

Singapore Company Update

OCBC

Bloomberg: OCBC SP | Reuters: OCBC.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

4 May 2022

BUY

Last Traded Price (29 Apr 2022): S\$12.39 (STI : 3,356.90)
Price Target 12-mth: S\$15.00 (21% upside)

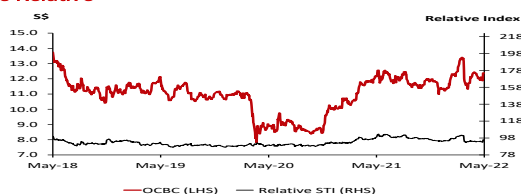
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What's New

- 1Q22 net profit of S\$1.4bn 10% lower y-o-y but ahead of consensus by 13%
- Credit costs eased to 6bps but guidance for FY22F remains at 20-25bps
- Small exposure to China real estate sector
- Maintain BUY with TP of S\$15

Price Relative



Forecasts and Valuation

| FY Dec (\$ m) | 2020A | 2021A | 2022F | 2023F |
|--------------------------|--------|-------|-------|-------|
| Pre-prov. Profit | 5,596 | 5,729 | 6,435 | 7,409 |
| Net Profit | 3,586 | 4,858 | 5,421 | 6,190 |
| Net Pft (Pre Ex.) | 3,586 | 4,858 | 5,421 | 6,190 |
| Net Pft Gth (Pre-ex) (%) | (26.4) | 35.5 | 11.6 | 14.2 |
| EPS (S cts) | 80.7 | 109 | 121 | 138 |
| EPS Pre Ex. (S cts) | 80.7 | 109 | 121 | 138 |
| EPS Gth Pre Ex (%) | (28) | 34 | 12 | 14 |
| Diluted EPS (S cts) | 80.1 | 109 | 121 | 138 |
| PE Pre Ex. (X) | 15.3 | 11.4 | 10.2 | 9.0 |
| Net DPS (S cts) | 31.2 | 53.2 | 60.6 | 69.1 |
| Div Yield (%) | 2.5 | 4.3 | 4.9 | 5.6 |
| ROAE Pre Ex. (%) | 7.4 | 9.5 | 10.0 | 10.9 |
| ROAE (%) | 7.4 | 9.5 | 10.0 | 10.9 |
| ROA (%) | 0.7 | 0.9 | 1.0 | 1.1 |
| BV Per Share (S cts) | 1,109 | 1,177 | 1,237 | 1,306 |
| P/Book Value (x) | 1.1 | 1.1 | 1.0 | 0.9 |
| Earnings Rev (%): | | | (4) | (1) |
| Consensus EPS (S cts): | | | 120 | 138 |
| Other Broker Recs: | | B: 14 | S: 0 | H: 7 |

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

1Q21 net profit better than expected

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 look forward to a higher interest rate environment, which should bode well for OCBC's NIM. Coupled with a new three-year corporate strategy focused on driving growth and building on their strengths, they expect to grow income and profits by a >10% CAGR as well as loans by >10%.

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 15.2% 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, 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 lowered our estimates by 1%-4% largely on the back of potential headwinds and volatility ahead.

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 (\$m/US\$m) | 55,661 / 40,148 |
| Major Shareholders (%) | |
| Selat Pte Ltd | 14.4 |
| Free Float (%) | 85.6 |
| 3m Avg. Daily Val (US\$m) | 72.1 |
| GIC Industry : Financial / Banks | |



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WHAT'S NEW

1Q22 net profit ahead of consensus

Strong 1Q22 net profit ahead of the consensus. Net profit of S\$1.4bn was -10% y-o-y/+39% q-o-q, ahead of consensus expectations by ~13%. This was on the back of

higher trading income and insurance income, coupled with lower expenses from a decline in discretionary spending and absence of operational charges from 4Q21. Operating costs were down 7% q-o-q, resulting in a lower cost-to-income ratio of 45.6% (4Q21: 50.5%). Capital ratios remain strong with CET1 and total CAR at 15.2% and 17.2%, respectively, the highest among the company's peers.

