Oversea-Chinese Banking Corp Ltd

Non-interest income driving growth

SINGAPORE | BANKING | 4Q23 RESULTS

- 4Q23 earnings of S$1.62bn met our estimates. It came from higher fee income and stable NII. FY23 PATMI was 100% of our FY23e forecast. 4Q23 DPS was up 5% YoY to 42 cents. FY23 dividend rose 21% YoY to 82 cents, with the dividend payout ratio stable at 53%. It was below our expectations.
- NII grew 3% YoY despite NIM dipping 2bps YoY to 2.29% and flat loan growth. Total non-interest income rose 25% YoY as higher fee income and trading were offset by lower insurance income. Allowances fell 40% due to lower GPs and SPs as credit costs improved 14bps YoY to 21bps.
- **Maintain BUY with an unchanged target price of S$14.96.** We lower FY24e earnings by 6%. We lower our NII estimates from softer NIMs and increase allowance estimates, offset by higher fees and other non-interest income. We assume 1.29x FY22e P/BV and ROE estimate of 12.8% in our GGM valuation. We expect FY24e earnings to grow from single-digit fee income recovery and stabilised provisions. NII will remain flattish as stable loan growth from rate cuts expected in 2H24 will be offset by moderating NIMs. We like OCBC due to attractive valuations and a dividend yield of 6.7%, buffered by a well-capitalised 15.9% CET 1, and non-interest income growth from recent acquisitions.

Results at a glance

(SGD mn)	4Q23	4Q22	YoY	3Q23	QoQ	Comments
NII	2,462	2,386	3%	2,456	0%	Slight growth due to a 4% increase in average assets offset by NIM decline of 2bps YoY to 2.29% from higher funding costs which more than offset the increase in asset yields.
Net Fees & Comm	460	399	15%	461	(0%)	Growth led by higher fees from wealth management, credit card and loan-related activities.
Insurance	88	100	(12%)	220	(60%)	Decline mainly due to an increase in insurance claims.
Other Non-II	222	180	23%	216	3%	Higher trading income driven by higher customer flow treasury income and better investment performance led growth.
Total income	**3,273**	**3,032**	**8%**	**3,429**	**(5%)**	
Expenses	(1,310)	(1,102)	19%	(1,340)	(2%)	Expenses up due to higher staff costs and other operating expenses. Resultantly, CIR rose 3.7% points YoY to 40%.
PPOP	**1,963**	**1,930**	**2%**	**2,089**	**(6%)**	
Allowance	(187)	(314)	(40%)	(184)	2%	Decline from a drop in both SP to S$5mn (4Q22: S$101mn) and GP to S$182mn (4Q22: S$213mn). Resultantly, credit costs improved by 14bps YoY to 21bps.
PATMI	**1,622**	**1,443**	**12%**	**1,810**	**(10%)**	

Source: Company, PSR

The Positives

+ Net interest income grew 3% YoY. NII growth was led by a 4% increase in average assets, which was offset by NIM moderating by 2bps YoY to 2.29% and stable loan growth. NIM moderation was mainly from higher funding costs, which offset the increase in asset yields. OCBC has provided FY24e guidance for NIM to be in the range of 2.20% to 2.25%, with FY23 exit NIM currently at 2.26%.

+ Fee income continues to grow. Fee income rose 15% YoY to S$460mn. This was due to the broad-based growth in wealth management fees from increased customer activities, higher credit card fees, and loan and trade-related fees. Furthermore, the Group's FY23 wealth management income grew 26% YoY to S$4.3bn and contributed 32% to the Group's

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1 March 2024

BUY (Maintained)

LAST CLOSE PRICE	SGD 12.98
FORECAST DIV	SGD 0.87
TARGET PRICE	SGD 14.96
DIVIDEND YIELD	6.7%
TOTAL RETURN	22.0%

COMPANY DATA

BLOOMBERG TICKER	OCBC SP
O/S SHARES (MN) :	4,495
MARKET CAP (USD mn / SGD mn) :	43399 / 58350
52 - WK HI/LO (SGD) :	13.45 / 11.93
3M Average Daily T/O (mn) :	4.78

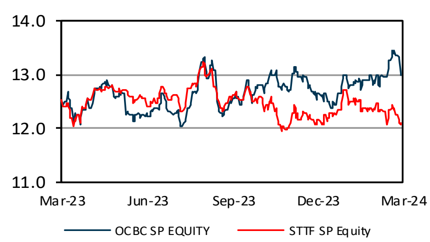
MAJOR SHAREHOLDERS (%)

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

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	0.2	3.1	0.1
STTF RETURN	(0.2)	2.5	(2.7)

