

United Overseas Bank Limited

Recovery on track



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SINGAPORE | BANKING | 2Q21 RESULTS

5 August 2021

- 2Q21 earnings of S\$1.0bn in line, at 25.5% of our FY21e forecast. Stronger-than-expected net fee and commission income offset by lower trading and investment income. 1H21 PATMI is 51% of our FY21e forecast.
- NIMs eased 1bp QoQ to 1.56%, though NII grew 3% in the same period led by steady loan growth mainly from term and trade loans in Singapore, North Asia and Rest of World. Guidance for FY21e unchanged.
- Impairment provisions of 20bps below our base case of 30bps in FY21e credit cost.
- Dividend payout returns to pre-pandemic levels. Interim DPS of 60 cents declared.
- Maintain ACCUMULATE with higher GGM TP (1.17x of FY21e P/BV) of S\$29.00 from S\$28.70 after earnings revision.** We raise FY21e earnings by 7% as we crank up fees and commissions estimates on the back of strong growth in WM and income and loan-related fees. Catalysts expected from a stabilisation of outlook and the reversal of GP.

ACCUMULATE (Maintained)

LAST TRADED PRICE	SGD 26.31
FORECAST DIV	SGD 1.20
TARGET PRICE	SGD 29.00
DIVIDEND YIELD	4.6%
TOTAL RETURN	14.8%

COMPANY DATA

BLOOMBERG TICKER	UOB SP
O/S SHARES (MN):	1,677
MARKET CAP (USD mn / SGD mn):	32700 / 44119
52 - WK HI/LO (SGD):	26.84 / 18.85
3M Average Daily T/O (mn):	2.53

Results at a glance

(SGD mn)	2Q21	2Q20	YoY	1Q21	QoQ	Comments
Net interest income	1,578	1,456	8%	1,529	3%	NII grew 3% QoQ from stable NIM and loan growth of 2%.
Net Fee & Comm	595	445	34%	638	(7%)	Fee income grew 28% YoY led by loan-related fees. Fees were weaker QoQ due to lower trading volume from WM.
Other Non Int Income	243	359	(32%)	319	(24%)	Other non-interest income fell on lower net trading income.
Total Revenue	2,417	2,260	7%	2,486	(3%)	
Expenses	(1,057)	(1,040)	2%	(1,089)	(3%)	
PPOP	1,360	1,220	11%	1,397	(3%)	
Allowances	(182)	(396)	(54%)	(201)	(9%)	Credit costs decreased QoQ from 29bps to 20bps, due to lower NPL formation and higher loan recoveries.
PATMI	1,003	703	43%	1,008	(0%)	

Source: Company, PSR

The Positives

+ NII increased 3% QoQ, led by steady loan growth. Loans grew 2%, underpinned by term and trade loans in Singapore, North Asia and Rest of World. NIMs, however, eased 1bp this quarter to 1.56%. They are expected to be stable in FY21e as the bank targets loan growth to improve NII. Wholesale banking operating profits grew 6% YoY to a quarterly record backed by record investment banking revenue and strong growth in loans and trade volume.

+ Fee income exceeded our forecast by S\$103mn. Fee and commission income grew 34% YoY, exceeding our forecast by S\$103mn. The beat came from loan-related fees which benefited from more corporate drawdowns and opportunistic underwriting activities. Fees however, were 7% weaker QoQ due to lower trading activity from WM.

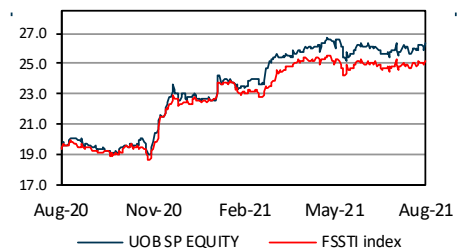
+ Impairment provisions below our base case of 30bps in FY21e credit cost. Allowances were S\$182mn in 2Q21 or 20bp vs. S\$201mn of provisions in 1Q21 or 29bp. The S\$182mn provisions comprised 7bps in GPs and 17bps in SP. The QoQ drop reflected overall resilient asset quality and strong pre-emptive general allowances taken previously.

