13 May 2025

Financial Services | Banks

OCBC Bank (OCBC SP)

Neutral (Maintained)

Building Resilience

Target Price (Return):	SGD17.50 (+8%)
Price (Market Cap):	SGD16.20 (USD56,087m)
ESG score:	3.2 (out of 4)
Avg Daily Turnover (SGD/USD)	126m/94.9m

- **Keep NEUTRAL and SGD17.50 TP, 8% upside.** OCBC Bank's 1Q25 results were in line and management retained its 2025 guidance for now, albeit with possible changes ahead. While earnings were muted, proactive steps taken to protect NII could see NIM holding steady ahead while the pre-emptive provisioning helps lift already solid loan provision coverage levels. Reaffirmation of dividend and capital return plans are added positives.
- **1Q25 results are in line.** Reported earnings of SGD1.9bn (+12% QoQ, -5% YoY) made up 25-26% of our and Street forecasts. 1Q25 reported ROE stood at 13% (FY24: 13.7%) while the fully phased-in CET-1 ratio under the final Basel III reforms was at 15.5% (+20bps QoQ).
- **Results highlights.** While a stronger sequential set of earnings was expected post a seasonally softer 4Q, YoY PATMI trend was weaker than peers mainly due to NIM. OCBC's NIM compression of 23bps YoY (-11bps QoQ) was more severe than peers. This was on account of a higher proportion of floating rate book (80% floating for SGD book and >95% for the USD and HKD book) and its strategic decision to build up high quality but lower yielding assets in order to help protect NII ahead of US Federal Funds Rate (FFR) cuts. OCBC's NIM guidance of c.2% suggest NIMs ahead should be relatively more stable. Meanwhile, 1Q credit cost ticked up to 24bps (+8bps YoY; +3bps QoQ) due to pre-emptive provisioning. Elsewhere, loans growth was at a healthy +7% YoY led by mortgage and corporate loans (transport, storage and communications) while deposits rose 9% YoY, led by +13% YoY growth in CASA. Non-II grew by a healthy clip of +10% YoY (+36% QoQ) with fees, insurance and trading all aiding in the growth. CIR was 38.7%, up from 37.1% in 1Q24 due to weaker income growth but lower vs 4Q24 of 45.7%.
- **Briefing highlights.** OCBC estimates that c.3% of its loan book (includes sectors like manufacturing and transport/logistics) could be at risk to the first order impact from the US tariff policy. Its trade plus related off-balance sheet exposures are c.10%, while SME makes up 9% of loan book. With its Greater China commercial real estate (CRE) exposures having stabilised and GP making up 0.9% of performing loans, OCBC was comfortable with its asset quality and provision levels (NPA coverage was 147%, up from 143%/131% in 4Q24/1Q24). On NIM, it thinks downward pressure ahead would ease as: i) OCBC is largely done with its high-quality asset build up; ii) asset yields have mostly repriced for lower benchmark rates; and iii) deposit rate cuts it had put through should be felt in the coming quarters. In fact, management thinks loans growth could be at greater risk from US tariffs rather than NIM.
- **Reaffirms dividend payout and capital return plans.** OCBC reaffirmed its plan to distribute 60% of earnings (50% ordinary payout and 10% capital return dividends) to shareholders and share buyback scheme. Recall that OCBC announced in 4Q24 a SGD2.5bn capital distribution plan over a 2-year period comprising c.SGD1.5bn in special dividends and SGD1bn via share buybacks. No change to forecasts and TP, which bakes in a 2% ESG premium.

Forecasts and Valuation	Dec-23	Dec-24	Dec-25F	Dec-26F	Dec-27F
Reported net profit (SGDm)	7,021	7,587	7,444	7,550	7,644
Net profit growth (%)	27.1	8.1	(1.9)	1.4	1.2
Recurring net profit (SGDm)	7,021	7,587	7,444	7,550	7,644
Recurring EPS (SGD)	1.57	1.70	1.66	1.69	1.71
BVPS (SGD)	12.05	13.18	13.85	14.64	15.43
DPS (SGD)	0.82	1.01	0.99	0.89	0.91
Recurring P/E (x)	10.30	9.53	9.71	9.57	9.46
P/B (x)	1.34	1.23	1.17	1.10	1.05
Dividend Yield (%)	5.1	6.2	6.1	5.5	5.6
Return on average equity (%)	13.3	13.4	12.2	11.8	11.3

Source: Company data, RHB

Analyst

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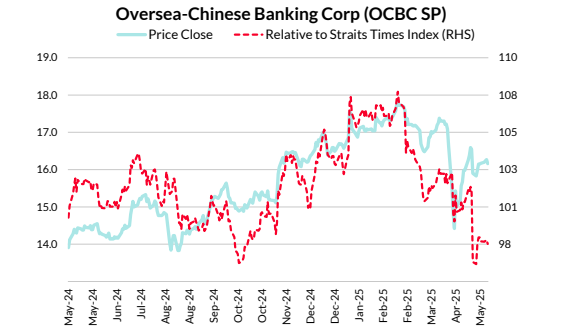
Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(3.2)	9.1	(6.8)	0.6	17.5
Relative	(4.8)	(1.8)	(6.4)	(2.7)	(0.4)
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.

