

11 November 2024

Financial Services | Banks

OCBC Bank (OCBC SP)

Neutral (Maintained)

More Patience Needed On Capital Management Plans

- **Stay NEUTRAL, with new SGD16.80 TP from MYR15.70, 5% upside.** 9M24 results were in line on expectations that 4Q will be a softer quarter. Asset quality and capital remain solid but investors may be somewhat disappointed on the lack of clarity, for now, regarding management's plans for excess capital. FY25F PATMI and DPS should stay flat and coupled with the above, we do not expect a meaningful outperformance from OCBC Bank vs peers.
- **Good set of 3Q24 results,** with net profit of SGD2bn (+2% QoQ, +9% YoY) bringing 9M24 PATMI to SGD5.9bn (+9% YoY) – at 78-79% of our and Street FY24 estimates. We expect a weaker 4Q as rate cuts kick in, coupled with seasonality and as such, we retain our forecasts. 9M24 reported ROE was 14.4% (FY23: 13.7%), while fully phased-in CET-1 ratio based on Basel III reforms remained solid at 15.6% (2Q24: 15.5%; 4Q23: 15.9%).
- **Results highlights.** Non-II (+14% QoQ, +41% YoY) drove income this quarter. Fees (+9% QoQ, +10% YoY) were underpinned by wealth management (+16% QoQ, +25% YoY) while trading income jumped 43% QoQ (+135% YoY) as non-customer flows more than doubled QoQ, further supported by higher customer flow income. Otherwise, NII was flattish as asset growth helped compensate for NIM pressure (-2bps QoQ, -9bps YoY) as OCBC moved liquidity into high quality but lower yielding assets, and higher funding cost. Both loans and deposits were flat QoQ. Opex growth outpaced income growth during the quarter due to the increase in business activities but 9M CIR of 38% was stable YoY. Credit cost ticked up to 22bps from 15bps in 2Q24 due to allowances for non-impaired assets and with non-performing assets (NPAs) improving, allowance coverage was beefed up further to 148% vs 2Q24: 138%.
- **Guidance and outlook.** Management's 2024 guidance was broadly unchanged and in line with 9M trends. While there were no numbers for 2025, OCBC appeared optimistic on ASEAN's growth prospects and opportunities, which would be supportive of loans growth. Areas cited include global repositioning of supply chain and China +1 diversification, new economy (eg digital infrastructure) and transition financing. A pickup in China's economic activities will also be positive, but may need time. NII sensitivity remains SGD4-5m/bp change in rates. On the global minimum tax, the impact is not expected to be material as its local tax rate is close to 15%.
- **Capital management – more details to follow** at the 4Q24 briefing. OCBC is comfortable with a CET-1 level of 14% and a level to work towards in the medium term (>3 years). It cited the need to balance between navigating uncertainties, growth opportunities and shareholder returns. Dividends (regular/special) and share buyback are seen as the main capital return tools but share buyback may not be the best option, currently with its P/BV of >1x.
- **Forecasts unchanged but TP raised to SGD16.80** after updating our valuation parameters (2% ESG premium applied is unchanged).

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)	13.00	10.23	9.53	9.58	9.45
P/B (x)	1.41	1.33	1.25	1.18	1.11
Dividend Yield (%)	4.2	5.1	5.5	5.5	5.6
Return on average equity (%)	10.6	13.3	13.5	12.6	12.1

Source: Company data, RHB

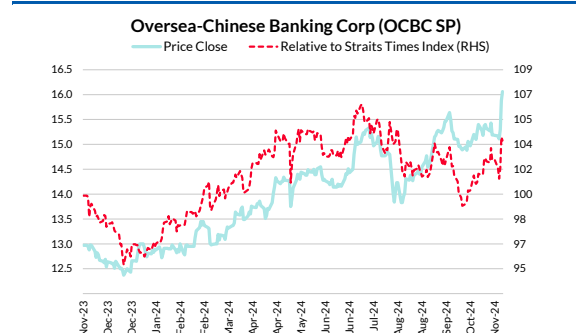
Target Price (Return):	SGD16.80 (+5%)
Price (Market Cap):	SGD16.10 (USD54,589m)
ESG score:	3.2 (out of 4)
Avg Daily Turnover (SGD/USD)	85.2m/65.2m

Analyst

Singapore Research
sg.research@rhbgroup.com

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	23.5	7.9	12.9	16.8	23.0
Relative	8.6	3.7	(1.3)	2.7	4.0
52-wk Price low/high (SGD)				12.4 – 16.1	



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.

