

BUY (maintain)

Daegu Bank (005270)

4Q10 Results Met Market Expectation

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Current price (Jan 31)	KRW15,500
Fair value	KRW18,000 (prev. KRW17,000)
Reuters code	005270.KS
Bloomberg code	005270 KS
Industry/Sector	Banks
Rating	Overweight
Market cap	USD1.8bn
Ordinary shares issued	132,125,000shrs
Free float	92.2%
KOSPI	2,069.73
KOSDAQ	521.38
Avg T/O Vol (60d)	416,813shrs
Avg T/O Val (60d)	USD5.8mn
Foreign ownership	72.0%
3yr CAGR of adj. EPS (10-12)	23.8%
Market's 3yr CAGR of adj. EPS	46.6%
52wk high/low	KRW17,600 KRW12,450
Beta (12M, daily return)	0.7
Major shareholders	Samsung Life Insurance Co.,Ltd 7.4%

- 4Q10 NP was KRW44.2bn in line with market consensus
- Daegu Bank's results stood out among banks, whose results were lackluster overall
- Details will be announced on Feb 9
- Fair value revised up to KRW18,000 from KRW17,000 (base year for BPS changed)
- Daegu Bank presented guidance for 2011 NP of KRW320bn, which is higher than market consensus of KRW297.7bn

4Q10 NP in line with market consensus

Right after a board of directors meeting on Jan 31, Daegu Bank released its 4Q10 results via KRX filing system in a summary format. Further details will be made available on Feb 9. 4Q10 NP came in at KRW44.2bn in line with our estimate of KRW44.5bn and the market consensus (FnGuide) of KRW45.1bn.

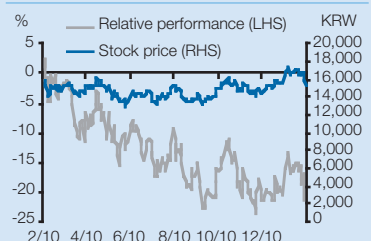
Relatively positive compared to the expected sluggish performance of other banks

Banks' 4Q10 results are mostly expected to be sluggish due to the regulatory authorities' tightened requirements on provisioning. However, since Daegu Bank's results matched market consensus, investors are expected to respond positively.

Fair value upped to KRW18,000 from KRW17,000

Since the reference point for BPS was shifted to end-Jun 2011 from end-2010, our fair value for Daegu Bank is revised up slightly to KRW18,000 from KRW17,000. We maintain a BUY rating. The new fair value of KRW18,000 is based on a 2011 PBR of 1.06x. Our estimate of 2011 NP is KRW294.7bn, market consensus is KRW297.7bn, and company guidance is KRW320bn.

Price performance	1M	3M	6M
Absolute	-0.6%	5.1%	1.6%
Relative	-1.5%	-4.4%	-13.6%



FY-end	12/08A	12/09A	12/10F	12/11F	12/12F
Net OR (KRWbn)	891.8	857.6	951.5	981.9	1,087.3
OP (KRWbn)	353.3	240.7	299.8	388.8	432.6
EBT (KRWbn)	349.1	235.4	299.7	388.8	432.6
NP (KRWbn)	261.2	170.5	227.4	294.7	327.9
Adj.EPS (KRW)	1,977	1,291	1,717	2,198	2,446
BPS (KRW)	12,100	13,419	15,174	17,042	18,988
Adj.PER (x)	8.2-3.0	13.9-4.3	10.1-7.6	7.1	6.3
PBR (x)	0.98	0.90	0.97	0.91	0.82
ROA (%)	1.04	0.63	0.78	0.92	0.93
Adj.ROE (%)	17.6	10.2	12.0	13.8	13.7

Source: Company data, Hyundai Securities

Fig 1: 4Q10 results summary

(KRWbn, %)	Preliminary results		Growth rate		Quarterly results		HRC est.	Market consensus
	4Q10P		%YoY	%QoQ	4Q09	3Q10		
Net OR	NA		-	-	205	251	224	-
Net interest income	NA		-	-	215	213	222	-
Non-interest income	NA		-	-	(10)	37	3	-
Credit cost	NA		-	-	60	88	49	-
SG&A expense	NA		-	-	110	96	116	-
OP	56		59.6	(15.1)	35	66	59	62
EBT	58		72.2	(14.2)	34	68	59	69
NP	44		78.2	(13.1)	25	51	44	45

