

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.

- 4Q12 results beat expectations on strong non-trading income, lower taxes
- S\$0.40 Final and S\$0.10 Special dividend declared.
- Maintain "Accumulate" on inexpensive valuations, strong fundamentals, with unchanged target price of S\$20.95, based on P/B multiple of 1.35X.

What is the news?

UOB's 4Q12 earnings were above our expectations, due largely to high non-trading income and lower taxes, mitigated by higher expenses and loan provisions. NIMs declined by -8bps q-q, -19bps y-y to 1.76%. Fees and commission income increased marginally q-q on higher Fund management fees. Higher loan allowances were made for a specific loan, but overall portfolio remains healthy. A final year dividend of S \$0.40 and a special dividend of S \$0.10 were declared.

Income Statement				
(Extract)	3Q12	4Q12	q-q (%)	Comments
(S\$'mn)				
NII	970	966	-0.4%	NIMs down 8bps q-q
Fees & Comm	372	388	4.3%	Strong performance
Others	321	238	-25.9%	Volatile item
Revenue	1,663	1,592	-4.3%	
Expenses	687	718	4.5%	Higher Bonus
Net Income	706	696	-1.4%	Beat expectations

Source: Company, PSR

How do we view this?

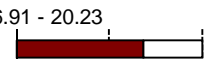
On the overall, UOB posted a decent set of 4Q12 results. NIMs decline of 8bps q-q was a disappointment, while earnings beat was of low quality. Fees and commission was however positive with its strong performance, while the special dividend of S\$0.10 is attractive. Based on current share price, UOB's dividend yield of 3.6% is higher than OCBC's 3.3% dividend yield.

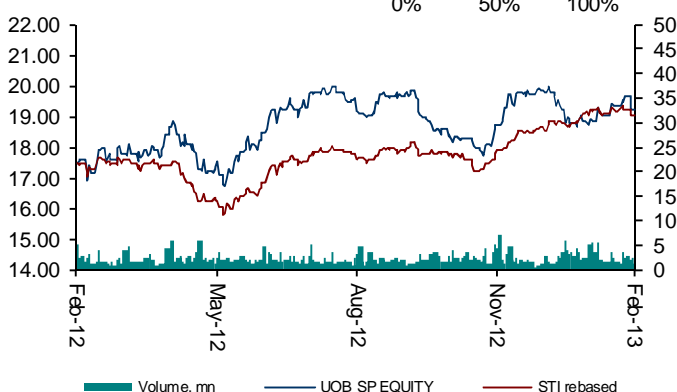
However, we note the more muted outlook for 1H13 for net interest margins due to continued NIMs pressure, and slower loans growth. We remain upbeat on Fees and commission increasingly gaining traction, the attractive dividend yield, and potential net trading income surprises.

Investment Actions?

We adjust our forecast to include 4Q12's results, deriving FY2013 BVPS of S\$15.55. Based on our unchanged P/B multiple of 1.35X, we obtain an unchanged target price of S\$20.95, and maintain our "Accumulate" rating on UOB.

United Overseas Bank Ltd

Rating	2	Accumulate
- Previous Rating	2	Accumulate
Target Price (SGD)	21.0	
- Previous Target Price (SGD)	21.0	
Closing Price (SGD)	19.20	
Expected Capital Gains (%)	9.1%	
Expected Dividend Yield (%)	3.6%	
Expected Total Return (%)	12.8%	
Raw Beta (Past 2yrs w weekly data)	1.00	
Market Cap. (USD mn / SGD mn)	24425 / 30236	
3M Average Daily T/O (mn)	2.6	
52 week range (SGD)	16.91 - 20.23	
Closing Price in 52 week range		



Major Shareholders

	(%)
1. Wee Investments Pte Ltd	7.6
2. Wah Hin & Co Pte Ltd	5.2
3. Aberdeen	1.9

Key Financial Summary

FYE	12/11	12/12	12/13F	12/14F
Revenue (SGD mn)	5,700	6,494	6,484	6,799
Net Profit, adj. (SGD mn)	2,325	2,802	2,777	3,155
EPS, adj. (SGD)	1.42	1.73	1.68	1.92
P/E (X),adj.	13.5	11.1	11.4	10.0
BVPS (SGD)	13.23	14.56	15.55	16.78
P/B (X)	1.5	1.3	1.2	1.1
DPS (SGD)	0.60	0.70	0.70	0.70
Div. Yield (%)	3.1%	3.6%	3.6%	3.6%

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 4Q12 results

\$m	4Q12	4Q11	%y-y ch	3Q12	%q-q ch
NII	966	977	-1.1%	970	-0.4%
Fees & Comm	388	327	18.7%	372	4.3%
Other non-interest inc	238	173	37.6%	321	-25.9%
Total Reveue	1,592	1,477	7.8%	1,663	-4.3%
Expenses	718	625	14.9%	687	4.5%
Net Profit	696	556	25.2%	706	-1.4%

