



Singapore Banking Monthly

NIM and NII surge across the board

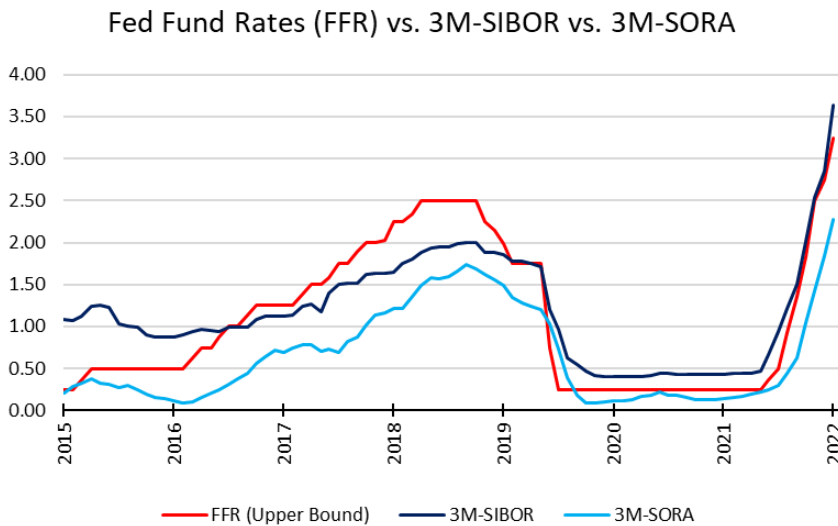
SINGAPORE | BANKING & FINANCE | UPDATE

- October 3M-SORA/3M-SIBOR was up by 44bps/78bps MoM to 2.28%/3.63%, the highest MoM increase since 1998.
- In the 3Q22 results, banks' NII rose 42% YoY as NIM improved by 47bps with loans growth of 6%. Fee income was a drag, declining 14%. Banks raised their FY22e NIM guidance.
- Singapore domestic loans grew 4.38% YoY in September, tracking our estimates, while Hong Kong's domestic loans declined 1.81% YoY in September.
- Maintain OVERWEIGHT.** We remain positive on banks. Bank dividend yields are attractive at 5% with upside surprise due to excess capital ratios. We expect bank NIM to rise another 34bps in 4Q22. SGX is another beneficiary of higher interest rates [SGX SP, BUY, TP S\$11.71].

3M-SOR and 3M-SIBOR continued to climb in October

Interest rates continued to increase in October. The 3M-SORA was up 44bps MoM to 2.28%, while the 3M-SIBOR was up 78bps MoM to 3.63%. The SORA MoM increase was the highest on record while the SIBOR MoM increase was the highest since 1998. The 3M-SORA is 83bps higher than its 3Q22 average of 1.45% and has improved by 213bps YoY. The 3M-SIBOR is 115bps higher than its 3Q22 average of 2.48% and has improved by 320bps YoY (Figure 1).

Figure 1: Interest rates reached new highs in October



Source: Bloomberg, PSR

11 November 2022

Overweight (Maintained)

DBS Group Holdings

BUY (Maintained)

BLOOMBERG CODE	DBS SP
LAST TRADED PRICE	SGD 34.54
FORECAST DIV	SGD 1.44
TARGET PRICE	SGD 41.60
DIVIDEND YIELD	4.17%
TOTAL RETURN	24.61%

Oversea-Chinese Banking Corp

BUY (Maintained)

BLOOMBERG CODE	OCBC SP
LAST TRADED PRICE	SGD 12.24
FORECAST DIV	SGD 0.66
TARGET PRICE	SGD 14.22
DIVIDEND YIELD	5.39%
TOTAL RETURN	21.57%

United Overseas Bank Limited

BUY (Maintained)

BLOOMBERG CODE	UOB SP
LAST TRADED PRICE	SGD 29.21
FORECAST DIV	SGD 1.37
TARGET PRICE	SGD 35.70
DIVIDEND YIELD	4.69%
TOTAL RETURN	26.91%

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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

3Q22 RESULTS HIGHLIGHTS

1. NII and NIM surge

DBS' 3Q22 earnings of S\$2.24bn were in line with our estimates, and 9M22 PATMI was at 77% of our FY22e forecast. 3Q22 DPS was up 9% YoY at 36 cents. NII surged 44% YoY to S\$3bn on NIM expansion of 47bps to 1.90% and loan growth of 6% YoY. NIM improvement was mainly due to the rising interest rates as the impact of interest rate hikes was more fully felt. Management maintained NIM guidance of 1.75% for FY22e and targets to reach 2% by 4Q22.

