

Singapore Banking Monthly

Consumer weakness offset by business loans



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SINGAPORE | BANKING & FINANCE | UPDATE

2 July 2019

- Singapore loan growth stable at 2.08% YoY. Consumer loans (-0.39% YoY) contracted for the second time in decades, dragged by persistent weakness in housing loans.
- Domestic deposits rose 7.4% YoY, held up by fixed deposit growth of 22.0% YoY, the fastest in twelve years. CASA deposits continues to contract at -1.1% YoY.
- 3M SIBOR stable at 2.002%, while 3M SOR dipped 22 bps to 1.833%.
- **Maintain the Singapore Banking Sector at Overweight.** While the trade war affects investor sentiments in the near term, we believe the banks' fundamentals remain intact to withstand risks and deliver growth on a sustained basis.

Overweight (Maintained)

DBS Group Holdings

ACCUMULATE (Maintained)

BLOOMBERG CODE	DBS SP
LAST TRADED PRICE	SGD 26.40
FORECAST DIV	SGD 1.20
TARGET PRICE	SGD 29.00
TOTAL RETURN	14.39%

Oversea-Chinese Banking Corp

ACCUMULATE (Maintained)

BLOOMBERG CODE	OCBC SP
LAST TRADED PRICE	SGD 11.46
FORECAST DIV	SGD 0.45
TARGET PRICE	SGD 12.70
TOTAL RETURN	14.75%

United Overseas Bank Limited

ACCUMULATE (Maintained)

BLOOMBERG CODE	UOB SP
LAST TRADED PRICE	SGD 26.42
FORECAST DIV	SGD 1.28
TARGET PRICE	SGD 30.90
TOTAL RETURN	21.80%

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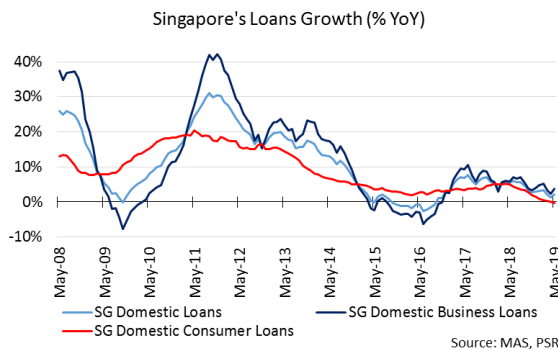
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Singapore's loan growth tepid at 2.08% YoY (April: 1.37% YoY)

Latest statistics from MAS showed sluggish loan growth of 2.08% YoY for May. Business loans growth of 3.71% YoY offset contraction in consumer loans growth of 0.39% (Figure 1). B&C loans growth remained robust at 12.9% YoY due to the drawdown of loans from existing projects in the pipeline. We expect property cooling measures to hit B&C loan growth near end 2019. Consumer loans (Figure 1) contracted for the second consecutive month, hammered by persistent weakness in housing loans growth of -0.39% YoY, curbed by property cooling measures and high interest rates. We posit loan growth for the Singapore banks to slow to 4-6% for FY2019e (2018: 7-11%) due to headwinds from property cooling measures and slowing global trade and regional loans.

Figure 1: Housing loans growth has been slowing since peaking in May 2018



	Overall Loans	Business Loans	Consumer Loans
Apr-19	1.37%	2.29%	-0.03%
May-19	2.08%	3.71%	-0.39%

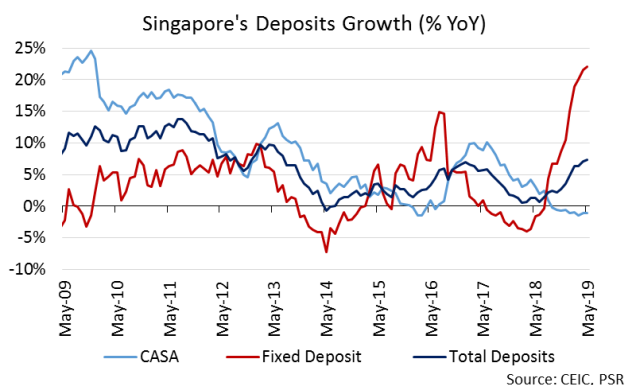
Deposits – Tighter liquidity conditions with contracting CASA growth

Fixed deposits continue to surge, growing 22.0% YoY, outpacing overall deposits growth of 7.4% YoY as banks continue to compete for deposits by offering attractive interest rates, lifting 3m SIBOR above the 2% level, a level last seen during the previous Fed rate hike cycle between 2004-2006. CASA deposits contracted 1.1% YoY, the slowest in 3 years (Figure 2). When interest rates are high, the Singapore dollar fixed deposits are usually highly sought after by investors redirecting their funds into higher yielding investments.

