

# Mega FHC (2886.TW/2886 TT)

## 1Q24 earnings grew; P&C loss depends on court verdict

FTSE4Good TIP Taiwan ESG Index stock

### Neutral · Maintained

Price as of May 29 (NT\$)	39.00
12M target price (NT\$)	37.00
Previous target price (NT\$)	38.00
Revised down (%)	2.6
Downside (%)	5.1

#### Key message

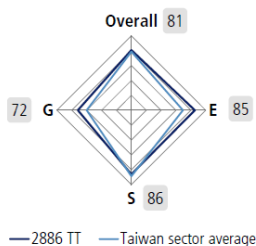
- 1Q24 earnings up 7% on securities, P&C and bills segments.
- 1Q24 NIM widened to 1%; 1Q24 fee income soared 82% YoY due to one-off fee income from syndicated loan to Taiwan High Speed Rail.
- 2024F earnings growth limited, albeit higher NIM, due to lower investment income.

#### Trading data

Mkt cap (NT\$bn/US\$m)	562 / 17,477
Outstanding shares (mn)	14,401
Foreign ownership (mn)	3,100
3M avg. daily trading (mn)	14.45
52-week trading range (NT\$)	35.30 -41.15

Performance	3M	6M	12M
Absolute (%)	0.8	-0.4	7.7
Relative (%)	-13.4	-25.1	-22.5

#### ESG score card



Source: Refinitiv; KGI Securities

#### Event

1Q24 net profit grew 7% YoY to NT\$11.49bn on securities, P&C and bills businesses.

#### Impact

**1Q24 earnings driven by non-banking profit.** Mega FHC posted net profit of NT\$11.49bn in 1Q24, up 6.6% YoY and 85% QoQ, beating our forecast by 10%. The primary drivers were securities earnings growth of 90% YoY, P&C earnings of NT\$160mn, and bills earnings growth of 27% from higher capital gains on bonds, which offset a bank earnings contraction of 5.9% YoY, from pre-provision earnings declining by 1.7% YoY and an increase of NT\$700mn in bad debt provisions.

**1Q24 bank NIM widens.** Mega Bank's NIM widened 5bps QoQ to 1% in 1Q24, and net interest income (NII) rose by 3.4% QoQ, the second quarter of increases, as the NT dollar, US dollar and other FCY NIM rose by a respective 2, 13 and 10bps on controls over foreign-currency funding costs, and higher CASA and loan-to-deposit ratios, QoQ. Loans grew 7.3% YoY in 1Q24, the fastest growth since 2021, due to corporate loan demand in a recovering economy and a new youth mortgage loan program. In 1Q24, investment income shrank by around NT\$1.5bn, as stock capital gains fell NT\$1bn and FX swap gains dropped by approximately NT\$300mn. One-off fee income of NT\$1bn was realized from a syndicated loan to Taiwan High Speed Rail, and coupled with wealth management fee income growth of 42%, caused fee income to grow by 82% YoY in 1Q24. While the NPL ratio rose to 0.3% in 1Q24 on overseas property NPL, which already set at a 50% provision, management expects the NPL ratio will return to normal after collateral is sold.

**Positive guidance for 2H24F NIM & fee income.** Management guides 2024F NIM to be higher than the 0.99% in 2023. While FX swap gains will decline in 2024F, loan growth will return to the mid-single digits in 2024, prompting a higher loan to deposit ratio and NII growth. The company is positive on the wealth management business, expecting it to fuel fee income. As negotiations between the P&C unit and reinsurer Hannover Re (DE) have not reached any concrete conclusion, the unit has pressed charges against the reinsurer. Whether an additional allowance for losses needs to be earmarked will depend on court verdicts or arbitration results.

#### Valuation & Action

Shares are at 1.4x 2024-25F BVPS. Mega Bank's ongoing adjustments to deposit and loan structures will help boost NIM in 2024F. However, investment income is unlikely to grow and Covid reinsurance claims are uncertain. We therefore maintain Neutral on Mega FHC. Our target price is NT\$37, based on 1.35x average 2024-25F BVPS.

