

Mirae Asset Securities Co., Ltd.

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138930 KS · Banks

BNK Financial Group

Still too early to tell if earnings have bottomed

(Maintain)

Buy

Target price

W8,300

Upside

22.4%

Current price (10/31/23)

W6,780

KOSPI	2,277.99	Market cap (Wbn)	2,184	Shares outstanding (mn)	322	Foreign ownership (%)	34.5
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Report summary

3Q23 review

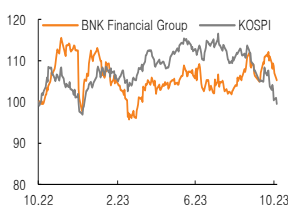
For 3Q23, BNK Financial Group (BNKFG) reported net profit of W203.4bn (-17% YoY, +4% QoQ), missing the consensus by 4%. Despite a sharp fall in net interest margin (NIM), net interest income held up well, supported by loan growth at banks. On the other hand, other non-interest income (swung to negative territory) and preemptive provisioning weighed on earnings. Meanwhile, CET1 ratio improved 11bps QoQ to 11.5% thanks to profit growth and effective risk-weighted asset (RWA) management.

Earnings recovery and stability are key

We do not expect earnings to deteriorate sharply going forward. That said, it is still too early to tell if earnings have bottomed, as real estate project financing (PF) risks remain amid ongoing uncertainties at home and abroad. While we still need to see an earnings recovery and enhanced earnings stability, we find it positive that the group is strengthening its shareholder return policy. We believe BNKFG has strong dividend appeal, with 2023-24 yields estimated at 9.4% and 10.3%, respectively. We maintain our Buy recommendation with a target price of W8,300.

Key data

Price performance



(%)	1M	6M	12M
Absolute	-1.0	2.1	5.8
Relative	7.1	12.1	6.5

Earnings and valuation metrics

(Dec.)	2021	2022	2023F	2024F	2025F
Net interest income (Wbn)	2,572	2,924	2,886	3,038	3,173
Net non-interest income (Wbn)	533	307	310	341	353
OP (Wbn)	1,092	1,159	999	1,049	1,119
NP (Wbn)	791	822	742	736	791
EPS (W)	2,427	2,375	2,338	2,525	2,673
EPS growth (%)	52.3	-2.1	-1.6	8.0	5.9
P/E (x)	2.8	2.9	2.9	2.7	2.5
P/PPOP (x)	1.4	1.3	1.3	1.3	1.2
P/B (x)	0.24	0.22	0.21	0.20	0.19
ROE (%)	8.8	8.1	7.6	7.7	7.6
Dividend yield (%)	8.3	9.2	9.4	10.3	11.1

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 W204.3bn (-17% YoY, +4% QoQ), 4% below consensus

1) Despite the sharp decline in NIM, net interest income held up well at W717.4bn (-4% YoY, flat QoQ), supported by loan growth at banks. Group NIM declined 6bps QoQ. At the bank level, NIM fell 4bps to 1.86% for BNK Busan Bank and slipped 9bps to 1.78% for BNK Kyongnam Bank, hurt by rising funding costs. On its earnings call, BNKFG said it expects NIM to improve in 4Q23, aided by the repricing of high-interest-rate deposits. Won-denominated loans grew 2.4% QoQ at BNK Busan Bank and 3.4% QoQ at BNK Kyongnam Bank. Corporate loans increased mostly in the non-manufacturing segment, while household loans grew mostly in the group-loan (mortgage lending) segment.

2) Non-interest income came in at W55.4bn (+26% YoY, -34% QoQ). We attribute the marked QoQ decline to a swing to loss in other non-interest income (-W12.8bn) caused by securities- and FX-related losses.

3) BNKFG set aside provisioning of W162.7bn (+105% YoY, -1% QoQ). While preemptive provisioning narrowed QoQ to W36.7bn, overall provisions remained flat QoQ due to increased recurring provisions caused by NPL growth. Group-level NPL ratio and delinquency ratio rose 1bp QoQ and 5bps QoQ, respectively. While credit cost ratio came in at 0.58% (annualized; +28bps YoY, -2bps QoQ), we estimate recurring credit cost ratio at 0.45%.

Earnings recovery and stability are key

In 3Q23, net income missed the consensus but improved 4% QoQ. Core income remained flat QoQ. Asset quality will likely continue to weaken, but the pace of weakening should moderate. We do not expect earnings to deteriorate sharply going forward. That said, it is still too early to tell if earnings have bottomed, as real estate PF risks remain amid ongoing uncertainties at home and abroad.

