



Oversea-Chinese Banking Corp

Stellar performance across all segments



StocksBnB.com

SINGAPORE | BANKING | 4Q17 RESULTS

- 4Q17 PATMI of S\$1,033mn was in line with our estimates
- NII increased 14% YoY on the back of strong loans growth and higher NIM
- WM fee income grew 38% YoY on the back of strong AUM growth
- Net trading income weaker YoY and QoQ as global FICC trading environment remains weak.
- Upgrade to BUY with a higher TP of S\$13.94 (previous TP S\$13.48)** based on Gordon Growth Model.

Results at a glance

(SGD mn)	4Q17	4Q16	YoY (%)	3Q17	QoQ (%)	Comments
Net interest income	1,424	1,251	14%	1,382	3%	NIMs +1bps YoY. Loans +7% YoY
Fees & Comm	491	420	17%	488	1%	Higher WM fee income
Insurance	299	182	64%	238	26%	Higher Life Assurance profit YoY
Other NII	415	324	28%	252	65%	Higher net gain from investment securities
Total income	2,629	2,177	21%	2,360	11%	
Expenses	-1,067	-981	9%	-1,001	7%	Incl. Barclays WM staff costs
Allowances	-178	-305	-42%	-156	14%	
PATMI	1,033	789	31%	1,057	-2%	

Source: Company, PSR

The Positives

+ Strong loans growth as global and domestic economic outlook improves. Loans grew 8% YoY outpacing Singapore domestic system loans growth of 5.4%. Loans growth was led by property related loans and general commerce.

+ Stronger NII on the back of better NIM and robust loans growth. NII grew 14% and NIM increased 4 bps higher YoY to reach to 1.67% as Singapore and Hong Kong benchmark rates rose sharply in 4Q17. Higher rates on interbank placements also supported the NIM expansion.

+ Income was boosted by strong performance in WM and Insurance. Total WM income jumped 54% YoY and 34% QoQ to hit S\$944mn. OCBC's private banking arm, Bank of Singapore's AUM grew 25% in 2017 to reach S\$99bn. Insurance income continued the strong profit growth in 4th quarter due to the repositioning of assets and liabilities in the Non-Participating Fund insurance business.

+ Cleaned up substantial portion of the offshore oil and gas exposure. NPL ratio rose to 1.5% in 4Q17 from 1.3% in 3Q17 on accelerated recognition of NPA from the offshore oil and gas sector. However, OCBC had also significantly reduced its exposure to the OSV sector to S\$4.8bn compared to S\$5.7bn in 3Q17. Of the S\$4.8bn, S\$1.9bn was classified as NPL representing 40% of the OSV exposure.

The Negatives

- OCBC Wing Hang net profit was down 2% YoY. OCBC Wing Hang's positive NII growth was offset by lower Non-II, higher allowances and operating expense.

- Net trading income continues to be weak. Similarly, universal banks and investment banks globally continue to report weak trading income, citing the challenge of low market volatility.

21 February 2018

Buy (Upgrade)

LAST TRADED PRICE	SGD 12.92
FORECAST DIV	SGD 0.37
TARGET PRICE	SGD 13.94
TOTAL RETURN	10.8%

COMPANY DATA

BLOOMBERG TICKER	OCBC SP
O/S SHARES (MN)	4,186
MARKET CAP (USD mn / SGD mn)	41034 / 54079
52 - WK HI/LO (SGD)	13.32 / 9.41
3M Average Daily T/O (mn)	5.48

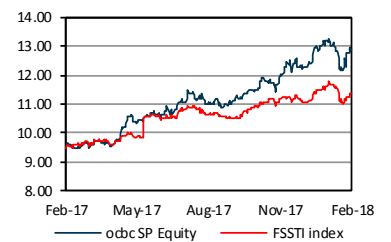
MAJOR SHAREHOLDERS (%)

Lee Foundation	4.34%
Selat (Pte) Limited	1103%
First State Investments	2.57%
Singapore Investments (Pte) Ltd	3.75%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1Y R
COMPANY	(2.8)	9.6	39.9
STI RETURN	(192)	3.04	15.86

