

United Overseas Bank (UOB SP)

Advancing transparency

Strong disclosures. Net Zero needs clarity. BUY

UOB scores a 74 under our enhanced ESG 2.0 scoring, placing it firmly above average. The Group's quantitative ESG disclosure levels are high boosting transparency. Nevertheless, it is yet to articulate a clear pathway, timeline or interim targets towards Net Zero. We believe disclosures here as well as improving the mix of independence and diversity in its Board could result in a higher score. With an improving outlook on net interest margins together with strong capital levels and provisioning, maintain BUY.

Strong levels of disclosure and transparency

UOB's quantitative ESG disclosures are the most extensive compared to domestic peers. This significantly improves transparency and risk measurement. However, there is no disclosure on its Scope 3 financed emissions or a time-bound target on when this may become available. Separately, UOB is the first domestic bank to achieve carbon neutrality on its operations and has a continuing target to maintaining this emissions profile. We also note UOB's asset management and venture capital divisions are aligning their portfolios towards low carbon factors, while also practicing stewardship with increased engagement in investee companies on ESG topics.

Clearer pathway needed for Net Zero

The Group's pathway towards Net Zero and interim targets are not clear, unlike peers such as DBS. More details here could support a higher scoring, in our view. At the same time, increasing the proportion of independent directors at the Board as well as raising diversity (only 20% of the Board is female) could further strengthen governance, we believe. Separately, we believe UOB's investment in technology as well as its large, SME client base gives it significant opportunities for enhancing financial inclusion across the region.

Strong ASEAN footprint. Maintain BUY

While NOII is likely to remain under pressure in the context of current market conditions, we believe rapidly improving NIMs from Fed hikes should provide an offset. At the same time, the Group's gearing towards secular ASEAN growth driven by domestic consumption as well as North-South supply chain shifts should support medium term earnings visibility. While asset quality under slow economic conditions remain a risk, UOB's strong capital and provisioning offers buffers. Maintain BUY.

FYE Dec (SGD m)	FY20A	FY21A	FY22E	FY23E	FY24E
Operating income	9,177	9,789	11,168	12,336	13,058
Pre-provision profit	4,993	5,476	6,189	6,846	7,313
Core net profit	2,915	4,075	4,329	4,888	5,435
Core EPS (SGD)	1.7	2.4	2.6	2.9	3.2
Core EPS growth (%)	(33.5)	39.6	6.2	12.9	11.2
Net DPS (SGD)	0.8	1.2	1.2	1.4	1.5
Core P/E (x)	13.0	11.1	10.2	9.0	8.1
P/BV (x)	0.9	1.1	1.0	0.9	0.9
Net dividend yield (%)	3.5	4.5	4.6	5.2	5.8
Book value (SGD)	24.29	25.29	26.66	28.19	29.90
ROAE (%)	7.2	9.8	9.9	10.6	11.1
ROAA (%)	0.7	0.9	0.9	1.0	1.0
Consensus net profit	-	-	4,428	5,168	5,577
MKE vs. Consensus (%)	-	-	(2.2)	(5.4)	(2.5)

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BUY

Share Price	SGD 26.15
12m Price Target	SGD 32.28 (+23%)
Previous Price Target	SGD 32.28

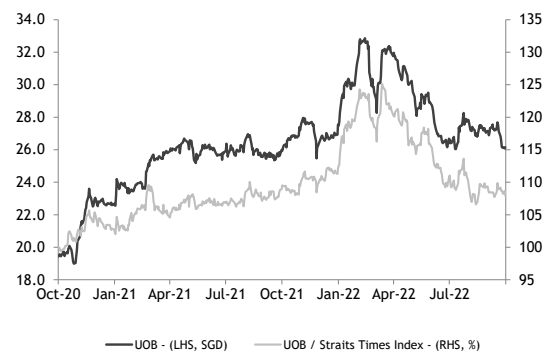
Statistics

52w high/low (SGD)	32.86/25.47
3m avg turnover (USDm)	45.2
Free float (%)	74.6
Issued shares (m)	1,681
Market capitalisation	SGD43.9B USD30.8B

Major shareholders:

WEE FAMILY	10.2%
LIEN FAMILY	5.1%
Tai Tak Estates Sdn. Bhd.	4.1%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(3)	(2)	1
Relative to index (%)	(0)	(2)	0

