

Oversea-Chinese Banking Corp

Powering ahead into 2018



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SINGAPORE | BANKING | 3Q17 RESULTS

27 October 2017

- 3Q17 PATMI of S\$1,057mn missed our estimates by 10.6% because of weaker than expected profit from life assurance and other non-II
- NII increased 12% YoY on the back of strong loans growth and higher NIM
- WM fee income grew 32% YoY partly contributed by the inclusion of Barclay's WM
- Net trading income weaker YoY and QoQ as volatility remains low.
- Upgrade to "Buy" from "Accumulate" with a higher TP of S\$13.48 (previous TP S\$11.95) based on Gordon Growth Model.**

Results at a glance

(SGD mn)	3Q17	3Q16	YoY (%)	2Q17	QoQ (%)	Comments
Net interest income	1,382	1,234	12%	1,345	3%	NIMs +4bps YoY. Loans +11% YoY
Fees & Comm	488	428	14%	492	-1%	Higher WM fee income
Insurance	238	199	20%	278	-14%	Higher Life Assurance profit YoY
Other NII	252	343	-27%	283	-11%	Weaker net trading income
Total income	2,360	2,204	7%	2,398	-2%	
Expenses	-1,001	-953	5%	-992	1%	Incl. Barclays WM staff costs
Allowances	-156	-166	-6%	-169	-8%	
PATMI	1,057	943	12%	1,083	-2%	

Source: Company, PSR

The Positives

+ Strong loans growth as global and domestic economic outlook improves. Loans grew 11% YoY beating analysts' consensus and even management's guidance for a mid-single digit loans growth. OCBC's loans also outpaced Singapore domestic system loans growth in 3Q17. OCBC's strong loans growth was mainly attributed to draw down of loans by Singapore based corporates expanding overseas for real estate related projects and other Hong Kong based loans.

+ Stronger NII as LDR and NIM expanded. NII grew 14% as LDR expanded to 85.3% from 83.1% a year ago. NIM increased to 1.66%, 4 bps higher YoY as Singapore and Hong Kong benchmark rates [rose sharply](#) in 3Q17. Higher rates on interbank placements also supported the NIM expansion.

+ NPL ratio stable as O&G sector stabilises. NPL ratio is stable at 1.26% for the past four quarters. New NPAs formation has been declining over the four quarters too. Management's outlook is more sanguine as they see better utilisation of offshore O&G assets though charter rates and duration remain low. There were also no new names going into NPA and specific provisions were largely set aside for existing restructured loans.

The Negatives

- WM Income declined QoQ due to lower number of blockbuster funds launched in 3Q17. WM income declined 6.1% QoQ to S\$741mn but is still 18.2% higher YoY.

- OCBC Wing Hang NIM declined to 1.57%, down 3bps from 2Q17. The fact was, within OCBC Wing Hang, Hong Kong and Macau operations registered higher NIM. But the consolidation of OCBC China into OCBC Wing Hang caused the NIM in aggregate to decline. The reason is treasury business is a large component of OCBC China's operations and in 3Q17, the treasury business experienced some volatility.

- Net trading income continues to be weak. Similarly, universal banks and investment banks in the developed west have broadly reported weak trading income in the past 2 quarters citing the challenge of low market volatility globally.

Buy (Upgrade)

LAST TRADED PRICE	SGD 11.57
FORECAST DIV	SGD 0.40
TARGET PRICE	SGD 13.48
TOTAL RETURN	20.0%

COMPANY DATA

BLOOMBERG TICKER	OCBC SP
O/S SHARES (MN) :	4,189
MARKET CAP (USD mn / SGD mn) :	35636 / 48469
52 - WK HI/LO (SGD) :	116 / 8.33
3M Average Daily T/O (mn) :	4.59

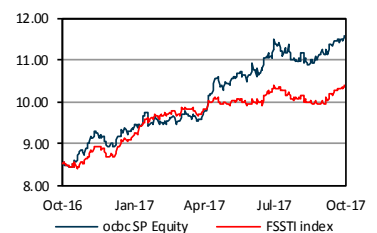
MAJOR SHAREHOLDERS (%)

Lee Foundation	4.34%
Selat (Pte) Limited	11.03%
First State Investments	2.57%
Singapore Investments (Pte) Ltd	3.75%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1Y R
COMPANY	3.5	5.0	38.0
STI RETURN	4.02	1.73	21.08