Higher net interest income backed by increased net interest margin (NIM) and loan growth. Net interest income of S\$1.5bn grew 4% y-o-y/1% q-o-q on the back of a 3bps lift in NIM to 1.55% and 9% y-o-y/1% q-o-q loan growth. Loans are well diversified across industries (building & construction highest at 29%), sectors (corporate highest at 52%), and geography (Singapore highest at 40%).

Mixed non-interest income. Non-interest income was S\$1.1bn, a decline of 23% y-o-y but rose 8% q-o-q. Net fees and commissions decreased 11% y-o-y/1% q-o-q to S\$522m due to lower credit card, loan, and trade-related fees, which offset higher wealth management and brokerage fees. Trading income declined 29% y-o-y but grew 48% q-o-q to S\$225m due to higher customer and non-customer flow treasury income. Profit from life insurance declined 34% y-o-y but grew 12% q-o-q to S\$277m, which was largely attributable to a rise in operating profit and mark-to-market gains from a decline in insurance contract liabilities due to a higher discount rate, in line with rising interest rates.

Lower credit costs and allowances. 1Q22 saw lower credit costs at 6bps due to the improving economic environment. Total allowances: S\$44m, 6bps (4Q21: S\$317m, 41bps) comprise general allowances (stage 1+2): S\$13m, 2bps (4Q21: -\$70m, 9bps) and specific allowances (stage 3): S\$31m, 4bps (4Q21: S\$387m, 50bps). Allowances were down due to sizeable allowances set aside for corporate loans in 4Q21. New NPA formation, significantly lower q-o-q at S\$296m (4Q21: S\$1.1bn), was offset by recoveries of S\$240m in the quarter (4Q21: S\$371m).

Takeaways from analyst briefing

Guidances. Management anticipates an upside from the previous NIM guidance of 1.50%-1.55% to 1.55%-1.58%. For every 100bps rate hike, it guides for a c.18bps increase in NIM or S\$700m to NII. However, it must be noted that some of the interest rate benefits will be passed to deposits as some customers shift from CASA to fixed deposits, coupled with the uncertainty of the transmission from the Fed rates to Singapore rates.

Management also did not see any weakening of its portfolio in 1Q22 and any significant movement in ECL1&2. Given volatility and headwinds in the market, they prefer to maintain a credit cost guidance of 20-25bps for FY22F. Although they do not see any particular weakness in the various segments, they remain watchful.

Fee income guidance maintained at double-digit growth. 1Q22 fee income saw some slowdown due to volatility but still registered growth compared to 4Q21. Sentiment is positive, given reopening in Singapore.

Loan growth. For UK and AU loans, OCBC mainly lends to network clients in areas such as property development, data centres, logistics centres, and student accommodations. OCBC is also involved in sustainable financing projects, e.g., renewable energy.

Small exposure to China. Exposure to Mainland China stands at only c.2% of the overall loan book. Real estate exposure is c.30% of the China loan book, where loans are made to quality network customers that enter China, so OCBC's exposure to the China real estate sector itself is not significant.

Company Background

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

OCBC

Quarterly / Interim Income Statement (S\$m)

| FY Dec | 1Q2021 | 4Q2021 | 1Q2022 | % chg y-o-y | % chg q-o-q |
|-----------------------------|--------------|--------------|--------------|---------------|-------------|
| Net Interest Income | 1,441 | 1,492 | 1,503 | 4.3 | 0.7 |
| Non-Interest Income | 1,473 | 1,058 | 1,140 | (22.6) | 7.8 |
| Operating Income | 2,914 | 2,550 | 2,643 | (9.3) | 3.6 |
| Operating Expenses | (1,175) | (1,315) | (1,230) | 4.7 | (6.5) |
| Pre-Provision Profit | 1,739 | 1,235 | 1,413 | (18.7) | 14.4 |
| Provisions | (161) | (317) | (44.0) | (72.7) | (86.1) |
| Associates | 209 | 198 | 254 | 21.5 | 28.3 |
| Exceptionals | 0.0 | 0.0 | 0.0 | - | - |
| Pretax Profit | 1,787 | 1,116 | 1,623 | (9.2) | 45.4 |
| Taxation | (286) | (143) | (267) | (6.6) | 86.7 |
| Minority Interests | 0.0 | 0.0 | 0.0 | - | - |
| Net Profit | 1,501 | 973 | 1,356 | (9.7) | 39.4 |