OCBC's 3Q22 earnings of S\$1.61bn were in line from higher net interest margin and net interest income offset by lower fee income. 9M22 PATMI was 73% of our FY22e forecast. NII grew 44% YoY underpinned by loan growth of 6% YoY and NIM surging 54bps YoY to 2.06%. NIM expansion was mainly due to asset yields outpacing higher funding costs amid a rapidly rising interest rate environment. OCBC has guided for similar mid-single digit loan growth and NIM of 1.80-1.90% (from 1.70%) for FY22e.

UOB's 3Q22 earnings of S\$1,403mn were in line with our estimates due to higher net interest margin (NIM) and healthy net interest income (NII) growth. 9M22 PATMI was 72% of our FY22e forecast. NII was up 39% YoY from a NIM increase of 40bps YoY to 1.95% and loan growth of 6% YoY. UOB guided NIM to continue to expand each quarter and to reach an exit NIM of 2.5% to 3.0% by the end of 2022. We estimate 4Q22 NII to jump 65% YoY. Management guided for ROE of 13% in FY23 and 14% for FY24 from this year's 11%.

2. Fee income continued to decline in 3Q22

DBS fee income fell 13% YoY mainly due to weaker market sentiment affecting wealth management and investment banking which more than offset increases in card and loan-related fees. WM fees fell 30% YoY to S\$323mn and investment banking fees fell by 38% YoY to S\$25mn. Nonetheless, card fees improved 24% YoY to S\$223mn as borders started to reopen and spending increased, while loan-related fees increased 15% to S\$122mn.

OCBC's fee income declined 20% YoY mainly due to a drop in wealth management fees as customer activities were subdued amid risk-off investment sentiments globally. The decline was partly offset by growth in other fee segments including credit card, and loan and trade-related fees. A key concern was an increase in Greater China NPLs by 18% QoQ mainly due to one Singapore based customer on a property investment.

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. A key concern was new NPA formation of S\$661mn mainly due to a major but non-systemic corporate Chinese account.

Figure 2: NIM expansion the highlight of 3Q22

3Q22 vs. 3Q21	DBS	OCBC	UOB
NIM	1.90% (+47bps)	2.06% (+54bps)	1.95% (+40bp)
NII	+44%	+44%	+39%
Net fees & commissions	-13%	-20%	-10%
Less: General provisions (S\$)	153mn	76mn	8mn
NPL ratio	1.2% (-30bps)	1.2% (-30bps)	1.5% (-20bps)
NPA coverage	120%	108%	98%
Common Equity Tier-1	13.8%	14.4%	12.8%

Source: Company, PSR

Figure 3: Banks' guidance vs PSR estimates for FY22e

Assumptions	DBS	PSR
NIM (%)	1.75%	1.76%
Loans growth (%)	Mid-single digit	5.0%
Credit cost (bps)	10	10

Source: Company, PSR

Assumptions	OCBC	PSR
NIM (%)	1.80-1.90%	1.78%
Loans growth (%)	Mid-single digit	5.1%
Credit cost (bps)	Low to mid-teens	14

Source: Company, PSR

Assumptions	UOB	PSR
NIM (%)	2.0%	1.94%
Loans growth (%)	Mid-single digit	6.0%
Credit cost (bps)	20	25

Source: Company, PSR

Singapore loans growth tracking forecast

Overall loans to Singapore residents – which captured lending in all currencies to residents in Singapore – rose by 4.38% YoY in September to S\$839bn, tracking our estimate of mid-single digit growth for 2022 as economies in ASEAN began to recover from the pandemic lockdowns and borders started to reopen.

