

Singapore Banking and Finance

3Q17 Earnings Preview



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SINGAPORE | BANKING & FINANCE | UPDATE

20 October 2017

- 3Q17 loans growth in mid-single digits YoY and NII increase by 6% - 11% YoY across the three banks.
- 3Q17 NPL expected to be stable as utilisation of rigs has improved from the beginning of the year.
- Expect 3Q17 NIMs to expand by only 1 to 3 bps QoQ
- OCBC expected to report one-off gains of c.S\$100mn from the sale of stake in United Engineers, BCS and BCSIS.
- We upgrade the Singapore Banking Sector to Accumulate from Neutral.
- We update our Singapore banks' target prices as we roll over to FY18e valuations.

ACCUMULATE (Upgrade)

DBS Group Holdings Buy (Upgrade)

BLOOMBERG CODE	DBS SP
LAST TRADED PRICE	SGD 21.80
FORECAST DIV	SGD 0.68
TARGET PRICE	SGD 25.70
TOTAL RETURN	21.01%

Oversea-Chinese Banking Corp Accumulate (Upgrade)

BLOOMBERG CODE	OCBC SP
LAST TRADED PRICE	SGD 11.48
FORECAST DIV	SGD 0.40
TARGET PRICE	SGD 11.95
TOTAL RETURN	7.58%

United Overseas Bank Limited Reduce (Maintain)

BLOOMBERG CODE	UOB SP
LAST DONE PRICE	SGD 24.33
FORECAST DIV	SGD 0.80
TARGET PRICE	SGD 21.61
TOTAL RETURN	-7.89%

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Loans growth appear to be slowing but not to worry

Loans growth YoY will appear to slow down in the 2H17 because growth will be compared to a higher base in 2H16 (recall that 1H16 loans was weak before improving in 2H16). We expect business loans to continue to be strong as the global economy continues to strengthen, consumer loans growth to accelerate in FY18 as enbloc property sales gain momentum and public construction loans pick up after an extended hiatus.

NIMs growth expected to be subdued as loans growth will primary driver of NII

As discussed in our [October Singapore banking sector report](#), banks have been rolling out housing loans packages that are less sensitive to SIBOR because of intensifying competition. We estimate Singapore housing loans make up about 15% to 20% of the Singapore banks' loans book.

Offshore Oil and Gas NPLs formation are expected to remain stable in 2H17

Though the day rates have continued to be low while oil price is hugging the US\$50 mark, there has been [improvements](#) in the utilisation rate at the beginning of the year and more rigs have been put to work. We believe the green shoots of recovery in the industry would limit further deterioration of the offshore oil and gas assets.

Our estimates for Singapore Banks' 3Q17 Earnings.

We expect strong 3Q17 earnings performance as we estimate NII to increase 6% to 11% YoY and provision expenses decline sequentially across the three banks. We expect UOB's 3Q17 PATMI to be S\$850mn, up 7.7% YoY; DBS' PATMI to be S\$1,306mn, up 21.9% YoY and OCBC's PATMI to be S\$1,182mn (S\$1,088mn, adjusted for one-offs), up 25.3% YoY.

INVESTMENT ACTIONS

Upgrade Singapore Banking Sector to Accumulate from Neutral as we roll over to FY18e valuations – Macro conditions have continued to be positive and sentiments in domestic markets have improved as capital markets and property markets liven up. We expect higher interest rates and loan volume to drive NII higher.

As we roll over to FY18e valuations, we increase our FY18e DBS target price to S\$25.70 (previous FY17e target price S\$21.45), FY18e UOB target price to S\$21.61 (previous FY17e target price S\$20.18) and FY18e OCBC target price of S\$11.95 (previous FY17e target price S\$10.81).

We are upgrading the Singapore Banking Sector to Accumulate from Neutral. We are maintaining our Reduce rating on UOB but upgrading our rating on DBS from Accumulate to Buy and upgrading our rating on OCBC from Neutral to Accumulate.

