

Oversea-Chinese Banking Corp Ltd

Non-interest income the growth driver



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SINGAPORE | BANKING | 1Q24 RESULTS

- 1Q24 earnings of S\$1.98bn were slightly above our estimates. This was due to higher non-interest income from growth in fee, insurance, and trading income and moderate growth in NII offset by higher allowances and expenses. 1Q24 PATMI was 28% of our FY24e forecast.
- NII grew 4% YoY from loan growth of 2% YoY offset by NIM dipping 3bps YoY to 2.29%. Total non-interest income rose 17% YoY, led by broad-based growth from fee, trading and insurance income. Allowances rose 54% due to higher SPs offset by lower GPs as credit costs rose 4bps YoY to 16bps.
- OCBC also announced a S\$1.4bn voluntary unconditional general offer for the remaining 11.56% stake in Great Eastern Holdings Limited (GEH) that it does not own. The offer price was S\$25.60 per share.
- Downgrade to Accumulate with a higher target price of S\$15.40** (prev. S\$14.96) as we account for recent share price performance and increase FY24e earnings by 2%. We raise our NII estimates from higher NIMs. We assume 1.33x FY24e P/BV from a higher ROE estimate of 13.0% (prev. 12.8%) in our GGM valuation. We expect FY24e earnings to grow from double-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 6.2%, buffered by a well-capitalised 16.2% CET1, and non-interest income growth from recent acquisitions.

Results at a glance

(SGD mn)	1Q24	1Q23	YoY	4Q23	QoQ	Comments
NII	2,437	2,338	4%	2,462	(1%)	Growth due to a 5% increase in average assets offset by NIM decline of 3bps YoY to 2.27% as rising funding costs offset the higher asset yields.
Net Fees & Comm	479	453	6%	460	4%	Growth led by higher wealth management fees driven by increased customer activities.
Insurance	289	255	13%	88	228%	Increase due to better investment performance and improvement in claims experience.
Other Non-II	370	238	55%	222	67%	Higher trading income driven by record customer flow income and improved non-customer flow income.
Total income	3,626	3,350	8%	3,273	11%	
Expenses	(1,346)	(1,244)	8%	(1,310)	3%	Expenses up mainly from higher staff costs. Nonetheless, CIR stable YoY at 37.1%.
PPOP	2,280	2,106	8%	1,963	16%	
Allowance	(169)	(110)	54%	(187)	(10%)	Increase from a rise in SP to S\$180mn (1Q23: S\$56mn) offset slightly by GP writeback of S\$11mn (1Q23: GP of S\$54mn). Resultantly, credit costs rose by 4bps YoY to 16bps.
PATMI	1,982	1,879	5%	1,622	22%	

Source: Company, PSR

The Positives

+ Non-interest income rises 17% YoY. The growth was broad-based from fee income, trading income and insurance income. Fee income was up 6% YoY mainly due to growth in wealth management fees (+20% YoY) offset slightly by lower loan and trade-related fees (-6% YoY), lower brokerage and fund management fees (-5% YoY) and stable investment banking fees. Trading income rose 45% YoY to a quarterly high of S\$370mn from record

13 May 2024

ACCUMULATE (Downgraded)

LAST CLOSE PRICE	SGD 14.12
FORECAST DIV	SGD 0.87
TARGET PRICE	SGD 15.40
DIVIDEND YIELD	6.2%
TOTAL RETURN	15.2%

COMPANY DATA

BLOOMBERG TICKER	OCBC SP
O/S SHARES (MN)	4,501
MARKET CAP (USD mn / SGD mn)	46034 / 62390
52 - WK HI/LO (SGD)	14.55 / 12
3M Average Daily T/O (mn)	5.95

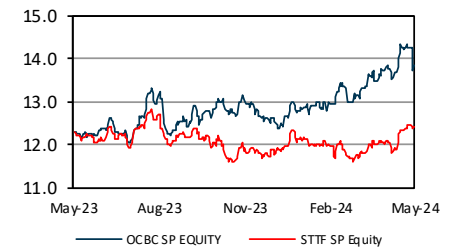
MAJOR SHAREHOLDERS (%)

