

# United Overseas Bank Limited

Other non-interest income boost earnings



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## SINGAPORE | BANKING | 3Q24 RESULTS

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- 3Q24 adjusted earnings of S\$1,639mn were slightly above our estimates from a jump in trading and investment income, and higher fee income. 9M24 adjusted PATMI was 76% of our FY24e forecast.
- Positives include a surge in trading income (+131% YoY), continued recovery in WM fees (+25% YoY) and NII inching up from loans growth of 5%, while negatives were higher allowances from Thailand operational merger issues. UOB has maintained their FY24e guidance for double-digit fee income growth and low-single digit loans growth with NIM to hold above 2%, while providing FY25e guidance for "higher total income" from high single-digit loan growth and double-digit fee growth. We expect double-digit trading income growth in 4Q24 from higher volatility surrounding the US elections.
- Maintain ACCUMULATE with a higher target price of S\$37.00** (prev. S\$34.90) as we raise our FY24e estimates. We increased FY24e earnings by ~4% from higher fee and trading income estimates and lower OPEX estimates. We assume 1.49x FY24e P/BV and ROE estimate of 14.4% in our GGM valuation. UOB will be able to maintain NII and NIM from cutting deposit costs and continuing to increase loan margins. We expect 4Q23 earnings to grow ~15% YoY from continued loan growth recovery from rate cuts and double-digit WM and trading income growth, which will boost earnings. UOB has also mentioned possible share buybacks, which would further improve ROE and EPS.

### Results at a glance

(SGD mn)	3Q24	3Q23	YoY	2Q24	QoQ	Comments
Net interest income	2,460	2,429	1%	2,401	2%	Led by loan growth of 5% YoY while NIM fell 4bps YoY to 2.05%.
Fees & Comm	630	591	7%	618	2%	Mainly from strong recovery in wealth fees.
Other Non Int Income	744	436	71%	457	63%	Surge from record high trading and investment income.
<b>Total Revenue</b>	<b>3,834</b>	<b>3,456</b>	<b>11%</b>	<b>3,476</b>	<b>10%</b>	
Expenses	(1,590)	(1,416)	12%	(1,452)	10%	Increase from investment in franchise growth, core CIR inched up to 41.5% (3Q23: 41%).
<b>PPOP</b>	<b>2,244</b>	<b>2,040</b>	<b>10%</b>	<b>2,024</b>	<b>11%</b>	
Allowances	(281)	(151)	86%	(194)	45%	Higher SPs mainly from Citi Thailand operational merger issues, to normalise in the next two quarters.
<b>Adjusted PATMI</b>	<b>1,639</b>	<b>1,479</b>	<b>11%</b>	<b>1,489</b>	<b>10%</b>	
One-off expenses	(28)	(97)	(71%)	(64)	(56%)	Due to Citi integration costs.
<b>PATMI</b>	<b>1,611</b>	<b>1,382</b>	<b>17%</b>	<b>1,425</b>	<b>13%</b>	

Source: Company, PSR

### The Positives

**+ Trading income boost earnings.** Higher trading and liquidity management activities boosted trading and investment income (+131% YoY), while customer-related treasury income (+36% YoY) reached an all-time high from increased bond sales and hedging demands and makes up 38% of trading and investment income (3Q23: 51%). Resultantly, other non-interest income surged 71% YoY.

**+ Fee income supported by WM.** A recovery in lending activities and improved market sentiment led to the continuous recovery in wealth management fees (+25% YoY). Other segments were more muted while card fees picked up slightly (+8% YoY), resulting in fee income reaching a new high of S\$630mn (+7% YoY). Notably, AUM grew 9% YoY to S\$185bn

### ACCUMULATE (Maintained)

LAST TRADED PRICE	SGD 35.69
FORECAST DIV	SGD 1.90
TARGET PRICE	SGD 37.00
DIVIDEND YIELD	5.3%
<b>TOTAL RETURN</b>	<b>9.0%</b>

#### COMPANY DATA

BLOOMBERG TICKER	UOB SP
O/S SHARES (MN) :	1672
MARKET CAP (USD mn / SGD mn) :	44920 / 59667
52 - WK HI/LO (SGD) :	36.6 / 26.97
3M Average Daily T/O (mn) :	2.56

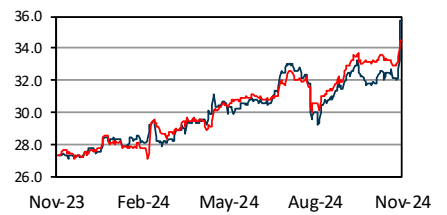
#### MAJOR SHAREHOLDERS (%)

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	12.4	22.5	32.8
STTF RETURN	4.3	16.2	20.7

