

Mirae Asset Securities Co., Ltd.

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139130 KS · Banks

DGB Financial Group

Sustainability of earnings growth needs to be confirmed

(Maintain)

Buy

Target price
W9,900 ▲Upside
24.2%Current price (10/30/23)
W7,970

KOSPI	2,310.55	Market cap (Wbn)	1,348	Shares outstanding (mn)	169	Foreign ownership (%)	45.0
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Report summary

3Q23 review

For 3Q23, DGB Financial Group (DGBFG) announced net profit of W114.9bn (+6% YoY, -19% QoQ), missing the consensus by 7%. Interest income grew at a decent pace, and gains from loan sales were booked. However, unrealized losses on marketable securities weighed on non-interest income, and one-off expenses (operating loss related to fund sales and preemptive provisions) were recognized. CET1 ratio dipped 16bps to 11.1% due to the robust growth of the banking business and stock buyback effects.

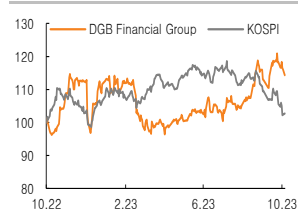
Attractive valuation and dividends, but earnings stability needs to improve further

The stock is clearly undervalued, trading at a 12-month forward P/B of 0.24x. However, DGBFG still needs to prove that its earnings growth is sustainable. We believe the recovery of the brokerage business will be key. The brokerage business needs new sources of income, given its high reliance on real estate project financing (PF).

DGBFG offers the highest dividend yield among bank stocks under our coverage (9.9% for 2023F and 10.5% for 2024F). We expect the stock's dividend appeal to come into focus heading into the end of the year (as the group distributes dividends once at the end of the year). We lift our target price by 11% to W9,900 (applying a P/B of 0.29x to our 2024F BVPS of W34,222).

Key data

Price performance



(%)	1M	6M	12M
Absolute	1.3	16.4	14.3
Relative	8.0	26.0	12.3

Earnings and valuation metrics

(Dec.)	2021	2022	2023F	2024F	2025F
Net interest income (Wbn)	1,601	1,830	1,644	1,736	1,774
Net non-interest income (Wbn)	486	231	558	571	655
OP (Wbn)	749	607	666	738	793
NP (Wbn)	503	402	483	508	547
EPS (W)	2,974	2,374	2,853	3,001	3,235
EPS growth (%)	47.1	-20.2	20.2	5.2	7.8
P/E (x)	2.7	3.4	2.8	2.7	2.5
P/PPOP (x)	1.5	1.4	1.2	1.1	1.1
P/B (x)	0.27	0.28	0.25	0.23	0.22
ROE (%)	10.4	8.1	9.4	9.1	9.1
Dividend yield (%)	7.9	8.2	9.9	10.5	11.5

Notes: Under consolidated K-IFRS; NP is attributable to owners of the parent

Source: Company data, Mirae Asset Securities Research estimates

3Q23 review

Net profit of W114.9bn (+6% YoY, -19% QoQ), 7% below consensus

1) Net interest income was W429.1bn (-9% YoY, +7% QoQ). Interest income grew at a decent pace on a rebound in net interest margin (NIM) and robust lending growth. Bank NIM inched up 2bps QoQ as lending rate repricing effects outweighed deposit rate repricing. Management expects NIM to continue improving in 4Q23, supported by the repricing of high-interest-rate deposits, a sufficient liquidity coverage ratio (LCR), and a healthy loan-to-deposit ratio. Won-denominated loans grew 4.2% QoQ—faster than at peers. Household loans expanded 7.3% QoQ, led by mortgage loans, and corporate loans grew 2.5% QoQ, helped by the utilization of partner relationship management (PRM) channels in the Seoul capital area. Household lending increased sharply despite recent regulatory efforts to curb household debt growth, as the bank moved preemptively in anticipation of large-scale debt repayments (interim payment loans) in 1Q-2Q24.

