

COMPANY UPDATE

United Overseas Bank (UOB SP)

Corporate Day 2024: Building The Future Of ASEAN

UOB aims to achieve ROE of 14% by 2026 through: a) increased contribution from ASEAN 4 countries, namely Malaysia, Thailand, Vietnam and Indonesia, to 30%; b) increased contribution from non-interest income to 37%, driven by wealth management, trade and customer flow for treasury products; and c) improved CIR to 40%. Wholesale banking is able to capture connectivity flows through enhanced product platforms. Retail banking aims to increase CASA ratio to 55%.

WHAT'S NEW

- United Overseas Bank (UOB) held its Corporate Day 2024 on 14 Aug 24 in Kuala Lumpur, Malaysia.
- Setting sight on loftier goal.** UOB aims to achieve ROE of 14% by 2026 (1H24: 13.7%). Management foresees 10 rate cuts in 2H24, 2025 and 2026. The growth in business volume and fee income would more than offset the negative impact from NIM compression. The ROE target of 14% is achieved through:
 - Increased contribution from ASEAN 4 countries, namely Malaysia, Thailand, Vietnam and Indonesia, to 30% (1H24: 25%), while maintaining at least 50% in Singapore.
 - Increased contribution from non-interest income to 37% (1H24: 32%), driven by growth from wealth management, trade and customer flow for treasury products.
 - Improved cost-to-income ratio (CIR) to 40% (1H24: 41.8%). UOB plans to offshore back and middle office functions, including card centre and compliance, to Kuala Lumpur, Malaysia. The new Innovation Hub 2 (IH2) is a full-fledged offshore technology delivery centre providing development, applications and infrastructure support. IH3 spans across five floors with capacity for more than 1,000 staff and a total floor area of 74,000sf at The Gardens North Tower in Mid Valley City.
- Malaysia – Key pillar within ASEAN 4.** UOB is the sixth-largest commercial bank in Malaysia. It has 55 branches across Peninsular and East Malaysia. UOB Malaysia's net profit increased 44% to RM1.9b in 2023. Management is confident that 2024 would be another year of record net profit. Malaysia accounted for 10.3% of UOB's total income in 1H24. UOB Malaysia focuses on four growth corridors, namely Johor, Klang Valley, Penang and Sarawak. Malaysia benefits from the boom created by generative AI. The state of Johor has attracted massive investments to build new data centres. The state of Penang has attracted record FDI from the semiconductor industry, including Intel.
- Dovetailing government's new industrial master plan.** The government has announced its new industrial master plan and UOB Malaysia is seeing growth from energy, chemicals, consumer goods and digital economy sectors. UOB Malaysia grows its wholesale banking business by providing financing solutions to the ecosystem within supply chains, including the network of buyers and suppliers across the region. UOB also facilitates cross-border investment flows through its FDI advisory centre.

KEY FINANCIALS

Year to 31 Dec (S\$m)	2019	2020	2021	2022	2023
Net interest income	6,563	6,035	6,388	8,343	9,679
Non-interest income	3,467	3,141	3,401	3,232	4,253
Net profit (rep./act.)	4,342	2,915	4,086	4,573	5,711
Net profit (adj.)	4,342	2,915	4,086	4,819	6,061
EPS (S\$ cent)	255.0	169.0	239.0	269.0	334.0
PE (x)	12.1	18.2	12.9	11.4	9.2
P/B (x)	137.8	133.7	127.8	127.0	118.4
Dividend yield (%)	4.2	2.5	3.9	4.4	5.5
Net int margin (%)	1.8	1.6	1.6	1.9	2.1
Cost/income (%)	44.6	45.6	43.9	45.7	44.8
Loan loss cover (%)	87.0	107.0	96.0	98.0	101.0
Consensus net profit	-	-	-	-	-
UOBKH/Consensus (x)	-	-	-	-	-

Source: United Overseas Bank, Bloomberg, UOB Kay Hian

NOT RATED

Share Price	S\$30.78
Target Price	n.a.
Upside	n.a.

COMPANY DESCRIPTION

UOB was founded in 1935 and has a well-established regional presence in Singapore, Malaysia, Indonesia, Thailand, Vietnam, Hong Kong and Mainland China. In Singapore, UOB is a market leader in credit and debit cards and loans to SMEs.

