

Singapore Banking Monthly

All looking good



StocksBnB.com

8 December 2017

SINGAPORE | BANKING & FINANCE | UPDATE

- Singapore October domestic loans growth was up 6.8% YoY, 2nd consecutive month of acceleration. Loan demand driven by stronger property related business loans.
- Hong Kong October domestic loans growth was 22.3% YoY, driven by IPO loans.
- SIBOR and HIBOR spiked up at the end of November signalling an increase in mortgage rates in Hong Kong and Singapore.
- Narrowing spread between 1mth and 3mth HIBOR is tailwind for Hong Kong NIMs.
- Maintain Accumulate for the Singapore Banking Sector.

Singapore October domestic loans +6.8% YoY as business loans growth remain buoyant

Singapore domestic business loans grew 9% in October driven by strong property related business loans as other business loans remained relatively stable. Building and construction loans growth of 0.9% was lacklustre. Car loans registered 4.5% YoY growth, the highest since the beginning of 2013.

Hong Kong Q2 and Q3 domestic loans registered 10.6% and 12.6% growth respectively as property related loans accelerated.

Hong Kong mass market residential values are up 13.1% YTD and is expected to grow 15% for FY17 (according to JLL Hong Kong November residential sales market monitor). Outstanding value of mortgage loans continue to climb higher sequentially, increasing 0.3% MoM to HK\$1,190.2bn at end of October. Loans growth was also driven up by a buoyant IPO loans market at the end of October in preparation for mega IPOs like China Literature and Yixin Group in early November.

SIBOR rates moved up higher at the end of November

Our channel checks show that the Singapore banks' fixed rate home loan packages have risen in December from a month ago. But we did not notice big changes to the spread on SIBOR pegged loans.

1 month HIBOR was sharply higher in November signaling higher mortgage rates in HKG

We believe that part of the strong spike in 1 month HIBOR was due to the [strong demand for IPO loans](#) which soaked up a substantial amount of liquidity in the short duration money market. Most of Hong Kong's new mortgages continue to be referenced to HIBOR. In October 93.1% of new mortgages within Hong Kong were priced with reference to HIBOR, a slight decline from September's 93.4%.

Asset quality in Singapore and Hong Kong is expected to remain robust

The strong economic growth continues to support asset quality as we saw 3Q GDP growth for Hong Kong (3.6% YoY) and Singapore (5.2% YoY) beat estimates. Bankruptcy orders in Singapore are in a declining trend and Hong Kong mortgage delinquency ratio remains low at 0.02%. Over at the offshore oil and gas space, semisubmersibles utilisation could be bottoming out and Jackups utilisation has recovered to levels last seen in 2015. However, in both cases, day rates continue to languish at an all-time low.

INVESTMENT ACTIONS

Maintain Singapore Banking Sector at Accumulate – All indicators such as volume, margins and asset quality point to a healthy 4Q17 for the banking sector. Valuations of Singapore banks continue to be undemanding at between 1.1x and 1.2x P/BV.

ACCUMULATE (Maintain)

DBS Group Holdings

Buy (Maintain)

BLOOMBERG CODE	DBS SP
LAST TRADED PRICE	SGD 24.40
FORECAST DIV	SGD 0.66
TARGET PRICE	SGD 29.30
TOTAL RETURN	22.79%

Oversea-Chinese Banking Corp

Buy (Maintain)

BLOOMBERG CODE	OCBC SP
LAST TRADED PRICE	SGD 12.17
FORECAST DIV	SGD 0.40
TARGET PRICE	SGD 13.48
TOTAL RETURN	14.05%

United Overseas Bank Limited

Accumulate (Maintain)

BLOOMBERG CODE	UOB SP
LAST TRADED PRICE	SGD 25.85
FORECAST DIV	SGD 0.80
TARGET PRICE	SGD 25.22
TOTAL RETURN	0.66%

Jeremy Teong (+65 62121853)

