CGS CIMB

Company Note

Banks | Singapore | January 17, 2022

HIGH CONVICTION

B+

Refinitiv ESG Combined Score

Singapore

ADD *(no change)*

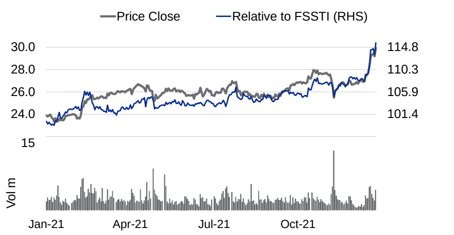
Consensus ratings*: Buy 19 Hold 2 Sell 0

Current price:	S$29.93
Target price:	S$33.50
Previous target:	S$30.30
Up/downside:	11.9%
CGS-CIMB / Consensus:	5.1%
Reuters:	UOBH.SI
Bloomberg:	UOB SP
Market cap:	US$37,176m
	S$50,043m
Average daily turnover:	US$47.50m
	S$64.47m
Current shares o/s:	1,673m
Free float:	85.6%

*Source: Bloomberg

Key changes in this note

- We factor in one-off transaction costs and earnings uplift from the acquisition of Citi's 4 consumer businesses.
- We incorporate 3 expected Fed rate hikes in FY22F and 3 in FY23F.
- We cut FY22F EPS by c.6% and raise FY23F EPS by c.2%.



Source: Bloomberg

Price performance	*1M*	*3M*	*12M*
Absolute (%)	12.3	12.5	25.3
Relative (%)	7.1	8.8	15.9

Major shareholders	% held
Wee Investments Pte Ltd	7.7
Wah Hin & Co Pte Ltd	5.0
Vanguard Group	2.0

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United Overseas Bank

A booster shot from Citigroup's franchise

- We think that the acquisition of Citigroup's consumer businesses is not cheap but strategic to boost UOB's retail banking market share in ID, MY and TH.
- Fed rate hikes should provide ROE uplift until earnings contribution from the acquisition kicks in. We raise FY22-23F NIMs by c.2-5bp to c.1.57-1.67%.
- Reiterate Add with higher TP of S$33.50. We view the roadmap towards c.13% ROE by 2026 positively. A faster pace of rate hikes is a key catalyst.

Acquisition boosts UOB's market leadership in ID, MY, TH

UOB announced that it will be acquiring Citigroup's consumer businesses in Indonesia, Malaysia, Thailand and Vietnam. The transaction is valued at 1.2x P/BV, with the acquisition of the TH business driving this. Although slightly higher than the average 0.9x FY22F P/BV valuation of TH banks, we think the premium is justified given the boost to UOB's market leadership in these countries. Total cash consideration will be calculated on the S$4bn NAV of Citigroup's businesses plus an aggregate premium of S$915m, fully funded by UOB's capital. The allure of this acquisition lies in Citigroup's strong credit card franchise, filling in UOB's product gap in unsecured retail financing offerings, in our view.

UOB expects ROE to rise to >13% and RORWA of c.2% by 2026

Synergies from the combination of UOB's and Citigroup's assets are expected to result in S$1bn in incremental annual income when integration is completed (on a pro-forma basis), which will drive >13% ROE by 2026 (from c.10% currently, c.2% pts of the uplift is expected to stem from rising interest rates), as income from these 4 markets rise 1.4x. Provisioning risks are minimal with Citigroup's portfolio having taken substantial credit charges over FY20 due to Covid-19. UOB projects incremental credit costs of c.1-2bp per annum from this book, which is manageable, in our view, especially given that stronger RORWA of c.2% (by 2026, currently c.1.6%) should offset this comfortably.

EPS accretion only in FY23F due to one-off transaction costs

We now factor in one-off transaction costs (for system upgrades, marketing and stamp duty) of S$700m (split over FY22-23F) and conservatively include income contribution from these 4 businesses (annual NPAT of c.S$200m-300m on normalised basis), based on expected legal commencement dates (c.2Q-4Q22F), into FY22-23F earnings estimates. This results in c.20 Scts EPS accretion in FY23F. The transaction will be EPS-accretive in FY22F if not for S$200m in stamp duty incurred for the acquisition of the MY business.

We raise our NIM to incorporate Fed rate hikes

Further, we factor in the Federal Reserve's more aggressive stance to fight inflation and its corresponding forecasts of 3 interest rate hikes in 2022 and 3 in 2023. As a 25bp Fed rate hike could result in c.4bp NIM expansion (c.3% rise in net profit) for UOB, we raise FY22-23F NIMs by c.2-5bp to c.1.57-1.67% (from 1.56% in FY21F). Our GGM-based TP of S$33.50 incorporates the acquisition and factors a lagged pass-through (c.6-9 months) of Fed rate hikes into NIMs. For 4Q21F, we estimate net profit was S$986m (-6% qoq).

Financial Summary	**Dec-19A**	**Dec-20A**	**Dec-21F**	**Dec-22F**	**Dec-23F**
Net Interest Income (S$m)	6,563	6,035	6,349	6,850	7,759
Total Non-Interest Income (S$m)	3,470	3,141	3,612	3,868	4,311
Operating Revenue (S$m)	10,033	9,176	9,961	10,718	12,070
Total Provision Charges (S$m)	(435)	(1,553)	(745)	(656)	(700)
Net Profit (S$m)	4,345	2,916	4,103	4,165	5,048
Core EPS (S$)	2.61	1.75	2.45	2.49	3.02
Core EPS Growth	8.2%	(33.0%)	40.5%	1.5%	21.2%
FD Core P/E (x)	11.48	17.15	12.20	12.02	9.92
DPS (S$)	1.30	0.78	1.30	1.35	1.35
Dividend Yield	4.34%	2.61%	4.34%	4.51%	4.51%
BVPS (S$)	23.76	24.45	25.59	26.73	28.38
P/BV (x)	1.26	1.22	1.17	1.12	1.05
ROE	11.2%	7.2%	9.8%	9.5%	11.0%
% Change In Core EPS Estimates			0.00%	(6.34%)	1.77%
CGS-CIMB/Consensus EPS (x)			1.03	0.94	1.01

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

UOB to acquire 4 of Citigroup's consumer franchises

Impact on profitability and capital

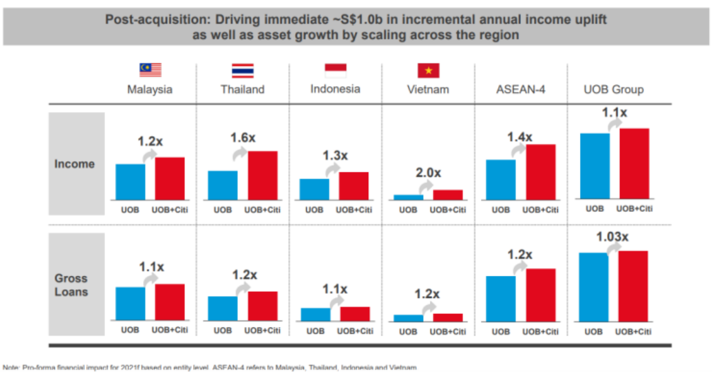
UOB announced that it will be acquiring Citigroup's consumer businesses in Indonesia, Malaysia, Thailand and Vietnam. Key features of the transaction:

- The deal is valued at 1.2x of Citi's net assets of S$4bn. Total cash consideration will be calculated on Citi's S$4bn NAV of its consumer businesses plus a S$915m aggregate premium, to be fully funded by UOB's excess capital.
- Capital impact on UOB deemed manageable, with CET1 impact of 70bp; pro-forma CET1 ratio is 12.8% (3Q21: 13.5%). CET1 expected to be >13% by 2023, well within its comfortable CET1 targeted range of c.12.5-13.5% over the longer term.
- Incremental annual income of c.S$1bn from the acquisition. The transaction is expected to be completed between mid-2022 and early-2024, depending on regulatory approvals.
- Immediately accretive to UOB's EPS and ROE, excluding one-off transaction costs (over first 2 years). Including one-off transaction costs, the transaction will be EPS- and ROE-accretive by 2023.
- Targeting higher ROE of >13% (FY21F: c.10%) and RORWA of c.2% (FY21F: c.1.6%) by 2026 as operations scale up.
- UOB dividend outlook: Comfortable with maintaining 50% dividend payout ratio.

Rationale and integration

- **Rationale for this acquisition vs. organic/digital acquisition.** The acquisition has an immediate impact on scale and revenue-generating capacity and is expected to result in S$1bn in incremental annual income when integration is completed (on a pro-forma basis), driving ROE to >13% by 2026 (from c.10% currently; c.2% pt uplift expected from Fed rate hikes). Income from these 4 markets will grow 1.4x and gross loans will rise 1.2x.

Figure 1: The acquisition of Citigroup's franchise will drive c.S$1bn in incremental annual income by 2026, lifting UOB's income from these markets by 1.4x and gross loans by 1.2x



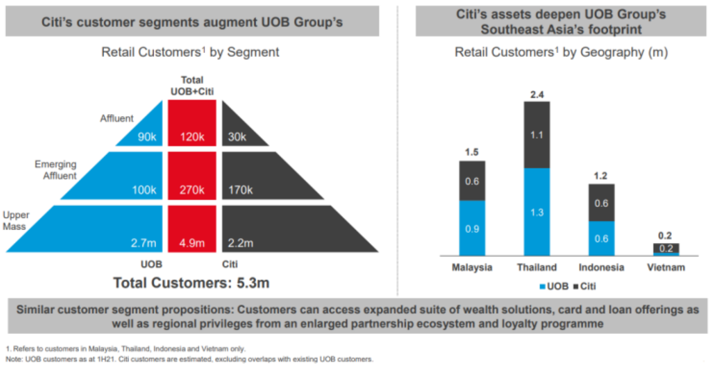
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 2: UOB's retail customer base is expected to double to 5.3m customers via this acquisition; will raise its market positioning across ID, TH and MY as a top retail bank and credit card issuer in each respective country

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

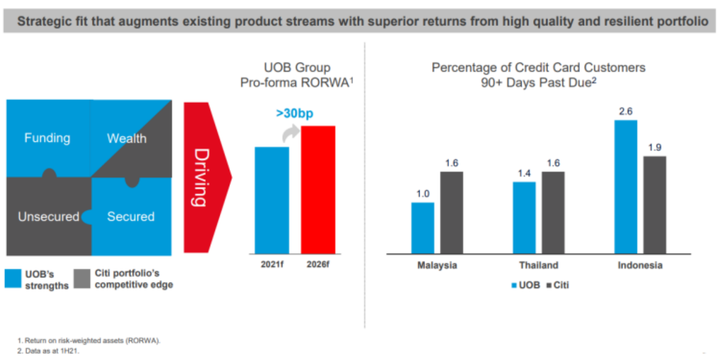
- **Franchise improvement** – The acquisition almost doubles its customer base in Malaysia, Indonesia, Thailand and Vietnam. UOB's retail customers (in these 4 markets) will increase from 2.9m to 5.3m with this acquisition. The transaction also improves UOB's retail bank (top 10-20 to top 5-20) and credit card issuer placings (top 5-9 to top 2-5) in MY, ID and TH. These 4 markets will now account for 23% of UOB's total loans (from 21%, up S$9bn to c.S$315bn). The Thailand franchise makes up the bulk of the acquisition (+1.1m customers vs. +0.6m each in MY and ID).

Figure 3: UOB's retail banking customers in ID, TH, MY and VN will double to 5.3m customers with the acquisition of Citigroup's businesses



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 4: Citigroup's franchise complements UOB's given the former's competitive edge of a strong suite of unsecured retail products



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

- **Impairment concerns** – The Covid-19 pandemic was a good test to observe the performance of Citi's book. UOB is satisfied with the asset quality that it is taking over; the portfolio has proven to be resilient. NPL in Citi's portfolios is not significantly higher than UOB's. Incremental credit cost from Citi's book is marginal at c.1-2bp and will be offset by greater RORWA uplift to c.2% by 2026 (from c.1.6%).
- **Integration costs** – We estimate S$700m in opex, of which S$200m is for stamp duty tax in Malaysia booked in the first year and the remaining S$500m to be spread over the following 2 years for system upgrades and to enhance brand image. UOB guides for 3% pt improvement in CTI by 2026 (FY21F: c.44%) from increased transaction volumes (byproduct of scale).
- **Taking over 5,000 staff from Citi** – At this point, UOB is focused on business integration, saying it needs good people to run good portfolios. There has been no indication of job cuts. 61% of Citi staff is front office (sales), i.e. income generating. Almost all the rest are technology-/operations-related.

