

# Singapore Company Update

## OCBC

Bloomberg: OCBC SP | Reuters: OCBC.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

24 Feb 2022

### BUY

Last Traded Price (23 Feb 2022): S\$12.56 (STI : 3,393.00)  
Price Target 12-mth: S\$15.00 (19% upside) (Prev S\$14.00)

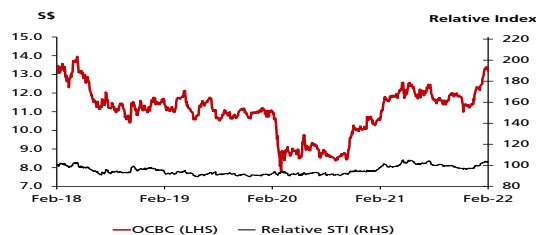
#### Analyst

Paul YONG, CFA +65 6682 3712 paulyong@dbs.com  
Rui Wen LIM +65 66823720 ruiwenlim@dbs.com  
Singapore Research Team groupresearch@dbs.com

#### What's New

- 4Q21 net profit of S\$973m missed estimates by 19%; FY21 net profit of S\$4.9bn 3% below consensus
- FY22F guidance: NIM 1.50-1.55%, mid to high single-digit loan growth, credit costs 20-25bps
- DPS of 28 Scts declared; full-year dividend payout ratio raised to 49%
- Maintain BUY, with higher TP of S\$15 on higher ROE estimates

#### Price Relative



#### Forecasts and Valuation

FY Dec (\$ m)	2020A	2021A	2022F	2023F
Pre-prov. Profit	5,596	5,729	6,717	7,458
Net Profit	3,586	4,858	5,651	6,229
Net Pft (Pre Ex.)	3,586	4,858	5,651	6,229
Net Pft Gth (Pre-ex) (%)	(26.4)	35.5	16.3	10.2
EPS (S cts)	80.7	109	126	139
EPS Pre Ex. (S cts)	80.7	109	126	139
EPS Gth Pre Ex (%)	(28)	34	16	10
Diluted EPS (S cts)	80.1	109	126	139
PE Pre Ex. (X)	15.6	11.6	9.9	9.0
Net DPS (S cts)	31.2	53.2	63.1	69.6
Div Yield (%)	2.5	4.2	5.0	5.5
ROAE Pre Ex. (%)	7.4	9.5	10.4	10.9
ROAE (%)	7.4	9.5	10.4	10.9
ROA (%)	0.7	0.9	1.1	1.1
BV Per Share (S cts)	1,109	1,177	1,240	1,309
P/Book Value (x)	1.1	1.1	1.0	1.0
Earnings Rev (%)			3	4
Consensus EPS (S cts)			120	137
Other Broker Recs:		B: 16	S: 0	H: 5

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P.

### Well-positioned for higher dividends

#### Investment Thesis

**Poised for growth.** We believe there is further room for OCBC's share price to re-rate as we continue to expect economic recovery and as we look ahead to a higher interest rate environment, which should bode well for OCBC's NIM. Coupled with a new 3-year corporate strategy focused on driving growth and building on their strengths, they expect to grow income and profits of >10% CAGR as well as >10% loans growth.

#### Strong capital position – higher dividends on the horizon?

Higher dividends may also be a potential share price catalyst, given that in the absence of M&A activities, the CET1 ratio of 15.5% is above the optimal operating level. Management has shared that they will not be limited by their target dividend payout ratio range of 40-50% and that their optimal CET1 ratio is 12.5-13.5% in the longer term.

#### Valuation:

**Maintain BUY, TP S\$15.** Our TP of S\$15 is based on the Gordon Growth Model (10.5% ROE (prev: 10%), 3% growth, 9% cost of equity). This is equivalent to a c.1.23x FY22F P/BV that is c.0.5 SD above its 12-year forward P/BV multiple.

#### Where we differ:

We have revised our estimates by 3-4% largely on higher NIM expectations and higher non-interest income.

