

Oversea-Chinese Banking Corp Ltd

Higher NII and fee income raise profits

SINGAPORE | BANKING | 3Q23 RESULTS

- 3Q23 earnings of S\$1.81bn were slightly above our estimates. It came from higher net interest income and higher fee income offset by lower insurance income and higher allowances. 9M23 PATMI was 77% of our FY23e forecast.
- NII grew 17% YoY as NIM rose 21bps YoY to 2.27% and loan growth declined 2% YoY. Total non-interest income rose 4% YoY as higher fee income was offset by lower insurance income while trading income was flat. Allowances rose 19% due to higher SPs as credit costs increased 4bps YoY to 17bps.
- Maintain BUY with an unchanged target price of S\$14.96.** Our FY23e estimates remain unchanged. We assume 1.29x FY22e P/BV and ROE estimate of 10.8% in our GGM valuation. In FY24, we anticipate NII growth driven by stable NIMs and rising loans amid stabilised rates, with fee income recovery boosting earnings. OCBC is our preferred pick among the three banks due to attractive valuations and dividend yield of 6.6%, buffered by a well-capitalised 14.8% CET 1, and fee income recovery from China's re-opening.

Results at a glance

(SGD mn)	3Q23	3Q22	YoY	2Q23	QoQ	Comments
NII	2,456	2,099	17%	2,389	3%	Increase due to NIM growth of 21bps YoY to 2.27% driven by higher margins across OCBC's key markets despite loan growth dipping 2% YoY.
Net Fees & Comm	461	453	2%	430	7%	Largely due to the growth in wealth management fees from increased customer activities and from higher credit card fees.
Insurance	220	249	(12%)	262	(16%)	Increase mainly due to an increase in medical claims which was partly compensated by improved investment performance.
Other Non-II	216	217	(0%)	311	(31%)	Remained largely unchanged as higher non-customer flow was offset by lower customer flow income.
Total income	3,429	3,031	13%	3,455	(1%)	
Expenses	(1,340)	(1,278)	5%	(1,329)	1%	Expenses up slightly due to continued investments across people and technology. Nonetheless, CIR improved 3.1% points YoY to 39.1%.
PPOP	2,343	2,009	17%	2,376	(1%)	
Allowance	(184)	(154)	19%	(252)	(27%)	Increase due to SP rising to S\$220mn (2Q23: S\$78mn) despite a GP write-back of S\$36mn (2Q23: GP of S\$76mn). Resultantly, credit costs increased by 4bps YoY but dipped 14bps QoQ to 17bps.
PATMI	1,810	1,491	21%	1,710	6%	

Source: Company, PSR

The Positives

+ Net interest income grew 17% YoY. NII grew 17% YoY led by NIM improvement of 21bps YoY to 2.27% despite loan growth dipping 2% YoY. NIM expansion was mainly driven by higher margins across the Group's key markets. However, NII only rose 3% QoQ as NIM rose 1bps QoQ as a rise in asset yields more than outpaced the increase in funding costs. Nonetheless, OCBC has increased its NIM guidance for FY23e from above 2.20% to around 2.25%.



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14 November 2023

BUY (Maintained)

LAST CLOSE PRICE	SGD 12.97
FORECAST DIV	SGD 0.85
TARGET PRICE	SGD 14.96
DIVIDEND YIELD	6.6%
TOTAL RETURN	21.9%

COMPANY DATA

BLOOMBERG TICKER	OCBC SP
O/S SHARES (MN):	4,495
MARKET CAP (USD mn / SGD mn):	42857 / 58294
52 - WK HI/LO (SGD):	13.39 / 11.93
3M Average Daily T/O (mn):	4.46

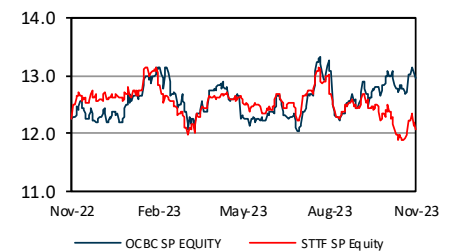
MAJOR SHAREHOLDERS (%)

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

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	1.4	2.4	14.2
STTF RETURN	(0.6)	(4.0)	0.6

PRICE VS. STTF



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec (SGD mn)	FY21	FY22	FY23e	FY24e
Total Income	10,596	11,675	13,248	13,964
Op. Profit	3,880	5,273	6,757	7,228
NPAT, adj.	4,858	5,748	7,026	7,608
EPS (SGD)	1.08	1.28	1.57	1.70
PER, adj. (x)	12.0	10.1	8.3	7.6
P/BV, x	1.1	1.1	1.0	1.0
DPS (S\$)	0.53	0.68	0.85	0.90
ROE	9.5%	10.9%	12.8%	13.0%

