

OCBC – 1Q11 results

Phillip Securities Research Pte Ltd
13 May 2011

Exchange Singapore Stock Exchange
Sector Regional Banks
Reuters OCBC SI
Bloomberg OCBC SP
Poems OCBC SG

HOLD (Maintained)

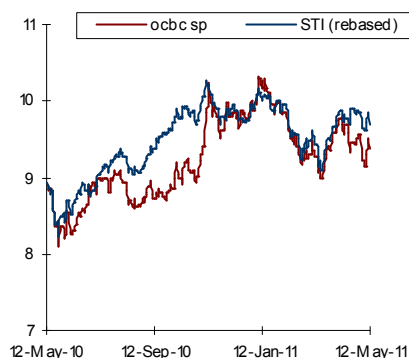
Closing Price
SGD 9.39
Target Price
SGD 10.00 (+6.5%)

Price

Last Price **9.39**
52w k High (1/6/2011) 10.36
52w k Low (5/26/2010) 8.10
Shares Outstanding (mil) 3334.705
Market Cap (S\$ mil) 31312.88
Avg. Daily Turnover (mil) 50.30
Free float (%) 80.17
PE (X) 14.67
PB (X) 1.66

Price performance %

	1M	3M	6M
Absolute	-1.7%	-1.3%	-5.9%
Relative	-1.4%	-3.0%	-2.2%



Major Shareholders (13 May 11)	%
1 Selat Pte Ltd	10.98
2 Credit Suisse	7.00%
3 Singapore Invest Pte	3.53%

Analyst

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- 1Q11 NPAT exclude divestment gains of S\$596 million (+18% q-q; -12% y-y) was c.24% of FY11 earnings estimates of S\$2,479 million. OCBC result is generally in line with expectations except for the disappointment in lower NIM.
- OCBC deviate from peers performances with steep decline in net interest margins, yet relative strong growth in net interest income. LDR is at 86.8% and customer loans grew by 4% in 1Q11. ROE and ROA grew q-q to 12.2% and 1.26% respectively.
- We maintain our Hold recommendation and fair value of S\$10.00.

OCBC 1Q11 core net profit S\$596 million and revenue of S\$1.4 billion meet 24% and 25% of our full year forecasts respectively.

NIMs significantly lower

NIM fell 6 basis points to 1.9%. We had expected flattening of margins, similar to trends experienced by the other two local competitors. Management highlighted four factors which resulted in the decline.

- 4Q10 NIM was higher by 2 bps due to a one off reclassification adjustment.
- Change in loan mix which saw substantial increase in bill receivables. These instruments are safer but also lower yielding hence resulted in lower NIM.
- Pressures from competition especially in loan pricing for corporate banking segment.
- Mortgage refinancing which saw borrowers switching out from fixed to floating rates.

Going forward, NIM will remain soft due to the low interest rate environment as well as from more intense competition. But given that Bank Negara had hiked rates by 25 bps recently, OCBC had raised their loan pricing in tandem and hence expects better NIM from Malaysia. OCBC also expects loan growth in low to mid teens in FY11 overall.

NII significantly higher

Despite record low NIM, net interest income reported was S\$784 million (+2% q-q; +11.4% y-y). NII grew due to strong gross customer loans which increased to S\$110.9 billion (+4.2% q-q; +23% y-y). LDR also increased to 86.8% from 85.1%. High LDR means the need to focus on getting deposits in first before loans can be grown further. UOB management highlighted their worries on the difficulties of getting cheap deposits in 2011. But OCBC management are more sanguine about the prospects of deposits taking as they mentioned plenty of liquidity and the ability to attain deposits from companies to boost their loan book further.

Fee and commission income record high

Fee and commission income of S\$279 million (+9% q-q; +23.5% y-y) was boosted by strong growth in wealth management, investment banking and service charges.

Conso' Ending	Profits (SGM)	EPS (SG)	DPS (SG)	BV (SG)	ROE (%)	P/E (X)	Yield (%)	P/BV (x)
12/08 A	1,749	0.55	0.28	4.51	11.80	16.89	3.04	2.04
12/09 A	1,962	0.59	0.28	5.30	11.49	15.55	3.04	1.74
12/10 A	2,253	0.66	0.30	5.66	12.10	13.97	3.25	1.63
12/11 E	2,479	0.75	0.32	6.13	12.55	12.30	3.47	1.50
12/12 E	2,639	0.80	0.34	6.61	12.385	11.56	3.69	1.39