#### Risks

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

#### Key financials and valuations

	Dec-21A	Dec-22A	Dec-23A	Dec-24F	Dec-25F
Net revenue (NT\$m)	60,231	56,050	77,322	77,704	78,148
Provision charges (NT\$m)	(1,969)	(5,234)	(6,776)	(4,945)	(4,315)
PPOP (NT\$m)	30,625	26,379	43,824	43,156	43,101
Net profit (NT\$m)	25,731	18,335	33,247	33,377	34,783
EPS (NT\$)	1.89	1.32	2.34	2.32	2.42
BVPS (NT\$)	24.15	21.51	23.66	26.63	29.04
Cash DPS (NT\$)	1.40	1.24	1.50	1.60	1.70
EPS growth (%)	2.9	(30.5)	78.1	(1.1)	4.2
Net profit growth (%)	2.9	(28.7)	81.3	0.4	4.2
PE (x)	20.6	29.7	16.6	16.8	16.1
PB (x)	1.6	1.8	1.6	1.5	1.3
Dividend yield (%)	3.6	3.2	3.8	4.1	4.4
Return on average equity (%)	7.9	5.8	10.5	9.3	8.7
Return on average assets (%)	0.6	0.4	0.8	0.7	0.7

Source: Company data; KGI Research estimates

**Figure 1: 1Q24 earnings up 7% YoY on securities, P&C & bills businesses; January-April YoY earnings growth slowed to 1%**

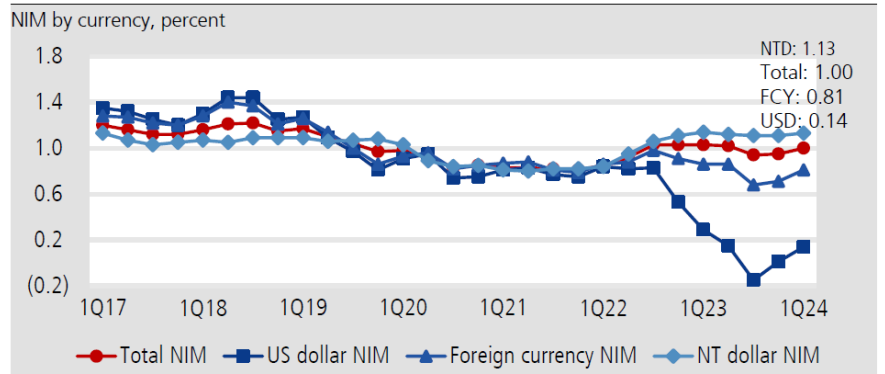
NT\$m	2023		1Q24			Jan- Apr 24		Achieved of 2024 (%)
	Earnings	YoY (%)	Earnings	YoY (%)	QoQ (%)	Earnings	YoY (%)	
Mega FHC	33,247	81.3	11,490	6.6	84.75	14,120	0.9	42.3
Mega Bank	31,025	28.3	9,888	(5.9)	80.35	12,297	(7.8)	41.3
Mega Securities	2,002	231.9	887	90.4	137.24	990	54.0	45.9
Mega Bill	1,920	(36.8)	603	26.7	49.90	753	19.5	33.7
Mega P&C	(1,467)	N.A.	166	N.A.	113.06	182	N.A.	N.A.

Source: Company data; KGI Research

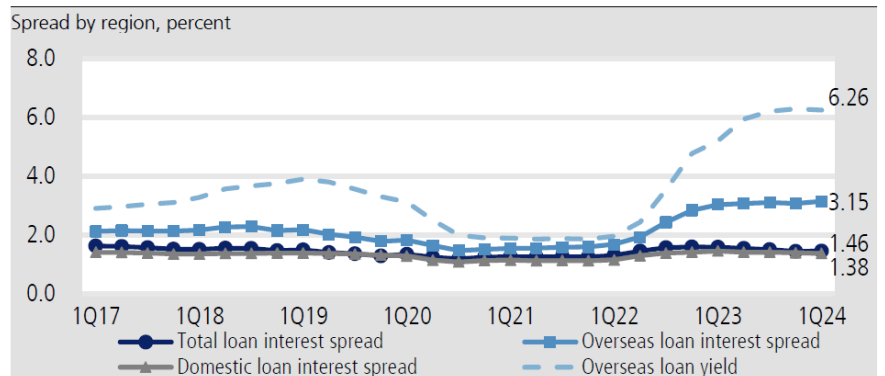
**Figure 2: Breakdown of 2024 & 2025 earnings forecasts**

NT\$m	2024F				2025F	
	Revision	Previous	Chg. (%)	YoY (%)	KGI Forecast	YoY (%)
Mega FHC	33,377	32,953	1.3	0.4	34,783	4.2
Mega Bank	29,741	29,462	0.9	(4.1)	30,449	2.4
Mega Securities	2,158	2,268	(4.8)	7.8	2,276	5.5
Mega Bill	2,236	2,059	8.6	16.5	2,349	5.0
Mega P&C	(35)	19	(285.3)	N.M.	496	N.M.

