

## Sinopac Financial Holdings

9M23 results in line, securities operation remained the key earnings driver

Sinopac 9M23 results were largely in line with our expectation with remaining decent earnings growth at the securities operation despite lukewarm profit growth at the banking operation compared to peers. We retain our Neutral rating given limited upside to consensus earnings.

- **Group 9M23 profit of NT\$15.7bn was up 22% YoY** and implied an annualized ROE of 12.7%. A 176% earnings rebound at Sinopac Sec was the key driver upon decent trading performance while Bank Sinopac delivered 5% profit growth by benefitting from lower credit costs.
- **What was positive: Sequential NIM improvement and declining credit costs.** Reported NIM was down 2bps but adjusted NIM (including swaps) was up 5bps QoQ in 3Q23 supported by over 30% QoQ increases in swaps revenues due to remaining low LDR at USD portfolio; management raised its full-year NIM target to 1.22% from around 1.2% previously while we see upside on the revised guidance. Credit costs of 12bps in 3Q23 were in the similar trend as 1H23 and 11bps in 9M23 were still much lower than 20bps in 9M22; without material asset quality uncertainty in sight, management is confident of maintaining credit costs below 15bps compared to the previous guidance of 15-20bps.
- **What was negative: declining fee income and deteriorating operating efficiency.** Fee income declined 9% YoY in 9M23, still dragged by 16% drop in WM fees, affected by the regulatory punishment at the beginning of the year but with the low base of 4Q22, management maintains the targets of flattish fee income for FY23. Cost-income ratio inched up 2ppt YoY in 9M23 because of higher effective business taxes upon higher revenue contribution from DBU, excluding which management guided cost-income ratio should be flattish YoY but such adverse trend is less likely to be reversed in the near future in our view.
- **Retain Neutral.** 9M23 results show the underlying operating performance has been tracking in line with our expectation with limited upside surprises while 20-30% earnings growth momentum is also not in particular exciting compared to peers. By trading at 1.2-1.3x FY23/24E P/B with 11-12% ROE outlook, current valuation is fair unless any upside surprise on dividend policies with cash payout ratios higher than the normal range of 50-60% to drive share prices in 1H24.

**Neutral**

**2890.TW, 2890 TT**

Price (13 Nov 23): NT\$18.50

**Price Target (Dec-24): NT\$19.00**

### Asia Financials

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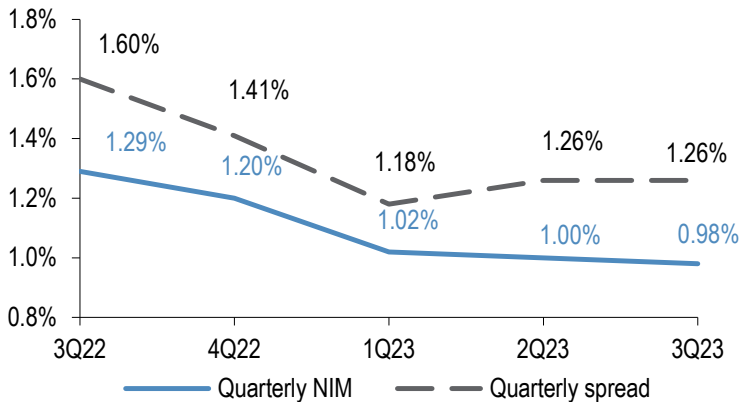
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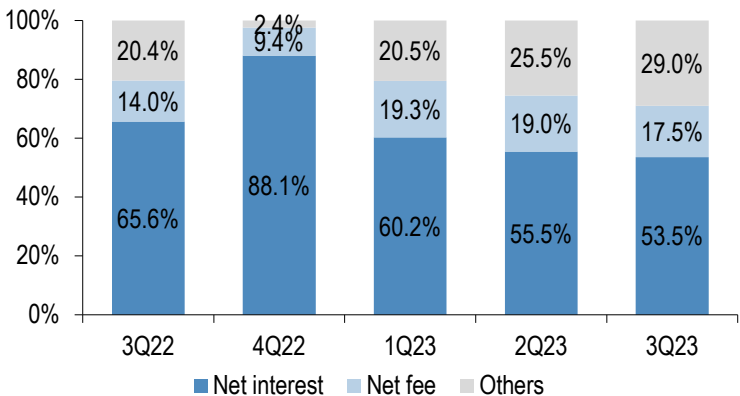
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Figure 1: Bank Sinopac - NIM



