

Buying Shares of DBS OCBC and UOB Banks in 2018

Warren Buffett stated the following:

Intrinsic value is the discounted value of the cash that can be taken out of a business during its remaining life. [p 224, *The essays of Warren Buffett*, 3rd edition]

Calculations of intrinsic value are necessarily imprecise and often seriously wrong. The more uncertain the future of a business, the more possibility there is that the calculation will be wildly off-base. [p 228 *The essays of Warren Buffett*, 3rd edition]

Intrinsic value is an estimate rather than a precise figure, and it is additionally an estimate that must be changed if interest rates move or forecasts of future cash flows are revised. Two people looking at the same set of facts, moreover---and this would apply even to **Charlie and me**---will almost inevitably come up with at least slightly different intrinsic value figures. [p 224 *The essays of Warren Buffett*, 3rd edition]

Buffett also gave shareholders an easy-to-understand tutorial on how a company's intrinsic value could exceed its book value by the magic of economic goodwill. [*The Warren Buffett Way* 3rd Edition]

That is: Intrinsic Value = Book Value + Economic Goodwill
= [1 + x] Book Value

Phillip Securities has tabulated that the Average Market Price/Book Value¹ from March 2002 to Dec 2015 of:

DBS = 1.30
OCBC = 1.56
UOB = 1.52

In the short-term the market is a voting machine and in the long-term, it is a weighting machine. **This means that in the long-term, the Average Market Price could be in line with the Intrinsic Value.**

So, we may conveniently assume that the:

Intrinsic Value of DBS = Average Market Price of DBS = 1.30 Book Value of DBS
Intrinsic Value of OCBC = Average Market Price of OCBC = 1.56 Book Value of OCBC
Intrinsic Value of UOB = Average Market Price of UOB = 1.52 Book Value of UOB

Purchases of Berkshire that **investors make at a price modestly above the level at which the company would repurchase its shares**, however, should produce gains within a reasonable period of time. **Berkshire's directors will only authorize repurchases at a price they believe to be well below intrinsic value.** [2014 annual report]

But in **September 2011**, Buffett announced that Berkshire would **repurchase its shares at a price of up to 110% of Book Value**. [p 185, *The essays of Warren Buffett*, 3rd edition]

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Berkshire, says Buffett, would likely **buy a lot of stock if the price falls below 1.2 times book value, but it won't "prop up" the price**. Buffett: Anytime you can buy stock for less than its worth it benefits the shareholders, but it has to be by a large margin.

[<http://www.cnbc.com/2016/04/30/warren-buffett-in-omaha-for-berkshires-annual-meeting.html>]

However, to provide a **cushion** against mistakes, they will not actually buy an asset without at **least a 25 percent discount in intrinsic value** (this discount is their margin of safety). [p. 154 "*Charlie Munger---The Complete Investor*"]

Whitney Tilson, a hedge fund manager, advised that to have better Margin of Safety the market price to pay for a company should be **50% discount in the Intrinsic Value**.

[https://www.youtube.com/watch?v=2-nf0_voeQ4]

Based on the above **assumptions**, the calculations for the market prices at which to purchase the DBS, OCBC and UOB shares for 2018 are tabulated below:

DBS Intrinsic Value (IV) = 1.30 Book Value (BV)				
Repurchase at Price Well below IV	Investors to Buy modestly above the well below IV at 10% more say	Investors to Purchase at Market Price with BV = \$18.42 [as at 11/10/18]	Investors to Buy modestly above the well below IV at 15% more say	Investors to Purchase at Market Price with BV = \$18.42
80%IV = 1.04BV	1.14BV	\$21.00	1.20BV	\$22.10
75% IV = 0.98BV	1.08BV	19.89	1.13	20.81
70% IV = 0.91BV	1.00BV	18.42	1.05	19.34
65% IV = 0.85BV	0.94BV	17.31	0.98	18.05
60% IV = 0.78BV	0.86BV	15.84	0.90	15.58
55% IV = 0.72BV	0.79BV	14.55	0.83	15.39
50% IV = 0.65BV	0.72BV	13.26	0.75	13.81

