



Singapore Banking Monthly

NII growth offset fee income decline

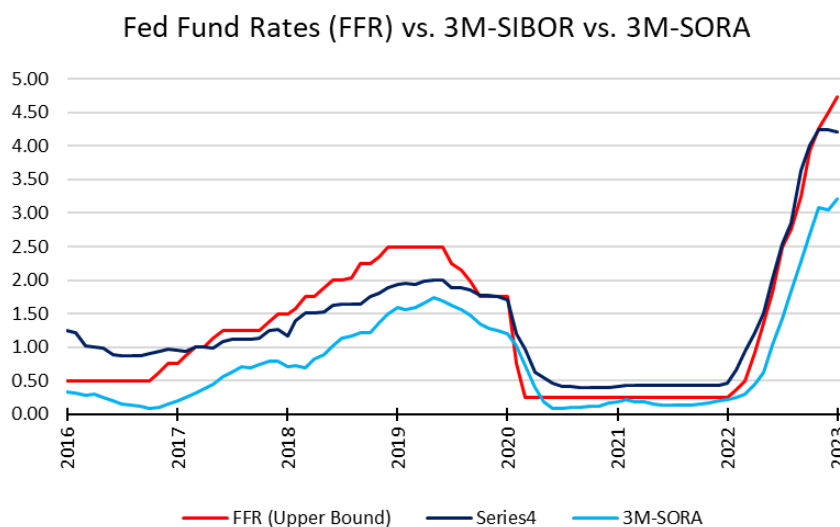
SINGAPORE | BANKING & FINANCE | UPDATE

- February's 3M-SORA was up 16bps MoM to 3.21%, 3M-SIBOR was down 4bps MoM to 4.21%.
- 4Q22 results, banks' NII rose 55% YoY as NIM improved by 69bps with loans growth of 2%. Fee income was a drag, declining 20%. Banks are guiding for NIMs of 2.10-2.25% (FY22: 1.75%-1.91%) and mid-single digit loans growth for FY23e.
- Singapore domestic loans dipped 1.89% YoY in January, below our estimates, while Hong Kong's domestic loans declined 2.56% YoY in January. The CASA balance dipped slightly to 20.0%.
- Maintain OVERWEIGHT.** We remain positive on banks. Bank dividend yields are attractive at 5.7% with possible upside surprise due to excess capital ratios and push towards higher ROEs. SGX is another major beneficiary of higher interest rates [SGX SP, BUY, TP S\$11.71].

3M-SORA picks up; 3M-SIBOR growth dips in February

Interest rates continued to flatten in February. The 3M-SORA was up 16bps MoM to 3.21%, while the 3M-SIBOR was down 4bps MoM to 4.21%. The SORA MoM increase was an improvement from the 3bps decline in January but still the smallest growth recorded since May 2022, while the SIBOR MoM decline was the first decline since September 2020. February's 3M-SORA improved by 298bps YoY and was 53bps higher than the 4Q22 3M-SORA average of 2.68%. February's 3M-SIBOR improved by 374bps YoY and was 25bps higher than 4Q22 3M-SIBOR average of 3.96% (Figure 1).

Figure 1: Interest rates moving sideways in February



Source: Bloomberg, PSR

7 March 2023

Overweight (Maintained)

DBS Group Holdings

BUY (Maintained)

BLOOMBERG CODE	DBS SP
LAST TRADED PRICE	SGD 33.82
FORECAST DIV	SGD 1.68
TARGET PRICE	SGD 41.60
DIVIDEND YIELD	4.97%
TOTAL RETURN	27.97%

Oversea-Chinese Banking Corp

BUY (Maintained)

BLOOMBERG CODE	OCBC SP
LAST TRADED PRICE	SGD 12.50
FORECAST DIV	SGD 0.80
TARGET PRICE	SGD 14.22
DIVIDEND YIELD	6.40%
TOTAL RETURN	20.16%

United Overseas Bank Limited

BUY (Maintained)

