



# Singapore Banking Monthly

Rates growth stagnates

13 October 2023

## SINGAPORE | BANKING & FINANCE | UPDATE

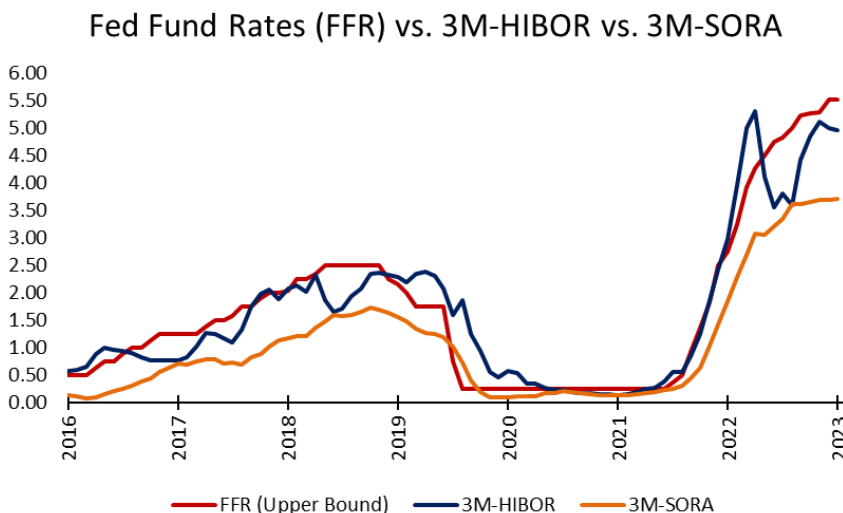
- September's 3M-SORA was up 1bps MoM to 3.70% and was 7bps higher than the 3Q23 average of 3.69%. 3M-HIBOR was down 3bps MoM to 4.95%.
- Singapore domestic loans dipped 6.71% YoY in August, below our estimates. The loan decline was slightly larger than in the previous month. The CASA balance dipped slightly to 18.8% (Jul23: 18.9%).
- Maintain OVERWEIGHT.** We remain positive on banks. Bank dividend yields are attractive at 5.7% 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 flat; 3M-HIBOR continues decline in September

Singapore interest rates continued to flatten in September. The 3M-SORA was up 1bps MoM to 3.70%. September's 3M-SORA surged by 186bps YoY and was 7bps higher than 3Q23 3M-SORA average of 3.69% (2Q23: 3.62%).

Hong Kong interest rates declined and slightly reversed the previous few months' increase. The 3M-HIBOR was down 3bps MoM to 4.95%, lower than August's MoM decline of 12ps. Nonetheless, this is the third highest level that the 3M-HIBOR has reached so far in 2023. September's 3M-HIBOR improved by 197bps YoY and was 6bps lower than 3Q23 3M-HIBOR average of 5.01% (Figure 1).

Figure 1: SORA flattens while HIBOR declines in September



Source: Bloomberg, PSR

## Overweight (Maintained)

### DBS Group Holdings

#### BUY (Maintained)

BLOOMBERG CODE	DBS SP
LAST TRADED PRICE	SGD 33.80
FORECAST DIV	SGD 1.86
TARGET PRICE	SGD 41.60
DIVIDEND YIELD	5.50%
TOTAL RETURN	28.58%

### Oversea-Chinese Banking Corp

#### BUY (Maintained)

BLOOMBERG CODE	OCBC SP
LAST TRADED PRICE	SGD 12.98
FORECAST DIV	SGD 0.85
TARGET PRICE	SGD 14.96
DIVIDEND YIELD	6.55%
TOTAL RETURN	21.80%

### United Overseas Bank Limited

#### BUY (Maintained)

BLOOMBERG CODE	UOB SP
LAST TRADED PRICE	SGD 28.36
FORECAST DIV	SGD 1.75
TARGET PRICE	SGD 35.90
DIVIDEND YIELD	6.17%
TOTAL RETURN	32.76%

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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 continues to decline

Overall loans to Singapore residents – which captured lending in all currencies to residents in Singapore – fell by 6.71% YoY in August to S\$786bn. This was below our estimate of low-single digit growth for 2023 as the rise in interest rates started to be fully felt by consumers.

Business loans fell by 9.69% YoY in August. Loans to the building and construction segment, the single largest business segment, fell 1.93% YoY to S\$169bn, while loans to the manufacturing segment fell 21.38% YoY in August to S\$21.7bn.

Consumer loans were down 1.73% YoY in August 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 1.05% YoY in August to S\$223bn for the month.

