

United Overseas Bank Limited

Stashing provisions under the mattress



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SINGAPORE | BANKING | 1Q25 RESULTS

- 1Q25 earnings of S\$1.5bn were below our estimates from lower-than-expected NII and higher provisions. 1Q25 PATMI was 22% of our FY25e forecast.
- NII inched up 2% from loan growth of 6%, while fee income surged by 20% YoY. Allowances jumped 78% from higher GP to strengthen their provision coverage. UOB has suspended its FY25e guidance amid macroeconomic uncertainties but mentioned that US tariffs had minimal direct impact, with only about 2% exposure from US exporters, and, given that its major customers in ASEAN and China largely do not sell to the US, credit quality is expected to remain stable even as growth slows.
- Maintain ACCUMULATE with a lower target price of S\$35.50** (prev. S\$39.80) as we lower FY25e earnings by ~10% from lower NII and other non-interest income estimates. We assume a 1.26x FY25e P/BV as we lower our ROE estimate to 12.8% (prev. 14.3%), risk-free rate to 2.5% (prev. 3.1%) and terminal growth rate to 1% (prev. 2%) in our GGM valuation. We expect UOB's FY25e earnings will be flat YoY as excess profits will be placed into GP to strengthen their provision cover. NIM will be maintained by cutting deposit costs and continuing to increase loan growth. At the same time, fee income will be the biggest driver from the successful integration of Citi portfolios, which will accelerate UOB's expansion into ASEAN. There is further upside to our estimated 6.6% 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 range of 14%.

Results at a glance

(SGD mn)	1Q25	1Q24	YoY	4Q24	QoQ	Comments
Net interest income	2,409	2,362	2%	2,451	(2%)	Led by loan growth of 6% YoY while NIM fell 2bps YoY to 2.00%.
Fees & Comm	694	580	20%	567	22%	Fees surged from record loan fees, and strong wealth and cards momentum.
Other Non Int Income	554	581	(5%)	443	25%	Lower trading investment income.
Total Revenue	3,657	3,523	4%	3,461	6%	
Expenses	(1,559)	(1,570)	(1%)	(1,579)	(1%)	Cost-to-income ratio improved to 42.6% (1Q24: 44.6%).
PPOP	2,098	1,953	7%	1,882	11%	
Allowances	(290)	(163)	78%	(227)	28%	Led by higher GPs to strengthen provision coverage.
PATMI	1,490	1,487	0%	1,523	(2%)	

Source: Company, PSR

The Positives

+ Loans growth supports NII. NII rose 2% YoY from loan growth of 6% YoY, despite NIM contracting to 2.00% (-2bps YoY) from the declining interest rates. March 2025's exit NIM was ~1.98%, and UOB expects NIM to remain at the current levels for the rest of FY25 as funding costs continue to be managed down. We expect NIM to hold steady as FD rates and UOB's flagship One account interest rates continue to decline.

+ Fee income surges. Record loan fees (+28% YoY) and a continued recovery in wealth management fees (+30% YoY) and credit card fees (+11% YoY) led to a surge in fee income

9 May 2025

ACCUMULATE (Maintained)

LAST TRADED PRICE	SGD 34.55
FORECAST DIV	SGD 2.29
TARGET PRICE	SGD 35.50
DIVIDEND YIELD	6.6%
TOTAL RETURN	9.4%

COMPANY DATA

BLOOMBERG TICKER	UOB SP
O/S SHARES (MN) :	1671
MARKET CAP (USD mn / SGD mn) :	44527 / 57721
52 - WK HI/LO (SGD) :	38.92 / 28.79
3M Average Daily T/O (mn) :	3.79

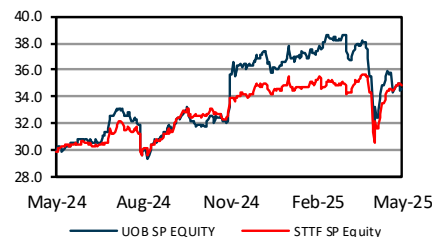
MAJOR SHAREHOLDERS (%)

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	(4.6)	(18)
STTF RETURN	10.5	2.0	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	14,554	15,014
Op Profit (SGD mn)	6,793	7,059	7,113	7,330
NPAT (SGD mn)	5,734	6,073	6,080	6,263
EPS (SGD)	3.38	3.58	3.62	3.77
PER, (X)	10.2	9.6	9.5	9.2
P/BV, (X)	13	12	12	11
Dividend Yield	4.9%	5.2%	6.6%	6.5%
ROE	13.4%	13.2%	12.8%	12.8%

Source: Bloomberg, Company, PSR

Valuation Method:

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

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(+20% YoY). Notably, 1Q25 AUM rose 6% YoY to S\$189bn from net new money of S\$1.5-2bn for the quarter. Fee income is 19% of total income (1Q24: 16%).

