

Shinhan Financial Group

Conservative provisioning in 4Q; remains committed to higher shareholder returns

Reiterate Rating: BUY | PO: 51,000 KRW | Price: 44,150 KRW

4Q23: Weak earnings due to multiple unusual items

Shinhan Financial Group posted 4Q23 net profit of W550bn, down 54% QoQ and lower than Bloomberg consensus of W641bn, although above our estimate of W490bn. This was a quarter with several unusual items, including the cost for early retirement program and national service packages, conservative valuation loss on investment asset and pre-emptive provisioning, which in total amounted to slightly more than W1 tn on a pre-tax basis. Adjusting for the unusual items, we estimate Shinhan's 4Q23 net profit would have been about W1.3tn. As Shinhan's management highlighted in the earnings call, we believe the heavy upfront cost recognition will pose less burden on 2024 earnings. In our view, Shinhan's total shareholder return of 36% in 2023, which is 7% higher than that of 2022, along with a W150bn buyback announcement in 1Q24, offers better visibility for a steady rise in shareholder returns. We reiterate our Buy rating.

Management confident on shareholder returns

Shinhan's management said that strong commitment, consistent execution, and financial stability were the key forces driving the total shareholder return of 36%. Management also made it clear that they will focus on enhancing the size of dividend as well as the share buyback on an annual basis and manage their CET1 ratio of at least 13% in 2024. Their confidence suggests that management is more optimistic on the business outlook.

Fine-tune earnings estimates; raise PO to W51,000

We fine-tune our estimates but raise our PO to W51,000 (US\$39.2) from W45,000 (US\$34.6), as we lift our target P/B multiple to 0.48x from 0.41x, assuming 8.1% RoE (earlier 8.0%), 10% cost of equity, 2% terminal growth, and 28% discount to RoE (from 34%). We lower the RoE discount in line with the discount applied historically during economic recovery scenarios since 2005, given the rebound in exports.

Estimates (Dec) (W)	2022A	2023A	2024E	2025E	2026E
Net Income (Adjusted - bn)	4,509	4,204	4,081	4,462	4,604
EPS	8,498	8,200	8,167	9,187	9,789
EPS Change (YoY)	16.5%	-3.5%	-0.4%	12.5%	6.6%
Dividend / Share	2,065	2,100	2,160	2,240	2,340
ADR EPS (US\$)	6.58	6.28	6.15	6.92	7.37
ADR Dividend / Share (US\$)	1.60	1.61	1.63	1.69	1.76
Valuation (Dec)					
P/E	5.2x	5.4x	5.4x	4.8x	4.5x
Dividend Yield	4.68%	4.76%	4.89%	5.07%	5.30%
Pre-exceptional PE	4.52x	3.52x	5.28x	4.72x	4.44x
Price / Book	0.446x	0.421x	0.401x	0.382x	0.365x
RoE / PB	21.33%	19.85%	19.17%	20.89%	21.51%
Price / Pre-Provision Profit	3.24x	2.71x	2.78x	2.65x	2.51x

12 February 2024

Equity

Key Changes

(W)	Previous	Current
Price Obj.	45,000.00	51,000.00
2024E EPS	8,044.32	8,166.68
2025E EPS	9,275.97	9,186.88
2026E EPS	9,934.57	9,789.19

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Stock Data

Price (Common / ADR)	44,150 KRW / 32.94 USD
Price Objective	51,000 KRW / 39.23 USD
Date Established	12-Feb-2024 / 12-Feb-2024
Investment Opinion	A-1-7 / B-1-7
52-Week Range	32,400 KRW-45,450 KRW
Market Value (mn)	17,044 USD
Market Value (mn)	22,638,331 KRW
Shares Outstanding (mn)	512.8 / 512.8
Average Daily Value (mn)	63.37 USD
Free Float	87.0%
BofA Ticker / Exchange	SFLGF / KSC
BofA Ticker / Exchange	SHG / NYS
Bloomberg / Reuters	055550 KS / 055550.KS
ROE (2024E)	7.7%

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Refer to important disclosures on page 6 to 9. Analyst Certification on page 4. Price Objective Basis/Risk on page 4.

