

MITA No. 010/06/2008

2 March 2009

United Overseas Bank

Maintain

HOLD

Previous Rating: HOLD

S\$9.99

Fair Value: S\$9.30

Stock Code:

Reuters: UOBH.SI

ISIN Code: U11

Bloomberg: UOB SP

Event:

Results

General Data

Issued Capital (m)	1,524
Mkt Cap (S\$m/US\$m)	15,224/ 9,841
Major Shareholder	WCY (17%)
Free Float (%)	30
NAV per share (S\$)	8.90
Daily Vol 3-mth ('000)	5,000
52Wk High (S\$)	21.700
52Wk Low (S\$)	9.980

Protracted slowdown, cut in earnings

4Q below market expectation. UOB posted 4Q net earnings of S\$332m (down 30% QoQ and down 34% YoY) which were below market estimate of S\$428m (from Bloomberg) and our estimate of S\$405m. FY08 earnings came in at S\$1937m, down 8%, and also below market estimate of S\$2033m. For FY08, UOB topped the three banks with net earnings of S\$1937m, followed by DBS at S\$1929m and OCBC at S\$1749m. In terms of Net Interest Margin (NIM), UOB saw an improvement from 1.94% in 4Q07 to 2.21% in 3Q08 to 2.45% in 4Q08. Net interest income grew 29% YoY and 7% QoQ to S\$957m in 4Q08. Non-interest income fell 26% YoY, or +22% QoQ, to S\$391m. Total income amounted to S\$1348m in 4Q08.

Variance was due to impairment charges. The variance between our projection and the actual earnings was largely due to higher-than-expected impairment charges, which rocketed to S\$381m, more than doubled 3Q08's level of S\$158m, and also the highest of the three banks with DBS at S\$316m and OCBC at S\$243m. Management said this was due to a few chunky accounts, mainly in general commerce, financial institutions and manufacturing. Management has declared a final dividend of 40 S cents, bringing full year dividend to 60 S cents.

Back to basic. Management reaffirmed its market leadership in SME financing, especially in view of the recent Singapore's government moves to help SMEs under the risk-sharing schemes. Customer loans accounted for 55% of assets, of which 44% are corporates, 36% consumers and the balance is to SMEs. It mentioned that it has minimal exposure to small developers and that the average loan-to-value (LTV) is less than 60%. Investment portfolio accounted for another 14% of assets and is mainly in government securities and investment grade bonds. It is focusing on back to "basics" banking.

Tough conditions, cutting estimates. In view of the protracted and still uncertain economic outlook, we have cut our FY09 earnings forecast to a 13% YoY decline to S\$1683m, taking into account lower capital market activities, lower fee income as well as still-high impairment charges. In terms of valuation, we have looked at several estimators (1x book, 9x earnings, >6% yield and DDM) to derive at an average price of S\$9.30. We maintain our **HOLD** rating of this stock and will look to be buyers at S\$9.30 or lower.

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Year to 31-Dec	Net Interest Income (S\$m)	Non-interest Income (S\$m)	Net Profit (S\$m)	EPS (cents)	EPS Growth (%)	PER (x)	Net Div Yield (%)	Net DPS (cents)
FY 07	2,980.4	1,891.9	2,109.2	138.4	-17.9	7.2	7.4	73.7
FY 08	3,575.0	1,675.0	1,937.0	127.1	-8.2	7.9	6.0	60.0
FY 09F	3,219.2	1,003.0	1,683.0	110.4	-13.1	9.0	6.0	60.0
FY 10F	3,309.4	1,103.5	1,937.2	127.1	15.1	7.9	6.0	60.0

Please refer to the important disclosures at the back of this document.

UOB's Key Financial Data

UOB Results Year Ended 31 Dec (S\$ m)	4Q07 (S\$m)	4Q08 (S\$m)	% Chg (YoY)	% Chg (QoQ)	FY07 (S\$m)	FY08 (S\$m)	% Chg (YoY)
Interest income	1,794	1,662	-7.4%	-3.8%	7,371	6,855	-7.0%
Less: interest expense	1,051	705	-32.9%	-15.5%	4,391	3,280	-25.3%
Net Interest Income	743	957	28.8%	7.2%	2,980	3,575	20.0%
Non-interest Income	532	391	-26.5%	22.3%	1,892	1,675	-11.5%
- Dividend	6	9	50.9%	-22.7%	54	64	20.3%
- Fee & Com Income	370	229	-38.2%	-16.5%	1,278	1,095	-14.3%
- Rental Income	22	31	38.4%	5.1%	77	112	45.7%
- Other Op Income	133	122	-8.4%	nm	484	404	-16.5%
Total Income	1,275	1,348	5.7%	11.2%	4,872	5,250	7.8%
- Staff Cost	-279	-274	-1.7%	4.6%	-1,046	-1,082	3.4%
- Other Operating Expenses	-276	-257	-7.1%	6.5%	-972	-968	-0.4%
Operating Expenses	-555	-532	-4.4%	5.5%	-2,018	-2,050	1.6%
Operating Profit	720	817	13.5%	15.2%	2,854	3,200	12.1%
Less: Impairment charges	-128	-381	197.9%	141.5%	-300	-807	169.0%
Associates	48	14	-70.6%	-56.6%	207	103	-50.2%
Pre-tax Profit	637	448	-29.8%	-22.9%	2,750	2,485	-9.6%
Net Profit	506	332	-34.4%	-30.1%	2,109	1,937	-8.2%

