

Yuanta FHC (2885.TW)

Raise estimates, TP on better backdrop but maintain Sell on weaker profit growth outlook

2885.TW 12m Price Target: **NT\$19.50** Price: **NT\$24.20** Downside: **19.4%**

Although Yuanta FHC's share price has underperformed Taiex index by 6pp ytd, the shares have outperformed TW bank peer group by 5pp. We believe the driver of the outperformance has been a better stock market backdrop for activity levels, alongside raised profitability at the bank owing to central bank rate rises. Whilst the latter is common factor for the entire peer group, the former is Yuanta specific - with the company being the largest broker in Taiwan, having ~12% market share. Market ADT is c.17% higher ytd vs FY22 average level and Yuanta FHC obtained ~55% of FHC profits from securities unit last year, placing it well to show decent profit performance this year.

That said, we expect peak profits at FHC this year and gradual declines over FY24-26, on account of: **(1) More modest ADT improvement from hereon:** Although ADT has shown impressive performance ytd (20dma at one point up 75% yoy vs low point of 50% lower yoy last year), velocity levels are elevated and this metric is mean reverting over time. We expect FY23E levels to be below the ytd levels (FY23E: NT\$336bn vs ytd NT\$357bn) and for next year to witness flat ADT, before 5% p.a. rise for FY25/26E. Overall, the securities unit net profit could fall 1% in FY24 before rising to 4% p.a. for FY25-26, post c.39% rise in FY23. **(2) Rate cuts impacting bank profitability:** Bank unit net profit was up 69% yoy during 1H23, led by swap gains which came from a wide USD-NTD interest rate gap. We expect FY23 profit to rise by 37%, but fall 22% next year as rates are cut by both key central banks. Beyond that profits could be flattish during FY25-26. Overall, at the FHC level this is likely to lead to 46% growth in net profit this year (1H23 yoy: +30%), but with an expected c.11% fall next year and 1%/2% rise in FY25/26. We believe the FY23 rise is more or less priced in by the shares as July till date profit (+35% yoy) has been disclosed by the

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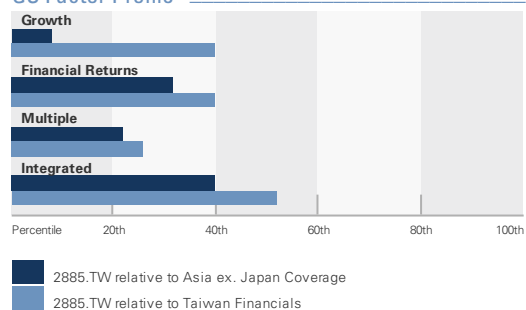
Key Data

Market cap: NT\$307.1bn / \$9.6bn
3m ADTV: NT\$443.2mn / \$14.2mn
Taiwan
Taiwan Financials
M&A Rank: 3

GS Forecast

	12/22	12/23E	12/24E	12/25E
Net inc. (NT\$ mn) New	22,710.6	32,622.9	29,245.1	29,774.6
Net inc. (NT\$ mn) Old	22,710.6	25,409.5	26,072.9	27,258.8
EPS (NT\$) New	1.69	2.46	2.19	2.21
EPS (NT\$) Old	1.69	1.89	1.94	2.02
EPS growth (%)	(38.5)	45.6	(11.3)	1.4
P/E (X)	12.9	9.8	11.1	10.9
P/B (X)	1.1	1.1	1.1	1.0
Price/PPOP (X)	10.7	7.6	8.2	8.0
Dividend yield (%)	3.6	4.9	4.6	4.8
	3/23	6/23	9/23E	12/23E
EPS (NT\$)	0.45	0.72	0.76	0.52

GS Factor Profile



Source: Company data, Goldman Sachs Research estimates.
See disclosures for details.

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Sell

Yuanta FHC (2885.TW)

Rating since Mar 15, 2019

Ratios & Valuation

	12/22	12/23E	12/24E	12/25E
P/E (X)	12.9	9.8	11.1	10.9
Price/PPOP (X)	10.7	7.6	8.2	8.0
P/B (X)	1.1	1.1	1.1	1.0
P/NTA per share (X)	—	—	—	—
Dividend yield (%)	3.6	4.9	4.6	4.8
Div. payout ratio (%)	44.0	46.6	48.0	49.7

Growth & Margins (%)

	12/22	12/23E	12/24E	12/25E
BVPS growth	(4.7)	8.3	4.5	4.8
Total revenue growth	(26.5)	13.6	(4.3)	2.9
Op. profit growth	(35.7)	40.7	(7.4)	2.5
Net inc growth	(38.9)	43.6	(10.4)	1.8
EPS growth	(38.5)	45.6	(11.3)	1.4
DPS growth	(45.1)	51.9	(7.6)	5.4

Asset Quality

	12/22	12/23E	12/24E	12/25E
Provision charge/total loans (%)	0.0	0.0	0.1	0.1
Gr impaired assets/total loans (%)	0.0	—	—	—
NPL ratio (%)	0.0	NM	NM	NM
Total provisions/total loans (%)	1.4	—	—	—
Specific prov/gr impair assets (%)	1,856.8	0.0	0.0	0.0
Loan loss reserve/NPLs (%)	6,189.5	0.0	0.0	0.0

