

# Singapore Banking Sector Results Season Takeaways – 1Q13

## Report type: Update

### Sector Overview

The Singapore Banking Sector provides traditional lending and depository functions, as well as other services in the areas of commercial banking, financial advisory, asset management, insurance broking and capital market services.

### Post Results Highlight

#### Net Interest Margins

- DBS NIMs up 2bps, OCBC and UOB down 6bps in 1Q13.
- NIMs expected to stabilize moving forward
- Mortgage pressure to remain in the short term, but overseas contributions, which have higher NIMS, are expected to mitigate NIMs pressure.

#### Loans growth outlook

- Loans grew in the mid-high single digits in 1Q13
- DBS increase FY2013 guidance to low double digit, OCBC and UOB maintains single digit growth guidance
- FY2013 Net interest income growth to be muted

#### Fees and Commission

- Fees and commission growth strong from increased market related activities, although some are non-recurring. UOB guides 15% y-y growth for FY2013
- Wealth management, Trade related and Loan related fees, expected to be revenue driver
- Gaining traction from stronger client relationships, wide range of product offerings, and rising wealth.

#### Non Interest income (Non II)

- Non II continues to be volatile, DBS 1Q13 Non II strong
- Non II may continue to surprise on the upside in FY2013

#### Other areas

- Expenses continue to be well managed
- NPL remains low with no credit quality concern

#### Investment actions

While the banks continue to be strong fundamentally, we forecast limited upside potential due to high share price and marginal growth potential. We downgraded DBS and UOB to "Neutral" in our respective 1Q13 results report, while maintaining our "Reduce" call on OCBC. Share price of the banks have since declined in-line with the STI. We expect to upgrade the sector once valuations are attractive.

### Singapore Banking Sector

Company	Rating	Price (\$)	TP (\$)	Upside (%)	M.Cap. (US\$m n)
DBS Group Holdings Ltd Overseas Chinese Banking Corp	Neutral	16.62	17.20	3.5%	32,350
United Overseas Bank	Reduce	10.48	8.70	-17.0%	28,707
	Neutral	20.92	21.35	2.1%	26,280

Source: Bloomberg, PSR

### Analyst

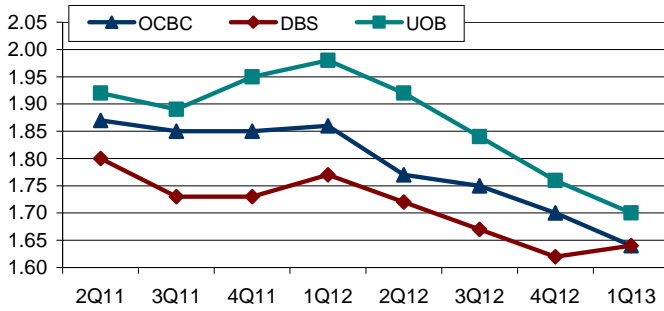
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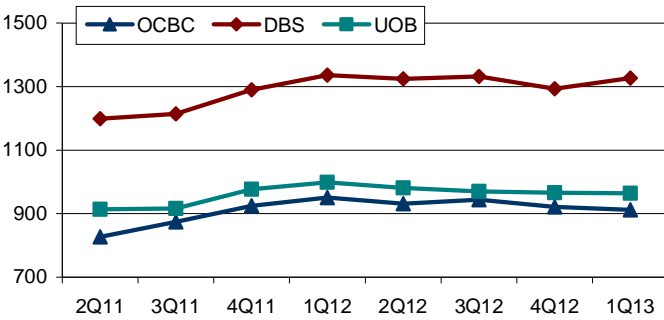
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**NIMs pressure to stabilize with some fluctuations**

**Fig 1: NIMs down q-q UOB and OCBC, up for DBS**



**Fig 2: 1Q13 Q-Q Net Interest Income growth flat**



**Fig 3: Q-Q, Y-Y changes in Key Interest Rates**

	OCBC	DBS	UOB
NIMs Q-Q (decrease)/incr	(0.06)	0.02	(0.06)
NIMs Y-Y (decrease)/incr	(0.22)	(0.13)	(0.28)
Q-Q change in Cust. Loans	(0.08)	(0.05)	(0.11)
Y-Y change in Cust. Loans	(0.15)	(0.12)	(0.30)
Q-Q change in Cust. Deposits	(0.02)	(0.02)	(0.02)
Y-Y change in Cust. Deposits	(0.08)	0.04	(0.03)

Source: Company data, Phillip Securities Research

**NIMs expected to stabilize** – While NIMs pressure continued during the quarter, all three banks have guided for more stable NIMs for FY2013. From Fig 3 above, we note that NIMs have decreased significantly y-y for UOB and OCBC, reducing total Net Interest Income.

