

OCBC Bank (OCBC SP)

Executing amidst volatility

Growth slowing, dividends resilient. Maintain HOLD

OCBC 9M23 earnings were ahead of MIBG/Street expectations. Largely, this is being driven by NIMs, which are now peaking. While NIMs should stay elevated in a higher-for-longer interest rate backdrop, interest income growth is likely to see resistance as loan growth stalls. Non-interest income remains volatile, thus may not sufficient to offset. Nevertheless, we expect dividend yields upwards of 6% in 2023-25E supported by strong capital. Maintain HOLD.

Peaking NIMs. Noll prospects remain unclear

All of the NII expansion QoQ was delivered by higher NIMs. However, sequential momentum is slowing from a peak of 2.31% in 4Q22 to 2.27% now. Management claims Sep exit NIM is at 2.23% pointing to further slowdown. With most of the loan book already re-priced and credit demand low (loans flat QoQ), overall margin trajectory could trend downwards going forward. To be clear, despite weakening, overall NIMs should still be higher than any point of 2010-22 given higher for longer interest rates. 3Q23 Noll remained volatile with weaker insurance and trading. Fees were a bright spot, rising +7% QoQ from better WM. However, whether this signals a sustained recovery is too soon to say.

Asset quality well supported. Strong provisions

NPLs fell to the lowest level since 2015 at 1.0%. Significant upgrades in Malaysia and Greater China are key contributors. Management claims no systemic risks are apparent. However, specific provisions increased 4.2x QoQ. This was across multiple sectors (we note 13% of loans in commercial real estate). High rates should result in more pressure on asset quality going forward, in our view. We expect NPLs to rise to 1.3% in 2024E. Nevertheless, we have lowered provisioning charges by 14% for 2023E, based on current run-rates. Provisioning coverage stands at 139% - the highest since 2014. CET1 is at 14.8%. Combined, this provides significant cushion for asset quality risks going forward, we believe.

Visible dividends. Raise TP to SGD13.83. HOLD

Following 3Q23, we have raised 2023-25E core-earnings by 1-2%. We roll forward our multi-stage DDM (COE 8.9%, 3% terminal) and raise TP to SGD13.83 from SGD13.60. Management reiterates a minimum 50% dividend payout. We think there is potential to surprise on the upside, given strong CET1 levels and capital upgrades once BASEL IV is implemented in 2024E. Indeed, we forecast dividend yields > 6% in 2023-25E. Nevertheless, with limited headroom for earnings growth, maintain HOLD.

FYE Dec (SGD m)	FY21A	FY22A	FY23E	FY24E	FY25E
Operating income	10,596	11,675	12,835	13,368	13,910
Pre-provision profit	5,729	6,545	7,570	7,822	8,055
Core net profit	4,858	5,748	6,893	7,084	7,454
Core EPS (SGD)	1.1	1.3	1.5	1.6	1.7
Core EPS growth (%)	34.9	18.2	19.9	2.8	5.2
Net DPS (SGD)	0.5	0.7	0.8	0.8	0.8
Core P/E (x)	10.5	9.5	8.5	8.3	7.9
P/BV (x)	1.0	1.0	1.0	1.0	0.9
Net dividend yield (%)	4.6	5.6	6.1	6.0	6.3
Book value (SGD)	11.72	11.81	12.65	13.54	14.47
ROAE (%)	9.7	11.2	12.9	12.4	12.2
ROAA (%)	0.9	1.0	1.2	1.2	1.2
Consensus net profit	-	-	7,157	7,200	7,312
MIBG vs. Consensus (%)	-	-	(3.7)	(1.6)	1.9

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HOLD

Share Price	SGD 13.06
12m Price Target	SGD 13.83 (+6%)
Previous Price Target	SGD 13.60

