

Oversea-Chinese Banking Corp Ltd

(OCBC.SI / OCBC SP)

Rating	OUTPERFORM
Price (07-May-18, S\$)	13.17
Target price (S\$)	(from 14.70) 15.10
Upside/downside (%)	14.7
Mkt cap (S\$/US\$ mn)	55,233/ 41,345
Number of shares (mn)	4,194
Free float (%)	73.3
52-wk price range	13.96-10.30
ADTO-6M (US\$ mn)	55.2

Target price is for 12 months.

Research Analysts

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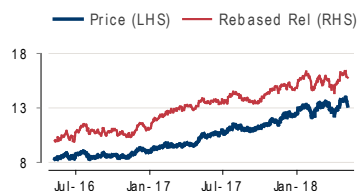
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INCREASE TARGET PRICE

Positive surprises could come from loan growth and credit cost

- 1Q18 slightly below expectations:** OCBC reported 1Q18 core net profit of S\$1,112 mn (+7.5% QoQ, +29.2% YoY). 1Q18 net profit makes up 23.6%/23.0% of our and consensus 1Q18 estimates. Growth would be less pronounced (+14%) if 1Q17 was not restated for new accounting changes. Net profit growth was driven by PPOP increase of 13% YoY/-17% QoQ while provisions declined 93% YoY (-93% QoQ). Key drivers of PPOP +13% YoY: Revenue +10% YoY (Net interest +11%, NOII +8%) and expenses +6% (positive JAWS +4 pp).
- Briefing key takeaways:** (1) Loan growth could potentially surpass high single-digit target, (2) NIM was flat in 1Q 2018 but expected to gradually rise in coming quarters, (3) GE's contribution to OCBC benefitted from the new accounting policy, (4) New NPA formation expected to be in S\$300 mn level (<50 bp of loans) and credit cost is expected to be in the 15-20 bp range.
- Raise profit estimates and price target:** We raise 2018-20 net profit estimates by 1-3% to factor in (1) higher loan growth, (2) better NIM, and (3) lower credit cost. However, this was partially mitigated as we lowered NOII growth estimates. Our 2018-20 ROE estimates are revised up to 12.2-12.3% vs 11.8-12.1% previously. Our price target (based on Gordon Growth model) is raised to S\$15.10 (from S\$14.70).
- Maintain OUTPERFORM.** While OCBC is behind DBS and UOB in our pecking order, we expect the stock to outperform the market given that it is able to deliver strong net profit growth driven by robust loan growth, higher NIM and improvements in credit cost. Stock trades on 1.4x P/BV and 11x 2018 P/E (vs peer P/E average of 12x, average P/BV of 1.4x). The stock has lagged its other peers over the past 3-6 months.

Share price performance



The price relative chart measures performance against the FTSE STRAITS TIMES IDX which closed at 3,532.86 on 07/05/18. On 07/05/18 the spot exchange rate was S\$1.34/US\$1

Performance	1M	3M	12M
Absolute (%)	3.2	7.8	28.9
Relative (%)	0.6	4.1	19.5

Financial and valuation metrics

Year	12/17A	12/18E	12/19E	12/20E
Pre-provision Op profit (S\$ mn)	5,081.0	5,579.5	6,200.2	6,684.8
Pre-tax profit (S\$ mn)	5,320.0	6,049.6	6,597.7	7,043.6
Net attributable profit (S\$ mn)	4,250.0	4,859.4	5,306.0	5,662.7
EPS (CS adj.) (S\$)	1.01	1.16	1.27	1.35
Change from previous EPS (%)	n.a.	0.9	2.0	3.0
Consensus EPS (S\$)	n.a.	1.12	1.23	1.34
EPS growth (%)	18.1	14.3	9.2	6.7
P/E (x)	13.0	11.4	10.4	9.7
Dividend yield (%)	2.8	3.2	3.4	3.8
BVPS (CS adj.) (S\$)	8.97	9.68	10.48	11.31
P/B (x)	1.47	1.36	1.26	1.16
ROE (%)	11.6	12.5	12.6	12.4
ROA (%)	1.0	1.0	1.1	1.1
Tier 1 Ratio (%)	15.0	14.6	15.3	15.9

Source: Company data, Thomson Reuters, Credit Suisse estimates

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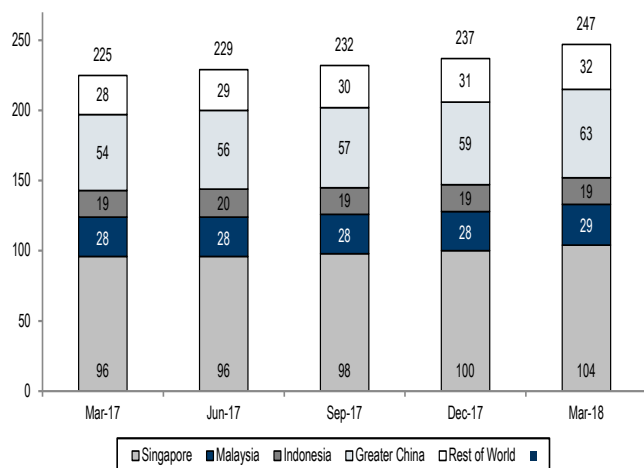
Focus charts and table

