

Oversea-Chinese Banking Corp Ltd

Growth in NIMs lifts profits

SINGAPORE | BANKING | 2Q22 RESULTS



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5 August 2022

BUY (Maintained)

LAST CLOSE PRICE	SGD 12.21
FORECAST DIV	SGD 0.56
TARGET PRICE	SGD 14.22
DIVIDEND YIELD	4.6%
TOTAL RETURN	21.0%

COMPANY DATA

BLOOMBERG TICKER	OCBC SP
O/S SHARES (MN)	4,494
MARKET CAP (USD mn / SGD mn)	39779 / 54875
52 - WK HI/LO (SGD)	13.54 / 10.98
3M Average Daily T/O (mn)	5.95

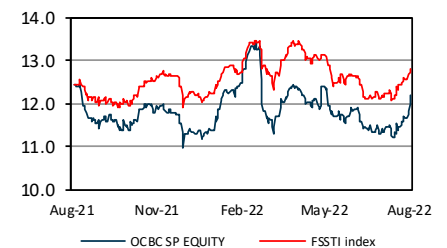
MAJOR SHAREHOLDERS (%)

Selat Pte Limited	11.8%
Lee Foundation Singapore	4.2%
Vanguard Group Inc	2.7%

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	6.1	(1.0)	7.6
STI RETURN	5.3	(2.0)	6.5

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec (SGD mn)	FY20	FY21	FY22e	FY23e
Total Income	10,136	10,589	11,709	12,117
Op. Profit	1,403	3,873	5,683	5,970
NPAT, adj.	3,583	4,851	6,092	6,478
EPS (SGD)	0.80	1.08	1.36	1.45
PER, a dj. (x)	15.2	11.3	9.0	8.4
P/BV, x	1.1	1.0	1.0	0.9
DPS (\$)	0.32	0.53	0.66	0.70
ROE	7.4%	9.5%	11.2%	11.2%

Source: Bloomberg, Company, PSR

Valuation Method:

Gordon Growth Model (COE: 7.9%, g: 2%)

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- 2Q22 earnings of S\$1.48bn were in line with our estimates, from higher net interest income and non-interest income, and lower allowances. 1H22 PATMI is 47% of our FY22e forecast. 2Q22 DPS rose 12% YoY to 28 cents.
- NII grew 16% YoY underpinned by loan growth of 8% YoY and NIM increasing 13bps YoY to 1.71%. Total non-interest income grew 6% YoY due to higher trading and insurance income offset by lower fee income. Allowances fell 69% YoY to S\$72mn.
- Maintain BUY with an unchanged target price of S\$14.22.** Our FY22e estimates remain unchanged. Catalysts include lower provisions and higher interest income as economic conditions improve. OCBC is our preferred pick amongst the three banks due to attractive valuations, upside in dividend from a 15% CET 1 and lower provisioning as the Indonesian and Malaysian economies recover.

Results at a glance

(SGD mn)	2Q22	2Q21	YoY	1Q22	QoQ	Comments
NII	1,700	1,461	16%	1,503	13%	16% growth YoY, underpinned by a 8% increase in average loan volumes. NIM up 13bps YoY to 1.71% from rise in asset yields.
Net Fees & Comm	477	563	(15%)	522	(9%)	Decline largely due to lower WM, brokerage and IB fees offset by a rise in loan and trade-related fees and higher credit card fees.
Insurance	372	205	81%	277	34%	Improvement due to an increase in operating profit and mark-to-market gains in its insurance funds from rising interest rates.
Other Non-II	267	212	26%	225	19%	Trading income up 26% YoY from higher customer and non-customer flow treasury income.
Total income	2,879	2,572	12%	2,643	9%	
Expenses	(1,253)	(1,138)	10%	(1,205)	4%	Increase mainly from annual salary increments and a rise in headcount. Investments in technology capabilities also increased while business promotion expenses rose with higher business volumes. Nonetheless, CIR improved 8bps YoY to 43.5%.
PPOP	1,871	1,647	14%	1,692	11%	
Allowance	(72)	(232)	(69%)	(44)	64%	Total allowances 64% higher QoQ consist of GP of S\$66mn (1Q22: S\$13mn) and SP of S\$6mn (1Q22: S\$31mn). Nonetheless, credit costs improved 22bps YoY to 8bps.
PATMI	1,481	1,160	28%	1,356	9%	

Source: Company, PSR

The Positives

+ Net interest income grew 16% YoY. NII grew 16% YoY led by loan growth of 8% YoY and NIM improvement of 13bps YoY to 1.71%. Loan growth was driven by Singapore, Indonesia, Greater China, USA and UK, and the building and construction and general commerce sectors, as well as consumer lending, including mortgages. NIM expansion was mainly due to asset yields outpacing higher funding costs amid a rapidly rising interest rate environment. OCBC has guided for mid-single digit loan growth (from mid to high-single digit) and NIM of 1.70% (from 1.5-1.55%) for FY22e.

