

United Overseas Bank Limited

Stable recovery



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SINGAPORE | BANKING | 3Q21 RESULTS

5 November 2021

- 3Q21 earnings of S\$1.05bn in line with our estimate. 9M21 PATMI is 73% of our FY21e forecast.
- NIMs eased 1bp QoQ to 1.55%, though NII grew 2% in the same period. Guidance of stable NIM for FY21e unchanged. Impairment provisions of 20bps below our forecast of 30bps in FY21e credit cost.
- Maintain ACCUMULATE with unchanged target price of S\$29.00.** Our FY21e estimates unchanged. Recovery path for UOB is on track. Potential upside surprise includes GP writebacks and special dividends.

ACCUMULATE (Maintained)

LAST TRADED PRICE	SGD 27.20
FORECAST DIV	SGD 1.20
TARGET PRICE	SGD 29.00
DIVIDEND YIELD	4.4%
TOTAL RETURN	11.0%

COMPANY DATA

BLOOMBERG TICKER	UOB SP
O/S SHARES (M N):	1674
MARKET CAP (USD mn / SGD mn):	33707 / 45531
52 - WK HI/LO (SGD):	27.41 / 19.35
3M Average Daily T/O (mn):	237

MAJOR SHAREHOLDERS (%)

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

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	6.9	7.2	25.9
STI RETURN	6.0	3.5	16.9

Results at a glance

(SGD mn)	3Q21	3Q20	YoY	2Q21	QoQ	Comments
Net interest income	1,604	1,474	9%	1,578	2%	NII grew 2% QoQ from stable NIM and loan growth of 9%.
Fees & Comm	589	514	15%	595	(1%)	Fee income grew 15% YoY led by double-digit growth across WM and loan-related fees. Fees were weaker QoQ due to lower loan-related fees after a record performance in 2Q21.
Other Non Int Income	259	272	(5%)	243	7%	Other non-interest income fell mainly from lower investment gains.
Total Revenue	2,452	2,260	8%	2,416	1%	
Expenses	(1,072)	(1,009)	6%	(1,057)	1%	CIR improved 0.9% to 43.7% due to strong income growth.
PPOP	1,380	1,251	10%	1,359	2%	
Allowances	(163)	(477)	(66%)	(182)	(10%)	Credit costs remained stable QoQ at 20 bps, as NPL ratio stayed at 1.5%.
PATMI	1,046	668	57%	1,003	4%	

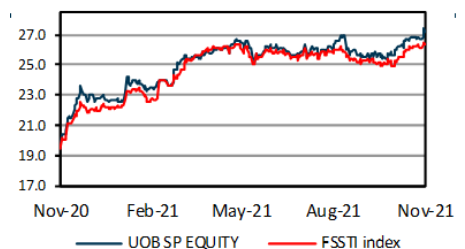
Source: Company, PSR

The Positives

+ NII increased 2% QoQ, led by steady loan growth. Loans grew 3%, underpinned by large corporate loans. NIMs, however, eased 1bp this quarter to 1.55%. Excess liquidity has driven up competition for higher quality loans especially in the FIG (Financial Institutions Group) space. However, lower NIMs offset by fee income and thereby more attractive return on risk weighted assets.

+ Fee income grew 15% YoY. Fee and commission income grew 15% YoY, particularly from wealth and loan-related fees as investment and trade activities pick up. Fees, however, were 1% weaker QoQ as loan-related fees moderated after a record 2Q21.

+ Impairment provisions below our base case of 30bps in FY21e credit cost. Allowances were stable at 20bp. Allowances at S\$163mn in 3Q21 vs. S\$182mn in 2Q21. The QoQ drop reflected overall resilient asset quality and strong pre-emptive general allowances taken previously. Total general allowance for loans, including RLARs, were prudently maintained at 1% of performing loans.