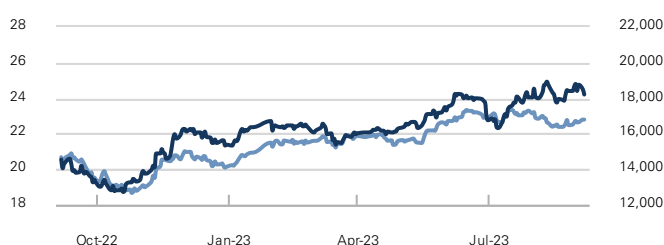
Capital Item

	12/22	12/23E	12/24E	12/25E
Basel 3 CET1 ratio (%)	0.0	0.0	0.0	0.0
Tier 1 capital ratio (%)	13.0	13.9	13.5	13.8

Price Performance

2885.TW (NT\$)

Taiwan SE Weighted Index



	3m	6m	12m
Absolute	2.3%	8.9%	21.0%
Rel. to the Taiwan SE Weighted Index	1.9%	1.3%	5.6%

Source: FactSet. Price as of 5 Sep 2023 close.

Income Statement (NT\$ mn)

	12/22	12/23E	12/24E	12/25E
Net interest income	30,701.4	31,809.1	32,002.3	32,518.9
Net fees	25,120.1	27,600.1	26,789.5	28,028.3
Treasury income	13,282.7	15,798.9	12,667.6	12,976.4
Other operating income	16,146.6	22,358.2	19,432.7	19,955.1
Total revenue	71,968.0	81,767.5	78,224.5	80,502.4
Compensation & benefits exp.	(25,428.3)	(24,198.7)	(23,804.6)	(24,616.4)
Non-employee costs	(17,808.3)	(17,150.0)	(16,973.1)	(17,490.6)
Pre-provision op. profit	28,732.1	40,419.2	37,447.4	38,395.9
Provision for loans	(318.0)	(451.6)	(1,209.0)	(1,528.4)
Total provision expense	(318.0)	(451.6)	(1,209.0)	(1,528.4)
Income/(loss) from associates	—	—	—	—
Pre-tax profit	28,414.0	39,967.6	36,238.4	36,867.5
Provision for taxes	(5,703.4)	(7,344.7)	(6,993.3)	(7,092.9)
Minority interest	(1,254.1)	(1,379.5)	(1,517.4)	(1,669.2)
Net inc. (pre-exceptionals)	22,710.6	32,622.9	29,245.1	29,774.6
Post-tax exceptionals	—	—	—	—
Net inc. (post-exceptionals)	21,456.5	31,243.4	27,727.7	28,105.4
EPS (basic, pre-exception) (NT\$)	1.79	2.57	2.30	2.35
EPS (diluted, pre-exception) (NT\$)	--	--	--	--
EPS (basic, post-exception) (NT\$)	--	--	--	--
EPS (diluted, post-exception) (NT\$)	1.69	2.46	2.19	2.21
Wtd avg shares out. (diluted) (mn)	12,689.1	12,689.1	12,689.1	12,689.1
Avg. yield on loans (%)	—	—	—	—
Gr yld. on int. earning assets (%)	2.8	2.6	2.6	2.5
Cost of fund (%)	0.9	0.7	0.7	0.7
Net interest margin (%)	1.9	1.9	1.9	1.8

Balance Sheet (NT\$ mn)

	12/22	12/23E	12/24E	12/25E
Domestic mortgages	406,743.0	431,147.6	459,172.2	486,722.5
Domestic non-mortgages	74,391.0	78,693.1	83,875.6	88,068.2
Domestic commercial lending	494,429.0	521,900.6	543,011.1	563,482.9
Total overseas lending, gross	0.0	0.0	0.0	0.0
Gross loans to customers	941,869.8	0.0	0.0	0.0
Total NPLs, gross	220.0	232.6	244.9	256.7
Total loan loss reserve	13,615.1	0.0	0.0	0.0
Net customer loans & advances	995,199.2	1,036,134.3	1,089,711.5	1,141,243.7
Other interest earning assets	1,303,730.2	1,289,335.3	1,295,558.6	1,303,021.2
Interest earning assets	2,454,957.7	2,493,120.8	2,565,256.1	2,637,343.2
Other non-int. earning assets	562,736.3	665,034.9	723,058.3	813,684.3
Total assets	3,017,694.0	3,158,155.7	3,288,314.4	3,451,027.5
Risk weighted assets	926,293.4	960,982.5	1,003,808.9	1,046,903.6
CASA deposits	707,549.0	742,926.5	787,502.0	830,814.6
Non-CASA deposits	765,910.0	805,354.0	833,758.6	858,232.2
Customer deposits	1,407,441.5	1,466,309.6	1,539,289.8	1,607,076.0
Other paying liabilities	404,836.5	404,836.5	404,836.5	404,836.5
Other liabilities	518,419.7	536,548.4	581,963.9	639,885.1
Total liabilities	2,740,311.0	2,859,530.5	2,977,149.5	3,125,790.7
Total shareholders' equity	277,383.0	298,625.2	311,164.9	325,236.9
Total liabilities & equity	3,017,694.0	3,158,155.7	3,288,314.4	3,451,027.5
BVPS (NT\$)	20.20	21.88	22.87	23.98
RWA/assets (%)	30.7	30.4	30.5	30.3

Profit Drivers

	12/22	12/23E	12/24E	12/25E
Net customer loan growth (%)	12.5	4.1	5.2	4.7
Net interest margin (%)	1.9	1.9	1.9	1.8
Fee income ratio (%)	NM	NM	NM	NM
Cost/income (ex. goodwill) (%)	55.7	46.6	48.0	48.2
Tax rate (%)	20.1	18.4	19.3	19.2
CASA ratio (%)	48.0	48.0	48.6	49.2
Net cust. loans/deposits (%)	70.7	70.7	70.8	71.0

