

SECTOR UPDATE

Banking – Singapore

4Q21 Results Preview: Seasonal Lull With Stable Asset Quality.

4Q is typically a seasonal lull. Banks are on track to achieve high single-digit loan growth with stable NIM. Non-interest income is seasonally softer. We expect pristine asset quality supported by the easing of COVID-19 restrictions. We forecast DBS and OCBC to achieve net profit of S\$1,490m (+47% yoy and -12% qoq) and S\$1,122m (flat yoy and -9% qoq) for 4Q21. BUY DBS (Target: S\$40.28) and OCBC (Target: S\$16.12) as banks are prime beneficiaries of rate hikes. Maintain OVERWEIGHT.

WHAT'S NEW

- DBS is scheduled to release its 4Q21 results on 14 Feb 22 (Monday), followed by UOB on 16 Feb 22 (Wednesday) and OCBC on 23 Feb 22 (Wednesday).

DBS Group Holdings (DBS SP/BUY/S\$35.95/Target: S\$40.28)

- We forecast net profit of S\$1,490m for 4Q21, up 47% yoy but down 12% qoq.
- Steady loan growth underpinned by economic recovery.** We expect DBS to clock loan growth of 1.2% qoq and 10.1% yoy in 4Q21 with broad-based expansion from non-trade corporate and consumer loans. NIM is stable at 1.43% as interest rates remain near-zero (three-month compounded SORA edged marginally higher by 6bp qoq to 0.19% in 4Q21).
- Fees grew 16.4% yoy but dipped 2.1% qoq** in 4Q21. Contribution from wealth management declined 3.5% qoq as liquidity is withdrawn due to QE taper. We expect contribution from cards to grow 8% yoy due to the resumption of cross-border travel through vaccinated travel lanes (VTLs).
- Non-interest income seasonally weak.** We expect net trading income to be seasonally lower at S\$310m and gains from investment securities to be muted at S\$100m in 4Q21.
- Cost-to-income ratio is elevated at 47.6% as 4Q21 is a seasonally softer quarter.
- Asset quality benign.** We expect credit cost to moderate to 10p in 4Q21 (4Q20: 61bp) as asset quality remains benign. We expect a smaller write-back in general provisions of S\$50m in 4Q21 (3Q21: S\$138m). This is the fourth consecutive quarter of write-backs.
- We expect DBS to maintain quarterly dividend at 33 S cents for 4Q21.

Oversea-Chinese Banking Corporation (OCBC SP/BUY/S\$12.80/Target: S\$16.12)

- We forecast net profit of S\$1,122m for 4Q21, flat yoy but down 9% qoq.
- High single-digit loan growth.** We expect loan growth to pick up to high single-digit expansion of 9.1% yoy and 2.2% qoq in 4Q21, driven mainly by network customers expanding overseas by acquiring logistics, data centre and student accommodation properties and sustainable finance. We expect NIM to be stable at 1.53%.
- Stable contribution from fee income.** We expect fees to grow 8.7% yoy but ease 1.2% qoq in 4Q21. Contribution from wealth management is expected to decline 6% qoq as liquidity is withdrawn due to QE taper.
- Insurance to rebound yoy from a low base.** We expect contribution from insurance to increase 14.8% yoy due to a low base effect (suffered negative impact from higher insurance liabilities due to a lower discount rate in 4Q20). We expect net trading income to be muted at S\$175m due to mark-to-market losses from Great Eastern in 4Q21.

PEER COMPARISON

Company	Ticker	Rec	Price @ 4 Feb 22 (S\$)	Target Price (S\$)	Market Cap (US\$m)	FY	PE		P/B		P/POP		Yield		ROE	
							2021F (x)	2022F (x)	2021F (x)	2022F (x)	2021F (x)	2022F (x)	2021F (%)	2022F (%)	2021F (%)	2022F (%)
DBS	DBS SP	BUY	35.95	40.28	68,621	12/2020	13.8	12.4	1.58	1.49	11.0	9.6	3.9	4.2	11.2	11.8
OCBC	OCBC SP	BUY	12.80	16.12	42,731	12/2020	11.2	10.2	1.06	1.00	9.7	8.9	4.1	4.4	9.4	9.8
UOB*	UOB SP	NR	31.30	n.a.	38,894	12/2020	11.8	10.2	1.19	1.12	8.7	7.6	4.2	4.7	10.4	11.5
Average							12.3	11.0	1.27	1.20	9.8	8.7	4.1	4.4	10.3	11.0

*Based on consensus estimate

Source: Bloomberg, UOB Kay Hian

OVERWEIGHT

(Maintained)

TOP BUYS

Company	Rec	Share Price (S\$)	Target Price (S\$)
DBS	BUY	35.95	40.28
OCBC	BUY	12.80	16.12

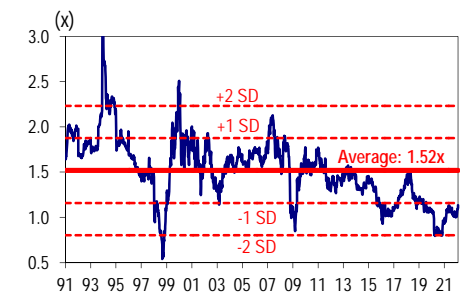
Source: UOB Kay Hian

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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- **Moderation in credit costs.** We expect asset quality to be stable. OCBC has set aside management overlay of more than S\$500m, which is above the amount of general provisions required by its macro-economic variable (MEV) model. We expect stable credit costs of 24bp in 4Q21 (3Q21: 23bp).

