



# Singapore Banking Monthly

Loans and interest rates dip further

19 February 2024

## SINGAPORE | BANKING & FINANCE | UPDATE

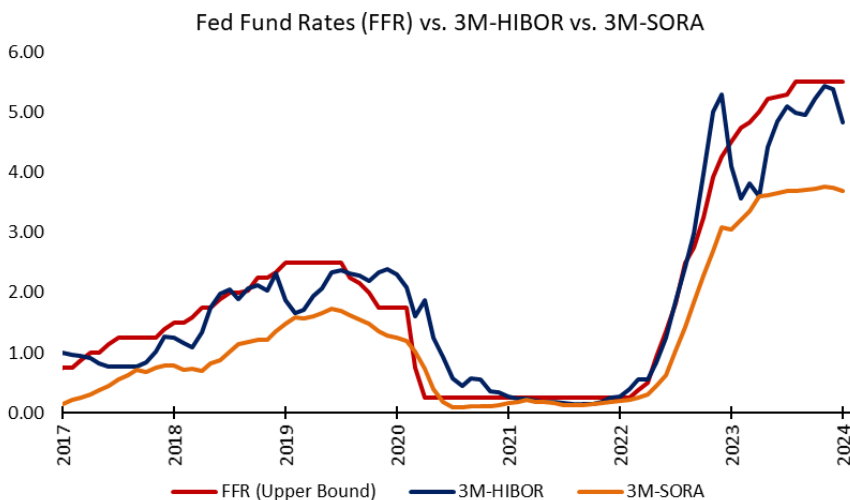
- January's 3M-SORA was down 5bps MoM to 3.69% and was 5bps lower than the 4Q23 average. This is the largest MoM decline since July 2020. 3M-HIBOR was down 55bps MoM to 4.82%, the largest MoM decline since January 2023.
- Singapore domestic loans dipped 2.4% YoY in December, below our estimates. The loan decline was the smallest decline recorded in 11 months. The CASA balance was maintained at 18.5% (Nov23: 18.5%).
- Maintain OVERWEIGHT.** All three banks declined in January. The worst performer was DBS with a 4.6% decline. We remain positive on banks. NIMs may see flat growth despite the higher-for-longer interest rate environment, but a recovery in loan growth and fee income will uplift profits. Bank dividend yields are also attractive with upside surprises due to excess capital ratios and a push towards higher ROEs.

### 3M-SORA and 3M-HIBOR decline continues in January

Singapore interest rates dipped in January, the largest MoM decline since July 2020. The 3M-SORA was down 5bps MoM to 3.69%. Nonetheless, January's 3M-SORA rose by 64bps YoY but was 5bps lower than the 4Q23 3M-SORA average of 3.74% (3Q23: 3.69%).

Hong Kong interest rates declined in January. The 3M-HIBOR was down 55bps MoM to 4.82%, the largest MoM decline since January 2023. Nonetheless, January's 3M-HIBOR improved by 72bps YoY but was 52bps lower than 4Q23 3M-HIBOR average of 5.34% (Figure 1).

Figure 1: SORA and HIBOR continue to dip in January



Source: Bloomberg, PSR

## Overweight (Maintained)

### DBS Group Holdings

#### BUY (Maintained)

BLOOMBERG CODE	DBS SP
LAST TRADED PRICE	SGD 33.78
FORECAST DIV	SGD 2.16
TARGET PRICE	SGD 38.90
DIVIDEND YIELD	6.39%
TOTAL RETURN	21.55%

### Oversea-Chinese Banking Corp

#### BUY (Maintained)

BLOOMBERG CODE	OCBC SP
LAST TRADED PRICE	SGD 13.22
FORECAST DIV	SGD 0.85
TARGET PRICE	SGD 14.96
DIVIDEND YIELD	6.43%
TOTAL RETURN	19.59%

### United Overseas Bank Limited

#### BUY (Maintained)

BLOOMBERG CODE	UOB SP
LAST TRADED PRICE	SGD 29.15
FORECAST DIV	SGD 1.75
TARGET PRICE	SGD 35.90
DIVIDEND YIELD	6.00%
TOTAL RETURN	29.16%

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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 loan growth decline flattens

Overall loans to Singapore residents – which captured lending in all currencies to residents in Singapore – fell by 2.44% YoY in December to S\$794bn. 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. Nonetheless, this is the smallest decline recorded in 11 months.

