



# Singapore Banking Monthly

Extending their green shoots

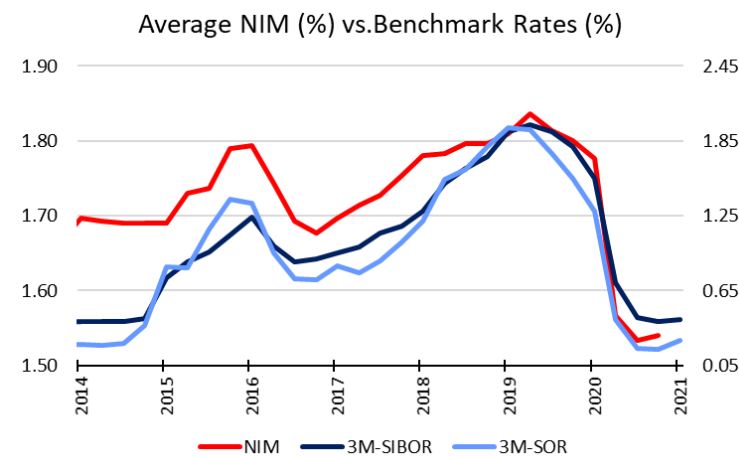
SINGAPORE | BANKING & FINANCE | UPDATE

- Current interest rates of 0.42% are 11bps higher than the start of the year.
- Loans fell 0.88% YoY in February but grew 0.46% MoM, the fourth consecutive month of growth.
- SGX's SDAV was third-highest on record but down YoY alongside DDAV as there was an anomalous selloff during the COVID-19 outbreak last year.
- Maintain Overweight.** Loans remain on path for recovery and interest rates are stable with a positive economic outlook. We continue to prefer OCBC (OCBC SP, BUY, TP: S\$13.65) for its WM and insurance franchises.

## Interest rates ticked up in March

Interest rates edged higher for a second consecutive month to 0.42% in March. Year to March, they were up 11bps. Still, the rates were 53bps lower than their FY20 average. We continue to expect FY21e NIMs to come in at 1.45-1.55% for the three banks, lower than their 1.60% average in FY20.

Figure 1: Negligible uptick in interest rates



Source: Bloomberg, Company, PSR

Figure 2: 3M-SOR 14bps higher than 1Q21 average

	3M-SIBOR (%)	3M-SOR (%)	Average NIM (%)
Current	0.44 (-55 bps)	0.39 (-34 bps)	-
1Q21	0.42 (-57 bps)	0.25 (-48 bps)	-
FY20 Average	0.99	0.73	1.60
5-year Average	1.25	1.15	1.73

Source: Bloomberg, PSR

5 April 2021

## Overweight (Maintained)

### DBS Group Holdings

#### ACCUMULATE (Maintained)

BLOOMBERG CODE	DBS SP
LAST TRADED PRICE	SGD 29.00
FORECAST DIV	SGD 1.10
TARGET PRICE	SGD 29.50
DIVIDEND YIELD	3.79%
TOTAL RETURN	5.52%

### Oversea-Chinese Banking Corp

#### BUY (Maintained)

BLOOMBERG CODE	OCBC SP
LAST TRADED PRICE	SGD 11.77
FORECAST DIV	SGD 0.56
TARGET PRICE	SGD 13.65
DIVIDEND YIELD	4.76%
TOTAL RETURN	20.73%

### United Overseas Bank Limited

#### ACCUMULATE (Maintained)

BLOOMBERG CODE	UOB SP
LAST TRADED PRICE	SGD 25.80
FORECAST DIV	SGD 1.20
TARGET PRICE	SGD 28.70
DIVIDEND YIELD	4.65%
TOTAL RETURN	15.89%

Tay Wee Kuang (+65 6212 1853)

Research Analyst

taywk@phillip.com.sg

List of Abbreviations:

NIM – Net Interest Margin

NII – Net Interest Income

SIBOR – Singapore Interbank Offer Rate

SOR – Swap Offer Rate

SORA – Singapore Overnight Rate Average

DBU – Domestic Business Units

DDAV – Derivatives Daily Average Volume

SDAV – Securities Daily Average Value

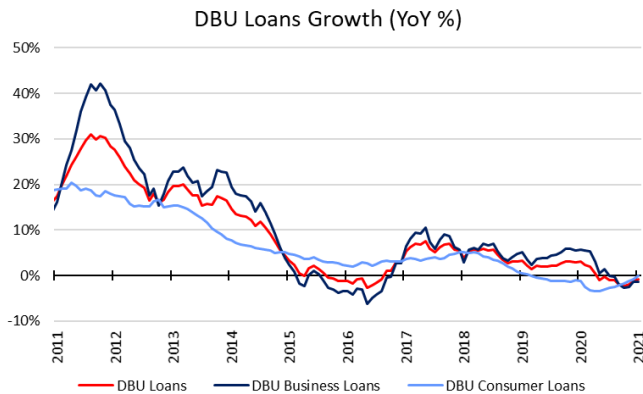
### Lending recovery extended to February

Loans fell 0.88% YoY in February but grew for the fourth consecutive month, by 0.46%. Business and consumer loans improved 0.48% and 0.42% MoM respectively.

