

Singapore Banking Monthly

2017 ended with a strong performance in December



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SINGAPORE | BANKING & FINANCE | UPDATE

10 January 2018

- Singapore November domestic loans growth was up 7.1% YoY. Demand driven by property related business loans.
- Hong Kong November domestic loans growth was 14.8% YoY.
- SIBOR and HIBOR spiked up at the end of December signalling a further increase in mortgage rates in Hong Kong and Singapore in January 2018.
- Maintain Accumulate for the Singapore Banking Sector.

Singapore November domestic loans grew 7.1% YoY as business loans growth remain buoyant

Singapore domestic business loans grew 8.8% in November driven by strong property related business loans. Building and construction loans growth of 0.9% was lacklustre. Consumer loans growth in November accelerated to 4.6% from c.3% in the preceding months. Car loans grew 5.7% YoY, marking a new high since the beginning of 2013.

Hong Kong November domestic loans grew 14.8% YoY.

Hong Kong residential volume and value picked up strongly in December. Volume was up 7.7% MoM and value was up 28.5% MoM (according to JLL Hong Kong December residential sales market monitor). Outstanding value of mortgage loans continue to climb higher sequentially, increasing 0.7% MoM (up 8.1% YoY) to HK\$1,199.0bn at end of November. November system loans fell 3% MoM but excluding the IPO loans of c.HK\$379bn straddling at end of October, November growth would have been 1%.

SIBOR accelerated in December and appeared to be playing catch up with Fed Funds rate.

SIBOR rose somewhere between 20bps and 25bps during the final days of 2017. Our channel checks show that the Singapore banks' SIBOR pegged mortgage loans generally increased 10bps in December from a month ago following a c.8bps increase in SIBOR at end of November. Given the sharp increase in SIBOR at the end of December 2017, we expect the SIBOR pegged mortgage loans to increase in tandem.

HIBOR trended higher in December as HKMA raised the base lending rates by 25bps in line with the 25bp Fed Rate increase.

HIBOR's increase cooled in December following the strong spike in late October and early November when we saw [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 November 92.4% of new mortgages within Hong Kong were priced with reference to HIBOR, a slight decline from October's 93.1%.

Offshore oil and gas operating conditions are improving and should no longer pose a major threat.

Semisubmersibles utilisation has bottomed out and hovering at c.40%. Jackups utilisation continue to be healthy at c.70%. Finally, Day rates may have bottomed out in November as oil price hovers at c.US\$60 per barrel.

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 26.51
FORECAST DIV	SGD 0.66
TARGET PRICE	SGD 29.30
TOTAL RETURN	13.01%

Oversea-Chinese Banking Corp

Buy (Maintain)

BLOOMBERG CODE	OCBC SP
LAST TRADED PRICE	SGD 12.91
FORECAST DIV	SGD 0.40
TARGET PRICE	SGD 13.48
TOTAL RETURN	7.51%

United Overseas Bank Limited

Accumulate (Maintain)

BLOOMBERG CODE	UOB SP
LAST TRADED PRICE	SGD 27.80
FORECAST DIV	SGD 0.80
TARGET PRICE	SGD 25.22
TOTAL RETURN	-6.40%

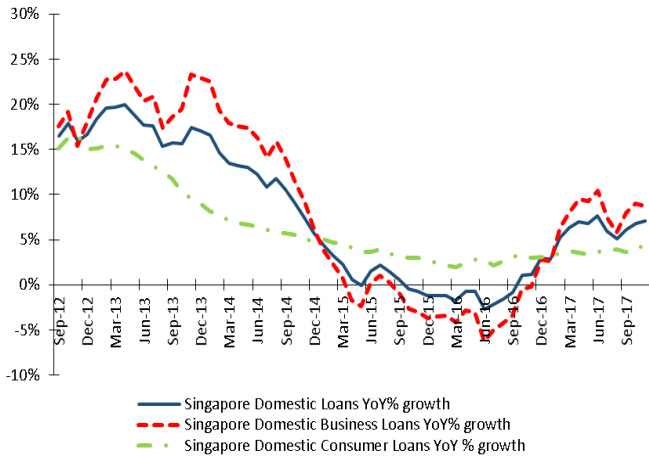
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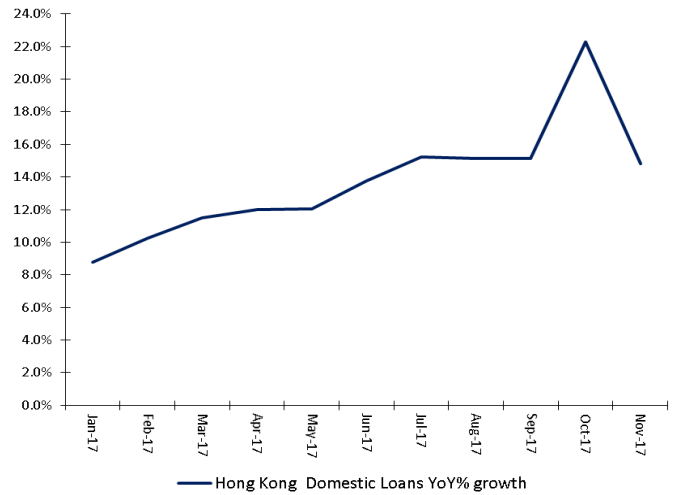
List of Abbreviations
 WM – Wealth Management
 NII – Net Interest Income
 NIM – Net Interest Margin
 LDR – Loan to Deposit Ratio
 NPL – Non-performing Loans
 PPOP – Pre-Provision Operating Profit
 WACC – Weighted Average Cost of Capital
 ROIC – Return on Invested Capital
 FHR – Fixed Deposit Home Loan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

Figure 1: Singapore domestic loans growth boosted by stronger consumer lending in November.