While we still need to see an earnings recovery and enhanced earnings stability, we find it positive that the group is strengthening its shareholder return policy. The group cancelled all of its previously repurchased shares, making it the first regional financial holding company to do so. It also paid out interim dividends and streamlined the dividend process to improve visibility (i.e., providing investors with more information about dividend payouts and timelines). We believe BNKFG has strong dividend appeal, with 2023-24 yields estimated at 9.4% and 10.3%, respectively. We maintain our Buy recommendation on the stock with a target price of W8,300.

Table 1. BNKFG: 3Q23 review

	(Wbn)						
	3Q22	4Q22	1Q23	2Q23	3Q23	YoY (%, %p)	QoQ (%, %p)
Net interest income	747.0	772.5	731.4	717.7	717.4	-4.0	0.0
Net fees/commissions	72.6	50.2	67.6	67.2	68.2	-6.0	1.6
Net other non-interest income	-28.4	-12.9	40.6	16.7	-12.9	RR	TTR
Total net operating income	791.2	809.8	839.6	801.6	772.8	-2.3	-3.6
SG&A expenses	345.8	448.0	392.9	357.1	342.6	-0.9	-4.1
PPOP	445.4	361.8	446.7	444.5	430.2	-3.4	-3.2
Provisions	79.5	271.4	124.9	164.9	162.7	104.7	-1.3
OP	365.9	90.4	321.8	279.6	267.5	-26.9	-4.3
Non-operating income	-11.7	-9.8	26.7	-9.9	15.8	TTB	TTB
Pretax profit	354.2	80.6	348.5	269.7	283.3	-20.0	5.1
NP	245.1	46.5	256.8	195.9	204.3	-16.6	4.3
Total assets	136,822	136,930	141,470	143,226	148,700	8.7	3.8
Total loans/receivables	106,939	106,327	109,914	110,557	114,374	7.0	3.5
Won-denominated loans (both banks)	90,821	92,221	93,529	95,516	98,179	8.1	2.8
Total credit	105,844	106,603	107,473	109,735	112,545	6.3	2.6
Total deposits	98,022	101,470	101,198	104,121	107,432	9.6	3.2
Total shareholders' equity	10,776	10,832	10,609	10,500	10,822	0.4	3.1
(%)							
NIM (group-level)	2.11	2.22	2.10	1.90	1.86	-0.25	-0.04
Cost-to-income ratio	43.7	55.3	46.8	44.6	44.3	0.6	-0.2
NPL ratio	0.42	0.45	0.52	0.57	0.58	0.16	0.01
NPL coverage ratio	318.5	311.7	269.8	246.7	243.5	-75.0	-3.2
ROA (based on avg. value)	0.72	0.14	0.74	0.55	0.56	-0.16	0.01
ROE (based on avg. value)	10.11	1.89	10.51	8.03	8.16	-1.95	0.13
Credit costs to total credit	0.08	0.25	0.12	0.15	0.14	0.07	-0.01
BIS ratio	13.87	13.60	13.54	13.32	13.54	-0.33	0.22
Tier 1 ratio	13.04	12.76	12.74	12.53	12.82	-0.22	0.29
CET1 ratio	11.45	11.16	11.50	11.44	11.55	0.10	0.11

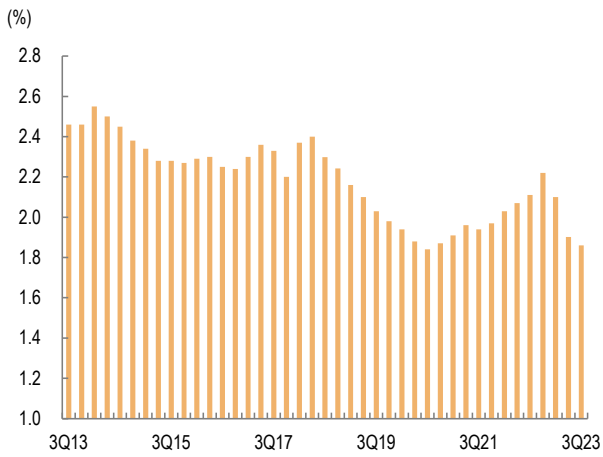
Source: Company data, Mirae Asset Securities Research

