

Singapore Banking Monthly

Interest rates stagnate

SINGAPORE | BANKING & FINANCE | UPDATE

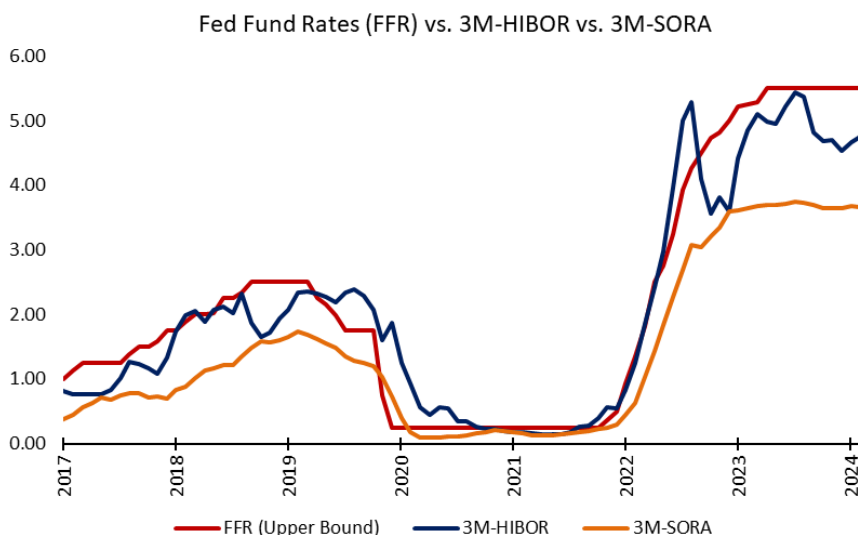
- June's 3M-SORA was down 1bp MoM to 3.67% but 1bp higher than the 2Q24 average. 3M-SORA has been hovering around the 3.6% range since Jan 2024. 3M-HIBOR was up 8bps MoM in June to 4.74%, following the increase of 13bps in May.
- Singapore domestic loans were flattish and dipped 0.3% YoY in May, slightly reversing the growth from the previous two months. We expect low-single-digit growth for 2024 as loan growth is expected to continue to be positive going into 2H24. The CASA balance dipped slightly to 18.1% (Apr24: 18.3%).
- Maintain OVERWEIGHT.** Banks' share price performance was mixed in June. UOB performed the best, the only local bank showing an increase of 2%, while both DBS and OCBC dipped similarly by 0.6%. 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 5.7%, with upside surprises due to excess capital ratios and a push towards higher ROEs.

3M-SORA flat and 3M-HIBOR continues growth

Singapore interest rates were down 1bp to 3.67% in June, slightly reversing the increases for the past two months. Nonetheless, June's 3M-SORA rose by 2bps YoY and was 1bp higher than the 2Q24 3M-SORA average of 3.66% (1Q24: 3.66%). The 3M-SORA has been hovering around the 3.6% range since Jan 2024.

Hong Kong interest rates continued to recover in June. The 3M-HIBOR was up 8bps MoM to 4.74%, a continuation from the increase of 13bps in May. However, June's 3M-HIBOR dipped by 10bps YoY but was 9bps higher than 2Q24 3M-HIBOR average of 4.65% (Figure 1).

Figure 1: SORA flat while HIBOR recovers in June



Source: CEIC, PSR

15 July 2024

Overweight (Maintained)

DBS Group Holdings

ACCUMULATE (Maintained)

BLOOMBERG CODE	DBS SP
LAST TRADED PRICE	SGD 37.93
FORECAST DIV	SGD 2.16
TARGET PRICE	SGD 38.50
DIVIDEND YIELD	5.69%
TOTAL RETURN	7.20%

Oversea-Chinese Banking Corp

ACCUMULATE (Maintained)

BLOOMBERG CODE	OCBC SP
LAST TRADED PRICE	SGD 15.28
FORECAST DIV	SGD 0.87
TARGET PRICE	SGD 15.40
DIVIDEND YIELD	5.69%
TOTAL RETURN	6.48%

United Overseas Bank Limited

BUY (Maintained)

BLOOMBERG CODE	UOB SP
LAST TRADED PRICE	SGD 33.05
FORECAST DIV	SGD 1.90
TARGET PRICE	SGD 34.90
DIVIDEND YIELD	5.75%
TOTAL RETURN	11.35%

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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 flat in May 2024

Overall loans to Singapore residents – which captured lending in all currencies to residents in Singapore – dipped by 0.3% YoY in May to S\$797bn. This dip slightly reversed the growth from the previous two months. We continue to expect low-single-digit growth for 2024 as loan growth is expected to turn positive going into 2H24.