2) Non-interest income was W72.8bn (+1,386% YoY, -57% QoQ). Fee/commission income shrank to W48.5bn (-36% YoY, -15% QoQ). Non-interest income also included W27.7bn related to reclassification adjustments (IFRS 17) and W11.5bn in gains from loan sales.

3) Credit costs were W113.8bn (+126% YoY, -9% QoQ). The group set aside preemptive provisions of W35.9bn (W27.2bn for the bank and W8.7bn for brokerage PF), after booking W40.6bn in 2Q23 and W59.7bn in 1Q23. Credit cost ratio was 0.74% (annualized; +39bps YoY, -10bps QoQ), or 0.5% when excluding non-recurring items. Group NPL ratio and delinquency rate climbed 3bps and 6bps, respectively, but remained stable (similar to 1Q23 levels).

Attractive valuation and dividends, but earnings stability needs to improve further

The stock is clearly undervalued, trading at a 12-month forward P/B of 0.24x. However, DGBFG still needs to prove that its earnings growth is sustainable. We believe the recovery of the brokerage business will be key. The brokerage business needs new sources of income, given its high reliance on real estate PF. And while DGBFG plans to focus on trading and traditional investment banking going forward, a rapid recovery seems unlikely given heightened stock market volatility. DGBFG offers the highest dividend yield among bank stocks under our coverage (9.9% for 2023F and 10.5% for 2024F). We expect the stock's dividend appeal to come into focus heading into the end of the year. We lift our target price by 11% to W9,900, applying a P/B of 0.29x (sustainable ROE and COE) to our 2024F BVPS of W34,222.

Table 1. DGBFG: 3Q23 review

	3Q22	4Q22	1Q23	2Q23	3Q23	YoY (%, %p)	QoQ (%, %p)
Net interest income	470.7	490.5	388.1	400.9	429.1	-8.8	7.0
Net fees/commissions	75.4	74.7	67.4	57.4	48.5	-35.7	-15.4
Net other non-interest income	-70.5	-16.5	126.3	112.6	24.3	TTB	-78.4
Total net operating income	475.6	548.7	581.8	570.8	501.9	5.5	-12.1
SG&A expenses	265.5	311.1	242.5	254.1	229.7	-13.5	-9.6
PPOP	210.1	237.6	339.3	316.8	272.2	29.5	-14.1
Provisions	50.4	212.9	110.0	124.8	113.8	125.8	-8.8
OP	159.7	24.7	229.3	191.9	158.3	-0.9	-17.5
Non-operating income	-1.3	-7.0	-4.3	0.8	-2.7	RR	TTR
Pretax profit	158.4	17.7	225.0	192.7	155.6	-1.8	-19.3
NP	108.9	7.2	168.0	141.8	114.9	5.5	-18.9
Total assets	93,986	91,011	91,414	92,289	93,477	-0.5	1.3
Total loans/receivables	59,426	60,179	58,888	59,880	61,955	4.3	3.5
Won-denominated loans (both banks)	49,687	50,517	50,524	51,953	54,114	8.9	4.2
Total credit	58,213	58,957	58,579	59,823	61,905	6.3	3.5
Total deposits	52,756	53,641	52,875	53,957	55,932	6.0	3.7
Total shareholders' equity	6,140	6,211	6,499	6,577	6,567	7.0	-0.1
(%)							
NIM (group-level)	2.17	2.24	2.07	2.01	2.03	-0.15	0.02
Cost-to-income ratio	55.8	56.7	41.7	44.5	45.8	-10.1	1.3
NPL ratio	0.52	0.95	1.03	0.97	1.00	0.48	0.03
NPL coverage ratio	288.8	230.3	228.0	228.0	228.0	-60.8	0.0
ROA (based on avg. value)	0.12	0.01	0.18	0.15	0.12	0.01	-0.03
ROE (based on avg. value)	2.06	0.13	3.04	2.44	1.92	-0.14	-0.52
Credit costs to total credit	0.09	0.36	0.19	0.21	0.18	0.10	-0.02
BIS ratio	13.74	13.93	14.06	14.13	13.80	0.06	-0.33
Tier 1 ratio	12.54	12.59	12.70	12.78	12.48	-0.06	-0.30
CET1 ratio	11.22	11.24	11.46	11.26	11.10	-0.12	-0.16

