

Singapore Company Update

UOB

Bloomberg: UOB SP | Reuters: UOBH.SI

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DBS Group Research . Equity

27 Jul 2023

HOLD

Last Traded Price (26 Jul 2023): S\$28.69 (STI : 3,304.96)

Price Target 12-mth: S\$30.30 (6% upside)

Analysts

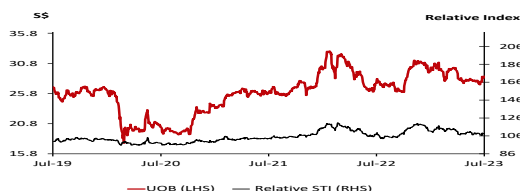
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What's New

- 2Q23 revenue of S\$3.5bn ~5% ahead of consensus, while net profit of S\$1.4bn (including one-off costs) in line with consensus
- Higher credit costs of 30bps; guidance raised to 25bps for rest of year, suggesting ~26bps for FY23F (prev: 20-25bps)
- Interim dividend of 85 Scts in 1H23 vs. 60 Scts in 1H22; high dividend yield of c.5.9% to limit downside in near term
- Maintain HOLD and TP of S\$30.30

Price Relative



Forecasts and Valuation

FY Dec (\$m)	2022A	2023F	2024F	2025F
Pre-prov. Profit	6,291	7,837	7,990	8,223
Net Profit	4,573	5,757	5,983	6,294
Net Pft (Pre Ex.)	4,819	5,757	5,983	6,294
Net Pft Gth (Pre-ex) (%)	18.3	19.5	3.9	5.2
EPS (S cts)	271	341	355	373
EPS Pre Ex. (S cts)	286	341	355	373
EPS Gth Pre Ex (%)	18	19	4	5
Diluted EPS (S cts)	271	341	355	373
PE Pre Ex. (X)	10.0	8.4	8.1	7.7
Net DPS (S cts)	135	171	177	187
Div Yield (%)	4.7	6.0	6.2	6.5
ROAE Pre Ex. (%)	10.6	12.8	12.5	12.4
ROAE (%)	10.6	12.8	12.5	12.4
ROA (%)	1.0	1.1	1.1	1.1
BV Per Share (S cts)	2,572	2,743	2,920	3,107
P/Book Value (x)	1.1	1.0	1.0	0.9
Earnings Rev (%):		6	5	7
Consensus EPS (S cts):		336	351	369
Other Broker Recs:		B: 9	S: 1	H: 8

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

NIM has stabilised

Investment Thesis:

Growing an enlarged franchise. UOB's acquisition of Citigroup's consumer business in Indonesia, Malaysia, Thailand, and Vietnam allows UOB to accelerate, scale up, and deepen its ASEAN franchise. Execution remains key to long-term synergies, with management expressing confidence in higher structural ROEs of >13% post-acquisition by FY26F.

Limited catalysts for now, as Fed rate cycle nears peak. Management believes that NIMs have largely stabilised, with 2Q23 NIM at 2.12% (2bps decline q-o-q) and June exit NIM at 2.14%. Management remains hopeful that there could be further upward bias should benchmark rates go higher on future Fed hikes. As the Fed rate comes close to the peak in this cycle, we believe bulk of the banks' share price re-rating is over.

Further downside risks and asset quality risks could emerge. FY23F loan growth guidance was revised downwards in 1Q23 to a low-to-mid-single digit (prev: mid-single digit) as loans continue to contract. In addition, 2Q23 saw higher credit costs of 30bps on the back of higher specific allowances, largely due to a major Thailand corporate account and pre-emptive general allowance set aside. Consequently, credit cost guidance was raised to 25bps for 2H23, suggesting ~26bps credit costs for FY23F (prev: 20-25bps). We remain watchful for asset quality risks in the more uncertain macroeconomic environment.

Maintain HOLD, TP S\$30.30 based on the Gordon Growth Model (12% ROE, 3% growth, and 12% cost of equity). Our TP represents ~1x FY24F, close to -0.5SD of UOB's 12-year forward P/BV multiple, which we believe is a fair valuation. We see limited catalysts ahead for UOB's share price, given more downside risks from loan growth, a more uncertain macroeconomic environment for non-interest income growth, as well as rising asset quality risks. Nonetheless, we believe the downside to UOB's share price will be supported by its strong provisions buffer of 99%.

