

OCBC Bank (OCBC SP)

North-South winner?

Shifting supply chains, rising NIMs to drive growth

OCBC's 1H22 earnings were ahead of expectations. A strong uptick in NIMs contributed and we expect further improvements to flow through in 2H22. While asset quality remains benign so far, slowing macro conditions and higher borrowing costs could raise provisioning risks going forward, we believe. Nevertheless, the Group's gearing towards North-South supply chains and wealth flows provides medium term growth visibility, whilst a China re-opening could be a near-term upside catalyst. Raise TP to SGD14.39. Maintain BUY.

Big improvement in NIMs. Expect more.

OCBC's reported NIM jumped 13bps YoY from rising rates. 57% of the YoY NII growth was because of higher rates pointing to the beneficial impact of rising policy rates being passed through. 15% of the loan book is priced on SORA - which is more responsive to rate transmission. As more of the loan book transitions to this, expect continued support for higher NIMs. However, we note the Group's low cost CASA deposits fell to 60.9% of the mix vs. 63% a year ago. We expect funding costs to rise as competition for deposits heats up - especially amongst the foreign banks. Overall, we have raised 2022-24E NIM assumptions by 17-23bps. On the other hand, we have shaved off 1-2ppts on loan growth given expectations of slower macro conditions. Nevertheless, higher NIMs should offset this.

Asset quality stable, but risks are on the downside

While NPLs fell to 1.3% (c.1.5% 2Q21), this was partly a function of recoveries/write-backs (1.7x YoY) from Malaysian and Indonesian customers exiting moratoriums. A repeat is unlikely in our view and we expect asset quality to fall going forward from slower macro conditions and higher interest costs. The Group's exposure to China real estate is around 0.8% of loans and Management claims these are mostly to network customers. OCBC has added some provision overlays here, but overall are comfortable with provision coverage levels following stress-tests. We have lowered our allowance cost assumptions by 17% for 2022E as a result, but have raised them 37-41% in 2023-24E on account of rising uncertainty.

Raise TP to SGD14.39. Maintain BUY

Our changes to assumptions sees 2022E-24E NPAT upgraded by 1-5%. We roll forward our multi-stage DDM (COE 8.4%, 3% terminal) to 2023E, and raise TP to SGD14.39 (from SGD14.04). OCBC's Greater Bay Strategy plus regional SE Asian presence puts it in a prime position to capture accelerating North-South supply chains and wealth flows. The re-opening of the Mainland could be a further upside catalyst. Maintain BUY.

FYE Dec (SGD m)	FY20A	FY21A	FY22E	FY23E	FY24E
Operating income	10,139	10,596	12,058	13,152	13,860
Pre-provision profit	5,596	5,729	6,527	7,156	7,431
Core net profit	3,586	4,858	5,813	6,493	6,798
Core EPS (SGD)	0.8	1.1	1.3	1.4	1.5
Core EPS growth (%)	(27.5)	34.9	19.7	11.7	4.7
Net DPS (SGD)	0.3	0.5	0.6	0.7	0.7
Core P/E (x)	12.6	10.5	9.1	8.2	7.8
P/BV (x)	0.9	1.0	0.9	0.9	0.8
Net dividend yield (%)	3.2	4.6	4.9	6.0	6.3
Book value (SGD)	11.09	11.72	12.53	13.37	14.24
ROAE (%)	7.6	9.7	10.9	11.4	11.2
ROAA (%)	0.7	0.9	1.0	1.1	1.1
Consensus net profit	-	-	5,421	6,251	6,771
MKE vs. Consensus (%)	-	-	7.2	3.9	0.4

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BUY

Share Price	SGD 11.82
12m Price Target	SGD 14.39 (+22%)
Previous Price Target	SGD 14.04