#### PRICE VS. STTF



Source: Bloomberg, PSR

#### KEY FINANCIALS

Y/E Dec	FY22	FY23	FY24e	FY25e
Total Inc (SGD mn)	11,574	13,931	14,645	15,415
Op Profit (SGD mn)	5,690	6,793	7,743	8,473
NPAT (SGD mn)	4,575	5,734	6,415	7,002
EPS (SGD)	2.68	3.37	3.78	4.13
PER, (X)	13.3	10.6	9.4	8.6
P/BV, (X)	15	14	14	13
Dividend Yield	3.8%	4.8%	5.3%	5.6%
ROE	112%	13.4%	14.4%	15.0%

Source: Bloomberg, Company, PSR

#### Valuation Method:

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

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from net new money inflows of S\$4bn for the quarter. Fee income is 17% of total income (3Q23: 16%).

**+ NII inches up despite NIM contraction.** NII rose 1% YoY from loan growth of 2% YoY, despite NIM contracting to 2.05% (-4bps YoY) from the declining interest rates. Nonetheless, NIM was flat QoQ as proactive deposit cost management kicked in, and the effect of cuts made in UOB's flagship One-account interest rates and higher yield FDs started to mature.

### The Negatives

**- Operational merger issues increase allowances.** Credit costs rose 5bps YoY to 34bps as total allowances grew by 86% YoY, mainly from higher SPs (+29% YoY). This increase was due to Thailand retail customer friction issues following the operational merger of Citi in 2Q24. Nonetheless, UOB expects this to normalise in the following two quarters. The NPL ratio improved to 1.5% (-10bps YoY) as new NPA formation was more than offset by higher write-offs, upgrades, and recoveries. Asset quality remained resilient, with 3Q24 NPA coverage at 99% and unsecured NPA coverage at 210%.

### Outlook

**PATMI:** We expect 4Q23 earnings to grow ~15% YoY from more substantial fee, trading income, and loan growth recovery while NII and NIM remain stable. We expect credit costs to come in around the guidance of 25-30bps. UOB has maintained their FY24e guidance for low-single-digit loan growth, NIM to hold above 2%, and CIR stable at around 41-42% while providing FY25e guidance for "higher total income" from high single-digit loan growth and double-digit fee growth. We expect double-digit trading income growth in 4Q24 from higher volatility surrounding the US elections.

**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 9% YoY to S\$185bn. UOB has integrated the Citi portfolios in Malaysia, Indonesia, and Thailand, with Vietnam to be completed by FY24. This could expand its regional franchise with a larger deposit and customer base. We expect fee income growth of ~11% for FY24e, which could add ~S\$240mn to revenue.

**Loan growth:** UOB expects to see demand for loans pick back up, with rate cuts expected in 4Q24 and FY25. 9M24 loans have grown by 5% YoY, and we expect this to continue into 4Q24. Management has guided low-single-digit loan growth for FY24e and high-single-digit growth for FY25e.

**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	11%
Cost-income ratio	41% - 42%	41.1%
Credit Cost	Lower end of 25-30bps	27

Source: Company, PSR

### Investment Action

**Maintain ACCUMULATE with a higher target price of S\$37.00 (prev. S\$34.90).**

We maintain ACCUMULATE with a higher target price of S\$37.00 as we raise our FY24e estimates. We increased FY24e earnings by ~4% from higher fee and trading income estimates and lower OPEX estimates. We assume a 1.49x FY24e P/BV and ROE estimate of 14.4% in our GGM valuation. UOB will be able to maintain NII and NIM by cutting deposit costs and continuing to increase loan margins. We expect 4Q23 earnings to grow ~15% YoY from continued loan growth recovery from rate cuts and double-digit WM and trading

### 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

income growth, which will boost earnings. UOB has also mentioned possible share buybacks, further improving ROE and EPS.

#### 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	14.4%
g	Terminal growth rate	2.0%
$\frac{(ROE-g)}{(COE-g)}$	Target Price to Book	1.49
	BVPS, S\$	24.80
	Valuation, S\$	37.00

