

# Oversea-Chinese Banking Corp

## Earnings volatility from GEH

**Rating: Neutral**  
 (Maintained at Neutral)

### SINGAPORE | REGIONAL BANKS | UPDATE

- OCBC is vulnerable to volatility from GEH's Non-Par Fund which will impact its earnings
- Loans growth likely to be at a moderate pace in FY14
- Possible uptick in NPLs from current low levels
- Bancassurance model remains robust and fees and commission should continue to gain traction from wealth-related and trade-related fees
- Maintain "Neutral", with a revised TP of S\$10.62 based on P/B of 1.45X and FY14E BVPS of S\$7.32 and coverage is transferred from previous analyst

#### What is the news?

OCBC will be announcing its 4Q13 results in February 2014. Since the previous results season, where we maintained our "Neutral" call on OCBC, share price has decreased. Management previously guided for high single-digit loans growth in FY14 and sees a slowdown in the Singapore business loans growth.

#### How do we view this?

OCBC continues to be our least preferred bank amongst the Singapore Banking Sector due to its volatile earnings profile. With the steepening of the yield curve in response to QE tapering by the US Fed, we expect their earnings for 4Q13 to feel the drag from mark-to-market losses on GEH's Non-Par Fund and into FY14. Although OCBC has been able to grow their fees and commission at a good momentum, we remain cautious going into FY14 due to uncertainties on some ASEAN countries. We expect wealth-related fees to show increasingly stronger growth in FY14 as OCBC puts focus on increasing its AUM and our outlook of more favourable market conditions in FY14 with major markets showings signs of recovery. We see a potential for re-rating in the medium to longer term when GEH shows that the higher yields from the currently rising long-term interest rate environment generates more investment income and, NBEV and total weighted new sales from offering higher return products. Management has also previously guided that current NPL ratio is too low and expects it to be around 0.7%-1.0% going forward. We have a more in depth discussion on OCBC and its peers in our [Singapore Banking Sector Report](#) issued on 30 December 2013.

#### Investment Actions?

As coverage is transferred from previous analyst, our forecasts are revised and FY15 estimates are introduced. Based on our FY14E BVPS of S\$7.32, and a P/B of 1.45X, we derive a new target price of S\$10.62. Based on current share price and our cautious outlook on OCBC, we maintain our rating at "Neutral".

#### Key Financial Summary

FYE Dec	FY11	FY12	FY13F	FY14F	FY15F
Net interest income (SGD mn)	3,410	3,747	3,824	4,166	4,457
Non interest income (SGD mn)	2,251	4,213	2,707	2,952	3,158
NPAT, adj. (SGD mn)	2,280	2,825	2,708	2,920	3,144
EPS, adj. (SGD)	0.65	0.79	0.77	0.83	0.91
P/E (X),adj.	13.6	12.4	13.1	12.0	11.0
BVPS (SGD)	6.02	6.68	6.83	7.32	7.88
P/B (X)	1.5	1.5	1.5	1.4	1.3
DPS (SGD)	0.30	0.33	0.34	0.34	0.35
Div. Yield (%)	3.4%	3.4%	3.4%	3.4%	3.5%

Source: Bloomberg, PSR est.

\*Forward multiples and yields are based on current price and historical multiples and yields are based on historical prices

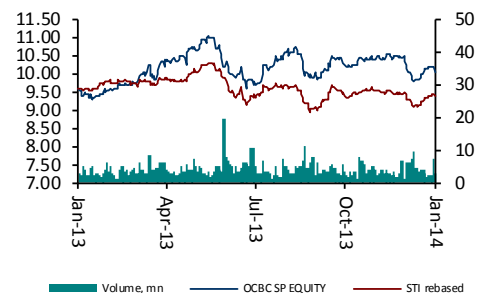
**Target Price (SGD) 10.62**  
**Forecast Dividend (SGD) 0.34**  
**Closing Price (SGD) 10.02**  
**Potential Upside 9.4%**

#### Company Description

OCBC, together with its subsidiaries, provides a range of services including banking, life assurance, general insurance, private banking, and asset management. Its main operations are in Singapore and Malaysia, with representative offices in 15 countries and territories.

