

United Overseas Bank Limited

Boosted by higher net interest income

SINGAPORE | BANKING | 2Q22 RESULTS



StocksBnB.com

1 August 2022

BUY (Maintained)

LAST TRADED PRICE	SGD 27.55
FORECAST DIV	SGD 1.20
TARGET PRICE	SGD 35.70
DIVIDEND YIELD	4.4%
TOTAL RETURN	33.9%

COMPANY DATA

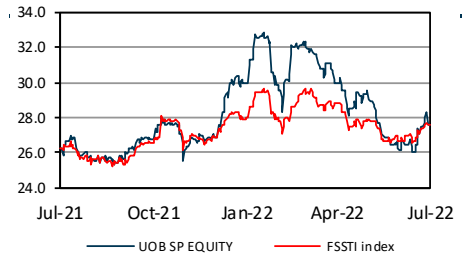
BLOOMBERG TICKER	UOB SP
O/S SHARES (MN)	1675
MARKET CAP (USD mn / SGD mn)	33378 / 46135
52 - WK HI/LO (SGD)	33.33 / 25.28
3M Average Daily T/O (mn)	3.07

MAJOR SHAREHOLDERS (%)

Wee Investments	8.0%
Wah Hin & Co Pte Ltd	5.2%
Vanguard Group Inc	2.3%
BlackRock Fund Advisors	2.2%

PRICE PERFORMANCE (%)

	1M TH	3M TH	YTD
COMPANY	5.0	(8.1)	4.5
STIRETURN	3.6	(3.4)	5.0



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec	FY20	FY21	FY22e	FY23e
Total Inc (SGD mn)	9,174	9,790	10,923	11,570
Op Profit (SGD mn)	3,435	4,818	5,575	5,856
NPAT (SGD mn)	2,919	4,085	4,740	4,973
EPS (SGD)	1.68	2.38	2.76	2.88
PER, (X)	16.3	11.6	10.0	9.6
P/BV, (X)	1.2	1.1	1.1	1.1
DPS (SGD)	0.78	1.20	1.37	1.44
ROE	7.4%	9.9%	11.4%	11.5%

Source: Bloomberg, Company, PSR

Valuation Method:

Gordon Growth Model (COE: 8.5%, g: 2%)

Glenn Thum (+65 6212 1851)

Research Analyst
glenthumjc@phillip.com.sg

- 2Q22 earnings of S\$1,113mn were in line with our estimates due to higher net interest margin and healthy net interest income growth. 1H22 PATMI is 43% of our FY22e forecast.
- NII was up 18% YoY from a NIM increase of 11bps YoY to 1.67% and loan growth of 8% YoY. Fee income fell 1% QoQ while other non-interest income was up 170% QoQ. Management is guiding single-digit loan growth with higher NIMs, stable cost-to-income ratio and slightly higher provisions.
- UOB has guided NIM to expand at 9bps each quarter and to reach an exit NIM of 1.90% by the end of 2022. We estimate 2H22 NII to jump 22% YoY.
- Maintain BUY with an unchanged target price of S\$35.70.** Our FY22e estimates remain unchanged. We assume 1.46x FY22e P/BV and ROE estimate of 11.5% in our GGM valuation. There is upside to our estimates from further GP write-backs and higher NIMs. Every 25bps rise in interest rates can raise NIM by 0.04% and PATMI by 4.3%.

Results at a glance

(SGD mn)	2Q22	2Q21	YoY	1Q22	QoQ	Comments
Net interest income	1,863	1,578	18%	1,686	10%	NII growth led by NIM increase of 11bps YoY and loan growth of 8% YoY.
Fees & Comm	567	581	(2%)	572	(1%)	Fee income fell as higher loan-related and credit card fees were moderated by lower WM fees due to more subdued market sentiments.
Other Non Int Income	273	257	6%	101	170%	Other non-interest income higher due to strong momentum for customer-related income as hedging demand rose and normalisation from 1Q22's short-term impact on hedges and unrealised mark-to-market on investments.
Total Revenue	2,703	2,416	12%	2,359	15%	
Expenses	(1,184)	(1,057)	12%	(1,058)	12%	Expenses rose in tandem with higher income, nonetheless cost-to-income ratio improved 1% QoQ to 43.8%.
PPOP	1,519	1,359	12%	1,301	17%	
Allowances	(173)	(144)	20%	(146)	18%	Allowances higher due to higher specific allowance. As such, credit costs rose by 3bps to 22bps for 2Q22. NPL ratio rose by 0.1% QoQ to 1.7% but asset quality remained resilient with SP/NPA ratio stable at 30%.
PATMI	1,113	1,003	11%	906	23%	

Source: Company, PSR

The Positives

+ NII increased 18% YoY, led by steady loan growth. NII grew 18% YoY, led by continued loans growth of 8% YoY, while NIM improved 11bps YoY to 1.67%. Loan growth QoQ was mainly from term and housing loans, while YoY loan growth was broad-based across geographies as business regained momentum. UOB has lowered its guidance to mid single-digit loan growth for FY22e (previously mid to high single-digit).

