

United Overseas Bank Limited

Continued NII growth boosts earnings



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SINGAPORE | BANKING | 2Q23 RESULTS

- 2Q23 adjusted earnings of S\$1,507mn were slightly above our estimates due to higher other non-interest income and higher NII offset by lower-than-expected fee income growth and higher allowances. 1H23 adjusted PATMI was 54% of our FY23e forecast. 2Q23 DPS was up 42% YoY to 85 cents.
- Positives include NII growth of 31% YoY and other non-interest income surging by 113% YoY, while negatives include fee income decline of 8% YoY and allowances increasing 38% YoY. Management has maintained its loan growth guidance of low to mid-single digit and credit costs at around 25bps, while lowering its guidance of NIMs to 2.10-2.15% (prev. 2.10-2.20%) and fee income growth from double digit to high single-digit growth for FY23e.
- Maintain BUY with a higher target price of S\$35.90, from S\$35.70.** We raise FY23e earnings by 4% as we raise other non-interest income estimates but lower NII, fee income and increase provisions estimates for FY23e. We assume 1.48x FY23e P/BV and ROE estimate of 12.9% in our GGM valuation.

Results at a glance

(SGD mn)	2Q23	2Q22	YoY	1Q23	QoQ	Comments
Net interest income	2,437	1,863	31%	2,409	1%	NII growth led by NIM increase of 45bps YoY to 2.12% offset slightly by loan growth decline of 1% YoY.
Fees & Comm	524	567	(8%)	552	(5%)	Fee income fell due to a dip in loan/trade related fees and wealth management recovery was hampered by cautious investor sentiment. Nonetheless, credit card sustained momentum.
Other Non Int Income	581	273	113%	563	3%	Other non-interest income rose due to higher customer-related treasury income.
Total Revenue	3,542	2,703	31%	3,524	1%	
Expenses	(1,448)	(1,184)	22%	(1,440)	1%	Expenses rose in tandem with higher income, nonetheless cost-to-income ratio improved 2.9% points YoY to 40.9%.
PPOP	2,094	1,519	38%	2,084	0%	
Allowances	(238)	(173)	38%	(192)	24%	Allowances higher due to higher SPs from a major Thailand corporate account. As such, credit costs rose 5bps QoQ to 30bps. NPL ratio flat at 1.6% and asset quality remained resilient with SP/NPA ratio stable at 33%.
Adjusted PATMI	1,507	1,113	35%	1,577	(4%)	
One-off expenses	(92)	-	NM	(67)	NM	Due to Citi integration costs.
PATMI	1,415	1,113	27%	1,510	(6%)	

Source: Company, PSR

The Positives

+ NII surges on the back of strong NIM expansion. NII grew 31% YoY, despite a decline in loans growth of 1% YoY, while NIM surged 45bps YoY to 2.12% but declined 2bps QoQ due to excess liquidity deployed to high quality assets. Loan growth decline was due to weakness in Singapore and North Asia offset by growth in the rest of ASEAN. UOB has maintained its loan growth guidance for FY23e at low to mid-single digit.

31 July 2023

BUY (Maintained)

LAST TRADED PRICE	SGD 29.89
FORECAST DIV	SGD 1.75
TARGET PRICE	SGD 35.90
DIVIDEND YIELD	5.9%
TOTAL RETURN	26.0%

COMPANY DATA

BLOOMBERG TICKER	UOB SP
O/S SHARES (MN)	1674
MARKET CAP (USD mn / SGD mn)	37606 / 50091
52 - WK HI/LO (SGD)	314 / 25.91
3M Average Daily T/O (mn)	2.86

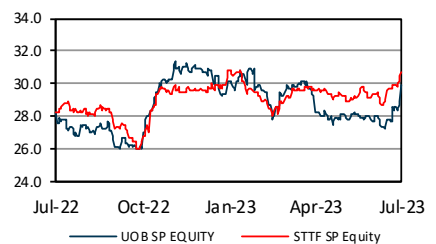
MAJOR SHAREHOLDERS (%)

