

# Singapore Company Update

## OCBC

Bloomberg: OCBC SP | Reuters: OCBC.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

29 Feb 2024

### HOLD

Last Traded Price (28 Feb 2024): S\$13.01 (STI : 3,138.93)

Price Target 12-mth: S\$14.00 (8% upside) (Prev S\$13.70)

#### Analysts

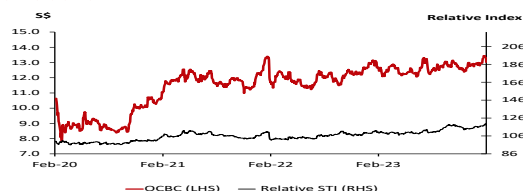
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#### What's New

- 4Q23 net profit below expectations
- 4Q23 NIM improved 2bps q-o-q
- Declared 2H23 DPS of 42 Scts; full-year dividend payout ratio at 53%, in line with expectations
- Maintain HOLD with higher TP of S\$14

#### Price Relative



#### Forecasts and Valuation

FY Dec (\$ m)	2023A	2024F	2025F	2026F
Pre-prov. Profit	8,181	8,156	8,062	8,190
Net Profit	7,021	7,120	7,228	7,421
Net Pft (Pre Ex.)	7,021	7,120	7,228	7,421
Net Pft Gth (Pre-ex) (%)	27.1	1.4	1.5	2.7
EPS (S cts)	156	158	161	165
EPS Pre Ex. (S cts)	156	158	161	165
EPS Gth Pre Ex (%)	27	1	2	3
Diluted EPS (S cts)	156	158	161	165
PE Pre Ex. (X)	8.3	8.2	8.1	7.9
Net DPS (S cts)	83.1	84.3	85.6	87.9
Div Yield (%)	6.4	6.5	6.6	6.8
ROAE Pre Ex. (%)	13.3	12.7	12.2	11.8
ROAE (%)	13.3	12.7	12.2	11.8
ROA (%)	1.3	1.2	1.2	1.2
BV Per Share (S cts)	1,205	1,280	1,355	1,433
P/Book Value (x)	1.1	1.0	1.0	0.9
Earnings Rev (%):		0	(3)	-
Consensus EPS (S cts):		158	159	169
Other Broker Recs:		B: 10	S: 2	H: 7

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

### Higher dividends for FY23

#### Investment Thesis:

**Driving growth across Asia to achieve ~13%-14% ROE by 2025.** OCBC plans to accelerate its growth trajectory and launched a refreshed strategy. Through its four growth pillars (capture rising Asian wealth, support increasing trade and investment flows, unlock value from new economy through digitisation, and drive sustainability), OCBC targets to achieve an incremental S\$3bn in cumulative revenue and positive JAWs in 2023-2025 to achieve ~13%-14% ROE by 2025.

**NIM to decline sequentially.** While OCBC's NIM held up well through FY23, with it even managing to deliver a 2bps NIM improvement q-o-q during 4Q23, we believe NIM has peaked in this cycle, as management guides for a decline in FY24F NIM to 2.20%-2.25% (FY23: 2.28%). As the Fed rate comes close to the peak in this cycle, we believe the bulk of the banks' share price re-ratings on the back of higher interest rates is over.

#### Downside risks from asset quality cushioned by high NPL coverage ratio; more active capital management is a share price driver.

We remain watchful for asset quality risks, as interest rates continue to remain high, especially for the commercial real estate sector, which has seen weakness. A credit cycle could derate the sector. OCBC maintained a higher FY23 dividend payout ratio of 53%, similar to FY22. We believe more active capital management could derate the stock further.

**Maintain HOLD with higher TP of S\$14.** Our higher TP is based on the Gordon Growth Model (13% ROE [previous: 12%], 3% growth, and 12% cost of equity) as we assume higher ROE. Our TP represents ~1x FY24F, below -0.5SD of OCBC's historical 12-year average P/BV (one-year forward). We believe this is a fair valuation, as we see limited catalysts ahead for OCBC's share price with rising asset quality risks. We believe the downside to OCBC's share price will be supported by its strong NPL coverage ratio of 151%.