+ Other non-interest income increased 170% QoQ. Other NII increased 6% YoY due to the strong momentum for customer-related income as hedging demand rose. Other NII increased 170% QoQ on the back of customer-related growth and normalisation from 1Q22's short-term impact on hedges and unrealised mark-to-market on investments.

+ Loan fees increased 10% YoY. Fees were stable QoQ but fell 2% YoY despite loan fees growth of 3% QoQ and 10% YoY and record credit card fees as customer spending increased with borders reopening. However, this was partially offset by lower wealth and fund management due to subdued market conditions. UOB has lowered its guidance to low single-digit growth in fee income for FY22e (previously high single-digit growth).

The Negatives

- Credit costs increased by 2bps YoY. Total allowances increased by 20% YoY to S\$173mn resulting in credit costs increasing by 2bps YoY to 22bps. This was mainly due to specific allowance increasing by 20% YoY to S\$166mn. Total general allowance for loans, including RLARs, were prudently maintained at 0.9% of performing loans. UOB has maintained its credit cost guidance of 25bps for FY22e.

- New NPAs of S\$661mn in 2Q22. New NPA formation increased by 83% YoY and 43% QoQ to S\$661mn mainly due to a major but non-systemic corporate account. Resultantly, the NPL ratio rose by 0.1% to 1.7%. Nonetheless, asset quality remained resilient with SP/NPA stable at 30%. 2Q22 NPA coverage is at 91% and unsecured NPA coverage at 185%.

Outlook

PATMI: UOB’s profit should continue to grow in 2022e on the back of stabilising margins, stronger fees and lower provisions. We expect NII to expand 14% YoY. We expect credit costs to come in below guidance of 25bps. Management has said that as it is being conservative, they are not intending to write-back provisions but will not be adding a significant amount during the second half of 2022.

NIMs: Management expects improvement in NIMs only in the later part of 2022. They are expecting NIM to sustain growth at 9bps each quarter and to reach 1.90% by the end of 2022. UOB said that a 25bps rise in interest rates could raise NII by \$150mn-200mn (or NIM sensitivity of 4bps for every 25bps rate hike). Assuming rate hikes totalling 100bps this year, our FY22e NII can climb S\$800mn (or 11%) resulting in an increase in our FY22e PATMI by 17%.

Loan growth: Management expects to see strong demand for loans as cross-border activities pick up. ASEAN loans growth is expected to be higher with some slowdown in Singapore and North Asia. Growth so far has been skewed towards the developed markets as the ASEAN economy remains muted, but management expects this to change in 2022 as the economy recovers. UOB has guided mid single-digit loan growth for FY22e.

China exposure: UOB’s mainland China exposure stands at S\$24.8bn or 5% of total assets, of which S\$8.2bn is bank exposure and S\$12.6bn is non-bank exposure. The top 5 domestic banks and 3 policy banks account for ~70% of total bank exposure while non-bank exposure’s client base include top-tier state-owned enterprises, large local corporates and foreign investment enterprises. Management has mentioned they have ~S\$3bn in loans to mainland Chinese developers (1% of group loans) with low borrower concentration and they do not see any risk of it turning to NPL.

Table 1: UOB guidance vs PSR estimates for FY22e

Assumptions	UOB	PSR
NIM	1.73%	1.72%
Loan growth	Mid single-digit	6%
Cost-income ratio	Stable (44%)	43%
Credit Cost	25 bps	25

Source: Company, PSR

List of Abbreviations

- WM – Wealth Management
- NII – Net Interest Income
- NIM – Net Interest Margin
- SP – Specific Provisions
- GP – General Provisions
- CIR – Cost-to-income
- RLAR – Regulatory Loan Allowance Reserve
- NPA – Non-performing Assets

Investment Action

Maintain BUY with unchanged target price of S\$35.70.

