

United Overseas Bank Limited

Strongest NII Growth since 2014



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SINGAPORE | BANKING | 3Q17 RESULTS

- 3Q17 PATMI of S\$883mn is in line with our estimate of S\$850mn.
- NII increased 14% YoY on the back of strong loans growth and higher NIM.
- WM fee income grew 40% YoY on higher sales of treasury products and unit trusts.
- Specific provisions higher because of new NPA formation by an Oil & Gas company.
- **Upgrade "ACCUMULATE" (previously "NEUTRAL") with a higher target price of S\$25.22 (previous TP S\$23.46) based on Gordon Growth Model.**

Results at a glance

(SGD mn)	3Q17	3Q16	YoY (%)	2Q17	QoQ (%)	Comments
NII	1,408	1,230	14%	1,356	4%	Higher loans growth and higher NIM
Fees & Comm	551	492	12%	517	7%	Higher Fund Mgmt fees, Cards and WM
Other Non Int Income	279	318	-12%	311	-10%	Lower Net Trading Income
Total Revenue	2,238	2,040	10%	2,184	2%	
Expenses	973	919	6%	995	-2%	Higher IT related costs
Allowances	221	185	19%	180	23%	Higher SP in G.China & S'pore
Net Profit	883	791	12%	845	4%	

Source: Company, PSR

The Positives

+ 3Q17 Loans growth higher 7.7% YoY and NIM expanded 4bps QoQ. Manufacturing and Financial institutional loans registered strong double digit loans growth YoY and QoQ. Housing loans growth also gained momentum; registering an increase of 6.6% YoY compared to 6.2% YoY in 2Q17. In Singapore, UOB has been focused on mass market housing loans. The mortgagors are typically first time Singaporean buyers purchasing the property for own occupancy. NIM increased 4bps QoQ to 1.79% largely supported by higher customer loan rates and higher interbank rates.

+ WM fee income grew 40% YoY. FX and interest rate products; and unit trusts with longer duration saw strong sales momentum. But bancassurance is expected to be weaker in the 4Q17.

The Negatives

- **NPL increased to 1.6%, 10bps higher QoQ.** New NPA formation spiked to S\$799mn in 3Q17 compared to S\$537mn in 2Q17 because of exposure to an O&G company. Of the S\$799mn new NPA formation, slightly less than half is due to exposure to an O&G company. This caused the specific provisions to be higher QoQ. Specific provisions are expected to remain elevated in 4Q17 as provisions will be set aside for exposure to another O&G name. Moving into FY18, management does not expect elevated specific provisions to continue and there is possibility that the 32bps total credit cost will be lowered in FY18

- **UOB Indonesia recorded a loss in 3Q17.** The loss was due to higher allowances to conform to regulatory changes in classification of non-performing loans. UOB Indonesia NPL ratio actually improved slightly from 5.6% in 2Q17 to 5.4% in 3Q17.

Outlook

We are impressed with 3Q17 NII growth of 14% YoY as loans growth was strong and past-through of higher interest rates was firm. In particular, 3Q16 wasn't an exceptionally weak quarter to be compared with and that in many previous quarters NII had been struggling at low single digit percentage growth rate. We expect FY17e NIM to improve to 1.76% from previous estimate of 1.74% as we expect the strong momentum in performance to continue into 4Q17. **With a higher NIM outlook, we revise our FY17e PATMI growth estimate to 10% (previously 8.6%) and FY18e PATMI growth estimate to 10.3% (previously 4.6%).** Management is expecting specific provision to be elevated in 4Q17 so we estimate FY17e provisions to be S\$790mn (previously, S\$646mn). We have also revised our FY18e total credit costs to 30bps from [previous estimate of 28bps](#).