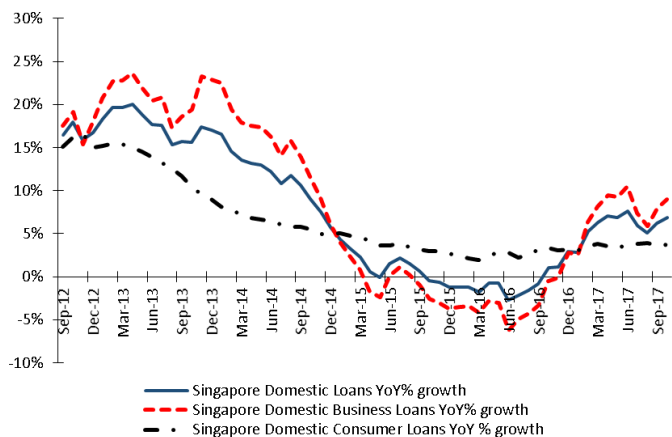
Investment Analyst

jeremyteongfh@phillip.com.sg

List of Abbreviations

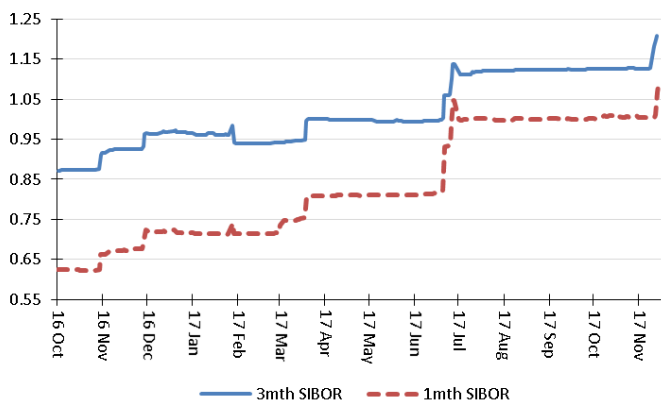
WM – Wealth Management
 NII – Net Interest Income
 NIM – Net Interest Margin
 LDR – Loan to Deposit Ratio
 NPL – Non-performing Loans
 PPOP – Pre-Provision Operating Profit
 WACC – Weighted Average Cost of Capital
 ROIC – Return on Invested Capital
 FHR – Fixed Deposit Home Loan Rate
 EV – Economic Value
 JLL – Jones Lang LaSalle

Figure 1: Singapore domestic business loans continue to lead the growth as 3Q GDP YoY growth surpassed expectations.



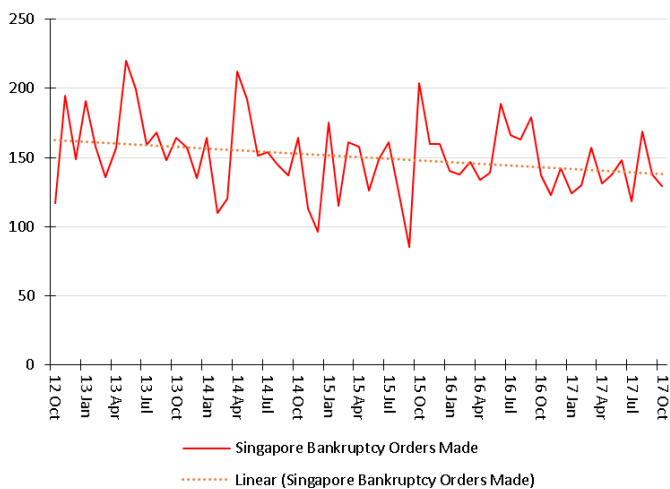
Source: MAS, PSR estimates

Figure 3: 3 month SIBOR and 1 month SIBOR have risen by c.8bps at the end of November.



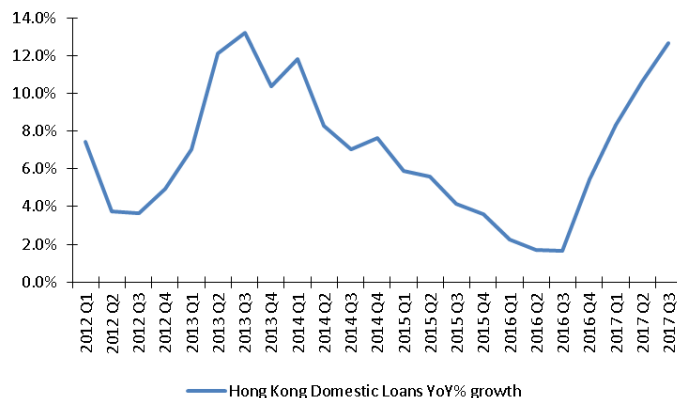
Source: MAS, PSR estimates

Figure 3: Singapore's bankruptcy orders is on a declining trend.