Figure 1: Financial snapshot

OCBC (\$\$ mn)	1Q18	4Q17	QoQ	1Q17	YoY	CS FY18E	% of FY18E
Net interest income	1,415	1,424	-0.6%	1,272	11.2%	6,070	23.3%
Non-interest income	918	1,214	-24.4%	850	8.0%	4,417	20.8%
Fee income	536	491	9.2%	481	11.4%	2,109	25.4%
Trading income	94	99	-5.1%	158	-40.5%	560	16.8%
Great Eastern	206	310	-33.5%	84	145.2%	1,130	18.2%
Investment gains	82	314	-73.9%	127	-35.4%	380	21.6%
Total operating income	2,333	2,638	-11.6%	2,122	9.9%	10,487	22.2%
Operating expenses	-1,032	-1,075	-4.0%	-973	6.1%	-4,295	24.0%
Operating profit	1,301	1,563	-16.8%	1,149	13.2%	6,192	21.0%
Loan loss provisions	-12	-178	-93.3%	-168	-92.9%	-596	2.0%
Core net profit	1,112	1,034	7.5%	861	29.2%	4,710	23.6%

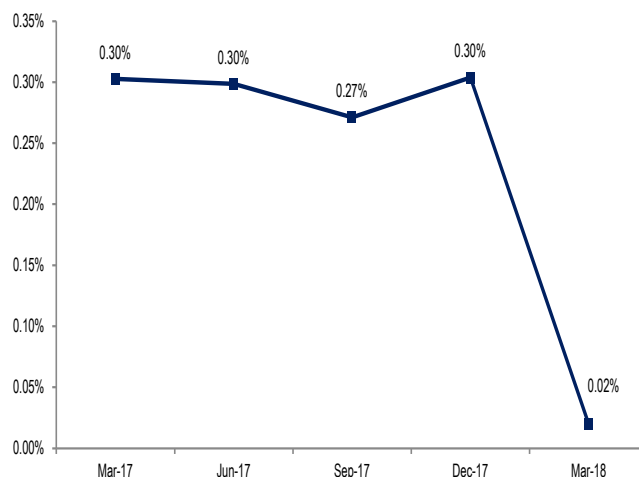
Source: Company data, Credit Suisse estimates

Figure 2: Customer loans by countries (\$\$ bn)



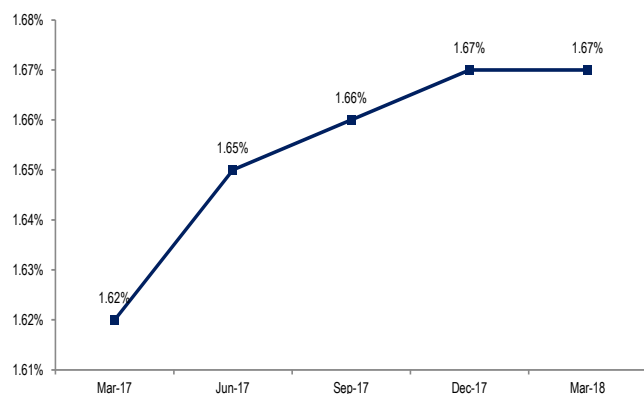
Source: Company data, Credit Suisse estimates

Figure 3: Credit cost improved QoQ (%)



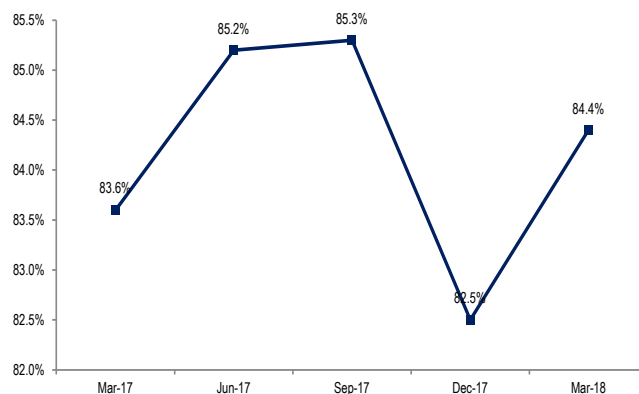
Source: Company data, Credit Suisse estimates

Figure 4: NIMs flat QoQ



Source: Company data, Credit Suisse estimates

Figure 5: LDR increased QoQ



Source: Company data, Credit Suisse estimates

Oversea-Chinese Banking Corp Ltd (OCBC.SI / OCBC SP)

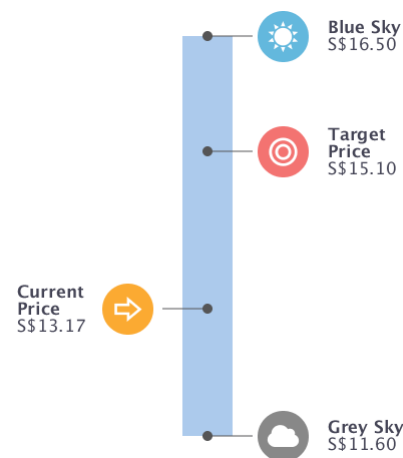
Price (07 May 2018): **S\$13.17**; Rating: **OUTPERFORM**; Target Price: (from **S\$14.70**) **S\$15.10**; Analyst: **Danny Goh**