Source: Company, PSR

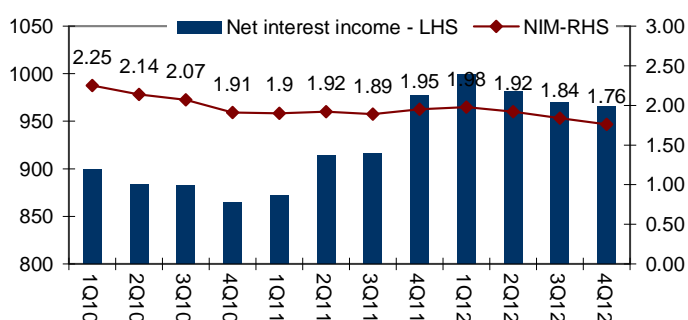
Conso' ending	Profits (SGM)	EPS (SG)	DPS (SG)	BV (SG)	ROE (%)	P/E (X)	Yield (%)	P/BV (X)
12/10 A	2,493	1.56	0.70	12.51	14.3%	12.27	3.6%	1.54
12/11 A	2,325	1.42	0.60	13.23	11.1%	13.48	3.1%	1.45
12/12 A	2,802	1.73	0.70	14.56	12.3%	11.11	3.6%	1.32
12/13 E	2,777	1.68	0.70	15.55	11.3%	11.43	3.6%	1.23
12/14 E	3,155	1.92	0.70	16.78	11.5%	10.01	3.6%	1.14

Source: Company, PSR

Net Interest Margins down 8bps, may fall further

NIMS were down 8bp q-q, 19 bps y-y to 1.76%. Management attribute decline to 1) Drawdown of previously committed mortgage loans, which are low interest bearing. 2) Shortening of loans duration, causing an estimated 5-6 bps NIMS decline. Loans duration was shortened to reduce risk, as flat yield curve was unattractive.

Fig 1: Q-Q NIMs decline expected to continue



Source: Company, PSR

Positive Note: Pressure on cost of funding has eased, due to clearer and delayed implementation of Basel III requirements.

Negative Note: Q-Q, NIMs decline was across all key markets except Greater China. (Singapore: -11bps, Malaysia: -8bps, Thailand: -6bps, Indonesia: -29bps, Greater China: +1bps). Loans duration was likely decreased across all key markets.

FY2013 NIMs guidance: NIMs compression expected to continue into 1H13. For 2H13, Management guides possible NIMs improvements should yield curve steepen substantially (guided at 50 bps), prompting management to increase loan duration. Higher loans growth from regional markets with better NIMs (E.g. Indonesia 4Q12 NIMs: 5.00%) would also see NIMs improvement. We note a lower LDR of 84.0%. NIMs can also improve from higher utilization of deposits.

Loans guidance maintained, high Deposits growth

Loans grew 2.24% q-q to S\$155.9 billion. Y-Y, FY2012's loans grew 8.3%. Growth was mainly from Professionals & private individuals (4Q12: 5.39%) and Housing loans (4Q12: 4.14%). Geographically, loans growth was mainly from China (4Q12: 5.60%) and Thailand (4Q12: 3.05%).

FY2013 Loans growth guidance: High single-digit growth. Singapore's loans growth to moderate (FY12: 9.57%), other regional markets to lead loans growth.

Deposits continued to grow strongly q-q at 4.72%. Growth of CASA deposits improved, but Fixed Deposits continued to grow at a faster pace q-q (4Q12: 4.87%).

FY2013 guidance on Deposits: Management guided increasing focus on growing CASA deposits.

Positive Note: We note greater flexibility, such as lowering the more expensive Fixed Deposits in FY2013, due to low LDRs giving room for higher efficiency.

Sensitivity Analysis: Based on our model and assumptions (FY2013 average interest on loans at 3.30%, Overall NIMs at 1.74%), a 4bps decline in average interest on loans for FY2013 would lead to S\$63 million decline in Net profits. Average loans balance would otherwise need to increase by 1.2% to mitigate this decrease in NIMs.

Our take: The poorer 1H13 outlook may lead to earnings disappointment, as NIMs further compress and average loans balance increase marginally. Q-Q, 1Q13's Net Interest Income may be weak.

Fees and Commission, Non interest income strong

Fees and commission grew 4.3% q-q to S\$388 million. Y-y, FY2012's Fees and commission grew 14.6%, driven by strong growth in investment-related fees, which is largely Wealth Management related (FY2012: 54.3% y-y). Fund management fees rebound 31.6% y-y from a weaker FY2011.

