

Banks

Company Report
May 2, 2019

(Maintain)	Buy
Target Price (12M, W)	8,900
Share Price (04/30/19, W)	7,010
Expected Return	27%

NP (19F, Wbn)	523
Consensus NP (19F, Wbn)	527
EPS Growth (19F, %)	4.1
Market EPS Growth (19F, %)	-17.0
P/E (19F, x)	4.4
Market P/E (19F, x)	12.0
KOSPI	2,203.59

Market Cap (Wbn)	2,285
Shares Outstanding (mn)	326
Free Float (%)	84.8
Foreign Ownership (%)	52.6
Beta (12M)	0.76
52-Week Low	6,640
52-Week High	10,500

(%)	1M	6M	12M
Absolute	4.9	-7.8	-32.9
Relative	1.9	-15.7	-23.4



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BNK Financial Group

(138930 KS)

Full confidence will be recovered after 4Q results, but the current performance is not that bad

1Q19 review: Net profit of W177.1bn

For 1Q19, BNK Financial Group reported net profit attributable to controlling interests of W177.1bn (-14.5% YoY, TTB QoQ), 6.6% above the Bloomberg consensus (W166.2bn) and 5.4% above FnGuide consensus (W168.1bn).

One-offs for 1Q19 include: 1) a reversal of provisions for large-scale NPL at Busan Bank (reclassification of the asset quality after the end of capital impairment); and 2) gains on NPL sale of W24.6bn (versus W53bn in 1Q18).

Distributed recording of SG&A expenses to reduce earnings volatility; new NPL formation contracted

Net interest margins (NIM) for both Busan Bank and Kyongnam Bank contracted 8bps QoQ to 2.16% and 2.03%, respectively. While the decline in net interest spread resulting from lower interest rates on new loans (due to the increase in lower-risk loans) and higher funding rates brought down their NIMs by two to three bps, the change in the accounting practice for credit card commissions (under IFRS 15) and credit card commission cuts for merchants dragged down the NIMs by five to six bps. Won-denominated loans increased at both Busan Bank (1.6% QoQ) and Kyongnam Bank (0.7% QoQ). Group net interest income fell 4.1% YoY and 5% QoQ to W557.9bn, due to fewer operating days and lower NIM. We forecast BNKFG's NIM will trend downward through 2Q19 and stabilize from 3Q19 and onwards. The group's full-year net interest income is anticipated to drop from the 2018 level. Meanwhile, group SG&A expenses jumped 9.9% YoY (-24.7% QoQ) to W308.1bn in 1Q19, due to the distributed recognition of wage hikes and incentives, which it had traditionally recorded in 4Q in an effort to reduce earnings volatility. Combined new NPL formation at Busan Bank and Kyongnam Bank contracted markedly to W77.3bn (-71.7% YoY, -81.1% QoQ).

Glimmer of hope

In 4Q17 and 4Q18, BNKFG suffered a net loss mainly due to massive credit costs. We believe that the quality of BNKFG's corporate loans and its credit costs, as well as the shipbuilding equipment market, could turn around starting in 2H19, in light of: 1) regional economic conditions (affected by the shipbuilding equipment market); 2) domestic shipbuilders' 2018 orders; and 3) the time (typically one to 1.5 years) taken from shipbuilding order placement to shipbuilding equipment delivery. In 2019, we expect BNKFG to begin reducing the level of profit contraction in 4Q, compared with other quarters.

Maintain Buy and TP of W8,900

We believe the stock is undervalued, given its current price (2019F P/B of 0.29x and P/E of 4.4x) and 2019 dividend yield projection (4.6%). We think that the stock's undervaluation will meaningfully ease, thanks to higher 4Q earnings visibility.