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	4.3	2.0	(3.3)
STTF RETURN	4.1	3.3	5.3

PRICE VS. STTF



KEY FINANCIALS

Y/E Dec	FY21	FY22	FY23e	FY24e
Total Inc (SGD mn)	9,790	11,574	14,349	15,297
Op Profit (SGD mn)	4,818	5,690	7,137	8,234
NPAT (SGD mn)	4,085	4,585	5,950	6,828
EPS (SGD)	2.38	2.68	3.48	4.00
PER, (X)	12.6	11.2	8.6	7.5
P/BV, (X)	1.2	1.2	1.2	1.1
DPS (SGD)	1.20	1.35	1.75	1.90
ROE	9.9%	11.2%	14.2%	15.5%

Source: Bloomberg, Company, PSR

Valuation Method:

Gordon Growth Model (COE: 9.3%, g: 2%)

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+ Other non-interest income surged in 2Q23. Other NII increased 113% YoY largely due to higher customer-related treasury income and strong performance from trading and liquidity management activities this quarter. Management also noted record high customer-related treasury income from increased hedging demands and good performance from trading and liquidity management activities.

+ New NPAs fall 45% YoY. New NPA formation fell by 45% YoY to S\$364mn as asset quality stabilised during the quarter. The NPL ratio remained stable YoY and improved 10bps QoQ to 1.6%. Asset quality remained resilient with SP/NPA increasing slightly to 33%. 2Q23 NPA coverage is at 99% and unsecured NPA coverage at 209%.

The Negatives

- Fee income fell YoY and QoQ. Fees fell 8% YoY largely due to lower loan-related fees and wealth management fees as investor sentiments remained subdued, offset by a continued increase in credit card fees. On a QoQ basis, fee income fell 5% from lower wealth fees as investor sentiments remained muted offset by sustained momentum in credit card fees.

- Credit costs increase due to higher SPs and GPs. Total allowances rose by 38% YoY to S\$238mn mainly due to specific allowance increasing by 22% YoY to S\$202mn largely due to a major Thailand corporate account and general allowance of S\$36mn (2Q22: S\$7mn). This resulted in credit costs increasing by 8bps YoY to 30bps. Nonetheless, total general allowance for loans, including RLARs, was prudently maintained at 1.0% of performing loans. UOB has increased its guidance for credit cost from 20-25 bps to around 25bps for FY23e. Management said that the major Thailand corporate account is in the manufacturing sector and was hit by fraud, for which they had to fully provide for, nonetheless they do not see any systemic risk from this account.

- Expenses up 22% YoY. Excluding one-offs, expenses rose 22% YoY to S\$1,448mn. The increase was due to continued focus on investments to enhance capabilities to drive strategic initiatives. Nonetheless, the cost-to-income ratio (CIR) improved 2.9% points YoY to 40.9% on the back of strong income growth. UOB has maintained its guidance for a CIR of 43-44% for FY23e, and to trend below 42% by FY24e.

Outlook

PATMI: UOB's profit should continue to grow in 2023e on the back of stabilising margins, stronger fees and lower provisions. We expect FY23e NII to expand 21% YoY. We expect credit costs to come in around the guidance of 25bps. The company is not intending to write-back provisions. UOB has guided for loans growth of low to mid-single digit and NIM to stay around its current levels for FY23e.

Fee income: UOB expects fee income to recover from the low base in FY22, and for the growth to be led by credit card fees and wealth and fund management fees as the market sentiment recovers. As such, they have guided for high single-digit fee income growth in FY23e, which could add ~S\$200mn to revenue.

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. Management said that they are focusing on high quality customers to continue loans growth and have guided for a low to mid-single digit loan growth for FY23e.

