

2 August 2024

Financial Services | Banks

## United Overseas Bank (UOB SP)

## Neutral (Maintained)

### Other Non-II Dampens Otherwise Decent Numbers

Target Price (Return):	SGD32.00 (+0%)
Price (Market Cap):	SGD32.04 (USD40,115m)
ESG score:	3.2 (out of 4)
Avg Daily Turnover (SGD/USD)	72.6m/53.2m

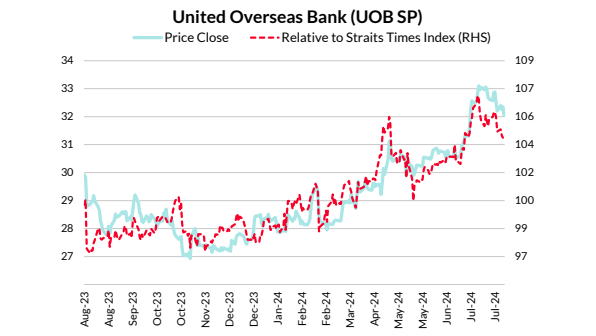
- **Maintain NEUTRAL and SGD32 TP, 0% upside.** United Overseas Bank's 2Q24 results are in line and, as such, its 2024 guidance is unchanged. Looking ahead, the roll-off in Citi integration costs in 2H24 is positive for earnings and, beyond that, efforts to build up the wholesale platform look to be bearing fruit. However, we think investors' focus will be on dividend yields and DPS growth in a rates downcycle – and UOB's preference for capital retention means yields and DPS growth are more muted.
- **2Q24 results in line.** 2Q24 reported net profit of SGD1.4bn (-4% QoQ, +1% YoY) brought 1H24 PATMI to SGD2.9bn (flat YoY) - 50% and 49% of our and consensus FY24F PATMI. Annualised ROE was 12.4% (FY23: 12.5%) while CET-1 was down 40bps QoQ to 13.4% (higher RWA density on increase in special mention loans). An interim DPS of 88 SG cents (1H23: 85 SG cents) was declared, translating to a payout ratio of 51% (1H23: 49%).
- **Results highlights.** The QoQ decline in 2Q24 PATMI was mainly due to: i) lower non-II, specifically, other trading & investment (T&I) income, given 1Q24's elevated level; and ii) a 43% QoQ rise in credit and other impairments due to increases in provisions for contingent facilities. Credit cost, however, was stable at 24bps. Otherwise, other line items were decent. NIM rose 3bps QoQ on higher lending margin (deposit repricing and mix), loan growth and liquidity management. The banking group's loan base grew 2% QoQ (+3% YoY), led by Greater China and Rest of the World segments. These relate to trade (eg electronics sector) and loan demand in developed markets, where asset pricing is more attractive vs domestically. Meanwhile, although deposits were flat QoQ, CASA was up 2% QoQ (traction from both retail and wholesale) while fixed and other deposits were down 2% QoQ. As such, CASA ratio improved further to 51.5% vs 1Q24: 50.6% (2Q23: 47.6%).
- **Briefing highlights.** UOB experienced some Operating Day One friction relating to the Citi Thailand portfolio, which caused it to divert resources away from collection efforts. Consequently, there was some slippage in terms of loan staging requiring higher specific provisions (SP) in 2Q, but UOB thinks 70-80% of the SP can be recovered over the next two quarters. Going forward, the Citi integration cost is expected to ease to SGD30-40m/quarter for Citi Vietnam, and this should be done by 2Q25. During the quarter, a Hong Kong commercial real estate loan (c. SGD200m) was downgraded to NPL but UOB thinks this is an isolated case and is not systemic. Given the low LTV, no additional provision was required.
- **Other highlights.** The new Basel regulations kicks in in 3Q24, which UOB estimates would result in a 150bps short term uplift to CET-1 ratio under the transitional arrangement. Upon full adoption, the impact is expected to be slightly positive. Lastly, with the impending rate cut cycle, UOB continues to expect that improved loan volumes can help cushion the NIM pressure.
- **Earnings and TP maintained.** Our TP includes a 2% ESG premium.

