

Singapore Banking Sector

Soft end to 2014 Singapore system loans and weak start to 2015

6 March 2015

SINGAPORE | FINANCIALS | UPDATE

Singapore system loans (DBU & ACU)

DBU & ACU Loans	S\$ bn	q-q (%)				y-y (%)			m-m (%)	y-y (%)
	2014	1Q14	2Q14	3Q14	4Q14	2012	2013	2014	Jan-15	
Business Loans	854	4.5	2.7	0.5	1.6	9.0	22.3	9.6	1.1	8.6
Manufacturing	89	4.9	0.6	(1.8)	(0.1)	9.3	14.9	3.6	5.2	5.9
Buildg & Constr	104	(0.4)	4.9	3.4	5.1	16.9	16.0	13.6	(0.2)	11.9
General commerce	171	6.6	0.3	(0.2)	(1.7)	16.6	42.0	4.9	(1.4)	1.6
Transp/store/comm	84	(0.5)	1.4	2.6	5.4	(5.0)	(1.1)	9.1	0.3	8.0
Fin. Institutions	199	3.2	2.6	0.9	3.1	10.5	17.7	10.1	2.3	15.1
Others	207	8.2	5.5	(0.2)	0.5	6.0	31.8	14.4	1.4	8.5
Consumer Loans	295	4.5	2.7	0.5	1.6	14.4	12.8	8.1	1.1	8.1
Housing	177	1.4	1.7	1.6	1.7	15.9	9.6	6.5	0.5	6.5
Others	118	5.9	1.7	1.6	1.0	11.8	18.3	10.6	1.3	10.5
Total DBU & ACU	1,149	4.1	2.5	0.8	1.5	10.4	19.7	9.2	1.0	8.5

Source: MAS, PSR

Highlights

- Loan growth momentum slowing down, expect muted growth ahead for 2015:** Loan growth engines sputtered for 2014. Singapore system loans (DBU & ACU) ended off 2014 with +9.2% y-y/+1.5% q-q. Slowdown was broad-based with general commerce loans growth withering to +4.9% y-y/-1.7% q-q. Housing loans growth is pacing down as expected. 2015 started with a subdued +1.0% m-m total growth. We see a challenging environment ahead with economic headwinds in this region. Bright spots could be 1) building & construction as the Singapore government increases commitment to infrastructure and 2) general commerce might pick up depending on recovery of China and ASEAN economies.
- Total system deposit growth picked up in Dec 2014 but decelerated into 2015:** System deposit (DBU & ACU) saw a quick pick up in Dec 2014 of +1.0% m-m (-0.2% m-m in Nov) but decelerated to -0.2% in Jan 2015. We think that deposit gathering efforts were ramped up in Dec to meet LCR (liquidity coverage ratio) requirements and to boost CASA balances. We believe tightness in total system liquidity might ease off slightly in 2015 with increasing domestic rates, increase deposit demand to meet LCR requirements and translation effects from weakening SGD.
- SIBOR still increasing, a net positive especially for DBS:** Since our February [report](#), SGD has depreciated by 140bps while SIBOR has increased 12bps (+17.8%) to 0.79%. Increase in interest rates will likely be a positive to loan yields and as we have mentioned previously, we should see the effects in 2Q15 for the Singapore banks. Downside risk is difficulty in keeping funding cost in check from both the pace of repricing and competition for deposits. We see DBS in the best position as they have the largest proportion of cheap CASA deposits and UOB being the most vulnerable.

Investment actions

Maintain OVERWEIGHT on Singapore Banking Sector – DBS remains our top pick. Uptick in SIBOR is a net positive for the Singapore Banks **for FY15 at least** with DBS will benefiting the most. We have a “Buy” rating on DBS, “Accumulate” rating on OCBC and UOB.

OVERWEIGHT (Maintain)