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 FY23e

Assumptions	UOB	PSR
NIM	2.10 - 2.15%	2.11%
Loan growth	Low to Mid single-digit	1%
Fee income growth	High single-digit	7%
Cost-income ratio	43% - 44%	44%
Credit Cost	Around 25 bps	27

Source: Company, PSR

Investment Action

Maintain BUY with a higher target price of S\$35.90, from S\$35.70.

We maintain our BUY recommendation with a higher target price of S\$35.90, from S\$35.70. We raise FY23e earnings by 4% as we raise other non-interest income estimates but lower NII, fee income and increase provisions estimates for FY23e. We assume 1.48x FY23e P/BV and ROE estimate of 12.9% in our GGM valuation.

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	9.3%
ROE	Return on Equity	12.9%
g	Terminal growth rate	2.0%
$\frac{(ROE-g)}{(COE-g)}$	Target Price to Book	1.48
	BVPS, S\$	24.20
	Valuation, S\$	35.90

Source: PSR

Financials

Income Statement

Y/E Dec, SGD mn	FY20	FY21	FY22	FY23e	FY24e
Net Int Income	6,033	6,389	8,342	10,041	10,897
Fees and Commission	1,997	2,412	2,143	2,293	2,385
Other Non-int income	1,144	989	1,089	2,015	2,015
Total operating income	9,174	9,790	11,574	14,349	15,297
Operating expenses	(4,183)	(4,314)	(5,281)	(6,288)	(6,489)
Provisions	(1,556)	(658)	(603)	(924)	(574)
Operating profit	3,435	4,818	5,690	7,137	8,234
Associates & JVs	102	117	98	100	100
Profit Before Tax	3,537	4,935	5,788	7,237	8,334
Taxation	(618)	(850)	(1,203)	(1,287)	(1,506)
Profit After Tax	2,919	4,085	4,585	5,950	6,828
Non-controlling Interest	16	12	10	13	15
Net Income, reported	2,903	4,073	4,575	5,937	6,813
Net Income, adj.	2,903	4,073	4,575	5,937	6,813

Per share data

Y/E Dec	FY20	FY21	FY22	FY23e	FY24e
EPS, reported	1.69	2.38	2.68	3.48	4.00
EPS, adj.	1.68	2.38	2.68	3.48	4.00
DPS	0.78	1.20	1.35	1.75	1.90
BVPS (less pref shares)	23.03	24.08	24.24	24.83	26.70
Dividend Pay-out Ratio	46%	50%	50%	50%	47%

Supplementary items

Y/E Dec	FY20	FY21	FY22	FY23e	FY24e
CET1 CAR	14.7%	13.5%	13.3%	14.2%	14.5%
Tier 1 CAR	15.8%	14.4%	14.4%	15.2%	15.5%
Total CAR	18.4%	16.6%	16.7%	17.6%	17.8%

Balance Sheet

Y/E Dec, SGD mn	FY20	FY21	FY22	FY23e	FY24e
Cash bal w central banks	36,798	36,558	49,419	61,707	84,754
Due from banks	40,284	38,916	35,410	46,613	45,983
Investment securities	25,217	29,068	35,183	42,731	56,611
Loans to non-bank cust	277,201	306,713	315,355	317,838	328,581
Others	52,314	48,068	68,893	75,367	92,876
Total Assets	431,814	459,323	504,260	544,257	608,806
Due to banks	15,977	15,561	24,537	28,465	38,309
Due to non-bank cust	324,598	352,633	368,553	392,024	425,573
Debts issued	29,608	34,056	40,593	52,058	70,061
Others	20,500	14,212	26,971	26,971	26,971
Total liabilities	390,683	416,462	460,654	499,518	560,914
Shareholder's equity	40,903	42,635	43,368	44,486	47,630
Non-controlling interest	230	228	240	253	261
Total Equity	41,133	42,863	43,608	44,739	47,891