Fiscal year ending	12/16	12/17	12/18	12/19F	12/20F	12/21F
Net interest inc. (Wbn)	2,140	2,281	2,344	2,262	2,357	2,443
Net non-interest inc. (Wbn)	72	-5	173	282	305	315
Operating profit (Wbn)	712	594	750	777	842	878
Net profit (Wbn)	502	403	502	523	558	583
EPS (W)	1,539	1,237	1,540	1,603	1,711	1,790
EPS growth (%)	-20.6	-19.6	24.6	4.1	6.7	4.6
P/E (x)	4.6	5.7	4.6	4.4	4.1	3.9
P/PPOP (x)	2.1	2.0	1.8	1.8	1.7	1.6
P/B (x)	0.34	0.32	0.30	0.29	0.27	0.26
ROE (%)	7.9	5.8	6.8	6.8	6.9	6.8
Dividend yield (%)	3.3	3.3	4.3	4.6	5.0	5.4

Note: All figures are based on consolidated K-IFRS; NP refers to net profit attributable to controlling interests
Source: Company data, Mirae Asset Daewoo Research estimates

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Table 1. BNKFG: 1Q19 review

(Wbn)	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18	1Q19P	YoY chg. (%, %p)	QoQ chg. (%, %p)
Net interest income	580.0	566.8	582.0	586.9	587.7	586.9	557.9	-4.1	-5.0
Net fee & commission income	42.8	29.5	55.8	54.5	57.5	36.2	53.9	-3.3	49.1
Net other income	-22.8	-114.8	31.0	-16.3	10.1	-55.4	36.9	19.0	TTB
Total net operating income	600.0	481.5	668.7	625.1	655.3	567.7	648.7	-3.0	14.3
SG&A expenses	254.5	367.8	280.4	293.7	281.3	409.3	308.1	9.9	-24.7
PPOP	345.5	113.8	388.3	331.4	374.0	158.3	340.6	-12.3	115.1
Provisions	126.3	190.3	104.3	109.9	105.4	182.6	92.8	-11.0	-49.2
Operating profit	219.2	-76.5	284.0	221.5	268.6	-24.3	247.8	-12.8	TTB
Non-operating income	-5.0	-24.6	-2.6	-5.2	-0.3	-23.0	0.8	TTB	TTB
Pretax profit	214.2	-101.1	281.4	216.3	268.3	-47.3	248.5	-11.7	TTB
Net profit	155.6	-83.2	207.3	150.3	181.7	-37.3	177.1	-14.5	TTB
Total assets									
Total loans & receivables	96,094	94,350	95,933	97,885	100,033	98,794	102,253	6.6	3.5
Won-denominated loans (both banks)	76,745	75,292	75,923	77,263	78,755	77,630	80,088	5.5	3.2
Total credit	66,257	66,064	66,292	66,967	68,533	68,886	69,735	5.2	1.2
Total deposits	74,918	74,678	75,290	76,492	77,962	78,059	78,970	4.9	1.2
Total shareholders' equity	70,132	69,825	70,555	71,440	72,549	73,380	74,877	6.1	2.0
(%)	7,788	7,656	7,933	8,292	8,473	8,425	8,591	8.3	2.0
NIM (Busan Bank)									
Cost-to-income ratio									
NPL (substandard & below) ratio	2.33	2.20	2.37	2.40	2.30	2.24	2.16	-0.21	-0.08
NPL coverage ratio	42.4	76.4	41.9	47.0	42.9	72.1	47.5	5.6	-24.6
RoAE	1.21	1.32	1.35	1.43	1.25	1.37	1.26	-0.09	-0.11
RoAA	145.8	139.4	141.1	131.9	150.7	141.3	148.5	7.4	7.2
Credit cost	0.65	-0.35	0.87	0.62	0.73	-0.15	0.70	-0.17	0.85
Total CAR	8.75	-4.67	11.52	8.11	9.58	-1.95	9.19	-2.33	11.14
Tier-1 ratio	0.17	0.25	0.14	0.14	0.14	0.23	0.12	-0.02	-0.12
(Wbn)	13.31	13.07	13.32	13.48	13.40	13.15	13.37	0.06	0.23
Net interest income	10.81	10.62	10.89	11.17	11.21	10.98	11.20	0.31	0.22
Net fee & commission income	9.82	9.61	9.59	9.71	9.78	9.55	9.68	0.09	0.13

