

United Overseas Bank Limited

Surge in Net Interest Margins

SINGAPORE | BANKING | 3Q22 RESULTS

- 3Q22 earnings of S\$1,403mn were in line with our estimates due to higher net interest margin (NIM) and healthy net interest income (NII) growth. 9M22 PATMI is 72% of our FY22e forecast.
- NII was up 39% YoY from a NIM increase of 40bps YoY to 1.95% and loan growth of 6% YoY. Fee income fell 10% YoY while other non-interest income was up 58% YoY. Management is guiding mid-single digit loan growth with higher NIMs, stable cost-to-income ratio and stable credit costs.
- UOB has guided NIM to continue to expand each quarter and to reach an exit NIM of 2.5% to 3.0% by the end of 2022. We estimate 4Q22 NII to jump 65% YoY. Management is guiding for ROE of 13% in FY23 and 14% for FY24 from this year's 11%.
- Maintain BUY with an unchanged target price of S\$35.70.** We raise FY22e earnings by 6% as we increase NII estimates for FY22e. We assume 1.45x FY22e P/BV and ROE estimate of 12.1% in our GGM valuation. We raised FY23e earnings by 12% as we increased NII estimates for FY23e. Our ROE estimate for FY23e is raised from 11.5% to 12.7%. Every 25bps rise in interest rates can raise NIM by 0.04% and PATMI by 4.3%.

Results at a glance

(SGD mn)	3Q22	3Q21	YoY	2Q22	QoQ	Comments
Net interest income	2,234	1,604	39%	1,863	20%	NII growth led by NIM increase of 40bps YoY and loan growth of 6% YoY.
Fees & Comm	519	576	(10%)	567	(8%)	Fee income fell largely due to lower wealth and fund management fees due to more subdued market sentiments.
Other Non Int Income	431	272	58%	273	58%	Other non-interest income surged due to higher customer-related treasury income.
Total Revenue	3,184	2,452	30%	2,703	18%	
Expenses	(1,357)	(1,072)	27%	(1,184)	15%	Expenses rose in tandem with higher income, nonetheless cost-to-income ratio improved 12bps QoQ to 42.6%.
PPOP	1,827	1,380	32%	1,519	20%	
Allowances	(135)	(153)	(12%)	(173)	(22%)	Allowances higher due to lower specific allowance. As such, credit costs fell by 5bps to 17bps for 3Q22. NPL ratio fell by 0.2% QoQ to 1.5% and asset quality remained resilient with SP/NPA ratio stable at 33%.
PATMI	1,403	1,046	34%	1,113	26%	

Source: Company, PSR

The Positives

+ NII increased 39% YoY, led by steady loan growth. NII grew 39% YoY, led by continued loans growth of 6% YoY, while NIM surged 40bps YoY to 1.95% (QoQ: 1Q22: +2bps, 2Q22: +9bps, 3Q22: +28bps). Loan growth QoQ was mainly from term and trade loans, while YoY loan growth was broad-based across Singapore, Greater China and the Western world as business regained momentum. UOB has maintained its guidance of mid-single digit loan growth for FY22e.

+ Other non-interest income increased by 58%. Other NII increased 58% YoY largely due to the higher customer-related treasury income. A similar QoQ increase of 58% was due to record high customer-related treasury income, as well as improved performance from trading and liquidity management activities amid market volatilities.

31 October 2022

BUY (Maintained)

LAST TRADED PRICE	SGD 27.06
FORECAST DIV	SGD 1.20
TARGET PRICE	SGD 35.70
DIVIDEND YIELD	4.4%
TOTAL RETURN	36.4%

COMPANY DATA

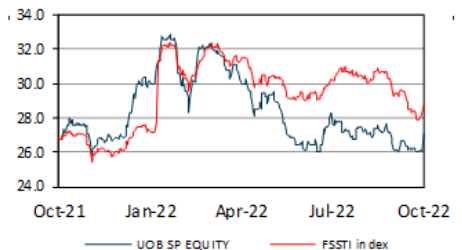
BLOOM BERG TICKER	UOB SP
O/S SHARES (M N):	1675
M ARKET CAP (USD mn / SGD mn):	32065 / 45316
52 - WK HI/LO (SGD):	33.33 / 25.47
3M Average Daily T/O (mn):	2.30

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 (%)

	1MTH	3MTH	YTD
COMPANY	(2.1)	(5.0)	0.8
STI RETURN	(4.7)	(4.6)	(0.0)