Table 2. BNKFG: Earnings forecast revisions

	(Wbn)								
	Revised			Previous			% chg.		
	2023F	2024F	2025F	2023F	2024F	2025F	2023F	2024F	2025F
Net interest income	2,886	3,038	3,173	2,921	3,078	3,193	-1.2	-1.3	-0.6
Net fees/commissions	266	341	353	341	446	507	-22.1	-23.6	-30.3
Net other non-interest income	44	0	0	57	0	0	-22.5	N/A	N/A
Total net operating income	3,196	3,379	3,526	3,320	3,524	3,700	-3.7	-4.1	-4.7
SG&A expenses	1,571	1,646	1,699	1,598	1,674	1,727	-1.7	-1.7	-1.6
PPOP	1,625	1,733	1,827	1,722	1,849	1,973	-5.6	-6.3	-7.4
Provisions	626	684	709	634	663	697	-1.2	3.1	1.6
OP	999	1,049	1,119	1,088	1,186	1,276	-8.2	-11.5	-12.3
Non-operating income	33	0	0	27	0	0	20.9	N/A	N/A
Pretax profit	1,032	1,049	1,119	1,115	1,186	1,276	-7.5	-11.5	-12.3
NP (owners of the parent)	760	812	853	800	843	888	-4.9	-3.7	-3.9

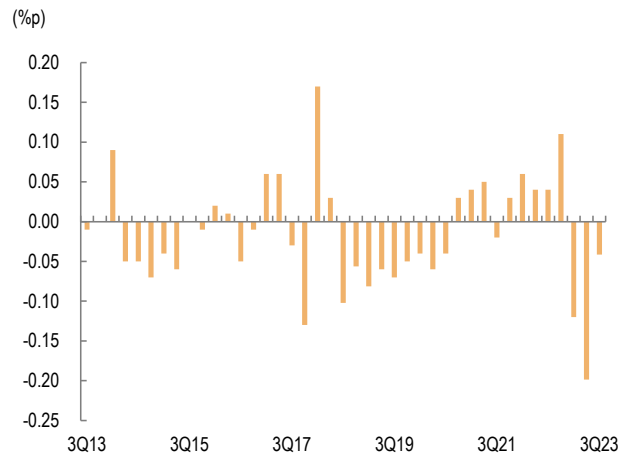
Source: Company data, Mirae Asset Securities Research

Figure 1. BNKFG: BNK Busan Bank's NIM trend



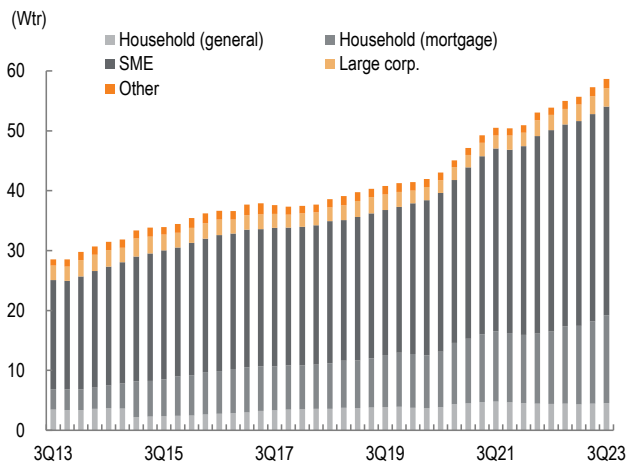
Source: Company data, Mirae Asset Securities Research

Figure 2. BNKFG: QoQ chg. in BNK Busan Bank's NIM



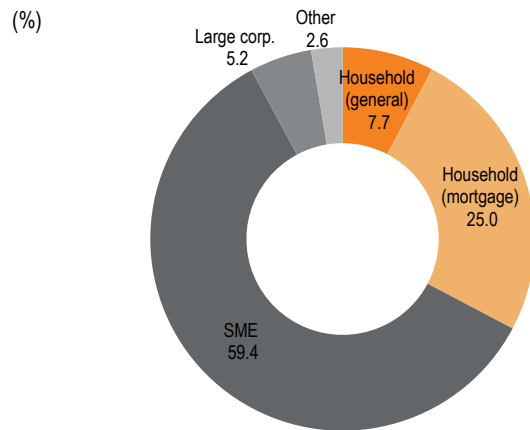
Source: Company data, Mirae Asset Securities Research

