

21 October 2024

Financial Services | Banks

OCBC Bank (OCBC SP)

Neutral (Maintained)

Watching Out For Clues On 2025 Outlook

Target Price (Return): SGD15.70 (1.9%)
 Price (Market Cap): SGD15.40 (USD52,816m)
 ESG score: 3.2 (out of 4)
 Avg Daily Turnover (SGD/USD) 89.9m/68.6m

- **Stay NEUTRAL with SGD15.70 TP, 2% upside and c.6% FY25F yield.** We recently met OCBC Bank for an update. We expect 3Q24 PBT to ease by low- to mid-single digit sequentially on softer operating income but YoY, we estimate a low- to mid-single digit growth thanks to non-IL. Despite the potentially weaker earnings QoQ, we think investors will likely be looking ahead for clues as to how 2025 is expected to shape up. OCBC's growth prospects may not excite but yields are very decent, in our view.
- **NIM compression to dampen NII.** We gather that the 3Q trends for NII drivers should remain consistent with 1H and/or guidance. Recall that 1H24 loan growth was 2% YoY while NIM of 2.23% was slightly ahead of the guided "low-end" of 2.20-2.25% range. Trade and currency remain headwinds to loan growth but mortgage growth has been stable. Also, we understand that despite the recent US Federal Funds Rate (FFR) cut, OCBC has not seen a meaningful pickup yet in mortgage refinancing activities – likely as borrowers hold off and await further cuts. On NIM, we expect further NIM compression due to ongoing efforts to protect NII. Recall that in the 2Q24 results briefing, OCBC guided for rates sensitivity of SGD4m impact/bp change vs 1Q24: SGD5-6m and SGD6-7m in 4Q23.
- **Non-IL – Can all cylinders keep firing?** 1H24 non-IL rose 15% YoY on broad base growth across the board – fees, trading, and insurance income. We think fees could stay healthy on wealth management opportunities, leaving insurance and trading income potentially being key areas that could impact overall non-IL trend. 1H24 insurance income was up 17% YoY while trading income jumped 28% YoY to a record high. These may be a challenge to repeat in 2H.
- **No loan impairment reversals for now, despite high LLC.** Asset quality was benign in 2Q24 with gross NPL down 7% QoQ and 11% YoY due to lower new non-performing asset (NPA) formation and higher net recoveries, upgrades, and writeoffs. Consequently, LLC improved to 138% from 131% in 1Q24 (2Q23: 117%) while 1H24 credit cost of 15bps was trending below the 20-25bps guidance. Asset quality remains under control and, hence, we would not be surprised if 9M24 credit cost continues to track below guidance. At this stage, we gather that OCBC intends to hang on to its provision buffers.
- **Basel III reforms kicks off.** Singapore banks are set to report capital ratios under the Basel III reforms regime this quarter. During the transitional period, OCBC had guided for an initial uplift of 2ppt but this will erode over the phase in period as the output floor rises. That said, its CET-1 ratio was expected to remain above 14% (2Q24: 15.5%) upon full implementation.
- **Earnings forecasts and TP retained.** Our TP of SGD15.70 is based on an intrinsic value with a GGM-derived P/BV of 1.13x, and a 2% ESG premium applied.

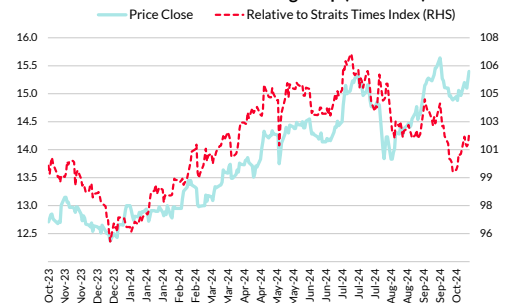
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	18.5	0.4	1.9	12.3	18.9
Relative	6.2	(0.9)	(3.0)	(1.9)	2.8
52-wk Price low/high (SGD)	12.4 – 15.6				

Oversea-Chinese Banking Corp (OCBC SP)



Source: Bloomberg

Overall ESG Score: 3.2 (out of 4)

E: EXCELLENT

As a signatory to the NZBA, OCBC is committed to aligning lending and investment portfolios with net-zero emissions by 2050. It also aims to build a sustainable finance portfolio of SGD50bn by 2025 (SGD56bn committed as at end-2023) and had achieved carbon neutrality on operational emissions for 2022.