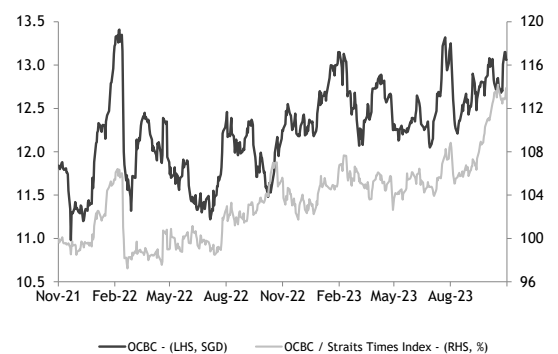
Statistics

52w high/low (SGD)	13.32/12.05
3m avg turnover (USDm)	41.0
Free float (%)	72.3
Issued shares (m)	4,257
Market capitalisation	SGD55.6B
	USD41.0B

Major shareholders:

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

Price Performance



	-1M	-3M	-12M
Absolute (%)	1	(1)	7
Relative to index (%)	3	5	8

Source: FactSet

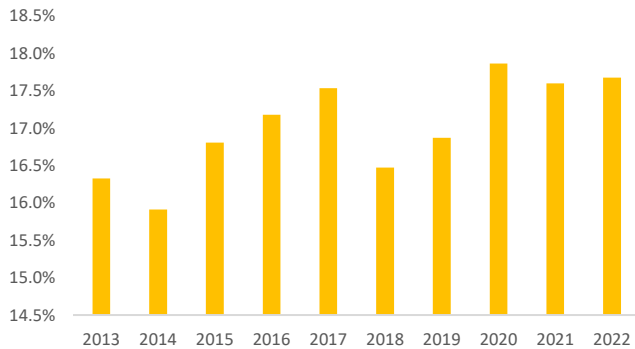
Glossary

NII - Net interest income
Noll - Non interest income
NIM - Net interest margin
WM - Wealth Management

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

OCBC CAR (%)

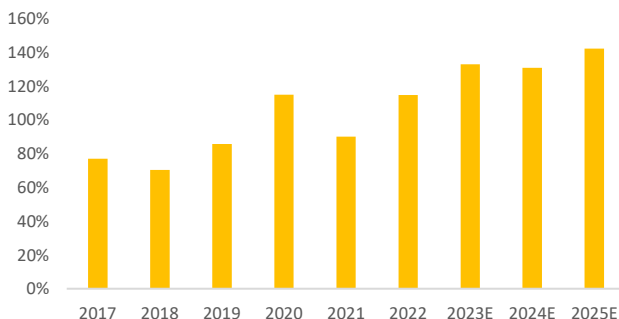


Source: Company

Financial Metrics

- NIMs are set to decelerate expanding +11bps YoY in 2023E following a +38bps increase in 2022 from higher funding costs and ceilings on loan yields
- NPL levels are set to stay healthy. Expect decline to 1.0% in 2023E and then tick up to 1.2% in 2024E
- Credit charges could reach 23bps in 2024E following levels of 20bps in 2022 in step with rising NPLs
- Overall ROEs should strengthen to 12.1% on average in 2023-25E from strategic plan execution. Upside risks exists

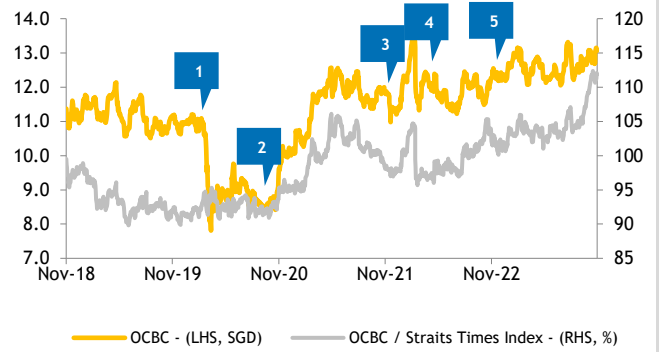
Provisioning cover



Source: Company

Price Drivers

Historical share price trend



Source: Company, Maybank IBG Research

1. Start of the Covid-19 pandemic
2. Vaccine optimism driven recovery
3. Fed rate hike expectations
4. Rising inflation, rates driven worries on growth
5. NIM expansion expectations from higher for longer interest rates