#### Company Data

Raw Beta (Past 2yrs weekly data) 1.04  
 Market Cap. (USD mn /SGD mn) 27160 / 34396  
 3M Average Daily T/O (mn) 3.5  
 Closing Px in 52 week range 9.50 11.20



#### Major Shareholders

	(%)
1. Selat Pte Ltd	11.47
2. Aberdeen	7.67
3. Singapore Investments (Pte) Ltd	3.69

#### Valuation Method

P/B Multiple

#### Phillip Research Team

##### Joshua Tan

joshuatn@phillip.com.sg  
 +65 6531 1793

##### Benjamin Ong (Research Associate)

benjaminongcw@phillip.com.sg  
 +65 65311535

Table 1. Growth in revenue

SGD mn	3Q13	3Q12	%y-y ch	2Q13	%q-q ch
Net interest income	978	944	3.6%	961	1.8%
Net fee and comm inc	352	303	16.2%	347	1.4%
Profits from insurance	280	226	23.9%	56	400.0%
Other non-interest inc	147	1,485	-90.1%	203	-27.6%
<b>Total</b>	<b>1,757</b>	<b>2,958</b>	<b>-40.6%</b>	<b>1,567</b>	<b>12.1%</b>

Table 2. Fee and commission income

SGD mn	3Q13	3Q12	%y-y ch	2Q13	%q-q ch
Brokerage	17	16	6.3%	18	-5.6%
Wealth management	96	82	17.1%	109	-11.9%
Fund management	24	21	14.3%	26	-7.7%
Credit card	17	13	30.8%	17	0.0%
Loan-related	75	64	17.2%	73	2.7%
Trade and remittances	56	55	1.8%	51	9.8%
Guarantees	5	5	0.0%	4	25.0%
Investment Banking	37	21	76.2%	24	54.2%
Service charges	18	18	0.0%	20	-10.0%
Others	7	8	-12.5%	5	40.0%
<b>Total Fee and Comm</b>	<b>352</b>	<b>303</b>	<b>16.2%</b>	<b>347</b>	<b>1.4%</b>

Table 3. Other non-interest income

SGD mn	3Q13	3Q12	%y-y ch	2Q13	%q-q ch
Net trading income	47	144	-67.4%	90	-47.8%
Net gain on Invnt securities	37	13	184.6%	46	-19.6%
Disposal of properties	6	18	N.M	-	#DIV/0!
Others	19	18	5.6%	16	18.8%
<b>Total other non int Inc</b>	<b>109</b>	<b>193</b>	<b>-43.5%</b>	<b>149</b>	<b>-26.8%</b>

**Table 4. Loans by Industries**

SGD mn	3Q13	3Q12	%y-y ch	2Q13	%q-q ch
Agri, mining & quarrying	5,694	4,704	21.0%	5,413	5.2%
Manufacturing	9,923	8,546	16.1%	9,296	6.7%
Building and construction	23,672	21,254	11.4%	23,667	0.0%
Housing loans	41,193	36,243	13.7%	40,465	1.8%
General commerce	23,251	17,401	33.6%	23,007	1.1%
Tpt, storage & comms	11,114	9,351	18.9%	10,872	2.2%
FIs, invt & holding co	22,847	20,823	9.7%	22,410	2.0%
Professionals & Pri inv	15,922	13,869	14.8%	15,851	0.4%
Others	8,303	7,553	9.9%	7,888	5.3%
<b>Total loans</b>	<b>161,919</b>	<b>139,744</b>	<b>15.9%</b>	<b>158,869</b>	<b>1.9%</b>

**Table 5. Loans by currencies**

SGD mn	3Q13	3Q12	%y-y ch	2Q13	%q-q ch
Singapore dollar	73,315	66,952	9.5%	73,336	0.0%
US dollar	41,634	30,807	35.1%	40,092	3.8%
Malaysian ringgit	19,835	18,010	10.1%	19,817	0.1%
Indonesian rupiah	4,854	4,760	2.0%	5,376	-9.7%
Others	22,281	19,215	16.0%	20,248	10.0%
<b>Total loans</b>	<b>161,919</b>	<b>139,744</b>	<b>15.9%</b>	<b>158,869</b>	<b>1.9%</b>

**Table 6. Operating profit by Business segments**

SGD mn	3Q13	3Q12	%y-y ch	2Q13	%q-q ch
Global Consumer/ Private Banking	180	156	15.4%	199	-9.5%
Global Corporate/ Investment Banking	471	422	11.6%	465	1.3%
Global Treasury and Markets	87	178	-51.1%	98	-11.2%
Insurance	306	213	43.7%	36	750.0%
Others	(77)	(41)	87.8%	(47)	63.8%
<b>Total Profit</b>	<b>967</b>	<b>928</b>	<b>4.2%</b>	<b>751</b>	<b>28.8%</b>

