

## Industry Focus

1 April 2008 | 7 pages

# Taiwan Financials

## QFII Buying & Selling: Foreigners Take Profit Post Elections

- **Trimming into strength** — Foreign investors turned net sellers of Taiwanese financials in March 2008, disposing of a net of NT\$5.8bn worth of stock. Although QFII ownership peaked at 13% in March, post-election selling trimmed it to 12.5% by the end of the month, still up from 9.7% at end-07 but below a neutral weighting of 16-17% based on MSCI.
- **Bottom up not supportive of top down yet** — With sector P/B rebounding to trade above mean from -2 SD a few months back, we are not surprised to see a pullback in the short-term. Our recent visits to 12 rated and non-rated financial institutions confirm that while optimism in the sector's long-term prospects has improved post-elections, fundamentals also remain challenging. Banks remained cautious on wealth management and unsecured consumer, while insurance companies face risks on CDO exposure amid uncertainties in US markets and FX hedging losses as NT\$ strengthens.
- **Selling across the board with few exceptions** — In the past month, we saw the most net selling in Cathay, Fubon, Chinatrust, and Shin Kong. On the other hand, we note some buying in select government and mid-sized financial institutions. A notable exception is First FHC where investors net bought NT\$8.4bn during the month and NT\$19.2bn year-to-date.
- **Waiting for the next catalyst** — We still expect inflows and promises of secular change will drive a re-rating; however, a tough operating environment remains an overhang in the near-term. We look to concrete progress on cross-strait and a clearer reform agenda from the KMT to be the next catalysts, but this will probably not happen until after the new government officially takes over in May. In the meantime, we see pullbacks providing enhanced buying opportunities.
- **Sector strategy** — We continue to favor large cap and liquid names with the best franchises. On expectations of an improved reform environment, we prefer banks over non-banks and our top picks are First FHC and Chinatrust. We see trading in the insurers – Cathay and Shin Kong - will likely be range-bound for now taking into account uncertainties in overseas investments and NT\$ weakness, but could eventually benefit from asset reflation and as risks in global markets ease. We still like Yuanta as a good proxy for Taix upside and expect its re-rating can continue.

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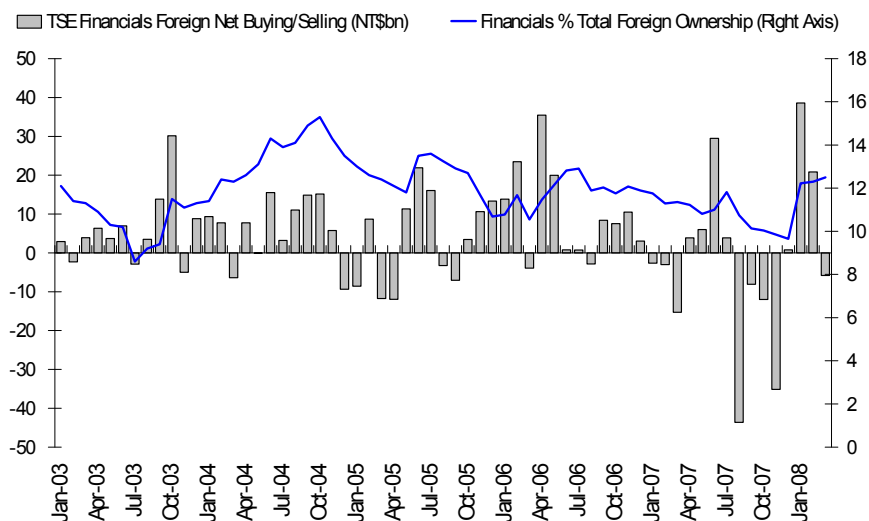
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Taiwan Financials — Monthly Net Foreign Buying and Selling Trends and QFII Ownership Levels



Source: Taiwan Economic Journal (TEJ), Citi Investment Research

Taiwan Financial Institutions – Foreign/Local Funds Net Buying and Selling Trends, Jan-Mar 2008 (NT\$m)

