

Oversea-Chinese Banking Corp Ltd

Catch-up in NIM expansion

SINGAPORE | BANKING | 2Q19 RESULTS

- 2Q19 revenue/PATMI was in line with our estimates.
- Strong NIM expansion of 12bps YoY and 3bps QoQ to 1.79%, due to a catch-up in loan repricing and better utilisation of deposits.
- Wealth management fees surged 17% YoY to \$262mn, its highest level in five quarters.
- Life insurance profit from GEH fell 26% YoY due to decline in discount rate used to value long-term insurance contract liabilities.
- Credit costs normalised to 15bps after higher provision was taken in 1Q for the OSV sector. NPL ratio remained stable at 1.5% (2Q18: 1.4%).
- Declared interim dividend of 25 cents/share, 25% higher than a year ago.
- We maintain ACCUMULATE at a lower target price of S\$12.50 (previously S\$12.70).** Our TP is based on target price-to-book of 1.3x, derived from the Gordon Growth model. We toned down terminal growth from 2.5% to 2.0%.

Results at a glance

(SGD mn)	2Q19	2Q18	YoY (%)	1Q19	QoQ (%)	Comments
Net interest income	1,588	1,450	9.5%	1,534	3.5%	Driven by 4% increase in loans and 12bps YoY rise in NIM to 1.79%, due to higher yields in SG, HK & CN.
Fees & Comm	522	518	0.8%	495	5.5%	Mainly driven by WM fees which grew 17% YoY. Life insurance profit fell due to decline in discount rate used to value long-term insurance contract liabilities.
Insurance	188	234	-19.7%	276	-31.9%	
Other NII	320	272	17.6%	371	-13.7%	Net realised gains from the sale of investment securities were \$48mn, higher than \$2mn in 2Q18.
Total income	2,618	2,474	5.8%	2,676	-2.2%	
Expenses and amortisation	(1,176)	(1,060)	10.9%	(1,121)	4.9%	CIR 44.0% (2Q18: 41.9%). OPEX rose 9% this quarter due to an expense accrual a year ago.
PPOP	1,442	1,414	2.0%	1,555	-7.3%	
Allowances	(111)	(21)	428.6%	(249)	-55.4%	Credit costs normalised to 15bps. NPL 1.5% (2Q18: 1.4%).
PATMI	1,223	1,209	1.2%	1,231	-0.6%	

Source: Company, PSR

The Positives

+ Strong NIM expansion of 12bps YoY to 1.79%. OCBC continues to catch up in loan repricing after several quarters of prudent pricing in 2018 but NIM was softened by tepid loan growth of 4% YoY. Better utilisation of deposits seen from rise in LDR from 85.9% a year ago to 87.6%, helped margins. Asset yield rose 34bps YoY (1Q19: +50bps), while the rise in cost of funds was lower at 26bps YoY (1Q19: 44bps) with the release of pricier deposits. OCBC guides 3Q NIM to rise at a lower magnitude of 1bps and 4Q NIM to be flat depending on the interest rate actions of other central banks. We maintain our FY19e NIM forecast of 1.74%.

+ Wealth management fees rebounded 17% YoY to \$262mn, its highest level in five quarters. Bank of Singapore's AUM expanded 9% YoY and climbed to a new high of US\$111bn (S\$151bn), underpinned by net new money inflows. We expect growth in AUM base to support a more stable and recurrent fees revenue stream in the future.

+ 25% higher interim dividend of 25 cents per share. The interim dividend payout will amount to approximately S\$1.08 billion, representing 44% of the Group's 1H19 net profit after tax. CET1 ratio rose strongly to 14.4% (2Q18: 13.2%) which provides flexibility to pursue market expansion opportunities as they arise and weather trade uncertainties. OCBC maintains its 40-50% payout ratio guidance for the full year. We forecast FY19e DPS of \$0.49.