**Table 7. Profit before tax by Geographical segments**

SGD mn	3Q13	3Q12	%y-y ch	2Q13	%q-q ch
Singapore	633	595	6.4%	403	57.1%
Malaysia	346	320	8.1%	356	-2.8%
Rest of SEA	132	116	13.8%	132	0.0%
Greater China	94	106	-11.3%	85	10.6%
Other Asia Pacific	40	39	2.6%	37	8.1%
Rest of the World	27	21	28.6%	23	17.4%
<b>Total NPBT</b>	<b>1,272</b>	<b>1,197</b>	<b>6.3%</b>	<b>1,036</b>	<b>22.8%</b>

Source (tables 1-7): Company, Phillip Securities Research

Fig 1: Net interest margin

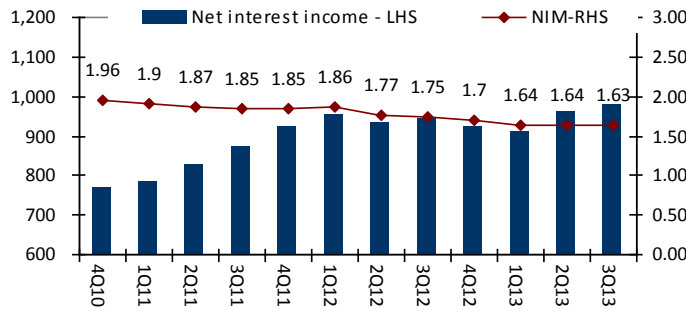


