



Singapore Banking Monthly

Interest rates up in February

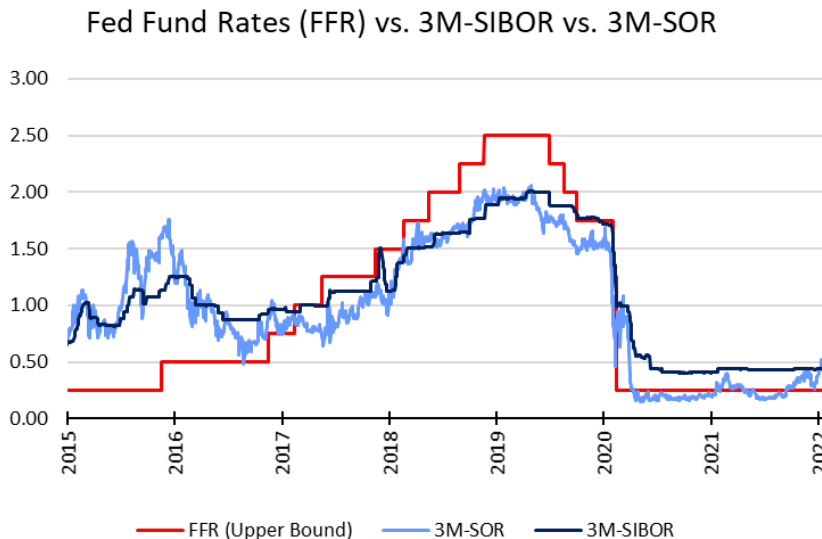
SINGAPORE | BANKING & FINANCE | UPDATE

- February's interest rates were up modestly by 7bps MoM.
- 4Q21 results, banks' NIM stabilised while fee income continued to grow. GP writebacks across all three banks resulted in lower full-year allowances.
- Hong Kong's domestic loans growth fell by 6.79% YoY but grew by 0.81% MoM in January. Malaysia's domestic loans growth increased 4.66% YoY and rose 0.53% MoM in January.
- Maintain OVERWEIGHT.** We remain positive on banks. Bank dividend yields are attractive with upside surprise due to excess capital ratios. Improving economic conditions and rising interest rates remain tailwinds for the banking sector. SGX is another beneficiary of higher interest rates.

3M-SOR and 3M-SIBOR up in February

Interest rates were up slightly in February. The 3M-SOR was up 7bps MoM to 0.39% while the 3M-SIBOR was up 1bp MoM to 0.45%. The 3M-SOR is 8bps higher than its 4Q21 average of 0.31% and has improved by 18bps YoY. The 3M-SIBOR is 1bp higher than its 4Q21 average of 0.44% and has improved by 4bps YoY (Figure 1).

Figure 1: Interest rates up in February



Source: Bloomberg, PSR

8 March 2022

Overweight (Maintained)

DBS Group Holdings

ACCUMULATE (Maintained)

BLOOMBERG CODE	DBS SP
LAST TRADED PRICE	SGD 32.11
FORECAST DIV	SGD 1.44
TARGET PRICE	SGD 41.60
DIVIDEND YIELD	4.48%
TOTAL RETURN	34.04%

Oversea-Chinese Banking Corp

BUY (Maintained)

BLOOMBERG CODE	OCBC SP
LAST TRADED PRICE	SGD 11.51
FORECAST DIV	SGD 0.66
TARGET PRICE	SGD 14.22
DIVIDEND YIELD	5.73%
TOTAL RETURN	29.28%

United Overseas Bank Limited

ACCUMULATE (Maintained)

BLOOMBERG CODE	UOB SP
LAST TRADED PRICE	SGD 29.16
FORECAST DIV	SGD 1.37
TARGET PRICE	SGD 35.70
DIVIDEND YIELD	4.70%
TOTAL RETURN	27.13%

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List of Abbreviations:

NIM – Net Interest Margin

SIBOR – Singapore Interbank Offer Rate

SOR – Swap Offer Rate

HIBOR – Hong Kong Interbank Offer Rate

DDAV – Derivatives Daily Average Volume

SDAV – Securities Daily Average Value

4Q21 RESULTS HIGHLIGHTS

Fee income grew while NIM remained stable

DBS' FY21 earnings of S\$6.8bn met our estimates as higher fee income and strong loans growth offset lower NIMs. 4Q21 DPS rose 9% to 36 cents. Full-year fee income grew by 15% YoY to a record S\$3.52bn as economic and market conditions improved. NIM remained flat QoQ but declined 6bps YoY to 1.43% as a result of lower market interest rates as customer deposits grew 3% QoQ to S\$502bn. Management guided similar FY22e NIMs of 145-150bps.

OCBC's FY21 earnings of S\$4.86bn met our estimates despite higher-than-expected allowances which were offset by higher net interest income. 4Q21 DPS rose 12% to 28 cents. Full-year fee income grew 12% YoY to a record S\$2.25bn from broad-based fee growth on the back of higher transaction volumes and customer activities. NII grew 4% YoY and 2% QoQ led by loan growth of 8% YoY and 2% QoQ while NIMs remained flat QoQ at 1.52%.

UOB's FY21 earnings of S\$4.08bn missed our estimates by 6% due to lower-than-expected trading and investment income. 4Q21 DPS was stable at 60 cents. Full-year fee income grew 21% YoY to a record S\$2.41bn, driven by double-digit growth in most activities. NII grew 5% QoQ and 11% YoY, led by continued loans growth of 2% QoQ and 10% YoY, while NIM improved 1bp this quarter to 1.56%.

GP writebacks made the difference in 4Q21

DBS' 4Q21 total allowances were significantly lower YoY but higher QoQ due to a lower write-back in GPs. Full-year allowances fell 98% YoY to S\$52mn due to repayments of weaker exposure, credit upgrades and transfers to non-performing assets resulting in general allowance write-backs during the year. Full-year credit cost of 12bps is below pre-pandemic levels. Management has guided similar allowances for FY22e.

OCBC made SPs of S\$387mn during the quarter, which is 109% higher than 3Q21's SPs of S\$185mn. This increase was mainly driven by project financing delays due to supply chain disruption brought about by COVID-19. However, OCBC was able to write back GPs of S\$70mn during the quarter mainly due to downgrade of accounts to ECL stage 3 allowances, and refresh of the macroeconomic variables in the ECL model. OCBC has guided credit costs of 20-25bps for FY22e compared with FY21's credit costs of 29bps.

UOB's GP write-back of S\$76mn in 4Q21 resulted in full-year GPs reducing by 90% YoY to S\$95mn. Credit costs on allowances dropped by 8bps QoQ to 12bps. Full-year credit costs were lower by 37bps at 20bps as FY20 included pre-emptive allowance for non-impaired loans. Total general allowance for loans, including RLARs, were prudently maintained at 1% of performing loans. UOB has guided credit cost of 20-25bps for FY22e due to lower SPs.

Figure 2: Bank's key operating metrics in 4Q21

4Q21 vs. 4Q20	DBS	OCBC	UOB
NIM (vs. 4Q20)	1.43% (-6bps)	1.52% (-4bps)	1.56% (-1bp)
NII	+1%	+4%	+11%
Net fees & commissions	+9%	+1%	+13%
General provisions (S\$)	(34) mn	(70) mn	(76) mn
NPL ratio	1.3%	1.5%	1.6%
NPA coverage	(-30bps)	(unchanged)	(unchanged)
NPA coverage	116%	90%	96%
Common Equity Tier-1	14.4%	15.5%	13.5%

Source: Company, PSR

Figure 3: Banks' guidance vs PSR estimates for FY22e

Assumptions	DBS	PSR
NIM (%)	1.45% - 1.50%	1.46%
Loans growth (%)	Mid to high single-digit	7.0%
Credit cost (bps)	Stable at 12 bps	10

Source: Company, PSR

Assumptions	OCBC	PSR
NIM (%)	1.50% - 1.55%	1.55%
Loans growth (%)	Mid to high single-digit	7.3%
Credit cost (bps)	20 to 25 bps	25

Source: Company, PSR

Assumptions	UOB	PSR
NIM (%)	Stable (1.56%)	1.59%
Loans growth (%)	Mid to high single-digit	7.0%
Credit cost (bps)	20 to 25 bps	26

Source: Company, PSR

Hong Kong loans growth falls while Malaysia loans growth continued in January

Hong Kong's domestic loans growth fell by 6.79% YoY but grew by 0.81% MoM in January. The YoY loans growth for January was the lowest recorded since 2010, however the MoM loans growth for January was the highest since June 2021.