Growth (%)

| | | | |
|-------------------------|------|--------|------|
| Net Interest Income Gth | 0.3 | 2.1 | 0.7 |
| Net Profit Gth | 32.7 | (20.5) | 39.4 |

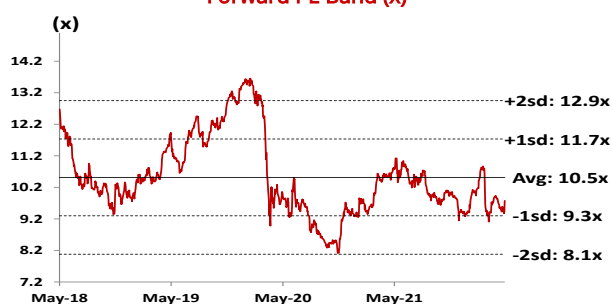
Key ratio (%)

| | | | |
|-----------------|------|------|------|
| NIM | 1.6 | 1.5 | 1.6 |
| NPL ratio | 1.5 | 1.5 | 0.0 |
| Loan-to deposit | 0.0 | 0.0 | 0.0 |
| Cost-to-income | 40.3 | 51.6 | 46.5 |
| Total CAR | 0.0 | 0.0 | 0.0 |

Source of all data: Company, DBS Bank

Historical PE and PB band

Forward PE Band (x)



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

PB band (x)



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 | 2.0 | 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 | 6,397 | 7,266 |
| Non-Interest Income | 4,540 | 4,173 | 4,741 | 5,347 | 5,765 |
| Operating Income | 10,871 | 10,139 | 10,596 | 11,744 | 13,030 |
| Operating Expenses | (4,747) | (4,543) | (4,867) | (5,309) | (5,621) |
| Pre-provision Profit | 6,124 | 5,596 | 5,729 | 6,435 | 7,409 |
| Provisions | (890) | (2,043) | (873) | (632) | (687) |
| Associates | 566 | 612 | 824 | 849 | 891 |
| Exceptionals | 0 | 0 | 0 | 0 | 0 |
| Pre-tax Profit | 5,800 | 4,165 | 5,680 | 6,652 | 7,613 |
| Taxation | (778) | (437) | (648) | (898) | (1,043) |
| Minority Interests | (153) | (142) | (174) | (333) | (381) |
| Preference Dividend | 0 | 0 | 0 | 0 | 0 |
| Net Profit | 4,869 | 3,586 | 4,858 | 5,421 | 6,190 |
| Net Profit before Except. | 4,869 | 3,586 | 4,858 | 5,421 | 6,190 |
| Growth (%) | | | | | |
| Net Interest Income Gth | 7.5 | (5.8) | (1.9) | 9.3 | 13.6 |
| Net Profit Gth bef Except | 8.4 | (26.4) | 35.5 | 11.6 | 14.2 |
| Margins, Costs & Efficiency (%) | | | | | |
| 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 | 45.2 | 43.1 |
| Business Mix (%) | | | | | |
| Net Int. Inc / Opg Inc. | 58.2 | 58.8 | 55.3 | 54.5 | 55.8 |
| Non-Int. Inc / Opg inc. | 41.8 | 41.2 | 44.7 | 45.5 | 44.2 |
| Fee Inc / Opg Income | 19.5 | 19.8 | 21.2 | 20.8 | 20.7 |
| Oth Non-Int Inc/Opg Inc | 22.2 | 21.4 | 23.6 | 24.7 | 23.6 |
| Profitability (%) | | | | | |
| ROAE Pre Ex. | 11.0 | 7.4 | 9.5 | 10.0 | 10.9 |
| ROAE | 11.0 | 7.4 | 9.5 | 10.0 | 10.9 |
| ROA Pre Ex. | 1.0 | 0.7 | 0.9 | 1.0 | 1.1 |
| ROA | 1.0 | 0.7 | 0.9 | 1.0 | 1.1 |