Earnings Drivers	12/17A	12/18E	12/19E	12/20E
Loan growth	7.79	9.24	7.00	7.00
Net interest margin	1.65	1.69	1.72	1.74
Fee growth	19.23	10.00	8.00	8.00
Cost-income ratio	44.26	43.50	42.27	41.80
Credit cost (% of loans)	0.29	0.17	0.20	0.21
Income Statement (S\$ mn)	12/17A	12/18E	12/19E	12/20E
Interest income	9,118	10,582	11,813	13,060
Interest expense	3,695	4,433	5,126	5,947
Net interest income	5,423	6,149	6,687	7,113
Fee and commission income	1,953	2,148	2,320	2,506
Trading income	515	530	560	600
Total non-interest income	2,665	2,876	3,118	3,344
Total income	8,088	9,025	9,805	10,457
Personal expense	2,471	2,619	2,763	2,915
Other expenses	1,563	1,676	1,777	1,885
Total expenses	4,034	4,295	4,540	4,800
Pre-provision profit	5,081	5,580	6,200	6,685
Loan loss provisions	671	410	528	592
Operating profit	4,410	5,170	5,673	6,092
Other non-operating inc./(exp.)	521	380	400	400
Pre-tax profit	5,320	6,050	6,598	7,044
Taxes	803	907	992	1,063
Net profit before minorities	4,517	5,142	5,606	5,981
Reported net profit	4,250	4,859	5,306	5,663
Net profit (Credit Suisse)	4,250	4,859	5,306	5,663
Balance Sheet (S\$ mn)	12/17A	12/18E	12/19E	12/20E
Gross customer loans	236,794	258,680	276,787	296,163
Risk provisions	2,666	2,209	2,141	2,188
Net customer loans	234,141	256,484	274,660	293,987
Interbank loans	49,377	51,846	54,438	57,160
Investment & securities	52,800	55,725	58,884	62,298
Cash & cash equivalents	19,594	14,204	13,900	13,399
Fixed assets	4,281	4,009	3,753	3,514
Other assets	99,905	104,255	109,206	114,784
Total assets	454,938	481,466	509,889	540,294
Total deposits	291,127	308,520	326,952	346,487
Other liabilities	122,035	128,172	134,842	142,246
Total liabilities	413,162	436,692	461,795	488,733
Shareholders' equity	39,008	42,007	45,326	48,794
Total liabilities & equity	454,938	481,466	509,889	540,294
Asset quality & Capital	12/17A	12/18E	12/19E	12/20E
Asset Quality (%)				
NPL/ gross loans	1.4	1.3	1.1	1.0
B/S loan loss coverage	78.1	67.8	72.0	73.7
Loan/ deposit ratio	82.5	85.3	86.2	87.0
Capital ratios (%)				
Capital adequacy ratio	17.2	16.6	17.1	17.7
Tier 1 ratio	15.0	14.6	15.3	15.9
Equity Tier 1 ratio	13.9	14.6	15.3	15.9
Per share	12/17A	12/18E	12/19E	12/20E
Shares (wtd avg.) (mn)	4,190	4,190	4,190	4,190
EPS (Credit Suisse) (S\$)	1.01	1.16	1.27	1.35
BVPS (S\$)	8.97	9.68	10.48	11.31
Tangible BVPS (S\$)	7.73	8.48	9.29	10.15
DPS (S\$)	0.37	0.42	0.45	0.50
Earnings	12/17A	12/18E	12/19E	12/20E
Growth (%)				
Revenue	11.9	8.3	8.8	6.9
Operating expense	6.5	6.5	5.7	5.7
Pre-provision profit	16.5	9.8	11.1	7.8
Net profit	19.1	14.3	9.2	6.7
Deposit	8.5	6.0	6.0	6.0
Valuation	12/17A	12/18E	12/19E	12/20E
EPS growth (%)	18.1	14.3	9.2	6.7
P/E (x)	13.0	11.4	10.4	9.7
P/B (x)	1.47	1.36	1.26	1.16
P/TB (x)	1.7	1.6	1.4	1.3
Dividend yield (%)	2.8	3.2	3.4	3.8
Profitability & margins (%)	12/17A	12/18E	12/19E	12/20E
ROE stated	11.6	12.5	12.6	12.4
ROE - CS adj.	11.6	12.5	12.6	12.4
ROA - CS adj.	1.0	1.0	1.1	1.1
Gearing (x)	11.8	12.0	11.8	11.5

Source: Company data, Thomson Reuters, Credit Suisse estimates

Company Background
Oversea-Chinese Banking Corporation Limited (the Bank) is a financial services group. The Bank is engaged in the business of banking, life assurance, general insurance, asset management, investment holding, futures and stockbroking.

Blue/Grey Sky Scenario



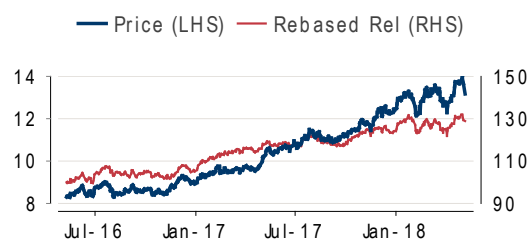
Our Blue Sky Scenario (S\$) 16.50

Our blue sky scenario assumes P/B of 1.7x, with ROE improvements to be driven by pickup in loan growth, NIM expansion, improving asset quality and digitization efforts resulting in lower operating costs.