We maintain our BUY recommendation with an unchanged target price of S\$35.70. Our FY22e estimates remain unchanged. We assume 1.46x FY22e P/BV and ROE estimate of 11.5% in our GGM valuation.

GGM valuation

Item	Description	Value
R _f	Risk-free rate	1.1%
E	Equity-risk premium	5.9%
B	Beta	1.2
COE	Cost of Equity	8.5%
ROE	Return on Equity	11.5%
g	Terminal growth rate	2.0%
$\frac{(ROE-g)}{(COE-g)}$	Target Price to Book	1.46
	BVPS, S\$	24.50
	Valuation, S\$	35.70

Source: PSR

Financials

Income Statement

Y/E Dec, SGD mn	FY19	FY20	FY21	FY22e	FY23e
Net Int Income	6,563	6,033	6,389	7,558	7,405
Fees and Commission	2,033	1,997	2,412	2,525	3,324
Other Non-int income	1,437	1,144	989	841	841
Total operating income	10,033	9,174	9,790	10,923	11,570
Operating expenses	(4,473)	(4,183)	(4,314)	(4,718)	(5,089)
Provisions	(435)	(1,556)	(658)	(631)	(624)
Operating profit	5,125	3,435	4,818	5,575	5,856
Associates & JVs	51	102	117	120	120
Profit Before Tax	5,176	3,537	4,935	5,695	5,976
Taxation	(811)	(618)	(850)	(955)	(1,003)
Profit After Tax	4,365	2,919	4,085	4,740	4,973
Non-controlling Interest	18	16	12	14	15
Net Income, reported	4,347	2,903	4,073	4,726	4,959
Net Income, adj.	4,347	2,903	4,073	4,726	4,959

Per share data

Y/E Dec	FY19	FY20	FY21	FY22e	FY23e
EPS, reported	2.55	1.69	2.38	2.76	2.88
EPS, adj.	2.54	1.68	2.38	2.76	2.88
DPS	1.25	0.78	1.20	1.37	1.44
BVPS (less pref shares)	22.33	23.03	24.08	24.50	25.84
Dividend Pay-out Ratio	49%	46%	50%	50%	50%

Supplementary items

Y/E Dec	FY19	FY20	FY21	FY22e	FY23e
CET1 CAR	14.3%	14.7%	13.5%	13.2%	12.6%
Tier 1 CAR	15.4%	15.8%	14.4%	14.1%	13.4%
Total CAR	17.4%	18.4%	16.6%	16.4%	15.4%

Balance Sheet

Y/E Dec, SGD mn	FY19	FY20	FY21	FY22e	FY23e
Cash bal w central banks	25,864	36,798	36,558	35,107	49,833
Due from banks	52,840	40,284	38,916	46,112	45,975
Investment securities	15,454	25,217	29,068	26,834	27,907
Loans to non-bank cust	265,458	277,201	306,713	320,463	339,026
Others	44,794	52,314	48,068	53,346	55,005
Total Assets	404,410	431,814	459,323	481,861	517,746
Due to banks	15,301	15,977	15,561	15,639	15,795
Due to non-bank cust	310,726	324,598	352,633	375,332	407,805
Debts issued	25,209	29,608	34,056	32,471	32,796
Others	13,308	20,500	14,212	14,638	15,078
Total liabilities	364,544	390,683	416,462	438,081	471,474
Shareholder's equity	39,640	40,903	42,635	43,539	46,016
Non-controlling interest	227	230	228	242	257
Total Equity	39,867	41,133	42,863	43,781	46,273

