

Oversea-Chinese Banking Corp

Tough Operating Environment weighs on Performance

SINGAPORE | BANKING | RESULTS

- 4Q16 PATMI of SGD789mn missed our 4Q16 estimate of SGD951mn by 17%.
- Surprise came from poorer performance by the *life assurance* business and higher-than-expected provisions in 4Q16. But a flat 4Q16 net interest income q-o-q growth was in line with our expectations.
- Downgrade to "REDUCE" with a lower target price of S\$8.48 (previously S\$8.55), based at unchanged 0.95x FY17F book value (excluding preference shares).**

Results at a glance									
(SGD mn)	FY16	FY15	y-o-y (%)	4Q16	4Q15	y-o-y (%)	3Q16	q-o-q (%)	4Q16 Results Comments
Net interest income	5,052	5,189	-3%	1,251	1,341	-7%	1,234	1%	NIMs -11bps y-o-y. Loans +4.3% y-o-y
Fees & Comm	1,638	1,655	-1%	420	402	4%	428	-2%	Higher Fund mgmt and WM income
Insurance	649	781	-17%	182	272	-33%	199	-9%	Lower profit from life assurance
Other Nil	1150	1109	4%	324	286	13%	343	-6%	Boosted by gains from sale of properties and investment securities
Total income	8,489	8,734	-3%	2,177	2,301	-5%	2,204	-1%	
Expenses	-3788	-3664	3%	-981	-974	1%	-953	3%	
PATMI	3473	3903	-11%	789	960	-18%	943	-16%	

Source: Company, PSR

Loans growth boosted by acquisition of Barclays Wealth Management business in Hong Kong and Singapore. OCBC's customers loans (net of allowance) increased 4.3% year-on-year ("y-o-y") as OCBC completed the acquisition of Barclays Wealth business in Hong Kong and Singapore in Nov 2016. Excluding the acquisition, loans growth would be c.3%. The increase in loans was led by *Housing loans, Professional and individuals loans and Financial institutions, investment and holding companies loans.*

4Q16 Net interest income declined 7% y-o-y to SGD1.25bn. The average rate on *non-bank customers loans* declined 16bps y-o-y, offsetting an increase in loans volume (net of allowance) growth of 4.3%. On quarter-on-quarter ("q-o-q"), the average rate on *non-bank customers loans* also declined 6bps despite a rise in SOR and SIBOR in mid-November 2016. We believe that the disconnection between the bank's lending rates and the benchmark rates in 4Q16 could be partly due a competition for high quality loans amid mounting pressures from souring loans. We expect stiffer competition for quality loans to continue, adding more pressure on net interest income growth.

NPLs rose SGD814mn, or 33bps, y-o-y. About 60% (SGD488mn) of the increase was contributed by Offshore Oil & Gas sector. New NPLs from this sector may continue to rise in coming quarters owing to unfavourable charter rates that are on long term contracts. Exposure to *Oil & Gas offshore support vessels loans* as of 4Q16 is SGD5.2bn (2.34% of total customer loans). Of that exposure, SGD1.15bn is classified as NPL (SGD922mn in 3Q16). Total Cumulative Allowances coverage ratio worsened to 100.0% of total Non-performing Assets compared to 3Q16's 101.1%.

Non-interest income declined 4% y-o-y. Fee and commission income was up 4% y-o-y, supported by *Fund Management* (up 14% y-o-y) and *Wealth Management* (up 13% y-o-y). But offset by a 39% decline in profit from *Life assurance* owing to poor performances in its *Non-participating Fund*.

Investment Actions

In 2017, we continue to expect unfavourable loans volume and rates dynamics to suppress net interest income growth. We observed that OCBC's Great Eastern Holdings performance had been volatile in 2016 and had failed to offset weaknesses in the loans business. However we expect higher interest rates in 2017 to boost OCBC's insurance business performance and provide some respite to an otherwise tough operating environment. **Downgrade to "REDUCE" with a lower target price of S\$8.48 (previously S\$8.55).** Our revised TP is based on unchanged 0.95x FY17F book value (excluding preference shares).

