

22 January 2024

Financial Services | Banks

United Overseas Bank (UOB SP)

Neutral (Maintained)

Awaiting 4Q23 Results For Clues On 2024

Target Price (Return): SGD29.10 (+5%)
 Price (Market Cap): SGD27.9 (USD34,733m)
 ESG score: 3.2 (out of 4)
 Avg Daily Turnover (SGD/USD) 63.7m/47.3m

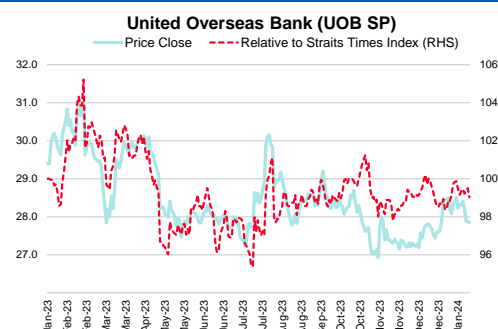
- **Stay NEUTRAL, with new SGD29.10 TP from SGD29.70, 5% upside.** We think United Overseas Bank could report flattish bottomline QoQ in its 4Q23 results on 22 Feb, bringing full-year earnings broadly meeting our/consensus estimates. This takes into account potentially softer non-IT QoQ from treasury & investment (T&I) income, offset by credit cost staying benign. Near-term, we believe a peaking rates cycle will lead to income pressures and dampen share price performance of Singapore banks under coverage. Still decent dividend yield should provide downside support.
- **Expect some drag from staying defensive to linger...** Recall that in 3Q23, UOB took the opportunity to strengthen its balance sheet by protecting asset quality and liquidity, but this came at a cost – NIM compression and higher specific provisions (SP). We understand that stance had not shifted materially during the quarter, and there would be some continued drag on margin (Sep 2023 exit NIM was 2.08% vs 9M23: 2.12%). Meanwhile, loans growth was still soft but should meet the low- to mid-single digit guidance for FY23F (9M23: flat YoY). Overall, we are not expecting too much excitement on the NII front.
- **...but asset quality has held up**, which should be positive for 4Q credit cost. 3Q23 credit cost was 19bps (-11bps QoQ/+2bps YoY) with higher SP (+13% QoQ) following a portfolio review that led to the downgrade of certain loan accounts and marking down of some collateral valuations, cushioned by the release of general provisions (GP). We learnt that there were no major adverse developments during the quarter. Management remains comfortable with the outcome of the earlier said portfolio review. As such, we think 4Q23 credit cost could stay muted and full-year credit cost should be in line with the 20-25bps guidance (9M23: 24bps).
- **Fees still healthy but T&I income may continue to normalise from elevated 1H23 levels.** 3Q23 fees were a bright spark and likely stayed healthy in 4Q23 thanks to the holiday season. That said, T&I income may continue to moderate. The average quarterly run-rate in 9M23 of SGD454m was trending ahead of the guided SGD300-400m run-rate due to elevated levels in 1H23. This moderation would dampen some of the strength in fees.
- **Non-recurring opex from Citi tailing off, some residuals expected in 2024.** This mainly relates to the Citi Thailand business, where completion of Operating Day One (OD1) is on track for 1H24. OD1 for Vietnam is still slated in 2H24. However, given the size of Citi Thailand, the bulk of the non-recurring cost this year (SGD150-200m) is expected to be incurred in 1H24.
- **No changes to earnings forecasts**, pending the release of the 4Q23 results. We expect a final DPS of 86 SG cents (4Q22: 75 SG cents), which would bring FY23F DPS to SGD1.72 (6.2% yield). However, we lower our TP to reflect a lower ESG premium ascribed following a change in the country median ESG score.

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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(2.1)	0.6	(0.1)	(2.8)	(4.7)
Relative	0.6	(0.5)	(1.8)	1.0	(0.9)
52-wk Price low/high (SGD)	26.9 – 31.0				



Source: Bloomberg

Overall ESG Score: 3.2 (out of 4)

E: GOOD

UOB's sustainability strategy includes the integration of ESG considerations into the bank's credit evaluation and approval processes as well as its investment products. It is progressively adopting as well as promoting climate-resilient practices that will support clients' own transition to a lower-carbon economy. The bank conducts materiality assessments and stakeholder consultations on a continual basis. Aims to build a sustainable finance portfolio of SGD30bn by 2025 (2021: SGD17bn).