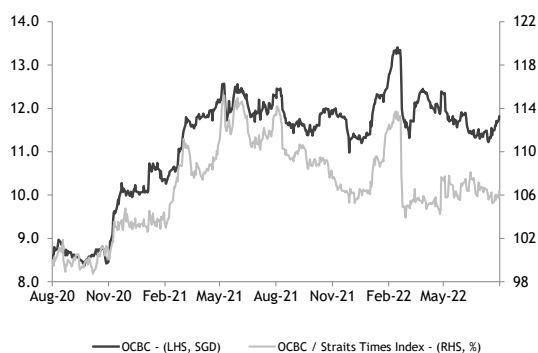
Statistics

52w high/low (SGD)	13.41/10.98
3m avg turnover (USDm)	49.2
Free float (%)	72.3
Issued shares (m)	4,257
Market capitalisation	SGD50.3B
	USD36.4B

Major shareholders:

LEE FAMILY /OCBC/	21.9%
Lee Foundation	4.3%
The Vanguard Group, Inc.	2.1%

Price Performance



	-1M	-3M	-12M
Absolute (%)	5	(5)	(4)
Relative to index (%)	(0)	(1)	(6)

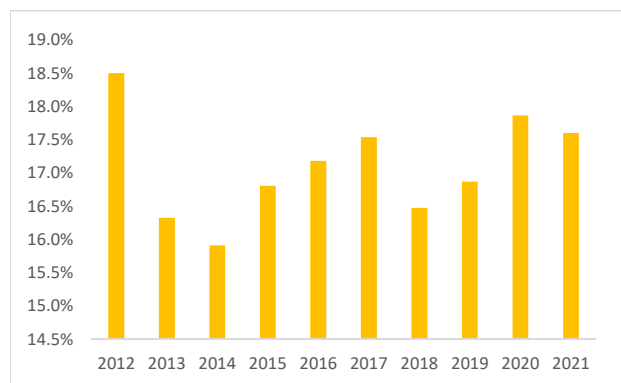
Source: FactSet

ESG@MAYBANK IBG
Tear Sheet Insert

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

Capital adequacy ratio (%)

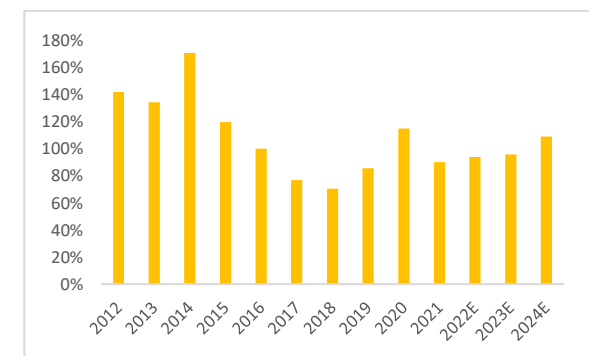


Source: Company

Financial Metrics

- We expect loan growth to slow from 8% YoY in 2021 to 7% YoY in 2022E as regional macro conditions slow
- Higher interest rates should see NIMs expanding 25bps YoY in 2022E and a further 9bps YoY in 2023E
- Costs could remain elevated with CIR reaching 45.6% in 2023E from higher staff and IT spend
- NPLs could remain at 1.5% levels in the medium term as asset growth and asset quality balance out

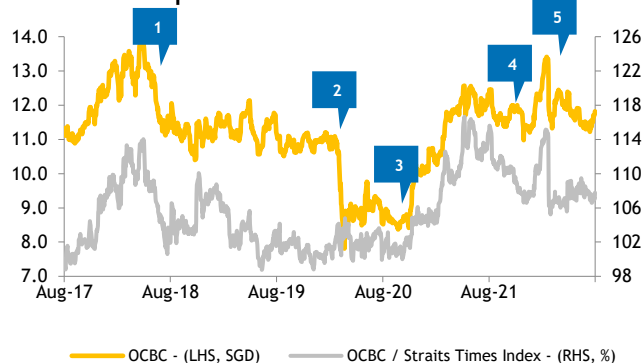
Provisioning cover to stay at comfortable levels



