

# United Overseas Bank Limited

Stellar performance across all segments



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## SINGAPORE | BANKING | 4Q17 RESULTS

- 4Q17 PATMI of S\$855mn is in line with our estimate.
- NII increased 15% YoY on the back of robust loans growth and higher NIM.
- WM fee income grew 29% YoY on higher contribution by HNW segment.
- Higher specific provisions were offset by reversal of excess general provisions.
- **Upgrade to BUY (previously ACCUMULATE) with a higher target price of S\$29.00 (previous TP S\$25.22)** based on Gordon Growth Model.

### Results at a glance

(SGD mn)	4Q17	4Q16	YoY (%)	3Q17	QoQ (%)	Comments
NII	1,461	1,276	14%	1,408	4%	Higher loans growth & NIM
Fees & Comm	585	531	10%	551	6%	Higher Fund Mgmt, Cards & WM
Other Non Int Income	261	222	18%	279	-6%	Higher Net Trading Income
<b>Total Revenue</b>	<b>2,307</b>	<b>2,028</b>	<b>14%</b>	<b>2,238</b>	<b>3%</b>	
Expenses	1,102	957	15%	973	13%	Higher IT related costs
Allowances	140	131	7%	221	-37%	Higher SP offset by GP reversal
<b>Net Profit</b>	<b>855</b>	<b>739</b>	<b>16%</b>	<b>883</b>	<b>-3%</b>	

Source: Company, PSR

### The Positives

+ **Loans growth 5% YoY and NIM expanded 12bps YoY.** Manufacturing and Financial institution loans registered strong double digit loans growth YoY. Housing loans growth was steady at c.6% YoY. NIM was higher on the back of higher rates on customer loans and interbank balances.

+ **WM fees grew 29% YoY.** We believe the stronger fee income was due to stronger contribution by the HNW segment. Total WM income from the HNW segment saw a full year growth of 35% in 2017 compared with the mass affluent segment which grew 12%.

+ **Exposure to upstream O&G sector reduced and portfolio cleaned up.** Exposure to upstream O&G sector was reduced to S\$3.8bn in 4Q17 from S\$4.3bn in 3Q17. New NPA formation spiked to S\$1.2bn in 4Q17 compared to S\$0.8bn in 3Q17 as more O&G exposure was cleaned up. As a result, NPL ratio increased to 1.8% compared to 1.6% in 3Q17. Higher specific provision expense during the quarter was offset by a reversal of excess general provisions which resulted in a low provision expense of S\$140mn in the 4<sup>th</sup> quarter.

### The Negatives

- **UOB Indonesia continues to be loss making in 4Q17.** UOB Indonesia's weak top-line growth continues to be a drag as expenses continue to rise and allowances stay elevated. Recall in 3Q17, the higher allowance was needed to conform to regulatory changes in classification of non-performing loans.

### Outlook

We upgrade our FY18e NIM target to 1.9% from previous estimate of 1.81% but we maintain loans growth at c.6%. With a higher NIM outlook, we revise our FY18e PATMI growth estimate to c.13% (previously c.10%).

## Buy (Upgrade)

LAST DONE PRICE	SGD 27.46
FORECAST DIV	SGD 0.80
TARGET PRICE	SGD 29.00
<b>TOTAL RETURN</b>	<b>8.5%</b>

### COMPANY DATA

BLOOMBERG TICKER	UOB SP
O/S SHARES (MN)	1663
MARKET CAP (USD mn / SGD mn)	34636 / 45654
52 - WK HI/LO (SGD)	28.46 / 21.01
3M Average Daily T/O (mn)	2.36

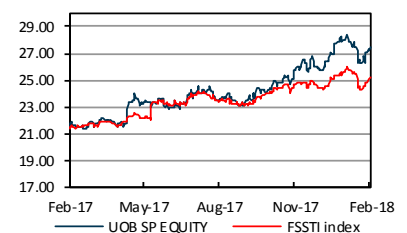
### MAJOR SHAREHOLDERS (%)

Wee Investments	7.70%
Wah Hin & Co Pte Ltd	5.04%
Vanguard Group	2.07%
Blackrock	1.40%

