

OCBC Bank Limited

Battening down the hatches

SINGAPORE | BANKING | RESULTS

- 1Q16 NPAT of S\$893mn declined 12% yoy driven by a decline of 22% yoy in non-interest income.
- Net interest income declined 3% yoy on the back of margin expansion by 13bps yoy. 1Q16 NIMs at 1.75% (1Q15: 1.62%)
- NPL was higher yoy at 1.06% (1Q15: 0.64%).
- **Maintain "NEUTRAL" with a higher TP S\$8.07 (previously S\$7.85), pegged at 0.95x FY16F book value (not including preference shares).**

Results at a glance

(SGD mn)	1Q16	1Q15	yoy (%)	4Q15	qoq (%)	Comments
Net interest incom	1,307	1,249	5%	1,341	-3%	NIMs +13bps yoy, loans -1%
Fees & Comm	374	395	-5%	402	-7%	Lower WM, Trade and Inv. Banking Fees
Insurance	122	237	-49%	272	-55%	Insurance Business down -57% yoy
Other NII	257	227	13%	286	-10%	
Total Reveue	2,060	2,108	-2%	2,301	-10%	
Expenses	-923	-873	6%	-974	-5%	
Core Net Profit	856	993	-14%	960	-11%	

Source: Company, PSR

How do we view this?

Loans declined but a balanced performance across its segments. OCBC's customer loan book declined 1% yoy led by General Commerce loans, Manufacturing loans and Transport, storage and communication loans. The decline was partially offset by continued growth by a broader selection of loan segments. We think that the performance profile of loan segments are more balanced and are not overly reliant on strong performance by a couple of segments.

Deposits weaker owing to weaker loan demand. Demand for loans have weaken and as part of the asset liability management to control costs, deposits has correspondingly declined. Particularly for USD loans which have weaken in 1Q16. Total deposits fell 4.7% yoy. Fixed deposits (FD) fell 5.9% yoy partially offset by Current and Savings Account (CASA) which grew 5% yoy. Management would not be aggressive in competing for deposits. This is in line with our expectations that OCBC should maintain LDR between 83% to 85% under a weak yet competitive lending and deposits market in 2016.

NIM expansion of 13bps yoy and 1bps qoq driven by discipline to price risk accurately. The NIM expansion was driven by an increase in loans gross yield because of discipline to price loans according to risk of the borrower. Management had eschewed compromising loans gross yield to gain market share and this may continue for FY2016. Management has improved their guidance for NIM in FY16 from 1.7% in 4Q15 to 1.75% in 1Q16.

Loan book performance undesirable either in rising or declining interest rates environment in the short-term. Macroeconomic sentiments have become less dire just after the beginning of 2016 and SIBOR/SOR moved lower. As a result, prices of loans will experience an upper bound limit that caps margin expansions. On the other hand, a rise in SIBOR/SOR rates - though favourable for NIMs expansion - has been in the last year an outcome of global economic imbalances such as expectation of FED rates hikes and risk of capital outflows.

4 May 2016

Neutral (Maintain)

LAST TRADED PRICE	SGD 8.65
FORECAST DIV	SGD 0.36
TARGET PRICE	SGD 8.07
TOTAL RETURN	-2.54%

COMPANY DATA

O/S SHARES (MN) :	4,117
MARKET CAP (USD mn / SGD mn) :	26580 / 35609
52 - WK HI/LO (SGD) :	10.7 / 7.41
3M Average Daily T/O (mn) :	7.08

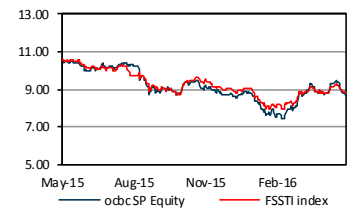
MAJOR SHAREHOLDERS (%)

Lee Foundation	19.63%
Selat (Pte) Limited	11.38%
Aberdeen Asset Management PLC	6.36%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1Y R
COMPANY	12	12.9	(14.7)
STIRETURN	0.71	9.02	(16.04)

