

# United Overseas Bank Limited

Non-interest income growth offset NII decline



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## SINGAPORE | BANKING | 1Q24 RESULTS

9 May 2024

### BUY (Maintained)

LAST TRADED PRICE	SGD 29.88
FORECAST DIV	SGD 1.90
TARGET PRICE	SGD 34.90
DIVIDEND YIELD	6.4%
TOTAL RETURN	23.2%

#### COMPANY DATA

BLOOMBERG TICKER	UOB SP
O/S SHARES (MN)	1675
MARKET CAP (USD mn / SGD mn)	37897 / 51263
52 - WK HI/LO (SGD)	3135 / 26.82
3M Average Daily T/O (mn)	3.45

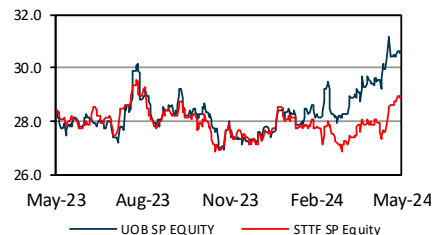
#### MAJOR SHAREHOLDERS (%)

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	6.8	11.5	10.4
STTF RETURN	3.5	7.4	3.7

#### 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)	11.4	9.1	8.4	7.9
P/BV, (X)	1.3	1.2	1.2	1.1
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%)

Glenn Thum (+65 6212 1851)

Senior Research Analyst

glennthumjc@phillip.com.sg

- 1Q24 adjusted earnings of S\$1,566mn met our estimates as higher fee income and other non-interest income were offset by lower-than-expected NII and higher expenses. 1Q24 adjusted PATMI was 25% of our FY24e forecast.
- Positives include fee income growth of 5% YoY, trading and investment income rising by 10% YoY, and allowances dipping 3% YoY, while negatives were NII declining by 2% YoY as NIMs fell 12bps. UOB has maintained their FY24e guidance of low-single-digit loans growth, NIM to come in above 2%, double-digit fee income growth, stable cost-to-income ratio of around 41-42% and credit cost at the lower end of 25-30bps.
- Maintain BUY with an unchanged target price of S\$34.90.** Our FY24e estimates remain unchanged. 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, which will boost earnings.

#### Results at a glance

(SGD mn)	1Q24	1Q23	YoY	4Q23	QoQ	Comments
Net interest income	2,362	2,409	(2%)	2,404	(2%)	NII decline due to NIM falling 12bps YoY to 2.02% despite loan growth of 2% YoY.
Fees & Comm	580	552	5%	569	2%	Fee income growth from broad-based increases in loan-related, credit card and wealth activities.
Other Non Int Income	581	563	3%	438	33%	Robust performance from trading and liquidity management activities while customer-related treasury income hit record levels.
<b>Total Revenue</b>	<b>3,523</b>	<b>3,524</b>	<b>(0%)</b>	<b>3,411</b>	<b>3%</b>	
Expenses	(1,475)	(1,440)	2%	(1,473)	0%	Expenses rose slightly due to higher staff costs, as cost-to-income ratio grew slightly to 41.9% (1Q23: 40.9%).
<b>PPOP</b>	<b>2,048</b>	<b>2,084</b>	<b>(2%)</b>	<b>1,938</b>	<b>6%</b>	
Allowances	(189)	(194)	(3%)	(202)	(6%)	Allowances lower YoY due to lower GPs and stable SPs. As such, credit costs dipped 2bps YoY to 23bps. NPL ratio improved to 1.5% and asset quality remained resilient with SP/NPA ratio stable at 32%.
<b>Adjusted PATMI</b>	<b>1,566</b>	<b>1,577</b>	<b>(1%)</b>	<b>1,498</b>	<b>5%</b>	
One-off expenses	(79)	(67)	NM	(94)	(16%)	Due to Citi integration costs.
<b>PATMI</b>	<b>1,487</b>	<b>1,510</b>	<b>(2%)</b>	<b>1,404</b>	<b>6%</b>	

Source: Company, PSR

#### The Positives

**+ Fee income continues to grow.** Fees grew 5% YoY, largely due to higher loan-related fees of S\$244mn (+3% YoY) and a pickup in wealth management fees to S\$164mn (+6% YoY) due to a return in investor confidence. Notably, wealth management assets under management (AUM) grew 11% YoY to S\$179bn. Credit card fees continued to grow, reaching S\$90bn in 1Q24 (+11% YoY) but normalized from last quarter's seasonal high (-28% QoQ). Fee income makes up 16% of total income (1Q23: 16%).

**+ Trading and investment income rose 10% YoY.** The growth was led by customer-related treasury income hitting a record level of S\$219mn (+8% YoY) from increased retail bond sales and strong hedging demands, while trading and liquidity management activities

continued to perform well (+11% YoY). Customer-related treasury income makes up 42% of trading and investment income (1Q23: 43%). Other non-interest income was up 3% YoY and 33% QoQ.

**+ Credit costs and new NPAs dip YoY.** Credit costs dipped 2bps YoY to 23bps as total allowances fell slightly by 3% YoY, mainly from a decline in SPs (-4% YoY) on lower NPL formation, while GPs remained stable. New NPA formation fell by 17% YoY to S\$249mn as asset quality stabilised during the quarter. NPL ratio improved by 10bps YoY and remained stable QoQ at 1.5%. Asset quality remained resilient, with SP/NPA stable at 32%. 1Q24 NPA coverage is at 99%, and unsecured NPA coverage is at 204%.