S: GOOD

UOB embraces gender diversity, with women accounting for 61.5% of permanent staff at end-2021 – 36.3% in senior management roles. Launched TMRW, ASEAN's first mobile-only digital bank, to improve financial inclusion in Thailand and Indonesia. In 2021, there were no legal proceedings against UOB in respect of any data privacy breach, nor any fine or sanction imposed on the bank.

G: EXCELLENT

UOB has a comprehensive framework of policies, processes, methodologies and tools for effective risk management. In 2021, no material fine, penalty or sanction was imposed on UOB for non-compliance in relation to any laws and regulations.

Forecasts and Valuation	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Reported net profit (SGDm)	4,075	4,573	5,789	6,050	6,364
Net profit growth (%)	39.8	12.2	26.6	4.5	5.2
Recurring net profit (SGDm)	4,075	4,819	6,070	6,050	6,364
Recurring EPS (SGD)	2.44	2.88	3.63	3.63	3.84
BVPS (SGD)	25.50	25.90	27.77	29.88	31.99
DPS (SGD)	1.21	1.36	1.72	1.82	1.94
Recurring P/E (x)	11.43	9.67	7.68	7.67	7.25
P/B (x)	1.09	1.08	1.00	0.93	0.87
Dividend Yield (%)	4.3	4.9	6.2	6.5	7.0
Return on average equity (%)	9.8	10.6	12.9	12.6	12.4

Source: Company data, RHB

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Financial Exhibits

Asia	Financial summary (SGD)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Singapore	EPS	2.44	2.73	3.46	3.63	3.84
Financial Services	Recurring EPS	2.44	2.88	3.63	3.63	3.84
United Overseas Bank	DPS	1.21	1.36	1.72	1.82	1.94
UOB SP	BVPS	25.50	25.90	27.77	29.88	31.99
Neutral						
Valuation basis	Valuation metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
GGM-derived intrinsic value with an ESG overlay. Key GGM assumptions are:	Recurring P/E (x)	11.43	9.67	7.68	7.67	7.25
i. COE of 12.5%;	P/B (x)	1.1	1.1	1.0	0.9	0.9
ii. ROE of 12.5%;	Dividend Yield (%)	4.3	4.9	6.2	6.5	7.0
iii. 3.0% long-term growth.						
Key drivers	Income statement (SGDm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Our net profit forecasts is most sensitive to changes in:	Interest income	8,204	12,862	16,699	17,559	18,526
i. Impairment charges;	Interest expense	(1,816)	(4,519)	(6,541)	(7,022)	(7,469)
ii. NIM;	Net interest income	6,388	8,343	10,158	10,537	11,056
iii. Non-IL growth.	Non interest income	3,401	3,232	3,877	3,846	4,102
	Total operating income	9,789	11,575	14,035	14,383	15,158
	Overheads	(4,313)	(4,971)	(5,822)	(5,987)	(6,286)
	Pre-provision operating profit	5,476	6,604	8,212	8,396	8,872
	Loan impairment allowances	(598)	(628)	(780)	(1,000)	(1,100)
	Other impairment allowances	(59)	22	(26)	(20)	(16)
	Income from associates	118	97	102	110	120
	Other exceptional items	-	(310)	(347)	-	-
	Pre-tax profit	4,937	5,785	7,161	7,486	7,876
	Taxation	(850)	(1,202)	(1,361)	(1,422)	(1,496)
	Minority interests	(12)	(10)	(12)	(14)	(16)
	Reported net profit	4,075	4,573	5,789	6,050	6,364
	Recurring net profit	4,075	4,819	6,070	6,050	6,364
Key risks	Profitability ratios	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Key risks include:	Return on average assets (%)	0.9	0.9	1.1	1.1	1.1
i. Weaker-than-expected NIM;	Return on average equity (%)	9.8	10.6	12.9	12.6	12.4
ii. Sharper-than-expected deterioration in asset quality;	Return on IEAs (%)	2.1	3.0	3.8	3.8	3.8
iii. Challenges related to integration of Citi's consumer assets.	Cost of funds (%)	0.5	1.1	1.5	1.5	1.6
	Net interest spread (%)	1.6	2.0	2.3	2.3	2.2
	Net interest margin (%)	1.6	2.0	2.3	2.3	2.3
	Non-interest income / total income (%)	34.7	27.9	27.6	26.7	27.1
	Cost to income ratio (%)	44.1	42.9	41.5	41.6	41.5
	Credit cost (bps)	20.2	19.9	24.0	29.6	31.0
Company Profile	Balance sheet (SGDm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
United Overseas Bank is the third largest Singapore bank by asset size. It also has significant operations in Malaysia, Thailand & Indonesia.	Total gross loans	310,800	319,663	329,253	345,716	363,001
	Other interest earning assets	98,208	116,707	123,189	128,936	134,388
	Total gross IEAs	409,008	436,370	452,441	474,651	497,389
	Total provisions	(4,497)	(4,308)	(4,446)	(4,587)	(4,743)
	Net loans to customers	306,713	315,355	324,807	341,129	358,258
	Total net IEAs	404,511	432,062	447,995	470,064	492,646
	Total non-IEAs	54,812	72,198	74,338	74,713	79,019
	Total assets	459,323	504,260	522,333	544,778	571,666
	Customer deposits	352,633	368,553	379,610	394,794	414,534
	Other interest-bearing liabilities	50,594	65,918	68,570	70,749	73,022
	Total IBLs	403,227	434,471	448,180	465,543	487,555
	Total non-IBLs	13,235	26,183	27,492	29,417	31,035
	Total liabilities	416,462	460,654	475,672	494,960	518,590
	Share capital	7,391	7,855	7,855	7,855	7,855
	Shareholders' equity	42,633	43,366	46,433	49,588	52,841
	Minority interests	228	240	228	230	235
	Asset quality and capital	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Reported NPLs / gross cust loans (%)	1.6	1.6	1.6	1.5	1.5
	Total provisions / reported NPLs (%)	81.3	85.1	86.6	87.3	87.7
	CET-1 ratio (%)	14.4	14.4	14.7	14.7	14.9
	Tier-1 ratio (%)	14.4	14.4	14.7	14.7	14.9
	Total capital ratio (%)	16.6	16.7	16.9	16.8	16.9