STOCK DATA

GICS sector	Financials
Bloomberg ticker:	UOB SP
Shares issued (m):	1,673.1
Market cap (S\$m):	51,497.2
Market cap (US\$m):	39,361.9
3-mth avg daily t'over (US\$m):	63.6

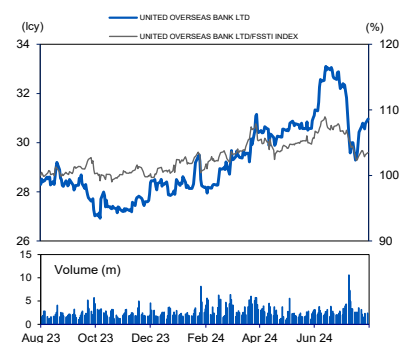
Price Performance (%)

52-week high/low	S\$33.10/S\$26.93			
1mth	3mth	6mth	1yr	YTD
(6.3)	0.8	9.0	9.6	8.2

Major Shareholders

	%
Wee Cho Yaw	18.5
Wah Hin & Co	5.2
NAV/Share (S\$)	26.64
CET-1 CAR (%)	13.4

PRICE CHART



Source: Bloomberg

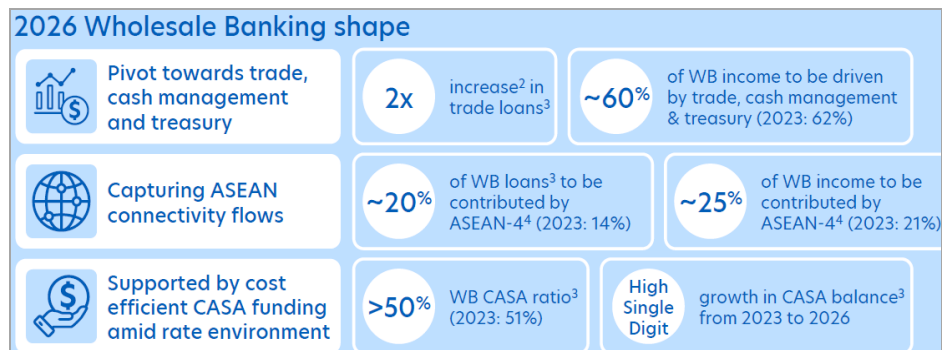
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OTHER HIGHLIGHTS FROM CORPORATE DAY

- Wholesale banking: Capturing connectivity flows through enhanced product platforms.** ASEAN 4 countries are expected to account for 20% of wholesale banking loans (2023: 14%) and 25% of wholesale banking income (2023: 21%) over the next three years. Trade loans are expected to double and contribute 20% of total loans by 2026. UOB has rolled out Infinity Cash platform since 2020 and Infinity Financial Supply Chain Management platform since 2022.

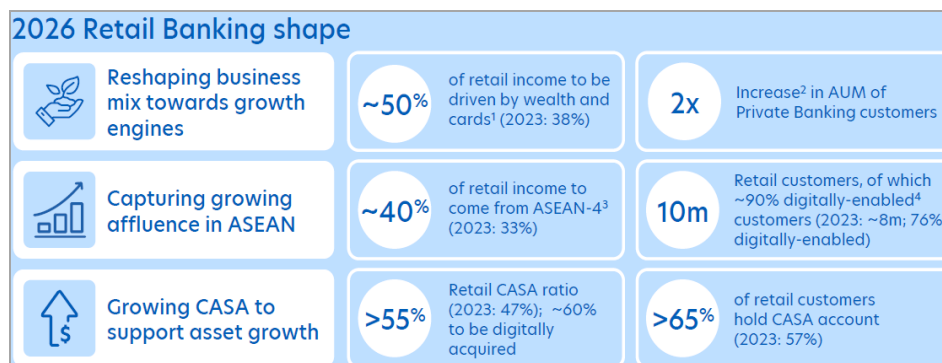
WHOLESALE BANKING – PIVOT TOWARDS TRADE, CASH AND TREASURY



Source: UOB

- Retail banking: Growing CASA to support asset growth.** UOB aims to serve 10m retail customers across the region by 2026, compared to 8m in 2023. The acquisition of Citi consumer businesses enables UOB to capture a larger share of wealth management regionally. AUM from private banking customers is expected to double by 2026. ASEAN 4 countries would be able to contribute 40% of income from retail banking by 2026 (2023: 33%). It targets to increase retail CASA ratio to 55% (2023: 47%), of which 60% is digitally acquired.

RETAIL BANKING – CAPTURE RISING WEALTH IN THE REGION



Source: UOB

- Omnichannel strategy to fend off digital-only disruptors.** UOB provides high-value services, such as wealth advisory, through its physical branch network, while channelling low-value transactions through its TMWR app. More than half of its new-to-wealth customers are acquired digitally and management targets to increase the proportion to 65% by 2026. 70% of its unit trust transactions are conducted digitally and management targets to increase the proportion to 80%. UOB offers its full suite of products and services from savings to wealth management through its TMRW app.

