

## KB Financial Group

## Revenue strength intact; raise PO to W65,000

Reiterate Rating: BUY | PO: 65,000 KRW | Price: 47,650 KRW

## Surprise beat in revenues; reiterate Buy

KB Financial Group posted 2Q23 net profit of W1,499bn, in line with 1Q23 but 12% higher than Bloomberg consensus of W1,340bn. Management explained that interest income was supported by rising market rates and a stabilization in the outflow of low-cost deposits. Non-interest income also remained very strong, although down 16% QoQ, as fee income continued to recover from a weak 2H22. All-in-all, the strength in revenue was enough such that KB was able to beat consensus even after an additional provisioning worth W170bn made due to regulatory guidance. Given the heavy additional provisioning made in 1H23, amounting to W490bn, we see a higher likelihood of the loan-loss provisions falling quite visibly in 2H23, as management guided. KB also announced a DPS of W510 for the quarter and share buyback/cancellation worth W300bn. We continue to believe KB remains the go-to name in the sector. We reiterate Buy.

## Strong rebound in net interest income

The major surprise in the results came from a strong rebound in net interest income, as it rebounded 6.7% QoQ after falling 6.9% QoQ in 1Q23. While it was good to see KB witnessing a recovery in interest income, this was an unwanted volatility in the net interest income line in 1H23. Management stated that NIM will likely contract in 2H as they foresee a large amount of time deposits maturing during the latter half of the year and frontbook spreads getting tighter – we currently project NIM will contract 5bp in 2H.

## Raise EPS and PO to W65,000; remains our top pick

We raise our PO to W65,000 from W60,000 as we revise up our 2023-25E earnings estimates by 4-5% on stronger-than-expected earnings, and due to the buyback cancellation announcement. We believe regulatory risk remains high in the sector but see KB as a reliable name even in such an environment.

Estimates (Dec) (W)	2021A	2022A	2023E	2024E	2025E
Net Income (Adjusted - bn)	4,324	3,986	4,935	5,094	5,230
EPS	11,098	10,231	12,873	13,716	14,552
EPS Change (YoY)	26.4%	-7.8%	25.8%	6.6%	6.1%
Dividend / Share	2,940	2,950	2,990	3,030	3,070
ADR EPS (US\$)	9.70	7.92	10.06	10.72	11.37
ADR Dividend / Share (US\$)	2.57	2.28	2.34	2.37	2.40
<b>Valuation (Dec)</b>					
P/E	4.3x	4.7x	3.7x	3.5x	3.3x
Dividend Yield	6.17%	6.19%	6.27%	6.36%	6.44%
Pre-exceptional PE	3.63x	3.81x	3.48x	3.42x	3.23x
Price / Book	0.405x	0.364x	0.339x	0.319x	0.300x
RoE / PB	24.20%	22.59%	27.47%	28.20%	28.92%
Price / Pre-Provision Profit	2.55x	2.62x	1.90x	1.91x	1.82x

25 July 2023

## Equity

## Key Changes

(W)	Previous	Current
Price Obj.	60,000.00	65,000.00
2023E EPS	12,329.31	12,872.69
2024E EPS	12,798.25	13,716.19
2025E EPS	13,398.29	14,552.19

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## Stock Data

Price (Common / ADR)	47,650 KRW / 37.66 USD
Price Objective	65,000 KRW / 50.00 USD
Date Established	25-Jul-2023 / 25-Jul-2023
Investment Opinion	B-1-7 / B-1-7
52-Week Range	43,100 KRW-60,700 KRW
Market Value (mn)	15,024 USD
Market Value (mn)	19,227,303 KRW
Shares Outstanding (mn)	403.5 / 403.5
Average Daily Value (mn)	37.34 USD
Free Float	75.4%
BofA Ticker / Exchange	XXBGF / KSC
BofA Ticker / Exchange	KB / NYS
Bloomberg / Reuters	105560 KS / 105560.KS
ROE (2023E)	9.3%

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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: 25 July 2023 10:10AM EDT

