

Singapore

Overweight (previously Neutral)

Highlighted Companies

DBS Group

ADD, TP S\$39.20, S\$35.66 close

DBS had S\$1.3bn in management overlays as at 3Q21. Post-moratorium delinquency trends, among other factors, will affect the timing of writebacks. Monetisation of digital assets is a key re-rating catalyst, although scaling-up and price discovery may take time.

OCBC

ADD, TP S\$14.20, S\$12.30 close

Sturdy fee income momentum offset the steep 6bp NIM decline in 3Q21. Management writebacks are currently not preferred. Robust CET-1 of 15.5% remains a key tool, whether for M&As or to cushion against asset quality deterioration.

United Overseas Bank

ADD, TP S\$33.50, S\$30.01 close

Writebacks of management overlays are unlikely until Covid-19 truly blows over. Credit quality of moratorium portfolio remains healthy. Key risks of asset quality concerns from SME and ASEAN portfolio have been well contained.

Summary Valuation Metrics

P/E (x)	Dec-21F	Dec-22F	Dec-23F
DBS Group	13.19	12.36	10.59
OCBC	10.87	10.22	9.16
United Overseas Bank	12.24	12.05	9.95
P/BV (x)	Dec-21F	Dec-22F	Dec-23F
DBS Group	1.66	1.55	1.42
OCBC	1.13	1.06	0.99
United Overseas Bank	1.17	1.12	1.06
Dividend Yield	Dec-21F	Dec-22F	Dec-23F
DBS Group	3.28%	3.70%	3.70%
OCBC	4.07%	4.07%	4.31%
United Overseas Bank	4.33%	4.50%	4.50%

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Banks

Ready for the hike

- Higher CASA ratios of c.55-70% (vs. 43-60% in FY15-18) underpin our expectations of amplified NIM expansion (>10-14bp) in this rate hike cycle.
- 4Q21F earnings will likely be seasonally weaker as wealth and trading income slow. Benign credit costs and higher opex will be common features.
- We upgrade banks to Overweight with higher TPs. Strong capitalisation amid lower impairments paves way for c.12-21% yoy earnings growth in FY23F.

Factoring 6 quarter-point Fed rate hikes over FY22-23F

Meeting minutes from the Federal Open Market Committee meeting in Jan 22 revealed that the Federal Reserve now forecasts three interest rate hikes in 2022 and another three in 2023. With Singapore banks being key beneficiaries of a rising rate environment given the sensitivity of their portfolios to US dollar rates and the higher likelihood of the Fed rate hike cycle beginning in Mar 22 (vs. late FY22F as we earlier expected) in a more aggressive bid to fight persistent inflationary pressures, we see a clearer trajectory for NIM expansion and raise our estimates by c.2-13bp to c.1.46-1.68% in FY22-23F.

Amplified NIM expansion due to flush liquidity conditions

We highlight that flush liquidity conditions with Singapore banks recording c.55-70% CASA ratios (in 3Q21) compared to c.43-60% during the previous rate hike cycle over FY15-18 could result in amplified NIM expansion as relatively low funding costs sustain for the time-being given the lack of need to compete for deposits. Lower LDRs of c.83-86% in 3Q21 (vs. c.83-88% in FY16-18) as a result of the sustained deposit inflows over FY20-21 allows headroom for stronger sequential loan growth before funding needs kick in. Hurdles that could derail the path of NIM expansion include a swift and significant outflow of CASA into FDs or other higher yielding products and a longer time taken for the pass-through of Fed rate hikes into NIMs beyond the c.6-9 months we have factored in.

4Q21F will feature seasonal weakness; key operating trends intact

We expect key operating metrics of steady loan growth (c.1-2% qoq), stable NIMs and broadly sustained fee income momentum to remain a continued feature of Singapore banks in 4Q21F, although PPOP could see some drag from weaker treasury income from softer financial markets, slightly lower wealth management volumes and an uptick in opex. On balance, we think that Singapore banks' 4Q21F earnings will be softer qoq but stronger yoy. In this regard, UOB could pull ahead of peers given its relative PPOP stability.

Upgrade banks to Overweight; DBS as key beneficiary of rate hikes

From the previous rate hike cycle, we observed that valuations of Singapore banks peaked c.2 quarters before the Fed rates did (at 2.5% in Dec 18). With the Fed rate hikes in the upcoming cycle yet to begin, we believe that there is still share price upside beyond the banks' peak valuations of c.1.4-1.7x P/BV as seen during the previous cycle. Our expectations are underpinned by the banks' more robust funding profiles amid ample liquidity (higher CASA ratio, lower LDRs) and concerns over elevated impairments (management overlays of c.S\$600m-1.3bn) behind us, paving the way for higher ROEs above the c.11-13% peak seen during the previous rate hike cycle.

Figure 1: We project wider NIMs ahead as Fed rate hikes take effect

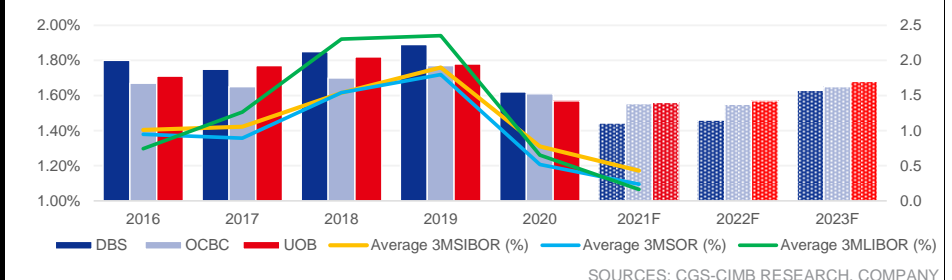


Figure 2: Sector Comparison

Company	Bbg Ticker	Recom.	Price (local)	Tgt Price (local)	Mkt Cap (US\$ m)	3-year EPS CAGR (%)	P/BV (x)			Recurr. ROE (%)			P/POPS (x)			Div Yield (%)		
							CY21F	CY22F	CY23F	CY21F	CY22F	CY23F	CY21F	CY22F	CY23F	CY21F	CY22F	CY23F
DBS Group	DBS SP	Add	35.66	39.20	68,100	23.0%	1.66	1.55	1.42	13.0%	12.8%	13.9%	11.3	10.7	8.8	3.3%	3.7%	3.7%
OCBC	OCBC SP	Add	12.30	14.20	41,080	19.5%	1.13	1.06	0.99	10.8%	10.7%	11.2%	9.0	8.3	7.4	4.1%	4.1%	4.3%
United Overseas Bank	UOB SP	Add	30.01	33.50	37,309	21.0%	1.17	1.12	1.06	9.8%	9.5%	11.0%	8.9	8.6	7.5	4.3%	4.5%	4.5%
Singapore average						21.5%	1.34	1.26	1.18	11.3%	11.2%	12.2%	9.9	9.3	8.0	3.8%	4.0%	4.1%
Bank Central Asia	BBCA IJ	Hold	7,800	8,100	67,072	16.2%	4.83	4.37	3.92	15.7%	16.8%	18.0%	20.4	18.6	16.2	1.5%	1.8%	2.1%
Bank Danamon	BDMN IJ	Add	2,340	3,300	1,595	62.6%	0.48	0.46	0.43	6.5%	7.7%	8.4%	2.4	2.2	2.0	4.4%	5.8%	6.6%
Bank Jago	ARTO IJ	Add	18,350	20,000	17,736	na	30.65	29.12	26.61	3.1%	7.6%	12.8%	3801.3	328.7	159.1	0.0%	0.0%	0.0%
Bank Mandiri	BMRI IJ	Add	7,275	8,300	23,682	29.4%	1.81	1.66	1.53	13.4%	16.6%	17.1%	6.7	5.9	5.3	4.4%	5.7%	6.4%
Bank Negara Indonesia	BBNI IJ	Add	7,100	8,710	9,236	82.7%	1.05	0.95	0.85	8.4%	11.5%	13.3%	4.4	4.2	4.0	1.8%	2.9%	3.7%
Bank Permata	BNLI IJ	Reduce	1,430	1,500	3,592	34.9%	1.18	1.13	1.08	3.6%	3.9%	4.8%	10.9	10.4	9.6	0.0%	0.0%	0.0%
Bank Rakyat Indonesia	BBRI IJ	Add	4,120	5,000	43,556	30.4%	2.14	2.04	1.99	11.5%	14.1%	16.1%	9.0	8.2	7.5	4.4%	6.7%	8.0%
Bank Tabungan Negeri	BBTN IJ	Add	1,660	2,100	1,226	25.3%	0.81	0.73	0.65	9.3%	11.0%	12.1%	3.3	3.0	2.8	1.1%	1.4%	1.8%
Bank Tabungan Pensi	BTPN IJ	Hold	2,570	2,500	1,461	na	0.47	0.67	na	6.3%	7.2%	na	3.8	3.4	na	0.6%	0.5%	na
Bank Tabungan Pensi	BTPS IJ	Hold	3,500	3,900	1,881	35.9%	3.81	3.18	2.63	20.9%	21.4%	22.5%	11.0	9.6	8.1	0.6%	1.0%	1.2%
Indonesia average						na	2.55	2.37	na	11.6%	13.8%	na	10.8	9.9	na	2.5%	3.4%	na
Affin Bank Berhad	ABANK MK	Reduce	1.94	1.27	984.5	20.0%	0.40	0.39	0.37	4.9%	4.3%	4.9%	4.9	5.1	4.7	2.5%	2.4%	2.8%
Alliance Bank Malaysia	ABMB MK	Reduce	3.29	2.73	1,217	22.0%	0.78	0.74	0.69	7.2%	9.0%	9.6%	5.2	5.0	4.6	3.5%	5.1%	5.8%
AMMB Holdings	AMM MK	Add	3.38	3.64	2,674	12.8%	0.70	0.67	0.63	8.1%	9.7%	9.8%	4.2	4.0	3.7	3.8%	5.6%	6.0%
Bank Islam Malaysia B	BIMB MK	Add	3.05	3.46	1,571	11.5%	0.95	0.90	0.84	10.1%	8.5%	10.0%	6.5	5.6	5.1	4.9%	4.6%	5.7%
Hong Leong Bank	HLBK MK	Add	19.16	20.56	9,923	8.0%	1.32	1.20	1.12	9.5%	9.4%	9.7%	12.2	11.7	10.9	2.6%	3.0%	3.4%
Malayan Banking Bhd	MAY MK	Add	8.25	9.40	23,414	8.5%	1.12	1.07	1.01	9.4%	8.8%	9.6%	7.4	7.0	6.7	4.9%	4.9%	5.7%
Public Bank Bhd	PBK MK	Add	4.19	4.60	19,432	8.3%	1.61	1.53	1.43	11.6%	10.5%	12.2%	10.3	9.5	8.8	3.3%	3.3%	4.1%
RHB Bank Bhd	RHBBANK MK	Add	5.59	6.40	5,533	9.7%	0.78	0.73	0.68	9.6%	8.5%	9.7%	5.8	5.1	4.7	5.4%	5.6%	6.9%
Malaysia average						10.2%	1.14	1.07	1.01	9.6%	9.0%	10.0%	8.0	7.4	7.0	4.0%	4.2%	4.9%
Bangkok Bank	BBL TB	Add	130.0	164.0	7,538	23.6%	0.53	0.50	0.48	6.1%	6.3%	6.7%	4.3	4.0	3.7	3.1%	3.8%	3.8%
Kasikornbank	KBANK TB	Add	140.0	170.0	10,076	11.7%	0.71	0.67	0.63	8.1%	8.2%	8.4%	3.7	3.5	3.3	2.1%	3.6%	4.3%
Kiatnakin Phatra Bank	KKP TB	Hold	68.00	59.00	1,749	8.0%	1.21	1.18	1.15	11.9%	13.1%	13.6%	4.8	4.5	4.3	4.6%	6.3%	7.7%
Krung Thai Bank	KTB TB	Hold	13.70	12.70	5,816	10.1%	0.54	0.52	0.50	5.4%	5.9%	5.9%	3.0	2.9	2.8	2.9%	4.0%	4.2%
Krungthai Card	KTC TB	Reduce	59.75	42.00	4,679	18.7%	5.87	5.06	4.34	24.0%	25.2%	26.0%	12.1	10.3	9.5	1.6%	1.9%	2.3%
Muangthai Capital	MTC TB	Add	57.25	77.00	3,687	15.5%	4.83	3.90	3.15	23.9%	24.1%	24.2%	16.7	12.9	10.5	0.6%	0.8%	1.0%
Siam Commercial Ban	SCB TB	Add	123.5	119.0	12,738	12.5%	0.97	0.92	0.88	8.4%	8.3%	8.9%	4.9	4.7	4.4	2.4%	4.0%	4.5%
Srisawad Corporation	SAWAD TB	Add	62.75	78.00	2,617	11.8%	3.50	3.09	2.72	22.4%	22.0%	22.5%	14.1	11.2	9.7	2.9%	3.4%	3.9%
Tisco Financial Group	TISCO TB	Hold	97.00	101.0	2,359	5.9%	1.91	1.87	1.82	17.1%	17.1%	17.8%	7.2	7.0	6.6	7.0%	8.0%	8.2%
TMBThanachart Bank	TTB TB	Add	1.39	1.33	4,080	14.1%	0.63	0.60	0.57	5.8%	6.6%	6.9%	3.4	3.2	3.0	3.6%	4.3%	4.7%
Thailand average						13.7%	0.87	0.82	0.78	7.8%	8.1%	8.5%	4.7	4.5	4.2	2.7%	3.7%	4.1%

