



Singapore Banking Monthly

NIM stagnates, fee income recovers

SINGAPORE | BANKING & FINANCE | UPDATE

11 March 2024

Overweight (Maintained)

DBS Group Holdings

BUY (Maintained)

BLOOMBERG CODE	DBS SP
LAST TRADED PRICE	SGD 33.75
FORECAST DIV	SGD 2.16
TARGET PRICE	SGD 38.90
DIVIDEND YIELD	6.40%
TOTAL RETURN	21.66%

Oversea-Chinese Banking Corp

BUY (Maintained)

BLOOMBERG CODE	OCBC SP
LAST TRADED PRICE	SGD 13.18
FORECAST DIV	SGD 0.87
TARGET PRICE	SGD 14.96
DIVIDEND YIELD	6.60%
TOTAL RETURN	20.11%

United Overseas Bank Limited

BUY (Maintained)

BLOOMBERG CODE	UOB SP
LAST TRADED PRICE	SGD 28.30
FORECAST DIV	SGD 1.90
TARGET PRICE	SGD 34.90
DIVIDEND YIELD	6.71%
TOTAL RETURN	30.04%

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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

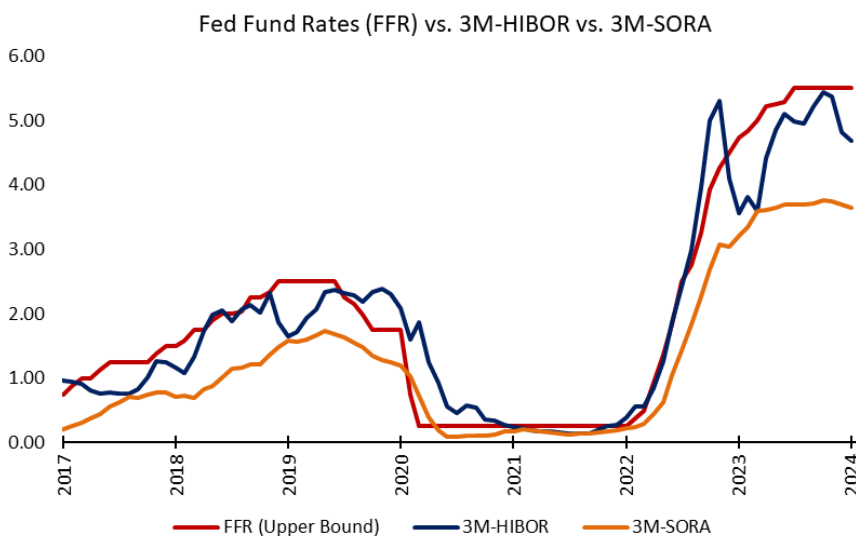
- February's 3M-SORA was down 5bps MoM to 3.64% and was 10bps lower than the 4Q23 average. The MoM decline is similar to that in January. 3M-HIBOR was down 14bps MoM to 4.68%, smaller than the decline of 55bps in January.
- 4Q23 bank earnings were slightly above expectations. PATMI rose 7% YoY, supported by fee income growth of 21% YoY, while NII growth moderated to ~1%. FY24e guidance is for NII to remain stable YoY as NIMs dip by a few bps and stabilise at around 2-2.25% and loans growth at low-single digit. Fee income is expected to sustain earnings with expectation of double-digit growth in FY24e.
- Singapore domestic loans dipped 1.6% YoY in January, below our estimates. The loan decline was the smallest decline recorded since December 2022. The CASA balance dipped slightly to 18.1% (Dec23: 18.5%).
- Maintain OVERWEIGHT.** The banks had a mixed February performance. The best performer was DBS, with a 4.7% increase, with UOB the worst, at a 1.4% 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 February

Singapore interest rates dipped in February, declining like that in January. The 3M-SORA was down 5bps MoM to 3.64%. Nonetheless, February's 3M-SORA rose by 43bps YoY but was 10bps lower than the 4Q23 3M-SORA average of 3.74% (3Q23: 3.69%).

