

Oversea-Chinese Banking Corp

Expect GEH Contributions to Support Performance

SINGAPORE | BANKING | UPDATE

- Expect OCBC to actively manage Loan to Deposit Ratio (LDR) lower.
- *Customers Loans* would be affected by strengthening USD
- OCBC's insurance business would benefit from interest rate increases
- **Maintain "Neutral" with a higher target price of S\$8.55 (previously S\$8.25)**, pegged at unchanged 0.95x FY17F book value (excluding preference shares).

Weak net interest income growth as OCBC manages LDR lower.

We believe that OCBC will favour a defensive strategy by lowering its LDR amid a weak domestic economic outlook and a high private sector debt overhang. We forecast OCBC's LDR to be c.80% in FY17F and as a result, we expect net interest income growth to be negative too. OCBC's USD *Customers Loans* which makes up 23% of the total *Customers Loans* is vulnerable to the strengthening of USD. For further reading, we refer to our Singapore Banking Sector report titled "[Challenges to loans and net interest income growth](#)" which expounds our thesis.

OCBC's insurance business could benefit from steady interest rate increases.

We expect Great Eastern Holdings (GEH) to score a straightforward win as interest rate rises. We estimate GEH contributes c.9% to *Total Income*. The rising bonds yields in line with higher interest rates will allow GEH to invest new premium income at higher yields and earn higher future returns that will contribute to more profits. We are not concerned of falling market value of existing bond holdings as interest rate rises because we expect insurers in general to hold their bonds till maturity.

Operating trends expected in 4Q16.

We expect 4Q16 PATMI to be S\$951mn (+0.85% q-o-q, -0.94% y-o-y), supported primarily by lower provisions. We expect flattish q-o-q net interest income growth but better q-o-q contribution from *life assurance* business segment.

Investment Actions

We expect the better performance from non-interest income businesses especially contributions from *life assurance* and *wealth management* in FY2017F to support the weak net interest income. OCBC is less dependent on interest income compared to its peers. OCBC's non-interest income makes up 44% of total income which is higher than DBS' 38% and UOB's 40%. **Maintain "Neutral" with a higher target price of S\$8.55 (previously S\$8.25) as we roll over to FY17F valuation.** Our new target price is based on unchanged 0.95x FY17F book value (excluding preference shares).

16 January 2017

Neutral (Maintain)

LAST TRADED PRICE	SGD 9.35
FORECAST DIV	SGD 0.36
TARGET PRICE	SGD 8.55
TOTAL RETURN	-4.71%

COMPANY DATA

O/S SHARES (MN) :	4,183
MARKET CAP (USD mn / SGD mn) :	27404 / 39113
52 - WK HI/LO (SGD) :	9.45 / 7.41
3M Average Daily T/O (mn) :	5.88

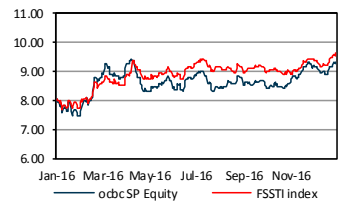
MAJOR SHAREHOLDERS (%)

Lee Foundation	4.25%
Selat (Pte) Limited	10.80%
Aberdeen Asset Management PLC	4.76%
Singapore Investments (Pte) Ltd	3.67%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	13	8.2	17.1
STI RETURN	158	6.80	15.48

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec	FY 14	FY 15	FY 16 F	FY 17 F
Total Operating Inc (SGD mn)	8,341	8,722	8,527	8,757
Operating Profit (SGD mn)	4,651	4,472	4,121	4,297
NPAT, adj.	4,077	4,108	3,810	3,959
EPS (SGD)	0.96	0.95	0.87	0.91
PER, adj. (x)	10.1	9.0	9.8	9.4
ROCE (%)	12.9%	11.6%	10.0%	10.1%

