

United Overseas Bank (UOB SP)

Steady delivery

HOLD

Share Price SGD 29.88
 12m Price Target SGD 31.03 (+4%)
 Previous Price Target SGD 30.88

Slow, steady growth. Limited dividend upside

UOB's 1Q24 core-earnings were marginally ahead of MIBG/Street expectations. This was bolstered by trading income which is volatile. Operationally, we see slower growth for NII led by peaking loan yields and slow loan growth. Wealth management is a bright spot that needs to be watched as well as higher for longer interest rates keeping NIMs supported. Amidst slower growth, we see limited prospects for dividend surprises in the near term. Raise TP to SGD31.03. Maintain HOLD.

Upside to fees. Trading gains volatile

Trading related income jumped +32% QoQ led by UOB's own trading and liquidity management activities. Management claims the current run rate is sustainable for the rest of the year. While we upgrade 2024E Noll by 3% to reflect this, visibility of this sustaining is limited, in our view. Fees gained slight momentum +2% QoQ driven by a pick in wealth management. The Group is strategizing to move more clients towards higher fee wealth products from fixed deposits going forward, which bodes well for further growth in this segment. Credit card contribution to total fees was 15.5% vs. 15% a year ago, showing limited gains from lifestyle activities such as partnering the Taylor Swift concerts.

NII growth limited. Asset quality to remain supported

NII fell -2% YoY and QoQ. Some of this is due to a shorter quarter from CNY holidays, but NIMs also fell -12bps YoY and flat QoQ. While the funding mix has improved with CASA rising to 50.6% (vs. 48.9% 4Q23), this did not seem to be enough to offset peaking loan yields. Loans have grown at 2% YoY largely in North Asia and RoW. Management is guiding for low, single digit growth for 2024E pointing to limited demand in this high rate environment. A higher for longer rate environment is likely to keep loan growth in check, although we are watching for upgrade opportunities to margins going forward. Asset quality, on the other hand, remains stable (NPLs flat at 1.5% QoQ), while limited systemic risks are observed.

Lower dividend surprise upside. Maintain HOLD

Management is unlikely to review its 50% dividend payout guidance in the near-term. We also note a CET1 of 13.9%, while high, is not excessive especially amidst current uncertainty. As a result, we see limited upside to dividend upgrades or special dividends going forward. Post results, we raise 2024-25E EPS by 1-2%. Our multi-stage DDM (COE 9.1%, 3% terminal) TP to SGD31.03 from SGD30.88. Maintain HOLD.

FYE Dec (SGD m)	FY22A	FY23A	FY24E	FY25E	FY26E
Operating income	11,575	13,932	14,160	15,012	15,817
Pre-provision profit	6,537	8,155	7,995	8,272	8,493
Core net profit	4,819	6,151	6,098	6,375	6,463
Core EPS (SGD)	2.9	3.7	3.6	3.8	3.9
Core EPS growth (%)	18.1	27.8	(0.9)	4.5	1.4
Net DPS (SGD)	1.4	1.7	1.8	1.9	1.9
Core P/E (x)	10.7	7.7	8.2	7.8	7.7
P/BV (x)	1.2	1.0	1.0	1.0	0.9
Net dividend yield (%)	4.4	6.0	6.1	6.3	6.5
Book value (SGD)	25.90	27.64	29.45	31.40	33.33
ROAE (%)	11.2	13.7	12.8	12.5	11.9
ROAA (%)	1.0	1.2	1.1	1.1	1.1
Consensus net profit	-	-	5,857	6,089	6,285
MIBG vs. Consensus (%)	-	-	3.6	4.7	2.8

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Statistics

52w high/low (SGD)	31.15/26.93
3m avg turnover (USDm)	74.6
Free float (%)	74.6
Issued shares (m)	1,681
Market capitalisation	SGD50.2B
	USD37.1B

Major shareholders:

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

Price Performance



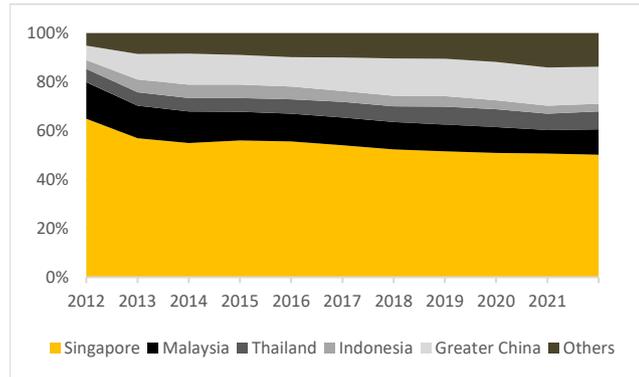
	-1M	-3M	-12M
Absolute (%)	2	6	5
Relative to index (%)	(1)	1	4

Source: FactSet

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 (%)

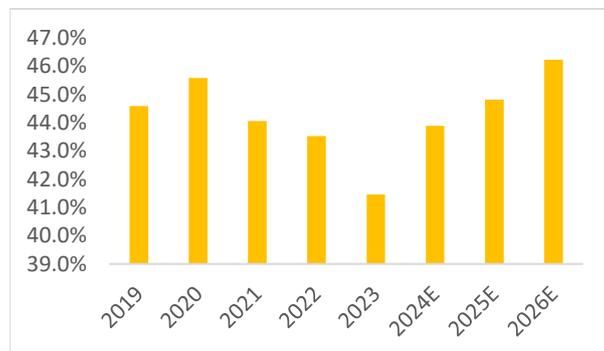


Source: Company

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 25bps in FY24E and keep to a normalised level of 25bps thereafter. We expect ROEs to average 12.4% in 2024-26E compared to the 10.3% in FY19-23.

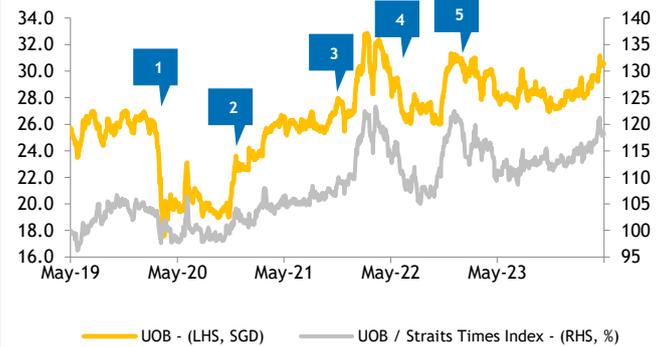
Chart Header



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

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
- FX translation downside surprises, especially from ASEAN currencies

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1Q24 results summary

Fig 1: 1Q24 results summary

SGDm	1Q24	1Q23	YoY (%)	4Q23	QoQ (%)	Comments
Net interest income	2,362	2,409	-2	2,404	-2	Weaker NIM, and lower loan growth and shorter quarter impacting NII
Non-interest income	1,161	1,115	4	1,007	15	Jump in trading income largely from prop trading and liquidity management services (58%). Growth in fee income and wealth management contributed to rise as well.
Total income	3,523	3,524	0	3,410	3	
Total expenses	(1,475)	(1,440)	2	(1,473)	0	Marginally higher other expenses to support franchise growth
Profit before allowances (PPOP)	2,048	2,083	-2	1,937	6	
Allowances for credit and other losses	(163)	(169)	-4	(152)	7	Lower SPs from stable NPLs
Associates	26	25	4	22	18	
Profit before tax	1,904	1,935	-2	1,560	22	
Income tax expense & MI	(339)	(358)	-5	(246)	38	
Core Net Profit	1,566	1,577	-1	1,498	5	26% of Street and MIBG FY24E
Reported Net profit	1,487	1,511	-2	1,403	6	
NIM (Reported) %	2.02%	2.14%	(6)	2.02%	-	Lower YoY from peaking asset yields and weaker ASEAN
Cost/income ratio	41.9%	40.9%	2	43.2%	-3	Lower QoQ from higher revenue base
Gross Loans	322,634	315,599	2	321,150	0	ASEAN showing contraction from FX effects. While North Asia grows
Deposits	388,472	374,121	4	385,469	1	Improved CASA mix >50%
Gross NPL %	1.5%	1.6%	-6	1.5%	-	New NPL formation remain below trend, as ASEAN performance remains muted

