

Singapore Banking Monthly

With great interest rates comes great pricing power



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SINGAPORE | BANKING & FINANCE | UPDATE

2 October 2018

- Singapore's domestic loans rose 5.6% YoY in August.
- Loans growth in Hong Kong slowed to 8.4% in August, the slowest in almost two years.
- 3-month SIBOR rose to a new high in September as expected.
- **Maintain BUY for the Singapore Banking Sector.**

BUY (Maintained)

DBS Group Holdings

BUY (Upgraded)

BLOOMBERG CODE	DBS SP
LAST TRADED PRICE	SGD 26.09
FORECAST DIV	SGD 1.20
TARGET PRICE	SGD 33.32
TOTAL RETURN	32.31%

Oversea-Chinese Banking Corp

BUY (Upgraded)

BLOOMBERG CODE	OCBC SP
LAST TRADED PRICE	SGD 11.44
FORECAST DIV	SGD 0.37
TARGET PRICE	SGD 14.90
TOTAL RETURN	33.48%

United Overseas Bank Limited

BUY (Upgraded)

BLOOMBERG CODE	UOB SP
LAST TRADED PRICE	SGD 27.08
FORECAST DIV	SGD 1.20
TARGET PRICE	SGD 33.69
TOTAL RETURN	28.84%

Tin Min Ying (+65 6212 1853)

Investment Analyst

tinmy@phillip.com.sg

Singapore's domestic loans grew 5.6% YoY in August

In August, domestic loans growth was driven by business loans that rose +7.0% YoY, supported by strong loan demand from the building and construction, manufacturing and financial institution sectors. Loans growth for building and construction spiked +8.6% YoY, the highest in 2 years. Meanwhile, Consumer loans growth slowed down to +3.5% YoY (the lowest in 15 months) due to slight weaknesses in housing and car loans. Car loans sustained this year's strong momentum with +8.0% YoY growth; while housing loans rose +3.7% YoY, a slight deceleration from the c.4% YoY trend line growth in the past year. We do not expect the banks to experience a slowdown in property-related loans in the near-term due to drawdowns of previously approved loans.

Domestic deposits +2.2% YoY in August (CASA +0.9%; Fixed deposit +5.9%)

In anticipation of steeper interest rates, the banking sector has been strengthening its funding position. Deposits increased +2.2% YoY, the fastest in 10 months, stimulated by a rebound in deposit growth by government and statutory authorities and non-bank financial institutions. As the banks build up deposits, the bulk has been in the pricier fixed deposits (fixed deposits made up 39% of total deposits), which could result in a squeeze in NIMs, albeit in the near term.

Hong Kong's loans in August grew 8.4% YoY – slowest in almost two years

Hong Kong's domestic currency loans drove loans growth. Hong Kong's property market has been slowing down the past few months with both sales volume and value trending downwards. According to JLL Hong Kong, August's residential sales volume and value were down -20.8% MoM and -28.3% MoM respectively. Hong Kong banks are increasing their lending rates for the first time in a decade and their ability to charge higher lending rates could more than offset the sequential rise in savings rate. However, higher costs of borrowing might discourage home buyers from taking on mortgage loans, and uncertainties from the trade war escalation could result in a slowdown in loans growth.

SIBOR continues to break decade highs

3-month SIBOR rose to 1.641% in September to 10-year highs. We do not expect the increase in interest rates to subside anytime soon and NIM expansion will continue to be a catalyst. Despite the 52bps rise in 3-month SIBOR this year, mortgage loans growth has remained resilient at 3.7% YoY. 3-month SOR maintained its strong ascent this year, ending near the previous month's high. Average 3-month SOR YTD increased 78.6% YoY. Meanwhile, the savings rate in Singapore remained unchanged at 0.16%.

INVESTMENT ACTIONS

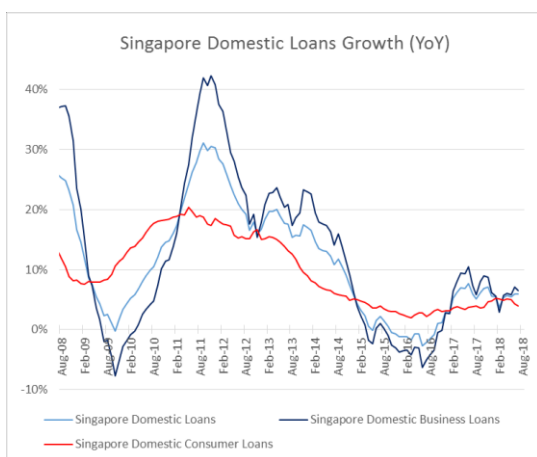
Maintain Singapore Banking Sector at BUY. We are positive on the sector's continued NIM expansion, loans growth and dividends as a share price catalyst. The key catalyst for NIM expansion lies in rising interest rates and we believe that the banks can keep their cost of funds low enough to achieve sequential NIM expansion. Positive surprises in NIM expansion may offset downsides in trade loans growth if any. In conclusion, banks continue to enjoy dual drivers of expanding loans volume and interest margins this year.