Source: KGI Research

**Figure 3: 1Q24 NIM up 5bps QoQ to 1% on higher NIM for NT dollar & FCY**


Source: Company data; KGI Research

**Figure 4: 1Q24 spread up 1bp QoQ to 1.46% on lower FCY funding costs**


Source: Company data; KGI Research

**Figure 5: 1Q24 loans grew at a faster YoY rate of 7.3% on higher corporate demand & youth mortgage loans**

NT\$bn	2016	2017	2018	2019	2020	2021	2022	2023	1Q24	weighting(%)
Corporate Loans	1,278	1,310	1,406	1,393	1,345	1,413	1,481	1,500	1,544	70.2
Large corporate loans	676	679	749	716	633	640	687	689	708	32.2
SME corporate loans	602	631	657	677	712	773	794	811	836	38.0
Government	55	56	43	62	59	62	60	97	93	4.2
Mortgage	301	308	328	345	405	472	444	444	452	20.6
Other personal loans	94	101	102	83	92	99	103	108	110	5.0
<b>Total loans (quarterly end balance)</b>	<b>1,728</b>	<b>1,775</b>	<b>1,879</b>	<b>1,883</b>	<b>1,901</b>	<b>2,046</b>	<b>2,088</b>	<b>2,149</b>	<b>2,199</b>	<b>100.0</b>
YoY (%)	2016	2017	2018	2019	2020	2021	2022	2023	1Q24	QoQ (%)
Corporate Loans	(3.9)	2.5	7.3	(0.9)	(3.4)	5.1	4.8	1.3	7.6	2.9
Large corporate loans	(8.0)	0.4	10.3	(4.4)	(11.6)	1.1	7.3	0.3	9.9	2.8
SME corporate loans	1.2	4.8	4.1	3.0	5.2	8.6	2.7	2.1	5.7	3.1
Government	(8.3)	1.8	(23.2)	44.2	(4.8)	5.1	(3.2)	61.7	20.8	(4.1)
Mortgage	1.7	2.3	6.5	5.2	17.4	16.5	(5.9)	0.0	3.7	1.8
Other personal loans	(1.1)	7.4	1.0	(18.6)	10.8	7.6	4.0	4.9	8.9	1.9
<b>Total loans (quarterly end balance)</b>	<b>(3.0)</b>	<b>2.7</b>	<b>5.9</b>	<b>0.2</b>	<b>1.0</b>	<b>7.6</b>	<b>2.1</b>	<b>2.9</b>	<b>7.3</b>	<b>2.3</b>

Source: Company data; KGI Research

**Figure 6: In 1Q24, NT-dollar QoQ loan growth quickened to 3.3% and the FCY loan QoQ contraction eased to 1%**

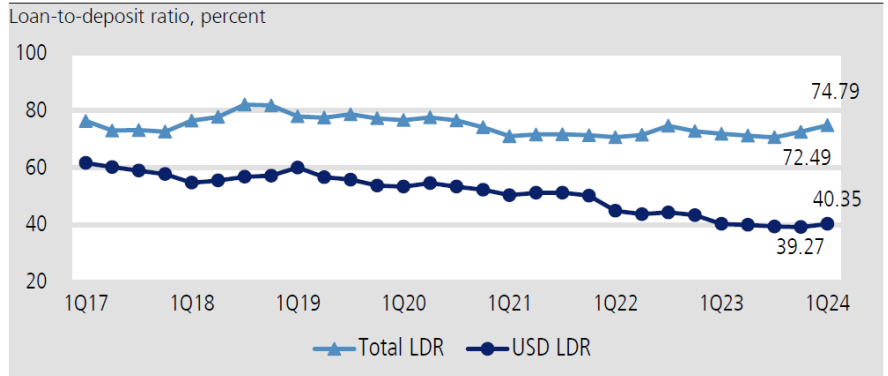
NT\$bn	2016	2017	2018	2019	2020	2021	2022	2023	1Q24	weighting(%)
NT dollar loans	1,089	1,124	1,169	1,174	1,268	1,420	1,467	1,534	1,584	73.3
US dollar loans	515	468	526	481	425	430	439	388	384	17.8
Other foreign currency loans	122	137	175	180	196	184	186	195	194	9.0
<b>Total loans (quarterly average balance)</b>	<b>1,726</b>	<b>1,729</b>	<b>1,870</b>	<b>1,835</b>	<b>1,889</b>	<b>2,034</b>	<b>2,092</b>	<b>2,117</b>	<b>2,162</b>	<b>100.0</b>
YoY (%)	2016	2017	2018	2019	2020	2021	2022	2023	1Q24	QoQ (%)
NT dollar loans	0.6	3.2	4.0	0.4	8.0	12.0	3.3	4.6	8.6	3.3
US dollar loans	(7.2)	(9.1)	12.4	(8.6)	(11.6)	1.2	2.1	(11.6)	(5.2)	(1.0)
Other foreign currency loans	(19.7)	12.3	27.7	2.9	8.9	(6.1)	1.1	4.8	6.0	(0.5)
<b>Total loans (quarterly average balance)</b>	<b>(3.5)</b>	<b>0.2</b>	<b>8.2</b>	<b>(1.9)</b>	<b>2.9</b>	<b>7.7</b>	<b>2.9</b>	<b>1.2</b>	<b>5.6</b>	<b>2.1</b>