6 November 2017

Accumulate (Upgrade)

LAST DONE PRICE	SGD 24.76
FORECAST DIV	SGD 0.80
TARGET PRICE	SGD 25.22
TOTAL RETURN	5.1%

COMPANY DATA

BLOOMBERG TICKER	UOB SP
O/S SHARES (MN)	1663
MARKET CAP (USD mn / SGD mn)	30226 / 4171
52 - WK HI/LO (SGD)	25 / 17.98
3M Average Daily T/O (mn)	176

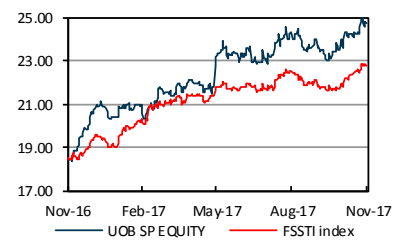
MAJOR SHAREHOLDERS (%)

Wee Investments	7.70%
Wah Hin & Co Pte Ltd	5.04%
Vanguard Group	2.07%
Blackrock	140%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	3.3	3.4	37.9
STI RETURN	3.67	187	24.43

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec	FY 15	FY 16	FY 17e	FY 18e
Total Op Inc (SGD mn)	8,048	8,060	8,777	9,183
Op Profit (SGD mn)	3,781	3,769	4,088	4,483
NPAT (SGD mn)	3,222	3,105	3,414	3,764
EPS (SGD)	194	183	196	214
PER, adj. (X)	10.1	112	12.4	114
P/BV, (X)	1.1	1.1	1.2	1.1
ROE (%)	119%	10.1%	10.2%	10.4%

Source: Bloomberg

Valuation Method:

Gordon Growth Model (ERP: 7%; g: 2%)

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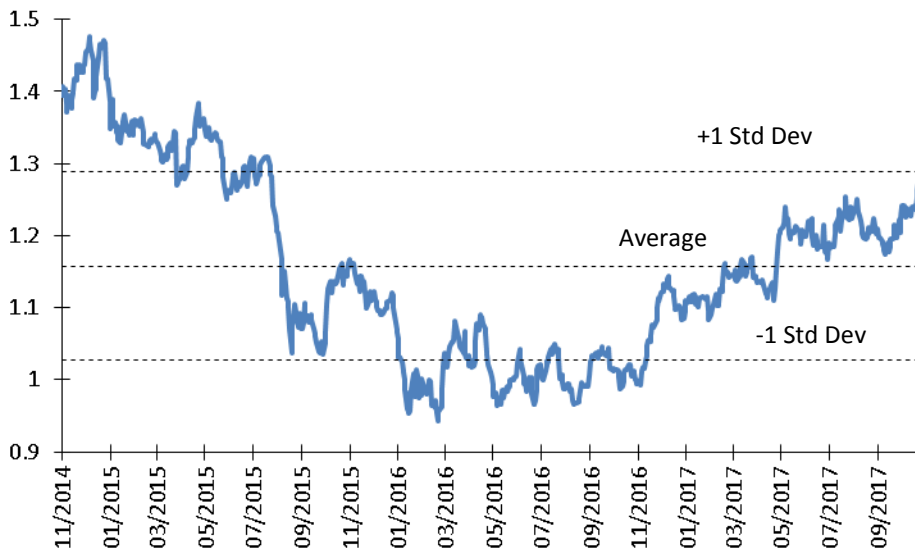
Valuation: Gordon Growth Model

Item	Description	Value
R _f	Risk-free rate	2.0%
E	Equity-risk premium	6.7%
B	Beta	1.065
COE	Cost of Equity	9.1%
ROE	FY18e Return on Equity	10.4%
g	Terminal growth rate	2.0%
$\frac{(ROE-g)}{(COE-g)}$	FY18e Target Price to Book	1.184
	FY18e BVPS, S\$	21.31
	FY18e Valuation, S\$	25.22

List of Abbreviations

- WM – Wealth Management
- NII – Net Interest Income
- NIM – Net Interest Margin
- LDR – Loan to Deposit Ratio
- NPL – Non-performing Loans
- PPOP – Pre-Provision Operating Profit
- WACC – Weighted Average Cost of Capital
- ROIC – Return on Invested Capital
- FHR – Fixed Deposit Home Loan Rate
- EV – Economic Value
- O&G – Oil and Gas

3-Year Historical Price-to-Book



Investment Actions

Upgrade "ACCUMULATE" (previously "NEUTRAL") with a higher target price of S\$25.22 (previous TP S\$23.46) based on Gordon Growth Model.

