

# United Overseas Bank (UOB SP)

## Steady performance

# HOLD

Share Price SGD 28.50  
 12m Price Target SGD 30.88 (+8%)  
 Previous Price Target SGD 30.86

### ASEAN growth positive. Dividends unlikely to surprise

UOB's FY23 earnings were ahead of expectation. Better NII helped and so did lower provisions for bad loans. However, NIMs are set to see increased pressure going forward from lower loan yields and higher funding costs. The Group's regional franchise, especially with the integration of Citi, is set for expansion, especially as ASEAN economic growth takes off. However, with limited upside for potential dividend surprises, we think risk-reward is currently balanced. Raise TP to SGD30.88. Maintain HOLD.

### NIM pressure, yet NII held up. Noll boost

4Q23 NIMs of 2.02% fell -20bps YoY. December exit NIMs stand at similar levels, pointing to further softening in 1Q24. Loan margins seem to be moderating fast in the face of competition for a narrow pool of high quality customers. 2H23 funding costs increased +38bps HoH, whilst asset yields increased just +28bps. Management claims they have taken steps to lower fixed deposit rates. Low-cost CASA to total deposits have increased to 48.9% in 4Q23 vs 47.5% a year ago. This is positive, but might not be enough to offset the loan yield declines. On the other hand, 4Q23 fees expanded +17% YoY led by credit cards and recovering wealth. With the integration of the Citi franchise almost complete, there should be further growth synergies, in our view. We have raised FY24-25E Noll by 13% each.

### ASEAN integration, asset quality positive

ASEAN operating profits expanded +21% QoQ despite a strong SGD. This points to UOB's strategy of cross-border client servicing and integration is working. The region delivered 22% of Group operating profits in FY23. We expect this to expand, especially with the higher ROE Citi-integration. Separately, asset quality continues to be resilient. NPLs have fallen to 1.5% in 4Q23 vs. 1.6% in 4Q22. While Greater China has seen a jump to 1.1% (vs. 0.9% 4Q22), this is still low, in our view. With limited systemic stress seen, we have lowered our NPL assumptions by 8-19% in FY24-25E.

### Near-term dividend upside limited? Maintain HOLD

With a SGD0.85 final dividend, the overall payout was lower than expected. However, it was within the 50% payout ratio guided by Management. The Group's CET1 is a strong 13.4%, while BASEL4 implementation in 2H24 could hike this a further 150bps. However, there is limited guidance on additional returns to shareholders, in contrast to DBS. This may limit re-rating catalysts in the near term. Following FY23, we have raised FY24-25E EPS by 4-9%. Our multi-stage DDM (COE 9.1%, 3% terminal) TP to SGD30.88 from SGD30.86. Maintain HOLD.

FYE Dec (SGD m)	FY22A	FY23A	FY24E	FY25E	FY26E
Operating income	11,575	13,932	14,047	15,039	15,845
Pre-provision profit	6,537	8,155	7,882	8,299	8,520
Core net profit	4,819	6,151	5,993	6,341	6,486
Core EPS (SGD)	2.9	3.7	3.6	3.8	3.9
Core EPS growth (%)	18.1	27.8	(2.6)	5.8	2.3
Net DPS (SGD)	1.4	1.7	1.8	1.9	1.9
Core P/E (x)	10.7	7.7	8.0	7.5	7.3
P/BV (x)	1.2	1.0	1.0	0.9	0.9
Net dividend yield (%)	4.4	6.0	6.3	6.5	6.8
Book value (SGD)	25.90	27.64	29.42	31.36	33.30
ROAE (%)	11.2	13.7	12.6	12.5	12.0
ROAA (%)	1.0	1.2	1.1	1.1	1.1
Consensus net profit	-	-	5,912	6,172	na
MIBG vs. Consensus (%)	-	-	0.9	2.7	na

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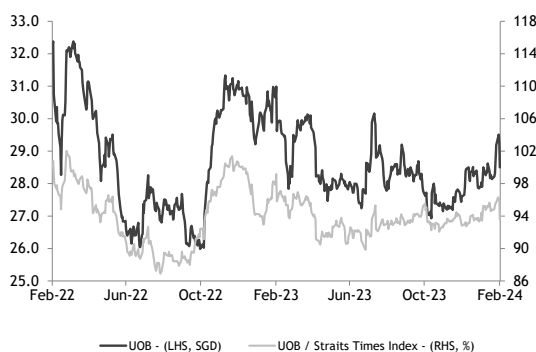
### Statistics