Source: Company data; KGI Research

**Figure 7: 1Q24 deposit growth rose YoY to 4.2%, with FCY term deposits down 0.9% QoQ; CASA ratio rose to 47.8%**

NT\$bn	2016	2017	2018	2019	2020	2021	2022	2023	1Q24	weighting(%)
NTD demand deposit	638	662	666	713	819	911	941	975	978	33.3
Foreign currency demand deposit	501	521	436	428	510	614	513	420	417	14.2
NTD time deposit	548	628	558	565	694	846	651	789	801	27.3
Foreign currency time deposit	468	560	637	732	571	575	720	745	738	25.2
<b>Total deposit</b>	<b>2,155</b>	<b>2,371</b>	<b>2,297</b>	<b>2,468</b>	<b>2,593</b>	<b>2,947</b>	<b>2,824</b>	<b>2,930</b>	<b>2,933</b>	<b>100.0</b>
YoY (%)	2016	2017	2018	2019	2020	2021	2022	2023	1Q24	QoQ (%)
NTD demand deposit	5.5	3.8	0.6	7.1	14.9	11.2	3.3	3.6	7.7	0.3
Foreign currency demand deposit	(1.2)	4.0	(16.3)	(1.8)	19.2	20.4	(16.4)	(18.1)	(8.8)	(0.7)
NTD time deposit	(8)	15	(11)	1	23	21.9	(23.0)	21.2	12.8	1.5
Foreign currency time deposit	(7.5)	19.7	13.8	14.9	(22.0)	0.7	25.2	3.5	(0.4)	(0.9)
<b>Total deposit</b>	<b>(2.8)</b>	<b>10.0</b>	<b>(3.1)</b>	<b>7.4</b>	<b>5.1</b>	<b>13.7</b>	<b>(4.2)</b>	<b>3.8</b>	<b>4.2</b>	<b>0.1</b>

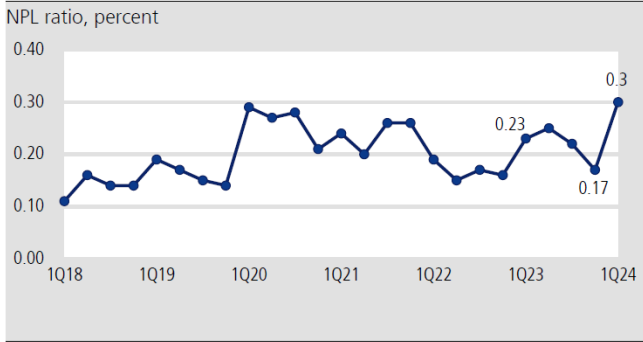
Source: Company data; KGI Research

**Figure 8: 1Q24 overall & US-dollar loan-to-deposit ratios up to 74.8% & 40.35%**

**Figure 9: 1Q24 YoY fee income growth rose to 82% on one-off fee income of NTS\$1bn on loan to Taiwan HSR & wealth management fee income growth of 42%**

NT\$m	2023	YoY (%)	1Q24	YoY (%)	QoQ (%)	Weighting (%)
Wealth Management	3,321	26.9	1,139	42.4	39.1	35.8
FX	1,057	1.3	261	3.2	(3.3)	8.2
Corporate loan	2,630	(3.0)	1,655	192.4	150.0	52.0
Custodian	247	1.2	63	8.6	(3.1)	2.0
Credit card	158	9.7	48	2.1	60.0	1.5
Other	86	2.4	14	(36.4)	(22.2)	0.4
<b>Net fee income</b>	<b>7,499</b>	<b>9.6</b>	<b>3,180</b>	<b>82.1</b>	<b>70.6</b>	<b>100</b>

