

### COMPANY RESULTS

## Oversea-Chinese Banking Corp (OCBC SP)

4Q21: Downside Cushioned By Depressed Valuations

4Q21 was a disappointing quarter due to a shortfall in fee income, higher operating expenses and higher provisions. Asset quality deteriorated in Malaysia, Indonesia and Greater China. Management guided mid-to-high single-digit loan growth for 2022. Interest rates are on the rise and we expect OCBC to benefit from NIM expansion in 2H22. 2022 P/B is low at 1.1x. OCBC provides attractive dividend yield of 4.3% for 2022 and 4.6% for 2023. Maintain BUY. Target price: S\$15.82.

### 4Q21 RESULTS

Profit & Loss (S\$m)	4Q21	4Q20	yoy % Chg	UOBKH Estimate	Deviation (%)
Net Interest Income	1,492	1,436	3.9	1,512	-1.3
Fees & Commissions	528	517	2.1	562	-6.0
Insurance	299	196	52.6	225	32.9
Net Trading Income	152	264	-42.4	175	-13.1
Other Non-Interest Income	79	72	9.7	105	-24.8
Total Income	2,550	2,485	2.6	2,579	-1.1
Operating Expenses	-1,315	-1,150	14.3	-1,204	9.2
PPOP	1,235	1,335	-7.5	1,374	-10.1
Provisions	-317	-284	11.6	-175	81.1
Associates	198	131	51.1	168	18.1
PBT	1,116	1,182	-5.6	1,367	-18.4
Net Profit	973	1,132	-14.0	1,122	-13.3
EPS (S cents)	21.3	24.8	-14.1	24.9	-14.6
DPS (S cents)	28.0	15.9	76.1	25.0	12.0
BVPS (S\$)	11.46	10.82	5.9	11.51	-0.4
Financial Ratios (%)	4Q21	4Q20	yoy Chg (ppt)	3Q21	qoq Chg (ppt)
NIM	1.52	1.56	-0.04	1.52	0.00
Loan Growth, yoy	8.4	1.0	7.4	6.1	2.3
Deposit Growth, yoy	8.7	4.0	4.7	2.7	6.0
Loan/Deposit Ratio	83.6	83.7	-0.1	84.5	-0.9
Cost/Income Ratio	50.5	45.3	5.2	46.4	4.1
ROE	7.5	9.3	-1.8	9.5	-2.0
NPL Ratio	1.5	1.5	0.0	1.5	0.0
Credit Costs (bp)	44.1	42.4	1.7	23.3	20.8
Loan Loss Coverage	90	115	-25	97	-7
CET-1 CAR	15.5	15.2	0.3	15.5	0.0

Source: OCBC, UOB Kay Hian

### RESULTS

- Oversea-Chinese Banking Corp (OCBC) reported net profit of S\$973m for 4Q21 (down 14% yoy and 20% qoq), below our forecast of S\$1,122m.
- Achieved high single-digit loan growth. Loans growth was 8.4% yoy and 1.7% qoq driven by Singapore (+5% yoy), Greater China (+14% yoy) and the rest of the world (+28% yoy). NIM was stable at 1.52%. Net interest income increased 3.9% yoy.

### KEY FINANCIALS

Year to 31 Dec (S\$m)	2020	2021	2022F	2023F	2024F
Net interest income	5,966	5,855	6,309	7,213	8,099
Non-interest income	4,173	4,741	4,261	4,453	4,661
Net profit (rep./act.)	3,588	4,858	5,014	5,575	6,140
Net profit (adj.)	3,588	4,858	5,014	5,575	6,140
EPS (S\$ cent)	81.0	107.9	111.4	124.0	136.7
PE (x)	16.3	12.2	11.8	10.6	9.6
P/B (x)	1.2	1.2	1.1	1.0	1.0
Dividend yield (%)	2.4	3.8	4.0	4.3	4.6
Net int margin (%)	1.6	1.5	1.5	1.7	1.7
Cost/income (%)	44.8	45.9	46.7	46.6	46.5
Loan loss cover (%)	114.8	90.0	97.4	90.6	82.2
Consensus net profit	-	-	5,011	5,439	6,099
UOBKH/Consensus (x)	-	-	1.00	1.02	1.01

Source: Oversea-Chinese Banking Corporation, Bloomberg, UOB Kay Hian

### BUY

(Maintained)

Share Price	S\$13.16
Target Price	S\$15.82
Upside	+20.2%
(Previous TP)	S\$16.12)

### COMPANY DESCRIPTION

OCBC has a longstanding presence in Singapore and Malaysia and entered the Indonesian market through the acquisition of Bank NISP in 2004. It strengthened its presence in Greater China through the acquisition of Wing Hang Bank in 2014. OCBC owns 87% of life insurer Great Eastern Holdings and has a 20% stake in Bank of Ningbo.

