

### COMPANY RESULTS

## United Overseas Bank (UOB SP)

2Q22: Sufficient General Provisions To Cushion Against External Uncertainties

**UOB reported net profit of S\$1,113m for 2Q22 (+11% yoy and +23% qoq). NIM expanded by a sizeable 9bp qoq to 1.67%. Loans & trade related fees hit a new record high of S\$283m (+10% yoy) as UOB supported business clients in their regional expansion. UOB declared an interim dividend of 60 S cents per share, representing a payout ratio of 50%. It guided mid single-digit loan growth, low single-digit growth in fees and normalisation of credit costs higher to 25bp for 2022.**

### RESULTS

- United Overseas Bank (UOB) reported net profit of S\$1,113m for 2Q22 (+11% yoy and +23% qoq), in line with consensus' estimate of S\$1,095m.
- **Spectacular NIM expansion.** Loan growth was strong at 8% yoy and 1% qoq, driven by short-term working capital loans. Loans for Singapore and Greater China grew 6.7% and 9.0% yoy respectively. Sustainable finance rose to S\$20b. NIM expanded by a sizeable 9bp qoq to 1.67%. The US Fed hiked the Fed Funds Rate by 50bp in May and 75bp in June. There was strong pass-through to domestic interest rates with SORA and three-month SIBOR rising 105bp and 112bp qoq respectively to 1.66% and 1.91% during 2Q22.
- **Drag from wealth management.** Fees & commissions declined 3% yoy and 1% qoq in 2Q22. Loans & trade related fees hit a new record high of S\$283m (+10% yoy) as UOB supported business clients in their regional expansion. Credit card fees grew 44% yoy due to increased customer spending after Singapore reopened its international borders in April. Wealth management fees slumped 27% yoy and 14% qoq as investors turned cautious. AUM was stable at S\$138b.
- **Positive momentum for hedging demand.** Trading & investment income increased 9% yoy to S\$214m due to customer-related income with greater demand for hedging.
- **Maintaining tight control on discretionary spending.** Operating expenses increased 12% yoy. UOB continues to prioritise strategic investment in people and technology while maintaining cost discipline. Cost-to-income ratio was stable at 43.8%.
- **Downgraded a major corporate account in 2Q22.** NPL ratio edged higher by 0.1ppt qoq to 1.7%. NPLs increased 7% yoy. NPL formation was S\$661m in 2Q22, higher than S\$462m in 1Q22. NPLs for Greater China increased S\$524m hoh in 1H22 due to downgrade for a major real estate corporate account. Total provisions was S\$137m in 2Q22 (-25% yoy) comprising mainly specific provisions. We estimated there was a write-back in provisions for securities at S\$35m.
- The board has declared an interim dividend of 60 S cents per share (1H21: 60 S cents per share), representing a payout ratio of 50%.

### 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)	13.8	11.8	10.8	16.3	11.5
P/BV (x)	1.4	1.3	1.2	1.2	1.1
Dividend yield (%)	3.6	4.4	4.7	2.8	4.4
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\$27.55
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):	46,135.5
Market cap (US\$ m):	33,419.4
3-mth avg t'over (US\$ m):	60.4

### Price Performance (%)

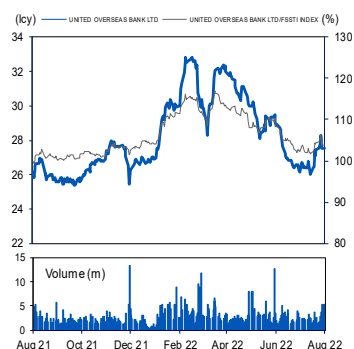
52-week high/low S\$33.33/S\$25.28

1mth	3mth	6mth	1yr	YTD
3.5	(8.1)	(8.0)	4.8	2.4

### Major Shareholders

	%
Wee Cho Yaw	18.5
Wah Hin & Co	5.2
NAV/Share (S\$)	23.81
CET-1 CAR (%)	13.1

### PRICE CHART



Source: Bloomberg

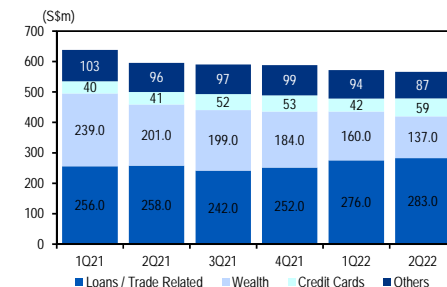
### ANALYST(S)