Business loans fell by 3.92% YoY in December. Loans to the building and construction segment, the single largest business segment, fell 0.27% YoY to S\$168bn, while loans to the manufacturing segment fell 13.4% YoY in December to S\$22.5bn.

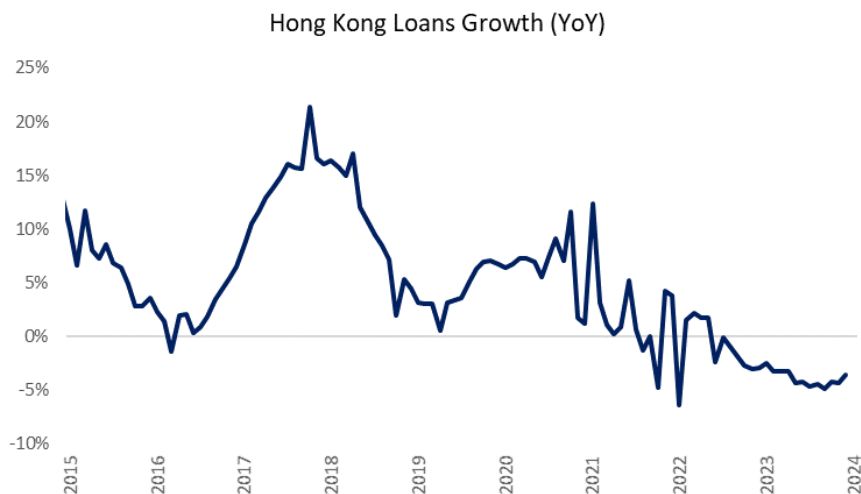
Consumer loans were flat YoY in December to S\$313bn, as dips in other segments were offset slightly by strong loan demand in the housing segment. Housing loans, which comprise ~70% of consumer lending, grew 1.34% YoY in December to S\$226bn for the month.

Total deposits and balances – which captured deposits in all currencies to non-bank customers – grew by 4.29% YoY in December to S\$1,790bn. The Current Account and Savings Account, or CASA proportion, was maintained at 18.5% (Nov23: 18.5%) of total deposits, or S\$331bn.

### Hong Kong loan growth decline flattens

Hong Kong’s domestic loan growth declined 3.58% YoY and was flat MoM in December. The YoY decline in loan growth for December was lower than the decline of 4.30% in November 2023, and the MoM decline was lower than the decline of 0.46% in November 2023.

**Figure 3: Hong Kong loans growth decline flattens in December**



Source: CEIC, PSR

### Volatility fell as the market stabilised

SDAV for January dipped 20% YoY to \$924mn (Figure 4), while the DDAV grew 5% YoY and 10% MoM in January. The VIX, a market index that measures the implied volatility of the S&P 500 Index, averaged 13.4 in January, up from 12.7 in the previous month. This is the second lowest the VIX has reached since Dec 2019.

The top four equity index futures turnover saw an increase of 22% YoY in January to 12.96mn contracts (Figure 5) due to the higher trading volumes of its FTSE China A50 Index Futures and FTSE Taiwan Index Futures. Notably, the FTSE China A50 Index Futures increased 25.6% MoM, while the Nikkei 225 Index Futures fell 22% MoM in January.

**Figure 2: YTD Singapore loans growth**

2023	Loans growth (YoY)
December	-2.44%
November	-2.89%
October	-4.19%
September	-6.11%
August	-6.71%
July	-6.15%
June	-5.02%
May	-4.88%
April	-5.86%
March	-3.98%
February	-3.10%
January	-1.89%

Source: CEIC, PSR

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

	SDAV (\$mn)	YoY	DDAV (mn)	YoY
January24	924	-20%	1.14	5%
December23	939	0%	1.04	13%
November	952	-23%	1.04	-5%
October	897	-22%	1.07	-13%
September	867	-26%	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%

Source: SGX, Bloomberg, PSR

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

No. of contracts	Jan-23	Jan-24	YoY
FTSE China A50 Index Futures	7,401,942	9,400,967	+27.0%
Nikkei 225 Index Futures	959,869	828,149	-13.7%
MSCI Singapore Index Futures	1,129,599	1,144,516	+1.3%
FTSE Taiwan Index Futures	1,158,696	1,590,290	+37.2%
<b>Sub-total</b>	<b>10,650,106</b>	<b>12,963,922</b>	<b>+21.7%</b>