S: GOOD

OCBC aims to maintain a balanced gender mix across its workforce, with 42% of women in leadership positions by 2025. In 2022, women accounted for 57% of total employees, as well as 40% of leadership positions, and 44% of the board of directors. OCBC is active in talent management, and places the health, safety and wellbeing of staff at the top of its priorities as an employer.

G: EXCELLENT

70% of its board members are independent directors. OCBC is proactive in its approach to ensure resilience against risks of cyber-attacks, data breaches, fraud and money laundering. That said, there is a much publicised ongoing money laundering case in Singapore, where OCBC is one of several banks mentioned in relation to the case.

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Reported net profit (SGDm)	5,526	7,021	7,538	7,502	7,604
Net profit growth (%)	13.8	27.1	7.4	(0.5)	1.4
Recurring net profit (SGDm)	5,526	7,021	7,538	7,502	7,604
Recurring EPS (SGD)	1.24	1.57	1.68	1.68	1.70
BVPS (SGD)	11.37	12.05	12.84	13.62	14.41
DPS (SGD)	0.68	0.82	0.89	0.89	0.90
Recurring P/E (x)	12.47	9.81	9.14	9.18	9.06
P/B (x)	1.35	1.28	1.20	1.13	1.07
Dividend Yield (%)	4.4	5.3	5.8	5.8	5.8
Return on average equity (%)	10.6	13.3	13.5	12.6	12.1

Source: Company data, RHB

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Financial Exhibits

Asia	Financial summary (SGD)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Singapore	EPS	1.24	1.57	1.68	1.68	1.70
Financial Services	Recurring EPS	1.24	1.57	1.68	1.68	1.70
OCBC Bank	DPS	0.68	0.82	0.89	0.89	0.90
OCBC SP	BVPS	11.37	12.05	12.84	13.62	14.41
Neutral						
	Valuation metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Recurring P/E (x)	12.47	9.81	9.14	9.18	9.06
	P/B (x)	1.4	1.3	1.2	1.1	1.1
	Dividend Yield (%)	4.4	5.3	5.8	5.8	5.8
	Income statement (SGDm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Interest income	11,590	20,867	21,242	21,040	20,823
	Interest expense	(3,902)	(11,222)	(11,353)	(11,003)	(10,592)
	Net interest income	7,688	9,645	9,890	10,037	10,231
	Non interest income	3,598	3,862	4,401	4,419	4,564
	Total operating income	11,286	13,507	14,291	14,456	14,795
	Overheads	(4,942)	(5,326)	(5,572)	(5,827)	(6,094)
	Pre-provision operating profit	6,344	8,181	8,719	8,628	8,701
	Loan impairment allowances	(505)	(663)	(671)	(673)	(676)
	Other impairment allowances	(79)	(70)	-	-	-
	Income from associates	910	953	1,001	1,051	1,103
	Pre-tax profit	6,670	8,401	9,049	9,006	9,128
	Taxation	(1,031)	(1,236)	(1,357)	(1,351)	(1,369)
	Minority interests	(113)	(144)	(154)	(153)	(155)
	Reported net profit	5,526	7,021	7,538	7,502	7,604
	Recurring net profit	5,526	7,021	7,538	7,502	7,604
	Profitability ratios	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Return on average assets (%)	1.0	1.2	1.3	1.2	1.2
	Return on average equity (%)	10.6	13.3	13.5	12.6	12.1
	Return on IEAs (%)	3.0	5.2	5.1	4.8	4.6
	Cost of funds (%)	1.1	3.1	3.0	2.7	2.5
	Net interest spread (%)	1.9	2.1	2.1	2.1	2.1
	Net interest margin (%)	2.0	2.4	2.4	2.3	2.2
	Non-interest income / total income (%)	31.9	28.6	30.8	30.6	30.8
	Cost to income ratio (%)	43.8	39.4	39.0	40.3	41.2
	Credit cost (bps)	17.3	22.4	22.2	21.3	20.5
	Balance sheet (SGDm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Total gross loans	294,980	296,653	308,519	322,402	336,911
	Other interest earning assets	101,064	114,068	118,229	123,315	128,060
	Total gross IEAs	396,044	410,721	426,748	445,717	464,970
	Total provisions	(3,991)	(4,382)	(4,550)	(4,700)	(4,500)
	Net loans to customers	290,989	292,271	303,969	317,702	332,411
	Total net IEAs	392,053	406,339	422,198	441,017	460,470
	Total non-IEAs	164,871	175,085	185,845	197,930	208,818
	Total assets	556,924	581,424	608,043	638,947	669,288
	Customer deposits	350,081	363,770	381,959	402,966	423,115
	Other interest-bearing liabilities	10,046	10,884	11,319	11,772	12,243
	Total IBLs	360,127	374,654	393,278	414,738	435,358
	Total non-IBLs	144,372	151,216	155,519	161,307	167,314
	Total liabilities	504,499	525,870	548,797	576,045	602,672
	Share capital	19,744	19,293	19,293	19,293	19,293
	Shareholders' equity	51,117	54,170	57,708	61,211	64,770
	Minority interests	1,308	1,384	1,538	1,691	1,846
	Asset quality and capital	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Reported NPLs / gross cust loans (%)	1.1	0.9	1.0	1.1	1.1
	Total provisions / reported NPLs (%)	118.0	156.2	147.5	132.5	127.2
	CET-1 ratio (%)	15.9	16.5	16.8	17.4	17.8
	Tier-1 ratio (%)	15.9	16.5	16.8	17.4	17.8
	Total capital ratio (%)	17.7	18.1	18.3	18.8	19.2

