

Oversea-Chinese Banking Corp Ltd

Higher-than-expected allowances

SINGAPORE | BANKING | 4Q21 RESULTS

- FY21 earnings of S\$4.86bn met our estimates despite higher-than-expected allowances which were offset by higher net interest income. 4Q21 DPS rose 12% to 28 cents.
- Management guidance is single-digit loans growth, stable NIMs and lower credit costs for FY22e.
- Maintain BUY with an unchanged target price of S\$14.22.** We raise FY22e earnings by 13% as we increase NII and fee income estimates for FY22e. We assume 1.28x FY22e P/BV and ROE estimate of 9.3% in our GGM valuation. Catalysts include lower provisions and higher interest income as economic conditions improve. A 100bps rise in interest rates can raise NIM by 0.18% and PATMI by 10%. OCBC is our preferred pick amongst the three banks due to attractive valuations, upside in dividend from the 15% CET 1 buffer and lower provisioning as Indonesia and Malaysian economies recover.

Results at a glance

(SGD mn)	4Q21	4Q20	YoY	3Q21	QoQ	Comments
NII	1,492	1,436	4%	1,461	2%	4% growth YoY, underpinned by a 6% increase in average loan volumes. NIM flat QoQ but declined 4 bps YoY to 1.52% from lower asset yields.
Net Fees & Comm	528	517	2%	569	(7%)	2% growth YoY driven by broad-based fee growth associated with the rise in customer transactions and business activities, 7% decline YoY due to year end seasonality.
Insurance	248	145	71%	262	(5%)	Insurance income up 71% YoY but down 5% QoQ
Other Non-II	152	264	(42%)	83	83%	Trading income down 42% YoY but full-year customer flow treasury income up 8% YoY at S\$719mn.
Total income	2,550	2,485	3%	2,560	(0%)	
Expenses	(1,289)	(1,125)	15%	(1,188)	9%	Increase mainly due a rise in staff costs linked to strategic expansion and business activity growth, and absence of government job support grants.
PPOP	1,459	1,491	(2%)	1,576	(7%)	
Allowance	(317)	(285)	11%	(163)	94%	GP write-back of S\$70mn offset by higher SP of S\$387mn (3Q21: S\$185mn) mainly driven by project financing delays due to supply chain disruption brought about by COVID-19.
PATMI	973	1,131	(14%)	1,224	(21%)	

Source: Company, PSR

The Positives

+ Fee income grew 2% YoY. Fee and commission income grew 2% YoY but fell 7% QoQ due to year-end seasonality. Full-year fee income grew 12% YoY to a record S\$2.25bn from broad-based fee growth on the back of higher transaction volumes and customer activities, particularly from wealth management income which made up 37% (S\$3.92bn) of the Group's income in FY21. The Group's FY21 assets under management (AUM) rose 7% YoY to record high S\$258bn. FY21 insurance income grew 63% to S\$1.14bn, driven by favourable financial market conditions and higher operating profit from Great Eastern Holdings' insurance business.

+ Net interest income grew 4% YoY. NII grew 4% YoY and 2% QoQ led by loan growth of 8% YoY and 2% QoQ while NIMs remained flat QoQ at 1.52%. Loan growth was broad-based across both corporate and consumer segments, with the majority of the increase coming from Singapore, Greater China, and the Group's international network. OCBC has guided mid- to high single-digit loan growth for FY22e.



StocksBnB.com

28 February 2022

BUY (Maintained)

LAST CLOSE PRICE	SGD 11.89
FORECAST DIV	SGD 0.56
TARGET PRICE	SGD 14.22
DIVIDEND YIELD	4.7%
TOTAL RETURN	24.3%

COMPANY DATA

BLOOMBERG TICKER	OCBC SP
O/S SHARES (MN):	4,492
MARKET CAP (USD mn / SGD mn):	39484 / 53410
52 - WK HI/LO (SGD):	13.54 / 10.9
3M Average Daily T/O (mn):	7.41

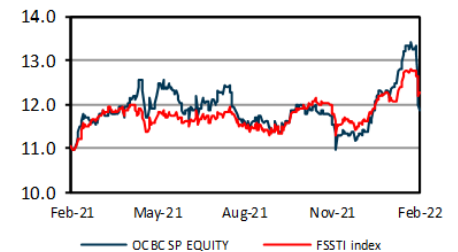
MAJOR SHAREHOLDERS (%)