Source: Company, Maybank IBG Research

Price Drivers

Historical share price trend



Source: Company, Maybank IBG Research

1. Fears of US-China trade war and loan growth decline from property cooling measure
2. Start of the Covid-19 pandemic
3. Vaccine optimism driven recovery
4. Fed rate hike expectations
5. Rising inflation, rates driven worries on growth

Swing Factors

Upside

- Faster than expected improvements in equity & debt markets should drive insurance and trading gains
- Regional market share opportunities for USD funding
- Accretive acquisitions in the banking, wealth or insurance space in focus markets

Downside

- Increasing macro-volatility resulting in faster than expected asset quality and investment holding declines
- Potential IT system breakdowns or cyberattacks leading to regulatory sanctions
- New Covid variants and lockdowns in key markets

1H22 results summary

Fig 1: 1H22 results summary

SGDm	1H22	1H21	YoY (%)	2H21	HoH(%)	Comments
Net interest income	3,203	2,902	10	2,953	8	Strong uptick in NIMs plus loan growth in SG, Greater China
Non-interest income	2,319	2,584	(10)	2,157	8	Weak wealth management, partly offset by trading and insurance
Total income	5,522	5,486	1	5,110	8	
Total expenses	(2,458)	(2,287)	7	(2,477)	(1)	Higher staff costs and technology costs
Profit before allowances (PPOP)	3,064	3,199	(4)	2,633	16	
Allowances for credit and other losses	(116)	(393)	(70)	(480)	(76)	Significant decline from improving credit environment
Associates	499	422	18	402	24	
Profit before tax	3,395	3,177	7	2,503	36	
Core Net Profit	2,837	2,661	7	2,197	29	51% of MIBG, 52% of Street 2022E
Reported Net profit	2,837	2,661	7	2,197	29	
NIM (Reported) %	1.63%	1.57%	4	1.52%	7	Assets repricing upwards with rising rates
Cost/ income ratio	44.5%	41.7%	7	48.5%	(8)	Better income, but staff costs rising
Gross Loans	297,920	274,794	8.4	289,716	2.8	Growth from Singapore, Greater China. RoW also contributing
Deposits	361,232	326,752	10.6	350,634	3.0	Increasing mix of FD as rates rise
Gross NPL (%)	1.3%	1.5%	(13)	1.5%	(13)	Increase in write-backs/recoveries