Hong Kong interest rates declined in February. The 3M-HIBOR was down 14bps MoM to 4.68%, smaller than the decline of 55bps in January. Nonetheless, February's 3M-HIBOR improved by 112bps YoY but was 66bps lower than 4Q23 3M-HIBOR average of 5.34% (Figure 1).

Figure 1: SORA and HIBOR decline further in February



Source: Bloomberg, PSR

4Q23 RESULTS HIGHLIGHTS
1. NII growth declines as NIM stagnates

DBS' 4Q23 adjusted earnings of S\$2.39bn were slightly above our estimates, and FY23 adjusted PATMI was 102% of our FY23e forecast. 4Q23 DPS is raised 29% YoY to 54 cents with an additional 1-for-10 bonus issue, dividend payout ratio was higher at 48.5% in FY23 (FY22: 47.7% excluding special dividends). NII rose 5% YoY to S\$3.4bn due to an 8bps YoY NIM increase to 2.13% (3Q23: 2.19%) as interest rates continue to remain high despite loan growth remaining flat YoY. DBS has provided FY24e guidance of NII to remain at the same levels as FY23, with NIMs to be maintained at FY23 exit NIM level with a possibility of a few bps drop. NII will be supported by the full-year impact of the Citi Taiwan consolidation and some trade-off between NIMs and loan growth, with the guidance of low-single-digit loan growth for FY24e. FY24e PATMI to be maintained at around the current levels in FY23.

OCBC's 4Q23 earnings of S\$1.62bn met our estimates. It came from higher fee income and stable NII. FY23 PATMI was 100% of our FY23e forecast. 4Q23 DPS was up 5% YoY to 42 cents. FY23 dividend rose 21% YoY to 82 cents, with the dividend payout ratio stable at 53%. NII growth was led by a 4% increase in average assets, which was offset by NIM moderating by 2bps YoY to 2.29% and stable loan growth. NIM moderation was mainly from higher funding costs, which offset the increase in asset yields. OCBC has provided FY24e guidance for NIM to be in the range of 2.20% to 2.25%, with FY23 exit NIM currently at 2.26% and loan growth of low-single-digit for FY24e.

UOB's 4Q23 adjusted earnings of S\$1.50bn were slightly above our estimates, and FY23 adjusted PATMI was 102% of our FY23e forecast. 4Q23 DPS was up 13% YoY to 85 cents; the full-year FY23 dividend rose 26% YoY to 170 cents, with the dividend payout ratio stable at 50%. NII dipped 6% YoY from NIM, falling 20bps YoY and 7bps QoQ to 2.02%, mainly from loan margin compression due to competition for high-quality credits and loans remaining flat YoY. UOB has guided loan growth to a low single digit and NIM of around 2% for FY24e. UOB expects to see demand for loans pick back up with rate cuts expected in 2H24 and is guiding for loans to grow 1-3% in Singapore and 4-5% in the region. However, we expect a slowdown in the first few quarters of FY24 as rates remain high, with the recovery expected in 2H24.

2. Fee income continues to recover strongly

DBS' 4Q23 fee income rose 31% YoY to S\$867mn. WM fees increased 41% YoY, driven by strong net new money inflows as customers shifted deposits into bancassurance and investments. In comparison, card fees grew 27% YoY from higher spending and the integration of Citi Taiwan. Loan-related fees rose 80% YoY, and investment banking fees rose 26% YoY, offset by a 4% YoY decline in transaction fees as trade finance slowed. DBS is guiding for double-digit fee income growth for FY24e, which will be sustained by wealth management and credit card fees.

OCBC's 4Q23 fee income rose 15% YoY to S\$460mn. This was due to the broad-based growth in wealth management fees from increased customer activities, higher credit card fees, and loan and trade-related fees. Furthermore, the Group's FY23 wealth management income grew 26% YoY to S\$4.3bn and contributed 32% to the Group's total income FY23 (FY22: 30%). OCBC's recent acquisitions of PT Bank Commonwealth in Indonesia will accelerate its growth in ASEAN. Therefore, we are expecting fee income growth of 12% for FY24e.

