

# United Overseas Bank Ltd

## Rebound from 3Q11

Bloomberg | Reuters | POEMS  
UOB SP | UOBH SI | UOB SG  
Industry: Regional Banks

Phillip Securities Research Pte Ltd

24 February 2012

### Report type: Quarterly Results

#### Company Overview

UOB Ltd provides a wide range of financial services including banking, insurance, and asset management. Its main operations are in Southeast Asia, including Singapore and Malaysia, with more than 500 offices in 19 countries and territories.

- FY11 NPAT was below our expectations by 3.6% due to higher loan provisions and lower share of profits of associates.
- NIMs positively increased to 1.95%, while Net interest income hit a new high of S\$977 million for 4Q11.
- UOB may face more credit risk in the medium term with its increased portfolio of longer maturity loans.
- Upgrade to Hold based on stronger NIMs and near term earnings stability with new target price of S\$17.50.

#### What is the news?

UOB FY11 earnings were below our expectations. However, net interest income was strong, beating expectations with NIMs increasing to 1.95%. Fees and commission maintained q-q at S\$327 million, while Other non-interest income increased 41.8% q-q to S\$173 million. Total revenue for 4Q11 was S\$1,477 million. Operating expenses spiked to S\$853 million, due to S\$225 million of loan provision. Net profit increased 6.5% q-q to S\$556 million.

Income Statement				
(Extract)	FY10	FY11	y-y (%)	Comments
<b>(S\$m)</b>				
NII	3,531	3,679	4.2%	Strong NIMs
Fees & Comm	1,163	1,318	13.3%	Steady performance
Others <sup>1</sup>	1,106	703	-36.4%	
<b>Revenue</b>	<b>5,800</b>	<b>5,700</b>	<b>-1.7%</b>	
Expenses	2,256	2,452	8.7%	Reasonably managed
<b>Net Income</b>	<b>2,696</b>	<b>2,325</b>	<b>-13.8%</b>	<b>Below expectations</b>

1. Includes one time gain of S\$207 million from gain on disposal of UOB Life Assurance & UIC Ltd

Source: Company, PSR

#### How do we view this?

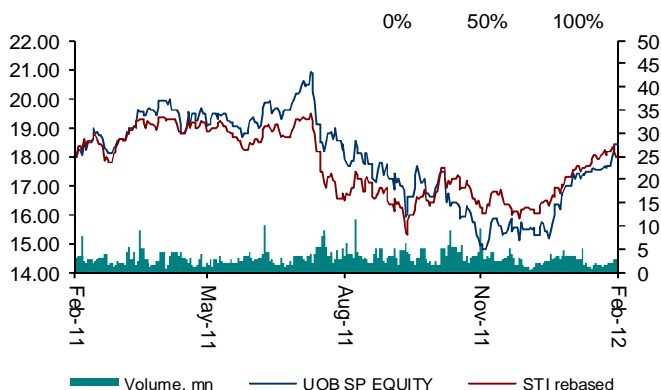
4Q11 earnings improved q-q from weak 3Q11 earnings. However, the shift to longer maturity loans increases the credit risk, and decreases liquidity from lower turnover of loans. NIMs have improved but may still face pressures from increasing funding costs. Fees and commission income are rather stable and expected to grow q-q.

#### Investment Actions?

Due to the improvements in areas such as NIM pressures in the short term horizon, we forecast a higher P/B of 1.25X for 2012. Based on these assumptions, we obtain a new target price of S\$17.50.

#### United Overseas Bank Ltd

<b>Rating</b>	<b>3</b>	<b>Neutral</b>
- Previous Rating	5	Sell
<b>Target Price (SGD)</b>	<b>17.5</b>	
- Previous Target Price (SGD)	14.5	
Closing Price (SGD)	18.40	
Expected Capital Gains (%)	-4.9%	
Expected Dividend Yield (%)	3.3%	
<b>Expected Total Return (%)</b>	<b>-1.6%</b>	
Raw Beta (Past 2yrs w weekly data)	0.94	
Market Cap. (USD mn / SGD mn)	23032 / 28948	
Enterprise Value (USD mn / SGD mn)	21125 / 26464	
3M Average Daily T/O (mn)	2.6	
52 w week range (SGD)	14.42 - 21	
Closing Price in 52 w week range		



#### Major Shareholders

	(%)
1. Wee Investments Pte Ltd	7.6
2. Wah Hin & Co Pte Ltd	5.2
3. Ho Sim Guan	4.8

#### Key Financial Summary

FYE	12/10	12/11	12/12F	12/13F
Revenue (SGD mn)	5,800	5,700	6,246	6,862
Net Profit, adj. (SGD mn)	2,696	2,325	2,657	3,147
EPS, adj. (SGD)	1.56	1.40	1.60	1.91
P/E (X), adj.	11.8	13.1	11.5	9.6
BVPS (SGD)	12.51	13.23	14.05	15.37
P/B (X)	1.5	1.4	1.3	1.2
DPS (SGD)	0.70	0.60	0.60	0.70
Div. Yield (%)	3.8%	3.3%	3.3%	3.8%

Source: Bloomberg, PSR est.

