Banks - Korea

Raise POs further; see banks as the key beneficiary of the Value-up program

Price Objective Change

08 March 2024

Equity
Republic of Korea
Banks

Jeehoon Park >>
Research Analyst
Merrill Lynch (Seoul)
+82 2 3707 0532
jeehoon.park@bofa.com

Jisun Lee >>
Research Analyst
Merrill Lynch (Seoul)
+82 2 3707 0418
jisun.lee@bofa.com

Raise POs on Korea banks

We raise our price objectives (POs) for the Korean banks by 7% on average. As we mentioned in our upgrade of the large banks in January, rising exports, especially at turning points, tend to be leading indicators of multiple expansion in Korean banks, and the continued strength in exports (see February export) gives us the confidence that the Korean banks have much further upside ahead. In addition, we believe the Value-up program being led by the Korean policymakers gives the banks an improved degree of freedom for capital management and provides a reason to reduce the valuation discount. Our top pick in the sector remains KB Financial. We note the stock is one of the new contenders in BofA's quant strategist Nigel Tupper's most recent Asia Pacific and Global Contenders & Defenders screens.

A key beneficiary of the Value-up program

Historically, the capacity for capital management at the banks was more up to the regulators than the banks, and we believe the Value-up program suggests that policy has turned more decisively to give the banks more freedom in shareholder returns. We believe banks will be an important contributor to the early-stage success of the Value-up program, given its excess capital and shareholder return willingness. In a bull-case scenario, where the 12M forward bank P/B and RoE rebound to their previous relationship before 2017, we would see an 80% rally in bank share prices.

4Q23 results in summary: a big miss driven by policy

The 4Q23 results missed consensus expectations by 30%, led by a strong push by regulators to make extra conservative provisioning against project financing exposures, and national service packages. At the core, we saw NIM contraction. However, the banks had previously guided for margins to likely expand, as low-cost deposit outflows kept the funding costs high, but underlying asset quality seemed to be well-controlled. We expect a modest 3% YoY increase in 2024 net profit and then a more pronounced 10% YoY earnings recovery in 2025 on the back of better strength in the economy.

Tweaking earnings estimates

We are fine-tuning our net profit estimates for 2024-26 collectively for the Korean banks, and raise our price objectives by 6-8%. We believe the economy is starting to show signs of a turnaround and that the provisioning burden should ease as we move closer toward 2025. Still, it would not be too surprising to see banks continue to provision heavily until we see a more pronounced economic recovery. As such, we are keeping our cautious stance on the earnings outlook for 2024. Collectively for all the banks under our coverage, our net profit forecast is 5.2% lower than the consensus, so we are on the more cautious side.

Exhibit 1: KB remains our top pick

PO change summary

Company	Rating	PO Old	PO New	% upside
KB (US$)	Buy	63.8	69.2	34%
Shinhan (US$)	Buy	39.2	42.3	24%
Woori (US$)	Buy	39.2	41.5	25%

Source: BofA Global Research

BofA GLOBAL RESEARCH

BofA Global Research Reports

Title: Subtitle	Primary Author	Date Published
Banks - Korea: Export recovery a positive signal for banks; upgrade Shinhan, Hana, Woori to Buy	Jeehoon Park	17 January 2024
Financial Services - Korea: Korea's "Corporate Value-up Program" and our view on the Korea financials rally	Jeehoon Park	02 February 2024
Banks - Korea: 1Q results on track for solid recovery	Jeehoon Park	05 March 2024

Acronyms

NIM: Net Interest Margin

CET1: Common Equity Tier 1

RoE: Return on Equity

ELS: Equity Linked Security

Focus squarely on the Value-up program

The Value-up program; exactly what the banks needed

FSC seeks to enhance Korea corporate value

The Financial Services Commission (FSC) announced on 24 January that it intends to launch Korea's own corporate value-up program, benchmarking Tokyo Stock Exchange's program to boost share prices in 2023. The policymakers plan on finalizing the details of the program by June, but based on the announcements made so far, the program seeks to guide listed companies to publicly disclose RoE targets and long-term plans on improving profitability and plans to set up an index of the top companies that is to be used for investment by large pension funds to incentivize companies to actively participate in the program. Policymakers are also considering tax incentives for both corporates and investors alike actively participating in the program.

Exhibit 2: Guidelines for Corporates

Guidelines for corporates to improve their own value

Fundamental Principles	Companies' **board of directors** should play a key role in implementing **voluntary, mid-to-long term** plans to enhance corporate values
1) Self Assessment	- Self-assessment of market indicators, business structure and governance structure
2) Goal Setting	- Provide minimum three years of mid-to-long term business targets and implementation schedules
3) Corporate Value Improvement Plan	- Devise plans to enhance profitability, shareholder returns, corporate governance, etc
Disclosure	Voluntary disclosure through company's website at least once an year
Implementation	Guideline to be finalized by 1H24; Companies ready may start voluntary disclosure from 2H24

Source: BofA Global Research, KRX

BofA GLOBAL RESEARCH

Exhibit 3: Market Recognition

Measures for market participants to recognize efforts by corporates that improve shareholder values

Publications/Disclosures	● Disclosure of corporate value-up plans in KRX website ● Publication of **whitepaper** to support value-up program and anlyze the implementation status	
Launch of index, ETFs	**Stewardship Code**	**Disclosure of investment indicators**
● Development of "**Korea Value-up Index**" ● Launch **ETFs** tracking the Value-up Index	● Revision of the **Stewardship Code** to reflect Value-ups ● Expecting utilization by **Pension Funds**	● Disclosure of key **investment indicators** through KRX website

Source: BofA Global Research, KRX

BofA GLOBAL RESEARCH

Exhibit 4: Korea Exchange Support

Support from the Korea Exchange and related government entities

Event	Timeline
Advisory panel and dedicated KRX support-team set up	February - May
Feedback collection from listed companies	March - May
Guideline finalization	June
Corporate value-up plan announcement by prepared corporates	From July
Development of Value-up index and ETFs	From July
Launch of Value-up website, investment indicator comparison	From June
Support through education and consulting	From June

Source: BofA Global Research, KRX

BofA GLOBAL RESEARCH

Positive implications for Korea banks' share prices

We believe the program has positive implications for Korean Banks' share prices. With the banks operating in a slow-growing, mature market like Korea, we believe balance sheet leverage is set to steadily contract over the longer term, which would pressure the RoE, unless the banks find ways to improve dividends or buybacks to manage capital. So far, the regulators have been stressing the need to hoard capital rather than distribute it, so if the banks are given more freedom to actively manage capital, this would help reduce concerns about the long-term declining trajectory of the profitability of these companies and help support valuations, in our view.