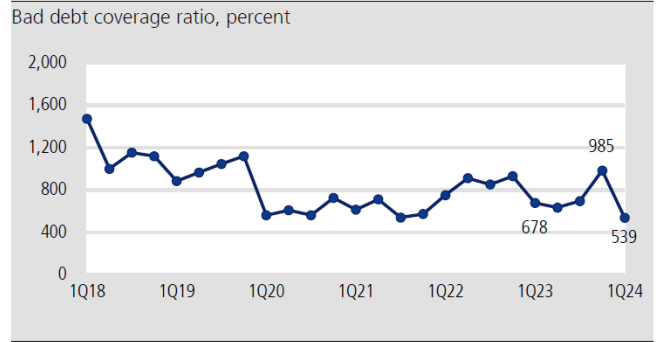
Source: KGI Research

**Figure 10: 1Q24 NPL ratio**



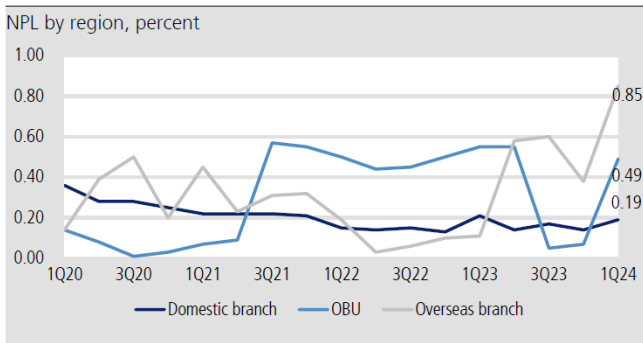
Source: TEJ; KGI Research

**Figure 11: 1Q24 bad debt coverage ratio**



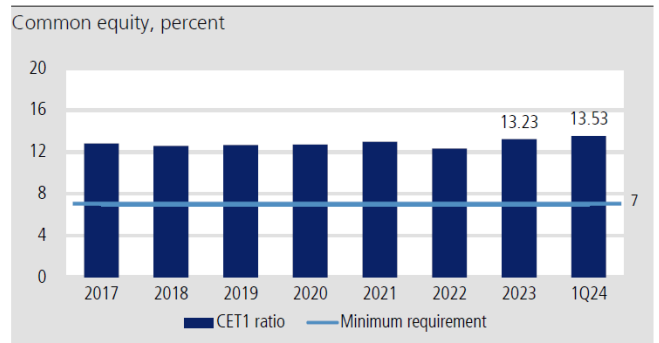
Source: TEJ; KGI Research

**Figure 12: NPL by region**



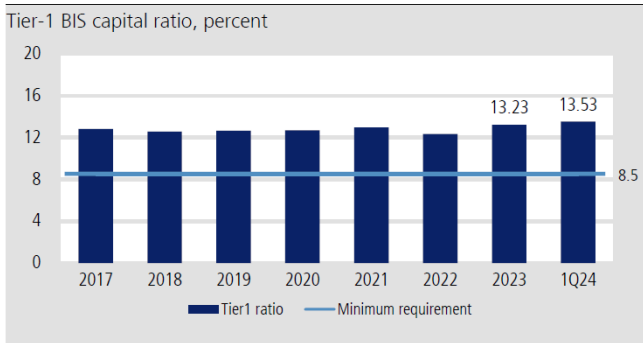
Source: TEJ; KGI Research

**Figure 13: Mega Bank common equity ratio**



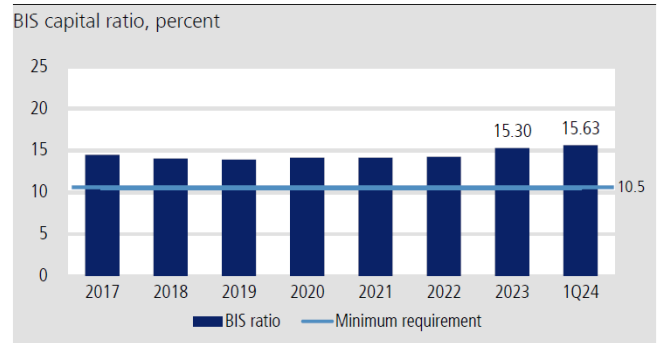
Source: TEJ; KGI Research

**Figure 14: Tier-1 BIS capital ratio**



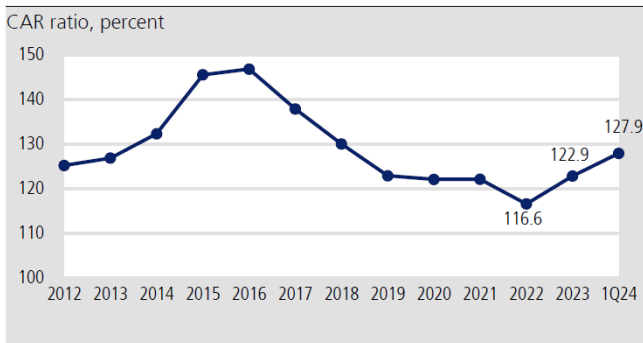
Source: Company data; KGI Research

**Figure 15: BIS capital ratio**



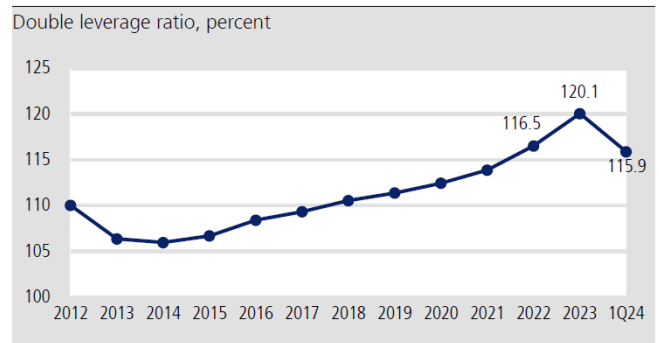
Source: Company data; KGI Research