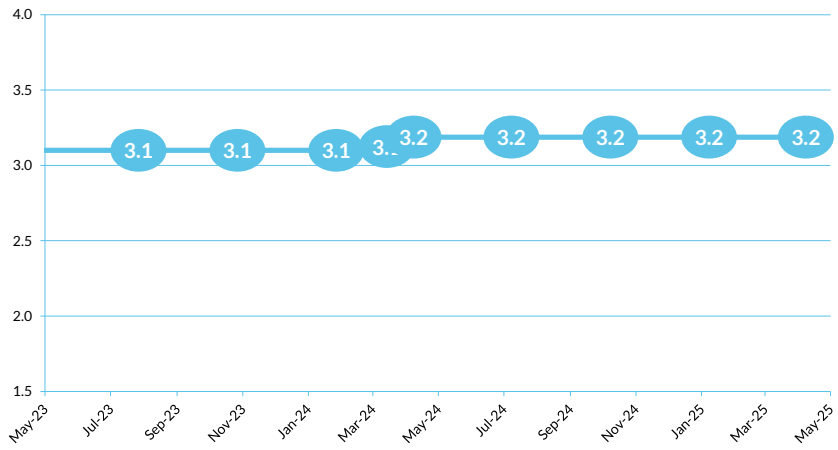
S Score: 3.0 (GOOD)

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 12.5%;
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 Bank 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	1.66	1.69	1.71
Recurring EPS	1.57	1.70	1.66	1.69	1.71
DPS	0.82	1.01	0.99	0.89	0.91
BVPS	12.05	13.18	13.85	14.64	15.43

Valuation metrics	Dec-23	Dec-24	Dec-25F	Dec-26F	Dec-27F
Recurring P/E (x)	10.30	9.53	9.71	9.57	9.46
P/B (x)	1.3	1.2	1.2	1.1	1.0
Dividend Yield (%)	5.1	6.2	6.1	5.5	5.6

Income statement (SGDm)	Dec-23	Dec-24	Dec-25F	Dec-26F	Dec-27F
Interest income	20,867	22,444	21,816	21,523	21,213
Interest expense	(11,222)	(12,689)	(12,177)	(11,800)	(11,407)
Net interest income	**9,645**	**9,755**	**9,639**	**9,723**	**9,806**
Non interest income	3,862	4,718	4,771	4,960	5,186
Total operating income	**13,507**	**14,473**	**14,410**	**14,683**	**14,992**
Overheads	(5,326)	(5,801)	(5,859)	(6,033)	(6,272)
Pre-provision operating profit	**8,181**	**8,672**	**8,550**	**8,650**	**8,720**
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**	**8,937**	**9,064**	**9,177**
Taxation	(1,236)	(1,228)	(1,340)	(1,360)	(1,377)
Minority interests	(144)	(161)	(152)	(154)	(156)
Reported net profit	**7,021**	**7,587**	**7,444**	**7,550**	**7,644**
Recurring net profit	**7,021**	**7,587**	**7,444**	**7,550**	**7,644**

Profitability ratios	Dec-23	Dec-24	Dec-25F	Dec-26F	Dec-27F
Return on average assets (%)	1.2	1.3	1.2	1.1	1.1
Return on average equity (%)	13.3	13.4	12.2	11.8	11.3
Return on IEAs (%)	5.2	5.3	4.9	4.6	4.4
Cost of funds (%)	3.1	3.3	3.0	2.7	2.5
Net interest spread (%)	2.1	2.0	1.9	1.9	1.9
Net interest margin (%)	2.4	2.3	2.2	2.1	2.0
Non-interest income / total income (%)	28.6	32.6	33.1	33.8	34.6
Cost to income ratio (%)	39.4	40.1	40.7	41.1	41.8
Credit cost (bps)	22.4	18.2	20.2	20.1	19.7

Balance sheet (SGDm)	Dec-23	Dec-24	Dec-25F	Dec-26F	Dec-27F
Total gross loans	296,653	319,166	331,933	345,210	359,018
Other interest earning assets	114,068	117,621	122,364	126,932	131,648
Total gross IEAs	410,721	436,787	454,296	472,142	490,666
Total provisions	(4,382)	(4,558)	(4,550)	(4,550)	(4,570)
Net loans to customers	292,271	314,608	327,383	340,660	354,448
Total net IEAs	406,339	432,229	449,746	467,592	486,096
Total non-IEAs	175,085	192,821	205,686	220,144	235,395
Total assets	581,424	625,050	655,432	687,736	721,491
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	62,305	65,874	69,423
Minority interests	1,384	1,064	1,216	1,370	1,526

