

# Singapore Banking Monthly

Interest rates inch up

## SINGAPORE | BANKING & FINANCE | UPDATE

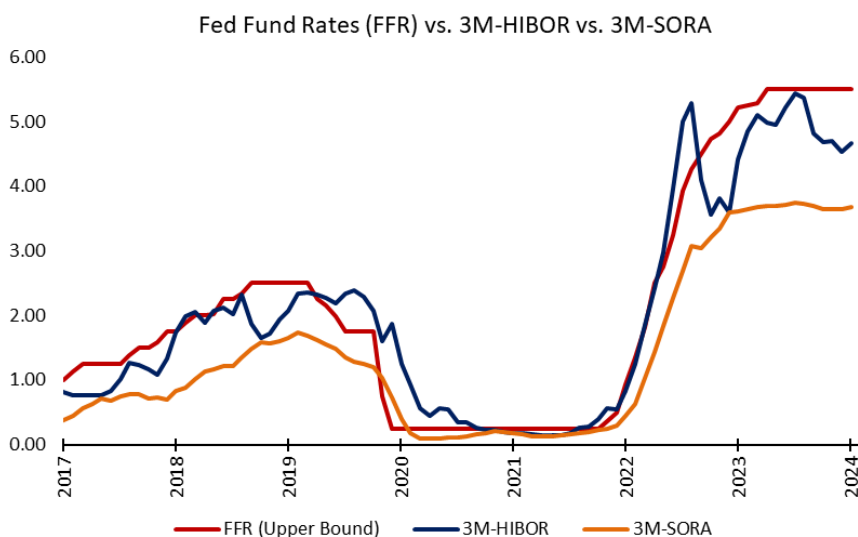
- May's 3M-SORA was up 2bps MoM to 3.68% and 2bps higher than the 1Q24 average. Furthermore, the 3M-SORA rose by 6bps YoY. 3M-HIBOR was up 13bps MoM to 4.67%, reversing the decline of 16bps in April.
- Singapore domestic loans inched up 1.5% YoY in April, the largest YoY increase since October 2022. We expect low-single-digit growth for 2024 as loan growth is expected to continue to be positive going into 2H24. The CASA balance was maintained at 18.3% (Mar24: 18.3%).
- Maintain OVERWEIGHT.** Banks continued their positive performance in May performance. The best performer continued to be DBS, with a 3% increase, while OCBC and UOB improved by 2% and 1%, respectively. We remain positive on banks. NIMs may stay flat despite the higher-for-longer interest rate environment. A recovery in loan growth and fee income will lift profits. Bank dividend yields are attractive at 6.1%, with upside surprises due to excess capital ratios and a push towards higher ROEs.

### 3M-SORA and 3M-HIBOR tick up in May

Singapore interest rates were up 2bps to 3.68% in May, rising for two consecutive months in 2024. May's 3M-SORA rose by 6bps YoY and was 2bps higher than the 1Q24 3M-SORA average of 3.66% (4Q23: 3.74%). Notably, this is the second smallest YoY increase since March 2022.

Hong Kong interest rates recovered slightly in May. The 3M-HIBOR was up 13bps MoM to 4.67%, slightly reversing the decline of 16bps in April. May's 3M-HIBOR improved by 26bps YoY but was 6bps lower than 1Q24 3M-HIBOR average of 4.73% (Figure 1).

**Figure 1: SORA and HIBOR increase in May**



Source: Bloomberg, PSR

6 June 2024

### Overweight (Maintained)

#### DBS Group Holdings

##### ACCUMULATE (Maintained)

BLOOMBERG CODE	DBS SP
LAST TRADED PRICE	SGD 35.73
FORECAST DIV	SGD 2.16
TARGET PRICE	SGD 38.50
DIVIDEND YIELD	6.05%
TOTAL RETURN	13.80%

#### Oversea-Chinese Banking Corp

##### ACCUMULATE (Maintained)

BLOOMBERG CODE	OCBC SP
LAST TRADED PRICE	SGD 14.32
FORECAST DIV	SGD 0.87
TARGET PRICE	SGD 15.40
DIVIDEND YIELD	6.08%
TOTAL RETURN	13.62%

#### United Overseas Bank Limited

##### BUY (Maintained)

BLOOMBERG CODE	UOB SP
LAST TRADED PRICE	SGD 30.86
FORECAST DIV	SGD 1.90
TARGET PRICE	SGD 34.90
DIVIDEND YIELD	6.16%
TOTAL RETURN	19.25%

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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 positive, largest since Oct 2022

Overall loans to Singapore residents – which captured lending in all currencies to residents in Singapore – rose by 1.5% YoY in April to S\$804bn. Notably, this is the largest YoY increase since October 2022. We expect low-single-digit growth for 2024 as loan growth is expected to continue to be positive going into 2H24.