Profitability

	12/22	12/23E	12/24E	12/25E
Op. revenue/avg. assets (%)	2.4	2.6	2.4	2.4
Op. expenses/avg. assets (%)	1.4	1.3	1.3	1.2
Pre-provision ROA (%)	1.0	1.3	1.2	1.1
Loan loss prov./avg. assets (%)	0.0	0.0	0.0	0.0
Pre-tax profit/avg. assets (%)	0.9	1.3	1.1	1.1
Prov. for inc. tax/avg. assets (%)	0.2	0.2	0.2	0.2
ROA (%)	0.7	1.0	0.9	0.8
Leverage (X)	10.9	10.6	10.6	10.6
ROE (%)	8.2	11.7	9.8	9.5
ROE (pre-exception.) (%)	8.0	11.3	9.6	9.4

Source: Company data, Goldman Sachs Research estimates.

FHC.

To reflect the recent trends in ADT and banking unit performance we raise FHC's FY23/24/25E EPS by 30%/13%/10%. Furthermore, we roll forward TP valuation to FY24 from FY23, while keeping SOTP based TP derivation methodology unchanged, to change 12m TP from NT\$17.24 to NT\$19.50. We also introduce FY26 EPS of NT\$2.26. However, we **maintain our Sell rating on the stock with new TP implying 19% potential downside vs 3% downside for sector average**. The stock price does react to ADT changes, and we believe our outlook is worse than priced in by the shares on this front. **Risks:** Upside risks include better-than-expected equity market activity and further improvement in profitability at the bank level.

Exhibit 1: Estimate changes for Yuanta FHC

Yuanta FHC - earning revision			OLD			NEW			NEW vs OLD			YoY growth		
	2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E	2025E		
Per share data														
Fully-diluted EPS (NT\$)	1.89	1.94	2.02	2.46	2.19	2.21	30.0%	12.9%	9.8%	45.6%	-11.3%	1.4%		
BVPS - fully diluted (NT\$)	21.3	22.4	23.5	21.9	22.9	24.0	2.7%	2.3%	2.1%	8.3%	4.5%	4.8%		
DPS (NT\$)	0.9	0.9	0.9	1.2	1.1	1.2	35.6%	22.6%	24.0%	51.9%	-7.6%	5.4%		
FHC income statement (NT\$mn)														
Net interest income (NII)	29,667	30,037	30,370	31,809	32,002	32,519	7.2%	6.5%	7.1%	3.6%	0.6%	1.6%		
Fee income	22,594	21,933	22,588	27,600	26,790	28,028	22.2%	22.1%	24.1%	9.9%	-2.9%	4.6%		
Trading/other income	18,412	20,780	22,052	22,358	19,433	19,955	21.4%	-6.5%	-9.5%	38.5%	-13.1%	2.7%		
Net operating revenue	70,672	72,750	75,010	81,767	78,225	80,502	15.7%	7.5%	7.3%	13.6%	-4.3%	2.9%		
Operating expenses	(35,124)	(35,608)	(36,164)	(38,136)	(37,515)	(38,794)	8.6%	5.4%	7.3%	-4.8%	-1.6%	3.4%		
PPOP	32,336	33,881	35,534	40,419	37,447	38,396	25.0%	10.5%	8.1%	40.7%	-7.4%	2.5%		
Pretax income	31,724	32,450	33,782	39,968	36,238	36,867	26.0%	11.7%	9.1%	40.7%	-9.3%	1.7%		
Income tax	(6,315)	(6,377)	(6,523)	(7,345)	(6,993)	(7,093)	16.3%	9.7%	8.7%	28.8%	-4.8%	1.4%		
Profit after tax	25,410	26,073	27,259	32,623	29,245	29,775	28.4%	12.2%	9.2%	43.6%	-10.4%	1.8%		
Net income	24,030	24,556	25,590	31,243	27,728	28,105	30.0%	12.9%	9.8%	45.6%	-11.3%	1.4%		
FHC Balance sheet														
Total assets	3,069,582	3,196,570	3,347,346	3,158,156	3,288,314	3,451,028	2.9%	2.9%	3.1%	4.7%	4.1%	4.9%		
Total liabilities	2,778,170	2,891,803	3,028,435	2,859,531	2,977,149	3,125,791	2.9%	3.0%	3.2%	4.4%	4.1%	5.0%		
Total equity	291,412	304,766	318,910	298,625	311,165	325,237	2.5%	2.1%	2.0%	7.7%	4.2%	4.5%		
Net income contribution														
Bank (Consolidated)	7,052	6,360	6,469	9,987	7,769	7,676	41.6%	22.1%	18.6%	37.0%	-22.2%	-1.2%		
Yuanta Securities	15,422	16,327	16,954	16,742	16,632	17,305	8.6%	1.9%	2.1%	38.9%	-0.7%	4.0%		

Source: Company data, Goldman Sachs Global Investment Research

Exhibit 2: New TP derivation methodology - SOTP based - for Yuanta FHC

Yuanta FHC SOTP valuation	Valuation method	Equity value 2024E (NT\$ mn)	Target PB multiple (X) 2024E	Calculated valuation (NT\$ mn)	Per share	%	Equity %
VALUATION							
Yuanta Bank	RIM	126,458	0.64	81,313	6.4	33%	44%
Yuanta Sec	P/B	165,943	1.01	168,066	13.2	68%	57%
Add: FHC residual equity		(2,251)	0.85	(1,920)	(0.2)	-1%	
Consolidated:		290,150	0.85	247,459	19.5	100%	
Shares outstanding, fully diluted				12,689			
Target price (NT\$)				19.50			
TP implied							
BVPS		22.87	P/B	0.85X			
Tangible BVPS		20.43	P/TB	0.95X			
EPS		2.19	P/E	8.9X			
DPS		1.11	P/POP	6.6X			
ROE (%)		9.1%					