Valuation Ratios

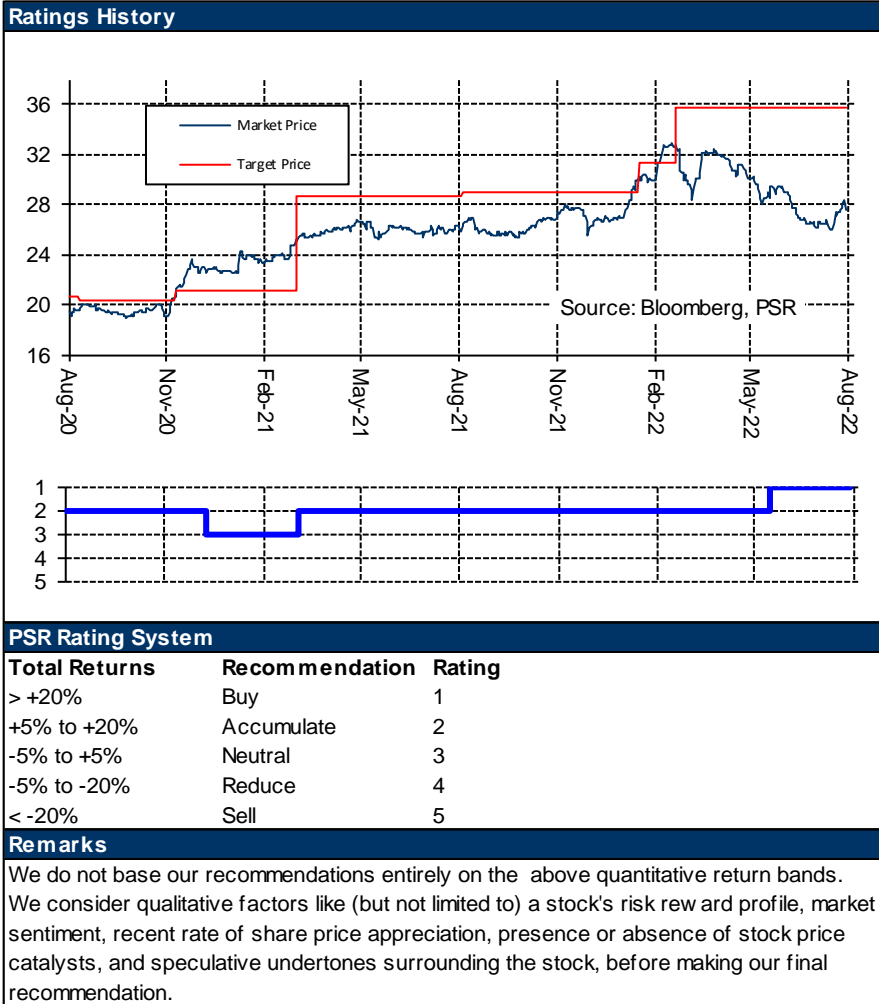
Y/E Dec	FY19	FY20	FY21	FY22e	FY23e
P/E (X), adj.	10.8	16.3	11.6	10.0	9.6
P/B (X)	1.2	1.2	1.1	1.1	1.1
Dividend Yield	4.5%	2.8%	4.4%	5.0%	5.2%

Growth & Margins

	FY19	FY20	FY21	FY22e	FY23e
Growth					
Net interest income	5.5%	-8.1%	5.9%	18.3%	-2.0%
Non interest income	19.9%	-9.5%	8.3%	-1.0%	23.8%
Pre provision op profit	10.1%	-8.6%	6.7%	11.6%	5.9%
Operating income	8.6%	-33.0%	40.3%	15.7%	5.1%
Net income, reported	8.5%	-33.2%	40.3%	16.0%	4.9%
Margins					
Net interest margin	1.78%	1.57%	1.56%	1.72%	1.60%

Key Ratios	FY19	FY20	FY21	FY22e	FY23e
ROE	11.8%	7.4%	9.9%	11.4%	11.5%
ROA	1.1%	0.7%	0.9%	1.0%	1.0%
RORWA	1.9%	1.3%	1.6%	1.8%	1.7%
Non-int/total income ratio	34.6%	34.2%	34.7%	30.8%	36.0%
Cost/income ratio	44.6%	45.6%	44.1%	43.2%	44.0%
Loan/deposit ratio	85.4%	85.4%	87.0%	85.4%	83.1%
NPL ratio	1.5%	1.6%	1.6%	1.6%	1.5%

Source: Company, PSR



Contact Information (Singapore Research Team)

Head of Research

Paul Chew – paulchewkl@phillip.com.sg

Research Admin

Qystina Azli - qytina@phillip.com.sg

Consumers | Industrials | Conglomerate

Terence Chua – terencechuatl@phillip.com.sg

Banking & Finance

Glenn Thum – glenthumjc@phillip.com.sg

US Technology Analyst (Internet)

Jonathan Woo – jonathanwooki@phillip.com.sg

US Technology Analyst (Software/Services)

Ambrish Shah – amshah@phillipcapital.in

Credit Analyst

Shawn Sng - shawnsngkh@phillip.com.sg

Contact Information (Regional Member Companies)

SINGAPORE

Phillip Securities Pte Ltd
Raffles City Tower
250, North Bridge Road #06-00
Singapore 179101
Tel +65 6533 6001
Fax +65 6535 6631
Website: www.poems.com.sg