Our Grey Sky Scenario (S\$) 11.60

Our grey sky scenario assumes P/B of 1.2x, with ROE decline to be due to slowing loan growth, contraction in NIMs and further pressure on asset quality.

Share price performance



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On 07-May-2018 the spot exchange rate was S\$1.34/US\$1

Highlights from analyst briefing

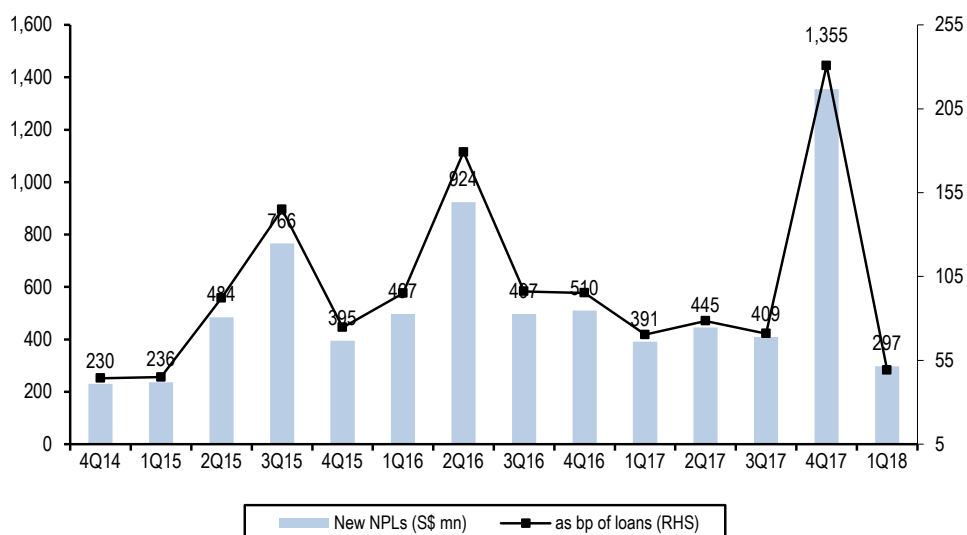
Guidance for FY18

- **Loan growth** – Management is targeting high single-digit loan growth in 2018 but there is a possibility that the group could surpass this target.
- **NIMs** – While NIM was flat in 1Q 2018, management expects NIM to gradually rise in the coming quarters. Management had earlier said in the previous results briefing that they believe NIM can reach 1.70% in 2018 (from 1.67% in 4Q 2017). Management indicated that there is scope to raise LDR to 87-88% (vs 84% currently), which should help NIM.
- **Asset quality** – Management expects credit cost to be in 15-20 bp range.
- **Dividend payout** – No change to management's 40-50% dividend payout policy as long as CET 1 ratio is in the 12.5-13.5% range.

Asset quality improved

Management expects new NPA formation to remain in the S\$300 mn range (<50 bp of loans) given that oil and gas portfolio has stabilised. It was indicated by management that about half of the new NPL formation is linked to the mortgage loan book but the same amount is typically written back through recoveries. There was a slight improvement in NPL for the oil and gas segment through S\$30 mn repayment but overall broad-based recovery is not noticeably seen yet. Management does not think the credit cost of 2 bp in 1Q 2018 is sustainable and believes that credit cost should be in the 15-20 bp range.

Figure 6: New NPA formation (S\$ mn)



Source: Company data, Credit Suisse estimates

NIM should gradually improve

Management attributes the flat NIM QoQ to (1) increase in mix of trade loans (grew 15% YoY vs overall group's 10%) where margins are narrower than the group average, (2) NIM compression in Indonesia due to pressure from authorities to reduce lending rates (note that all markets saw NIM expansion except Indonesia). Nevertheless, management expects NIM to gradually trend upwards in coming quarters. Also there is scope to increase loan-to-deposit ratio from 84% towards a level deemed to be more optimal by management at 88%.

NOII impacted by change in accounting policy affecting GE

NOII in 1Q 2018 appears to have grown 8% YoY as 1Q 2017 was restated to take into consideration the adoption of SFRS(I) 1 that materially affects GE's profit. If we were to compare the NOII in 1Q 2018 to the unadjusted 1Q 2017 number, the group's NOII would be lower by 6% YoY. This is largely because the adoption of the new accounting rule results in a S\$127 mn decline (-13%) in 1Q 2017 NOII mainly due to GE. The key changes in the accounting treatment for GE are:

- **Operating profit:** There is no material change here.
- **Non-operating profit:** Bonds (<20 year tenure) and equity used to be marked-to-market through profit and loss statement under the old accounting policy. However, under the new accounting regime, the movements in equity portfolio value would be through balance sheet adjustments (hence no P+L impact), and similarly for bonds as well. However, bond disposal gains can be booked through P+L under the new regime. Therefore, the non-operating profit of GE becomes more stable from 2018 onwards.
- **Profit from shareholders' funds:** In the past, all market value changes are not reflected in P+L and only through reserves on the balance sheet. However, under the new accounting regime, GE management has opted for 30% of the equity portfolio to FVTPL (i.e., marked-to-market gains/losses impact P+L).