52w high/low (SGD)	30.16/26.93
3m avg turnover (USDm)	44.9
Free float (%)	74.6
Issued shares (m)	1,681
Market capitalisation	SGD47.9B
	USD35.6B

### Major shareholders:

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

### Price Performance



	-1M	-3M	-12M
Absolute (%)	2	4	(8)
Relative to index (%)	(0)	1	(6)

Source: FactSet

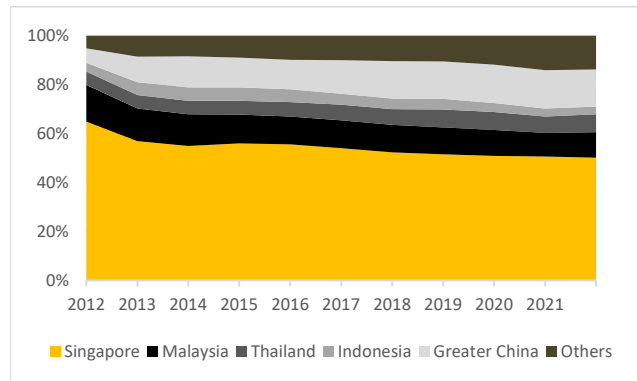
### Glossary

NII - Net interest income  
 Noll- Non-interest income  
 NIM - Net interest margin  
 NPL - Non-performing loan  
 CASA - Current and Savings accounts

## 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

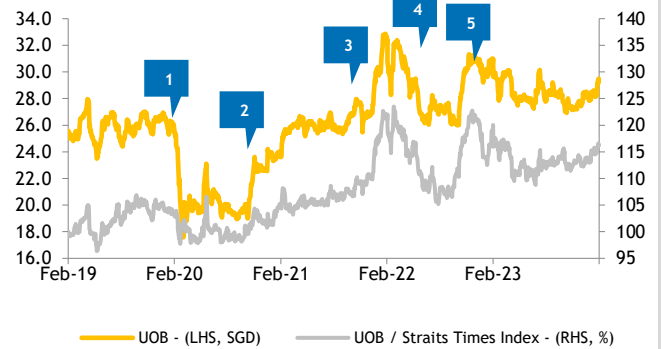
### Loan mix by geography (%)



Source: Company

## Price Drivers

### Historical share price trend



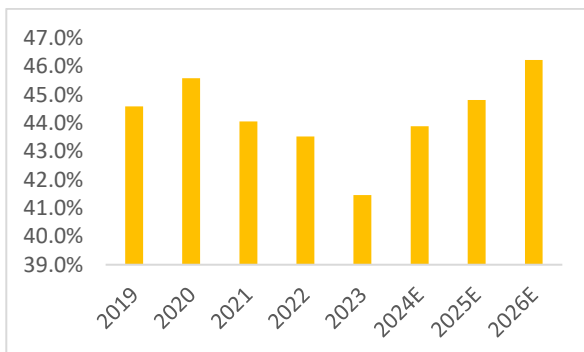
Source: Company, Maybank IBG Research

1. Beginning of the Covid-19 pandemic
2. Vaccine led recovery optimism kicking
3. Expectations of Fed rate hikes
4. Growth concerns from higher interest rates
5. Rising NIMs, flight to safety from North Asia growth concern

## Financial Metrics

- NIMs should see downside in FY24E due to higher funding costs and lower asset yields. This should drag it down by -7bps YoY following a +23bps YoY growth in FY23
- We forecast NPLs to remain benign with an improved growth outlook in ASEAN. However, we forecast them to reach 1.6% by FY25E from 1.5% in FY24E
- Credit charges are expected come within guidance at 26bps in FY24E and keep to a normalised level of 25bps thereafter. We expect ROEs to average 12.3% in 2024-26E compared to the 10.3% in FY19-23.