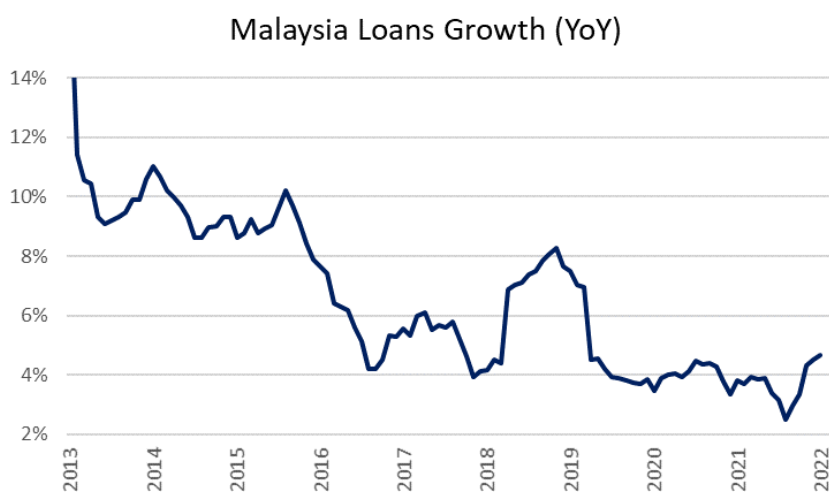
Malaysia's domestic loans growth saw an increase of 4.66% YoY in January and rose 0.53% MoM in January. The increase YoY in December was the highest recorded since March 2019.

Figure 4: Hong Kong loans growth down in January



Source: CEIC, PSR

Figure 6: Malaysia loans growth continue to rise



Source: CEIC, PSR

Figure 5: Hong Kong loans growth

2021/2022	Loans growth (YoY)
January	-6.42%
December	3.79%
November	4.23%
October	-4.80%
September	-0.05%
August	-1.27%
July	0.68%
June	5.21%
May	0.88%
April	0.18%
March	1.11%
February	3.15%

Source: CEIC, PSR

Figure 7: Malaysia loans growth

2022/2021	Loans growth (YoY)
January	4.66%
December	4.51%
November	4.30%
October	3.34%
September	2.94%
August	2.49%
July	3.14%
June	3.37%
May	3.89%
April	3.86%
March	3.93%
February	3.69%

Source: CEIC, PSR

Volatility rose as community cases increased

Preliminary SDAV for February rose 20% YoY to \$1,625mn (Figure 8), as community COVID-19 cases rose. The VIX averaged 25.8 in February, up from 23.2 in the previous month.

The top five equity index futures turnover saw an increase of 4.6% YoY in February to 13.26mn contracts (Figure 10) mainly due to the higher trading volumes of its Nifty 50 Index Futures and MSCI Singapore Index Futures. Notably, the Nifty 50 Index Futures increased 8.9% MoM and the FTSE China A50 Index Futures fell 17% MoM to 7.1mn.