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec	FY20	FY21	FY22e	FY23e
Total Inc (SGD mn)	9,174	9,790	11,564	13,203
Op Profit (SGD mn)	3,435	4,818	5,916	6,564
NPAT (SGD mn)	2,919	4,085	5,024	5,563
EPS (SGD)	1.68	2.38	2.93	3.23
P ER, (X)	16.0	11.4	9.2	8.4
P /BV, (X)	12	11	11	10
D PS (SGD)	0.78	1.20	1.46	1.61
ROE	7.4%	9.9%	12.1%	12.7%

Source: Bloomberg, Company, PSR

Valuation Method:

Gordon Growth Model (COE: 8.9%, g: 2%)

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+ Credit costs improve due to lower SPs. Total allowances fell by 12% YoY to S\$135mn resulting in credit costs improving by 3bps YoY to 17bps. This was mainly due to specific allowance decreasing by 18% YoY to S\$127mn. Total general allowance for loans, including RLARs, was prudently maintained at 0.9% of performing loans. UOB has lowered its credit cost guidance to 20bps for FY22e (previously 25bps).

+ New NPAs fall 15% YoY. New NPA formation fell by 15% YoY and 68% QoQ to S\$214mn as asset quality stabilised during the quarter. Resultantly, the NPL ratio fell by 0.2% QoQ to 1.5%. Asset quality remained resilient with SP/NPA stable at 33%. 3Q22 NPA coverage is at 98% and unsecured NPA coverage at 207%.

The Negatives

- Fee income continues to decline. Fees fell 10% YoY largely due to lower wealth and fund management fees. The decline of 8% QoQ was mainly due to loan-related fees moderating from last quarter's high, while wealth management fees remained soft amid subdued market sentiment. However, loan-related fees continued to show stable growth of 5% YoY, spurred by trade and investment growth, while credit card fees were higher 6% YoY as customer spending rebounded with borders reopening.

- CASA ratio declined YoY. Current Account Savings Accounts (CASA) ratio fell 6% YoY to 49.8% mainly due to the high interest rate environment and a move towards fixed deposits (FD). Nonetheless, total customer deposits increased 6% YoY to S\$375bn. Management has mentioned that they are concentrating on increasing FD campaigns and that the increase in FDs was higher than the drop in CASA.

Outlook

PATMI: UOB's profit should continue to grow in 2022e on the back of stabilising margins, stronger fees and lower provisions. We expect FY22e NII to expand 34% YoY. We expect credit costs to come in below the guidance of 20bps. The company is not intending to write-back provisions.

NIMs: Management expects further improvement in NIMs in the later part of 2022. They are expecting NIM to sustain growth each quarter and to exit FY22 with a NIM of 2.5% to 3.0%. 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 12%) 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 loan 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\$23.1bn or 5% of total assets, of which S\$7.7bn is bank exposure and S\$12.2bn is non-bank exposure. The top 5 domestic banks and 3 policy banks account for ~60% of total bank exposure while non-bank exposure's client base includes 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 into NPL.

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

Table 1: UOB guidance vs PSR estimates for FY22e

Assumptions	UOB	PSR
NIM	2.00%	1.94%
Loan growth	Mid single-digit	6%
Cost-income ratio	Stable (44%)	43%
Credit Cost	20 bps	25

Source: Company, PSR

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. We raise FY22e earnings by 6% as we increase NII estimates for FY22e. We assume 1.45x FY22e P/BV and ROE estimate of 12.1% in our GGM valuation. We raised FY23e earnings by 12% as we increased NII estimates for FY23e. Our ROE estimate for FY23e is raised from 11.5% to 12.7%. The COE is nudged up from higher risk-free rate and lower equity-risk premium.

GGM valuation

Item	Description	Value
R _f	Risk-free rate	2.6%
E	Equity-risk premium	5.1%
B	Beta	1.2
COE	Cost of Equity	8.9%
ROE	Return on Equity	12.1%
g	Terminal growth rate	2.0%
(ROE-g)	Target Price to Book	1.45
(COE-g)		
	BVPS, S\$	24.70
	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	8,548	10,125
Fees and Commission	2,033	1,997	2,412	2,072	2,134
Other Non-int income	1,437	1,144	989	945	945
Total operating income	10,033	9,174	9,790	11,564	13,203
Operating expenses	(4,473)	(4,183)	(4,314)	(5,018)	(6,015)
Provisions	(435)	(1,556)	(658)	(631)	(624)
Operating profit	5,125	3,435	4,818	5,915	6,564
Associates & JVs	51	102	117	120	120
Profit Before Tax	5,176	3,537	4,935	6,035	6,684
Taxation	(811)	(618)	(850)	(1,012)	(1,122)
Profit After Tax	4,365	2,919	4,085	5,024	5,563
Non-controlling Interest	18	16	12	15	16
Net Income, reported	4,347	2,903	4,073	5,009	5,546
Net Income, adj.	4,347	2,903	4,073	5,009	5,546

