

Mirae Asset Securities Co., Ltd.

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071050 KS • Securities

Korea Investment Holdings

3Q23 results better than feared

(Maintain)

Buy

Target price

W74,000

Upside

29.6%

Current price (11/9/23)

W57,100

KOSPI	2,427.08	Market cap (Wbn)	3,182	Shares outstanding (mn)	56	Foreign ownership (%)	39.9
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Report summary

3Q23 review

For 3Q23, Korea Investment Holdings (KIH) reported net profit of W212.2bn (+28% YoY, -4% QoQ), beating the consensus by 10%. The better-than-expected results were mainly driven by QoQ declines in provisions and valuation losses related to domestic/overseas real estate (W60bn vs. over W150bn in 2Q23). Brokerage interest income and investment banking (IB) income (+8% and +2%, respectively) also contributed to the solid results.

Recovery to take some time, but current share price offers bottom-fishing opportunity for long-term investors

While a conservative approach is warranted in the near term, we believe the current share price offers a bottom-fishing opportunity for long-term investors. Once the real estate market turns around, we believe KIH will see the strongest earnings and share price recovery among peers. Due to the firm's heavy reliance on real estate-related businesses, the stock is now trading at the lowest valuation (12-month forward P/B of 0.38x and P/E of 3.6x) among securities stocks under our coverage. That said, we believe the stock is undervalued in light of the company's: 1) robust profitability (ROE: 11.3% for 2023F and 10.7% for 2024F); and 2) stable equity capital position (raising expectations for business portfolio diversification and capital efficiency growth).

Key data

Price performance



(%)	1M	6M	12M
Absolute	10.0	2.7	6.1
Relative	9.2	6.2	6.0

Earnings and valuation metrics

(Dec.)	2021	2022	2023F	2024F	2025F
Net operating revenue (Wbn)	2,726	1,753	2,146	2,395	2,472
OP (Wbn)	1,521	546	969	1,155	1,195
NP (Wbn)	1,764	637	907	927	957
EPS (W)	30,214	10,906	15,529	15,872	16,379
BPS (W)	126,175	131,055	143,569	151,532	160,066
P/E (x)	2.7	4.9	3.6	3.5	3.4
P/B (x)	0.6	0.4	0.4	0.4	0.3
ROE (%)	27.1	8.4	11.3	10.7	10.5
Dividend yield (%)	7.6	4.3	5.7	6.3	6.6
Shareholders' equity (Wbn)	7,398	7,679	8,433	8,898	9,397

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 W212.2bn (+28% YoY, -4% QoQ), 10% above consensus

1) At Korea Investment & Securities (KIS), non-consolidated net profit came in at W154.1bn (+69% YoY, +74% QoQ). The better-than-expected results were mainly driven by QoQ declines in provisions and valuation losses related to domestic/overseas real estate (W60bn vs. over W150bn in 2Q23).

Brokerage income inched down 1% QoQ despite increased average daily trading value, while brokerage interest income jumped 8% QoQ despite a 1% fall in average loan balance. Asset management income dropped 8% QoQ amid sluggish sales of funds and equity-linked securities (ELS)/derivatives-linked securities (DLS).

IB income grew 2.3% QoQ, supported by a 10% jump in fee income (underwriting fees, etc.) amid increased participation in equity capital market (ECM)/debt capital market (DCM) deals. Of note, KIS became the no. 1 IPO and ECM lead manager and domestic bond underwriter (league table) this year. That said, IB-related interest income tanked 19% QoQ, as the real estate project financing (PF) segment remained depressed, offsetting increased fee income.

For Korea Investment Savings Bank, net profit (non-consolidated) shrank to W2.3bn (-95% YoY, -74% QoQ), hurt by continued credit cost pressures in the retail credit segment. For Korea Investment Capital, net profit (non-consolidated) decreased to W29.5bn (-13% YoY, -29% QoQ) due to higher income tax expenses (pretax profit stayed flat QoQ at W44.7bn). For Korea Investment Real Estate Trust, net profit (non-consolidated) increased to W7.7bn (+17% YoY, +288% QoQ), supported by a partial write-back of provisions.

