

Singapore Company Update

UOB

Bloomberg: UOB SP | Reuters: UOBH.SI

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DBS Group Research . Equity

17 Feb 2022

BUY

Last Traded Price (16 Feb 2022): S\$32.75 (STI : 3,439.30)
Price Target 12-mth: S\$37.00 (13% upside) (Prev S\$34.20)

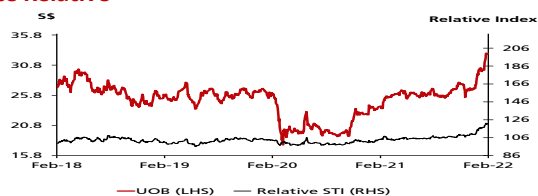
Analyst

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What's New

- 4Q21 net profit of S\$1bn slightly above expectations
- FY22F guidance of mid to high single-digit loan growth and double-digit non-interest income growth
- DPS of 60 Scts declared, full-year dividend payout ratio at 49%
- Maintain BUY, with higher TP of S\$37.00

Price Relative



Forecasts and Valuation

FY Dec (S\$m)	2020A	2021A	2022F	2023F
Pre-prov. Profit	4,992	5,476	6,342	7,131
Net Profit	2,915	4,075	4,677	5,262
Net Pft (Pre Ex.)	2,915	4,075	4,677	5,262
Net Pft Gth (Pre-ex) (%)	(32.9)	39.8	14.8	12.5
EPS (S cts)	174	244	280	315
EPS Pre Ex. (S cts)	174	244	280	315
EPS Gth Pre Ex (%)	(33)	40	15	12
Diluted EPS (S cts)	173	242	278	312
PE Pre Ex. (X)	18.8	13.4	11.7	10.4
Net DPS (S cts)	77.4	119	140	157
Div Yield (%)	2.4	3.6	4.3	4.8
ROAE Pre Ex. (%)	7.2	9.8	10.7	11.4
ROAE (%)	7.2	9.8	10.7	11.4
ROA (%)	0.7	0.9	1.0	1.0
BV Per Share (S cts)	2,445	2,549	2,688	2,846
P/Book Value (x)	1.3	1.3	1.2	1.2
Earnings Rev (%)			5	6
Consensus EPS (S cts):			265	313
Other Broker Recs:		B: 18	S: 0	H: 1

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

Re-rating cycle ahead

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 see strong business momentum and improved profitability in a rate hike environment. Our house view currently stands at five hikes in 2022 and two more in 2023, which will be positive for UOB's NIM through FY23F and beyond.

Active provisioning supports share price. UOB's strong NPA coverage of 96% is likely to limit downside risks and provide share price support. As of 2H21, large management overlay of >S\$1bn in general provisions will mitigate any potentially unexpected specific provisions. The release of some of this buffer on the back of a positive market outlook may provide an ROE upside in FY22F.

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 with a higher TP of S\$37.00. Our TP of S\$37.00 is based on the Gordon Growth Model (11.4% ROE (prev: 11.0%), 3% growth, 9% cost of equity). This is equivalent to a c.1.4x FY22F P/BV that is c.1SD above its average 12-year forward P/BV multiple.

Where we differ:

We have revised our estimates higher by 5-6%, factoring in higher NIM expectations and slightly higher non-interest income.

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)	54,758 / 40,691
Major Shareholders (%)	
Wee Investment Pte Ltd	8.0
Wells Fargo & Co	7.5
Wah Hin & Co Pte Ltd	5.2
Free Float (%)	77.3
3m Avg. Daily Val (US\$m)	67.3
GIC Industry : Financial / Banks	



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WHAT'S NEW

4Q21 net profit slightly ahead of estimates

Earnings came in slightly above expectations. 4Q21 net profit of S\$1.0bn improved 48% y-o-y/declined 3% q-o-q, 2% ahead of expectations. Net interest income of S\$1.7bn rose 11% y-o-y/5% q-o-q as loans grew 10% y-o-y/2% q-o-q and NIM remained stable. Operating costs increased slightly by 4% y-o-y/2% q-o-q as UOB continued to invest in its people and technology, resulting in a cost-to-income ratio of 45.0% (3Q21: 43.7%) due to seasonally higher year-end accruals. Capital ratios stood strong with a healthy CET1 ratio at 13.5%.