The pace of recovery dipped from the 0.72% MoM gain observed in January (Figure 5) but consumer loans grew 0.1% YoY in their first annual growth since April 2019.

Apart from the recovery in local loans, local banks should benefit from regional trade flows with their presence in North Asia and Southeast Asia, where vaccination programmes are underway to aid the economic recovery.

### Figure 4: Loans narrowed their decline in February



Source: MAS, PSR

### Market activities fell in March

Preliminary SDAV for March of S\$1,627mn was the third highest historically. YoY, SDAV was down 26% from the S\$2,193mn in March 2020 (Figure 7) when there was a market selloff at the height of the global outbreak of COVID-19.

Turnover for the top five equity index futures shrank 32.1% YoY in March (Figure 8). Again, this could be attributed to less volatility than a year ago, which dampened demand for derivatives as a hedging tool (Figure 9).

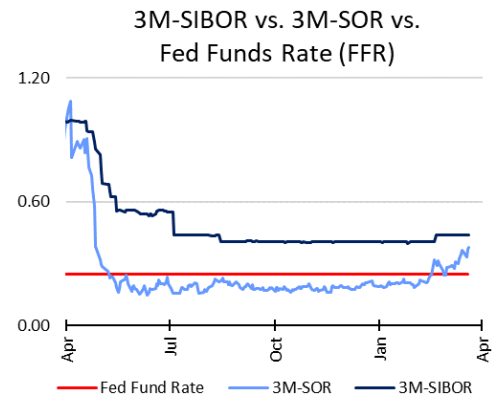
SGX's (SGX SP, ACCUMULATE, S\$11.01) income could slide 10% YoY in 3Q21 as a result of base effects, but is expected to normalise after that.

### Figure 8: Turnover of the top five equity index futures contracted sharply in March

No. of contracts	Mar-20	Mar-21	YoY (+/-)
FTSE China A50 Index Futures	11,866,402	9,502,367	-19.9%
Nifty 50 Index Futures	3,046,144	2,456,731	-19.3%
Nikkei 225 Index Futures	4,809,3960	1,709,504	-64.5%
MSCI Singapore Index Futures	1,438,118	1,146,913	-20.2%
FTSE Taiwan Index Futures	-	1,679,684	-46.3%
MSCI Taiwan Index Futures	3,126,496	-	-
<b>Sub-total</b>	<b>24,286,556</b>	<b>16,495,199</b>	<b>-32.1%</b>

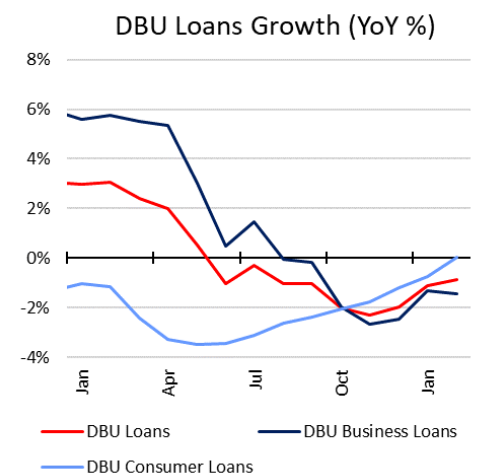
Source: SGX, Bloomberg, PSR

### Figure 3: Short-term rates moved higher



Source: Bloomberg, Company, PSR

### Figure 5: Lending improved MoM



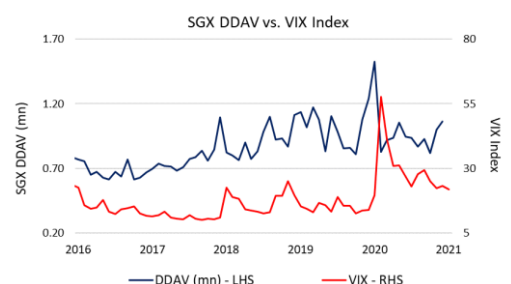
Source: Bloomberg, Company, PSR

### Figure 7: March SDAV was weaker on a high base

	SDAV (\$mn)	YoY (+/-)	DDAV (mn)	YoY (+/-)
Mar-21	1,627	-26%	-	-
Feb-21	1,357	-1%	1.06	-14%
Jan-21	1,485	+22%	1.00	-7%
3Q21	1,490	-7%	-	-

