

Oversea-Chinese Banking Corp Ltd

Plagued by one-off charges

SINGAPORE | BANKING | 3Q19 RESULTS

- 3Q19 revenue/PATMI were within our expectations. However, if not for the lower tax rate of 10% for this quarter, earnings would have fallen short of our expectations.
- NII supported by 5bps YoY NIM expansion to 1.77% and 2% YoY loans growth.
- Fees income rose 10% YoY to S\$550mn, OCBC's highest on record.
- Insurance income fell 9% YoY due to fair value movements as a result of lower interest rates used to value insurance contract liabilities.
- Allowances ballooned six times to S\$323mn mainly due to ECL refinement for OCBC NISP, provisioning for two corporate accounts and ECL adjustment to account for MEV in the ECL model
- NPL ratio rose to 1.6% mainly due to two corporate accounts (3Q18: 1.4%).
- We maintain ACCUMULATE at a lower target price of S\$11.70 (previously S\$12.50).** We roll forward our Gordon growth model to FY20 to arrive at our new TP of S\$11.70.

Results at a glance

(SGD mn)	3Q19	3Q18	YoY (%)	2Q19	QoQ (%)	Comments
Net interest income	1,600	1,505	6.3%	1,588	0.8%	Driven by 2% increase in loans and 5bps YoY rise in NIM to 1.77%.
Fees & Comm	550	502	9.6%	522	5.4%	Net fees & comm hit record high of S\$550mn.
Insurance	204	225	-9.3%	188	8.5%	Insurance income fell due to fair value movements as a result of lower interest rates used to value insurance contract liabilities.
Other NII	301	312	-3.5%	320	-5.9%	
Total income	2,655	2,544	4.4%	2,618	1.4%	
Expenses and amortisation	(1,157)	(1,094)	5.8%	(1,177)	-1.7%	OPEX rose 6% YoY due to staff costs. CIR lower at 42.6% (3Q18: 42.0%).
PPOP	1,498	1,450	3.3%	1,441	4.0%	
Allowances	(323)	(49)	559.2%	(111)	191.0%	Excluding OCBC NISP's allowance of S\$144mn, allowances would have been S\$179mn. NPL rose to 1.6% (3Q18: 1.4%).
PATMI	1,172	1,245	-5.9%	1,223	-4.2%	Due to one-time allowance charge.
Core PATMI	1,263	1,245	1.4%	1,223	3.3%	Excluding one-off ECL of S\$144mn for OCBC NISP as it prepares for IFRS 9, effective 1 Jan 2020.

Source: Company, PSR

The Positives

+ Decent NIM expansion of 5bps YoY to 1.77%, as assets yield rose 13bps YoY, outpacing the rise in funding costs of 10bps YoY. However, NIM fell by 2bps QoQ, reflecting the lower interest rate environment in all the key markets and a lower LDR ratio of 86.8% (2Q19: 87.6%). OCBC suggested NIM to contract around 5bps YoY in 2020 and expects one more rate cut in the next year. We forecast FY19e NIM at 1.76% and lowered our FY20e NIM by 2bps to 1.71%.

+ Fee income rose 10% YoY to S\$550mn, OCBC's highest on record. Fee income was led by wealth management fee income from Bank of Singapore which hit S\$265mn, highest on record. Bank of Singapore's AUM expanded 5% YoY to US\$110bn (S\$152bn), 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.



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6 November 2019

ACCUMULATE (Maintained)

LAST CLOSE PRICE	SGD 11.1
FORECAST DIV	SGD 0.5
TARGET PRICE	SGD 11.7
TOTAL RETURN	9.8%

COMPANY DATA

BLOOMBERG TICKER	OCBC SP
O/S SHARES (MN)	4,404
MARKET CAP (USD mn / SGD mn)	35839 / 48665
52 - WK HI/LO (SGD)	12.19 / 10.45
3MAverage Daily T/O (mn)	4.65

