

7 November 2022

Financial Services | Banks

## OCBC Bank (OCBC SP)

**Buy** (Maintained)

### 3Q22: Solid NIM, Better Asset Quality; Stay BUY

Target Price (Return): SGD15.00 (+25%)  
 Price (Market Cap): SGD12.04 (USD38,220m)  
 ESG score: 3.10 (out of 4)  
 Avg Daily Turnover (SGD/USD) 63.1m/44.8m

- **Maintain BUY, with new SGD15.00 TP from SGD13.90 TP, 25% upside and c.6% FY23F yield.** OCBC Bank's 9M22 earnings were in line with Street expectations. Robust NIM expansion, benign credit cost on improving asset quality and tightly controlled cost growth were key standouts in 3Q22. Earnings upgrade for refreshed guidance for NIM and credit costs have resulted in valuation falling to attractive levels – 0.9x FY23F P/BV against ROE of 12.6%.
- **9M22 in line consensus expectations.** Net profit of SGD4.44bn in 9M22 (+14% YoY) was at 80% and 76% of our and Street FY22F earnings. Reported ROAE improved to 11.5% (FY21: 9.6%). CET-1 slipped but remained robust at 14.4% (2Q22: 14.9%). In 3Q22, PIOP rose 16% QoQ as NII surged 23% QoQ to offset the 11% QoQ fall in non-II while opex was up a modest 1% QoQ. CIR eased to 40.3% vs 43.5% in 2Q22. Bottomline growth was moderated by the 82% QoQ increase in impairment charges, with loan credit cost at 14bps (2Q22: 8bps).
- **Mid-single digit loan growth within reach.** OCBC added 2% QoQ to its loan book, bringing YTD growth to 4.6% or an annualised 6.1%. Management expects credit demand, which gained momentum in 3Q22, to be sustained in 4Q22. We believe OCBC would end 2022 with a 6% YoY growth in loans, within management's target of a mid-single digit increase.
- **Guiding for 2.1% NIM in 4Q22.** NIM expanded by a robust 35bps QoQ to 2.06% in 3Q22 (2Q22: +26bps QoQ) – the second consecutive quarter of better-than-peer margin improvement. Management attributed the NIM uplift to improved margins across OCBC's key markets as the increase in asset yields outpaced the rise in funding costs. Management expects to maintain NIM at 2.15% in 4Q22, the exit level in Sep 2022. This would result in an average NIM of 1.9% for FY22F. We see an upside risk to management guidance as we believe NIM would likely edge higher, although at a more moderate rate as funding costs trend higher.
- **Credit cost guidance lowered.** Non-performing assets (NPA) fell 7% QoQ on recoveries and upgrade of accounts in Malaysia and Indonesia. This was partly offset by the 18% QoQ rise in Greater China NPLs on the impairment of a network customer that is fully collateralised. The healthy asset quality allowed management to revise credit cost guidance to a low to mid-teens, from 20-25bps.
- **Earnings and TP.** Our FY22F-24F earnings are lifted by 9-10% as we pencil in a higher NIM and lower credit cost. These were moderated by assumptions of a lower non-II (Figure 3). Our TP rises to SGD15.00, and is based on the GGM-derived intrinsic value of SGD14.71 and a 2% ESG premium, based on our in-house ESG methodology (Figure 4).

#### Analyst

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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	5.6	0.9	(1.4)	(2.3)	1.4
Relative	5.4	1.2	2.9	4.3	4.2
52-wk Price low/high (SGD)				11.0 – 13.4	

#### Oversea-Chinese Banking Corp (OCBC SP)



Source: Bloomberg

#### Overall ESG Score: 3.10 (out of 4)

##### E: GOOD

OCBC has a sustainability framework that aligns the bank's approach to creating a positive social and environmental impact in line with the global sustainable development agenda. It 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).

##### S: GOOD

OCBC aims to maintain a balanced gender mix across its workforce, with 42% of women in leadership positions by 2022. In 2020, women accounted for 59% 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-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Reported net profit (SGDm)	3,586	4,858	5,992	7,173	7,692
Net profit growth (%)	(26.4)	35.5	23.3	19.7	7.2
Recurring net profit (SGDm)	3,586	4,858	5,992	7,173	7,692
Recurring EPS (SGD)	0.81	1.09	1.34	1.60	1.72
BVPS (SGD)	11.09	11.72	12.48	13.42	14.41
DPS (SGD)	0.32	0.53	0.58	0.66	0.72
Recurring P/E (x)	14.90	11.09	8.99	7.51	7.00
P/B (x)	1.09	1.03	0.96	0.90	0.84
Dividend Yield (%)	2.6	4.4	4.8	5.5	6.0
Return on average equity (%)	7.4	9.5	11.1	12.6	13.5

