

# United Overseas Bank Limited

## Model Update

### SINGAPORE | BANKING | UPDATE

- Previous target price of S\$21.61 has been revised upwards to S\$23.46.
- Reason for price upgrade is because we reduced the FY18e credit cost estimate to 28bps from 32bps.
- Maintain PSR's 3Q17 PATMI estimate of S\$850mn.
- **Upgrade "NEUTRAL" with a higher target price of S\$23.46 (previous TP S\$21.61) based on Gordon Growth Model.**

#### Why the sudden change in target share price?

In our model, we had penciled in 32bps credit costs as guided by management. We had extended the 32bps into FY18 and that caused provision expense to be higher. However, owing to improving economy and signs bottoming out in the oil and gas sector, we believe that credit costs in FY18 will improve. Therefore, we estimate credit costs in FY18 will be c.28bps, ahead of management's current guidance of 32bps, which leads to better ROE and a higher target price.

#### UOB's ROE could remain a laggard compared to peers

Our FY18e ROE at 9.8% is lower than our estimates for DBS (ROE: 11.6%) and OCBC (ROE: 10.9%). The main reason for the higher ROEs for DBS and OCBC are the larger exposure of both banks to the less capital intensive wealth management business, in particular after DBS' acquisition for ANZ's wealth management business and OCBC's acquisition of NAB and Barclay's wealth management business. As positive market sentiments are expected to be strong in 2018, DBS and OCBC will benefit from a robust pick-up in wealth management products and solutions from that enlarged base of clients. DBS' and OCBC's [wealth management share of total income](#) have been rising in the past quarters to hit c.17% and c.33% respectively. UOB does not separately disclose their wealth management income in full detail therefore we are unable to compute the percentage contribution. As of 2Q17, UOB's wealth management AUM is S\$99bn, lower than DBS' S\$175bn. OCBC's private banking arm – Bank of Singapore's AUM alone is c\$90bn not to mention the AUM from other wealth segments. Other reason for our preference for DBS and OCBC is the better performance out of Hong Kong where we expect NIMs to improve as the 1-month HIBOR has started to move higher in the 2H17.



StocksBnB.com

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### Neutral (Upgrade)

LAST DONE PRICE	SGD 24.29
FORECAST DIV	SGD 0.80
TARGET PRICE	SGD 23.46
TOTAL RETURN	-0.1%

#### COMPANY DATA

BLOOMBERG TICKER	UOB SP
O/S SHARES (MN)	1663
MARKET CAP (USD mn / SGD mn)	29709 / 40390
52 - WK HI/LO (SGD)	24.6 / 17.98
3M Average Daily T/O (mn)	177

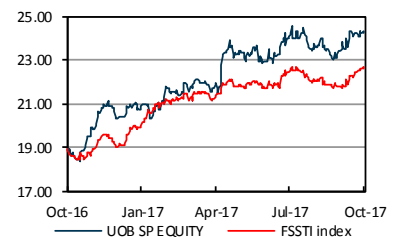
#### MAJOR SHAREHOLDERS (%)

Wee Investments	7.70%
Wah Hin & Co Pte Ltd	5.04%
Vanguard Group	2.32%
Blackrock	1.73%

#### PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	3.9	3.1	33.5
STIRETURN	4.06	2.42	22.30

#### PRICE VS. STI



Source: Bloomberg, PSR

#### KEY FINANCIALS

Y/E Dec	FY 15	FY 16	FY 17e	FY 18e
Total Op Inc (SGDmn)	8,048	8,060	8,628	8,887
Op Profit (SGDmn)	3,781	3,769	4,036	4,192
NPAT (SGDmn)	3,222	3,105	3,371	3,525
EPS (SGD)	194	183	196	2.03
PER,adj. (X)	12.4	13.0	12.6	13.0
P/BV, (X)	1.1	1.1	1.2	1.1
ROE (%)	11.9%	10.1%	10.1%	9.8%

