

November 13, 2023 03:14 PM GMT

SinoPac Financial Holdings Company | Asia Pacific

CS gain with strong solar loan growth

Reaction to earnings

Unchanged Impact to our investment thesis	In-line Financial results versus consensus	Largely unchanged Impact to next 12-month consensus EPS
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SinoPac showed strong currency swap (CS) gain in 9M23, with solar-related loan growth of 19% YTD. Stay OW for its higher dividend yield.

Key Takeaways

- The FHC's 9M net profit was NT\$15.7bn (+22% YoY) with ROE of 12.67%, driven by robust trading income (+93% YoY) from the CS gain of NT\$3.8bn.
- The bank's NII declined 15% YoY in 9M, owing to declining NIM from increasing funding cost and CS business despite total loan growth of 10% YoY.
- The bank's net fee income declined 8.6% YoY in 9M, with a 16% YoY drop in wealth management. The FHC's fee income was flat, with securities fees up 9% YoY.
- Solar and green energy-related loans grew 19% and 13% YTD, respectively, leading to overall 9M loan growth of 10% YoY.
- Management expects 2023 CS gains to reach \$5.6bn, with 2023 adjusted NIM down slightly from high funding cost. 2023 and 2024 credit cost should stay <15bps.

Strong loan growth but still weak NIM: 9M23 loan growth was 10% YoY, driven by both SME loans (including solar and green energy), up 12% YoY, and large corporate loans, up 13% YoY. However, adjusted and unadjusted NIM both declined YoY in 3Q23 owing to increasing funding cost, with the spread dropping from 1.6% in 3Q22 to 1.26% in 3Q23. Thankfully, credit cost remained low at 0.11% in 9M23 (0.25% in 9M22), and management expects it to remain below 0.15% in 2024, lower than the previous target of 15-20bps. Management also targeted 2023 CS gains to reach \$5.6bn and reiterated that MTM value for its investment positions increased NT \$2bn YTD, potentially supporting dividend payout next year. Last, with the green energy-related industry growth remaining strong, management also expects double-digit growth in green energy-related loans in coming years.

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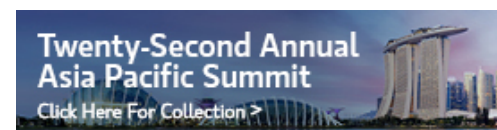
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SinoPac Financial Holdings Company (2890.TW, 2890

TT)

Taiwan Financials | Taiwan

Stock Rating	Overweight
Industry View	Attractive
Price target	NT\$22.00
Up/downside to price target (%)	19
Shr price, close (Nov 13, 2023)	NT\$18.50
52-Week Range	NT\$18.60-15.49
Sh out, dil, curr (mn)	12,377
Mkt cap, curr (mn)	NT\$228,973
EV, curr (mn)	NT\$438,962
Avg daily trading value (mn)	NT\$356

Fiscal Year Ending	12/22	12/23e	12/24e	12/25e
ModelWare EPS (NT\$)	1.40	1.67	1.53	1.58
Prior ModelWare EPS (NT\$)	-	-	-	-
EPS (NT\$)§	-	1.57	1.52	1.58
Revenue, net (NT\$ mn)	-	-	-	-
EBITDA (NT\$ mn)	19,421	23,560	22,017	22,668
ModelWare net inc (NT \$ mn)	15,961	20,264	18,958	19,507
P/E	11.6	11.1	12.1	11.7
P/BV	1.2	1.3	1.3	1.2
RNOA (%)	4.7	5.6	4.8	4.8
ROE (%)	9.8	13.2	10.8	10.7
EV/EBITDA	20.4	18.9	20.6	20.4
Div yld (%)	3.9	4.7	4.4	4.5
FCF yld ratio (%)**	-	-	-	-
Leverage (EOP) (%)	136.3	123.2	123.1	122.4

