

# United Overseas Bank Limited

NII hurt by NIM decline and flat loan growth



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SINGAPORE | BANKING | 4Q23 RESULTS

26 February 2024

## BUY (Maintained)

LAST TRADED PRICE	SGD 28.25
FORECAST DIV	SGD 1.90
TARGET PRICE	SGD 34.90
DIVIDEND YIELD	6.7%
<b>TOTAL RETURN</b>	<b>30.3%</b>

### COMPANY DATA

BLOOMBERG TICKER	UOB SP
O/S SHARES (MN)	1672
MARKET CAP (USD mn / SGD mn)	35138 / 47246
52 - WK HI/LO (SGD)	30.71/ 26.82
3M Average Daily T/O (mn)	2.27

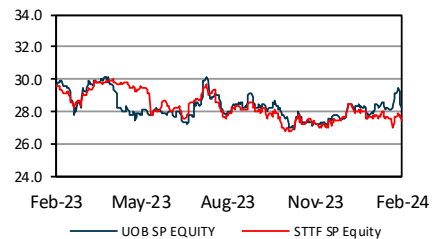
### MAJOR SHAREHOLDERS (%)

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	2.0	4.1	0.2
STTF RETURN	2.7	3.8	(0.2)

### PRICE VS. STTF



Source: Bloomberg, PSR

### KEY FINANCIALS

Y/E Dec	FY22	FY23	FY24e	FY25e
Total Inc (SGD mn)	11,574	13,931	14,632	15,392
Op Profit (SGD mn)	5,690	6,793	7,463	7,954
NPAT (SGD mn)	4,575	5,734	6,187	6,578
EPS (SGD)	2.68	3.37	3.64	3.87
PER, (X)	10.6	8.4	7.8	7.3
P/BV, (X)	12	1.1	1.1	1.0
DPS (SGD)	1.35	1.70	1.90	2.00
ROE	11.2%	13.4%	13.9%	14.2%

Source: Bloomberg, Company, PSR

### Valuation Method:

Gordon Growth Model (COE: 10.2%, g: 2%)

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- 4Q23 adjusted earnings of S\$1,498mn were slightly above our estimates due to higher fee income and other non-interest income, but offset by lower-than-expected NII and higher allowances. FY23 adjusted PATMI was 102% of our FY23e forecast. 4Q22 DPS was up 13% YoY to 85 cents; the full-year FY23 dividend rose 26% YoY to 170 cents, with the dividend payout ratio stable at 50%.
- Positives include fee income growth of 17% YoY and other non-interest income rising by 54% YoY, while negatives were NII declining by 6% YoY as NIMs fell 20bps and allowances increasing 17% YoY. Management has provided FY24e guidance of low-single-digit loan growth, NIM to sustain at the current level of ~2% 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 of around 41-42% and credit cost to come in at the lower end of 25-30bps.
- Maintain BUY with a lower target price of S\$34.90 (prev. S\$35.90).** We lower FY24e earnings by 9%. Our NII is reduced as we assume softer NIMs and increased allowances, offset by higher fees and other non-interest income. We assume 1.41x FY24e P/BV and ROE estimate of 13.9% in our GGM valuation. FY24 will be another year of growth from stable NIMs, loan recovery, and double-digit fee income growth will boost earnings.

### Results at a glance

(SGD mn)	4Q23	4Q22	YoY	3Q23	QoQ	Comments
Net interest income	2,404	2,560	(6%)	2,429	(1%)	NII decline due to NIM falling 20bps YoY to 2.02% and loan growth remaining stable YoY.
Fees & Comm	569	485	17%	591	(4%)	Fee income growth due to continued momentum in credit card fees while wealth fees recovered. Loan-related fees saw modest growth amid cautious investor sentiments.
Other Non Int Income	438	285	54%	436	0%	Trading and liquidity management activities continued to deliver good performance while customer-related treasury income sustained momentum.
<b>Total Revenue</b>	<b>3,411</b>	<b>3,330</b>	<b>2%</b>	<b>3,456</b>	<b>(1%)</b>	
Expenses	(1,473)	(1,418)	4%	(1,416)	4%	Expenses rose slightly in tandem with higher income, as cost-to-income ratio grew slightly to 43.2% (4Q22: 42.6%).
<b>PPOP</b>	<b>1,938</b>	<b>1,912</b>	<b>1%</b>	<b>2,040</b>	<b>(5%)</b>	
Allowances	(202)	(173)	17%	(151)	34%	Allowances higher YoY due to lower GP write-back offset by lower SPs. As such, credit costs rose 4bps YoY to 25bps. NPL ratio improved to 1.5% and asset quality remained resilient with SP/NPA ratio improving to 32%.
<b>Adjusted PATMI</b>	<b>1,498</b>	<b>1,398</b>	<b>7%</b>	<b>1,479</b>	<b>1%</b>	
One-off expenses	(94)	(246)	NM	(97)	(3%)	Due to Citi integration costs.
<b>PATMI</b>	<b>1,404</b>	<b>1,152</b>	<b>22%</b>	<b>1,382</b>	<b>2%</b>	

