ABN·AMRO

Tuesday 4 December 2007

Change of target price

Union Bank of India

Capital efficient

We expect UBI to combat margin pressure through tight control over operating costs and a fall in the incremental default rate. With capital efficiency also rising, profitability should improve, lending support to valuation. Buy, with a target price of Rs215.40.

Key forecasts

	FY06A	FY07A	FY08F	FY09F	FY10F
Reported PTP (Rsm)	8946.5	13804.0	15800.6	18463.2▲	22887.3
Reported net profit (Rsm)	6454.7	8454.0	10665.4	12462.6▲	15448.9
Reported EPS (Rs)	12.8	16.7	21.1▲	24.7▲	30.6
Normalised EPS (Rs)	13.4	16.7	21.1▲	24.7▲	30.6
Dividend per share (Rs)	3.50	3.50	4.00▼	4.50▼	5.00
Normalised PE (x)	13.7	10.9	8.68▼	7.43▼	5.99
Price/book value (x)	2.03	1.78	1.53	1.31	1.11
Dividend yield (%)	1.91	1.91	2.18	2.46	2.73
Return on avg equity (%)	16.5	17.3	19.0▲	19.0▲	20.1

Accounting Standard: Local GAAP
Source: Company data, ABN AMRO forecasts
year to Mar, fully diluted

Moderate business growth, margins on a leash

In the past four quarters, Union Bank of India's (UBI) loan growth has averaged 14.9% yoy, compared to an average of 23.9% for the sector (source: RBI). We believe UBI will now focus on expanding business volumes, so we estimate loans will show a 19.7% CAGR over FY08-10. We expect net interest margins (NIM) to dip in FY08, but rise marginally and stabilise in FY09-10. According to management, 1H08 NIM was flat at 2.86%. Note that our forecast decline in FY08 NIM is due partly to investments in debt funds, income from which is accounted under 'other income' (ie, treasury gains).

Improving business parameters and higher operating efficiency

An improvement in operating parameters should lead to higher profitability. We expect operating cost to assets to average 1.5% over FY08-10, compared to 1.9% over FY05-07. Similarly, we expect asset quality to remain good due to control over incremental defaults. These efficiency improvements should lead to higher core earnings. Looking ahead, we expect earnings to grow 22.3% on average over FY08-10 vs 3.3% in FY05-07.

High leverage amplifies profitability; ROE should stay high

The constraints on capital raising have sustained UBI's high leverage. Tier-1 capital was low at 7.36% as at September 2007, and we expect leverage to rise to 20.2x in FY10. Consequently, we estimate the bank's ROE will stay high at 19.4% on average over FY08-10 (vs 18.2% in FY05-07).

Capital efficiency is good for valuation

We believe the high ROE we forecast demands a higher valuation. We have arrived at our new target price of Rs215.40 (vs Rs155.30 previously) using the Gordon Growth model. We have applied a discount of 10% to account for the low tier-1 capital and constraints on issue of fresh equity. At our target, the stock would trade at 1.85x FY09F adjusted book value and 8.7x FY09F EPS. We reiterate our Buy recommendation.

Priced at close of business 4 December 2007. Use of ▲▼ indicates that the line item has changed by at least 5%.

Mafatlal Chambers – C Wing, Ground Floor, N.M. Joshi Marg, Lower Parel (E),
Mumbai 400 013, India. Tel : +91 022 6754 8411 Fax : +91 022 6754 8420

Buy

Absolute performance

n/a

Short term (0-60 days)

Neutral

Market relative to region

Banks

India

Price

Rs183.20

Target price

Rs215.40 (from Rs155.30)

Market capitalisation

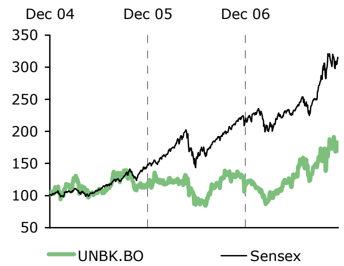
Rs92.54bn (US$2.35bn)

Avg (12mth) daily turnover

Rs44.85m (US$1.10m)

Reuters	Bloomberg
UNBK.BO	UNBK IN

Price performance	(1M)	(3M)	(12M)
Price (Rs)	187.9	144.1	131.1
Absolute %	-2.5	27.1	39.7
Rel market %	-0.2	0.6	-0.8
Rel sector %	3.3	15.8	8.9



Stock borrowing: n/a
Volatility (30-day): 47.77%
Volatility (6-month trend): ↑
52-week range: 199.50-84.00
Sensex: 19529.50
BBG AP Banks: 209.17

Source: ABN AMRO, Bloomberg

Researched by

ABN AMRO Institutional Equities Team

www.abnamrobroking.co.in

The Basics

Key assumptions

We assume a loan CAGR of 19.7% over FY08-10, given the positive macroeconomic environment. We estimate NIMs will decline from 2.83% in FY07 to 2.63% in FY08 and then rise to around 2.7% in FY09 and FY10. We expect core fee income as a proportion of average working funds to remain stable at about 0.3%. UBI should be able to maintain a tight control over intermediation costs, so we assume expenses will decline from 1.6% of average working funds in FY07 to 1.4% in FY10. We forecast provisions at 0.7% of average loans in FY08 and at 0.8% in FY09-10. We expect the tax rate to decline from 38.8% in FY07 to 32.5% in FY08-10. We expect the interplay of these factors to culminate into net profit growth of 26.2% in FY08, 16.9% in FY09 and 24% in FY10.