#### Key Risks

**Deteriorating asset quality.** Larger-than-expected NPLs, high inflationary pressure, and recessionary risks could unwind expectations for credit cost and NPL declines, thus posing risks to earnings.

#### At A Glance

Issued Capital (m shrs)	4,494
Mkt. Cap (S\$m/US\$m)	58,464 / 43,497
Major Shareholders (%)	
Selat Pte Ltd	14.4
Free Float (%)	85.6
3m Avg. Daily Val (US\$m)	45.1
<b>GIC Industry :</b> Financial / Banks	



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## WHAT'S NEW

### Higher FY23 dividends in line with expectations

**4Q23 revenue and net profit below consensus.** OCBC reported 4Q23 revenue of S\$3.3bn (+9% y-o-y/-5% q-o-q) with net profit of S\$1.6bn (+12% y-o-y/-10% q-o-q), which are below consensus expectations. Operating costs grew 1% y-o-y/declined 2% q-o-q as a result, and cost-to-income ratio (CIR) rose to 40.0% for 4Q23 (3Q23: 39.1%). Capital ratios remained strong, with CET1 and total CAR at 15.9% (3Q23: 15.3%) and 18.1% (3Q23: 16.9%), respectively. 4Q23 net interest income of S\$2.5bn rose 3% y-o-y/flat q-o-q, as 4Q23 saw support from a +2bps uplift in NIM q-o-q. Meanwhile, loan growth was +1% y-o-y/-1% q-o-q.

**Higher non-interest income supported by increased trading and investment income.** Non-interest income of S\$811m improved 32% y-o-y/declined 17% q-o-q, driven by lower insurance income and net gains from the sale of investment securities. Net fees and commissions of S\$460m (+16% y-o-y/flat q-o-q) were resilient despite the typical seasonality effect in 4Q23, driven by stronger wealth fees, loans, trade, guarantees, remittances, and other fees. The trading income of S\$222m (+22% y-o-y/+2% q-o-q) saw higher non-customer flow q-o-q, while profit from GEH was lower at S\$88m (-60% y-o-y/-12% q-o-q), due to higher medical claims.

**4Q23 saw higher credit costs of 20bps (3Q23: 17bps) due to higher general allowances.** Total allowances were higher q-o-q, at S\$187m, 21bps (3Q23: S\$184m, 17bps), as there was a writeback of general allowances (stage 1+2): S\$182m, 21bps (3Q23: wrote back S\$36m, -4bps) alongside lower specific allowances (stage 3): S\$5m, 0bps (3Q23: S\$184m, 21bps). General allowances taken during the quarter relate to overlays on the commercial real estate (CRE) sector. OCBC believes the extra overlays in ECL1+2, which are procyclical, reflect on some geographies with weaker real estate markets, though no NPLs arise from these markets. New NPA formation was S\$54m, declining q-o-q (3Q23: S\$146m, FY23 averaged S\$101m). The NPL ratio remained flat q-o-q at 1.0% and the allowance coverage rose to 151% (3Q23: 139%).

**2024 management guidance.** As loan growth remains challenging, management has guided for low single-digit loan growth. The ROE is expected to be between 13%-14% while credit costs are expected to range between 20-25bps. Management expects NIM to be 2.20% to 2.25%.

### Takeaways from analyst briefing

**Capital management and dividends.** Management reiterates that its capital strength continues to support organic and inorganic growth, as well as allows OCBC to navigate uncertainty while optimising shareholder returns. OCBC is intensely working on its capital position while continuing to be committed to a 50% dividend payout ratio and looking at subsidiaries. For instance, GEH has increased its dividend payout ratio, which will flow

through to OCBC. Management shared that they are considering more proactive and aggressive targets to share at a later time. The transition to Basel 4 will cause a transition impact of up to +2% on the CET1 ratio, but this will be slowly eroded over time, with the final CET1 ratio still landing over the 14% target. During 2023, OCBC made sizeable progress towards RWA optimisation for single premium insurance financing, which realised RWA savings of S\$5-6bn. Most of the optimisation has been executed, and going forward, RWA growth will track loan growth more closely, on top of the impact from the Basel 4 transition.