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 basis	Valuation metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
GGM-derived intrinsic value with an ESG overlay. Key GGM assumptions are:	Recurring P/E (x)	13.00	10.23	9.53	9.58	9.45
i. COE of 11.3%;	P/B (x)	1.4	1.3	1.3	1.2	1.1
ii. ROE of 13.0%;	Dividend Yield (%)	4.2	5.1	5.5	5.5	5.6
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	21,242	21,040	20,823
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	9,890	10,037	10,231
iii. Non-interest income growth.	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
Key risks	Profitability ratios	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Downside risks include:	Return on average assets (%)	1.0	1.2	1.3	1.2	1.2
i. Higher-than-expected allowances;	Return on average equity (%)	10.6	13.3	13.5	12.6	12.1
ii. Weaker-than-expected NIM;	Return on IEAs (%)	3.0	5.2	5.1	4.8	4.6
iii. Macroeconomic uncertainty and geo-political tensions.	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
Upside risks include:						
i. Higher-than-expected NIM;						
ii. Stronger-than-expected non-II;						
iii. Lower-than-expected allowances.						
Company Profile	Balance sheet (SGDm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
OCBC Bank is the second largest banking group in Singapore by asset size. It also has sizeable operations in Malaysia, Greater China and Indonesia.	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

Results At a Glance

Figure 1: OCBC – summary of 3Q24 and 9M24 results

FYE Dec (SGDm)	3Q23	2Q24	3Q24	QoQ (%)	YoY (%)	9M23	9M24	YoY (%)	Comments:
NII	2,456	2,430	2,433	0	(1)	7,183	7,300	2	9M24 average asset growth of 4%, partly offset by a 6bps NIM squeeze – rise in funding cost outpaced asset yields and OCBC putting on high-quality assets, which carry lower yields
<i>NIM (%) – reported</i>	<i>2.27%</i>	<i>2.20%</i>	<i>2.18%</i>	<i>-2bps</i>	<i>-9bps</i>	<i>2.28%</i>	<i>2.22%</i>	<i>-6bps</i>	
Non-II	973	1,199	1,369	14	41	3,051	3,758	23	9M24 rise across fee, trading and insurance income
Net fee & commission income	461	466	508	9	10	1,344	1,454	8	9M24 WM fees up 21% YoY from an increase in customer activity
Income from insurance	220	294	233	(21)	6	719	815	13	YoY growth attributed to underlying insurance business
Other non-II	292	439	628	43	115	988	1,489	51	Lifted by both customer and non-customer flow
<i>Non-II/total income (%)</i>	<i>28.4%</i>	<i>33.0%</i>	<i>36.0%</i>			<i>29.8%</i>	<i>34.0%</i>		
Operating income	3,429	3,629	3,802	5	11	10,234	11,058	8	
Overhead expenses	(1,340)	(1,373)	(1,463)	7	9	(3,913)	(4,182)	7	Continued investments to support growth 9M24 figure also includes SGD27m integration cost relating to the acquisition of PT Bank Commonwealth
<i>CIR (%)</i>	<i>39.1%</i>	<i>37.8%</i>	<i>38.5%</i>			<i>38.2%</i>	<i>37.8%</i>		
PIOP	2,089	2,256	2,339	4	12	6,321	6,876	9	
Amortisation and impairments charges	(210)	(166)	(176)	6	(16)	(623)	(537)	(14)	Higher allowances for impaired assets of SGD371m (9M23: SGD327m), cushioned by lower allowances for non-impaired assets of SGD112m (9M23: SGD219m)
<i>Credit cost (bps)</i>	<i>17</i>	<i>15</i>	<i>22</i>			<i>20</i>	<i>17</i>		
Operating profit	1,879	2,090	2,163	3	15	5,698	6,339	11	
Associates	254	243	251	3		764	749		
Pre-tax profit	2,133	2,333	2,414	3	13	6,462	7,088	10	
Net profit	1,810	1,944	1,974	2	9	5,399	5,900	9	
Other key data and ratios									
Gross loans	298,000	303,983	305,000	0	2				Loans grew 4% YoY in constant currency terms, led by Singapore, Malaysia and international markets
Customer deposits	369,432	369,835	369,280	(0)	(0)				OCBC released higher cost fixed deposits, cushioned by CASA growth. CASA ratio rose to 48.4% from 47.9% in 2Q24 (4Q23: 48.7%)
Non-performing loans	2,988	2,817	2,797	(1)	(6)				QoQ declined as higher recoveries/upgrades and write-offs more than offset a corporate account (property-related loan in Hong Kong) that turned NPA
Total assets	582,346	598,990	602,006	1	3				
Shareholders' funds	51,982	56,919	57,632	1	11				
ROAA (%)	1.48	1.56	1.57			1.51	1.59		
ROAE (%)	14.0	14.2	14.1			14.2	14.4		Tracking ahead of its earlier guidance of 13-14%
LDR (%)	79.7	81.1	81.6						
NPL ratio	1.0	1.0	0.9						
NPL coverage	138.8	138.0	147.7						
CET-1 ratio (%)	14.8	15.5	15.6						Based on Basel III reforms from 1 Jul 2024. Transitional CET-1 ratio was 17.2% while fully phased-in was 15.6%