UOB's 4Q23 fees grew 17% YoY, largely due to higher credit card fees, which hit a new record of S\$125mn (+69% YoY), boosted by higher card spending on an enlarged regional franchise due to the Citi integration. Wealth management fees recovered modestly by 21% YoY, while loan-related fees grew 5% YoY amid cautious investor sentiment. UOB has successfully integrated their Citi portfolios in Malaysia and Indonesia, with Thailand and Vietnam to be completed by FY24, which could further

Figure 2: Banks' guidance vs PSR estimates for FY24e

Assumptions	DBS	PSR
NIM (%)	Around 2.13%	2.12%
Loans growth (%)	Low-single digit	1.5%
Credit cost (bps)	17 - 20	18

Source: Company, PSR

Assumptions	OCBC	PSR
NIM (%)	2.20% - 2.25%	2.20%
Loans growth (%)	Low-single digit	3.2%
Credit cost (bps)	20 - 25	21

Source: Company, PSR

Assumptions	UOB	PSR
NIM (%)	Around 2%	2.02%
Loans growth (%)	Low-single digit	3%
Credit cost (bps)	25 - 30	25

Source: Company, PSR

expand their regional franchise. As such, they have guided for double-digit fee income growth in FY24e, which could add ~S\$220mn to revenue.

Figure 3: Fee income the growth driver in 4Q23

4Q23 vs. 4Q22	DBS	OCBC	UOB
NIM	2.13% (+8bps)	2.29% (-2bps)	2.02% (-20bps)
NII	+5%	+3%	-6%
Net fees & commissions	+31%	+15%	+17%
Less: General provisions (S\$)	3mn	182mn	-9mn
PATMI	S\$2,393mn (+2%)	S\$1,622mn (+12%)	S\$1,498mn (+7%)
NPL ratio	1.1% (flat)	1.0% (-20bps)	1.5% (-10bps)
NPA coverage	128%	151%	101%
Common Equity Tier-1	14.6%	15.9%	13.4%

Source: Company, PSR

Singapore loan growth decline flattens

Overall loans to Singapore residents – which captured lending in all currencies to residents in Singapore – fell by 1.59% YoY in January to S\$794bn. Notably this is the smallest decline since Dec 2022. Still, we expect a low-single-digit growth for 2024 as loan growth is expected to turn positive in 2H24.

Business loans fell by 2.84% YoY in January. Loans to the building and construction segment, the single largest business segment, fell 1.17% YoY to S\$168bn, while loans to the manufacturing segment fell 11.2% YoY in January to S\$21.2bn.

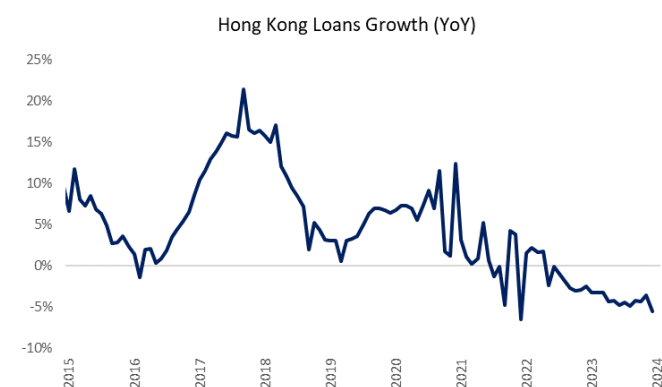
Consumer loans grew 0.4% YoY in January to S\$313bn, the first YoY increase recorded since December 2022. Housing loans, which comprise ~70% of consumer lending, grew 1.34% YoY in January to S\$226bn for the month.

Total deposits and balances – which captured deposits in all currencies to non-bank customers – grew by 5.71% YoY in January to S\$1,817bn. The Current Account and Savings Account, or CASA proportion, dipped slightly to 18.1% (Dec23: 18.5%) of total deposits, or S\$329bn.

Hong Kong loan growth decline steepens

Hong Kong’s domestic loan growth declined 5.55% YoY and 0.81% MoM in January. The decline was sharper than Dec 23’s fall of -3.58% YoY and -0.01% MoM.

