

Oversea-Chinese Banking Corp

Performance boosted by Non-interest Income

SINGAPORE | BANKING | RESULTS

- 3Q16 NPAT increased 6% y-o-y to S\$992mn, driven by 25% y-o-y increase in non-interest income y-o-y.
- Net interest income declined 6% y-o-y on the back of lower NIM at 1.62% compared to 2Q16 NIM of 1.68% (3Q15: 1.66%) and 1.9% decline in loans.
- NPL was higher y-o-y at 1.19% (3Q15: 0.88%).
- **Maintain "NEUTRAL" with a higher target price of S\$8.25 (previously S\$8.14)**, pegged at unchanged 0.95x FY16F book value (excluding preference shares).

Results at a glance

(SGD mn)	3Q16	3Q15	y-o-y (%)	2Q16	q-o-q (%)	Comments
Net interest income	1,234	1,317	-6%	1,260	-2%	NIMs -4bps y-o-y. Loans -1.9% y-o-y
Fees & Comm	428	408	5%	417	3%	Higher Credit Cards and WM income
Insurance	199	98	103%	146	36%	Higher profit from life insurance
Other NII	343	269	28%	225	52%	Boosted by gains from sale of properties
Total Revenue	2,204	2,092	5%	2,048	8%	
Expenses	-953	-900	6%	-932	2%	
PATMI	943	902	5%	885	7%	

Source: Company, PSR

Loans growth turned positive but remains negative y-o-y. OCBC's customer loan book declined 1.9% year-on-year ("y-o-y") but managed to squeeze a 1.5% quarter-on-quarter ("q-o-q") increase after 3 consecutive quarters of decline. The q-o-q increase in loans was led by *General Commerce loans* and *Financial institutions, investment and holding companies loans*. The decline in RMB loans appeared to decelerate with a single digit 9.3% q-o-q decline compared to previous high double digit quarterly declines. On the whole, however we are still wary that positive loans growth will gain momentum owing to continued weakness in the general economy.

NIMs compressed 6bps q-o-q. The average lending rate on loans to customers declined 14bps q-o-q tracking the declines in SOR and SIBOR rates which began at the start of 3Q16 while average rates on deposits declined only 4bps. Overall, the volume and rate dynamics for loans and deposits are not favourable for NIMs. And we maintain that the confluence of low rates, low loans growth and pressure to maintain liquidity on the liability side of the balance sheet would crimp FY16 net interest income for OCBC.

NPL rose 31bps y-o-y. New NPL formation was mainly contributed by Offshore Services sector and new NPLs from this sector may continue to rise in coming quarters as companies in this sector adjust to a lower oil price. Offshore services exposure is SGD\$5.1bn (2.45% of total customer loans) of which S\$922mn is classified as NPL. Allowance cover improved to 101.1% compared to 2Q16 allowance cover of 100.1%.

Non-interest Income rose 25% y-o-y. Supported by Fee and commission income segments: *credit cards* up 29% y-o-y and *Wealth Management* up 12% y-o-y. Also supported by profit from *life assurance* up 164% y-o-y. Net gain from disposal of properties which is up 238% y-o-y boosted non-interest income.

Investment Actions

We raised our FY16F estimates for *Fees and Commission* income from S\$1.6bn to S\$1.7bn because of stronger contributions from *Credit Cards* and *Wealth Management*. We continue to maintain our FY16F estimates for *Net Interest Income* with unchanged outlook on poor loans growth and persistently unfavourable volume and rates dynamics for loans and deposits. **Maintain "NEUTRAL" with a higher target price of S\$8.25 (previously S\$8.14)**. Our revised TP is based on unchanged 0.95x FY16F book value (excluding preference shares).

28 October 2016

Neutral (Maintain)

LAST TRADED PRICE	SGD 8.58
FORECAST DIV	SGD 0.36
TARGET PRICE	SGD 8.25
TOTAL RETURN	0.35%

COMPANY DATA

O/S SHARES (MN):	4,183
MARKET CAP (USD mn / SGD mn):	25721 / 35886
52 - WK HW/LO (SGD):	9.45 / 7.41
3M Average Daily T/O (mn):	4.69

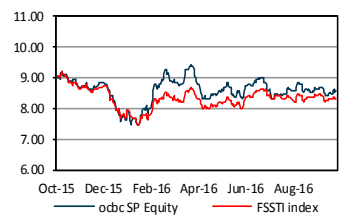
MAJOR SHAREHOLDERS (%)

