

COMPANY RESULTS

United Overseas Bank (UOB SP)

4Q23: Building Regional Franchise For Consumer Businesses

UOB reported net profit of S\$1,498m for 4Q23 (+7% yoy). Wealth management fees grew 21% yoy due to growth in bancassurance and pick-up in demand for fixed income products. Credit card fees grew 69% yoy due to higher customer spends and expanded regional franchise after consolidating Citi consumer businesses. UOB generated ROE of 13.9% in 2H23 and CET-1 remains robust at 13.4% in 4Q23.

RESULTS

- United Overseas Bank (UOB) reported net profit of S\$1,498m for 4Q23 (+7% yoy), which is in line with consensus estimate of S\$1,514m. Including the one-off expenses of S\$94m for Citi integration cost, net profit is lower at S\$1,403m.
- **Competition for high quality credits.** NIM narrowed 20bp yoy and 7bp qoq to 2.02% in 4Q23 due to loans margin compression caused by competition for high quality credits. Loans expanded 2% yoy on a constant currency basis. Loan-to-deposit ratio dipped 3.4ppt yoy to 82.2%. Net interest income dropped 6% yoy in 4Q23.
- **Fees grew at double digit rate.** Fees increased 17% yoy in 4Q23, aided by a low base last year. Wealth management fees grew 21% yoy due to growth in bancassurance and pick-up in demand for fixed income products. UOB attracted net new money inflows of S\$22b and assets under management from affluent customers grew to 14% yoy to S\$176b. Credit card fees grew by a sizeable 69% yoy due to higher customer spends and expanded regional franchise after consolidating Citi consumer businesses.
- **Trading & investment income increased 78% yoy** to S\$362m in 4Q23. Customer related treasury income sustained its momentum and trading & investment income delivered good performance.
- **Disciplined cost management.** Operating expenses increased 4% yoy (excluding Citi integration costs). Cost-to-income ratio was healthy at 43.2% (4Q22: 42.6%). Staff costs and IT-related expenses increased 8% and 2% respectively to support strategic investments. UOB will provide its junior employees with an extra month of bonus for 6,000 employees across the Group, including 600 in Singapore, in line with National Wages Council's recommendation to help employees cope with the rising costs of living.
- **Asset quality was stable.** NPL ratio improved 0.1ppt qoq to 1.5%. New non-performing assets were S\$389m, which were more than offset by recoveries of S\$288m and write-offs of S\$218m. Credit costs were 25bp (4Q22: 21bp) with specific provision of S\$212m (4Q22: S\$253m) and release of pre-emptive general provisions of S\$9m.
- **Sustainable and consistent dividend payout.** The board has declared final dividend of 85 S cents, in line with committed dividend payout ratio of 50%.
- **UOB achieved ROE of 13.9%** in 2H23 and CET-1 remains robust at 13.4% in 4Q23.

KEY FINANCIALS

Year to 31 Dec (S\$m)	2019	2020	2021	2022	2023
Net interest income	6,563	6,035	6,388	8,343	9,679
Non-interest income	3,467	3,141	3,401	3,232	4,253
Net profit (rep./act.)	4,342	2,915	4,086	4,573	5,711
Net profit (adj.)	4,342	2,915	4,086	4,819	6,061
EPS (S\$ cent)	255.0	169.0	239.0	269.0	334.0
PE (x)	11.2	16.9	11.9	10.6	8.5
P/B (x)	127.6	123.8	118.4	117.6	109.6
Dividend yield (%)	4.6	2.7	4.2	4.7	6.0
Net int margin (%)	1.8	1.6	1.6	1.9	2.1
Cost/income (%)	44.6	45.6	43.9	45.7	44.8
Loan loss cover (%)	87.0	107.0	96.0	98.0	101.0
Consensus net profit	-	-	-	-	-
UOBKH/Consensus (x)	-	-	-	-	-

Source: United Overseas Bank, Bloomberg, UOB Kay Hian

NOT RATED

Share Price	S\$28.50
Target Price	n.a.
Upside	n.a.

COMPANY DESCRIPTION

UOB was founded in 1935 and has a well-established regional presence in Singapore, Malaysia, Indonesia, Thailand, Vietnam, Hong Kong and Mainland 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):	1,672.4
Market cap (S\$m):	47,664.5
Market cap (US\$m):	35,559.9
3-mth avg daily t'over (US\$m):	45.2

Price Performance (%)