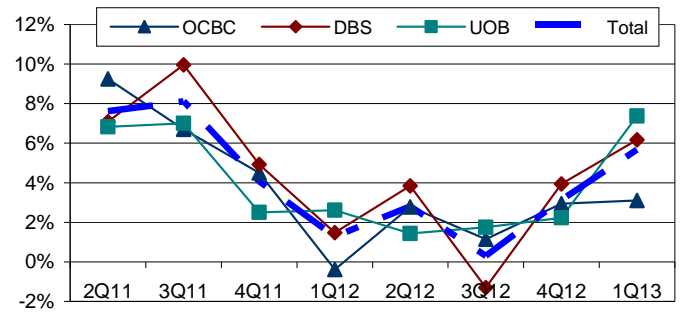
**Mortgage pressure to continue for 1 to 1.5 years** – Continued downward re-pricing, from re-pricing of mortgage loans taken 3 years ago (mainly OCBC), and from the drawdown of previously committed loans (mainly UOB), is expected to continue for 1 to 1.5 more years. DBS attribute lower mortgage pricing pressure due to the success of the recently launched HDB Loans promotion, which leverages on their higher quantum of CASA deposits.

**Overseas contributions** – While Singapore Mortgage loans continue to reduce interest margins, higher loans growth from their regional offices, which are higher yielding, is expected to stabilize NIMs moving forward.

**NIMs FY2013 individual Management Guidance –**

- OCBC:** Stable at 1.64%. (1Q13: 1.64%)
- DBS:** Stable above 1.60%. (1Q13: 1.64%)
- UOB:** Stable. (1Q13: 1.70%)

**Fig 4: 1Q13 Loans growth strong**

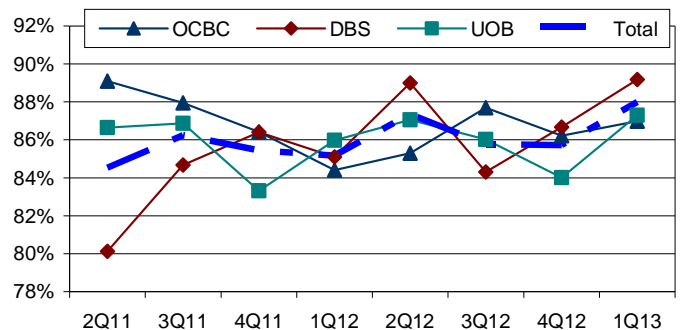


Source: Company data, Phillip Securities Research

**1Q13 Loans growth strong** – Loans growth was strong, especially for DBS and UOB. This was due to a few large loans booked in the quarter, including the financing loan taken in relation to the FNN transaction.

**DBS increase FY2013 guidance, UOB and OCBC maintains guidance of single-digit growth** – DBS guides a robust pipeline of loans from episodic customers. With the strong loans growth in 1Q13, DBS increased loans guidance from single-digit to low double-digit for FY2013. UOB maintains guidance of single-digit loans growth, excluding the effects of 1Q13's one-off large loans. Assuming a roll over of these large loans, we forecast low double-digit loans growth for UOB.

**Fig 5: Loan to Deposit high but comfortable**



**Fig 6: UOB's 1Q13 CASA deposits growth strong**

	FY10	FY11	FY12	1Q13
OCBC	34.9%	24.9%	16.6%	3.2%
DBS	7.6%	13.9%	8.0%	4.4%
UOB	12.3%	9.4%	8.9%	7.4%

Source: Company data, Phillip Securities Research

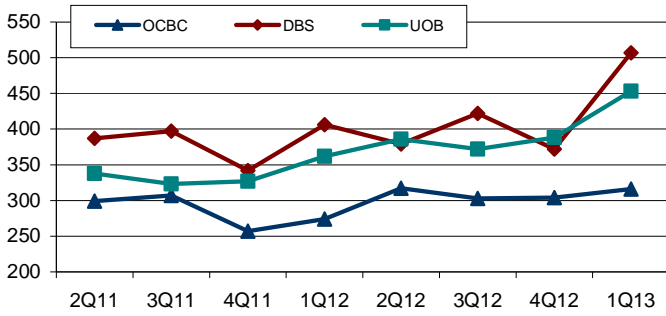
**LDRs high, but managements comfortable** – While Loan to Deposit ratios were higher in 1Q13 due to the stronger loans growth, the banks remain comfortable. DBS saw a surge in the shorter termed Trade Finance loans. Commercial papers were issued to match the maturity of these loans, to reduce the mismatch in maturity profile.