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

PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	(0.1)	(10)	(3.7)
STIRETURN	(0.98)	(2.26)	(3.64)

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec	FY 14	FY 15	FY 16F	FY 17F
Total Operating Inc (SGD mn)	8,341	8,722	8,467	8,852
Operating Profit (SGD mn)	4,651	4,472	4,064	4,471
NPAT, adj.	4,077	4,108	3,730	4,122
EPS (SGD)	0.96	0.95	0.85	0.94
PER, adj. (x)	10.1	8.6	9.6	8.7
ROCE (%)	12.9%	11.6%	10.0%	10.6%

Source: Bloomberg

Valuation Method: 0.95x P/B

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Table 1. Fee and commission income

SGD mn	3Q16	3Q15	y-o-y (%)	2Q16	q-o-q (%)
Brokerage	17	22	-22.7%	15	13.3%
Wealth management	155	124	25.0%	150	3.3%
Fund management	26	35	-25.7%	24	8.3%
Credit card	45	35	28.6%	41	9.8%
Loan-related	78	77	1.3%	78	0.0%
Trade and remittances	53	55	-3.6%	51	3.9%
Guarantees	4	5	-20.0%	7	-42.9%
Investment Banking	21	18	16.7%	15	40.0%
Service charges	19	23	-17.4%	29	-34.5%
Others	10	14	-28.6%	7	42.9%
Total Fee and Comm	428	408	4.9%	417	2.6%

Table 2. Other non-interest income

SGD mn	3Q16	3Q15	y-o-y (%)	2Q16	q-o-q (%)
Net trading income	163	196	-16.8%	123	32.5%
Net gain on Invt securities	41	(12)	441.7%	44	-6.8%
Disposal of properties	51	15	240.0%	7	628.6%
Others	20	23	-13.0%	21	-4.8%
Total other non int Inc	275	222	23.9%	176	56.3%

Table 3. Loans by Industries

SGD mn	3Q16	3Q15	y-o-y (%)	2Q16	q-o-q (%)
Agri, mining & quarrying	7,621	7,936	-4.0%	7,838	-2.8%
Manufacturing	11,775	12,905	-8.8%	11,434	3.0%
Building and construction	33,974	34,028	-0.2%	34,090	-0.3%
Housing loans	58,881	55,523	6.0%	58,356	0.9%
General commerce	23,907	28,076	-14.8%	22,294	7.2%
Tpt, storage & comms	10,914	12,592	-13.3%	10,860	0.5%
FIs, invt & holding co	27,913	27,722	0.7%	26,856	3.9%
Professionals & Pri inv	24,460	23,051	6.1%	24,319	0.6%
Others	9,183	10,849	-15.4%	9,438	-2.7%
Total loans	208,628	212,682	-1.9%	205,485	1.5%

Table 4. Loans by currencies

SGD mn	3Q16	3Q15	y-o-y (%)	2Q16	q-o-q (%)
Singapore dollar	81,351	78,212	4.0%	80,540	1.0%
US dollar	48,573	51,460	-5.6%	45,645	6.4%
Malaysian ringgit	21,083	20,659	2.1%	21,720	-2.9%
Indonesian rupiah	6,953	5,532	25.7%	6,543	6.3%
Others	17,698	17,868	-1.0%	17,466	1.3%
Hong Kong Dollar	27,728	29,654	-6.5%	27,794	-0.2%
Renminbi	5,242	9,297	-43.6%	5,777	-9.3%
Total loans	208,628	212,682	-1.9%	205,485	1.5%

Table 5. Operating profit by Business segments

SGD mn	3Q16	3Q15	y-o-y (%)	2Q16	q-o-q (%)
Global Consumer/ Private Banking	282	233	21.0%	273	3.3%
Global Corporate/ Investment Banking	399	440	-9.3%	468	-14.7%
Global Treasury and Markets	141	211	-33.2%	101	39.6%
Insurance	89	87	2.3%	94	-5.3%
Others	(64)	(38)	68.4%	(52)	23.1%
Total Profit	847	933	-9.2%	884	-4.2%

