



# Singapore Banking Monthly

## NIM improvement across the board

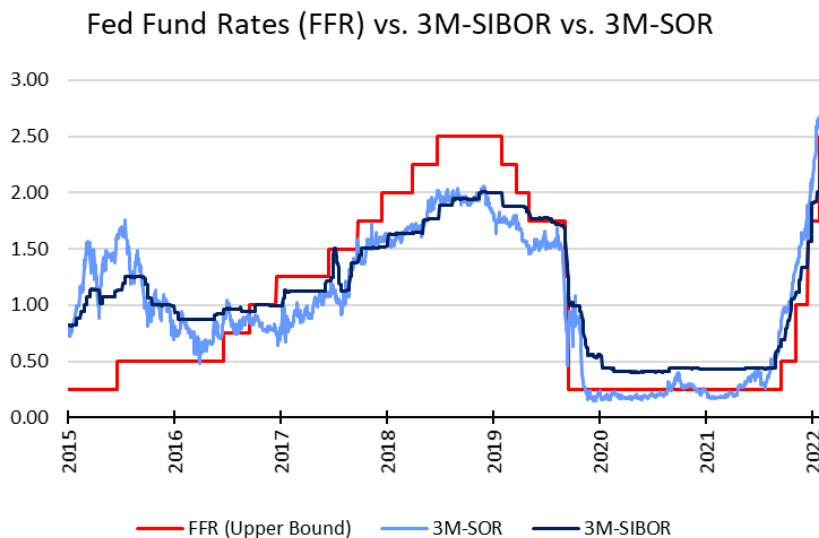
### SINGAPORE | BANKING & FINANCE | UPDATE

- July 3M-SIBOR was up by 51bps MoM to 2.02%, the highest in 7 years.
- 2Q22 results, banks' NII rose 17% YoY as NIM improved by 8% with loans growth of 8%. Fee income was a drag, declining 10%. Banks raised their FY22e NIM guidance.
- Hong Kong's domestic loans declined 2.34% YoY and 0.17% MoM in June. Malaysia's domestic loans growth increased 5.61% YoY and 0.68% MoM in June.
- Maintain OVERWEIGHT.** We remain positive on banks. Bank dividend yields are attractive at 5% with upside surprise due to excess capital ratios. Stable economic conditions and rising interest rates remain tailwinds for the banking sector. SGX is another beneficiary of higher interest rates. Pressure points for the banks will be higher staff costs and a nudge in general provisioning due to weaker economic assumptions.

#### 3M-SOR and 3M-SIBOR reach new highs in July

Interest rates continued to increase in July. The 3M-SOR was up 64bps MoM to 2.47%, while the 3M-SIBOR was up 51bps MoM to 2.02%. It is the highest interest rates have been for the past 7 years. The 3M-SOR is 103bps higher than its 2Q22 average of 1.44% and has improved by 228bps YoY. The 3M-SIBOR is 80bps higher than its 2Q22 average of 1.22% and has improved by 159bps YoY (Figure 1).

Figure 1: Interest rates reach new highs in July



Source: Bloomberg, PSR

11 August 2022

### Overweight (Maintained)

#### DBS Group Holdings

##### BUY (Maintained)

BLOOMBERG CODE	DBS SP
LAST TRADED PRICE	SGD 33.24
FORECAST DIV	SGD 1.44
TARGET PRICE	SGD 41.60
DIVIDEND YIELD	4.33%
TOTAL RETURN	29.48%

#### Oversea-Chinese Banking Corp

##### BUY (Maintained)

BLOOMBERG CODE	OCBC SP
LAST TRADED PRICE	SGD 12.37
FORECAST DIV	SGD 0.66
TARGET PRICE	SGD 14.22
DIVIDEND YIELD	5.34%
TOTAL RETURN	20.29%

#### United Overseas Bank Limited

##### BUY (Maintained)

BLOOMBERG CODE	UOB SP
LAST TRADED PRICE	SGD 27.15
FORECAST DIV	SGD 1.37
TARGET PRICE	SGD 35.70
DIVIDEND YIELD	5.05%
TOTAL RETURN	36.54%