Recovery to take some time, but current share price offers bottom-fishing opportunity for long-term investors

In 3Q23, provisions and valuation losses related to domestic/overseas real estate declined. Nevertheless, overseas commercial real estate remains a source of significant uncertainty. While a conservative approach is warranted in the near term, we believe the current share price offers a bottom-fishing opportunity for long-term investors. Once the real estate market turns around, we believe KIH will see the strongest earnings and share price recovery among peers. Due to the firm's heavy reliance on real estate-related businesses, the stock is now trading at the lowest valuation (12-month forward P/B of 0.38x and P/E of 3.6x) among securities stocks under our coverage. That said, we believe the stock is undervalued in light of the company's: 1) robust profitability (ROE: 11.3% for 2023F and 10.7% for 2024F); and 2) stable equity capital position (raising expectations for business portfolio diversification and capital efficiency growth).

Table 1. 3Q23 review (consolidated)

(Wbn, %)	3Q22	4Q22	1Q23	2Q23	3Q23	YoY	QoQ
Net operating revenue	476	182	641	516	213	-55	-59
Net fee/commission income	251	214	253	276	296	18	7
Net interest income	291	218	184	249	273	-6	10
Net prop trading income	-47	-314	260	194	-22	RR	TTR
Other	-19	64	-56	-203	-21	RR	TTR
SG&A expenses	293	324	318	261	314	7	21
OP	182	-142	323	256	213	17	-17
Non-operating profit	43	-15	76	39	57	32	46
Pretax profit	225	-157	399	295	269	19	-9
Taxes	59	-223	98	75	57	-2	-23
NP	167	66	301	220	212	27	-4
NP attributable to owners	166	65	301	220	212	28	-3

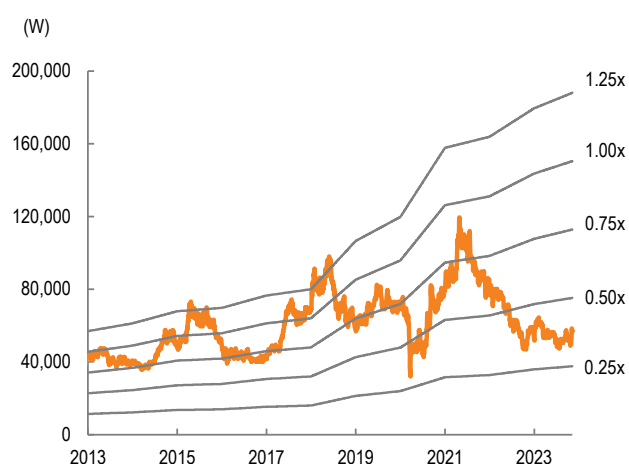
Source: Company data, Mirae Asset Securities Research

Table 2. 3Q23 review (non-consolidated)

(Wbn, %)	3Q22	4Q22	1Q23	2Q23	3Q23	YoY	QoQ
Net operating revenue	330	233	2,197	324	408	24	26
Net fee/commission income	198	142	204	230	248	25	8
Net interest income	133	83	51	84	114	-14	37
Net prop trading income	-26	-21	193	-12	9	TTB	TTB
Other	25	29	1,749	23	37	48	64
SG&A expenses	216	209	230	168	218	1	30
OP	113	24	1,966	157	189	67	21
Non-operating profit	10	-47	1	-52	3	-72	TTB
Pretax profit	123	-23	1,968	105	192	56	84
Taxes	32	-7	98	16	38	19	134
NP	91	-16	1,870	88	154	69	74

Source: Company data, Mirae Asset Securities Research

Figure 1. 12-month forward P/B band chart



Source: Company data, Mirae Asset Securities Research

Figure 2. 12-month forward P/B ± 2 SD

Source: Company data, Mirae Asset Securities Research

Korea Investment Holdings (071050 KS)

Balance Sheet (Summarized)

(Wbn)	12/22	12/23F	12/24F	12/25F
Cash & deposits	7,870	7,235	7,290	7,348
Securities	38,548	52,299	53,919	55,931
Short-term trading	29,049	38,115	38,744	39,685
Available-for-sale	0	0	0	0
Equity-method	8,486	9,098	9,561	10,048
Structured	0	0	0	0
Derivatives	0	0	0	0
Loans	6,127	6,749	6,913	7,086
Tangible assets	338	320	322	323
CMA assets (merchant bank accounts)	0	0	0	0
Lease assets (merchant bank accounts)	0	0	0	0
Other assets	11,337	11,371	11,371	11,371
Total assets	64,220	77,974	79,816	82,060
Deposits	6,009	6,570	6,830	6,748
Borrowings	46,968	59,471	60,489	62,215
Other liabilities	4,691	3,669	3,780	3,895
Total liabilities	57,668	69,710	71,099	72,857
Equity capital	176	176	176	176
Capital surplus	4,130	4,530	4,530	4,530
Capital adj.	0	0	0	0
Accumulated other comprehensive income	121	153	153	153
Retained earnings	2,126	3,405	3,858	4,344
Total shareholders' equity	6,553	8,264	8,717	9,202