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

SGD M N	FY 14	FY 15	FY 16 F	FY 17 F
Total Operating Income	8,341	8,723	8,623	8,952
Operating Profit	4,651	4,473	4,227	4,575
NPAT (adj.)	4,077	4,109	3,877	4,194
EPS (SGD)	0.96	0.95	0.87	0.91
PER, x (adj.)	10.1	8.5	9.3	8.8
ROCE, %	12.9%	11.6%	10.3%	10.4%

Source: Bloomberg

Valuation Method: P/B

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In a challenging economic environment, more borrowers are becoming tenuous in serving debt therefore loan rates that track the rising SIBOR/SOR breed another set of worries wherein NPLs will rise much faster than expected. But this is not to say that rising interest rates or the reasons to raise rates are always bad, rather, we highlight that because growth of the global economy is still fragmented and imbalanced, interest rate decisions by policy makers may more often than not bring about undesired effects. Subjected to the current global economic zeitgeist, Singapore banks may find themselves in a quandary where neither rising rates nor declining rates present a clear and straight forward path to benefit its loan book.

Battening down the hatches. We expect OCBC to be extremely disciplined in their asset liability management – managing loans growth in tandem with funding costs and controlling operating costs – to overcome the challenges of rising rates or declining rates. This means that we should see a stable performance this year albeit a much weaker growth compared to previous years.

Financial highlight

Loans to Oil and Gas is S\$12.4bn making up 6% of loan books. Of the S\$12.4bn, S\$5.58bn are loans related to offshore support services, lower than the S\$5.8bn in 4Q15. S\$837mn of the S\$5.58bn are classified as NPL, higher than the S\$812mn in 4Q15. As of this reporting period, 14% of S\$5.8bn has been assigned to NPL. Management explains that when an offshore vessel owner approaches the bank to renegotiate the terms of the loans to reflect lower charter rates, these loans are assigned to NPL. However this does not preclude the loans from making full service payments. 58% of the Oil and Gas NPLs are still servicing principal and interests payments and 39% of the Oil and Gas NPLs are on interest suspended status.

Fees and commissions fell 5% yoy led by declines in Wealth Management -16% yoy, trade-related fees -13% yoy and investment banking fees -23% yoy. The risk off mode at the first part of 1Q16 had impacted WM income.

1Q16 Profit from Great Eastern Insurance Business at S\$89.1mn (-57% yoy). Insurance Business was down due to an S\$42.6mn non-operating loss and lower operating profit of S\$120.4mn (1Q15 operating profit: S\$150.7mn). The non-operating loss was caused by unrealised losses from the widening of credit spreads and decline in equity markets. The lower operating profit was due to higher claims in the Singapore Non-Participating Fund and reduced profit contributions from operations in Malaysia as a result of Ringgit weakening against Singapore Dollar.

Investment Actions

Maintain "NEUTRAL" with a higher target price of S\$8.07 (previously S\$7.85). Our revised TP is based on 0.95x FY16F book value (not including preference shares). We have raised our FY16 net profit estimates up by 27% on the back of lower full year NPL provisions. 1Q16 NPL cover of 116.3% (NPA cover of 112.8%) was in line with our expectations.

Table 1. Growth in revenue

SGD mn	1Q16	1Q15	%y-y ch	4Q15	%q-q ch
Net interest income	1,307	1,249	4.6%	1,341	-2.5%
Net fee and comm inc	374	395	-5.3%	402	-7.0%
Profits from insurance	122	237	-48.5%	272	-55.1%
Other non-interest inc	257	227	13.2%	286	-10.1%
Total	2,060	2,108	-2.3%	2,301	-10.5%

