Maybank Kim Eng

OCBC Bank (OCBC SP)

A portfolio for delivery

Wealth, North Asia, Singapore all set to deliver

OCBC's strong, expectations beating 1Q21 performance was supported by mark-to-market and trading gains. These may be volatile going forward, but more stable sources such as wealth and transactional fees are also rising. An improved loan growth outlook with a stabilized NIMs environment should support further operational growth, especially given its gearing to North Asia and Singapore. Strong capital and allowances together with a better than expected asset quality backdrop could drive reserve write backs in 2H21, we believe. We raise TP to SGD14.17. BUY.

Strong underlying operational growth prospects

Non-interest income was up 70% YoY albeit from strong insurance (+2.3x) and trading (+17x). These were largely driven by mark-to-market gains and strong market conditions. Momentum here could see significant volatility going forward. Nevertheless, fees saw a 7% YoY increase with wealth rising 10%. We think as economic activity strengthens, wealth, along with brokerage, loan fees and IB should see sustained growth. OCBC's gearing to SG and North Asia (which contributes 65-75% of PPOP) should be an advantage as recovery takes hold. NIMs seem to have stabilized and rising loan growth should keep them supported, in our view. Management claims that demand for loans from large Singapore corporates and North Asia is strengthening. We have raised 2021-2023E PPOP by 3-7%.

Further downside to credit costs

Credit costs fell to 22bps from the 97bps peak in 2Q20. NPLs are flat at 1.5%. Management claims that in light of resurging COVID and uneven regional growth, it is too early to review the combined 100-130bps 2020-21E credit charge guidance. However, even to reach the lower end of this range, we calculate credit charges have be reach 37bps each for the next 3-quarters. Management claims that the peak NPL guidance of 2.5-3.5% is unlikely to be reached. As a result, we see significant opportunities for upgrades here. Nevertheless, reserve write-backs, especially the significant management overlays established in 2020, are unlikely to be considered before 2H21 when there is better clarity of regional herd immunity, we believe. We lower 2021-23E credit costs by 1-7bps.

Raise TP to SGD14.17. Maintain BUY

The improved outlook has us raising 2021-23E EPS by 6-12%. In our multistage DDM (COE 8.4%, 3% terminal), we have raised mid-cycle dividend growth by 1-3% to reflect medium term delivery from OCBCs Greater China strategy and wealth platform. As a result, we raise TP to SGD14.17 from SGD12.74. Maintain BUY. At our TP, OCBC should trade at 1.2x PB - its long term mean.

3					
FYE Dec (SGD m)	FY19A	FY20A	FY21E	FY22E	FY23E
Operating income	10,871	10,139	10,912	11,603	12,599
Pre-provision profit	6,124	5,596	6,070	6,519	7,158
Core net profit	4,869	3,586	4,982	5,581	6,366
Core EPS (SGD)	1.1	0.8	1.1	1.2	1.4
Core EPS growth (%)	4.8	(27.5)	38.9	12.0	14.1
Net DPS (SGD)	0.5	0.3	0.5	0.6	0.7
Core P/E (x)	9.9	12.6	11.1	9.9	8.7
P/BV (x)	1.0	0.9	1.1	1.0	0.9
Net dividend yield (%)	4.8	3.2	3.8	5.0	5.7
Book value (SGD)	10.72	11.09	11.73	12.36	13.07
ROAE (%)	11.3	7.6	10.0	10.6	11.4
ROAA (%)	1.0	0.7	0.9	1.0	1.1
Consensus net profit	-	-	4,511	5,066	5,492
MKE vs. Consensus (%)	-	-	10.5	10.2	15.9

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BUY

Share Price SGD 12.40
12m Price Target SGD 14.17 (+14%)
Previous Price Target SGD 12.74

Statistics

52w high/low (SGD)	12.40/8.37
3m avg turnover (USDm)	49.9
Free float (%)	72.6
Issued shares (m)	4,476
Market capitalisation	SGD55.5B
	USD41.6B

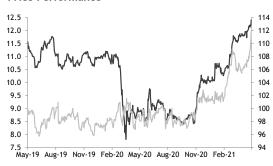
Major shareholders:

Selat Pte Ltd. 10.8%

LEE FAMILY / OCBC / 9.9%

Lee Foundation 4.2%

Price Performance



	-1M	-3M	-12M
Absolute (%)	4	20	40
Relative to index (%)	6	11	15

OCBC / Straits Times Index - (RHS, %)

