

Singapore Company Update

UOB

Bloomberg: UOB SP | Reuters: UOBH.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

4 May 2022

BUY

Last Traded Price (29 Apr 2022): S\$29.99 (STI : 3,356.90)
Price Target 12-mth: S\$37.00 (23% upside)

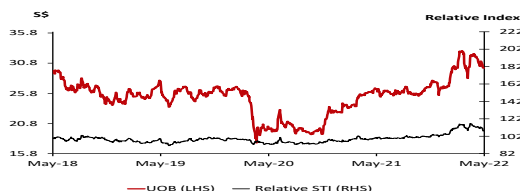
Analyst

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What's New

- 1Q22 revenue of S\$2.4bn and net profit of S\$906m below consensus
- Double-digit decline in trading & investment income to normalise next quarter
- FY22F guidances remain intact from last quarter
- Maintain BUY with TP of S\$37

Price Relative



Forecasts and Valuation

FY Dec (S\$m)	2020A	2021A	2022F	2023F
Pre-prov. Profit	4,992	5,476	6,202	7,080
Net Profit	2,915	4,075	4,534	5,219
Net Pft (Pre Ex.)	2,915	4,075	4,534	5,219
Net Pft Gth (Pre-ex) (%)	(32.9)	39.8	11.3	15.1
EPS (S cts)	174	244	271	312
EPS Pre Ex. (S cts)	174	244	271	312
EPS Gth Pre Ex (%)	(33)	40	11	15
Diluted EPS (S cts)	173	242	269	310
PE Pre Ex. (X)	17.2	12.3	11.1	9.6
Net DPS (S cts)	77.4	119	136	156
Div Yield (%)	2.6	4.0	4.5	5.2
ROAE Pre Ex. (%)	7.2	9.8	10.4	11.3
ROAE (%)	7.2	9.8	10.4	11.3
ROA (%)	0.7	0.9	0.9	1.0
BV Per Share (S cts)	2,445	2,549	2,684	2,840
P/Book Value (x)	1.2	1.2	1.1	1.1
Earnings Rev (%)			(3)	(1)
Consensus EPS (S cts):			267	321
Other Broker Recs:		B: 18	S: 0	H: 1

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

Cautiously optimistic

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 a strong recovery of the business momentum amidst economies reopening, but we also remain watchful of inflationary pressures. Our house view currently stands at 225bps in 2022 and 100bps 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 94% is likely to limit downside risks and provide share price support. As of 1Q22, the 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 TP of S\$37.00. Our TP of S\$37.00 is based on the Gordon Growth Model (11.4% ROE, 3% growth, 9% cost of equity). This is equivalent to a c.1.4x FY22F P/BV that is c.1.5SD above its average 12-year forward P/BV multiple.

Where we differ:

We lower our estimates by 1%-3% on higher staff costs and lower 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)	50,143 / 36,168
Major Shareholders (%)	
Wee Investment Pte Ltd	8.0
Wah Hin & Co Pte Ltd	5.2
Free Float (%)	86.8
3m Avg. Daily Val (US\$m)	82.2
GIC Industry : Financial / Banks	



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WHAT'S NEW

1Q22 results came in below consensus

1Q22 results came in below the consensus. 1Q22 net profit came in at S\$906m, declining 10% y-o-y/11% q-o-q, below estimates, on lower non-customer trading and investment income and lower general allowances write-back. Net interest income was S\$1.7bn, rising 10% y-o-y/1% q-o-q, driven by higher loan growth of 3% q-o-q and an improvement in the loan margin on the back of rising interest rates. NIM increased 2bps q-o-q to 1.58%. Operating costs declined 3% y-o-y and q-o-q, resulting in a stable cost-to-income ratio of 44.8% (4Q21: 45.0%). Capital ratios stood strong with the CET1 ratio at 13.1%.

Weak non-interest income. Net fee and commission income declined 8% y-o-y/1% q-o-q due to lower credit card fees seasonally and lower wealth management and fund management fees, which were affected by market sentiment, offset by higher record loan-related fees on the back of strong demand in the lending and advisory business. Other non-interest income declined 70% y-o-y/43% q-o-q, mainly due to lower trading & investment (T&I) income of S\$44m. Customer-related income at S\$161m made it a record quarter, but the S\$117m loss was due to 1) accounting asymmetry from hedging perpetuals and 2) unrealised mark-to-market on investments. The guidance provided was that T&I income will normalise back to c.S\$200m in the next few quarters.

Steady loan growth. During the quarter, UOB saw loan growth of 3% q-o-q, predominantly from trade and term loans in Singapore. The loan portfolio remains diversified across industries (building & construction highest at 28%), segments (large corporations and institutions highest at 56%), and geography (Singapore highest at 51%).

