

OCBC Bank (OCBC SP)

Share Price: SGD9.20

Target Price: SGD8.65 (-6%)

MCap (USD): 26.4B

ADTV (USD): 49M

Singapore
Banks

SELL

 (Unchanged)

Risk on

- OCBC's 3Q15 performance provided few reasons to change our negative view about the stock/sector. 3Q15 total income and core net profit were -5.8% and -13.9% QoQ.
- Management concedes that macro outlook is lacklustre. The 3Q provisions exceeded our forecast, and we believe the asset quality deterioration has not run its course.
- With the best of the cycle behind us, we maintain SELL rating. Our TP of SGD 8.65 is based on 1.1x FY15 P/BV.

Uninspiring 3Q15

Key banking metrics point towards a subdued performance, such as NIMs (1.66% in 3Q15 vs 1.67% 2Q15), loan growth (+1/+4% QoQ/YoY), and asset quality (NPLs 0.9% in 3Q vs. 0.7% in 2Q). Stubbornly weak O&G sector sparked pre-emptive reviews and restructuring of lending book. Accordingly, substandard NPA's climbed to SGD1,376m (+53/+70% QoQ/YoY). The bright spot was CASA deposits, +6/+13% QoQ/YoY. 9M15 PATMI of SGD2,943m was slightly ahead of our expectations, lifted by Bank of Ningbo and MI.

No positive surprises

In our 14 Oct report, *The NIM Enigma*, we established that banks could see modest NIM expansion if rates rise. Since OCBC is less sensitive to repricing intervals, large NIMs surprises in 2015/16 look remote. Management guided for NIMs to hover near status quo.

Management indicated that loan growth was minuscule. Since substandard NPAs are also unlikely to soon be reclassified, we find no convincing catalyst that would prompt a re-rating for the stock/sector. Against the street's optimism, we believe OCBC may encounter negative shocks, rather than positive upside triggers.

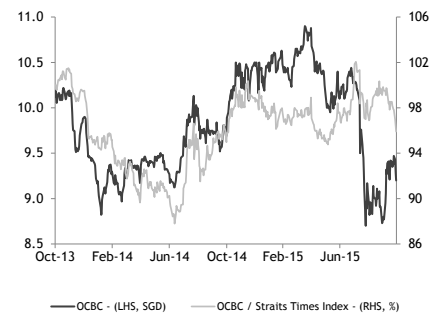
We tweaked net profit by 2.6/2.6/2.1% for FY15/16/17 after factoring increases in provisions and expenses, offset by total income, minority interest and Bank of Ningbo's contributions. Our TP of SGD8.65, close to 1.1x FY15 P/BV. Maintain SELL.

FYE Dec (SGD m)	FY13A	FY14A	FY15E	FY16E	FY17E
Operating income	6,621.4	8,340.1	8,532.5	9,060.4	9,623.3
Pre-provision profit	3,779.4	5,008.3	4,799.2	5,104.8	5,430.7
Core net profit	2,677.4	3,329.6	3,685.5	3,885.5	4,115.1
Core EPS growth (%)	(2.1)	7.2	10.7	5.4	5.9
Core P/E (x)	11.8	11.0	10.0	9.5	8.9
P/BV (x)	1.3	1.2	1.1	1.1	1.0
Net dividend yield (%)	3.7	3.9	3.9	3.9	4.1
Book value (SGD)	6.89	7.44	8.00	8.61	9.27
ROAE (%)	11.5	12.5	12.0	11.7	11.5
ROAA (%)	0.8	0.9	0.9	0.9	1.0

Key Data

52w high/low (SGD)	10.90/8.70
3m avg turnover (USDm)	48.8
Free float (%)	74.2
Issued shares (m)	3,993
Market capitalization	SGD36.7B
Major shareholders:	
-Lee Foundation	19.6%
-Aberdeen Asset Management	6.4%

