

Singapore Banking Monthly

Mortgage repricing to offset loan growth deceleration



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SINGAPORE | BANKING & FINANCE | UPDATE

1 April 2019

- February's mortgage loan growth continues to decelerate to 1.2% YoY, dipping below last month's 17-year low of 1.6% YoY.
- February's total loan growth remained flat at 3.3% YoY, held up by building and construction loans (+12.7% YoY).
- February's domestic deposits rose 6.3% YoY, boosted by fixed deposit growth of 18.9% YoY, the fastest in eleven years. CASA contracted 1.0%.
- March's 3-month SIBOR and SOR dip modestly by 0.8bp and 8.1bps to 1.944% and 1.933% respectively.
- Maintain OVERWEIGHT for the Singapore Banking Sector.

Overweight (Maintained)

DBS Group Holdings

BUY (Maintained)

BLOOMBERG CODE	DBS SP
LAST TRADED PRICE	SGD 25.49
FORECAST DIV	SGD 1.20
TARGET PRICE	SGD 29.00
TOTAL RETURN	18.48%

Oversea-Chinese Banking Corp

BUY (Maintained)

BLOOMBERG CODE	OCBC SP
LAST TRADED PRICE	SGD 11.18
FORECAST DIV	SGD 0.45
TARGET PRICE	SGD 13.70
TOTAL RETURN	26.57%

United Overseas Bank Limited

BUY (Maintained)

BLOOMBERG CODE	UOB SP
LAST TRADED PRICE	SGD 25.44
FORECAST DIV	SGD 1.28
TARGET PRICE	SGD 32.50
TOTAL RETURN	32.78%

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Singapore's February domestic loan growth flat at 3.3% YoY (January: 3.2% YoY)

February's domestic loans growth was held up by **Business loan growth** of 5.2% YoY (Figure 3). Growth was mainly attributable to Building & Construction's robust loan growth of 12.7% YoY, as compared to a monthly average of 4.9% YoY in 2018. These are drawdowns of loans from existing projects in the pipeline. We expect growth for new construction projects and mortgages to slow down in end 2019 due to property cooling measures.

Meanwhile, **Consumer loan growth** weakened to 0.54% YoY due to mortgage weaknesses. Mortgage growth decelerated to 1.2% YoY due to property cooling measures and rising interest rates. Due to worsening macro-economic conditions, we expect loan growth for the banks to slow to 4-6% for FY2019e as compared to 7-11% in FY2018.

Singapore's February domestic deposits grew 6.3% YoY, the fastest in 2 years (CASA contracted 1.0% YoY; Fixed deposit spiked 18.9% YoY)

In a rising interest rate environment, the banking industry has been aggressively plumping up their fixed deposits. Singapore's February fixed deposits registered the highest growth in 11 years at 18.9% YoY as compared to FY2018's monthly average growth of 1.6% YoY. Government & Statutory Authorities' deposit growth surged an impressive 69.1% YoY. As the financial sector bulks up in pricier fixed deposits, the corresponding rise in the cost of funds makes it a constant challenge for the banks manage costs well enough to achieve NIM expansion. January's proportion of fixed deposits and CASA as a percentage of total deposits are 41% and 59% respectively.

Hong Kong's February loan growth flat at 3.0% YoY

Loan growth of 3.0% YoY in February was unexciting as compared to a monthly average growth of 10.3% YoY in 2018. Hong Kong's January residential sales and purchase value and volume fell 19.7% and 10.0% MoM respectively. Home prices in Hong Kong have started to roll-over (Figure 7). Since the peak in July 2018, prices have softened by 8.9% in February 2019. Higher interest rates should support the banking sector's profitability.

March's 3-month SIBOR at 1.944%, 0.8 bps below last month's 11 year-high of 1.953%

3-month SOR fell 8bps MoM to 1.933%. Meanwhile, the savings rate in Singapore remained unchanged at 0.16%. Despite the dovish tone set by the US Federal Reserve, we expect the banks to deliver NIM improvements due to the time lag for rate hikes to pass-through although we do not expect interest rates to rise as fast as it did in 2018. The rise in SIBOR and SOR for the past year should reflect positively in the upcoming banking results in May 2019. However, margins could be threatened by costlier funding as interest rates rise in the region. In Hong Kong, 3-month HIBOR fell 57 bps YTD after peaking in December 2018 at 2.327%.

