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 (Sm/USm)	22,676/ 15,402
Major Shareholder	WCY (17%)
Free Float (%)	30
NAV per share (S$)	9.37
Daily Vol 3-mth ('000)	8,035
52Wk High (S$)	21.700
52Wk Low (S$)	8.070

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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.

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 (%)
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

UOB's Key Financial Data

UOB Results Year Ended 31 Dec (S$ m)	1Q08 (S$m)	1Q09 (S$m)	% Chg (YoY)	% Chg (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	-7%
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:

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