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

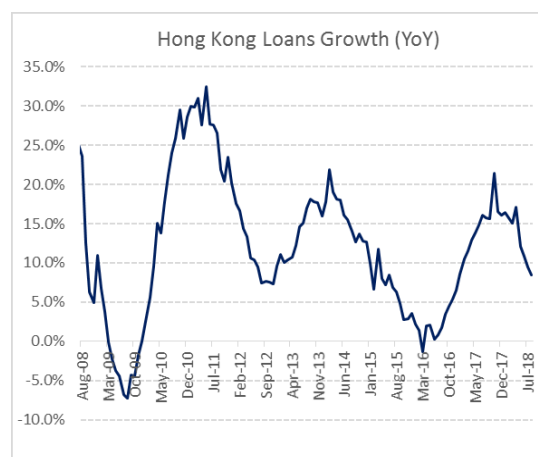
Loans

Singapore's loans growth in 3Q18 was trending at +5.7% YoY, as compared to 2Q18's increase of +5.5% YoY.

Hong Kong's loans growth has been on a downward trend since Oct-17.



	Overall loans	Business loans	Consumer loans
Aug-18	5.6%	7.0%	3.5%
Jul-18	5.5%	6.6%	4.0%

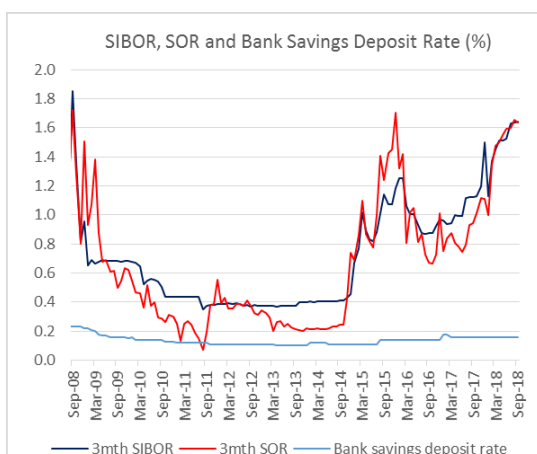


	HK loans
Aug-18	8.4%
Jul-18	9.5%

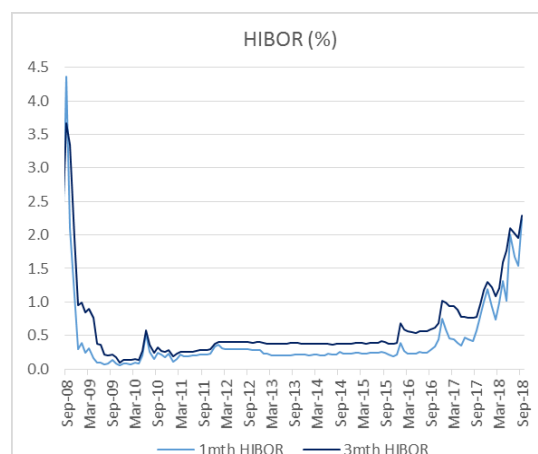
Margins

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

HIBOR to continue on its upward trend especially since Hong Kong's Central Bank lifted its borrowing costs following the rate hike by the US Federal Reserve.



	3M SIBOR	3M SOR	Savings deposit rate
Sept-18	1.641%	1.636%	0.16%
Aug-18	1.638%	1.653%	0.16%



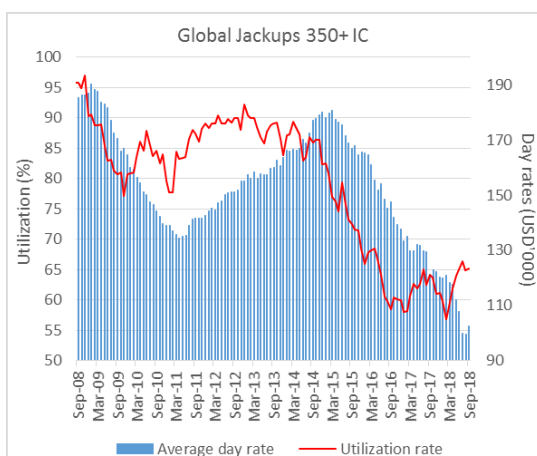
	1M HIBOR	3M HIBOR
Sept-18	2.231%	2.284%
Aug-18	1.537%	1.958%

Others

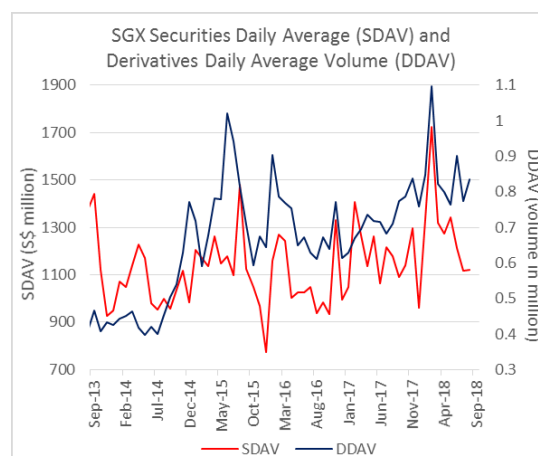
Utilization rate and day rates improved in September and the back of oil price recovery.

SDAV in September decreased -12.4% YoY.

DDAV activity in August rose +17.4% YoY.



	Average day rate (US\$ 000)	Utilization rate
Sept-18	102.58	65.2%
Aug-18	99.74	64.9%



	SDAV (\$\$mn)	DDAV (mn)
Sept-18	954	n.a.
Aug-18	1,120	0.834

Source: MAS, CEIC, SGX, 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
China/HK Equity

 Zheng Jieyuan – zhengjy@phillip.com.sg
Technical Analysis

 Jeremy Ng - jeremyngch@phillip.com.sg
REITs (Commercial, Retail, Healthcare) | Property

 Tara Wong - tarawongsj@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

 No. 60, 5th Lane,
 Colombo 3, 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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