



# Singapore Banking Monthly

Interest rates climb while loans growth slows

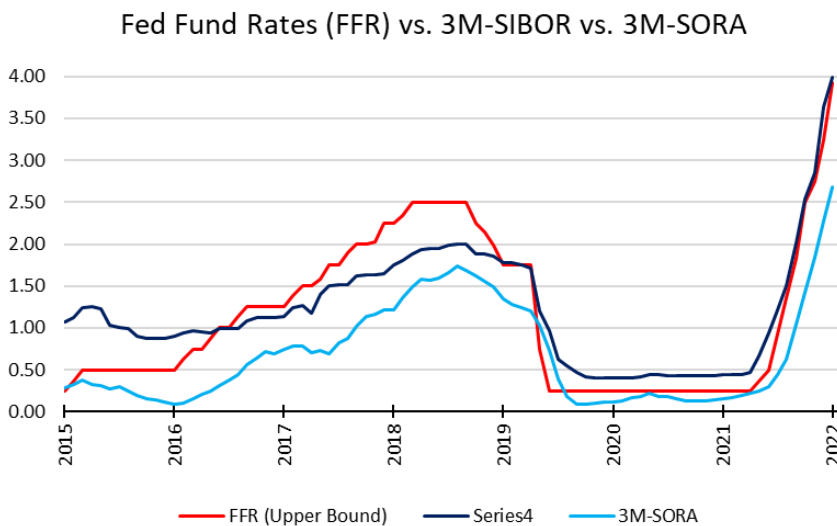
SINGAPORE | BANKING & FINANCE | UPDATE

- November 3M-SORA was up by 41bps MoM to 2.69%. YTD22 3M-SORA is up 87bps.
- Singapore domestic loans grew 2.75% YoY in October, below our estimates, while Hong Kong's domestic loans declined 2.70% YoY in October. CASA balance stable at 21.1%.
- 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 NIMs 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 November

Interest rates continued to increase in November. The 3M-SORA was up 41bps MoM to 2.69%, while the 3M-SIBOR was up 36bps MoM to 3.99%. The SORA MoM increase was 3bps lower than the previous month but still the second highest on record, while the SIBOR MoM increase was lower than the previous month's record increase of 78bps. The 3M-SORA is 124bps higher than its 3Q22 average of 1.45% and has improved by 253bps YoY. The 3M-SIBOR is 151bps higher than its 3Q22 average of 2.48% and has improved by 355bps YoY (Figure 1).

Figure 1: Interest rates reached new highs in November



Source: Bloomberg, PSR

5 December 2022

## Overweight (Maintained)

### DBS Group Holdings

#### BUY (Maintained)

BLOOMBERG CODE	DBS SP
LAST TRADED PRICE	SGD 34.47
FORECAST DIV	SGD 1.44
TARGET PRICE	SGD 41.60
DIVIDEND YIELD	4.18%
TOTAL RETURN	24.86%

### Overseas-Chinese Banking Corp

#### BUY (Maintained)

BLOOMBERG CODE	OCBC SP
LAST TRADED PRICE	SGD 12.21
FORECAST DIV	SGD 0.66
TARGET PRICE	SGD 14.22
DIVIDEND YIELD	5.41%
TOTAL RETURN	21.87%

### United Overseas Bank Limited

#### BUY (Maintained)

BLOOMBERG CODE	UOB SP
LAST TRADED PRICE	SGD 30.91
FORECAST DIV	SGD 1.37
TARGET PRICE	SGD 35.70
DIVIDEND YIELD	4.43%
TOTAL RETURN	19.93%

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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

### Singapore loans growth fall below forecast

Overall loans to Singapore residents – which captured lending in all currencies to residents in Singapore – rose by 2.75% YoY in October to S\$826bn. This is below our estimate of mid-single digit growth for 2022 as the rise in interest rates start to be more fully felt.

Business loans grew by 2.92% YoY in October, as business loans dipped by 2.01% for the month. Loans to the building and construction segment, the single largest business segment grew 3.56% YoY to S\$170.7bn, while loans to the manufacturing segment grew 8.7% YoY in October to S\$27.1bn.

Consumer loans were up 2.5% YoY in October to S\$314.7bn, aided by strong loan demand in the housing segment. Housing loans, which make up ~70% of consumer lending, grew 4.5% YoY in October to S\$221.9bn for the month.

Total deposits and balances – which captured deposits in all currencies to non-bank customers – grew by 10.2% YoY in October to S\$1,743bn. The Current Account and Savings Account (CASA) proportion dipped slightly to 21.1% (Sep22: 22.2%) of total deposits or S\$368bn as there was a move towards FDs due to the high interest rate environment.