Investment Actions

Maintain Singapore Banking Sector at Overweight. We expect further upside in NIM improvements from the full impact of loan repricing. Low provisions and better cost management should also provide upsides to ROE improvements. The banking sector provides an attractive dividend yield support of c.5%. All three banks' robust CET-1 ratios should sustain current pay-out ratios. Key risks include (i) lower pass-through of interest rates; (ii) margins threatened by costlier funding as interest rates rise in the region; (iii) market volatility to pressure Treasury Market revenues downwards; (iv) CIR ratio weakened by investment costs.

List of Abbreviations:

WM – Wealth Management
 CASA – Current and Savings Account
 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

Table 1: Peer Comparison

Stock	PSR Recommendation	Market Cap (USDmn)	Forward P/E			Forward P/BV			Dividend Yield (%)		ROE (%)			Price (Local Currency)	Target Price (\$)	Upside (%)
			Yr0	Yr1	Yr2	Yr0	Yr1	Yr2	Yr1	Yr2	Yr0	Yr1	Yr2			
Singapore																
DBS GROUP HLDGS	Buy	48,175	11.0	10.6	9.9	1.2	1.3	1.2	4.9	5.1	11.6	12.3	12.6	25.5	29.02	0.14
OCBC BANK	Buy	35,072	10.6	10.0	9.4	1.1	1.1	1.0	4.2	4.5	11.2	11.3	11.4	11.2	13.70	0.23
UNITED OVERSEAS	Buy	31,306	10.3	10.2	9.5	1.2	1.1	1.0	4.9	5.2	11.4	11.3	11.5	25.4	32.52	0.28
	Market Cap Weighted Average:		10.7	10.3	9.7	1.2	1.2	1.1	4.7	4.9	11.4	11.7	11.9			
Indonesia																
BANK CENTRAL ASI	Non-rated	47,657	24.8	23.1	20.3	4.2	3.9	3.5	1.2	1.6	18.3	18.0	17.8	27500	na	na
BANK MANDIRI	Non-rated	24,519	13.8	12.5	11.0	1.9	1.8	1.6	3.2	3.6	14.4	14.8	15.2	7475	na	na
BANK NEGARA INDO	Non-rated	12,387	10.9	10.2	9.0	1.5	1.5	1.3	3.1	3.5	14.5	15.1	15.4	9450	na	na
BANK RAKYAT INDO	Non-rated	35,980	13.8	13.9	12.2	2.4	2.4	2.2	3.1	3.5	18.5	18.7	18.9	4150	na	na
BANK TABUNGAN NE	Non-rated	1,786	9.6	7.5	6.4	1.1	1.0	0.8	2.7	2.9	12.3	13.3	13.8	2400	na	na
	Market Cap Weighted Average:		17.7	16.7	14.7	2.9	2.8	2.5	2.3	2.8	17.1	17.2	17.3			