Source: SGX, Bloomberg, PSR

### Banks' dividend yield surges

With the release of DBS' results on 7 February, DBS announced full-year FY23 dividends of S\$1.92 (+28% YoY excluding special dividends). Going forward, dividends are guided to be maintained at 54 cents per quarter, with full-year FY24 dividends at S\$2.16 (+13% YoY). Including the additional 1-for-10 bonus share issue, full-year FY24 dividends would be S\$2.376 (+24% YoY). With this, DBS is trading at a dividend yield of 7.2% (assuming a share price of S\$33.00).

Both UOB and OCBC have yet to announce their results, but with DBS aggressively increasing dividends, we could possibly see a similar position being taken by both banks. For UOB to reach a similar dividend yield, they would have to increase full-year FY23 dividends to S\$2.00 (+48% YoY), and OCBC would have to increase full-year FY23 dividends to S\$0.94 (+38% YoY). Based on our FY23e estimates, this represents a dividend pay-out ratio of 57% for UOB and 60% for OCBC.

### Singapore Banks Performance

All three local banks share price dipped in January 2024, with UOB performing the best with the smallest drop of 0.3% and OCBC close behind with a decline of 0.8% (Figure 6). DBS was the worst performer with a decline of 4.6%, likely due to the repeated and prolonged digital service disruptions they faced in 2023 which culminated in MAS imposing restrictions on DBS for a period of six months, prohibiting the bank from making any non-essential IT changes or any new business acquisitions during the period.

**Figure 6: UOB performed best in Jan 2024**

Singapore Banks	Last Price (\$)	Recommendation	PSR			Performance			
			Target Price (\$)	Upside	Div Yield (%)	1 Year (%)	YTD (%)	3 Month (%)	1 Month (%)
DBS	33.94	BUY	38.90	15%	6.8	-10.9	-4.6	-3.0	-4.6
OCBC	13.22	BUY	14.96	13%	6.1	-0.3	-0.8	1.7	-0.8
UOB	29.15	BUY	35.90	23%	5.5	-4.9	-0.3	5.0	-0.3