Source: Bloomberg

#### Valuation Method:

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

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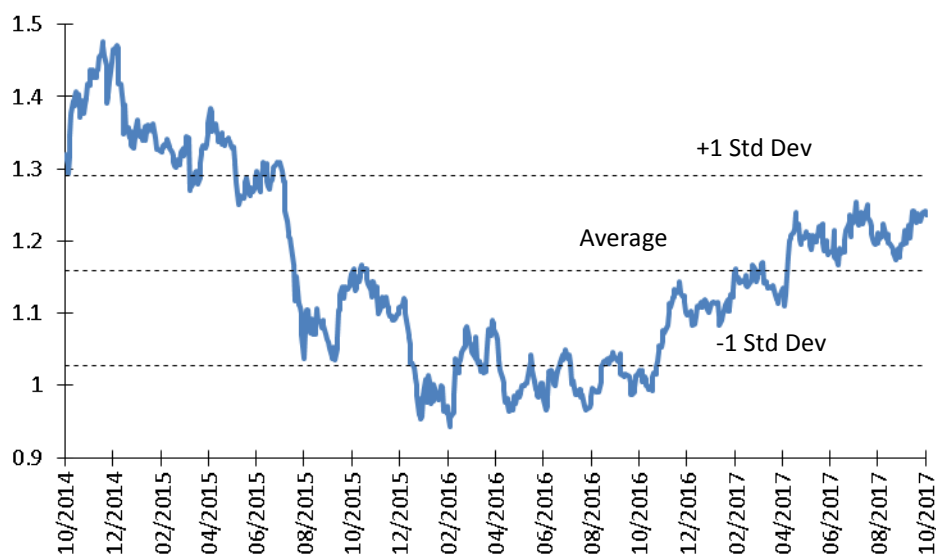
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**Valuation: Gordon Growth Model**

Item	Description	Value
R <sub>f</sub>	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	9.8%
g	Terminal growth rate	2.0%
$\frac{(ROE-g)}{(COE-g)}$	FY18e Target Price to Book	1.092
	FY18e BVPS, S\$	21.48
	FY18e Valuation, S\$	23.46

**3-Year Historical Price-to-Book**



**Investment Actions**

**Upgrade "NEUTRAL" with a higher target price of S\$23.46 (previously S\$21.61).** Our target price is based on Gordon Growth Model.

## Financials

### Income Statement (SGD mn)

Y/E Dec, SGD mn	FY14	FY15	FY16	FY17e	FY18e
Net Interest Income	4,558	4,925	4,991	5,384	5,687
Fees and Commission	1,749	1,884	1,931	2,128	2,173
Other Non interest income	1,150	1,239	1,138	1,116	1,027
<b>Total operating income</b>	<b>7,457</b>	<b>8,048</b>	<b>8,060</b>	<b>8,628</b>	<b>8,887</b>
Operating expenses	3,147	3,596	3,697	3,946	4,028
Provisions	635	671	594	646	667
<b>Operating profit</b>	<b>3,675</b>	<b>3,781</b>	<b>3,769</b>	<b>4,036</b>	<b>4,192</b>
Associates & JVs	149	90	5	90	90
<b>Profit Before Tax</b>	<b>3,824</b>	<b>3,871</b>	<b>3,774</b>	<b>4,126</b>	<b>4,282</b>
Taxation	560	649	669	755	757
<b>Profit After Tax</b>	<b>3,264</b>	<b>3,222</b>	<b>3,105</b>	<b>3,371</b>	<b>3,525</b>
Non-controlling Interest	15	12	12	13	14
<b>Net Income, reported</b>	<b>3,249</b>	<b>3,210</b>	<b>3,093</b>	<b>3,358</b>	<b>3,511</b>
<b>Net Income, adj.</b>	<b>3,249</b>	<b>3,210</b>	<b>3,093</b>	<b>3,358</b>	<b>3,511</b>

### Per share data (SGD)

Y/E Dec, SGD mn	FY14	FY15	FY16	FY17e	FY18e
EPS, reported	1.98	1.94	1.83	1.96	2.03
EPS, adj.	1.98	1.94	1.83	1.96	2.03
DPS	0.75	0.90	0.75	0.80	0.80
BVPS (less pref shares)	17.09	17.84	18.82	20.06	21.48

### Supplementary items

Y/E Dec, SGD mn	FY14	FY15	FY16	FY17e	FY18e
CET1 CAR (%)	13.9%	13.0%	13.0%	14.1%	14.4%
Tier 1 CAR (%)	13.9%	13.0%	13.1%	14.1%	14.4%
Total CAR (%)	16.9%	15.6%	16.2%	17.5%	17.6%

### Balance Sheet (SGD mn)

Y/E Dec, SGD mn	FY14	FY15	FY16	FY17e	FY18e
Cash bal with central banks	35,083	32,306	24,322	30,943	28,288
Due from banks	28,692	28,646	40,033	37,673	37,011
Investment securities	11,440	10,562	11,640	9,912	9,937
Loans to non-bank customers	195,903	203,611	221,734	228,370	240,254
Others	35,618	40,886	42,123	42,675	43,122
<b>Total Assets</b>	<b>306,736</b>	<b>316,011</b>	<b>339,852</b>	<b>349,573</b>	<b>358,612</b>
Due to banks	11,226	11,986	11,855	13,366	13,499
Due to non-bank customers	233,750	240,524	255,314	263,417	269,318
Debts issued	20,953	20,288	26,143	23,460	23,694
Others	11,035	12,289	13,674	14,084	14,507
<b>Total liabilities</b>	<b>276,964</b>	<b>285,087</b>	<b>306,986</b>	<b>314,327</b>	<b>321,019</b>
Shareholder's equity	29,572	30,771	32,876	35,064	37,397
Non-controlling interest	203	156	169	182	196
<b>Total Equity</b>	<b>29,775</b>	<b>30,927</b>	<b>33,045</b>	<b>35,246</b>	<b>37,593</b>