Source: Company data, Maybank IBG Research

Key assumption changes

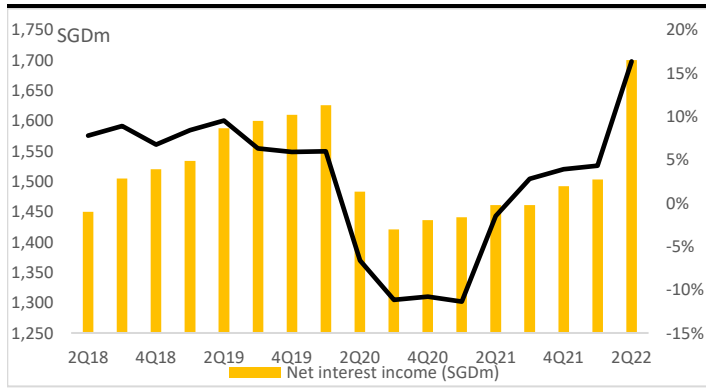
Fig 2: Key assumption changes

	2022E			2023E			2024E		
	Old	New	% Change	Old	New	% Change	Old	New	% Change
Net Interest Income	6,575	7,292	11%	7,286	8,168	12%	7,864	8,649	10%
Non-interest income	4,876	4,766	-2%	5,222	4,983	-5%	5,460	5,211	-5%
Total Income	11,451	12,058	5%	12,508	13,152	5%	13,325	13,860	4%
Total Expenses	(5,354)	(5,531)	3%	(5,802)	(5,996)	3%	(6,219)	(6,429)	3%
PPOP	6,097	6,527	7%	6,706	7,156	7%	7,105	7,431	5%
Allowance for credit and other losses	(616)	(510)	-17%	(468)	(660)	41%	(506)	(692)	37%
PBT	6,428	6,882	7%	7,328	7,491	2%	7,777	7,833	1%
Core-Net Profit	5,521	5,813	5%	6,318	6,493	3%	6,715	6,798	1%
NIM	1.56%	1.71%	15	1.64%	1.80%	15	1.66%	1.78%	12
Gross Loans	315,400	308,786	-2%	344,063	331,423	-4%	376,390	358,122	-5%
Deposits	361,699	371,186	3%	382,284	397,414	4%	404,236	425,734	5%
Gross NPL (%)	1.50%	1.50%	(0)	1.51%	1.53%	2	1.34%	1.38%	4

Source: Maybank IBG Research

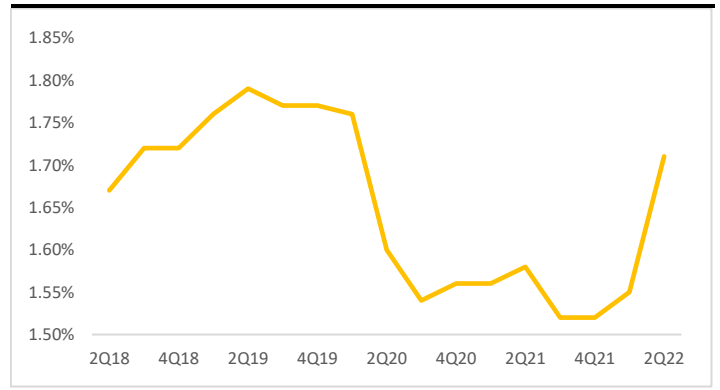
Focus Charts

Fig 3: Net interest income YoY (%)



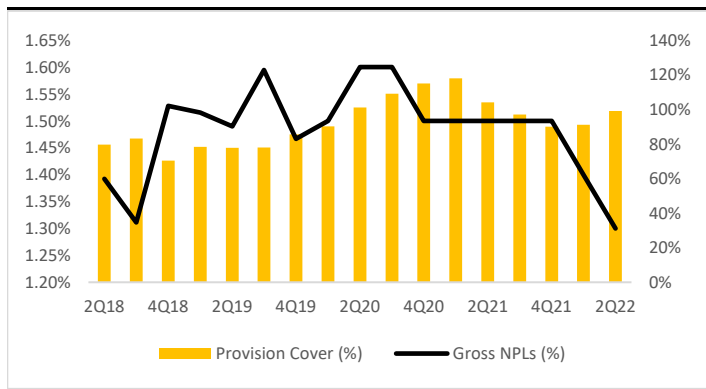
Source: Company data, Maybank IBG Research

Fig 4: Net interest margin (%)



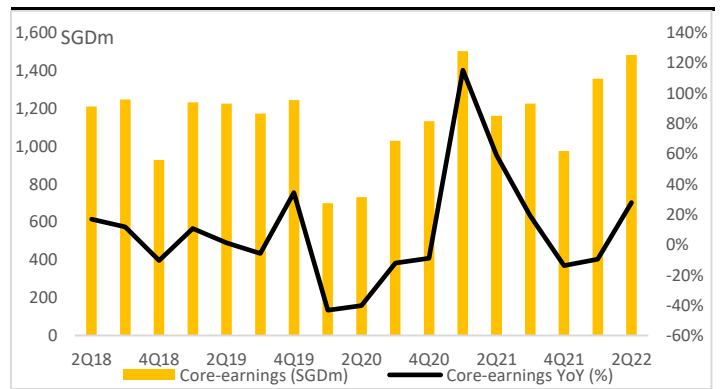
Source: Company data, Maybank IBG Research

Fig 5: Gross NPLs and provision cover



Source: Company data, Maybank IBG Research

Fig 6: Core-earnings YoY (%)