Policy direction is always the key in Korea banks

The capacity for capital management at the banks was more up to the regulators rather than the banks, and with the regulators entirely on board with the value-up program, we now believe that the policy has finally turned more decisively to give the banks more freedom in shareholder returns. The FSS governor – previously known to demand more provisions and more national service – has publicly stated that the regulators think that the banks are well-prepared for future uncertainties and that they are free to utilize their excess capital. The Deputy Prime Minister also met with the bank CEOs on 7 March 2024 and requested active support for the Value-up program.

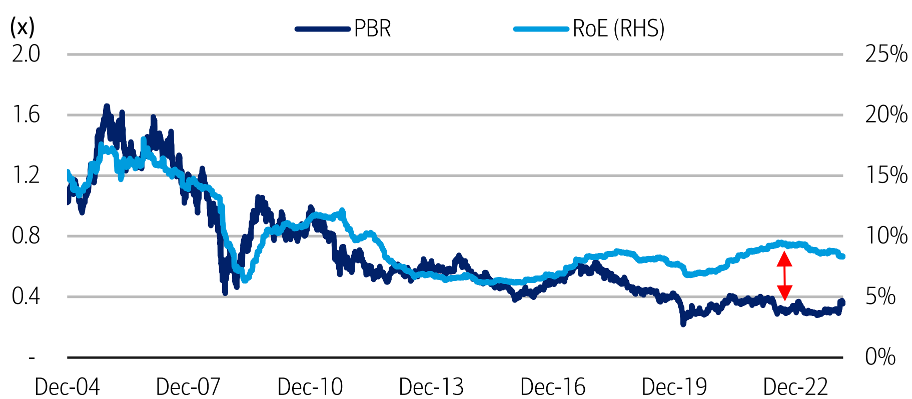
With corporate Korea having experienced operating profit reduction in both 2022 and 2023 and given the high debt servicing cost due to higher interest rates, we think there are only a few sectors that can actively return capital in 2024. We see the financial companies as the key candidates, and we believe they will be an important contributor to the early-stage success of the Value-up program. We believe corporate Korea, in general, will be in a better shape to return capital to shareholders after 2024 with a turnaround led by tech.

While the regulators are yet to announce the stress capital buffer requirement for the banks, the policymakers' favorable dialogue on shareholder returns in public press conferences suggests that most banks are likely comfortably above the required level, which we believe would be about 12.5% CET1 for the large banks.

Roughly 80% higher assuming shares rise to match the projected RoE levels

In a bull-case scenario where the 12M forward bank P/B and RoE return to their previous relationship before 2017, we would see an 80% rally in bank share prices, assuming all other variables remain constant. This is not our base-case scenario, but we think this is within the range of possibilities if the Value-up program progresses smoothly, with banks raising total shareholder return levels much quicker than market expectations.

Exhibit 5: Despite the recent rally, the gap between PBR and RoE remains wide
12M forward PBR and RoE for the Korean banks



Source: BofA Global Research, WISEfn

BofA GLOBAL RESEARCH

4Q23 results: big miss driven by policy guidance

4Q23 results missed consensus expectations by 30% (19% vs BofAe) because of conservative provisioning, led by a strong push by regulators to make extra conservative provisioning against project financing exposures, and national service packages. Prior to the 4Q23 results, we had expected earnings to fall slightly YoY in 2024, but given the big miss in 4Q23 and eventually lowered earnings for FY23, we now think that earnings will rise. We still expect a modest 3% YoY increase in 2024 net profits as we believe this will be the beginning of a turnaround for sector fundamentals, and then a more pronounced 10% YoY earnings recovery in 2025 on the back of better strength in the economy.

Exhibit 6: 4Q23 net profit missed consensus expectations by 30%
4Q23 results summary for all Korea banks under BofA coverage

INCOME STATEMENT	1Q23A	2Q23A	3Q23A	4Q23A	QoQ	YoY	4Q23 BofAe	Consensus
Net Interest Income	13,290	13,636	14,013	14,091	0.6%	-1.8%	13,994	
Non-Interest Income	4,256	3,665	2,614	1,174	-55.1%	-3.8%	1,130	
SG&A	6,572	6,602	6,480	7,711	19.0%	-6.4%	8,381	
PPOP	10,974	10,698	10,147	7,554	-25.6%	3.0%	6,742	
Provisions	2,632	3,134	2,461	4,794	94.8%	35.1%	2,960	
OP	8,342	7,564	7,686	2,761	-64.1%	-27.1%	3,782	
Non-Operating Income	44	(116)	(42)	(160)	n/a	n/a	(350)	
Taxes	2,079	1,879	1,965	618	-68.5%	-38.2%	907	
Net Profit	6,210	5,446	5,637	1,950	-65.4%	-23.6%	2,415	2,800

Source: BofA Global Research, Company data, Bloomberg

BofA GLOBAL RESEARCH

NIM disappointed in 4Q, contracting instead of expanding as guided

We see the core earnings trends as mixed. Key negative surprise was NIM, and while it only contracted 1bp on average, this was disappointing, considering that most banks had guided for margins to be modestly up in 4Q, given the large amounts of high-cost funding scheduled to mature during the quarter. The weakness was due to multiple reasons, in our view, and they include stronger-than-expected competition on corporate loans and higher-than-expected funding costs, given large outflows of core deposits.