### Cost to income ratio (%)



Source: Company

## Swing Factors

### Upside

- Improved growth trajectory for China and ASEAN driving higher loans and fees
- Turnaround in wealth management and other fee income as market conditions improve
- Potentially higher dividends or special dividends following increased capital based from BASEL4

### Downside

- Asset quality downside surprises, especially from China and North American commercial property
- Digital platform outages and cyber attacks
- Higher than expected funding costs as interest rates rise

## 2H23 results summary

Fig 1: 2H23 results summary

SGDm	2H23	2H22	YoY (%)	1H23	HoH (%)	2023	2022	YoY	Comments
Net interest income	4,833	4,794	1	4,846	0	9,679	8,343	16	4Q lower due to falling NIMs and weak loan growth
Non-interest income	2,034	1,720	18	2,219	-8	4,253	3,232	32	Jump in credit card fees and recovering wealth
Total income	6,867	6,514	5	7,065	-3	13,932	11,575	20	
Total expenses	(2,889)	(2,775)	4	(2,889)	0	(5,778)	(5,016)	15	Largely driven by higher staff costs and IT expense
Profit before allowances (PPOP)	3,978	3,739	6	4,177	-5	8,154	6,559	24	
Allowances for credit and other losses	(387)	(288)	34	(534)	-28	(921)	(603)	53	Higher SPs on specific clients. No systemic weakness seen
Associates	28	43	-35	41	-32	69	94	-27	
Profit before tax	3,619	3,494	4	3,684	-2	7,303	6,050	21	
Income tax expense & MI	(642)	(693)	-7	(600)	7	(1,242)	(1,231)	1	
Core Net Profit	2,976	2,801	6	3,084	-4	6,060	4,819	26	105%/106% of Street and MIBG FY23E
Reported Net profit	2,786	2,555	9	2,925	-5	5,711	4,573	25	
NIM (Reported) %	2.05%	2.08%	(1)	2.13%	(4)	2.09%	1.86%	12	Loan yields pressured from rising competition
Cost/income ratio	42.1%	42.6%	-1	40.9%	3	41.5%	43.3%	-4	Falling due to cost mgmt., higher income
Gross Loans	321,150	319,663	0	318,979	1	321,150	319,663	0	ASEAN and North Asia showing some growth. SG declining
Deposits	385,469	368,553	5	376,762	2	385,469	368,553	5	SG liquidity increasing. CASA levels improving
Gross NPL %	1.5%	1.6%	-6	1.6%	(6)	1.5%	1.6%	(6)	Increasing recoveries

Source: Company data, Maybank IBG Research

## Key assumption changes

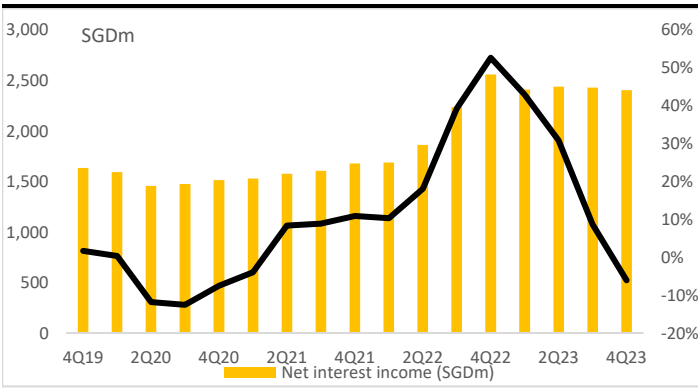
Fig 2: Key assumption changes

	2024E			2025E		
	Old	New	% Change	Old	New	% Change
Net Interest Income	9,711	9,763	1%	10,594	10,544	0%
Non-interest income	3,796	4,284	13%	3,973	4,495	13%
Total Income	13,507	14,047	4%	14,567	15,039	3%
Total Expenses	(6,041)	(6,165)	2%	(6,598)	(6,740)	2%
PPOP	7,466	7,882	6%	7,969	8,299	4%
Allowance for credit and other losses	(871)	(835)	-4%	(636)	(840)	32%
PBT	6,691	7,116	6%	7,429	7,528	1%
Core-Net Profit	5,477	5,993	9%	6,082	6,341	4%
NIM	1.88%	1.94%	6 bps	1.88%	2.01%	13 bps
Gross Loans	348,722	331,309	-5%	365,670	343,352	-6%
Deposits	388,390	399,003	3%	401,090	413,211	3%
Total NPA	6,455	5,220	-19%	6,061	5,600	-8%