**Figure 16: Mega FHC's CAR ratio**



Source: Company data; KGI Research

**Figure 17: Mega FHC's double leverage ratio**

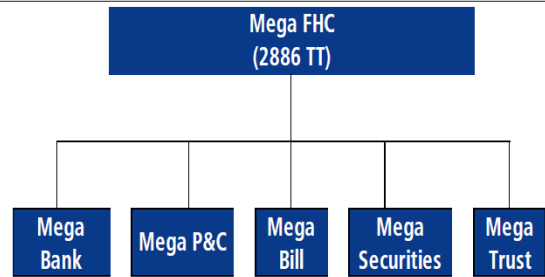


Source: Company data; KGI Research

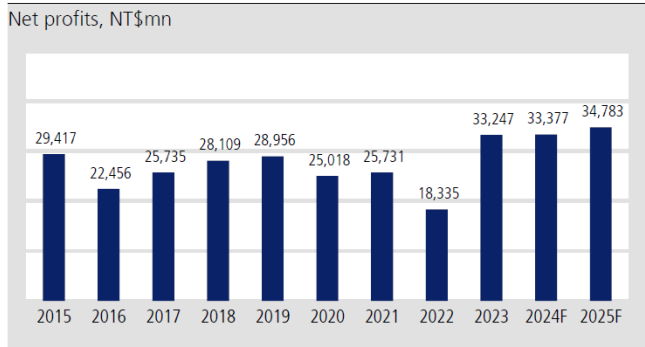
**Figure 18: Company profile**

Mega FHC was formed in February 2002, with Chiao Tung FHC being the predecessor. Total assets stood at NT\$4.4tn as of March 2024. It ranks fifth among the 15 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 import/ export letters of credit businesses led domestic banks as of 2023. Lending market share was 5.55% in March 2024, the eighth highest among domestic peers. Mega Bank is the domestic bank focused on corporate banking and foreign exchange businesses.

