

United Overseas Bank Limited

Let down by weaker fee and non-interest income

SINGAPORE | BANKING | 1Q22 RESULTS



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5 May 2022

- 1Q22 earnings of S\$906mn were lower than our estimates due to lower-than-expected fee and other non-interest income. 3M22 PATMI is 19% of our FY22e forecast.
- NII was up 1% QoQ from an NIM increase of 2bps QoQ to 1.58% and loan growth of 3% QoQ. Fee income was flat QoQ while other non-interest income was down 43% QoQ. Management guidance of single-digit loans growth with stable NIMs and provisions remains unchanged.
- Maintain ACCUMULATE with unchanged target price of S\$35.70.** Our FY22e estimates remain unchanged. We assume 1.46x FY22e P/BV and ROE estimate of 11.5% in our GGM valuation. There is upside to our estimates from further GP write-backs 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)	1Q22	1Q21	YoY	4Q21	QoQ	Comments
Net interest income	1,686	1,529	10%	1,677	1%	NII grew 1% QoQ from NIM increase of 2bps to 1.58% and loan growth of 3% QoQ. NII increased 10% YoY led by loan growth of 9% YoY.
Fees & Comm	572	619	(8%)	580	(1%)	Fee income flat QoQ and down 8% YoY as higher loan-related fees were moderated by seasonally lower credit card spend and lower WM fees due to the dampened market sentiment.
Other Non Int Income	101	338	(70%)	177	(43%)	Other non-interest income fell as higher customer-related treasury income was more than offset by impact from hedges as interest rates rose and unrealised mark-to-market on investments.
Total Revenue	2,359	2,486	(5%)	2,434	(3%)	
Expenses	(1,058)	(1,089)	(3%)	(1,095)	(3%)	Expenses fell in tandem with lower income, nonetheless cost-to-income ratio improved 0.2% QoQ to 44.8%.
PPOP	1,301	1,397	(7%)	1,339	(3%)	
Allowances	(178)	(201)	(11%)	(112)	59%	Allowances higher QoQ due to higher GP write-back in 4Q21. As such, credit costs normalised to 19bps for 1Q22. NPL ratio maintained at 1.6% as asset quality remained resilient.
PATMI	906	1,008	(10%)	1,017	(11%)	

Source: Company, PSR

The Positives

+ NII increased 1% QoQ, led by steady loan growth. NII grew 1% QoQ and 10% YoY, led by continued loans growth of 3% QoQ and 9% YoY, while NIM improved 2bps QoQ to 1.56%. Loan growth was led by corporate loans in Singapore, Greater China and Western countries, while QoQ loan growth was mainly from trade and term loans in Singapore. UOB has maintained its guidance of mid to high single-digit loan growth for FY22e.

+ Credit costs improved 10bps YoY. Total allowances fell by 11% YoY to S\$178mn resulting in credit costs improving by 10bps YoY to 19bps. However, allowances were higher QoQ, mainly due to higher GP write-backs in the previous quarter (S\$2mn in 1Q22 vs S\$76mn in 4Q21). Total general allowance for loans, including RLARs, were prudently maintained at 0.9% of performing loans. UOB has maintained its credit cost guidance of 20-25bps for FY22e.

ACCUMULATE (Maintained)

LAST TRADED PRICE	SGD 30.24
FORECAST DIV	SGD 1.20
TARGET PRICE	SGD 35.70
DIVIDEND YIELD	4.0%
TOTAL RETURN	22.0%

COMPANY DATA

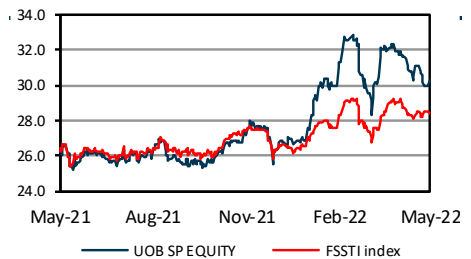
BLOOMBERG TICKER	UOB SP
O/S SHARES (MN)	1675
MARKET CAP (USD mn / SGD mn)	36593 / 50589
52 - WK HI/LO (SGD)	33.33 / 24.73
3M Average Daily T/O (mn)	3.69

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 (%)

	1M TH	3M TH	YTD
COMPANY	(4.5)	2.1	13.7
STIRETURN	(0.8)	4.4	8.7



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)	1.68	2.38	2.76	3.00
PER, (X)	17.9	12.7	110	10.1
P/BV, (X)	1.3	1.3	1.2	1.2
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

- **Fee income fell 8% YoY.** Fee and commission income fell 8% YoY, particularly from wealth and fund management due to the subdued market conditions. Fees, however, were stable QoQ as a strong demand for lending and advisory business propelled higher loan-related fees which were moderated by seasonally lower credit card spend and lower wealth and fund management fees due to the dampened market sentiment. UOB has lowered its guidance to high single-digit growth in fee income for FY22e (previously double-digit growth).

- **Other non-interest income fell 70% YoY.** Other NII fell 70% YoY due to the impact on hedges, resulting in lower non-customer-related trading and investment income while customer-related treasury income was stable. Other NII fell 43% QoQ as customer-related growth of 18% QoQ was more than offset by impact from hedges as interest rates rose and unrealized mark-to-market on investments.