16 February 2017

Reduce (Downgrade)

LAST TRADED PRICE	SGD 9.45
FORECAST DIV	SGD 0.36
TARGET PRICE	SGD 8.48
TOTAL RETURN	-6.46%

COMPANY DATA

O/S SHARES (MN) :	4,184
MARKET CAP (USD mn / SGD mn) :	27878 / 39534
52 - WK HW/O (SGD) :	9.78 / 7.56
3M Average Daily T/O (mn) :	6.23

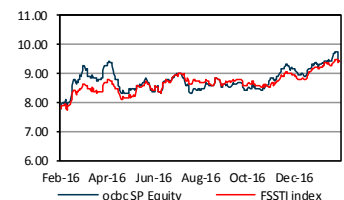
MAJOR SHAREHOLDERS (%)

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	0.7	8.4	28.9
STI RETURN	2.29	10.94	23.06

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec	FY 15	FY 16	FY 17F	FY 18 F
Total Operating Inc (SGD mn)	8,722	8,489	8,758	9,179
Operating Profit (SGD mn)	4,472	3,879	4,217	4,719
NPAT, adj.	4,108	3,646	3,915	4,344
EPS (SGD)	0.95	0.83	0.89	0.99
PER, adj. (x)	8.9	10.2	9.5	8.5
ROCE (%)	11.6%	9.6%	10.0%	10.7%

Source: Bloomberg

Valuation Method: 0.95x FY17F P/B

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Table 1. Fee and commission income

SGD mn	4Q16	4Q15	y-o-y (%)	3Q16	q-o-q (%)
Brokerage	17	17	0.0%	17	0.0%
Wealth management	157	118	33.1%	155	1.3%
Fund management	27	23	17.4%	26	3.8%
Credit card	40	39	2.6%	45	-11.1%
Loan-related	76	76	0.0%	78	-2.6%
Trade and remittances	55	54	1.9%	53	3.8%
Guarantees	4	5	-20.0%	4	0.0%
Investment Banking	13	19	-31.6%	21	-38.1%
Service charges	22	22	0.0%	19	15.8%
Others	9	17	-47.1%	10	-10.0%
Total Fee and Comm	420	390	7.7%	428	-1.9%

Table 2. Other non-interest income

SGD mn	4Q16	4Q15	y-o-y (%)	3Q16	q-o-q (%)
Net trading income	122	163	-25.2%	163	-25.2%
Net gain on Invt securities	54	7	671.4%	41	31.7%
Disposal of properties	82	41	100.0%	51	60.8%
Others	26	27	-3.7%	20	30.0%
Total other non int Inc	284	241	17.8%	275	3.3%

Table 3. Loans by Industries

SGD mn	4Q16	4Q15	y-o-y (%)	3Q16	q-o-q (%)
Agri, mining & quarrying	8,974	7,394	21.4%	7,621	17.8%
Manufacturing	12,697	13,222	-4.0%	11,775	7.8%
Building and construction	35,632	34,407	3.6%	33,974	4.9%
Housing loans	60,149	56,058	7.3%	58,881	2.2%
General commerce	25,348	26,128	-3.0%	23,907	6.0%
Tpt, storage & comms	11,520	12,360	-6.8%	10,914	5.6%
FIs, invt & holding co	30,491	27,463	11.0%	27,913	9.2%
Professionals & Pri inv	26,396	23,464	12.5%	24,460	7.9%
Others	8,945	10,169	-12.0%	9,183	-2.6%
Total loans	220,152	210,665	4.5%	208,628	5.5%

Table 4. Loans by currencies

SGD mn	4Q16	4Q15	y-o-y (%)	3Q16	q-o-q (%)
Singapore dollar	81,260	80,496	0.9%	81,351	-0.1%
US dollar	56,576	49,408	14.5%	48,573	16.5%
Malaysian ringgit	20,552	21,273	-3.4%	21,083	-2.5%
Indonesian rupiah	7,486	6,511	15.0%	6,953	7.7%
Others	18,757	16,011	17.2%	17,698	6.0%
Hong Kong Dollar	30,339	29,457	3.0%	27,728	9.4%
Renminbi	5,182	7,509	-31.0%	5,242	-1.1%
Total loans	220,152	210,665	4.5%	208,628	5.5%

Table 5. Operating profit by Business segments

SGD mn	4Q16	4Q15	y-o-y (%)	3Q16	q-o-q (%)
Global Consumer/ Private Banking	257	275	-6.5%	282	-8.9%
Global Corporate/ Investment Banking	230	478	-51.9%	399	-42.4%
Global Treasury and Markets	77	140	-45.0%	141	-45.4%
Insurance	106	229	-53.7%	89	19.1%
Others	(25)	(103)	nm	(64)	nm
Total Profit	645	1,019	-36.7%	847	-23.8%

