



Shin Kong Financial Holding Co. (2888 TT)

BUY

Financial

Financial Note

ML Research Team

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Recommendation

BUY

Date:	August. 23, 2005
Share Price (NT\$):	29.85
Price Target (NT\$):	36.65
Percent Change:	22.78%
52-wk range (NT\$):	22.36~31.08
TWSE:	6206.65

Company Data

Capital Size (NT\$):	40.19bn
Market Cap (NT\$):	119.98bn
Market Cap (US\$):	3.75bn
Outstanding Shrs:	4.02bn
Free Floating Shrs:	4.02bn
PER ('06E):	9.91x
PBR ('06E):	2.00x
Foreign Ownership:	25.24%
Major Shareholder:	Shing Shang 8.25%

Performance	1-m	3-m	6-m
Absolute	-3.65%	6.15%	4.77%
Relative to TAIEX	-0.95%	0.66%	3.09%

Key Changes	Current	Prev.
Recommendation	BUY	BUY
Price Target (NT\$)	36.65	36.10
06' Revenue (NT\$m)	15,121	15,985
06' Gross Margin (%)	100.00	100.00
06' Oper. Margin (%)	95.30	95.56
06' EPS (NT\$)	3.70	4.11

Price Catalysts (+,-)

(+) Improving banking profitability

(+) Capital gains from REITs issuance

Related Research

Cathay FHC (2882 TT)	Aug. 16, 2005
Shin Kong FHC (2888 TT)	Jun. 07, 2005

Shin Kong FHC July Earning Update and Target Price Adjustment

- **Shin Kong reported an accumulated net earning of NT\$6.47bn in July, which has met our previous earning estimate of NT\$8.69bn by 74.38%.** Shin Kong Life remains as the key contributor for 96.46% net earnings, while Shin Kong Bank continue to strengthen its profitability and accounts for 1.22% earnings.
- **Life Insurance's total Investment assets amounted to NT\$885.5bn with an average annualized yield of 5%.** Overseas investment, NT\$304.55bn or 34.39% investment fund pool, is generating a yearly investment return of 6% but is expected to spend a total of NT\$5.0bn this year for hedging cost. NT\$600~700mn more cash dividend will be collected in August, making a total of NT\$2.2bn cash dividend for 2005.
- **The REITs issuance is still under the approval procedure.** The related capital gains of NT\$3.0bn (MasterLink's estimate) might be postponed to 1Q06, which is the scenario of our current projection.
- **Shin Kong Bank is planning the deployment of wealth management business.** Total credit card circulation has reached 500K, plus Makoto's portion, the group currently owns a potential of 2,500K credit card customers, which has formed a good base for the bank's consumer banking business in the future.
- **No prosecution has filed to against the CEO Wu for suspected insider trading.** The company explained the traded shares did not belong to the CEO directly or indirectly. We believe Wu's family's control of the company and business operation remained intact, regardless potential prosecution in the future. Impact on the share movement should be temporary.
- **Possible merger price adjustment.** Retained earning might be charged to make up to Makoto for merge price difference once Shin Kong's share price went down to NT\$28.7 for more than 10 days.
- **NT\$35.39 target price.** Our 2005 and 2006 earnings are adjusted down respectively by 2.50% to NT\$8.48bn and by 5.49% to NT\$ 14.88bn for reflecting a combination of slightly higher-than-expected hedging costs and better banking subsidiary earnings. Buying recommendation retained with a new target price of NT\$36.65, which equals to 2.00x PB multiple of 2006's BV and 1.52% up from our previous target of NT\$36.10 (NT\$39.10 adjusted for dividend).

SK Life P&L					NT\$mn
Year to December	2002	2003	2004	2005E	2006E
Net Premium Revenue	107,264	123,550	139,673	150,847	165,931
Benefit to Policyholders	51,804	50,139	51,564	55,813	64,713
Net Provision & Reserve	126,277	127,279	149,924	161,029	174,228
Recoveries	46,721	39,765	38,939	42,237	53,098
Total Insurance Underwriting	(24,095)	(14,102)	(22,877)	(23,758)	(19,912)
Interest Income (Net)	17,625	19,131	23,868	28,012	29,903
Real Estate Investment (Net)	3,436	3,519	2,885	4,981	7,873
Other Investments (Net)	4,773	9,400	9,169	7,476	11,753
Other Operating Revenue (Net)	(307)	(289)	4,257	6,000	600
Total Operating Revenue	1,432	17,659	17,303	22,711	30,216
SG&A	16,577	14,166	12,689	15,019	17,416
Operating Earning (Net)	(15,145)	3,493	4,614	7,692	12,800
Non Operating (Net)	2,025	1,970	2,146	0	1,097
Pretax Earnings	(13,120)	5,463	6,759	7,692	13,897
Tax Expense	39	410	221	308	357
Net Earnings	(13,159)	5,053	6,539	7,384	13,540