How we differ from consensus

Our FY08 EPS estimate is in line with Bloomberg consensus. FY09 and FY10 estimates are below consensus because of our lower total income estimates. We believe this may be due to our expectation of lower NIMs compared to consensus.

Valuation and target price

We arrive at a 12-month target price of Rs215.40 using a Gordon Growth model. We use a sustainable ROE of 19.4% (average of the ROAE for FY08-10F), a cost of equity of 13% and a terminal growth rate of 7% to arrive at an implied P/B of 2.06x. We apply a discount of 10% to account for UBI's limited ability to raise equity capital, as the government holds a stake of 55% in the bank. We arrive at our target price by applying the resultant target multiple of 1.85x to the FY09F book value after writing off 100% of pre-tax net NPL.

Catalysts for share price performance

We expect the following factors to move the stock towards the target price:

- stable growth in business volumes accompanied by stable margins;
- a decline in incremental default rate leading to a decline in loan loss provision charges; and,
- an increase in leverage, which should offset the decline in return on average assets (ROAA).

Risks to central scenario

Key risks to our forecasts, valuation and target price are:

- A slowdown in loan growth, which should put pressure on ROA and leverage, thus affecting the bank's ROE.
- A sharp rise in the cost of funds or a decline in return on resources, leading to pressure on NIMs.
- Deterioration in asset quality, resulting in a rise in provision charges.

Versus consensus

EPS (Rs)	ABN AMRO	Cons	% diff
2008F	21.1	21.1	0.0%
2009F	24.7	25.1	-1.6%
2010F	30.6	31.7	-3.5%

Source: Bloomberg, ABN AMRO forecasts

Key events

Date	Event
Jan-08	Quarterly review of the monetary policy

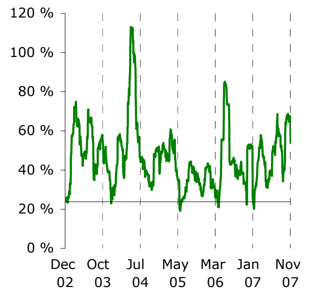
Source: RBI

Forced ranking*

Company	Rec	Upside/ downside
UBI	Buy	19%
Andhra Bank	Buy	8%
Bank of Baroda	Buy	0%
OBC	Hold	-1%
Corporation Bank	Hold	-2%
PNB	Buy	-4%
HDFC	Buy	-12%
Bank of India	Sell	-14%
Canara Bank	Hold	-18%
ICICI Bank	Buy	-20%
HDFC Bank	Buy	-23%
SBI	Buy	-34%
Axis Bank	Sell	-39%

** by difference to target price as at time of publication. Recommendations may lie outside the structure outlined in the disclosure page*
Source: ABN AMRO forecasts

Volatility (30-day)



Source: Bloomberg

Key assumptions and sensitivities

Table 1 : UBI – key assumptions

	FY06	FY07	FY08F	FY09F	FY10F
Credit (yoy growth)	33.1%	16.9%	19.9%	19.8%	19.3%
Deposits (yoy growth)	19.8%	15.0%	16.8%	20.8%	20.1%
Interest bearing funds (yoy growth)	23.3%	15.3%	16.8%	19.5%	18.6%
Interest bearing liabilities (yoy growth)	22.7%	14.5%	16.8%	19.6%	18.7%
Net interest margin (% of avg funds)	2.9%	2.8%	2.6%	2.7%	2.7%
Fee and Other income (yoy growth)	4.7%	38.4%	12.2%	4.2%	14.0%
Operating expenses (yoy growth)	24.0%	-9.3%	12.4%	10.9%	10.9%
Provision for bad loans (% of avg. credit)	0.6%	0.9%	0.7%	0.8%	0.8%
Prov for investment depreciation (% of avg. invst)	0.3%	0.4%	0.2%	0.0%	0.0%
Provision for tax (% of pre-tax profits)	24.5%	38.8%	32.5%	32.5%	32.5%

Source: Company data, ABN AMRO estimates

Table 2 : UBI – net profit sensitivity

1% change in	FY06	FY07	FY08F	FY09F	FY10F
- NIM	2.6%	2.3%	1.8%	1.9%	1.8%
- fee income	0.2%	0.2%	0.2%	0.2%	0.2%
- personnel cost	1.0%	0.8%	0.6%	0.6%	0.5%
- operating costs	1.9%	1.3%	1.1%	1.0%	0.9%
- provisions for bad loans	0.3%	0.4%	0.3%	0.4%	0.4%

