

1 August 2022

Financial Services | Banks

## United Overseas Bank (UOB SP)

**Neutral** (Maintained)

### Taking a Cautious Stance For 2H22

Target Price (Return): SGD29.30 (+6%)  
 Price (Market Cap): SGD27.60 (USD33,386m)  
 ESG score: 3.20 (out of 4)  
 Avg Daily Turnover (SGD/USD) 80.8m/58.4m

- **Stay NEUTRAL, with new SGD29.30 TP from SGD32.70, 6% upside and c.5% yield.** 1H22 results were within expectations, supported by a recovery in domestic economy and regional trade flows, as well as higher interest rates. While key markets are not expected to fall into recession, slower growth ahead led to a downward revision in guidance. Exposure to China's property market turmoil is limited. Given continued uncertainty, stock price would likely be range bound in the near term, even as valuation is now more reasonable.
- **1H22 earnings within expectations.** Net profit of SGD1,113m (+23% QoQ, +11% YoY) in 2Q22 brought 1H22 earnings to SGD2,018m (flat YoY), which accounted for 48% and 46% of our and Street FY22F earnings. We deem the results in line given expectations of stronger NII in 2H22. Reported ROAE was 9.9% vs FY21's 10.2%, while CET-1 was maintained at 13.1%. An interim dividend of SGD0.60 was declared, representing a payout of 50%.
- **Key trends in 2Q22.** NII grew a strong 11% QoQ as NIM expanded 9bps QoQ on rising interest rates while loan growth moderated to +0.5% QoQ (1Q22: +3%). Trading and investment (T&I) income rebounded sharply to SGD214m (1Q22: SGD44m) with customer-related income +7% QoQ as hedging demand rose, and there was no repeat of the 1Q22 impact from hedges and mark-to-market losses on investments. Fee income dipped 1% QoQ as higher fees from loans/trade and credit cards were offset by the 14% QoQ drop in wealth fees. With opex up a smaller 12% QoQ, CIR improved to 43.8% (1Q22: 44.8%) leading to a stronger 17% QoQ rise in PIOP. A 23% QoQ drop in provisions on a SGD35m net write-back of specific allowance on securities and others led to the 23% QoQ bottomline growth (Figure 1).
- **FY22 guidance dialled down.** Management's base case is for key markets to see slower growth, rather than fall into recession. With sentiment dented by the macroeconomic headwinds, loan growth guidance is revised to mid-single digit growth for 2022 (from mid-to-high single digit growth) while credit cost guidance is refined to 25bps (from 20-25bps). NIM is set to rise another 9bps to 1.76% in 3Q22 and reach 1.90% in 4Q22. Fee income is now expected to grow by a low single digit (see Figure 2 for details).
- **Asset quality resilient.** United Overseas Bank's China real estate portfolio stands at SGD3.0bn or 1% of group loans, with no concentration risk. About 50% are to state owned entities and 50% to private owned entities. Except for exposure to the Shimao Group Holdings, which is now under legal action, the rest of the portfolio is performing. The group has another SGD9.0bn exposure from network clients that have projects in China. Management remains very comfortable with asset quality and does not see the need for material top up of overlays.
- **Earnings and TP.** Our FY22F-24F earnings are relatively unchanged as upward revision in NII was offset by higher provisions (Figure 3). Our TP is lower to SGD29.30 (from SGD32.70) as we refreshed GGM assumptions for expectations of slower growth. The TP incorporates a 4% ESG premium, based on our in-house proprietary methodology.