Source: Maybank IBG Research

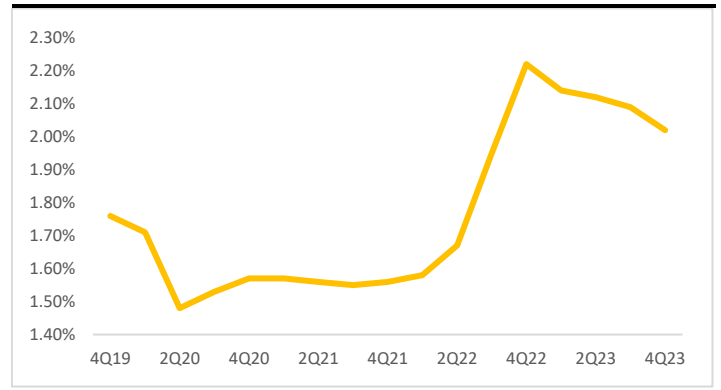
## Focus charts

**Fig 3: Net interest income YoY (%)**



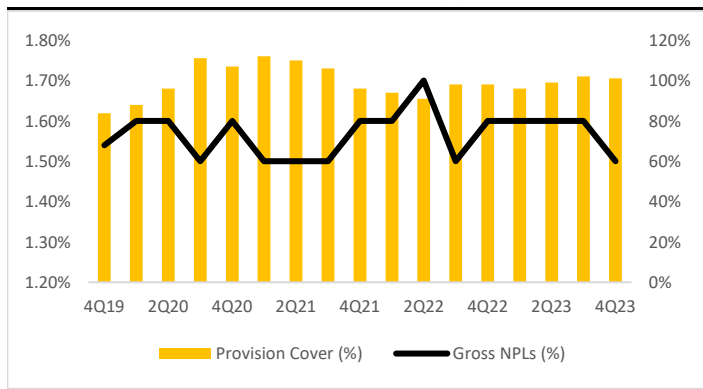
Source: Company data, Maybank IBG Research

**Fig 4: Net interest margin (%)**



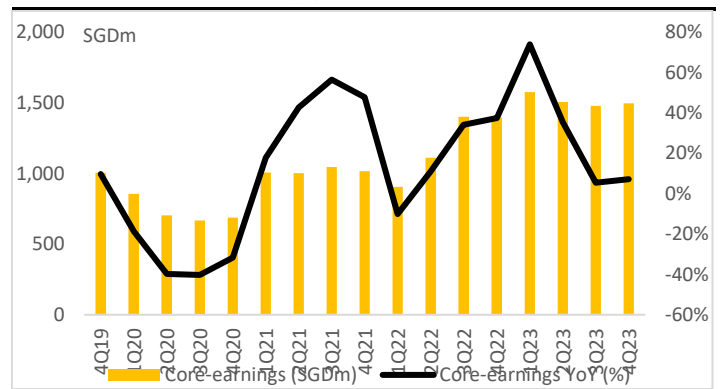
Source: Company data, Maybank IBG Research