Swing Factors

Upside

- Execution of ‘One Group’ strategic plan could drive upside to ROEs in the medium term
- Better than expected recovery in North Asia should drive better loan volume and margin outlook
- 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
- Slower pick up in wealth management could have drive weaker fees

3Q23 Results summary

Fig 1: 3Q23 results summary

SGDm	3Q23	3Q22	YoY (%)	2Q22	QoQ (%)	Comments
Net interest income	2,456	2,099	17	2,389	3	Largely driven by NIM growth with limited vol contribution
Non-interest income	973	932	4	1,066	(9)	Some improvements in fees from wealth, while insurance weaker
Total income	3,429	3,031	13	3,455	(1)	
Total expenses	(1,340)	(1,278)	5	(1,329)	1	Some increases in staff and tech costs.
Profit before allowances (PPOP)	2,089	1,753	19	2,126	(2)	
Allowances for credit and other losses	(184)	(154)	19	(252)	(27)	Higher SPs, offset somewhat by GP write-back
Associates	254	256	(1)	250	2	Stable
Profit before tax	2,133	1,829	17	2,098	2	
Core Net Profit	1,810	1,491	21	1,710	6	9M23 78% MIBG, 76% of Street
Reported Net profit	1,810	1,491	21	1,710	6	
NIM (Reported) %	2.27%	2.06%	21	2.26%	1	Asset re-pricing from rate hikes and some run off in FDs
Cost/ income ratio	39.1%	42.2%	(310)	38.5%	60	Improved revenues and better cost management
Net Loans	294,330	299,831	(1.8)	293,532	0.3	Flat loan growth across markets due to high rates
Deposits	369,432	352,728	4.7	372,462	(0.8)	Slight improvement in CASA QoQ, Lower FDs
Gross NPL (%)	1.0%	1.2%	(20)	1.1%	(10)	Reversal in classifications and limited systemic distress

