

# United Overseas Bank Limited

Higher allowances hurt earnings



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## SINGAPORE | BANKING | 4Q24 RESULTS

- 4Q24 adjusted earnings of S\$1.54bn were slightly below our estimates from lower-than-expected fee income and higher provisions. FY24 adjusted PATMI was 97% of our FY24e forecast. 4Q24 DPS was up 8% YoY to 85 cents; the full-year FY24 dividend rose 6% YoY to 180 cents. A S\$3bn capital distribution package (50 cents special dividend in FY25 and S\$2bn share buyback) was announced.
- NII increased from loan growth of 5%, while fee and other non-interest income remained flat. Allowances rose 5% from higher SPs. UOB has provided FY25e guidance for "higher total income" from high single-digit loan growth and double-digit fee growth. We expect FY25e earnings to grow ~12% YoY from more substantial fees, trading income, and loan growth recovery while NII and NIM remain stable.
- Maintain ACCUMULATE with a higher target price of S\$41.80** (prev. S\$37.00) as we roll over our valuations. We lower FY25e earnings by ~3% from lower non-interest income estimates, and higher provisions estimates. We assume a 1.49x FY25e P/BV and ROE estimate of 14.3% in our GGM valuation. UOB will be able to maintain NII and NIM by cutting deposit costs and continuing to increase loan growth. The successful integration of Citi portfolios will boost fee income as UOB expands in ASEAN. There is further upside to our estimated 6.5% dividend yield (including the 50-cent special dividend) should UOB raise the dividend payout ratio above 50%. We believe the special dividend can continue for at least two more years (until FY27) to reach UOB's CET-1 optimal operating range of 14%.

### Results at a glance

(SGD mn)	4Q24	4Q23	YoY	3Q24	QoQ	Comments
Net interest income	2,451	2,404	2%	2,460	(0%)	Led by loan growth of 5% YoY while NIM fell 2bps YoY to 2.00%.
Fees & Comm	567	569	(0%)	630	(10%)	
Other Non Int Income	443	438	1%	744	(40%)	
<b>Total Revenue</b>	<b>3,461</b>	<b>3,410</b>	<b>1%</b>	<b>3,834</b>	<b>(10%)</b>	
Expenses	(1,558)	(1,473)	6%	(1,590)	(2%)	Increase from investment in franchise growth, core CIR rose to 45% (4Q23: 43.2%).
<b>PPOP</b>	<b>1,903</b>	<b>1,937</b>	<b>(2%)</b>	<b>2,244</b>	<b>(15%)</b>	
Allowances	(212)	(202)	5%	(281)	(25%)	Higher SPs mainly from two CRE accounts in US due to lowered property valuations.
<b>Adjusted PATMI</b>	<b>1,540</b>	<b>1,498</b>	<b>3%</b>	<b>1,639</b>	<b>(6%)</b>	
One-off expenses	(17)	(94)	(82%)	(28)	(39%)	Due to Citi integration costs.
<b>PATMI</b>	<b>1,523</b>	<b>1,403</b>	<b>9%</b>	<b>1,611</b>	<b>(5%)</b>	

Source: Company, PSR

### The Positives

**+ NII rises from loan growth.** NII rose 2% YoY from loan growth of 5% YoY, despite NIM contracting to 2.00% (-2bps YoY) from the declining interest rates. January 2025's exit NIM was ~2%, and UOB expects NIM to maintain at the current levels for the rest of FY25 as rate cut expectations were lowered. We expect NIM to hold steady as UOB continues to manage its cost of funds.

**+ WM continues to grow.** A recovery in lending activities and improved market sentiment led to a continuous recovery in wealth management fees (+18% YoY). Notably, AUM rose

21 February 2025

### ACCUMULATE (Maintained)

LAST TRADED PRICE	SGD 38.54
FORECAST DIV	SGD 2.50
TARGET PRICE	SGD 41.80
DIVIDEND YIELD	6.5%
<b>TOTAL RETURN</b>	<b>15.0%</b>

#### COMPANY DATA

BLOOMBERG TICKER	UOB SP
O/S SHARES (MN) :	1672
MARKET CAP (USD mn / SGD mn) :	48097 / 64421
52 - WK HI/LO (SGD) :	39.2 / 27.95
3M Average Daily T/O (mn) :	2.19

