

# United Overseas Bank Limited

Strong fee income and stable interest income

SINGAPORE | BANKING | 4Q21 RESULTS



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- FY21 earnings of S\$4.08bn missed our estimates by 6% due to lower-than-expected trading and investment income. 4Q21 DPS stable at 60 cents.
- Management guidance is single digit loans growth with stable NIMs and provisions.
- Maintain ACCUMULATE with a higher GGM TP of S\$35.70, from S\$31.30.** We raised FY22e earnings by 8% as we increased NII and fee income estimates for FY22e. We assume 1.46x FY22e P/BV in our GGM valuation, up from 1.26x. Our ROE estimate is raised from 10.2% to 11.5%. There is upside to our estimates from S\$300mn writeback and higher NIMs. Every 25bps rise in interest rates can raise NIM by 0.04% and PATMI by 4.3%.

## Results at a glance

(SGD mn)	4Q21	4Q20	YoY	3Q21	QoQ	Comments
Net interest income	1,677	1,512	11%	1,604	5%	NII grew 5% QoQ from NIM increase of 1bps to 1.56% and loan growth of 2% QoQ. Full-year NII increased 6% YoY led by full-year loan growth of 10% YoY.
Fees & Comm	589	522	13%	589	0%	Fee income flat QoQ as higher loan-related and credit card fees were moderated by seasonally lower wealth fees. Full-year fee income grew 21% YoY driven by double-digit growth across most activities.
Other Non Int Income	168	214	(21%)	259	(35%)	Other non-interest income fell mainly from lower trading and investment income affected by softer trading conditions towards year-end.
<b>Total Revenue</b>	<b>2,434</b>	<b>2,248</b>	<b>8%</b>	<b>2,452</b>	<b>(1%)</b>	
Expenses	(1,095)	(1,049)	4%	(1,072)	2%	CIR improved 1.7% QoQ to 45.0% due to strong income growth.
<b>PPOP</b>	<b>1,339</b>	<b>1,199</b>	<b>12%</b>	<b>1,380</b>	<b>(3%)</b>	
Allowances	(112)	(396)	(72%)	(163)	(31%)	Credit costs lower by 8bps QoQ to 20 bps due to GP write-back of S\$76mn. NPL ratio increased by 0.1% QoQ to 1.6% due to higher NPA formation from several secured corporate accounts though no concentration risk observed.
<b>PATMI</b>	<b>1,046</b>	<b>668</b>	<b>57%</b>	<b>1,003</b>	<b>4%</b>	

Source: Company, PSR

## The Positives

**+ NII increased 5% QoQ, led by steady loan growth.** NII grew 5% QoQ and 11% YoY, led by continued loans growth of 2% QoQ and 10% YoY, while NIM improved 1bp this quarter to 1.56%. Full-year NII increased 6% YoY led by healthy loan growth with NIM remaining stable. UOB has guided mid to high single-digit loan growth for FY22e.

**+ Fee income grew 13% YoY.** Fee and commission income grew 13% YoY, particularly from wealth and loan-related fees as investment and trade activities pick up. Fees, however, were stable QoQ as higher loan-related and credit card fees were moderated by seasonally softer wealth fees. Full-year fee income grew 21% YoY to a record S\$2.41bn, driven by double-digit growth in most activities. UOB has guided double-digit growth in NII for FY22e.

**+ GP write-back of S\$76mn in 4Q21.** GP write-back of S\$76mn resulted in full-year GPs reducing by 90% YoY to S\$95mn. Total allowances were at S\$94mn in 4Q21 vs S\$153mn in 3Q21. Credit costs on allowances dropped by 8bps QoQ to 12bps. Full-year credit costs were lower by 37bps at 20bps as FY20 included pre-emptive allowance for non-impaired loans. Total general allowance for loans, including RLARs, were prudently maintained at 1% of performing loans. UOB has guided credit cost of 20-25bps for FY22e due to lower SPs.