Figure 3. BNKFG: BNK Busan Bank's won-denominated loan trends



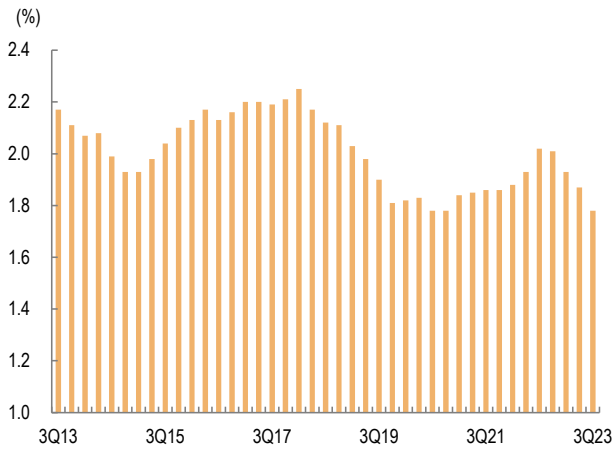
Source: Company data, Mirae Asset Securities Research

Figure 4. BNKFG: BNK Busan Bank's won-denominated bank loan mix



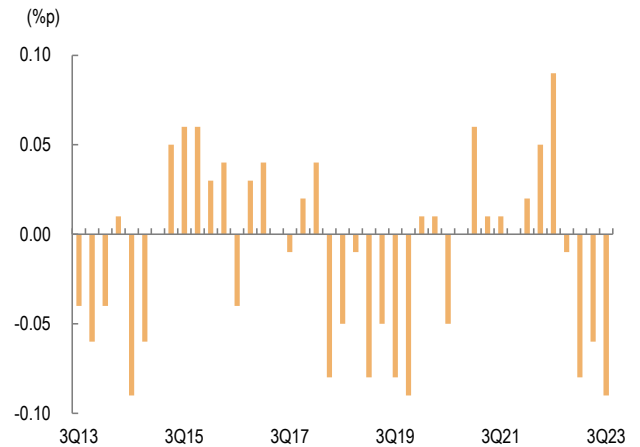
Source: Company data, Mirae Asset Securities Research

Figure 5. BNKFG: BNK Kyongnam Bank's NIM trend



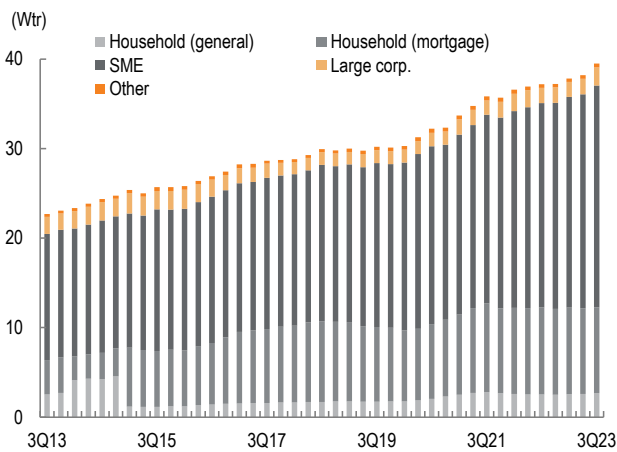
Source: Company data, Mirae Asset Securities Research

Figure 6. BNKFG: QoQ chg. in BNK Kyongnam Bank's NIM



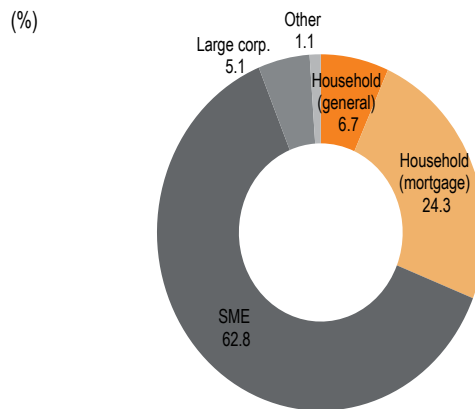
Source: Company data, Mirae Asset Securities Research

