

23 February 2024

Financial Services | Banks

United Overseas Bank (UOB SP)

Neutral (Maintained)

1H Pain, 2H Gain?

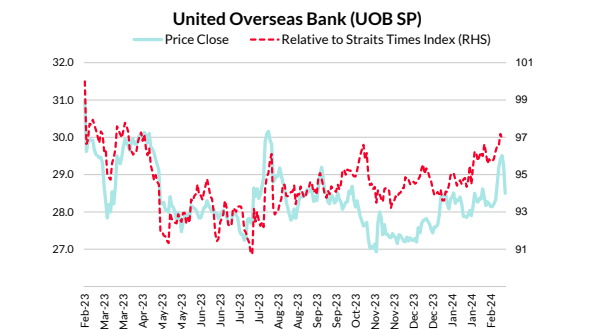
Target Price (Return):	SGD29.00 (+2%)
Price (Market Cap):	SGD28.50 (USD35,465m)
ESG score:	3.2 (out of 4)
Avg Daily Turnover (SGD/USD)	60.8m/43.5m

Analyst

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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	0.2	2.0	4.1	2.4	(8.0)
Relative	0.9	(0.2)	0.8	0.6	(5.5)
52-wk Price low/high (SGD)				26.9	30.2



Source: Bloomberg

Overall ESG Score: 3.2 (out of 4)

E: GOOD

In 2022, UOB purchased and retired 10,906 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 SGD50bn by 2025 (2022: SGD25bn). Meanwhile, c. SGD10bn in total assets under management were in ESG-focused investments.

S: GOOD

UOB embraces gender diversity, with women accounting for 61% of permanent staff at end-2022 – 37% in senior management roles. 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. In 2022, no material fine, penalty or sanction was imposed on UOB for non-compliance in relation to any laws and regulations.

- **Stay NEUTRAL, with new SGD29.00 TP from SGD29.10, 2% upside.** 4Q23 results were in line. United Overseas Bank met most of its 2023 guidance but fee income growth was slightly short of the target. For 2024, there were downgrades to the guidance for loan growth and NIM as UOB stays focused on protecting balance sheet quality. Management highlighted that there could be some near-term NIM pressure and prefers to keep its 50% dividend payout ratio for now. Hence, we think share price will likely be rangebound. Decent valuation and yield provide downside support.
- **4Q23 results were in line**, with reported net profit of SGD1.4bn (+2% QoQ, +22% YoY) bringing FY23 net profit to SGD5.7bn (+25% YoY) – 99% of our and consensus FY23F. Excluding integration expenses for its acquisition of Citi's retail assets, FY23 core earnings stood at SGD6.1bn (+26% YoY). FY23 core ROE was 14.2% (FY22: 11.9%) while CET-1 was up 40bps QoQ to 13.4%. A final DPS of 85 SG cents was declared (4Q22: SGD0.75), bringing 2023 DPS to SGD1.70 (2022: SGD1.35). This translates to a payout of 50% (FY22: 49%).
- **Results highlights.** Key positives were balance sheet related – ie healthy, liquid balance sheet and asset quality. CASA rose 3% QoQ and 8% YoY while CASA ratio was 48.9% (vs. 3Q23: 48.2%; 4Q22: 47.5%), which suggest the shift in deposit mix could be past. Meanwhile, absolute gross NPL ticked down 4% QoQ, which helped keep specific provisions muted at 26bps (3Q23: 29bps; 4Q22: 31bps). However, NIM slipped 7bps QoQ as funding cost played catch up to yield while loan growth and non-IL were muted – partly seasonal.
- **2024 guidance include:** i) Low single-digit loan growth, down from mid-single digit; ii) double-digit fee growth; iii) positive operating income growth; iv) core CIR of 41-42%. One-time Citi cost is expected to halve from 2023 levels; v) credit cost refined to low end of 25-30bps; and vi) NIM at current level (4Q22 and exit NIM at 2.02%). Cognisant of rate cuts ahead, a key focus for management this year will be managing funding cost to cushion against yield pressures. In the near-term, it will stay defensive, which means continued focus on quality credit and hanging on to extra liquidity but this could be a drag on NIM. However, when the rate cuts start to kick in, UOB thinks there will be opportunities to convert some of the fixed deposits into wealth management products. Other measures include lengthening the duration of rate-sensitive assets, which again, is negative for NIM in the near term given an inverted yield curve. To cushion against the near-term NIM pressure, UOB is testing the market as it lowered its deposit rates recently.
- **Forecasts and TP.** We lower our FY24F-25F PATMI by 3-4% mainly after cutting NII by 8-10% as we factor in the latest NIM and loan growth guidance. This, however, is cushioned by an upward revision to non-IL on potential better fee opportunities and lower credit cost assumptions to the low end of the 25-30bps guidance (from 30-31bps assumed previously). The change to our TP is minor. Our TP also includes an unchanged 2% ESG premium.

