

MITA No. 010/06/2008

22 April 2009

# United Overseas Bank

Downgrade to

## SELL

Previous Rating: HOLD

### \$S\$11.18

### Fair Value: \$S\$9.30

Stock Code:

Reuters: UOBH.SI

ISIN Code U11

Bloomberg: UOB SP

Event:

Update

#### General Data

Issued Capital (m)	1,524
Mkt Cap (\$m/US\$m)	17,038/ 11,312
Major Shareholder	WCY (17%)
Free Float (%)	30
NAV per share (\$)	8.90
Daily Vol 3-mth ('000)	7,858
52Wk High (\$)	21.700
52Wk Low (\$)	8.070

**UOB rallied 40% from 2009 trough.** Since our last report on 2 March 2009 where we recommended accumulating at less than \$9.30, UOB hit a 2009 low of \$8.07, but rallied 40% recently to a high of \$11.32. While the worst appears to be over for the equity market, the same cannot be said about the local economy. Recently, Singapore's 2009 growth was revised down to a range of -6% to -9%. Over in the US, while equity prices rallied in recent weeks, the economic numbers continued to show weakness, and high unemployment rate remains a concern. Valuations for the STI are also starting to look a bit stretched, especially in view of expected dismal 1Q and 2Q earnings. Recently, there was also a spate of smaller-cap companies in Singapore issuing profit warnings and all these point to still bearish operating environment. Against this backdrop, we expect provisions for banks to be a key item to watch out for in the upcoming results of the three banks. UOB and OCBC will be releasing 1Q results on 6 May 2009, while DBS will be issuing its 1Q report card on 8 May.

**High impairment charges.** In 4Q08, UOB posted higher than expected impairment charges of \$381m, more than doubled 3Q08's level of \$158m, and the highest of the three banks. For 1Q09, we expect impairment charges to remain high for the three banks, and project charges of \$280m for UOB, +215% YoY and -26% QoQ. Overall, we are expecting 1Q net earnings of \$316m, down 40% YoY and 5% QoQ.

**Maintain fair value of \$9.30, but cutting to SELL.** We continue to like UOB for its healthy asset quality and its continual profitability. However, with the global economic recession and the resultant weakness in the Singapore economy, trading activities will decline sharply and hurt earnings for the banks. This will be seen in higher NPLs and high impairment charges. This will also mean that for the medium term, share price appreciation may be capped until a more convincing return to sustained profitability and a bottoming-out is seen for new NPLs. We are maintaining our earnings estimates and retaining our fair value estimate of \$9.30, but downgrading to **SELL** purely on valuation as we see limited near term price upside and possible near term weakness at the current level.

**Carmen Lee**

(65) 6531 9802

e-mail: carmen@ocbc-research.com

Year to 31-Dec	Net Interest Income (\$m)	Non-interest Income (\$m)	Net Profit (\$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	8.1	6.6	73.7
FY 08	3,575.0	1,675.0	1,937.0	127.1	-8.2	8.8	5.4	60.0
FY 09F	3,219.2	1,169.0	1,654.6	108.6	-14.6	10.3	5.4	60.0
FY 10F	3,309.4	1,290.0	2,035.5	133.6	23.0	8.4	5.4	60.0

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

**UOB's Key Financial Data**

<b>UOB Results</b> Year Ended 31 Dec (S\$ m)	<b>4Q07</b> (S\$m)	<b>3Q08</b> (S\$m)	<b>4Q08</b> (S\$m)	<b>% Chg</b> (YoY)	<b>% Chg</b> (QoQ)
Interest income	1,794	1,727	1,661	-7.4%	-3.8%
Less: interest expense	1,051	834	705	-32.9%	-15.5%
<b>Net Interest Income</b>	<b>743</b>	<b>893</b>	<b>956</b>	28.6%	7.1%
<b>Non-interest Income</b>	<b>531</b>	<b>320</b>	<b>390</b>	-26.6%	21.9%
- Dividend	6	12	8	27.0%	-33.3%
- Fee & Com Income	369	274	229	-38.0%	-16.4%
- Rental Income	23	29	32	41.6%	10.3%
- Other Op Income	133	5	121	-9.0%	>200%
<b>Total Income</b>	<b>1,275</b>	<b>1,213</b>	<b>1,346</b>	5.6%	11.0%
- Staff Cost	-279	-262	-274	-1.6%	4.7%
- Other Operating Expenses	-276	-242	-256	-7.1%	6.0%
Operating Expenses	-555	-504	-531	-4.4%	5.3%
<b>Operating Profit</b>	<b>720</b>	<b>709</b>	<b>815</b>	13.3%	15.0%
Less: Impairment charges	-128	-158	-380	196.9%	140.5%
Associates	48	32	15	-68.6%	-53.1%
<b>Pre-tax Profit</b>	<b>637</b>	<b>580</b>	<b>448</b>	-29.7%	-22.7%
<b>Net Profit</b>	<b>506</b>	<b>474</b>	<b>333</b>	-34.2%	-29.7%