**Managing cost of funds going forward.** December exit NIM is 2.26% (4Q23: 2.29%). Management will be actively managing deposit costs ahead and needs to do more work to manage funding costs. OCBC did another round of fixed deposit cuts in early February. Loan yields continue to be competitive, especially for high-quality assets like mortgages. The duration of investment securities is two to three years currently. NIM guidance assumes four rate cuts beginning 2H24. NIM sensitivity: Every 1bps change in the interest rate over OCBC's four major currencies will impact net interest income by S\$6-7m on an annualised basis.

**Loan growth outlook.** Sees pockets of opportunities in various sectors like energy, power, utilities, technology, digital infrastructure, and student accommodation. OCBC believes that China shows signs of bottoming out, and OCBC continues to see China customers interested in bringing investments into ASEAN.

**Details on CRE exposure.** OCBC has stopped financing US CRE for more than one year, as it foresaw the downturn. Current borrowers in the US CRE market are strong sponsors, and they will either top up or restructure their loans. HK CRE LTV is at ~40%+ for secured loans, while HK has a fair bit of unsecured loans – this mostly relates to large HK conglomerates with huge resources. OCBC predicts HK market valuations would come down with a rising vacancy rate for HK CRE but remains comfortable with the overall market at this point in time. OCBC believes that there are still keen buyers for HK prime properties but no sellers in the meantime, as sellers have holding power, with strong sponsors coming in to top up and pay for loans – an impending rate cut will put a floor to how far transaction valuations can come down. For HK SME, OCBC looks at both LTVs and guarantees from sponsors, and believes that there are sufficient reserves, even if valuations were to come down with LTV at 45%.

### 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 (\$m)

FY Dec	4Q2022	3Q2023	4Q2023	% chg yoy	% chg qoq
Net Interest Income	2,386	2,456	2,462	3.2	0.2
Non-Interest Income	646	973	811	25.5	(16.6)
<b>Operating Income</b>	<b>3,032</b>	<b>3,429</b>	<b>3,273</b>	<b>7.9</b>	<b>(4.5)</b>
Operating Expenses	(1,128)	(1,366)	(1,336)	18.4	(2.2)
<b>Pre-Provision Profit</b>	<b>1,904</b>	<b>2,063</b>	<b>1,937</b>	<b>1.7</b>	<b>(6.1)</b>
Provisions	(314)	(184)	(187)	(40.4)	1.6
Associates	155	254	189	21.9	(25.6)
Exceptionals	0.0	0.0	0.0	-	-
<b>Pretax Profit</b>	<b>1,745</b>	<b>2,133</b>	<b>1,939</b>	<b>11.1</b>	<b>(9.1)</b>
Taxation	(302)	(323)	(317)	5.0	(1.9)
Minority Interests	0.0	0.0	0.0	-	-
<b>Net Profit</b>	<b>1,443</b>	<b>1,810</b>	<b>1,622</b>	<b>12.4</b>	<b>(10.4)</b>

## Growth (%)

Net Interest Income Gth	13.7	2.8	0.2
Net Profit Gth	(3.2)	5.8	(10.4)

## Key ratio (%)

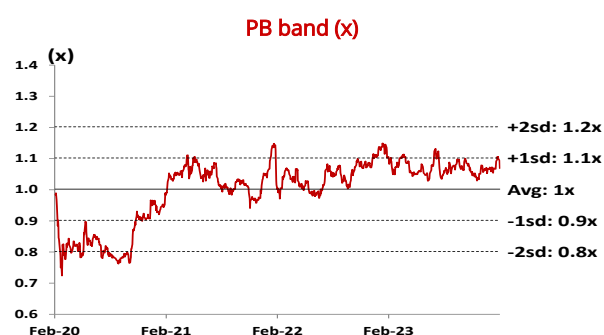
NIM	2.3	2.3	2.3
NPL ratio	1.2	1.0	1.0
Loan-to deposit	83.3	79.7	80.5
Cost-to-income	36.3	39.1	40.0
Total CAR	17.7	16.9	18.1