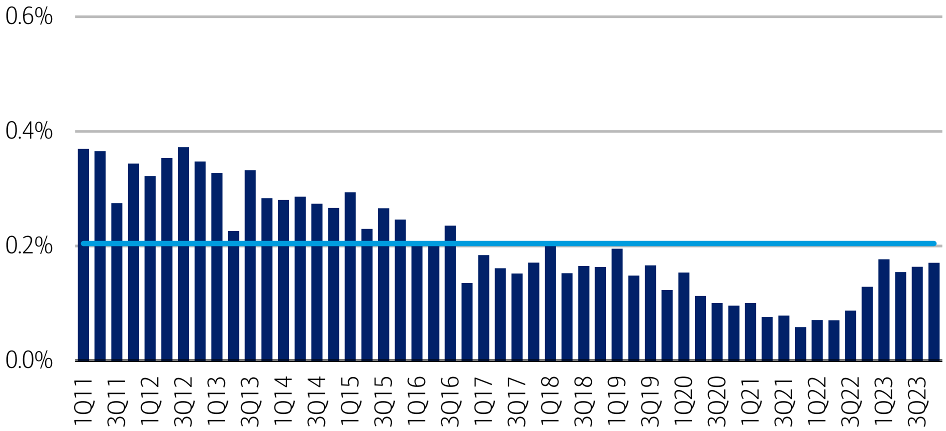
Banks largely expect the NIM to stabilize in 1H24 and potentially see a downside if the BoK starts cutting rates in 2H24, and we also believe it is prudent to expect some weakness in margins over 2024. We also assume that the bank fee income should be hit from the recent crackdown on Equity Linked Securities (ELS).

…but there were positives on costs, credit cost, and loan growth

As for positives, we observed slightly more optimism on loan growth, room for lower costs to continue, and potential for lower provisions than being estimated by the market. Operating expenses rose less than our expectation in 4Q23 due to social pressure on the size of early retirement packages. These packages had been the leading cause of a big jump in 4Q SG&A every year, so the smaller size and fewer employees taking retirement packages resulted in lower-than-expected SG&A. This may not increase to previous levels any time soon, and lower 4Q SG&A could go on – this is not our base case assumption but this is a potential upside to our earnings estimates.

The other positive was that new delinquencies – our most preferred metric of asset quality monitoring – remained stable in 4Q vs 3Q despite interest rates having risen for most of 2H23, although we are yet to see any trending improvement. Since rates have declined from November 2023, we may start to see asset quality surprise positively in 2024, since lower rates tend to positively affect delinquencies with about a six-month lag, and the banks seem cautiously optimistic. The banks have also commented that their capex loan demand is showing signs of coming to life, and January capex was up YoY for the first time since March 2023 according to the Korea Statistics office, which we believe is a positive signal for the economy.

Exhibit 7: New delinquencies remained stable in 4Q vs 3Q
Sector new delinquencies



Source: BofA Global Research, Company data

BofA GLOBAL RESEARCH

Raising earnings estimates, lifting POs

We are fine-tuning our net profit estimates for 2024-26 collectively for the Korean banks. Our estimates represent only 3% YoY net profit growth in 2024, followed by a stronger 10% YoY increase in 2025. We believe the economy is starting to show signs of a turnaround and that provisioning burden should start to ease as we move closer towards 2025, but it would not be too surprising to see banks continue to provision heavily until we see a more pronounced economic recovery, and we are keeping our cautious stance on the earnings outlook for 2024. Collectively for all the banks under our coverage, our net profit forecast is 5.2% lower than consensus, so we are on the more cautious side.

Exhibit 8: Modest earnings revisions for most banks, but still more cautious than consensus
Net profit estimate revisions

	2024E					2025E					2026E				
	Old	New	% chg	Cons.	% diff	Old	New	% chg	Cons.	% diff	Old	New	% chg	Cons.	% diff
KB	5,017	5,017	0.0%	5,104	-1.7%	5,525	5,525	0.0%	5,369	2.9%	5,703	5,703	0.0%	5,427	5.1%
Shinhan	4,235	4,394	3.8%	4,730	-7.1%	4,616	4,805	4.1%	4,953	-3.0%	4,758	4,955	4.1%	5,289	-6.3%
Woori	2,732	2,732	0.0%	2,980	-8.3%	3,001	3,001	0.0%	3,146	-4.6%	3,119	3,119	0.0%	3,329	-6.3%
Total	**11,984**	**12,143**	**1.3%**	**12,815**	**-5.2%**	**13,142**	**13,330**	**1.4%**	**13,469**	**-1.0%**	**13,580**	**13,777**	**1.4%**	**14,046**	**-1.9%**

Source: BofA Global Research estimates, Bloomberg

BofA GLOBAL RESEARCH

We are raising our price objectives by 6-8%. The two reasons for raising our price objectives much more than from just the impact of earnings revisions are: (1) ongoing solid export momentum, and (2) the Value-up program giving bank managements more room to better manage capital efficiency. Our upward PO revisions have been mostly made by reduction of RoE discounts that we apply, and the level of RoE discounts have been set in line with the past discounts applied during similar economic recovery cycles. RoE discounts tend to reduce more rapidly for the larger banks in an economic upcycle, which gives us our preference for the large banks in the current part of the cycle.

Exhibit 9: Our PO changes are driven mostly by adopting a lower RoE discount
PO and key assumption changes

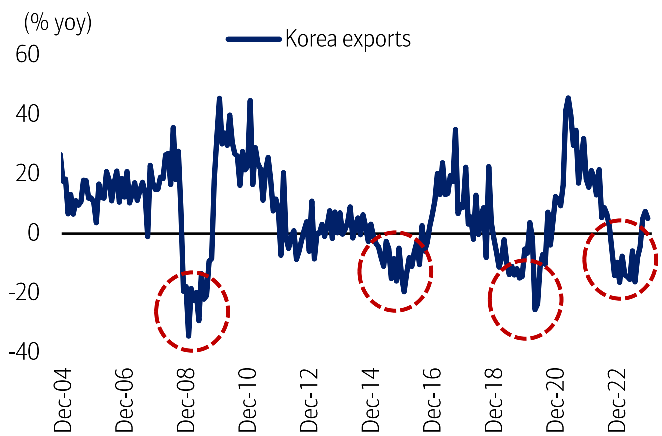
(US$)	Old Assumptions						New Assumptions					
Company	PO	Rating	PB multiple	RoE	CoE	RoE discount	PO	Rating	PB multiple	RoE	CoE	RoE discount
KB - ADR	63.8	Buy	0.54x	9.3%	10.0%	32.0%	69.2	Buy	0.58x	9.3%	10.0%	28.4%
Shinhan - ADR	39.2	Buy	0.48x	8.1%	10.0%	28.3%	42.3	Buy	0.51x	8.5%	10.0%	27.7%
Woori - ADR	39.2	Buy	0.40x	9.1%	10.0%	42.9%	41.5	Buy	0.43x	9.1%	10.0%	40.1%

