

## Mizuho Financial Group (8411)

## FY3/24 3Q: slightly positive, exceeded guidance; FY3/25 NP upward revision

Maintain Rating: BUY | PO: 2,950 JPY | Price: 2,687 JPY

Results date: Friday, 2 Feb, 15:30; Conference call: none  
Slightly positive

1Q-3Q FY3/24 results: Consolidated pre-provision operating profit (PPOP) was ¥837.6tn (+23% YoY, under the company's definition including ETF gains/losses; 88% of FY3/24 guidance) and consolidated net profit ¥642.3bn (+18% YoY, 100% of FY3/24 guidance). Consolidated PPOP beat our estimate by 5%, primarily on income from market operations (net trading income in the banking book), and fee & commission income (large corporate solutions and overseas investment bank earnings), while net profit beat the IFIS consensus of ¥540.0bn by 19% on the above-noted factors, as well as low and stable credit costs (after 3Q only 14% of FY3/24 guidance). Our impression is slightly positive. Unrealized losses (after hedges) totaled ¥59.1bn on JPY bonds (+¥21.4bn QoQ) and ¥482.1bn on foreign bonds (+¥101.1bn) has slightly improved (59% of FY3/24 RP guidance), but the company could further strengthen its balance sheet in 4Q by cutting losses on foreign bonds and taking forward-looking provisions. Although the improvement was higher income from market operations, it is a positive that the company reached its full-year net profit target at 3Q. This suggests the possibility of an upward revision to the FY3/26 net profit target in its medium-term plan of around ¥700bn. We maintain our Buy rating.

Capital policies: The company did not disclose its end-Dec CET1 ratio (it was 9.6% at end-Sep). At 1H results briefing, management suggested it may consider raising the operating range of its CET1 ratio, and we take this to mean that higher shareholder payouts through share buybacks are unlikely anytime soon. We look for it to make explicit its target range and conditions for share buybacks.

Developments to watch: (1) Future pace of improvement in CET1 ratio and clarification of target range; (2) balancing of growth investments with share buybacks; (3) potential for an upward revision to the FY3/26 NP target in its medium-term plan; and (4) rate of decline in unrealized losses on foreign bonds and growth in JPY bond portfolio in response to BoJ policy changes (shift from BoJ reserves to JGBs).

\*Please refer to the earnings summary (Exhibit 1) and [results heatmap](#).

02 February 2024

## Equity

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## Stock Data

Price (Common / ADR)	2,687 JPY / 3.66 USD
Price Objective	2,950 JPY / 3.90 USD
Date Established	19-Oct-2023/ 19-Oct-2023
Investment Opinion	C-1-7 / B-1-7
52-Week Range	1,744-2,725 JPY
Market Value (mn)	6,821,695 JPY
Market Value (\$mn)	46,641 USD
Shares Outstanding (mn)	2,539.2
Average Daily Value (\$mn)	205.2 USD
Free Float	94.0%
BofA Ticker / Exchange	MZHO / TYO
BofA Ticker / Exchange	MFG / NYS
Bloomberg / Reuters	8411 JP / 8411.T
ROE (2024E)	7.7%
Net Dbt to Eqty (Mar-2023A)	NA

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**Refer to important disclosures on page 4 to 7. Analyst Certification on page 3. Price Objective Basis/Risk on page 3.**

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Timestamp: 02 February 2024 07:47AM EST

**Exhibit 1: Earnings summary**

Consol. PPOP beat our estimate by 5% on higher income from market operations and fee & commission income, while consol. NP beat our estimate by 13% on lower credit costs

