

Financial sector

Banking-centric FHC earnings outperform in February

Key message

1. The aggregate February earnings of 14 FHCs grew 6.6% YoY, with banking-centric FHCs up 15% YoY, outperforming life insurance (up 1.2% YoY) and securities peers' earnings contraction (down 3.5% YoY).
2. In February, banking-centric FHCs benefited from NII and wealth management fee income as well as lower bad debt provisions, while life insurance-centric FHCs were impacted by lower capital gains.
3. FHCs will announce 2024F cash dividends; our top picks are CTBC FHC, E. Sun FHC, Cathay FHC, Fubon FHC and Yuanta FHC.

Event

In February, YoY earnings growth of 14 FHCs slowed to 6.6%, with banking-centric FHCs up 15%, outperforming life insurance-centric FHCs' earnings growth of 1.2% YoY and securities-centric earnings contraction of 3.5% YoY. Banking-centric FHCs saw earnings rebound on net interest income (NII) and wealth management fee income, as well as lower provisions. Life insurance-centric FHCs booked lower investment income amid capital market volatility.

Analysis

Life insurance-centric FHCs – Fubon Life's investments outperformed peers. Fubon FHC (2881 TT, NT\$90.7, OP) posted net profit of NT\$14.8bn in February, up 78% YoY, as Fubon Life's earnings rebounded to NT\$9.5bn, up 122% YoY and 9.4% MoM (hedging costs down NT\$2bn MoM on 0.4% NT dollar depreciation and capital gains up by NT\$100mn to NT\$13.2bn). Also, Taipei Fubon Bank grew earnings by 38% YoY (NII and net fee income (NFI) up a respective 9% and 30% YoY). In February, Cathay FHC (2882 TT, NT\$67.3, OP) booked net profit of NT\$7.79bn, down 29% YoY, driven by bank earnings growth of 24% YoY (NII and fee income up over 10% YoY), offsetting life insurance earnings contraction of 58% YoY (lower capital gains and higher hedging costs on weak efficiency of basket hedging). In January-February, Cathay FHC and Fubon FHC achieved a respective 25% and 23% of our 2025 earnings forecasts.

Banking-centric FHCs – Core earnings sustained. E. Sun FHC (2884 TT, NT\$28.95, OP) garnered net profit of NT\$2.72bn in February, up 107% YoY, and NT\$5.75bn in January-February, achieving 20% of our 2025F earnings. The main drivers were NII and NFI growth of a respective 16.5% and 9% YoY, as well as investment income on a rebound in bond valuations, and stable asset quality. In February, CTBC FHC (2891 TT, NT\$40, OP) posted net profit of NT\$4.91bn, up 8% YoY, with CTBC Bank earnings growth of 20% YoY offsetting Taiwan Life's earnings contraction of 36% YoY. In the first two months, CTBC FHC's earnings declined 12% YoY to NT\$11.74bn, at 17% of our 2025F earnings, with NII and NFI both up by double digits on higher NIM and a strong wealth management business. Taiwan Life saw net profit decrease 40% YoY in January-February, mainly due to lower capital gains on bonds and stocks YoY and higher net hedging costs.

Stocks for Action

Due to lower-than-expected US employment and consumption, the market expects the Fed will reduce rates by a steeper 75-100bps this year. Since February, the two-year Treasury yield has narrowed by 30bps, higher than the 10-year and 30-year 24bps and 10bps. Full-year reduction will still depend on whether Trump's tariff policy pushes up inflation. Due to an expected upward-sloping US Treasury yield curve in 2025F, banks benefit from lowering US dollar funding costs, and banks and life insurers continue to allocate into higher-yielding overseas bonds. Also, industrial supply chains could start relocating on tougher US policies against China, helping spur FCY lending for full footprint banks, such as CTBC Bank and E.Sun Bank. With FHCs announcing 2024 cash dividends, we predict those with a cash yield over 4% will benefit from a near-term defensive sentiment. Our top picks are: (1) CTBC FHC and E. Sun FHC, for sustainable NII and NFI and a higher-than-peers cash dividend yield; (2) Cathay FHC and Fubon FHC, for higher recurring yield at the life insurance unit and higher-than-peers spread and cash dividend yield after adopting IFRS 17; and (3) Yuanta FHC (2885 TT, NT\$35.4, OP), as the securities business will continue to benefit from interest rate cuts and a high cash dividend yield.

Risks

US Fed pivots to rate hikes again to curb inflation; sharper upticks in bank credit costs.