FY2013 Fees and Commission guidance: Strong growth expected to continue, with stronger contributions from regional markets.

Other non-interest income continued to surprise on the upside with above-normalized levels of earnings.

Positive Note: With the continued stronger performance of the equity markets YTD, and our more positive view on the equity markets in 2013, non-interest income may continue to surprise. Earnings remain volatile and hard to predict.

NPL ratio stable, no credit quality concern

NPL ratio was down to 1.5%. Management indicated no credit quality concern. Loan allowance was however higher due to further impairment on a transportation loan booked in one of UOB's overseas branch. Credit quality was otherwise healthy, with lower collective provision required.

Expenses higher on staff bonus provisions

Expenses were above our expectations due to higher staff bonus. Management guided on aim to achieve 40% cost-to-income ratio as cost efficiencies increase.

Other matters

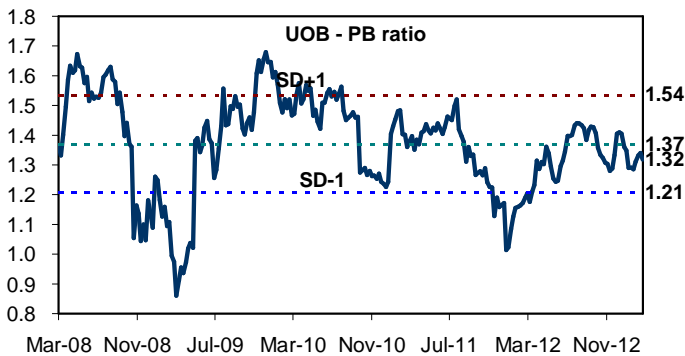
Basel III: Capital requirements – Total impact of the new Basel III capital requirements is guided to decrease CAR by 1%, and CET1 by 60-70 bps. CAR remains healthy and comfortably above regulatory requirements. Management is also comfortable with the LCR and NSFR requirements, noting changes to and staggering of LCR requirements easing funding pressure and cost of complying with the requirements.

4Q12 Tax was lower due to exceptional adjustment of taxes from prior years and other one-off events, Management guide tax to be approximately 18%-19% moving forward.

Full year dividends higher on S\$0.10 special dividend – A final dividend of S\$0.40, and a special dividend of S\$0.10 was declared. This brought FY2012's total dividend to S\$0.70. The higher dividend was in-line with FY2010's dividend, and higher than our expected dividend of S\$0.65. We think this increase in total dividend is sustainable, and adjust our forecast accordingly.

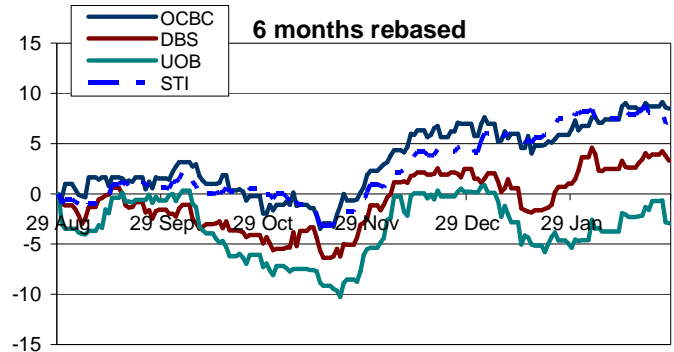
Key risks – Downside risk includes worsening credit quality. Loan allowances has been low, therefore credit cost will increase sharply should asset quality deteriorate. Significant changes to the macroeconomic environment, such as unexpected sharp worsening in the global economy, severe crisis in the Euro, or natural disasters such as severe floods in Thailand have also not been factored into our earnings forecast.

Fig 2: Valuations inexpensive – below 5-year P/B mean



Source: Company, PSR

Fig 3: UOB trading below peers – but equally strong fundamentally and similar earnings outlooks



Source: Company, PSR

Valuation

On the overall, UOB posted a decent set of 4Q12 results. NIMs decline of 8bps q-q was a disappointment, while earnings beat was of low quality. Fees and commission was however positive with its strong performance, while the special dividend of S\$0.10 is attractive. Based on current share price, UOB's dividend yield of 3.6% is higher than OCBC's 3.3% yield.

