

## COMPANY RESULTS

### Oversea-Chinese Banking Corp (OCBC SP)

2Q23: Delivers Resilient Earnings And Promised Dividend Payout

OCBC delivered earnings growth of 34% yoy, powered by NIM expansion of 55bp yoy. Loan loss coverage improved 10ppt qoq to 131% after setting aside hefty general provisions of S\$200m. Interim dividend increased 43% yoy to 40 S cents. Management is comfortable with lower CET-1 CAR of 14.0% and will consider capital management, including special dividends. OCBC provides attractive dividend yield of 5.8%/6.1% for 2023/24. Maintain BUY. Target price: S\$18.22.

#### RESULTS

- Oversea-Chinese Banking Corp (OCBC) reported net profit of S\$1,710m for 2Q23 (up 34% yoy but down 9% qoq), which is in line with our forecast of S\$1,722m.
- Resilient NIM drives growth in net interest income.** NIM eased 4bp qoq to 2.26% as higher loan yields were offset by the rise in funding cost. Net interest income increased by 40% yoy, driven by NIM expansion of 55bp yoy. Loans expanded 2% yoy and 0.3% qoq on constant currency terms. On a qoq basis, loans growth was driven by Singapore (+2.7% qoq) and rest of the world (Australia, UK and US) (+2.9% qoq).
- Fees down 10% yoy and 5% qoq.** Wealth management fees dipped 16% yoy and 5% qoq due to subdued customer activities as market sentiment remains fragile. OCBC attracted net new money of S\$6b in 2Q23 and AUM increased 10% yoy to S\$274b. Loan-related fees also receded 4% yoy.
- New accounting standard reduces volatility of contributions from insurance.** Great Eastern adopted SFRS (I) 17 on 1 Jan 23, whereby mark-to-market for insurance assets and liabilities were moved to fair value through other comprehensive income (FVOCI) (direct to balance sheet). Contributions from insurance normalised at S\$262m in 2Q23, representing an increase of 26% yoy and 9% qoq.
- Operating expenses were tightly controlled** and increased slightly by 2% yoy in 2Q23. Staff costs increased 10% yoy but other expenses were cut by 22% yoy. Cost-to-income ratio (CIR) was healthy and stable at 38.5%.
- Sizeable general provisions improved loan loss coverage by 10ppt qoq.** NPL balance eased 2% qoq in 2Q23 due to upgrades and recoveries from Singapore, Malaysia and Indonesia. NPL ratio was unchanged at 1.1%. OCBC incurred sizeable general provisions of S\$200m due to risk migration, including commercial real estate in developed markets, and changes to macro-economic variables. Credit costs were elevated at 31bp in 2Q23 but loan loss coverage improved 10ppt qoq to 131%.
- Delivering committed payout.** The board has declared interim dividend of 40 S cents, an increase of 43% yoy and in accordance with payout ratio at 50%.

#### KEY FINANCIALS

Year to 31 Dec (S\$m)	2021	2022	2023F	2024F	2025F
Net interest income	5,855	7,688	9,632	9,868	9,848
Non-interest income	4,741	3,987	4,009	3,942	4,102
Net profit (rep./act.)	4,858	5,748	7,054	7,200	7,312
Net profit (adj.)	4,858	5,748	7,054	7,200	7,312
EPS (S\$ cent)	107.9	127.9	157.3	160.6	163.1
PE (x)	12.1	10.2	8.3	8.1	8.0
P/B (x)	1.1	1.1	1.1	1.0	1.0
Dividend yield (%)	4.1	5.2	5.8	6.1	6.1
Net int margin (%)	1.5	1.9	2.3	2.2	2.1
Cost/income (%)	45.9	43.9	40.4	41.0	41.0
Loan loss cover (%)	90.0	114.5	120.2	112.2	114.2
Consensus net profit	-	-	6,999	6,980	7,202
UOBKH/Consensus (x)	-	-	1.01	1.03	1.02

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

## BUY

(Maintained)

Share Price	S\$13.04
Target Price	S\$18.22
Upside	+39.7%
(Previous TP)	S\$17.50)

