

COMPANY RESULTS

United Overseas Bank (UOB SP)

1Q22: One-off Negative Impact From Structural Hedges

UOB reported net profit of S\$906m for 1Q22 (-10% yoy and -11% qoq). It suffered one-off losses from structural hedges for its additional tier-1 capital securities due to accounting asymmetry. Management expects trading & investment income to normalise back to S\$150m-250m in subsequent quarters. Management guided mid-to-high single-digit loan growth, single-digit growth in fees and normalisation of credit costs higher to 20-25bp for 2022.

RESULTS

- United Overseas Bank (UOB) reported net profit of S\$906m for 1Q22 (down 10% yoy and 11% qoq), below consensus' estimate of S\$1,025m.
- **Benefitting from interest rate hikes.** Loan growth was strong at 9% yoy and 3% qoq in 1Q22 driven by Singapore and Greater China. NIM expanded 2bp qoq to 1.58%, benefitting from the 25bp hike in Fed Funds Rate in March and the associated increase in loan yield. Net interest income increased 10% yoy. Management estimated that every 25bp hike in the Fed Funds Rate will lead to NIM expansion of 4bp and an increase in net interest income of S\$150m-200m.
- **Market-sensitive revenue streams affected by heightened risk aversion.** Fees declined 8% yoy and 1% qoq. Loans & trade-related fees grew 8% yoy and 10% qoq to a record S\$276m in 1Q22 due to growth in lending and advisory businesses. Wealth management fees decreased 27% yoy and 9% qoq due to weak market sentiment. AUM increased by 3% yoy to S\$140b.
- **Affected by one-off negative impact from structural hedges.** Other non-interest income dropped 70% yoy to S\$101m in 1Q22. Customer-related treasury income was stable. However, UOB suffered one-off negative impact from structural hedges for its additional tier-1 capital securities as interest rates rise. It also recorded unrealised mark-to-market losses from its investments. In total, non-customer-related trading and investment incurred losses of S\$117m.
- **Exercised discipline on discretionary spending.** Operating expenses decreased 3% yoy in 1Q22 due to an 8% yoy decline in staff costs. IT-related expenses increased 13% yoy due to continued investment in technology to enhance capabilities and customer experience. Cost-to-income ratio increased 1ppt yoy to 44.8%.
- **Asset quality relatively stable.** New NPL formation was S\$462m and NPL balance increased 4% qoq in 1Q22, although NPL ratio was unchanged at 1.6%. Total provisions dropped 11% yoy to S\$178m. Its NPLs are well collateralised with specific provisions/NPLs stable at 31%. UOB made a small write-back in general provisions of S\$2m.

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)	15.1	12.8	11.8	17.7	12.5
P/BV (x)	1.5	1.4	1.3	1.3	1.2
Dividend yield (%)	3.3	4.0	4.3	2.6	4.0
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\$29.99
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):	1,674.6
Market Cap (S\$ m):	50,220.8
Market cap (US\$ m):	36,302.5
3-mth avg daily t'over (US\$m):	85.1

Price Performance (%)