#### Analyst

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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	12.6	2.4	5.4	13.1	6.2
Relative	5.9	(1.1)	0.4	3.1	3.8
52-wk Price low/high (SGD)	26.9 – 33.1				



Source: Bloomberg

#### Overall ESG Score: 3.2 (out of 4)

##### E: GOOD

In 2023, UOB purchased and retired 20.5k carbon offsets to address its Scope 1, residual Scope 2 and Scope 3 (business air travel) emissions. It has made a net zero commitment for six sectors by 2050 while aiming to build a sustainable finance portfolio of SGD30bn by 2025 (2023: SGD44.5bn). Meanwhile, about SGD10bn in total assets under management were in ESG-focused investments.

##### S: EXCELLENT

UOB embraces gender diversity, with women accounting for 62% of permanent staff at end-2023 – 38% of senior management is made up of women. It launched TMRW, ASEAN's first mobile-only digital bank, to improve financial inclusion in Thailand and Indonesia.

##### G: EXCELLENT

UOB has a comprehensive framework of policies, processes, methodologies and tools for effective risk management. There is a much publicised ongoing money laundering case in Singapore, where UOB is one of several banks mentioned in relation to the case.

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Reported net profit (SGDm)	4,573	5,711	5,876	6,089	6,266
Net profit growth (%)	12.2	24.9	2.9	3.6	2.9
Recurring net profit (SGDm)	4,819	6,061	6,045	6,089	6,266
Recurring EPS (SGD)	2.88	3.62	3.61	3.64	3.75
BVPS (SGD)	25.86	27.64	29.43	31.24	33.16
DPS (SGD)	1.35	1.71	1.76	1.81	1.86
Recurring P/E (x)	11.13	8.85	8.86	8.80	8.55
P/B (x)	1.24	1.16	1.09	1.03	0.97
Dividend Yield (%)	4.2	5.3	5.5	5.7	5.8
Return on average equity (%)	10.6	12.7	12.3	12.0	11.6

