

COMPANY RESULTS

Oversea-Chinese Banking Corp (OCBC SP)

2Q24: Steady Execution, Pristine Asset Quality

OCBC delivered a near-record net profit of S\$1,944m in 2Q24 (+14% yoy), supported by strong net trading income and lower credit costs. NPL formation was benign at S\$108m. Loan-loss coverage improved 24ppt yoy and 9ppt qoq to 156%, the highest among the local banks. OCBC benefits from FDI inflows to ASEAN as multinational companies seek to diversify their supply chains. OCBC provides an attractive dividend yield of 5.9% for 2025. Maintain BUY. Target price: S\$18.70.

RESULTS

- Oversea-Chinese Banking Corp (OCBC) reported a net profit of S\$1,944m for 2Q24 (up 14% yoy but down 2% qoq), above our forecast of S\$1,644m.
- Purchased government bonds to insulate against rate cuts.** NIM eased 7bp qoq to 2.20% in 2Q24 due to growth in lower-yielding high-quality assets. Average assets expanded 3% qoq (loan growth of 1% qoq plus the purchase of government bonds). OCBC has shifted its asset mix to prepare for an environment of lower interest rates. Net interest income grew 1.7% yoy and was flat qoq.
- Fees grew 8% yoy but receded 3% qoq in 2Q24.** Contribution from wealth management increased 17% yoy but eased 7% qoq. OCBC saw an increase in customer activities across all wealth channels. OCBC attracted net new money inflow of S\$6b in 2Q24. AUM increased by 2% yoy to S\$279b.
- Contributions from insurance normalised.** Contributions from life and general insurance expanded 13% yoy to S\$294m. Net trading income sustained growth at 14% yoy to S\$356m, driven by record customer flows.
- Improved cost efficiencies.** Operating expenses increased 3% yoy in 2Q24. Staff costs increased by 3% yoy due to annual salary increments and higher headcount to support strategic initiatives. Cost-to-income ratio was low at 37.8%, reflecting stringent cost discipline. OCBC recognised integration costs of S\$12m relating to the acquisition of PT Bank Commonwealth in Indonesia.
- Stable asset quality led to lower credit costs.** NPL formation was benign at S\$108m in 2Q24. NPL ratio improved 0.1ppt qoq 0.9%. Total provisions were S\$144m in 2Q24, down 15% qoq. There was a small write-back in general provisions of S\$10m. Loan-loss coverage improved 24ppt yoy and 9ppt qoq to 156% due to lower NPLs. Its loan-loss coverage is the highest among the local banks.
- Value creation from steady execution and delivering good results.** OCBC achieved ROE of 14.2% in 2Q24. CET-1 CAR eased 0.7ppt qoq to 15.5% due to the payment of final FY23 dividend and higher risk-weighted assets.
- The board declared an interim dividend of 44 S cents (+10% yoy), representing a dividend payout ratio of 50%.

KEY FINANCIALS

Year to 31 Dec (\$m)	2022	2023	2024F	2025F	2026F
Net interest income	7,688	9,645	9,806	10,017	10,428
Non-interest income	3,987	3,862	4,748	4,843	5,081
Net profit (rep./fact.)	5,748	7,021	7,560	7,418	7,737
Net profit (adj.)	5,748	7,021	7,560	7,418	7,737
EPS (S\$ cent)	126.5	154.7	166.7	163.6	170.7
PE (x)	11.7	9.6	8.9	9.1	8.7
P/B (x)	1.3	1.3	1.2	1.1	1.0
Dividend yield (%)	4.6	5.5	5.9	5.9	6.1
Net int margin (%)	1.9	2.3	2.2	2.2	2.2
Cost/income (%)	43.9	39.4	39.8	41.8	41.8
Loan loss cover (%)	114.5	151.1	154.2	153.8	154.5
Consensus net profit	-	-	7,310	7,353	7,525
UOBKH/Consensus (x)	-	-	1.03	1.01	1.03

Source: Oversea-Chinese Banking Corporation, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$14.82
Target Price	S\$18.70
Upside	+26.2%
(Previous TP)	S\$18.35

COMPANY DESCRIPTION

OCBC has a longstanding presence in Singapore and Malaysia and entered the Indonesian market through the acquisition of Bank NISP in 2004. It strengthened its presence in Greater China through the acquisition of Wing Hang Bank in 2014. OCBC owns 93% of life insurer Great Eastern and has a 20% stake in Bank of Ningbo.