Source: Company data, RHB

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Valuation and TP

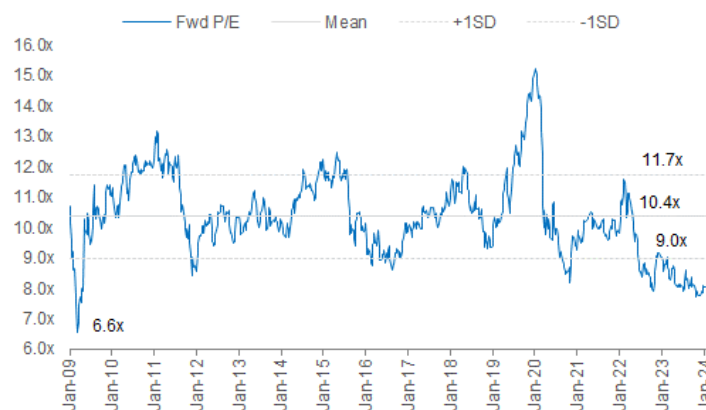
We lower our TP to SGD29.10 from SGD29.70 as we now ascribe a lower 2% ESG premium (from 4% premium) to UOB's intrinsic value as its ESG score of 3.2 is now only 1 pt above the revised country median ESG score of 3.1. There is no change to the intrinsic value of SGD28.57, which is based on a GGM-derived P/BV of 1.0x, close to its historical mean.

