

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.

- 2Q12 results beat expectations on non-recurring gains from sale of investments, stronger fees and commission income earnings, offset by weaker net interest income.
- Maintain "Reduce" rating with new target price of S\$17.85, based on P/B multiple of 1.25X.

What is the news?

UOB's 2Q12 earnings were above our expectations, due largely to gains from sale of investments. Similar to its local peers, NIMs declined -6bps, leading to weaker net interest income performances. Fees and commission income posted strong 6.6% q-q growth, while loan allowances were largely similar q-q but slightly below our expectations.

Income Statement				
(Extract)	2Q11	2Q12	y-y (%)	Comments
(S\$'mn)				
NII	914	981	7.3%	NIMs down 6bps
Fees & Comm	338	386	14.2%	Strong performance
Others	187	243	29.9%	Higher on AFS gains
Revenue	1,439	1,610	11.9%	
Expenses	611	666	9.0%	Within expectations
Net Income	636	713	12.1%	Beat expectations

Source: Company, PSR

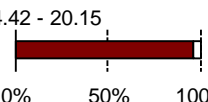
How do we view this?

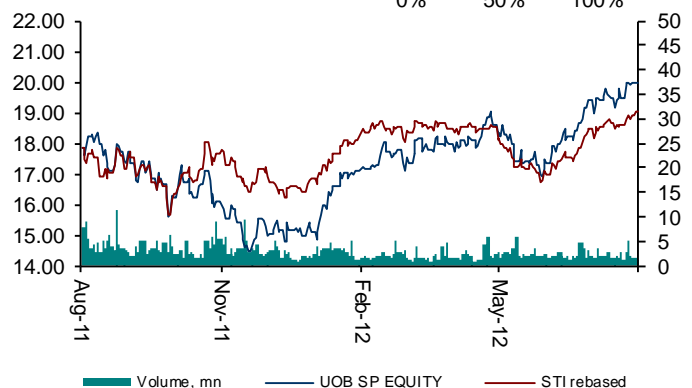
Management guided possible further declines in NIMs and lower loans growth, similar to its local peers. The positive earnings surprise in 2Q12 was similar to that of the previous quarter, which was from gains on sales of investments. This is however likely non-recurring.

Investment Actions?

UOB posted one of the stronger performances this quarter compared to its other local peers. While NIMs and loans growth were weak, the growth in fees and commission income was encouraging, while its y-y growth is expected to be sustainable. Based on 2Q12's earnings, weaker NIMs, lower loans growth, and stronger fees and commission, we derive a higher BVPS of S\$14.30. Based on our unchanged P/B multiple of 1.25X, we obtain a new target price of S\$17.85. On a valuations perspective, we maintain that UOB's share price is overpriced, and therefore maintain our "Reduce" rating.

United Overseas Bank Ltd

Rating	4	Reduce
- Previous Rating	4	Reduce
Target Price (SGD)	17.9	
- Previous Target Price (SGD)	17.5	
Closing Price (SGD)	19.95	
Expected Capital Gains (%)	-10.5%	
Expected Dividend Yield (%)	3.0%	
Expected Total Return (%)	-7.5%	
Raw Beta (Past 2yrs w weekly data)	0.96	
Market Cap. (USD mn / SGD mn)	25280 / 31394	
3M Average Daily T/O (mn)	2.2	
52 w eek range (SGD)	14.42 - 20.15	
Closing Price in 52 w eek range		



Major Shareholders

	(%)
1. Wee Investments Pte Ltd	7.6
2. Wah Hin & Co Pte Ltd	5.2
3. Harbor Capital Advisors Inc	1.7

Key Financial Summary

FYE	12/10	12/11	12/12F	12/13F
Revenue (SGD mn)	5,800	5,700	6,329	6,588
Net Profit, adj. (SGD mn)	2,696	2,325	2,655	2,723
EPS, adj. (SGD)	1.56	1.40	1.60	1.65
P/E (X),adj.	12.8	14.2	12.4	12.1
BVPS (SGD)	12.51	13.23	14.30	15.36
P/B (X)	1.6	1.5	1.4	1.3
DPS (SGD)	0.70	0.60	0.60	0.63
Div. Yield (%)	3.5%	3.0%	3.0%	3.2%

