

Oversea-Chinese Banking Corp Ltd

Earnings dip from higher provisions

SINGAPORE | BANKING | 1Q25 RESULTS

- 1Q25 earnings of S\$1.88bn were within our estimates, as higher non-interest income offset lower NII and higher expenses and allowances. 1Q25 PATMI was 24% of our FY25e forecast. OCBC has reiterated its commitment to the two-year S\$2.5bn capital return (special dividend equivalent to 10% dividend payout ratio and ~S\$1bn share buyback) previously announced.
- NII dipped 4% YoY as loan growth of 7% was offset by NIM declining 23bps YoY to 2.04%. Total non-interest income rose 10% YoY from fee, trading, and insurance income, while higher allowances and expenses hurt earnings. OCBC has maintained their FY25e guidance for NIM of around 2%, mid-single digit loan growth, and credit costs of around 20 to 25bps.
- Maintain ACCUMULATE with an unchanged target price of S\$17.10.** Our FY25e estimates remain unchanged. We assume 1.30x FY25e P/BV and ROE estimate of 13.2% in our GGM valuation. We expect a more subdued FY25e earnings growth of ~3% as higher fees and trading income, lower NIMs, and higher expenses and allowances will offset loan growth recovery. Our estimated 6.5% dividend yield (including the special dividend) remains attractive, and we believe OCBC will be able to continue the special dividend (an additional 10% dividend payout ratio) for at least two more years (until FY27) to reach its target of 14%.

Results at a glance

(SGD mn)	1Q25	1Q24	YoY	4Q24	QoQ	Comments
NII	2,345	2,437	(4%)	2,455	(4%)	Loans growth of 7% YoY while NIM declined 23bps YoY to 2.04%.
Net Fees & Comm	546	479	14%	517	6%	Higher wealth-related, loan-related and investment banking fees.
Insurance	306	289	6%	101	203%	Supported by robust underlying business performance.
Other Non-II	396	370	7%	303	31%	Continued growth in customer flow treasury income.
Total income	3,655	3,626	1%	3,416	7%	
Expenses	(1,415)	(1,346)	5%	(1,560)	(9%)	Higher staff and IT-related costs, CIR rose to 38.7% (1Q24: 37.1%).
PPOP	2,240	2,280	(2%)	1,856	21%	
Allowances	(212)	(169)	25%	(208)	2%	Higher GPs set aside into management overlay for heightened uncertainties in the macroeconomic environment.
PATMI	1,883	1,982	(5%)	1,687	12%	

Source: Company, PSR

The Positives

+ WM fees continue to rise. Wealth management (WM) fees rose 18% YoY from higher customer activities and from a higher AUM base. The Group's total WM income (consisting of S\$920mn in banking and S\$451mn in insurance) for 1Q25 grew 6% YoY and contributed 38% to total income (1Q24: 36%). WM AUM was 12% higher YoY at S\$306bn, driven by continued net new inflows of S\$5bn for the quarter, of which 60% were placed into investments.

+ Trading and insurance supported other non-interest income. Trading income rose 6% YoY from higher customer flow income, while insurance income was up 6% YoY supported by robust underlying business performance. The heightened volatility led to increased activity from both consumer and corporate segments. We expect the heightened volatility surrounding the Trump administration and tariffs to continue benefiting trading income.



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13 May 2025

ACCUMULATE (Maintained)

LAST CLOSE PRICE	SGD 16.23
FORECAST DIV	SGD 1.05
TARGET PRICE	SGD 17.10
DIVIDEND YIELD	6.5%
TOTAL RETURN	11.8%

COMPANY DATA

BLOOMBERG TICKER	OCBC SP
O/S SHARES (MN) :	4,499
MARKET CAP (USD mn / SGD mn) :	56265 / 73015
52 - WK HI/LO (SGD) :	17.75 / 13.61
3M Average Daily T/O (mn) :	8.03

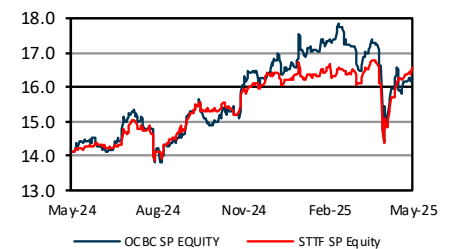
MAJOR SHAREHOLDERS (%)

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

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	16.6	(3.0)	0.7
STTF RETURN	15.4	2.3	4.7

PRICE VS. STTF



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec (SGD mn)	FY23	FY24e	FY25e	FY26e
Total Income	13,507	14,473	15,241	16,028
Op. Profit	6,612	7,233	7,567	8,542
NPAT, adj.	7,021	7,587	7,835	8,436
EPS (SGD)	1.56	1.69	1.75	1.90
PER, adj. (x)	10.4	9.6	9.3	8.6
P/BV, x	1.3	1.2	1.2	1.1
Dividend Yield	5.1%	6.2%	6.5%	7.0%
ROE	13.6%	13.7%	13.2%	13.6%

Source: Bloomberg, Company, PSR

Valuation Method:

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

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The Negatives

- **NIM compression worsens.** Despite loan growth of 7% YoY, NII declined 4% YoY as lower interest rates led to NIM being compressed further this quarter to 2.04% (1Q24: 2.27%). Loan growth came from mortgages and corporate loans, led by the transport, storage, and communication sector. OCBC expects three rate cuts (totalling 75bps) in 2025 and is guiding for FY25e NIM of around 2% (FY24: 2.20%). We believe this is prudent guidance and expect FY25e NIM to be 2.05%, with loan growth maintaining NII as NIM continues to decline.