Higher credit costs. Total credit costs normalised back to 19bps as a result of higher general allowance write-back in 4Q21. Total loan allowances stood at S\$146m, 19bps (4Q21: S\$94m, 12bps), comprising general allowances (stage 1+2): -\$2m, 0bps (4Q21: -\$76m, 10bps) and special allowances (stage 3): S\$148m, 19bps (4Q21: S\$170m, 22bps).

Takeaways from analyst briefing

Guidances intact. For every 25bps rate hike, management expects a 4bps increase in NIM or S\$150m increase in NII, and that 4Q21 NIM will come in slightly below 1.7%. Impact to NII not fully felt in 1Q22, as rate hike was in March; complete impact of the S\$1.0-1.5bn increase is to NII to be felt in FY23.

Management also continues to guide for mid to high single-digit loan growth, high single-digit fee growth, a stable cost-to-income ratio, and credit costs of 20-25bps. Staff costs are expected to increase 10% y-o-y on higher profits (staff costs tied to profits) and competition for talent; technology costs are to continue increasing as well.

Thoughts on loan growth. The retail and mortgage side has been pretty stagnant the last few years, but management expects this segment to grow and sees green shoots emerging. On the wholesale side, the pipeline remains robust, but they are watchful given the Russia-Ukraine war and slower China growth. Loan growth is coming mostly from Singapore while it remains quite flattish for the rest of the region, as their domestic recovery processes have just started. However, management is bullish for the longer term.

Modest exposure to China and commodities. Mainland China exposure stands at S\$26.8bn or 6% of total assets, while Hong Kong SAR exposure stands at S\$41.5bn or 9% of total assets. Management assures that NPL in Mainland China is negligible and asset quality in China has been pretty good. Further, outstanding loans to commodities is only at 7% of total loans with O&G at 4% of total loans.

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.

UOB

Quarterly / Interim Income Statement (S\$m)

FY Dec	1Q2021	4Q2021	1Q2022	% chg y-o-y	% chg q-o-q
Net Interest Income	1,529	1,677	1,686	10.3	0.5
Non-Interest Income	957	757	673	(29.7)	(11.1)
Operating Income	2,486	2,434	2,359	(5.1)	(3.1)
Operating Expenses	(1,089)	(1,095)	(1,058)	(2.8)	(3.4)
Pre-Provision Profit	1,397	1,339	1,301	(6.9)	(2.8)
Provisions	(201)	(112)	(178)	(11.4)	58.9
Associates	32.0	19.0	29.0	(9.4)	52.6
Exceptionals	0.0	0.0	0.0	-	-
Pretax Profit	1,228	1,246	1,152	(6.2)	(7.5)
Taxation	(219)	(229)	(246)	12.3	7.4
Minority Interests	0.0	0.0	0.0	-	-
Net Profit	1,009	1,017	906	(10.2)	(10.9)

Growth (%)

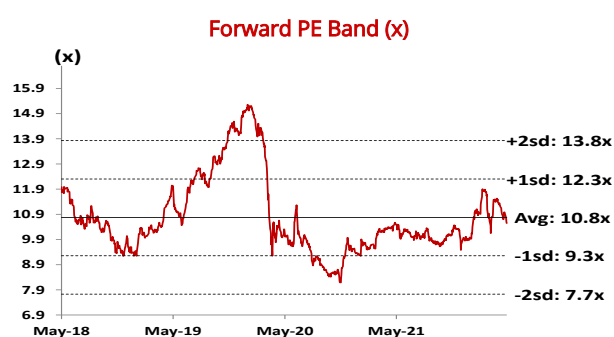
Net Interest Income Gth	1.1	4.6	0.5
Net Profit Gth	46.7	(2.8)	(10.9)

Key ratio (%)

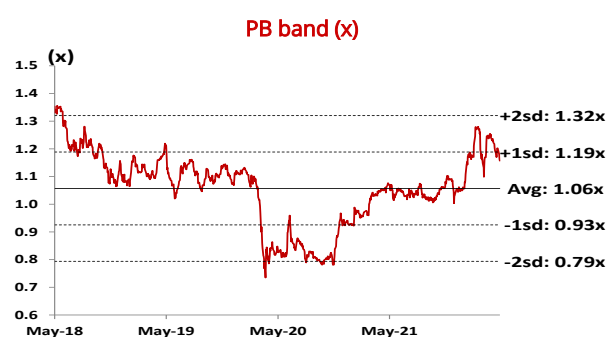
NIM	1.6	1.6	1.6
NPL ratio	1.5	1.6	1.6
Loan-to deposit	N/A	N/A	N/A
Cost-to-income	43.8	45.0	44.8
Total CAR	0.0	0.0	0.0