Source: Company data, ABN AMRO estimates

Capital efficient

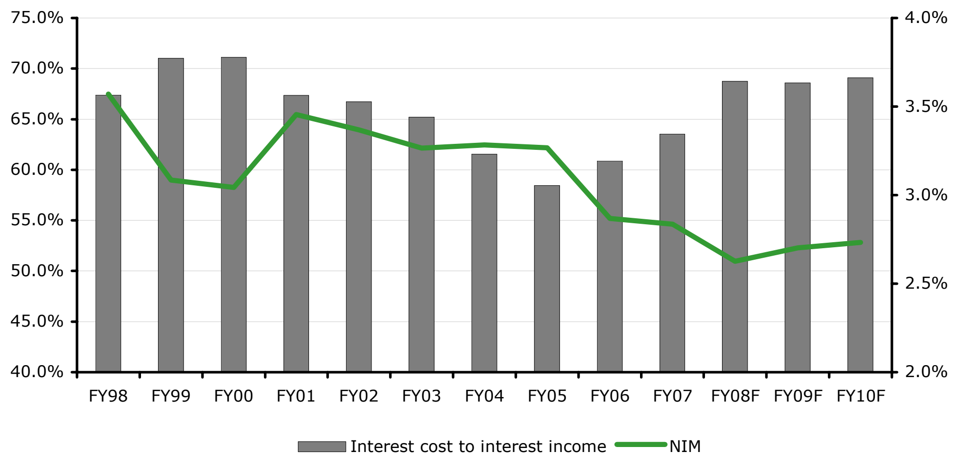
Control over operating costs and a fall in the incremental default rate should offset margin pressure. With capital efficiency also rising, profitability should improve, giving valuation support. Buy; target price: Rs215.40.

Moderate business growth and margins on a leash

In the past four quarters, UBI's loan growth has averaged 14.9% yoy, compared to the industry average of about 23.9%. We believe the bank will now focus on expanding business volumes, so we estimate loans will show a CAGR of 19.7% in FY08-10. We expect NIM to dip in FY08 but stabilise and rise marginally in FY09-10. According to management, 1H08 NIM was flat at 2.86%. Note that our forecast decline in FY08 NIM is due partly to investments in debt funds, income from which is accounted under 'other income' (ie treasury gains).

We expect a rise in the proportion of retail deposits, leading to an increase in NIM in FY09-10F

Chart 1 : UBI – interest cost to interest income and NIM



Note: There was a change in accounting of amortisation cost on investments from FY07. Earlier data has not been rebased and hence not strictly comparable.
Source: Company data, ABN AMRO forecasts

In 1H08, the proportion of bulk deposits declined while that of retail deposits grew

Table 3 : Deposit mix

(Rs bn)	Sep-06	Sep-07	% change
Deposits	785.28	948.04	20.7%
- of this savings a/c	192.52	216.9	12.7%
- of this current a/c	26.294	30.816	17.2%
Retail deposits	616.59	766.63	24.3%
Wholesale deposits	168.69	181.41	7.5%

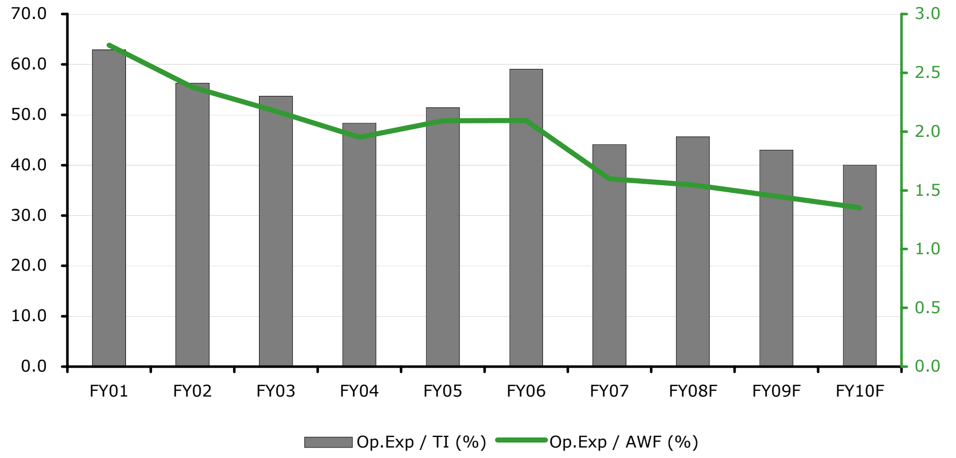
Source: Company data

Improving business parameters and higher operating efficiency

We expect an improvement in operating parameters to lead to higher profitability. We expect operating cost to assets to average 1.5% over FY08-10, compared to 1.9% over FY05-07. Similarly, we expect asset quality to remain good during the period on the back of control over incremental defaults. These efficiency improvements should lead to an improvement in core earnings.