Table 6. Profit before tax by Geographical segments

SGD mn	3Q16	3Q15	y-o-y (%)	2Q16	q-o-q (%)
Singapore	609	559	8.9%	507	20.1%
Malaysia	318	351	-9.4%	340	-6.5%
Rest of SEA	59	42	40.5%	76	-22.4%
Greater China	333	345	-3.5%	301	10.6%
Other Asia Pacific	37	42	-11.9%	37	0.0%
Rest of the World	37	33	12.1%	37	0.0%
Total NPBT	1,393	1,372	1.5%	1,298	7.3%

Source (tables 1-6): Company, Phillip Securities Research

Fig 1: Net interest margin

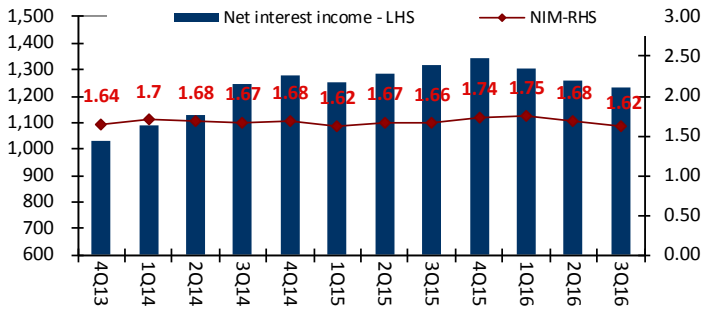


Fig 2: NonInt/Total revenue

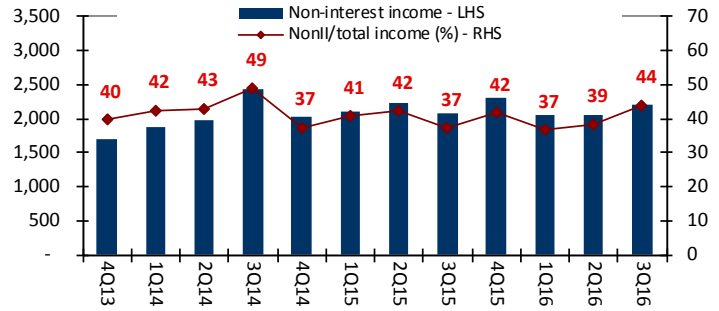


Fig 3: Efficiency ratio

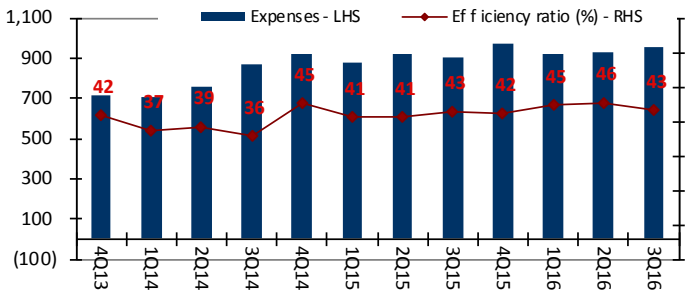


Fig 4: Net profit margin

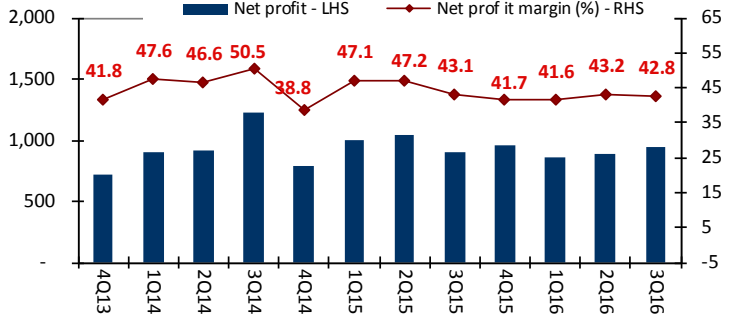


Fig 5: Deposits, Loans, LDR

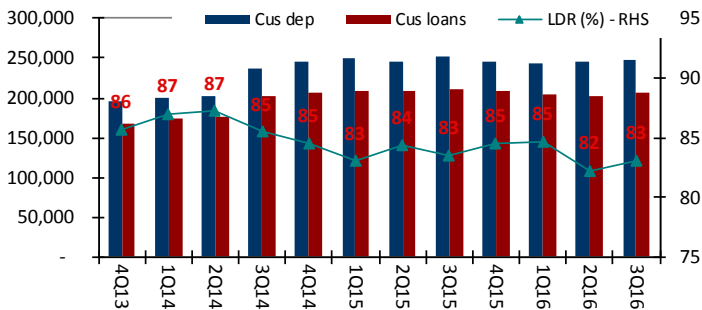


Fig 6: NPA, NPL

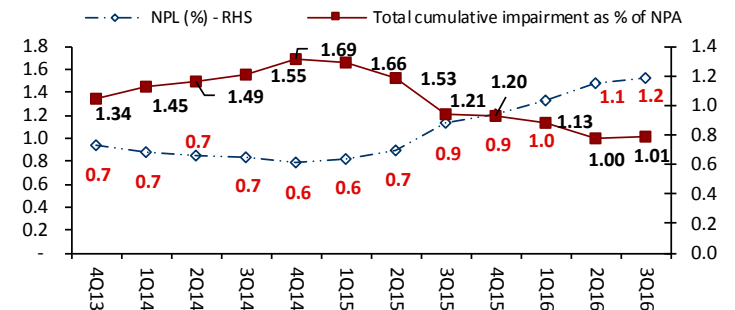


Fig 7: Growth in selected asset items

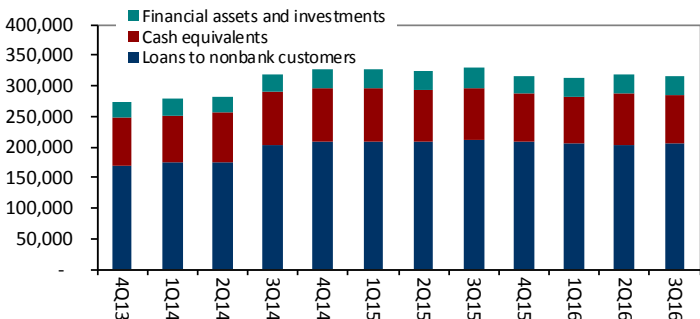


Fig 8: CAR

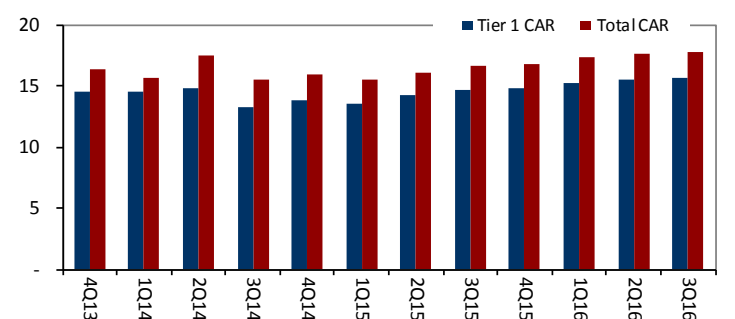


Fig 9: ROE and ROA