Note: ROA, ROE, and credit cost data are not annualized

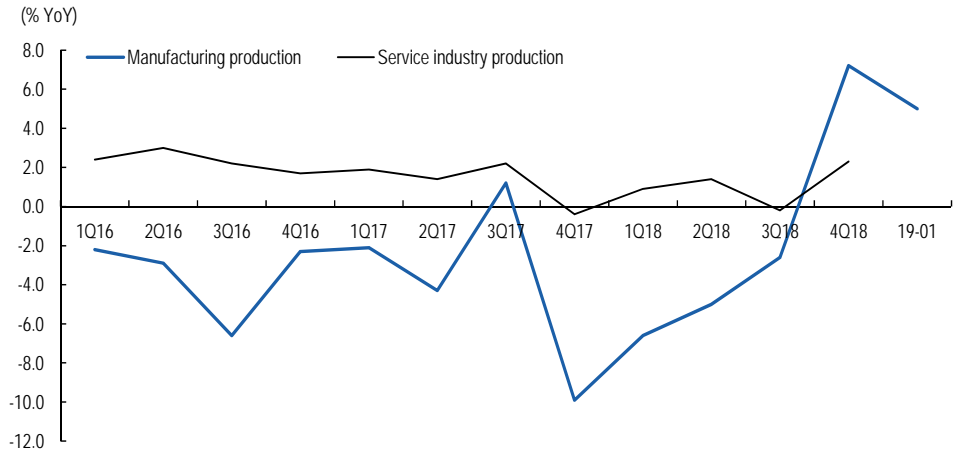
Source: Company data, Mirae Asset Daewoo Research

Table 2. BNKFG: Earnings forecast revision

(Wbn)	Revised		Previous		% chg.	
	2019F	2020F	2019F	2020F	2019F	2020F
Net interest income	2,262.4	2,357.2	2,404.4	2,504.3	-5.9	-5.9
Net non-interest income	281.5	305.2	235.7	230.3	19.5	32.5
Total net operating income	2,544.0	2,662.4	2,640.1	2,734.5	-3.6	-2.6
SG&A expenses	1,300.3	1,327.1	1,324.6	1,363.6	-1.8	-2.7
PPOP	1,243.7	1,335.3	1,315.5	1,370.9	-5.5	-2.6
Provisions	466.6	493.6	488.3	523.9	-4.5	-5.8
Operating profit	777.0	841.7	827.1	847.0	-6.1	-0.6
Non-operating income	-11.2	-17.8	-20.1	-20.3	-44.0	-12.1
Pretax profit	765.8	823.8	807.1	826.7	-5.1	-0.3
Net profit (controlling interests)	522.6	557.8	545.4	559.6	-4.2	-0.3

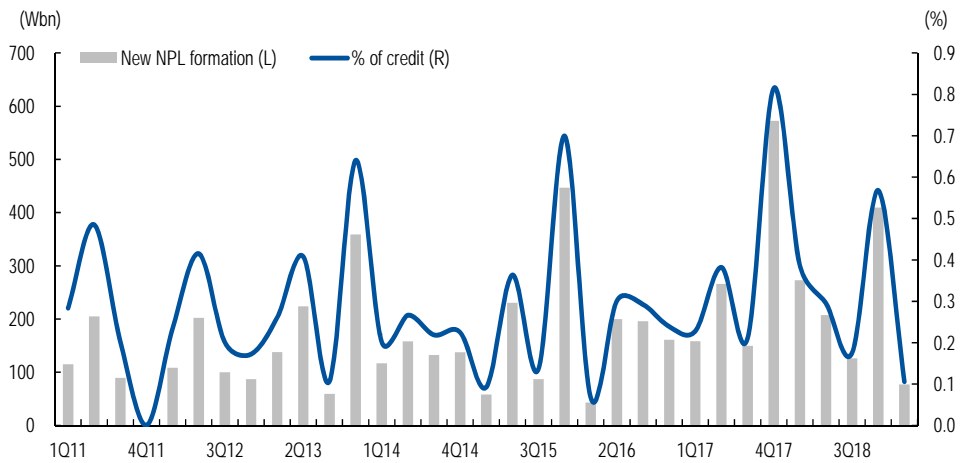
Source: Mirae Asset Daewoo Research

Figure 1. Quarterly production indexes in Korea's Southeast region: Growth in the manufacturing production index turned positive in 4Q18