**Net interest income (NII) growth to be muted in FY2013** –

Based on the guidance above, we raise our estimates marginally, and expect NII growth to be muted in FY2013, with **low to mid single digit growth** for the three banks.

**Fees and commission revenue driver for FY13**

**Fig 7: Fees and commission growth a positive**



Source: Company data, Phillip Securities Research

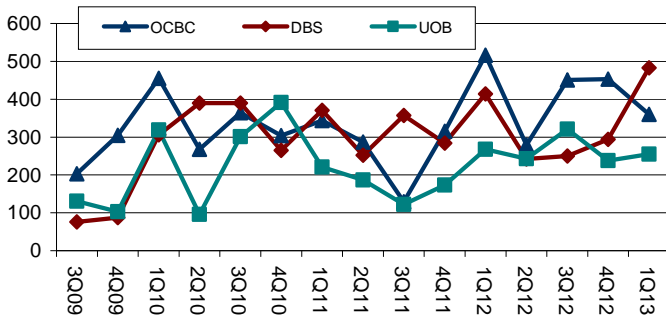
**Wealth Management to lead the way** – Fees and commission grew strongly. Wealth Management fees was a strong growth driver for the three banks. Due to a few one-off large fees relating to the large loans transaction, coupled with strong performances from wealth management, DBS and UOB posted record-high Fees and Commission.

**Fees and Commission to grow further** – As client relationship further develops, and affluence in the region continues to increase, we expect this to drive growth. The strong value proposition, through the range of treasury, wealth, and bancassurance products that the banks offer, is expected to further drive growth in this segment.

While Fees and commission currently constitute a smaller proportion of the bank’s total revenue relative to net interest income, we expect this to grow in importance. This is especially since it is less capital intensive and thus favored in view of high Basel III capital requirements. UOB expects 15% y-y growth of Fees and Commission for FY2013.

**Non interest income may continue to surprise**

**Fig 8: Q-Q Non interest income largely higher**



Source: Company data, Phillip Securities Research

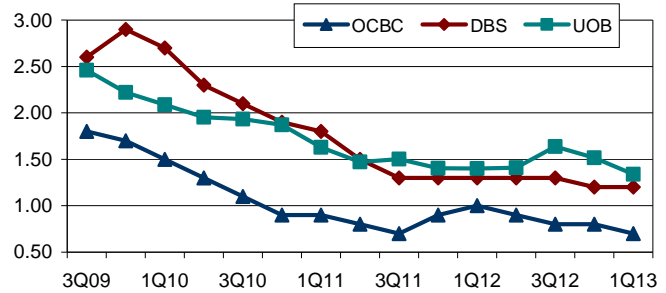
**Non-interest income remains volatile**, although the banks continue to note higher recurring contributions from customer flows. We are positive on the overall outlook of the equities market for FY2013, although noting some near term volatility. Non-interest income may therefore continue to surprise on the upside. DBS’s non-interest income may outperform due to volatility of foreign currency, particularly from the continued appreciation of the RMB.

**Other areas**

**Expenses continue to be well managed** – While expenses increase in line with the increase in revenue, the banks continue to maintain healthy cost to income ratios.

**NPL remains low, no credit quality concern** – The banks guide for credit cost to remain benign. DBS notes potential higher provisions in India due to liquidity challenges, but credit cost is expected to remain at comfortable levels of 10bps moving forward.

