

Singapore Banking Sector Key Issues

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, insurance broking and capital market services. Due to challenging macroeconomic conditions in major markets such as Europe, China, and United States, the banking sector faces slower growth of net interest income compared to FY2011.

What is the news?

The Monthly statistics bulletin released by the Monetary Authority of Singapore revealed the loan and deposit numbers ending Feb 2012.

- Singapore's total DBU loans outstanding registered y-y growth of 27.6% to S\$426.4 billion in Feb 2012. Business loans and Consumer loans reported growth of 36.3% y-y and 17.5% y-y respectively.
- M-m, loans growth in Feb 2012 was higher as compared to Jan 2012. Total loans grew 1.0%, led by the growth of Business loans by 1.5%, while Consumer loans grew at a slower 0.4%.
- 57.3% of total loans comprise of Business loans, with the remaining attributed to Consumer loans.
- We are neutral on the Singapore Banking Sector.

How do we view this?

Business loans and Consumer loans continue to register weak m-m growth in Feb 2012. Professional and Private Business Loans were surprisingly strong at 25.0% m-m. However, as these loans only constitute a low proportion of Business loans, the impact was thus minimal at 0.4% growth of Total business loans. Growth of loans is as expected at low to mid teens in FY2012.

Investment Actions?

We continue to prefer DBS over UOB and OCBC due to its stronger earnings, higher loans growth, and stable non-interest income. We however note that DBS has been outperforming the STI index and the other two local banks since the last reporting season.

Singapore Banking Sector

Company	Rating	Price (\$)	TP (\$)	Upside (%)	M.Cap. (US\$m)
DBS Group Holdings Ltd	Neutral	14.18	14.50	2.3%	27,261
Overseas Chinese Banking Corp	Neutral	8.92	8.00	-10.3%	24,307
United Overseas Bank	Neutral	18.35	17.50	-4.6%	22,969

Source: Bloomberg, PSR

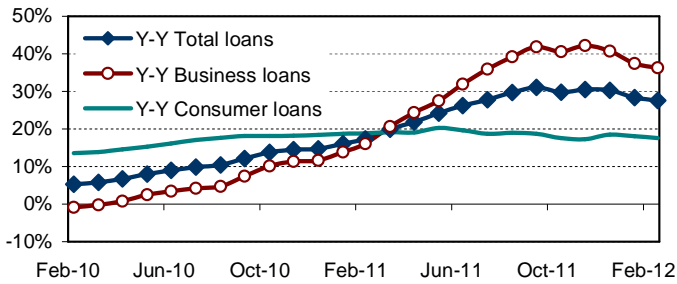
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Fig 1: Y-Y growth in total loans, business loans and consumer loans (in %)



Source: MAS, Phillip Securities Research

Total DBU Loans

Total loans growth continues to slow for the third consecutive month, demonstrated by the downward movement of the curve. Growth of business loans, which had been impressive in FY2011, declined in tandem with consumer loans, although at a sharper rate. We forecast the decline in growth momentum to continue in FY2012, as the economy faces lower growth projections and macro economic headwinds.

Fig 2: Singapore DBU Book loan data

Loan Data (S\$ mil)	Feb-12	Feb-11	Jan-12	Y-Y	M-M
Business					
Agriculture	1,659	277	1,567	498.2%	5.9%
Manufacturing	20,374	11,534	19,196	76.6%	6.1%
Building and construction	68,979	55,482	68,155	24.3%	1.2%
General commerce	49,489	33,381	48,363	48.3%	2.3%
Transport	12,601	9,199	12,491	37.0%	0.9%
Business Services	4,764	3,063	4,622	55.5%	3.1%
Financial institutions	53,349	40,187	54,972	32.8%	-3.0%
Professional and private (business)	5,252	3,394	4,201	54.7%	25.0%
Others	27,878	22,776	27,255	22.4%	2.3%
Total Business Loans	244,345	179,294	240,822	36.3%	1.5%
Consumer					
Housing	133,757	115,248	132,680	16.1%	0.8%
Car loans	12,569	11,573	12,569	8.6%	0.0%
Credit Card	7,682	6,789	7,786	13.2%	-1.3%
Share financing	1,006	1,350	933	-25.5%	7.8%
Others	27,005	19,893	27,316	35.8%	-1.1%
Total Consumer Loans	182,019	154,853	181,283	17.5%	0.4%

Source: MAS, Phillip Securities Research

Business Loans

Business loans grew m-m by 1.5% in Feb 2012, rebounding from the slow growth in January possibly due to the Chinese New Year holidays decreasing business flows. Manufacturing Loans, which has been the one of the main growth driver of Business loans, grew 7.2% YTD to S\$20.4 billion. Professional and private loans grew 25% m-m to S\$5.3 billion in Feb 2012. However, as these loans only constitute a low proportion of Business loans, the impact was thus minimal at 0.4% growth of Total business loans.

