

Sumitomo Mitsui Financial Group (8316)

Results impression for 3Q: In line

Maintain Rating: NEUTRAL | PO: 7,750 JPY | Price: 7,639 JPY

**Results date: Thursday 1 Feb, 15:30; conference call: none
In line**

1Q-3Q FY3/24 results: Consolidated pre-provision operating profit was ¥1.2021tn (+17% YoY, 86% of FY3/24 guidance) and consolidated net profit ¥792.8bn (+4% YoY, 86%). Consolidated PPOP was helped by higher fee & commission income (+17% YoY, with domestic wholesale large accounts and Nikko Securities contributing), while consolidated net profit beat the IFIS consensus of ¥768.8bn by 3% on the above plus higher stock gains (reduction of strategic shareholdings boosted this from ¥31.0bn in 1H to ¥42.0bn (parent only) in 3Q) and lower credit costs (only ¥1.9bn parent only through 3Q). Net interest income (+5% YoY on strength in overseas subsidiaries and SMICC) also improved; in line but overall solid progress. We expect some balance sheet improvements in 4Q (cutting losses on foreign bonds and forward-looking provisions) but see limited room for an upward revision to FY3/24 NP guidance ahead of profit growth in FY3/25. We maintain our Neutral rating.

Capital policies: A dividend hike and share buybacks were already announced with 2Q results. Next catalyst is the potential for share buybacks with full-year FY3/24 results and a dividend hike in FY3/25 guidance.

Developments to watch: (1) rate of growth in consolidated NP/ROE from FY3/25; (2) the balance between shareholder payouts and growth investments; (3) pace of decline in unrealized losses on foreign bonds; and (4) pace of restructuring the JPY bond portfolio (shift from BoJ reserves to JGBs) in response to a BoJ policy change.

Bond unrealized gains/losses (end-December): JPY bond unrealized losses were only ¥89.8bn (¥25.6bn lower than at end-March). Foreign bond unrealized losses were ¥656.7bn before hedges (up ¥40.6bn from end-March; vs. our estimate of a ¥350.0bn losses after hedges). With the potential for cutting losses on foreign bonds in 4Q, risks have been reduced substantially.

**Please refer to the earnings summary (Exhibit 1) and [results heatmap](#).*

01 February 2024

Equity

Shinichiro Nakamura >>
Research Analyst
BofAS Japan
+81 3 6225 8824
shinichiro.nakamura@bofa.com

Yuki Yaginuma >>
Research Analyst
BofAS Japan
+81 3 6225 7192
yuki.yaginuma@bofa.com

Stock Data

Price (Common / ADR)	7,639 JPY / 10.29 USD
Price Objective	7,750 JPY / 10.19 USD
Date Established	19-Oct-2023/ 19-Oct-2023
Investment Opinion	B-2-7 / B-2-7
52-Week Range	4,997-7,849 JPY
Market Value (mn)	10,217,385 JPY
Market Value (\$mn)	69,898 USD
Shares Outstanding (mn)	1,337.5
Average Daily Value (\$mn)	394.8 USD
Free Float	85.0%
BofA Ticker / Exchange	SMFNF / TYO
BofA Ticker / Exchange	SMFG / NYS
Bloomberg / Reuters	8316 JP / 8316.T
ROE (2024E)	8.2%
Net Dbt to Eqty (Mar-2023A)	NA

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Refer to important disclosures on page 4 to 7. Analyst Certification on page 3. Price Objective Basis/Risk on page 3.

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Timestamp: 01 February 2024 09:19AM EST

Exhibit 1: Earnings summary

PPOP beat our estimate by 4% on strong fee & commission income and consolidated NP beat our estimate by 2% on lower credit costs and higher stock gains

