

COMPANY RESULTS

Oversea-Chinese Banking Corp (OCBC SP)

1Q22: On A Stronger Footing

1Q22 results exceeded expectations due to a strong contribution of S\$330m from insurance, net trading income of S\$225m and lower credit costs of only 6bp. New NPL formation has normalised and NPL ratio has improved 0.1ppt qoq to 1.4%. Interest rates are on the rise and we expect NIM to improve to 1.58% in 2022 and expand 13bp to 1.71% in 2023. 2022 P/B is low at 1.05x. OCBC provides attractive dividend yields of 4.5% for 2022 and 4.8% for 2023. Maintain BUY. Target price: S\$14.88.

RESULTS

- Oversea-Chinese Banking Corp (OCBC) reported net profit of S\$1,356m for 1Q22 (down 10% yoy but up 39% qoq), above our forecast of S\$1,110m.
- Growth from Singapore and developed markets.** Loans expanded 8% yoy and 1% qoq in 1Q22. The sequential expansion was driven by Singapore, the UK, Australia and the US. OCBC supported its network customers in expansion overseas to acquire logistics, data centre and student accommodation properties. Europe (ex-UK) accounted for less than 1% of total loans. NIM expanded 3bp qoq to 1.55%, benefitting from the 25bps hike in Fed Funds Rate in March and the associated increase in loan yield.
- Customer deposits grew 10% yoy and CASA ratio improved 0.9ppt yoy to 62.7%.
- Risk appetite affected by Russia-Ukraine war.** In 1Q22, fees declined 11% yoy but remained flat qoq. Contribution from wealth management dropped 20% yoy but rose 3% qoq. High net worth clients have turned cautious as they see headwinds from the Russia-Ukraine war and heightened geopolitical tensions. AUM grew 1% yoy to S\$251b.
- Contributions from life and general insurance remained resilient** at S\$330m in 1Q22, down 30% yoy (from last year's high base) but rose 10% qoq. It benefitted from mark-to-market gains from a decline in insurance contract liabilities due to utilisation of a higher discount rate to value these liabilities. Net trading income was also strong at S\$225m.
- Contribution from Bank of Ningbo increased 22% yoy to S\$254m.
- Cost efficiency improved sequentially.** Operating expenses increased 5% yoy but receded 7% qoq in 1Q22 (lower discretionary spending and absence of one-off operational charges compared to 4Q21). Staff costs increased 7% yoy.
- NPL formation normalised after taking a hit in 4Q21.** New NPL formation was S\$296m in 1Q22, significantly lower than S\$1,057m in 4Q21 (COVID-19 pandemic caused delays to syndicated project financing in Greater China). NPL balance declined slightly by 0.7% qoq due to recoveries and upgrades of S\$240m mainly from the offshore support vessel (OSV) sector in Singapore. NPL ratio improved 0.1ppt qoq to 1.4%. Total provisions were 73% lower yoy at only S\$44m as OCBC had already set aside sizeable provisions for corporate loans in 4Q21.

KEY FINANCIALS

Year to 31 Dec (\$m)	2020	2021	2022F	2023F	2024F
Net interest income	5,966	5,855	6,342	7,200	7,632
Non-interest income	4,173	4,741	4,335	4,389	4,590
Net profit (rep./act.)	3,588	4,858	4,969	5,395	5,743
Net profit (adj.)	3,588	4,858	4,969	5,395	5,743
EPS (S\$ cent)	81.0	107.9	110.4	120.0	127.8
PE (x)	15.3	11.5	11.2	10.3	9.7
P/B (x)	1.1	1.1	1.1	1.0	1.0
Dividend yield (%)	2.6	4.3	4.5	4.8	5.2
Net int margin (%)	1.6	1.5	1.6	1.7	1.7
Cost/income (%)	44.8	45.9	48.1	48.2	48.2
Loan loss cover (%)	114.8	90.0	91.3	64.8	48.3
Consensus net profit	-	-	5,329	6,168	6,706
UOBKH/Consensus (x)	-	-	0.93	0.87	0.86