First FHC (2892 TT, NT\$27.55, N) increased earnings by 6% YoY in February to NT\$2.4bn, with FX swap income sustaining at January's NT\$1.2bn (up 40% YoY) and on stable credit costs. In January-February, Mega FHC's (2886 TT, NT\$39.75, N) earnings fell 19% YoY on lower investment income and loan-generated fee income. Taishin FHC's (2887 TT, NT\$17.6, N) earnings decreased 1% YoY in January-February, as bank earnings grew 4% YoY and securities earnings rose 62% YoY, despite a life insurance earnings contraction and venture capital losses. Yuanta FHC posted an earnings decline of 1.8% YoY in February and 5% YoY in January-February, as related securities earnings growth of 10% YoY was eroded by earnings contraction of 9% YoY at the banking unit (investment income and operating expense increases) and 77% YoY at the life insurance unit (lower investment income).

Figure 1: Aggregate February earnings growth YoY of 14 FHCs in Taiwan up to 6.6% YoY, with banking-centric FHC earnings up 15% YoY, stronger than 1.2% YoY growth in life insurance & 2.4% decline in securities earnings

NT\$m		1Q24		2Q24		3Q24		4Q24		2024		Feb-25			Jan-Feb 25			2025F Achieved(%)
		Earnings	YoY (%)	Earnings	YoY (%)	Earnings	YoY (%)	Earnings	YoY (%)	Earnings	YoY (%)	Earnings	YoY (%)	MoM (%)	Earnings	YoY (%)	EPS(NT\$)	
2880 TT	Hua Nan FHC*	5,629	12.6	5,586	1.5	6,640	4.0	5,271	11.5	23,123	7.0	1,698	6.5	(14.1)	3,676	3.3	0.27	16.2
2881 TT	Fubon FHC	30,408	117.5	50,907	76.0	39,995	60.6	29,970	N.A.	151,160	129.0	14,800	78.1	(2.7)	30,000	34.0	2.20	25.2
2882 TT	Cathay FHC	38,109	443.7	33,652	32.0	31,057	16.1	8,000	N.A.	111,190	118.3	7,790	(29.1)	(46.2)	22,280	9.3	1.53	22.7
2883 TT	KGI FHC*	8,214	134.5	8,739	31.6	12,187	65.4	4,406	208.0	33,546	77.1	3,462	23.4	(5.3)	7,118	26.8	0.42	22.2
2884 TT	E. Sun FHC	6,251	3.5	6,452	43.4	8,195	53.5	5,208	(10.9)	26,084	20.1	2,724	107.3	(9.9)	5,749	39.7	0.36	20.7
2885 TT	Yuanta FHC	9,235	60.0	8,426	(8.4)	9,434	10.2	8,735	187.9	35,830	34.9	2,511	(1.8)	(3.6)	5,117	(5.0)	0.40	14.4
2886 TT	Mega FHC	11,490	6.6	8,906	11.5	8,924	8.0	5,445	(12.4)	34,766	4.6	3,023	(12.9)	(6.0)	6,240	(18.5)	0.42	18.2
2887 TT	Taishin FHC	5,011	(1.0)	5,565	45.7	6,084	89.0	3,410	36.4	20,070	37.4	2,010	21.8	26.4	3,600	(1.1)	0.25	18.2
2888 TT	Shin Kong FHC*	3,094	N.A.	17,393	551.9	-827	N.A.	835	N.A.	20,607	N.A.	-2,359	N.A.	N.A.	-4,227	N.A.	(0.24)	N.A.
2889 TT	Waterland FHC*	628	3.8	584	12.7	480	2.1	479	18.0	2,171	8.5	168	(10.6)	8.4	324	(20.4)	0.09	N.A.
2890 TT	SinoPac FHC*	6,911	45.5	5,274	(1.4)	6,263	11.6	3,805	(6.1)	22,302	12.8	2,442	31.0	(15.9)	5,345	21.4	0.42	23.4
2891 TT	CTBC FHC	20,920	61.4	16,287	2.7	21,442	8.4	13,380	78.5	72,028	28.4	4,911	8.2	(28.1)	11,738	(12.0)	0.60	16.7
2892 TT	First FHC	7,015	5.8	6,714	2.8	7,079	20.6	4,551	32.5	25,359	12.9	2,405	6.3	(5.5)	4,949	5.9	0.35	19.6
5880 TT	Cooperative FHC*	5,237	7.2	4,859	4.7	5,728	14.8	3,518	28.0	19,743	14.4	1,650	14.7	13.9	3,099	(13.1)	0.20	N.A.
Total of 14 FHCs		158,153	102.9	179,343	40.5	162,682	22.2	97,013	286.0	597,979	64.4	47,235	6.6	(18.3)	105,008	6.9		
Life insurance-centered FHCs		79,824	416.9	110,690	73.7	82,412	27.5	43,211	N.A.	316,503	146.3	23,693	1.2	(24.8)	48,053	14.9		
Banking-centered FHCs		68,465	22.0	59,643	10.1	70,356	18.3	44,588	20.4	243,475	17.8	20,863	15.1	(11.3)	44,396	(1.2)		
Brokerage-centered FHCs		9,863	54.7	9,010	(7.3)	9,914	9.8	9,214	167.8	38,001	33.0	2,679	(2.4)	(3.0)	12,559	10.1		