Business loans fell by 1.1% YoY in May. Loans to the building and construction segment, the single largest business segment, was flat YoY at S\$169bn, while loans to the manufacturing segment fell 14% YoY in May to S\$21bn.

Consumer loans grew 1.1% YoY in May to S\$313bn, the fifth consecutive YoY increase recorded since December 2023. Housing loans, which comprise ~70% of consumer lending, grew 1.2% YoY in May to S\$225bn.

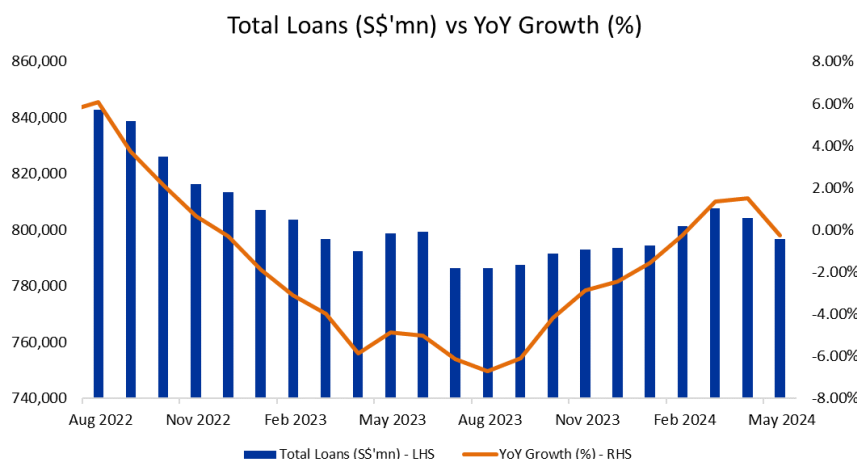
Total deposits and balances—which include deposits in all currencies made by non-bank customers—grew by 4% YoY in May to S\$1,859bn. In the Current Account and Savings Account, or CASA, the proportion dipped slightly to 18.1% (Apr24: 18.3%) of total deposits or S\$337bn.

Figure 2: Singapore loans growth

2023/2024	Loans growth (YoY)
May 24	-0.26%
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%

Source: CEIC, PSR

Figure 3: Singapore loans growth flattens



Source: CEIC, PSR

Hong Kong loan growth decline continues

Hong Kong's domestic loan growth declined 5.5% YoY and fell by 0.4% MoM in May. The YoY decline was smaller than April's YoY decline of 5.7% YoY but improved slightly from the decline 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

SDAV fell 6% YoY to S\$1,108mn in June (Figure 5), while the DDAV grew 13% YoY and 2% MoM in June. The VIX, a market index that measures the implied volatility of the S&P 500 Index, averaged 12.7 in June, down from 13.1 in the previous month.

The top four equity index futures turnover fell 10% YoY in June to 10.4mn contracts (Figure 6) due to lower trading volumes of their Nikkei 225 Index Futures and FTSE China A50 Index Futures. Notably, the Nikkei 225 Index Futures increased 37% MoM, while the FTSE China A50 Index Futures fell 12% MoM in June.

For 1H24, SDAV was up 5% YoY as market sentiment improved, and there was a broad-based recovery in ETFs, fixed-income ETFs, and REITs; notably, Singapore was the second most actively traded market in Southeast Asia in 2Q24. In addition, 2H22 DDAV was up 16% YoY, due to a continued rise in risk management activities, which drove derivatives volume growth in FX and Commodities, as volume was lifted from market participants hedging amid shifting expectations for interest-rate cuts.

