

28 February 2024

Financial Services | Banks

OCBC Bank (OCBC SP)

Neutral (Maintained)

Results In Line, But Dividend Guidance May Disappoint

- **Stay NEUTRAL, new SGD13.10 TP from SGD13.40, 2% downside.** 4Q23 results were in line. Relative to OCBC Bank's FY23 guidance, its reported ROE of 13.7% missed the >14% target. For FY24, mild NIM compression and higher credit cost were guided, leading to an ROE target of 13-14%. The stock has done relatively well YTD. Yet, despite healthy capital and asset quality, investors may be disappointed that it is not "doing more" with respect to capital returns. As such, we switch our preferred sector pick over to DBS (DBS SP, BUY, TP: SGD36.10) from OCBC.
- **4Q23 results were in line**, with reported net profit of SGD1.6bn (-10% QoQ, +12% YoY) bringing FY23 earnings to SGD7bn (+27% YoY) – 99% of our and Street's FY23 estimate. FY23 reported ROE was 13.7% (FY22: 11.1%) while CET-1 was up 110bps QoQ to 15.9% (4Q22: 15.5%). A final DPS of 42 SGD cents was declared (4Q22: 40 SGD cents) – ahead of our 38 SGD cents expectations. This brought 2023 DPS to 82 SGD cents vs 2022's 68 SGD cents and translates to a payout of 53% (FY22: 54%)
- **Results highlights.** Main drags this quarter were: i) Weaker non-II (insurance was impacted by higher claims; otherwise, fee and trading income held up well QoQ) and ii) uptick in loan credit cost to 21bps (3Q23: 17bps), albeit predominantly related to general allowances as OCBC continues to build up buffers for the real estate space and in general. Flipside: i) NIM was surprisingly up 2bps QoQ (-2bps YoY), aided by the release in some fixed deposits (-7% QoQ) given its liquid balance sheet (LDR: 81% vs 3Q23: 79.7%); ii) good CASA momentum (+4% QoQ), which helped lift the CASA ratio to 48.7% from 46.3% in 3Q23 (4Q2: 51.8%); iii) sound asset quality with NPLs falling 6% QoQ, bringing the GNPL ratio to 1% (stable QoQ) while LLC rose further to 151% (3Q23: 139%); and iv) a 2% drop in opex.
- **2024 outlook and other highlights:** OCBC guided for FY24 ROE of 13-14%. This takes into account some NIM compression (NIM guidance of 2.2-2.25% vs FY23's 2.28%) and higher credit cost of 20-25bps (2023: 20bps), although management does not see any portfolio stress or systemic issues for now. OCBC's NIM guidance assumes four rate cuts, which is expected to kick-in in 2H24. Finally, despite its healthy asset quality and capital levels, OCBC kept to its 50% dividend payout guidance, citing the need to maintain some capital buffer to face potential uncertainties and for growth. While the bank is looking at potentially improving the capital structures at its subsidiaries, management could not share more at this juncture.
- **Forecasts and TP.** We lower our FY24F-25F PATMI by 2-4%, mainly after bringing our loan credit cost assumptions in line with guidance. This is cushioned by an upward revision to NII post the better-than-expected full-year NIM. The change to our TP is minor. There is no ESG premium/discount ascribed as OCBC's overall ESG score is in line with the 3.1 country median.

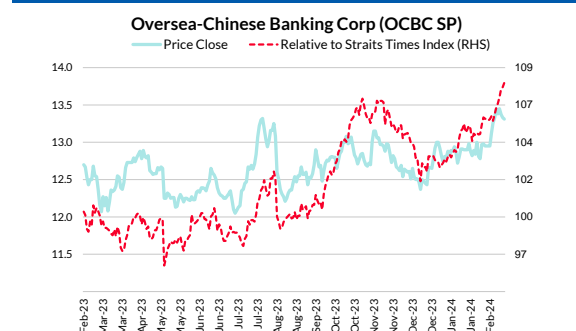
Target Price (Return):	SGD13.10 (-1.6%)
Price (Market Cap):	SGD13.30 (USD44,549m)
ESG score:	3.1 (out of 4)
Avg Daily Turnover (SGD/USD)	56.4m/42.2m

Analyst

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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	2.4	2.5	5.2	7.7	4.8
Relative	5.0	2.6	2.9	8.7	8.1
52-wk Price low/high (SGD)				12.1	13.5



Source: Bloomberg

Overall ESG Score: 3.1 (out of 4)

E: GOOD

OCBC has a responsible lending framework, and is working towards enhancing the integration of climate-related considerations into its ESG Risk Assessment processes by 2022. In 2020, OCBC developed a new Responsible Investing Policy to integrate ESG considerations into the bank's investment decisions. It aims to build a sustainable finance portfolio of SGD50bn by 2025 (2021: SGD34bn) and achieve carbon neutral in its banking operations in 2022.