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Table 1. Growth in revenue

\$m	4Q12	4Q11	%y-y ch	3Q12	%q-q ch
Net interest income	966	977	-1.1%	970	-0.4%
Net fee and comm inc	388	327	18.7%	372	4.3%
Other non-interest inc	238	173	37.6%	321	-25.9%
Total	1,592	1,477	7.8%	1,663	-4.3%

Table 2. Fee and commission income

\$m	4Q12	4Q11	%y-y ch	3Q12	%q-q ch
Credit card	66	63	4.8%	60	10.0%
Fund management	44	22	100.0%	31	41.9%
Investment-related	90	51	76.5%	86	4.7%
Loan-related	82	81	1.2%	90	-8.9%
Service charges	28	31	-9.7%	27	3.7%
Trade-related	62	65	-4.6%	62	0.0%
Other	16	14	14.3%	16	0.0%
Dividend income	3	5	-40.0%	89	-96.6%
Rental income	28	29	-3.4%	27	3.7%
Total	419	361	16.1%	488	-14.1%

Table 3. Other non-interest income

\$m	4Q12	4Q11	%y-y ch	3Q12	%q-q ch
Net trading income	147	89	65.2%	173	-15.0%
Trading income/(loss)	22	34	-35.3%	17	29.4%
Non-trading inc/(loss)	64	49	30.6%	63	1.6%
AFS assets	61	6	916.7%	93	-34.4%
Other income	60	50	20.0%	32	87.5%
Total other non int inc	207	139	48.9%	205	1.0%

Table 4. Loans by Industries

\$m	4Q12	4Q11	%y-y ch	3Q12	%q-q ch
Tpt, storage & comms	6,906	7,041	-1.9%	7,452	-7.3%
Building and construction	19,438	17,515	11.0%	19,034	2.1%
Manufacturing	11,834	11,336	4.4%	11,475	3.1%
Financial institutions	23,718	23,966	-1.0%	24,078	-1.5%
General commerce	18,627	17,597	5.9%	18,215	2.3%
Professionals & Pri inv	22,366	18,629	20.1%	21,222	5.4%
Housing loans	46,131	40,615	13.6%	44,297	4.1%
Others	6,835	7,244	-5.6%	6,674	2.4%
Total loans	155,855	143,943	8.3%	152,447	2.2%

Table 5. Loans by currencies

\$m	4Q12	4Q11	%y-y ch	3Q12	%q-q ch
Singapore dollar	87,733	78,557	11.7%	85,196	3.0%
US dollar	18,135	19,791	-8.4%	18,553	-2.3%
Malaysian ringgit	21,842	18,832	16.0%	21,026	3.9%
Thai baht	8,103	7,530	7.6%	7,838	3.4%
Indonesian rupiah	4,573	4,488	1.9%	4,502	1.6%
Others	15,469	14,745	4.9%	15,332	0.9%
Total loans	155,855	143,943	8.3%	152,447	2.2%

Table 6. Profit before tax by Business segments

\$m	4Q12	4Q11	%y-y ch	3Q12	%q-q ch
Group Retail	1,056	1,026	2.9%	276	282.6%
Grp Wholesale	1,658	1,535	8.0%	410	304.4%
Global Mkts and IM	648	408	58.8%	173	274.6%
Others	141	(45)	-413.3%	19	642.1%
Total NPBT	3,503	2,924	19.8%	878	299.0%

Table 7. Profit before tax by Geographical segments

\$m	4Q12	4Q11	%y-y ch	3Q12	%q-q ch
Singapore	598	400	49.5%	567	5.5%
Malaysia	134	127	5.5%	153	-12.4%
Thailand	25	(8)	-412.5%	40	-37.5%
Indonesia	34	40	-15.0%	52	-34.6%
Greater China	57	45	26.7%	52	9.6%
Others	(108)	24	-550.0%	16	-775.0%
Total NPBT	740	628	17.8%	880	-15.9%