## ACCUMULATE (Maintained)

LAST TRADED PRICE	SGD 32.66
FORECAST DIV	SGD 1.20
TARGET PRICE	SGD 35.70
DIVIDEND YIELD	3.7%
<b>TOTAL RETURN</b>	<b>13.0%</b>

## COMPANY DATA

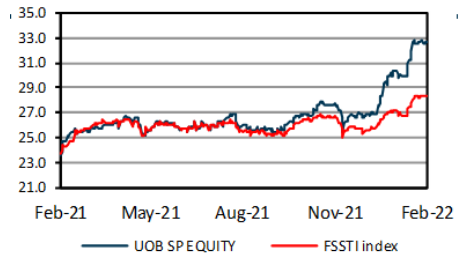
BLOOMBERG TICKER	UOB SP
O/S SHARES (M N):	1672
MARKET CAP (USD mn / SGD mn):	40446 / 54457
52 - WK HI/LO (SGD):	33.33 / 23.55
3M Average Daily T/O (mn):	3.15

## MAJOR SHAREHOLDERS (%)

Wee Investments	8.0%
Wah Hin & Co Pte Ltd	5.2%
Vanguard Group Inc	2.3%
BlackRock Fund Advisors	2.2%

## PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	8.6	17.8	211
STI RETURN	4.7	6.4	10.0



Source: Bloomberg, PSR

## KEY FINANCIALS

Y/E Dec	FY20	FY21	FY22e	FY23e
Total Inc (SGD mn)	9,174	9,790	10,923	11,804
Op Profit (SGD mn)	3,435	4,818	5,574	6,090
NPAT (SGD mn)	2,919	4,085	4,740	5,168
EPS (SGD)	168	2.38	2.76	3.00
PER, (X)	19.4	13.7	11.8	10.9
P/BV, (X)	14	14	13	13
DPS (SGD)	0.78	1.20	1.37	1.50
ROE	7.4%	9.9%	11.4%	11.9%

Source: Bloomberg, Company, PSR

## Valuation Method:

**Gordon Growth Model (COE: 8.5%, g: 2%)**

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## The Negatives

- **Loans under moratorium remain unchanged.** We believe these belonged to weaker corporates which still require loan relief. As the moratoriums begin to expire, we could see an uptick in NPLs in 2022. Management has mentioned that the loan moratoriums in Singapore have reduced to a negligible amount with the highest amount in Malaysia as the Malaysian government had extended the relief period until early 2022.

- **New NPAs of S\$670k in 4Q21.** New NPA formation increased by 167% QoQ to S\$670k mainly from several secured corporate accounts though no concentration risk was observed. Management has mentioned that they are confident that NPAs will be recovered as more than half are in Singapore and belong to one particular asset with the LTV below 50%. NPL ratio increased by 0.1% QoQ to 1.6%.

## Outlook

**PATMI:** UOB's profit should continue to grow in 2022 on the back of stabilising margins, stronger fees and lower provisions. We expect NII to expand 14% YoY. We continue to expect credit costs to come in below guidance of 20-25bps. There is earnings upside from writebacks of the S\$1bn in management overlay of general provisions. Management has mentioned that as it is being conservative, the intention is only to write-back some but not all of the GPs during the second half of 2022. Full-year NPA coverage is at 96% and unsecured NPA coverage at 239%, compared with DBS' NPA coverage of 116% and unsecured NPA coverage of 214% for the same period.

**NIMs:** Management expects improvement in NIMs only in the later part of 2022. UOB mentioned that a 25bps rise in interest rates could raise NII by \$150mn-200mn (or NIM sensitivity of 4bps for every 25bps rate hike). Assuming rate hikes totalling 100bps this year, our FY22e NII can climb S\$800mn (or 11%) resulting in an increase in our FY22e PATMI by 17%.

**Loan growth:** Asset quality is expected to stabilise, and management expects to continue to see strong demand for loans as cross border activities pick up. ASEAN loans growth is expected to be higher with some slowdown in Singapore and North Asia. Growth so far has been skewed towards the developed markets as the ASEAN economy remains muted, but management expects this to change in 2022 as the economy recovers. UOB has guided mid to high single-digit loan growth for FY22e.

**Table 1: FY21 results vs UOB guidance vs PSR estimates for FY22e**

Assumptions	FY21 Results	UOB	PSR
NIM	1.56%	Stable (1.56%)	1.59%
Loan growth	10%	Mid to high single-digit	7%
Cost-income ratio	44.1%	Stable (44%)	43%
Credit Cost	20 bps	20 - 25 bps	26

Source: Company, PSR

## Investment Action

**Maintain ACCUMULATE with a higher GGM TP of S\$35.70, from S\$31.30.**

We maintain our ACCUMULATE recommendation with a higher GGM TP of S\$35.70, from S\$31.30. We raise FY22e earnings by 8% as we raise NII and fee income estimates for FY22e. We now assume 1.46x FY22e P/BV in our GGM valuation, up from 1.26x, as we raise our ROE estimates to 11.5%.