Fig 2: NonInt/Total revenue

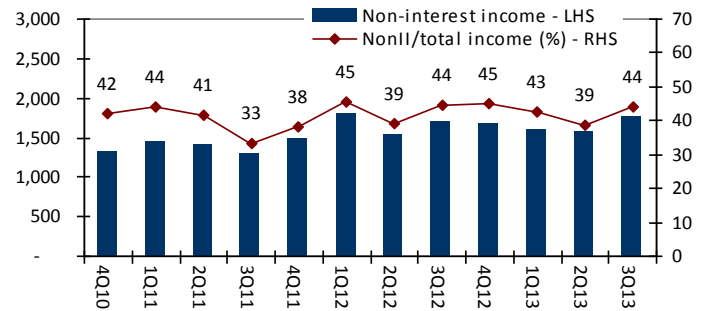


Fig 3: Efficiency ratio

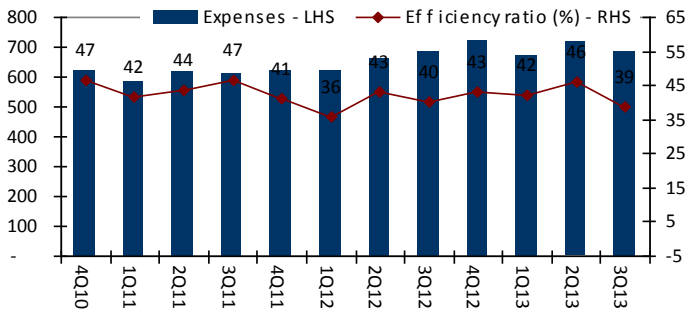


Fig 4: Net profit margin

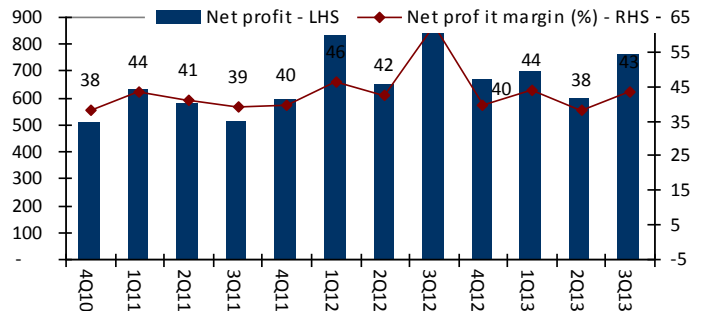


Fig 5: Deposits, Loans, LDR

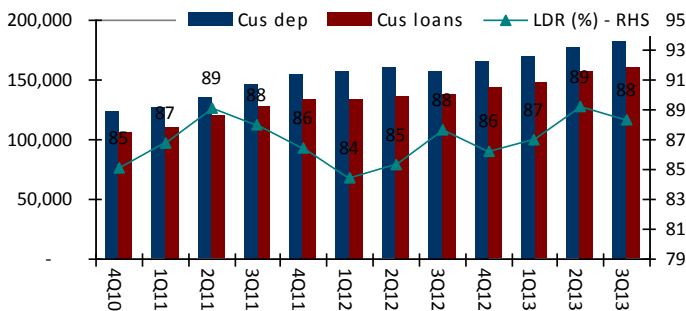


Fig 6: NPA, NPL

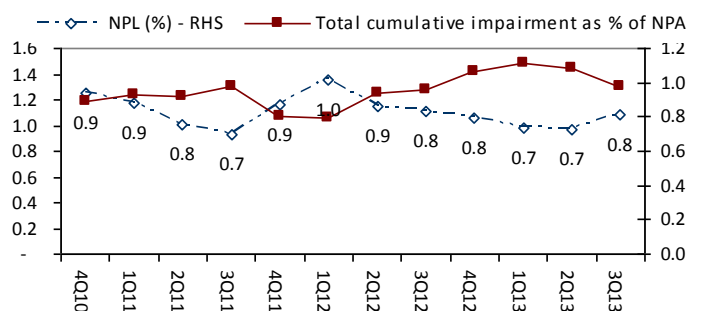


Fig 7: Growth in selected asset items

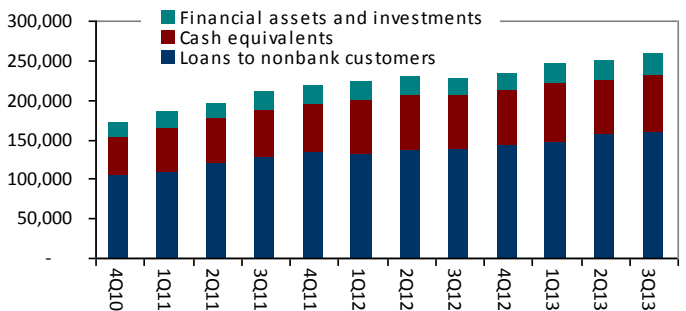


Fig 8: CAR

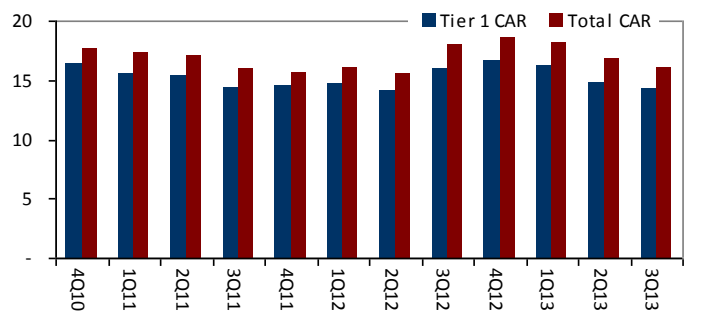


Fig 9: ROE and ROA

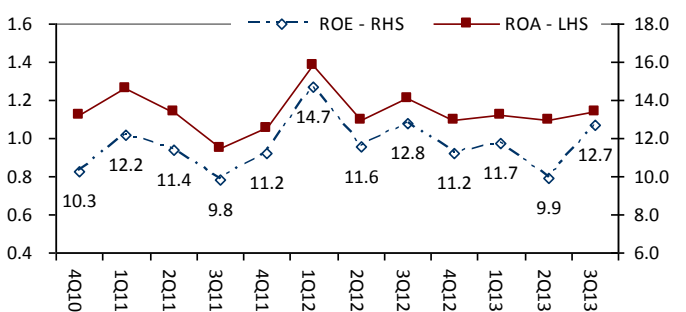