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5 August 2019

ACCUMULATE (Maintained)

LAST CLOSE PRICE	SGD 11.21
FORECAST DIV	SGD 0.49
TARGET PRICE	SGD 12.50
TOTAL RETURN	15.9%

COMPANY DATA

BLOOMBERG TICKER	OCBC SP
O/S SHARES (MN)	4,318
MARKET CAP (USD mn / SGD mn)	35161 / 48400
52 - WK HI/LO (SGD)	12.19 / 10.36
3M Average Daily T/O (mn)	5.59

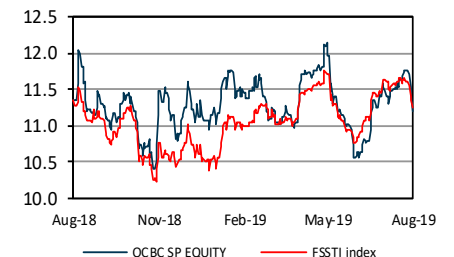
MAJOR SHAREHOLDERS (%)

Selat Pte Limited	11.7%
Lee Foundation Singapore	4.4%
Vanguard Group Inc	2.7%

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	(1.5)	(3.8)	3.4
STI RETURN	(1.9)	(1.3)	10.0

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec (SGD mn)	FY17	FY18	FY19e	FY20e
Total Income	7,595	9,701	10,557	11,032
Op. Profit	4,938	5,097	5,238	6,087
NPAT, adj.	2,454	4,492	4,761	5,504
EPS (SGD)	1.00	1.06	1.11	1.28
PER, adj. (x)	11.2	10.6	10.1	8.7
P/BV, x	1.2	1.2	1.1	1.1
ROE	6.6%	11.3%	11.3%	12.5%

Source: Bloomberg, Company, PSR

Valuation Method:

Gordon Growth Model (COE: 9%, g: 2%)

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The Negatives

- **New NPL formation rose by \$390mn or 11% YoY.** The rise was primarily from Indonesia's Crude Palm Oil (CPO) loan portfolio which required some restructuring due to the fall in palm oil prices. The restructured loans resulted in a rise in NPL. Around 2% of OCBC's loan book is exposed to the CPO sector. However, asset quality remained stable with NPL ratio relatively unchanged at 1.5% (2Q18: 1.4%). We forecast FY19e credit cost at 20bps.

- **Life and insurance business contribution fell 26% YoY,** due to a decline in discount rate used to value long-term insurance contract liabilities, offset by better investment performance. Operationally, Great Eastern did well with NBEV margin up 4.4 p.p. to 49.3%. TWNS was down 9% YoY due to reduced single premium product sales.

List of Abbreviations

WM – Wealth management
IBG – Institutional banking group
CBG – Consumer banking group
NII – Net interest income
Non-II – Non-interest income
NIM – Net interest margin
LDR – Loan to deposit ratio
NPL – Non-performing Loans
CASA – Current account and savings account
IB – Investment banking
O&G – Oil and gas
SP – specific provisions
GP – general provisions
AUM – Assets under management
CIR – Cost-to-income ratio
OSV – Oil and gas support vessels and services
TWNS – Total weighted new sales

Figure 1: 2019e Guidance vs PSR estimates

Assumptions	OCBC	PSR
NIM (%)	1.70% - 1.75%	1.74%
Loans growth (%)	Low-mid single digit	4.4%
Credit cost (bps)	19-22 bps	20
CIR (%)	44%	43%
Dividend pay out ratio (%)	40- 50%	45%

Source: Company, PSR

Investment Actions

We maintain ACCUMULATE at a lower target price of S\$12.50 (previously S\$12.70). Our TP is based on target price-to-book of 1.3x, derived from the Gordon Growth model (long term ROE assumption: 11.3%, COE: 9.4% (Beta: 1.2x), Growth: 2.0%). We toned down terminal growth from 2.5% to 2.0%. We forecast FY19 DPS of \$0.49, giving a 4.4% dividend yield support.

OCBC's robust CET1 of 14.4% will provide shelter the bank from trade war uncertainties and slowing global growth. Surplus capital also provides opportunity for inorganic growth. Heavier reliance on interest income and recurrent fees should provide stability and predictability to revenue and offset some of the impact from interest rate cuts.