Source: Company data, Goldman Sachs Global Investment Research

Exhibit 3: TW banks valuation comp sheet

Ticker	Sep-5	12m TP (NT\$)	GS Rating	Potential up/(down) side	Total potential return	EPS growth (%)				P/B (X)				P/E (X)				
	Price (NT\$)																	
						2022	2023E	2024E	2025E	2022	2023E	2024E	2025E	2022	2023E	2024E	2025E	
Bank-centric																		
CTBC	2891.TW	24.00	26.40	Buy	10%	15%	-45%	78%	16%	12%	1.3	1.2	1.1	1.0	15.6	8.8	7.6	6.7
Mega	2886.TW	36.00	30.95	Neutral	-14%	-9%	-29%	87%	-5%	2%	1.7	1.6	1.6	1.5	27.6	14.8	15.5	15.2
First	2892.TW	26.60	21.60	Sell	-19%	-15%	4%	23%	-4%	-4%	1.6	1.5	1.5	1.4	17.6	14.4	15.0	15.7
E.Sun	2884.TW	24.50	25.70	Neutral	5%	8%	-24%	51%	11%	1%	1.9	1.7	1.6	1.5	23.2	15.4	13.9	13.8
Taishin	2887.TW	17.95	15.60	Neutral	-13%	-9%	-30%	37%	-2%	-1%	1.4	1.3	1.2	1.2	17.2	12.5	12.7	12.9
Yuanta	2885.TW	24.20	19.50	Sell	-19%	-14%	-38%	46%	-11%	1%	1.2	1.1	1.1	1.0	14.3	9.8	11.1	10.9
Chailasee	5871.TW	179.00	237.00	Buy	32%	36%	23%	-4%	19%	19%	2.0	2.0	1.7	1.5	10.4	10.8	9.1	7.6
Average					-3%	2%	-20%	45%	3%	4%	1.58	1.47	1.38	1.29	18.0	12.3	12.1	11.8

	2023E/L-T median			Median since 2010			Div yld (%)				ROA (%)				ROE (%)			
	P/B	P/E	Div yield	P/B (X)	P/E (X)	Div yield (%)	2022	2023E	2024E	2025E	2022	2023E	2024E	2025E	2022	2023E	2024E	2025E
Bank-centric																		
CTBC	104%	86%	105%	1.11	10.2	4.8%	4.2%	4.6%	5.3%	5.9%	0.41%	0.68%	0.76%	0.81%	7.1%	12.9%	13.5%	13.9%
Mega	141%	115%	113%	1.14	12.8	5.3%	3.4%	4.7%	4.5%	4.6%	0.45%	0.83%	0.76%	0.74%	5.8%	11.1%	10.2%	10.1%
First	133%	104%	104%	1.14	13.8	4.4%	2.9%	4.2%	4.0%	3.8%	0.52%	0.60%	0.56%	0.52%	9.2%	10.9%	9.9%	9.2%
E.Sun	144%	131%	116%	1.16	11.8	3.3%	0.8%	2.8%	3.1%	3.2%	0.47%	0.66%	0.69%	0.66%	8.1%	11.5%	11.7%	11.0%
Taishin	156%	114%	111%	0.82	11.0	4.3%	2.7%	3.9%	3.9%	3.8%	0.49%	0.64%	0.60%	0.58%	6.5%	8.6%	8.0%	7.6%
Yuanta	118%	89%	78%	0.94	11.1	3.9%	3.3%	4.9%	4.6%	4.8%	0.71%	1.01%	0.86%	0.83%	7.6%	10.8%	9.1%	8.8%
Chailasee	100%	111%	123%	1.99	9.7	4.3%	3.5%	3.5%	4.2%	5.0%	3.42%	2.92%	3.10%	3.21%	20.4%	17.5%	19.2%	20.1%
Average	128%	107%	107%	1.19	11.5	4.3%	3.0%	4.1%	4.2%	4.4%	0.9%	1.0%	1.0%	1.1%	9.2%	11.9%	11.7%	11.5%

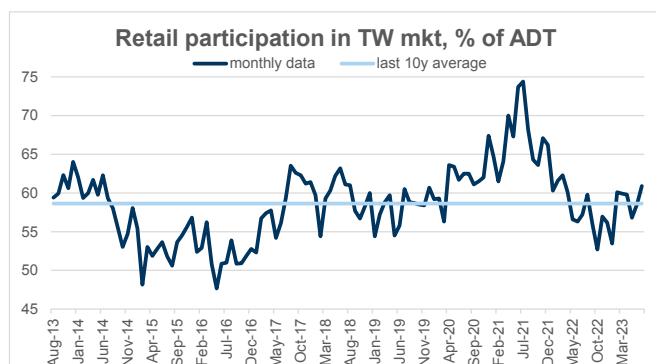
Note: 1) Chailasee's historical median are since 2012.