STOCK DATA

GICS sector	Financials
Bloomberg ticker:	OCBC SP
Shares issued (m):	4,494.6
Market cap (S\$m):	66,610.6
Market cap (US\$m):	49,776.3
3-mth avg daily t'over (US\$m):	56.6

Price Performance (%)

52-week high/low S\$15.33/S\$12.21

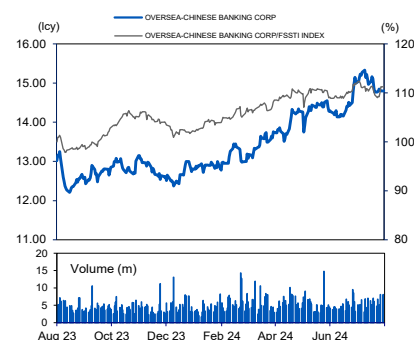
1mth	3mth	6mth	1yr	YTD
2.2	4.0	15.4	11.3	14.0

Major Shareholders

	%
Selat P/L	14.4
Lee Foundation	5.1

FY24 NAV/Share (S\$)	12.64
FY24 CAR Tier-1 (%)	16.53

PRICE CHART



Source: Bloomberg

ANALYST(S)

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STOCK IMPACT

- **Maintain guidance.** NIM is likely to hit the lower end of the guided 2.20-2.25% for 2024 given the interest rate outlook of two cuts for 2H24. Management expects a low single-digit loan growth. Credit costs are estimated at 20-25bp. ROE is expected to be 13-14%.
- **Management aims to deliver incremental revenue of S\$3b** cumulatively over 2023-25, driven by four growth pillars: a) capture rising Asian wealth, b) trade and investment flows between ASEAN and Greater China, c) high-growth new economy industries, and d) sustainable financing to drive transition to low-carbon. Management aims to deliver ROE of 12-13% with additional contribution of 1ppt from these strategic initiatives. OCBC achieved incremental revenue of S\$500m in 2023. It is on track to deliver incremental revenue of S\$1,000m for 2024.
- **Trying to take GEH private to reduce leakage.** At the close of the voluntary unconditional general offer (VGO) on 10 May 24, OCBC had increased its stake in Great Eastern Holdings (GEH) by 4.88% to 93.32%. The VGO was extended till 23 Oct 24 at the same terms under the offer at S\$25.60 (less interim dividend of S\$0.45 received). More shareholders have accepted the offer since the extension. GEH will remain listed but is suspended from trading. Management will explore stronger synergies between OCBC and GEH. It will consider returning surplus capital at GEH through dividends to OCBC.
- **OCBC has reduced its exposure to commercial real estate** by 1ppt qoq to 11% as of Jun 24. They are largely secured with average LTV at 50-60%. Management is of the opinion that commercial real estate in Hong Kong, which accounts for less than 3% of total loans, has entered a downcycle with rising vacancy. LTV for exposures to commercial real estate in Hong Kong is below 50% based on renewed valuations.
- **Sensitivity to rate cuts.** Each 1bp cut in interest rate for its four major currencies will lead to a reduction to net interest income of S\$4m on an annualised basis.
- **Strengthening funding franchise.** CASA ratio improved 2.6ppt yoy and 0.5ppt qoq to 47.9%. OCBC Digital app has helped the bank gather more CASA.

EARNINGS REVISION/RISK

- We raise our earnings forecast for 2025 by 1.9% due to higher net trading income and contribution from insurance business.

VALUATION/RECOMMENDATION

- **Maintain BUY.** Our target price of S\$18.70 is based on 1.40x 2025F P/B, derived from the Gordon Growth Model (ROE: 12.6%, COE: 9.0%, growth: 0.0%).