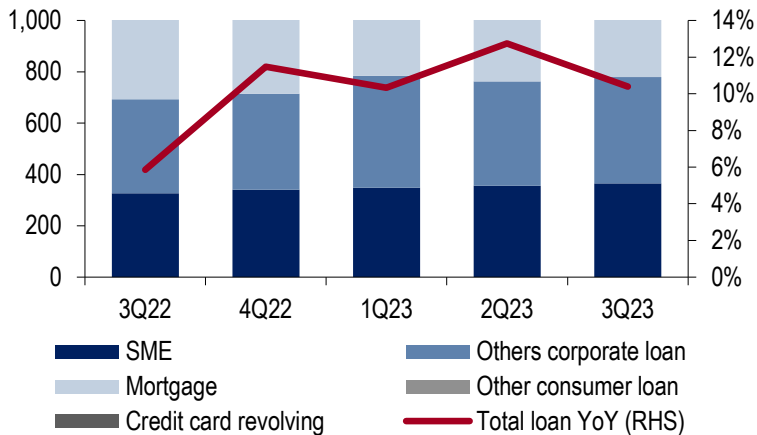
Source: Company data and J.P. Morgan

Figure 2: Bank Sinopac – Operating income breakdown



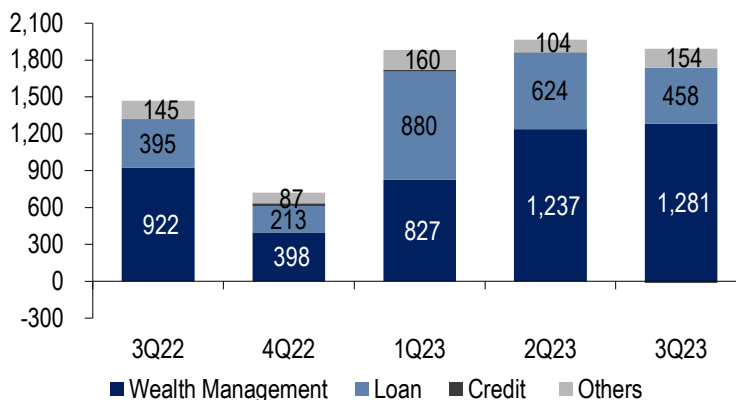
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Figure 3: Bank Sinopac – Loan breakdown (NT\$bn) and YoY growth



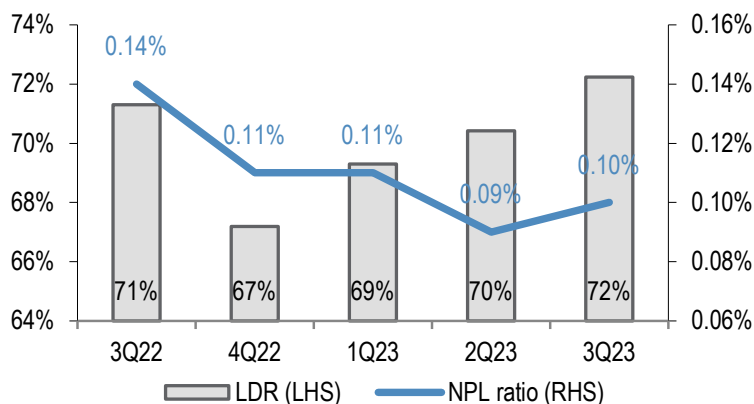
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Figure 4: Bank Sinopac – Fee income breakdown (NT\$mn)