Source of all data: Company, DBS Bank

Historical PE and PB band



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



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	8,053
Non-Interest Income	3,468	3,141	3,401	3,636	3,928
Operating Income	10,030	9,176	9,789	10,825	11,981
Operating Expenses	(4,472)	(4,184)	(4,313)	(4,624)	(4,901)
Pre-provision Profit	5,558	4,992	5,476	6,202	7,080
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	5,515	6,311
Taxation	(813)	(606)	(850)	(965)	(1,073)
Minority Interests	(18.0)	(15.0)	(12.0)	(16.6)	(18.9)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	4,343	2,915	4,075	4,534	5,219
Net Profit bef Except	4,343	2,915	4,075	4,534	5,219
Growth (%)					
Net Interest Income Gth	5.5	(8.0)	5.8	12.5	12.0
Net Profit Gth	8.4	(32.9)	39.8	11.3	15.1
Margins, Costs & Efficiency (%)					
Spread	1.7	1.5	1.5	1.6	1.7
Net Interest Margin	1.8	1.6	1.6	1.6	1.7
Cost-to-Income Ratio	44.6	45.6	44.1	42.7	40.9
Business Mix (%)					
Net Int. Inc / Opg Inc.	65.4	65.8	65.3	66.4	67.2
Non-Int. Inc / Opg inc.	34.6	34.2	34.7	33.6	32.8
Fee Inc / Opg Income	20.3	21.8	24.6	24.1	23.9
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	10.4	11.3
ROAE	11.2	7.2	9.8	10.4	11.3
ROA Pre Ex.	1.1	0.7	0.9	0.9	1.0
ROA	1.1	0.7	0.9	0.9	1.0

Source: Company, DBS Bank

UOB

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

FY Dec	1Q2021	2Q2021	3Q2021	4Q2021	1Q2022
Net Interest Income	1,529	1,578	1,604	1,677	1,686
Non-Interest Income	957	839	848	757	673
Operating Income	2,486	2,417	2,452	2,434	2,359
Operating Expenses	(1,089)	(1,057)	(1,072)	(1,095)	(1,058)
Pre-Provision Profit	1,397	1,360	1,380	1,339	1,301
Provisions	(201)	(182)	(163)	(112)	(178)
Associates	32.0	39.0	29.0	19.0	29.0
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Pretax Profit	1,228	1,217	1,246	1,246	1,152
Taxation	(219)	(214)	(201)	(229)	(246)
Minority Interests	0.0	0.0	0.0	0.0	0.0
Net Profit	1,009	1,003	1,046	1,017	906

Growth (%)

Net Interest Income Gth	1.1	3.2	1.6	4.6	0.5
Net Profit Gth	46.7	(0.6)	4.3	(2.8)	(10.9)

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	41,234	59,845
Debts/Borrowings	25,209	29,608	34,056	34,056	34,056
Others	13,309	20,500	14,212	25,484	27,176
Minorities	227	230	228	245	263
Shareholders' Funds	39,637	40,901	42,633	44,900	47,509
Total Liab & S/Hs' Funds	404,409	431,814	459,323	510,893	546,600

Source: Company, DBS Bank

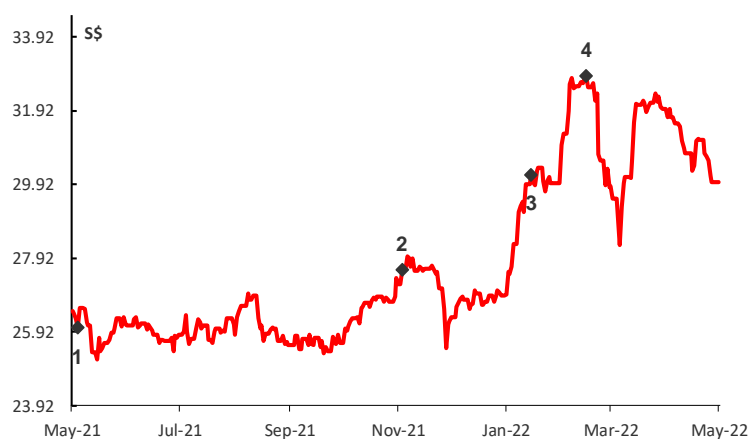
UOB

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	17.0
Tier-1 CAR	14.3	14.7	13.9	13.7	14.0

Source: Company, DBS Bank

Target Price & Ratings History



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

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	06 May 21	26.03	29.20	BUY
2:	05 Nov 21	27.59	31.00	BUY
3:	17 Jan 22	30.18	34.20	BUY
4:	17 Feb 22	32.86	37.00	BUY

Source: DBS Bank

Analyst: Paul YONG, CFA

Rui Wen LIM

Tabitha FOO

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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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