

# Singapore Company Update

## UOB

Bloomberg: UOB SP | Reuters: UOBH.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

1 Aug 2022

### BUY

Last Traded Price (29 Jul 2022): S\$27.55 (STI : 3,211.56)  
Price Target 12-mth: S\$34.20 (24% upside) (Prev S\$37.00)

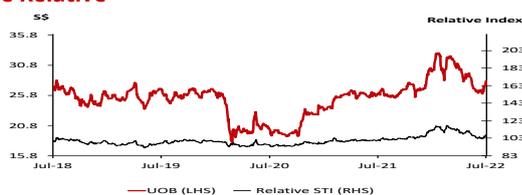
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#### What's New

- 2Q22 revenue of S\$2.7bn, net profit of S\$1.1bn largely in line; interim DPS of 60 Scts declared
- Strong q-o-q net interest income growth of 11% as NIM expanded 9bps q-o-q to 1.67%
- Full year guidances lowered as management expects slower growth environment
- Maintain BUY with lower TP of S\$34.20

#### Price Relative



#### Forecasts and Valuation

FY Dec (\$m)	2021A	2022F	2023F	2024F
Pre-prov. Profit	5,475	6,267	6,942	7,388
Net Profit	4,074	4,588	5,105	5,432
Net Pft (Pre Ex.)	4,074	4,588	5,105	5,432
Net Pft Gth (Pre-ex) (%)	39.8	12.6	11.3	6.4
EPS (S cts)	244	274	305	325
EPS Pre Ex. (S cts)	244	274	305	325
EPS Gth Pre Ex (%)	40	13	11	6
Diluted EPS (S cts)	242	272	303	323
PE Pre Ex. (X)	11.3	10.0	9.0	8.5
Net DPS (S cts)	119	137	153	162
Div Yield (%)	4.3	5.0	5.5	5.9
ROAE Pre Ex. (%)	9.8	10.5	11.0	11.1
ROAE (%)	9.8	10.5	11.0	11.1
ROA (%)	0.9	1.0	1.0	1.0
BV Per Share (S cts)	2,549	2,686	2,838	3,001
P/Book Value (x)	1.1	1.0	1.0	0.9
Earnings Rev (%)		1	(2)	N/A
Consensus EPS (S cts):		263	319	354
Other Broker Recs:		B: 15	S: 0	H: 3

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

### NIM tailwind to sustain

#### Investment Thesis

**Stronger-than-expected NIM expansion.** We believe there is further room for UOB's share price to re-rate as UOB continues to benefit from rising interest rates which will boost net interest income. This should more than offset any potentially lower non-interest income on weaker market sentiment. DBS Group Research Economists see the Fed hiking to a terminal rate of 3.5% in 2022 and taking a pause in 2023, a move that will be positive for UOB's NIM through FY23F and beyond.

**Active provisioning supports share price.** UOB's strong NPA coverage of 91% is likely to limit downside risks and provide share price support, in respect of the new China developer NPL recognised in 2Q22, should UOB require more provisions on this NPL. Management has indicated that they are comfortable with the remaining Chinese developers' loan book, except for the corporate NPL recognised this quarter.

**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 lower TP of S\$34.20.** Our revised TP is based on the Gordon Growth Model (11.5% ROE, 3% growth, and 10% cost of equity) as we factor in higher cost of equity. This is equivalent to a c.1.3x FY22F P/BV, c.0.5SD above its average 12-year forward P/BV multiple.

#### Where we differ:

We revise our earnings estimates on higher NIMs, offset by lower fee income and loan growth.

#### Key Risks to Our View:

**Deteriorating asset quality.** Larger-than-expected NPLs, as well as a global recession, could unwind expectations of credit cost and NPL declines, thus posing risks to earnings.

