Morgan Stanley | RESEARCH

UPDATE

February 1, 2024 10:26 PM GMT

Taiwan Financials | Asia Pacific

SG/HK Marketing Feedback – Focus on dividends in 1H; looking for rate cut beneficiaries

We see investors focused on dividend distribution in 1H and interested in rate-cut plays.

We had insightful discussions with ~20 investors from Singapore and Hong Kong over Jan 29 to Feb 1: More than 50% of the investors we spoke with are focused on potential dividend distribution upside from banks in 1H and agreed that Taiwan insurers are facing a structural issue in their businesses, which market funds of >NT $600bn flow out from insurance policies to other savings-type products such as bonds and ETF funds, leading to premium expense exceeding premium income. Also, despite potential rate cuts likely lowering currency swap cost this year, hedging cost remains pressured due to potential FX losses amid the NTD's appreciation against the USD and higher FX gain base as a result of the new FX reserve rule allowing them to book full FX gain when their FX reserve reaches its upper limit. This is not likely to happen this year as insurers' FX reserves fell below their upper limit last November to December. Although insurers' Jan-24 earnings might show relatively strong QoQ/YoY growth due to realized gains, FX gains and the low base, we remain neutral on this group and prefer better valued banks such as CTBC and SinoPac. Yuanta and Chailease will be the key beneficiaries from the rate cut trend, in our view.

Investor Presentation: Taiwan Financials

MORGAN STANLEY TAIWAN LIMITED+

Peggy Shih
Equity Analyst
Peggy.Shih@morganstanley.com +886 2 2730-2864

Lucas Wang
Research Associate
Lucas.Wang@morganstanley.com +886 2 2730-2875

Morgan Stanley appreciates your support in the 2024 Institutional Investor All-Asia Research Team Survey. Request your ballot here.

TAIWAN FINANCIALS	
Asia Pacific	
Industry View	**Attractive**

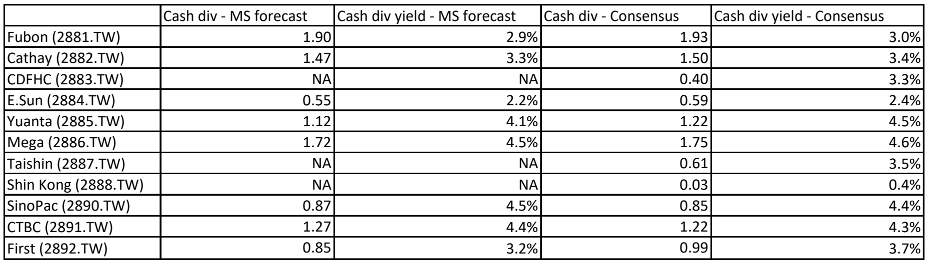
Marketing Feedback

1) Which bank would be able to pay more cash dividends at higher dividend yields? Could the FSC's latest relaxation of regulations regarding dividend distribution from capital surplus drive FHCs to pay more cash dividends for 2023?

Financial holding companies (FHCs) only needed to put aside a Special Reserve for additional movement of negative Other Equity and asset reclassification (AC) in 2023, and do not have to backfill Special Reserves for AC in 2022 with 2023 unappropriated earnings. Therefore, we expect FHCs' 2023 unappropriated earnings to generally turn positive and support their 2023 dividend distribution. Also, with strong 2023 earnings growth of 32% YoY for 11 major FHCs and less mark-to-market impact from fair-value-through-other-comprehensive-income (FVOCI) assets in 2023, we expected greater dividend distribution from FHCs in 2023 compared to 2022. We project a 2023 dividend yield of ~3.7% for Taiwan financials under our coverage – higher than the <3% offered by Taiex.

In conclusion, we think bank-centric FHCs are likely to maintain cash dividend payouts of 50-70% given their adequate capital ratios. Implementation of IFRS 17 and ICS 2.0 in 2026 should see insurance-centric FHCs become more conservative on their dividend distribution, in our view, with payout ratios of 30-40%, implying unattractive 2023 dividend yields <4%. Under our coverage, we project CTBC and Mega to pay >NT$1.25 and >NT$1.7 cash dividends, resulting in dividend yields of ~4.5% (highest in our coverage), while SinoPac and Yuanta are likely to deliver a little less at 4-4.5%.

Exhibit 1: 2023 cash dividends and cash dividend yields



	Cash div - MS forecast	Cash div yield - MS forecast	Cash div - Consensus	Cash div yield - Consensus
Fubon (2881.TW)	1.90	2.9%	1.93	3.0%
Cathay (2882.TW)	1.47	3.3%	1.50	3.4%
CDFHC (2883.TW)	NA	NA	0.40	3.3%
E.Sun (2884.TW)	0.55	2.2%	0.59	2.4%
Yuanta (2885.TW)	1.12	4.1%	1.22	4.5%
Mega (2886.TW)	1.72	4.5%	1.75	4.6%
Taishin (2887.TW)	NA	NA	0.61	3.5%
Shin Kong (2888.TW)	NA	NA	0.03	0.4%
SinoPac (2890.TW)	0.87	4.5%	0.85	4.4%
CTBC (2891.TW)	1.27	4.4%	1.22	4.3%
First (2892.TW)	0.85	3.2%	0.99	3.7%

Source: Bloomberg; Morgan Stanley Research estimates

In relation to the FSC's relaxation of regulations for FHCs regarding dividend distribution from capital surplus, we believe FHCs with good 2023 profits and positive undistributed earnings in 2023 will not need to use their capital surplus to distribute dividends. The FSC's favorable policy is usually applied under two different scenarios, such as we've seen recently: 1) when undistributed earnings for 2022 were zero due to being used to offset unrealized losses; and 2) when profits in 2018 were insufficient due to lower trading gains/ impact of unrealized losses under the rate hike cycle. As such, Cathay FHC and Shin Kong FHC (not covered) used their capital surplus to pay dividends for 2018 in 2019. The policy cannot be applied to Shin Kong FHC (not covered) this time as it is already in a net loss position for 2023 so will not be able to pay any dividends.