S: GOOD

OCBC aims to maintain a balanced gender mix across its workforce, with 42% of women in leadership positions by 2022. In 2021, women accounted for 58% of total employees, 39% in leadership positions, and 20% in the board of directors. OCBC is active in talent management, and places health, safety and wellbeing of staff at the top of its priorities as an employer.

G: EXCELLENT

OCBC is proactive in its approach to ensure resilience against risks of cyber-attacks, data breaches, fraud and money laundering. That said, a highly sophisticated phishing scam in Dec 2021 has highlighted the need for enhanced security measures.

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Reported net profit (SGDm)	5,526	7,021	6,917	6,995	7,074
Net profit growth (%)	13.8	27.1	(1.5)	1.1	1.1
Recurring net profit (SGDm)	5,526	7,021	6,917	6,995	7,074
Recurring EPS (SGD)	1.24	1.57	1.55	1.56	1.58
BVPS (SGD)	11.37	12.05	12.77	13.51	14.24
DPS (SGD)	0.68	0.82	0.82	0.82	0.84
Recurring P/E (x)	10.78	8.48	8.61	8.51	8.42
P/B (x)	1.17	1.10	1.04	0.99	0.93
Dividend Yield (%)	5.1	6.2	6.2	6.2	6.3
Return on average equity (%)	10.6	13.3	12.4	11.8	11.3

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	1.55	1.56	1.58
Financial Services	Recurring EPS	1.24	1.57	1.55	1.56	1.58
OCBC Bank	DPS	0.68	0.82	0.82	0.82	0.84
OCBC SP	BVPS	11.37	12.05	12.77	13.51	14.24
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)	10.78	8.48	8.61	8.51	8.42
i. COE of 12%;	P/B (x)	1.2	1.1	1.0	1.0	0.9
ii. ROE of 12.2%;	Dividend Yield (%)	5.1	6.2	6.2	6.2	6.3
iii. 3% 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	21,159	20,952	20,732
i. Credit costs;	Interest expense	(3,902)	(11,222)	(11,353)	(11,003)	(10,592)
ii. NIM;	Net interest income	7,688	9,645	9,806	9,950	10,140
iii. Non-II growth.	Non interest income	3,598	3,862	3,988	4,188	4,355
	Total operating income	11,286	13,507	13,794	14,137	14,495
	Overheads	(4,942)	(5,326)	(5,642)	(5,938)	(6,250)
	Pre-provision operating profit	6,344	8,181	8,152	8,199	8,245
	Loan impairment allowances	(505)	(663)	(730)	(732)	(735)
	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	8,353	8,447	8,543
	Taxation	(1,031)	(1,236)	(1,295)	(1,309)	(1,324)
	Minority interests	(113)	(144)	(141)	(143)	(144)
	Reported net profit	5,526	7,021	6,917	6,995	7,074
	Recurring net profit	5,526	7,021	6,917	6,995	7,074
Key risks						
Key risks include:	Profitability ratios	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
i. Higher-than-expected allowances;	Return on average assets (%)	1.0	1.2	1.2	1.1	1.1
ii. Weaker-than-expected NIM;	Return on average equity (%)	10.6	13.3	12.4	11.8	11.3
iii. Macroeconomic uncertainty and geo-political tensions.	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	2.3	2.3	2.2
	Non-interest income / total income (%)	31.9	28.6	28.9	29.6	30.0
	Cost to income ratio (%)	43.8	39.4	40.9	42.0	43.1
	Credit cost (bps)	17.3	22.4	24.1	23.2	22.3
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.	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	185,526	197,408	208,026
	Total assets	556,924	581,424	607,724	638,425	668,496
	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	57,402	60,712	64,012
	Minority interests	1,308	1,384	1,525	1,668	1,812
	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	15.4	15.7	15.9
	Tier-1 ratio (%)	15.9	16.5	15.4	15.7	15.9
	Total capital ratio (%)	17.7	18.1	17.0	17.1	17.2