Table 1. Fee and commission income

SGD mn	3Q17	3Q16	YoY (%)	2Q17	QoQ (%)
Credit card	103	93	10.8%	100	3.0%
Fund management	62	54	14.8%	57	8.8%
Wealth management	143	102	40.2%	136	5.1%
Loan-related	122	124	-1.6%	102	19.6%
Service charges	35	33	6.1%	36	-2.8%
Trade-related	68	67	1.5%	66	3.0%
Other	18	19	-5.3%	20	-10.0%
Total	551	492	12.0%	517	6.6%

Table 2. Other non-interest income

SGD mn	3Q17	3Q16	YoY (%)	2Q17	QoQ (%)
Net trading income	164	227	-27.8%	164	0.0%
Other income	26	33	-21.2%	23	13.0%
Net gain/(loss) from investment securities	57	24	137.5%	76	-25.0%
Dividend income	3	4	-25.0%	18	-83.3%
Rental income	29	30	-3.3%	30	-3.3%
Total other non int inc	279	318	-12.3%	311	-10.3%

Table 3. Loans by Industries

SGD mn	3Q17	3Q16	YoY (%)	2Q17	QoQ (%)
Tpt, storage & comms	9,704	9,357	3.7%	9,487	2.3%
Building and construction	53,688	50,514	6.3%	53,063	1.2%
Manufacturing	18,949	16,185	17.1%	16,794	12.8%
Financial institutions	18,131	14,673	23.6%	16,328	11.0%
General commerce	30,317	28,275	7.2%	30,145	0.6%
Professionals & Pri inv	27,812	26,414	5.3%	27,314	1.8%
Housing loans	63,918	59,981	6.6%	62,922	1.6%
Others	11,594	11,996	-3.4%	11,687	-0.8%
Total loans	234,113	217,395	7.7%	227,740	2.8%

Table 4. Loans by currencies

SGD mn	3Q17	3Q16	YoY (%)	2Q17	QoQ (%)
Singapore dollar	114,823	110,481	3.9%	113,610	1.1%
US dollar	45,409	40,463	12.2%	42,330	7.3%
Malaysian ringgit	23,296	23,168	0.6%	23,270	0.1%
Thai baht	13,385	11,630	15.1%	12,946	3.4%
Indonesian rupiah	5,162	5,329	-3.1%	5,363	-3.7%
Others	32,039	26,324	21.7%	30,220	6.0%
Total loans	234,114	217,395	7.7%	227,739	2.8%

Table 5. Profit before tax by Geographical segments

SGD mn	3Q17	3Q16	YoY (%)	2Q17	QoQ (%)
Singapore	668	563	18.7%	597	11.9%
Malaysia	144	150	-4.0%	154	-6.5%
Thailand	63	49	28.6%	57	10.5%
Indonesia	(12)	28	-142.9%	21	-157.1%
Greater China	102	76	34.2%	98	4.1%
Others	107	96	11.5%	107	0.0%
Total NPBT	1,072	962	11.4%	1,034	3.7%