The Negatives

- **Higher GPs set aside prudently.** Total allowances jumped 78% YoY, from higher GP of S\$133mn (1Q24: S\$28mn). Management mentioned that this increase was to strengthen their provision coverage and not due to weaknesses in any particular sector or segment. Resultantly, total credit costs were up 12bps YoY to 35bps. The NPL ratio inched up slightly to 1.6%, and asset quality remained resilient, with 1Q25 NPA coverage at 90% and unsecured NPA coverage at 207%. Notably, there was an uptick in new NPAs to S\$400mn (1Q24: S\$249mn), mainly from one HK property-based loan that was previously provided for and did not affect 1Q25's credit cost.

Outlook

Impact from tariffs: UOB noted that there was minimal direct impact from the US tariffs, with exposure to exporters to the US market accounting for only ~2% of total loans. The second-order impact would be harder to quantify, but UOB mentioned that major exporters are not their main customers. The majority of their ASEAN customers do not sell to the US, and their supply exposure is within ASEAN and China. We do not expect credit quality to worsen, and we expect growth to remain present, albeit at a slower pace.

FY25e guidance: UOB has suspended FY25e guidance this quarter due to the current macroeconomic uncertainties. However, it has taken steps to maintain its net interest income (NII) and net interest margin (NIM) by cutting deposit rates on its flagship One account, effective May 1, and we expect this to be reflected from 2Q25e onwards. While not explicitly stated, UOB is leaning towards keeping earnings flat YoY and placing excess profits into general provisions to strengthen its provision coverage. As such, we expect FY25e earnings to be flat YoY as higher fee income will be offset by lower NII and higher provisions. Nonetheless, UOB has reiterated its commitment to the previously announced capital distribution plan, which includes returning S\$3bn of surplus capital over three 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.

Fee income: We expect fee income to continue its recovery, with growth led by credit card fees and wealth and fund management fees, particularly in the ASEAN region. Wealth management AUM has grown 6% YoY to S\$189bn. UOB has successfully 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 ~16% for FY25e, which could add ~S\$380mn to revenue.

Table 1: PSR FY25e estimates

Assumptions	PSR
NIM	1.89%
Loan growth	5%
Fee income growth	16%
Cost-income ratio	44.0%
Credit Cost	29

Source: Company, PSR

Investment Action

Maintain ACCUMULATE with a lower target price of S\$35.50 (prev. S\$39.80).

We maintain an ACCUMULATE rating with a lower target price of S\$35.50, as we lower FY25e earnings by ~10% due to lower NII and other non-interest income estimates. We assume a 1.26x FY25e P/BV as we lower our ROE estimate to 12.8% (prev. 14.3%), risk-free rate to 2.5% (prev. 3.1%) and terminal growth rate to 1% (prev. 2%) in our GGM valuation. We expect UOB's FY25e earnings to be flat YoY, as excess profits will be placed into GP to strengthen their provision cover. NIM will be maintained by cutting deposit costs and

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

continuing to increase loan growth, while fee income will be the biggest driver from the successful integration of Citi portfolios, which will accelerate UOB's expansion into ASEAN. There is further upside to our estimated 6.6% 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	2.5%
E	Equity-risk premium	6.3%
B	Beta	1.2
COE	Cost of Equity	10.4%
ROE	Return on Equity	12.8%
g	Terminal growth rate	1.0%
$\frac{(ROE-g)}{(COE-g)}$	Target Price to Book	1.26
	BVPS, S\$	28.10
	Valuation, S\$	35.50

Source: PSR

Financials

Income Statement

Y/E Dec, SGD mn	FY22	FY23	FY24	FY25e	FY26e
Net Int Income	8,342	9,678	9,675	9,599	9,682
Fees and Commission	2,143	2,234	2,395	2,777	3,154
Other Non-int income	1,089	2,019	2,224	2,179	2,179
Total operating income	11,574	13,931	14,294	14,554	15,014
Operating expenses	(5,281)	(6,217)	(6,309)	(6,409)	(6,673)
Provisions	(603)	(921)	(926)	(1,033)	(1,011)
Operating profit	5,690	6,793	7,059	7,113	7,330
Associates & JVs	98	93	121	100	100
Profit Before Tax	5,788	6,886	7,180	7,213	7,430
Taxation	(1,203)	(1,138)	(1,092)	(1,118)	(1,152)
Profit After Tax	4,585	5,748	6,088	6,095	6,279
Non-controlling Interest	10	14	15	15	15
Net Income, reported	4,575	5,734	6,073	6,080	6,263
Net Income, adj.	4,821	6,084	6,073	6,080	6,263