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec	FY 15	FY 16	FY 17e	FY 18e
Total Op Inc (SGD)	8,722	8,489	9,370	9,797
Op Profit (SGD mn)	4,472	3,879	4,612	5,175
NPAT, adj.	4,108	3,646	4,294	4,772
EPS (SGD)	0.95	0.83	0.98	1.08
PER, adj. (x)	9.3	10.9	11.9	10.7
P/BV, x	1.1	1.1	1.3	1.2
ROE (%)	12.3%	10.0%	11.1%	11.8%

Source: Bloomberg, Company, PSR

Valuation Method: Gordon Growth Model (ERP: 7%, g: 2%)

Jeremy Teong (+65 6212 1863)

Investment Analyst

jeremyteongfh@phillip.com.sg

Outlook

OCBC’s guidance on loans growth has been revised upwards from mid-single digit percentage to high single digit growth of 7% to 8% in FY18. But we penciled in a more conservative loans growth number of 6% for FY18e. Therefore we expect NII to grow c.6% in FY18 too as long as a moderately strong economy is able to support the pass-through of higher interest rates. Other growth catalysts in FY18 will be the stronger real estate related loans in Singapore as enbloc sales transactions starts to flow into the market. And OCBC’s wealth management will benefit from the wealth effects of the enbloc sales as vendors from successful enbloc sales will likely engage wealth managers to manage their new found wealth.

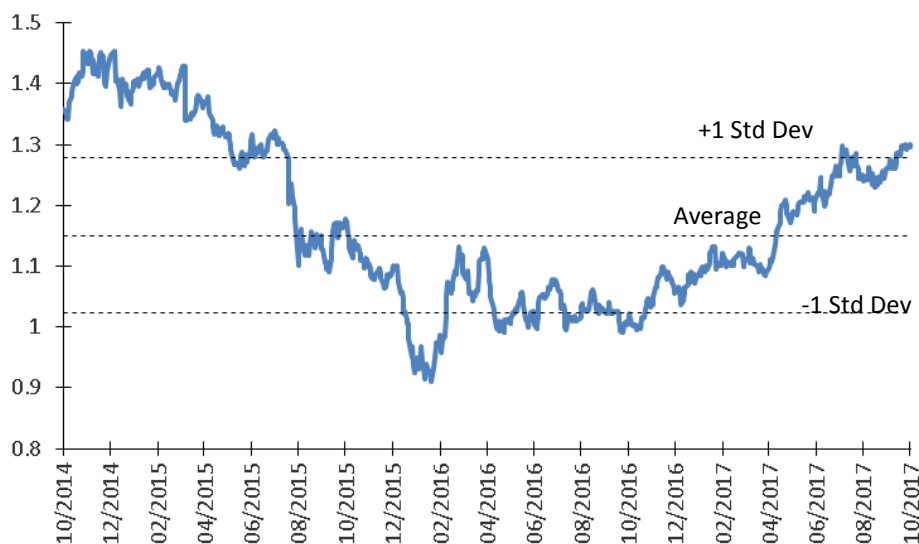
List of Abbreviations

- 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

Valuation: Gordon Growth Model

Item	Description	Value
R _f	Risk-free rate	2.0%
E	Equity-risk premium	6.7%
B	Beta	1.02
COE	Cost of Equity	8.8%
ROE	FY17e Return on Equity	11.8%
g	Terminal growth rate	2.0%
$\frac{(ROE-g)}{(COE-g)}$ FY18e Target Price to Book		1.44
	FY18e BVPS, S\$	9.39
	FY18e Valuation, S\$	13.48

3-Year Historical Price-to-Book



Investment Actions

Upgrade to "Buy" from "Accumulate" with a higher TP of S\$13.48 (previous TP S\$11.95) based on Gordon Growth Model.