Source: Company data, Maybank IBG Research

Key assumption changes

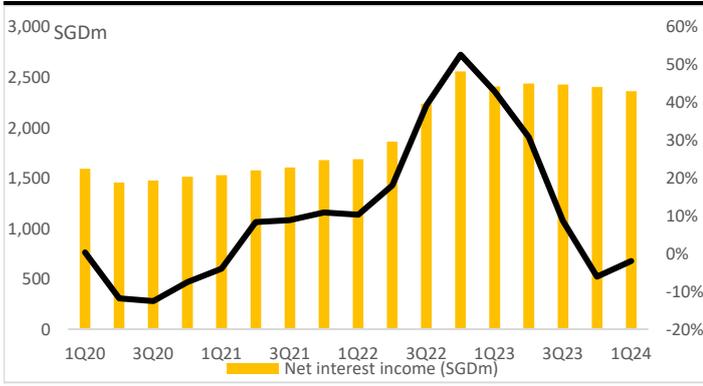
Fig 2: Key assumption changes

	2024E			2025E			2026E		
	Old	New	% Change	Old	New	% Change	Old	New	% Change
Net Interest Income	9,763	9,764	0%	10,544	10,546	0%	11,131	11,127	0%
Non-interest income	4,284	4,396	3%	4,495	4,466	-1%	4,686	4,717	1%
Total Income	14,047	14,160	1%	15,039	15,012	0%	15,817	15,845	0%
Total Expenses	(6,165)	(6,165)	0%	(6,740)	(6,740)	0%	(7,324)	(7,324)	0%
PPOP	7,882	7,995	1%	8,299	8,272	0%	8,493	8,520	0%
Allowance for credit and other losses	(835)	(825)	-1%	(840)	(773)	-8%	(889)	(889)	0%
PBT	7,116	7,240	2%	7,528	7,568	1%	7,672	7,700	0%
Core-Net Profit	5,993	6,098	2%	6,341	6,375	1%	6,463	6,486	0%
NIM	1.94%	1.94%	0 bps	2.01%	2.01%	0 bps	2.04%	2.04%	0 bps
Gross Loans	331,309	331,309	0%	343,352	343,352	0%	355,932	355,932	0%
Deposits	399,003	399,003	0%	413,211	413,211	0%	428,138	428,138	0%
Total NPA	5,220	5,220	0%	5,600	5,600	0%	5,930	5,930	0%

Source: Maybank IBG Research

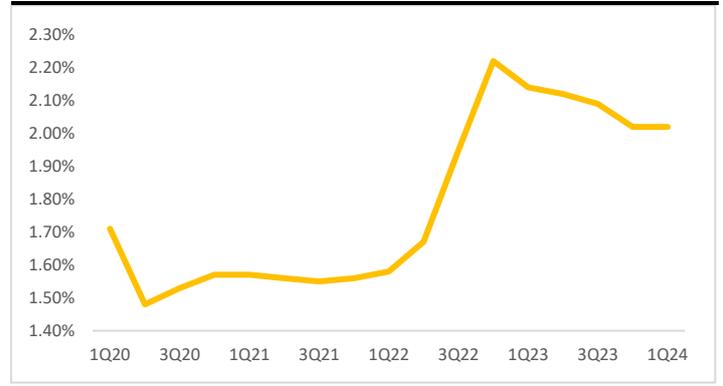
Focus charts

Fig 3: Net interest income YoY (%)



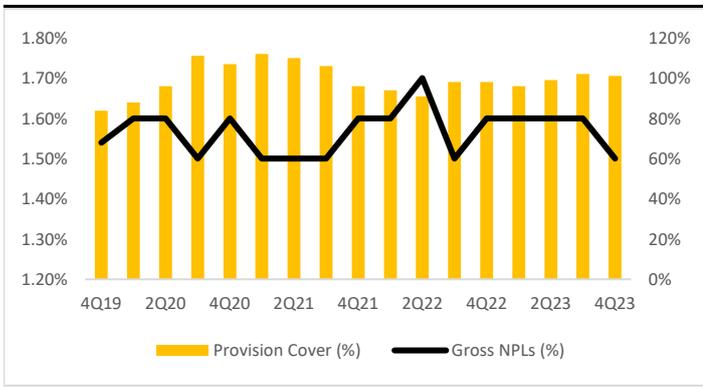
Source: Company data, Maybank IBG Research