Source: Company data, RHB

Management guidance

Figure 2: OCBC – management guidance and financial targets

	2023 actual	9M24 achieved	FY24 guidance	Comments
ROE	13.7%	14.4%	> 14% (from 13-14%)	Exit NIM was 2.16% vs 3Q24: 2.18% Management expects full-year NIM at 2.2%, ie in line with guidance at the lower end of the range
NIM	2.28%	2.22%	2.20-2.25%	
Credit cost	20bps	17bps	20-25bps	Despite the corporate account that turned NPL in 3Q24, management sees the case as idiosyncratic and not sector-wide stress. As such, OCBC thinks full-year credit cost is likely to come in at c.20bps, ie at the lower end of the guided range
Loan growth	+1%	2% YoY	Low single digit	
Dividend payout	53%	n.a.	50%	

Source: Company data, RHB

Valuation and TP

On the back of a good set of numbers, stronger allowance coverage levels and robust capital position post Basel III reforms implementation, we think downside risk to earnings should be contained while there could be upside to capital returns to help support ROEs going forward.

As such, we have updated our valuation parameters, resulting in a lower COE of 11.3% (from 11.7%) and nudged up our ROE assumption to 13% (from 12.8%). These have resulted in a revised GGM-derived P/BV of 1.21x (from 1.13x) and new intrinsic value of SGD16.50 (from SGD15.40). While our derived P/BV is above the stock's +1SD from its long-term mean, we believe levers to help keep ROEs elevated are also expanding.

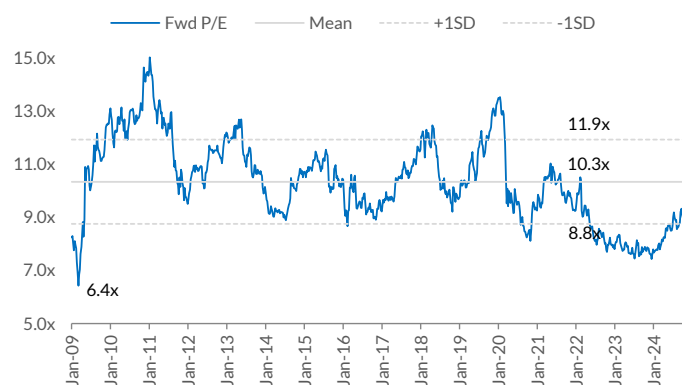
Attaching an unchanged 2% ESG premium results in a new SGD16.80 TP (from SGD15.70). The premium ascribed reflects OCBC's ESG score of 3.2 out of 4.0, using our proprietary in-house methodology. At our TP, the implied FY25F dividend yield is 5.3%.

Figure 3: OCBC – GGM valuation

Cost of equity (COE) computation:		Sustainable ROE (%)	13.0
Risk free rate (%)	3.0	COE (%)	11.3
Equity premium (%)	8.3	Long-term growth (g)	3.0
Beta (x)	1.0	Implied P/BV (x)	1.21
Cost of equity - CAPM (%)	11.3	BVPS	SGD13.62
		Intrinsic value	SGD16.50
ESG premium/(discount) (%)	2.0	ESG premium/(discount)	SGD0.33
		TP (rounded)	SGD16.80

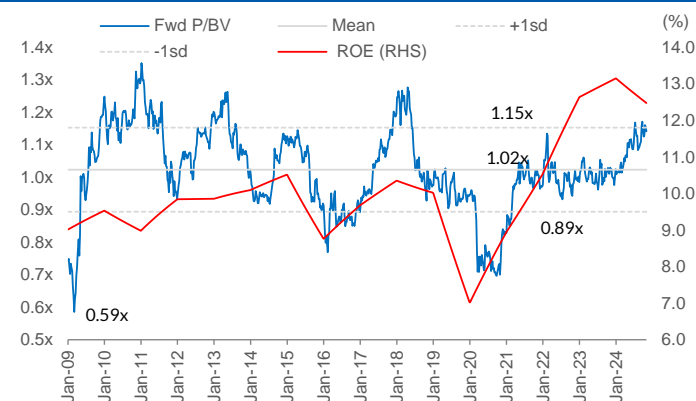
Source: Company data, RHB

Figure 4: OCBC's 12-month forward consensus P/E



Source: Bloomberg, RHB

Figure 5: 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.