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 2Q12 results

\$m	2Q12	2Q11	%y-y ch	1Q12	%q-q ch
NII	981	914	7.3%	999	-1.8%
Fees & Comm	386	338	14.2%	362	6.6%
Other non-interest inc	243	187	29.9%	268	-9.3%
Total Reveue	1,610	1,439	11.9%	1,629	-1.2%
Expenses	666	611	9.0%	675	-1.3%
Net Profit	713	636	12.1%	688	3.6%

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%	16.75	3.0%	1.79
12/10 A	2,696	1.56	0.70	12.51	14.3%	12.75	3.5%	1.60
12/11 A	2,325	1.40	0.60	13.23	11.1%	14.22	3.0%	1.51
12/12 E	2,655	1.60	0.60	14.30	11.8%	12.44	3.0%	1.40
12/13 E	2,723	1.65	0.65	15.36	11.2%	12.12	3.3%	1.30

Source: Company, PSR

Net Interest Margins down, may fall further

NIMS were down -6bp q-q, due largely to downward pressure on loan yields. Management guided that the 11bps q-q decrease was attributable to the Singapore and Hong Kong markets. In Singapore, an increase in liquidity led to downward pressure on corporate loans, while mortgage loans add to the further compression on interest rates. In Hong Kong, management elaborated that they were pricing loans downward so as to gain more high quality clients. The cheaper loans allow them to build relationship with these clients, and provide higher fees and commission to UOB through their other transactions with these clients.

Based on the geographical breakdown, NIMs in Singapore decreased -8bps q-q to 1.55%, while NIMs in the other regions were largely stable. UOB's operations in Indonesia saw a 20bps q-q uplift in NIMs to 5.55%, as previous downside risk from re-benchmarking of interest rates to stimulate growth in Indonesia did not materialize.

Similar to its local peers, Management also guided potential decrease in NIMs from continued downward pressure on loan yields in its Singapore and Hong Kong loan books. Management however believes that this decrease in interest income will be offset by the higher fees and commission that UOB is able to derive from these client relationships.

Loans guidance lowered, Deposits growth flat

Loans grew 1.44% q-q, 4.09% ytd to S\$149.8 billion, with loan increase registered across all key regions. Loans growth was highest in the Greater China region, which includes China, Hong Kong, and Taiwan. By industry, General Commerce loans rebounded from previous q-q declines to register a 4.71% q-q growth to S\$18.1 billion. Housing loans and Professional and private loans continue to grow strongly. Similar to its local peers, UOB lowered its guidance on loans growth from "low-teens" growth, to high single digit growth for the year. Based on its focus on transaction banking, we expect General Commerce loans to be a driver of loans growth in 2H12.

Deposits were largely flat YTD, therefore leading to a further increase in LDR to 87.1% in 2Q12. Management is comfortable with current levels, noting that most LDRs for each individual currency remain below 100%. UOB has therefore not competed for deposits this quarter.

Fees and Commission, and Non interest income

Fees and commission provided positive surprise with a 6.6% q-q increase. Growth was across all segments, with stronger performances in Loan-related and Investment-related fees and commission. Management guides fees and commission to drive growth of net profits in the next few quarters, given the capital intensive nature of net interest income. Management intends to accomplish this through growth in transaction banking, treasury and investment banking, while leveraging on their banassurance platform and regional network. Management believes that its loan-related, investment-related and credit card fees and commission should maintain momentum in the next few quarters. Based on the improved performance, we adjust our forecast upward, while incorporating possible headwinds in fees and commission from a slowdown in market activities. .