#### At A Glance

Issued Capital (m shrs)	1,675
Mkt. Cap (S\$m/US\$m)	46,135 / 33,419
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)	63.8
GIC Industry : Financial / Banks	



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## UOB

### WHAT'S NEW

#### Largely in line; management pulled back on full year guidance

**Results largely in line.** 2Q22's net profit of S\$1.1bn improved 11% y-o-y/23% q-o-q, in line with consensus. Net interest income of S\$1.9bn rose 18% y-o-y/11% q-o-q, driven by NIM that increased 9bps q-o-q to 1.67% ahead of management's guidance of 1.60-1.62% for 2Q22. Operating costs increased by 12% y-o-y and q-o-q due to staff costs on better performances. Cost-to-income ratio improved to 43.8% (1Q22: 44.8%) as income picked up. Capital ratio stood strong with a healthy CET1 ratio of 13.1%.

**Largely flat fees amid macroeconomic uncertainties.** Net fee and commission income remained flat y-o-y/increased 25% q-o-q, due to record loan, trade-related, and credit card fees offset by lower wealth fees due to weaker market sentiment. Trading and investment income grew 9% y-o-y/normalised from 1Q22 levels that were affected by hedges and unrealised mark-to-market on investments.

**New NPA formation spiked in the quarter; higher NPL ratio of 1.7%.** NPL increased to 1.7% from higher new NPA formation at S\$661m (1Q22: S\$462m, average of S\$461m for last three quarters), due to a China developer's corporate account, for which UOB had commenced legal proceedings on. According to UOB, the remaining exposures are diversified and have strong LTVs based on UOB's internal credit rating system. As a result of special allowances on this China developer, total loan allowances for 2Q22 was higher at S\$173m, 22bps (1Q22: S\$146m, 19bps), including general allowances (stage 1+2) of S\$7m, 1bps (1Q22: -\$2m, 0bps) and special allowances (stage 3) of S\$166m, 21bps (1Q22: S\$148m, 19bps).

#### Takeaways from analyst briefing

**Overview on the backdrop.** With uncertainty in the market, consumer confidence receding, business sentiment waning, and inflationary pressures rising, management sees a weaker macro environment ahead. However, the base case scenario is that they do not expect a recession in their key markets, although growth may slow down.

**Enhanced optimism on NIM.** Management believes an exit NIM of 1.9% is possible, given that the 9bps growth q-o-q in 2Q22's NIM did not reflect the May and July Fed rate hikes of 75bps each. Management gave guidelines for NIM to see a 10bps q-o-q expansion per quarter for 3Q22 and 4Q22, with another 1-2bps for 4Q22. Majority of loans (~40%) have a tenure of less than an year, resulting in a positive

repricing. 80% of the loan book is also on a variable rate, which will require adjusting according to the base rate.

**Pull-back on guidances.** Management reiterates that the new guidances are a reflection of the overall market slowing and sentiment turning cautious. They include: 1) Lower loan growth at mid-single digit (previous: mid-to-high) – year-to-date loan growth stands at 3.5%; 2) lower fee growth at low-single digit (previous: high); and 3) higher credit costs of 25bps (previous: 20-25bps). For 2H22's loan growth, the mortgages drawdown pipeline is strong. For other loans, UOB will prioritise pricing over volumes.

**Asset quality.** UOB believes there is no systemic weakness, and will keep adding general provisions for the rest of the year, maintaining that they will not look to reverse general provisions as previously hoped for. A single corporate account – another \$40m of new NPA formation – was due to a Malaysia exposure. Weaker names for Malaysia in 4Q21 and 1Q22 have already been recognised. Going forward, the situation of supply chain and labour constraints may affect the construction sector (especially smaller contractors).

**More details on China property exposure.** Total exposure to the China property is S\$12bn (3.7% of total loan book). This number includes network clients (e.g. Singapore GLCs etc), of which there is S\$3bn+ (~1% of total loan book) exposure to Chinese SOE developers and Chinese private developers (split 50%-50%), with some projects possibly residing outside China. There are no issues with Chinese SOE developers' loan book. For Chinese private developers, most projects are near completion and money for sale has been collected for, if not fully completed with comfortable LTVs. There is no undue concentration to any developer.