Figure 7. BNKFG: BNK Kyongnam Bank's won-denominated loan trends



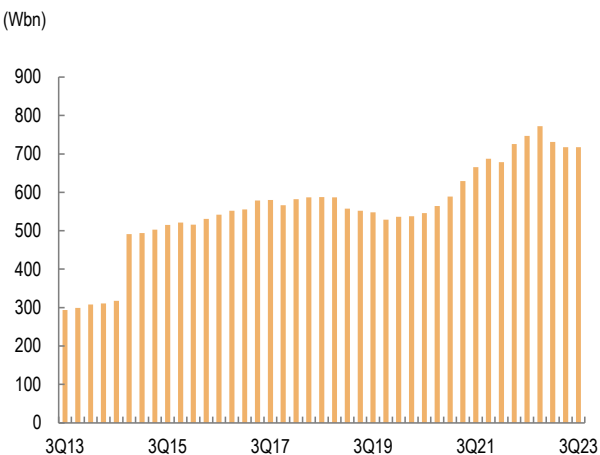
Source: Company data, Mirae Asset Securities Research

Figure 8. BNKFG: BNK Kyongnam Bank's won-denominated loan mix



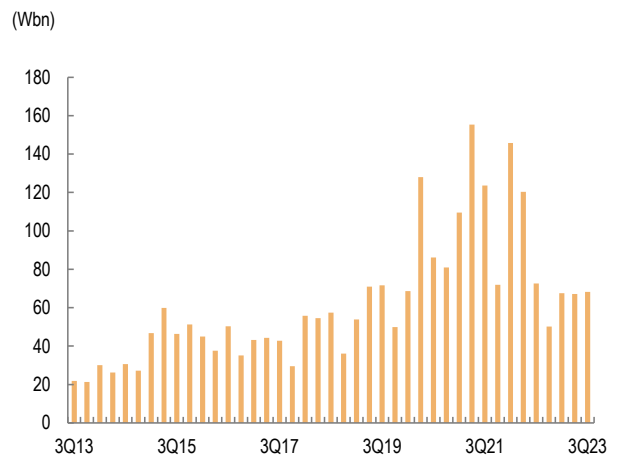
Source: Company data, Mirae Asset Securities Research

Figure 9. BNKFG: Group-level net interest income trend



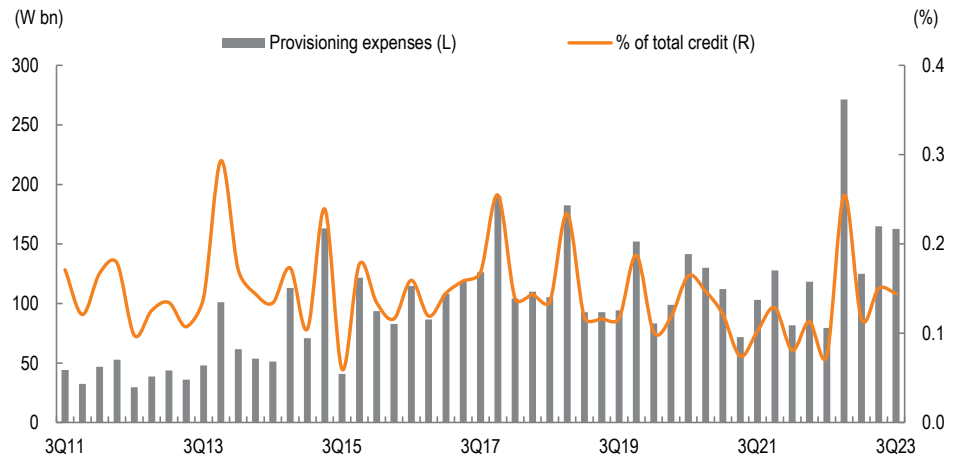
Source: Company data, Mirae Asset Securities Research

Figure 10. BNKFG: Group-level net fee/commission income trend



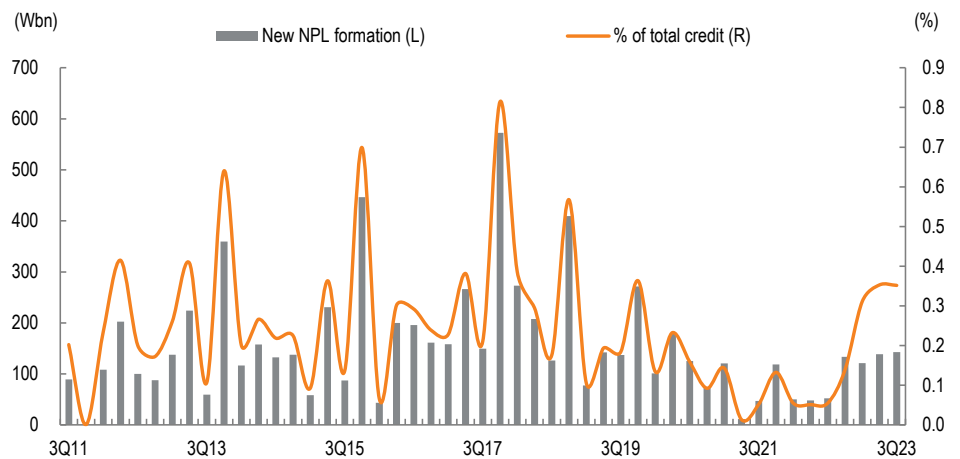
Source: Company data, Mirae Asset Securities Research