#### Key Risks to Our View:

**Deteriorating asset quality.** Larger-than-expected NPLs as well as a worse-than-expected COVID-19 pandemic situation globally could unwind expectations of credit cost and NPL declines and pose risks to earnings.

#### At A Glance

Issued Capital (m shrs)	4,492
Mkt. Cap (S\$/US\$m)	56,425 / 41,936
Major Shareholders (%)	
Selat Pte Ltd	14.5
Free Float (%)	85.5
3m Avg. Daily Val (US\$m)	61.4
GIC Industry : Financial / Banks	



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## WHAT'S NEW

### 4Q21 results below consensus; dividend raised

**4Q21 net profit missed estimates by 19%.** OCBC reported revenues of S\$2.6bn (+3% y-o-y/flat q-o-q) with net profit of S\$973m (-14% y-o-y/-20% q-o-q), below consensus expectations by c.19% on higher-than expected allowances set aside for impaired assets. Operating costs were 15% y-o-y/8% q-o-q higher, resulting in a cost-to-income ratio of 50.5% (3Q21: 46.4%) due to operational changes and a rise in business-driven costs. Capital ratios remained strong with the CET1 and total CAR at 15.5%/17.6% respectively, the highest among peers.

**Higher net interest income driven by asset growth and stable net interest margin (NIM).** Net interest income of S\$1.5bn increased 2% q-o-q and 4% y-o-y, driven by flattish 4Q21 NIM of 1.52% and q-o-q loan growth of 2%. Full year loan growth was 8%, within its guidance of mid-to-high single digit target.

**Slightly lower non-interest income.** Non-interest income of S\$1.1bn was flattish y-o-y/declined 4% q-o-q. Net fees and commissions improved 2% y-o-y/declined 7% q-o-q to S\$528m, as wealth management fees of S\$297m was flattish y-o-y/declined 16% q-o-q. Trading income declined 42% y-o-y/improved 83% q-o-q to S\$152m on higher non-customer flow income mainly whereas customer flow income remained broadly stable q-o-q. Profit from life insurance improved 72% y-o-y/declined 5% q-o-q to S\$248m.

**Higher credit costs at 41bps, higher new NPA formation.** 4Q21 saw higher allowances y-o-y and q-o-q and negative general allowances. Total allowances: S\$317m, 41bps (3Q21: S\$163m, 21bps) comprise lower general allowances (stage 1+2): -\$70m, 9bps (3Q21: -\$22m, 3bps) and higher specific allowances (stage 3): S\$387m, 50bps (3Q21: S\$185m, 24bps) mainly driven by project financing delays due to supply chain disruption from COVID-19 in Greater China and other overseas markets. Going forward, Management does not see recurring or systemic risk on project financing. New NPA formation of S\$1,057m (3Q21: S\$804m) arose mainly from the project financing deals supported via syndicated loans, offset by higher recoveries of S\$371m in the quarter (3Q21: S\$359m) from O&G support vessels. The NPL ratio remained steady for the past five quarters at 1.5% and allowance coverage declined to 90% (3Q21: 97%).

### Takeaways from analyst briefing

**More colour on higher allowances caused by project financing delays.** Construction in the projects have been delayed mainly due to COVID-19 as there have been supply chain disruptions in terms of logistics, equipment and manpower. These loans were booked pre-COVID-19. Management has taken a more conservative view on how these delays can affect the weakening of credit and have adequately made provisions. They do not see recurring or systemic risk on project financing going forward. Credit costs guidance already provides for what they can foresee.

**2022 guidances.** Global economic recovery is expected to sustain through 2022, with Asia to lead as the fastest growing region. For FY22F, management is guiding for 1) NIM between 1.50-1.55%; 2) mid to high single-digit loan growth; and 3) credit costs between 20-25bps, likely lower end of range. For every 100bps rate hike, management expects c.S\$670m increase to net profit.