#### 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**

**Historical PE and PB band**



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



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

## UOB

### Key Assumptions

FY Dec	2020A	2021A	2022F	2023F	2024F
Gross Loans Growth	4.7	10.5	6.1	6.3	6.4
Customer Deposits Growth	4.5	8.6	3.5	3.5	5.0
Yld. On Earnings Assets	2.5	2.0	2.4	2.6	2.7
Avg Cost Of Funds	1.0	0.5	0.7	0.8	0.9

### Income Statement (\$m)

FY Dec	2020A	2021A	2022F	2023F	2024F
Net Interest Income	6,035	6,388	7,454	8,282	8,874
Non-Interest Income	3,141	3,400	3,549	3,738	3,959
<b>Operating Income</b>	<b>9,176</b>	<b>9,788</b>	<b>11,003</b>	<b>12,020</b>	<b>12,833</b>
Operating Expenses	(4,184)	(4,313)	(4,736)	(5,078)	(5,445)
<b>Pre-provision Profit</b>	<b>4,992</b>	<b>5,475</b>	<b>6,267</b>	<b>6,942</b>	<b>7,388</b>
Provisions	(1,554)	(657)	(804)	(887)	(937)
Associates	98.0	118	118	118	118
Exceptionals	0.0	0.0	0.0	0.0	0.0
<b>Pre-tax Profit</b>	<b>3,536</b>	<b>4,936</b>	<b>5,581</b>	<b>6,173</b>	<b>6,569</b>
Taxation	(606)	(850)	(977)	(1,049)	(1,117)
Minority Interests	(15.0)	(12.0)	(16.7)	(18.5)	(19.7)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
<b>Net Profit</b>	<b>2,915</b>	<b>4,074</b>	<b>4,588</b>	<b>5,105</b>	<b>5,432</b>
Net Profit bef Except	2,915	4,074	4,588	5,105	5,432
<b>Growth (%)</b>					
Net Interest Income Gth	(8.0)	5.8	16.7	11.1	7.1
Net Profit Gth	(32.9)	39.8	12.6	11.3	6.4
<b>Margins, Costs &amp; Efficiency (%)</b>					
Spread	1.5	1.5	1.7	1.8	1.8
Net Interest Margin	1.6	1.6	1.7	1.8	1.8
Cost-to-Income Ratio	45.6	44.1	43.0	42.2	42.4
<b>Business Mix (%)</b>					
Net Int. Inc / Opg Inc.	65.8	65.3	67.7	68.9	69.1
Non-Int. Inc / Opg inc.	34.2	34.7	32.3	31.1	30.9
Fee Inc / Opg Income	21.8	24.1	22.4	21.8	21.9
Oth Non-Int Inc/Opg Inc	12.5	10.7	9.9	9.3	9.0
<b>Profitability (%)</b>					
ROAE Pre Ex.	7.2	9.8	10.5	11.0	11.1
ROAE	7.2	9.8	10.5	11.0	11.1
ROA Pre Ex.	0.7	0.9	1.0	1.0	1.0
ROA	0.7	0.9	1.0	1.0	1.0

Source: Company, DBS Bank

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

FY Dec	2Q2021	3Q2021	4Q2021	1Q2022	2Q2022
Net Interest Income	1,578	1,604	1,677	1,686	1,863
Non-Interest Income	839	848	757	673	840
<b>Operating Income</b>	<b>2,417</b>	<b>2,452</b>	<b>2,434</b>	<b>2,359</b>	<b>2,703</b>
Operating Expenses	(1,057)	(1,072)	(1,095)	(1,058)	(1,184)
<b>Pre-Provision Profit</b>	<b>1,360</b>	<b>1,380</b>	<b>1,339</b>	<b>1,301</b>	<b>1,519</b>
Provisions	(182)	(163)	(112)	(178)	(137)
Associates	39.0	29.0	19.0	29.0	23.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
<b>Pretax Profit</b>	<b>1,217</b>	<b>1,246</b>	<b>1,246</b>	<b>1,152</b>	<b>1,405</b>
Taxation	(214)	(201)	(229)	(246)	(292)
Minority Interests	0.0	0.0	0.0	0.0	0.0
<b>Net Profit</b>	<b>1,003</b>	<b>1,046</b>	<b>1,017</b>	<b>906</b>	<b>1,113</b>