Share Price Performance



	1 Mth	3 Mth	12 Mth
Absolute(%)	5.4	(10.4)	(5.3)
Relative to index (%)	(3.2)	(3.3)	(0.0)

Maybank vs Market

	Positive	Neutral	Negative
Market Recs	20	5	2
	Maybank Consensus		% +/-
Target Price (SGD)	8.65	10.90	(20.6)
'15 PATMI (SGDm)	3,686	3,816	(3.4)
'16 PATMI (SGDm)	3,886	4,063	(4.4)

Source: FactSet; Maybank

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Figure 1: Quarterly profit and loss summary

FYE Dec (SGD m)	3Q14	2Q15	3Q15	% QoQ	% YoY	Comments
Net interest income	1,246.0	1,282.0	1,317.0	2.7	5.7	NIM declined slightly, down 1bps QoQ and 2bps YoY, squeezed by a lower LDR and weaker income from money-market gapping.
Non-interest income	801.0	939.0	775.0	(17.5)	(3.2)	Weak QoQ due to decline in insurance income, attributed to unrealised mark-to-market losses.
Total income	2,047.0	2,221.0	2,092.0	(5.8)	2.2	
Less: Overhead expenses	(870.0)	(918.0)	(900.0)	(2.0)	3.4	SGD900m (+3% YoY) due to higher staff costs associated with headcount growth. Cost-to-income ratio rose to 43% (2Q15: 41.3%, 3Q14: 42.5%).
Goodwill	(14.0)	(24.0)	(25.0)	4.2	78.6	
Pre-provision profit	1,163.0	1,279.0	1,167.0	(8.8)	0.3	
Less: Provisions	(97.0)	(80.0)	(150.0)	87.5	54.6	Higher provisions recorded this quarter at SGD150m, an increase of 88% QoQ and 55% YoY. Slight uptick of NPL ratio at 0.9% (2Q15: 0.7%, 3Q14: 0.7%). Increase in NPLs largely attributed to classification of few large corporate accounts associated with O&G services sector.
Operating profit	1,066.0	1,199.0	1,017.0	(15.2)	(4.6)	
Associates	14.0	102.0	99.0	(2.9)	n.m	Associates rose largely due to Bank of Ningbo, a 20%-owned associate from 3Q14.
Pretax profit	1,080.0	1,301.0	1,116.0	(14.2)	3.3	
Less: Tax	(184.0)	(191.0)	(181.0)	(5.2)	(1.6)	
<i>Effective tax rate (%)</i>	<i>(12.5)</i>	<i>(14.7)</i>	<i>(16.2)</i>			
Profit after tax	896.0	1,110.0	935.0	(15.8)	4.4	
Minorities	(55.0)	(62.0)	(33.0)	(46.8)	(40.0)	
Core net profit	841.0	1,048.0	902.0	(13.9)	7.3	WHB generated SGD72m PATMI (2Q15: SGD82m, 1Q15: SGD77m)
Add: One-off gains	391.0	-	-	n.a.	n.a.	One-off gain of SGD391m in relation to Bank of Ningbo in 3Q14.
Reported net profit	1,232.0	1,048.0	902.0	(13.9)	(26.8)	