Malaysia																
AFFIN BANK BHD	Non-rated	1,072	8.6	8.0	7.6	0.5	0.5	0.4	3.2	3.5	5.9	6.0	6.1	2.2	na	na
ALLIANCE BANK	Non-rated	1,553	13.7	11.1	10.2	1.2	1.1	1.1	4.3	4.6	9.3	10.2	10.5	4.1	na	na
AMBANK HLDG BHD	Non-rated	3,342	10.3	9.4	9.7	0.7	0.8	0.7	3.9	4.1	7.0	8.5	7.9	4.5	na	na
BIMB HLDGS BHD	Non-rated	1,883	8.8	10.3	9.8	-	1.4	1.2	3.7	3.9	-	14.0	13.5	4.4	na	na
HONG LEONG BANK	Non-rated	10,036	14.1	15.2	14.3	1.6	1.6	1.5	2.6	2.8	11.3	11.2	11.2	20.0	na	na
MALAYAN BANKING	Non-rated	24,992	12.8	12.2	11.6	1.4	1.3	1.2	6.4	6.8	10.9	10.7	10.8	9.2	na	na
PUBLIC BANK BHD	Non-rated	21,427	17.1	15.2	14.5	2.3	2.0	1.9	3.1	3.3	14.3	13.6	13.3	22.5	na	na
RHB BANK BHD	Non-rated	5,597	9.2	9.5	8.9	0.9	0.9	0.9	3.8	4.0	9.9	9.9	9.8	5.7	na	na
	Market Cap Weighted Average:		13.8	13.0	12.4	1.6	1.5	1.4	4.4	4.6	11.3	11.5	11.4			
Thailand																
BANGKOK BANK PUB	Non-rated	12,585	11.0	10.3	9.3	0.9	0.9	0.9	3.5	3.8	8.7	9.1	9.5	209.0	na	na
BANK AYUDHYA PCL	Non-rated	8,702	11.4	10.2	9.3	1.2	1.1	1.0	2.9	3.1	10.6	10.4	10.8	37.5	na	na
KASIKORN BANK PCL	Non-rated	14,231	11.5	11.0	9.8	1.2	1.1	1.0	2.5	2.9	10.6	10.5	10.9	188.5	na	na
KIATNAKIN BANK	Non-rated	1,863	9.3	9.6	9.0	1.3	1.3	1.3	6.9	7.1	14.5	14.3	14.2	69.8	na	na
KRUNG THAI BANK	Non-rated	8,465	9.4	9.1	8.3	0.9	0.8	0.8	4.3	4.5	9.6	9.4	9.4	19.2	na	na
KRUNGTHAI CARD P	Non-rated	2,928	15.3	15.4	14.0	4.8	4.7	3.8	2.6	2.8	35.5	31.8	29.0	36.0	na	na
SIAM COMM BK PCL	Non-rated	14,085	11.3	10.5	9.5	1.2	1.1	1.0	4.3	4.6	10.8	10.6	11.0	131.5	na	na
SRI SAWAD CORP PC	Non-rated	2,043	18.7	18.1	15.1	4.4	3.9	3.2	0.6	0.7	26.0	24.1	22.8	53.8	na	na
THANACHART CAPIT	Non-rated	1,970	7.4	8.5	7.9	0.9	0.9	0.8	4.5	4.8	12.3	11.2	11.0	54.5	na	na
TISCO FINANCIAL	Non-rated	2,248	9.1	9.8	9.1	1.7	1.8	1.6	6.5	6.8	19.4	18.6	18.3	89.0	na	na
TMB BANK PCL	Non-rated	2,850	8.3	10.0	8.8	1.0	0.9	0.8	3.3	3.6	12.3	9.0	9.6	2.1	na	na
	Market Cap Weighted Average:		11.1	10.7	9.6	1.3	1.3	1.2	3.6	3.8	12.1	11.7	11.8			