We expect a recovery in SGX's Equities – Cash and Equities – Derivatives revenue for 2HFY24 as trading volume has improved for the period, potentially resulting in 2HFY24 Equities revenue increasing by ~8% YoY and adding ~S\$28mn to revenue. SGX will announce their 2HFY24 and full year FY24 results after the market closes on 7 Aug 2024.

Figure 5: 12 Months SDAV and DDAV

	SDAV (\$mn)	YoY	DDAV (mn)	YoY
June 24	1,108	-6%	1.16	13%
May 24	1,270	23%	1.14	16%
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%

Source: SGX, Bloomberg, PSR

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

No. of contracts	Jun-23	Jun-24	YoY
FTSE China A50 Index Futures	7,428,145	6,674,850	-10.1%
Nikkei 225 Index Futures	1,610,393	936,379	-41.9%
MSCI Singapore Index Futures	1,032,957	1,226,621	18.7%
FTSE Taiwan Index Futures	1,467,768	1,543,404	5.2%
Sub-total	11,539,263	10,381,254	-10%

Source: SGX, Bloomberg, PSR

Singapore Banks Performance

The three local banks' share price performance was mixed in June 2024; UOB performed the best, the only local bank showing an increase of 2%, while both DBS and OCBC dipped similarly by 0.6% (Figure 7). Nonetheless, DBS still performed the best YTD with the largest increase of 18% as compared to OCBC and UOB with increases of 11% and 10%, respectively. DBS continues to perform well, 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 of a dividend pay-out ratio of 50% with not much clarity on how excess capital will be returned to shareholders.

Figure 7: Performance moderates slightly in June 2024

BBG Ticker	Singapore Banks	Last Price (\$)	PSR			Div Yield (%)	Performance			
			Recommendation	Target Price (\$)	Upside		1 Year (%)	YTD (%)	3 Month (%)	1 Month (%)
DBS SP EQUITY	DBS	37.40	ACCUMULATE	38.50	3%	5.1	24.9	17.8	9.3	-0.6
OCBC SP EQUITY	OCBC	15.11	ACCUMULATE	15.40	2%	5.4	17.5	11.0	7.0	-0.6
UOB SP EQUITY	UOB	32.93	BUY	34.90	6%	5.2	11.9	10.1	6.9	1.8

Source: Bloomberg, PSR

Local banks' Greater China exposure

As of FY23, the three local banks (DBS, OCBC, and UOB) reported that 15% of profit before tax came from Greater China (Mainland China and Hong Kong), with 18% of the total loan book from Greater China. OCBC had the highest exposure, with 21% 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 6% and 15%, respectively.

The funding and deposits were relatively similar, with an average exposure of 9%; DBS and OCBC at 11% each, while UOB was the lowest at 6% of total deposits coming from Greater China.

Figure 8: Greater China exposure

Greater China exposure (%)	DBS	OCBC	UOB	Total
Profit before tax	19.3	20.9	6.0	15.4
Loans	14.1	24.0	15.3	17.8
Deposits	10.8	11.0	6.0	9.3