The FSC has also allowed banks to apply the Internal Ratings-based (IRB) approach for credit risk capital calculations in 1H24. So far, we know that E.Sun and six other domestic systemically important banks (D-sib) - such as Cathay, Fubon, CTBC, Mega, First and

Taiwan Cooperative Bank - are planning to use the IRB approach before June. Based on their different levels of loan risk, we expect Fubon, E.Sun, Cathay, CTBC and First to enhance their capital adequacy ratios by 4-5%, >3%, ~3%, 2-3% and ~1.5%, respectively. This will also allow for greater dividend distribution in the future.

2) What is the main business driver for 2024 earnings growth of Taiwan financials?

In 2023, first year premium (FYP) fell to NT$671.3bn, down 13% YoY (NB now also down 50% from the FYP peak of NT$1.4tn in 2018). Market funds also flowed out from insurance policies to wealth management (WM) products (such as bond-related products) and high-dividend ETF funds. We expect this trend to remain unchanged in 2024 and continue to benefit banks and securities through transaction fees and mutual funds through management fees. This is because the guarantee rates and declare rates of insurance policies of ~2.2% and 3.5-4% are less competitive than high dividend yield ETF funds and US bond yields. Insurers are also not inclined to issue savings-type products to attract market funds as their focus switches to accumulating CSM for IFRS 17 and ICS 2.0 implementation by selling more protection-type products. Therefore, we believe WM management fees will remain the key driver of 2024 earnings growth. CTBC - with the largest wealth management AUM and client base in the space (1.5-2x bigger than peers) - delivered double-digit fee income growth in 9M23. This is indicative of its capabilities in developing financial products such as structured notes and bond-related products as well as its stronger bank channels.

3) Will banks' 2024 earnings decline due to a higher base of currency swap (CS) gains? Will insurers' earnings grow due to the lower base of earnings from 2023?

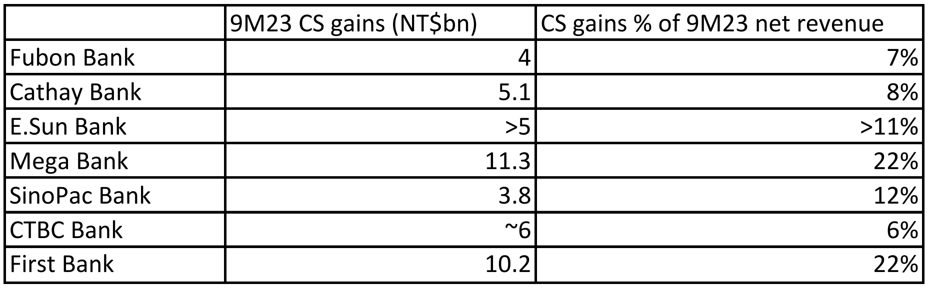
If the majority of a bank's profit in 2023 came from CS gains, and its core business showed lacklustre growth in 2023, we believe its 2024 earnings are more likely to decline. We found that Mega and First had higher CS gains contribution in 9M23, accounting for ~22% of their 9M23 net revenue, followed by E.Sun and SinoPac with >11% contribution, while CTBC bank had the lowest 6 %.

On the other hand, we expect banks' loan growth to be better at around 6.8% YoY in 2024 vs. 5.5% YoY in 2023, implying higher LDR of >70% in 2024 from 69% in 2023. In addition, banks usually hold bonds with a 2-4 year duration, so higher reinvestment yields could gradually cover rising FX funding costs. Also, we expect stronger net fee income growth of 8-10% YoY in 2024 up from 6-8% YoY in 2023 amid a better economic recovery. With low credit costs of 15-17bps and cost-income ratio of ~51%, we expect Taiwan banks' 2024 earnings to remain resilient with ROE >8%, still above 2019-23 average of 7.7%.

For insurers, we expect 2024 pre-hedge recurring yield to improve by ~5-10bps YoY, lower than 2023's improvement of 10-20bps YoY, due to lower new money and reinvestment positions, as declining sales of first year premium (FYP) are unlikely to improve in the short term while USD-denominated asset yields remain high. We also think that 2024 hedging costs are likely to be higher than they were in 2023, as there is now greater chance of the NTD appreciating against the USD if the Fed cuts rates and the CBC holds. We also expect traditional hedging costs (CS costs) to remain high at around 3.5%. As such, we expect 2024 hedging costs to rise to 1.4-1.6% for insurers from ~1% in 2023. Overall, we expect after-hedge recurring yields to continue to fall in 2024. As for capital gains, we do not expect insurers' capital gains in 2024 to be similar to their 2019-21 levels.

As most insurers reclassify their bond positions from FVOCI assets to AC assets, which accounted for 75-95% of total bond positions in 2023, we expect to see limited realized gains from these positions. Realized gains should continue to come from the equity position in 2024, as was the case in 2023. However, with a higher Taiex base of 16,000-17,000 currently, capital gains from equity positions in 2024 may not reach the same level as in 2019-21 as the Taiex base was below 10,000 in 2019.

Exhibit 2: 9M23 CS gains % of 9M23 net revenue for major banks



	9M23 CS gains (NT$bn)	CS gains % of 9M23 net revenue
Fubon Bank	4	7%
Cathay Bank	5.1	8%
E.Sun Bank	>5	>11%
Mega Bank	11.3	22%
SinoPac Bank	3.8	12%
CTBC Bank	~6	6%
First Bank	10.2	22%

Source: Company data; Morgan Stanley Research

4) How much will insurers benefit by lowering currency swap costs amid rate cuts?

As >60% of Taiwan life insurers' invested assets are in USD and only 30-40% of their insurance premiums are in USD, life insurers need to hedge their foreign assets to avoid FX risk. They usually hedge 30-40% of their foreign assets using CS and non-deliverable forward (NDF) tools (traditional hedge), with 10-20% naked and proxy hedges, with the remaining 30-40% in insurance policies in foreign currencies and 10-20% in foreign equities with FX rates reflected in net worth.

For traditional hedges, the CS price generally depends on the spread between USD and NTD rates. Historically, when the USD rate is 1% lower than the NTD rate, the CS price is around 0-1%. When the USD rate is equal to the NTD rate, the CS price is 1-2%. When the USD rate is higher than the NTD rate by ~1%, the CS price is around 2-3%.