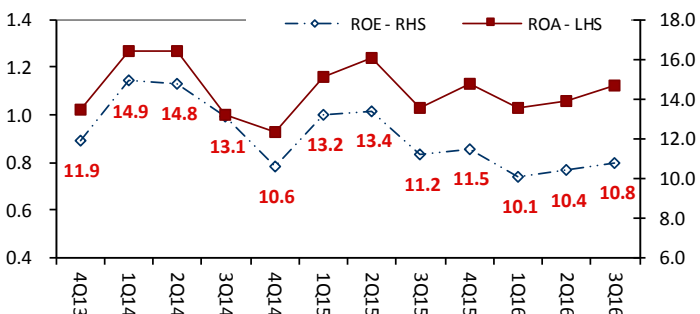


Fig 10: EPS and NBV

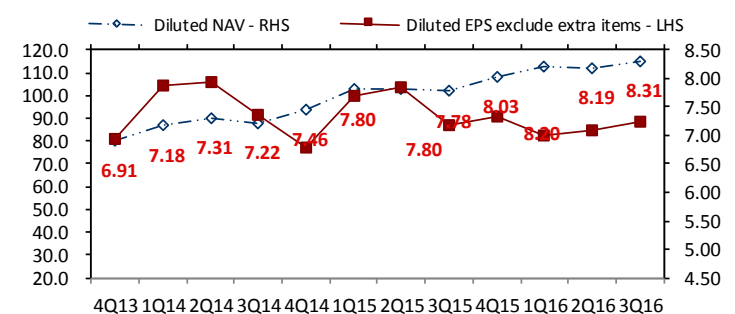


Fig 11: Profit before tax by geographical segment

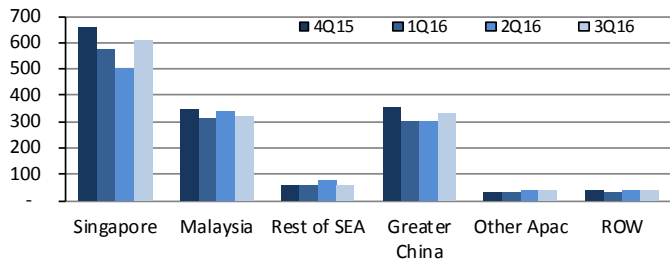


Fig 12: Geo segment breakdown

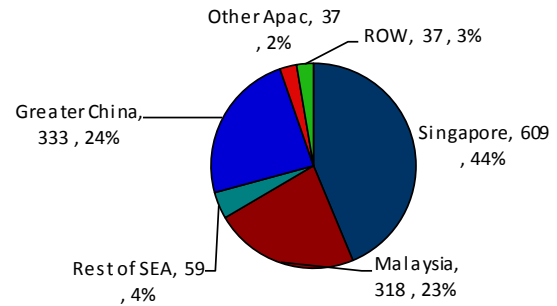


Fig 13: Operating profit by Business segment

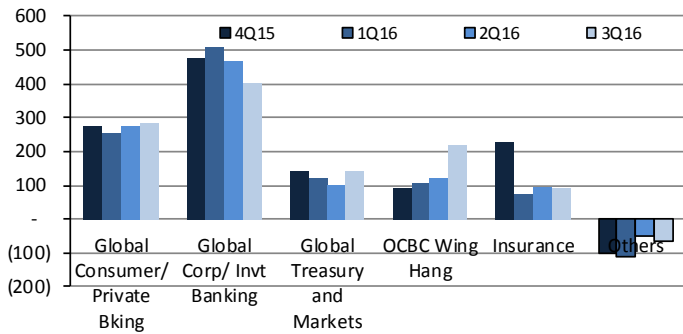


Fig 14: Net interest income trend

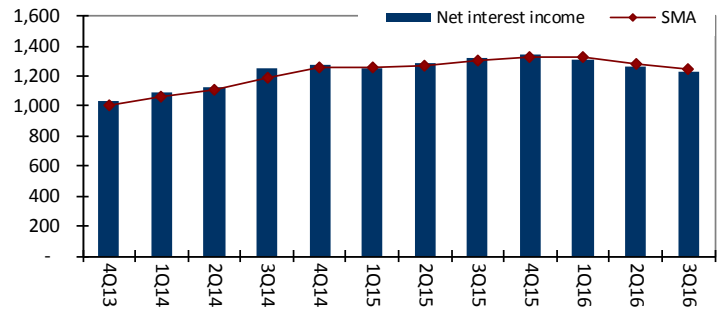


Fig 15: Fee and Commission trend

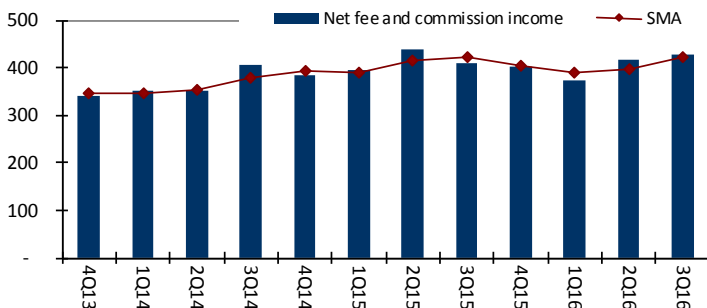


Fig 16: Other noninterest income trend

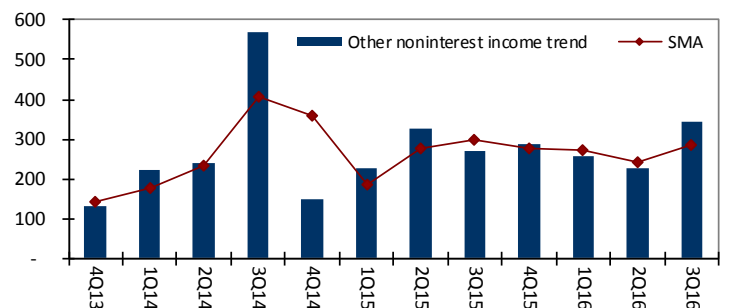
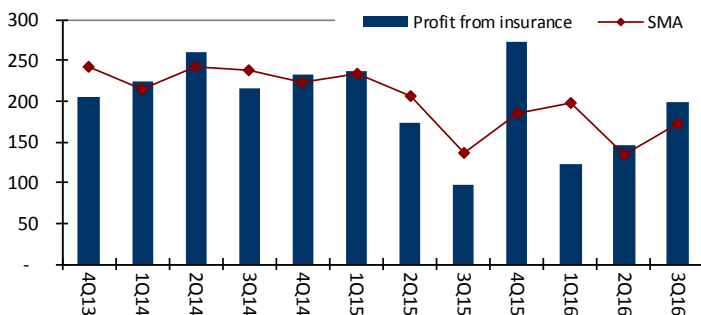


Fig 17: Profit from insurance



Financials

Income Statement

Y/E Dec, SGD mn	FY13	FY14	FY15	FY16F	FY17F
Net Interest Income	3,882	4,736	5,189	5,069	5,304
Fees and Commission	1,356	1,496	1,643	1,728	1,834
Other Non interest income	1,384	2,109	1,890	1,671	1,743
Total operating income	6,622	8,341	8,722	8,469	8,881
Operating expenses	2,784	3,258	3,665	3,763	3,819