### Fastest growing loan segments were - Financial Institution and Housing loans

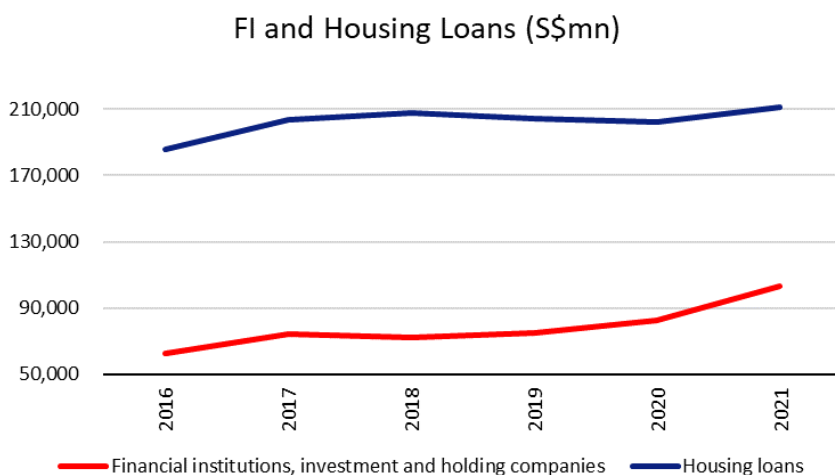
Amongst the various loans segments over the past 5 years, Financial Institution, Investment and Holding Companies (FI) was the fastest growing. We believe bulk of these loans were for commercial property acquisitions especially for REITs.

The three local banks combined loans to the Financial Institution, Investment and Holding Companies segment grew by 25% in 2021 to S\$103.4bn and grew at a CAGR of 6.9% over the past five years. It outpaces total loans CAGR of 4.9%.

The housing loan segment grew by 4.4% in 2021 to S\$211.5bn and grew at a more moderate CAGR of 0.8% over the past five years. The housing loan segment is the second largest loan segment, making up 21% of FY21 total loans.

The largest stress in loans portfolio is possibly from the FI segment as it was the fastest growth category. Anecdotally, we do observe stress in commercial property loans to listed companies with exposure in emerging countries such as, China, Malaysia, and Myanmar.

**Figure 3: Financial Institution showing strong growth**



Source: Company, PSR

**Figure 2: YTD Singapore loans growth**

2022	Loans growth (YoY)
October	2.75%
September	4.38%
August	6.67%
July	6.28%

Source: CEIC, PSR

### Hong Kong loans growth dipped in October

Hong Kong's domestic loans growth declined 2.70% YoY and 1.22% MoM in October. The YoY decline in loans growth for October was higher than the decline of 1.81% in September, while the MoM loans growth decline of 1.22% was 75bps lower than September's loans growth decline of 0.47%.

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



Source: CEIC, PSR

### Volatility rose as market sentiment turned

Preliminary SDAV for November dipped 7% YoY to \$1,222mn (Figure 6), as market sentiment remained subdued due to macroeconomic factors. The VIX averaged 23.3 in November, down from 30.0 in the previous month, and the DDAV rose 23% YoY to 1.22mn in October, up from 1.05mn in September.

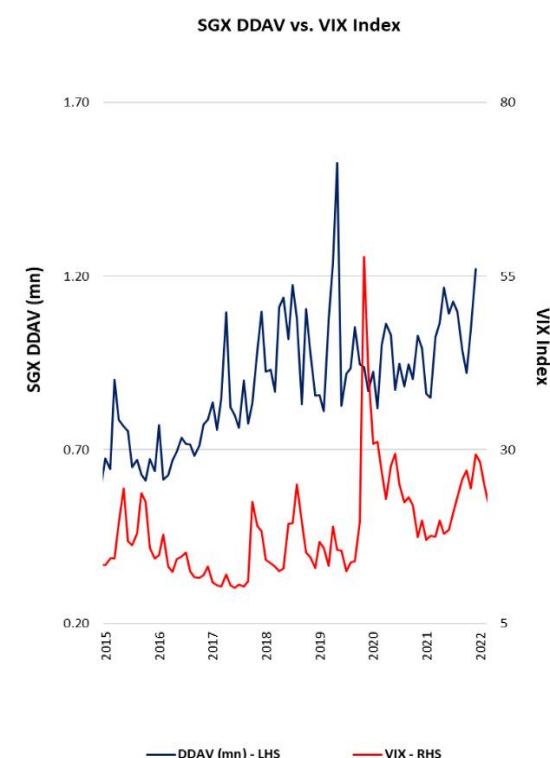
The top five equity index futures turnover saw a rise of 16.1% YoY in November to 15.3mn contracts (Figure 7), mainly due to the higher trading volumes of its FTSE China A50 Index Futures and MSCI Singapore Index Futures. Notably, the FTSE China A50 Index Futures grew 10.8% MoM to 9.32mn and the Nikkei 225 Index Futures dipped 14.8% MoM to 1mn.

