

United Overseas Bank (UOB SP)

Timely deal

Citi ASEAN is an accretive deal. Watch for execution

UOB's acquisition of Citigroup's SE Asia assets is well timed to take advantage of ASEAN re-opening. The acquired client base is synergistic to UOB's mass-wealth, omni-channel strategy and should further strengthen its integrated ASEAN franchise. Execution risks need to be watched, particularly from a cultural, systems and regulatory perspective. Going forward we see upside risks from improved NIMs from higher rates, better loan and fee growth plus provision write-backs. Maintain BUY.

Synergistic acquisition

UOB is acquiring Citigroup's (C US, USD67.78, NR) Indonesia, Malaysia, Thailand & Vietnam consumer business for -SGD4.9bn. We think the 1.2x PB is reasonable. Average Indo & Thai banks trade at 1.4x PB where 70% of newly acquired customers reside. The deal is set to double UOB's ASEAN retail client base. Importantly, it could increase their mass-affluent customers by 81% and emerging affluent by 1.7x. UOB's mass-premium wealth management proposition should receive a critical advantage here, in our view. Pre-pandemic, ASEAN delivered 27-30% of operating income. We estimate the deal to deliver 3-4% 2023E EPS accretion.

Watch for execution and asset quality risks

UOB has not undertaken a major acquisition in nearly 17-years. This raises execution risks particularly from a cultural integration perspective. Historically, UOB has displayed a conservative approach to asset quality & growth, whereas 70% of deal assets are unsecured credit. On a pro-forma basis, the unsecured contribution to the Group's 1H21 consumer income would increase to 36% vs. 21% pre-deal. Additionally, the deal would require multiple levels of regulatory approvals. Further, the Group would need to clearly articulate the value proposition to the Citi customer base in a backdrop of rising competition from domestic and digital challengers.

Strongest gearing to ASEAN re-opening. BUY

Overall, we believe this deal is digestible by UOB. The impact on CET1 is a manageable 70bps, leaving it well above regulatory minimums. Management claims the acquired businesses can generate a normalised ROE of ~20% vs. Group ROE of 9.9% in 2021E. While we maintain EPS forecasts ahead of 4Q21 earnings on 16 Feb, we believe progressive ASEAN border re-opening creates strong opportunities for credit cards and mass wealth products especially as interest rates rise. UOB's strong regional wholesale integration stand to benefit from North-South supply chain shifts and increasing capacity additions. Maintain BUY.

FYE Dec (SGD m)	FY19A	FY20A	FY21E	FY22E	FY23E
Operating income	10,030	9,177	10,095	10,952	11,939
Pre-provision profit	5,558	4,993	5,671	6,010	6,480
Core net profit	4,343	2,915	4,153	4,603	5,044
Core EPS (SGD)	2.6	1.7	2.5	2.7	3.0
Core EPS growth (%)	8.2	(33.5)	42.5	10.8	9.6
Net DPS (SGD)	1.3	0.8	1.2	1.4	1.5
Core P/E (x)	10.1	13.0	12.1	11.0	10.0
P/BV (x)	1.1	0.9	1.2	1.1	1.1
Net dividend yield (%)	4.9	3.5	4.1	4.5	5.0
Book value (SGD)	23.76	24.29	25.54	26.92	28.43
ROAE (%)	11.2	7.2	9.9	10.4	10.8
ROAA (%)	1.1	0.7	0.9	1.0	1.0
Consensus net profit	-	-	4,045	4,545	5,032
MKE vs. Consensus (%)	-	-	2.7	1.3	0.2

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BUY

Share Price	SGD 29.93
12m Price Target	SGD 31.15 (+4%)
Previous Price Target	SGD 31.15

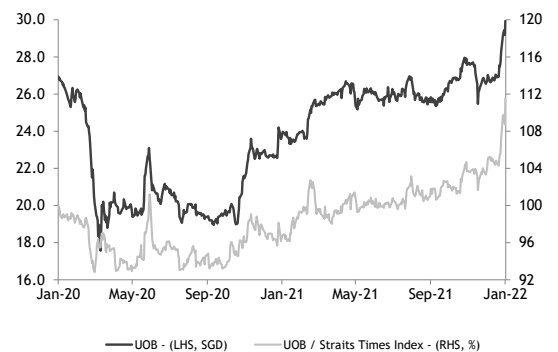
Statistics

52w high/low (SGD)	29.93/23.32
3m avg turnover (USDm)	47.5
Free float (%)	74.6
Issued shares (m)	1,681
Market capitalisation	SGD50.3B USD37.4B

Major shareholders:

WEE FAMILY	10.2%
LIEN FAMILY	5.1%
Tai Tak Estates Sdn. Bhd.	4.1%

Price Performance



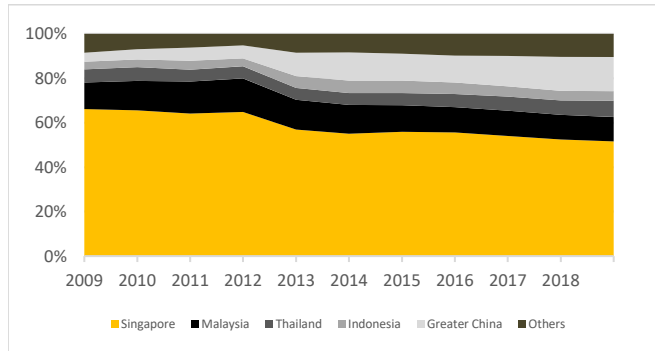
	-1M	-3M	-12M
Absolute (%)	12	13	25
Relative to index (%)	8	9	15

Source: FactSet

Value Proposition

- Largest SME lender, with strong, legacy relationships, resulting in higher lending yields than peers.
- Conservative, focused on traditional, commercial banking. Headed by founding family, who have not historically made aggressive overseas or trading bets.
- Wide SE Asian regional footprint through fully-owned operations in Malaysia, Thailand, Indonesia as well as HK providing diversified earnings growth.
- Well integrated regional operation providing cross-border services to an increasingly regional client base

Nearly half of loans are booked in higher growth markets

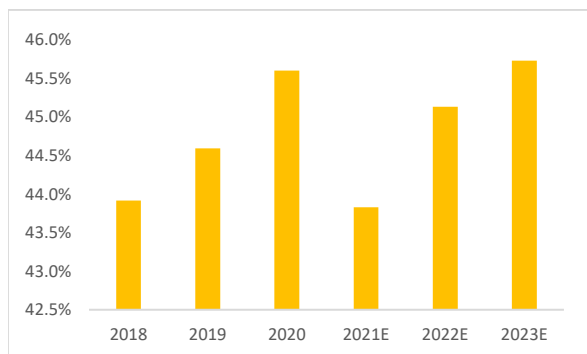


Source: Company

Financial Metrics

- We expect Gross NPLs to rise from 1.5% in 2019 to 1.6% in 2021E
- NIMs should see some pick up after bottoming in 2020. We expect them to reach 1.64% by 2023E
- Loan growth, should see positive momentum rising 10% in 2021E and 9% in 2022E
- Credit charges should fall to 25bps in 2021E after rising to 57bps in 2020
- Cost to income should trend higher after bottoming in 2021E as labour costs rise

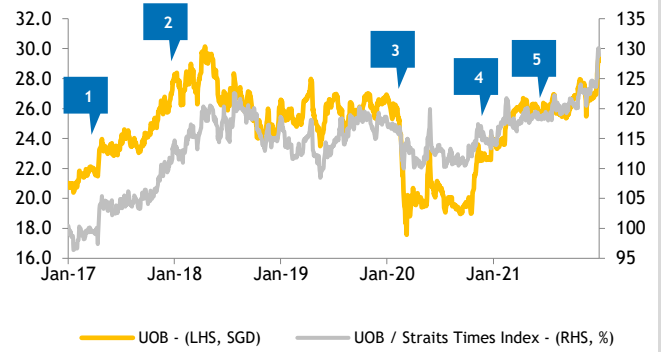
Cost-to-income ratio (%)



Source: Company

Price Drivers

Historical share price trend



Source: Company, Maybank IBG Research

1. Positive sentiment from interest rate hikes, USD strength and economic recovery. Risks from O&G have abated.
2. Concerns of global-trade war, falling loan growth from property cooling measures.
3. Beginning of the Covid-19 pandemic
4. Vaccine led recovery optimism kicking AVOID things like citing QE as the buy side knows what the Fed's been up to
5. Regional recovery uncertainty

Swing Factors

Upside

- Faster regional economic re-opening catalysing loan and fee services demand
- Write-backs of excess provisions as asset quality conditions improve
- Market share gain opportunities from leveraging digital platform

Downside

- Resurgent COVID variants driving lockdowns
- Sharp decline in value of trading securities and shocks in fixed-income portfolio.
- Faster than expected rise in NPLs as customers exit moratoriums