Table 6. Profit before tax by Geographical segments

SGD mn	4Q16	4Q15	y-o-y (%)	3Q16	q-o-q (%)
Singapore	463	659	-29.7%	609	-24.0%
Malaysia	341	350	-2.6%	318	7.2%
Indonesia	189	171	10.5%	185	2.2%
Greater China	312	356	-12.4%	333	-6.3%
Other Asia Pacific	35	33	6.1%	37	-5.4%
Rest of the World	39	36	8.3%	37	5.4%
Total NPBT	1,379	1,605	-14.1%	1,519	-9.2%

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

Fig 1: Net interest margin

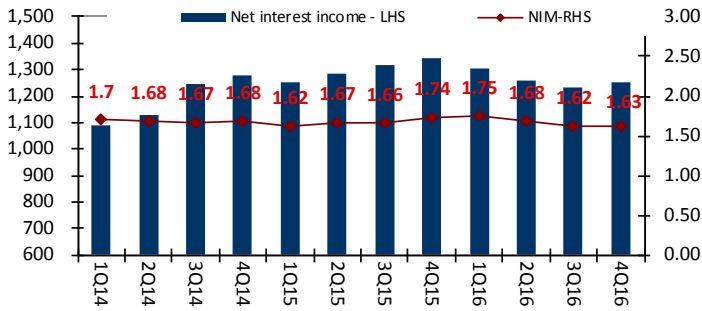


Fig 2: NonII/Total revenue

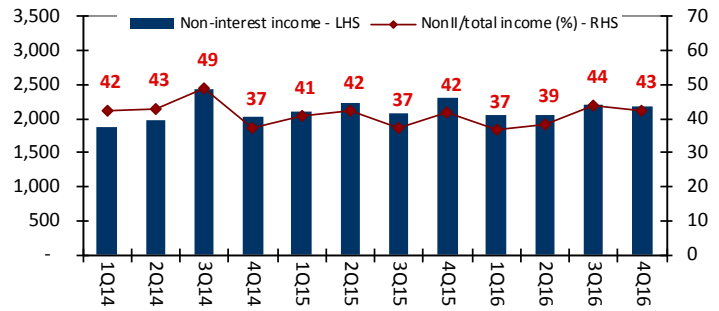


Fig 3: Efficiency ratio

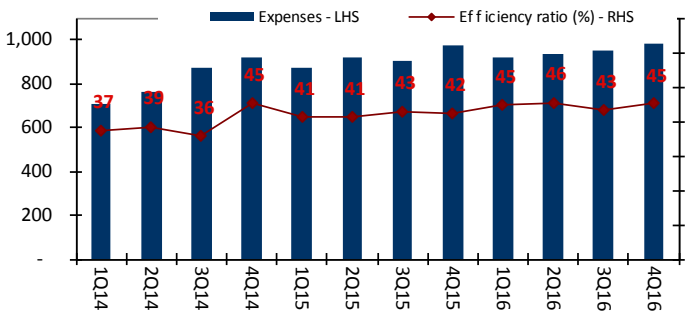


Fig 4: Net profit margin

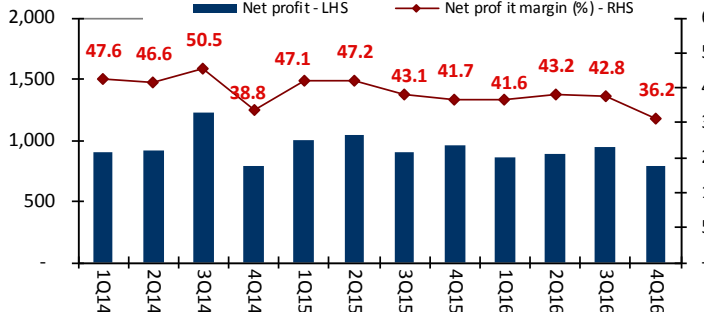


Fig 5: Deposits, Loans, LDR

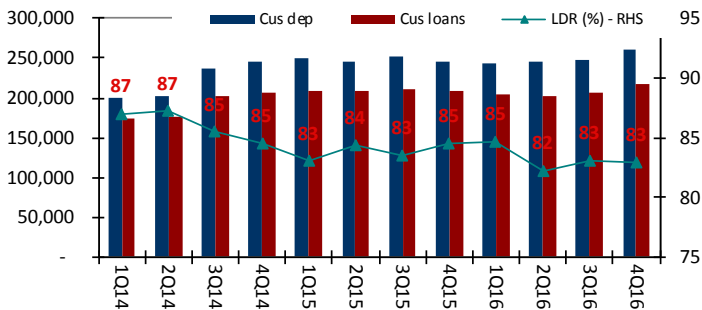


Fig 6: NPA, NPL

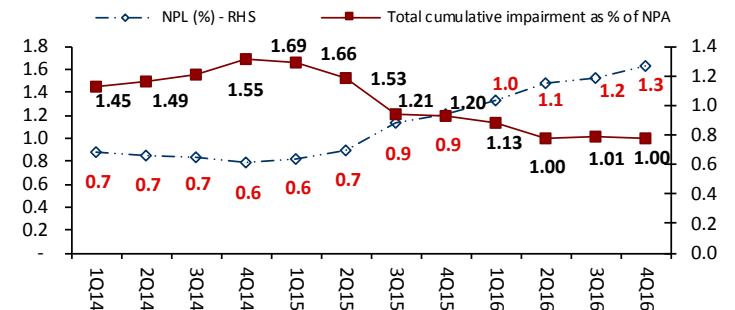


Fig 7: Growth in selected asset items

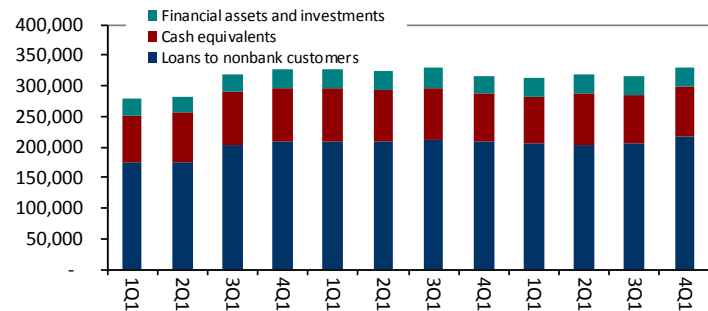


Fig 8: CAR

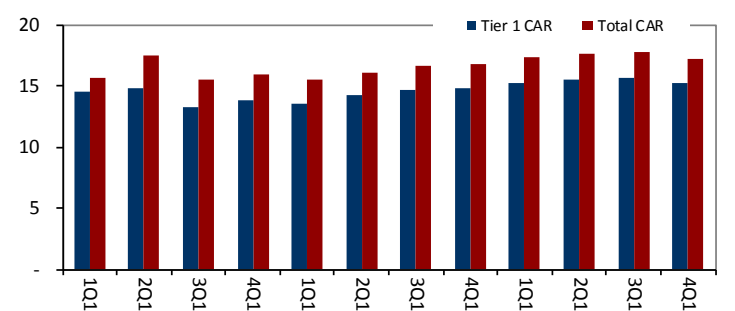


Fig 9: ROE and ROA