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Source: Company data, Goldman Sachs Global Investment Research, Datastream

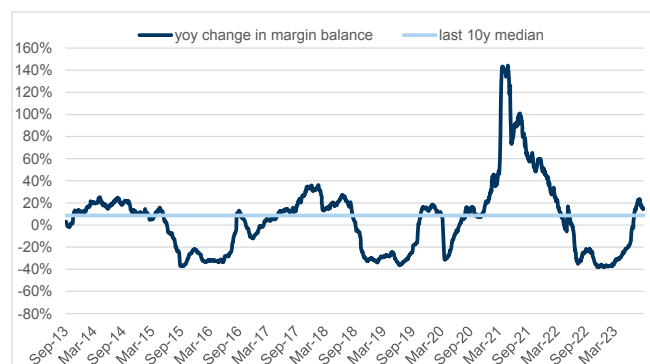
Stock market activity picked up

Exhibit 4: Retail investor participation has gone up post Covid in Taiwan



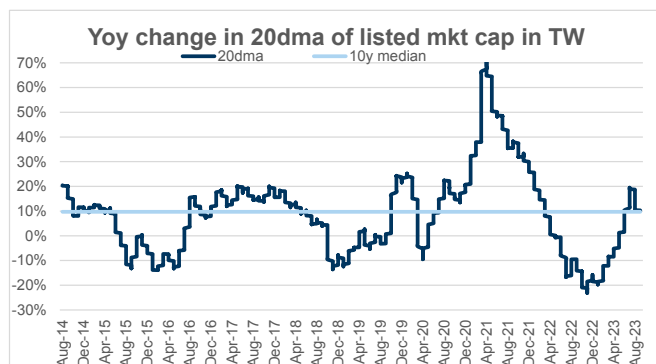
Source: TWSE

Exhibit 5: ... with notable rise in margin balances this year



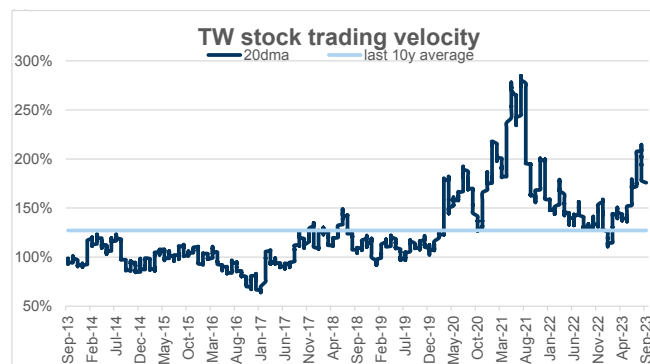
Source: TEJ

Exhibit 6: ... co-inciding with overall higher index levels

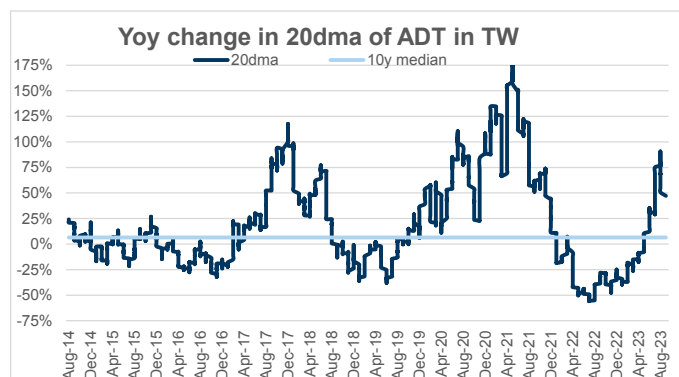


Source: TEJ

Exhibit 7: ... and above normal velocity levels



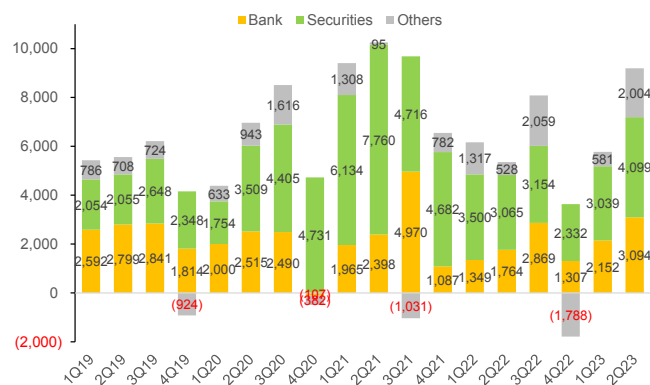
Source: TEJ

Exhibit 8: ... thereby leading to higher turnover levels

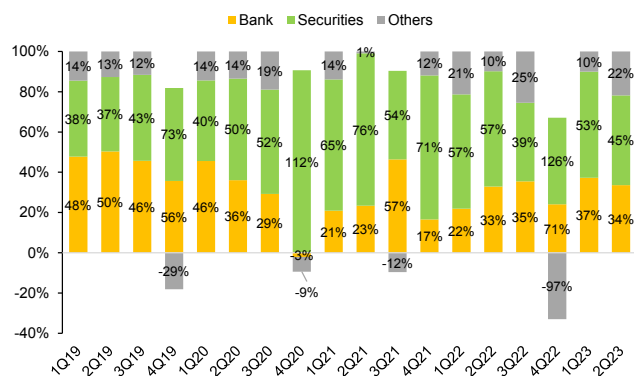
Source: TEJ

... but likely peak profits for FHC this year**Exhibit 9: YTD profitability has improved at Yuanta's key units**

