



Singapore Banking Monthly

Dividends jumped 39% with NIM boost

SINGAPORE | BANKING & FINANCE | UPDATE

- July's 3M-SORA was up 5bps MoM to 3.69% and 3M-HIBOR was up 26bps MoM to 5.10%.
- 2Q23 bank earnings were slightly above expectations. PATMI rose 35%, supported by NII growth of 37% YoY. Guidance for FY23e NIMs (from 2.05-2.20% to 2.10-2.20%) and loans growth (maintained at low to mid-single digit). Interim dividend jumped 39% YoY in 1H23.
- Singapore domestic loans dipped 5.02% YoY in June, below our estimates. Loans were stable MoM, for the second time in 10 months. CASA balance grew to 18.9% (May23: 18.8%), the first MoM growth in 16 months.
- Maintain OVERWEIGHT.** We remain positive on banks. Bank dividend yields are attractive at ~6.0% with upside surprise in dividends 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).

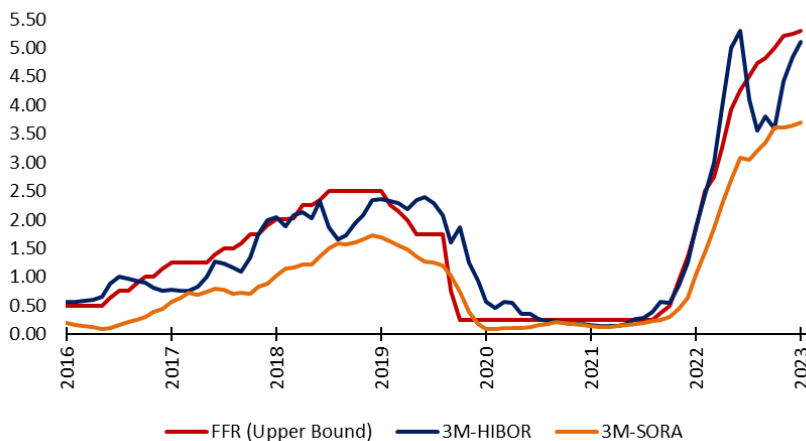
3M-SORA growth flattish; 3M-HIBOR rebounds in July

Singapore interest rates picked up slightly in July. The 3M-SORA was up 5bps MoM to 3.69%. July's 3M-SORA surged by 265bps YoY, the smallest YoY growth in eight months. July's 3M-SORA is 7bps higher than the 2Q23 3M-SORA average of 3.62%.

Hong Kong interest rates continued to surge and reversed the decline from 1Q23. The 3M-HIBOR was up 26bps MoM to 5.10%, the highest the 3M-HIBOR has reached since Dec 2022's 3M-HIBOR of 5.29%. July's 3M-HIBOR improved by 324bps YoY and was 82bps higher than 2Q23 3M-HIBOR average of 4.28% (Figure 1).

Figure 1: SORA growth flattish while HIBOR continues recovery in July

Fed Fund Rates (FFR) vs. 3M-HIBOR vs. 3M-SORA



Source: Bloomberg, PSR

11 August 2023

Overweight (Maintained)

DBS Group Holdings

BUY (Maintained)

BLOOMBERG CODE	DBS SP
LAST TRADED PRICE	SGD 34.15
FORECAST DIV	SGD 1.86
TARGET PRICE	SGD 41.60
DIVIDEND YIELD	5.45%
TOTAL RETURN	27.26%

Oversea-Chinese Banking Corp

BUY (Maintained)

BLOOMBERG CODE	OCBC SP
LAST TRADED PRICE	SGD 13.15
FORECAST DIV	SGD 0.85
TARGET PRICE	SGD 14.96
DIVIDEND YIELD	6.46%
TOTAL RETURN	20.23%

United Overseas Bank Limited

BUY (Maintained)

BLOOMBERG CODE	UOB SP
LAST TRADED PRICE	SGD 29.09
FORECAST DIV	SGD 1.75
TARGET PRICE	SGD 35.90
DIVIDEND YIELD	6.02%
TOTAL RETURN	29.43%

Glenn Thum (+65 6212 1851)