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec	FY19	FY20	FY21e	FY22e
Total Inc (SGD mn)	10,033	9,174	9,821	9,988
Op Profit (SGD mn)	5,125	3,435	4,960	5,138
NPAT (SGD mn)	4,365	2,935	4,217	4,376
EPS (SGD)	2.54	1.68	2.40	2.54
PER, (X)	16.0	16.5	11.3	10.7
P/BV, (X)	12	12	11	10
DPS (SGD)	1.30	0.78	1.20	1.30
ROE	11.8%	7.8%	10.2%	10.2%

Source: Bloomberg, Company, PSR

Valuation Method:

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

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The Negatives

- **Loans under moratorium lowered to 4.8%.** 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. With the Malaysian government announcement of a blanket six-month moratorium until early 2022, the management expects an increase in NPLs among consumers and SMEs in Malaysia, with management expecting an uptick in the NPL ratio to about 1.7-1.8%. Around mid-20% of Malaysia loans are under loan relief (or S\$7bn) and management has estimated the impact of the interest waiver scheme in Malaysia to be marginal at less than S\$10mn.

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

Outlook

PATMI: UOB’s profit should recover in 2022 on the back of stabilising margins, stronger fees and lower provisions. We expect WM, loan-related and card fees to expand 22% YoY. We continue to expect credit costs to come in below guidance of 25bps. There is earnings upside from writebacks of the S\$1bn in management overlay of general provisions. A condition to writeback will be the outlook of the pandemic. General provisions is expected to trend at 80 to 90 basis points of gross loans. This implies around S\$450mn of writebacks.

China: UOB’s exposure to Mainland China remains at 6% of total assets, with bank exposure at S\$10.7bn and non-bank exposure at S\$11.9bn. Nonetheless, customers include mainly domestic and policy banks, top-tier SOEs, large local corporates and foreign investment enterprises. NPL ratio for non-bank Mainland China loans stable at 0.3%.

NIMs: Management only expects improvement in NIMs in the later part of 2022. Asset quality is expected to stabilise and management expects to continue to see strong demand for loans as cross border activities pick up. ASEAN loans growth are expected to be higher with some slowdown in Singapore and North Asia. Growth so far has been skewed towards the developed markets as the ASEAN economy remains muted, but management expects this to change in 2022 as the economy recovers.

Table 1: UOB guidance vs PSR estimates for FY21e

Assumptions	UOB	PSR
NIM (%)	Stable (1.56%)	1.56%
Loan growth (%)	High-single-digit	7.7%
Cost-income ratio (%)	Around 44%	44%
Credit Cost (bps)	Below 25 bps	16

Source: Company, PSR

Investment Action

Maintain ACCUMULATE with unchanged target price of S\$29.00

We maintain our ACCUMULATE recommendation with an unchanged GGM target price of S\$29.00. We are keeping our FY21e forecast unchanged. 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	6,170	6,472
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	9,821	9,988
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	4,960	5,138
Associates & JVs	106	51	132	132	133
Profit Before Tax	4,824	5,176	3,567	5,092	5,271
Taxation	(805)	(811)	(632)	(875)	(895)
Profit After Tax	4,019	4,365	2,935	4,217	4,376
Non-controlling Interest	13	18	14	20	21
Net Income, reported	4,006	4,347	2,921	4,197	4,355
Net Income, adj.	4,006	4,347	2,921	4,197	4,355

Per share data

Y/E Dec	FY18	FY19	FY20	FY21e	FY22e
EPS, reported	2.34	2.55	1.69	2.40	2.54
EPS, adj.	2.34	2.54	1.68	2.40	2.54
DPS	1.20	1.30	0.78	1.20	1.30
BVPS (less pref shares)	21.31	22.33	23.03	24.71	26.04
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%	15.3%	14.9%
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	34,644	43,042
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	298,111	310,085
Others	39,861	44,794	49,764	49,396	50,524
Total Assets	388,093	404,410	422,227	447,004	467,874
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	43,424	45,886
Non-controlling interest	190	208	222	242	248
Total Equity	37,816	38,836	40,626	43,665	46,134

Valuation Ratios

Y/E Dec	FY18	FY19	FY20	FY21e	FY22e
P/E (X), adj.	11.6	16.0	15.5	11.3	10.7
P/B (X)	1.3	1.2	1.2	1.1	1.0
Dividend Yield	4.4%	4.8%	2.9%	4.8%	4.8%