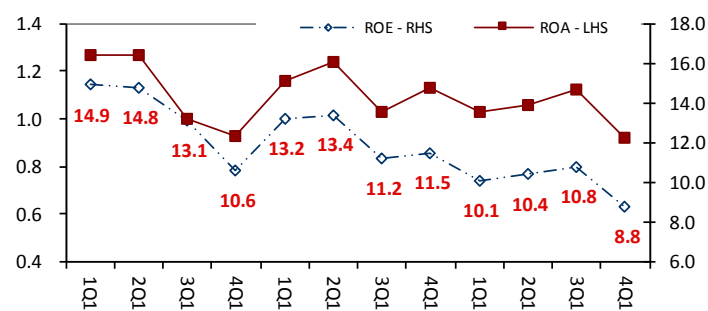


Fig 10: EPS and NBV

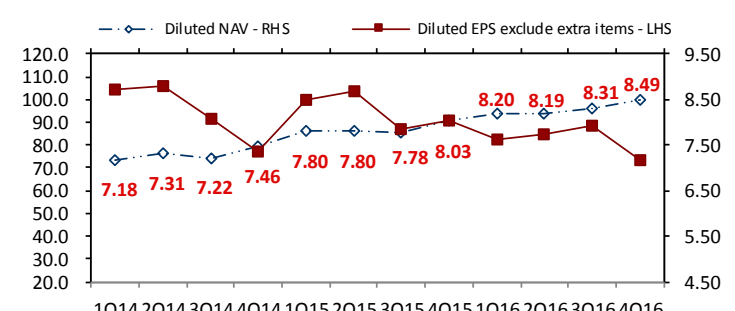


Fig 11: Profit before tax by geographical segment

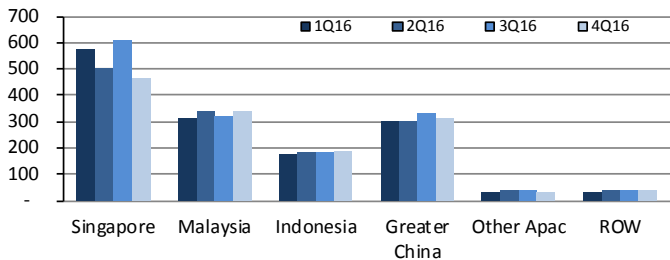


Fig 12: Geo segment breakdown

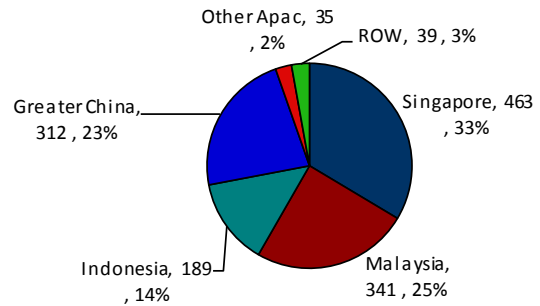


Fig 13: Operating profit by Business segment

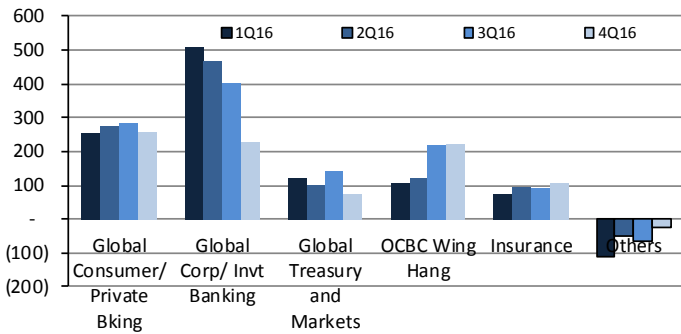


Fig 14: Net interest income trend

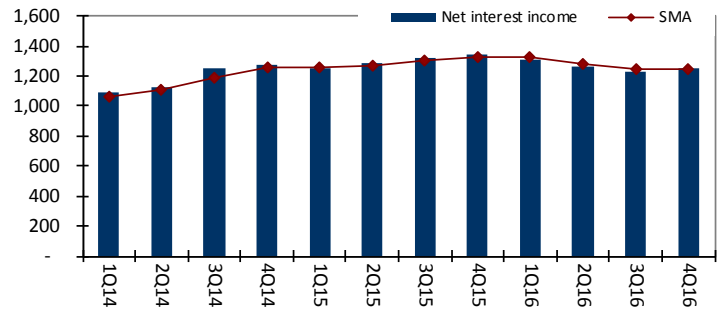


Fig 15: Fee and Commission trend

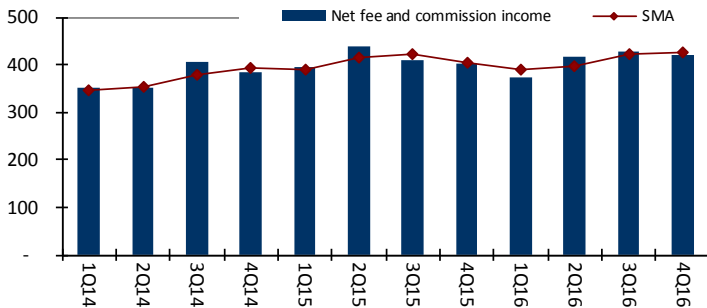


Fig 16: Other noninterest income trend

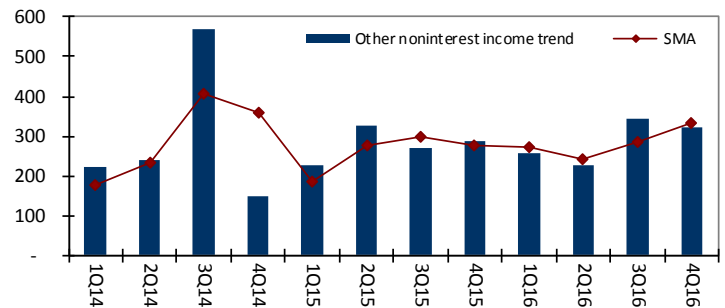
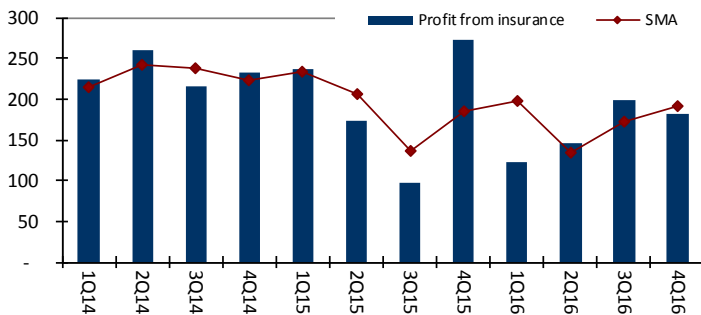


Fig 17: Profit from insurance



Financials

Income Statement

Y/E Dec, SGD mn	FY14	FY15	FY16	FY17F	FY18F
Net Interest Income	4,736	5,189	5,052	5,051	5,183
Fees and Commission	1,496	1,631	1,639	1,745	1,855
Other Non interest income	2,109	1,890	1,798	1,961	2,141
Total operating income	8,341	8,710	8,489	8,758	9,179