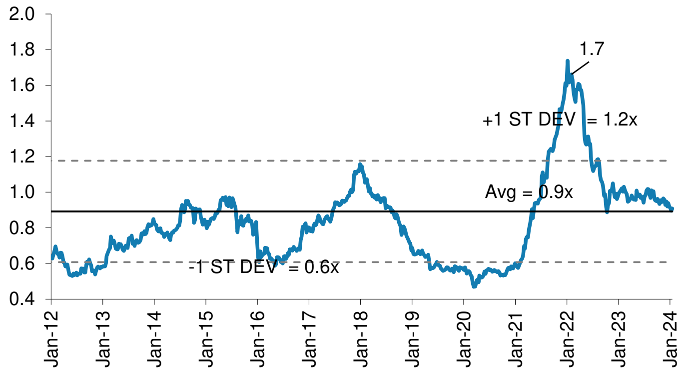
As such, based on our house view forecast of a 1% Fed rate cut in 2024 and no CBC rate cut in 2024, the spread of the USD and the NTD rate should remain wide at 2.6% in 2024. This implies the CS cost will decline from the 2023 level of ~4-4.5% to ~3-4%, down about 20%, which is still double the 10-20 year historical average of <1.5%. Insurers also have higher FX bases as a result of the new FX reserve rule allowing them to book full FX gains when their FX reserve reaches its upper limit. This is not likely to happen this year as insurers' FX reserves fell below their upper limit last November to December. Falling CS costs are also likely to be offset by FX losses amid the NTD's appreciation against the USD on the back of rate cuts in 2024 (our forecast).

5) What were the P/B valuations of Cathay and Fubon during the last rate-cut cycle? Would insurers enjoy a P/B re-rating because of book value enhancement?

Due to the accounting rule change in 2018 (IFRS 9 implementation), we would suggest referencing P/B valuations for Cathay and Fubon from 2018 onwards. Given the significant fall in both of their book values in 2022 on the back of the Fed's rapid rate hikes, we would also recommend not referencing these companies' 2022 P/B valuations. Therefore we can see that both companies' P/B valuations were re-rated in 2021 and peaked at the beginning of 2022 as strong 2021 earnings driven by substantial capital gains gave the market higher expectations for 2021 dividend distribution. Although Cathay and Fubon both paid historically high cash dividends of NT$3.50 for 2021 in 2022, their share prices declined from 2Q22 on the back of sharp Covid policy losses and largely shrinking book value owing to the Fed's rapid rate hikes.

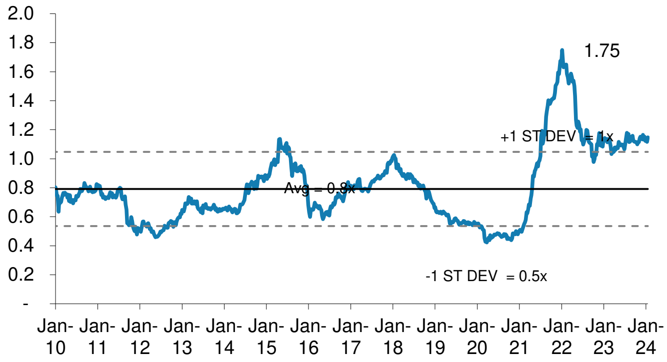
Although Cathay and Fubon's book values will likely be enhanced under any rate-cut cycle in 2024-25, we expect declining ROE for insurance companies if structural issues (premium expense exceeding premium income) and hedging cost pressure are not resolved in the near term. In our view, this will prevent any re-rating amid any rate-cut cycle this time around.

Exhibit 3: Cathay's P/B valuation (based on looking-forward book value)



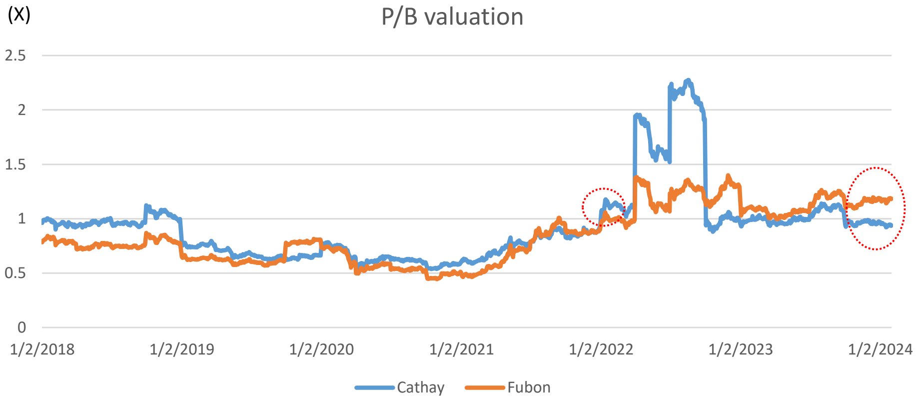
Source: TEJ; Bloomberg; Morgan Stanley Research estimates

Exhibit 4: Fubon's P/B valuation (based on looking-forward book value)



Source: TEJ; Bloomberg; Morgan Stanley Research estimate

Exhibit 5: Cathay and Fubon's P/B valuation based on book value at that time



Source: TEJ; Morgan Stanley Research estimates

6) What do we think of Chailease's loan growth and asset quality in China? What are the stock's catalysts?

Chailease's new NPL formation increased 15% QoQ (+RMB100mn) in 3Q in China. As new NPL formation is usually derived from loans launched 10-12 months ago, we think there is still a chance of new NPL formation increasing QoQ in 4Q as China's loan growth was up 2-3% QoQ in 3Q22 and 4Q22. However, management have indicated that the collection rate of accounts receivable was stable in 10M23. In our view, this indicates that the collection rate of the new loan business is likely to be better, offsetting the deteriorated collection rate of the old loan business, which derived new NPL formation. So far, the old loan and new loan businesses account for 30-40% and 60-70%, respectively, of Chailease's total China loans in 2023. As such, with the decline in China's loan growth in 1H23, we expect new NPL formation may drop in 2Q24 if the asset quality of the new loan business is sustainable. According to management, they have kept China's delinquency rate and credit cost at around ~4% and ~2%, respectively, in 2023, and there is no specific timeline for China's delinquency ratio to peak out, as it depends on China's economic recovery in 2024.

China's 2023 loan growth is likely to reach 7-8% YoY, while 4Q23 spread is likely to improve QoQ amid falling funding costs. Management would like to see China's asset quality stabilize for a period of time before accelerating China's loan growth in 2024.