Table 1. Fee and commission income

SGD mn	3Q17	3Q16	YoY (%)	2Q17	QoQ (%)
Brokerage	19	17	11.8%	17	11.8%
Wealth management	205	155	32.3%	215	-4.7%
Fund management	28	26	7.7%	27	3.7%
Credit card	40	45	-11.1%	44	-9.1%
Loan-related	76	78	-2.6%	79	-3.8%
Trade and remittances	56	53	5.7%	53	5.7%
Guarantees	5	4	25.0%	5	0.0%
Investment Banking	15	21	-28.6%	24	-37.5%
Service charges	33	19	73.7%	19	73.7%
Others	11	10	10.0%	9	22.2%
Total Fee and Comm	488	428	14.0%	492	-0.8%

Table 2. Other non-interest income

SGD mn	3Q17	3Q16	YoY (%)	2Q17	QoQ (%)
Net trading income	118	163	-27.6%	140	-15.7%
Net gain on Invt securities	64	41	56.1%	54	18.5%
Disposal of properties	25	51	-51.0%	6	316.7%
Others	10	20	-50.0%	16	-37.5%
Total other non int Inc	207	275	-24.7%	236	-12.3%

Table 3. Loans by Industries

SGD mn	3Q17	3Q16	YoY (%)	2Q17	QoQ (%)
Agri, mining & quarrying	7,997	7,621	4.9%	7,855	1.8%
Manufacturing	12,991	11,775	10.3%	13,530	-4.0%
Building and construction	35,250	33,974	3.8%	36,683	-3.9%
Housing loans	62,037	58,881	5.4%	60,998	1.7%
General commerce	27,626	23,907	15.6%	27,247	1.4%
Tpt, storage & comms	12,198	10,914	11.8%	12,367	-1.4%
Fls, invt & holding co	36,929	27,913	32.3%	32,736	12.8%
Professionals & Pri inv	27,943	24,460	14.2%	27,573	1.3%
Others	9,454	9,183	3.0%	9,816	-3.7%
Total loans	232,425	208,628	11.4%	228,805	1.6%

Table 4. Loans by currencies

SGD mn	3Q17	3Q16	YoY (%)	2Q17	QoQ (%)
Singapore dollar	83,787	81,351	3.0%	83,378	0.5%
US dollar	60,808	48,573	25.2%	59,685	1.9%
Malaysian ringgit	20,093	21,083	-4.7%	20,091	0.0%
Indonesian rupiah	7,642	6,953	9.9%	7,652	-0.1%
Others	23,098	17,698	30.5%	21,435	7.8%
Hong Kong Dollar	31,714	27,728	14.4%	30,990	2.3%
Renminbi	5,283	5,242	0.8%	5,574	-5.2%
Total loans	232,425	208,628	11.4%	228,805	1.6%

Table 5. Operating profit by Business segments

SGD mn	3Q17	3Q16	YoY (%)	2Q17	QoQ (%)
Global Consumer/ Private Banking	311	282	10.3%	320	-2.8%
Global Corporate/ Investment Banking	374	399	-6.3%	429	-12.8%
Global Treasury and Markets	144	141	2.1%	134	7.5%
Insurance	252	215	17.2%	296	-14.9%
OCBC Wing Hang	111	89	24.7%	91	22.0%
Others	(15)	(64)	nm	(60)	nm
Total Profit	1,177	1,062	10.8%	1,210	-2.7%

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

Foreign currency loans grew strongly as OCBC's corporate network clients drew down loans for overseas expansion and as Hong Kong domestic loans increased.

OCBC Wing Hang's 3Q17 operating profit included higher net gains from sale of investment securities.

Table 6. Profit before tax by Geographical segments

SGD mn	3Q17	3Q16	YoY (%)	2Q17	QoQ (%)
Singapore	682	609	12.0%	767	-11.1%
Malaysia	314	318	-1.3%	323	-2.8%
Indonesia	204	185	10.3%	209	-2.4%
Greater China	354	333	6.3%	344	2.9%
Other Asia Pacific	42	37	13.5%	41	2.4%
Rest of the World	53	37	43.2%	59	-10.2%
Total NPBT	1,649	1,519	8.6%	1,743	-5.4%