Source: Bloomberg, Company, PSR

Valuation Method:

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

Glenn Thum (+65 6212 1851)

Senior Research Analyst

glenthumjc@phillip.com.sg

+ Fee income grew to highest level in 4 quarters. Fee income rose 2% YoY to reach the highest level in 4 quarters. This was due to the growth in wealth management fees from increased customer activities, and from higher credit card fees. Furthermore, the Group's wealth management income grew 16% YoY to S\$1.12bn and contributed 33% to the Group's total income in 3Q23. OCBC's wealth management AUM was 8% higher YoY at S\$270bn driven by continued net new money inflows.

The Negatives

- Insurance income down 12% YoY. Insurance income fell 12% YoY from an increase in medical claims, which was partly compensated for by improved investment performance. Nonetheless, total weighted new sales rose 5% YoY to S\$419mn, driven by higher sales in Singapore, while new business embedded value (NBEV) was at S\$184mn for the quarter.

- Allowances up 19% YoY, credit costs at 17bps. Total allowances rose 19% YoY to S\$184mn as SPs grew to S\$220mn (2Q23: S\$78mn) partially offset by a GP write-back of S\$36mn (2Q23: GP of S\$76mn). The higher SP was from corporate accounts in various sectors and geographies all over ASEAN, and not to any specific account. OCBC said that it does not see any systemic risk. This drove credit costs up by 4bps YoY to 17bps. Total NPAs were down 16% YoY to S\$3.1bn, and the NPL ratio improved by 20bps YoY to 1.0%. Notably, the rest of the world's NPAs rose 46% YoY to S\$585mn, mainly due to the downgrade of one network corporate account in ASEAN in the construction sector.

- CASA ratio continues to dip. The Current Account Savings Accounts (CASA) ratio fell 9.8% points YoY to 46.3% due to the high interest rate environment and a move towards fixed deposits (FD). Nonetheless, total customer deposits increased 5% YoY to S\$369bn underpinned by strong growth in FDs. The Group's funding composition remained stable with customer deposits comprising 80% of total funding.

Outlook

Loan growth: Loan growth declined YoY in 3Q23, falling below the bank's guidance for FY23e. However, management said that it expects a slower pace of economic growth and has lowered its guidance from low to mid-single to low-single-digit loan growth for FY23e. 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 the rest of FY23.

Fee income: With the re-opening of China, OCBC is positive on the broader outlook and expects the re-opening to support China-Southeast Asia trade and investment flows. OCBC has recently launched a private banking unit in Malaysia and mainland China to strengthen its WM services while also hiring for the business. We could expect high single-digit fee income growth for FY23e.

Commercial real estate office sector: Commercial real estate office sector loans are mostly to network customers in key markets with a proven track record and financial strength. Overall LTVs are low at around 50% to 60% and are mostly secured. Overall, the commercial real estate office sector loans make up 13% of the total loan book, with two-thirds of loans to key markets of Singapore, Malaysia, Indonesia, and Greater China. Loans to developed markets including Australia, the United Kingdom, and the United States are largely to network customers with strong sponsors.

Table 1: OCBC guidance vs PSR estimates for FY23e

Assumptions	OCBC	PSR
NIM (%)	Around 2.25%	2.22%
Loans growth (%)	Low-single digit	2.0%
Credit cost (bps)	Around 20 bps	20

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\$14.96.

Our FY23e estimates remain unchanged. We assume 1.29x FY22e P/BV and ROE estimate of 10.8% in our GGM valuation. In FY24, we anticipate NII growth driven by stable NIMs and rising loans amid stabilised rates, with fee income recovery boosting earnings. OCBC is our preferred pick among the three banks due to attractive valuations and dividend yield of 6.6%, buffered by a well-capitalised 14.8% CET 1, and fee income recovery from China’s re-opening.