Fig 3: Business Loans in various Segments (in S\$ millions)

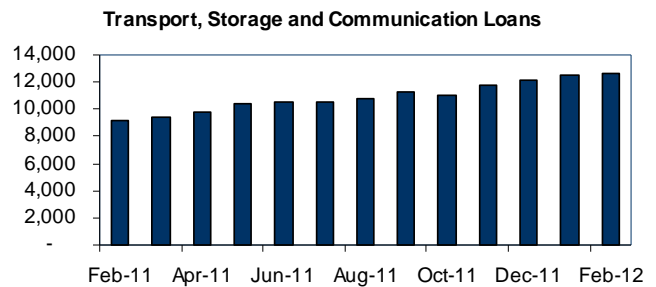
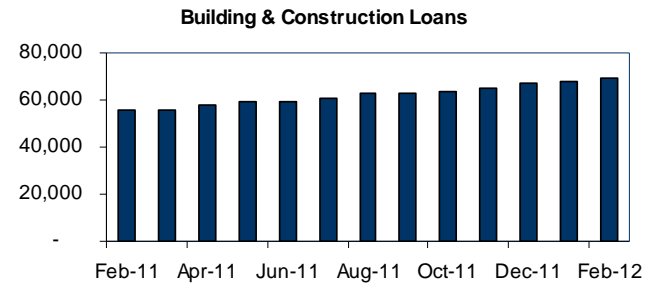
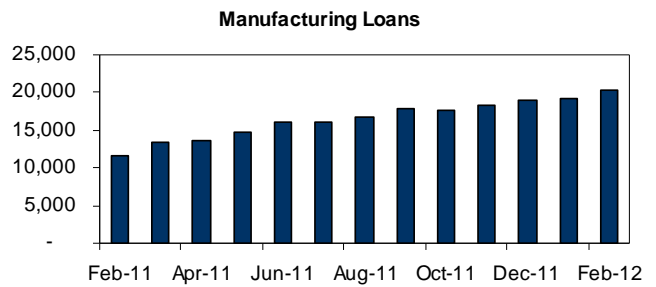
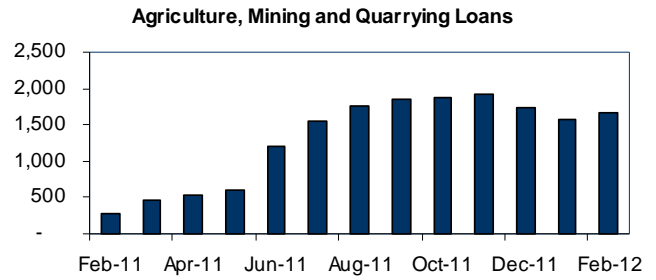
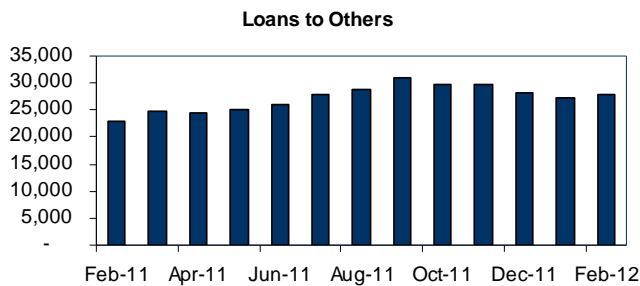
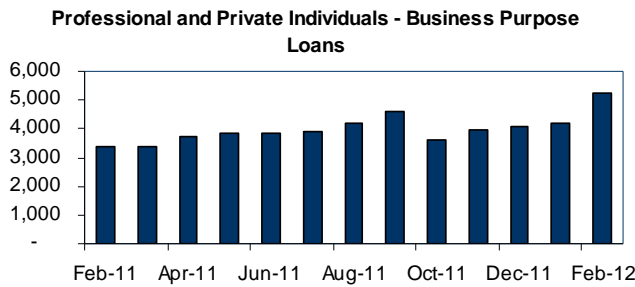
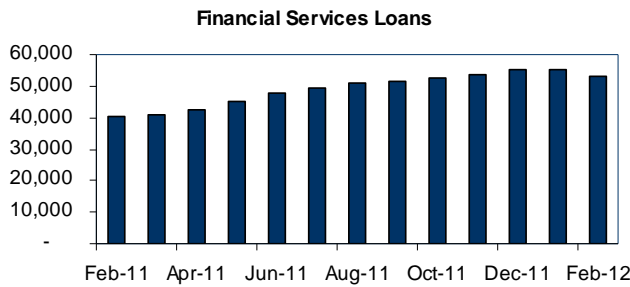
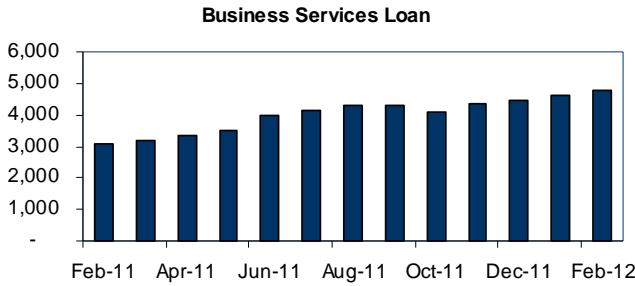