Valuation: Gordon Growth Model

Item	Description	Value
R _f	Risk-free rate	2.6%
E	Equity-risk premium	5.5%
B	Beta	1.2
COE	Cost of Equity	9.4%
ROE	Return on Equity	11%
g	Terminal growth rate	2.0%
(ROE-g) (COE-g)	Target Price to Book	1.3
	BVPS, S\$	10.0
	Valuation, S\$	12.5

Figure 2: Revenue breakdown

SGD mn	2Q19	2Q18	YoY (%)	1Q19	QoQ (%)
Net interest income	1,588	1,450	9.5%	1,534	3.5%
Net fee and comm inc	522	518	0.8%	495	5.5%
Profits from insurance	188	234	-19.7%	233	-19.3%
Other non-interest inc	320	272	17.6%	414	-22.7%
Allowance	(111)	(21)	428.6%	(249)	-55.4%
Total	2,618	2,474	5.8%	2,676	-2.2%

Figure 3: Fee and commission income

SGD mn	2Q19	2Q18	YoY (%)	1Q19	QoQ (%)
Brokerage	20	16	25.0%	21	-4.8%
Wealth management	262	223	17.5%	238	10.1%
Fund management	29	29	0.0%	27	7.4%
Credit card	81	45	80.0%	84	-3.6%
Loan-related	72	76	-5.3%	73	-1.4%
Trade and remittances	61	59	3.4%	58	5.2%
Guarantees	4	5	-20.0%	5	-20.0%
Investment Banking	27	31	-12.9%	25	8.0%
Service charges	22	25	-12.0%	23	-4.3%
Others	11	9	22.2%	10	10.0%
Fee and commission expense	(67)	-	nm	(69)	-2.9%
Total Fee and Comm	522	518	0.8%	495	5.5%

Figure 4: Other non-interest income

SGD mn	2Q19	2Q18	YoY (%)	1Q19	QoQ (%)
Net trading income	193	192	0.5%	285	-32.3%
Net gain on Inv securities	48	2	2300.0%	34	41.2%
Disposal of subsi/associate	-	5	nm	1	-100.0%
Disposal of properties	32	9	255.6%	9	255.6%
Others	10	10	0.0%	8	25.0%
Total other non int Inc	283	218	29.8%	337	-16.0%

Figure 5: Loans by Industries

SGD mn	2Q19	2Q18	YoY (%)	1Q19	QoQ (%)
Agri, mining & quarrying	10,134	8,332	21.6%	9,480	6.9%
Manufacturing	17,548	15,176	15.6%	17,555	0.0%
Building and construction	59,540	40,931	45.5%	55,516	7.2%
Housing loans	62,435	65,885	-5.2%	63,734	-2.0%
General commerce	34,431	31,647	8.8%	34,439	0.0%
Tpt, storage & comms	13,355	11,122	20.1%	13,699	-2.5%
Fis, invt & holding co	22,020	38,718	-43.1%	21,264	3.6%
Professionals & Pri inv	30,248	30,925	-2.2%	30,116	0.4%
Others	12,997	9,628	35.0%	12,909	0.7%
Total loans	262,708	252,364	4.1%	258,712	1.5%

Figure 6: Loans by currencies

SGD mn	2Q19	2Q18	YoY (%)	1Q19	QoQ (%)
Singapore dollar	93,238	88,940	4.8%	92,569	0.7%
US dollar	67,122	65,183	3.0%	67,140	0.0%
Malaysian ringgit	20,986	21,074	-0.4%	20,905	0.4%
Indonesian rupiah	9,207	8,392	9.7%	8,784	4.8%
Others	35,287	27,717	27.3%	29,736	18.7%
Hong Kong Dollar	4,582	35,996	-87.3%	34,938	-86.9%
Renminbi	32,286	5,062	537.8%	4,640	595.8%
Total loans	262,708	252,364	4.1%	258,712	1.5%

Figure 7: Operating profit by Business segments

SGD mn	2Q19	2Q18	YoY (%)	1Q19	QoQ (%)
Global Consumer/ Private Banking	376	330	13.9%	350	7.4%
Global Corporate/ Investment Banking	510	505	1.0%	381	33.9%
Global Treasury and Markets	128	131	-2.3%	130	-1.5%
Insurance	98	271	-63.8%	377	-74.0%
OCBC Wing Hang	180	133	35.3%	97	85.6%
Others	38	22	72.7%	(28)	-235.7%
Total Profit	1,330	1,392	-4.5%	1,307	1.8%