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Reported net profit (SGDm)	4,573	5,711	6,044	6,089	6,266
Net profit growth (%)	12.2	24.9	5.8	0.8	2.9
Recurring net profit (SGDm)	4,819	6,000	5,906	6,089	6,266
Recurring EPS (SGD)	2.88	3.58	3.53	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)	9.90	7.95	8.07	7.83	7.61
P/B (x)	1.10	1.03	0.97	0.91	0.86
Dividend Yield (%)	4.7	6.0	6.2	6.4	6.5
Return on average equity (%)	10.6	12.7	12.7	12.0	11.6

Source: Company data, RHB

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Financial Exhibits

Asia	Financial summary (SGD)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Singapore	EPS	2.73	3.41	3.61	3.64	3.75
Financial Services	Recurring EPS	2.88	3.58	3.53	3.64	3.75
United Overseas Bank	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						
Valuation basis	Valuation metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
GGM-derived intrinsic value with an ESG overlay. Key GGM assumptions are:	Recurring P/E (x)	9.90	7.95	8.07	7.83	7.61
i. COE of 12.5%;	P/B (x)	1.1	1.0	1.0	0.9	0.9
ii. ROE of 12.5%; and	Dividend Yield (%)	4.7	6.0	6.2	6.4	6.5
iii. 3.0% long-term growth						
Key drivers	Income statement (SGDm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Our net profit forecasts is most sensitive to changes in:	Interest income	12,862	22,242	22,457	22,324	22,211
i. Impairment charges	Interest expense	(4,519)	(12,563)	(12,719)	(12,389)	(12,110)
ii. NIM	Net interest income	8,343	9,679	9,738	9,936	10,100
iii. Non-II growth	Non interest income	3,232	4,253	4,428	4,722	5,054
	Total operating income	11,575	13,932	14,166	14,658	15,155
	Overheads	(4,971)	(5,870)	(6,195)	(6,431)	(6,678)
	Pre-provision operating profit	6,604	8,062	7,971	8,226	8,477
	Loan impairment allowances	(628)	(783)	(800)	(850)	(850)
	Other impairment allowances	22	(162)	(45)	(41)	(40)
	Income from associates	97	93	100	110	120
	Other exceptional items	(310)	(347)	168	-	-
	Pre-tax profit	5,785	6,863	7,394	7,445	7,707
	Taxation	(1,202)	(1,138)	(1,337)	(1,340)	(1,426)
	Minority interests	(10)	(14)	(14)	(16)	(15)
	Reported net profit	4,573	5,711	6,044	6,089	6,266
	Recurring net profit	4,819	6,000	5,906	6,089	6,266
Key risks						
Key risks include:	Profitability ratios	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
i. Weaker-than-expected NIM	Return on average assets (%)	0.9	1.1	1.1	1.1	1.1
ii. Sharper-than-expected deterioration in asset quality	Return on average equity (%)	10.6	12.7	12.7	12.0	11.6
iii. Challenges related to integration of Citi's consumer assets	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	42.1	43.7	43.9	44.1
	Credit cost (bps)	19.9	24.4	24.5	25.1	24.0
Company Profile						
United Overseas Bank is the third largest Singapore bank by asset size. It also has significant operations in Malaysia, Thailand & Indonesia.	Balance sheet (SGDm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	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
	Asset quality and capital	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	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 4Q23 and FY23 results