Source: Bloomberg

Valuation Method: 0.95x FY17F P/B

Jeremy Teong (+65 6212 1863)

jeremyteongfh@phillip.com.sg

Fig 1: Net interest margin

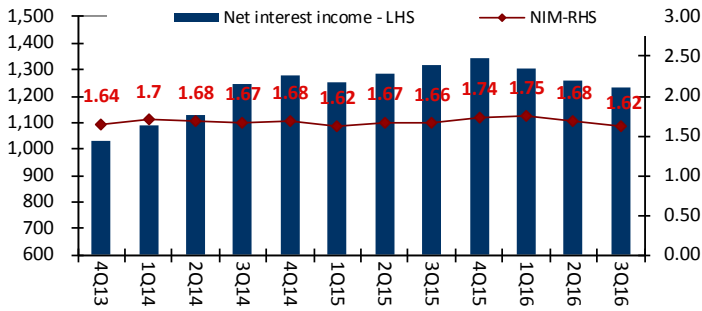


Fig 2: NonInt/Total revenue

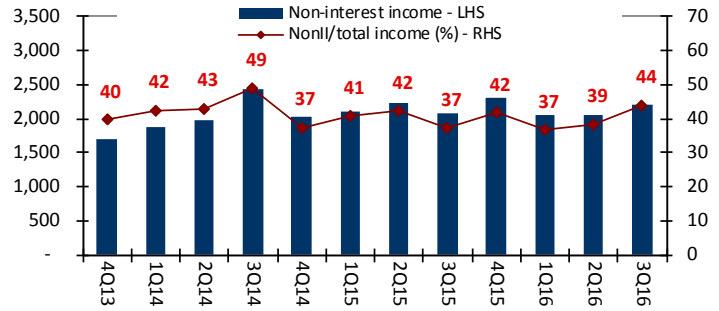


Fig 3: Efficiency ratio

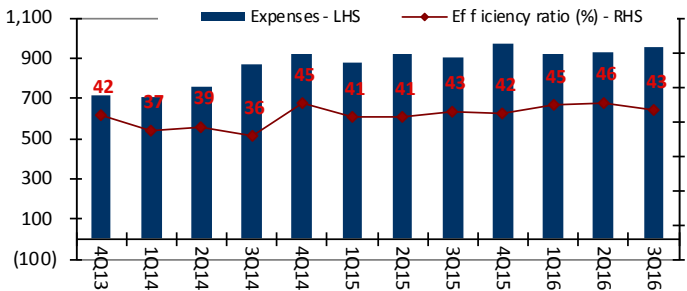


Fig 4: Net profit margin

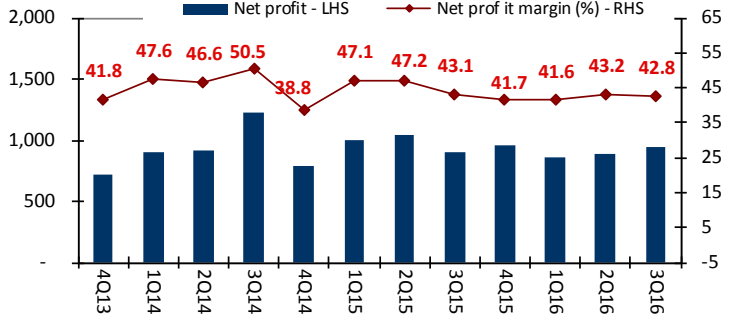


Fig 5: Deposits, Loans, LDR