# iQprofile<sup>SM</sup> KB Financial Group

Key Income Statement Data (Dec)	2021A	2022A	2023E	2024E	2025E
<b>(W Billions)</b>					
<b>Net Interest Income</b>	<b>9,573</b>	<b>11,393</b>	<b>11,796</b>	<b>11,954</b>	<b>12,216</b>
Net Fee Income	3,626	3,515	3,657	3,554	3,587
Securities Gains / (Losses)	NA	NA	NA	NA	NA
Other Income	1,285	-1,170	1,141	1,046	1,213
<b>Total Non-Interest Income</b>	<b>4,911</b>	<b>2,345</b>	<b>4,798</b>	<b>4,600</b>	<b>4,800</b>
Total Operating Income	14,484	13,738	16,594	16,554	17,016
Operating Expenses	(7,201)	(6,644)	(6,964)	(7,282)	(7,616)
<b>Pre-Provision Profit</b>	<b>7,283</b>	<b>7,094</b>	<b>9,630</b>	<b>9,273</b>	<b>9,400</b>
Provisions Expense	(1,185)	(1,848)	(2,320)	(1,560)	(1,500)
<b>Operating Profit</b>	<b>6,098</b>	<b>5,247</b>	<b>7,311</b>	<b>7,713</b>	<b>7,900</b>
Non-Operating Income	-16	161	-389	-400	-400
<b>Pre-Tax Income</b>	<b>6,082</b>	<b>5,407</b>	<b>6,922</b>	<b>7,313</b>	<b>7,500</b>
Net Income to Comm S/Hold.	4,410	4,122	5,103	5,262	5,397
<b>Adjusted Net Income (Operating)</b>	<b>4,324</b>	<b>3,986</b>	<b>4,935</b>	<b>5,094</b>	<b>5,230</b>

<b>Key Balance Sheet Data</b>					
Total Assets	663,896	688,665	724,071	752,573	786,843
Average Interest Earning Assets	659,392	732,885	789,438	824,088	860,219
<b>Weighted Risk Assets</b>	<b>290,914</b>	<b>302,984</b>	<b>319,033</b>	<b>333,622</b>	<b>348,878</b>
Total Gross Customer Loans	417,900	433,039	445,871	466,261	487,583
Total Customer Deposits	372,024	393,929	406,023	424,591	444,007
<b>Tier 1 Capital</b>	<b>42,306</b>	<b>45,032</b>	<b>49,492</b>	<b>52,528</b>	<b>55,729</b>
Tangible Equity	45,028	52,286	56,776	60,324	64,032
<b>Common Shareholders' Equity</b>	<b>47,461</b>	<b>52,864</b>	<b>56,727</b>	<b>60,294</b>	<b>64,055</b>

<b>Key Metrics</b>					
Net Interest Margin	1.45%	1.55%	1.49%	1.45%	1.42%
<b>Tier 1 Ratio</b>	<b>14.5%</b>	<b>14.9%</b>	<b>15.5%</b>	<b>15.7%</b>	<b>16.0%</b>
Effective Tax Rate	27.9%	27.9%	25.9%	27.5%	27.5%
Loan / Assets Ratio	62.9%	62.9%	61.6%	62.0%	62.0%
<b>Loan / Deposit Ratio</b>	<b>112.3%</b>	<b>109.9%</b>	<b>109.8%</b>	<b>109.8%</b>	<b>109.8%</b>
Oper Leverage (Inc Growth - Cost Growth)	10.6%	2.6%	16.0%	-4.8%	-1.8%
Gearing (Assets / Equity)	14.0x	13.0x	12.8x	12.5x	12.3x
Tangible Common Equity / Assets	6.8%	7.6%	7.8%	8.0%	8.1%
Tangible Common Equity / WRAs	15.5%	17.3%	17.8%	18.1%	18.4%
Revenue Growth	15.9%	-5.1%	20.8%	-0.2%	2.8%
Operating Expense Growth	5.4%	-7.7%	4.8%	4.6%	4.6%
Provisions Expense Growth	13.6%	55.9%	25.5%	-32.7%	-3.8%
Operating Revenue / Average Assets	2.3%	2.0%	2.3%	2.2%	2.2%
Operating Expenses / Average Assets	1.1%	1.0%	1.0%	1.0%	1.0%
<b>Pre-Provision ROA</b>	<b>1.1%</b>	<b>1.0%</b>	<b>1.4%</b>	<b>1.3%</b>	<b>1.2%</b>
ROA	0.7%	0.6%	0.7%	0.7%	0.7%
<b>Pre-Provision ROE</b>	<b>17.0%</b>	<b>15.2%</b>	<b>19.2%</b>	<b>17.3%</b>	<b>16.5%</b>
ROE	9.8%	8.2%	9.3%	9.0%	8.7%
RoTE	9.6%	7.6%	8.7%	8.4%	8.2%
RoWRAs	1.5%	1.3%	1.5%	1.5%	1.5%
Dividend Payout Ratio	26.0%	27.9%	22.1%	20.3%	18.7%
<b>Efficiency Ratio (Cost / Income Ratio)</b>	<b>49.7%</b>	<b>48.4%</b>	<b>42.0%</b>	<b>44.0%</b>	<b>44.8%</b>
<b>Total Non-Interest Inc / Operating Inc</b>	<b>34%</b>	<b>17%</b>	<b>29%</b>	<b>28%</b>	<b>28%</b>
Market-Related Revenue / Total Revenues	0%	0%	0%	0%	0%
Provisioning Burden as % of PPP	16.3%	26.0%	24.1%	16.8%	16.0%
NPLs plus Foreclosed Real Estate / Loans	0.3%	0.3%	0.4%	0.4%	0.4%
<b>Loan Loss Reserves / NPLs</b>	<b>208.9%</b>	<b>216.3%</b>	<b>200.5%</b>	<b>200.5%</b>	<b>200.5%</b>
Loan Loss Reserves / Total Loans	0.7%	0.7%	0.9%	0.9%	0.9%
Provisions Expense / Average Loans	0.3%	0.4%	0.5%	0.3%	0.3%