Figure 1: UOB – GGM valuation with ESG overlay

Cost of equity (COE) computation:		Sustainable ROE (%)	12.5
Risk free rate (%)	3.0	COE (%)	12.5
Equity premium (%)	8.6	Long-term growth (g)	3.0
Beta (x)	1.1	Implied P/BV (x)	1.0
Cost of equity - CAPM (%)	12.5	BVPS – FY24F	SGD28.58
		Intrinsic value	SGD28.57
ESG premium/(discount) (%)	2.0	ESG premium/(discount)	SGD0.57
		TP (rounded)	SGD29.10

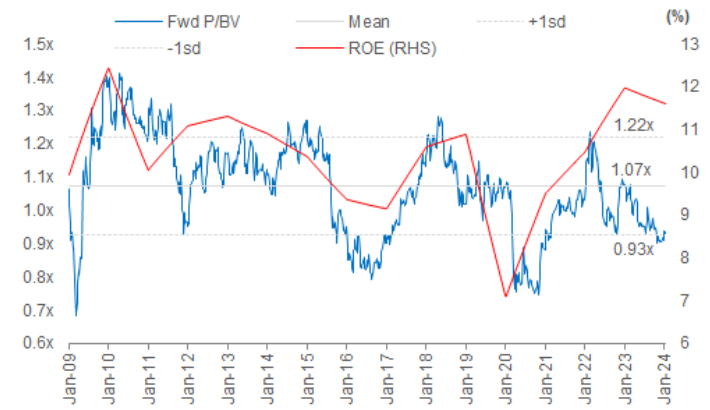
Source: Company data, RHB

Figure 2: UOB's 12-month forward consensus P/E



Source: Bloomberg, RHB

Figure 3: 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.

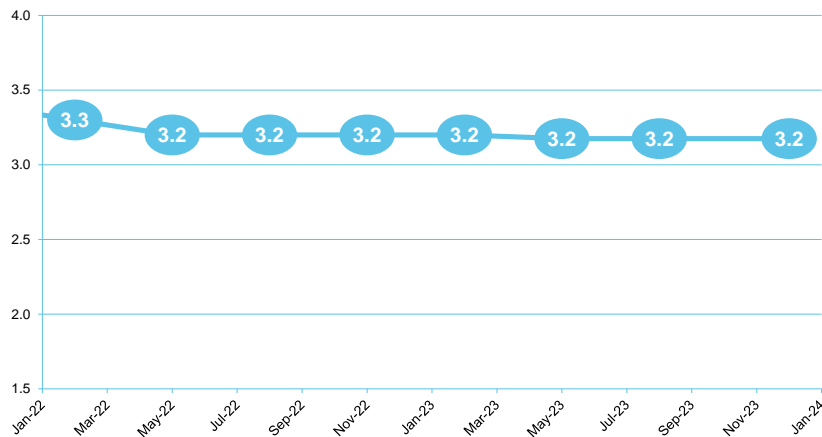
Emissions (tCO ₂ e)	Dec-20	Dec-21	Dec-22
Scope 1	-	4,300	5,800
Scope 2	68,800	1,000	1,100
Scope 3	1,500	600	4,000
Total emissions	70,300	5,900	10,900

Source: Company data, RHB

Latest ESG-Related Developments

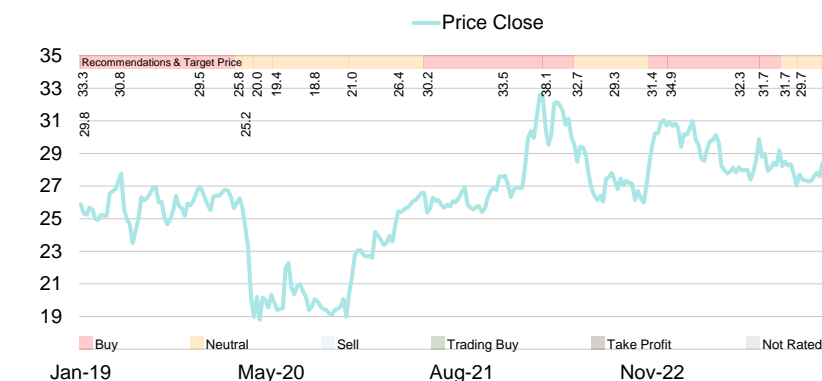
- **UOB Transition Finance Framework:** Launched in 2022 to help companies in carbon-intensive sector with their transition plans.
- **Sustainable targets:** Sustainable finance portfolio of SGD30bn by 2025 and Net Zero for six sectors (currently 60% of corporate lending portfolio) by 2050.
- **Signatory to the Equator Principles (EP):** EP requirements are integrated into UOB Group's Responsible Financing Policy.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2020-11-04	Neutral	21.0	19.8

Source: RHB, Bloomberg

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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
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Not Rated:	Stock is not within regular research coverage

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