Per share data

Y/E Dec	FY22	FY23	FY24	FY25e	FY26e
EPS, reported	2.68	3.38	3.58	3.62	3.77
EPS, adj.	2.68	3.38	3.58	3.62	3.77
DPS	1.35	1.70	1.80	2.29	2.26
BVPS (less pref shares)	24.24	26.00	28.11	27.98	30.40
Dividend Pay-out Ratio	50.4%	50.3%	50.3%	63.4%	60.1%

Supplementary items

Y/E Dec	FY22	FY23	FY24	FY25e	FY26e
CET1 CAR	13.3%	13.4%	15.5%	14.9%	14.1%
Tier 1 CAR	14.4%	14.4%	16.6%	16.0%	15.1%
Total CAR	16.7%	16.6%	18.2%	17.6%	16.6%

Balance Sheet

Y/E Dec, SGD mn	FY22	FY23	FY24	FY25e	FY26e
Cash bal w central banks	49,419	52,350	38,577	52,586	71,552
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	346,364	366,796
Others	68,893	72,539	83,045	82,441	82,727
Total Assets	504,260	523,520	537,664	565,090	607,551
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
Total liabilities	460,654	477,052	487,707	515,772	554,699
Shareholder's equity	43,368	46,229	49,735	49,079	52,608
Non-controlling interest	240	242	224	239	244
Total Equity	43,608	46,471	49,959	49,318	52,852

Valuation Ratios

Y/E Dec	FY22	FY23	FY24	FY25e	FY26e
P/E (X), adj.	12.9	10.2	9.6	9.5	9.2
P/B (X)	1.4	1.3	1.2	1.2	1.1
Dividend Yield	3.9%	4.9%	5.2%	6.6%	6.5%

Growth & Margins

Growth

Net interest income	30.6%	16.0%	0.0%	-0.8%	0.9%
Non interest income	-5.0%	31.6%	8.6%	7.3%	7.6%
Pre provision op profit	18.2%	20.4%	2.6%	1.8%	3.2%
Operating income	18.1%	19.4%	3.9%	0.8%	3.1%
Net income, reported	12.3%	25.3%	5.9%	0.1%	3.0%

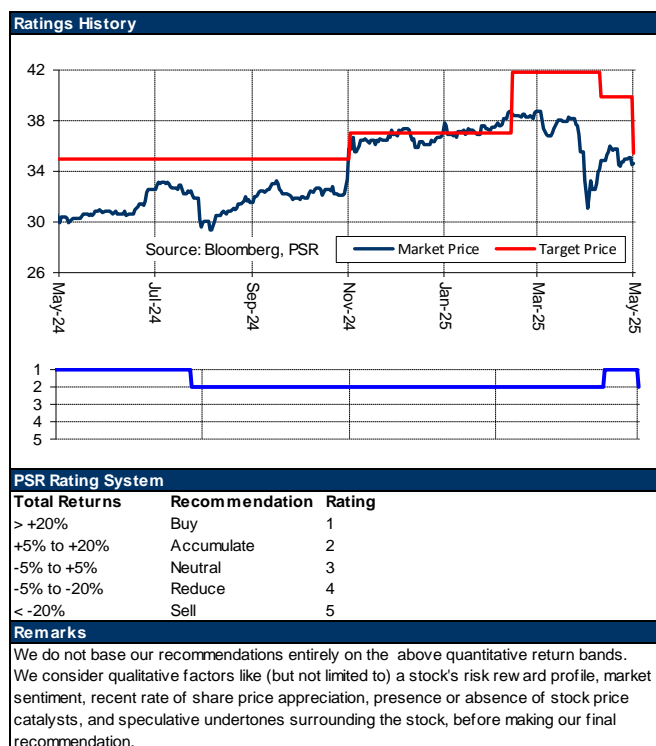
Margins

Net interest margin	1.86%	2.09%	2.03%	1.89%	1.82%
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Key Ratios

	FY22	FY23	FY24	FY25e	FY26e
ROE	11.2%	13.4%	13.2%	12.8%	12.8%
ROA	0.9%	1.1%	1.1%	1.1%	1.0%
RORWA	1.8%	2.1%	2.3%	2.3%	2.2%
Non-int/total income ratio	27.9%	30.5%	32.3%	34.0%	35.5%
Cost/income ratio	45.6%	44.6%	44.1%	44.0%	44.4%
Loan/deposit ratio	85.6%	82.2%	82.7%	80.6%	78.6%
NPL ratio	1.6%	1.5%	1.5%	1.5%	1.5%

Source: Company, PSR



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