### PRICE PERFORMANCE (%)

	1M TH	3M TH	1Y R
COMPANY	(2.9)	7.8	32.9
STIRETURN	(1.92)	3.04	15.86

### PRICE VS. STI



Source: Bloomberg, PSR

### KEY FINANCIALS

Y/E Dec	FY 16	FY 17	FY 18 e	FY 19 e
Total Op Inc (SGD m)	8,060	8,852	9,627	9,964
Op Profit (SGD mn)	3,769	4,098	4,600	4,861
NPAT (SGD mn)	3,105	3,408	3,853	4,058
EPS (SGD)	1.83	1.96	2.20	2.22
PER, adj. (x)	11.2	14.0	12.4	12.3
P/BV, (x)	1.1	1.3	1.3	1.2
ROE (%)	10.1%	10.2%	10.5%	9.9%

Source: Bloomberg

### Valuation Method:

**Gordon Growth Model (ERP: 5%; g: 2%)**

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**Valuation: Gordon Growth Model**

Item	Description	Value
R <sub>f</sub>	Risk-free rate	3.0%
E	Equity-risk premium	5.0%
B	Beta	1.065
COE	Cost of Equity	8.3%
ROE	FY18e Return on Equity	10.5%
g	Terminal growth rate	2.0%
$\frac{(ROE-g)}{(COE-g)}$	FY18e Target Price to Book	1.349
	FY18e BVPS, S\$	21.50
	FY18e Valuation, S\$	29.00

## 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
HNW – High Net Worth

**Investment Actions**

Upgrade to BUY (previously ACCUMULATE) with a higher target price of S\$29.00 (previous TP S\$25.22).

**Table 1: Fee and commission income**

SGD mn	4Q17	4Q16	YoY (%)	3Q17	QoQ (%)
Credit card	111	103	7.8%	103	7.8%
Fund management	67	52	28.8%	62	8.1%
Wealth management	142	110	29.1%	143	-0.7%
Loan-related	133	134	-0.7%	122	9.0%
Service charges	41	39	5.1%	35	17.1%
Trade-related	72	68	5.9%	68	5.9%
Other	18	25	-28.0%	18	0.0%
<b>Total</b>	<b>584</b>	<b>531</b>	<b>10.0%</b>	<b>551</b>	<b>6.0%</b>

Wealth management and Fund management were star performers.

**Table 2: Other non-interest income**

SGD mn	4Q17	4Q16	YoY (%)	3Q17	QoQ (%)
Net trading income	186	168	10.7%	164	13.4%
Other income	32	21	52.4%	26	23.1%
Net gain/(loss) from inv. securities	12	1	1100.0%	57	-78.9%
Dividend income	1	1	0.0%	3	-66.7%
Rental income	30	30	0.0%	29	3.4%
<b>Total other non int inc</b>	<b>261</b>	<b>221</b>	<b>18.1%</b>	<b>279</b>	<b>-6.5%</b>

Net trading income performed despite a globally weak FICC trading environment.

**Table 3: Loans by Industries**

SGD mn	4Q17	4Q16	YoY (%)	3Q17	QoQ (%)
Tpt, storage & comms	9,388	9,780	-4.0%	9,704	-3.3%
Building and construction	53,646	52,281	2.6%	53,688	-0.1%
Manufacturing	18,615	15,747	18.2%	18,949	-1.8%
Financial institutions	19,090	15,519	23.0%	18,131	5.3%
General commerce	30,664	30,269	1.3%	30,317	1.1%
Professionals & Pri inv	28,182	26,950	4.6%	27,812	1.3%
Housing loans	65,569	61,451	6.7%	63,918	2.6%
Others	10,874	13,665	-20.4%	11,594	-6.2%
<b>Total loans</b>	<b>236,028</b>	<b>225,662</b>	<b>4.6%</b>	<b>234,113</b>	<b>0.8%</b>

Property related loans and manufacturing loans growth were robust.