As such, GE's profit contribution should be more stable going forward. The reason 1Q 2017 net profit would be lower under the new accounting regime is that the bulk of marked-to-market gains during that period would no longer be reflected in P+L. However, 1Q 2018 net profit is higher under the new accounting regime as bond and equity markets were weak. As such, some S\$249 mn marked-to-market losses at GE flowed through the reserves but did not affect the P+L. We understand that of the S\$249 mn loss, more than S\$50mn would be attributable to shareholders and would have reduced OCBC's profitability under the old accounting regime.

Loan growth could surpass management's target

Loan growth of 10% YoY and 4% QoQ (12% YoY, +5% QoQ in constant currency terms) is ahead of management's high single-digit growth target. Management ascribes the strong growth to efforts to grow trade loans (loans +15% YoY), Wing Hang Bank (loans +16% YoY), building and construction loans and credit demand generated by BOS' leveraged products. Given the strong momentum, management thinks its loan growth target can be surpassed (i.e., >10%) barring any escalation in global trade tensions.

Earnings estimates and target price raised

We raise 2018-20 net profit estimates by 1-3% to factor in (1) higher loan growth (9%/7%/7% for 2018-20 vs 7%/6%/6% before), (2) better NIMs (1.69-1.74% vs 1.68-1.72% previously), (3) lower credit cost (17-21 bp vs 24-26 bp previously). However, this is partially mitigated as we lower NOII growth estimates (-3% vs +5% previously). We move up our dividend payout assumptions to 36-38% (from 34-35%). Our 2018-20 ROE estimates are revised up to 12.2-12.3% vs 11.8-12.1% previously). Our price target (based on Gordon Growth model) is raised to S\$15.10 (from S\$14.70).

Figure 7: Estimate changes

	New estimates			Old estimates			% diff		
	2018E	2019E	2020E	2018E	2019E	2020E	2018E	2019E	2020E
Net interest income	6,149	6,687	7,113	6,070	6,529	6,904	1.3	2.4	3.0
Fee income	2,148	2,320	2,506	2,109	2,257	2,415	1.9	2.8	3.8
Trading income	530	560	600	560	610	650	-5.4	-8.2	-7.7
Provisions	410	528	592	596	660	726	-31.2	-20.1	-18.4
bp of loans	17	20	21	24	25	26			
Core Net profit	4,859	5,306	5,663	4,814	5,205	5,498	0.9	2.0	3.0
Core EPS (S\$)	1.16	1.27	1.35	1.15	1.24	1.31	0.9	2.0	3.0
Net interest margin (%)	1.69	1.72	1.74	1.68	1.71	1.72	0.01	0.01	0.01
Loan growth (%)	9.2	7.0	7.0	7.2	6.0	6.0			
Reported ROE (%)	12.2	12.3	12.2	12.1	12.1	11.8			

Source: Company data, Credit Suisse estimates

Figure 8: Target price revision

	New	Old
Cost of equity (%)	9.0%	9.0%
Growth (%)	3.0%	3.0%
Sustainable ROE (%)	12.3	12.1
Theoretical P/BV (x)	1.6	1.5
BV/sh (S\$)	9.7	9.7
Price target (S\$)	15.1	14.7

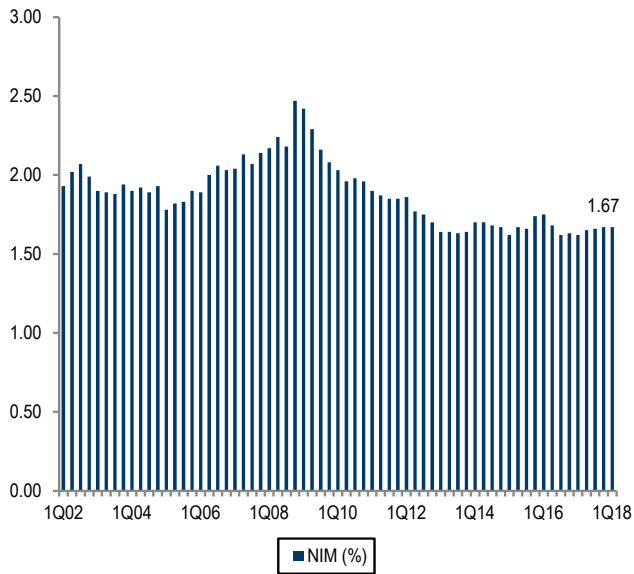
Source: Company data, Credit Suisse estimates