Source: Company, Maybank KE

Figure 2: YTD profit and loss summary

FYE Dec (SGD m)	9M14	9M15	(YoY %)	Comments
Net interest income	3,459.0	3,848.0	11.2	NIM down to 1.65% for 9M15 from 1.69% for 1.64% despite a rise in lending rates for customer loans (9M15: 3.10%, 9M14: 2.91%).
Non-interest income	2,419.0	2,573.0	6.4	Fee and commission income, up 6.4% YoY to SGD2,573m, from growth in wealth management (+9%), loan-related services (+5%) and credit-cards income (+48%). Net trading income, primarily treasury income from customer flows, up 13% YoY. Profit from life insurance declined 32% YoY, attributed to marked-to-market losses from bond and equity investments.
Total income	5,878.0	6,421.0	9.2	
Less: Overhead expenses	(2,336.0)	(2,691.0)	15.2	Across-the-board increases, primarily staff costs, up 15%.
Goodwill	(42.0)	(73.0)	73.8	
Pre-provision profit	3,500.0	3,657.0	4.5	
Less: Provisions	(203.0)	(294.0)	44.8	Provisions increased by 45%, with increases in SP (+25%) and GP (+14%).
Operating profit	3,296.0	3,653.0	2.0	
Associates	48.0	289.0	n.m	Associates rose largely due to Bank of Ningbo, a 20%-owned associate from 3Q14.
Pretax profit	3,344.0	3,653.0	9.2	
Less: Tax	(541.0)	(556.0)	2.8	
<i>Effective tax rate (%)</i>	<i>(14.4)</i>	<i>(15.2)</i>		
Profit after tax	2,803.0	3,096.0	10.5	
Minorities	(176.0)	(153.0)	(13.1)	
Core net profit	2,628.0	2,943.0	12.0	
Add: One-off gains	423.0	-	n.m	9M14 contained: a) One-off gain of SGD32m from partial disposal of GEH's stake in China JV. b) One-off gain of SGD391m from accounting change to recognise fair-value gain on initial 15.3% AFS stake in BON.
Reported net profit	3,051.0	2,943.0	(3.5)	

Source: Company, Maybank KE

Figure 3: Ratio analysis

FYE Dec (%)	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15
Asset quality												
Gross NPA	0.8	0.8	0.7	0.8	0.8	0.7	0.7	0.7	0.6	0.7	0.7	0.9
SP/NPLs	25.9	25.8	21.3	19.9	17.6	18.9	18.4	21.4	25.2	25.4	22.9	17.7
GP/NPLs	115.2	122.8	122.2	109.8	115.9	124.7	129.4	132.1	144.0	139.9	129.5	100.1
GP/net loans	0.94	0.93	0.91	0.91	0.89	0.88	0.89	0.89	0.91	0.92	0.92	0.91
Provision coverage	141.8	149.0	143.9	130.0	134.2	145.0	149.1	154.6	170.6	165.8	152.8	118.2
Tier-1	16.6	16.2	14.9	14.3	14.5	14.4	14.7	13.2	13.8	13.5	14.1	14.5
RWCAR	18.5	18.1	16.8	16.1	16.3	15.6	17.4	15.5	15.9	15.5	16.1	16.6
Margins												
Average lending yields	2.71	2.62	2.60	2.59	2.60	2.66	2.68	2.72	2.74	2.73	2.74	2.69
Average cost of funds	1.09	1.06	1.03	1.02	1.02	1.02	1.04	1.10	1.13	1.17	1.13	1.09
Interest spread	1.62	1.56	1.57	1.57	1.58	1.64	1.64	1.62	1.61	1.56	1.61	1.60
Net interest margin	1.70	1.64	1.64	1.63	1.64	1.70	1.70	1.68	1.67	1.62	1.67	1.66
Profitability												
ROAE - reported	10.9	11.2	9.6	12.8	12.1	14.8	14.6	18.3	10.8	13.0	13.3	11.2
ROAE - ex goodwill charges	11.2	11.4	9.9	13.0	12.4	15.0	14.8	18.5	11.2	13.3	13.6	11.5
ROAE - cash*	11.2	11.4	9.9	13.0	12.4	14.5	14.8	12.6	11.2	13.3	13.6	11.5
ROAA - reported	1.1	1.1	0.9	1.1	1.0	1.2	1.2	1.5	0.9	1.1	1.2	0.9
ROAA - ex goodwill charges	1.1	1.1	0.9	1.1	1.0	1.2	1.3	1.6	0.9	1.2	1.2	1.0
ROAA - cash*	1.1	1.1	0.9	1.1	1.0	1.2	1.3	1.1	0.9	1.2	1.2	1.0
Non-interest inc/op inc*	45.1	42.6	38.7	44.3	39.7	41.4	43.0	39.1	37.4	40.7	42.3	37.0
Fee income/op income*	18.1	19.9	22.1	20.0	19.9	19.0	17.9	19.8	18.8	18.7	19.7	19.5
Cost/income ratio^	43.1	42.3	45.8	38.8	41.7	38.1	38.5	42.5	45.2	41.4	41.3	43.0
Cost/average assets^	0.99	0.89	0.92	0.86	0.87	0.83	0.88	0.94	0.93	0.87	0.91	0.90
SP/average net loans	0.10	0.01	0.03	0.11	0.06	0.05	0.08	0.14	0.14	0.09	0.09	0.12
GP/RWA	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Liquidity												
Loan-deposit ratio	86.2	87.0	89.2	88.4	85.7	87.0	87.2	85.5	84.5	83.0	84.3	83.5
Net loan growth	3.1	3.1	7.0	1.9	4.8	3.3	1.2	15.4	2.4	0.1	0.0	1.2
Customer deposit growth	4.8	2.2	4.4	2.8	8.1	1.7	0.9	17.8	3.5	2.0	(1.6)	2.2