Figure 8: Profit before tax by Geographical segments

SGD mn	2Q19	2Q18	YoY (%)	1Q19	QoQ (%)
Singapore	804	874	-8.0%	887	-9.4%
Malaysia	221	263	-16.0%	160	38.1%
Indonesia	80	8	900.0%	80	0.0%
Greater China	291	308	-5.5%	280	3.9%
Other Asia Pacific	42	32	31.3%	35	20.0%
Rest of the World	38	19	100.0%	35	8.6%
Total NPBT	1,476	1,504	-1.9%	1,477	-0.1%

Source (Figure 2-8): Company, Phillip Securities Research

NII was supported by 12bps YoY NIM expansion due to loan repricing and better utilisation of deposits.

Net fees and commissions rose 1% to S\$522 million from S\$518million in 2Q18, led by an increase in wealth management fees, which is the highest in five quarters.

Net trading income was S\$193 million, predominantly treasury-related income from customer flows, slightly above S\$192 million a year ago. Net realised gains from the sale of investment securities of S\$48 million rose from S\$2 million a year ago.

Housing loans continues to contract due to property cooling measures. OCBC's housing loans made up 24% of total its loans.

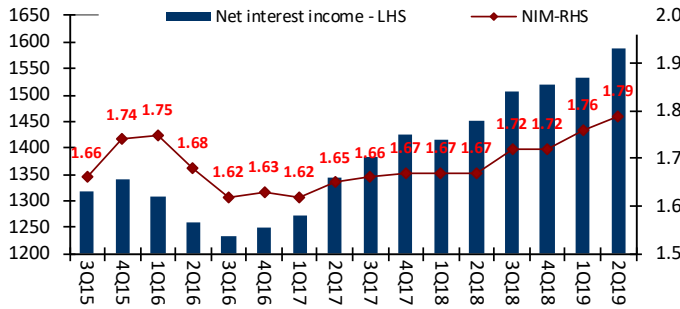
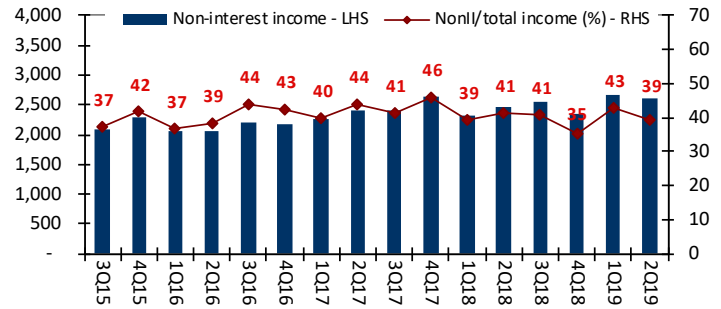
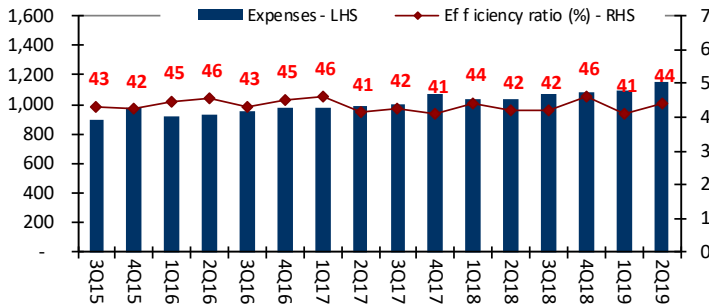
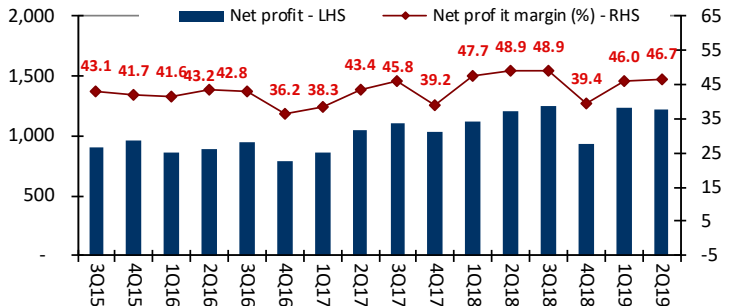
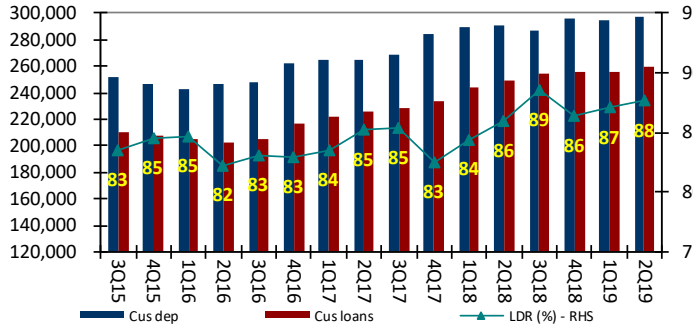
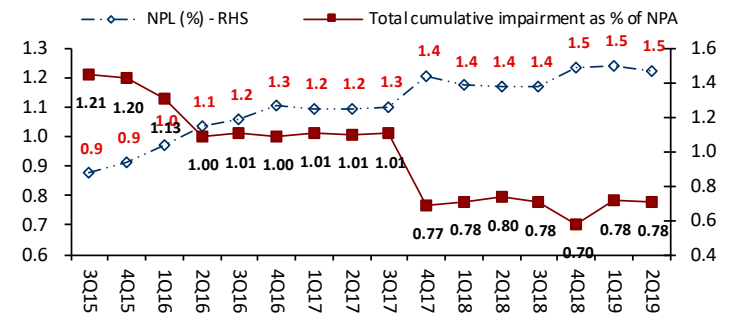
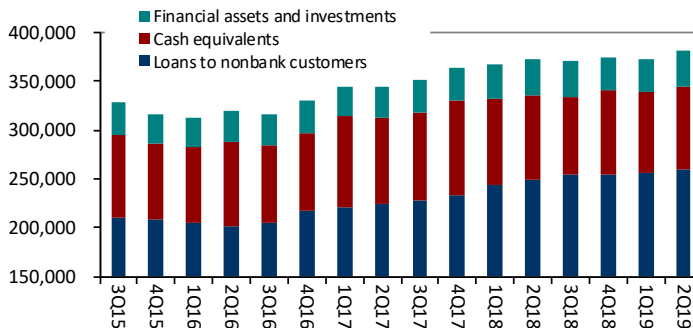
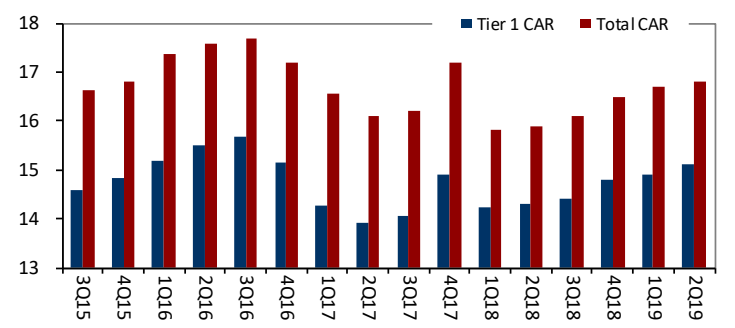
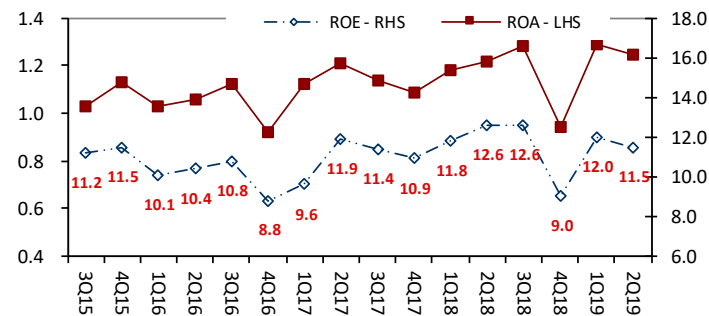
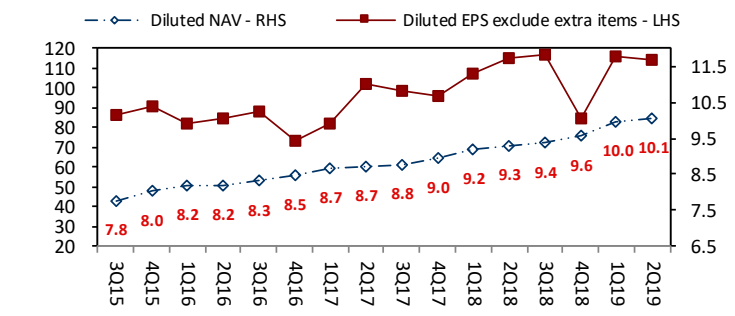
Figure 9: Net interest margin

