

22 April 2019

Financial Services | Banks

## Oversea-Chinese Banking Corp (OCBC SP)

**Neutral** (Maintained)

### Expect Wider 1H19 NIM, But Valuation Fair

Target Price (Return)	SGD12.20 (+4%)
Price:	SGD11.77
Market Cap:	USD36,945m
Avg Daily Turnover (SGD/USD)	48.1m/35.5m

- **Maintain NEUTRAL with higher SGD12.20 TP (from SGD10.96), based on 2020F P/BV of 1.12x, giving 4% upside plus 4% yield.** We assumed a long-term ROE of 12% (vs 2018's 11.5%). This would be driven in the short term by sequential NIM expansion and in the next 2-3 years by digitisation-driven expense management. We spoke with OCBC recently – key takeaways are appended below. Prefer UOB and DBS.
- **Home loan rate rise in 1Q19 to help raise lending yield.** OCBC raised its OCBC home rate in Jan/Feb 2019 – this will raise lending yield for a portion of 1Q19 as more than half of OCBC housing loans are priced off this. Lending yield should be even stronger in 2Q19 as the full 3-month impact will be captured.
- **CASA accounts for 66% of total deposits.** Industry-wide fixed deposit interest rates have risen, but interest rates for CASA have remained relatively flat – and this helps to cap the increase in OCBC's cost of funds.
- **We forecast 2019 NIM of 1.76%, an improvement over 2018's 1.70% due to higher lending yields offsetting the rise in cost of funds.** We expect to see continued NIM widening in 2020 and 2021, although the magnitude of widening should be more subdued. Despite forecasted OCBC 2019 NIM widening, we believe its NIM will remain narrower than peers – see Figure 2.
- **Uninteresting 1Q19 non-interest income expected.** The 1Q18 base for non-interest income was high, and it would be challenging for 1Q19 non-interest income to show growth. OCBC's Bank of Singapore, which caters to clients with at least USD5m, saw 2018 AUM rise 3% to USD102bn. Whilst AUM could have further increased since then, 1Q19 wealth management fees are likely to be soft YoY.
- **We raised 2019F net profit by 7% to SGD4.7bn, mainly due to net interest income forecast being increased by 7%.** We introduce 2020 and 2021 forecasts in this report.
- **Our long-term ROE assumption is 12%.** This compares with 2018 ROE of 11.5%. NIM expansion in 1H19 and digitisation efforts over the next 2-3 years are contributing factors to ROE enhancement.
- **Downside risks to our forecasts** include higher impairment charges and weaker-than-expected NIM. Upside risks include better-than-expected NIM and stronger loan growth.

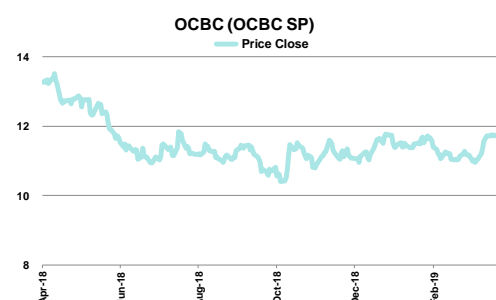
#### Analyst

Leng Seng Choon, CFA, PBM  
+65 6232 3890  
[leng.seng.choon@rhbgroupp.com](mailto:leng.seng.choon@rhbgroupp.com)



#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	4.7	5.2	0.3	10.2	(12.8)
Relative	(4.3)	1.1	(3.4)	1.2	(6.8)
52-wk Price low/high (SGD)				10.36 – 14.04	



Source: Bloomberg

Forecasts and Valuation	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Reported net profit (SGDm)	4,045	4,492	4,697	5,027	5,339
Recurring net profit (SGDm)	4,146	4,492	4,697	5,027	5,339
Recurring net profit gr (%)	19.4	8.3	4.6	7.0	6.2
Recurring EPS (SGD)	0.99	1.06	1.10	1.17	1.23
BVPS (SGD)	8.96	9.56	10.23	10.92	11.66
DPS (SGD)	0.37	0.43	0.44	0.47	0.49
Recurring P/E (x)	11.9	11.1	10.7	10.1	9.6
P/B (x)	1.31	1.23	1.15	1.08	1.01
Dividend Yield (%)	3.1	3.7	3.7	4.0	4.2
Return on average equity (%)	11.0	11.5	11.9	11.9	11.8
Return on average assets (%)	1.11	1.17	1.21	1.27	1.30

