# Pusan Bank 005280 KS

FINANCIALS | KOREA

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Maintained

BUY

NOMURA
NOMURA INTERNATIONAL (HK) LIMITED
SEOUL BRANCH

## First look

We see improvements across all key earnings drivers at Pusan Bank (PSB), resulting in 1Q07 net profit of W76bn, well ahead of our estimate of W64bn and consensus of W60bn. In particular, sequential improvement in NIM was encouraging (+7bps), boosting net interest income by 2% q-q. Furthermore, KAMCO-related one-off gains (W8bn) and provision write-backs (W9bn) boosted the bottom line. PSB also delivered better-than-expected NPL indicators.

| Earnings vs our forecast | ABOVE | IN LINE | BELOW |
|---|---|---|---|
| Likely impact: | | | |
| Earnings estimates | UP | NO CHANGE | DOWN |
| Dividend estimates | UP | NO CHANGE | DOWN |
| Recommendation | UPGRADE | NO CHANGE | DOWNGRADE |
| Fair value | UP | NO CHANGE | DOWN |
| Long term view | STRONGER | CONFIRMED | WEAKER |

## FIRST LOOK

### 1Q07 Results

First Look is the analyst's preliminary interpretation of the results announcement. Our recommendation and earnings estimates are not being changed in this report. Any formal changes to our recommendation or earnings estimates will be made in a subsequent report, which may differ from the preliminary views expressed in this report.

| | |
|---|---|
| Closing price on 17 Apr | W13,700 |
| Fair value estimate | **W16,000** |

# Improvements across the board

- PSB delivered better-than-expected net interest margin of 3.04% (non-cumulative, up 7bps q-q versus our forecast of a 1bps q-q increase), on favourable re-pricing for corporate loans. Loan growth was also healthy at 2.8% q-q and 24.9% y-y, led by strong SME lending (up 3.9% q-q). As a result, PSB posted decent growth in net interest income of 2.0% q-q, versus our estimate of 1.5% q-q.

- PSB posted two key one-offs: W8bn recoveries from contributions to KAMCO (unlisted) and W9bn in provision write-backs based on the new historical credit loss ratios. SG&A expenses were well controlled, growing 0.6% y-y, which cut the cost-to-income ratio to 41.4%, from 46.9% in 1Q06. We attribute the improvement partly to the positive impact from the restructuring in 4Q06.

### Exhibit 1. 1Q07 results

| (Wbn) | Actual | Nomura forecast | Variance |
|---|---|---|---|
| Operating income | 190 | 177 | 7.2 |
| PPOP | 111 | 102 | 9.1 |
| Net profit | 76 | 64 | 19.8 |
| Net interest margin (%) | 3.04 | 2.98 | +6bps |
| NPL ratio (%) | 0.79 | 0.85 | -6bps |

Source: Company data, Nomura International (HK) Limited, Seoul Branch

- NPL-related indicators continued to improve, with the NPL ratio at 0.79% (-4bps q-q) and new NPL formation totalling W11bn (down from W27bn in 4Q06). The healthy trends in NPL indicators should dispel concerns over credit quality deterioration at PSB, amid the hefty growth in SME loans last year.

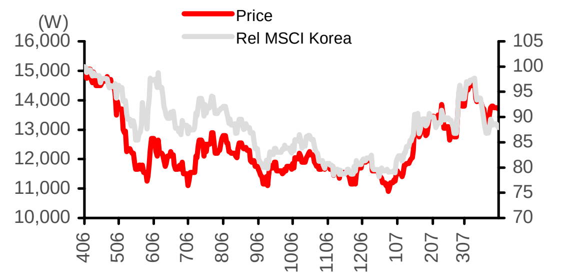
- Given the continuing improvements in key earnings drivers, we reiterate our BUY call. We think FY07F valuations of 1.45x P/BV and 8.0x P/E add to the appeal.