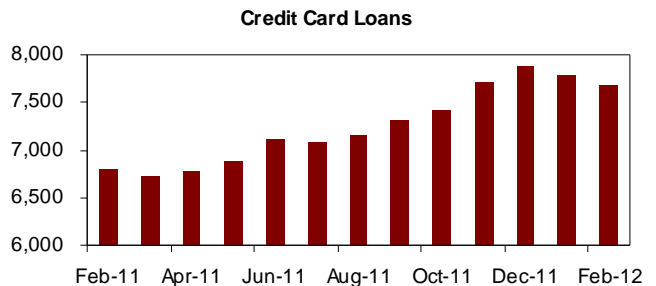
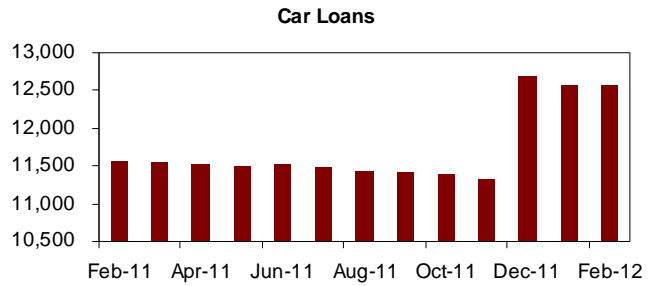
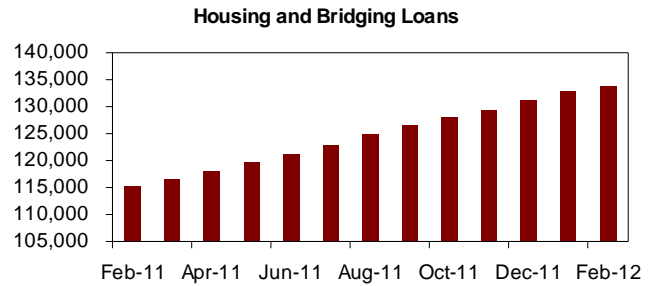
Fig 3: Business Loans in various Segments (in S\$ millions) (Continued)



Consumer Loans

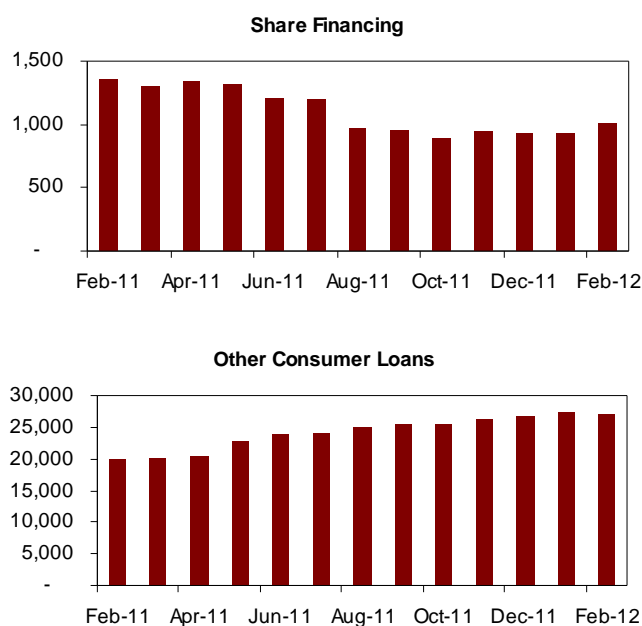
Growth of Consumer loans grew at the slower rate of 0.4% m-m, compared to 1.0% m-m in Jan 2012. Housing and bridging loans continue to grow at 0.8% m-m, as housing sales transactions continue its rebound from Dec 2011's low level. Pipeline of new housing launches continue to be strong, thus housing loans are expected to continue its growth unless more cooling measures are introduced. Share financing grew 8.0% m-m to S\$1.0 billion, likely due to the increase in trading volumes in Feb 2012.