BLOOMBERG CODE	UOB SP
LAST TRADED PRICE	SGD 29.50
FORECAST DIV	SGD 1.65
TARGET PRICE	SGD 35.70
DIVIDEND YIELD	5.59%
TOTAL RETURN	26.61%

Glenn Thum (+65 6212 1851)

Research Analyst

glennthumjc@phillip.com.sg

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

4Q22 RESULTS HIGHLIGHTS

1. NII and NIM continue to surge

DBS' 4Q22 earnings of S\$2.34bn were above our estimates, and FY22 PATMI was 104% of our FY22e forecast. 4Q22 DPS was up 17% YoY to 42 cents with an additional special dividend of 50 cents; full-year FY22 dividend rose 67% YoY to 200 cents. NII spiked 53% YoY to S\$3.28bn on NIM expansion of 62bps to 2.05% and loan growth of 1% YoY. Management has guided for a peak NIM of 2.25% for FY23e with a downside risk of 5-7bps due to outflows to T-bills, strengthening SGD and higher funding costs.

OCBC's 4Q22 earnings of S\$1.31bn were below our estimates from lower fee and insurance income offset by higher net interest income. FY22 PATMI was 89% of our FY22e forecast. 4Q22 DPS was up 43% YoY to 40 cents; full-year FY22 dividend rose 28% YoY to 68 cents. NII grew 60% YoY underpinned by loan growth of 2% YoY and NIM surging 79bps YoY to 2.31%. NIM expansion was mainly due to loan yields rising faster than the increase in funding costs on the back of the rapid rise in interest rates during the year. OCBC has guided for a NIM in the region of 2.10% for FY23e.

UOB's 4Q22 adjusted earnings of S\$1,398mn were slightly below our estimates due to lower fee income and higher allowances offset by NII growth. FY22 adjusted PATMI was 96% of our FY22e forecast. 4Q22 DPS was up 25% YoY to 75 cents; full-year FY22 dividend rose 13% YoY to 135 cents. NII was up 53% YoY despite a slowdown of loans growth to 3% YoY, while NIM surged 66bps YoY to 2.22%. Loan growth YoY was broad-based across most territories, while the consolidation of Citi assets added 11% to the ASEAN loan book in 4Q22. UOB has guided for NIM of 2.20% and maintained its guidance of mid-single digit loan growth for FY23e.

2. Fee income continued to decline in 4Q22

DBS fee income fell 19% 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 31% YoY to S\$262mn and investment banking fees fell by 64% YoY to S\$23mn. Nonetheless, card fees improved 22% YoY to S\$245mn as travel spending continued to recover towards pre-pandemic levels. Loan-related fees were stable at S\$79mn.

OCBC's fee income declined 25% YoY mainly due to a drop in wealth management fees as customer activities were subdued amid risk-off investment sentiments globally. Nonetheless, OCBC's wealth management AUM was higher at S\$258bn (4Q21: S\$257bn) mainly driven by continued growth in net new money inflows which offset negative market valuation. A key concern was an increase in Greater China NPLs by 21% QoQ mainly due to the downgrade of a corporate relationship in Hong Kong.

UOB's fee and commission income fell 16% YoY, largely due to lower wealth and fund management fees as investor sentiment remained subdued alongside a seasonally softer quarter. Loan-related fees also fell 17% YoY this quarter. Nonetheless, credit card fees were higher 40% YoY mainly from higher customer spends which were boosted by the Citi consolidation.

Figure 3: Banks' guidance vs PSR estimates for FY23e

Assumptions	DBS	PSR
NIM (%)	2.25%	2.23%
Loans growth (%)	Mid-single digit	5.0%
Credit cost (bps)	10 - 15	14

Source: Company, PSR

Assumptions	OCBC	PSR
NIM (%)	2.10%	2.07%
Loans growth (%)	Mid-single digit	3.3%
Credit cost (bps)	15 - 20	19

Source: Company, PSR

Assumptions	UOB	PSR
NIM (%)	2.20%	2.17%
Loans growth (%)	Mid-single digit	4.0%
Credit cost (bps)	20 - 25	22