4Q21F preview: earnings announcement due on 16 February 2022

Figure 5: UOB - quarterly key statistics

S$m													
Income Statement	**1Q20**	**2Q20**	**3Q20**	**4Q20**	**1Q21**	**2Q21**	**3Q21**	**4Q21F**	**qoq %**	**yoy %**	**2020**	**2021F**	**yoy %**
Net interest income	**1,593**	**1,456**	**1,474**	**1,512**	**1,529**	**1,578**	**1,604**	**1,631**	**2%**	**8%**	**6,035**	**6,349**	**5%**
Fee and commission income	515	445	514	522	638	595	589	602	2%	15%	1,997	2,348	18%
Wealth management	201	133	188	188	239	201	199	200	1%	6%	710	817	15%
Treasury income	224	294	211	152	246	183	192	170	-11%	12%	594	597	0%
Non-interest income	**813**	**804**	**787**	**737**	**957**	**839**	**848**	**832**	**-2%**	**13%**	**3,141**	**3,612**	**15%**
Total income	**2,407**	**2,260**	**2,261**	**2,249**	**2,486**	**2,417**	**2,453**	**2,463**	**0%**	**10%**	**9,176**	**9,961**	**9%**
Total operating expenses	(1,086)	(1,040)	(1,009)	(1,049)	(1,089)	(1,057)	(1,072)	(1,095)	2%	4%	(4,184)	(4,344)	4%
Preprovision operating profit (PPOP)	**1,320**	**1,220**	**1,252**	**1,200**	**1,397**	**1,360**	**1,381**	**1,368**	**-1%**	**14%**	**4,992**	**5,617**	**13%**
Loan loss provision	(286)	(396)	(477)	(396)	(201)	(182)	(163)	(160)	-2%	-60%	(1,554)	(745)	-52%
Profit before tax	**1,052**	**846**	**799**	**838**	**1,228**	**1,216**	**1,247**	**1,228**	**-2%**	**47%**	**3,536**	**4,972**	**41%**
Tax	(197)	(141)	(132)	(150)	(220)	(207)	(200)	(225)	13%	50%	(606)	(852)	41%
Non-controlling interests	-	(3)	-	-	-	-	-	(16)	-	-	(15)	(16)	10%
Core net profit	**855**	**703**	**668**	**688**	**1,008**	**1,009**	**1,046**	**986**	**-6%**	**43%**	**2,915**	**4,103**	**41%**
Overall stats/drivers													
NIM (%)	1.71%	1.48%	1.53%	1.57%	1.57%	1.56%	1.55%	1.55%			1.57%	1.56%	
Loan growth	4.0%	0.7%	1.3%	-1.2%	5.8%	2.0%	2.4%	2.4%			4.4%	12.0%	
Cost-to-income ratio	45.1%	46.0%	44.6%	46.6%	43.8%	43.7%	43.7%	44.5%			45.6%	43.6%	
Credit cost (bp of loans, calculated)	38	67	68	56	29	24	20	21			56	25	
CET-1 ratio	14.1%	14.0%	14.0%	14.7%	14.3%	14.2%	13.5%	n.a.			14.7%	n.a.	

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

We estimate UOB recorded net profit of S$986m in 4Q21F (-6% qoq, +43% yoy), driven by steady fee income growth and contained impairments alongside continued loan growth (c.2.4% qoq) and stable NIMs (flattish at c.1.55%).

Loan growth was likely steady qoq, led by an improvement in wholesale demand and continued mortgage drawdowns, placing the bank on track to exceed its full-year high single-digit loan growth guidance (9M21: +10.2%). On balance, stronger fee income from sustained wealth management momentum, loan-related fees and credit card fee recovery from year-end travel spending should have been offset by weaker treasury income in 4Q21F. We think that slightly higher staff costs led CTI to trend higher to c.44.5% in 4Q21.

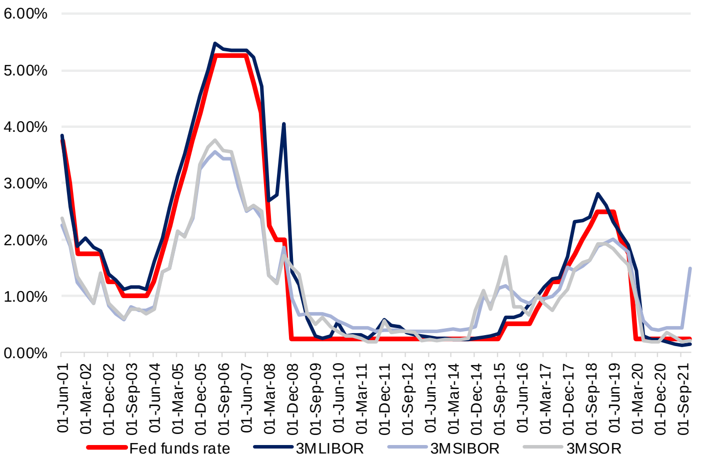
Asset quality pressures from its portfolio of relief loans have largely eased; credit costs were likely benign at c.21bp in 4Q21F. UOB remains watchful on its SME exposures in Malaysia and Thailand but thinks the worst of Covid-19 pressures on asset quality has likely passed. Increasing customer enquiries on expansion prospects in SEA provides an indication of a gradual recovery in investment appetite to come. Writeback of its c.S$1bn in management overlays will depend on how quickly and when Covid-19 comes under control globally.

Going forward, credit growth will likely be reliant on the reopening of ASEAN economies as customers hold back on expanding into China for now.

Factoring in Fed rate hikes

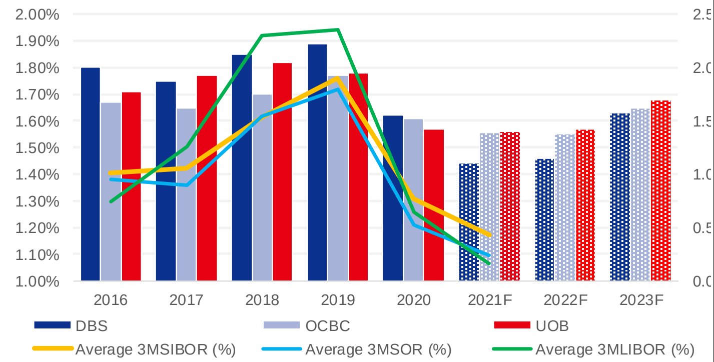
The recent Federal Open Market Committee meeting in Jan 22 revealed that the Federal Reserve now forecasts 3 interest rate hikes in 2022 and another 3 in 2023. The Fed projects these hikes to begin as early as Mar 22 in an aggressive bid to fight persistent inflationary pressures. With these pressures appearing to outweigh the risks potentially posed by the fast-surging Omicron Covid-19 variant, we factor these hikes into FY22-23F estimates. We raise FY22-23F NIMs by c.2-5bp to c.1.57-1.67% (from 1.56% in FY21F) as we incorporate a 6- to 9-month time lag for pass-through of higher Fed rates into NIMs. We thus expect UOB's net profit to rise c.1.5% in FY22F and c.20% in FY23F as the majority of the impact from Fed rate hikes in FY22F feed into NII growth only in FY23F.

Figure 6: Benchmark rates are currently hovering close to zero. We expect imminent Fed rate hikes to begin as soon as Mar 22, leading benchmark rates upwards again



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 7: We expect the Fed rate hikes to catalyse an NIM expansion in FY22-23F, although its effects will likely be more apparent only in FY23F as rates pass through over 6-9 months



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

On balance, we expect UOB's NIMs to rise 11bp to c.1.67% in FY23F (from 1.56% in FY21F) on the back of 6 Fed rate hikes in FY22-23F; this is more significant than the 11bp NIM expansion over FY16 to FY18 (from 1.71% to 1.82% as 9 Fed rate hikes took effect over the previous cycle). We attribute this to higher CASA ratios currently (3Q21: 56%) vs. the average c.45% during the previous rate hike cycle over FY15-18. Ample liquidity in the system resulting in a relatively low LDR of 86% (as of 3Q21) should also allay funding cost pressures going forward as Singapore banks raced to fund ahead of rising rates over the previous cycle, capping NIM expansion.