Review of results

- **1Q18 slightly below expectations:** OCBC reported 1Q18 core net profit of S\$1.1 bn (+7.5% QoQ, +29.2% YoY). 1Q18 net profit makes up 23.6% / 23.0% of CS and consensus 1Q18 estimates. Growth would be less pronounced (+14%) if 1Q17 was not restated for new accounting changes. Growth driven by PPOP increase by 13% YoY/-17% QoQ while provisions declined 93% YoY (-93% QoQ). Key drivers of PPOP +13% YoY: Revenue +10% YoY (Net interest +11%, NOII +8%) and expenses +6% (positive JAWS +4 pp).
- **Positive:** (1) Robust loan growth, (2) asset quality stable with improvement in credit cost, (3) strong fee income, (4) improvement in CIR.
- **Negative:** (1) Weaker trading and investment income, (2) NIM flat QoQ.
- **Loan growth:** 3.9% QoQ / 9.7% YoY (In constant currency: 5% QoQ / 12% YoY). Geographically, Greater China (+6.2% QoQ, +16% YoY) was the fastest growing market. Deposits +2.4% QoQ / +6.6% YoY, and Group LDR increased to 84.4% (82.5% in 4Q17). By industry, growth was driven mainly by Financial Institutions (+9.9% QoQ / +25.2% YoY), General Commerce (+4.1% QoQ / +14.5% YoY) and Housing Loans (+0.8% QoQ / + 8.4% YoY).
- **Margins:** 1Q18 NIM at 1.67% (flat QoQ /+5 bp YoY), as higher asset yield (+0.12% QoQ / +0.26% YoY) was offset by higher cost of funding (+0.12% QoQ / 0.22% YoY). Management guidance is +5 bp in 2018.
- **Loan loss provisions:** S\$12 mn = 2 bp of loans with adoption of SFRS 9 (vs 2017 av = 29 bp, 1Q 2017 = 30 bp). New NPA formation reduced to S\$297 mn (48 bp of loans) from S\$1,355 mn (233 bp of loans). Overall, NPA coverage 78% vs 77% in 4Q17. NPL ratio improved to 1.4% (1.5% in 4Q17).
- **Fee income:** S\$536 mn, +9.2% QoQ / +11.4% YoY driven mainly by higher Wealth Management fees (+22% YoY).
- **Insurance income:** S\$206 mn, -33.5% QoQ / +145.2% YoY. Great Eastern's 1Q18 net profit contribution S\$123 mn (+80% YoY), 1Q18 Total Weighted New Sales (TWNS) of S\$231mn was down -51% QoQ / -17.5% YoY as 1Q17 saw comparatively stronger bancassurance. 1Q18 New Business Embedded Value (NBEV) was down -10% YoY to S\$101 mn mainly due to weaker performance in Malaysia.
- **Trading income:** S\$94 mn, -5.1% QoQ / -40.5% YoY. Investment gains of S\$82 mn (vs S\$314 mn in 4Q17 vs S\$127 mn in 1Q17).
- **Operating expenses:** S\$1,032 mn, -4.0% QoQ / +6.1% YoY. CIR improved to 44.2% (vs 45.9% in 1Q17, 2017 av = 41.9%) vs management guidance of 40-45%.
- **CET 1:** CET1 of 13.1% (4Q17 13.1%). RWA S\$198.8 bn (+3.0 %QoQ / -4.1% YoY).
- **ROE:** 1Q18 annualised ROE of 11.8% (vs 11.2% 4Q17) vs street estimate of 12.0% (CS estimate 12.1%).

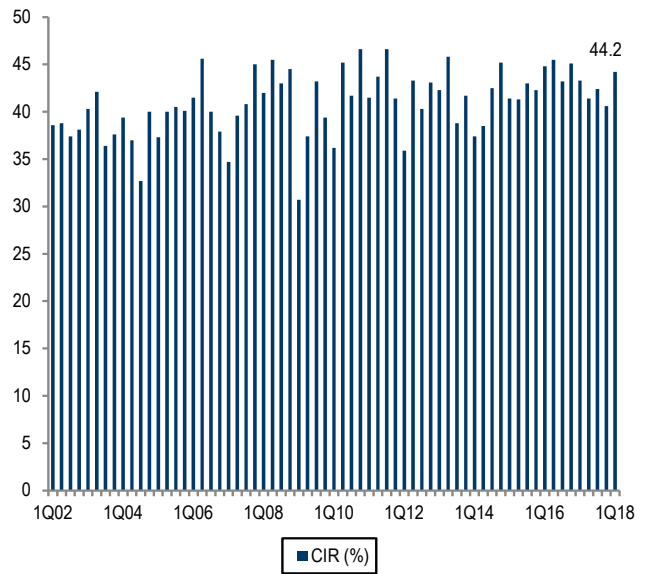
Other charts

Figure 9: NIM (%)



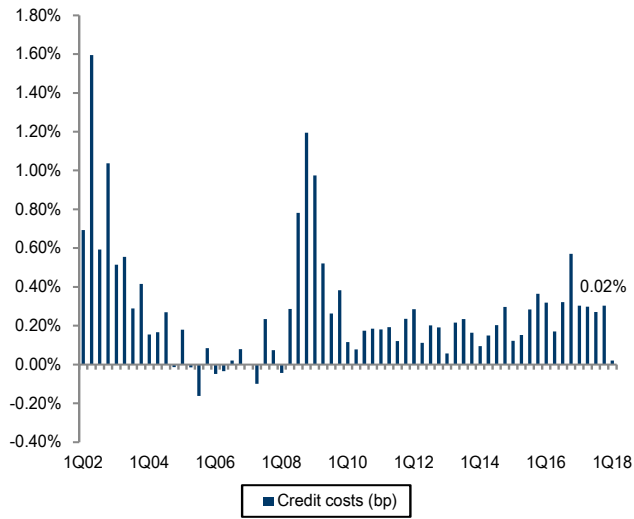
Source: Company data, Credit Suisse estimates

