

COMPANY RESULTS

United Overseas Bank (UOB SP)

4Q21: Building Scale And Deepening Regional Franchise.

UOB reported net profit of S\$1,017m for 4Q21 (+47% yoy, -3% qoq). Net interest income increased 11.1% yoy due to loan growth of 10.5% yoy and NIM expansion of 1bp qoq to 1.56%. Fees and trading & investment income were seasonally softer. NPL formation was elevated at S\$670m, coming mainly from several secured corporate loans. For 2022, management guided mid-to-high single-digit loan growth, double-digit growth in non-interest income, and normalisation of credit costs higher to 20-25bp.

RESULTS

- United Overseas Bank (UOB) reported net profit of S\$1,017m for 4Q21, up 47% yoy but down 3% qoq. The results were in line with consensus' estimates of S\$998m.
- **Loans grew 10.5% yoy in 4Q21**, driven by large corporate and institutional clients. By industry, transport & communications, building & construction and financial institutions & holding companies grew 16%, 16% and 30% yoy respectively. Singapore, Greater China and Others (mainly Australia, the UK and the US) grew 10%, 10% and 32% yoy respectively. UOB rolled out several sustainable financing solutions. Total sustainable financing reached S\$17b in 2021, surpassing its 2023 target of S\$15b. Management has set a new sustainable financing target of S\$30b by 2025.
- **Benefitting from stable NIM.** NIM receded 1bp qoq but expanded 1bp qoq to 1.56% in 4Q21. Thus, net interest income grew 11.1% yoy.
- **Non-interest income seasonally softer.** Fees & commissions grew 12.8% yoy but remained flat qoq at S\$589m in 4Q21. Growth from credit cards (+2% qoq) and loans related (+4% qoq) fees were offset by a seasonal decline in wealth management (-8% qoq). Assets under management (AUM) from high affluent customers grew 4% yoy and reached a new record of S\$139b. Total card billings in Singapore increased 17% in 2021. Trading and investment income dropped 31% qoq due to lower customer flows and seasonally weaker transaction volume.
- **Disciplined in controlling expenses.** Cost-to-income ratio improved 1.3ppt yoy to 44.3% in 4Q21. Operating expenses increased 4.4% yoy. UOB will prioritise strategic investments in people and technology to scale up its digital offering in Singapore and the ASEAN region.
- **Sequential up-tick in NPLs.** Non-performing loans (NPL) balance increased 6.4% qoq. NPL formation was higher at S\$670m due to several secured corporate accounts. A property company in Singapore accounted for one third, or about S\$220m, of the increase in NPLs. The loan is secured by an asset, which has already been put up for auction. NPL ratio deteriorated 0.1ppt qoq to 1.6%. NPLs for buildings & construction and financial institutions & holding companies increased by S\$292m and S\$196m yoy respectively.
- **Lower credit costs helped by write-back in general provisions.** Total provisions dropped 31% qoq in 4Q21. UOB set aside specific provisions of S\$170m (3Q21: S\$155m). It wrote back general provisions of S\$76m due to more clarity and increased confidence in an improved outlook. Thus, total credit costs dropped from 20bp in 3Q21 to 12bp in 4Q21.
- The board has recommended final dividend of 60 S cents.

KEY FINANCIALS

Year to 31 Dec (S\$m)	2017	2018	2019	2020	2021
Net interest income	5,529	6,220	6,563	6,035	6,388
Non-interest income	3,034	2,897	3,467	3,141	3,401
Net profit (rep./act.)	3,391	4,009	4,342	2,915	4,086
Net profit (adj.)	3,391	4,009	4,342	2,915	4,086
EPS (S\$ cent)	199	234	255	169	239
P/E (x)	16.5	14.0	12.8	19.4	13.7
P/BV (x)	1.6	1.5	1.5	1.4	1.4
Dividend yield (%)	3.1	3.7	4.0	2.4	3.7
Net int margin (%)	1.8	1.8	1.8	1.6	1.6
Cost/income (%)	43.7	43.9	44.6	45.6	43.9
Loan loss cover (%)	90.6	87.0	87.0	107.0	96.0
Consensus net profit	-	-	-	-	-
UOBKH/Consensus (x)	-	-	-	-	-

Source: United Overseas Bank, Bloomberg, UOB Kay Hian

NOT RATED

Share Price	S\$32.75
Target Price	n.a.
Upside	n.a.

COMPANY DESCRIPTION

United Overseas Bank was founded in 1935 and has a well-established regional presence in Singapore, Malaysia, Indonesia, Thailand and China. In Singapore, UOB is a market leader in credit and debit cards and loans to SMEs.