Operating expenses	3,258	3,665	3,789	3,940	3,969
Provisions	432	585	821	601	490
Operating profit	4,651	4,460	3,879	4,217	4,719
Associates & JVs	113	353	396	396	396
Profit Before Tax	4,764	4,813	4,275	4,613	5,115
Taxation	687	717	629	698	771
Profit After Tax	4,077	4,096	3,646	3,915	4,344
Non-controlling Interest	233	205	173	186	206
Net Income, reported	3,844	3,891	3,473	3,729	4,138
Net Income, adj.	3,844	3,891	3,473	3,729	4,138

Per share data (SGD)

Y/E Dec, SGD mn	FY14	FY15	FY16	FY17F	FY18F
EPS, reported	1.02	1.00	0.87	0.94	1.04
EPS, adj.	0.96	0.95	0.83	0.89	0.99
DPS	0.36	0.36	0.36	0.36	0.36
BVPS	7.46	8.15	8.61	8.93	9.30

Supplementary items

Y/E Dec, SGD mn	FY14	FY15	FY16	FY17F	FY18F
CET1 CAR (%)	13.8%	14.8%	14.7%	13.9%	13.1%
Tier 1 CAR (%)	13.8%	14.8%	15.2%	14.2%	13.4%
Total CAR (%)	15.9%	16.8%	17.2%	16.1%	15.0%

Balance Sheet

Y/E Dec, SGD mn	FY14	FY15	FY16	FY17F	FY18F
Cash bal with central banks	25,314	21,180	16,559	33,656	36,081
Due from banks	41,220	35,791	39,801	36,210	38,077