+ Allowances fell 69% YoY to S\$72mn. Total allowances fell 69% YoY but were up 64% QoQ to S\$72mn. GPs of S\$66mn (1Q22: S\$13mn) and SPs of S\$6mn (1Q22: S\$31mn) were made during the quarter. Total NPAs were down 8% QoQ and 3% YoY to S\$4bn, and the NPL ratio improved by 10bps QoQ to 1.3%. Credit costs improved by 22bps to 8bps due to the better credit environment and write-backs in Malaysia.

The Negatives

- **Fee income fell 15% YoY.** Fee income declined 15% YoY to S\$477mn mainly due to lower wealth management, brokerage and investment banking fees, in line with weaker investor sentiment globally. Nonetheless, loan and trade-related fees increased on the back of higher lending and trade volumes, and credit card fees were also higher during the quarter, in line with the broader reopening of economies and resumption of activities. Trading income increased 26% YoY to S\$267mn mainly from higher customer and non-customer flow of treasury income, while insurance income soared 82% YoY to S\$372mn due to an increase in operating profit and mark-to-market gains in its insurance funds from rising interest rates. On the whole, non-interest income saw an increase of 6% YoY and 3% QoQ to S\$1.18bn.

Outlook

Loan growth: Loans grew 8% YoY in 2Q22 to S\$298bn, exceeding the bank's guidance of a mid-single digit increase for FY22e. However, management said that it expects continued economic growth but at a slower pace due to the current economic environment. Management also sees further lending opportunities in the wholesale segment and sustainable financing. Mortgage pipelines in Singapore and Hong Kong are also healthy, with more drawdowns expected in FY22.

China: OCBC's total exposure to mainland China remains at 11% of Group loans (S\$34bn), with onshore exposure at S\$7bn and offshore exposure at S\$27bn. Nonetheless, customers include mainly top state-owned enterprises, large local corporates, as well as OCBC's network customers. Less than one-third of the Group's Mainland China onshore exposure (S\$2bn) is corporate real estate loans and is largely lending to the bank's network customers. Greater China NPLs remained relatively unchanged and rose by 4% QoQ to S\$631mn.

NIM: Management has raised its NIM guidance to 1.70% for FY22e (previously 1.5 – 1.55%). It expects to end 2022 with an exit NIM of 1.80%. OCBC has also said that based on historical data, a 100bps increase in rates would lead to an 18bps increase in NIMs. Assuming rate hikes totalling 100bps this year, our FY22e NII can climb S\$725mn (or 11%) resulting in an increase in our FY22e PATMI by 10%.

Table 1: OCBC guidance vs PSR estimates for FY22e

Assumptions	OCBC	PSR
NIM (%)	1.70%	1.69%
Loans growth (%)	Mid-single digit	5.0%
Credit cost (bps)	Low end of 20-25bps	23

Source: Company, PSR

Investment Action

Maintain BUY with an unchanged target price of S\$14.22

We maintain our BUY recommendation with an unchanged GGM target price of S\$14.22. We are keeping our FY22e forecast unchanged. We continue to assume 1.24x FY22e P/BV and ROE estimates of 9.3% in our GGM valuation. Catalysts include lower provisions and higher interest income as economic conditions improve. OCBC is our preferred pick among the three banks due to attractive valuations, upside in dividend from the 15% CET 1 buffer and lower provisioning as the Indonesian and Malaysian economies recover.

Abbreviations

NII – Net interest income
 NIM – Net interest margin
 Non-II – Non-interest income
 NPL – Non-performing Loans
 SP – Specific provisions
 GP – General provisions

GGM valuation

Item	Description	Value
R _f	Risk-free rate	1.1%
E	Equity-risk premium	6.0%
B	Beta	1.1
COE	Cost of Equity	7.9%
ROE	Return on Equity	9.3%
g	Terminal growth rate	2.0%
$\frac{(ROE-g)}{(COE-g)}$	Target Price to Book	1.24
	BVPS, S\$	11.49
	Valuation, S\$	14.22

Source: PSR

Financials

Income Statement

Y/E Dec, SGD mn	FY19	FY20	FY21	FY22e	FY23e
Net Int Income	6,332	5,966	5,855	6,885	7,247
Fees and Commission	2,123	2,003	2,245	2,317	2,440
Other Non int income	2,418	2,167	2,489	2,506	2,430
Total operating income	10,873	10,136	10,589	11,709	12,117
Operating expenses	(4,644)	(4,439)	(4,764)	(5,121)	(5,309)
Operating profit	4,243	1,403	3,873	5,683	5,970
Provisions and others	(993)	(2,147)	(976)	(452)	(419)
Associates & JVs	566	612	824	989	1,187
Profit Before Tax	5,802	4,162	5,673	7,124	7,576
Taxation	(778)	(437)	(648)	(814)	(865)
Profit After Tax	5,024	3,725	5,025	6,310	6,711
Non-controlling Interest	153	142	174	219	232
Net Income, adj.	4,871	3,583	4,851	6,092	6,478

