

# Oversea-Chinese Banking Corp Ltd

Non-interest income continues to support earnings



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## SINGAPORE | BANKING | 2Q24 RESULTS

- 2Q24 earnings of S\$1.94bn were slightly above our estimates. This was due to higher non-interest income from fees, insurance, and trading income and moderate growth in NII offset by higher expenses. 1H24 PATMI was 54% of our FY24e forecast. 1H24 interim dividend up 10% YoY to 44 cents.
- NII grew 2% YoY from loan growth of 2% YoY offset by NIM dipping 6bps YoY to 2.20%. Total non-interest income rose 13% YoY, led by broad-based growth from fee, trading, and insurance income. Allowances dipped 43% due to lower GPs as credit costs improved to 15bps.
- Maintain Accumulate with an unchanged target price of S\$15.40.** Our FY24e estimates remain unchanged. 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 stable provisions. NII will remain flattish with modest loan growth from rate cuts expected in 2H24, offset by moderating NIMs. We like OCBC due to attractive valuations and a dividend yield of 6.2%, buffered by a well-capitalised 15.5% CET 1, and non-interest income growth from recent acquisitions.

### Results at a glance

(SGD mn)	2Q24	2Q23	YoY	1Q24	QoQ	Comments
NII	2,430	2,389	2%	2,437	(0%)	Average assets rose 5% offset by NIM decline of 6bps YoY to 2.20%.
Net Fees & Comm	466	430	8%	479	(3%)	Led by higher wealth management fees across all wealth channels from higher customer activity.
Insurance	294	262	12%	289	2%	Stronger performance from the underlying insurance business.
Other Non-II	356	311	14%	370	(4%)	Higher trading income driven by customer flow treasury income.
<b>Total income</b>	<b>3,629</b>	<b>3,455</b>	<b>5%</b>	<b>3,626</b>	<b>0%</b>	
Expenses	(1,373)	(1,329)	3%	(1,346)	2%	Higher staff and IT-related costs. Nonetheless, CIR improved YoY to 37.8%.
<b>PPOP</b>	<b>2,256</b>	<b>2,126</b>	<b>6%</b>	<b>2,280</b>	<b>(1%)</b>	
Allowances	(144)	(252)	(43%)	(169)	(15%)	GP writeback of S\$10mn (2Q23: GP of S\$200mn) offset by higher SP of S\$154mn (2Q23: S\$52mn). Credit costs improved by 16bps YoY to 15bps.
<b>PATMI</b>	<b>1,944</b>	<b>1,710</b>	<b>14%</b>	<b>1,982</b>	<b>(2%)</b>	

Source: Company, PSR

### The Positives

**+ Non-interest income continues to climb.** The growth was broad-based from fee income, trading income and insurance income. Fee income was up 8% YoY mainly due to growth in wealth management fees (+17% YoY) supported by strong traction across all wealth channels from an increase in customer activity. Trading income rose 14% YoY as customer flow income continued to sustain its momentum, while insurance income was up 12% YoY. The Group's total wealth management income (consisting of S\$1,706mn in banking and S\$835mn in insurance) for 1H24 grew 14% YoY and contributed 35% to the Group's total income (1H23: 33%). OCBC's wealth management AUM was 2% higher YoY at S\$279bn driven by continued net new money inflows of S\$6bn for the quarter.

**+ Net interest income inches up.** NII rose by 2% YoY to S\$2.4bn led by a 5% increase in average assets, which was offset slightly by NIM moderating by 6bps YoY to 2.20%. Asset growth was mainly from high quality assets which were income-accretive but lower yielding

5 August 2024

### ACCUMULATE (Maintained)

LAST CLOSE PRICE	SGD 14.80
FORECAST DIV	SGD 0.87
TARGET PRICE	SGD 15.40
DIVIDEND YIELD	5.9%
<b>TOTAL RETURN</b>	<b>9.9%</b>

### COMPANY DATA

BLOOMBERG TICKER	OCBC SP
O/S SHARES (MN)	4,495
MARKET CAP (USD mn / SGD mn)	49956 / 66521
52 - WK HI/LO (SGD)	15.38 / 12.17
3M Average Daily T/O (mn)	5.20