MAJOR SHAREHOLDERS (%)

Wee Investments	8.0%
Wah Hin & Co Pte Ltd	5.2%
Vanguard Group Inc	2.3%
BlackRock Fund Advisors	2.2%

PRICE PERFORMANCE (%)

	1M TH	3M TH	YTD
COMPANY	-	(0.9)	16.1
STIRETURN	0.7	(0.2)	12.6



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec	FY 19	FY 20	FY 21e	FY 22e
Total Inc (SGD mn)	10,033	9,174	9,824	10,013
Op Profit (SGD mn)	5,125	3,435	4,963	5,163
NPAT (SGD mn)	4,365	2,935	4,220	4,397
EPS (SGD)	2.54	1.68	2.41	2.55
PER, (X)	15.4	15.0	10.9	10.3
P/BV, (X)	12	11	11	10
DPS (SGD)	1.30	0.78	1.20	1.30
ROE	11.8%	7.8%	10.2%	10.3%

Source: Bloomberg, Company, PSR

Valuation Method:

Gordon Growth Model (COE: 8.5%, g: 2%)

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Total general allowance for loans, including RLARs, were prudently maintained at 1% of performing loans.

+ Dividend payouts resume to pre-pandemic levels. The bank has declared an interim DPS of 60 cents vs. 1H20 interim dividend of 39 cents. This translates to a payout of 50%.

List of Abbreviations

WM – Wealth Management
 NII – Net Interest Income
 NIM – Net Interest Margin
 SP – Specific Provisions
 GP – General Provisions
 CIR – Cost-to-income
 RLAR – Regulatory Loan Allowance Reserve

The Negatives

- **Loans under moratorium unchanged at 6%.** We believe these belonged to weaker corporates which still require loan relief. As the moratoriums begin to expire, we could see an uptick in NPLs in the remainder of FY21e.

Outlook

Profit outlook should improve in 2021

UOB's profit should recover in 2021 on the back of stabilising margins, stronger fees and lower provisions. We expect WM, loan-related and card fees to expand 22% YoY. We now expect credit costs to come in below guidance of 30bps from around 55bps last year. Management seems confident that GPs of about S\$900mn already made can address any increase in non-performing loans as loan moratoriums expire.

We upgrade our FY21e earnings by 7% as we crank up fees and commissions estimates on the back of strong growth in WM income and loan-related fees. We expect loans growth at 2% and NIMs to remain stable for the rest of FY21e.

Investment Action

Maintain ACCUMULATE with higher GGM TP S\$29.00, from S\$28.70

We maintain our ACCUMULATE recommendation with a higher GGM target price of S\$29.00 from S\$28.70 following our earnings revision. Our target price remains based on GGM (1.17x FY21e P/BV) valuation.

GGM valuation

Item	Description	Value
R _f	Risk-free rate	1.1%
E	Equity-risk premium	5.9%
B	Beta	1.2
COE	Cost of Equity	8.5%
ROE	Return on Equity	9.6%
g	Terminal growth rate	2.0%
$\frac{(ROE-g)}{(COE-g)}$	Target Price to Book	1.17
	BVPS, S\$	24.70
	Valuation, S\$	29.00

Source: PSR

Financials

Income Statement

Y/E Dec, SGD mn	FY18	FY19	FY20	FY21e	FY22e
Net Int Income	6,220	6,563	6,033	6,173	6,497
Fees and Commission	1,966	2,033	1,997	2,497	2,359
Other Non-int income	929	1,437	1,144	1,154	1,157
Total operating income	9,115	10,033	9,174	9,824	10,013
Operating expenses	(4,004)	(4,473)	(4,183)	(4,282)	(4,414)
Provisions	(393)	(435)	(1,556)	(579)	(436)
Operating profit	4,718	5,125	3,435	4,963	5,163
Associates & JVs	106	51	132	132	133
Profit Before Tax	4,824	5,176	3,567	5,095	5,296
Taxation	(805)	(811)	(632)	(875)	(899)
Profit After Tax	4,019	4,365	2,935	4,220	4,397
Non-controlling Interest	13	18	14	20	21
Net Income, reported	4,006	4,347	2,921	4,200	4,376
Net Income, adj.	4,006	4,347	2,921	4,200	4,376

Per share data

Y/E Dec	FY18	FY19	FY20	FY21e	FY22e
EPS, reported	2.34	2.55	1.69	2.41	2.55
EPS, adj.	2.34	2.54	1.68	2.41	2.55
DPS	1.20	1.30	0.78	1.20	1.30
BVPS (less pref shares)	21.31	22.33	23.03	24.71	26.05
Dividend Pay-out Ratio	51%	51%	46%	50%	51%

Supplementary items

Y/E Dec	FY18	FY19	FY20	FY21e	FY22e
CET1 CAR	13.9%	14.3%	14.7%	14.3%	13.9%
Tier 1 CAR	14.9%	15.4%	15.8%	15.2%	14.8%
Total CAR	17.0%	17.4%	18.4%	17.7%	17.3%