2024 RESULTS

Profit & Loss (S\$m)	2Q24	2Q23	yoy % Chg	UOBKH Estimate	Deviation (%)
Net Interest Income	2,430	2,389	1.7	2,445	-0.6
Fees & Commissions	466	430	8.4	499	-6.6
Insurance	294	262	12.2	240	22.5
Net Trading Income	356	262	35.9	220	61.8
Other Non-Interest Income	83	112	-25.9	75	10.7
Total Income	3,629	3,455	5.0	3,479	4.3
Operating Expenses	(1,397)	(1,355)	3.1	(1,400)	-0.2
PPOP	2,232	2,100	6.3	2,079	7.4
Provisions	(144)	(252)	-42.9	(165)	-12.6
Associates	243	250	-2.8	263	-7.4
PBT	2,331	2,098	11.1	2,176	7.1
Net Profit	1,944	1,710	13.7	1,830	6.2
EPS (S cents)	43.0	37.8	13.9	40.3	6.6
DPS (S cents)	44.0	40.0	10.0	42.0	4.8
BVPS (S\$)	12.29	11.33	8.5	12.19	0.8
Financial Ratios (%)	2Q24	2Q23	yoy Chg (ppt)	1Q24	qoq Chg (ppt)
NIM	2.20	2.26	-0.06	2.27	-0.07
Loan Growth, yoy	2.2	-0.2	2.4	2.3	-0.1
Deposit Growth, yoy	-0.7	6.8	-7.5	0.8	-1.5
Loan/Deposit Ratio	81.1	78.8	2.3	80.3	0.8
Cost/Income Ratio	37.8	38.5	-0.7	37.1	0.7
ROE	14.2	13.5	0.7	14.7	-0.5
NPL Ratio	0.9	1.1	-0.2	1.0	-0.1
Credit Costs (bp)	15	31	-16	16	-1
Loan Loss Coverage	155	131	24	146	9
CET-1 CAR	15.5	15.4	0.1	16.2	-0.7

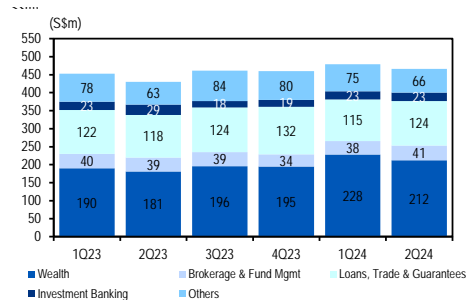
Source: OCBC, UOB Kay Hian

KEY ASSUMPTIONS

	2022	2023	2024F	2025F	2026F
Loan Growth (%)	1.8	0.4	4.9	4.9	4.8
NIM (%)	1.91	2.28	2.23	2.17	2.16
Fees, % Chg	(17.6)	(2.5)	10.6	7.4	7.4
NPL Ratio (%)	1.15	0.95	0.94	0.95	0.97
Credit Costs (bp)	20.0	24.8	21.5	22.1	22.1
Net Profit (S\$m)	5,748	7,021	7,590	7,478	7,797
% Chg	18.3	22.2	8.1	(1.5)	4.3