Source: Company data, FRI Guide

Fig 2: Investment indicators

Financial Data I						Financial Data II					
(%)	12/08	12/09	12/10F	12/11F	12/12F	(%)	12/08	12/09	12/10F	12/11F	12/12F
Profitability indicator						Capital adequacy ratio					
Nominal ROE	17.6	10.2	12.0	13.8	13.7	BIS ratio	12.0	13.5	13.6	13.7	13.9
Adj. ROE	17.6	10.2	12.0	13.8	13.7	Tier1	8.0	10.0	10.1	10.2	10.4
ROA	1.04	0.63	0.78	0.92	0.93	Gearing ratio (actual)	6.0	6.4	6.6	6.8	7.0
NIM	3.18	3.16	3.13	3.10	3.09	Growth indicators					
EBT/Net OR	39.2	27.4	31.5	39.6	39.8	Asset growth	11.4	5.1	9.7	10.0	8.6
Net OR/Total assets	3.5	3.2	3.3	3.1	3.1	Loan growth	9.1	7.3	6.7	11.2	9.4
Efficiency indicator						Liability growth	11.4	4.8	9.5	9.9	8.4
Credit Cost/Loan	0.84	1.22	1.28	0.79	0.87	Deposit growth	6.4	4.3	9.5	12.9	10.3
SG&A/Total assets	1.57	1.44	1.37	1.32	1.28	Borrowing growth	35.5	8.0	5.2	2.2	2.2
Cost-Income Ratio	44.4	45.7	42.0	43.1	41.3	BPS growth	12.3	10.9	13.1	12.3	11.4
Net OR Breakdown						Net OR growth	10.8	(3.8)	10.9	3.2	10.7
Net Interest income	84.7	92.2	90.9	95.5	95.4	Net Interest income growth	10.0	4.7	9.4	8.4	10.5
Marketable securities operation	3.3	2.4	6.6	0.7	0.6	Non-interest income growth	16.0	(51.1)	29.5	(49.2)	14.7
Commission	11.1	8.1	6.6	7.2	7.1	SG&A growth	2.6	(1.0)	1.9	6.0	6.0
Others	0.9	(2.8)	(4.2)	(3.5)	(3.1)	EBT growth	(3.5)	(32.6)	27.4	29.7	11.3
ROA Breakdown						EPS growth	0.1	(34.7)	33.4	27.7	11.3
Interests	3.0	2.9	3.0	2.9	3.0	Adj. EPS growth	(5.6)	(34.7)	33.1	28.0	11.3
Non-interests	0.5	0.2	0.3	0.1	0.1	Share price indicators					
Credit cost	(0.6)	(0.8)	(0.9)	(0.5)	(0.6)	EPS (KRW)	1,977	1,291	1,721	2,198	2,446
SG&A	(1.6)	(1.4)	(1.4)	(1.3)	(1.3)	Adj. EPS (KRW)	1,977	1,291	1,717	2,198	2,446
Non-operating items and income tax	(0.4)	(0.3)	(0.3)	(0.3)	(0.3)	BPS(KRW)	12,100	13,419	15,174	17,042	18,988
Asset quality indicator						DPS(KRW)	250	160	400	500	600
Bank Delinquency ratio	1.1	1.1	1.0	1.1	1.0	PER (x)	6.0	9.4	9.0	7.1	6.3
NPL ratio (sub-standard or below)	1.3	1.4	1.3	1.2	1.0	Adj. PER (x)	6.0	9.4	9.0	7.1	6.3
NPL ratio (precautionary or below)	2.1	4.1	3.2	2.7	2.5	PBR (x)	0.98	0.90	1.02	0.91	0.82
Coverage ratio (sub-standard or below)	117.5	118.8	125.1	131.6	142.5	Dividend Yield(%)	2.1	1.3	2.6	3.2	3.9
Coverage ratio (precautionary or below)	50.4	40.2	50.8	58.5	57.0	Dividend payout (%)	12.6	12.4	23.2	22.7	24.5

Source: Company data, Hyundai Securities

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