PRICE VS. STTF



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec (SGD mn)	FY22	FY23	FY24e	FY25e
Total Income	11,286	13,507	13,819	14,182
Op. Profit	4,884	6,612	6,722	6,891
NPAT, adj.	5,338	7,021	7,123	7,308
EPS (SGD)	1.19	1.56	1.58	1.63
PER, adj. (x)	10.9	8.3	8.2	8.0
P/BV, x	1.1	1.1	1.0	1.0
DPS (S$)	0.68	0.82	0.87	0.92
ROE	10.3%	13.3%	12.8%	12.4%

Source: Bloomberg, Company, PSR

Valuation Method:

Gordon Growth Model (COE: 10.2%, g: 2%)

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total income FY23 (FY22: 30%). OCBC's wealth management AUM was 2% higher YoY at S$263bn driven by continued net new money inflows.

+ Allowances are down 40% YoY, and credit costs are at 21bps. Total allowances fell 40% YoY to S$187mn as SPs fell to S$5mn (4Q22: S$101mn) and GPs dipped to S$182mn (4Q22: S$213mn). Resultantly, total credit costs improved by 14bps YoY to 21bps. Total NPAs were down 16% YoY to S$2.9bn as new NPA formation fell 78% YoY to S$54mn, and the NPL ratio improved by 20bps YoY to 1.0%. Full-year FY23 credit costs were higher at 20bps (FY22: 16bps) from both impaired and non-impaired assets. OCBC has guided for FY24e credit costs to be stable and come in between 20 to 25bps.

The Negatives

- Insurance income down 12% YoY. Insurance income fell 12% YoY to S$88mn, driven by higher claims in Singapore and Malaysia, partially offset by higher contributions from the Singapore life business arising from better investment performance. FY23 total weighted new sales fell 12% YoY to S$1.66bn, as sales in Singapore declined, while new business embedded value (NBEV) declined 11% YoY to S$762mn. Margins saw a slight increase due to a more favorable product mix. Nonetheless, FY23 profit contribution from insurance rose 30% YoY to S$636mn, led by improved investment income.

- Expenses creep up. Operating expenses rose 19% YoY to S$1.31bn, mainly from higher staff costs and other operating expenses. The rise in staff costs was led by annual salary adjustments, headcount growth, and one-off support to help junior employees cope with rising cost-of-living concerns. Resultantly, the 4Q23 cost-to-income ratio (CIR) rose 3.7% points YoY to 40%. Nonetheless, full-year FY23 CIR improved by 4.2% points YoY to 38.7% as the rise in income outpaced the rise in expenses.

- CASA ratio continues to dip. The Current Account Savings Accounts (CASA) ratio fell 3.1% points YoY to 48.7% due to the high-interest rate environment and a continued move towards fixed deposits (FD). Nonetheless, total customer deposits grew 4% YoY to S$364bn, underpinned by strong growth in FDs. The Group's funding composition remained stable with customer deposits comprising 81% of total funding.

Outlook

Loan growth single digit: Loans grew 1% YoY in FY23, falling below the bank's guidance for the year. Management anticipates a global growth slowdown in 2024 but expects Asia to perform better. As such, OCBC has guided for low single-digit loan growth for FY24e, with growth coming from the energy, power, and utility segments, from "inflation resistant" segments such as purpose-built student accommodation and hospitality, and the technology and digital infrastructure segments. Management sees organic growth from their core markets in Singapore, Indonesia, Hong Kong, and Greater China, with more offshore as compared to onshore.

Fee income to grow: 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. Furthermore, OCBC's recent acquisitions of PT Bank Commonwealth in Indonesia will accelerate their growth in ASEAN. Therefore, we are expecting fee income growth of 12% for FY24e.

Commercial real estate office sector exposure contained: Commercial real estate (CRE) office sector loans are mostly to network customers in key markets with a proven track record and financial strength. The portfolio is mostly secure, with overall LTVs low at between 50% and 60%. The commercial real estate office sector loans make up 12% of the total loan book, with two-thirds of loans to key markets of Singapore, Malaysia, Indonesia, and Greater China, with the remainder largely in developed markets. CRE office sector loans in the United States comprise 0.7% of total loans and are mainly secured by Grade A office properties, largely to network customers with strong sponsors.

<u>Abbreviations</u>

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

Table 1: FY23 results vs OCBC FY24e guidance vs PSR FY24e estimates

Assumptions	FY23 Results	OCBC	PSR
NIM (%)	2.28%	2.20% to 2.25%	2.20%
Loans growth (%)	1%	Low-single digit	3.2%
Credit cost (bps)	20	Between 20 to 25 bps	21

Source: Company, PSR

Investment Action

Maintain BUY with an unchanged target price of S$14.96.