JAPAN

Phillip Securities Japan, Ltd.
4-2 Nihonbashi Kabuto-cho Chuo-ku,
Tokyo 103-0026
Tel +81-3 3666 2101
Fax +81-3 3666 6090
Website: www.phillip.co.jp

THAILAND

Phillip Securities (Thailand) Public Co. Ltd
15th Floor, Vorawat Building,
849 Silom Road, Silom, Bangrak,
Bangkok 10500 Thailand
Tel +66-2 63517000 / 22680999
Fax +66-2 22680921
Website www.phillip.co.th

UNITED STATES

Phillip Capital Inc
141 W Jackson Blvd Ste 3050
The Chicago Board of Trade Building
Chicago, IL 60604 USA
Tel +1-312 356 9000
Fax +1-312 356 9005
Website: www.phillipusa.com

INDIA

PhillipCapital (India) Private Limited
No.1, 18th Floor, Urmi Estate
95, Ganpatrao Kadam Marg
Lower Parel West, Mumbai 400-013
Maharashtra, India
Tel: +91-22-2300 2999 / Fax: +91-22-2300 2969
Website: www.phillipcapital.in

MALAYSIA

Phillip Capital Management Sdn Bhd
B-3-6 Block B Level 3 Megan Avenue II,
No. 12, Jalan Yap Kwan Seng, 50450
Kuala Lumpur
Tel +603 2162 8841
Fax +603 2166 5099
Website: www.poems.com.my

INDONESIA

PT Phillip Securities Indonesia
ANZ Tower Level 23B,
Jl Jend Sudirman Kav 33A
Jakarta 10220 – Indonesia
Tel +62-21 5790 0800
Fax +62-21 5790 0809
Website: www.phillip.co.id

FRANCE

King & Shaxson Capital Limited
3rd Floor, 35 Rue de la Bienfaisance 75008
Paris France
Tel +33-1 45633100
Fax +33-1 45636017
Website: www.kingandshaxson.com

AUSTRALIA

Phillip Capital Limited
Level 10, 330 Collins Street
Melbourne, Victoria 3000, Australia
Tel +61-03 8633 9803
Fax +61-03 8633 9899
Website: www.phillipcapital.com.au

TURKEY

PhillipCapital Menkul Degerler
Dr. Cemil Bengü Cad. Hak Is Merkezi
No. 2 Kat. 6A Caglayan
34403 Istanbul, Turkey
Tel: 0212 296 84 84
Fax: 0212 233 69 29
Website: www.phillipcapital.com.tr

HONG KONG

Phillip Securities (HK) Ltd
11/F United Centre 95 Queensway
Hong Kong
Tel +852 2277 6600
Fax +852 2868 5307
Websites: www.phillip.com.hk

CHINA

Phillip Financial Advisory (Shanghai) Co Ltd
No 550 Yan An East Road,
Ocean Tower Unit 2318,
Postal code 200001
Tel +86-21 5169 9200
Fax +86-21 6351 2940
Website: www.phillip.com.cn

UNITED KINGDOM

King & Shaxson Capital Limited
6th Floor, Candlewick House,
120 Cannon Street,
London, EC4N 6AS
Tel +44-20 7426 5950
Fax +44-20 7626 1757
Website: www.kingandshaxson.com

CAMBODIA

Phillip Bank Plc
Ground Floor of B-Office Centre, #61-64,
Norodom Blvd Corner Street 306, Sangkat
Boeung Keng Kang 1, Khan Chamkamorn,
Phnom Penh, Cambodia
Tel: 855 (0) 7796 6151/855 (0) 1620 0769
Website: www.phillipbank.com.kh

DUBAI

Phillip Futures DMCC
Member of the Dubai Gold and
Commodities Exchange (DGEX)
Unit No 601, Plot No 58, White Crown Bldg,
Sheikh Zayed Road, P.O.Box 212291
Dubai-UAE
Tel: +971-4-3325052 / Fax: + 971-4-3328895

Important Information

This report is prepared and/or distributed by Phillip Securities Research Pte Ltd ("Phillip Securities Research"), which is a holder of a financial adviser's license under the Financial Advisers Act, Chapter 110 in Singapore.

By receiving or reading this report, you agree to be bound by the terms and limitations set out below. Any failure to comply with these terms and limitations may constitute a violation of law. This report has been provided to you for personal use only and shall not be reproduced, distributed or published by you in whole or in part, for any purpose. If you have received this report by mistake, please delete or destroy it, and notify the sender immediately.

