

United Overseas Bank Limited

Posturing for more returns from higher risks

SINGAPORE | BANKING | RESULTS

- 3Q16 NPAT of S\$791mn was down 7.8% y-o-y attributed by a 4.7% y-o-y decrease in non-interest income and higher allowances
- 3Q16 NIM decreased 8bps y-o-y to 1.69% (3Q15 NIM: 1.77%) but increased 1bps q-o-q (2Q16 NIM: 1.68%)
- 3Q16 NPL was higher y-o-y at 1.61% (3Q15: 1.26%) and higher q-o-q (2Q16: 1.44%)
- Maintain to "NEUTRAL" with a lower target price of S\$17.63 (previously S\$17.95) pegged at unchanged 0.95x FY16F PBR (excluding preference shares)**

Results at a glance

(SGD mn)	3Q16	3Q15	y-o-y (%)	2Q16	q-o-q (%)	Comments
NII	1,230	1,235	0%	1,211	2%	Higher loans growth y-o-y, Lower NIM y-o-y
Fees & Comm	492	486	1%	475	4%	Higher Fund Mgmt fees
Other Non Int Income	318	366	-13%	338	-6%	Lower Net Gain from Inv Securities. Higher Net Trading Income
Total Revenue	2,040	2,087	-2%	2,024	1%	
Expenses	919	904	2%	927	-1%	
Net Profit	791	858	-8%	801	-1%	

Source: Company, PSR

How do we view this?

Loans growth continue to be strong. Leading the loans growth in 3Q16 are *Building and Construction loans*, up 15.8% year-on-year ("y-o-y") and *Housing Loans*, up 9.2% y-o-y. However, we do not expect the strong growth momentum to continue, because (i) *Housing Loans* growth should taper off with increasing competition; while SMEs' (accounting for 20% of loans book) demand for loan to remain weak as economy slows down.

NIMs remain stable quarter-on-quarter ("q-o-q"). Net interest income steadied as a customer loans grew 2.4% q-o-q offsetting the lower interest rates on customer loans amid declining SOR and SIBOR. Better yield on interbank balances helped improve overall interest earning efficiency. Also a strong funding base allowed UOB to lower customer deposit expense by 3bps.

NPLs rose 17bps q-o-q to hit 1.61%. New NPL formation was mostly contributed by deterioration in collateral values of vessels in the Oil and Gas industry. Collateral values are referenced to market price which are pressured downwards by private equity funds lowballing offshore vessel deals. This has led to a sharp rise in 3Q16 specific allowance ("SP") of S\$217mn compared to 2Q16 SP of S\$96mn and 3Q15 SP of S\$15mn for Singapore incorporated companies. 3Q16 Upstream oil and gas loans exposure is S\$4.0bn (1.87% of total customer loans). NPL coverage ratio declined to 112.4% in 3Q16 from 125.6% in 2Q16.

We had noticed that while Non-performing assets ("NPAs") secured mainly by shipping vessels had increased 12.8% q-o-q to S\$804mn corollary to the general weakness in the offshore industry; an even larger jump in NPAs was registered for unsecured loans, up 27.9% q-o-q to S\$1.606bn. We suspect that UOB is moving ahead of the economic cycle and may likely accept higher risks from growing loans even as overall economy remains weak. In order to buffer for increased risk taking, we expect UOB to recognise higher allowance; not only for oil and gas loans but also for other industry segments that they intend to increase lending.

Non-interest Income declined 4.7% y-o-y. The overall decline was mainly due to an 84% y-o-y decline in *Net gain from investment securities* owing to one-off gains from sale of investment securities in 3Q15. *Net trading income* rose 39.4% y-o-y because of increased flows from customer trading activities such as FX related activities.