Forecasts and Valuation	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Reported net profit (SGDm)	2,915	4,075	4,257	5,096	5,577
Net profit growth (%)	(32.9)	39.8	4.5	19.7	9.4
Recurring net profit (SGDm)	2,915	4,075	4,257	5,096	5,577
Recurring EPS (SGD)	1.74	2.44	2.55	3.05	3.34
BVPS (SGD)	24.45	25.50	26.03	27.76	29.63
DPS (SGD)	0.78	1.21	1.25	1.40	1.55
Recurring P/E (x)	15.79	11.31	10.82	9.04	8.26
P/B (x)	1.13	1.08	1.06	0.99	0.93
Dividend Yield (%)	2.8	4.4	4.5	5.1	5.6
Return on average equity (%)	7.2	9.8	9.9	11.3	11.6

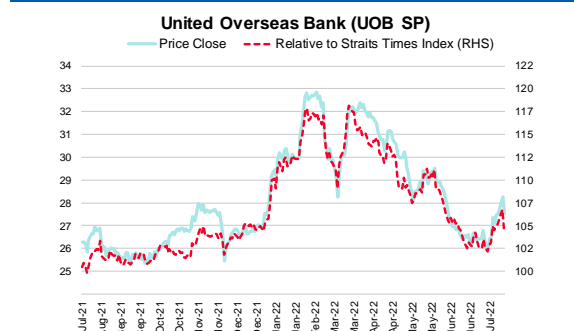
Source: Company data, RHB

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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	2.4	3.5	(8.1)	(8.0)	4.8
Relative	(0.4)	1.1	(3.8)	(6.9)	3.8
52-wk Price low/high (SGD)				25.4 – 32.9	