**Fig 9: NPL ratios remain low**

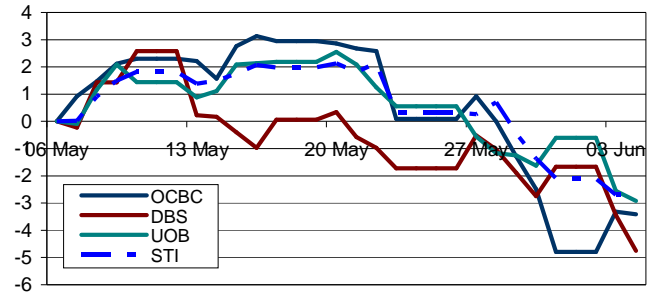


Source: Company data, Phillip Securities Research

**Valuations – Short term bearish on Banking Sector**

While the banks continue to be strong fundamentally, we forecast limited upside potential due to high share price and marginal growth potential. We downgraded DBS and UOB to “Neutral” in our respective 1Q13 results report, while maintaining our “Reduce” call on OCBC. Share price of the banks have since declined in-line with the STI. We expect to upgrade the sector once valuations are attractive.

**Fig 10: 6 May 2013 rebased – share price declining**



Source: Bloomberg, Phillip Securities Research

**Key risks for the Sector**

A worsening global economy may result in rise of NPLs and credit costs, as affected customers, especially SMEs and unsecured consumer loans, default on loan repayments. This may result in reduced net profits.

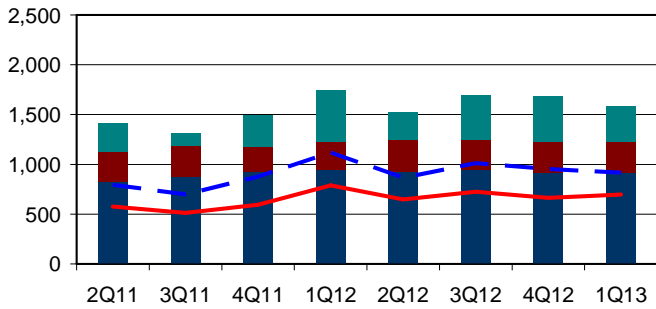
Unfavorable government policies, both in Singapore and in the key overseas markets, such as more housing cooling measures, may also impact the banks negatively.

Irrational pricing of loans and deposits, especially in the foreign markets, would also lead to further NIMs compression or loss of market share.

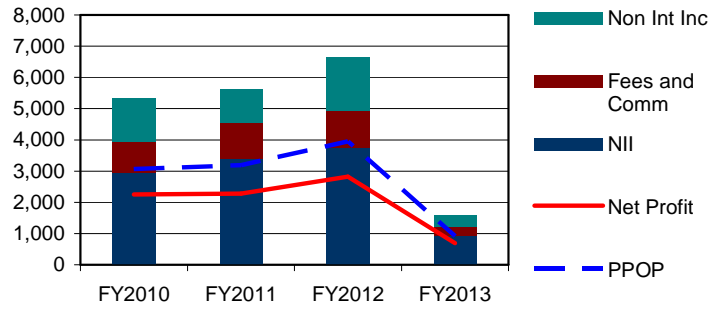
Company	Rating	FYE	Price	TP	Upside (%)	Market Cap. (\$'mn)	Market Cap. (US\$'mn)	Equity Multiple (X)						Dividend Yield (%)					
								Net Income			Book Value			FY11	FY12	FY13E	FY11	FY12	FY13E
								FY11	FY12	FY13E	FY11	FY12	FY13E						
Market price as of: 4-Jun-13																			
<b>DBS Group Holdings Ltd</b>	<b>Neutral</b>	<b>Dec</b>	16.62	<b>17.20</b>	3.5%	40,564	32,350	13.4	12.1	11.5	1.4	1.3	1.2	3.4%	3.4%	3.4%			
<b>Overseas Chinese Banking Corp</b>	<b>Reduce</b>	<b>Dec</b>	10.48	<b>8.70</b>	-17.0%	35,995	28,707	15.8	12.7	13.4	1.7	1.6	1.5	2.9%	3.1%	3.1%			
<b>United Overseas Bank</b>	<b>Neutral</b>	<b>Dec</b>	20.92	<b>21.35</b>	2.1%	32,952	26,280	14.2	11.8	11.2	1.6	1.4	1.3	2.9%	3.3%	3.3%			

Source: Bloomberg, PSR est.