31 October 2016

Neutral (Maintain)

CLOSING PRICE	SGD 18.63
FORECAST DIV	SGD 0.75
TARGET PRICE	SGD 17.63
TOTAL RETURN	-1.3%

COMPANY DATA

O/S SHARES (MN):	1635
MARKET CAP (USD mn / SGD mn):	21853 / 30463
52 - WK HV/L0 (SGD):	20.57 / 16.8
3M Average Daily T/O (mn):	3.13

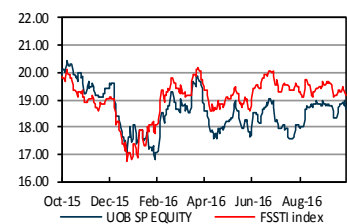
MAJOR SHAREHOLDERS (%)

Wee Investments	7.73%
Wah Hin & Co Pte Ltd	5.10%
Vanguard Group	1.43%
Blackrock	1.42%

PRICE PERFORMANCE (%)

	1M TH	3 M TH	1Y R
COMPANY	0.7	2.0	(2.0)
STI RETURN	(0.98)	(2.26)	(3.64)

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec	FY 13	FY 14	FY 15	FY 16 F
Total Op Inc (SGD mn)	6,718	7,457	8,048	8,015
Op Profit (SGD mn)	3,391	3,675	3,781	3,615
NPAT (SGD mn)	3,023	3,264	3,222	3,123
EPS (SGD)	183	198	194	182
PER, adj. (x)	9.9	9.2	9.4	9.9
ROCE (%)	12.0%	11.5%	10.9%	9.8%

Source: Bloomberg

Valuation Method: 0.95x P/B

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Investment Actions

UOB's 3Q16 NPAT of S\$791mn was in line with our expectations of S\$792mn. Maintain **"NEUTRAL" with a lower target price of S\$17.63 (previously S\$17.95)**. Our new target price is based on unchanged 0.95x FY16F book value (excluding preference shares). The lower share price reflects dilution from scrip dividends.

Table 1. Fee and commission income

SGD mn	3Q16	3Q15	y-o-y (%)	2Q16	q-o-q (%)
Credit card	93	87	6.9%	90	3.3%
Fund management	54	43	25.6%	43	25.6%
Investment-related	102	104	-1.9%	110	-7.3%
Loan-related	124	136	-8.8%	114	8.8%
Service charges	33	30	10.0%	31	6.5%
Trade-related	67	64	4.7%	66	1.5%
Other	19	22	-13.6%	21	-9.5%
Total	492	486	1.2%	475	3.6%

Table 2. Other non-interest income

SGD mn	3Q16	3Q15	y-o-y (%)	2Q16	q-o-q (%)
Net trading income	227	163	39.3%	216	5.1%
Other income	33	21	57.1%	29	13.8%
Net gain/(loss) from investment securities	24	148	-83.8%	39	-38.5%
Dividend income	4	5	-20.0%	24	-83.3%
Rental income	30	29	3.4%	29	3.4%
Total other non int inc	318	366	-13.1%	337	-5.6%

Table 3. Loans by Industries

SGD mn	3Q16	3Q15	y-o-y (%)	2Q16	q-o-q (%)
Tpt, storage & comms	9,357	9,943	-5.9%	8,897	5.2%
Building and construction	50,514	43,616	15.8%	48,761	3.6%
Manufacturing	16,185	15,622	3.6%	16,703	-3.1%
Financial institutions	14,673	14,088	4.2%	11,778	24.6%
General commerce	28,275	29,369	-3.7%	27,857	1.5%
Professionals & Pri inv	26,414	25,533	3.5%	26,599	-0.7%
Housing loans	59,981	54,915	9.2%	59,272	1.2%
Others	11,996	10,142	18.3%	12,414	-3.4%
Total loans	217,395	203,228	7.0%	212,281	2.4%

Table 4. Loans by currencies

SGD mn	3Q16	3Q15	y-o-y (%)	2Q16	q-o-q (%)
Singapore dollar	110,481	106,611	3.6%	111,119	-0.6%
US dollar	40,463	35,776	13.1%	37,589	7.6%
Malaysian ringgit	23,168	21,383	8.3%	23,240	-0.3%
Thai baht	11,630	10,594	9.8%	11,146	4.3%
Indonesian rupiah	5,329	4,586	16.2%	5,101	4.5%
Others	26,324	24,278	8.4%	24,085	9.3%
Total loans	217,395	203,228	7.0%	212,280	2.4%

