

Singapore Company Update

UOB

Bloomberg: UOB SP | Reuters: UOBH.SI

Refer to important disclosures at the end of this report.

DBS Group Research . Equity

17 Jan 2022

BUY

Last Traded Price (14 Jan 2022): S\$29.93 (STI : 3,281.97)
Price Target 12-mth: S\$34.20 (14% upside) (Prev S\$31.00)

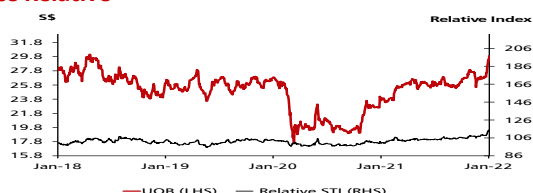
Analyst

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What's New

- Latest acquisition of Cit's assets cements UOB's ASEAN strategy
- Acquisition allows UOB to scale up and deepen regional franchise
- Execution remains key to longer-term synergies
- Maintain BUY, higher TP of S\$34.20

Price Relative



Forecasts and Valuation

FY Dec (S\$m)	2020A	2021F	2022F	2023F
Pre-prov. Profit	4,992	5,386	6,044	6,724
Net Profit	2,915	4,003	4,472	4,974
Net Pft (Pre Ex.)	2,915	4,003	4,472	4,974
Net Pft Gth (Pre-ex) (%)	(32.9)	37.3	11.7	11.2
EPS (S cts)	174	239	267	297
EPS Pre Ex. (S cts)	174	239	267	297
EPS Gth Pre Ex (%)	(33)	37	12	11
Diluted EPS (S cts)	173	238	266	295
PE Pre Ex. (X)	17.2	12.5	11.2	10.1
Net DPS (S cts)	77.4	120	134	149
Div Yield (%)	2.6	4.0	4.5	5.0
ROAE Pre Ex. (%)	7.2	9.6	10.2	10.7
ROAE (%)	7.2	9.6	10.2	10.7
ROA (%)	0.7	0.9	0.9	1.0
BV Per Share (S cts)	2,445	2,565	2,698	2,847
P/Book Value (x)	1.2	1.2	1.1	1.1
Earnings Rev (%)		0	0	0
Consensus EPS (S cts):		237	265	301
Other Broker Recs:		B: 17	S: 0	H: 2

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P.

Accelerating its ASEAN strategy

Investment Thesis

A recovery play and Fed hike beneficiary. We believe there is further room for UOB's share price to re-rate as we continue to expect economic recovery in a rate hike environment.. Management expects some net interest margin (NIM) improvement into FY22F as it gears up on regional loans, which typically have higher NIMs. Successive fed hikes will also be positive for UOB's NIM through FY23F. Release of its management overlay buffers in general provisions may further provide ROE upside in FY22F.

Accelerating, deepening and scaling up the regional franchise. UOB's acquisition of Citigroup's Consumer Business in Indonesia, Malaysia, Thailand and Vietnam is positive to UOB's overall strategy in our view, enabling UOB to accelerate, scale up and deepen the regional franchise. Execution remains key to longer-term synergies as management targets >13% ROE post-acquisition by FY26F.

Potential catalyst: Sustained positive deliveries. Lower-than-expected credit costs could drive UOB's earnings while post-COVID recovery in ROE could boost its share price.

Valuation:

Maintain BUY, higher TP of S\$34.20. Our TP of S\$34.20 is based on the Gordon Growth Model (11% ROE (previous: 10%), 3% growth, 9% cost of equity) on the back of higher ROE assumptions. This is equivalent to a c.1.3x FY22F P/BV that is c.0.5 s.d. above its average 12-year forward P/BV multiple.

Where we differ:

We believe UOB's strong non-performing asset (NPA) coverage of 106% and large management overlay of >\$1bn in general provisions will mitigate any potential unexpected specific provisions.

Key Risks to Our View:

Deteriorating asset quality. Larger-than-expected NPLs as well as a worse-than-expected COVID-19 pandemic situation globally could unwind expectations of credit cost and NPL declines, thus posing risks to earnings.