Selat Pte Limited	11.8%
Lee Foundation Singapore	4.2%
Vanguard Group Inc	2.7%

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	(2.4)	2.0	5.3
STI RETURN	(0.0)	1.9	5.1

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec (SGD mn)	FY20	FY21	FY22e	FY23e
Total Income	10,136	10,589	11,746	12,365
Op. Profit	1,403	3,873	5,646	6,163
NPAT, adj.	3,583	4,851	6,092	6,667
EPS (SGD)	0.80	1.08	1.36	1.49
PER, adj. (x)	14.8	11.0	8.7	8.0
P/BV, x	1.1	1.0	1.0	0.9
DPS (S\$)	0.32	0.53	0.66	0.70
ROE	7.4%	9.5%	11.2%	11.5%

Source: Bloomberg, Company, PSR

Valuation Method:

Gordon Growth Model (COE: 7.9%, g: 2%)

Glenn Thum (+65 6212 1851)

Research Analyst

glenthumjc@phillip.com.sg

The Negatives

- **SPs increased 109% QoQ.** SPs of S\$387mn were made during the quarter, which is 109% higher than 3Q21's SPs of S\$185mn. This increase was mainly driven by project financing delays due to supply chain disruption brought about by COVID-19. Management said that they are located mainly in Greater China and do not pose a systemic risk. However, OCBC was able to write back GPs of S\$70mn during the quarter mainly due to downgrade of accounts to ECL stage 3 allowances, and refresh of the macroeconomic variables in the ECL model. Total NPAs rose by 2% QoQ and 8% YoY to S\$4.3bn, but the group NPL ratio was stable at 1.5%. OCBC has guided credit costs of 20-25bps for FY22e compared with FY21's credit costs of 29bps.

- **Malaysia and Indonesia NPLs up QoQ.** NPLs in Malaysia were up 8% QoQ to S\$1.47bn while NPLs in Indonesia were up 17.5% QoQ to S\$1.21bn in 4Q21. The increase was mainly due to loan moratorium extensions in both countries and the introduction of the PEMULIH relief package in Malaysia, where some loans under support were classified as NPLs. Nonetheless, management said that the increased NPLs in the two countries are customer-related and cover a broad spectrum of loans and are not trend-related.

Outlook

Loan growth: Loans grew 8% YoY in 4Q21 to S\$290bn, meeting the bank's guidance of a high single-digit increase for FY21e. Management sees further lending opportunities in the wholesale segment and sustainable financing. Green and sustainable finance was up 66% YoY to S\$23.3bn and now forms 8% of its loan book. Mortgage pipelines in Singapore and Hong Kong are also healthy, with more drawdowns expected in FY22.

China: OCBC's total exposure to mainland China remains at 11% of Group loans, with onshore exposure at S\$7bn and offshore exposure at S\$25bn. Nonetheless, customers include mainly top state-owned enterprises, large local corporates, as well as OCBC's network customers. Less than one-third of the Group's Mainland China onshore exposure (S\$2bn) are corporate real estate loans, largely lending to the bank's network customers. NPL ratio for non-bank Mainland China loans increased to 0.8% from 0.5% in the previous quarter due to project financing delays mentioned above.

NIM: Management has guided stable NIMs of 1.5-1.55% for FY22e. Nonetheless, it said that based on historical data, a 100bps increase in rates would lead to a 18bps increase in NIMs. Assuming rate hikes totalling 100bps this year, based on our calculations, our FY22e NII can climb S\$725mn (or 11%) resulting in an increase in our FY22e PATMI by 10%.

Table 1: FY21 results vs OCBC guidance vs PSR estimates for FY22e

Assumptions	FY21 Results	OCBC	PSR
NIM (%)	1.54%	1.5% - 1.55%	1.55%
Loans growth (%)	8.6%	Mid to high single digit	7.3%
Credit cost (bps)	29	20 to 25 bps	25

Source: Company, PSR

Investment Action

Maintain BUY with an unchanged target price of S\$14.22

We maintain our BUY recommendation with an unchanged GGM target price of S\$14.22. We raise FY22e earnings by 13% as we increase NII and fee income estimates for FY22e. We continue to assume 1.24x FY22e P/BV and ROE estimates of 9.3% in our GGM valuation. Catalyst includes lower provisions and higher interest income as economic conditions improve.