Overall, we believe Chailease's share price has derated given its 2023 earnings decline and the share price could consolidate at around NT$170-180 if there is no significant asset quality deterioration in China. In our view, the major share price catalysts are: 1) China's economy recovering, boosting asset quality and loan growth; and 2) relatively low base in 2Q and Taiwan business recovery driving 2Q24 earnings growth.

Risk Reward – CTBC Financial Holding Co Ltd (2891.TW)

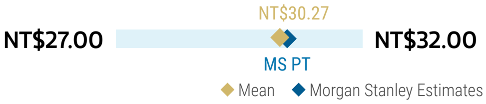
Strong fee income recovery with improving adjusted NIM from Bank

PRICE TARGET NT$30.40

Base case, sum of the parts.

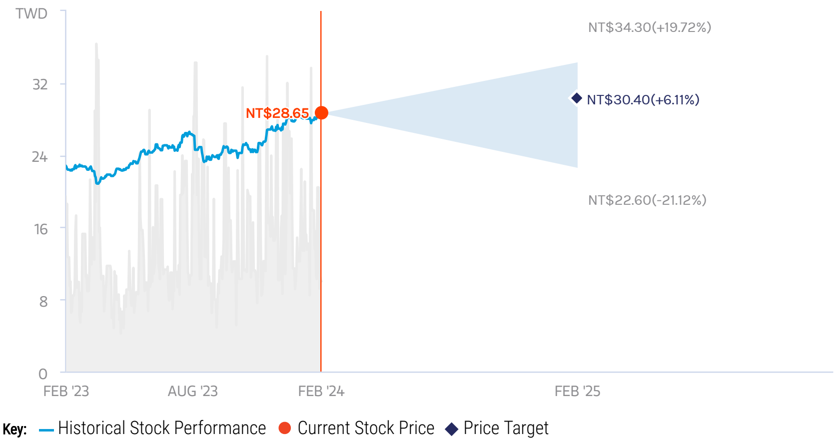
- **Bank business:** Gordon Growth model, assuming 7.9% cost of equity, 10.5% sustainable ROE and 2% terminal growth rate. We apply the resulting 1.4x multiple to our 2024 book value estimate.
- **Life business:** We apply a discount of 140bp to the company's EV assumption.

Consensus Price Target Distribution



Source: Refinitiv, Morgan Stanley Research

RISK REWARD CHART

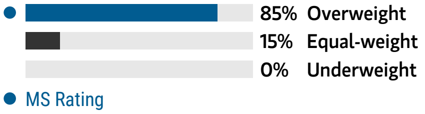


Source: Refinitiv, Morgan Stanley Research

OVERWEIGHT THESIS

- ■ We expect solid core earnings growth in 2024 for CTBC banks, given CTBC's larger USD asset, FX loan positions relative to peers, and fee income recovery momentum.
- ■ Taiwan Life (CTBC's life subsidiary) has fewer capital concerns compared with other insurers in Taiwan but is facing larger hedging costs than in 2022/23.
- ■ Valuation looks attractive to us, given ROE outlook of >12% in 2023-24e with dividend yield of >4%.

Consensus Rating Distribution



Source: Refinitiv, Morgan Stanley Research

BULL CASE NT$34.30

1.4x bull-case 2024e BVPS

Bond yield hike and private banking are much stronger than expected.

BASE CASE NT$30.40

1.3x base-case 2024e BVPS

Rate-hike policy drives core earnings growth and good asset quality supports dividend payout.

BEAR CASE NT$22.60

0.9x bear-case 2024e BVPS

The economy weakens more than expected owing to serious inflation risks. Also, CTBC faces higher funding costs as the CBC (Taiwan's central bank) has requested that banks raise the demand deposit rate following rate hikes since 2022.

Risk Reward – CTBC Financial Holding Co Ltd (2891.TW)

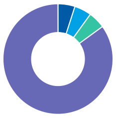
KEY EARNINGS INPUTS

Drivers	2022	2023e	2024e	2025e
Total Fee Growth (%)	(8.1)	12.1	7.9	5.5
Loan Growth (%)	17.1	10.0	9.1	7.4
Credit Cost(bp)	27	30	31	33
Cost to Income Ratio (%)	53	53	51	50
Net Interest Margin (%)	1.51	1.53	1.53	1.55

INVESTMENT DRIVERS

- Stronger economic recovery for better loan growth and NIM expansion via better loan mix
- US interest rate hike that drives NIM expansion
- Further upturn in US 10-year treasury bond yields with yield curve steepening

GLOBAL REVENUE EXPOSURE



● 0-10%	Japan
● 0-10%	Mainland China
● 0-10%	North America
● 80-90%	APAC, ex Japan, Mainland China and India

Source: Morgan Stanley Research Estimate
View explanation of regional hierarchies here

MS ALPHA MODELS

2/5 MOST 3 Month Horizon

Source: Refinitiv, FactSet, Morgan Stanley Research; 1 is the highest favored Quintile and 5 is the least favored Quintile

RISKS TO PT/RATING

RISKS TO UPSIDE

- Better revenue growth from fee income and loan growth.
- Positive rate hike outlook in the US and Taiwan.
- Steepening yield curve to boost Taiwan Life's profit.

RISKS TO DOWNSIDE

- NIM compression or a spike in NPLs.
- Deterioration in the health of Taiwan's exporters, which results in corporate defaults, leading to an increase in bad debt charges.
- Uncertainties in overseas business especially in China.

