

OCBC Bank (OCBC SP)

Delivering, but need clarity

Good execution, but need more clarity on capital

OCBC's 9M24 core-earnings were ahead of MIBG/Street. Noll is making a strong recovery on a combination of solid trading income and fees. Structurally, these are set to see further growth. Similarly, a stronger loan pipeline and NIM hedging should see NII supported. Disappointingly, Management is vague on capital returns to shareholders, whereas peers are articulating clearer and more aggressive strategies. This could be an overhang for the stock. Raise TP to SGD17.89. While we maintain BUY, our relative preference is UOB given a clearer pathway for capital returns.

Noll moving in the right direction

3Q24 Noll has recovered to contribute 36% of total income vs. 28% a year ago. Trading was a big share, with the bank's own trading rising 29x YoY. Given market volatility, some of this momentum should carry through to 4Q, we think. Importantly, 3Q24 wealth management improved +25% YoY and trading customer flow increased +46% YoY showing increased client risk taking. The current positive market momentum, should drive market-gains at GE. We raise 2024-26E Noll assumptions by 3-4%.

Some protection for NII downside

NIMs saw a -2bps retreat QoQ, which is lower than expected. OCBC has been deploying assets to low-risk, low-yield instruments to hedge falling rates. With the potential for higher-for-longer interest rates under a new Trump administration, there could be upside risks to NII. Concurrently, Management is seeing a pick-up in loan activities, especially in ASEAN. Improving loan growth, could provide more offsets for margin weakness.

Vague capital returns an overhang. Maintain BUY

OCBC is aiming for a medium term CET1 of 14% vs. the current 17.2% from BASEL4 transitional uplift. CET1 should be 15.6% when BASEL4 is fully phased. This implies around SGD4bn-7bn of excess capital. In contrast to DBS and UOB, who are articulating clear pathways for capital returns through more dividends and share buybacks, OCBC has been vague. Management claims a preference for dividends over share buybacks, but without a clear indication of how much higher this could be above its 50% payout guidance. This uncertainty could be an overhang for the stock, we think. We have generously raised 2024-26E DPS assumptions by 2-4% given strong operational performance. Our multi-stage DDM (COE 8.4%, 3% terminal) TP is raised to SGD17.89 from SGD17.01. Maintain BUY.

FYE Dec (SGD m)	FY22A	FY23A	FY24E	FY25E	FY26E
Operating income	11,675	13,507	14,338	14,933	15,532
Pre-provision profit	6,545	8,181	8,811	9,128	9,416
Core net profit	5,748	7,021	7,721	8,068	8,356
Core EPS (SGD)	1.3	1.6	1.7	1.8	1.9
Core EPS growth (%)	18.2	22.2	10.0	4.5	3.6
Net DPS (SGD)	0.7	0.8	0.9	1.0	1.0
Core P/E (x)	9.5	8.3	9.3	8.9	8.6
P/BV (x)	1.0	1.1	1.2	1.2	1.1
Net dividend yield (%)	5.6	6.3	5.7	6.0	6.1
Book value (SGD)	11.81	12.05	12.96	13.89	14.86
ROAE (%)	11.2	13.5	14.0	13.7	13.2
ROAA (%)	1.0	1.2	1.3	1.3	1.3
Consensus net profit	-	-	7,577	7,460	7,608
MIBG vs. Consensus (%)	-	-	1.9	8.2	9.8

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BUY

Share Price	SGD 16.06
12m Price Target	SGD 17.89 (+11%)
Previous Price Target	SGD 17.01

Statistics

52w high/low (SGD)	16.06/12.37
3m avg turnover (USDm)	63.6
Free float (%)	72.3
Issued shares (m)	4,257
Market capitalisation	SGD68.4B
	USD51.8B

Major shareholders:

LEE FAMILY / OCBC/	21.9%
Lee Foundation	4.3%
The Vanguard Group, Inc.	2.1%

Price Performance



	-1M	-3M	-12M
Absolute (%)	8	13	23
Relative to index (%)	5	0	5

Source: FactSet

Glossary

NII - Net interest income
Noll - Non-interest income
NIM - Net interest margin

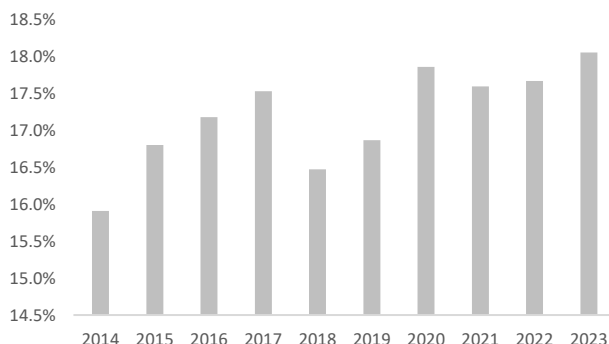
Companies mentioned

Great Eastern (GE SP, Suspended)
DBS (DBS SP, SGD42.40, BUY, TP: SGD46.91)
UOB (UOB SP, SGD35.69, BUY, TP: SGD38.75)

Value Proposition

- Second-largest Singapore bank by assets. Present in Malaysia, Indonesia and Greater China.
- Acquired ING’s Asia Private Bank and Barclays’s wealth units in HK and Singapore to build up wealth management.
- 87.8%-owned subsidiary Great Eastern is a leader in Singapore life insurance.
- Bought Wing Hang Bank (WHB) in HK in 2014 to strengthen its presence in Pearl River Delta. Execution risks remain due to fierce competition
- Strongest capital levels amongst the local banks

OCBC CAR (%)

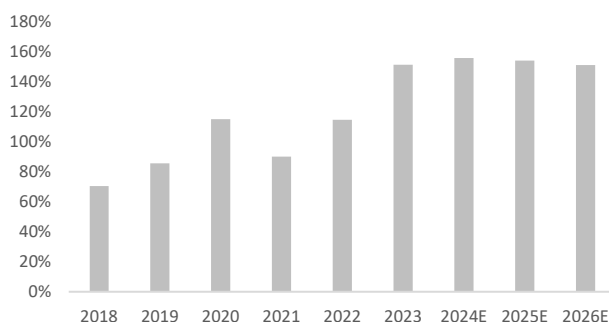


Source: Company

Financial Metrics

- NIMs are set to decelerate by falling -3bps YoY in 2024E following a strong +37bps increase in 2023 as rate cuts and deposit competition takes shape
- NPLs should be benign with limited sectoral stress so far. Expect this to remain flat at 1.0% in 2024-26E
- Credit charges expected to fall to 20bps in 2024E following 25bps in 2023. However, there are downside risks from commercial real estate exposure
- Overall ROEs should strengthen to 13.35% on average in 2024-26E from strategic plan execution. Upside risks exists

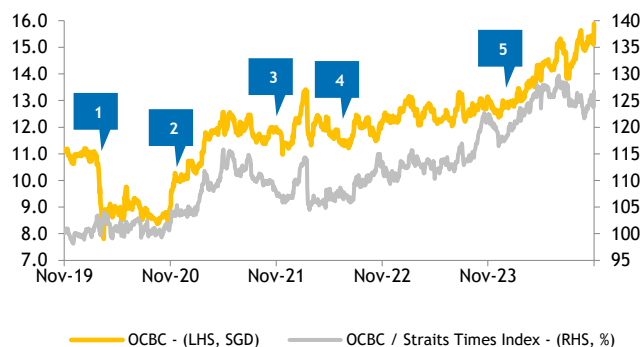
Provisioning cover



Source: Company

Price Drivers

Historical share price trend



Source: Company, Maybank IBG Research

1. Start of the Covid-19 pandemic
2. Vaccine optimism driven recovery
3. Fed rate hike expectations
4. Rising inflation, rates driven worries on growth
5. Expectations from higher for longer interest rates, supporting NIMs

Swing Factors

Upside

- Execution of ‘One Group’ strategic plan could drive upside to ROEs in the medium term
- Better than expected recovery in North Asia should drive better loan volume and margin outlook
- Accretive acquisitions in the banking, wealth or insurance space in focus markets

