4 August 2025

Financial Services | Banks

OCBC Bank (OCBC SP)

Neutral (Maintained)

NIM Dampener; Stay NEUTRAL

Target Price (Return):	SGD17.50 (4.2%)
Price (Market Cap):	SGD16.80 (USD58,138m)
ESG score:	3.2 (out of 4)
Avg Daily Turnover (SGD/USD)	87.0m/67.6m

- **Keep NEUTRAL and SGD17.50 TP (4% upside).** OCBC Bank's 2Q25 results were a slight miss on NIM weakness. Therefore, while NIM guidance was lowered, other 2025 targets were retained. OCBC also reaffirmed its 60% dividend payout and capital return plan for 2025. We trimmed earnings by 1-4% and lowered our DPS projections accordingly. We keep our rating, as despite expectations for softer FY25 PATMI, the 5.7% yield remains decent.
- **2Q25 a slight miss.** Earnings of SGD1.8bn (-4% QoQ, -7% YoY) brought 1H25 PATMI to SGD3.7bn (-6% YoY), at c.50% of our and Street forecasts. 2H tends to be seasonally weaker and should be more challenging amid the US tariff situation. 1H25 reported ROE stood at 12.6% (FY24: 13.7%) while the fully phased-in CET-1 ratio was at 15.3% (-20bps QoQ). A SGD0.41 interim DPS (2Q24: SGD0.44) was declared – below our expectation due to lower-than-expected earnings. The interim payout was 50% (1H24: 50%).
- **Results highlights.** The main drag in 2Q was NIM. 2Q25 NIM compressed by 12bps QoQ (-28bps YoY) to 1.92%, following 1Q25's 11bps QoQ decline. OCBC attributed the NIM drop to: i) SGD and HKD loans repricing lower due to lower benchmark rates, which impacted NIM by 17bps QoQ. About 80% of SGD loans and almost its entire HKD loans are on floating rates; and ii) impact from strategic liquidity deployment into high-quality assets in 1Q25 (-2bps to NIM QoQ); mitigated by lower funding cost (+7bps impact to NIM QoQ). Otherwise, loan growth was 1% QoQ (+7% YoY) while CASA growth remained robust (+3% QoQ; +14% YoY). Costs were also lower QoQ, with opex down 2% QoQ (+1% YoY) on lower staff cost while credit cost was 12bps (1Q25: 24bps; 2Q24: 15bps) with both impaired and non-impaired allowances down sequentially. Fees were up a healthy 6% QoQ (+24% YoY) thanks to wealth management activities, although overall non-II was down 4% QoQ (+5% YoY) due to softer contribution from insurance.
- **Briefing highlights.** OCBC revised down NIM guidance to 1.9-1.95% from 2%, and guided for mid-single digit percentage drop in NII in FY25. This is on the back of its 1H25 NIM achievement, and expectation for three US Federal Funds Rate (FFR) cuts in 2H25 (NIM to end up at upper end of the guided range if US FFR cuts are milder than expected). OCBC thinks the Singapore Overnight Rate Average's (SORA) 1H25 drop was due to influx in liquidity while the Hong Kong Interbank Offered Rate's (HIBOR) decline was a result of the Government defending the currency peg. While 2Q25 exit NIM was 1.88%, OCBC expects 2H25 NIM to improve as the repricing of deposits start to impact more meaningfully. It is also optimistic that its customer mix, being predominantly domestic or regional demand-focused, should help anchor loan growth. OCBC has not noted any significant weakness in asset quality.
- **Forecasts lowered.** We lower FY25-27F PATMI by 4%, 2% and 1% mainly on lower NIM assumed, but retain our TP (includes 2% ESG premium) after a roll forward in valuations.

Forecasts and Valuation	Dec-23	Dec-24	Dec-25F	Dec-26F	Dec-27F
Reported net profit (SGDm)	7,021	7,587	7,156	7,395	7,601
Net profit growth (%)	27.1	8.1	(5.7)	3.3	2.8
Recurring net profit (SGDm)	7,021	7,587	7,156	7,395	7,601
Recurring EPS (SGD)	1.57	1.70	1.60	1.65	1.70
BVPS (SGD)	12.05	13.18	13.82	14.59	15.39
DPS (SGD)	0.82	1.01	0.96	0.87	0.90
Recurring P/E (x)	10.70	9.90	10.50	10.16	9.88
P/B (x)	1.39	1.27	1.22	1.15	1.09
Dividend Yield (%)	4.9	6.0	5.7	5.2	5.3
Return on average equity (%)	13.3	13.4	11.8	11.6	11.3