Source: BofA Global Research estimates

BofA GLOBAL RESEARCH

As we mentioned in our report on 17 January 2024 (Export recovery a positive signal for banks; upgrade Shinhan, Hana, Woori to Buy), all major bottoms in Korea bank share prices have coincided with bottoms in export growth. As shown below, share-price rallies in banks tend to start much earlier and quicker than the eventual earnings recovery in banks. This is why earnings multiples tend to lead eventual earnings revisions. With export growth continuing to show strength, we are comfortable with raising our POs.

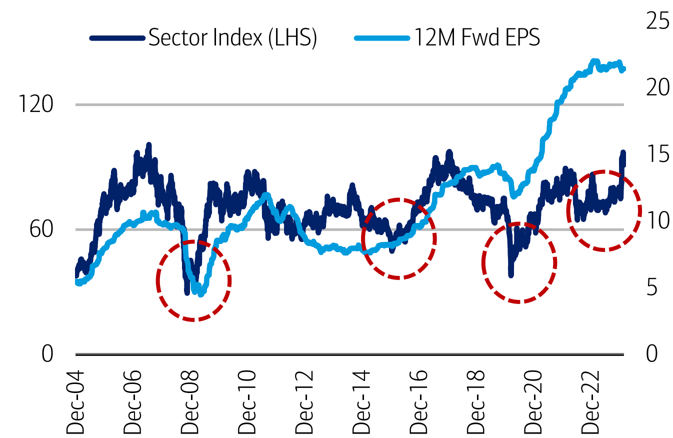
Exhibit 10: Bottoms of Korean export growth over the last 19 years
Korean export growth YoY trend



Source: BofA Global Research, Haver

BofA GLOBAL RESEARCH

Exhibit 11: Korean banks coincide with bottoms in export growth
Korean banks' 12M forward EPS and share price



Source: BofA Global Research, WISEfn

BofA GLOBAL RESEARCH

In addition, we believe the Value-up program will allow the banks to pursue a more aggressive shareholder-return policy, and we adjust our assumptions to assume an accelerated pace of shareholder returns.

Exhibit 12: We expect KB to hit +40% total shareholder return from 2024
Old vs. New total shareholder return summary

	Old Total Shareholder Return			New Total Shareholder Return		
Company	2024E	2025E	2026E	2024E	2025E	2026E
KB	39%	42%	43%	42%	47%	50%
Shinhan	36%	39%	41%	37%	41%	43%
Woori	34%	35%	35%	34%	35%	35%

Source: BofA Global Research estimates

BofA GLOBAL RESEARCH

Exhibit 13: Our top pick remains KB
Valuation comps

	KB	Shinhan	Woori
Current Price	W71,200	W45,400	W14,470
	Buy	Buy	Buy
Price Objective	W90,000	W55,000	W18,000
Upside Potential	26%	21%	24%
Year end Dec			
2023A EPS growth	15.7%	-3.5%	-22.4%
2024E EPS growth	13.9%	3.9%	10.2%
2025E EPS growth	17.2%	13.7%	12.0%
2026E EPS growth	10.5%	7.6%	6.0%
2022A P/E	5.4x	4.5x	3.2x
2023A P/E	4.5x	4.4x	3.7x
2024E P/E	5.4x	5.3x	4.0x
2025E P/E	4.6x	4.7x	3.6x
2026E P/E	4.2x	4.4x	3.4x
2022A P/B	0.43x	0.42x	0.38x
2023A P/B	0.37x	0.37x	0.31x
2024E P/B	0.47x	0.43x	0.35x
2025E P/B	0.42x	0.39x	0.32x
2026E P/B	0.37x	0.36x	0.30x
2022A RoAE	8.6%	10.0%	12.4%
2023A RoAE	8.9%	8.7%	8.9%
2024E RoAE	9.1%	8.3%	9.0%
2025E RoAE	9.5%	8.6%	9.3%
2026E RoAE	9.4%	8.5%	9.1%
2022A RoAA	0.59%	0.69%	0.66%
2023A RoAA	0.64%	0.62%	0.49%
2024E RoAA	0.66%	0.60%	0.51%
2025E RoAA	0.70%	0.63%	0.54%
2026E RoAA	0.70%	0.62%	0.54%
2022A Div&Buyback Yields	4.3%	5.6%	7.8%
2023A Div&Buyback Yields	6.7%	6.7%	7.9%
2024E Div&Buyback Yields	8.5%	7.3%	9.0%
2025E Div&Buyback Yields	11.2%	8.9%	10.3%
2026E Div&Buyback Yields	13.3%	10.3%	10.8%

Source: BofA Global Research

BofA GLOBAL RESEARCH

Risks to our call

Potential losses ahead from ELS

We think it is reasonable to expect some loss taking by the banks on the ELS product sales during 1H24, and our estimates already factor in potential losses. To recap, the banks have sold Equity Linked Securities linked to HSCEI, mostly in 2021, providing a mid-risk mid-return option to customers. However, tail risk became a reality as the HSCEI plunged, and most of these products are facing maturing this year with c.50% losses. Regulators have finished examination of the banks on the ELS product selling in February and plan to issue guidance on potential reimbursement of client losses on 11 March 2024.

The banks have kept the stance that they have very limited legal liability on the client losses as the products were sold in line with the strong Financial Consumer Act enacted in 2021, but policymakers have demanded that banks reimburse client losses, and the issue has become widely publicized. If the banks believe regulator recommendations on client losses are reasonable, they will accept and book losses. If the banks believe the demands are excessive, the banks could be led to go to the courts. While actual resolving of the issue can take time, we think most of the news is already in the price, and regulator guidelines to be announced on 11 March would be a final news event.