At A Glance

Issued Capital (m shrs)	1,672
Mkt. Cap (S\$m/US\$m)	50,043 / 37,132
Major Shareholders (%)	
Wee Investment Pte Ltd	8.0
Wah Hin & Co Pte Ltd	5.2
Free Float (%)	86.8
3m Avg. Daily Val (US\$m)	48.6
GIC Industry : Financial / Banks	



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UOB

WHAT'S NEW

Latest acquisition of Citi's assets deepens UOB's ASEAN strategy.

Transaction details. UOB will be acquiring Citigroup's consumer business in Indonesia, Malaysia, Thailand, and Vietnam for an aggregate premium of S\$915m, above total net asset value of c.S\$4.0bn, totalling c.S\$4.9bn, representing 1.2x price-to-book. The Consumer Business comprises Citi's unsecured and secured lending portfolios, wealth management and retail deposit businesses, totalling c.S\$9.1bn of loans, c.S\$6.2bn of deposits, S\$6.7bn AUM, and 2.4m customers. Based on our understanding, the credit card portfolio makes up for a significant portion of Citi's assets. It is envisaged that the deal will be completed between mid-2022 and early 2024, subject to regulatory approval.

Financial impact to UOB. Excluding one-off transaction costs, management expects the deal to be EPS and ROE-accretive immediately. Including the costs, the deal is expected to EPS and ROE-accretive by 2023, where management targets a ROE of >13% and RoRWA of c.2% by 2026. It is estimated that Citigroup's consumer business' net profit ranges between S\$200-300m, with incremental annual income of S\$1bn to be expected. UOB is looking at a potential 3% cost-to-income ratio decline due to scale benefits based on internal growth estimates. The deal will help add 40% to UOB's ASEAN income and 20% to ASEAN loan book on a pro-forma basis. Management expects integration costs of S\$700m over two years, including \$200m stamp duty tax during year one, and the remaining costs to be incurred over year one and two, relating to systems and marketing/ branding costs. Staff costs are estimated to be S\$250-300m. We have not factored in the acquisition numbers to our existing forecasts, as the deal awaits regulatory approval.

Management comfortable to maintain current dividend policy; acquisition internally funded by excess capital; unlikely to see UOB pay special dividends in FY22F. We previously highlighted the possibility of Singapore Banks paying higher/special dividends in FY22F as they hold large excess capital. Given that the acquisition is internally funded by excess capital with a CET1 impact of 70bps (pro-forma CET1 ratio for Sep'21 reduced to 12.8%), we believe it is unlikely for UOB to pay special dividends in FY22F, although management is comfortable to maintain the current dividend policy of a 50% dividend payout ratio.

Briefing takeaways and our thoughts

Management is comfortable with asset quality of portfolio.

Management has expressed comfort over the asset quality of Citi's consumer assets, as the NPL ratios are comparable to UOB's, with Citi having put in provisions during the pandemic as a measure of prudence. Management believes credit costs remain quite well managed, although the portfolio could add 1-2bps to the group's credit costs due to the nature of a bigger unsecured lending book.

Accelerating, deepening and scaling up the regional franchise.

The completion of the deal will enable UOB to accelerate its regional strategy by ~5 years, where UOB will add the most customers in Thailand. We believe the deal is fairly priced, with the Citi assets being a good platform for UOB to deepen and scale up its regional franchise, solidifying its positioning and ASEAN strategy, given that UOB is the only Singapore bank with extensive ASEAN presence. The deal will see UOB add an additional 2.4 million customers, where group retail customers in the four countries is expected to double to 5.3m post-acquisition. Accordingly, the acquisition will propel UOB to become one of the top three card issuers in Malaysia and Thailand, while Indonesia will see its position improve from #9 to #5.

Opportunities for cross-sell; execution remains key to longer-term synergies.

In the medium term, there are opportunities for UOB to cross-sell retail products, with UOB's current strengths in secured lending vis-à-vis Citi's strengths in funding and secured lending. We believe execution and integration remains key to longer-term synergies for the group, with UOB factoring in a customer attrition rate of c.10% in its estimates, as UOB onboards c. 5000 staff strength alongside the acquisition.