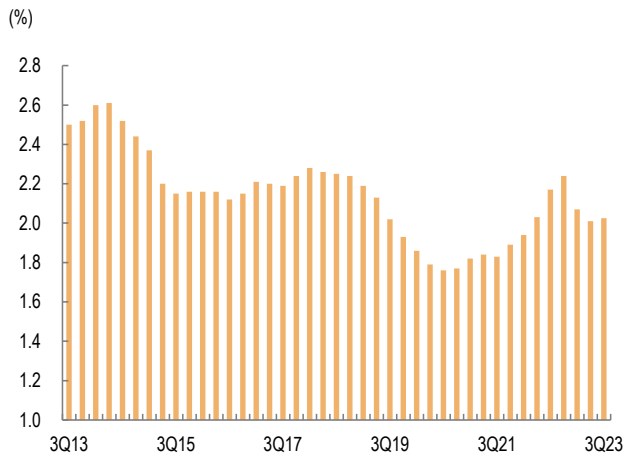
Source: Company data, Mirae Asset Securities Research

Table 2. DGBFG: Earnings forecast revisions

	Revised			Previous			% chg.		
	2023F	2024F	2025F	2023F	2024F	2025F	2023F	2024F	2025F
Net interest income	1,644	1,736	1,774	1,598	1,689	1,775	2.8	2.8	-0.1
Net fees & commissions	260	320	409	297	369	413	-12.5	-13.2	-1.0
Net other non-interest income	298	251	246	314	251	246	-5.0	0.0	0.0
Total net operating income	2,202	2,307	2,429	2,209	2,309	2,434	-0.3	-0.1	-0.2
SG&A expenses	1,067	1,108	1,163	1,116	1,158	1,231	-4.4	-4.3	-5.5
PPOP	1,135	1,199	1,265	1,093	1,150	1,203	3.8	4.2	5.2
Provisions	469	461	472	428	422	438	9.5	9.2	7.7
OP	666	738	793	665	728	765	0.1	1.3	3.7
Non-operating income	-9	-2	0	-5	-2	0	RR	RR	-
Pretax profit	657	736	793	660	726	765	-0.4	1.3	3.7
NP (owners of the parent)	483	508	547	477	501	528	1.2	1.3	3.7

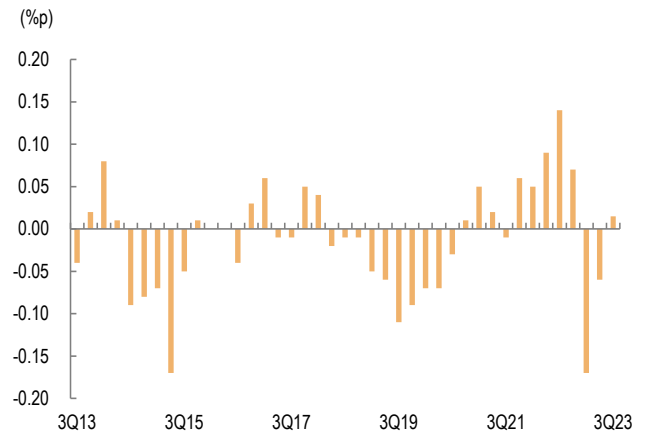
Source: Company data, Mirae Asset Securities Research