Abbreviations

NII – Net interest income
 NIM – Net interest margin
 Non-II – Non-interest income
 NPL – Non-performing Loans
 SP – Specific provisions
 GP – General provisions

GGM valuation

Item	Description	Value
R _f	Risk-free rate	1.1%
E	Equity-risk premium	6.0%
B	Beta	1.1
COE	Cost of Equity	7.9%
ROE	Return on Equity	9.3%
g	Terminal growth rate	2.0%
$\frac{(ROE-g)}{(COE-g)}$	Target Price to Book	1.24
	BVPS, S\$	11.49
	Valuation, S\$	14.22

Source: PSR

Financials

Income Statement

Y/E Dec, SGD mn	FY19	FY20	FY21	FY22e	FY23e
Net Int Income	6,332	5,966	5,855	6,362	6,817
Fees and Commission	2,123	2,003	2,245	2,769	3,009
Other Non int income	2,418	2,167	2,489	2,615	2,539
Total operating income	10,873	10,136	10,589	11,746	12,365
Operating expenses	(4,644)	(4,439)	(4,764)	(5,121)	(5,309)
Operating profit	4,243	1,403	3,873	5,646	6,163
Provisions and others	(993)	(2,147)	(976)	(490)	(447)
Associates & JVs	566	612	824	989	1,187
Profit Before Tax	5,802	4,162	5,673	7,124	7,796
Taxation	(778)	(437)	(648)	(814)	(891)
Profit After Tax	5,024	3,725	5,025	6,310	6,906
Non-controlling Interest	153	142	174	219	239
Net Income, adj.	4,871	3,583	4,851	6,092	6,667

Balance Sheet

Y/E Dec, SGD mn	FY19	FY20	FY21	FY22e	FY23e
Cash bal with central banks	23,201	26,525	27,919	20,419	11,462
Due from banks	35,813	32,816	25,462	27,048	27,150
Debt and equity securities	28,533	33,143	34,015	30,991	31,108
Loans and bills receivable	262,045	263,538	286,281	312,381	330,279
Life Assur. Fund Inv. Assets	87,338	97,068	100,096	103,099	106,192
Others	54,761	68,305	68,414	66,021	66,171
Total Assets	491,691	521,395	542,187	559,960	572,362
Due to banks	8,250	9,586	8,239	10,161	10,237
Due to non-bank customers	302,851	314,907	342,395	350,618	355,265
Life Assur. Fund Liabilities	84,446	94,454	96,306	99,195	102,171
Debts issued	29,388	24,355	20,115	20,669	20,875
Others	18,153	26,917	20,794	21,405	22,034
Total liabilities	443,088	470,219	487,849	502,047	510,582
Shareholder's equity	47,162	49,622	52,664	56,022	59,652
Non-controlling interest	1,441	1,554	1,675	1,894	2,133
Total Equity	48,603	51,176	54,339	57,916	61,784

Per share data (SGD)

Y/E Dec	FY19	FY20	FY21	FY22e	FY23e
EPS, reported	1.13	0.80	1.08	1.36	1.49
EPS, adj.	1.13	0.80	1.08	1.36	1.49
DPS	0.53	0.32	0.53	0.66	0.70
BVPS	10.93	11.09	11.72	12.51	13.37
Dividend payout ratio	47%	40%	49%	49%	47%

Supplementary items

Y/E Dec	FY19	FY20	FY21	FY22e	FY23e
CET1 CAR	14.9%	15.2%	15.5%	15.6%	16.1%
Tier 1 CAR	15.6%	15.8%	16.0%	16.1%	16.6%
Total CAR	16.9%	17.9%	17.6%	17.5%	17.9%

Valuation Ratios

Y/E Dec	FY19	FY20	FY21	FY22e	FY23e
P/E (X), adj.	11.0	15.5	11.5	9.1	8.3
P/B (X)	1.1	1.1	1.1	1.0	0.9
Dividend Yield	4.3%	2.6%	4.3%	5.3%	5.6%

