

SECTOR UPDATE

Banking – Singapore

1Q22 Results Preview: Toning Down Expectations As Geopolitical Tension Escalates

1Q22 is characterised by a reversal in NIM expansion, weak wealth management fees and stable asset quality. We expect the Fed to raise Fed Funds Rate by 50bp at the next FOMC meeting on 3-4 May and NIM expansion to be more pronounced starting 3Q22. We forecast DBS and OCBC to achieve net profit of S\$1,700m (-15% yoy and +22% qoq) and S\$1,110m (-26 yoy and +14% qoq) respectively for 1Q22. BUY DBS (Target: S\$37.55) and OCBC (Target: S\$15.05). Maintain OVERWEIGHT.

WHAT'S NEW

- DBS, OCBC and UOB are announcing their 1Q22 results on 29 Apr 22 (Friday).

DBS Group Holdings (DBS SP/BUY/S\$33.00/Target: S\$37.55)

- We forecast net profit to rebound 22% qoq to S\$1,700m for 1Q22. On a yoy basis, earnings are down 15% as 1Q21 was a high base with record wealth management fee of S\$519m and a huge write-back in general provisions of S\$190m.
- Nascent green shoot of impending NIM expansion.** We expect DBS Group Holdings (DBS) to clock loan growth of 1.5% qoq and 7.2% yoy in 1Q22. NIM edged marginally higher by 1bp qoq to 1.44% in 1Q22. Three-month compounded SORA has edged higher by 8bp qoq to 0.27% in 1Q22 in response to the first hike of 25bp for the Fed Funds Rate in mid-March.
- Fees rebounded 5% qoq but contracted 10% yoy in 1Q22.** Contribution from wealth management dropped 24% yoy due to a high base last year. High net worth clients' risk appetite was dampened in March due to the Russia-Ukraine war. We expect healthy growth from cards, transaction services and loans-related fees.
- Non-interest income lower yoy due to high base.** We expect other non-interest income to decline 22% yoy in 1Q22 due to a high base. DBS achieved a doubling of net trading income and sizeable gains from investment securities last year.
- We expect operating expenses to increase 4.5% yoy and cost-to-income ratio at 45.4%.
- Asset quality stays benign.** We expect NPL ratio to be stable at 1.3%. We expect credit cost to remain muted at 5p in 1Q22 (4Q21: 3bp) due to a smaller write-back in general provisions of S\$30m in 1Q22 (4Q21: S\$34m).
- We expect DBS to maintain quarterly dividend at 36 S cents for 1Q22.
- Our target price of S\$37.55 is based on 1.57x 2023F P/B, derived from Gordon Growth model (ROE: 12.1%, COE: 8.25%, Growth: 1.5).

Oversea-Chinese Banking Corporation (OCBC SP/BUY/S\$11.96/Target: S\$15.05)

- We forecast net profit of S\$1,110m for 1Q22, a rebound of 14% qoq but down 26% yoy. 1Q21 was a high base due to robust wealth management fees, insurance income and net trading income, coupled with lower provisions.

PEER COMPARISON

Company	Ticker	Rec	Price @ 18 Apr 22 (\$S)	Target Price (\$S)	Market Cap (US\$m)	FY	PE 2021F (x)	PE 2022F (x)	P/B 2021F (x)	P/B 2022F (x)	P/POP 2021F (x)	P/POP 2022F (x)	Yield 2021F (%)	Yield 2022F (%)	ROE 2021F (%)	ROE 2022F (%)
DBS	DBS SP	BUY	33.00	37.55	62,427	12/2021	12.9	11.7	1.46	1.38	10.7	9.1	4.4	4.5	11.3	11.8
OCBC	OCBC SP	BUY	11.96	15.05	39,488	12/2021	11.3	9.9	1.00	0.95	10.0	8.8	4.7	5.0	8.9	9.7
UOB*	UOB SP	NR	30.28	n.a.	37,217	12/2021	11.3	9.4	1.16	1.09	8.6	7.2	4.4	5.1	10.6	11.9
Average							11.8	10.3	1.21	1.14	9.7	8.4	4.5	4.9	10.3	11.1

* Based on consensus estimate

Source: Bloomberg, UOB Kay Hian

OVERWEIGHT

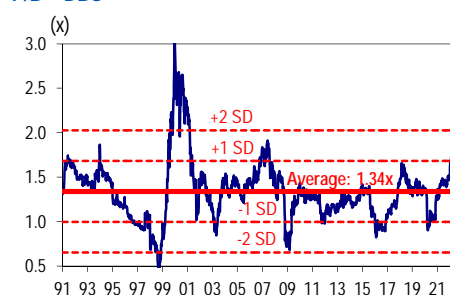
(Maintained)