Figure 11. BNKFG: Group-level provisioning expenses and credit cost ratio



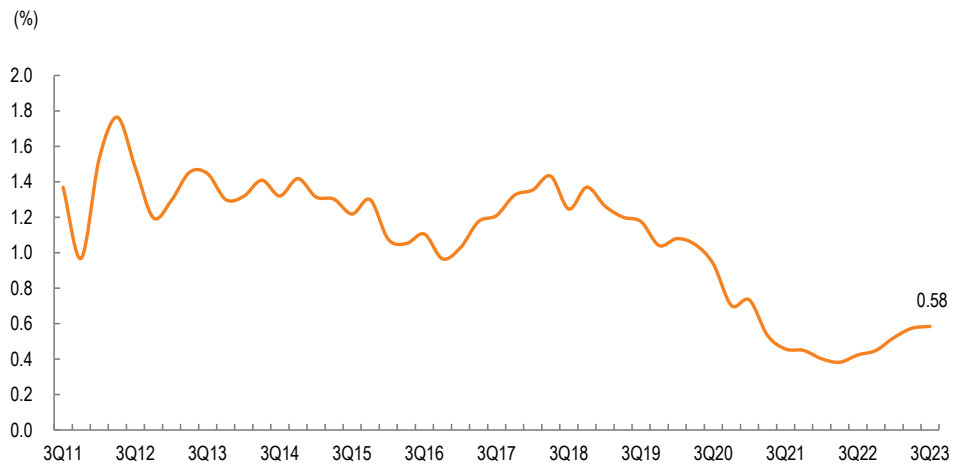
Note: Quarterly credit cost ratio is non-annualized.
 Source: Company data, Mirae Asset Securities Research

Figure 12. BNKFG: Group-level new NPL formation



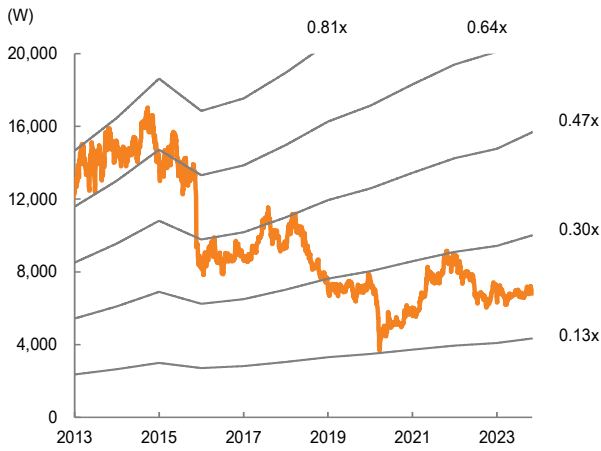
Source: Company data, Mirae Asset Securities Research

Figure 13. BNKFG: Group-level NPL ratio



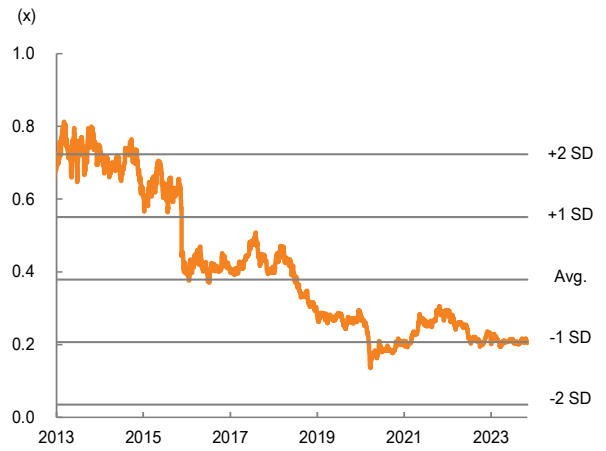
Source: Company data, Mirae Asset Securities Research