Business loans rose by 1.8% YoY in April. Loans to the building and construction segment, the single largest business segment, grew 0.1% YoY to S\$169bn, while loans to the manufacturing segment fell 12% YoY in April to S\$21bn.

Consumer loans grew 1% YoY in April to S\$312bn, the fourth consecutive YoY increase recorded since December 2022. Housing loans, which comprise ~70% of consumer lending, grew 1.3% YoY in April to S\$225bn.

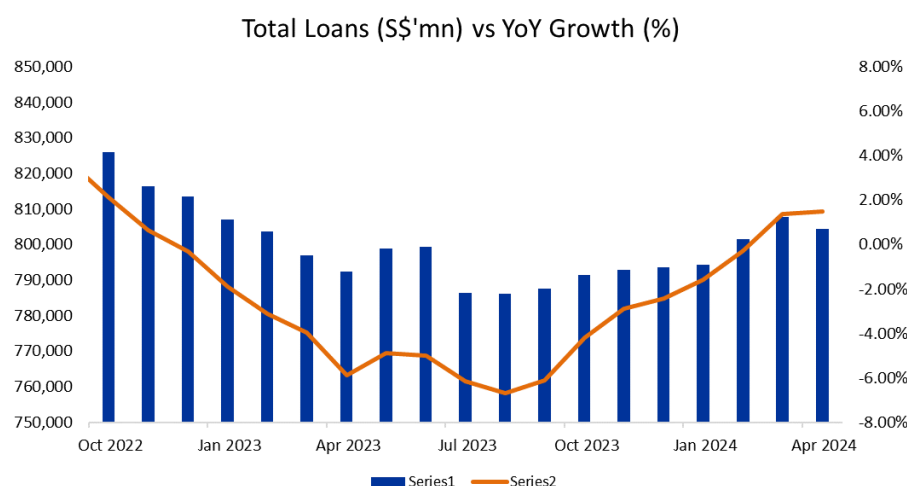
Total deposits and balances—which include deposits in all currencies made by non-bank customers—grew by 5% YoY in April to S\$1,851bn. In the Current Account and Savings Account, or CASA, the proportion maintained at 18.3% (Mar24: 18.3%) of total deposits or S\$339bn.

Figure 2: Singapore loans growth

2023/2024	Loans growth (YoY)
April 24	1.50%
March 24	1.37%
February 24	-0.28%
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%

Source: CEIC, PSR

Figure 3: Largest Singapore loans growth since Oct 2022

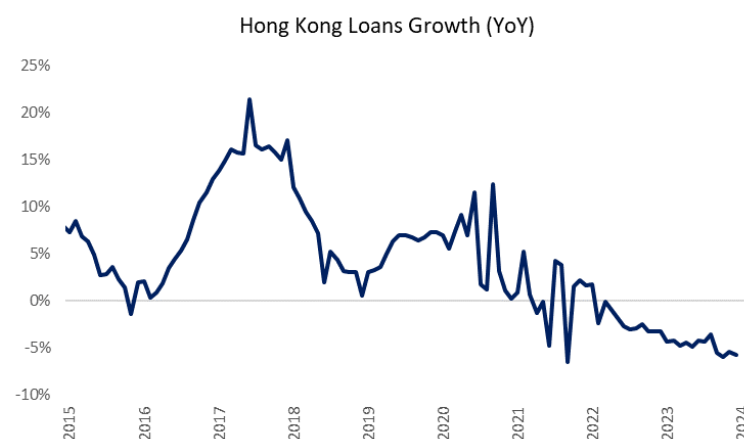


Source: CEIC, PSR

### Hong Kong loan growth decline continues

Hong Kong's domestic loan growth declined 5.7% YoY and fell by 1% MoM in April. The decline was larger than March's fall of 5.4% YoY and an increase of 1% MoM. Notably, loan growth has continuously declined YoY since June 2022.

Figure 4: Hong Kong loan growth continues to decline



Source: CEIC, PSR

### Volatility fell as the market stabilised

Preliminary SDAV rose 22% YoY to S\$1,261mn in May (Figure 5), while the DDAV grew 23% YoY and 20% MoM in April. The VIX, a market index that measures the implied volatility of the S&P 500 Index, averaged 13.1 in May, down from 16.1 in the previous month.