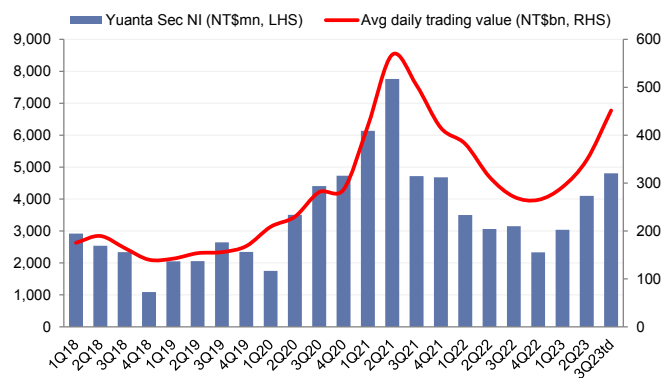
Net profit in NT\$m



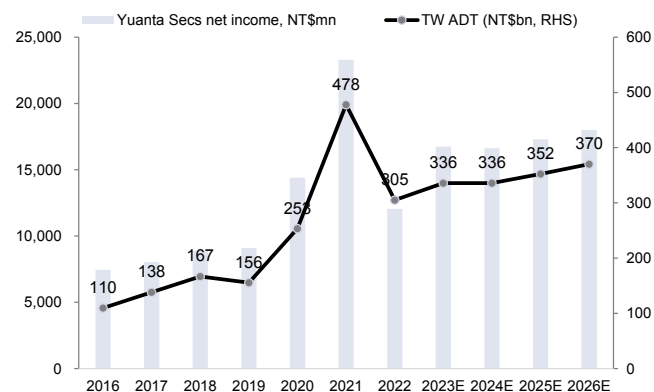
Source: Company data, Goldman Sachs Global Investment Research

Exhibit 10: ... with bank benefitting from rate rises

Source: Company data, Goldman Sachs Global Investment Research

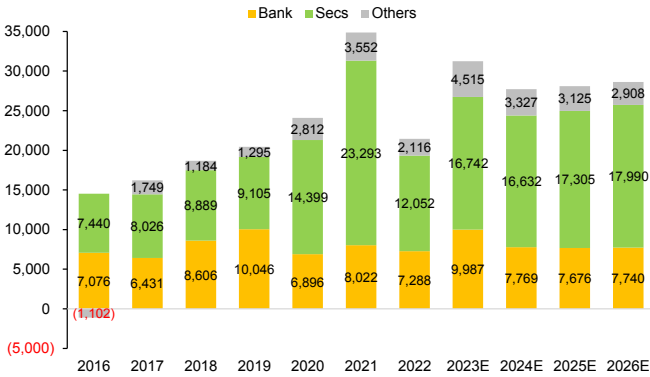
Exhibit 11: ... and securities unit benefitting from higher ADT

Source: Company data, Goldman Sachs Global Investment Research, TEJ

Exhibit 12: ... although next year to be flattish yoy on ADT

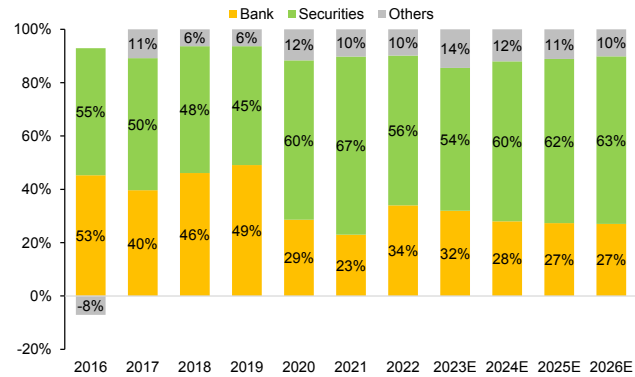
Source: Company data, Goldman Sachs Global Investment Research, TEJ

Exhibit 13: That said, overall FHC profits may peak this year
Net profit in NT\$m



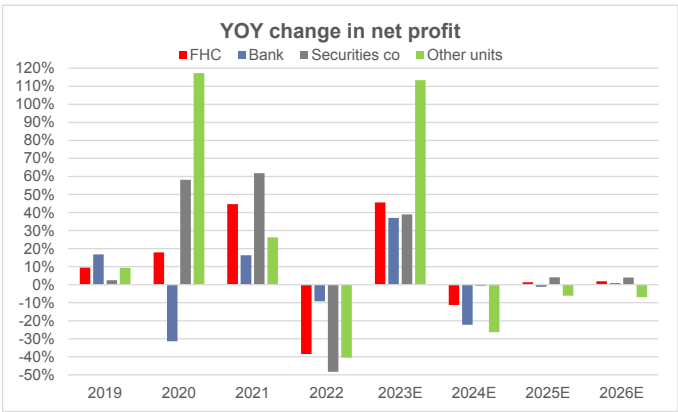
Source: Company data, Goldman Sachs Global Investment Research