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Timestamp: 11 February 2024 03:30PM EST

iQprofileSM Shinhan Financial Group

Key Income Statement Data (Dec)

(W Billions)

	2022A	2023A	2024E	2025E	2026E
Net Interest Income	10,597	10,818	11,109	11,381	11,894
Net Fee Income	2,418	2,647	2,507	2,585	2,553
Securities Gains / (Losses)	NA	NA	NA	NA	NA
Other Income	-148	782	893	1,015	1,047
Total Non-Interest Income	2,271	3,430	3,400	3,600	3,600
Total Operating Income	12,868	14,247	14,509	14,981	15,494
Operating Expenses	(5,644)	(5,895)	(6,584)	(6,888)	(7,207)
Pre-Provision Profit	7,223	8,352	7,926	8,094	8,287
Provisions Expense	(1,318)	(2,251)	(1,850)	(1,500)	(1,500)
Operating Profit	5,906	6,101	6,076	6,594	6,787
Non-Operating Income	461	-136	-150	-150	-150
Pre-Tax Income	6,367	5,965	5,926	6,444	6,637
Net Income to Comm S/Hold.	4,666	4,368	4,235	4,616	4,758
Adjusted Net Income (Operating)	4,509	4,204	4,081	4,462	4,604

Key Balance Sheet Data

Total Assets	664,433	691,795	720,182	751,256	785,621
Average Interest Earning Assets	740,237	792,847	834,483	871,217	910,268
Weighted Risk Assets	291,543	315,306	329,725	344,803	360,571
Total Gross Customer Loans	410,288	413,498	432,407	452,181	472,859
Total Customer Deposits	382,988	381,513	398,959	417,204	436,282
Tier 1 Capital	43,267	46,515	48,839	51,277	53,705
Tangible Equity	47,616	50,104	52,705	55,406	58,040
Common Shareholders' Equity	50,732	53,721	56,414	59,246	62,066

Key Metrics

Net Interest Margin	1.43%	1.36%	1.33%	1.31%	1.31%
Tier 1 Ratio	14.8%	14.8%	14.8%	14.9%	14.9%
Effective Tax Rate	25.3%	24.9%	26.5%	26.5%	26.5%
Loan / Assets Ratio	61.8%	59.8%	60.0%	60.2%	60.2%
Loan / Deposit Ratio	107.1%	108.4%	108.4%	108.4%	108.4%
Oper Leverage (Inc Growth - Cost Growth)	3.1%	6.3%	-9.8%	-1.4%	-1.2%
Gearing (Assets / Equity)	13.1x	12.9x	12.8x	12.7x	12.7x
Tangible Common Equity / Assets	7.2%	7.2%	7.3%	7.4%	7.4%
Tangible Common Equity / WRAs	16.3%	15.9%	16.0%	16.1%	16.1%
Revenue Growth	1.4%	10.7%	1.8%	3.3%	3.4%
Operating Expense Growth	-1.7%	4.5%	11.7%	4.6%	4.6%
Provisions Expense Growth	32.3%	70.8%	-17.8%	-18.9%	0%
Operating Revenue / Average Assets	2.0%	2.1%	2.1%	2.0%	2.0%
Operating Expenses / Average Assets	0.9%	0.9%	0.9%	0.9%	0.9%
Pre-Provision ROA	1.1%	1.2%	1.1%	1.1%	1.1%
ROA	0.7%	0.6%	0.6%	0.6%	0.6%
Pre-Provision ROE	16.0%	17.4%	15.5%	15.0%	14.6%
ROE	9.5%	8.4%	7.7%	8.0%	7.8%
RoTE	9.5%	8.4%	7.7%	8.1%	7.9%
RoWRAs	1.5%	1.3%	1.2%	1.3%	1.3%
Dividend Payout Ratio	22.6%	24.7%	25.8%	23.9%	23.5%
Efficiency Ratio (Cost / Income Ratio)	43.9%	41.4%	45.4%	46.0%	46.5%
Total Non-Interest Inc / Operating Inc	18%	24%	23%	24%	23%
Market-Related Revenue / Total Revenues	0%	0%	0%	0%	0%
Provisioning Burden as % of PPP	18.2%	27.0%	23.3%	18.5%	18.1%
NPLs plus Foreclosed Real Estate / Loans	0.4%	0.5%	0.5%	0.5%	0.5%
Loan Loss Reserves / NPLs	209.2%	183.9%	183.9%	183.9%	183.9%
Loan Loss Reserves / Total Loans	0.8%	1.0%	1.0%	1.0%	1.0%
Provisions Expense / Average Loans	0.3%	0.5%	0.4%	0.3%	0.3%