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

Fig 1: Net interest margin

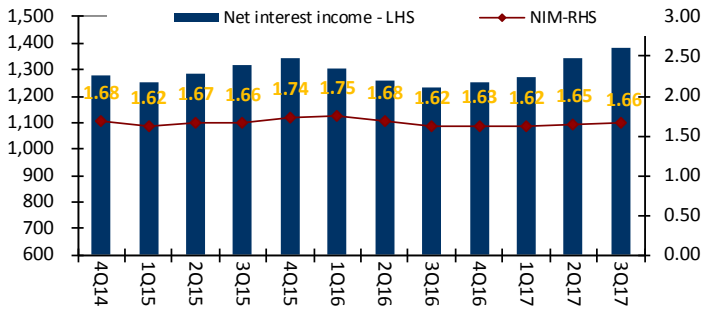


Fig 2: NonInt/Total revenue

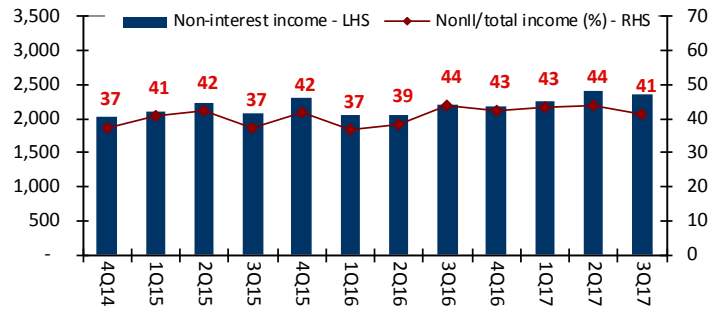


Fig 3: Efficiency ratio

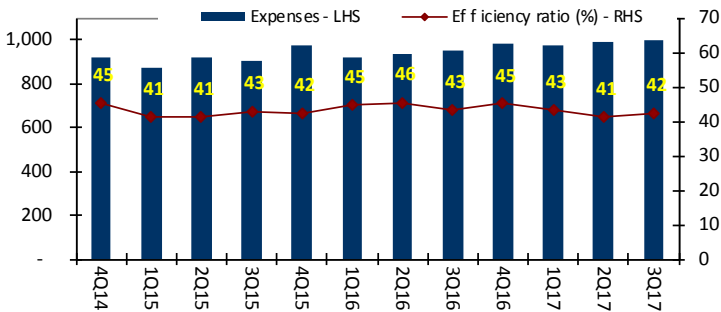


Fig 4: Net profit margin

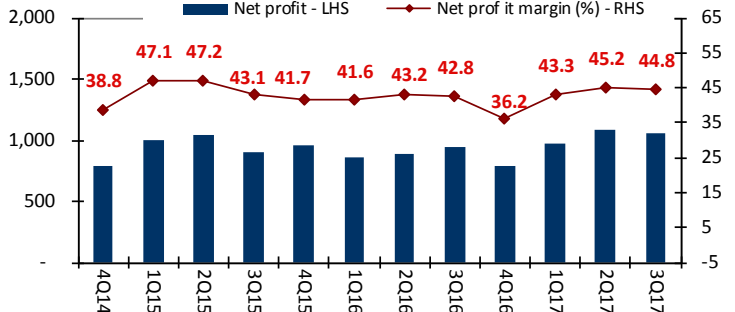


Fig 5: Deposits, Loans, LDR

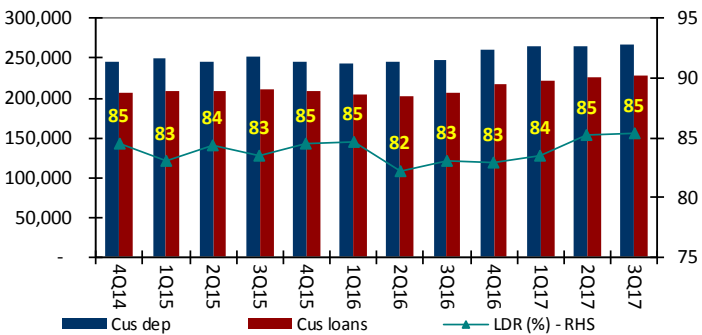


Fig 6: NPA, NPL