Source: Company data, Maybank IBG Research

Detailed assumptions

Fig 7: Detailed assumptions

	2018	2019	2020	2021	2022E	2023E	2024E
Balance Sheet							
Loan growth y-o-y (%)	9%	3%	1%	8%	7%	7%	8%
Corporate Loan growth y-o-y (%)	13%	6%	3%	8%	7%	7%	8%
Consumer Loan growth y-o-y (%)	2%	-3%	-2%	9%	6%	7%	8%
Deposit growth y-o-y (%)	4%	3%	4%	9%	8%	7%	7%
CASA Deposit growth y-o-y (%)	-2%	7%	30%	14%	-4%	-4%	7%
Cash and balances with central banks as a % of Deposits	6%	8%	8%	8%	8%	8%	8%
Loan to Deposit Ratio (%)	87.2%	87.4%	84.9%	84.6%	83.2%	83.4%	84.1%
Profit & Loss							
Net Interest Margin - Adjusted (%)	1.63%	1.70%	1.55%	1.46%	1.71%	1.80%	1.78%
Net Interest income growth y-o-y (%)	8.6%	7.5%	-5.8%	-1.9%	24.5%	12.0%	5.9%
Non-interest income growth y-o-y (%)	-7.1%	19.1%	-8.1%	13.6%	0.5%	4.6%	4.6%
PPOP growth y-o-y (%)	0.1%	13.7%	-8.6%	2.4%	13.9%	9.6%	3.8%
PBT growth y-o-y (%)	8.9%	4.5%	-28.2%	36.4%	21.2%	8.8%	4.6%
Cost to Income Ratio (%)	44.5%	43.7%	44.8%	45.9%	45.9%	45.6%	46.4%
Dividend Payout on core-profits (%)	41%	48%	40%	49%	45%	49%	49%
Asset Quality							
Gross NPL (%)	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.4%
Provision coverage (GP+SP+RLAR/NPA) (%)	70%	86%	115%	90%	94%	96%	109%
Credit charge (Allowance for credit losses/gross loans) (%)	0.12%	0.34%	0.77%	0.31%	0.17%	0.21%	0.20%
NPA growth y-o-y (%)	13.6%	-1.4%	3.1%	8.3%	6.9%	9.4%	-2.6%
Capital							
CET1 ratio (%)	14.0%	14.9%	15.2%	15.5%	15.5%	14.4%	14.2%
Tier-1 ratio (%)	14.8%	15.6%	15.8%	16.0%	16.1%	14.9%	14.7%
Total Capital ratio (%)	16.5%	16.9%	17.9%	17.6%	17.5%	16.2%	15.9%