With a higher proportion of fixed deposits in the deposits mix, the cost of fund rises, making it a constant challenge for banks to manage costs well enough to achieve NIM expansion. However, we expect competition for fixed deposits to taper off in the 2H19 and funding pressure to ease since no more rate hikes are expected in 2019 in the U.S.

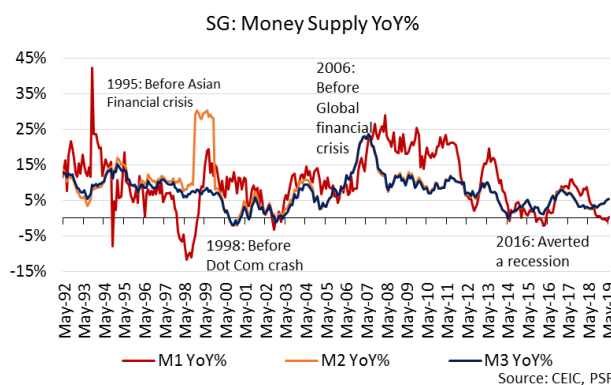
List of Abbreviations:

- WM – Wealth Management
- CASA – Current and Savings Account
- NII – Net Interest Income
- NIM – Net Interest Margin
- 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
- SME – Small to Medium Enterprises
- LDR – Loan to Deposit Ratio
- CIR – Cost-to-income ratio
- ROE – Return on Equity
- ECL - Expected Credit Losses
- B&C – Building and Construction

Figure 2: CASA deposits have been contracting since September 2018 while Fixed Deposits surged to the highest in 12 years


Source: CEIC, PSR

	CASA Deposits	Fixed Deposits	Total Deposits
Apr-19	-1.1%	21.6%	7.1%
May-19	-1.1%	22.0%	7.4%

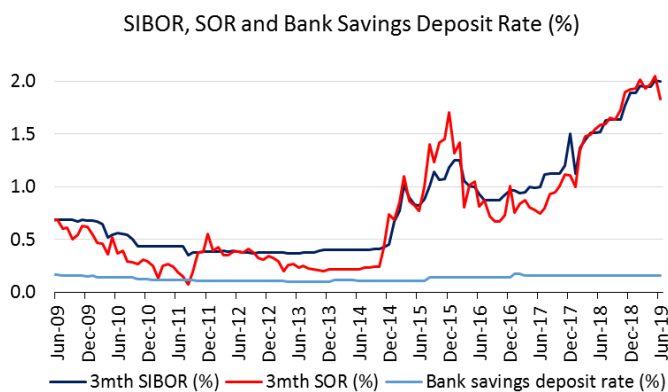
Figure 3: Historical trend of M1 growth contraction during economic slowdowns.


Source: CEIC, PSR

	M1	M2	M3
Apr-19	-0.74%	5.16%	5.11%
May-19	0.27%	5.51%	5.48%

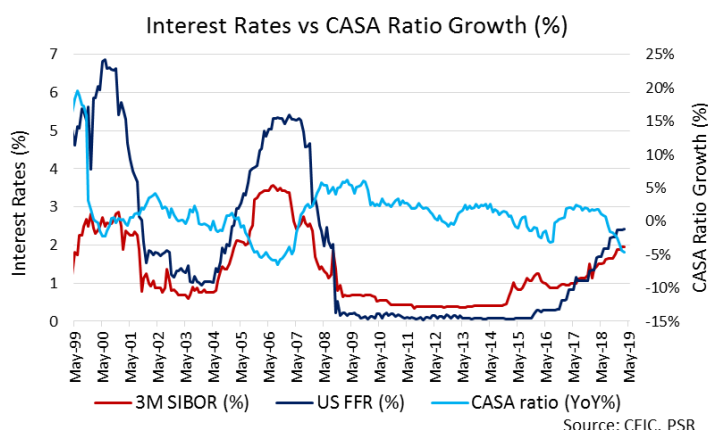
3M SIBOR stable at 2.002%, while 3M SOR dipped 22 bps to 1.833%

Meanwhile, the savings rate in Singapore remained unchanged at 0.16% (Figure 4). However, we believe the pause in interest rate hikes limits the upside for NIM expansion. As we reach the end of the interest rate cycle, 2Q19 results may be the last NIM rally for the year. We still expect the banks to deliver full year NIM improvements due to the lagged effect of loan repricing, albeit at a lower magnitude of around 4 bps in FY19e.