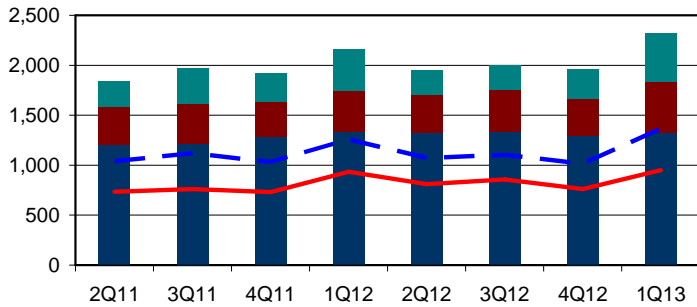
**Oversea-Chinese Banking Corp – Insurance “wildcard”**



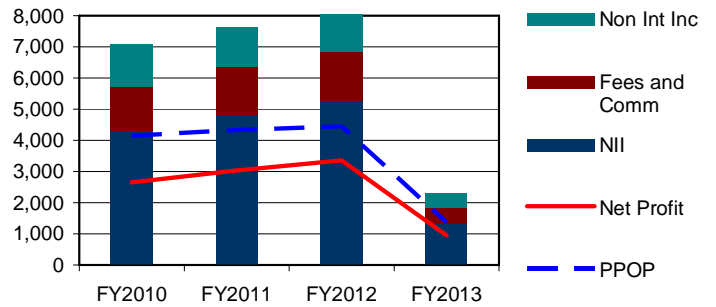
**- Growth of Non interest income to be muted in FY2013**



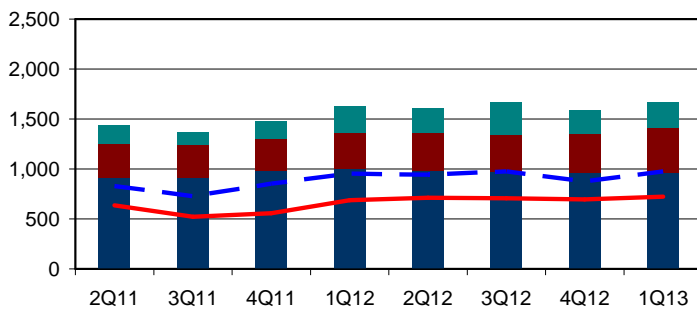
**DBS Group Holdings – Relatively consistent growth**



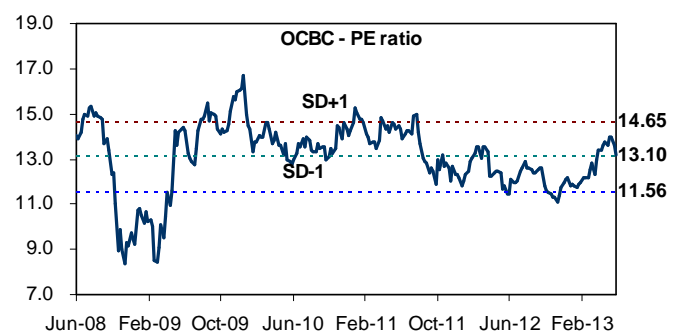
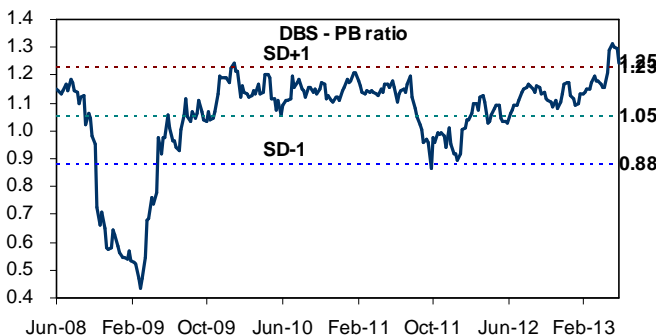
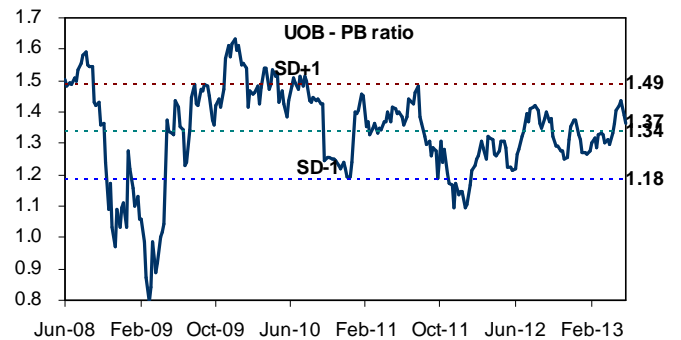
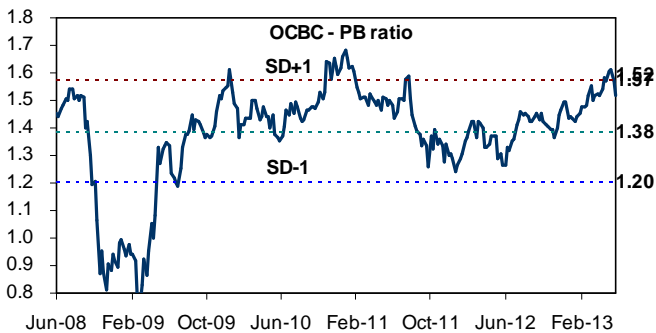
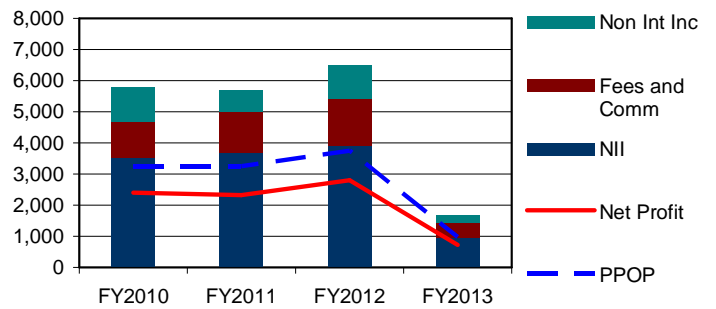
**- Strong non-interest income growth expected**