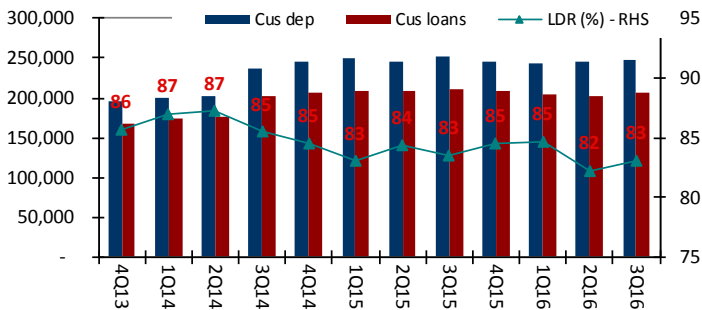


Fig 6: NPA, NPL

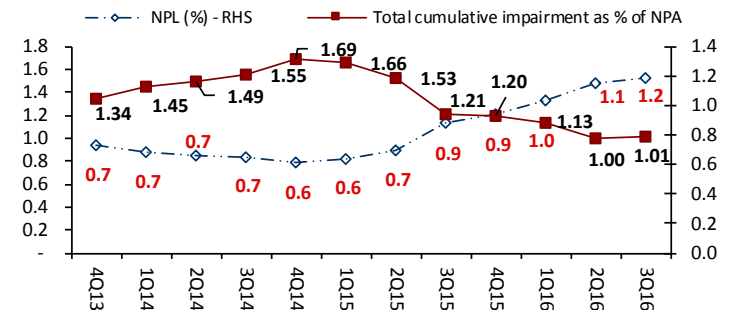


Fig 7: Growth in selected asset items

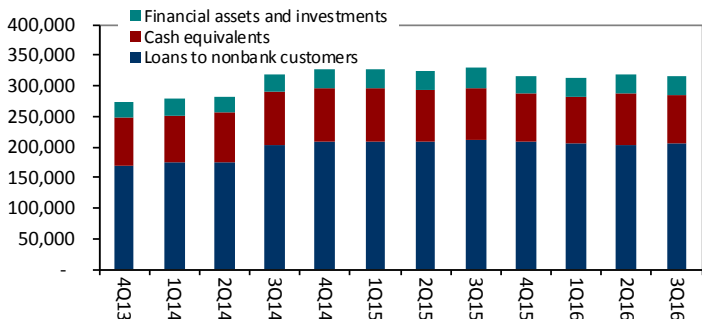


Fig 8: CAR

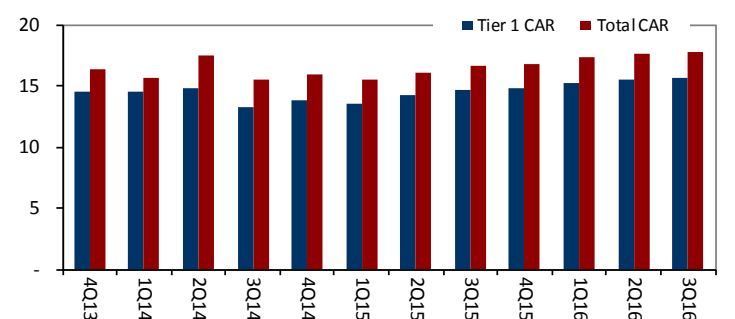


Fig 9: ROE and ROA

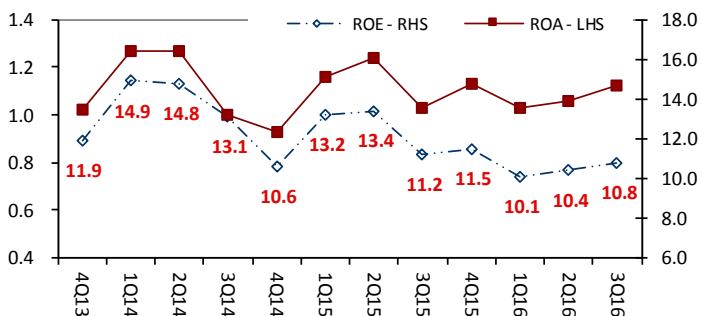


Fig 10: EPS and NBV

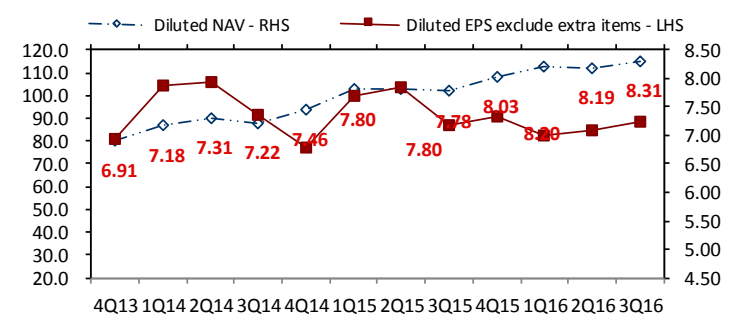


Fig 11: Profit before tax by geographical segment

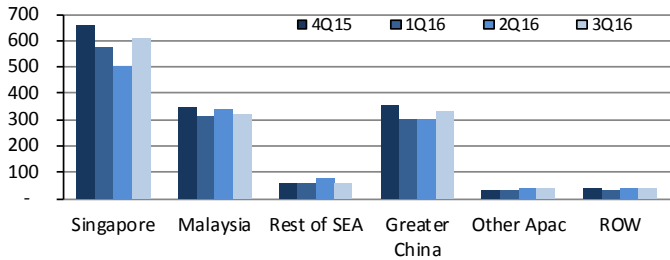