Debt and equity securities	23,466	22,786	23,157	22,243	22,466
Loans and bills receivable	207,535	208,218	216,830	221,996	228,140
Life Assur. Fund Inv. Assets	57,286	56,983	61,973	63,832	65,747
Others	46,405	45,232	51,564	49,994	50,418
Total Assets	401,226	390,190	409,884	427,932	440,929
Due to banks	20,503	12,048	10,740	12,476	12,601
Due to non-bank customers	245,519	246,277	261,486	273,280	281,864
Life Assur. Fund Liabilities	57,224	56,994	61,962	63,821	65,735
Debts issued	28,859	23,479	19,947	20,711	20,918
Others	14,936	14,282	16,107	16,584	17,075
Total liabilities	367,041	353,080	370,242	386,872	398,194
Shareholder's equity	31,097	34,553	37,007	38,239	39,708
Non-controlling interest	3,088	2,558	2,635	2,821	3,027
Total Equity	34,185	37,111	39,642	41,059	42,735

Valuation Ratios

Y/E Dec, SGD mn	FY14	FY15	FY16	FY17F	FY18F
P/E (X), adj.	10.1	9.0	10.2	9.5	8.5
P/B (X)	1.3	1.0	0.99	0.95	0.91
Dividend Yield (%)	3.7%	4.1%	4.0%	3.8%	3.8%