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

BUY

(Maintained)

Share Price	S\$12.39
Target Price	S\$14.88
Upside	+20.1%
(Previous TP)	S\$15.05)

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):	4,514.8
Market cap (S\$m):	55,938.7
Market cap (US\$m):	40,541.2
3-mth avg daily t'over (US\$m):	74.6

Price Performance (%)

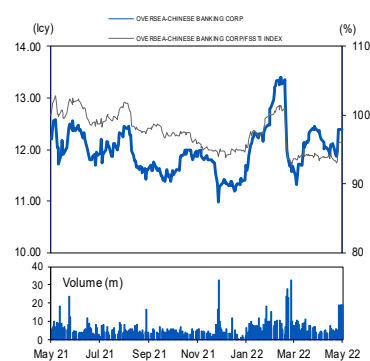
52-week high/low	S\$13.41/S\$10.98			
1mth	3mth	6mth	1yr	YTD
0.0	(0.2)	5.0	2.2	8.7

Major Shareholders

Selat P/L	14.4
Lee Foundation	5.1

FY22 NAV/Share (S\$)	11.77
FY22 CAR Tier-1 (%)	15.53

PRICE CHART



Source: Bloomberg

ANALYST(S)

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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) transitioning to a sustainable low-carbon world. It will invest to strengthen its comprehensive regional franchise and accelerate digital transformation.
- **Positive outlook for ASEAN countries.** ASEAN countries remain resilient and will benefit from easing of safe distancing measures and resumption of air travel. In particular, Malaysia and Indonesia gain from recovery in domestic consumption and higher energy and commodity prices. Many multinational companies have adopted the China + 1 strategy and have plans to set up alternative production facilities within the ASEAN region. Management will closely monitor the COVID-19 outbreak in Greater China. It serves Chinese customers' offshore activities with loans booked in Singapore and Hong Kong (9% of total loans). Its onshore exposure to Mainland China is small at only 2% of total loans.
- **Guidance for 2022.** Management guided mid-to-high single-digit loan growth for 2022. The magnitude of loan growth depends on whether higher inflation affects customers' expansion plans and how severely economic growth slows down in response to higher interest rates. NIM is expected to be higher at 1.55-1.58% (2021: 1.54%). Credit costs are expected to be 20-25bp (2021: 29bp).
- **Sensitivity to rate hikes.** According to OCBC's annual report 2021, it is estimated that a 100bp parallel upward shift in yield curves for four currencies, Singapore dollar, US dollar, Hong Kong dollar and Malaysian ringgit, will lead to NIM expansion of 18bp and additional net interest income of S\$669m.
- **SMS phishing scam.** OCBC has made one-off goodwill payouts to the victims of the SMS phishing scam totalling S\$14m in 4Q21. It has beefed up fraud prevention and implemented security measures set out by Monetary Authority of Singapore (MAS) and Association of Banks in Singapore (ABS). OCBC has rolled out a kill switch that enables customers to immediately freeze all their current and savings accounts in an emergency. It has established a dedicated team and set up a hotline to assist customers encountering possible fraud.

EARNINGS REVISION/RISK

- We expect successive hikes of 50bp during the upcoming FOMC meetings on 3-4 May and 14-15 June. We have factored in the impact of Fed Funds Rate rising to 2.5% by end-22. We expect NIM to improve to 1.58% in 2022 and expand 13bp to 1.71% in 2023. We forecast earnings growth of 8.6% in 2023 and 6.5% in 2024.
- We raised our 2022 net profit forecast for by 4% primarily due to the better-than-expected 1Q22 financial performance. We trim our 2023 net profit forecast by 1% after adjusting credit costs slightly higher by 1bp to 24bp.