#### 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 88% 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):	4,495.0
Market cap (S\$m):	58,614.4
Market cap (US\$m):	43,654.1
3-mth avg daily t'over (US\$m):	42.7

#### Price Performance (%)

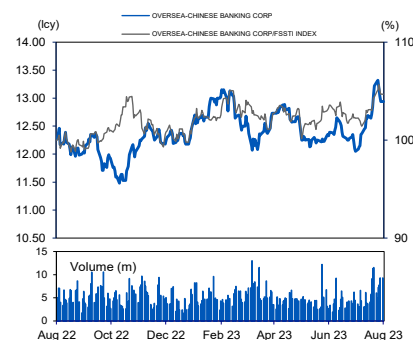
52-week high/low			S\$13.32/S\$11.48	
1mth	3mth	6mth	1yr	YTD
5.9	3.2	0.3	8.8	7.1

#### Major Shareholders

	%
Selat P/L	14.4
Lee Foundation	5.1

FY23 NAV/Share (S\$)	11.75
FY23 CAR Tier-1 (%)	15.18

#### PRICE CHART



Source: Bloomberg

#### ANALYST(S)

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### STOCK IMPACT

- **Management guided low to mid single-digit loan growth for 2023**, driven by: a) cross-border flows between ASEAN and China, b) build-up of supply chain in ASEAN, and c) supporting network customers' overseas expansion in energy, utilities, accommodation and digital infrastructure. OCBC sees strong momentum from sustainable finance and is close to reaching its target of S\$50b by 2023, two years ahead of schedule. CIR is expected to be at the lower end of the 40-45% range. Credit costs are estimated at 20bp (previous: 15-20bp). Management targets to achieve ROE of 14% for 2023 (previous: above 12%).
- **Management guided NIM of above 2.2% for 2023** (previous: 2.2%). Management expects one more rate hike in 2H23. Exit NIM was 2.26% in Jun 23 and management expects NIM to be stable in 2H23 compared to 2Q23.
- **Refreshed strategy to deliver incremental S\$3b revenue**. Management aims to deliver incremental revenue of S\$3b cumulatively over 2023-25, driven by four growth pillars: a) Asian wealth, b) trade and investment flows, c) new economy, and d) sustainability. Management aims to deliver ROE of 12-13% with additional contribution of 1ppt from the incremental revenue of S\$3b.
- **Exposure to the office sector** accounted for 14% of total loans. These office loans are mostly secured with low average loan-to-value ratio of 50-60%. Two-thirds are to key markets Singapore, Malaysia, Indonesia and Greater China. Office loans to developed markets, including Australia, the UK and the US, accounted for 4.2% of total loans and are largely to network customers with strong sponsors. Office loans for the US accounted for 0.8% of total loans and are mostly secured to Grade A office properties.
- **Capital management on the cards**. CET-1 CAR eased 0.5ppt qoq to 15.4% after paying the final dividend of 40 S cents/share for 2022. OCBC is comfortable with CET-1 CAR receding lower to 14.0% over the short to medium term (3-5 years). Management will consider all options for capital management, including rewarding shareholders with special dividends.

### EARNINGS REVISION/RISK

- We raised our earnings forecast by 3% for 2023 after factoring in higher NIM for 2H23.

### VALUATION/RECOMMENDATION

- **Maintain BUY**. Our target price of S\$18.22 is based on 1.45x 2024F P/B, derived from the Gordon Growth Model (ROE: 13.1%, COE: 9.0%, growth: 0.0%).