Table 2. Fee and commission income

SGD mn	1Q16	1Q15	%y-y ch	4Q15	%q-q ch
Brokerage	17	20	-15.0%	17	0.0%
Wealth management	109	129	-15.5%	118	-7.6%
Fund management	34	29	17.2%	35	-2.9%
Credit card	32	31	3.2%	39	-17.9%
Loan-related	72	75	-4.0%	76	-5.3%
Trade and remittances	50	57	-12.3%	54	-7.4%
Guarantees	4	5	-20.0%	5	-20.0%
Investment Banking	14	19	-26.3%	19	-26.3%
Service charges	26	18	44.4%	22	18.2%
Others	16	12	33.3%	17	-5.9%
Total Fee and Comm	374	395	-5.3%	402	-7.0%

Table 3. Other non-interest income

SGD mn	1Q16	1Q15	%y-y ch	4Q15	%q-q ch
Net trading income	122	123	-0.8%	163	-25.2%
Net gain on Invt securities	59	43	37.2%	7	742.9%
Disposal of properties	21	4	N.M	41	-48.8%
Others	21	18	16.7%	27	-22.2%
Total other non int Inc	223	188	18.6%	241	-7.5%

Table 4. Loans by Industries

SGD mn	1Q16	1Q15	%y-y ch	4Q15	%q-q ch
Agri, mining & quarrying	7,578	8,208	-7.7%	7,394	2.5%
Manufacturing	12,881	13,216	-2.5%	13,222	-2.6%
Building and construction	34,838	32,440	7.4%	34,407	1.3%
Housing loans	57,455	55,392	3.7%	56,058	2.5%
General commerce	23,641	29,293	-19.3%	26,128	-9.5%
Tpt, storage & comms	11,344	12,083	-6.1%	12,360	-8.2%
Fis, invt & holding co	26,848	25,394	5.7%	27,463	-2.2%
Professionals & Pri inv	23,195	22,436	3.4%	23,464	-1.1%
Others	10,301	11,694	-11.9%	10,169	1.3%
Total loans	208,081	210,156	-1.0%	210,665	-1.2%

Table 5. Loans by currencies

SGD mn	1Q16	1Q15	%y-y ch	4Q15	%q-q ch
Singapore dollar	81,220	75,726	7.3%	80,496	0.9%
US dollar	45,543	52,828	-13.8%	49,408	-7.8%
Malaysian ringgit	22,285	23,084	-3.5%	21,273	4.8%
Indonesian rupiah	6,523	5,224	24.9%	6,511	0.2%
Others	17,414	14,892	16.9%	16,011	8.8%
Hong Kong Dollar	27,920	28,395	nm	29,457	-5.2%
Renminbi	7,176	10,007	nm	7,509	-4.4%
Total loans	208,081	210,156	-1.0%	210,665	-1.2%

Table 6. Operating profit by Business segments

SGD mn	1Q16	1Q15	%y-y ch	4Q15	%q-q ch
Global Consumer/ Private Banking	253	213	18.8%	275	-8.0%
Global Corporate/ Investment Banking	507	489	3.7%	478	6.1%
Global Treasury and Markets	118	178	-33.7%	140	-15.7%
Insurance	74	234	-68.4%	229	-67.7%
Others	(112)	(59)	89.8%	(103)	8.7%
Total Profit	840	1,055	-20.4%	1,019	-17.6%

Table 7. Profit before tax by Geographical segments

SGD mn	1Q16	1Q15	%y-y ch	4Q15	%q-q ch
Singapore	575	698	-17.6%	659	-12.7%
Malaysia	315	348	-9.5%	350	-10.0%
Rest of SEA	61	54	13.0%	58	5.2%
Greater China	304	322	-5.6%	356	-14.6%
Other Asia Pacific	32	36	-11.1%	33	-3.0%
Rest of the World	32	40	-20.0%	36	-11.1%
Total NPBT	1,319	1,498	-11.9%	1,492	-11.6%