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### ESSENTIALS – HIGHLIGHTS FROM RESULTS BRIEFING

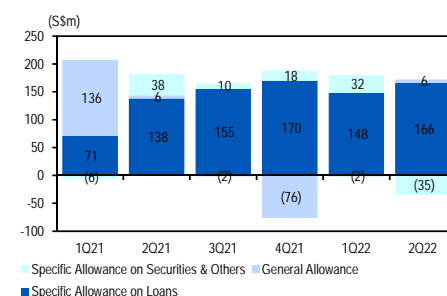
- Guidance for 2022.** UOB guided mid single-digit loan growth for 2022. Management expects disbursement for working capital loans for SMEs and drawdown for residential mortgages in 2H22. Fee income is expected to grow at a low single-digit rate, supported by cross-border transactions and sector solutions for wholesale banking. UOB will continue to exercise discipline in control expenses so as to keep cost-to-income ratio stable at about 45%. Management guided credit costs at 25bp for 2022 (2021: 20bp).
- Weathering near-term headwinds.** Economic activities are picking up as borders reopen and investment flows are resuming. Aggressive interest rate hikes around the world would dampen global growth. Nevertheless, management expects resilient growth from ASEAN countries as they are net exporters of commodities.
- Continued NIM expansion in 2H22.** Management expects more rate hikes in 2H22. 80% of all loans are on floating interest rates. NIM expansion of 9bp qoq is expected to be sustained for the next two quarters in 3Q22 and 4Q22. Thus, management expects NIM to be about 20bp higher and hit 1.9% by end-22. Management expects growth in bottom line in 2022 as the increase in net interest income exceeds the slowdown in non-interest income. Management expects the pace of NIM expansion to moderate by early-23.
- Scaling up across the region through Citigroup's Consumer Banking Businesses.** Management expects legal completion for the acquisition of Citigroup's Consumer Banking Businesses for Thailand and Malaysia by end-22, Vietnam by 1Q23 and Indonesia by 4Q23. There is smooth integration with 90% of the employees in Thailand, Malaysia and Vietnam agreeing to stay on and join UOB.
- Sufficient general provisions to cushion against external uncertainties.** UOB has set aside general provisions equivalent to 90bp of total loans, compared to 70bp before the COVID-19 pandemic. Management sees its general provisions as sufficient but does not intend to write back its general provisions. UOB does not expect asset quality to deteriorate in 2022. There could be pockets of weakness, such as construction companies affected by supply chain disruptions and shortage of manpower.
- Exposure to Chinese developer.** Management disclosed that UOB has S\$3b exposure to Chinese developers (state-owned enterprises: 50%, privately owned enterprises: 50%), which represents only 1% of group loans. Management is comfortable with loan-to-value ratio for these real estate developers and they are not in danger of turning into NPLs. UOB does not have exposure to residential mortgages in Mainland China.
- Taking legal action.** Separately, based on Bloomberg, UOB has taken legal action against Shimao Group at the High Court of Hong Kong for breach of terms for loan and security agreement for a residential development project in Kowloon. Shimao is alleged to have re-allocated loans and shares between entities without UOB's consent.

### FEE INCOME – SEGMENTAL BREAKDOWN



Source: UOB

### TOTAL ALLOWANCE



Source: UOB

### 2022 RESULTS

Profit & Loss (\$m)	2Q22	2Q21	yoy % Chg	1Q22	qoq % Chg
Net Interest Income	1,863	1,578	18.1	1,686	10.5
Fees & Commissions	567	595	-4.7	572	-0.9
Other Non-Interest Income	272	243	11.9	101	169.3
Total Income	2,702	2,416	11.8	2,359	14.5
Operating Expenses	-1,183	-1,057	11.9	-1,058	11.8
PPOP	1,519	1,359	11.8	1,301	16.8
Provisions	-137	-182	-24.7	-178	-23.0
Associates & JVs	23	38	-39.5	29	-20.7
PBT	1,405	1,215	15.6	1,152	22.0
Net Profit	1,112	1,001	11.1	906	22.7
EPS (cents)	65.3	59.0	10.6	53.3	22.5
DPS (cents)	60.0	60.0	0.0	0.0	n.m.
BVPS (\$)	23.81	23.65	0.7	24.23	-1.7
Financial Ratios (%)	2Q22	2Q21	yoy Chg (ppt)	1Q22	qoq Chg (ppt)
NIM	1.67	1.56	0.11	1.58	0.09
Loan Growth, yoy	7.7	6.4	1.4	9.1	-1.4
Deposit Growth, yoy	5.7	5.0	0.6	9.0	-3.3
Loan/Deposit Ratio	88.7	86.9	1.8	87.3	1.4
Cost/Income Ratio	43.8	43.7	0.1	44.8	-1.0
ROE	9.9	10.1	-0.2	8.8	1.1
NPL Ratio	1.7	1.5	0.2	1.6	0.1
Credit Costs (bp)	22	20	2.0	19	3.0
Loan Loss Coverage	91	110	-19.0	94	-3.0
CET-1 CAR	13.1	14.2	-1.1	13.1	0.0

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
<b>Total income</b>	<b>9,117</b>	<b>10,030</b>	<b>9,176</b>	<b>9,789</b>
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)
<b>Net profit</b>	<b>4,009</b>	<b>4,342</b>	<b>2,915</b>	<b>4,086</b>
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
<b>Total assets</b>	<b>388,093</b>	<b>404,410</b>	<b>431,814</b>	<b>459,323</b>
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
<b>Total liabilities</b>	<b>350,281</b>	<b>364,544</b>	<b>390,683</b>	<b>416,462</b>
Shareholders' funds	37,623	39,637	40,901	42,633
Minority interest - accumulated	190	227	230	228
<b>Total equity &amp; liabilities</b>	<b>388,094</b>	<b>404,408</b>	<b>431,814</b>	<b>459,323</b>

### OPERATING RATIOS

Year to 31 Dec (%)	2018	2019	2020	2021
<b>Capital Adequacy</b>				
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
<b>Asset Quality</b>				
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
<b>Liquidity</b>				
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
<b>Growth</b>				
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
<b>Profitability</b>				
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
<b>Valuation</b>				
P/BV (x)	1.3	1.2	1.2	1.1
P/NTA (x)	1.4	1.3	1.3	1.2
Adjusted P/E (x)	11.8	10.8	16.3	11.5
Dividend Yield	4.4	4.7	2.8	4.4
Payout ratio	51.3	51.0	46.2	50.2

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