The top four equity index futures turnover rose 2% YoY in May to 11mn contracts (Figure 6) due to the higher trading volumes of their MSCI Singapore Index Futures and FTSE Taiwan Index Futures. Notably, the FTSE China A50 Index Futures increased 5% MoM, while the Nikkei 225 Index Futures fell 26% MoM in May.

**Figure 5: 12 Months SDAV and DDAV**

	SDAV (\$mn)	YoY	DDAV (mn)	YoY
May 24	1,261	22%	-	-
April 24	1,212	25%	1.18	23%
March 24	1,190	-2%	1.19	14%
February 24	1,252	13%	1.26	24%
January 24	935	-19%	1.14	5%
December 23	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%

Source: SGX, Bloomberg, PSR

**Figure 6: Turnover of top four equity index futures contracts up YoY**

No. of contracts	May-23	May-24	YoY
FTSE China A50 Index Futures	7,426,035	7,544,200	1.6%
Nikkei 225 Index Futures	994,578	684,149	-31.2%
MSCI Singapore Index Futures	1,097,972	1,318,978	20.1%
FTSE Taiwan Index Futures	1,508,960	1,658,271	9.9%
<b>Sub-total</b>	<b>11,027,545</b>	<b>11,205,598</b>	<b>+2%</b>

Source: SGX, Bloomberg, PSR

### Singapore Banks Performance

All three local banks' share price performance was up in May 2024; DBS performed the best, with the largest increase of 3%, and OCBC and UOB improved by 2% and 1%, respectively (Figure 7). DBS continued as the best performer this month, likely due to its FY24 dividend guidance being the highest among the three local banks and providing clear guidance for dividend growth in the coming years, while both OCBC and UOB are maintaining their guidance a dividend payout ratio of 50% with not much clarity on how excess capital will be returned to shareholders.

**Figure 7: All three banks continue to rise in May 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	35.85	ACCUMULATE	38.50	7%	5.3	30.7	18.5	18.8	3.1
OCBC SP EQUITY	OCBC	14.42	ACCUMULATE	15.40	7%	5.7	18.3	11.6	11.8	1.8
UOB SP EQUITY	UOB	30.82	BUY	34.90	13%	5.5	10.2	8.2	10.2	1.3

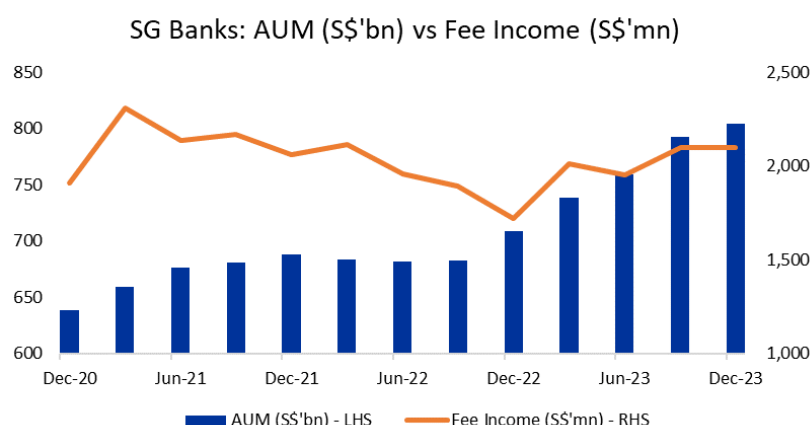
Source: Bloomberg, PSR

### Higher AUM and improving investor sentiment fee driver

With interest rates stagnating and expectations for rate cuts in the later part of FY24, the three local banks would be looking at fee income to sustain their earnings momentum. Fee income in 1Q24 grew 16% YoY, mainly from an increase in wealth management fees, as there was a shift in investor sentiment due to the expectation of rate cuts, where demand and funds were moved from deposits into investment products. AUM also grew 13% YoY to reach a new high (Figure 8), mainly from continued net new money inflows. In comparison, their peers HSBC and Standard Chartered Bank showed smaller growth in both fee income (+9% YoY) and AUM (+13% YoY).

We continue to expect the local banks' fee income to grow by double digits and have forecasted YoY growth of ~14% for FY24e, which could add ~S\$340mn to revenue. The growth will be led by a continued move from deposits into higher risk investments as interest rates remain flat with an expectation of rate cuts in the later part of the year. There is also a possibility for the banks' spread from AUM to grow as market sentiments improve. As the banks' NII and NIM remain stable, we believe fee income will provide the driver for earnings growth in FY24e.