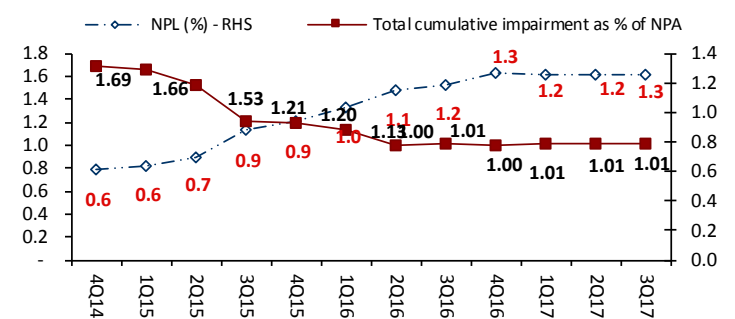


Fig 7: Growth in selected asset items

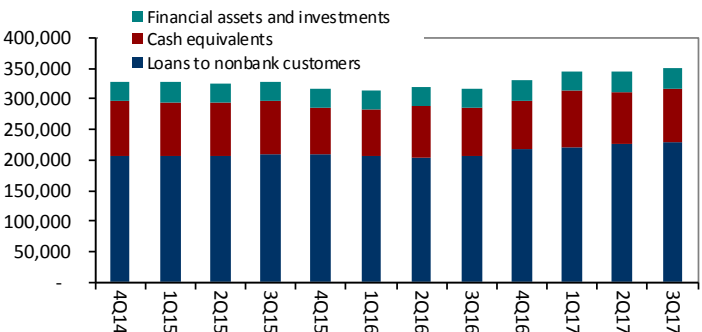


Fig 8: CAR

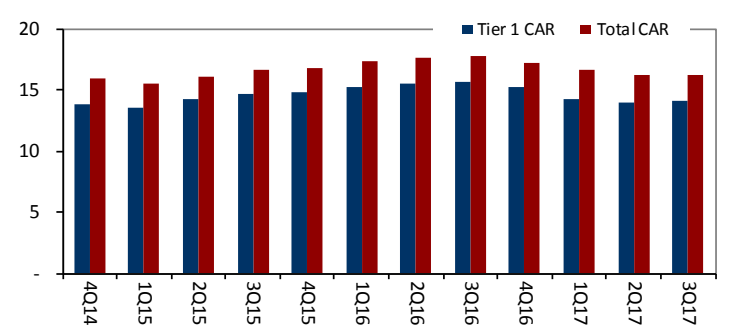


Fig 9: ROE and ROA

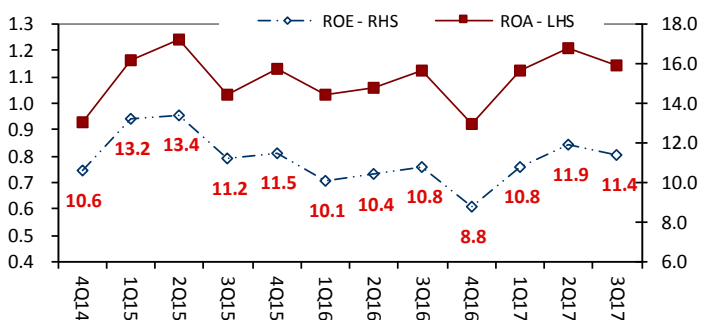


Fig 10: EPS and NBV

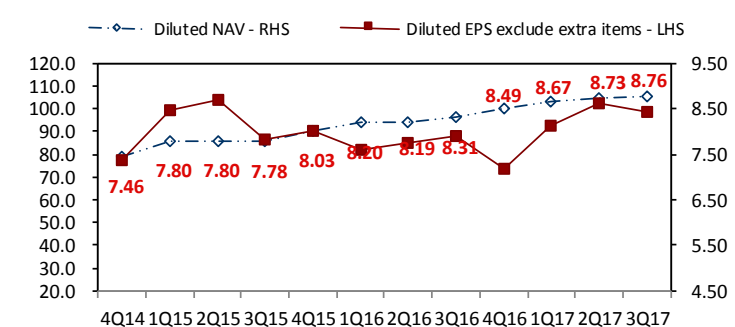


Fig 11: Profit before tax by geographical segment

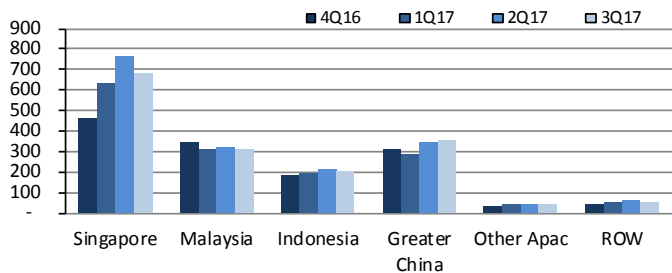


Fig 12: Geo segment breakdown