## Other Metrics

<b>(W Thousands)</b>					
Income / Employee	108,960	94,222	131,952	139,905	144,024
(Operating Expenses) / Employee	(128,675)	(119,315)	(125,688)	(132,091)	(138,846)
Pre-Provision Profit / Employee	130,137	127,405	173,817	168,203	171,371
Net Profit / Employee	77,266	71,594	89,077	92,405	95,346

## Company Sector

Financial Services-Consumer/Commercial

## Company Description

KB Financial Group was established in Sep 2008 as a financial holding company for its major subsidiary, Kookmin Bank, which is the largest bank in Korea with 30mn retail customers. KBFG also has 12 other non-banking subsidiaries, including KB Insurance, KB Securities, KB Kookmin Card, KB Capital, etc. Earnings contribution from non-banking affiliates amounts to 30-40% of the group's total net income. NPS is currently the largest stakeholder.

## Investment Rationale

We rate KBFG as a Buy given our view that (1) the stock is trading at overly discounted valuations even though we see limited downside to earnings, (2) KB is the leader in shareholder returns in the Korean banking sector and we expect this to continue, with the group having been the first banking group to implement share buybacks and cancel shares, and (3) KB has strong non-banking subsidiaries to complement the banking business, giving the company a more balanced portfolio of businesses.

## Stock Data

Shares / ADR	1.00
Price to Book Value	0.3x

## Key Changes

(US\$)	Previous	Current
Price Obj.	46.15	50.00
2023E EPS	9.63	10.06
2024E EPS	10.00	10.72
2025E EPS	10.47	11.37

# Ongoing revenue strength

## Pre-emptive provisions should eventually be written-back

### Exhibit 1: Results summary (W bn)

Solid earnings beat once again

INCOME STATEMENT	1Q22A	2Q22A	3Q22A	4Q22A	1Q23A	2Q23A	QoQ	YoY 2Q23	BofAe	Consensus
Net Interest Income	2,652	2,821	2,928	2,993	2,786	2,973	6.7%	5.4%	2,783	
Non-Interest Income	886	524	645	290	1,574	1,324	-15.9%	152.7%	1,100	
SG&A	1,481	1,553	1,526	2,084	1,566	1,593	1.7%	2.6%	1,630	
PPOP	2,056	1,793	2,047	1,199	2,793	2,704	-3.2%	50.9%	2,253	
Provisions	146	330	313	1,059	668	651	-2.5%	97.5%	400	
OP	1,910	1,463	1,734	140	2,125	2,053	-3.4%	40.4%	1,853	
Non-Operating Income	9	193	114	(155)	(96)	(92)	n/a	n/a	-	
Taxes	448	441	488	130	530	456	-13.9%	3.4%	510	
Minority	11	5	(8)	(229)	2	6	256.3%	23.9%	10	
Net Profit	1,461	1,210	1,368	83	1,498	1,499	0.1%	23.9%	1,333	1,340