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List of Abbreviations:

NIM – Net Interest Margin

SIBOR – Singapore Interbank Offer Rate

SOR – Swap Offer Rate

HIBOR – Hong Kong Interbank Offer Rate

DDAV – Derivatives Daily Average Volume

SDAV – Securities Daily Average Value

**2Q22 RESULTS HIGHLIGHTS**
**1. NII and NIM rise across the board**

**DBS' 2Q22 earnings** of S\$1.82bn are in line with our estimates, and 1H22 PATMI is at 47% of our FY22e forecast. 2Q22 DPS is up 9% YoY at 36 cents, above pre-pandemic 33 cents. NII grew 17% YoY to S\$2.5bn due to NIM increase of 13bps YoY to 1.53% and continued loan growth of 7% YoY. NIM improvement was mainly due to the rising interest rates as the impact of interest rate hikes was more fully felt. Management has lifted NIM guidance to 1.70-1.75% for FY22e (from 1.58-1.60%).

**OCBC's 2Q22 earnings** of S\$1.48bn were in line from higher net interest income, non-interest income and lower allowances. 1H22 PATMI is at 47% of our FY22e forecast. 2Q22 DPS rose 12% YoY to 28 cents. NII grew 16% YoY led by loan growth of 8% YoY and NIM improvement of 13bps YoY to 1.71%. NIM expansion was mainly due to asset yields outpacing higher funding costs amid a rapidly rising interest rate environment. OCBC has guided for NIM of 1.70% (from 1.5-1.55%) for FY22e.

**UOB's 2Q22 earnings** of S\$1,113mn were in line with our estimates due to higher net interest margin and healthy net interest income growth. 1H22 PATMI is 43% of our FY22e forecast. NII grew 18% YoY, led by continued loans growth of 8% YoY, while NIM improved 11bps YoY to 1.67%. Loan growth QoQ was mainly from term and housing loans, while YoY loan growth was broad-based across geographies as business regained momentum. UOB has lowered its guidance to mid-single digit loan growth for FY22e (previously mid to high single-digit).

**2. Fee income fell in 2Q22 due to wealth management**

DBS' fee income fell 12% YoY mainly due to weaker market sentiment affecting wealth management and investment banking. WM fees fell 21% YoY to S\$337mn as market conditions further weakened during the quarter. Investment banking fees fell 54% YoY to S\$30mn alongside a slowdown in capital market activities. Nonetheless, card fees improved 23% YoY to S\$203mn as borders start to reopen and spending increased, while loan-related fees moderated from record levels.

OCBC's fee income declined 15% YoY to S\$477mn mainly due to lower WM, brokerage, and investment banking fees, in line with weaker investor sentiment globally. Nonetheless, loan and trade-related fees increased on the back of higher lending and trade volumes, and credit card fees were also higher, in line with the broader reopening of economies and resumption of activities.

UOB's fee and commission income fell 2% YoY, as higher loan-related and credit card fees were moderated by lower WM fees due to more subdued market sentiment. Fees were down 1% QoQ. Key concern was new NPA formation of S\$661mn mainly due to a major but non-systemic corporate Chinese account.

**Figure 2: NII growth the highlight of 2Q22**

2Q22 vs. 2Q21	DBS	OCBC	UOB
NIM (vs. 2Q21)	1.53% (+13bps)	1.71% (+13bps)	1.67% (+11bp)
NII	+17%	+16%	+18%
Net fees & commissions	-12%	-15%	-2%
General provisions (S\$)	(23) mn	66 mn	7 mn
NPL ratio	1.3% (flat)	1.3% (-20bps)	1.7% (+20bps)
NPA coverage	113%	99%	91%
Common Equity Tier-1	14.2%	14.9%	13.1%

Source: Company, PSR

**Figure 3: Banks' guidance vs PSR estimates for FY22e**

Assumptions	DBS	PSR
NIM (%)	1.70%	1.65%
Loans growth (%)	Mid-single digit	5.0%
Credit cost (bps)	Stable at 11 bps	10