Figure 10: Cost-income ratio (%)



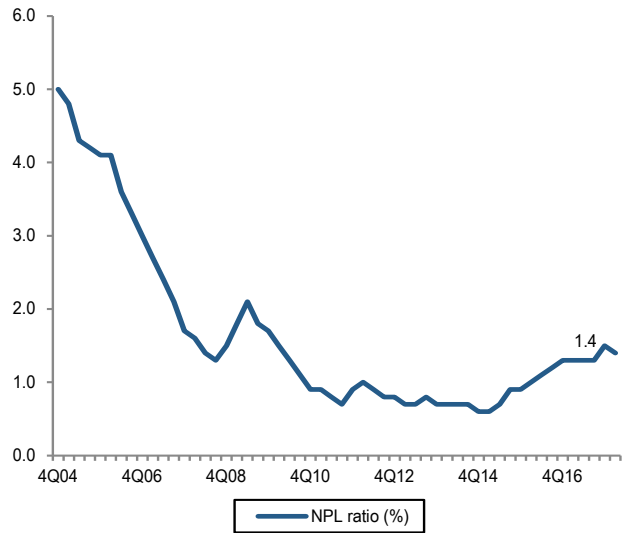
Source: Company data, Credit Suisse estimates

Figure 11: Credit costs as % of loans



Source: Company data, Credit Suisse estimates

Figure 12: NPL ratio (%)



Source: Company data, Credit Suisse estimates

Companies Mentioned (Price as of 07-May-2018)

DBS Group Holdings Ltd (DBSM.SI, S\$28.97)
Great Eastern Holdings (GELA.SI, S\$30.5)
Oversea-Chinese Banking Corp Ltd (OCBC.SI, S\$13.17, OUTPERFORM, TP S\$15.1)
United Overseas Bank Ltd (UOBH.SI, S\$29.29)

Disclosure Appendix

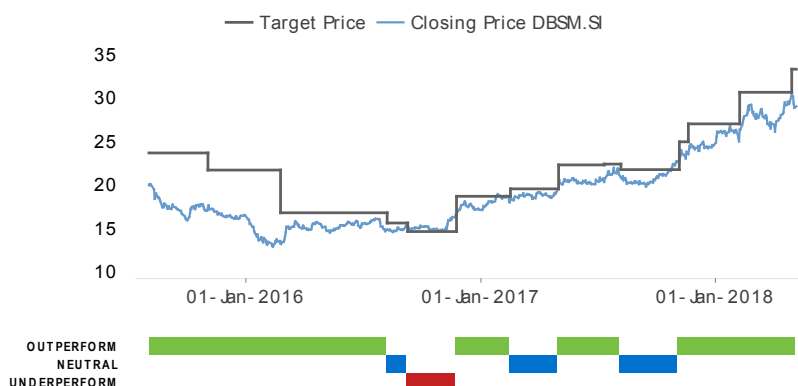
Analyst Certification

Danny Goh and Dawei Lee each certify, with respect to the companies or securities that the individual analyzes, that (1) the views expressed in this report accurately reflect his or her personal views about all of the subject companies and securities and (2) no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

3-Year Price and Rating History for DBS Group Holdings Ltd (DBSM.SI)

DBSM.SI	Closing Price	Target Price	
Date	(S\$)	(S\$)	Rating
03-Aug-15	19.89	23.61	O
03-Nov-15	17.31	21.64	
24-Feb-16	13.18	16.72	
27-Apr-16	15.35		*
05-May-16	14.76	16.72	O
27-Jul-16	15.99		*
08-Aug-16	14.79	15.54	N
09-Sep-16	15.19	14.56	U
24-Nov-16	16.53	18.62	O
16-Feb-17	18.24	19.48	N
02-May-17	19.54	22.23	O
12-Jul-17	20.26	22.33	
07-Aug-17	20.80	21.69	N
06-Nov-17	22.42	24.89	O
20-Nov-17	23.47	26.95	
08-Feb-18	26.27	30.59	
30-Apr-18	30.34	33.25	

* Asterisk signifies initiation or assumption of coverage.



3-Year Price and Rating History for Great Eastern Holdings (GELA.SI)

GELA.SI	Closing Price	Target Price	
Date	(S\$)	(S\$)	Rating
28-Jul-15	23.37	30.83	O
15-Apr-16	22.36		NR

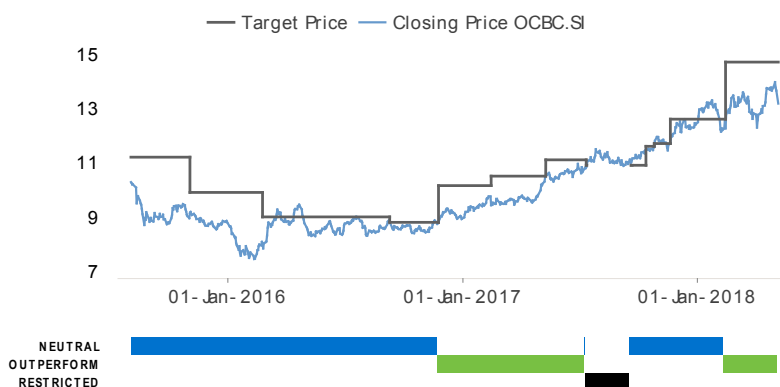
* Asterisk signifies initiation or assumption of coverage.