Stable fees on the back of continued business momentum.

Net fee and commission income improved 13% y-o-y/remained steady q-o-q, due to higher loan-related and credit card fees offset by seasonally softer wealth fees; other non-interest income declined 22% y-o-y/35% q-o-q largely on softer trading conditions towards the year end while customer-related income was sustained.

New NPA formation spiked in the quarter; higher NPL ratio of 1.6%.

NPL increased to 1.6% from higher new NPA formation (corporates) at S\$670m (3Q21: S\$251m, average of S\$252m for last three quarters), including one fully secured account from Singapore that accounted for one-third, but management is confident of recovering. The remaining is spread throughout the various countries, part secured and part unsecured, and management does not observe concentration risks. This is well within management's expectations, hence they have adequately set aside provisions last year. With regards to ongoing concerns on extended relief programmes, management has assessed the residual risk of the portfolio and they believe that the impact on credit costs or NPAs will not be significant, as the general allowances that have been set aside are more than sufficient to absorb the losses, should they materialise.

Total loan allowances for 4Q21 was S\$94m, 12bps (3Q21: S\$153m, 20bps), including general allowances (stage 1+2) of -\$576m, 10bps (3Q21: -\$2m, 0bps) and special allowances (stage 3) of S\$170m, 22bps (3Q21: S\$155m, 20bps).

Takeaways from analyst briefing

2022 guidances. Business momentum is expected to continue as economies recover, and management observes improving consumer sentiment in Singapore and the region. For FY22F, management is guiding for 1) mid to high single-digit loan growth; 2) double-digit growth in non-interest income; 3) stable cost-to-income ratio excluding integration costs related to the acquisition of Citigroup's consumer business in Indonesia, Malaysia, Thailand, and Vietnam; and 4) credit costs to normalise back to 20-25bps given a resilient portfolio.

Sensitivity to rate hike. For every 25bps rate hike, management expects a 4bps increase in NIM or a S\$150-200m increase in profit.

Mid to high single-digit loan growth backed by a strong pipeline in corporate and institutional loans and mortgages. Growth has been driven by large corporate and institutional clients predominantly in mature markets. Green shoots of recovery are emerging for ASEAN, albeit still slightly muted given that COVID-19 recovery is slower. Management thinks that retail loan growth is not likely to grow as rapidly as wholesale, but the Citibank acquisition will be able to boost retail loan growth.

Double-digit growth in non-interest income driven by loan-related, wealth, and credit card fees. Management is aiming for double-digit growth for fee income in both wholesale and retail businesses, which will be further boosted by the Citibank acquisition. Malaysia and Thailand's growth will be driven by wealth management activities while Indonesia and Vietnam have immense potential given the size of their populations.

Dividend policy. The dividend payout ratio is maintained at 50% to balance between organic growth opportunities and paying back to shareholders. Management also guided that they are comfortable with a lower CET1 ratio of 12.5-13.5% (prev >13.5%), reflecting increased confidence in the market outlook.

UOB

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.

Quarterly / Interim Income Statement (\$m)

FY Dec	4Q2020	3Q2021	4Q2021	% chg yoy	% chg qoq
Net Interest Income	1,512	1,604	1,677	10.9	4.6
Non-Interest Income	737	848	757	2.7	(10.7)
Operating Income	2,249	2,452	2,434	8.2	(0.7)
Operating Expenses	(1,049)	(1,072)	(1,095)	4.4	2.1
Pre-Provision Profit	1,200	1,380	1,339	11.6	(3.0)
Provisions	(396)	(163)	(112)	(71.7)	(31.3)
Associates	34.0	29.0	19.0	(44.1)	(34.5)
Exceptionals	0.0	0.0	0.0	-	-
Pretax Profit	838	1,246	1,246	48.7	0.0
Taxation	(150)	(201)	(229)	52.7	13.9
Minority Interests	0.0	0.0	0.0	-	-
Net Profit	688	1,046	1,017	47.8	(2.8)