*Excluding one-off items

^Excluding one-off items, goodwill charges and amortisation of intangible assets

Source: Company, Maybank KE

FYE 31 Dec	FY13A	FY14A	FY15E	FY16E	FY17E
Key Metrics					
Core P/E (x)	11.8	11.0	10.0	9.5	8.9
Core FD P/E (x)	11.8	11.0	10.0	9.5	8.9
P/BV (x)	1.3	1.2	1.1	1.1	1.0
P/NTA (x)	1.6	1.5	1.4	1.3	1.2
Net dividend yield (%)	3.7	3.9	3.9	3.9	4.1

INCOME STATEMENT (SGD m)

Interest income	6,174.1	7,606.9	8,781.3	9,560.3	10,584.5
Interest expense	(2,291.2)	(2,870.7)	(3,583.6)	(4,081.7)	(4,820.7)
Net interest income	3,882.8	4,736.1	5,197.6	5,478.5	5,763.8
Net insurance income	756.1	930.1	730.1	766.6	804.9
Net fees and commission	1,355.5	1,494.7	1,676.2	1,826.0	2,000.1
Other income	627.1	1,179.2	928.6	989.2	1,054.5
Total non-interest income	2,738.6	3,604.0	3,334.8	3,581.8	3,859.5
Operating income	6,621.4	8,340.1	8,532.5	9,060.4	9,623.3
Staff costs	(1,715.1)	(2,002.5)	(2,239.3)	(2,360.6)	(2,488.9)
Other operating expenses	(1,126.9)	(1,329.3)	(1,494.0)	(1,595.0)	(1,703.7)
Operating expenses	(2,842.0)	(3,331.8)	(3,733.2)	(3,955.6)	(4,192.6)
Pre-provision profit	3,779.4	5,008.3	4,799.2	5,104.8	5,430.7
Loan impairment allowances	(266.1)	(357.1)	(485.9)	(543.1)	(629.6)
Other allowances	0.0	0.0	0.0	0.0	0.0
Associates & JV income	53.9	111.9	398.0	477.6	549.2
Pretax profit	3,567.3	4,763.2	4,711.4	5,039.3	5,350.3
Income tax	(597.8)	(687.5)	(730.3)	(831.5)	(882.8)
Minorities	(292.1)	(323.9)	(295.6)	(322.3)	(352.4)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	2,677.4	3,751.9	3,685.5	3,885.5	4,115.1
Core net profit	2,677.4	3,329.6	3,685.5	3,885.5	4,115.1

BALANCE SHEET (SGD m)

