

MITA No. 010/06/2008

7 May 2009

United Overseas Bank

Maintain

SELL

Previous Rating: SELL

\$S\$14.88

Fair Value: \$S\$11.78

Stock Code:
 Reuters: UOBH.SI
 ISIN Code: U11
 Bloomberg: UOB SP
 Event: Results

General Data

Issued Capital (m)	1,524
Mkt Cap (\$m/US\$m)	22,676/ 15,402
Major Shareholder	WCY (17%)
Free Float (%)	30
NAV per share (\$)	9.37
Daily Vol 3-mth ('000)	8,035
52Wk High (\$)	21.700
52Wk Low (\$)	8.070

Good 1Q, but valuations looking stretched

Better-than-expected 1Q09 results. UOB delivered net earnings of S\$409m, up 23% QoQ but down 23% YoY, though still ahead of market and our estimates. The group was able to maintain its net interest income flat QoQ or +11% YoY to S\$949m. With non-interest income of S\$434m, total income amounted to S\$1384m, up 3% QoQ and 9% YoY. Better fee and commission income and higher other income were the main variants for the better-than-expected results. Total operating expenses fell 1% YoY and 8% QoQ to S\$491m, resulting in improved cost-to-income ratio from 39.2% (1Q08) and 39.4% (4Q08) to 35.5% (in 1Q09).

Impairments remained high, close to 4Q level. As expected, total impairment charges were higher, up from S\$89m in 1Q08 to S\$378m, but down marginally from S\$381m in 4Q08. The group has set aside S\$174m for loans and investments in view of the global economic uncertainties (versus S\$104m in 4Q08 and S\$48m in 1Q08), while individual impairment on loans and other assets amounted to S\$203m (versus S\$276m in 4Q08 and S\$42m in 1Q08).

Loans grew, but NPL rising. Customer loans grew 5.6% YoY (flat QoQ) to S\$99.7b. NPL increased from S\$1602m in 1Q08 and S\$2062m in 4Q08 to S\$2185m in 1Q09. NPL ratio also rose from 1.6% in 1Q08 to 2.1% in 1Q09. Net interest margin declined from 2.45% in 4Q08 to 2.41% in 1Q09. Total capital adequacy ratio stayed healthy at 17.3% as at Mar 2009.

Raised fair value to \$11.78. Equities rallied strongly in the past few days on the green shoots theory despite the H1N1 outbreak (which appears to be more contained than the SARS episode in Asia in 2003). Liquidity in the money market is improving despite earlier stress test concerns. Management expects to be able to price in stable margin in Singapore, but expects challenges in overseas market, especially Thailand. While we continue to believe that UOB's asset quality is healthy, we believe that valuation is high after yesterday's 13% gain, bringing it to 1.5x book. This could mean near-term selling pressure as economic recovery is still unclear. We have marginally raised our FY09 earnings estimate from S\$1655m to S\$1713m, taking into account the better 1Q earnings but mitigated by higher impairments. We also raised our fair value estimate from S\$9.30 (1x book) to S\$11.80 (1.2x) book. At yesterday's price of S\$14.88, we maintain our **SELL** rating.

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 (%)
FY 07	2,980.4	1,891.9	2,109.2	138.4	-17.9	10.8	5.0
FY 08	3,575.0	1,675.0	1,937.0	127.1	-8.2	11.7	4.0
FY 09F	3,636.6	1,369.0	1,713.3	112.4	-11.6	13.2	4.0
FY 10F	3,250.5	1,512.4	2,056.1	134.9	20.0	11.0	4.0