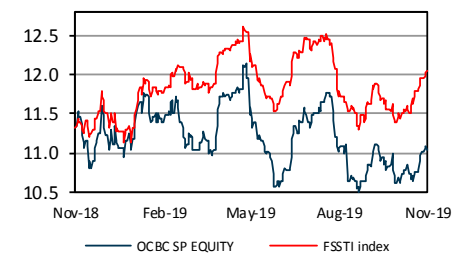
MAJOR SHAREHOLDERS (%)

Selat Pte Limited	12.0%
Lee Foundation Singapore	4.3%
Vanguard Group Inc	2.7%

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	4.3	2.3	2.6
STI RETURN	5.6	2.6	9.7

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec (SGD mn)	FY17	FY18	FY19e	FY20e
Total Income	8,650	9,701	10,511	10,977
Op. Profit	4,512	5,097	5,066	5,173
NPAT, adj.	4,082	4,492	4,571	4,660
EPS (SGD)	1.00	1.06	1.06	1.08
PER, adj. (x)	11.1	10.5	10.5	10.2
P/BV, x	1.2	1.1	1.1	1.0
ROE	9.8%	11.3%	10.6%	10.2%

Source: Bloomberg, Company, PSR

Valuation Method:

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

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The Negatives

- **Allowances ballooned to S\$323mn, of which S\$144mn is a one-off ECL refinement for OCBC NISP to prepare for the adoption of IFRS 9 in 2020.** Multiple factors accounted for the remaining S\$179mn surge in allowances. S\$264mn of allowances was made for impaired loans (ECL Stage 3) which were mainly due to two corporate accounts. Another S\$48mn ECL (Stage 1 & 2) was taken in to account for Macro-Economic Variable (MEV) changes to reflect geopolitical events, slowdown in economy and uncertainties in Hong Kong. These allowances were offset by upgrades of S\$44mn and ECL migration to stage 3 of S\$87mn. NPL ratio rose to 1.6% (3Q18: 1.4%) mainly due to the two corporate accounts in the OSV sector and transportation sector. OCBC guided FY19e credit costs to remain within 20-22 bps and FY20e credit costs to rise to 22-25bps. We forecast FY19e and FY20e credit costs at 20bps and 25bps respectively.

- **Insurance income fell 9% YoY.** The decline was due to fair value movements as a result of lower interest rates used to value insurance contract liabilities. Operationally, Great Eastern did well with NBEV margin up 15.4 p.p. to 51.3% (3Q18: 35.9%).

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: 2020e Guidance vs PSR estimates

Assumptions	OCBC	PSR
NIM (%)	~5bps YoY contraction	1.71%
Loans growth (%)	2-3%	2.4%
Credit cost (bps)	22-25 bps	25

Source: Company, PSR

Investment Actions

We maintain ACCUMULATE at a lower target price of S\$11.70 (previously S\$12.50). We roll forward our Gordon growth model to FY20e to arrive at our new TP of S\$11.70.

We revised our TP after taking into account the lower interest rate environment. Our FY20e NIM forecast was cut to 1.71% (-5bps YoY) and we lowered FY20e loans growth of 2% YoY (previously 3%) due to the slower economic environment and higher credit costs of 25bps for FY20e (previously 22 bps). Management guided softer loan growth expectations of 2-3% in FY20e (previously mid-single-digit), given the weak lending environment.

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	10.2%
g	Terminal growth rate	2.0%
$\frac{(ROE-g)}{(COE-g)}$	Target Price to Book	1.10
	BVPS, S\$	10.6
	Valuation, S\$	11.7

Figure 2: Revenue breakdown

SGD mn	3Q19	3Q18	YoY (%)	2Q19	QoQ (%)
Net interest income	1,600	1,505	6.3%	1,588	0.8%
Net fee and comm inc	550	502	9.6%	522	5.4%
Profits from insurance	204	225	-9.3%	142	43.7%
Other non-interest inc	301	1,039	-71.0%	366	-17.8%
Allowance	(323)	(49)	559.2%	(111)	191.0%
Total	2,655	3,271	-18.8%	2,618	1.4%

NII supported by 5bps YoY NIM expansion to 1.77% and 2% YoY loans growth.