GGM valuation

Item	Description	Value
	Risk-free rate	2.6%
E	Equity-risk premium	5.4%
B	Beta	1.1
COE	Cost of Equity	8.8%
	Return on Equity	10.8%
	Terminal growth rate	2.0%
$\frac{(ROE-g)}{(COE-g)}$	Target Price to Book	1.29
	BVPS, S\$	11.59
	Valuation, S\$	14.96

Source: PSR

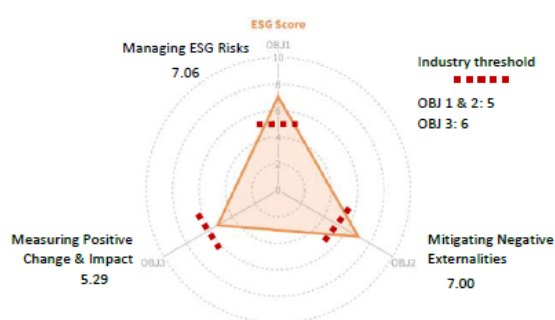
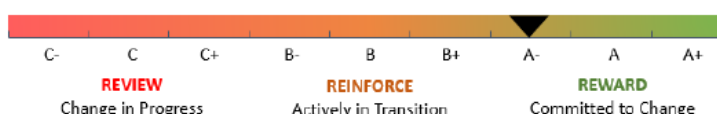
OCBC

SGX:039 | Oversea-Chinese Banking Corporation | Singapore



Company ESG Risk Rating Report

Rating Summary	Nov 2023	A-
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Objective 1	Objective 2	Objective 3
Managing ESG Risks (Positive input)	Mitigating Negative Externalities (Positive influence)	Measuring Positive Change and Impact (Positive impact)
7.06	7.00	5.29

ESG Risks, Opportunities, Impacts (ROI)

- Risks** OCBC identified potential climate-related financial risks. For instance, repayment capacity of clients may be impacted by changes in consumer demand or physical risks causing business disruptions.
- Opportunities** Developed the OCBC SME Sustainability Financing Framework to increase accessibility for SMEs in 9 areas including renewables and clean transport. Delivered green loans of >S\$3b globally (1% of 2022 loan book).
- Impacts** Sustainable financing commitments rose 30% from a year ago to S\$44 billion, on track to achieve the Group's 2025 target of S\$50 billion (17% of 2022 loan book).

Financials

Income Statement

Y/E Dec, SGD mn	FY20	FY21	FY22	FY23e	FY24e
Net Int Income	5,966	5,855	7,688	9,117	9,252
Fees and Commission	2,003	2,245	1,851	1,981	2,218
Other Non int income	2,167	2,496	2,136	2,151	2,494
Total operating income	10,136	10,596	11,675	13,248	13,964
Operating expenses	(4,439)	(4,764)	(5,026)	(5,390)	(5,640)
Operating profit	1,403	3,880	5,273	6,757	7,228
Provisions and others	(2,147)	(976)	(688)	(551)	(548)
Associates & JVs	612	824	978	1,174	1,408
Profit Before Tax	4,162	5,680	6,939	8,481	9,185
Taxation	(437)	(648)	(1,057)	(1,292)	(1,399)
Profit After Tax	3,725	5,032	5,882	7,190	7,786
Non-controlling Interest	142	174	134	164	177
Net Income, adj.	3,583	4,858	5,748	7,026	7,608

Per share data (SGD)

Y/E Dec	FY20	FY21	FY22	FY23e	FY24e
EPS, reported	0.80	1.08	1.28	1.57	1.70
EPS, adj.	0.80	1.08	1.28	1.57	1.70
DPS	0.32	0.53	0.68	0.85	0.90
BVPS	11.09	11.72	11.81	12.61	13.31
Dividend payout ratio	40%	49%	53%	54%	53%

Supplementary items

Y/E Dec	FY20	FY21	FY22	FY23e	FY24e
CET1 CAR	15.2%	15.5%	15.2%	16.2%	17.3%
Tier 1 CAR	15.8%	16.0%	15.9%	16.9%	18.0%
Total CAR	17.9%	17.6%	17.7%	18.6%	19.7%

Balance Sheet

Y/E Dec, SGD mn	FY20	FY21	FY22	FY23e	FY24e
Cash bal with central banks	26,525	27,919	34,966	45,501	44,343
Due from banks	32,816	25,462	30,244	30,828	30,867
Debt and equity securities	33,143	34,015	28,010	25,892	25,924
Loans and bills receivable	263,538	286,281	291,467	299,681	306,547
Life Assur. Fund Inv. Assets	97,068	100,096	97,995	100,935	103,963
Others	68,305	68,414	77,274	74,550	74,701
Total Assets	521,395	542,187	559,956	577,387	586,345
Due to banks	9,586	8,239	10,046	13,281	13,330
Due to non-bank customers	314,907	342,395	350,081	357,775	362,084
Life Assur. Fund Liabilities	94,454	96,306	94,946	97,794	100,728
Debts issued	24,355	20,115	21,938	21,152	21,310
Others	26,917	20,794	28,277	29,118	29,985
Total liabilities	470,219	487,849	505,288	519,121	527,437
Shareholder's equity	49,622	52,664	53,090	56,527	60,088
Non-controlling interest	1,554	1,675	1,581	1,745	-1,173
Total Equity	51,176	54,339	54,671	58,272	58,915