Figure 4: Due to the time lag in loan repricing, NIM expansion will continue even if there is a pause in fed rate hikes


Source: CEIC, Bloomberg PSR

	3M SIBOR	3M SOR	Savings Deposit Rate
May-19	2.007%	2.052%	0.160%
Jun-19	2.002%	1.833%	0.160%

Figure 5: In a rising interest rate environment, there is usually a trend of CASA deposits migrating to fixed deposits


Source: CEIC, PSR

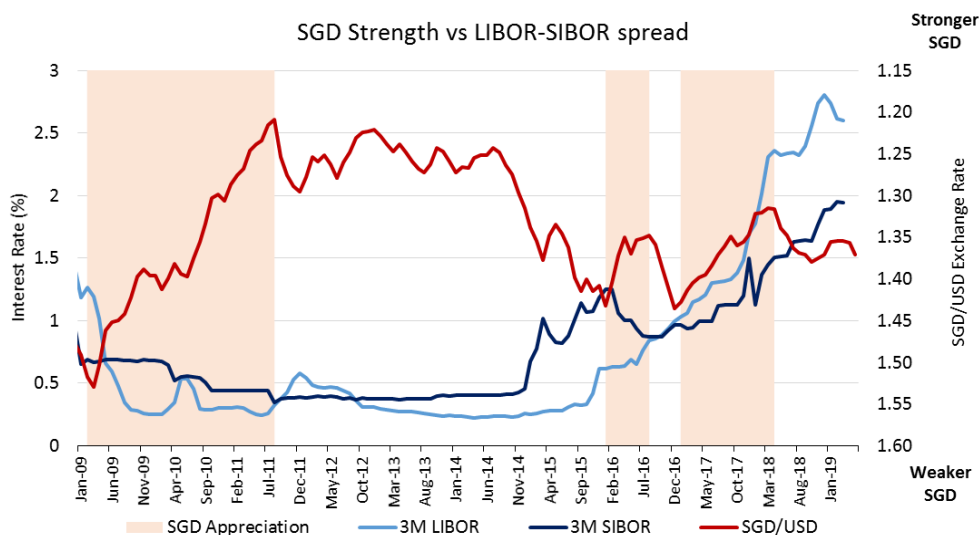
	3M SIBOR	US FFR	CASA Ratio Growth
Apr-19	1.946%	2.450%	-4.9%
May-19	2.007%	2.400%	-5.0%

MAS' Monetary Policy - Exchange Rate Management

The interbank interest rate in Singapore is primarily determined by movements in the US interest rate adjusted for the expected change in the Singapore-US Dollar exchange rate.

Singapore's domestic interest rates such as S\$ Swap Offer Rate (SOR) or S\$ Singapore Interbank Offered Rate (SIBOR) generally track global interest rates, notably the US\$ London Inter-bank Offered Rate (LIBOR) because the US is a key trading partner of Singapore. However, domestic interest rates can be at a discount (premium) to global interest rates when the S\$ is expected to appreciate (depreciate) against other currencies (Figure 6). A weaker Singdollar and expectations of more depreciation will push local interest rates higher, affecting home loans and all other consumer and business loans. Hence there is a misconception that Singapore interest rates will decline in accordance to US \$ LIBOR. For example, if MAS adopts a dovish exchange rate policy, Singapore's interest rates may, in fact increase.