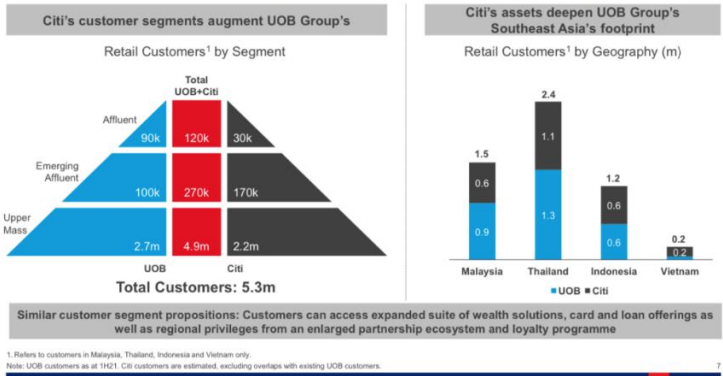
Company Background

UOB provides a wide range of financial services through its global network of branches, offices, subsidiaries, and associates: personal financial services, private banking, commercial and corporate banking, investment banking, corporate finance, capital market activities, treasury services, futures broking, asset management, venture capital management, insurance, and stockbroking services.

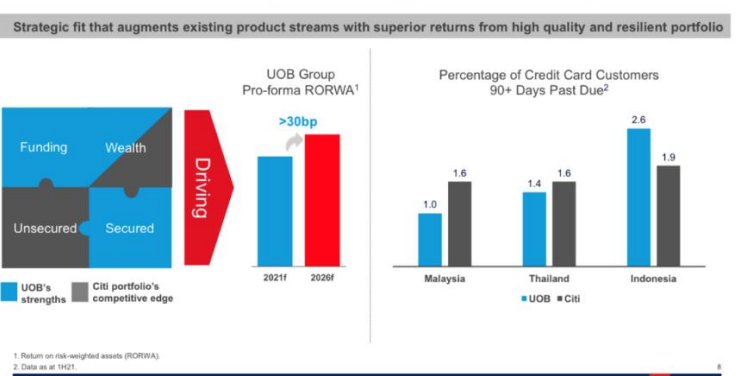
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Selected slides from UOB's presentation

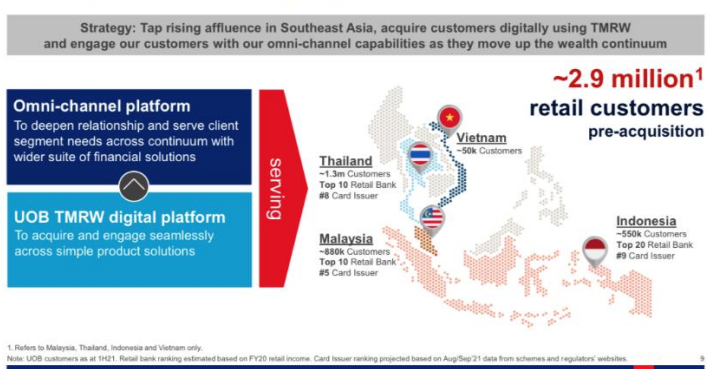
Citi's Assets are Complementary to UOB Group



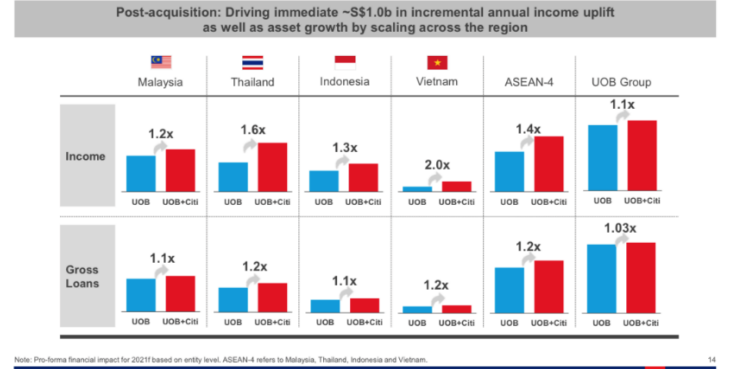
Citi's Assets are Complementary to UOB Group



Scaling Across the Region (Pre-Acquisition)