Provisions	325	432	585	640	561
Operating profit	3,513	4,651	4,472	4,066	4,501
Associates & JVs	55	113	353	353	353
Profit Before Tax	3,568	4,764	4,825	4,419	4,854
Taxation	599	687	717	679	722
Profit After Tax	2,969	4,077	4,108	3,740	4,132
Non-controlling Interest	202	233	205	187	206
Net Income, reported	2,767	3,844	3,903	3,554	3,925
Net Income, adj.	2,767	3,844	3,903	3,555	3,925

Per share data (SGD)

Y/E Dec, SGD mn	FY13	FY14	FY15	FY16F	FY17F
EPS, reported	0.86	1.02	1.00	0.90	0.99
EPS, adj.	0.81	0.96	0.95	0.85	0.94
DPS	0.34	0.36	0.36	0.36	0.36
BVPS	6.47	7.46	8.15	8.68	9.02

Supplementary items

Y/E Dec, SGD mn	FY13	FY14	FY15	FY16F	FY17F
CET1 CAR (%)	14.6%	13.8%	14.8%	15.0%	14.5%
Tier 1 CAR (%)	14.6%	13.8%	14.8%	15.5%	15.0%
Total CAR (%)	16.3%	15.9%	16.8%	17.4%	16.8%

Source: Company Data, PSR est

Balance Sheet

Y/E Dec, SGD mn	FY13	FY14	FY15	FY16F	FY17F
Cash bal with central banks	19,341	25,314	21,180	19,655	24,853
Due from banks	39,573	41,220	35,791	37,352	38,251