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

UOB's Key Financial Data

UOB Results	1Q08	1Q09	% Chg	% Chg
Year Ended 31 Dec (S\$ m)	(S\$m)	(S\$m)	(YoY)	(QoQ)
Interest income	1,795	1,429	-20.4%	-14.0%
Less: interest expense	943	480	-49.1%	-31.9%
Net Interest Income	852	949	11.4%	-0.7%
Non-interest Income	414	434	4.8%	11.3%
- Dividend	3	4	33.3%	-50.0%
- Fee & Com Income	303	240	-20.8%	4.8%
- Rental Income	24	34	41.7%	6.3%
- Other Op Income	84	156	85.7%	28.9%
Total Income	1,266	1,383	9.2%	2.7%
- Staff Cost	-267	-259	-3.0%	-5.8%
- Other Operating Expenses	-230	-232	0.9%	-9.7%
Operating Expenses	-496	-490	-1.2%	-7.6%
Operating Profit	770	893	16.0%	9.5%
Less: Impairment charges	-89	-378	324.7%	-0.5%
Associates	22	10	-54.5%	-33.3%
Pre-tax Profit	700	523	-25.3%	16.6%
Net Profit	529	409	-22.7%	22.7%

Exhibit 2: Comparison of UOB and OCBC 1Q09 Results

In S\$m	UOB 1Q09	UOB 1Q08	YoY	OCBC 1Q09	OCBC 1Q08	YoY
Total Assets	178,543	185,784	-4%	180,160	179,997	0%
Loans	99,660	94,373	6%	78,815	73,977	7%
Deposits	119,357	109,580	9%	92,401	92,867	-1%
Loans to Deposits	83.50%	86.12%	-3%	85.30%	79.66%	7%
Total SHF equity	16,260	16,992	-4%	16,660	15,689	6%
Stockbroking / Futures ^	9	9	0%	13	24	-46%
Investment related	17	30	-43%	13	20	-35%
Trade & remittances	43	53	-19%	28	32	-13%
Loan-related	76	74	3%	37	33	12%
Deposit-related / Services	22	21	5%	14	13	8%
Credit card	35	44	-20%	10	14	-29%
Fund management	26	55	-53%	16	21	-24%
Wealth management				11	41	-73%
Others	11	17	-35%	13	14	-1%
Fee & Commission	239	303	-21%	155	212	-27%
Fee & commission	240	303	-21%	155	212	-27%
Dividend	4	3	33%	17	18	-6%
Rental income	34	24	42%	19	15	27%
Other income	156	84	86%	119	274	-57%
Insurance				297	25	>200%
Non-interest Income (NII)	434	414	5%	607	544	12%
Int Income	1,429	1,795	-20%	1,146	1,331	-14%
Int Expense	480	943	-49%	406	693	-41%
Net Interest Income (II)	949	852	11%	740	638	16%
Non-interest Income (NII)	434	414	5%	607	544	12%
Total Income	1,383	1,266	9%	1,347	1,182	14%
Total operating expenses	491	497	-1%	413	426	-3%
Operating profits	892	769	16%	934	756	24%
Allowances for credit & other losses	-378	-89	325%	-197	8	nm
Pretax profits	523	700	-25%	725	753	-4%
Net profits	409	529	-23%	545	622	-12%
Net interest margin (%)	2.41%	2.20%		2.42%	2.17%	
NII / Total income (Adj)	31.4%	32.7%		45.1%	37.1%	
Cost to income (%) (Adj)	35.5%	39.3%		30.7%	42.0%	

Exhibit 2: Comparison of UOB and OCBC 1Q09 Results (continued)