Source: Company data, RHB

Results At a Glance

Figure 1: OCBC – summary of 4Q23 and FY23 results

FYE Dec (SGDm)	4Q22	3Q23	4Q23	QoQ (%)	YoY (%)	FY22	FY23	YoY (%)	Comments: FY23 vs FY22
NII	2,386	2,456	2,462	0	3	7,688	9,645	25	Robust YoY growth on 5% average asset growth and 37bps NIM expansion.
<i>NIM (%) - reported</i>	<i>2.31%</i>	<i>2.27%</i>	<i>2.29%</i>	<i>2bps</i>	<i>-2bps</i>	<i>1.91%</i>	<i>2.28%</i>	<i>37bps</i>	Exit NIM was 2.26%.
Non-II	646	973	811	(17)	26	3,598	3,862	7	
Net fee & commission income	399	461	460	(0)	15	1,851	1,804	(3)	Subdued investment sentiment impacted wealth-related fees.
Income from insurance	100	220	88	(60)	(12)	803	808	1	
Other non-interest income	147	292	263	(10)	79	944	1,250	32	Higher trading income (non-customer flow income) and net gains from the sale of investment securities.
<i>Non-II/total income (%)</i>	<i>21.3%</i>	<i>28.4%</i>	<i>24.8%</i>			<i>31.9%</i>	<i>28.6%</i>		
Operating income	3,032	3,429	3,273	(5)	8	11,286	13,507	20	
Overhead expenses	(1,102)	(1,340)	(1,310)	(2)	19	(4,838)	(5,223)	8	Growth-related investments in talent and technology.
<i>CIR (%)</i>	<i>36.3%</i>	<i>39.1%</i>	<i>40.0%</i>			<i>42.9%</i>	<i>38.7%</i>		
PIOP	1,930	2,089	1,963	(6)	2	6,448	8,284	28	
Impairments charges	(340)	(210)	(213)	1	(37)	(688)	(836)	22	Higher general allowances (FY23: SGD400m vs FY22: SGD368m) and SP (FY23: SGD333m vs FY22: SGD216m).
<i>Annualised loan credit cost (bps)</i>	<i>35</i>	<i>17</i>	<i>21</i>			<i>16</i>	<i>20</i>		In line with its guidance of c.20bps.
Operating profit	1,590	1,879	1,750	(7)	10	5,760	7,448	29	
Associates	155	254	189	(26)		910	953		
Pre-tax profit	1,745	2,133	1,939	(9)	11	6,670	8,401	26	
Tax	(277)	(298)	(250)			(1,031)	(1,236)		
<i>Effective tax rate (%)</i>	<i>15.8%</i>	<i>13.9%</i>	<i>12.9%</i>			<i>15.5%</i>	<i>14.7%</i>		
Minorities	(26)	(26)	(68)	165	160	(113)	(144)	27	
Net profit	1,443	1,810	1,622	(10)	12	5,526	7,021	27	
Other key data and ratios									
Gross loans	294,980	298,000	296,653	(0)	1				YoY growth led by Singapore, Australia, UK, and Europe.
Customer deposits	350,081	369,432	363,770	(2)	4				YoY growth was driven by fixed deposits (+12% YoY) while CASA deposits declined 2%. The CASA ratio fell YoY to 48.7% from 51.8% in 4Q22, but off the low of 45.3% in 2Q23.
Gross NPLs	3,383	2,988	2,805	(6)	(17)				Down YoY on lower new NPA formation for both consumer and corporate segments. By country, Singapore, Malaysia, Indonesia, and Greater China all posted declines.
Total assets	556,924	582,346	581,424	(0)	4				
Shareholders' funds	51,117	51,944	54,170	4	6				
ROAA (%) - reported	1.22	1.48	1.33			1.21	1.46		
ROAE (%) - reported	11.5	14.0	12.4			11.1	13.7		
LDR (%)	83.3	79.7	80.5						
GIL ratio	1.1	1.0	1.0						
Loan loss coverage	118.0	138.8	151.1						
CET-1 ratio (%)	15.2	14.8	15.9						
Total capital ratio (%)	17.7	16.9	18.1						