Source: Company, DBS Bank

OCBC

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

| FY Dec | 1Q2021 | 2Q2021 | 3Q2021 | 4Q2021 | 1Q2022 |
|-----------------------------|--------------|--------------|--------------|--------------|--------------|
| Net Interest Income | 1,441 | 1,461 | 1,461 | 1,492 | 1,503 |
| Non-Interest Income | 1,473 | 1,111 | 1,099 | 1,058 | 1,140 |
| Operating Income | 2,914 | 2,572 | 2,560 | 2,550 | 2,643 |
| Operating Expenses | (1,175) | (1,163) | (1,214) | (1,315) | (1,230) |
| Pre-Provision Profit | 1,739 | 1,409 | 1,346 | 1,235 | 1,413 |
| Provisions | (161) | (232) | (163) | (317) | (44) |
| Associates | 209 | 213 | 204 | 198 | 254 |
| Exceptionals | 0 | 0 | 0 | 0 | 0 |
| Pretax Profit | 1,787 | 1,390 | 1,387 | 1,116 | 1,623 |
| Taxation | (286) | (230) | (163) | (143) | (267) |
| Minority Interests | 0 | 0 | 0 | 0 | 0 |
| Net Profit | 1,501 | 1,160 | 1,224 | 973 | 1,356 |

Growth (%)

| | | | | | |
|-------------------------|------|--------|-----|--------|------|
| Net Interest Income Gth | 0.3 | 1.4 | 0.0 | 2.1 | 0.7 |
| Net Profit Gth | 32.7 | (22.7) | 5.5 | (20.5) | 39.4 |

Balance Sheet (\$\$ 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 |
| Total Assets | 491,691 | 521,395 | 542,187 | 589,933 | 623,955 |
| Customer Deposits | 302,851 | 314,907 | 342,395 | 356,091 | 370,334 |
| Inter Bank Deposits | 8,250 | 9,586 | 8,239 | 33,824 | 48,277 |
| Debts/Borrowings | 29,388 | 24,355 | 20,115 | 20,115 | 20,115 |
| Others | 18,153 | 26,917 | 20,794 | 26,216 | 28,066 |
| Minorities | 1,441 | 1,554 | 1,675 | 2,008 | 2,388 |
| Shareholders' Funds | 47,162 | 49,622 | 52,663 | 55,374 | 58,468 |
| Life Ass Fund Liab | 84,446 | 94,454 | 96,306 | 96,306 | 96,306 |
| Total Liab & S/Hs' Funds | 491,691 | 521,395 | 542,187 | 589,933 | 623,955 |

Source: Company, DBS Bank

OCBC

Financial Stability Measures (%)

| FY Dec | 2019A | 2020A | 2021A | 2022F | 2023F |
|--------------------------------|-------|-------|-------|-------|-------|
| Balance Sheet Structure | | | | | |
| 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 | 86.8 | 84.4 |
| Interbank Dep / Int. Bear. | 2.4 | 2.7 | 2.2 | 8.2 | 11.0 |
| Asset Quality | | | | | |
| 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 |
| Capital Strength | | | | | |
| Total CAR | 16.9 | 17.9 | 17.6 | 16.2 | 16.1 |
| Tier-1 CAR | 14.9 | 15.2 | 15.5 | 14.2 | 14.2 |

Source: Company, DBS Bank

Target Price & Ratings History



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

| S.No. | Date of Report | Closing Price | 12-mth Target Price | Rating |
|-------|----------------|---------------|---------------------|--------|
| 1: | 07 May 21 | 12.56 | 14.00 | BUY |
| 2: | 05 Nov 21 | 11.97 | 14.00 | BUY |
| 3: | 24 Feb 22 | 12.00 | 15.00 | BUY |

Source: DBS Bank

Analyst: Paul YONG, CFA

Rui Wen LIM

Tabitha Foo

DBS Bank recommendations are based on an Absolute Total Return* Rating system, defined as follows:

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)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

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: 4 May 2022 06:21:40 (SGT)

Dissemination Date: 4 May 2022 08:00:32 (SGT)

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