We expect earnings to grow 22.3% on average over FY08-10, compared to 3.3% in FY05-07. We expect efficiency improvements to lead to a higher ROA. ROAA should increase from 0.88% in FY07 to an average of 0.97% in FY08-10.

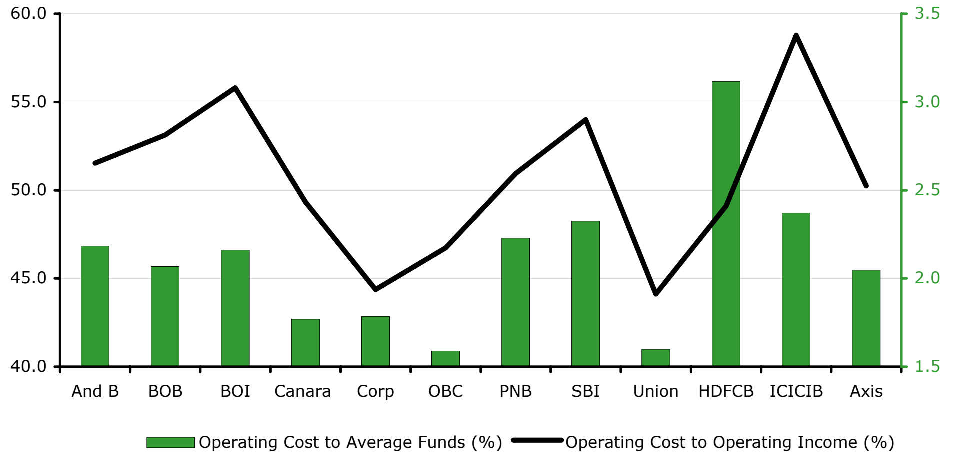
Chart 2 : UBI – operating expenses to income and average funds



Source: Company data, ABN AMRO forecasts

Control over operating costs has led to an improvement in intermediation cost ratios

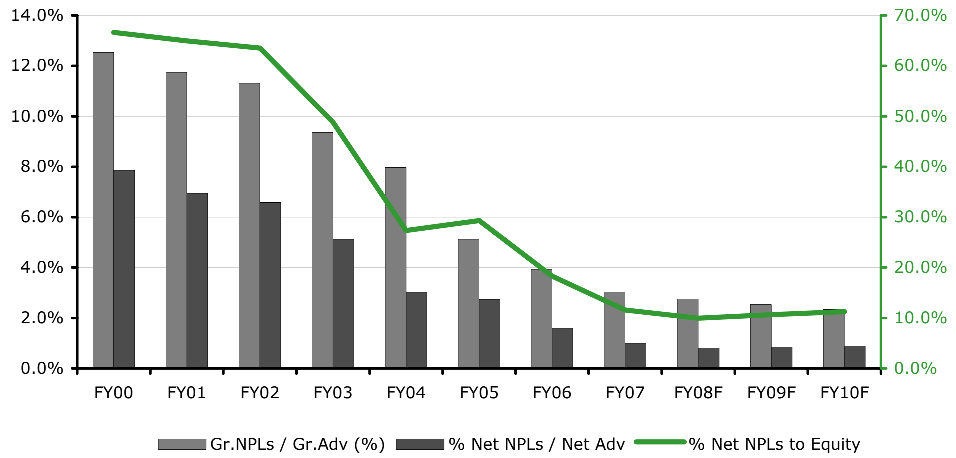
Chart 3 : Operating cost ratios (FY07)



Source: Company data

UBI's operating costs to income and to average funds remains lower than its peers, which is a competitive advantage, we believe

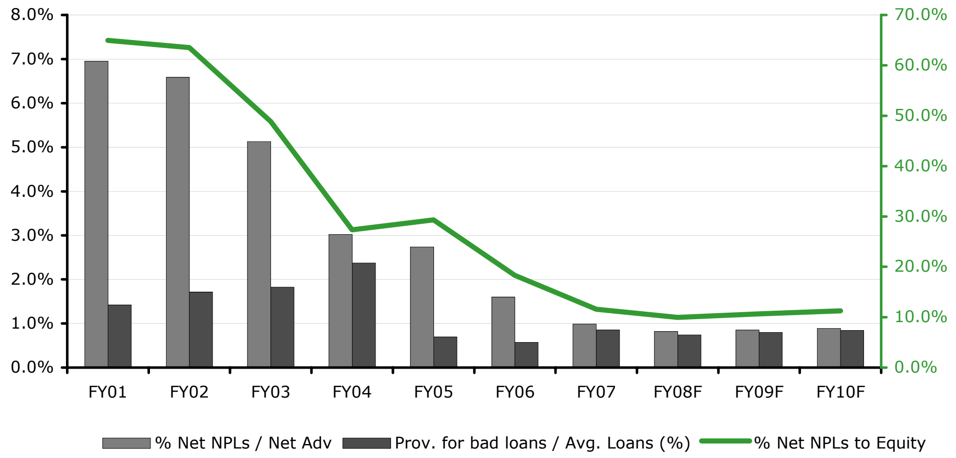
Chart 4 : UBI – gross and net NPLs



Source: Company data, ABN AMRO forecasts

We believe asset quality will improve further with gross NPLs stabilising at 2.3% by FY10 from 3.0% in FY07