Source of all data: Company, DBS Bank Ltd

## Historical PE and PB band



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



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

## OCBC

**Key Assumptions**

FY Dec	2022A	2023A	2024F	2025F	2026F
Gross Loans Growth	1.8	0.6	2.2	3.6	5.1
Customer Deposits Growth	2.2	3.9	3.0	3.0	3.0
Yld. On Earnings Assets	2.9	4.9	4.5	4.1	3.9
Avg Cost Of Funds	1.0	2.8	2.5	2.0	2.0

**Income Statement (\$\$ m)**

FY Dec	2022A	2023A	2024F	2025F	2026F
Net Interest Income	7,688	9,645	9,458	9,199	9,270
Non-Interest Income	3,598	3,862	4,128	4,400	4,674
<b>Operating Income</b>	<b>11,286</b>	<b>13,507</b>	<b>13,586</b>	<b>13,599</b>	<b>13,945</b>
Operating Expenses	(4,942)	(5,326)	(5,430)	(5,537)	(5,754)
<b>Pre-provision Profit</b>	<b>6,344</b>	<b>8,181</b>	<b>8,156</b>	<b>8,062</b>	<b>8,190</b>
Provisions	(584)	(733)	(675)	(556)	(568)
Associates	910	953	1,039	1,143	1,257
Exceptionals	0	0	0	0	0
<b>Pre-tax Profit</b>	<b>6,670</b>	<b>8,401</b>	<b>8,519</b>	<b>8,648</b>	<b>8,879</b>
Taxation	(1,031)	(1,236)	(1,253)	(1,272)	(1,306)
Minority Interests	(113)	(144)	(146)	(148)	(152)
Preference Dividend	0	0	0	0	0
<b>Net Profit</b>	<b>5,526</b>	<b>7,021</b>	<b>7,120</b>	<b>7,228</b>	<b>7,421</b>
Net Profit before Except.	5,526	7,021	7,120	7,228	7,421
<b>Growth (%)</b>					
Net Interest Income Gth	31.3	25.5	(1.9)	(2.7)	0.8
Net Profit Gth bef Except	13.8	27.1	1.4	1.5	2.7
<b>Margins, Costs &amp; Efficiency (%)</b>					
Spread	1.9	2.1	2.1	2.0	2.0
Net Interest Margin	1.9	2.3	2.2	2.1	2.1
Cost-to-Income Ratio	39.1	35.4	36.9	37.6	38.1
<b>Business Mix (%)</b>					
Net Int. Inc / Opg Inc.	68.1	71.4	69.6	67.6	66.5
Non-Int. Inc / Opg inc.	31.9	28.6	30.4	32.4	33.5
Fee Inc / Opg Income	16.4	13.4	14.5	15.8	16.7
Oth Non-Int Inc/Opg Inc	15.5	15.2	15.9	16.6	16.8
<b>Profitability (%)</b>					
ROAE Pre Ex.	10.6	13.3	12.7	12.2	11.8
ROAE	10.6	13.3	12.7	12.2	11.8
ROA Pre Ex.	1.0	1.3	1.2	1.2	1.2
ROA	1.0	1.3	1.2	1.2	1.2

Source: Company, DBS Bank Ltd

## OCBC

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

FY Dec	4Q2022	1Q2023	2Q2023	3Q2023	4Q2023
Net Interest Income	2,386	2,338	2,389	2,456	2,462
Non-Interest Income	646	1,012	1,066	973	811
<b>Operating Income</b>	<b>3,032</b>	<b>3,350</b>	<b>3,455</b>	<b>3,429</b>	<b>3,273</b>
Operating Expenses	(1,128)	(1,269)	(1,355)	(1,366)	(1,336)
<b>Pre-Provision Profit</b>	<b>1,904</b>	<b>2,081</b>	<b>2,100</b>	<b>2,063</b>	<b>1,937</b>
Provisions	(314)	(110)	(252)	(184)	(187)
Associates	155	260	250	254	189
Exceptionals	0	0	0	0	0
<b>Pretax Profit</b>	<b>1,745</b>	<b>2,231</b>	<b>2,098</b>	<b>2,133</b>	<b>1,939</b>
Taxation	(302)	(352)	(388)	(323)	(317)
Minority Interests	0	0	0	0	0
<b>Net Profit</b>	<b>1,443</b>	<b>1,879</b>	<b>1,710</b>	<b>1,810</b>	<b>1,622</b>