Source: Maybank IBG Research

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Metrics					
Core P/E (x)	12.6	10.5	9.1	8.2	7.8
Core FD P/E (x)	12.6	10.5	9.1	8.2	7.8
P/BV (x)	0.9	1.0	0.9	0.9	0.8
P/NTA (x)	1.0	1.1	1.0	1.0	0.9
Net dividend yield (%)	3.2	4.6	4.9	6.0	6.3
INCOME STATEMENT (SGD m)					
Interest income	9,143.0	7,425.0	10,114.2	12,194.4	13,601.7
Interest expense	(3,177.0)	(1,570.0)	(2,822.4)	(4,025.9)	(4,952.5)
Net interest income	5,966.0	5,855.0	7,291.8	8,168.5	8,649.2
Net insurance income	899.0	1,334.0	1,307.3	1,372.7	1,441.3
Net fees and commission	2,003.0	2,245.0	2,334.8	2,451.5	2,574.1
Other income	1,271.0	1,162.0	1,124.0	1,158.9	1,195.1
Total non-interest income	4,173.0	4,741.0	4,766.1	4,983.1	5,210.6
Operating income	10,139.0	10,596.0	12,057.9	13,151.6	13,859.8
Staff costs	(2,748.0)	(3,028.0)	(3,542.8)	(3,897.0)	(4,208.8)
Other operating expenses	(1,795.0)	(1,839.0)	(1,988.2)	(2,098.8)	(2,220.2)
Operating expenses	(4,543.0)	(4,867.0)	(5,530.9)	(5,995.8)	(6,429.0)
Pre-provision profit	5,596.0	5,729.0	6,527.0	7,155.8	7,430.7
Loan impairment allowances	(2,043.0)	(873.0)	(510.2)	(659.9)	(691.8)
Other allowances	0.0	0.0	0.0	0.0	0.0
Associates & JV income	612.0	824.0	865.2	995.0	1,094.5
Pretax profit	4,165.0	5,680.0	6,882.0	7,490.9	7,833.4
Income tax	(437.0)	(648.0)	(894.7)	(824.0)	(861.7)
Minorities	(142.0)	(174.0)	(174.0)	(174.0)	(174.0)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	3,586.0	4,858.0	5,813.3	6,492.9	6,797.7
Core net profit	3,586.0	4,858.0	5,813.3	6,492.9	6,797.7
Preferred Dividends	(40.0)	0.0	0.0	0.0	0.0
BALANCE SHEET (SGD m)					
Cash & deposits with banks	59,341.0	53,381.0	62,992.2	67,852.4	74,361.6
Sec. under resale agreements	0.0	0.0	0.0	0.0	0.0
Derivatives financial assets	15,223.0	9,267.0	9,359.7	9,453.3	9,453.3
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	66,434.0	71,286.0	71,813.9	75,477.6	75,124.3
Loans & advances	263,538.0	286,281.0	304,910.5	327,045.8	353,215.9
Central bank deposits	0.0	0.0	0.0	0.0	0.0
Investment in associates/JVs	4,633.0	6,170.0	6,170.0	6,170.0	6,170.0
Insurance assets	0.0	0.0	0.0	0.0	0.0
Fixed assets	4,380.0	4,307.0	4,235.2	4,164.6	4,095.2
Intangible assets	4,837.0	4,774.0	4,774.0	4,774.0	4,774.0
Other assets	103,009.0	106,721.0	112,057.1	113,177.6	114,309.4
Total assets	521,395.0	542,187.0	576,312.6	608,115.3	641,503.7
Deposits from customers	314,907.0	342,395.0	371,186.1	397,414.4	425,734.2
Deposits from banks & FIs	9,586.0	8,239.0	9,062.9	9,969.2	10,168.6
Derivatives financial instruments	15,516.0	9,070.0	9,070.0	9,070.0	9,070.0
Subordinated debt	3,145.0	2,730.0	2,730.0	2,730.0	2,730.0
Other securities in issue	0.0	0.0	0.0	0.0	0.0
Other borrowings	21,210.0	17,385.0	18,254.3	19,167.0	20,125.3
Insurance liabilities	0.0	0.0	0.0	0.0	0.0
Other liabilities	105,855.0	108,030.0	108,030.0	108,030.0	108,030.0
Total liabilities	470,219.0	487,849.0	518,333.3	546,380.6	575,858.1
Share capital	17,833.0	18,040.0	18,040.0	18,040.0	18,040.0
Reserves	30,591.0	33,425.0	37,066.3	40,821.7	44,732.6
Shareholders' funds	48,424.0	51,465.0	55,106.3	58,861.7	62,772.6
Preference shares	1,198.0	1,198.0	1,198.0	1,198.0	1,198.0
Minority interest	1,554.0	1,675.0	1,675.0	1,675.0	1,675.0
Total equity	51,176.0	54,338.0	57,979.3	61,734.7	65,645.6
Total liabilities & equity	521,395.0	542,187.0	576,312.6	608,115.3	641,503.7