Note 1: * Indicates FHCs not within our coverage universe; forecasts for these FHCs are based on Bloomberg consensus

Note 2: Insurance-centric FHCs are Cathay, Fubon, KGI, and Shin Kong; bank-centric FHCs are Hua Nan, E. Sun, Mega, SinoPac, CTBC, First, and Taiwan Cooperative; securities-centric FHCs are Yuanta and IBF

Source: Bloomberg; Company data; KGI Research

Figure 2: February life insurance earnings declined 19.5% MoM but rose 15% YoY; Fubon Life's investments outperformed peers

NT\$m	FHC ticker	Subsidiary name	1Q24		2Q24		3Q24		4Q24		2024		Feb-25			Jan-Feb 25		
			Earnings	YoY (%)	Earnings	YoY (%)	Earnings	YoY (%)	Earnings	YoY (%)	Earnings	YoY (%)	Earnings	YoY (%)	MoM (%)	Earnings	YoY (%)	EPS(NT\$)
2881 TT	Fubon Life		17,463	140.9	34,103	79.7	26,356	55.9	24,580	N.A.	102,530	184.1	9,500	122.0	9.4	18,180	36.2	1.53
2882 TT	Cathay Life		25,735	N.A.	22,818	53.1	18,556	5.9	-120	N.A.	67,180	311.1	3,130	(58.4)	(66.8)	12,560	2.6	2.00
2885 TT	Yuanta Life		993	2,211.0	926	(41.3)	141	(92.9)	-137	N.A.	1,923	(4.8)	102	(70.8)	436.8	121	(76.7)	0.04
2887 TT	Taishin Life		817	4,085.6	494	94.6	579	(29.3)	-650	N.A.	1,240	394.5	60	(33.3)	(25.0)	130	(79.0)	0.12
2888 TT	Shin Kong Life		453	N.A.	14,420	N.A.	(3,415)	N.A.	-1,195	N.A.	10,378	N.A.	-3,132	N.A.	N.A.	-5,709	N.A.	(0.69)
2891 TT	Taiwan Life		7,655	N.A.	5,412	(9.8)	8,002	(14.4)	405	N.A.	21,474	73.4	467	(36.0)	(81.1)	2,932	(40.1)	0.47
5880 TT	Taiwan Cooperative Life		298	(0.8)	293	(17.1)	222	(31.7)	390	41.8	1,203	(4.1)	66	(51.8)	214.3	87	(63.0)	0.13
2883 TT	KGI Life		5,149	1,503.6	5,837	26.7	9,137	43.1	2,031	N.A.	22,155	117.7	2,660	85.4	13.7	5,001	65.9	0.99
5874 TT	Nan Shan Life		13,480	2,688.5	12,108	(20.3)	11,570	(48.7)	5,298	N.A.	42,456	92.0	5,494	558.8	134.4	7,837	22.9	0.53
Total of 9 life insurers			72,044	N.A.	96,410	56.2	71,150	(10.2)	30,602	N.A.	270,539	224.2	18,347	14.9	(19.5)	41,139	6.1	

Source: Company data; KGI Research

Figure 3: In February, P&C earnings of main FHCs grew 46% YoY, underpinned by investment & premium income

NT\$m	FHC ticker	Subsidiary name	1Q24		2Q24		3Q24		4Q24		2024		Feb-25			Jan-Feb 25		
			Earnings	YoY (%)	Earnings	YoY (%)	Earnings	YoY (%)	Earnings	YoY (%)	Earnings	YoY (%)	Earnings	YoY (%)	MoM (%)	Earnings	YoY (%)	EPS(NT\$)
2880 TT	Hua Nan P&C		399	123.6	487	105.5	295	20.2	112	(56.1)	1,293	41.1	113	(2.6)	21.5	206	12.6	1.03
2881 TT	Fubon P&C		1,348	N.A.	1,094	6.2	993	22.1	-420	N.A.	3,010	N.A.	460	35.3	(37.0)	1,190	33.7	3.96
2882 TT	Cathay Century P&C		868	N.A.	436	(42.4)	899	13.9	520	89.2	2,700	116.8	230	130.0	(56.6)	760	35.7	3.79
2886 TT	Chung Kuo P&C		166	N.A.	(80)	N.A.	230	18.0	97	24.6	413	N.A.	24	140.0	(70.7)	106	7.1	0.24
Total of 4 P&C			2,780	0.0	1,936	107.0	2,417	18.3	309	(60.8)	7,416	N.A.	827	46.1	(42.4)	2,262	30.6	