Exhibit 1: Comparison of the Banks' 4Q08 Results

In S\$m	OCBC 4Q08	OCBC 4Q07	YoY	DBS 4Q08	DBS 4Q07	YoY	UOB 4Q08	UOB 4Q07	YoY
Stockbroking / Futures	16	30	-47%	32	67	-52%	9	8	13%
Investment related	3	7	-57%	16	36	-56%	21	67	-69%
Trade & remittances	30	31	-3%	56	56	0%	46	48	-4%
Loan-related	38	33	15%	50	53	-6%	45	56	-20%
Deposit-related / Services	15	10	50%	21	17	24%	22	22	0%
Credit card	12	16	-25%	36	35	3%	48	50	-4%
Fund management	16	20	-20%	5	11	-55%	26	108	-76%
Wealth management	17	46	-63%	17	70	-76%			
Others	12	9	33%	30	34	-12%	11	10	10%
Fee & Commission	159	202	-21%	263	379	-31%	228	369	-38%
Fee & commission	159	202	-21%	263	379	-31%	229	370	-38%
Dividend	8	9	-11%				9	6	50%
Rental income	19	14	36%				31	22	41%
Other income	-72	42	-271%	18	12	50%	122	133	-8%
Insurance	145	197	-26%						
- Net trading income				144	-25	-676%			
- Net inc fr fin instru designated at FV				-169	4	-4325%			
- Net income fr fin investment				104	104	0%			
Non-interest Income (NII)	259	464	-44%	360	474	-24%	391	531	-26%
Int Income	1,344	1,378	-2%	2,016	2,351	-14%	1,662	1,794	-7%
Int Expense	561	765	-27%	901	1,292	-30%	705	1,051	-33%
Net Interest Income (II)	783	613	28%	1,115	1,059	5%	957	743	29%
Non-interest Income (NII)	259	464	-44%	360	474	-24%	391	531	-26%
Total Income	1,042	1,077	-3%	1,475	1,533	-4%	1,348	1,274	6%
Total operating expenses	463	484	-4%	734	648	13%	532	556	-4%
Operating profits	579	593	-2%	741	885	-16%	816	718	14%
Intangible assets amortised	-12	-12	0%				-2	-2	0%
Allowances for credit & other losses	-243	-13	>200%	-316	-249	27%	-381	-128	198%
Pretax profits	321	567	-43%	435	668	-35%	448	637	-30%
Net profits	301	428	-30%	295	491	-40%	332	506	-34%
Net interest margin (%)	2.47%	2.14%		2.04%	2.11%		2.45%	1.94%	
NII / Total income (Adj)	24.9%	43.1%		24.4%	30.9%		29.0%	41.7%	
Cost to income (%) (Adj)	44.5%	45.0%		46.8%	42.3%		39.5%	43.6%	

