

Oversea-Chinese Banking Corp Ltd

Earnings bolstered by NIM expansion

SINGAPORE | BANKING | 3Q22 RESULTS



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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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- 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.
Total income	3,152	2,560	23%	2,879	9%	
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%.
PPOP	2,139	1,576	36%	1,871	14%	
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.
PATMI	1,605	1,224	31%	1,481	8%	

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.

+ 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 _f	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
Total operating income	10,873	10,136	10,589	12,009	13,401
Operating expenses	(4,644)	(4,439)	(4,764)	(5,121)	(5,591)
Operating profit	4,243	1,403	3,873	6,267	6,892
Provisions and others	(993)	(2,147)	(976)	(311)	(459)
Associates & JVs	566	612	824	989	1,187
Profit Before Tax	5,802	4,162	5,673	7,566	8,538
Taxation	(778)	(437)	(648)	(864)	(975)
Profit After Tax	5,024	3,725	5,025	6,702	7,562
Non-controlling Interest	153	142	174	232	262
Net Income, adj.	4,871	3,583	4,851	6,470	7,301

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
Total Assets	491,691	521,395	542,187	560,351	573,410
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	56,400	60,664
Non-controlling interest	1,441	1,554	1,675	1,907	2,169
Total Equity	48,603	51,176	54,339	58,307	62,832

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%

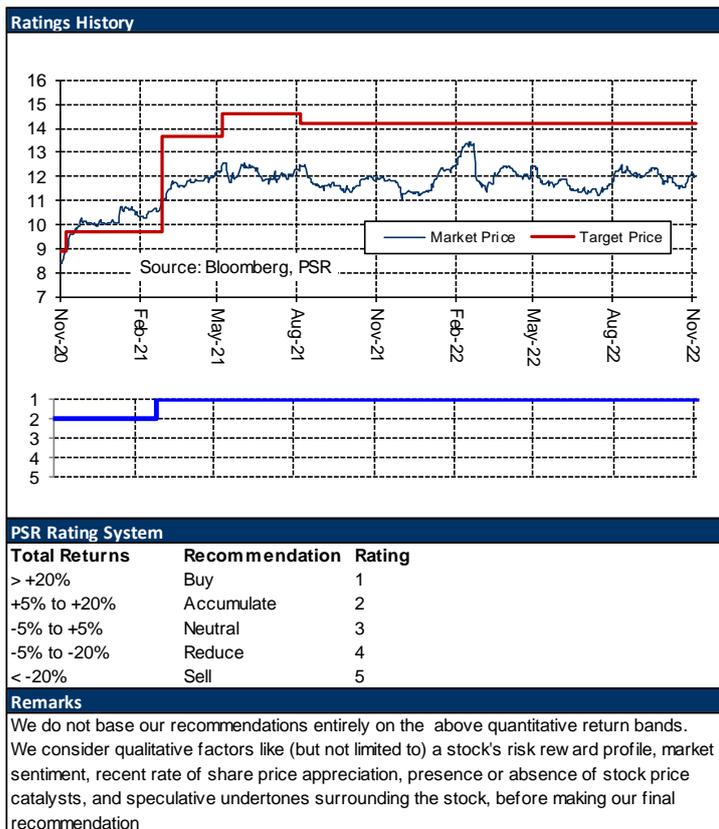
Growth & Margins

	FY19	FY20	FY21	FY22e	FY23e
Growth					
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%
Margins					
Net interest margin	1.77%	1.61%	1.54%	1.85%	2.10%

Key Ratios

	FY19	FY20	FY21	FY22e	FY23e
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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