

16 April 2024

Financial Services | Banks

OCBC Bank (OCBC SP)

Neutral (Maintained)

1Q24 Results – Where Could Surprises Come From?

- **Stay NEUTRAL, new SGD13.90 TP from SGD13.10 (1% upside) and c.6% yield.** OCBC Bank will announce its 1Q24 results on 10 May. While we expect 1Q24 PATMI to be seasonally higher QoQ, the YoY figure may be lower – partly due to a low cost of credit (CoC) of 12bps in 1Q23 (2024 guidance: 20-25bps). With market expectations shifting back to higher-for-longer interest rates, near-term concerns could swing back to asset quality from income pressures. OCBC could do well in such a scenario, given its strong asset quality and capitalisation, further supported by attractive yields.
- **NII could be muted with loan growth still soft ...** We gather that the 1Q loan growth trend should be similar to recent quarters – muted overall with pockets of growth from corporate non-trade and mortgage segments offset by soft trade loans. Overall, 1Q loan growth is likely to be within the low-single digit growth guidance.
- **... while NIM is likely to be squeezed.** 1Q24 average NIM should be lower QoQ and YoY vs 4Q23 (2.29%) and 1Q23 (2.30%) as 2023 exit NIM was 2.26% and loan yields may have peaked. OCBC guided for 2024 NIM of 2.2-2.25% based on the assumption of four rate cuts in 2H24 (2023: 2.28%). Market expectations on the timing and number of rate cuts this year have been pushed back and scaled down. The difference (between OCBC's assumption and market expectations) should not be too material to NIM, as the additional rate cuts OCBC assumes would have occurred towards the back end of 2024, we believe.
- **Better non-II QoQ expected** from rebound in insurance income (4Q23 impacted by higher claims) and typically better wealth management activities QoQ. YoY, we think non-II could be flattish due to elevated levels for 1H23 trading income, specifically non-customer trading flows. We expect 1Q24 operating income to be flat YoY with asset growth offset by NIM squeeze and flattish non-II. QoQ, we see single-digit growth on better non-II.
- **No red flags on asset quality.** We think the 1Q24 bottomline trend will depend on opex control and CoC. The 6% YoY opex growth we factored in for FY24, together with a higher 1Q CoC (2024F: 24bps, in line with guidance), drive our expectations for PATMI to weaken YoY. That said, we understand that asset quality remains stable, and given its high loan loss coverage level of 151%, we would not be surprised if CoC lands at the lower end of the guided range. QoQ, we expect stable opex and lower CoC (4Q23 impacted by pre-emptive provisioning) to underpin PATMI growth. Better-than-expected opex control and milder-than-expected CoC are upside risks to our forecasts.
- **No changes to earnings forecasts.** However, we raise our TP after lowering our equity risk premium (ERP) assumption and ascribing a new 2% ESG premium (0% premium/discount previously) after updating our ESG scorecard following the release of OCBC's Sustainability Report 2023.

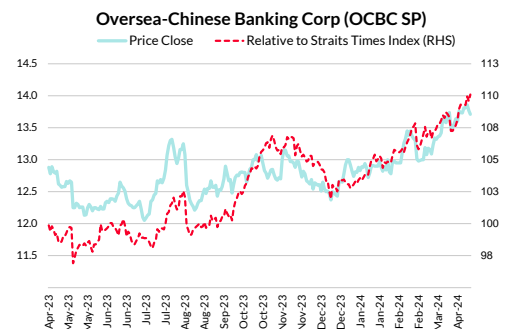
Target Price (Return):	SGD13.90 (1.4%)
Price (Market Cap):	SGD13.70 (USD45,771m)
ESG score:	3.2 (out of 4)
Avg Daily Turnover (SGD/USD)	68.4m/48.2m

Analyst

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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	5.5	2.9	6.0	5.6	6.8
Relative	7.3	2.6	6.5	5.7	10.4
52-wk Price low/high (SGD)	12.1 – 13.9				



Source: Bloomberg

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Reported net profit (SGDm)	5,526	7,021	6,917	6,995	7,074
Net profit growth (%)	13.8	27.1	(1.5)	1.1	1.1
Recurring net profit (SGDm)	5,526	7,021	6,917	6,995	7,074
Recurring EPS (SGD)	1.24	1.57	1.55	1.56	1.58
BVPS (SGD)	11.37	12.05	12.77	13.51	14.24
DPS (SGD)	0.68	0.82	0.82	0.82	0.84
Recurring P/E (x)	11.10	8.74	8.87	8.77	8.67
P/B (x)	1.21	1.14	1.07	1.01	0.96
Dividend Yield (%)	5.0	6.0	6.0	6.0	6.1
Return on average equity (%)	10.6	13.3	12.4	11.8	11.3

Source: Company data, RHB

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.