Source: Company data, RHB

Valuation and TP

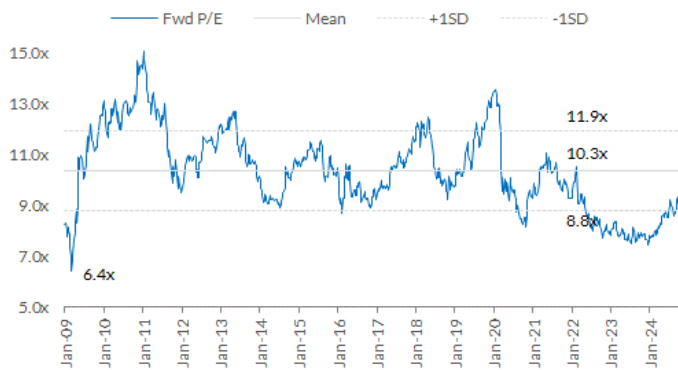
Our TP of SGD15.70 is based on an intrinsic value of SGD15.40, with a 2% ESG premium applied – given OCBC’s ESG score of 3.2 out of 4.0, using our proprietary in-house methodology. The intrinsic value is based on a GGM-derived P/BV of 1.13x, which is above the long-term P/BV mean of 1.02x to reflect a higher sustainable ROE expected going forward.

Figure 1: OCBC – GGM valuation

Cost of equity (COE) computation:		Sustainable ROE (%)	12.8
Risk free rate (%)	3.0	COE (%)	11.7
Equity premium (%)	8.2	Long-term growth (g)	3.0
Beta (x)	1.1	Implied P/BV (x)	1.13
Cost of equity - CAPM (%)	11.7	BVPS - FY25F	SGD13.62
		Intrinsic value	SGD15.40
ESG premium/(discount) (%)	2.0	ESG premium/(discount)	SGD0.31
		TP (rounded)	SGD15.70

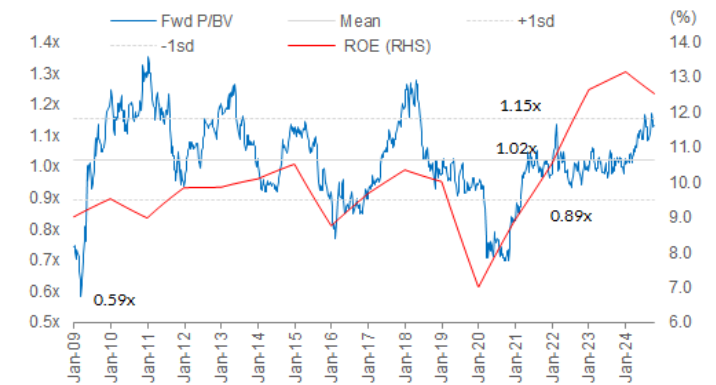
Source: Company data, RHB

Figure 2: OCBC’s 12-month forward consensus P/E



Source: Bloomberg, RHB

Figure 3: OCBC’s 12-month forward consensus P/BV



Source: Bloomberg, RHB

Emissions And ESG

Trend analysis

Sharp reduction in FY23 Scope 2 carbon emissions YoY due to the purchase of Renewable Energy Certificates in Malaysia, Indonesia and Greater China.