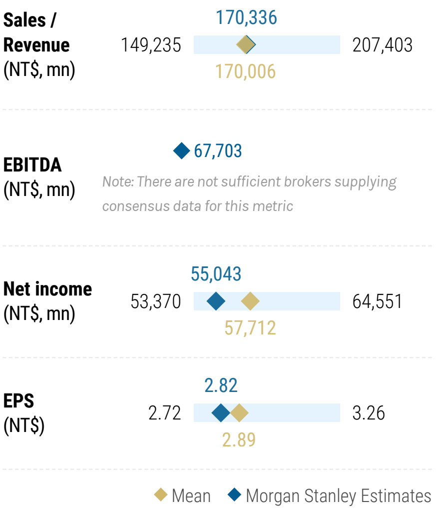
OWNERSHIP POSITIONING

Inst. Owners, % Active 64.1%

Source: Refinitiv, Morgan Stanley Research

MS ESTIMATES VS. CONSENSUS

FY Dec 2023e



Source: Refinitiv, Morgan Stanley Research

Risk Reward Reference links

1. View explanation of Options Probabilities methodology - Options_Probabilities_Exhibit_Link.pdf

2. View descriptions of Risk Rewards Themes - RR_Themes_Exhibit_Link.pdf

3. View explanation of regional hierarchies - GEG_Exhibit_Link.pdf

4. View explanation of Theme/Exposure methodology - ESG_Sustainable_Solutions_External_Link.pdf

5. View explanation of HERS methodology - ESG_HERS_External_Link.pdf

Disclosure Section

The information and opinions in Morgan Stanley Research were prepared or are disseminated by Morgan Stanley Asia Limited (which accepts the responsibility for its contents) and/or Morgan Stanley Asia (Singapore) Pte. (Registration number 199206298Z) and/or Morgan Stanley Asia (Singapore) Securities Pte Ltd (Registration number 200008434H), regulated by the Monetary Authority of Singapore (which accepts legal responsibility for its contents and should be contacted with respect to any matters arising from, or in connection with, Morgan Stanley Research), and/or Morgan Stanley Taiwan Limited and/or Morgan Stanley & Co International plc, Seoul Branch, and/or Morgan Stanley Australia Limited (A.B.N. 67 003 734 576, holder of Australian financial services license No. 233742, which accepts responsibility for its contents), and/or Morgan Stanley Wealth Management Australia Pty Ltd (A.B.N. 19 009 145 555, holder of Australian financial services license No. 240813, which accepts responsibility for its contents), and/or Morgan Stanley India Company Private Limited having Corporate Identification No (CIN) U22990MH1998PTC115305, regulated by the Securities and Exchange Board of India ("SEBI") and holder of licenses as a Research Analyst (SEBI Registration No. INH000001105); Stock Broker (SEBI Stock Broker Registration No. INZ000244438), Merchant Banker (SEBI Registration No. INM000011203), and depository participant with National Securities Depository Limited (SEBI Registration No. IN-DP-NSDL-567-2021) having registered office at 18th Floor, Tower 2, One World Center, Plot- 841, Jupiter Textile Mill Compound, Senapati Bapat Marg, Lower Parel, Mumbai 400013, India Telephone no. +91-22-61181000; Compliance Officer Details: Mr. Tejarshi Hardas, Tel. No.: +91-22-61181000 or Email: tejarshi.hardas@morganstanley.com; Grievance officer details: Mr. Tejarshi Hardas, Tel. No.: +91-22-61181000 or Email: msic-compliance@morganstanley.com which accepts the responsibility for its contents and should be contacted with respect to any matters arising from, or in connection with, Morgan Stanley Research, and their affiliates (collectively, "Morgan Stanley").

For important disclosures, stock price charts and equity rating histories regarding companies that are the subject of this report, please see the Morgan Stanley Research Disclosure Website at www.morganstanley.com/researchdisclosures, or contact your investment representative or Morgan Stanley Research at 1585 Broadway, (Attention: Research Management), New York, NY, 10036 USA.

For valuation methodology and risks associated with any recommendation, rating or price target referenced in this research report, please contact the Client Support Team as follows: US/Canada +1 800 303-2495; Hong Kong +852 2848-5999; Latin America +1 718 754-5444 (U.S.); London +44 (0)20-7425-8169; Singapore +65 6834-6860; Sydney +61 (0)2-9770-1505; Tokyo +81 (0)3-6836-9000. Alternatively you may contact your investment representative or Morgan Stanley Research at 1585 Broadway, (Attention: Research Management), New York, NY 10036 USA.

Analyst Certification

The following analysts hereby certify that their views about the companies and their securities discussed in this report are accurately expressed and that they have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report: Peggy Shih.

.

Global Research Conflict Management Policy

Morgan Stanley Research has been published in accordance with our conflict management policy, which is available at www.morganstanley.com/institutional/research/conflictpolicies. A Portuguese version of the policy can be found at www.morganstanley.com.br

Important Regulatory Disclosures on Subject Companies

As of December 29, 2023, Morgan Stanley beneficially owned 1% or more of a class of common equity securities of the following companies covered in Morgan Stanley Research: Chailease Holding Co Ltd.

In the next 3 months, Morgan Stanley expects to receive or intends to seek compensation for investment banking services from Cathay Financial Holdings Co Ltd, Chailease Holding Co Ltd, CTBC Financial Holding Co Ltd, E.Sun Financial Holding Co, Fubon Financial Holdings Co Ltd., Yuanta Financial Holding Co. Ltd.

Within the last 12 months, Morgan Stanley has received compensation for products and services other than investment banking services from Cathay Financial Holdings Co Ltd, CTBC Financial Holding Co Ltd, E.Sun Financial Holding Co, First Financial Holding Co Ltd, Fubon Financial Holdings Co Ltd., Mega Financial Holding Co Ltd, SinoPac Financial Holdings Company, Yuanta Financial Holding Co. Ltd.

Within the last 12 months, Morgan Stanley has provided or is providing investment banking services to, or has an investment banking client relationship with, the following company: Cathay Financial Holdings Co Ltd, Chailease Holding Co Ltd, CTBC Financial Holding Co Ltd, E.Sun Financial Holding Co, Fubon Financial Holdings Co Ltd., Yuanta Financial Holding Co. Ltd.

Within the last 12 months, Morgan Stanley has either provided or is providing non-investment banking, securities-related services to and/or in the past has entered into an agreement to provide services or has a client relationship with the following company: Cathay Financial Holdings Co Ltd, Chailease Holding Co Ltd, CTBC Financial Holding Co Ltd, E.Sun Financial Holding Co, First Financial Holding Co Ltd, Fubon Financial Holdings Co Ltd., Mega Financial Holding Co Ltd, SinoPac Financial Holdings Company, Yuanta Financial Holding Co. Ltd.

The equity research analysts or strategists principally responsible for the preparation of Morgan Stanley Research have received compensation based upon various factors, including quality of research, investor client feedback, stock picking, competitive factors, firm revenues and overall investment banking revenues. Equity Research analysts' or strategists' compensation is not linked to investment banking or capital markets transactions performed by Morgan Stanley or the profitability or revenues of particular trading desks.