Balance Sheet (Summarized)

	12/22	12/23F	12/24F	12/25F
Cash & deposits	10,881	11,168	11,448	11,748
Securities	50,753	64,506	66,121	67,858
Loans	23,608	23,831	24,428	25,070
Tangible assets	400	434	444	456
Other assets	666	464	476	488
Total assets	86,309	100,403	102,916	105,621
Deposits	13,938	14,259	14,823	14,644
Borrowings	57,597	71,193	72,480	74,663
Bonds	0	0	0	0
Other liabilities	7,068	6,469	6,665	6,867
Total liabilities	78,603	91,920	93,968	96,174
Total shareholders' equity	7,679	8,433	8,898	9,397

Major Indicators and Valuation

	12/22	12/23F	12/24F	12/25F
Growth (%)				
Customer deposits	-5.6	2.3	4.0	-1.2
Total shareholders' equity	3.8	9.8	5.5	5.6
Net operating revenue	-35.7	22.4	11.6	3.2
NP	-63.9	42.4	2.2	3.2
Profitability (%)				
ROE	8.4	11.3	10.7	10.5
ROA	0.8	1.0	0.9	0.9

Source: Company data, Mirae Asset Securities Research estimates

Income Statement (Summarized)

(Wbn)	12/22	12/23F	12/24F	12/25F
Net operating revenue	1,450	3,375	1,976	2,077
Net commission income	918	911	821	839
Net brokerage	164	197	161	171
Asset management	145	131	129	132
Underwriting	388	305	311	317
Securities lending fee income	0	0	0	0
Other commissions	221	279	220	220
Net interest income	553	383	377	488
Net prop trading income	-149	235	645	610
Other	127	1,846	133	139
SG&A expenses	849	804	849	868
Wages	465	424	495	519
IT costs	44	23	0	0
Fixed costs	62	32	0	0
Variable costs	277	324	355	348
Bad debt expenses	0	0	0	0
OP	601	2,571	1,127	1,209
Non-operating income	-41	-48	0	0
Recurring profit	560	2,523	1,127	1,209
Tax	146	217	282	302
NP	414	2,306	845	907

Income Statement (Summarized)

	12/22	12/23F	12/24F	12/25F
Net operating revenue	1,753	2,146	2,395	2,472
Net commission income	1,162	1,102	1,012	1,030
Net interest income	1,117	1,000	1,013	1,124
Net prop trading income	-520	296	122	49
Other	-6	-252	247	269
SG&A expenses	1,208	1,176	1,240	1,278
OP	546	969	1,155	1,195
Non-operating income	100	226	80	80
Recurring profit	646	1,195	1,235	1,275
Tax	6	288	308	318
NP	640	907	927	957
Consolidated NP	637	907	927	957

Key indicators/valuation metrics

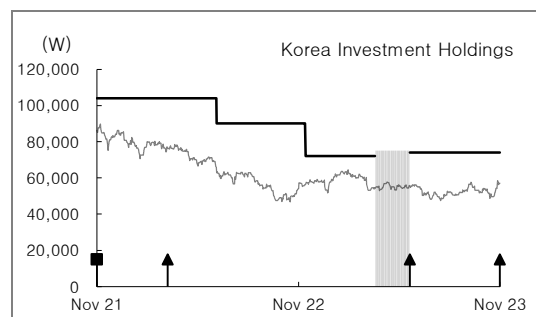
	12/22	12/23F	12/24F	12/25F
Indicators (W, x, %)				
EPS	10,906	15,529	15,872	16,379
BPS	131,055	143,569	151,532	160,066
P/E	4.9	3.6	3.5	3.4
P/B	0.41	0.39	0.37	0.35
Dividend yield	4.3	5.7	6.3	6.6
Dividend payout ratio	21.1	20.7	22.1	22.6

Appendix 1

Important disclosures and disclaimers

Two-year rating and TP history

Company	Date	Rating	TP (₩)
Korea Investment Holdings (071050)	05/31/23	Buy	74,000
	03/30/23	No Coverage	
	11/23/22	Buy	72,000
	06/15/22	Buy	90,000
	03/18/22	Buy	104,000
	03/29/21	Trading Buy	104,000



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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