Figure 6: Weaker USD expectation mitigates declining LIBOR

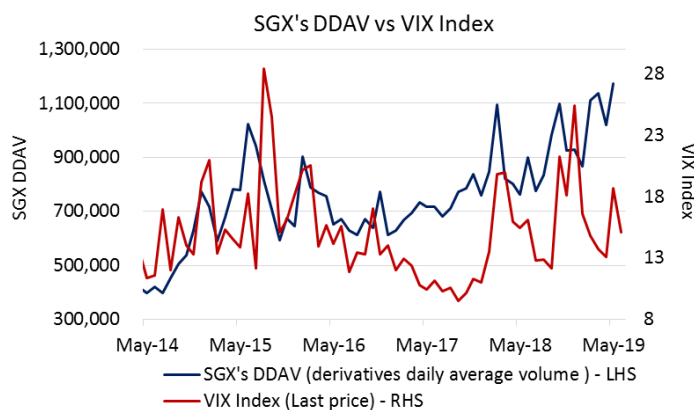


Source: CEIC, PSR

Volatility - a very favourable backdrop for derivatives

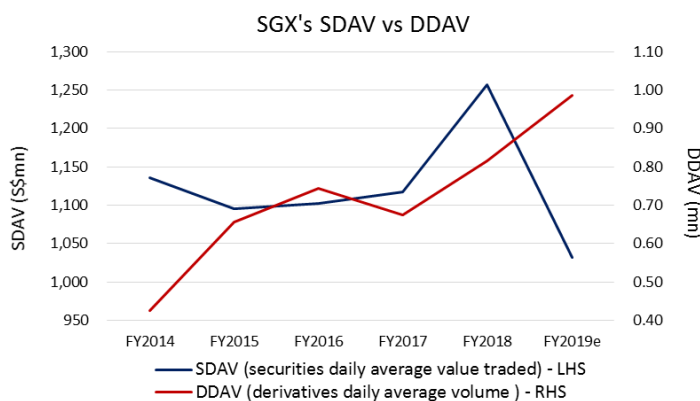
With increased volatility due to trade uncertainties and geopolitical tensions investors tend to hedge more, and SGX's derivative business is expected to benefit from heightened volatility. SGX's diversity of products sets it apart from other domestic-centric exchanges because the majority of SGX's customers are international clients with high demand to hedge their risks in the global market. With the resurgence of trade war uncertainties, SGX's DDAV (Derivatives daily average volume) spiked 54% YoY in May.

Figure 7: The VIX index fell during Jan-Apr when markets were recovering and peaked in May due to the resurgence of US-China trade tensions.



Source: Bloomberg, PSR

Figure 8: SGX's derivatives business doubled in 5 years, and should support earnings when its securities business is slowing.



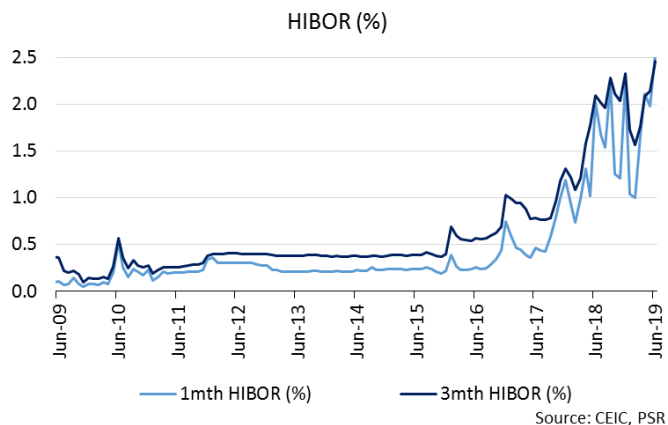
Source: SGX, PSR

Hong Kong's loans growth recovered slightly to 3.1% YoY in May (April: 0.5% YoY)

Hong Kong's loan demand remained cautious due to high interest rates and lingering trade tensions. Hong Kong's May residential sales and purchase value and volume rose 11.9% and 4.9% MoM respectively. Home prices in Hong Kong recovered back to the peak levels last seen in July 2018 (Figure 12). Meanwhile, 3-month HIBOR shot up by 32.1bps to 2.456% (Figure 9). Higher interest rates should support the banking sector's profitability.

Figure 9: A rising HIBOR will benefit banks with larger exposure to Hong Kong (such as DBS and OCBC).

Figure 10: Hong Kong's loan growth remains subdued as compared to the monthly average growth of 10.3% YoY in 2018.

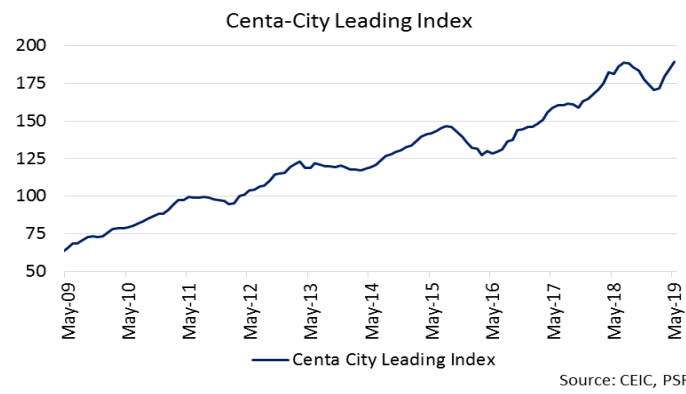
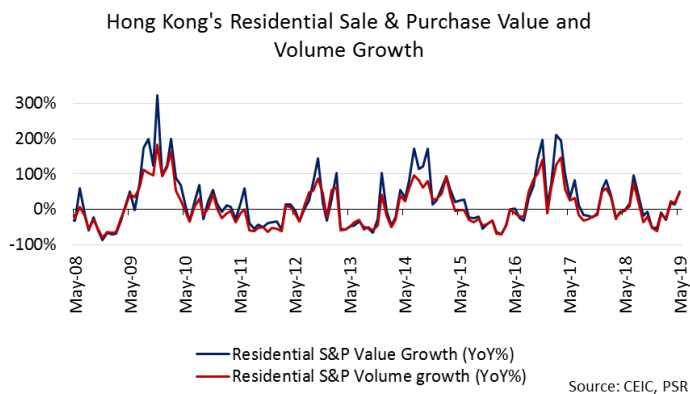


	1M HIBOR	3M HIBOR
May-19	1.976%	2.135%
Jun-19	2.531%	2.456%

	HK Domestic Loan Growth
Apr-19	0.5%
May-19	3.1%

Figure 11: Hong Kong's monthly residential sales and volume recovered in March 2019.