### Valuation Ratios

Y/E Dec, SGD mn	FY14	FY15	FY16	FY17e	FY18e
P/E (X), adj.	12.4	10.1	11.2	12.4	12.0
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 (%)

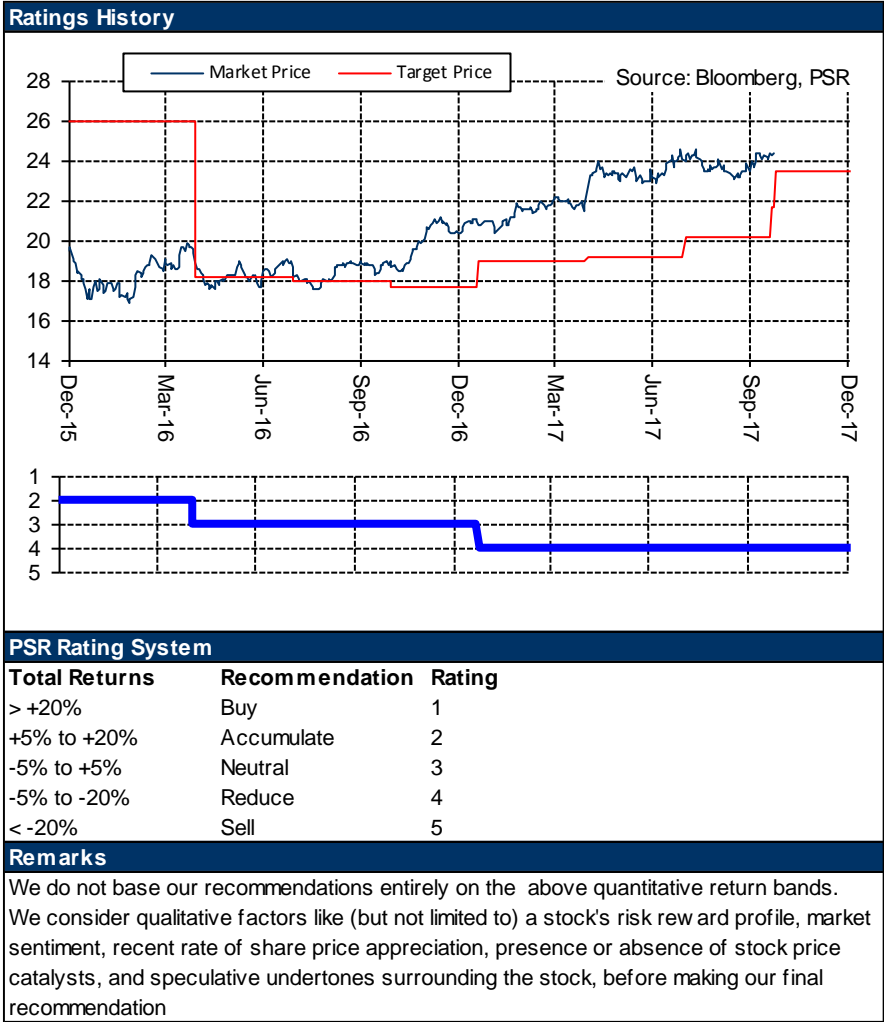
Growth					
Net interest income	10.7%	8.1%	1.3%	7.9%	5.6%
Non interest income	11.5%	7.7%	-1.7%	5.7%	-1.4%
Pre provision operating profit	11.0%	7.9%	0.1%	7.1%	3.0%
Operating income	8.4%	2.9%	-0.3%	7.1%	3.9%
Net income, reported	8.1%	-1.2%	-3.6%	8.6%	4.6%
Margins					
Net interest margin	1.71%	1.77%	1.71%	1.74%	1.79%

### Key Ratios (%)

ROE	13.0%	11.9%	10.1%	10.1%	9.8%
ROA	1.1%	1.0%	0.9%	1.0%	1.0%
RORWA	1.8%	1.6%	1.4%	1.5%	1.5%
Non-interest/total income ratio	38.9%	38.8%	38.1%	37.6%	36.0%
Cost/income ratio	42.2%	44.7%	45.9%	45.7%	45.3%
Loan/deposit ratio	83.8%	84.7%	86.8%	86.7%	89.2%
NPL ratio	1.18	1.39	1.47	1.45	1.44

Source: Company, Phillip Securities Research (Singapore) Estimates

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



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