Source: Company data, RHB

## Financial Exhibits

<b>Asia</b>	<b>Financial summary (SGD)</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
Singapore	EPS	0.81	1.09	1.34	1.60	1.72
Financial Services	Recurring EPS	0.81	1.09	1.34	1.60	1.72
<b>OCBC Bank</b>	DPS	0.32	0.53	0.58	0.66	0.72
OCBC SP	BVPS	11.09	11.72	12.48	13.42	14.41
Buy						
<b>Valuation basis</b>	<b>Valuation metrics</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
GGM-derived intrinsic value with an ESG overlay. Key GGM assumptions are:	Recurring P/E (x)	14.90	11.09	8.99	7.51	7.00
i. COE of 11.2%;	P/B (x)	1.1	1.0	1.0	0.9	0.8
ii. ROE of 12.0%;	Dividend Yield (%)	2.6	4.4	4.8	5.5	6.0
iii. 3.0% long-term growth						
<b>Key drivers</b>	<b>Income statement (SGDm)</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
Our net profit forecast is most sensitive to changes in:	Interest income	9,143	7,425	9,370	12,379	13,231
i. Credit costs;	Interest expense	(3,177)	(1,570)	(1,919)	(3,601)	(3,874)
ii. Net interest margin;	<b>Net interest income</b>	<b>5,966</b>	<b>5,855</b>	<b>7,451</b>	<b>8,779</b>	<b>9,358</b>
iii. Non-interest income growth.	Non interest income	4,173	4,741	4,364	4,724	5,017
	<b>Total operating income</b>	<b>10,139</b>	<b>10,596</b>	<b>11,816</b>	<b>13,502</b>	<b>14,375</b>
	Overheads	(4,543)	(4,867)	(5,179)	(5,658)	(6,007)
	<b>Pre-provision operating profit</b>	<b>5,596</b>	<b>5,729</b>	<b>6,636</b>	<b>7,844</b>	<b>8,368</b>
	Loan impairment allowances	(2,009)	(867)	(425)	(401)	(401)
	Other impairment allowances	(34)	(6)	(7)	(7)	(6)
	Income from associates	612	824	1,000	1,050	1,103
	<b>Pre-tax profit</b>	<b>4,165</b>	<b>5,680</b>	<b>7,204</b>	<b>8,486</b>	<b>9,064</b>
	Taxation	(437)	(648)	(1,043)	(1,103)	(1,142)
	Minority interests	(142)	(174)	(170)	(210)	(230)
	<b>Reported net profit</b>	<b>3,586</b>	<b>4,858</b>	<b>5,992</b>	<b>7,173</b>	<b>7,692</b>
	<b>Recurring net profit</b>	<b>3,586</b>	<b>4,858</b>	<b>5,992</b>	<b>7,173</b>	<b>7,692</b>
<b>Key risks</b>						
Key risks include:	<b>Profitability ratios</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
i. Higher-than-expected allowances;	Return on average assets (%)	0.7	0.9	1.1	1.2	1.3
ii. Weaker-than-expected NIM;	Return on average equity (%)	7.4	9.5	11.1	12.6	13.5
iii. Macroeconomic uncertainty and geo-political tensions.	Return on IEAs (%)	2.6	2.1	2.5	3.1	3.3
	Cost of funds (%)	1.0	0.5	0.6	1.0	1.1
	Net interest spread (%)	1.6	1.6	1.9	2.1	2.3
	Net interest margin (%)	1.7	1.6	2.0	2.2	2.4
	Non-interest income / total income (%)	41.2	44.7	36.9	35.0	34.9
	Cost to income ratio (%)	44.8	45.9	43.8	41.9	41.8
	Credit cost (bps)	75.5	31.5	14.6	13.0	13.0
<b>Company Profile</b>	<b>Balance sheet (SGDm)</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
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	267,240	289,716	307,200	322,560	340,301
	Other interest earning assets	88,930	87,217	94,855	99,121	104,040
	Total gross IEAs	356,170	376,933	402,055	421,681	444,341
	Total provisions	(4,596)	(3,904)	(4,200)	(4,500)	(4,650)
	Net loans to customers	262,644	285,812	303,000	318,060	335,651
	Total net IEAs	351,574	373,029	397,855	417,181	439,691
	Total non-IEAs	169,821	169,158	172,251	182,719	192,883
	Total assets	521,395	542,187	570,106	599,900	632,574
	Customer deposits	314,907	342,395	356,800	376,424	397,127
	Other interest-bearing liabilities	9,586	8,239	13,200	13,596	13,949
	Total IBLs	324,493	350,634	370,000	390,020	411,077
	Total non-IBLs	145,726	137,215	142,298	147,802	154,898
	Total liabilities	470,219	487,849	512,298	537,822	565,975
	Share capital	19,031	19,238	19,238	19,238	19,238
	Shareholders' equity	49,622	52,663	56,049	60,258	64,715
	Minority interests	1,554	1,675	1,759	1,820	1,884
	<b>Asset quality and capital</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
	Reported NPLs / gross cust loans (%)	1.5	1.5	1.2	1.2	1.2
	Total provisions / reported NPLs (%)	117.3	92.6	113.9	118.2	118.8
	CET-1 ratio (%)	15.8	16.0	15.9	16.1	16.8
	Tier-1 ratio (%)	15.8	16.0	15.9	16.1	16.8
	Total capital ratio (%)	17.9	17.6	17.3	17.5	18.1