Source: Company data, RHB

## Financial Exhibits

<b>Asia</b>	<b>Financial summary (SGD)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
Singapore	EPS	2.73	3.41	3.51	3.64	3.75
Financial Services	Recurring EPS	2.88	3.62	3.61	3.64	3.75
<b>United Overseas Bank</b>	DPS	1.35	1.71	1.76	1.81	1.86
UOB SP	BVPS	25.86	27.64	29.43	31.24	33.16
Neutral						
	<b>Valuation metrics</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
<b>Valuation basis</b>	Recurring P/E (x)	11.13	8.85	8.86	8.80	8.55
GGM-derived intrinsic value with an ESG overlay. Key GGM assumptions are:	P/B (x)	1.2	1.2	1.1	1.0	1.0
i. COE of 12.5%;	Dividend Yield (%)	4.2	5.3	5.5	5.7	5.8
ii. ROE of 12.5%;						
iii. 3.0% long-term growth.						
	<b>Income statement (SGDm)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
<b>Key drivers</b>	Interest income	12,862	22,242	22,457	22,324	22,211
Our net profit forecasts is most sensitive to changes in:	Interest expense	(4,519)	(12,563)	(12,719)	(12,389)	(12,110)
i. Impairment charges;	<b>Net interest income</b>	<b>8,343</b>	<b>9,679</b>	<b>9,738</b>	<b>9,936</b>	<b>10,100</b>
ii. NIM;	Non interest income	3,232	4,253	4,428	4,722	5,054
iii. Non-II growth.	<b>Total operating income</b>	<b>11,575</b>	<b>13,932</b>	<b>14,166</b>	<b>14,658</b>	<b>15,155</b>
	Overheads	(4,971)	(5,797)	(5,987)	(6,431)	(6,678)
	<b>Pre-provision operating profit</b>	<b>6,604</b>	<b>8,135</b>	<b>8,179</b>	<b>8,226</b>	<b>8,477</b>
<b>Key risks</b>	Loan impairment allowances	(628)	(783)	(800)	(850)	(850)
Key risks include:	Other impairment allowances	22	(162)	(45)	(41)	(40)
i. Weaker-than-expected NIM;	Income from associates	97	93	100	110	120
ii. Sharper-than-expected deterioration in asset quality;	Other exceptional items	(310)	(420)	(208)	-	-
iii. Challenges related to integration of Citi's consumer assets.	<b>Pre-tax profit</b>	<b>5,785</b>	<b>6,863</b>	<b>7,226</b>	<b>7,445</b>	<b>7,707</b>
	Taxation	(1,202)	(1,138)	(1,337)	(1,340)	(1,426)
	Minority interests	(10)	(14)	(14)	(16)	(15)
	<b>Reported net profit</b>	<b>4,573</b>	<b>5,711</b>	<b>5,876</b>	<b>6,089</b>	<b>6,266</b>
	<b>Recurring net profit</b>	<b>4,819</b>	<b>6,061</b>	<b>6,045</b>	<b>6,089</b>	<b>6,266</b>
<b>Company Profile</b>						
United Overseas Bank is the third largest Singapore bank by asset size. It also has significant operations in Malaysia, Thailand and Indonesia.						
	<b>Profitability ratios</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
	Return on average assets (%)	0.9	1.1	1.1	1.1	1.1
	Return on average equity (%)	10.6	12.7	12.3	12.0	11.6
	Return on IEAs (%)	3.0	5.0	4.9	4.7	4.5
	Cost of funds (%)	1.1	2.8	2.8	2.6	2.4
	Net interest spread (%)	2.0	2.2	2.2	2.1	2.1
	Net interest margin (%)	2.0	2.2	2.1	2.1	2.1
	Non-interest income / total income (%)	27.9	30.5	31.3	32.2	33.4
	Cost to income ratio (%)	42.9	41.6	42.3	43.9	44.1
	Credit cost (bps)	19.9	24.4	24.5	25.1	24.0
	<b>Balance sheet (SGDm)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
	Total gross loans	319,663	321,150	330,785	347,324	361,217
	Other interest earning assets	116,707	125,723	130,670	135,313	139,868
	Total gross IEAs	436,370	446,873	461,455	482,637	501,084
	Total provisions	(4,308)	(4,145)	(4,317)	(4,469)	(4,546)
	Net loans to customers	315,355	317,005	326,468	342,855	356,671
	Total net IEAs	432,062	442,728	457,138	478,168	496,538
	Total non-IEAs	72,198	80,792	83,790	89,271	98,390
	Total assets	504,260	523,520	540,928	567,439	594,928
	Customer deposits	368,553	385,469	397,033	416,885	437,729
	Other interest-bearing liabilities	65,918	69,551	71,293	73,747	75,952
	Total IBLs	434,471	455,020	468,326	490,632	513,681
	Total non-IBLs	26,183	22,032	23,134	24,290	25,505
	Total liabilities	460,654	477,052	491,459	514,922	539,186
	Share capital	7,855	7,752	7,752	7,752	7,752
	Shareholders' equity	43,366	46,226	49,212	52,245	55,456
	Minority interests	240	242	256	272	287
	<b>Asset quality and capital</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
	Reported NPLs / gross cust loans (%)	1.6	1.5	1.5	1.5	1.5
	Total provisions / reported NPLs (%)	85.1	85.1	87.0	87.2	86.8
	CET-1 ratio (%)	14.4	14.4	15.0	15.1	15.3
	Tier-1 ratio (%)	14.4	14.4	15.0	15.1	15.3
	Total capital ratio (%)	16.7	16.6	17.0	17.1	17.2