Source: Company data, RHB

Analyst

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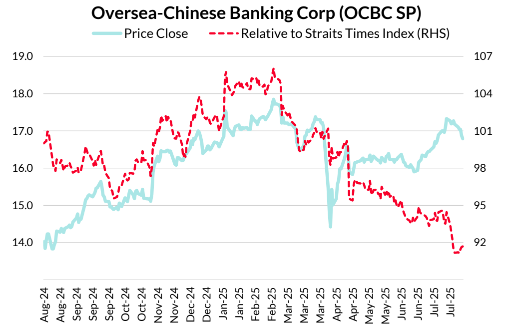
Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	0.6	2.4	4.0	(3.5)	13.3
Relative	(9.1)	(1.7)	(4.4)	(11.2)	(8.2)
52-wk Price low/high (SGD)					13.8 – 17.9



Source: Bloomberg

Overall ESG Score: 3.2 (out of 4)

E Score: 3.3 (EXCELLENT)
S Score: 3.0 (GOOD)
G Score: 3.3 (EXCELLENT)
Please refer to the ESG analysis on the next page

Emissions And ESG

Trend analysis

Increase in FY24 Scope 2 carbon emissions YoY due to the delay in issuance and subsequent redemption of Renewable Energy Certificates in Indonesia. Upon its issuance, Scope 2 emissions would have ticked up by 5% YoY.

Emissions (tCO2e)	Dec-22	Dec-23	Dec-24	Dec-25
Scope 1	160	147	132	na
Scope 2	63,811	23,501	35,373	na
Scope 3	1,517	3,849	3,475	na
Total emissions	65,488	27,497	38,980	na

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.

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 Unbundled

Overall ESG Score: 3.2 (out of 4)

Last Updated: 21 April 2025

E Score: 3.3 (EXCELLENT)

As a signatory to the NZBA, OCBC is committed to aligning lending and investment portfolios with net-zero emissions by 2050. Had achieved carbon neutrality on operational emissions for 2022 while its sustainable finance portfolio was SGD71bn as at end-2024.

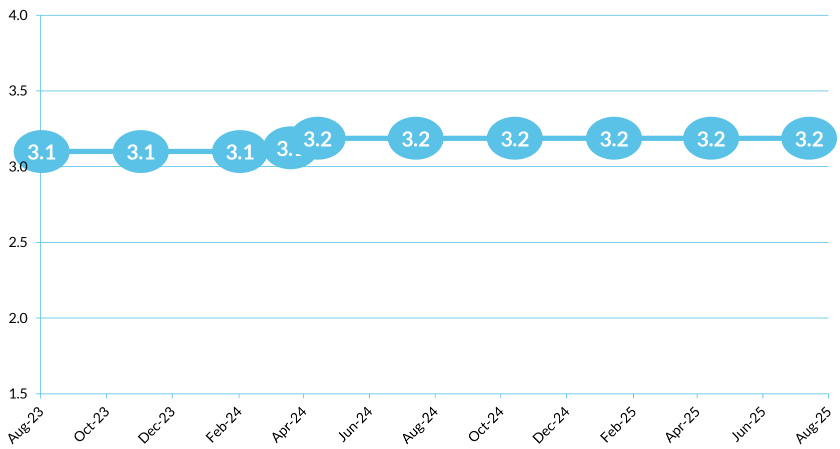
S Score: 3.0 (GOOD)

OCBC aims to maintain a balanced gender mix across its workforce, with 42% of women in leadership positions by 2025. In 2024, women accounted for 56% of total employees, as well as 42% of leadership positions, and 40% 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 Score: 3.3 (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.

ESG Rating History



Source: RHB

Financial Exhibits

Asia
Singapore
Financial Services
OCBC Bank
OCBC SP
Neutral

Valuation basis

GGM-derived intrinsic value with an ESG overlay. Key GGM assumptions are:

i. COE of 10.65%;
ii. ROE of 12%;
iii. 3.0% long-term growth

Key drivers

Our net profit forecast is most sensitive to changes in:

i. Credit costs;
ii. Net interest margin;
iii. Non-interest income growth.

Key risks

Downside risks include:

i. Higher-than-expected allowances;
ii. Weaker-than-expected NIM;
iii. Macroeconomic uncertainty and geo-political tensions.