Valuation Ratios

Y/E Dec	FY20	FY21	FY22	FY23e	FY24e
P/E (X), adj.	16.2	12.0	10.1	8.3	7.6
P/B (X)	1.2	1.1	1.1	1.0	1.0
Dividend Yield	2.5%	4.1%	5.2%	6.6%	6.9%

Growth & Margins

	FY20	FY21	FY22	FY23e	FY24e
Growth					
Net int income	-5.8%	-1.9%	31.3%	18.6%	1.5%
Non int income	-8.2%	13.7%	-15.9%	3.6%	14.1%
Pre provision operating profit	-6.8%	4.5%	10.2%	13.5%	5.4%
Operating income	-32.2%	36.8%	22.8%	22.6%	6.4%
Net income, reported	-26.4%	35.6%	18.3%	22.2%	8.3%
Net income, adj	-26.4%	35.6%	18.3%	22.2%	8.3%

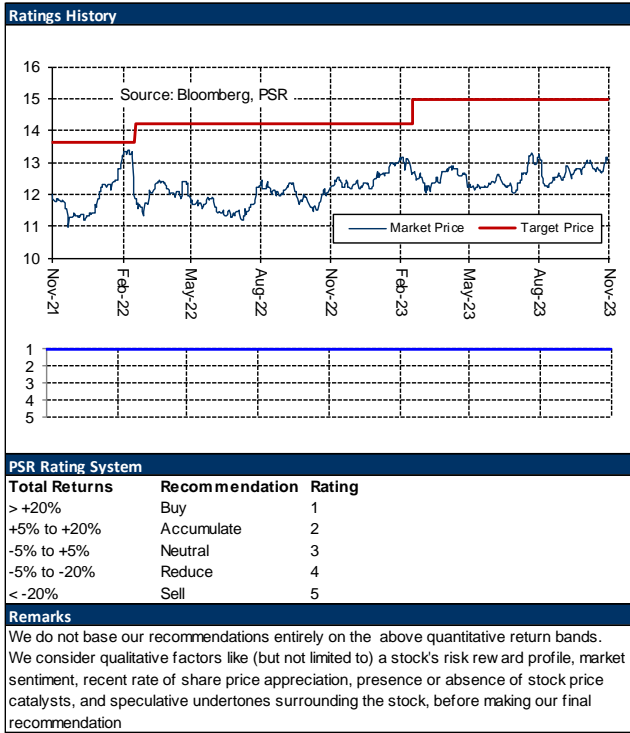
Margins

	FY20	FY21	FY22	FY23e	FY24e
Net interest margin	1.61%	1.54%	1.91%	2.22%	2.20%

Key Ratios

	FY20	FY21	FY22	FY23e	FY24e
ROE	7.4%	9.5%	10.9%	12.8%	13.0%
ROA	0.8%	1.1%	1.2%	1.5%	1.6%
RORWA	1.6%	2.2%	2.5%	2.9%	3.1%
Non-int/total income ratio	41.1%	44.7%	34.1%	31.2%	33.7%
Cost/income ratio	43.8%	45.0%	43.0%	40.7%	40.4%
Loan/deposit ratio	83.7%	83.6%	83.3%	83.8%	84.7%
NPL ratio	1.5%	1.5%	1.1%	1.1%	1.1%

Source: Company, Phillip Securities Research (Singapore) Estimates



Contact Information (Singapore Research Team)

Head of Research

Paul Chew – paulchewkl@phillip.com.sg

Research Admin

Qystina Azli - qystina@phillip.com.sg

Technical Analyst

Zane Aw – zaneawyx@phillip.com.sg

Property | REITs

Darren Chan – darrenchanrx@phillip.com.sg

Banking & Finance

Glenn Thum – glenthumjc@phillip.com.sg

Credit Analyst

Shawn Sng – shawnsngkh@phillip.com.sg

Property | REITs

Liu Miaomiao – liumm@phillip.com.sg

Conglomerate | Transport

Peggy Mak – peggymak@phillip.com.sg

US Technology Analyst (Hardware & Marketplaces)