Source: Company, PSR

Figure 2: NII growth the highlight of 4Q22

4Q22 vs. 4Q21	DBS	OCBC	UOB
NIM	2.05% (+62bps)	2.31% (+79bps)	2.22% (+66bp)
NII	+53%	+60%	+53%
Net fees & commissions	-19%	-24%	-16%
Less: General provisions (S\$)	-116mn	213mn	-80mn
NPL ratio	1.1% (-20bps)	1.2% (-30bps)	1.6% (flat)
NPA coverage	122%	114%	98%
Common Equity Tier-1	14.6%	15.2%	13.3%

Source: Company, PSR

Singapore loans growth declined in January

Overall loans to Singapore residents – which captured lending in all currencies to residents in Singapore – fell by 1.89% YoY in January to S\$807bn. This was below our estimate of mid-single digit growth for 2023 as the rise in interest rates started to be more fully felt by consumers.

Business loans fell by 2.91% YoY in January, as business loans dipped by 0.99% for the month. Loans to the building and construction segment, the single largest business segment, grew 0.62% YoY to S\$170bn, while loans to the manufacturing segment fell 8.04% YoY in January to S\$23.9bn.

Consumer loans were down 0.22% YoY in January to S\$311.5bn, as dips in other segments were offset slightly by strong loan demand in the housing segment. Housing loans, which make up ~70% of consumer lending, grew 3.28% YoY in January to S\$222.8bn for the month.

Total deposits and balances – which captured deposits in all currencies to non-bank customers – grew by 5.90% YoY in January to S\$1,719bn. The Current Account and Savings Account (CASA) proportion dipped slightly to 20.0% (Dec22: 20.4%) of total deposits, or S\$344bn, as there was a continued move towards Fixed Deposits due to the high interest rate environment.

Hong Kong loans growth continues to fall

Hong Kong's domestic loans growth declined 2.56% YoY but rose 1.26% MoM in January. The YoY decline in loans growth for January was lower than the decline of 2.99% in December, while the MoM loans growth of 1.26% was the first MoM growth since May 2022.

Figure 5: Hong Kong loans growth dips in January


Source: CEIC, PSR

Figure 4: YTD Singapore loans growth

2022/2023	Loans growth (YoY)
January	-1.89%
December	-0.30%
November	0.67%
October	2.13%
September	4.38%
August	6.67%
July	6.28%

Source: CEIC, PSR

Volatility fell as market sentiment remained subdued

Preliminary SDAV for February fell 33% YoY to \$1,094mn (Figure 6), as market sentiment remained subdued at the start of 2023 due to macroeconomic factors. The VIX averaged 20.1 in February, down from 20.2 in the previous month, and the DDAV rose 6% YoY to 1.08mn in January, and up 17% MoM from 0.92mn in December.

The top five equity index futures turnover saw a dip of 2% YoY in February to 12.99mn contracts (Figure 7), mainly due to the lower trading volumes of its Nikkei 225 Index Futures and Nifty 50 Index Futures. Notably, the FTSE Taiwan Index Futures grew 8.1% MoM to 1.25mn and the Nikkei 225 Index Futures dipped 14.1% MoM to 0.82mn.

Figure 6: YTD SDAV and DDAV

	SDAV (\$mn)	YoY	DDAV (mn)	YoY
February	1,094	-33%	-	-
January	1,146	-4%	1.08	+6%
December	920	+10%	0.92	+8%
November	1,222	-7%	1.09	+27%
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%