Key Risks

Deteriorating asset quality. Higher-than-expected NPLs, high inflationary pressure, and recessionary risks 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)	48,063 / 36,263
Major Shareholders (%)	
Wee Investments Pte Ltd	8.0
Wah Hin & Co Pte Ltd	5.2
Free Float (%)	86.8
3m Avg. Daily Val (US\$m)	59.4
GIC Industry : Financial / Banks	

UOB

WHAT'S NEW

NIM has stabilised

2Q23 revenue ~5% ahead of consensus while net profit in line with consensus. 2Q23 revenue grew 31% y-o-y/1% q-o-q to S\$3,542m and net profit improved 27% y-o-y/declined 6% q-o-q to S\$1,415m. Core net profit after tax, excluding Citi integration costs (net of tax) of S\$92m, would be S\$1,507m (+35% y-o-y/-4% q-o-q). Net interest income rose 31% y-o-y/1% q-o-q to S\$2,437m, as it was a longer calendar quarter despite NIM continuing its second consecutive quarterly decline to 2.12% (-2bps q-o-q in 2Q22; -8bps q-o-q in 1Q23) due to excess liquidity deployed to high-quality assets, while loan growth grew 1% q-o-q. Operating costs increased 22% y-o-y/1% q-o-q, resulting in a cost-to-income ratio excluding/including one-off Citi integration costs of 40.9%/44.1% (1Q23: 40.9%/43.3%), respectively. Capital ratios stood strong with a CET1 ratio of 13.6%.

Non-interest income improved on another quarter of record-high trading and investment income, partially offset by lower net fee income. Net fee income declined 8% y-o-y/5% q-o-q to S\$524m in 2Q23 on the back of lower wealth management fees (-3% y-o-y/-9% q-o-q), as market sentiment continues to be cautious, and lower loan/trade-related fees (-20% y-o-y/-4% q-o-q) on softer lending activities. This was partially offset by higher credit card fees (+22% y-o-y/-11% q-o-q). Trading and investment income of S\$478m (+123% y-o-y/flat q-o-q) saw another record quarter, customer-related treasury income of S\$182m (+5% y-o-y/-10% q-o-q) was supported by hedging demand, while other trading and investment income of S\$296m (+622% y-o-y/+8% q-o-q) saw good performance in trading and liquidity management activities.

Higher credit cost of 30bps; NPL stable at 1.6%. 2Q23 credit cost was higher at 30bps on the back of higher specific allowances, largely due to a major Thailand corporate account and pre-emptive general allowance set aside. Consequently, credit cost guidance was raised to 25bps for the rest of the year, suggesting ~26bps credit costs for FY23F (prev: 20-25bps). Total loan allowances of S\$238m, 30bps (1Q23: S\$192m, 25bps) include general allowances (stage 1+2) of S\$36m, 4bps (1Q23: S\$28m, 4bps) and specific allowances (stage 3) of S\$202m, 26bps (1Q23: S\$164m, 21bps). There was higher new NPA formation, which came in at S\$364m (1Q23: S\$301m, average of S\$393m for last four quarters); NPL remained stable q-o-q at 1.6%.

Takeaways from analyst briefing

Guidance from management: 1) Loan growth was maintained at a low-to-mid-single digit; 2) margins are to remain stable, at the current levels; 3) fee growth was revised downwards to a high single digit from a double digit; and 4) credit cost increased to 25bps for the rest of the year from 20-25bps for the full year.

NIM outlook. Exit NIM for June was 2.14% (2Q23 NIM: 2.12%). Management believes NIM has stabilised for the year, with some upward bias following the Fed's rate hike announcement last night. Loan yields could see an upside if benchmark rates continue to go up.

Asset quality and managing provisions into FY24F. A large chunk of specific provisions relate to a Thai manufacturing corporate. Although management is confident that they will be able to recover some monies, its exposure has been fully provisioned for in 2Q23 for prudence. During 2Q23, non-loan GPs were S\$127m relating to non-loan portion of the Thai exposure and MEV adjustments. Management also acknowledged that rising household debt in Thailand is a concern but their portfolio is catered to more high-end customers. Meanwhile, UOB remains comfortable with its China exposure, with loans to Chinese developers (~1% of group loans) managed down to S\$2.8bn from S\$3bn previously.

Managing costs ahead. One-off Citi costs (FY23F: S\$300-400m) should mostly roll off as Indonesia targets completion this year, with only Thailand and Malaysia left for 2024, which should drop off by 1Q24. After that, focus will be on improving JAWs and working on cross-selling. Management believes that UOB should see a 41%-43% CIR as a more normalised level for CIR going forward post-integration.