Financial Exhibits

Asia	Financial summary (SGD)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Singapore	EPS	1.24	1.57	1.55	1.56	1.58
Financial Services	Recurring EPS	1.24	1.57	1.55	1.56	1.58
OCBC Bank	DPS	0.68	0.82	0.82	0.82	0.84
OCBC SP	BVPS	11.37	12.05	12.77	13.51	14.24
Neutral						
	Valuation metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Recurring P/E (x)	11.10	8.74	8.87	8.77	8.67
	P/B (x)	1.2	1.1	1.1	1.0	1.0
	Dividend Yield (%)	5.0	6.0	6.0	6.0	6.1
	Income statement (SGDm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Interest income	11,590	20,867	21,159	20,952	20,732
	Interest expense	(3,902)	(11,222)	(11,353)	(11,003)	(10,592)
	Net interest income	7,688	9,645	9,806	9,950	10,140
	Non interest income	3,598	3,862	3,988	4,188	4,355
	Total operating income	11,286	13,507	13,794	14,137	14,495
	Overheads	(4,942)	(5,326)	(5,642)	(5,938)	(6,250)
	Pre-provision operating profit	6,344	8,181	8,152	8,199	8,245
	Loan impairment allowances	(505)	(663)	(730)	(732)	(735)
	Other impairment allowances	(79)	(70)	(70)	(70)	(70)
	Income from associates	910	953	1,001	1,051	1,103
	Pre-tax profit	6,670	8,401	8,353	8,447	8,543
	Taxation	(1,031)	(1,236)	(1,295)	(1,309)	(1,324)
	Minority interests	(113)	(144)	(141)	(143)	(144)
	Reported net profit	5,526	7,021	6,917	6,995	7,074
	Recurring net profit	5,526	7,021	6,917	6,995	7,074
	Profitability ratios	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Return on average assets (%)	1.0	1.2	1.2	1.1	1.1
	Return on average equity (%)	10.6	13.3	12.4	11.8	11.3
	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	2.3	2.3	2.2
	Non-interest income / total income (%)	31.9	28.6	28.9	29.6	30.0
	Cost to income ratio (%)	43.8	39.4	40.9	42.0	43.1
	Credit cost (bps)	17.3	22.4	24.1	23.2	22.3
	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	185,526	197,408	208,026
	Total assets	556,924	581,424	607,724	638,425	668,496
	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	57,402	60,712	64,012
	Minority interests	1,308	1,384	1,525	1,668	1,812
	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	15.4	15.7	15.9
	Tier-1 ratio (%)	15.9	16.5	15.4	15.7	15.9
	Total capital ratio (%)	17.7	18.1	17.0	17.1	17.2

Source: Company data, RHB

Valuation and TP

We recently lowered our COE assumption for DBS (DBS SP, BUY, TP: SGD38.30) by 35bps to 11.7% (see our 26 Mar report [Upcoming 1Q24 Results Unlikely To Surprise](#)) as we see room for the sector's elevated ERP (trading >+1SD from the mean level) to ease. We note that Singapore banks have attempted to provide a longer-term ROE outlook, and as visibility improves - with respect to a normalised US Federal Funds Rate (FFR) level - and confidence surrounding the ROE guidance provided rises, we see room for the ERP to ease. In the near term, continued strength in fees, a benign NPL environment, and attractive dividends could help support a rerating in valuations, in our view.

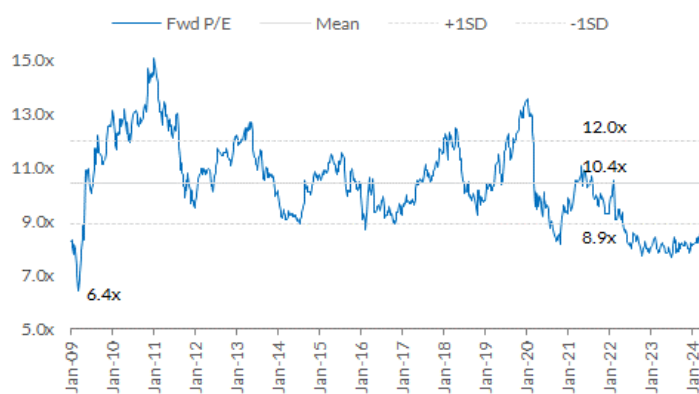
Following the above, we have lowered our COE assumption for OCBC by 35bps to 11.67%. This results in a revised fair GGM-derived P/BV of 1.07x (from 1.03x) and a higher intrinsic value of SGD13.63 (from SGD13.11). We have also revised up OCBC's ESG score to 3.2 (from 3.1) out of 4.0, post an update to our scorecard given the availability of new disclosures (eg net-zero targets and pathways for six priority sectors) in its recently released Sustainability Report 2023. This leads to a new 2% ESG premium applied to our intrinsic value from a 0% premium/discount previously. All in, our TP has been revised up by 6% to SGD13.90.

