

Singapore Company Update

UOB

Bloomberg: UOB SP | Reuters: UOBH.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

24 Nov 2020

BUY

Last Traded Price (23 Nov 2020): S\$23.13 (STI : 2,848.78)

Price Target 12-mth: S\$24.80 (7% upside) (Prev S\$22.20)

Analyst

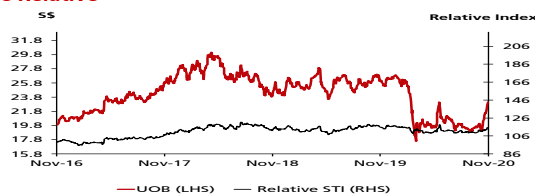
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What's New

- Current valuations still inexpensive at near 1.5SD below its average 15-year forward P/BV
- Ongoing provisioning is a buffer
- Some negatives, including lower net interest income and overhang from asset quality, has been priced in
- Maintain BUY, TP raised to S\$24.80

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P.

Price Relative



Forecasts and Valuation

FY Dec (\$m)	2019A	2020F	2021F	2022F
Pre-prov. Profit	5,558	4,992	5,120	5,420
Net Profit	4,343	2,836	3,407	3,899
Net Pft (Pre Ex.)	4,343	2,836	3,407	3,899
Net Pft Gth (Pre-ex) (%)	8.4	(34.7)	20.1	14.4
EPS (S cts)	260	170	204	234
EPS Pre Ex. (S cts)	260	170	204	234
EPS Gth Pre Ex (%)	8	(35)	20	14
Diluted EPS (S cts)	258	169	203	232
PE Pre Ex. (X)	8.9	13.6	11.3	9.9
Net DPS (S cts)	130	74.8	102	117
Div Yield (%)	5.6	3.2	4.4	5.1
ROAE Pre Ex. (%)	11.2	7.0	8.1	8.9
ROAE (%)	11.2	7.0	8.1	8.9
ROA (%)	1.1	0.7	0.8	0.9
BV Per Share (S cts)	2,376	2,471	2,573	2,690
P/Book Value (x)	1.0	0.9	0.9	0.9
Earnings Rev (%)		0	0	1
Consensus EPS (S cts):		170	202	239
Other Broker Recs:		B: 13	S: 1	H: 6



Brain Box

(Our NEW Pilot Research Platform) is available to Institutional Investors on Demand. Please contact your DBSV Institutional Sales contact for a demonstration.

Ongoing provisioning is a buffer

Investment Thesis

Inexpensive valuation; ongoing provisioning is a buffer. Even after share price gaining >10% since early November, we believe there is further room to re-rate amid expectations of a gradual pick up in long-end yields. We see UOB as a proxy to economic recovery. It's strong non-performing asset (NPA) coverage of 111% (2Q20: 96%) and ongoing provisioning (management guides for S\$2-3bn through FY20-21F) will limit downside risks. Management has guided for better-than-expected asset quality outlook during 3Q20 results briefing.

Some negatives have been priced in. Despite the dividend cut, its yield of c.4% is relatively attractive, with management indicating willingness to revert to its FY19 dividend policy. We believe the market has priced lower net interest income in FY21F. As we expect some asset quality deterioration in 2H20 and 1H21, especially when the various moratoriums and reliefs expire, share price upside may be capped at ~1x P/BV.

Potential catalyst: Sustained positive deliveries. Lower-than-expected credit costs could drive earnings. Recovery in ROE post COVID can drive UOB's share price.

Valuation:

Maintain BUY and TP of S\$24.80. Our TP of S\$24.80 is based on the Gordon Growth Model (9% ROE, 3% growth, 9% cost of equity [previous: 10%]). This is equivalent to ~c. 1x FY21F P/BV, near 1 SD below its average 15-year forward P/BV multiple.

Where we differ:

We remain conservative over UOB's income outlook in FY21-22F; we believe that management is likely to continue strict cost discipline to manage its bottom line.