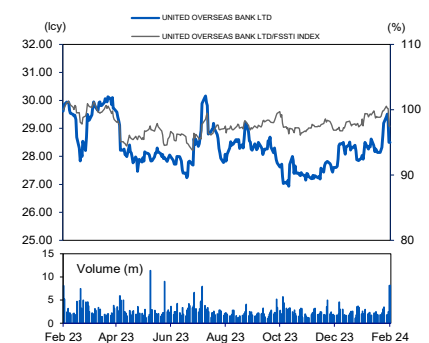
52-week high/low S\$31.16/S\$26.93

1mth	3mth	6mth	1yr	YTD
2.0	4.1	2.4	(8.0)	0.2

Major Shareholders

	%
Wee Cho Yaw	18.5
Wah Hin & Co	5.2
NAV/Share (S\$)	26.00
CET-1 CAR (%)	13.4

PRICE CHART



Source: Bloomberg

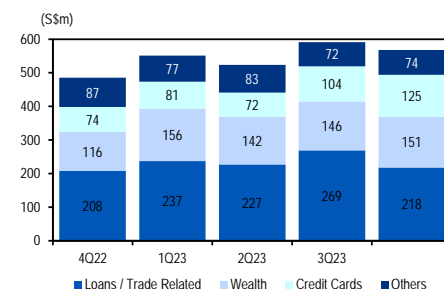
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ESSENTIALS – HIGHLIGHTS FROM RESULTS BRIEFING

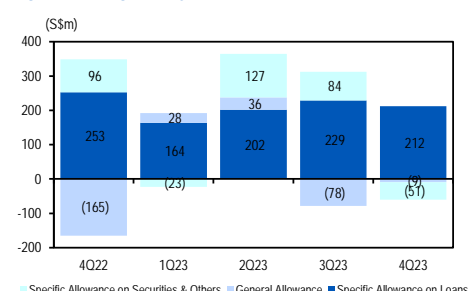
- Guidance for 2024.** UOB guided low single-digit loan growth for 2024 (2023: 0.5%). Fee income is expected to increase by double digits (2023: 4%), driven by wealth management and credit cards. Management expects cost-to-income ratio to be 41-42% (2023: 41.5%). One-off integration expenses from the Citi acquisition are expected to substantially roll off in 2H23. Management guided credit costs at the low end of 25-30bp for 2024 (2023: 25bp).
- Integration of Citigroup's consumer businesses is on track.** UOB has successfully integrated Citigroup's consumer businesses in Malaysia and Indonesia. Thailand and Vietnam would be operationally integrated in the coming months in 1H24. UOB's retail customer count has crossed the 8m mark, of which 1m are organic new-to-bank customers. 53% of these new-to-bank customers were acquired digitally.
- Enhancing cost efficiency.** UOB has completed the operational integration of Citi's Malaysia consumer businesses in Jul 23, followed by Indonesia in Dec 23. One-off expenses from integration of Citi Consumer businesses are estimated at S\$350m in 2023. The amount is expected to be reduced by half in 2024. Management plans to further streamline cost and improve cost efficiency to improve cost-to-income ratio to 40% by 2026.
- Exposure to Mainland China.** Management disclosed that UOB's Mainland China exposure is S\$25b, equivalent to 5% of total assets. Exposure to non-bank corporate customers is S\$11.4b, of which three quarters are network customers. UOB has S\$2.2b 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, which is below 50%. UOB does not have exposure to residential mortgages in Mainland China.
- Exposure to commercial real estate.** Offices accounted for only 7.5% of total loans for commercial real estate as of Dec 23, of which 3.6% is for offices in Singapore. The loans are largely secured by Grade A offices and average LTV is 50%. The exposure to offices in the US is small at 0.8% of total loans for commercial real estate.

FEE INCOME – SEGMENTAL BREAKDOWN



Source: UOB

TOTAL ALLOWANCE



Source: UOB

4Q23 RESULTS

Profit & Loss (S\$m)	4Q23	4Q22	yoy % Chg	3Q23	qoq % Chg
Net Interest Income	2,404	2,560	-6.1	2,429	-1.0
Fees & Commissions	569	485	17.3	591	-3.7
Other Non-Interest Income	439	285	54.0	436	0.7
Total Income	3,412	3,330	2.5	3,456	-1.3
Operating Expenses	(1,617)	(1,683)	-3.9	(1,513)	6.9
PPOP	1,795	1,647	9.0	1,943	-7.6
Provisions	(152)	(184)	-17.4	(235)	-35.3
Associates & JVs	22	28	-21.4	20	10.0
PBT	1,665	1,491	11.7	1,728	-3.6
Net Profit	1,405	1,152	22.0	1,382	1.7
EPS (S cents)	82.3	75.0	9.7	80.8	1.9
DPS (S cents)	85.0	75.0	13.3	0.0	n.m.
BVPS (S\$)	26.00	24.24	7.3	24.89	4.5
Financial Ratios (%)	4Q23	4Q22	yoy Chg (ppt)	3Q23	qoq Chg (ppt)
NIM	2.02	2.22	-0.20	2.09	-0.07
Loan Growth, yoy	0.5	2.9	-2.4	-1.6	2.1
Deposit Growth, yoy	4.6	4.5	0.1	1.8	2.8
Loan/Deposit Ratio	82.2	85.6	-3.4	82.3	-0.1
Cost/Income Ratio	43.2	42.6	0.6	41.0	2.2
ROE	13.8	13.8	0.0	13.9	-0.1
NPL Ratio	1.5	1.6	-0.1	1.6	-0.1
Credit Costs (bp)	25	21	4.0	19	6.0
Loan Loss Coverage	101	98	3.0	102	-1.0
CET-1 CAR	13.4	13.3	0.2	13.0	0.4