Balance Sheet

Y/E Dec, SGD mn	FY18	FY19	FY20	FY21e	FY22e
Cash bal w central banks	25,252	25,864	28,667	33,894	41,975
Due from banks	50,800	52,840	47,480	47,195	46,526
Investment securities	13,553	15,454	17,615	17,659	17,698
Loans to non-bank cust	258,627	265,458	278,701	298,863	311,173
Others	39,861	44,794	49,764	49,396	50,524
Total Assets	388,093	404,410	422,227	447,007	467,896
Due to banks	13,801	13,569	13,595	13,731	13,851
Due to non-bank cust	293,186	312,275	326,755	347,675	365,294
Debts issued	30,606	27,737	27,790	28,068	28,314
Others	12,688	13,069	13,461	13,865	14,280
Total liabilities	350,281	366,650	381,601	403,339	421,740
Shareholder's equity	37,626	38,628	40,404	43,426	45,909
Non-controlling interest	190	208	222	242	248
Total Equity	37,816	38,836	40,626	43,668	46,157

Valuation Ratios

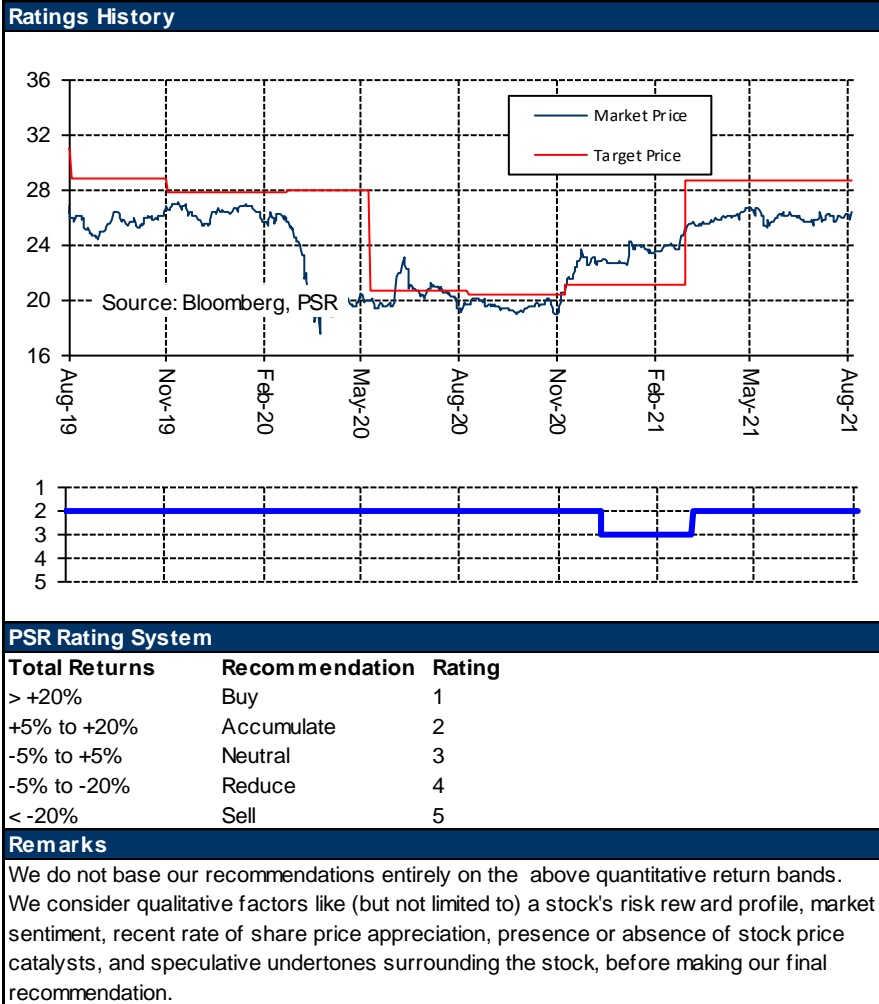
Y/E Dec	FY18	FY19	FY20	FY21e	FY22e
P/E (X), adj.	11.2	15.4	15.0	10.9	10.3
P/B (X)	1.2	1.2	1.1	1.1	1.0
Dividend Yield	4.6%	4.9%	3.0%	4.9%	4.9%