Total deposits and balances – which captured deposits in all currencies to non-bank customers – grew by 3.10% YoY in August to S\$1,776bn. The Current Account and Savings Account, or CASA proportion dipped slightly to 18.8% (Jul23: 18.9%) of total deposits, or S\$334bn.

**Figure 2: YTD Singapore loans growth**

2022/2023	Loans growth (YoY)
August	-6.71%
July	-6.15%
June	-5.02%
May	-4.88%
April	-5.86%
March	-3.98%
February	-3.10%
January	-1.89%
December	-0.30%
November	0.67%

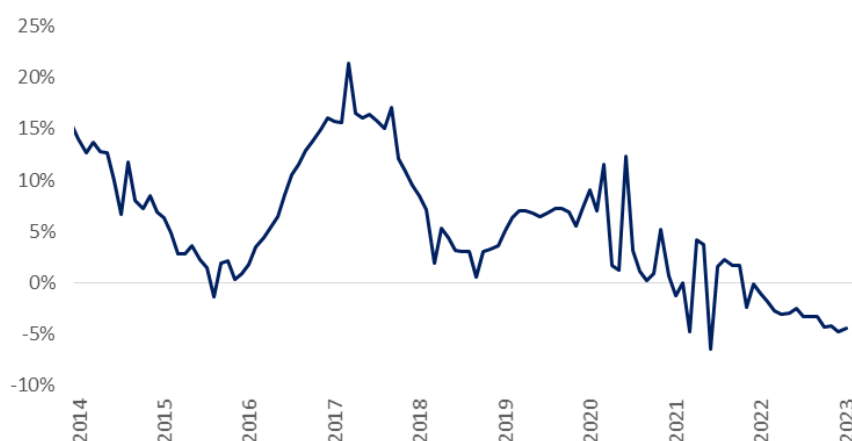
Source: CEIC, PSR

### Hong Kong loans growth continues to decline

Hong Kong’s domestic loans growth declined 4.46% YoY and declined 0.28% MoM in August. The YoY decline in loans growth for August was lower than the decline of 4.73% in July 2023, while the MoM decline was lower than the decline of 0.98% in July 2023.

**Figure 3: Hong Kong loans growth dipped further in August**

Hong Kong Loans Growth (YoY)



Source: CEIC, PSR

### Volatility dips but remains high from China worries

SDAV for September fell 27% YoY to \$858mn (Figure 4), the largest YoY decline in 4 months. The VIX averaged 15.2 in September, down from 15.9 in the previous month, and the DDAV rose 3% YoY and 3% MoM to 1.07mn in September.

The top four equity index futures turnover saw a decline of 17.1% YoY in September to 9.96mn contracts (Figure 5), due to the lower trading volumes of its Nikkei 225 Index Futures and MSCI Singapore Index Futures. Notably, the Nikkei 225 Index Futures increased 20.5% MoM, with the FTSE China A50 Index Futures fell 24.8% MoM in September.

**Figure 4: 12 Months SDAV and DDAV**

	SDAV (\$mn)	YoY	DDAV (mn)	YoY
September	858	-27%	1.07	3%
August	1,061	-4%	1.04	13%
July	1,014	13%	0.98	-1%
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%

Source: SGX, Bloomberg, PSR

**Figure 5: Turnover of top four equity index futures contracts down YoY**

No. of contracts	Sep-22	Sep-23	YoY
FTSE China A50 Index Futures	7,766,893	6,571,431	-15.4%
Nikkei 225 Index Futures	1,508,398	1,040,619	-31.0%
MSCI Singapore Index Futures	1,315,294	1,038,866	-21.0%
FTSE Taiwan Index Futures	1,412,002	1,304,094	-7.6%
<b>Sub-total</b>	<b>12,002,587</b>	<b>9,955,010</b>	<b>-17.1%</b>

Source: SGX, Bloomberg, PSR

### Local banks' Greater China exposure

As at 1H23, the three local banks (DBS, OCBC and UOB) reported that 17% of profit before tax came from Greater China (Mainland China and Hong Kong) with 24% of the total loan book from Greater China. OCBC had the highest exposure with 23% of profit before tax and 24% of total loans from Greater China, while UOB had the lowest Greater China exposure with profit before tax and total loans at 3% and 16%, respectively.

On the funding and deposits, it was relatively similar with an average exposure of 9%; DBS and OCBC at 10% each, while UOB the lowest at 6% of total deposits coming from Greater China.