STOCK DATA

GICS sector	Financials
Bloomberg ticker:	UOB SP
Shares issued (m):	1,672.0
Market Cap (S\$ m):	54,757.7
Market cap (US\$ m):	40,748.4
3-mth avg daily t'over (US\$m):	66.7

Price Performance (%)

52-week high/low S\$32.99/S\$23.45

1mth	3mth	6mth	1yr	YTD
9.4	18.5	24.6	36.3	21.7

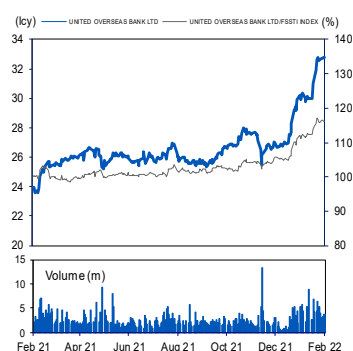
Major Shareholders

	%
Wee Cho Yaw	18.5
Wah Hin & Co	5.2

NAV/Share (S\$) 24.08

CET-1 CAR (%) 13.5

PRICE CHART



Source: Bloomberg

ANALYST(S)

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ESSENTIALS – HIGHLIGHTS FROM RESULTS BRIEFING

- Guided positive outlook for 2022.** Management guided mid-to-high single-digit loan growth for 2022, driven by cross-border transactions and recovery in ASEAN countries. Non-interest income is expected to grow at a double-digit rate. Fees are expected to increase 10-15%, supported by cross-border transactions and sector solutions for wholesale banking. Management also expects contribution from credit cards and wealth management to be strong. UOB will continue to exercise discipline to control expenses so as to keep cost-to-income ratio stable (excluding Citi-related integration costs).
- Normalisation of credit costs.** Management guided credit costs at 20-25bp for 2022 (2021: 20bp).
- Sensitivity to interest rate hikes.** Management guided that every 25bp hike in the US Fed Funds Rate will lead to a 4-5bp NIM expansion for UOB, which translates to additional net interest income of S\$150m-200m per year.
- The worst could be behind us.** The operating environment is stabilising. Management sees improvement in consumer sentiment in Singapore. There are green shots of recovery and significant upside in the ASEAN region, although the pace of recovery may vary by country. There is sizeable flow of foreign direct investments (FDI) into ASEAN.
- Acquisition of Citigroup's consumer banking businesses.** Citigroup's consumer banking businesses in Indonesia, Malaysia, Thailand and Vietnam have the right strategic fit for UOB. The acquisition doubles UOB's retail customer base across the four markets. The acquisition accelerates growth and deepens UOB's regional franchise. It is expected to reduce UOB's CET-1 CAR by 0.7ppt to 12.8%.
- Building scale and deepening engagement.** UOB has acquired 800,000 customers regionally across its core markets through its unified digital platform UOB TMRW during 2018-21. The bank will serve these new customers through an omni-channel approach as their needs evolve. Its UOB TMRW will help UOB build scale and reduce cost to serve. UOB has set up a private wealth group, encompassing UOB Private Bank and UOB Privilege Banking to sharpen its focus on serving high net worth clients.

4Q21 RESULTS

Profit & Loss (\$m)	4Q21	4Q20	yoy % Chg	3Q21	qoq % Chg
Net Interest Income	1,678	1,511	11.1	1,604	4.6
Fees & Commissions	589	522	12.8	589	0.0
Other Non-Interest Income	168	215	-21.9	259	-35.1
Total Income	2,435	2,248	8.3	2,452	-0.7
Operating Expenses	-1,095	-1,049	4.4	-1,072	2.1
PPOP	1,340	1,199	11.8	1,380	-2.9
Provisions	-112	-395	-71.6	-163	-31.3
Associates & JVs	18	34	n.m.	29	-37.9
PBT	1,246	838	48.7	1,246	0.0
Net Profit	1,017	690	47.4	1,046	-2.8
EPS (cents)	59.5	58.8	1.3	61.5	-3.3
DPS (cents)	60.0	39.0	53.8	0.0	n.m.
BVPS (\$)	24.08	23.03	4.6	23.56	2.2
Financial Ratios (%)	4Q21	4Q20	yoy Chg (ppt)	3Q21	qoq Chg (ppt)
NIM	1.56	1.57	-0.01	1.55	0.01
Loan Growth, yoy	10.5	4.7	5.7	9.0	1.4
Deposit Growth, yoy	8.6	4.5	4.2	9.6	-0.9
Loan/Deposit Ratio	87.0	85.4	1.6	85.1	1.9
Cost/Income Ratio	44.3	45.6	-1.3	43.7	0.6
ROE	10.0	7.0	3.0	10.4	-0.4
NPL Ratio	1.6	1.6	0.0	1.5	0.1
Credit Costs (bp)	28.8	56.2	-27.4	43.7	-14.8
Loan Loss Coverage	96.0	107.3	-11.3	105.9	-9.8
CET-1 CAR	13.5	14.7	-1.3	13.5	0.0