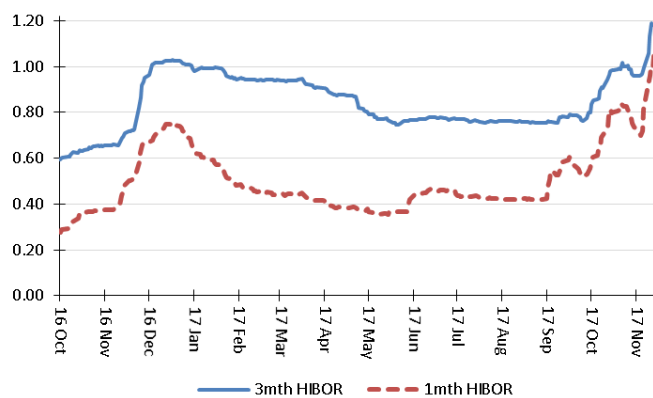
Source: Singstats, PSR estimates

Figure 2: Unprecedented demand for Hong Kong IPO loans boosted stronger loans growth in late October and early November.



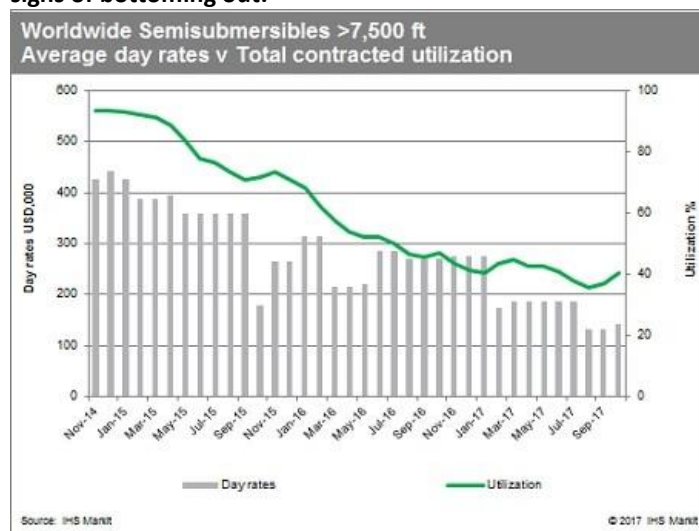
Source: HKMA, PSR estimates

Figure 4: DBS' and OCBC's Hong Kong NIMs are expected to improve as the spread between the 1-month HIBOR and 3-month HIBOR continues to narrow.



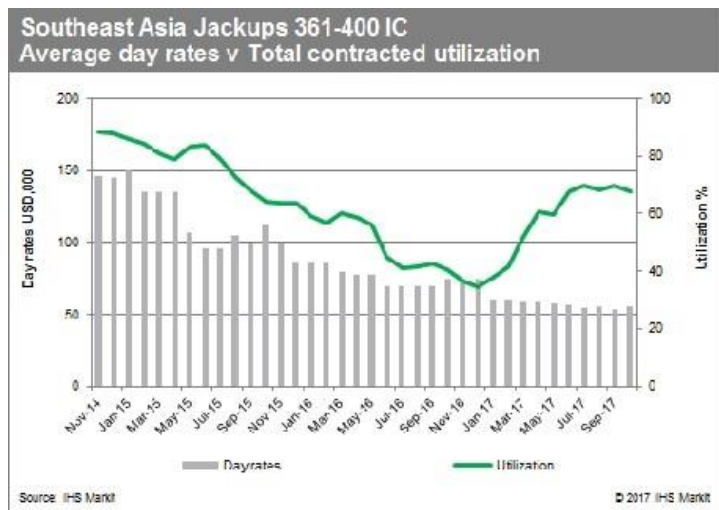
Source: MAS, PSR estimates

Figure 4: Worldwide Semisubmersibles utilisation has bottomed out since Sept 2017 but day rates have not showed signs of bottoming out.