Upside risks include:

i. Higher-than-expected NIM;
ii. Stronger-than-expected non-II;
iii. Lower-than-expected allowances.

Company Profile

OCBC is the second largest banking group in Singapore by asset size. It also has sizeable operations in Malaysia, Greater China and Indonesia.

Financial summary (SGD)	**Dec-23**	**Dec-24**	**Dec-25F**	**Dec-26F**	**Dec-27F**
EPS	1.57	1.70	1.60	1.65	1.70
Recurring EPS	1.57	1.70	1.60	1.65	1.70
DPS	0.82	1.01	0.96	0.87	0.90
BVPS	12.05	13.18	13.82	14.59	15.39

Valuation metrics	**Dec-23**	**Dec-24**	**Dec-25F**	**Dec-26F**	**Dec-27F**
Recurring P/E (x)	10.70	9.90	10.50	10.16	9.88
P/B (x)	1.4	1.3	1.2	1.2	1.1
Dividend Yield (%)	4.9	6.0	5.7	5.2	5.3

Income statement (SGDm)	**Dec-23**	**Dec-24**	**Dec-25F**	**Dec-26F**	**Dec-27F**
Interest income	20,867	22,444	20,553	20,348	20,120
Interest expense	(11,222)	(12,689)	(11,421)	(11,007)	(10,575)
Net interest income	**9,645**	**9,755**	**9,131**	**9,341**	**9,546**
Non interest income	3,862	4,718	4,933	5,156	5,394
Total operating income	**13,507**	**14,473**	**14,064**	**14,497**	**14,940**
Overheads	(5,326)	(5,801)	(5,859)	(6,033)	(6,272)
Pre-provision operating profit	**8,181**	**8,672**	**8,205**	**8,463**	**8,667**
Loan impairment allowances	(663)	(561)	(657)	(682)	(693)
Other impairment allowances	(70)	(129)	-	-	-
Income from associates	953	994	1,044	1,096	1,151
Pre-tax profit	**8,401**	**8,976**	**8,591**	**8,877**	**9,125**
Taxation	(1,236)	(1,228)	(1,289)	(1,332)	(1,369)
Minority interests	(144)	(161)	(146)	(151)	(155)
Reported net profit	**7,021**	**7,587**	**7,156**	**7,395**	**7,601**
Recurring net profit	**7,021**	**7,587**	**7,156**	**7,395**	**7,601**

Profitability ratios	**Dec-23**	**Dec-24**	**Dec-25F**	**Dec-26F**	**Dec-27F**
Return on average assets (%)	1.2	1.3	1.1	1.1	1.1
Return on average equity (%)	13.3	13.4	11.8	11.6	11.3
Return on IEAs (%)	5.2	5.3	4.6	4.3	4.1
Cost of funds (%)	3.1	3.3	2.8	2.5	2.3
Net interest spread (%)	2.1	2.0	1.8	1.8	1.8
Net interest margin (%)	2.4	2.3	2.0	2.0	1.9
Non-interest income / total income (%)	28.6	32.6	35.1	35.6	36.1
Cost to income ratio (%)	39.4	40.1	41.7	41.6	42.0
Credit cost (bps)	22.4	18.2	20.1	19.8	19.2

Balance sheet (SGDm)	**Dec-23**	**Dec-24**	**Dec-25F**	**Dec-26F**	**Dec-27F**
Total gross loans	296,653	319,166	335,124	351,881	369,475
Other interest earning assets	114,068	117,621	122,364	126,932	131,648
Total gross IEAs	410,721	436,787	457,488	478,813	501,123
Total provisions	(4,382)	(4,558)	(4,550)	(4,550)	(4,570)
Net loans to customers	292,271	314,608	330,574	347,331	364,905
Total net IEAs	406,339	432,229	452,938	474,263	496,553
Total non-IEAs	175,085	192,821	202,358	213,246	224,735
Total assets	581,424	625,050	655,296	687,508	721,287
Customer deposits	363,770	390,687	410,221	430,732	452,269
Other interest-bearing liabilities	10,884	11,565	11,912	12,329	12,822
Total IBLs	374,654	402,252	422,133	443,061	465,091
Total non-IBLs	151,216	162,418	169,778	177,431	185,451
Total liabilities	525,870	564,670	591,911	620,492	650,542
Share capital	19,293	19,794	19,794	19,794	19,794
Shareholders' equity	54,170	59,316	62,175	65,655	69,229
Minority interests	1,384	1,064	1,210	1,361	1,516