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

Fig 1: Net interest margin

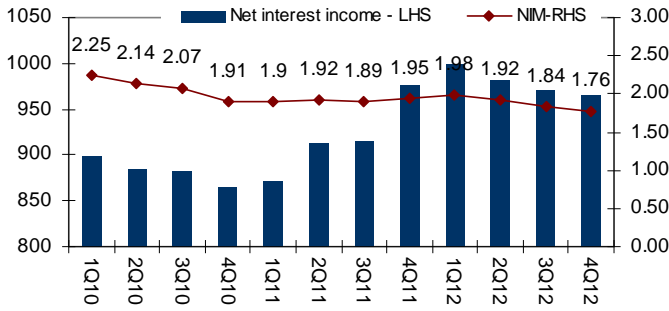


Fig 2: NonInt/Total revenue

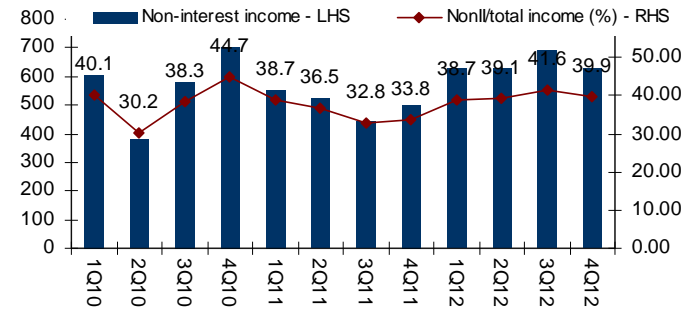


Fig 3: Efficiency ratio

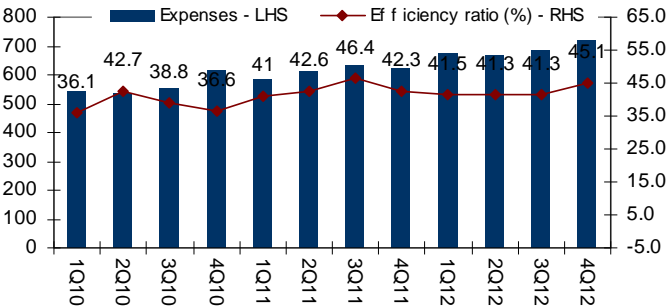


Fig 4: Net profit margin

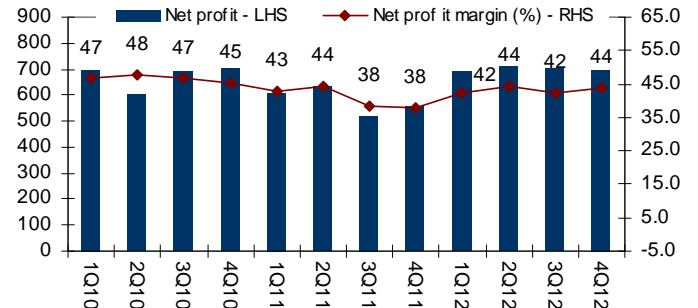


Fig 5: Deposits, Loans, LDR

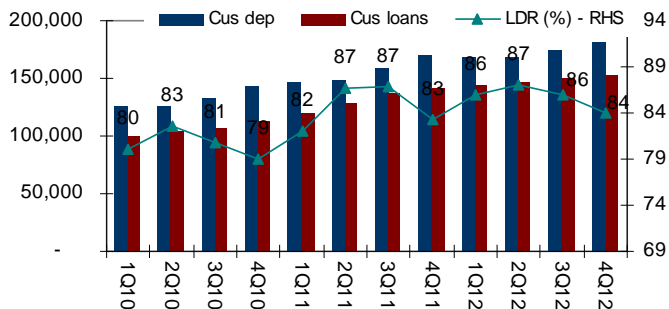


Fig 6: NPA, NPL

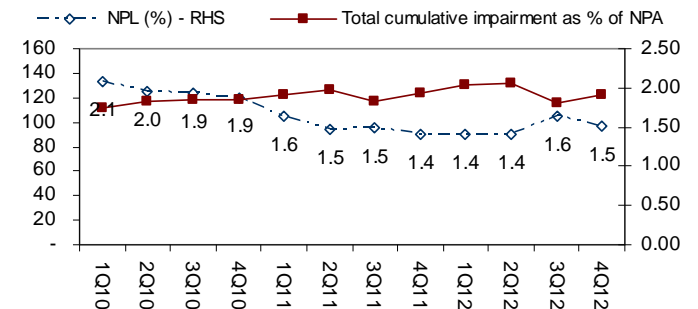