Chart 5 : UBI – net NPLs and provision for loan losses



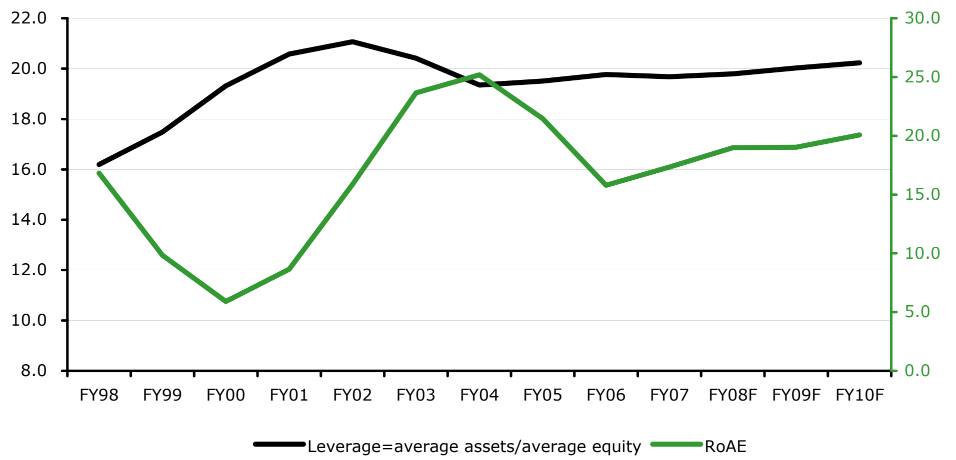
Source: Company data, ABN AMRO forecasts

Bad loan slippages in 1H08 were Rs4.0bn compared to Rs3.9bn in 1H07, indicating a fall in default rate from 0.74% to 0.65%

High leverage amplifies profitability; ROE should stay high

The constraints on capital raising kept UBI's leverage high at 19.5-19.8x in FY05-FY07. The bank's end-FY07 leverage of 19.7x was higher than the peer average of 16.7x. Tier-1 capital was low at 7.36% as at September 2007, but we expect leverage to continue to rise to 20.2x in FY10. This is because the flexibility to include perpetual debt and perpetual preference shares in tier-1 capital allows UBI to operate at high leverage. Also, the government's stake of 55% in UBI is close to the regulatory minimum requirement (51%), so equity mobilisation options look limited. Consequently, we expect the bank's ROE to stay high.

Chart 6 : UBI – leverage and ROE



Source: : Company data, ABN AMRO forecasts

We expect ROE to average 19.4% over FY08-10, compared to 18.2% over FY05-07

Capital efficiency is good for valuation

We have arrived at a target price of Rs215.40 using a Gordon Growth model. We have applied a discount of 10% to account for the low tier-1 capital and constraints in issuing fresh equity. At our target price, the stock would trade at 1.85x FY09F adjusted book value and 9x FY09F EPS.

The increase in our target price (from Rs155.30) is due to:

- rollover of the valuation year from end-FY08 to end-FY09 and rollout of estimates for FY10 in the valuation calculation;

- increase in our earnings estimates for FY08 and FY09; and,
- non-inclusion of equity dilution in our new estimates. Our earlier estimates factored in an equity dilution of 30m shares for FY08. This revision is because we now expect UBI to look at avenues like hybrid capital and preference share capital to shore up tier-I capital.

Table 4 : Earnings revision

	FY08F			FY09F		
	Old	New	% change	Old	New	% change
Reported net profit (Rs m)	10,386.8	10,665.4	+2.7	11740.0	12,462.6	+6.2
EPS (Rs)	19.4	21.1	+8.8	21.9	24.7	+12.8