Asset quality and capital	**Dec-23**	**Dec-24**	**Dec-25F**	**Dec-26F**	**Dec-27F**
Reported NPLs / gross cust loans (%)	0.9	0.9	0.9	0.8	0.8
Total provisions / reported NPLs (%)	156.2	161.2	159.7	156.7	154.6
CET-1 ratio (%)	16.5	16.0	16.2	16.6	17.0
Tier-1 ratio (%)	16.5	16.0	16.2	16.6	17.0
Total capital ratio (%)	18.1	17.7	17.8	18.1	18.4

Source: Company data, RHB

Results At a Glance

Figure 1: OCBC – summary of 2Q25 and 1H25 results

FYE Dec (SGDm)	2Q24	1Q25	2Q25	QoQ (%)	YoY (%)	1H24	1H25	*YoY (%)*	Comments:
NII	**2,430**	**2,345**	**2,283**	***(3)***	***(6)***	**4,867**	**4,628**	***(5)***	1H NIM compression more than offset 8% rise in average asset volume.
NIM (%) – reported	*2.20%*	*2.04%*	*1.92%*	*-12bps*	*-28bps*	*2.23%*	*1.98%*	*-25bps*	Drop in asset yields outpaced lower funding cost.
Non-II	**1,199**	**1,310**	**1,264**	***(4)***	***5***	**2,388**	**2,574**	***8***	
Net fee & commission income	466	546	580	*6*	*24*	945	1,126	*19*	1H wealth management fees, which make up c.50% of total fees, up 25% YoY as OCBC saw customers increasingly deploy funds into investments.
Income from insurance	294	306	226	*(26)*	*(23)*	583	532	*(9)*	Mark-to-market impact of decline in interest rates on valuation of insurance contract liabilities, and lower valuation of private equity holdings from its insurance funds.
Other non-II	439	458	458	*0*	*4*	860	916	*7*	Customer flow treasury income up 10% YoY in 1H, driven by both wealth and corporate segments.
Non-II/total income (%)	*33.0%*	*35.8%*	*35.6%*			*32.9%*	*35.7%*		
Operating income	**3,629**	**3,655**	**3,547**	***(3)***	***(2)***	**7,255**	**7,202**	***(1)***	
Overhead expenses	(1,373)	(1,415)	(1,389)	*(2)*	*1*	(2,719)	(2,804)	*3*	QoQ decline due to lower staff cost.
CIR (%)	*37.8%*	*38.7%*	*39.2%*			*37.5%*	*38.9%*		
PIOP	**2,256**	**2,240**	**2,158**	***(4)***	***(4)***	**4,536**	**4,398**	***(3)***	
Amortisation and impairments charges	(166)	(217)	(120)	*(45)*	*(28)*	(360)	(337)	*(6)*	QoQ drop due to decline in both allowances for impaired assets (SGD65m vs 1Q25: SGD94m) and non-impaired assets (SGD49m vs 1Q25: SGD118m).
Credit cost (bps)	*15*	*24*	*12*			*15*	*18*		
Operating profit	**2,090**	**2,023**	**2,038**	***1***	***(2)***	**4,176**	**4,061**	***(3)***	
Associates	243	274	263	*(4)*	*8*	498	537		
Pre-tax profit	**2,333**	**2,297**	**2,301**	***0***	***(1)***	**4,674**	**4,598**	***(2)***	
Net profit	**1,944**	**1,883**	**1,816**	***(4)***	***(7)***	**3,926**	**3,699**	***(6)***	
Other key data and ratios									
Gross loans	303,983	322,000	324,606	*1*	*7*				Loans grew 9% YoY in constant currency terms thanks to Singapore mortgage book and increased non-trade corporate lending.
Customer deposits	369,835	402,732	406,943	*1*	*10*				Strong CASA deposit growth of 14% YoY (+3% QoQ). CASA ratio ticked higher to 49.8% from 48.9% in 1Q25 (2Q24: 47.9%).
Non-performing loans	2,817	2,916	2,983	*2*	*6*				QoQ uptick from new NPA formation from consumer/private banking, although OCBC said this was due to its prudent approach and was optimistic of the recovery potential.
Total assets	598,990	636,655	644,794	*1*	*8*				
Shareholders' funds	56,919	61,566	60,449	*(2)*	*6*				
ROAA (%)	1.56	1.44	1.35			1.60	1.40		
ROAE (%)	14.2	13.0	12.3			14.5	12.6		
LDR (%)	81.1	78.9	78.7						
NPL ratio	1.0	0.9	0.9						
NPL coverage	138.0	147.1	142.0						
CET-1 ratio (%)	15.5	15.5	15.3						Fully-phased-in CET-1 ratios. Payment of 1H25 interim DPS in August will reduce CET-1 by 80bps.