Project financing (PF) and overseas Commercial Real Estate (CRE)

We believe there is some additional loss potential on the property market exposures by the banks. That said, we are not concerned about an unexpected spike in credit cost. Given the experience of PF losses after GFC, we think banks have a good understanding of their current exposures and have planned scenarios of what to do with problematic exposures, with provisions made based on conservative estimates of a probable loss. There is always the risk that actual losses exceed previously provisioned reserves and our credit cost estimates factor in such potential. We do not foresee a scenario where property market exposure related losses cause a big earnings miss.

In the environment for stronger policy influence

2023 full year earnings ended much lower than initial expectations because of policy pressure. Korean banks are given a certain amount of discount on valuations as policy actions such as the national service package seen late 2023 can drive down earnings, and the market has been proven right once again. The event justified the earnings valuation discount on earnings relative to regional peers - in Korean banks, the market considers that consensus earnings should be taken with the view that they can come down for some unexpected policy intervention.

We also think we are still in the environment for bigger than usual policy risk for large banks. Interest rates have made a sudden surge after years of balance leverage expansion for most economic entities, and oil prices have become very volatile and cost of living/operation have risen. While we expect a rebound in the Korean economy led by export recovery in 2024 and the Value-up program to support share prices going forward, we think 2023 showed that policy can become very unfriendly for institutions making the bulk of revenues from interest income in such an environment.

The beginning of investor activism in Korean financials

2023 was also an interesting year because we had the first activist attack on the banks at the beginning of the year. With a strong share price reaction (sector up 14% during Jan 2023 after Align partners took a stake in most banks and sent banks demands to come up with a strong, concrete shareholder return plan) to activist demands, the event showed that market historically assumes capital management won't be easy to implement in Korean banks most likely due to strong regulators, and that their value should rise if there is a way to even force the banks to return capital.

More specifically, Korean banks are in a developed type market with slow GDP growth (at 4-5% nominal) and high financial penetration, and a likely decline in balance sheet leverage ahead given the faster book value growth than asset growth (current RoE at 8-10%). Unless they have freedom to return capital to shareholders, the falling balance sheet leverage will pressure returns. While the bank managements understand this and have been willing to distribute capital, they had been limited by verbal guidance from the regulators even if they were above regulatory requirements.

Share price rallied when the market saw the possibility that these banks could be forced to pay out more, although the momentum lost steam when the president called the banks public goods in February and demanded stronger social service. From the banks' perspective, they had been coincidentally preparing to announce shareholder return plans in early 2023, but because of investor activism, ended up looking like they were pushed to do so. The bank managements still have strong willingness to continue overseas expansion or seek M&A opportunity, and the event also showed that while they want to increase shareholder returns, there is an eventual limit.

Finally, investor activism has only just started - not just in Korea banks but in Korea financials overall, in our view. When Align Partners initially reached out to investors, many shareholders doubted whether such a movement can succeed in Korean banks given the tight control by the regulators. With the experience of early 2023, many investors may be much more open to supporting investor activism in future instances, and this gives support or even upside for future valuations, given that bigger shareholder return potential helps Korean bank valuations, in our view.

Are pre-emptive provisions actually pre-emptive?

There is also the view that while the banks regard most provisions as pre-emptive, NPLs eventually follow and provisions eventually turn out to have been necessary. This is a common question and our view is that there is no clear right or wrong. We tend to have some sympathy for the banks because they are financial institutions that make provisions based on methodologies that have been approved by the regulators and auditors, and tend to do more than what the provisioning mechanisms allow them to make. In addition, a credit cycle can take years to play out and conservatism is only proven when write-backs eventually take place, and few market observers stay around for the full cycle to see that happen.

Exhibit 14: Stocks mentioned
Prices and ratings for stocks mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
KB	KB US	KB Financial Group	US$ 51.68	B-1-7
XKBGF	105560 KS	KB Financial Group	W 71200	B-1-7
SFLGF	055550 KS	Shinhan FG	W 45400	A-1-7
SHG	SHG US	Shinhan FG	US$ 34.00	B-1-7
WF	WF US	Woori FG	US$ 33.15	B-1-7
XSLOF	316140 KS	Woori FG	W 14470	A-1-7

Source: BofA Global Research

BofA GLOBAL RESEARCH

Price objective basis & risk

KB Financial Group (XKBGF / KB)

We derive our price objective of W90,000 ($69.23) using a target P/B multiple of 0.58x 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 ca. 28% 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.

Shinhan Financial Group (SFLGF / SHG)

We derive our price objective of W55,000 ($42.31) using a target P/B multiple of 0.51x derived by the Gordon Growth Model. Our assumptions are a 8.5% sustainable RoE (from 24M average RoE), 10% cost of equity, and 2% terminal growth. We then apply a ca. 28% 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.
The downside risks are (1) economic slowdown leading to higher credit cost (2) lower revenues from non-bank affiliates due to increased market risk, (3) EPS dilutive M&A, and (4) stronger demands for social contribution due to pressure on economic entities from high inflation.

Woori Financial Group (XSLOF / WF)

We derive our price objective of W18,000 ($41.54) using a target 24E P/B multiple of 0.43x 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 ca. 40% 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.

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

Disclosures

Important Disclosures

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.

FUNDAMENTAL EQUITY OPINION KEY: Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. VOLATILITY RISK RATINGS, indicators of potential price fluctuation, are: A - Low, B - Medium and C - High. INVESTMENT RATINGS reflect the analyst’s assessment of both a stock’s absolute total return potential as well as its attractiveness for investment relative to other stocks within its Coverage Cluster (defined below). Our investment ratings are: 1 - Buy stocks are expected to have a total return of at least 10% and are the most attractive stocks in the coverage cluster; 2 - Neutral stocks are expected to remain flat or increase in value and are less attractive than Buy rated stocks and 3 - Underperform stocks are the least attractive stocks in a coverage cluster. An investment rating of 6 (No Rating) indicates that a stock is no longer trading on the basis of fundamentals. Analysts assign investment ratings considering, among other things, the 0-12 month total return expectation for a stock and the firm’s guidelines for ratings dispersions (shown in the table below). The current price objective for a stock should be referenced to better understand the total return expectation at any given time. The price objective reflects the analyst’s view of the potential price appreciation (depreciation).