Figure 12: Home prices in Hong Kong recovered back to levels last seen in September 2018.



	Value growth	Volume growth
Apr-19	13.4%	17.7%
May-19	50.3%	48.6%

	Centa-City Leading Index
Apr-19	183.9
May-19	189.4

Investment Actions

Maintain the Singapore Banking Sector at Overweight. While the trade war affects investor sentiments in the near term, we believe the banks' healthy fundamentals remain intact to withstand risks and deliver growth on a sustained basis.

Operating environment remains stable despite slowing regional growth. Asset quality is benign although SME portfolio might face some stress from slowing trade flows (Figure 13). Increasing diversification of the banks' business into more stable fee income (loan, credit card, wealth management etc) to reduce proportion of earnings arising from volatile revenue streams (trading income, investment gains etc). Better cost management and low provisions should also provide uplift to ROEs. The banking sector provides an attractive dividend yield support of c.5%, secured by strong capital ratios.

With the expectation of at least one rate cut this year, we expect downside risks to NIM to materialise in FY20 because it takes time for loans to be repriced to lower rates.

UOB remains as our top pick mainly because of its exposure to trade war effects being relatively muted as compared to its peers. As of 1Q19, UOB's profit before tax arising from Greater China and Hong Kong loans is 10% (DBS: 29% and OCBC: 19%) (Figure 14).

Figure 13: Asset quality remain benign for all 3 banks.

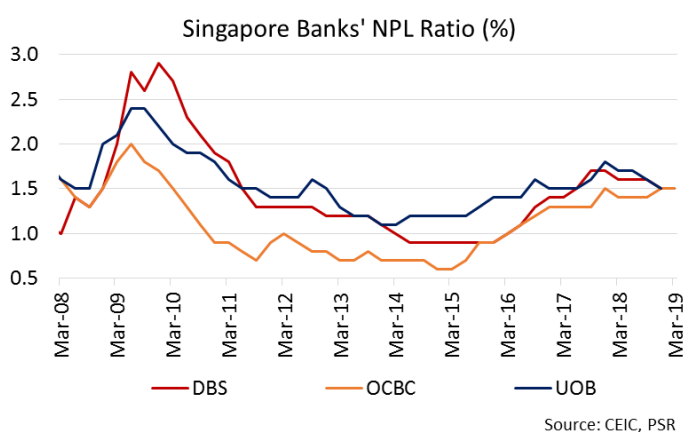
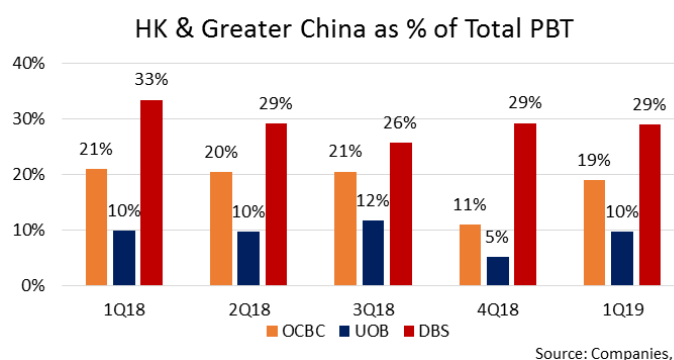


Figure 14: UOB is the least exposed to Greater China and Hong Kong.



Our recommendation will be subject to changes based on the following re-rating catalysts.

Risks

- (i) Miss in CIR % target due to higher spending on investments.
- (ii) Limited rise in interest rates and rising competition resulting in lower than expected NIM.
- (iii) Volatility leading to higher capital market-linked revenue losses.
- (iv) Changes in market-linked assumptions resulting in higher ECL.
- (v) Deterioration in SME portfolio quality.

Upside

- (i) Earlier than expected CIR % improvement with digitization.
- (ii) Better credit quality leading to higher write backs.
- (iii) Sharp increase in SIBOR and HIBOR resulting in higher margins through loan repricing.
- (iv) Increase in oil prices to ease asset quality issues.