Source: Company data, RHB

Management guidance

Figure 2: OCBC – management guidance and financial targets

	2022 actual	FY23 achieved	FY23 guidance	FY24 guidance	Comments
ROE	11.1%	13.7%	> 14%	13-14%	Guidance assumes four rate cuts starting in 2H24. Guided for NIM sensitivity of SGD6-7m for 1bp change in rates.
NIM	1.91%	2.28%	c. 2.25%	2.20-2.25%	
CIR	43%	38.7%	c. 40%	-	
Credit cost	24bps	20bps	c. 20bps	20-25bps	Management continues to remain comfortable with overall asset quality and has not noted any stress on its portfolios.
Loan growth	2%	+1%	Low single digit	Low single digit	Growth drivers expected to be similar as that in 2023, ie non-trade corporate and mortgages given muted environment. By sector, energy, power & utilities, technology are among the sectors OCBC sees good demand for loans.
Dividend payout	53%	53%	50%	50%	

Source: Company data, RHB

28 February 2024

Financial Services | Banks

Revisions to estimates

We lower our FY24F-25F PATMI by 2-4%, mainly after bringing our loan credit cost assumptions in line with guidance. This is cushioned by an upward revision to NII on the back of the better-than-expected NIM achieved in FY23.

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	9,282	9,529	new	9,806	9,950	10,140	6%	4%	n.m.
Non-interest income	4,197	4,504	new	3,988	4,188	4,355	-5%	-7%	n.m.
Operating expenses	(5,448)	(5,741)	new	(5,537)	(5,833)	(6,146)	2%	2%	n.m.
PIOP	8,032	8,292	new	8,257	8,304	8,349	3%	0%	n.m.
Provision expenses	(606)	(602)	new	(905)	(907)	(909)	49%	51%	n.m.
Pre-tax profit	8,514	8,833	new	8,353	8,447	8,543	-2%	-4%	n.m.
Net profit	7,037	7,298	new	6,917	6,995	7,074	-2%	-4%	n.m.
EPS (SGD)	1.56	1.62	new	1.53	1.55	1.57	-2%	-4%	n.m.
DPS (SGD)	0.82	0.87	new	0.82	0.82	0.84	0%	-6%	n.m.
Loan growth (%)	5.0	4.8	new	4.0	4.5	4.5			
NIM (%)	2.21	2.16	new	2.34	2.28	2.23			
CIR (%)	40.4	40.9	new	40.1	41.3	42.4			
Loan credit cost (bps)	16	15	new	24	23	22			

Source: Company data, RHB

Valuation and TP

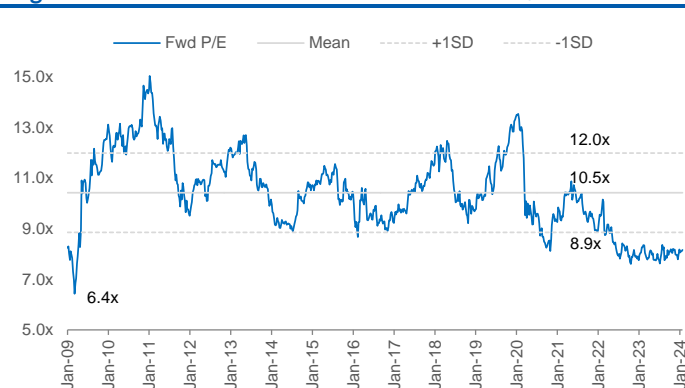
We lower our TP to SGD13.10 from SGD13.40 after incorporating the earnings revisions above as well as updating for FY24F book value following the release of the FY23 full-year results. There is no change to the GGM-derived P/BV of 1.0x, close to its historical mean, nor the nil ESG premium/discount – which reflects OCBC having an ESG score of 3.1 that is on par with the country median ESG.