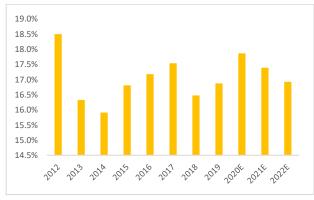
OCBC - (LHS, SGD)

Source: FactSet

Value Proposition

- Second-largest Singapore bank by assets. Present in Malaysia, Indonesia and Greater China.
- Acquired ING's Asia Private Bank and Barclays's wealth units in HK and Singapore to build up wealth management.
- 87.8%-owned subsidiary Great Eastern is a leader in Singapore life insurance.
- Bought Wing Hang Bank (WHB) in HK in 2014 to strengthen its presence in Pearl River Delta. Execution risks remain due to fierce competition
- Strongest capital levels amongst the local banks

CAR ratio (%)

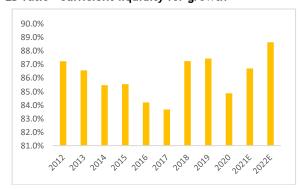


Source: Company

Financial Metrics

- Greater China is a core business for the Group as a result of Wing Hang Bank purchase (2014). Integration has increased regional contribution to pretax profit from a mere -6% in 2013 to 31% in 2020.
- Falling interest rates regionally should drive NIMs from 1.70% in 2019 to 1.55% by 2021E
- Cost to income should range between 44-45% in 2020-2022E from rising revenues
- Macro volatility may drive gross NPLs from 1.5% in 2019 to 1.6% by 2021E

LD ratio - sufficient liquidity for growth



Source: Company

Price Drivers

Historical share price trend



Source: Company, Maybank Kim Eng

- 1. 2014 core net profit up 25% YoY from robust lending and strong income growth.
- Sharp CNY devaluation in August 2015. Worries over lower energy (O&G) and commodity prices, and China NPLs.
- Fears of US-China trade war and loan growth decline from property cooling measure
- 4. Start of the Covid-19 pandemic AVOID things like citing QE as the buyside knows what the Fed's been up to
- 5. Vaccine optimism driven recovery

Swing Factors

Upside

- Faster than expected improvements in equity & debt markets should drive insurance and trading gains
- Regional market share opportunities for USD funding
- Write back of excess provisions

Downside

- Sharp decline in value of trading securities and shocks in fixed-income portfolio.
- Increasing macro-volatility resulting in faster than expected asset quality declines
- Slower North Asia growth impacting returns

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1Q21 results summary

Fig 1: 1Q21 results summary

SGDm	1Q21	1Q20	YoY (%)	4Q20	QoQ (%)	Comments
Net interest income	1,441	1,626	(11.4)	1,436	0.3	Weak loan growth and fall in NIMs
Non-interest income	1,473	864	70.5	1,049	40.4	Strong insurance, trading gains
Total income	2,914	2,490	17.0	2,485	17.3	
Total expenses	(1,149)	(1,109)	3.6	(1,125)	2.1	Revenue related rise in expenses
Profit before allowances (PPOP)	1,765	1,381	27.8	1,360	29.8	
Allowances for credit and other losses	(187)	(683)	(72.6)	(311)	(39.9)	98% fall in GP and lower SP
Associates	209	165	26.7	131	59.5	
Profit before tax	1,787	863	107.1	1,180	51.4	
Core Net Profit	1,501	698	115.0	1,131	32.7	34% 2021 MKE
NIM (Reported) %	1.56%	1.76%	(11)	1.56%	-	Stabilised with rising yield curve
Net Loans	267,280	267,622	(0.1)	263,538	1.4	Flat given weak macro
Deposits	315,647	314,210	0.5	314,907	0.2	Increase in CASA
Gross NPL (%)	1.5%	1.5%	-	1.5%	-	Stable with SG NPLs falling

