

28 September 2018

Financial Services | Banks

United Overseas Bank

Buy (Maintained)

More NIM Widening From Rising FFR; Maintain BUY

Target Price: SGD33.30
 Price: SGD26.85
 Market Cap: USD32,804m
 Bloomberg Ticker: UOB SP

Reiterate BUY and SGD33.30 TP, 24% upside. The most critical catalyst is the rising US FFR trend – the FOMC raised the rate 25bps on 26 Sep and indicated the possibility of another four more hikes by end-2019. After July’s property cooling measures, subsequent good sales in new property launches should allay fears of slowing mortgage loan growth. We believe UOB’s plan for a digital bank will also be positive for long-term growth.

Share Data

Avg Daily Turnover (SGD/USD) 65.5m/48m
 52 week price low/high 30.37 - 23.17
 Free Float (%) 85.4
 Shares outstanding (m) 1,667
 Estimated Return 24%

Expect widening NIMs. The Federal Open Market Committee (FOMC) raised the US federal funds rate (FFR) by 25bps on 26 Sep. The FOMC dot-plot points to another FFR hike in December, with three more following in 2019.

Shareholders (%)

Wee Investments Pte 7.8
 Wah Hin & Co Pte Ltd 5.2
 Blackrock 2.2

From an average of 1.51% in 2Q18, the 3-month SIBOR has risen to an average of 1.63% in 3Q18, representing a 12bps QoQ rise. This will help to widen the 3Q18 NIM for the banks under our coverage (SG Banks), including United Overseas Bank. There is also a historical positive correlation between the FFR and 3-month SIBOR (Figure 1) – this is likely to continue driving the 3-month SIBOR in the quarters ahead.

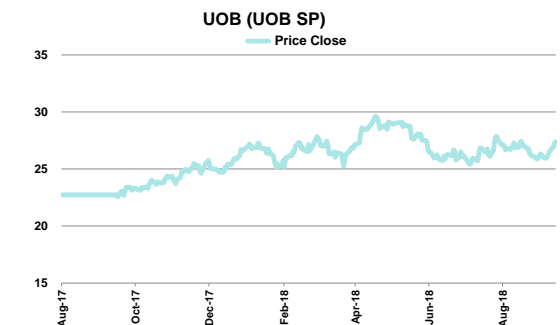
Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	2.2	(0.3)	1.9	(2.1)	13.4
Relative	7.1	(0.6)	2.4	3.8	13.4

From UOB’s 2Q18 NIM of 1.83%, we forecast NIMs of 1.85% for 2018, rising further to 1.92% in 2019.

Source: Bloomberg

Recent indications point to the Government’s property-cooling measures on mortgages having limited impact. The Government’s property cooling measures in early July led to investor concerns over the future trend of mortgage growth. However, recent launches were well received, with indications that the JadeScape project sold ~330 units in September.



Source: Bloomberg

This initial signal points towards the property cooling measures’ limited impact on banks’ mortgage growth. In any case, we are conservative on our 2018F-2019F loan growth for UOB: 8% and 6.5%.

Potential for more dividends. The bank’s CET1 capital adequacy ratio (CAR) of 14.5% is higher than its other two peers’ average of 13.4% – this provides scope for UOB to dish out more dividends ahead. Its commitment is for a dividend payout ratio of 50%, subject to minimum CET1 CAR of 13.5% and sustainable financial performances.

UOB is pressing on with a digital bank, which will be made simple, engaging, and transparent. We are optimistic on its proposed scale of five countries, 3-5m customers, and steady-state CIR of ~35%. In the meantime, we await more implementation details.

Reiterate BUY and SGD33.30 TP, 24% upside. Our GGM-derived TP assumes cost of equity (CoE) of 9.9% and ROE of 13% (2Q18 ROE: 12.1%). This gives a target P/BV of 1.45x, which we apply to a 2019F BV of SGD22.94. We believe the P/BV premium over the 5-year historical average of 1.24x is justified by the improving NIM environment. UOB’s share price underperformance relative to DBS (DBS SP, BUY, TP: SGD30.30) over the past 12 months (Figure 4) points towards catch-up potential.