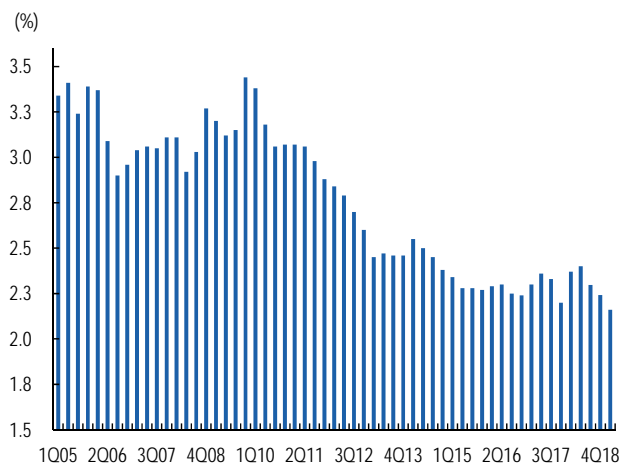
Source: BOK, Mirae Asset Daewoo Research

Figure 2. BNKFG: Busan Bank + Kyongnam Bank new NPL formation trend



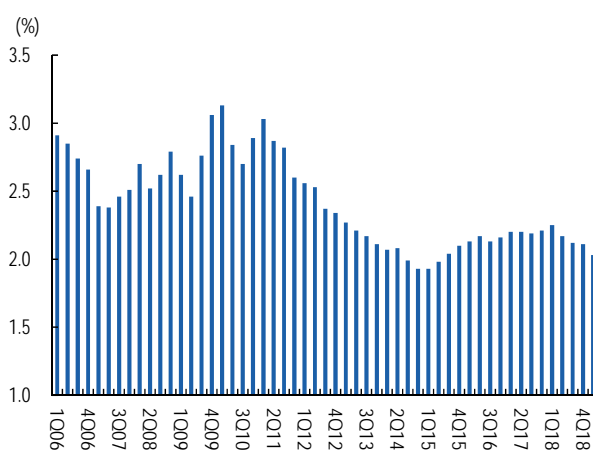
Note: New NPL formation as % of total credit is non-annualized
 Source: Company Data, Mirae Asset Daewoo Research

Figure 3. BNKFG: Busan Bank NIM trend



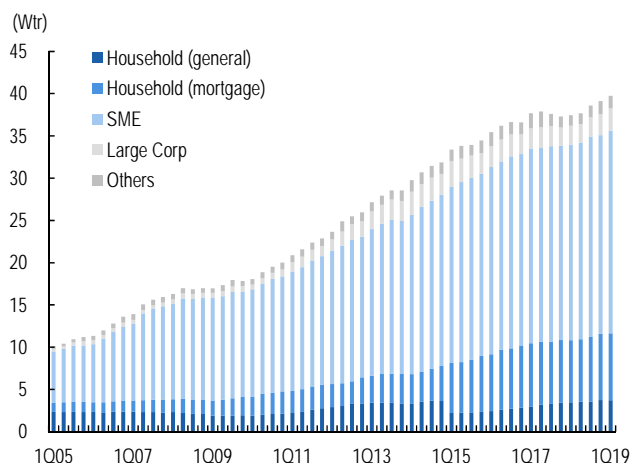
Source: Company Data, Mirae Asset Daewoo Research

Figure 4. BNKFG: Kyongnam Bank NIM trend



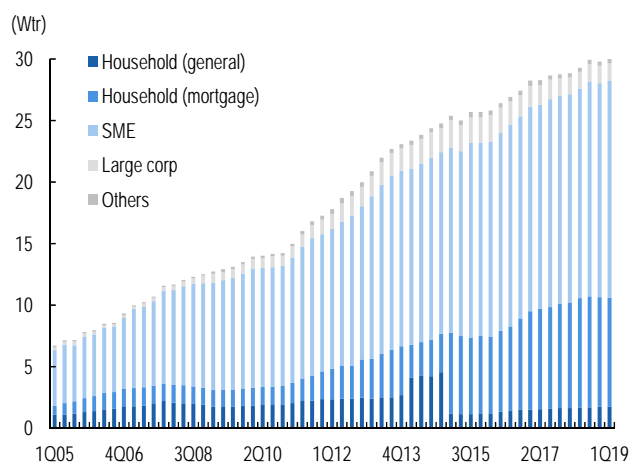
Source: Company Data, Mirae Asset Daewoo Research