Source: Company data, Maybank Kim Eng

Key assumption changes

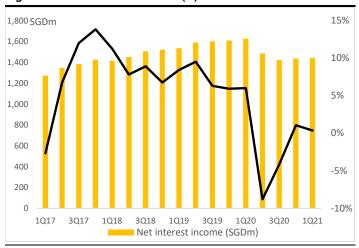
Fig 2: Key assumption changes

		2021E			2022E			2023E	
	Old	New	% Change	Old	New	% Change	Old	New	% Change
Net Interest Income	6,069	6,072	0%	6,370	6,380	0%	7,036	7,052	0%
Non-interest income	4,420	4,840	9%	5,041	5,223	4%	5,280	5,547	5%
Total Income	10,489	10,912	4%	11,411	11,603	2%	12,317	12,599	2%
Total Expenses	(4,842)	(4,842)	0%	(5,084)	(5,084)	0%	(5,442)	(5,442)	0%
PPOP	5,647	6,070	7 %	6,327	6,519	3%	6,875	7,158	4%
Allowance for credit and other losses	(937)	(746)	-20%	(751)	(596)	-21%	(467)	(432)	-7%
PBT	5,414	6,028	11%	6,386	6,733	5%	7,258	7,656	5%
Core-Net Profit	4,460	4,982	12%	5,286	5,581	6%	6,027	6,366	6%
NIM	1.55%	1.55%	0	1.59%	1.59%	0	1.67%	1.67%	0
Gross Loans	282,652	282,652	0%	302,614	302,614	0%	326,074	326,074	0%
Deposits	326,032	326,032	0%	341,431	341,431	0%	357,696	357,696	0%
Gross NPL (%)	1.95%	1.55%	(40)	1.91%	1.51%	(39)	1.59%	1.47%	(12)

Source: Maybank Kim Eng

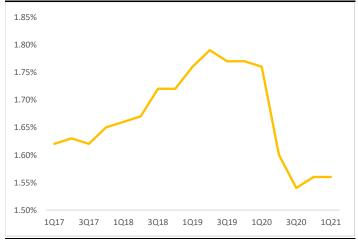
Focus Charts

Fig 3: Net interest income YoY (%)



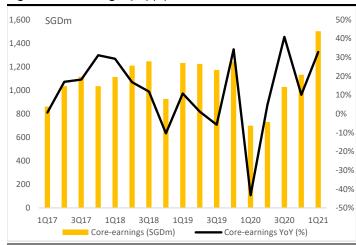
Source: Company data, Maybank Kim Eng

Fig 5: Net interest margin (%)



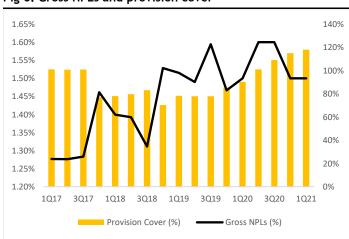
Source: Company data, Maybank Kim Eng

Fig 4: Core-earnings QoQ (%)



Source: Company data, Maybank Kim Eng

Fig 6: Gross NPLs and provision cover



Source: Company data, Maybank Kim Eng

Detailed assumptions

Fig 7: Detailed assumptions

	2015	2016	2017	2018	2019	2020	2021E	2022E	2023E
Balance Sheet									
Loan growth y-o-y (%)	0%	5%	8%	9%	3%	1%	6%	7%	8%
Corporate Loan growth y-o-y (%)	-1%	2%	8%	13%	6%	3%	6%	7%	8%
Consumer Loan growth y-o-y (%)	4%	9%	8%	2%	-3%	-2%	6%	7%	8%
Deposit growth y-o-y (%)	0%	6%	8%	4%	3%	4%	4%	5%	5%
CASA Deposit growth y-o-y (%)	10%	11%	4%	-2%	7%	30%	-16%	-2%	5%
Cash and balances with central banks as a % of Deposits	9%	6%	7%	6%	8%	8%	7 %	8%	7 %
Loan to Deposit Ratio (%)	85.5%	84.2%	83.7%	87.2%	87.4%	84.9%	86.7%	88.6%	91.2%
Profit & Loss									
Net Interest Margin - Adjusted (%)	1.65%	1.60%	1.60%	1.63%	1.70%	1.55%	1.55%	1.59%	1.67%
Net Interest income growth y-o-y (%)	9.6%	-2.6%	7.3%	8.6%	7.5%	-5.8%	1.8%	5.1%	10.5%
Non-interest income growth y-o-y (%)	6.8%	1.2%	19.4%	-7.1%	19.1%	-8.1%	16.0%	7.9%	6.2%
PPOP growth y-o-y (%)	5.2%	-4.6%	16.9%	0.1%	13.7%	-8.6%	8.5%	7.4%	9.8%
PBT growth y-o-y (%)	8.0%	-8.8%	19.2%	8.9%	4.5%	-28.2%	44.7%	11.7%	13.7%
Cost to Income Ratio (%)	43.8%	45.8%	43.5%	44.5%	43.7%	44.8%	44.4%	43.8%	43.2%
Dividend Payout on core-profits (%)	39%	43%	38%	41%	48%	40%	43%	50%	50%
Asset Quality									
Gross NPL (%)	1.0%	1.3%	1.5%	1.5%	1.5%	1.5%	1.6%	1.5%	1.5%
Provision coverage (GP+SP+RLAR/NPA) (%)	120%	100%	77%	70%	86%	115%	112%	113%	109%
Credit charge (Allowance for credit losses/gross loans) (%)	0.23%	0.34%	0.29%	0.12%	0.34%	0.77%	0.27%	0.20%	0.14%
NPA growth y-o-y (%)	54.8%	41.5%	20.2%	13.6%	-1.4%	3.1%	9.5%	4.5%	4.8%
Capital									
CET1 ratio (%)	14.8%	14.7%	13.1%	14.0%	14.9%	15.2%	15.0%	14.7%	14.2%
Tier-1 ratio (%)	14.8%	15.2%	15.0%	14.8%	15.6%	15.8%	15.5%	15.3%	14.8%
Total Capital ratio (%)	16.8%	17.2%	17.5%	16.5%	16.9%	17.9%	17.5%	17.1%	16.4%