Figure 5: Hong Kong loan growth decline steepens in January



Source: CEIC, PSR

Figure 4: Singapore loans growth

2023/2024	Loans growth (YoY)
January 24	-1.59%
December 23	-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%

Source: CEIC, PSR

Volatility fell as the market stabilised

SDAV rose 12% YoY to S\$1,242mn in February (Figure 6), 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 14.0 in February, up from 13.4 in the previous month.

The top four equity index futures turnover increased 6% YoY in February to 11.3mn contracts (Figure 7) due to the higher trading volumes of its FTSE China A50 Index Futures and MSCI Singapore Index Futures. Notably, the MSCI Singapore Index Futures increased 12% Month over Month, while the FTSE Taiwan Index Futures fell 21% Month over Month in February.

Figure 6: 12 Months SDAV and DDAV

	SDAV (\$mn)	YoY	DDAV (mn)	YoY
February24	1,242	12%	-	-
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%

Source: SGX, Bloomberg, PSR

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

No. of contracts	Feb-23	Feb-24	YoY
FTSE China A50 Index Futures	7,455,913	8,024,573	+7.6%
Nikkei 225 Index Futures	824,625	753,996	-8.6%
MSCI Singapore Index Futures	1,170,821	1,282,909	+9.6%
FTSE Taiwan Index Futures	1,252,128	1,257,075	+0.4%
Sub-total	10,703,487	11,318,553	+5.7%

Source: SGX, Bloomberg, PSR

Singapore Banks Performance

The three local banks' share price performance was mixed in February 2024, with DBS performing the best, with the largest increase of 4.7%, and OCBC improving slightly by 1.1% for the month (Figure 8). UOB was the worst performer, with a decline of 1.4%, likely due to lackluster dividends announced. In comparison, DBS was the best performer, likely due to the increase in dividends and 1-for-10 bonus share issue, which would boost their dividend yield to ~7.2%.

Figure 8: DBS performed best in Feb 2024

BBG Ticker	Singapore Banks	Last Price (\$S)	Recommendation	PSR			Performance			
				Target Price (\$S)	Upside	Div Yield (%)	1 Year (%)	YTD (%)	3 Month (%)	1 Month (%)
DBS SP EQUITY	DBS	33.37	BUY	38.90	17%	6.9	-2.5	-0.2	5.0	4.7
OCBC SP EQUITY	OCBC	12.97	BUY	14.96	15%	6.2	2.4	-0.2	3.5	1.1
UOB SP EQUITY	UOB	28.10	BUY	34.90	24%	5.7	-6.6	-1.8	2.7	-1.4