Figure 5. BNKFG: Busan Bank won-denominated loans



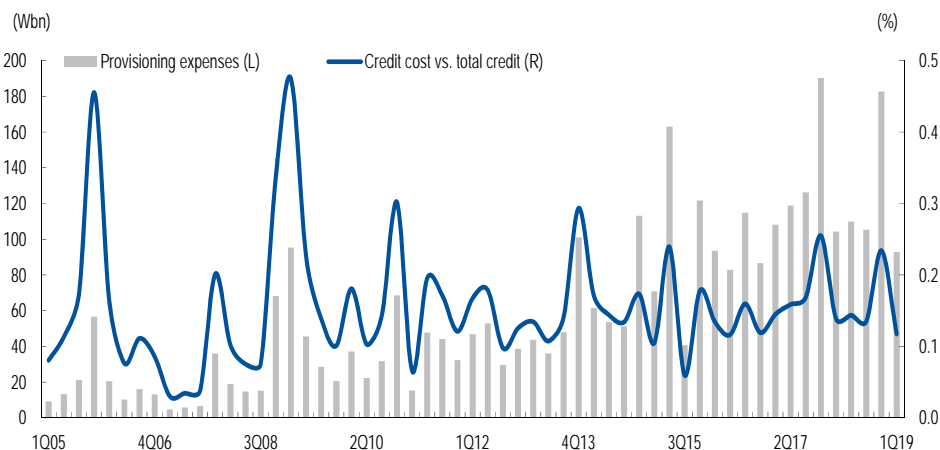
Source: Company Data, Mirae Asset Daewoo Research

Figure 6. BNKFG: Kyongnam Bank won-denominated loans



Source: Company Data, Mirae Asset Daewoo Research

Figure 7. BNKFG: Credit costs and credit cost as % of total credit



Note: Credit costs as % of total credit is non-annualized
 Source: Company Data, Mirae Asset Daewoo Research

Figure 8. BNKFG: Earnings contributions by subsidiary in 1Q18 (before reflecting consolidation adjustments and other factors)

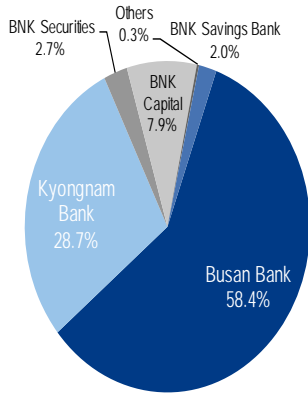
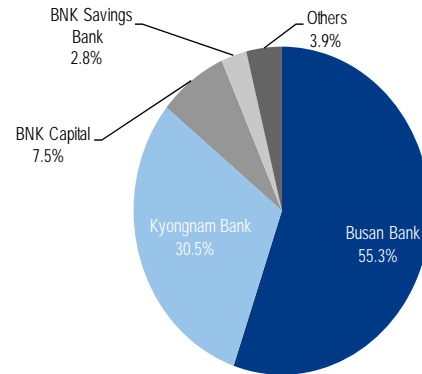


Figure 9. BNKFG: Earnings contributions by subsidiary in 1Q19 (before reflecting consolidation adjustments and other factors)



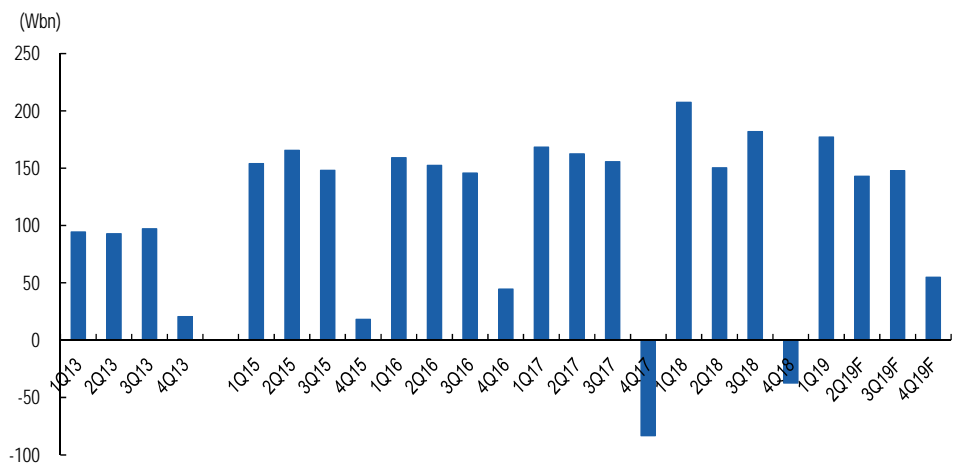
(Wbn)	Net Income(a)	Ownership(b)	Net Income(a) %	%
Bank	201.8		201.8	87.2
Busan Bank	135.3	100	135.3	58.4
Kyongnam Bank	66.5	100	66.5	28.7
Non-bank	29.7		29.7	12.8
BNK Capital	18.3	100	18.3	7.9
BNK Securities	6.2	100	6.2	2.7
BNK Savings Bank	4.6	100	4.6	2.0
BNK Asset Management	0	100	0	0.0
BNK Credit Information	0.2	100	0.2	0.1
BNK Systems	0.4	100	0.4	0.2
Total	231.5		231.5	100