Source: Company, PSR

### The Positives

**+ Fee income continues the strong recovery.** Fees grew 17% YoY, largely due to higher credit card fees, which hit a new record of S\$125mn (+69% YoY), boosted by higher card spending on an enlarged regional franchise due to the Citi integration. Wealth management fees recovered modestly by 21% YoY, while loan-related fees grew 5% YoY amid cautious

investor sentiment. Fee income now makes up 17% of total income (4Q22: 15%). On a full-year basis, fee income rose 4%, driven by record-high credit card fees, underscored by higher customer spending, expanded regional franchise, and higher wealth fees. This was partly offset by softer loan-related fees amid cautious corporate sentiment.

**+ Other non-interest income surges YoY.** Other NII surged 54% YoY as customer-related treasury income sustained momentum while trading and liquidity management activities continued to deliver good performance. On a full-year basis, other NII spiked 85% to S\$2bn from all-time high customer-related treasury income and strong performance from trading and liquidity management activities.

**+ New NPAs dipped 2% YoY.** New NPA formation fell by 2% YoY to S\$389mn as asset quality stabilised during the quarter. The NPL ratio improved by 10bps YoY and QoQ to 1.5%. Asset quality remained resilient, with SP/NPA improving slightly to 32%. 4Q23 NPA coverage is at 101%, and unsecured NPA coverage is at 209%.

### The Negatives

**- NII declines YoY as NIMs soften.** NII dipped 6% YoY from NIM, falling 20bps YoY and 7bps QoQ to 2.02% mainly from loan margin compression due to competition for high-quality credits and loans remaining flat YoY. The decline in loan growth from Singapore was offset by growth in North Asia and the rest of the world. UOB is guiding for a low-single-digit loan growth for FY24e.

**- Credit costs increase due to lower GP write-back.** Total allowances rose by 17% YoY to S\$202mn mainly due to a lower general allowance write-back of S\$9mn (4Q22: write-back of S\$80mn) despite specific allowance falling by 16% YoY to S\$212mn. Credit costs rose by 4bps YoY to 25bps, with full-year FY23 credit costs coming in at UOB's guidance of 25bps (+5bps YoY). Nonetheless, the total general allowance for loans, including RLARs, was prudently maintained at 0.9% of performing loans. UOB has guided for credit costs to come in at the lower end of 25-30bps for FY24e.

**- Expenses up 4% YoY.** Excluding one-offs, expenses rose 4% YoY to S\$1,473mn. The increase was across the board, including staff costs, revenue-related and IT-related expenses. Nonetheless, the cost-to-income ratio (CIR) was relatively stable and rose 0.6% points YoY to 43.2% on the back of strong income growth, with full-year CIR improving by 1.8% points to 41.5%. UOB has guided CIR to remain stable at around 41% to 42% for FY24e and for the one-time costs from the Citigroup acquisition to roll off substantially.

### Outlook

**PATMI:** We expect UOB's profits to grow 8% in 2024e on the back of stable margins, loan growth recovery, stronger fees and stable provisions. We expect credit costs to come in around the guidance of 25bps. UOB has guided for loan growth of low single digits and NIM of around 2% for FY24e.

**Fee income:** UOB expects fee income to continue its recovery and for the growth to be led by credit card fees and wealth and fund management fees as the market sentiment recovers. Wealth management AUM has grown 14% YoY to S\$176bn. UOB has successfully integrated their Citi portfolios in Malaysia and Indonesia, with Thailand and Vietnam to be completed by FY24, which could further expand their regional franchise. As such, they have guided for double-digit fee income growth in FY24e, which could add ~S\$220mn to revenue.

