

# Oversea-Chinese Banking Corp Ltd

Earnings bolstered by NIM expansion

SINGAPORE | BANKING | 3Q22 RESULTS

- 3Q22 earnings of S\$1.61bn were in line with our estimates. It came from higher net interest margin and net interest income offset by lower fee income. 9M22 PATMI is 73% of our FY22e forecast.
- NII grew 44% YoY underpinned by loan growth of 6% YoY and NIM surging 54bps YoY to 2.06%. Total non-interest income dipped 4% YoY as lower fee income was partly offset by higher trading and insurance income. Allowances fell 6% YoY to S\$154mn.
- Maintain BUY with an unchanged target price of S\$14.22.** We raise FY22e earnings by 6% as we increase NII and lower provision estimates for FY22e. We assume 1.23x FY22e P/BV and ROE estimate of 10.4% 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 14.4% CET 1 buffer and lower provisioning as the Indonesian and Malaysian economies recover.

## Results at a glance

| (SGD mn)            | 3Q22         | 3Q21         | YoY        | 2Q22         | QoQ        | Comments   |
|---------------------|--------------|--------------|------------|--------------|------------|--|
| NII                 | 2,099        | 1,461        | 44%        | 1,700        | 23%        | 44% growth YoY, underpinned by a 6% increase in average loan volumes. NIM up 54bps YoY to 2.06% as the increase in asset yields outpaced the rise in funding costs.                                |
| Net Fees & Comm     | 453          | 569          | (20%)      | 477          | (5%)       | Decline largely due to lower WM fees as customer activities were subdued offset by a rise in credit card, and loan and trade-related fees.   |
| Insurance           | 318          | 262          | 21%        | 372          | (15%)      | Improvement due to the net mark-to-market impact of higher interest rates on the valuation of assets and liabilities in its insurance funds.   |
| Other Non-II        | 194          | 83           | 134%       | 267          | (27%)      | Trading income up mainly from higher customer flow treasury income.  |
| <b>Total income</b> | <b>3,152</b> | <b>2,560</b> | <b>23%</b> | <b>2,879</b> | <b>9%</b>  |  |
| Expenses            | (1,269)      | (1,188)      | 7%         | (1,253)      | 1%         | Increase led by a rise in staff costs associated with headcount growth to support business expansion as well as from annual salary increments. Nonetheless, CIR improved 6.1% points YoY to 40.3%. |
| <b>PPOP</b>         | <b>2,139</b> | <b>1,576</b> | <b>36%</b> | <b>1,871</b> | <b>14%</b> |  |
| Allowance           | (154)        | (163)        | (6%)       | (72)         | 114%       | Total allowances consist of GP of S\$76mn (2Q22: S\$66mn) and SP of S\$78mn (2Q22: S\$6mn). Credit costs improved 7bps YoY to 14bps.   |
| <b>PATMI</b>        | <b>1,605</b> | <b>1,224</b> | <b>31%</b> | <b>1,481</b> | <b>8%</b>  |  |

Source: Company, PSR

## The Positives

**+ Net interest income grew 44% YoY.** NII grew 44% YoY led by loan growth of 6% YoY and NIM improvement of 54bps YoY to 2.06%. Loan growth was driven by Singapore, Indonesia and Greater China. Lending growth was broad based to the building and construction sector, financial institutions, investment and holding companies, and the consumer segment. NIM expansion was mainly due to asset yields outpacing higher funding costs amid a rapidly rising interest rate environment. OCBC has guided for similar mid-single digit loan growth and NIM of 1.80-1.90% (from 1.70%) for FY22e.



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## BUY (Maintained)

|                  |           |
|------------------|-----------|
| LAST CLOSE PRICE | SGD 12.04 |
| FORECAST DIV     | SGD 0.56  |
| TARGET PRICE     | SGD 14.22 |
| DIVIDEND YIELD   | 4.7%      |
| TOTAL RETURN     | 22.8%     |

## COMPANY DATA

|                                |               |
|--------------------------------|---------------|
| BLOOMBERG TICKER               | OCBC SP       |
| O/S SHARES (MN) :              | 4,494         |
| MARKET CAP (USD mn / SGD mn) : | 38495 / 54105 |
| 52 - WK HI/LO (SGD) :          | 13.54 / 10.98 |
| 3M Average Daily T/O (mn) :    | 5.41          |