We lower FY24e earnings by 6%. We lower our NII estimates from softer NIMs and increase allowance estimates, offset by higher fees and other non-interest income. We assume 1.29x FY24e P/BV from a higher ROE estimate of 12.8% (prev. 10.8%) in our GGM valuation. We expect FY24e earnings to grow from single-digit fee income recovery and stabilised provisions. NII will remain flattish as stable loan growth from rate cuts expected in 2H24 will be offset by moderating NIMs. We like OCBC due to attractive valuations and a dividend yield of 6.7%, buffered by a well-capitalised 15.9% CET 1, and non-interest income growth from recent acquisitions.

GGM valuation

Item	Description	Value
R_f	Risk-free rate	3.1%
E	Equity-risk premium	5.8%
B	Beta	1.2
COE	Cost of Equity	10.2%
ROE	Return on Equity	12.8%
g	Terminal growth rate	2.0%
$\frac{(ROE-g)}{(COE-g)}$	Target Price to Book	1.29
	BVPS, S$	11.56
	Valuation, S$	14.96

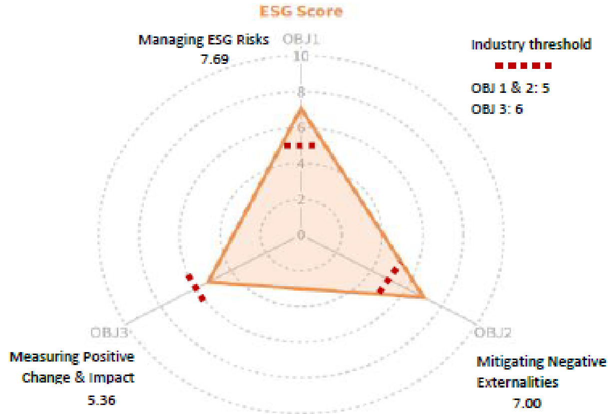
Source: PSR

OCBC	ESG Rating	Feb 2024	A-

SGX:039 | Oversea-Chinese Banking Corporation

PhillipCapital Global Sustainability

Company ESG Risk Rating Report



C- | C | C+ | B- | B | B+ | A- | A | A+

REVIEW Change in Progress | **REINFORCE** Actively in Transition | **REWARD** Committed to Change

Objective 1 Managing ESG Risks (Positive input)	Objective 2 Mitigating Negative Externalities (Positive influence)	Objective 3 Measuring Positive Change and Impact (Positive impact)
7.69	7.00	5.36

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 to S$50 billion, achieving the Group's 2025 target of S$50 billion (17% of 2022 loan book).

Quarterly Update

- Adjustments to ESG Rating: Objective 2 increased from 7.06 to 7.69 as an anti-malware upgrade protected against potential customer losses of >S$2m. Objective 3 increased from 5.29 to 5.36 as the bank's sustainable finance portfolio surpassed its S$50 billion target 2 years ahead of schedule.
- Top 3 ESG indicators that influence our rating. There have been improvements in the following:
  1. Improving cybersecurity with money-lock, anti-malware app measures.
  2. Scaling up lending under OCBC's responsible financing framework.
  3. Extending >S$7m in sustainable financing to small and medium-sized enterprises, double that of 2022.

Financials

Income Statement

Y/E Dec, SGD mn	FY21	FY22	FY23	FY24e	FY25e
Net Int Income	5,855	7,688	9,645	9,617	9,607
Fees and Commission	2,245	1,851	1,804	2,020	2,263
Other Non int income	2,496	1,747	2,058	2,182	2,312
Total operating income	**10,596**	**11,286**	**13,507**	**13,819**	**14,182**
Operating expenses	(4,764)	(5,026)	(5,223)	(5,458)	(5,568)
Operating profit	**3,880**	**4,884**	**6,612**	**6,722**	**6,891**
Provisions and others	(976)	(688)	(836)	(820)	(861)
Associates & JVs	824	910	953	982	991
Profit Before Tax	**5,680**	**6,482**	**8,401**	**8,523**	**8,744**
Taxation	(648)	(1,031)	(1,236)	(1,254)	(1,286)
Profit After Tax	**5,032**	**5,451**	**7,165**	**7,269**	**7,457**
Non-controlling Interest	174	113	144	146	150
Net Income, adj.	**4,858**	**5,338**	**7,021**	**7,123**	**7,308**

