

5 August 2024

Financial Services | Banks

## OCBC Bank (OCBC SP)

## Neutral (Maintained)

### Protecting NII As Rate Cuts Near

Target Price (Return): SGD15.70 (+6%)  
 Price (Market Cap): SGD14.80 (USD50,008m)  
 ESG score: 3.2 (out of 4)  
 Avg Daily Turnover (SGD/USD) 74.2m/55.0m

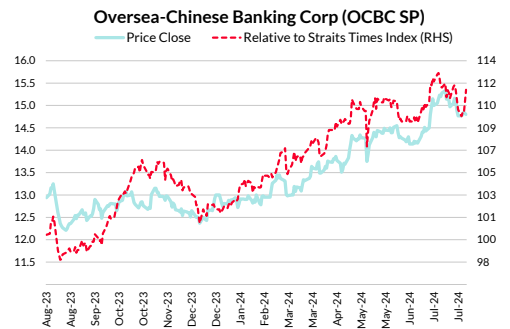
- **NEUTRAL, new SGD15.70 TP from SGD14.80, 6% upside.** OCBC Bank's 2Q24 results beat estimates, but the group retained its guidance as it looks ahead to the start of interest rate cuts and efforts to protect NII. We expect investors to look past the results beat. Solid asset quality and capital, coupled with 6% dividend yields should provide downside support, but a further share price outperformance is likely to be challenging in the absence of DPS growth and rising market expectations that interest rate cuts are nearing.
- **2Q24 results beat forecasts**, with earnings of SGD1.9bn (-2% QoQ, +14% YoY) bringing 1H24 PATMI to SGD3.9bn (+9% YoY) – at 54% of our and Street FY24 estimates. Non-II was surprisingly resilient despite the high base in 1Q24, coupled with better-than-expected opex control and benign impairment charges. 1H24 reported ROE was 14.5% (FY23: 13.7%) but CET-1 slipped 70bps QoQ to 15.5% due to the payment of the 4Q23 dividend and higher RWA (on loan growth plus higher market risk from hedges).
- **Results highlights.** Non-II was stable (+1% QoQ; +12% YoY) as higher other non-II and insurance income offset a moderation in fees (wealth management (WM) down QoQ) and trading income. Also positive was the 14% QoQ drop in amortisation and impairment charges (-40% YoY) on improved asset quality. Otherwise, NIM slipped 7bps QoQ (-6bps YoY) as OCBC deployed liquidity into higher-quality bonds, where yields are lower but will help shield NII when rate cuts begin. This shift is expected to continue and, hence, it thinks NIM would now end up at the lower end of the guided 2-2.25% range vs upper end previously. Annualised loan and deposit growth was 5% and 3%, while LDR ticked higher to 81.1% from 80.3% in 1Q24 (2Q23: 78.8%). Opex rose 2% QoQ (+3% YoY), but was generally under control. NPL dropped 7% QoQ (-11% YoY) on lower formation and higher recoveries, upgrades and write-offs, which lifted LLC to 138% (1Q24: 131%; 2Q23: 117%).
- **Briefing highlights:** OCBC's move to defend NII ahead includes increasing its fixed rate asset mix and to introduce more hedges. Already, its efforts have lowered its sensitivity to rates – the latest being SGD4m impact/bp change vs 1Q24: SGD5-6m and SGD6-7m in 4Q23. It's commercial real estate (CRE) exposure also received attention despite the improvement in NPL. While CRE valuations in developed markets like the US and Hong Kong are under pressure, OCBC pointed to mitigating factors such as having stopped financing office CRE in US, low loan-to-value for its CRE portfolio (<50%), and revaluing its collaterals at least annually. Its CRE exposure stands at 11% of group loans with 67% in Singapore, Malaysia, Indonesia and Greater China. Not much more was shared on Great Eastern except OCBC will continue to evaluate its options over the upcoming months.
- **Following the better-than-expected results, we raise FY24-26F PATMI by 4%, 2% and 2% pa.** Our new SGD15.70 TP was derived post earnings changes and a roll forward to FY25F (with an unchanged 2% ESG premium applied).

#### Analyst

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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	13.8	0.0	3.2	13.8	12.2
Relative	9.4	(0.4)	0.6	7.5	10.5
52-wk Price low/high (SGD)	12.2 – 15.3				



Source: Bloomberg

#### Overall ESG Score: 3.2 (out of 4)

#### E: EXCELLENT

As a signatory to the Net-Zero Banking Alliance, 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.