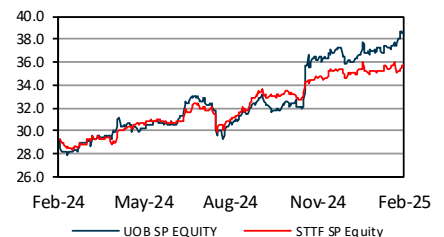
#### MAJOR SHAREHOLDERS (%)

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	0.2	5.9	6.2
STTF RETURN	3.5	5.2	4.1

#### PRICE VS. STTF



Source: Bloomberg, PSR

#### KEY FINANCIALS

Y/E Dec	FY23	FY24	FY25e	FY26e
Total Inc (SGD mn)	13,931	14,294	15,655	16,441
Op Profit (SGD mn)	6,793	7,059	7,942	8,134
NPAT (SGD mn)	5,734	6,073	6,779	6,941
EPS (SGD)	3.38	3.58	4.04	4.18
PER, (X)	11.4	10.8	9.5	9.2
P/BV, (X)	15	14	14	13
Dividend Yield	4.4%	4.7%	6.5%	6.7%
ROE	13.4%	13.2%	14.3%	14.2%

Source: Bloomberg, Company, PSR

#### Valuation Method:

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

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8% YoY to S\$190bn. Other fee segments were muted, resulting in fee income remaining flat YoY at S\$567mn. Fee income is 16% of total income (4Q23: 17%).

### The Negatives

- **Allowances rise from US CRE.** Total allowances grew by 5% YoY, mainly from higher SPs (+107% YoY). This increase was from two US commercial real estate (CRE) accounts due to an unexpected drop in property valuations. These accounts were initially recognized as GP but later shifted to SP and have yet to default. However, they were placed into SP as UOB believes they cannot sustain. Nonetheless, total credit costs were stable YoY at 25bps as higher GP writebacks offset the higher SPs. The NPL ratio was stable at 1.5%, and asset quality remained resilient, with 4Q24 NPA coverage at 91% and unsecured NPA coverage at 194%.

### Outlook

**FY25e guidance:** UOB has provided FY25e guidance for “higher total income” from high single-digit loan growth and double-digit fee growth. The cost-to-income ratio (CIR) is expected to normalize to ~42%, and credit costs of around 25-30bps. We expect FY25e earnings to grow ~12% YoY from more substantial fee, trading income, and loan growth recovery while NII and NIM remain stable and for credit costs to come around the upper end of their guidance of 25-30bps. Higher volatility from the Trump administration could bolster trading income growth in FY25.

**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 8% YoY to S\$190bn. UOB has integrated the Citi portfolios in all four countries (Malaysia, Indonesia, Thailand and Vietnam). 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\$270mn to revenue.

**Capital distribution:** UOB’s CET-1 ratio (fully phased-in) rose 200bps YoY to 15.4% and is ~1.5% (or ~S\$3.8bn) higher than UOB’s optimal operating range of 13.5-14%. Resultantly, UOB has announced a capital distribution strategy to return S\$3bn of surplus capital over 3 years (FY25-FY27). This includes a S\$0.8bn payout (in the form of 50 cents/share) in FY25 and a S\$2bn share buyback programme to be completed over 3 years. Based on a dividend payout ratio of 50%, this capital distribution would increase FY25e DPS to S\$2.50 (+32% YoY) including the 50 cents special dividend while the S\$2bn share buyback would reduce the full phased-in CET-1 ratio by 80bps when completed. Even after completing this S\$3bn capital distribution, UOB’s CET-1 (14.2%) will still be above their optimal range. To reach their optimal CET-1 of 14%, we believe that UOB can continue with the special dividend (50cents/share) for at least two more years as retained earnings will continue to prop up CET-1.