Source: SGX, Bloomberg, PSR

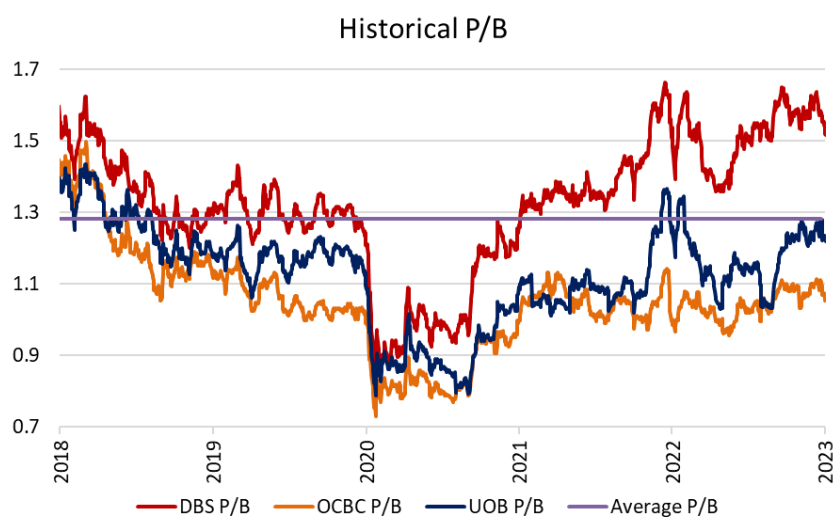
Figure 7: Turnover of top five equity index futures contracts down YoY

No. of contracts	Feb-22	Feb-23	YoY
FTSE China A50 Index Futures	7,116,598	7,455,913	+4.8%
Nifty 50 Index Futures	2,609,791	2,281,712	-12.6%
Nikkei 225 Index Futures	1,129,446	824,625	-27.0%
MSCI Singapore Index Futures	1,090,262	1,170,821	+7.4%
FTSE Taiwan Index Futures	1,309,053	1,252,128	-4.3%
Sub-total	13,255,150	12,985,199	-2.0%

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 and a push towards higher ROEs. 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, OCBC remains the cheapest


