

United Overseas Bank Limited

Analyst Briefing Key Takeaways

SINGAPORE | BANKING | NON-RATED NOTE

These are the key takeaways from UOB's 3Q2015 results briefing.

Analyst briefing key takeaways

- **Total income boosted by One-off gains and NIM expansion** – Net interests Income (NIM) for 3Q15 YoY growth +7% was due to expansion of NIMs by 6 basis points, contributed mainly by improved loan yields and as the loan portfolio re-priced on rising interbank and swap offer rates. 3Q15 QoQ total income growth +8.2% was attributed to one-off gains of approx. SGD100mil from sale of an AFS asset. Excluding the one-time gains, QoQ growth is +3% and YoY growth is +0.7%.
- **Asset Quality** – Management continues prudent assessment of asset quality and makes judgement on loan quality even before qualitative changes occur. Management pays attention to activities within the subsidiaries of their corporate customers to have a better sense of the situation. As such, management has assured us that they are well provisioned for any deterioration of quality in their loans. Indonesian Non-performing Loan (NPL) grew 11% QoQ owing to a couple of customers in the business of supporting the Oil & Gas industry. Singapore NPL grew 12% QoQ owing to trading companies in Singapore with business exposure to Africa and Myanmar and mid-sized building and construction companies in Singapore. Rise in NPLs in the segment of Professional and Private individuals are related to term loans by offshore privilege banking clients. NPLs are not expected to rise in the same pace as previous 2 quarters where bulk of the provisions were made.
- **Outlook** – In the near term, loans growth is challenging but the management is still confident of a 5% loans growth in Singapore on a longer term. Internal credit approvals are rising and we can anticipate results in 2 to 3 quarters later. Malaysian loans are expected to grow at a pace of 4% to 5% on a longer term though the near term is challenged by uncertainty. Within the Greater China segment, UOB continues to maintain a smaller presence and continues to see weakening margins and volumes. Owing to the liberalization of LDR in China, competition is building up and NIMs are expected to compress.
- **Strategies** – Management will continue to focus on outperforming with NIM while maintaining high asset quality. To do so, the management has emphasized the need to grow the USD deposits and loans because the USD cost of funding is expected to remain low thus propitious to generate higher NIMs. For regional offshore loans, UOB will selectively engage customers determined by credit quality and can also take up USD denominated loans. Accretion of USD deposits continue to be challenging because majority of the USD funding is from wholesale. Management will also be engaging corporates to place USD fixed deposits on a longer term of 3 months.

Investment Actions

No stock rating or price target provided, as we do not have coverage on UOB. However, we felt the stock will be facing near-term headwind. Consensus valuation at 11x to 12x FY16 PER and 1.1x to 1.2x PBR which is in line with industry average.

02 November 2015

Non-rated

LAST TRADED PRICE	SGD 20.430
FORECAST DIV	N/A
TARGET PRICE	N/A
TOTAL RETURN	N/A

COMPANY DATA

O/S SHARES (MN) :	1602
MARKET CAP (USD mn / SGD mn) :	23266 / 32575
52 - WK HI/LO (SGD) :	25 / 18.2
3M Average Daily T/O (mn) :	3.80

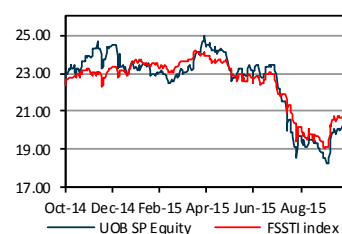
MAJOR SHAREHOLDERS (%)

Wee Investments	7.76%
Wah Hin & Co Pte Ltd	5.07%
Vanguard Group	1.34%
Blackrock	1.33%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	8.0	(11.1)	N/A
STI RETURN	7.85	(7.35)	(3.75)