PROFIT & LOSS

Year to 31 Dec (\$m)	2020	2021	2022	2023
Interest income	9,623	8,204	12,862	22,242
Interest expense	(3,588)	(1,816)	(4,519)	(12,563)
Net interest income	6,035	6,388	8,343	9,679
Fees & commissions	1,997	2,412	2,143	2,235
Other income	1,144	989	1,089	2,018
Non-interest income	3,141	3,401	3,232	4,253
Total income	9,176	9,789	11,575	13,932
Staff costs	(2,501)	(2,602)	(3,001)	(3,553)
Other operating expense	(1,683)	(1,700)	(2,283)	(2,688)
Pre-provision profit	4,992	5,487	6,291	7,691
Loan loss provision	(1,554)	(657)	(603)	(921)
Associated companies	98	118	97	93
Pre-tax profit	3,536	4,948	5,785	6,863
Tax	(606)	(850)	(1,202)	(1,138)
Minorities	(15)	(12)	(10)	(14)
Net profit	2,915	4,086	4,573	5,711
Net profit (adj.)	2,915	4,086	4,819	6,061

OPERATING RATIOS

Year to 31 Dec (%)	2020	2021	2022	2023
Capital Adequacy				
Tier-1 CAR	15.8	14.4	14.4	14.4
Total CAR	18.4	16.6	16.7	16.6
Total assets/equity (x)	10.6	10.8	11.6	11.3
Tangible assets/tangible common equity (x)	11.6	11.8	13.0	12.6
Asset Quality				
NPL ratio	1.6	1.6	1.6	1.5
Loan loss coverage	107.0	96.0	98.0	101.0
Loan loss reserve/gross loans	1.5	1.3	1.3	1.3
Increase in NPLs	9.3	11.3	0.6	(3.8)
Credit cost (bp)	56.5	22.2	19.1	28.7
Liquidity				
Loan/deposit ratio	85.4	87.0	85.6	82.2
Liquid assets/short-term liabilities	29.0	26.5	29.6	30.0
Liquid assets/total assets	22.9	21.3	23.1	24.0

BALANCE SHEET

Year to 31 Dec (\$m)	2020	2021	2022	2023
Cash with central bank	36,798	36,558	49,419	52,350
Govt treasury bills & securities	21,993	22,324	31,878	38,280
Interbank loans	40,284	38,916	35,410	35,093
Customer loans	277,201	306,713	315,355	317,005
Investment securities	29,432	34,856	39,789	50,793
Derivative receivables	11,368	5,362	13,802	9,707
Associates & JVs	1,210	1,245	1,258	1,266
Fixed assets (incl. prop.)	3,923	4,011	4,199	4,508
Other assets	9,605	9,338	13,150	14,518
Total assets	431,814	459,323	504,260	523,520
Interbank deposits	15,977	15,561	24,537	32,371
Customer deposits	324,598	352,633	368,553	385,469
Derivative payables	11,519	5,172	16,218	11,768
Debt equivalents	29,608	34,056	40,593	36,280
Other liabilities	8,981	9,040	10,753	11,164
Total liabilities	390,683	416,462	460,654	477,052
Shareholders' funds	40,901	42,633	43,366	46,226
Minority interest - accumulated	230	228	240	242
Total equity & liabilities	431,814	459,323	504,260	523,520

KEY METRICS

Year to 31 Dec (%)	2020	2021	2022	2023
Growth				
Net interest income, yoy chg	(8.0)	5.8	30.6	16.0
Fees & commissions, yoy chg	(1.7)	20.8	(11.2)	4.3
Pre-provision profit, yoy chg	(10.2)	9.9	14.7	22.3
Net profit, yoy chg	(32.9)	40.2	11.9	24.9
Net profit (adj.), yoy chg	(32.9)	40.2	17.9	25.8
Customer loans, yoy chg	4.4	10.6	2.8	0.5
Customer deposits, yoy chg	4.5	8.6	4.5	4.6
Profitability				
Net interest margin	1.6	1.6	1.9	2.1
Cost/income ratio	45.6	43.9	45.7	44.8
Adjusted ROA	0.7	0.9	1.0	1.2
Reported ROE	7.2	9.8	10.6	12.7
Adjusted ROE	7.2	9.8	11.2	13.5
Valuation				
P/BV (x)	133.7	127.8	127.0	118.4
P/NTA (x)	140.1	133.7	134.0	124.8
Adjusted P/E (x)	18.2	12.9	11.4	9.2
Dividend Yield	2.5	3.9	4.4	5.5
Payout ratio	46.2	50.2	50.2	50.9

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