Source: UOB

PROFIT & LOSS

Year to 31 Dec (\$m)	2018	2019	2020	2021
Interest income	11,141	12,557	9,623	8,204
Interest expense	(4,921)	(5,994)	(3,588)	(1,816)
Net interest income	6,220	6,563	6,035	6,388
Fees & commissions	1,967	2,032	1,997	2,412
Other income	930	1,435	1,144	989
Non-interest income	2,897	3,467	3,141	3,401
Total income	9,117	10,030	9,176	9,789
Staff costs	(2,447)	(2,716)	(2,501)	(2,602)
Other operating expense	(1,556)	(1,757)	(1,683)	(1,700)
Pre-provision profit	5,114	5,557	4,992	5,487
Loan loss provision	(393)	(435)	(1,554)	(657)
Other provisions	-	-	-	-
Associated companies	106	51	98	118
Pre-tax profit	4,827	5,173	3,536	4,948
Tax	(805)	(813)	(606)	(850)
Minorities	(13)	(18)	(15)	(12)
Net profit	4,009	4,342	2,915	4,086
Net profit (adj.)	4,009	4,342	2,915	4,086

BALANCE SHEET

Year to 31 Dec (\$m)	2018	2019	2020	2021
Cash with central bank	25,252	25,864	36,798	36,558
Govt treasury bills & securities	18,816	21,365	21,993	22,324
Interbank loans	50,800	52,840	40,284	38,916
Customer loans	258,627	265,458	277,201	306,713
Investment securities	15,482	18,243	29,432	34,856
Derivative receivables	5,730	6,408	11,368	5,362
Associates & JVs	1,170	1,182	1,210	1,245
Fixed assets (incl. prop.)	3,278	3,696	3,923	4,011
Other assets	8,938	9,354	9,605	9,338
Total assets	388,093	404,410	431,814	459,323
Interbank deposits	13,801	15,301	15,977	15,561
Customer deposits	293,186	310,726	324,598	352,633
Derivative payables	5,840	6,695	11,519	5,172
Debt equivalents	30,606	25,209	29,608	34,056
Other liabilities	6,848	6,613	8,981	9,040
Total liabilities	350,281	364,544	390,683	416,462
Shareholders' funds	37,623	39,637	40,901	42,633
Minority interest - accumulated	190	227	230	228
Total equity & liabilities	388,094	404,408	431,814	459,323

OPERATING RATIOS

Year to 31 Dec (%)	2018	2019	2020	2021
Capital Adequacy				
Tier-1 CAR	14.9	15.4	15.8	14.4
Total CAR	17.0	17.4	18.4	16.6
Total assets/equity (x)	10.3	10.2	10.6	10.8
Tangible assets/tangible common equity (x)	11.5	11.3	11.6	11.8
Asset Quality				
NPL ratio	1.5	1.5	1.6	1.6
Loan loss coverage	87.0	87.0	107.0	96.0
Loan loss reserve/gross loans	1.2	1.2	1.5	1.3
Increase in NPLs	(5.2)	3.6	9.3	11.3
Credit cost (bp)	15.8	16.4	56.8	23.5
Liquidity				
Loan/deposit ratio	17.3	17.0	12.4	11.0
Liquid assets/short-term liabilities	15.0	15.3	18.5	17.6
Liquid assets/total assets	11.9	12.4	14.6	14.1

KEY METRICS

Year to 31 Dec (%)	2018	2019	2020	2021
Growth				
Net interest income, yoy chg	12.5	5.5	(8.0)	5.8
Fees & commissions, yoy chg	5.0	3.3	(1.7)	20.8
Pre-provision profit, yoy chg	6.0	8.7	(10.2)	9.9
Net profit, yoy chg	18.2	8.3	(32.9)	40.2
Net profit (adj.), yoy chg	18.2	8.3	(32.9)	40.2
Customer loans, yoy chg	11.4	2.6	4.4	10.6
Customer deposits, yoy chg	7.5	6.0	4.5	8.6
Profitability				
Net interest margin	1.8	1.8	1.6	1.6
Cost/income ratio	43.9	44.6	45.6	43.9
Adjusted ROA	1.1	1.1	0.7	0.9
Reported ROE	10.8	11.2	7.2	9.8
Adjusted ROE	10.8	11.2	7.2	9.8
Valuation				
P/BV (x)	1.5	1.5	1.4	1.4
P/NTA (x)	1.6	1.5	1.5	1.4
Adjusted P/E (x)	14.0	12.8	19.4	13.7
Dividend Yield	3.7	4.0	2.4	3.7
Payout ratio	51.3	51.0	46.2	50.2

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