Table 5. Profit before tax by Geographical segments

SGD mn	3Q16	3Q15	y-o-y (%)	2Q16	q-o-q (%)
Singapore	563	645	-12.7%	558	0.9%
Malaysia	150	124	21.0%	125	20.0%
Thailand	49	51	-3.9%	58	-15.5%
Indonesia	28	25	12.0%	20	40.0%
Greater China	76	95	-20.0%	66	15.2%
Others	96	109	-11.9%	141	-31.9%
Total NPBT	962	1,049	-8.3%	968	-0.6%

Source (tables 1-5): Company, Phillip Securities Research

Fig 1: Net interest margin

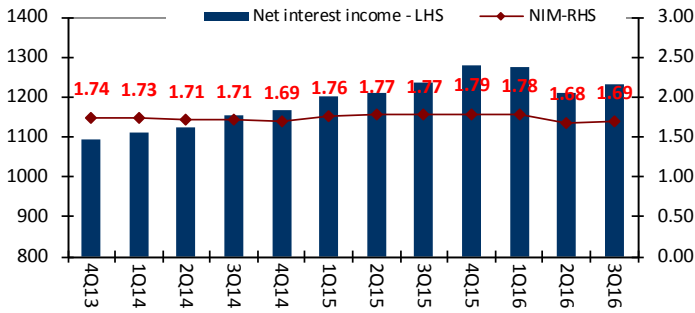


Fig 2: NonInt/Total revenue