Fig 7: Growth in selected asset items

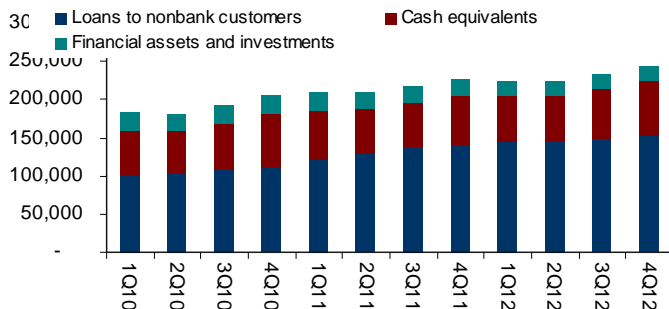


Fig 8: CAR

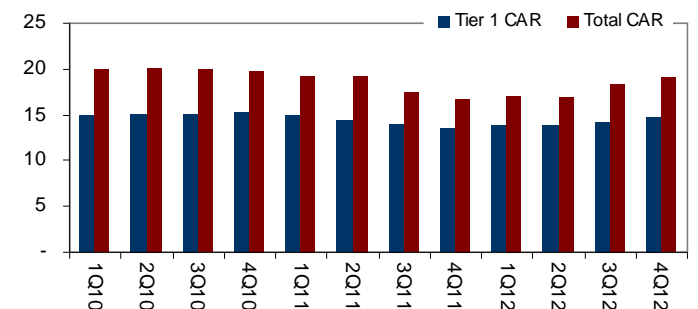


Fig 9: ROE and ROA

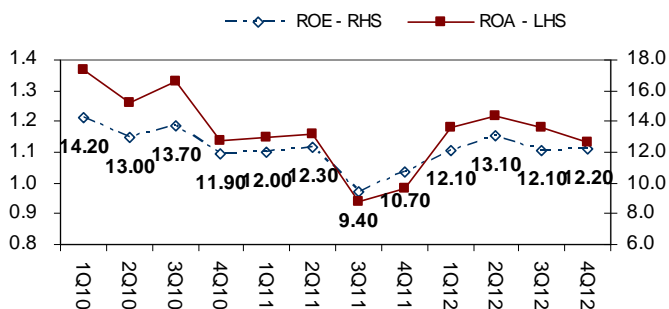


Fig 10: EPS and NBV

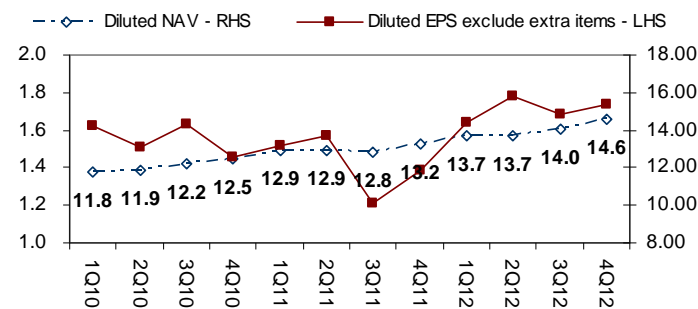


Fig 11: Revenue by geographical segment

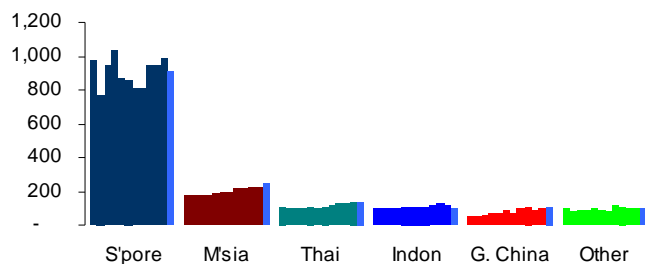


Fig 12: Geo segment breakdown

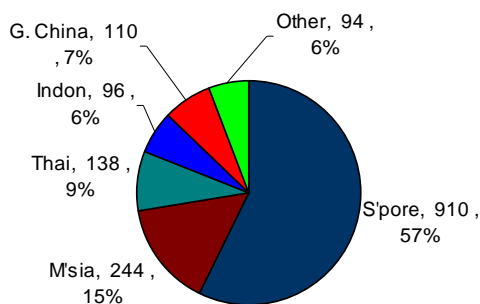
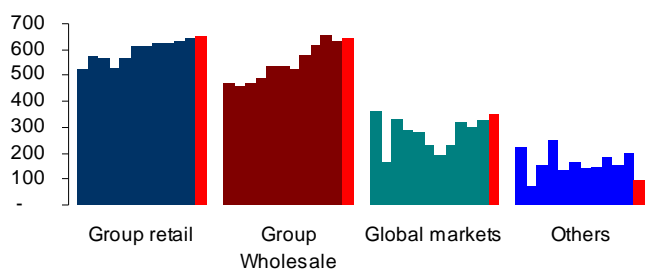


