

13 May 2024

Financial Services | Banks

OCBC Bank (OCBC SP)

Neutral (Maintained)

Non-II Shines – Can This Be Sustained?

Target Price (Return): SGD14.80 (4.8%)
 Price (Market Cap): SGD14.10 (USD46,956m)
 ESG score: 3.2 (out of 4)
 Avg Daily Turnover (SGD/USD) 77.3m/57.3m

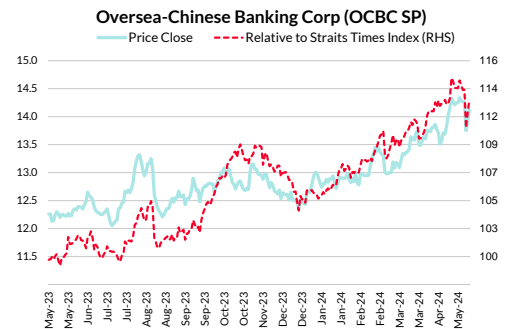
- **Still NEUTRAL, new SGD14.80 TP from SGD13.90, 5% upside.** 1Q24 results were a beat on better-than-expected non-II and credit cost tracking below estimates. No changes to guidance, but OCBC Bank thinks 2024 ROE could land at the upper end of the 13-14% guided range. It has launched a SGD1.4bn offer to acquire the remaining 11.6% stake in Great Eastern Holdings (GE SP, NR). If successful, the impact will not be too significant on earnings or capital, but there could be capital management opportunities.
- **1Q24 results beat**, with reported net profit of SGD2bn (+22% QoQ, +5% YoY) at 29% of our and 28% of Street's FY24 estimate. 1Q24 non-II was ahead of estimates (30% of full-year) while credit cost of 16bps was trending below our 24bps assumption. 1Q24 reported ROE was 14.7% (FY23: 13.7%) while CET-1 was up 30bps QoQ to 16.2%.
- **Results highlights.** Non-II (+17% YoY; +47% QoQ) was a standout in 1Q24 with all cylinders firing. Treasury income surged 31% YoY (+60% QoQ) on improved customer and non-customer flow income, while insurance contribution jumped 21% YoY (+228% QoQ). Fees rose by a more modest 6% YoY (+4% QoQ), mainly from wealth. NII was up 4% YoY (-1% QoQ) on asset growth but NIM eased 3bps YoY (-2bps QoQ) on higher funding cost. Opex growth was in line with operating income growth, at 8% YoY (+3% QoQ) while credit cost stayed low at 16bps (1Q23: 12bps; 4Q21: 21bps) despite a slight uptick in NPLs QoQ (+8% QoQ; -6% YoY). Loan growth got off to a decent start (+2% YoY; +1% QoQ) while deposits rose 1% YoY/+2% QoQ.
- **Briefing highlights:** OCBC was somewhat guarded, citing global uncertainties (eg geopolitical tensions). It retained its 2024 targets and guidance. However, amid the higher-for-longer rates environment, and improved sentiment and customer activities, OCBC now thinks NIM and ROE will end up at the upper end of the 2.20-2.25% and 13-14% guided ranges. However, loan growth guidance was retained at the low single-digit level, given the current uncertainties. As for the uptick in NPLs, this relates to a couple of ASEAN names, but was not systemic. On its targeted SGD3bn incremental revenue uplift from the strategy refresh, SGD500m was realised in 2023 and OCBC targets to achieve another SGD1bn this year.
- **GE offer:** OCBC sees this as an opportunity to further optimise capital and strengthen the wealth pillar. The impact of a successful offer: i) PATMI: +1-2%; ii) ROE: +20bps; iii) CET-1 ratio: -60bps (not too significant). OCBC still guided for 50% dividend payout ratio, but we think there could be capital management opportunities as part of OCBC's efforts to optimise capital structures at its subsidiaries. If the offer fails, we do not discount the possibility of OCBC returning this (or a portion of) 60bps CET-1 (c.31 cents) as dividends.
- **Forecasts, ESG.** Following the better-than-expected results, we raise FY24-26F earnings by 5% pa, and our TP to SGD14.80 (includes 2% ESG premium).

