

# UnionBank of the Philippines (UBP PM)

## FUNDAMENTAL VIEW <sup>1</sup>

As of 15 Nov 2022

- UnionBank of the Philippines (UBP) is rated Baa2 (negative) by Moody's. The rating outlook was revised from stable to negative in January 2022 due to a significant decline in capital buffers post-acquisition of Citigroup's local retail unit, amid heightened risks due to the ongoing pandemic.
- UBP's liquidity is one of the highest in the sector with its distinctively low loan-deposit ratio (LDR).
- The bank has historically generated higher returns than peers, with trading-related income as a key contributor to profits. However, the non-recurring nature of such gains introduces greater volatility to operating performance.

## RISKS & CATALYSTS

As of 15 Nov 2022

- 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 has been focusing on the consumer and MSME segments in order to preserve NIMs. We are cautious given the current growth headwinds, persistent inflation and rapid pace of rate hikes, all while the bank's reserve cover and capital buffer (pro-forma for the Citi acquisition) are on the thinner side.
- We view UBP's acquisition of Citi's retail business as credit positive in the long haul given the latter's larger scale and greater strength in the upscale consumer market and wealth management businesses, high margins and strong profitability record. The upfront capital impact is significant, but the bank benefits from good shareholder support.

## CREDIT QUALITY SCORE (CQS) <sup>2</sup>

As of 27 Feb 2023

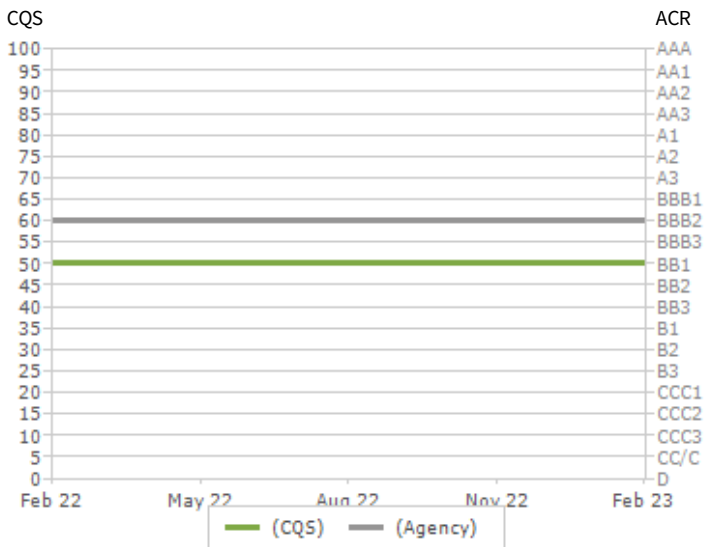
### CURRENT CQS

50

### CQS OUTLOOK <sup>3</sup>



### HISTORICAL RATINGS: AVERAGE AGENCY RATING (ACR) <sup>4</sup> VS CQS



## KEY METRICS

As of 15 Nov 2022

PHP MN	3Q22	FY21	FY20	FY19
PPP ROA	2.15%	2.59%	2.68%	2.26%
Reported ROA (Cumulative)	1.4%	1.6%	1.5%	1.9%
Reported ROE (Cumulative)	10.4%	11.6%	11.5%	15.3%
Total Equity/Total Assets	13.8%	13.5%	13.6%	12.7%
CET1 Ratio	11.9%	16.3%	15.0%	13.2%
Gross NPL Ratio	n/m	5.00%	5.10%	3.10%
Gross Customer Loans/Deposits	65.9%	63.1%	64.3%	81.2%
Net Interest Margin	4.87%	4.60%	4.50%	3.60%

## BUSINESS DESCRIPTION

As of 15 Nov 2022

- UnionBank of the Philippines was incorporated in 1968, and listed in the Philippine Stock Exchange in June 1992. Principal shareholders are Aboitiz Equity Ventures (49.66%), Insular Life (16%), & Social Security System (18%).
- UBP has undertaken two 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.
- On a consolidated basis, post-Citi acquisition as at 9M22, the loan book was split 18% commercial & MSME loans, 30% corporate loans, and the remaining 52% being retail loans.

## GLOSSARY

<sup>1</sup> 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.

<sup>2</sup> 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.

<sup>3</sup> 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.

<sup>4</sup> 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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