SECTOR PICKS

Company	Rec	Share Price (\$S)	Target Price (\$S)
DBS	BUY	33.00	37.55
OCBC	BUY	11.96	15.05

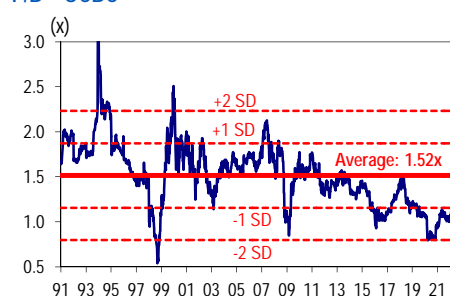
Source: UOB Kay Hian

P/B – DBS



Source: UOB Kay Hian

P/B – OCBC



Source: UOB Kay Hian

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- **On track to achieve mid to high single-digit loan growth.** We expect loan growth of 7.9% yoy and 1.0% qoq in 1Q22, driven mainly by network customers expanding overseas to acquire logistics, data centre and student accommodation properties and sustainable finance. We expect NIM to edge marginally higher by 1bp qoq to 1.53%.
- **Weakness from market-sensitive sources of income.** We expect fees to recover 5% qoq but ease 5% yoy in 1Q22. Contribution from wealth management is expected to decline 14% yoy as investors' risk appetite was affected by the Russo-Ukrainian war. The equity market has stayed resilient despite mayhem in the fixed income markets during 1Q22. We expect contribution from insurance to decline 61% yoy (insurance income tripled yoy to S\$469m in 1Q21). We forecast net trading income to be muted at S\$100m due to mark-to-market losses from Great Eastern.
- **Moderation in credit costs.** We expect asset quality to be stable. OCBC has set aside management overlay of more than S\$400m, which is above the amount of general provisions required by its macro-economic variable (MEV) model. We expect stable credit costs of 23bp in 1Q22 (1Q21: 24bp).
- Our target price of S\$15.05 is based on 1.20x 2023F P/B, derived from the Gordon growth model (ROE: 9.8%, COE: 8.25%, Growth: 0.5%).

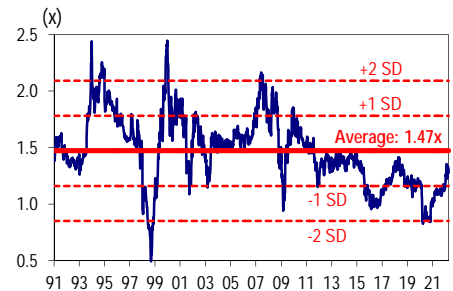
ACTION

- **Series of 50bp hikes in the making.** Many Fed officials have voiced support for 50bp hikes during upcoming FOMC meetings as well as frontloading interest rate hikes in 2022. Vice Chair Lael Brainard has recently stressed that the Fed is prepared to take stronger action in raising interest rates as controlling inflation is of paramount importance. Many FOMC participants judged that it is appropriate to move monetary policy towards a neutral posture expeditiously, which could entail raising the Fed Funds Rate to about 2.5% by end-22. This implies successive hikes of 50bp during upcoming FOMC meetings on 3-4 May and 14-15 June.
- **Acclimatising to heightened geopolitical tension.** The attack on Kyiv has stalled and the risk of Ukraine's capital Kyiv being seized by Russians has abated. Russian forces have regrouped to concentrate on the breakaway Donbas region. Unfortunately, the conflict could degenerate into a protracted stalemate as Russians deploy siege tactics in the new battleground of Eastern Ukraine.
- **US labour market remains resilient.** The US economy added 431,000 jobs in Mar 22 as hotels, restaurants, retailers and manufacturers hired more workers. The unemployment rate dropped from 3.8% to 3.6%, which is near pre-pandemic levels and the 50-year low of 3.5% in Feb 20. Increase in average hourly earnings remains robust at 5.5% yoy. Chairman Jerome Powell said the labour market is tight to an unhealthy extent.
- **The resilient labour market supports growth in domestic consumption.** It will help the economy to weather the series of interest rate hikes and generate sustained recovery.
- **US yield curve no longer inverted.** The 10-year to two-year term premium was in negative territory for only two days in early-April. It has since recovered to positive territory for the past two weeks and is currently 36bp.
- **Maintain OVERWEIGHT.** Tighter monetary policy and higher interest rates are positive for banks. The Russia-Ukraine war exacerbates higher inflation, which keeps bond yield higher for longer. BUY DBS (Target: S\$37.55) and OCBC (Target: S\$15.05) for their 2022 dividend yields of 4.4% and 4.7% respectively.