Source (Tables 1-5): Company, PSR

Figure 1. Net interest margin

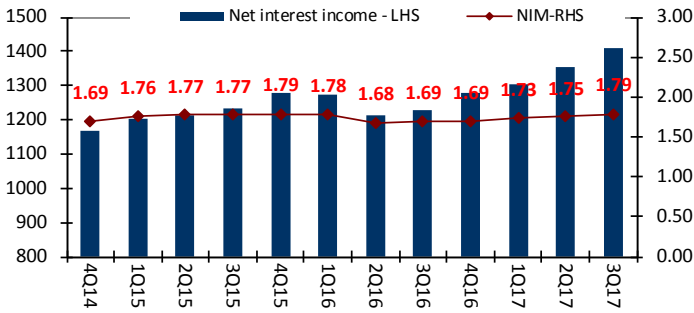


Figure 2. NonInt/Total revenue

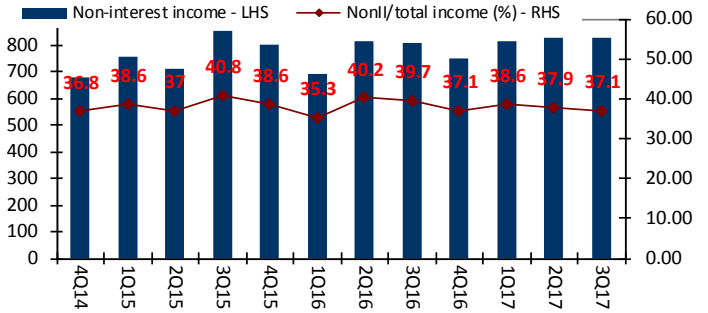


Figure 3. Efficiency ratio

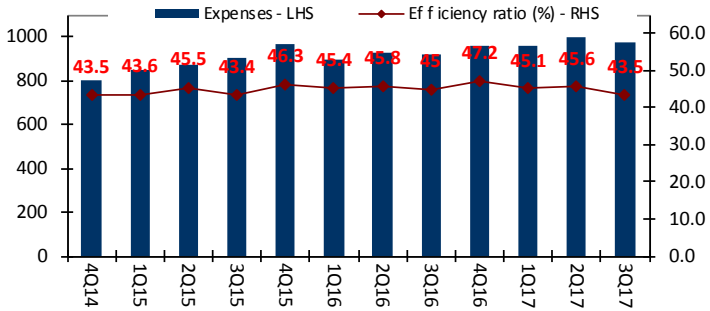


Figure 4. Net profit margin

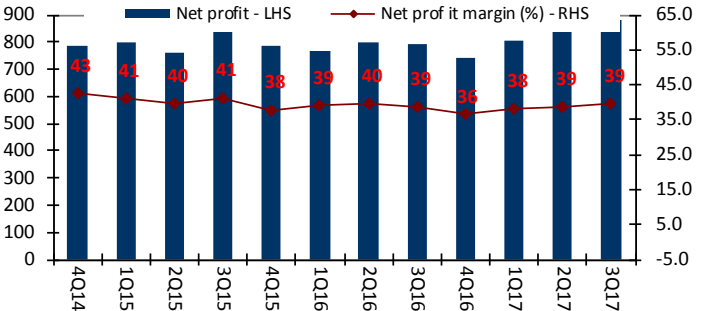


Figure 5. Deposits, Loans, LDR

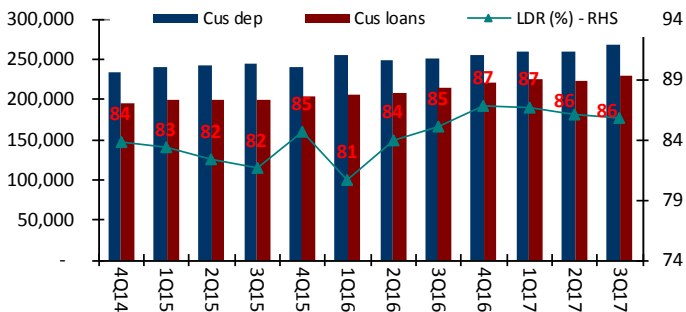