## List of Abbreviations

WM	– Wealth Management
NII	– Net Interest Income
NIM	– Net Interest Margin
SP	– Specific Provisions
GP	– General Provisions
CIR	– Cost-to-income
RLAR	– Regulatory Loan Allowance Reserve
NPA	– Non-performing Assets

## GGM valuation

Item	Description	Value
R <sub>f</sub>	Risk-free rate	1.1%
E	Equity-risk premium	5.9%
B	Beta	1.2
COE	Cost of Equity	8.5%
ROE	Return on Equity	11.5%
g	Terminal growth rate	2.0%
$\frac{(ROE-g)}{(COE-g)}$	Target Price to Book	1.46
	BVPS, S\$	24.50
	Valuation, S\$	35.70

Source: PSR

## Financials

### Income Statement

Y/E Dec, SGD mn	FY19	FY20	FY21	FY22e	FY23e
Net Int Income	6,563	6,033	6,389	7,042	7,491
Fees and Commission	2,033	1,997	2,412	2,892	3,324
Other Non-int income	1,437	1,144	989	989	989
<b>Total operating income</b>	<b>10,033</b>	<b>9,174</b>	<b>9,790</b>	<b>10,923</b>	<b>11,804</b>
Operating expenses	(4,473)	(4,183)	(4,314)	(4,718)	(5,089)
Provisions	(435)	(1,556)	(658)	(631)	(624)
<b>Operating profit</b>	<b>5,125</b>	<b>3,435</b>	<b>4,818</b>	<b>5,574</b>	<b>6,090</b>
Associates & JVs	51	102	117	120	120
<b>Profit Before Tax</b>	<b>5,176</b>	<b>3,537</b>	<b>4,935</b>	<b>5,694</b>	<b>6,210</b>
Taxation	(811)	(618)	(850)	(955)	(1,042)
<b>Profit After Tax</b>	<b>4,365</b>	<b>2,919</b>	<b>4,085</b>	<b>4,740</b>	<b>5,168</b>
Non-controlling Interest	18	16	12	14	15
<b>Net Income, reported</b>	<b>4,347</b>	<b>2,903</b>	<b>4,073</b>	<b>4,726</b>	<b>5,153</b>
<b>Net Income, adj.</b>	<b>4,347</b>	<b>2,903</b>	<b>4,073</b>	<b>4,726</b>	<b>5,153</b>

### Per share data

Y/E Dec	FY19	FY20	FY21	FY22e	FY23e
EPS, reported	2.55	1.69	2.38	2.76	3.00
EPS, adj.	2.54	1.68	2.38	2.76	3.00
DPS	1.25	0.78	1.20	1.37	1.50
BVPS (less pref shares)	22.33	23.03	24.08	24.50	25.95
Dividend Pay-out Ratio	49%	46%	50%	50%	50%

### Supplementary items

Y/E Dec	FY19	FY20	FY21	FY22e	FY23e
CET1 CAR	14.3%	14.7%	13.5%	13.1%	12.3%
Tier 1 CAR	15.4%	15.8%	14.4%	14.0%	13.2%
Total CAR	17.4%	18.4%	16.6%	16.3%	15.1%

### Balance Sheet

Y/E Dec, SGD mn	FY19	FY20	FY21	FY22e	FY23e
Cash bal w central banks	25,864	36,798	36,558	32,758	46,597
Due from banks	52,840	40,284	38,916	46,112	45,975
Investment securities	15,454	25,217	29,068	26,834	27,907
Loans to non-bank cust	265,458	277,201	306,713	322,811	342,457
Others	44,794	52,314	48,068	53,346	55,005
<b>Total Assets</b>	<b>404,410</b>	<b>431,814</b>	<b>459,323</b>	<b>481,861</b>	<b>517,941</b>
Due to banks	15,301	15,977	15,561	15,639	15,795
Due to non-bank cust	310,726	324,598	352,633	375,332	407,805
Debts issued	25,209	29,608	34,056	32,471	32,796
Others	13,308	20,500	14,212	14,638	15,078
<b>Total liabilities</b>	<b>364,544</b>	<b>390,683</b>	<b>416,462</b>	<b>438,081</b>	<b>471,474</b>
Shareholder's equity	39,640	40,903	42,635	43,539	46,210
Non-controlling interest	227	230	228	242	257
<b>Total Equity</b>	<b>39,867</b>	<b>41,133</b>	<b>42,863</b>	<b>43,781</b>	<b>46,467</b>