SK FHC total assets controlled					NT\$m
Year to December	2002	2003	2004	2005E	2006E
Shin Kong Life Insurance	598,022	708,721	834,386	962,566	1,141,911
Makoto Bank	-	-	228,313	229,157	230,423
Shing Kong Bank	-	69,260	86,280	96,026	96,151
Shin Kong Securities	7,962	9,351	8,858	910	1,030
New Light Asset Management	-	-	312	362	412
Shin Kong Insurance Brokerage	-	15	44	62	82
Shin Kong F.H.C.	1,913	2,512	1,628	2,542	3,882
Total	607,897	789,860	1,159,820	1,291,625	1,473,891

SK FHC P&L					NT\$m
Year to December	2002	2003	2004	2005E	2006E
Shin Kong Life Insurance	(13,159)	5,053	6,429	7,384	13,540
Makoto Bank	-	-	-	844	1,266
Shin Kong Bank	-	(2,004)	28	96	125
Shin Kong Securities	-	373	90	90	120
New Light Asset Management	-	-	3	3	50
Shin Kong Insurance Brokerage	-	4	17	17	20
Other Investment Income	(804)	2,008	77	-	-
Total Investment Income	(13,963)	5,434	6,644	8,435	15,121
Shin Kong Life Insurance%	94.2%	93.0%	96.8%	87.5%	89.5%
Makoto Bank%	-	-	-	10.0%	8.4%
Shin Kong Bank%	-	-36.9%	0.4%	1.1%	0.8%
Shin Kong Securities%	-	6.9%	1.4%	1.1%	0.8%
New Light Asset Management%	-	-	0.00	0.0%	0.3%
Shin Kong Insurance Brokerage%	-	0.1%	0.3%	0.2%	0.1%
Other Investment Income%	5.8%	36.9%	1.2%	-	-
Total Investment Income%	100.0%	100.0%	100.0%	100.0%	100.0%
Operating Expenses	73	92	237	474	710
Operating Income	(14,037)	5,342	6,407	8,009	14,411
Non Operating (Net)	(44)	(93)	(50)	458	458
Pretax Earnings	(14,081)	5,249	6,357	8,467	14,868
Tax Expense	4	2	(15)	(10)	(10)
Net Earnings	(14,085)	5,247	6,372	8,477	14,878
EPS	(5.80)	2.21	2.14	2.11	3.70

SK FHC Balance Sheet					NT\$m
Year to December	2002	2003	2004	2005E	2006E
Cash & Equivalent	1,856	2,434	1,420	1,659	3,551
Marketable Security	55	-	-	-	-
Total Other Current Assets	1	77	204	878	326
Long-term Investment	22,900	38,333	60,760	75,110	84,313
Total Fixed Assets	1	1	4	5	5
Total Assets	24,812	40,845	62,387	77,652	88,195
S/T Borrowings	3,500	2,220	4,020	0	0
Payables & Other Current Liab.	5	67	488	608	690
Total L/T Liab.	-	10,000	13,759	13,815	13,815
Total Liab.	3,505	12,287	18,267	14,423	14,506
Common Shares	24,270	23,772	29,729	40,194	40,194
Reserve	15,699	2,888	8,020	12,697	13,342
Retained Earnings	(14,085)	5,245	6,463	10,429	20,245
Others	-	-	(63)	(63)	(63)
Treasury Stocks	(4,577)	(3,348)	(29)	(29)	(29)
Total Equity	21,307	28,557	44,121	63,229	73,689
Total Liabilities & Equity	24,812	40,845	62,388	77,652	88,195
Book Value	8.78	12.01	14.84	15.73	18.33

MasterLink Securities – Stock Rating System

BUY: Total return expected to appreciate 10% or more over a 3-month period.

HOLD: Total return expected to be between 10% to –10% over a 3-month period.

SELL: Total return expected to depreciate 10% or more over a 3-month period.

Additional Information Available on Request

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