

United Overseas Bank Limited

Trading and investment offset fees growth



StocksBnB.com

SINGAPORE | BANKING | 2Q24 RESULTS

5 August 2024

ACCUMULATE (Downgraded)

LAST TRADED PRICE	SGD 31.83
FORECAST DIV	SGD 1.90
TARGET PRICE	SGD 34.90
DIVIDEND YIELD	6.0%
TOTAL RETURN	15.6%

COMPANY DATA

BLOOMBERG TICKER	UOB SP
O/S SHARES (MN)	1673
MARKET CAP (USD mn / SGD mn)	39995 / 53262
52 - WK HI/LO (SGD)	33.33 / 26.82
3M Average Daily T/O (mn)	2.43

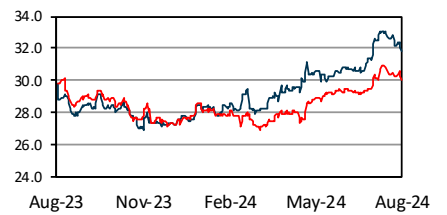
MAJOR SHAREHOLDERS (%)

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	2.4	5.4	15.8
STTF RETURN	2.8	5.6	8.9

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)	11.9	9.4	8.7	8.2
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

- 2Q24 adjusted earnings of S\$1,489mn met our estimates as higher fee income and lower allowances were offset by lower-than-expected NII and other non-interest income. 1H24 adjusted PATMI was 49% of our FY24e forecast. 1H24 interim dividend up 4% YoY to 88 cents.
- Positives include fee income growth of 18% YoY and allowances dipping 18% YoY, while negatives were NII declining by 1% YoY as NIMs fell 7bps and trading and investment income decreased by 21% YoY. 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.
- Downgrade to ACCUMULATE with an unchanged target price of S\$34.90** as we account for recent share price performance. Our FY24e estimates remain unchanged. We assume 1.41x FY24e P/BV and ROE estimate of 13.9% in our GGM valuation. UOB will be able to maintain NII and NIM from cutting deposit costs and continuing to increase loan margins. Other tailwinds include loan growth recovery from rate cuts in 2H24 and double-digit fee income growth, which will boost earnings.

Results at a glance

(SGD mn)	2Q24	2Q23	YoY	1Q24	QoQ	Comments
Net interest income	2,401	2,437	(1%)	2,362	2%	Decline due to NIM falling 7bps YoY to 2.05% despite loan growth of 3% YoY.
Fees & Comm	618	524	18%	580	7%	Growth was broad-based in loan-related, wealth management and credit card fees.
Other Non Int Income	457	581	(21%)	581	(21%)	Higher customer-related treasury income offset by lower swap gains and valuation on investments.
Total Revenue	3,476	3,542	(2%)	3,523	(1%)	
Expenses	(1,452)	(1,448)	0%	(1,475)	(2%)	OPEX flat but cost-to-income ratio grew slightly to 41.8% (2Q23: 40.9%).
PPOP	2,024	2,094	(3%)	2,048	(1%)	
Allowances	(194)	(238)	(18%)	(186)	4%	Improvement YoY due to lower GPs and SPs. As such, credit costs dipped 6bps YoY to 24bps. NPL ratio improved to 1.5% and asset quality resilient with SP/NPA ratio stable at 32%.
Adjusted PATMI	1,489	1,507	(1%)	1,566	(5%)	
One-off expenses	(64)	(92)	(30%)	(79)	(19%)	Due to Citi integration costs.
PATMI	1,425	1,415	1%	1,487	(4%)	

Source: Company, PSR

The Positives

+ Fee income rises from broad-based growth. A recovery in lending activities and improved market sentiment led to both loan-related fees (+19% YoY) and wealth management fees (+22% YoY) rebounding. Card fees similarly grew by 35% YoY and 8% QoQ, resulting in fee income rising by 18% YoY to a near record level. Notably, wealth management assets under management, or AUM, grew 10% YoY to S\$182bn from net new money inflows of S\$3bn for the quarter. Fee income makes up 18% of total income (2Q23: 15%).

+ Allowances and credit costs improve. Credit costs improved 6bps YoY to 24bps as total allowances fell by 18% YoY, from a decline in both SPs (-16% YoY) and GPs (-31% YoY).

Notably, new NPA formation rose by 20% YoY to S\$438mn mainly from one commercial real estate account in Hong Kong, but it is well collateralised and not systemic in nature. Nonetheless, NPL ratio improved by 10bps YoY and remained stable QoQ at 1.5% as the increase in new NPAs was offset by higher write-offs, upgrades and recoveries. Asset quality remained resilient, with SP/NPA stable at 32%. 2Q24 NPA coverage is at 98%, and unsecured NPA coverage is at 214%.

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

The Negatives

- **NII declines YoY as NIMs soften.** NII dipped 1% YoY from NIM falling 7bps YoY to 2.05% as deposit repricing outpaced asset yield repricing, offset by loan growth of 3% YoY. Nonetheless, interbank and securities margin remained stable YoY at 1.10% from active management of excess liquidity. On a QoQ basis, NIM rose 3bps on improved funding costs from the cuts made in UOB’s flagship One account interest rates while average interest-bearing assets were stable QoQ at S\$470bn and loan margins improved to 2.51% (1Q24: 2.47%).