Source: UOB

PROFIT & LOSS

Year to 31 Dec (\$m)	2020	2021	2022	2023
Interest income	9,623	8,204	12,862	22,242
Interest expense	(3,588)	(1,816)	(4,519)	(12,563)
Net interest income	6,035	6,388	8,343	9,679
Fees & commissions	1,997	2,412	2,143	2,235
Other income	1,144	989	1,089	2,018
Non-interest income	3,141	3,401	3,232	4,253
Total income	9,176	9,789	11,575	13,932
Staff costs	(2,501)	(2,602)	(3,001)	(3,553)
Other operating expense	(1,683)	(1,700)	(2,283)	(2,688)
Pre-provision profit	4,992	5,487	6,291	7,691
Loan loss provision	(1,554)	(657)	(603)	(921)
Associated companies	98	118	97	93
Pre-tax profit	3,536	4,948	5,785	6,863
Tax	(606)	(850)	(1,202)	(1,138)
Minorities	(15)	(12)	(10)	(14)
Net profit	2,915	4,086	4,573	5,711
Net profit (adj.)	2,915	4,086	4,819	6,061

OPERATING RATIOS

Year to 31 Dec (%)	2020	2021	2022	2023
Capital Adequacy				
Tier-1 CAR	15.8	14.4	14.4	14.4
Total CAR	18.4	16.6	16.7	16.6
Total assets/equity (x)	10.6	10.8	11.6	11.3
Tangible assets/tangible common equity (x)	11.6	11.8	13.0	12.6
Asset Quality				
NPL ratio	1.6	1.6	1.6	1.5
Loan loss coverage	107.0	96.0	98.0	101.0
Loan loss reserve/gross loans	1.5	1.3	1.3	1.3
Increase in NPLs	9.3	11.3	0.6	(3.8)
Credit cost (bp)	56.5	22.2	19.1	28.7
Liquidity				
Loan/deposit ratio	85.4	87.0	85.6	82.2
Liquid assets/short-term liabilities	29.0	26.5	29.6	30.0
Liquid assets/total assets	22.9	21.3	23.1	24.0

BALANCE SHEET

Year to 31 Dec (\$m)	2020	2021	2022	2023
Cash with central bank	36,798	36,558	49,419	52,350
Govt treasury bills & securities	21,993	22,324	31,878	38,280
Interbank loans	40,284	38,916	35,410	35,093
Customer loans	277,201	306,713	315,355	317,005
Investment securities	29,432	34,856	39,789	50,793
Derivative receivables	11,368	5,362	13,802	9,707
Associates & JVs	1,210	1,245	1,258	1,266
Fixed assets (incl. prop.)	3,923	4,011	4,199	4,508
Other assets	9,605	9,338	13,150	14,518
Total assets	431,814	459,323	504,260	523,520
Interbank deposits	15,977	15,561	24,537	32,371
Customer deposits	324,598	352,633	368,553	385,469
Derivative payables	11,519	5,172	16,218	11,768
Debt equivalents	29,608	34,056	40,593	36,280
Other liabilities	8,981	9,040	10,753	11,164
Total liabilities	390,683	416,462	460,654	477,052
Shareholders' funds	40,901	42,633	43,366	46,226
Minority interest - accumulated	230	228	240	242
Total equity & liabilities	431,814	459,323	504,260	523,520

KEY METRICS

Year to 31 Dec (%)	2020	2021	2022	2023
Growth				
Net interest income, yoy chg	(8.0)	5.8	30.6	16.0
Fees & commissions, yoy chg	(1.7)	20.8	(11.2)	4.3
Pre-provision profit, yoy chg	(10.2)	9.9	14.7	22.3
Net profit, yoy chg	(32.9)	40.2	11.9	24.9
Net profit (adj.), yoy chg	(32.9)	40.2	17.9	25.8
Customer loans, yoy chg	4.4	10.6	2.8	0.5
Customer deposits, yoy chg	4.5	8.6	4.5	4.6
Profitability				
Net interest margin	1.6	1.6	1.9	2.1
Cost/income ratio	45.6	43.9	45.7	44.8
Adjusted ROA	0.7	0.9	1.0	1.2
Reported ROE	7.2	9.8	10.6	12.7
Adjusted ROE	7.2	9.8	11.2	13.5
Valuation				
P/BV (x)	1.2	1.2	1.2	1.1
P/NTA (x)	1.3	1.2	1.2	1.2
Adjusted P/E (x)	16.9	11.9	10.6	8.5
Dividend Yield	2.7	4.2	4.7	6.0
Payout ratio	46.2	50.2	50.2	50.9

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