Source: Bloomberg, PSR

Extracted as of 1-Apr-19

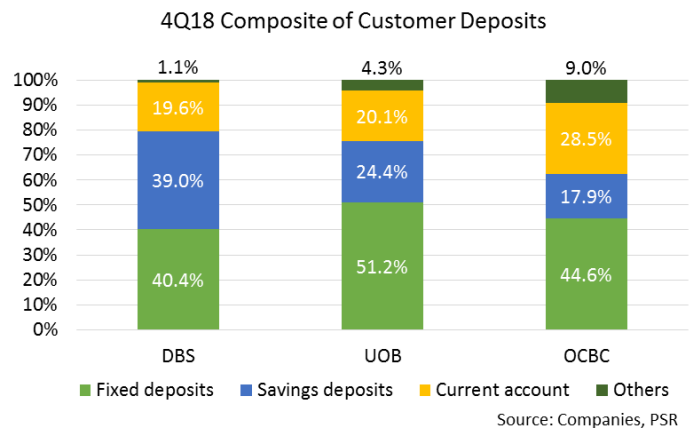
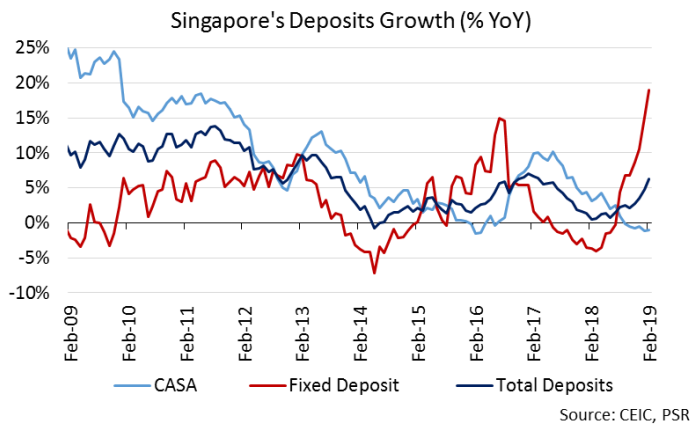
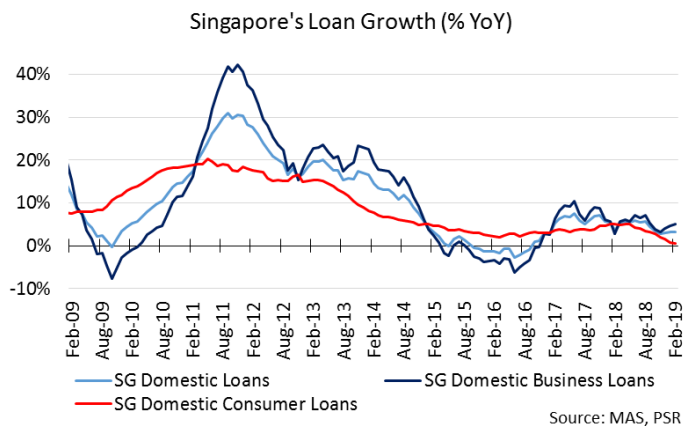
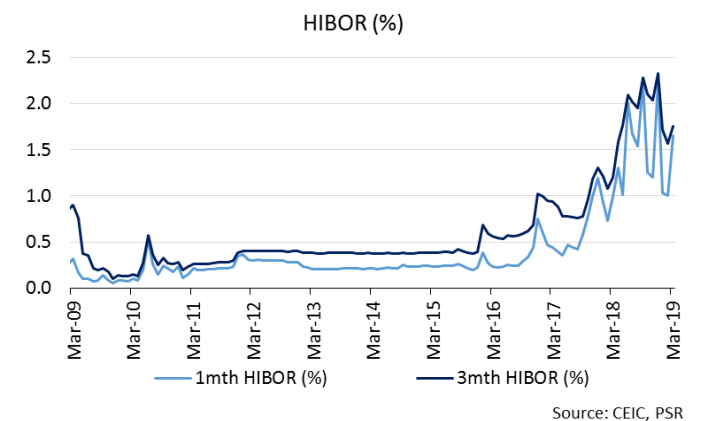
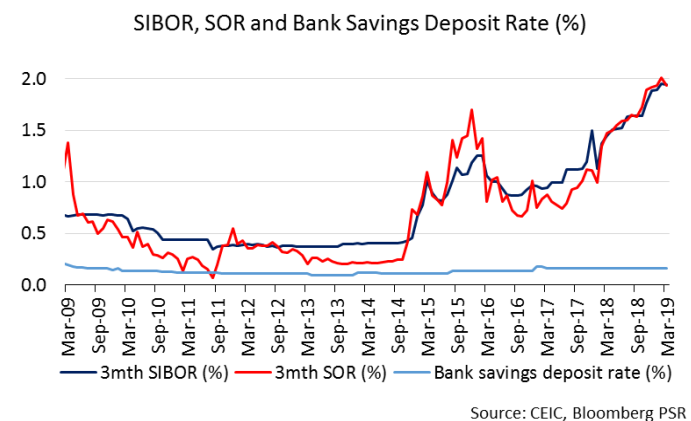
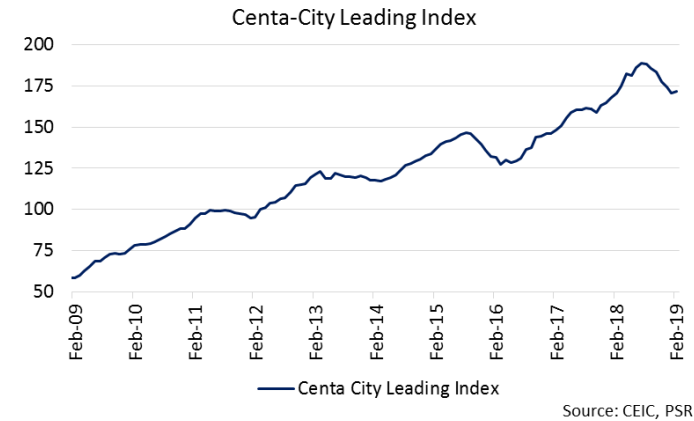
Figure 1: Singapore's domestic deposits grew 6.3% YoY, the fastest in 2 years, driven by fixed deposits growth.
Figure 2: DBS has the largest CASA base (CASA enjoys the lowest cost of funds).

