Singapore Results Preview

20 January 2023

Financial Services | Banks

OCBC Bank (OCBC SP)

Buy (Maintained)

4Q22 To Be a Stable Quarter; Stay BUY

Target Price (Return):	SGD15.00 (+19%)
Price (Market Cap):	SGD12.60 (USD42,716m)
ESG score:	3.10 (out of 4)
Avg Daily Turnover (SGD/USD)	57.8m/42.2m

- **Stay BUY and SGD15.00 TP, 19% upside and c.5% yield.** OCBC Bank is scheduled to release its 4Q22 results on 24 Feb. We expect the bank to report a net profit of SGD1.55bn for the quarter, down an estimated 3.5% QoQ due mainly to weaker non-II. Key positives would be the continued NIM expansion and benign credit cost on solid asset quality. Our TP is based on GGM-derived intrinsic value of SGD14.71, with a 2% ESG premium applied.
- **NII and NIM to still show improvement.** NII, which increased a sharp 23% QoQ in 3Q22, is expected rise further in 4Q22. Underpinning the NII improvement would be NIM expansion. Although unlikely to match the 35bps QoQ expansion to 2.06% in 3Q22, we believe NIM would still edge up 9bps QoQ to 2.15% in 4Q22 even as loans are being repriced to reflect the uptrend in interest rates. In 4Q22, Singapore's short term rates are up 100-120bps QoQ.
- **Within striking distance of loan growth guidance.** Singapore banking system loans contracted by 4.3% between end-Sep and end-Nov 2022. Management attributes this to businesses deferring investment plans on uncertainty over 2023's outlook. Despite the slippage, we gathered that OCBC would be able to meet management's guidance for mid-single digit loan growth in FY22, in constant currency terms. Reported loan growth would, however, be a slight miss due to the strengthening of the SGD in 4Q22 (up 5.4% QoQ). OCBC's loans grew 4.6% YTD-Sep 2022, or an annualised 6.1%.
- **Non-II remains weak.** OCBC's wealth management income remained subdued in 4Q22. While the 4Q is usually a quiet period for the wealth industry, demand for wealth management products was also impacted by the risk-off sentiment among investors and the preference for cash. On a positive note, assets under management are still stable even as the bank continues to focus on driving growth in its wealth business. Similarly, contributions from Great Eastern Holdings (GE SP, NR) in 4Q22 may be negatively impacted by marked-to-market losses.
- **Asset quality and credit cost.** Management shared that much of the loans under relief assistance have expired, with remaining accounts under indulgence mainly in Indonesia. Repayment trends are good, reaffirming management's believe that asset quality will be resilient notwithstanding softer GDP growth in 2023. With asset quality trends unchanged from those in 3Q22, we believe FY22 credit cost would be at the lower end of management's 15-20bps guidance.
- **While China's reopening is** widely expected to be positive for Singapore, management believes it is still early days to assess the potential impact on the domestic economy and OCBC.

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)	15.58	11.59	9.40	7.85	7.32
P/B (x)	1.14	1.07	1.01	0.94	0.87
Dividend Yield (%)	2.5	4.2	4.6	5.2	5.7
Return on average equity (%)	7.4	9.5	11.1	12.6	13.5

Source: Company data, RHB

Analyst

Singapore Research
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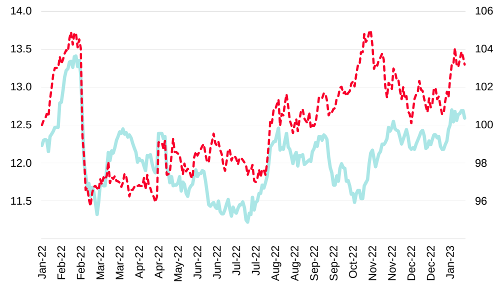
Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	3.4	3.1	8.2	11.2	2.9
Relative	2.6	2.5	(0.2)	6.1	3.1
52-wk Price low/high (SGD)					11.2 – 13.4



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.

Financial Exhibits

Asia
Singapore
Financial Services
OCBC Bank
OCBC SP
Buy

Valuation basis

GGM-derived intrinsic value with an ESG overlay. Key GGM assumptions are:
i. COE of 11.2%;
ii. ROE of 12.0%;
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

Key risks include:
i. Higher-than-expected allowances;
ii. Weaker-than-expected NIM;
iii. Macroeconomic uncertainty and geo-political tensions.