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Transaction overview

Fig 1: Transaction overview

Overview	Subject to regulatory approvals, UOB Group will acquire Citigroup Inc.'s ("Citi") consumer banking businesses comprising its unsecured and secured lending portfolios, wealth management and retail deposit businesses (the "Consumer Business") in Indonesia, Malaysia, Thailand and Vietnam (the "Proposed Acquisition"). As at 30 June 2021, the Consumer Business had an aggregate net asset value of approximately S\$4.0 billion, including its consumer portfolio with ~S\$9.1b of loans, ~S\$6.2b of deposits and ~S\$6.7b AUM, ~2.4m customers ¹ , 24 branches as well as more than ~5,000 employees.
Transaction Value	UOB Group will pay Citi total cash consideration based on an aggregate premium equivalent to S\$915m plus the net asset value of the Consumer Business as at completion.
Funding and Capital Impact	The Proposed Acquisition is expected to be financed through excess capital and estimated to reduce UOB Group's CET1 ratio by 70 basis points to 12.8%, based on its capital position as at 30 September 2021. The effect to CET1 ratio is not expected to be material and will be well within regulatory requirements.
Financial Impact	The incremental annual income from the Proposed Acquisition is expected to be about S\$1 billion. The Proposed Acquisition would have enlarged UOB Group's income and loans from these four markets by 1.4x and 1.2x on a pro-forma basis respectively.
Conditions to Closing	The Proposed Acquisition is subject to various conditions precedent, including approvals/non-objections being obtained from the Monetary Authority of Singapore, Bank Negara Malaysia/Vesting Order, Bank of Thailand, State Bank of Vietnam and Otoritas Jasa Keuangan, as well as any further local approvals required for the transfer and/or migration of the Consumer Business.
Timing	Completion of the acquisition in each country will be conditional on obtaining regulatory approvals relevant to each country and in Singapore. It is estimated that completion will take place between mid-2022 and early 2024, depending on the progress and outcome of the regulatory approval process.

Source: Company data

Key assumptions

Fig 2: Key assumptions

	2018	2019	2020	2021E	2022E	2023E
Balance Sheet						
Loan growth y-o-y (%)	10.9%	2.7%	4.7%	8.0%	6.9%	4.8%
Corporate Loan growth y-o-y (%)	15.3%	4.0%	8.5%	10.0%	8.5%	4.8%
Consumer Loan growth y-o-y (%)	4.2%	0.4%	-1.9%	4.3%	3.6%	4.8%
Deposit growth y-o-y (%)	7.5%	6.0%	4.5%	6.0%	6.1%	6.3%
CASA Deposit growth y-o-y (%)	5.2%	8.2%	22.9%	6.0%	6.1%	6.3%
Cash and balances with central banks as a % of Deposits	9%	8%	11%	7%	7%	9%
Loan to Deposit Ratio (%)	89.3%	86.5%	86.7%	88.4%	89.0%	87.7%
Profit & Loss						
Net Interest Margin - Adjusted (%)	1.75%	1.74%	1.53%	1.55%	1.58%	1.64%
Net Interest income growth y-o-y (%)	12.5%	5.5%	-8.0%	7.5%	9.0%	11.0%
Non-interest income growth y-o-y (%)	-12.9%	19.7%	-9.4%	14.8%	7.6%	5.5%
PPOP growth y-o-y (%)	6.0%	8.7%	-10.2%	13.6%	6.0%	7.8%
PBT growth y-o-y (%)	14.7%	7.2%	-31.6%	42.2%	10.8%	9.6%
Cost to Income Ratio (%)	43.9%	44.6%	45.6%	43.8%	45.1%	45.7%
Dividend Payout on total-profits (%)	50%	50%	45%	49%	50%	50%
Asset Quality						
Gross NPL (%)	1.5%	1.5%	1.6%	1.6%	1.5%	1.5%
Provision coverage (GP+SP+RLAR/NPA) (%)	94%	91%	107%	99%	94%	83%
Credit charge (Allowance for credit losses/gross loans) (%)	0.16%	0.16%	0.57%	0.25%	0.17%	0.14%
NPA growth y-o-y (%)	-5.1%	3.1%	7.2%	10.4%	4.9%	10.5%
Capital						
CET1 ratio (%)	13.9%	14.3%	14.7%	14.3%	13.7%	13.6%
Tier-1 ratio (%)	14.9%	15.4%	15.8%	15.3%	14.7%	14.6%
Total Capital ratio (%)	17.0%	17.4%	18.4%	17.4%	16.6%	16.4%