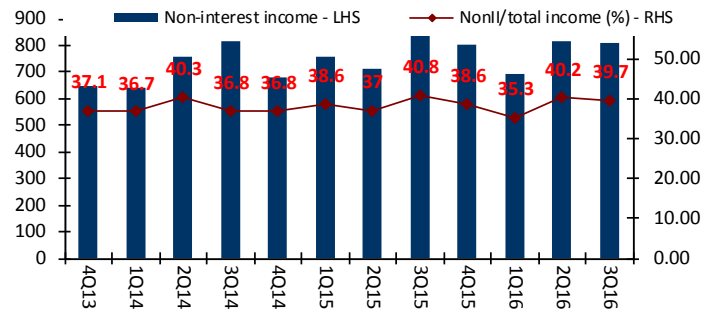


Fig 3: Efficiency ratio

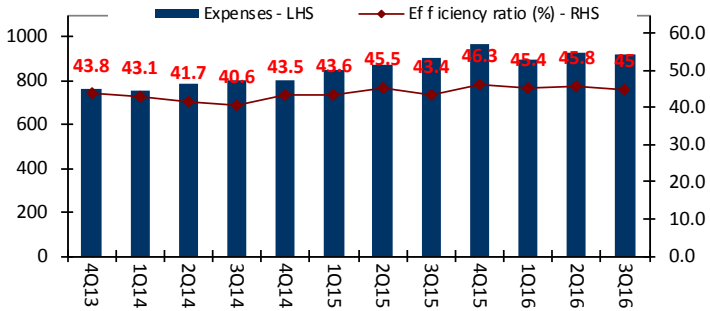


Fig 4: Net profit margin

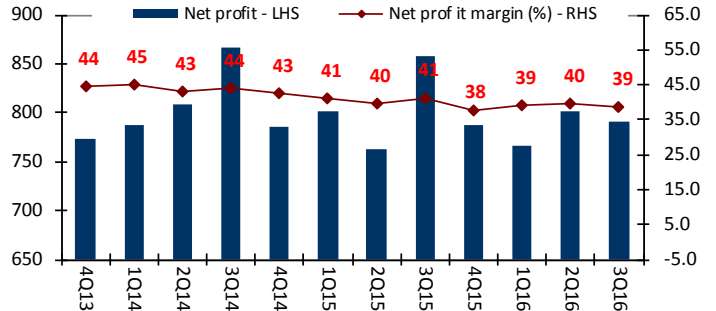


Fig 5: Deposits, Loans, LDR

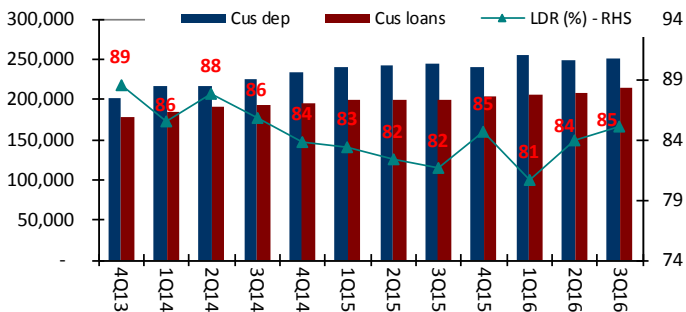


Fig 6: NPA, NPL

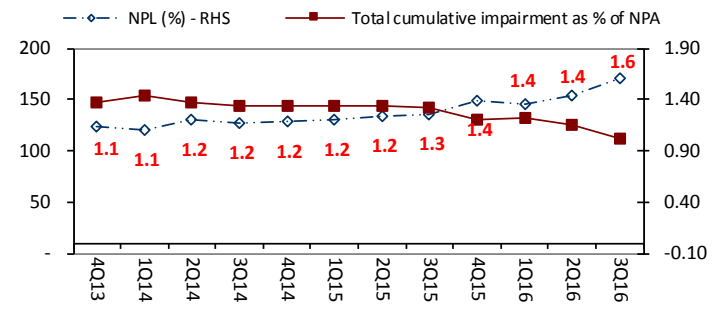


Fig 7: Growth in selected asset items

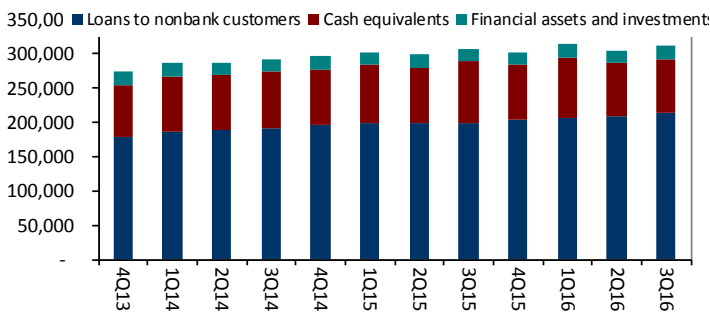


Fig 8: CAR

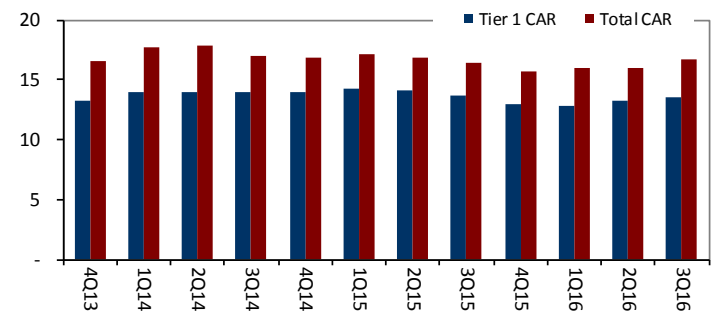


Fig 9: ROE and ROA

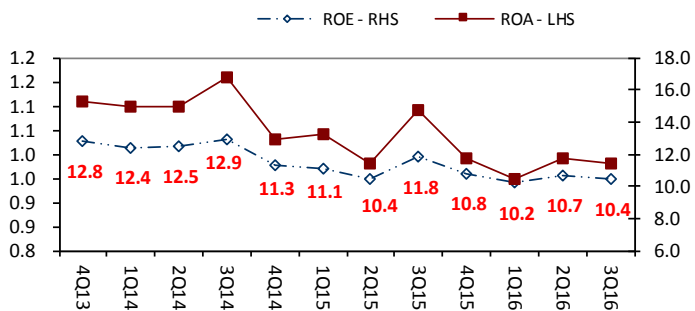