**3-year strategy to achieve >10% group income and profit CAGR and >10% loan growth.** Management shared a refreshed corporate strategy to drive growth and reinforce strengths, with a focus on Asia, through more investments into its capabilities and focusing on the right markets. ROE is expected to be accretive, while group CET1 will gradually fall from current 15.5%.

**Dividend policy.** FY21 dividend payout ratio reverted back to pre-pandemic level of 49%. Management shared that it could surpass 50% even though the target is between 40-50%, considerations include 1) progressiveness – being able to increase dividend in tandem with earnings growth; and 2) whether it is sustainable – not looking to lower after increasing.

**Inorganic opportunities.** Management mentioned that they are not looking at any inorganic opportunities at present but it does not mean they will not consider. Opportunities have to supplement the current business by either adding to the scope or scale of OCBC's operations, hence unlikely to be ventures outside of its core business or in new geographies.

### Company Background

The OCBC Bank group of businesses (OCBC) comprises a family of companies owned by Singapore's longest-established local bank.

## OCBC

## Quarterly Income Statement (\$\$m)

FY Dec	4Q2020	3Q2021	4Q2021	% chg yoy	% chg qoq
Net Interest Income	1,436	1,461	1,492	3.9	2.1
Non-Interest Income	1,049	1,099	1,058	0.9	(3.7)
<b>Operating Income</b>	<b>2,485</b>	<b>2,560</b>	<b>2,550</b>	<b>2.6</b>	<b>(0.4)</b>
Operating Expenses	(1,151)	(1,214)	(1,315)	14.2	8.3
<b>Pre-Provision Profit</b>	<b>1,334</b>	<b>1,346</b>	<b>1,235</b>	<b>(7.4)</b>	<b>(8.2)</b>
Provisions	(285)	(163)	(317)	11.2	94.5
Associates	131	204	198	51.1	(2.9)
Exceptionals	0.0	0.0	0.0	-	-
<b>Pretax Profit</b>	<b>1,180</b>	<b>1,387</b>	<b>1,116</b>	<b>(5.4)</b>	<b>(19.5)</b>
Taxation	(49.0)	(163)	(143)	191.8	(12.3)
Minority Interests	0.0	0.0	0.0	-	-
<b>Net Profit</b>	<b>1,131</b>	<b>1,224</b>	<b>973</b>	<b>(14.0)</b>	<b>(20.5)</b>

## Growth (%)

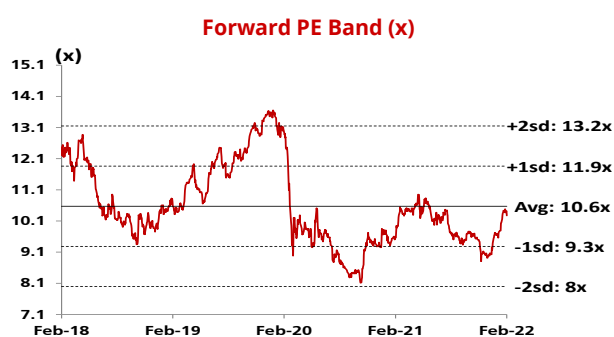
Net Interest Income Gth	1.1	0.0	2.1
Net Profit Gth	10.0	5.5	(20.5)

## Key ratio (%)

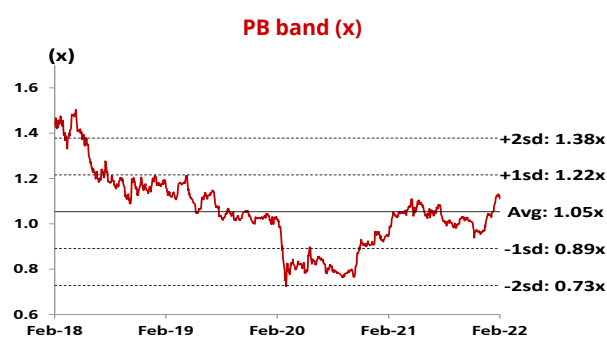
NIM	1.5	1.6	1.6
NPL ratio	1.5	1.5	1.5
Loan-to deposit	0.0	0.0	0.0
Cost-to-income	46.3	47.4	51.6
Total CAR	0.0	0.0	0.0