<b>8411.JP</b>	<b>Actual</b>	<b>YoY</b>	<b>BofA E</b>	<b>Var</b>	<b>CoE</b>	<b>Progress</b>	<b>BofA E</b>
Consolidated PL (JPY, bn)	1Q-3Q FY3/24	%/delta	1Q-3Q FY3/24	%/delta	FY3/24	%	FY3/24
Consolidated Gross Profit	1,998.1	14.6%	1,908.6	4.7%	---	---	2,444.3
Net Interest Income	657.2	-9.2%	713.0	-7.8%	---	---	989.9
Fees (incl. trust fees)	634.1	13.6%	622.3	1.9%	---	---	855.6
Market revenues	706.8	245.5	573.2	23.3%	---	---	598.8
G&A Expenses	-1,172.2	10.8%	-1,147.7	2.1%	---	---	-1,531.2
(OHR)	58.7%	-2.0%	60.1%	-1.5%	---	---	62.6%
<b>Consolidated Net Business Profit</b>	<b>817.9</b>	<b>21.0%</b>	<b>776.9</b>	<b>5.3%</b>	<b>----</b>	<b>---</b>	<b>942.5</b>
Credit Costs	-13.8	-78.9%	-36.1	-61.8%	-100.0	13.8%	-93.6
(Credit cost ratio, bps)	0.0	0.0	5.3	-5.3	---	---	10.3
Gains/Losses on Stocks	79.5	67.7%	62.1	28.0%	60.0	132.5%	101.5
Equity in Gains/Losses of affiliates	17.1	-17.0%	33.5	-48.9%	---	---	38.0
Ordinary Profit	882.8	34.1%	797.3	10.7%	910.0	97.0%	908.6
Income Taxes	-276.0	93.7%	-249.1	10.8%	---	---	-259.8
(Effective tax rate)	30.0%	9.3%	30.4%	-0.4%	---	---	28.0%
<b>Net Profit</b>	<b>642.3</b>	<b>18.2%</b>	<b>567.0</b>	<b>13.3%</b>	<b>640.0</b>	<b>100.4%</b>	<b>662.4</b>
<b>Consol - Parent Gap</b>							
Ordinary Profit	251.4	77.7%	229.1	9.7%	---	---	245.5
Net Profit	191.4	30.8%	185.5	3.2%	---	---	183.4
<b>Consol. Balance Sheet</b>							
Securities	39,355	10.3%	51,162	-23.1%	---	---	50,909
Loans	91,739	0.6%	92,137	-0.4%	---	---	92,585
Total Assets	271,149	7.7%	265,469	2.1%	---	---	266,227
Deposits + NCDs	166,026	2.2%	165,552	0.3%	---	---	166,326
Total Liabilities	261,207	7.6%	255,800	2.1%	---	---	256,574
Total stockholders' equity	8,879	4.8%	8,767	1.3%	---	---	8,773
Total net assets	9,942	10.1%	9,669	2.8%	---	---	9,653
<b>Other indicators</b>							
Buyback amount (on announcement basis)	0.0	0.0	0.0	0.0	---	---	50.0
DPS (JPY)	50.0	7.5	50.0	0.0	100.0	---	100.0
CET 1 ratio	9.2%	-0.3%	9.6%	-0.4%	---	---	9.6%
ROA	0.32%	0.03%	0.29%	0.03%	---	---	0.25%
ROE (Equity Capital)	8.9%	0.9%	8.0%	1.0%	---	---	7.0%
Dupont ROE (shareholders' equity)	9.9%	1.1%	8.8%	1.1%	---	---	7.7%
Margin	32.1%	1.0%	29.7%	2.4%	---	---	27.1%
Asset Turnover	1.0%	0.1%	1.0%	0.0%	---	---	0.9%
Leverage ratio (shareholders' equity)	30.6	0.6	30.5	0.1	---	---	30.5

Source: Company disclosure, BofA Global Research estimates.

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## Price objective basis & risk

### Mizuho Financial Group (8411 / MZHO / MFG)

Our price objective for Mizuho of ¥2,950 (ADR \$3.90) is based on applying a fair P/B of 0.77x (estimated ROE of 7.11% for FY3/24-3/26, theoretical cost of capital of 9.18%) to our FY3/24 BPS estimate of ¥3,779 (we weight our ROE estimates at 50% for FY3/24, 40% for FY3/25, and 10% FY3/26). The 9.18% cost of capital we use is based on an implied risk premium of 7.20%, calculated from the averages since the BoJ's adoption of NIRP in 2016 of the risk premium for Japan stocks of 7.15%, of the risk-free rate of 0.75%, and of the weekly beta of 1.01, to which we apply a 27.5% discount to reflect qualitative factors (including the long-term attractiveness of the business portfolio, capital policies, governance, and regulatory risks).