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec	FY 16	FY 17	FY 18 e	FY 19 e
Total Op Inc (SGD mn)	8,489	9,637	10,310	11,013
Op Profit (SGD mn)	3,879	4,828	5,441	6,096
NPAT, adj.	3,646	4,413	4,962	5,516
EPS (SGD)	0.83	0.99	1.11	1.24
PER, adj. (x)	10.9	13.0	11.6	10.4
P/BV, x	10	14	14	13
ROE (%)	10.0%	11.2%	12.0%	12.6%

Source: Bloomberg, Company, PSR

Valuation Method:

Gordon Growth Model (ERP: 5%, g: 2%)

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Outlook

We expect OCBC's loans growth to continue at high single percentage growth in FY18e and we have also improved our loans growth outlook from 6% to c.8% as OCBC's management has alluded to enough opportunities to deploy capital to grow the business organically. Therefore we expect NII to grow c.9% in FY18e, improving from our previous estimate of c.6% on the back of a moderately strong economy. Other growth catalysts in FY18 will be the stronger real estate related loans in Singapore as enbloc sales transactions start to flow into the market. We also expect OCBC's Bank of Singapore to benefit from the wealth effects of the enbloc sales in Singapore as vendors from successful enbloc sales will likely engage wealth managers to manage their new found wealth.

Greater China business had demonstrated strong traction. OCBC Wing Hang's FY17 total income grew 13% as a result of strong growth in NII and Non-II. We believe OCBC is confident of growing the franchise in that region and that corroborates with the management's decision to retain and deploy capital to grow the business instead of paying out more dividends.

List of Abbreviations

WM	– Wealth Management
NII	– Net Interest Income
Non-II	– Non-interest Income
NIM	– Net Interest Margin
LDR	– Loan to Deposit Ratio
NPL	– Non-performing Loans
NPA	– Non-performing Assets
PPOP	– Pre-Provision Operating Profit
WACC	– Weighted Average Cost of Capital
ROIC	– Return on Invested Capital
FHR	– Fixed Deposit Home Loan Rate
EV	– Economic Value
O&G	– Oil and Gas
OSV	– Offshore Support Services & Vessels

Valuation: Gordon Growth Model

Item	Description	Value
R _f	Risk-free rate	3.0%
E	Equity-risk premium	5.7%
B	Beta	1.02
COE	Cost of Equity	8.8%
ROE	FY17e Return on Equity	12.0%
g	Terminal growth rate	2.0%
$\frac{(ROE-g)}{(COE-g)}$	FY18e Target Price to Book	1.46
	FY18e BVPS, S\$	9.55
	FY18e Valuation, S\$	13.94

Investment Actions

Upgrade to "Buy" from "Accumulate" with a higher TP of S\$13.94 (previous TP S\$13.48) based on Gordon Growth Model.

Table 1: Fee and commission income

SGD mn	4Q17	4Q16	YoY (%)	3Q17	QoQ (%)
Brokerage	18	17	5.9%	19	-5.3%
Wealth management	216	157	37.6%	205	5.4%
Fund management	28	27	3.7%	28	0.0%
Credit card	42	40	5.0%	40	5.0%
Loan-related	70	76	-7.9%	76	-7.9%
Trade and remittances	56	55	1.8%	56	0.0%
Guarantees	5	4	25.0%	5	0.0%
Investment Banking	26	13	100.0%	15	73.3%
Service charges	21	22	-4.5%	33	-36.4%
Others	9	9	0.0%	11	-18.2%
Total Fee and Comm	491	420	16.9%	488	0.6%

Table 2: Other non-interest income

SGD mn	4Q17	4Q16	YoY (%)	3Q17	QoQ (%)
Net trading income	99	122	-18.9%	118	-16.1%
Net gain on Invt securities	249	54	361.1%	64	289.1%
Disposal of properties	1	82	-98.8%	25	-96.0%
Others	11	26	-57.7%	10	10.0%
Total other non int Inc	383	284	34.9%	207	85.0%