Other non-interest income was the biggest earnings surprise for the quarter, largely due to high non-trading income from available-for-sale assets. Income from AFS, which is volatile and of lower quality due to its non-recurring nature, did not decline as much as per our forecast. We continue to forecast lower other non-interest income in the next few quarters.

Loan provisions unchanged q-q, NPL ratio constant

Loan provisions were largely unchanged q-q at S\$105 million, which was below our expectations. Management guides that loan quality remains high, while Specific provision, which has been higher in recent quarters compared to 1Q11 to 3Q11, is expected to decrease. Management does not expect NPL ratio to increase. Similar to its local peers, we remain cautious of the slowing economy, noting downside risk should credit quality worsen.

Valuation

UOB posted one of the stronger performances this quarter compared to its other local peers. While NIMs and loans growth were weak, the growth in fees and commission income was encouraging, while its y-y growth is expected to be sustainable. Based on 2Q12's earnings, weaker NIMs, lower loans growth, and stronger fees and commission, we derive a higher BVPS of S\$14.30. Based on our unchanged P/B multiple of 1.25X, we obtain a new target price of S\$17.85. On a valuations perspective, we maintain that UOB's share price is overpriced, and therefore maintain our "Reduce" rating.

Table 1. Growth in revenue

\$m	2Q12	2Q11	%y-y ch	1Q12	%q-q ch
Net interest income	981	914	7.3%	999	-1.8%
Net fee and comm inc	386	338	14.2%	362	6.6%
Other non-interest inc	243	187	29.9%	268	-9.3%
Total	1,610	1,439	11.9%	1,629	-1.2%

Table 2. Fee and commission income

\$m	2Q12	2Q11	%y-y ch	1Q12	%q-q ch
Credit card	59	60	-1.7%	55	7.3%
Fund management	24	26	-7.7%	30	-20.0%
Investment-related	78	52	50.0%	67	16.4%
Loan-related	114	102	11.8%	104	9.6%
Service charges	27	22	22.7%	25	8.0%
Trade-related	68	61	11.5%	64	6.3%
Other	18	15	20.0%	17	5.9%
Dividend income	34	55	-38.2%	9	277.8%
Rental income	27	28	-3.6%	27	0.0%
Total	449	421	6.7%	398	12.8%

Table 3. Other non-interest income

\$m	2Q12	2Q11	%y-y ch	1Q12	%q-q ch
Net trading income	151	82	84.1%	204	-26.0%
Trading income/(loss)	11	13	-15.4%	49	-77.6%
Non-trading inc/(loss)	9	8	12.5%	(2)	-550.0%
AFS assets	131	61	114.8%	157	-16.6%
Other income	31	22	40.9%	28	10.7%
Total other non int inc	182	104	75.0%	232	-21.6%

Table 4. Loans by Industries

\$m	2Q12	2Q11	%y-y ch	1Q12	%q-q ch
Tpt, storage & comms	7,642	6,814	12.2%	7,617	0.3%
Building and construction	18,939	14,257	32.8%	18,339	3.3%
Manufacturing	11,534	9,589	20.3%	11,575	-0.4%
Financial institutions	23,210	22,262	4.3%	23,337	-0.5%
General commerce	18,131	17,604	3.0%	17,316	4.7%
Professionals & Pri inv	20,262	16,237	24.8%	19,443	4.2%
Housing loans	42,997	36,638	17.4%	41,962	2.5%
Others	7,114	7,843	-9.3%	8,118	-12.4%
Total loans	149,829	131,244	14.2%	147,707	1.4%

Table 5. Loans by currencies

\$m	2Q12	2Q11	%y-y ch	1Q12	%q-q ch
Singapore dollar	82,942	73,258	13.2%	81,636	1.6%
US dollar	19,190	17,637	8.8%	19,374	-0.9%
Malaysian ringgit	20,426	16,144	26.5%	19,937	2.5%
Thai baht	7,546	6,690	12.8%	7,394	2.1%
Indonesian rupiah	4,603	3,818	20.6%	4,370	5.3%
Others	15,122	13,697	10.4%	14,996	0.8%
Total loans	149,829	131,244	14.2%	147,707	1.4%