Morgan Stanley and its affiliates do business that relates to companies/instruments covered in Morgan Stanley Research, including market making, providing liquidity, fund management, commercial banking, extension of credit, investment services and investment banking. Morgan Stanley sells to and buys from customers the securities/instruments of companies covered in Morgan Stanley Research on a principal basis. Morgan Stanley may have a position in the debt of the Company or instruments discussed in this report. Morgan Stanley trades or may trade as principal in the debt securities (or in related derivatives) that are the subject of the debt research report.

Certain disclosures listed above are also for compliance with applicable regulations in non-US jurisdictions.

STOCK RATINGS

Morgan Stanley uses a relative rating system using terms such as Overweight, Equal-weight, Not-Rated or Underweight (see definitions below). Morgan Stanley does not assign ratings of Buy, Hold or Sell to the stocks we cover. Overweight, Equal-weight, Not-Rated and Underweight are not the equivalent of buy, hold and sell. Investors should carefully read the definitions of all ratings used in Morgan Stanley Research. In addition, since Morgan Stanley Research contains more complete information concerning the analyst's views, investors should carefully read Morgan Stanley Research, in its entirety, and not infer the contents from the rating alone. In any case, ratings (or research) should not be used or relied upon as investment advice. An investor's decision to buy or sell a stock should depend on individual circumstances (such as the investor's existing holdings) and other considerations.

Global Stock Ratings Distribution

(as of January 31, 2024)

The Stock Ratings described below apply to Morgan Stanley's Fundamental Equity Research and do not apply to Debt Research produced by the Firm.

For disclosure purposes only (in accordance with FINRA requirements), we include the category headings of Buy, Hold, and Sell alongside our ratings of Overweight, Equal-weight, Not-Rated and Underweight. Morgan Stanley does not assign ratings of Buy, Hold or Sell to the stocks we cover. Overweight, Equal-weight, Not-Rated and Underweight are not the equivalent of buy, hold, and sell but represent recommended relative weightings (see definitions below). To satisfy regulatory requirements, we correspond Overweight, our most positive stock rating, with a buy recommendation; we correspond Equal-weight and Not-Rated to hold and Underweight to sell recommendations, respectively.

	Coverage Universe		Investment Banking Clients (IBC)			Other Material Investment Services Clients (MISC)	
Stock Rating Category	Count	% of Total	Count	% of Total IBC	% of Rating Category	Count	% of Total Other MISC
Overweight/Buy	1423	38%	284	42%	20%	621	39%
Equal-weight/Hold	1692	45%	322	48%	19%	720	46%
Not-Rated/Hold	3	0%	0	0%	0%	1	0%
Underweight/Sell	630	17%	70	10%	11%	236	15%
Total	3,748		676			1578	

Data include common stock and ADRs currently assigned ratings. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months. Due to rounding off of decimals, the percentages provided in the "% of total" column may not add up to exactly 100 percent.

Analyst Stock Ratings

Overweight (O). The stock's total return is expected to exceed the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Equal-weight (E). The stock's total return is expected to be in line with the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Not-Rated (NR). Currently the analyst does not have adequate conviction about the stock's total return relative to the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Underweight (U). The stock's total return is expected to be below the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Unless otherwise specified, the time frame for price targets included in Morgan Stanley Research is 12 to 18 months.

Analyst Industry Views

Attractive (A): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.

In-Line (I): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be in line with the relevant broad market benchmark, as indicated below.

Cautious (C): The analyst views the performance of his or her industry coverage universe over the next 12-18 months with caution vs. the relevant broad market benchmark, as indicated below.

Benchmarks for each region are as follows: North America - S&P 500; Latin America - relevant MSCI country index or MSCI Latin America Index; Europe - MSCI Europe; Japan - TOPIX; Asia - relevant MSCI country index or MSCI sub-regional index or MSCI AC Asia Pacific ex Japan Index.

Important Disclosures for Morgan Stanley Smith Barney LLC & E*TRADE Securities LLC Customers

Important disclosures regarding the relationship between the companies that are the subject of Morgan Stanley Research and Morgan Stanley Smith Barney LLC or Morgan Stanley or any of their affiliates, are available on the Morgan Stanley Wealth Management disclosure website at www.morganstanley.com/online/researchdisclosures. For Morgan Stanley specific disclosures, you may refer to www.morganstanley.com/researchdisclosures.

Each Morgan Stanley research report is reviewed and approved on behalf of Morgan Stanley Smith Barney LLC and E*TRADE Securities LLC. This review and approval is conducted by the same person who reviews the research report on behalf of Morgan Stanley. This could create a conflict of interest.

Other Important Disclosures

Morgan Stanley Research policy is to update research reports as and when the Research Analyst and Research Management deem appropriate, based on developments with the issuer, the sector, or the market that may have a material impact on the research views or opinions stated therein. In addition, certain Research publications are intended to be updated on a regular periodic basis (weekly/monthly/quarterly/annual) and will ordinarily be updated with that frequency, unless the Research Analyst and Research Management determine that a different publication schedule is appropriate based on current conditions.

Morgan Stanley is not acting as a municipal advisor and the opinions or views contained herein are not intended to be, and do not constitute, advice within the meaning of Section 975 of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

Morgan Stanley produces an equity research product called a "Tactical Idea." Views contained in a "Tactical Idea" on a particular stock may be contrary to the recommendations or views expressed in research on the same stock. This may be the result of differing time horizons, methodologies, market events, or other factors. For all research available on a particular stock, please contact your sales representative or go to Matrix at http://www.morganstanley.com/matrix.

Morgan Stanley Research is provided to our clients through our proprietary research portal on Matrix and also distributed electronically by Morgan Stanley to clients. Certain, but not all, Morgan Stanley Research products are also made available to clients through third-party vendors or redistributed to clients through alternate electronic means as a convenience. For access to all available Morgan Stanley Research, please contact your sales representative or go to Matrix at http://www.morganstanley.com/matrix.

Any access and/or use of Morgan Stanley Research is subject to Morgan Stanley's Terms of Use (http://www.morganstanley.com/terms.html). By accessing and/or using Morgan Stanley Research, you are indicating that you have read and agree to be bound by our Terms of Use (http://www.morganstanley.com/terms.html). In addition you consent to Morgan Stanley processing your personal data and using cookies in accordance with our Privacy Policy and our Global Cookies Policy (http://www.morganstanley.com/privacy_pledge.html), including for the purposes of setting your preferences and to collect readership data so that we can deliver better and more personalized service and products to you. To find out more information about how Morgan Stanley processes personal data, how we use cookies and how to reject cookies see our Privacy Policy and our Global Cookies Policy (http://www.morganstanley.com/privacy_pledge.html).

