

22 March 2024

Financial Services | Banks

OCBC Bank (OCBC SP)

Neutral (Maintained)

Bar For Improvement Is Low

- **Stay NEUTRAL with an unchanged SGD13.10 TP, 2% downside with c.6% FY24F yield.** Post-updates to our ESG scoresheet for banks under our coverage (refer to our thematic note, [Banks: In Pursuit Of Net Zero](#)), we maintain OCBC's ESG score at 3.1. Hence, there is no change to the 0% ESG premium/discount that we attach to OCBC Bank's intrinsic value. That said, we see room for the ESG score to improve, on improved disclosures in its upcoming 2023 Sustainability Report – eg OCBC unveiled its decarbonisation targets for six sectors last year.
- **The positives.** OCBC recorded a 16% reduction in its Scope 2 carbon emissions between FY22 and FY19 through various environmental initiatives to increase energy efficiency and reduce consumption. In 2021, it outlined a 5-year Climate Strategy roadmap to become a regional leader in sustainable and responsible banking for a low-carbon economy by 2026. As a signatory to the Net-Zero Banking Alliance (NZBA), it is committed to an orderly transition towards a net-zero economy for itself and customers. As such, OCBC has embarked on its journey towards achieving net zero by 2050, with an interim target of 2030 or sooner. It has committed to invest more than SGD25m to increase the use of RE in its energy mix for operations over four years to reduce its carbon footprint in Singapore, Malaysia and Greater China. OCBC has also set a target of SGD50bn by 2025 for its sustainable financing portfolio – this was surpassed in end-2023, when its sustainable financing commitment reached SGD56bn.
- **Areas for improvement?** OCBC did not disclose its financed emissions in its 2022 Sustainability Report, but had committed to developing baseline emissions for clients in priority sectors and setting decarbonisation strategies. In 1H23, OCBC unveiled decarbonisation targets for six sectors – power, oil & gas, real estate, steel, aviation and shipping. 42% of OCBC's corporate and commercial banking loan portfolio fall within the scope of the targets. Apart from that, Singapore banks have been affected by disruptions to banking services – especially digital services – over the past year. In addition, there is a well-publicised, money laundering case under investigation at the moment. We consider issues such as system availability, cybersecurity and anti-money laundering as part of the “S” and “G” pillars. Banks that address these areas effectively can avoid potential legal repercussions, financial penalties and reputational damages.
- **Overall ESG score maintained.** In our view, OCBC remains fundamentally solid, backed by healthy asset quality and capital buffers. Consequently, expectations are high for the banking group to do more on the capital returns front. Management is looking at potentially improving the capital structures at its subsidiaries but will only be able to share more at a later stage.

Target Price (Return): SGD13.10 (-2%)
 Price (Market Cap): SGD13.4 (USD44,649m)
 ESG score: 3.1 (out of 4)
 Avg Daily Turnover (SGD/USD) 62.6m/43.1m

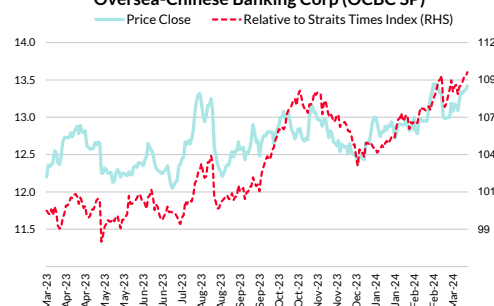
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	3.2	(0.2)	7.8	5.8	11.1
Relative	5.1	1.9	5.6	7.8	9.9
52-wk Price low/high (SGD)				12.1	13.5

Oversea-Chinese Banking Corp (OCBC SP)



Source: Bloomberg

Overall ESG Score: 3.1 (out of 4)

E: GOOD

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: EXCELLENT

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	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)	10.86	8.55	8.68	8.58	8.49
P/B (x)	1.18	1.11	1.05	0.99	0.94
Dividend Yield (%)	5.1	6.1	6.1	6.1	6.3
Return on average equity (%)	10.6	13.3	12.4	11.8	11.3