Fig 10: EPS and NBV

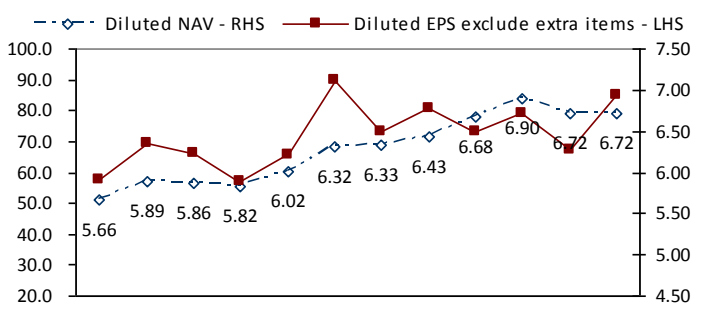


Fig 11: Profit before tax by geographical segment

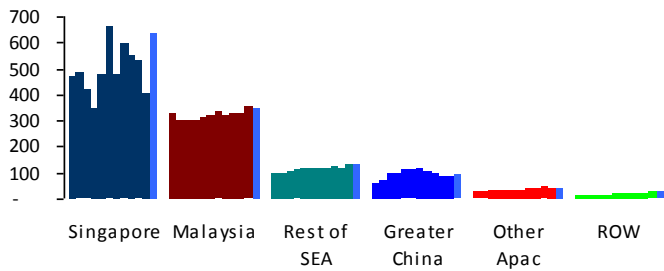


Fig 12: Geo segment breakdown

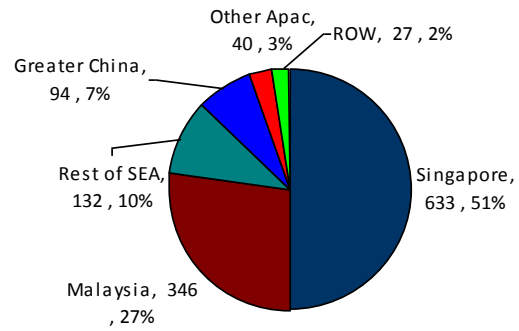


Fig 13: Operating profit by Business segment

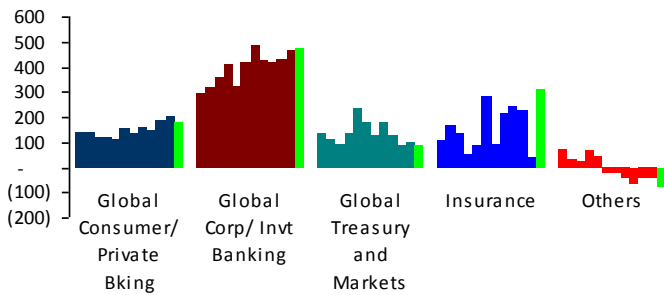


Fig 14: Net interest income trend

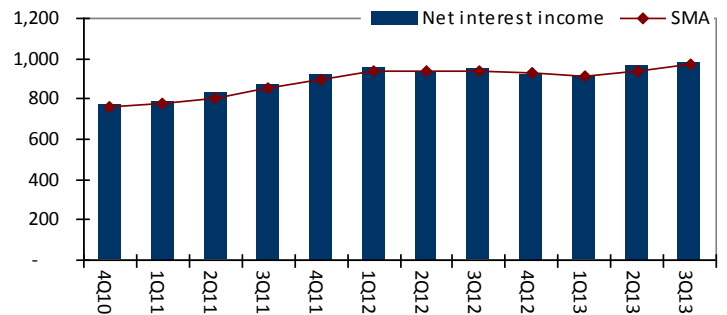


Fig 15: Fee and Commission trend

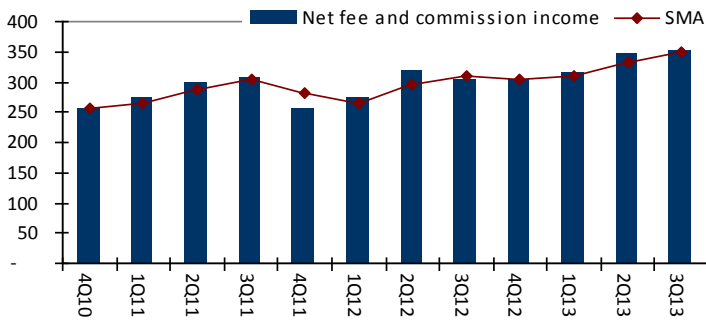
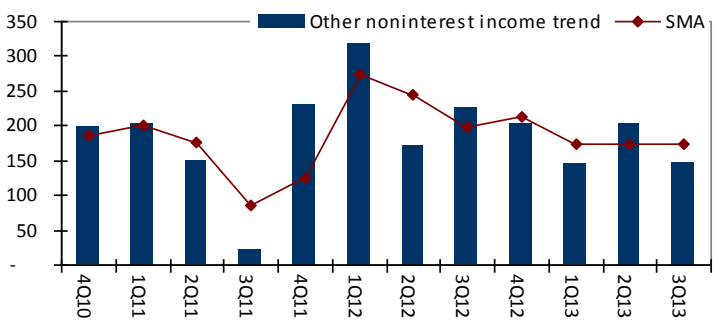