Table 6. Profit before tax by Business segments

\$m	2Q12	2Q11	%y-y ch	1Q12	%q-q ch
Group Retail	521	508	2.6%	(762)	-168.4%
Grp Wholesale	921	812	13.4%	(1,107)	-183.2%
Global Mkts and IM	321	250	28.4%	(233)	-237.8%
Others	37	18	105.6%	158	-76.6%
Total NPBT	1,800	1,588	13.4%	(1,944)	-192.6%

Table 7. Profit before tax by Geographical segments

\$m	2Q12	2Q11	%y-y ch	1Q12	%q-q ch
Singapore	523	508	3.0%	567	-7.8%
Malaysia	154	110	40.0%	116	32.8%
Thailand	26	17	52.9%	27	-3.7%
Indonesia	53	40	32.5%	47	12.8%
Greater China	46	51	-9.8%	67	-31.3%
Others	70	52	34.6%	44	59.1%
Total NPBT	872	778	12.1%	868	0.5%

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

Fig 1: Net interest margin

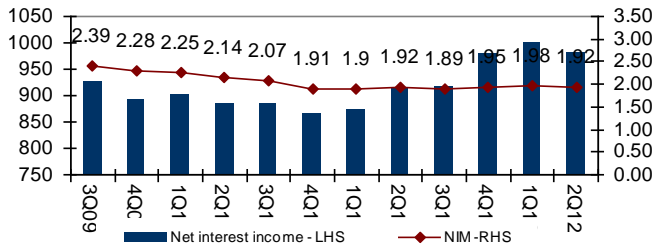


Fig 2: NonInt/Total revenue