Source: Company, PSR

Singapore Banking News

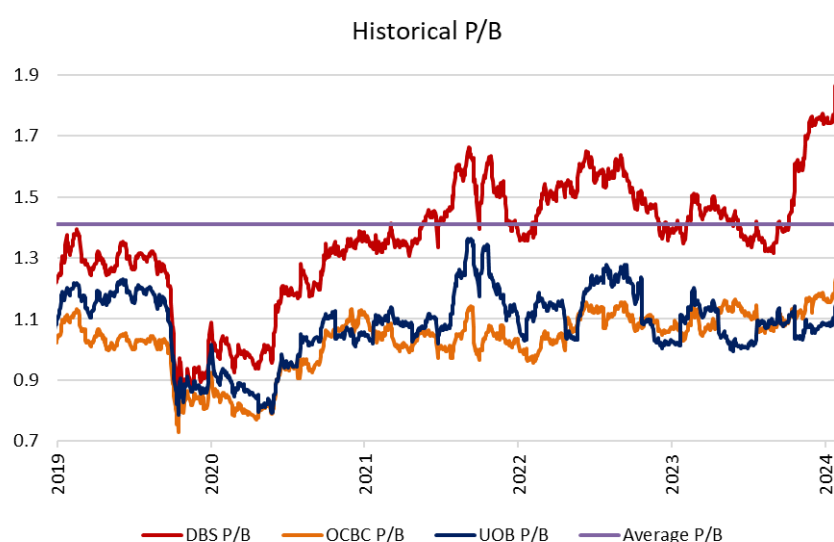
- On 27 June, it was reported that more than 110 suspicious bank accounts with over S\$400k were blocked by UOB or seized by the police in a joint operation targeting money mules. The bank and officers from the Anti-Scam Centre (ASC) conducted the operation from June 17 to 24, the police said in a statement on June 27. The bank accounts were allegedly used to facilitate scam-related activities. The police said UOB used its data analytic models and network detection capabilities to identify suspicious transactions and bank accounts that behaved like potential money mules.
- On 27 June, it was reported that GXS Bank had received a S\$229.5mn capital injection from backers Singtel and Grab, according to regulatory filings with the Accounting and Corporate Regulatory Authority of Singapore. Grab has taken up the majority of the 229.5mn shares at S\$1 apiece in the digital bank. It was allotted 191.8mn shares, while Singtel was allotted 37.7mn shares. This capital injection is part of a scheduled share issuance and allotment announced in a shareholders' resolution back in January when Grab injected S\$145mn. Singtel has also been allotted 90.1mn non-paid-up shares in this round as part of the resolution.
- On 4 June, Temasek Holdings, Singapore's sovereign wealth fund, cut its stake in the Industrial and Commercial Bank of China (ICBC) twice, reducing its share of the lender to less than 5 percent. Temasek first trimmed its allocation in China's biggest bank by selling 825 million H-shares at an average price of HK\$4.7 each on May 27, taking its stake from 6.01 percent to 5.06 percent. This was followed by a further cut of HK\$408 million on the same day, lowering Temasek's stake in ICBC to 4.96 percent.

- On 3 June, the Bank of Singapore (BOS) named Dr. Owi S. Ruivivar its chief portfolio strategist, a new role that will lead the development of a “systematic, robust and risk-based multi-asset allocation framework that will guide clients as they build long-term investment portfolios.” Dr Ruivivar joins the OCBC Bank subsidiary from Singapore sovereign wealth fund GIC, where she served as managing director for nearly five years until May 2024, after first joining as senior vice-president in September 2019.

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 in the top 5 largest regionally