Source: Maybank IBG Research

FYE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Key Metrics					
Core P/E (x)	10.1	13.0	12.1	11.0	10.0
Core FD P/E (x)	10.1	13.0	12.1	11.0	10.0
P/BV (x)	1.1	0.9	1.2	1.1	1.1
P/NTA (x)	1.2	1.0	1.3	1.2	1.2
Net dividend yield (%)	4.9	3.5	4.1	4.5	5.0
INCOME STATEMENT (SGD m)					
Interest income	12,557.0	9,623.0	10,206.0	11,195.2	12,458.5
Interest expense	(5,994.0)	(3,587.0)	(3,718.2)	(4,124.4)	(4,612.8)
Net interest income	6,563.0	6,036.0	6,487.8	7,070.8	7,845.7
Net insurance income	0.0	0.0	0.0	0.0	0.0
Net fees and commission	2,032.0	1,997.0	2,356.5	2,545.0	2,672.2
Other income	1,435.0	1,144.0	1,250.9	1,335.9	1,420.6
Total non-interest income	3,467.0	3,141.0	3,607.4	3,880.9	4,092.8
Operating income	10,030.0	9,177.0	10,095.2	10,951.6	11,938.6
Staff costs	(2,716.0)	(2,501.0)	(2,601.0)	(2,913.2)	(3,204.5)
Other operating expenses	(1,756.0)	(1,683.0)	(1,823.3)	(2,028.8)	(2,253.9)
Operating expenses	(4,472.0)	(4,184.0)	(4,424.3)	(4,942.0)	(5,458.4)
Pre-provision profit	5,558.0	4,993.0	5,670.9	6,009.7	6,480.2
Loan impairment allowances	(435.0)	(1,554.0)	(738.0)	(534.1)	(472.2)
Other allowances	0.0	0.0	0.0	0.0	0.0
Associates & JV income	51.0	98.0	98.0	98.0	98.0
Pretax profit	5,174.0	3,537.0	5,030.9	5,573.5	6,106.0
Income tax	(813.0)	(606.0)	(862.0)	(954.9)	(1,046.2)
Minorities	(18.0)	(16.0)	(16.0)	(16.0)	(16.0)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	4,343.0	2,915.0	4,153.0	4,602.6	5,043.9
Core net profit	4,343.0	2,915.0	4,153.0	4,602.6	5,043.9
Preferred Dividends	(45.2)	(45.2)	(45.2)	(45.2)	(45.2)
BALANCE SHEET (SGD m)					
Cash & deposits with banks	78,704.0	77,082.0	62,101.3	61,767.0	70,338.2
Sec. under resale agreements	0.0	0.0	0.0	0.0	0.0
Derivatives financial assets	0.0	0.0	0.0	0.0	0.0
Dealing securities	0.0	0.0	0.0	0.0	0.0
Available-for-sale securities	0.0	0.0	0.0	0.0	0.0
Investment securities	39,608.0	51,425.0	71,197.3	80,662.6	89,567.8
Loans & advances	265,458.0	277,201.0	299,736.0	320,639.8	336,194.3
Central bank deposits	0.0	0.0	0.0	0.0	0.0
Investment in associates/JVs	1,182.0	1,210.0	1,210.0	1,210.0	1,210.0
Insurance assets	0.0	0.0	0.0	0.0	0.0
Fixed assets	3,696.0	3,923.0	4,203.6	4,504.4	4,826.6
Intangible assets	4,148.0	4,143.0	4,143.0	4,143.0	4,143.0
Other assets	11,614.0	16,830.0	16,830.0	16,830.0	16,830.0
Total assets	404,410.0	431,814.0	459,421.3	489,756.9	523,109.9
Deposits from customers	310,726.0	324,598.0	344,072.9	365,146.3	387,975.7
Deposits from banks & FIs	15,301.0	15,977.0	18,373.6	21,129.6	24,299.0
Derivatives financial instruments	0.0	0.0	0.0	0.0	0.0
Subordinated debt	5,121.0	5,363.0	5,363.0	5,363.0	5,363.0
Other securities in issue	0.0	0.0	0.0	0.0	0.0
Other borrowings	20,088.0	24,245.0	27,881.8	32,064.0	36,873.6
Insurance liabilities	0.0	0.0	0.0	0.0	0.0
Other liabilities	13,308.0	20,500.0	20,500.0	20,500.0	20,500.0
Total liabilities	364,544.0	390,683.0	416,191.2	444,202.9	475,011.4
Share capital	4,949.0	5,044.0	5,044.0	5,044.0	5,044.0
Reserves	34,688.0	35,857.0	37,956.1	40,280.0	42,824.5
Shareholders' funds	39,637.0	40,901.0	43,000.1	45,324.0	47,868.5
Preference shares	0.0	0.0	0.0	0.0	0.0
Minority interest	229.0	230.0	230.0	230.0	230.0
Total equity	39,866.0	41,131.0	43,230.1	45,554.0	48,098.5
Total liabilities & equity	404,410.0	431,814.0	459,421.3	489,756.9	523,109.9