- **Higher GPs and expenses.** The increase in allowances (+25% YoY) was mainly due to higher GPs of S\$118mn (1Q25: GP writeback of S\$11mn), which were set aside into management overlay for heightened uncertainties in the current macroeconomic environment. Resultantly, total credit costs for the quarter rose 8bps YoY to 24bps. Higher staff costs and continued technology investments led to operating expenses increasing by 5% YoY to S\$1.4bn. The cost-to-income ratio (CIR) rose to 38.7% (1Q24: 37.1%) as expense growth outpaced income growth.

Outlook

FY25e guidance: OCBC has maintained its FY25e guidance, with NIM in the “region of 2%”, mid-single digit loan growth, CIR in the low 40% range, and credit costs expected to come in at around 20-25 bps. With this, we expect a more subdued FY25e earnings growth of ~3%, as higher fees and trading income, lower net interest margins (NIMs), and higher expenses and allowances will offset the recovery in loan growth. We expect FY25e loan growth of ~6%, credit costs at 20 bps, and a CIR of 41%.

Fee income the growth driver: OCBC's ongoing investments in its WM franchise have delivered results, with fee income growing by double digits. OCBC continues to increase hiring for the business, and the recent acquisitions of PT Bank Commonwealth in Indonesia will accelerate its growth in ASEAN. We expect fee income growth of ~14% for FY25e, which could add ~S\$272mn to revenue and will be the primary driver for 2025.

Trump's tariffs: OCBC mentioned that the first order impact from the tariffs only makes up ~3% of the total loan book, coming from customers with reliance on China and the US, and from sectors such as manufacturing, international transport, logistics, and production of goods and raw materials. While the second-order impact is currently difficult to quantify. The majority of OCBC's customers are domestic players, comprising two-thirds of their loan book. Nonetheless, OCBC has set aside more GP allowances this quarter, given the operating environment, and we expect this trend to continue for the rest of FY25e. Despite the ongoing macroeconomic uncertainty, OCBC has reiterated its commitment to the previously announced capital return of S\$2.5bn over two years. This includes a special dividend (amounting to a 10% dividend payout ratio of around S\$1.5bn) in FY24 and FY25 and share buybacks (~S\$1bn) in FY25 and FY26, which have already commenced.

Table 1: OCBC FY25e guidance vs PSR FY25e estimates

Assumptions	OCBC	PSR
NIM (%)	Around 2%	2.05%
Loans growth (%)	Mid-single digit	6%
Credit cost (bps)	20 to 25 bps	20
CIR (%)	Low 40%	41%

Source: Company, PSR

Investment Action

Maintain ACCUMULATE with an unchanged target price of S\$17.10.

Our FY25e estimates remain unchanged. We assume 1.30x FY25e P/BV and ROE estimate of 13.2% in our GGM valuation. We expect a more subdued FY25e earnings growth of ~3% as higher fees and trading income, lower NIMs, and higher expenses and allowances will offset loan growth recovery. Our estimated 6.5% dividend yield (including the special dividend) remains attractive, and we believe OCBC will be able to continue the special

Abbreviations

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

dividend (an additional 10% dividend payout ratio) for at least two more years (until FY27) to reach its target of 14%.

GGM valuation

Item	Description	Value
R_f	Risk-free rate	2.5%
E	Equity-risk premium	6.3%
B	Beta	1.2
COE	Cost of Equity	10.4%
ROE	Return on Equity	13.2%
g	Terminal growth rate	1.0%
$\frac{(ROE-g)}{(COE-g)}$	Target Price to Book	1.30
	BVPS, S\$	13.18
	Valuation, S\$	17.10

Source: PSR

Financials

Income Statement

Y/E Dec, SGD mn	FY22	FY23	FY24	FY25e	FY26e
Net Int Income	7,688	9,645	9,755	9,769	9,943
Fees and Commission	1,851	1,804	1,970	2,242	2,511
Other Non int income	1,747	2,058	2,748	3,230	3,574
Total operating income	11,286	13,507	14,473	15,241	16,028
Operating expenses	(5,026)	(5,223)	(5,742)	(6,258)	(6,598)
Operating profit	4,884	6,612	7,233	7,567	8,542
Provisions and others	(688)	(836)	(749)	(708)	(444)
Associates & JVs	910	953	994	994	994
Profit Before Tax	6,482	8,401	8,976	9,269	9,980
Taxation	(1,031)	(1,236)	(1,228)	(1,268)	(1,365)
Profit After Tax	5,451	7,165	7,748	8,001	8,615
Non-controlling Interest	113	144	161	166	179
Net Income, adj.	5,338	7,021	7,587	7,835	8,436