Table 3: Loans by Industries

SGD mn	4Q17	4Q16	YoY (%)	3Q17	QoQ (%)
Agri, mining & quarrying	8,073	8,974	-10.0%	7,997	1.0%
Manufacturing	12,501	12,697	-1.5%	12,991	-3.8%
Building and construction	35,436	35,632	-0.6%	35,250	0.5%
Housing loans	64,542	60,149	7.3%	62,037	4.0%
General commerce	29,010	25,348	14.4%	27,626	5.0%
Tpt, storage & comms	11,568	11,520	0.4%	12,198	-5.2%
FIs, invt & holding co	37,838	30,491	24.1%	36,929	2.5%
Professionals & Pri inv	28,704	26,396	8.7%	27,943	2.7%
Others	9,649	8,945	7.9%	9,454	2.1%
Total loans	237,321	220,152	7.8%	232,425	2.1%

Property related loans show strong YoY and QoQ loans. While general commerce loans grew strongly YoY as economic growth remains robust.

Table 4: Loans by currencies

SGD mn	4Q17	4Q16	YoY (%)	3Q17	QoQ (%)
Singapore dollar	85,485	81,260	5.2%	83,787	2.0%
US dollar	61,445	56,576	8.6%	60,808	1.0%
Malaysian ringgit	20,481	20,552	-0.3%	20,093	1.9%
Indonesian rupiah	7,795	7,486	4.1%	7,642	2.0%
Others	24,478	18,757	30.5%	23,098	6.0%
Hong Kong Dollar	33,011	30,339	8.8%	31,714	4.1%
Renminbi	4,626	5,182	-10.7%	5,283	-12.4%
Total loans	237,321	220,152	7.8%	232,425	2.1%

Table 5: Operating profit by Business segments

SGD mn	4Q17	4Q16	YoY (%)	3Q17	QoQ (%)
Global Consumer/ Private Banking	286	257	11.3%	311	-8.0%
Global Corporate/ Investment Banking	261	230	13.5%	374	-30.2%
Global Treasury and Markets	95	77	23.4%	144	-34.0%
Insurance	479	222	115.8%	252	90.1%
OCBC Wing Hang	83	106	-21.7%	111	-25.2%
Others	154	(25)	nm	(15)	nm
Total Profit	1,358	867	56.6%	1,177	15.4%

Insurance profit growth was attributed to stronger contribution from Shareholders' Fund.

Table 6: Profit before tax by Geographical segments

SGD mn	4Q17	4Q16	YoY (%)	3Q17	QoQ (%)
Singapore	800	463	72.8%	682	17.3%
Malaysia	378	341	10.9%	314	20.4%
Indonesia	199	189	5.3%	204	-2.5%
Greater China	339	312	8.7%	354	-4.2%
Other Asia Pacific	42	35	20.0%	42	0.0%
Rest of the World	61	39	56.4%	53	15.1%
Total NPBT	1,819	1,379	31.9%	1,649	10.3%