Downside

- Increasing macro-volatility resulting in faster than expected asset quality and investment holding declines
- Potential IT system breakdowns or cyberattacks leading to regulatory sanctions
- Slower pick up in wealth management could drive weaker fees

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3Q24 Results Summary

Fig 1: 3Q24 results summary

SGDm	3Q24	3Q23	YoY (%)	2Q24	QoQ (%)	Comments
Net interest income	2,433	2,456	(1)	2,430	0	Growth remains flat due to NIM compression and transition of liquidity to higher-quality lower yield assets
Non-interest income	1,369	973	41	1,199	14	Driven by strong contribuion in wealth management fees along with stronger markets trading income.
Total income	3,802	3,429	11	3,629	5	
Total expenses	(1,463)	(1,340)	9	(1,373)	7	Expense increase due to higher business volumes and on-going IT costs of digitalization initiatives
Profit before allowances (PPOP)	2,339	2,343	(0)	2,256	4	
Allowances for credit and other losses	(169)	(184)	(8)	(144)	17	Increased GP due to one account in Hong Kong NPL, idiosyncratic in a nature. Cautious of weak HK property sector.
Associates	251	254	(1)	243	3	
Profit before tax	2,414	2,133	13	2,333	3	
Core Net Profit	1,974	1,810	9	1,944	2	78% of MIBG/Street 2024E forecasts
Reported Net profit	1,974	1,810	9	1,944	2	
NIM (Reported) %	2.18%	2.27%	(9)	2.20%	(2)	Decline due to higher funding costs which outpaced asset yields. Movement of liquidity to higher quality lower yield assets also contributed.
Cost/ income ratio	38.5%	39.1%	(60)	37.8%	70	Opex remain relatively within expected levels, QoQ increase driven by higher staff compensation from increased business volumes
Net Loans	301,285	299,831	0.5	299,980	0.4	YoY growth led by increase in corporate loans, mortgages and sustainable financing loans. Low single digit growth expected to remain
Deposits	369,280	372,462	(0.9)	369,835	(0.2)	Expect CASA ratio to improve moving forward, with launch of digital account opening services for clientele overseas , while fixed deposit to decrease.
Gross NPL (%)	0.9%	1.1%	(20)	0.9%	-	Improvement driven by higher recoveries/upgrades and write offs.

Source: Company Data, Maybank IBG Research

Key Assumption Changes

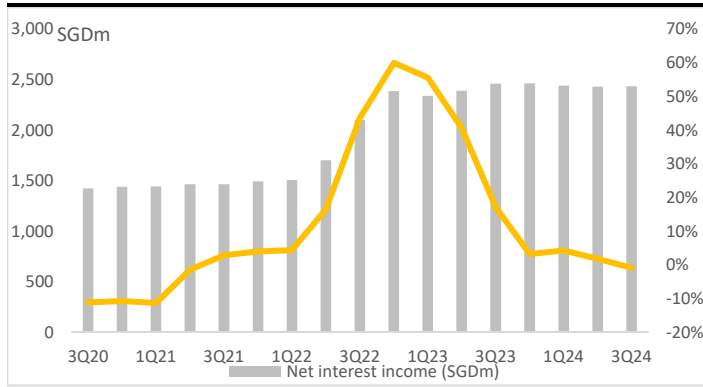
Fig 2: Key assumption changes

	2024E			2025E			2026E		
	Old	New	% Change	Old	New	% Change	Old	New	% Change
Net Interest Income	9,921	9,924	0%	10,423	10,425	0%	10,878	10,875	0%
Non-interest income	4,263	4,414	4%	4,354	4,508	4%	4,501	4,657	3%
Total Income	14,184	14,338	1%	14,778	14,933	1%	15,378	15,532	1%
Total Expenses	(5,527)	(5,527)	0%	(5,806)	(5,806)	0%	(6,116)	(6,116)	0%
PPOP	8,657	8,811	2%	8,972	9,128	2%	9,262	9,416	2%
Allowance for credit and other losses	(595)	(595)	0%	(603)	(603)	0%	(577)	(577)	0%
PBT	9,034	9,188	2%	9,360	9,516	2%	9,697	9,850	2%
Core-Net Profit	7,589	7,721	2%	7,934	8,068	2%	8,224	8,356	2%
NIM	2.18%	2.18%	0	2.21%	2.22%	0	2.23%	2.23%	(0)
Gross Loans	306,575	309,427	1%	327,630	329,832	1%	347,677	350,201	1%
Deposits	374,538	374,538	0%	385,868	385,868	0%	397,803	397,803	0%
Gross NPL (%)	0.97%	0.96%	-1%	0.97%	0.96%	(0)	0.98%	0.97%	(0)