Fig 12: Geo segment breakdown

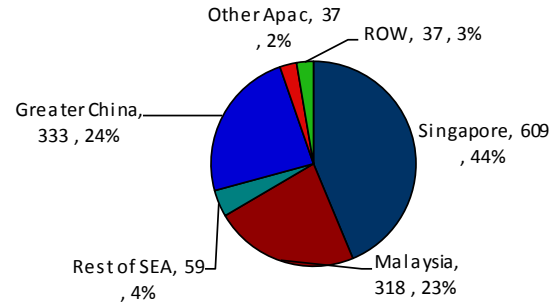


Fig 13: Operating profit by Business segment

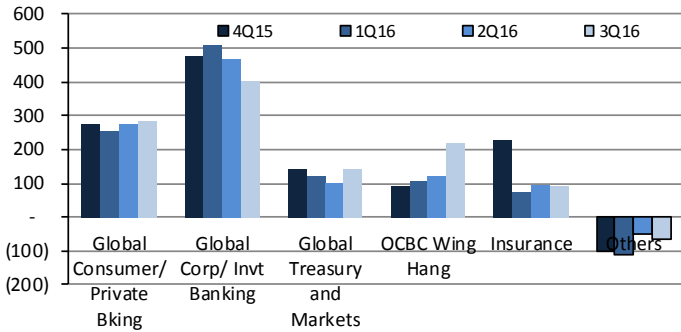


Fig 14: Net interest income trend

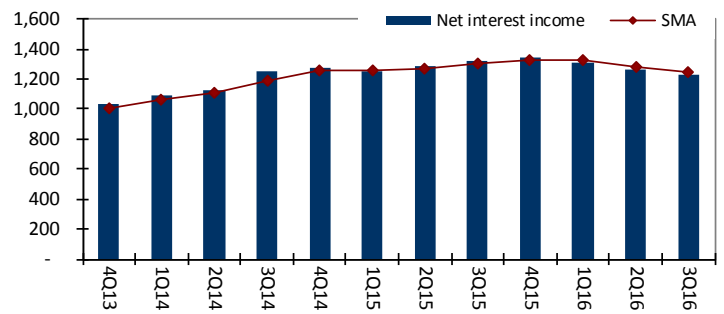


Fig 15: Fee and Commission trend

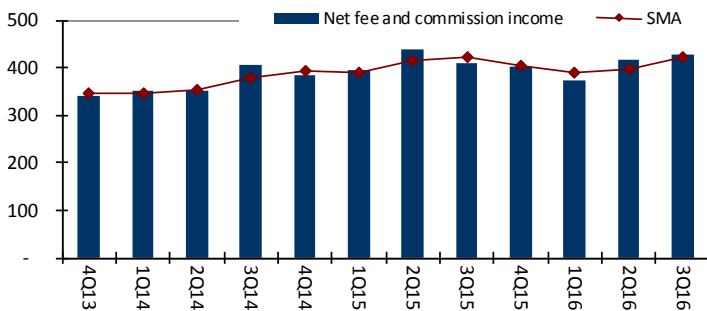


Fig 16: Other noninterest income trend

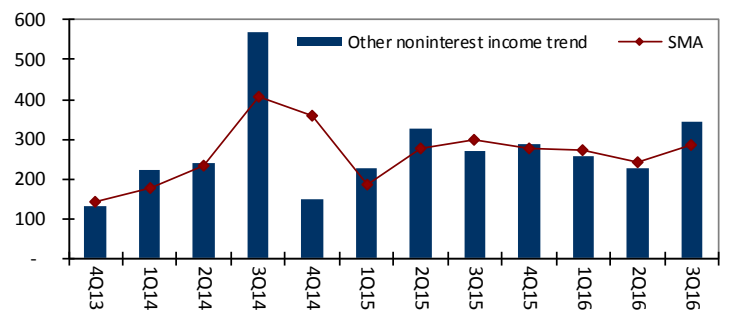
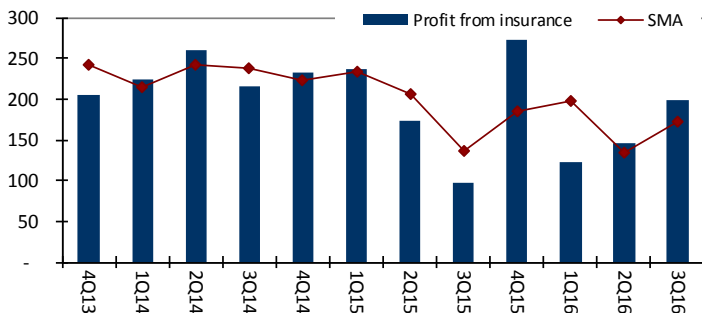