Fig 13: Revenue by Business segment



Growth trend

Fig 14: Net interest income trend

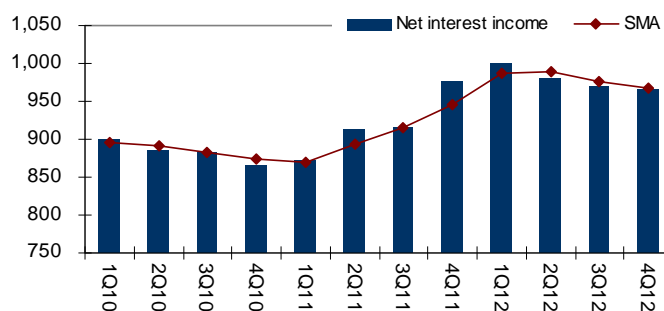


Fig 15: Fee and Commission trend

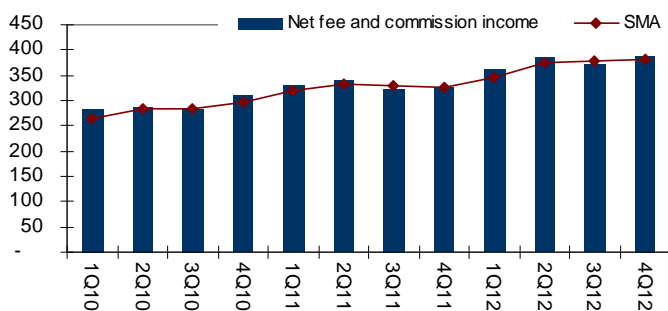


Fig 16: Other noninterest income trend

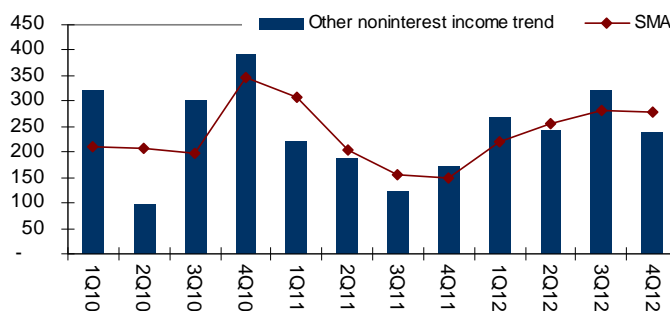


Table 8: Actual vs Forecast of 4Q12 results

Income Statement					
(Extract)	4Q12 F	4Q12 A	Diff	Diff (%)	Comments
Int Income	1,573	1,551	(22)	-1%	
Int Expense	595	585	(10)	-2%	
Net Int Inc	979	966	(13)	-1%	NIMs down 8bps
Fees & Comm	372	388	16	4%	Higher fees
Other Int inc	192	238	46	24%	Volatile item
Non Int inc	564	626	62	11%	
Revenue	1,542	1,592	50	3%	
Expenses	694	718	24	3%	Higher bonuses
Amor/Imp chg	111	150	39	35%	Specific loan prov.
Tax	134	41	(93)	-69%	Tax write backs
Net income	619	696	77	12%	Beat expectations

Source: Company, PSR

FYE Dec	FY10	FY11	FY12	FY13F	FY14F
Valuation Ratios					
P/E (X), adj.	12.3	13.5	11.1	11.4	10.0
P/B (X)	1.5	1.5	1.3	1.2	1.1
Dividend Yield (%)	3.6%	3.1%	3.6%	3.6%	3.6%
Per share data (SGD)					
EPS, reported	1.70	1.43	1.73	1.68	1.92
EPS, adj.	1.56	1.42	1.73	1.68	1.92
DPS	0.70	0.60	0.70	0.70	0.70
BVPS	12.51	13.23	14.56	15.55	16.78
Growth & Margins (%)					
Growth					
Net interest income	-3.9%	4.2%	6.4%	0.3%	5.4%
Non interest income	31.1%	-10.9%	27.6%	-0.9%	4.0%
Pre provision operating profit	7.3%	-1.7%	13.9%	-0.2%	4.9%
Operating income	39.1%	-11.2%	20.2%	1.6%	14.0%
Net income, reported	41.7%	-13.8%	20.5%	-0.9%	13.6%
Margins					
Net interest margin	2.09%	1.92%	1.87%	1.74%	1.75%
Key Ratios (%)					
ROE	14.3%	11.1%	12.3%	11.3%	11.5%
ROA	1.38%	1.06%	1.16%	1.07%	1.11%
RORWA	2.59%	1.93%	2.10%	2.08%	2.36%
Non-interest/total income ratio	39.1%	35.5%	39.7%	39.4%	39.1%
Cost/income ratio	38.9%	43.0%	42.3%	42.1%	40.4%
Loan/deposit ratio	79.0%	83.3%	84.0%	84.3%	84.6%
NPL ratio	1.87	1.40	1.52	1.56	1.54
Income Statement (SGD mn)					
Net Interest Income	3,531	3,679	3,916	3,928	4,140
Fees and Commission	1,163	1,318	1,508	1,595	1,663
Other Non interest income	1,106	703	1,070	960	995
Total operating income	5,800	5,700	6,494	6,484	6,799
Operating expenses	2,256	2,452	2,746	2,730	2,746
Provisions	485	533	485	436	272
Operating profit	3,059	2,715	3,263	3,317	3,781
Associates & JVs	139	92	87	90	90
Profit Before Tax	3,198	2,807	3,350	3,407	3,871
Taxation	480	467	530	613	697
Profit After Tax	2,718	2,340	2,820	2,794	3,174
Non-controlling Interest	22	15	18	17	19
Net Income, reported	2,696	2,325	2,802	2,777	3,155
Net Income, adj.	2,493	2,325	2,802	2,777	3,155