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

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	3.2	9.2	9.0
STTF RETURN	3.0	5.8	2.9

PRICE VS. STTF



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec (SGD mn)	FY22	FY23	FY24e	FY25e
Total Income	11,286	13,507	14,015	14,182
Op. Profit	4,884	6,612	6,918	6,891
NPAT, adj.	5,338	7,021	7,287	7,308
EPS (SGD)	1.19	1.56	1.62	1.63
PER, adj. (x)	11.7	8.9	8.5	8.5
P/BV, x	1.2	1.1	1.1	1.0
DPS (S\$)	0.68	0.82	0.87	0.92
ROE	10.3%	13.3%	13.0%	12.3%

Source: Bloomberg, Company, PSR

Valuation Method:

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

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customer flow income and improved non-customer flow income, while insurance income was up 13% YoY. The Group's total wealth management income (consisting of S\$873mn in banking and S\$416mn in insurance) for 1Q24 grew 19% YoY and contributed 36% to the Group's total 1Q24 income (1Q23: 32%). OCBC's wealth management AUM was 1% higher YoY at S\$273bn driven by continued net new money inflows of S\$6bn for the quarter.

+ Net interest income up slightly. NII rose by 4% YoY to S\$2,437mn; the growth was led by a 5% increase in average assets, which was offset slightly by NIM moderating by 3bps YoY to 2.27%. NIM moderation was mainly from higher funding costs, which offset the increase in asset yields. Loans grew 2% YoY to S\$297bn from an increase in both corporate and consumer loans, mainly in Singapore. OCBC has provided FY24e guidance for NIM to be at the higher end of 2.20% to 2.25%, with 1Q24 exit NIM currently at 2.27%.

The Negatives

- Allowances up 54% YoY, credit costs at 16bps. Total allowances rose 54% YoY to S\$169mn mainly due to a rise in SPs to S\$180mn (1Q23: S\$56mn) offset slightly by GP write-back of S\$11mn (1Q23: GP of S\$54mn). As a result, total credit costs rose from 4bps YoY to 16bps. The uptick in SPs was due to several accounts in ASEAN with no systemic risk and no concentration in any particular sector or geography. Total NPAs were down 9% YoY to S\$3bn as net recoveries/upgrades and write-offs more than offset new NPA formation, NPL ratio improved by 10bps YoY to 1.0%. OCBC has maintained their guidance for FY24e credit costs to be stable and come in between 20 to 25bps.

- Expenses continue to rise. Operating expenses rose 8% YoY to S\$1.35bn, mainly from higher staff costs due to higher variable compensation associated with income growth. Nonetheless, 1Q24 cost-to-income ratio (CIR) was stable YoY at 37.1% as income growth outpaced the increase in expenses. OCBC is guiding for CIR of around 40 to 45% for FY24e as costs are expected to grow while income moderates, resulting in higher CIR.

Outlook

Loan growth single digit: Loans grew 2% YoY in 1Q24, meeting the bank's guidance of low-single-digit for FY24e. 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 than 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.

Abbreviations

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

OCBC offers to privatise Great Eastern

On 10 May 2024, OCBC also announced a S\$1.4bn voluntary unconditional general offer for the remaining 11.56% stake in Great Eastern Holdings Limited (GEH) that it does not own. The offer price was S\$25.60 per share. This represents valuation multiples of 0.70x Price/Embedded Value (P/EV), 1.54x Price/Book Value (P/BV), and 15.6x Price/Earnings (P/E). For comparison, over the past five years, GEH has been trading at an average of 0.54x P/EV, 1.01x P/BV, and 10.1x P/E, implying a premium of 30%, 52%, and 54%, respectively.

If the offer is successful, it will potentially add 0.2% points to the Group's ROE to 14.0% and lower CET1 by 0.6% points to 15.3%. Furthermore, the offer will reinforce OCBC's long-term strategic vision in solidifying its wealth management position. It will allow the group to capture the rising wealth in Asia by further strengthening its franchise in key markets such as Singapore and Malaysia.