	Ticker	CIR	Jan. - Mar. 2008				
			Rec.	Foreigners	Amount	Locals	Amount
Chang Hwa Bank	2801.TW	1L	Seller		(2,023)	Buyer	1,048
China Life	2823.TW	NR	Buyer		2,342	Seller	(25)
Taiwan Business Bank	2834.TW	NR	Seller		(155)	Buyer	657
Bank of Kaoshiung	2836.TW	NR	Seller		(55)	Buyer	40
Cosmos Bank	2837.TW	NR	Seller		(40)	Buyer	0
Far Eastern Int'l Bank	2845.TW	NR	Seller		(361)	Buyer	25
Ta Chong Bank	2847.TW	NR	Buyer		314	Buyer	4
Polaris Securities	2854.TW	NR	Buyer		2,157	Buyer	1,711
Hua Nan FHC	2880.TW	NR	Buyer		3,189	Buyer	1,026
Fubon FHC	2881.TW	1L	Seller		(2,978)	Buyer	4,031
Cathay FHC	2882.TW	1L	Buyer		7,125	Buyer	4,129
China Development FHC	2883.TW	NR	Buyer		3,704	Buyer	168
E Sun FHC	2884.TW	1L	Buyer		1,631	Buyer	3
Yuanta FHC	2885.TW	1L	Buyer		13,291	Buyer	3,085
Mega FHC	2886.TW	2M	Buyer		3,524	Buyer	1,311
Taishin FHC	2887.TW	3M	Buyer		2,329	Buyer	77
Shin Kong FHC	2888.TW	1M	Seller		(4,295)	Buyer	192
Waterland FHC	2889.TW	NR	Buyer		350	Buyer	55
SinoPac FHC	2890.TW	1L	Buyer		1,000	Buyer	307
Chinatrust FHC	2891.TW	1L	Buyer		4,577	Buyer	3,736
First FHC	2892.TW	1L	Buyer		19,234	Buyer	3,913
Taiwan Cooperative Bank	5854.TW	NR	Buyer		3,229	Buyer	1,842

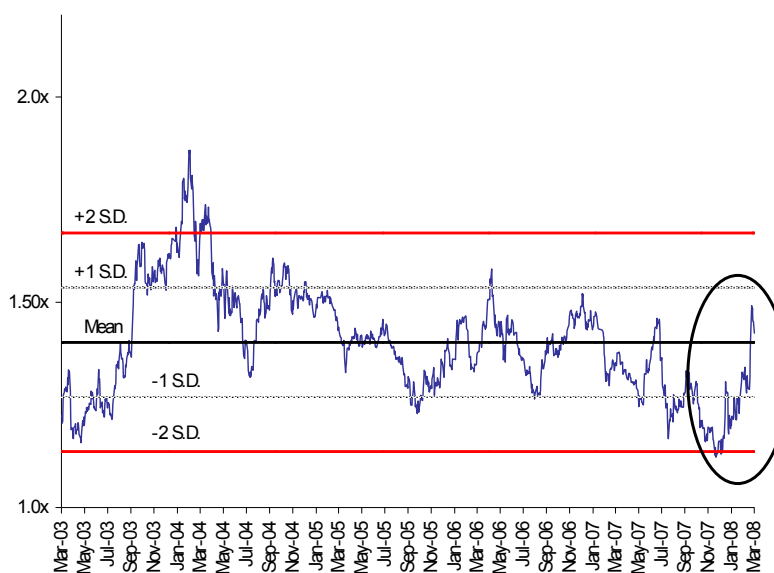
Source: TEJ, Citi Investment Research estimates

Taiwan Financial Institutions — Foreign/Local Funds Net Buying and Selling Trends, Mar 2008 (NT\$m)

