

Singapore Company Focus

UOB

Bloomberg: UOB SP | Reuters: UOBH.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

30 Oct 2015

HOLD

Last Traded Price: S\$20.04 (STI : 3,001.51)

Price Target : S\$19.20 (4% downside)

Reason for Report : 3Q15 results

Potential Catalyst: Ability to overcome funding cost pressures; enhancing its regional operations

Where we differ: Slightly above consensus possibly due to loan growth forecasts being a tad higher

Analyst

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Result Summary

FY Dec (\$\$ m)	3Q 2015	3Q 2014	2Q 2015	% chg yoy	% chg qoq
P&L Items					
Net interest inc	1,235	1,156	1,212	6.8	1.9
Non-interest inc	851	816	713	4.3	19.4
Op. expenses	(904)	(800)	(876)	13.0	3.2
Pre-provision Pft	1,182	1,172	1,049	0.9	12.7
Provisions	(160)	(162)	(152)	(1.2)	5.3
Pre-tax profit	1,050	1,047	937	0.3	12.1
Net profit	858	868	761	(1.2)	12.7
Key ratio (%)					
NIM	1.77	1.71	1.77		
NPL ratio	1.3	1.2	1.2		
Loan-to deposit	81.6	85.8	82.3		
Cost-to-income	43.3	40.6	45.5		
Total CAR	16.4	17.0	16.8		

Financial Summary

FY Dec (\$\$ m)	2014A	2015F	2016F	2017F
Pre-prov. Profit	4,311	4,584	4,813	5,087
Net Pft (Pre Ex.)	3,139	3,212	3,367	3,613
EPS (S cts)	199.3	204.0	213.8	229.4
EPS Pre Ex. (S cts)	199.3	204.0	213.8	229.4
EPS Gth (%)	8	2	5	7
EPS Gth Pre Ex (%)	8	2	5	7
PE (X)	10.1	9.8	9.4	8.7
PE Pre Ex. (X)	10.1	9.8	9.4	8.7
Net DPS (S cts)	75.3	73.4	75.9	75.7
Div Yield (%)	3.8	3.7	3.8	3.8
ROAE Pre Ex. (%)	12.2	11.3	11.0	11.0
ROAE (%)	12.2	11.3	11.0	11.0
ROA (%)	1.1	1.1	1.1	1.1
P/Book Value (x)	1.2	1.1	1.0	0.9

At A Glance

Issued Capital (m shrs)	1,602
Mkt. Cap (S\$m/US\$m)	32,110 / 22,895
3m Avg. Daily Val (US\$m)	53.1

ICB Industry : Financials

ICB Sector: Banks

Principal Business: UOB provides a wide range of financial services through its global network of branches, offices, subsidiaries and associates: personal financial services, private banking, commercial and corporate banking, investment banking, corporate finance, capital market activities, treasury services, futures broking, asset management, venture capital management, insurance and stockbroking services.

Source: Company, DBS Bank, Bloomberg Finance L.P.

Lifted by trading gains

- **3Q/9M15 earnings were in line; NIM and loan growth was flat q-o-q; trading/investment income improved q-o-q while provisions remained high**
- **Special dividend of 20 Scts per share was declared to commemorate UOB's 80th anniversary**
- **Staying conservative; regional operations holding up**
- **Maintain HOLD; S\$19.20 TP**

Highlights

3Q15 earnings lifted by trading/investment income. The main item that lifted earnings for the quarter was trading and investment income. Other than that, all P/L items were in line. NIM was flat while loans hardly grew for the quarter.

As deposit growth outpaced loans, loan-to-deposit ratio eased a little. Expenses were higher as expected due to its branding campaign as part of the UOB80 and SG50 celebrations.

Provisions were slightly higher, which was also expected. While specific provisions were lower q-o-q (due to higher levels set aside in 2Q15 for some legacy NPLs), general provisions were higher, keeping credit costs largely flat at 8bps (annualised 32bps).

NPL ratio rose to 1.3% arising largely from the general commerce segment, which comprises mainly of Singapore-based trading-related companies. Note that UOB's exposure to commodities is less than 8% of total loans while the sub-segment, oil & gas is c.5% of total loans. Separately, capital ratios dipped a little as a result of higher risk weighted assets.

One-off dividend surprise. A one-off 20 Scts dividend per share was declared to commemorate the bank's 80th anniversary.

Outlook

Staying conservative. Loan growth is guided at 5% for FY15 excluding currency effects, but with the depreciation in the Malaysian Ringgit and Rupiah translated back to Singapore, loan growth by the year end would be lower than 5%. Management noted that the mortgage market is likely to slow down given fewer property launches. UOB will continue to focus on building up its US\$ funding base in the near term as S\$ deposit cost remains competitive. But as UOB has already

UOB

built up a solid US\$ funding base, over time, the bank will be more selective to retain quality US\$ deposits.

Credit cost should remain within the 30-35bps band. Costs will likely stay high as investments in technology is required particularly for digital banking and cyber security. Other investments to further enhance regional operations are still ongoing but the increase should not be high.

Dividend policy is unlikely to change but if there is excess capital, special dividends may be declared. Management remains cautious on the possible changes in the calculation of risk-weighted assets which may dent capital a little.

Regional operations holding up. Of its regional operations, general NPL trends have held up better than expected. Its Indonesian operations saw the peak of provisions and NPLs in 2Q15. While there were some more provisions set aside in 3Q15, NPLs have stabilised. Malaysian operations held up well and management remains comfortable with its asset quality position. UOB's Greater China exposure remains small but volume growth in Hong Kong is expected to moderate given that it had grown aggressively in the past, while margin pressure is possible given the liberalisation in deposit pricing there.

Valuation:

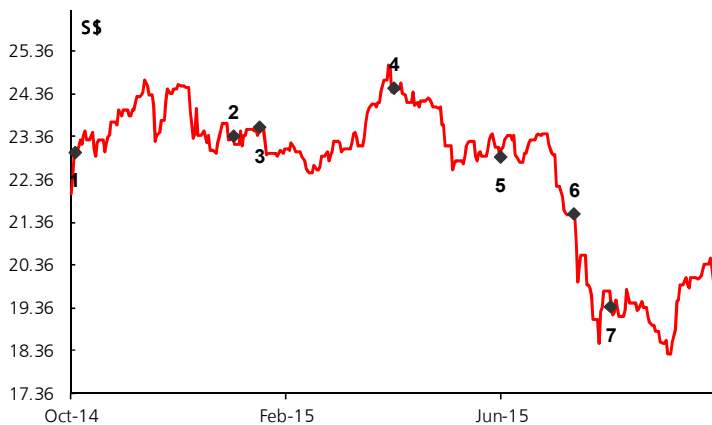
Our S\$19.20 TP is based on the Gordon Growth Model, implying 1.0x FY16F BV. While UOB's regional footprint in ASEAN is more complete vs peers, near-term headwinds, particularly in managing its funding cost, could hamper growth.

Key Risks:

High proportion of loans in mortgages. With mortgage approvals sliding after several property cooling measures, we believe UOB may face more downside risks on mortgage growth once previous approvals for drawdowns taper off.

Regional funding costs, a near-term challenge. UOB has been facing funding cost pressures in its regional operations, particularly in Indonesia and Malaysia. Near-term pressure on funding costs could curb NIM upside.

Target Price & Ratings History



Note: Share price and Target price are adjusted for corporate actions.

Source: DBS Bank

DBS Bank recommendations are based on Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return i.e. > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

Share price appreciation + dividends

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