- **New NPAs of S\$462k in 1Q22.** New NPA formation increased by 219% YoY but fell 31% QoQ to S\$462mn. Nonetheless, NPL ratio remained stable at 1.6%. 1Q22 NPA coverage is at 94% and unsecured NPA coverage at 216%, compared with DBS' NPA coverage of 114% and unsecured NPA coverage of 193% for the same period.

Outlook

PATMI: UOB's profit should continue to grow in 2022e 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 said 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.

NIMs: Management expects improvement in NIMs only in the later part of 2022. UOB said 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: UOB guidance vs PSR estimates for FY22e

Assumptions	UOB	PSR
NIM	Stable (1.58%)	1.59%
Loan growth	Mid to high single-digit	7%
Cost-income ratio	Stable (44%)	43%
Credit Cost	20 - 25 bps	26

Source: Company, PSR

Investment Action

Maintain ACCUMULATE with unchanged target price of S\$35.70.

We maintain our ACCUMULATE recommendation with an unchanged target price of S\$35.70. Our FY22e estimates remain unchanged. We assume 1.46x FY22e P/BV and ROE estimate of 11.5% in our GGM valuation.

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 _f	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
Total operating income	10,033	9,174	9,790	10,923	11,804
Operating expenses	(4,473)	(4,183)	(4,314)	(4,718)	(5,089)
Provisions	(435)	(1,556)	(658)	(631)	(624)
Operating profit	5,125	3,435	4,818	5,574	6,090
Associates & JVs	51	102	117	120	120
Profit Before Tax	5,176	3,537	4,935	5,694	6,210
Taxation	(811)	(618)	(850)	(955)	(1,042)
Profit After Tax	4,365	2,919	4,085	4,740	5,168
Non-controlling Interest	18	16	12	14	15
Net Income, reported	4,347	2,903	4,073	4,726	5,153
Net Income, adj.	4,347	2,903	4,073	4,726	5,153

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
Total Assets	404,410	431,814	459,323	481,861	517,941
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
Total liabilities	364,544	390,683	416,462	438,081	471,474
Shareholder's equity	39,640	40,903	42,635	43,539	46,210
Non-controlling interest	227	230	228	242	257
Total Equity	39,867	41,133	42,863	43,781	46,467

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%

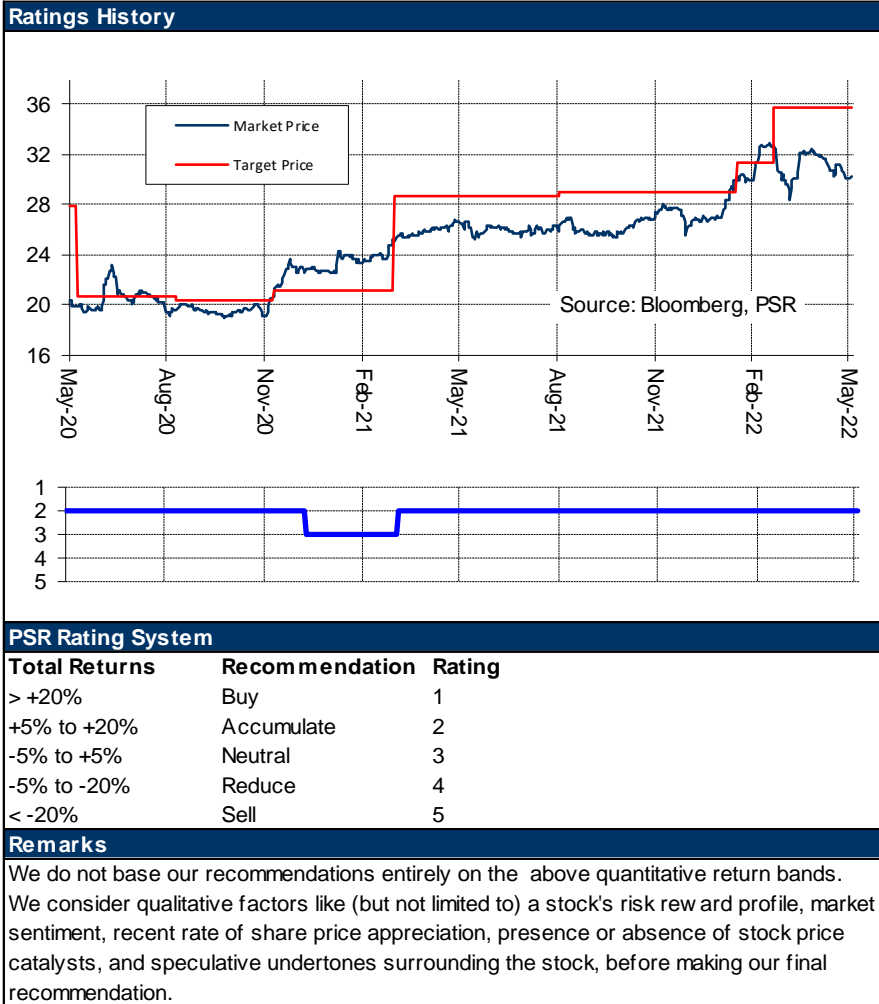
Margins

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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