Source: Company data, RHB

## Results At a Glance

Figure 1: OCBC – summary of 3Q22 and 9M22 results

FYE Dec (SGDm)	3Q21	2Q22	3Q22	QoQ (%)	YoY (%)	9M21	9M22	YoY (%)	Comments: 9M22 vs 9M21
<b>Net interest income</b>	1,461	1,700	2,099	23	44	4,363	5,302	22	Robust YoY growth boosted by NIM expansion and pick up in loan growth.
<i>NIM (%) – reported</i>	1.52%	1.71%	2.06%	35bps	54bps	1.55%	1.78%	23bps	NIM uplift as interest rates rise on accelerated increase in FFR.
<b>Non-interest income</b>	1,099	1,179	1,053	-11	-4	3,683	3,372	-8	
Net fee & commission income	569	477	453	-5	-20	1,718	1,453	-15	Down YoY as wealth management income fell 28% YoY, and brokerage & fund management income declined 18% YoY. These offset the 5% YoY rise in fees from loan, trade guarantees and remittances.
Income from insurance	311	423	370	-13	19	1,035	1,123	9	Up YoY mainly on higher operating profit.
Other non-interest income	219	279	230	-18	5	930	796	-14	Down YoY as higher trading income (+12% YoY) was offset by lower investment income.
<i>Non-ll/total income (%)</i>	42.9%	41.0%	33.4%			0.0%	0.0%		
<b>Operating income</b>	<b>2,560</b>	<b>2,879</b>	<b>3,152</b>	<b>9</b>	<b>23</b>	<b>8,046</b>	<b>8,674</b>	<b>8</b>	
Overhead expenses	(1,188)	(1,253)	(1,269)	1	7	(3,476)	(3,727)	7	
<i>CIR (%)</i>	46.4%	43.5%	40.3%			0.0%	0.0%		
<b>PIOP</b>	<b>1,372</b>	<b>1,626</b>	<b>1,883</b>	<b>16</b>	<b>37</b>	<b>4,570</b>	<b>4,947</b>	<b>8</b>	
Impairments charges	(189)	(99)	(180)	82	-5	(632)	(348)	-45	
<i>Annualised credit cost (bps)</i>	21	8	14			25	9		Annualised credit cost is materially lower than guidance of 20-25bps.
<b>Operating profit</b>	<b>1,183</b>	<b>1,527</b>	<b>1,703</b>	<b>12</b>	<b>44</b>	<b>3,938</b>	<b>4,599</b>	<b>17</b>	
Associates	204.0	245.0	256.0	4		626.0	755.0		
<b>Pre-tax profit</b>	<b>1,387</b>	<b>1,772</b>	<b>1,959</b>	<b>11</b>	<b>41</b>	<b>4,564</b>	<b>5,354</b>	<b>17</b>	
Tax	(118)	(250)	(313)			(531)	(788)		
<i>Effective tax rate (%)</i>	8.5%	14.1%	16.0%			11.6%	14.7%		
Minorities	(45)	(42)	(42)	0	-8	(148)	(125)	-16	
<b>Net profit</b>	<b>1,224</b>	<b>1,481</b>	<b>1,605</b>	<b>8</b>	<b>31</b>	<b>3,885</b>	<b>4,442</b>	<b>14</b>	
<b>Other key data and ratios</b>									
Gross loans	285,000	297,920	303,000	2	6				YTD growth of 4.6% or 6% annualised led by Singapore (+5.2% YTD), Greater China (+2.7% YTD), the US, Australia and the UK.
Customer deposits	332,807	348,821	352,728	1	6				YTD growth of 3% or 4% annualised. CASA deposits declined 8.6% YTD, lowering CASA ratio to 56% vs 63.3% in 4Q21.
Gross NPLs	4,148	3,849	3,578	-7	-14				Down 15% YTD on higher recoveries and upgrades from corporate and consumer segments in Malaysia and Indonesia.
Total assets	538,539	554,862	571,244	3	6				
Shareholders' funds	51,945	52,821	52,448	-1	1				
ROAA (%) - reported	1.13	1.31	1.37			1.22	1.30		
ROAE (%) - reported	9.5	11.5	12.4			10.4	11.5		
LDR (%)	84.5	84.4	85.0						
GIL ratio	1.49	1.29	1.22						
Loan loss coverage	97.3	101.6	108.5						
CET-1 ratio (%)	15.50	14.93	14.40						
Total capital ratio (%)	17.8	17.5	16.9						

