

United Overseas Bank Limited

NIM growth stagnates while fee income recovers

SINGAPORE | BANKING | 3Q23 RESULTS

30 October 2023

BUY (Maintained)

LAST TRADED PRICE	SGD 27.03
FORECAST DIV	SGD 1.75
TARGET PRICE	SGD 35.90
DIVIDEND YIELD	6.5%
TOTAL RETURN	39.3%

COMPANY DATA

BLOOMBERG TICKER	UOB SP
O/S SHARES (MN)	1672
MARKET CAP (USD mn / SGD mn)	33007 / 45206
52 - WK HI/LO (SGD)	314 / 25.97
3M Average Daily T/O (mn)	2.38

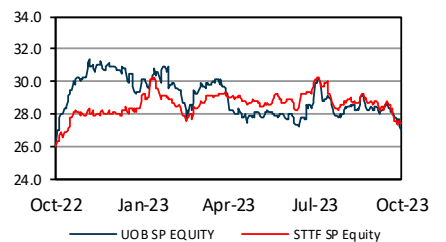
MAJOR SHAREHOLDERS (%)

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	(3.9)	(2.1)	(6.1)
STTF RETURN	(4.4)	(5.4)	(13)

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)	4,073	4,575	5,937	6,813
EPS (SGD)	2.38	2.68	3.48	4.00
PER, (X)	11.4	10.1	7.8	6.7
P/BV, (X)	11	11	11	10
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%)

Glenn Thum (+65 6212 1851)

Senior Research Analyst

glennthumjc@phillip.com.sg

- 3Q23 adjusted earnings of S\$1,479mn were slightly above our estimates due to higher fee income and higher NII offset by lower-than-expected other non-interest income growth and higher allowances. 9M23 adjusted PATMI was 77% of our FY23e forecast.
- Positives include NII growth of 9% YoY and fee income rising by 14% YoY, while negatives were the flat other non-interest income growth and allowances increasing 12% YoY. Management has maintained its FY23e guidance, while providing FY24e guidance of mid-single digit loan growth from a growing customer franchise and focus on high-quality customers, NIM to remain at current levels as funding costs have stabilised and expectations for rates to maintain till 2H24, double-digit fee income growth from the Citi acquisition, stable cost-to-income ratio and credit cost at around 25-30bps.
- Maintain BUY with an unchanged target price of S\$35.90.** Our FY23e estimates remain unchanged. We assume 1.48x FY23e P/BV and ROE estimate of 12.9% in our GGM valuation. Continued NIM and NII improvement and fee income recovery will boost earnings.

Results at a glance

(SGD mn)	3Q23	3Q22	YoY	2Q23	QoQ	Comments
Net interest income	2,429	2,234	9%	2,437	(0%)	NII growth led by NIM increase of 14bps YoY to 2.09% offset slightly by loan growth decline of 2% YoY.
Fees & Comm	591	519	14%	524	13%	Fee income growth due to spike in credit card fees while loan-related fees rebounded. Wealth fees recovered modestly amid cautious investor sentiments.
Other Non Int Income	436	431	1%	581	(25%)	Growth flat as customer-related treasury income sustained momentum and trading and liquidity management activities continued to deliver good performance.
Total Revenue	3,456	3,184	9%	3,542	(2%)	
Expenses	(1,416)	(1,357)	4%	(1,448)	(2%)	Expenses rose slightly in tandem with higher income, as cost-to-income ratio remained stable at 41.0%.
PPOP	2,040	1,827	12%	2,094	(3%)	
Allowances	(151)	(135)	12%	(238)	(37%)	Allowances higher YoY due to higher SPs offset by GP write-back. As such, credit costs rose 2bps YoY to 19bps. NPL ratio flat at 1.6% and asset quality remained resilient with SP/NPA ratio stable at 34%.
Adjusted PATMI	1,479	1,403	5%	1,507	(2%)	
One-off expenses	(97)	-	NM	(92)	5%	Due to Citi integration costs.
PATMI	1,382	1,403	(1%)	1,415	(2%)	