8316.JP	Actual	YoY	BofA E	Var	CoE	Progress	BofA E
Consolidated PL (JPY, bn)	1Q-3Q FY3/24	%/delta	1Q-3Q FY3/24	%/delta	FY3/24	%	FY3/24
Consolidated Gross Profit	2,726.3	14.7%	2,665.4	2.3%	---	---	3,375.8
Net Interest Income	1,342.6	5.4%	1,319.2	1.8%	---	---	1,704.4
Fees (incl. trust fees)	1,061.3	17.1%	1,019.4	4.1%	---	---	1,328.3
Market revenues	322.4	125.5	326.8	-4.4	---	---	343.0
G&A Expenses	-1,631.0	14.2%	-1,570.4	3.9%	---	---	-2,072.1
(OHR)	59.8%	-0.2%	58.9%	0.9%	---	---	61.4%
Consolidated Net Business Profit	1,202.1	16.8%	1,153.1	4.3%	1,400.0	85.9%	1,375.8
Credit Costs	-134.7	21.2%	-149.5	-9.9%	-230.0	58.5%	-227.8
(Credit cost ratio, bps)	17.7	2.4	20.1	-2.4	---	---	22.8
Gains/Losses on Stocks	144.6	4.6%	82.9	74.4%	---	---	151.4
Equity in Gains/Losses of affiliates	106.8	34.4%	58.1	83.9%	---	---	72.1
Ordinary Profit	1,196.7	15.9%	1,064.5	12.4%	1,320.0	90.7%	1,242.6
Income Taxes	-288.1	12.3%	-275.8	4.4%	---	---	-348.1
(Effective tax rate)	26.6%	1.7%	26.1%	0.5%	---	---	28.5%
Net Profit	792.8	3.5%	774.4	2.4%	920.0	86.2%	857.7
Consol - Parent Gap							
Ordinary Profit	429.2	40.9%	365.5	17.4%	445.0	96.5%	335.1
Net Profit	241.6	15.1%	264.6	-8.7%	280.0	86.3%	239.3
Consol. Balance Sheet							
Securities	36,844	18.3%	36,718	0.3%	---	---	35,996
Loans	103,187	4.3%	102,103	1.1%	---	---	102,714
Total Assets	285,778	8.0%	282,699	1.1%	---	---	283,621
Deposits + NCDs	176,526	4.2%	174,002	1.5%	---	---	175,064
Total Liabilities	271,873	7.8%	270,144	0.6%	---	---	271,206
Total stockholders' equity	10,612	2.5%	10,593	0.2%	---	---	10,491
Total net assets	13,905	11.5%	12,554	10.8%	---	---	12,414
Other indicators							
Buyback amount (on announcement basis)	150.0	-50.0	150.0	0.0	150.0	---	200.0
DPS (JPY)	135	20	135	0	270	---	260
CET 1 ratio	10.0%	-0.2%	10.2%	-0.2%	---	---	10.1%
ROA	0.4%	0.0%	0.4%	0.0%	---	---	0.3%
ROE (Equity Capital)	7.8%	-0.4%	8.1%	-0.2%	---	---	6.7%
Dupont ROE (shareholders' equity)	10.1%	0.1%	9.9%	0.2%	---	---	8.2%
Margin	29.1%	-3.1%	29.1%	0.0%	---	---	25.4%
Asset Turnover	1.3%	0.1%	1.3%	0.0%	---	---	1.2%
Leverage ratio (shareholders' equity)	27.1	1.0	26.9	0.2	---	---	26.9

Source: Company disclosure, BofA Global Research estimates.

BofA GLOBAL RESEARCH

Price objective basis & risk

Sumitomo Mitsui Financial Group (8316 / SMFNF / SMFG)

Our price objective for SMFG of ¥7,750 (ADR \$10.19) is based on applying a fair P/B of 0.86x (estimated ROE of 7.00% for FY3/24-3/26 and theoretical cost of capital of 8.17%) to our FY3/24 BPS estimate of ¥9,060 (we weight our FY3/24-3/26 ROE estimates at 50% for FY3/24, 40% for FY3/25, and 10% for FY3/26). The 8.17% cost of capital we use is based on an implied risk premium of 8.17%, calculated from the averages since the BoJ adopted NIRP in 2016 of the risk premium for Japan stocks of 7.15%, of the risk-free rate of 0.75%, and of the weekly beta of 1.16, to which we apply a 0% premium to reflect qualitative factors (including the long-term attractiveness of the business portfolio, capital policies, governance, and regulatory risks).

Risks to our price objective include (1) a faster-than-expected recovery of its mainstay consumer finance, credit card, and asset-financing businesses, (2) faster-than-expected increases in shareholder payouts, and (3) faster earnings improvement at SMBC Nikko Securities and the US capital markets business. Downside risks include (1) a slower-than-expected recovery of its consumer finance, credit card, and asset-financing businesses, (2) slower-than-expected increases in shareholder payouts and overpayment for acquisitions, and (3) weak earnings improvement at SMBC Nikko Securities and relative weakness in its US capital markets business.