If you do not agree to our Terms of Use and/or if you do not wish to provide your consent to Morgan Stanley processing your personal data or using cookies please do not access our research. Morgan Stanley Research does not provide individually tailored investment advice. Morgan Stanley Research has been prepared without regard to the circumstances and objectives of those who receive it. Morgan Stanley recommends that investors independently evaluate particular investments and strategies, and encourages investors to seek the advice of a financial adviser. The appropriateness of an investment or strategy will depend on an investor's circumstances and objectives. The securities, instruments, or strategies discussed in Morgan Stanley Research may not be suitable for all investors, and certain investors may not be eligible to purchase or participate in some or all of them. Morgan Stanley Research is not an offer to buy or sell or the solicitation of an offer to buy or sell any security/instrument or to participate in any particular trading strategy. The value of and income from your investments may vary because of changes in interest rates, foreign exchange rates, default rates, prepayment rates, securities/instruments prices, market indexes, operational or financial conditions of companies or other factors. There may be time limitations on the exercise of options or other rights in securities/instruments transactions. Past performance is not necessarily a guide to future performance. Estimates of future performance are based on assumptions that may not be realized. If provided, and unless otherwise stated, the closing price on the cover page is that of the primary exchange for the subject company's securities/instruments.

The fixed income research analysts, strategists or economists principally responsible for the preparation of Morgan Stanley Research have received compensation based upon various factors, including quality, accuracy and value of research, firm profitability or revenues (which include fixed income trading and capital markets profitability or revenues), client feedback and competitive factors. Fixed Income Research analysts', strategists' or economists' compensation is not linked to investment banking or capital markets transactions performed by Morgan Stanley or the profitability or revenues of particular trading desks.

The "Important Regulatory Disclosures on Subject Companies" section in Morgan Stanley Research lists all companies mentioned where Morgan Stanley owns 1% or more of a class of common equity securities of the companies. For all other companies mentioned in Morgan Stanley Research, Morgan Stanley may have an investment of less than 1% in securities/instruments or derivatives of securities/instruments of companies and may trade them in ways different from those discussed in Morgan Stanley Research. Employees of Morgan Stanley not involved in the preparation of Morgan Stanley Research may have investments in securities/instruments or derivatives of securities/instruments of companies mentioned and may trade them in ways different from those discussed in Morgan Stanley Research. Derivatives may be issued by Morgan Stanley or associated persons.

With the exception of information regarding Morgan Stanley, Morgan Stanley Research is based on public information. Morgan Stanley makes every effort to use reliable, comprehensive information, but we make no representation that it is accurate or complete. We have no obligation to tell you when opinions or information in Morgan Stanley Research change apart from when we intend to discontinue equity research coverage of a subject company. Facts and views presented in Morgan Stanley Research have not been reviewed by, and may not reflect information known to, professionals in other Morgan Stanley business areas, including investment banking personnel.

Morgan Stanley Research personnel may participate in company events such as site visits and are generally prohibited from accepting payment by the company of associated expenses unless pre-approved by authorized members of Research management.

Morgan Stanley may make investment decisions that are inconsistent with the recommendations or views in this report.

To our readers based in Taiwan or trading in Taiwan securities/instruments: Information on securities/instruments that trade in Taiwan is distributed by Morgan Stanley Taiwan Limited ("MSTL"). Such information is for your reference only. The reader should independently evaluate the investment risks and is solely responsible for their investment decisions. Morgan Stanley Research may not be distributed to the public media or quoted or used by the public media without the express written consent of Morgan Stanley. Any non-customer reader within the scope of Article 7-1 of the Taiwan Stock Exchange Recommendation Regulations accessing and/or receiving Morgan Stanley Research is not permitted to provide Morgan Stanley Research to any third party (including but not limited to related parties, affiliated companies and any other third parties) or engage in any activities regarding Morgan Stanley Research which may create or give the appearance of creating a conflict of interest. Information on securities/instruments that do not trade in Taiwan is for informational purposes only and is not to be construed as a recommendation or a solicitation to trade in such securities/instruments. MSTL may not execute transactions for clients in these securities/instruments.

Certain information in Morgan Stanley Research was sourced by employees of the Shanghai Representative Office of Morgan Stanley Asia Limited for the use of Morgan Stanley Asia Limited. Morgan Stanley is not incorporated under PRC law and the research in relation to this report is conducted outside the PRC. Morgan Stanley Research does not constitute an offer to sell or the solicitation of an offer to buy any securities in the PRC. PRC investors shall have the relevant qualifications to invest in such securities and shall be responsible for obtaining all relevant approvals, licenses, verifications and/or registrations from the relevant governmental authorities themselves. Neither this report nor any part of it is intended as, or shall constitute, provision of any consultancy or advisory service of securities investment as defined under PRC law. Such information is provided for your reference only.