Business loans grew by 4.85% YoY in September, as business loans dipped by 0.96% for the month. Loans to the building and construction segment, the single largest business segment grew 4.0% YoY to S\$173.1bn, while loans to the manufacturing segment grew 12.4% YoY in September to S\$28.3bn.

Consumer loans were up 3.6% YoY in September to S\$316.9bn, aided by strong loan demand in the housing segment. Housing loans, which make up ~70% of consumer lending, grew 4.8% YoY in September to S\$221.3bn for the month.

Total deposits and balances – which captured deposits in all currencies to non-bank customers – grew by 11.1% YoY in September to S\$1,744bn. The Current Account and Savings Account (CASA) proportion slipped slightly to 21.4% of total deposits or S\$374bn as there was a move towards FDs due to the high interest rate environment.

Hong Kong loans growth dipped in September

Hong Kong’s domestic loans growth declined 1.81% YoY and 0.47% MoM in September. The YoY decline in loans growth for September was higher than the decline of 0.97% in August, while the MoM loans growth decline of 0.47% was 10bps lower than August’s loans growth decline of 0.57%.

Figure 5: Hong Kong loans growth dips in September



Source: CEIC, PSR

Figure 4: YTD Singapore loans growth

2022	Loans growth (MoM)
September	-0.48%
August	0.58%
July	-0.43%
June	0.22%
May	-0.25%
April	1.44%
March	0.05%
February	0.83%
January	1.48%

Source: CEIC, PSR

Volatility rose as market sentiment turned

Preliminary SDAV for October dipped 2% YoY to \$1,137mn (Figure 6), as market sentiment remained subdued due to macroeconomic factors. The VIX averaged 30.0 in October, up from 27.3 in the previous month, and the DDAV rose 2% YoY to 1.05mn in September, up from 0.92mn in August.

The top five equity index futures turnover saw a rise of 14.7% YoY in October to 15.15mn contracts (Figure 7), mainly due to the higher trading volumes of its MSCI Singapore Index Futures and FTSE Taiwan Index Futures. Notably, the FTSE Taiwan Index Futures grew 11.8% MoM to 1.58mn and the Nikkei 225 Index Futures dipped 22.4% MoM to 1.17mn.

Figure 6: YTD SDAV and DDAV

	SDAV (\$mn)	YoY	DDAV (mn)	YoY
October	1,137	-2%	-	-
September	1,149	-7%	1.05	+2%
August	1,083	-12%	0.92	+2%
July	886	-25%	0.99	+4%
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%

Source: SGX, Bloomberg, PSR

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

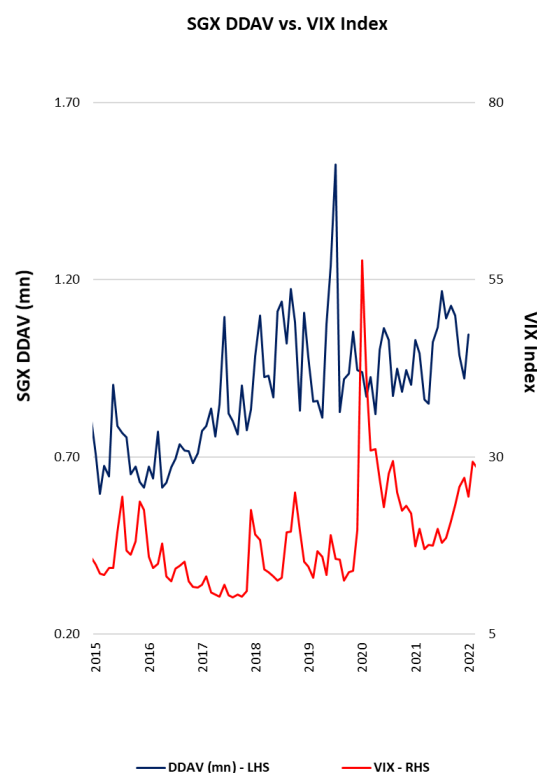
No. of contracts	Oct-21	Oct-22	YoY
FTSE China A50 Index Futures	7,304,817	8,414,341	+15.2%
Nifty 50 Index Futures	2,262,193	2,539,396	+12.3%
Nikkei 225 Index Futures	1,207,027	1,170,690	-3.0%
MSCI Singapore Index Futures	1,081,774	1,443,887	+33.5%
FTSE Taiwan Index Futures	1,350,954	1,578,364	+16.8%
Sub-total	13,206,765	15,146,678	+14.7%