\*All multiples & yields based on current market price

#### Valuation Method

P/B

#### Analyst

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**Fig 1. Y-Y and Q-Q comparison of FY11 results**

\$m	4Q11	4Q10	%y-y ch	3Q11	%q-q ch
NII	977	865	12.9%	916	6.7%
Fees & Comm	327	310	5.5%	323	1.2%
Other non-interest inc	173	391	-55.8%	122	41.8%
Total Reveue	1,477	1,566	-5.7%	1,361	8.5%
Expenses	625	619	1.0%	632	-1.1%
Net Profit	556	706	-21.2%	522	6.5%

Source: Company, PSR

Conso' ending	Profits (SGM)	EPS (SG)	DPS (SG)	BV (SG)	ROE (%)	P/E (X)	Yield (%)	P/BV (X)
12/09 A	1,902	1.19	0.60	11.17	11.9%	15.45	3.3%	1.65
12/10 A	2,696	1.56	0.70	12.51	14.3%	11.76	3.8%	1.47
12/11 A	2,325	1.40	0.60	13.23	11.1%	13.12	3.3%	1.39
12/11 E	2,657	1.60	0.60	14.05	11.9%	11.47	3.3%	1.31
12/12 E	3,147	1.91	0.70	15.37	13.1%	9.62	3.8%	1.20

Source: Company, PSR

### Net Interest Margins outlook (Neutral)

Net interest margins have rebounded 0.03% to 1.95% for 4Q11, significantly higher than those of OCBC and DBS. Increases in NIMs q-q were across most key regions, namely Singapore (+0.09%), Thailand (+0.30%), and China (+0.03%). NIMs in Indonesia decreased 0.42% due to intense competition on deposits increasing funding cost, while policy rate cuts decreased loan pricing.

Loans were priced upwards, as higher loans growth were reported in regions with high NIMs, and loans with longer maturities were offered. On the latter, we are wary as increasing loan maturities may pose higher credit risk, and higher balances and longer term deposits may be required to provide stability on these loans. On a positive note, deposits tend to be sticky. However, other foreign banks have recently become more aggressive in raising deposits in regions such as Singapore, offering interest rates as high as 1.88% per annum. The bank's current balance of customer deposits may therefore be affected, and cost of funding may rise as the bank pushes up margins to attract more deposits. On the short term, we believe UOB will be able to maintain healthy levels of deposits, sourcing for them locally and in the region.

Although NIMs have increased, risks on these loans may be higher, thus we are neutral on the outlook.

**Fig 2. Mismatched Loan maturity VS Deposits maturity**

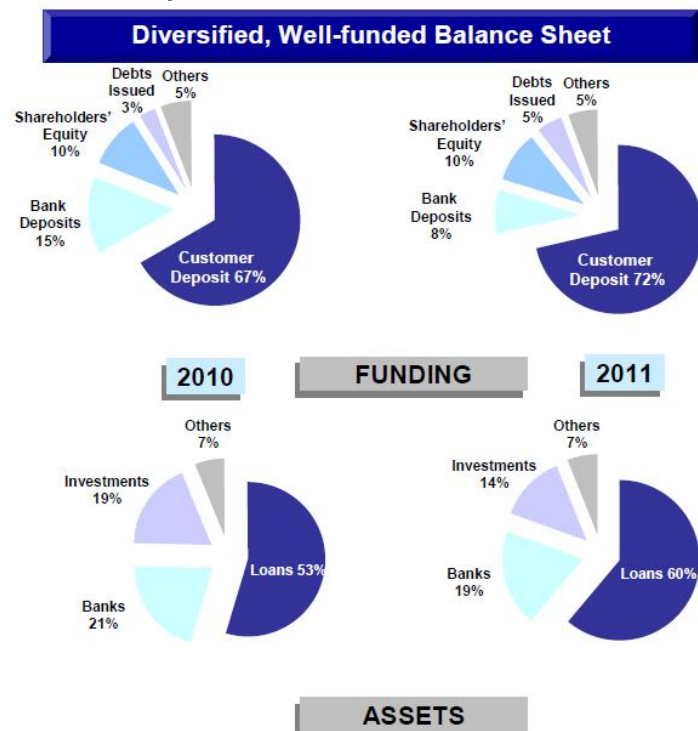
%	< 1 Yr	1 - 3 Yrs	3 - 5 Yrs	> 5 Yrs	Total (\$m)
Deposits	35%	16%	14%	35%	169,460
Loans	96%	3%	1%	0%	143,943

Source: Company, PSR

### Loans and Deposits outlook (Neutral)

The proportions of interest bearing assets and liabilities have shifted increasingly towards Customer loans and Customer deposits, decreasing reliance on interbank balances for net interest income.