Key Risks to Our View:

Deteriorating asset quality. A larger-than-expected NPL arising from generic sectors and/or commodity-related exposure, as well as a worse-than-expected COVID-19 pandemic situation globally, could unwind expectations of credit cost and NPL declines, thus posing risks to earnings. Further, unemployment arising from recession could pose risks to mortgages and unsecured consumer lending, among others.

At A Glance

Issued Capital (m shrs)	1,673
Mkt. Cap (S\$m/US\$m)	38,692 / 28,800
Major Shareholders (%)	
Wee Investment Pte Ltd	8.0
Wah Hin & Co Pte Ltd	5.1
Free Float (%)	86.9
3m Avg. Daily Val (US\$m)	46.5
GIC Industry : Financial / Banks	



Live more, Bank less

UOB

Company Background

UOB provides a wide range of financial services through its global network of branches, offices, subsidiaries and associates: personal financial services, private banking, commercial and corporate banking, investment banking, corporate finance, capital market activities, treasury services, futures broking, asset management, venture capital management, insurance and stockbroking services.

Historical PE and PB band



Source: Bloomberg Finance L.P., DBS Bank estimates



Source: Bloomberg Finance L.P., DBS Bank estimates

Key Assumptions

FY Dec	2018A	2019A	2020F	2021F	2022F
Gross Loans Growth	10.9	2.7	4.4	4.4	5.0
Customer Deposits Growth	7.5	6.0	5.0	3.5	3.5
Yld. On Earnings Assets	3.3	3.4	2.6	2.6	2.6
Avg Cost Of Funds	1.5	1.7	1.1	1.1	1.1

Income Statement (\$m)

FY Dec	2018A	2019A	2020F	2021F	2022F
Net Interest Income	6,220	6,562	5,782	5,936	6,225
Non-Interest Income	2,896	3,468	3,388	3,577	3,790
Operating Income	9,116	10,030	9,170	9,513	10,015
Operating Expenses	(4,003)	(4,472)	(4,178)	(4,393)	(4,595)
Pre-provision Profit	5,113	5,558	4,992	5,120	5,420
Provisions	(393)	(435)	(1,666)	(1,100)	(757)
Associates	106	51.0	51.0	51.0	51.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	4,826	5,174	3,377	4,071	4,714
Taxation	(805)	(813)	(531)	(651)	(801)
Minority Interests	(13.0)	(18.0)	(10.1)	(12.2)	(14.1)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	4,008	4,343	2,836	3,407	3,899
Net Profit bef Except	4,008	4,343	2,836	3,407	3,899
Growth (%)					
Net Interest Income Gth	12.5	5.5	(11.9)	2.7	4.9
Net Profit Gth	18.2	8.4	(34.7)	20.1	14.4
Margins, Costs & Efficiency (%)					
Spread	1.8	1.7	1.5	1.5	1.5
Net Interest Margin	1.8	1.8	1.6	1.5	1.5
Cost-to-Income Ratio	43.9	44.6	45.6	46.2	45.9
Business Mix (%)					
Net Int. Inc / Opg Inc.	68.2	65.4	63.1	62.4	62.2
Non-Int. Inc / Opg inc.	31.8	34.6	36.9	37.6	37.8
Fee Inc / Opg Income	21.6	20.3	23.2	23.9	24.5
Oth Non-Int Inc/Opg Inc	10.2	14.3	13.8	13.7	13.3
Profitability (%)					
ROAE Pre Ex.	11.2	11.2	7.0	8.1	8.9
ROAE	11.2	11.2	7.0	8.1	8.9
ROA Pre Ex.	1.1	1.1	0.7	0.8	0.9
ROA	1.1	1.1	0.7	0.8	0.9

Some provisions still expected in FY21F

Source: Company, DBS Bank

Quarterly / Interim Income Statement (\$\$m)