Source: Bloomberg

#### Overall ESG Score: 3.20 (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.

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## Financial Exhibits

<b>Asia</b>	<b>Financial summary (SGD)</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
Singapore	EPS	1.74	2.44	2.55	3.05	3.34
Financial Services	Recurring EPS	1.74	2.44	2.55	3.05	3.34
<b>United Overseas Bank</b>	DPS	0.78	1.21	1.25	1.40	1.55
UOB SP	BVPS	24.45	25.50	26.03	27.76	29.63
Neutral						
	<b>Valuation metrics</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
	Recurring P/E (x)	15.79	11.31	10.82	9.04	8.26
	P/B (x)	1.1	1.1	1.1	1.0	0.9
	Dividend Yield (%)	2.8	4.4	4.5	5.1	5.6
<b>Valuation basis</b>	<b>Income statement (SGDm)</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
GGM-derived intrinsic value with an ESG overlay. Key GGM assumptions are:	Interest income	9,623	8,204	12,274	15,529	16,531
i. COE of 10.4%;	Interest expense	(3,588)	(1,816)	(4,758)	(7,139)	(7,598)
ii. ROE of 11%;	<b>Net interest income</b>	<b>6,035</b>	<b>6,388</b>	<b>7,516</b>	<b>8,390</b>	<b>8,933</b>
iii. 3.0% long-term growth	Non interest income	3,141	3,401	3,345	3,563	3,841
	<b>Total operating income</b>	<b>9,176</b>	<b>9,789</b>	<b>10,861</b>	<b>11,953</b>	<b>12,773</b>
	Overheads	(4,184)	(4,313)	(4,905)	(5,100)	(5,421)
	<b>Pre-provision operating profit</b>	<b>4,992</b>	<b>5,476</b>	<b>5,956</b>	<b>6,853</b>	<b>7,352</b>
	Loan impairment allowances	(1,596)	(629)	(765)	(700)	(620)
	Other impairment allowances	42	(28)	(30)	(26)	(20)
	Income from associates	98	118	105	112	120
	<b>Pre-tax profit</b>	<b>3,536</b>	<b>4,937</b>	<b>5,266</b>	<b>6,239</b>	<b>6,832</b>
	Taxation	(606)	(850)	(993)	(1,123)	(1,230)
	Minority interests	(15)	(12)	(16)	(20)	(25)
	<b>Reported net profit</b>	<b>2,915</b>	<b>4,075</b>	<b>4,257</b>	<b>5,096</b>	<b>5,577</b>
	<b>Recurring net profit</b>	<b>2,915</b>	<b>4,075</b>	<b>4,257</b>	<b>5,096</b>	<b>5,577</b>
<b>Key drivers</b>	<b>Profitability ratios</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
Our net profit forecasts is most sensitive to changes in:	Return on average assets (%)	0.7	0.9	0.9	1.0	1.0
i. Impairment charges;	Return on average equity (%)	7.2	9.8	9.9	11.3	11.6
ii. NIM;	Return on IEAs (%)	2.6	2.1	2.9	3.4	3.5
iii. Non-II growth.	Cost of funds (%)	1.0	0.5	1.1	1.6	1.6
	Net interest spread (%)	1.6	1.6	1.8	1.8	1.9
	Net interest margin (%)	1.6	1.6	1.8	1.8	1.9
	Non-interest income / total income (%)	34.2	34.7	30.8	29.8	30.1
	Cost to income ratio (%)	45.6	44.1	45.2	42.7	42.4
	Credit cost (bps)	58.0	21.2	24.0	20.9	17.6
<b>Key risks</b>	<b>Balance sheet (SGDm)</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
Key risks include:	Total gross loans	281,387	310,800	327,900	342,656	361,502
i. Weaker-than-expected NIM;	Other interest earning assets	99,454	98,208	118,600	123,828	128,824
ii. Sharper-than-expected deterioration in asset quality;	Total gross IEAs	380,841	409,008	446,500	466,484	490,326
iii. Softer-than-expected non-interest income growth.	Total provisions	(4,565)	(4,497)	(4,745)	(5,174)	(5,251)
	Net loans to customers	277,201	306,713	323,155	337,481	356,251
	Total net IEAs	376,276	404,511	441,755	461,309	485,075
	Total non-IEAs	55,538	54,812	70,958	77,240	79,509
	Total assets	431,814	459,323	512,713	538,549	564,585
	Customer deposits	324,598	352,633	374,500	396,970	418,803
	Other interest-bearing liabilities	46,377	50,594	72,460	72,269	72,659
	Total IBLs	370,975	403,227	446,960	469,239	491,462
	Total non-IBLs	19,708	13,235	22,000	22,660	23,340
	Total liabilities	390,683	416,462	468,960	491,899	514,802
	Share capital	7,420	7,391	7,455	7,455	7,455
	Shareholders' equity	40,901	42,633	43,525	46,423	49,552
	Minority interests	230	228	228	228	230
<b>Company Profile</b>	<b>Asset quality and capital</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
United Overseas Bank is the third largest Singapore bank by asset size. It also has significant operations in Malaysia, Thailand & Indonesia.	Reported NPLs / gross cust loans (%)	1.6	1.6	1.7	1.8	1.7
	Total provisions / reported NPLs (%)	92.6	81.3	85.1	86.3	85.4
	CET-1 ratio (%)	15.8	14.4	13.9	14.2	13.9
	Tier-1 ratio (%)	15.8	14.4	13.9	14.2	13.9
	Total capital ratio (%)	18.4	16.6	16.2	16.4	15.9