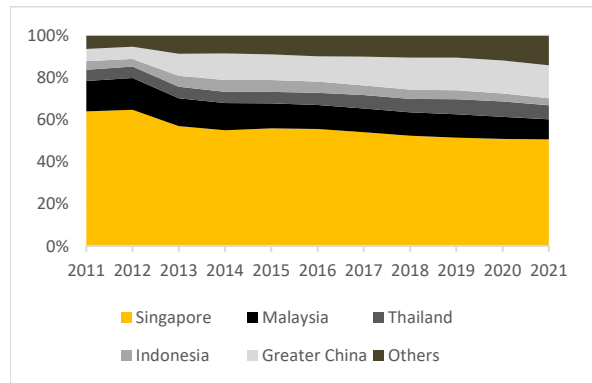
Source: FactSet

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Tear Sheet Insert

Value Proposition

- Largest SME lender, with strong, legacy relationships, resulting in higher lending yields than peers.
- Conservative, focused on traditional, commercial banking. Headed by founding family, who have not historically made aggressive overseas or trading bets.
- Wide SE Asian regional footprint through fully-owned operations in Malaysia, Thailand, Indonesia as well as HK providing diversified earnings growth.
- Well integrated regional operation providing cross-border services to an increasingly regional client base

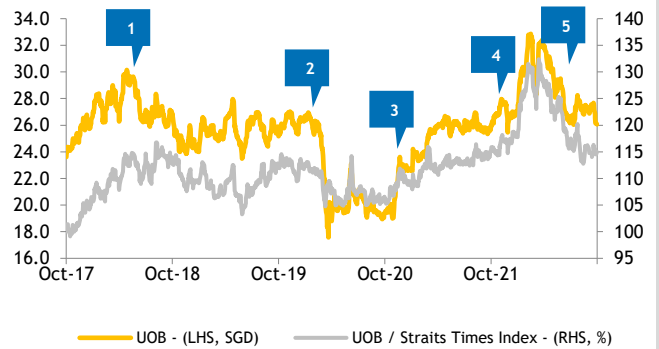
Group loan mix by geography (%)



Source: Company

Price Drivers

Historical share price trend



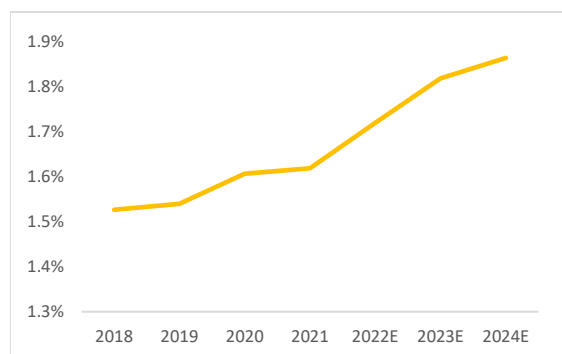
Source: Company, Maybank IBG Research

1. Concerns of global-trade war, falling loan growth from property cooling measures.
2. Beginning of the Covid-19 pandemic
3. Vaccine led recovery optimism kicking AVOID things like citing QE as the buy side knows what the Fed's been up to
4. Expectations of Fed rate hikes
5. Growth concerns from higher interest rates

Financial Metrics

- We expect Net Interest Margins (NIM) to turnaround after bottoming in 2021 at 1.51% to 1.55% in 2023E from rising interest rates
- Cost-to-income should moderate from 45% in 2022E to 44% by 2024E as the Citi integration come through
- Expect loan growth to slow from 11% YoY in 2021 to 8% in 2022E as global growth slows
- Expect NPLs to rise from 1.6% in 2021 to 1.9% in 2024E as higher interest rates and slower growth bite

Gross NPL (%)



Source: Company

Swing Factors

Upside

- Higher than expected interest rate hikes contributing to NII
- Turnaround in trading income as market conditions improve
- Increased IB&A and cross-border deals from North-South supply chain shift acceleration

Downside

- Faster than expected deteriorating asset quality especially in North Asia exposure
- Digital platform outages and cyber-attacks
- Spiralling wage costs pressuring cost-to-income ratio

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Risk Rating & Score ¹	19.8
Score Momentum ²	+0.2
Last Updated	03 Oct 2022
Controversy Score ³ (Updated: 03 Oct 2022)	2

Business Model & Industry Issues

- The nature of UOB’s business exposes it to multiple ESG risks - directly and through its clients. Particular risks include environmental, governance, money laundering and corruption.
- 17% of incremental lending in 2021 is classified as sustainable financing, compared to domestic peers where classifications averaged 56%. Its total sustainability portfolio is around 5% of total loans.
- UOB has invested significantly in a standardised IT platform across all its regional operations (IT expenses +17% CAGR 2016-2021). This has helped it to build scale and deploy financial inclusion solutions quickly and effectively. On the flip side, this exposes UOB to data, cybersecurity and privacy risks.
- UOB displays no exceptional risks typical for a large, regional D-SIB for ESG. It is complemented by a strong balance sheet and proactive regulatory oversight by MAS.