**United Overseas Bank Ltd – Strong Fees and Commission**

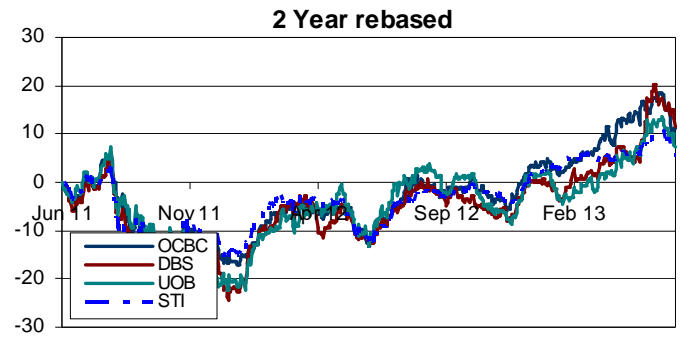
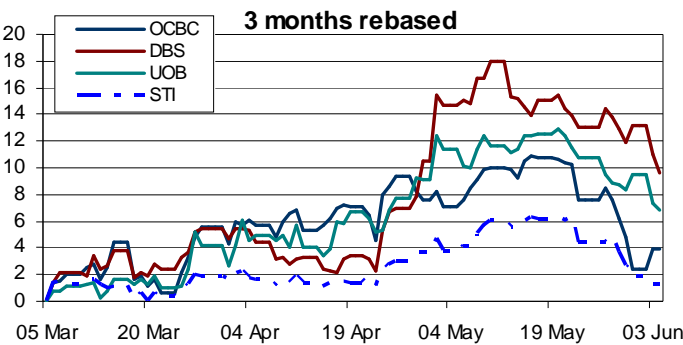
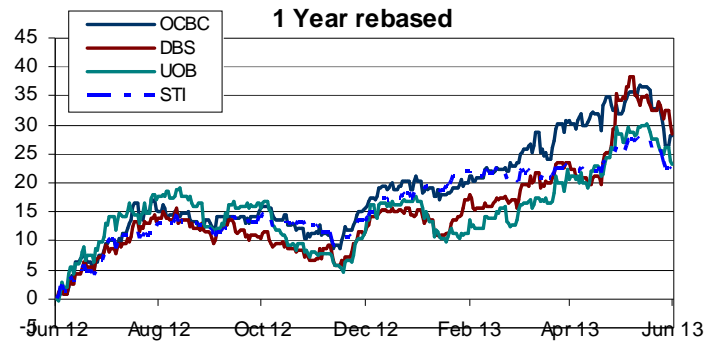
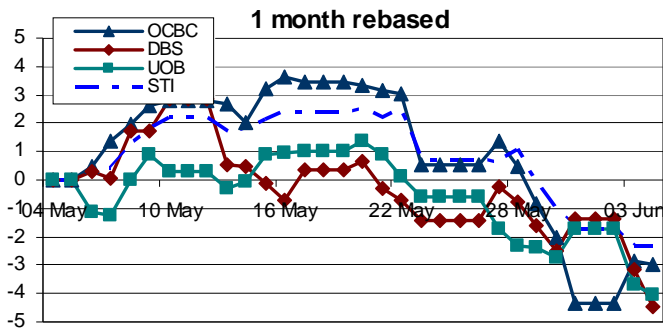
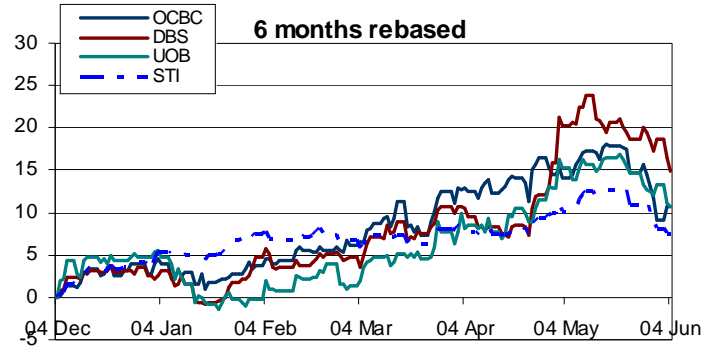
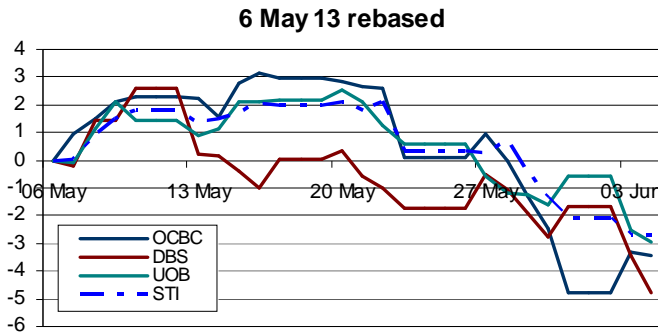