Source: BofA Global Research, Company data, Bloomberg

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### Exhibit 2: Key ratio summary

Loan growth recovered slightly, margins look good, capital remains solid

KEY RATIOS	1Q22A	2Q22A	3Q22A	4Q22A	1Q23A	2Q23A
KRW Loan Growth QoQ	0.8%	0.4%	1.9%	0.0%	-0.6%	1.1%
NIM (Quarterly)	1.91%	1.96%	1.98%	1.99%	2.04%	2.10%
Cost-Income Ratio	42%	46%	43%	63%	36%	37%
Credit Cost	0.14%	0.32%	0.30%	0.99%	0.63%	0.61%
NPL Ratio	0.31%	0.32%	0.32%	0.34%	0.43%	0.44%
NPL Coverage Ratio	218%	222%	220%	216%	196%	200%
Delinquency Ratio	0.12%	0.13%	0.14%	0.16%	0.20%	0.23%
CET1 Ratio	13.43%	12.93%	12.62%	13.24%	13.66%	13.78%

Source: BofA Global Research estimates, company report

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### Exhibit 3: Earnings estimate revisions

Revise 2023E-25E earnings estimates by 4-5%, reflecting solid earnings

	2023E Old	2023E New	% chg	2024E Old	2024E New	% chg	2025E Old	2025E New	% chg
Operating Revenue	15,886	16,594	4.5%	15,845	16,554	4.5%	16,394	17,016	3.8%
Net Interest Income	11,211	11,796	5.2%	11,245	11,954	6.3%	11,644	12,216	4.9%
Non-Interest Income	4,675	4,798	2.6%	4,600	4,600	0.0%	4,750	4,800	1.1%
SG&A	7,001	6,964	-0.5%	7,321	7,282	-0.5%	7,657	7,616	-0.5%
Loan Loss Provisions	1,968	2,320	17.8%	1,500	1,560	4.0%	1,500	1,500	0.0%
Net Profit	4,905	5,103	4.0%	5,016	5,262	4.9%	5,171	5,397	4.4%

Source: BofA Global Research estimates

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## Price objective basis & risk

### KB Financial Group (XKBGF / KB)

We derive our price objective of ₩65,000 (\$50) using a target P/B multiple of 0.43x derived by the Gordon Growth Model. Our assumptions include 9.3% sustainable RoE (from 24-month average return on equity-RoE), 10% cost of equity, and 2% terminal growth. We then apply a 42% 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.

## 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
<b>BUY</b>				
	DB Insurance	DGBUF	005830 KS	Jeehoon Park
	Hyundai Marine & Fire	HYMRF	001450 KS	Jeehoon Park
	JB Financial Group	XMJFF	175330 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
<b>NEUTRAL</b>				
	DGB Financial Group	DGBFF	139130 KS	Jeehoon Park
	Hana Financial Group	HNFGF	086790 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
<b>UNDERPERFORM</b>				
	BNK Financial Group	XSBFF	138930 KS	Jeehoon Park
	Industrial Bank of Korea	IBOKF	024110 KS	Jeehoon Park

## Korea - Financials Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
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**IQmethod<sup>SM</sup> 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 &amp; 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

EV / EBITDA

Basic EBIT + Depreciation + Amortization

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# Disclosures

## Important Disclosures

### KB FG (XKBGF) 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.

### KB FG (KB) Price Chart

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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.

### Equity Investment Rating Distribution: Financial Services Group (as of 30 Jun 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	145	50.52%	Buy	91	62.76%
Hold	78	27.18%	Hold	47	60.26%
Sell	64	22.30%	Sell	38	59.38%

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

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1877	53.28%	Buy	1040	55.41%
Hold	815	23.13%	Hold	464	56.93%
Sell	831	23.59%	Sell	385	46.33%

<sup>R1</sup> 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 <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R2</sup> 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.

**INCOME RATINGS**, indicators of potential cash dividends, are: 7 - same/higher (dividend considered to be secure), 8 - same/lower (dividend not considered to be secure) and 9 - pays no cash dividend. **Coverage Cluster** is comprised of stocks covered by a single analyst or two or more analysts sharing a common industry, sector, region or other classification(s). A stock's coverage cluster is included in the most recent BofA Global Research report referencing the stock.

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