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

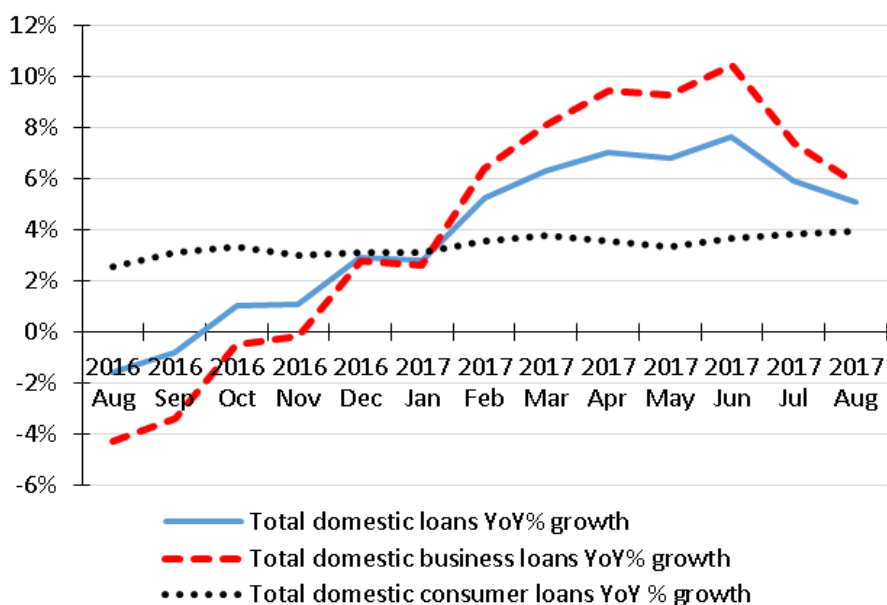
Figure 1: A snapshot of consensus on FY17 estimates

	Phillip Securities Research estimates			Consensus estimates			Commentary
	DBS	OCBC	UOB	DBS	OCBC	UOB	
Loans growth (YoY)	4.0%	4.7%	3.1%	3.7%	5.1%	3.8%	We expect DBS loans growth to be marginally higher than consensus as we believe DBS has turned more aggressive in competing for loans.
NIM	1.77%	1.67%	1.74%	1.78%	1.69%	1.74%	Our expectations for NIM is lower than consensus due to the impact of competition.
Allowances	c.S\$1.16bn	S\$650mn	S\$727mn	S\$1.32bn	S\$723mn	S\$724mn (32bps)	Our estimates for FY17 allowances is lower because we believe that the oil and gas sector will show some recovery in 2H17.
3Q17 PATMI	S\$1,306mn	S\$1,182mn	S\$850mn	S\$1,121mn	S\$965mn	S\$783mn	Our PATMI growth outlook is due to stronger NII growth outlook and lower provisions expected.
NPL	Expect NPA ratio to be unchanged YoY as a mixture of recoveries and write-offs offsets new NPA formation. And we expect coverage ratio to remain low.			NPA ratio higher 14% YoY			

Source: Bloomberg, PSR estimates

*In our October Sector report, the labelling of the bank names were misplaced. We have corrected that error.

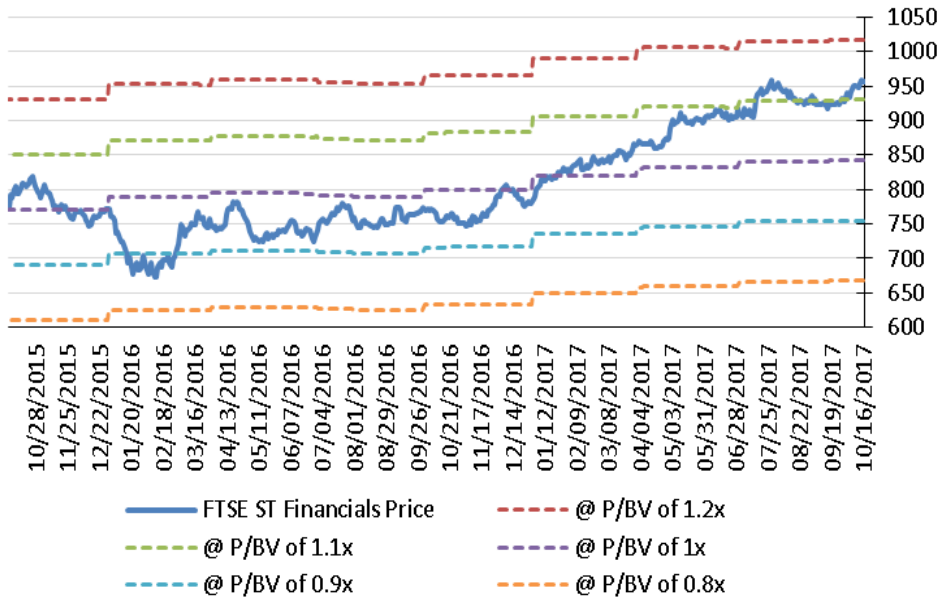
Figure 2: Singapore domestic loans have returned to growth in 2017.



Business loans have been leading the YoY growth in 2017. We expect housing loans to pick up strongly in 2018 as the continued enbloc sales momentum drives up demand for housing loans.

