

SECTOR UPDATE

Banking – Singapore

1Q22 Roundup: Toning down expectations as geopolitical tension escalates

While there was only half a month of positive impact from the first rate hike, DBS, OCBC and UOB saw meaningful NIM expansion of 3bp, 3bp and 2bp respectively in 1Q22. Economic growth could moderate in 2H22. OCBC is most resilient with the highest CET-1 CAR of 15.2%, followed by 14% for DBS and 13.1% for UOB. DBS and OCBC provide attractive 2023F dividend yield of 4.4% and 4.8% respectively. Maintain OVERWEIGHT. BUY OCBC (Target: S\$14.88) and DBS (Target: S\$37.25).

WHAT'S NEW

- DBS Group Holdings' (DBS) and Oversea-Chinese Banking Corp's (OCBC) results exceeded expectations, while United Overseas Bank (UOB) missed consensus' estimates.
- **Benefitting from upcycle in interest rates.** US Fed fired the first salvo against elevated and persistent inflation by hiking Fed Funds Rate by 25bp during the FOMC meeting on 15-16 Mar 22. While there was only half a month of positive impact, DBS, OCBC and UOB have already saw meaningful NIM expansion of 3bp, 3bp and 2bp respectively to 1.46%, 1.55% and 1.58%. This is the first quarter of NIM expansion in three years.
- **Loan growth remains fairly resilient.** DBS, OCBC and UOB achieved high single-digit loan growth of 7.6%, 8.4% and 9.1% yoy respectively, driven by the Singapore and overseas markets, such as Greater China and developed markets in Australia, the UK and the US. Net interest income has started to inch higher by 3.8%, 4.3% and 10.3% yoy respectively.
- **High net worth clients' risk appetite affected by Russia-Ukraine war.** DBS, OCBC and UOB's wealth management fees declined by 21%, 20% and 27% yoy respectively. Other sources of fee income were more resilient. Loans-related fees expanded 21% yoy at DBS, 8% yoy at OCBC and 8% yoy at UOB. Contributions from credit cards recovered 11% yoy for DBS and 5% yoy for UOB due to the reopening of international borders and pick-up in travel.
- **Resilient contribution from Great Eastern.** OCBC generated income of S\$330m from life and general insurance (+10% qoq) due to mark-to-market gains from a decline in insurance contract liabilities, utilising a higher discount rate to value these liabilities.
- **UOB affected by one-off negative impact from structural hedges.** UOB suffered one-off negative impact from structural hedges for its additional tier-1 capital securities as interest rates rose. It also recorded unrealised mark-to-market losses from its investments. In total, non-customer-related trading and investment incurred losses of S\$117m.
- **OCBC's asset quality more stabilised in 1Q22.** OCBC's new NPL formation has normalised to S\$296m in 1Q22, significantly lower than S\$1,057m in 4Q21 (COVID-19 pandemic caused delays to syndicated project financing in Greater China). Its NPL balance contracted 0.7% qoq and its NPL ratio improved 0.1ppt qoq to 1.4%. DBS is well positioned with the highest loan loss coverage of 118%.
- **Strong balance sheet provides resiliency to weather uncertain macro environment.** OCBC has the highest CET-1 CAR of 15.2%, followed by 14% for DBS and 13.1% for UOB. DBS maintained quarterly dividend at 36 S cents for 1Q22.

PEER COMPARISON

Company	Ticker	Rec	Price @ 29 Apr 22 (\$)	Target Price (\$)	Market Cap (US\$m)	FY	PE 2022F (x)	PE 2023F (x)	P/B 2022F (x)	P/B 2023F (x)	P/POP 2022F (x)	P/POP 2023F (x)	Yield 2022F (%)	Yield 2023F (%)	ROE 2022F (%)	ROE 2023F (%)
DBS	DBS SP	BUY	33.92	37.25	63,242	12/2021	13.0	12.2	1.58	1.49	10.8	9.4	4.2	4.4	11.8	12.2
OCBC	OCBC SP	BUY	12.39	14.88	40,528	12/2021	11.2	10.3	1.05	1.00	10.1	9.3	4.5	4.8	9.3	9.7
UOB#	UOB SP	NR	29.99	n.a.	36,385	12/2021	11.2	9.4	1.15	1.08	8.5	7.2	4.5	5.2	10.5	11.9
Average							11.8	10.6	1.26	1.19	9.8	8.6	4.4	4.8	10.5	11.3