Figure 3: Fee and commission income

SGD mn	3Q19	3Q18	YoY (%)	2Q19	QoQ (%)
Brokerage	20	20	0.0%	20	0.0%
Wealth management	265	238	11.3%	262	1.1%
Fund management	29	28	3.6%	29	0.0%
Credit card	88	92	-4.3%	81	8.6%
Loan-related	78	81	-3.7%	72	8.3%
Trade and remittances	68	62	9.7%	61	11.5%
Guarantees	4	5	-20.0%	4	0.0%
Investment Banking	33	21	57.1%	27	22.2%
Service charges	24	20	20.0%	22	9.1%
Others	13	13	0.0%	11	18.2%
Fee and commission expense	(72)	(78)	nm	(67)	7.5%
Total Fee and Comm	550	502	9.6%	522	5.4%

Fees income was led by wealth management fee income from Bank of Singapore which hit S\$265mn, highest on record.

Figure 4: Other non-interest income

SGD mn	3Q19	3Q18	YoY (%)	2Q19	QoQ (%)
Net trading income	182	213	-14.6%	193	-5.7%
Net gain on Invnt securities	55	4	1275.0%	48	14.6%
Disposal of subsi/associate	-	-	nm	-	nm
Disposal of properties	8	7	14.3%	32	-75.0%
Others	9	8	12.5%	10	-10.0%
Total other non int Inc	254	232	9.5%	283	-10.2%

Net trading income of S\$182mn was lower than S\$213mn a year ago, as a decline in treasury income offset a rise in customer-related flow income. Net gains from the sale of investment securities of S\$55mn were higher than the S\$4mn reported in 3Q18.

Figure 5: Loans by Industries

SGD mn	3Q19	3Q18	YoY (%)	2Q19	QoQ (%)
Agri, mining & quarrying	9,816	10,056	-2.4%	10,134	-3.1%
Manufacturing	16,864	16,399	2.8%	17,548	-3.9%
Building and construction	60,813	51,463	18.2%	59,540	2.1%
Housing loans	62,723	65,553	-4.3%	62,435	0.5%
General commerce	32,695	34,959	-6.5%	34,431	-5.0%
Tpt, storage & comms	13,213	13,832	-4.5%	13,355	-1.1%
Fis, invt & holding co	23,894	20,801	14.9%	22,020	8.5%
Professionals & Pri inv	30,421	30,698	-0.9%	30,248	0.6%
Others	12,377	12,815	-3.4%	12,997	-4.8%
Total loans	262,816	256,576	2.4%	262,708	0.0%

Customer loans grew 2% YoY while customer deposits rose 5% YoY, driven by a rise in both CASA and fixed deposits.

CASA grew 3% YoY to S\$141bn and represented 47.1% of total non-bank deposits.

LDR ratio was lower at 86.8% as compared to 88.5% in the previous year.

Figure 6: Loans by currencies

SGD mn	3Q19	3Q18	YoY (%)	2Q19	QoQ (%)
Singapore dollar	93,611	90,067	3.9%	93,238	0.4%
US dollar	66,100	67,907	-2.7%	67,122	-1.5%
Malaysian ringgit	20,928	20,942	-0.1%	20,986	-0.3%
Indonesian rupiah	9,253	8,437	9.7%	9,207	0.5%
Others	35,300	28,801	22.6%	35,287	0.0%
Hong Kong Dollar	4,282	35,714	-88.0%	4,582	-6.5%
Renminbi	33,342	4,708	608.2%	32,286	3.3%
Total loans	262,816	256,576	2.4%	262,708	0.0%

Figure 7: Operating profit by Business segments

SGD mn	3Q19	3Q18	YoY (%)	2Q19	QoQ (%)
Global Consumer/ Private Banking	372	316	17.7%	376	-1.1%
Global Corporate/ Investment Banking	428	472	-9.3%	510	-16.1%
Global Treasury and Markets	152	142	7.0%	128	18.8%
Insurance	140	239	-41.4%	98	42.9%
OCBC Wing Hang	204	135	51.1%	180	13.3%
Others	22	96	-77.1%	38	-42.1%
Total Profit	1,318	1,400	-5.9%	1,330	-0.9%