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

Fig 1: Net interest margin

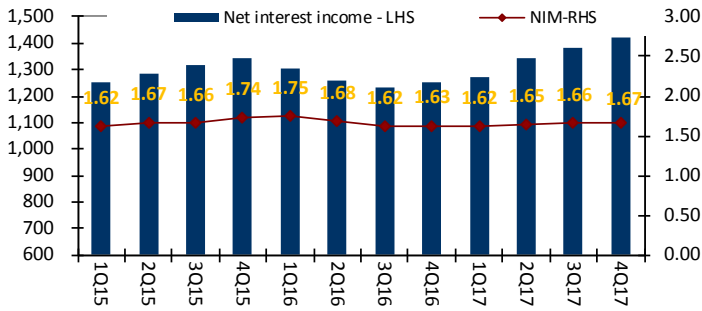


Fig 2: NonInt/Total revenue

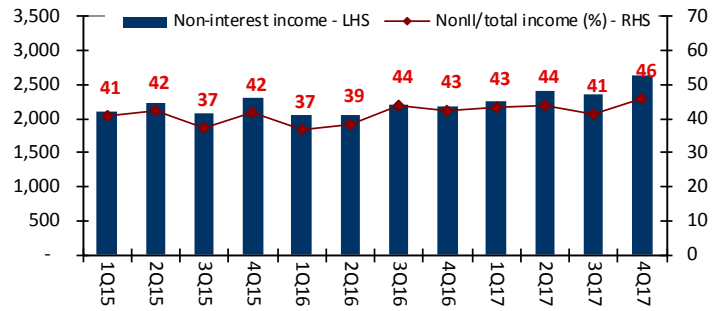


Fig 3: Efficiency ratio

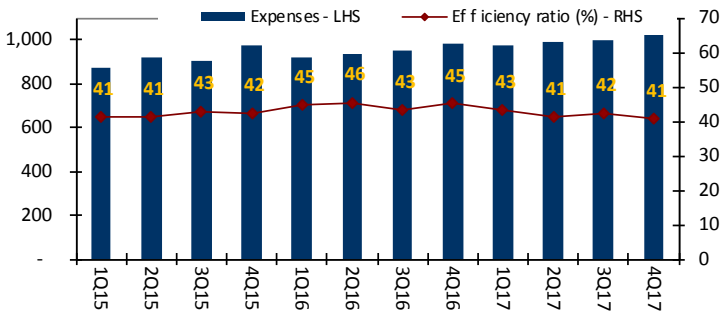


Fig 4: Net profit margin

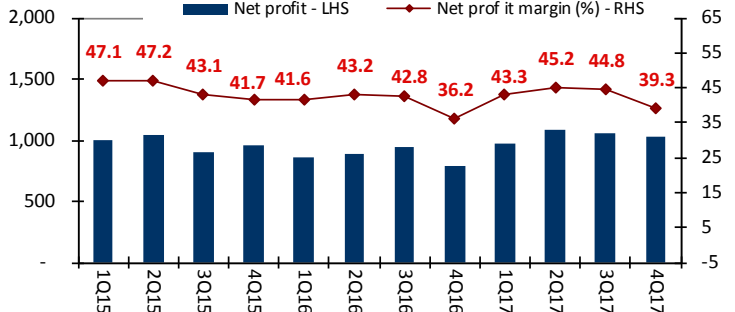


Fig 5: Deposits, Loans, LDR

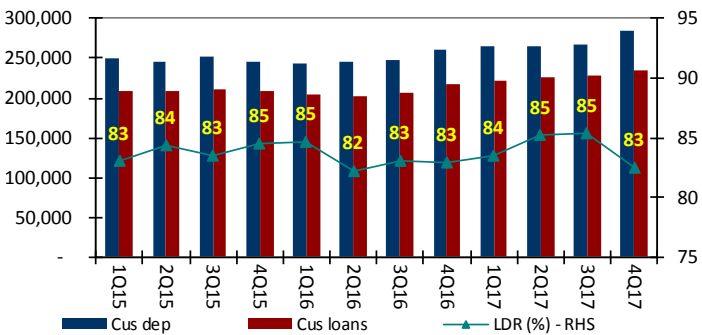


Fig 6: NPA, NPL