**Fig 5: Gross NPLs and provision cover (%)**



Source: Company data, Maybank IBG Research

**Fig 6: Core-earnings YoY (%)**



Source: Company data, Maybank IBG Research

## Detailed assumptions

Fig 7: Detailed assumptions

	2018	2019	2020	2021	2022	2023	2024E	2025E	2026E
<b>Balance Sheet</b>									
Loan growth y-o-y (%)	10.9%	2.7%	4.7%	10.5%	2.9%	0.5%	3.2%	3.6%	3.7%
Corporate Loan growth y-o-y (%)	15.3%	4.0%	8.5%	15.0%	0.4%	0.2%	3.2%	3.6%	3.7%
Consumer Loan growth y-o-y (%)	4.2%	0.4%	-1.9%	1.7%	8.1%	1.1%	3.2%	3.6%	3.7%
Deposit growth y-o-y (%)	7.5%	6.0%	4.5%	8.6%	4.5%	4.6%	3.5%	3.6%	3.6%
CASA Deposit growth y-o-y (%)	5.2%	8.2%	22.9%	14.3%	-11.7%	7.7%	5.8%	5.6%	3.6%
Cash and balances with central banks as a % of Deposits	9%	8%	11%	10%	13%	14%	5%	7%	6%
Loan to Deposit Ratio (%)	89.3%	86.5%	86.7%	88.1%	86.7%	83.3%	83.0%	83.1%	83.1%
<b>Profit &amp; Loss</b>									
Net Interest Margin - Adjusted (%)	1.75%	1.74%	1.53%	1.51%	1.83%	2.01%	1.94%	2.01%	2.04%
Net Interest income growth y-o-y (%)	12.5%	5.5%	-8.0%	5.8%	30.6%	16.0%	0.9%	8.0%	5.5%
Non-interest income growth y-o-y (%)	-12.9%	19.7%	-9.4%	8.3%	-5.0%	31.6%	0.7%	4.9%	4.9%
PPOP growth y-o-y (%)	6.0%	8.7%	-10.2%	9.7%	19.4%	24.8%	-3.3%	5.3%	2.7%
PBT growth y-o-y (%)	14.7%	7.2%	-31.6%	39.6%	22.2%	21.1%	-2.6%	5.8%	2.3%
Cost to Income Ratio (%)	43.9%	44.6%	45.6%	44.1%	43.5%	41.5%	43.9%	44.8%	46.2%
Dividend Payout on total-profits (%)	50%	50%	45%	49%	49%	50%	50%	49%	50%
<b>Asset Quality</b>									
Gross NPL (%)	1.5%	1.5%	1.6%	1.6%	1.6%	1.5%	1.5%	1.6%	1.6%
Provision coverage (GP+SP+RLAR/NPA) (%)	94%	91%	107%	96%	98%	101%	106%	107%	109%
Credit charge (Allowance for credit losses/gross loans) (%)	0.16%	0.16%	0.57%	0.22%	0.19%	0.29%	0.26%	0.25%	0.25%
NPA growth y-o-y (%)	-5.1%	3.1%	7.2%	10.2%	1.0%	-3.5%	5.5%	7.3%	5.9%
<b>Capital</b>									
CET1 ratio (%)	13.9%	14.3%	14.7%	13.5%	13.3%	13.4%	14.6%	14.1%	14.2%
Tier-1 ratio (%)	14.9%	15.4%	15.8%	14.4%	14.4%	14.4%	15.6%	15.2%	15.3%
Total Capital ratio (%)	17.0%	17.4%	18.4%	16.6%	16.7%	16.6%	17.9%	17.2%	17.3%