Source: Company data, RHB

## Results At a Glance

Figure 1: UOB – summary of 2Q22 and 1H22 results

FYE 31 Dec (SGDm)	2Q21	1Q22	2Q22	QoQ (%)	YoY (%)	1H21	1H22	YoY (%)	Comments: 1H22 vs 1H21
<b>NII</b>	1,578	1,686	1,863	10	18	3,107	3,549	14	Up YoY mainly on healthy loan growth and NIM expansion.
<i>NIM (%) – reported</i>	1.56%	1.58%	1.67%			1.56%	1.63%		Up 7bps YoY on rising interest rates.
<b>Non-II</b>	839	673	840	25	0	1,769	1,513	-14	
Net fee & commission income	581	572	567	-1	-2	1,200	1,139	-5	Down YoY as higher fees from loan/trade-related (+8.8%) and credit card (+24.7%) were offset by lower wealth fees (-27%).
Other non-II	258	101	273	170	6	596	374	-37	Fell YoY on impact from hedges as interest rates rose, and unrealised MTM on investments. Customer-related trading income rose 9% YoY as market volatility led to higher hedging needs.
<i>Non-II/total income (%)</i>	34.7%	28.5%	31.1%			36.6%	29.9%		
<b>Operating income</b>	<b>2,417</b>	<b>2,359</b>	<b>2,703</b>	<b>15</b>	<b>12</b>	4,903	5,062	3	
Overhead expenses	(1,057)	(1,058)	(1,184)	12	12	(2,146)	(2,241)	4	
<i>CIR (%)</i>	43.7%	44.8%	43.8%			43.8%	44.3%		
<b>PIOP</b>	<b>1,360</b>	<b>1,301</b>	<b>1,519</b>	<b>17</b>	<b>12</b>	2,757	2,821	2	
Impairments charges	(182)	(178)	(137)	-23	-25	(383)	(315)	-18	Specific provisions jumped 49.5% YoY to SGD314m, but general provision was a mere SGD5m vs SGD142m in 1H21.
<i>Annualised credit cost (bps)</i>	25	23	17			26	20		Loan credit cost in line with guidance of 20-25bps for FY22.
<b>Operating profit</b>	<b>1,178</b>	<b>1,123</b>	<b>1,382</b>	<b>23</b>	<b>17</b>	2,374	2,506	6	
Associates	38	29	23			70	52		
<b>Pre-tax profit</b>	<b>1,216</b>	<b>1,152</b>	<b>1,405</b>	<b>22</b>	<b>16</b>	2,444	2,558	5	
Tax	(211)	(243)	(294)			(427)	(537)		
<i>Effective tax rate (%)</i>	17.4%	21.1%	20.9%			17.5%	21.0%		
Minorities	(3)	(3)	1			(6)	(2)		
<b>Net profit</b>	<b>1,002</b>	<b>906</b>	<b>1,112</b>	<b>23</b>	<b>11</b>	2,011	2,018	0	
<b>Other key data and ratios</b>									
Gross loans	298,597	319,999	321,677	1	8				Up 3.5% YTD (annualised: 7%) led by lending in Singapore (+4% YTD), Greater China (+8% YTD) and Indonesia (+11% YTD).
Customer deposits	338,894	361,747	358,051	-1	6				CASA deposits -1.3% YTD while fixed deposits +3.9% YTD. CASA ratio fell to 54.7% (Dec 21: 56.2%).
Non-performing loans	4,507	5,120	5,374	5	19				Up 6.8% YTD due to downgrade of a few major corporate accounts. Increase of 5% QoQ in 2Q22 came mainly from one corporate account in Malaysia.
Total assets	446,506	475,847	493,288	4	10				
Shareholders' funds	42,031	42,892	42,257	-1	1				
ROAA (%)	0.90	0.78	0.92						
ROAE (%)	9.6	8.5	10.4						
LDR (%)	86.9	87.3	87.0						
NPL ratio	1.51	1.60	1.50						
NPA coverage	102.7	90.0	84.8						
CET-1 ratio (%)	14.2	13.1	14.3						
Total capital ratio (%)	18.1	15.8	17.9						

Source: Company data, RHB

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Figure 2: UOB – management guidance and financial targets