### 2023 RESULTS

Profit & Loss (\$m)	2023	2022	yoy % Chg	UOBKH Estimate	Deviation (%)
Net Interest Income	2,389	1,700	40.5	2,290	4.3
Fees & Commissions	430	477	-9.9	457	-5.8
Insurance	262	208	26.0	230	13.9
Net Trading Income	262	267	-1.9	180	45.6
Other Non-Interest Income	112	12	833.3	60	86.7
Total Income	3,455	2,664	29.7	3,217	7.4
Operating Expenses	(1,355)	(1,331)	1.8	(1,279)	5.9
PPOP	2,100	1,333	57.5	1,937	8.4
Provisions	(252)	(72)	250.0	(147)	71.1
Associates	250	245	2.0	262	-4.6
PBT	2,098	1,506	39.3	2,052	2.2
Net Profit	1,710	1,281	33.5	1,722	-0.7
EPS (S cents)	37.8	28.3	33.6	38.4	-1.7
DPS (S cents)	40.0	28.0	42.9	35.0	14.3
BVPS (\$)	11.33	11.01	2.9	11.83	-4.3
Financial Ratios (%)	2023	2022	yoy Chg (ppt)	1Q23	qoq Chg (ppt)
NIM	2.26	1.71	0.55	2.30	-0.04
Loan Growth, yoy	-0.2	8.4	-8.6	0.1	-0.3
Deposit Growth, yoy	6.8	10.1	-3.3	5.3	1.4
Loan/Deposit Ratio	78.8	84.4	-5.6	79.2	-0.4
Cost/Income Ratio	38.5	49.0	-10.5	37.1	1.4
ROE	13.5	10.3	3.2	14.7	-1.2
NPL Ratio	1.1	1.3	-0.2	1.1	0.0
Credit Costs (bp)	31	8	23	12	19
Loan Loss Coverage	131	99	32	121	10
CET-1 CAR	15.4	14.9	0.5	15.9	-0.5

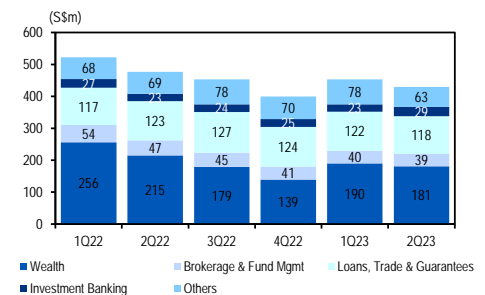
Source: OCBC, UOB Kay Hian

### KEY ASSUMPTIONS

	2021	2022	2023F	2024F	2025F
Loan Growth (%)	8.6	1.8	2.7	4.4	4.9
NIM (%)	1.55	1.91	2.27	2.22	2.11
Fees, % Chg	12.0	(17.6)	(0.9)	5.9	6.2
NPL Ratio (%)	1.45	1.15	1.18	1.29	1.29
Credit Costs (bp)	31.3	20.0	23.2	22.5	23.3
Net Profit (\$m)	4,858	5,748	7,054	7,200	7,312
% Chg	35.4	18.3	22.7	2.1	1.6

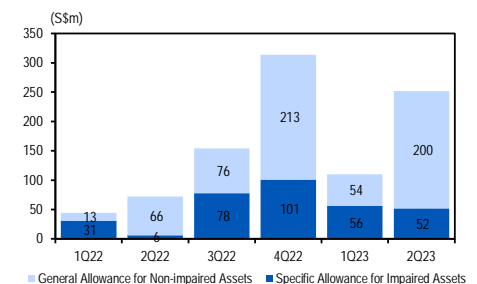
Source: UOB Kay Hian

### FEE INCOME



Source: OCBC

### TOTAL ALLOWANCE ON LOANS



Source: OCBC

### PROFIT & LOSS

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
Interest income	11,609	20,743	22,009	22,250
Interest expense	(3,921)	(11,111)	(12,142)	(12,402)
Net interest income	7,688	9,632	9,868	9,848
Fees & commissions	1,851	1,834	1,942	2,062
Other income	2,136	2,175	2,000	2,040
Non-interest income	3,987	4,009	3,942	4,102
<b>Total income</b>	<b>11,675</b>	<b>13,641</b>	<b>13,810</b>	<b>13,950</b>
Staff costs	(3,233)	(3,650)	(3,779)	(3,820)
Other operating expense	(1,897)	(1,861)	(1,876)	(1,898)
Pre-provision profit	6,545	8,129	8,155	8,232
Loan loss provision	(577)	(694)	(685)	(718)
Other provisions	(7)	0	0	0
Associated companies	978	1,023	1,104	1,193
Pre-tax profit	6,939	8,458	8,574	8,706
Tax	(1,057)	(1,281)	(1,286)	(1,306)
Minorities	(134)	(122)	(88)	(88)
<b>Net profit</b>	<b>5,748</b>	<b>7,054</b>	<b>7,200</b>	<b>7,312</b>
Net profit (adj.)	5,748	7,054	7,200	7,312