Other Metrics

(W Thousands)

Income / Employee	194,745	202,196	202,372	220,731	228,344
(Operating Expenses) / Employee	(186,125)	(195,385)	(219,292)	(230,577)	(242,481)
Pre-Provision Profit / Employee	238,205	276,807	263,994	270,945	278,811
Net Profit / Employee	148,696	139,324	135,943	149,372	154,903

Company Sector

Financial Services-Consumer/Commercial

Company Description

Shinhan Financial Group was established in 2001, and currently one of the largest financial groups in Korea in terms of total asset size. SFG has 13 affiliates, including 2 banks (Shinhan Bank, Jeju Bank) and 11 non-banking arms (Shinhan Card, Shinhan Investment Corp., Shinhan Life, etc). The group has the most well-diversified business portfolio, with its non-banking arms contributing 35-40% of total net income. NPS is the majority stakeholder.

Investment Rationale

We rate SFG as a Buy given our view that (1) Shinhan's commitment to a steady shareholder return plan should accompany ongoing buybacks and cancellations, boosting EPS and BVPS growth, and (2) Shinhan's diversified business mix should give the company better earnings stability even when rates are in a declining environment.

Stock Data

Shares / ADR	1.00
Price to Book Value	0.4x

Key Changes

(US\$)	Previous	Current
Price Obj.	34.62	39.23
2024E EPS	6.06	6.15
2025E EPS	6.98	6.92
2026E EPS	7.48	7.37

Earnings weak on heavy cost recognition

Enough buffer to support future earnings

Exhibit 1: Earnings miss on heavy loan loss provisions

Shinhan's quarterly results summary

INCOME STATEMENT	1Q22A	2Q22A	4Q22A	1Q23A	2Q23A	3Q23A	4Q23A	QoQ	YoY	4Q23	BofAe	Consensus
Net Interest Income	2,491	2,608	2,765	2,574	2,694	2,763	2,787	0.8%	0.8%	2,762		
Non-Interest Income	883	790	55	999	1,033	913	484	-47.0%	781.0%	500		
SG&A	1,246	1,323	1,774	1,356	1,443	1,498	1,599	6.8%	-9.9%	1,905		
PPOP	2,128	2,075	1,046	2,217	2,285	2,179	1,671	-23.3%	59.8%	1,357		
Provisions	243	358	466	461	548	475	767	61.4%	64.6%	500		
OP	1,885	1,717	580	1,756	1,736	1,704	904	-46.9%	55.9%	857		
Non-Operating Income	25	63	(110)	101	(8)	(114)	(115)	n/a	n/a	(150)		
Taxes	505	463	84	442	460	372	213	-42.6%	153.0%	187		
Minority	20	19	27	26	31	27	26	-1.7%	-2.3%	30		
Net Profit	1,385	1,298	359	1,388	1,238	1,192	550	-53.9%	53.2%	490	641	

Source: BofA Global Research estimates, company report, Bloomberg

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Exhibit 2: Steady rise of CET1 along with good margin protection