Fig 17: Profit from insurance



Financials

Income Statement

Y/E Dec, SGD mn	FY14	FY15	FY16F	FY17F	FY18F
Net Interest Income	4,736	5,189	5,052	5,014	5,107
Fees and Commission	1,496	1,643	1,675	1,787	1,909
Other Non interest income	2,109	1,890	1,800	1,955	2,152
Total operating income	8,341	8,722	8,527	8,757	9,167
Operating expenses	3,258	3,665	3,763	3,835	3,864
Provisions	432	585	642	625	557
Operating profit	4,651	4,472	4,121	4,297	4,746
Associates & JVs	113	353	387	387	387
Profit Before Tax	4,764	4,825	4,508	4,684	5,133
Taxation	687	717	698	725	794
Profit After Tax	4,077	4,108	3,810	3,959	4,340
Non-controlling Interest	233	205	176	183	201
Net Income, reported	3,844	3,903	3,635	3,776	4,139
Net Income, adj.	3,844	3,903	3,635	3,776	4,139

Per share data (SGD)

Y/E Dec, SGD mn	FY14	FY15	FY16F	FY17F	FY18F
EPS, reported	1.02	1.00	0.91	0.95	1.04
EPS, adj.	0.96	0.95	0.87	0.91	1.00
DPS	0.36	0.36	0.36	0.36	0.36
BVPS	7.46	8.15	8.70	9.00	9.38

Supplementary items

Y/E Dec, SGD mn	FY14	FY15	FY16F	FY17F	FY18F
CET1 CAR (%)	13.8%	14.8%	14.9%	14.0%	13.2%
Tier 1 CAR (%)	13.8%	14.8%	15.4%	14.5%	13.6%
Total CAR (%)	15.9%	16.8%	17.3%	16.2%	15.2%

Balance Sheet

Y/E Dec, SGD mn	FY14	FY15	FY16F	FY17F	FY18F
Cash bal with central banks	25,314	21,180	21,228	29,626	32,026
Due from banks	41,220	35,791	37,352	38,251	40,223
Debt and equity securities	23,466	22,786	24,981	25,241	25,494
Loans and bills receivable	207,535	208,218	207,356	211,388	217,235
Life Assur. Fund Inv. Assets	57,286	56,983	58,645	60,404	62,216
Others	46,925	45,890	48,568	48,741	48,997
Total Assets	401,746	390,848	398,129	413,651	426,192
Due to banks	20,503	12,048	12,266	12,388	12,512
Due to non-bank customers	245,519	246,277	249,794	261,559	269,817
Life Assur. Fund Liabilities	57,224	56,994	58,704	60,465	62,279
Debts issued	28,859	23,479	22,492	22,717	22,944
Others	14,936	14,282	14,700	15,131	15,575
Total liabilities	367,041	353,080	357,955	372,260	383,128
Shareholder's equity	31,097	34,553	37,368	38,487	39,959
Non-controlling interest	3,088	2,558	2,722	2,905	3,105
Total Equity	34,185	37,111	40,090	41,391	43,065

Valuation Ratios

Y/E Dec, SGD mn	FY14	FY15	FY16F	FY17F	FY18F
P/E (X), adj.	10.1	9.0	9.8	9.4	8.6
P/B (X)	1.3	1.0	0.98	0.95	0.91
Dividend Yield (%)	3.7%	4.2%	4.2%	4.2%	4.2%

Growth & Margins (%)

	FY14	FY15	FY16F	FY17F	FY18F
Growth					
Net interest income	22.0%	9.6%	-2.6%	-0.7%	1.8%
Non interest income	31.6%	-2.0%	-1.6%	7.7%	8.5%
Pre provision operating profit	26.0%	4.6%	-2.2%	2.7%	4.7%
Operating income	32.4%	-3.8%	-7.8%	4.2%	10.5%
Net income, reported	38.9%	1.5%	-6.9%	3.9%	9.6%
Net income, adj	38.9%	1.5%	-6.9%	3.9%	9.6%