Source: Company data; KGI Research

Figure 4: Bank net profit grew 15% YoY in February on sustained NII and wealth management fee income & lower provisions; SCSB's (5876 TT, NT\$43.8, N) earnings fell 6.6% YoY in February on lower NII, but grew 9.5% YoY in January-February on investment & NFI growth of a respective 20% & 46%

NT\$m		1Q24		2Q24		3Q24		4Q24		2024		Feb-25			Jan-Feb 25		
FHC ticker	Subsidiary name	Earnings	YoY (%)	Earnings	YoY (%)	Earnings	YoY (%)	Earnings	YoY (%)	Earnings	YoY (%)	Earnings	YoY (%)	MoM (%)	Earnings	YoY (%)	EPS(NT\$)
2880 TT	Hua Nan Bank	5,045	8.2	5,223	2.7	5,987	1.7	5,336	20.9	21,593	7.7	1,606	9.3	(16.5)	3,530	7.5	0.34
2881 TT	Taipei Fubon Bank	8,164	18.2	8,084	26.4	8,857	24.5	5,440	28.7	30,540	23.9	3,150	38.2	(19.0)	7,050	22.2	0.49
2882 TT	Cathay United Bank	10,354	13.6	9,691	16.8	10,994	38.8	7,090	103.9	38,340	33.1	3,920	24.4	(7.8)	8,160	14.6	0.68
2883 TT	KGI Bank	1,469	(4.3)	1,345	(8.8)	1,495	21.5	1,227	6.2	5,536	2.6	502	6.6	(30.9)	1,229	21.4	0.26
2884 TT	E.Sun Bank	5,644	2.7	5,919	47.6	7,924	78.9	5,067	(9.9)	24,533	25.4	2,352	128.3	(23.3)	5,420	37.5	0.42
2885 TT	Yuanta Bank	2,634	22.4	2,552	(17.5)	2,465	11.8	2,365	96.2	10,015	15.7	759	(3.9)	(18.4)	1,688	(9.1)	0.21
2886 TT	Mega Bank	9,888	(5.9)	7,904	(1.2)	7,300	3.7	3,277	(40.2)	28,370	(8.6)	2,715	(9.0)	(0.5)	5,445	(17.6)	0.57
2887 TT	Taishin Bank	4,419	3.0	4,204	14.9	5,333	28.5	4,550	61.9	18,510	24.2	1,610	29.8	0.6	3,210	3.9	0.32
2888 TT	Shin Kong Bank	1,677	12.7	1,867	(7.3)	1,959	14.3	1,713	8.8	7,216	6.3	531	27.3	(6.0)	1,095	6.0	0.22
2890 TT	Sinopac Bank	5,261	34.1	4,456	2.2	4,665	5.7	3,030	(10.1)	17,463	8.7	1,722	22.8	(32.2)	4,259	22.3	0.41
2891 TT	CTBC Bank	12,113	6.6	11,060	15.2	13,106	21.9	13,145	36.7	49,424	19.6	4,234	20.2	5.2	8,258	10.2	0.52
2892 TT	First Bank	6,493	2.7	6,306	6.2	6,644	15.4	4,364	24.3	23,806	10.6	2,209	6.6	(4.1)	4,513	2.3	0.41
5880 TT	Taiwan Cooperative Bank	4,948	6.2	5,166	20.0	5,443	16.0	3,392	28.0	18,951	16.2	1,592	25.5	8.6	3,058	(7.0)	0.25
2801 TT	Chang Hwa Bank	3,831	11.0	3,613	1.5	3,805	17.9	3,709	35.1	14,958	15.2	1,349	8.2	0.6	2,690	2.6	0.00
2809 TT	King's Town Bank	2,019	140.2	1,220	(19.3)	628	(70.7)	1,157	(32.3)	5,024	(19.1)	-159	N.A.	N.A.	249	(81.5)	0.22
5876 TT	SCSB	4,335	1.7	1,468	(85.0)	4,748	628.4	2,819	N.A.	13,373	(8.8)	1,341	(6.6)	(21.9)	3,058	9.5	0.63
Total of 16 banks		88,292	9.0	80,078	(1.2)	91,353	24.6	67,681	26.4	327,652	13.4	29,433	15.4	(12.1)	62,912	6.4	

Source: Company data; KGI Research

Figure 5: February securities net profit fell 6% YoY on lower brokerage fee & investment income due to lower Taiex turnover & prices; Taiwan stock daily average turnover was NT\$500.4bn in February, up 11.7% MoM but down 2% YoY