Source: Company, PSR

Assumptions	OCBC	PSR
NIM (%)	1.70%	1.69%
Loans growth (%)	Mid-single digit	5.0%
Credit cost (bps)	Low end of 20 to 25 bps	23

Source: Company, PSR

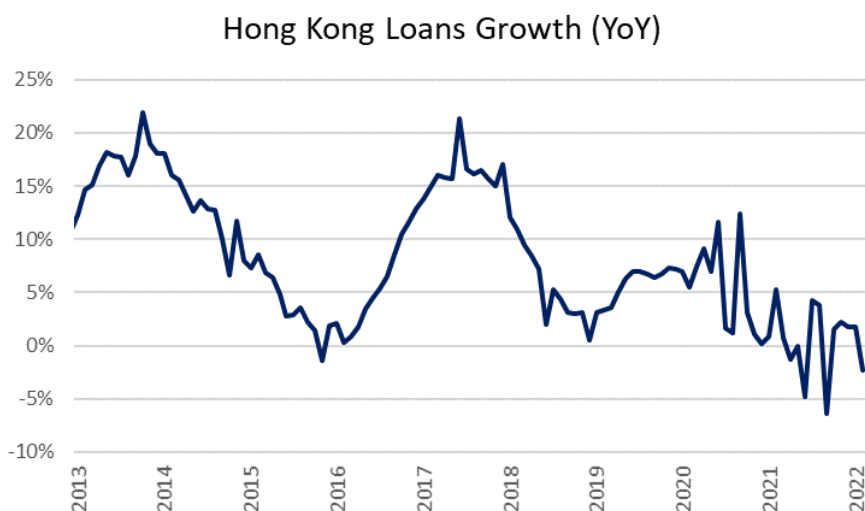
Assumptions	UOB	PSR
NIM (%)	1.73%	1.72%
Loans growth (%)	Mid-single digit	6.0%
Credit cost (bps)	25 bps	25

Source: Company, PSR

**Hong Kong loans growth dips while Malaysia's loans growth rises in June**

Hong Kong's domestic loans growth declined 2.34% YoY and 0.17% MoM in June. The YoY decline in loans growth for June was the first decline since Jan 2022 and the MoM loans growth decline of 0.17% was down 63bps from May's loans growth of 0.46%.

Malaysia's domestic loans growth was 5.61% YoY and 0.68% MoM in June. The increase YoY in June was the highest since Mar 2019 and an increase of 62bps from May's loans growth of 4.99%, while the increase MoM was an increase of 40bps from May's loans growth of 0.28%.

**Figure 4: Hong Kong loans growth dips in June**


Source: CEIC, PSR

**Figure 5: Malaysia loans growth rises in June**


Source: CEIC, PSR

### Volatility fell as community cases begin to fall

Preliminary SDAV for July dipped 25% YoY to \$886mn (Figure 6), as market sentiment remained subdued due to macroeconomic factors. The VIX averaged 25.0 in July, down from 28.3 in the previous month.

The top five equity index futures turnover saw a dip of 9.4% YoY in July to 13.74mn contracts (Figure 7), mainly due to the lower trading volumes of its FTSE China A50 Index Futures and MSCI Singapore Index Futures. Notably, the Nikkei 225 Index Futures decreased 36.8% MoM to 1.11mn and the FTSE China A50 Index Futures decreased 17.0% MoM to 7.83mn.

**Figure 6: YTD SDAV and DDAV**

	SDAV (\$mn)	YoY	DDAV (mn)	YoY
July	886	-25%	-	-
June	1,141	-5%	1.10	+24%
May	1,487	-6%	1.13	+19%
April	1,257	-1%	1.09	+25%
March	1,536	-6%	1.17	+13%
February	1,625	+20%	1.06	0%
January	1,194	-20%	1.02	+2%
December	834	-25%	0.85	+4%