Table 1: OCBC FY24e guidance vs PSR FY24e estimates

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

Source: Company, PSR

Investment Action

Downgrade to ACCUMULATE with a higher target price of S\$15.40 (prev. S\$14.96).

We downgrade to Accumulate as we account for recent share price performance but raise our target price to S\$15.40 as we increase FY24e earnings by 2%. We raise our NII estimates from higher NIMs. We assume 1.33x FY24e P/BV from a higher ROE estimate of 13.0% (prev. 12.8%) in our GGM valuation. We expect FY24e earnings to grow from double-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 6.2%, buffered by a well-capitalised 16.2% 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	13.0%
g	Terminal growth rate	2.0%
$\frac{(ROE-g)}{(COE-g)}$	Target Price to Book	1.33
	BVPS, S\$	11.60
	Valuation, S\$	15.40

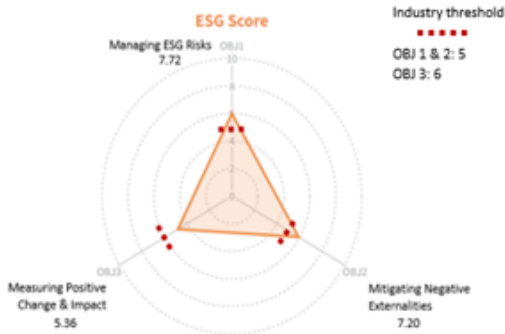
Source: PSR

OCBC ESG Rating May 2024 **A-**

SGX:039 | Oversea-Chinese Banking Corporation



Company ESG Risk Rating Report



Objective 1 Managing ESG Risks (Positive input)	Objective 2 Mitigating Negative Externalities (Positive influence)	Objective 3 Measuring Positive Change and Impact (Positive impact)
7.72	7.20	5.36

Quarterly Update

- Adjustments to ESG Rating: Slight improvement in Objective 1 (7.69 to 7.72) and Objective 2 (7.00 to 7.20).
- Top 3 ESG indicators that influence our rating. There have been improvements in the following:
 1. On track to achieving net-zero targets for priority sectors.
 2. Scaling up lending under OCBC’s responsible financing framework and enhancing management of nature-related risks.
 3. Boosting security against scams with money-lock and anti-malware measures.

Financials

Income Statement

Y/E Dec, SGD mn	FY21	FY22	FY23	FY24e	FY25e
Net Int Income	5,855	7,688	9,645	9,813	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	14,015	14,182
Operating expenses	(4,764)	(5,026)	(5,223)	(5,458)	(5,568)
Operating profit	3,880	4,884	6,612	6,918	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	8,719	8,744
Taxation	(648)	(1,031)	(1,236)	(1,283)	(1,286)
Profit After Tax	5,032	5,451	7,165	7,436	7,457
Non-controlling Interest	174	113	144	149	150
Net Income, adj.	4,858	5,338	7,021	7,287	7,308

Per share data (SGD)

Y/E Dec	FY21	FY22	FY23	FY24e	FY25e
EPS, reported	1.08	1.19	1.56	1.62	1.63
EPS, adj.	1.08	1.19	1.56	1.62	1.63
DPS	0.53	0.68	0.82	0.87	0.92
BVPS	11.72	11.37	12.05	12.77	13.49
Dividend payout ratio	49%	57%	52%	54%	57%

Supplementary items

Y/E Dec	FY21	FY22	FY23	FY24e	FY25e
CET1 CAR	15.5%	15.2%	15.9%	16.6%	17.2%
Tier 1 CAR	16.0%	15.9%	16.5%	17.2%	17.7%
Total CAR	17.6%	17.7%	18.1%	18.7%	19.1%

Balance Sheet

Y/E Dec, SGD mn	FY21	FY22	FY23	FY24e	FY25e
Cash bal with central banks	27,919	34,966	34,286	33,573	29,293
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	594,282	607,345
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	57,673	60,917
Non-controlling interest	1,675	1,308	1,384	1,533	1,683
Total Equity	54,338	52,425	55,554	59,206	62,600