Figure 15: Peer Comparison – Singapore banks offer the highest dividends

BB Ticker	Company	Last Price (Local Currency)	Mkt Cap (USDmn)	Forward P/E			Forward P/B			Dividend Yield (%)		ROE (%)			Target Price (S\$)	Upside (%)
				Yr0	Yr1	Yr2	Yr0	Yr1	Yr2	Yr1	Yr2	Yr0	Yr1	Yr2		
Singapore																
DBS SP Equity	DBS GROUP HOLDINGS LTD	26.40	49,728	11.0	11.0	10.4	1.2	1.4	1.3	4.7	4.9	11.6	12.5	12.5	29.0	0.10
OCBC SP Equity	OVERSEA-CHINESE BANKING CORP	11.46	36,445	10.6	10.3	9.7	1.1	1.1	1.0	4.1	4.3	11.0	11.2	11.3	12.7	0.11
UOB SP Equity	UNITED OVERSEAS BANK LTD	26.42	32,491	10.5	10.6	10.1	1.2	1.2	1.1	4.7	4.9	11.2	11.1	11.2	30.9	0.17
Market Cap Weighted Average:				10.7	10.7	10.1	1.2	1.2	1.1	4.5	4.7	11.3	11.8	11.8		
Indonesia																
BBCA IJ EQUITY	BANK CENTRAL ASIA TBK PT	29,975	52,217	24.8	25.3	22.4	4.2	4.3	3.8	1.1	1.3	18.3	18.0	17.7	na	na
BMRI IJ EQUITY	BANK MANDIRI PERSERO TBK PT	8,000	26,378	13.8	13.3	11.6	1.9	1.9	1.7	3.0	3.4	14.4	14.8	15.2	na	na
BBNI IJ EQUITY	BANK NEGARA INDONESIA PERSER	9,300	12,254	10.9	10.2	8.8	1.5	1.5	1.3	2.8	3.1	14.5	14.9	15.4	na	na
BBRI IJ EQUITY	BANK RAKYAT INDONESIA PERSER	4,380	38,172	13.8	14.7	12.7	2.4	2.6	2.3	2.8	3.1	18.5	18.9	19.1	na	na
BBTN IJ EQUITY	BANK TABUNGAN NEGARA PERSERO	2,530	1,893	9.6	8.8	7.3	1.1	1.0	0.9	2.3	2.4	12.3	12.4	13.2	na	na
Market Cap Weighted Average:				17.9	18.1	15.9	2.9	3.0	2.7	2.2	2.4	17.1	17.2	17.3		
Malaysia																
ABANK MK EQUITY	AFFIN BANK BHD	2.14	1,026	8.6	8.0	7.6	0.5	0.5	0.4	3.0	3.3	5.9	5.9	6.0	na	na
ABMB MK EQUITY	ALLIANCE BANK MALAYSIA BHD	3.81	1,425	11.8	10.1	9.2	-	1.0	0.9	4.8	5.0	-	10.0	10.3	na	na
AMMB MK EQUITY	AMMB HOLDINGS BHD	4.39	3,196	9.1	9.4	8.9	0.8	0.7	0.7	4.5	4.7	8.8	7.8	7.9	na	na
BIMB MK EQUITY	BIMB HOLDINGS BHD	4.58	1,952	8.8	10.6	9.9	1.2	1.4	1.3	3.6	3.9	14.3	14.3	14.0	na	na
HLBK MK EQUITY	HONG LEONG BANK BERHAD	19.14	10,021	14.1	14.7	13.9	1.6	1.6	1.5	2.7	2.9	11.3	11.0	10.9	na	na
MAY MK EQUITY	MALAYAN BANKING BHD	8.96	24,326	12.8	12.1	11.6	1.4	1.3	1.2	6.5	6.9	10.9	10.6	10.6	na	na
PBK MK EQUITY	PUBLIC BANK BERHAD	23.02	21,584	17.1	15.7	15.1	2.3	2.0	1.9	3.1	3.2	14.3	13.5	13.1	na	na
RHBBANK MK EQUITY	RHB BANK BHD	5.78	5,598	9.2	9.6	9.0	0.9	0.9	0.9	3.9	4.2	9.9	9.9	9.9	na	na
Market Cap Weighted Average:				13.7	13.1	12.5	1.6	1.5	1.4	4.4	4.7	11.6	11.4	11.3		
Thailand																
BBL TB EQUITY	BANGKOK BANK PUBLIC CO LTD	198.50	12,337	11.0	9.8	9.0	0.9	0.9	0.8	3.6	3.9	8.7	9.0	9.2	na	na
BAY TB EQUITY	BANK OF AYUDHYA PCL	38.75	9,281	11.4	8.7	8.7	1.2	1.1	1.0	2.9	3.1	10.6	11.7	10.9	na	na
KBANK TB EQUITY	KASIKORN BANK PCL	189.00	14,728	11.5	11.1	10.1	1.2	1.1	1.0	2.5	2.8	10.6	10.4	10.7	na	na
KKP TB EQUITY	KIATNAKIN BANK PCL	71.00	1,958	9.3	9.9	9.2	1.3	1.4	1.3	6.6	6.9	14.5	14.1	14.2	na	na
KTB TB EQUITY	KRUNG THAI BANK PUB CO LTD	19.60	8,919	9.4	9.4	8.5	0.9	0.8	0.8	4.1	4.5	9.6	9.3	9.3	na	na
KTC TB EQUITY	KRUNGTHAI CARD PCL	43.00	3,610	15.3	18.4	16.6	4.8	5.9	4.9	2.2	2.5	35.5	33.6	30.4	na	na
SCB TB EQUITY	SIAM COMMERCIAL BANK PUB CO	140.00	15,478	11.3	11.6	10.5	1.2	1.2	1.1	4.0	4.2	10.8	10.5	10.9	na	na
SAWAD TB EQUITY	SRIAWAD CORP PCL	57.75	2,492	18.7	20.7	16.9	4.4	4.3	3.6	0.6	0.7	26.0	24.1	22.8	na	na
TCAP TB EQUITY	THANACHART CAPITAL PCL	56.25	2,098	7.4	8.4	8.0	0.9	0.9	0.9	4.6	4.7	12.3	11.3	11.2	na	na
TISCO TB EQUITY	TISCO FINANCIAL GROUP PCL	95.50	2,490	9.1	10.6	10.0	1.7	1.9	1.8	6.5	6.7	19.4	18.6	18.4	na	na
TMB TB EQUITY	TMB BANK PCL	1.98	2,827	8.3	10.5	9.2	1.0	0.8	0.8	3.3	3.5	12.3	8.2	8.8	na	na
Market Cap Weighted Average:				11.2	11.0	10.0	1.4	1.4	1.3	3.5	3.7	12.4	12.1	12.0		