Valuation Ratios

Y/E Dec	FY20	FY21	FY22	FY23e	FY24e
P/E (X), adj.	17.7	12.6	11.2	8.6	7.5
P/B (X)	1.3	1.2	1.2	1.2	1.1
Dividend Yield	2.6%	4.0%	4.5%	5.9%	6.4%

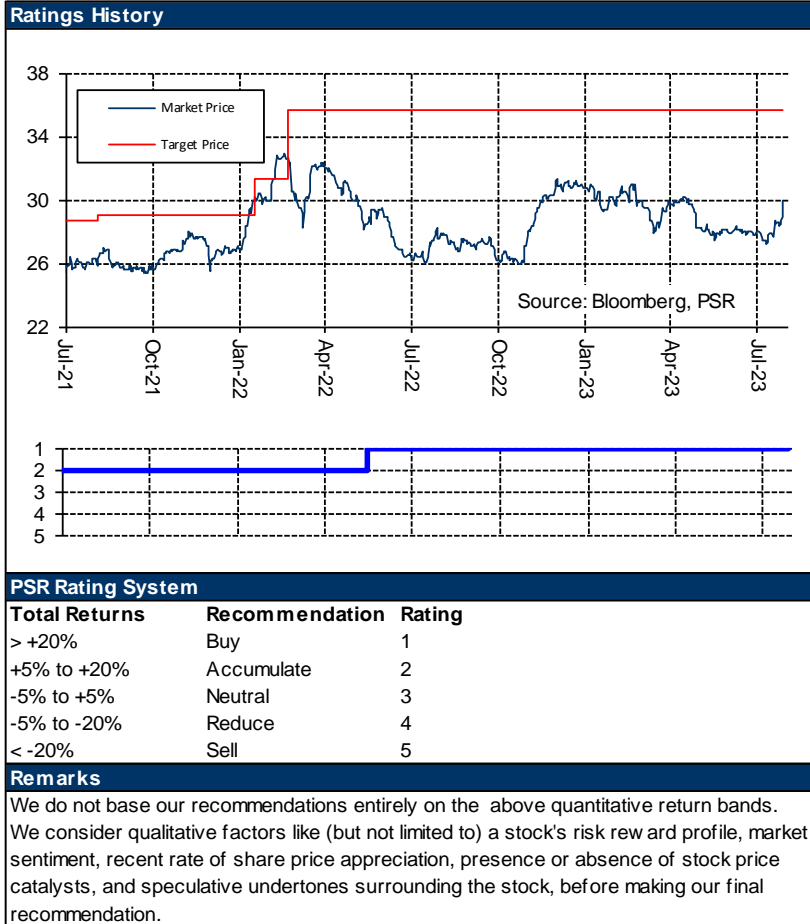
Growth & Margins

	FY20	FY21	FY22	FY23e	FY24e
Growth					
Net interest income	-8.1%	5.9%	30.6%	20.4%	8.5%
Non interest income	-9.5%	8.3%	-5.0%	33.3%	2.1%
Pre provision op profit	-8.6%	6.7%	18.2%	24.0%	6.6%
Operating income	-33.0%	40.3%	18.1%	25.4%	15.4%
Net income, reported	-33.2%	40.3%	12.3%	29.8%	14.8%
Margins					
Net interest margin	1.57%	1.56%	1.86%	2.11%	2.10%

Key Ratios

	FY20	FY21	FY22	FY23e	FY24e
ROE	7.4%	9.9%	11.2%	14.2%	15.5%
ROA	0.7%	0.9%	0.9%	1.1%	1.1%
RORWA	1.3%	1.6%	1.8%	2.3%	2.5%
Non-int/total income ratio	34.2%	34.7%	27.9%	30.0%	28.8%
Cost/income ratio	45.6%	44.1%	45.6%	43.8%	42.4%
Loan/deposit ratio	85.4%	87.0%	85.6%	81.1%	77.2%
NPL ratio	1.6%	1.6%	1.6%	1.6%	1.6%

Source: Company, PSR



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