

UnionBank of the Philippines (UBP PM)

FUNDAMENTAL VIEW ¹

As of 16 Aug 2024

- UnionBank of the Philippines (UBP) is rated Baa2 (neg) by Moody's. Moody's affirmed the negative outlook in April 2024 due to uncertainty over the bank's asset quality and profitability following their deterioration in 2023.
- The bank has historically generated higher returns than peers, but it geared its focus significantly towards the retail segment by acquiring Citi's Philippine retail portfolio in 2022 and through organic growth, which brought retail loans to more than half the total book.
- Returns have suffered despite the good boost to core revenues, as asset quality has been poorly managed resulting in high credit costs which we have forewarned. Continued rounds of capital infusions from shareholders have thus been required. The reserve cover is maintained relatively thin.

RISKS & CATALYSTS

As of 16 Aug 2024

- Any downgrade of the Philippine sovereign ratings (Baa2/ BBB+/ BBB) or reduction of shareholding by Aboitiz Equity Ventures would negatively impact UBP's credit ratings.
- The bank's aggressive retail expansion to boost the NIM has strengthened topline revenues, but negatively impacted overall profitability because of high credit costs (particularly since 2H23) which we have forewarned. Credit costs will likely decline in 2H24 but remain high, and we continue to disfavor its focus on riskier retail given the brisk growth pace and current macro backdrop. It is now focusing on lower risk, shorter term loans at UnionDigital, as well as payroll and credit card loans.
- The bank however benefits from good shareholder support; it successfully completed a third stock rights offering of PHP 10 bn in 2Q24 (2023: PHP 12 bn; 2022: PHP 40 bn) to shore up capital. Lower opex from 2Q24 onwards will also aid the bottomline.

CREDIT QUALITY SCORE (CQS)²

As of 16 Oct 2024

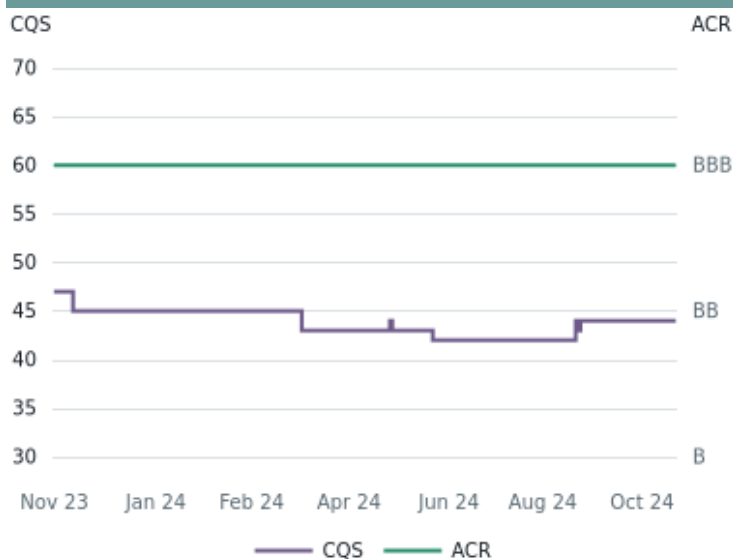
CURRENT CQS

44

CQS OUTLOOK ³

NEGATIVE STABLE POSITIVE

HISTORICAL RATINGS: AVERAGE AGENCY RATING (ACR)⁴ VS CQS



KEY METRICS

As of 16 Aug 2024

PHP MN	FY20	FY21	FY22	FY23	2Q24
PPP ROA	2.68%	2.59%	2.17%	2.31%	2.97%
Reported ROA (Cumulative)	1.5%	1.6%	1.3%	0.8%	0.9%
Reported ROE (Cumulative)	11.5%	11.5%	9.7%	5.6%	5.5%
Total Equity/Total Assets	13.6%	13.5%	13.6%	15.3%	16.5%
CET1 Ratio	15.0%	16.3%	11.3%	13.9%	15.1%
Gross NPL Ratio	5.10%	5.00%	4.80%	6.27%	7.40%
Net LDR	64.3%	63.1%	67.4%	73.8%	77.3%
Net Interest Margin	4.50%	4.60%	4.80%	5.50%	5.73%
Liquidity Coverage Ratio	207%	272%	148%	163%	191%
Net Stable Funding Ratio	133%	149%	124%	124%	127%

BUSINESS DESCRIPTION

As of 16 Aug 2024

- UnionBank of the Philippines was incorporated in 1968, and listed on the Philippine Stock Exchange in June 1992. Principal shareholders are Aboitiz Equity Ventures (49.66%), Insular Life (16%), & Social Security System (18%).
- UBP undertook mergers with International Corporate Bank in 1994 and International Exchange Bank in 2006. City Savings Bank (a thrift bank) was purchased in Jan 2013. City Savings received merger approval with PR Savings (a bank engaged in motorcycle, agri-machinery, & teachers' salary loans) in Dec 2018 from the BSP. It acquired the Citi Philippines retail franchise in 2022.
- The loan book is broadly split 15% commercial loans, 26% corporate loans, and the remaining 59% retail loans (comprising 32% credit cards, 22% mortgages, 34% salary loans and 9% others including teachers loans, salary loans and motorcycle loans by the thrift bank subsidiary, City Savings Bank, and 3% UnionDigital) at 2Q24.

GLOSSARY

¹ The **Fundamental View** is our current assessment of credit quality and our expectation of how credit quality will trend over the next year or longer.

² The **Credit Quality Score (CQS)** is a number between 5 and 100. It is a medium-term credit score for corporates and financial institutions that utilizes a combination of sector fundamental scores and equity market signals. Values of CQS above 50 generally indicate investment grade credit quality.

³ The **Credit Quality Score (CQS) Outlook** is the near-term (3 month) outlook for the CQS, based on its trend, volatility and distance from the adjacent CQS risk bucket.

⁴ The **Agency Composite Rating (ACR)** is the average senior unsecured rating from one or more major rating agencies.

Quantitative scores provided by CreditSights Analytics, LLC. Scores are shown are for the lesser of (1) 2 years and (2) date of CreditSights inception of quantitative coverage.

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