Table 1: Fee and Commission

\$m	1Q11	1Q10	% ch	4Q10	% ch
Brokerage	20	20	0.0%	23	-13.0%
Wealth management	62	37	67.6%	54	14.8%
Fund management	22	19	15.8%	23	-4.3%
Credit card	10	10	0.0%	13	-23.1%
Loan-related	45	53	-15.1%	49	-8.2%
Trade-related & remitt:	48	37	29.7%	49	-2.0%
Guarantees	6	5	20.0%	5	20.0%
Investment banking	29	16	81.3%	12	141.7%
Service charges	23	19	21.1%	16	43.8%
Others	14	10	40.0%	12	16.7%
Total	279	226	23.5%	256	9.0%

Source: company, Phillip Securities Research

Insurance premiums recovered from decline in previous quarter

In previous quarter, the divestment of PacificMas Berhad had resulted in the absence of premium income. But in 1Q11, life assurance profits were higher and mitigated the absence of premium income from subsidiary. As a result, insurance premiums grew 68.9% q-q; -1.6% y-y to S\$179 million in 1Q11.

Divestment gains

OCBC added S\$39 million to revenue and S\$32 million to profit on gains arising from the sale of freehold site at 11 Bassein Road.

Lower other noninterest income

Segment fell to S\$116 million (-33% q-q; -51% y-y). Trading and treasury income were lower by 33% q-q in 1Q11 and absence of S\$35 million gain from sale of Pacific Insurance Berhad this quarter resulted in lower net gain from disposal of subsidiaries.

Loans to B&C sector fell; NPL to financial institutions surge; II

Again contrary to peers' performance, OCBC reported weaker loans growth (-3% q-q) to Building and Construction sector. The other two local banks reported strong growth, DBS - 10% q-q; UOB - 15% q-q. In explanation, management said when their clients successfully bid for projects, their loans to this segment will grow. Then we are concerned that whoever they are in close partnership with are either unsuccessful in bidding projects or may have preferred rates from competitors.

NPL to financial institutions, investment and holding companies also increased starkly from just S\$7 million in 4Q10 to S\$62 million in 1Q11, resulting in an increase in NPL from 0.1% to 0.4% for the sector. Management said these are loans to real estate projects which are held through SPVs. These Australasia loans have deteriorated to substandard quality.

Revaluation surplus on AFS equity securities

OCBC added S\$488 million of revaluation surplus on AFS equity securities to tier 2 capital. Previously, equity securities are held at cost but revisions in MAS regulations allowed the banks to value at market pricing. However, this shaves off core CAR and reduce tier 1 while boosting overall CAR. As such, core CAR fell 9 bps to 14.1%, tier 1 fell 8 bps to 15.5% whereas total CAR fell only 3 bps to 17.3% due to higher RWA.

NAV increasing fast

NAV before valuation surplus is S\$5.89; Revalued NAV climbed to S\$7.26. Base on closing value of S\$9.39, we are looking at PB of 1.59x and 1.29x.

Valuations:

OCBC 1Q11 annualised EPS was S\$0.697 (c.24%) and NAV was S\$5.89. Our full year estimate for EPS is S\$0.75 and NAV of S\$6.13. We derive target valuation of S\$10.00 base on 1.63x PB. The fair value implies PER of 13.3x. Base on current price level and our estimates, PE and PB are 12.5x and 1.53x respectively. OCBC is not significantly undervalued, there is no further need for re-rating hence we maintain our Hold Recommendation.