Material E issues

- UOB is integrating sustainability considerations to its credit approach and have adopted a Group Environmental Risk Framework together with the Equator Principles for ESG risk assessments.
- It is limiting coal-mining exposure to clients with diversification strategies towards lower carbon business activities and has ceased expansion projects. It has also stopped financing coal power plants and exiting exposures
- UOB is conducting climate change risk scenario analysis to assess transition and physical risks to its portfolios. 7% of the portfolio is exposed to high carbon intensity sectors (excluding real estate and financials).
- Its U-Solar solar energy financing platform for corporates and consumers have financed projects that generated 279GWh on energy in 2021. 142k tCO2e avoided emissions. .
- Additional U-Energy and U-Drive platforms launched to develop energy efficient buildings and transportation infrastructure.

Material S issues

- As a bank with significant Singapore SME market share, UOB has elevated social risks - particularly in times of market volatility and recessions
- The Group is increasing sustainable wealth management product offerings across its retail and private banking segments with SGD9bn of ESG related AUM at end 2021
- The Group’s digital banking product - TMRW - is a key conduit for financial inclusion regionally. It targets to achieve 75% digitally registered customers with a monthly active rate of 35% by 2025
- The group has a long-standing history of supporting the development of the Arts with YoY growth in spending on related causes

Key G metrics and issues

- Between 2018-2019, five UOB Personal Bankers have been jailed and/or sanctioned on separate cases of mis-selling and cheating. In 2022 a former relationship manager was jailed for misappropriation of client funds
- While in each case the bank took action, it raises Fair Dealing risks. The Group has a Fair Dealing Guidelines Committee comprising of senior management that is appointment by the CEO. The Board also oversees this through the Risk Management Committee and Risk & Capital Committees.
- The Group is exposed to data security risks. It has established cross-border guidelines on dealing with personal data transfers. Additionally, an Enterprise Data Ethics Team as well as a Data Governance & Data Quality Team has been set up ensure responsible data handling. UOB has been awarded the Data Protection Trustmark and APEC Cross Border Privacy Rules System certifications by IMDA Singapore.
- UOB’s asset management has established a sustainability framework and has an active ownership policy. .
- The Group has also established a Sustainability Committee that reports to the Management Executive Committee - this is not a Board level committee.
- Diversity Risks. Women make up 36% of senior management roles - comparable with peers. At Board level, women make up 20% - low compared to global banks.
- Corporate Governance Risk: 70% of Board composition is Independent Directors, which is lower than 2020 and is lower compared to global banks.
- UOB is a signatory to the UN PRI. It includes a section on sustainability as part of its Annual Report, which is prepared under GRI and SGX standard with recommendations under TCFD.

¹**Risk Rating & Score** - derived by Sustainalytics and assesses the company’s exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company’s enterprise value, respectively, from ESG-driven financial impacts. ²**Score Momentum** - indicates changes to the company’s score since the last update - a **negative** integer indicates a company’s improving risk score; a **positive** integer indicates a deterioration. ³**Controversy Score** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