Source: Company data, RHB

Management guidance

Figure 2: OCBC – management guidance and financial targets

	2024 achieved	1H25 achieved	2025 guidance	Comments
ROE	13.7%	12.6%	n.a.	
Loan growth	8%	7%	Mid-single digit	
NIM	2.20%	1.98%	1.90-1.95% (from c. 2%)	NIM guidance lowered given steeper-than-expected drop in benchmark rates in 1H25, resulting in achieved NIM tracking below earlier guidance. Although exit NIM was 1.88%, management expects 2H25 NIM to be higher as the impact from the flow through of deposit rate cuts starts to be more meaningful. Also, should CASA growth stay healthy, this will allow OCBC to release some of its costlier wholesale funding. NIM sensitivity to a 100bps drop in rates across OCBC's four major currencies is 12bps, annualised.
CIR	39.7%	38.9%	Low 40%	
Credit cost	19bps	18	20 – 25bps	Guidance remains similar to that of the previous briefing. OCBC estimates its exposure to the first order impact of US tariff policy is c.3% of loans while 67% of the book is based on domestic demand and less impacted by tariffs. While management continues to monitor closely developments on the situation of its Hong Kong commercial real estate exposures, OCBC highlighted that it has been derisking its exposures to the more vulnerable segments and provisions made are conservative. Overall, OCBC is not seeing any major weakness in its portfolio at the moment.
Dividend payout	Total 60%	50%	Total 60%	

Source: Company data, RHB

Revisions to estimates

We have lowered our FY25-27 NIM projections and now forecast FY25 NIM to compress by 26bps – in line with the 25-30bps NIM squeeze now guided by OCBC. This, however, is partly cushioned by: i) Slightly stronger FY25 loan growth assumed of 5% (from 4%); and ii) higher non-II given that 1H25 non-II was tracking ahead of expectations. Overall, we lowered FY25F PATMI by 4%, while our FY26F and FY27F PATMI are tweaked down by 2% and 1% respectively. In tandem with the earnings changes, we have reduced our FY25-27F DPS by 2-4%. We assume a total dividend payout of 60% for FY25, inclusive of capital return dividends, while for FY26 and FY27, we retain a payout assumption of c.53%, roughly similar to that of FY23. Post the changes, we now expect OCBC to post a 6% YoY drop in FY25F PATMI due to a 6% YoY decline in NII and a higher effective tax rate.

Figure 3: OCBC – revisions to forecasts

FYE Dec (SGDm)	Previous FY25F	Previous FY26F	Previous FY27F	Revised FY25F	Revised FY26F	Revised FY27F	*% Change FY25F*	*% Change FY26F*	*% Change FY27F*
NII	9,639	9,723	9,806	9,131	9,341	9,546	-5%	-4%	-3%
Non-II	4,771	4,960	5,186	4,933	5,156	5,394	3%	4%	4%
Operating expenses	(5,799)	(5,973)	(6,212)	(5,799)	(5,973)	(6,212)	0%	0%	0%
PIOP	8,610	8,710	8,780	8,265	8,523	8,727	-4%	-2%	-1%
Provision expenses	**(717)**	**(742)**	**(753)**	**(717)**	**(742)**	**(753)**	0%	0%	0%
Pre-tax profit	8,937	9,064	9,177	8,591	8,877	9,125	-4%	-2%	-1%
Net profit	**7,444**	**7,550**	**7,644**	**7,156**	**7,395**	**7,601**	-4%	-2%	-1%
EPS (SGD)	1.65	1.67	1.69	1.58	1.64	1.68	-4%	-2%	-1%
DPS (SGD)	0.99	0.89	0.91	0.96	0.87	0.90	-4%	-2%	-2%
Loan growth (%)	4.0	4.0	4.0	5.0	5.0	5.0			
NIM (%)	2.16	2.10	2.04	2.04	2.00	1.95			
CIR (%)	40.2	40.7	41.4	41.2	41.2	41.6			
Credit cost (bps)	20	20	20	20	20	19			

