Singapore Banking Monthly

Additional relief measures to ease moratorium woes

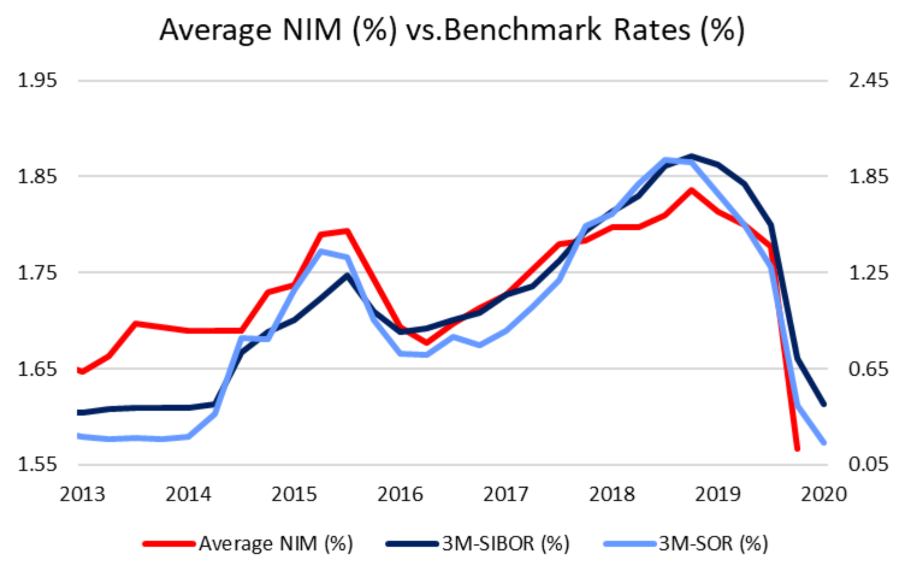
SINGAPORE | BANKING & FINANCE | UPDATE

- Lowest quarterly interest rates since 2014 (3M-SIBOR: 0.43%; 3M-SOR: 0.19%) expected to weigh in on NIMs for the banks in 3Q20.
- Loans growth fell for a third consecutive month (-1.03% YoY), as business loans contracted for the first time in four years (-0.04% YoY).
- MAS announced partial extension of loan moratorium for individuals and SMEs in need, allowing banks to avoid potential cliff effect of loan quality deterioration upon expiry of loan moratorium.
- **Maintain the Singapore Banking Sector at NEUTRAL.** Despite an expected recovery in non-interest income as the economy reopens, banks' earnings are unlikely to reach pre-COVID-19 levels in the near term as banks continue to experience strong headwinds from low interest rates and heightened allowances.

3Q20 interest rates lowest since 2014

Average interest rates observed in 3Q20 was the lowest since 2014 (Figure 1). With 3M-SIBOR and 3M-SOR at 44 bps and 94 bps lower than 1H20 average respectively (Figure 2), we expect banks to report NIM levels at similar or slightly lower than in 2Q20 as continued downward pressure on interest rates offsets benefits from repricing of deposit rates.

Figure 1: NIM expected to continue falling as interest rates fall below levels observed in 1H20



Source: Bloomberg, Company, PSR

Figure 2: Interest rates steady throughout 3Q20

	3M-SIBOR (%)	3M-SOR (%)	Average NIM (%)
3Q20 Average	0.43 (-44 bps)	0.19 (-94 bps)	-
1H20 Average	0.87	1.13	1.67
Remarks	Banks expected to experience NIM contraction in 3Q20 compared to 1H20.		