Fig 10: EPS and NBV

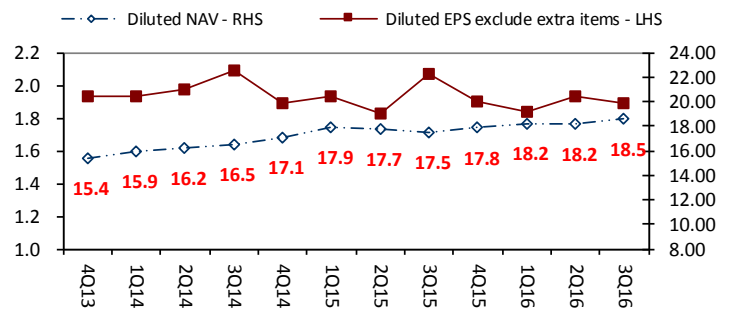


Fig 11: Revenue by geographical segment

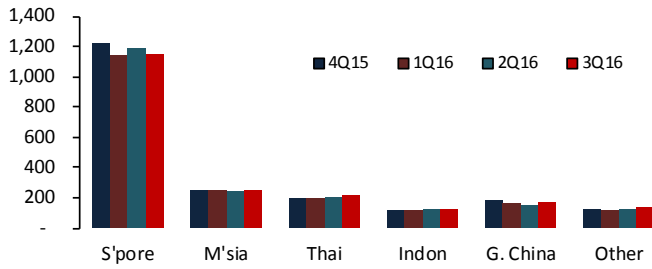


Fig 12: Geo segment breakdown

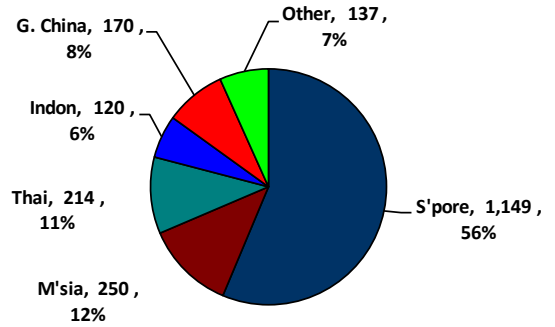


Fig 13: Revenue by Business segment

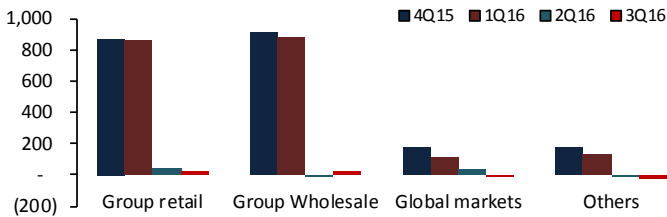


Fig 14: Net interest income trend

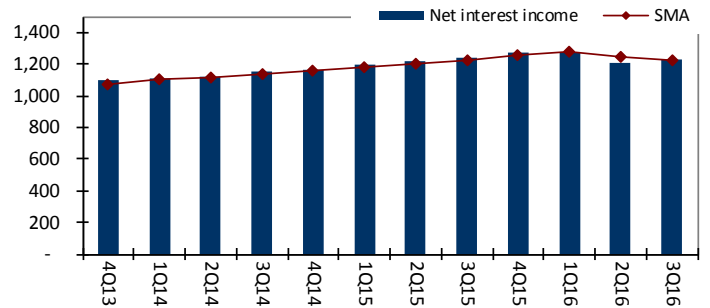


Fig 15: Fee and Commission trend

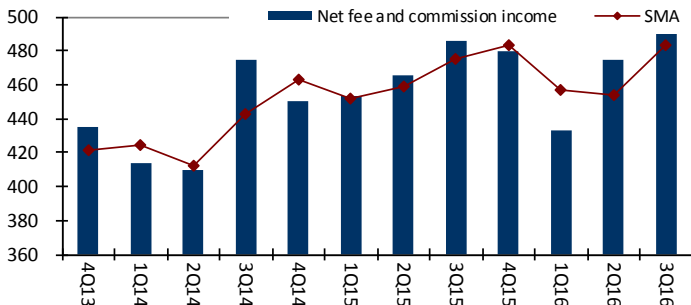
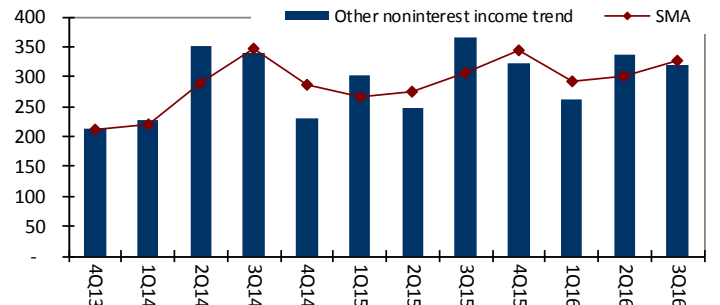