Margins

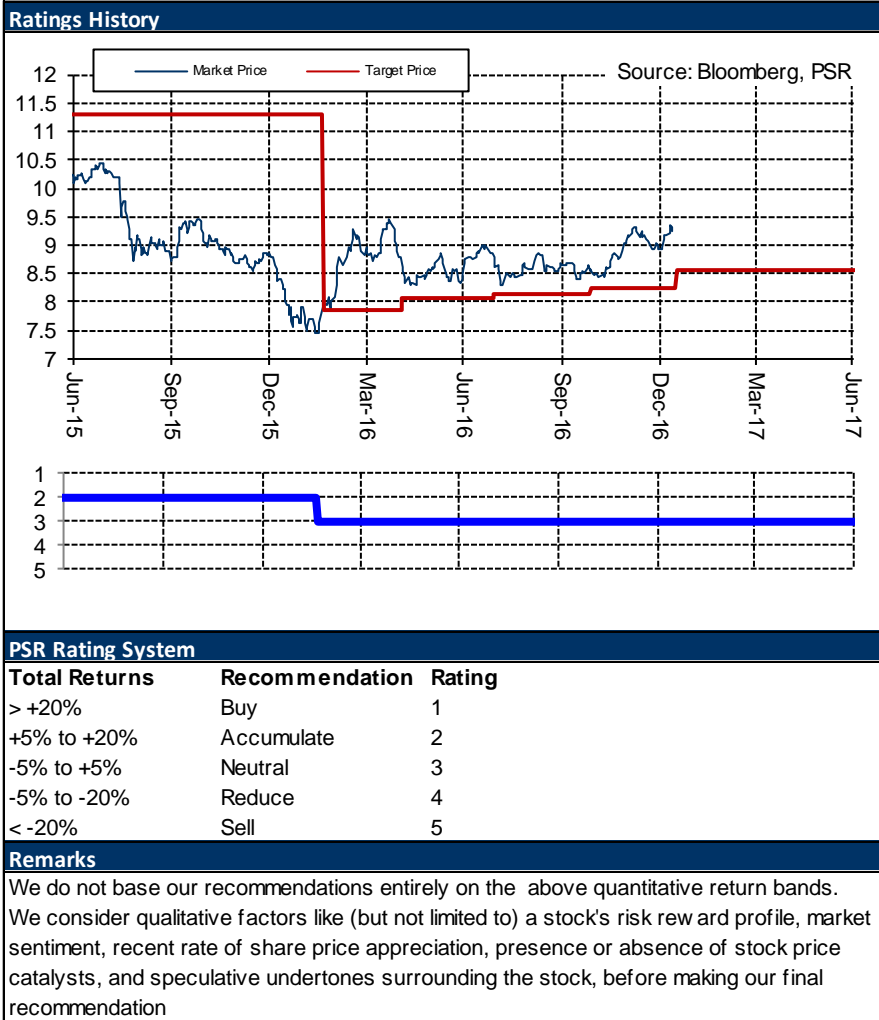
	FY14	FY15	FY16F	FY17F	FY18F
Net interest margin	1.68%	1.67%	1.67%	1.62%	1.62%

Key Ratios (%)

	FY14	FY15	FY16F	FY17F	FY18F
ROE	12.9%	11.6%	10.0%	10.1%	10.6%
ROA	1.1%	1.2%	1.1%	1.1%	1.1%
RORWA	2.0%	2.0%	1.8%	1.7%	1.7%
Non-interest/total income ratio	43.2%	40.5%	40.8%	42.7%	44.3%
Cost/income ratio	39.1%	42.0%	44.1%	43.8%	42.2%
Loan/deposit ratio	84.5%	84.5%	83.0%	80.8%	80.5%
NPL ratio	0.61	0.93	1.17	1.13	1.12

Source: Company, Phillip Securities Research (Singapore) Estimates

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



Contact Information (Singapore Research Team)

Research Operations Officer

Mohamed Amiruddin - amiruddin@phillip.com.sg

Consumer | Healthcare

Soh Lin Sin - sohls@phillip.com.sg

Transport | REITs (Industrial)

Richard Leow, CFTe, FRM -
richardleowwt@phillip.com.sg

Banking and Finance

Jeremy Teong - jeremyteongfh@phillip.com.sg

Property | Infrastructure

Peter Ng - peterngmc@phillip.com.sg

REITs (Commercial, Retail, Healthcare) | Property

Dehong Tan - tandh@phillip.com.sg

US Equity

Ho Kang Wei - hokw@phillip.com.sg

Macro

Pei Sai Teng - peist@phillip.com.sg

Technical Analysis

Jeremy Ng - jeremyngch@phillip.com.sg

Oil & Gas | Energy

Chen Guangzhi - chengz@phillip.com.sg

Contact Information (Regional Member Companies)

SINGAPORE

Phillip Securities Pte Ltd

Raffles City Tower
250, North Bridge Road #06-00
Singapore 179101
Tel +65 6533 6001
Fax +65 6535 6631
Website: www.poems.com.sg

JAPAN

Phillip Securities Japan, Ltd.