Source: Company data, Maybank IBG Research

Key assumption changes

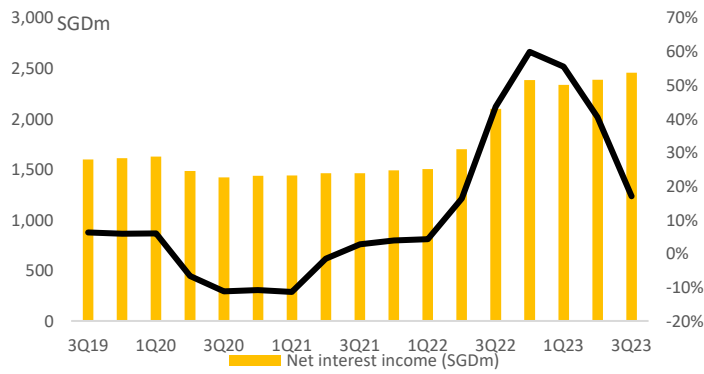
Fig 2: Key assumption changes

	2023E			2024E			2025E		
	Old	New	% Change	Old	New	% Change	Old	New	% Change
Net Interest Income	8,526	8,489	0%	8,742	8,777	0%	9,086	9,121	0%
Non-interest income	4,346	4,346	0%	4,591	4,591	0%	4,789	4,789	0%
Total Income	12,872	12,835	0%	13,333	13,368	0%	13,875	13,910	0%
Total Expenses	(5,265)	(5,265)	0%	(5,645)	(5,546)	-2%	(5,956)	(5,855)	-2%
PPOP	7,606	7,570	0%	7,688	7,822	2%	7,919	8,055	2%
Allowance for credit and other losses	(658)	(569)	-14%	(690)	(687)	0%	(490)	(487)	-1%
PBT	8,025	8,077	1%	8,160	8,297	2%	8,684	8,823	2%
Core-Net Profit	6,847	6,893	1%	6,965	7,084	2%	7,334	7,454	2%
NIM	1.96%	1.96%	(1)	1.92%	1.93%	1	1.91%	1.91%	1
Gross Loans	301,135	294,848	-2%	313,941	303,417	-3%	330,238	318,791	-3%
Deposits	365,395	365,395	0%	382,979	382,979	0%	401,643	401,643	0%
Gross NPL (%)	1.15%	1.13%	(1)	1.22%	1.26%	4	1.14%	1.18%	3

Source: Maybank IBG Research

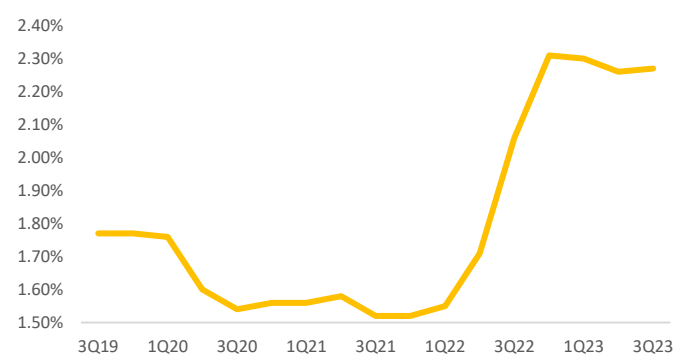
Focus charts

Fig 3: Net interest income YoY (%)



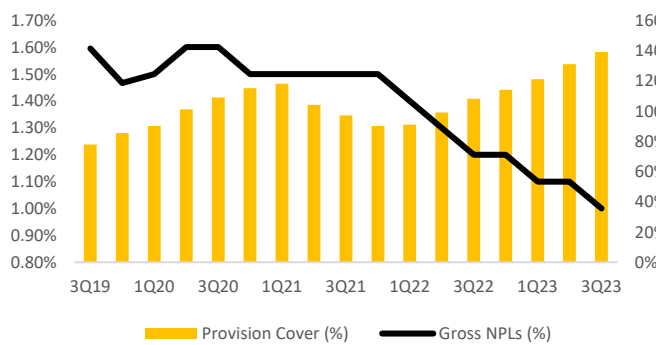
Source: Company data, Maybank IBG Research

Fig 4: Net interest margin (%)



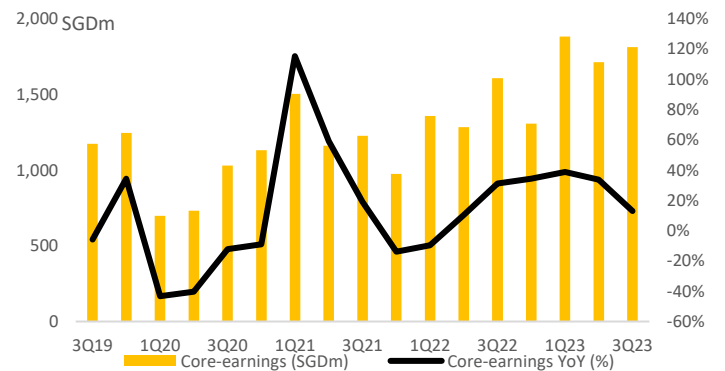
Source: Company data, Maybank IBG Research