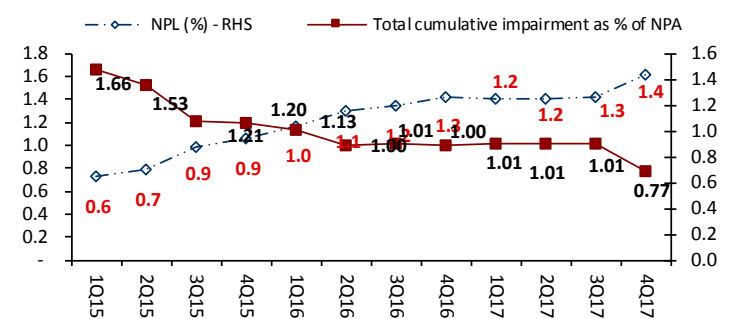


Fig 7: Growth in selected asset items

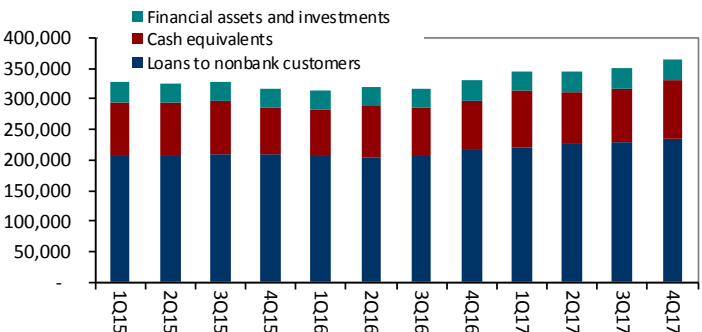


Fig 8: CAR

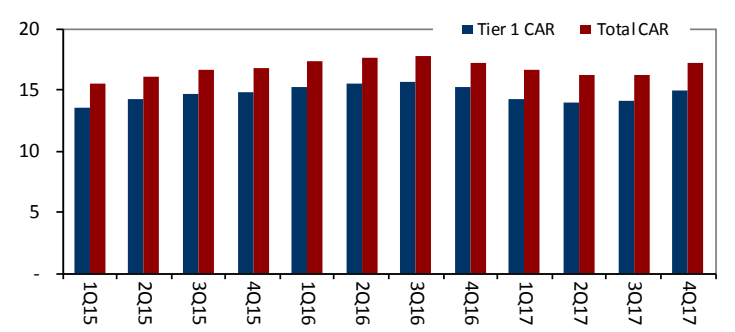


Fig 9: ROE and ROA

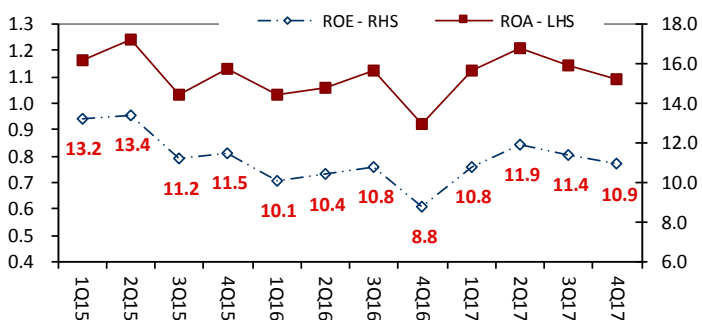


Fig 10: EPS and NBV

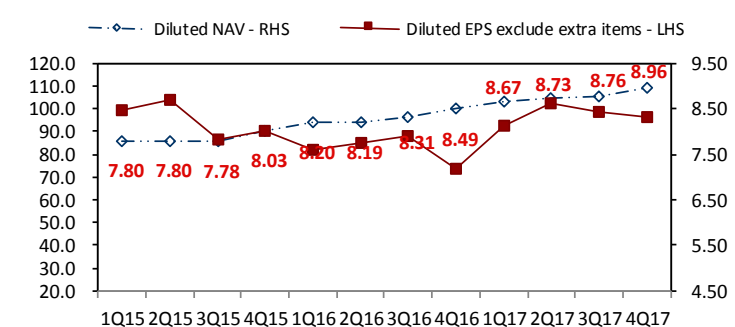


Fig 11: Profit before tax by geographical segment

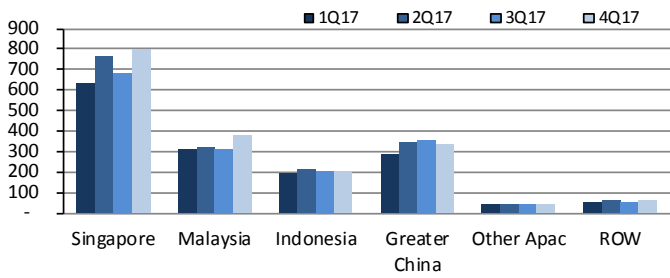


Fig 12: Geo segment breakdown