ACTION

- **Be on guard against faster and steeper rate hikes.** Core personal consumption expenditures (PCE) inflation has hit a 40-year high of 4.9% in Dec 21. Inflation has become more persistent and broad-based. The latest job report with non-farm payroll adding 467,000 jobs and unemployment rate at 4.0% in Jan 22 signal that the US economy could already be in full employment. Thus, the Fed is poised for a lift-off in interest rates during the next FOMC meeting on 15-16 Mar 22.
- **Preparing the ground for a rapid increase in interest rates.** Fed Chairman Jerome Powell has not ruled out raising interest rates at every successive FOMC meetings 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. BUY DBS (Target: S\$40.28) and OCBC (Target: S\$16.12).

SECTOR CATALYSTS

- NIM expansion in 2H22, 2023 and 2024 driven by upcycle in interest rates.
- Banks review their dividend payout ratio and pay 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.

ASSUMPTION CHANGES

- We maintained our DBS earnings forecast for 2022 largely unchanged.

KEY ASSUMPTIONS – DBS

	2020	2021F	2022F	2023F	2024F
Loan Growth (%)	4.2	10.4	7.0	7.4	7.4
NIM (%)	1.63	1.45	1.44	1.58	1.76
Fees, % Chg	0.2	17.7	8.7	9.9	9.5
NPL Ratio (%)	1.60	1.55	1.53	1.48	1.48
Credit Costs (bp)	79.7	3.8	14.8	20.2	20.2
Net Profit (S\$m)	4,721	6,871	6,797	7,565	8,777
% Chg	(26.1)	45.5	(1.1)	11.3	16.0

Source: UOB Kay Hian

- We maintained our OCBC earnings forecast for 2022 largely unchanged.

KEY ASSUMPTIONS – OCBC

	2020	2021F	2022F	2023F	2024F
Loan Growth (%)	0.6	8.5	6.9	7.6	7.5
NIM (%)	1.62	1.55	1.53	1.61	1.71
Fees, % Chg	(5.6)	14.4	6.2	8.3	8.3
NPL Ratio (%)	1.47	1.55	1.47	1.37	1.33
Credit Costs (bp)	76.7	27.4	22.2	22.2	22.8
Net Profit (S\$m)	3,588	5,010	5,137	5,632	6,212
% Chg	(26.3)	39.6	2.5	9.6	10.3

Source: UOB Kay Hian

RISKS

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

PROFIT & LOSS – FORECAST FOR DBS 4Q21

Profit & Loss (S\$m)	4Q21F	4Q20	yoy % Chg	3Q21	qq % Chg
Net Interest Income	2,135	2,120	0.7	2,103	1.5
Fees & Commissions	870	747	16.4	888	-2.1
Other Operating Income	440	396	11.1	569	-22.7
Total Income	3,445	3,263	5.6	3,560	-3.2
Operating Expenses	-1,641	-1,580	3.9	-1,668	-1.6
PPoP	1,803	1,683	7.2	1,892	-4.7
Provisions	-100	-577	-82.7	70	-242.9
PBT	1,703	1,106	54.0	1,962	-13.2
Net Profit	1,490	1,012	47.2	1,700	-12.4
EPS (S cents)	57.1	38.5	48.2	64.5	-11.5
DPS (S cents)	33.0	18.0	83.3	33.0	0.0
BVPS (S\$)	21.62	20.08	7.7	21.43	0.9

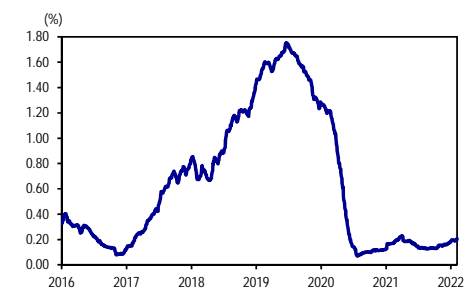
Source: UOB Kay Hian

PROFIT & LOSS – FORECAST FOR OCBC 4Q21

Profit & Loss (S\$m)	4Q21F	4Q20	yoy % Chg	3Q21	qq % Chg
Net Interest Income	1,512	1,436	5.3	1,471	2.8
Fees & Commissions	562	517	8.7	569	-1.2
Insurance	225	196	14.8	307	-26.7
Net Trading Income	175	264	-33.7	83	110.8
Other Non-Interest Income	105	72	45.8	140	-25.0
Total Income	2,579	2,485	3.8	2,570	0.3
Operating Expenses	-1,204	-1,150	4.7	-1,214	-0.8
PPOP	1,374	1,335	2.9	1,356	1.3
Provisions	-175	-284	-38.4	-163	7.4
Associates	168	131	28.0	204	-17.8
PBT	1,367	1,182	15.6	1,397	-2.2
Net Profit	1,122	1,132	-0.9	1,234	-9.1
EPS (S cents)	24.9	24.8	0.6	26.8	-6.9
DPS (S cents)	25.0	15.9	57.2	0.0	n.m.
BVPS (S\$)	11.51	10.82	6.3	11.28	2.0

Source: UOB Kay Hian

THREE-MONTH COMPOUNDED SORA



Source: Bloomberg

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