

### SECTOR UPDATE

## Banking – Singapore

4Q21 Roundup: Resumes Enduring Role As Yield Plays.

**Loan growth has picked up in tandem with reopening and economic recovery in 2022. Credit costs have moderated and dividends are on the rise. We expect four interest rate hikes in both 2022 and 2023 and NIM expansion for Singapore banks starting 2H22. DBS and OCBC provide attractive 2023F dividend yield of 4.3% and 4.6%. Maintain OVERWEIGHT. BUY DBS (Target: S\$40.00) and OCBC (Target: S\$15.82).**

### WHAT'S NEW

- DBS Group Holdings' (DBS) and United Overseas Bank's (UOB) 4Q21 results met expectations. Oversea-Chinese Banking Corp (OCBC) missed expectations.
- **Loan growth picked up** with DBS, OCBC and UOB achieving loan growth of 9.9%, 8.4% and 10.5% yoy respectively in 4Q21. Expansion was driven by Singapore, Greater China and developed countries, such as Australia, the UK and the US. NIM was mostly stable qoq. UOB registered the highest increase in net interest income of 11% yoy in 4Q21 as it did not suffer from NIM contraction in 2021.
- **Wealth management was seasonally softer.** DBS and UOB achieve strong growth in fee income of 9% and 13% yoy respectively in 4Q21, a reflection of higher volume of customer activities. We saw seasonal weakness with DBS, OCBC and UOB succumbing to sequential contraction in wealth management fees of 9%, 17% and 8% qoq.
- **OCBC incurred higher expenses in 4Q21.** OCBC's operating expenses expanded 15% yoy in 4Q21. Its staff costs increased 10% in 2021 (increase is smaller at 5% if we exclude impact of government job support grants). OCBC's cost-to-income ratio was elevated at 50.5%.
- **Contrasting fortunes for asset quality.** DBS' NPL balance contracted 11.7% qoq in 4Q21 due to full repayment of two significant NPLs in the transportation, storage & communications sector in Singapore in 4Q21. Its NPL ratio declined from 1.5% to 1.3%. OCBC's NPL formation was elevated at S\$1,057m in 4Q21 (3Q21: S\$804m) with lower NPLs in Singapore (write-offs for legacy oil & gas exposures) but offset by higher NPLs in Malaysia (housing loans under moratorium), Indonesia (loans for the manufacturing sector) and Greater China (delays in project financing due to disruptions from the COVID-19 pandemic).
- **Banks wrote-back general provisions.** DBS, OCBC and UOB wrote back general provisions of S\$34m, S\$70m and S\$76m in 4Q21. DBS expects total provisions to be only S\$0-100m in 2022 (credit costs less than 5bp). OCBC and UOB guided credit costs of 22-25bp and 20-25% respectively.
- **Banks dishing out more dividends.** DBS increased quarterly dividend from 33 to 36 S cents, while OCBC increased final dividend from 25 to 28 S cents for 4Q21. UOB declared final dividend of 60 S cents based on dividend payout ratio of 50%. Scrip dividend scheme is not applicable to the final dividends.

### PEER COMPARISON

Company	Ticker	Rec	Price @ 23 Feb 22 (S\$)	Target Price (S\$)	Market Cap (US\$m)	FY	PE		P/B		P/POP		Yield		ROE	
							2022F (x)	2023F (x)	2022F (x)	2023F (x)	2022F (x)	2023F (x)	2022F (%)	2023F (%)	2022F (%)	2023F (%)
DBS	DBS SP	BUY	36.50	40.00	69,900	12/2021	13.5	12.7	1.61	1.52	11.4	10.0	3.9	4.3	11.9	12.0
OCBC	OCBC SP	BUY	12.56	15.82	41,988	12/2021	11.3	10.1	1.04	0.99	10.0	9.1	4.3	4.6	9.3	9.8
UOB#	UOB SP	NR	32.38	n.a.	40,290	12/2021	12.1	10.2	1.24	1.16	9.1	7.8	4.1	4.7	10.5	11.9
Average							12.3	11.0	1.30	1.22	10.2	8.9	4.1	4.5	10.6	11.3

# Forecast based on consensus estimates.

Source: Bloomberg, UOB Kay Hian

## OVERWEIGHT (Maintained)

### TOP BUYS

Company	Rec	Share Price (S\$)	Target Price (S\$)
DBS	BUY	36.50	40.00
OCBC	BUY	12.56	15.82