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

Fig 1: Net interest margin

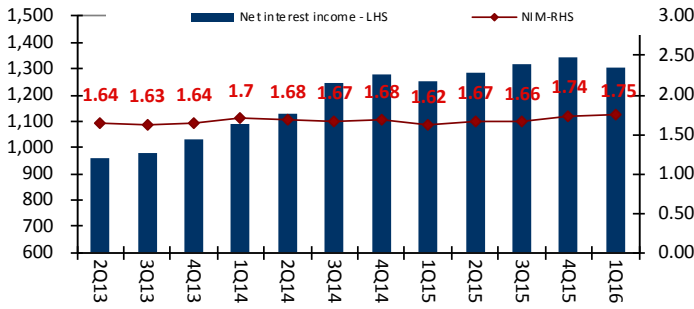


Fig 2: NonInt/Total revenue

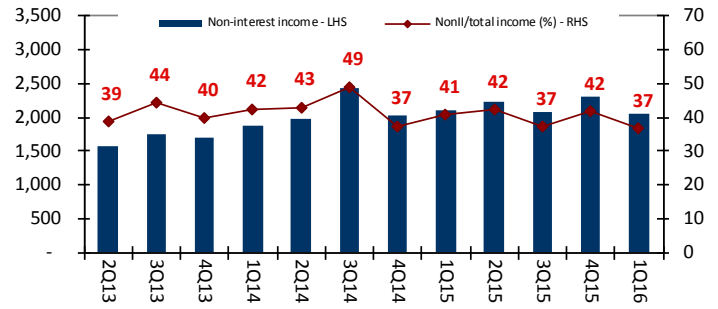


Fig 3: Efficiency ratio

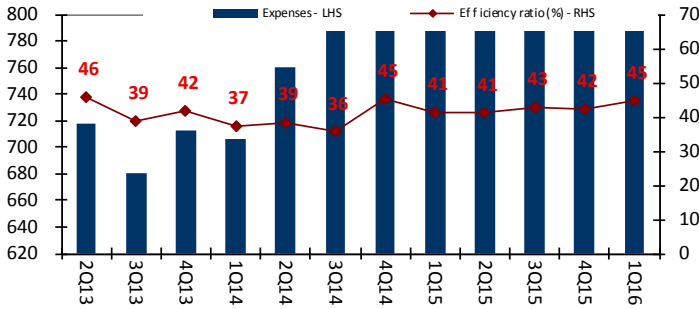


Fig 4: Net profit margin

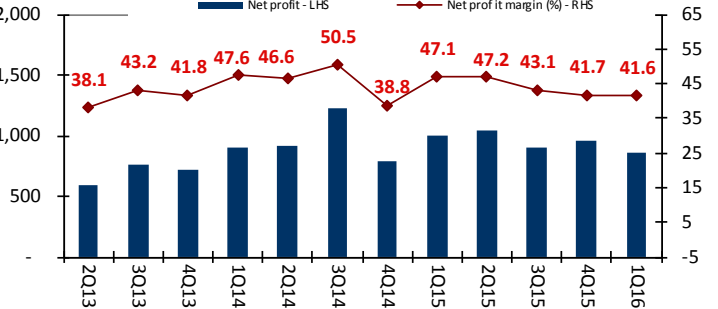


Fig 5: Deposits, Loans, LDR

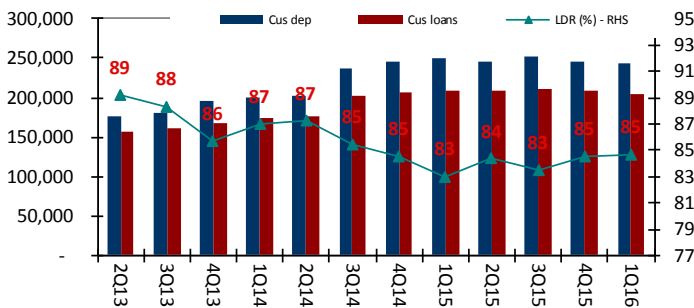


Fig 6: NPA, NPL

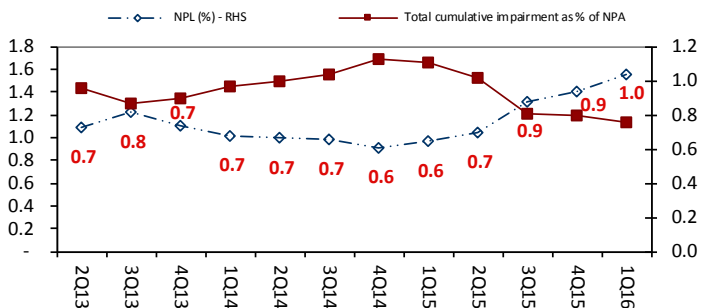


Fig 7: Growth in selected asset items

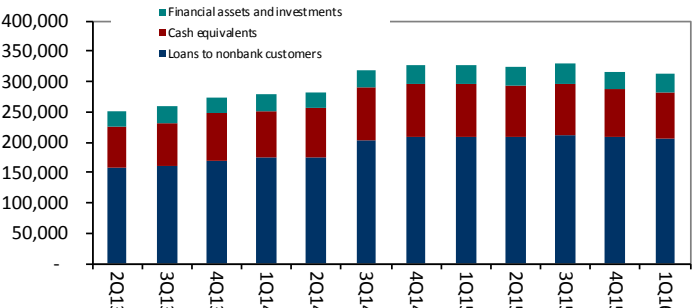


Fig 8: CAR

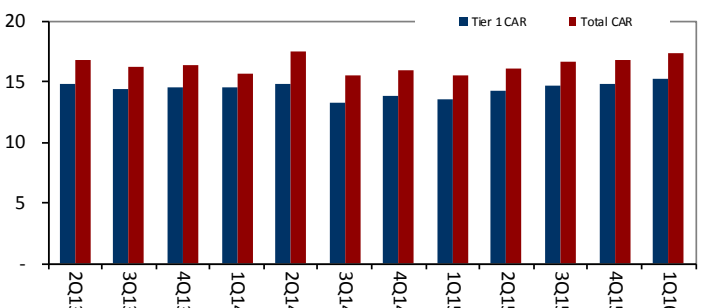


Fig 9: ROE and ROA

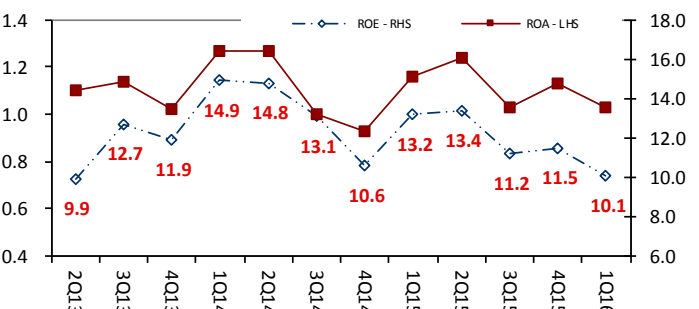


Fig 10: EPS and NBV

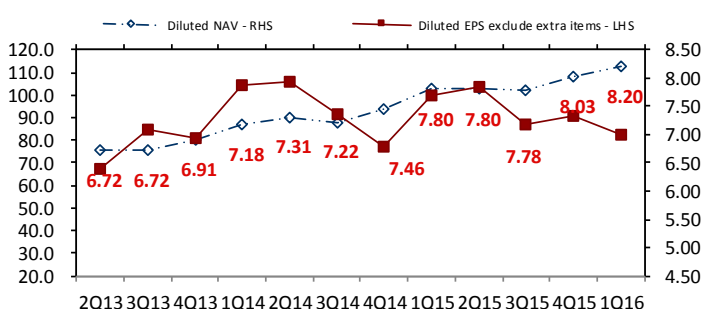


Fig 11: Profit before tax by geographical segment