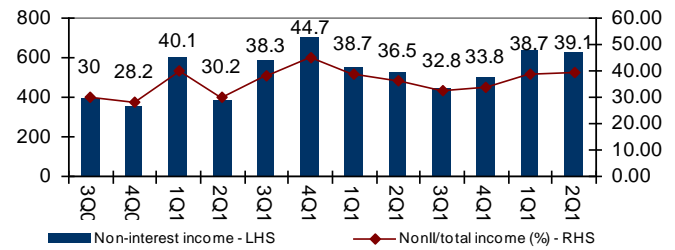


Fig 3: Efficiency ratio

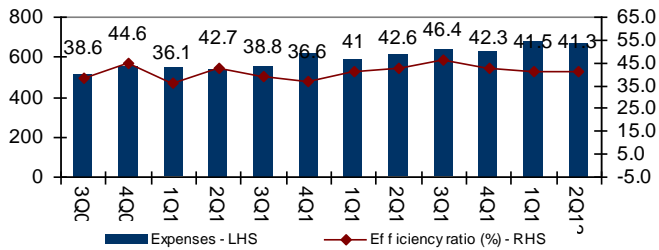


Fig 4: Net profit margin

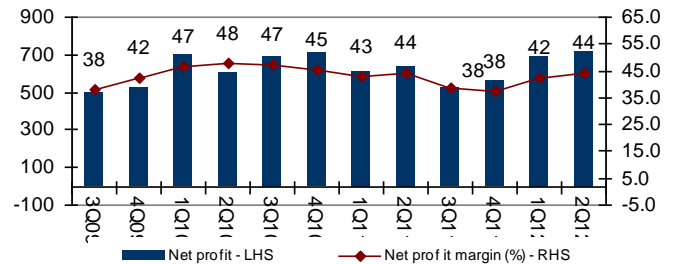


Fig 5: Deposits, Loans, LDR

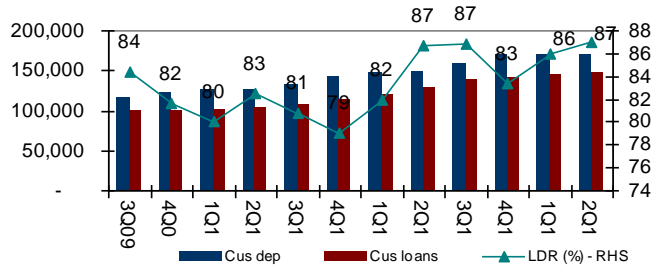


Fig 6: NPA, NPL

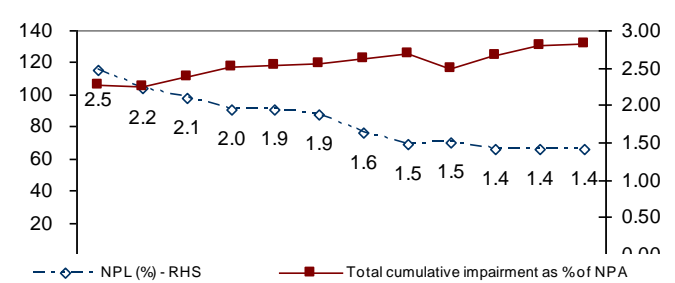


Fig 7: Growth in selected asset items

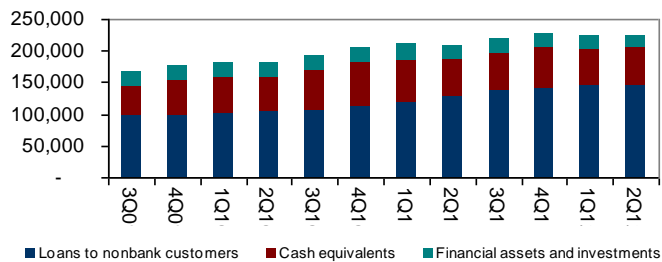


Fig 8: CAR

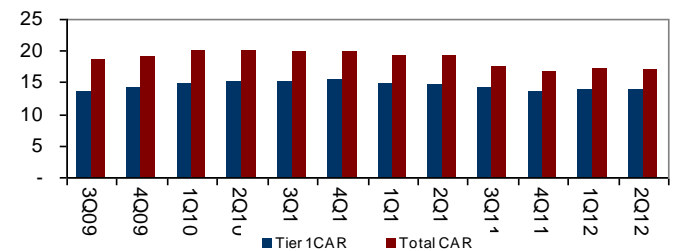


Fig 9: ROE and ROA

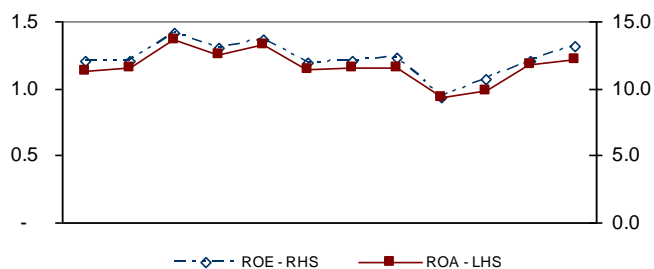


Fig 10: EPS and NBV

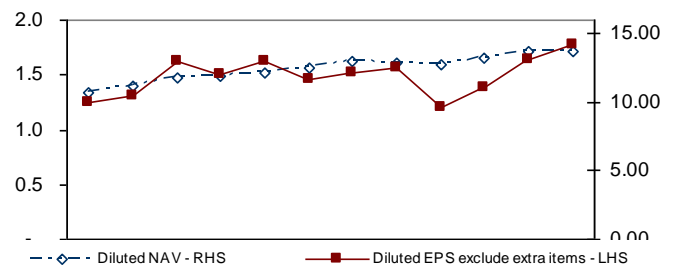


Fig 11: Revenue by geographical segment

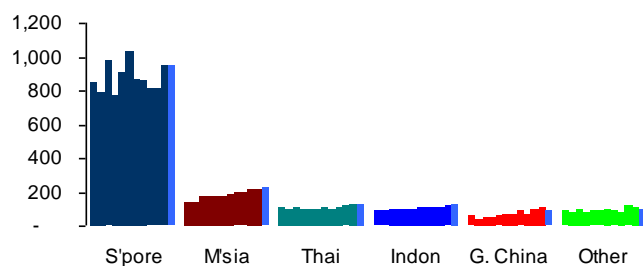


Fig 12: Geo segment breakdown

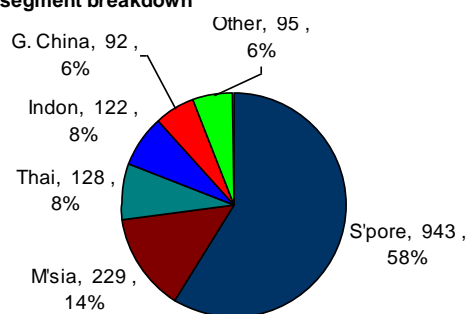
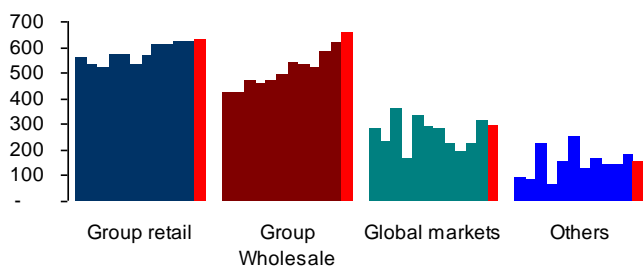


Fig 13: Revenue by Business segment



