

Singapore Banking Monthly

SIBOR and SOR set to soar



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SINGAPORE | BANKING & FINANCE | UPDATE

3 September 2018

- Singapore's domestic loans rose 5.5% YoY in July.
- Loans growth in Hong Kong winding down to 9.5% in July.
- 3-month SIBOR spiked to 10-year high in August.
- Upgraded to BUY for the Singapore Banking Sector.

Singapore's domestic loans in July grew 5.5% YoY

Loans growth was driven by business loans that rose 6.6% YoY. Consumer loans growth in July was +4.0% YoY, the lowest in a year. Car loans grew +8.6% YoY, sustaining last month's strong performance. Singapore's economy is still seeing healthy growth and we do not expect July's property cooling measures to drag down loans growth for the full year. July's loans growth for building and construction rose +5.4%, the highest in 2 years; while mortgage loans +4.0% YoY, keeping pace with c.4% YoY trendline growth.

Hong Kong's loans in July grew 9.5% YoY – slowest in 1.5 years

Hong Kong's loans growth was mainly driven by its domestic currency loans. According to JLL Hong Kong, July residential sales volume and value were down -9.3% MoM and -4.1% MoM respectively. The new vacancy tax levy announced in June could prompt developers to launch more affordable and small-scaled housings, to make it easier for buyers to absorb housing prices in smaller portions.

SIBOR continues to break multi-year highs

3-month SIBOR rose in August to 10-year highs. With 2 more Fed rate hikes in 2018, NIM expansion continues to be a catalyst. Despite the 50bps increase in 3-month SIBOR this year, mortgage loans growth has remained resilient at 4.0% YoY. 3-month SOR maintained its strong ascent this year, the highest in almost 3 years. Average 3-month SOR YTD increased 79.4% YoY. Meanwhile, savings rate in Singapore remained unchanged at 0.16%.

Oil and gas sector recovering but challenges remain

Global jack up utilisation rate has bottomed out in February and been on a continuous ascend since. While August's utilisation rate peaked to the highest in almost 2.5 years. Day rate in August maintained July's rate, breaking a 6 months continuous descend. The O&G sector continues to face the issue of oversupply which makes it difficult to increase prices. In addition, we think that Trump's steel and aluminium tariffs might increase the costs of projects in the O&G industry, posing a drag in recovery. O&G NPL has stabilised and is unlikely to worsen this year; with some banks even making recoveries in NPL in 2Q18.

INVESTMENT ACTIONS

Upgraded Singapore Banking Sector to BUY. We are positive on the sector's outlook where continued NIM expansion, loans book expansion and capacity for higher dividends, could catalyse share prices further. We expect NIM upside to offset any downside in loans growth for FY18 due to property cooling measures and trade war tensions. We believe that housing loans growth for 2H18 should remain strong due to the drawdown of previously approved loans. The slight negative in trade loans slowdown may be offset by positive surprises in NIM expansion and recoveries in the O&G sector. In conclusion, banks continue to enjoy dual drivers of expanding loan volume and interest margins this year.

BUY (Upgraded)

DBS Group Holdings

BUY (Upgraded)

BLOOMBERG CODE	DBS SP
LAST TRADED PRICE	SGD 24.95
FORECAST DIV	SGD 1.20
TARGET PRICE	SGD 33.32
TOTAL RETURN	38.36%

Oversea-Chinese Banking Corp

BUY (Upgraded)

BLOOMBERG CODE	OCBC SP
LAST TRADED PRICE	SGD 11.30
FORECAST DIV	SGD 0.37
TARGET PRICE	SGD 14.90
TOTAL RETURN	35.13%

United Overseas Bank Limited

BUY (Upgraded)

BLOOMBERG CODE	UOB SP
LAST TRADED PRICE	SGD 27.06
FORECAST DIV	SGD 1.05
TARGET PRICE	SGD 34.50
TOTAL RETURN	31.37%

Tin Min Ying (+65 6212 1853)

Investment Analyst

tinmy@phillip.com.sg

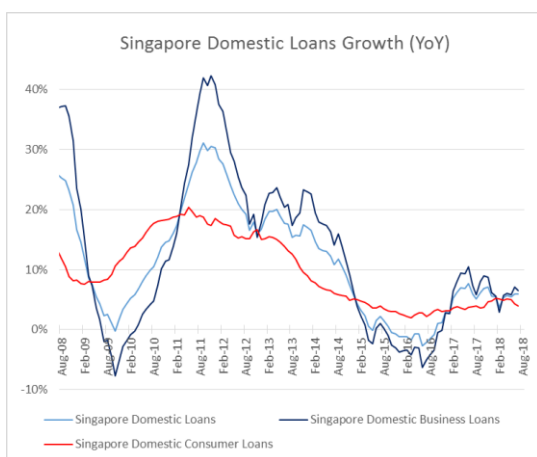
List of Abbreviations

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

Loans

Singapore loans remained flat in July.

Hong Kong loans grew 9.5% YoY in July.