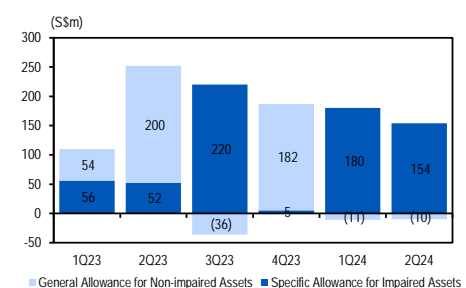
Source: UOB Kay Hian

FEE INCOME



Source: OCBC

TOTAL ALLOWANCE ON LOANS



Source: OCBC

PROFIT & LOSS

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
Interest income	20,867	22,609	22,175	22,531
Interest expense	(11,222)	(12,803)	(12,157)	(12,103)
Net interest income	9,645	9,806	10,017	10,428
Fees & commissions	1,804	1,995	2,143	2,301
Other income	2,058	2,753	2,700	2,780
Non-interest income	3,862	4,748	4,843	5,081
Total income	13,507	14,555	14,860	15,510
Staff costs	(3,501)	(3,804)	(4,031)	(4,208)
Other operating expense	(1,825)	(1,985)	(2,177)	(2,269)
Pre-provision profit	8,181	8,766	8,651	9,033
Loan loss provision	(733)	(653)	(706)	(740)
Other provisions	0	0	0	0
Associated companies	953	919	946	975
Pre-tax profit	8,401	9,031	8,892	9,267
Tax	(1,262)	(1,308)	(1,334)	(1,390)
Minorities	(118)	(164)	(140)	(140)
Net profit	7,021	7,560	7,418	7,737
Net profit (adj.)	7,021	7,560	7,418	7,737

BALANCE SHEET

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
Cash with central bank	34,286	38,614	40,581	42,648
Govt treasury bills & securities	45,630	46,149	48,501	50,971
Interbank loans	38,051	37,573	39,410	41,336
Customer loans	292,754	307,179	322,088	337,706
Investment securities	36,591	43,413	45,625	47,949
Derivative receivables	12,976	14,022	14,736	15,487
Associates & JVs	7,003	7,720	8,194	8,681
Fixed assets (incl. prop.)	4,251	4,229	4,229	4,229
Other assets	109,882	112,831	118,230	124,014
Total assets	581,424	611,731	641,593	673,022
Interbank deposits	10,884	13,732	14,403	15,107
Customer deposits	363,770	377,269	395,706	415,045
Derivative payables	13,720	13,572	14,263	14,990
Debt equivalents	26,553	32,304	32,304	32,304
Other liabilities	110,943	114,991	121,621	128,571
Total liabilities	525,870	551,868	578,297	606,017
Shareholders' funds	54,170	58,533	61,912	65,565
Minority interest - accumulated	1,384	1,330	1,384	1,440
Total equity & liabilities	581,424	611,731	641,593	673,022

OPERATING RATIOS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
Capital Adequacy				
Tier-1 CAR	16.5	16.5	16.6	16.8
Total CAR	18.1	18.2	18.2	18.3
Total assets/equity (x)	8.9	8.7	8.7	8.6
Tangible assets/tangible common equity (x)	9.7	9.4	9.2	9.1
Asset Quality				
NPL ratio	0.9	0.9	1.0	1.0
Loan loss coverage	151.1	154.2	153.8	154.5
Loan loss reserve/gross loans	1.3	1.3	1.4	1.4
Increase in NPLs	(17.1)	4.0	6.9	6.4
Credit cost (bp)	24.8	21.5	22.1	22.1
Liquidity				
Loan/deposit ratio	81.5	82.5	82.5	82.5
Liquid assets/short-term liabilities	31.5	31.3	31.3	31.4
Liquid assets/total assets	24.4	23.9	24.0	24.0

KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
Growth				
Net interest income, yoy chg	25.5	1.7	2.1	4.1
Fees & commissions, yoy chg	(2.5)	10.6	7.4	7.4
Pre-provision profit, yoy chg	25.0	7.1	(1.3)	4.4
Net profit, yoy chg	22.2	7.7	(1.9)	4.3
Net profit (adj.), yoy chg	22.2	7.7	(1.9)	4.3
Customer loans, yoy chg	0.4	4.9	4.9	4.8
Customer deposits, yoy chg	3.9	3.7	4.9	4.9
Profitability				
Net interest margin	2.3	2.2	2.2	2.2
Cost/income ratio	39.4	39.8	41.8	41.8
Adjusted ROA	1.5	1.5	1.4	1.4
Reported ROE	13.1	13.4	12.3	12.1
Adjusted ROE	13.1	13.4	12.3	12.1
Valuation				
P/BV (x)	1.3	1.2	1.1	1.0
P/NTA (x)	1.4	1.3	1.2	1.1
Adjusted P/E (x)	9.6	8.9	9.1	8.7
Dividend Yield	5.5	5.9	5.9	6.1
Payout ratio	53.0	52.8	53.8	52.7

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