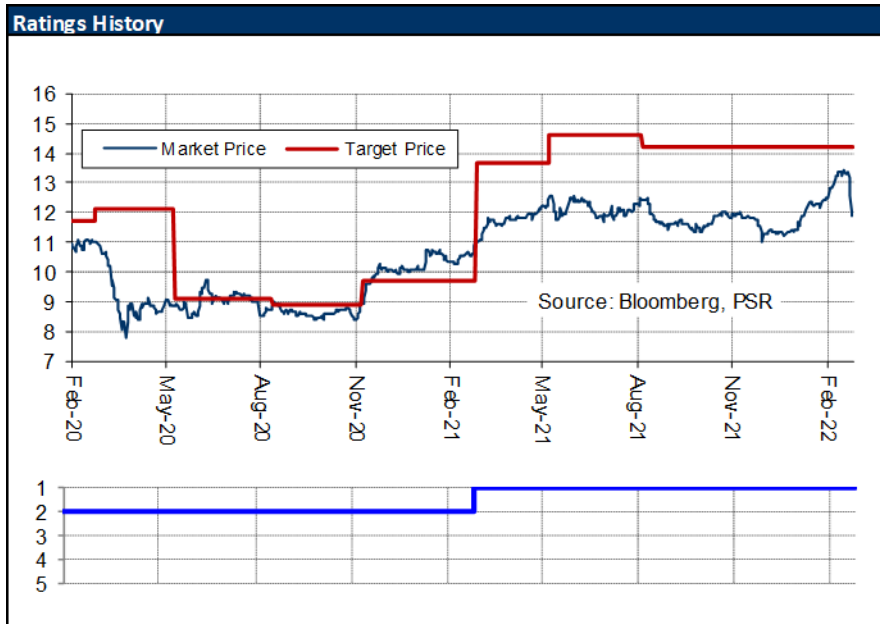
Growth & Margins

Growth					
Net int income	7.5%	-5.8%	-1.9%	8.7%	7.1%
Non int income	19.2%	-8.2%	13.5%	13.7%	3.1%
Pre provision operating profit	12.1%	-6.8%	4.5%	10.9%	5.3%
Operating income	2.7%	-32.2%	36.6%	26.5%	7.7%
Net income, reported	8.4%	-26.4%	35.4%	25.6%	9.4%
Net income, adj	8.4%	-26.4%	35.4%	25.6%	9.4%
Margins					
Net interest margin	1.77%	1.61%	1.54%	1.55%	1.58%

Key Ratios

ROE	10.9%	7.4%	9.5%	11.2%	11.5%
ROA	1.2%	0.8%	1.1%	1.3%	1.4%
RORWA	2.3%	1.6%	2.2%	2.5%	2.6%
Non-int/total income ratio	41.8%	41.1%	44.7%	45.8%	44.9%
Cost/income ratio	42.7%	43.8%	45.0%	43.6%	42.9%
Loan/deposit ratio	86.5%	83.7%	83.6%	89.1%	93.0%
NPL ratio	1.4%	1.5%	1.5%	1.4%	1.4%

Source: Company, Phillip Securities Research (Singapore) Estimates



PSR Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
< -20%	Sell	5

Remarks

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

Contact Information (Research Team)
Head of Research

 Paul Chew – paulchewkl@phillip.com.sg
Research Admin

 Qystina Azli - qystina@phillip.com.sg
Consumer | Industrials| Conglomerate

 Terence Chua – terencechuatl@phillip.com.sg
Property | REITs

 Natalie Ong - natalieongpf@phillip.com.sg
Banking & Finance

 Glenn Thum – glennthumjc@phillip.com.sg
Small-Mid Cap

 Vivian Ye Qianwei – yeqw@phillip.com.sg
US Technology Analyst (Hardware)

 Timothy Ang – timothyang@phillip.com.sg
US Technology Analyst (Internet)

 Jonathan Woo – jonathanwookj@phillip.com.sg
Credit Analyst

 Shawn Sng - shawnsngkh@phillip.com.sg
US Technology Analyst (Software/Services)

 Ambrish Shah – amshah@phillipcapiatal.in
Contact Information (Regional Member Companies)
SINGAPORE

Phillip Securities Pte Ltd
Raffles City Tower
250, North Bridge Road #06-00
Singapore 179101
Tel +65 6533 6001
Fax +65 6535 6631
Website: www.poems.com.sg

MALAYSIA

Phillip Capital Management Sdn Bhd
B-3-6 Block B Level 3 Megan Avenue II,
No. 12, Jalan Yap Kwan Seng, 50450
Kuala Lumpur
Tel +603 2162 8841
Fax +603 2166 5099
Website: www.poems.com.my