The information and any analysis, forecasts, projections, expectations and opinions (collectively, the "Research") contained in this report has been obtained from public sources which Phillip Securities Research believes to be reliable. However, Phillip Securities Research does not make any representation or warranty, express or implied that such information or Research is accurate, complete or appropriate or should be relied upon as such. Any such information or Research contained in this report is subject to change, and Phillip Securities Research shall not have any responsibility to maintain or update the information or Research made available or to supply any corrections, updates or releases in connection therewith.

Any opinions, forecasts, assumptions, estimates, valuations and prices contained in this report are as of the date indicated and are subject to change at any time without prior notice. Past performance of any product referred to in this report is not indicative of future results.

This report does not constitute, and should not be used as a substitute for, tax, legal or investment advice. This report should not be relied upon exclusively or as authoritative, without further being subject to the recipient's own independent verification and exercise of judgment. The fact that this report has been made available constitutes neither a recommendation to enter into a particular transaction, nor a representation that any product described in this report is suitable or appropriate for the recipient. Recipients should be aware that many of the products, which may be described in this report involve significant risks and may not be suitable for all investors, and that any decision to enter into transactions involving such products should not be made, unless all such risks are understood and an independent determination has been made that such transactions would be appropriate. Any discussion of the risks contained herein with respect to any product should not be considered to be a disclosure of all risks or a complete discussion of such risks.

Nothing in this report shall be construed to be an offer or solicitation for the purchase or sale of any product. Any decision to purchase any product mentioned in this report should take into account existing public information, including any registered prospectus in respect of such product.

Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may provide an array of financial services to a large number of corporations in Singapore and worldwide, including but not limited to commercial / investment banking activities (including sponsorship, financial advisory or underwriting activities), brokerage or securities trading activities. Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may have participated in or invested in transactions with the issuer(s) of the securities mentioned in this report, and may have performed services for or solicited business from such issuers. Additionally, Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may have provided advice or investment services to such companies and investments or related investments, as may be mentioned in this report.

Phillip Securities Research or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report may, from time to time maintain a long or short position in securities referred to herein, or in related futures or options, purchase or sell, make a market in, or engage in any other transaction involving such securities, and earn brokerage or other compensation in respect of the foregoing. Investments will be denominated in various currencies including US dollars and Euro and thus will be subject to any fluctuation in exchange rates between US dollars and Euro or foreign currencies and the currency of your own jurisdiction. Such fluctuations may have an adverse effect on the value, price or income return of the investment.

To the extent permitted by law, Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may at any time engage in any of the above activities as set out above or otherwise hold an interest, whether material or not, in respect of companies and investments or related investments, which may be mentioned in this report. Accordingly, information may be available to Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, which is not reflected in this report, and Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may, to the extent permitted by law, have acted upon or used the information prior to or immediately following its publication. Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may have issued other material that is inconsistent with, or reach different conclusions from, the contents of this report.

The information, tools and material presented herein are not directed, intended for distribution to or use by, any person or entity in any jurisdiction or country where such distribution, publication, availability or use would be contrary to the applicable law or regulation or which would subject Phillip Securities Research to any registration or licensing or other requirement, or penalty for contravention of such requirements within such jurisdiction.

This report is intended for general circulation only and does not take into account the specific investment objectives, financial situation or particular needs of any particular person. The products mentioned in this report may not be suitable for all investors and a person receiving or reading this report should seek advice from a professional and financial adviser regarding the legal, business, financial, tax and other aspects including the suitability of such products, taking into account the specific investment objectives, financial situation or particular needs of that person, before making a commitment to invest in any of such products.

This report is not intended for distribution, publication to or use by any person in any jurisdiction outside of Singapore or any other jurisdiction as Phillip Securities Research may determine in its absolute discretion.

IMPORTANT DISCLOSURES FOR INCLUDED RESEARCH ANALYSES OR REPORTS OF FOREIGN RESEARCH HOUSES

Where the report contains research analyses or reports from a foreign research house, please note:

- (i) recipients of the analyses or reports are to contact Phillip Securities Research (and not the relevant foreign research house) in Singapore at 250 North Bridge Road, #06-00 Raffles City Tower, Singapore 179101, telephone number +65 6533 6001, in respect of any matters arising from, or in connection with, the analyses or reports; and
- (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Singapore who is not an accredited investor, expert investor or institutional investor, Phillip Securities Research accepts legal responsibility for the contents of the analyses or reports.