**Loan growth:** UOB expects to see demand for loans pick back up with rate cuts expected in 2H24 and is guiding for loans to grow 1-3% in Singapore and 4-5% in the region. However, we expect a slowdown in the first few quarters of FY24 as rates remain high with the recovery to come in 2H24. Management have guided low-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: FY23 results vs UOB FY24 guidance vs PSR estimates for FY24e**

Assumptions	FY23 Results	UOB	PSR
NIM	2.09%	Around 2%	2.02%
Loan growth	1%	Low single-digit	3%
Fee income growth	4%	Double-digit	13%
Cost-income ratio	41.5%*	41% - 42%*	43.3%
Credit Cost	25bps	Lower end of 25-30bps	25

\*Excludes one-off expenses, Source: Company, PSR

### Investment Action

**Maintain BUY with an unchanged target price of S\$34.90 (prev. S\$35.90).**

We lower FY24e earnings by 9%. Our NII is reduced as we assume softer NIMs and increased allowances, offset by higher fees and other non-interest income. We assume 1.41x FY24e P/BV and ROE estimate of 13.9% in our GGM valuation. FY24 will be another year of growth from stable NIMs, loan recovery, and double-digit fee income growth will boost earnings.

### GGM valuation

Item	Description	Value
R <sub>f</sub>	Risk-free rate	3.1%
E	Equity-risk premium	5.8%
B	Beta	1.2
COE	Cost of Equity	10.2%
ROE	Return on Equity	13.9%
g	Terminal growth rate	2.0%
$\frac{ROE-g}{COE-g}$	Target Price to Book	1.41
	BVPS, S\$	24.80
	Valuation, S\$	34.90

Source: PSR

## Financials

### Income Statement

Y/E Dec, SGD mn	FY21	FY22	FY23	FY24e	FY25e
Net Int Income	6,389	8,342	9,678	9,726	9,759
Fees and Commission	2,412	2,143	2,234	2,524	2,809
Other Non-int income	989	1,089	2,019	2,381	2,825
<b>Total operating income</b>	<b>9,790</b>	<b>11,574</b>	<b>13,931</b>	<b>14,632</b>	<b>15,392</b>
Operating expenses	(4,314)	(5,281)	(6,217)	(6,342)	(6,454)
Provisions	(658)	(603)	(921)	(826)	(983)
<b>Operating profit</b>	<b>4,818</b>	<b>5,690</b>	<b>6,793</b>	<b>7,463</b>	<b>7,954</b>
Associates & JVs	117	98	93	100	100
<b>Profit Before Tax</b>	<b>4,935</b>	<b>5,788</b>	<b>6,886</b>	<b>7,563</b>	<b>8,054</b>
Taxation	(850)	(1,203)	(1,138)	(1,361)	(1,461)
<b>Profit After Tax</b>	<b>4,085</b>	<b>4,585</b>	<b>5,748</b>	<b>6,202</b>	<b>6,594</b>
Non-controlling Interest	12	10	14	15	16
<b>Net Income, reported</b>	<b>4,073</b>	<b>4,575</b>	<b>5,734</b>	<b>6,187</b>	<b>6,578</b>
<b>Net Income, adj.</b>	<b>4,073</b>	<b>4,575</b>	<b>5,734</b>	<b>6,187</b>	<b>6,578</b>

### Per share data

Y/E Dec	FY21	FY22	FY23	FY24e	FY25e
EPS, reported	2.38	2.68	3.37	3.64	3.87
EPS, adj.	2.38	2.68	3.37	3.64	3.87
DPS	1.20	1.35	1.70	1.90	2.00
BVPS (less pref shares)	24.08	24.24	26.00	26.28	28.20
Dividend Pay-out Ratio	50%	50%	50%	52%	52%

### Supplementary items

Y/E Dec	FY21	FY22	FY23	FY24e	FY25e
CET1 CAR	13.5%	13.3%	13.4%	14.9%	14.4%
Tier 1 CAR	14.4%	14.4%	14.4%	15.8%	15.4%
Total CAR	16.6%	16.7%	16.6%	17.9%	17.4%

### Balance Sheet

Y/E Dec, SGD mn	FY21	FY22	FY23	FY24e	FY25e
Cash bal w central banks	36,558	49,419	52,350	56,820	81,616
Due from banks	38,916	35,410	35,093	40,294	39,899
Investment securities	29,068	35,183	46,533	42,102	43,786
Loans to non-bank cust	306,713	315,355	317,005	323,828	333,431
Others	48,068	68,893	72,539	76,721	79,984
<b>Total Assets</b>	<b>459,323</b>	<b>504,260</b>	<b>523,520</b>	<b>539,765</b>	<b>578,716</b>
Due to banks	15,561	24,537	32,371	32,532	32,858
Due to non-bank cust	352,633	368,553	385,469	410,037	445,156
Debts issued	34,056	40,593	36,280	27,217	27,489
Others	14,212	26,971	22,932	22,932	22,932
<b>Total liabilities</b>	<b>416,462</b>	<b>460,654</b>	<b>477,052</b>	<b>492,719</b>	<b>528,435</b>
Shareholder's equity	42,635	43,368	46,229	46,789	50,008
Non-controlling interest	228	240	242	257	273
<b>Total Equity</b>	<b>42,863</b>	<b>43,608</b>	<b>46,471</b>	<b>47,046</b>	<b>50,281</b>