HONG KONG

Phillip Securities (HK) Ltd
11/F United Centre 95 Queensway
Hong Kong
Tel +852 2277 6600
Fax +852 2868 5307
Websites: www.phillip.com.hk

JAPAN

Phillip Securities Japan, Ltd.
4-2 Nihonbashi Kabuto-cho Chuo-ku,
Tokyo 103-0026
Tel +81-3 3666 2101
Fax +81-3 3666 6090
Website: www.phillip.co.jp

INDONESIA

PT Phillip Securities Indonesia
ANZ Tower Level 23B,
Jl Jend Sudirman Kav 33A
Jakarta 10220 – Indonesia
Tel +62-21 5790 0800
Fax +62-21 5790 0809
Website: www.phillip.co.id

CHINA

Phillip Financial Advisory (Shanghai) Co Ltd
No 550 Yan An East Road,
Ocean Tower Unit 2318,
Postal code 200001
Tel +86-21 5169 9200
Fax +86-21 6351 2940
Website: www.phillip.com.cn

THAILAND

Phillip Securities (Thailand) Public Co. Ltd
15th Floor, Vorawat Building,
849 Silom Road, Silom, Bangkok,
Bangkok 10500 Thailand
Tel +66-2 6351700 / 22680999
Fax +66-2 22680921
Website www.phillip.co.th

FRANCE

King & Shaxson Capital Limited
3rd Floor, 35 Rue de la Bienfaisance 75008
Paris France
Tel +33-1 45633100
Fax +33-1 45636017
Website: www.kingandshaxson.com

UNITED KINGDOM

King & Shaxson Capital Limited
6th Floor, Candlewick House,
120 Cannon Street,
London, EC4N 6AS
Tel +44-20 7426 5950
Fax +44-20 7626 1757
Website: www.kingandshaxson.com

UNITED STATES

Phillip Capital Inc
141 W Jackson Blvd Ste 3050
The Chicago Board of Trade Building
Chicago, IL 60604 USA
Tel +1-312 356 9000
Fax +1-312 356 9005
Website: www.phillipusa.com

AUSTRALIA

Phillip Capital Limited
Level 10, 330 Collins Street
Melbourne, Victoria 3000, Australia
Tel +61-03 8633 9803
Fax +61-03 8633 9899
Website: www.phillipcapiatal.com.au

CAMBODIA

Phillip Bank Plc
Ground Floor of B-Office Centre, #61-64,
Norodom Blvd Corner Street 306, Sangkat
Boeung Keng Kang 1, Khan Chamkamorn,
Phnom Penh, Cambodia
Tel: 855 (0) 7796 6151/855 (0) 1620 0769
Website: www.phillipbank.com.kh

INDIA

PhillipCapital (India) Private Limited
No.1, 18th Floor, Urmi Estate
95, Ganpatrao Kadam Marg
Lower Parel West, Mumbai 400-013
Maharashtra, India
Tel: +91-22-2300 2999 / Fax: +91-22-2300 2969
Website: www.phillipcapiatal.in

TURKEY

PhillipCapital Menkul Degerler
Dr. Cemil Bengü Cad. Hak Is Merkezi
No. 2 Kat. 6A Caglayan
34403 Istanbul, Turkey
Tel: 0212 296 84 84
Fax: 0212 233 69 29
Website: www.phillipcapiatal.com.tr

DUBAI

Phillip Futures DMCC
Member of the Dubai Gold and
Commodities Exchange (DGEX)
Unit No 601, Plot No 58, White Crown Bldg,
Sheikh Zayed Road, P.O.Box 212291
Dubai-UAE
Tel: +971-4-3325052 / Fax: +971-4-3328895

Important Information

This report is prepared and/or distributed by Phillip Securities Research Pte Ltd ("Phillip Securities Research"), which is a holder of a financial adviser's license under the Financial Advisers Act, Chapter 110 in Singapore.

By receiving or reading this report, you agree to be bound by the terms and limitations set out below. Any failure to comply with these terms and limitations may constitute a violation of law. This report has been provided to you for personal use only and shall not be reproduced, distributed or published by you in whole or in part, for any purpose. If you have received this report by mistake, please delete or destroy it, and notify the sender immediately.