**Figure 6: Greater China exposure**

Greater China exposure (%)	DBS	OCBC	UOB	Total
Profit before tax	19.7	23.2	3.2	16.6
Loans	28.9	24.4	16.2	23.7
Deposits	10.2	10.4	5.9	9.0

Source: Company, PSR

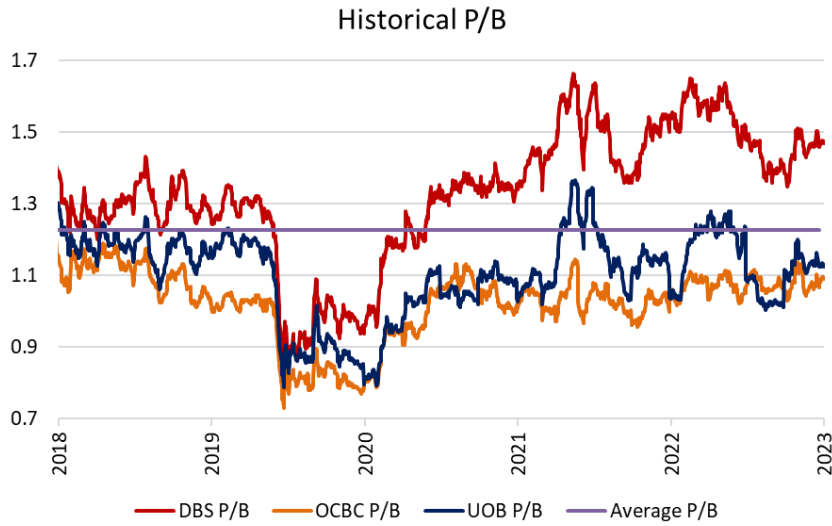
### Singapore Banking News

- On 27 September, UOB and DBS announced greater controls aimed at protecting customers against malware-enabled scams, following OCBC Bank's lead. UOB will be progressively rolling out two new security features on its UOB TMRW banking app, while DBS, which launched a security check-up dashboard earlier this month, and has been pushing out a new anti-malware tool on its DBS/POSB digibank app progressively from September.
- On 26 September, the Monetary Authority of Singapore, or MAS, said it was looking into whether banks involved in an S\$2.4bn money laundering scandal in the global wealth hub had taken all reasonable steps to mitigate risks. They will take action if its findings reveal shortcomings in the banks' controls, a spokesperson said in an emailed statement.
- On 22 September, MAS announced that insurance coverage on bank deposits will be raised to \$100,000 per depositor from \$75,000 currently and the move will take effect from 1 Apr 2024. This will ensure 91 per cent of depositors are fully covered under MAS' Deposit Insurance (DI) Scheme, which is administered by the Singapore Deposit Insurance Corporation (SDIC). The scheme provides protection for all Singapore-dollar deposits held at a full bank or finance company. Full banks are licensed under and governed by the Banking Act, and they may undertake banking activities such as deposit taking and lending.
- On 5 September, GX Bank Berhad (GXBank), a subsidiary of GXS Bank, announced that it is the first of the five digital bank licence applicants to obtain approval to commence operations in Malaysia. GXBank got approval from the Minister of Finance and Bank Negara Malaysia (BNM) ahead of the April 2024 deadline set by BNM, a press statement said. The bank has also successfully completed an operational readiness review, and has been approved to commence operations from 1 Sep.