Source: Company, PSR

The Positives

+ NII and NIM continue to grow YoY. NII grew 9% YoY, despite a decline in loan growth of 2% YoY, while NIM rose 14bps YoY to 2.09% but declined 3bps QoQ due to lower margin on excess liquidity. Loan growth decline was from Singapore and Indonesia offset by growth in the rest of ASEAN. UOB has maintained its loan growth guidance for FY23e at low to mid-single digit and is guiding for a mid-single digit loan growth for FY24e.

+ Fee income recovers to near an all-time high. Fees grew 14% YoY largely due to higher credit card fees which hit a new record of S\$104mn (+89% YoY) while loan-related fees rebounded and grew 5% YoY. Wealth management fees recovered modestly amid cautious investor sentiment. On a QoQ basis, fee income rose 13% from broad-based growth across all segments. Fee income now makes up 17% of total income (3Q22: 16%).

+ New NPAs fall 27% QoQ. New NPA formation fell by 27% QoQ to S\$267mn as asset quality stabilised during the quarter. The NPL ratio remained stable QoQ but rose by 10bps YoY to 1.6%. Asset quality remained resilient with SP/NPA increasing slightly to 34%. 3Q23 NPA coverage is at 102% and unsecured NPA coverage at 205%.

The Negatives

- Other non-interest income growth flat YoY and declined QoQ. Other NII growth was flat YoY as customer-related treasury income sustained momentum while trading and liquidity management activities continued to deliver good performance. However, other NII fell 25% QoQ as growth in customer-related treasury income was more than offset by lower valuation on investments due to market volatility.

- Credit costs increase due to higher SPs despite GP write-back. Total allowances rose by 12% YoY to S\$151mn mainly due to specific allowance increasing by 80% YoY to S\$229mn despite a general allowance write-back of S\$78mn for the quarter. The increase in specific allowance was a pre-emptive move to rebalance collateral value in US and Hong Kong/China. Management said that the accounts were not distressed or non-performing. This resulted in credit costs increasing by 2bps YoY to 19bps. Nonetheless, total general allowance for loans, including RLARs, was prudently maintained at 0.9% of performing loans. UOB has maintained its guidance for credit cost of around 25bps for FY23e and has guided for 25-30bps for FY24e.

- Expenses up 4% YoY. Excluding one-offs, expenses rose 4% YoY to S\$1,416mn. The increase was across the board, including staff costs, revenue-related and IT-related expenses. Nonetheless, the cost-to-income ratio (CIR) improved 1.6% points YoY to 41.0% on the back of strong income growth. UOB has guided for cost-to-income ratio to remain stable in FY24e and for the one-time costs from the Citigroup acquisition to substantially roll off.

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. UOB has also guided for a double-digit fee income growth in FY24e, which could further grow 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. Loan growth is expected to pick up next year and they have guided for a mid-single digit loan growth for FY24e.

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%
Credit Cost	Around 25 bps	27

Source: Company, PSR

Investment Action**Maintain BUY with an unchanged target price of S\$35.90.**

Our FY23e estimates remain unchanged. We assume 1.48x FY23e P/BV and ROE estimate of 12.9% in our GGM valuation. Continued NIM and NII improvement and fee income recovery will boost earnings.