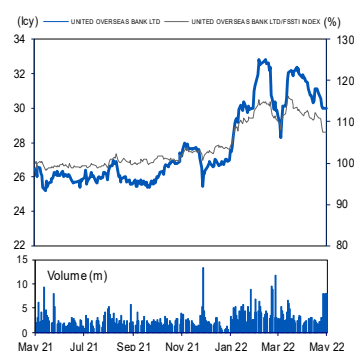
52-week high/low S\$33.33/S\$24.73

1mth	3mth	6mth	1yr	YTD
(6.3)	0.1	12.1	12.8	11.5

Major Shareholders

	%
Wee Cho Yaw	18.5
Wah Hin & Co	5.2
NAV/Share (S\$)	24.23
CET-1 CAR (%)	13.1

PRICE CHART



Source: Bloomberg

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ESSENTIALS – HIGHLIGHTS FROM RESULTS BRIEFING

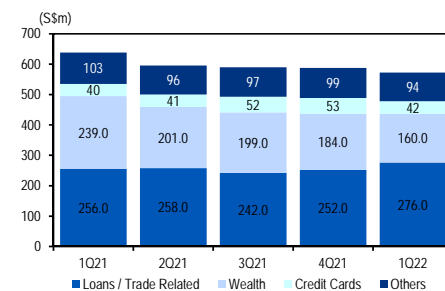
- Benefitting from recovery in Southeast Asia.** Management is focused on helping its customers seize business opportunities as the economy reopens. UOB is well positioned to serve customers and facilitate trade and investments between ASEAN countries and China. ASEAN countries benefit from the ongoing disruption to the global supply chain. UOB is making good progress in its digital initiatives. It has acquired 140,000 customers across the region digitally through UOB TMRW in 1Q22, of which 80% are new to UOB.
- Guidance for 2022.** Management guided mid-to-high single-digit loan growth for 2022, driven by cross-border transactions and pick-up in economic recovery in ASEAN countries. Fee income is expected to grow at single-digit rate, supported by cross-border transactions and sector solutions for wholesale banking. UOB will continue to exercise discipline to control expenses so as to keep cost-to-income ratio stable at about 45%. NPL ratio is expected to inch higher but stay below 2%. Management guided credit costs at 20-25bp for 2022 (2021: 20bp). ROE is expected to be above 10%.
- Cautiously optimistic.** Loan growth is currently dominated by large corporate customers acquiring assets in developed markets. The recovery within ASEAN has just started and reopening will lead to increased spending. Working capital accounted for 60% of loan demand from ASEAN countries and management anticipates increased drawdown in 2H22. On the consumer banking front, management sees higher demand for residential mortgages due to a pick-up in transaction volume in the secondary market. The reopening of ASEAN countries will also lead to an increase in spending for credit cards and growth in unsecured personal loans.
- Good progress in integration 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, accelerating growth and deepening UOB's regional franchise within ASEAN. Management expects to receive regulatory approval for the Thailand business by end-22 while the acquisition of the Indonesia, Malaysia and Vietnam businesses should be completed in 2023. The acquisition is expected to reduce UOB's CET-1 CAR by 0.7ppt to 12.8%.
- Cautiously monitoring exposures to vulnerable companies.** Management is concerned about the secondary impact from the ongoing Russia-Ukraine War. The Chinese economy could be affected by lockdowns with the recent outbreak of COVID-19. Management is encouraged by the shift in fiscal policy to step up investment in infrastructure projects. Nevertheless, UOB has conservatively slowed down loan growth in mainland China. Currently, asset quality for mainland China is benign with NPL ratio at 0.3%. Management is also monitoring downstream players in the oil & gas supply chain and companies affected by weakness of their local currencies against the US dollar.
- Decarbonisation.** UOB plans to announce its net zero plan by end-22.

1Q22 RESULTS

Profit & Loss (\$m)	1Q22	1Q21	yoy % Chg	4Q21	qoq % Chg
Net Interest Income	1,686	1,529	10.3	1,678	0.5
Fees & Commissions	572	638	-10.3	589	-2.9
Other Non-Interest Income	101	319	-68.3	168	-39.9
Total Income	2,359	2,486	-5.1	2,435	-3.1
Operating Expenses	-1,058	-1,089	-2.8	-1,095	-3.4
PPOP	1,301	1,397	-6.9	1,340	-2.9
Provisions	-178	-201	-11.4	-112	58.9
Associates & JVs	29	32	n.m.	18	61.1
PBT	1,152	1,228	-6.2	1,246	-7.5
Net Profit	906	1,009	-10.2	1,017	-10.9
EPS (cents)	53.3	59.0	-9.7	59.8	-10.9
DPS (cents)	0.0	0.0	n.m.	60.0	n.m.
BVPS (\$)	24.23	23.42	3.5	24.08	0.6
Financial Ratios (%)	1Q22	1Q21	yoy Chg (ppt)	4Q21	qoq Chg (ppt)
NIM	1.58	1.57	0.01	1.56	0.02
Loan Growth, yoy	9.1	5.3	3.8	10.5	-1.4
Deposit Growth, yoy	9.0	3.0	6.0	8.6	0.4
Loan/Deposit Ratio	87.3	87.0	0.3	87.0	0.3
Cost/Income Ratio	44.8	43.8	1.0	45.0	-0.2
ROE	8.8	10.2	-1.4	10.0	-1.2
NPL Ratio	1.6	1.5	0.1	1.6	0.0
Credit Costs (bp)	19	29	-10.0	12	7.0
Loan Loss Coverage	94.0	111.7	-17.7	96.0	-2.0
CET-1 CAR	13.1	14.3	-1.2	13.5	-0.4

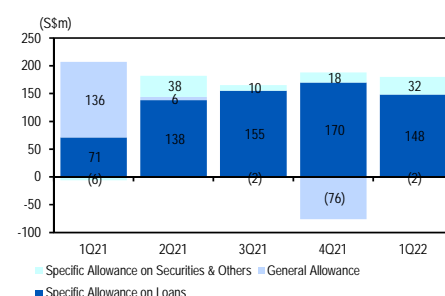
Source: UOB

FEE INCOME – SEGMENTAL BREAKDOWN



Source: UOB

TOTAL ALLOWANCE



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)	1.4	1.3	1.3	1.2
P/NTA (x)	1.5	1.4	1.4	1.3
Adjusted P/E (x)	12.8	11.8	17.7	12.5
Dividend Yield	4.0	4.3	2.6	4.0
Payout ratio	51.3	51.0	46.2	50.2

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