Quantitative parameters (Score: 83)						
	Particulars	Unit	2019	2020	2021	HSBC (2021)
E	Scope 1 GHG emissions	tCO2e	N/A	N/A	4,300	22,000
	Scope 2 GHG emissions	tCO2e	71,300	68,800	66,000	307,000
	Total	tCO2e	N/A	N/A	70,300	329,000
	Scope 3 GHG emissions	tCO2e	11,600	1,500	600	12,000
	Total	tCO2e	N/A	N/A	70,900	341,000
	GHG intensity (Scope 1 and 2)	kgCO2e/emp	N/A	N/A	2,888	1,470
	Energy consumption	MWh	137,700	133,900	129,400	833,000
	Water consumption	m3	567,300	467,400	404,600	1,594,000
	Printing paper from eco-friendly sources	%	33%	35%	35%	N/A
	Total waste generated	ton	2,115	1,540	2,153	13,000
Cases of environmental non-compliance	number	0	0	0	N/A	
S	% of women in workforce	%	60.9%	61.3%	61.5%	52.0%
	% of women in management roles	%	N/A	34.9%	36.3%	32.0%
	Policy, data & framework breaches	number	0	0	0	0
	Average training hours per employee	hours	53.0	48.9	50.4	26.3
	Non-compliance concerning fair dealing outcomes	number	0	0	0	N/A
G	MD/CEO salary as % of reported net profit	%	0.25%	0.34%	0.27%	0.04%
	Board salary as % of reported net profit	%	0.06%	0.09%	0.11%	0.05%
	Independent directors on the Board	%	60%	73%	70%	85%
	Female directors on the Board	%	10%	9%	20%	38%

Qualitative Parameters (Score: 50)	
a) is there an ESG policy in place and whether there is a standalone ESG committee or is it part of a risk committee?	<i>No. There is no Board sustainability committee, but there is a Group Sustainability Committee reporting to the CEO and a Corporate Sustainability Office.</i>
b) is the senior management salary linked to fulfilling ESG targets?	<i>Not disclosed.</i>
c) Does the company follow the task force of climate related disclosures (TCFD) framework for ESG reporting?	<i>Yes</i>
e) Does the company have a mechanism to capture Scope 3 emissions - which parameters are captured?	<i>Currently it is capturing parameters including business air travel to/from Singapore, Indonesia, Malaysia, Thailand, Greater China and Vietnam. Financed emissions not disclosed.</i>
f) What are the 2-3 key carbon mitigation/water/waste management strategies adopted by the company?	<i>Installing sustainability features in building including energy-efficient fixtures and adopting operational technologies to maintain critical building parameters.</i>
g) Does carbon offset form part of the net zero/carbon neutrality target of the company?	<i>Yes. Sourcing carbon offsets to address Scope 1-3.</i>

Target (Score: 80)		
Particulars	Target	Achieved
Achieve 14% reduction in electricity use intensity by 2030 with baseline 2018	-14%	N/A
Achieve green building certifications for all key wholly-owned buildings by 2030		Ongoing
Operational carbon neutrality for Scope 1-3 emissions by 2021	2021	Achieved
Have 90% of suppliers in SG acknowledge group supplier sustainability principles	90%	100%
Sustainable financing target of SGD30bn by 2023	SGD30bn	SGD17bn
Impact		
NA		
Overall score: 74		
As per our ESG matrix, UOB (UOB SP) has an overall score of 74		

ESG score	Weights	Scores	Final Score
Quantitative	50%	83	42
Qualitative	25%	50	13
Target	25%	80	20
Total			74

UOB displays a relatively high degree with transparency in its ESG disclosures. Its overall breadth of quantitative disclosures are strong, but lacking in historical comparisons. It also provides detailed qualitative targets that are trackable and measurable. We believe better disclosure levels are needed on Scope 3 financed emissions as well as alignment of senior management rewards towards achieving ESG outcomes. See Appendix 1.

Appendix 1

Methodology of our proprietary ESG scoring

We have evaluated the ESG ratings based on quantitative, qualitative and ESG targets. We assign a score for each of these three parameters. The overall rating is based on the weighted average of the scores: quantitative (50%), qualitative (25%) and ESG target (25%). For the quantitative, qualitative and ESG target, the sub-parameters are assigned a score - '0' for data not available, '+1' for improving trajectory, positive change, 'Yes', better than peers or a positive number if historical is not available and '-1' for declining trajectory, negative change, 'No', lower than peers or a negative number. The total of the scores of all sub-parameters is divided by the total number of sub-parameter to receive the final score of that segment. The inputs of each sub-parameters may be different for different industries depending on the key areas to monitor for each industry. A company should achieve a minimum score of 50 for an average ESG rating.