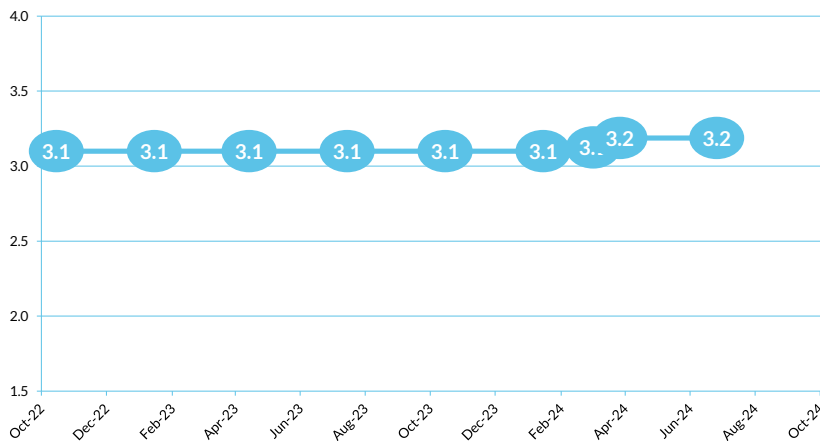
Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
Scope 1	237	160	147
Scope 2	67,636	63,811	23,501
Scope 3	278	1,517	3,849
Total emissions	68,151	65,488	27,497

Source: Company data, RHB

Latest ESG-Related Developments

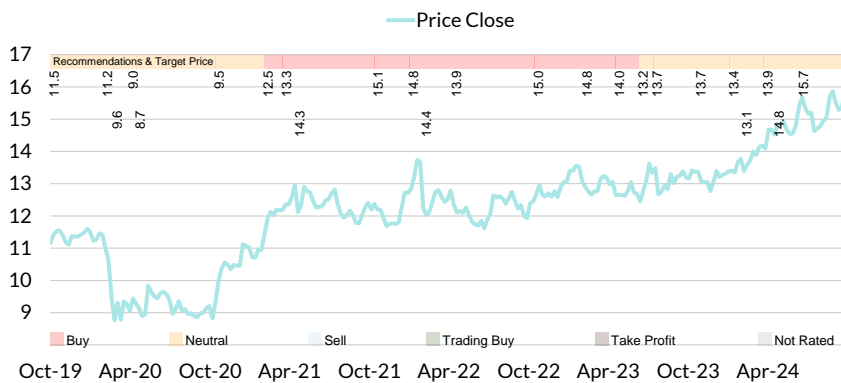
- Unveiled decarbonisation targets:** In May 2023, OCBC unveiled decarbonisation targets for six sectors – power, oil & gas, real estate, steel, aviation and shipping, which formed 42% of its corporate and commercial banking portfolio.
- Launched OCBC 1.5oC loan:** A sustainability-linked loan that is Singapore's first net-zero-aligned loan designed to drive the transition to a low-carbon economy for corporates and is in line with science-based decarbonisation pathways for their sectors.
- Filling up boxes to lead sustainability efforts:** Appointed its first Group Chief Sustainability Officer in Aug 2023 to lead OCBC's sustainability strategy, drive effective alignment across the Group and steer efforts to support clients' net-zero transition.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-08-04	Neutral	15.7	14.8
2024-05-13	Neutral	14.8	14.3
2024-04-16	Neutral	13.9	13.5
2024-03-21	Neutral	13.1	13.6
2024-02-28	Neutral	13.1	13.0
2024-01-28	Neutral	13.4	13.0
2023-11-13	Neutral	13.7	13.0
2023-08-06	Neutral	13.7	12.9
2023-07-04	Neutral	13.2	12.4
2023-05-10	Buy	14.0	12.3
2023-02-26	Buy	14.8	12.7
2022-11-07	Buy	15.0	12.1
2022-08-03	Buy	13.9	12.0
2022-05-03	Buy	13.9	12.4
2022-02-24	Buy	14.4	12.0

Source: RHB, Bloomberg

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Buy:	Share price may exceed 10% over the next 12 months
Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
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Sell:	Share price may fall by more than 10% over the next 12 months
Not Rated:	Stock is not within regular research coverage

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