

Woori Financial Group

Heavy cost burden, but more optimism ahead with higher shareholder returns

Reiterate Rating: BUY | PO: 17,000 KRW | Price: 14,580 KRW

Seems weak in core, but more optimistic for 2024

Woori Financial Group posted 4Q23 net profit of W78bn, much lower than W899bn in 3Q23, as well as a big miss compared with the Bloomberg consensus (W349bn) and our estimate (W336bn). Underlying core earnings metrics seem weak, with NIM contracting 9bp to 1.72% in 4Q from 1.81% in 3Q, as an increase in time deposits and seasonal deposit competition appear to have driven funding costs higher than expected. Moreover, the bigger impact on the earnings was from heavy cost recognition – national service cost of interest refund to small merchants, pre-emptive provisions, and costs incurred for early retirements. Despite the earnings miss, the bright side of the heavy upfront cost recognition is there is less burden on earnings in 2024. In addition, Woori announced an improved shareholder-return plan which, we believe, suggests management is more optimistic on the business outlook. We reiterate our Buy rating.

Step forward in shareholder returns

While Woori did not announce a buyback, management mentioned that it is in talks to buy back 1.24% stake held by KDIC within 1H24 and will review cancelling the shares once the buyback is confirmed. We calculate Woori's total shareholder returns for 2023 at 33%, which we view as a solid increase from 26% in 2022. Woori also announced that it will maintain the total shareholder return level of 30-35% at <13% CET1, and then aim for >35% once above 13% CET1, which we view as an improved plan compared with the previous target of 30% shareholder return at 12% CET1.

Fine-tune earnings, raise PO, reiterate Buy

We only fine-tune our estimates but raise our PO to W17,000 (\$39.23) from W14,500 (\$33.5), as we lift our target 24E P/B multiple to 0.40x from 0.35x, assuming 9.1% RoE (previously 8.9%), 10% cost of equity, 2% terminal growth, and 43% discount to RoE (from 46%). We lowered the RoE discount in line with the discount applied historically during economic recovery scenarios since 2005.

Estimates (Dec) (W)	2022A	2023A	2024E	2025E	2026E
Net Income (Adjusted - bn)	3,046	2,396	2,608	2,877	2,995
EPS	4,183	3,247	3,579	4,010	4,250
EPS Change (YoY)	21.0%	-22.4%	10.2%	12.0%	6.0%
Dividend / Share	1,130	999.64	1,139	1,265	1,281
ADR EPS (US\$)	9.72	7.46	8.07	9.04	9.58
ADR Dividend / Share (US\$)	2.63	2.30	2.57	2.85	2.89
Valuation (Dec)					
P/E	3.5x	4.5x	4.1x	3.6x	3.4x
Dividend Yield	7.75%	6.86%	7.81%	8.68%	8.79%
Pre-exceptional PE	3.12x	4.00x	3.92x	3.51x	3.33x
Price / Book	0.381x	0.346x	0.328x	0.310x	0.293x
RoE / PB	30.19%	24.06%	25.60%	28.14%	29.24%
Price / Pre-Provision Profit	2.00x	2.00x	2.00x	1.93x	1.83x

07 February 2024

Equity

Key Changes

(W)	Previous	Current
Price Obj.	14,500.00	17,000.00
2024E EPS	3,592.23	3,578.67
2025E EPS	3,990.79	4,009.73
2026E EPS	4,220.26	4,250.41

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Stock Data

Price (Common / ADR)	14,580 KRW / 33.30 USD
Price Objective	17,000 KRW / 39.23 USD
Date Established	7-Feb-2024 / 7-Feb-2024
Investment Opinion	A-1-7 / B-1-7
52-Week Range	10,880 KRW-15,000 KRW
Market Value (mn)	8,238 USD
Market Value (mn)	10,963,423 KRW
Shares Outstanding (mn)	751.9 / 250.6
Average Daily Value (mn)	22.33 USD
Free Float	75.2%
BofA Ticker / Exchange	XSLOF / KSC
BofA Ticker / Exchange	WF / NYS
Bloomberg / Reuters	316140 KS / 316140.KS
ROE (2024E)	8.4%

Acronyms:

KDIC: Korea Deposit Insurance Corporation

NIM: Net Interest Margin

CET1: Common Equity Tier 1

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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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iQprofileSM Woori Financial Group

Key Income Statement Data (Dec)

(W Billions)