4-2 Nihonbashi Kabuto-cho Chuo-ku,
Tokyo 103-0026
Tel +81-3 3666 2101
Fax +81-3 3666 6090
Website: www.phillip.co.jp

THAILAND

Phillip Securities (Thailand) Public Co. Ltd

15th Floor, Vorawat Building,
849 Silom Road, Silom, Bangrak,
Bangkok 10500 Thailand
Tel +66-2 6351700 / 22680999
Fax +66-2 22680921
Website www.phillip.co.th

UNITED STATES

Phillip Futures Inc

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
Website: www.phillipusa.com

INDIA

PhillipCapital (India) Private Limited

No.1, 18th Floor, Urmi Estate
95, Ganpatrao Kadam Marg
Lower Parel West, Mumbai 400-013
Maharashtra, India
Tel: +91-22-2300 2999 / Fax: +91-22-2300 2969
Website: www.phillipcapiatal.in

CAMBODIA

Phillip Bank Plc

Ground Floor of B-Office Centre,#61-64,
Norodom Blvd Corner Street 306,Sangkat
Boeung Keng Kang 1, Khan Chamkamorn,
Phnom Penh, Cambodia
Tel: 855 (0) 7796 6151/855 (0) 1620 0769
Website: www.phillipbank.com.kh

MALAYSIA

Phillip Capital Management Sdn Bhd

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: www.poems.com.my

INDONESIA

PT Phillip Securities Indonesia

ANZ Tower Level 23B,
Jl Jend Sudirman Kav 33A
Jakarta 10220 – Indonesia
Tel +62-21 5790 0800
Fax +62-21 5790 0809
Website: www.phillip.co.id

FRANCE

King & Shaxson Capital Limited

3rd Floor, 35 Rue de la Bienfaisance 75008
Paris France
Tel +33-1 45633100
Fax +33-1 45636017
Website: www.kingandshaxson.com

AUSTRALIA

Phillip Capital Limited

Level 12, 15 William Street,
Melbourne, Victoria 3000, Australia
Tel +61-03 9629 8288
Fax +61-03 9629 8882
Website: www.phillipcapiatal.com.au

TURKEY

PhillipCapital Menkul Degerler

Dr. Cemil Bengü Cad. Hak Is Merkezi
No. 2 Kat. 6A Caglayan
34403 Istanbul, Turkey
Tel: 0212 296 84 84
Fax: 0212 233 69 29
Website: www.phillipcapiatal.com.tr

HONG KONG

Phillip Securities (HK) Ltd

11/F United Centre 95 Queensway
Hong Kong
Tel +852 2277 6600
Fax +852 2868 5307
Websites: www.phillip.com.hk

CHINA

Phillip Financial Advisory (Shanghai) Co Ltd

No 550 Yan An East Road,
Ocean Tower Unit 2318,
Postal code 200001
Tel +86-21 5169 9200
Fax +86-21 6351 2940
Website: www.phillip.com.cn

UNITED KINGDOM

King & Shaxson Capital Limited

6th Floor, Candlewick House,
120 Cannon Street,
London, EC4N 6AS
Tel +44-20 7426 5950
Fax +44-20 7626 1757
Website: www.kingandshaxson.com

SRI LANKA

Asha Phillip Securities Limited

2nd Floor, Lakshmans Building,
No. 321, Galle Road,
Colombo 03, Sri Lanka
Tel: (94) 11 2429 100
Fax: (94) 11 2429 199
Website: www.ashaphillip.net

DUBAI

Phillip Futures DMCC

Member of the Dubai Gold and
Commodities Exchange (DGCX)
Unit No 601, Plot No 58, White Crown Bldg,
Sheikh Zayed Road, P.O.Box 212291
Dubai-UAE
Tel: +971-4-3325052 / Fax: + 971-4-3328895

Important Information

This report is prepared and/or distributed by Phillip Securities Research Pte Ltd ("Phillip Securities Research"), which is a holder of a financial adviser's license under the Financial Advisers Act, Chapter 110 in Singapore.

By receiving or reading this report, you agree to be bound by the terms and limitations set out below. Any failure to comply with these terms and limitations may constitute a violation of law. This report has been provided to you for personal use only and shall not be reproduced, distributed or published by you in whole or in part, for any purpose. If you have received this report by mistake, please delete or destroy it, and notify the sender immediately.