Analyst

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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	8.6	2.2	9.0	8.9	14.6
Relative	7.0	0.6	4.1	3.0	13.1
52-wk Price low/high (SGD)				12.1	14.3



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.

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Reported net profit (SGDm)	5,526	7,021	7,257	7,347	7,437
Net profit growth (%)	13.8	27.1	3.4	1.2	1.2
Recurring net profit (SGDm)	5,526	7,021	7,257	7,347	7,437
Recurring EPS (SGD)	1.24	1.57	1.62	1.64	1.66
BVPS (SGD)	11.37	12.05	12.81	13.58	14.35
DPS (SGD)	0.68	0.82	0.86	0.87	0.88
Recurring P/E (x)	11.43	9.00	8.70	8.60	8.49
P/B (x)	1.24	1.17	1.10	1.04	0.98
Dividend Yield (%)	4.8	5.8	6.1	6.1	6.2
Return on average equity (%)	10.6	13.3	13.0	12.4	11.8

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	1.62	1.64	1.66
Financial Services	Recurring EPS	1.24	1.57	1.62	1.64	1.66
OCBC Bank	DPS	0.68	0.82	0.86	0.87	0.88
OCBC SP	BVPS	11.37	12.05	12.81	13.58	14.35
Neutral						
	Valuation metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Recurring P/E (x)	11.43	9.00	8.70	8.60	8.49
	P/B (x)	1.2	1.2	1.1	1.0	1.0
	Dividend Yield (%)	4.8	5.8	6.1	6.1	6.2
	Income statement (SGDm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Interest income	11,590	20,867	21,242	21,040	20,823
	Interest expense	(3,902)	(11,222)	(11,353)	(11,003)	(10,592)
	Net interest income	7,688	9,645	9,890	10,037	10,231
	Non interest income	3,598	3,862	4,204	4,414	4,590
	Total operating income	11,286	13,507	14,093	14,451	14,821
	Overheads	(4,942)	(5,326)	(5,642)	(5,938)	(6,250)
	Pre-provision operating profit	6,344	8,181	8,452	8,512	8,571
	Loan impairment allowances	(505)	(663)	(671)	(673)	(676)
	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	8,711	8,820	8,929
	Taxation	(1,031)	(1,236)	(1,307)	(1,323)	(1,339)
	Minority interests	(113)	(144)	(148)	(150)	(152)
	Reported net profit	5,526	7,021	7,257	7,347	7,437
	Recurring net profit	5,526	7,021	7,257	7,347	7,437
	Profitability ratios	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Return on average assets (%)	1.0	1.2	1.2	1.2	1.1
	Return on average equity (%)	10.6	13.3	13.0	12.4	11.8
	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	29.8	30.5	31.0
	Cost to income ratio (%)	43.8	39.4	40.0	41.1	42.2
	Credit cost (bps)	17.3	22.4	22.2	21.3	20.5
	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	185,693	197,732	208,540
	Total assets	556,924	581,424	607,891	638,749	669,011
	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	57,562	61,022	64,505
	Minority interests	1,308	1,384	1,532	1,682	1,834
	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	17.3	17.8
	Tier-1 ratio (%)	15.9	16.5	16.8	17.3	17.8
	Total capital ratio (%)	17.7	18.1	18.3	18.7	19.1