Source: SGX, Bloomberg, PSR

**Figure 7: Turnover of top five equity index futures contracts was up YoY**

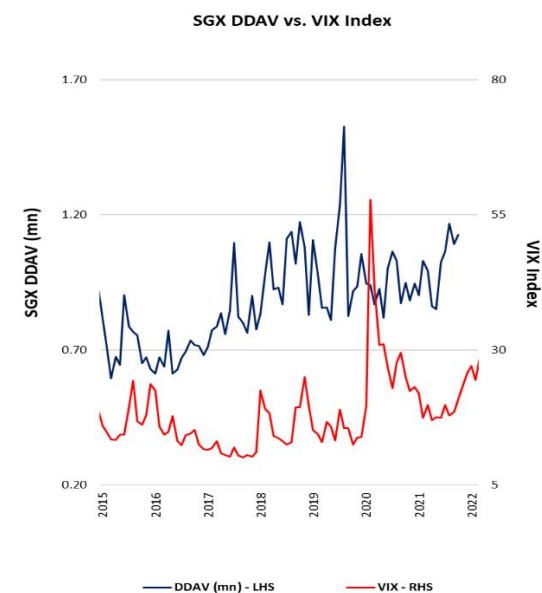
No. of contracts	Jul-21	Jul-22	YoY
FTSE China A50 Index Futures	9,395,585	7,826,742	-16.7%
Nifty 50 Index Futures	2,026,680	2,293,941	+13.2%
Nikkei 225 Index Futures	1,035,764	1,106,121	+6.8%
FTSE Taiwan Index Futures	1,412,410	1,381,739	-2.2%
MSCI Singapore Index Futures	1,290,063	1,127,196	-12.6%
<b>Sub-total</b>	<b>15,160,502</b>	<b>13,735,739</b>	<b>-9.4%</b>

Source: SGX, Bloomberg, PSR

### Investment Action

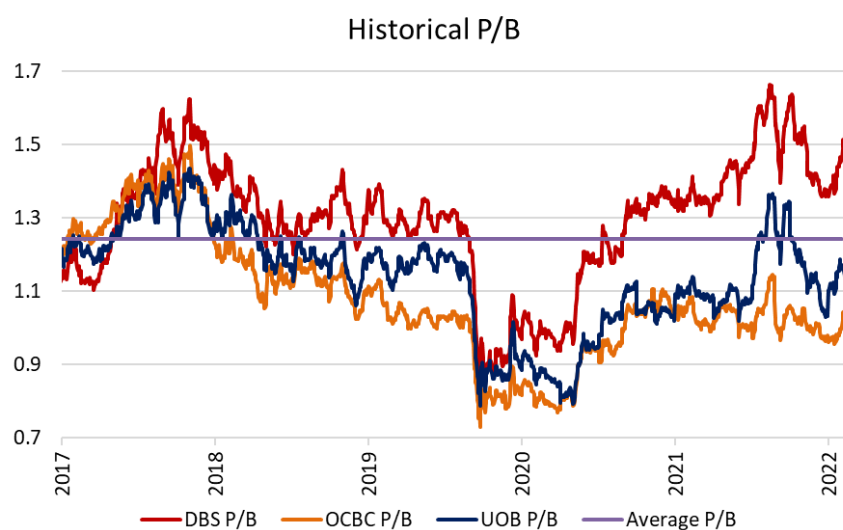
**Maintain OVERWEIGHT.** We remain positive on banks. Bank dividend yields are attractive with upside surprises due to excess capital ratios. Stable economic conditions and rising interest rates remain tailwinds for the banking sector. SGX is another beneficiary of higher interest rates.

**Figure 8: Correlation of DDAV and VIX Index**



Source: SGX, Bloomberg, PSR

Figure 9: Banks' 5-year historical P/B



Source: Bloomberg, PSR

Figure 10: Banks' target P/B

	DBS	OCBC	UOB
High	1.62	1.50	1.43
Low	0.81	0.73	0.79
5-year average	1.17	1.09	1.12
Current	1.34	1.02	0.97
Forward target	1.36	1.27	1.17
TP (S\$)	41.60	14.22	35.70

Source: Bloomberg, PSR

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