Source: Company data, Maybank IBG Research

FYE 31 Dec	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Key Metrics</b>					
Core P/E (x)	10.7	7.7	8.0	7.5	7.3
Core FD P/E (x)	10.7	7.7	8.0	7.5	7.3
P/BV (x)	1.2	1.0	1.0	0.9	0.9
P/NTA (x)	1.3	1.2	1.1	1.0	0.9
Net dividend yield (%)	4.4	6.0	6.3	6.5	6.8
<b>INCOME STATEMENT (SGD m)</b>					
Interest income	12,862.0	22,242.0	22,891.2	23,782.6	25,109.9
Interest expense	(4,519.0)	(12,563.0)	(13,128.2)	(13,239.0)	(13,982.5)
<b>Net interest income</b>	<b>8,343.0</b>	<b>9,679.0</b>	<b>9,762.9</b>	<b>10,543.6</b>	<b>11,127.4</b>
Net insurance income	0.0	0.0	0.0	0.0	0.0
Net fees and commission	2,143.0	2,235.0	2,480.9	2,604.9	2,735.1
Other income	1,089.0	2,018.0	1,803.4	1,890.6	1,982.1
<b>Total non-interest income</b>	<b>3,232.0</b>	<b>4,253.0</b>	<b>4,284.3</b>	<b>4,495.5</b>	<b>4,717.2</b>
<b>Operating income</b>	<b>11,575.0</b>	<b>13,932.0</b>	<b>14,047.2</b>	<b>15,039.1</b>	<b>15,844.7</b>
Staff costs	(3,001.0)	(3,553.0)	(3,908.3)	(4,299.1)	(4,729.0)
Other operating expenses	(2,037.0)	(2,224.0)	(2,256.5)	(2,441.1)	(2,595.3)
<b>Operating expenses</b>	<b>(5,038.0)</b>	<b>(5,777.0)</b>	<b>(6,164.8)</b>	<b>(6,740.3)</b>	<b>(7,324.3)</b>
<b>Pre-provision profit</b>	<b>6,537.0</b>	<b>8,155.0</b>	<b>7,882.4</b>	<b>8,298.9</b>	<b>8,520.4</b>
Loan impairment allowances	(603.0)	(921.0)	(835.1)	(840.0)	(889.5)
Other allowances	0.0	0.0	0.0	0.0	0.0
Associates & JV income	97.0	69.0	69.0	69.0	69.0
<b>Pretax profit</b>	<b>5,785.0</b>	<b>6,863.0</b>	<b>7,086.3</b>	<b>7,527.8</b>	<b>7,699.9</b>
Income tax	(1,202.0)	(1,138.0)	(1,108.9)	(1,173.0)	(1,199.8)
Minorities	(10.0)	(14.0)	(14.0)	(14.0)	(14.0)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
<b>Reported net profit</b>	<b>4,573.0</b>	<b>5,711.0</b>	<b>5,963.4</b>	<b>6,340.8</b>	<b>6,486.1</b>
<b>Core net profit</b>	<b>4,819.0</b>	<b>6,151.0</b>	<b>5,993.4</b>	<b>6,340.8</b>	<b>6,486.1</b>
<b>BALANCE SHEET (SGD m)</b>					
Cash & deposits with banks	84,829.0	87,443.0	90,847.3	90,428.4	89,196.8
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	71,667.0	89,073.0	95,772.6	105,574.3	116,705.0
Loans & advances	315,355.0	317,005.0	326,672.4	338,294.2	350,466.6
Central bank deposits	0.0	0.0	0.0	0.0	0.0
Investment in associates/JVs	1,258.0	1,266.0	1,266.0	1,266.0	1,266.0
Insurance assets	0.0	0.0	0.0	0.0	0.0
Fixed assets	4,199.0	4,508.0	4,830.5	5,176.1	5,546.3
Intangible assets	4,900.0	4,984.0	4,984.0	4,984.0	4,984.0
Other assets	22,052.0	19,241.0	19,625.8	20,018.3	20,418.7
<b>Total assets</b>	<b>504,260.0</b>	<b>523,520.0</b>	<b>543,998.7</b>	<b>565,741.2</b>	<b>588,583.4</b>
Deposits from customers	368,553.0	385,469.0	399,003.3	413,211.1	428,138.4
Deposits from banks & FIs	24,537.0	32,371.0	35,608.1	39,168.9	43,085.8
Derivatives financial instruments	0.0	0.0	0.0	0.0	0.0
Subordinated debt	0.0	0.0	0.0	0.0	0.0
Other securities in issue	0.0	0.0	0.0	0.0	0.0
Other borrowings	40,593.0	36,280.0	37,005.6	37,745.7	38,500.6
Insurance liabilities	0.0	0.0	0.0	0.0	0.0
Other liabilities	26,971.0	22,932.0	22,932.0	22,932.0	22,932.0
<b>Total liabilities</b>	<b>460,654.0</b>	<b>477,052.0</b>	<b>494,549.0</b>	<b>513,057.7</b>	<b>532,656.8</b>
Share capital	5,077.0	5,004.0	5,004.0	5,004.0	5,004.0
Reserves	38,289.0	41,222.0	44,203.7	47,437.5	50,680.5
Shareholders' funds	43,366.0	46,226.0	49,207.7	52,441.5	55,684.5
Preference shares	0.0	0.0	0.0	0.0	0.0
Minority interest	240.0	242.0	242.0	242.0	242.0
Total equity	43,606.0	46,468.0	49,449.7	52,683.5	55,926.5
<b>Total liabilities &amp; equity</b>	<b>504,260.0</b>	<b>523,520.0</b>	<b>543,998.7</b>	<b>565,741.2</b>	<b>588,583.4</b>