Figure 8: Earnings changes

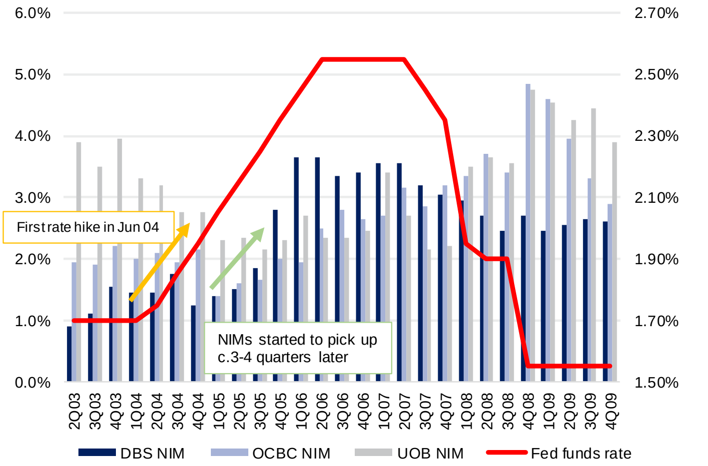
	New			Old			% chg		
	FY21F	FY22F	FY23F	FY21F	FY22F	FY23F	FY21F	FY22F	FY23F
NIM (%)	1.56%	1.57%	1.68%	1.56%	1.55%	1.62%	0bp	+2bp	+6bp
Net loan growth (%)	12.0%	8.2%	5.5%	12.0%	8.2%	5.5%	0%pt	0%pt	0%pt
NII (S$m)	6,349	6,850	7,759	6,349	6,763	7,482	0.0%	1.3%	3.7%
Non-NII (S$m)	3,612	3,868	4,311	3,612	3,748	3,889	0.0%	3.2%	10.9%
Operating expenses (S$m)	4,344	4,877	5,357	4,344	4,569	4,764	0.0%	6.7%	12.5%
Cost-to-income (%)	43.6%	45.5%	44.4%	43.6%	43.5%	41.9%	0pt	+2.0%pt	+2.5%pt
Provisions (S$m)	745	656	700	745	656	700	0.0%	0.0%	0.0%
Net profit (S$)	4,103	4,165	5,048	4,103	4,447	4,960	0.0%	-6.3%	+1.8%
EPS	2.45	2.49	3.02	2.45	2.66	2.97	0.0%	-6.3%	+1.8%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Valuations and recommendation»

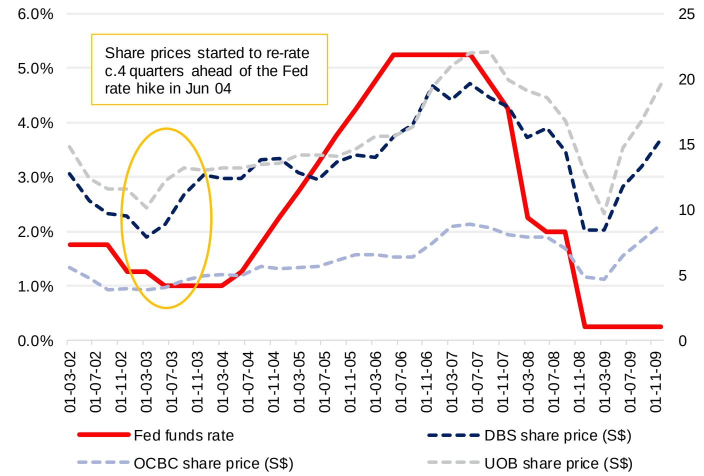
We reiterate our Add call on UOB with a higher GGM-based TP of S$33.50 as we incorporate the near-term transaction costs related to the acquisition of Citigroup's 4 businesses and 6 expected Fed rate hikes in FY22-23F. In our report (*As the rate cycle turns* dated 23 Jun 2021), we found that Singapore banks tend to re-rate c.4-5 quarters ahead of the first Fed rate hike of the cycle (Figures 9-12). With UOB's valuation having traded up to c.1.1x FY22F P/BV, we think that the current re-rating cycle is underway and has accelerated (vs. previous cycles) as regulators become progressively reactionary to market conditions. Compared to its peak of 1.4x P/BV during the previous rate cycle, we believe that current valuations are relatively attractive.

Figure 9: The transmission of higher Fed rates into NIMs took about c.3-4 quarters after the initial Fed rate hike in Jun 04



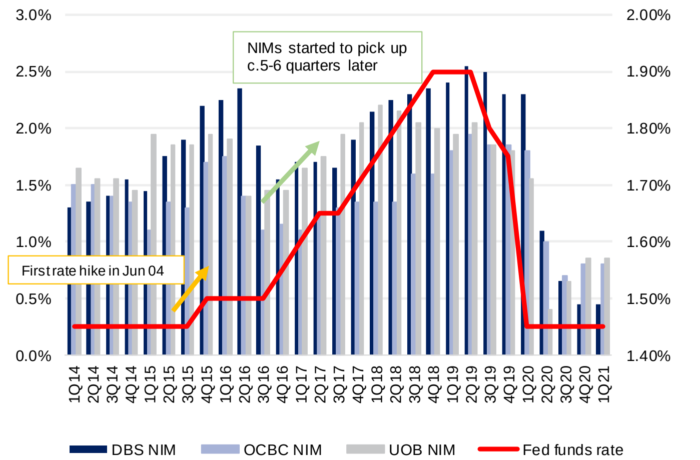
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 10: Share prices began to re-rate as early as 2Q03 – c.4 quarters prior to the first Fed rate hike in Jun 04



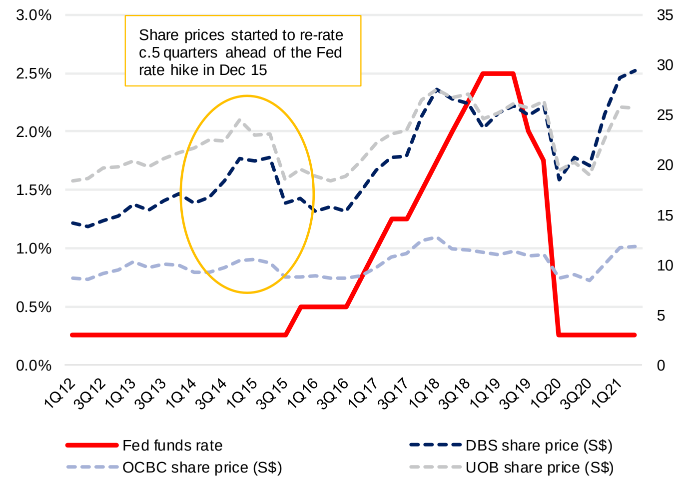
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 11: NIMs only started picking up c.5-6 quarters after the Fed rate hike cycle began in Dec 15



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 12: Share prices started to re-rate in 3Q14 – c.5 quarters earlier than the first Fed rate hike in Dec 15. However, this was short-lived as banks de-rated ahead of the next hike



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

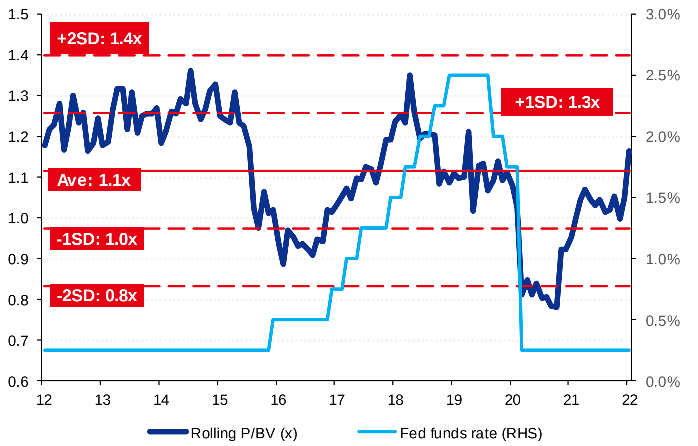
Re-rating catalysts are a quicker pace and/or more Fed rate hikes than expected. Downside risks include a new round of borrower relief measures in relation to a prolonged Covid-19 outbreak.