Source: Company data, Maybank Kim Eng

FYE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Key Metrics Core P/E (x)	9.9	12.6	11.1	9.9	8.7
* *	9.9	12.6	11.1	9.9	8.7
Core FD P/E (x) P/BV (x)	1.0	0.9	1.1	1.0	0.9
P/NTA (x)	1.0	1.0	1.1	1.1	1.0
Net dividend yield (%)	4.8	3.2	3.8	5.0	5.7
Net dividend yield (%)	4.0	3.2	5.0	5.0	3.7
INCOME STATEMENT (SGD m)					
Interest income	12,098.0	9,143.0	9,274.4	9,723.8	10,914.1
Interest expense	(5,767.0)	(3,177.0)	(3,202.4)	(3,343.9)	(3,862.3)
Net interest income	6,331.0	5,966.0	6,072.1	6,379.9	7,051.8
Net insurance income	976.0	899.0	1,078.8	1,165.1	1,223.4
Net fees and commission	2,123.0	2,003.0	2,303.5	2,533.8	2,736.5
Other income	1,441.0	1,271.0	1,457.8	1,524.3	1,587.5
Total non-interest income	4,540.0	4,173.0	4,840.0	5,223.2	5,547.3
Operating income	10,871.0	10,139.0	10,912.1	11,603.2	12,599.1
Staff costs	(2,840.0)	(2,748.0)	(2,967.8)	(3,175.6)	(3,429.6)
Other operating expenses	(1,907.0)	(1,795.0)	(1,874.2)	(1,908.5)	(2,011.9)
Operating expenses	(4,747.0)	(4,543.0)	(4,842.0)	(5,084.1)	(5,441.5)
Pre-provision profit	6,124.0	5,596.0	6,070.1	6,519.0	7,157.6
Loan impairment allowances	(890.0)	(2,043.0)	(745.8)	(595.9)	(432.2)
Other allowances	0.0	0.0	0.0	0.0	0.0
Associates & JV income	566.0	612.0	703.8	809.4	930.8
Pretax profit	5,800.0	4,165.0	6,028.1	6,732.5	7,656.1
Income tax	(778.0)	(437.0)	(904.2)	(1,009.9)	(1,148.4)
Minorities	(153.0)	(142.0)	(142.0)	(142.0)	(142.0)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	4,869.0	3,586.0	4,981.8	5,580.6	6,365.7
Core net profit	4,869.0	3,586.0	4,981.8	5,580.6	6,365.7
Preferred Dividends	(40.0)	(40.0)	(40.0)	(40.0)	(40.0)
BALANCE SHEET (SGD m)					
Cash & deposits with banks	59,014.0	59,341.0	56,606.8	53,106.7	51,723.9
Sec. under resale agreements	0.0	0.0	0.0	0.0	0.0
Derivatives financial assets	7,349.0	15,223.0	15,527.5	15,682.7	15,839.6
Dealing securities	0.0	0.0	0.0	0.0	0.0
Available-for-sale securities	0.0	0.0	0.0	0.0	0.0
Investment securities	57,195.0	66,434.0	59,279.5	57,672.3	59,391.9
Loans & advances	262,045.0	263,538.0	278,686.1	298,452.3	321,860.9
Central bank deposits	0.0	0.0	0.0	0.0	0.0
Investment in associates/JVs	3,638.0	4,633.0	4,633.0	4,633.0	4,633.0
Insurance assets	0.0	0.0	0.0	0.0	0.0
Fixed assets	4,467.0	4,380.0	4,294.7	4,211.1	4,129.0
Intangible assets	4,980.0	4,837.0	4,837.0	4,837.0	4,837.0
Other assets	93,003.0	103,009.0	108,159.5	113,567.4	111,296.1
Total assets	491,691.0	521,395.0	532,023.9	552,162.6	573,711.4
Deposits from customers	302,851.0	314,907.0	326,032.0	341,431.3	357,696.0
Deposits from banks & FIs	8,250.0	9,586.0	11,138.4	12,252.2	13,477.4
Derivatives financial instruments	7,687.0	15,516.0	15,516.0	15,516.0	15,516.0
Subordinated debt	1,797.0	3,145.0	3,145.0	3,145.0	3,145.0
Other securities in issue	0.0	0.0	0.0	0.0	0.0
Other borrowings	27,591.0	21,210.0	16,304.7	17,120.0	17,976.0
Insurance liabilities	0.0	0.0	0.0	0.0	0.0
Other liabilities	94,912.0	105,855.0	105,855.0	105,855.0	105,855.0
Total liabilities	443,088.0	470,219.0	477,991.1	495,319.4	513,665.3
Share capital	17,261.0	17,833.0	17,833.0	17,833.0	17,833.0
Reserves	28,404.0	30,591.0	33,447.9	36,258.2	39,461.0
Shareholders' funds	45,665.0	48,424.0	51,280.9	54,091.2	57,294.0
Preference shares	1,497.0	1,198.0	1,198.0	1,198.0	1,198.0
Minority interest	1,441.0 48 603 0	1,554.0 51 176 0	1,554.0	1,554.0 56.843.2	1,554.0
Total equity Total liabilities & equity	48,603.0 491,691.0	51,176.0 521,395.0	54,032.9 532,023.9	56,843.2 552,162.6	60,046.0 573,711.4
Total nubincies a equity	771,071.0	321,373.0	332,023.7	332, 102.0	3,3,711,4