FYE Dec (SGDm)	4Q22	3Q23	4Q23	QoQ (%)	YoY (%)	FY22	FY23	YoY (%)	Comments: FY22 vs FY23
NII	2,560	2,429	2,404	(1)	(6)	8,343	9,679	16	Driven by 23bps NIM expansion while gross loans were flat
<i>NIM (%) – reported</i>	2.22%	2.09%	2.02%	-7bps	-20bps	1.86%	2.09%	23bps	
Non-II	769	1,028	1,006	(2)	31	3,232	4,253	32	Led by improved customer-related treasury income from hedging and trading and liquidity management activities. Fees also higher from credit card (+66% YoY) and wealth (+9% YoY), but loan-related were down 7% YoY
Net fee & commission income	485	591	569	(4)	17	2,143	2,235	4	
Other non-II	284	437	437	0	54	1,089	2,018	85	
<i>Non-II/total income (%)</i>	23.1%	29.7%	29.5%			27.9%	30.5%		
Operating income	3,329	3,457	3,410	(1)	2	11,575	13,932	20	
Overhead expenses	(1,505)	(1,535)	(1,596)	4	6	(5,281)	(6,217)	18	Includes one-off expenses of c.SGD440m relating to the Citi acquisition (FY22: SGD265m). Otherwise, core expenses were up 15% YoY on strategic investments
<i>CIR (%)</i>	45.2%	44.4%	46.8%			45.6%	44.6%		Core CIR of 41.5% vs FY22: 43.3%
PIOP	1,824	1,922	1,814	(6)	(1)	6,294	7,715	23	
Impairments charges	(187)	(242)	(159)	(34)	(15)	(606)	(945)	56	Specific allowance rose 16% YoY due to a few non-systemic corporate accounts.
<i>Credit cost (bps)</i>	22	19	25			20	25		
Operating profit	1,637	1,680	1,655	(1)	1	5,688	6,770	19	
Associates	27	20	22			97	93		
Pre-tax profit	1,664	1,700	1,677	(1)	1	5,785	6,863	19	
Tax	(505)	(317)	(262)			(1,202)	(1,138)		
<i>Effective tax rate (%)</i>	30.4%	18.7%	15.6%			20.8%	16.6%		
Minorities	(7)	(1)	(11)			(10)	(14)		
Net profit	1,152	1,382	1,404	2	22	4,573	5,711	25	FY23 PATMI at 99% of our and consensus FY23 estimates
Core net profit	1,398	1,479	1,498	1	7	4,819	6,061	26	Ex-one off integration expenses relating to Citi acquisition
Other key data and ratios									
Gross loans	319,663	318,164	321,150	1	0				Flat YoY. Greater China-led growth offset by drop from Singapore and Malaysia
Customer deposits	368,553	381,611	385,469	1	5				CASA ratio ticked up to 48.9% from 48.2% at end-Sep 2023 (Dec 2022: 47.5%)
Non-performing loans	5,060	5,091	4,870	(4)	(4)				Singapore and ASEAN NPLs down, but Greater China NPLs higher
Total assets	504,260	515,887	523,520	1	4				
Shareholders' funds	43,366	45,248	46,226	2	7				
ROAA (%)	0.91	1.08	1.08			0.9	1.1		
ROAE (%)	10.8	12.2	12.3			10.4	12.5		Core ROE of 14.2% (FY22: 11.9%)
LDR (%)	85.6	83.3	82.2						
NPL ratio	1.6	1.6	1.5						
NPL coverage	85.1	92.9	94.4						
CET-1 ratio (%)	13.3	13.0	13.4						
Total capital ratio (%)	16.7	16.6	16.7						

Source: Company data, RHB

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Figure 2: UOB – management guidance and financial targets