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.

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.

Price Charts for the securities referenced in this research report are available on the Price Charts website, or call 1-800-MERRILL to have them mailed.
BofAS or one of its affiliates acts as a market maker for the equity securities recommended in the report: KB Financial Group, Shinhan FG, Woori FG.
The issuer is or was, within the last 12 months, an investment banking client of BofAS and/or one or more of its affiliates: KB Financial Group, Shinhan FG, Woori FG.
BofAS or an affiliate has received compensation from the issuer for non-investment banking services or products within the past 12 months: KB Financial Group, Shinhan FG, Woori FG.
The issuer is or was, within the last 12 months, a non-securities business client of BofAS and/or one or more of its affiliates: KB Financial Group, Shinhan FG, Woori FG.
BofAS or an affiliate has received compensation for investment banking services from this issuer within the past 12 months: KB Financial Group, Shinhan FG, Woori FG.
BofAS or an affiliate expects to receive or intends to seek compensation for investment banking services from this issuer or an affiliate of the issuer within the next three months: KB Financial Group, Shinhan FG, Woori FG.
BofAS or one of its affiliates is willing to sell to, or buy from, clients the common equity of the issuer on a principal basis: KB Financial Group, Shinhan FG, Woori FG.
The issuer is or was, within the last 12 months, a securities business client (non-investment banking) of BofAS and/or one or more of its affiliates: KB Financial Group, Shinhan FG, Woori FG.
BofA Global Research personnel (including the analyst(s) responsible for this report) receive compensation based upon, among other factors, the overall profitability of Bank of America Corporation, including profits derived from investment banking. The analyst(s) responsible for this report may also receive compensation based upon, among other factors, the overall profitability of the Bank’s sales and trading businesses relating to the class of securities or financial instruments for which such analyst is responsible.

Other Important Disclosures

From time to time research analysts conduct site visits of covered issuers. BofA Global Research policies prohibit research analysts from accepting payment or reimbursement for travel expenses from the issuer for such visits.
Prices are indicative and for information purposes only. Except as otherwise stated in the report, for any recommendation in relation to an equity security, the price referenced is the publicly traded price of the security as of close of business on the day prior to the date of the report or, if the report is published during intraday trading, the price referenced is indicative of the traded price as of the date and time of the report and in relation to a debt security (including equity preferred and CDS), prices are indicative as of the date and time of the report and are from various sources including BofA Securities trading desks.
The date and time of completion of the production of any recommendation in this report shall be the date and time of dissemination of this report as recorded in the report timestamp.

Recipients who are not institutional investors or market professionals should seek the advice of their independent financial advisor before considering information in this report in connection with any investment decision, or for a necessary explanation of its contents.
Officers of BofAS or one or more of its affiliates (other than research analysts) may have a financial interest in securities of the issuer(s) or in related investments.

Refer to BofA Global Research policies relating to conflicts of interest.

"BofA Securities" includes BofA Securities, Inc. ("BofAS") and its affiliates. Investors should contact their BofA Securities representative or Merrill Global Wealth Management financial advisor if they have questions concerning this report or concerning the appropriateness of any investment idea described herein for such investor. "BofA Securities" is a global brand for BofA Global Research.

Information relating to Non-US affiliates of BofA Securities and Distribution of Affiliate Research Reports:

BofAS and/or Merrill Lynch, Pierce, Fenner & Smith Incorporated ("MLPF&S") may in the future distribute, information of the following non-US affiliates in the US (short name: legal name, regulator): Merrill Lynch (South Africa): Merrill Lynch South Africa (Pty) Ltd., regulated by The Financial Service Board; MLI (UK): Merrill Lynch International, regulated by the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA); BofASE (France): BofA Securities Europe SA is authorized by the Autorité de Contrôle Prudentiel et de Résolution (ACPR) and regulated by the ACPR and the Autorité des Marchés Financiers (AMF). BofA Securities Europe SA ("BofASE") with registered address at 51, rue La Boétie, 75008 Paris is registered under no 842 602 690 RCS Paris. In accordance with the provisions of French Code Monétaire et Financier (Monetary and Financial Code), BofASE is an établissement de crédit et d'investissement (credit and investment institution) that is authorised and supervised by the European Central Bank and the Autorité de Contrôle Prudentiel et de Résolution (ACPR) and regulated by the ACPR and the Autorité des Marchés Financiers. BofASE's share capital can be found at www.bofaml.com/BofASEdisclaimer; BofA Europe (Milan): Bank of America Europe Designated Activity Company, Milan Branch, regulated by the Bank of Italy, the European Central Bank (ECB) and the Central Bank of Ireland (CBI); BofA Europe (Frankfurt): Bank of America Europe Designated Activity Company, Frankfurt Branch regulated by BaFin, the ECB and the CBI; BofA Europe (Madrid): Bank of America Europe Designated Activity Company, Sucursal en España, regulated by the Bank of Spain, the ECB and the CBI; Merrill Lynch (Australia): Merrill Lynch Equities (Australia) Limited, regulated by the Australian Securities and Investments Commission; Merrill Lynch (Hong Kong): Merrill Lynch (Asia Pacific) Limited, regulated by the Hong Kong Securities and Futures Commission (HKSFC); Merrill Lynch (Singapore): Merrill Lynch (Singapore) Pte Ltd, regulated by the Monetary Authority of Singapore (MAS); Merrill Lynch (Canada): Merrill Lynch Canada Inc, regulated by the Canadian Investment Regulatory Organization; Merrill Lynch (Mexico): Merrill Lynch Mexico, SA de CV, Casa de Bolsa, regulated by the Comisión Nacional Bancaria y de Valores; Merrill Lynch (Argentina): Merrill Lynch Argentina SA, regulated by Comisión Nacional de Valores; BofAS Japan: BofA Securities Japan Co., Ltd., regulated by the Financial Services Agency; Merrill Lynch (Seoul): Merrill Lynch International, LLC Seoul Branch, regulated by the Financial Supervisory Service; Merrill Lynch (Taiwan): Merrill Lynch Securities (Taiwan) Ltd., regulated by the Securities and Futures Bureau; BofAS India: BofA Securities India Limited, regulated by the Securities and Exchange Board of India (SEBI); Merrill Lynch (Israel): Merrill Lynch Israel Limited, regulated by Israel Securities Authority; Merrill Lynch (DIFC): Merrill Lynch International (DIFC Branch), regulated by the Dubai Financial Services Authority (DFSA); Merrill Lynch (Brazil): Merrill Lynch S.A. Corretora de Títulos e Valores Mobiliários, regulated by Comissão de Valores Mobiliários; Merrill Lynch KSA Company: Merrill Lynch Kingdom of Saudi Arabia Company, regulated by the Capital Market Authority.