Source: Company data, RHB

Results At a Glance

Figure 1: OCBC – summary of 1Q24 results

FYE Dec (SGDm)	1Q23	4Q23	1Q24	QoQ (%)	YoY (%)	Comments
NII	2,338	2,462	2,437	-1	4	YoY growth underpinned by 5% growth in average assets.
<i>NIM (%) – reported</i>	2.30%	2.29%	2.27%	-2bps	-3bps	Catch up in funding cost pressuring NIM. Exit NIM was 2.27%.
Non-II	1,012	811	1,189	47	17	
Net fee & commission income	453	460	479	4	6	YoY growth led by wealth management (+20% YoY) but loans related fees fell 6% YoY.
Income from insurance	238	88	289	228	21	QoQ growth on better investment performance and improved claims experience.
Other non-interest income	321	263	421	60	31	Strong growth from record customer flow income and better non-customer flow contribution.
<i>Non-II/total income (%)</i>	30.2%	24.8%	32.8%			
Operating income	3,350	3,273	3,626	11	8	At 26% of our FY24F, due to stronger-than-expected non-II
Overhead expenses	(1,244)	(1,310)	(1,346)	3	8	Growth-related investments.
<i>CIR (%)</i>	37.1%	40.0%	37.1%			
PIOP	2,106	1,963	2,280	16	8	
Impairment charges	(135)	(213)	(194)	-9	44	Higher allowances for impaired assets of SGD180m (vs 1Q23: SGD56m), cushioned by writeback in allowances for non-impaired assets of SGD11m (1Q23: SGD54m provision).
<i>Annualised loan credit cost (bps)</i>	12	21	16			Made up 21% of our FY24F given that 1Q credit cost was trailing below management's 20-25bps guidance.
Operating profit	1,971	1,750	2,086	19	6	
Associates	260	189	255	35		
Pre-tax profit	2,231	1,939	2,341	21	5	
Net profit	1,879	1,622	1,982	22	5	
Other key data and ratios						
Gross loans	294,000	296,653	301,000	1	2	YoY and QoQ growth led by Singapore (both corporate and consumer).
Customer deposits	366,850	363,770	369,841	2	1	Broadly keeping pace with loan growth. Both fixed and CASA deposits rose 1% YoY but QoQ, CASA was down 1%. CASA ratio stable YoY at 47.3% (1Q23: 47.1%) and slightly lower from 48.7% in 4Q23.
Gross NPLs	3,234	2,805	3,040	8	-6	Uptick from 4Q23 due to new corporate NPA formation in ASEAN – one from services and another from the real estate space.
Total assets	565,808	581,424	597,177	3	6	
Shareholders' funds	53,727	54,170	56,870	5	6	
ROAA (%) – reported	1.63	1.33	1.64			
ROAE (%) – reported	14.7	12.4	14.7			
LDR (%)	79.2	80.5	80.3			
GIL ratio	1.1	1.0	1.0			
Loan loss coverage	121.3	151.1	131.0			
CET-1 ratio (%)	15.9	15.9	16.2			
Total capital ratio (%)	18.4	18.1	18.4			

Source: Company data, RHB

Management guidance

Figure 2: OCBC – management guidance and financial targets

	2023 actual	1Q24 achieved	FY24 guidance	Comments
ROE	13.7%	14.7%	13-14%	Retained but management thinks 2024 ROE could land at the upper end of the range.
NIM	2.28%	2.27%	2.20-2.25%	OCBC thinks NIM could land at the upper end of the range given that fewer rate cuts are now anticipated (previously expected four rate cuts starting in 2H24).
Credit cost	20bps	16bps	20-25bps	Nothing systemic noted thus far and the range could be refined after 2Q.
Loan growth	+1%	+2%	Low single digit	Global uncertainties, e.g. geopolitical tensions, remain and management has yet to see clear signs that the demand is sustainable. Better picture likely after 2Q.
Dividend payout	53%	n.a.	50%	

Source: Company data, RHB

Launches SGD1.4bn offer for GE

OCBC announced a SGD1.4bn voluntary unconditional general offer for the 11.6% stake in GE that it does not own. The cash offer price of SGD25.60 is at a 37% premium to GE's closing price on 9 May and translates to a P/EV of 0.7x and P/BV of 1.54x. OCBC intends to delist GE if the necessary conditions are met.