Source of all data: Company, DBS Bank

## Historical PE and PB band



Source: Bloomberg Finance L.P., DBS Bank estimates



Source: Bloomberg Finance L.P., DBS Bank estimates

## OCBC

### Key Assumptions

FY Dec	2019A	2020A	2021A	2022F	2023F
Gross Loans Growth	2.7	1.0	8.4	7.2	6.8
Customer Deposits Growth	2.5	4.0	8.7	4.0	4.0
Yld. On Earnings Assets	3.4	2.5	2.0	2.1	2.2
Avg Cost Of Funds	1.7	0.9	0.4	0.5	0.6

### Income Statement (\$\$ m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Net Interest Income	6,331	5,966	5,855	6,456	7,108
Non-Interest Income	4,540	4,173	4,741	5,366	5,755
<b>Operating Income</b>	<b>10,871</b>	<b>10,139</b>	<b>10,596</b>	<b>11,822</b>	<b>12,863</b>
Operating Expenses	(4,747)	(4,543)	(4,867)	(5,105)	(5,405)
<b>Pre-provision Profit</b>	<b>6,124</b>	<b>5,596</b>	<b>5,729</b>	<b>6,717</b>	<b>7,458</b>
Provisions	(890)	(2,043)	(873)	(632)	(687)
Associates	566	612	824	849	891
Exceptionals	0	0	0	0	0
<b>Pre-tax Profit</b>	<b>5,800</b>	<b>4,165</b>	<b>5,680</b>	<b>6,934</b>	<b>7,662</b>
Taxation	(778)	(437)	(648)	(936)	(1,050)
Minority Interests	(153)	(142)	(174)	(347)	(383)
Preference Dividend	0	0	0	0	0
<b>Net Profit</b>	<b>4,869</b>	<b>3,586</b>	<b>4,858</b>	<b>5,651</b>	<b>6,229</b>
Net Profit before Except.	4,869	3,586	4,858	5,651	6,229
<b>Growth (%)</b>					
Net Interest Income Gth	7.5	(5.8)	(1.9)	10.3	10.1
Net Profit Gth bef Except	8.4	(26.4)	35.5	16.3	10.2
<b>Margins, Costs &amp; Efficiency (%)</b>					
Spread	1.7	1.6	1.5	1.5	1.6
Net Interest Margin	1.8	1.6	1.5	1.6	1.6
Cost-to-Income Ratio	43.7	44.8	45.9	43.2	42.0
<b>Business Mix (%)</b>					
Net Int. Inc / Opg Inc.	58.2	58.8	55.3	54.6	55.3
Non-Int. Inc / Opg inc.	41.8	41.2	44.7	45.4	44.7
Fee Inc / Opg Income	19.5	19.8	21.2	20.9	20.9
Oth Non-Int Inc/Opg Inc	22.2	21.4	23.6	24.5	23.9
<b>Profitability (%)</b>					
ROAE Pre Ex.	11.0	7.4	9.5	10.4	10.9
ROAE	11.0	7.4	9.5	10.4	10.9
ROA Pre Ex.	1.0	0.7	0.9	1.1	1.1
ROA	1.0	0.7	0.9	1.1	1.1