FY Dec	3Q2019	4Q2019	1Q2020	2Q2020	3Q2020
Net Interest Income	1,687	1,635	1,593	1,456	1,474
Non-Interest Income	922	797	814	804	786
Operating Income	2,609	2,432	2,407	2,260	2,261
Operating Expenses	(1,154)	(1,116)	(1,087)	(1,040)	(1,009)
Pre-Provision Profit	1,455	1,316	1,320	1,220	1,252
Provisions	(145)	(146)	(286)	(396)	(477)
Associates	14.0	20.0	18.0	22.0	25.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Pretax Profit	1,324	1,190	1,052	846	800
Taxation	(202)	(178)	(195)	(141)	(132)
Minority Interests	(4.0)	(6.0)	(2.0)	(2.0)	0.0
Net Profit	1,118	1,006	855	703	668

Growth (%)

Net Interest Income Gth	2.1	(3.1)	(2.6)	(8.6)	1.2
Net Profit Gth	(4.3)	(10.0)	(15.0)	(17.8)	(5.0)

Balance Sheet (\$\$m)

FY Dec	2018A	2019A	2020F	2021F	2022F
Cash/Bank Balance	25,252	25,864	27,157	28,108	29,091
Government Securities	18,816	21,365	24,259	27,546	31,277
Inter Bank Assets	50,800	52,840	54,881	57,139	59,930
Total Net Loans & Adv.	258,628	265,458	275,711	287,056	301,075
Investment	15,482	18,243	16,714	17,428	18,282
Associates	1,170	1,182	1,233	1,284	1,335
Fixed Assets	2,266	2,760	1,667	1,667	1,667
Goodwill	4,138	4,148	4,142	4,142	4,142
Other Assets	11,541	12,549	13,034	13,570	14,233
Total Assets	388,092	404,409	418,799	437,939	461,033
Customer Deposits	293,186	310,726	326,262	337,681	349,500
Inter Bank Deposits	13,801	15,301	11,536	16,880	25,372
Debts/Borrowings	30,606	25,209	25,209	25,209	25,209
Others	12,688	13,309	14,329	14,991	15,809
Minorities	189	227	237	249	263
Shareholders' Funds	37,623	39,637	41,225	42,929	44,878
Total Liab& S/H's Funds	388,093	404,409	418,799	437,939	461,033

Source: Company, DBS Bank

Financial Stability Measures (%)

FY Dec	2018A	2019A	2020F	2021F	2022F
Balance Sheet Structure					
Loan-to-Deposit Ratio	88.2	85.4	84.5	85.0	86.1
Net Loans / Total Assets	66.6	65.6	65.8	65.5	65.3
Investment / Total Assets	4.0	4.5	4.0	4.0	4.0
Cust. Dep./Int. Bear. Liab.	86.8	88.5	89.9	88.9	87.4
Interbank Dep / Int. Bear.	4.1	4.4	3.2	4.4	6.3
Asset Quality					
NPL / Total Gross Loans	1.5	1.5	2.0	2.5	2.0
NPL / Total Assets	1.0	1.0	1.3	1.7	1.3
Loan Loss Reserve Coverage	77.1	77.8	87.3	82.1	110.2
Provision Charge-Off Rate	0.2	0.2	0.6	0.4	0.2
Capital Strength					
Total CAR	17.0	17.4	16.4	15.9	16.4
Tier-1 CAR	13.9	14.3	13.6	13.2	13.7

Strong capital ratios

Source: Company, DBS Bank

Target Price & Ratings History



Note: Share price and Target price are adjusted for corporate actions.

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	24 Feb 20	25.28	27.20	BUY
2:	05 Mar 20	23.74	25.50	HOLD
3:	17 Mar 20	19.39	19.00	HOLD
4:	23 Apr 20	19.57	17.50	HOLD
5:	06 May 20	19.88	17.50	HOLD
6:	21 Jul 20	20.70	20.90	HOLD
7:	06 Aug 20	19.76	22.20	BUY
8:	04 Nov 20	19.80	22.20	BUY

Source: DBS Bank

Analyst: Rui Wen LIM

DBS Bank recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

**Share price appreciation + dividends*

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