Debt and equity securities	19,602	23,466	22,786	24,981	25,241
Loans and bills receivable	167,854	207,535	208,218	205,747	204,298
Life Assur. Fund Inv. Assets	53,405	57,286	56,983	58,645	60,404
Others	38,673	46,925	45,890	48,707	48,963
Total Assets	338,448	401,746	390,848	395,088	402,010
Due to banks	21,549	20,503	12,048	12,266	12,388
Due to non-bank customers	195,974	245,519	246,277	246,816	249,809
Life Assur. Fund Liabilities	53,183	57,224	56,994	58,704	60,465
Debts issued	26,702	28,859	23,479	22,492	22,717
Others	12,961	14,936	14,282	14,700	15,131
Total liabilities	310,369	367,041	353,080	354,978	360,511
Shareholder's equity	25,115	31,097	34,553	37,293	38,561
Non-controlling interest	2,964	3,088	2,558	2,732	2,938
Total Equity	28,079	34,185	37,111	40,025	41,500

Valuation Ratios

Y/E Dec, SGD mn	FY13	FY14	FY15	FY16F	FY17F
P/E (X), adj.	11.0	10.1	8.6	9.5	8.6
P/B (X)	1.4	1.3	1.0	0.94	0.9
Dividend Yield (%)	3.8%	3.7%	4.4%	4.4%	4.4%

Growth & Margins (%)