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework

§ = Consensus data is provided by Refinitiv Estimates

** = Based on consensus methodology

e = Morgan Stanley Research estimates

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Key charts

Exhibit 1: SinoPac FHC: P&L

NT\$m	3Q22	2Q23	3Q23	QoQ	YoY	9M22	9M23	YoY
Net Interest Income	7,254	6,164	6,152	0%	-15%	19,821	18,627	-6%
Net Fee Income	3,141	3,836	4,083	6%	30%	11,554	11,510	0%
Trading & Others	2,533	3,750	4,278	14%	69%	5,660	10,944	93%
Total Operating Rev.	12,928	13,750	14,513	6%	12%	37,036	41,081	11%
Operating expense	6,647	7,076	7,489	6%	13%	19,473	21,425	10%
Pre-Provision Profit	6,282	6,675	7,024	5%	12%	17,563	19,656	12%
Provision Expense	638	479	456	-5%	-29%	1,905	1,366	-28%
Pre-tax Profit	5,644	6,196	6,568	6%	16%	15,658	18,289	17%
Tax Expense	936	845	920	9%	-2%	2,722	2,542	-7%
Net Profit	4,708	5,351	5,648	6%	20%	12,936	15,748	22%

Source: Company data, Morgan Stanley Research

Exhibit 2: Bank SinoPac: P&L

NT\$m	3Q22	2Q23	3Q23	QoQ	YoY	9M22	9M23	YoY
Net Interest Income	8,748	5,757	5,756	0%	-34%	20,414	17,393	-15%
Net Fee Income	2,323	1,967	1,879	-4%	-19%	7,127	5,729	-20%
Trading & Others	1,003	2,640	3,116	18%	211%	3,118	7,736	148%
Total Operating Rev.	12,054	10,424	10,751	3%	-11%	30,711	30,938	1%
Operating expense	6,649	4,789	4,982	4%	-25%	15,239	14,445	-5%
Pre-Provision Profit	5,405	5,635	5,769	2%	7%	15,472	16,493	7%
Provision Expense	1,090	368	428	16%	-61%	2,363	1,188	-50%
Pre-tax Profit	4,315	5,266	5,341	1%	24%	13,109	15,306	17%
Tax Expense	400	908	894	-2%	124%	1,694	2,577	52%
Net Profit	3,915	4,358	4,447	2.0%	13.6%	11,415	12,728	12%

Source: Company data, Morgan Stanley Research

Exhibit 3: SinoPac FHC: Net Fee Income Breakdown

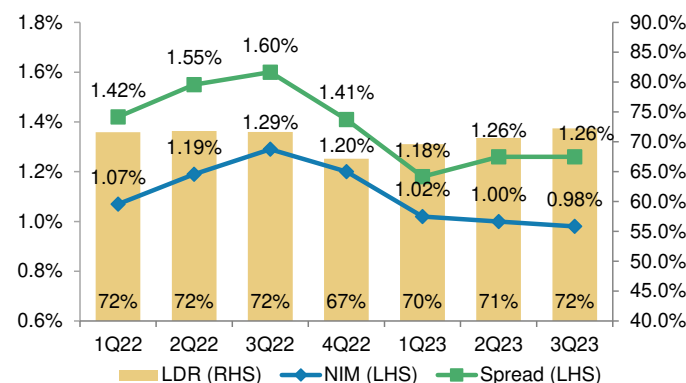
NT\$m	3Q22	2Q23	3Q23	Mix	QoQ	YoY	9M22	9M23	YoY
Wealth Management	956	1,271	1,326	32%	4%	39%	4,111	3,459	-16%
Credit Card	5	2	-14	0%	-800%	-380%	12	4	-67%
Loan	395	624	458	11%	-27%	16%	1,802	1,962	9%
FX & Others	193	160	212	5%	33%	10%	597	579	-3%
Securities	1,593	1,779	2,101	51%	18%	32%	5,034	5,506	9%
Total	3,142	3,836	4,083	100%	6%	30%	11,556	11,510	0%