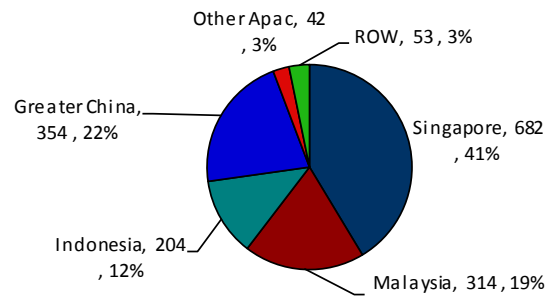


Fig 13: Operating profit by Business segment

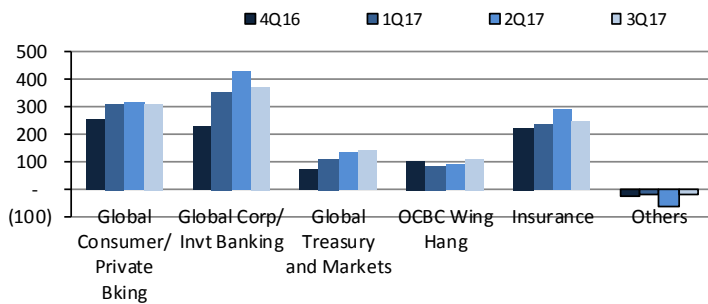


Fig 14: Net interest income trend

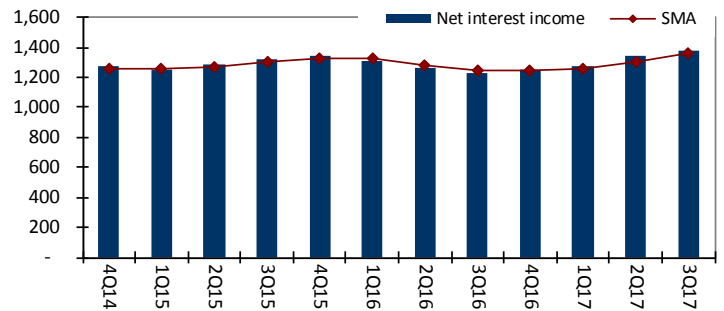


Fig 15: Fee and Commission trend

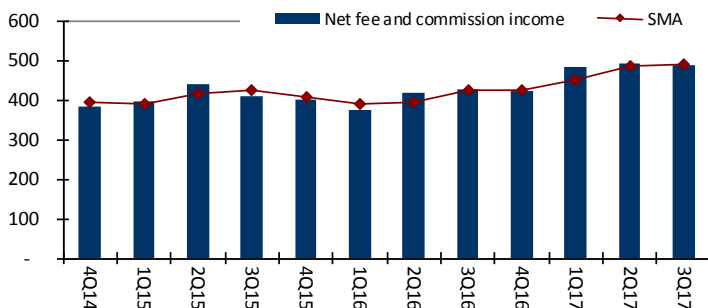


Fig 16: Other noninterest income trend

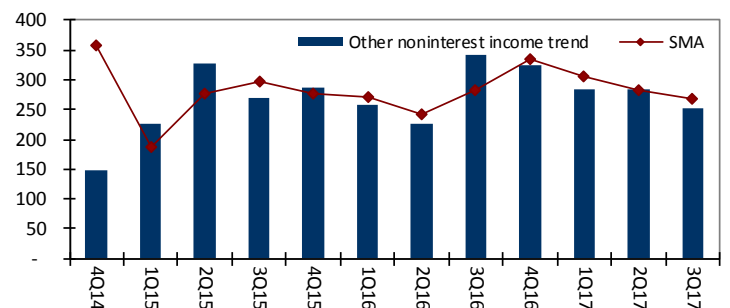
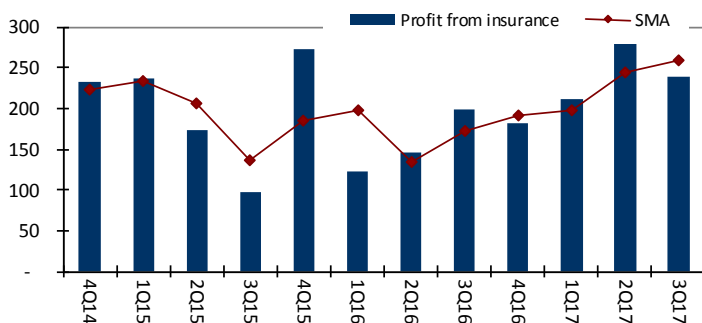