Figure 6. NPA, NPL

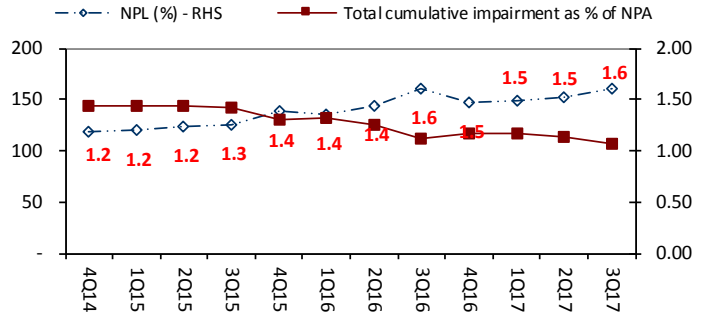


Figure 7. Growth in selected asset items

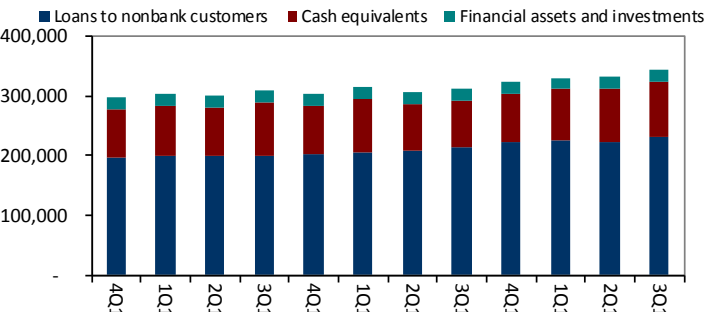


Figure 8. CAR

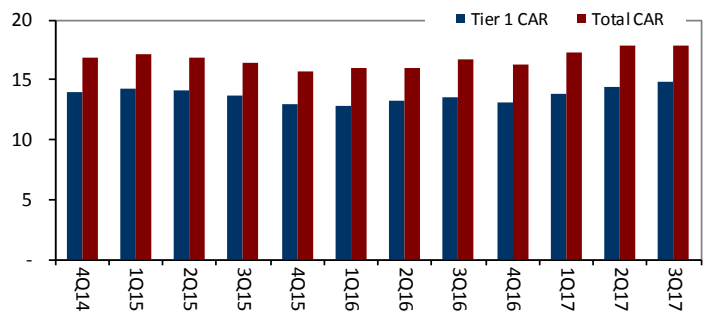


Figure 9. ROE and ROA

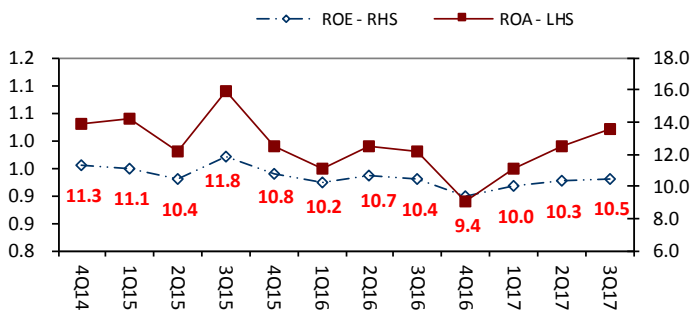


Figure 10. EPS and NBV

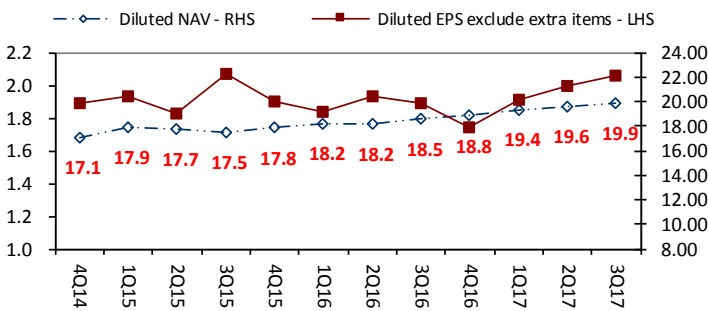


Figure 11. Revenue by geographical segment

