

Banks - Korea

1Q results on track for solid recovery

Industry Overview

1Q24 results tracking well

We only have Jan spread and loan growth data, but the data seem to suggest 1Q24 results are on track to be a decent quarter, recovering from the special provision-laden 4Q23. The BoK spread data suggest margins are holding up, and loan growth data remain steady and in line with the 4-5% annual loan growth trend we saw during 2022-23. That said, macro data suggest the banking environment is improving, as exports continued to remain strong and industrial production showed signs of a visible recovery in Jan. With KOSPI having risen 9% since mid-Jan – when with the value-up theme and semiconductors powered the rally – trading and valuation gains are likely to provide good support for non-interest income. We continue to be upbeat on the banks.

NIM holding up well to start the year

Backbook spreads for Jan was 2.50%, slightly higher than average 2.49% for 4Q23. On a monthly basis, the backbook spreads were the lowest in Oct 2023, and have been inching up mainly because funding cost pressure seems to have eased. The banks had large amounts of high-cost funding that matured during end-2023, and the eased funding cost burden seems to be giving the banks confidence that they can protect margins at the current levels – at least until we see any central bank rates action. Both frontbook lending rates and funding costs fell given the decline in interest rates since Nov 2023, but funding cost seems to be falling faster MoM, as new lending rates declined 10bp while funding costs fell 18bp.

Loan growth steady, but signs of capex recovery

System loans grew 0.4% in Jan according to the BoK, and the annualized c.5% growth is in line with the loan growth for the system in both 2022 and 2023. Large corporate loans were up 2.1% for the month while SME loans were mostly flat, so the preference for large corp loans seems to be prevailing once again in 2024. Retail loans grew only 0.3% during the month, but banks seem to be feeling relieved that contraction of the retail loan book ended in 1H23 and that it is now growing again, even though the pace is slow. The growth in the retail book was mostly driven by mortgage, which grew 0.6% during the month. While the Jan data alone did not seem to suggest anything positive, corporate capex was up 4.1% YoY in Jan driven by machinery demand, the first time that it turned positive since May 2023, which we view as a positive.

Good KOSPI performance, likely good non-interest income

Value-up has been a welcome theme for investors and has supported a KOSPI rally to begin the year. A strong KOSPI is usually good for trading and valuation gains for the large banking groups, so it is a positive for non-interest income in 1Q24. We expect further updates on shareholder-return policies by the banks at the 1Q24 results, which could also be a potential positive for the banks' share-price performance. Our top pick in the sector continues to be KB.

05 March 2024

Equity
Republic of Korea
Banks

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Acronyms

Backbook: results generated by the whole balance sheet

Frontbook: results from the most recent one month activity

BoK: Bank of Korea

SME: Small to Medium Enterprises

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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: 05 March 2024 04:40AM EST

Exhibit 1: Stocks mentioned

Prices and ratings for stocks mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
XKBGF	105560 KS	KB Financial Group	W 69500	B-1-7

Source: BofA Global Research

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Price objective basis & risk**KB Financial Group (XKBGF)**

We derive our price objective of W83,000 (\$63.85) using a target P/B multiple of 0.54x derived by the Gordon Growth Model. Our assumptions are 9.3% sustainable RoE (from 24-month average return on equity-RoE), 10% cost of equity, and 2% terminal growth. We then apply a 32% 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.

Upside risks to our price objective are (1) higher interest rates leading to further expansion of NIM, (2) stronger revenues from non-bank affiliates and (3) regulators becoming supportive of bigger shareholder returns.

Downside risks are (1) economic slowdown leading to higher credit cost (2) lower revenues from non-bank affiliates due to increased market risk, (3) economic slowdown resulting in lower rates and lower NIM, and (4) stronger demands for social contribution due to pressure on economic entities from high inflation.

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Korea - Financials Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
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	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	XMxFF	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

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KB Financial Group (XKBGF) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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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: 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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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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