**Table 4: Loans by currencies**

SGD mn	4Q17	4Q16	YoY (%)	3Q17	QoQ (%)
Singapore dollar	115,750	112,160	3.2%	114,823	0.8%
US dollar	44,507	45,079	-1.3%	45,409	-2.0%
Malaysian ringgit	24,000	22,993	4.4%	23,296	3.0%
Thai baht	14,006	12,423	12.7%	13,385	4.6%
Indonesian rupiah	4,853	5,401	-10.1%	5,162	-6.0%
Others	32,912	27,606	19.2%	32,039	2.7%
<b>Total loans</b>	<b>236,028</b>	<b>225,662</b>	<b>4.6%</b>	<b>234,114</b>	<b>0.8%</b>

**Table 5: Profit before tax by Geographical segments**

SGD mn	4Q17	4Q16	YoY (%)	3Q17	QoQ (%)
Singapore	675	581	16.2%	668	1.0%
Malaysia	129	136	-5.1%	144	-10.4%
Thailand	58	49	18.4%	63	-7.9%
Indonesia	(3)	4	-175.0%	(12)	-75.0%
Greater China	103	91	13.2%	102	1.0%
Others	125	59	111.9%	107	16.8%
<b>Total NPBT</b>	<b>1,087</b>	<b>920</b>	<b>18.2%</b>	<b>1,072</b>	<b>1.4%</b>