**The Negative**

**- NII declines YoY as NIMs soften.** NII dipped 2% YoY from NIM falling 12bps YoY to 2.02% mainly due to loan margin compression due to competition for high-quality credits and high cost of funding as the impact from the recent deposit repricing has yet to be felt. Nonetheless, interbank and securities margin remained stable at 1.11% from active management of excess liquidity. Loans grew slightly by 2% YoY, driven by selective good credits and short-term trade loans.

**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 loans growth of low single digits, NIM to hold above 2% for the rest of FY24e, and CIR to remain stable at around 41% to 42% as the one-time costs from the Citigroup acquisition will roll off substantially.

**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 11% YoY to S\$179bn. UOB has successfully integrated their Citi portfolios in Malaysia, Indonesia, and Thailand, with Vietnam to be completed by FY24, which could further expand its 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 expected in 2H24. Management has guided low-single-digit loan growth for FY24e.

**Table 1: UOB FY24 guidance vs PSR FY24e estimates**

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

Source: Company, PSR

**Investment Action**

**Maintain BUY with an unchanged target price of S\$34.90.**

Our FY24e estimates remain unchanged. 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, which will boost earnings.

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

## GGM valuation

Item	Description	Value
$R_f$	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.	12.9	11.4	9.1	8.4	7.9
P/B (X)	1.3	1.3	1.2	1.2	1.1
Dividend Yield	3.9%	4.4%	5.6%	6.2%	6.5%

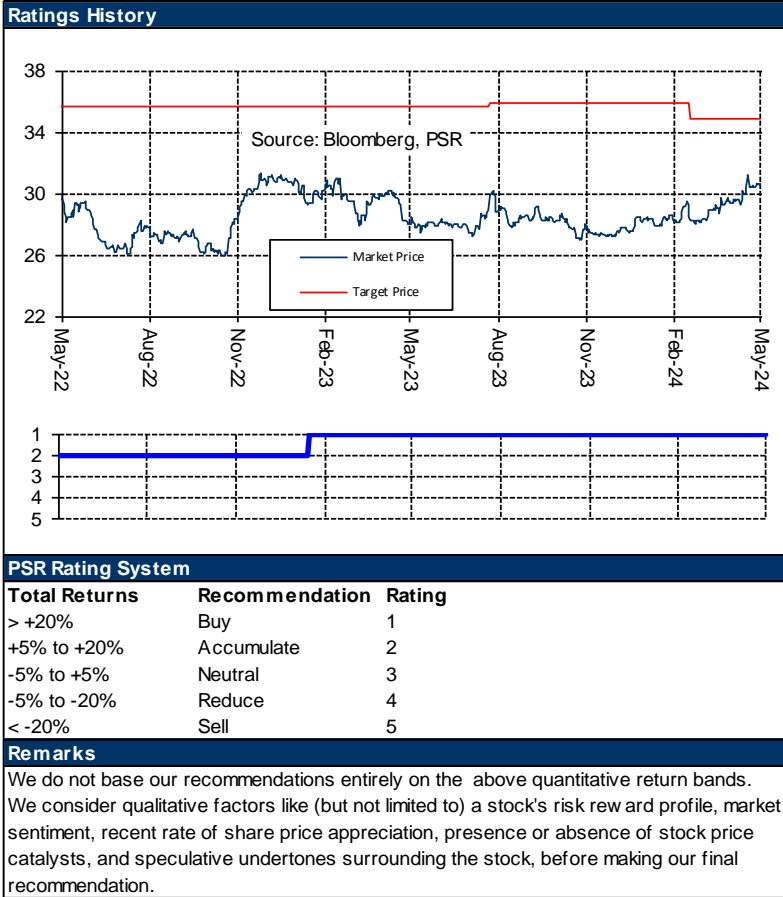
### Growth & Margins

	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



**Contact Information (Singapore Research Team)**
**Head of Research**

 Paul Chew – [paulchewkl@phillip.com.sg](mailto:paulchewkl@phillip.com.sg)
**Research Admin**

 Qystina Azli – [qytina@phillip.com.sg](mailto:qytina@phillip.com.sg)
**Technical Analyst**

 Zane Aw – [zaneawyx@phillip.com.sg](mailto:zaneawyx@phillip.com.sg)
**Property | REITs**

 Darren Chan – [darrenchanrx@phillip.com.sg](mailto:darrenchanrx@phillip.com.sg)
**Banking & Finance**

 Glenn Thum – [glenthumjc@phillip.com.sg](mailto:glenthumjc@phillip.com.sg)
**Credit Analyst**

 Shawn Sng – [shawnsngkh@phillip.com.sg](mailto:shawnsngkh@phillip.com.sg)
**Property | REITs**

 Liu Miaomiao – [liumm@phillip.com.sg](mailto:liumm@phillip.com.sg)
**US Technology Analyst (Software/Services)**

 Ambrish Shah – [amshah@phillipcapital.in](mailto:amshah@phillipcapital.in)
**US Technology Analyst (Digital Media & Entertainment)**

 Jonathan Woo – [jonathanwookj@phillip.com.sg](mailto:jonathanwookj@phillip.com.sg)
**US Tech Analyst (Hardware/E-commerce/ETF)**

 Helena Wang – [helenawang@phillip.com.sg](mailto:helenawang@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](http://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](http://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 6351700 / 22680999  
Fax +66-2 22680921  
Website [www.phillip.co.th](http://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](http://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](http://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](http://www.poems.com.my)

**INDONESIA**

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

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