Exhibit 14: ... as rates are cut next year



Source: Company data, Goldman Sachs Global Investment Research

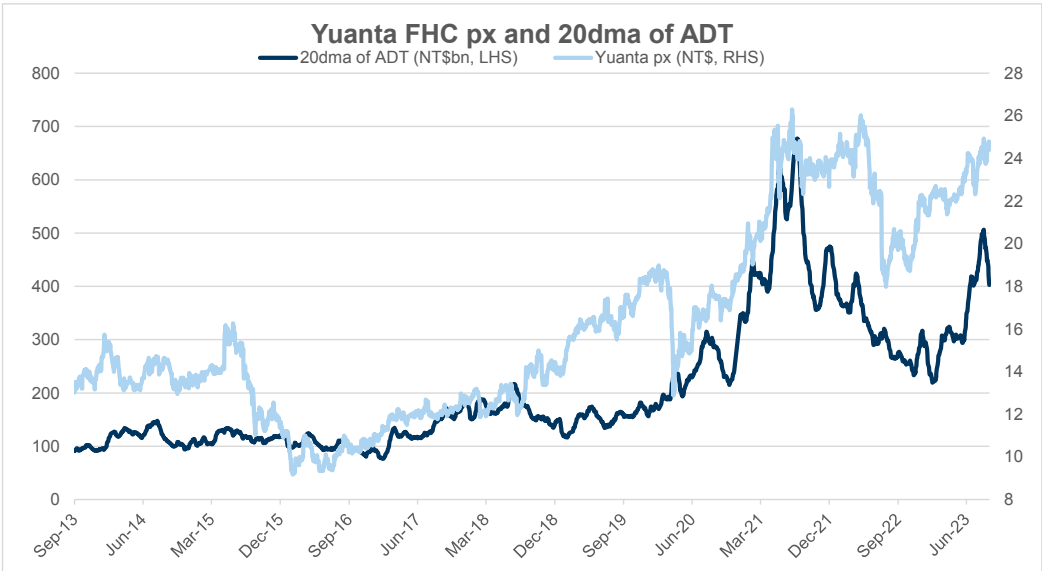
Exhibit 15: ... and on more modest medium term ADT gains



Source: Company data, Goldman Sachs Global Investment Research

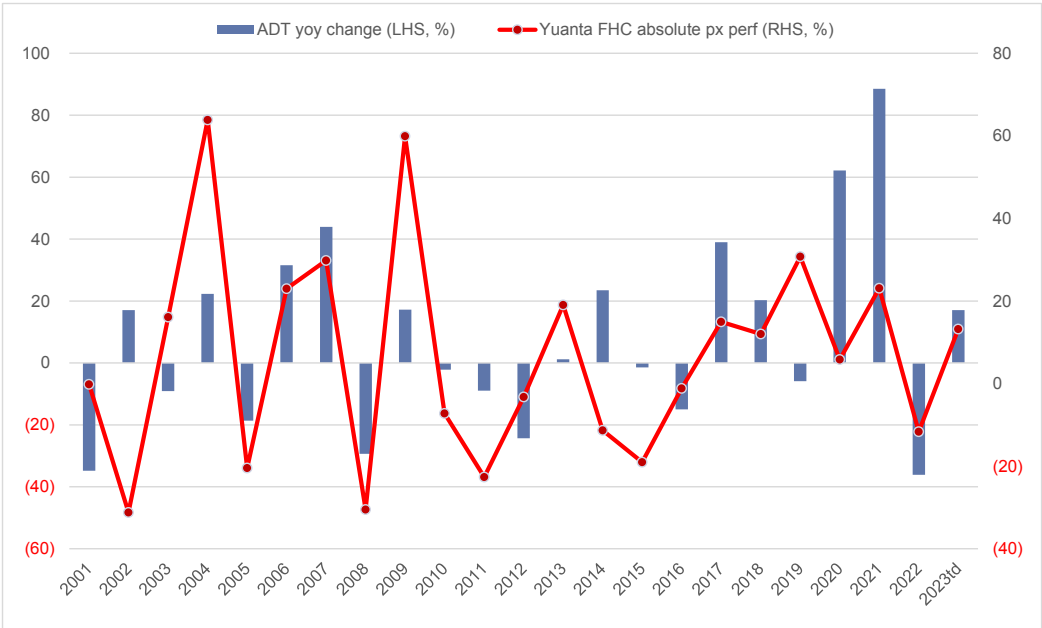
... with share price sensitive to ADT changes

Exhibit 16: Yuanta FHC's share price has 87% (positive) correlation with 20dma of ADT over the last 10 years