SOURCES: CSG-CIMB RESEARCH, COMPANY

Factoring in 6 Fed rate hikes over FY22-23F

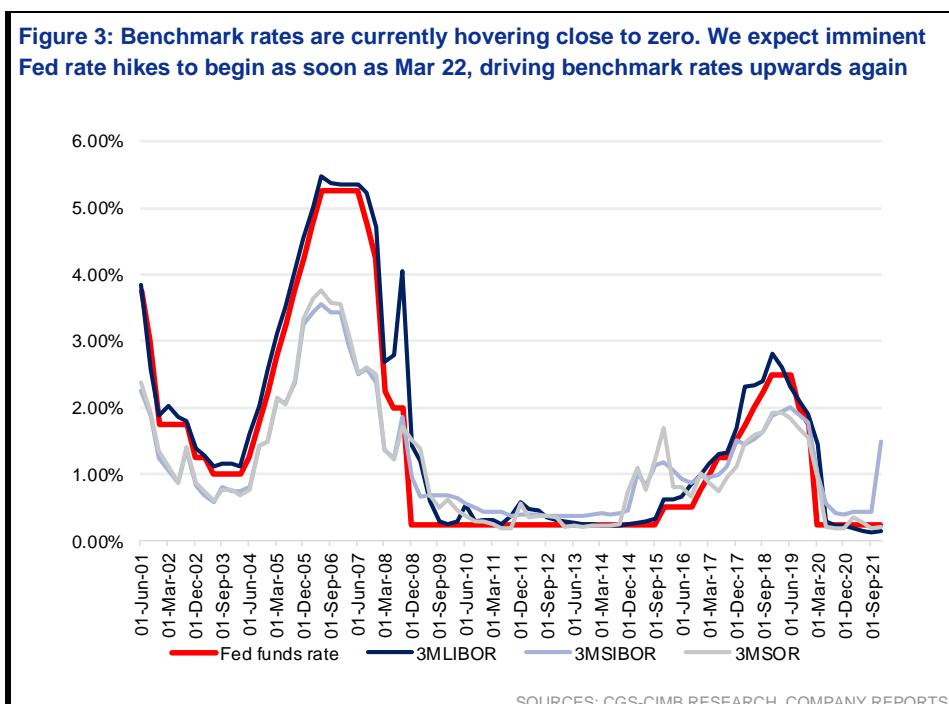
A more hawkish Fed stance to fight persistent inflationary pressures prompts a revision of our NIM forecasts across Singapore banks. This follows the Fed's elevated expectations of three rate hikes in FY22F and another three in FY23F (25bp per hike), as revealed in the minutes of the Federal Open Market Committee meeting in Jan 22.

There were nine Fed fund rate hikes in the previous cycle over FY15-18. Over FY15-19, Singapore banks' NIMs rose c.10-14bp from trough to peak as varied pass-through rates from Fed rates into benchmark rates, and consequently into banks' respective lending and funding products, took effect.

Rate of NIM expansion will depend on pass-through rate of Fed rates into benchmark rates ➤

Although Singapore banks are key beneficiaries of the Fed rate hikes, we highlight that there are several factors that may affect the rate and quantum of NIM expansion. What could affect the rate of expansion is the time taken for the Fed rate hikes to be reflected into benchmark rates, or more particularly, SIBOR/SOR. While the pass-through into SORA-based loans remains untested, these loans currently account for a small percentage of loan books.

Figure 3: Benchmark rates are currently hovering close to zero. We expect imminent Fed rate hikes to begin as soon as Mar 22, driving benchmark rates upwards again

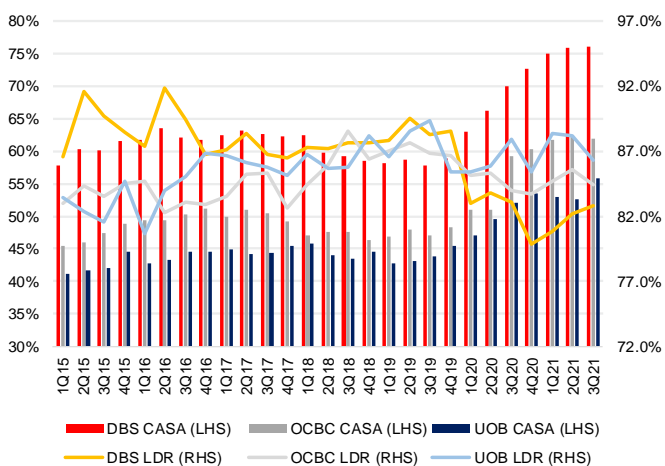


In the previous rate hike, we found that 3MSIBOR only started to pick up materially c.3-4 quarters after the first rate hike of the cycle in Dec 15. Beyond the initial knee-jerk reaction, this time lag narrowed as the Fed picked up the pace (and quantum) of rate hikes in FY17. Although there was a strong rise in 3MSIBOR and SOR in FY15 (Figure 3), we believe this was due to a weaker SGD during this period and not the Fed rate hikes. We have assumed a pass-through rate of c.6 months from higher Fed rates into NIM expansion as we expect a moderately stronger USD given the convergence towards a faster path of monetary tightening (consequently, stronger SGD benchmark rates).

Amplified quantum of NIM expansion due to flush liquidity ►

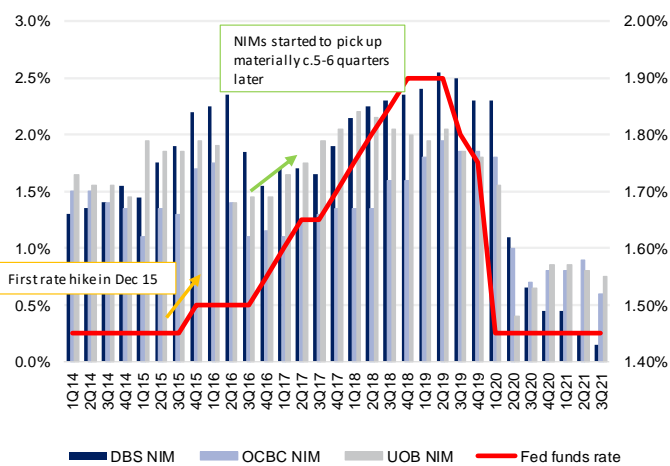
We believe that NIM expansion could be amplified in the upcoming rate hike cycle given the more ample liquidity conditions currently, with CASA ratios across the Singapore banks trending higher at c.56-76% in 3Q21 compared to the average c.45-61% in FY15-18. Sustained deposit inflows and modest loan growth have also resulted in slightly lower LDRs, allowing for more headroom for loan growth. While there will be some degree of outflow from CASA into higher-yielding products as interest rates rise, we argue that the lack of need for banks to build up their funding buffers for the time being could result in stronger NIM expansion beyond the c.11-14bp seen previously.

Figure 4: Since the previous rate hike cycle in FY15-18, Singapore banks' CASA ratios have trended higher to c.56-76% in 3Q21 (from c.45-61%) as LDRs came off slightly to c.83-86% (from 83-88%), paving the way for amplified NIM expansion in the upcoming rate hike cycle



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 5: NIMs started to materially rise only c.5-6 quarters after the initial Fed rate hike in Dec 15. That said, the time lag for pass-through from Fed rates into NIMs narrowed as the Fed hikes started gaining momentum in FY18



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

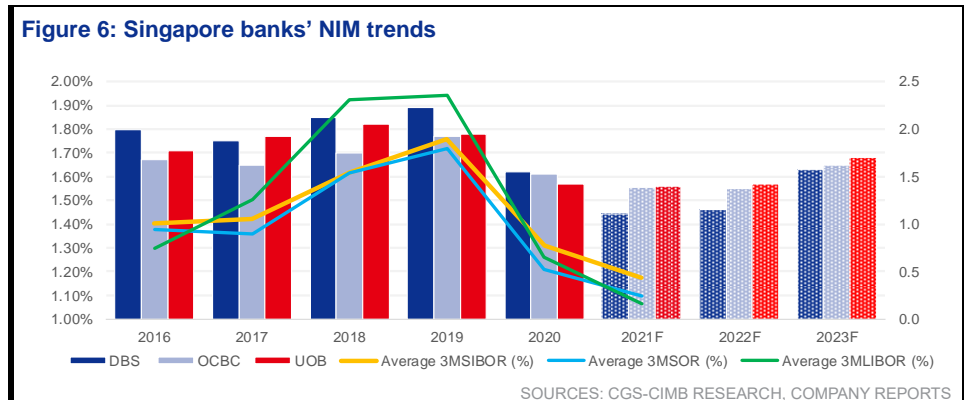
Factoring in these elevated CASA levels, DBS guides that the interest rate sensitivity of its portfolio has increased from c.S\$14m per 1bp of Fed rate increase (realised over several years following the hike) to c.S\$18-20m (largely realised in the first year following the hike). Using the sensitivity of S\$20m per 1bp of Fed rate hike, this computes to incremental NII of S\$2bn for a 100bp Fed rate hike. Of DBS's SGD book, we understand that this broadly comprises c.40% floating/benchmark-rate loans, c.10% FHR loans (fixed deposit home rate where mortgage rate is pegged to the bank's fixed deposit rate), c.35% fixed-rate loans and c.15% board rate loans (credit cards and personal loans – largely unaffected by Fed rate movements). Previously, it took SIBOR/SOR-based loans c.3 months to reprice following a shift of SGD rates (on top of the time taken for Fed rates to pass through to SGD rates).

From its FY20 annual report, OCBC reported that a 100bp parallel rise in yield curve on its exposure to major currencies is estimated to increase NII by c.S\$805m. Of its SGD loan book, we understand that c.60-70% is priced on floating rates.

Of UOB's loan book, c.30-35% is based on SIBOR/SOR, c.30-35% on fixed deposit mortgage loans (e.g. fixed rate for the first three years) while the rest is made up of LIBOR, cost of funds, board rate, prime rate. Floating rate loans are estimated to account for c.75-80% of loans. We understand that a 25bp hike in

Fed rates could raise NIMs by c.4bp or incremental NII of c.S\$600m, albeit with an estimated pass-through rate of c.6-9 months from Fed rates to NIMs.

Earnings expectations for FY21-23F ➤



Accounting for the factors above, we raise our NIM expectations by c.2-13bp to c.1.46-1.68% in FY22-23F. A quicker pace or larger quantum of Fed rate hikes are key catalysts for further NIM upside. Stronger loan growth momentum beyond the expected mid-to-high single-digit range is an additional NII growth driver. With hefty impairment expenses set aside over FY20F, the banks' buffer of management overlays (c.S\$600m-1.3bn) should keep credit costs relatively benign in FY22-23F, paving the way for c.12-21% yoy net profit growth in FY23F (from c.2-7% yoy in FY22F).

We expect DBS to be the key beneficiary of the Fed rate hikes as it has the strongest funding profile amongst peers, and we think NIMs could rise c.19bp to 1.63% from FY21F to FY23F.

A summary of our earnings changes is in the table below.

Figure 7: Singapore banks' earnings estimates for FY21-23F

	DBS				OCBC				UOB			
	2020A	2021F	2022F	2023F	2020A	2021F	2022F	2023F	2020A	2021F	2022F	2023F
NII (S\$m)	9,076	8,428	9,097	10,827	5,966	6,035	6,480	7,301	6,035	6,349	6,850	7,759
Non-II (S\$m)	5,516	6,067	6,168	6,607	4,173	4,876	5,164	5,470	3,141	3,612	3,868	4,311
Revenue (S\$m)	14,592	14,495	15,265	17,434	10,139	10,911	11,643	12,771	9,176	9,961	10,718	12,070
Loan loss provisions (S\$m)	(3,066)	(80)	(86)	(461)	(2,043)	(696)	(750)	(797)	(1,554)	(745)	(656)	(700)
Core net profit (S\$m)	4,721	6,874	7,338	8,568	3,586	5,065	5,389	6,013	2,915	4,103	4,165	5,048
Core net profit yoy growth		46%	7%	17%		41%	6%	12%		41%	2%	21%
NIM	1.62%	1.44%	1.46%	1.63%	1.61%	1.55%	1.55%	1.65%	1.57%	1.56%	1.57%	1.68%
Loan growth	3.7%	11.0%	7.0%	6.3%	0.5%	8.6%	7.5%	5.0%	4.4%	12.0%	8.2%	5.5%
Cost-income ratio	42.2%	44.7%	44.6%	41.1%	43.8%	42.9%	41.8%	42.5%	45.6%	43.6%	45.5%	44.4%
Credit costs	83	2	2	10	77	25	25	25	56	25	20	20
DPS (Scts)	87	117	132	132	32	50	50	53	78	130	135	135
Payout (%)	47%	44%	46%	40%	40%	44%	42%	39%	46%	53%	54%	45%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

4Q21 preview: Seasonality comes into play

We expect key operating metrics of steady loan growth (c.1-2% qoq), stable NIMs and broadly sustained fee income momentum to remain a continued feature of Singapore banks in 4Q21F, although PPOP could see some drag from weaker treasury income from softer financial markets, slightly lower wealth management volumes and an uptick in opex. On balance, we think that Singapore banks' 4Q21F earnings will be softer qoq but stronger yoy. In this regard, UOB could pull ahead of peers given its relative PPOP stability.