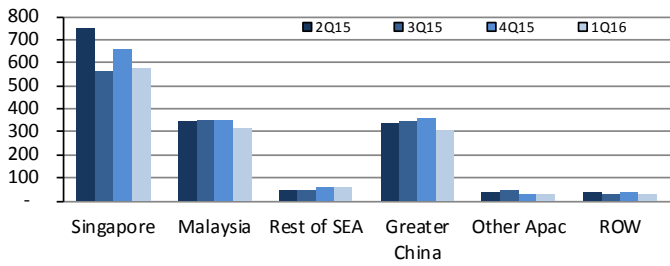


Fig 12: Geo segment breakdown

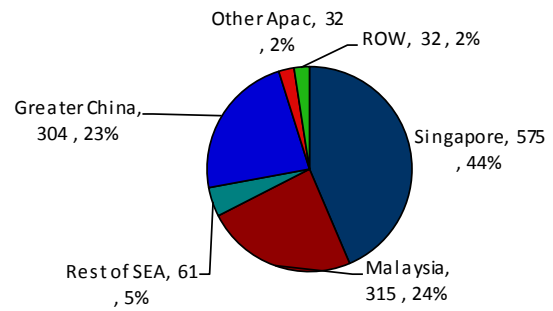


Fig 13: Operating profit by Business segment

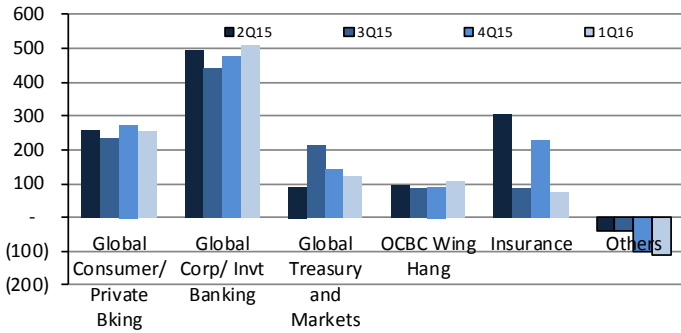


Fig 14: Net interest income trend

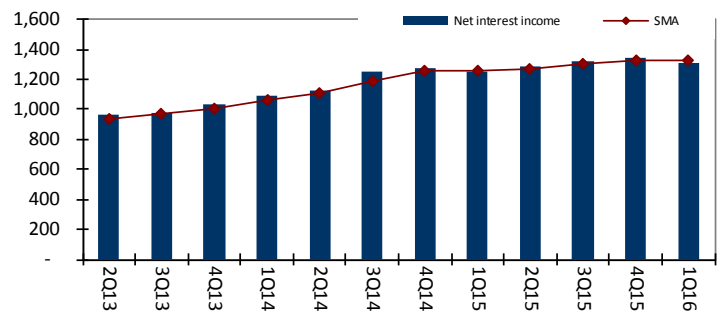


Fig 15: Fee and Commission trend

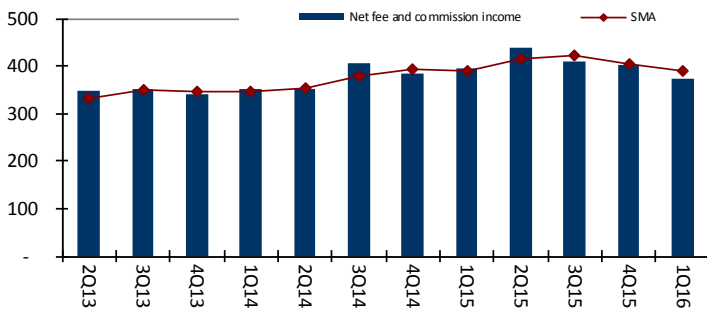


Fig 16: Other noninterest income trend

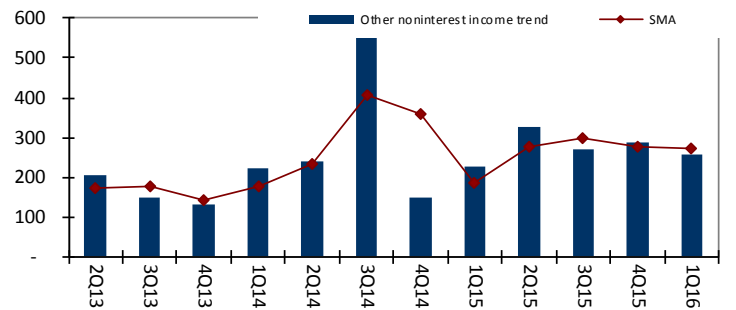
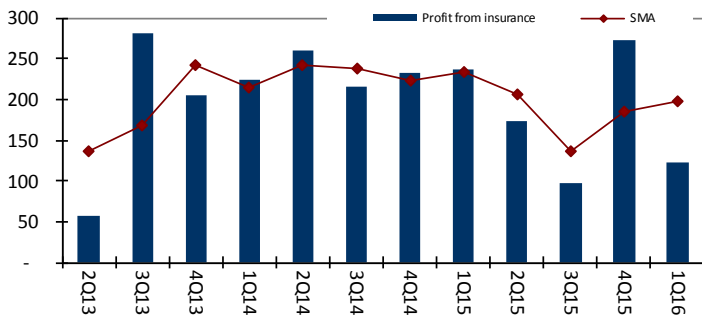


Fig 17: Profit from insurance



Financial Summary at the end of report

Income Statement (SGD mn)

FYE Dec	FY13	FY14	FY15	FY16F	FY17F
Net Interest Income	3,882	4,736	5,189	5,201	5,386
Fees and Commission	1,356	1,496	1,643	1,628	1,738
Other Non interest income	1,384	2,109	1,890	1,793	1,829
Total operating income	6,622	8,341	8,722	8,623	8,952