**Figure 8: AUM growth consistent**



Source: Companies, PSR

### Singapore Banking News

- On 30 May, it was reported that customers who head to financial institutions (FIs) to place a fixed deposit will not have to face being peddled investment products by staff there, one of the outcomes expected under an updated set of guidelines aimed at enhancing protection for Singaporeans in their dealings with FIs. The Monetary Authority of Singapore (MAS) said the Guidelines on Fair Dealing aim to raise standards of fair dealing and improve customer experience at FIs, such as banks and wealth managers.
- On 3 May, it was reported that Chinese migrant workers are using Singapore banks to send money home after a crackdown by Beijing last year affected transfers handled by some remittance firms here. DBS Bank and OCBC Bank said remittances to China surged around 60% or more in the first two months of the year, compared with the same period in 2023. UOB did not give details on China transfers but noted that digital remittances to its top five destinations and China "experienced double-digit growth" in the first quarter of 2024.
- On 2 May, some DBS/POSB customers reported difficulties accessing the digital services of Singapore's biggest bank for more than two hours. From about 5.40pm, several users had faced issues logging in to their bank accounts online and on their apps, and using PayLah!. DBS Bank, in a statement on Facebook at 6.54pm, acknowledged that customers were experiencing issues with DBS/POSB

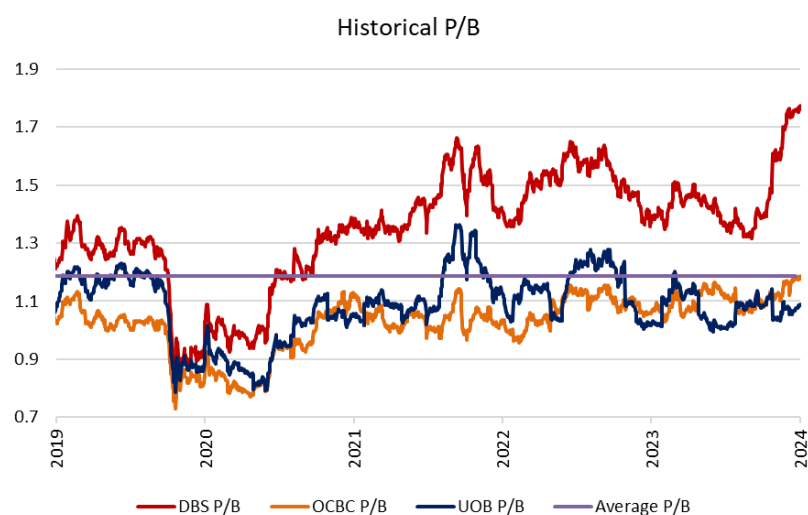
digibank Online and Mobile, and DBS PayLah!. The Monetary Authority of Singapore (MAS) is following up with DBS Bank to ensure that it identifies the root cause of recent disruptions to its internet banking and payment services and addresses it effectively.

- On 1 May, OCBC's Indonesian subsidiary, PT Bank OCBC NISP Tbk (OCBC Indonesia), has completed the acquisition of PT Bank Commonwealth Indonesia. Following the acquisition, PT Bank Commonwealth Indonesia will become a wholly owned subsidiary of OCBC Indonesia. The acquisition brings over 1.2 million customers from PT Bank Commonwealth Indonesia to OCBC Indonesia. PT Bank Commonwealth Indonesia also brings its wealth management capabilities with it.

### 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 loan growth and fee income recovery 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\$)	38.50	15.40	34.90