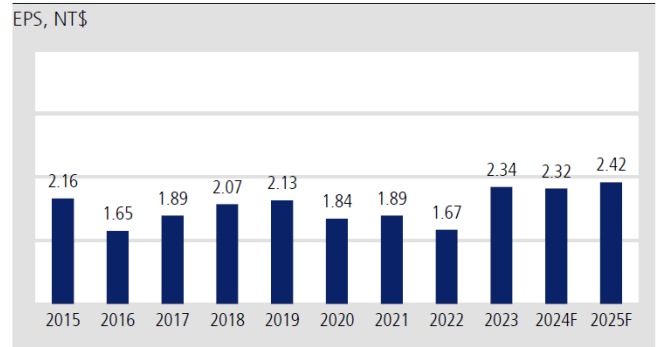
Source: KGI Research

**Figure 19: Organization chart**


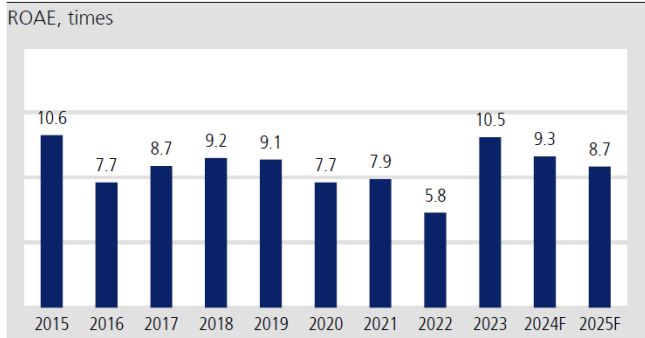
Source: Company data; KGI Research

**Figure 20: Net profits**


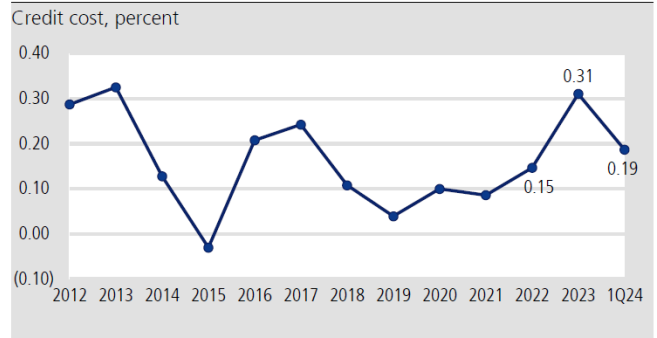
Source: KGI Research

**Figure 21: EPS**


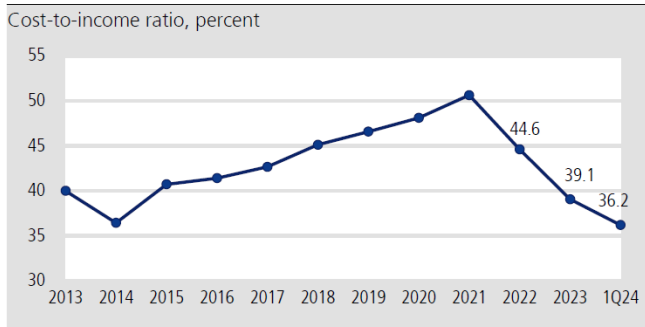
Source: KGI Research

**Figure 22: ROAE**


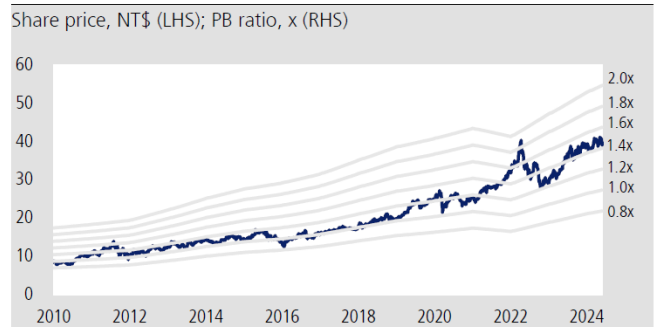
Source: KGI Research

**Figure 23: 1Q24 credit costs decreased to 19bps**


Source: Company data; KGI Research

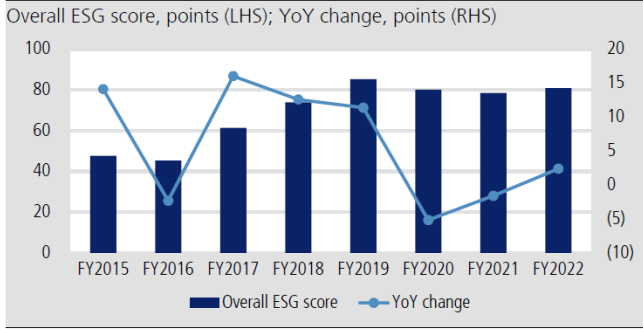
**Figure 24: 1Q24 cost-to-income ratio at 36%**


Source: Company data; KGI Research

**Figure 25: Mega FHC's 12M forward PB**


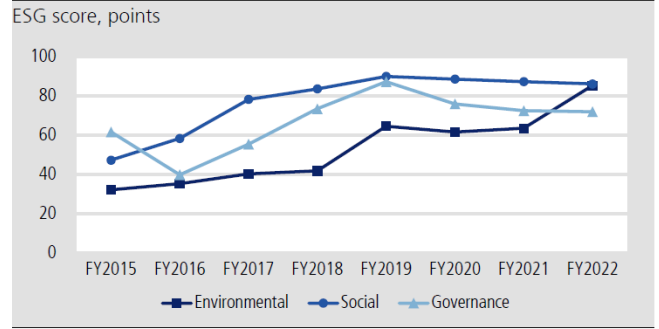
Source: TEJ; KGI Research

Figure 26: Overall ESG score



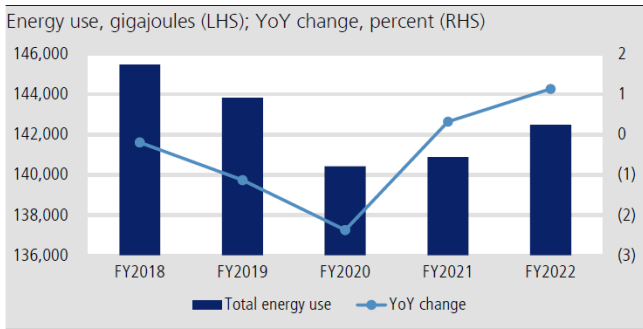
Source: Refinitiv; KGI Research; Company data

Figure 27: ESG score by category



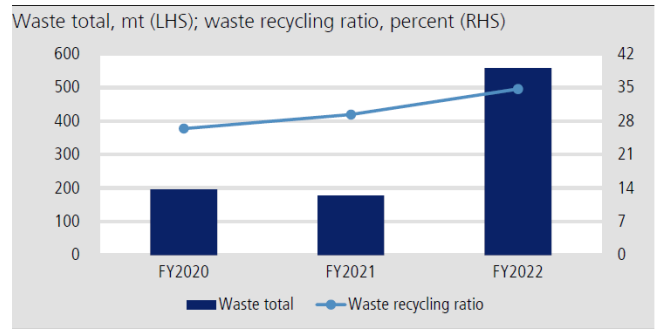
Source: Refinitiv; KGI Research; Company data