Figure 1. DGBFG: Bank NIM trend



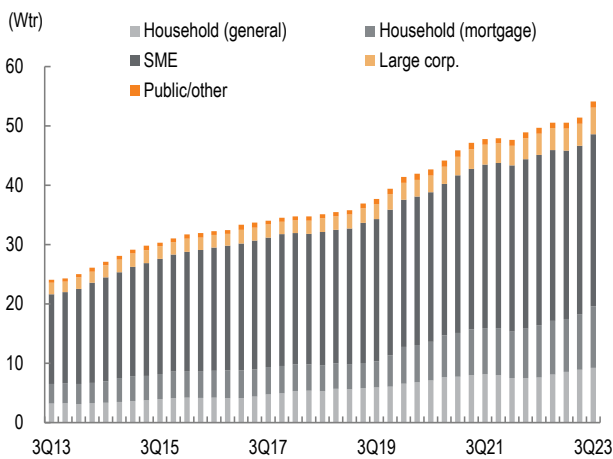
Source: Company data, Mirae Asset Securities Research

Figure 2. DGBFG: QoQ chg. in bank NIM



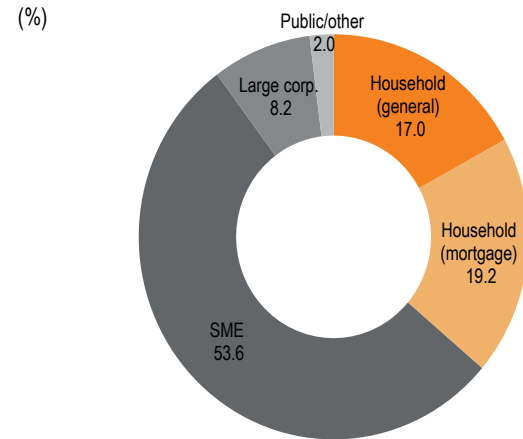
Source: Company data, Mirae Asset Securities Research

Figure 3. DGBFG: Won-denominated bank loan trends



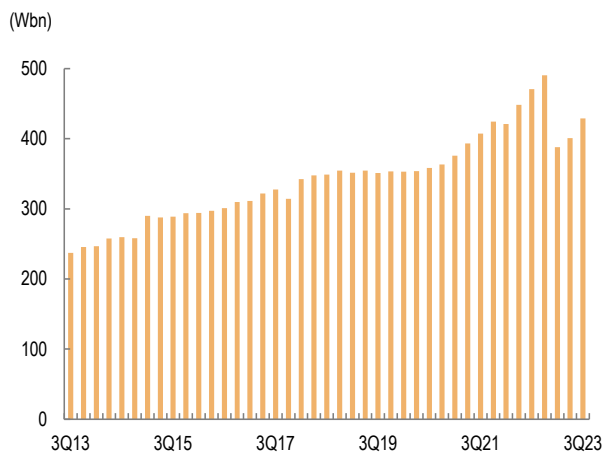
Source: Company data, Mirae Asset Securities Research

Figure 4. DGBFG: Won-denominated bank loan mix



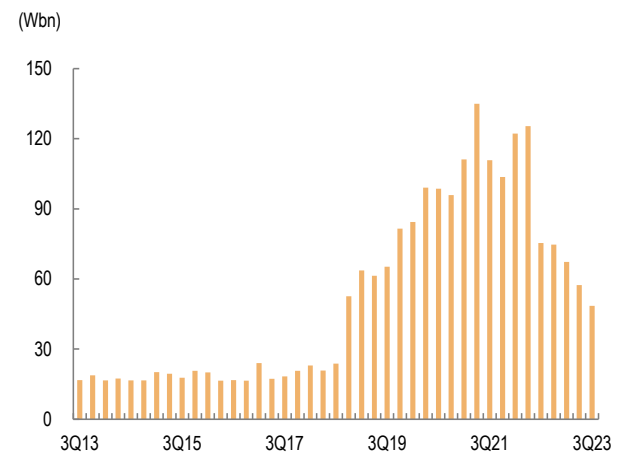
Source: Company data, Mirae Asset Securities Research