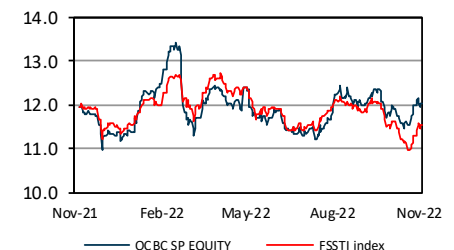
## MAJOR SHAREHOLDERS (%)

|                            |       |
|----------------------------|-------|
| Selat Pte Limited          | 11.2% |
| Lee Foundation Singapore   | 4.4%  |
| Lee Rubber Company Pte Ltd | 3.2%  |

## PRICE PERFORMANCE (%)

|            | 1MTH  | 3MTH  | YTD  |
|------------|-------|-------|------|
| COMPANY    | 0.9   | 0.9   | 10.6 |
| STI RETURN | (0.2) | (3.1) | 3.9  |

## PRICE VS. STI



Source: Bloomberg, PSR

## KEY FINANCIALS

| Y/E Dec (SGD mn) | FY20   | FY21   | FY22e  | FY23e  |
|------------------|--------|--------|--------|--------|
| Total Income     | 10,136 | 10,589 | 12,009 | 13,401 |
| Op. Profit       | 1,403  | 3,873  | 6,267  | 6,892  |
| NPAT, adj.       | 3,583  | 4,851  | 6,470  | 7,301  |
| EPS (SGD)        | 0.80   | 1.08   | 1.44   | 1.64   |
| PER, adj. (x)    | 15.0   | 11.1   | 8.3    | 7.4    |
| 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%   | 11.9%  | 12.5%  |

Source: Bloomberg, Company, PSR

## Valuation Method:

**Gordon Growth Model (COE: 8.8%, g: 2%)**

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**+ Insurance and trading income increase.** Life insurance profit from Great Eastern Holdings rose 21% YoY, mostly due to the net mark-to-market impact of higher interest rates on the valuation of assets and liabilities in its insurance funds. Trading income also increased 134% YoY and largely comprised customer flow treasury income.

**+ Allowances fell 6% YoY to S\$154mn.** Total allowances fell 6% YoY but were up 112% QoQ to S\$154mn. GPs of S\$76mn (2Q22: S\$66mn) and SPs of S\$78mn (2Q22: S\$6mn) were made during the quarter. Total NPAs were down 7% QoQ and 13% YoY to S\$3.69bn, and the NPL ratio improved by 10bps QoQ to 1.2%. Notably, there was an increase in Greater China NPLs by 18% QoQ mainly due to one Singapore based customer on a property investment. Nonetheless, OCBC has mentioned that it is a customer with low LTV and the risk is specific to that particular asset. Credit costs improved by 7bps YoY to 14bps due to the better credit environment.

### The Negatives

**- Fee income fell 20% YoY.** Fee income declined 20% YoY to S\$453mn mainly due to a drop in wealth management fees as customer activities were subdued amid risk-off investment sentiments globally. The decline was partly offset by growth in other fee segments including credit card, and loan and trade-related fees.

**- CASA ratio dipped YoY.** Current Account Savings Accounts (CASA) ratio fell 5.9% YoY to 56.1% mainly due to the high interest rate environment and a move towards fixed deposits (FD). Nonetheless, total customer deposits increased 6% YoY to S\$353bn mainly due to the growth in FDs. The Group's funding composition remained stable with customer deposits comprising ~80% of total funding.

### Outlook

**Loan growth:** Loans grew 6% YoY in 3Q22 to S\$303bn, meeting 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. Onshore China corporate real estate loans made up <1% (<S\$3bn) of total loans, mainly lending to network customers. Greater China NPLs rose by 18% QoQ to S\$744mn and is mainly due to one network customer name, which is highly secured with LTV at <60%.

**NIM:** Management has raised its NIM guidance to 1.80-1.90% for FY22e (previously 1.70%). It expects 4Q22 NIM to be above 2.10%. 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 (%)           | 1.80-1.90%       | 1.78% |
| Loans growth (%)  | Mid-single digit | 5.1%  |
| Credit cost (bps) | Low to mid-teens | 14    |

Source: Company, PSR

### Abbreviations

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

## Investment Action

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

We maintain our BUY recommendation with an unchanged target price of S\$14.22. We raise FY22e earnings by 6% as we increase NII and lower provision estimates for FY22e. We assume 1.23x FY22e P/BV and ROE estimate of 10.4% in our GGM valuation. We raised FY23e earnings by 13% as we increased NII estimates for FY23e. Our ROE estimate for FY23e is raised from 11.2% to 12.5%. The COE is nudged up from higher risk-free rate and lower equity-risk premium. 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 14.4% CET 1 buffer and lower provisioning as the Indonesian and Malaysian economies recover.