Source: PSR

## Financials

### Income Statement

Y/E Dec, SGD mn	FY21	FY22	FY23	FY24e	FY25e
Net Int Income	6,389	8,342	9,678	9,724	9,758
Fees and Commission	2,412	2,143	2,234	2,477	2,757
Other Non-int income	989	1,089	2,019	2,443	2,900
<b>Total operating income</b>	<b>9,790</b>	<b>11,574</b>	<b>13,931</b>	<b>14,645</b>	<b>15,415</b>
Operating expenses	(4,314)	(5,281)	(6,217)	(6,018)	(6,015)
Provisions	(658)	(603)	(921)	(883)	(926)
<b>Operating profit</b>	<b>4,818</b>	<b>5,690</b>	<b>6,793</b>	<b>7,743</b>	<b>8,473</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>7,843</b>	<b>8,573</b>
Taxation	(850)	(1,203)	(1,138)	(1,412)	(1,555)
<b>Profit After Tax</b>	<b>4,085</b>	<b>4,585</b>	<b>5,748</b>	<b>6,431</b>	<b>7,019</b>
Non-controlling Interest	12	10	14	16	17
<b>Net Income, reported</b>	<b>4,073</b>	<b>4,575</b>	<b>5,734</b>	<b>6,415</b>	<b>7,002</b>
<b>Net Income, adj.</b>	<b>4,073</b>	<b>4,821</b>	<b>6,084</b>	<b>6,415</b>	<b>7,002</b>

### Per share data

Y/E Dec	FY21	FY22	FY23	FY24e	FY25e
EPS, reported	2.38	2.68	3.37	3.78	4.13
EPS, adj.	2.38	2.68	3.37	3.78	4.13
DPS	1.20	1.35	1.70	1.90	2.00
BVPS (less pref shares)	24.08	24.24	26.00	26.42	28.46
Dividend Pay-out Ratio	50%	50%	50%	50%	48%

### 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	57,092	82,056
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	323,785	333,416
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>539,994</b>	<b>579,141</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	47,018	50,432
Non-controlling interest	228	240	242	258	275
<b>Total Equity</b>	<b>42,863</b>	<b>43,608</b>	<b>46,471</b>	<b>47,275</b>	<b>50,707</b>

### Valuation Ratios

Y/E Dec	FY21	FY22	FY23	FY24e	FY25e
P/E (X), adj.	15.0	13.3	10.6	9.4	8.6
P/B (X)	1.5	1.5	1.4	1.4	1.3
Dividend Yield	3.4%	3.8%	4.8%	5.3%	5.6%

### Growth & Margins

#### Growth

Net interest income	5.9%	30.6%	16.0%	0.5%	0.3%
Non interest income	8.3%	-5.0%	31.6%	15.7%	15.0%
Pre provision op profit	6.7%	18.2%	20.4%	5.1%	5.3%
Operating income	40.3%	18.1%	19.4%	14.0%	9.4%
Net income, reported	40.3%	12.3%	25.3%	11.9%	9.1%

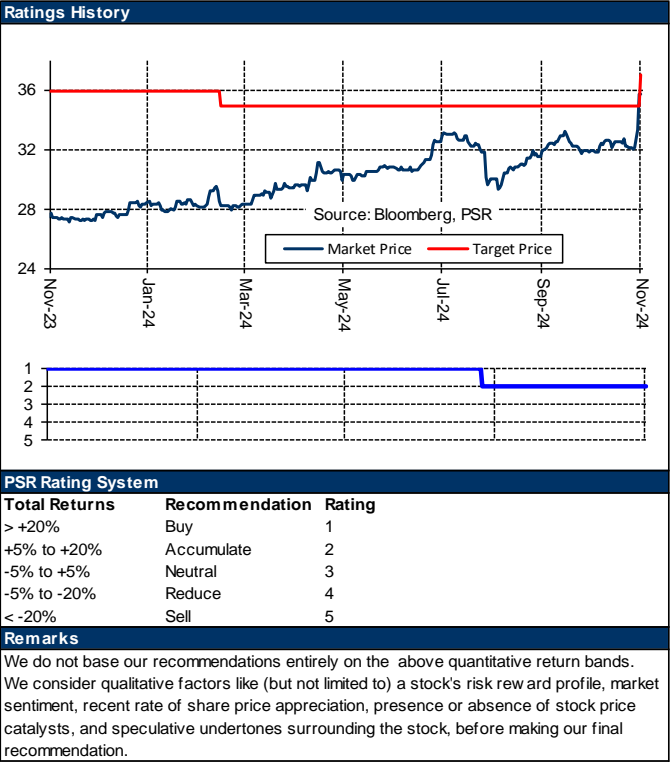
#### Margins

Net interest margin	1.56%	1.86%	2.09%	2.02%	1.97%
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### Key Ratios

	FY21	FY22	FY23	FY24e	FY25e
ROE	9.9%	11.2%	13.4%	14.4%	15.0%
ROA	0.9%	0.9%	1.1%	1.2%	1.2%
RORWA	1.6%	1.8%	2.1%	2.3%	2.4%
Non-int/total income ratio	34.7%	27.9%	30.5%	33.6%	36.7%
Cost/income ratio	44.1%	45.6%	44.6%	41.1%	39.0%
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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