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Metrics					
Core P/E (x)	13.0	11.1	10.2	9.0	8.1
Core FD P/E (x)	13.0	11.1	10.2	9.0	8.1
P/BV (x)	0.9	1.1	1.0	0.9	0.9
P/NTA (x)	1.0	1.2	1.1	1.0	1.0
Net dividend yield (%)	3.5	4.5	4.6	5.2	5.8

INCOME STATEMENT (SGD m)

Interest income	9,623.0	8,204.0	10,734.5	12,966.4	14,261.1
Interest expense	(3,587.0)	(1,816.0)	(2,848.7)	(4,054.2)	(4,885.3)
Net interest income	6,036.0	6,388.0	7,885.8	8,912.2	9,375.9
Net insurance income	0.0	0.0	0.0	0.0	0.0
Net fees and commission	1,997.0	2,412.0	2,532.6	2,684.6	2,953.0
Other income	1,144.0	989.0	749.7	739.1	729.0
Total non-interest income	3,141.0	3,401.0	3,282.3	3,423.7	3,682.0
Operating income	9,177.0	9,789.0	11,168.1	12,335.8	13,057.9
Staff costs	(2,501.0)	(2,602.0)	(3,070.4)	(3,377.4)	(3,444.9)
Other operating expenses	(1,683.0)	(1,711.0)	(1,908.5)	(2,112.9)	(2,300.3)
Operating expenses	(4,184.0)	(4,313.0)	(4,978.8)	(5,490.3)	(5,745.3)
Pre-provision profit	4,993.0	5,476.0	6,189.2	6,845.5	7,312.6
Loan impairment allowances	(1,554.0)	(657.0)	(812.8)	(914.0)	(705.5)
Other allowances	0.0	0.0	0.0	0.0	0.0
Associates & JV income	98.0	118.0	118.0	118.0	118.0
Pretax profit	3,537.0	4,937.0	5,494.4	6,049.5	6,725.2
Income tax	(606.0)	(850.0)	(1,153.8)	(1,149.4)	(1,277.8)
Minorities	(16.0)	(12.0)	(12.0)	(12.0)	(12.0)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	2,915.0	4,075.0	4,328.6	4,888.1	5,435.4
Core net profit	2,915.0	4,075.0	4,328.6	4,888.1	5,435.4
Preferred Dividends	(45.2)	0.0	0.0	0.0	0.0

BALANCE SHEET (SGD m)

Cash & deposits with banks	77,082.0	75,474.0	78,992.1	78,049.7	87,638.9
Sec. under resale agreements	0.0	0.0	0.0	0.0	0.0
Derivatives financial assets	0.0	0.0	0.0	0.0	0.0
Dealing securities	0.0	0.0	0.0	0.0	0.0
Available-for-sale securities	0.0	0.0	0.0	0.0	0.0
Investment securities	51,425.0	57,180.0	60,949.6	65,174.0	62,197.9
Loans & advances	277,201.0	306,713.0	330,701.5	352,153.5	371,694.0
Central bank deposits	0.0	0.0	0.0	0.0	0.0
Investment in associates/JVs	1,210.0	1,245.0	1,245.0	1,245.0	1,245.0
Insurance assets	0.0	0.0	0.0	0.0	0.0
Fixed assets	3,923.0	4,011.0	4,297.9	4,605.4	4,934.9
Intangible assets	4,143.0	4,145.0	4,145.0	4,145.0	4,145.0
Other assets	16,830.0	10,555.0	11,082.8	11,636.9	12,218.7
Total assets	431,814.0	459,323.0	491,413.9	517,009.6	544,074.5
Deposits from customers	324,598.0	352,633.0	376,800.5	396,085.2	416,202.5
Deposits from banks & FIs	15,977.0	15,561.0	15,872.2	16,189.7	16,513.5
Derivatives financial instruments	0.0	0.0	0.0	0.0	0.0
Subordinated debt	5,363.0	5,333.0	5,333.0	5,333.0	5,333.0
Other securities in issue	0.0	0.0	0.0	0.0	0.0
Other borrowings	24,245.0	28,723.0	34,028.1	37,430.9	41,174.0
Insurance liabilities	0.0	0.0	0.0	0.0	0.0
Other liabilities	20,500.0	14,212.0	14,212.0	14,212.0	14,212.0
Total liabilities	390,683.0	416,462.0	446,245.8	469,250.8	493,434.9
Share capital	5,044.0	5,014.0	5,014.0	5,014.0	5,014.0
Reserves	35,857.0	37,619.0	39,926.1	42,516.8	45,397.6
Shareholders' funds	40,901.0	42,633.0	44,940.1	47,530.8	50,411.6
Preference shares	0.0	0.0	0.0	0.0	0.0
Minority interest	230.0	228.0	228.0	228.0	228.0
Total equity	41,131.0	42,861.0	45,168.1	47,758.8	50,639.6
Total liabilities & equity	431,814.0	459,323.0	491,413.9	517,009.6	544,074.5