Balance Sheet

Y/E Dec, SGD mn	FY21	FY22	FY23	FY24e	FY25e
Cash bal with central banks	27,919	34,966	34,286	33,406	29,126
Due from banks	25,462	30,244	38,051	41,141	41,295
Debt and equity securities	34,015	28,010	36,591	33,286	33,411
Loans and bills receivable	286,281	291,467	292,754	305,971	319,685
Life Assur. Fund Inv. Assets	100,096	94,997	97,517	100,443	103,456
Others	68,414	77,240	82,225	79,869	80,205
Total Assets	**542,187**	**556,924**	**581,424**	**594,115**	**607,178**
Due to banks	8,239	10,046	10,884	13,764	13,918
Due to non-bank customers	342,395	350,081	363,770	372,364	377,726
Life Assur. Fund Liabilities	96,306	96,209	99,644	102,633	105,712
Debts issued	20,115	21,938	26,553	20,554	20,862
Others	20,794	26,225	25,019	25,761	26,526
Total liabilities	**487,849**	**504,499**	**525,870**	**535,076**	**544,745**
Shareholder's equity	52,663	51,117	54,170	57,509	60,753
Non-controlling interest	1,675	1,308	1,384	1,530	1,680
Total Equity	**54,338**	**52,425**	**55,554**	**59,039**	**62,433**

Per share data (SGD)

Y/E Dec	FY21	FY22	FY23	FY24e	FY25e
EPS, reported	1.08	1.19	1.56	1.58	1.63
EPS, adj.	1.08	1.19	1.56	1.58	1.63
DPS	0.53	0.68	0.82	0.87	0.92
BVPS	11.72	11.37	12.05	12.74	13.46
Dividend payout ratio	49%	57%	52%	55%	57%

Supplementary items

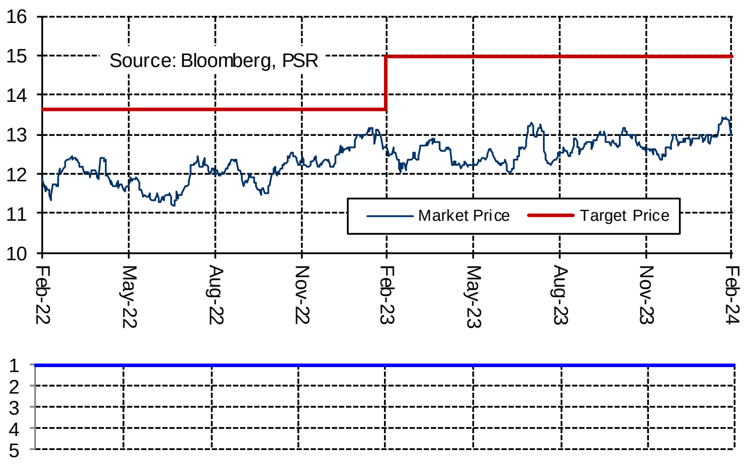
Y/E Dec	FY21	FY22	FY23	FY24e	FY25e
CET1 CAR	15.5%	15.2%	15.9%	16.6%	17.1%
Tier 1 CAR	16.0%	15.9%	16.5%	17.1%	17.6%
Total CAR	17.6%	17.7%	18.1%	18.6%	19.1%

Valuation Ratios

Y/E Dec	FY21	FY22	FY23	FY24e	FY25e
P/E (X), adj.	12.0	10.9	8.3	8.2	8.0
P/B (X)	1.1	1.1	1.1	1.0	1.0
Dividend Yield	4.1%	5.2%	6.3%	6.7%	7.1%
Growth & Margins					
Growth					
Net int income	-1.9%	31.3%	25.5%	-0.3%	-0.1%
Non int income	13.7%	-24.1%	7.3%	8.8%	8.9%
Pre provision operating profit	4.5%	6.5%	19.7%	2.3%	2.6%
Operating income	36.8%	14.7%	33.7%	1.3%	2.8%
Net income, reported	35.6%	9.9%	31.5%	1.5%	2.6%
Net income, adj	35.6%	9.9%	31.5%	1.5%	2.6%
Margins					
Net interest margin	1.54%	1.91%	2.28%	2.20%	2.12%
Key Ratios					
ROE	9.5%	10.3%	13.3%	12.8%	12.4%
ROA	1.1%	1.2%	1.5%	1.4%	1.5%
RORWA	2.2%	2.3%	3.0%	2.9%	2.8%
Non-int/total income ratio	44.7%	31.9%	28.6%	30.4%	32.3%
Cost/income ratio	45.0%	44.5%	38.7%	39.5%	39.3%
Loan/deposit ratio	83.6%	83.3%	80.5%	82.2%	84.6%
NPL ratio	1.5%	1.1%	0.9%	0.9%	0.9%

Source: Company, Phillip Securities Research (Singapore) Estimates

Ratings History



PSR Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
< -20%	Sell	5

Remarks

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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