SECTOR CATALYSTS

- Economic recovery driven by reopening and easing of COVID-19 restrictions.
- Banks pay more dividends as risks emanating from COVID-19 pandemic recede.

P/B – UOB



Source: UOB Kay Hian

THREE-MONTH COMPOUNDED SORA



Source: Bloomberg

US GOVERNMENT BOND YIELD (10Y – 2Y)



Source: Bloomberg

ASSUMPTION CHANGES

- We cut our DBS earnings forecast for 2022 by 4% due to lower contribution from wealth management and higher operating expenses.

KEY ASSUMPTIONS – DBS

	2020	2021	2022F	2023F	2024F
Loan Growth (%)	4.2	9.9	5.0	8.8	6.6
NIM (%)	1.63	1.45	1.50	1.75	1.77
Fees, % Chg	0.2	15.2	0.9	14.6	9.3
NPL Ratio (%)	1.60	1.27	1.30	1.28	1.29
Credit Costs (bp)	79.7	1.3	7.7	20.4	20.2
Net Profit (\$m)	4,721	6,805	6,686	7,343	8,145
% Chg	(26.1)	44.1	(1.7)	9.8	10.9

Source: UOB Kay Hian

PROFIT & LOSS – FORECAST FOR DBS (1Q22)

Profit & Loss (\$m)	1Q22F	1Q21	yoy % chg	4Q22	qoq % chg
Net Interest Income	2,177	2,107	3.3	2,140	1.7
Fees & Commissions	859	953	-9.8	815	5.4
Other Operating Income	620	794	-21.9	442	40.3
Total Income	3,656	3,854	-5.1	3,397	7.6
Operating Expenses	-1,659	-1,587	4.5	-1,771	-6.3
PPoP	1,997	2,267	-11.9	1,626	22.8
Provisions	-54	-10	442.6	-33	64.4
PBT	1,943	2,257	-13.9	1,593	22.0
Net Profit	1,700	2,009	-15.4	1,393	22.1
EPS (S cents)	65.2	38.5	69.3	64.5	1.0
DPS (S cents)	36.0	18.0	100.0	36.0	0.0
BVPS (\$)	22.11	20.08	10.1	21.43	3.2

Source: UOB Kay Hian

- We cut our OCBC earnings forecast for 2022 by 4% due to lower contribution from wealth management and higher operating expenses.

KEY ASSUMPTIONS – OCBC

	2020	2021	2022F	2023F	2024F
Loan Growth (%)	0.6	8.6	4.4	6.3	6.8
NIM (%)	1.62	1.55	1.57	1.71	1.73
Fees, % Chg	(5.6)	12.0	2.2	8.2	8.2
NPL Ratio (%)	1.47	1.45	1.49	1.47	1.44
Credit Costs (bp)	76.7	31.3	23.1	23.2	23.7
Net Profit (\$m)	3,588	4,858	4,786	5,458	5,837
% Chg	(26.3)	35.4	(1.5)	14.0	7.0

Source: UOB Kay Hian

PROFIT & LOSS – FORECAST FOR OCBC (1Q22)

Profit & Loss (\$m)	1Q22F	1Q21	yoy % chg	4Q21	qoq % chg
Net Interest Income	1,532	1,441	6.3	1,492	2.7
Fees & Commissions	555	585	-5.1	528	5.1
Insurance	185	469	-60.6	299	-38.1
Net Trading Income	100	316	-68.4	152	-34.2
Other Non-Interest Income	80	103	-22.3	79	1.3
Total Income	2,452	2,914	-15.9	2,550	-3.9
Operating Expenses	-1,214	-1,175	3.3	-1,315	-7.7
PPoP	1,238	1,739	-28.8	1,235	0.2
Provisions	-168	-161	4.5	-317	-46.9
Associates	230	209	10.0	198	16.1
PBT	1,299	1,787	-27.3	1,116	16.4
Net Profit	1,110	1,501	-26.0	973	14.1
EPS (S cents)	24.6	24.8	-0.5	26.8	-7.9
DPS (S cents)	0.0	0.0	n.m.	28.0	n.m.
BVPS (\$)	11.68	10.82	7.9	11.28	3.5

Source: UOB Kay Hian

RISKS

- Escalation of the Russia-Ukraine war beyond Ukraine.
- Geopolitical tension and trade conflict between the US, China and Russia.

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