Source: Company data, RHB

## Results At a Glance

Figure 1: UOB - summary of 2Q24 and 1HFY24 results

FYE Dec (SGDm)	2Q23	1Q24	2Q24	QoQ (%)	YoY (%)	1H23	1H24	YoY (%)	Comments:
<b>NII</b>	2,437	2,362	2,401	2	(1)	4,846	4,763	(2)	1H24 lower YoY, due to NIM squeeze from repricing for liabilities, cushioned by 3% YoY loan growth.
<i>NIM (%) - reported</i>	2.12%	2.02%	2.05%	3bps	-7bps	2.13%	2.04%	-9bps	
<b>Non-II</b>	1,104	1,161	1,075	(7)	(3)	2,219	2,236	1	1H24 fees up 11% YoY thanks to cards, wealth and loan/trade-related, partly offset by drop in non-customer trading & investment income (customer-related treasury income up 13% YoY).
Net fee & commission income	523	580	617	6	18	1,075	1,197	11	
Other non-II	581	581	458	(21)	(21)	1,144	1,039	(9)	
<i>Non-II/total income (%)</i>	31.2%	33.0%	30.9%			31.4%	31.9%		
<b>Operating income</b>	<b>3,541</b>	<b>3,523</b>	<b>3,476</b>	<b>(1)</b>	<b>(2)</b>	<b>7,065</b>	<b>6,999</b>	<b>(1)</b>	
Overhead expenses	(1,562)	(1,571)	(1,534)	(2)	(2)	(3,087)	(3,105)	1	1H24 items include one-off expenses of c.SGD178m relating to the Citi acquisition (1H23: SGD198m). With Operating Day One for Thailand past, Citi integration expense to substantially drop off to c. SGD30m/quarter for Vietnam. Core CIR of 41.8% vs 1H23: 40.9%
<i>CIR (%)</i>	44.1%	44.6%	44.1%			43.7%	44.4%		
<b>PIOP</b>	<b>1,979</b>	<b>1,952</b>	<b>1,942</b>	<b>(0)</b>	<b>(2)</b>	<b>3,978</b>	<b>3,894</b>	<b>(2)</b>	
Impairments charges	(370)	(170)	(238)	40	(36)	(544)	(408)	(25)	QoQ rise mainly on non-loan related impairments. Loan provisions were SGD194m in 2Q24 vs 1Q24: SGD186m (2Q23: SGD238m).
<i>Credit cost (bps)</i>	30	23	24			27	23		
<b>Operating profit</b>	<b>1,609</b>	<b>1,782</b>	<b>1,704</b>	<b>(4)</b>	<b>6</b>	<b>3,434</b>	<b>3,486</b>	<b>2</b>	
Associates	26	26	30			51	56		
<b>Pre-tax profit</b>	<b>1,635</b>	<b>1,808</b>	<b>1,734</b>	<b>(4)</b>	<b>6</b>	<b>3,485</b>	<b>3,542</b>	<b>2</b>	
<b>Net profit</b>	<b>1,415</b>	<b>1,487</b>	<b>1,425</b>	<b>(4)</b>	<b>1</b>	<b>2,925</b>	<b>2,912</b>	<b>(0)</b>	1H24 PATMI at 50%/49% of our/consensus FY24F. While potential rate cuts and seasonality would pressure bottomline, this would be cushioned by lower Citi integration costs in 2H24.
<b>Core net profit</b>	<b>1,507</b>	<b>1,566</b>	<b>1,489</b>	<b>(5)</b>	<b>(1)</b>	<b>3,084</b>	<b>3,055</b>	<b>(1)</b>	Ex-one-off integration expenses relating to Citi acquisition.
<b>Other key data and ratios</b>									
Gross loans	318,979	322,634	327,600	2	3				YTD growth of 2% led by operations in Greater China and the rest of the world - trade and term loans to network and global clients.
Customer deposits	376,762	388,472	389,157	0	3				YTD growth of 1%. CASA ratio ticked up to 51.5% from 50.6% in 1Q24 (2Q23: 47.6%).
Non-performing loans	5,102	4,840	4,888	1	(4)				QoQ stable, with one idiosyncratic Hong Kong commercial real estate case, offset by recoveries and write-offs.
Total assets	505,563	515,340	516,743	0	2				
Shareholders' funds	45,689	47,482	47,343	(0)	4				
ROAA (%)	1.12	1.15	1.10			1.2	1.1		
ROAE (%)	12.4	12.7	12.0			13.0	12.4		Core ROE of 13.7% (1H23: 14.5%).
LDR (%)	83.5	83.3	83.2						
NPL ratio	1.6	1.5	1.5						
NPL coverage	93.2	95.3	91.5						
CET-1 ratio (%)	13.6	13.9	13.4						
Total capital ratio (%)	17.3	16.7	15.9						