Source: Bloomberg, PSR

**Figure 11: Peer Comparison – Singapore banks offer the highest dividend yield**

	PSR	Market Cap	Forward P/E			Forward P/BV			Dividend Yield (%)		ROE (%)			Price	Target	
Stock	Recommendation	(USDmn)	Yr0	Yr1	Yr2	Yr0	Yr1	Yr2	Yr1	Yr2	Yr0	Yr1	Yr2	(Local Currency)	Price (\$S)	Upside
Singapore																
DBS	Accumulate	75,733	8.6	9.6	9.7	1.4	1.5	1.5	6.2	6.6	16.9	16.6	15.7	35.9	38.50	7%
OCBC	Accumulate	48,235	8.4	8.8	8.8	1.1	1.1	1.1	6.0	6.1	13.3	13.4	12.6	14.4	15.40	7%
UOB	Buy	38,316	8.5	8.7	8.5	1.1	1.1	1.0	5.8	6.0	13.3	12.8	12.5	30.8	34.90	13%
Market Cap Weighted Average:			8.5	9.2	9.1	1.2	1.3	1.2	6.0	6.3	15.0	14.7	14.0			
Indonesia																
BCA	Non-rated	71,976	23.8	21.7	19.9	4.8	4.4	4.0	2.9	3.3	21.0	21.2	21.1	9475	na	na
MANDIRI	Non-rated	35,659	10.3	10.3	9.3	2.2	2.0	1.8	5.7	6.1	22.4	20.6	20.7	6200	na	na
BNI	Non-rated	10,595	9.6	7.7	6.8	1.3	1.1	1.0	6.1	6.8	14.6	14.4	15.0	4610	na	na
BANK BRI	Non-rated	42,120	14.4	10.8	9.6	2.8	2.1	1.9	7.2	7.8	19.7	19.6	20.7	4510	na	na
BANK BTN	Non-rated	1,107	5.0	4.8	4.2	0.6	0.5	0.5	3.3	3.8	12.4	11.5	12.0	1280	na	na
Market Cap Weighted Average:			17.3	15.3	13.9	3.4	3.0	2.8	4.9	5.3	20.5	20.1	20.5			
Malaysia																
AFFIN BANK	Non-rated	1,209	12.0	11.4	10.1	0.4	0.5	0.5	3.2	3.8	3.7	4.4	4.9	2.4	na	na
ALLIANCE BANK	Non-rated	1,266	8.3	8.1	7.6	0.8	0.8	0.8	5.8	6.3	9.9	10.0	10.2	3.8	na	na
AMMB HOLDINGS	Non-rated	3,000	7.5	8.0	7.6	0.7	0.7	0.7	5.5	5.9	10.0	8.9	8.9	4.3	na	na
BANK ISLAM	Non-rated	1,159	9.0	9.1	8.5	0.7	0.7	0.7	6.7	7.1	7.8	8.0	8.4	2.4	na	na
CIMB BANK	Non-rated	15,814	8.9	9.8	9.2	0.9	1.0	1.0	5.9	6.1	10.7	10.8	10.9	7.0	na	na
HONG LEONG BANK	Non-rated	8,957	10.2	9.8	9.2	1.1	1.1	1.0	3.5	3.8	11.8	11.6	11.5	19.4	na	na
MAYBANK	Non-rated	25,674	11.5	12.1	11.6	1.1	1.3	1.2	6.2	6.5	10.4	10.3	10.5	10.0	na	na
PUBLIC BANK	Non-rated	17,115	12.5	11.6	11.0	1.5	1.4	1.3	4.8	5.1	12.7	12.4	12.2	4.1	na	na
RHB	Non-rated	5,107	8.3	8.4	7.9	0.8	0.7	0.7	7.3	7.6	9.4	9.0	9.2	5.5	na	na
Market Cap Weighted Average:			10.6	10.7	10.2	1.1	1.1	1.1	5.5	5.8	10.9	10.7	10.8			
Thailand																
BANGKOK BANK	Non-rated	7,155	7.2	6.0	5.9	0.6	0.5	0.4	5.2	5.4	8.1	8.0	7.8	137.0	na	na
BANK OF AYUDHYA	Non-rated	5,031	6.3	5.8	5.6	0.6	0.5	0.4	3.8	4.2	9.3	8.5	8.5	25.0	na	na
KASIKORNBANK	Non-rated	8,460	7.5	7.0	6.5	0.6	0.6	0.5	4.6	5.0	8.2	8.1	8.3	130.5	na	na
KIATNAKIN BANK	Non-rated	1,164	7.8	7.5	6.7	0.7	0.7	0.6	6.3	6.9	9.2	9.0	9.6	50.3	na	na
KRUNGTHAI	Non-rated	6,539	7.0	6.1	5.9	0.6	0.6	0.5	5.4	5.7	9.4	9.4	9.2	17.1	na	na
KRUNGTHAI CARD	Non-rated	3,210	15.4	15.2	13.2	3.1	2.9	2.6	2.8	3.5	21.8	20.3	19.6	45.5	na	na
SCB X PCL	Non-rated	9,673	8.2	8.0	7.7	0.7	0.7	0.7	8.5	8.9	9.3	9.1	9.4	105.0	na	na
SRISAWAD	Non-rated	1,674	11.1	11.1	9.8	2.1	1.9	1.6	2.5	3.1	18.6	17.8	17.6	40.5	na	na
THANACHART BANK	Non-rated	1,413	7.9	7.4	6.8	0.7	0.7	0.7	6.6	7.0	9.6	9.7	9.9	49.3	na	na
TISCO	Non-rated	2,130	10.9	11.1	11.0	1.9	1.8	1.8	7.9	8.0	17.1	16.5	16.3	97.3	na	na
Market Cap Weighted Average:			8.3	7.7	7.3	0.9	0.8	0.8	5.6	5.9	10.5	10.2	10.2			

Source: Bloomberg, PSR

Extracted as of 4-Jun-24

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