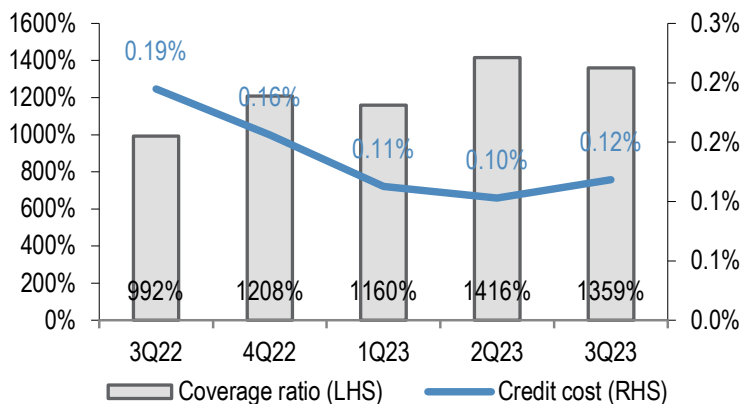
Source: Company data and J.P. Morgan

Figure 5: Bank Sinopac – LDR & NPL ratio



Source: Company data and J.P. Morgan

Figure 6: Bank Sinopac – Coverage ratio & Credit cost



Source: Company data and J.P. Morgan

Table 1: Summary of financials

TWD mn	3Q22	4Q22	1Q23	2Q23	3Q23	QoQ	YoY
<b>Bank Sinopac</b>							
<b>NII</b>	<b>6,890</b>	<b>6,711</b>	<b>5,881</b>	<b>5,757</b>	<b>5,756</b>	<b>0%</b>	<b>-16%</b>
Fee income	1,466	719	1,883	1,967	1,879	-4%	28%
FX & Trding	2,144	184	1,994	2,643	3,113	18%	45%
Other income	0	1	6	3	3	0%	-
<b>Total operating income</b>	<b>10,500</b>	<b>7,615</b>	<b>9,764</b>	<b>10,370</b>	<b>10,751</b>	<b>4%</b>	<b>2%</b>
Total operating expenses	-4,564	-3,820	-4,674	-4,783	-4,982	4%	9%
<b>Pre-provision profit</b>	<b>5,936</b>	<b>3,795</b>	<b>5,090</b>	<b>5,587</b>	<b>5,769</b>	<b>3%</b>	<b>-3%</b>
Net provision charges	-631	-522	-392	-368	-428	16%	-32%
<b>Pre-tax profit</b>	<b>5,306</b>	<b>3,273</b>	<b>4,698</b>	<b>5,219</b>	<b>5,341</b>	<b>2%</b>	<b>1%</b>
<b>Balance Sheet:</b>							
Gross loans	1,324,344	1,353,466	1,431,550	1,429,208	1,462,548	2%	10%
Customer deposits	1,857,278	2,014,543	2,065,646	2,029,611	2,024,610	0%	9%
<b>Key ratio:</b>							
LTD ratio	71%	67%	69%	70%	72%		
NIM	1.29%	1.20%	1.02%	1.00%	0.98%		
Cost/income ratio	43%	50%	48%	46%	46%		
NPL ratio	0.14%	0.11%	0.11%	0.09%	0.10%		
Coverage ratio	992%	1208%	1160%	1416%	1359%		
Tier 1 ratio	10.77%	11.16%	12.16%	12.45%	12.45%		
<b>Sinopac Securities</b>							
<b>NII</b>	<b>191</b>	<b>143</b>	<b>115</b>	<b>63</b>	<b>64</b>	<b>2%</b>	<b>-66%</b>
<b>Fee income</b>	<b>1,755</b>	<b>1,715</b>	<b>1,819</b>	<b>1,986</b>	<b>2,300</b>	<b>16%</b>	<b>31%</b>
Trading income	-442	378	428	308	441	43%	200%
Other operating income	513	-120	52	154	313	103%	-39%
<b>Gross operating income</b>	<b>2,017</b>	<b>2,116</b>	<b>2,414</b>	<b>2,511</b>	<b>3,118</b>	<b>24%</b>	<b>55%</b>
Total operating expenses	-1,811	-1,883	-1,933	-1,979	-2,222	12%	23%
<b>Total operating income</b>	<b>206</b>	<b>233</b>	<b>481</b>	<b>532</b>	<b>896</b>	<b>68%</b>	<b>335%</b>
Non-operating income/(expense)	220	231	325	400	472	18%	115%
<b>Pre-tax profit</b>	<b>426</b>	<b>464</b>	<b>806</b>	<b>932</b>	<b>1,368</b>	<b>47%</b>	<b>221%</b>
<b>Key ratio:</b>							
Cost/Income ratio	90%	89%	80%	79%	71%		
CAR	335%	388%	373%	342%	363%		
Brokerage market share	4.94%	4.68%	4.87%	4.73%	4.81%		
<b>Sinopac Financial Holdings</b>							
Bank Sinopac	5,306	3,273	4,698	5,219	5,341	2%	1%
Sinopac Securities	426	464	806	932	1,368	47%	221%
Other subsidiaries & adj.	-88	9	22	7	-141	-2114%	-60%
<b>Pre-tax profit</b>	<b>5,644</b>	<b>3,746</b>	<b>5,526</b>	<b>6,158</b>	<b>6,568</b>	<b>7%</b>	<b>16%</b>
Tax	-936	-721	-777	-837	-920	10%	-2%
<b>Net income</b>	<b>4,708</b>	<b>3,025</b>	<b>4,749</b>	<b>5,321</b>	<b>5,647</b>	<b>6%</b>	<b>20%</b>
EPS	0.41	0.27	0.41	0.44	0.46	5%	12%
ROE	12.6%	8.0%	11.8%	12.3%	12.8%		

Source: Company data and J.P. Morgan

## Investment Thesis, Valuation and Risks

### Sinopac Financial Holdings *(Neutral; Price Target: NT\$19.00)*

#### Investment Thesis

We rate Sinopac Neutral with a Dec-24 PT of NT\$19.0. Despite better-than-expected operating performance at Sinopac Sec, earnings growth momentum at Bank Sinopac is more lukewarm due to higher base effects and-weaker-than expected fee income momentum. The valuation is undemanding compared to the ROE outlook, which however is likely to moderate in the coming 12-18 months and thus we see limited valuation upside and lower chance for share price outperformance.

#### Valuation

Our P/BV-based Dec-24 PT is NT\$19.0. It is equivalent to 1.2x BV (FY24E) and 11.3x EPS (FY24E).

#### Risks to Rating and Price Target

Downside risks include: (1) unexpected defaults of large syndication, driving up credit costs; and (2) loose liquidity to drive down NIM.

Upside catalysts include: (1) a strong market rally that boosts WM fees and earnings at Sinopac Securities; and (2) better-than-expected cash payout ratios that enhance dividend yields.

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Sinopac Financial Holdings (2890.TW, 2890 TT) Price Chart



Source: Bloomberg Finance L.P. and J.P. Morgan; price data adjusted for stock splits and dividends.  
Initiated coverage Dec 11, 2000. All share prices are as of market close on the previous business day.

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