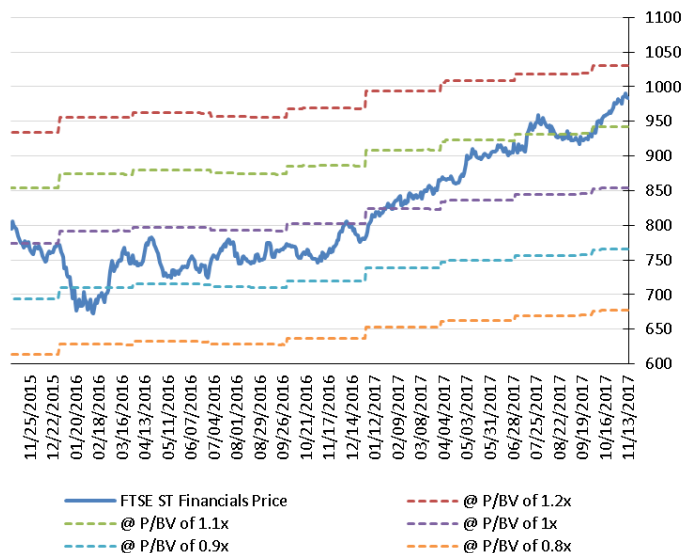
Source: IHS Markit

Figure 5: Southeast Asia Jackups utilisation has tapered since it rebounded in March 2017. Day rates appear to be stable YTD.



Source: IHS Markit

Figure 6: Singapore banks' valuation is undemanding at between 1.1x and 1.2x P/BV.



Source: Bloomberg, PSR estimates

Contact Information (Singapore Research Team)

Head of Research

Paul Chew – paulchewkl@phillip.com.sg

Research Operations Officer

Mohamed Amiruddin - amiruddin@phillip.com.sg

Consumer | Healthcare

Soh Lin Sin - sohls@phillip.com.sg

Oil & Gas | Energy

Chen Guangzhi - chengz@phillip.com.sg

Macro

Pei Sai Teng - peist@phillip.com.sg

Transport | REITs (Industrial)

Richard Leow - richardleowwt@phillip.com.sg

REITs (Commercial, Retail, Healthcare) | Property

Dehong Tan - tandh@phillip.com.sg

Technical Analysis

Jeremy Ng - jeremyngch@phillip.com.sg

Banking and Finance

Jeremy Teong - jeremyteongfh@phillip.com.sg

US Equity

Ho Kang Wei - hokw@phillip.com.sg

Contact Information (Regional Member Companies)

SINGAPORE

Phillip Securities Pte Ltd

Raffles City Tower
250, North Bridge Road #06-00
Singapore 179101
Tel +65 6533 6001
Fax +65 6535 6631
Website: www.poems.com.sg

JAPAN

Phillip Securities Japan, Ltd.

4-2 Nihonbashi Kabuto-cho Chuo-ku,
Tokyo 103-0026
Tel +81-3 3666 2101
Fax +81-3 3666 6090
Website: www.phillip.co.jp

THAILAND

Phillip Securities (Thailand) Public Co. Ltd

15th Floor, Vorawat Building,
849 Silom Road, Silom, Bangrak,
Bangkok 10500 Thailand
Tel +66-2 6351700 / 22680999
Fax +66-2 22680921
Website www.phillip.co.th

UNITED STATES

Phillip Capital Inc

141 W Jackson Blvd Ste 3050
The Chicago Board of Trade Building
Chicago, IL 60604 USA
Tel +1-312 356 9000
Fax +1-312 356 9005
Website: www.phillipusa.com

INDIA

PhillipCapital (India) Private Limited

No.1, 18th Floor, Urmi Estate
95, Ganpatrao Kadam Marg
Lower Parel West, Mumbai 400-013
Maharashtra, India
Tel: +91-22-2300 2999 / Fax: +91-22-2300 2969
Website: www.phillipcapital.in