Exhibit 2: Comparison of the Banks' FY08 Results

In S\$m	OCBC	OCBC	YoY	DBS	DBS	YoY	UOB	UOB	YoY
	FY08	FY07		FY08	FY07		FY08	FY07	
Total Assets	181,385	174,607	4%	256,718	232,963	10%	182,941	174,950	5%
Loans	79,808	71,316	12%	126,481	108,433	17%	99,840	92,669	8%
Deposits	94,078	88,788	6%	169,858	152,944	11%	118,171	106,967	10%
Loans to Deposits	84.83%	80.32%	6%	74.46%	70.90%	5%	84.49%	86.63%	-2%
Shh equity	15,874	15,678	1%	19,819	20,481	-3%	15,573	17,329	-10%
Stockbroking / Futures	74	136	-46%	152	250	-39%	35	34	3%
Investment related	51	41	24%	90	171	-47%	117	209	-44%
Trade & remittances	129	115	12%	225	206	9%	201	187	7%
Loan-related	153	124	23%	299	232	29%	256	202	27%
Deposit-related / Services	50	44	14%	81	78	4%	82	81	1%
Credit card	55	56	-2%	143	132	8%	185	172	8%
Fund management	79	86	-8%	32	43	-26%	164	358	-54%
Wealth management	132	163	-19%	137	249	-45%			
Others	51	43	19%	115	101	14%	55	34	62%
Fee & Commission	774	808	-4%	1,274	1,462	-13%	1,095	1,277	-14%
Fee & commission	774	808	-4%	1,274	1,462	-13%	1,095	1,278	-14%
Dividend	72	56	29%				64	54	19%
Rental income	68	62	10%				112	77	45%
Other income	321	537	-40%	88	49	80%	404	484	-17%
Insurance	409	574	-29%						
- Net trading income				-187	180	-204%			
- Net inc fr fin instru designated at FV				210	-86	-344%			
- Net income fr fin investment				367	450	-18%			
Non-interest Income (NII)	1,644	2,037	-19%	1,752	2,055	-15%	1,675	1,893	-12%
Int Income	5,267	5,265	0%	8,122	9,090	-11%	6,855	7,371	-7%
Int Expense	2,484	3,021	-18%	3,821	4,982	-23%	3,280	4,390	-25%
Net Interest Income (II)	2,783	2,244	24%	4,301	4,108	5%	3,575	2,981	20%
Non-interest Income (NII)	1,644	2,037	-19%	1,752	2,055	-15%	1,675	1,893	-12%
Total Income	4,427	4,281	3%	6,053	6,163	-2%	5,250	4,874	8%
Total operating expenses	1,854	1,680	10%	2,655	2,618	1%	2,050	2,018	2%
Operating profit	2,573	2,601	-1%	3,398	3,545	-4%	3,200	2,856	12%
Intangible assets amortised	-47	-47	0%				-11	-11	0%
Allowances for credit & other losses	-447	-36	1142%	-888	-617	44%	-807	-300	169%
Pretax profits	2,085	2,539	-18%	2,585	3,038	-15%	2,485	2,750	-10%
Net profits	1,749	2,071	-16%	1,929	2,278	-15%	1,937	2,109	-8%
Net interest margin (%)	2.27%	2.10%		2.04%	2.17%		2.27%	2.04%	
NII / Total income	37.1%	47.6%		28.9%	33.3%		31.9%	38.8%	
Cost to income (%), Adj	43.7%	40.1%		43.3%	42.5%		39.0%	41.4%	

Exhibit 2: Comparison of the Banks' FY08 Results(continued)

In S\$m	OCBC FY08	OCBC FY07	YoY	DBS FY08	DBS FY07	YoY	UOB FY08	UOB FY07	YoY
EPS (\$), basic	0.46	0.60		1.14	1.39		1.25	1.36	
EPS (\$), diluted	0.46	0.59		1.10	1.34				
NAV (\$)	4.51	4.79		10.25	10.55		8.90	10.91	
NAV (\$) - aft valn surplus	5.18	6.46		10.14	10.44		10.89	13.07	
DPS (cents)	28.00	28.00		65.00	68.00		60.00	73.70	
ROE (%)	10.30	13.70		10.12	12.66		12.20	12.60	
ROA (%)	1.08	1.55		0.84	1.15		1.07	1.24	
Total NPLs (In S\$m)	1,348	1,354		1,958	1,168		2,305	1,715	
NPL ratio (%)	1.50%	1.70%		1.50%	1.10%		2.00%	1.80%	
Tier 1 Capital	14.9%	11.5%		10.1%	8.9%		10.9%	10.0%	
Total CAR	15.1%	12.4%		14.0%	13.4%		15.3%	14.5%	
Tier 1 Capital	14,261	11,431		18,373	16,359		12,456	12,461	
Risk Weighted Assets	95,522	97,488		182,685	184,601		114,712	124,772	
Singapore Assets	65.1%	67.5%		67.8%	65.7%		65.6%	63.6%	
Singapore PBT	66.0%	65.0%		66.5%	66.8%		76.4%	71.1%	
Loans by Industry									
Manufacturing	8%	9%		12%	13%		10%	10%	
Building & construction	21%	19%		14%	12%		12%	12%	
Housing loans	24%	26%		23%	24%		24%	24%	
General commerce	9%	10%		10%	9%		13%	14%	
Tpt, storage & communications	7%	5%		10%	10%		6%	6%	
Fin institutions, invt & hldgs cos	14%	15%		11%	13%		16%	17%	
Prof & private individuals	9%	10%		8%	9%		13%	12%	
Others	8%	7%		11%	10%		7%	6%	
Total	100%	100%		100%	100%		100%	100%	