Indonesia remains a laggard

Source (Tables 1-5): Company, PSR

Figure 1: Net interest margin

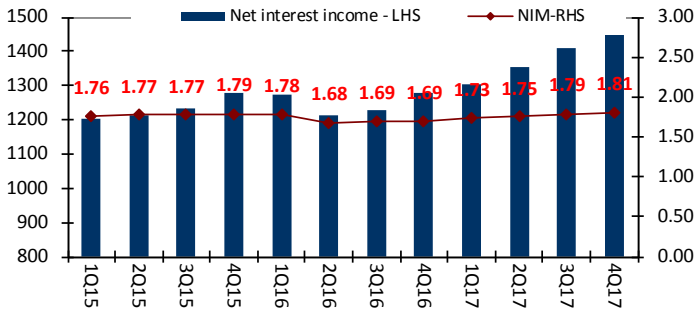


Figure 2: NonInt/Total revenue

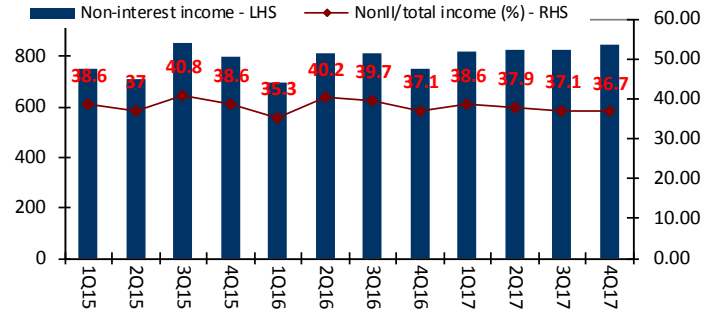


Figure 3: Efficiency ratio

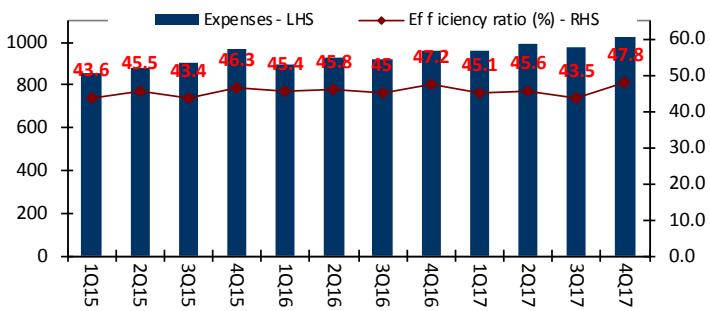


Figure 4: Net profit margin

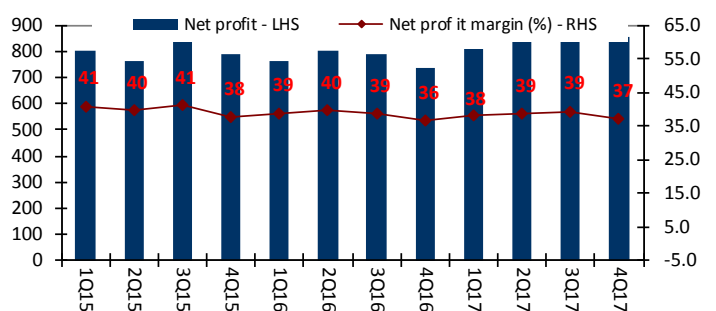


Figure 5: Deposits, Loans, LDR

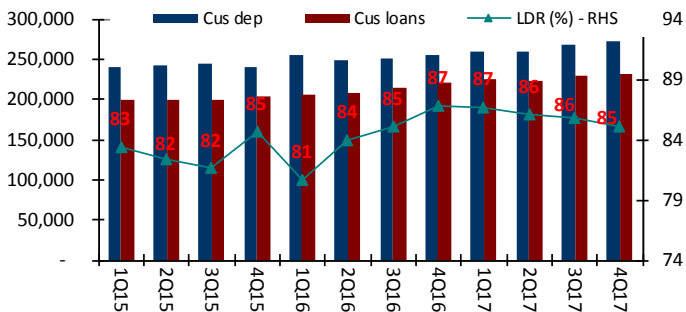


Figure 6: NPA, NPL

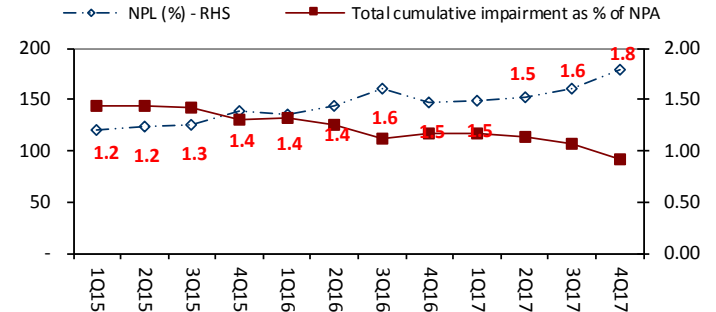


Figure 7: Growth in selected asset items

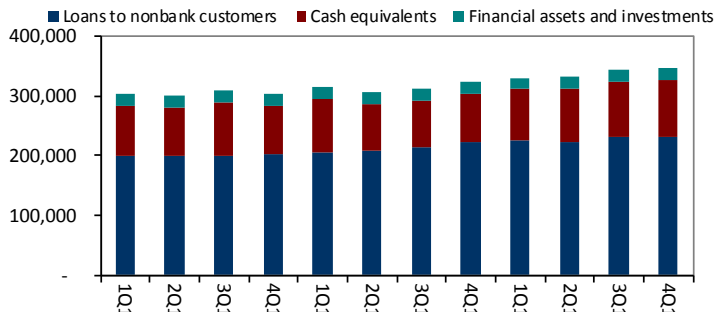


Figure 8: CAR