Maximilian Koeswoyo – maximilian@phillip.com.sg

US Technology Analyst (Digital Media & Entertainment)

Jonathan Woo – jonathanwookj@phillip.com.sg

US Technology Analyst (Software/Services)

Ambrish Shah – amshah@phillipcapital.in

Contact Information (Regional Member Companies)

SINGAPORE

Phillip Securities Pte Ltd
Raffles City Tower
250, North Bridge Road #06-00
Singapore 179101
Tel +65 6533 6001
Fax +65 6535 6631
Website: www.poems.com.sg

MALAYSIA

Phillip Capital Management Sdn Bhd
B-3-6 Block B Level 3 Megan Avenue II,
No. 12, Jalan Yap Kwan Seng, 50450
Kuala Lumpur
Tel +603 2162 8841
Fax +603 2166 5099
Website: www.poems.com.my

HONG KONG

Phillip Securities (HK) Ltd
11/F United Centre 95 Queensway
Hong Kong
Tel +852 2277 6600
Fax +852 2868 5307
Websites: www.phillip.com.hk

JAPAN

Phillip Securities Japan, Ltd.
4-2 Nihonbashi Kabuto-cho Chuo-ku,
Tokyo 103-0026
Tel +81-3 3666 2101
Fax +81-3 3666 6090
Website: www.phillip.co.jp

INDONESIA

PT Phillip Securities Indonesia
ANZ Tower Level 23B,
Jl Jend Sudirman Kav 33A
Jakarta 10220 – Indonesia
Tel +62-21 5790 0800
Fax +62-21 5790 0809
Website: www.phillip.co.id

CHINA

Phillip Financial Advisory (Shanghai) Co Ltd
No 550 Yan An East Road,
Ocean Tower Unit 2318,
Postal code 200001
Tel +86-21 5169 9200
Fax +86-21 6351 2940
Website: www.phillip.com.cn

THAILAND

Phillip Securities (Thailand) Public Co. Ltd
15th Floor, Vorawat Building,
849 Silom Road, Silom, Bangrak,
Bangkok 10500 Thailand
Tel +66-2 6351700 / 22680999
Fax +66-2 22680921
Website www.phillip.co.th

FRANCE

King & Shaxson Capital Limited
3rd Floor, 35 Rue de la Bienfaisance 75008
Paris France
Tel +33-1 45633100
Fax +33-1 45636017
Website: www.kingandshaxson.com

UNITED KINGDOM

King & Shaxson Capital Limited
6th Floor, Candlewick House,
120 Cannon Street,
London, EC4N 6AS
Tel +44-20 7426 5950
Fax +44-20 7626 1757
Website: www.kingandshaxson.com

UNITED STATES

Phillip Capital Inc
141 W Jackson Blvd Ste 3050
The Chicago Board of Trade Building
Chicago, IL 60604 USA
Tel +1-312 356 9000
Fax +1-312 356 9005
Website: www.phillipusa.com

AUSTRALIA

Phillip Capital Limited
Level 10, 330 Collins Street
Melbourne, Victoria 3000, Australia
Tel +61-03 8633 9803
Fax +61-03 8633 9899
Website: www.phillipcapital.com.au

CAMBODIA

Phillip Bank Plc
Ground Floor of B-Office Centre, #61-64,
Norodom Blvd Corner Street 306, Sangkat
Boeung Keng Kang 1, Khan Chamkamorn,
Phnom Penh, Cambodia
Tel: 855 (0) 7796 6151/855 (0) 1620 0769
Website: www.phillipbank.com.kh

INDIA

PhillipCapital (India) Private Limited
No.1, 18th Floor, Urmi Estate
95, Ganpatrao Kadam Marg
Lower Parel West, Mumbai 400-013
Maharashtra, India
Tel: +91-22-2300 2999 / Fax: +91-22-2300 2969
Website: www.phillipcapital.in

TURKEY

PhillipCapital Menkul Degerler
Dr. Cemil Bengü Cad. Hak Is Merkezi
No. 2 Kat. 6A Caglayan
34403 Istanbul, Turkey
Tel: 0212 296 84 84
Fax: 0212 233 69 29
Website: www.phillipcapital.com.tr

DUBAI

Phillip Futures DMCC
Member of the Dubai Gold and
Commodities Exchange (DGCX)
Unit No 601, Plot No 58, White Crown Bldg,
Sheikh Zayed Road, P.O.Box 212291
Dubai-UAE
Tel: +971-4-3325052 / Fax: + 971-4-
3328895

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