**Fig 3. Shift in Proportion of Customer Loans and Customer Deposits**



Source: Company Presentation, PSR

The increase in customer deposits, which is a cheaper source of funding, was due to q-q increases in deposits from all key regions. USD deposits increased 18% q-q, driven by deposits by European and Asian corporations as indicated by management. Trade finance, which is commonly denominated in USD, is expected to grow rapidly, and therefore higher USD liquidity will boost the bank's ability to grow its trade finance business. Due to the higher growth in deposits, together with a slowed growth in loans, LDR decreased to a healthy 83.3% overall for FY2011, and below 100% for each individual currency. This is due to management basing lending decisions partially on the availability of deposits of the currency it is lending out.

### **NPLs and Provisions outlook (Poor)**

NPL ratios decreased from 1.5% to 1.4%, largely attributable to NPL decreases in the manufacturing industry, and writing off of other loans. Provisions for loans increased by S\$225 million in 4Q11. General provisions increased S\$92 million, provisions on contingent liabilities and other securities increased by S\$52 million, while specific allowances increased S\$81 million. Management has guided that asset quality remains high, especially for new loans, as there are not many lenders with the ability and liquidity to lend loans of higher maturity, and thus the bank could choose lending to financially healthier corporations.

Although current general provisions are 124.3% (3Q11: 116.5%) of NPAs, we believe that higher general provisions should be made to mitigate the higher risk that the bank has taken in lending loans with higher maturity, and factored this into our forecast for FY2012.

### **Fees and Commission outlook (Neutral)**

Although fees and commission typically decrease at year ends due to seasonal slowdowns, there was a 5.4% increase q-q, buoyed by an increase in credit card fees with year end higher consumer spending, and increases in service charges. Although growth in Fees and Commission has been low in FY2011, we expect profits to improve in FY2012 due to possibly higher fees from wealth management, which is one of the bank's focuses, and fees earned from expected increase in intra-regional trading.

### **Valuation**

Taking into account the expected moderate growth of UOB, together with the increase in NIMs, and credit risk resulting in higher provisions required, we increase our net profit for FY2012 to S\$2.66 billion, up from previous forecast of S\$2.26 billion, which is a 14.3% increase from FY2011 net profit. We expect dividend payouts for FY2012 to be 37.5%, which is similar to the dividend per share for FY2011. Due to the improvements in areas such as NIM pressures, we forecast P/B to increase from our previous forecast of 1.13X to 1.25X for 2012. Based on these assumptions, we obtain a new target price of S\$17.50.

**Table 1. Growth in revenue**

\$m	4Q11	4Q10	%y-y ch	3Q11	%q-q ch
Net interest income	977	865	12.9%	916	6.7%
Net fee and comm inc	327	310	5.5%	323	1.2%
Other non-interest inc	173	391	-55.8%	122	41.8%
<b>Total</b>	<b>1,477</b>	<b>1,566</b>	<b>-5.7%</b>	<b>1,361</b>	<b>8.5%</b>

**Table 2. Fee and commission income**

\$m	4Q11	4Q10	%y-y ch	3Q11	%q-q ch
Credit card	63	52	21.2%	58	8.6%
Fund management	22	37	-40.5%	23	-4.3%
Investment-related	51	58	-12.1%	56	-8.9%
Loan-related	81	66	22.7%	82	-1.2%
Service charges	31	25	24.0%	23	34.8%
Trade-related	65	56	16.1%	65	0.0%
Other	14	16	-12.5%	16	-12.5%
Dividend income	5	10	-50.0%	13	-61.5%
Rental income	29	30	-3.3%	28	3.6%
<b>Total</b>	<b>361</b>	<b>350</b>	<b>3.1%</b>	<b>364</b>	<b>-0.8%</b>