The information and any analysis, forecasts, projections, expectations and opinions (collectively, the "Research") contained in this report has been obtained from public sources which Phillip Securities Research believes to be reliable. However, Phillip Securities Research does not make any representation or warranty, express or implied that such information or Research is accurate, complete or appropriate or should be relied upon as such. Any such information or Research contained in this report is subject to change, and Phillip Securities Research shall not have any responsibility to maintain or update the information or Research made available or to supply any corrections, updates or releases in connection therewith.

Any opinions, forecasts, assumptions, estimates, valuations and prices contained in this report are as of the date indicated and are subject to change at any time without prior notice. Past performance of any product referred to in this report is not indicative of future results.

This report does not constitute, and should not be used as a substitute for, tax, legal or investment advice. This report should not be relied upon exclusively or as authoritative, without further being subject to the recipient's own independent verification and exercise of judgment. The fact that this report has been made available constitutes neither a recommendation to enter into a particular transaction, nor a representation that any product described in this report is suitable or appropriate for the recipient. Recipients should be aware that many of the products, which may be described in this report involve significant risks and may not be suitable for all investors, and that any decision to enter into transactions involving such products should not be made, unless all such risks are understood and an independent determination has been made that such transactions would be appropriate. Any discussion of the risks contained herein with respect to any product should not be considered to be a disclosure of all risks or a complete discussion of such risks.

Nothing in this report shall be construed to be an offer or solicitation for the purchase or sale of any product. Any decision to purchase any product mentioned in this report should take into account existing public information, including any registered prospectus in respect of such product.

Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may provide an array of financial services to a large number of corporations in Singapore and worldwide, including but not limited to commercial / investment banking activities (including sponsorship, financial advisory or underwriting activities), brokerage or securities trading activities. Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may have participated in or invested in transactions with the issuer(s) of the securities mentioned in this report, and may have performed services for or solicited business from such issuers. Additionally, Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may have provided advice or investment services to such companies and investments or related investments, as may be mentioned in this report.

Phillip Securities Research or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report may, from time to time maintain a long or short position in securities referred to herein, or in related futures or options, purchase or sell, make a market in, or engage in any other transaction involving such securities, and earn brokerage or other compensation in respect of the foregoing. Investments will be denominated in various currencies including US dollars and Euro and thus will be subject to any fluctuation in exchange rates between US dollars and Euro or foreign currencies and the currency of your own jurisdiction. Such fluctuations may have an adverse effect on the value, price or income return of the investment.

To the extent permitted by law, Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may at any time engage in any of the above activities as set out above or otherwise hold an interest, whether material or not, in respect of companies and investments or related investments, which may be mentioned in this report. Accordingly, information may be available to Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, which is not reflected in this report, and Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may, to the extent permitted by law, have acted upon or used the information prior to or immediately following its publication. Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited its officers, directors, employees or persons involved in the issuance of this report, may have issued other material that is inconsistent with, or reach different conclusions from, the contents of this report.

The information, tools and material presented herein are not directed, intended for distribution to or use by, any person or entity in any jurisdiction or country where such distribution, publication, availability or use would be contrary to the applicable law or regulation or which would subject Phillip Securities Research to any registration or licensing or other requirement, or penalty for contravention of such requirements within such jurisdiction.

This report is intended for general circulation only and does not take into account the specific investment objectives, financial situation or particular needs of any particular person. The products mentioned in this report may not be suitable for all investors and a person receiving or reading this report should seek advice from a professional and financial adviser regarding the legal, business, financial, tax and other aspects including the suitability of such products, taking into account the specific investment objectives, financial situation or particular needs of that person, before making a commitment to invest in any of such products.

This report is not intended for distribution, publication to or use by any person in any jurisdiction outside of Singapore or any other jurisdiction as Phillip Securities Research may determine in its absolute discretion.

IMPORTANT DISCLOSURES FOR INCLUDED RESEARCH ANALYSES OR REPORTS OF FOREIGN RESEARCH HOUSES

Where the report contains research analyses or reports from a foreign research house, please note:

- (i) recipients of the analyses or reports are to contact Phillip Securities Research (and not the relevant foreign research house) in Singapore at 250 North Bridge Road, #06-00 Raffles City Tower, Singapore 179101, telephone number +65 6533 6001, in respect of any matters arising from, or in connection with, the analyses or reports; and
- (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Singapore who is not an accredited investor, expert investor or institutional investor, Phillip Securities Research accepts legal responsibility for the contents of the analyses or reports.