Figure 13: GGM valuation

GGM valuation	
COE	8.3%
Sustainable ROE	10.5%
LTG	1.5%
(ROE-LTG) - [a]	9.0%
(COE - LTG) - [b]	6.8%
Target P/BV (x) - [a]/[b]	**1.32**
FY22 BVPS (S$)	25.30
Target price (S$)	**33.50**

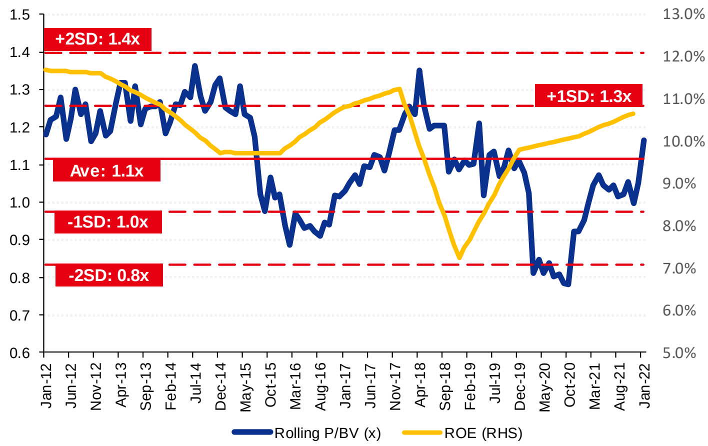
SOURCE: CGS-CIMB RESEARCH, COMPANY

Figure 14: United Overseas Bank P/BV (x) vs. Fed funds rate



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 15: United Overseas Bank P/BV (x)



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 16: Sector comparison

Company				Tgt		3-year EPS CAGR	P/BV (x)			Recurr. ROE (%)			P/PPOPS (x)			Div Yield (%)		
	Bbg Ticker	Recom.	Price (local)	Price (local)	Mkt Cap (US$ m)	(%)	CY21F	CY22F	CY23F	CY21F	CY22F	CY23F	CY21F	CY22F	CY23F	CY21F	CY22F	CY23F
DBS Group	DBS SP	Add	35.88	34.90	68,459	19.0%	1.67	1.56	1.45	13.1%	12.7%	12.8%	11.4	10.9	9.7	3.3%	3.7%	3.7%
OCBC	OCBC SP	Add	12.33	13.90	41,145	17.4%	1.13	1.07	1.00	10.8%	10.5%	10.7%	9.0	8.5	7.8	4.1%	4.1%	4.3%
United Overseas Bank	UOB SP	Add	29.93	33.50	37,176	21.0%	1.17	1.12	1.05	9.8%	9.5%	11.0%	8.9	8.6	7.5	4.3%	4.5%	4.5%
Singapore average						**19.1%**	**1.35**	**1.27**	**1.19**	**11.4%**	**11.0%**	**11.6%**	**10.0**	**9.5**	**8.5**	**3.8%**	**4.0%**	**4.1%**
Bank Central Asia	BBCA IJ	Hold	7,850	8,100	67,691	16.2%	4.86	4.39	3.95	15.7%	16.8%	18.0%	20.5	18.8	16.3	1.5%	1.7%	2.1%
Bank Danamon	BDMN IJ	Add	2,360	3,300	1,613	62.6%	0.49	0.46	0.43	6.5%	7.7%	8.4%	2.4	2.2	2.1	4.4%	5.7%	6.6%
Bank Jago	ARTO IJ	Add	18,575	20,000	18,004	na	31.02	29.47	26.94	3.1%	7.6%	12.8%	3847.9	332.8	161.1	0.0%	0.0%	0.0%
Bank Mandiri	BMRI IJ	Add	7,175	8,300	23,421	29.4%	1.79	1.63	1.51	13.4%	16.6%	17.1%	6.6	5.8	5.3	4.5%	5.8%	6.5%
Bank Negara Indonesia	BBNI IJ	Add	7,100	8,710	9,262	82.7%	1.05	0.95	0.85	8.4%	11.5%	13.3%	4.4	4.2	4.0	1.8%	2.9%	3.7%
Bank Permata	BNLI IJ	Reduce	1,420	1,500	3,577	34.9%	1.17	1.12	1.07	3.6%	3.9%	4.8%	10.8	10.3	9.5	0.0%	0.0%	0.0%
Bank Rakyat Indonesia	BBRI IJ	Add	4,180	5,000	44,314	30.4%	2.17	2.07	2.02	11.5%	14.1%	16.1%	9.1	8.3	7.6	4.4%	6.6%	7.9%
Bank Tabungan Negara	BBTN IJ	Add	1,720	2,100	1,274	25.3%	0.84	0.76	0.68	9.3%	11.0%	12.1%	3.4	3.1	2.9	1.1%	1.4%	1.7%
Bank Tabungan Pensiu	BTPN IJ	Hold	2,650	2,500	1,511	na	0.48	0.69	na	6.3%	7.2%	na	4.0	3.5	na	0.6%	0.4%	na
Bank Tabungan Pensiu	BTPS IJ	Hold	3,500	3,900	1,886	35.9%	3.81	3.18	2.63	20.9%	21.4%	22.5%	11.0	9.6	8.1	0.6%	1.0%	1.2%
Indonesia average						**na**	**2.56**	**2.38**	**na**	**11.6%**	**13.8%**	**na**	**10.9**	**10.0**	**na**	**2.5%**	**3.4%**	**na**
Affin Bank Berhad	ABANK MK	Reduce	1.95	1.27	991.4	20.0%	0.41	0.39	0.37	4.9%	4.3%	4.9%	5.0	5.1	4.7	2.5%	2.4%	2.8%
Alliance Bank Malaysia	ABMB MK	Hold	3.42	2.73	1,267	21.5%	0.81	0.76	0.72	7.2%	9.0%	9.6%	5.4	5.2	4.8	3.4%	4.9%	5.6%
AMMB Holdings	AMM MK	Add	3.60	3.64	2,854	12.8%	0.75	0.72	0.68	8.1%	9.7%	9.8%	4.5	4.2	3.9	3.6%	5.3%	5.7%
Bank Islam Malaysia B	BIMB MK	Add	3.19	3.46	1,585	11.1%	0.99	0.94	0.88	10.3%	8.5%	10.0%	6.8	5.9	5.4	4.7%	4.4%	5.5%
Hong Leong Bank	HLBK MK	Add	19.94	20.56	10,346	8.0%	1.38	1.25	1.16	9.5%	9.4%	9.7%	12.7	12.2	11.4	2.5%	2.8%	3.2%
Malayan Banking Bhd	MAY MK	Add	8.46	9.40	24,053	8.5%	1.15	1.09	1.03	9.4%	8.8%	9.6%	7.6	7.1	6.8	4.7%	4.8%	5.5%
Public Bank Bhd	PBK MK	Add	4.20	4.60	19,513	8.3%	1.62	1.53	1.43	11.6%	10.5%	12.2%	10.4	9.5	8.8	3.3%	3.3%	4.1%
RHB Bank Bhd	RHBBANK MK	Add	5.85	6.40	5,801	9.7%	0.82	0.77	0.71	9.6%	8.5%	9.7%	6.0	5.3	4.9	5.1%	5.4%	6.6%
Malaysia average						**10.2%**	**1.16**	**1.10**	**1.03**	**9.6%**	**9.0%**	**10.0%**	**8.2**	**7.6**	**7.1**	**3.9%**	**4.1%**	**4.8%**
Bangkok Bank	BBL TB	Add	129.0	164.0	7,412	23.6%	0.52	0.50	0.48	6.1%	6.3%	6.7%	4.2	4.0	3.6	3.1%	3.9%	3.9%
Kasikornbank	KBANK TB	Add	145.0	170.0	10,340	11.7%	0.74	0.69	0.65	8.1%	8.2%	8.4%	3.8	3.6	3.5	2.1%	3.4%	4.1%
Kiatnakin Phatra Bank	KKP TB	Hold	66.75	59.00	1,701	8.0%	1.19	1.16	1.13	11.9%	13.1%	13.6%	4.7	4.4	4.2	4.6%	6.4%	7.9%
Krung Thai Bank	KTB TB	Hold	13.90	12.70	5,847	10.1%	0.54	0.52	0.50	5.4%	5.9%	5.9%	3.1	3.0	2.9	2.9%	4.0%	4.1%
Krungthai Card	KTC TB	Reduce	61.00	42.00	4,734	18.7%	5.99	5.16	4.43	24.0%	25.2%	26.0%	12.3	10.6	9.7	1.5%	1.9%	2.2%
Muangthai Capital	MTC TB	Add	60.25	77.00	3,845	15.5%	5.08	4.10	3.31	23.9%	24.1%	24.2%	17.6	13.6	11.1	0.6%	0.8%	1.0%
Siam Commercial Ban	SCB TB	Add	128.0	119.0	13,082	12.5%	1.00	0.96	0.91	8.4%	8.3%	8.9%	5.1	4.8	4.6	2.3%	3.9%	4.3%
Srisawad Corporation	SAWAD TB	Add	66.50	78.00	2,748	11.8%	3.71	3.27	2.88	22.4%	22.0%	22.5%	15.0	11.9	10.2	2.7%	3.2%	3.7%
Tisco Financial Group	TISCO TB	Hold	99.00	101.0	2,386	5.9%	1.95	1.91	1.86	17.1%	17.1%	17.8%	7.3	7.1	6.7	6.9%	7.8%	8.1%
TMBThanachart Bank	TTB TB	Add	1.44	1.33	4,188	14.1%	0.65	0.62	0.59	5.8%	6.6%	6.9%	3.5	3.4	3.1	3.5%	4.2%	4.5%
Thailand average						**13.7%**	**0.89**	**0.85**	**0.80**	**7.8%**	**8.1%**	**8.5%**	**4.8**	**4.6**	**4.3**	**2.6%**	**3.7%**	**4.0%**