Source: Bloomberg, PSR

Extracted as of 2-Jul-19

Figure 16: By Geography – UOB is the least exposed to Greater China and Hong Kong.

Revenue (SGD'mn)	1Q19	% of total	1Q18	YoY%	4Q18	QoQ%
DBS	3,551	100%	3,360	6%	3,245	9%
Singapore	2,236	63%	2,084	7%	2,011	11%
Hong Kong	707	20%	721	-2%	698	1%
Rest of Greater China	283	8%	278	2%	240	18%
South and SE Asia	232	7%	191	21%	205	13%
Rest of the world	93	3%	86	8%	91	2%
OCBC	2,676	100%	2,333	15%	2,350	14%
Singapore	1,675	63%	1,354	24%	1,314	27%
Malaysia	343	13%	332	3%	359	-4%
Indonesia	199	7%	196	2%	198	1%
Greater China	347	13%	345	1%	367	-5%
Other Asia Pacific	49	2%	68	-28%	48	2%
Rest of the World	63	2%	38	66%	64	-2%
UOB	2,406	100%	2,231	8%	2,217	9%
Singapore	1,399	58%	1,254	12%	1,212	15%
Malaysia	256	11%	270	-5%	279	-8%
Thailand	250	10%	233	7%	253	-1%
Indonesia	118	5%	107	10%	116	2%
Greater China	226	9%	212	7%	204	11%
Others	157	7%	155	1%	153	3%
PBT (SGD'mn)	1Q19	% of total	1Q18	YoY%	4Q18	QoQ%
DBS	1,977	100%	1,798	10%	1,539	28%
Singapore	1,311	66%	1,110	18%	1,030	27%
Hong Kong	449	23%	507	-11%	394	14%
Rest of Greater China	124	6%	95	31%	57	118%
South and SE Asia	27	1%	21	29%	16	69%
Rest of the world	66	3%	65	2%	42	57%
OCBC	1,477	100%	1,389	6%	1,126	31%
Singapore	887	60%	697	27%	602	47%
Malaysia	160	11%	207	-23%	213	-25%
Indonesia	80	5%	106	-25%	117	-32%
Greater China	280	19%	291	-4%	124	126%
Other Asia Pacific	35	2%	56	-38%	36	-3%
Rest of the World	35	2%	32	9%	34	3%
UOB	1,257	100%	1,193	5%	1,105	14%
Singapore	744	59%	679	10%	734	1%
Malaysia	154	12%	159	-3%	153	1%
Thailand	98	8%	77	27%	65	51%
Indonesia	19	2%	40	-53%	21	-10%
Greater China	121	10%	118	3%	57	112%
Others	121	10%	120	1%	75	61%
Assets (SGD'mn)	1Q19	% of total	1Q18	YoY%	4Q18	QoQ%
DBS	558,525	100%	529,909	5%	550,751	1%
Singapore	362,277	65%	345,530	5%	355,078	2%
Hong Kong	90,315	16%	83,746	8%	90,553	0%
Rest of Greater China	49,795	9%	51,842	-4%	51,283	-3%
South and SE Asia	24,929	4%	21,221	17%	23,620	6%
Rest of the world	31,209	6%	27,570	13%	30,217	3%
OCBC	469,513	100%	458,405	2%	467,543	0%
Singapore	273,708	58%	260,231	5%	271,142	1%
Malaysia	66,989	14%	64,969	3%	66,173	1%
Indonesia	16,779	4%	15,463	9%	16,481	2%
Greater China	78,607	17%	85,875	-8%	80,917	-3%
Other Asia Pacific	14,500	3%	13,703	6%	14,114	3%
Rest of the World	18,930	4%	18,164	4%	18,716	1%
UOB	396,326	100%	360,317	10%	383,954	3%
Singapore	235,366	59%	214,936	10%	228,478	3%
Malaysia	39,415	10%	38,891	1%	40,620	-3%
Thailand	22,656	6%	21,977	3%	21,946	3%
Indonesia	9,946	3%	8,518	17%	9,256	7%
Greater China	58,220	15%	50,590	15%	55,021	6%
Others	30,723	8%	25,405	21%	28,633	7%