Figure 5. DGBFG: Net interest income trend



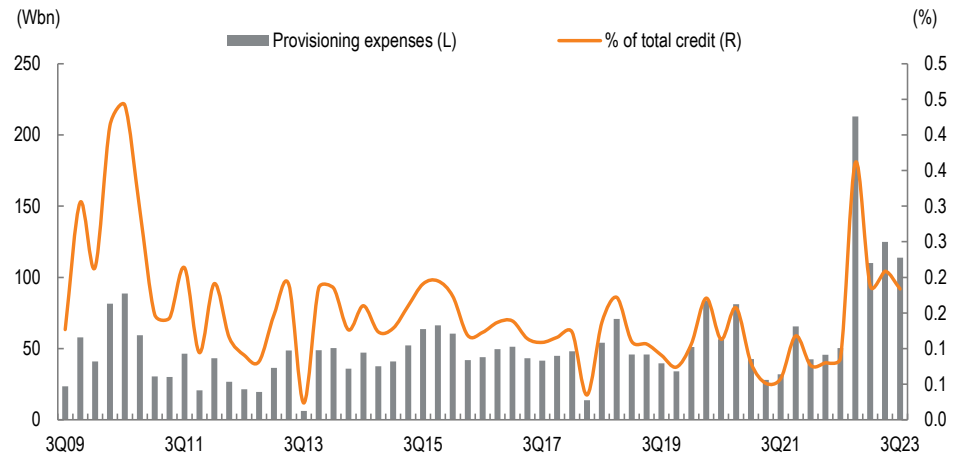
Source: Company data, Mirae Asset Securities Research

Figure 6. DGBFG: Net fee/commission income trend



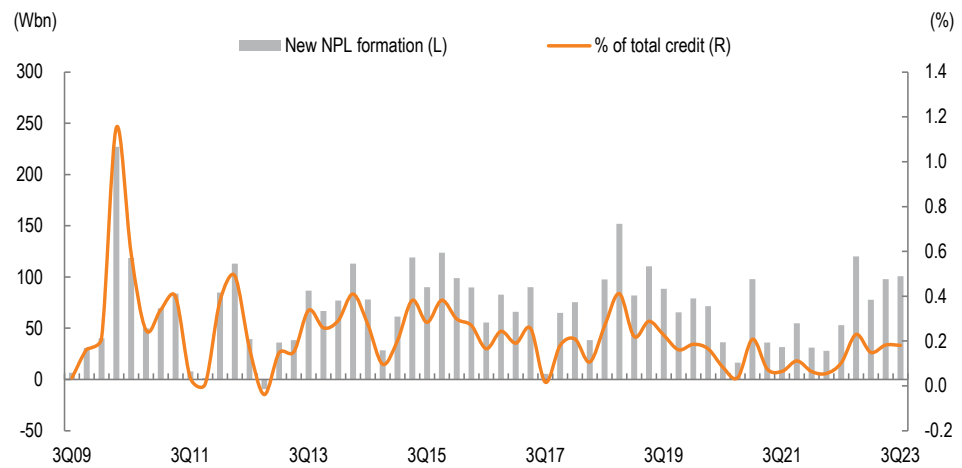
Source: Company data, Mirae Asset Securities Research

Figure 7. DGBFG: Group-level provisioning expenses and credit cost ratio



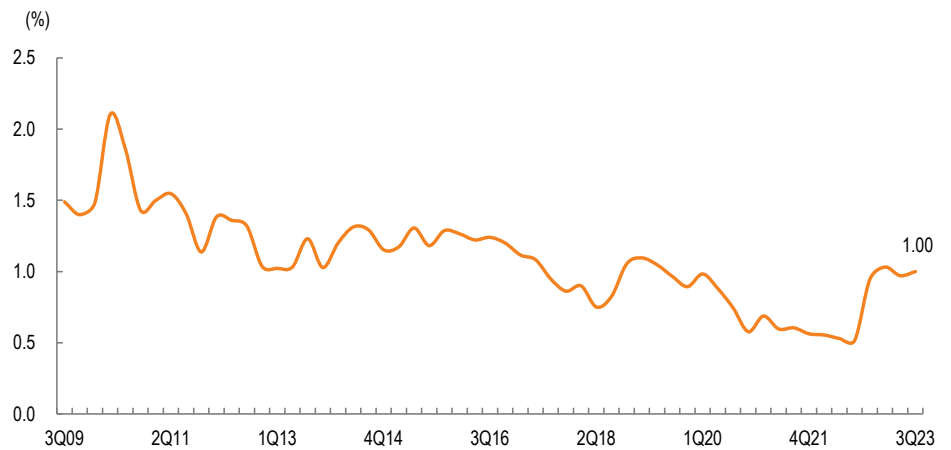
Note: Quarterly credit cost ratio is non-annualized.
 Source: Company data, Mirae Asset Securities Research