Source: Company data, RHB

Figure 2: UOB – management guidance and financial targets

	FY23 achieved	1H24 achieved	2024 outlook	Comments
Loan growth	Flat YoY	3% YoY	Low single digit	Potential rate cuts ahead expected to be compensated by stronger volumes.
NIM	2.09%	2.04%	c. 2%	While there may not be much room to further reprice down deposits, UOB was comfortable that its earlier efforts should help keep NIM around the 2.05% level.
Fee income growth	4%	+11% YoY	Double-digit fee growth	
CIR	44.6% Core: 41.5%	44.4% Core: 41.8%	Core CIR of 41-42%	Citi integration costs for Vietnam expected to last until 2Q25.
Credit cost	25bps	24bps	25-30bps	Beyond 2024 and as interest rate eases, management thinks a run rate of 25bps or better can be achieved.

Source: Company data, RHB

Valuation and TP

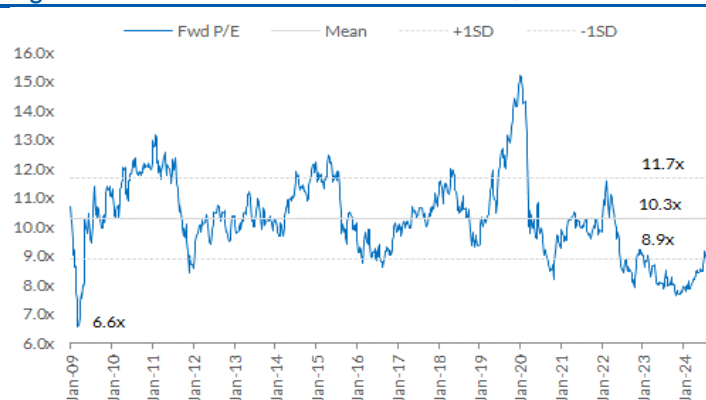
We make no change to our SGD32 TP, which is based on an intrinsic value of SGD31.38 with a 2% ESG premium applied, in accordance with RHB’s in-house ESG methodology. The intrinsic value, premised on a GGM-derived P/BV of 1.04x – close to its historical mean.

Figure 3: UOB – GGM valuation with ESG overlay

<b>Cost of equity (COE) computation:</b>		Sustainable ROE (%)	12.5
Risk free rate (%)	3.0	COE (%)	12.1
Equity premium (%)	8.3	Long-term growth (g)	3.0
Beta (x)	1.1	Implied P/BV (x)	1.04
Cost of equity - CAPM (%)	12.1	BVPS – FY25F	SGD30.16
		Intrinsic value	SGD31.38
ESG premium/(discount) (%)	2.0	ESG premium/(discount)	SGD0.63
		<b>TP (rounded)</b>	<b>SGD32.00</b>