Cash & deposits with banks	39,572.5	41,220.1	45,754.4	49,414.7	53,367.9
Sec. under resale agreements	2,109.7	1,536.3	1,751.4	1,856.5	1,967.9
Derivatives financial assets	5,194.2	5,919.5	6,215.5	6,650.5	7,182.6
Dealing securities	5,168.0	6,978.8	8,739.3	8,970.0	9,208.8
Available-for-sale securities	26,577.6	27,204.9	27,958.1	30,011.3	32,217.8
Investment securities	8,467.6	11,531.3	11,745.1	11,936.4	12,253.5
Loans & advances	167,854.0	207,534.6	211,062.7	214,228.7	217,442.1
Central bank deposits	19,340.8	25,313.9	22,825.9	23,579.2	24,357.3
Investment in associates/JVs	379.8	2,096.5	2,494.5	2,972.1	3,521.3
Insurance assets	53,404.9	57,286.3	58,432.1	59,892.9	61,689.7
Fixed assets	2,629.4	4,555.9	4,658.5	4,763.5	4,870.9
Intangible assets	3,741.0	5,156.6	5,156.6	5,156.6	5,156.6
Other assets	4,009.0	4,891.3	3,952.4	4,458.2	4,599.0
Total assets	338,448.4	401,226.0	410,746.4	423,890.5	437,835.4
Deposits from customers	196,141.4	245,813.5	253,951.0	262,353.5	271,035.4
Deposits from banks & FIs	21,548.9	20,502.7	18,452.5	18,637.0	18,823.4
Derivatives financial instruments	5,508.7	6,632.0	7,029.9	7,381.4	7,750.5
Subordinated debt	4,412.0	6,359.5	6,359.5	6,359.5	6,359.5
Other securities in issue	23,685.7	23,895.8	24,051.7	24,051.7	24,051.7
Other borrowings	0.0	0.0	0.0	0.0	0.0
Insurance liabilities	53,182.6	57,224.0	58,368.4	59,827.6	61,622.5
Other liabilities	7,285.5	8,008.9	7,784.0	8,059.1	8,347.7
Total liabilities	311,764.8	368,436.4	375,997.0	386,669.9	397,990.7
Share capital	1,720.6	1,996.5	1,996.5	1,996.5	1,996.5
Reserves	21,999.1	27,704.5	29,952.6	32,400.7	34,998.4
Shareholders' funds	23,719.7	29,701.0	31,949.1	34,397.1	36,994.9
Preference shares	0.0	0.0	0.0	0.0	0.0
Minority interest	2,963.9	3,088.6	2,800.3	2,823.5	2,849.8
Total equity	26,683.6	32,789.6	34,749.4	37,220.7	39,844.6
Total liabilities & equity	338,448.4	401,226.0	410,746.4	423,890.5	437,835.4

FYE 31 Dec	FY13A	FY14A	FY15E	FY16E	FY17E
Key Ratios					
Growth (%)					
Net interest income	3.6	22.0	9.7	5.4	5.2
Non-interest income	(35.0)	31.6	(7.5)	7.4	7.8
Operating expenses	3.2	17.2	12.1	6.0	6.0
Pre-provision profit	(27.4)	32.5	(4.2)	6.4	6.4
Core net profit	(2.1)	24.4	10.7	5.4	5.9
Gross loans	17.8	23.7	1.8	1.7	1.7
Customer deposits	18.7	25.3	3.3	3.3	3.3
Total assets	14.4	18.5	2.4	3.2	3.3
Profitability (%)					
Non-int. income/Total income	41.4	43.2	39.1	39.5	40.1
Average lending yields	2.60	2.70	2.79	2.95	3.17
Average cost of funds	1.03	1.07	1.20	1.33	1.53
Net interest margin	1.64	1.68	1.65	1.69	1.73
Cost/income	42.9	39.9	43.8	43.7	43.6
Liquidity (%)					
Loans/customer deposits	85.6	84.4	83.1	81.7	80.2
Asset quality (%)					
Net NPL	0.8	0.6	0.7	0.7	0.7
Gross NPL	0.8	0.6	0.7	0.7	0.7
(SP+GP)/average gross loans	0.2	0.2	0.2	0.3	0.3
Loan loss coverage	134.2	170.6	165.4	176.4	206.0
Capital adequacy (%)					
CET1	14.5	13.8	14.8	15.7	16.7
Tier 1 capital	14.5	13.8	14.8	15.7	16.7
Risk-weighted capital	16.3	15.9	16.7	17.6	18.5
Returns (%)					
ROAE	11.5	12.5	12.0	11.7	11.5
ROAA	0.8	0.9	0.9	0.9	1.0
Shareholders equity/assets	7.0	7.4	7.8	8.1	8.4

Source: Company; Maybank

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