Pro-forma Financial Impact

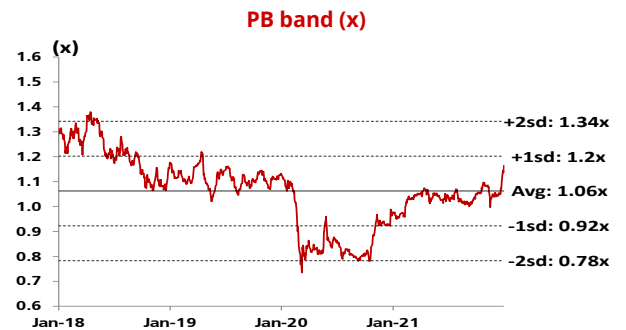


Source: Company

Historical PE and PB band



Source: Bloomberg Finance L.P., DBS Bank estimates



Source: Bloomberg Finance L.P., DBS Bank estimates

UOB**Key Assumptions**

FY Dec	2019A	2020A	2021F	2022F	2023F
Gross Loans Growth	2.7	4.7	9.5	8.1	6.9
Customer Deposits Growth	6.0	4.5	3.5	3.5	3.5
Yld. On Earnings Assets	3.4	2.5	2.1	2.3	2.4
Avg Cost Of Funds	1.7	1.0	0.6	0.7	0.8

Income Statement (\$m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Net Interest Income	6,562	6,035	6,307	6,995	7,711
Non-Interest Income	3,468	3,141	3,497	3,733	3,977
Operating Income	10,030	9,176	9,804	10,727	11,688
Operating Expenses	(4,472)	(4,184)	(4,418)	(4,683)	(4,964)
Pre-provision Profit	5,558	4,992	5,386	6,044	6,724
Provisions	(435)	(1,554)	(701)	(734)	(807)
Associates	51.0	98.0	98.0	98.0	98.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	5,174	3,536	4,783	5,408	6,015
Taxation	(813)	(606)	(765)	(919)	(1,023)
Minority Interests	(18.0)	(15.0)	(14.4)	(16.2)	(18.1)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	4,343	2,915	4,003	4,472	4,974
Net Profit bef Except	4,343	2,915	4,003	4,472	4,974
Growth (%)					
Net Interest Income Gth	5.5	(8.0)	4.5	10.9	10.3
Net Profit Gth	8.4	(32.9)	37.3	11.7	11.2
Margins, Costs & Efficiency (%)					
Spread	1.7	1.5	1.5	1.6	1.6
Net Interest Margin	1.8	1.6	1.6	1.6	1.6
Cost-to-Income Ratio	44.6	45.6	45.1	43.7	42.5
Business Mix (%)					
Net Int. Inc / Opg Inc.	65.4	65.8	64.3	65.2	66.0
Non-Int. Inc / Opg inc.	34.6	34.2	35.7	34.8	34.0
Fee Inc / Opg Income	20.3	21.8	22.7	22.9	22.8
Oth Non-Int Inc/Opg Inc	14.3	12.5	12.9	11.9	11.2
Profitability (%)					
ROAE Pre Ex.	11.2	7.2	9.6	10.2	10.7
ROAE	11.2	7.2	9.6	10.2	10.7
ROA Pre Ex.	1.1	0.7	0.9	0.9	1.0
ROA	1.1	0.7	0.9	0.9	1.0

Source: Company, DBS Bank

UOB
Quarterly / Interim Income Statement (\$\$m)

FY Dec	3Q2020	4Q2020	1Q2021	2Q2021	3Q2021
Net Interest Income	1,474	1,512	1,529	1,578	1,604
Non-Interest Income	786	737	957	839	848
Operating Income	2,261	2,249	2,486	2,417	2,452
Operating Expenses	(1,009)	(1,049)	(1,089)	(1,057)	(1,072)
Pre-Provision Profit	1,252	1,200	1,397	1,360	1,380
Provisions	(477)	(396)	(201)	(182)	(163)
Associates	25.0	34.0	31.0	39.0	29.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Pretax Profit	800	838	1,227	1,217	1,246
Taxation	(132)	(150)	(219)	(214)	(201)
Minority Interests	0.0	0.0	0.0	0.0	0.0
Net Profit	668	688	1,008	1,003	1,046