**Growth (%)**

Net Interest Income Gth	3.2	1.6	4.6	0.5	10.5
Net Profit Gth	(0.6)	4.3	(2.8)	(10.9)	22.8

**Balance Sheet (\$\$m)**

FY Dec	2020A	2021A	2022F	2023F	2024F
Cash/Bank Balance	36,798	36,558	37,838	39,162	41,120
Government Securities	21,993	22,324	22,660	23,001	23,347
Inter Bank Assets	40,284	38,916	41,204	43,735	46,444
Total Net Loans & Adv.	277,201	306,713	324,749	344,691	366,048
Investment	29,432	34,856	38,725	43,581	49,679
Associates	1,210	1,245	1,363	1,481	1,599
Fixed Assets	2,959	3,182	1,667	1,667	1,667
Goodwill	4,143	4,145	4,142	4,142	4,142
Other Assets	17,794	11,384	12,053	12,794	13,586
<b>Total Assets</b>	<b>431,814</b>	<b>459,323</b>	<b>484,401</b>	<b>514,254</b>	<b>547,633</b>
Customer Deposits	324,598	352,633	364,975	377,749	396,637
Inter Bank Deposits	15,977	15,561	24,232	37,806	48,572
Debts/Borrowings	29,608	34,056	34,056	34,056	34,056
Others	20,500	14,212	15,967	16,900	17,889
Minorities	230	228	245	263	283
Shareholders' Funds	40,901	42,633	44,927	47,480	50,196
<b>Total Liab&amp; S/H's Funds</b>	<b>431,814</b>	<b>459,323</b>	<b>484,401</b>	<b>514,254</b>	<b>547,633</b>

Source: Company, DBS Bank

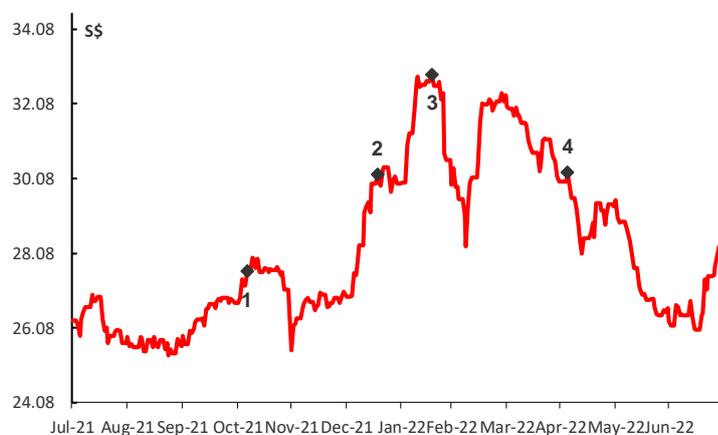
## UOB

### Financial Stability Measures (%)

FY Dec	2020A	2021A	2022F	2023F	2024F
<b>Balance Sheet Structure</b>					
Loan-to-Deposit Ratio	85.4	87.0	89.0	91.2	92.3
Net Loans / Total Assets	64.2	66.8	67.0	67.0	66.8
Investment / Total Assets	6.8	7.6	8.0	8.5	9.1
Cust . Dep./Int. Bear. Liab.	87.7	87.7	86.2	84.0	82.8
Interbank Dep / Int. Bear.	4.3	3.9	5.7	8.4	10.1
<b>Asset Quality</b>					
NPL / Total Gross Loans	1.6	1.6	1.8	1.8	1.8
NPL / Total Assets	1.0	1.1	1.2	1.2	1.2
Loan Loss Reserve Coverage	92.6	81.3	82.0	90.7	98.9
Provision Charge-Off Rate	0.6	0.2	0.2	0.3	0.3
<b>Capital Strength</b>					
Total CAR	18.4	16.6	16.9	17.5	17.5
Tier-1 CAR	14.7	13.5	13.8	14.5	14.5

Source: Company, DBS Bank

### Target Price & Ratings History



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

Source: DBS Bank

Analyst: Rui Wen LIM

Tabitha FOO

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**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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