Source: ABN AMRO forecasts

DISCLOSURES APPENDIX

This document is not for public distribution and has been furnished to you solely for your information only and must not be reproduced or re-distributed to any other person. Persons into whose possession this document may come are required to observe these restrictions. This material is for the personal information of the authorized recipient and we are not soliciting any action based upon it. This report is not to be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. It is for the general information of clients of ABN AMRO Asia Equities (India) Limited (AAAEIL). It does not constitute a personal recommendation or take into account the particular investment objectives, financial situation or needs of individual clients. We have reviewed the report and in so far as it includes current or historical information, it is believed to be reliable though its accuracy or completeness cannot be guaranteed. Neither AAAEIL nor any person connected with it accepts any liability arising from the use of this document. The information contained in the said report should be construed as non-discretionary in nature and the recipient of this material should rely on their own investigations and take their own professional advice. Price and value of investments referred to in this material may go up or down. Past performance is not a guide for future performance. Opinions expressed are our current opinions as of the date appearing on this material only. Clients should not await such reports at regular intervals / frequency and should not hold AAAEIL responsible for failure to send such reports. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance or other reasons that prevent us from doing so. Prospective investors are cautioned that any forward looking statements are not predictions and may be subject to change without notice. Our proprietary trading may make investment decisions that are inconsistent with the recommendations expressed herein. AAAEIL has two independent equity research groups : Institutional Equities (IE) and Retail Broking Services (RBS). This report has been prepared by the IE and is being distributed to RBS clients after the report has been distributed to IE clients. We and our affiliates, officer, directors and employees worldwide may (a) from time to time have long or short positions in and buy or sell securities thereof, of company(ies) mentioned therein or (b) be engaged in any other transactions involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company (ies) discussed herein or act as advisor or lender / borrower to such company (ies) or have other potential conflict of interest with respect to any recommendation and related information and opinions. The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities and no part of his or her compensation was, is or will be directly related to specific recommendations and related information and opinions. No part of this material may be duplicated in any form and / or re-distributed without AAAEIL's prior written consent.

UNION BANK OF INDIA: KEY FINANCIAL DATA

Income statement

Rsm	FY06A	FY07A	FY08F	FY09F	FY10F
Net interest income	22436.8	26349.0	28343.7	34478.8	41465.1
Non-interest income	6251.0	8419.0	9725.6	9068.1	10265.1
Total income	**28687.8**	**34768.0**	**38069.3**	**43546.9**	**51730.2**
Operating costs	-15522	-13994	-15743	-17465	-19378
Goodwill (amort/impaired)	n/a	n/a	n/a	n/a	n/a
Other costs	-861.0	-864.0	-950.4	-1045.4	-1150.0
Pre-prov operating profit	**12304.8**	**19910.0**	**21375.6**	**25036.0**	**31201.9**
Provisions charges	-3358.3	-6106.0	-5575.0	-6572.8	-8314.6
Post-prov op prof	**8946.5**	**13804.0**	**15800.6**	**18463.2**	**22887.3**
Associates (pre-tax)	n/a	n/a	n/a	n/a	n/a
Exceptionals (pre-tax)	-297.3	0.00	0.00	0.00	n/a
Other pre-tax items	0.00	0.00	0.00	0.00	0.00
Reported PTP	**8946.5**	**13804.0**	**15800.6**	**18463.2**	**22887.3**
Taxation	-2194.5	-5350.0	-5135.2	-6000.5	-7438.4
Minority interests	n/a	n/a	n/a	n/a	n/a
Preference dividends	n/a	n/a	n/a	n/a	n/a
Other post-tax items	-297.3	0.00	0.00	0.00	0.00
Reported net profit	**6454.7**	**8454.0**	**10665.4**	**12462.6**	**15448.9**

Source: Company data, ABN AMRO forecasts ***year to Mar***

Balance sheet

Rsm	FY06A	FY07A	FY08F	FY09F	FY10F
Net loans to customers	533800	623864	748079	896049	1068740
Other int earn assets	265876	287201	318239	379995	445444
Goodwill	n/a	n/a	n/a	n/a	n/a
Oth non-int earn assets	27677.2	31445.3	34264.8	37316.3	40622.9
Total assets	**891258**	**1026775**	**1196954**	**1426171**	**1687253**
Total customer deposits	743102	854658	998248	1205764	1447603
Oth int-bearing liabs	67443.9	76355.0	89714.2	95838.6	97338.6
Non int-bearing liab	35130.7	43863.1	48547.2	54034.9	58953.8
Total liabilities	**845676**	**974876**	**1136510**	**1355637**	**1603896**
Share capital	5051.2	5051.2	5051.2	5051.2	5051.2
Reserves	40530.3	46848.0	55392.9	65482.6	78305.9
Total equity (excl min)	**45581.5**	**51899.2**	**60444.1**	**70533.7**	**83357.1**
Minority interests	n/a	n/a	n/a	n/a	n/a
Total liab & sh equity	**891258**	**1026775**	**1196954**	**1426171**	**1687253**
Risk weighted assets	557800	645443	780914	936928	1120806
Est non-perf loans	n/a	n/a	n/a	n/a	n/a
Specific provisions	n/a	n/a	n/a	n/a	n/a
General provisions	n/a	n/a	n/a	n/a	n/a