**Table 3. Other non-interest income**

\$m	4Q11	4Q10	%y-y ch	3Q11	%q-q ch
Net trading income	89	144	-38.2%	56	58.9%
Trading income/(loss)	34	6	466.7%	5	580.0%
Non-trading inc/(loss)	49	92	-46.7%	(37)	-232.4%
AFS assets	6	46	-87.0%	88	-93.2%
Other income	50	31	61.3%	26	92.3%
<b>Total other non int inc</b>	<b>139</b>	<b>175</b>	<b>-20.6%</b>	<b>82</b>	<b>69.5%</b>

**Table 4. Loans by Industries**

\$m	4Q11	4Q10	%y-y ch	3Q11	%q-q ch
Tpt, storage & comms	7,041	6,710	4.9%	6,825	3.2%
Building and construction	17,515	11,506	52.2%	15,786	11.0%
Manufacturing	11,336	8,617	31.6%	10,393	9.1%
Financial institutions	23,966	18,673	28.3%	22,971	4.3%
General commerce	17,597	15,094	16.6%	20,084	-12.4%
Professionals & Pri inv	18,629	14,907	25.0%	17,531	6.3%
Housing loans	40,615	33,528	21.1%	38,646	5.1%
Others	7,244	6,087	19.0%	8,196	-11.6%
<b>Total loans</b>	<b>143,943</b>	<b>115,122</b>	<b>25.0%</b>	<b>140,432</b>	<b>2.5%</b>

**Table 5. Loans by currencies**

\$m	4Q11	4Q10	%y-y ch	3Q11	%q-q ch
Singapore dollar	78,557	66,915	17.4%	75,578	3.9%
US dollar	19,791	13,855	42.8%	21,328	-7.2%
Malaysian ringgit	18,832	14,282	31.9%	17,336	8.6%
Thai baht	7,530	6,841	10.1%	7,340	2.6%
Indonesian rupiah	4,488	3,213	39.7%	4,335	3.5%
Others	14,745	10,016	47.2%	14,515	1.6%
<b>Total loans</b>	<b>143,943</b>	<b>115,122</b>	<b>25.0%</b>	<b>140,432</b>	<b>2.5%</b>

**Table 6. Profit before tax by Business segments**

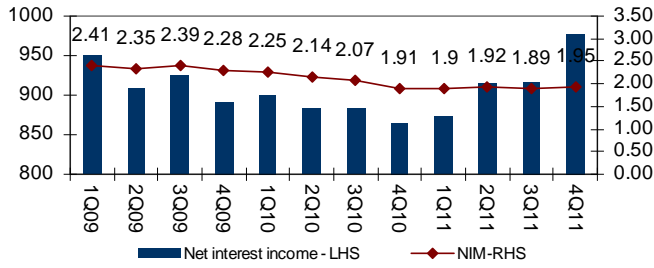
\$m	4Q11	4Q10	%y-y ch	3Q11	%q-q ch
Group Retail	253	191	32.5%	265	-4.5%
Grp Wholesale	342	219	56.2%	381	-10.2%
Global Mkts and IM	91	209	-56.5%	67	35.8%
Others	(60)	298	-120.1%	(66)	-9.1%
<b>Total NPBT</b>	<b>626</b>	<b>917</b>	<b>-31.7%</b>	<b>647</b>	<b>-3.2%</b>

**Table 7. Profit before tax by Geographical segments**

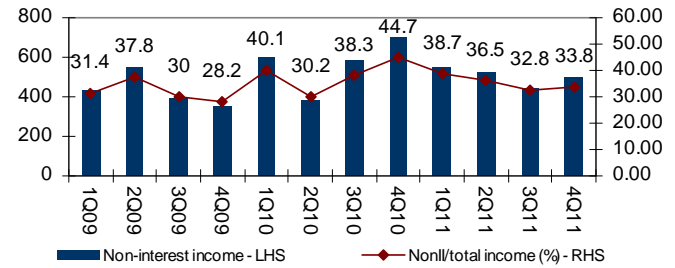
\$m	4Q11	4Q10	%y-y ch	3Q11	%q-q ch
Singapore	400	628	-36.3%	422	-5.2%
Malaysia	127	78	62.8%	105	21.0%
Thailand	(8)	19	-142.1%	22	-136.4%
Indonesia	40	49	-18.4%	37	8.1%
Greater China	45	26	73.1%	25	80.0%
Others	24	3	700.0%	39	-38.5%
<b>Total NPBT</b>	<b>628</b>	<b>803</b>	<b>-21.8%</b>	<b>650</b>	<b>-3.4%</b>