Balance Sheet

Y/E Dec, SGD mn	FY22	FY23	FY24	FY25e	FY26e
Cash bal with central banks	34,966	34,286	34,599	36,324	31,853
Due from banks	30,244	38,051	42,407	42,032	42,032
Debt and equity securities	28,010	36,591	43,413	39,875	39,875
Loans and bills receivable	291,467	292,754	315,096	339,326	354,739
Life Assur. Fund Inv. Assets	94,997	97,517	102,291	105,360	108,521
Others	77,240	82,225	87,244	83,719	84,070
Total Assets	556,924	581,424	625,050	646,636	661,090
Due to banks	10,046	10,884	11,565	12,360	12,360
Due to non-bank customers	350,081	363,770	390,687	402,991	410,370
Life Assur. Fund Liabilities	96,209	99,644	102,932	106,020	109,201
Debts issued	21,938	26,553	31,553	33,322	33,322
Others	26,225	25,019	27,933	28,761	29,614
Total liabilities	504,499	525,870	564,670	583,454	594,867
Shareholder's equity	51,117	54,170	59,316	61,951	64,814
Non-controlling interest	1,308	1,384	1,064	1,230	1,409
Total Equity	52,425	55,554	60,380	63,182	66,223

Per share data (SGD)

Y/E Dec	FY22	FY23	FY24	FY25e	FY26e
EPS, reported	1.19	1.56	1.69	1.75	1.90
EPS, adj.	1.19	1.56	1.69	1.75	1.90
DPS	0.68	0.82	1.01	1.05	1.14
BVPS	11.37	12.05	13.18	13.85	14.57
Dividend payout ratio	57%	52%	60%	60%	60%

Supplementary items

Y/E Dec	FY22	FY23	FY24	FY25e	FY26e
CET1 CAR	15.2%	15.9%	17.1%	16.9%	17.2%
Tier 1 CAR	15.9%	16.5%	17.8%	17.6%	17.9%
Total CAR	17.7%	18.1%	19.7%	19.4%	19.6%

Valuation Ratios

Y/E Dec	FY22	FY23	FY24	FY25e	FY26e
P/E (X), adj.	13.7	10.4	9.6	9.3	8.6
P/B (X)	1.4	1.3	1.2	1.2	1.1
Dividend Yield	4.2%	5.1%	6.2%	6.5%	7.0%

Growth & Margins

Growth					
Net int income	31.3%	25.5%	1.1%	0.1%	1.8%
Non int income	-24.1%	7.3%	22.2%	16.0%	11.2%
Pre provision operating profit	6.5%	19.7%	7.2%	5.3%	5.2%
Operating income	14.7%	33.7%	7.2%	3.7%	8.6%
Net income, reported	9.9%	31.5%	8.1%	3.3%	7.7%
Net income, adj	9.9%	31.5%	8.1%	3.3%	7.7%

Margins

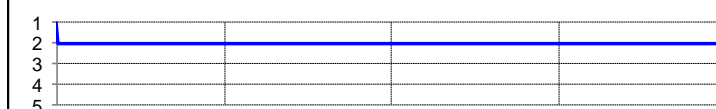
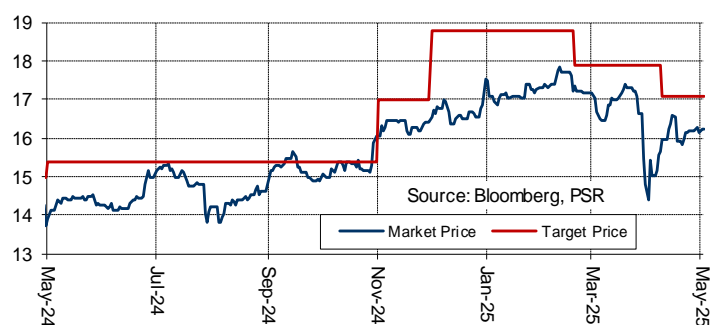
Net interest margin	1.91%	2.28%	2.20%	2.05%	2.00%
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Key Ratios

ROE	10.5%	13.6%	13.7%	13.2%	13.6%
ROA	1.2%	1.5%	1.5%	1.4%	1.5%
RORWA	2.3%	3.0%	3.2%	3.1%	3.2%
Non-int/total income ratio	31.9%	28.6%	32.6%	35.9%	38.0%
Cost/income ratio	44.5%	38.7%	39.7%	41.1%	41.2%
Loan/deposit ratio	83.3%	80.5%	80.7%	84.2%	86.4%
NPL ratio	1.1%	0.9%	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

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