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Ratios					
Growth (%)					
Net interest income	(8.0)	5.8	23.4	13.0	5.2
Non-interest income	(9.4)	8.3	(3.5)	4.3	7.5
Operating expenses	(6.4)	3.1	15.4	10.3	4.6
Pre-provision profit	(10.2)	9.7	13.0	10.6	6.8
Core net profit	(32.9)	39.8	6.2	12.9	11.2
Gross loans	4.7	10.5	7.8	6.5	5.5
Customer deposits	4.5	8.6	6.9	5.1	5.1
Total assets	6.8	6.4	7.0	5.2	5.2
Profitability (%)					
Non-int. income/Total income	34.2	34.7	29.4	27.8	28.2
Average lending yields	2.44	1.94	2.36	2.68	2.80
Average financing yields	0.00	0.00	100.00	200.00	300.00
Average cost of funds	0.99	0.47	0.68	0.91	1.05
Net interest margin	1.53	1.51	1.73	1.85	1.84
Net income margin	31.76	41.63	38.76	39.63	41.63
Cost/income	45.6	44.1	44.6	44.5	44.0
Liquidity (%)					
Loans/customer deposits	85.4	87.0	87.8	88.9	89.3
Asset quality (%)					
Net NPL	0.1	0.3	0.5	0.6	0.7
Gross NPL	1.6	1.6	1.7	1.8	1.9
Net NPF	0.0	0.0	0.0	0.0	0.0
Gross NPF	0.0	0.0	0.0	0.0	0.0
(SP+GP)/average gross loans	0.6	0.2	0.3	0.3	0.2
Loan loss coverage	107.3	96.0	86.5	79.9	72.9
Capital adequacy (%)					
CET1	14.7	13.5	13.5	13.4	13.4
Tier 1 capital	15.8	14.4	14.4	14.3	14.3
Risk-weighted capital	18.4	16.6	16.5	16.3	16.2
Returns (%)					
ROAE	7.2	9.8	9.9	10.6	11.1
ROAA	0.7	0.9	0.9	1.0	1.0
Shareholders equity/assets	9.5	9.3	9.1	9.2	9.3

Source: Company; Maybank IBG Research

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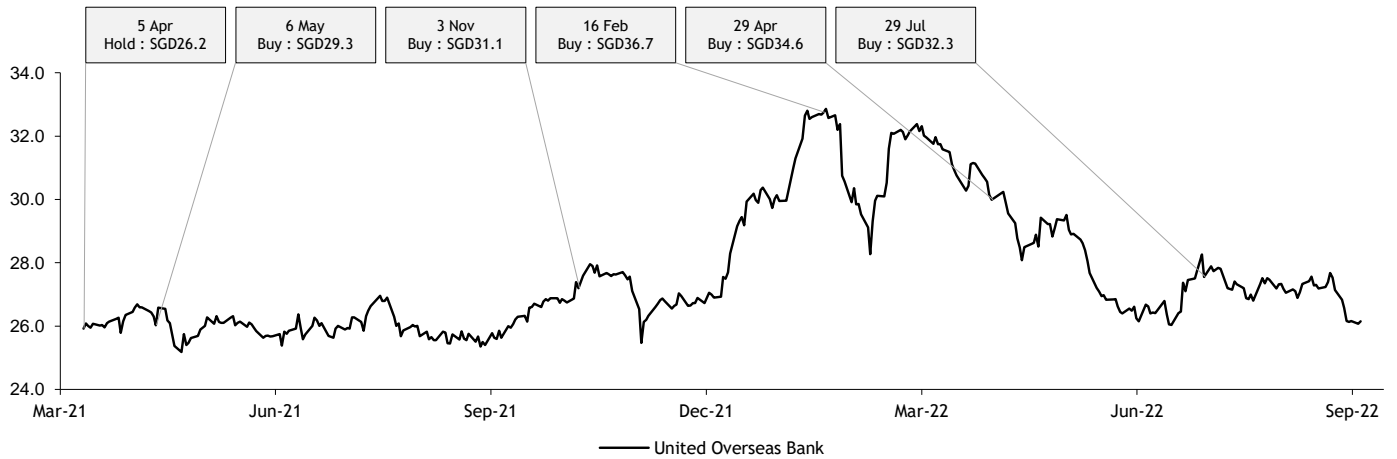
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