OCBC Intrinsic Value (IV) = 1.56 Book Value (BV)				
Repurchase at Price Well below IV	Investors to Buy modestly above the well below IV at 10% more say	Investors to Purchase at Market Price with BV = \$9.43	Investors Buy modestly above the well below IV at 15% more say	Investors to Purchase at Market Price with BV = = \$9.43
		[as at 20/10/18]		
80% IV = 1.25BV	1.38BV	\$13.01	1.44BV	\$13.58
75% IV = 1.17BV	1.29BV	\$12.16	1.35	12.73
70% IV = 1.09BV	1.20BV	\$11.31	1.25	11.79
65% IV = 1.01BV	1.11BV	\$10.47	1.16	10.94
60% IV = 0.94BV	1.03BV	\$9.71	1.08	10.18
55% IV = 0.86BV	0.95BV	\$8.96	0.99	9.34
50% IV = 0.78BV	0.86BV	\$8.12	0.90	8.49
UOB Intrinsic Value (IV) = 1.52 Book Value (BV)				
Repurchase at Price Well below IV	Investors to Buy modestly above the well below IV at 10% more say	Investors to Purchase at Market Price with BV = \$22.55	Investors to Buy modestly above the well below IV at 15% more say	Investors to Purchase at Market Price with BV = \$22.55
		[as at 20/10/18]		
80% IV = 1.22BV	1.34BV	\$30.22	1.40BV	\$31.57
75% IV = 1.14BV	1.25BV	\$28.19	1.31	29.54
70% IV = 1.06BV	1.17BV	\$26.38	1.22	27.57
65% IV = 0.99BV	1.09BV	\$24.58	1.14	25.71
60% IV = 0.91BV	1.00BV	\$22.55	1.05	23.68
55% IV = 0.84BV	0.92BV	\$20.77	0.97	21.87
50% IV = 0.76BV	0.84BV	\$18.94	0.87	19.62

The more one can buy shares of great companies at **prices materially below the Book Value**, the greater will be the margin of safety one will enjoy.

For ease of remembrance, **maybe one should aim for between current BV of 0.75 to 1.20. The lower the BV one pays, the more Margin of Safety one gets.**

Note

1. Price to Book Value ratio valuation by Phillips Securities from 2002 to 2015.

There are 3 bands: pink is p/b of 3x over the period, blue is p/b of 2x over the period and yellow is p/b of 1x over the period and white shows the actual price over the period.



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Price Ratio Bands/Valuation

Oversea-Chinese Banking Corp Ltd

OCBC SP

Settings		Price (SGD)		Price/Book	
Band Metric	Price/Book	Current	8.03	Current	1 High 2.09
Range From	03/29/2002	Average	7.50	Estimate	1 Low 0.99
To	12/31/2015	High	10.68	Change	0.21 Average 1.56
Periodicity	Monthly	Low	3.56	Book Value per Share (SGD)	
Bands Avg	1	52Wk High	10.92	Current	7.46 Est High 8.50
Band Width	1	52Wk Low	8.02	Estimate	8.02 Est Low 7.19



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Price Ratio Bands/Valuation

DBS Group Holdings Ltd

DBS SP

Settings		Price (SGD)		Price/Book	
Band Metric	Price/Book	Current	14.81	Current	0.94
Range From	03/29/2002	Average	14.50	Estimate	0.92
To	12/31/2015	High	21.09	Change	-2.47
Periodicity	Monthly	Low	7.50	Book Value per Share (SGD)	
Bands Avg	1	52Wk High	21.50	Current	15.19
Band Width	1	52Wk Low	14.76	Estimate	16.08
				High	1.87
				Low	0.60
				Average	1.30
				Est High	16.51
				Est Low	15.57



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