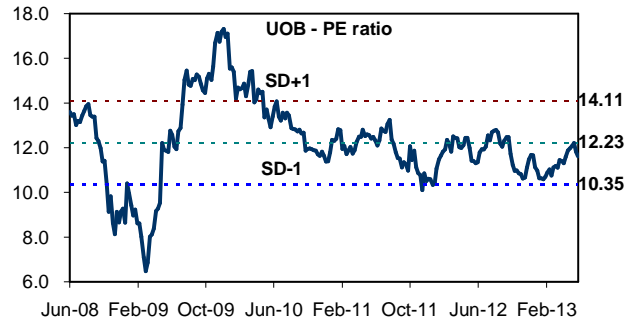
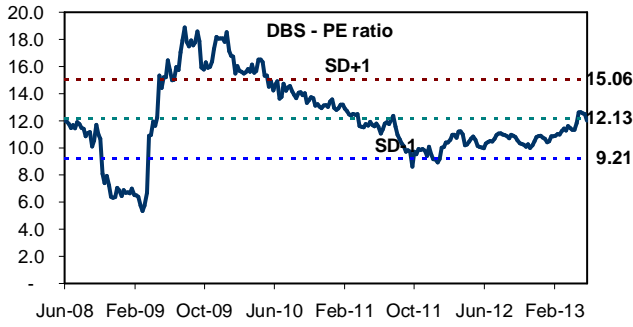


**- Fees and Commission guided to grow 15% y-y in FY2013**



Source: Company data, Bloomberg, Phillip Securities Research

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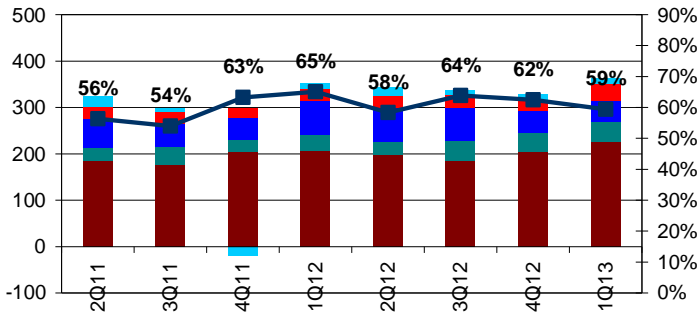