Figure 8. DGBFG: Group-level new NPL formation



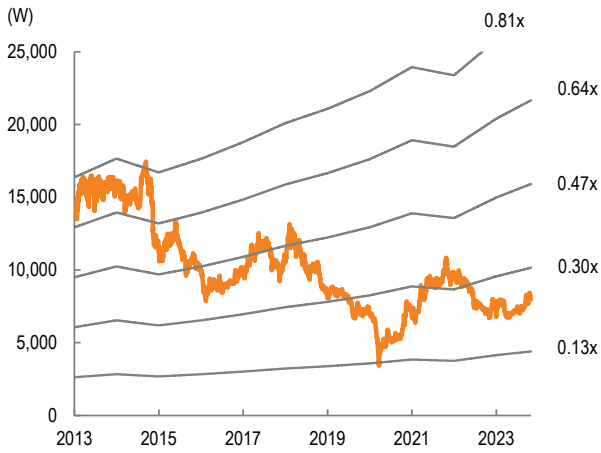
Source: Company data, Mirae Asset Securities Research

Figure 9. DGBFG: Group-level NPL ratio



Source: Company data, Mirae Asset Securities Research

Figure 10. DGBFG: 12-month forward P/B band chart



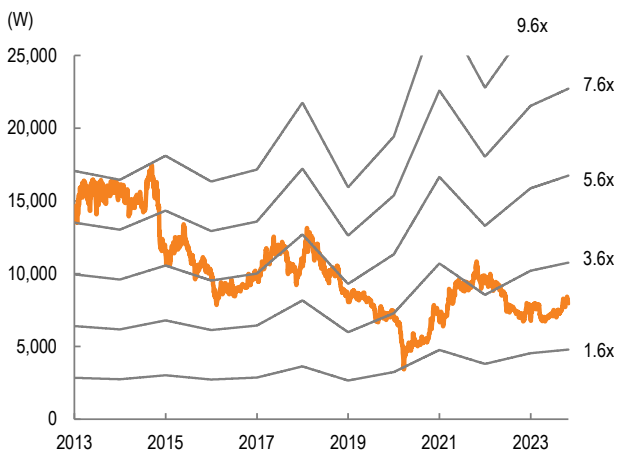
Source: Company data, Mirae Asset Securities Research

Figure 11. DGBFG: 12-month forward P/B chart (± 2 SD)



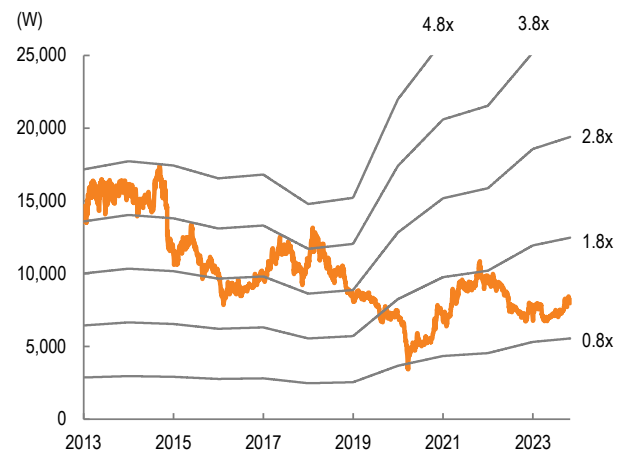
Source: Company data, Mirae Asset Securities Research