VALUATION/RECOMMENDATION

- **Maintain BUY.** Our target price of S\$14.88 is based on 1.20x 2023F P/B, derived from the Gordon Growth model (ROE: 9.8%, COE: 8.25%, growth: 0.5%).

1Q22 RESULTS

Profit & Loss (\$m)	1Q22	1Q21	yoy % Chg	UOBKH Estimate	Deviation (%)
Net Interest Income	1,503	1,441	4.3	1,532	-1.9
Fees & Commissions	522	585	-10.8	555	-5.9
Insurance	330	469	-29.6	185	78.4
Net Trading Income	225	316	-28.8	100	125.0
Other Non-Interest Income	63	103	-38.8	80	-21.3
Total Income	2,643	2,914	-9.3	2,452	7.8
Operating Expenses	-1,230	-1,175	4.7	-1,214	1.3
PPOP	1,413	1,739	-18.7	1,238	14.2
Provisions	-44	-161	-72.7	-168	-73.8
Associates	254	209	21.5	230	10.5
PBT	1,623	1,787	-9.2	1,299	24.9
Net Profit	1,356	1,501	-9.7	1,110	22.1
EPS (S cents)	30.3	33.8	-10.4	24.6	22.8
DPS (S cents)	0.0	0.0	n.m.	0.0	n.m.
BVPS (S\$)	11.55	11.10	4.1	11.68	-1.1
Financial Ratios (%)	1Q22	1Q21	yoy Chg (ppt)	4Q21	qoq Chg (ppt)
NIM	1.55	1.56	-0.01	1.52	0.03
Loan Growth, yoy	8.4	0.2	8.2	8.4	0.0
Deposit Growth, yoy	10.3	0.5	9.9	8.7	1.6
Loan/Deposit Ratio	83.3	84.7	-1.4	83.6	-0.3
Cost/Income Ratio	45.6	39.4	6.2	50.5	-4.9
ROE	10.6	12.4	-1.8	7.5	3.1
NPL Ratio	1.4	1.5	-0.1	1.5	-0.1
Credit Costs (bp)	6.0	23.9	-17.9	44.1	-38.1
Loan Loss Coverage	91	118	-27	90	1
CET-1 CAR	15.2	15.5	-0.3	15.5	-0.3

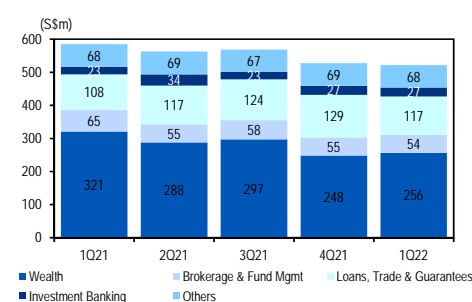
Source: OCBC, UOB Kay Hian

KEY ASSUMPTIONS

	2020	2021	2022F	2023F	2024F
Loan Growth (%)	0.6	8.6	4.4	4.9	6.4
NIM (%)	1.62	1.55	1.58	1.71	1.73
Fees, % Chg	(5.6)	12.0	0.8	8.2	8.2
NPL Ratio (%)	1.47	1.45	1.52	1.60	1.57
Credit Costs (bp)	76.7	31.3	19.7	24.1	24.7
Net Profit (\$m)	3,588	4,858	4,969	5,394	5,743
% Chg	(26.3)	35.4	2.3	8.6	6.5