Fig 17: Profit from insurance



Financials

Income Statement

Y/E Dec, SGD mn	FY14	FY15	FY16	FY17e	FY18e
Net Int Income	4,736	5,189	5,052	5,387	5,709
Fees and Commission	1,496	1,655	1,638	1,934	2,041
Other Non int income	2,109	1,878	1,799	2,050	2,047
Total operating income	8,341	8,722	8,489	9,370	9,797
Operating expenses	3,258	3,665	3,789	3,969	4,038
Provisions	432	585	821	790	583
Operating profit	4,651	4,472	3,879	4,612	5,175
Associates & JVs	113	353	396	396	396
Profit Before Tax	4,764	4,825	4,275	5,008	5,571
Taxation	687	717	629	714	800
Profit After Tax	4,077	4,108	3,646	4,294	4,772
Non-controlling Interest	233	205	173	212	236
Net Income, reported	3,844	3,903	3,473	4,081	4,536
Net Income, adj.	3,844	3,903	3,473	4,081	4,536

Balance Sheet

Y/E Dec, SGD mn	FY14	FY15	FY16	FY17e	FY18e
Cash bal with central banks	25,314	21,180	16,559	17,158	13,200
Due from banks	41,220	35,791	39,801	43,688	42,213
Debt and equity securities	23,466	22,786	23,157	24,295	24,539
Loans and bills receivable	207,535	208,218	216,830	231,775	245,804
Life Assur. Fund Inv. Assets	57,286	56,983	61,973	63,832	65,747
Others	46,405	45,232	51,564	51,587	52,207
Total Assets	401,226	390,190	409,884	432,335	443,710
Due to banks	20,503	12,048	10,740	10,460	10,565
Due to non-bank customers	245,519	246,277	261,486	268,054	274,756
Life Assur. Fund Liabilities	57,224	56,994	61,962	63,821	65,735
Debts issued	28,859	23,479	19,947	31,920	32,239
Others	14,936	14,282	16,107	16,584	17,075
Total liabilities	367,041	353,080	370,242	390,839	400,371
Shareholder's equity	31,097	34,553	37,007	38,648	40,256
Non-controlling interest	3,088	2,558	2,635	2,847	3,083
Total Equity	34,185	37,111	39,642	41,496	43,339

Per share data (SGD)

Y/E Dec, SGD mn	FY14	FY15	FY16	FY17e	FY18e
EPS, reported	0.96	0.95	0.83	0.98	1.08
EPS, adj.	0.96	0.95	0.83	0.98	1.08
DPS	0.36	0.36	0.36	0.40	0.40
BVPS	7.46	8.15	8.61	8.99	9.39

Supplementary items

Y/E Dec, SGD mn	FY14	FY15	FY16	FY17e	FY18e
CET1 CAR (%)	13.8%	14.8%	14.7%	14.4%	14.3%
Tier 1 CAR (%)	13.8%	14.8%	15.2%	15.3%	15.1%
Total CAR (%)	15.9%	16.8%	17.2%	17.4%	17.1%

Valuation Ratios

Y/E Dec, SGD mn	FY14	FY15	FY16	FY17e	FY18e
P/E (X), adj.	10.1	9.3	10.9	11.9	10.7
P/B (X)	1.3	1.1	1.05	1.29	1.23
Dividend Yield (%)	3.7%	4.1%	4.0%	4.2%	4.2%

Growth & Margins (%)

Growth					
Net int income	22.0%	9.6%	-2.6%	6.6%	6.0%
Non int income	31.6%	-2.0%	-2.7%	15.9%	2.6%
Pre provision operating profit	26.0%	4.6%	-2.7%	10.4%	4.6%
Operating income	32.4%	-3.8%	-13.3%	18.9%	12.2%
Net income, reported	38.9%	1.5%	-11.0%	17.5%	11.1%
Net income, adj	38.9%	1.5%	-11.0%	17.5%	11.1%