Source: Company data, ABN AMRO forecasts ***year ended Mar***

Capital

Rsm	FY06A	FY07A	FY08F	FY09F	FY10F
Risk weighted assets	557800	645443	780914	936928	1120806
Reported net profit	6454.7	8454.0	10665.4	12462.6	15448.9
Opening risk assets	422660	557800	645443	780914	936928
Closing risk assets	557800	645443	780914	936928	1120806
Change in risk assets	135140	87642.9	135471	156015	183878
Capital required	9459.8	6135.0	9483.0	10921.0	12871.4
Free capital flow	-3005.1	2319.0	1182.4	1541.6	2577.5
Ordinary dividend paid	-1767.9	-1767.9	-2020.5	-2273.0	-2525.6
Share buy back/spec div	n/a	n/a	n/a	n/a	n/a
Equity / preference issue	n/a	n/a	n/a	n/a	n/a
Cash flow from financing	-1767.9	-1767.9	-2020.5	-2273.0	-2525.6
Net capital flow	-4773.0	551.1	-838.0	-731.4	51.9
Tier 1 capital	45390.0	54707.2	64752.6	76332.2	90645.6
Tier 1 capital ratio (%)	8.14	8.48	8.29	8.15	8.09

Lines in bold can be derived from the immediately preceding lines. ***year to Mar***
Source: Company data, ABN AMRO forecasts

UNION BANK OF INDIA: PERFORMANCE AND VALUATION

Standard ratios

Performance	Union Bank FY06A	FY07A	FY08F	FY09F	FY10F	Oriental Bank of Commerce FY08F	FY09F	FY10F	Punjab National Bank FY08F	FY09F	FY10F
Non-int inc/gr op inc (%)	21.8	24.2	25.5	20.8	19.8	26.4	23.3	23.0	25.0	23.5	23.9
Cost/income (%)	57.1	42.7	43.9	42.5	39.7	45.6	42.6	39.2	50.4	48.9	46.0
Costs/average assets (%)	2.03	1.55	1.50	1.41	1.32	1.39	1.31	1.25	2.15	2.06	1.96
Net income growth (%)	-10.2	31.0	26.2	16.9	24.0	0.87	8.43	13.0	19.2	12.9	26.1
Net cust loan growth (%)	33.1	16.9	19.9	19.8	19.3	20.4	19.1	18.3	19.1	18.8	18.6
Cust deposit growth (%)	19.8	15.0	16.8	20.8	20.1	18.6	16.5	17.2	15.7	15.8	17.8
Net interest margin (%)	2.87	2.83	2.63	2.70	2.73	2.28	2.40	2.48	3.27	3.29	3.30
Return on avg assets (%)	0.84	0.88	0.96	0.95	0.99	1.04	0.97	0.94	1.05	1.03	1.12
Return on avg equity (%)	16.5	17.3	19.0	19.0	20.1	15.3	14.6	14.5	16.4	16.2	17.6
RORWA (%)	1.25	1.29	1.38	1.34	1.39	1.60	1.45	1.39	1.55	1.47	1.56
					year to Mar			*year to Mar*			*year to Mar*
Valuation											
Normalised EPS growth (%)	-23.7	25.2	26.2	16.9	24.0	0.87	8.43	13.0	19.2	12.9	26.1
Reported PE (x)	14.3	10.9	8.68	7.43	5.99	7.94	7.32	6.48	10.8	9.54	7.56
Normalised PE (x)	13.7	10.9	8.68	7.43	5.99	7.94	7.32	6.48	10.8	9.54	7.56
Price/book value (x)	2.03	1.78	1.53	1.31	1.11	1.14	1.01	0.89	1.66	1.44	1.24
Price/adjusted BVPS (x)	2.84	2.24	1.85	1.58	1.33	1.17	1.05	0.94	1.94	1.68	1.43
Dividend yield (%)	1.91	1.91	2.18	2.46	2.73	1.89	2.08	2.27	1.59	1.59	1.59
					year to Mar			*year to Mar*			*year to Mar*

Per share data	FY06A	FY07A	FY08F	FY09F	FY10F
Tot adj dil sh, ave (m)	505.1	505.1	505.1	505.1	505.1
Pre-prov prof/share (INR)	24.4	39.4	42.3	49.6	61.8
Reported EPS (INR)	12.8	16.7	21.1	24.7	30.6
Normalised EPS (INR)	13.4	16.7	21.1	24.7	30.6
Book value per sh (INR)	90.2	102.7	119.7	139.6	165.0
Dividend per share (INR)	3.50	3.50	4.00	4.50	5.00
Dividend cover (x)	3.82	4.78	5.28	5.48	6.12
					year to Mar