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

SGD MN	FY 12	FY 13	FY 14	FY 15
Revenue	6,475	6,713	7,436	7,797
EBITDA	3,332	3,577	3,803	3,825
NPAT (adj.)	2,700	2,905	3,147	3,153
EPS (SGD)	1.71	1.84	1.97	1.95
PER, x (adj.)	11.52	11.54	12.39	10.4
ROCE, %	12.3%	12.3%	12.2%	12.9%

Source: Bloomberg

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Figure 1: Revenue Breakdown by Business Segments

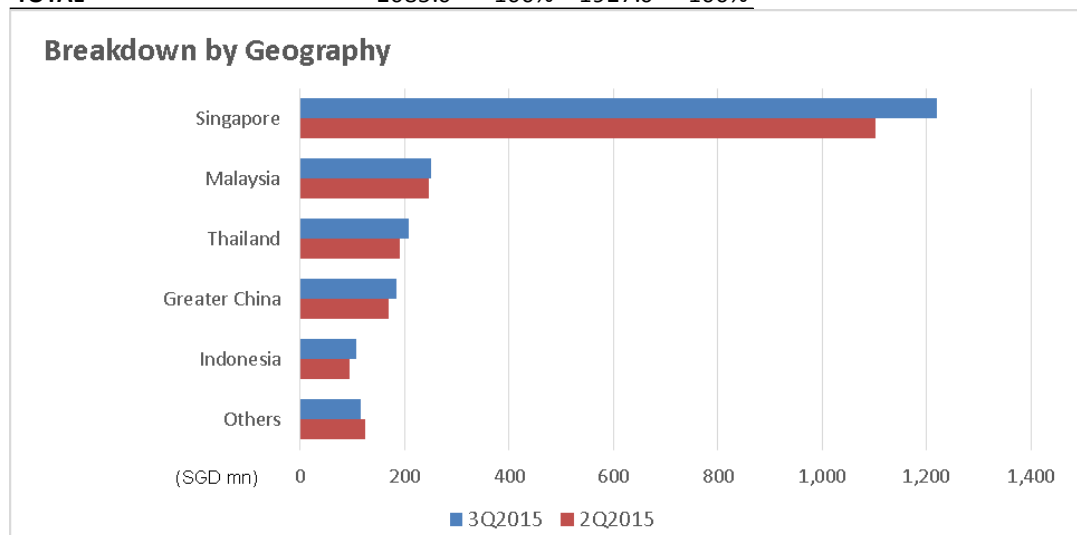
Business Segments	3Q2015	2Q2015	q-q (%)	Comments
Revenue				
Corporate Banking	862.0	832.0	3.6%	
Retail Banking	855.0	836.0	2.3%	
Global Treasury	243.0	141.0	72.3%	
Others	166.0	167.0	-0.6%	
Pretax Income				
Corporate Banking	650.0	533.0	22.0%	
Retail Banking	374.0	323.0	15.8%	
Global Treasury	130.0	36.0	261.1%	
Others	-105.0	46.0	-328.3%	
Net profit margin				
Corporate Banking	75.4%	64.1%		
Retail Banking	43.7%	38.6%		
Global Treasury	53.5%	25.5%		
Others	-63.3%	27.5%		

Bres

Source: Bloomberg, Phillip Securities Research (Singapore)

Figure 2: Revenue Breakdown by Geography

Geography	3Q2015	%	2Q2015	%	q-q (%)	Comments
Singapore	1219.0	58.5%	1102.0	57.2%	10.6%	
Malaysia	251.0	12.0%	246.0	12.8%	2.0%	
Thailand	208.0	10.0%	191.0	9.9%	8.9%	
Greater China	184.0	8.8%	170.0	8.8%	8.2%	
Indonesia	108.0	5.2%	94.0	4.9%	14.9%	
Others	115.0	5.5%	124.0	6.4%	-7.3%	
TOTAL	2085.0	100%	1927.0	100%		



Source: Bloomberg, Phillip Securities Research (Singapore)

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