Growth trend

Fig 14: Net interest income trend

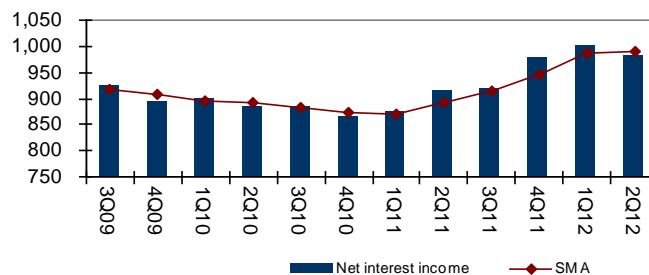


Fig 15: Fee and Commission trend

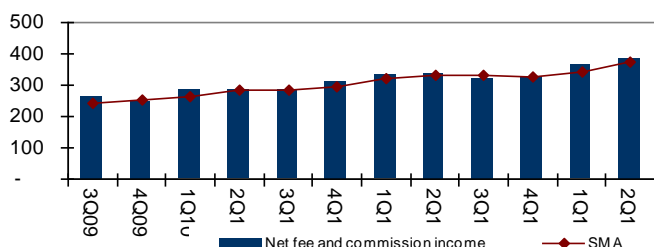


Fig 16: Other noninterest income trend

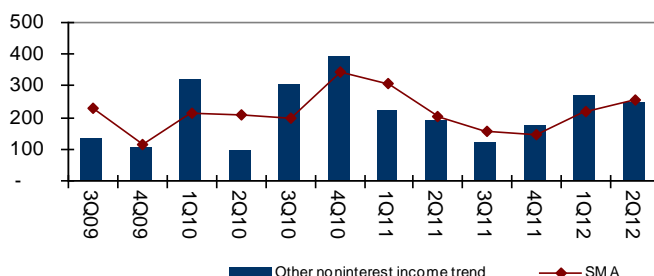


Table 8: Actual vs Forecast of 2Q12 results

Income Statement					
(Extract)	2Q12 F	2Q12 A	Diff	Diff (%)	Comments
Int Income	1,595	1,542	(53)	-3%	
Int Expense	583	561	(22)	-4%	
Net Int Inc	1,012	981	(31)	-3%	NIMs compression
Fees & Comm	350	386	36	10%	Higher fees
Other Int inc	187	243	56	30%	Volatile item
Non Int inc	537	629	92	17%	
Revenue	1,548	1,610	62	4%	
Expenses	658	666	8	1%	Within expectations
Amor/Imp chg	122	107	(15)	-13%	Lower allowances
Tax	143	151	8	6%	Higher PBT
Net income	646	712	66	10%	