Figure 3: Dampened by mortgage growth which contracted for the 10th consecutive month since peaking in May 2018.
Figure 4: Hong Kong's loan growth remains subdued as compared to the monthly average growth of 10.3% YoY in 2018.

Figure 5: Due to the time lag in loan repricing, NIM expansion will continue even if there is a pause in fed rate hikes.
Figure 6: A rising HIBOR will benefit banks with larger exposure to Hong Kong.


Figure 7: Home prices in Hong Kong has started to roll-over.

Figure 8: Hong Kong's residential sales recovered in January after slowing to a 5-year low in December.



Centa-City Leading Index	
Jan-19	170.9
Feb-19	171.9



	Value growth	Volume growth
Jan-19	-9.8%	-13.8%
Feb-19	-29.1%	-25.4%

Figure 9: UOB has the least exposure to Greater China and Hong Kong loans, with the largest proportion of Singapore loans.

Figure 10: SGX's derivatives daily average volume grew 1.4% YoY in February, the slowest in 2 years.

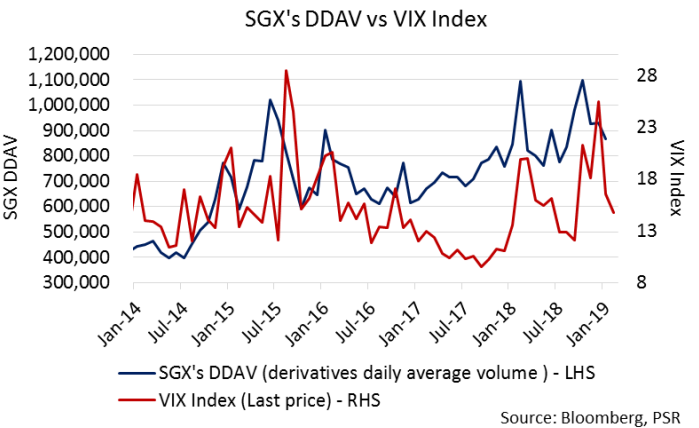
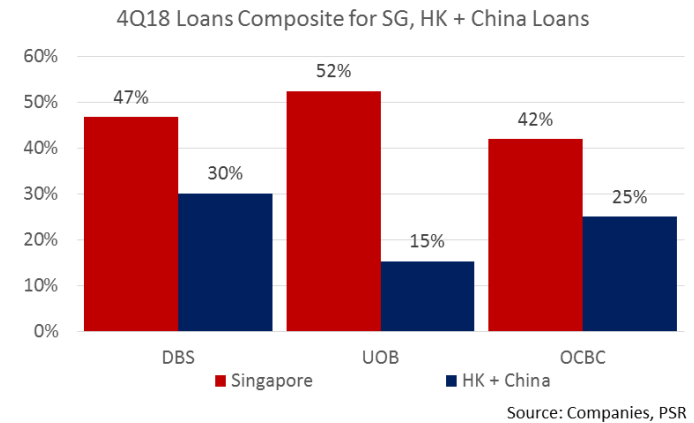
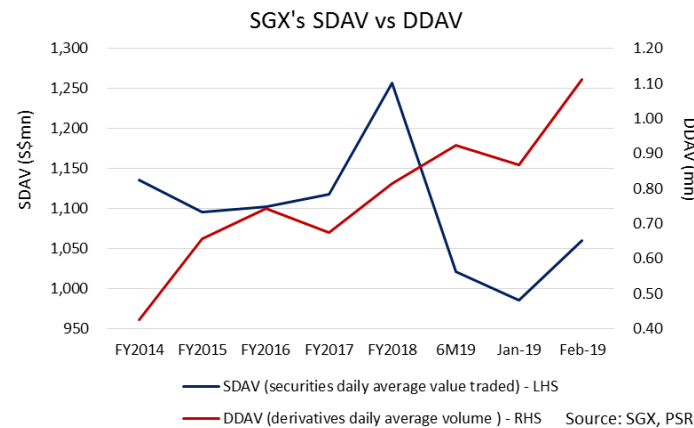


Figure 11: SGX's derivatives business doubled in 5 years, and it will support earnings when securities business is slowing.



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