Fig 4: Net interest margin (%)



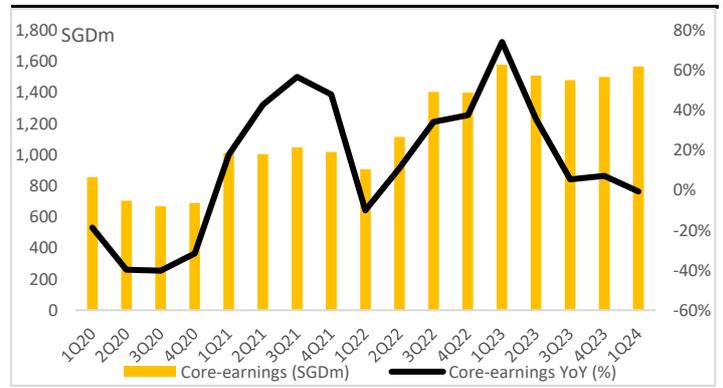
Source: Company data, Maybank IBG Research

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
Balance Sheet									
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%
Profit & Loss									
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%	3.4%	1.6%	4.9%
PPOP growth y-o-y (%)	6.0%	8.7%	-10.2%	9.7%	19.4%	24.8%	-2.0%	3.5%	2.7%
PBT growth y-o-y (%)	14.7%	7.2%	-31.6%	39.6%	22.2%	21.1%	-0.9%	4.5%	1.4%
Cost to Income Ratio (%)	43.9%	44.6%	45.6%	44.1%	43.5%	41.5%	43.5%	44.9%	46.3%
Dividend Payout on total-profits (%)	50%	50%	45%	49%	49%	50%	50%	49%	50%
Asset Quality									
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%	106%	107%
Credit charge (Allowance for credit losses/gross loans) (%)	0.16%	0.16%	0.57%	0.22%	0.19%	0.29%	0.25%	0.23%	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%
Capital									
CET1 ratio (%)	13.9%	14.3%	14.7%	13.5%	13.3%	13.4%	14.6%	14.2%	14.2%
Tier-1 ratio (%)	14.9%	15.4%	15.8%	14.4%	14.4%	14.4%	15.7%	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
Key Metrics					
Core P/E (x)	10.7	7.7	8.2	7.8	7.7
Core FD P/E (x)	10.7	7.7	8.2	7.8	7.7
P/BV (x)	1.2	1.0	1.0	1.0	0.9
P/NTA (x)	1.3	1.2	1.1	1.1	1.0
Net dividend yield (%)	4.4	6.0	6.1	6.3	6.5
INCOME STATEMENT (SGD m)					
Interest income	12,862.0	22,242.0	22,892.2	23,785.5	25,113.3
Interest expense	(4,519.0)	(12,563.0)	(13,128.2)	(13,239.0)	(13,982.5)
Net interest income	8,343.0	9,679.0	9,764.0	10,546.5	11,130.8
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	1,915.4	1,861.0	1,951.0
Total non-interest income	3,232.0	4,253.0	4,396.3	4,465.9	4,686.2
Operating income	11,575.0	13,932.0	14,160.2	15,012.4	15,816.9
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)
Operating expenses	(5,038.0)	(5,777.0)	(6,164.8)	(6,740.3)	(7,324.3)
Pre-provision profit	6,537.0	8,155.0	7,995.4	8,272.1	8,492.6
Loan impairment allowances	(603.0)	(921.0)	(824.7)	(772.8)	(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
Pretax profit	5,785.0	6,863.0	7,209.7	7,568.3	7,672.2
Income tax	(1,202.0)	(1,138.0)	(1,128.1)	(1,179.3)	(1,195.5)
Minorities	(10.0)	(14.0)	(14.0)	(14.0)	(14.0)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	4,573.0	5,711.0	6,067.6	6,374.9	6,462.6
Core net profit	4,819.0	6,151.0	6,097.6	6,374.9	6,462.6
BALANCE SHEET (SGD m)					
Cash & deposits with banks	84,829.0	87,443.0	90,890.0	90,427.9	89,194.7
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	326,681.9	338,364.2	350,526.5
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
Total assets	504,260.0	523,520.0	544,050.8	565,810.7	588,641.2
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
Total liabilities	460,654.0	477,052.0	494,549.0	513,057.7	532,656.8
Share capital	5,077.0	5,004.0	5,004.0	5,004.0	5,004.0
Reserves	38,289.0	41,222.0	44,255.8	47,507.0	50,738.3
Shareholders' funds	43,366.0	46,226.0	49,259.8	52,511.0	55,742.3
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	49,501.8	52,753.0	55,984.3
Total liabilities & equity	504,260.0	523,520.0	544,050.8	565,810.7	588,641.2