View on dividends going forward. The board and management remain comfortable with a 50% payout ratio, as it strikes a balance between returning capital and growth opportunities in the medium term. Management believes that there are many areas of growth in ASEAN in the next few years.

Keeping track of Citi acquisition. UOB added 300k retail customers in 2Q23, largely attributed to organic growth – the impact of Taylor Swift concert pre-sale tickets initiative was not big since the application-to-sales window is short. Management has started to see the consolidation of the Malaysia franchise, which has seen additions in its deposit base, amongst others. The opportunity to cross-sell remains huge, with Citi customers having higher digital penetration and being more digitally savvy. Citi's stronghold is unsecured and UOB has started to introduce its products into Citi post the legal date of competition. For instance, additional UOB credit cards have seen a good take-up, there is successful integration of Citigold clients into UOB privilege banking through joint events, and the selling of UOBAM/prudential banca products to Citigold's base has seen good success. Going forward, privilege banking will be managed by a bigger private banking team as resources are pooled and shared.

UOB

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.

Quarterly / Interim Income Statement (\$m)

FY Dec	2Q2022	1Q2023	2Q2023	% chg yoy	% chg qoq
Net Interest Income	1,863	2,409	2,437	30.8	1.2
Non-Interest Income	840	1,115	1,105	31.5	(0.9)
Operating Income	2,703	3,524	3,542	31.0	0.5
Operating Expenses	(1,184)	(1,445)	(1,453)	22.7	0.6
Pre-Provision Profit	1,519	2,079	2,089	37.5	0.5
Provisions	(137)	(169)	(365)	166.4	116.0
Associates	23.0	25.0	26.0	13.0	4.0
Exceptionals	0.0	(67.0)	(92.0)	nm	37.3
Pretax Profit	1,405	1,868	1,658	18.0	(11.2)
Taxation	(292)	(358)	(243)	(16.8)	(32.1)
Minority Interests	0.0	0.0	0.0	-	-
Net Profit	1,113	1,511	1,415	27.1	(6.4)

Growth (%)

Net Interest Income Gth	10.5	(5.9)	1.2
Net Profit Gth	22.8	31.2	(6.4)

Key ratio (%)

NIM	1.7	2.1	2.1
NPL ratio	1.7	1.6	1.6
Loan-to deposit	88.7	83.3	83.5
Cost-to-income	43.8	43.3	44.1
Total CAR	16.4	17.7	17.3

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	2021A	2022A	2023F	2024F	2025F
Gross Loans Growth	10.5	2.9	2.7	5.1	5.1
Customer Deposits Growth	8.6	4.5	3.5	5.0	5.0
Yld. On Earnings Assets	2.0	2.9	4.7	4.4	4.2
Avg Cost Of Funds	0.5	1.1	2.7	2.5	2.3

Income Statement (\$m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Net Interest Income	6,388	8,343	9,786	10,016	10,421
Non-Interest Income	3,400	3,232	4,060	4,083	4,122
Operating Income	9,788	11,575	13,846	14,099	14,542
Operating Expenses	(4,313)	(5,284)	(6,009)	(6,110)	(6,319)
Pre-provision Profit	5,475	6,291	7,837	7,990	8,223
Provisions	(657)	(603)	(972)	(851)	(709)
Associates	118	97.0	97.0	97.0	97.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	4,936	5,785	6,961	7,235	7,611
Taxation	(850)	(1,202)	(1,183)	(1,230)	(1,294)
Minority Interests	(12.0)	(10.0)	(20.9)	(21.7)	(22.8)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	4,074	4,573	5,757	5,983	6,294
Net Profit bef Except	4,074	4,573	5,757	5,983	6,294
Growth (%)					
Net Interest Income Gth	5.8	30.6	17.3	2.4	4.0
Net Profit Gth	39.8	12.2	25.9	3.9	5.2
Margins, Costs & Efficiency (%)					
Spread	1.5	1.8	2.0	1.9	1.9
Net Interest Margin	1.6	1.9	2.1	2.1	2.1
Cost-to-Income Ratio	44.1	45.7	43.4	43.3	43.5
Business Mix (%)					
Net Int. Inc / Opg Inc.	65.3	72.1	70.7	71.0	71.7
Non-Int. Inc / Opg inc.	34.7	27.9	29.3	29.0	28.3
Fee Inc / Opg Income	24.1	18.5	16.7	17.9	19.0
Oth Non-Int Inc/Opg Inc	10.7	9.4	12.6	11.0	9.3
Profitability (%)					
ROAE Pre Ex.	9.8	10.6	12.8	12.5	12.4
ROAE	9.8	10.6	12.8	12.5	12.4
ROA Pre Ex.	0.9	1.0	1.1	1.1	1.1
ROA	0.9	1.0	1.1	1.1	1.1