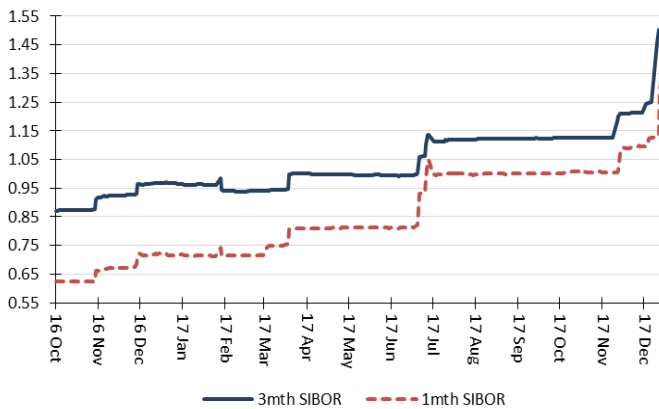
Source: MAS, PSR estimates

Figure 2: Hong Kong domestic loans grew 14.8% YoY.



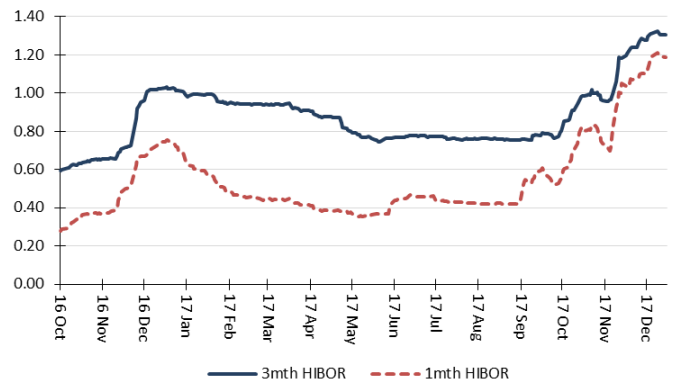
Source: HKMA, PSR estimates

Figure 3: SIBOR rose 20bps to 25bps days during the last few days in December.



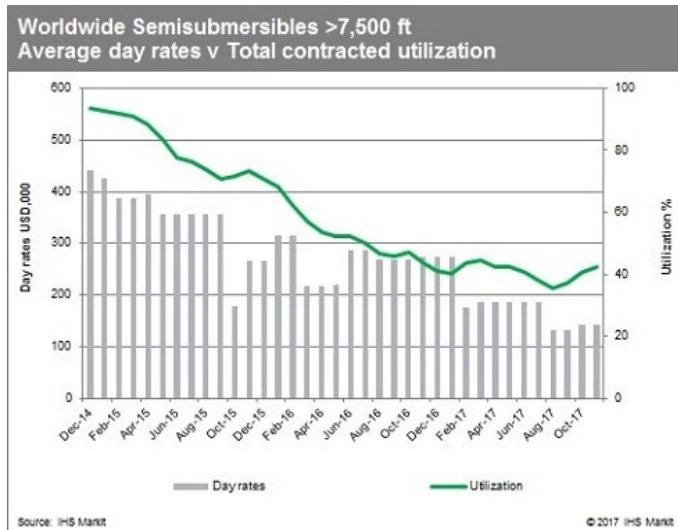
Source: MAS, PSR estimates

Figure 4: HIBOR rates continued the uptrend in December as HKMA raised the base lending rates by 25bps in line with Fed Funds rate hike.



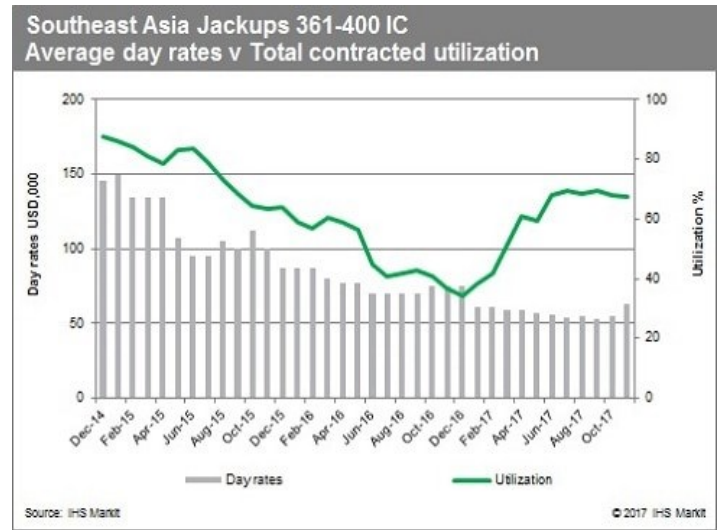
Source: MAS, PSR estimates

Figure 5: Worldwide Semisubmersibles utilisation has bottomed out since Sept 2017 and day rates appear to have bottomed out in December.



Source: IHS Markit

Figure 6: Southeast Asia Jackups utilisation continues to remain healthy and day rates appear to have bottomed out in December.



Source: IHS Markit

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