Figure 4: OCBC – GGM valuation

Cost of equity (COE) computation:		Sustainable ROE (%)	12.2
Risk free rate (%)	3.0	COE (%)	12.0
Equity premium (%)	8.2	Long-term growth (g)	3.0
Beta (x)	1.1	Implied P/BV (x)	1.0
Cost of equity - CAPM (%)	12.0	BVPS	SGD12.77
		Intrinsic value	SGD13.11
ESG premium/(discount) (%)	0	ESG premium/(discount)	-
		TP (rounded)	SGD13.10

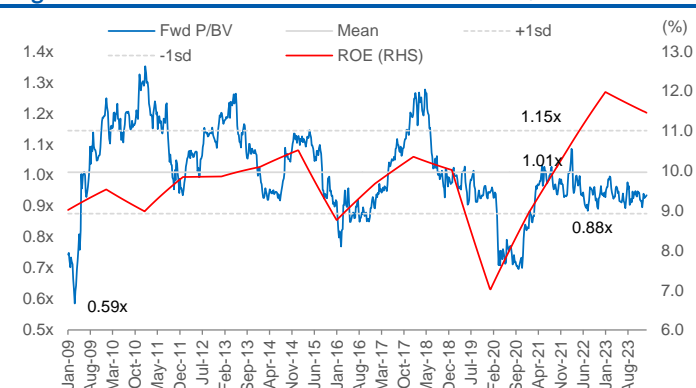
Source: Company data, RHB

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 16% reduction in its Scope 2 carbon emissions between FY22 and FY19 via a suite of environmental initiatives to increase energy efficiency and reduce consumption.

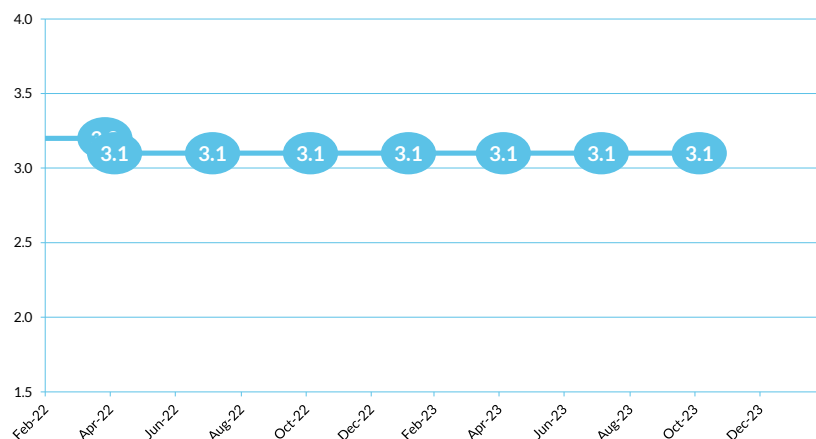
Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
Scope 1	237	160	na
Scope 2	63,496	59,941	na
Scope 3	278	1,517	na
Total emissions	64,011	61,618	na

Source: Company data, RHB

Latest ESG-Related Developments

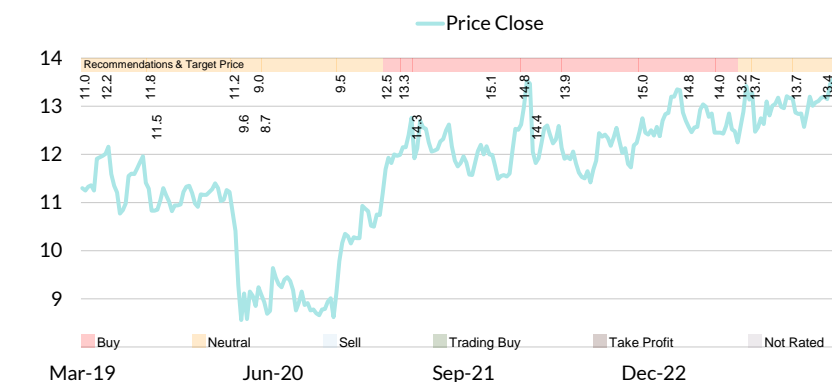
- **5-year climate strategy:** Unveiled in 2021, this outlines OCBC's strategy to become a regional leader in sustainable and responsible banking for a low-carbon economy by 2026.
- **Maintain carbon neutrality:** OCBC targets to maintain carbon neutrality for its banking operational emissions in 2023.
- **Unveiled decarbonisation targets:** In 1H23, OCBC unveiled decarbonisation targets for six sectors – power, oil and gas, real estate, steel, aviation, and shipping. These formed 42% of its corporate and commercial banking portfolio.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2021-08-05	Buy	14.3	12.4
2021-05-09	Buy	14.3	12.6
2021-04-09	Buy	13.3	11.8

Source: RHB, Bloomberg

RHB Guide to Investment Ratings

Buy:	Share price may exceed 10% over the next 12 months
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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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