CAMBODIA

Phillip Bank Plc

Ground Floor of B-Office Centre, #61-64,
Norodom Blvd Corner Street 306, Sangkat
Boeung Keng Kang 1, Khan Chamkamorn,
Phnom Penh, Cambodia
Tel: 855 (0) 7796 6151/855 (0) 1620 0769
Website: www.phillipbank.com.kh

MALAYSIA

Phillip Capital Management Sdn Bhd

B-3-6 Block B Level 3 Megan Avenue II,
No. 12, Jalan Yap Kwan Seng, 50450
Kuala Lumpur
Tel +603 2162 8841
Fax +603 2166 5099
Website: www.poems.com.my

INDONESIA

PT Phillip Securities Indonesia

ANZ Tower Level 23B,
Jl Jend Sudirman Kav 33A
Jakarta 10220 – Indonesia
Tel +62-21 5790 0800
Fax +62-21 5790 0809
Website: www.phillip.co.id

FRANCE

King & Shaxson Capital Limited

3rd Floor, 35 Rue de la Bienfaisance 75008
Paris France
Tel +33-1 45633100
Fax +33-1 45636017
Website: www.kingandshaxson.com

AUSTRALIA

Phillip Capital Limited

Level 10, 330 Collins Street
Melbourne, Victoria 3000, Australia
Tel +61-03 9629 8288
Fax +61-03 9629 8882
Website: www.phillipcapital.com.au

TURKEY

PhillipCapital Menkul Degerler

Dr. Cemil Bengü Cad. Hak Is Merkezi
No. 2 Kat. 6A Caglayan
34403 Istanbul, Turkey
Tel: 0212 296 84 84
Fax: 0212 233 69 29
Website: www.phillipcapital.com.tr

HONG KONG

Phillip Securities (HK) Ltd

11/F United Centre 95 Queensway
Hong Kong
Tel +852 2277 6600
Fax +852 2868 5307
Websites: www.phillip.com.hk

CHINA

Phillip Financial Advisory (Shanghai) Co Ltd

No 550 Yan An East Road,
Ocean Tower Unit 2318,
Postal code 200001
Tel +86-21 5169 9200
Fax +86-21 6351 2940
Website: www.phillip.com.cn

UNITED KINGDOM

King & Shaxson Capital Limited

6th Floor, Candlewick House,
120 Cannon Street,
London, EC4N 6AS
Tel +44-20 7426 5950
Fax +44-20 7626 1757
Website: www.kingandshaxson.com

SRI LANKA

Asha Phillip Securities Limited

2nd Floor, Lakshmans Building,
No. 321, Galle Road,
Colombo 03, Sri Lanka
Tel: (94) 11 2429 100
Fax: (94) 11 2429 199
Website: www.ashaphillip.net

DUBAI

Phillip Futures DMCC

Member of the Dubai Gold and
Commodities Exchange (DGEX)
Unit No 601, Plot No 58, White Crown Bldg,
Sheikh Zayed Road, P.O.Box 212291
Dubai-UAE
Tel: +971-4-3325052 / Fax: + 971-4-3328895

Important Information

This report is prepared and/or distributed by Phillip Securities Research Pte Ltd ("Phillip Securities Research"), which is a holder of a financial adviser's license under the Financial Advisers Act, Chapter 110 in Singapore.

By receiving or reading this report, you agree to be bound by the terms and limitations set out below. Any failure to comply with these terms and limitations may constitute a violation of law. This report has been provided to you for personal use only and shall not be reproduced, distributed or published by you in whole or in part, for any purpose. If you have received this report by mistake, please delete or destroy it, and notify the sender immediately.

The information and any analysis, forecasts, projections, expectations and opinions (collectively, the "Research") contained in this report has been obtained from public sources which Phillip Securities Research believes to be reliable. However, Phillip Securities Research does not make any representation or warranty, express or implied that such information or Research is accurate, complete or appropriate or should be relied upon as such. Any such information or Research contained in this report is subject to change, and Phillip Securities Research shall not have any responsibility to maintain or update the information or Research made available or to supply any corrections, updates or releases in connection therewith.