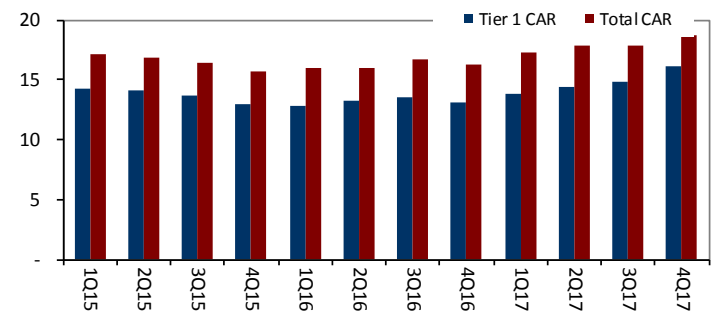


Figure 9: ROE and ROA

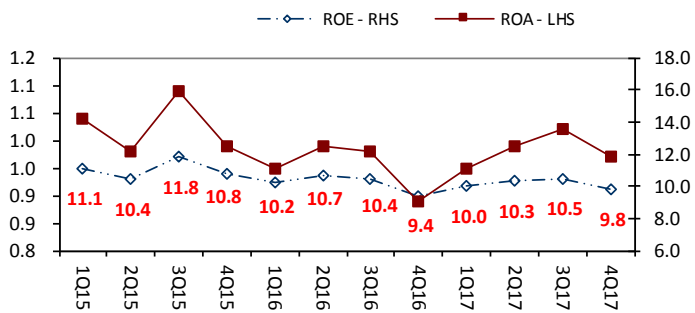


Figure 10: EPS and NBV

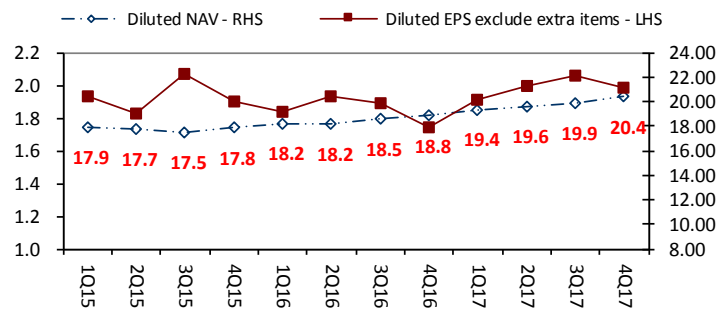


Figure 11: Revenue by geographical segment

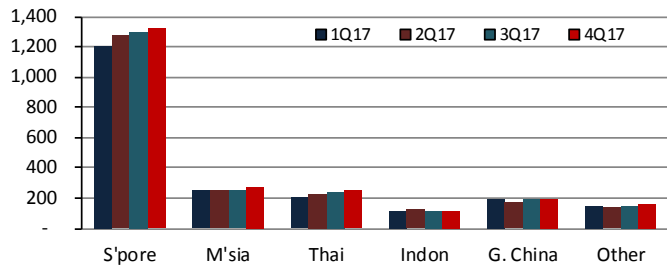


Figure 12: Geo segment breakdown

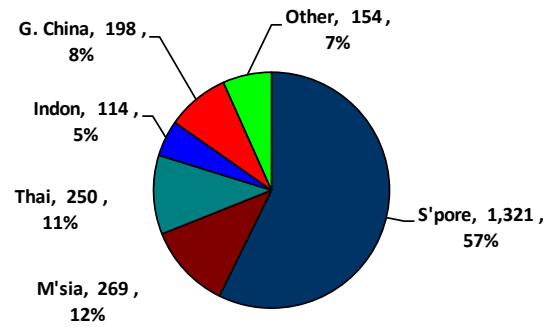


Figure 13: Revenue by Business segment

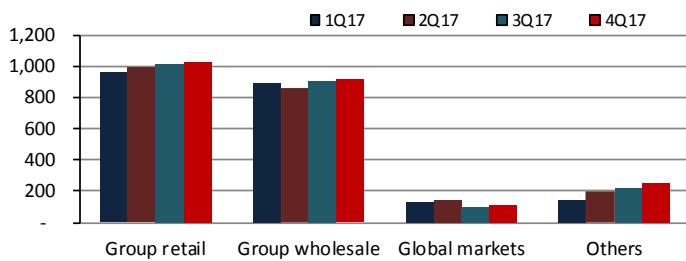


Figure 14: Net interest income trend

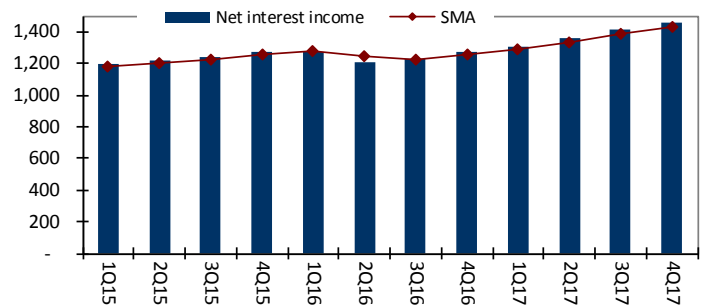


Figure 15: Fee and Commission trend

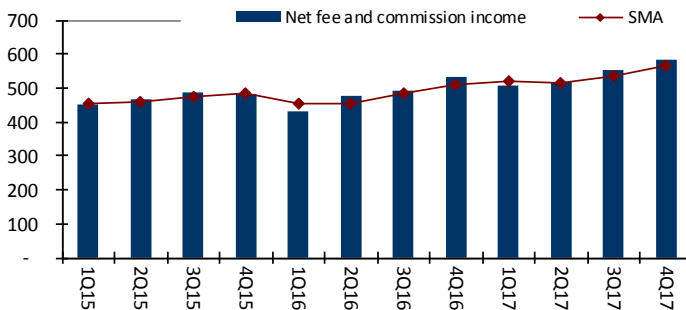
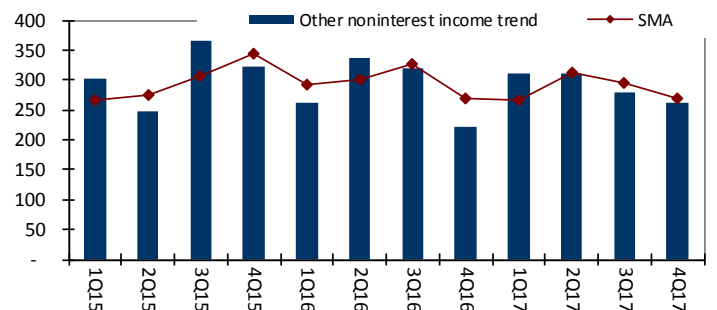