DBS will release 4Q21F earnings on 14 February 2022, OCBC on 23 February 2022 and UOB on 16 February 2022.

Figure 8: DBS - quarterly key statistics

S\$m													
Income Statement	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21F	qoq%	yoy%	FY20	FY21F	yoy%
Net interest income	2,482	2,303	2,171	2,120	2,107	2,089	2,104	2,116	1%	0%	9,076	8,428	-7%
Net fee and commission income	832	681	798	747	953	868	888	863	-3%	16%	3,058	3,579	17%
Wealth management	403	304	380	345	519	426	461	430	-7%	25%	1,432	1,833	28%
Treasury income	712	742	608	396	794	632	569	493	-13%	25%	1,405	1,658	18%
Non-interest income	1,544	1,423	1,406	1,143	1,747	1,500	1,457	1,356	-7%	19%	5,516	6,067	10%
TOTAL INCOME	4,026	3,726	3,577	3,263	3,854	3,589	3,561	3,472	-2%	6%	14,592	14,495	-1%
Operating expenses	(1,556)	(1,483)	(1,539)	(1,580)	(1,587)	(1,543)	(1,668)	(1,700)	2%	8%	(6,158)	(6,486)	5%
PREPROVISION OPERATING PROFIT (PPOP)	2,470	2,243	2,038	1,683	2,267	2,046	1,893	1,772	-6%	5%	8,434	8,009	-5%
Loan loss provision	(1,086)	(849)	(554)	(577)	(10)	(79)	70	(61)	-186%	-90%	(3,066)	(80)	-97%
Profit before tax	1,384	1,394	1,484	1,106	2,257	1,967	1,963	1,712	-13%	55%	5,368	7,959	48%
Tax	(219)	(147)	(187)	(94)	(248)	(264)	(263)	(260)	-1%	176%	(612)	(1,035)	69%
Non-controlling interests	-	-	-	-	-	-	-	-	-	-	(35)	(51)	46%
Core net profit	1,165	1,247	1,297	1,012	2,009	1,703	1,700	1,452	-15%	43%	4,721	6,874	46%
Overall stats/drivers													
NIM (%)	1.86%	1.62%	1.53%	1.49%	1.49%	1.45%	1.43%	1.43%			1.62%	1.44%	
Loan growth	3.2%	1.5%	-0.9%	-0.1%	4.1%	2.7%	2.0%	1.8%			3.7%	11.0%	
Cost-to-income ratio	38.6%	39.8%	43.0%	48.4%	41.2%	43.0%	46.8%	49.0%			42.2%	44.7%	
Credit costs (bp) (calculated)	120	89	58	61	1	8	-7	6			83	2	
CET-1 ratio	13.9%	13.7%	13.9%	13.9%	14.3%	14.5%	14.5%	n.a.			13.9%	n.a.	

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 9: OCBC - quarterly key statistics

S\$m													
Income Statement	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21F	qoq%	yoy%	FY20	FY21F	yoy%
Net interest income	1,626	1,483	1,421	1,436	1,441	1,461	1,461	1,489	2%	4%	5,966	6,035	1%
Insurance income (life + general)	157	282	264	196	470	254	311	270	-13%	38%	899	1,388	54%
Fees and commissions (net)	546	440	501	517	585	563	569	526	-8%	2%	2,003	2,298	15%
Wealth management	291	205	252	250	321	288	297	260	-12%	4%	1,130	1,209	7%
Treasury income (and others)	136	388	312	301	387	249	175	200	14%	-34%	1,139	1,053	-8%
Non-interest income	864	1,142	1,118	1,049	1,473	1,111	1,099	1,031	-6%	-2%	4,173	4,876	17%
Total income	2,490	2,625	2,539	2,485	2,914	2,572	2,560	2,520	-2%	1%	10,139	10,911	8%
Total operating expenses	(1,109)	(1,107)	(1,098)	(1,125)	(1,149)	(1,138)	(1,188)	(1,225)	3%	9%	(4,439)	(4,685)	6%
Pre-provision operating profit (PPOP)	1,381	1,518	1,441	1,360	1,765	1,434	1,372	1,295	-6%	-5%	5,700	6,226	9%
Loan loss provision	(657)	(750)	(350)	(285)	(161)	(232)	(163)	(140)	-14%	-51%	(2,043)	(696)	-66%
Profit before tax	863	904	1,218	1,180	1,787	1,390	1,387	1,327	-4%	12%	4,165	6,068	46%
Tax	(164)	(117)	(216)	(75)	(286)	(230)	(163)	(140)	-14%	87%	(437)	(819)	87%
Non-controlling interests	-	-	-	-	-	-	-	-	-	-	(142)	(184)	29%
Core net profit	698	788	1,028	1,131	1,501	1,160	1,224	1,187	-3%	5%	3,586	5,065	41%
Overall stats/drivers													
NIM (%)	1.76%	1.60%	1.54%	1.56%	1.56%	1.58%	1.52%	1.52%			1.61%	1.55%	
qoq loan growth (net)	2.0%	-1.2%	0.4%	-0.7%	1.4%	1.4%	3.7%	2.3%			0.5%	8.6%	
Cost-income ratio	44.5%	42.2%	43.2%	45.3%	39.4%	44.2%	46.4%	48.6%			43.8%	42.9%	
Credit costs (bp) (calculated)	98	111	52	43	24	34	23	20			77	25	
CET-1 ratio	14.3%	14.2%	14.4%	15.2%	15.5%	16.1%	15.5%	n.a.			15.2%	n.a.	

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 10: UOB - quarterly key statistics

S\$m	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21F	qoq %	yoy %	2020	2021F	yoy %
Income Statement													
Net interest income	1,593	1,456	1,474	1,512	1,529	1,578	1,604	1,631	2%	8%	6,035	6,349	5%
Fee and commission income	515	445	514	522	638	595	589	602	2%	15%	1,997	2,348	18%
Wealth management	201	133	188	188	239	201	199	200	1%	6%	710	817	15%
Treasury income	224	294	211	152	246	183	192	170	-11%	12%	594	597	0%
Non-interest income	813	804	787	737	957	839	848	832	-2%	13%	3,141	3,612	15%
Total income	2,407	2,260	2,261	2,249	2,486	2,417	2,453	2,463	0%	10%	9,176	9,961	9%
Total operating expenses	(1,086)	(1,040)	(1,009)	(1,049)	(1,089)	(1,057)	(1,072)	(1,095)	2%	4%	(4,184)	(4,344)	4%
Preprovision operating profit (PPOP)	1,320	1,220	1,252	1,200	1,397	1,360	1,381	1,368	-1%	14%	4,992	5,617	13%
Loan loss provision	(286)	(396)	(477)	(396)	(201)	(182)	(163)	(160)	-2%	-60%	(1,554)	(745)	-52%
Profit before tax	1,052	846	799	838	1,228	1,216	1,247	1,228	-2%	47%	3,536	4,972	41%
Tax	(197)	(141)	(132)	(150)	(220)	(207)	(200)	(225)	13%	50%	(606)	(852)	41%
Non-controlling interests	-	(3)	-	-	-	-	-	(16)	-	-	(15)	(16)	10%
Core net profit	855	703	668	688	1,008	1,009	1,046	986	-6%	43%	2,915	4,103	41%
Overall stats/drivers													
NIM (%)	1.71%	1.48%	1.53%	1.57%	1.57%	1.56%	1.55%	1.55%			1.57%	1.56%	
Loan growth	4.0%	0.7%	1.3%	-1.2%	5.8%	2.0%	2.4%	2.4%			4.4%	12.0%	
Cost-to-income ratio	45.1%	46.0%	44.6%	46.6%	43.8%	43.7%	43.7%	44.5%			45.6%	43.6%	
Credit cost (bp of loans, calculated)	38	67	68	56	29	24	20	21			56	25	
CET-1 ratio	14.1%	14.0%	14.0%	14.7%	14.3%	14.2%	13.5%	n.a.			14.7%	n.a.	

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

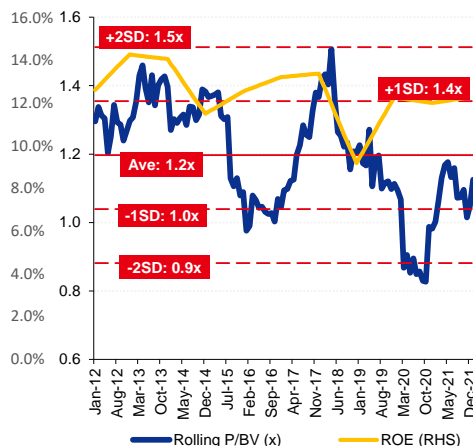
We upgrade SG banks to Overweight from Neutral

With Singapore banks having traded up to c.1.1-1.6x FY22F P/BV, we think that the current re-rating cycle is under way and has accelerated (vs. previous cycles) as regulators become progressively reactionary to market conditions. From the previous rate hike cycle, we observed that valuations of Singapore banks peaked c.2 quarters before the Fed rates did (at 2.5% in Dec 18). With the Fed rate hikes in the upcoming cycle yet to begin, we believe that there is still share price upside beyond the banks' peak valuations (DBS: 1.7x P/BV, OCBC: 1.5x P/BV, UOB 1.4x P/BV) seen during the previous rate hike cycle, underpinned by a superior funding position (higher CASA and lower LDR) this time around.

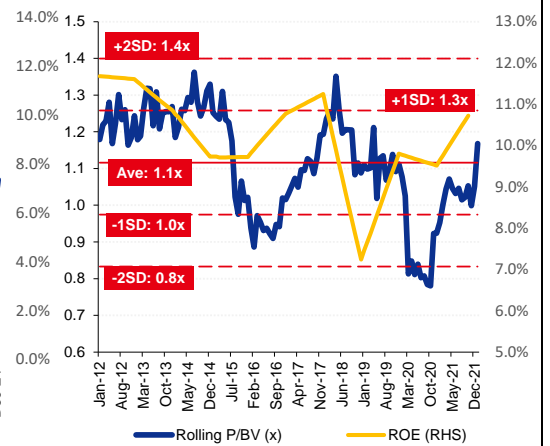
We believe that management overlays to the tune of S\$600m-1.3bn set aside over FY20-21F pave the way for relatively benign credit costs in FY22-23F, therefore making a way for ROEs to rise above the c.11-13% peaks seen across the sector during the last rate hike cycle.

Figure 11: DBS P/BV vs. fwd. ROE


SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 12: OCBC P/BV vs. fwd. ROE


SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 13: UOB P/BV vs. fwd. ROE


SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS



ESG in a nutshell

Singapore banks' ESG scores (by Refinitiv) rank reasonably high (ranging from A- to B-) in our universe of covered companies in the city state (ranging from A- to D). While we do not see any material ESG issues for the banks given the nature of their business, controversies such as palm oil financing and financing disputes brought about by counterparties (borrowers) could result in severe reputational risk. That aside, we highlight that the banks have made noticeable improvements across all pillars in a bid to improve their scores over the past five years. Singapore banks have committed to achieving sustainable financing targets over the medium term while implementing responsible financing policies. We believe these measures will support stronger ESG metrics across the sector over time.

Keep your eye on

Key controversies in the sector involve the financing of environmentally-depletive sectors, such as palm oil plantations and coal-fired power plants (leading to deforestation), and the leakage of sensitive financial data.

Implications

According to a study done by the World Wildlife Fund, Singapore banks have been at the forefront of reducing the financing of fossil fuel projects and implementing No Deforestation, No Peat, and No Exploitation (NDPE) policies. We believe these policies effectively address the controversies.

ESG highlights

Singapore banks' ESG scores (including the controversy overlay) by Refinitiv range from B+ to B- and rank among the top 25 highest-scoring companies (of 93) in our covered universe in Singapore.

Implications

Singapore banks have sound corporate governance and strictly comply with regulatory requirements (under the Monetary Authority of Singapore's supervision). Given the lack of material controversial issues, we think banks may be valued at a premium by ESG-centric investors.

Trends

The banks have progressively improved their ESG scores across all pillars, albeit at a varying pace.

Implications

We think that the banks' strong ESG scores are implicit in their valuations. We think the materiality of any controversy flagged will be assessed (by investors) on a case-by-case basis. At the current juncture, we do not foresee valuation-related implications for the sector from any ESG issues raised.

Singapore

ADD (no change)

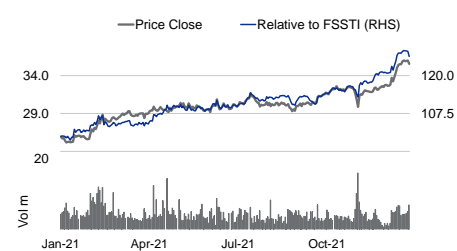
Consensus ratings*: Buy 16 Hold 4 Sell 0

Current price:	S\$35.55
Target price:	S\$39.20
Previous target:	S\$34.90
Up/downside:	10.3%
CGS-CIMB / Consensus:	4.5%
Reuters:	DBSM.SI
Bloomberg:	DBS SP
Market cap:	US\$67,889m
	S\$91,305m
Average daily turnover:	US\$90.75m
	S\$123.2m
Current shares o/s:	2,543m
Free float:	70.7%

*Source: Bloomberg

Key changes in this note

- ▶ We incorporate 3 expected Fed rate hikes in FY22F and 3 in FY23F.
- ▶ We raise FY22-23F EPS by c.1-10%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	10.6	13.9	34.4
Relative (%)	3.8	10.6	25.2

Major shareholders	% held
Temasek	29.3
Capital Group	2.5
Vanguard Group	2.1

Analyst(s)



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DBS Group

Key beneficiary of rising rates

- We think that DBS's NIM expansion could exceed the 14bp rise over FY15-18 given its improved funding profile (c.76% CASA ratio, lower c.83% LDR).
- A benign credit cost trajectory and possibly more Fed rate hikes (above the 6 we have factored in) could catalyse ROE above its c.13% peak in FY19.
- Reiterate Add with a higher TP of S\$39.20. With Fed rate hikes yet to begin, we see scope for a re-rating beyond its peak 1.7x P/BV seen in the last cycle.