Source: Company data, Bloomberg, Phillip Securities Research

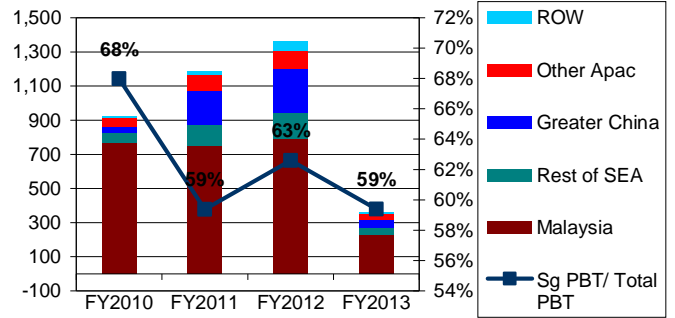
Source: Company data, Bloomberg, Phillip Securities Research

By Geographical location – Profit before Tax

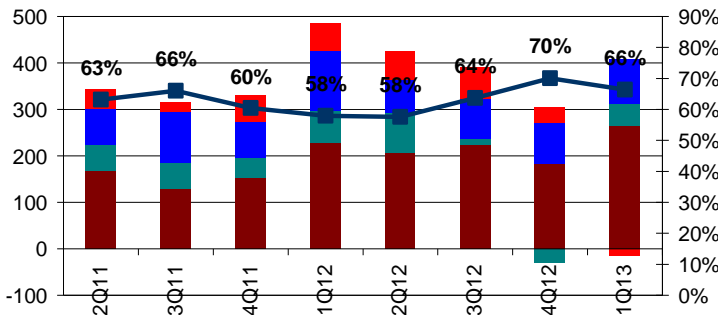
**Oversea-Chinese Banking Corp**



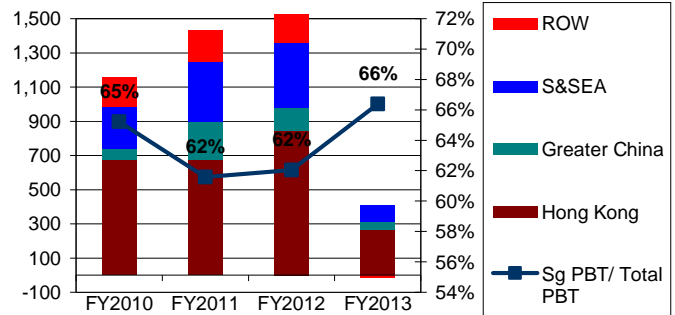
- Contributions from Malaysia improving



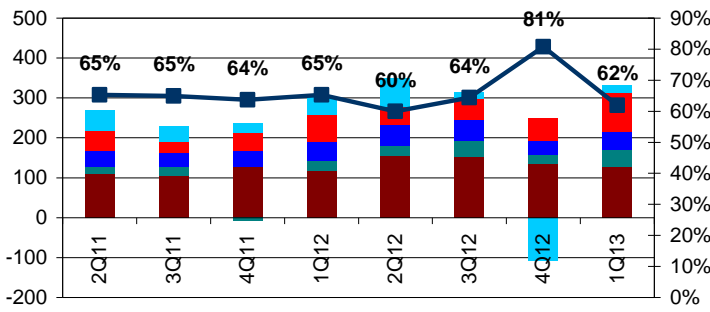
**DBS Group Holdings**



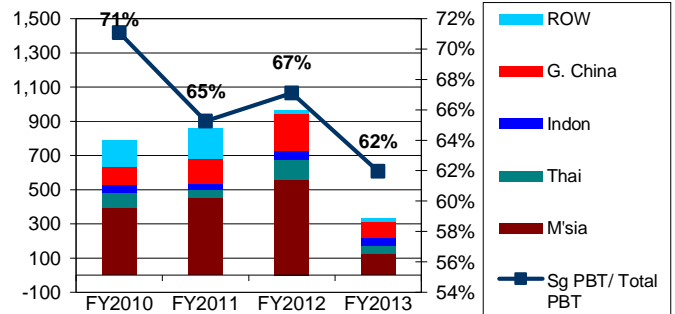
- Volatile but improving contributions from HK



**United Overseas Bank Ltd**



- Stable contributions from all regional markets



Source: Company data, Bloomberg, Phillip Securities Research

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