### 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 7: Banks' 5-year historical P/B



Source: Bloomberg, PSR

Figure 8: 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 9: 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	62,784	10.7	8.6	8.7	1.5	1.4	1.3	6.0	6.6	14.3	17.4	16.2	33.4	41.60	24%
OCBC	Buy	41,749	9.6	8.1	8.0	1.0	1.0	1.0	6.4	6.7	10.9	13.1	12.6	12.8	14.22	12%
UOB	Accumulate	34,328	11.4	8.2	7.9	1.3	1.0	1.0	6.1	6.3	11.1	13.2	13.0	28.2	35.70	27%
<b>Market Cap Weighted Average:</b>			<b>10.5</b>	<b>8.3</b>	<b>8.3</b>	<b>1.3</b>	<b>1.2</b>	<b>1.1</b>	<b>6.1</b>	<b>6.5</b>	<b>12.5</b>	<b>15.1</b>	<b>14.4</b>			
<b>Indonesia</b>																
BANK CENTRAL ASI	Non-rated	72,398	25.9	23.2	21.3	4.8	4.6	4.1	2.4	2.8	19.2	20.8	20.5	9150	na	na
BANK MANDIRI	Non-rated	36,393	11.2	11.4	10.3	2.0	2.2	2.0	4.7	5.4	19.0	20.1	20.3	6075	na	na
BANK NEGARA INDO	Non-rated	12,418	9.4	9.2	8.1	1.3	1.3	1.2	3.8	4.7	14.1	14.7	15.1	10375	na	na
BANK RAKYAT INDO	Non-rated	51,314	14.6	13.4	11.9	2.5	2.4	2.3	5.9	6.3	17.4	19.2	20.1	5275	na	na
BANK TABUNGAN NE	Non-rated	1,131	4.7	5.0	4.7	0.6	0.6	0.5	3.5	3.7	12.9	11.8	11.8	1255	na	na
<b>Market Cap Weighted Average:</b>			<b>18.2</b>	<b>16.7</b>	<b>15.2</b>	<b>3.2</b>	<b>3.2</b>	<b>2.9</b>	<b>4.0</b>	<b>4.5</b>	<b>18.2</b>	<b>19.7</b>	<b>19.9</b>			
<b>Malaysia</b>																
AFFIN BANK BHD	Non-rated	1,038	82.9	8.9	8.0	0.4	0.4	0.4	5.0	5.5	11.5	4.7	5.1	2.1	na	na
ALLIANCE BANK	Non-rated	1,101	7.8	7.8	7.2	0.8	0.7	0.7	6.4	6.7	10.3	9.6	9.8	3.4	na	na
AMBANK HLDG BHD	Non-rated	2,606	6.9	7.5	7.1	0.7	0.6	0.6	4.8	5.2	10.0	8.8	8.9	3.7	na	na
BANK ISLAM MALAY	Non-rated	1,017	11.9	9.1	8.5	0.9	0.7	0.7	5.8	6.3	7.5	7.4	7.8	2.1	na	na
HONG LEONG BANK	Non-rated	8,947	10.2	10.0	9.3	1.1	1.1	1.0	3.3	3.5	11.8	11.3	11.2	19.5	na	na
MALAYAN BANKING	Non-rated	22,362	12.6	11.2	10.8	1.2	1.2	1.1	6.8	7.2	9.6	10.6	10.7	8.8	na	na
PUBLIC BANK BHD	Non-rated	16,804	13.7	11.7	11.2	1.7	1.5	1.4	4.5	4.6	12.4	13.0	12.7	4.1	na	na
RHB BANK BHD	Non-rated	4,926	8.9	8.0	7.7	0.9	0.7	0.7	7.3	7.7	9.5	9.7	9.5	5.4	na	na
<b>Market Cap Weighted Average:</b>			<b>13.1</b>	<b>10.6</b>	<b>10.1</b>	<b>1.3</b>	<b>1.2</b>	<b>1.1</b>	<b>5.5</b>	<b>5.8</b>	<b>10.8</b>	<b>11.1</b>	<b>11.0</b>			
<b>Thailand</b>																
BANGKOK BANK PUB	Non-rated	8,506	9.6	7.7	7.0	0.6	0.6	0.6	3.8	4.2	5.9	7.8	8.1	165.0	na	na
BANK AYUDHYA PCL	Non-rated	5,960	7.4	6.6	6.2	0.7	0.6	0.6	3.8	3.9	9.3	9.5	9.2	30.0	na	na
KASIKORN BANK PCL	Non-rated	7,998	9.8	7.3	6.5	0.7	0.6	0.5	3.8	4.2	7.3	7.9	8.2	125.0	na	na
KIATNAKIN PHATRA	Non-rated	1,246	8.2	6.6	5.9	1.1	0.7	0.7	6.2	6.9	14.0	11.6	12.0	54.5	na	na
KRUNG THAI BANK	Non-rated	7,058	7.3	6.7	6.3	0.7	0.6	0.6	4.6	5.0	9.2	9.9	9.9	18.7	na	na
KRUNGTHAI CARD P	Non-rated	3,046	21.5	15.2	14.0	4.9	3.1	2.8	2.8	3.0	24.3	22.1	21.0	43.8	na	na
SCB X PCL	Non-rated	9,184	9.6	7.8	7.3	0.8	0.7	0.7	6.6	6.8	8.3	9.1	9.4	101.0	na	na
SRISAWAD CORP PC	Non-rated	1,567	15.0	11.5	9.8	2.7	2.0	1.8	4.1	4.7	17.8	18.4	19.5	42.3	na	na
THANACHART CAPIT	Non-rated	1,416	8.5	8.6	7.5	0.7	0.8	0.7	6.7	7.4	7.9	9.0	9.1	50.0	na	na
TISCO FINANCIAL	Non-rated	2,124	11.0	10.6	10.2	1.9	1.8	1.7	8.0	8.4	17.2	17.1	17.4	98.3	na	na
<b>Market Cap Weighted Average:</b>			<b>10.0</b>	<b>8.1</b>	<b>7.5</b>	<b>1.1</b>	<b>0.9</b>	<b>0.8</b>	<b>4.7</b>	<b>5.1</b>	<b>9.8</b>	<b>10.4</b>	<b>10.5</b>			

Source: Bloomberg, PSR

Extracted as of 3-Oct-23

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