Source: Company, DBS Bank

## OCBC

## Quarterly / Interim Income Statement (\$S m)

FY Dec	4Q2020	1Q2021	2Q2021	3Q2021	4Q2021
Net Interest Income	1,436	1,441	1,461	1,461	1,492
Non-Interest Income	1,049	1,473	1,111	1,099	1,058
<b>Operating Income</b>	<b>2,485</b>	<b>2,914</b>	<b>2,572</b>	<b>2,560</b>	<b>2,550</b>
Operating Expenses	(1,151)	(1,175)	(1,163)	(1,214)	(1,315)
<b>Pre-Provision Profit</b>	<b>1,334</b>	<b>1,739</b>	<b>1,409</b>	<b>1,346</b>	<b>1,235</b>
Provisions	(285)	(161)	(232)	(163)	(317)
Associates	131	209	213	204	198
Exceptionals	0	0	0	0	0
<b>Pretax Profit</b>	<b>1,180</b>	<b>1,787</b>	<b>1,390</b>	<b>1,387</b>	<b>1,116</b>
Taxation	(49)	(286)	(230)	(163)	(143)
Minority Interests	0	0	0	0	0
<b>Net Profit</b>	<b>1,131</b>	<b>1,501</b>	<b>1,160</b>	<b>1,224</b>	<b>973</b>

## Growth (%)

Net Interest Income Gth	1.1	0.3	1.4	0.0	2.1
Net Profit Gth	10.0	32.7	(22.7)	5.5	(20.5)

## Balance Sheet (\$S m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Cash/Bank Balance	23,201	26,525	27,919	28,637	29,782
Government Securities	28,662	33,291	37,271	38,762	40,312
Inter Bank Assets	35,813	32,816	25,462	40,060	42,757
Total Net Loans & Adv.	262,045	263,538	286,281	306,751	327,404
Investment	28,533	33,143	34,015	35,989	38,412
Associates	3,638	4,633	6,170	7,019	7,910
Fixed Assets	4,467	4,380	4,307	4,522	4,748
Goodwill	4,980	4,837	4,774	5,160	5,160
Other Assets	13,014	21,164	15,892	19,934	21,276
Life Ass Fund Inv Assets	87,338	97,068	100,096	103,099	106,192
<b>Total Assets</b>	<b>491,691</b>	<b>521,395</b>	<b>542,187</b>	<b>589,933</b>	<b>623,955</b>
Customer Deposits	302,851	314,907	342,395	356,091	370,334
Inter Bank Deposits	8,250	9,586	8,239	33,657	48,119
Debts/Borrowings	29,388	24,355	20,115	20,115	20,115
Others	18,153	26,917	20,794	26,254	28,072
Minorities	1,441	1,554	1,675	2,022	2,405
Shareholders' Funds	47,162	49,622	52,663	55,488	58,603
Life Ass Fund Liabs	84,446	94,454	96,306	96,306	96,306
<b>Total Liab&amp; S/H's Funds</b>	<b>491,691</b>	<b>521,395</b>	<b>542,187</b>	<b>589,933</b>	<b>623,955</b>