NT\$m		1Q24		2Q24		3Q24		4Q24		2024		Feb-25			Jan-Feb 25		
FHC ticker	Subsidiary name	Earnings	YoY (%)	Earnings	YoY (%)	Earnings	YoY (%)	Earnings	YoY (%)	Earnings	YoY (%)	Earnings	YoY (%)	MoM (%)	Earnings	YoY (%)	EPS(NT\$)
2880 TT	Hua Nan Securities	490	122.8	570	21.6	606	24.7	242	(27.0)	1,907	26.6	102	(15.7)	22.9	184	(26.7)	0.28
2881 TT	Fubon Securities	2,344	52.8	2,629	45.2	3,150	53.7	1,970	25.9	10,090	45.0	840	6.3	82.6	1,300	(8.5)	0.80
2882 TT	Cathay Securities	908	94.5	1,258	117.8	1,186	120.9	830	56.2	4,180	97.9	400	81.8	66.7	640	18.5	0.83
2883 TT	KGI Securities	2,898	53.2	2,620	45.3	2,610	54.0	1,996	2.2	10,123	37.8	638	(31.0)	(9.5)	1,343	(35.4)	0.74
2884 TT	E.Sun Securities	414	44.8	646	98.1	644	81.4	473	47.2	2,175	68.8	172	44.5	32.3	302	14.4	0.75
2885 TT	Yuanta Securities	4,479	47.4	4,800	17.1	5,997	53.5	5,882	114.1	21,158	53.4	1,391	17.9	8.7	2,670	4.9	0.41
2886 TT	Mega Securities	887	90.6	608	(2.3)	806	49.1	249	(33.4)	2,550	27.3	130	(63.1)	(57.5)	436	(36.5)	0.38
2887 TT	Taishin Securities	642	49.3	845	90.8	464	94.5	410	(5.5)	2,360	52.8	400	73.9	166.7	550	61.8	0.80
2888 TT	MasterLink Securities	1,002	30.1	1,112	43.8	803	80.1	483	(5.3)	3,400	36.1	268	(22.8)	66.5	429	(24.7)	0.27
2890 TT	SinoPac Securities	1,533	90.3	1,375	49.6	1,621	21.7	1,294	66.1	5,828	51.9	787	85.6	208.6	1,042	14.9	0.63
2892 TT	First Securities	313	(5.5)	373	12.1	245	46.6	252	71.8	1,183	21.0	85	(17.5)	325.0	105	(31.4)	0.16
2855 TT	President Securities	1,726	277.2	1,344	14.8	540	(34.4)	764	78.4	4,373	51.9	40	(93.9)	(64.8)	154	(85.6)	0.11
5880 TT	Taiwan Cooperative Securities	184	348.8	43	(53.7)	53	(47.5)	-62	N.A.	218	7.8	-0	N.A.	N.A.	-13	N.A.	(0.03)
6005 TT	Capital Securities	1,357	22.3	1,249	14.7	1,245	16.0	1,145	33.3	5,396	30.6	433	(20.5)	9.2	830	(12.1)	0.35
Total of 14 brokerages		19,174	61.9	19,471	34.0	19,969	45.2	15,928	45.5	74,941	46.7	5,686	(6.2)	32.6	9,972	(15.9)	

Source: Company data; KGI Research

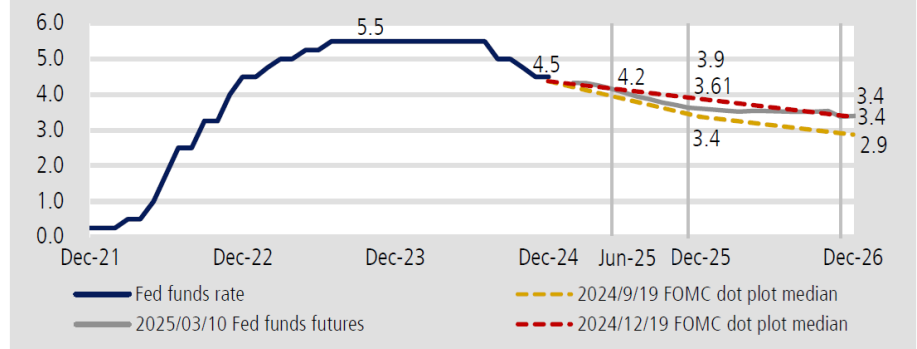
Figure 6: In February, Yulon Finance's (9941 TT, NT\$117.5, N) earnings declined 9% YoY and 4% MoM on lower interest income caused by sales decrease; Chailease's (5871 TT, NT\$124, N) earnings fell 24% YoY & 19% MoM on higher ECL YoY in China and lower sales due to lower working days; Hotai Finance's (6592 TT, NT\$77.7, N) 4Q24 net profit decreased 48% YoY on higher ECL & sales decline of 12% QoQ