SOURCES: CSG-CIMB RESEARCH, COMPANY

ESG in a nutshell

Refinitiv ESG Scores

B+	B+	B+	A-	A-	C+
ESG Score	ESG Controversies Score	ESG Combined Score	ESG Environment Pillar Score	ESG Social Pillar Score	ESG Government Pillar Score

UOB was given a B+ for its combined ESG score by Refinitiv in 2020, led by an A- Social pillar score (c.50% weightage of its combined ESG score). UOB outlined 5 guiding principles in its approach to sustainability as well as 4 overarching strategies to incorporate ESG into its operations. UOB registered improvements in both its Social and Governance pillars, driven mainly by its human rights efforts, management, and CSR strategy. In 2020, UOB launched Phase Two of Better U, the group's learning and development programme that focused on improving employees' relevant skills. In 2020, it was included in the Bloomberg Gender-Equality Index for the 3rd consecutive year for its commitment to advancing workplace diversity.

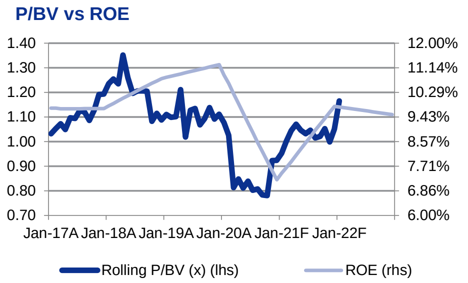
Keep your eye on	Implications
In 2021, UOB was flagged for controversy regarding product responsibility, where a staff fell for a scam and ended up disclosing information on 1,166 China-national customers in the process.	We believe UOB has since reviewed its internal control processes and implemented safeguards and protocols for its staff. We think this issue will not be viewed too negatively by the investment community as it is a one-off. However, additional security breaches may not be seen as lightly and could cast a shadow on its valuations.

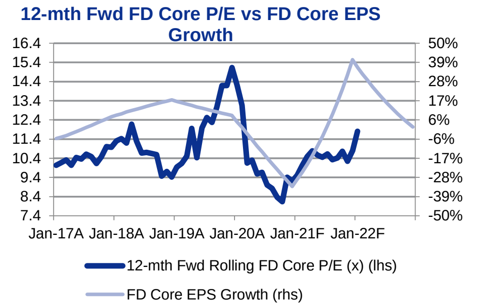
ESG highlights	Implications
According to data from Refinitiv, UOB stands strong among its peers, charging ahead in the Environmental pillar. UOB also ranks well in the Social pillar, largely due to its heavy emphasis on human rights. This is exhibited in its Responsible Financing Policy that prohibits the financing of companies involved in the exploitation of forced and child labour as well as those in violation of rights of local or indigenous communities, amongst others.	We think UOB is viewed favourably by market participants given its pro-activeness in emphasising the importance of human rights issues. The implementation of its Responsible Financing Policy further highlights its commitment to sustainable investing. UOB may be valued at a premium when ESG mandates take off in a more material manner.

Trends	Implications
From 2019 to 2020, UOB improved its Social scores from B+ to A- and its Governance score from B- to B. Its Environmental score remained steady at B+. Its relative improvements in human rights, management, and CSR categories were partially offset by relative deteriorations in emissions, workforce, and environment innovation categories.	While not explicitly factored into its valuations, we believe the progressive improvements in UOB's ESG pillars will be appreciated by ESG-centric investors and could warrant a premium to valuations when the marketplace becomes more discerning in terms of ESG adherence.