	2022A	2023A	2024E	2025E	2026E
Net Interest Income	8,697	8,743	8,809	9,126	9,549
Net Fee Income	1,710	1,720	1,723	1,728	1,726
Securities Gains / (Losses)	NA	NA	NA	NA	NA
Other Income	(561.06)	(625.64)	(572.52)	(577.73)	(576.13)
Total Non-Interest Income	1,149	1,095	1,150	1,150	1,150
Total Operating Income	9,846	9,837	9,959	10,276	10,699
Operating Expenses	(4,530)	(4,444)	(4,656)	(4,868)	(5,092)
Pre-Provision Profit	5,316	5,393	5,304	5,407	5,607
Provisions Expense	(885.27)	(1,881)	(1,450)	(1,190)	(1,230)
Operating Profit	4,431	3,513	3,854	4,217	4,377
Non-Operating Income	54.85	18.42	0	0	0
Pre-Tax Income	4,485	3,531	3,854	4,217	4,377
Net Income to Comm S/Hold.	3,142	2,517	2,732	3,001	3,119
Adjusted Net Income (Operating)	3,046	2,396	2,608	2,877	2,995

Key Balance Sheet Data

Total Assets	480,474	498,016	518,402	542,722	567,546
Average Interest Earning Assets	491,374	539,594	566,147	593,305	620,719
Weighted Risk Assets	205,307	220,633	230,723	241,273	252,307
Total Gross Customer Loans	355,761	373,162	390,227	408,072	426,733
Total Customer Deposits	342,105	357,784	374,146	391,255	409,147
Tier 1 Capital	27,966	30,950	32,722	34,636	36,627
Tangible Equity	30,778	32,411	34,297	36,312	38,412
Common Shareholders' Equity	28,762	31,677	33,470	35,416	37,445

Key Metrics

Net Interest Margin	1.77%	1.62%	1.56%	1.54%	1.54%
Tier 1 Ratio	13.6%	14.0%	14.2%	14.4%	14.5%
Effective Tax Rate	25.9%	25.3%	26.0%	26.0%	26.0%
Loan / Assets Ratio	74.0%	74.9%	75.3%	75.2%	75.2%
Loan / Deposit Ratio	104.0%	104.3%	104.3%	104.3%	104.3%
Oper Leverage (Inc Growth - Cost Growth)	8.8%	1.8%	-3.5%	-1.4%	-0.5%
Gearing (Assets / Equity)	16.7x	15.7x	15.5x	15.3x	15.2x
Tangible Common Equity / Assets	6.4%	6.5%	6.6%	6.7%	6.8%
Tangible Common Equity / WRAs	15.0%	14.7%	14.9%	15.0%	15.2%
Revenue Growth	18.0%	-0.1%	1.2%	3.2%	4.1%
Operating Expense Growth	9.2%	-1.9%	4.8%	4.6%	4.6%
Provisions Expense Growth	64.9%	112.4%	-22.9%	-17.9%	3.4%
Operating Revenue / Average Assets	2.1%	2.0%	2.0%	1.9%	1.9%
Operating Expenses / Average Assets	1.0%	0.9%	0.9%	0.9%	0.9%
Pre-Provision ROA	1.1%	1.1%	1.0%	1.0%	1.0%
ROA	0.7%	0.5%	0.5%	0.5%	0.5%
Pre-Provision ROE	21.6%	20.1%	18.3%	17.5%	17.1%
ROE	11.5%	8.3%	8.4%	8.7%	8.6%
RoTE	9.9%	7.4%	7.6%	7.9%	7.8%
RoWRAs	1.5%	1.1%	1.1%	1.2%	1.2%
Dividend Payout Ratio	26.2%	28.9%	30.0%	29.8%	28.5%
Efficiency Ratio (Cost / Income Ratio)	46.0%	45.2%	46.7%	47.4%	47.6%
Total Non-Interest Inc / Operating Inc	12%	11%	12%	11%	11%
Market-Related Revenue / Total Revenues	0%	0%	0%	0%	0%
Provisioning Burden as % of PPP	16.7%	34.9%	27.3%	22.0%	21.9%
NPLs plus Foreclosed Real Estate / Loans	0.3%	0.3%	0.3%	0.3%	0.3%
Loan Loss Reserves / NPLs	217.6%	229.2%	229.2%	229.2%	229.2%
Loan Loss Reserves / Total Loans	0.7%	0.8%	0.8%	0.8%	0.8%
Provisions Expense / Average Loans	0.2%	0.5%	0.4%	0.3%	0.3%

Other Metrics

(W Thousands)

Income / Employee	168,743	134,458	148,252	163,054	170,089
(Operating Expenses) / Employee	(172,527)	(170,105)	(179,106)	(188,233)	(197,861)
Pre-Provision Profit / Employee	202,460	206,449	204,033	209,063	217,884
Net Profit / Employee	116,000	91,722	100,325	111,231	116,390

Company Sector

Financial Services-Consumer/Commercial

Company Description

WFG was established in January 2019 and relisted on 13 February 2019 as the former Woori Bank was converted into a financial holding company. WFG's major affiliates include Woori Bank, Woori Card, Woori Investment Bank, and Woori Private Equity. As the group's privatization has been almost fully completed, as there is only 1.3% government stake remaining. Currently there are five strategic investors that own 20.1% in the group, and participate in management through positions on the board.

