

Mitsubishi UFJ Financial Group (8306)

3Q results: In line, no upward revision for FY3/24 NP/DPS despite 100% NP progress

Maintain Rating: BUY | PO: 1,400 JPY | Price: 1,437 JPY

**Results date: Monday. 5 Feb, 16:00; Conference call: none
In line**

1Q-3Q FY3/24 results: Consolidated pre-provision operating profit was ¥1.5203tn (up 10% YoY, 105% of FY3/24 guidance) and consolidated NP was ¥1.2979tn (nearly 100% of FY3/24 guidance), 5% higher than our estimate of ¥1.2378tn. Net interest income (up ¥110.0bn YoY excluding one-off factors) and fee and commission income (up ¥75.0bn YoY) were overall in line, but significantly affected by income from market operations beating our estimate by ¥72.3bn on strong net trading income and a slightly lower effective tax rate than we expected. Nevertheless, it conservatively left FY3/24 guidance for NP and DPS unchanged because the major difference in profit came on the end-FY3/24 USD/JPY rate and amount of cutting foreign bond losses, and given the stock's YTD outperformance, we view these results as in line. In 4Q, we think consolidated NP could reach over ¥1.4tn even after cutting further foreign bond losses (which were just under ¥150.0bn in 3Q, ¥0.2tn of unrealized yen bond losses and ¥0.6tn of unrealized foreign bond losses after hedges at end-December) and taking forward-looking provisions. We think MUFG will issue FY3/25 guidance for slight NP growth. Based on its relatively strong pace of ROE/shareholder payout improvement ahead of the next medium-term plan, we maintain our Buy rating.

Capital policies: As noted above, management conservatively left its FY3/24 NP/DPS guidance unchanged and did not raise the dividend for FY3/24.

Developments to watch: (1) Level of FY3/25 NP/DPS guidance (we estimate NP of ¥1.46tn and DPS of ¥50); (2) ROE targets (we estimate 8.5%) and the balance between growth investments (including M&A) and shareholder payouts in the next medium-term plan; (3) rate of decline in unrealized bond losses and growth in JPY bond portfolio in response to BoJ policy changes (shift from BoJ reserves to JGBs).

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

05 February 2024

Equity

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Stock Data

Price (Common / ADR)	1,437 JPY / 9.47 USD
Price Objective	1,400 JPY / 9.20 USD
Date Established	19-Oct-2023/ 19-Oct-2023
Investment Opinion	B-1-7 / B-1-7
52-Week Range	802-1,448 JPY
Market Value (mn)	18,232,241 JPY
Market Value (\$mn)	122,966 USD
Shares Outstanding (mn)	12,687.7
Average Daily Value (\$mn)	645.1 USD
Free Float	84.6%
BofA Ticker / Exchange	MBFJF / TYO
BofA Ticker / Exchange	MUFG / NYS
Bloomberg / Reuters	8306 JP / 8306.T
ROE (2024E)	9.6%
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: 05 February 2024 06:48AM EST

Exhibit 1: Earnings summary

Consolidated PPOP beat our estimate by 2% on strong income from market operations and net profit beat by 5% on lower-than-expected effective tax rate

8306.JP	Actual	YoY	BofA E	Var	CoE	Progress	BofA E
Consolidated PL (JPY, bn)	1Q-3Q FY3/24	%/delta	1Q-3Q FY3/24	%/delta	FY 3/24	%	FY 3/24
Consolidated Gross Profit	3,619.1	1.1%	3,610.1	0.3%	---	---	4,538.1
Net Interest Income	1,800.0	-22.2%	1,878.3	-4.2%	---	---	2,523.2
Fees (incl. trust fees)	1,285.1	3.0%	1,270.0	1.2%	---	---	1,659.4
Market revenues	534.0	515.9	461.8	72.3	---	---	355.5
G&A Expenses	-2,098.9	-4.5%	-2,123.0	-1.1%	---	---	-2,810.3
(OHR)	58.0%	-3.4%	58.8%	-0.8%	---	---	61.9%
Pre-Provision OP	1,520.3	10.0%	1,487.1	2.2%	1,450.0	104.8%	1,727.8
Credit Costs	-263.6	-45.6%	-254.0	3.8%	-300.0	87.9%	-296.7
(Credit cost ratio, bps)	28.6	-27.1	28.0	0.7	---	---	24.3
Gains/Losses on Stocks	227.5	12.0%	222.4	2.3%	---	---	340.1
Equity in Gains/Losses of affiliates	361.9	1.2%	427.0	-15.3%	---	---	523.8
Ordinary Profit	1,801.9	112.3%	1,799.1	0.2%	1,850.0	97.4%	2,189.7
Income Taxes	-407.2	6.7%	-448.6	-9.2%	---	---	-614.0
(Effective tax rate)	23.1%	-25.5%	25.8%	-2.6%	---	---	29.0%
Net Profit	1,297.9	278.2%	1,237.8	4.9%	1,300.0	99.8%	1,426.7
Consol - Parent Gap							
Ordinary Profit	723.8	---	709.3	2.0%	---	---	873.2
Net Profit	511.0	---	476.7	7.2%	---	---	574.6
Consol. Balance Sheet							
Securities	84,005	1.9%	81,718	2.8%	---	---	82,844
Loans	114,160	-4.3%	114,075	0.1%	---	---	114,756
Total Assets	397,057	1.4%	385,244	3.1%	---	---	385,982
Deposits + NCDs	233,154	-0.5%	229,980	1.4%	---	---	0
Total Liabilities	377,062	0.9%	367,067	2.7%	---	---	368,274
Total stockholders' equity	15,428	9.6%	15,361	0.4%	---	---	15,001
Total net assets	19,995	13.0%	18,177	10.0%	---	---	17,708
Other indicators							
Buyback amount (on announcement basis)	400.0	250.0	400.0	0.0	400.0	---	600.0
DPS (JPY)	20.5	4.5	20.5	0.0	41.0	---	45.0
CET 1 ratio	10.5%	0.5%	10.6%	0.0%	---	---	10.2%
ROA	0.4%	0.3%	0.4%	0.0%	---	---	0.4%
ROE (Equity Capital)	9.0%	6.4%	9.0%	0.0%	---	---	7.8%
Dupont ROE (shareholders' equity)	11.4%	8.2%	10.9%	0.5%	---	---	9.5%
Margin	35.9%	26.3%	34.3%	1.6%	---	---	31.4%
Asset Turnover	1.2%	0.0%	1.2%	0.0%	---	---	1.2%
Leverage ratio (shareholders' equity)	25.8	-1.2	25.6	0.3	---	---	25.6