	2021 targets	1H22 achieved	2022 targets	Comments – FY22 targets
Loan growth	+10% YoY	+8% YoY	Mid-single digit (from high- to mid-single digit)	Reflecting expectations that economic growth would slow loan growth, guidance is lowered from high-to-mid single digit to mid-single digit. Mortgages are expected to remain strong in 2H22 while recovery of trade within ASEAN would mean lending opportunities. In 2023, management is confident Citi's retail assets in Thailand and Malaysia would help support loan growth.
NIM	1.56%	1.63%	1.7% in 3Q22, 1.9% by 4Q22	NIM expected to expand another 9bps QoQ in 3Q22, and 20bps QoQ to 1.9% in 4Q22. A 25bps rise in US rates would add 4bps to NIM and SGD150-200m to NII over a 12-month period.
Fee income growth	+8% YoY	-14% YoY	Low single digit growth in fee income	Management expects fee income to step up in 2H22, leading to a low single digit growth in FY22. Strong momentum from loan/trade and credit cards fees are expected to continue.
CIR (%)	+44.1%	+44.3%	Stable YoY	Opex will rise in FY22 on higher staff costs (at least 10% increase) and digital investments. Management aims to keep CIR stable, with revenue expected to grow in tandem. This does not include an estimated SGD200m in one-time cost related to its acquisition of Citi's retail assets.
Credit cost	20bps	20bps	25bps (from 20-25bps)	Management sees no systemic weakness in the bank's loan portfolio. As some weakness may come through in late-2022, management refined its credit cost guidance to 25bps from 20-25bps for FY22. The bank is unlikely to reverse management overlays built-up in 2020-21.

Source: Company data, RHB

## Revisions to estimates

Overall, our net profit for FY22F-24F is relatively unchanged. Although adjustments in NIMs led to higher NII, this was offset by assumptions of higher credit costs.

Figure 3: UOB – revisions to forecasts

	Previous FY22F	Previous FY23F	Previous FY24F	Revised FY22F	Revised FY23F	New FY24F	% Change FY22F	% Change FY23F	% Change FY24F
<b>FYE Dec (SGDm)</b>									
Net interest income	7,150	8,047	8,658	7,516	8,390	8,933	5%	4%	3%
Non-interest income	3,285	3,597	3,877	3,345	3,563	3,841	2%	-1%	-1%
Operating expenses	(4,642)	(4,871)	(5,081)	(4,905)	(5,100)	(5,421)	6%	5%	7%
PIOP	5,793	6,773	7,454	5,956	6,853	7,352	3%	1%	-1%
<b>Provision expenses</b>	(710)	(676)	(600)	(795)	(726)	(640)	12%	7%	7%
Pretax profit	5,211	6,235	7,004	5,266	6,239	6,832	1%	0%	-2%
<b>Net profit</b>	4,212	5,092	5,718	<b>4,257</b>	<b>5,096</b>	<b>5,577</b>	1%	0%	-2%
EPS (SGD)	2.38	2.46	2.99	2.38	2.49	2.99	0%	1%	0%
DPS (SGD)	1.20	1.32	1.60	1.20	1.25	1.40	0%	-5%	-13%
Loan growth (%)	8.5	6.0	5.5	5.5	4.5	5.5			
NIM (%)	1.71	1.81	1.85	1.78	1.86	1.89			
CIR (%)	44.5	41.8	40.5	45.2	42.7	42.4			
Credit cost (bps)	22	19	16	25	22	18			

Source: Company data, RHB

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### Valuation and TP

We trimmed TP to SGD29.30 from SGD32.70, based on a lower intrinsic value of SGD28.19 (from SGD31.43) and a 4% ESG premium based on RHB's proprietary ESG methodology.

The revision in intrinsic value is mainly due to assumptions of lower sustainable ROE of 11% (from 11.5%) and long term growth of 3% (from 4%) on account of rising macroeconomic headwinds.

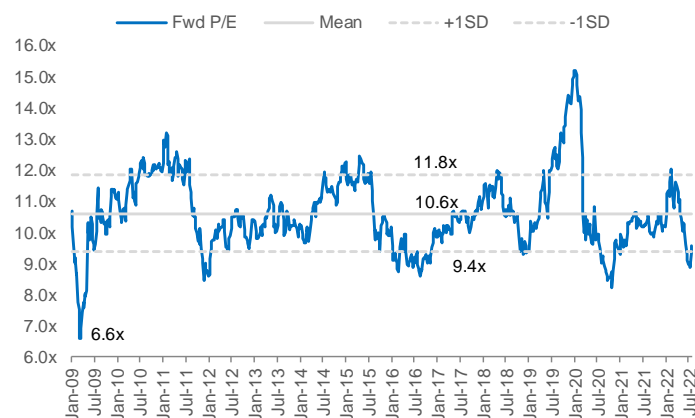
The GGM-derived P/BV of 1.08x (from 1.18x) is at the historical mean.