Upside risks include (1) growth in its share of the capital markets business on a loosening of regulatory firewalls between banking and securities; (2) faster-than-expected growth in shareholder returns, and (3) a faster-than-expected restructuring of its business portfolio. Downside risks include (1) a faster-than-expected slowdown in its core capital markets business; (2) slower-than-expected growth in shareholder payouts, M&A missteps; and (3) worsening credit risk from its large borrowers and mistakes controlling unrealized losses on foreign bonds.

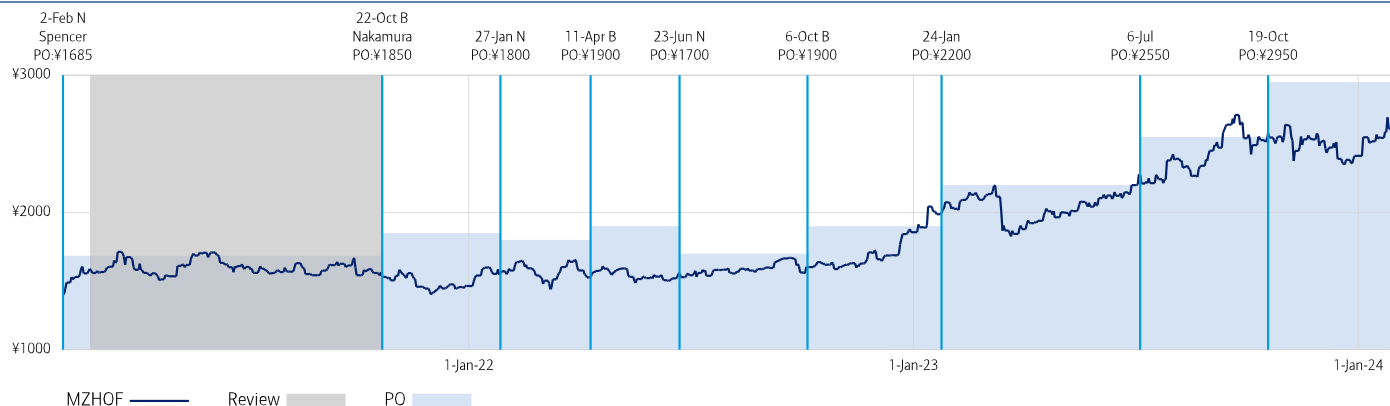
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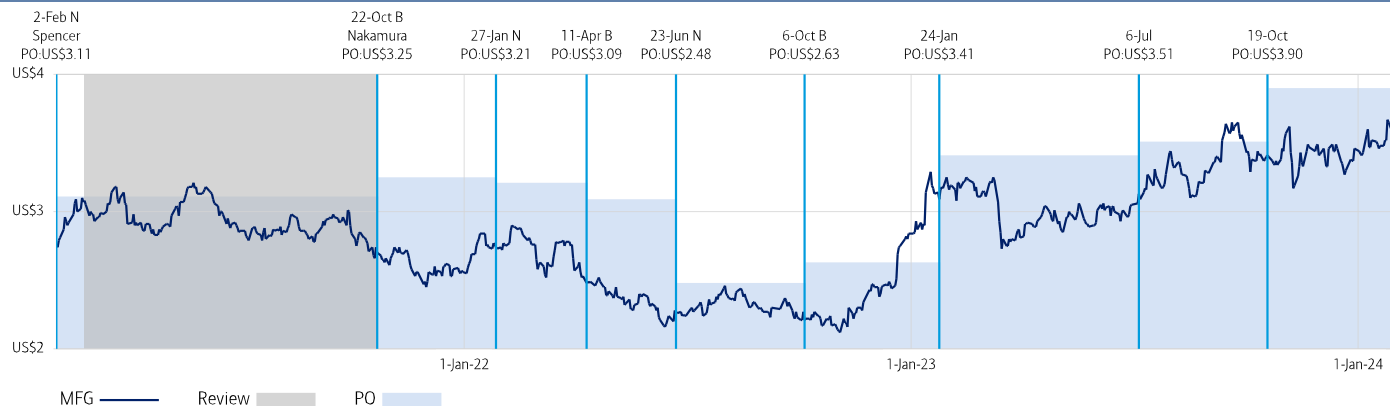
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### Mizuho FG (MZHOF) Price Chart



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### Mizuho FG (MFG) Price Chart



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Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	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: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	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%

<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.

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