Source (tables 1-7): Company, Phillip Securities Research

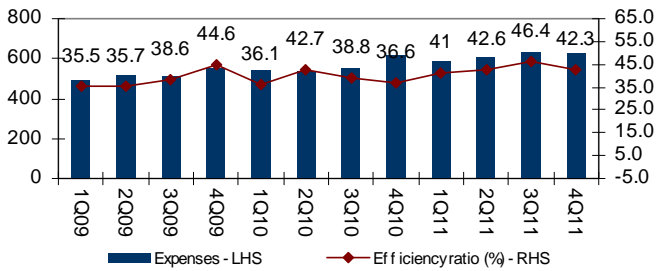
**Fig 1: Net interest margin**



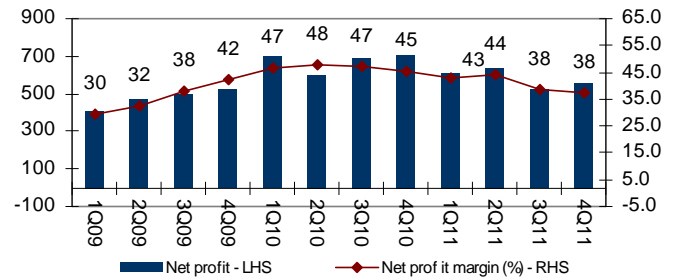
**Fig 2: NonInt/Total revenue**



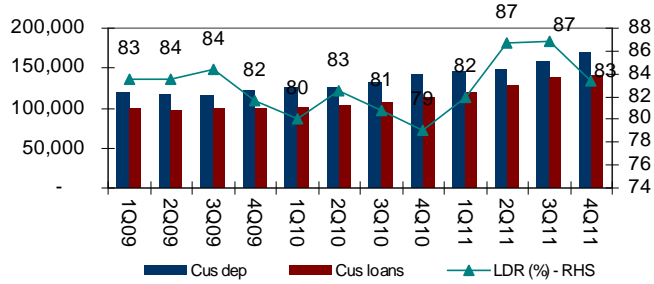
**Fig 3: Efficiency ratio**



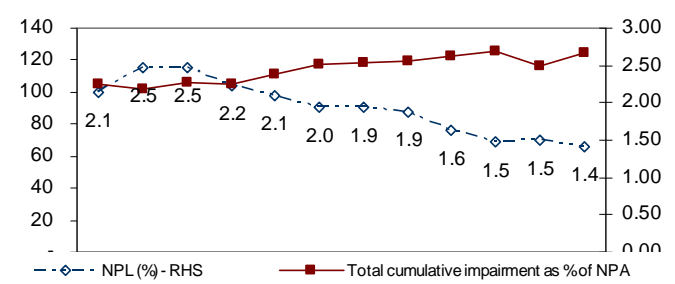
**Fig 4: Net profit margin**



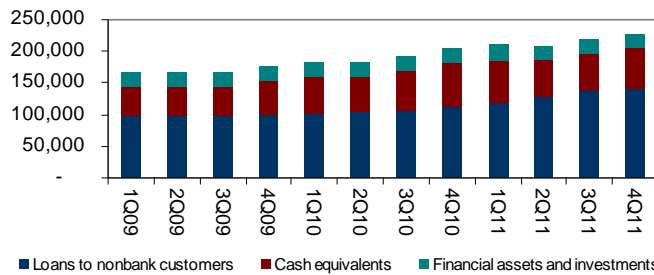
**Fig 5: Deposits, Loans, LDR**



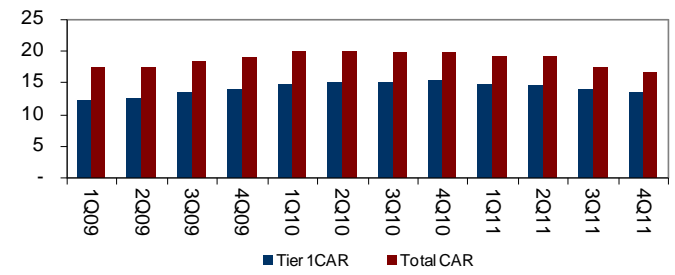
**Fig 6: NPA, NPL**



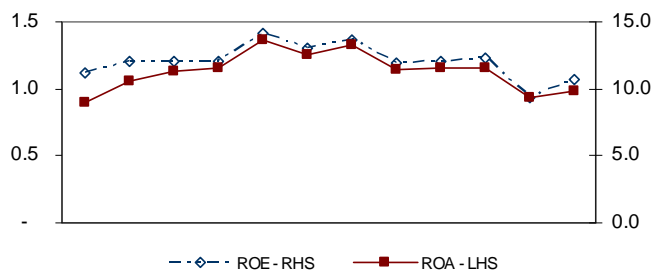
**Fig 7: Growth in selected asset items**