FYE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Key Ratios					
Growth (%)					
Net interest income	7.5	(5.8)	1.8	5.1	10.5
Non-interest income	19.1	(8.1)	16.0	7.9	6.2
Operating expenses	10.0	(4.3)	6.6	5.0	7.0
Pre-provision profit	13.7	(8.6)	8.5	7.4	9.8
Core net profit	8.4	(26.4)	38.9	12.0	14.1
Gross loans	2.7	0.9	5.8	7.1	7.8
Customer deposits	2.5	4.0	3.5	4.7	4.8
Total assets	5.2	6.0	2.0	3.8	3.9
Profitability (%)					
Non-int. income/Total income	41.8	41.2	44.4	45.0	44.0
Average lending yields	3.25	2.38	2.37	2.42	2.59
Average cost of funds	1.71	0.92	0.91	0.92	1.01
Net interest margin	1.70	1.55	1.55	1.59	1.67
Net income margin	44.79	35.37	45.65	48.10	50.53
Cost/income	43.7	44.8	44.4	43.8	43.2
Liquidity (%)					
Loans/customer deposits	86.6	83.7	85.5	87.4	90.0
Asset quality (%)					
Net NPL	0.5	0.1	0.1	0.1	0.2
Gross NPL	1.5	1.5	1.6	1.5	1.5
Net NPF	0.0	0.0	0.0	0.0	0.0
(SP+GP)/average gross loans	0.3	0.8	0.3	0.2	0.1
Loan loss coverage	85.5	114.8	112.2	112.7	108.9
Capital adequacy (%)					
CET1	14.9	15.2	15.0	14.7	14.2
Tier 1 capital	15.6	15.2	15.5	15.3	14.2
Risk-weighted capital	16.9	17.9	17.5	17.1	16.4
wisk-meighten capital	10.7	17.7	17.3	17.1	10.4
Returns (%)					
ROAE	11.3	7.6	10.0	10.6	11.4
ROAA	1.0	0.7	0.9	1.0	1.1
Shareholders equity/assets	9.3	9.3	9.6	9.8	10.0

Source: Company; Maybank

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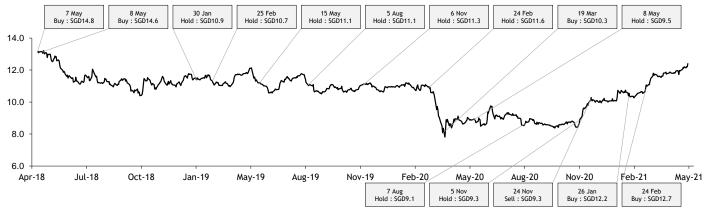
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OCBC Bank

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