### Valuation Ratios

Y/E Dec	FY19	FY20	FY21	FY22e	FY23e
P/E (X), adj.	12.7	19.3	13.7	11.8	10.9
P/B (X)	1.5	1.4	1.4	1.3	1.3
Dividend Yield	3.8%	2.4%	3.7%	4.2%	4.6%

### Growth & Margins

#### Growth

Net interest income	5.5%	-8.1%	5.9%	10.2%	6.4%
Non interest income	19.9%	-9.5%	8.3%	14.1%	11.1%
Pre provision op profit	10.1%	-8.6%	6.7%	11.6%	8.1%
Operating income	8.6%	-33.0%	40.3%	15.7%	9.3%
Net income, reported	8.5%	-33.2%	40.3%	16.0%	9.0%

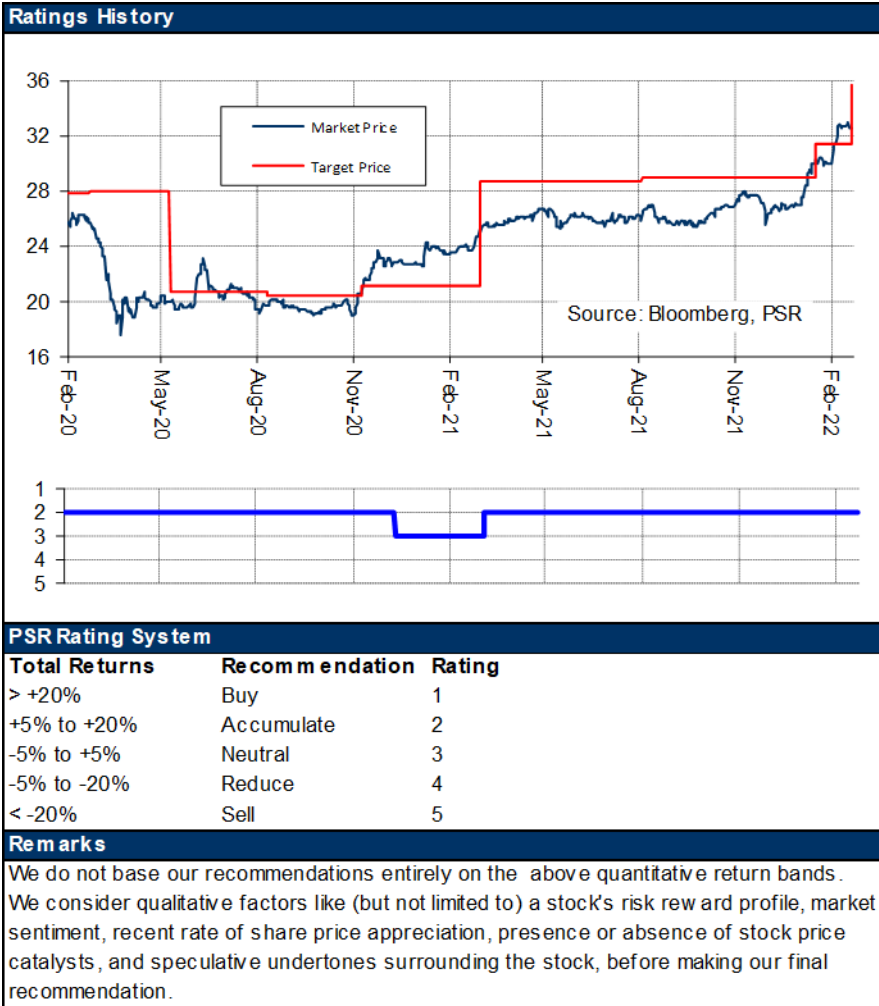
#### Margins

Net interest margin	1.78%	1.57%	1.56%	1.59%	1.61%
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### Key Ratios

Y/E Dec	FY19	FY20	FY21	FY22e	FY23e
ROE	11.8%	7.4%	9.9%	11.4%	11.9%
ROA	1.1%	0.7%	0.9%	1.0%	1.0%
RORWA	1.9%	1.3%	1.6%	1.8%	1.8%
Non-int/total income ratio	34.6%	34.2%	34.7%	35.5%	36.5%
Cost/income ratio	44.6%	45.6%	44.1%	43.2%	43.1%
Loan/deposit ratio	85.4%	85.4%	87.0%	86.0%	84.0%
NPL ratio	1.5%	1.6%	1.6%	1.6%	1.5%

Source: Company, PSR



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