Source: Company data, RHB

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 basis	Valuation metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
GGM-derived intrinsic value with an ESG overlay. Key	Recurring P/E (x)	10.86	8.55	8.68	8.58	8.49
GGM assumptions are:	P/B (x)	1.2	1.1	1.1	1.0	0.9
i. COE of 12.3%;	Dividend Yield (%)	5.1	6.1	6.1	6.1	6.3
ii. ROE of 12.3%;						
iii. 3.0% long-term growth						
Key drivers	Income statement (SGDm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Our net profit forecast is most sensitive to changes in:	Interest income	11,590	20,867	21,159	20,952	20,732
i. Credit costs;	Interest expense	(3,902)	(11,222)	(11,353)	(11,003)	(10,592)
ii. Net interest margin;	Net interest income	7,688	9,645	9,806	9,950	10,140
iii. Non-interest income growth.	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
Key risks						
Key risks include:	Profitability ratios	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
i. Higher-than-expected allowances;	Return on average assets (%)	1.0	1.2	1.2	1.1	1.1
ii. Weaker-than-expected NIM;	Return on average equity (%)	10.6	13.3	12.4	11.8	11.3
iii. Macroeconomic uncertainty and geo-political tensions.	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
Company Profile						
OCBC Bank is the second largest banking group in Singapore by asset size. It also has sizeable operations in Malaysia, Greater China and Indonesia.	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

Emissions And ESG

Trend analysis

OCBC recorded a 16% reduction in its Scope 2 carbon emissions between FY22 and FY19, via a suite of environmental initiatives to increase energy efficiency and reduce consumption.

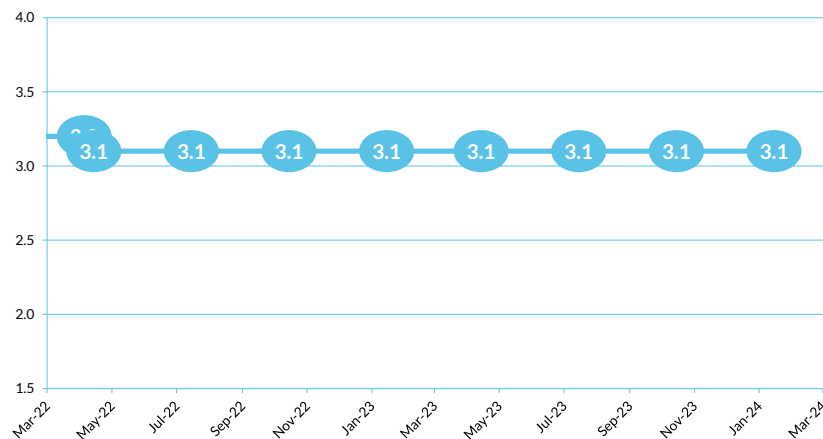
Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
Scope 1	237	160	na
Scope 2	63,496	59,941	na
Scope 3	278	1,517	na
Total emissions	64,011	61,618	na

Source: Company data, RHB

Latest ESG-Related Developments

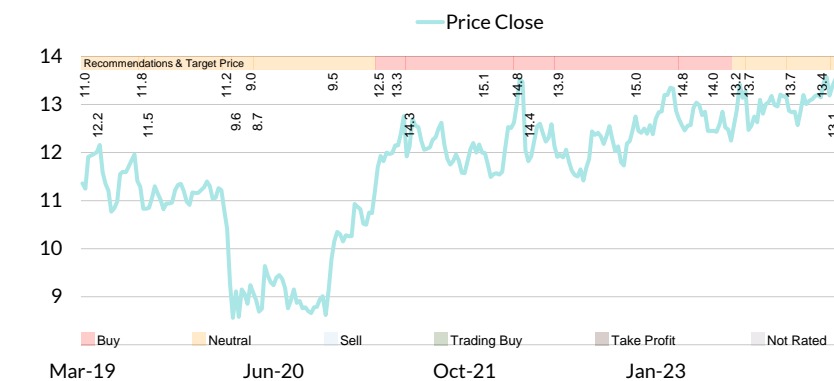
- **5-year climate strategy:** Unveiled in 2021, this outlines OCBC's strategy to become a regional leader in sustainable and responsible banking for a low-carbon economy by 2026.
- **Maintain carbon neutrality:** OCBC targets to maintain carbon neutrality for its banking operational emissions in 2023.
- **Unveiled decarbonisation targets:** In 1H23, OCBC unveiled decarbonisation targets for six sectors – power, oil & gas, real estate, steel, aviation and shipping. These formed 42% of its corporate and commercial banking portfolio.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2021-05-09	Buy	14.3	12.6

Source: RHB, Bloomberg

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Not Rated:	Stock is not within regular research coverage

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