Balance Sheet

Y/E Dec, SGD mn	FY19	FY20	FY21	FY22e	FY23e
Cash bal with central banks	23,201	26,525	27,919	27,528	21,929
Due from banks	35,813	32,816	25,462	27,048	27,150
Debt and equity securities	28,533	33,143	34,015	30,991	31,108
Loans and bills receivable	262,045	263,538	286,281	305,272	319,616
Life Assur. Fund Inv. Assets	87,338	97,068	100,096	103,099	106,192
Others	54,761	68,305	68,414	66,021	66,171
Total Assets	491,691	521,395	542,187	559,960	572,167
Due to banks	8,250	9,586	8,239	10,161	10,237
Due to non-bank customers	302,851	314,907	342,395	350,618	355,265
Life Assur. Fund Liabilities	84,446	94,454	96,306	99,195	102,171
Debts issued	29,388	24,355	20,115	20,669	20,875
Others	18,153	26,917	20,794	21,405	22,034
Total liabilities	443,088	470,219	487,849	502,047	510,582
Shareholder's equity	47,162	49,622	52,664	56,022	59,463
Non-controlling interest	1,441	1,554	1,675	1,894	2,126
Total Equity	48,603	51,176	54,339	57,916	61,589

Per share data (SGD)

Y/E Dec	FY19	FY20	FY21	FY22e	FY23e
EPS, reported	1.13	0.80	1.08	1.36	1.45
EPS, adj.	1.13	0.80	1.08	1.36	1.45
DPS	0.53	0.32	0.53	0.66	0.70
BVPS	10.93	11.09	11.72	12.51	13.33
Dividend payout ratio	47%	40%	49%	49%	48%

Supplementary items

Y/E Dec	FY19	FY20	FY21	FY22e	FY23e
CET1 CAR	14.9%	15.2%	15.5%	15.9%	16.6%
Tier 1 CAR	15.6%	15.8%	16.0%	16.4%	17.1%
Total CAR	16.9%	17.9%	17.6%	17.9%	18.5%

Valuation Ratios

Y/E Dec	FY19	FY20	FY21	FY22e	FY23e
P/E (X), adj.	10.8	15.2	11.3	9.0	8.4
P/B (X)	1.1	1.1	1.0	1.0	0.9
Dividend Yield	4.3%	2.6%	4.3%	5.4%	5.7%

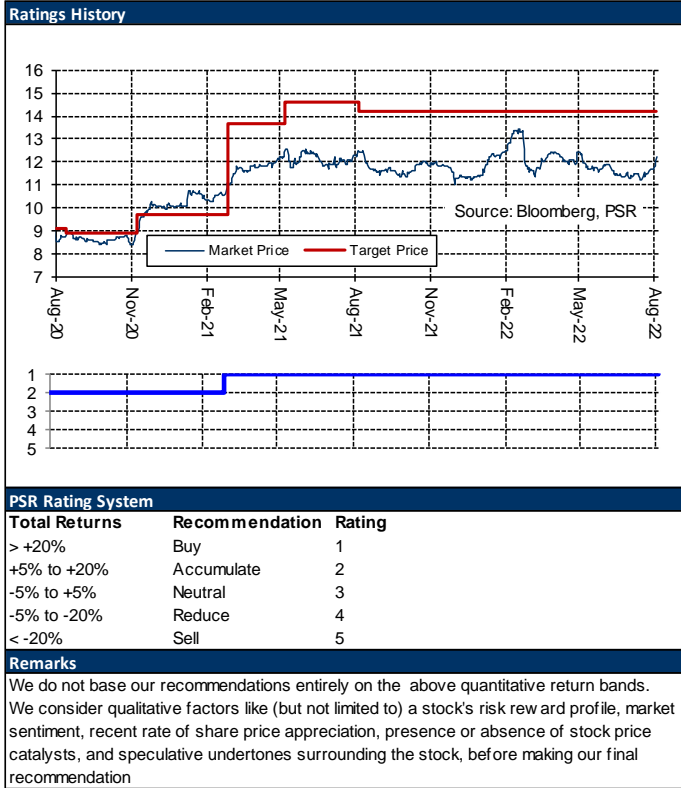
Growth & Margins

Growth					
Net int income	7.5%	-5.8%	-1.9%	17.6%	5.3%
Non int income	19.2%	-8.2%	13.5%	1.9%	1.0%
Pre provision operating profit	12.1%	-6.8%	4.5%	10.6%	3.5%
Operating income	2.7%	-32.2%	36.6%	26.5%	4.1%
Net income, reported	8.4%	-26.4%	35.4%	25.6%	6.3%
Net income, adj	8.4%	-26.4%	35.4%	25.6%	6.3%
Margins					
Net interest margin	1.77%	1.61%	1.54%	1.69%	1.71%

Key Ratios

ROE	10.9%	7.4%	9.5%	11.2%	11.2%
ROA	1.2%	0.8%	1.1%	1.3%	1.4%
RORWA	2.3%	1.6%	2.2%	2.5%	2.6%
Non-int/total income ratio	41.8%	41.1%	44.7%	41.2%	40.2%
Cost/income ratio	42.7%	43.8%	45.0%	43.7%	43.8%
Loan/deposit ratio	86.5%	83.7%	83.6%	87.1%	90.0%
NPL ratio	1.4%	1.5%	1.5%	1.4%	1.4%

Source: Company, Phillip Securities Research (Singapore) Estimates



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