FYE 31 Dec	FY22A	FY23A	FY24E	FY25E	FY26E
Key Ratios					
Growth (%)					
Net interest income	30.6	16.0	0.9	8.0	5.5
Non-interest income	(5.0)	31.6	3.4	1.6	4.9
Operating expenses	16.8	14.7	6.7	9.3	8.7
Pre-provision profit	19.4	24.8	(2.0)	3.5	2.7
Core net profit	18.3	27.6	(0.9)	4.5	1.4
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
Profitability (%)					
Non-int. income/Total income	27.9	30.5	31.0	29.7	29.6
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	43.06	42.46	40.86
Cost/income	43.5	41.5	43.5	44.9	46.3
Liquidity (%)					
Loans/customer deposits	85.6	82.2	81.9	81.9	81.9
Asset quality (%)					
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	105.6	105.6	107.5
Capital adequacy (%)					
CET1	13.3	13.4	14.6	14.2	14.2
Tier 1 capital	14.4	14.4	15.7	15.2	15.3
Risk-weighted capital	16.7	16.6	17.9	17.2	17.3
Returns (%)					
ROAE	11.2	13.7	12.8	12.5	11.9
ROAA	1.0	1.2	1.1	1.1	1.1
Shareholders equity/assets	8.6	8.8	9.1	9.3	9.5

Source: Company; Maybank IBG Research

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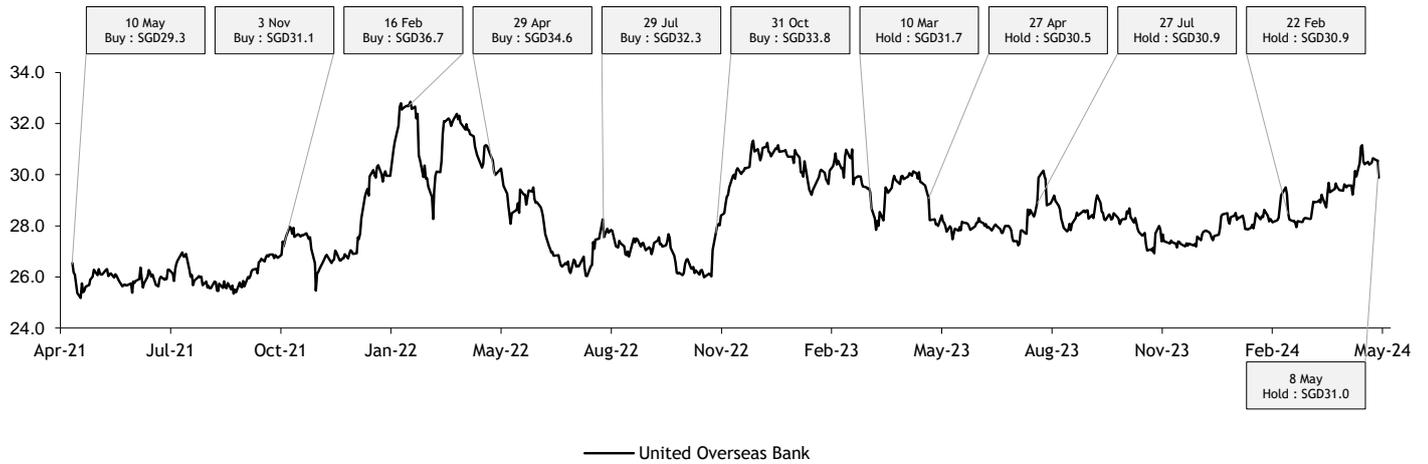
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