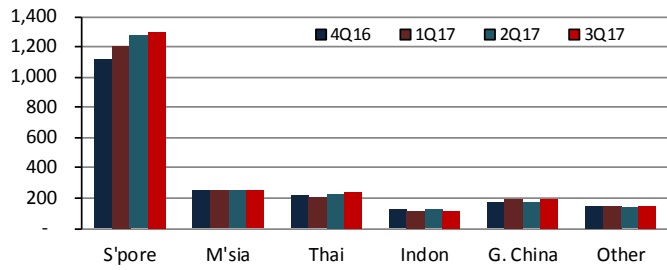


Figure 12. Geo segment breakdown

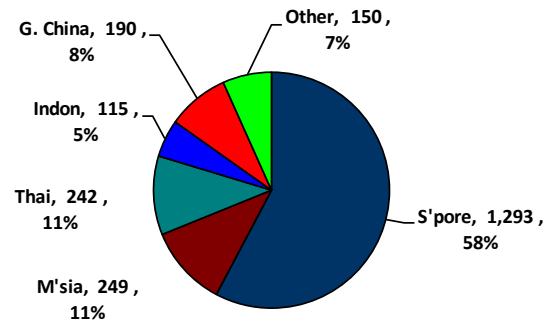


Figure 13. Revenue by Business segment

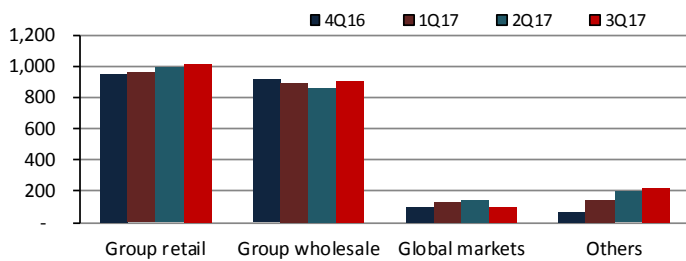


Figure 14. Net interest income trend

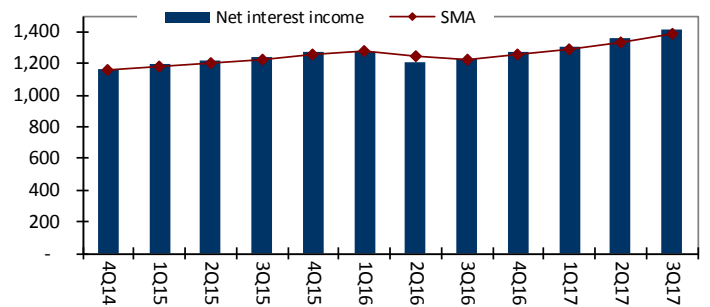


Figure 15. Fee and Commission trend

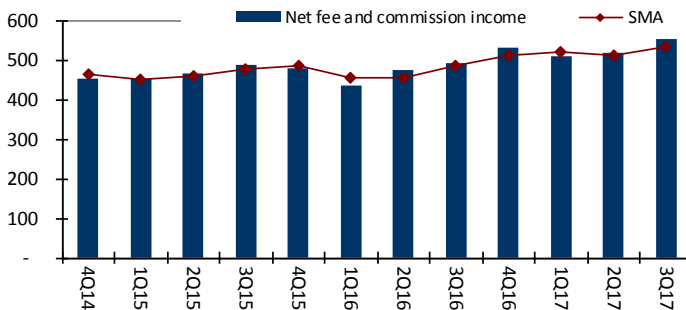
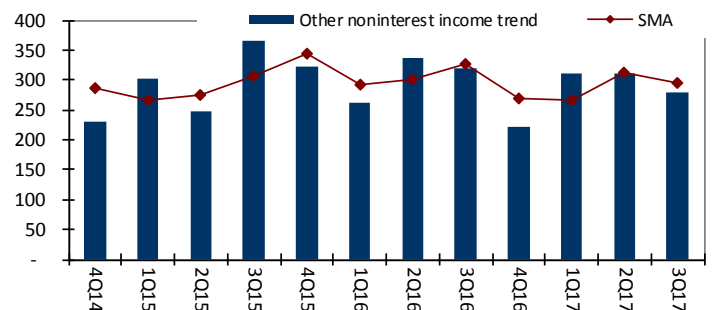