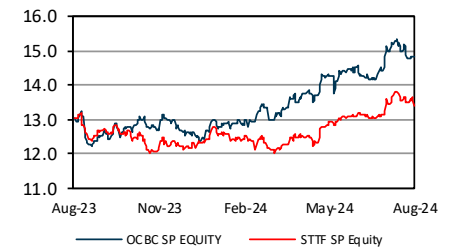
### MAJOR SHAREHOLDERS (%)

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

### PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	2.2	7.2	17.5
STTF RETURN	2.9	5.4	8.4

### 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, a dj. (x)	12.5	9.5	9.1	9.1
P/BV, x	1.3	1.2	1.2	1.1
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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as compared to loans. Loans grew 2% YoY to S\$304bn from an increase in both corporate loans and mortgages, mainly in Singapore and rest of the world. OCBC has provided FY24e guidance for NIM to be at the lower end of 2.20% to 2.25%.

**+ Allowances down 43% YoY, credit costs at 15bps.** The improvement was mainly due to GP write-back of S\$10mn (2Q23: GP of S\$200mn) offset by rise in SPs to S\$154mn (2Q23: S\$52mn). As a result, total credit costs improved by 16bps YoY to 15bps. The uptick in SPs was due to several accounts with no systemic risk and no concentration in any 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 20bps YoY to 0.9%. OCBC has maintained its guidance for FY24e credit costs to be stable and come in between 20 to 25bps

**Abbreviations**

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

**The Negatives**

- **Expenses continue to rise.** Operating expenses rose 3% YoY to S\$1.37bn, mainly from higher staff, IT-related and business promotion expenses. Nonetheless, 2Q24 cost-to-income ratio (CIR) was improved to 37.8% (2Q23: 38.5%) as income growth outpaced the increase in expenses.

**Outlook**

**Loan growth single digit:** Loans grew 2% YoY in 2Q24, meeting the bank’s guidance of low-single-digit for FY24e. Management expects global growth to slowdown in 2024 but Asia to outperform. 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 (more outside of Mainland China).

**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 increased 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 at between 50% and 60%. The commercial real estate office sector loans make up 11% 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. Notably, Hong Kong CRE exposure makes up less than 2% of total loans, with LTV below 50% and to large network customers.

**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**

**Maintain ACCUMULATE with an unchanged target price of S\$15.40.**

Our FY24e estimates remain unchanged. 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 15.5% CET 1, and non-interest income growth from recent acquisitions.

**GGM valuation**

Item	Description	Value
R <sub>f</sub>	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

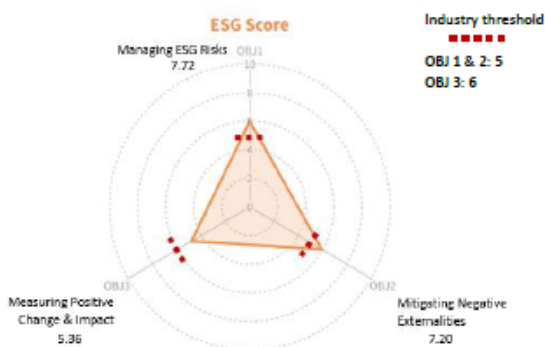
Source: PSR

<b>OCBC</b>	ESG Rating	Aug 2024	<b>A-</b>
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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)
<b>7.72</b>	<b>7.20</b>	<b>5.36</b>

**Quarterly Update**

- Top ESG indicators that influence our rating. We will continue to monitor 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. Protecting bank clients from scams with enhanced money-lock and anti-malware measures.
  4. OCBC is seeking new roles within its Indonesian subsidiary for 1146 laid off employees after its acquisition of PT Bank Commonwealth on 1 May.