**Figure 5: YTD SDAV and DDAV**

	SDAV (\$mn)	YoY	DDAV (mn)	YoY
November	1,222	-7%	-	-
October	1,137	-2%	1.22	+23%
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: Correlation of DDAV and VIX Index**



Source: SGX, Bloomberg, PSR

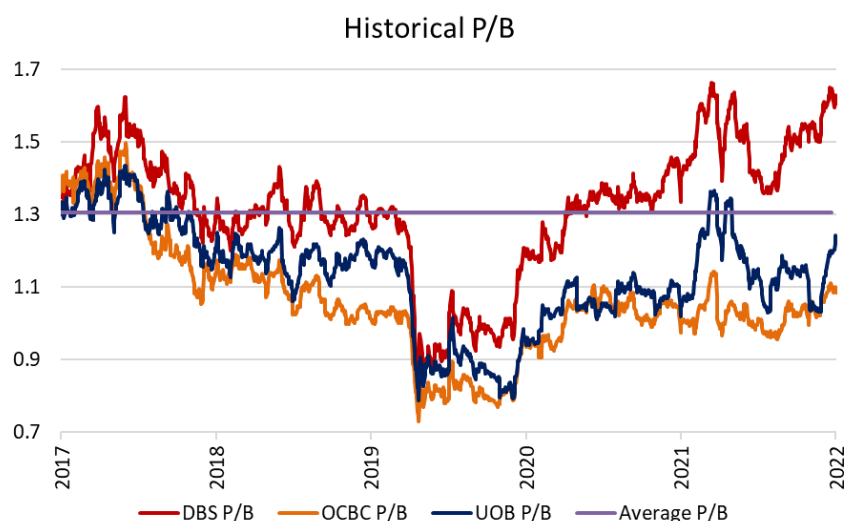
**Figure 6: Turnover of top five equity index futures contracts up YoY**

No. of contracts	Nov-21	Nov-22	YoY
FTSE China A50 Index Futures	7,523,440	9,321,759	+23.9%
Nifty 50 Index Futures	2,200,908	2,169,513	-1.4%
Nikkei 225 Index Futures	987,258	997,265	+1.0%
MSCI Singapore Index Futures	1,093,996	1,286,805	+17.6%
FTSE Taiwan Index Futures	1,373,945	1,522,862	+10.8%
<b>Sub-total</b>	<b>13,179,547</b>	<b>15,298,204</b>	<b>+16.1%</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: Banks' 5-year historical P/B**