Figure 8: Profit before tax by Geographical segments

SGD mn	3Q19	3Q18	YoY (%)	2Q19	QoQ (%)
Singapore	735	802	-8.4%	804	-8.6%
Malaysia	229	230	-0.4%	221	3.6%
Indonesia	84	123	-31.7%	80	5.0%
Greater China	340	315	7.9%	291	16.8%
Other Asia Pacific	42	33	27.3%	42	0.0%
Rest of the World	44	31	41.9%	38	15.8%
Total NPBT	1,474	1,534	-3.9%	1,476	-0.1%

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

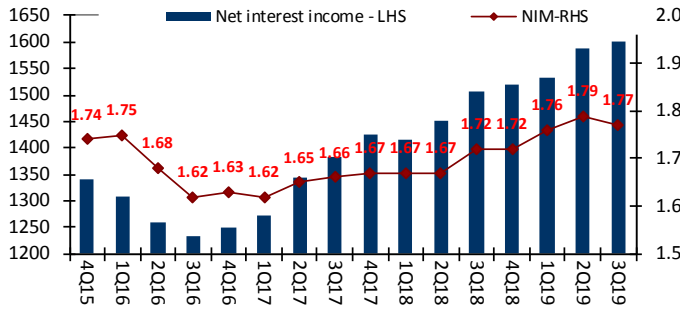
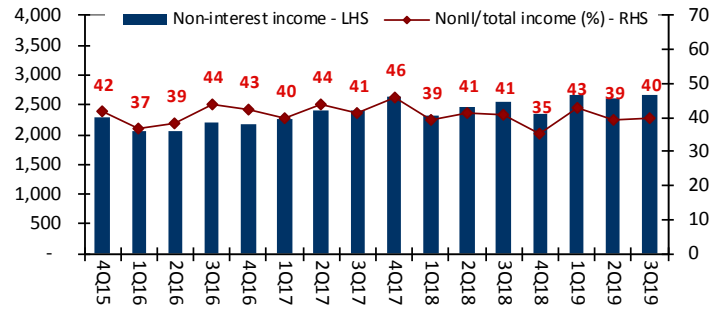
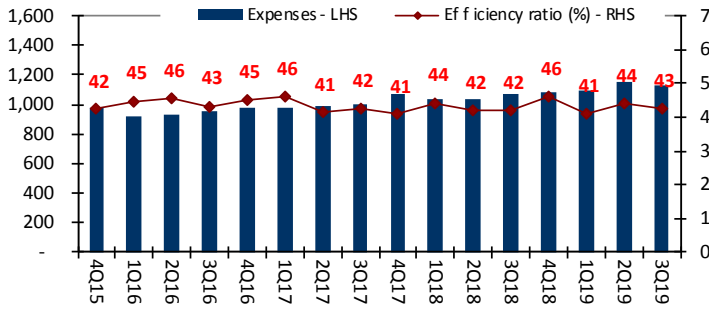
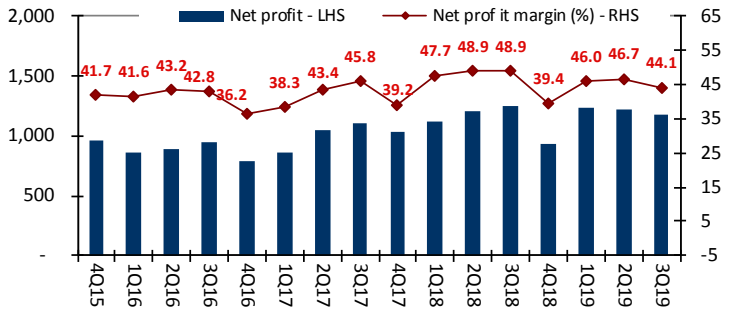
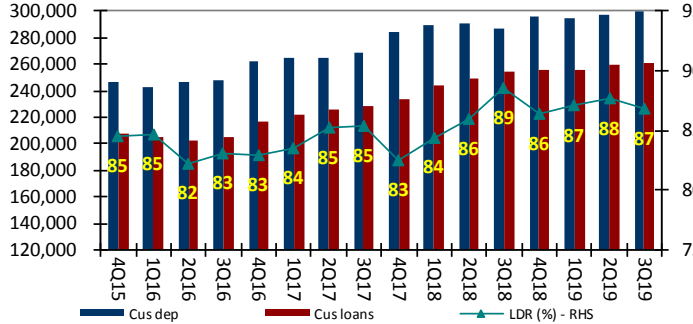
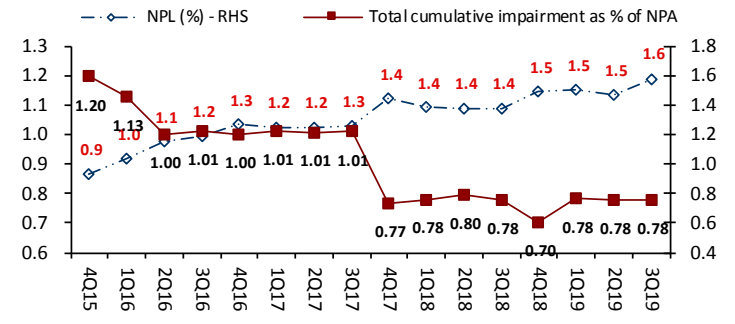
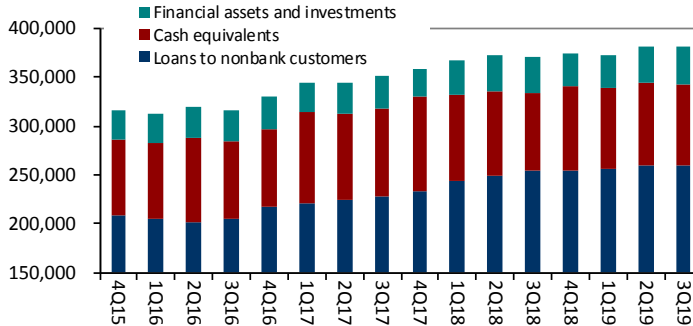
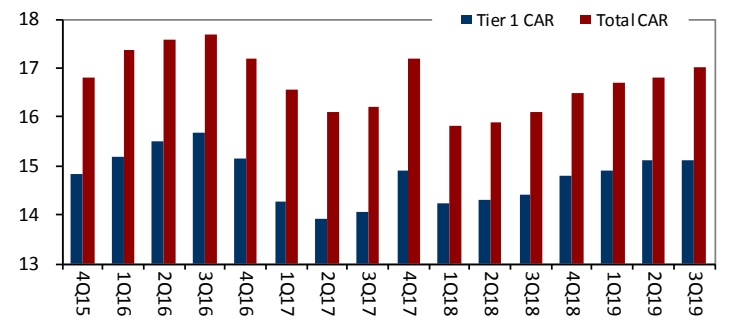
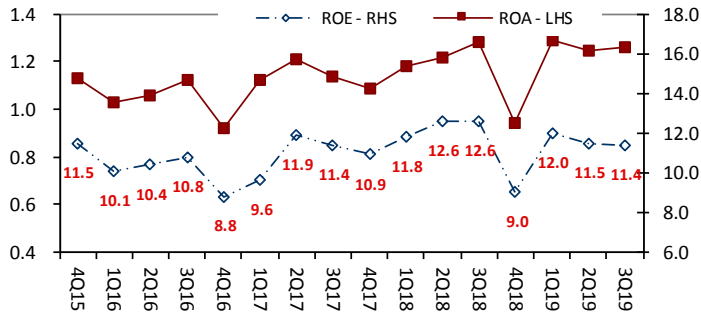
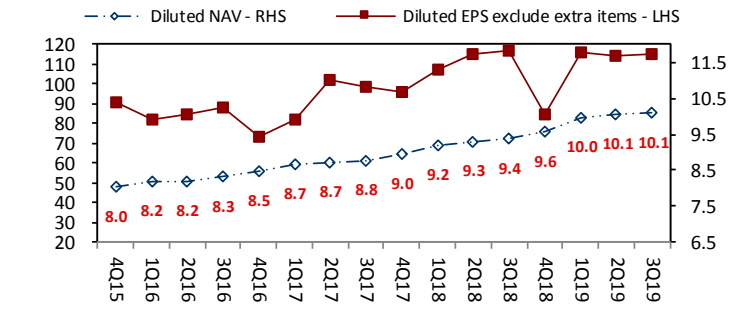
Figure 9: Net interest margin