Growth (%)

Net Interest Income Gth	2.6	1.6	4.6
Net Profit Gth	3.0	4.3	(2.8)

Key ratio (%)

NIM	1.6	1.6	1.6
NPL ratio	1.6	1.5	1.6
Loan-to deposit	N/A	N/A	N/A
Cost-to-income	46.6	43.7	45.0
Total CAR	18.4	0.0	0.0

Source of all data: Company, DBS Bank

Historical PE and PB band

Forward PE Band (x)



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

PB band (x)



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

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Key Assumptions

FY Dec	2019A	2020A	2021A	2022F	2023F
Gross Loans Growth	2.7	4.7	10.5	8.1	6.9
Customer Deposits Growth	6.0	4.5	8.6	3.5	3.5
Yld. On Earnings Assets	3.4	2.5	2.0	2.3	2.4
Avg Cost Of Funds	1.7	1.0	0.5	0.7	0.8

Income Statement (\$m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Net Interest Income	6,562	6,035	6,388	7,190	7,951
Non-Interest Income	3,468	3,141	3,401	3,724	4,026
Operating Income	10,030	9,176	9,789	10,914	11,977
Operating Expenses	(4,472)	(4,184)	(4,313)	(4,572)	(4,846)
Pre-provision Profit	5,558	4,992	5,476	6,342	7,131
Provisions	(435)	(1,554)	(657)	(804)	(887)
Associates	51.0	98.0	118	118	118
Exceptionals	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	5,174	3,536	4,937	5,656	6,362
Taxation	(813)	(606)	(850)	(961)	(1,082)
Minority Interests	(18.0)	(15.0)	(12.0)	(17.0)	(19.1)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	4,343	2,915	4,075	4,677	5,262
Net Profit bef Except	4,343	2,915	4,075	4,677	5,262
Growth (%)					
Net Interest Income Gth	5.5	(8.0)	5.8	12.6	10.6
Net Profit Gth	8.4	(32.9)	39.8	14.8	12.5
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	1.7
Cost-to-Income Ratio	44.6	45.6	44.1	41.9	40.5
Business Mix (%)					
Net Int. Inc / Opg Inc.	65.4	65.8	65.3	65.9	66.4
Non-Int. Inc / Opg inc.	34.6	34.2	34.7	34.1	33.6
Fee Inc / Opg Income	20.3	21.8	24.6	24.7	24.8
Oth Non-Int Inc/Opg Inc	14.3	12.5	10.1	9.5	8.8
Profitability (%)					
ROAE Pre Ex.	11.2	7.2	9.8	10.7	11.4
ROAE	11.2	7.2	9.8	10.7	11.4
ROA Pre Ex.	1.1	0.7	0.9	1.0	1.0
ROA	1.1	0.7	0.9	1.0	1.0

Source: Company, DBS Bank

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

FY Dec	4Q2020	1Q2021	2Q2021	3Q2021	4Q2021
Net Interest Income	1,512	1,529	1,578	1,604	1,677
Non-Interest Income	737	957	839	848	757
Operating Income	2,249	2,486	2,417	2,452	2,434
Operating Expenses	(1,049)	(1,089)	(1,057)	(1,072)	(1,095)
Pre-Provision Profit	1,200	1,397	1,360	1,380	1,339
Provisions	(396)	(201)	(182)	(163)	(112)
Associates	34.0	31.0	39.0	29.0	19.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Pretax Profit	838	1,227	1,217	1,246	1,246
Taxation	(150)	(219)	(214)	(201)	(229)
Minority Interests	0.0	0.0	0.0	0.0	0.0
Net Profit	688	1,008	1,003	1,046	1,017

Growth (%)

