

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 @	Market	FY	PE		P/B		P/POP		Yield		ROE	
			23 Feb 22 (\$)			Target Price (\$)	Cap (US\$m)	2022F (x)	2023F (x)	2022F (x)	2023F (x)	2022F (x)	2023F (x)	2022F (%)	2023F (%)
DBS	DBS SP	BUY	36.50	40.00	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	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.	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 (\$)	Target Price (\$)
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

ANALYST

Jonathan Koh, CFA

+65 6590 6620

jonathankoh@uobkayhian.com

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

Disclosures/Disclaimers

This report is prepared by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser in Singapore.

This report is provided for information only and is not an offer or a solicitation to deal in securities or to enter into any legal relations, nor an advice or a recommendation with respect to such securities.

This report is prepared for general circulation. It does not have regard to the specific investment objectives, financial situation and the particular needs of any recipient hereof. Advice should be sought from a financial adviser regarding the suitability of the investment product, taking into account the specific investment objectives, financial situation or particular needs of any person in receipt of the recommendation, before the person makes a commitment to purchase the investment product.

This report is confidential. This report may not be published, circulated, reproduced or distributed in whole or in part by any recipient of this report to any other person without the prior written consent of UOBKH. This report is not directed to or intended for distribution to or use by any person or any entity who is a citizen or resident of or located in any locality, state, country or any other jurisdiction as UOBKH may determine in its absolute discretion, where the distribution, publication, availability or use of this report would be contrary to applicable law or would subject UOBKH and its connected persons (as defined in the Financial Advisers Act, Chapter 110 of Singapore) to any registration, licensing or other requirements within such jurisdiction.

The information or views in the report ("Information") has been obtained or derived from sources believed by UOBKH to be reliable. However, UOBKH makes no representation as to the accuracy or completeness of such sources or the Information and UOBKH accepts no liability whatsoever for any loss or damage arising from the use of or reliance on the Information. UOBKH and its connected persons may have issued other reports expressing views different from the Information and all views expressed in all reports of UOBKH and its connected persons are subject to change without notice. UOBKH reserves the right to act upon or use the Information at any time, including before its publication herein.

Except as otherwise indicated below, (1) UOBKH, its connected persons and its officers, employees and representatives may, to the extent permitted by law, transact with, perform or provide broking, underwriting, corporate finance-related or other services for or solicit business from, the subject corporation(s) referred to in this report; (2) UOBKH, its connected persons and its officers, employees and representatives may also, to the extent permitted by law, transact with, perform or provide broking or other services for or solicit business from, other persons in respect of dealings in the securities referred to in this report or other investments related thereto; (3) the officers, employees and representatives of UOBKH may also serve on the board of directors or in trustee positions with the subject corporation(s) referred to in this report. (All of the foregoing is hereafter referred to as the "Subject Business"); and (4) UOBKH may otherwise have an interest (including a proprietary interest) in the subject corporation(s) referred to in this report.

As of the date of this report, no analyst responsible for any of the content in this report has any proprietary position or material interest in the securities of the corporation(s) which are referred to in the content they respectively author or are otherwise responsible for.

IMPORTANT DISCLOSURES FOR U.S. PERSONS

This research report was prepared by UOBKH, a company authorized, as noted above, to engage in securities activities in Singapore. UOBKH is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution by UOBKH (whether directly or through its US registered broker dealer affiliate named below) to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"). All US persons that receive this document by way of distribution from or which they regard as being from UOBKH by their acceptance thereof represent and agree that they are a major institutional investor and understand the risks involved in executing transactions in securities.

Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through UOB Kay Hian (U.S.) Inc ("UOBKHUS"), a registered broker-dealer in the United States. Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through UOBKH.

UOBKHUS accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to and intended to be received by a U.S. person other than a major U.S. institutional investor.

The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA") and may not be an associated person of UOBKHUS and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

Analyst Certification/Regulation AC

Each research analyst of UOBKH who produced this report hereby certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject corporation(s) and securities in this report; (2) the report was produced independently by him/her; (3) he/she does not carry out, whether for himself/herself or on behalf of UOBKH or any other person, any of the Subject Business involving any of the subject corporation(s) or securities referred to in this report; and (4) he/she has not received and will not receive any compensation that is directly or indirectly related or linked to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. However, the compensation received by each such research analyst is based upon various factors, including UOBKH's total revenues, a portion of which are generated from UOBKH's business of dealing in securities.

Reports are distributed in the respective countries by the respective entities and are subject to the additional restrictions listed in the following table.

General	This report is not intended for distribution, publication to or use by any person or entity who is a citizen or resident of or located in any country or jurisdiction where the distribution, publication or use of this report would be contrary to applicable law or regulation.
Hong Kong	This report is distributed in Hong Kong by UOB Kay Hian (Hong Kong) Limited ("UOBKHHK"), which is regulated by the Securities and Futures Commission of Hong Kong. Neither the analyst(s) preparing this report nor his associate, has trading and financial interest and relevant relationship specified under Para. 16.4 of Code of Conduct in the listed corporation covered in this report. UOBKHHK does not have financial interests and business relationship specified under Para. 16.5 of Code of Conduct with the listed corporation covered in this report. Where the report is distributed in Hong Kong and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKHHK (and not the relevant foreign research house) in Hong Kong in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Hong Kong who is not a professional investor, or institutional investor, UOBKHHK accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Indonesia	This report is distributed in Indonesia by PT UOB Kay Hian Sekuritas, which is regulated by Financial Services Authority of Indonesia ("OJK"). Where the report is distributed in Indonesia and contains research analyses or reports from a foreign research house, please note recipients of the analyses or reports are to contact PT UOBKH (and not the relevant foreign research house) in Indonesia in respect of any matters arising from, or in connection with, the analysis or report.
Malaysia	Where the report is distributed in Malaysia and contains research analyses or reports from a foreign research house, the recipients of the analyses or reports are to contact UOBKHM (and not the relevant foreign research house) in Malaysia, at +603-21471988, in respect of any matters arising from, or in connection with, the analysis or report as UOBKHM is the registered person under CMSA to distribute any research analyses in Malaysia.
Singapore	This report is distributed in Singapore by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser regulated by the Monetary Authority of Singapore. Where the report is distributed in Singapore and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKH (and not the relevant foreign research house) in Singapore in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Singapore who is not an accredited investor, expert investor or institutional investor, UOBKH accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Thailand	This report is distributed in Thailand by UOB Kay Hian Securities (Thailand) Public Company Limited, which is regulated by the Securities and Exchange Commission of Thailand.
United Kingdom	This report is being distributed in the UK by UOB Kay Hian (U.K.) Limited, which is an authorised person in the meaning of the Financial Services and Markets Act and is regulated by The Financial Conduct Authority. Research distributed in the UK is intended only for institutional clients.
United States of America ('U.S.')	This report cannot be distributed into the U.S. or to any U.S. person or entity except in compliance with applicable U.S. laws and regulations. It is being distributed in the U.S. by UOB Kay Hian (US) Inc, which accepts responsibility for its contents. Any U.S. person or entity receiving this report and wishing to effect transactions in any securities referred to in the report should contact UOB Kay Hian (US) Inc. directly.

Copyright 2022, UOB Kay Hian Pte Ltd. All rights reserved.

<http://research.uobkayhian.com>

RCB Regn. No. 197000447W