	2022 achieved	FY23 achieved	FY23 guidance	2024 outlook	Comments
Loan growth	+3% YoY	Flat YoY (+2% YoY constant currency)	Low to mid-single digit	Low single digit (from mid-single digit)	To continue focusing on high quality customers. UOB continues to believe that loan growth will likely pick up when rates start to fall
NIM	1.86%	2.09%	Hold at current levels i.e. c. 2.09-2.1%	c. 2% (from previous levels of c. 2.09-2.1%)	Exit NIM of 2.02%. NIM under pressure in the near term as cost of deposits catches up with yields. Also, given the overall weak loan growth, increased competition for loans is putting pressure on yields, especially for quality credits. The lower NIM also reflects the drag from holding on to excess liquidity
Fee income growth	-9% YoY	4%	High single-digit growth	Double-digit fee growth	Guiding for SGD100m/quarter in card fees vs SGD60-70m achieved in the past
CIR	45.6% Core: 43.3%	44.6% Core: 41.5%	43-44% Core: 42-43%	Core CIR of 41-42%	One-time Citi acquisition costs are expected to halve in 2024 and mainly relate to the Citi's TH operations. Most of the costs should be incurred in 1H24
Credit cost	20bps	25bps	20-25bps	25-30bps	For 2024, management thinks credit cost could end up at the low end of the 25-30bps range. Domestic and ASEAN economies are expected to be healthy, which would be supportive of asset quality

Source: Company data, RHB

Revisions to estimates

We lower our FY24F-25F PATMI by 3-4% mainly after cutting NII by 8-10% as we factor in the latest NIM and loan growth guidance. This, however, is cushioned by an upward revision to non-II on potential better fee opportunities as well as lower credit cost assumptions to the low end of the 25-30bps guidance (from 30-31bps assumed previously).

Figure 3: UOB – revisions to forecasts

	Previous FY24F	Previous FY25F	Previous FY26F	Revised FY24F	Revised FY25F	Revised FY26F	% Change FY24F	% Change FY25F	% Change FY26F
FYE Dec (SGDm)									
Net interest income	10,537	11,056	new	9,738	9,936	10,100	-8%	-10%	n.m.
Non-interest income	3,846	4,102	new	4,428	4,722	5,054	15%	15%	n.m.
Operating expenses	(5,987)	(6,286)	new	(6,195)	(6,431)	(6,678)	3%	2%	n.m.
PIOP	8,396	8,872	new	7,971	8,226	8,477	-5%	-7%	n.m.
Provision expenses	(1,020)	(1,116)	new	(845)	(891)	(890)	-17%	-20%	n.m.
Pretax profit	7,486	7,876	new	7,226	7,445	7,707	-3%	-5%	n.m.
Net profit	6,050	6,364	new	5,876	6,089	6,266	-3%	-4%	n.m.
EPS (SGD)	3.58	3.79	new	3.46	3.59	3.69	-3%	-5%	n.m.
DPS (SGD)	1.80	1.92	new	1.75	1.80	1.85	-3%	-6%	n.m.
Loan growth (%)	5.0	5.0	new	3.0	5.0	4.0			
NIM (%)	2.30	2.30	new	2.16	2.12	2.07			
CIR (%)	41.6	41.5	new	43.7	43.9	44.1			
Credit cost (bps)	30	31	new	26	26	25			

Source: Company data, RHB

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Valuation and TP

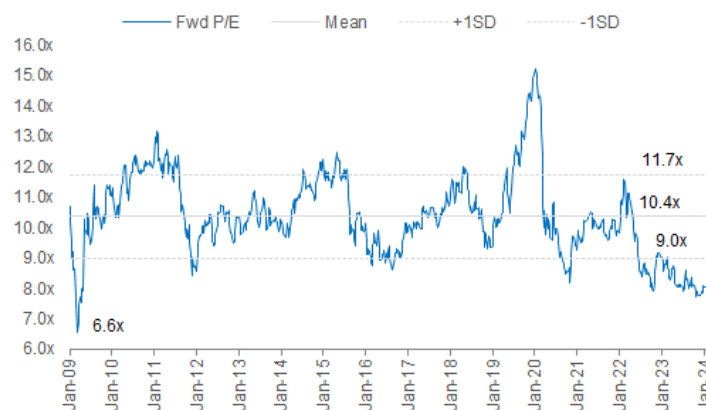
We tweak down our TP to SGD29 from SGD29.10, after incorporating the earnings revisions above as well as updating to book value forecast following the release of the full-year results. There is no change to the GGM-derived P/BV of 1.0x applied, which is close to its historical mean. Our TP includes an unchanged ESG premium of 2% applied, given UOB's ESG score of 3.2 out of 4.0 using our proprietary in-house methodology.