Source: Bloomberg, PSR

**Figure 9: 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 10: 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			
<b>Singapore</b>																
DBS	Accumulate	65,860	12.3	11.1	9.0	1.5	1.5	1.4	4.4	5.3	12.1	13.8	15.9	34.6	35.90	4%
OCBC	Buy	40,721	10.7	9.1	7.9	1.0	1.0	1.0	5.0	5.8	9.5	11.4	12.5	12.3	14.22	16%
UOB	Accumulate	38,295	11.3	11.1	9.4	1.1	1.2	1.1	4.3	5.1	10.2	11.1	12.4	30.9	29.00	-6%
<b>Market Cap Weighted Average:</b>			<b>11.6</b>	<b>10.6</b>	<b>8.8</b>	<b>1.2</b>	<b>1.3</b>	<b>1.2</b>	<b>4.5</b>	<b>5.4</b>	<b>10.9</b>	<b>12.4</b>	<b>14.0</b>			
<b>Indonesia</b>																
BANK CENTRAL ASI	Non-rated	71,328	28.6	28.4	24.9	4.4	4.9	4.4	1.8	2.1	16.2	18.0	18.7	8925	na	na
BANK MANDIRI	Non-rated	31,615	11.7	12.4	11.0	1.6	2.2	2.0	4.1	5.0	14.2	17.9	18.4	10450	na	na
BANK NEGARA INDO	Non-rated	11,576	11.5	10.2	8.7	1.0	1.3	1.2	2.3	3.0	9.3	13.5	14.4	9575	na	na
BANK RAKYAT INDO	Non-rated	47,949	16.0	15.3	13.3	2.2	2.3	2.2	4.2	5.0	12.8	15.8	16.9	4880	na	na
BANK TABUNGAN NE	Non-rated	1,047	7.7	5.9	5.4	0.9	0.7	0.6	1.4	3.0	11.5	12.5	12.5	1525	na	na
<b>Market Cap Weighted Average:</b>			<b>20.3</b>	<b>20.0</b>	<b>17.5</b>	<b>3.0</b>	<b>3.3</b>	<b>3.0</b>	<b>3.0</b>	<b>3.6</b>	<b>14.3</b>	<b>17.0</b>	<b>17.8</b>			
<b>Malaysia</b>																
AFFIN BANK BHD	Non-rated	1,042	6.9	12.2	8.0	0.4	0.4	0.4	12.4	5.9	5.4	5.8	5.3	2.1	na	na
ALLIANCE BANK	Non-rated	1,335	10.2	8.6	8.0	0.9	0.9	0.8	5.5	5.8	9.0	10.3	10.4	3.8	na	na
AMBANK HLDG BHD	Non-rated	3,142	8.1	8.6	8.0	0.7	0.8	0.7	3.9	4.4	9.6	9.3	9.3	4.2	na	na
BANK ISLAM MALAY	Non-rated	1,275	11.7	11.9	9.8	1.2	0.9	0.8	3.8	4.7	8.4	7.3	8.5	2.6	na	na
HONG LEONG BANK	Non-rated	10,208	12.7	11.2	10.5	1.4	1.3	1.2	3.2	3.5	10.9	11.9	11.7	20.7	na	na
MALAYAN BANKING	Non-rated	23,555	11.9	12.3	10.6	1.1	1.2	1.1	6.4	7.3	9.5	9.5	10.7	8.6	na	na
PUBLIC BANK BHD	Non-rated	19,473	14.3	14.4	12.3	1.7	1.7	1.6	3.7	4.1	11.9	11.9	13.4	4.4	na	na
RHB BANK BHD	Non-rated	5,372	8.3	8.7	7.2	0.8	0.8	0.7	6.0	6.9	9.5	9.1	10.5	5.6	na	na
<b>Market Cap Weighted Average:</b>			<b>12.1</b>	<b>12.2</b>	<b>10.6</b>	<b>1.3</b>	<b>1.3</b>	<b>1.2</b>	<b>5.0</b>	<b>5.5</b>	<b>10.3</b>	<b>10.5</b>	<b>11.5</b>			
<b>Thailand</b>																
BANGKOK BANK PUB	Non-rated	7,953	8.7	9.0	7.9	0.5	0.5	0.5	3.7	4.2	5.6	6.0	6.6	145.0	na	na
BANK AYUDHYA PCL	Non-rated	6,552	7.7	7.9	7.2	0.8	0.7	0.6	3.1	3.4	11.2	8.9	9.1	31.0	na	na
KASIKORN BANK PCL	Non-rated	9,770	8.8	8.0	7.2	0.7	0.7	0.6	3.1	3.4	8.3	8.5	8.9	143.5	na	na
KIATNAKIN PHATRA	Non-rated	1,728	8.0	7.7	7.4	1.0	1.1	1.0	5.9	6.3	13.0	14.7	14.1	71.0	na	na
KRUNG THAI BANK	Non-rated	7,108	8.6	7.8	7.3	0.5	0.7	0.6	4.2	4.5	6.1	8.5	8.4	17.7	na	na
KRUNGTHAI CARD P	Non-rated	4,408	26.0	21.7	19.7	5.7	4.9	4.3	1.9	2.2	23.7	24.6	23.0	59.5	na	na
SCB X PCL	Non-rated	10,207	12.1	9.0	8.1	1.0	0.8	0.7	4.3	4.9	8.4	8.8	9.3	105.5	na	na
SRISAWAD CORP PC	Non-rated	1,815	18.0	13.9	12.3	3.4	2.4	2.2	3.6	4.1	20.2	17.7	18.5	46.0	na	na
THANACHART CAPIT	Non-rated	1,273	7.5	9.0	8.1	0.6	0.7	0.7	7.3	7.7	8.2	8.1	8.6	42.3	na	na
TISCO FINANCIAL	Non-rated	2,232	11.3	10.9	10.8	1.9	1.8	1.8	7.9	8.2	16.8	17.0	16.8	97.0	na	na
<b>Market Cap Weighted Average:</b>			<b>11.1</b>	<b>9.8</b>	<b>8.9</b>	<b>1.3</b>	<b>1.1</b>	<b>1.0</b>	<b>3.9</b>	<b>4.3</b>	<b>10.2</b>	<b>10.5</b>	<b>10.6</b>			

Source: Bloomberg, PSR

Extracted as of 2-Dec-22

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