	Ticker	CIR	Mar. 2008				
			Rec.	Foreigners	Amount	Locals	Amount
Chang Hwa Bank	2801.TW	1L	Seller		(522)	Buyer	418
China Life	2823.TW	NR	Buyer		642	Buyer	17
Taiwan Business Bank	2834.TW	NR	Seller		(673)	Buyer	605
Bank of Kaoshiung	2836.TW	NR	Seller		(18)	Buyer	66
Cosmos Bank	2837.TW	NR	Seller		(21)	Buyer	0
Far Eastern Int'l Bank	2845.TW	NR	Buyer		125	Buyer	2
Ta Chong Bank	2847.TW	NR	Buyer		229	Buyer	1
Polaris Securities	2854.TW	NR	Buyer		196	Buyer	1,526
Hua Nan FHC	2880.TW	NR	Buyer		1,423	Buyer	998
Fubon FHC	2881.TW	1L	Seller		(4,898)	Buyer	572
Cathay FHC	2882.TW	1L	Seller		(11,668)	Seller	(1,609)
China Development FHC	2883.TW	NR	Buyer		1,868	Buyer	155
E Sun FHC	2884.TW	1L	Buyer		767	Seller	(5)
Yuanta FHC	2885.TW	1L	Buyer		438	Buyer	1,379
Mega FHC	2886.TW	2M	Buyer		1,323	Buyer	963
Taishin FHC	2887.TW	3M	Buyer		407	Seller	(71)
Shin Kong FHC	2888.TW	1M	Seller		(1,273)	Seller	(345)
Waterland FHC	2889.TW	NR	Buyer		140	Buyer	41
SinoPac FHC	2890.TW	1L	Buyer		722	Buyer	83
Chinatrust FHC	2891.TW	1L	Seller		(3,339)	Buyer	1,741
First FHC	2892.TW	1L	Buyer		8,391	Buyer	2,107
Taiwan Cooperative Bank	5854.TW	NR	Buyer		1,963	Buyer	1,500

Source: TEJ, Citi Investment Research

Taiwan Financials — Sector Forward P/BV +/-SD Over 5 Year Mean, Mar 03-Mar 08 (Times)



Source: Citi Investment Research estimates

Taiwan Financials — Ratings and Valuation Summary, Apr 1, 2008 (NT Dollars, Times, Percent)

Name	RIC Code	CIR Rating	Price (NT\$)	Target (NT\$)	2007E (x, %)			2008E (x, %)			Dividend Yield (%)
					P/B	P/E	ROE	P/B	P/E	ROE	
Cathay FHC	2882.TW	Buy, 1L	76.00	92.00	3.2	23.4	14.6	3.0	22.6	13.7	2.6
Chang Hwa Bank	2801.TW	Buy, 1L	22.15	23.00	1.3	14.5	11.5	1.3	16.0	10.0	3.2
Chinatrust FHC	2891.TW	Buy, 1L	28.80	30.00	2.1	17.3	13.2	2.0	15.5	13.3	3.5
E Sun FHC	2884.TW	Buy, 1L	18.25	21.50	1.2	17.1	7.2	1.1	11.9	9.5	2.3
First FHC	2892.TW	Buy, 1L	31.85	35.00	1.5	15.6	10.8	1.4	15.1	10.8	3.5
Fubon FHC	2881.TW	Buy, 1L	33.75	38.00	1.6	18.1	8.7	1.5	14.7	10.5	3.6
Mega FHC	2886.TW	Hold, 2M	23.70	24.50	1.4	14.6	9.5	1.4	14.5	9.5	6.3
Shin Kong FHC	2888.TW	Buy, 1M	22.50	25.78	1.2	23.4	5.2	1.2	14.5	8.4	2.0
SinoPac FHC	2890.TW	Buy, 1L	13.95	16.00	1.1	39.7	2.8	1.1	18.2	5.9	1.8
Taishin FHC	2887.TW	Sell, 3M	14.50	12.50	1.2	21.2	5.7	1.1	16.5	6.8	1.8
Yuanta FHC	2885.TW	Buy, 1L	27.50	32.00	2.0	31.1	5.8	1.9	15.2	12.9	2.3

Source: Citi Investment Research estimates

## Appendix A-1

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