Figure 4: UOB – GGM valuation with ESG overlay

Cost of equity (COE) computation:		Sustainable ROE (%)	12.5
Risk free rate (%)	3.00	COE (%)	12.5
Equity premium (%)	8.64	Long-term growth (g)	3.00
Beta (x)	1.1	Implied P/BV (x)	1.0
Cost of equity - CAPM (%)	12.5	BVPS – FY24F	SGD28.40
		Intrinsic value	SGD28.40
ESG premium/(discount) (%)	2.0	ESG premium/(discount)	SGD0.57
		TP (rounded)	SGD29.00

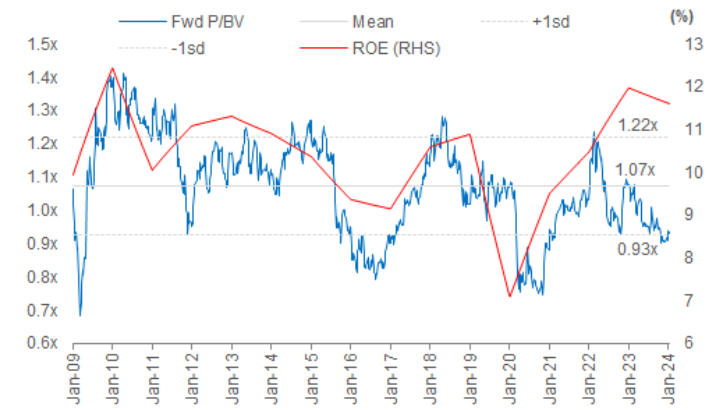
Source: Company data, RHB

Figure 5: UOB's 12-month forward consensus P/E



Source: Bloomberg, RHB

Figure 6: UOB's 12-month forward consensus P/BV



Source: Bloomberg, RHB

Emissions And ESG

Trend analysis

In 2022, UOB purchased and redeemed a total of 133,300 solar and wind renewable energy credits (RECs) from mainland China, Hong Kong, Indonesia, Malaysia, Thailand and Vietnam to address 100% of electricity consumption in all key markets.

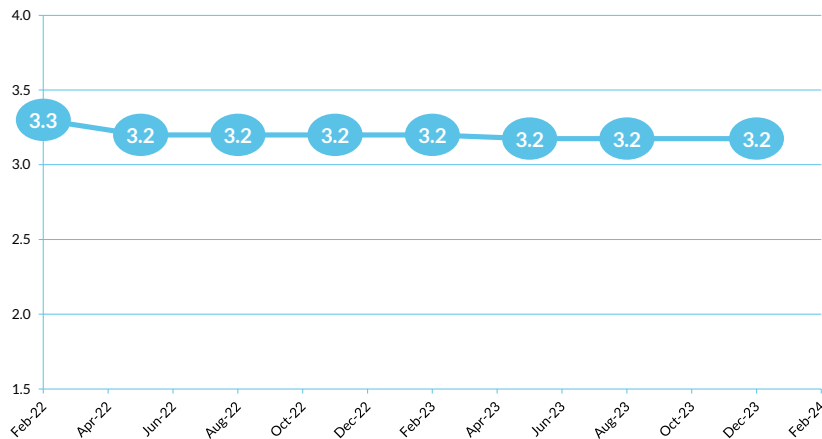
Emissions (tCO ₂ e)	Dec-21	Dec-22	Dec-23
Scope 1	4,300	5,800	na
Scope 2	1,000	1,100	na
Scope 3	600	4,000	na
Total emissions	5,900	10,900	na

Source: Company data, RHB

Latest ESG-Related Developments

- **UOB Transition Finance Framework:** Launched in 2022 to help companies in carbon-intensive sector with their transition plans.
- **Sustainable targets:** 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
2024-01-21	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
2021-11-04	Buy	33.5	27.2
2021-08-05	Buy	30.2	26.5
2021-05-06	Buy	30.2	26.0
2021-02-25	Neutral	26.4	24.7

Source: RHB, Bloomberg

RHB Guide to Investment Ratings

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

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