### STOCK DATA

GICS sector	Financials
Bloomberg ticker:	OCBC SP
Shares issued (m):	4,492.1
Market cap (S\$m):	59,115.7
Market cap (US\$m):	43,903.2
3-mth avg daily t'over (US\$m):	60.1

### Price Performance (%)

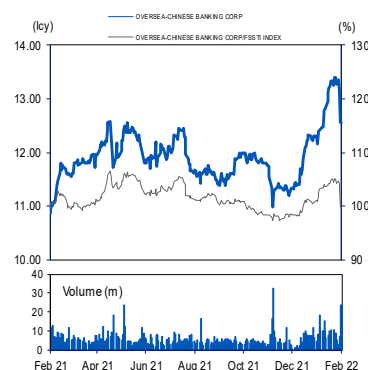
52-week high/low	S\$13.41/S\$10.63			
<b>1mth</b>	<b>3mth</b>	<b>6mth</b>	<b>1yr</b>	<b>YTD</b>
6.9	11.4	12.8	23.8	15.4

### Major Shareholders

Selat P/L	12.2
Lee Foundation	5.1

FY22 NAV/Share (S\$)	12.03
FY22 CAR Tier-1 (%)	15.70

### PRICE CHART



Source: Bloomberg

### ANALYST

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- Insurance resilient but fee income faltered.** Fees grew marginally by 2% yoy but pulled back by 7% qoq. Contribution from wealth management contracted 1% yoy and 17% qoq. AUM grew 3% yoy to S\$258b. Contributions from life and general insurance were S\$299m, up 53% yoy (4Q20 was a low base due to negative impact from higher insurance liabilities after applying a lower discount rate) but flat qoq.
- Cost-to-income ratio elevated at 50.5%.** Operating expenses expanded 15% yoy in 4Q21. Staff costs increased 10% in 2021 (increase is smaller at 5% if we exclude impact of government job support grants).
- Asset quality under strain.** NPL balance increased 2% qoq. NPL formation was elevated at S\$1,057m (3Q21: S\$804m). We saw lower NPLs in Singapore (write-offs for legacy oil & gas exposures) but offset by higher NPLs in Malaysia (housing loans under moratorium), Indonesia (loans for the manufacturing sector) and Greater China (delays in project financing (syndicated loans) due to disruptions from the COVID-19 pandemic). Total provisions at S\$317m were 11% higher yoy. Loan loss coverage deteriorated 7ppt qoq to 90%.
- Rewarding shareholders with more dividends.** The board declared final dividend of 28 S cents, an increase of 12% hoh.

### STOCK IMPACT

- Three-year strategy refresh.** OCBC plans to tap on four growth drivers: a) rising wealth in Asia through hubs in Singapore and Hong Kong, b) ASEAN-China trade and investment flows, c) new economy and high-growth industries and d) transition to a sustainable low-carbon world. It will invest to strengthen its comprehensive regional franchise and accelerate digital transformation. Management aims to achieve growth at CAGR of above 10%.
- Guidance for 2022.** Management guided mid-to-high single-digit loan growth for 2022. NIM is expected to be stable at 1.50-1.55%. Credit costs are expected to be 22-25bp (2021: 29bp).
- Sensitivity to rate hikes.** Management estimated every 100bp increase in local interest rates will lead to NIM expansion of 18bp.
- SMS phishing scam.** OCBC first detected three cases of SMS phishing scams on 8 Dec 21. The number of cases surged and reached double digits on 23 Dec 21. The number of cases reduced significantly on 31 Dec 21 and there were no new cases since early-January. OCBC has made a one-off goodwill payout to scam victims totalling S\$14m in 4Q21. It has implemented security measures set out by the Monetary Authority of Singapore (MAS) and Association of Banks in Singapore (ABS). MAS is likely to take supervisory action and impose additional capital requirement for operational risks, similar to those taken on DBS Group Holdings.

### EARNINGS REVISION/RISK

- We expect four hikes in 2022 (previous: three hikes), four hikes in 2023 (previous: three hikes) and no hike in 2024 (previous: two hikes).
- We trimmed our net profit forecast for 2022 by 2% as positive impact of an earlier NIM expansion is offset by a combination of lower fee income, higher operating expenses and higher provisions.

### VALUATION/RECOMMENDATION

- Maintain BUY with a lower target price of S\$15.82**, based on 1.24x 2022F P/B, derived from the Gordon Growth Model (ROE: 9.9%, COE: 8.0%, growth: 0.2% (previous: 0.5%)).