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.	16.0	11.4	10.1	7.8	6.7
P/B (X)	1.2	1.1	1.1	1.1	1.0
Dividend Yield	2.9%	4.4%	5.0%	6.5%	7.0%

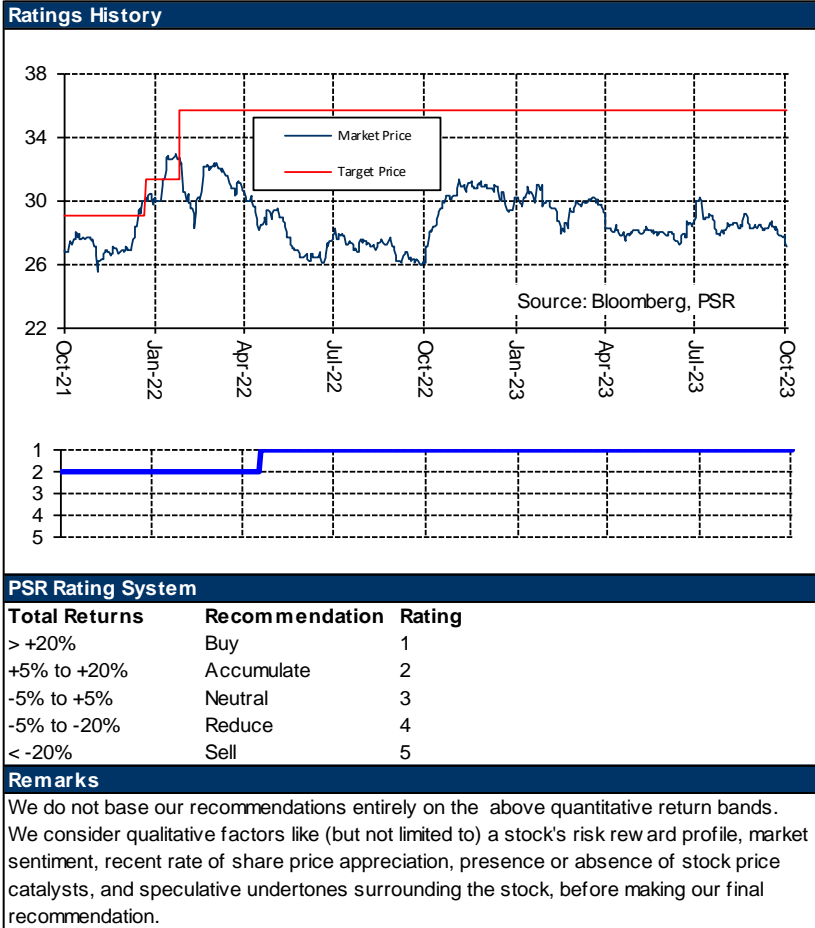
Growth & Margins

	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



Contact Information (Singapore Research Team)
Head of Research

 Paul Chew – paulchewkl@phillip.com.sg
Research Admin

 Qystina Azli – qytina@phillip.com.sg
Technical Analyst

 Zane Aw – zaneawyx@phillip.com.sg
Property | REITs

 Darren Chan – darrenchanrx@phillip.com.sg
Banking & Finance

 Glenn Thum – glennthumjc@phillip.com.sg
Credit Analyst

 Shawn Sng – shawnsngkh@phillip.com.sg
Property | REITs

 Liu Miaomiao – liumm@phillip.com.sg
Conglomerate | Transport

 Peggy Mak – peggyamak@phillip.com.sg
US Technology Analyst (Hardware & Marketplaces)

 Maximilian Koeswoyo – maximilian@phillip.com.sg
US Technology Analyst (Digital Media & Entertainment)

 Jonathan Woo – jonathanwookj@phillip.com.sg
US Technology Analyst (Software/Services)

 Ambrish Shah – amshah@phillipcapital.in
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

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

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

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

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

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

THAILAND

Phillip Securities (Thailand) Public Co. Ltd
15th Floor, Vorawat Building,
849 Silom Road, Silom, Bangkok,
Bangkok 10500 Thailand
Tel +66-2 6351700 / 22680999
Fax +66-2 22680921
Website: www.phillip.co.th

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

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

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

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

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

INDIA

PhillipCapital (India) Private Limited
No.1, 18th Floor, Urmil 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

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

DUBAI

Phillip Futures DMCC
Member of the Dubai Gold and
Commodities Exchange (DGCX)
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.