Source: Maybank IBG Research

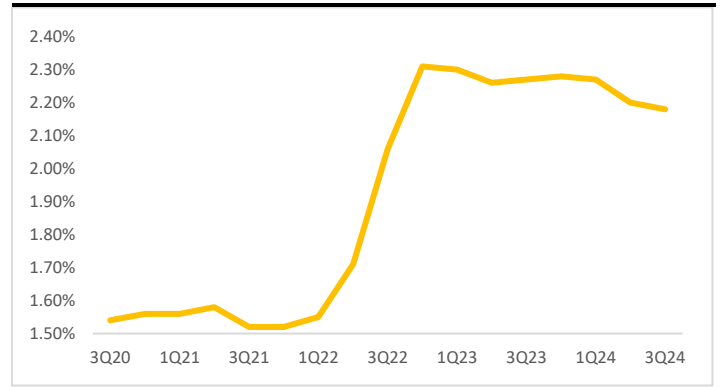
Focus Charts

Fig 3: Net Interest Income YoY (%)



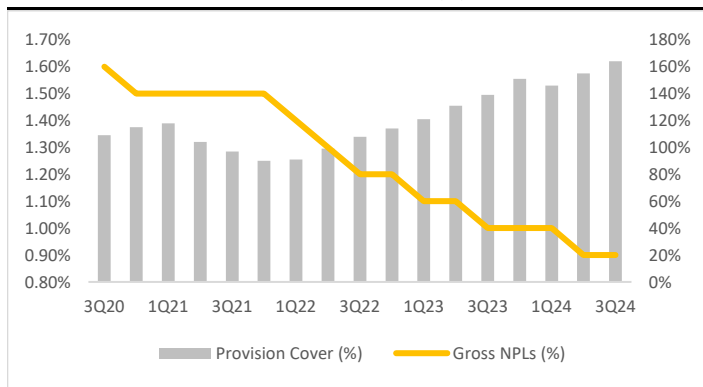
Source: Company Data, Maybank IBG Research

Fig 4: Net Interest Margin (%)



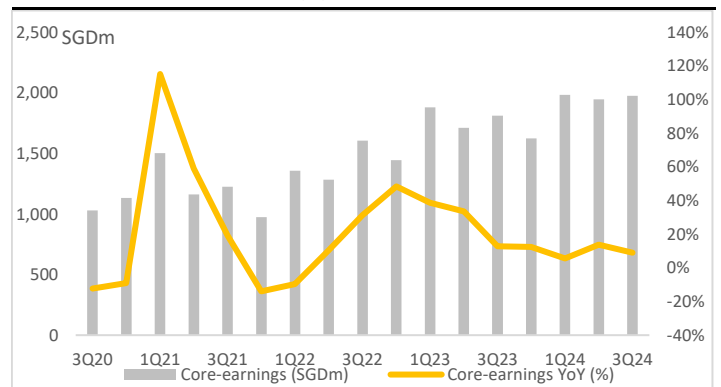
Source: Company Data, Maybank IBG Research

Fig 5: Gross NPLs and provision cover (%)



Source: Company Data, Maybank IBG Research

Fig 6: Core-earnings YoY (%)