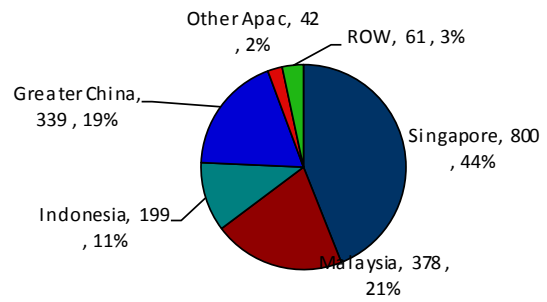


Fig 13: Operating profit by Business segment

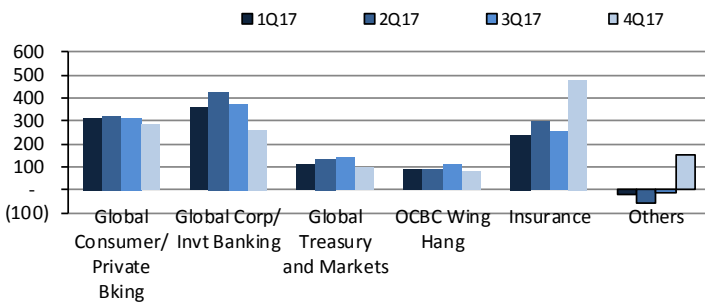


Fig 14: Net interest income trend

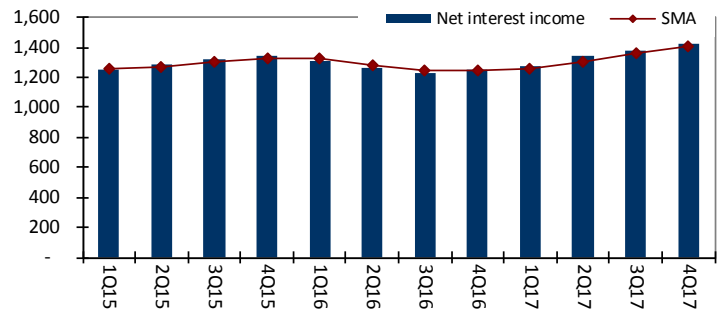


Fig 15: Fee and Commission trend

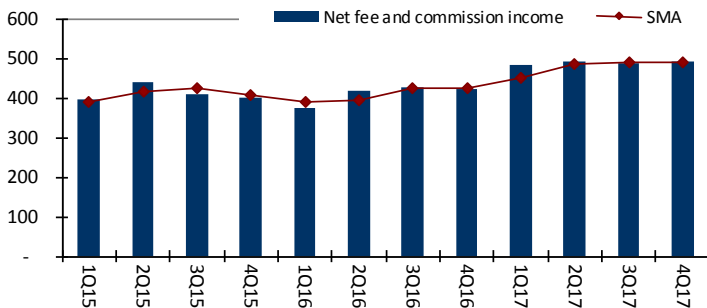


Fig 16: Other noninterest income trend

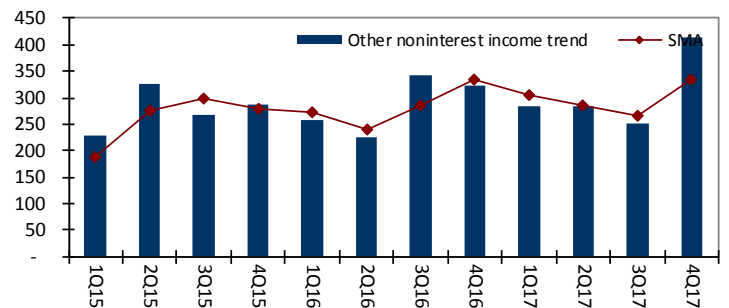
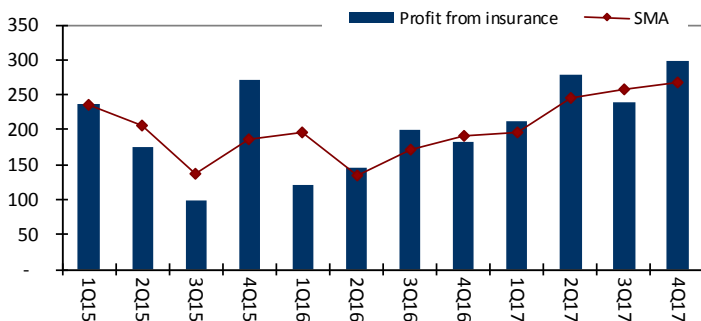