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

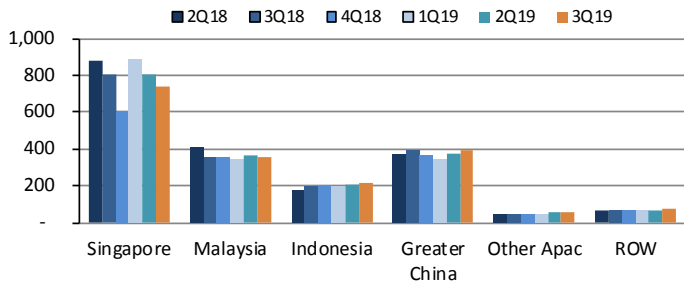


Figure 20: Operating profit by Business segment

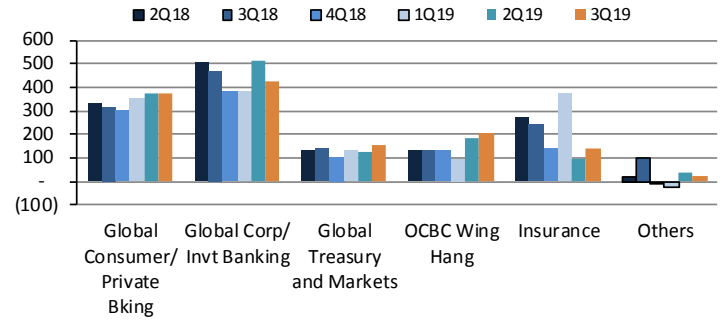


Figure 21: Net interest income trend

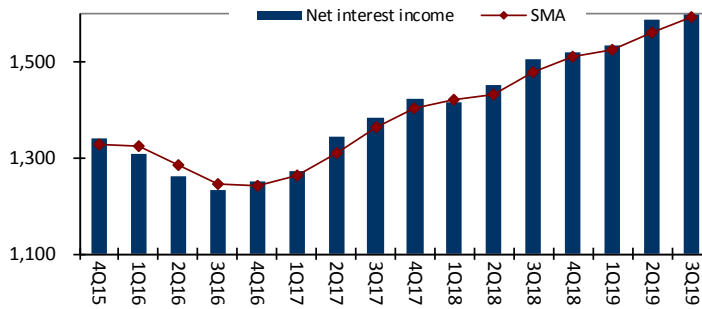


Figure 22: Fee and Commission trend

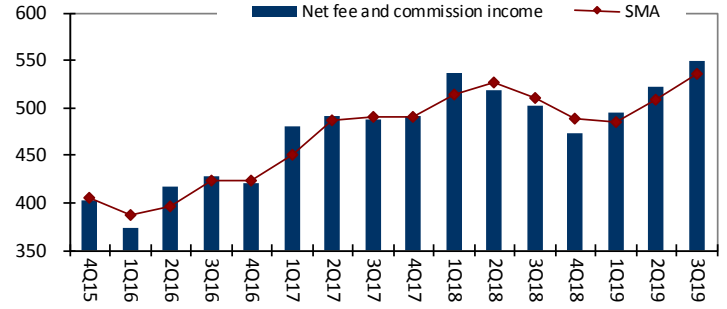


Figure 23: Other noninterest income trend

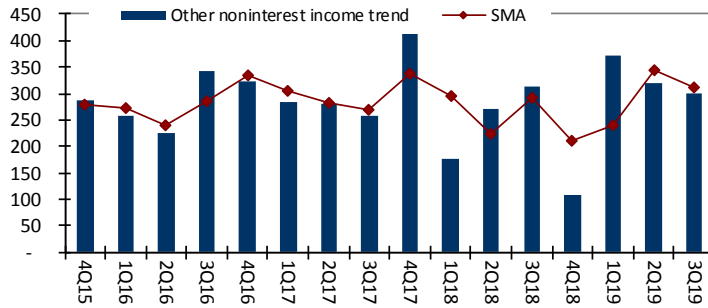
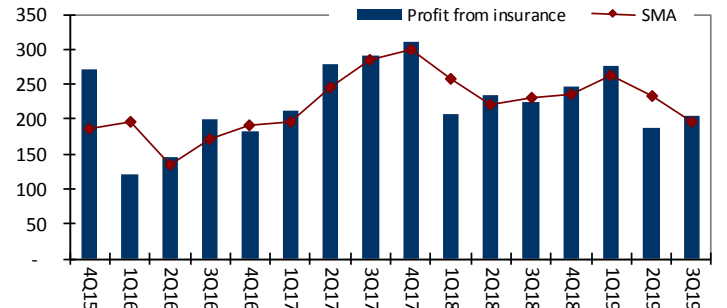


Figure 24: Profit from insurance



Source (Figure 9-24): Company, PSR

Financials

Income Statement

Y/E Dec, SGD mn	FY16	FY17	FY18	FY19e	FY20e
Net Int Income	5,052	5,423	5,890	6,309	6,315
Fees and Commission	1,638	1,567	2,030	2,158	2,549
Other Non int income	1,799	1,660	1,781	2,043	2,114
Total operating income	8,489	8,650	9,701	10,511	10,977
Operating expenses	3,789	3,378	4,214	4,529	4,753
Provisions and others	821	760	390	916	1,051
Operating profit	3,879	4,512	5,097	5,066	5,173
Associates & JVs	396	472	456	593	593
Profit Before Tax	4,275	4,984	5,553	5,658	5,765
Taxation	629	803	878	894	912
Profit After Tax	3,646	4,181	4,675	4,764	4,854
Non-controlling Interest	173	99	183	190	194
Net Income, reported	3,473	4,082	4,492	4,573	4,660