- **Other non-interest income a drag.** Lower swap gains and valuation on investments dragged down other trading and investment income (-43% YoY), while customer-related treasury income (+19% YoY) sustained its momentum from retail bond sales and strong hedging demands and makes up 54% of trading and investment income (2Q23: 36%). Resultantly, other non-interest income was down 21% YoY.

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 market sentiment recovers. Wealth management AUM has grown 10% YoY to S\$182bn. UOB has integrated the Citi portfolios in Malaysia, Indonesia, and Thailand, with Vietnam to be completed by FY24, which could further expand its regional franchise with a larger deposit and customer base. 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. 1H24 loans have grown by 3% YoY, and we expect this to continue into 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

Downgrade to ACCUMULATE with an unchanged target price of S\$34.90.

We downgrade to ACCUMULATE with an unchanged target price of S\$34.90 as we account for recent share price performance. Our FY24e estimates remain unchanged. We assume 1.41x FY24e P/BV and ROE estimate of 13.9% in our GGM valuation. UOB will be able to

maintain NII and NIM from cutting deposit costs and continuing to increase loan margins. Other tailwinds include loan growth recovery from rate cuts in 2H24 and double-digit fee income growth, which will boost earnings.

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%
$(ROE-g)$	Target Price to Book	1.41
$(COE-g)$	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
Total operating income	9,790	11,574	13,931	14,632	15,392
Operating expenses	(4,314)	(5,281)	(6,217)	(6,342)	(6,454)
Provisions	(658)	(603)	(921)	(826)	(983)
Operating profit	4,818	5,690	6,793	7,463	7,954
Associates & JVs	117	98	93	100	100
Profit Before Tax	4,935	5,788	6,886	7,563	8,054
Taxation	(850)	(1,203)	(1,138)	(1,361)	(1,461)
Profit After Tax	4,085	4,585	5,748	6,202	6,594
Non-controlling Interest	12	10	14	15	16
Net Income, reported	4,073	4,575	5,734	6,187	6,578
Net Income, adj.	4,073	4,575	5,734	6,187	6,578

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
Total Assets	459,323	504,260	523,520	539,765	578,716
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
Total liabilities	416,462	460,654	477,052	492,719	528,435
Shareholder's equity	42,635	43,368	46,229	46,789	50,008
Non-controlling interest	228	240	242	257	273
Total Equity	42,863	43,608	46,471	47,046	50,281

Valuation Ratios

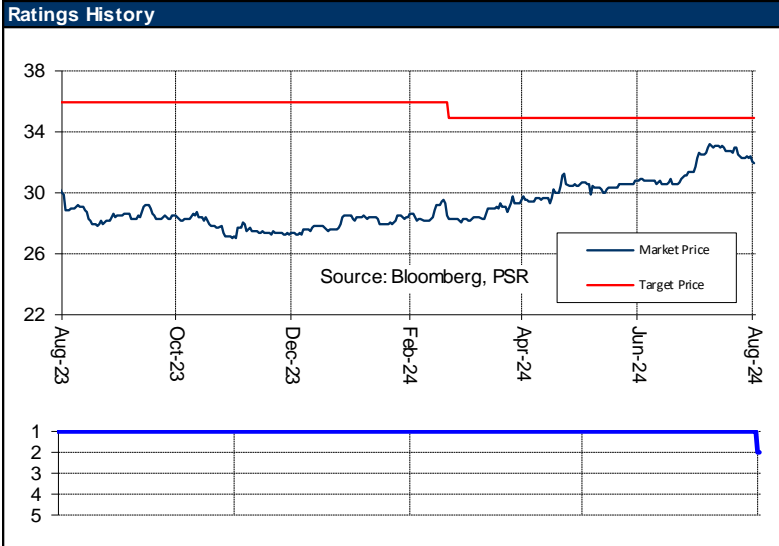
Y/E Dec	FY21	FY22	FY23	FY24e	FY25e
P/E (X), adj.	13.4	11.9	9.4	8.7	8.2
P/B (X)	1.3	1.3	1.2	1.2	1.1
Dividend Yield	3.8%	4.2%	5.3%	6.0%	6.3%

Growth & Margins

	FY21	FY22	FY23	FY24e	FY25e
Growth					
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%
Margins					
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



PSR Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
< -20%	Sell	5

Remarks

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation.

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

Property | REITs

Liu Miaomiao – liumm@phillip.com.sg

Banking & Finance

Glenn Thum – glenthumic@phillip.com.sg

US Tech Analyst (Digital Entertainment/Semicons)

Jonathan Woo – jonathanwooki@phillip.com.sg

US Tech Analyst (Software/Services)

Ambrish Shah – amshah@phillipventuresifsc.in

US Tech Analyst (Hardware/E-commerce/ETF)

Helena Wang – 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

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

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

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

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

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

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

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

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

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

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

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

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

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

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.