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)	11.98	9.43	8.78	8.83	8.71
P/B (x)	1.30	1.23	1.15	1.09	1.03
Dividend Yield (%)	4.6	5.5	6.0	6.0	6.1
Return on average equity (%)	10.6	13.3	13.5	12.6	12.1

Source: Company data, RHB

## Financial Exhibits

<b>Asia</b>	<b>Financial summary (SGD)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
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
<b>OCBC Bank</b>	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						
	<b>Valuation metrics</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
<b>Valuation basis</b>	Recurring P/E (x)	11.98	9.43	8.78	8.83	8.71
GGM-derived intrinsic value with an ESG overlay. Key GGM assumptions are:	P/B (x)	1.3	1.2	1.2	1.1	1.0
i. COE of 11.7%;	Dividend Yield (%)	4.6	5.5	6.0	6.0	6.1
ii. ROE of 12.8%;						
iii. 3.0% long-term growth						
	<b>Income statement (SGDm)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
<b>Key drivers</b>	Interest income	11,590	20,867	21,242	21,040	20,823
Our net profit forecast is most sensitive to changes in:	Interest expense	(3,902)	(11,222)	(11,353)	(11,003)	(10,592)
i. Credit costs;	<b>Net interest income</b>	<b>7,688</b>	<b>9,645</b>	<b>9,890</b>	<b>10,037</b>	<b>10,231</b>
ii. Net interest margin;	Non interest income	3,598	3,862	4,401	4,419	4,564
iii. Non-interest income growth.	<b>Total operating income</b>	<b>11,286</b>	<b>13,507</b>	<b>14,291</b>	<b>14,456</b>	<b>14,795</b>
	Overheads	(4,942)	(5,326)	(5,572)	(5,827)	(6,094)
	<b>Pre-provision operating profit</b>	<b>6,344</b>	<b>8,181</b>	<b>8,719</b>	<b>8,628</b>	<b>8,701</b>
<b>Key risks</b>	Loan impairment allowances	(505)	(663)	(671)	(673)	(676)
Downside risks include:	Other impairment allowances	(79)	(70)	-	-	-
i. Higher-than-expected allowances;	Income from associates	910	953	1,001	1,051	1,103
ii. Weaker-than-expected NIM;	<b>Pre-tax profit</b>	<b>6,670</b>	<b>8,401</b>	<b>9,049</b>	<b>9,006</b>	<b>9,128</b>
iii. Macroeconomic uncertainty and geo-political tensions.	Taxation	(1,031)	(1,236)	(1,357)	(1,351)	(1,369)
	Minority interests	(113)	(144)	(154)	(153)	(155)
Upside risks include:	<b>Reported net profit</b>	<b>5,526</b>	<b>7,021</b>	<b>7,538</b>	<b>7,502</b>	<b>7,604</b>
iv. Higher-than-expected NIM;	<b>Recurring net profit</b>	<b>5,526</b>	<b>7,021</b>	<b>7,538</b>	<b>7,502</b>	<b>7,604</b>
v. Stronger-than-expected non-II;						
vi. Lower-than-expected allowances.						
	<b>Profitability ratios</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
<b>Company Profile</b>	Return on average assets (%)	1.0	1.2	1.3	1.2	1.2
OCBC is the second largest banking group in Singapore by asset size. It also has sizeable operations in Malaysia, Greater China and Indonesia.	Return on average equity (%)	10.6	13.3	13.5	12.6	12.1
	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	2.4	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
	<b>Balance sheet (SGDm)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
	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
	<b>Asset quality and capital</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
	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 2Q24 and 1HFY24 results