Source: Company Data, Mirae Asset Daewoo Research

(Wbn)	Net income (a)	Ownership(b)	Net income (a) x (b)	%
Bank	175.6		175.6	85.8
Busan Bank	113.1	100	113.1	55.3
Kyongnam Bank	62.5	100	62.5	30.5
Non-bank	29		29	14.2
BNK Capital	15.4	100	15.4	7.5
BNK Securities	7	100	7	3.4
BNK Savings Bank	5.7	100	5.7	2.8
BNK Asset Management	0.4	100	0.4	0.2
BNK Credit Information	0.2	100	0.2	0.1
BNK Systems	0.3	100	0.3	0.1
Total	204.6		204.6	100

Source: Company Data, Mirae Asset Daewoo Research

Figure 10. BNKFG: Quarterly net profit



Source: Company Data, Mirae Asset Daewoo Research

Table 3. BNKFG: Quarterly earnings

(Wbn)	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18	1Q19P	2Q19F	3Q19F	4Q19F
Net interest income	555.3	578.6	580.0	566.8	582.0	586.9	587.7	586.9	557.9	563.1	568.3	573.1
Net fee income	43.2	44.3	42.8	29.5	55.8	54.5	57.5	36.2	53.9	59.0	59.3	54.8
Net other income	-7.9	-19.4	-22.8	-114.8	31.0	-16.3	10.1	-55.4	36.9	9.3	8.0	0.3
Total net operating income	590.6	603.5	600.0	481.5	668.7	625.1	655.3	567.7	648.7	631.5	635.6	628.2
SG&A expenses	253.5	262.0	254.5	367.8	280.4	293.7	281.3	409.3	308.1	311.2	294.0	387.0
PPOP	337.2	341.5	345.5	113.8	388.3	331.4	374.0	158.3	340.6	320.2	341.6	241.2
Provisions	108.1	118.9	126.3	190.3	104.3	109.9	105.4	182.6	92.8	106.1	121.1	146.6
Operating profit	229.1	222.6	219.2	-76.5	284.0	221.5	268.6	-24.3	247.8	214.1	220.5	94.7
Non-operating income	-3.7	-3.3	-5.0	-24.6	-2.6	-5.2	-0.3	-23.0	0.8	-3.3	-3.3	-5.4
Pretax profit	225.4	219.3	214.2	-101.1	281.4	216.3	268.3	-47.3	248.5	210.8	217.2	89.3
Net profit (controlling interests)	168.3	162.4	155.6	-83.2	207.3	150.3	181.7	-37.3	177.1	143.0	147.6	54.9

Source: Company data, Mirae Asset Daewoo Research

Table 4. BNKFG: Annual earnings trend

(Wbn)	2012	2013	2014	2015	2016	2017	2018	2019F	2020F	2021F
Net interest income	1,143.2	1,154.5	1,427.2	2,034.0	2,140.4	2,280.6	2,343.5	2,262.4	2,357.2	2,443.2
Net fee income	109.1	85.1	114.2	204.5	168.1	159.7	203.9	227.0	241.2	247.1
Net other income	-21.7	-24.3	430.7	-42.3	-96.1	-164.7	-30.7	54.5	64.0	67.8
Total net operating income	1,230.5	1,215.3	1,972.1	2,196.2	2,212.3	2,275.6	2,516.8	2,544.0	2,662.4	2,758.1
SG&A expenses	568.9	573.8	751.5	1,103.6	1,122.2	1,137.7	1,264.7	1,300.3	1,327.1	1,354.6
PPOP	661.7	641.5	1,220.6	1,092.6	1,090.2	1,137.9	1,252.0	1,243.7	1,335.3	1,403.4
Provisions	168.0	228.8	279.5	396.4	377.9	543.6	502.2	466.6	493.6	525.8
Operating profit	493.6	412.7	941.1	696.2	712.3	594.3	749.8	777.0	841.7	877.6
Non-operating income	-8.8	-9.9	-22.1	3.9	-23.9	-36.6	-31.2	-11.2	-17.8	-18.4
Pretax profit	484.9	402.9	919.1	700.1	688.4	557.7	718.6	765.8	823.8	859.1
Net profit (controlling interests)	365.9	304.5	809.8	485.5	501.6	403.1	502.1	522.6	557.8	583.4