Operating expenses	2,784	3,258	3,665	3,702	3,713
Provisions	325	432	585	693	665
Operating profit	3,513	4,651	4,472	4,227	4,575
Associates & JVs	55	113	353	353	353
Profit Before Tax	3,568	4,764	4,825	4,580	4,928
Taxation	599	687	717	703	733
Profit After Tax	2,969	4,077	4,108	3,877	4,194
Non-controlling Interest	202	233	205	193	209
Net Income, reported	2,767	3,844	3,903	3,684	3,985
Net Income, adj.	2,767	3,844	3,903	3,684	3,985

Balance Sheet (SGD mn)

FYE Dec	FY13	FY14	FY15	FY16F	FY17F
Cash bal with central banks	19,341	25,314	21,180	23,224	28,703
Due from banks	39,573	41,220	35,791	35,860	36,723
Debt and equity securities	19,602	23,466	22,786	22,671	22,898
Loans and bills receivable	167,854	207,535	208,218	206,345	208,925
Life Assur. Fund Inv. Assets	53,405	57,286	56,983	58,692	60,453
Others	38,673	46,925	45,890	47,963	48,246
Total Assets	338,448	401,746	390,848	394,755	405,949
Due to banks	21,549	20,503	12,048	15,191	15,343
Due to non-bank customers	195,974	245,519	246,277	243,102	249,036
Life Assur. Fund Liabilities	53,183	57,224	56,994	58,704	60,465
Debts issued	26,702	28,859	23,479	23,340	23,573
Others	12,961	14,936	14,282	14,700	15,131
Total liabilities	310,369	367,041	353,080	355,036	363,548
Shareholder's equity	25,115	31,097	34,553	36,883	39,440
Non-controlling interest	2,964	3,088	2,558	2,751	2,961
Total Equity	28,079	34,185	37,111	39,635	42,401

Per share data (SGD)

FYE Dec	FY13	FY14	FY15	FY16F	FY17F
EPS, reported	0.86	1.02	1.00	0.91	0.96
EPS, a dj.	0.80	0.96	0.95	0.87	0.91
DPS	0.34	0.36	0.36	0.36	0.36
BVPS	6.47	7.46	8.15	8.49	8.86

