Q23		2Q23		3Q23		4Q23		2023		Jan-24			2024F	
FHC ticker	Subsidiary name	Sales	YoY (%)	Sales	YoY (%)	Sales	YoY (%)	Sales	YoY (%)	Sales	YoY (%)	Sales	YoY (%)	MoM (%)	Achieved (%)
5871 TT	Chailease	23,140	16.1	24,137	14.0	25,185	12.9	25,064	8.0	97,526	12.6	8,260	6.1	(2.8)	7.4
9941 TT	Yulon Finance	9,783	16.3	10,336	15.8	10,682	13.7	10,695	8.8	41,570	13.4	3,575	13.0	0.8	7.6
6592 TT	Hotai Finance	6,565	26.6	6,920	26.7	7,503	26.9	7,672	23.2	28,660	25.8	2,641	23.5	1.3	7.7

NT\$m	1Q23		2Q23		3Q23		4Q23		2023		Jan-24			2024F		
FHC ticker	Subsidiary name	Earnings	YoY (%)	Earnings	YoY (%)	Earnings	YoY (%)	Earnings	YoY (%)	Earnings	YoY (%)	Earnings	YoY (%)	MoM (%)	EPS (NT\$)	Achieved (%)
5871 TT	Chailease	6,890	(3.9)	6,174	(10.7)	6,232	(11.1)	5,729	(6.5)	25,025	(8.1)					
9941 TT	Yulon Finance	1,793	10.6	1,742	34.7	1,718	10.1	1,019	(65.5)	6,272	8.1	407	(28.6)	881.9	0.71	4.9
6592 TT	Hotai Finance	899	3.6	887	(3.5)	1,005	10.6									

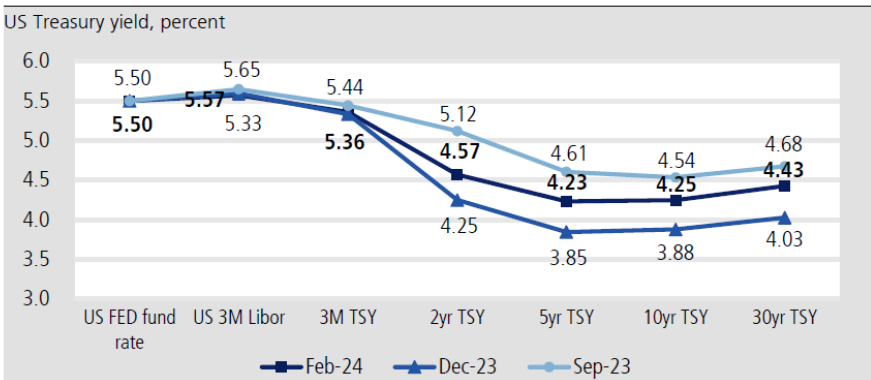
Source: Company data, KGI Research

Figure 8: Markets now expect the Fed to postpone the first rate cut to 2Q24F given a hawkish January statement and higher-than-expected CPI growth



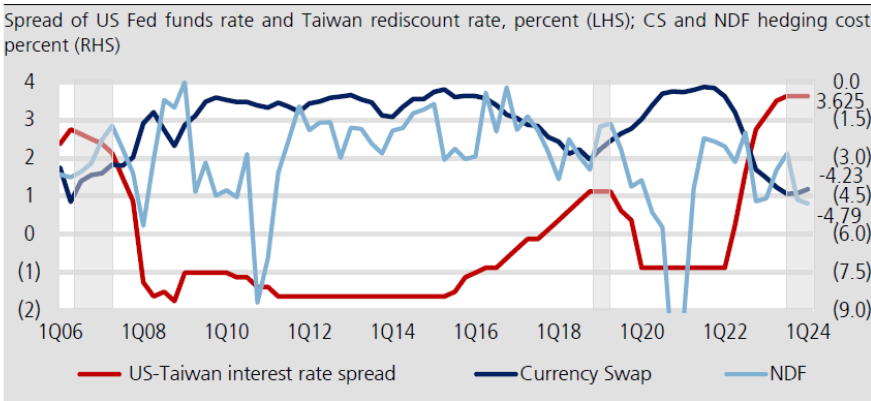
Source: Bloomberg, KGI Research

Figure 9: US 10-year Treasury yield rebounded to 4.1-4.4% in February, creating a good entry point for insurers and banks to expand overseas bond positions