SOURCES: CGS-CIMB RESEARCH, REFINITIV

BY THE NUMBERS





Profit & Loss

(S$m)	Dec-19A	Dec-20A	Dec-21F	Dec-22F	Dec-23F
Net Interest Income	6,563	6,035	6,349	6,850	7,759
Total Non-Interest Income	3,470	3,141	3,612	3,868	4,311
Operating Revenue	**10,033**	**9,176**	**9,961**	**10,718**	**12,070**
Total Non-Interest Expenses	(4,473)	(4,184)	(4,344)	(4,877)	(5,357)
Pre-provision Operating Profit	**5,560**	**4,992**	**5,617**	**5,841**	**6,712**
Total Provision Charges	(435)	(1,553)	(745)	(656)	(700)
Operating Profit After Provisions	**5,125**	**3,439**	**4,872**	**5,186**	**6,012**
Pretax Income/(Loss) from Assoc.	51	98	100	102	104
Operating EBIT (incl Associates)	**5,176**	**3,537**	**4,972**	**5,288**	**6,116**
Non-Operating Income/(Expense)	0	0	0	0	0
Profit Before Tax (pre-EI)	**5,176**	**3,537**	**4,972**	**5,288**	**6,116**
Exceptional Items					
Pre-tax Profit	**5,176**	**3,537**	**4,972**	**5,288**	**6,116**
Taxation	(813)	(606)	(852)	(1,106)	(1,048)
Consolidation Adjustments & Others					
Exceptional Income - post-tax	0	0	0	0	0
Profit After Tax	**4,363**	**2,931**	**4,119**	**4,181**	**5,068**
Minority Interests	(18)	(15)	(16)	(17)	(20)
Pref. & Special Div	0	0	0	0	0
FX And Other Adj.	0	0	0	0	0
Net Profit	**4,345**	**2,916**	**4,103**	**4,165**	**5,048**
Recurring Net Profit	4,345	2,916	4,103	4,165	5,048

Balance Sheet Employment

	Dec-19A	Dec-20A	Dec-21F	Dec-22F	Dec-23F
Gross Loans/Cust Deposits	86.5%	86.7%	92.4%	95.2%	95.6%
Avg Loans/Avg Deposits	87.8%	86.6%	89.6%	93.8%	95.4%
Avg Liquid Assets/Avg Assets	28.9%	29.5%	29.3%	28.0%	26.8%
Avg Liquid Assets/Avg IEAs	32.3%	33.6%	33.2%	30.9%	29.4%
Net Cust Loans/Assets	65.6%	64.2%	68.5%	70.7%	70.9%
Net Cust Loans/Broad Deposits	81.4%	81.4%	86.8%	89.5%	89.9%
Equity & Provns/Gross Cust Loans	14.8%	14.5%	13.6%	13.1%	13.2%
Asset Risk Weighting	56.0%	52.2%	55.2%	56.4%	56.0%
Provision Charge/Avg Cust Loans	0.171%	0.232%	0.250%	0.200%	0.200%
Provision Charge/Avg Assets	0.115%	0.152%	0.168%	0.141%	0.144%
Total Write Offs/Average Assets	0.110%	0.371%	0.168%	0.141%	0.144%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS… cont'd

Balance Sheet

(S$m)	Dec-19A	Dec-20A	Dec-21F	Dec-22F	Dec-23F
Total Gross Loans	321,516	321,671	355,604	381,801	400,793
Liquid Assets & Invst. (Current)	39,608	51,425	52,159	52,905	53,663
Other Int. Earning Assets					
Total Gross Int. Earning Assets	**361,124**	**373,096**	**407,763**	**434,706**	**454,456**
Total Provisions/Loan Loss Reserve	(3,219)	(4,186)	(4,449)	(4,627)	(4,812)
Total Net Interest Earning Assets	**357,905**	**368,910**	**403,314**	**430,079**	**449,644**
Intangible Assets	4,148	4,143	4,143	4,143	4,143
Other Non-Interest Earning Assets	16,492	21,963	8,255	5,752	9,764
Total Non-Interest Earning Assets	**20,640**	**26,106**	**12,398**	**9,895**	**13,907**
Cash And Marketable Securities	**25,864**	**36,798**	**37,534**	**35,657**	**36,370**
Long-term Investments	0	0	0	0	0
Total Assets	**404,409**	**431,814**	**453,246**	**475,631**	**499,922**
Customer Interest-Bearing Liabilities	310,726	324,598	340,828	357,869	375,763
Bank Deposits	15,301	15,977	16,776	17,615	18,495
Interest Bearing Liabilities: Others	25,209	29,608	31,088	32,643	34,275
Total Interest-Bearing Liabilities	**351,236**	**370,183**	**388,692**	**408,127**	**428,533**
Bank's Liabilities Under Acceptances					
Total Non-Interest Bearing Liabilities	13,308	20,500	21,525	22,601	23,731
Total Liabilities	**364,544**	**390,683**	**410,217**	**430,728**	**452,264**
Shareholders' Equity	**39,637**	**40,901**	**42,815**	**44,706**	**47,481**
Minority Interests	227	230	214	197	177
Total Equity	**39,864**	**41,131**	**43,028**	**44,903**	**47,657**

Key Ratios

	Dec-19A	Dec-20A	Dec-21F	Dec-22F	Dec-23F
Total Income Growth	10.0%	(8.5%)	8.6%	7.6%	12.6%
Operating Profit Growth	8.7%	(10.2%)	12.5%	4.0%	14.9%
Pretax Profit Growth	7.2%	(31.7%)	40.6%	6.4%	15.7%
Net Interest To Total Income	65.4%	65.8%	63.7%	63.9%	64.3%
Cost Of Funds	1.74%	0.99%	0.92%	0.79%	0.89%
Return On Interest Earning Assets	3.55%	2.62%	2.52%	2.38%	2.58%
Net Interest Spread	1.81%	1.63%	1.60%	1.58%	1.69%
Net Interest Margin (Avg Deposits)	2.17%	1.90%	1.91%	1.96%	2.12%
Net Interest Margin (Avg RWA)	2.94%	2.67%	2.67%	2.64%	2.83%
Provisions to Pre Prov. Operating Profit	7.8%	31.1%	13.3%	11.2%	10.4%
Interest Return On Average Assets	1.66%	1.44%	1.43%	1.47%	1.59%
Effective Tax Rate	15.7%	17.1%	17.1%	20.9%	17.1%
Net Dividend Payout Ratio	49.9%	44.7%	53.0%	54.2%	44.7%
Return On Average Assets	1.10%	0.70%	0.93%	0.90%	1.03%

Key Drivers

	Dec-19A	Dec-20A	Dec-21F	Dec-22F	Dec-23F
Net interest margin (%)	1.8%	1.6%	1.6%	1.6%	1.7%
Net interest income growth (%)	5.5%	-8.0%	5.2%	7.9%	13.3%
Non-interest income growth (%)	19.7%	-9.4%	15.0%	7.1%	11.4%
Cost-income ratio (%)	44.6%	45.6%	43.6%	45.5%	44.4%
Net loan growth (%)	2.6%	4.4%	12.0%	8.2%	5.5%
Deposit growth (%)	6.0%	4.5%	5.0%	5.0%	5.0%
Loans-deposits ratio (%)	85.4%	85.4%	91.1%	93.9%	94.3%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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Description:	Excellent	Very Good	Good	N/A	N/A