Source: Company data, Mirae Asset Daewoo Research

BNK Financial Group (138930 KS/Buy/TP: W8,900)

Comprehensive Income Statement (Summarized)

Year-end 12 (Wbn)	12/18	12/19F	12/20F	12/21F
Interest income	3,629	3,764	3,924	4,068
Interest expense	1,285	1,501	1,567	1,625
Net interest income	2,344	2,262	2,357	2,443
Net fees and commissions	204	227	241	247
Net other non-interest income	-31	55	64	68
Total net operating income	2,517	2,544	2,662	2,758
G&A expenses	1,265	1,300	1,327	1,355
PPOP	1,252	1,244	1,335	1,403
Total provision expenses	502	467	494	526
Operating profit	750	777	842	878
Net non-operating income	-31	-11	-18	-18
Income before income taxes	719	766	824	859
Income tax expense	180	204	227	236
Net profit	502	523	558	583
Net profit (ex. minority interest)	502	523	558	583
Normalized net profit	502	523	558	583
Core income	2,547	2,489	2,598	2,690
Core PPOP	1,283	1,189	1,271	1,336

DuPont analysis (%)

Interest income	3.76	3.70	3.67	3.65
Interest expense	1.33	1.48	1.47	1.46
Net interest income	2.43	2.23	2.21	2.19
Net commissions income	0.21	0.22	0.23	0.22
Net other non-interest income	-0.03	0.05	0.06	0.06
Total net operating profit	2.61	2.50	2.49	2.47
G&A expenses	1.31	1.28	1.24	1.21
PPOP	1.30	1.22	1.25	1.26
Total provision expenses	0.52	0.46	0.46	0.47
Net non-operating income	-0.03	-0.01	-0.02	-0.02
Income before income taxes	0.74	0.75	0.77	0.77
Income tax expense	0.19	0.20	0.21	0.21
Net profit (non-controlling)	0.04	0.04	0.04	0.04
ROA	0.52	0.51	0.52	0.52
Leverage (x)	13.2	13.2	13.3	12.9
ROE	6.84	6.78	6.92	6.77

Asset quality (%)

NPL ratio	1.37	1.19	1.18	1.17
Broad NPL ratio	2.99	2.69	2.61	2.53
NPL coverage ratio	141.3	151.9	155.1	158.1
Reserves to total credits	1.9	1.8	1.8	1.8
Credit cost (% of total loans)	0.73	0.65	0.66	0.67
Credit cost (% of total credit)	0.64	0.57	0.58	0.60

Per share items (W)

EPS (reported)	1,540	1,603	1,711	1,790
EPS (normalized)	1,540	1,603	1,711	1,790
BVPS	23,400	23,877	25,598	27,297
DPS (common share)	300	320	350	380
PPOP/ share	3,841	3,816	4,097	4,306

Source: Company data, Mirae Asset Daewoo Research estimates

Statement of Financial Condition (Summarized)

Year-end 12 (Wbn)	12/18	12/19F	12/20F	12/21F
Cash & dues	3,213	3,740	3,958	4,174
Securities	15,797	17,945	18,937	19,928
Net loans and receivables	77,630	80,341	83,726	87,136
Tangible assets	1,086	1,359	1,428	1,501
Other assets	1,068	1,147	1,176	1,205
Total assets	98,794	104,532	109,225	113,943
Deposits	73,380	78,107	81,338	84,633
Borrowings	5,616	6,200	6,512	6,822
Debentures	8,591	9,348	9,808	10,274
Other liabilities	2,635	2,127	2,252	2,339
Total liabilities	90,369	95,952	100,083	104,249
Capital stock	1,630	1,630	1,630	1,630
Hybrid securities	509	608	608	608
Capital surplus	787	787	787	787
Retained earnings	4,753	4,816	5,377	5,931
Capital adjustments	0	0	0	0
Other comprehensive income	-51	-58	-58	-58
Non-controlling interests	798	798	798	798
Total shareholders' equity	8,425	8,580	9,141	9,695