Figure 16. Other noninterest income trend



Financials

Income Statement

Y/E Dec, SGD mn	FY14	FY15	FY16	FY17e	FY18e
Net Int Income	4,558	4,925	4,991	5,485	5,862
Fees and Commission	1,749	1,884	1,931	2,140	2,253
Other Non-int income	1,150	1,239	1,138	1,152	1,069
Total operating income	7,457	8,048	8,060	8,777	9,183
Operating expenses	3,147	3,596	3,697	3,899	3,972
Provisions	635	671	594	790	729
Operating profit	3,675	3,781	3,769	4,088	4,483
Associates & JVs	149	90	5	90	90
Profit Before Tax	3,824	3,871	3,774	4,178	4,573
Taxation	560	649	669	765	808
Profit After Tax	3,264	3,222	3,105	3,414	3,764
Non-controlling Interest	15	12	12	13	15
Net Income, reported	3,249	3,210	3,093	3,400	3,750
Net Income, adj.	3,249	3,210	3,093	3,400	3,750

Per share data

Y/E Dec, SGD mn	FY14	FY15	FY16	FY17e	FY18e
EPS, reported	1.98	1.94	1.83	1.96	2.14
EPS, adj.	1.98	1.94	1.83	1.96	2.14
DPS	0.75	0.90	0.75	0.80	0.80
BVPS (less pref shares)	17.09	17.84	18.82	19.88	21.31

Supplementary items

Y/E Dec, SGD mn	FY14	FY15	FY16	FY17e	FY18e
CET1 CAR (%)	13.9%	13.0%	13.0%	13.9%	14.3%
Tier 1 CAR (%)	13.9%	13.0%	13.1%	13.9%	14.3%
Total CAR (%)	16.9%	15.6%	16.2%	17.2%	17.5%

Balance Sheet

Y/E Dec, SGD mn	FY14	FY15	FY16	FY17e	FY18e
Cash bal w central banks	35,083	32,306	24,322	30,845	28,526
Due from banks	28,692	28,646	40,033	40,156	39,450
Investment securities	11,440	10,562	11,640	9,012	9,035
Loans to non-bank cust	195,903	203,611	221,734	232,320	244,227
Others	35,618	40,886	42,123	41,860	42,330
Total Assets	306,736	316,011	339,852	354,193	363,568
Due to banks	11,226	11,986	11,855	12,631	12,757
Due to non-bank cust	233,750	240,524	255,314	270,025	276,060
Debts issued	20,953	20,288	26,143	22,170	22,391
Others	11,035	12,289	13,674	14,084	14,507
Total liabilities	276,964	285,087	306,986	318,910	325,715
Shareholder's equity	29,572	30,771	32,876	35,101	37,656
Non-controlling interest	203	156	169	182	197
Total Equity	29,775	30,927	33,045	35,283	37,853

Valuation Ratios

Y/E Dec, SGD mn	FY14	FY15	FY16	FY17e	FY18e
P/E (X), adj.	12.4	10.1	11.2	12.4	11.4
P/B (X)	1.4	1.1	1.1	1.2	1.1
Dividend Yield (%)	3.1%	4.6%	3.7%	3.3%	3.3%

Growth & Margins (%)