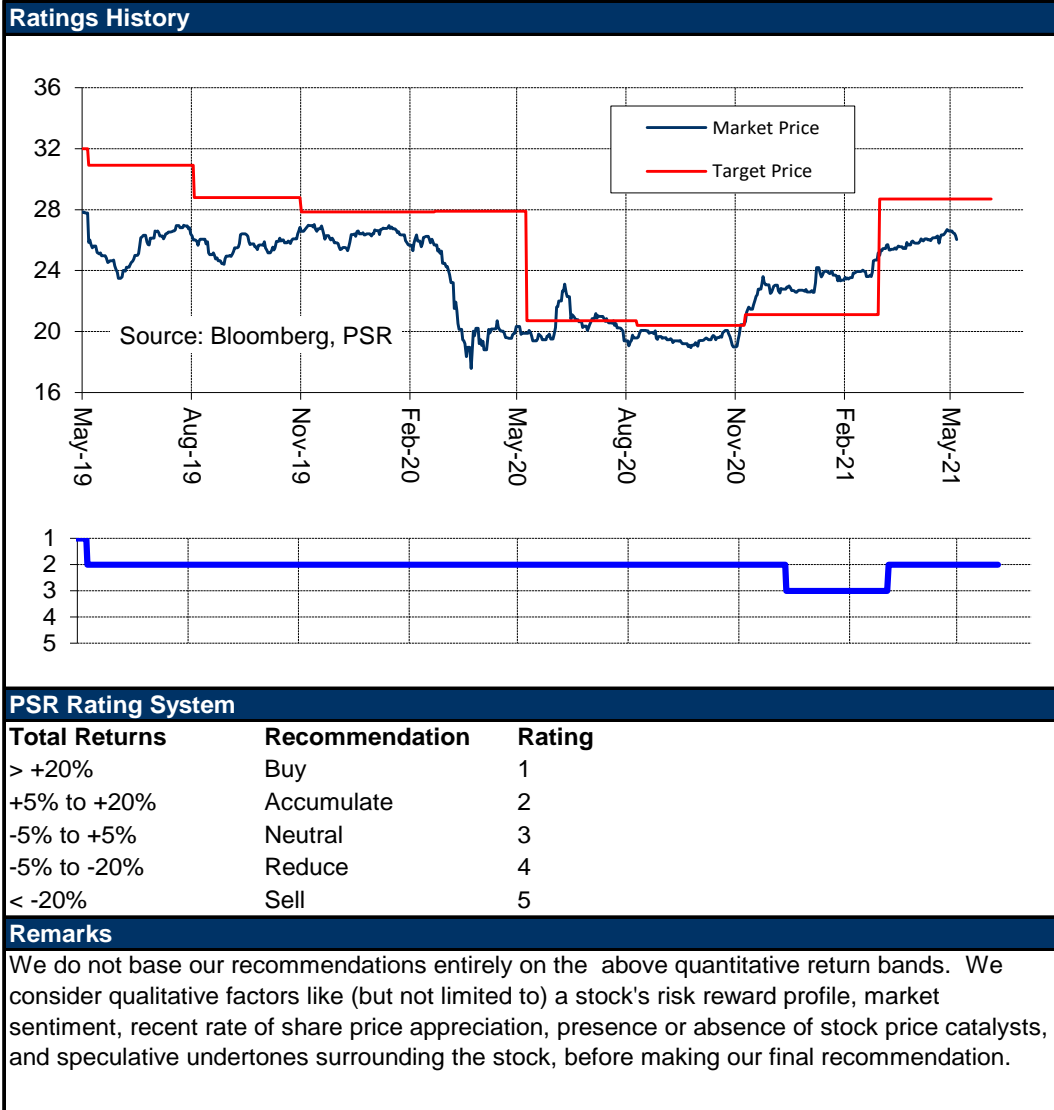
Growth & Margins

	FY18	FY19	FY20	FY21e	FY22e
Growth					
Net interest income	12.5%	5.5%	-8.1%	2.3%	5.3%
Non interest income	-4.6%	19.9%	-9.5%	16.2%	-3.7%
Pre provision op profit	6.4%	10.1%	-8.6%	7.1%	1.9%
Operating income	15.2%	8.6%	-33.0%	44.5%	4.0%
Net income, reported	18.2%	8.5%	-32.8%	43.8%	4.2%
Margins					
Net interest margin	1.82%	1.78%	1.57%	1.56%	1.57%

Key Ratios	FY18	FY19	FY20	FY21e	FY22e
ROE	11.2%	11.8%	7.8%	10.2%	10.3%
ROA	1.0%	1.1%	0.7%	0.9%	0.9%
RORWA	1.8%	1.9%	1.3%	1.7%	1.7%
Non-int/total income ratio	31.8%	34.6%	34.2%	37.2%	35.1%
Cost/income ratio	43.9%	44.6%	45.6%	43.6%	44.1%
Loan/deposit ratio	88.2%	85.0%	85.3%	86.0%	85.2%
NPL ratio	1.5%	1.5%	1.9%	2.3%	2.1%

Source: Company, PSR





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