Robust liquidity profile likely to sustain low funding costs

The Fed's elevated expectations of 3 rate hikes in FY22F and another 3 in FY23F (25bp per hike) prompts a revision of our NIM forecasts across Singapore banks. We think that DBS is on a better footing to benefit from imminent Fed rate hikes compared to the previous hike cycle given stronger c.76% low-cost CASA ratio (FY15-18 average: c.62%). Further, its more robust liquidity position with LDR of c.83% in 3Q21 (FY15-18 average: c.88%) gives headroom for stronger loan growth without a pressing need to compete for funding for the time being, keeping funding costs low. We factor in the 6 Fed rate hikes mentioned and raise NIMs by c.2bp to 1.46% in FY22F and c.13bp to c.1.63% in FY23F – on track to exceed its 14bp trough-to-peak NIM expansion over the previous hike cycle.

Amplified NIM expansion from higher CASA levels

Factoring in elevated CASA levels, DBS guides that the interest rate sensitivity of its portfolio has increased from c.S\$14m per 1bp of Fed rate to c.S\$18m-20m. Of DBS's SGD book, we understand that this broadly comprises c.40% floating/benchmark-rate loans, c.10% FHR loans (fixed deposit home rate), c.35% fixed-rate loans and c.15% board rate loans. Previously, it took SIBOR/SOR-based loans c.3 months to reprice following the increase in SGD rates. We have assumed a pass-through rate of c.6 months from higher Fed rates into NIM expansion on the back of a stronger US\$ given the convergence towards a faster pace of monetary tightening.

4Q21F: Weaker non-II is a drag but single-digit credit cost is likely

We expect DBS to report a net profit of S\$1.45bn (-15% qoq, +43% yoy) for 4Q21F. While we expect slightly slower loan growth momentum (+1.8% qoq) towards the year end, stabilising NIMs (c.1.43%) should keep NII growth positive. However, we think that non-II will be dragged lower qoq by seasonally weaker fee and wealth income, and softer financial markets (trading income). Consequently, a higher CTI ratio of c.49% and weaker PPOP (-6% qoq) should be expected for 4Q21F. We understand that asset quality remained benign (c.6bp credit cost) in 4Q21F, but further writebacks for recoveries and upgrades (as in 3Q21) may not be present in 4Q21.

We raise our GGM-based TP to S\$39.20 as we factor in Fed hikes

With the Fed rate hikes in the upcoming cycle yet to begin, we believe that there is still share price upside beyond DBS's peak valuation of 1.7x P/BV seen during the previous rate hike cycle, underpinned by a superior funding position this time around.

Financial Summary

	Dec-19A	Dec-20A	Dec-21F	Dec-22F	Dec-23F
Net Interest Income (S\$m)	9,625	9,076	8,428	9,097	10,827
Total Non-Interest Income (S\$m)	4,919	5,516	6,067	6,168	6,607
Operating Revenue (S\$m)	14,544	14,592	14,495	15,265	17,434
Total Provision Charges (S\$m)	(703)	(3,066)	(80)	(86)	(461)
Net Profit (S\$m)	6,391	4,721	6,874	7,338	8,568
Core EPS (S\$)	2.50	1.86	2.70	2.89	3.37
Core EPS Growth	13.6%	(25.9%)	45.6%	6.8%	16.8%
FD Core P/E (x)	14.19	19.15	13.15	12.32	10.55
DPS (S\$)	1.23	0.87	1.17	1.32	1.32
Dividend Yield	3.46%	2.45%	3.29%	3.71%	3.71%
BVPS (S\$)	19.10	19.98	21.49	23.03	25.05
P/BV (x)	1.86	1.78	1.65	1.54	1.42
ROE	13.4%	9.4%	12.9%	12.9%	13.9%
% Change In Core EPS Estimates			0.00%	1.49%	9.86%
CGS-CIMB/Consensus EPS (x)			1.01	1.03	1.08

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

4Q21F preview: earnings announcement due on 14 February 2022 ➤

Figure 1: DBS - quarterly key statistics

S\$m	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21F	qoq%	yoy %	FY20	FY21F	yoy %
Income Statement													
Net interest income	2,482	2,303	2,171	2,120	2,107	2,089	2,104	2,116	1%	0%	9,076	8,428	-7%
Net fee and commission income	832	681	798	747	953	868	888	863	-3%	16%	3,058	3,579	17%
Wealth management	403	304	380	345	519	426	461	430	-7%	25%	1,432	1,833	28%
Treasury income	712	742	608	396	794	632	569	493	-13%	25%	1,405	1,658	18%
Non-interest income	1,544	1,423	1,406	1,143	1,747	1,500	1,457	1,356	-7%	19%	5,516	6,067	10%
TOTAL INCOME	4,026	3,726	3,577	3,263	3,854	3,589	3,561	3,472	-2%	6%	14,592	14,495	-1%
Operating expenses	(1,556)	(1,483)	(1,539)	(1,580)	(1,587)	(1,543)	(1,668)	(1,700)	2%	8%	(6,158)	(6,486)	5%
PREPROVISION OPERATING PROFIT (PPOP)	2,470	2,243	2,038	1,683	2,267	2,046	1,893	1,772	-6%	5%	8,434	8,009	-5%
Loan loss provision	(1,086)	(849)	(554)	(577)	(10)	(79)	70	(61)	-186%	-90%	(3,066)	(80)	-97%
Profit before tax	1,384	1,394	1,484	1,106	2,257	1,967	1,963	1,712	-13%	55%	5,368	7,959	48%
Tax	(219)	(147)	(187)	(94)	(248)	(264)	(263)	(260)	-1%	176%	(612)	(1,035)	69%
Non-controlling interests	-	-	-	-	-	-	-	-	-	-	(35)	(51)	46%
Core net profit	1,165	1,247	1,297	1,012	2,009	1,703	1,700	1,452	-15%	43%	4,721	6,874	46%
Overall stats/drivers													
NIM (%)	1.86%	1.62%	1.53%	1.49%	1.49%	1.45%	1.43%	1.43%			1.62%	1.44%	
Loan growth	3.2%	1.5%	-0.9%	-0.1%	4.1%	2.7%	2.0%	1.8%			3.7%	11.0%	
Cost-to-income ratio	38.6%	39.8%	43.0%	48.4%	41.2%	43.0%	46.8%	49.0%			42.2%	44.7%	
Credit costs (bp) (calculated)	120	89	58	61	1	8	-7	6			83	2	
CET-1 ratio	13.9%	13.7%	13.9%	13.9%	14.3%	14.5%	14.5%	n.a.			13.9%	n.a.	

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 2: Earnings changes

	New			Old			% chg		
	FY21F	FY22F	FY23F	FY21F	FY22F	FY23F	FY21F	FY22F	FY23F
NIM (%)	1.44%	1.46%	1.63%	1.44%	1.44%	1.50%	0bp	+2bp	+13bp
Net loan growth (%)	11.0%	7.0%	6.3%	11.0%	7.0%	6.3%	0%pt	0%pt	0%pt
NII (\$m)	8,428	9,097	10,827	8,428	8,972	9,937	0.0%	1.4%	9.0%
Non-NII (\$m)	6,067	6,168	6,607	6,067	6,168	6,607	0.0%	0.0%	0.0%
Operating expenses (\$m)	6,486	6,801	7,173	6,486	6,801	7,173	0.0%	0.0%	0.0%
Cost-to-income ratio	44.7%	44.6%	41.1%	44.7%	44.9%	43.4%	0%pt	-0.4%pt	-2.2%pt
Provisions (\$m)	80	86	461	80	86	461	0.0%	0.0%	0.0%
Net profit (\$m)	6,874	7,338	8,568	6,874	7,230	7,799	0.0%	1.5%	9.9%
EPS (\$)	2.68	2.86	3.34	2.68	2.82	3.04	0.0%	1.5%	9.9%

SOURCE: CIMB RESEARCH, COMPANY

Figure 3: GGM valuation

GGM valuation	
COE	8.4%
Sustainable ROE	12.8%
LTG	2.0%
(ROE-LTG) - [a]	10.8%
(COE - LTG) - [b]	6.4%
Target P/BV (x) - [a]/[b]	1.70
FY22 BV (\$)	23.03
Target price (\$)	39.20

SOURCE: CGS-CIMB RESEARCH

Valuation and recommendation ➤

We reiterate our Add call on DBS with a higher GGM-based TP of S\$39.20 as we incorporate 6 expected Fed rate hikes in FY22-23F. In our report ([As the rate cycle turns](#) dated 23 Jun 2021), we explained that Singapore banks tend to re-rate c.4-5 quarters ahead of the first Fed rate hike of the cycle. With DBS's valuation having traded up to c.1.55x FY22F P/BV, we think that the current re-rating cycle is underway and has accelerated (vs. previous cycles) as regulators become progressively reactionary to market conditions. From the previous rate hike cycle, we observed that valuations of Singapore banks peaked c.2 quarters before the Fed rates did (at 2.5% in Dec 18). With the Fed rate hikes in the upcoming cycle yet to begin, we believe that there is still share price upside beyond DBS's peak valuation of 1.7x P/BV seen during the previous rate hike cycle, underpinned by a superior funding position (higher CASA and lower LDR) this time around.

Higher dividend payouts or positive M&A developments amid its strong capital position (CET1: 14.5%) is a key re-rating catalyst. Downside risks are economic closures and corresponding asset quality pressures from a prolonged Covid-19 situation.

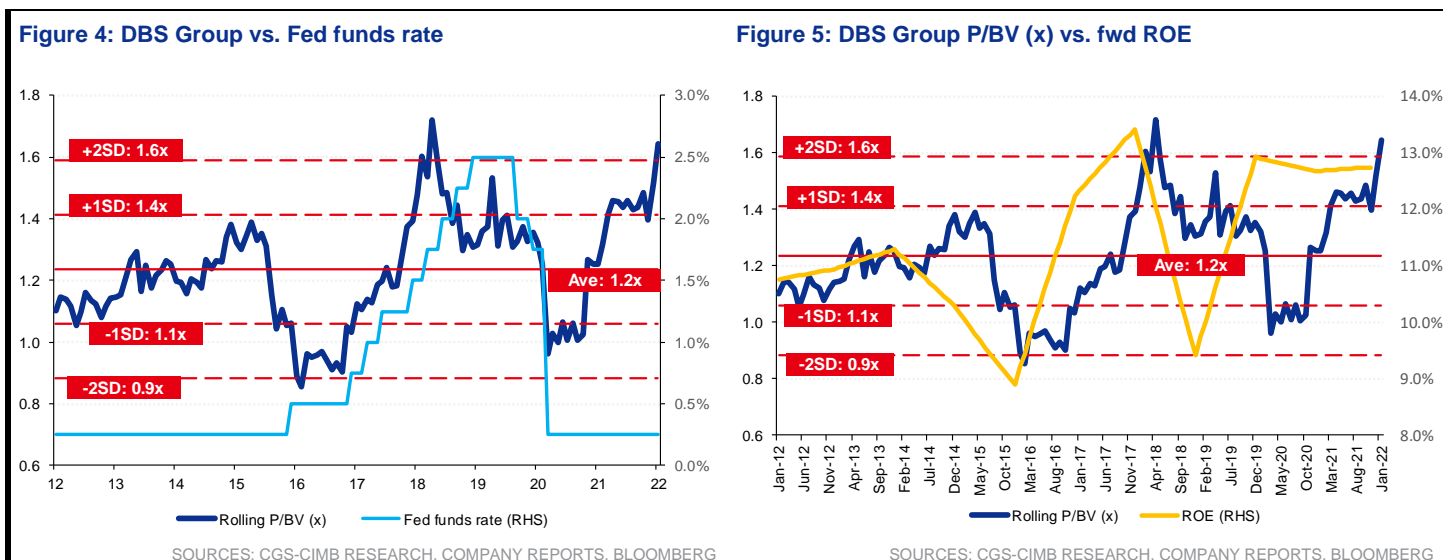



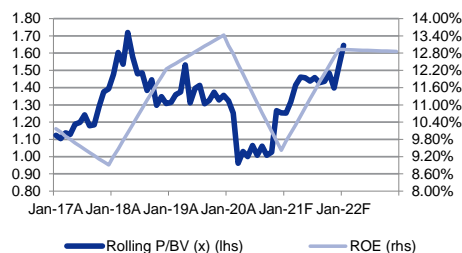
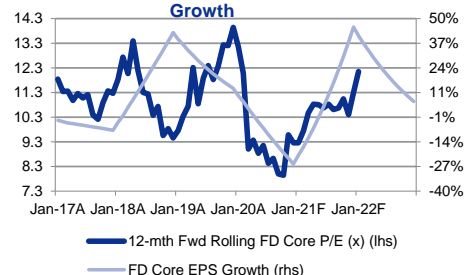
Figure 6: Sector Comparison