Source: SGX, Bloomberg, PSR

Investment Action

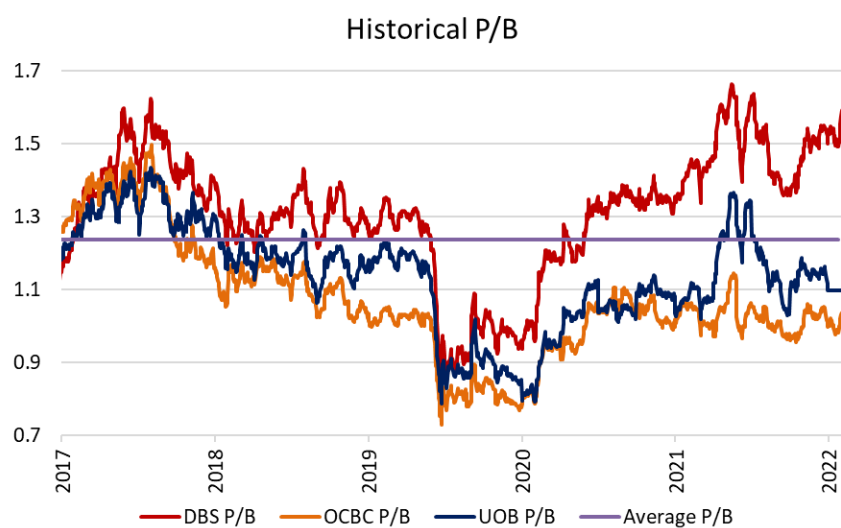
Maintain OVERWEIGHT. We remain positive on banks. Bank dividend yields are attractive with upside surprises due to excess capital ratios. Stable economic conditions and rising interest rates remain tailwinds for the banking sector. SGX is another beneficiary of higher interest rates.