Senior 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

2Q23 RESULTS HIGHLIGHTS

1. Continued NII and NIM growth boost earnings

DBS' 2Q23 adjusted earnings of S\$2.69bn were above our estimates, and 1H23 adjusted PATMI was 57% of our FY23e forecast. 2Q23 DPS is raised 33% YoY to 48 cents, bringing 1H23 dividend to 90 cents. We raise our FY23e DPS from S\$1.68 to S\$1.86. NII spiked 40% YoY to S\$3.43bn due to a NIM surge of 58bps YoY to 2.16% despite loan growth dipping 2% YoY. Management spoke of an upside bias to NIM from its current levels and said that NIM will likely peak in 2H23, we could expect FY23e NIM at around 2.15%.

OCBC's 2Q23 earnings of S\$1.71bn were above our estimates and came from higher net interest income and insurance income offset by lower fee income and higher allowances. 1H23 PATMI was 53% of our FY23e forecast. 2Q23 DPS was up 43% YoY to 40 cents. We raise our FY23e DPS from S\$0.80 to S\$0.85. NII grew 41% YoY led by NIM improvement of 55bps YoY to 2.26% despite loan growth remaining flat YoY. NIM expansion was mainly due to the continued and rapid rise in interest rates during the year. OCBC has increased its NIM guidance for FY23e from 2.20% to above 2.20%.

UOB's 2Q23 adjusted earnings of S\$1.51bn were above our estimates due to higher other non-interest income and higher NII offset by lower-than-expected fee income growth and higher allowances. 1H23 adjusted PATMI was 54% of our FY23e forecast. 2Q23 DPS was up 42% YoY to 85 cents. We raise our FY23e DPS from S\$1.65 to S\$1.75. NII grew 31% YoY, despite a decline in loans growth of 1% YoY, while NIM surged 45bps YoY to 2.12% but declined 2bps QoQ due to excess liquidity deployed to high-quality assets. UOB has maintained its loan growth guidance of low to a mid-single digit and NIM to stay around current levels for FY23e.

2. Allowances higher across the board

DBS' 2Q23 total allowances were higher 57% YoY due to SPs increasing by 65% YoY offset by higher GP write-back of S\$42mn for the quarter (2Q22: write-back of S\$23mn). Resultantly, 2Q23 credit costs rose by 2bps YoY to 10bps. Nonetheless, the NPL ratio declined to 1.1% (2Q22: 1.3%) as new NPA formation fell by 39% YoY. GP reserves rose slightly to S\$3.80bn.

OCBC's management set aside 31bps of credit cost for 2Q23 (1Q23: 12bps), the second highest in six quarters, even though asset quality is still benign, with new NPAs during the quarter only at S\$289mn (1Q23: S\$174mn) and NPL ratio at 1.1%. 2Q23 total allowances rose 250% YoY mainly due to an increase in GPs, which were mainly set aside for changes in risk profiles, macro-economic variables updates and management overlays (40% of GP or ~S\$1bn).

UOB's total allowances rose by 38% YoY to S\$238mn mainly due to specific allowances increasing by 22% YoY to S\$202mn largely due to a major Thailand corporate account and general allowance of S\$36mn (2Q22: S\$7mn). This resulted in credit costs increasing by 8bps YoY to 30bps. Management said that the major Thailand corporate account is in the manufacturing sector and was hit by fraud, for which they had to fully provide for, nonetheless, they do not see any systemic risk from this account.

Figure 3: Banks' guidance vs PSR estimates for FY23e

Assumptions	DBS	PSR
NIM (%)	Around 2.15%	2.15%
Loans growth (%)	Low-single digit	2.0%
Credit cost (bps)	10 - 15	12

Source: Company, PSR

Assumptions	OCBC	PSR
NIM (%)	Above 2.20%	2.22%
Loans growth (%)	Low to Mid-single digit	2.0%
Credit cost (bps)	Around 20	20

Source: Company, PSR

Assumptions	UOB	PSR
NIM (%)	2.10 - 2.15%	2.11%
Loans growth (%)	Low to Mid-single digit	1.0%
Credit cost (bps)	Around 25	27