	FY13	FY14	FY15	FY16F	FY17F
Growth					
Net interest income	3.6%	22.0%	9.6%	-2.3%	4.6%
Non interest income	-35.0%	31.6%	-2.0%	-3.8%	5.2%
Pre provision operating profit	-16.8%	26.0%	4.6%	-2.9%	4.9%
Operating income	-28.8%	32.4%	-3.8%	-9.0%	10.7%
Net income, reported	-30.7%	38.9%	1.5%	-8.9%	10.4%
Net income, adj	-2.1%	38.9%	1.5%	-8.9%	10.4%

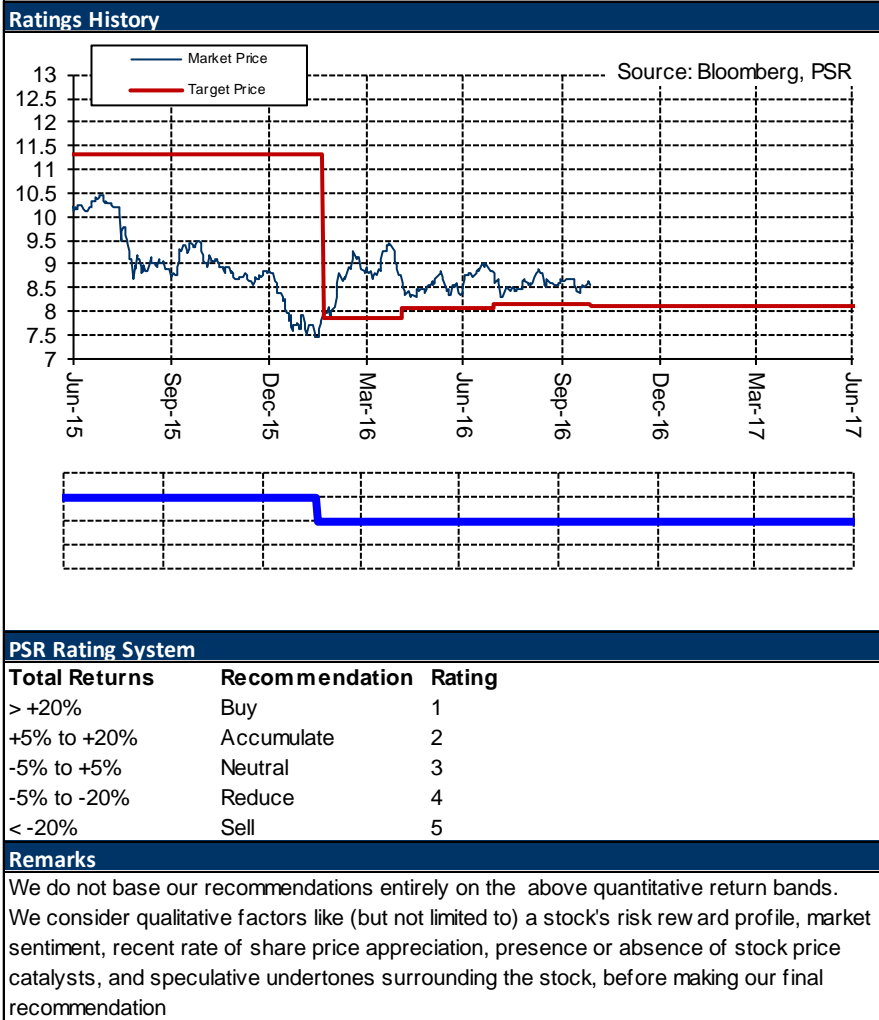
Margins

	FY13	FY14	FY15	FY16F	FY17F
Net interest margin	1.64%	1.68%	1.67%	1.67%	1.74%

Key Ratios (%)

	FY13	FY14	FY15	FY16F	FY17F
ROE	12.5%	12.9%	11.6%	9.8%	10.5%
ROA	0.9%	1.1%	1.2%	1.0%	1.1%
RORWA	1.8%	2.0%	2.0%	1.8%	1.8%
Non-interest/total income ratio	41.4%	43.2%	40.5%	40.1%	40.3%
Cost/income ratio	42.0%	39.1%	42.0%	44.4%	43.0%
Loan/deposit ratio	85.7%	84.5%	84.5%	83.4%	81.8%
NPL ratio	0.73	0.61	0.93	1.17	1.13

Source: Company Data, PSR est



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