Company	Bbg Ticker	Recom.	Price (local)	Tgt Price (local)	Mkt Cap (US\$ m)	3-year EPS CAGR (%)	P/BV (x)			Recurr. ROE (%)			P/PPOPS (x)			Div Yield (%)		
							CY21F	CY22F	CY23F	CY21F	CY22F	CY23F	CY21F	CY22F	CY23F	CY21F	CY22F	CY23F
DBS Group	DBS SP	Add	35.66	39.20	68,100	23.0%	1.66	1.55	1.42	13.0%	12.8%	13.9%	11.3	10.7	8.8	3.3%	3.7%	3.7%
OCBC	OCBC SP	Add	12.30	14.20	41,080	19.5%	1.13	1.06	0.99	10.8%	10.7%	11.2%	9.0	8.3	7.4	4.1%	4.1%	4.3%
United Overseas Bank	UOB SP	Add	30.01	33.50	37,309	21.0%	1.17	1.12	1.06	9.8%	9.5%	11.0%	8.9	8.6	7.5	4.3%	4.5%	4.5%
Singapore average						21.5%	1.34	1.26	1.18	11.3%	11.2%	12.2%	9.9	9.3	8.0	3.8%	4.0%	4.1%
Bank Central Asia	BBCA IJ	Hold	7,800	8,100	67,072	16.2%	4.83	4.37	3.92	15.7%	16.8%	18.0%	20.4	18.6	16.2	1.5%	1.8%	2.1%
Bank Danamon	BDMN IJ	Add	2,340	3,300	1,595	62.6%	0.48	0.46	0.43	6.5%	7.7%	8.4%	2.4	2.2	2.0	4.4%	5.8%	6.6%
Bank Jago	ARTO IJ	Add	18,350	20,000	17,736	na	30.65	29.12	26.61	3.1%	7.6%	12.8%	3801.3	328.7	159.1	0.0%	0.0%	0.0%
Bank Mandiri	BMRI IJ	Add	7,275	8,300	23,682	29.4%	1.81	1.66	1.53	13.4%	16.6%	17.1%	6.7	5.9	5.3	4.4%	5.7%	6.4%
Bank Negara Indonesia	BBNI IJ	Add	7,100	8,710	9,236	82.7%	1.05	0.95	0.85	8.4%	11.5%	13.3%	4.4	4.2	4.0	1.8%	2.9%	3.7%
Bank Permata	BNLI IJ	Reduce	1,430	1,500	3,592	34.9%	1.18	1.13	1.08	3.6%	3.9%	4.8%	10.9	10.4	9.6	0.0%	0.0%	0.0%
Bank Rakyat Indonesia	BBRI IJ	Add	4,120	5,000	43,556	30.4%	2.14	2.04	1.99	11.5%	14.1%	16.1%	9.0	8.2	7.5	4.4%	6.7%	8.0%
Bank Tabungan Negera	BBTN IJ	Add	1,660	2,100	1,226	25.3%	0.81	0.73	0.65	9.3%	11.0%	12.1%	3.3	3.0	2.8	1.1%	1.4%	1.8%
Bank Tabungan Pensi	BTPN IJ	Hold	2,570	2,500	1,461	na	0.47	0.67	na	6.3%	7.2%	na	3.8	3.4	na	0.6%	0.5%	na
Bank Tabungan Pensi	BTPS IJ	Hold	3,500	3,900	1,881	35.9%	3.81	3.18	2.63	20.9%	21.4%	22.5%	11.0	9.6	8.1	0.6%	1.0%	1.2%
Indonesia average						na	2.55	2.37	na	11.6%	13.8%	na	10.8	9.9	na	2.5%	3.4%	na
Affin Bank Berhad	ABANK MK	Reduce	1.94	1.27	984.5	20.0%	0.40	0.39	0.37	4.9%	4.3%	4.9%	4.9	5.1	4.7	2.5%	2.4%	2.8%
Alliance Bank Malaysia	ABMB MK	Reduce	3.29	2.73	1,217	22.0%	0.78	0.74	0.69	7.2%	9.0%	9.6%	5.2	5.0	4.6	3.5%	5.1%	5.8%
AMMB Holdings	AMM MK	Add	3.38	3.64	2,674	12.8%	0.70	0.67	0.63	8.1%	9.7%	9.8%	4.2	4.0	3.7	3.8%	5.6%	6.0%
Bank Islam Malaysia B	BIMB MK	Add	3.05	3.46	1,571	11.5%	0.95	0.90	0.84	10.1%	8.5%	10.0%	6.5	5.6	5.1	4.9%	4.6%	5.7%
Hong Leong Bank	HLBK MK	Add	19.16	20.56	9,923	8.0%	1.32	1.20	1.12	9.5%	9.4%	9.7%	12.2	11.7	10.9	2.6%	3.0%	3.4%
Malayan Banking Bhd	MAY MK	Add	8.25	9.40	23,414	8.5%	1.12	1.07	1.01	9.4%	8.8%	9.6%	7.4	7.0	6.7	4.9%	4.9%	5.7%
Public Bank Bhd	PBK MK	Add	4.19	4.60	19,432	8.3%	1.61	1.53	1.43	11.6%	10.5%	12.2%	10.3	9.5	8.8	3.3%	3.3%	4.1%
RHB Bank Bhd	RHBBANK MK	Add	5.59	6.40	5,533	9.7%	0.78	0.73	0.68	9.6%	8.5%	9.7%	5.8	5.1	4.7	5.4%	5.6%	6.9%
Malaysia average						10.2%	1.14	1.07	1.01	9.6%	9.0%	10.0%	8.0	7.4	7.0	4.0%	4.2%	4.9%
Bangkok Bank	BBL TB	Add	130.0	164.0	7,538	23.6%	0.53	0.50	0.48	6.1%	6.3%	6.7%	4.3	4.0	3.7	3.1%	3.8%	3.8%
Kasikornbank	KBANK TB	Add	140.0	170.0	10,076	11.7%	0.71	0.67	0.63	8.1%	8.2%	8.4%	3.7	3.5	3.3	2.1%	3.6%	4.3%
Kiatnakin Phatra Bank	KKP TB	Hold	68.00	59.00	1,749	8.0%	1.21	1.18	1.15	11.9%	13.1%	13.6%	4.8	4.5	4.3	4.6%	6.3%	7.7%
Krung Thai Bank	KTB TB	Hold	13.70	12.70	5,816	10.1%	0.54	0.52	0.50	5.4%	5.9%	5.9%	3.0	2.9	2.8	2.9%	4.0%	4.2%
Krungthai Card	KTC TB	Reduce	59.75	42.00	4,679	18.7%	5.87	5.06	4.34	24.0%	25.2%	26.0%	12.1	10.3	9.5	1.6%	1.9%	2.3%
Muangthai Capital	MTC TB	Add	57.25	77.00	3,687	15.5%	4.83	3.90	3.15	23.9%	24.1%	24.2%	16.7	12.9	10.5	0.6%	0.8%	1.0%
Siam Commercial Ban	SCB TB	Add	123.5	119.0	12,738	12.5%	0.97	0.92	0.88	8.4%	8.3%	8.9%	4.9	4.7	4.4	2.4%	4.0%	4.5%
Srisawad Corporation	SAWAD TB	Add	62.75	78.00	2,617	11.8%	3.50	3.09	2.72	22.4%	22.0%	22.5%	14.1	11.2	9.7	2.9%	3.4%	3.9%
Tisco Financial Group	TISCO TB	Hold	97.00	101.0	2,359	5.9%	1.91	1.87	1.82	17.1%	17.1%	17.8%	7.2	7.0	6.6	7.0%	8.0%	8.2%
TMBThanachart Bank	TTB TB	Add	1.39	1.33	4,080	14.1%	0.63	0.60	0.57	5.8%	6.6%	6.9%	3.4	3.2	3.0	3.6%	4.3%	4.7%
Thailand average						13.7%	0.87	0.82	0.78	7.8%	8.1%	8.5%	4.7	4.5	4.2	2.7%	3.7%	4.1%

SOURCES: CSG-CIMB RESEARCH, COMPANY

ESG in a nutshell		Refinitiv ESG Scores					
		A- ESG Score	B+ ESG Controversies Score	B+ ESG Combined Score	A ESG Environment Pillar Score	B ESG Social Pillar Score	A ESG Government Pillar Score
<p>DBS scored a B+ on its ESG Combined Score by Refinitiv. Excluding environmental controversies, DBS maintained its A- ESG score in FY20 and is amongst the best in class in Singapore. The bank has progressively contributed to the development of best practices in specific sectors via its Responsible Financing Standard, and we expect this to be continuously refined going forward. DBS has raised its sustainable finance target to S\$50bn by 2024 (from S\$17bn currently) and commits to zero thermal coal exposure by 2039.</p>							
<p>Keep your eye on</p> <p>DBS has been flagged for environmental controversies relating to the financing of palm oil plantations, leading to deforestation.</p>	<p>Implications</p> <p>Controversies surrounding the financing of palm oil plantations have been long-standing. DBS recognises that it can play a role in achieving a more sustainable palm oil sector and requires new clients to demonstrate alignment with its No Deforestation, No Peat, and No Exploitation (NDPE) policies. These controversies are not currently factored into valuations, in our view, but a prolonged misalignment with responsible financing practices could be a longer-term drag on the stock.</p>						
<p>ESG highlights</p> <p>Excluding the environmental controversies, DBS's A- ESG score is amongst the best in class in Singapore. DBS ranks on the upper end of ESG scoring against its sectorial peers.</p>	<p>Implications</p> <p>DBS has proactively raised its ESG score over the past 5 years, demonstrating its commitment to improve on each pillar of this standard. While not priced in at the current stage, we believe that DBS's ESG progress and prominence will be a key differentiating factor amongst more discerning investors in time to come. In addition to the adherence to its Responsible Financing Standard, advancement towards its sustainable finance target and zero thermal coal exposure commitment will support re-rating cycles.</p>						
<p>Trends</p> <p>DBS has improved its scoring in each ESG pillar over FY16-20. However, its ESG Controversies Score dipped to B in FY20 (from A+ in FY19).</p>	<p>Implications</p> <p>The improvements are positive and consistent. The recovery and management of its environmental controversy will be key in improving the bank's score further.</p>						

SOURCES: CGS-CIMB RESEARCH, REFINITIV

BY THE NUMBERS
P/BV vs ROE

12-mth Fwd FD Core P/E vs FD Core EPS Growth

Profit & Loss

(S\$m)	Dec-19A	Dec-20A	Dec-21F	Dec-22F	Dec-23F
Net Interest Income	9,625	9,076	8,428	9,097	10,827
Total Non-Interest Income	4,919	5,516	6,067	6,168	6,607
Operating Revenue	14,544	14,592	14,495	15,265	17,434
Total Non-Interest Expenses	(6,258)	(6,158)	(6,486)	(6,801)	(7,173)
Pre-provision Operating Profit	8,286	8,434	8,009	8,464	10,261
Total Provision Charges	(703)	(3,066)	(80)	(86)	(461)
Operating Profit After Provisions	7,583	5,368	7,929	8,378	9,801
Pretax Income/(Loss) from Assoc.	0	0	30	120	120
Operating EBIT (incl Associates)	7,583	5,368	7,959	8,498	9,921
Non-Operating Income/(Expense)	0	0	0	0	0
Profit Before Tax (pre-EI)	7,583	5,368	7,959	8,498	9,921
Exceptional Items					
Pre-tax Profit	7,583	5,368	7,959	8,498	9,921
Taxation	(1,154)	(612)	(1,035)	(1,105)	(1,290)
Consolidation Adjustments & Others					
Exceptional Income - post-tax	0	0	0	0	0
Profit After Tax	6,429	4,756	6,925	7,393	8,631
Minority Interests	(38)	(35)	(51)	(54)	(64)
Prof. & Special Div	0	0	0	0	0
FX And Other Adj.	0	0	0	0	0
Net Profit	6,391	4,721	6,874	7,338	8,568
Recurring Net Profit	6,391	4,721	6,874	7,338	8,568

Balance Sheet Employment

	Dec-19A	Dec-20A	Dec-21F	Dec-22F	Dec-23F
Gross Loans/Cust Deposits	89.6%	81.3%	84.7%	85.5%	85.7%
Avg Loans/Avg Deposits	89.2%	85.2%	83.0%	85.1%	85.6%
Avg Liquid Assets/Avg Assets	30.7%	32.4%	33.0%	31.8%	30.6%
Avg Liquid Assets/Avg IEAs	34.3%	37.5%	38.9%	37.2%	36.1%
Net Cust Loans/Assets	61.8%	57.1%	59.9%	60.6%	60.8%
Net Cust Loans/Broad Deposits	83.6%	75.3%	78.9%	79.6%	79.8%
Equity & Provs/Gross Cust Loans	14.1%	14.5%	14.0%	14.0%	14.3%
Asset Risk Weighting	52.5%	49.4%	51.6%	52.2%	52.3%
Provision Charge/Avg Cust Loans	0%	0%	0%	0%	0%
Provision Charge/Avg Assets	0%	0%	0%	0%	0%
Total Write Offs/Average Assets	0%	0%	0%	0%	0%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS... cont'd