Per share data

Y/E Dec	FY19	FY20	FY21	FY22e	FY23e
EPS, reported	2.55	1.69	2.38	2.93	3.23
EPS, adj.	2.54	1.68	2.38	2.93	3.23
DPS	1.25	0.78	1.20	1.46	1.61
BVPS (less pref shares)	22.33	23.03	24.08	24.67	26.18
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	35,390	50,423
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	482,145	518,336
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	43,822	46,604
Non-controlling interest	227	230	228	243	259
Total Equity	39,867	41,133	42,863	44,064	46,863

Valuation Ratios

Y/E Dec	FY19	FY20	FY21	FY22e	FY23e
P/E (X), adj.	10.6	16.0	11.4	9.2	8.4
P/B (X)	1.2	1.2	1.1	1.1	1.0
Dividend Yield	4.6%	2.9%	4.4%	5.4%	6.0%

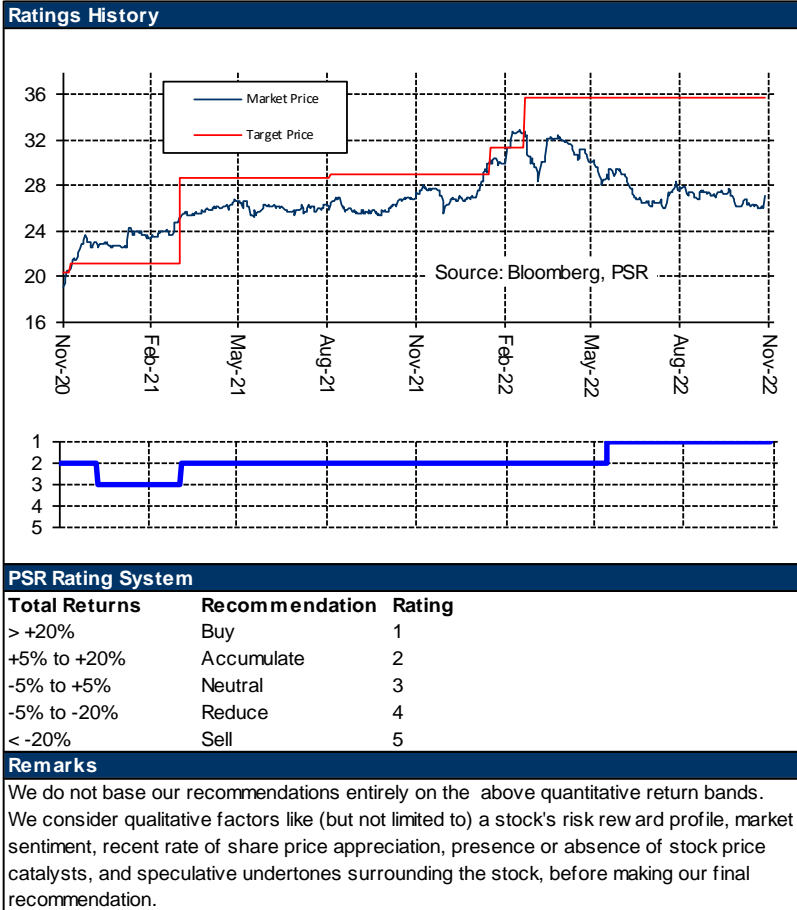
Growth & Margins

	FY19	FY20	FY21	FY22e	FY23e
Growth					
Net interest income	5.5%	-8.1%	5.9%	33.8%	18.4%
Non interest income	19.9%	-9.5%	8.3%	-11.3%	2.1%
Pre provision op profit	10.1%	-8.6%	6.7%	18.1%	14.2%
Operating income	8.6%	-33.0%	40.3%	22.8%	11.0%
Net income, reported	8.5%	-33.2%	40.3%	23.0%	10.7%
Margins					
Net interest margin	1.78%	1.57%	1.56%	1.94%	2.19%

Key Ratios

	FY19	FY20	FY21	FY22e	FY23e
ROE	11.8%	7.4%	9.9%	12.1%	12.7%
ROA	1.1%	0.7%	0.9%	1.0%	1.1%
RORWA	1.9%	1.3%	1.6%	1.9%	1.9%
Non-int/total income ratio	34.6%	34.2%	34.7%	26.1%	23.3%
Cost/income ratio	44.6%	45.6%	44.1%	43.4%	45.6%
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



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