Figure 14. BNKFG: 12-month forward P/B band chart



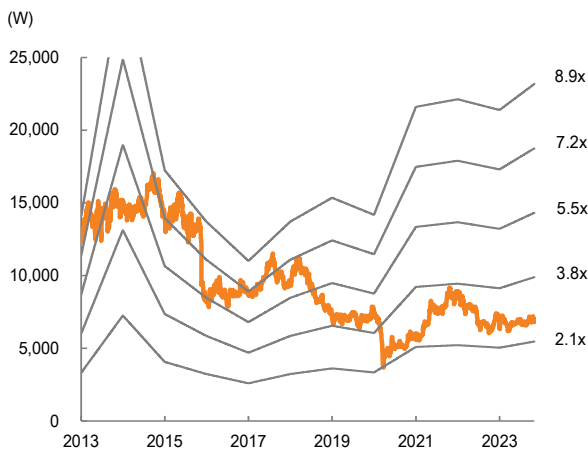
Source: Company data, Mirae Asset Securities Research

Figure 15. BNKFG: 12-month forward P/B chart (± 2 SD)



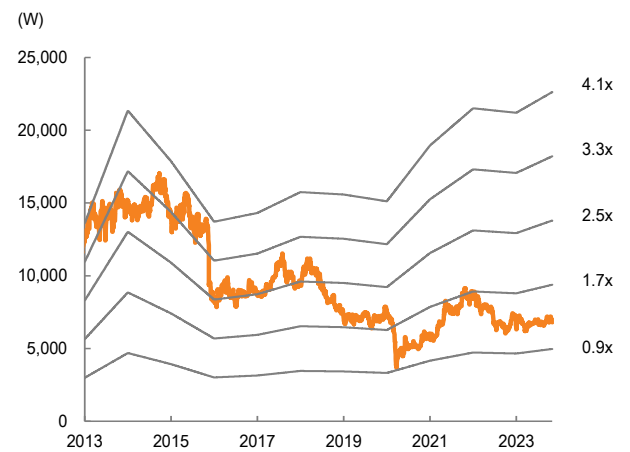
Source: Company data, Mirae Asset Securities Research

Figure 16. BNKFG: 12-month forward P/E band chart



Source: Company data, Mirae Asset Securities Research

Figure 17. BNKFG: 12-month forward P/POP band chart



Source: Company data, Mirae Asset Securities Research

BNK Financial Group (138930 KS)

Income statement (summarized)

(Wbn)	2022	2023F	2024F	2025F
Interest income	4,782	6,610	7,050	7,383
Interest expenses	1,858	3,724	4,012	4,210
Net interest income	2,924	2,886	3,038	3,173
Net fees & commissions	389	266	341	353
Net other non-interest income	-82	44	0	0
Total net operating income	3,231	3,196	3,379	3,526
G&A expenses	1,521	1,571	1,646	1,699
PPOP	1,710	1,625	1,733	1,827
Total provisioning expenses	551	626	684	709
OP	1,159	999	1,049	1,119
Net non-operating income	0	33	0	0
Pretax profit	1,159	1,032	1,049	1,119
Income tax	288	251	281	295
NP	870	781	768	823
NP attributable to owners	822	742	736	791
Normalized NP	774	760	812	853
Core income	3,313	3,152	3,379	3,526
Core PPOP	1,792	1,581	1,733	1,827

DuPont analysis (%)	2022	2023F	2024F	2025F
Interest income	3.61	4.64	4.63	4.60
Interest expenses	1.40	2.62	2.63	2.62
Net interest income	2.21	2.03	1.99	1.97
Net commission income	0.29	0.19	0.22	0.22
Net other non-interest income	-0.06	0.03	0.00	0.00
Total net operating income	2.44	2.25	2.22	2.19
G&A expenses	1.15	1.10	1.08	1.06
PPOP	1.29	1.14	1.14	1.14
Total provisioning expenses	0.42	0.44	0.45	0.44
Net non-operating income	0.00	0.02	0.00	0.00
Pretax profit	0.87	0.73	0.69	0.70
Income tax	0.22	0.18	0.19	0.18
NP attributable to minority interests	0.04	0.03	0.02	0.02
ROA	0.58	0.53	0.53	0.53
Leverage (x)	13.8	14.2	14.5	14.4
ROE	8.06	7.58	7.73	7.65
Asset quality (%)	2022	2023F	2024F	2025F
NPL ratio	0.45	0.56	0.56	0.57
Broad NPL ratio	1.28	1.85	1.68	1.62
NPL coverage ratio	311.7	248.2	255.3	262.4
Reserves/total credit	1.4	1.4	1.4	1.5
Credit costs/total loans	0.60	0.63	0.65	0.64
Credit costs/total credit	0.52	0.55	0.57	0.56
Per-share items (W)	2022	2023F	2024F	2025F
EPS (reported)	2,375	2,338	2,525	2,673
EPS (normalized)	2,375	2,338	2,525	2,673
BPS	30,327	31,630	33,827	36,142
DPS (common)	625	640	700	750
PPOP/share	5,247	4,998	5,389	5,724