Investment Rationale

We rate WFG as a Buy given our view that (1) WFG is mostly free from wealth management product disputes with clients as it has minimum sale of such products, (2) WFG has small project financing exposure as it has no brokerage subsidiary and its subsidiaries are generally smaller than that of its peers, and (3) it has a balance sheet leveraged to an earnings acceleration in an economic recovery scenario.

Stock Data

Shares / ADR	3.00
Price to Book Value	0.3x

Key Changes

(US\$)	Previous	Current
Price Obj.	33.46	39.23
2024E EPS	8.10	8.07
2025E EPS	9.00	9.04
2026E EPS	9.51	9.58

Heavy upfront cost recognition

Looking to start off a clean slate from 2024

Exhibit 1: Big earnings miss due mostly to heavy loan loss provisions

Woori's quarterly results summary

(W bn)

INCOME STATEMENT	1Q22A	2Q22A	3Q22A	4Q22A	1Q23A	2Q23A	3Q23A	4Q23A	QoQ	YoY	4Q23	BofAe	Consensus
Net Interest Income	1,988	2,116	2,244	2,349	2,219	2,194	2,187	2,143	-2.0%	-8.8%		2,210	
Non-Interest Income	383	400	131	235	332	278	290	195	-32.7%	-17.1%		75	
SG&A	976	981	980	1,593	1,037	1,021	998	1,388	39.2%	-12.8%		1,390	
PPOP	1,395	1,534	1,396	991	1,514	1,452	1,479	949	-35.8%	-4.2%		895	
Provisions	166	331	125	263	262	556	261	802	207.6%	204.7%		400	
OP	1,228	1,204	1,271	728	1,252	895	1,218	147	-87.9%	-79.8%		495	
Non-Operating Income	(63)	99	18	1	18	(17)	29	(11)	n/a	n/a		-	
Taxes	293	316	355	198	324	211	329	30	-90.7%	-84.6%		129	
Minority	33	64	34	51	33	42	19	27	42.7%	-47.7%		30	
Net Profit	839	923	900	480	914	625	899	78	-91.3%	-83.6%		336	349

Source: BofA Global Research, company report, Bloomberg

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Exhibit 2: Loan growth looked solid but margins were weak

Woori's key ratios, quarterly

KEY RATIOS	1Q22A	2Q22A	3Q22A	4Q22A	1Q23A	2Q23A	3Q23A	4Q23A
KRW Loan Growth QoQ	0.8%	1.3%	0.6%	-0.2%	-0.8%	0.9%	2.9%	2.9%
NIM (Quarterly)	1.73%	1.83%	1.86%	1.92%	1.91%	1.85%	1.81%	1.72%
Cost-Income Ratio	41%	39%	41%	62%	41%	41%	40%	59%
Credit Cost	0.20%	0.39%	0.14%	0.30%	0.30%	0.64%	0.30%	0.89%
NPL Ratio	0.29%	0.30%	0.29%	0.31%	0.35%	0.40%	0.41%	0.35%
NPL Coverage Ratio	202%	210%	223%	218%	202%	188%	180%	229%
Delinquency Ratio	0.19%	0.18%	0.19%	0.22%	0.28%	0.29%	0.32%	0.26%
CET1 Ratio	11.26%	11.06%	10.91%	11.57%	12.05%	11.97%	12.15%	11.94%

Source: BofA Global Research, company report

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Exhibit 3: Big miss in 2023 but forward estimates largely kept flat

We also present our 2026 earnings projections

	2023 Old	2023 New	% chg	2024E Old	2024E New	% chg	2025E Old	2025E New	% chg
Operating Revenue	9,783	9,837	0.6%	9,965	9,959	-0.1%	10,242	10,276	0.3%
Net Interest Income	8,810	8,743	-0.8%	8,815	8,809	-0.1%	9,092	9,126	0.4%
Non-Interest Income	973	1,095	12.5%	1,150	1,150	0.0%	1,150	1,150	0.0%
SG&A	4,439	4,444	0.1%	4,641	4,656	0.3%	4,853	4,868	0.3%
Loan Loss Provisions	1,479	1,881	27.2%	1,450	1,450	0.0%	1,190	1,190	0.0%
Net Profit	2,775	2,517	-9.3%	2,747	2,732	-0.6%	2,988	3,001	0.4%

Source: BofA Global Research estimates

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Price objective basis & risk

Woori Financial Group (XSLOF / WF)

We derive our price objective of W17,000 (\$39.23) using a target 24E P/B multiple of 0.4x derived by the Gordon Growth Model. Our assumptions are 9.1% sustainable RoE (from 24-month average return on equity-RoE), 10% cost of equity, and 2% terminal growth. We then apply a 43% 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.