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	Market Cap	Forward P/E			Forward P/BV			Dividend Yield (%)		ROE (%)			Price	Target	Upside
	Recommendation	(USDmn)	Yr0	Yr1	Yr2	Yr0	Yr1	Yr2	Yr1	Yr2	Yr0	Yr1	Yr2	(Local Currency)	Price (\$\$)	
Singapore																
DBS	Accumulate	64,201	10.7	8.8	8.5	1.5	1.4	1.3	5.4	5.8	14.3	16.8	16.3	33.5	41.60	24%
OCBC	Buy	41,752	9.6	8.1	7.9	1.0	1.0	0.9	6.1	6.3	10.9	12.5	12.2	12.5	14.22	14%
UOB	Accumulate	36,763	11.2	8.8	8.3	1.3	1.1	1.0	5.5	5.8	11.3	12.8	12.8	29.5	35.70	21%
Market Cap Weighted Average:			10.5	8.6	8.3	1.3	1.2	1.1	5.6	6.0	12.5	14.5	14.2			
Indonesia																
BANK CENTRAL ASI	Non-rated	68,352	25.9	22.7	20.5	4.8	4.2	3.8	2.2	2.5	19.2	19.6	19.6	8475	na	na
BANK MANDIRI	Non-rated	30,684	11.2	10.1	9.2	2.0	1.9	1.7	5.4	6.0	19.0	19.0	19.4	10050	na	na
BANK NEGARA INDO	Non-rated	10,676	9.4	7.6	6.7	1.3	1.1	1.0	3.6	5.1	14.1	15.0	15.3	8750	na	na
BANK RAKYAT INDO	Non-rated	47,198	14.6	12.6	11.2	2.5	2.2	2.0	5.7	6.1	17.4	17.8	18.8	4760	na	na
BANK TABUNGAN NE	Non-rated	1,203	4.7	5.0	4.2	0.6	0.6	0.5	3.5	3.5	12.9	12.2	12.9	1310	na	na
Market Cap Weighted Average:			18.4	16.1	14.5	3.3	2.9	2.7	4.0	4.5	18.2	18.6	19.0			
Malaysia																
AFFIN BANK BHD	Non-rated	1,069	3.4	8.4	7.5	-	0.4	0.4	5.7	6.3	-	5.0	5.4	2.1	na	na
ALLIANCE BANK	Non-rated	1,199	10.2	7.8	7.4	0.9	0.8	0.7	6.0	6.4	9.0	10.4	10.4	3.5	na	na
AMBANK HLDG BHD	Non-rated	2,941	8.1	7.8	7.4	0.7	0.7	0.7	4.1	4.8	9.6	9.6	9.6	4.0	na	na
BANK ISLAM MALAY	Non-rated	1,111	11.9	8.3	7.7	-	0.7	0.6	6.1	6.6	-	8.4	8.7	2.2	na	na
HONG LEONG BANK	Non-rated	9,990	12.7	11.1	10.4	1.4	1.3	1.2	3.3	3.5	10.9	12.0	11.8	20.6	na	na
MALAYAN BANKING	Non-rated	23,511	12.6	11.0	10.5	1.2	1.2	1.1	7.1	7.4	9.6	10.7	10.9	8.7	na	na
PUBLIC BANK BHD	Non-rated	17,995	13.7	11.6	11.1	1.7	1.5	1.4	4.4	4.6	12.4	13.3	13.0	4.1	na	na
RHB BANK BHD	Non-rated	5,440	8.9	7.5	7.0	0.9	0.8	0.8	7.6	8.0	9.5	10.7	10.9	5.7	na	na
Market Cap Weighted Average:			12.2	10.6	10.1	1.3	1.2	1.1	5.6	5.9	10.3	11.5	11.4			
Thailand																
BANGKOK BANK PUB	Non-rated	8,783	9.6	8.2	7.5	0.6	0.6	0.5	3.8	4.2	5.9	7.0	7.3	159.0	na	na
BANK AYUDHYA PCL	Non-rated	6,226	7.4	6.6	6.3	0.7	0.6	0.6	3.6	4.0	9.3	8.8	8.9	29.3	na	na
KASIKORNBANK PCL	Non-rated	9,565	9.8	7.7	6.9	0.7	0.6	0.6	3.4	3.8	7.3	8.0	8.7	139.5	na	na
KIATNAKIN PHATRA	Non-rated	1,636	8.2	7.0	6.4	1.1	0.9	0.8	7.0	7.5	14.0	13.7	13.8	66.8	na	na
KRUNG THAI BANK	Non-rated	6,997	7.3	6.8	6.6	0.7	0.6	0.6	4.8	5.2	9.2	9.1	9.0	17.3	na	na
KRUNGTHAI CARD P	Non-rated	4,234	21.5	18.8	17.3	4.9	4.1	3.6	2.3	2.4	24.3	23.0	21.8	56.8	na	na
SCB X PCL	Non-rated	10,183	9.6	7.9	7.3	0.8	0.7	0.7	4.8	5.3	8.3	9.4	9.7	104.5	na	na
SRISAWAD CORP PC	Non-rated	2,076	15.0	14.2	12.6	-	2.4	2.2	3.3	3.6	-	18.2	18.7	52.3	na	na
THANACHART CAPIT	Non-rated	1,305	8.5	8.4	8.2	0.7	0.7	0.7	7.5	7.9	7.9	8.1	8.5	43.0	na	na
TISCO FINANCIAL	Non-rated	2,363	11.0	10.9	10.4	1.9	1.8	1.8	7.8	8.1	17.2	17.3	17.6	102.0	na	na
Market Cap Weighted Average:			10.2	8.9	8.2	1.0	1.0	1.0	4.3	4.6	9.5	10.5	10.7			

Source: Bloomberg, PSR

Extracted as of 4-Mar-23

Contact Information (Singapore Research Team)		
Head of Research Paul Chew – paulchewkl@phillip.com.sg	Research Admin Qystina Azli - qystina@phillip.com.sg	
Technical Analyst Zane Aw – zaneawyx@phillip.com.sg	Property REITs Darren Chan – darrenchanrx@phillip.com.sg	Banking & Finance Glenn Thum – glennthumjc@phillip.com.sg
Credit Analyst Shawn Sng – shawnsngkh@phillip.com.sg	US Technology Analyst (Digital Media & Entertainment) Jonathan Woo – jonathanwookj@phillip.com.sg	US Technology Analyst (Software/Services) Ambrish Shah – amshah@phillipcapital.in
US Technology Analyst (Hardware & Marketplaces) Maximilian Koeswoyo – maximilian@phillip.com.sg		