Fig 1: Net interest margin

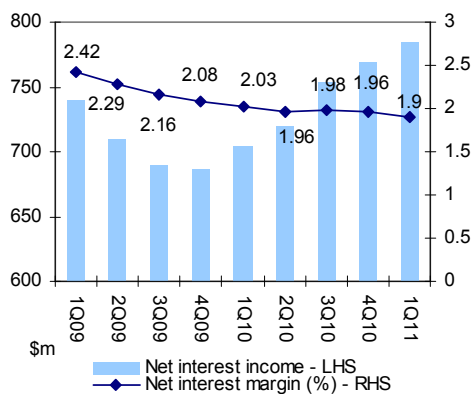


Fig 2: NonInt/Total revenue

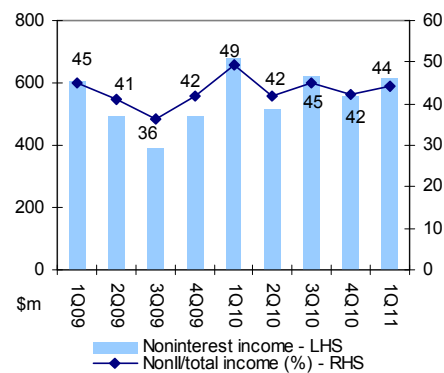


Fig 3: Efficiency ratio

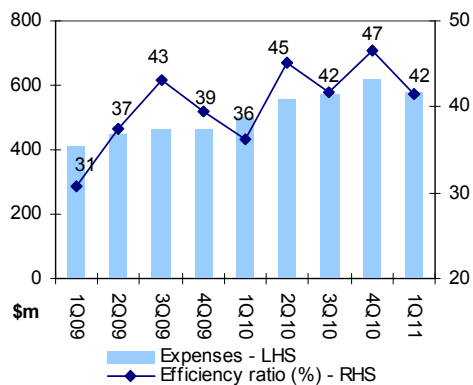


Fig 4: Net profit margin

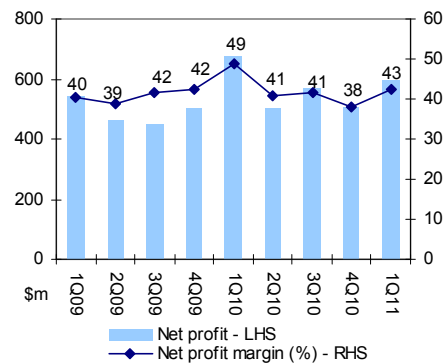


Fig 5: Deposits, Loans, LDR

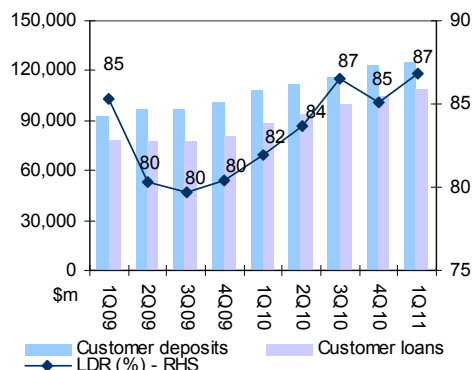


Fig 6: Growth in selected asset items

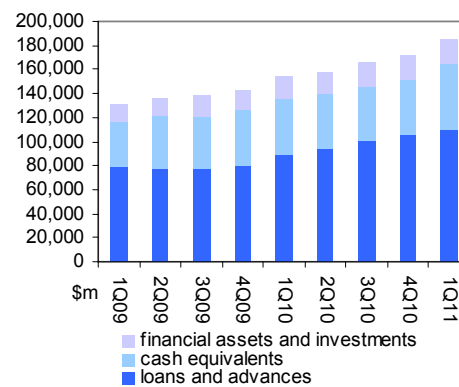


Fig 7: CAR

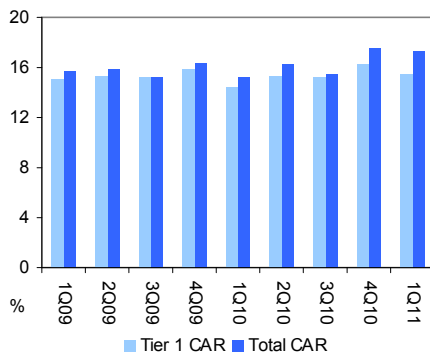


Fig 8: ROE and ROA

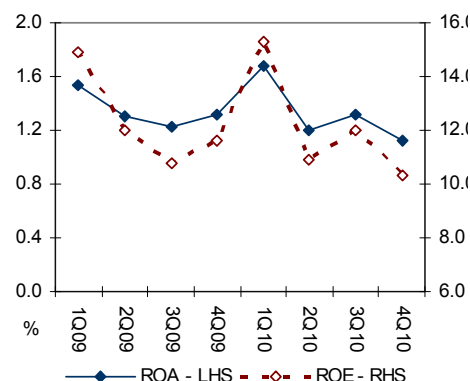


Fig 9: EPS and NBV

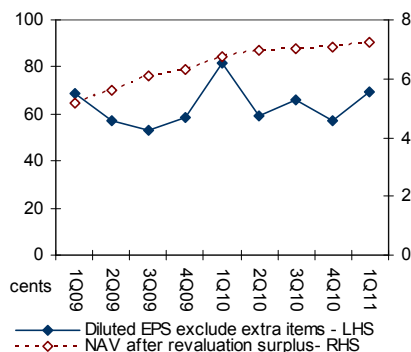


Fig 10: Revenue by geo segment

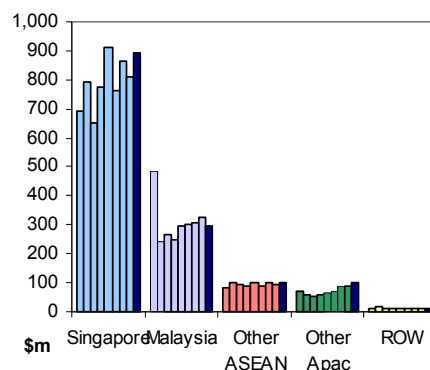
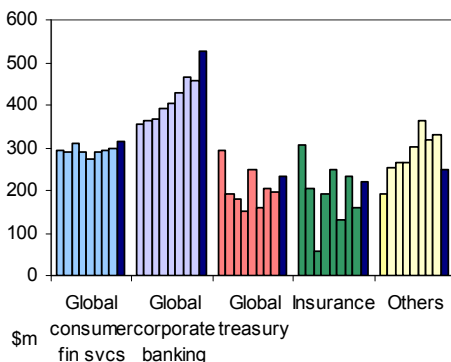


Fig 11: Revenue by Business segment



Growth Trends

Fig 12: Net interest income trend

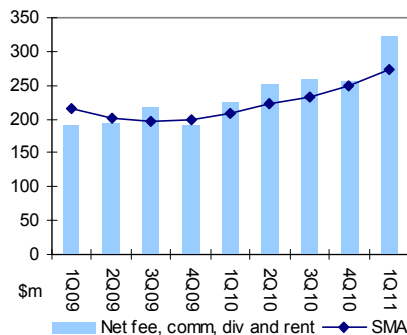


Fig 13: Fee and Commission trend

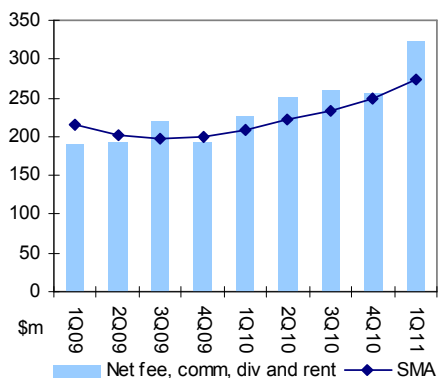


Fig 14: Insurance premium trend

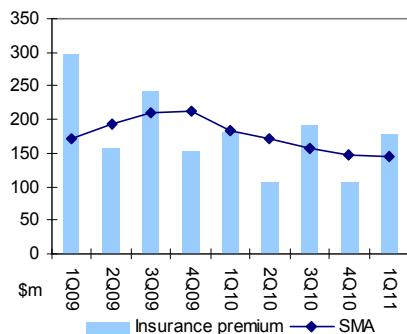
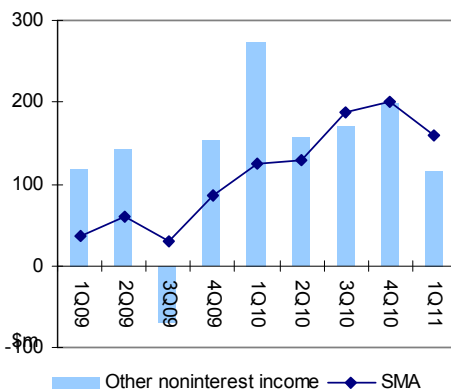