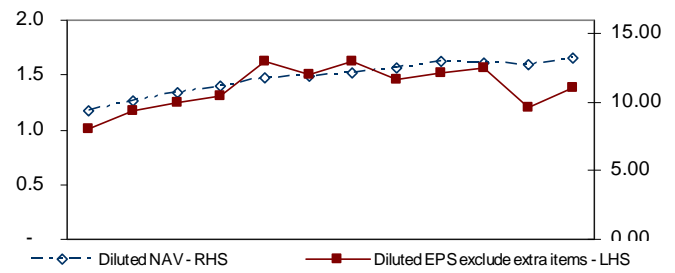
**Fig 8: CAR**



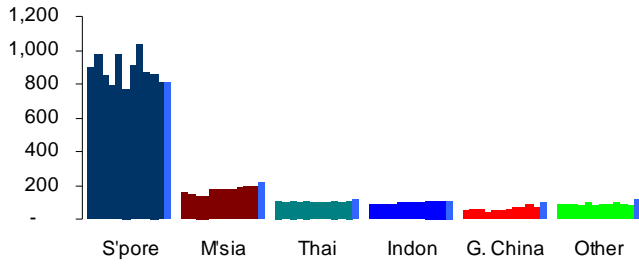
**Fig 9: ROE and ROA**



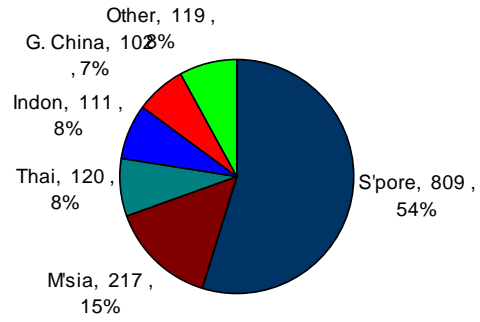
**Fig 10: EPS and NBV**



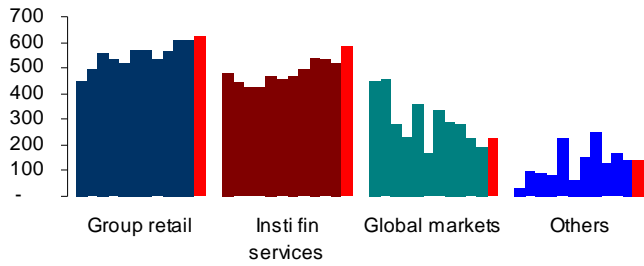
**Fig 11: Revenue by geographical segment**