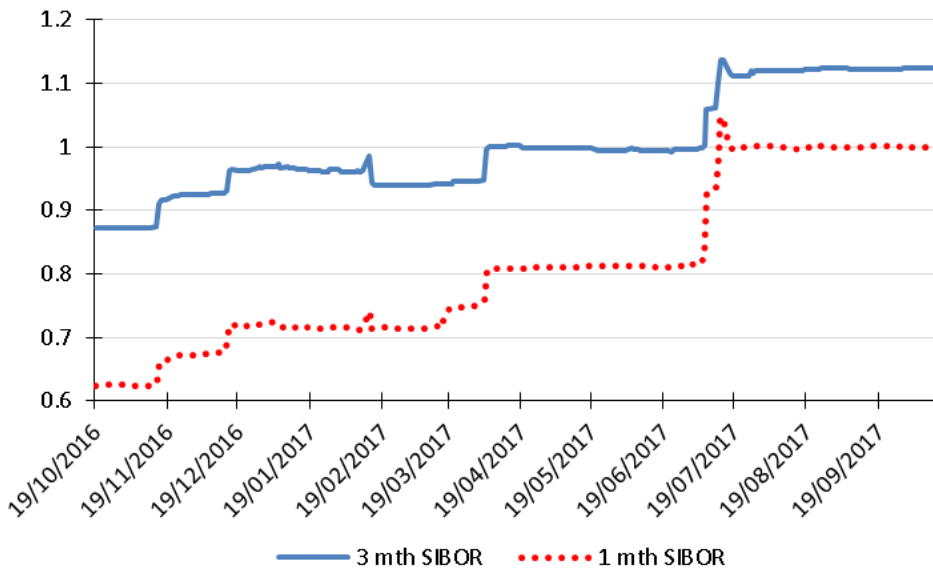
Source: MAS, PSR estimates

Figure 3: Singapore banks' price to book valuation had improved from 1x at the beginning of 2017 to present valuation of 1.1x.



Source: Bloomberg, PSR estimates

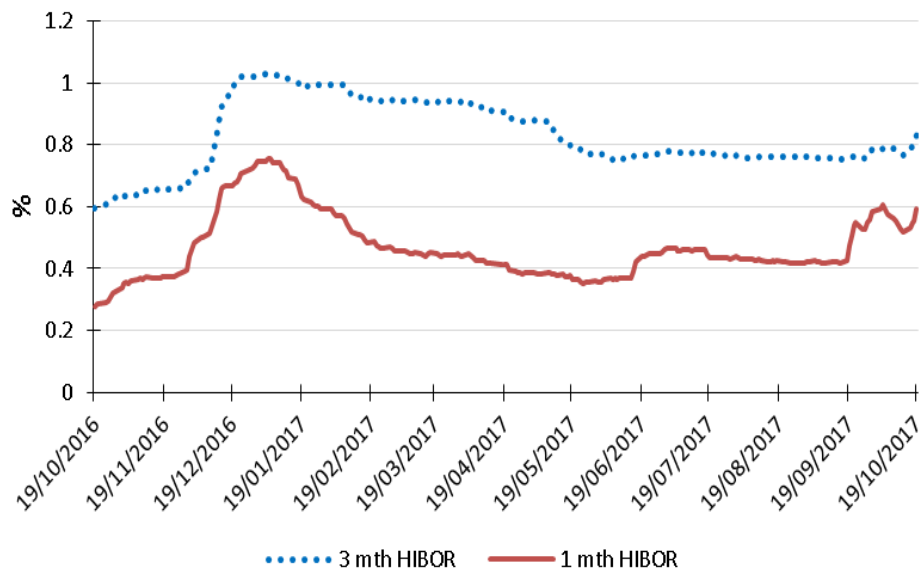
Figure 4: 3 month SIBOR and 1 month SIBOR have risen by c.10bps and c.20bps respectively from early July. We expect SIBOR pegged loans to experience better margins but SIBOR pegged housing loans packages are experiencing some competition.



Source: Bloomberg, PSR estimates

We compared the mortgage rates between Sept and Oct and found that the universal banks – Citibank, HSBC and Standard Chartered Bank have generally reduced their 1-month SIBOR pegged housing loan packages. The Singapore and Malaysian banks' loan packages are largely unchanged.

Figure 5: We expect DBS' and OCBC's Hong Kong NIMs to improve as the spread between the 1-month HIBOR and 3-month HIBOR narrowed in 3Q17.



Source: Bloomberg, PSR estimates

The Singapore banks generally price their Hong Kong housing loans against 1-month HIBOR. The 1-month HIBOR had continued to rise in late Sept 2017. If the trend continues, we can expect even better NIM expansion in 4Q17.

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