**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
<b>Net interest income</b>	<b>2,980.4</b>	<b>3,575.0</b>	<b>3,219.2</b>	<b>3,309.4</b>
<b>Non-interest income</b>	<b>1,891.9</b>	<b>1,675.0</b>	<b>1,169.0</b>	<b>1,290.0</b>
- Dividend	53.7	64.0	31.0	32.3
- Fee & com income	1,277.6	1,095.0	881.0	977.9
- Rental income	76.6	112.0	97.0	101.9
- Other operating income	484.0	404.0	160.0	177.9
<b>Total operating income</b>	<b>4,872.3</b>	<b>5,250.0</b>	<b>4,388.2</b>	<b>4,599.4</b>
- Staff costs	-1,046.0	-1,082.0	-1,030.8	-1,057.3
- Other operating expenses	-972.0	-968.0	-704.3	-776.3
- Intangible assets amortised/impaired	-11.0	-11.0	-12.0	-12.0
<b>Operating profit</b>	<b>2,843.3</b>	<b>3,189.0</b>	<b>2,641.1</b>	<b>2,753.8</b>
Other impairment charges	-300.0	-807.0	-678.0	-343.0
Associates	206.8	103.0	83.0	93.0
<b>Pre-tax profit</b>	<b>2,750.1</b>	<b>2,485.0</b>	<b>2,046.1</b>	<b>2,503.8</b>
Taxation	-573.5	-521.0	-364.6	-435.2
Minorities	-67.5	-27.0	-26.9	-33.1
<b>Net profits</b>	<b>2,109.2</b>	<b>1,937.0</b>	<b>1,654.6</b>	<b>2,035.5</b>
EPS (cents)	138.4	127.1	108.6	133.6
Net DPS (cts)	73.7	60.0	60.0	60.0
Net asset backing (\$)	13.1	8.9	9.5	10.3
<b>Key Ratios</b>				
Net interest income growth (%)	10.0%	20.0%	-10.0%	2.8%
Non-interest income growth (%)	-11.1%	-11.5%	-30.2%	10.3%
Operating profit growth(%)	-7.9%	12.2%	-17.2%	4.3%
Pre-tax growth (%)	-13.5%	-9.6%	-17.7%	22.4%
Net profit growth (%)	-17.9%	-8.2%	-14.6%	23.0%
Cost-to-income ratio (%)	41.4%	39.0%	39.5%	39.9%

**BALANCE SHEET**

**As at 31 Dec (S\$ m)**

	<b>FY07</b>	<b>FY08</b>	<b>FY09F</b>	<b>FY10F</b>
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	6,544	7,665
<b>Capital &amp; Reserve</b>	<b>17,329</b>	<b>15,573</b>	<b>16,313</b>	<b>17,434</b>
Minority interests	398	146	359	384
<b>Total</b>	<b>17,727</b>	<b>15,719</b>	<b>16,672</b>	<b>17,818</b>
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
<b>Total liabilities</b>	<b>157,224</b>	<b>167,222</b>	<b>175,409</b>	<b>183,192</b>
	<b>174,951</b>	<b>182,941</b>	<b>192,081</b>	<b>201,010</b>
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	16,851	17,370
Advances to customers	92,669	99,840	102,935	108,288
Others	36,793	36,305	38,905	40,052
<b>Total Assets</b>	<b>174,951</b>	<b>182,941</b>	<b>192,081</b>	<b>201,010</b>

**CASH FLOW**

**Year Ended 31 Dec (S\$ m)**

	<b>FY07</b>	<b>FY08</b>	<b>FY09F</b>	<b>FY10F</b>
Operating profit bef charges	2,854	3,200	2,653	2,766
Depreciation	141	134	134	134
Others	-216	-163	-105	-103
Changes in working capital	4,667	-1,589	1,692	472
<b>Cash from operations</b>	<b>7,447</b>	<b>1,582</b>	<b>4,374</b>	<b>3,269</b>
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	2,603	1,261
End cash/(debt)	30,284	31,600	34,203	35,465

*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.

- For companies with less than S\$150m market capitalization, OIR's Buy = More than 30% upside from the current price; Hold = Trade within +/- 30% from the current price; Sell = More than 30% downside from the current price. AND RECOMMENDATIONS:

**DISCLAIMER FOR RESEARCH REPORT**

This report is solely for information and general circulation only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our written consent. This report should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities mentioned herein. Whilst we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee its accuracy or completeness, and you should not act on it without first independently verifying its contents. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. You may wish to seek advice from a financial adviser regarding the suitability of the securities mentioned herein, taking into consideration your investment objectives, financial situation or particular needs, before making a commitment to invest in the securities. OCBC Investment Research Pte Ltd, OCBC Securities Pte Ltd and their respective connected and associated corporations together with their respective directors and officers may have or take positions in the securities mentioned in this report and may also perform or seek to perform broking and other investment or securities related services for the corporations whose securities are mentioned in this report as well as other parties generally.

Privileged/Confidential information may be contained in this message. If you are not the addressee indicated in this message (or responsible for delivery of this message to such person), you may not copy or deliver this message to anyone. Opinions, conclusions and other information in this message that do not relate to the official business of my company shall not be understood as neither given nor endorsed by it.

Co.Reg.no.: 198301152E

For OCBC Investment Research Pte Ltd



Carmen Lee  
Head of Research

Published by OCBC Investment Research Pte Ltd