Source: Company data, RHB

Valuation and TP

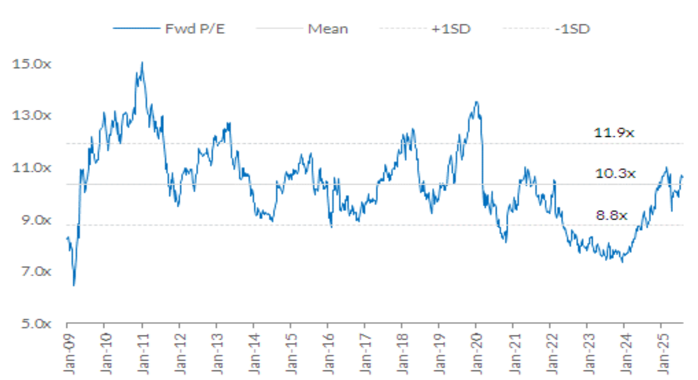
Following the earnings changes above, we have lowered our ROE assumption in our GGM model to 12% from 12.5%. This results in a revised fair P/BV of 1.18x from 1.24x – close to the stock's +1SD from its long-term mean level, supported by its dividend yields. We have also rolled forward valuation to FY26F. These updates have led to a revised intrinsic value of SGD17.18 – relatively unchanged from the previous intrinsic value of SGD17.21. After incorporating an unchanged 2% ESG premium, based on OCBC's ESG score of 3.2 out of 4.0 and our proprietary in-house methodology, our TP of SGD17.50 has been retained.

Figure 4: OCBC – GGM valuation

Cost of equity (COE) computation:		Sustainable ROE (%)	12.0
Risk free rate (%)	3.0	COE (%)	10.65
Equity premium (%)	7.65	Long-term growth (g)	3.0
Beta (x)	1.0	Implied P/BV (x)	1.18
Cost of equity - CAPM (%)	10.65	BVPS	SGD14.59
		Intrinsic value	SGD17.18
ESG premium/(discount) (%)	2.0	ESG premium/(discount)	SGD0.34
		TP (rounded)	**SGD17.50**

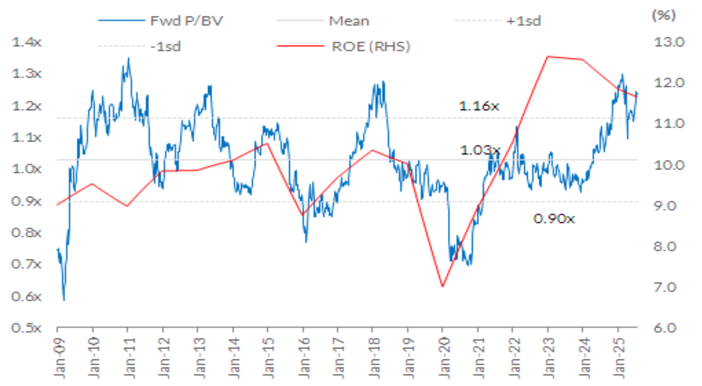
Source: Company data, RHB

Figure 5: OCBC's 12-month forward consensus P/E



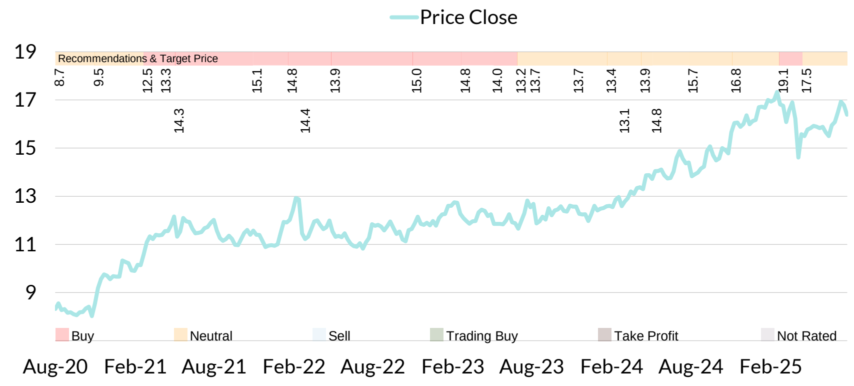
Source: Bloomberg, RHB

Figure 6: OCBC's 12-month forward consensus P/BV



Source: Bloomberg, RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2025-04-21	Neutral	17.5	16.3
2025-02-27	Buy	19.1	17.4
2024-11-10	Neutral	16.8	16.1
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

Source: RHB, Bloomberg

RHB Guide to Investment Ratings

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
Take Profit:	Target price has been attained. Look to accumulate at lower levels
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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