FYE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Key Ratios					
Growth (%)					
Net interest income	5.5	(8.0)	7.5	9.0	11.0
Non-interest income	19.7	(9.4)	14.8	7.6	5.5
Operating expenses	11.7	(6.4)	5.7	11.7	10.4
Pre-provision profit	8.7	(10.2)	13.6	6.0	7.8
Core net profit	8.4	(32.9)	42.5	10.8	9.6
Gross loans	2.7	4.7	8.0	6.9	4.8
Customer deposits	6.0	4.5	6.0	6.1	6.3
Total assets	4.2	6.8	6.4	6.6	6.8
Profitability (%)					
Non-int. income/Total income	34.6	34.2	35.7	35.4	34.3
Average lending yields	3.34	2.44	2.43	2.50	2.60
Average financing yields	0.00	0.00	0.00	100.00	200.00
Average cost of funds	1.74	0.99	0.97	1.01	1.05
Net interest margin	1.74	1.53	1.55	1.58	1.64
Net income margin	43.30	31.76	41.14	42.03	42.25
Cost/income	44.6	45.6	43.8	45.1	45.7
Liquidity (%)					
Loans/customer deposits	85.4	85.4	87.1	87.8	86.7
Asset quality (%)					
Net NPL	0.3	0.1	0.2	0.2	0.3
Gross NPL	1.5	1.6	1.6	1.5	1.5
Net NPF	0.0	0.0	0.0	0.0	0.0
Gross NPF	0.0	0.0	0.0	0.0	0.0
(SP+GP)/average gross loans	0.2	0.6	0.3	0.2	0.1
Loan loss coverage	91.0	107.3	99.4	93.6	83.2
Capital adequacy (%)					
CET1	14.3	14.7	14.3	13.7	13.6
Tier 1 capital	15.4	15.8	15.3	14.7	14.6
Risk-weighted capital	17.4	18.4	17.4	16.6	16.4
Returns (%)					
ROAE	11.2	7.2	9.9	10.4	10.8
ROAA	1.1	0.7	0.9	1.0	1.0
Shareholders equity/assets	9.8	9.5	9.4	9.3	9.2

Source: Company; Maybank

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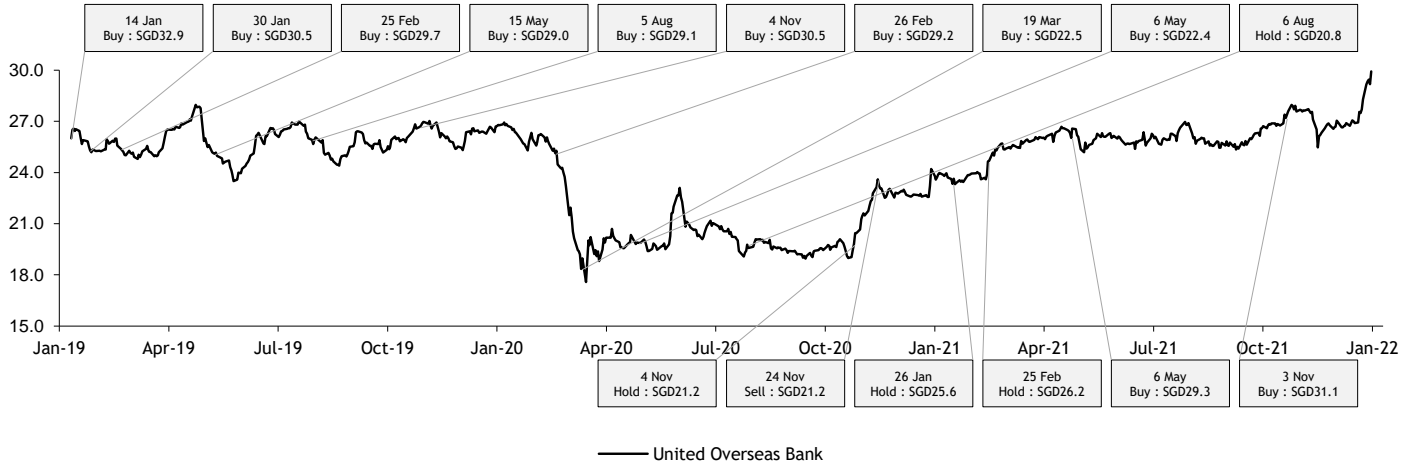
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