**Figure 4: UOB – GGM valuation with ESG overlay**

<b>Cost of equity (COE) computation:</b>		Sustainable ROE (%)	11.00
Risk free rate (%)	2.65	COE (%)	10.42
Equity premium (%)	7.40	Long-term growth (g)	3.00
Beta (x)	1.05	Implied P/BV (x)	1.08
Cost of equity - CAPM (%)	10.42	BVPS – 12-month rolling forward	SGD26.15
		Intrinsic value	SGD28.19
ESG premium/(discount) (%)	4.0	ESG premium/(discount)	SGD1.13
		<b>TP (rounded)</b>	<b>SGD29.30</b>

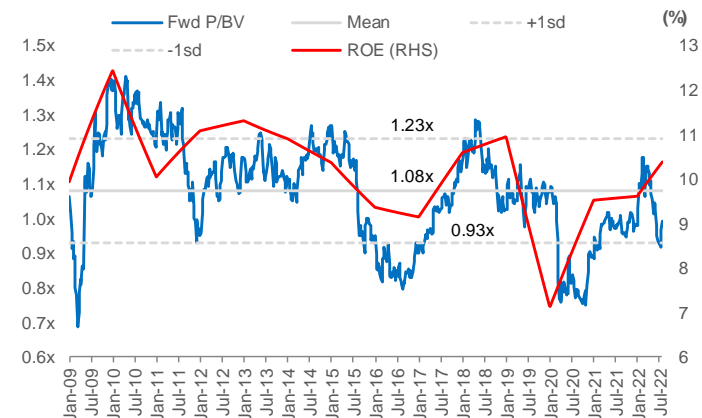
Source: Company data, RHB

**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

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## Recommendation Chart

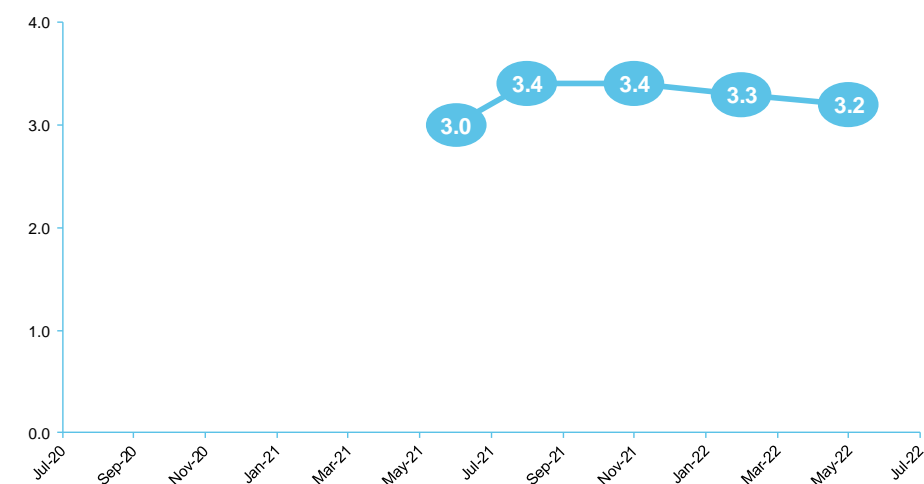


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2020-08-06	Neutral	18.8	19.8
2020-05-06	Neutral	19.4	19.9
2020-03-20	Neutral	20.0	19.0
2020-02-21	Neutral	25.2	25.7
2020-02-04	Neutral	25.8	25.8
2020-02-04	Neutral	25.8	25.8
2019-11-01	Buy	29.5	26.6
2019-08-02	Buy	30.8	26.0

Source: RHB, Bloomberg

## ESG Rating History



Source: RHB



## 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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