FYE Dec (SGDm)	2Q23	1Q24	2Q24	QoQ (%)	YoY (%)	1H23	1H24	YoY (%)	Comments:
<b>NII</b>	<b>2,389</b>	<b>2,437</b>	<b>2,430</b>	<b>(0)</b>	<b>2</b>	<b>4,727</b>	<b>4,867</b>	<b>3</b>	1H24 average asset growth of 5%, partly offset by a 5bps NIM squeeze – rise in funding cost outpaced asset yields and OCBC putting on high-quality non-loan assets, which carry lower yields vs loans.
<i>NIM (%) - reported</i>	2.26%	2.27%	2.20%	-7bps	-6bps	2.28%	2.23%	-5bps	
<b>Non-II</b>	<b>1,066</b>	<b>1,189</b>	<b>1,199</b>	<b>1</b>	<b>12</b>	<b>2,078</b>	<b>2,388</b>	<b>15</b>	1H24 rise across fee, trading and insurance income.
Net fee & commission income	430	479	466	(3)	8	883	945	7	1H24 WM fees up 19% YoY from increase in customer activity.
Income from insurance	262	289	294	2	12	500	583	17	YoY growth attributed to underlying insurance business.
Other non-II	374	421	439	4	17	695	860	24	Lifted by customer flow treasury income.
<i>Non-II/total income (%)</i>	30.9%	32.8%	33.0%			30.5%	32.9%		
<b>Operating income</b>	<b>3,455</b>	<b>3,626</b>	<b>3,629</b>	<b>0</b>	<b>5</b>	<b>6,805</b>	<b>7,255</b>	<b>7</b>	
Overhead expenses	(1,329)	(1,346)	(1,373)	2	3	(2,573)	(2,719)	6	Continued investments to support growth.
<i>CIR (%)</i>	38.5%	37.1%	37.8%			37.8%	37.5%		
<b>PIOP</b>	<b>2,126</b>	<b>2,280</b>	<b>2,256</b>	<b>(1)</b>	<b>6</b>	<b>4,232</b>	<b>4,536</b>	<b>7</b>	
Amortisation and impairments charges	(278)	(194)	(166)	(14)	(40)	(413)	(360)	(13)	Higher allowances for impaired assets of SGD334m (1H23: SGD108m), cushioned by writeback in allowances for non-impaired assets of SGD21m (1H23: charge of SGD254m).
<i>Credit cost (bps)</i>	31	16	15			21	15		
<b>Operating profit</b>	<b>1,848</b>	<b>2,086</b>	<b>2,090</b>	<b>0</b>	<b>13</b>	<b>3,819</b>	<b>4,176</b>	<b>9</b>	
Associates	250	255	243	(5)		510	498		
<b>Pre-tax profit</b>	<b>2,098</b>	<b>2,341</b>	<b>2,333</b>	<b>(0)</b>	<b>11</b>	<b>4,329</b>	<b>4,674</b>	<b>8</b>	
<b>Net profit</b>	<b>1,710</b>	<b>1,982</b>	<b>1,944</b>	<b>(2)</b>	<b>14</b>	<b>3,589</b>	<b>3,926</b>	<b>9</b>	1H24 PATMI at 54% of our and consensus FY24F PATMI.
<b>Other key data and ratios</b>									
Gross loans	297,356	301,000	303,983	1	2				Annualised growth of 5% led by other Asia Pacific and rest of the world regions.
Customer deposits	372,462	369,841	369,835	(0)	(1)				Annualised growth of 3% led by fixed deposits. CASA was flat YTD, with CASA ratio at 47.9% (4Q23: 48.7%).
Non-performing loans	3,181	3,040	2,817	(7)	(11)				QoQ decline broad-based – lower new NPA formation and higher net recoveries, upgrades and write-offs.
Total assets	584,440	597,177	598,990	0	2				
Shareholders' funds	52,604	56,870	56,919	0	8				
ROAA (%)	1.19	1.35	1.30			1.26	1.33		
ROAE (%)	13.5	14.7	14.2			14.3	14.5		Tracking ahead of its FY24 guidance of 13-14%.
LDR (%)	78.8	80.3	81.1						
NPL ratio	1.1	1.0	1.0						
NPL coverage	116.8	131.0	138.0						
CET-1 ratio (%)	15.4	16.2	15.5						
Total capital ratio (%)	17.8	18.4	17.9						

Source: Company data, RHB

## Management guidance

Figure 2: OCBC – management guidance and financial targets

	2023 actual	1H24 achieved	FY24 guidance	Comments
ROE	13.7%	14.5%	13-14%	
NIM	2.28%	2.23%	2.20-2.25%	OCBC now thinks NIM could be at the lower end of the range vs upper end previously. While management expects two rate cuts this year, OCBC is deploying its liquidity to high quality non-loan assets, which carry lower yields but should help shield NII as rates come down.
Credit cost	20bps	15bps	20-25bps	1H specific provisions were due to idiosyncratic cases in Asia, but there was no specific sector stress noted.
Loan growth	+1%	+2%	Low single digit	
Dividend payout	53%	50%	50%	Management does not discount reconsidering the payout at the end of the financial year, depending on factors such as capital position, outlook and growth opportunities.