Fig 16: Other noninterest income trend



Financials

Income Statement (SGD mn)

Y/E Dec, SGD mn	FY13	FY14	FY15	FY16F	FY17F
Net Interest Income	4,119	4,558	4,925	4,898	5,125
Fees and Commission	1,731	1,749	1,884	1,887	1,892
Other Non interest income	868	1,150	1,239	1,229	1,288
Total operating income	6,718	7,457	8,048	8,015	8,305
Operating expenses	2,898	3,147	3,596	3,663	3,704
Provisions	429	635	671	738	654
Operating profit	3,391	3,675	3,781	3,615	3,948
Associates & JVs	191	149	90	90	90
Profit Before Tax	3,582	3,824	3,871	3,705	4,038
Taxation	559	560	649	582	633
Profit After Tax	3,023	3,264	3,222	3,123	3,405
Non-controlling Interest	17	15	12	16	16
Net Income, reported	3,006	3,249	3,210	3,107	3,389
Net Income, adj.	3,006	3,249	3,210	3,107	3,389

Per share data (SGD)

Y/E Dec, SGD mn	FY13	FY14	FY15	FY16F	FY17F
EPS, reported	1.83	1.98	1.94	1.82	1.98
EPS, adj.	1.83	1.98	1.94	1.82	1.98
DPS	0.75	0.75	0.90	0.75	0.70
BVPS (less pref shares)	15.36	17.09	17.84	18.56	19.96

Supplementary items

Y/E Dec, SGD mn	FY13	FY14	FY15	FY16F	FY17F
CET1 CAR (%)	13.2%	13.9%	13.0%	13.3%	14.3%
Tier 1 CAR (%)	13.2%	13.9%	13.0%	13.3%	14.3%
Total CAR (%)	16.6%	16.9%	15.6%	16.3%	17.3%

Source: Company Data, PSR est

Balance Sheet (SGD mn)

Y/E Dec, SGD mn	FY13	FY14	FY15	FY16F	FY17F
Cash bal with central banks	26,881	35,083	32,306	28,526	32,668
Due from banks	31,412	28,692	28,646	28,859	27,501
Investment securities	12,140	11,440	10,562	11,635	11,664
Loans to non-bank customers	178,857	195,903	203,611	212,011	213,700
Others	34,940	35,618	40,886	44,227	43,262
Total Assets	284,230	306,736	316,011	325,257	328,794
Due to banks	26,247	11,226	11,986	11,292	11,405
Due to non-bank customers	202,006	233,750	240,524	249,704	250,157
Debts issued	18,981	20,953	20,288	18,998	19,188
Others	10,417	11,035	12,289	12,658	13,037
Total liabilities	257,651	276,964	285,087	292,651	293,787
Shareholder's equity	26,391	29,572	30,771	32,434	34,819
Non-controlling interest	189	203	156	172	188
Total Equity	26,580	29,775	30,927	32,606	35,007

Valuation Ratios

Y/E Dec, SGD mn	FY13	FY14	FY15	FY16F	FY17F
P/E (X), adj.	9.9	9.2	9.4	9.9	9.2
P/B (X)	1.2	1.1	1.0	0.98	0.9
Dividend Yield (%)	4.1%	4.1%	5.0%	4.1%	3.9%