Source: SGX, Bloomberg, PSR

### Figure 9: Low volatility led to weaker derivatives turnover



Source: SGX, Bloomberg, PSR

## Investment action

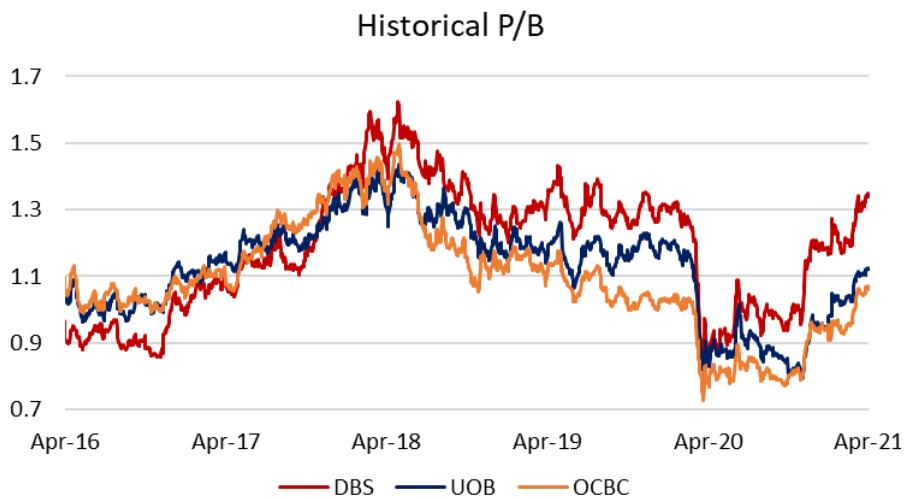
### Maintain Overweight

Despite the run-up in their share prices in 1Q21, we continue to see upside for banks. They had traded above 1.4x P/B before in the past five years and are currently trading close to or below our P/B targets of 1.17-1.31x (Figure 10). Our targets are supported by improving ROEs as allowances ease off in FY21e.

The banks have also emerged from FY20 with stronger capital ratios of 13.9-15.2%. These are higher than their ideal operating range of 12.5-13.5%, which banks hope to achieve so as to not negatively impact ROEs from holding excess capital. This should support a resumption of pre-COVID dividend payouts once the MAS lifts restrictions.

For sector exposure, we continue to prefer OCBC. OCBC is expected to book faster earnings growth from its wealth-management and insurance franchises as market conditions improve.

### Figure 11: Banks' 5-year historical P/B



Source: Bloomberg, PSR

Figure 10: UOB and OCBC trading below our forward P/B targets (x)

	DBS	OCBC	UOB
High	1.62	1.50	1.43
Low	0.81	0.73	0.79
5-year average	1.17	1.09	1.12
Current	1.35	1.06	1.12
Forward target	1.31	1.19	1.17
Target price (S\$)	29.50	13.65	28.70

Source: Bloomberg, PSR

**Contact Information (Singapore Research Team)**
**Head of Research**

 Paul Chew – [paulchewkl@phillip.com.sg](mailto:paulchewkl@phillip.com.sg)
**Research Admin**

 Qystina Azli - [qystina@phillip.com.sg](mailto:qystina@phillip.com.sg)
**Consumer | Industrials**

 Terence Chua – [terencechuatl@phillip.com.sg](mailto:terencechuatl@phillip.com.sg)
**Property | REITs**

 Natalie Ong - [natalieongpf@phillip.com.sg](mailto:natalieongpf@phillip.com.sg)
**Banking & Financials | Healthcare**

 Tay Wee Kuang - [taywk@phillip.com.sg](mailto:taywk@phillip.com.sg)
**Small-Mid Cap**

 Tan Jie Hui – [tanjih@phillip.com.sg](mailto:tanjih@phillip.com.sg)
**Small-Mid Cap**

 Vivian Ye Qianwei – [yegw@phillip.com.sg](mailto:yegw@phillip.com.sg)
**Credit Analyst (Bonds)**

 Timothy Ang – [timothyang@phillip.com.sg](mailto:timothyang@phillip.com.sg)
**US Equity**

 Yeap Jun Rong – [yeapjr@phillip.com.sg](mailto:yeapjr@phillip.com.sg)
**Technical Analyst**

 Chua Wei Ren – [chuawr@phillip.com.sg](mailto:chuawr@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](http://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](http://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](http://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](http://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](http://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](http://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](http://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](http://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](http://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](http://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](http://www.phillipcapital.com.au)
**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](http://www.phillipbank.com.kh)
**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](http://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](http://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

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