## 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
<b>Total operating income</b>	<b>10,596</b>	<b>11,286</b>	<b>13,507</b>	<b>14,015</b>	<b>14,182</b>
Operating expenses	(4,764)	(5,026)	(5,223)	(5,458)	(5,568)
<b>Operating profit</b>	<b>3,880</b>	<b>4,884</b>	<b>6,612</b>	<b>6,918</b>	<b>6,891</b>
Provisions and others	(976)	(688)	(836)	(820)	(861)
Associates & JVs	824	910	953	982	991
<b>Profit Before Tax</b>	<b>5,680</b>	<b>6,482</b>	<b>8,401</b>	<b>8,719</b>	<b>8,744</b>
Taxation	(648)	(1,031)	(1,236)	(1,283)	(1,286)
<b>Profit After Tax</b>	<b>5,032</b>	<b>5,451</b>	<b>7,165</b>	<b>7,436</b>	<b>7,457</b>
Non-controlling Interest	174	113	144	149	150
<b>Net Income, adj.</b>	<b>4,858</b>	<b>5,338</b>	<b>7,021</b>	<b>7,287</b>	<b>7,308</b>

### 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
<b>Total Assets</b>	<b>542,187</b>	<b>556,924</b>	<b>581,424</b>	<b>594,282</b>	<b>607,345</b>
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
<b>Total liabilities</b>	<b>487,849</b>	<b>504,499</b>	<b>525,870</b>	<b>535,076</b>	<b>544,745</b>
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
<b>Total Equity</b>	<b>54,338</b>	<b>52,425</b>	<b>55,554</b>	<b>59,206</b>	<b>62,600</b>

### 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%

### Valuation Ratios

Y/E Dec	FY21	FY22	FY23	FY24e	FY25e
P/E (X), adj.	13.7	12.5	9.5	9.1	9.1
P/B (X)	1.3	1.3	1.2	1.2	1.1
Dividend Yield	3.6%	4.6%	5.5%	5.9%	6.2%

### Growth & Margins

	FY21	FY22	FY23	FY24e	FY25e
<b>Growth</b>					
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%

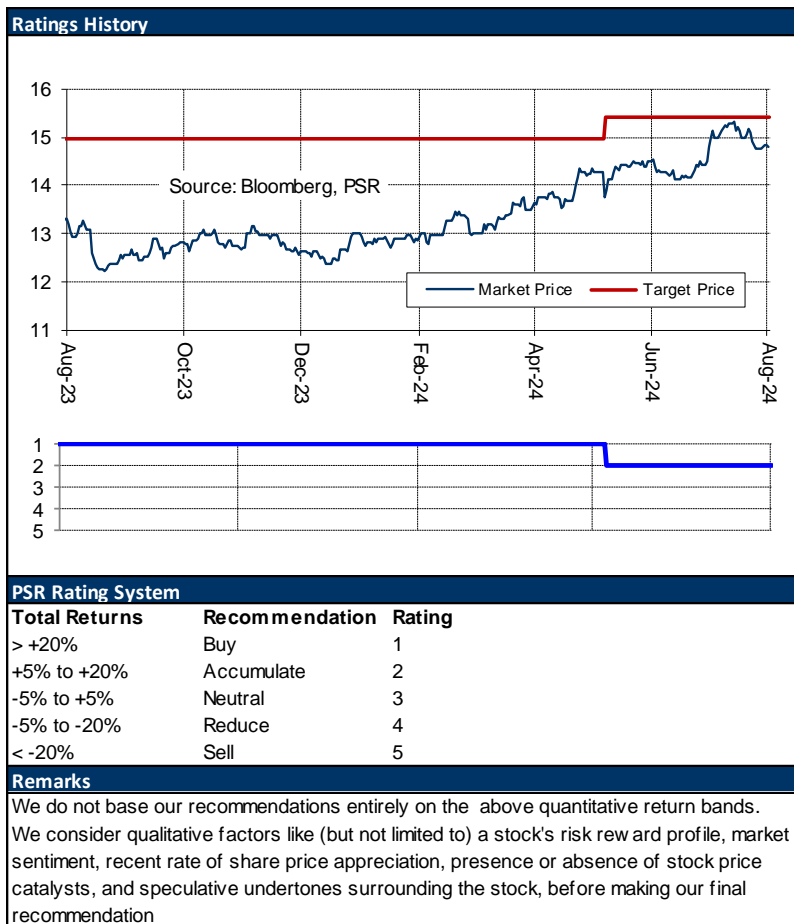
### Margins

	FY21	FY22	FY23	FY24e	FY25e
Net interest margin	1.54%	1.91%	2.28%	2.25%	2.12%

### Key Ratios

	FY21	FY22	FY23	FY24e	FY25e
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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