Fig 15: Other noninterest income trend



Financials

Profit model (S\$ m)	2009	2010	2011E	2012E
Interest income	4,184	4,363	4,507	4,853
Interest expense	1,359	1,416	1,436	1,533
Net interest income	2,825	2,947	3,072	3,320
Net fee and commission income	730	994	1,099	1,215
Other non interest income	1,260	1,384	1,517	1,610
Total operating income	4,815	5,325	5,687	6,145
Operating expenses	1,796	2,254	2,474	2,673
Goodwill amortisation	47	55	46	47
Provisions	429	134	-70	33
Operating profit	2,543	2,882	3,237	3,392
Share of profits of associates	0	-2	0	0
Profit before tax	2,543	2,880	3,237	3,392
Tax	389	433	518	543
Minority Interest	192	194	231	242
Net profit	1,962	2,253	2,488	2,607
Diluted EPS (S\$)	0.59	0.66	0.75	0.79
DPS (S\$)	0.28	0.30	0.34	0.36
Dividend payout ratio (%)	46.0%	45.0%	44.0%	44.5%

Growth & margins (%)	2009	2010	2011E	2012E
Net interest income growth	1.5%	4.2%	4.2%	8.1%
Net non interest income growth	21.0%	30.0%	10.0%	8.0%
Net income growth	12.2%	19.9%	5.5%	4.8%
Net interest margin	2.23%	1.98%	1.99%	2.04%