Source: Company data, RHB

## Management guidance

Figure 2: OCBC – management guidance and financial targets

	FY21 Actual	9M22 Achieved	FY22 Guidance	Comments
Loan growth	+8% YoY	+6.3% YoY	Mid-single digit	Loan growth gained pace in 3Q22 and management expects the momentum to hold up. Lending opportunities would come from the building & construction, financial services and consumers sectors.
NIM	1.54%	1.78%	Above 2.1% in 4Q22	With exit NIM at 2.15% in Sep 2022, management believes NIM would average at 2.1% in 4Q22. This would translate into NIM of about 1.9% for FY22F.
Credit cost	29bps FY20-21: 96bps	9bps	Low to mid-teens (from low end of 20-25bps)	Given the improved asset quality and coverage at a comfortable level, management expects credit cost to be more benign than earlier expected.

Source: Company data, RHB

## Revisions to earnings estimates

Our FY22F-24F earnings are raised by 9-10% as we factor in the following revisions:

- Stronger NIM expansion given the accelerated rise in interest rates;
- Lower credit costs in line with the revision in management guidance;
- Lower non-II as the bearish investor sentiment would continue to impact wealth fees and capital market-related income.

The upward revision in earnings will also result in higher DPS.

Figure 3: OCBC – revisions to earnings forecasts

FYE Dec	Previous FY22F	Previous FY23F	Previous FY24F	Revised FY22F	Revised FY23F	New FY24F	Change FY22F	Change FY23F	Change FY24F
(SGDm)									
Net interest income	6,725	7,500	8,051	7,451	8,779	9,358	11%	17%	16%
Non-interest income	4,604	5,015	5,329	4,364	4,724	5,017	-5%	-6%	-6%
Operating expenses	(4,956)	(5,303)	(5,603)	(5,075)	(5,553)	(5,902)	2%	5%	5%
PIOP	6,372	7,211	7,777	6,740	7,949	8,473	6%	10%	9%
<b>Provision expenses</b>	(689)	(629)	(614)	(536)	(513)	(512)	-22%	-18%	-17%
Pretax profit	6,683	7,632	8,265	7,204	8,486	9,064	8%	11%	10%
<b>Net profit</b>	5,520	6,496	7,063	<b>5,992</b>	<b>7,173</b>	<b>7,692</b>	9%	10%	9%
EPS (SGD)	1.22	1.44	1.56	1.33	1.59	1.70	9%	10%	9%
DPS (SGD)	0.58	0.63	0.68	0.58	0.66	0.72	0%	5%	6%
Loan growth (%)	5.6	6.0	5.5	6.0	5.0	5.5			
NIM (%)	1.73	1.82	1.85	1.91	2.13	2.16			
CIR (%)	43.8	42.4	41.9	43.0	41.1	41.1			
Credit cost (bps)	19	16	15	14	13	12			

Source: Company data, RHB

7 November 2022

Financial Services | Banks

### Valuation and TP

Our TP rises to SGD15.00 (from SGD13.90), based on an intrinsic value of SGD14.71 (from SGD13.61), with a 2% ESG premium applied, based on RHB's in-house ESG methodology.

The upward revision in intrinsic value takes into account assumptions of higher ROE and BVPS following the earnings upgrade and roll forward of the base year. The CoE is a higher 11.2% vs 10% previously on a refresh of assumptions.