Fig 17: Profit from insurance



Financials

Income Statement

Y/E Dec, SGD mn	FY15	FY16	FY17	FY18e	FY19e
Net Int Income	5,189	5,052	5,423	6,022	6,648
Fees and Commission	1,655	1,638	1,952	2,060	2,118
Other Non int income	1,878	1,799	2,262	2,228	2,246
Total operating income	8,722	8,489	9,637	10,310	11,013
Operating expenses	3,665	3,789	4,033	4,297	4,345
Provisions	585	821	776	572	572
Operating profit	4,472	3,879	4,828	5,441	6,096
Associates & JVs	353	396	388	388	388
Profit Before Tax	4,825	4,275	5,216	5,829	6,484
Taxation	717	629	803	867	968
Profit After Tax	4,108	3,646	4,413	4,962	5,516
Non-controlling Interest	205	173	266	299	332
Net Income, reported	3,903	3,473	4,148	4,663	5,184
Net Income, adj.	3,903	3,473	4,147	4,663	5,184

Balance Sheet

Y/E Dec, SGD mn	FY15	FY16	FY17	FY18e	FY19e
Cash bal with central banks	21,180	16,559	19,594	17,369	10,891
Due from banks	35,791	39,801	49,377	42,926	43,302
Debt and equity securities	22,786	23,157	25,329	24,516	24,732
Loans and bills receivable	208,218	216,830	234,141	257,236	278,048
Life Assur. Fund Inv. Assets	56,983	61,973	73,927	76,145	78,429
Others	45,232	51,564	52,570	50,578	50,824
Total Assets	390,190	409,884	454,938	468,770	486,227
Due to banks	12,048	10,740	7,485	8,836	8,914
Due to non-bank customers	246,277	261,486	283,642	291,496	302,988
Life Assur. Fund Liabilities	56,994	61,962	73,755	75,968	78,247
Debts issued	23,479	19,947	32,235	31,811	32,129
Others	14,282	16,107	16,045	16,520	17,009
Total liabilities	353,080	370,242	413,162	424,631	439,286
Shareholder's equity	34,553	37,007	39,008	40,956	43,425
Non-controlling interest	2,558	2,635	2,884	3,183	3,516
Total Equity	37,111	39,642	41,892	44,139	46,941

Per share data (SGD)

Y/E Dec, SGD mn	FY15	FY16	FY17	FY18e	FY19e
EPS, reported	0.95	0.83	0.99	1.11	1.24
EPS, adj.	0.95	0.83	0.99	1.11	1.24
DPS	0.36	0.36	0.37	0.37	0.37
BVPS	8.15	8.61	9.08	9.55	10.15

Supplementary items

Y/E Dec, SGD mn	FY15	FY16	FY17	FY18e	FY19e
CET1 CAR (%)	14.8%	14.7%	13.9%	13.6%	13.7%
Tier 1 CAR (%)	14.8%	15.2%	15.0%	14.6%	14.6%
Total CAR (%)	16.8%	17.2%	17.2%	16.6%	16.4%

Valuation Ratios

Y/E Dec, SGD mn	FY15	FY16	FY17	FY18e	FY19e
P/E (X), adj.	9.3	10.9	13.0	11.6	10.4
P/B (X)	1.1	1.0	1.4	1.4	1.3
Dividend Yield (%)	4.1%	4.0%	3.9%	3.9%	3.9%

Growth & Margins (%)

Growth					
Net int income	9.6%	-2.6%	7.3%	11.0%	10.4%
Non int income	-2.0%	-2.7%	22.6%	1.8%	1.8%
Pre provision operating profit	4.6%	-2.7%	13.5%	7.0%	6.8%
Operating income	-3.8%	-13.3%	24.5%	12.7%	12.0%
Net income, reported	1.5%	-11.0%	19.4%	12.4%	11.2%
Net income, adj	1.5%	-11.0%	19.4%	12.4%	11.2%