EARNINGS FORECAST

Year Ended 31 Dec (S\$ m)

	FY07	FY08	FY09F	FY10F
Interest income	7,371.0	6,855.0	6,377.4	6,505.0
Interest expense	4,390.6	3,280.0	3,158.2	3,195.5
Net interest income	2,980.4	3,575.0	3,219.2	3,309.4
Non-interest income	1,891.9	1,675.0	1,003.0	1,103.5
- Dividend	53.7	64.0	51.0	53.1
- Fee & com income	1,277.6	1,095.0	681.0	755.9
- Rental income	76.6	112.0	111.0	116.6
- Other operating income	484.0	404.0	160.0	177.9
Total operating income	4,872.3	5,250.0	4,222.2	4,412.9
- Staff costs	-1,046.0	-1,082.0	-1,030.8	-1,057.3
- Other operating expenses	-972.0	-968.0	-638.7	-692.8
- Intangible assets amortised/impaired	-11.0	-11.0	-12.0	-12.0
Operating profit	2,843.3	3,189.0	2,540.7	2,650.9
Other impairment charges	-300.0	-807.0	-478.0	-343.0
Associates	206.8	103.0	83.0	93.0
Pre-tax profit	2,750.1	2,485.0	2,145.7	2,400.8
Taxation	-573.5	-521.0	-435.3	-432.1
Minorities	-67.5	-27.0	-27.4	-31.5
Net profits	2,109.2	1,937.0	1,683.0	1,937.2
EPS (cents)	138.4	127.1	110.4	127.1
Net DPS (cts)	73.7	60.0	60.0	60.0
Key Ratios				
Net interest income growth (%)	10.0%	20.0%	-10.0%	2.8%
Non-interest income growth (%)	-11.1%	-11.5%	-40.1%	10.0%
Operating profit growth(%)	-7.9%	12.2%	-20.3%	4.3%
Pre-tax growth (%)	-13.5%	-9.6%	-13.7%	11.9%
Net profit growth (%)	-17.9%	-8.2%	-13.1%	15.1%
Cost-to-income ratio (%)	41.4%	39.0%	39.5%	39.7%

BALANCE SHEET				
As at 31 Dec (S\$ m)	FY07	FY08	FY09F	FY10F
Share capital	2,846	4,045	4,045	4,045
Revenue reserve	5,119	5,724	5,724	5,724
Other reserve	9,364	5,804	6,573	7,596
Capital & Reserve	17,329	15,573	16,342	17,365
Minority interests	398	146	360	382
Total	17,727	15,719	16,701	17,747
Deposits of non-bank clients	106,967	118,171	124,080	130,284
Deposits and balances of banks and agents	32,091	28,452	29,590	30,774
Other liabilities	18,166	20,599	21,739	22,135
Total liabilities	157,224	167,222	175,409	183,192
	174,951	182,941	192,110	200,939
Cash & bal with central banks	17,667	20,290	21,812	23,448
Singapore government treasury and securities	9,134	8,969	9,211	9,460
Other treasury bills and securities	3,482	2,341	2,367	2,393
Placements and balances with other financial institutions	15,207	15,196	16,880	17,299
Advances to customers	92,669	99,840	102,935	108,288
Others	36,793	36,305	38,905	40,052
Total Assets	174,950	182,941	192,110	200,939
CASH FLOW				
Year Ended 31 Dec (S\$ m)	FY07	FY08	FY09F	FY10F
Operating profit bef charges	2,854	3,200	2,553	2,663
Depreciation	141	134	134	134
Others	-216	-163	-105	-103
Changes in working capital	4,667	-1,589	1,593	575
Cash from operations	7,447	1,582	4,174	3,269
Net cash used in investing activities	-1,996	411	-725	-1,093
Cash flow from financing activities	-1,442	-275	-984	-914
Change in cash/(debt)	3,992	1,317	2,403	1,262
End cash/(debt)	30,284	31,600	34,003	35,265

Source: Company data, OIR estimates

SHAREHOLDING DECLARATION:

The analyst/analysts who wrote this report holds NIL shares in the above security.

RATINGS OCBC Investment Research's (OIR) technical comments and recommendations are short-term and trading oriented.

- However, OIR's fundamental views and ratings (Buy, Hold, Sell) are medium-term calls within a 12-month investment horizon. OIR's Buy = More than 10% upside from the current price; Hold = Trade within +/- 10% from the current price; Sell = More than 10% downside from the current price.

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