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-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
EPS	0.81	1.09	1.34	1.60	1.72
Recurring EPS	0.81	1.09	1.34	1.60	1.72
DPS	0.32	0.53	0.58	0.66	0.72
BVPS	11.09	11.72	12.48	13.42	14.41

Valuation metrics	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Recurring P/E (x)	15.58	11.59	9.40	7.85	7.32
P/B (x)	1.1	1.1	1.0	0.9	0.9
Dividend Yield (%)	2.5	4.2	4.6	5.2	5.7

Income statement (SGDm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Interest income	9,143	7,425	9,370	12,379	13,231
Interest expense	(3,177)	(1,570)	(1,919)	(3,601)	(3,874)
Net interest income	**5,966**	**5,855**	**7,451**	**8,779**	**9,358**
Non interest income	4,173	4,741	4,364	4,724	5,017
Total operating income	**10,139**	**10,596**	**11,816**	**13,502**	**14,375**
Overheads	(4,543)	(4,867)	(5,179)	(5,658)	(6,007)
Pre-provision operating profit	**5,596**	**5,729**	**6,636**	**7,844**	**8,368**
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
Pre-tax profit	**4,165**	**5,680**	**7,204**	**8,486**	**9,064**
Taxation	(437)	(648)	(1,043)	(1,103)	(1,142)
Minority interests	(142)	(174)	(170)	(210)	(230)
Reported net profit	**3,586**	**4,858**	**5,992**	**7,173**	**7,692**
Recurring net profit	**3,586**	**4,858**	**5,992**	**7,173**	**7,692**

Profitability ratios	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Return on average assets (%)	0.7	0.9	1.1	1.2	1.3
Return on average equity (%)	7.4	9.5	11.1	12.6	13.5
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

Balance sheet (SGDm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
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

Asset quality and capital	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
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

Valuation and TP

Our TP of SGD15.00 is based on an intrinsic value of SGD14.71 with a 2% ESG premium applied, based on RHB's in-house ESG methodology.

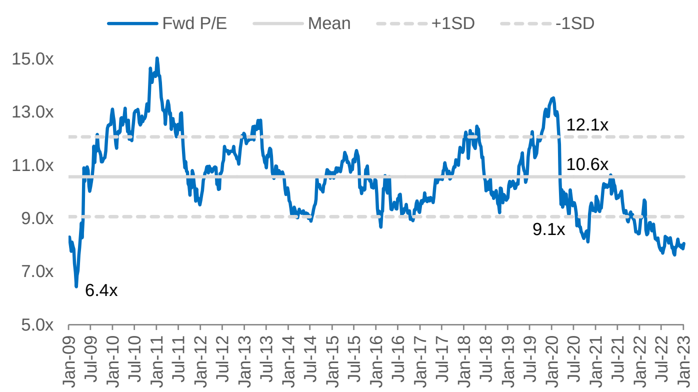
The intrinsic value, based on the GGM-derived P/BV of 1.1x, is in line with its historical mean.

Figure 1: OCBC – GGM valuation

Cost of equity (COE) computation:		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
		TP (rounded)	**SGD15.00**

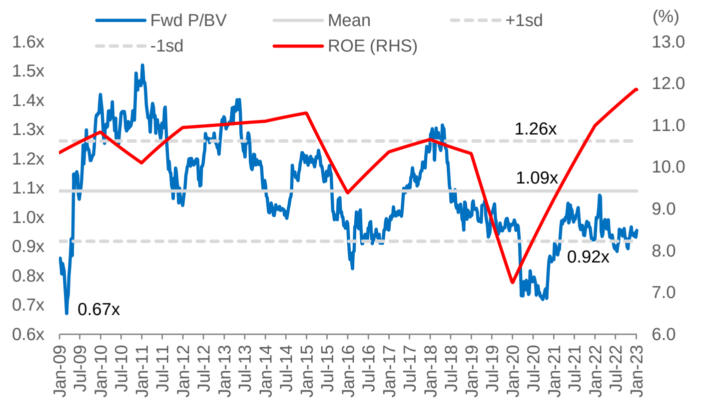
Source: Company data, RHB

Figure 2: OCBC's 12-month forward consensus P/E



Source: Bloomberg, RHB

Figure 3: OCBC's 12-month forward consensus P/BV



Source: Bloomberg, RHB

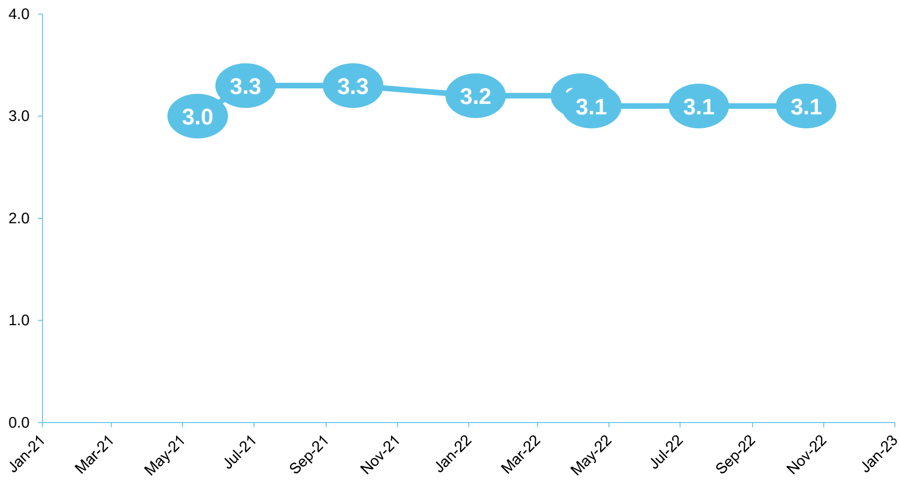
Recommendation Chart

Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
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

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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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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