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	2022	2023E	2024E	2025E
Balance Sheet								
Loan growth y-o-y (%)	9%	3%	1%	8%	2%	0%	3%	5%
Corporate Loan growth y-o-y (%)	13%	6%	3%	8%	4%	0%	3%	5%
Consumer Loan growth y-o-y (%)	2%	-3%	-2%	9%	-2%	0%	3%	5%
Deposit growth y-o-y (%)	4%	3%	4%	9%	2%	4%	5%	5%
CASA Deposit growth y-o-y (%)	-2%	7%	30%	14%	-16%	-5%	3%	21%
Cash and balances with central banks as a % of Deposits	6%	8%	8%	8%	10%	13%	14%	14%
Loan to Deposit Ratio (%)	87.2%	87.4%	84.9%	84.6%	84.3%	80.7%	79.2%	79.4%
Profit & Loss								
Net Interest Margin - Adjusted (%)	1.63%	1.70%	1.55%	1.46%	1.84%	1.96%	1.93%	1.91%
Net Interest income growth y-o-y (%)	8.6%	7.5%	-5.8%	-1.9%	31.3%	10.4%	3.4%	3.9%
Non-interest income growth y-o-y (%)	-7.1%	19.1%	-8.1%	13.6%	-15.9%	9.0%	5.6%	4.3%
PPOP growth y-o-y (%)	0.1%	13.7%	-8.6%	2.4%	14.2%	15.7%	3.3%	3.0%
PBT growth y-o-y (%)	8.9%	4.5%	-28.2%	36.4%	22.2%	16.4%	2.7%	6.3%
Cost to Income Ratio (%)	44.5%	43.7%	44.8%	45.9%	43.9%	41.0%	41.5%	42.1%
Dividend Payout on core-profits (%)	41%	48%	40%	49%	53%	52%	50%	50%
Asset Quality								
Gross NPL (%)	1.5%	1.5%	1.5%	1.5%	1.2%	1.1%	1.3%	1.2%
Provision coverage (GP+SP+RLAR/NPA) (%)	70%	86%	115%	90%	114%	133%	131%	142%
Credit charge (Allowance for credit losses/gross loans) (%)	0.12%	0.34%	0.77%	0.31%	0.20%	0.19%	0.23%	0.16%
NPA growth y-o-y (%)	13.6%	-1.4%	3.1%	8.3%	-19.6%	-4.1%	14.1%	-1.9%
Capital								
CET1 ratio (%)	14.0%	14.9%	15.2%	15.5%	15.2%	14.6%	15.1%	15.3%
Tier-1 ratio (%)	14.8%	15.6%	15.8%	16.0%	15.9%	15.3%	15.9%	16.1%
Total Capital ratio (%)	16.5%	16.9%	17.9%	17.6%	17.7%	17.4%	17.6%	17.8%