Shinhan's quarterly key ratios

KEY RATIOS	1Q22A	2Q22A	4Q22A	1Q23A	2Q23A	3Q23A	4Q23A
KRW Loan Growth QoQ	0.5%	1.5%	1.0%	0.0%	0.6%	1.1%	1.4%
NIM (Quarterly)	1.89%	1.98%	1.98%	1.94%	2.00%	1.99%	1.97%
Cost-Income Ratio	37%	39%	63%	38%	39%	41%	49%
Credit Cost	0.26%	0.37%	0.47%	0.47%	0.57%	0.49%	0.78%
NPL Ratio	0.37%	0.38%	0.41%	0.48%	0.52%	0.52%	0.56%
NPL Coverage Ratio	209%	209%	209%	193%	183%	183%	184%
Delinquency Ratio	0.21%	0.19%	0.21%	0.27%	0.27%	0.28%	0.26%
CET1 Ratio	13.02%	12.73%	12.79%	12.68%	12.99%	12.92%	13.13%

Source: BofA Global Research, company report

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Exhibit 4: Fine-tune earnings estimates

Earnings estimate revisions

	2024E Old	2024E New	% chg	2025E Old	2025E New	% chg	2026E Old	2026E New	% chg
Operating Revenue	14,430	14,509	0.6%	15,022	14,981	-0.3%	15,542	15,494	-0.3%
Net Interest Income	11,030	11,109	0.7%	11,422	11,381	-0.4%	11,942	11,894	-0.4%
Non-Interest Income	3,400	3,400	0.0%	3,600	3,600	0.0%	3,600	3,600	0.0%
SG&A	6,599	6,584	-0.2%	6,904	6,888	-0.2%	7,224	7,207	-0.2%
Loan Loss Provisions	1,850	1,850	0.0%	1,500	1,500	0.0%	1,500	1,500	0.0%
Net Profit	4,166	4,235	1.7%	4,634	4,616	-0.4%	4,781	4,758	-0.5%

Source: BofA Global Research estimates

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Price objective basis & risk

Shinhan Financial Group (SFLGF / SHG)

We derive our price objective of ₩51,000 (\$39.23) using a target P/B multiple of 0.48x derived by the Gordon Growth Model. Our assumptions are a 8.3% sustainable RoE (from 24M average RoE), 10% cost of equity, and 2% terminal growth. We then apply a 28% discount to the sustainable RoE assumption, derived by regression analysis of historical RoE discount assuming the same cost of equity and terminal growth, combined with our view of the economic cycle.

The downside risks are (1) economic slowdown leading to higher credit cost (2) lower revenues from non-bank affiliates due to increased market risk, (3) EPS dilutive M&A, and (4) stronger demands for social contribution due to pressure on economic entities from high inflation.

Analyst Certification

We, Jeehoon Park and Jisun Lee, hereby certify that the views each of us has expressed in this research report accurately reflect each of our respective personal views about the subject securities and issuers. We also certify that no part of our respective compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

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Korea - Financials Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	DB Insurance	DGBUF	005830 KS	Jeehoon Park
	Hana Financial Group	HNFGF	086790 KS	Jeehoon Park
	Hyundai Marine & Fire	HYMRF	001450 KS	Jeehoon Park
	KakaoBank Corp	XDFSF	323410 KS	Jeehoon Park
	Kakaopay Corp	XDISF	377300 KS	Jeehoon Park
	KB Financial Group	XKBGF	105560 KS	Jeehoon Park
	KB Financial Group	KB	KB US	Jeehoon Park
	Samsung Fire & Marine	SZVZF	000810 KS	Jeehoon Park
	Samsung Life Insurance	SSMMF	032830 KS	Jeehoon Park
	Shinhan Financial Group	SFLGF	055550 KS	Jeehoon Park
	Shinhan Financial Group	SHG	SHG US	Jeehoon Park
	Woori Financial Group	XSLOF	316140 KS	Jeehoon Park
	Woori Financial Group	WF	WF US	Jeehoon Park
NEUTRAL				
	JB Financial Group	XMJFF	175330 KS	Jeehoon Park
UNDERPERFORM				
	BNK Financial Group	XSBFF	138930 KS	Jeehoon Park
	DGB Financial Group	DGBFF	139130 KS	Jeehoon Park
	Industrial Bank of Korea	IBOKF	024110 KS	Jeehoon Park

iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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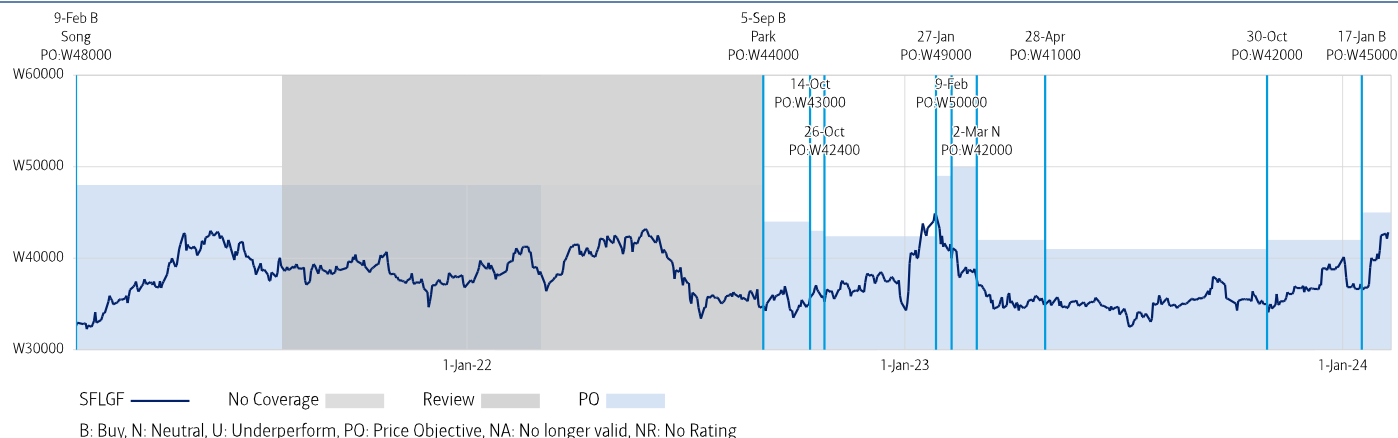
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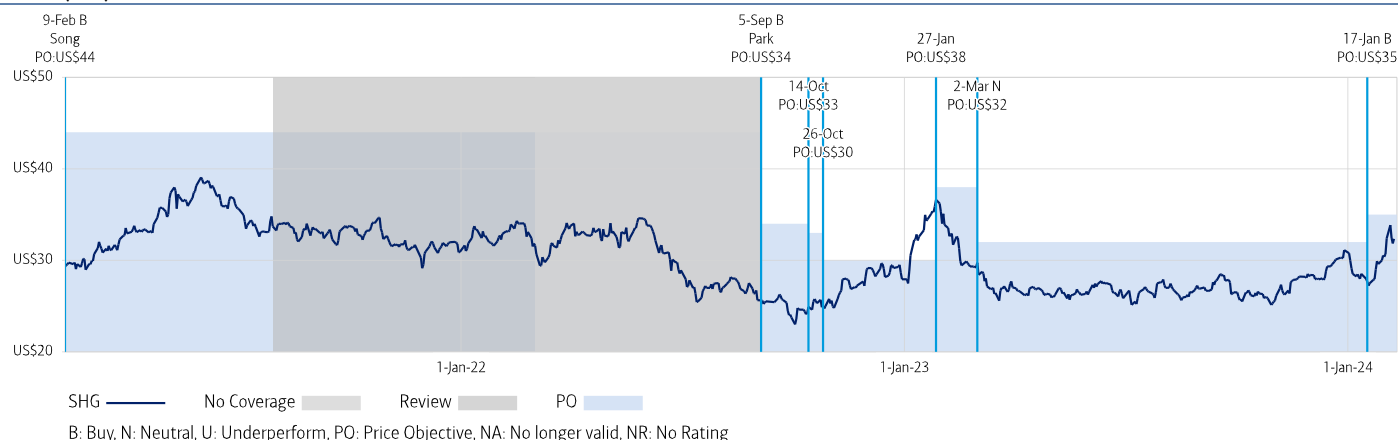
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Shinhan FG (SFLGF) Price Chart



The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Shinhan FG (SHG) Price Chart



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

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	156	53.79%	Buy	94	60.26%
Hold	72	24.83%	Hold	48	66.67%
Sell	62	21.38%	Sell	35	56.45%

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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