Revisions to estimates

We raised our FY24-26F PATMI by 5%, with key revisions being:

- Slightly better NIM for 2024 (+2bps revision) as rates stay elevated for longer. We continue to expect NIM compression of 5-6bps pa in 2025F and 2026F;
- 5% upward revision to FY24-26F non-II, underpinned by higher trading income; and
- Reduction in loan credit cost assumptions by 1-2bps in 2024-2026F, which resulted in c. 7% downward revisions to projected loan impairment allowances.

Post the changes, we now project FY24F PATMI will rise by 3% YoY (-2% YoY previously), led by +4% YoY operating income growth, partly offset by 6% YoY rise in opex. Loan impairment allowances are projected to remain flat YoY. Our FY25-26F outlook is unchanged, at +1% YoY growth pa.

We also raised FY24-26F DPS projections by 5% pa, 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
FYE Dec (SGDm)									
Net interest income	9,806	9,950	10,140	9,890	10,037	10,231	1%	1%	1%
Non-interest income	3,988	4,188	4,355	4,204	4,414	4,590	5%	5%	5%
Operating expenses	(5,537)	(5,833)	(6,146)	(5,537)	(5,833)	(6,146)	0%	0%	0%
PIOP	8,257	8,304	8,349	8,557	8,617	8,675	4%	4%	4%
Provision expenses	(905)	(907)	(909)	(846)	(848)	(850)	-7%	-7%	-7%
Pre-tax profit	8,353	8,447	8,543	8,711	8,820	8,929	4%	4%	5%
Net profit	6,917	6,995	7,074	7,257	7,347	7,437	5%	5%	5%
EPS (SGD)	1.53	1.55	1.57	1.61	1.63	1.65	5%	5%	5%
DPS (SGD)	0.82	0.82	0.84	0.86	0.87	0.88	5%	5%	5%
Loan growth (%)	4.0	4.5	4.5	4.0	4.5	4.5			
NIM (%)	2.34	2.28	2.23	2.36	2.30	2.25			
CIR (%)	40.1	41.3	42.4	39.3	40.4	41.5			
Loan credit cost (bps)	24	23	22	22	21	21			

Source: Company data, RHB

Valuation and TP

Following the earnings revision, we lifted our ROE assumption in our GGM model to 12.8% from 12.25%, resulting in a GGM-derived P/BV of 1.13x (previously 1.07x) and higher intrinsic value of SGD14.48 (from SGD13.63). Our revised fair P/BV is close to the +1SD level of 1.15x.

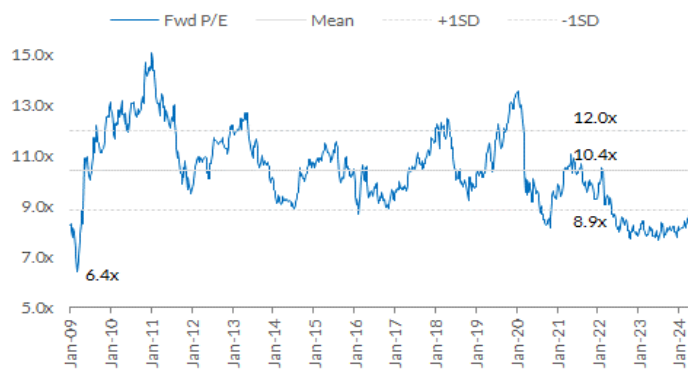
Our TP also incorporates an unchanged 2% ESG premium, based on OCBC’s ESG score of 3.2 out of 4.0. All-in, our TP has been revised up by 6% to SGD14.80.