Source: Company, PSR

Figure 2: Continued NII and NIM growth boost earnings in 2Q23

2Q23 vs. 2Q22	DBS	OCBC	UOB
NIM	2.16% (+58bps)	2.26% (+55bps)	2.12% (+45bp)
NII	+40%	+41%	+31%
Net fees & commissions	+7%	-10%	-8%
Less: General provisions (S\$)	-42mn	200mn	36mn
NPL ratio	1.1% (-20bps)	1.1% (-20bps)	1.6% (-10bps)
NPA coverage	127%	131%	99%
Common Equity Tier-1	14.1%	15.4%	13.6%
Interim dividend per share	48 cents (+33%)	40 cents (+43%)	85 cents (+42%)

Source: Company, PSR

Singapore loans growth decline increased in June

Overall loans to Singapore residents – which captured lending in all currencies to residents in Singapore – fell by 5.02% YoY in June to S\$799bn. This was below our estimate of low to mid-single digit growth for 2023 as the rise in interest rates started to be fully felt by consumers, nonetheless, it was stable MoM, the second in 10 months.

Business loans fell by 6.92% YoY in June. Loans to the building and construction segment, the single largest business segment, fell 1.36% YoY to S\$171bn, while loans to the manufacturing segment fell 19.25% YoY in June to S\$23.7bn.

Consumer loans were down 1.85% YoY in June to S\$310bn, 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 1.18% YoY in June to S\$223bn for the month.

Total deposits and balances – which captured deposits in all currencies to non-bank customers – grew by 3.62% YoY in June to S\$1,756bn. The Current Account and Savings Account, (or CASA) ratio grew to 18.9% (May23: 18.8%) of total deposits, or S\$333bn, CASA ratio grew MoM for first time in 16 months.

Hong Kong loans growth continues to decline

Hong Kong's domestic loans growth declined 4.20% YoY and declined 0.03% MoM in June. The YoY decline in loans growth for June was lower than the decline of 4.33% in May 2023, while the MoM decline of 0.03% was lower than the decline of 0.63% in May 2023.

Figure 5: Hong Kong loans growth dips further in June


Source: CEIC, PSR

Figure 4: YTD Singapore loans growth

2022/2023	Loans growth (YoY)
June	-5.02%
May	-4.88%
April	-5.86%
March	-3.98%
February	-3.10%
January	-1.89%
December	-0.30%
November	0.67%
October	2.13%

Source: CEIC, PSR

Volatility fell as the market continues to recover from turmoil

Preliminary SDAV for July rose 13% YoY to \$1,014mn (Figure 4), the largest YoY increase since Feb 2022 as market sentiment started to improve. The VIX averaged 13.9 in July, down slightly from 14.0 in the previous month, and the DDAV fell 6% YoY to 1.03mn in June, but up 5% MoM from 0.98mn in June.

The top four equity index futures turnover saw a slight dip of 3.5% YoY in July to 11.04mn contracts (Figure 5), due to the lower trading volumes of its Nikkei 225 Index Futures and FTSE China A50 Index Futures. Notably, the MSCI Singapore Index Futures increased 13.7% MoM, with the Nikkei 225 Index Futures showing the biggest decline MoM of 40.3%.

Figure 6: YTD SDAV and DDAV

	SDAV (\$mn)	YoY	DDAV (mn)	YoY
July	1,014	13%	-	-
June	1,174	1%	1.03	-6%
May	1,032	-31%	0.98	-13%
April	969	-24%	0.96	-12%
March	1,216	-22%	1.04	-11%
February	1,105	-33%	1.01	-5%
January	1,159	-4%	1.08	+6%
December	935	10%	0.92	+8%
November	1,239	-8%	1.09	+27%
October	1,154	0%	1.22	+23%
September	1,171	-5%	1.05	+2%
August	1,105	-12%	0.92	+2%

Source: SGX, Bloomberg, PSR

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

No. of contracts	Jul-22	Jul-23	YoY
FTSE China A50 Index Futures	7,826,742	7,418,652	-5.2%
Nikkei 225 Index Futures	1,106,121	961,941	-13.0%
MSCI Singapore Index Futures	1,127,196	1,174,471	4.2%
FTSE Taiwan Index Futures	1,381,739	1,482,793	7.3%
Sub-total	11,441,798	11,037,857	-3.5%