Figure 12. DGBFG: 12-month forward P/E band chart



Source: Company data, Mirae Asset Securities Research

Figure 13. DGBFG: 12-month forward P/POP band chart



Source: Company data, Mirae Asset Securities Research

DGB Financial Group (139130 KS)

Income statement (summarized)

(Wbn)	2022	2023F	2024F	2025F
Interest income	2,904	4,010	4,214	4,377
Interest expenses	1,074	2,367	2,478	2,604
Net interest income	1,830	1,644	1,736	1,774
Net fees & commissions	398	260	320	409
Net other non-interest income	-167	298	251	246
Total net operating income	2,061	2,202	2,307	2,429
G&A expenses	1,102	1,067	1,108	1,163
PPOP	959	1,135	1,199	1,265
Total provisioning expenses	352	469	461	472
OP	607	666	738	793
Net non-operating income	-10	-9	-2	0
Pretax profit	598	657	736	793
Income tax	161	145	184	198
NP	436	512	552	595
NP attributable to owners	402	483	508	547
Normalized NP	402	483	518	547
Core income	2,228	1,904	2,056	2,183
Core PPOP	1,126	837	948	1,019

DuPont analysis (%)	2022	2023F	2024F	2025F
Interest income	3.28	4.33	4.35	4.26
Interest expenses	1.21	2.56	2.56	2.54
Net interest income	2.07	1.78	1.79	1.73
Net commission income	0.45	0.28	0.33	0.40
Net other non-interest income	-0.19	0.32	0.26	0.24
Total net operating income	2.33	2.38	2.38	2.37
G&A expenses	1.25	1.15	1.14	1.13
PPOP	1.08	1.23	1.24	1.23
Total provisioning expenses	0.40	0.51	0.48	0.46
Net non-operating income	-0.01	-0.01	0.00	0.00
Pretax profit	0.68	0.71	0.76	0.77
Income tax	0.18	0.16	0.19	0.19
NP attributable to minority interests	0.04	0.03	0.05	0.05
ROA	0.45	0.52	0.53	0.53
Leverage (x)	17.9	18.1	17.4	17.1
ROE	8.13	9.41	9.10	9.09
Asset quality (%)	2022	2023F	2024F	2025F
NPL ratio	0.95	0.98	0.99	1.03
Broad NPL ratio	1.90	2.20	2.20	2.24
NPL coverage ratio	230.3	235.1	239.9	244.7
Reserves/total credit	2.2	2.3	2.4	2.5
Credit costs/total loans	0.58	0.76	0.71	0.69
Credit costs/total credit	0.60	0.75	0.70	0.68
Per-share items (W)	2022	2023F	2024F	2025F
EPS (reported)	2,374	2,853	3,001	3,235
EPS (normalized)	2,374	2,853	3,060	3,235
BPS	28,867	31,738	34,222	36,934
DPS (common)	650	790	840	920
PPOP/share	5,668	6,711	7,088	7,480

Source: Company data, Mirae Asset Securities Research estimates

Balance sheet (summarized)

(Wbn)	2022	2023F	2024F	2025F
Cash & dues	3,973	4,632	4,734	4,839
Securities	22,564	23,255	24,887	26,696
Net loans & receivables	60,179	62,072	65,208	68,538
Tangible assets	996	976	985	995
Other assets	3,299	3,158	3,839	4,666
Total assets	91,011	94,093	99,653	105,734
Deposits	53,641	56,213	59,195	62,336
Borrowings	13,250	13,302	13,748	14,214
Debentures	7,489	7,514	7,790	8,078
Other liabilities	10,919	11,164	12,599	14,327
Total liabilities	85,298	88,193	93,333	98,955
Capital stock	846	846	846	846
Hybrid securities	498	614	614	614
Capital surplus	1,563	1,563	1,563	1,563
Retained earnings	3,023	3,279	3,699	4,157
Capital adj.	0	-21	-21	-21
Other comprehensive income	-548	-298	-298	-298
Minority interests	830	532	532	532
Total shareholders' equity	5,712	5,900	6,320	6,779

