

United Overseas Bank Limited

Credit cost remains stable



SINGAPORE | BANKING | NON-RATED NOTE

- UOB reported a better than consensus FY15 net profit of S\$3.2bn (-1.2% YoY).
- UOB has S\$21bn exposure to commodity loan book, S\$12bn related to Oil & Gas which is deemed to contain the highest risks.
- We view UOB near-term outlook remains stable given its capable to leverage on its branding.

Analyst briefing key takeaways

Full year total income boosted by Wealth Management and Net interest income – Full year net interest income (NIM) grew +8.1% YoY due to expansion of NIMs by 6 basis points, on the back of YoY loan growth of +3.9%. Full year wealth management fee income grew 10.1% to S\$416mn despite a weaker set of results in the final quarter due to a selloff in the equities market. Full year total allowance charged to income statement grew 5.7% YoY but it did not impact profit before tax as negatively as market expected because more general allowance was utilized to offset increase in specific allowances due to new NPLs.

Asset Quality – UOB has S\$21bn exposure to commodity loan book, of that S\$12bn is related to Oil & Gas which is deemed to contain the highest risks. The management sees 20% of the S\$12bn (S\$2.4bn) most vulnerable but only under extreme assumptions like oil prices remaining at current levels of US\$25 to US\$30 per barrel beyond a year. Besides, the S\$2.4bn exposure is only 1.1% of loan books and it would take more than a year of extremely low oil price to decisively impair the US\$2.4bn completely. By that same period, UOB would have a full year's earnings to offset this loss. So it is in the management's opinion that the current market conditions may be detrimental to income but not to the balance sheet. The management does not view the S\$21bn exposure to Greater China as risky because they do not see China going into a hard landing situation. 50% of the S\$21bn exposure is to China's top 5 banks and the other 50% non-bank exposure is to top-tier SOEs, large local corporates and foreign investment enterprise. Management also does not see the volatile RMB moves to impact the balance sheet negatively too.

Outlook – Amidst the challenging environment, management would continue to focus on liability management to optimize funding costs and improve net interest margins. Loan to Deposit Ratio increased from 83.8% in FY14 to 84.7% in FY15 because of lower fixed deposits. And at the same time Current Accounts and Savings Accounts (CASA) increased, reflecting management's effort to ramp up funding from this segment. CASAs generally bear lower costs and are often stickier but take up a much smaller composition in the deposit mix. To boost the funding mix, UOB would be able to leverage on its brand to tap the market by issuing covered bonds which can be priced competitively under current market conditions.

Investment Actions

We view UOB near-term outlook remains stable given its capable to leverage on its branding. No stock rating or price target provided, as we do not have coverage on UOB. Consensus valuation at 9x PER FY16F and 0.92x PBR FY16F.

17 FEBRUARY 2016

Non-rated

CLOSING PRICE	SGD 17.81
FORECAST DIV	-
TARGET PRICE	-
TOTAL RETURN	-

COMPANY DATA

O/S SHARES (MN) :	1,607
MARKET CAP (USD mn / SGD mn) :	19874 / 27951
52 - WK HI/LO (SGD) :	24.75 / 17.01
3M Average Daily T/O (mn) :	2.76

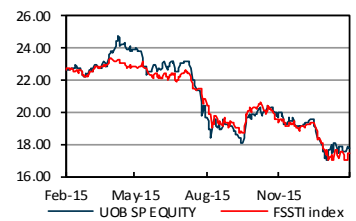
MAJOR SHAREHOLDERS (%)

Wee Investments	7.73%
Wah Hin & Co Pte Ltd	5.10%
Vanguard Group	1.37%
Blackrock	1.36%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1Y R
COMPANY	12	(10.1)	(19.5)
STI RETURN	0.67	(8.89)	(20.12)

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

SGD MN	FY 12	FY 13	FY 14	FY 15
Revenue	6,475	6,713	7,436	8,048
EBITDA	3,332	3,577	3,803	3,527
NPAT (adj.)	2,700	2,905	3,147	3,143
EPS (SGD)	1.71	1.84	1.97	1.77
PER, x (adj.)	11.52	11.54	12.39	10.1
ROCE, %	12.3%	12.3%	12.2%	11.2%

Source: Bloomberg

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Figure 1: Revenue Breakdown by Business Segments

(SGD mn)	FY2015	FY2014	y-y (%)
Revenue			
Corporate Banking	3407.0	3023.0	12.7%
Retail Banking	3358.0	3017.0	11.3%
Global Treasury	799.0	884.0	-9.6%
Others	674.0	705.0	-4.4%
Pretax Income			
Corporate Banking	2392.0	2218.0	7.8%
Retail Banking	1397.0	1247.0	12.0%
Global Treasury	349.0	452.0	-22.8%
Others	-269.0	-92.0	192.4%
Net profit margin			
Corporate Banking	70.2%	73.4%	
Retail Banking	41.6%	41.3%	
Global Treasury	43.7%	51.1%	
Others	-39.9%	-13.0%	

Source: Bloomberg, Phillip Securities Research (Singapore)

Figure 2: Revenue Breakdown by Geography

(SGD mn)	FY2015	%	FY2014	%	y-y (%)
Singapore	4658.0	57.9%	4313.0	57.8%	8.0%
Malaysia	1006.0	12.5%	1047.0	14.0%	-3.9%
Thailand	790.0	9.8%	691.0	9.3%	14.3%
Greater China	706.0	8.8%	587.0	7.9%	20.3%
Indonesia	410.0	5.1%	410.0	5.5%	0.0%
Others	478.0	5.9%	409.0	5.5%	16.9%
TOTAL	8048.0	100%	7457.0	100%	

Source: Bloomberg, Phillip Securities Research (Singapore)

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