Source: Company Data, Maybank IBG Research

Detailed Assumptions

Fig 7: Detailed assumptions

	2019	2020	2021	2022	2023	2024E	2025E	2026E
Balance Sheet								
Loan growth y-o-y (%)	3%	1%	8%	2%	1%	4%	7%	6%
Corporate Loan growth y-o-y (%)	6%	3%	8%	4%	1%	4%	7%	6%
Consumer Loan growth y-o-y (%)	-3%	-2%	9%	-2%	-1%	4%	7%	6%
Deposit growth y-o-y (%)	3%	4%	9%	2%	4%	3%	3%	3%
CASA Deposit growth y-o-y (%)	7%	30%	14%	-16%	-2%	4%	5%	3%
Cash and balances with central banks as a % of Deposits	8%	8%	8%	10%	9%	10%	8%	7%
Loan to Deposit Ratio (%)	87.4%	84.9%	84.6%	84.3%	81.5%	82.6%	85.5%	88.0%
Profit & Loss								
Net Interest Margin - Adjusted (%)	1.70%	1.55%	1.46%	1.84%	2.21%	2.18%	2.22%	2.23%
Net Interest income growth y-o-y (%)	7.5%	-5.8%	-1.9%	31.3%	25.5%	2.9%	5.1%	4.3%
Non-interest income growth y-o-y (%)	19.1%	-8.1%	13.6%	-15.9%	-3.1%	14.3%	2.1%	3.3%
PPOP growth y-o-y (%)	13.7%	-8.6%	2.4%	14.2%	25.0%	7.7%	3.6%	3.2%
PBT growth y-o-y (%)	4.5%	-28.2%	36.4%	22.2%	21.1%	9.4%	3.6%	3.5%
Cost to Income Ratio (%)	43.7%	44.8%	45.9%	43.9%	39.4%	38.5%	38.9%	39.4%
Dividend Payout on core-profits (%)	48%	40%	49%	53%	52%	53%	54%	53%
Asset Quality								
Gross NPL (%)	1.5%	1.5%	1.5%	1.2%	1.0%	1.0%	1.0%	1.0%
Provision coverage (GP+SP+RLAR/NPA) (%)	86%	115%	90%	114%	151%	156%	154%	151%
Credit charge (Allowance for credit losses/gross loans) (%)	0.34%	0.77%	0.31%	0.20%	0.25%	0.20%	0.19%	0.17%
NPA growth y-o-y (%)	-1.4%	3.1%	8.3%	-19.6%	-16.8%	2.6%	6.7%	6.8%
Capital								
CET1 ratio (%)	14.9%	15.2%	15.5%	15.2%	15.9%	15.7%	14.8%	14.9%
Tier-1 ratio (%)	15.6%	15.8%	16.0%	15.9%	16.5%	16.2%	15.3%	15.4%
Total Capital ratio (%)	16.9%	17.9%	17.6%	17.7%	18.1%	17.7%	16.6%	16.6%