Margins

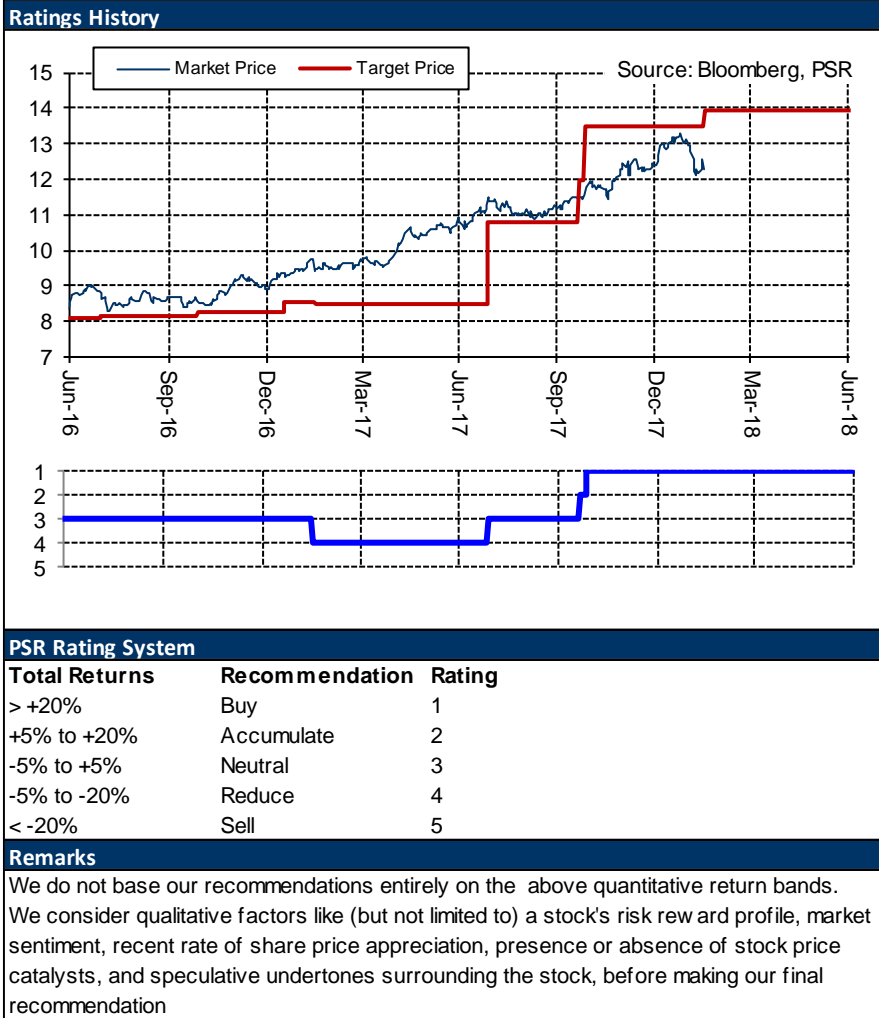
Net interest margin	1.67%	1.67%	1.65%	1.70%	1.76%
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Key Ratios (%)

ROE	12.3%	10.0%	11.2%	12.0%	12.6%
ROA	1.2%	1.0%	1.1%	1.2%	1.3%
RORWA	2.0%	1.8%	2.1%	2.2%	2.3%
Non-int/total income ratio	40.5%	40.5%	43.7%	41.6%	39.6%
Cost/income ratio	42.0%	44.6%	41.8%	41.7%	39.5%
Loan/deposit ratio	84.5%	82.9%	82.5%	88.2%	91.8%
NPL ratio	0.93	1.26	1.44	0.80	0.79

Source: Company, Phillip Securities Research (Singapore) Estimates

*Forward multiples & yields based on current market price; historical multiples & yields based on historical market price.



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