	Overall loans	Business loans	Consumer loans
Jul-18	5.5%	6.6%	4.0%
Jun-18	5.9%	7.0%	4.3%

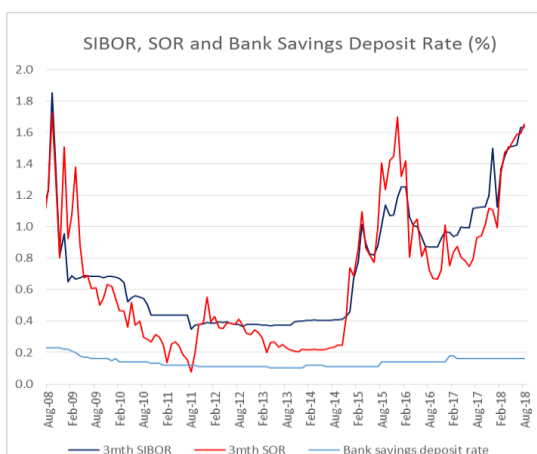


	HK loans
Jul-18	9.5%
Jun-18	10.9%

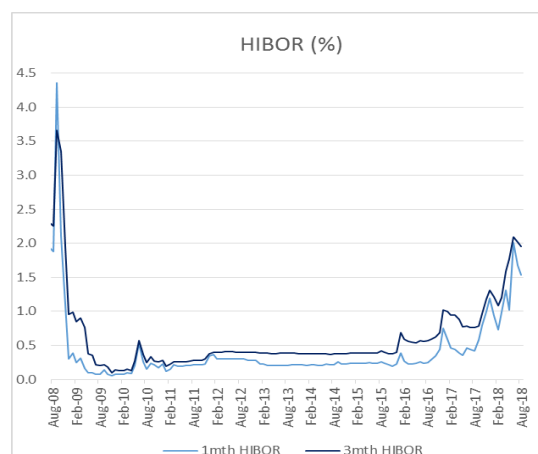
Margins

Steady climb in SIBOR and SOR will provide upside in net interest margins for banks in 3Q18's results.

As HIBOR increases, marginal increases in NIM will more than offset the increase in funding costs.



	3M SIBOR	3M SOR	Savings deposit rate
Aug-18	1.638%	1.653%	0.16%
Jul-18	1.632%	1.569%	0.16%



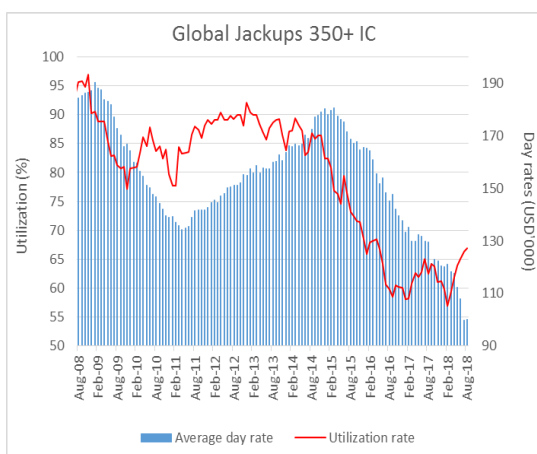
	1M HIBOR	3M HIBOR
Aug-18	1.537%	1.958%
Jul-18	1.676%	2.019%

Others

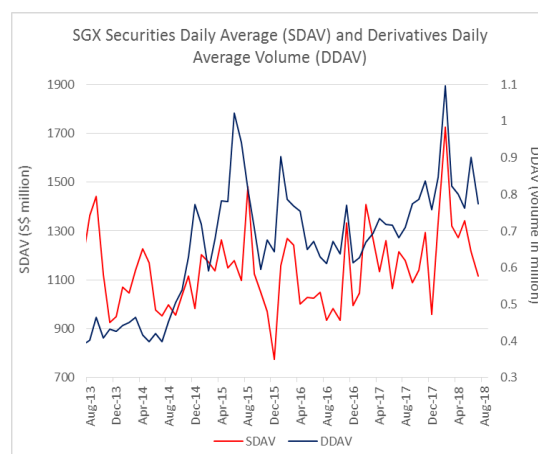
Utilization rate and day rates improved in August.

SDAV in August decreased 6.6% YoY.

DDAV activity in July rose 13.7% YoY.



	Average day rate (US\$ 000)	Utilization rate
Aug-18	100.28	66.9%
Jul-18	99.89	66.4%



	SDAV (\$\$mn)	DDAV (mn)
Aug-18	1,100	n.a.
Jul-18	1,117	0.775

Source: MAS, CEIC, Bloomberg, PSR

Contact Information (Singapore Research Team)
Head of Research

 Paul Chew – paulchewkl@phillip.com.sg
Marketing & Operations

 Mohamed Amiruddin - amiruddin@phillip.com.sg
Banking and Finance

 Tin Min Ying – tinmy@phillip.com.sg
Oil & Gas | Energy

 Chen Guangzhi - chengz@phillip.com.sg
Telco | Technology

 Alvin Chia - alvinchiawy@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
REITs (Commercial, Retail, Healthcare) | Property

 Tara Wong - tarawongsj@phillip.com.sg
China/HK Equity

 Zheng Jieyuan – zhengjy@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
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
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
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
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
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
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
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
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
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
AUSTRALIA
Phillip Capital Limited

 Level 10, 330 Collins Street
 Melbourne, Victoria 3000, Australia
 Tel +61-03 8633 9803
 Fax +61-03 8633 9899
 Website: www.phillipcapital.com.au
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
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
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
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

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

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