### Key financials & valuations

| 31 Dec (Wbn) | FY05 | FY06F | FY07F | FY08F |
|---|---|---|---|---|
| PPOP | 322.1 | 335.4 | 411.3 | 464.6 |
| Reported net profit | 178.7 | 183.9 | 252.6 | 282.0 |
| Normalised net profit | 178.7 | 183.9 | 252.6 | 282.0 |
| Normalised EPS (W) | 1,218 | 1,254 | 1,722 | 1,922 |
| Norm. EPS growth (%) | 34.4 | 2.9 | 37.4 | 11.6 |
| Norm. P/E (x) | 11.2 | 10.9 | 8.0 | 7.1 |
| Price/adj. book (x) | 1.75 | 1.57 | 1.45 | 1.34 |
| Price/book (x) | 1.75 | 1.57 | 1.45 | 1.34 |
| Dividend yield (%) | 3.0 | 3.1 | 4.3 | 5.0 |
| ROE (%) | 16.5 | 15.2 | 18.9 | 19.5 |
| ROA (%) | 0.99 | 0.90 | 1.11 | 1.15 |
| **Earnings revisions** | | | | |
| Previous norm. net profit | | na | na | na |
| Change from previous (%) | | na | na | na |
| Previous norm. EPS (W) | | na | na | na |

Source: Company, Nomura estimates

### Share price relative to MSCI Korea




| | 1m | 3m | 6m |
|---|---|---|---|
| Absolute (W) | (0.7) | 19.1 | 17.6 |
| Absolute (US$) | 0.9 | 20.1 | 20.8 |
| Relative to Index | (6.6) | 9.0 | 6.9 |
| Market cap (US$mn) | | | 2,163 |
| Estimated free float (%) | | | 100.0 |
| 52-week range (W) | | | 15,050/10,900 |
| 3-mth avg daily turnover (US$mn) | | | 7.91 |
| Major shareholders (%) | | | |
| CRMC | | | 11.7 |
| Aberdeen | | | 10.2 |

Source: Company, Nomura estimates

**See the important disclosures and analyst certifications on pages 2 to 5.**

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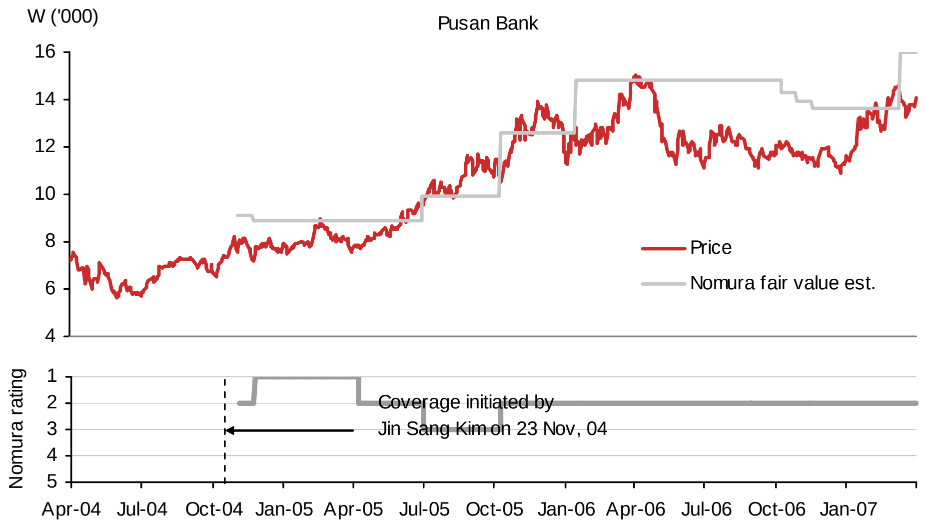
| Issuer | Ticker | Price (as at last close) | Closing Price Date | Rating | Disclosures |
|---|---|---|---|---|---|
| Pusan Bank | 005280 KS | 14050.00 KRW | 18 Apr 2007 | Buy | |

### Previous Ratings

| Issuer | Previous Rating | Date of change |
|---|---|---|
| Pusan Bank | Neutral | 28 Oct 2005 |

### Three-year stock price and rating history

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A rating of "4", or "**Reduce**," indicates that the analyst expects the stock to underperform the Benchmark by 5% or more but less than 15% over the next six months.
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