Figure 16: Other noninterest income trend



## Financials

### Income Statement

Y/E Dec, SGD mn	FY15	FY16	FY17	FY18e	FY19e
Net Int Income	4,925	4,991	5,528	6,207	6,484
Fees and Commission	1,884	1,931	2,161	2,273	2,296
Other Non-int income	1,239	1,138	1,163	1,147	1,184
<b>Total operating income</b>	<b>8,048</b>	<b>8,060</b>	<b>8,852</b>	<b>9,627</b>	<b>9,964</b>
Operating expenses	3,596	3,697	4,027	4,354	4,387
Provisions	671	594	727	674	716
<b>Operating profit</b>	<b>3,781</b>	<b>3,769</b>	<b>4,098</b>	<b>4,600</b>	<b>4,861</b>
Associates & JVs	90	5	110	90	90
<b>Profit Before Tax</b>	<b>3,871</b>	<b>3,774</b>	<b>4,208</b>	<b>4,690</b>	<b>4,951</b>
Taxation	649	669	800	837	893
<b>Profit After Tax</b>	<b>3,222</b>	<b>3,105</b>	<b>3,408</b>	<b>3,853</b>	<b>4,058</b>
Non-controlling Interest	12	12	16	18	16
<b>Net Income, reported</b>	<b>3,210</b>	<b>3,093</b>	<b>3,392</b>	<b>3,835</b>	<b>4,042</b>
<b>Net Income, adj.</b>	<b>3,210</b>	<b>3,093</b>	<b>3,390</b>	<b>3,835</b>	<b>4,042</b>

### Per share data

Y/E Dec, SGD mn	FY15	FY16	FY17	FY18e	FY19e
EPS, reported	1.94	1.83	1.96	2.20	2.22
EPS, adj.	1.94	1.83	1.96	2.20	2.22
DPS	0.90	0.75	1.00	0.80	0.80
BVPS (less pref shares)	17.84	18.82	20.37	21.50	23.20

### Supplementary items

Y/E Dec, SGD mn	FY15	FY16	FY17	FY18e	FY19e
CET1 CAR (%)	13.0%	13.0%	16.2%	16.1%	16.6%
Tier 1 CAR (%)	13.0%	13.1%	16.2%	16.1%	16.6%
Total CAR (%)	15.6%	16.2%	18.7%	19.1%	20.1%

### Balance Sheet

Y/E Dec, SGD mn	FY15	FY16	FY17	FY18e	FY19e
Cash bal w central banks	32,306	24,322	26,625	26,378	29,930
Due from banks	28,646	40,033	52,181	43,070	45,404
Investment securities	10,562	11,640	11,273	9,795	9,820
Loans to non-bank cust	203,611	221,734	232,212	245,936	259,141
Others	40,886	42,123	36,027	42,231	42,095
<b>Total Assets</b>	<b>316,011</b>	<b>339,852</b>	<b>358,318</b>	<b>367,410</b>	<b>386,390</b>
Due to banks	11,986	11,855	11,440	11,554	11,670
Due to non-bank cust	240,524	255,314	272,765	278,820	294,216
Debts issued	20,288	26,143	25,178	25,570	25,826
Others	12,289	13,674	12,171	12,536	12,912
<b>Total liabilities</b>	<b>285,087</b>	<b>306,986</b>	<b>321,554</b>	<b>328,481</b>	<b>344,624</b>
Shareholder's equity	30,771	32,876	36,852	38,724	41,546
Non-controlling interest	156	169	187	205	221
<b>Total Equity</b>	<b>30,927</b>	<b>33,045</b>	<b>37,039</b>	<b>38,930</b>	<b>41,766</b>

### Valuation Ratios

Y/E Dec, SGD mn	FY15	FY16	FY17	FY18e	FY19e
P/E (X), adj.	10.1	11.2	14.0	12.4	12.3
P/B (X)	1.1	1.1	1.3	1.3	1.2
Dividend Yield (%)	4.6%	3.7%	3.7%	2.9%	2.9%