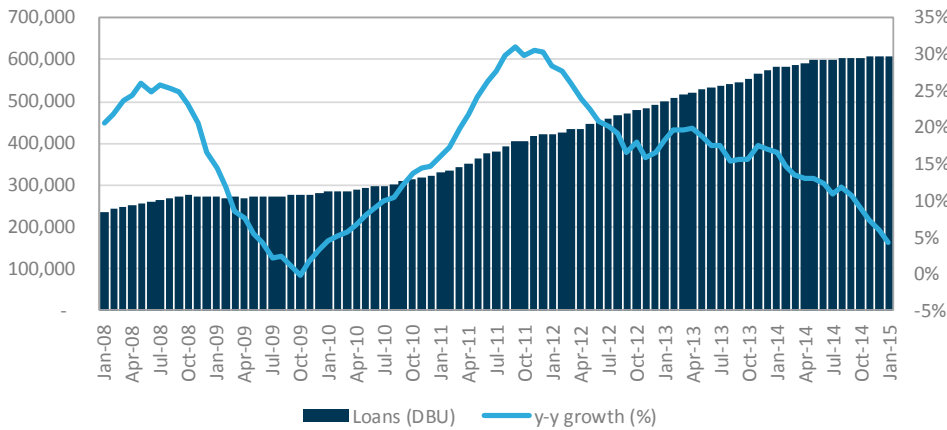
Singapore Banking Sector

	DBS Group Holding Ltd	United Overseas Bank Ltd	Oversea-Chinese Banking Corp
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Rating	Buy	Accumulate	Accumulate
Price (S\$)	19.48	23.02	10.39
Target Price (S\$)	22.00	25.80	11.60
Dividend Yield (%)	3.08%	3.48%	3.56%
Upside (%)	16%	16%	15%
Mkt Cap (S\$ mn)	48,290	36,896	41,385

Source: Bloomberg, PSR est.

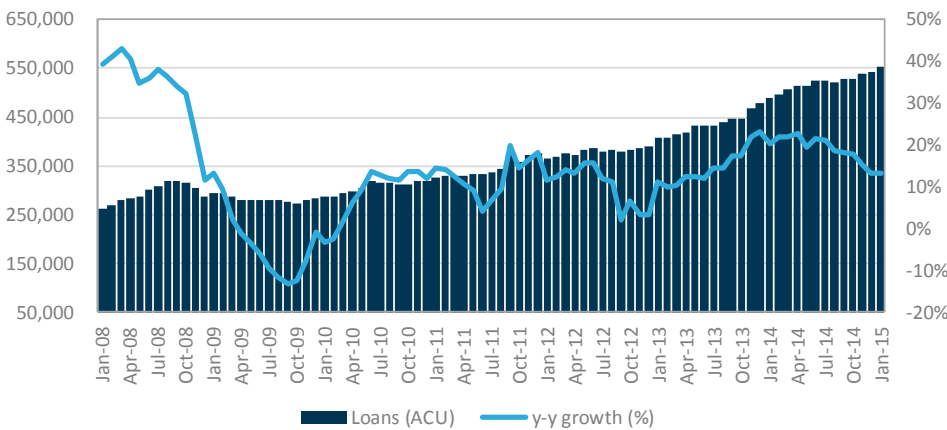
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Total DBU Loans (\$\$ mn)(LHS) and y-y growth (%) (RHS)


DBU loans slowing down. 2014/13/12 +5.9%/+17.0%/+16.7%

Jan 2015 -0.3% m-m growth

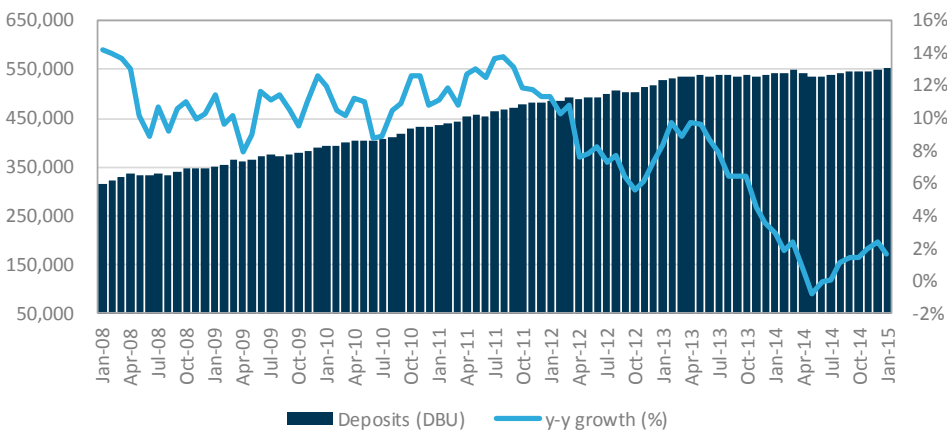
Source: MAS, PSR

Total ACU Loans (\$\$ mn)(LHS) and y-y growth (%) (RHS)