Balance Sheet

(\$m)	Dec-19A	Dec-20A	Dec-21F	Dec-22F	Dec-23F
Total Gross Loans	401,763	428,637	468,652	498,428	526,888
Liquid Assets & Invst. (Current)	0	0	0	0	0
Other Int. Earning Assets	113,475	117,156	119,499	121,889	124,327
Total Gross Int. Earning Assets	515,238	545,793	588,151	620,317	651,215
Total Provisions/Loan Loss Reserve	(4,543)	(6,599)	(5,112)	(5,470)	(5,812)
Total Net Interest Earning Assets	510,695	539,194	583,039	614,847	645,403
Intangible Assets	5,170	5,323	5,323	5,323	5,323
Other Non-Interest Earning Assets	19,484	23,695	16,033	21,951	32,429
Total Non-Interest Earning Assets	24,654	29,018	21,356	27,274	37,752
Cash And Marketable Securities	43,597	81,726	83,361	85,544	87,787
Long-term Investments	0	0	0	0	0
Total Assets	578,946	649,938	687,755	727,665	770,941
Customer Interest-Bearing Liabilities	404,289	464,850	492,741	522,305	553,644
Bank Deposits	23,773	28,220	29,913	31,708	33,610
Interest Bearing Liabilities: Others	60,666	47,247	49,581	52,030	54,601
Total Interest-Bearing Liabilities	488,728	540,317	572,235	606,044	641,855
Bank's Liabilities Under Acceptances					
Total Non-Interest Bearing Liabilities	38,419	54,978	56,952	59,045	61,263
Total Liabilities	527,147	595,295	629,187	665,089	703,118
Shareholders' Equity	50,981	54,626	58,500	62,454	67,637
Minority Interests	818	17	68	122	186
Total Equity	51,799	54,643	58,568	62,576	67,823

Key Ratios

	Dec-19A	Dec-20A	Dec-21F	Dec-22F	Dec-23F
Total Income Growth	10.3%	0.3%	(0.7%)	5.3%	14.2%
Operating Profit Growth	12.4%	1.8%	(5.0%)	5.7%	21.2%
Pretax Profit Growth	13.9%	(29.2%)	48.3%	6.8%	16.8%
Net Interest To Total Income	66.2%	62.2%	58.1%	59.6%	62.1%
Cost Of Funds	1.25%	0.61%	0.34%	0.31%	0.52%
Return On Interest Earning Assets	3.09%	2.30%	1.82%	1.81%	2.21%
Net Interest Spread	1.84%	1.69%	1.48%	1.50%	1.69%
Net Interest Margin (Avg Deposits)	2.41%	2.09%	1.76%	1.79%	2.01%
Net Interest Margin (Avg RWA)	3.24%	2.90%	2.49%	2.48%	2.77%
Provisions to Pre Prov. Operating Profit	8.5%	36.4%	1.0%	1.0%	4.5%
Interest Return On Average Assets	1.70%	1.48%	1.26%	1.29%	1.44%
Effective Tax Rate	15.2%	11.4%	13.0%	13.0%	13.0%
Net Dividend Payout Ratio	49.1%	46.9%	43.3%	45.7%	39.2%
Return On Average Assets	1.13%	0.77%	1.03%	1.04%	1.14%

Key Drivers

	Dec-19A	Dec-20A	Dec-21F	Dec-22F	Dec-23F
NIM (%)	1.9%	1.6%	1.4%	1.5%	1.6%
Cost-to-income ratio (%)	43.0%	42.2%	44.7%	44.6%	41.1%
Loan growth (%)	3.7%	3.7%	11.0%	7.0%	6.3%
Deposit growth (%)	2.7%	15.0%	6.0%	6.0%	6.0%
Loans-to-deposits ratio (%)	88.5%	79.8%	83.6%	84.4%	84.7%
CASA ratio (%)	59.0%	72.7%	N/A	N/A	N/A
Credit cost (bp)	19.7	82.8	2.0	2.0	10.0

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Singapore

ADD (no change)

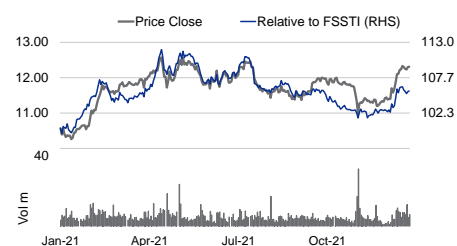
Consensus ratings*: Buy 18 Hold 3 Sell 0

Current price:	S\$12.31
Target price:	S\$14.20
Previous target:	S\$13.90
Up/downside:	15.4%
CGS-CIMB / Consensus:	-0.4%
Reuters:	OCBC.SI
Bloomberg:	OCBC SP
Market cap:	US\$41,114m
	S\$55,294m
Average daily turnover:	US\$44.17m
	S\$59.96m
Current shares o/s:	4,476m
Free float:	79.8%

*Source: Bloomberg

Key changes in this note

- ▶ We incorporate 3 expected Fed rate hikes in FY22F and 3 in FY23F.
- ▶ We raise FY22-23F EPS by c.2-5%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	9.8	3.4	14.6
Relative (%)	3	0.1	5.4

Major shareholders

	% held
Selat Pte Ltd	11.0
Lee Foundation Singapore	4.3
Singapore Investments (Pte) Ltd	3.8

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OCBC

Amplified NIM expansion ahead

- We think that OCBC's stronger funding position (c.62% CASA) could amplify NIM expansion above the c.12bp trough-to-peak rise over FY16-19.
- Reiterate Add with higher GGM-based TP of S\$14.20 as we factor in 6 Fed rate hikes over FY22-23F and raise NIMs by c.4-8bps to c.1.55-1.65%.
- Positive guidance on capital management plans and dividend policy (CET1: 15.5%) are key re-rating catalysts. OCBC is trading at 1.1x FY22F P/BV.

Stronger funding profile and ample liquidity may amplify NIM rise

The Fed's elevated expectations of 3 rate hikes in FY22F and another 3 in FY23F (25bp per hike) prompts a revision of our NIM forecasts across Singapore banks. We think that NIM expansion may be amplified in the upcoming rate hike cycle given OCBC's stronger CASA ratio of 62% in 3Q21 compared to the average c.49% over the previous rate hike cycle in FY15-18. Although system liquidity remains ample on the back of sustained deposit inflows over FY20-21, OCBC's LDR of c.84% in 3Q21 remains relatively unchanged from the average c.85% in FY15-18. Nonetheless, we think that NIM expansion may still exceed the c.12bp trough-to-peak rise over FY16-19 (lagged impact) as funding competition stays modest for the time being. We factor in the 6 Fed rate hikes mentioned and raise NIMs c.4bp to 1.55% in FY22F and c.8bp to c.1.65% in FY23F, with the lagged impact due to the time taken for pass-through from Fed hikes into NIMs.

Positive guidance on capital and dividend mgmt. are key catalysts

From its FY20 annual report, OCBC reported that a 100bp increase parallel rise in yield curve on its exposure to major currencies is estimated to increase NII by c.S\$805m. Of its SGD loan book, we understand that c.60-70% is priced on floating rates (SIBOR/SOR/SORA/COF). The rest of its book comprises trade loans and loans on board rates, which reprice at a slower rate. In particular for OCBC, a higher rate environment will also benefit Great Eastern as insurance liabilities are repriced at lower rates – an additional income driver from Fed rate hikes beyond NIMs. We have assumed a pass-through rate of c.6 months from higher Fed rates into NIM expansion on the back of a stronger US\$ given the convergence towards a faster pace of monetary tightening (consequently, stronger SGD benchmark rates). In the previous rate hike cycle over FY15-18, OCBC traded up to a peak of 1.5x P/BV in Apr 18. We think that clearer (and positive) guidance on capital management and dividend plans in the upcoming 4Q21F results briefing could spur a re-rating.

4Q21F: Seasonal weakness in wealth and softer trading income

We expect OCBC to record net profit of S\$1.19bn in 4Q21F (-3% qoq, +5% yoy). We expect c.2% qoq NII growth as NIMs stabilise at c.1.52% in 4Q21F, but weaker non-II from a seasonally slower quarter of wealth and insurance income offsets this. Treasury income may improve qoq by virtue of sizeable MTM losses in 3Q21, but still weigh down PPOP in 4Q21F. We think credit costs may have stabilised at c.20bp in 4Q21F (lowest over 2 years) – offsetting some of the topline weakness in 4Q21F.

Financial Summary

	Dec-19A	Dec-20A	Dec-21F	Dec-22F	Dec-23F
Net Interest Income (S\$m)	6,331	5,966	6,035	6,480	7,301
Total Non-Interest Income (S\$m)	4,540	4,173	4,876	5,164	5,470
Operating Revenue (S\$m)	10,871	10,139	10,911	11,643	12,771
Total Provision Charges (S\$m)	(890)	(2,043)	(696)	(750)	(797)
Net Profit (S\$m)	4,869	3,586	5,065	5,389	6,013
Core EPS (S\$)	1.12	0.81	1.13	1.20	1.34
Core EPS Growth	5.7%	(28.2%)	40.2%	6.4%	11.6%
FD Core P/E (x)	10.95	15.25	10.88	10.23	9.16
DPS (S\$)	0.53	0.32	0.50	0.50	0.53
Dividend Yield	4.31%	2.58%	4.06%	4.06%	4.31%
BVPS (S\$)	9.87	10.24	10.87	11.58	12.39
P/BV (x)	1.25	1.20	1.13	1.06	0.99
ROE	11.7%	8.0%	10.7%	10.7%	11.2%
% Change In Core EPS Estimates			0.00%	2.38%	5.05%
CGS-CIMB/Consensus EPS (x)			1.02	1.00	0.99

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

4Q21F preview: earnings announcement due on 23 Feb 2022 ➤

Figure 1: OCBC - quarterly key statistics

S\$m	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21F	qoq %	yoy%	FY20	FY21F	yoy %
Income Statement													
Net interest income	1,626	1,483	1,421	1,436	1,441	1,461	1,461	1,489	2%	4%	5,966	6,035	1%
Insurance income (life + general)	157	282	264	196	470	254	311	270	-13%	38%	899	1,388	54%
Fees and commissions (net)	546	440	501	517	585	563	569	526	-8%	2%	2,003	2,298	15%
Wealth management	291	205	252	250	321	288	297	260	-12%	4%	1,130	1,209	7%
Treasury income (and others)	136	388	312	301	387	249	175	200	14%	-34%	1,139	1,053	-8%
Non-interest income	864	1,142	1,118	1,049	1,473	1,111	1,099	1,031	-6%	-2%	4,173	4,876	17%
Total income	2,490	2,625	2,539	2,485	2,914	2,572	2,560	2,520	-2%	1%	10,139	10,911	8%
Total operating expenses	(1,109)	(1,107)	(1,098)	(1,125)	(1,149)	(1,138)	(1,188)	(1,225)	3%	9%	(4,439)	(4,685)	6%
Pre-provision operating profit (PPOP)	1,381	1,518	1,441	1,360	1,765	1,434	1,372	1,295	-6%	-5%	5,700	6,226	9%
Loan loss provision	(657)	(750)	(350)	(285)	(161)	(232)	(163)	(140)	-14%	-51%	(2,043)	(696)	-66%
Profit before tax	863	904	1,218	1,180	1,787	1,390	1,387	1,327	-4%	12%	4,165	6,068	46%
Tax	(164)	(117)	(216)	(75)	(286)	(230)	(163)	(140)	-14%	87%	(437)	(819)	87%
Non-controlling interests	-	-	-	-	-	-	-	-	-	-	(142)	(184)	29%
Core net profit	698	788	1,028	1,131	1,501	1,160	1,224	1,187	-3%	5%	3,586	5,065	41%
Overall stats/drivers													
NIM (%)	1.76%	1.60%	1.54%	1.56%	1.56%	1.58%	1.52%	1.52%			1.61%	1.55%	
qoq loan growth (net)	2.0%	-1.2%	0.4%	-0.7%	1.4%	1.4%	3.7%	2.3%			0.5%	8.6%	
Cost-income ratio	44.5%	42.2%	43.2%	45.3%	39.4%	44.2%	46.4%	48.6%			43.8%	42.9%	
Credit costs (bp) (calculated)	98	111	52	43	24	34	23	20			77	25	
CET-1 ratio	14.3%	14.2%	14.4%	15.2%	15.5%	16.1%	15.5%	n.a.			15.2%	n.a.	