Source: Company data, Mirae Asset Securities Research estimates

Balance sheet (summarized)

(Wbn)	2022	2023F	2024F	2025F
Cash & dues	6,213	4,628	5,067	5,167
Securities	20,558	25,811	27,632	28,233
Net loans & receivables	106,327	115,035	121,892	128,481
Tangible assets	1,211	1,258	1,299	1,342
Other assets	2,621	1,110	1,130	1,136
Total assets	136,930	147,841	157,021	164,358
Deposits	101,470	108,534	113,714	118,456
Borrowings	7,983	9,023	9,672	10,081
Debentures	12,145	12,363	13,186	13,776
Other liabilities	4,500	7,086	8,977	9,906
Total liabilities	126,098	137,005	145,549	152,218
Capital stock	1,630	1,630	1,630	1,630
Hybrid securities	827	728	728	728
Capital surplus	779	785	785	785
Retained earnings	6,809	7,166	7,802	8,470
Capital adj.	0	0	0	0
Other comprehensive income	-160	-121	-121	-121
Minority interests	948	648	648	648
Total shareholders' equity	10,832	10,836	11,471	12,140

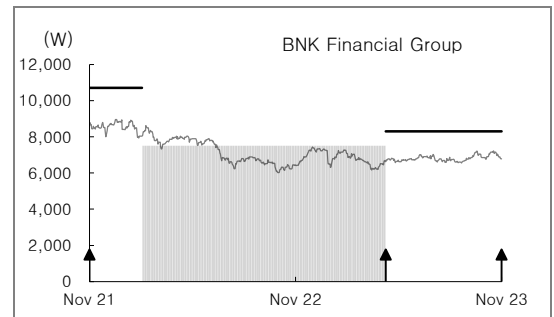
Key ratios/growth metrics (%)	2022	2023F	2024F	2025F
Growth (YoY)				
Won-denominated loan growth (bank)	6.9	7.5	5.9	5.3
Net loan & receivables growth	7.7	8.2	6.0	5.4
Deposit growth	8.8	7.0	4.8	4.2
Shareholders' equity growth	6.0	0.0	5.9	5.8
Total asset growth	6.7	8.0	6.2	4.7
Net interest income growth	13.7	-1.3	5.3	4.4
Net commission income growth	-15.5	-31.6	28.2	3.7
PPOP growth	13.5	-5.0	6.6	5.4
OP growth	6.1	-13.8	5.0	6.6
NP growth	-2.1	-1.8	6.8	5.1
Profitability				
NIS (bank)	2.38	2.24	2.16	2.14
NIM (bank)	2.11	1.93	1.87	1.85
PPOP margin	1.3	1.1	1.1	1.1
ROA	0.6	0.5	0.5	0.5
ROE	8.1	7.6	7.7	7.6
Liquidity				
Won-denominated LDR ex-CDs (bank)	96.3	97.6	97.6	97.6
Loan/assets	77.7	77.8	77.6	78.2
Capital adequacy				
Total CAR	13.6	14.6	14.6	14.7
Tier 1 CAR	12.8	13.8	13.8	14.0
Tier 2 CAR	0.8	0.8	0.7	0.7
Operating efficiency				
Cost-to-income ratio	47.1	49.2	48.7	48.2
Cost-to-asset ratio	1.1	1.1	1.0	1.0
Dividends				
Dividend payout ratio	26.2	27.1	27.6	27.9

Appendix 1

Important disclosures and disclaimers

Two-year rating and TP history

Company	Date	Rating	TP (W)
BNK Financial Group (138930)	04/10/23	Buy	8,300
	02/03/22	No Coverage	
	10/19/21	Buy	10,700



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)

Disclosures

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