Source: Bloomberg, KGI Research

Figure 10: Average cost of CS has lowered to 4.23% since 1Q24; as Fed rate cuts may be postponed to 2Q24, we expect CS costs to remain well above 4% in 1Q24F



Source: Bloomberg, KGI Research

Figure 11: Overall bank NPL ratio at 0.14% in January, indicating stable asset quality

FHC/Bank ticker	Bank	Dec-23				Dec-23				Dec-23			
		NPL ratio (%)	YoY (ppts)	YTD (ppts)	MoM (ppts)	NPL (NT\$mn)	YoY	YTD	MoM	Coverage ratio (%)	YoY (ppts)	YTD (ppts)	MoM (ppts)
2834 TT	Taiwan Business Bank	0.18	(0.02)	(0.02)	0.01	2,719	(48)	(48)	135	720.9	79.2	79.2	(32.3)
2801 TT	Chang Hwa Bank	0.18	(0.02)	(0.02)	0.00	3,189	(218)	(218)	29	693.4	55.3	55.3	(2.3)
2886 TT	Mega Bank	0.17	0.01	0.01	(0.06)	3,636	259	259	(1,318)	985.0	54.5	54.5	289.8
5880 TT	Taiwan Cooperative Bank	0.18	0.00	0.00	(0.02)	5,125	309	309	(478)	637.1	(0.3)	(0.3)	54.9
2892 TT	First Bank	0.17	(0.01)	(0.01)	0.00	4,099	(22)	(22)	51	827.0	117.7	117.7	20.5
2881 TT	Taipei Fubon Bank	0.12	(0.07)	(0.07)	0.00	2,492	(682)	(682)	72	1,071.1	369.3	369.3	(21.5)
2888 TT	Shin Kong Bank	0.12	0.00	0.00	0.00	942	23	23	7	1,107.1	17.0	17.0	(13.8)
2884 TT	E.Sun Bank	0.16	0.00	0.00	(0.01)	3,317	191	191	(146)	753.4	0.8	0.8	46.3
2880 TT	Hua Nan Bank	0.15	0.02	0.02	(0.02)	3,410	625	625	(266)	846.3	(147.2)	(147.2)	61.8
5876 TT	SCSB	0.17	0.01	0.01	(0.04)	1,460	88	88	(414)	941.9	36.3	36.3	268.6
2891 TT	CTBC Bank	0.16	0.04	0.04	0.01	4,342	1,144	1,144	109	782.8	(199.1)	(199.1)	(16.7)
2885 TT	Yuanta Bank	0.03	0.01	0.01	0.01	332	131	131	87	4,229.4	(2,379.9)	(2,379.9)	(1,594.6)
2890 TT	Bank Sinopac	0.09	(0.02)	(0.02)	0.00	1,314	(143)	(143)	87	1,419.5	251.3	251.3	(86.8)
2887 TT	Taishin Bank	0.12	(0.02)	(0.02)	0.01	1,774	(194)	(194)	16	1,159.8	186.6	186.6	(0.2)
2882 TT	Cathay United Bank	0.11	0.03	0.03	0.01	2,519	1,009	1,009	200	1,453.1	(696.6)	(696.6)	(112.9)
2809 TT	King's Town Bank	0.02	0.00	0.00	0.00	48	7	7	7	7,571.3	(1,299.0)	(1,299.0)	(1,223.1)
	Bank industry	0.14	(0.01)	(0.01)	(0.01)	54,942	247	247	(3,924)	968.7	58.3	58.3	76.5

Source: TEJ, KGI Research

Figure 12 : We expect the average FHC cash dividend per share in 2023F will rise by approximately 50% YoY