Figure 4: OCBC – GGM valuation

Cost of equity (COE) computation:		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	SGD12.81
		Intrinsic value	SGD14.48
ESG premium/(discount) (%)	2.0	ESG premium/(discount)	SGD0.29
		TP (rounded)	SGD14.80

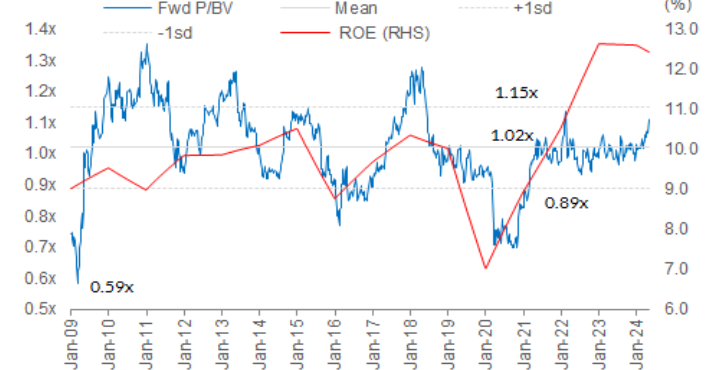
Source: Company data, RHB

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

Sharp reduction in FY23 Scope 2 carbon emissions YoY due to the purchase of Renewable Energy Certificates in Malaysia, Indonesia and Greater China.

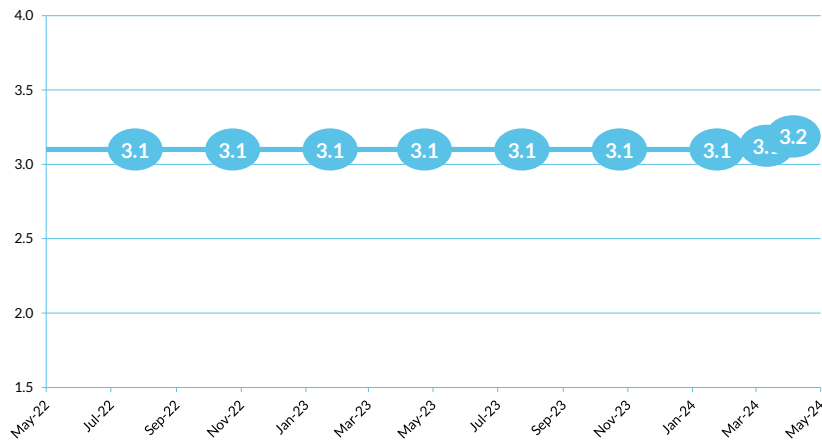
Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
Scope 1	237	160	147
Scope 2	67,636	63,811	23,501
Scope 3	278	1,517	3,849
Total emissions	68,151	65,488	27,497

Source: Company data, RHB

Latest ESG-Related Developments

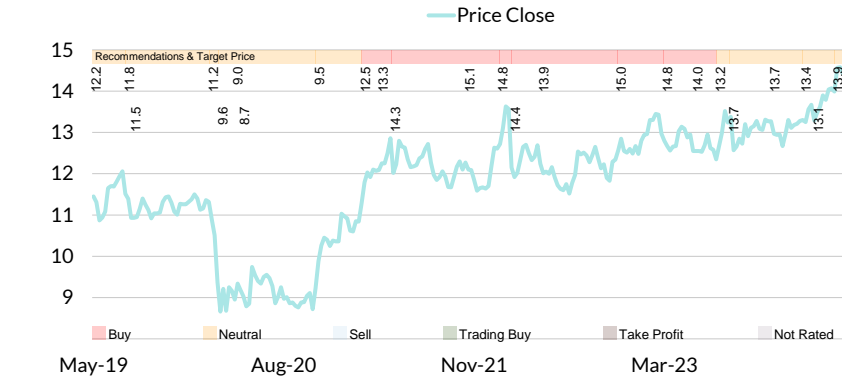
- **Unveiled decarbonisation targets:** In May 2023, OCBC unveiled decarbonisation targets for six sectors – power, oil & gas, real estate, steel, aviation and shipping, which formed 42% of its corporate and commercial banking portfolio.
- **Launched OCBC 1.**
- **5oC loan:** A sustainability-linked 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
2024-04-16	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
2021-11-04	Buy	15.1	11.9

Source: RHB, Bloomberg

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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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