Source: Bloomberg, PSR

PhillipCapital

StocksBnB.com

12 October 2020

Neutral (Maintained)

DBS Group Holdings

Neutral (Downgrade)

BLOOMBERG CODE	DBS SP
LAST TRADED PRICE	SGD 21.05
FORECAST DIV	SGD 0.87
TARGET PRICE	SGD 21.00
DIVIDEND YIELD	4.13%
TOTAL RETURN	3.90%

Oversea-Chinese Banking Corp

ACCUMULATE (Maintained)

BLOOMBERG CODE	OCBC SP
LAST TRADED PRICE	SGD 8.59
FORECAST DIV	SGD 0.32
TARGET PRICE	SGD 8.92
DIVIDEND YIELD	3.70%
TOTAL RETURN	7.54%

United Overseas Bank Limited

ACCUMULATE (Maintained)

BLOOMBERG CODE	UOB SP
LAST TRADED PRICE	SGD 19.45
FORECAST DIV	SGD 0.78
TARGET PRICE	SGD 20.40
DIVIDEND YIELD	4.01%
TOTAL RETURN	8.89%

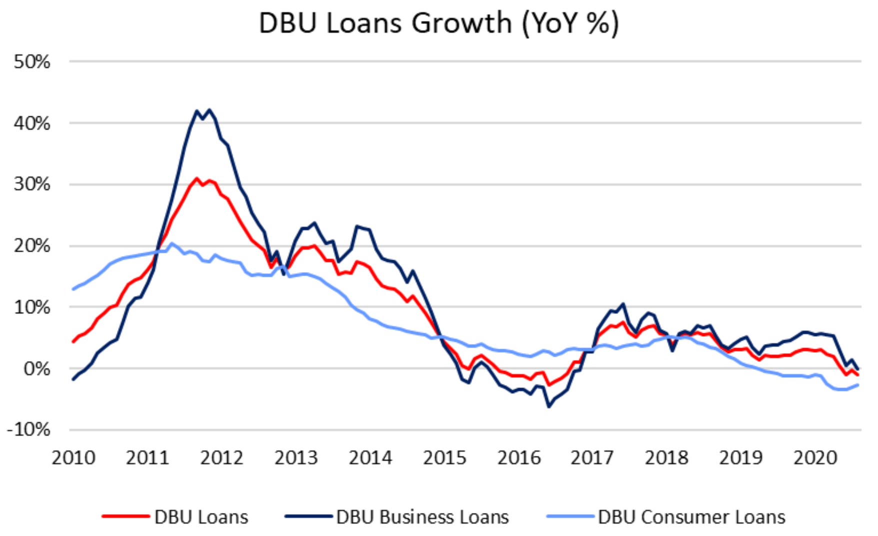
Tay Wee Kuang (+65 6212 1853)
Reseach Analyst
taywk@phillip.com.sg

List of Abbreviations:
SME – Small and Medium Enterprises
FI – Financial Institutions
NIM – Net Interest Margin
SIBOR – Singapore Interbank Offer Rate
SOR – Swap Offer Rate
DBU – Domestic Business Units
DDAV – Derivatives Daily Average Volume
SDAV – Securities Daily Average Value

Sluggish loans growth in August reflects poor economic outlook

Loans contracted 1.03% YoY in August, as outstanding loans shrank for the sixth consecutive month (Figure 3). The poor loans performance was attributed to business loans, which fell YoY (-0.04%) for the first time since November 2016 in August (Figure 4). Consumer loans fell 2.61% YoY, but improved by 0.33% MoM, as all loans segment apart from housing loans (car loans, credit card loans, share financing and others) improve in August from a month ago.