**Fig 12: Geo segment breakdown**

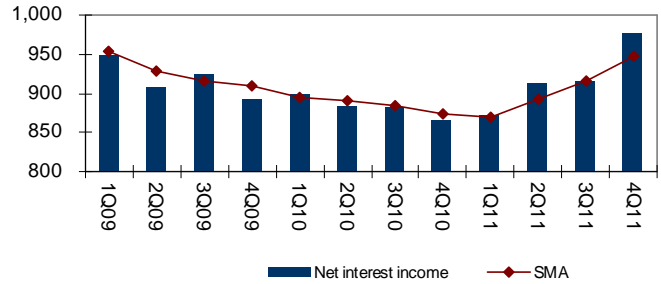


**Fig 13: Revenue by Business segment**

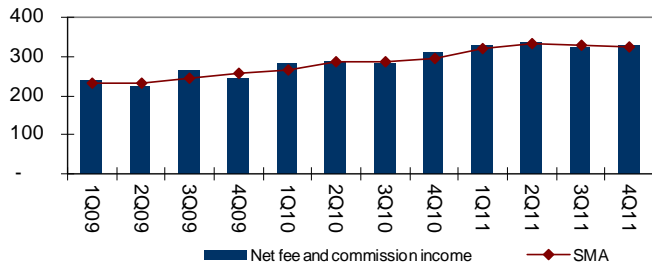


**Growth trend**

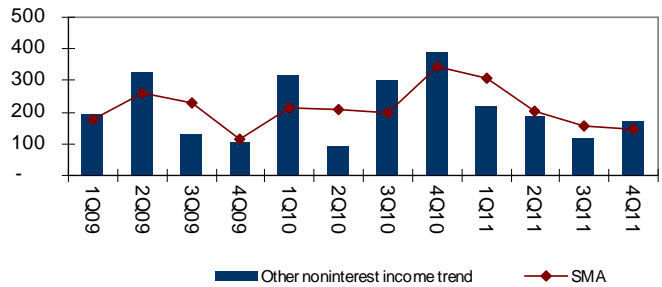
**Fig 14: Net interest income trend**



**Fig 15: Fee and Commission trend**



**Fig 16: Other noninterest income trend**



FYE Dec	FY09	FY10	FY11	FY12F	FY13F
<b>Valuation Ratios</b>					
P/E (X), adj.	15.5	11.8	13.1	11.5	9.6
P/B (X)	1.6	1.5	1.4	1.3	1.2
Dividend Yield (%)	3.3%	3.8%	3.3%	3.3%	3.8%
<b>Per share data (SGD)</b>					
EPS, reported	1.19	1.70	1.43	1.60	1.91
EPS, adj.	1.19	1.56	1.40	1.60	1.91
DPS	0.60	0.70	0.60	0.60	0.70
BVPS	11.17	12.51	13.23	14.05	15.37
<b>Growth &amp; Margins (%)</b>					
<b>Growth</b>					
Net interest income	2.7%	-3.9%	4.2%	10.1%	9.8%
Non interest income	-10.9%	19.2%	13.3%	10.9%	11.6%
Pre provision operating profit	2.9%	7.3%	-1.7%	9.6%	9.9%
Operating income	-7.6%	39.1%	-11.2%	13.5%	19.0%
Net income, reported	-1.6%	41.7%	-13.8%	14.3%	18.4%
<b>Margins</b>					
Net interest margin	2.36%	2.09%	1.92%	1.93%	1.93%
<b>Key Ratios (%)</b>					
ROE	11.9%	14.3%	11.1%	11.9%	13.1%
ROA	1.06%	1.38%	1.06%	1.06%	1.13%
RORWA	1.76%	2.59%	1.93%	1.93%	2.16%
Non-interest/total income ratio	18.1%	20.1%	23.1%	23.4%	23.8%
Cost/income ratio	38.4%	38.9%	43.0%	41.2%	39.2%
Loan/deposit ratio	81.6%	79.0%	83.3%	83.4%	84.0%
NPL ratio	2.22	1.87	1.40	1.42	1.43
<b>Income Statement (SGD mn)</b>					
Net Interest Income	3,674	3,531	3,679	4,051	4,446
Fees and Commission	976	1,163	1,318	1,461	1,631
Other Non interest income	755	1,106	703	734	785
<b>Total operating income</b>	<b>5,405</b>	<b>5,800</b>	<b>5,700</b>	<b>6,246</b>	<b>6,862</b>
Operating expenses	2,074	2,256	2,452	2,571	2,690
Provisions	1,132	485	533	593	504
<b>Operating profit</b>	<b>2,199</b>	<b>3,059</b>	<b>2,715</b>	<b>3,082</b>	<b>3,669</b>
Associates & JVs	107	139	92	100	100
<b>Profit Before Tax</b>	<b>2,306</b>	<b>3,198</b>	<b>2,807</b>	<b>3,182</b>	<b>3,769</b>
Taxation	385	480	467	509	603
<b>Profit After Tax</b>	<b>1,921</b>	<b>2,718</b>	<b>2,340</b>	<b>2,673</b>	<b>3,166</b>
Non-controlling Interest	19	22	15	16	19
<b>Net Income, reported</b>	<b>1,902</b>	<b>2,696</b>	<b>2,325</b>	<b>2,657</b>	<b>3,147</b>

Source: PSR

FYE Dec	FY9	FY10	FY11	FY12F	FY13F
<b>Balance Sheet (SGD mn)</b>					
Cash, balances and placements with central b:	18,885	30,743	26,786	44,874	47,223
Singapore Government treasury bills and secu	12,787	12,814	9,710	8,885	9,195
Other government treasury bills and securities	7,704	11,575	8,253	7,404	7,662
Trading securities	118	138	271	296	306
Placements and balances with banks	14,116	13,458	18,770	19,207	19,877
Investment securities	16,177	15,926	14,354	13,031	13,486
Other assets	8,994	9,132	10,157	12,805	13,252
Loans to non-bank customers	99,201	112,440	141,191	158,110	174,998
Investment in associates	1,212	1,198	1,092	1,092	1,092
Investment properties	1,134	1,125	1,126	1,126	1,126
Fixed assets	1,040	1,019	1,050	1,050	1,045
Intangible assets	4,229	4,210	4,196	4,184	4,172
<b>Total Assets</b>	<b>185,597</b>	<b>213,778</b>	<b>236,956</b>	<b>272,064</b>	<b>293,434</b>
Deposits and balances of banks	27,751	31,862	19,750	33,347	33,930
Deposits and balances of non-bank customers	121,502	142,299	169,460	189,665	208,348
Bills and drafts payable	1,438	1,288	1,730	1,730	1,730
Other liabilities	9,688	10,412	11,087	11,087	11,087
Debts issued	6,044	6,263	11,786	11,786	11,786
<b>Total liabilities</b>	<b>166,423</b>	<b>192,124</b>	<b>213,813</b>	<b>247,614</b>	<b>266,881</b>
Share capital	1,902	2,537	3,104	3,104	3,104
Preference shares	2,149	2,149	2,149	2,149	2,149
Retained earnings	6,324	7,687	8,499	9,789	11,873
Other reserves	8,611	9,101	9,215	9,215	9,215
<b>Shareholder Equity</b>	<b>18,986</b>	<b>21,474</b>	<b>22,967</b>	<b>24,257</b>	<b>26,341</b>
Non-controlling interest	169	180	177	193	212
<b>Total Equity</b>	<b>19,155</b>	<b>21,654</b>	<b>23,144</b>	<b>24,450</b>	<b>26,553</b>