Source: Company, DBS Bank

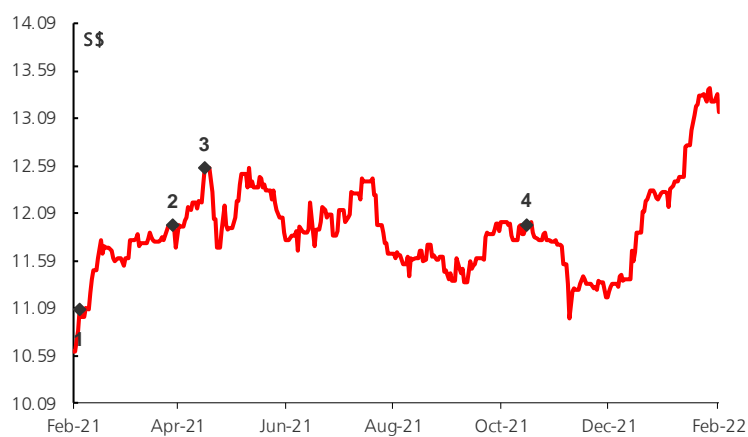
## OCBC

## Financial Stability Measures (%)

FY Dec	2019A	2020A	2021A	2022F	2023F
<b>Balance Sheet Structure</b>					
Loan-to-Deposit Ratio	86.5	83.7	83.6	86.1	88.4
Net Loans / Total Assets	53.3	50.5	52.8	52.0	52.5
Investment / Total Assets	5.8	6.4	6.3	6.1	6.2
Cust. Dep./Int. Bear. Liab.	88.9	90.3	92.4	86.9	84.4
Interbank Dep / Int. Bear.	2.4	2.7	2.2	8.2	11.0
<b>Asset Quality</b>					
NPL / Total Gross Loans	1.5	1.5	1.5	1.8	1.8
NPL / Total Assets	0.8	0.8	0.8	0.9	1.0
Loan Loss Reserve Coverage	63.2	94.5	81.5	70.1	74.6
Provision Charge-Off Rate	0.3	0.8	0.3	0.2	0.2
<b>Capital Strength</b>					
Total CAR	16.9	17.9	17.6	16.2	16.1
Tier-1 CAR	14.9	15.2	15.5	14.2	14.3

Source: Company, DBS Bank

## Target Price &amp; Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	25 Feb 21	11.07	11.90	BUY
2:	19 Apr 21	11.96	13.60	BUY
3:	07 May 21	12.56	14.00	BUY
4:	05 Nov 21	11.97	14.00	BUY

Note: Share price and Target price are adjusted for corporate actions.

Source: DBS Bank

Analyst: Paul YONG, CFA

Rui Wen LIM

Singapore Research Team

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**STRONG BUY** (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)  
**BUY** (>15% total return over the next 12 months for small caps, >10% for large caps)  
**HOLD** (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)  
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**SELL** (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

\*Share price appreciation + dividends

Completed Date: 24 Feb 2022 06:29:27 (SGT)

Dissemination Date: 24 Feb 2022 07:30:08 (SGT)

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## DBS Regional Research Offices

### HONG KONG

#### DBS (Hong Kong) Ltd

Contact: Carol Wu  
13th Floor One Island East,  
18 Westlands Road,  
Quarry Bay, Hong Kong  
Tel: 852 3668 4181  
Fax: 852 2521 1812  
e-mail: dbsvhk@dbs.com

### MALAYSIA

#### AllianceDBS Research Sdn Bhd

Contact: Wong Ming Tek  
19th Floor, Menara Multi-Purpose,  
Capital Square,  
8 Jalan Munshi Abdullah 50100  
Kuala Lumpur, Malaysia.  
Tel.: 603 2604 3333  
Fax: 603 2604 3921  
e-mail: general@alliancedbs.com  
Co. Regn No. 198401015984 (128540-U)

### SINGAPORE

#### DBS Bank Ltd

Contact: Janice Chua  
12 Marina Boulevard,  
Marina Bay Financial Centre Tower 3  
Singapore 018982  
Tel: 65 6878 8888  
e-mail: groupresearch@dbs.com  
Company Regn. No. 196800306E

### INDONESIA

#### PT DBS Vickers Sekuritas (Indonesia)

Contact: Maynard Priajaya Arif  
DBS Bank Tower  
Ciputra World 1, 32/F  
Jl. Prof. Dr. Satrio Kav. 3-5  
Jakarta 12940, Indonesia  
Tel: 62 21 3003 4900  
Fax: 6221 3003 4943  
e-mail: indonesiaesearch@dbs.com

### THAILAND

#### DBS Vickers Securities (Thailand) Co Ltd

Contact: Chanpen Sirithanarattanukul  
989 Siam Piwat Tower Building,  
9th, 14th-15th Floor  
Rama 1 Road, Pathumwan,  
Bangkok Thailand 10330  
Tel. 66 2 857 7831  
Fax: 66 2 658 1269  
e-mail: research@th.dbs.com  
Company Regn. No 0105539127012  
Securities and Exchange Commission, Thailand