Figure 1: OCBC - GGM valuation

Cost of equity (COE) computation:		Sustainable ROE (%)	12.25
Risk free rate (%)	3.0	COE (%)	11.67
Equity premium (%)	8.26	Long-term growth (g)	3.0
Beta (x)	1.05	Implied P/BV (x)	1.07
Cost of equity - CAPM (%)	11.67	BVPS	SGD12.77
		Intrinsic value	SGD13.63
ESG premium/(discount) (%)	2.0	ESG premium/(discount)	SGD0.27
		TP (rounded)	SGD13.90

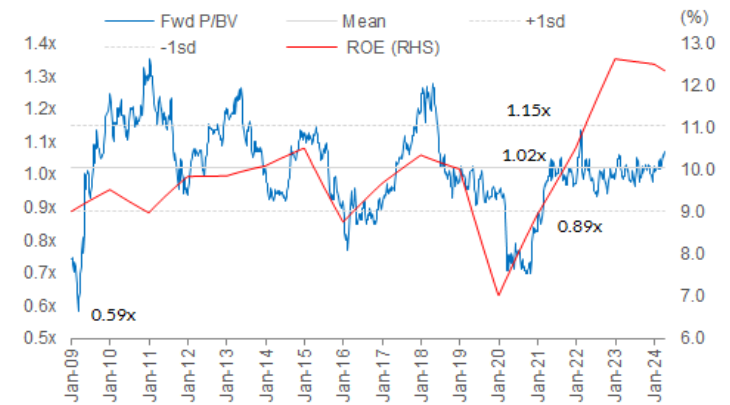
Source: Company data, RHB

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.

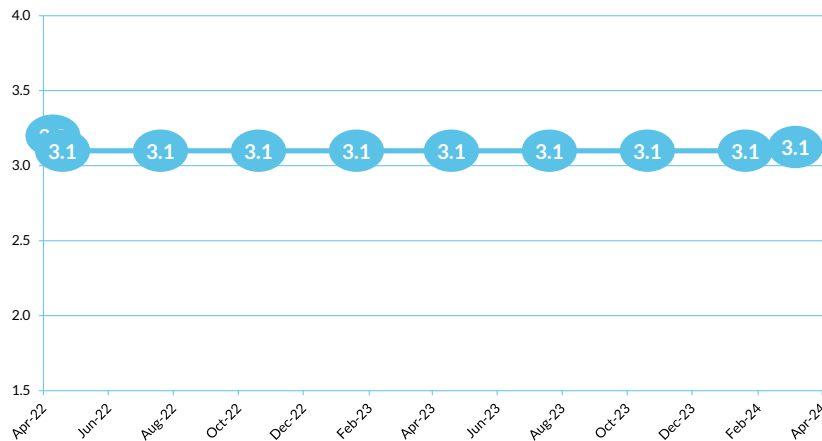
Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
Scope 1	237	160	147
Scope 2	67,636	63,811	23,501
Scope 3	278	1,517	3,849
Total emissions	68,151	65,488	27,497

Source: Company data, RHB

Latest ESG-Related Developments

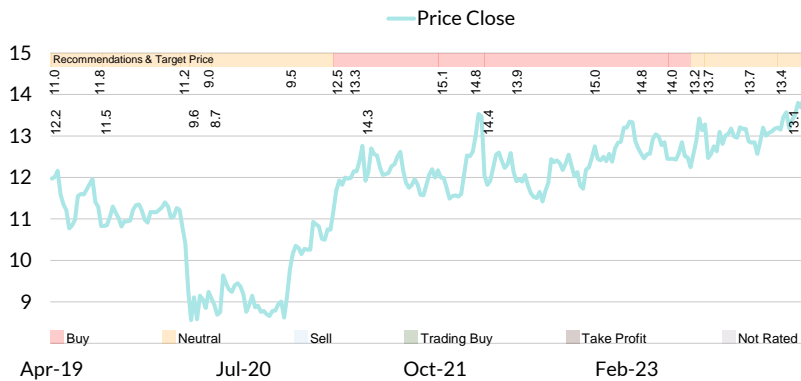
- Unveiled decarbonisation targets:** In May 2023, OCBC unveiled decarbonisation targets for six sectors – power, oil & gas, real estate, steel, aviation and shipping, which formed 42% of its corporate and commercial banking portfolio.
- Launched OCBC 1.5°C loan:** A sustainability-linked loan that is 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
2024-03-21	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
2022-01-24	Buy	14.8	12.3
2021-11-04	Buy	15.1	11.9
2021-08-05	Buy	14.3	12.4

Source: RHB, Bloomberg

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Not Rated:	Stock is not within regular research coverage

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