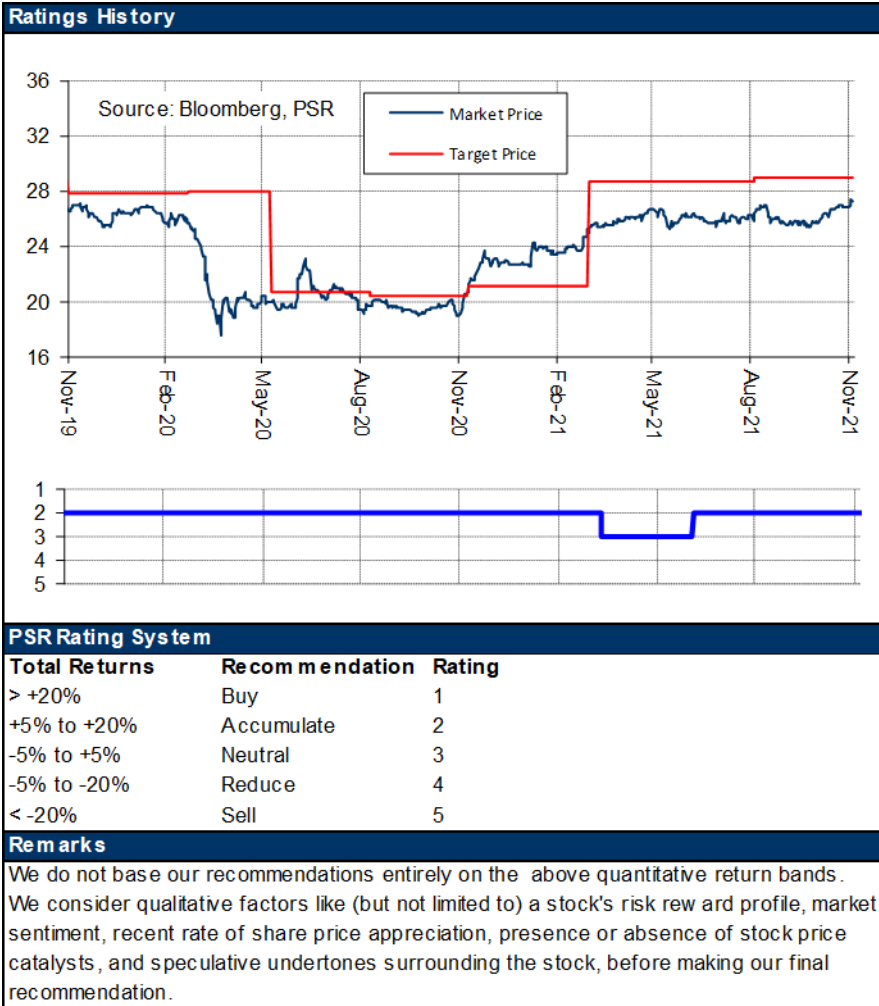
Growth & Margins

Growth					
Net interest income	12.5%	5.5%	-8.1%	2.3%	4.9%
Non interest income	-4.6%	19.9%	-9.5%	16.2%	-3.7%
Pre provision op profit	6.4%	10.1%	-8.6%	7.0%	1.7%
Operating income	15.2%	8.6%	-33.0%	44.4%	3.6%
Net income, reported	18.2%	8.5%	-32.8%	43.7%	3.8%
Margins					
Net interest margin	1.82%	1.78%	1.57%	1.56%	1.56%

Key Ratios

	FY18	FY19	FY20	FY21e	FY22e
ROE	11.2%	11.8%	7.8%	10.2%	10.2%
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%	35.2%
Cost/income ratio	43.9%	44.6%	45.6%	43.6%	44.2%
Loan/deposit ratio	88.2%	85.0%	85.3%	85.7%	84.9%
NPL ratio	1.5%	1.5%	1.9%	2.3%	2.1%

Source: Company, PSR



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