Source: Company data, RHB

## Revisions to estimates

We raised our FY24-26F PATMI by 4%, 2% and 2%, with key revisions being:

- Higher non-II in FY24F, due to the stronger-than-expected other non-II income from insurance and non-fee income;
- 1-3% downward revisions to FY24-26F opex, thanks to better-than-expected cost control YTD;
- Lower non-loan impairments on the back of the lower-than-expected impairments so far.

Post the changes, we now project FY24F PATMI to rise by 7% YoY (+3% YoY previously), led by +14% YoY non-II growth – which, in turn, should be led by trading and insurance income, better operating efficiencies with FY24F CIR at 38.3 from 39.3%, as well as a 7% reduction in amortisation and impairment charges. However, we now expect FY25F PATMI growth to be flat YoY, given the higher base effect.

We also raised FY24-26F DPS projections by 2-3% each year, based on an unchanged dividend payout ratio of c.53%.

Figure 3: OCBC – revisions to forecasts

	Previous FY24F	Previous FY25F	Previous FY26F	Revised FY24F	Revised FY25F	Revised FY26F	% Change FY24F	% Change FY25F	% Change FY26F
<b>FYE Dec (SGDm)</b>									
Net interest income	9,890	10,037	10,231	9,890	10,037	10,231	0%	0%	0%
Non-interest income	4,204	4,414	4,590	4,401	4,419	4,564	5%	0%	-1%
Operating expenses	(5,537)	(5,833)	(6,146)	(5,467)	(5,722)	(5,990)	-1%	-2%	-3%
<b>PIOP</b>	<b>8,557</b>	<b>8,617</b>	<b>8,675</b>	<b>8,824</b>	<b>8,733</b>	<b>8,805</b>	3%	1%	1%
Amortisation and impairment expenses	(846)	(848)	(850)	(776)	(778)	(780)	-8%	-8%	-8%
Pre-tax profit	8,711	8,820	8,929	9,049	9,006	9,128	4%	2%	2%
<b>Net profit</b>	<b>7,257</b>	<b>7,347</b>	<b>7,437</b>	<b>7,538</b>	<b>7,502</b>	<b>7,604</b>	4%	2%	2%
EPS (SGD)	1.61	1.63	1.65	1.67	1.66	1.68	4%	2%	2%
DPS (SGD)	0.86	0.87	0.88	0.89	0.89	0.90	3%	3%	2%
Loan growth (%)	4.0	4.5	4.5	4.0	4.5	4.5			
NIM (%)	2.36	2.30	2.25	2.36	2.30	2.25			
CIR (%)	39.3	40.4	41.5	38.3	39.6	40.5			
Loan credit cost (bps)	22	21	21	22	21	21			

Source: Company data, RHB

Valuation and TP

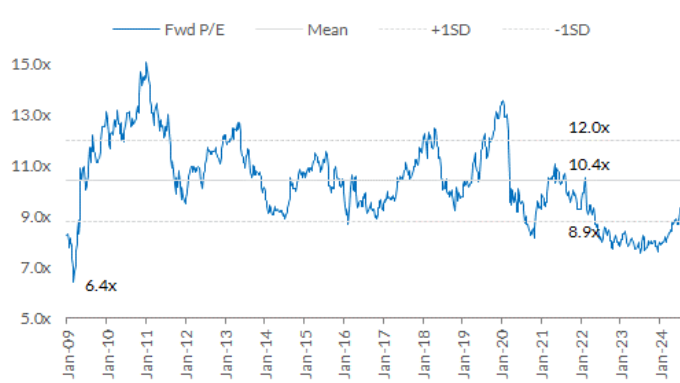
We raise our TP to SGD15.7 from SGD14.8 after factoring in the above earnings changes and rolling forward our BVPS to FY25F from FY24F. These result in a revised intrinsic value of SGD15.40 from SGD14.48. There is no change to our GGM-derived P/BV of 1.13x. Our TP includes an unchanged ESG premium of 2% applied – given OCBC’s ESG core of 3.2 out of 4.0, using our proprietary in-house methodology.