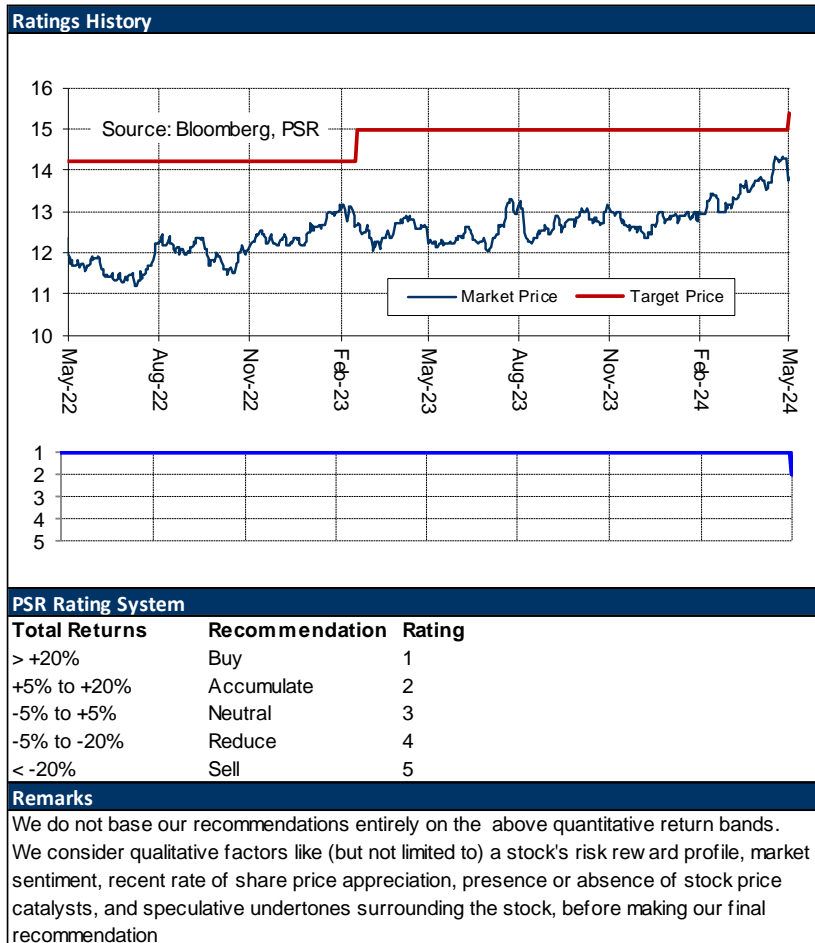
Valuation Ratios

Y/E Dec	FY21	FY22	FY23	FY24e	FY25e
P/E (X), adj.	12.8	11.7	8.9	8.5	8.5
P/B (X)	1.2	1.2	1.1	1.1	1.0
Dividend Yield	3.8%	4.9%	5.9%	6.3%	6.6%

Growth & Margins

Growth					
Net int income	-1.9%	31.3%	25.5%	1.7%	-2.1%
Non int income	13.7%	-24.1%	7.3%	8.8%	8.9%
Pre provision operating profit	4.5%	6.5%	19.7%	3.8%	1.2%
Operating income	36.8%	14.7%	33.7%	3.9%	0.2%
Net income, reported	35.6%	9.9%	31.5%	3.8%	0.3%
Net income, adj	35.6%	9.9%	31.5%	3.8%	0.3%
Margins					
Net interest margin	1.54%	1.91%	2.28%	2.25%	2.12%
Key Ratios					
ROE	9.5%	10.3%	13.3%	13.0%	12.3%
ROA	1.1%	1.2%	1.5%	1.5%	1.5%
RORWA	2.2%	2.3%	3.0%	2.9%	2.8%
Non-int/total income ratio	44.7%	31.9%	28.6%	30.0%	32.3%
Cost/income ratio	45.0%	44.5%	38.7%	38.9%	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



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