Fig 16: Other noninterest income trend



Source: Company, PSR

For Financial Summary at the end of report

FYE Dec	FY11	FY12	FY13F	FY14F	FY15F
<b>Income Statement (SGD mn)</b>					
Net Interest Income	3,410	3,747	3,824	4,166	4,457
Fees and Commission	1,137	1,198	1,338	1,394	1,528
Other Non interest income	1,114	3,015	1,369	1,558	1,630
<b>Total operating income</b>	<b>5,661</b>	<b>7,960</b>	<b>6,532</b>	<b>7,118</b>	<b>7,615</b>
Operating expenses	2,430	2,695	2,785	2,977	3,183
Provisions	283	332	340	450	458
<b>Operating profit</b>	<b>2,948</b>	<b>4,933</b>	<b>3,406</b>	<b>3,690</b>	<b>3,973</b>
Associates & JVs	8	27	60	8	8
<b>Profit Before Tax</b>	<b>2,956</b>	<b>4,960</b>	<b>3,466</b>	<b>3,698</b>	<b>3,981</b>
Taxation	478	698	555	592	637
<b>Profit After Tax</b>	<b>2,478</b>	<b>4,262</b>	<b>2,911</b>	<b>3,106</b>	<b>3,344</b>
Non-controlling Interest	166	269	205	186	201
<b>Net Income, reported</b>	<b>2,312</b>	<b>3,993</b>	<b>2,707</b>	<b>2,920</b>	<b>3,144</b>
<b>Net Income, adj.</b>	<b>2,280</b>	<b>2,825</b>	<b>2,708</b>	<b>2,920</b>	<b>3,144</b>

FYE Dec	FY11	FY12	FY13F	FY14F	FY15F
<b>Per share data (SGD)</b>					
EPS, reported	0.66	1.13	0.77	0.83	0.91
EPS, adj.	0.65	0.79	0.77	0.83	0.91
DPS	0.30	0.33	0.34	0.34	0.35
BVPS	6.02	6.68	6.83	7.32	7.88

FYE Dec	FY11	FY12	FY13F	FY14F	FY15F
<b>Cashflow Statements (SGD mn)</b>					
PBT	2,956	4,960	3,468	3,698	649
Adjustments	507	(714)	521	631	73
Op cash before WC changes	3,463	4,246	3,989	4,329	722
WC changes	(5,639)	1,172	(7,907)	(1,705)	(1,426)
<b>Cashflow from ops</b>	<b>(2,585)</b>	<b>4,779</b>	<b>(4,473)</b>	<b>2,032</b>	<b>(812)</b>
<b>Cashflow from investments</b>	<b>(1,895)</b>	<b>863</b>	<b>(1,196)</b>	<b>(312)</b>	<b>(474)</b>
<b>Cashflow from financing</b>	<b>5,883</b>	<b>(1,944)</b>	<b>7,814</b>	<b>(567)</b>	<b>272</b>
<b>Net change in cash</b>	<b>1,404</b>	<b>3,500</b>	<b>2,130</b>	<b>1,154</b>	<b>(961)</b>
<b>CCE, end</b>	<b>12,898</b>	<b>16,398</b>	<b>18,528</b>	<b>19,681</b>	<b>10,200</b>

FYE Dec	FY11	FY12	FY13F	FY14F	FY15F
<b>Supplementary items</b>					
CET1 CAR (%)	n/a	n/a	13.3%	13.2%	13.3%
Tier 1 CAR (%)	14.5%	16.7%	15.5%	15.3%	15.3%
Total CAR (%)	15.7%	18.6%	17.3%	16.9%	16.8%