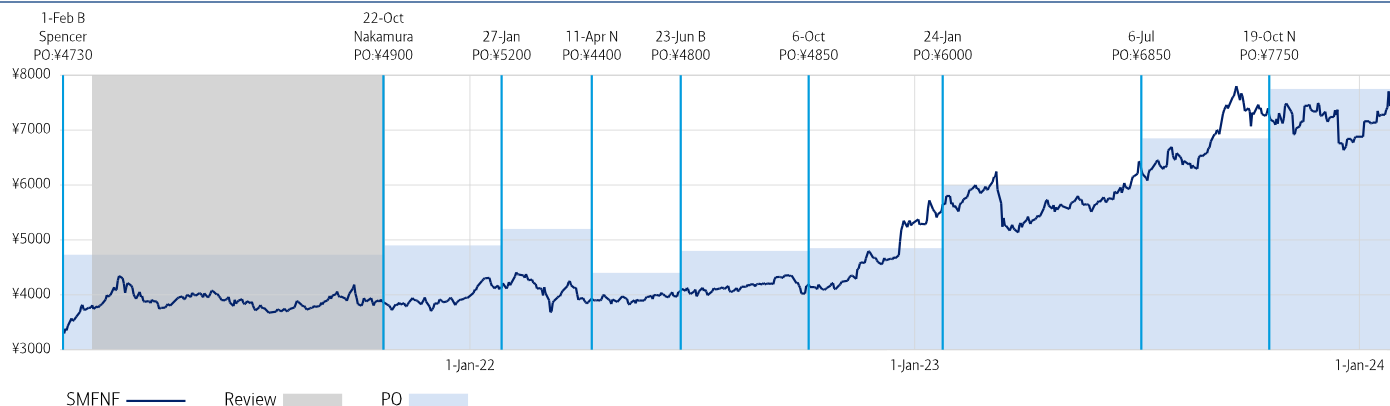
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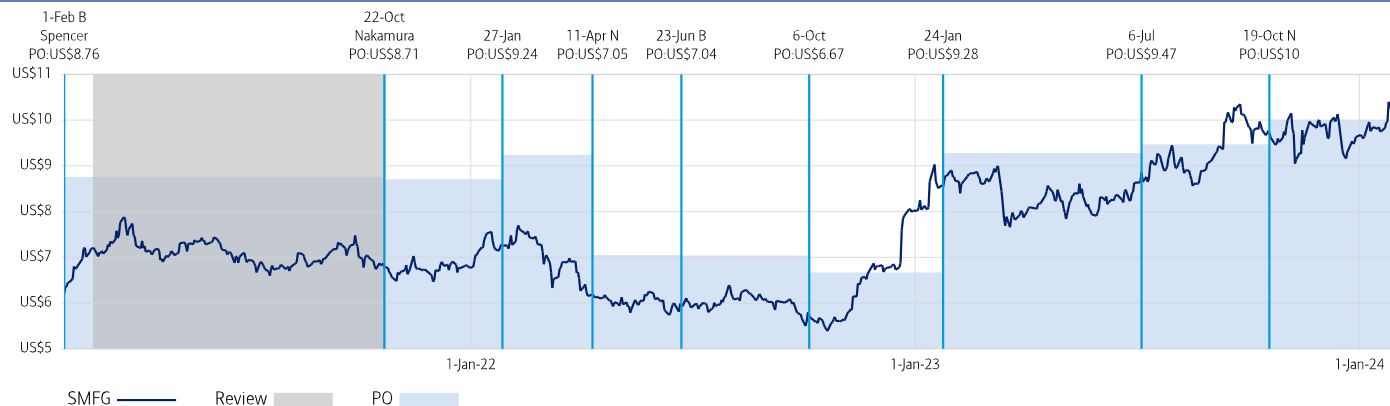
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Sumitomo Financial (SMFNF) Price Chart



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Sumitomo Financial (SMFG) Price Chart



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Equity Investment Rating Distribution: Banks Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	100	49.75%	Buy	84	84.00%
Hold	54	26.87%	Hold	41	75.93%
Sell	47	23.38%	Sell	35	74.47%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2}Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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