

Issuer Profile:

United Overseas Bank Ltd (“UOB”)

Positive (2)

Ticker:

UOBSP

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New Issue

- UOB is looking to price a **SGD PERP NC7 Additional Tier 1 (“AT1”) bank capital instrument with IPG at the 2.85% area.**
- This is UOB’s second AT1 to be issued with a reset coupon rate that references the Singapore Overnight Rate Average Overnight Indexed Swap (“SORA-OIS”) rate, instead of the commonly used benchmark, the Singapore Swap Offer Rate (“SOR”).
- UOB’s SGD150mn UOBSP 2.25% PERPc26s issued in January 2021 was Singapore’s first AT1 that references the SORA and was priced at a coupon of 2.25% p.a, 181bps above the prevailing 5Y SORA-OIS as at 7 January 2021. If the bonds are not redeemed in 2026, the coupon will be reset based on 181 basis points above the 5Y SORA-OIS on the first call date.
- The new issue is expected to be rated at the same level as the existing SORA-OIS linked AT1 in the high BBB/Baa area.
- UOB recently called its SGD750mn UOBSP 4.0% PERPc21s in May 2021.

Recommendation

- Similar to the UOBSP 2.25% PERPc26s, if the proposed PERP NC7 is not called at first call date then the coupon will be reset on the first reset date and every 7 years thereafter at the prevailing 7Y SORA-OIS plus the initial spread.
- With the prevailing 7Y SORA-OIS at around 0.98%, the IPG translates to an initial spread of around 187bps. In comparison, the UOBSP 2.25% PERPc26s is trading at a yield to call of around 2.07% or a spread of 133bps against 5Y SORA-OIS. Using this as a comparison then **we see fair value for the new SGD PERP NC7 at around the 2.50%-2.55% handle or a spread of ~155bps.**
- As mentioned in our Special Interest Commentary on [the impact on the SGD Corporate Bond Market of the transition from SOR to SORA](#), the secondary market continues to use SOR as the reference for relative value given there appears no clear or established understanding of the relative value between SOR and SORA at this stage and there is likely limited liquidity for SORA papers as a result (in addition to lack of supply).
- This may explain why the SORA referenced the UOBSP 2.25% PERPc26s is trading wider against the SOR referenced UOBSP 3.58%-PERPc26s from an all in yield and spread perspective despite its 6 month shorter call date and comparable reset spread (181bps vs 179.5bps for the 3.58%-PERPc26s).
- UOB’s fundamentals remain sound in our view with [recent results](#) looking solid from an earnings and balance sheet quality perspective. This is indicative of UOB’s solid business positions with non-performing asset allowance coverage and capital buffers protecting against ongoing pandemic uncertainties in its key markets of Indonesia and Malaysia.

Relative Value:

Comparative Tier 2s/AT1s	Issuer Profile	Call date	Reset Spread	Ask Price	Ask Yield	Spread	Recommendation
UOBSP 2.85% 'PERPc28s	Positive (2)	TBD	TBD	-	-	~187bps*	NA
UOBSP 2.25% 'PERPc26s	Positive (2)	27/02/2024	1.810%	100.6	2.11%	140bps*	NA
UOBSP 3.58% 'PERPc26s	Positive (2)	17/07/2026	1.795%	107.7	1.99%	109bps	N
UOBSP 3.5% '29c24s	Positive (2)	27/02/2024	1.080%	106.1	1.19%	67bps	UW
DBSSP 3.8% '28c23s	Positive (2)	20/01/2023	1.100%	104.6	0.88%	54bps	N
DBSSP 3.98% 'PERPc25s	Positive (2)	12/09/2025	1.650%	107.6	2.10%	131bps	N

Indicative prices as at 15 June 2021 Source: Bloomberg
* Spread is to SORA

Background/Recent Developments

- United Overseas Bank Limited (“UOB”) is Singapore’s third largest banking group with total assets of SGD440.7bn as at 31 March 2021.
- It has a global network of around 500 offices in 19 countries in Asia Pacific, Europe, and North America.
- Business segments comprise Group Retail, Group Wholesale Banking, Global Markets and Others.
- Wee Investments Pte Ltd and Wah Hin & co Pte Ltd have an 8.0% and 5.18% stake in UOB, respectively, as of 15th March, 2021.

Recent Write-ups on UOB and Related Research from OCBC Treasury Research

- [Asian Credit Daily \(6 May 2021\)](#) – 1Q2021 results
- [Asian Credit Daily \(9 April 2021\)](#) – First Chief Sustainability Officer
- [Singapore Capital Markets Update \(30 March 2021\)](#)
- [United Overseas Bank Ltd – Credit Update \(4 March 2021\)](#)
- [Asian Credit Daily \(25 Feb 2021\)](#) – 4Q2020 and FY2020 results
- [Asian Credit Daily \(8 January 2021\)](#) – First AT1 linked to SORA
- [SOR to SORA: Looking through the transition pain to long term positives \(25 March 2020\)](#)

Explanation of Issuer Profile Rating / Issuer Profile Score

Positive (“Pos”) – The issuer’s credit profile is either strong on an absolute basis or expected to improve to a strong position over the next six months.

Neutral (“N”) – The issuer’s credit profile is fair on an absolute basis or expected to improve / deteriorate to a fair level over the next six months.

Negative (“Neg”) – The issuer’s credit profile is either weaker or highly geared on an absolute basis or expected to deteriorate to a weak or highly geared position over the next six months.

To better differentiate relative credit quality of the issuers under our coverage, we have further sub-divided our Issuer Profile Ratings into a 7-point Issuer Profile Score scale.

IPR	Positive		Neutral			Negative	
IPS	1	2	3	4	5	6	7

Please note that Bond Recommendations are dependent on a bond’s price, underlying risk-free rates and an implied credit spread that reflects the strength of the issuer’s credit profile. Bond Recommendations may not be relied upon if one or more of these factors change.

Explanation of Bond Recommendation

Overweight (“OW”) – The bond represents **better relative value** compared to other bonds from the same issuer, or bonds of other issuers with similar tenor and comparable risk profile.

Neutral (“N”) – The represents **fair relative value** compared to other bonds from the same issuer, or bonds of other issuers with similar tenor and comparable risk profile.

Underweight (“UW”) – The represents **weaker relative value** compared to other bonds from the same issuer, or bonds of other issuers with similar tenor and comparable risk profile.

Other

Suspension – We may suspend our issuer rating and bond level recommendation on specific issuers from time to time when OCBC is engaged in other business activities with the issuer. Examples of such activities include acting as a joint lead manager or book runner in a new issue or as an agent in a consent solicitation exercise. We will resume our coverage once these activities are completed.

Withdrawal (“WD”) – We may withdraw our issuer rating and bond level recommendation on specific issuers from time to time when corporate actions are announced but the outcome of these actions are highly uncertain. We will resume our coverage once there is sufficient clarity in our view on the impact of the proposed action.

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