Source: Companies, PSR

Figure 17: Loans - UOB is the least exposed to Greater China and Hong Kong.

Loan (SGD'mn)	1Q19	% of total	1Q18	YoY%	4Q18	QoQ%
DBS	351,773	100%	332,868	6%	349,645	1%
Singapore	165,285	47%	156,627	6%	163,449	1%
Hong Kong	54,591	16%	51,586	6%	54,333	0%
Rest of Greater Ch	51,553	15%	54,508	-5%	50,925	1%
South and SE Asia	28,826	8%	26,061	11%	28,377	2%
Rest of the world	51,518	15%	44,086	17%	52,561	-2%
OCBC	258,712	100%	246,662	5%	257,705	0%
Singapore	108,682	42%	103,778	5%	108,169	0%
Malaysia	29,262	11%	29,165	0%	29,649	-1%
Indonesia	20,006	8%	18,973	5%	19,660	2%
Greater China	62,737	24%	62,805	0%	64,404	-3%
Other Asia Pacific	14,318	6%	12,896	11%	13,595	5%
Rest of the World	23,707	9%	19,045	24%	22,228	7%
UOB	269,683	100%	240,788	12%	261,707	3%
Singapore	139,199	52%	128,559	8%	137,176	1%
Malaysia	29,287	11%	28,771	2%	29,315	0%
Thailand	17,600	7%	15,646	12%	16,813	5%
Indonesia	11,372	4%	10,489	8%	11,289	1%
Greater China	42,830	16%	33,821	27%	40,081	7%
Others	29,395	11%	23,502	25%	27,033	9%

Source: Companies, PSR

Figure 18: Deposits – DBS has the largest current and savings account (CASA) base.

Customer Deposits (SGD'mn)	1Q19	1Q18	YoY%	4Q18	QoQ%
DBS	394,995	375,826	5%	393,785	0%
Fixed deposits	160,982	137,920	17%	159,049	1%
Savings accounts	152,456	156,211	-2%	153,443	-1%
Current accounts	77,295	78,788	-2%	77,140	0%
Others	4,262	2,907	47%	4,153	3%
OCBC	294,111	288,770	2%	295,412	0%
Fixed deposits	131,327	123,777	6%	131,610	0%
Savings deposits	54,578	52,588	4%	52,796	3%
Current account	83,036	83,387	0%	84,295	-1%
Others	25,170	29,018	-13%	26,711	-6%
UOB	307,701	273,816	12%	293,186	5%
Fixed deposits	162,700	137,922	18%	150,071	8%
Savings deposits	72,729	68,475	6%	71,601	2%
Current accounts	58,696	56,931	3%	58,858	0%
Others	13,576	10,488	29%	12,656	7%
CASA (%)	1Q19	1Q18	p.p. Δ	4Q18	p.p. Δ
DBS	58%	63%	-4%	59%	0%
OCBC	47%	47%	0%	46%	0%
UOB	43%	46%	-3%	44%	-2%
Loan to Deposit (%)	1Q19	1Q18	p.p. Δ	4Q18	p.p. Δ
DBS	89%	89%	0%	89%	0%
OCBC	88%	85%	3%	87%	1%
UOB	88%	88%	0%	89%	-2%

Source: Companies, PSR

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