Figure 10: NonII/Total revenue

Figure 11: Efficiency ratio

Figure 12: Net profit margin

Figure 13: Deposits, Loans, LDR

Figure 14: NPA, NPL

Figure 15: Growth in selected asset items

Figure 16: CAR

Figure 17: ROE and ROA

Figure 18: EPS and NBV


Figure 19: Profit before tax by geographical segment

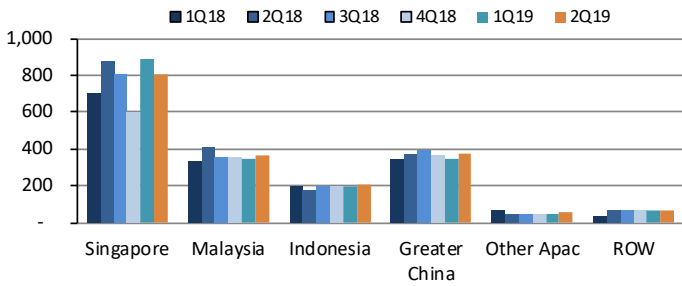


Figure 20: Operating profit by Business segment

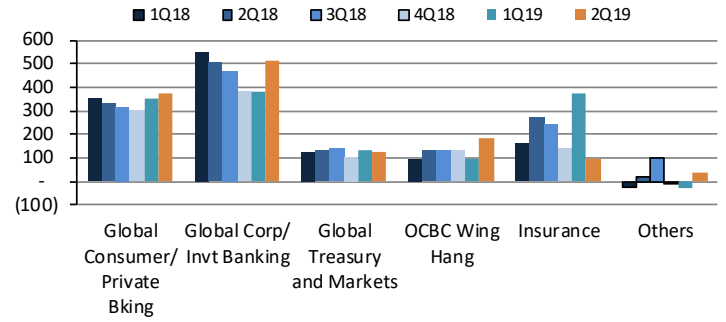


Figure 21: Net interest income trend

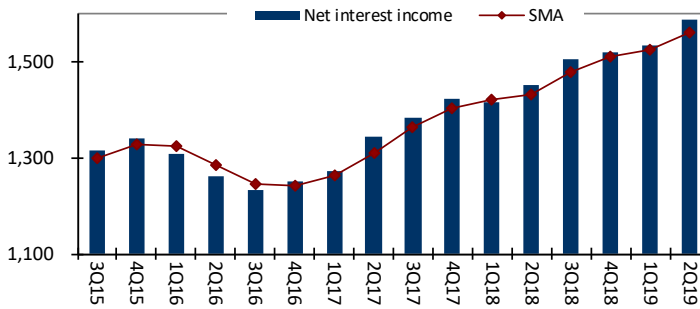


Figure 22: Fee and Commission trend

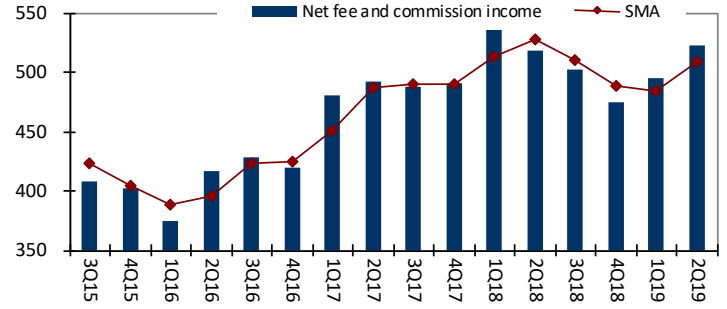


Figure 23: Other noninterest income trend

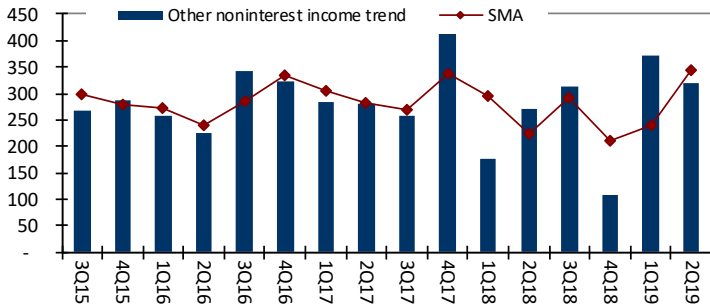
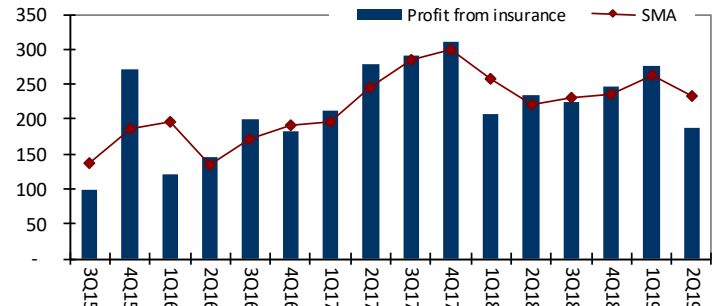


Figure 24: Profit from insurance



Financials

Income Statement

Y/E Dec, SGD mn	FY16	FY17	FY18	FY19e	FY20e
Net Int Income	5,052	5,423	5,890	6,277	6,372
Fees and Commission	1,638	1,017	2,030	2,240	2,565
Other Non int income	1,799	1,155	1,781	2,040	2,094
Total operating income	8,489	7,595	9,701	10,557	11,032
Operating expenses	3,789	2,246	4,214	4,589	4,811
Provisions and others	821	411	390	730	133
Operating profit	3,879	4,938	5,097	5,238	6,087
Associates & JVs	396	316	456	593	652