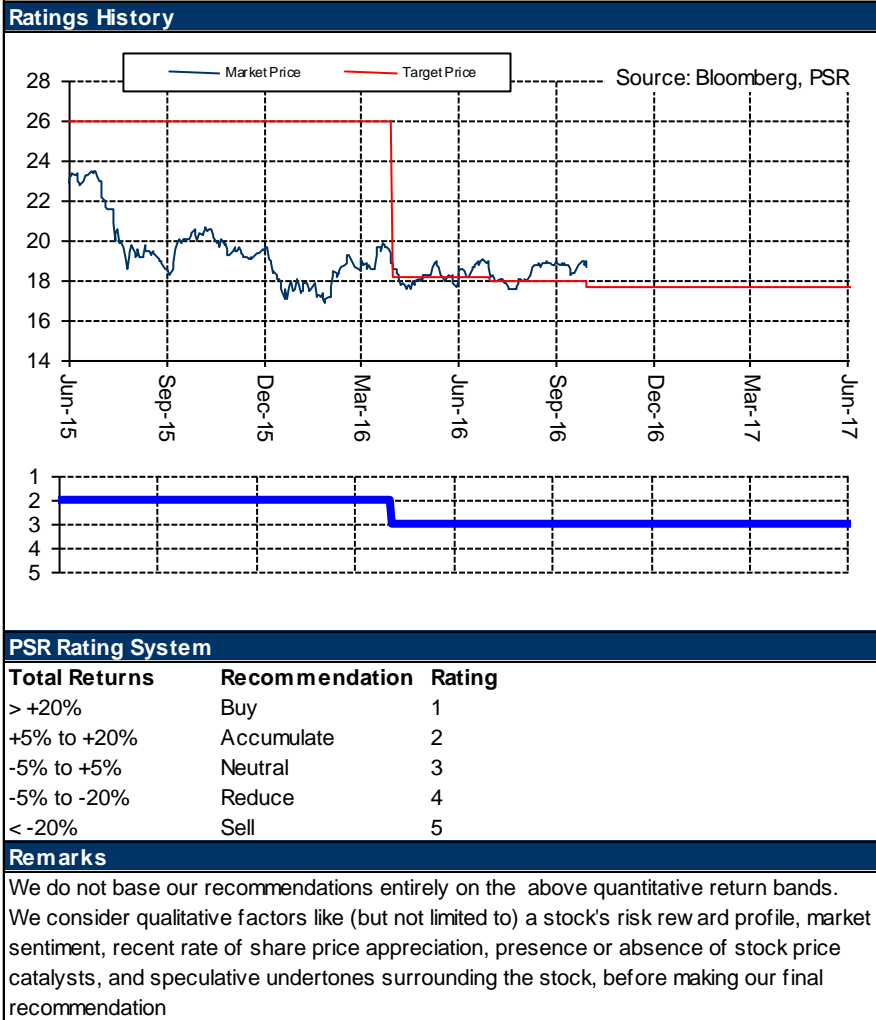
Growth & Margins (%)

	FY13	FY14	FY15	FY16F	FY17F
Growth					
Net interest income	16.7%	10.7%	8.1%	-0.5%	4.6%
Non interest income	31.6%	11.5%	7.7%	-0.2%	2.0%
Pre provision operating profit	22.0%	11.0%	7.9%	-0.4%	3.6%
Operating income	22.6%	8.4%	2.9%	-4.4%	9.2%
Net income, reported	25.1%	8.1%	-1.2%	-3.2%	9.1%
Margins					
Net interest margin	1.72%	1.71%	1.77%	1.70%	1.78%

Key Ratios (%)

	FY13	FY14	FY15	FY16F	FY17F
ROE	12.0%	11.5%	10.9%	9.8%	9.9%
ROA	1.1%	1.1%	1.0%	1.0%	1.0%
RORWA	1.8%	1.8%	1.6%	1.5%	1.6%
Non-interest/total income ratio	38.7%	38.9%	38.8%	38.9%	38.3%
Cost/income ratio	43.1%	42.2%	44.7%	45.7%	44.6%
Loan/deposit ratio	88.5%	83.8%	84.7%	84.9%	85.4%
NPL ratio	1.14	1.18	1.39	1.70	1.36

Source: Company Data, PSR est



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