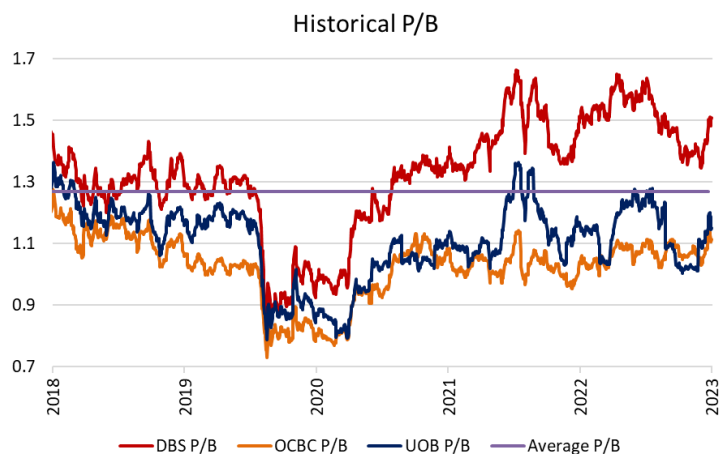
Source: SGX, Bloomberg, PSR

Singapore Banking News

- On 19 July, the two digital banks in Singapore, GXS Bank (Grab and Singtel) and MariBank (Sea) said that they will be raising their savings deposit cap to S\$75k per account. GXS has also opened its flagship savings account to new customers on a first-come, first-served basis while MariBank will be opening up to more customers in the coming weeks.
- On 28 July, MAS announced plans to do away with cheques, starting with corporate cheques by end-2025 while individuals will still be able to use cheques "for a period" after 2025. At least seven banks – DBS, UOB, OCBC, Citibank, HSBC, Maybank and Standard Chartered – will start imposing fees on cheque issuers, both corporates and individuals, by 1 Nov.
- On 4 August, OCBC customers will be able to use the bank's digital app to make retail payments to UnionPay QR-enabled merchants in 47 markets via their OCBC Singapore bank accounts. They will not need to download, set up, and fund third-party payment apps, and payments will be made directly from customers' OCBC Singapore accounts with no additional fees or charges.