NT\$mn		2022 undistributed earnings	4Q22 other equity interest	2023 net profit	4Q23F other equity interest	Changes in other equity in 2023F	2023F undistributed earnings**	2023F Cash dividend per share (NT\$) lower band	2023F Cash dividend per share (NT\$) upper band	vs.2022 Cash dividend per share (NT\$)	2023F Cash dividend growth rate	2023F Cash dividend yields
Ticker	Company											
2881 TT	Fubon FHC	101,690	(226,424)	66,140	(33,286)	193,138	284,353	2.00	2.20	1.50	33%	3.1%
2891 TT	CTBC FHC	3,102	(74,208)	56,081	(37,071)	37,138	90,712	1.20	1.30	1.00	20%	4.2%
2885 TT	Yuanta FHC	52,355	(6,968)	26,566	4,274	11,242	87,507	1.15	1.25	0.80	44%	4.3%
2886 TT	Mega FHC	25,308	(15,326)	33,238	2,901	18,227	73,449	1.60	1.70	1.24	29%	4.2%
2882 TT	Cathay FHC	-	(233,350)	51,500	(78,121)	155,229	46,350	1.40	1.60	0.90	56%	3.2%
2892 TT	First FHC	17,368	4,630	22,461	17,008	12,378	37,583	0.90	0.95	0.80	13%	3.4%
2890 TT	Sinopac FHC*	4,010	(14,200)	19,783	(5,102)	9,098	30,912	0.80	0.90	0.60	33%	4.2%
2884 TT	E.Sun FHC	945	(5,367)	21,760	(2,216)	3,151	23,680	0.54	0.60	0.19	184%	2.2%
5880 TT	Cooperative FHC*	117	(21,510)	17,863	(8,373)	13,137	29,331	0.75	0.80	0.50	50%	3.0%
2880 TT	Hua Nan FHC*	50	(18,238)	21,626	(10,283)	7,954	27,467	0.69	0.75	0.59	17%	3.2%
2887 TT	Taishin FHC	393	(7,294)	14,600	(798)	6,495	20,028	0.54	0.60	0.51	6%	3.1%
2889 TT	Waterland FHC*	-	(2,463)	2,000	1,924	4,387	3,085	0.35	0.40	-	-	2.9%
2888 TT	Shin Kong FHC*	-	(57,896)	(7,301)	(17,971)	39,925	-	-	-	-	-	0.0%

Note : * Indicates FHCs not within our coverage universe; 2023F dividend forecasts for these FHCs are based on Bloomberg consensus or past payout ratio

Note : ** Indicates 2023F undistributed earnings didn't include change in other equity in 4Q23