ACU loans growth softer. 2014/13/12 +13.2%/+23.0%/+3.3%

Jan 2015 +2.2% m-m growth

Source: MAS, PSR

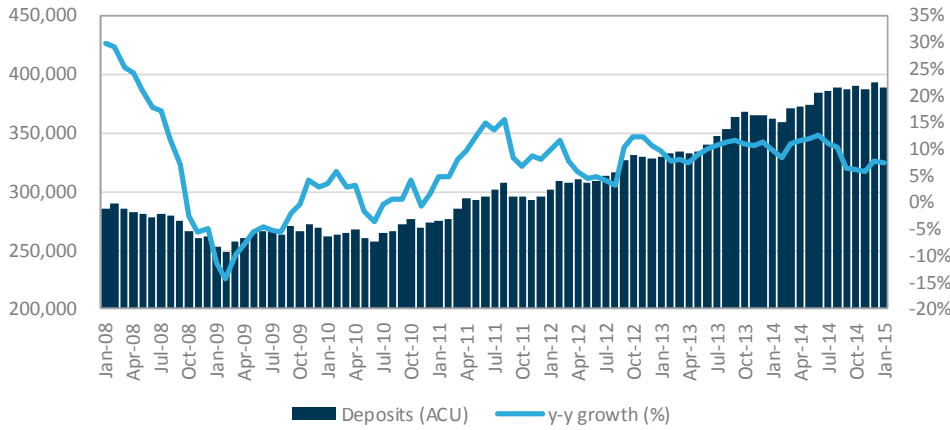
Total DBU Deposits (\$\$ mn)(LHS) and y-y growth (%) (RHS)


DBU deposit growth picked up in Dec 2014, driven by savings deposits +1.6% m-m

Jan 2015 fixed deposits growth pace picked up at +0.9% m-m

Source: MAS, PSR

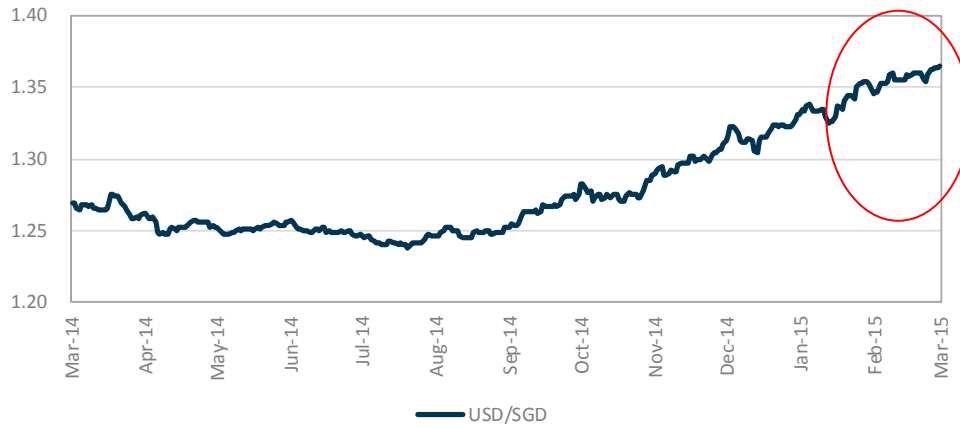
Total Deposits (ACU)(S\$ mn) (LHS) and y-y growth (%) (RHS)



ACU deposits in 2H14 grew the most in Dec 2014 (+1.6% m-m) likely to meet the LCR requirements

Source: MAS, PSR

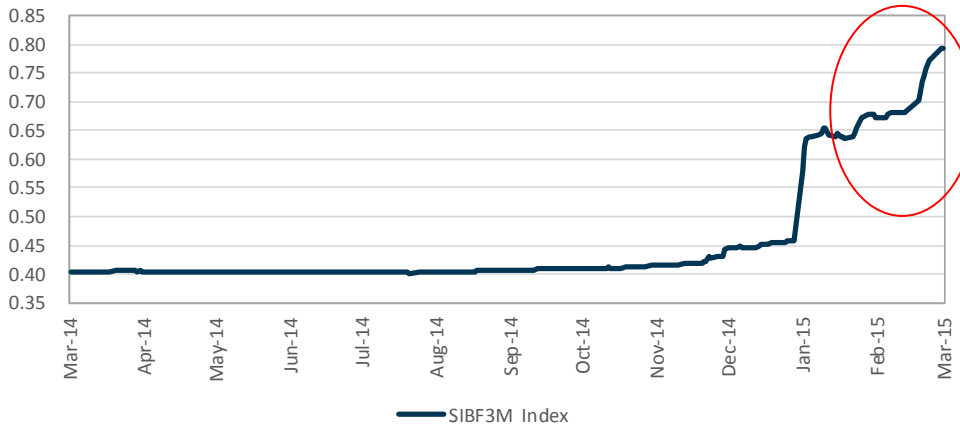
USD/SGD



SGD continues to depreciate against the USD...

Source: OANDA, PSR

SIBOR 3M



... While SIBOR continues to tick up even more.

Net positive for banks if increase in funding cost does not outpace loan yield improvements

Source: Bloomberg, PSR

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