FYE 31 Dec	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Key Ratios</b>					
<b>Growth (%)</b>					
Net interest income	30.6	16.0	0.9	8.0	5.5
Non-interest income	(5.0)	31.6	0.7	4.9	4.9
Operating expenses	16.8	14.7	6.7	9.3	8.7
Pre-provision profit	19.4	24.8	(3.3)	5.3	2.7
Core net profit	18.3	27.6	(2.6)	5.8	2.3
Gross loans	2.9	0.5	3.2	3.6	3.7
Customer deposits	4.5	4.6	3.5	3.6	3.6
Total assets	9.8	3.8	3.9	4.0	4.0
<b>Profitability (%)</b>					
Non-int. income/Total income	27.9	30.5	30.5	29.9	29.8
Average lending yields	2.82	4.61	4.55	4.54	4.60
Average financing yields	100.00	200.00	300.00	400.00	500.00
Average cost of funds	1.08	2.83	2.84	2.75	2.80
Net interest margin	1.83	2.01	1.94	2.01	2.04
Net income margin	41.63	44.15	42.67	42.16	40.94
Cost/income	43.5	41.5	43.9	44.8	46.2
<b>Liquidity (%)</b>					
Loans/customer deposits	85.6	82.2	81.9	81.9	81.9
<b>Asset quality (%)</b>					
Net NPL	0.2	0.2	0.2	0.1	0.1
Gross NPL	1.6	1.5	1.5	1.6	1.6
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	0.2	0.3	0.3	0.2	0.3
Loan loss coverage	97.6	100.6	105.8	106.9	108.6
<b>Capital adequacy (%)</b>					
CET1	13.3	13.4	14.6	14.1	14.2
Tier 1 capital	14.4	14.4	15.6	15.2	15.3
Risk-weighted capital	16.7	16.6	17.9	17.2	17.3
<b>Returns (%)</b>					
ROAE	11.2	13.7	12.6	12.5	12.0
ROAA	1.0	1.2	1.1	1.1	1.1
Shareholders equity/assets	8.6	8.8	9.0	9.3	9.5

Source: Company; Maybank IBG Research

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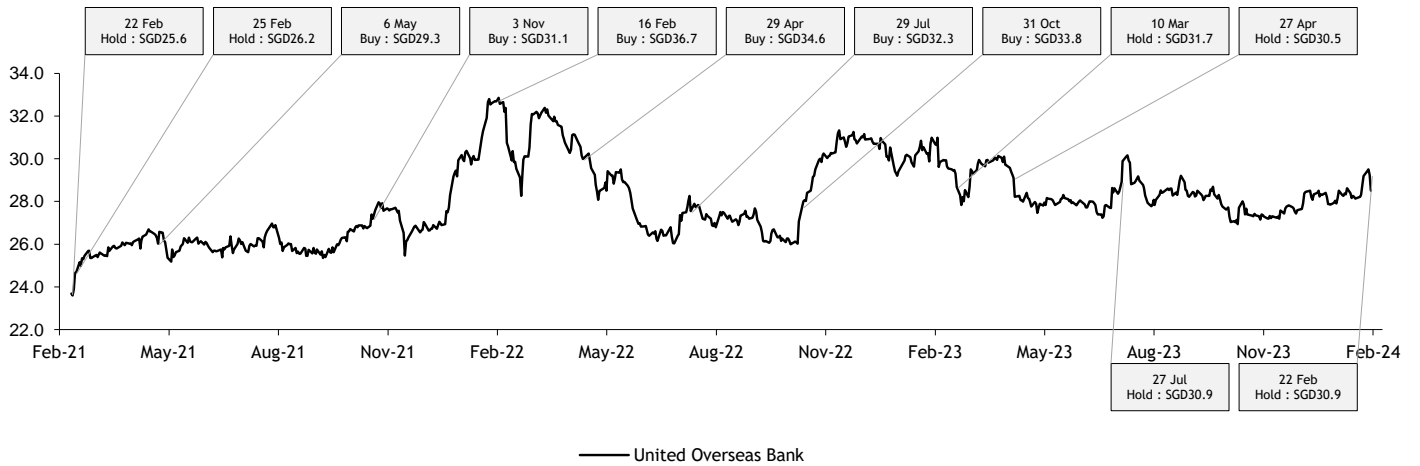
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