Source: Company, PSR

FYE Dec	FY09	FY10	FY11	FY12F	FY13F
Valuation Ratios					
P/E (X), adj.	16.8	12.8	14.2	12.4	12.1
P/B (X)	1.8	1.6	1.5	1.4	1.3
Dividend Yield (%)	3.0%	3.5%	3.0%	3.0%	3.3%
Per share data (SGD)					
EPS, reported	1.19	1.70	1.43	1.60	1.65
EPS, adj.	1.19	1.56	1.40	1.60	1.65
DPS	0.60	0.70	0.60	0.60	0.65
BVPS	11.17	12.51	13.23	14.30	15.36
Growth & Margins (%)					
Growth					
Net interest income	2.7%	-3.9%	4.2%	8.3%	7.6%
Non interest income	3.3%	31.1%	-10.9%	15.9%	-1.9%
Pre provision operating profit	2.9%	7.3%	-1.7%	11.0%	4.1%
Operating income	-7.6%	39.1%	-11.2%	16.3%	2.7%
Net income, reported	-1.6%	41.7%	-13.8%	14.2%	2.6%
Margins					
Net interest margin	2.36%	2.09%	1.92%	1.92%	1.92%
Key Ratios (%)					
ROE	11.9%	14.3%	11.1%	11.8%	11.2%
ROA	1.06%	1.38%	1.06%	1.10%	1.04%
RORWA	1.76%	2.59%	1.93%	1.95%	1.93%
Non-interest/total income ratio	32.0%	39.1%	35.5%	37.0%	34.9%
Cost/income ratio	38.4%	38.9%	43.0%	43.2%	44.8%
Loan/deposit ratio	81.6%	79.0%	83.3%	88.0%	86.9%
NPL ratio	2.22	1.87	1.40	1.43	1.44
Income Statement (SGD mn)					
Net Interest Income	3,674	3,531	3,679	3,986	4,290
Fees and Commission	976	1,163	1,318	1,458	1,506
Other Non interest income	755	1,106	703	885	792
Total operating income	5,405	5,800	5,700	6,329	6,588
Operating expenses	2,074	2,256	2,452	2,734	2,951
Provisions	1,132	485	533	438	396
Operating profit	2,199	3,059	2,715	3,157	3,241
Associates & JVs	107	139	92	100	100
Profit Before Tax	2,306	3,198	2,807	3,257	3,341
Taxation	385	480	467	586	601
Profit After Tax	1,921	2,718	2,340	2,671	2,739
Non-controlling Interest	19	22	15	16	16
Net Income, reported	1,902	2,696	2,325	2,655	2,723

Source: PSR

FYE Dec	FY09	FY10	FY11	FY12F	FY13F
Balance Sheet (SGD mn)					
Cash, balances and placements with central bank	18,885	30,743	26,786	32,824	37,805
Singapore Government treasury bills and securities	12,787	12,814	9,710	8,932	9,088
Other government treasury bills and securities	7,704	11,575	8,253	7,444	7,574
Trading securities	118	138	271	298	303
Placements and balances with banks	14,116	13,458	18,770	18,660	18,986
Investment securities	16,177	15,926	14,354	13,101	13,330
Other assets	8,994	9,132	10,157	12,440	12,658
Loans to non-bank customers	99,201	112,440	141,191	154,639	167,441
Investment in associates	1,212	1,198	1,092	1,070	1,070
Investment properties	1,134	1,125	1,126	1,056	1,056
Fixed assets	1,040	1,019	1,050	1,050	1,045
Intangible assets	4,229	4,210	4,196	4,180	4,164
Total Assets	185,597	213,778	236,956	255,693	274,519
Deposits and balances of banks	27,751	31,862	19,750	31,172	31,445
Deposits and balances of non-bank customers	121,502	142,299	169,460	175,740	192,615
Bills and drafts payable	1,438	1,288	1,730	1,695	1,695
Other liabilities	9,688	10,412	11,087	10,232	10,232
Debts issued	6,044	6,263	11,786	12,012	12,012
Total liabilities	166,423	192,124	213,813	230,851	247,998
Share capital	1,902	2,537	3,104	3,098	3,098
Preference shares	2,149	2,149	2,149	2,149	2,149
Retained earnings	6,324	7,687	8,499	10,103	11,764
Other reserves	8,611	9,101	9,215	9,300	9,300
Shareholder Equity	18,986	21,474	22,967	24,650	26,311
Non-controlling interest	169	180	177	193	209
Total Equity	19,155	21,654	23,144	24,843	26,521