**Growth (%)**

Net Interest Income Gth	13.7	(2.0)	2.2	2.8	0.2
Net Profit Gth	(3.2)	30.2	(9.0)	5.8	(10.4)

**Balance Sheet (\$\$ m)**

FY Dec	2022A	2023A	2024F	2025F	2026F
Cash/Bank Balance	34,966	34,286	35,315	36,374	37,465
Government Securities	39,367	45,630	48,368	50,303	52,315
Inter Bank Assets	30,244	38,051	38,844	24,744	25,980
Total Net Loans & Adv.	291,467	292,754	298,857	309,300	324,749
Investment	28,010	36,591	29,886	30,930	32,475
Associates	6,353	7,003	8,042	9,184	10,441
Fixed Assets	4,246	4,251	4,464	4,687	4,921
Goodwill	4,643	4,501	5,160	5,160	5,160
Other Assets	22,631	20,840	21,274	22,018	23,118
Life Ass Fund Inv Assets	94,997	97,517	100,443	103,456	106,559
<b>Total Assets</b>	<b>556,924</b>	<b>581,424</b>	<b>590,652</b>	<b>596,155</b>	<b>623,183</b>
Customer Deposits	350,081	363,770	374,683	385,924	397,501
Inter Bank Deposits	10,046	10,884	5,007	(6,251)	4,206
Debts/Borrowings	21,938	26,553	26,553	26,553	26,553
Others	26,225	25,019	25,719	27,694	29,048
Minorities	1,308	1,384	1,530	1,678	1,830
Shareholders' Funds	51,117	54,170	57,516	60,913	64,401
Life Ass Fund Liabs	96,209	99,644	99,644	99,644	99,644
<b>Total Liab&amp; S/H's Funds</b>	<b>556,924</b>	<b>581,424</b>	<b>590,652</b>	<b>596,155</b>	<b>623,183</b>

Source: Company, DBS Bank Ltd

## OCBC

## Financial Stability Measures (%)

FY Dec	2022A	2023A	2024F	2025F	2026F
<b>Balance Sheet Structure</b>					
Loan-to-Deposit Ratio	83.3	80.5	79.8	80.1	81.7
Net Loans / Total Assets	52.3	50.4	50.6	51.9	52.1
Investment / Total Assets	5.0	6.3	5.1	5.2	5.2
Cust. Dep./Int. Bear. Liab.	91.6	90.7	92.2	95.0	92.8
Interbank Dep / Int. Bear.	2.6	2.7	1.2	(1.5)	1.0
<b>Asset Quality</b>					
NPL / Total Gross Loans	1.1	0.9	1.8	1.8	1.8
NPL / Total Assets	0.6	0.5	0.9	0.9	1.0
Loan Loss Reserve Coverage	103.8	139.0	81.0	85.4	88.4
Provision Charge-Off Rate	0.2	0.2	0.2	0.2	0.2
<b>Capital Strength</b>					
Total CAR	17.7	18.1	18.9	19.9	20.0
Tier-1 CAR	15.2	15.9	16.8	17.8	18.0

Source: Company, DBS Bank

## Target Price &amp; Ratings 12-mth History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	20 Apr 23	12.81	13.00	HOLD
2:	11 May 23	12.30	13.00	HOLD
3:	04 Jul 23	12.35	13.00	HOLD
4:	07 Aug 23	13.02	13.70	HOLD
5:	10 Nov 23	12.97	13.70	HOLD

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

Source: DBS Bank Ltd

Analysts: Rui Wen LIM

Jia Hui NG

DBS Bank Ltd 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

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