Source: Company disclosure, BofA Global Research estimates.

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Price objective basis & risk

Mitsubishi UFJ Financial Group (8306 / MBFJF / MUFG)

Our price objective for MUFG of ¥1,400 (ADR \$9.20) is based on applying a fair P/B of 1.0x (estimated ROE of 8.05% for FY3/24-3/26 and theoretical cost of capital of 8.07%) to our FY3/24 BPS estimate of ¥1,423 (we weight our FY3/24-3/26 ROE estimates at 50% for FY3/24, 40% for FY3/25, and 10% for FY3/26). The 8.07% cost of capital we use is based on an implied risk premium of 8.73%, calculated from the averages since the BoJ's adoption of 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 1.25, to which we apply a 7.5% premium to reflect qualitative factors (including the long-term attractiveness of the business portfolio, capital policies, governance, and regulatory risks).

Upside risks to our PO include (1) faster-than-expected business portfolio reshuffling and ROE improvement, (2) faster-than-expected growth in shareholder returns, and (3) faster-than-expected yen depreciation and improvement in US Morgan Stanley earnings. Downside risks include (1) more earnings deterioration than expected at US Morgan Stanley and partner banks in Southeast Asia: (2) slower-than-expected growth in shareholder payouts and missteps with M&A: and (3) more yen appreciation than expected.

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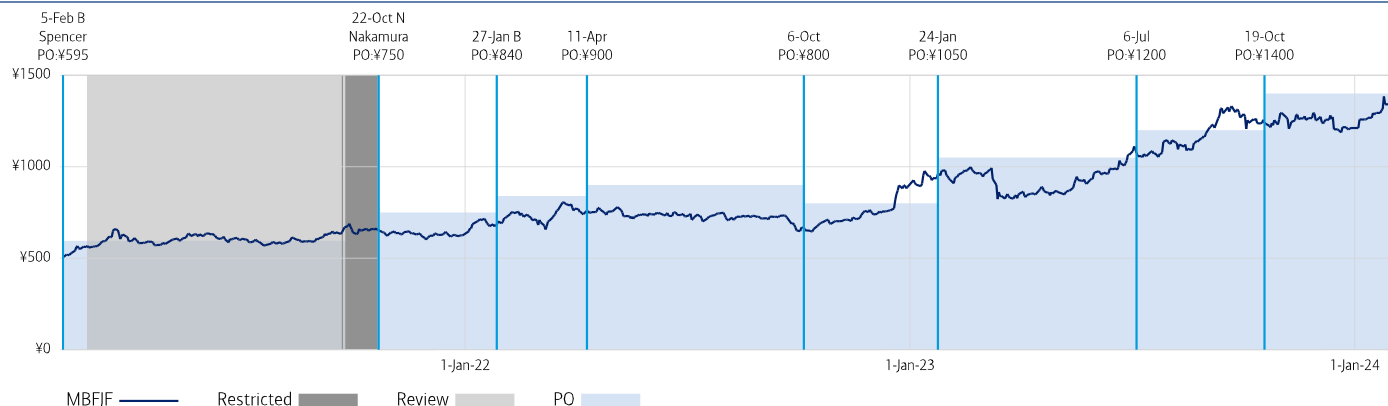
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Mitsubishi UFJ (MBFJF) Price Chart



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Mitsubishi UFJ (MUFG) 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%

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