Growth (%)

Net Interest Income Gth	1.2	2.6	1.1	3.2	1.6
Net Profit Gth	(5.0)	3.0	46.5	(0.5)	4.3

Balance Sheet (\$\$m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Cash/Bank Balance	25,864	36,798	38,086	39,419	40,799
Government Securities	21,365	21,993	22,639	23,305	23,990
Inter Bank Assets	52,840	40,284	44,057	47,592	50,819
Total Net Loans & Adv.	265,458	277,201	303,166	327,492	349,691
Investment	18,243	29,432	33,949	39,419	46,361
Associates	1,182	1,210	1,308	1,406	1,504
Fixed Assets	2,760	2,959	1,667	1,667	1,667
Goodwill	4,148	4,143	4,142	4,142	4,142
Other Assets	12,549	17,794	19,461	21,022	22,447
Total Assets	404,409	431,814	468,476	505,464	541,420
Customer Deposits	310,726	324,598	335,959	347,717	359,888
Inter Bank Deposits	15,301	15,977	36,651	57,745	77,344
Debts/Borrowings	25,209	29,608	29,608	29,608	29,608
Others	13,309	20,500	23,111	24,995	26,676
Minorities	227	230	244	261	279
Shareholders' Funds	39,637	40,901	42,902	45,139	47,626
Total Liab& S/H's Funds	404,409	431,814	468,476	505,464	541,420

Source: Company, DBS Bank

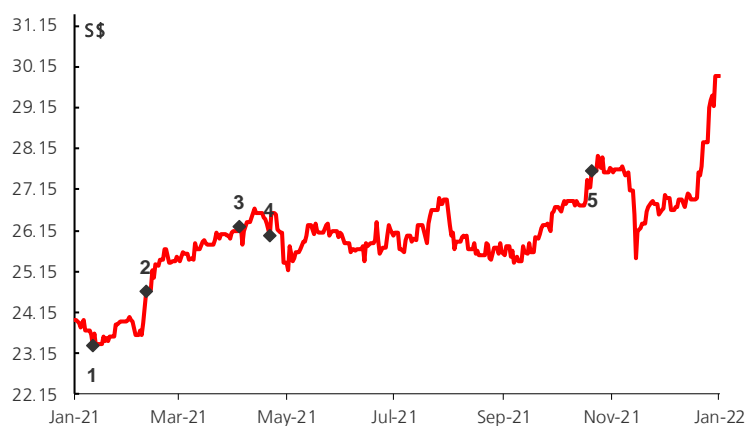
UOB

Financial Stability Measures (%)

FY Dec	2019A	2020A	2021F	2022F	2023F
Balance Sheet Structure					
Loan-to-Deposit Ratio	85.4	85.4	90.2	94.2	97.2
Net Loans / Total Assets	65.6	64.2	64.7	64.8	64.6
Investment / Total Assets	4.5	6.8	7.2	7.8	8.6
Cust . Dep./Int. Bear. Liab.	88.5	87.7	83.5	79.9	77.1
Interbank Dep / Int. Bear.	4.4	4.3	9.1	13.3	16.6
Asset Quality					
NPL / Total Gross Loans	1.5	1.6	2.1	1.8	1.8
NPL / Total Assets	1.0	1.0	1.4	1.2	1.2
Loan Loss Reserve Coverage	77.8	92.6	76.2	95.1	102.2
Provision Charge-Off Rate	0.2	0.6	0.2	0.2	0.2
Capital Strength					
Total CAR	17.4	18.4	17.0	17.1	17.2
Tier-1 CAR	14.3	14.7	13.7	13.9	14.1

Source: Company, DBS Bank

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	26 Jan 21	23.33	26.80	BUY
2:	25 Feb 21	24.65	27.60	BUY
3:	19 Apr 21	26.23	29.20	BUY
4:	06 May 21	26.03	29.20	BUY
5:	05 Nov 21	27.59	31.00	BUY

Note: Share price and Target price are adjusted for corporate actions.

Source: DBS Bank

Analyst: Rui Wen LIM

DBS Bank recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

*Share price appreciation + dividends

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