Source: Company data, Maybank IBG Research

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Metrics					
Core P/E (x)	10.5	9.5	8.5	8.3	7.9
Core FD P/E (x)	10.5	9.5	8.5	8.3	7.9
P/BV (x)	1.0	1.0	1.0	1.0	0.9
P/NTA (x)	1.1	1.1	1.1	1.0	1.0
Net dividend yield (%)	4.6	5.6	6.1	6.0	6.3
INCOME STATEMENT (SGD m)					
Interest income	7,425.0	11,590.0	13,666.8	14,058.5	14,643.6
Interest expense	(1,570.0)	(3,902.0)	(5,177.7)	(5,281.5)	(5,522.4)
Net interest income	5,855.0	7,688.0	8,489.0	8,777.0	9,121.1
Net insurance income	1,334.0	1,189.0	1,070.1	1,123.6	1,179.8
Net fees and commission	2,245.0	1,851.0	1,943.6	2,099.0	2,204.0
Other income	1,162.0	947.0	1,332.4	1,368.2	1,405.4
Total non-interest income	4,741.0	3,987.0	4,346.0	4,590.9	4,789.1
Operating income	10,596.0	11,675.0	12,835.0	13,367.9	13,910.3
Staff costs	(3,028.0)	(3,233.0)	(3,297.7)	(3,363.6)	(3,430.9)
Other operating expenses	(1,839.0)	(1,897.0)	(1,967.5)	(2,182.1)	(2,424.4)
Operating expenses	(4,867.0)	(5,130.0)	(5,265.2)	(5,545.7)	(5,855.3)
Pre-provision profit	5,729.0	6,545.0	7,569.9	7,822.2	8,055.0
Loan impairment allowances	(873.0)	(584.0)	(568.6)	(687.2)	(487.1)
Other allowances	0.0	0.0	0.0	0.0	0.0
Associates & JV income	824.0	978.0	1,075.8	1,161.9	1,254.8
Pretax profit	5,680.0	6,939.0	8,077.0	8,296.8	8,822.7
Income tax	(648.0)	(1,057.0)	(1,050.0)	(1,078.6)	(1,235.2)
Minorities	(174.0)	(134.0)	(134.0)	(134.0)	(134.0)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	4,858.0	5,748.0	6,893.0	7,084.2	7,453.5
Core net profit	4,858.0	5,748.0	6,893.0	7,084.2	7,453.5
BALANCE SHEET (SGD m)					
Cash & deposits with banks	53,381.0	65,210.0	80,263.6	87,149.3	91,803.9
Sec. under resale agreements	0.0	0.0	0.0	0.0	0.0
Derivatives financial assets	9,267.0	15,605.0	15,761.1	15,761.1	15,761.1
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	71,286.0	67,377.0	72,697.7	79,503.1	82,820.8
Loans & advances	286,281.0	291,467.0	290,890.7	298,909.9	313,953.5
Central bank deposits	0.0	0.0	0.0	0.0	0.0
Investment in associates/JVs	6,170.0	6,340.0	6,340.0	6,340.0	6,340.0
Insurance assets	0.0	0.0	0.0	0.0	0.0
Fixed assets	4,307.0	4,246.0	4,246.0	4,246.0	4,246.0
Intangible assets	4,774.0	4,643.0	4,643.0	4,643.0	4,643.0
Other assets	106,721.0	105,068.0	106,118.7	107,179.9	108,251.7
Total assets	542,187.0	559,956.0	580,960.7	603,732.3	627,819.9
Deposits from customers	342,395.0	350,081.0	365,394.8	382,979.4	401,642.5
Deposits from banks & FIs	8,239.0	10,046.0	11,050.6	11,271.6	11,497.0
Derivatives financial instruments	9,070.0	16,048.0	16,048.0	16,048.0	16,048.0
Subordinated debt	2,730.0	3,484.0	3,484.0	3,484.0	3,484.0
Other securities in issue	0.0	0.0	0.0	0.0	0.0
Other borrowings	17,385.0	18,454.0	19,376.7	20,345.5	21,362.8
Insurance liabilities	0.0	0.0	0.0	0.0	0.0
Other liabilities	108,030.0	107,175.0	107,175.0	107,175.0	107,175.0
Total liabilities	487,849.0	505,288.0	522,529.1	541,303.5	561,209.4
Share capital	18,040.0	18,048.0	18,048.0	18,048.0	18,048.0
Reserves	33,425.0	33,343.0	37,106.7	41,103.8	45,285.5
Shareholders' funds	51,465.0	51,391.0	55,154.7	59,151.8	63,333.5
Preference shares	1,198.0	1,696.0	1,696.0	1,696.0	1,696.0
Minority interest	1,675.0	1,581.0	1,581.0	1,581.0	1,581.0
Total equity	54,338.0	54,668.0	58,431.7	62,428.8	66,610.5
Total liabilities & equity	542,187.0	559,956.0	580,960.7	603,732.3	627,819.9