This information: has been approved for publication and is distributed in the United Kingdom (UK) to professional clients and eligible counterparties (as each is defined in the rules of the FCA and the PRA) by MLI (UK), which is authorized by the PRA and regulated by the FCA and the PRA - details about the extent of our regulation by the FCA and PRA are available from us on request; has been approved for publication and is distributed in the European Economic Area (EEA) by BofASE (France), which is authorized by the ACPR and regulated by the ACPR and the AMF; has been considered and distributed in Japan by BofAS Japan, a registered securities dealer under the Financial Instruments and Exchange Act in Japan, or its permitted affiliates; is issued and distributed in Hong Kong by Merrill Lynch (Hong Kong) which is regulated by HKSFC; is issued and distributed in Taiwan by Merrill Lynch (Taiwan); is issued and distributed in India by BofAS India; and is issued and distributed in Singapore to institutional investors and/or accredited investors (each as defined under the Financial Advisers Regulations) by Merrill Lynch (Singapore) (Company Registration No 198602883D). Merrill Lynch (Singapore) is regulated by MAS. Merrill Lynch Equities (Australia) Limited (ABN 65 006 276 795), AFS License 235132 (MLEA) distributes this information in Australia only to 'Wholesale' clients as defined by s.761G of the Corporations Act 2001. With the exception of Bank of America N.A., Australia Branch, neither MLEA nor any of its affiliates involved in preparing this information is an Authorised Deposit-Taking Institution under the Banking Act 1959 nor regulated by the Australian Prudential Regulation Authority. No approval is required for publication or distribution of this information in Brazil and its local distribution is by Merrill Lynch (Brazil) in accordance with applicable regulations. Merrill Lynch (DIFC) is authorized and regulated by the DFSA. Information prepared and issued by Merrill Lynch (DIFC) is done so in accordance with the requirements of the DFSA conduct of business rules. BofA Europe (Frankfurt) distributes this information in Germany and is regulated by BaFin, the ECB and the CBI. BofA Securities entities, including BofA Europe and BofASE (France), may outsource/delegate the marketing and/or provision of certain research services or aspects of research services to other branches or members of the BofA Securities group. You may be contacted by a different BofA Securities entity acting for and on behalf of your service provider where permitted by applicable law. This does not change your service provider. Please refer to the Electronic Communications Disclaimers for further information.

This information has been prepared and issued by BofAS and/or one or more of its non-US affiliates. The author(s) of this information may not be licensed to carry on regulated activities in your jurisdiction and, if not licensed, do not hold themselves out as being able to do so. BofAS and/or MLPF&S is the distributor of this information in the US and accepts full responsibility for information distributed to BofAS and/or MLPF&S clients in the US by its non-US affiliates. Any US person receiving this information and wishing to effect any transaction in any security discussed herein should do so through BofAS and/or MLPF&S and not such foreign affiliates. Hong Kong recipients of this information should contact Merrill Lynch (Asia Pacific) Limited in respect of any matters relating to dealing in securities or provision of specific advice on securities or any other matters arising from, or in connection with, this information. Singapore recipients of this information should contact Merrill Lynch (Singapore) Pte Ltd in respect of any matters arising from, or in connection with, this information. For clients that are not accredited investors, expert investors or institutional investors Merrill Lynch (Singapore) Pte Ltd accepts full responsibility for the contents of this information distributed to such clients in Singapore.

General Investment Related Disclosures:

Taiwan Readers: Neither the information nor any opinion expressed herein constitutes an offer or a solicitation of an offer to transact in any securities or other financial instrument. No part of this report may be used or reproduced or quoted in any manner whatsoever in Taiwan by the press or any other person without the express written consent of BofA Securities.

This document provides general information only, and has been prepared for, and is intended for general distribution to, BofA Securities clients. Neither the information nor any opinion expressed constitutes an offer or an invitation to make an offer, to buy or sell any securities or other financial instrument or any derivative related to such securities or instruments (e.g., options, futures, warrants, and contracts for differences). This document is not intended to provide personal investment advice and it does not take into account the specific investment objectives, financial situation and the particular needs of, and is not directed to, any specific person(s). This document and its content do not constitute, and should not be considered to constitute, investment advice for purposes of ERISA, the US tax code, the Investment Advisers Act or otherwise. Investors should seek financial advice regarding the appropriateness of investing in financial instruments and implementing investment strategies discussed or recommended in this document and should understand that statements regarding future prospects may not be realized. Any decision to purchase or subscribe for securities in any offering must be based solely on existing public information on such security or the information in the prospectus or other offering document issued in connection with such offering, and not on this document.

Securities and other financial instruments referred to herein, or recommended, offered or sold by BofA Securities, are not insured by the Federal Deposit Insurance Corporation and are not deposits or other obligations of any insured depository institution (including, Bank of America, N.A.). Investments in general and, derivatives, in particular, involve numerous risks, including, among others, market risk, counterparty default risk and liquidity risk. No security, financial instrument or derivative is suitable for all investors. Digital assets are extremely speculative, volatile and are largely unregulated. In some cases, securities and other financial instruments may be difficult to value or sell and reliable information about the value or risks related to the security or financial instrument may be difficult to obtain. Investors should note that income from such securities and other financial instruments, if any, may fluctuate and that price or value of such securities and instruments may rise or fall and, in some cases, investors may lose their entire principal investment. Past performance is not necessarily a guide to future performance. Levels and basis for taxation may change.