Source: Company data, RHB

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Figure 1: OCBC's financial data

OCBC (SGDm)	FY17	FY18	FY19F	FY20F	FY21F
Net Interest Income	5,423	5,890	6,332	6,660	7,010
Non-interest Income	4,105	3,811	4,160	4,575	4,848
- Dividends	76	128	120	124	126
- Fee & Commission Income	1,953	2,031	2,109	2,262	2,339
- Rental Income	83	79	96	99	101
- Insurance	918	911	937	986	1,006
- Other Operating Income	1,075	662	898	1,104	1,276
Total operating Income	9,528	9,701	10,492	11,235	11,858
Operating Expenses	(4,043)	(4,214)	(4,490)	(4,757)	(4,999)
Operating Profit	5,485	5,487	6,002	6,478	6,859
Provisions	(671)	(288)	(480)	(595)	(608)
Goodwill/Intangibles amortisation	(104)	(102)	(108)	(108)	(108)
Associates	389	455	501	512	519
Pre-tax profit	5,099	5,552	5,915	6,287	6,662
Taxation	(803)	(877)	(994)	(1,037)	(1,101)
Profit after tax	4,296	4,675	4,921	5,250	5,561
Minorities	(251)	(183)	(224)	(223)	(222)
<b>Net Profit</b>	<b>4,045</b>	<b>4,492</b>	<b>4,697</b>	<b>5,027</b>	<b>5,339</b>
EPS (SGD¢)	96.7	106.5	110.1	116.8	122.9
Book value (SGD)	9.20	9.56	10.23	10.92	11.66
Revalued book (SGD)	11.57	11.38	12.03	12.71	13.43
<b>P&amp;L ratios (%)</b>					
ROE (Avg)	11.0	11.5	11.9	11.9	11.8
Net Interest Margin	1.65	1.70	1.76	1.80	1.81
Net interest income / income	56.9	60.7	60.4	59.3	59.1
Operating expenses / income	42.4	43.4	42.8	42.3	42.2
<b>P&amp;L YoY change (%)</b>					
Net Interest Income	7.3	8.6	7.5	5.2	5.3
Non-interest income	19.4	(7.2)	9.2	10.0	6.0
Fee & Commission Income	19.2	4.0	3.8	7.3	3.4
Total Income	12.2	1.8	8.2	7.1	5.5
Operating expenses	6.7	4.2	6.5	5.9	5.1
Operating profit	16.7	0.0	9.4	7.9	5.9
Provisions	(7.6)	(57.1)	66.7	24.0	2.2
Pre-tax Profit	19.3	8.9	6.5	6.3	6.0
Net Profit	16.5	11.1	4.6	7.0	6.2
<b>BS data (SGDm)</b>					
Assets	452,693	467,543	457,763	476,246	492,458
Non-bank loans	234,141	255,193	266,677	281,344	297,662
Customer deposit	283,642	295,412	308,706	322,597	337,114
Non-performing assets	3,468	3,938	4,067	4,196	4,325
Cumulative loan loss provisions	2,666	2,769	2,820	2,986	3,165
<b>Balance sheet ratios (%)</b>					
Loans Deposit ratio	82.5	86.4	86.4	87.2	88.3
Non-bank loans growth (YoY%)	8.0	9.0	4.5	5.5	5.8
Customer deposit growth (YoY%)	8.5	4.1	4.5	4.5	4.5
Non-bank NPL / Non-bank loans	1.5	1.5	1.5	1.4	1.4
Loan loss coverage	76.9	70.3	69.3	71.2	73.2
Total CAR	17.2	16.5	17.3	17.8	18.3
Tier 1 CAR	15.0	14.8	15.7	16.3	16.9

Source: Company data, RHB

Figure 2: OCBC has the narrowest 2018 NIM (amongst peers)

Net Interest Margin	DBS	OCBC	UOB
FY16	1.80%	1.67%	1.71%
1Q17	1.74%	1.62%	1.73%
2Q17	1.74%	1.65%	1.75%
3Q17	1.73%	1.66%	1.79%
4Q17	1.78%	1.67%	1.81%
FY17	1.75%	1.65%	1.77%
1Q18	1.83%	1.67%	1.84%
2Q18	1.85%	1.67%	1.83%
3Q18	1.86%	1.72%	1.81%
4Q18	1.87%	1.72%	1.80%
FY18	1.85%	1.70%	1.82%
FY19F	1.90%	1.76%	1.84%
FY20F	1.93%	1.80%	1.87%