Source: Company, DBS Bank

UOB
Quarterly / Interim Income Statement (\$m)

FY Dec	2Q2022	3Q2022	4Q2022	1Q2023	2Q2023
Net Interest Income	1,863	2,234	2,560	2,409	2,437
Non-Interest Income	840	950	770	1,115	1,105
Operating Income	2,703	3,184	3,330	3,524	3,542
Operating Expenses	(1,184)	(1,357)	(1,421)	(1,445)	(1,453)
Pre-Provision Profit	1,519	1,827	1,909	2,079	2,089
Provisions	(137)	(104)	(184)	(169)	(365)
Associates	23.0	18.0	28.0	25.0	26.0
Exceptionals	0.0	0.0	(246)	(67.0)	(92.0)
Pretax Profit	1,405	1,741	1,507	1,868	1,658
Taxation	(292)	(338)	(355)	(358)	(243)
Minority Interests	0.0	0.0	0.0	0.0	0.0
Net Profit	1,113	1,403	1,152	1,511	1,415

Growth (%)

Net Interest Income Gth	10.5	19.9	14.6	(5.9)	1.2
Net Profit Gth	22.8	26.1	(17.9)	31.2	(6.4)

Balance Sheet (\$m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Cash/Bank Balance	36,558	49,419	51,149	53,706	56,391
Government Securities	22,324	31,878	32,358	32,845	33,339
Inter Bank Assets	38,916	35,410	36,283	38,058	39,952
Total Net Loans & Adv.	306,713	315,355	323,131	338,940	355,801
Investment	34,856	39,789	42,375	46,500	51,622
Associates	1,245	1,258	1,355	1,452	1,549
Fixed Assets	3,182	3,453	1,667	1,667	1,667
Goodwill	4,145	4,900	4,142	4,142	4,142
Other Assets	11,384	22,798	23,360	24,503	25,722
Total Assets	459,323	504,260	515,821	541,813	570,185
Customer Deposits	352,633	368,553	381,452	400,525	420,551
Inter Bank Deposits	15,561	24,537	18,470	21,017	24,729
Debts/Borrowings	34,056	40,593	40,593	40,593	40,593
Others	14,212	26,971	28,800	30,159	31,623
Minorities	228	240	261	283	305
Shareholders' Funds	42,633	43,366	46,244	49,236	52,383
Total Liab& S/H's Funds	459,323	504,260	515,821	541,813	570,185

Source: Company, DBS Bank

UOB

Financial Stability Measures (%)

FY Dec	2021A	2022A	2023F	2024F	2025F
Balance Sheet Structure					
Loan-to-Deposit Ratio	87.0	85.6	84.7	84.6	84.6
Net Loans / Total Assets	66.8	62.5	62.6	62.6	62.4
Investment / Total Assets	7.6	7.9	8.2	8.6	9.1
Cust. Dep./Int. Bear. Liab.	87.7	85.0	86.6	86.7	86.6
Interbank Dep / Int. Bear.	3.9	5.7	4.2	4.5	5.1
Asset Quality					
NPL / Total Gross Loans	1.6	1.6	1.7	1.7	1.6
NPL / Total Assets	1.1	1.0	1.1	1.1	1.0
Loan Loss Reserve Coverage	81.3	85.1	93.1	102.1	114.4
Provision Charge-Off Rate	0.2	0.2	0.3	0.2	0.2
Capital Strength					
Total CAR	16.6	16.7	16.8	17.0	17.2
Tier-1 CAR	13.5	13.3	13.5	13.9	14.2

Source: Company, DBS Bank

Target Price & Ratings 12-mth 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:	01 Aug 22	27.89	34.20	BUY
2:	28 Oct 22	27.06	34.20	BUY
3:	24 Feb 23	29.85	34.20	BUY
4:	20 Apr 23	29.72	30.30	HOLD
5:	27 Apr 23	29.11	30.30	HOLD

Source: DBS Bank

Analyst: Rui Wen LIM

Tabitha FOO

DBS Bank recommendations are based on an Absolute Total Return* Rating system, defined as follows:

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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