Net Income, adj.	3,473	4,082	4,492	4,571	4,660

Balance Sheet

Y/E Dec, SGD mn	FY16	FY17	FY18	FY19e	FY20e
Cash bal with central banks	16,559	19,594	18,748	20,349	27,883
Due from banks	39,801	49,377	39,035	36,998	37,369
Debt and equity securities	23,157	25,329	25,542	26,501	26,767
Loans and bills receivable	216,830	234,141	255,193	263,782	270,882
Life Assur. Fund Inv. Assets	61,973	73,927	76,867	79,173	81,548
Others	51,564	52,527	52,158	52,804	53,389
Total Assets	409,884	454,895	467,543	479,606	497,838
Due to banks	10,740	7,485	7,576	10,320	8,937
Due to non-bank customers	261,486	283,642	295,412	302,967	316,775
Life Assur. Fund Liabilities	61,962	73,755	74,928	77,176	79,491
Debts issued	19,947	32,235	30,272	25,547	26,365
Others	16,107	15,985	15,963	16,431	16,913
Total liabilities	370,242	413,102	424,151	432,441	448,480
Shareholder's equity	37,007	39,028	42,137	45,719	47,718
Non-controlling interest	2,635	2,765	1,255	1,445	1,640
Total Equity	39,642	41,793	43,392	47,165	49,358

Per share data (SGD)

Y/E Dec	FY16	FY17	FY18	FY19e	FY20e
EPS, reported	0.83	1.00	1.06	1.06	1.08
EPS, adj.	0.83	1.00	1.06	1.06	1.08
DPS	0.36	0.37	0.43	0.48	0.50
BVPS	8.61	9.08	9.68	10.37	10.86
Dividend payout ratio	43%	37%	41%	45%	46%

