

OCBC (OCBC.SI)

1Q14 Management Briefing Highlights

- **Strong business momentum** — OCBC's above consensus result was on fairly broad-based growth, including insurance, the parent bank and even in geographies such as Indonesia. Management maintains loan guidance of low teens for 2014. For the +6bps qoq 1Q NIM rise to 1.70%, management was less willing to extrapolate this to the full year, but indicated that perhaps half of the improvement might sustain. On fee income wealth management continued to be the major driver. Despite its broader Asean reach, overall asset quality continued to improve, although management cited Malaysia as a relatively more challenging market to make progress.
- **Management briefing highlights: Loan growth** — 1Q14 loans +18%yoy/+3%qoq. The main qoq loan drivers were commerce, personal loans and "other", and by currency mostly overseas (USD, MYR, IDR, other ccys), while SGD book was flat. Growth in non-mortgage consumers was mostly secured lending (also likely driven out of the private bank). Mortgage growth shrank slightly qoq as management noted some refinancing pressure, but guided that the bank has maintained its SG market share.
- **NIMs** — 1Q14 NIMs rose +6bps qoq to 1.7%, driven by 2 components: [a] 3bps was due to improved loan spreads on both the corporate and commercial loan side including some pick-up on trade loan spreads. Even SG mortgage yields are now turning the corner, with yields on new originations roughly the same as the average yield on the back book. [b] 3bps was from better money market rates, for example OCBC China saw a +20bps qoq improvement due to a spike in local rates, as well as some gapping opportunities. Management was hesitant to commit on the sustainability of these higher NIMs, other than to say that underlying recurring business NIMs have improved on better spreads. It was difficult to say whether the higher China related NIMs lift would sustain since market liquidity conditions have eased since the end of the quarter. **(Please turn to page 2)**

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Management Briefing Highlights (contd.)

China trade loans — Group trade loans S\$19.6bn up +84%yoy but flat qoq. China loans S\$29.5bn grew S\$13bn (+73%) yoy but S\$2.3bn (+8%) qoq. Management, guided that of the S\$13bn, around S\$6bn was China trade-related and S\$7bn non-trade (likely corporate) loans, and that 40% of the total China book (c.S\$12bn) was trade loans, likely with a larger RMB portion. The China corporate loans follow OCBC's "onshore-offshore" strategy; OCBC develops relationships with China companies that are expanding into Asia (e.g., Indonesia power plant), using OCBC's strengths in the region (NISP) to make the loans, plus ancillary fee income including cash management. OCBC only works with large corporations that have a clear overseas business. China trade loans focus mainly on financing imports of basic commodities into China such as soya bean. Often billing is done in RMB so there is not a play on FX, but there is on interest margin. Most of OCBC's trade loans are in RMB, as OCBC China has a CNY LDR of just 40% and overall RMB LDR of c.70% including CNH.

Non-II — Key fees driver remains overall wealth management income and life insurance, with continuation of good business momentum. WM driven by both bancassurance and the private bank; Bank of Singapore grew AUM to US\$49bn in 1Q14 for life insurance weighted new premiums grew 12%yoy and NBEV rose 11%yoy.

Asset quality — NPLs continue to improve (NPL ratio 0.7%, 147% coverage) with only Malaysia being a slightly weak spot, where the bank has been gradually reducing its exposure to the steel industry. There was a tiny uptick in (Singapore) mortgage NPLs, which was attributed to a couple of large accounts, one of which has already been rectified since quarter-end. OCBC's mortgage book has 60% LTV and only 6% of total has LTV>80%. Approximately 75% of the mortgage book is owner occupier vs. 25% investment properties, but even for the latter management do not believe that customers are burdened by multiple investment property exposures. OCBC credit costs remain very low at 10bps for 1Q14.

Indonesia — In stark contrast to other mid-cap Indonesia banks. OCBC NISP continued to deliver strong earnings in 1Q14. Net profit rp341bn rose +38%yoy/+12%qoq, as NIMs improved to 4.13% (+13bps qoq), loans +18%yoy/flat qoq at rp64tr and NPL ratio remains at just 0.8%. LDR rose to 100.8% end Mar-14 but mgmt noted that LDR was back to 94% soon after the quarter end. OCBC NISP's business model is more diversified, from historically a smaller mid-market lender to now a universal banking model including corporate and consumer loans, but with mass market commercial continuing to grow. A branch network of 338 has aided deposit growth, although CASA ratio has fallen to 36% from 45% in Sept-13.

Malaysia — Aside asset quality, Malaysia is also a market where OCBC has found it challenging to maintain margins. Although loans grew +18%yoy and +4%qoq (industry approx. +10%yoy), 1Q14 NII grew +8%yoy and +2%qoq, suggesting some NIM pressure (1Q14 NIM 2.16% -16bpsyoy but +4bps qoq).