Source: Company Data, Maybank IBG Research

FYE 31 Dec	FY22A	FY23A	FY24E	FY25E	FY26E
Key Metrics					
Core P/E (x)	9.5	8.3	9.3	8.9	8.6
Core FD P/E (x)	9.5	8.3	9.3	8.9	8.6
P/BV (x)	1.0	1.1	1.2	1.2	1.1
P/NTA (x)	1.1	1.2	1.3	1.2	1.2
Net dividend yield (%)	5.6	6.3	5.7	6.0	6.1
INCOME STATEMENT (SGD m)					
Interest income	11,590.0	20,867.0	21,498.0	22,366.2	23,163.0
Interest expense	(3,902.0)	(11,222.0)	(11,574.0)	(11,940.7)	(12,288.1)
Net interest income	7,688.0	9,645.0	9,924.0	10,425.4	10,874.9
Net insurance income	1,189.0	808.0	1,010.0	979.7	999.3
Net fees and commission	1,851.0	1,804.0	1,894.2	1,988.9	2,088.4
Other income	947.0	1,250.0	1,509.7	1,539.4	1,569.6
Total non-interest income	3,987.0	3,862.0	4,413.9	4,508.0	4,657.3
Operating income	11,675.0	13,507.0	14,337.9	14,933.4	15,532.1
Staff costs	(3,233.0)	(3,501.0)	(3,571.0)	(3,642.4)	(3,715.3)
Other operating expenses	(1,897.0)	(1,825.0)	(1,955.9)	(2,163.3)	(2,401.2)
Operating expenses	(5,130.0)	(5,326.0)	(5,526.9)	(5,805.8)	(6,116.5)
Pre-provision profit	6,545.0	8,181.0	8,811.0	9,127.6	9,415.7
Loan impairment allowances	(584.0)	(733.0)	(595.4)	(603.4)	(576.6)
Other allowances	0.0	0.0	0.0	0.0	0.0
Associates & JV income	978.0	953.0	972.1	991.5	1,011.3
Pretax profit	6,939.0	8,401.0	9,187.6	9,515.7	9,850.4
Income tax	(1,057.0)	(1,236.0)	(1,351.7)	(1,332.2)	(1,379.1)
Minorities	(134.0)	(144.0)	(115.2)	(115.2)	(115.2)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	5,748.0	7,021.0	7,720.7	8,068.3	8,356.2
Core net profit	5,748.0	7,021.0	7,720.7	8,068.3	8,356.2
BALANCE SHEET (SGD m)					
Cash & deposits with banks	65,210.0	72,337.0	70,991.0	64,277.0	62,324.4
Sec. under resale agreements	0.0	0.0	0.0	0.0	0.0
Derivatives financial assets	15,605.0	12,976.0	12,976.0	12,976.0	12,976.0
Dealing securities	0.0	0.0	0.0	0.0	0.0
Available-for-sale securities	0.0	0.0	0.0	0.0	0.0
Investment securities	67,377.0	82,221.0	86,378.7	88,982.2	87,720.3
Loans & advances	291,467.0	292,754.0	305,280.7	325,433.9	345,576.2
Central bank deposits	0.0	0.0	0.0	0.0	0.0
Investment in associates/JVs	6,340.0	7,003.0	7,003.0	7,003.0	7,003.0
Insurance assets	0.0	0.0	0.0	0.0	0.0
Fixed assets	4,246.0	4,251.0	4,256.0	4,261.0	4,266.0
Intangible assets	4,643.0	4,501.0	4,501.0	4,501.0	4,501.0
Other assets	105,068.0	105,381.0	106,434.8	107,499.2	108,574.2
Total assets	559,956.0	581,424.0	597,821.1	614,933.2	632,941.2
Deposits from customers	350,081.0	363,770.0	374,538.1	385,867.7	397,803.1
Deposits from banks & FIs	10,046.0	10,884.0	11,101.7	11,323.7	11,550.2
Derivatives financial instruments	16,048.0	13,720.0	13,720.0	13,720.0	13,720.0
Subordinated debt	3,484.0	0.0	0.0	0.0	0.0
Other securities in issue	0.0	0.0	0.0	0.0	0.0
Other borrowings	18,454.0	26,553.0	27,880.7	29,274.7	30,738.4
Insurance liabilities	0.0	0.0	0.0	0.0	0.0
Other liabilities	107,175.0	110,943.0	110,943.0	110,943.0	110,943.0
Total liabilities	505,288.0	525,870.0	538,183.4	551,129.1	564,754.7
Share capital	18,048.0	18,045.0	18,045.0	18,045.0	18,045.0
Reserves	33,343.0	34,877.0	38,960.7	43,127.1	47,509.5
Shareholders' funds	51,391.0	52,922.0	57,005.7	61,172.1	65,554.5
Preference shares	1,696.0	1,248.0	1,248.0	1,248.0	1,248.0
Minority interest	1,581.0	1,384.0	1,384.0	1,384.0	1,384.0
Total equity	54,668.0	55,554.0	59,637.7	63,804.1	68,186.5
Total liabilities & equity	559,956.0	581,424.0	597,821.1	614,933.2	632,941.2