Figure 3: Loans growth continues to disappoint

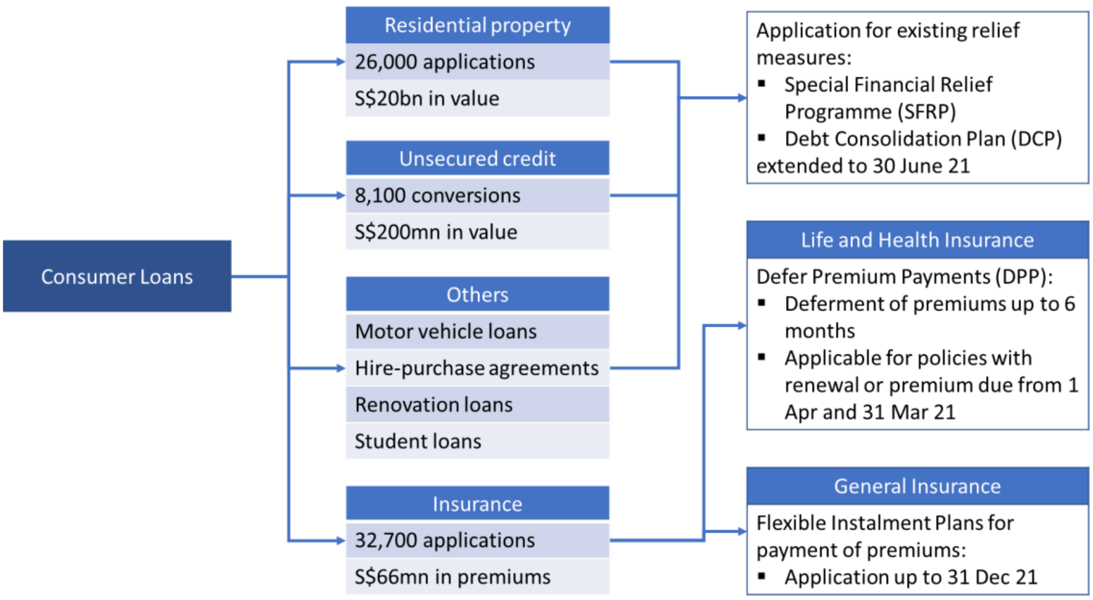


Source: MAS, PSR

Additional moratorium support by MAS for individuals and SMEs reduces default risks for banks

On 5 October, MAS announced that it will be providing additional support for individuals and SMEs needing assistance in loan repayments, including extension in application to various moratorium relief schemes, as well as new measures to reduce cashflow challenges faced by as a result of the economic fallout from COVID-19 (Figure 4).

Figure 4: Overview of consumer loans under moratorium relief

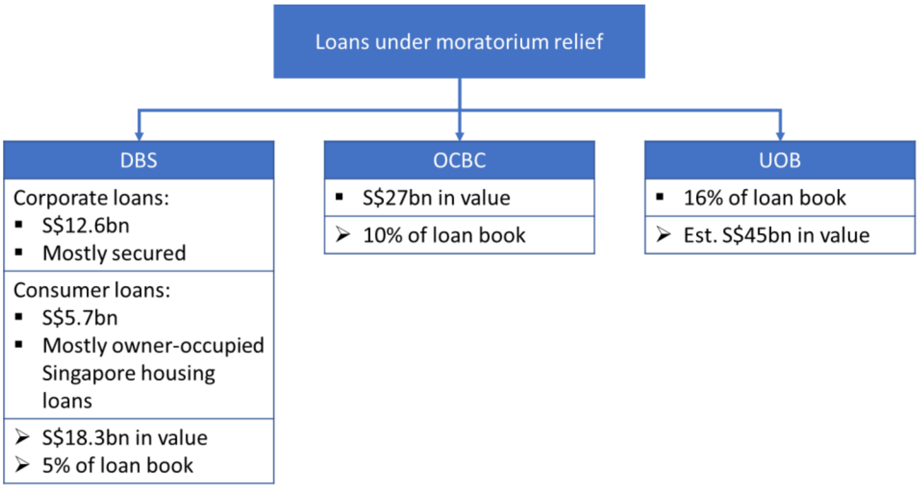


Source: MAS, PSR

Instead of a blanket deferment in loan repayment during the current loan moratorium period, the additional measures aim to allow individuals and SMEs to resume repayments at a lower quantum before easing back into repayments at levels before the moratorium period. This will partially ease cashflow challenges faced by borrowers while allowing the banks and other FIs to resume loan collections that can prevent cliff effect from a sudden deterioration in loan quality resulting from borrowers who are unable to resume full payments at the onset of the loan moratorium expiry.