**Table 1: FY24 results vs UOB FY25 guidance vs PSR FY25e estimates**

Assumptions	FY24 Results	UOB	PSR
NIM	2.03%	Around 2%	2.02%
Loan growth	5%	High single-digit	8%
Fee income growth	7%	Double-digit	11%
Cost-income ratio	42.5%*	Around 42%	42.4%
Credit Cost	32bps	25 - 30bps	30

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

### Investment Action

**Maintain ACCUMULATE with a higher target price of S\$41.80 (prev. S\$37.00).**

We maintain ACCUMULATE with a higher target price of S\$41.80 as we roll over our valuations. We lower FY25e earnings by ~3% from lower non-interest income estimates, and higher provisions estimates. We assume a 1.49x FY25e P/BV and ROE estimate of 14.3% in our GGM valuation. UOB will be able to maintain NII and NIM by cutting deposit costs

### List of Abbreviations

WM – Wealth Management  
 NII – Net Interest Income  
 NIM – Net Interest Margin  
 SP – Specific Provisions  
 GP – General Provisions  
 CIR – Cost-to-income Ratio  
 RLAR – Regulatory Loan Allowance Reserve  
 NPA – Non-performing Assets

and continuing to increase loan growth. The successful integration of Citi portfolios will give a boost to fee income as UOB continues to expand in ASEAN. There is further upside to our estimated 6.5% dividend yield (including the 50-cent special dividend) should UOB raise the dividend payout ratio above 50%. We believe the special dividend can continue for at least two more years (until FY27) to reach UOB's CET-1 optimal operating range of 14%.

#### 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	14.3%
g	Terminal growth rate	2.0%
$\frac{(ROE-g)}{(COE-g)}$	Target Price to Book	1.49
	BVPS, S\$	28.10
	Valuation, S\$	41.80

Source: PSR

## Financials

### Income Statement

Y/E Dec, SGD mn	FY22	FY23	FY24	FY25e	FY26e
Net Int Income	8,342	9,678	9,675	10,386	10,483
Fees and Commission	2,143	2,234	2,395	2,664	2,884
Other Non-int income	1,089	2,019	2,224	2,605	3,074
<b>Total operating income</b>	<b>11,574</b>	<b>13,931</b>	<b>14,294</b>	<b>15,655</b>	<b>16,441</b>
Operating expenses	(5,281)	(6,217)	(6,309)	(6,631)	(7,024)
Provisions	(603)	(921)	(926)	(1,082)	(1,283)
<b>Operating profit</b>	<b>5,690</b>	<b>6,793</b>	<b>7,059</b>	<b>7,942</b>	<b>8,134</b>
Associates & JVs	98	93	121	100	100
<b>Profit Before Tax</b>	<b>5,788</b>	<b>6,886</b>	<b>7,180</b>	<b>8,042</b>	<b>8,234</b>
Taxation	(1,203)	(1,138)	(1,092)	(1,247)	(1,276)
<b>Profit After Tax</b>	<b>4,585</b>	<b>5,748</b>	<b>6,088</b>	<b>6,796</b>	<b>6,958</b>
Non-controlling Interest	10	14	15	17	17
<b>Net Income, reported</b>	<b>4,575</b>	<b>5,734</b>	<b>6,073</b>	<b>6,779</b>	<b>6,941</b>
<b>Net Income, adj.</b>	<b>4,821</b>	<b>6,084</b>	<b>6,073</b>	<b>6,779</b>	<b>6,941</b>

### Per share data

Y/E Dec	FY22	FY23	FY24	FY25e	FY26e
EPS, reported	2.68	3.38	3.58	4.04	4.18
EPS, adj.	2.68	3.38	3.58	4.04	4.18
DPS	1.35	1.70	1.80	2.50	2.57
BVPS (less pref shares)	24.24	26.00	28.11	28.19	30.50
Dividend Pay-out Ratio	50%	50%	50%	62%	62%

### Supplementary items

Y/E Dec	FY22	FY23	FY24	FY25e	FY26e
CET1 CAR	13.3%	13.4%	15.5%	14.6%	13.4%
Tier 1 CAR	14.4%	14.4%	16.6%	15.6%	14.4%
Total CAR	16.7%	16.6%	18.2%	17.2%	15.8%