Figure 8: YTD SDAV and DDAV

	SDAV (\$mn)	YoY (+/-)	DDAV (mn)	YoY (+/-)
February	1,625	+20%	-	-
January	1,194	-20%	1.02	+2%
December	834	-25%	0.85	+4%
November	1,318	-24%	0.86	-7%
October	1,158	+10%	0.99	+14%
September	1,229	+11%	1.03	+10%
August	1,236	-12%	0.90	-4%

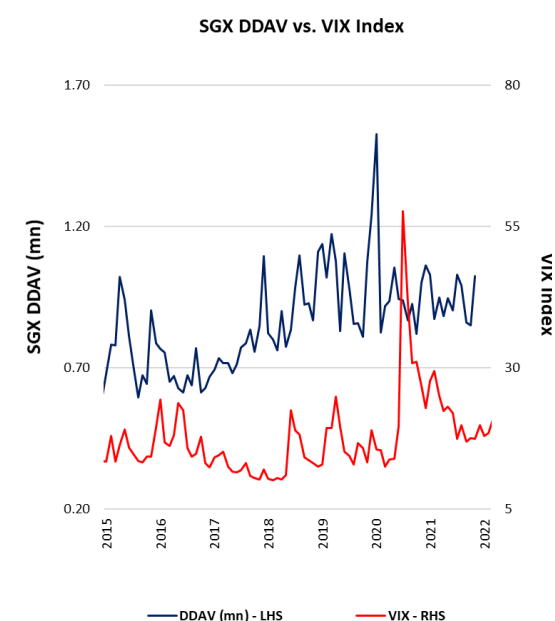
Source: SGX, Bloomberg, PSR

Figure 10: Turnover of top five equity index futures contracts up YoY

No. of contracts	Feb-21	Feb-22	YoY (+/-)
FTSE China A50 Index Futures	7,277,107	7,116,598	-2.2%
Nifty 50 Index Futures	1,969,218	2,609,791	+32.5%
Nikkei 225 Index Futures	1,084,753	1,129,446	+4.1%
FTSE Taiwan Index Futures	1,357,396	1,309,053	-3.6%
MSCI Singapore Index Futures	989,478	1,090,262	+10.2%
Sub-total	12,677,952	13,255,150	+4.6%

Source: SGX, Bloomberg, PSR

Figure 9: Correlation of DDAV and VIX Index

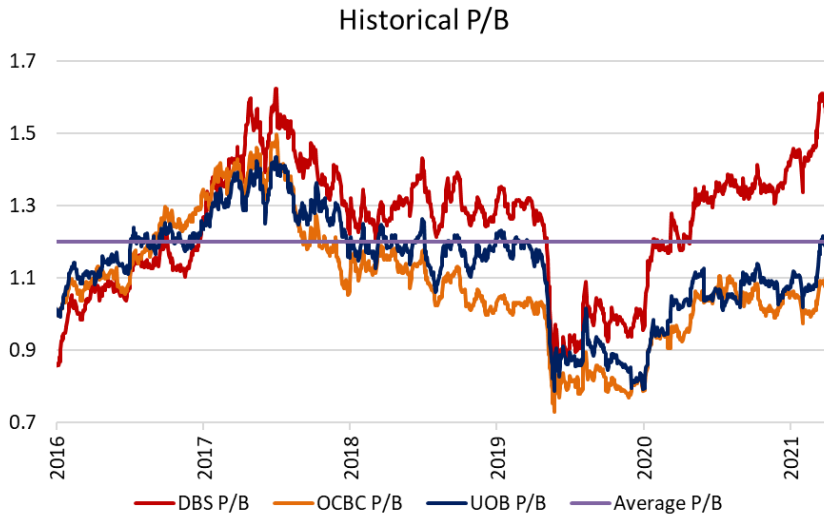


Source: SGX, Bloomberg, PSR

Investment Action

Maintain OVERWEIGHT. We remain positive on banks. Bank dividend yields are attractive with upside surprise due to excess capital ratios. Improving economic conditions and rising interest rates remain tailwinds for the banking sector. SGX is another beneficiary of higher interest rates.

Figure 11: Banks' 5-year historical P/B



Source: Bloomberg, PSR

Figure 12: Banks' target P/B

	DBS	OCBC	UOB
High	1.62	1.50	1.43
Low	0.81	0.73	0.79
5-year average	1.17	1.09	1.12
Current	1.34	1.02	0.97
Forward target	1.36	1.27	1.17
TP (\$S)	41.60	14.22	35.70

Source: Bloomberg, PSR

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