Borrowers will also be allowed a longer window to apply for loan moratorium as long as they are not more than 90 days past due when applying for the relief measures.

Figure 5: Loans under moratorium relief across three banks



Source: Company, PSR

As of 2Q20, the three banks have an aggregate of close to S$100bn of loans under moratorium (Figure 5). The higher portion of loans under moratorium for OCBC and UOB is due to higher exposure in Malaysia, whereby loan moratoriums are automatically granted for loans in Malaysian. We expect loans under moratorium to taper in 4Q20 as Malaysia has exited loan moratorium period in September.

The additional support measures by MAS will allow the banks to reduce default risks from non-payments as banks will be able to begin to loan payments in FY21, albeit at a slower rate.

Securities turnover shows sustained growth while derivatives volume remain volatile

Preliminary SDAV data indicates a YoY increase of 16% from S$940mn a year ago to S$1,088mn in August (Figure 6). Derivatives volumes also seemed to have picked up in September compared to a year ago. Volumes for the top five equity index futures which makes up more than 95% of monthly equity index futures contract turnover grew by an average of 9% YoY in September (Figure 7).

The newly launched FTSE Taiwan index continues to perform well in September (Figure 8), recording more than 300,000 increase in contracts from August to offset the fall in turnover for its MSCI counterpart (-200,000 contracts MoM).

Alongside contribution from Scientific Beta and BidFX acquisitions, we expect SGX to report 10% increase in earnings YoY for 1Q21.

Figure 7: Turnover of top five equity index futures contracts

No. of contracts	Sep-19	Sep-20*	YoY (+/-)
FTSE China A50 Index Futures	6,555,959	7,754,014	+18.3%
Nifty 50 Index Futures	1,967,035	2,274,160	+15.6%
MSCI Taiwan Index Futures	1,751,102	1,564,623	-10.6%
Nikkei 225 Index Futures	2,049,534	1,725,198	-15.8%
MSCI Singapore Index Futures	777,050	1,007,100	+29.6%
Sub-total	13,100,680	14,325,095	+9%

Source: SGX, Bloomberg, PSR

Figure 6: 2020 SDAV and DDAV performance

	SDAV ($mn)	YoY (+/-)	DDAV (mn)	YoY (+/-)
Jul-20	1,213	+15%	1.05	+27%
Aug-20	1,407	+18%	0.95	-15%
Sep-20	1,088	+16%	-	-
1Q21	1,236	+16%	1.28	+23%

Source: SGX, Bloomberg, PSR

Figure 8: FTSE Taiwan Index Futures turnover continues to improve

Turnover ('000s)	Jul-20	Aug-20	Sep-20
FTSE	82	352	675

Investment Action

Maintain the Singapore Banking Sector at Neutral. The Singapore banking sector will continue experiencing headwinds from low interest rates as well as heightened provisions amidst the economic fallout in the short-term. Nevertheless, downside risks are mitigated due to the strong support measures provided by the government. We expect earnings to slowly recover

Re-rating Catalyst

A potential re-rating catalyst will be a better-than-expected credit profile of borrowers post-moratorium in Singapore, which can spell an earlier end to the heightened credit costs which the banks have guided for to the end of FY21.

Contact Information (Singapore Research Team)

Head of Research
Paul Chew – paulchewkl@phillip.com.sg

Research Admin
Siti Nursyazwina - syazwina@phillip.com.sg

Property | REITs
Natalie Ong - natalieongpf@phillip.com.sg

Property | REITs
Tan Jie Hui - tanjh@phillip.com.sg

Consumer | Industrials
Terence Chua – terencechuatl@phillip.com.sg

Banking & Financials | Healthcare
Tay Wee Kuang - taywk@phillip.com.sg

Technical Analyst
Chua Wei Ren – chuawr@phillip.com.sg

Credit Analyst (Bonds)
Timothy Ang – timothyang@phillip.com.sg

US Equity
Yeap Jun Rong – yeapjr@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

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

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 (DGCX)
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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