Source: Bloomberg, PSR

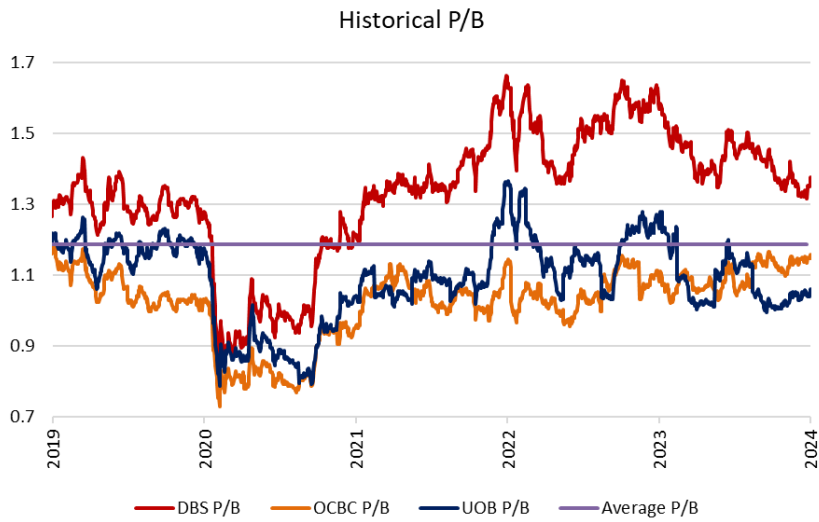
## Singapore Banking News

- On 28 January, the Monetary Authority of Singapore (MAS) left its policy unchanged in its first quarterly monetary policy decision of 2024 and said it would also maintain its exchange rate policy band known as the Singapore dollar nominal effective exchange rate or S\$NEER. Beginning this year, MAS shifted from a twice a year review of its monetary policy to a quarterly issue of statements. It said that it would release statements in January, April, July, and October. The MAS said core inflation is expected to rise in the current quarter “due in part to the one-off impact of the 1%-point hike in the GST from January this year”. The central bank estimates core inflation to average between 2.5% and 3.5% in 2024, unchanged from its October forecast. Excluding the impact of the GST hike, core inflation is projected to average between 1.5% and 2.5%.
- On 25 January, it was reported that digital asset banking group Sygnum has raised over US\$40mn (~S\$54mn) to fund its expansion into new markets. The group, which was incorporated in Switzerland and Singapore in 2018, said in a Jan 25 statement that the latest fund-raising round was led by global asset management group Azimut Holding, and surpassed the initial target of US\$35 million. It brings the group’s post-money valuation to US\$900mn. The proceeds raised will be used to expand Sygnum’s geographic reach into one market in the European Union and another in the Asia-Pacific in 2024.
- On 12 January, the director of the Association of Banks in Singapore (ABS) said that Singapore banks will continue improving their money-locking features’ design over the coming months. DBS, Southeast Asia’s largest lender, said that customers will soon no longer have to set up a new bank account to lock up their funds - a move introduced in November to safeguard against scams. DBS and UOB customers have to set up new accounts to use the banks’ money-locking features. OCBC customers do not have to set up a new account. The money-locking features have been activated on about 38,000 accounts, with more than S\$3.2bn of savings set aside, said Deputy Prime Minister Lawrence Wong.
- On 11 January, GXS Bank received a S\$145.1mn capital injection from Grab, according to filings with the Accounting and Corporate Regulatory Authority of Singapore. This follows previous capital injections of S\$75.8mn in April 2023 and S\$137mn in July 2023 from Grab. GXS Bank backers Grab and Singtel have also laid out plans for a further capital injection of S\$229.5mn in the third quarter of 2024.

## Investment Action

**Maintain OVERWEIGHT.** We remain positive on banks. NIMs may see flat growth despite the higher-for-longer interest rate environment, but a recovery in loan growth and fee income will uplift profits. Bank dividend yields are also attractive with upside surprises due to excess capital ratios and a push towards higher ROEs.

