BT EXCLUSIVE

Asia's contribution at UBS primed to cross 30% of global earnings

Its Asia wealth franchise aims to close current financial year on all-time record, boosted by strong H1 showing

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Mr Koh is confident that UBS Asia-Pacific can maintain its earnings momentum in H2, noting that July was a "pretty good" month for the bank. PHOTO: UBS

Singapore

UBS, the world's largest wealth manager, is targeting for Asia to account for over 30 per cent of its global earnings, with the region set to emerge from the global health crisis much earlier than elsewhere in the world.

The bank's Asia wealth franchise also aims to close the current financial year on an all-time record, boosted by a strong first-half showing that propelled the business to become the largest regional contributor to group profit, UBS Asia-Pacific president Edmund Koh told The Business Times in an interview.

Its H1 2020 profit before tax of US$1.3 billion has since eclipsed 2019 full-year profit before tax by 17 per cent. This contributed to 30 per cent of UBS's group earnings in H1 2020 - a first for the Asia business.

"In the past, we typically contributed anywhere from 14 to 20 per cent to group profit, never 30 per cent. The next challenge is to go past 30 per cent because Asian economies are still growing, and are still hungry," said Mr Koh.

UBS Asia-Pacific's profit before tax for the second quarter jumped 71 per cent year-on-year to a record US$233 million, driven by strong operating income growth and cost management that largely came from Singapore and Hong Kong.

Operating income grew 19 per cent to a record US$658 million - due to strong transaction-based income and net interest income - while cost-to-income ratio fell 11 percentage points year-on-year to 65 per cent.

Amid market corrections, UBS Asia-Pacific's invested assets under management (AUM) rose to US$449 billion as at H1 2020, from US$411 billion a year ago. This comes as the bank had capitalised on "a lot of opportunities" in the market despite macro uncertainties, said Mr Koh.

He told BT there was still ample liquidity in the market in the first half, with very low interest rates further prompting investors to search for higher yields.

A selection of high yields - especially in the US - were seen as bright spots in this time of crisis.

In the field of equities, there are some sectors that have been performing well amid Covid-19, which include TMT (technology, media and telcom), digital, and ESG (environmental, social and governance) businesses, said Mr Koh.

"All these good calls by our chief investment officer gave our clients a lot of transaction opportunities in the first half and therefore, our invested assets went up."

Mr Koh is confident that UBS Asia-Pacific can maintain its earnings momentum in H2, noting that July was a "pretty good" month for the bank.

Some 60 per cent of its full-year earnings are typically made in H1, with the remaining 40 per cent made in H2. "If you extrapolate that, it's going to be a pretty good second half for us. I am expecting our team to maintain our results and end this year on an all-time record."

Costs were largely f1at in H1 while losses from bad debt stood at about US$1 million, most of which were recognised in the first quarter. Against this backdrop, the bank has no plans to trim its Asia headcount amid the challenging environment.

UBS's low leverage levels in the region also means sufficient dry powder to lap up more opportunities in the second half.

As at H1 2020, leverage stood at around 10 per cent - or US$45 billion - of total invested AUM in Asia, compared with around 18-25 per cent for its peers in the region, said Mr Koh, who noted that only about one third of the US$45 billion leverage has been utilised.

"There's a lot of dry powder to keep going. We are entirely comfortable in this regard that if we need to leverage up, we can do it quite comfortably," he noted.

Prolonged economic pain and heightened political tensions from the US elections are expected to cause "some nervousness" in the markets in H2, in turn creating fresh opportunities for investors.

"Clients who had missed the opportunity when the market took a downward slide earlier this year may want to deploy their funds back into the market in the next slide. Some who have de-leveraged may want to come into leverage again to buy at a discount. The second half of 2020 will continue to provide more options for us," said Mr Koh.

Overall, UBS remains risk-on in Asia, which continues to outpace other regions in terms of market recovery.

As an example, the Asia ex-Japan benchmark stock index has outperformed the S&P 500 by 6 per cent since mid-June, with domestic Chinese stocks leading the charge. The onshore CSI 300 Index is up 29 per cent since its low in March.

"Asia, in our view, is entering the next phase of recovery, with trade and consumption likely to power growth in H2. This backdrop gives us confidence to stay risk-on in the region and globally," said Mr Koh.

Singapore and India are the bank's most preferred equities in Asia. Sector-wise, the bank sees opportunities in technology, healthcare, logistics, consumer discretionary and e-commerce, among others.

While there are concerns of overvaluation in the booming tech scene, Mr Koh said current valuations are "reasonable", given that the sector will continue to grow and generate profits.

"It is no longer a speculative sector, this is a sector that is here to stay. The population base is so huge in Asia alone and using technology is one of the only ways to lift people up from poverty. This sector is not just replacing traditional industries, but in some instances, decimating existing ones."

That said, UBS remains watchful on economic pains that will grow to be more acute in H2. While hard-hit sectors such as aviation and tourism will continue to bear the brunt of Covid-19 impact, the banking sector is also expected to take a hit as government support measures begin to unwind globally.

"The heavy lifting has not started, masked by a lot of strong monetary assistance by governments around the world. It will hit quite badly from Q4 onwards when the real hard knocks come in," said Mr Koh.

He is expecting incremental bad debt, unemployment and industry restructuring efforts to be more pronounced over the next few months.

That being said, the nature of UBS's business offers some cushion from these risks, compared with corporate or retail banking, said Mr Koh.

"We are in a business that targets the high net worth. In this segment, there is perhaps a fair bit more cushion for us. In securities lending, it's a pretty conservative business for us. We are hopefully slightly more insulate, but we are always on the lookout to ensure that we manage these challenges very well."

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