Solvency	FY06A	FY07A	FY08F	FY09F	FY10F
Tier 1 capital ratio (%)	8.14	8.48	8.29	8.15	8.09
Total CAR (%)	13.1	13.3	13.1	12.7	11.9
Equity/assets (%)	5.11	5.05	5.05	4.95	4.94
Net cust loans/dep (%)	71.8	73.0	74.9	74.3	73.8
Rep NPL/gr cus adv (%)	3.93	3.00	2.75	2.53	2.33
Tot prov/rep NPLs (%)	60.3	69.6	67.5	66.1	63.4
Bad debts/advances (%)	0.50	0.79	0.69	0.73	0.78
					year to Mar

Priced as follows: UNBK.BO - Rs183.20; ORBC.BO - Rs263.55; PNBK.BO - Rs643.55
Source: Company data, ABN AMRO forecasts

UNION BANK OF INDIA: VALUATION METHODOLOGY

Table 5 : Valuation - Gordon Growth model

ROE (Three-year avg: FY08-10F)	19.4%	
COE (Rf = 8%)	13.0%	
g	7.0%	
Implied P/B	2.06x	
Target P/B	1.85x	(10% discount due to limited ability to raise fresh equity)
Adjusted book value	Rs116.1	
Target price	Rs**215.4**	

Sensitivity

		g = Long-term growth				
	Rs215.4	**6.0%**	**6.5%**	**7.0%**	**7.5%**	**8.0%**
	12.0%	232.8	244.4	258.4	275.5	296.9
	12.5%	214.9	224.1	234.9	248.0	263.9
COE = Cost of equity	**13.0%**	199.5	206.8	215.4	225.4	237.5
	13.5%	186.2	192.1	198.8	206.7	215.9
	14.0%	174.6	179.3	184.6	190.8	198.0

Source: ABN AMRO estimates

Union Bank of India

Company description — Buy

Union Bank of India (UBI) is a mid-size bank with a large network in Western and Northern India, specifically in the state of Uttar Pradesh. The bank has scaled up rapidly over the past few years and has also invested in developing a robust technology platform. UBI's financial position has improved significantly over the years. Recently, it entered into a three-way alliance with Bank of India and IDFC, considered an alternative to consolidation, given vociferous opposition to M&A from trade unions.

Price relative to country

Strategic analysis — Average SWOT company score: 4

Strengths — 4

Union Bank of India's key strengths include its very substantial network in Western and Northern India. The core banking solution rollout at an aggressive pace should also strengthen the bank's competitive position.

Weaknesses — 4

The government holds a majority 55.4% stake. Current legislation requires it to hold a minimum 51% stake. Thus, we believe the bank's ability to raise further resources through issue of equity is limited. However, the mitigating factor is the high ROE.

Opportunities — 4

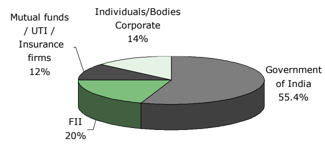
Deepening financial services offer UBI the opportunity to grow at a rapid pace over a longer timescale.

Threats — 3

Competition from private and foreign banks could intensify over the next few years.

Scoring range is 1-5 (high score is good)

Shareholding pattern, Sep 07



Source: www.nseindia.com

Market data

Headquarters
Union Bank Bhavan, 239, Vidhan Bhavan Marg, Nariman Point, Mumbai - 400 021.

Website
www.unionbankofindia.com

Shares in issue
505.1m

Freefloat
45%

Majority shareholders
Govt. of India (55%)

India

Country view — Neutral

The ABN AMRO Indian PMI suggests the economy is still powering ahead despite the global headwinds, thanks to its domestically-oriented economic structure. Moreover inflationary pressure has eased with the recent rate hikes by the RBI. At the sector level, we still like autos (commercial vehicles), software and construction-related stocks as infrastructure spending should be a growth driver in FY08.

The country view is set in consultation with the relevant company analyst but is the ultimate responsibility of the Strategy Team.

Country rel to Asia Pacific

Competitive position — Average competitive score: 4-

Supplier power — 4-

Banks typically lack pricing power on the liability side in the long term, as consumers can shift preferences among various financial instruments.

Barriers to entry — 4-

Distribution access, brand identity and high capital requirements for infrastructure investment, as well as for growing the balance sheet, act as entry barriers.

Customer power — 4+

Asset prices tend to be market-driven. Disintermediation in wholesale lending and competition on retail lending means banks have no pricing power in the asset market.

Substitute products — 4-

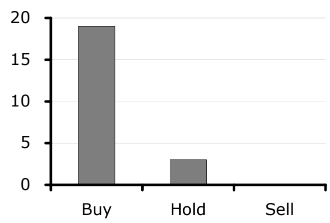
Alternative financial savings pose a threat to the liability franchise. Similarly, disintermediation poses a threat to the asset franchise.

Rivalry — 3-

Rivalries tend to be intense due to the fragmented nature of the financial services market. Product innovation is duplicated easily; hence, the lifecycle tends to be short.

Scoring range 1-5 (high score is good) Plus = getting better Minus = getting worse

Broker recommendations



Source: Bloomberg