Figure 4: OCBC – GGM valuation

<b>Cost of equity (COE) computation:</b>		Sustainable ROE (%)	12.8
Risk free rate (%)	3.0	COE (%)	11.7
Equity premium (%)	8.2	Long-term growth (g)	3.0
Beta (x)	1.1	Implied P/BV (x)	1.13
Cost of equity - CAPM (%)	11.7	BVPS	SGD13.62
		Intrinsic value	SGD15.40
ESG premium/(discount) (%)	2.0	ESG premium/(discount)	SGD0.31
		<b>TP (rounded)</b>	<b>SGD15.70</b>

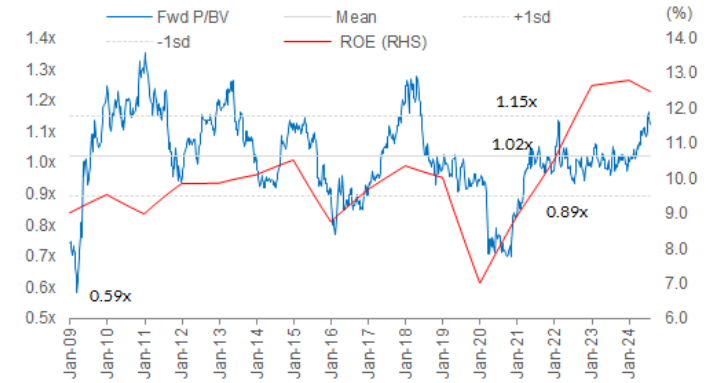
Source: Company data, RHB

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

## Emissions And ESG

### Trend analysis

OCBC recorded a sharp reduction in FY23 Scope 2 carbon emissions YoY after purchasing RE certificates in Malaysia, Indonesia and Greater China.

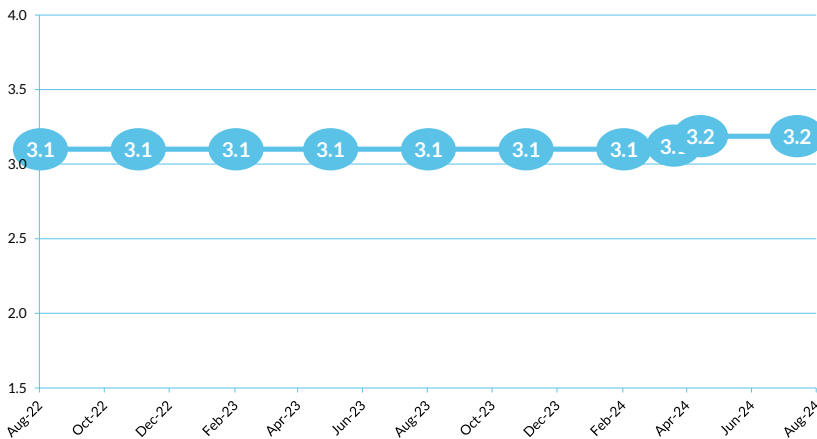
Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
Scope 1	237	160	147
Scope 2	67,636	63,811	23,501
Scope 3	278	1,517	3,849
Total emissions	68,151	65,488	27,497

Source: Company data, RHB

## Latest ESG-Related Developments

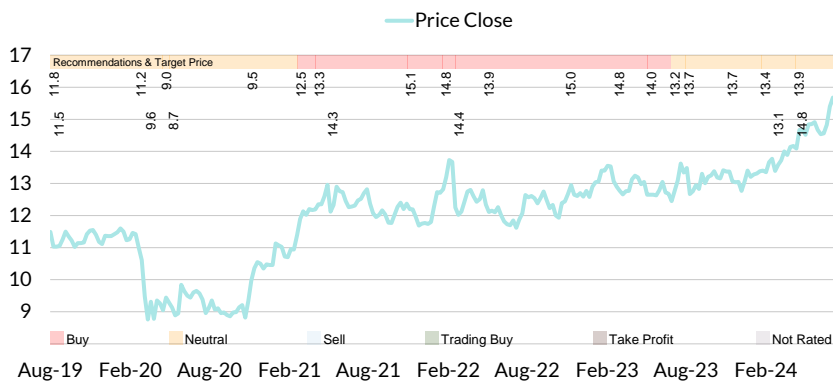
- Unveiled decarbonisation targets:** In May 2023, OCBC unveiled decarbonisation targets for six sectors – power, oil & gas, real estate, steel, aviation and shipping, which formed 42% of its corporate and commercial banking portfolio.
- Launched OCBC 1.5°C loan:** This sustainability-linked loan is 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:** OCBC appointed its first Group Chief Sustainability Officer in Aug 2023 to spearhead its 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
2024-05-13	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
2022-01-24	Buy	14.8	12.3

Source: RHB, Bloomberg

## RHB Guide to Investment Ratings

<b>Buy:</b>	Share price may exceed 10% over the next 12 months
<b>Trading Buy:</b>	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
<b>Neutral:</b>	Share price may fall within the range of +/- 10% over the next 12 months
<b>Take Profit:</b>	Target price has been attained. Look to accumulate at lower levels
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