Margins

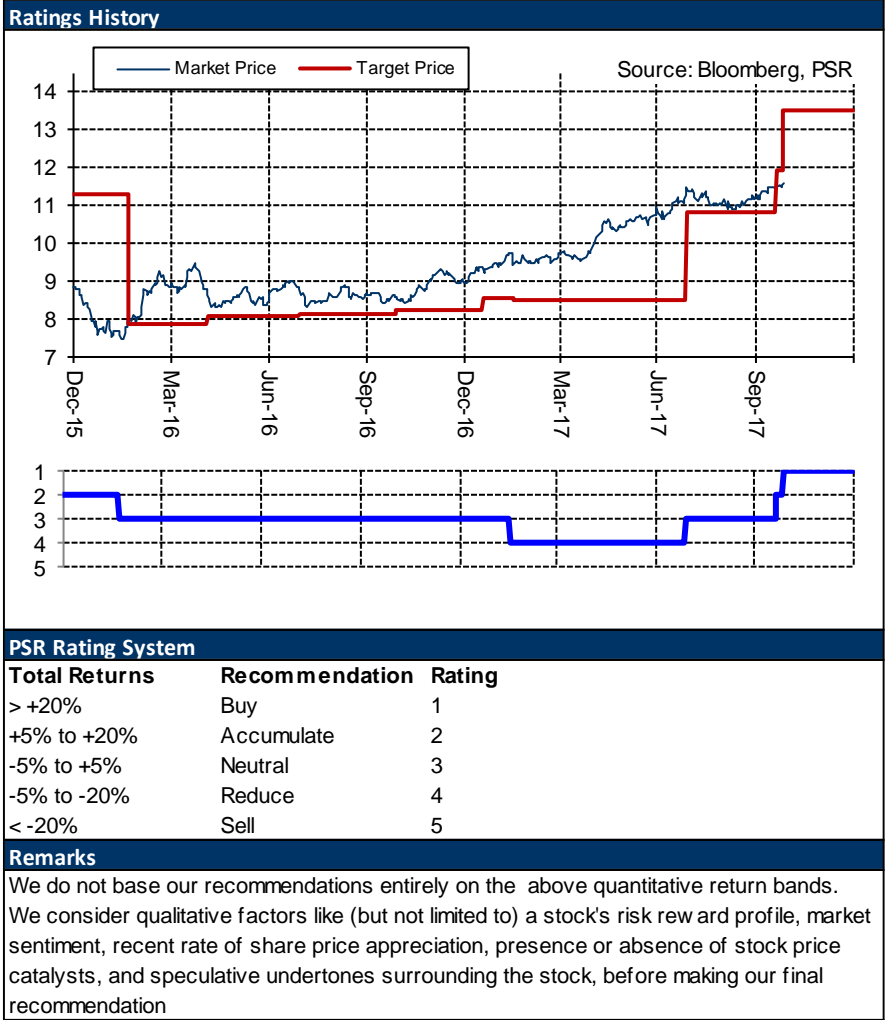
Net interest margin	1.68%	1.67%	1.67%	1.64%	1.66%
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Key Ratios (%)

ROE	14.4%	12.3%	10.0%	11.1%	11.8%
ROA	1.1%	1.2%	1.0%	1.1%	1.2%
RORWA	2.0%	2.0%	1.8%	1.9%	2.0%
Non-int/total income ratio	43.2%	40.5%	40.5%	42.5%	41.7%
Cost/income ratio	39.1%	42.0%	44.6%	42.4%	41.2%
Loan/deposit ratio	84.5%	84.5%	82.9%	86.5%	89.5%
NPL ratio	0.61	0.93	1.26	1.20	1.18

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)

Head of Research

Paul Chew – paulchewkl@phillip.com.sg

Research Operations Officer

Mohamed Amiruddin – amiruddin@phillip.com.sg

Consumer | Healthcare

Soh Lin Sin – sohls@phillip.com.sg

Oil & Gas | Energy

Chen Guangzhi – chengz@phillip.com.sg

Macro

Pei Sai Teng – peist@phillip.com.sg

Transport | REITs (Industrial)

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

REITs (Commercial, Retail, Healthcare) | Property

Dehong Tan – tandh@phillip.com.sg

Technical Analysis

Jeremy Ng – jeremyngch@phillip.com.sg

Banking and Finance

Jeremy Teong – jeremyteongfh@phillip.com.sg

US Equity

Ho Kang Wei – hokw@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

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

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

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

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

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

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

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

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

UNITED STATES

Phillip Capital 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

AUSTRALIA

Phillip Capital Limited

Level 10, 330 Collins Street
Melbourne, Victoria 3000, Australia
Tel +61-03 9629 8288
Fax +61-03 9629 8882
Website: www.phillipcapital.com.au

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

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.phillipcapital.in

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.phillipcapital.com.tr

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

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

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