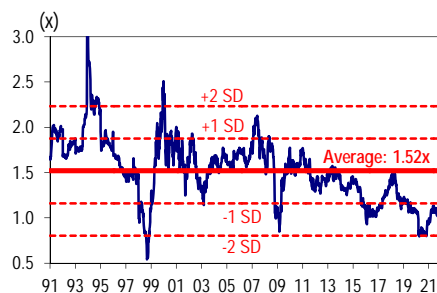
Source: UOB Kay Hian

### P/B – DBS



Source: UOB Kay Hian

### P/B – OCBC



Source: UOB Kay Hian

### P/B – UOB



Source: UOB Kay Hian

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### ACTION

- **Singapore has one of the highest vaccination rates in the world.** Singapore will transition to a new normal of living with endemic COVID-19 amid rising vaccination rates. As of 22 Feb 22, 92% of our population has completed their full regimen/received two doses of COVID-19 vaccines, of which 66% have received their booster shots. According to Deputy Prime Minister Heng Swee Keat, Singapore is committed to reopening its economy and borders to the rest of the world.
- **Be on guard against faster and steeper rate hikes.** Fed Chairman Jerome Powell has not ruled out raising interest rates at every successive FOMC meeting this year. He has also not ruled out steeper rate hikes of 50bp. On the contrary, he emphasised that the economy is stronger and inflation much higher now compared with the last rate hike cycle in 2015-18. He also feels that there is quite a bit of room to raise interest rates without affecting the job market.
- **Maintain OVERWEIGHT.** Banks are prime beneficiaries of higher interest rates. Our top pick for Singapore banks is DBS (BUY/Target: S\$40.00), followed by OCBC (BUY/Target: S\$15.82).

### SECTOR CATALYSTS

- NIM expansion in 2H22, 2023 and 2024 driven by upcycle in interest rates.
- Banks reviewing their dividend payout ratio and paying more dividends as risks emanating from COVID-19 pandemic recede.
- The easing of COVID-19 restrictions and recovery in 2H22 after the economy has weathered the Omicron variant wave.

### RISKS

- Escalation of geopolitical tension and trade conflict between the US, China and Russia.

### COMPARISON OF PROFIT & LOSS

4Q21	DBS	OCBC	UOB
Net Interest Income	S\$2,140m +0.9% yoy +1.7% qoq	S\$1,492m +3.9% yoy +2.1% qoq	S\$1,678m +11.1% yoy +4.6% qoq
Fee Income	S\$815m +9.1% yoy -8.2% qoq	S\$528m +2.1% yoy -7.2% qoq	S\$589m +12.8% yoy Unchanged
Insurance	n.a. n.a. n.a.	S\$299m +52.6% yoy -3.9% qoq	n.a. n.a. n.a.
Other Non-Interest Income	S\$442m +11.6% yoy -22.3% qoq	S\$231m -31.3% yoy +5.5% qoq	S\$168m -21.9% yoy -35.1% qoq
Provisions	S\$33m 3bp	S\$317m 44bp	S\$112m 29bp
Net Profit	S\$1,393m +37.6% yoy -18.3% qoq	S\$973m -14.0% yoy -20.5% qoq	S\$1,017m +47.4% yoy -2.8% qoq

Source: Respective companies, UOB Kay Hian

### COMPARISON OF KEY RATIOS

4Q21	DBS	OCBC	UOB
Net Interest Margin (NIM)	1.43% Unchanged	1.52% Unchanged	1.56% +1bp qoq
Loan Growth	+9.9% yoy +0.9% qoq	+8.4% yoy +1.7% qoq	+10.5% yoy +1.5% qoq
Deposit Growth	+8.0% yoy +2.7% qoq	+8.7% qoq +8.5% qoq	+8.6% yoy -0.5% qoq
NPL Ratio	1.3% -0.2ppt qoq	1.5% Unchanged	1.6% +0.1ppt qoq
Loan Loss Coverage	116% +8.8ppt qoq	90% -7ppt qoq	96% -9.9ppt qoq
Core Equity Tier-1 CAR	14.4% -0.1ppt	15.5% Unchanged	13.5% Unchanged
Book Value Per Share (BVPS)	S\$21.47 +6.9% yoy +0.2% qoq	S\$11.46 +5.9% yoy +1.6% qoq	S\$24.08 +4.6% yoy +2.2% qoq

Source: Respective companies, UOB Kay Hian

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