The information and any analysis, forecasts, projections, expectations and opinions (collectively, the "Research") contained in this report has been obtained from public sources which Phillip Securities Research believes to be reliable. However, Phillip Securities Research does not make any representation or warranty, express or implied that such information or Research is accurate, complete or appropriate or should be relied upon as such. Any such information or Research contained in this report is subject to change, and Phillip Securities Research shall not have any responsibility to maintain or update the information or Research made available or to supply any corrections, updates or releases in connection therewith.

Any opinions, forecasts, assumptions, estimates, valuations and prices contained in this report are as of the date indicated and are subject to change at any time without prior notice. Past performance of any product referred to in this report is not indicative of future results.

This report does not constitute, and should not be used as a substitute for, tax, legal or investment advice. This report should not be relied upon exclusively or as authoritative, without further being subject to the recipient's own independent verification and exercise of judgment. The fact that this report has been made available constitutes neither a recommendation to enter into a particular transaction, nor a representation that any product described in this report is suitable or appropriate for the recipient. Recipients should be aware that many of the products, which may be described in this report involve significant risks and may not be suitable for all investors, and that any decision to enter into transactions involving such products should not be made, unless all such risks are understood and an independent determination has been made that such transactions would be appropriate. Any discussion of the risks contained herein with respect to any product should not be considered to be a disclosure of all risks or a complete discussion of such risks.

Nothing in this report shall be construed to be an offer or solicitation for the purchase or sale of any product. Any decision to purchase any product mentioned in this report should take into account existing public information, including any registered prospectus in respect of such product.

Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may provide an array of financial services to a large number of corporations in Singapore and worldwide, including but not limited to commercial / investment banking activities (including sponsorship, financial advisory or underwriting activities), brokerage or securities trading activities. Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may have participated in or invested in transactions with the issuer(s) of the securities mentioned in this report, and may have performed services for or solicited business from such issuers. Additionally, Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may have provided advice or investment services to such companies and investments or related investments, as maybe mentioned in this report.

Phillip Securities Research or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report may, from time to time maintain a long or short position in securities referred to herein, or in related futures or options, purchase or sell, make a market in, or engage in any other transaction involving such securities, and earn brokerage or other compensation in respect of the foregoing. Investments will be denominated in various currencies including US dollars and Euro and thus will be subject to any fluctuation in exchange rates between US dollars and Euro or foreign currencies and the currency of your own jurisdiction. Such fluctuations may have an adverse effect on the value, price or income return of the investment.

To the extent permitted by law, Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may at any time engage in any of the above activities as set out above or otherwise hold an interest, whether material or not, in respect of companies and investments or related investments, which may be mentioned in this report. Accordingly, information may be available to Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, which is not reflected in this report, and Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may, to the extent permitted by law, have acted upon or used the information prior to or immediately following its publication. Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may have issued other material that is inconsistent with, or reach different conclusions from, the contents of this report.

The information, tools and material presented herein are not directed, intended for distribution to or use by, any person or entity in any jurisdiction or country where such distribution, publication, availability or use would be contrary to the applicable law or regulation or which would subject Phillip Securities Research to any registration or licensing or other requirement, or penalty for contravention of such requirements within such jurisdiction.

This report is intended for general circulation only and does not take into account the specific investment objectives, financial situation or particular needs of any particular person. The products mentioned in this report may not be suitable for all investors and a person receiving or reading this report should seek advice from a professional and financial adviser regarding the legal, business, financial, tax and other aspects including the suitability of such products, taking into account the specific investment objectives, financial situation or particular needs of that person, before making a commitment to invest in any of such products.

This report is not intended for distribution, publication to or use by any person in any jurisdiction outside of Singapore or any other jurisdiction as Phillip Securities Research may determine in its absolute discretion.

IMPORTANT DISCLOSURES FOR INCLUDED RESEARCH ANALYSES OR REPORTS OF FOREIGN RESEARCH HOUSES

Where the report contains research analyses or reports from a foreign research house, please note:

- (i) recipients of the analyses or reports are to contact Phillip Securities Research (and not the relevant foreign research house) in Singapore at 250 North Bridge Road, #06-00 Raffles City Tower, Singapore 179101, telephone number +65 6533 6001, in respect of any matters arising from, or in connection with, the analyses or reports; and
- (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Singapore who is not an accredited investor, expert investor or institutional investor, Phillip Securities Research accepts legal responsibility for the contents of the analyses or reports.