Morgan Stanley Research is disseminated in Brazil by Morgan Stanley C.T.V.M. S.A. located at Av. Brigadeiro Faria Lima, 3600, 6th floor, São Paulo - SP, Brazil; and is regulated by the Comissão de Valores Mobiliários; in Mexico by Morgan Stanley México, Casa de Bolsa, S.A. de C.V which is regulated by Comision Nacional Bancaria y de Valores. Paseo de los Tamarindos 90, Torre 1, Col. Bosques de las Lomas Floor 29, 05120 Mexico City; in Japan by Morgan Stanley MUFG Securities Co., Ltd. and, for Commodities related research reports only, Morgan Stanley Capital Group Japan Co., Ltd; in Hong Kong by Morgan Stanley Asia Limited (which accepts responsibility for its contents) and by Morgan Stanley Bank Asia Limited; in Singapore by Morgan Stanley Asia (Singapore) Pte. (Registration number 199206298Z) and/or Morgan Stanley Asia (Singapore) Securities Pte Ltd (Registration number 200008434H), regulated by the Monetary Authority of Singapore (which accepts legal responsibility for its contents and should be contacted with respect to any matters arising from, or in connection with, Morgan Stanley Research) and by Morgan Stanley Bank Asia Limited, Singapore Branch (Registration number T14FC0118J); in Australia to "wholesale clients" within the meaning of the Australian Corporations Act by Morgan Stanley Australia Limited A.B.N. 67 003 734 576, holder of Australian financial services license No. 233742, which accepts responsibility for its contents; in Australia to "wholesale clients" and "retail clients" within the meaning of the Australian Corporations Act by Morgan Stanley Wealth Management Australia Pty Ltd (A.B.N. 19 009 145 555, holder of Australian financial services license No. 240813, which accepts responsibility for its contents; in Korea by Morgan Stanley & Co International plc, Seoul Branch; in India by Morgan Stanley India Company Private Limited having Corporate Identification No (CIN) U22990MH1998PTC115305, regulated by the Securities and Exchange Board of India ("SEBI") and holder of licenses as a Research Analyst (SEBI Registration No. INH000001105); Stock Broker (SEBI Stock Broker Registration No. INZ000244438), Merchant Banker (SEBI Registration No. INM000011203), and depository participant with National Securities Depository Limited (SEBI Registration No. IN-DP-NSDL-567-2021) having registered office at 18th Floor, Tower 2, One World Center, Plot- 841, Jupiter Textile Mill Compound, Senapati Bapat Marg, Lower Parel, Mumbai 400013, India Telephone no. +91-22-61181000; Compliance Officer Details: Mr. Tejarshi Hardas, Tel. No.: +91-22-61181000 or Email: tejarshi.hardas@morganstanley.com; Grievance officer details: Mr. Tejarshi Hardas, Tel. No.: +91-22-61181000 or Email: msic-compliance@morganstanley.com; in Canada by Morgan Stanley Canada Limited; in Germany and the European Economic Area where required by Morgan Stanley Europe S.E., authorised and regulated by Bundesanstalt fuer Finanzdienstleistungsaufsicht (BaFin) under the reference number 149169; in the US by Morgan Stanley & Co. LLC, which accepts responsibility for its contents. Morgan Stanley & Co. International plc, authorized by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority, disseminates in the UK research that it has prepared, and research which has been prepared by any of its affiliates, only to persons who (i) are investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended, the "Order"); (ii) are persons who are high net worth entities falling within Article 49(2)(a) to (d) of the Order; or (iii) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000, as amended) may otherwise lawfully be communicated or caused to be communicated. RMB Morgan Stanley Proprietary Limited is a member of the JSE Limited and A2X (Pty) Ltd. RMB Morgan Stanley Proprietary Limited is a joint venture owned equally by Morgan Stanley International Holdings Inc. and RMB Investment Advisory (Proprietary) Limited, which is wholly owned by FirstRand Limited. The information in Morgan Stanley Research is being disseminated by Morgan Stanley

Saudi Arabia, regulated by the Capital Market Authority in the Kingdom of Saudi Arabia, and is directed at Sophisticated investors only.

The information in Morgan Stanley Research is being communicated by Morgan Stanley & Co. International plc (DIFC Branch), regulated by the Dubai Financial Services Authority (the DFSA), and is directed at Professional Clients only, as defined by the DFSA. The financial products or financial services to which this research relates will only be made available to a customer who we are satisfied meets the regulatory criteria to be a Professional Client. A distribution of the different MS Research ratings or recommendations, in percentage terms for Investments in each sector covered, is available upon request from your sales representative.

The information in Morgan Stanley Research is being communicated by Morgan Stanley & Co. International plc (QFC Branch), regulated by the Qatar Financial Centre Regulatory Authority (the QFCRA), and is directed at business customers and market counterparties only and is not intended for Retail Customers as defined by the QFCRA.

As required by the Capital Markets Board of Turkey, investment information, comments and recommendations stated here, are not within the scope of investment advisory activity. Investment advisory service is provided exclusively to persons based on their risk and income preferences by the authorized firms. Comments and recommendations stated here are general in nature. These opinions may not fit to your financial status, risk and return preferences. For this reason, to make an investment decision by relying solely to this information stated here may not bring about outcomes that fit your expectations.

The trademarks and service marks contained in Morgan Stanley Research are the property of their respective owners. Third-party data providers make no warranties or representations relating to the accuracy, completeness, or timeliness of the data they provide and shall not have liability for any damages relating to such data. The Global Industry Classification Standard (GICS) was developed by and is the exclusive property of MSCI and S&P.

Morgan Stanley Research, or any portion thereof may not be reprinted, sold or redistributed without the written consent of Morgan Stanley.

Indicators and trackers referenced in Morgan Stanley Research may not be used as, or treated as, a benchmark under Regulation EU 2016/1011, or any other similar framework.

The issuers and/or fixed income products recommended or discussed in certain fixed income research reports may not be continuously followed. Accordingly, investors should regard those fixed income research reports as providing stand-alone analysis and should not expect continuing analysis or additional reports relating to such issuers and/or individual fixed income products.

Morgan Stanley may hold, from time to time, material financial and commercial interests regarding the company subject to the Research report.

Registration granted by SEBI and certification from the National Institute of Securities Markets (NISM) in no way guarantee performance of the intermediary or provide any assurance of returns to investors. Investment in securities market are subject to market risks. Read all the related documents carefully before investing.

INDUSTRY COVERAGE: Taiwan Financials

COMPANY (TICKER)	RATING (AS OF)	PRICE* (02/01/2024)
Peggy Shih		
Cathay Financial Holdings Co Ltd (2882.TW)	E (12/07/2023)	NT$44.45
Chailease Holding Co Ltd (5871.TW)	O (08/24/2022)	NT$175.00
CTBC Financial Holding Co Ltd (2891.TW)	O (03/01/2022)	NT$28.65
E.Sun Financial Holding Co (2884.TW)	U (01/04/2023)	NT$24.90
First Financial Holding Co Ltd (2892.TW)	E (06/01/2023)	NT$26.90
Fubon Financial Holdings Co Ltd. (2881.TW)	E (12/07/2023)	NT$64.80
Mega Financial Holding Co Ltd (2886.TW)	E (03/01/2022)	NT$37.90
SinoPac Financial Holdings Company (2890.TW)	O (10/04/2023)	NT$19.25
Yuanta Financial Holding Co. Ltd (2885.TW)	E (11/29/2022)	NT$27.05

Stock Ratings are subject to change. Please see latest research for each company.

* Historical prices are not split adjusted.