Source: Company data, Morgan Stanley Research

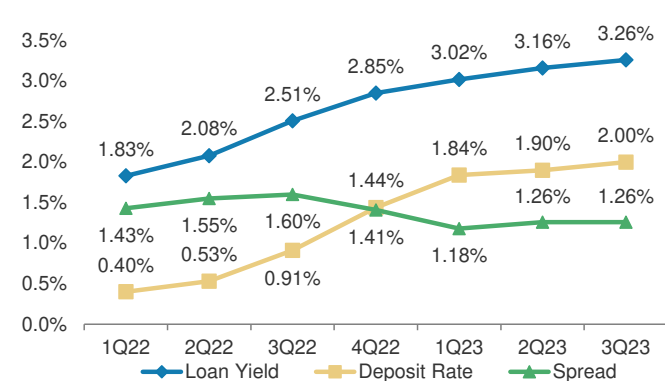
Exhibit 4: Bank SinoPac: Loan Breakdown

NT\$m	3Q22	4Q22	1Q23	2Q23	3Q23	Mix	QoQ	YoY	YTD
Corporate Loans	693	714	784	763	779	53%	2%	12%	-1%
Large Corp.	366	373	436	408	413	28%	1%	13%	-5%
SME	327	341	348	355	366	25%	3%	12%	5%
Consumer Loans	631	639	648	666	684	47%	3%	8%	6%
Individual	591	597	603	619	634	43%	4%	7%	5%
Other Consumer Loan	41	42	45	48	49	3%	4%	21%	10%
Total	1,324	1,353	1,432	1,429	1,463	100%	2%	10%	2%

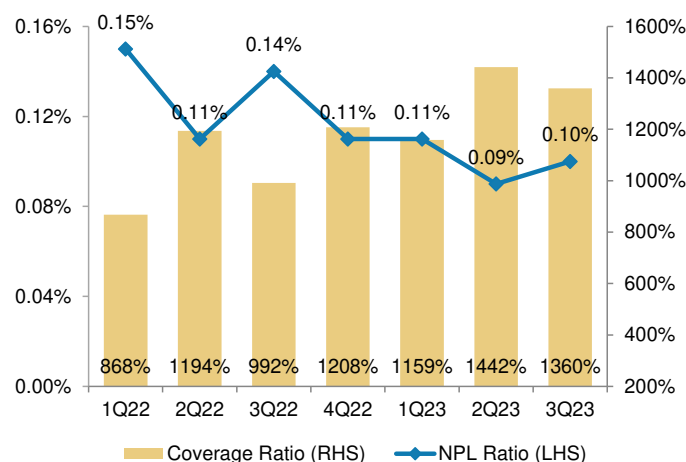
Source: Company data, Morgan Stanley Research

Exhibit 5: Bank SinoPac: NIM, Spread, and LDR Trends


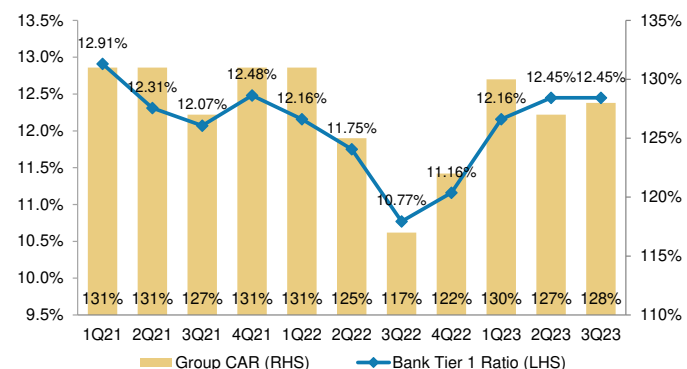
Source: Company data, Morgan Stanley Research

Exhibit 6: Bank SinoPac: Loan Yields and Costs


Source: Company data, Morgan Stanley Research

Exhibit 7: Bank SinoPac: Coverage Ratio and NPL Ratio


Source: Company data, Morgan Stanley Research

Exhibit 8: Capital Position


Source: Company data, Morgan Stanley Research; Note: Tier 1 ratio as of 6M23 (disclosed semiannually)

Valuation Methodology and Risks

SinoPac Financial Holdings Company (2890.TW)

Base case, Gordon Growth model. Key assumptions:

- 6.8% cost of equity, based on 6.5% market risk premium, 2% risk-free rate, and 0.74x beta
- Sustainable ROE of 9.2%, based on 2020-25E ROE of 8.0-12.3%
- Terminal growth rate of 2%

We apply the resulting 1.5x P/B multiple to our 2024 book value estimate, above its 2019-21 P/B range.