Figure 28: Energy use



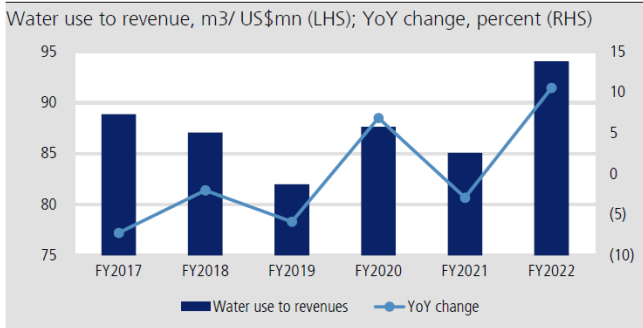
Source: Refinitiv; KGI Research; Company data

Figure 29: Waste total



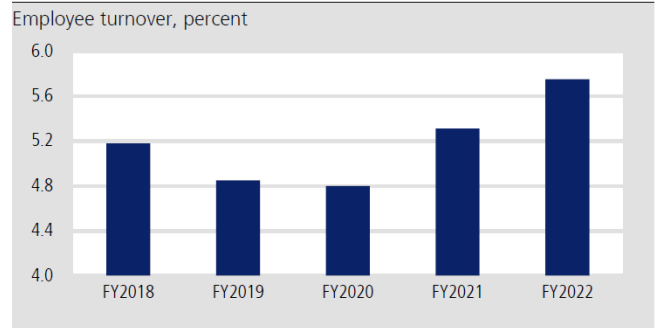
Source: Refinitiv; KGI Research; Company data

Figure 30: Water use to revenue



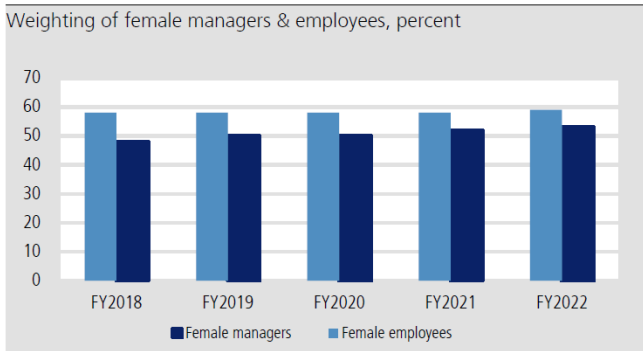
Source: Refinitiv; KGI Research; Company data

Figure 31: Employee turnover



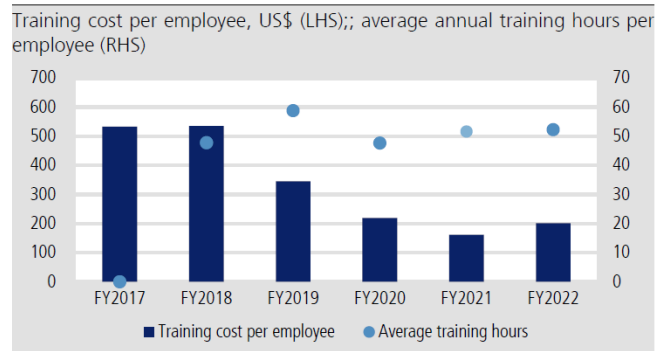
Source: Refinitiv; KGI Research; Company data

Figure 32: Gender diversification



Source: Refinitiv; KGI Research; Company data

Figure 33: Employee training



Source: Refinitiv; KGI Research; Company data



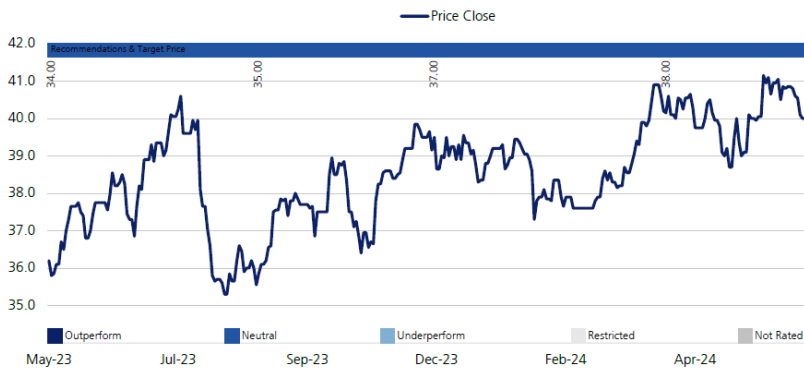
**ESG chart definition**

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





**Mega FHC – Recommendation & target price history**


Date	Rating	Target	Price
2024-03-19	Neutral	38.00	40.20
2023-11-29	Neutral	37.00	39.15
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

Source: TEJ; KGI Research

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