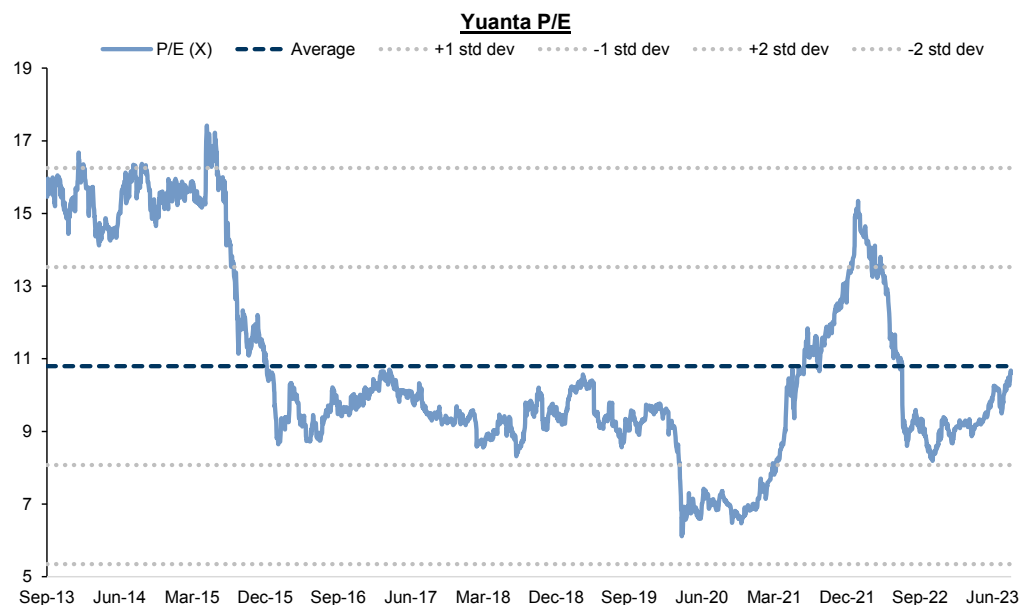


Source: TEJ, Datastream

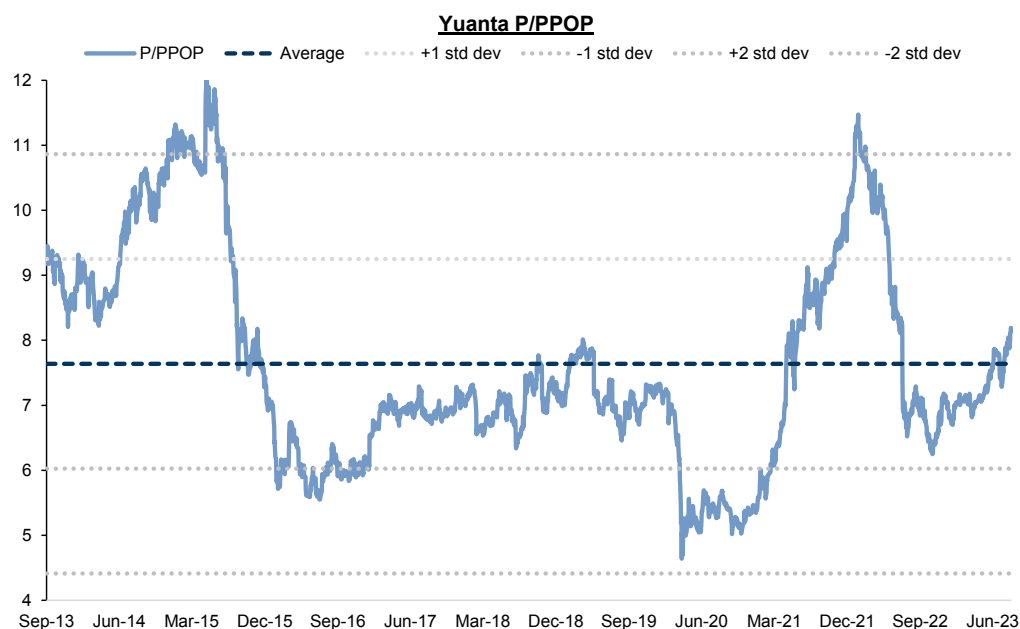
Exhibit 17: ... with annual changes in price being explained somewhat (at least directionally) by ADT change



Source: Datastream, TEJ

Exhibit 18: Relative to its own history Yuanta's valuation is not cheap

Source: TEJ, Datastream, Company data, Goldman Sachs Global Investment Research

Exhibit 19: ... trading close to mid-cycle valuations on earnings based multiples

Source: Datastream, TEJ, Company data, Goldman Sachs Global Investment Research

Investment Thesis

Yuanta FHC runs both a banks and brokerage business, among which Yuanta Securities is the largest broker in Taiwan, taking up over 10% of market share. We are Sell rated on Yuanta on the following: (1) More modest ADT improvement from hereon: We expect FY23E levels to be below the 8M23 levels and for next year to witness flat ADT, before 5% p.a. rise for FY25/26E. Overall, the securities unit net profit could fall 1% in FY24 before rising to 4% p.a. for FY25-26, post c.39% rise in FY23. (2) Rate cuts impacting

bank profitability: Bank unit net profit was up 69% yoy during 1H23, led by swap gains which came from a wide USD-NTD interest rate gap. We expect FY23 profit to rise by 37%, but fall 22% next year as rates are cut by both key central banks. Beyond that profits could be flattish during FY25-26. We are above Bloomberg consensus on FY23E EPS and in-line on FY24E/25E EPS. The stock is trading at P/B and P/E above/below historical avg since 2010. Upside risks include better-than-expected equity market activity and further improvement in profitability at the bank level.

Price Target Risks and Methodology

We are Sell rated on Yuanta FHC with a 12-m SOTP-based target price of NT\$19.5. Upside risks include better-than-expected equity market activity and further improvement in profitability at the bank level.

Disclosure Appendix

Reg AC

We, Gurpreet Singh Sahi, CFA and Wing Huang, hereby certify that all of the views expressed in this report accurately reflect our personal views about the subject company or companies and its or their securities. We also certify that no part of our compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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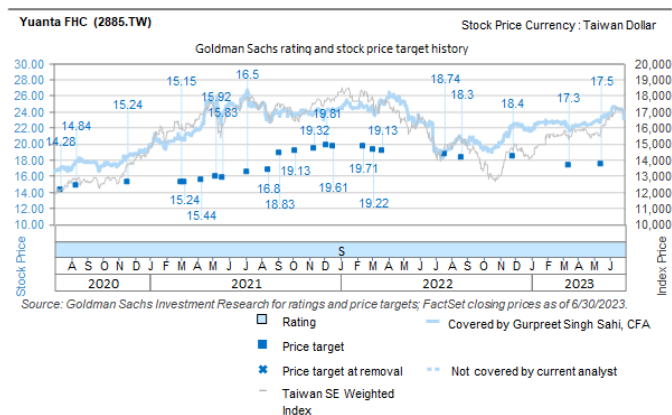
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	Rating Distribution				Investment Banking Relationships		
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