Risks to Upside

- Stronger-than-expected solar loan demand, driving net interest income
- Wide USD/NTD spread leads to strong currency swap (CS) gain
- Better-than-expected fee income growth
- TAIEX ADT up to 300-400bn level

Risks to Downside

- NIM compression or a spike in NPLs
- Deeper-than-expected rate cuts in the US and/or Taiwan
- Declining loan book from negative economic outlook

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Equal-weight/Hold	1664	46%	299	47%	18%	700	46%
Not-Rated/Hold	3	0%	0	0%	0%	1	0%
Underweight/Sell	588	16%	61	10%	10%	220	15%
Total	3,592		630			1515	

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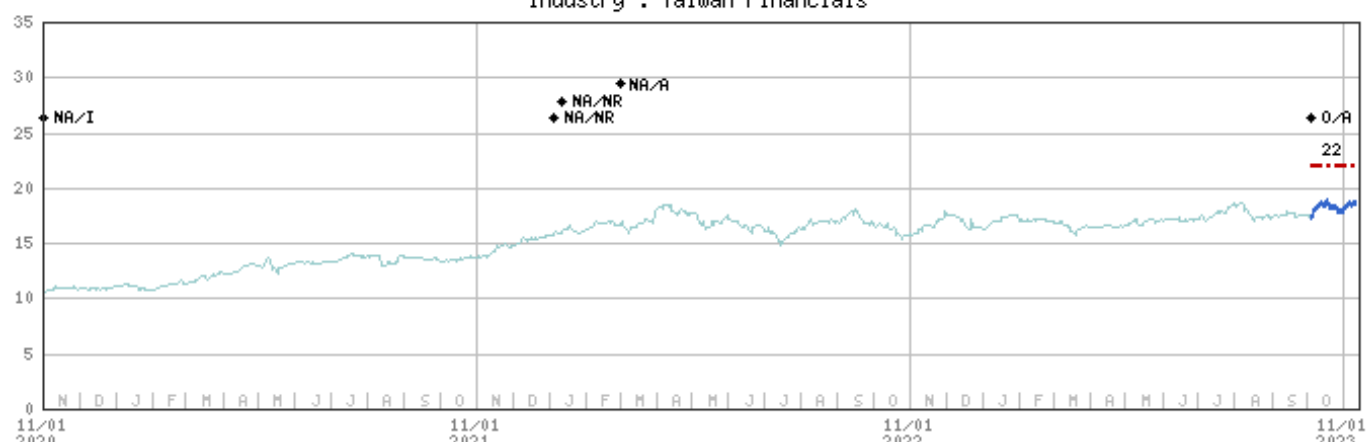
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SinoPac Financial Holdings Company (2890.TW) - As of 11/12/23 in TWD
Industry : Taiwan Financials



Stock Rating History: 11/1/18 : NA/I; 1/5/22 : NA/NR; 1/12/22 : NA/NR; 3/1/22 : NA/A; 10/4/23 : O/A

Price Target History: 10/4/23 : 22

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target -- No Price Target Assigned (NA)

Stock Price (Not Covered by Current Analyst) — Stock Price (Covered by Current Analyst) —

Stock and Industry Ratings (abbreviations below) appear as ♦ Stock Rating/Industry View

Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) No Rating Available (NA)

Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

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INDUSTRY COVERAGE: Taiwan Financials

COMPANY (TICKER)	RATING (AS OF)	PRICE* (11/13/2023)
Peggy Shih		
Cathay Financial Holdings Co Ltd (2882.TW)	O (02/02/2023)	NT\$45.25
Chailease Holding Co Ltd (5871.TW)	O (08/24/2022)	NT\$172.50
CTBC Financial Holding Co Ltd (2891.TW)	O (03/01/2022)	NT\$25.60
E.Sun Financial Holding Co (2884.TW)	U (01/04/2023)	NT\$24.50
First Financial Holding Co Ltd (2892.TW)	E (06/01/2023)	NT\$26.90
Fubon Financial Holdings Co Ltd. (2881.TW)	O (02/02/2023)	NT\$61.70
Mega Financial Holding Co Ltd (2886.TW)	E (03/01/2022)	NT\$38.50
SinoPac Financial Holdings Company (2890.TW)	O (10/04/2023)	NT\$18.50
Yuanta Financial Holding Co. Ltd (2885.TW)	E (11/29/2022)	NT\$25.00

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* Historical prices are not split adjusted.