NT\$m		1Q24		2Q24		3Q24		4Q24		2024		Feb-25			Jan-Feb 25		2025F
FHC ticker	Subsidiary name	Sales	YoY (%)	Sales	YoY (%)	Sales	YoY (%)	Sales	YoY (%)	Sales	YoY (%)	Sales	YoY (%)	MoM (%)	Sales	YoY (%)	Achieved(%)
5871 TT	Chailease	25,011	8.1	25,735	6.6	26,230	4.2	25,315	1.0	102,292	4.9	7,781	(2.7)	(5.8)	16,044	(1.3)	15.0
9941 TT	Yulon Finance	10,397	6.3	10,490	1.5	10,515	(1.6)	10,095	(5.6)	41,497	0.0	3,131	(5.0)	(2.7)	6,348	(7.6)	15.8
6592 TT	Hotai Finance	7,784	18.6	7,684	11.0	7,181	(4.3)	6,315	(17.7)	28,964	1.1	2,005	(21.0)	(1.7)	4,045	(21.9)	13.8
FHC ticker	Subsidiary name	Earnings	YoY (%)	Earnings	YoY (%)	Earnings	YoY (%)	Earnings	YoY (%)	Earnings	YoY (%)	Earnings	YoY (%)	MoM (%)	Earnings	YoY (%)	EPS(NT\$)
5871 TT	Chailease	5,815	(15.6)	6,409	3.8	6,179	(0.9)	4,166	(27.4)	22,570	(9.8)	1,480	(24.0)	(18.6)	3,298	(13.7)	1.97
9941 TT	Yulon Finance	1,304	(27.2)	1,343	(22.9)	1,587	(7.6)	865	(15.4)	5,099	(18.7)	387	(9.4)	(4.3)	792	(5.1)	1.37
6592 TT	Hotai Finance	840	(6.6)	1,024	15.5	727	(27.7)	465	(48.3)	3,055	(17.2)						

Source: Company data; KGI Research

Figure 7: Market expects a steeper Fed cut of 75-100bps in 2025F on recent poor US employment & consumption data; 2025F rate cut expectation will be adjusted on inflation growth & unemployment caused by Trump policies

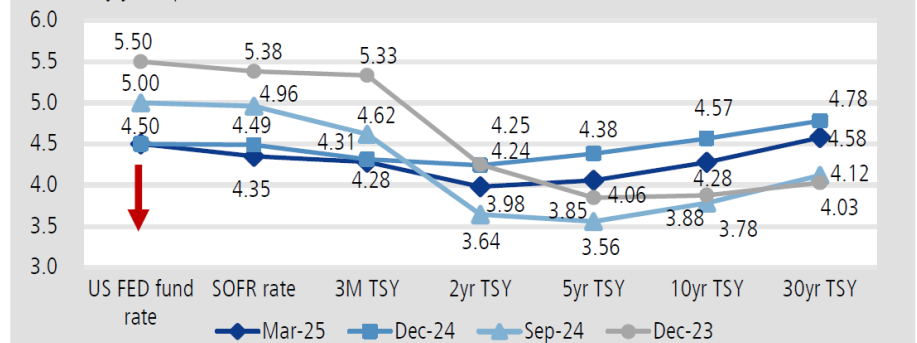
Federal funds rate & interest rate futures, percent



Source: Bloomberg; KGI Research

Figure 8: Since February, US Treasury 2-year yield has slipped 30bps, steeper than the 10-year & 30-year 24bps & 10bps; 2025F Treasury yield curve will be positively sloped, lowering US dollar funding costs, prompting banks & life insurers to allocate into high-yield overseas bonds

