

Financial Services - Taiwan

Conference takeaways: all focus is on risk, and what a crisis could look like

Industry Overview

Discussions were around risks

At our financial services conference, recent Silicon Valley Bank, Silvergate, First Republic Bank, and Credit Suisse episodes weighed on investors' sentiment in looking at imminent risk above anything else. Questions were around life insurance companies' investment portfolios and their exposures to financial peers in terms of financial bond investments. Key takeaways in this perspective: (1) Exposure to above-mentioned small-mid size banks is limited. The industry only shares below NT\$500mn total exposure. The reason simply comes from the fact that Taiwanese banks yet to have significant footprints in the United States and Taiwanese life insurers usually don't delegate investment decisions outside Taiwan. (2) Insurers do have investment in financial bonds issued by Credit Suisse: NT\$34bn at Cathay, NT\$11bn at Fubon, and NT\$12bn, and most of which is classified under amortized cost accounting item. These insurers haven't had plan to take reserve against the exposure yet. (3) After asset re-classification in late 2022, insurers now have around 80-100% of invested bond is under amortized cost accounting item. Some investors asked around how crisis could look like this time if there's one. One debate is around a potentially significant wave of early redemption of insurance policies that could force life insurance companies to realize potential bond losses under amortized cost accounting items.

Dividend in-line or miss?

Moving into April, financial companies are expected to pass their dividend proposals through their Boards. Investors shared their concern around potential miss in dividend payouts. We didn't have clear guidance from the companies attending our conference this time, while CTBC mentioned their capability of paying up to NT\$1.1 dividend per share and Fubon reiterated how they are comfortable in being able to payout dividend this year.

Margin at banks rarely touched on

Even upon the upcoming Fed rate hikes and Taiwan Central bank's potential rate hikes, participating investors didn't ask much around margin implications going forward. In our view, it's a clear sign that margin expectation is not at the center stage when evaluating banking stocks.

Chailase: when will delinquency peak out

To us, it seems the hot debate topic was when can Chailase's China operation see delinquency improvements from here. Company mentioned that the earliest timing could be in 1Q22, and recent delinquency influx is well within company's risk tolerance. Due to seasonality, slower growth in 1Q may be the reason for the delinquency ratio to hover, instead of improving. General provisioning adjustment may take at least another 1-2Q after delinquency shows clear improvement.

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