### BALANCE SHEET

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
Cash with central bank	34,966	36,620	38,868	41,253
Govt treasury bills & securities	39,367	45,826	48,639	51,623
Interbank loans	30,244	39,715	41,328	43,348
Customer loans	291,467	299,377	312,659	327,828
Investment securities	28,010	32,810	32,810	32,810
Derivative receivables	15,605	18,743	18,743	18,743
Associates & JVs	6,340	6,623	6,623	6,623
Fixed assets (incl. prop.)	4,246	4,242	4,242	4,242
Other assets	109,711	111,183	121,172	133,534
<b>Total assets</b>	<b>559,956</b>	<b>595,140</b>	<b>625,084</b>	<b>660,003</b>
Interbank deposits	10,046	13,933	14,499	15,208
Customer deposits	350,081	376,196	391,471	410,603
Derivative payables	16,048	18,851	18,851	18,851
Debt equivalents	21,938	15,491	15,491	15,491
Other liabilities	107,175	114,853	125,340	136,688
<b>Total liabilities</b>	<b>505,288</b>	<b>539,324</b>	<b>565,652</b>	<b>596,840</b>
Shareholders' funds	53,087	54,473	58,035	61,709
Minority interest - accumulated	1,581	1,342	1,397	1,454
<b>Total equity &amp; liabilities</b>	<b>559,956</b>	<b>595,140</b>	<b>625,084</b>	<b>660,003</b>

### OPERATING RATIOS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
<b>Capital Adequacy</b>				
Tier-1 CAR	15.9	15.2	15.6	15.9
Total CAR	17.7	16.7	17.1	17.3
Total assets/equity (x)	8.7	9.1	8.9	8.8
Tangible assets/tangible common equity (x)	9.4	9.8	9.5	9.4
<b>Asset Quality</b>				
NPL ratio	1.1	1.2	1.3	1.3
Loan loss coverage	114.5	120.2	112.2	114.2
Loan loss reserve/gross loans	1.2	1.3	1.3	1.4
Increase in NPLs	(19.7)	5.9	14.0	4.9
Credit cost (bp)	20.0	23.2	22.5	23.3
<b>Liquidity</b>				
Loan/deposit ratio	84.3	80.6	81.0	81.0
Liquid assets/short-term liabilities	29.0	31.3	31.7	32.0
Liquid assets/total assets	22.6	24.7	25.0	25.1

### KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
<b>Growth</b>				
Net interest income, yoy chg	31.3	25.3	2.5	(0.2)
Fees & commissions, yoy chg	(17.6)	(0.9)	5.9	6.2
Pre-provision profit, yoy chg	14.2	24.2	0.3	0.9
Net profit, yoy chg	18.3	22.7	2.1	1.6
Net profit (adj.), yoy chg	18.3	22.7	2.1	1.6
Customer loans, yoy chg	1.8	2.7	4.4	4.9
Customer deposits, yoy chg	2.2	7.5	4.1	4.9
<b>Profitability</b>				
Net interest margin	1.9	2.3	2.2	2.1
Cost/income ratio	43.9	40.4	41.0	41.0
Adjusted ROA	1.3	1.5	1.4	1.4
Reported ROE	10.9	13.1	12.8	12.2
Adjusted ROE	10.9	13.1	12.8	12.2
<b>Valuation</b>				
P/BV (x)	1.1	1.1	1.0	1.0
P/NTA (x)	1.3	1.2	1.1	1.1
Adjusted P/E (x)	10.2	8.3	8.1	8.0
Dividend Yield	5.2	5.8	6.1	6.1
Payout ratio	53.2	47.7	49.8	49.1

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