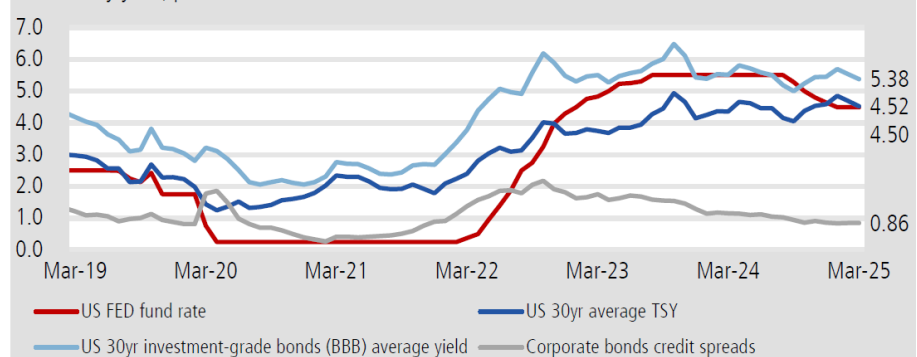
US Treasury yield, percent



Source: Bloomberg; KGI Research

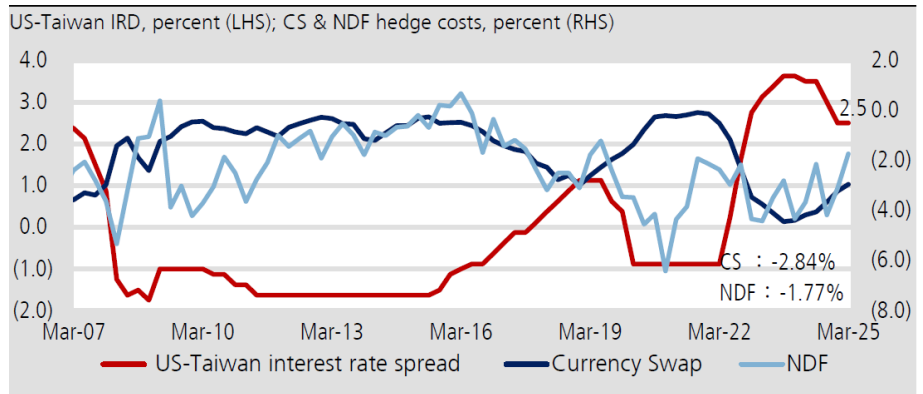
Figure 9: In March, US 30-year BBB-grade corporate bond yields decreased to 5.38% but credit spread was around 0.86%; life insurers & banks continue to buy high-yield overseas bonds to boost recurring yields

US Treasury yield, percent



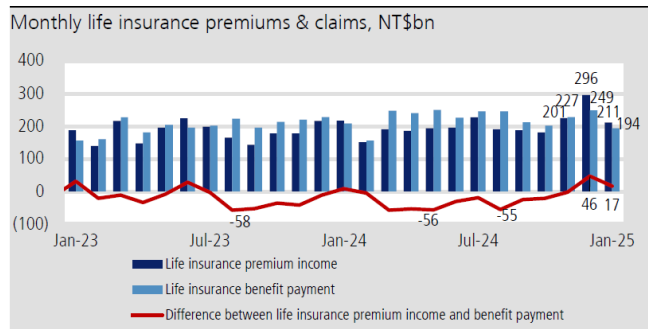
Source: Bloomberg; KGI Research

Figure 10: 1Q25 QTD CS swap points down to 2.8-2.9% on narrower US-Taiwan IRD of 2.5%; we forecast FX swap income will fall QoQ, suggesting life insurance CS hedge costs will also fall



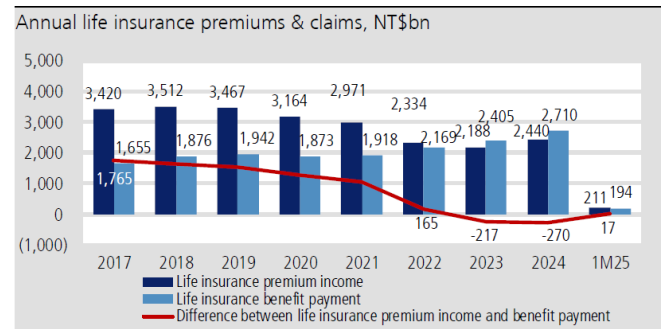
Source: Bloomberg; KGI Research

Figure 11: January premium income rebounded to NT\$211bn on higher declared interest rates on interest-sensitive policy, versus claim payments of NT\$194bn, resulting in higher premium income than claim payments for two straight months



Source: Insurance Bureau; KGI Research

Figure 12: In January, premium income was NT\$17bn higher than claim payments, an improvement, but premium income could be lower than claim payments in 2025F amid high interest rates



Source: Insurance Bureau; KGI Research

Figure 13: January NPL ratio rose 0.01ppts to 0.16%, with Mega Bank & SCSB up to a respective 0.3% and 0.27%