Profit Before Tax	4,275	5,254	5,553	5,831	6,740
Taxation	629	803	878	922	1,066
Profit After Tax	3,646	4,451	4,675	4,909	5,674
Non-controlling Interest	173	80	183	147	170
Net Income, reported	3,473	4,371	4,492	4,762	5,504
Net Income, adj.	3,473	2,454	4,492	4,761	5,504

Balance Sheet

Y/E Dec, SGD mn	FY16	FY17	FY18	FY19e	FY20e
Cash bal with central banks	16,559	19,594	18,748	19,194	31,510
Due from banks	39,801	49,377	39,035	37,239	37,613
Debt and equity securities	23,157	25,329	25,542	25,297	25,550
Loans and bills receivable	216,830	234,141	255,193	267,163	269,771
Life Assur. Fund Inv. Assets	61,973	73,927	76,867	79,173	81,548
Others	51,564	52,527	52,158	51,523	52,039
Total Assets	409,884	454,895	467,543	479,588	498,032
Due to banks	10,740	7,485	7,576	9,676	8,379
Due to non-bank customers	261,486	283,642	295,412	303,305	317,281
Life Assur. Fund Liabilities	61,962	73,755	74,928	77,176	79,491
Debts issued	19,947	32,235	30,272	27,590	28,473
Others	16,107	15,985	15,963	16,431	16,913
Total liabilities	370,242	413,102	424,151	434,177	450,536
Shareholder's equity	37,007	39,028	42,137	44,008	45,923
Non-controlling interest	2,635	2,765	1,255	1,402	1,572
Total Equity	39,642	41,793	43,392	45,411	47,496

Per share data (SGD)