Supplementary items

Y/E Dec	FY16	FY17	FY18	FY19e	FY20e
CET1 CAR	14.7%	13.9%	14.0%	14.3%	14.8%
Tier 1 CAR	15.2%	15.0%	14.8%	15.1%	15.5%
Total CAR	17.2%	17.2%	16.5%	16.9%	17.3%

Valuation Ratios

Y/E Dec	FY16	FY17	FY18	FY19e	FY20e
P/E (X), adj.	13.3	11.1	10.5	10.5	10.2
P/B (X)	1.3	1.2	1.1	1.1	1.0
Dividend Yield	3.2%	3.3%	3.9%	4.3%	4.5%

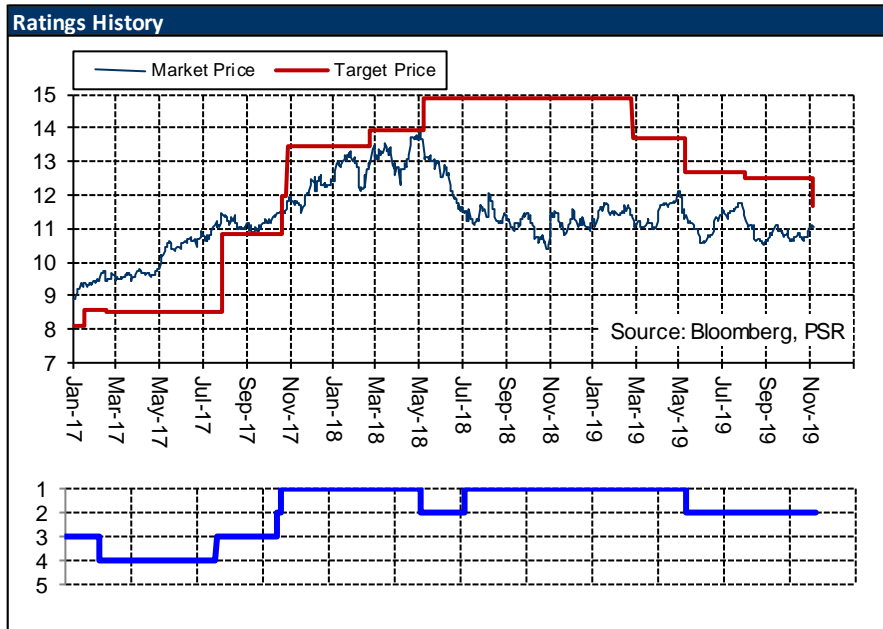
Growth & Margins

	FY16	FY17	FY18	FY19e	FY20e
Growth					
Net int income	-2.6%	7.3%	8.6%	7.1%	0.1%
Non int income	-2.7%	24.4%	-10.9%	10.2%	11.0%
Pre provision operating profit	-2.7%	14.2%	0.0%	8.3%	4.4%
Operating income	-13.3%	25.8%	4.4%	-0.7%	2.2%
Net income, reported	-11.0%	20.8%	7.1%	1.8%	1.9%
Net income, adj	-11.0%	20.8%	7.1%	1.8%	1.9%
Margins					
Net interest margin	1.67%	1.65%	1.70%	1.76%	1.71%

Key Ratios

	FY16	FY17	FY18	FY19e	FY20e
ROE	10.0%	9.8%	11.3%	10.6%	10.2%
ROA	1.0%	0.9%	1.1%	1.1%	1.1%
RORWA	1.8%	1.9%	2.2%	2.2%	2.1%
Non-int/total income ratio	40.5%	37.3%	39.3%	40.0%	42.5%
Cost/income ratio	44.6%	39.1%	43.4%	43.1%	43.3%
Loan/deposit ratio	82.9%	82.5%	86.4%	87.1%	85.5%
NPL ratio	1.3%	1.4%	1.5%	1.4%	1.4%

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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