Forecasts and Valuations	Dec-16	Dec-17	Dec 18F	Dec 19F	Dec 20F
Reported net profit (SGDm)	3,096	3,390	4,181	4,544	4,758
Net profit growth (%)	(3.6)	9.7	23.6	8.7	4.8
Recurring net profit (SGDm)	3,096	3,390	4,181	4,544	4,758
Recurring EPS (SGD)	1.91	2.06	2.49	2.64	2.69
BVPS (SGD)	18.82	20.37	21.65	22.94	24.15
DPS (SGD)	0.70	1.00	1.15	1.25	1.35
Recurring P/E (x)	14.0	13.1	10.8	10.2	10.0
P/B (x)	1.43	1.32	1.24	1.17	1.11
Dividend Yield (%)	2.6	3.7	4.3	4.7	5.0
Return on average equity (%)	10.2	10.2	11.6	11.7	11.8
Return on average assets (%)	0.95	0.98	1.12	1.15	1.16
Our vs consensus EPS (adjusted) (%)			2.4	2.2	(0.6)

Source: Company data, RHB

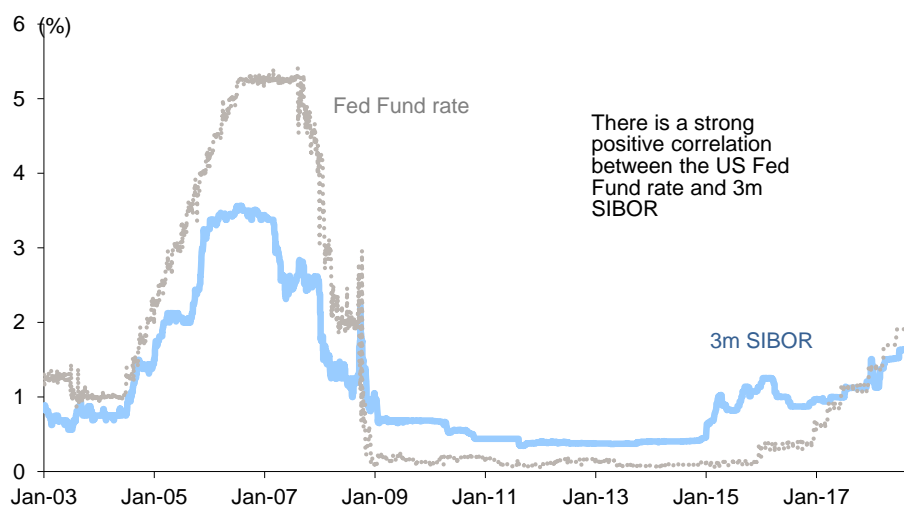
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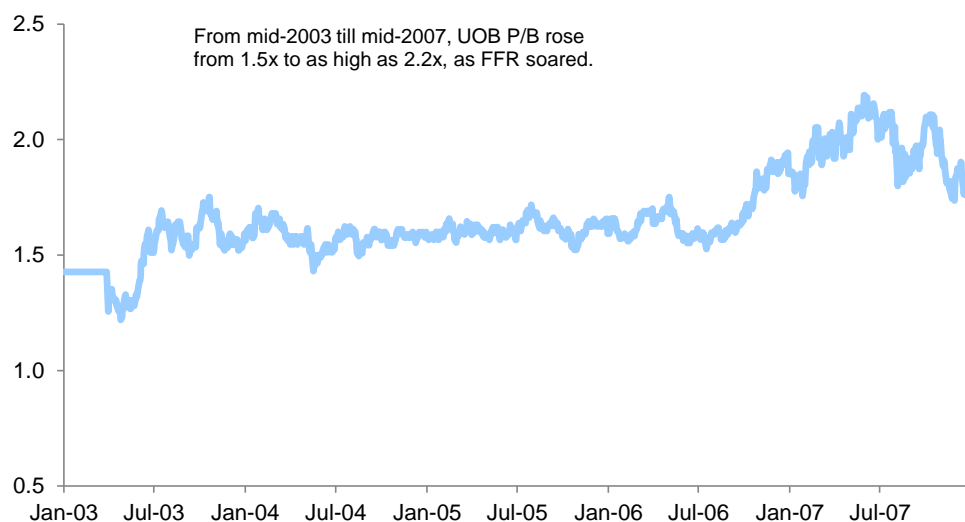