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	161.3	159.8	159.1
CET-1 ratio (%)	16.5	16.0	16.2	16.7	17.0
Tier-1 ratio (%)	16.5	16.0	16.2	16.7	17.0
Total capital ratio (%)	18.1	17.7	17.8	18.2	18.5

Source: Company data, RHB

Results At a Glance

Figure 1: OCBC – summary of 1Q25 results

FYE Dec (SGDm)	1Q24	4Q24	1Q25	QoQ (%)	YoY (%)	Comments
NII	**2,437**	**2,455**	**2,345**	*(4)*	*(4)*	NIM squeeze outweighed asset growth
NIM (%) – reported	*2.27%*	*2.15%*	*2.04%*	*-11bps*	*-23bps*	Loan yields under pressure from lower benchmark rates coupled with strategic deployment of liquidity to build up high quality but lower yielding assets. Also, OCBC said only 20% of its SGD book is on fixed rate while for its USD and HKD book, c.3-5% of the book is fixed
						Exit NIM was 2.03%
Non-II	**1,189**	**961**	**1,310**	*36*	*10*	
Net fee & commission income	479	517	546	*6*	*14*	Driven by wealth management (+18% YoY; +9% QoQ) and loans-related (+18% YoY; +5% QoQ) fees
Income from insurance	289	101	306	*203*	*6*	QoQ aided by absence of negative impact from changes in the medical insurance environment recognised in 4Q24
Other non-interest income	421	343	458	*34*	*9*	Customer flow income up 10% YoY (+15% QoQ)
Non-II/total income (%)	*32.8%*	*28.1%*	*35.8%*			
Operating income	**3,626**	**3,416**	**3,655**	*7*	*1*	
Overhead expenses	(1,346)	(1,560)	(1,415)	*(9)*	*5*	
CIR (%)	*37.1%*	*45.7%*	*38.7%*			
PIOP	**2,280**	**1,856**	**2,240**	*21*	*(2)*	
Impairment charges	(194)	(213)	(217)	*2*	*12*	Higher general allowances of SGD118m (4Q24: SGD53m; 1Q24: SGD11m writeback)
Annualised loan credit cost (bps)	*16*	*21*	*24*			SP/loans lower at 11bps (4Q24: 15bps; 1Q24: 18bps) but more than offset by higher pre-emptive general allowances
Operating profit	**2,086**	**1,643**	**2,023**	*23*	*(3)*	
Associates	255	245	274	*12*		
Pre-tax profit	**2,341**	**1,888**	**2,297**	*22*	*(2)*	
Net profit	**1,982**	**1,687**	**1,883**	*12*	*(5)*	
Other key data and ratios						
Gross loans	301,000	319,166	322,000	*1*	*7*	YoY growth led by mortgages and corporate loans, while by geography, Singapore, rest of the world and Greater China drove growth
						Annualised growth was +4%
Customer deposits	369,841	390,687	402,732	*3*	*9*	Annualised deposit growth of +12% with CASA/fixed deposits/others at 13%/9%/23%
						CASA ratio stable QoQ at 49% but up from 47% in 1Q24
Gross NPLs	3,040	2,827	2,916	*3*	*(4)*	
Total assets	597,177	625,050	636,655	*2*	*7*	
Shareholders' funds	56,870	59,316	59,190	*(0)*	*4*	
ROAA (%) – reported	1.64	1.35	1.44			
ROAE (%) - reported	14.7	11.8	13.0			
LDR (%)	80.3	80.7	78.9			
GIL ratio	1.0	0.9	0.9			
Loan loss coverage	131.0	143.0	147.1			
CET-1 ratio (%)	16.2	15.3	15.5			
Total capital ratio (%)	18.4	19.7	20.2			