Source: Bloomberg, PSR

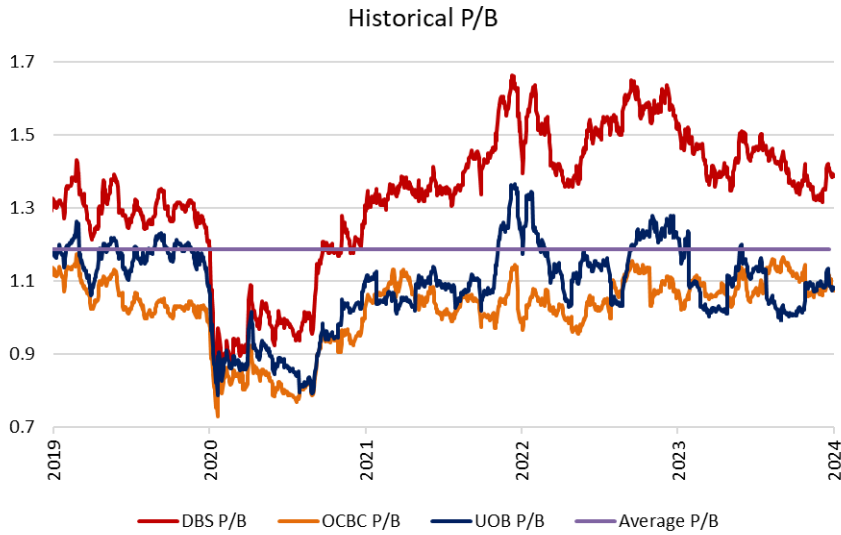
Singapore Banking News

- On 29 February, it was reported that more than S\$5.4bn of savings had been set aside in over 61,000 bank accounts with a “money lock” feature as of February. Introduced by the local banks in November 2023 as a safeguard against scams, “money lock” allows customers to set aside funds that cannot be transferred digitally. Customers can lock up their money using the bank’s app or internet banking, but these funds can only be unlocked in person at bank branches or via ATMs.
- On 8 February, it was reported that Vanuatu passport holder Su Jianfeng, one of the ten accused in Singapore’s largest money laundering case, was handed two new charges for submitting forged documents to two financial institutions. Su allegedly submitted three sets of false annual reports for a company, Xiamen Zhou Hang Mao Yi You Xian Gong Si, to Standard Chartered in May 2023, and to Bank of Singapore in March 2022. Charge sheets noted that he intended to use these documents to show that one Chen Qiuyan had legitimate sources of wealth.
- On 8 February, the Singapore Police Force (SPF) said that they may lift orders barring the sale of some properties seized in a S\$3bn money laundering probe, paving the way for the first transactions from the record haul. More than a dozen shophouses have been put on the market since December, according to public listings, with DBS stepping up efforts to reduce about S\$100mn in exposure to the scandal. The SPF said the bank had sought permission to repossess and sell the properties that were used as collateral to get loans from the bank. “The police will lift the prohibition of disposal order against the properties, for DBS to exercise its contractual rights when we are satisfied that the sale is conducted fairly,” it said in a statement.
- On 1 February, Trust Bank introduced Trust+, a premium service tier offering additional privileges to its users. These benefits encompass an enhanced interest rate on deposit balances, exclusive rewards, a distinct app interface, and priority access to in-app customer support. Trust+ automatically elevates customers who maintain an average daily balance of S\$100k for the month to this new level of service. Eligible customers can also receive up to 3% per annum on deposits up to S\$500k with no hidden fees or charges for its products. This premium tier builds upon the Balance Bonus Rate introduced in December 2023, which provided an opportunity for customers to gain an additional 0.5% interest annually on their deposits by maintaining the required average daily balance.

Investment Action

Maintain OVERWEIGHT. We remain positive on banks. NIMs will likely remain flat in FY24e 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 9: Banks' 5-year historical P/B



