

## Mitsubishi UFJ Financial Group (8306)

**1H results: Capital policy unchanged in next plan; over 8.5% ROE**

Maintain Rating: BUY | PO: 1,400 JPY | Price: 1,264 JPY

Mitsubishi UFJ Financial Group (MUFG) held a briefing on 1H FY3/24 results on 16 Nov at 10:00. Though it did not give specifics on ROE or growth drivers for its next medium-term plan, without changing capital policy or capex level it is focusing more on growth and committed to further ROE improvement to achieve P/B of 1.0x; this left a positive impression. We believe FY3/26 ROE of 8.6% (net profit over ¥1.55tn) is reachable, and maintain our Buy rating. Mgmt communicated the following key messages.

**(1) ROE currently over 7.5%, and we expect mgmt to aim for over 8.5% in next medium-term plan**

Mgmt acknowledged that the 10.6% ROE recorded in 1H includes ¥82.7bn of one-off positives from Morgan Stanley, ¥140bn of market revenue recorded early, and positive impact from yen depreciation, and adjusted ROE was still at just over 7.5%. In its next medium-term plan, mgmt will stick with its strategy of improving domestic corporate and overseas wholesale profits but add a strong commitment to achieve P/B of 1.0x by strengthening new businesses and the green transformation (GX) business, and increasing growth investments. We expect its new medium-term plan will aim for ROE over 8.5% (net profit over ¥1.55tn) in FY3/27, the final year. Improved growth expectations as JPY interest rates normalize should bring P/E multiple of 12.0x within reach and, back-calculating from that, there is a strong chance of achieving P/B of 1.0x.

**(2) Maintaining current capital policies and capex levels with stronger growth in next medium-term plan**

Although the materials distributed at the briefing emphasized growth investments as the theme for its next medium-term plan, mgmt commented that investment criteria would not change (the priority will be on share buybacks except for investments that meet strict profitability criteria). Mgmt noted that its increased emphasis on growth investments reflects its understanding that its previous strategy of exclusively focusing on improving profits in the domestic corporate and overseas wholesale would risk a future slowing of the pace of ROE improvement, and therefore that it also needs measures boosting growth in all of its businesses.

16 November 2023

## Equity

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## Stock Data

Price (Common / ADR)	1,264 JPY / 8.37 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	713-1,353 JPY
Market Value (mn)	16,037,267 JPY
Market Value (\$mn)	106,274 USD
Shares Outstanding (mn)	12,687.7
Average Daily Value (\$mn)	621.9 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 3 to 6. Analyst Certification on page 2. Price Objective Basis/Risk on page 2.**

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Timestamp: 16 November 2023 07:55AM EST

## 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.

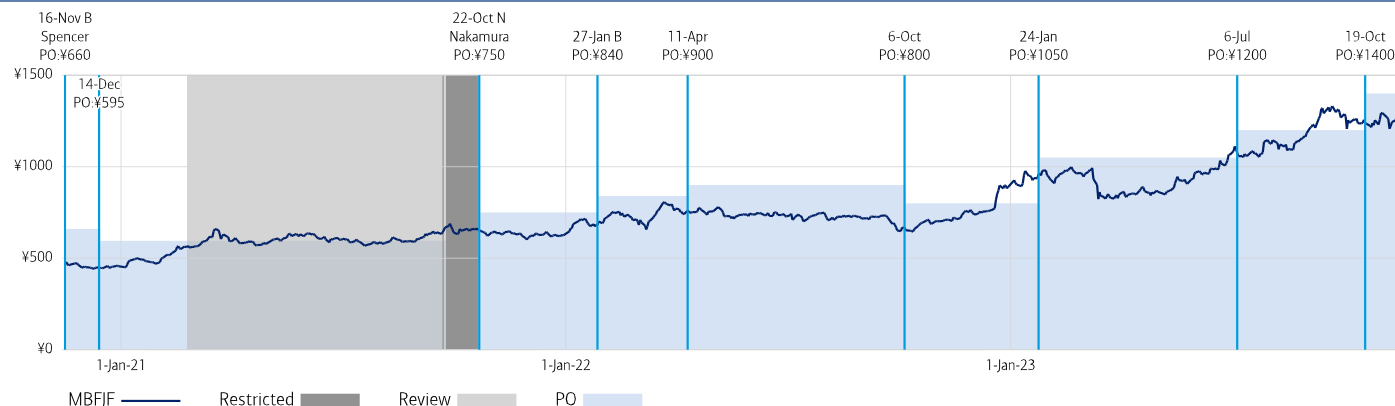
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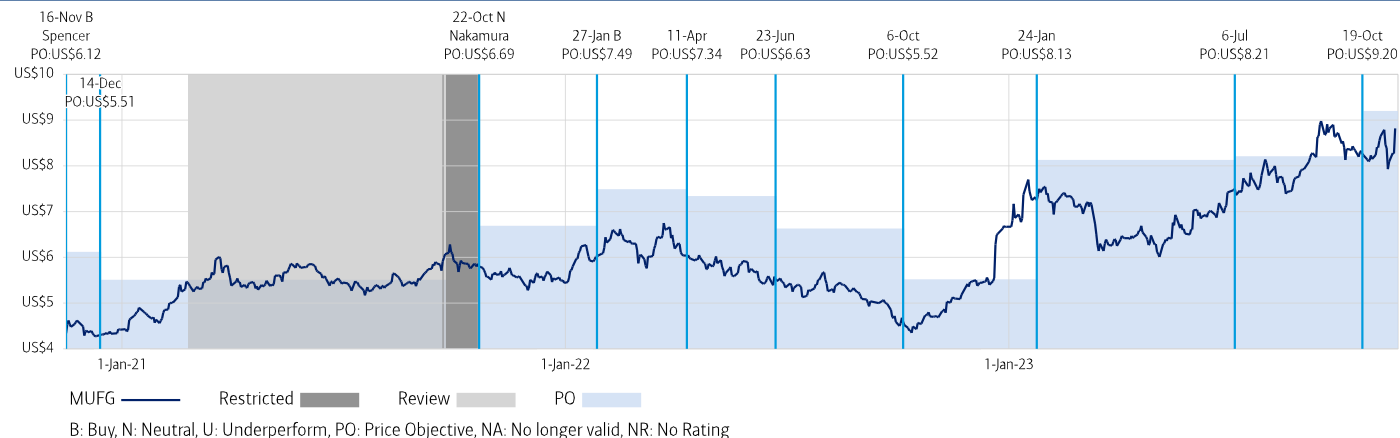
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### MUFG (MUFG) Price Chart



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Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	98	50.78%	Buy	81	82.65%
Hold	47	24.35%	Hold	35	74.47%
Sell	48	24.87%	Sell	36	75.00%

### Equity Investment Rating Distribution: Global Group (as of 30 Sep 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1869	53.48%	Buy	1046	55.97%
Hold	828	23.69%	Hold	461	55.68%
Sell	798	22.83%	Sell	370	46.37%

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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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