3-Year Price and Rating History for Oversea-Chinese Banking Corp Ltd (OCBC.SI)

OCBC.SI	Closing Price	Target Price	
Date	(\$)	(\$)	Rating
03-Aug-15	10.28	11.20	N
03-Nov-15	9.14	9.90	
24-Feb-16	8.02	9.00	
27-Apr-16	8.99		*
29-Apr-16	8.77	9.00	N
27-Jul-16	8.85		*
11-Aug-16	8.46	9.00	N
09-Sep-16	8.81	8.80	
24-Nov-16	8.78	10.15	O
14-Feb-17	9.43	10.50	
10-May-17	10.46	11.10	
12-Jul-17	10.83	10.90	N
13-Jul-17	10.91		R
20-Sep-17	11.01	10.90	N
13-Oct-17	11.48	11.60	
26-Oct-17	11.57	11.70	
20-Nov-17	11.71	12.60	
14-Feb-18	12.26	14.70	O

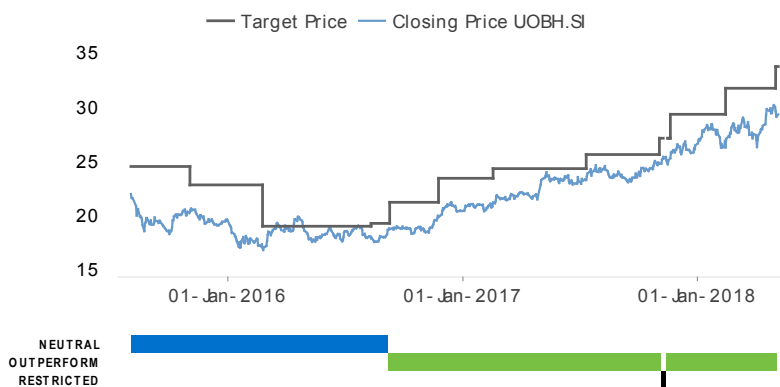
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3-Year Price and Rating History for United Overseas Bank Ltd (UOBH.SI)

UOBH.SI	Closing Price	Target Price	
Date	(\$)	(\$)	Rating
03-Aug-15	21.96	24.50	N
03-Nov-15	20.33	22.80	
24-Feb-16	17.01	19.00	
27-Apr-16	18.88		*
05-May-16	18.10	19.00	N
27-Jul-16	18.94		*
11-Aug-16	17.87	19.26	N
09-Sep-16	18.73	21.20	O
24-Nov-16	19.90	23.41	
17-Feb-17	21.18	24.30	
12-Jul-17	23.25	25.60	
03-Nov-17	24.77	27.10	
09-Nov-17	25.38		R
16-Nov-17	24.88	27.10	O
20-Nov-17	25.26	29.30	
14-Feb-18	26.24	31.70	
03-May-18	29.58	33.70	

* Asterisk signifies initiation or assumption of coverage.



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Outperform (O) : The stock's total return is expected to outperform the relevant benchmark* over the next 12 months.

Neutral (N) : The stock's total return is expected to be in line with the relevant benchmark* over the next 12 months.

Underperform (U) : The stock's total return is expected to underperform the relevant benchmark* over the next 12 months.

*Relevant benchmark by region: As of 10th December 2012, Japanese ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. As of 2nd October 2012, U.S. and Canadian as well as European ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. For Latin American and Asia stocks (excluding Japan and Australia), ratings are based on a stock's total return relative to the average total return of the relevant country or regional benchmark (India - S&P BSE Sensex Index); prior to 2nd October 2012 U.S. and Canadian ratings were based on (1) a stock's absolute total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within an analyst's coverage universe. For Australian and New Zealand stocks, the expected total return (ETR) calculation includes 12-month rolling dividend yield. An Outperform rating is assigned where an ETR is greater than or equal to 7.5%; Underperform where an ETR less than or equal to 5%. A Neutral may be assigned where the ETR is between -5% and 15%. The overlapping rating range allows analysts to assign a rating that puts ETR in the context of associated risks. Prior to 18 May 2015, ETR ranges for Outperform and Underperform ratings did not overlap with Neutral thresholds between 15% and 7.5%, which was in operation from 7 July 2011.

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Restricted	2%	

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Target Price and Rating

Valuation Methodology and Risks: (12 months) for Oversea-Chinese Banking Corp Ltd (OCBC.SI)

Method: Our 12-month target price of S\$15.1 for Oversea-Chinese Banking Corporation (OCBC) is based on a 1.6x 2018E pro-forma P/B (price-to-book). We use medium-term sustainable ROE (return on equity) of 12.3%, cost of equity (COE) of 9% and terminal growth (g) of 3%. We have an OUTPERFORM rating on OCBC given the positive loan growth outlook, higher NIM and credit cost improvements.

Risk: Apart from the general economic performance in OCBC's key markets of Singapore, Malaysia and Indonesia, the risks to our S\$15.1 target price and OUTPERFORM rating include: (1) a slowdown in loan growth or further credit quality deterioration; (2) steepness of the yield curve, which affects profits in insurance subsidiary, Great Eastern Holdings, (3) slower-than-expected US rate hikes

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This research report is authored by:

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