Supplementary items

FYE Dec	FY13	FY14	FY15	FY16F	FY17F
CET1 CAR (%)	14.6%	13.8%	14.8%	14.4%	14.2%
Tier 1 CAR (%)	14.6%	13.8%	14.8%	13.9%	13.8%
Total CAR (%)	16.3%	15.9%	16.8%	16.3%	16.0%

Valuation Ratios

FYE Dec	FY13	FY14	FY15	FY16F	FY17F
P/E (X), adj.	11.0	10.1	8.5	9.3	8.8
P/B (X)	1.4	1.3	1.0	0.95	0.9
Dividend Yield (%)	3.8%	3.7%	4.5%	4.5%	4.5%

Growth & Margins (%)

Growth					
Net interest income	3.6%	22.0%	9.6%	0.2%	3.5%
Non interest income	-35.0%	31.6%	-2.0%	-3.2%	4.3%
Pre provision operating profit	-16.8%	26.0%	4.6%	-1.1%	3.8%
Operating income	-28.8%	32.4%	-3.8%	-5.5%	8.2%
Net income, reported	-30.7%	38.9%	1.5%	-5.6%	8.2%
Net income, a dj.	-2.1%	38.9%	1.5%	-5.6%	8.2%

Margins

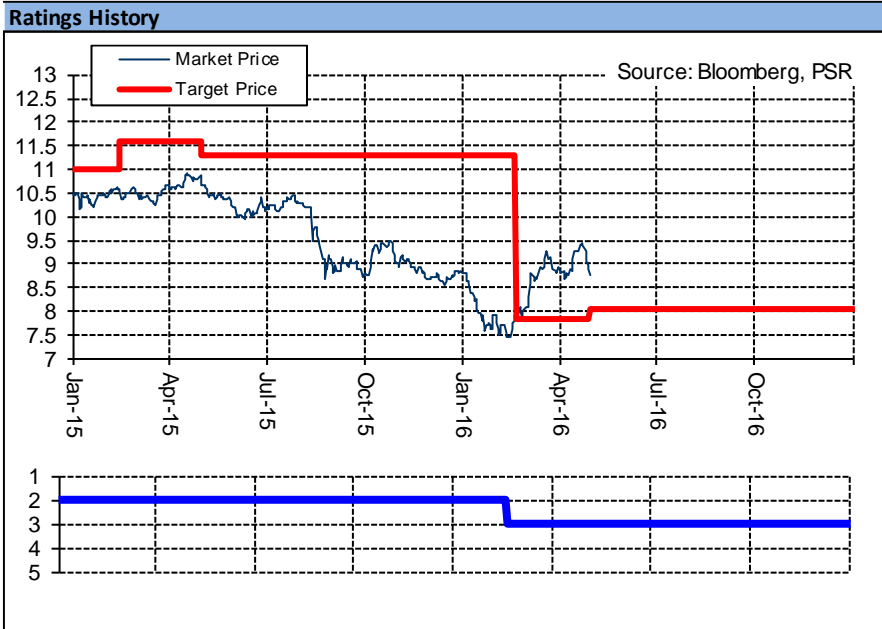
Net interest margin	1.64%	1.68%	1.67%	1.74%	1.79%
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Key Ratios (%)

ROE	12.5%	12.9%	11.6%	10.3%	10.4%
ROA	0.9%	1.1%	1.2%	1.1%	1.1%
RORWA	1.8%	2.0%	2.0%	1.7%	1.7%
Non-interest/total income ratio	41.4%	43.2%	40.5%	39.7%	39.8%
Cost/income ratio	42.0%	39.1%	42.0%	42.9%	41.5%
Loan/deposit ratio	85.7%	84.5%	84.5%	84.9%	83.9%
NPL ratio	0.73	0.61	0.93	1.12	0.88

Source: Company Data, PSR est

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

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