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\$)	38.90	14.96	35.70

Source: Bloomberg, PSR

**Figure 9: Peer Comparison – Singapore banks offer the highest dividend yield**

Stock	PSR Recommendation	Market Cap (USDmn)	Forward P/E			Forward P/BV			Dividend Yield (%)		ROE (%)			Price (Local Currency)	Target Price (S\$)	Upside
			Yr0	Yr1	Yr2	Yr0	Yr1	Yr2	Yr1	Yr2	Yr0	Yr1	Yr2			
<b>Singapore</b>																
DBS	Accumulate	63,457	8.6	8.8	8.8	1.4	1.4	1.3	6.9	7.5	16.9	16.0	15.3	33.2	41.60	25%
OCBC	Buy	43,585	9.6	8.3	8.2	1.0	1.1	1.0	6.4	6.6	10.9	13.2	12.7	13.1	14.22	9%
UOB	Accumulate	35,638	11.4	8.4	8.2	1.3	1.1	1.0	6.0	6.2	11.1	13.2	12.9	28.7	35.70	24%
<b>Market Cap Weighted Average:</b>			<b>9.6</b>	<b>8.5</b>	<b>8.5</b>	<b>1.2</b>	<b>1.2</b>	<b>1.1</b>	<b>6.5</b>	<b>6.9</b>	<b>13.6</b>	<b>14.5</b>	<b>13.9</b>			
<b>Indonesia</b>																
BCA	Non-rated	78,430	23.8	22.9	21.0	4.8	4.5	4.1	2.6	2.9	21.0	20.8	20.7	9925	na	na
MANDIRI	Non-rated	43,226	10.3	11.7	10.8	2.2	2.4	2.2	4.8	5.2	22.4	21.3	21.2	7225	na	na
BNI	Non-rated	14,704	9.6	9.5	8.6	1.3	1.4	1.3	4.5	5.2	14.6	15.4	15.6	6150	na	na
BANK BRI	Non-rated	59,749	14.4	13.8	12.4	2.8	2.7	2.6	5.5	6.1	19.7	20.7	21.6	6150	na	na
BANK BTN	Non-rated	1,237	5.0	5.2	4.3	0.6	0.6	0.5	3.0	3.3	12.4	11.7	12.6	1375	na	na
<b>Market Cap Weighted Average:</b>			<b>16.8</b>	<b>16.6</b>	<b>15.1</b>	<b>3.3</b>	<b>3.3</b>	<b>3.0</b>	<b>4.1</b>	<b>4.5</b>	<b>20.4</b>	<b>20.4</b>	<b>20.7</b>			
<b>Malaysia</b>																
AFFIN BANK	Non-rated	1,246	82.9	11.7	10.5	0.4	0.5	0.5	3.9	4.1	11.5	4.3	4.8	2.5	na	na
ALLIANCE BANK	Non-rated	1,146	7.8	8.2	7.6	0.8	0.8	0.7	5.9	6.3	10.3	9.7	10.0	3.5	na	na
AMMB HOLDINGS	Non-rated	2,974	6.9	8.5	8.2	0.7	0.7	0.7	4.7	5.2	10.0	9.3	8.9	4.3	na	na
BANK ISLAM	Non-rated	1,104	11.9	9.9	9.3	0.9	0.7	0.7	6.0	6.1	7.5	7.5	7.9	2.3	na	na
HONG LEONG BANK	Non-rated	8,785	10.2	9.9	9.2	1.1	1.1	1.0	3.4	3.7	11.8	11.4	11.4	19.4	na	na
MAYBANK	Non-rated	23,655	12.6	12.1	11.7	1.2	1.3	1.2	6.4	6.6	9.6	10.5	10.6	9.4	na	na
PUBLIC BANK	Non-rated	17,859	13.7	12.5	11.9	1.7	1.6	1.5	4.2	4.4	12.4	13.0	12.8	4.4	na	na
RHB	Non-rated	5,046	8.9	8.3	8.2	0.9	0.8	0.7	6.9	7.1	9.5	9.6	9.3	5.6	na	na
<b>Market Cap Weighted Average:</b>			<b>13.3</b>	<b>11.3</b>	<b>10.8</b>	<b>1.3</b>	<b>1.2</b>	<b>1.2</b>	<b>5.2</b>	<b>5.4</b>	<b>10.7</b>	<b>11.1</b>	<b>11.0</b>			
<b>Thailand</b>																
BANGKOK BANK	Non-rated	7,475	7.2	6.0	5.8	0.6	0.5	0.5	5.0	5.3	8.1	8.2	8.1	141.5	na	na
BANK OF AYUDHYA	Non-rated	5,445	6.3	5.9	5.6	0.6	0.5	0.5	4.3	4.9	9.3	9.0	9.3	26.8	na	na
KASIKORNBANK	Non-rated	7,868	7.5	6.4	6.0	0.6	0.5	0.5	4.2	4.7	8.2	8.1	8.3	120.0	na	na
KIATNAKIN BANK	Non-rated	1,166	7.8	7.3	6.5	0.7	0.7	0.6	6.2	7.1	9.2	9.1	9.6	49.8	na	na
KRUNGTHAI	Non-rated	6,150	7.0	5.5	5.3	0.6	0.5	0.5	5.8	6.0	9.4	9.7	9.4	15.9	na	na
KRUNGTHAI CARD	Non-rated	3,086	15.4	14.1	12.9	3.1	2.7	2.4	2.9	3.6	21.8	20.8	20.1	43.3	na	na
SCB X PCL	Non-rated	9,551	8.2	7.7	7.3	0.7	0.7	0.7	7.1	7.5	9.3	9.2	9.4	102.5	na	na
SRISAWAD	Non-rated	1,511	15.0	10.8	9.7	2.7	1.9	1.7	4.1	4.3	17.8	18.7	18.7	39.8	na	na
THANACHART BANK	Non-rated	1,451	8.5	7.7	7.3	0.7	0.8	0.7	6.9	7.1	7.9	10.0	10.2	50.0	na	na
TISCO	Non-rated	2,194	10.9	11.1	10.9	1.9	1.8	1.8	7.7	7.8	17.1	16.5	16.5	99.0	na	na
<b>Market Cap Weighted Average:</b>			<b>8.4</b>	<b>7.4</b>	<b>7.0</b>	<b>0.9</b>	<b>0.8</b>	<b>0.8</b>	<b>5.4</b>	<b>5.8</b>	<b>10.4</b>	<b>10.4</b>	<b>10.4</b>			

Source: Bloomberg, PSR

Extracted as of 15-Feb-24

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