Cash flow statement (S\$ m)	2009	2010	2011E	2012E
Profit before tax	2,543	3,061	3,237	3,392
Depreciation	135	147	173	187
Operating profit before working capital changes	3,079	3,405	3,192	3,452
Net cash flow from operating activities	5,406	-12,769	-3,898	133,082
Net cash flow from investing activities	1	-1,639	126	-1,498
Net cash flow from financing activities	683	-691	-1,454	-724
Net increase in cash/cash equivalents	6,143	-15,100	-5,226	130,860
Cash at end of year	13,171	-1,929	3,818	134,679

Balance sheet (S\$ m)	2009	2010	2011E	2012E
Cash	13,171	-1,730	4,849	136,549
Treasury bills and Securities	28,166	31,947	35,060	36,423
Due from banks	15,821	18,528	20,733	20,681
Loans and advances to customer	80,876	98,617	104,160	109,368
Goodwill on consolidation	3,362	4,149	4,116	4,086
Properties and other fixed assets	1,609	2,118	2,362	2,609
Other assets	8,218	9,623	10,375	11,272
Life insurance assets attributed to subsidiaries	43,077	47,815	52,597	57,857
Bank of Singapore assets	0	35,420	38,962	42,858
Total assets	194,300	246,487	273,214	421,703
Due to banks	10,958	11,811	14,871	15,615
Due to non-bank customers	100,633	111,742	124,024	130,225
Derivatives payable	3,918	3,412	3,833	4,024
Other borrowings	6,863	7,203	8,091	8,496
Other liabilities	6,903	7,410	7,595	137,914
Life insurance fund	43,246	47,815	52,597	57,857
Bank of Singapore liabilities	0	34,026	37,429	41,172
Total liabilities	172,521	223,420	248,441	395,303
Shareholders equity	18,970	20,094	21,629	23,084
Minority interests	2,808	2,973	3,145	3,317
BV per share before valuation (S\$)	5.30	5.65	6.1	6.6
NTA per share (S\$)	5.13	5.28	5.8	6.3

Key Ratios	2009	2010	2011E	2012E
ROE (%)	12.2%	12.1%	12.6%	12.3%
ROA (%)	1.4%	1.3%	0.9%	1.9%
Non-interest/total income	41.3%	44.7%	46.0%	46.0%
Cost/income ratio	37.3%	42.3%	43.5%	43.5%
Loan/deposit ratio	80.4%	85.1%	84.0%	84.0%
NPL ratio	1.7%	0.9%	0.9%	0.9%

Valuation	2009	2010	2011E	2012E
P/E basic (X)	15.55	12.96	12.51	11.94
P/B (X)	1.74	1.63	1.54	1.43
Dividend yield (%)	3.0%	3.9%	3.6%	3.8%

Source: Company, Phillip Securities Research

Ratings History

Overseas-Chinese Banking Corporation

Rating	Date	Closing price (S\$)	Fair value (S\$)	Remarks
HOLD	13 May 2011	9.39	10.00	1Q11 results
HOLD	21 Feb 2011	9.41	10.00	4Q10 results
HOLD	1 Nov 2010	9.22	9.10	3Q10 results
HOLD	3 Aug 2010	9.08	9.10	2Q10 results
HOLD	6 May 2010	8.59	9.10	1Q10 results (analyst change)
HOLD	22 February 2010	8.54	8.63	4Q09 results
BUY	29 October 2009	7.53	9.02	3Q09 results
BUY	15 October 2009	7.60	8.80	Update
HOLD	4 August 2009	7.80	8.10	2Q09 Results
SELL	21 April 2009	5.62	4.61	Update
HOLD	6 November 2008	5.28	5.17	3Q08 Results
HOLD	8 May 2008	9.00	9.00	1Q08 Results
BUY	22 February 2008	7.60	9.30	4Q07 Results
BUY	7 November 2008	8.90	10.90	3Q07 Results
BUY	10 August 2007	8.70	10.90	2Q07 Results
BUY	10 May 2007	9.50	10.90	1Q07 Results
BUY	23 February 2007	8.80	10.20	4Q06 Results
BUY	12 February 2007	8.65	9.50	Resume coverage

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	BUY	>15% upside from the current price
	HOLD	-10% to 15% from the current price
	SELL	>10% downside from the current price
	TRADING SELL	Share price may exceed 10% on the downside over the next 3 months, however longer-term outlook remains uncertain
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