Source: Company data, KGI Research

Figure 13: FHC and bank valuations

Company	Code	Rating	Market cap (US\$ mn)	Share price (LCY)	PB (x)		PE (x)		ROE (%)		Net profit (NT\$ mn)		Net profit growth (%)		EPS (NT\$)		EPS growth (%)		BVPS (NT\$)		Cash yield (%)		Cash dividend (NT\$)		Cash dividend growth (%)	
					2023F	2024F	2023F	2024F	2023F	2024F	2023F	2024F	2023F	2024F	2023F	2024F	2023F	2024F	2023F	2024F	2023F	2024F	2023F	2024F	2023F	2024F
CTBC FHC	2891 TT	Outperform	17,483	28.40	1.41	1.21	9.5	9.2	16.0	14.2	58,453	60,542	86.9	3.6	2.98	3.09	86.9	3.6	20.09	23.46	4.2	4.4	1.20	1.25	20.0	4.2
E Sun FHC	2884 TT	Restricted	12,113	24.65	1.66	1.51	18.8	17.1	9.6	9.2	20,558	22,553	30.5	9.7	1.31	1.44	19.0	9.7	14.89	16.33	2.2	2.4	0.54	0.60	170.0	11.0
First FHC	2892 TT	Neutral	11,430	26.75	1.48	1.35	15.8	16.0	9.8	8.8	22,992	22,787	11.6	(0.9)	1.69	1.67	8.4	(0.9)	18.06	19.88	3.6	3.6	0.95	0.95	18.7	0.0
Mega FHC	2886 TT	Neutral	17,078	37.80	1.63	1.48	15.9	16.2	10.7	9.6	33,459	32,859	82.5	(1.8)	2.38	2.34	81.0	(1.8)	23.20	25.54	4.2	4.2	1.60	1.60	29.0	0.0
Taiwan FHC	2887 TT	Neutral	6,713	17.15	1.28	1.17	13.3	12.7	9.9	9.6	16,085	16,825	8.2	4.6	1.29	1.35	3.9	4.6	13.37	14.72	3.1	3.3	0.54	0.57	5.9	4.6
Bank FHC peer average					1.49	1.34	14.7	14.2	11.2	10.3	30,309	31,113	50.3	2.7			39.8	3.0			3.5	3.6			48.7	4.0
Fubon FHC	2881 TT	Outperform	26,662	65.30	1.28	1.06	10.9	8.9	13.8	13.0	78,144	95,598	66.5	22.3	6.00	7.35	58.6	22.3	50.85	61.79	3.1	3.8	2.00	2.50	33.3	25.0
Cathay FHC	2882 TT	Outperform	20,272	44.05	1.09	0.81	8.9	8.1	13.2	11.5	72,982	80,058	95.4	9.7	4.98	5.46	95.4	9.7	40.56	54.23	3.6	4.5	1.60	2.00	77.8	25.0
Insurance FHC peer average					1.19	0.93	9.9	8.5	13.5	12.3	75,563	87,828	79.3	16.2			77.0	16.0			3.3	4.2			55.6	25.0
Yuanta FHC	2885 TT	Outperform	10,748	27.00	1.22	1.09	12.5	11.7	10.2	9.8	27,380	29,301	27.6	7.0	2.16	2.31	25.7	7.0	22.12	24.87	4.6	4.8	1.25	1.30	56.3	4.0
Securities FHC peer average					1.22	1.09	12.5	11.7	10.2	9.8	27,380	29,301	27.6	7.0			25.7	7.0			4.6	4.8			56.3	4.0
SCSB	5876 TT	Neutral	6,726	44.10	1.15	1.04	11.3	11.2	10.6	9.8	18,940	19,143	26.8	1.1	3.90	3.94	26.8	1.1	38.33	42.27	4.8	4.8	2.10	2.10	16.4	0.0
King's Town Bank	2809 TT	Outperform	1,426	40.90	0.96	0.84	8.3	7.6	12.3	11.9	5,507	6,006	149.2	9.1	4.96	5.41	149.2	9.1	42.67	48.44	4.4	4.9	1.80	2.00	63.6	11.1
Taiwan financials peer average					1.32	1.16	12.5	11.9	11.6	10.7	35,450	38,567	58.5	8.8			55.5	6.4			3.8	4.1			48.7	4.0
Yulon Finance	9941 TT	Outperform	2,864	166.50	2.88	2.28	13.6	11.3	23.1	23.1	6,918	8,283	19.2	19.7	12.25	14.70	1.6	20.0	57.81	72.92	3.6	4.2	6.00	7.00	7.1	16.7
Hotai Finance	6592 TT	Outperform	2,150	121.00	2.60	2.18	19.4	14.9	15.1	17.4	3,831	5,020	5.7	31.0	6.23	8.09	(11.4)	29.9	46.52	55.38	2.8	3.0	3.40	3.60	(2.9)	5.9
Chaliese	5871 TT	Neutral	8,611	170.00	1.89	1.56	10.2	8.8	19.3	19.2	25,910	30,112	(4.8)	16.2	16.73	19.38	(4.7)	15.9	89.78	108.80	3.7	4.1	6.30	7.00	(1.6)	11.1
Taiwan leasing peer average					2.46	2.01	14.4	11.7	19.2	19.9	12,220	14,472	6.7	22.3			(4.9)	21.9			3.4	3.8			0.9	11.2

Source: Bloomberg, KGI Research

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