### Balance Sheet

Y/E Dec, SGD mn	FY22	FY23	FY24	FY25e	FY26e
Cash bal w central banks	49,419	52,350	38,577	45,713	53,292
Due from banks	35,410	35,093	37,432	35,819	36,682
Investment securities	35,183	46,533	44,680	47,880	49,795
Loans to non-bank cust	315,355	317,005	333,930	353,589	385,222
Others	68,893	72,539	83,045	82,441	82,727
<b>Total Assets</b>	<b>504,260</b>	<b>523,520</b>	<b>537,664</b>	<b>565,441</b>	<b>607,718</b>
Due to banks	24,537	32,371	19,735	21,472	22,116
Due to non-bank cust	368,553	385,469	403,978	429,872	466,899
Debts issued	40,593	36,280	41,367	41,802	43,056
Others	26,971	22,932	22,627	22,627	22,627
<b>Total liabilities</b>	<b>460,654</b>	<b>477,052</b>	<b>487,707</b>	<b>515,772</b>	<b>554,699</b>
Shareholder's equity	43,368	46,229	49,735	49,428	52,773
Non-controlling interest	240	242	224	241	246
<b>Total Equity</b>	<b>43,608</b>	<b>46,471</b>	<b>49,959</b>	<b>49,669</b>	<b>53,019</b>

### Valuation Ratios

Y/E Dec	FY22	FY23	FY24	FY25e	FY26e
P/E (X), adj.	14.4	11.4	10.8	9.5	9.2
P/B (X)	1.6	1.5	1.4	1.4	1.3
Dividend Yield	3.5%	4.4%	4.7%	6.5%	6.7%

### Growth & Margins

#### Growth

Net interest income	30.6%	16.0%	0.0%	7.4%	0.9%
Non interest income	-5.0%	31.6%	8.6%	14.1%	13.1%
Pre provision op profit	18.2%	20.4%	2.6%	9.5%	5.0%
Operating income	18.1%	19.4%	3.9%	12.5%	2.4%
Net income, reported	12.3%	25.3%	5.9%	11.6%	2.4%

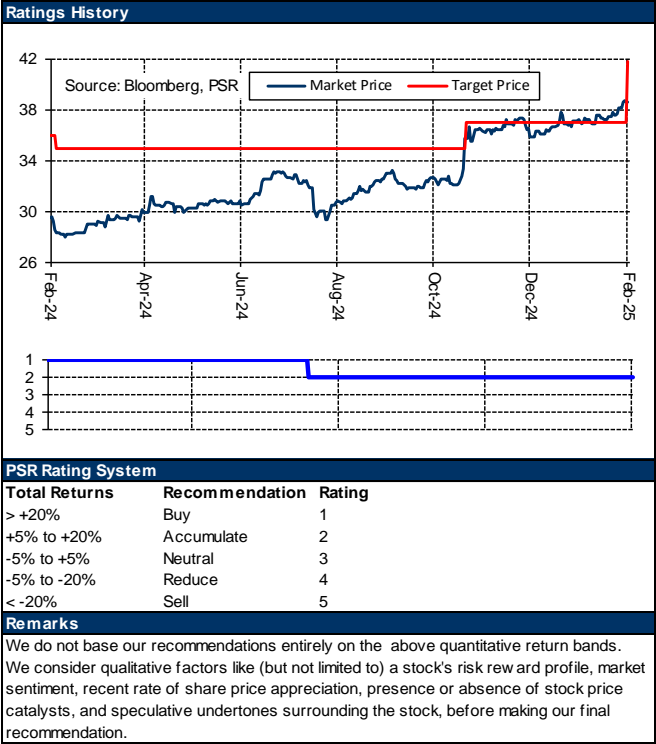
#### Margins

Net interest margin	1.86%	2.09%	2.03%	2.02%	1.90%
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### Key Ratios

	FY22	FY23	FY24	FY25e	FY26e
ROE	11.2%	13.4%	13.2%	14.3%	14.2%
ROA	0.9%	1.1%	1.1%	1.2%	1.2%
RORWA	1.8%	2.1%	2.3%	2.5%	2.3%
Non-int/total income ratio	27.9%	30.5%	32.3%	33.7%	36.2%
Cost/income ratio	45.6%	44.6%	44.1%	42.4%	42.7%
Loan/deposit ratio	85.6%	82.2%	82.7%	82.3%	82.5%
NPL ratio	1.6%	1.5%	1.5%	1.5%	1.5%

Source: Company, PSR



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