Figure 1: US FFR and 3-month SIBOR



Source: Bloomberg

Figure 2: UOB's P/BV soared as FFR rose between 2003 and 2007



Source: Bloomberg

Figure 3: UOB's financial data

UOB (SGDm)	FY16	FY17	FY18F	FY19F	FY20F
Net Interest Income	4,991	5,528	6,216	6,864	7,249
Non-interest Income	3,071	3,322	3,225	3,465	3,877
- Dividends	31	23	33	35	36
- Fee & Commission Income	1,931	2,161	2,085	2,238	2,468
- Rental Income	118	119	120	123	125
- Other Operating Income	991	1,019	987	1,069	1,248
Total operating income	8,061	8,851	9,441	10,329	11,126
Operating Expenses	(3,696)	(4,027)	(4,094)	(4,417)	(4,830)
Operating Profit	4,365	4,824	5,347	5,912	6,296
Provisions	(594)	(727)	(450)	(550)	(580)
Associates	6	110	160	133	38
Pre-tax profit	3,777	4,207	5,057	5,495	5,754
Taxation	(669)	(800)	(860)	(934)	(978)
Profit after tax	3,108	3,407	4,197	4,561	4,776
Minorities	(12)	(16)	(16)	(17)	(18)
Net Profit	3,096	3,390	4,181	4,544	4,758
EPS (SGD¢)	186.0	199.0	245.9	260.9	266.4
Book value (SGD)	18.88	20.37	21.65	22.94	24.15
Revalued book (SGD)	21.60	23.18	24.40	25.62	26.76
NTA (SGD)	16.34	17.88	19.21	20.57	21.84
Revalued NTA (SGD)	19.07	20.69	21.96	23.25	24.45
P&L ratios (%)					
ROE (Avg)	10.2	10.2	11.6	11.7	11.8
Net Interest Margin	1.71	1.77	1.85	1.92	2.00
Net interest income / income	61.9	62.5	65.8	66.5	65.2
Operating Expenses / income	45.9	45.5	43.4	42.8	43.4
P&L YoY change (%)					
Net Interest Income	1.3	10.8	12.4	10.4	5.6
Non-interest income	(1.6)	8.2	(2.9)	7.4	11.9
Fee & commission income	2.5	11.9	(3.5)	7.3	10.3
Total income	0.2	9.8	6.7	9.4	7.7
Operating expenses	2.8	9.0	1.7	7.9	9.4
Operating profit	(1.9)	10.5	10.8	10.6	6.5
Provisions	(11.6)	22.4	(38.1)	22.2	5.5
Pre-tax Profit	(2.4)	11.4	20.2	8.7	4.7
Net Profit	(3.6)	9.7	23.6	8.7	4.8
BS data (SGDm)					
Assets	340,028	358,592	391,251	398,853	419,912
Non-bank loans	221,734	232,212	250,789	267,090	281,780
Customer deposit	255,314	272,765	291,859	306,451	322,693
Non-performing assets	3,480	4,389	4,458	4,389	4,320
Cumulative loan loss provisions	4,046	3,990	3,971	4,043	4,364
Balance sheet ratios (%)					
Loans deposit ratio	86.8	85.1	85.9	87.2	87.3
Non-bank loans growth (YoY%)	8.9	4.7	8.0	6.5	5.5
Customer deposit growth (YoY%)	6.1	6.8	7.0	5.0	5.3
NPL / Non-bank loans	1.5	1.8	1.7	1.6	1.5
Loan loss coverage	116.3	90.9	89.1	92.1	101.0
Total CAR	16.2	18.7	19.2	19.8	20.4
Tier 1 CAR	13.1	16.2	16.8	17.5	18.1

Source: Company data, RHB

Figure 4: SG Banks' peer comparison

Name		DBS	OCBC	UOB
Price @	27-Sep-18	25.94	11.36	26.85
Local	Curr	SGD	SGD	SGD
Mkt Cap (USDm)	(LC)	66,272	47,590	44,771
	(USD)	48,558	34,870	32,804
P/E (x)	Hist	13.7	10.9	11.8
	Curr	11.5	10.2	11.2
	Fwd	10.2	9.4	10.3
P/BV	(x)	1.4	1.2	1.3
ROE	(%)	10.3	11.3	11.1
ROA	(%)	0.9	1.0	1.0
Yield	(%)	4.6	3.4	3.5
YTD TR	(%)	10.3	(5.1)	6.9
1-m TR	(%)	2.7	2.1	1.1
3-m TR	(%)	(1.9)	(0.8)	4.0
6-m TR	(%)	0.8	(8.1)	3.1
1-y TR	(%)	33.6	5.3	20.3

Note: TR = total return
Source: Bloomberg

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