Fig 4: Consumer Loans in various segments (in S\$ million)



Source: MAS, Phillip Securities Research

Fig 4: Consumer Loans in various segments (in S\$ million) (Continued)



Source: MAS, Phillip Securities Research

Fig 5: Singapore DBU book deposit data

Deposits Data (S\$ million)	Feb-12	Feb-11	Jan-12
Demand deposits	117,371	102,581	121,172
Fixed deposits	197,706	187,745	197,920
Savings and other deposits	169,136	148,584	168,190
Total Deposits	484,213	438,909	487,282
Total Loans	426,363	334,147	422,105
LDR	88.1%	76.1%	86.6%

Deposits Data (S\$ million)	Y-Y	M-M	% of total deposits
Demand deposits	14.4%	-3.1%	24.2%
Fixed deposits	5.3%	-0.1%	40.8%
Savings and other deposits	13.8%	0.6%	34.9%
Total Deposits	10.3%	-0.6%	100.0%
Total Loans	27.6%	1.0%	
LDR	15.7%	1.6%	

Source: MAS, Phillip Securities Research

Deposits

Deposits grew 10.3% y-y, but decreased -0.6% m-m to S\$484.2 billion. Loan to Deposit ratio increased m-m from 86.6% to 88.1% in Feb 2012 as deposits decreased while loans continue to grow. M-m decrease in deposits was sharpest for demand deposits at -3.1%.

Fig 6: Singapore ACU Book loan data

Loan Data (S\$ mil)	Feb-12	Feb-11	Jan-12	Y-Y	M-M
Business					
Agriculture	19,612	13,290	19,533	47.6%	0.4%
Manufacturing	49,008	45,054	48,142	8.8%	1.8%
Building and construction	14,393	13,373	14,286	7.6%	0.7%
General commerce	51,574	43,789	50,122	17.8%	2.9%
Transport	67,446	61,017	67,956	10.5%	-0.8%
Business Services	5,368	5,725	5,976	-6.2%	-10.2%
Financial institutions	85,032	79,742	81,971	6.6%	3.7%
Professional and private (business)	1,484	1,096	1,374	35.4%	8.0%
Others	44,920	36,654	44,639	22.6%	0.6%
Total Business Loans	338,838	299,739	334,000	13.0%	1.4%

Loan Data (S\$ mil)	Feb-12	Feb-11	Jan-12	Y-Y	M-M
Consumer					
Housing	3,435	3,077	3,376	11.6%	1.7%
Share financing	470	272	492	73.0%	-4.5%
Others	27,705	26,426	27,341	4.8%	1.3%
Total Consumer Loans	31,610	29,775	31,209	6.2%	1.3%

Source: MAS, Phillip Securities Research

Total ACU Loans

ACU loans increased 1.4% m-m, with growth driven by both Business loans at 1.4% m-m, and Consumer loans at 1.3% m-m. Y-y growth at 12.4% is however much lower than those of DBU loans for Feb 2012. Professional and Private Loans grew most significantly at 8.0% m-m to S\$1.5 billion. Financial institutions Loans, which is the biggest category of business loans, grew at 3.7% m-m to S\$85.0 billion.

Singapore Banking Sector Outlook

Current low loans growth is not surprising, as management from all three local banks had indicated loans to grow at low to mid teens, compared to the phenomenal 30.3% Total DBU loans growth in FY2011.

Should deposits continue to decrease, given the more aggressive marketing for deposits by foreign banks, with advertisements plastered all over the newspapers offering higher deposit rates, this may lead to an increase in cost of funding for SGD amid strong competitions for a share of the deposit market.

We continue to prefer DBS over UOB and OCBC. DBS enjoys greater presence in the Trade Financing business, which we predict to be the current driver of growth. We therefore expect DBS to continue performing better than the other two banks. We however note that DBS has been outperforming the STI index and the other two local banks since the last reporting season. We remain neutral on the Singapore Banking Sector.

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