Net Interest Income Gth	2.6	1.1	3.2	1.6	4.6
Net Profit Gth	3.0	46.5	(0.5)	4.3	(2.8)

Balance Sheet (\$\$m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Cash/Bank Balance	25,864	36,798	36,558	41,375	42,823
Government Securities	21,365	21,993	22,324	22,980	23,656
Inter Bank Assets	52,840	40,284	38,916	48,120	51,360
Total Net Loans & Adv.	265,458	277,201	306,713	331,121	353,414
Investment	18,243	29,432	34,856	38,869	45,370
Associates	1,182	1,210	1,245	1,363	1,481
Fixed Assets	2,760	2,959	3,182	1,667	1,667
Goodwill	4,148	4,143	4,145	4,142	4,142
Other Assets	12,549	17,794	11,384	21,255	22,686
Total Assets	404,409	431,814	459,323	510,893	546,600
Customer Deposits	310,726	324,598	352,633	364,975	377,749
Inter Bank Deposits	15,301	15,977	15,561	41,165	59,743
Debts/Borrowings	25,209	29,608	34,056	34,056	34,056
Others	13,309	20,500	14,212	25,480	27,185
Minorities	227	230	228	245	264
Shareholders' Funds	39,637	40,901	42,633	44,972	47,602
Total Liab & S/H's Funds	404,409	431,814	459,323	510,893	546,600

Source: Company, DBS Bank

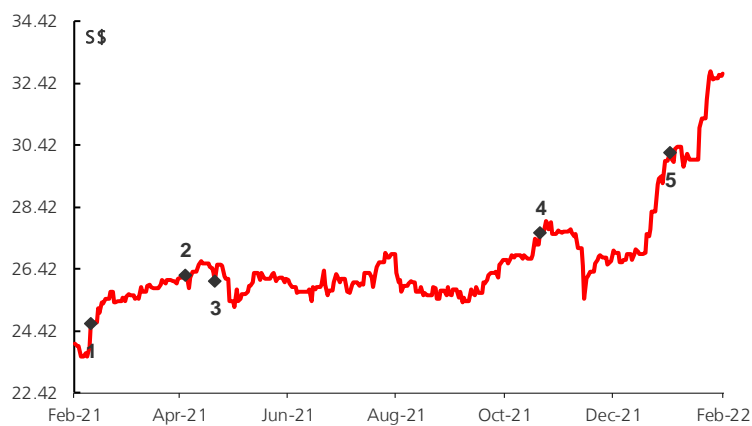
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Financial Stability Measures (%)

FY Dec	2019A	2020A	2021A	2022F	2023F
Balance Sheet Structure					
Loan-to-Deposit Ratio	85.4	85.4	87.0	90.7	93.6
Net Loans / Total Assets	65.6	64.2	66.8	64.8	64.7
Investment / Total Assets	4.5	6.8	7.6	7.6	8.3
Cust. Dep./Int. Bear. Liab.	88.5	87.7	87.7	82.9	80.1
Interbank Dep / Int. Bear.	4.4	4.3	3.9	9.4	12.7
Asset Quality					
NPL / Total Gross Loans	1.5	1.6	1.6	1.8	1.8
NPL / Total Assets	1.0	1.0	1.1	1.2	1.2
Loan Loss Reserve Coverage	77.8	92.6	81.3	80.4	88.5
Provision Charge-Off Rate	0.2	0.6	0.2	0.2	0.2
Capital Strength					
Total CAR	17.4	18.4	17.2	16.8	17.1
Tier-1 CAR	14.3	14.7	13.9	13.7	14.0

Source: Company, DBS Bank

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	25 Feb 21	24.65	27.60	BUY
2:	19 Apr 21	26.23	29.20	BUY
3:	06 May 21	26.03	29.20	BUY
4:	05 Nov 21	27.59	31.00	BUY
5:	17 Jan 22	30.18	34.20	BUY

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

Source: DBS Bank

Analyst: Paul YONG, CFA

Rui Wen LIM

Singapore Research Team

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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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