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Ratios					
Growth (%)					
Net interest income	(5.8)	(1.9)	24.5	12.0	5.9
Non-interest income	(8.1)	13.6	0.5	4.6	4.6
Operating expenses	(4.3)	7.1	13.6	8.4	7.2
Pre-provision profit	(8.6)	2.4	13.9	9.6	3.8
Core net profit	(26.4)	35.5	19.7	11.7	4.7
Gross loans	0.9	8.4	6.6	7.3	8.1
Customer deposits	4.0	8.7	8.4	7.1	7.1
Total assets	6.0	4.0	6.3	5.5	5.5
Profitability (%)					
Non-int. income/Total income	41.2	44.7	39.5	37.9	37.6
Average lending yields	2.38	1.86	2.38	2.68	2.80
Average cost of funds	0.92	0.44	0.73	0.97	1.12
Net interest margin	1.55	1.46	1.71	1.80	1.78
Net income margin	35.37	45.85	48.21	49.37	49.05
Cost/income	44.8	45.9	45.9	45.6	46.4
Liquidity (%)					
Loans/customer deposits	83.7	83.6	82.1	82.3	83.0
Asset quality (%)					
Net NPL	0.1	0.3	0.2	0.1	(0.1)
Gross NPL	1.5	1.5	1.5	1.5	1.4
Net NPF	0.0	0.0	0.0	0.0	0.0
(SP+GP)/average gross loans	0.8	0.3	0.2	0.2	0.2
Loan loss coverage	114.8	90.0	93.7	95.6	109.0
Capital adequacy (%)					
CET1	15.2	15.5	15.5	14.4	14.2
Tier 1 capital	15.8	16.0	16.1	14.9	14.7
Risk-weighted capital	17.9	17.6	17.5	16.2	15.9
Returns (%)					
ROAE	7.6	9.7	10.9	11.4	11.2
ROAA	0.7	0.9	1.0	1.1	1.1
Shareholders equity/assets	9.3	9.5	9.6	9.7	9.8

Source: Company; Maybank IBG Research

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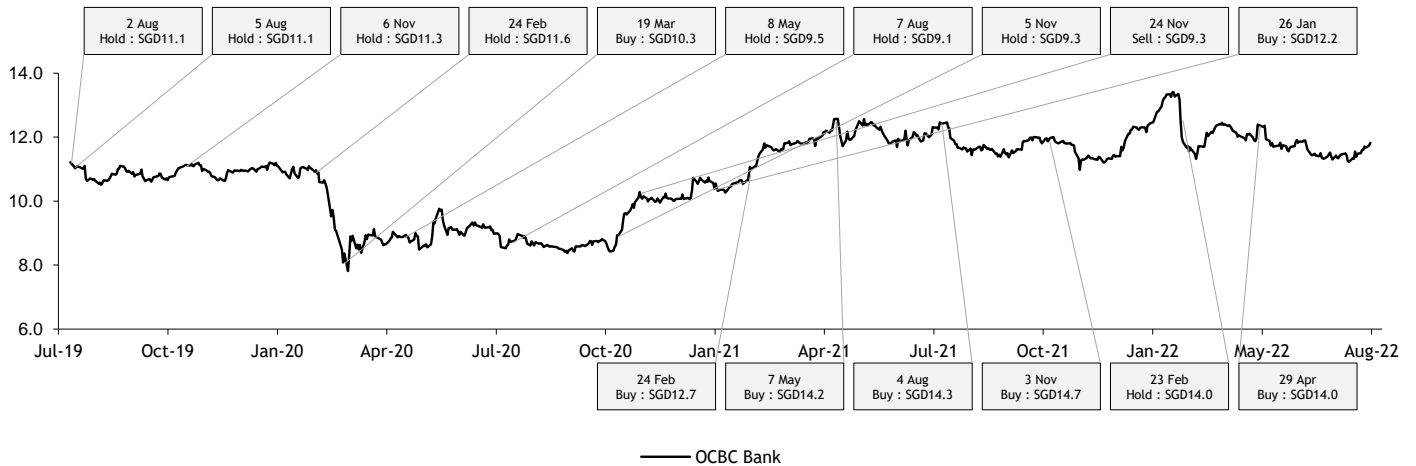
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