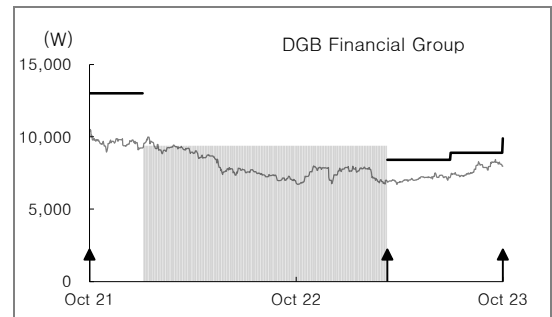
Key ratios/growth metrics (%)	2022	2023F	2024F	2025F
Growth (YoY)				
Won-denominated loan growth (bank)	5.4	7.7	5.7	5.7
Net loan & receivables growth	7.1	3.1	5.1	5.1
Deposit growth	5.3	4.8	5.3	5.3
Shareholders' equity growth	-2.0	3.3	7.1	7.3
Total asset growth	5.9	3.4	5.9	6.1
Net interest income growth	14.3	-10.2	5.6	2.2
Net commission income growth	-13.7	-34.6	23.1	27.7
PPOP growth	4.6	18.4	5.6	5.5
OP growth	-18.9	9.7	10.7	7.5
NP growth	-20.2	20.2	5.2	7.8
Profitability				
NIS (bank)	2.48	2.44	2.43	2.43
NIM (bank)	2.10	2.05	2.04	2.04
PPOP margin	1.1	1.2	1.2	1.2
ROA	0.5	0.5	0.5	0.5
ROE	8.1	9.4	9.1	9.1
Liquidity				
Won-denominated LDR ex-CDs (bank)	94.3	95.8	95.8	95.8
Loan/assets	66.1	66.0	65.4	64.8
Capital adequacy				
Total CAR	13.9	13.6	13.7	13.6
Tier 1 CAR	12.6	12.3	12.4	12.3
Tier 2 CAR	1.3	1.3	1.4	1.4
Operating efficiency				
Cost-to-income ratio	53.5	48.4	48.0	47.9
Cost-to-asset ratio	1.2	1.1	1.1	1.1
Dividends				
Dividend payout ratio	27.4	27.7	28.0	28.4

Appendix 1

Important disclosures and disclaimers

Two-year rating and TP history

Company	Date	Rating	TP (₩)
DGB Financial Group (139130)	10/31/23	Buy	9,900
	07/31/23	Buy	8,900
	04/10/23	Buy	8,400
	02/03/22	No Coverage	
	10/19/21	Buy	13,000



Stock ratings

Buy	Expected 12-month performance: +20% or greater
Trading Buy	Expected 12-month performance: +10% to +20%
Hold	Expected 12-month performance: -10% to +10%
Sell	Expected 12-month performance: -10% or worse

Sector ratings

Overweight	Expected to outperform the market over 12 months
Neutral	Expected to perform in line with the market over 12 months
Underweight	Expected to underperform the market over 12 months

Rating and TP history: Share price (—), TP (—), Not Rated (■), Buy (▲), Trading Buy (■), Hold (●), Sell (◆)

* Our investment rating is a guide to the expected return of the stock over the next 12 months.

* Outside of the official ratings of Mirae Asset Securities Co., Ltd., analysts may call trading opportunities should technical or short-term material developments arise.

* The TP was determined by the research analyst through valuation methods discussed in this report, in part based on estimates of future earnings.

* TP achievement may be impeded by risks related to the subject securities and companies, as well as general market and economic conditions.

Ratings distribution and investment banking services

	Buy	Trading Buy	Hold	Sell
Ratings distribution	88.81%	7.24%	3.29%	0.66%
Investment banking services	95.65%	4.35%	0%	0%

* Based on recommendations in the last 12-months (as of September 30, 2023)

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