Source: Respective companies data, RHB

Figure 3: We forecast mid single-digit 2019 loan growth for all three banks

Loan growth (YoY%)	DBS	OCBC	UOB
FY16	6.4%	4.1%	8.9%
FY17	7.2%	8.0%	4.7%
FY18	6.8%	9.0%	11.4%
FY19F	5.0%	4.5%	5.0%
FY20F	5.0%	5.5%	4.5%
FY21F	6.0%	5.8%	5.5%

Source: Respective companies data, RHB

Figure 4: Housing loans account for a quarter of OCBC's loanbook

	DBS	OCBC	UOB
FY18 L&A Breakdown	100.0%	100.0%	100.0%
- Transportation, Storage & Comms	8.7%	5.4%	3.9%
- Building & Construction	21.9%	20.8%	24.1%
- Manufacturing	10.5%	6.5%	8.1%
- Financial Institutions	7.2%	8.6%	8.9%
- General Commerce	13.6%	13.5%	12.6%
- Professionals & Pte Individuals	8.7%	11.8%	11.2%
- Housing	21.5%	25.1%	26.1%
- Others	7.9%	8.4%	5.1%

Source: Respective companies data

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Figure 5: Sizeable loan exposure to Greater China &amp; South-East Asia

FY18 Loan breakdown by geography (%)	DBS	OCBC	UOB
Singapore	46.7%	42.0%	52.4%
South & SEA	8.1%	NA	NA
South-east Asia	NA	NA	NA
- Malaysia	NA	11.5%	11.2%
- Thailand	NA	NA	6.4%
- Indonesia	NA	7.6%	4.3%
Greater China	30.1%	25.0%	15.3%
- HK	15.5%	NA	NA
Others	15.0%	13.9%	10.3%
Total	100.0%	100.0%	100.0%

Source: Respective companies data

Figure 6: Peer valuation

		DBS	OCBC	UOB
Price @	18-Apr-2019	27.40	11.77	26.80
Local	Curr	SGD	SGD	SGD
Mkt Cap (\$m)	(LC)	70,097	49,963	44,642
	(US\$)	51,675	36,832	32,909
P/E (x)	Hist	12.6	11.1	11.2
	Curr	11.5	10.5	10.7
	Fwd	10.7	9.9	10.1
P/BV	(x)	1.42	1.19	1.26
ROE	(%)	11.5	11.0	11.6
ROA	(%)	1.0	1.0	1.1
Yield	(%)	4.4	3.7	3.7
YTD TR	(%)	15.7	4.5	9.1
1-m TR	(%)	8.6	5.0	5.6
3-m TR	(%)	9.0	0.2	1.0
6-m TR	(%)	12.5	10.0	5.2
1-y TR	(%)	(0.9)	(10.1)	(4.6)

Source: Bloomberg

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#### KUALA LUMPUR

**RHB Research Institute Sdn Bhd**  
Level 3A, Tower One, RHB Centre  
Jalan Tun Razak  
Kuala Lumpur 50400  
Malaysia  
Tel : +603 9280 8888  
Fax : +603 9200 2216

#### JAKARTA

**PT RHB Sekuritas Indonesia**  
Wisma Mulia, 20th Floor  
Jl. Jenderal Gatot Subroto No. 42  
Jakarta 12710  
Indonesia  
Tel : +6221 2783 0888  
Fax : +6221 2783 0777

#### HONG KONG

**RHB Securities Hong Kong Ltd.**  
12<sup>th</sup> Floor, World-Wide House  
19 Des Voeux Road  
Central  
Hong Kong  
Tel : +852 2525 1118  
Fax : +852 2810 0908

#### BANGKOK

**RHB Securities (Thailand) PCL**  
10th Floor, Sathorn Square Office Tower  
98, North Sathorn Road, Silom  
Bangrak, Bangkok 10500  
Thailand  
Tel: +66 2088 9999  
Fax :+66 2088 9799

#### SINGAPORE

**RHB Securities Singapore  
Pte Ltd.**  
10 Collyer Quay  
#09-08 Ocean Financial Centre  
Singapore 049315  
Tel : +65 6533 1818  
Fax : +65 6532 6211