Source: Bloomberg, PSR

Figure 10: 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	34.90

Source: Bloomberg, PSR

Figure 11: 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 (\$)	Upside
			Yr0	Yr1	Yr2	Yr0	Yr1	Yr2	Yr1	Yr2	Yr0	Yr1	Yr2	Price	Price		
Singapore																	
DBS	Accumulate	64,098	8.6	8.8	8.8	1.4	1.4	1.3	6.8	7.4	16.9	16.0	15.3	33.3	38.90	15%	
OCBC	Buy	43,403	8.4	8.2	8.1	1.1	1.0	1.0	6.6	6.7	13.1	12.8	12.2	13.0	14.96	14%	
UOB	Accumulate	34,770	8.3	8.0	7.7	1.1	1.0	0.9	6.4	6.6	13.6	12.9	12.6	28.0	34.90	23%	
Market Cap Weighted Average:			8.5	8.4	8.3	1.2	1.2	1.1	6.6	7.0	14.9	14.2	13.7				
Indonesia																	
BCA	Non-rated	77,469	23.8	22.7	20.8	4.8	4.5	4.1	2.6	2.9	21.0	20.9	20.8	9875	na	na	
MANDIRI	Non-rated	41,577	10.3	11.3	10.4	2.2	2.3	2.1	5.0	5.4	22.4	21.3	21.2	7000	na	na	
BNI	Non-rated	14,241	9.6	9.4	8.4	1.3	1.4	1.2	4.7	5.4	14.6	15.2	15.5	6000	na	na	
BANK BRI	Non-rated	59,075	14.4	13.6	12.2	2.8	2.7	2.6	5.6	6.3	19.7	20.9	21.8	6125	na	na	
BANK BTN	Non-rated	1,277	5.0	5.4	4.6	0.6	0.6	0.5	2.9	3.2	12.4	11.7	12.3	1430	na	na	
Market Cap Weighted Average:			16.8	16.4	14.9	3.3	3.2	3.0	4.2	4.6	20.4	20.5	20.7				
Malaysia																	
AFFIN BANK	Non-rated	1,275	11.9	10.6	9.7	-	0.5	0.5	4.1	4.2	-	4.9	5.1	2.6	na	na	
ALLIANCE BANK	Non-rated	1,161	7.8	8.2	7.6	0.8	0.8	0.7	6.0	6.3	10.3	9.7	10.0	3.6	na	na	
AMMB HOLDINGS	Non-rated	3,024	6.9	8.8	8.3	0.7	0.7	0.7	4.4	5.1	10.0	9.4	8.9	4.3	na	na	
BANK ISLAM	Non-rated	1,174	9.0	9.6	8.8	-	0.7	0.7	6.3	6.8	-	7.9	8.4	2.5	na	na	
HONG LEONG BANK	Non-rated	9,003	10.2	10.1	9.4	1.1	1.1	1.0	3.3	3.6	11.8	11.4	11.4	19.7	na	na	
MAYBANK	Non-rated	24,220	11.5	11.8	11.3	1.1	1.2	1.2	6.4	6.6	10.3	10.5	10.7	9.5	na	na	
PUBLIC BANK	Non-rated	17,988	12.5	12.0	11.5	1.5	1.5	1.4	4.5	4.8	12.7	12.7	12.5	4.4	na	na	
RHB	Non-rated	5,056	8.3	8.4	7.9	0.8	0.7	0.7	7.2	7.5	9.4	9.2	9.3	5.6	na	na	
Market Cap Weighted Average:			11.0	11.1	10.5	1.1	1.2	1.1	5.3	5.6	10.7	10.9	10.9				
Thailand																	
BANGKOK BANK	Non-rated	7,633	7.2	6.2	6.0	0.6	0.5	0.5	4.9	5.1	8.1	8.2	8.0	143.5	na	na	
BANK OF AYUDHYA	Non-rated	5,432	6.3	5.9	5.7	0.6	0.5	0.5	4.2	4.6	9.3	8.8	8.9	26.5	na	na	
KASIKORN BANK	Non-rated	8,153	7.5	6.6	6.1	0.6	0.5	0.5	4.1	4.6	8.2	8.1	8.3	123.5	na	na	
KIATNAKIN BANK	Non-rated	1,209	7.8	7.5	6.7	0.7	0.7	0.6	6.0	6.9	9.2	9.1	9.6	51.3	na	na	
KRUNGTHAI	Non-rated	6,309	7.0	5.6	5.4	0.6	0.5	0.5	5.7	5.9	9.4	9.7	9.4	16.2	na	na	
KRUNGTHAI CARD	Non-rated	3,071	15.4	14.0	12.9	3.1	2.7	2.4	3.0	3.7	21.8	20.7	20.0	42.8	na	na	
SCB X PCL	Non-rated	10,508	8.2	8.4	8.0	0.7	0.8	0.7	7.1	7.4	9.3	9.2	9.5	112.0	na	na	
SRI SAWAD	Non-rated	1,454	11.1	9.4	8.3	-	1.7	1.5	4.5	4.6	-	18.6	18.7	38.0	na	na	
THANACHART BANK	Non-rated	1,454	7.9	7.3	6.8	-	0.7	0.7	6.9	7.4	-	9.9	10.1	49.8	na	na	
TISCO	Non-rated	2,220	10.9	11.2	11.0	1.9	1.8	1.8	7.7	7.7	17.1	16.5	16.5	99.5	na	na	
Market Cap Weighted Average:			8.2	7.6	7.1	0.8	0.8	0.8	5.4	5.7	9.5	10.2	10.3				

Source: Bloomberg, PSR

Extracted as of 5-Mar-24

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