### GGM valuation

| Item                      | Description          | Value |
|---------------------------|----------------------|-------|
| R <sub>f</sub>            | Risk-free rate       | 2.6%  |
| E                         | Equity-risk premium  | 5.4%  |
| B                         | Beta                 | 1.1   |
| COE                       | Cost of Equity       | 8.8%  |
| ROE                       | Return on Equity     | 10.4% |
| g                         | Terminal growth rate | 2.0%  |
| $\frac{(ROE-g)}{(COE-g)}$ | Target Price to Book | 1.23  |
|                           | BVPS, S\$            | 11.57 |
|                           | 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         | 7,527         | 8,901         |
| Fees and Commission           | 2,123         | 2,003         | 2,245         | 1,976         | 2,035         |
| Other Non int income          | 2,418         | 2,167         | 2,489         | 2,506         | 2,466         |
| <b>Total operating income</b> | <b>10,873</b> | <b>10,136</b> | <b>10,589</b> | <b>12,009</b> | <b>13,401</b> |
| Operating expenses            | (4,644)       | (4,439)       | (4,764)       | (5,121)       | (5,591)       |
| <b>Operating profit</b>       | <b>4,243</b>  | <b>1,403</b>  | <b>3,873</b>  | <b>6,267</b>  | <b>6,892</b>  |
| Provisions and others         | (993)         | (2,147)       | (976)         | (311)         | (459)         |
| Associates & JVs              | 566           | 612           | 824           | 989           | 1,187         |
| <b>Profit Before Tax</b>      | <b>5,802</b>  | <b>4,162</b>  | <b>5,673</b>  | <b>7,566</b>  | <b>8,538</b>  |
| Taxation                      | (778)         | (437)         | (648)         | (864)         | (975)         |
| <b>Profit After Tax</b>       | <b>5,024</b>  | <b>3,725</b>  | <b>5,025</b>  | <b>6,702</b>  | <b>7,562</b>  |
| Non-controlling Interest      | 153           | 142           | 174           | 232           | 262           |
| <b>Net Income, adj.</b>       | <b>4,871</b>  | <b>3,583</b>  | <b>4,851</b>  | <b>6,470</b>  | <b>7,301</b>  |

### Balance Sheet

| Y/E Dec, SGD mn              | FY19           | FY20           | FY21           | FY22e          | FY23e          |
|------------------------------|----------------|----------------|----------------|----------------|----------------|
| Cash bal with central banks  | 23,201         | 26,525         | 27,919         | 27,677         | 22,970         |
| 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        | 305,515        | 319,819        |
| 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         |
| <b>Total Assets</b>          | <b>491,691</b> | <b>521,395</b> | <b>542,187</b> | <b>560,351</b> | <b>573,410</b> |
| 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         |
| <b>Total liabilities</b>     | <b>443,088</b> | <b>470,219</b> | <b>487,849</b> | <b>502,047</b> | <b>510,582</b> |
| Shareholder's equity         | 47,162         | 49,622         | 52,664         | 56,400         | 60,664         |
| Non-controlling interest     | 1,441          | 1,554          | 1,675          | 1,907          | 2,169          |
| <b>Total Equity</b>          | <b>48,603</b>  | <b>51,176</b>  | <b>54,339</b>  | <b>58,307</b>  | <b>62,832</b>  |

### Per share data (SGD)

| Y/E Dec               | FY19  | FY20  | FY21  | FY22e | FY23e |
|-----------------------|-------|-------|-------|-------|-------|
| EPS, reported         | 1.13  | 0.80  | 1.08  | 1.44  | 1.64  |
| EPS, adj.             | 1.13  | 0.80  | 1.08  | 1.44  | 1.64  |
| DPS                   | 0.53  | 0.32  | 0.53  | 0.66  | 0.70  |
| BVPS                  | 10.93 | 11.09 | 11.72 | 12.59 | 13.60 |
| Dividend payout ratio | 47%   | 40%   | 49%   | 46%   | 43%   |