In S\$m	UOB 1Q09	UOB 1Q08	YoY	OCBC 1Q09	OCBC 1Q08	YoY
EPS (\$)	1.01	1.38		0.70	0.80	
NAV (\$)	9.37	10.73		4.75	4.79	
NAV (\$) - after valn surplus	11.30	12.91		5.16	6.43	
ROE (%)	11.20	12.70		14.90	12.20	
ROA (%)	0.90	1.17		1.54	1.34	
Total NPLs	2,185	1,602		1,424	1,212	
NPL ratio	2.10%	1.60%		1.80%	1.60%	
Tier 1 Capital	12.30%	10.70%		15.10%	12.80%	
Total CAR	17.30%	15.60%		15.80%	13.50%	
Tier 1 Capital	13,127	12,011		14,475	11,530	
Risk Weighted Assets	106,634	111,850		95,397	89,645	
Singapore assets	66.4%	63.8%		64.6%	66.2%	
Singapore earnings	62.6%	69.0%		45.0%	65.0%	
Loan Breakdown						
Tpt, Storage & Comm	6%	6%		7%	5%	
Building & Construction	12%	13%		21%	20%	
Manufacturing	10%	10%		8%	8%	
Non-bank fin institutions	16%	17%		14%	15%	
Gen commerce	13%	13%		8%	9%	
Prof & private individuals	13%	12%		10%	10%	
Housing loans	24%	24%		24%	26%	
Others	6%	6%		8%	6%	
Total	100%	100%		100%	100%	

[^] Futures broking for UOB and Stockbroking for OCBC

EARNINGS FORECAST

Year Ended 31 Dec (S\$ m)

	FY07	FY08	FY09F	FY10F
Interest income	7,371.0	6,855.0	6,025.8	6,146.3
Interest expense	4,390.6	3,280.0	2,389.2	2,895.8
Net interest income	2,980.4	3,575.0	3,636.6	3,250.5
Non-interest income	1,891.9	1,675.0	1,369.0	1,512.4
- 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	360.0	400.3
Total operating income	4,872.3	5,250.0	5,005.6	4,762.9
- Staff costs	-1,046.0	-1,082.0	-1,087.0	-1,114.9
- Other operating expenses	-972.0	-968.0	-955.0	-856.8
- Intangible assets amortised/impaired	-11.0	-11.0	-11.0	-12.0
Operating profit	2,843.3	3,189.0	2,952.6	2,779.1
Other impairment charges	-300.0	-807.0	-907.0	-343.0
Associates	206.8	103.0	83.0	93.0
Pre-tax profit	2,750.1	2,485.0	2,128.6	2,529.1
Taxation	-573.5	-521.0	-387.5	-439.6
Minorities	-67.5	-27.0	-27.9	-33.4
Net profits	2,109.2	1,937.0	1,713.3	2,056.1
EPS (cents)	138.4	127.1	112.4	134.9
Gross DPS (cents)	80.0	60.0	60.0	60.0
Gross Special DPS (cents)	0.0	0.0	0.0	0.0
Total DPS (cents)	80.0	60.0	60.0	60.0
Net DPS (cts)	73.7	60.0	60.0	60.0
Net asset value (\$)	13.1	8.9	9.8	10.6
Key Ratios				
Net interest income growth (%)	10.0%	20.0%	1.7%	-10.6%
Non-interest income growth (%)	-11.1%	-11.5%	-18.3%	10.5%
Operating profit growth(%)	-7.9%	12.2%	-7.4%	-5.9%
Pre-tax growth (%)	-13.5%	-9.6%	-14.3%	18.8%
Net profit growth (%)	-17.9%	-8.2%	-11.6%	20.0%
Cost-to-income ratio (%)	41.4%	39.0%	40.8%	41.4%

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	6,087	6,087
Other reserve	9,364	5,804	6,603	7,745
Capital & Reserve	17,329	15,573	16,735	17,877
Minority interests	398	146	368	393
Total	17,727	15,719	17,103	18,270
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	192,512	201,462
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	17,282	17,822
Advances to customers	92,669	99,840	102,935	108,288
Others	36,793	36,305	38,905	40,052
Total Assets	174,951	182,941	192,512	201,462

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

	FY07	FY08	FY09F	FY10F
Operating profit bef charges	2,854	3,200	2,964	2,791
Depreciation	141	134	134	134
Others	-216	-163	-105	-103
Changes in working capital	4,667	-1,589	1,238	447
Cash from operations	7,447	1,582	4,231	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	2,460	1,261
End cash/(debt)	30,284	31,600	34,060	35,321

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