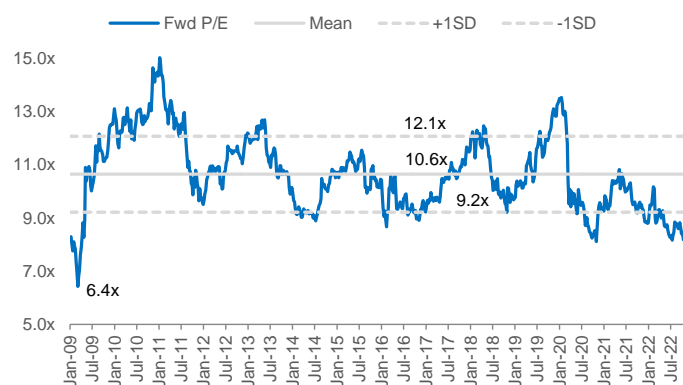
The intrinsic value, based on the GGM-derived P/BV of 1.1x, is in line with its historical mean.

**Figure 4: OCBC – GGM valuation**

<b>Cost of equity (COE) computation:</b>		Sustainable ROE (%)	12.0
Risk free rate (%)	3.5	COE (%)	11.2
Equity premium (%)	7.0	Long-term growth (g)	3.0
Beta (x)	1.1	Implied P/BV (x)	1.1
Cost of equity - CAPM (%)	11.2	Rolling 12-mth forward BVPS	SGD13.40
		Intrinsic value	SGD14.71
ESG premium/(discount) (%)	2.0	ESG premium/(discount)	SGD0.29
		<b>TP (rounded)</b>	<b>SGD15.00</b>

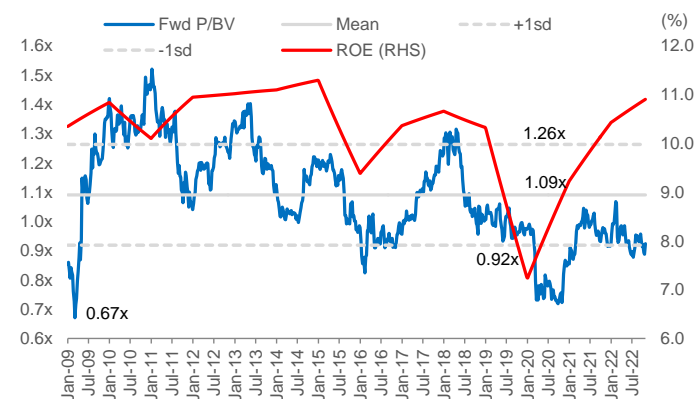
Source: Company data, RHB

**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

## Recommendation Chart

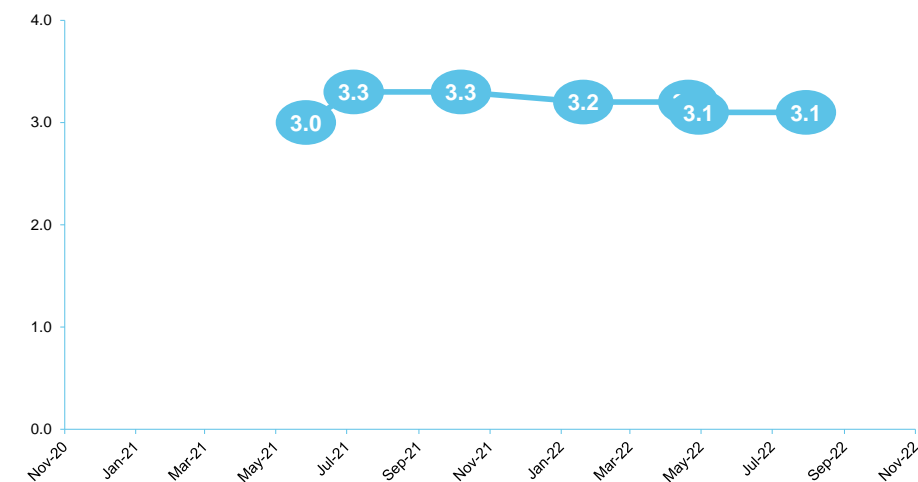


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2021-02-25	Buy	12.5	11.1
2020-11-06	Neutral	9.5	8.9
2020-08-10	Neutral	8.7	8.7
2020-05-08	Neutral	8.7	8.9
2020-04-22	Neutral	9.0	8.6
2020-03-17	Neutral	9.6	8.6
2020-02-23	Neutral	11.2	11.0

Source: RHB, Bloomberg

## ESG Rating History



Source: RHB



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<b>Buy:</b>	Share price may exceed 10% over the next 12 months
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