Growth & Margins (%)

	FY14	FY15	FY16	FY17F	FY18F
Growth					
Net interest income	22.0%	9.6%	-2.6%	0.0%	2.6%
Non interest income	31.6%	-2.3%	-2.4%	7.8%	7.8%
Pre provision operating profit	26.0%	4.4%	-2.5%	3.2%	4.8%
Operating income	32.4%	-4.1%	-13.0%	8.7%	11.9%
Net income, reported	38.9%	1.2%	-10.7%	7.4%	11.0%
Net income, adj	38.9%	1.2%	-10.7%	7.4%	11.0%

Margins

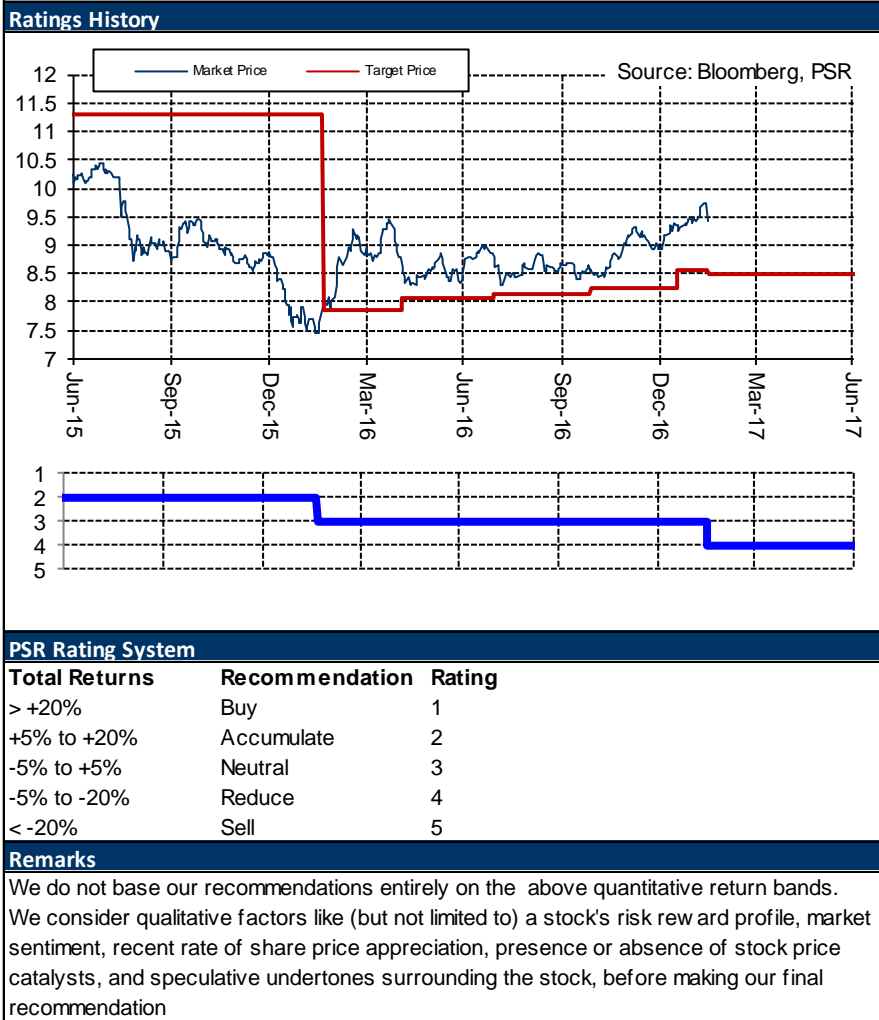
	FY14	FY15	FY16	FY17F	FY18F
Net interest margin	1.68%	1.67%	1.67%	1.61%	1.61%

Key Ratios (%)

	FY14	FY15	FY16	FY17F	FY18F
ROE	12.9%	11.6%	9.6%	10.0%	10.7%
ROA	1.1%	1.2%	1.0%	1.0%	1.1%
RORWA	2.0%	2.0%	1.8%	1.7%	1.7%
Non-interest/total income ratio	43.2%	40.4%	40.5%	42.3%	43.5%
Cost/income ratio	39.1%	42.1%	44.6%	45.0%	43.2%
Loan/deposit ratio	84.5%	84.5%	82.9%	81.2%	80.9%
NPL ratio	0.61	0.93	1.26	1.19	1.17

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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