This report may contain a short-term trading idea or recommendation, which highlights a specific near-term catalyst or event impacting the issuer or the market that is anticipated to have a short-term price impact on the equity securities of the issuer. Short-term trading ideas and recommendations are different from and do not affect a stock's fundamental equity rating, which reflects both a longer term total return expectation and attractiveness for investment relative to other stocks within its Coverage Cluster. Short-term trading ideas and recommendations may be more or less positive than a stock's fundamental equity rating.

BofA Securities is aware that the implementation of the ideas expressed in this report may depend upon an investor's ability to "short" securities or other financial instruments and that such action may be limited by regulations prohibiting or restricting "shortselling" in many jurisdictions. Investors are urged to seek advice regarding the applicability of such regulations prior to executing any short idea contained in this report.

Foreign currency rates of exchange may adversely affect the value, price or income of any security or financial instrument mentioned herein. Investors in such securities and instruments, including ADRs, effectively assume currency risk.

BofAS or one of its affiliates is a regular issuer of traded financial instruments linked to securities that may have been recommended in this report. BofAS or one of its affiliates may, at any time, hold a trading position (long or short) in the securities and financial instruments discussed in this report.

BofA Securities, through business units other than BofA Global Research, may have issued and may in the future issue trading ideas or recommendations that are inconsistent with, and reach different conclusions from, the information presented herein. Such ideas or recommendations may reflect different time frames, assumptions, views and analytical methods of the persons who prepared them, and BofA Securities is under no obligation to ensure that such other trading ideas or recommendations are brought to the attention of any recipient of this information.

In the event that the recipient received this information pursuant to a contract between the recipient and BofAS for the provision of research services for a separate fee, and in connection therewith BofAS may be deemed to be acting as an investment adviser, such status relates, if at all, solely to the person with whom BofAS has contracted directly and does not extend beyond the delivery of this report (unless otherwise agreed specifically in writing by BofAS). If such recipient uses the services of BofAS in connection with the sale or purchase of a security referred to herein, BofAS may act as principal for its own account or as agent for another person. BofAS is and continues to act solely as a broker-dealer in connection with the execution of any transactions, including transactions in any securities referred to herein.

Copyright and General Information:

Materials prepared by BofA Global Research personnel are based on public information. Facts and views presented in this material have not been reviewed by, and may not reflect information known to, professionals in other business areas of BofA Securities, including investment banking personnel. BofA Securities has established information barriers between BofA Global Research and certain business groups. As a result, BofA Securities does not disclose certain client relationships with, or compensation received from, such issuers. To the extent this material discusses any legal proceeding or issues, it has not been prepared as nor is it intended to express any legal conclusion, opinion or advice. Investors should consult their own legal advisers as to issues of law relating to the subject matter of this material. BofA Global Research personnel's knowledge of legal proceedings in which any BofA Securities entity and/or its directors, officers and employees may be plaintiffs, defendants, co-defendants or co-plaintiffs with or involving issuers mentioned in this material is based on public information. Facts and views presented in this material that relate to any such proceedings have not been reviewed by, discussed with, and may not reflect information known to, professionals in other business areas of BofA Securities in connection with the legal proceedings or matters relevant to such proceedings.

This information has been prepared independently of any issuer of securities mentioned herein and not in connection with any proposed offering of securities or as agent of any issuer of any securities. None of BofAS any of its affiliates or their research analysts has any authority whatsoever to make any representation or warranty on behalf of the issuer(s). BofA Global Research policy prohibits research personnel from disclosing a recommendation, investment rating, or investment thesis for review by an issuer prior to the publication of a research report containing such rating, recommendation or investment thesis.

Any information relating to the tax status of financial instruments discussed herein is not intended to provide tax advice or to be used by anyone to provide tax advice. Investors are urged to seek tax advice based on their particular circumstances from an independent tax professional.

The information herein (other than disclosure information relating to BofA Securities and its affiliates) was obtained from various sources and we do not guarantee its accuracy. This information may contain links to third-party websites. BofA Securities is not responsible for the content of any third-party website or any linked content contained in a third-party website. Content contained on such third-party websites is not part of this information and is not incorporated by reference. The inclusion of a link does not imply any endorsement by or any affiliation with BofA Securities. Access to any third-party website is at your own risk, and you should always review the terms and privacy policies at third-party websites before submitting any personal information to them. BofA Securities is not responsible for such terms and privacy policies and expressly disclaims any liability for them.

All opinions, projections and estimates constitute the judgment of the author as of the date of publication and are subject to change without notice. Prices also are subject to change without notice. BofA Securities is under no obligation to update this information and BofA Securities ability to publish information on the subject issuer(s) in the future is subject to applicable quiet periods. You should therefore assume that BofA Securities will not update any fact, circumstance or opinion contained herein.

Subject to the quiet period applicable under laws of the various jurisdictions in which we distribute research reports and other legal and BofA Securities policy-related restrictions on the publication of research reports, fundamental equity reports are produced on a regular basis as necessary to keep the investment recommendation current.

Certain outstanding reports or investment opinions relating to securities, financial instruments and/or issuers may no longer be current. Always refer to the most recent research report relating to an issuer prior to making an investment decision.

In some cases, an issuer may be classified as Restricted or may be Under Review or Extended Review. In each case, investors should consider any investment opinion relating to such issuer (or its security and/or financial instruments) to be suspended or withdrawn and should not rely on the analyses and investment opinion(s) pertaining to such issuer (or its securities and/or financial instruments) nor should the analyses or opinion(s) be considered a solicitation of any kind. Sales persons and financial advisors affiliated with BofAS or any of its affiliates may not solicit purchases of securities or financial instruments that are Restricted or Under Review and may only solicit securities under Extended Review in accordance with firm policies.

Neither BofA Securities nor any officer or employee of BofA Securities accepts any liability whatsoever for any direct, indirect or consequential damages or losses arising from any use of this information.