Source: Company data, RHB

Management guidance

Figure 2: OCBC – management guidance and financial targets

	2024 achieved	1Q25 achieved	2025 guidance	Comments
ROE	13.7%	13.0	n.a.	
Loan growth	8%	+7% YoY	Mid-single digit	
NIM	2.20%	2.04%	c. 2%	NIM guidance maintained for now and assumes three FFR cuts. Three reasons why management believes further potential downside to NIM is manageable is as below: i. OCBC's strategic move to bring in liquidity and build up high quality assets is largely done. This move was in anticipation of the US FFR cuts ahead and to defend NII. ii. Management thinks the pass through from lower benchmark rates to asset yields is largely done; iii. The relief from deposit rate cuts should start to be felt ahead. NIM sensitivity is SGD5m/bp change in benchmark rate
CIR	39.7%	38.7%	Low 40%	
Credit cost	19bps	24bps	20 – 25bps	67% of the book is based on domestic demand and less impacted by tariffs. Management is comfortable with its GP/performing loans level of 0.9% for now, but said it will also monitor how asset quality holds up as well as macroeconomic developments OCBC estimates its exposure to the first order impact of US tariff policy is 3% of loan book (eg manufacturing, transport and logistics sectors) Trade and related off-balance sheet exposures are c.10% while SME is 9% of the loan book Lastly, OCBC has not seen any material change to the situation of its Hong Kong commercial real estate (CRE) exposure. Its exposure to mid-sized CREs have reduced and is not expected to pose a big risk to asset quality. A larger portion of its Hong Kong CRE book is to big corporate clients, while its China CRE exposure is small.
Dividend payout	Total 60%	n.a.	Total 60%	

Source: Company data, RHB

Valuation and TP

There is no change to our intrinsic value of SGD17.21 and our TP of SGD17.50. The intrinsic value is based on a GGM-derived fair P/BV of 1.24x. While this is above the stock's +1SD from its long-term mean level, we think valuation would be supported by its dividend yields.

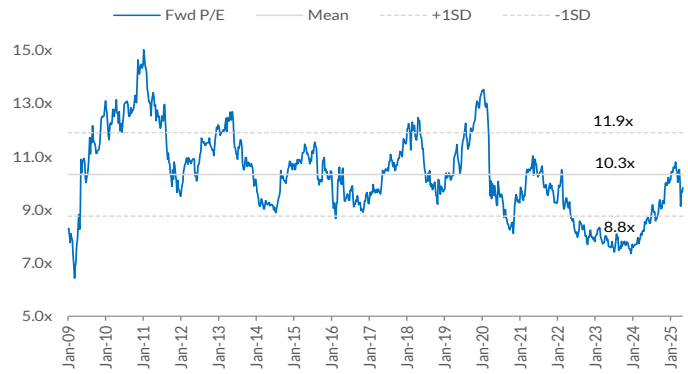
Our TP incorporates an unchanged 2% ESG premium, based on OCBC's ESG score of 3.2 out of 4.0 and our proprietary in-house methodology. At our TP of SGD17.50, the implied FY25F dividend yield (inclusive of capital distribution dividend) would be 5.7%.

Figure 3: OCBC – GGM valuation

Cost of equity (COE) computation:		Sustainable ROE (%)	12.5
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)	1.24
Cost of equity - CAPM (%)	10.65	BVPS	SGD13.85
		Intrinsic value	SGD17.21
ESG premium/(discount) (%)	2.0	ESG premium/(discount)	SGD0.34
		TP (rounded)	**SGD17.50**

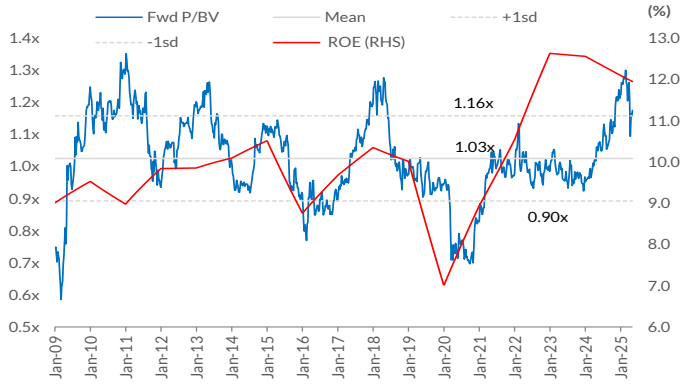
Source: Company data, RHB

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



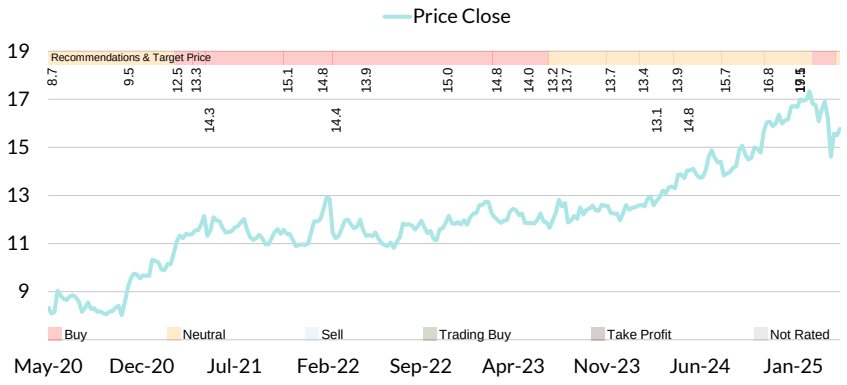
Source: Bloomberg, RHB

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



Source: Bloomberg, RHB

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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