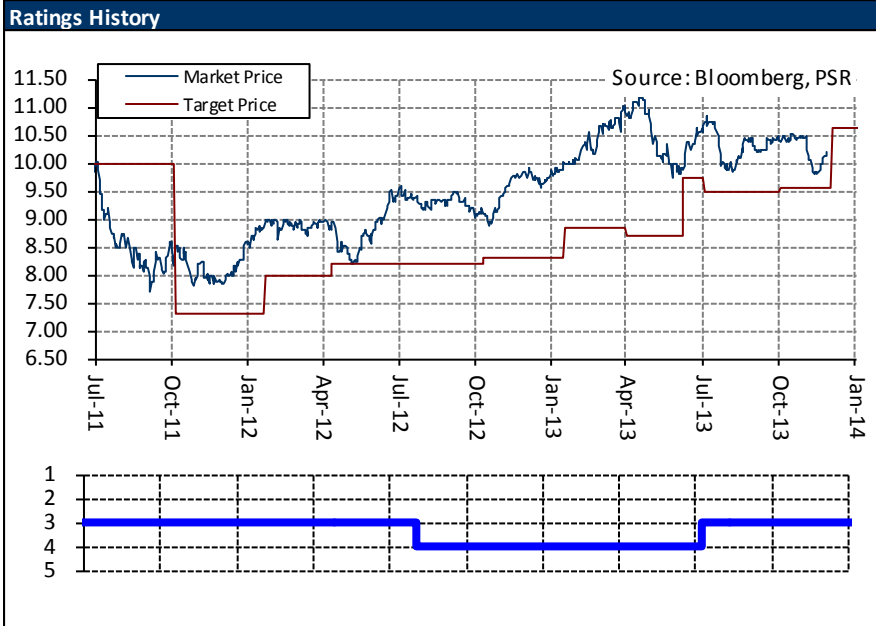
Source: Company Data, PSR est

FYE Dec	FY11	FY12	FY13F	FY14F	FY15F
<b>Balance Sheet (SGD mn)</b>					
Cash bal with central banks	12,897	16,397	18,528	19,729	23,791
Due from banks	28,615	29,811	32,392	33,100	30,486
Debt and equity securities	15,081	14,932	14,927	13,786	13,404
Loans and bills receivable	133,557	142,376	162,729	173,915	185,225
Life Assur. Fund Inv. Assets	49,088	52,271	53,839	55,454	57,118
Others	38,520	40,156	41,823	44,249	47,294
<b>Total Assets</b>	<b>277,758</b>	<b>295,943</b>	<b>324,239</b>	<b>340,233</b>	<b>357,318</b>
Due to banks	21,653	25,656	23,678	23,988	23,988
Due to non-bank customers	154,555	165,139	183,831	194,976	207,204
Life Assur. Fund Liabilities	49,204	52,387	53,959	55,577	57,245
Debts issued	13,063	11,424	21,990	22,650	23,329
Others	13,893	12,636	12,845	13,225	13,617
<b>Total liabilities</b>	<b>252,368</b>	<b>267,242</b>	<b>296,302</b>	<b>310,416</b>	<b>325,383</b>
Shareholder's equity	22,571	25,804	24,835	26,528	28,446
Non-controlling interest	2,819	2,897	3,102	3,288	3,489
<b>Total Equity</b>	<b>25,390</b>	<b>28,701</b>	<b>27,937</b>	<b>29,817</b>	<b>31,934</b>

FYE Dec	FY11	FY12	FY13F	FY14F	FY15F
<b>Valuation Ratios</b>					
P/E (X), adj.	13.6	12.4	13.1	12.0	11.0
P/B (X)	1.5	1.5	1.5	1.4	1.3
Dividend Yield (%)	3.4%	3.4%	3.4%	3.4%	3.5%

FYE Dec	FY11	FY12	FY13F	FY14F	FY15F
<b>Growth &amp; Margins (%)</b>					
<b>Growth</b>					
Net interest income	15.7%	9.9%	2.1%	8.9%	7.0%
Non interest income	-5.3%	87.2%	-35.7%	9.0%	7.0%
Pre provision operating profi	6.3%	40.6%	-17.9%	9.0%	7.0%
Operating income	2.3%	67.3%	-30.9%	8.3%	7.7%
Net income, reported	2.6%	72.7%	-32.2%	7.9%	7.7%
Net income, adj	1.2%	23.9%	-4.1%	7.8%	7.7%
<b>Margins</b>					
Net interest margin	1.87%	1.77%	1.63%	1.67%	1.70%
<b>Key Ratios (%)</b>					
ROE	11.5%	13.0%	11.7%	11.6%	11.6%
ROA	1.1%	1.2%	1.0%	1.0%	1.0%
RORWA	2.0%	2.2%	1.9%	1.8%	1.8%
Non-interest/total income ra	39.8%	52.9%	41.4%	41.5%	41.5%
Cost/income ratio	42.9%	33.9%	42.6%	41.8%	41.8%
Loan/deposit ratio	86.4%	86.2%	88.5%	89.2%	89.4%
NPL ratio	0.87	0.79	0.81	0.97	0.96

Source: Company Data, PSR est



**PSR Rating System**

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
<-20%	Sell	5

**Remarks**  
We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

#### Important Information

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<b>Contact Information (Singapore Research Team)</b>		
<b>Management</b>		
<b>Chan Wai Chee</b> (CEO, Research - Special Opportunities)	+65 6531 1231	<b>General Enquiries</b> Research Assistant +65 6531 1240
<b>Joshua Tan</b> (Head, Research - Equities & Asset Allocation)	+65 6531 1249	
<b>Macro   Asset Allocation   Equities</b>	<b>Commodities   Offshore &amp; Marine</b>	<b>US Equities</b>
Joshua Tan +65 6531 1249	Nicholas Ong +65 6531 5440	Wong Yong Kai +65 6531 1685
<b>Telecoms</b>	<b>Real Estate</b>	<b>Real Estate</b>
Colin Tan +65 6531 1221	Caroline Tay +65 6531 1792	Lucas Tan +65 6531 1229
<b>Market Analyst   Equities</b>		
Kenneth Koh +65 6531 1791		