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 2: Earnings changes

	New			Old			% chg		
	FY21F	FY22F	FY23F	FY21F	FY22F	FY23F	FY21F	FY22F	FY23F
NIM (%)	1.55%	1.55%	1.65%	1.55%	1.51%	1.57%		+4bp	+8bp
Net loan growth (%)	8.6%	7.5%	5.0%	8.6%	7.5%	5.0%	0%pt	0%pt	0%pt
NII (S\$m)	6,035	6,480	7,301	6,035	6,327	6,948	0.0%	2.4%	5.1%
Non-NII (S\$m)	4,876	5,164	5,470	4,876	5,164	5,470	0.0%	0.0%	0.0%
Operating expenses (S\$m)	4,685	4,864	5,200	4,685	4,864	5,200	0.0%	0.0%	0.0%
Cost-to-income (%)	42.9%	41.8%	42.5%	42.9%	42.3%	42.5%	0%pt	-0.6%pt	0%pt
Provisions (S\$m)	696	750	797	696	750	797	0.0%	0.0%	0.0%
Net profit (S\$m)	5,065	5,389	6,013	5,065	5,264	5,724	0.0%	2.4%	5.1%
EPS (Scts)	113	120	134	113	118	128	0.0%	2.4%	5.1%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 3: GGM valuation

GGM valuation	
COE	8.7%
Sustainable ROE	10.2%
LTG	2.0%
(ROE-LTG) - [a]	8.2%
(COE - LTG) - [b]	6.7%
Target P/BV (x) - [a]/[b]	1.22
FY22 BV (S\$)	11.58
Target price (S\$)	14.20

SOURCE: CSG-CIMB RESEARCH, COMPANY

Valuation and recommendation ►

We reiterate our Add call on OCBC with a higher GGM-based TP of S\$14.20 as we incorporate 6 expected Fed rate hikes in FY22-23F. In our report [As the rate cycle turns](#) dated 23 Jun 2021, we explained that Singapore banks tend to re-rate c.4-5 quarters ahead of the first Fed rate hike of the cycle. With OCBC's valuation having traded up to c.1.1x FY22F P/BV, we think that the current re-rating cycle is underway and has accelerated (vs. previous cycles) as regulators become progressively reactionary to market conditions. Compared to its peak of 1.5x P/BV during the previous rate cycle, we believe that current valuations are relatively attractive. From the previous rate hike cycle, we observed that valuations of Singapore banks peaked c.2 quarters before the Fed rates did (at 2.5% in Dec 18). With the Fed rate hikes in the upcoming cycle yet to begin, we believe that there is still share price upside to go for Singapore banks.

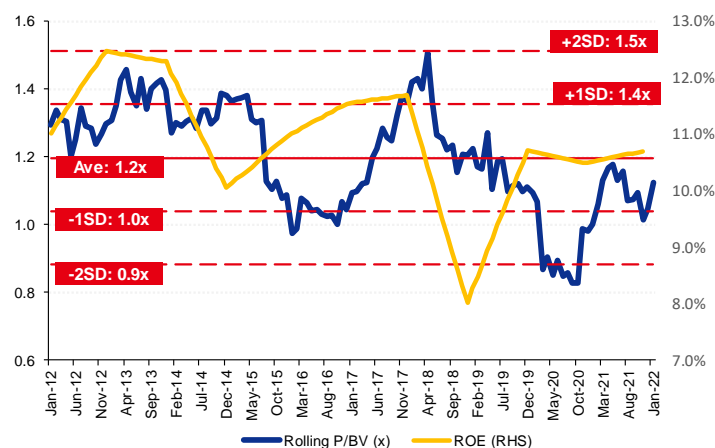
Positive guidance on capital management plans and dividend policy, as well as quicker and more Fed rate hikes are key re-rating catalyst. Downside risks are economic closures and corresponding asset quality pressures from a prolonged Covid-19 situation.

Figure 4: OCBC vs. Fed funds rate



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 5: OCBC P/BV (x) vs. fwd. ROE




SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS, BLOOMBERG

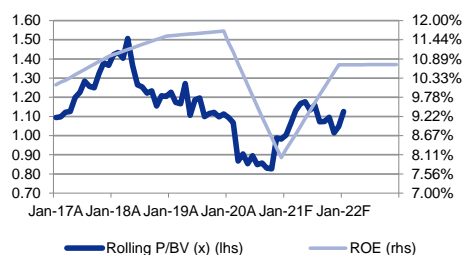
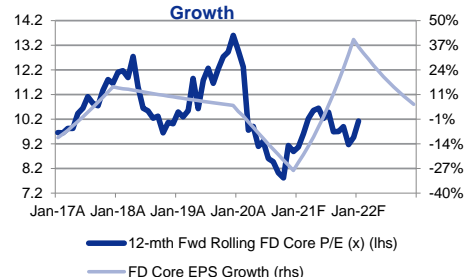
Figure 6: Sector Comparison

Company	Bbg Ticker	Recom.	Price (local)	Tgt Price (local)	Mkt Cap (US\$ m)	3-year EPS CAGR (%)	P/BV (x)			Recurr. ROE (%)			P/PPOPS (x)			Div Yield (%)		
							CY21F	CY22F	CY23F	CY21F	CY22F	CY23F	CY21F	CY22F	CY23F	CY21F	CY22F	CY23F
DBS Group	DBS SP	Add	35.66	39.20	68,100	23.0%	1.66	1.55	1.42	13.0%	12.8%	13.9%	11.3	10.7	8.8	3.3%	3.7%	3.7%
OCBC	OCBC SP	Add	12.30	14.20	41,080	19.5%	1.13	1.06	0.99	10.8%	10.7%	11.2%	9.0	8.3	7.4	4.1%	4.1%	4.3%
United Overseas Bank	UOB SP	Add	30.01	33.50	37,309	21.0%	1.17	1.12	1.06	9.8%	9.5%	11.0%	8.9	8.6	7.5	4.3%	4.5%	4.5%
Singapore average						21.5%	1.34	1.26	1.18	11.3%	11.2%	12.2%	9.9	9.3	8.0	3.8%	4.0%	4.1%
Bank Central Asia	BBCA IJ	Hold	7,800	8,100	67,072	16.2%	4.83	4.37	3.92	15.7%	16.8%	18.0%	20.4	18.6	16.2	1.5%	1.8%	2.1%
Bank Danamon	BDMN IJ	Add	2,340	3,300	1,595	62.6%	0.48	0.46	0.43	6.5%	7.7%	8.4%	2.4	2.2	2.0	4.4%	5.8%	6.6%
Bank Jago	ARTO IJ	Add	18,350	20,000	17,736	na	30.65	29.12	26.61	3.1%	7.6%	12.8%	3801.3	328.7	159.1	0.0%	0.0%	0.0%
Bank Mandiri	BMRI IJ	Add	7,275	8,300	23,682	29.4%	1.81	1.66	1.53	13.4%	16.6%	17.1%	6.7	5.9	5.3	4.4%	5.7%	6.4%
Bank Negara Indonesia	BBNI IJ	Add	7,100	8,710	9,236	82.7%	1.05	0.95	0.85	8.4%	11.5%	13.3%	4.4	4.2	4.0	1.8%	2.9%	3.7%
Bank Permata	BNLI IJ	Reduce	1,430	1,500	3,592	34.9%	1.18	1.13	1.08	3.6%	3.9%	4.8%	10.9	10.4	9.6	0.0%	0.0%	0.0%
Bank Rakyat Indonesia	BBRI IJ	Add	4,120	5,000	43,556	30.4%	2.14	2.04	1.99	11.5%	14.1%	16.1%	9.0	8.2	7.5	4.4%	6.7%	8.0%
Bank Tabungan Negar.	BBTN IJ	Add	1,660	2,100	1,226	25.3%	0.81	0.73	0.65	9.3%	11.0%	12.1%	3.3	3.0	2.8	1.1%	1.4%	1.8%
Bank Tabungan Pensi	BTPN IJ	Hold	2,570	2,500	1,461	na	0.47	0.67	na	6.3%	7.2%	na	3.8	3.4	na	0.6%	0.5%	na
Bank Tabungan Pensi	BTPS IJ	Hold	3,500	3,900	1,881	35.9%	3.81	3.18	2.63	20.9%	21.4%	22.5%	11.0	9.6	8.1	0.6%	1.0%	1.2%
Indonesia average						na	2.55	2.37	na	11.6%	13.8%	na	10.8	9.9	na	2.5%	3.4%	na
Affin Bank Berhad	ABANK MK	Reduce	1.94	1.27	984.5	20.0%	0.40	0.39	0.37	4.9%	4.3%	4.9%	4.9	5.1	4.7	2.5%	2.4%	2.8%
Alliance Bank Malaysia	ABMB MK	Reduce	3.29	2.73	1,217	22.0%	0.78	0.74	0.69	7.2%	9.0%	9.6%	5.2	5.0	4.6	3.5%	5.1%	5.8%
AMMB Holdings	AMM MK	Add	3.38	3.64	2,674	12.8%	0.70	0.67	0.63	8.1%	9.7%	9.8%	4.2	4.0	3.7	3.8%	5.6%	6.0%
Bank Islam Malaysia B	BIMB MK	Add	3.05	3.46	1,571	11.5%	0.95	0.90	0.84	10.1%	8.5%	10.0%	6.5	5.6	5.1	4.9%	4.6%	5.7%
Hong Leong Bank	HLBK MK	Add	19.16	20.56	9,923	8.0%	1.32	1.20	1.12	9.5%	9.4%	9.7%	12.2	11.7	10.9	2.6%	3.0%	3.4%
Malayan Banking Bhd	MAY MK	Add	8.25	9.40	23,414	8.5%	1.12	1.07	1.01	9.4%	8.8%	9.6%	7.4	7.0	6.7	4.9%	4.9%	5.7%
Public Bank Bhd	PBK MK	Add	4.19	4.60	19,432	8.3%	1.61	1.53	1.43	11.6%	10.5%	12.2%	10.3	9.5	8.8	3.3%	3.3%	4.1%
RHB Bank Bhd	RHBBANK MK	Add	5.59	6.40	5,533	9.7%	0.78	0.73	0.68	9.6%	8.5%	9.7%	5.8	5.1	4.7	5.4%	5.6%	6.9%
Malaysia average						10.2%	1.14	1.07	1.01	9.6%	9.0%	10.0%	8.0	7.4	7.0	4.0%	4.2%	4.9%
Bangkok Bank	BBL TB	Add	130.0	164.0	7,538	23.6%	0.53	0.50	0.48	6.1%	6.3%	6.7%	4.3	4.0	3.7	3.1%	3.8%	3.8%
Kasikornbank	KBANK TB	Add	140.0	170.0	10,076	11.7%	0.71	0.67	0.63	8.1%	8.2%	8.4%	3.7	3.5	3.3	2.1%	3.6%	4.3%
Kiatnakin Phatra Bank	KKP TB	Hold	68.00	59.00	1,749	8.0%	1.21	1.18	1.15	11.9%	13.1%	13.6%	4.8	4.5	4.3	4.6%	6.3%	7.7%
Krung Thai Bank	KTB TB	Hold	13.70	12.70	5,816	10.1%	0.54	0.52	0.50	5.4%	5.9%	5.9%	3.0	2.9	2.8	2.9%	4.0%	4.2%
Krungthai Card	KTC TB	Reduce	59.75	42.00	4,679	18.7%	5.87	5.06	4.34	24.0%	25.2%	26.0%	12.1	10.3	9.5	1.6%	1.9%	2.3%
Muangthai Capital	MTC TB	Add	57.25	77.00	3,687	15.5%	4.83	3.90	3.15	23.9%	24.1%	24.2%	16.7	12.9	10.5	0.6%	0.8%	1.0%
Siam Commercial Ban	SCB TB	Add	123.5	119.0	12,738	12.5%	0.97	0.92	0.88	8.4%	8.3%	8.9%	4.9	4.7	4.4	2.4%	4.0%	4.5%
Srisawad Corporation	SAWAD TB	Add	62.75	78.00	2,617	11.8%	3.50	3.09	2.72	22.4%	22.0%	22.5%	14.1	11.2	9.7	2.9%	3.4%	3.9%
Tisco Financial Group	TISCO TB	Hold	97.00	101.0	2,359	5.9%	1.91	1.87	1.82	17.1%	17.1%	17.8%	7.2	7.0	6.6	7.0%	8.0%	8.2%
TMBThanachart Bank	TTB TB	Add	1.39	1.33	4,080	14.1%	0.63	0.60	0.57	5.8%	6.6%	6.9%	3.4	3.2	3.0	3.6%	4.3%	4.7%
Thailand average						13.7%	0.87	0.82	0.78	7.8%	8.1%	8.5%	4.7	4.5	4.2	2.7%	3.7%	4.1%