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

Figure 11: Peer Comparison – Singapore banks offer the highest dividends

Stock	PSR Recommendation	Market Cap (USDmn)	Forward P/E			Forward P/BV			Dividend Yield (%)		ROE (%)			Price (Local Currency)	Target Price (\$)	Upside
			Yr0	Yr1	Yr2	Yr0	Yr1	Yr2	Yr1	Yr2	Yr0	Yr1	Yr2			
Singapore																
DBS	Accumulate	62,892	12.3	11.4	9.6	1.5	1.5	1.4	4.3	5.0	12.1	13.5	15.1	34.5	35.90	4%
OCBC	Buy	38,143	10.7	9.3	8.3	1.0	1.0	0.9	5.0	5.6	9.5	11.0	11.7	12.0	14.22	19%
UOB	Accumulate	33,099	11.3	10.2	8.7	1.1	1.1	1.0	4.7	5.5	10.2	10.9	12.1	27.9	29.00	4%
Market Cap Weighted Average:			11.6	10.5	9.0	1.2	1.3	1.2	4.6	5.3	10.9	12.1	13.4			
Indonesia																
BANK CENTRAL ASI	Non-rated	68,736	28.6	28.6	25.0	4.4	4.8	4.3	1.8	2.1	16.2	17.5	18.3	8725	na	na
BANK MANDIRI	Non-rated	29,972	11.7	12.1	10.8	1.6	2.1	1.9	4.2	5.1	14.2	17.7	18.2	10050	na	na
BANK NEGARA INDO	Non-rated	10,994	11.5	10.0	8.4	1.0	1.3	1.1	2.5	3.2	9.3	13.2	14.3	9225	na	na
BANK RAKYAT INDO	Non-rated	44,650	16.0	14.8	12.8	2.2	2.2	2.1	4.6	5.4	12.8	15.4	16.6	4610	na	na
BANK TABUNGAN NE	Non-rated	1,035	7.7	6.0	5.4	0.9	0.7	0.6	1.4	2.8	11.5	12.4	12.6	1530	na	na
Market Cap Weighted Average:			20.4	20.0	17.4	3.0	3.3	3.0	3.1	3.7	14.3	16.6	17.5			
Malaysia																
AFFIN BANK BHD	Non-rated	1,041	6.9	8.8	7.3	0.4	0.4	0.4	7.5	5.7	5.4	8.7	6.0	2.2	na	na
ALLIANCE BANK	Non-rated	1,192	10.2	8.3	7.7	0.9	0.8	0.8	5.5	5.9	9.0	10.2	10.4	3.7	na	na
AMBANK HLDG BHD	Non-rated	2,745	8.1	8.1	7.5	0.7	0.7	0.7	4.0	4.6	9.6	9.3	9.3	3.9	na	na
BANK ISLAM MALAY	Non-rated	1,132	11.7	11.5	9.2	1.2	0.8	0.8	4.0	5.1	8.4	7.4	8.7	2.5	na	na
HONG LEONG BANK	Non-rated	9,538	12.7	11.4	10.6	1.4	1.3	1.2	3.2	3.4	10.9	11.7	11.6	20.9	na	na
MALAYAN BANKING	Non-rated	21,714	11.9	12.0	10.2	1.1	1.1	1.1	6.6	7.4	9.5	9.4	10.9	8.5	na	na
PUBLIC BANK BHD	Non-rated	18,138	14.3	14.6	12.2	1.7	1.7	1.6	3.6	4.2	11.9	11.8	13.3	4.4	na	na
RHB BANK BHD	Non-rated	4,975	8.3	8.8	7.2	0.8	0.8	0.7	6.0	6.5	9.5	9.1	10.5	5.6	na	na
Market Cap Weighted Average:			12.2	12.1	10.4	1.3	1.3	1.2	4.9	5.5	10.3	10.4	11.5			
Thailand																
BANGKOK BANK PUB	Non-rated	7,357	8.7	9.1	7.7	0.5	0.5	0.5	3.6	4.2	5.6	6.0	6.5	145.5	na	na
BANK AYUDHYA PCL	Non-rated	6,235	7.7	8.1	7.4	0.8	0.7	0.6	3.0	3.3	11.2	8.9	9.1	32.0	na	na
KASIKORN BANK PCL	Non-rated	9,226	8.8	8.2	7.4	0.7	0.7	0.6	3.0	3.3	8.3	8.6	8.9	147.0	na	na
KIATNAKIN PHATRA	Non-rated	1,637	8.0	7.9	7.6	1.0	1.1	1.0	5.7	6.1	13.0	14.7	14.1	73.0	na	na
KRUNGTHAI BANK	Non-rated	6,479	8.6	7.9	7.2	0.5	0.6	0.6	4.1	4.6	6.1	8.4	8.4	17.5	na	na
KRUNGTHAI CARD P	Non-rated	3,944	26.0	21.0	18.9	5.7	4.8	4.1	2.0	2.3	23.7	24.6	23.2	57.8	na	na
SCB X PCL	Non-rated	9,499	12.1	9.1	8.2	1.0	0.8	0.7	4.3	4.8	8.4	8.8	9.3	106.5	na	na
SRISAWAD CORP PC	Non-rated	1,510	18.0	12.5	10.9	3.4	2.1	1.9	4.0	4.5	20.2	17.6	18.5	41.5	na	na
THANACHART CAPIT	Non-rated	1,118	7.5	8.6	7.7	0.6	0.7	0.7	7.7	8.1	8.2	7.9	8.4	40.3	na	na
TISCO FINANCIAL	Non-rated	2,047	11.3	10.8	10.8	1.9	1.8	1.8	7.9	8.2	16.8	17.0	16.8	96.5	na	na
Market Cap Weighted Average:			11.0	9.7	8.8	1.3	1.1	1.0	3.8	4.3	10.1	10.4	10.5			

Source: Bloomberg, PSR

Extracted as of 2-Nov-22

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