### Growth & Margins (%)

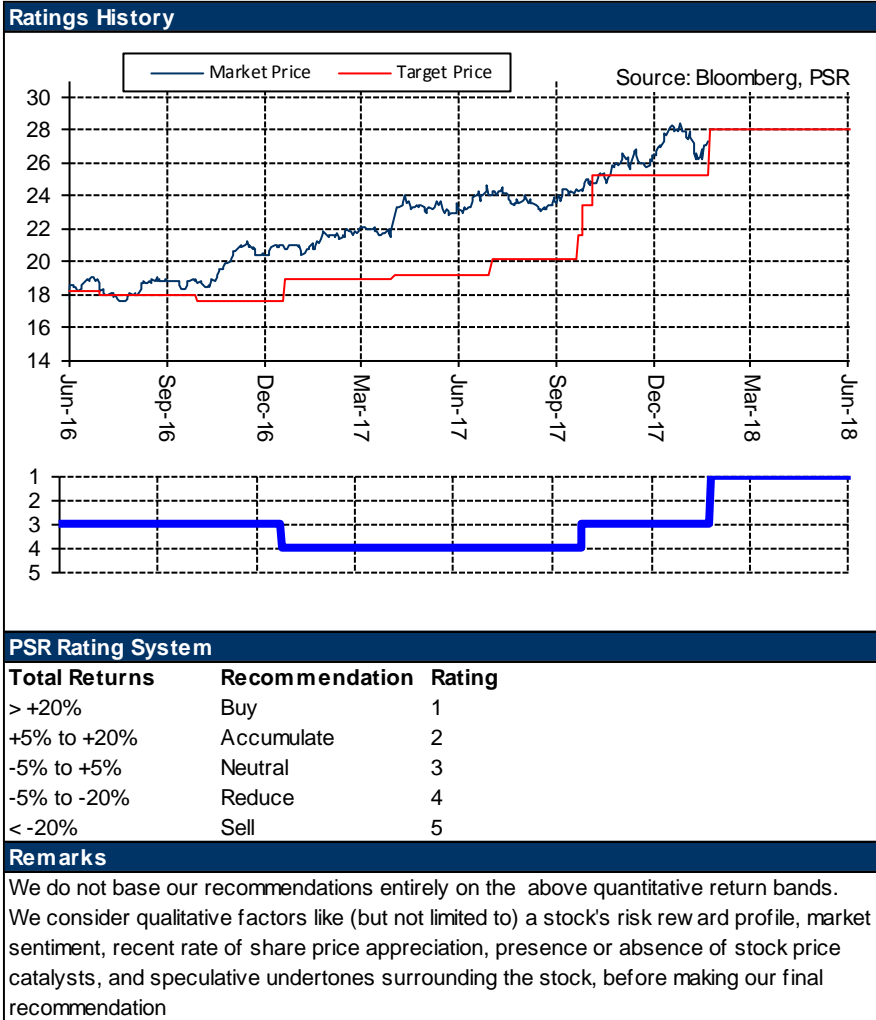
Growth					
Net interest income	8.1%	1.3%	10.8%	12.3%	4.5%
Non interest income	7.7%	-1.7%	8.3%	2.9%	1.8%
Pre provision op profit	7.9%	0.1%	9.8%	8.8%	3.5%
Operating income	2.9%	-0.3%	8.7%	12.2%	5.7%
Net income, reported	-1.2%	-3.6%	9.7%	13.0%	5.4%
Margins					
Net interest margin	1.77%	1.71%	1.77%	1.90%	1.90%

### Key Ratios (%)

ROE	11.9%	10.1%	10.2%	10.5%	9.9%
ROA	1.0%	0.9%	1.0%	1.1%	1.1%
RORWA	1.6%	1.4%	1.7%	1.8%	1.8%
Non-int/total income ratio	38.8%	38.1%	37.6%	35.5%	34.9%
Cost/income ratio	44.7%	45.9%	45.5%	45.2%	44.0%
Loan/deposit ratio	84.7%	86.8%	85.1%	88.2%	88.1%
NPL ratio	1.39	1.47	1.78	1.30	1.20

Source: Company, PSR

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



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