



Singapore Banking

A quick comparison with Credit Suisse

SINGAPORE | BANKING & FINANCE | UPDATE

20 March 2023

- On 14 March, Credit Suisse (CS) said in its 2022 annual report that it identified “material weaknesses” in internal controls over financial reporting and had not yet stemmed customer outflows. On 15 March, the bank’s top backer, Saudi National Bank, said that it was not able to give more money to the bank due to regulatory constraints. On 16 March, the bank exercised an option to borrow up to US\$54bn from the Swiss National Bank.
- Singapore banks’ capital and leverage ratios are comparable to Credit Suisse. However, Singapore banks are profitable with a positive ROE of ~12.5% (CS: -16%). Singapore banks has a larger proportion of net interest income while CS is fee and commissions.
- Maintain OVERWEIGHT.** We remain positive on Singapore banks. Bank dividend yields are attractive at 5.7% with possible upside surprise due to excess capital ratios and push towards higher ROEs. Singapore banks differ from Credit Suisse as they focus on NII growth and hence are able to post positive ROEs.

Overweight (Maintained)

DBS Group Holdings

BUY (Maintained)

BLOOMBERG CODE	DBS SP
LAST TRADED PRICE	SGD 32.55
FORECAST DIV	SGD 1.68
TARGET PRICE	SGD 41.60
DIVIDEND YIELD	5.16%
TOTAL RETURN	32.96%

Oversea-Chinese Banking Corp

BUY (Maintained)

BLOOMBERG CODE	OCBC SP
LAST TRADED PRICE	SGD 12.26
FORECAST DIV	SGD 0.80
TARGET PRICE	SGD 14.22
DIVIDEND YIELD	6.53%
TOTAL RETURN	22.51%

United Overseas Bank Limited

BUY (Maintained)

BLOOMBERG CODE	UOB SP
LAST TRADED PRICE	SGD 28.54
FORECAST DIV	SGD 1.65
TARGET PRICE	SGD 35.70
DIVIDEND YIELD	5.78%
TOTAL RETURN	30.87%

Glenn Thum (+65 6212 1851)

Research Analyst

glenthumjc@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

Figure 1: The largest difference is Credit Suisse’s profitability

As at 31 December 2022	CS	DBS	OCBC	UOB
Capital Ratios				
Common Equity Tier-1	14.1%	14.6%	15.2%	13.3%
Leverage ratio (Assets/Equity)	11.7	13.0	10.2	11.6
Liquidity coverage ratio	144%	140%	152%	140%
Profitability Ratios				
ROE	-16.1%	14.6%	11.1%	11.9%
Others				
NII (% of income)	35.8%	66.3%	65.9%	72.1%
Fee income (% of income)	59.3%	18.7%	15.9%	18.5%
NPL ratio	0.6%	1.1%	1.2%	1.6%
CASA ratio	67.8%	60%	51.8%	47.5%

Source: Company, PSR

Capital and leverage ratios similar to Singapore banks

Credit Suisse’s Common Equity Tier-1 (CET1) ratio of 14.1% is comparable to Singapore banks at ~14.4%. The leverage ratio of 11.7x is similar to Singapore banks’ ~11.6x. Credit Suisse is subjected to the Liquidity Coverage Ratio (LCR) requirements by the Federal Reserve and has kept an adequate LCR of 144%, which is comparable to that of Singapore banks at ~144%. The issue with what is happening at Credit Suisse does not appear to be its capital ratios.

Two years of net losses for Credit Suisse

Credit Suisse reported two consecutive years of net losses, CHF7.29bn in FY22 and CHF1.65bn in FY21, as investment banking revenues slumped and clients pulled money from the group’s wealth management business. This resulted in a negative ROE of 16.1% for FY22.

In comparison, the Singapore banks have been posting record revenues and profits, mainly due to the higher net interest income from the higher interest rate environment. Consequently, the Singapore banks have reported an ROE of ~12.5%.

Credit Suisse’s focus is on commissions and fees

Largely an investment bank, Credit Suisse’s focus is on commissions and fee income, with fee income making up 59% of its total income and net interest income only making up 36% of total income.

For the Singapore banks, the focus is mainly on net interest income with NII making up ~68% of total income and fee income making up ~18% of total income. The local banks were able to benefit from the rise in interest rates as they were able to pass on the higher funding costs directly to their customers as the majority of the loans were on a floating rate and could be repriced.

Figure 2: Credit Suisse vs Lehman Brothers

US\$’bn	CS (31 Dec 2022)	Lehman (31 May 2008)
Total Assets	574	639
Deposits	252	29
Total Liabilities	525	613

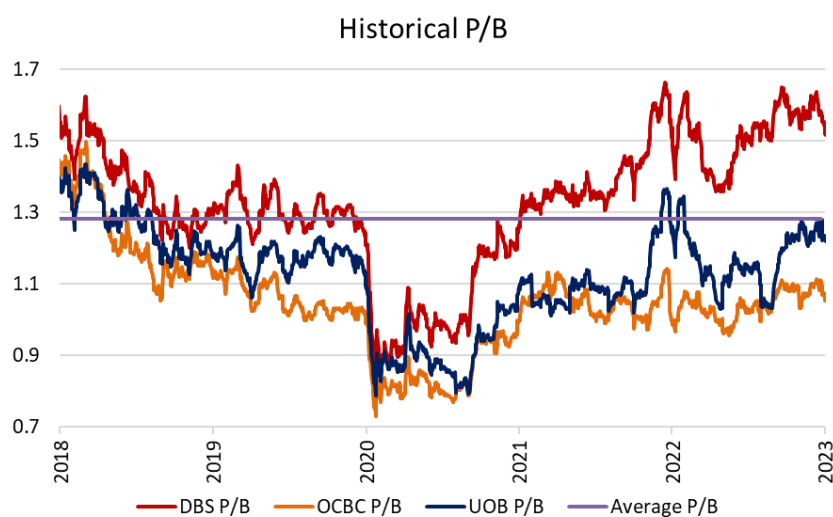
Source: Company, PSR

Smaller asset size compared to Lehman Brothers

Interestingly, if we were to compare Credit Suisse to Lehman Brothers back in 2008, Credit Suisse’s total assets are smaller at US\$574bn compared to Lehman Brother’s total assets of US\$639bn, and total liabilities are also smaller at US\$525bn compared to Lehman Brother’s total liabilities of US\$613bn. However, Credit Suisse has a larger amount of customer deposits, US\$252bn, as compared to Lehman Brother’s customer deposits of US\$29bn.

Investment Action

Maintain OVERWEIGHT. We remain positive on Singapore banks. Bank dividend yields are attractive at 5.7% with possible upside surprise due to excess capital ratios and push towards higher ROEs. Singapore banks differ from Credit Suisse as they focus on NII growth and hence are able to post positive ROEs.

Figure 3: Banks' 5-year historical P/B, OCBC remains the cheapest


Source: Bloomberg, PSR

Figure 4: 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 5: 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	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 – glennthumic@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
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
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
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
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
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
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
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
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
TURKEY
PhillipCapital Menkul Degerler

 Dr. Cemil Bengü Cad. Hak Is Merkezi
 No. 2 Kat. 6A Caglayan
 34403 Istanbul, Turkey
 Tel: 0212 296 84 84
 Fax: 0212 233 69 29
 Website: www.phillipcapital.com.tr
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
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
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
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
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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