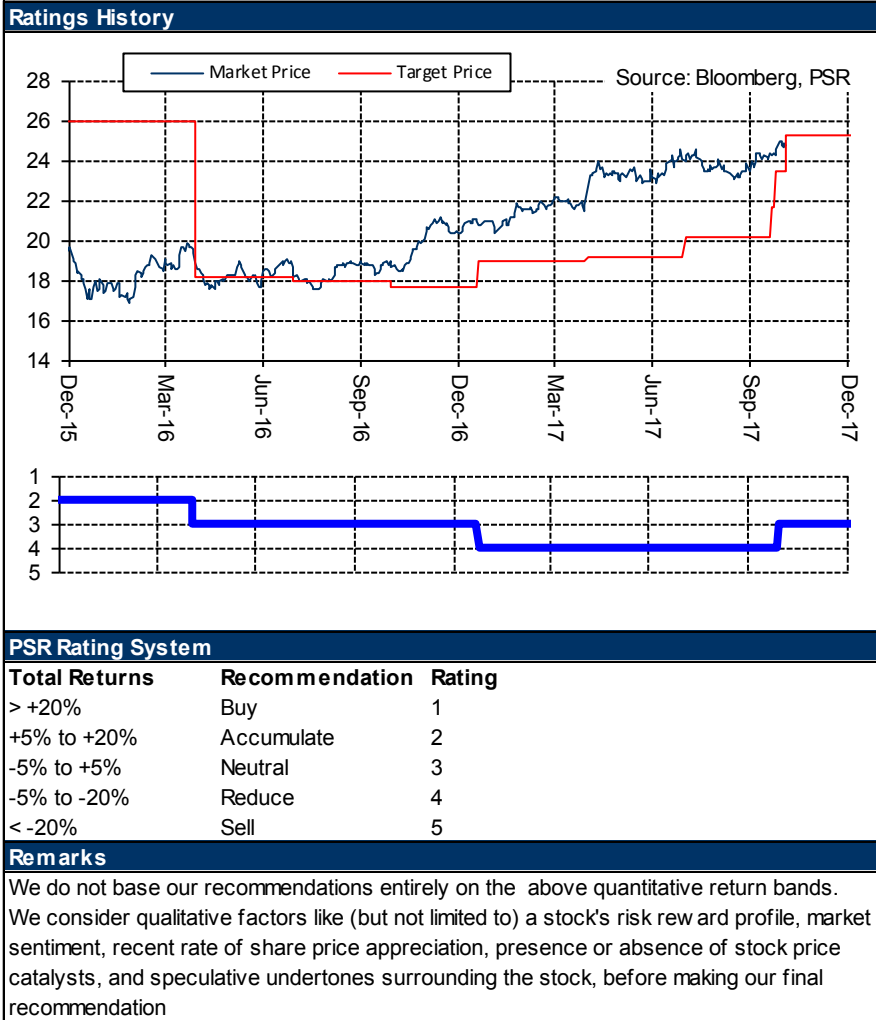
Growth					
Net interest income	10.7%	8.1%	1.3%	9.9%	6.9%
Non interest income	11.5%	7.7%	-1.7%	7.3%	0.9%
Pre provision op profit	11.0%	7.9%	0.1%	8.9%	4.6%
Operating income	8.4%	2.9%	-0.3%	8.5%	9.6%
Net income, reported	8.1%	-1.2%	-3.6%	9.9%	10.3%
Margins					
Net interest margin	1.71%	1.77%	1.71%	1.76%	1.81%

Key Ratios (%)

ROE	13.0%	11.9%	10.1%	10.2%	10.4%
ROA	1.1%	1.0%	0.9%	1.0%	1.0%
RORWA	1.8%	1.6%	1.4%	1.5%	1.6%
Non-int/total income ratio	38.9%	38.8%	38.1%	37.5%	36.2%
Cost/income ratio	42.2%	44.7%	45.9%	44.4%	43.2%
Loan/deposit ratio	83.8%	84.7%	86.8%	86.0%	88.5%
NPL ratio	1.18	1.39	1.47	1.45	1.44

Source: Company, PSR

*Forward multiples & yields based on current market price; historical multiples & yields based on historical market price.



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