Stock	PSR	Market Cap	Forward P/E			Forward P/BV			Dividend Yield (%)		ROE (%)			Price	Target	Upside
	Recommendation	(USDmn)	Yr0	Yr1	Yr2	Yr0	Yr1	Yr2	Yr1	Yr2	Yr0	Yr1	Yr2	(Local Currency)	Price (\$\$)	
Singapore																
DBS	Accumulate	78,793	8.6	10.0	10.1	1.4	1.6	1.5	5.9	6.4	16.9	16.7	15.6	37.4	38.50	3%
OCBC	Accumulate	50,338	8.4	9.2	9.2	1.1	1.2	1.1	5.7	5.8	13.3	13.3	12.6	15.1	15.40	2%
UOB	Buy	40,822	8.5	9.3	9.1	1.1	1.2	1.1	5.4	5.5	13.3	12.9	12.5	32.9	34.90	6%
Market Cap Weighted Average:			8.5	9.6	9.6	1.2	1.4	1.3	5.7	6.0	15.0	14.8	14.0			
Indonesia																
BCA	Non-rated	76,687	23.8	23.2	21.3	4.8	4.7	4.3	2.7	3.0	21.0	21.2	21.2	10125	na	na
MANDIRI	Non-rated	36,557	10.3	10.6	9.6	2.2	2.1	1.9	5.6	5.9	22.4	20.5	20.7	6375	na	na
BNI	Non-rated	11,114	9.6	8.2	7.2	1.3	1.1	1.0	5.8	6.5	14.6	14.2	14.9	4850	na	na
BANK BRI	Non-rated	45,721	14.4	12.0	10.8	2.8	2.3	2.1	6.6	7.0	19.7	19.3	20.3	4910	na	na
BANK BTN	Non-rated	1,134	5.0	4.9	4.3	0.6	0.6	0.5	3.3	3.8	12.4	11.8	12.2	1315	na	na
Market Cap Weighted Average:			17.3	16.4	14.9	3.4	3.2	3.0	4.6	4.9	20.5	20.0	20.4			
Malaysia																
AFFIN BANK	Non-rated	1,406	12.0	13.0	11.5	0.4	0.6	0.6	2.8	3.3	3.7	4.5	5.0	2.8	na	na
ALLIANCE BANK	Non-rated	1,272	8.3	8.1	7.6	0.8	0.8	0.8	5.8	6.2	9.9	10.0	10.2	3.9	na	na
AMMB HOLDINGS	Non-rated	3,024	7.5	8.1	7.6	0.7	0.7	0.7	5.5	5.8	10.0	8.9	9.0	4.3	na	na
BANK ISLAM	Non-rated	1,203	9.0	9.5	8.8	0.7	0.8	0.7	6.4	6.9	7.8	8.0	8.4	2.5	na	na
CIMB BANK	Non-rated	15,894	8.9	9.8	9.2	0.9	1.0	1.0	5.7	6.1	10.7	10.8	10.9	7.0	na	na
HONG LEONG BANK	Non-rated	8,862	10.2	9.7	9.1	1.1	1.1	1.0	3.5	3.8	11.8	11.6	11.4	19.3	na	na
MAYBANK	Non-rated	25,614	11.5	12.2	11.6	1.1	1.3	1.2	6.2	6.5	10.4	10.3	10.6	10.0	na	na
PUBLIC BANK	Non-rated	16,893	12.5	11.5	10.8	1.5	1.4	1.3	4.9	5.2	12.7	12.4	12.2	4.1	na	na
RHB	Non-rated	5,117	8.3	8.4	7.9	0.8	0.7	0.7	7.3	7.6	9.4	9.1	9.2	5.5	na	na
Market Cap Weighted Average:			10.6	10.8	10.2	1.1	1.1	1.1	5.5	5.8	10.8	10.7	10.8			
Thailand																
BANGKOK BANK	Non-rated	7,130	7.2	6.0	5.8	0.6	0.5	0.4	5.2	5.4	8.1	8.0	7.8	136.0	na	na
BANK OF AYUDHYA	Non-rated	4,990	6.3	5.9	5.9	0.6	0.5	0.4	3.6	3.8	9.3	8.4	8.1	24.7	na	na
KASIKORNBANK	Non-rated	8,362	7.5	6.8	6.3	0.6	0.5	0.5	5.0	5.4	8.2	8.2	8.5	128.5	na	na
KIATNAKIN BANK	Non-rated	1,087	7.8	6.9	6.2	0.7	0.6	0.6	6.9	7.4	9.2	9.0	9.6	46.8	na	na
KRUNGTHAI	Non-rated	6,717	7.0	6.3	6.1	0.6	0.6	0.5	5.3	5.5	9.4	9.3	9.1	17.5	na	na
KRUNGTHAI CARD	Non-rated	2,726	15.4	12.9	11.9	3.1	2.5	2.2	3.3	4.0	21.8	20.3	19.5	38.5	na	na
SCB X PCL	Non-rated	9,756	8.2	8.1	7.7	0.7	0.7	0.7	9.0	9.4	9.3	9.0	9.3	105.5	na	na
SRISAWAD	Non-rated	1,504	11.1	9.9	8.7	2.1	1.6	1.4	2.6	3.3	18.6	17.7	17.6	36.3	na	na
THANACHART BANK	Non-rated	1,318	7.9	6.8	6.3	0.7	0.6	0.6	7.1	7.6	9.6	9.7	9.9	45.8	na	na
TISCO	Non-rated	2,111	10.9	11.1	10.8	1.9	1.8	1.7	8.0	8.1	17.1	16.2	16.1	96.0	na	na
Market Cap Weighted Average:			8.2	7.5	7.1	0.9	0.8	0.7	5.8	6.2	10.3	10.0	10.0			

Source: Bloomberg, PSR

Extracted as of 9-Jul-24

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