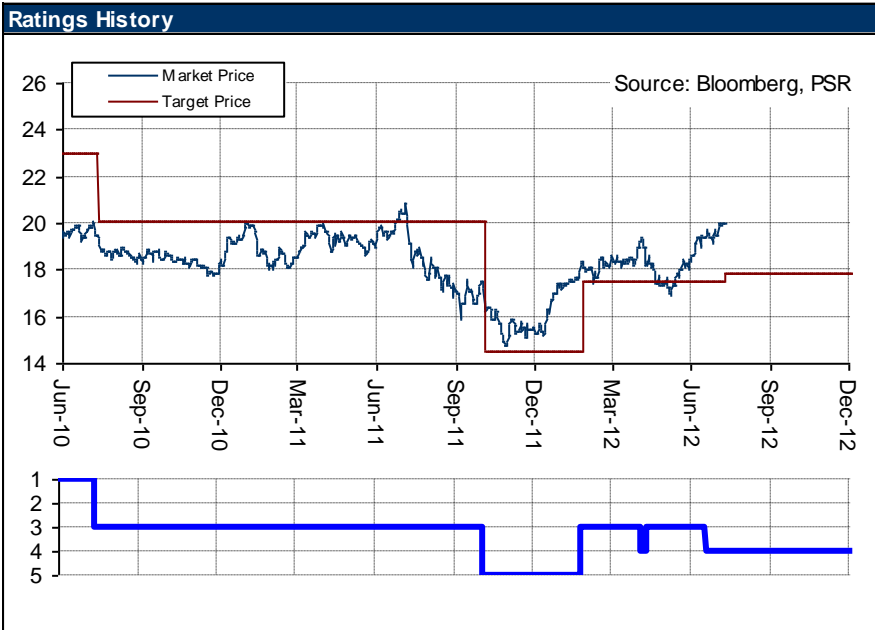
Cashflow Statements (SGD mn)

CFO					
PBT	3,331	3,542	3,248	3,258	3,341
Adjustments	124	(205)	163	138	138
Cash from ops before WC changes	3,455	3,337	3,411	3,396	3,479
WC changes	(3,003)	7,558	(12,369)	4,004	3,282
Cash generated from ops	452	10,895	(8,958)	7,400	6,761
Taxes paid, net	(423)	(488)	(601)	(586)	(601)
Cashflow from ops	29	10,407	(9,559)	6,814	6,160
Cashflow from investments	(132)	489	(17)	(14)	(95)
Cashflow from financing	(1,217)	(182)	6,163	(826)	(1,061)
Net change in cash	(1,197)	10,598	(4,747)	5,974	4,981
CCE, end	16,546	27,142	22,396	28,370	33,351

Supplementary items

Risk-weighted assets (SGD mn)	100,908	106,889	133,578	138,986	142,967
Tier 1 capital (SGD mn)	14,127	16,362	18,014	19,713	21,374
Total capital (SGD mn)	19,183	21,206	22,337	23,835	25,496
Core Tier 1 CAR (%)	11.9%	13.3%	11.9%	12.6%	13.4%
Tier 1 CAR (%)	14.0%	15.3%	13.5%	14.2%	15.0%
Total CAR (%)	19.0%	19.8%	16.7%	17.1%	17.8%

Source: PSR



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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