**Cashflow Statements (SGD mn)**

<b>CFO</b>					
PBT	3,331	3,542	3,248	3,182	3,769
Adjustments	124	(205)	163	138	138
Cash from ops before WC changes	3,455	3,337	3,411	3,320	3,907
WC changes	(3,003)	7,558	(12,369)	16,770	228
Cash generated from ops	452	10,895	(8,958)	20,089	4,135
Taxes paid, net	(423)	(488)	(601)	(509)	(603)
<b>Cashflow from ops</b>	<b>29</b>	<b>10,407</b>	<b>(9,559)</b>	<b>19,580</b>	<b>3,532</b>
<b>Cashflow from investments</b>	<b>(132)</b>	<b>489</b>	<b>(17)</b>	<b>(114)</b>	<b>(104)</b>
<b>Cashflow from financing</b>	<b>(1,217)</b>	<b>(182)</b>	<b>6,163</b>	<b>(1,367)</b>	<b>(1,062)</b>
<b>Net change in cash</b>	<b>(1,197)</b>	<b>10,598</b>	<b>(4,747)</b>	<b>18,105</b>	<b>2,365</b>
<b>CCE, end</b>	<b>16,546</b>	<b>27,142</b>	<b>22,396</b>	<b>40,501</b>	<b>42,867</b>

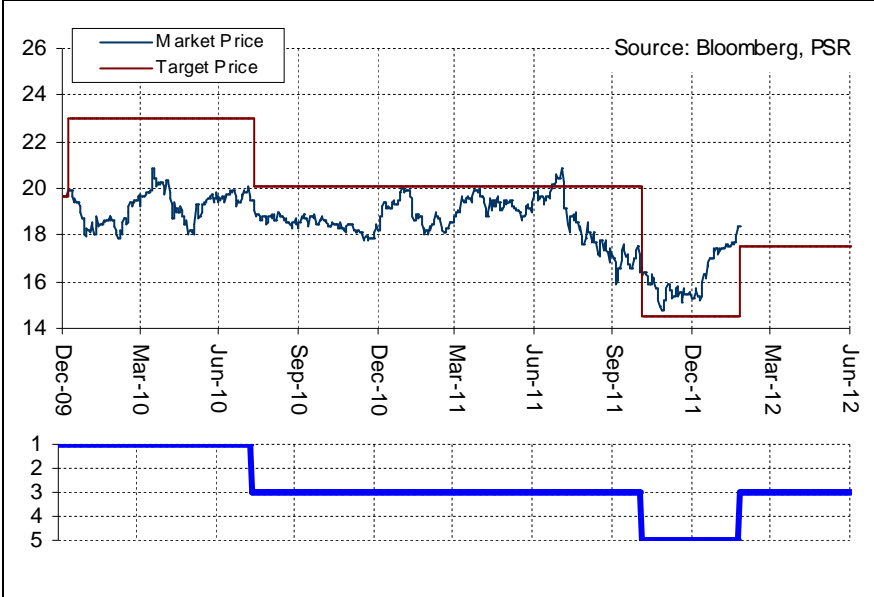
**Supplementary items**

Risk-weighted assets (SGD mn)	100,908	106,889	133,578	142,106	149,419
Tier 1 capital (SGD mn)	14,127	16,362	18,014	19,304	21,388
Total capital (SGD mn)	19,183	21,206	22,337	23,627	25,711
Core Tier 1 CAR (%)	11.9%	13.3%	11.9%	12.1%	12.9%
Tier 1 CAR (%)	14.0%	15.3%	13.5%	13.6%	14.3%
Total CAR (%)	19.0%	19.8%	16.7%	16.6%	17.2%

Source: PSR



**Ratings History**



**PSR Rating System**

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
< -20%	Sell	5

**Remarks**

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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