### Supplementary items

| Y/E Dec    | FY19  | FY20  | FY21  | FY22e | FY23e |
|------------|-------|-------|-------|-------|-------|
| CET1 CAR   | 14.9% | 15.2% | 15.5% | 16.1% | 17.1% |
| Tier 1 CAR | 15.6% | 15.8% | 16.0% | 16.6% | 17.5% |
| Total CAR  | 16.9% | 17.9% | 17.6% | 18.0% | 18.9% |

### Valuation Ratios

| Y/E Dec        | FY19 | FY20 | FY21 | FY22e | FY23e |
|----------------|------|------|------|-------|-------|
| P/E (X), adj.  | 10.7 | 15.0 | 11.1 | 8.3   | 7.4   |
| P/B (X)        | 1.1  | 1.1  | 1.0  | 1.0   | 0.9   |
| Dividend Yield | 4.4% | 2.6% | 4.4% | 5.5%  | 5.8%  |

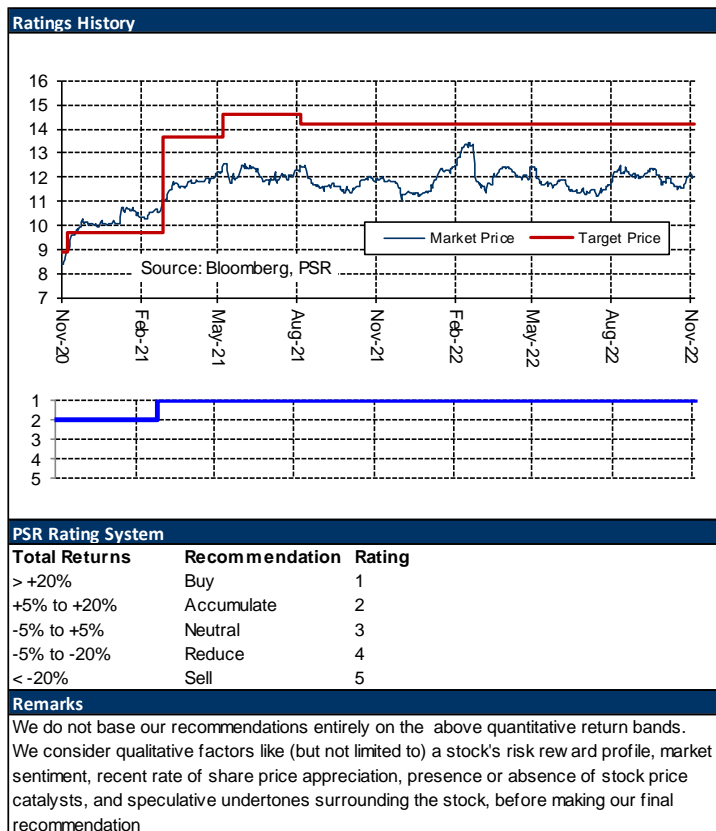
### Growth & Margins

|                                |       |        |       |       |       |
|--------------------------------|-------|--------|-------|-------|-------|
| <b>Growth</b>                  |       |        |       |       |       |
| Net int income                 | 7.5%  | -5.8%  | -1.9% | 28.6% | 18.3% |
| Non int income                 | 19.2% | -8.2%  | 13.5% | -5.3% | 0.4%  |
| Pre provision operating profit | 12.1% | -6.8%  | 4.5%  | 13.4% | 11.6% |
| Operating income               | 2.7%  | -32.2% | 36.6% | 35.6% | 11.8% |
| Net income, reported           | 8.4%  | -26.4% | 35.4% | 33.4% | 12.8% |
| Net income, adj                | 8.4%  | -26.4% | 35.4% | 33.4% | 12.8% |
| <b>Margins</b>                 |       |        |       |       |       |
| Net interest margin            | 1.77% | 1.61%  | 1.54% | 1.85% | 2.10% |

### Key Ratios

|                            |       |       |       |       |       |
|----------------------------|-------|-------|-------|-------|-------|
| <b>Key Ratios</b>          |       |       |       |       |       |
| ROE                        | 10.9% | 7.4%  | 9.5%  | 11.9% | 12.5% |
| ROA                        | 1.2%  | 0.8%  | 1.1%  | 1.4%  | 1.6%  |
| RORWA                      | 2.3%  | 1.6%  | 2.2%  | 2.7%  | 2.9%  |
| Non-int/total income ratio | 41.8% | 41.1% | 44.7% | 37.3% | 33.6% |
| Cost/income ratio          | 42.7% | 43.8% | 45.0% | 42.6% | 41.7% |
| 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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