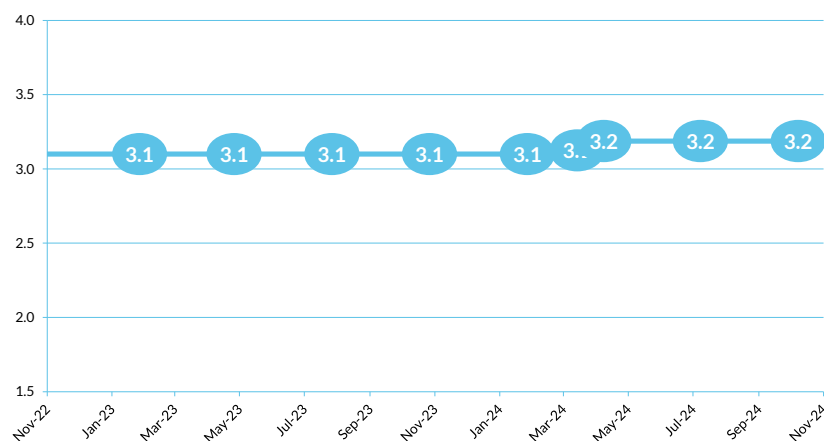
Emissions (tCO ₂ e)	Dec-21	Dec-22	Dec-23
Scope 1	237	160	147
Scope 2	67,636	63,811	23,501
Scope 3	278	1,517	3,849
Total emissions	68,151	65,488	27,497

Source: Company data, RHB

Latest ESG-Related Developments

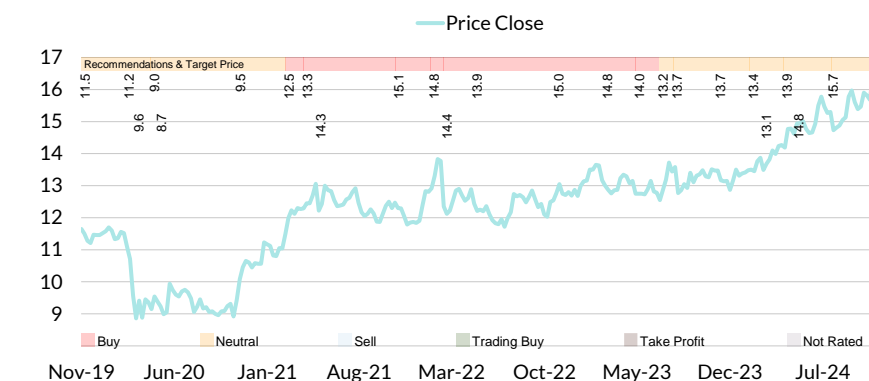
- **Unveiled decarbonisation targets:** In May 2023, OCBC unveiled decarbonisation targets for six sectors – power, oil & gas, real estate, steel, aviation and shipping, which formed 42% of its corporate and commercial banking portfolio.
- **Launched OCBC 1.5°C loan:** A sustainability-linked loan that 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
2024-08-04	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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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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**KUALA LUMPUR**

RHB Investment Bank Bhd
Level 3A, Tower One, RHB Centre
Jalan Tun Razak
Kuala Lumpur 50400
Malaysia
Tel : +603 2302 8100
Fax : +603 2302 8134

JAKARTA

PT RHB Sekuritas Indonesia
Revenue Tower, 11th Floor, District 8 - SCBD
Jl. Jendral Sudirman Kav 52-53
Jakarta 12190
Indonesia
Tel : +6221 509 39 888
Fax : +6221 509 39 777

BANGKOK

RHB Securities (Thailand) PCL
10th Floor, Sathorn Square Office Tower
98, North Sathorn Road, Silom
Bangrak, Bangkok 10500
Thailand
Tel: +66 2088 9999
Fax :+66 2088 9799

SINGAPORE

RHB Bank Berhad (Singapore branch)
90 Cecil Street
#04-00 RHB Bank Building
Singapore 069531
Fax: +65 6509 0470