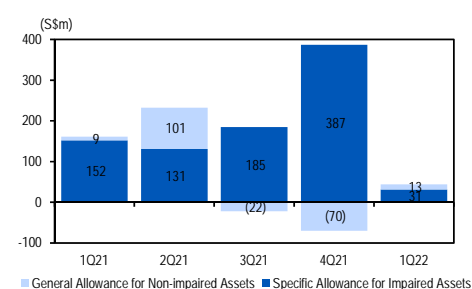
Source: UOB Kay Hian

FEE INCOME



Source: UOB

TOTAL ALLOWANCE ON LOANS



Source: UOB

PROFIT & LOSS

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Interest income	7,425	8,475	11,524	12,384
Interest expense	(1,570)	(2,133)	(4,324)	(4,752)
Net interest income	5,855	6,342	7,200	7,632
Fees & commissions	2,245	2,262	2,449	2,650
Other income	2,496	2,073	1,940	1,940
Non-interest income	4,741	4,335	4,389	4,590
Total income	10,596	10,677	11,589	12,222
Staff costs	(3,028)	(3,213)	(3,463)	(3,652)
Other operating expense	(1,839)	(1,923)	(2,129)	(2,240)
Pre-provision profit	5,729	5,541	5,997	6,331
Loan loss provision	(873)	(583)	(746)	(788)
Other provisions	0	0	0	0
Associated companies	824	931	1,024	1,126
Pre-tax profit	5,680	5,888	6,275	6,669
Tax	(648)	(760)	(722)	(767)
Minorities	(174)	(159)	(158)	(158)
Net profit	4,858	4,969	5,395	5,743
Net profit (adj.)	4,858	4,969	5,395	5,743

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	26,683	28,321	30,059
Customer loans	286,281	298,808	313,302	333,467
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	121,894	137,460	149,442
Total assets	542,187	570,335	606,278	644,669
Interbank deposits	8,239	8,634	9,164	9,726
Customer deposits	342,395	358,818	380,836	404,206
Derivative payables	9,070	9,070	9,070	9,070
Debt equivalents	20,115	20,115	20,115	20,115
Other liabilities	108,030	117,798	128,387	139,867
Total liabilities	487,849	514,435	547,572	582,984
Shareholders' funds	52,663	54,157	56,892	59,798
Minority interest - accumulated	1,675	1,743	1,814	1,887
Total equity & liabilities	542,187	570,335	606,278	644,669

OPERATING RATIOS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Capital Adequacy				
Tier-1 CAR	16.0	15.5	15.5	15.5
Total CAR	17.6	17.0	16.9	16.8
Total assets/equity (x)	8.4	8.5	8.6	8.7
Tangible assets/tangible common equity (x)	9.1	9.2	9.3	9.3
Asset Quality				
NPL ratio	1.5	1.5	1.6	1.6
Loan loss coverage	90.0	91.3	64.8	48.3
Loan loss reserve/gross loans	1.2	1.3	0.9	0.6
Increase in NPLs	7.6	9.5	9.8	3.9
Credit cost (bp)	31.3	19.7	24.1	24.7
Liquidity				
Loan/deposit ratio	84.6	84.4	83.0	83.0
Liquid assets/short-term liabilities	25.9	26.1	26.1	26.1
Liquid assets/total assets	20.5	20.8	20.8	20.9

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Growth				
Net interest income, yoy chg	(1.9)	8.3	13.5	6.0
Fees & commissions, yoy chg	12.0	0.8	8.2	8.2
Pre-provision profit, yoy chg	2.4	(3.3)	8.2	5.6
Net profit, yoy chg	35.4	2.3	8.6	6.5
Net profit (adj.), yoy chg	35.4	2.3	8.6	6.5
Customer loans, yoy chg	8.6	4.4	4.9	6.4
Customer deposits, yoy chg	8.7	4.8	6.1	6.1
Profitability				
Net interest margin	1.5	1.6	1.7	1.7
Cost/income ratio	45.9	48.1	48.2	48.2
Adjusted ROA	1.1	1.1	1.1	1.1
Reported ROE	9.5	9.3	9.7	9.8
Adjusted ROE	9.5	9.3	9.7	9.8
Valuation				
P/BV (x)	1.1	1.1	1.0	1.0
P/NTA (x)	1.2	1.2	1.1	1.0
Adjusted P/E (x)	11.5	11.2	10.3	9.7
Dividend Yield	4.3	4.5	4.8	5.2
Payout ratio	49.1	50.7	50.0	50.1

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