Any opinions, forecasts, assumptions, estimates, valuations and prices contained in this report are as of the date indicated and are subject to change at any time without prior notice. Past performance of any product referred to in this report is not indicative of future results.

This report does not constitute, and should not be used as a substitute for, tax, legal or investment advice. This report should not be relied upon exclusively or as authoritative, without further being subject to the recipient's own independent verification and exercise of judgment. The fact that this report has been made available constitutes neither a recommendation to enter into a particular transaction, nor a representation that any product described in this report is suitable or appropriate for the recipient. Recipients should be aware that many of the products, which may be described in this report involve significant risks and may not be suitable for all investors, and that any decision to enter into transactions involving such products should not be made, unless all such risks are understood and an independent determination has been made that such transactions would be appropriate. Any discussion of the risks contained herein with respect to any product should not be considered to be a disclosure of all risks or a complete discussion of such risks.

Nothing in this report shall be construed to be an offer or solicitation for the purchase or sale of any product. Any decision to purchase any product mentioned in this report should take into account existing public information, including any registered prospectus in respect of such product.

Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may provide an array of financial services to a large number of corporations in Singapore and worldwide, including but not limited to commercial / investment banking activities (including sponsorship, financial advisory or underwriting activities), brokerage or securities trading activities. Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may have participated in or invested in transactions with the issuer(s) of the securities mentioned in this report, and may have performed services for or solicited business from such issuers. Additionally, Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may have provided advice or investment services to such companies and investments or related investments, as may be mentioned in this report.

Phillip Securities Research or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report may, from time to time maintain a long or short position in securities referred to herein, or in related futures or options, purchase or sell, make a market in, or engage in any other transaction involving such securities, and earn brokerage or other compensation in respect of the foregoing. Investments will be denominated in various currencies including US dollars and Euro and thus will be subject to any fluctuation in exchange rates between US dollars and Euro or foreign currencies and the currency of your own jurisdiction. Such fluctuations may have an adverse effect on the value, price or income return of the investment.

To the extent permitted by law, Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may at any time engage in any of the above activities as set out above or otherwise hold an interest, whether material or not, in respect of companies and investments or related investments, which may be mentioned in this report. Accordingly, information may be available to Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, which is not reflected in this report, and Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may, to the extent permitted by law, have acted upon or used the information prior to or immediately following its publication. Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited its officers, directors, employees or persons involved in the issuance of this report, may have issued other material that is inconsistent with, or reach different conclusions from, the contents of this report.

The information, tools and material presented herein are not directed, intended for distribution to or use by, any person or entity in any jurisdiction or country where such distribution, publication, availability or use would be contrary to the applicable law or regulation or which would subject Phillip Securities Research to any registration or licensing or other requirement, or penalty for contravention of such requirements within such jurisdiction.

This report is intended for general circulation only and does not take into account the specific investment objectives, financial situation or particular needs of any particular person. The products mentioned in this report may not be suitable for all investors and a person receiving or reading this report should seek advice from a professional and financial adviser regarding the legal, business, financial, tax and other aspects including the suitability of such products, taking into account the specific investment objectives, financial situation or particular needs of that person, before making a commitment to invest in any of such products.

This report is not intended for distribution, publication to or use by any person in any jurisdiction outside of Singapore or any other jurisdiction as Phillip Securities Research may determine in its absolute discretion.

IMPORTANT DISCLOSURES FOR INCLUDED RESEARCH ANALYSES OR REPORTS OF FOREIGN RESEARCH HOUSES

Where the report contains research analyses or reports from a foreign research house, please note:

- (i) recipients of the analyses or reports are to contact Phillip Securities Research (and not the relevant foreign research house) in Singapore at 250 North Bridge Road, #06-00 Raffles City Tower, Singapore 179101, telephone number +65 6533 6001, in respect of any matters arising from, or in connection with, the analyses or reports; and
- (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Singapore who is not an accredited investor, expert investor or institutional investor, Phillip Securities Research accepts legal responsibility for the contents of the analyses or reports.