Source: PSR

FYE Dec	FY10	FY11	FY12	FY13F	FY14F
Balance Sheet (SGD mn)					
Cash, balances and placements with central banks	30,743	26,786	33,056	38,232	40,160
Singapore Government treasury bills and securities	12,814	9,710	11,999	10,769	10,957
Other government treasury bills and securities	11,575	8,253	10,681	9,273	9,435
Trading securities	138	271	260	299	304
Placements and balances with banks	13,458	18,770	15,991	23,318	23,725
Investment securities	15,926	14,354	11,129	9,573	9,740
Other assets	9,132	10,157	9,334	15,545	15,817
Loans to non-bank customers	112,440	141,191	152,930	161,928	170,318
Investment in associates	1,198	1,092	1,102	1,102	1,102
Investment properties	1,125	1,126	1,016	1,016	1,016
Fixed assets	1,019	1,050	1,234	1,228	1,222
Intangible assets	4,210	4,196	4,168	4,156	4,144
Total Assets	213,778	236,956	252,900	276,440	287,941
Deposits and balances of banks	31,862	19,750	21,538	33,449	33,742
Deposits and balances of non-bank customers	142,299	169,460	182,029	192,082	201,335
Bills and drafts payable	1,288	1,730	1,572	1,572	1,572
Other liabilities	10,412	11,087	9,689	9,689	9,689
Debts issued	6,263	11,786	12,800	12,800	12,800
Total liabilities	192,124	213,813	227,628	249,592	259,138
Share capital	2,537	3,104	3,123	3,123	3,123
Preference shares	2,149	2,149	2,149	2,149	2,149
Retained earnings	7,687	8,499	10,222	11,781	13,717
Other reserves	9,101	9,215	9,586	9,586	9,586
Shareholder Equity	21,474	22,967	25,080	26,639	28,575
Non-controlling interest	180	177	192	209	228
Total Equity	21,654	23,144	25,272	26,847	28,803

Cashflow Statements (SGD mn)

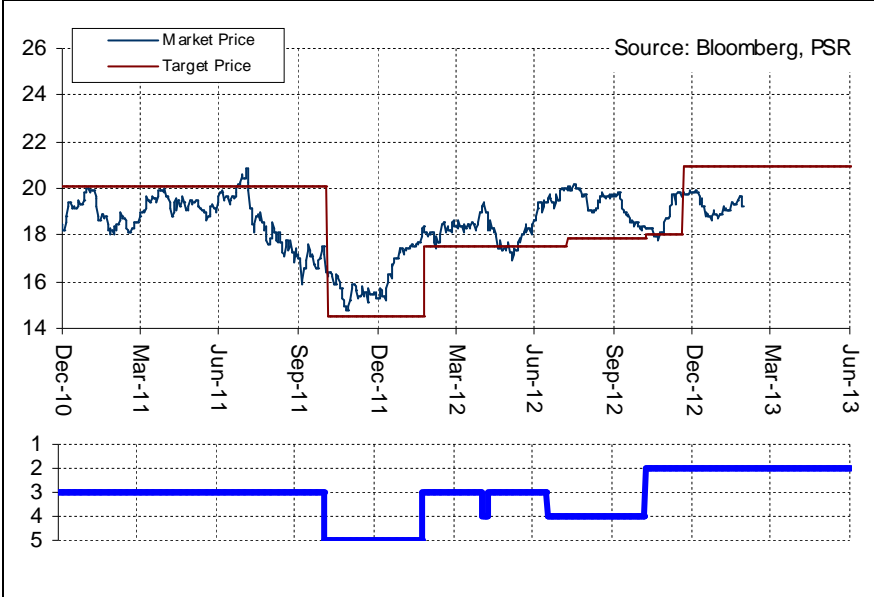
CFO					
PBT	3,542	3,248	3,748	3,407	3,871
Adjustments	(205)	163	(387)	156	155
Cash from ops before WC changes	3,337	3,411	3,361	3,563	4,026
WC changes	7,558	(12,369)	3,571	3,583	(46)
Cash generated from ops	10,895	(8,958)	6,932	7,146	3,980
Taxes paid, net	(488)	(601)	(593)	(613)	(697)
Cashflow from ops	10,407	(9,559)	6,339	6,532	3,283
Cashflow from investments	489	(17)	(68)	(119)	(119)
Cashflow from financing	(182)	6,163	(50)	(1,218)	(1,218)
Net change in cash	10,598	(4,747)	5,897	5,173	1,924
CCE, end	27,142	22,396	28,293	33,466	35,390

Supplementary items

Risk-weighted assets (SGD mn)	106,889	133,578	133,103	133,888	133,784
Tier 1 capital (SGD mn)	16,362	18,014	19,580	21,139	23,075
Total capital (SGD mn)	21,206	22,337	25,446	27,005	28,941
Core Tier 1 CAR (%)	13.3%	11.9%	13.1%	14.2%	15.6%
Tier 1 CAR (%)	15.3%	13.5%	14.7%	15.8%	17.2%
Total CAR (%)	19.8%	16.7%	19.1%	20.2%	21.6%

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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