Y/E Dec	FY16	FY17	FY18	FY19e	FY20e
EPS, reported	0.83	1.00	1.06	1.11	1.28
EPS, adj.	0.83	1.00	1.06	1.11	1.28
DPS	0.36	0.37	0.43	0.49	0.55
BVPS	8.61	9.08	9.68	9.99	10.47
Dividend payout ratio	43%	37%	41%	44%	43%

Supplementary items

Y/E Dec	FY16	FY17	FY18	FY19e	FY20e
CET1 CAR	14.7%	13.9%	14.0%	13.4%	14.1%
Tier 1 CAR	15.2%	15.0%	14.8%	14.1%	14.8%
Total CAR	17.2%	17.2%	16.5%	15.8%	16.5%

Valuation Ratios

Y/E Dec	FY16	FY17	FY18	FY19e	FY20e
P/E (X), adj.	13.5	11.2	10.6	10.1	8.7
P/B (X)	1.3	1.2	1.2	1.1	1.1
Dividend Yield	3.2%	3.3%	3.8%	4.4%	4.9%

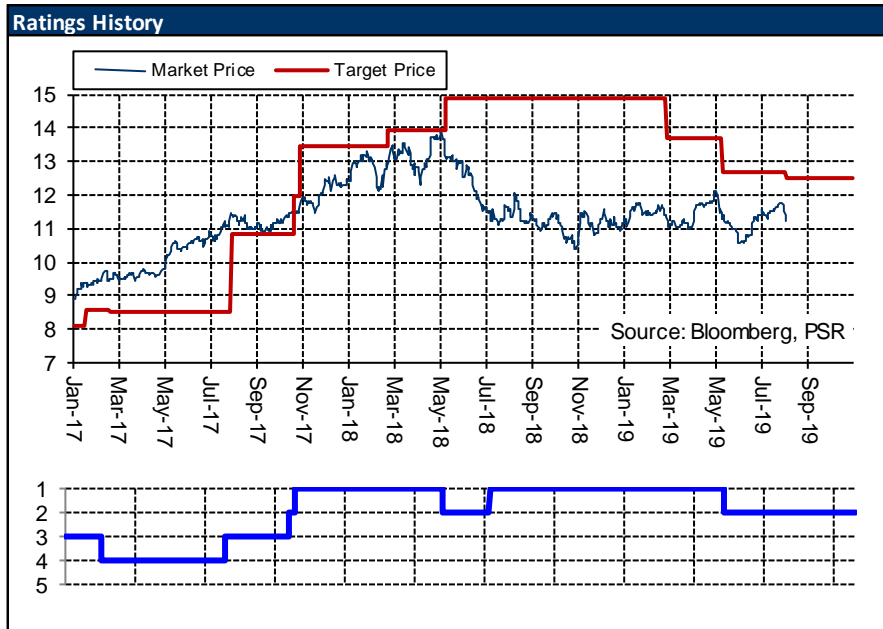
Growth & Margins

Growth					
Net int income	-2.6%	7.3%	8.6%	6.6%	1.5%
Non int income	-2.7%	24.4%	-10.9%	12.3%	8.9%
Pre provision operating profit	-2.7%	14.2%	0.0%	8.8%	4.5%
Operating income	-13.3%	25.8%	4.4%	2.7%	16.2%
Net income, reported	-11.0%	20.8%	7.1%	6.0%	15.6%
Net income, adj	-11.0%	20.8%	7.1%	6.0%	15.6%
Margins					
Net interest margin	1.67%	1.65%	1.70%	1.74%	1.73%

Key Ratios

ROE	10.0%	6.6%	11.3%	11.3%	12.5%
ROA	1.0%	0.6%	1.1%	1.2%	1.3%
RORWA	1.8%	1.3%	2.2%	2.2%	2.5%
Non-int/total income ratio	40.5%	28.6%	39.3%	40.5%	42.2%
Cost/income ratio	44.6%	29.6%	43.4%	43.5%	43.6%
Loan/deposit ratio	82.9%	82.5%	86.4%	88.1%	85.0%
NPL ratio	1.3%	1.4%	1.5%	1.5%	1.5%

Source: Company, Phillip Securities Research (Singapore) Estimates



PSR Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
< -20%	Sell	5

Remarks

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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