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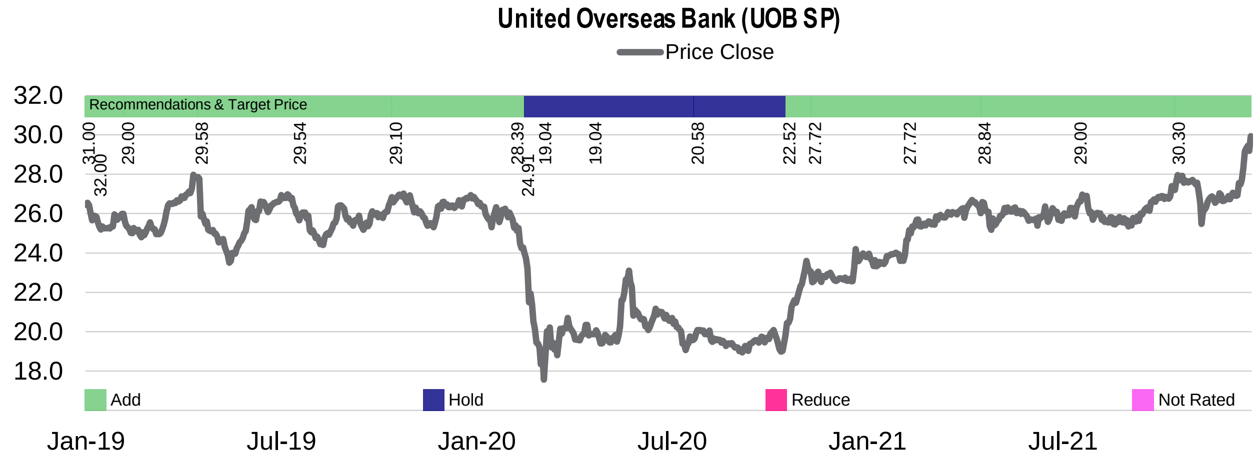
Add	71.1%	1.5%
Hold	21.8%	0.0%
Reduce	7.1%	0.0%

Spitzer Chart for stock being researched (2 year data)



Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2021, Anti-Corruption 2021

ADVANC – Excellent, Certified, **AMATA** – Excellent, Certified, **ANAN** – Excellent, n/a, **AOT** – Excellent, n/a, **AP** – Excellent, Certified, **ASP** – Excellent, n/a, **AWC** – Excellent, Declared, **AU** – Good, n/a, **BAM** – Very Good, Certified, **BAY** – Excellent, Certified, **BBL** – Excellent, Certified, **BCH** – Very Good, Certified, **BCP** - Excellent, Certified, **BCPG** – Excellent, Certified, **BDMS** – Excellent, n/a, **BEAUTY** – Good, n/a, **BEM** – Excellent, n/a **BH** - Good, n/a, **BJC** – Very Good, n/a, **BLA** – Very Good, Certified, **BTS** - Excellent, Certified, **CBG** – Very Good, n/a, **CCET** – n/a, n/a, **CENTEL** – Excellent, Certified, **CHAYO** – Very Good, n/a, **CHG** – Very Good, n/a, **CK** – Excellent, n/a, **COM7** – Excellent, Certified, **CPALL** – Excellent, Certified, **CPF** – Excellent, Certified, **CPN** - Excellent, Certified, **CPNREIT** – n/a, n/a, **CRC** – Excellent, Declared, **DELTA** - Excellent, Certified, **DDD** – Excellent, n/a, **DIF** – n/a, n/a, **DOHOME** – Very Good, Declared, **DREIT** – n/a, n/a, **DTAC** – Excellent, Certified, **ECL** – Excellent, Certified, **EGCO** - Excellent, Certified, **EPG** – Excellent, Certified, **ERW** – Very Good, Certified, **GFPT** - Excellent, Certified, **GGC** – Excellent, Certified, **GLOBAL** – Excellent, n/a, **HANA** - Excellent, Certified, **HMPRO** - Excellent, Certified, **HUMAN** – Good, n/a, **ICHI** – Excellent, Certified, **III** – Excellent, Declared, **INTUCH** - Excellent, Certified, **IRPC** – Excellent, Certified, **ITD** – Very Good, n/a, **IVL** - Excellent, Certified, **JASIF** – n/a, n/a, **JKN** – n/a, Certified, **JMT** – Very Good, n/a, **KBANK** - Excellent, Certified, **KCE** - Excellent, Certified, **KEX** – Very Good, Declared, **KKP** – Excellent, Certified, **KSL** – Excellent, Certified, **KTB** - Excellent, Certified, **KTC** – Excellent, Certified, **LH** - Excellent, n/a, **LPN** – Excellent, Certified, **M** – Very Good, Certified, **MAKRO** – Excellent, Certified, **MC** – Excellent, Certified, **MEGA** – Very Good, n/a, **MINT** - Excellent, Certified, **MTC** – Excellent, Certified, **NETBAY** – Very Good, n/a, **NRF** – Very Good, Declared, **OR** – Excellent, n/a, **ORI** – Excellent, Certified, **OSP** – Excellent, n/a, **PLANB** – Excellent, Certified, **PRINC** – Very Good, Certified, **PR9** – Excellent, Declared, **PSH** – Excellent, Certified, **PTT** - Excellent, Certified, **PTTEP** - Excellent, n/a, **PTTGC** - Excellent, Certified, **QH** – Excellent, Certified, **RAM** – n/a, n/a, **RBF** – Very Good, n/a, **RS** – Excellent, Declared, **RSP** – Good, n/a, **S** – Excellent, n/a, **SAK** – Very Good, Declared, **SAPPE** – Very Good, Certified, **SAWAD** – Very Good, n/a, **SCB** - Excellent, Certified, **SCC** – Excellent, Certified, **SCGP** – Excellent, Declared, **SECURE** – n/a, n/a, **SHR** – Excellent, n/a, **SIRI** – Excellent, Certified, **SPA** – Very Good, n/a, **SPALI** - Excellent, Certified, **SPRC** – Excellent, Certified, **SSP** - Good, Certified, **STEC** – Excellent, n/a, **SVI** – Excellent, Certified, **SYNEX** – Very Good, Certified, **TCAP** – Excellent, Certified, **THANI** – Excellent, Certified, **TIDLOR** – n/a, Certified **TISCO** - Excellent, Certified, **TKN** – Very Good, n/a, **TOP** - Excellent, Certified, **TRUE** – Excellent, Certified, **TTB** - Excellent, Certified, **TU** – Excellent, Certified, **TVO** – Excellent, Certified, **VGI** – Excellent, Certified, **WHA** – Excellent, Certified, **WHART** – n/a, n/a, **WICE** – Excellent, Certified, **WORK** – Good, n/a.

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Add	The stock's total return is expected to exceed 10% over the next 12 months.
Hold	The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
Reduce	The stock's total return is expected to fall below 0% or more over the next 12 months.

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Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

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Neutral	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
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