FHC/Bank ticker	Bank	Jan-25			Jan-25			Jan-25		
		NPL ratio (%)	MoM (ppts)	YTD (ppts)	NPL (NT\$m)	MoM	YTD	Coverage ratio (%)	MoM (ppts)	YTD (ppts)
2834 TT	Taiwan Business Bank	0.19	0.02	0.02	3,209	443	443	683	(107)	(107)
2801 TT	Chang Hwa Bank	0.18	0.02	0.00	3,612	514	514	704	(94)	(94)
2886 TT	Mega Bank	0.30	0.06	0.09	6,924	1,349	1,349	561	(141)	(141)
5880 TT	Taiwan Cooperative Bank	0.17	0.01	(0.02)	5,098	107	107	694	(16)	(16)
2892 TT	First Bank	0.17	0.00	0.00	4,473	(7)	(7)	826	7	7
2881 TT	Taipei Fubon Bank	0.12	0.00	0.00	2,767	10	10	1,093	9	9
2888 TT	Shin Kong Bank	0.12	0.00	0.00	1,015	4	4	1,087	1	1
2884 TT	E.Sun Bank	0.14	0.00	(0.02)	3,309	142	142	829	(40)	(40)
2880 TT	Hua Nan Bank	0.18	0.02	0.03	4,285	336	336	718	(51)	(51)
5876 TT	SCSB	0.27	0.02	0.09	2,389	133	133	480	(21)	(21)
2891 TT	CTBC Bank	0.16	0.00	(0.01)	5,233	352	352	751	(27)	(27)
2885 TT	Yuanta Bank	0.04	0.00	0.01	475	(42)	(42)	3,351	290	290
2890 TT	Bank Sinopac	0.16	0.00	0.07	2,657	106	106	835	(3)	(3)
2887 TT	Taishin Bank	0.13	0.00	0.03	2,202	3	3	997	11	11
2882 TT	Cathay United Bank	0.11	0.00	0.00	2,941	(2)	(2)	1,460	15	15
2809 TT	King's Town Bank	0.02	0.00	0.00	48	2	2	6,633	(238)	(238)
	Bank industry	0.16	0.01	0.01	68,504	7,119	7,119	846	(90)	(90)

Source: Company data; KGI Research

Figure 14: Given higher distributable earnings & double leverage ratios, we forecast cash dividends of NT\$1.85, NT\$4.0 & NT\$3.0 per share for CTBC, Fubon & Cathay FHC, for a yield of over 4.4%; E. Sun FHC's cash dividend is NT\$1.2 per share, yielding 4.1%

NT\$m		2023 undistributed earnings	4Q23 other equity interest	2024 net profit	4Q24F other equity interest	Reversal (Increase) in special reserve in 2024F	2024F distributable earnings	4Q24 Double leverage ratio (%)	2024F Cash dividend per share (NT\$)	vs.2023 Cash dividend per share (NT\$)	2024 Cash dividend growth rate	2024F Cash dividend yields
Ticker	Company											
2881 TT	Fubon FHC	254,407	(34,905)	151,160	(6,307)	28,598	419,049	115.29	4.00	2.50	60%	4.4%
2882 TT	Cathay FHC	160,807	(78,461)	110,270	(58,442)	20,019	280,069	118.01	3.00	2.00	50%	4.5%
2891 TT	CTBC FHC	56,517	(37,087)	72,028	(29,835)	7,252	128,594	120.36	1.85	1.80	3%	4.6%
2885 TT	Yuanta FHC	68,520	4,948	35,830	9,069	-	100,767	112.92	1.50	1.10	36%	4.2%
2886 TT	Mega FHC	42,820	3,143	34,766	1,282	-	74,109	116.11	1.60	1.50	7%	4.0%
2892 TT	First FHC	19,893	17,203	25,359	22,867	-	42,716	111.97	0.95	0.85	12%	3.4%
2890 TT	Sinopac FHC*	19,715	(5,158)	22,229	(5,691)	(533)	39,188	112.02	0.90	0.75	20%	4.0%
2880 TT	Hua Nan FHC*	15,148	(7,128)	19,743	(7,684)	(430)	32,487	118.65	0.91	0.65	40%	3.3%
5880 TT	Cooperative FHC*	11,039	(10,274)	23,123	(7,557)	2,591	34,440	120.78	1.25	1.20	4%	4.5%
2887 TT	Taishin FHC	9,345	(794)	20,064	(116)	794	28,198	112.38	0.70	0.60	17%	4.0%
2884 TT	E.Sun FHC	2,090	(1,979)	26,084	5,689	1,979	27,544	108.38	1.20	1.20	0%	4.1%
2888 TT	Shin Kong FHC*	(4,693)	(19,624)	20,386	(24,357)	(4,734)	8,920	105.43	0.20	-	na	1.6%
2889 TT	Waterland FHC*	3	771	2,171	833	-	1,957	118.58	0.30	0.73	-59%	2.2%

Note1: *2024F financial forecasts and dividend distributions for FHCs that are not rated are based on Bloomberg consensus or refer to past distribution rates.

Note2: We didn't factor in the loss or gains of fixed income under Reclassified Amortized Cost for reversal (increase) in special reserve in 2024F

Source: Company data; TEL; KGI Estimates

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