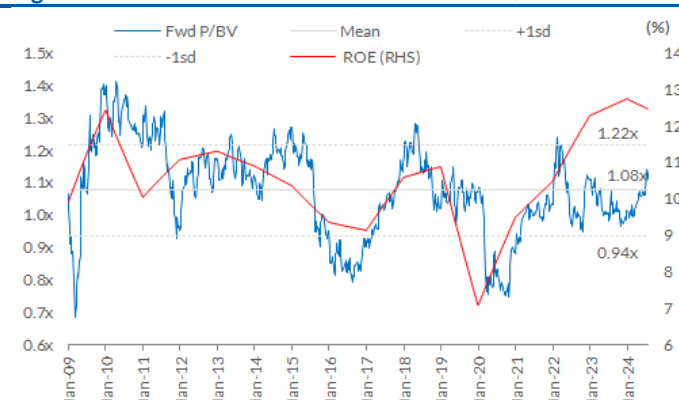
Source: Company data, RHB

Figure 4: UOB’s 12-month forward consensus P/E



Source: Bloomberg, RHB

Figure 5: UOB’s 12-month forward consensus P/BV



Source: Bloomberg, RHB

## Emissions And ESG

### Trend analysis

In 2023, UOB purchased and redeemed a total of 135k GWh in renewable energy certificates (RECs) to address its electricity consumption in all key markets. UOB also purchased and retired 20.5k carbon offsets to address its Scope 1, residual Scope 2 and Scope 3 (business air travel) emissions.

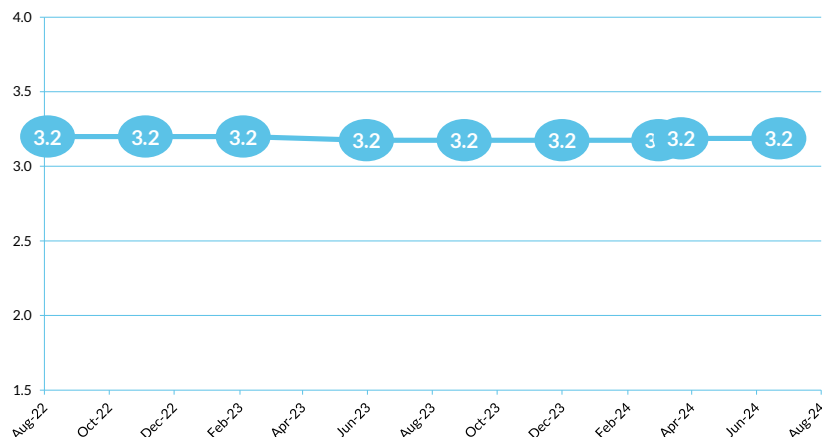
Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
Scope 1	4,300	5,800	4,800
Scope 2	1,000	1,100	1,600
Scope 3	600	4,000	14,100
Total emissions	5,900	10,900	20,500

Source: Company data, RHB

## Latest ESG-Related Developments

- **UOB Transition Finance Framework:** This was launched in 2022 to help companies in carbon-intensive sectors with their net-zero transition plans.
- **Sustainable targets:** It aims to have a sustainable finance portfolio of SGD30bn by 2025 and net zero for six sectors (currently 60% of corporate lending portfolio) by 2050.
- **Signatory to the Equator Principles (EP):** EP requirements are integrated into UOB's Responsible Financing Policy.

## ESG Rating History



Source: RHB

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-07-22	Neutral	32.0	32.6
2024-05-09	Neutral	30.1	30.4
2024-03-21	Neutral	29.0	29.2
2024-02-22	Neutral	29.0	28.5
2024-01-21	Neutral	29.1	27.9
2023-10-26	Neutral	29.7	27.3
2023-09-17	Neutral	31.7	29.2
2023-07-27	Buy	31.7	28.9
2023-05-30	Buy	32.3	28.1
2023-02-23	Buy	34.9	29.6
2022-12-16	Buy	34.9	30.7
2022-10-30	Buy	31.4	27.1
2022-07-31	Neutral	29.3	27.6
2022-05-03	Neutral	32.7	30.0
2022-02-16	Buy	38.1	32.8

Source: RHB, Bloomberg

## RHB Guide to Investment Ratings

<b>Buy:</b>	Share price may exceed 10% over the next 12 months
<b>Trading Buy:</b>	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
<b>Neutral:</b>	Share price may fall within the range of +/- 10% over the next 12 months
<b>Take Profit:</b>	Target price has been attained. Look to accumulate at lower levels
<b>Sell:</b>	Share price may fall by more than 10% over the next 12 months
<b>Not Rated:</b>	Stock is not within regular research coverage

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