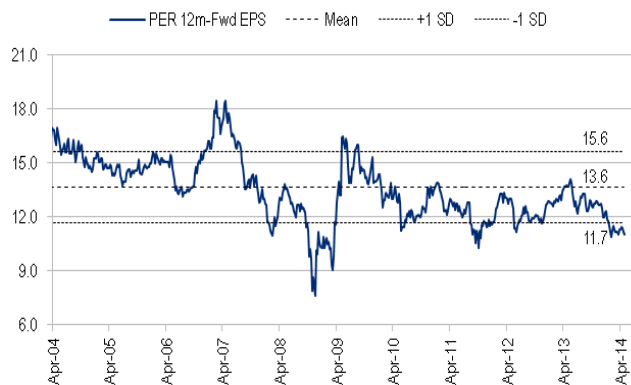
OCBC — Results at a Glance 1Q 2014

Figure 1. Results at a Glance (\$ Millions, Percent)

	1Q2014	1Q2013	YoY %	4Q2013	QoQ %
Net Interest Income	1,037	912	19.2	1,032	1.3
Fee-Based Income	353	316	11.7	341	3.5
Insurance Income	223	215	3.7	205	8.8
Other Non-Interest Income	224	145	54.5	131	71.0
Non Interest Income	800	676	18.3	677	18.2
Operating Income	1,837	1,568	18.8	1,709	10.4
Operating Expenses	-706	-672	5.1	-713	-1.0
Pre-Provision Profit	1,131	916	23.9	996	13.6
Charges for Bad Debts	-41	-21	95.2	-68	-39.7
Operating Profit	1,140	895	27.4	928	22.8
Goodwill	-14	-14	0.0	-14	0.0
Other Non Operating Items	17	13	30.8	5	240.0
Pre-Tax profit	1,143	894	27.9	919	24.4
Tax	-185	-142	30.3	-152	21.7
Minorities	-59	-56	5.4	-52	13.5
Net Profit	899	696	29.2	715	25.7
Cash EPS (annualized)	1.06	0.80	31.7	0.85	25.0
GAAP EPS (annualized)	1.04	0.79	32.3	0.83	25.5
DPS (\$)	0.00	0.00	-	0.00	-
Customer Advances	175,245	148,502	18.0	169,620	3.3
Customer Deposits	199,403	168,818	18.1	195,974	1.7
Non-Performing Loans (NPL)	1,191	1,091	9.2	1,239	-3.9
Loan Loss Reserves (LLR)	1,767	1,663	6.3	1,650	7.1
Non-Performing Assets (NPA)	1,230	1,119	9.9	1,304	-5.7
Total Assets	343,638	308,824	11.3	338,448	1.5
Risk-Weighted Assets	157,078	140,395	11.9	150,325	4.5
Shareholders' Funds	26,043	26,091	-0.2	25,115	3.7
NTA Per Share	5.65	5.79	-2.4	5.38	5.0
Book Value Per Share	6.74	6.90	-2.4	6.47	4.1
Key Ratios (%)	1Q2014	1Q2013	Bps	4Q2013	Bps
ROAA (annualized)	1.05	0.92	13	0.87	19
ROAE (annualized)	15.9	11.9	391	12.9	294
Net Interest Margin (bps)	170	164	6	164	7
Loan Yield - Deposit Cost Spread (bps)	185	194	-9	188	-3
Fee Inc/Operating Income	18.7	19.9	-119	20.0	-125
Non Int Inc/Operating Income	42.4	42.6	-17	39.6	278
Op. Cost/ Operating Income	37.4	42.3	-490	41.7	-431
Provisions bps of loans	10	6	4	17	-7
Loan-to-Deposit Ratio (LDR)	88	88	-8	87	133
NPL/Loan Ratio	0.7	0.7	-6	0.7	-5
LLR/NPL Ratio	148	152	-407	133	1519
Tier-1 Capital Ratio	14.5	16.2	-174	14.6	-6
Total Capital Ratio	15.7	18.2	-252	16.3	-67

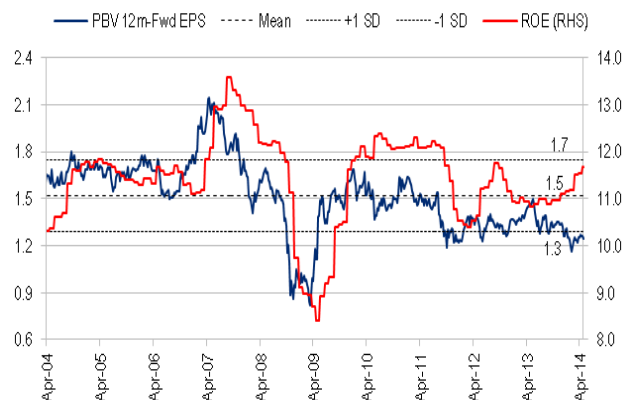
Source: Company, Citi Research

Figure 2. 12M-Forward Consensus PER



Source: Factset, Datastream, Citi Research

Figure 3. 12M-Forward Consensus P/B vs ROE



Source: Factset, Datastream, Citi Research

Appendix A-1

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