Contact Information (Regional Member Companies)		
SINGAPORE Phillip Securities Pte Ltd Raffles City Tower 250, North Bridge Road #06-00 Singapore 179101 Tel +65 6533 6001 Fax +65 6535 6631 Website: www.poems.com.sg	MALAYSIA Phillip Capital Management Sdn Bhd B-3-6 Block B Level 3 Megan Avenue II, No. 12, Jalan Yap Kwan Seng, 50450 Kuala Lumpur Tel +603 2162 8841 Fax +603 2166 5099 Website: www.poems.com.my	HONG KONG Phillip Securities (HK) Ltd 11/F United Centre 95 Queensway Hong Kong Tel +852 2277 6600 Fax +852 2868 5307 Websites: www.phillip.com.hk
JAPAN Phillip Securities Japan, Ltd. 4-2 Nihonbashi Kabuto-cho Chuo-ku, Tokyo 103-0026 Tel +81-3 3666 2101 Fax +81-3 3666 6090 Website: www.phillip.co.jp	INDONESIA PT Phillip Securities Indonesia ANZ Tower Level 23B, Jl Jend Sudirman Kav 33A Jakarta 10220 – Indonesia Tel +62-21 5790 0800 Fax +62-21 5790 0809 Website: www.phillip.co.id	CHINA Phillip Financial Advisory (Shanghai) Co Ltd No 550 Yan An East Road, Ocean Tower Unit 2318, Postal code 200001 Tel +86-21 5169 9200 Fax +86-21 6351 2940 Website: www.phillip.com.cn
THAILAND Phillip Securities (Thailand) Public Co. Ltd 15th Floor, Vorawat Building, 849 Silom Road, Silom, Bangrak, Bangkok 10500 Thailand Tel +66-2 6351700 / 22680999 Fax +66-2 22680921 Website: www.phillip.co.th	FRANCE King & Shaxson Capital Limited 3rd Floor, 35 Rue de la Bienfaisance 75008 Paris France Tel +33-1 45633100 Fax +33-1 45636017 Website: www.kingandshaxson.com	UNITED KINGDOM King & Shaxson Capital Limited 6th Floor, Candlewick House, 120 Cannon Street, London, EC4N 6AS Tel +44-20 7426 5950 Fax +44-20 7626 1757 Website: www.kingandshaxson.com
UNITED STATES Phillip Capital Inc 141 W Jackson Blvd Ste 3050 The Chicago Board of Trade Building Chicago, IL 60604 USA Tel +1-312 356 9000 Fax +1-312 356 9005 Website: www.phillipusa.com	AUSTRALIA Phillip Capital Limited Level 10, 330 Collins Street Melbourne, Victoria 3000, Australia Tel +61-03 8633 9803 Fax +61-03 8633 9899 Website: www.phillipcapital.com.au	CAMBODIA Phillip Bank Plc Ground Floor of B-Office Centre, #61-64, Norodom Blvd Corner Street 306, Sangkat Boeung Keng Kang 1, Khan Chamkamorn, Phnom Penh, Cambodia Tel: 855 (0) 7796 6151/855 (0) 1620 0769 Website: www.phillipbank.com.kh
INDIA PhillipCapital (India) Private Limited No.1, 18th Floor, Urmi Estate 95, Ganpatrao Kadam Marg Lower Parel West, Mumbai 400-013 Maharashtra, India Tel: +91-22-2300 2999 / Fax: +91-22-2300 2969 Website: www.phillipcapital.in	TURKEY PhillipCapital Menkul Degerler Dr. Cemil Bengü Cad. HakIs Merkezi No. 2 Kat. 6A Caglayan 34403 Istanbul, Turkey Tel: 0212 296 84 84 Fax: 0212 233 69 29 Website: www.phillipcapital.com.tr	DUBAI Phillip Futures DMCC Member of the Dubai Gold and Commodities Exchange (DGCX) Unit No 601, Plot No 58, White Crown Bldg, Sheikh Zayed Road, P.O.Box 212291 Dubai-UAE Tel: +971-4-3325052 / Fax: + 971-4-3328895

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