Downside risks are (1) economic slowdown leading to higher credit cost, (2) economic slowdown resulting in higher credit cost and lower rates and lower NIM, (3) announcement of EPS dilutive acquisitions, 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	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

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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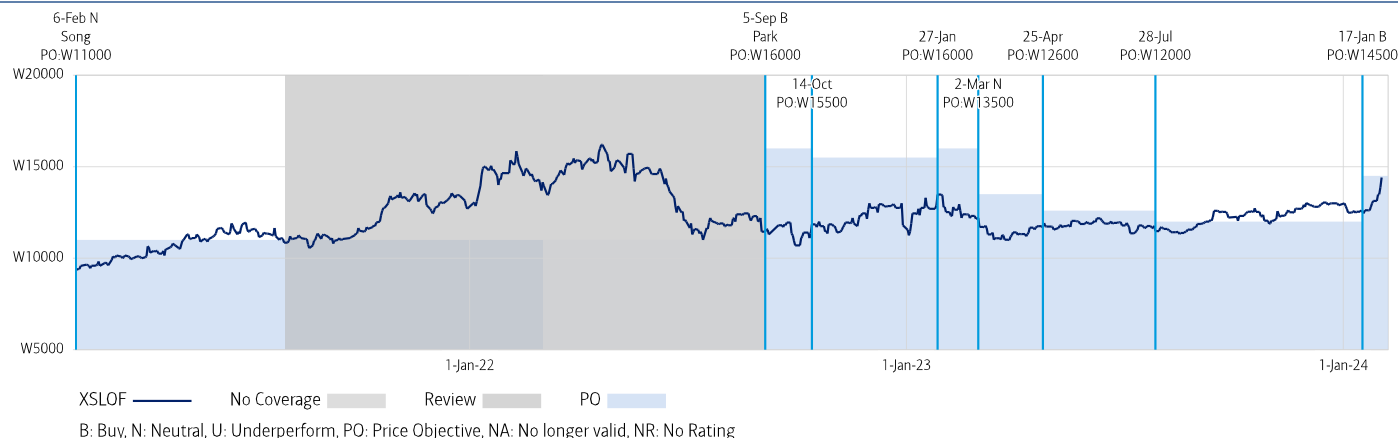
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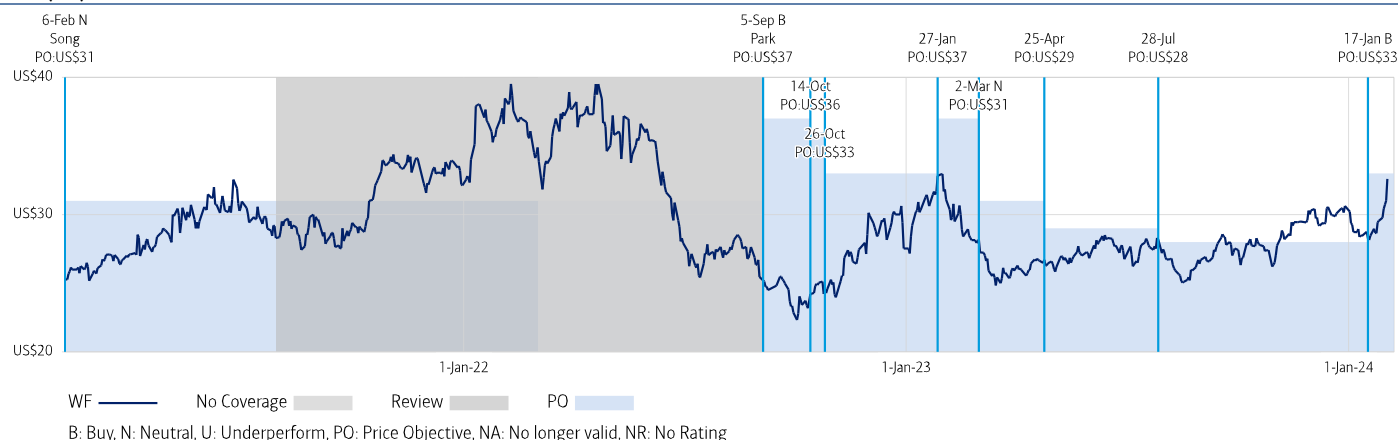
Important Disclosures

Woori FG (XSLOF) 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.

Woori FG (WF) 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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