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


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	14.96	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			
Singapore																
DBS	Accumulate	66,054	10.7	9.0	9.1	1.5	1.5	1.4	5.6	6.1	14.3	17.1	15.9	34.4	41.60	21%
OCBC	Buy	43,636	9.6	8.3	8.3	1.0	1.1	1.0	6.2	6.3	10.9	13.0	12.4	13.0	14.22	9%
UOB	Accumulate	36,028	11.4	8.5	8.1	1.3	1.1	1.0	5.9	6.1	11.1	13.1	12.9	28.9	35.70	24%
Market Cap Weighted Average:			10.5	8.6	8.6	1.3	1.2	1.2	5.8	6.2	12.5	14.9	14.1			
Indonesia																
BANK CENTRAL ASI	Non-rated	75,346	25.9	23.7	21.9	4.8	4.6	4.2	2.4	2.7	19.2	20.5	20.0	9275	na	na
BANK MANDIRI	Non-rated	36,134	11.2	11.2	10.1	2.0	2.1	1.9	4.9	5.5	19.0	20.0	20.2	5875	na	na
BANK NEGARA INDO	Non-rated	11,060	9.4	7.9	7.0	1.3	1.1	1.0	4.3	5.1	14.1	14.8	15.0	9000	na	na
BANK RAKYAT INDO	Non-rated	56,928	14.6	14.6	13.1	2.5	2.6	2.5	5.1	5.8	17.4	18.7	19.6	5700	na	na
BANK TABUNGAN NE	Non-rated	1,212	4.7	5.3	4.8	0.6	0.6	0.6	3.4	3.5	12.9	11.8	12.1	1310	na	na
Market Cap Weighted Average:			18.3	17.3	15.7	3.3	3.3	3.0	3.8	4.4	18.2	19.4	19.6			
Malaysia																
AFFIN BANK BHD	Non-rated	1,004	82.9	8.1	7.1	0.4	0.4	0.4	5.7	6.4	11.5	4.8	5.3	2.0	na	na
ALLIANCE BANK	Non-rated	1,192	7.8	7.7	7.3	0.8	0.8	0.7	6.4	6.8	10.3	10.1	10.3	3.5	na	na
AMBANK HLDG BHD	Non-rated	2,719	6.9	7.2	6.9	0.7	0.6	0.6	5.0	5.3	9.9	9.3	9.1	3.8	na	na
BANK ISLAM MALAY	Non-rated	1,054	11.9	9.2	8.5	0.9	0.7	0.6	5.9	6.3	7.5	7.4	7.8	2.1	na	na
HONG LEONG BANK	Non-rated	9,347	12.7	10.6	10.0	1.4	1.2	1.1	3.3	3.7	10.9	12.1	12.0	19.7	na	na
MALAYAN BANKING	Non-rated	23,582	12.6	11.4	10.9	1.2	1.2	1.2	6.8	7.2	9.6	10.6	10.8	8.9	na	na
PUBLIC BANK BHD	Non-rated	17,582	13.7	11.7	11.3	1.7	1.5	1.4	4.4	4.5	12.4	13.1	12.8	4.1	na	na
RHB BANK BHD	Non-rated	5,312	8.9	7.8	7.5	0.9	0.8	0.8	7.3	7.6	9.5	10.2	10.1	5.7	na	na
Market Cap Weighted Average:			13.4	10.7	10.2	1.3	1.2	1.1	5.5	5.8	10.6	11.3	11.2			
Thailand																
BANGKOK BANK PUB	Non-rated	9,494	9.6	8.2	7.5	0.6	0.6	0.6	3.6	4.0	5.9	7.6	7.9	173.0	na	na
BANK AYUDHYA PCL	Non-rated	6,767	7.4	7.0	6.6	0.7	0.6	0.6	3.5	3.7	9.3	9.5	9.2	32.0	na	na
KASIKORN BANK PCL	Non-rated	8,413	9.8	7.2	6.4	0.7	0.6	0.5	3.8	4.2	7.3	7.9	8.2	123.5	na	na
KIATNAKIN PHATRA	Non-rated	1,345	8.2	6.6	6.0	1.1	0.8	0.7	6.2	6.9	14.0	11.8	12.2	55.3	na	na
KRUNGTHAI BANK	Non-rated	8,117	7.3	7.2	6.9	0.7	0.7	0.7	4.3	4.6	9.2	9.9	9.8	20.2	na	na
KRUNGTHAI CARD P	Non-rated	3,466	21.5	16.2	14.9	4.9	3.4	3.0	2.6	2.8	24.3	22.2	21.1	46.8	na	na
SCB X PCL	Non-rated	10,842	9.6	8.6	8.0	0.8	0.8	0.7	5.7	5.9	8.3	9.3	9.5	112.0	na	na
SRISAWAD CORP PC	Non-rated	1,806	15.0	12.3	10.6	2.7	2.2	1.9	3.8	4.3	17.8	18.6	19.5	45.8	na	na
THANACHART CAPIT	Non-rated	1,515	8.5	9.4	8.8	0.7	0.8	0.8	6.3	6.4	7.9	8.5	8.6	50.3	na	na
TISCO FINANCIAL	Non-rated	2,296	11.0	10.8	10.3	1.9	1.8	1.8	7.9	8.2	17.2	17.1	17.6	99.8	na	na
Market Cap Weighted Average:			10.0	8.6	7.9	1.1	0.9	0.9	4.4	4.7	9.8	10.4	10.5			

Source: Bloomberg, PSR

Extracted as of 7-Aug-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
Property | REITs

 Liu Miaomiao – liumm@phillip.com.sg
Conglomerate | Transport

 Peggy Mak – peggyamak@phillip.com.sg
US Technology Analyst (Hardware & Marketplaces)

 Maximilian Koeswoyo – maximilian@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
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, Bangkok,
 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 (DGEX)
 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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