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Ratios					
Growth (%)					
Net interest income	(1.9)	31.3	10.4	3.4	3.9
Non-interest income	13.6	(15.9)	9.0	5.6	4.3
Operating expenses	7.1	5.4	2.6	5.3	5.6
Pre-provision profit	2.4	14.2	15.7	3.3	3.0
Core net profit	35.5	18.3	19.9	2.8	5.2
Gross loans	8.4	1.8	(0.0)	2.9	5.1
Customer deposits	8.7	2.2	4.4	4.8	4.9
Total assets	4.0	3.3	3.8	3.9	4.0
Profitability (%)					
Non-int. income/Total income	44.7	34.1	33.9	34.3	34.4
Average lending yields	1.86	2.78	3.15	3.09	3.07
Average cost of funds	0.44	1.04	1.33	1.29	1.29
Net interest margin	1.46	1.84	1.96	1.93	1.91
Net income margin	45.85	49.23	53.70	52.99	53.58
Cost/income	45.9	43.9	41.0	41.5	42.1
Liquidity (%)					
Loans/customer deposits	83.6	83.3	79.6	78.0	78.2
Asset quality (%)					
Net NPL	0.3	(0.0)	(0.2)	(0.3)	(0.4)
Gross NPL	1.5	1.2	1.1	1.3	1.2
Net NPF	0.0	0.0	0.0	0.0	0.0
(SP+GP)/average gross loans	0.3	0.2	0.2	0.2	0.2
Loan loss coverage	90.0	114.5	132.7	130.7	142.1
Capital adequacy (%)					
CET1	15.5	15.2	14.6	15.1	15.3
Tier 1 capital	16.0	15.9	15.3	15.9	16.1
Risk-weighted capital	17.6	17.7	17.4	17.6	17.8
Returns (%)					
ROAE	9.7	11.2	12.9	12.4	12.2
ROAA	0.9	1.0	1.2	1.2	1.2
Shareholders equity/assets	9.5	9.2	9.5	9.8	10.1

Source: Company; Maybank IBG Research

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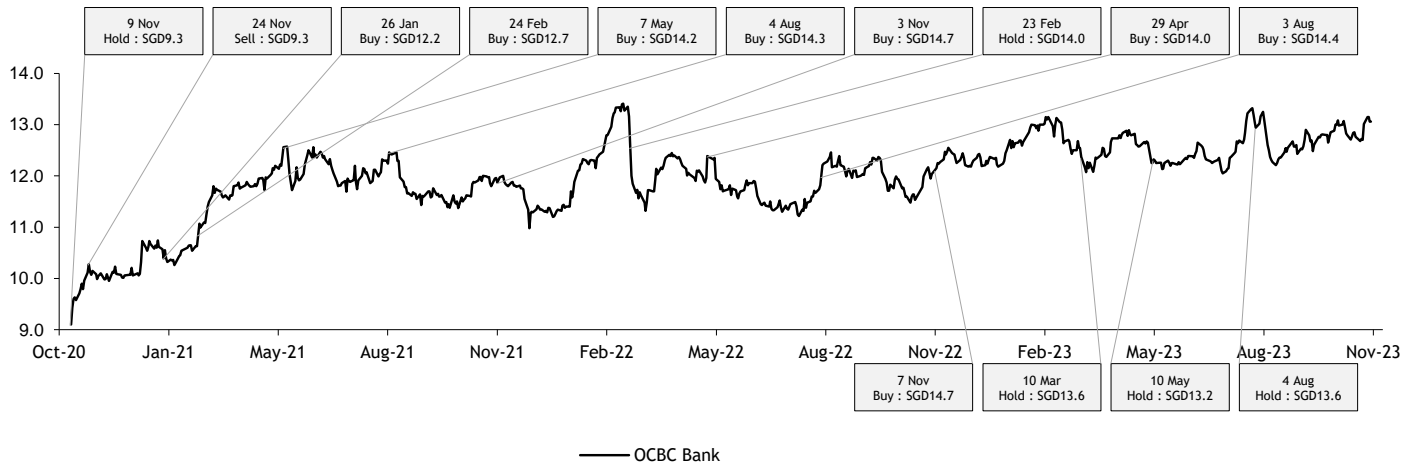
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