SOURCES: CSG-CIMB RESEARCH, COMPANY

ESG in a nutshell		Refinitiv ESG Scores							
				B- ESG Score	B+ ESG Controversies Score	B- ESG Combined Score	B- ESG Environment Pillar Score	C+ ESG Social Pillar Score	B ESG Government Pillar Score
		<p>OCBC scored a B- for its combined ESG score by Refinitiv in 2020, supported by improvements in its Environmental and Governance pillars over the past three years. The bank is guided by its Responsible Investing Policy developed to integrate ESG considerations into investment decision making and has outlined sector-specific policies to manage its ESG risk. While OCBC improved its Environmental pillar score in 2020 on the back of better resource use (environmental supply chain, energy efficiency, etc.), the effects on its overall ESG score were offset by a weaker Governance pillar score due to a lower proportion of independent board members, and board member affiliations. OCBC was the first bank in Singapore to assert its stance of no longer providing new financing for coal-fired power plants in 2019. It has since raised its sustainable finance commitment target to S\$25bn by 2025, after having achieved S\$20bn by 2020.</p>							
<p>Keep your eye on</p> <p>OCBC has been flagged for controversy regarding product responsibility involving an oil trader winning a favourable decision from the International Chamber of Commerce in a trade-finance dispute related to collapsed oil trading firm Hin Leong Trading (currently being investigated for fraudulent transactions).</p>	<p>Implications</p> <p>While court proceedings are still ongoing, the collapse of Hin Leong Trading is related to charges that include cheating, conspiracy to commit forgery, and abetment of forgery of a valuable security against its founder amid sharp swings in crude oil prices. This incidence is one-off, and we believe it does not implicate OCBC's underwriting standards. As such, this issue is not factored into our valuations.</p>								
<p>ESG highlights</p> <p>Refinitiv has ranked OCBC slightly weaker than its peers (DBS: B+, UOB: B+). Apart from the controversy mentioned above, OCBC's softer score is largely due to a weaker Social pillar score which carries a c.50% weightage in its ESG score.</p> <p>On the Social pillar, peers were ahead given the introduction and implementation of policies focused on child labour, forced labour, and fair competition.</p>	<p>Implications</p> <p>OCBC fares well in its Governance pillar, sustaining its score over the past five years. Notably, its metrics on the gender diversity of its board and executive members, and the proportion of non-executive board members had improved yoy.</p> <p>We view OCBC as having sound corporate governance given its lack of related controversy and believe this can be valued at a premium by some investors.</p>								
<p>Trends</p> <p>OCBC significantly improved its Environmental pillar score to B- in 2020, from D in 2019. Among the key contributors to this are its targets on energy efficiency, the introduction of environmental supply chain policies, and environmental material sourcing.</p>	<p>Implications</p> <p>We believe OCBC's Environmental pillar score will benefit as the bank adopts practices to reduce its CO2 emissions. The rollout of environmentally innovative products could also attract more interest from funds with an ESG focus.</p>								

SOURCES: CGS-CIMB RESEARCH, REFINITIV

BY THE NUMBERS
P/BV vs ROE

12-mth Fwd FD Core P/E vs FD Core EPS Growth

Profit & Loss

(\$m)	Dec-19A	Dec-20A	Dec-21F	Dec-22F	Dec-23F
Net Interest Income	6,331	5,966	6,035	6,480	7,301
Total Non-Interest Income	4,540	4,173	4,876	5,164	5,470
Operating Revenue	10,871	10,139	10,911	11,643	12,771
Total Non-Interest Expenses	(4,747)	(4,543)	(4,790)	(4,970)	(5,308)
Pre-provision Operating Profit	6,124	5,596	6,121	6,673	7,464
Total Provision Charges	(890)	(2,043)	(696)	(750)	(797)
Operating Profit After Provisions	5,234	3,553	5,425	5,923	6,667
Pretax Income/(Loss) from Assoc.	566	612	643	662	682
Operating EBIT (incl Associates)	5,800	4,165	6,068	6,585	7,349
Non-Operating Income/(Expense)	0	0	0	0	0
Profit Before Tax (pre-EI)	5,800	4,165	6,068	6,585	7,349
Exceptional Items					
Pre-tax Profit	5,800	4,165	6,068	6,585	7,349
Taxation	(778)	(437)	(819)	(1,001)	(1,117)
Consolidation Adjustments & Others					
Exceptional Income - post-tax	0	0	0	0	0
Profit After Tax	5,022	3,728	5,249	5,584	6,232
Minority Interests	(153)	(142)	(184)	(195)	(218)
Prof. & Special Div	0	0	0	0	0
FX And Other Adj.	0	0	0	0	0
Net Profit	4,869	3,586	5,065	5,389	6,013
Recurring Net Profit	4,869	3,586	5,065	5,389	6,013

Balance Sheet Employment

	Dec-19A	Dec-20A	Dec-21F	Dec-22F	Dec-23F
Gross Loans/Cust Deposits	87.5%	84.9%	85.1%	86.6%	86.3%
Avg Loans/Avg Deposits	87.4%	86.2%	85.0%	85.9%	86.4%
Avg Liquid Assets/Avg Assets	17.9%	17.8%	17.3%	16.7%	16.2%
Avg Liquid Assets/Avg IEAs	26.3%	27.3%	27.0%	25.7%	24.7%
Net Cust Loans/Assets	53.4%	50.5%	51.7%	53.2%	53.5%
Net Cust Loans/Broad Deposits	84.3%	81.2%	81.6%	83.2%	82.8%
Equity & Provs/Gross Cust Loans	17.8%	18.6%	18.1%	17.9%	18.1%
Asset Risk Weighting	43.4%	41.8%	42.7%	43.9%	44.2%
Provision Charge/Avg Cust Loans	0%	0%	0%	0%	0%
Provision Charge/Avg Assets	0%	0%	0%	0%	0%
Total Write Offs/Average Assets	0%	0%	0%	0%	0%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS... cont'd

Balance Sheet

(\$m)	Dec-19A	Dec-20A	Dec-21F	Dec-22F	Dec-23F
Total Gross Loans	300,940	300,056	322,450	344,353	360,305
Liquid Assets & Invst. (Current)	29,253	33,143	33,474	33,809	34,147
Other Int. Earning Assets					
Total Gross Int. Earning Assets	330,193	333,199	355,925	378,162	394,453
Total Provisions/Loan Loss Reserve	(2,728)	(3,702)	(3,192)	(3,431)	(3,603)
Total Net Interest Earning Assets	327,465	329,497	352,732	374,732	390,850
Intangible Assets	4,980	4,837	4,837	4,837	4,837
Other Non-Interest Earning Assets	107,291	127,245	134,819	136,098	144,844
Total Non-Interest Earning Assets	112,271	132,082	139,656	140,935	149,681
Cash And Marketable Securities	51,955	59,816	60,892	61,990	63,112
Long-term Investments	0	0	0	0	0
Total Assets	491,691	521,395	553,281	577,657	603,643
Customer Interest-Bearing Liabilities	302,851	314,907	340,100	358,805	378,539
Bank Deposits	8,250	9,586	10,353	10,922	11,523
Interest Bearing Liabilities: Others	37,075	39,871	41,913	43,079	44,317
Total Interest-Bearing Liabilities	348,176	364,364	392,366	412,806	434,380
Bank's Liabilities Under Acceptances					
Total Non-Interest Bearing Liabilities	94,912	105,855	107,096	108,076	109,066
Total Liabilities	443,088	470,219	499,461	520,882	543,446
Shareholders' Equity	47,162	49,622	52,449	55,599	59,241
Minority Interests	1,441	1,554	1,370	1,175	957
Total Equity	48,603	51,176	53,819	56,774	60,197

Key Ratios

	Dec-19A	Dec-20A	Dec-21F	Dec-22F	Dec-23F
Total Income Growth	12.1%	(6.7%)	7.6%	6.7%	9.7%
Operating Profit Growth	13.7%	(8.6%)	9.4%	9.0%	11.8%
Pretax Profit Growth	4.5%	(28.2%)	45.7%	8.5%	11.6%
Net Interest To Total Income	58.2%	58.8%	55.3%	55.7%	57.2%
Cost Of Funds	1.68%	0.89%	0.78%	0.84%	0.94%
Return On Interest Earning Assets	3.71%	2.76%	2.60%	2.68%	2.92%
Net Interest Spread	2.03%	1.86%	1.83%	1.85%	1.98%
Net Interest Margin (Avg Deposits)	2.12%	1.93%	1.84%	1.85%	1.98%
Net Interest Margin (Avg RWA)	3.06%	2.77%	2.66%	2.65%	2.81%
Provisions to Pre Prov. Operating Profit	14.5%	36.5%	11.4%	11.2%	10.7%
Interest Return On Average Assets	1.32%	1.18%	1.12%	1.15%	1.24%
Effective Tax Rate	13.4%	10.5%	13.5%	15.2%	15.2%
Net Dividend Payout Ratio	48.0%	39.7%	44.2%	41.5%	39.5%
Return On Average Assets	1.02%	0.71%	0.94%	0.95%	1.02%

Key Drivers

	Dec-19A	Dec-20A	Dec-21F	Dec-22F	Dec-23F
Net interest margin (%)	1.8%	1.6%	1.6%	1.5%	1.6%
Net interest income growth (%)	7.5%	-5.8%	1.2%	7.4%	12.7%
Non-interest income growth (%)	19.1%	-8.1%	16.8%	5.9%	5.9%
Cost-income ratio (%)	42.7%	43.8%	42.9%	41.8%	42.5%
Net loan growth (%)	2.8%	0.5%	8.6%	7.5%	5.0%
Deposit growth (%)	2.5%	4.0%	8.0%	5.5%	5.5%
Loans-deposits ratio (%)	86.6%	83.7%	84.1%	85.7%	85.3%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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Reduce	7.1%	0.0%

Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2021, Anti-Corruption 2021

ADVANC – Excellent, Certified, **AMATA** – Excellent, Certified, **ANAN** – Excellent, n/a, **AOT** – Excellent, n/a, **AP** – Excellent, Certified, **ASP** – Excellent, n/a, **AWC** – Excellent, Declared, **AU** – Good, n/a, **BAM** – Very Good, Certified, **BAY** – Excellent, Certified, **BBL** – Excellent, Certified, **BCH** – Very Good, Certified, **BCP** – Excellent, Certified, **BCPG** – Excellent, Certified, **BDMS** – Excellent, n/a, **BEAUTY** – Good, n/a, **BEM** – Excellent, n/a **BH** – Good, n/a, **BJC** – Very Good, n/a, **BLA** – Very Good, Certified, **BTS** – Excellent, Certified, **CBG** – Very Good, n/a, **CCET** – n/a, n/a, **CENDEL** – Excellent, Certified, **CHAYO** – Very Good, n/a, **CHG** – Very Good, n/a, **CK** – Excellent, n/a, **COM7** – Excellent, Certified, **CPALL** – Excellent, Certified, **CPF** – Excellent, Certified, **CPN** – Excellent, Certified, **CPNREIT** – n/a, n/a, **CRC** – Excellent, Declared, **DELTA** – Excellent, Certified, **DDD** – Excellent,

n/a, **DIF** – n/a, n/a, **DOHOME** – Very Good, Declared, **DREIT** – n/a, n/a, **DTAC** – Excellent, Certified, **ECL** – Excellent, Certified, **EGCO** - Excellent, Certified, **EPG** – Excellent, Certified, **ERW** – Very Good, Certified, **GFPT** - Excellent, Certified, **GGC** – Excellent, Certified, **GLOBAL** – Excellent, n/a, **HANA** - Excellent, Certified, **HMPRO** - Excellent, Certified, **HUMAN** – Good, n/a, **ICHI** – Excellent, Certified, **III** – Excellent, Declared, **INTUCH** - Excellent, Certified, **IRPC** – Excellent, Certified, **ITD** – Very Good, n/a, **IVL** - Excellent, Certified, **JASIF** – n/a, n/a, **JKN** – n/a, Certified, **JMT** – Very Good, n/a, **KBANK** - Excellent, Certified, **KCE** - Excellent, Certified, **KEX** – Very Good, Declared, **KKP** – Excellent, Certified, **KSL** – Excellent, Certified, **KTB** - Excellent, Certified, **KTC** – Excellent, Certified, **LH** - Excellent, n/a, **LPN** – Excellent, Certified, **M** – Very Good, Certified, **MAKRO** – Excellent, Certified, **MC** – Excellent, Certified, **MEGA** – Very Good, n/a, **MINT** - Excellent, Certified, **MTC** – Excellent, Certified, **NETBAY** – Very Good, n/a, **NRF** – Very Good, Declared, **OR** – Excellent, n/a, **ORI** – Excellent, Certified, **OSP** – Excellent, n/a, **PLANB** – Excellent, Certified, **PRINC** – Very Good, Certified, **PR9** – Excellent, Declared, **PSH** – Excellent, Certified, **PTT** - Excellent, Certified, **PTTEP** - Excellent, n/a, **PTTGC** - Excellent, Certified, **QH** – Excellent, Certified, **RAM** – n/a, n/a, **RBF** – Very Good, n/a, **RS** – Excellent, Declared, **RSP** – Good, n/a, **S** – Excellent, n/a, **SAK** – Very Good, Declared, **SAPPE** – Very Good, Certified, **SAWAD** – Very Good, n/a, **SCB** - Excellent, Certified, **SCC** – Excellent, Certified, **SCGP** – Excellent, Declared, **SECURE** – n/a, n/a, **SHR** – Excellent, n/a, **SIRI** – Excellent, Certified, **SPA** – Very Good, n/a, **SPALI** - Excellent, Certified, **SPRC** – Excellent, Certified, **SSP** - Good, Certified, **STEC** – Excellent, n/a, **SVI** – Excellent, Certified, **SYNEX** – Very Good, Certified, **TCAP** – Excellent, Certified, **THANI** – Excellent, Certified, **TIDLOR** – n/a, Certified, **TISCO** - Excellent, Certified, **TKN** – Very Good, n/a, **TOP** - Excellent, Certified, **TRUE** – Excellent, Certified, **TTB** - Excellent, Certified, **TU** – Excellent, Certified, **TVO** – Excellent, Certified, **VGI** – Excellent, Certified, **WHA** – Excellent, Certified, **WHART** – n/a, n/a, **WICE** – Excellent, Certified, **WORK** – Good, n/a.

- CG Score 2021 from Thai Institute of Directors Association (IOD)

- Companies participating in Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC) under Thai Institute of Directors (as of August 5, 2021) are categorised into: companies that have declared their intention to join CAC, and companies certified by CAC.

Recommendation Framework

Stock Ratings

Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.