### Valuation Ratios

Y/E Dec	FY21	FY22	FY23	FY24e	FY25e
P/E (X), adj.	11.9	10.6	8.4	7.8	7.3
P/B (X)	1.2	1.2	1.1	1.1	1.0
Dividend Yield	4.2%	4.8%	6.0%	6.7%	7.1%

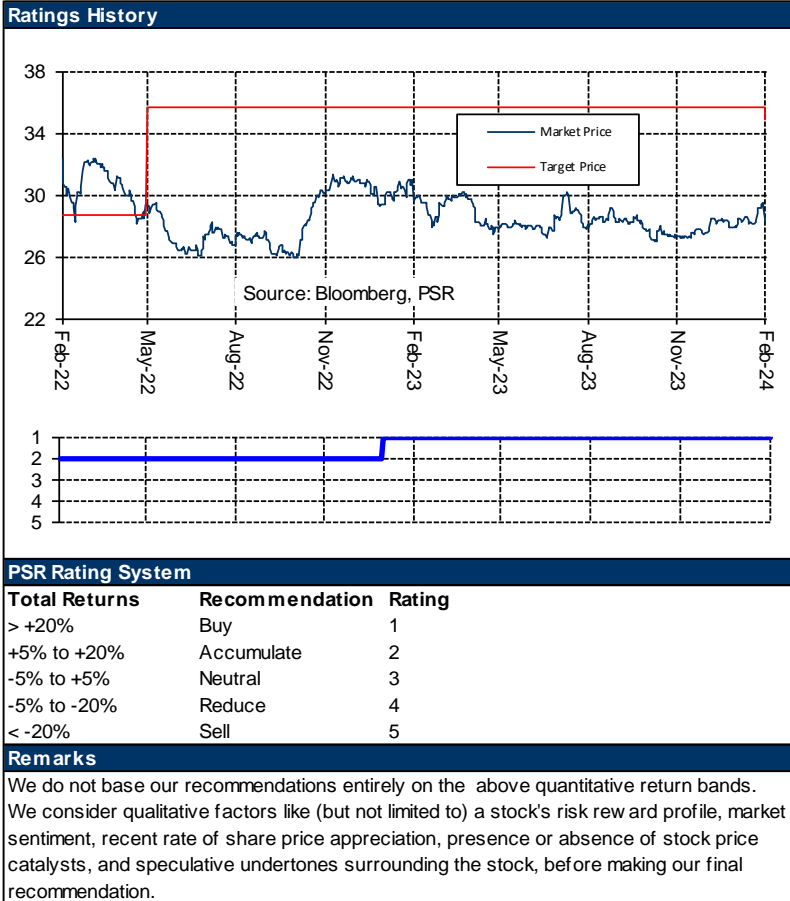
### Growth & Margins

	FY21	FY22	FY23	FY24e	FY25e
<b>Growth</b>					
Net interest income	5.9%	30.6%	16.0%	0.5%	0.3%
Non interest income	8.3%	-5.0%	31.6%	15.3%	14.8%
Pre provision op profit	6.7%	18.2%	20.4%	5.0%	5.2%
Operating income	40.3%	18.1%	19.4%	9.9%	6.6%
Net income, reported	40.3%	12.3%	25.3%	7.9%	6.3%
<b>Margins</b>					
Net interest margin	1.56%	1.86%	2.09%	2.02%	1.97%

### Key Ratios

	FY21	FY22	FY23	FY24e	FY25e
ROE	9.9%	11.2%	13.4%	13.9%	14.2%
ROA	0.9%	0.9%	1.1%	1.2%	1.1%
RORWA	1.6%	1.8%	2.1%	2.2%	2.3%
Non-int/total income ratio	34.7%	27.9%	30.5%	33.5%	36.6%
Cost/income ratio	44.1%	45.6%	44.6%	43.3%	41.9%
Loan/deposit ratio	87.0%	85.6%	82.2%	79.0%	74.9%
NPL ratio	1.6%	1.6%	1.5%	1.7%	1.7%

Source: Company, PSR



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