<b>Contact Information (Regional Member Companies)</b>		
<b>SINGAPORE</b>	<b>MALAYSIA</b>	<b>HONG KONG</b>
<b>Phillip Securities Pte Ltd</b> Raffles City Tower 250, North Bridge Road #06-00 Singapore 179101 Tel +65 6533 6001 Fax +65 6535 6631 Website: <a href="http://www.poems.com.sg">www.poems.com.sg</a>	<b>Phillip Capital Management Sdn Bhd</b> B-3-6 Block B Level 3 Megan Avenue II, No. 12, Jalan Yap Kwan Seng, 50450 Kuala Lumpur Tel +603 2162 8841 Fax +603 2166 5099 Website: <a href="http://www.poems.com.my">www.poems.com.my</a>	<b>Phillip Securities (HK) Ltd</b> 11/F United Centre 95 Queensway Hong Kong Tel +852 2277 6600 Fax +852 2868 5307 Websites: <a href="http://www.phillip.com.hk">www.phillip.com.hk</a>
<b>JAPAN</b>	<b>INDONESIA</b>	<b>CHINA</b>
<b>Phillip Securities Japan, Ltd.</b> 4-2 Nihonbashi Kabuto-cho Chuo-ku, Tokyo 103-0026 Tel +81-3 3666 2101 Fax +81-3 3666 6090 Website: <a href="http://www.phillip.co.jp">www.phillip.co.jp</a>	<b>PT Phillip Securities Indonesia</b> ANZ Tower Level 23B, Jl Jend Sudirman Kav 33A Jakarta 10220 – Indonesia Tel +62-21 5790 0800 Fax +62-21 5790 0809 Website: <a href="http://www.phillip.co.id">www.phillip.co.id</a>	<b>Phillip Financial Advisory (Shanghai) Co Ltd</b> No 550 Yan An East Road, Ocean Tower Unit 2318, Postal code 200001 Tel +86-21 5169 9200 Fax +86-21 6351 2940 Website: <a href="http://www.phillip.com.cn">www.phillip.com.cn</a>
<b>THAILAND</b>	<b>FRANCE</b>	<b>UNITED KINGDOM</b>
<b>Phillip Securities (Thailand) Public Co. Ltd</b> 15th Floor, Vorawat Building, 849 Silom Road, Silom, Bangrak, Bangkok 10500 Thailand Tel +66-2 6351700 / 22680999 Fax +66-2 22680921 Website <a href="http://www.phillip.co.th">www.phillip.co.th</a>	<b>King &amp; Shaxson Capital Limited</b> 3rd Floor, 35 Rue de la Bienfaisance 75008 Paris France Tel +33-1 45633100 Fax +33-1 45636017 Website: <a href="http://www.kingandshaxson.com">www.kingandshaxson.com</a>	<b>King &amp; Shaxson Capital Limited</b> 6th Floor, Candlewick House, 120 Cannon Street, London, EC4N 6AS Tel +44-20 7426 5950 Fax +44-20 7626 1757 Website: <a href="http://www.kingandshaxson.com">www.kingandshaxson.com</a>
<b>UNITED STATES</b>	<b>AUSTRALIA</b>	<b>SRI LANKA</b>
<b>Phillip Futures Inc</b> 141 W Jackson Blvd Ste 3050 The Chicago Board of Trade Building Chicago, IL 60604 USA Tel +1-312 356 9000 Fax +1-312 356 9005	<b>PhillipCapital</b> Level 12, 15 William Street, Melbourne, Victoria 3000, Australia Tel +61-03 9629 8288 Fax +61-03 9629 8882 Website: <a href="http://www.phillipcapital.com.au">www.phillipcapital.com.au</a>	<b>Asha Phillip Securities Limited</b> No 10, Prince Alfred Tower, Alfred House Gardens, Colombo 3, Sri Lanka Tel: (94) 11 2429 100 Fax: (94) 11 2429 199 Website: <a href="http://www.ashaphillip.net/home.htm">www.ashaphillip.net/home.htm</a>
<b>INDIA</b>		
<b>PhillipCapital (India) Private Limited</b> No. 1, C-Block, 2nd Floor, Modern Center , Jacob Circle, K. K. Marg, Mahalaxmi Mumbai 400011 Tel: (9122) 2300 2999 Fax: (9122) 6667 9955 Website: <a href="http://www.phillipcapital.in">www.phillipcapital.in</a>		