### KEY ASSUMPTIONS

	2020	2021	2022F	2023F	2024F
Loan Growth (%)	0.6	8.6	6.9	7.6	7.5
NIM (%)	1.62	1.55	1.54	1.65	1.74
Fees, % Chg	(5.6)	12.0	3.4	8.3	8.3
NPL Ratio (%)	1.47	1.45	1.39	1.29	1.26
Credit Costs (bp)	76.7	31.3	23.2	23.2	23.8
Net Profit (S\$m)	3,588	4,858	5,014	5,575	6,140
% Chg	(26.3)	35.4	3.2	11.2	10.1

Source: UOB Kay Hian

### PROFIT & LOSS

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Interest income	7,425	8,286	10,456	12,482
Interest expense	(1,570)	(1,977)	(3,243)	(4,383)
Net interest income	5,855	6,309	7,213	8,099
Fees & commissions	2,245	2,321	2,513	2,721
Other income	2,496	1,940	1,940	1,940
Non-interest income	4,741	4,261	4,453	4,661
<b>Total income</b>	<b>10,596</b>	<b>10,571</b>	<b>11,666</b>	<b>12,760</b>
Staff costs	(3,028)	(3,093)	(3,413)	(3,733)
Other operating expense	(1,839)	(1,846)	(2,026)	(2,206)
Pre-provision profit	5,729	5,632	6,227	6,821
Loan loss provision	(873)	(694)	(745)	(801)
Other provisions	0	0	0	0
Associated companies	824	906	997	1,097
Pre-tax profit	5,680	5,844	6,478	7,117
Tax	(648)	(672)	(745)	(818)
Minorities	(174)	(158)	(158)	(158)
<b>Net profit</b>	<b>4,858</b>	<b>5,014</b>	<b>5,575</b>	<b>6,140</b>
Net profit (adj.)	4,858	5,014	5,575	6,140

### BALANCE SHEET

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Cash with central bank	27,919	29,632	31,451	33,380
Govt treasury bills & securities	37,271	39,558	41,986	44,562
Interbank loans	25,462	27,024	28,796	30,684
Customer loans	286,281	306,089	329,313	354,133
Investment securities	34,015	34,015	34,015	34,015
Derivative receivables	9,267	9,267	9,267	9,267
Associates & JVs	6,170	6,170	6,170	6,170
Fixed assets (incl. prop.)	4,307	4,307	4,307	4,307
Other assets	111,495	120,118	128,998	138,783
<b>Total assets</b>	<b>542,187</b>	<b>576,180</b>	<b>614,302</b>	<b>655,301</b>
Interbank deposits	8,239	8,745	9,318	9,929
Customer deposits	342,395	363,406	387,228	412,611
Derivative payables	9,070	9,070	9,070	9,070
Debt equivalents	20,115	20,115	20,115	20,115
Other liabilities	108,030	117,774	128,336	139,787
<b>Total liabilities</b>	<b>487,849</b>	<b>519,109</b>	<b>554,067</b>	<b>591,512</b>
Shareholders' funds	52,663	55,328	58,421	61,901
Minority interest - accumulated	1,675	1,743	1,814	1,887
<b>Total equity &amp; liabilities</b>	<b>542,187</b>	<b>576,180</b>	<b>614,302</b>	<b>655,301</b>

### OPERATING RATIOS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
<b>Capital Adequacy</b>				
Tier-1 CAR	16.0	15.7	15.7	15.7
Total CAR	17.6	17.2	17.1	17.0
Total assets/equity (x)	8.4	8.5	8.5	8.5
Tangible assets/tangible common equity (x)	9.1	9.1	9.1	9.1
<b>Asset Quality</b>				
NPL ratio	1.5	1.4	1.3	1.3
Loan loss coverage	90.0	97.4	90.6	82.2
Loan loss reserve/gross loans	1.2	1.2	1.1	0.9
Increase in NPLs	7.6	1.9	0.0	4.7
Credit cost (bp)	31.3	23.2	23.2	23.8
<b>Liquidity</b>				
Loan/deposit ratio	84.6	85.3	86.0	86.6
Liquid assets/short-term liabilities	25.9	25.9	25.8	25.7
Liquid assets/total assets	20.5	20.6	20.6	20.6

### KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
<b>Growth</b>				
Net interest income, yoy chg	(1.9)	7.8	14.3	12.3
Fees & commissions, yoy chg	12.0	3.4	8.3	8.3
Pre-provision profit, yoy chg	2.4	(1.7)	10.6	9.5
Net profit, yoy chg	35.4	3.2	11.2	10.1
Net profit (adj.), yoy chg	35.4	3.2	11.2	10.1
Customer loans, yoy chg	8.6	6.9	7.6	7.5
Customer deposits, yoy chg	8.7	6.1	6.6	6.6
<b>Profitability</b>				
Net interest margin	1.5	1.5	1.7	1.7
Cost/income ratio	45.9	46.7	46.6	46.5
Adjusted ROA	1.1	1.1	1.2	1.2
Reported ROE	9.5	9.3	9.8	10.2
Adjusted ROE	9.5	9.3	9.8	10.2
<b>Valuation</b>				
P/BV (x)	1.2	1.1	1.0	1.0
P/NTA (x)	1.3	1.2	1.1	1.1
Adjusted P/E (x)	12.2	11.8	10.6	9.6
Dividend Yield	3.8	4.0	4.3	4.6
Payout ratio	46.4	46.7	45.2	43.9

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