FYE 31 Dec	FY22A	FY23A	FY24E	FY25E	FY26E
Key Ratios					
Growth (%)					
Net interest income	31.3	25.5	2.9	5.1	4.3
Non-interest income	(15.9)	(3.1)	14.3	2.1	3.3
Operating expenses	5.4	3.8	3.8	5.0	5.4
Pre-provision profit	14.2	25.0	7.7	3.6	3.2
Core net profit	18.3	22.1	10.0	4.5	3.6
Gross loans	1.8	0.6	4.3	6.6	6.2
Customer deposits	2.2	3.9	3.0	3.0	3.1
Total assets	3.3	3.8	2.8	2.9	2.9
Profitability (%)					
Non-int. income/Total income	34.1	28.6	30.8	30.2	30.0
Average lending yields	2.78	4.79	4.73	4.75	4.75
Average cost of funds	1.04	2.87	2.84	2.84	2.84
Net interest margin	1.84	2.21	2.18	2.22	2.23
Net income margin	49.23	51.98	53.85	54.03	53.80
Cost/income	43.9	39.4	38.5	38.9	39.4
Liquidity (%)					
Loans/customer deposits	83.3	80.5	81.5	84.3	86.9
Asset quality (%)					
Net NPL	(0.0)	(0.4)	(0.4)	(0.4)	(0.4)
Gross NPL	1.2	1.0	1.0	1.0	1.0
Net NPF	0.0	0.0	0.0	0.0	0.0
(SP+GP)/average gross loans	0.2	0.2	0.2	0.2	0.2
Loan loss coverage	114.5	151.1	155.5	153.8	150.8
Capital adequacy (%)					
CET1	15.2	15.9	15.7	14.8	14.9
Tier 1 capital	15.9	16.5	16.2	15.3	15.4
Risk-weighted capital	17.7	18.1	17.7	16.6	16.6
Returns (%)					
ROAE	11.2	13.5	14.0	13.7	13.2
ROAA	1.0	1.2	1.3	1.3	1.3
Shareholders equity/assets	9.2	9.1	9.5	9.9	10.4

Source: Company; Maybank IBG Research

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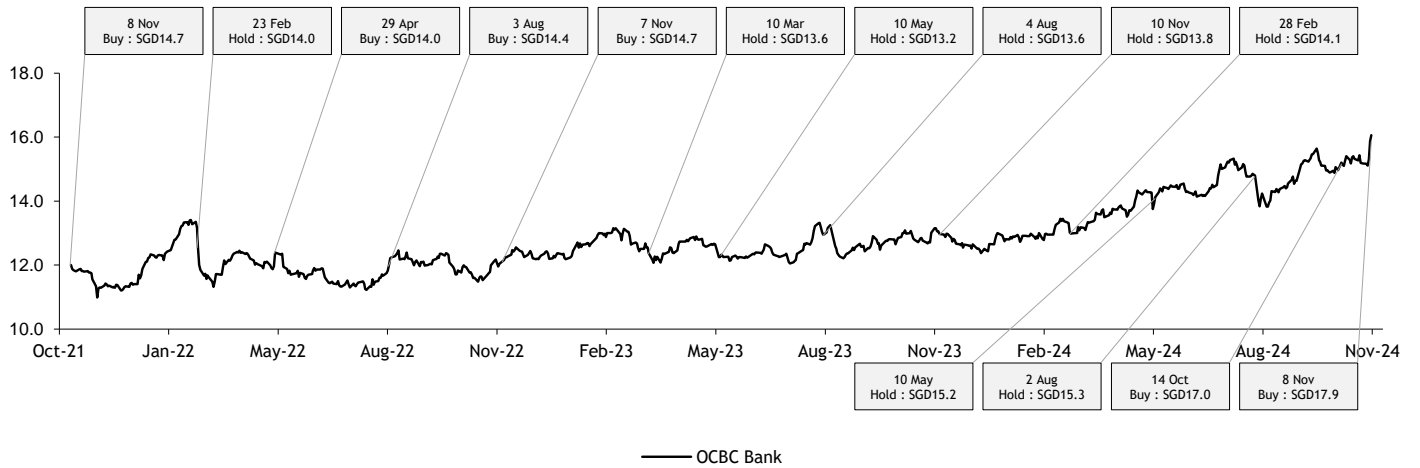
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