Key ratios (%)

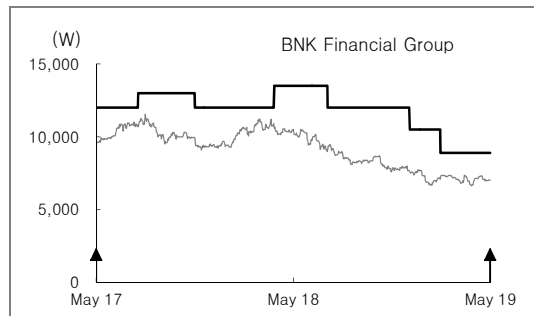
Growth (YoY)				
W loan growth (Bank)	4.3	4.5	4.2	4.1
Net loans & receivables growth	3.1	3.5	4.2	4.1
Deposit growth	5.1	6.4	4.1	4.1
Shareholders' equity growth	10.0	1.8	6.5	6.1
Total assets growth	4.7	5.8	4.5	4.3
Net interest income growth	2.8	-3.5	4.2	3.6
Net fee income growth	27.7	11.3	6.3	2.4
PPOP growth	10.0	-0.7	7.4	5.1
Operating profit growth	26.2	3.6	8.3	4.3
Net profit growth	24.6	4.1	6.7	4.6
Profitability				
Net interest spread (Bank)	2.64	2.44	2.43	2.43
Net interest margin (Bank)	2.33	2.14	2.13	2.13
PPOP margin	1.3	1.2	1.2	1.3
ROA	0.5	0.5	0.5	0.5
ROE	6.8	6.8	6.9	6.8
Liquidity				
W LDR (excl. CDs) (Bank)	97.1	96.8	96.8	96.8
Loans to assets	78.6	76.9	76.7	76.5
Capital adequacy				
Total CAR	13.1	13.7	14.1	14.2
Tier 1 CAR	11.0	11.3	11.6	11.9
Tier 2 CAR	2.2	2.4	2.5	2.3
Operating efficiency				
Cost to income	50.3	51.1	49.8	49.1
Cost to assets	1.3	1.2	1.2	1.2
Dividend				
Payout ratio	19.5	20.0	20.5	21.2

APPENDIX 1

Important Disclosures & Disclaimers

2-Year Rating and Target Price History

Company (Code)	Date	Rating	Target Price
BNK Financial Group (138930)	01/30/2019	Buy	8,900
	12/04/2018	Buy	10,500
	07/05/2018	Buy	12,000
	03/28/2018	Buy	13,500
	11/01/2017	Buy	12,000
	07/19/2017	Buy	13,000
	02/07/2017	Buy	12,000



Stock Ratings

- Buy : Relative performance of 20% or greater
- Trading Buy : Relative performance of 10% or greater, but with volatility
- Hold : Relative performance of -10% and 10%
- Sell : Relative performance of -10%

Industry Ratings

- Overweight : Fundamentals are favorable or improving
- Neutral : Fundamentals are steady without any material changes
- Underweight : Fundamentals are unfavorable or worsening

Ratings and Target Price History (Share price (—), Target price (—), Not covered (□), Buy (▲), Trading Buy (■), Hold (●), Sell (◆))

- * Our investment rating is a guide to the relative return of the stock versus the market over the next 12 months.
- * Although it is not part of the official ratings at Mirae Asset Daewoo Co., Ltd., we may call a trading opportunity in case there is a technical or short-term material development.
- * The target price was determined by the research analyst through valuation methods discussed in this report, in part based on the analyst's estimate of future earnings.
- * The achievement of the target price may be impeded by risks related to the subject securities and companies, as well as general market and economic conditions.

Equity Ratings Distribution & Investment Banking Services

	Buy	Trading Buy	Hold	Sell
Equity Ratings Distribution	83.52%	8.24%	8.24%	0.00%
Investment Banking Services	82.61%	4.35%	13.04%	0.00%

* Based on recommendations in the last 12-months (as of March 31, 2019)

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