Forecast based on consensus estimates.
Source: Bloomberg, UOB Kay Hian

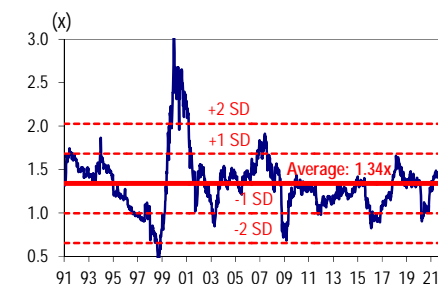
OVERWEIGHT (Maintained)

TOP BUYS

Company	Rec	Share Price (\$)	Target Price (\$)
DBS	BUY	33.92	37.25
OCBC	BUY	12.39	14.88

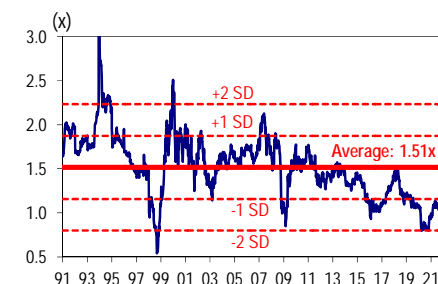
Source: UOB Kay Hian

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

- **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 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.
- **Benefitting from NIM expansion.** For DBS, we expect NIM to improve to 1.50% in 2022 and expand 23bp to 1.73% in 2023. We forecast earnings growth of 7.4% in 2023 and 10.3% in 2024. For OCBC, we expect NIM to improve to 1.58% in 2022 and expand 13bp to 1.71% in 2023. We forecast earnings growth of 8.6% in 2023 and 6.5% in 2024.
- **Economic growth could moderate in 2H22.** The banks have cautioned against second order impact from the Russia-Ukraine War through higher energy and commodity prices. Some companies may not be able to push through increases in pricing, which will result in margin compression.
- **Brighter prospects for ASEAN countries.** ASEAN countries benefit from easing of safe distancing measures and resumption of air travel. In particular, Malaysia and Indonesia gain from recovery in domestic consumption and higher energy and commodity prices. ASEAN countries benefit from the ongoing disruption to the global supply chain. Many multinational companies have adopted the China+1 strategy and have plans to set up alternative production facilities within the ASEAN region.
- **Maintain OVERWEIGHT.** Our top pick for Singapore Banks is OCBC (BUY/Target: S\$14.88), followed by DBS (BUY/Target: S\$37.25).

SECTOR CATALYSTS

- NIM expansion in 2H22 and 2023 driven by upcycle in interest rates.
- Strengthening of economic growth driven by easing of safe distancing measures and reopening of international borders after Singapore has weathered the Omicron variant.

RISKS

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

COMPARISON OF PROFIT & LOSS

1Q22	DBS	OCBC	UOB
Net Interest Income	S\$2,187m +3.8% yoy +2.2% qoq	S\$1,503m +4.3% yoy +0.7% qoq	S\$1,686m +10.3% yoy +0.5% qoq
Fee Income	S\$891m -6.5% yoy +9.3% qoq	S\$522m -10.8% yoy -1.1% qoq	S\$572m -10.3% yoy -2.9% qoq
Insurance	n.a. n.a. n.a.	S\$330m -29.8% yoy +10.4% qoq	n.a. n.a. n.a.
Other Non-Interest Income	S\$669m -15.7% yoy +97.9% qoq	S\$288m -31.1% yoy -24.7% qoq	S\$101m -68.3% yoy -39.9% qoq
Provisions	S\$55m 5bp	S\$44m 6bp	S\$178m 19bp
Net Profit	S\$1,801m -10.4% yoy +29.7% qoq	S\$1,356m -9.7% yoy +39.4% qoq	S\$906m -10.2% yoy -10.9% qoq

Source: Respective companies, UOB Kay Hian

COMPARISON OF KEY RATIOS

1Q22	DBS	OCBC	UOB
Net Interest Margin (NIM)	1.46% +3bp qoq	1.55% +3bp qoq	1.58% +2bp qoq
Loan Growth	+7.6% yoy +1.8% qoq	+8.4% yoy +1.4% qoq	+9.1% yoy +3.0% qoq
Deposit Growth	+8.7% yoy +3.5% qoq	+10.3% qoq +1.7% qoq	+9.0% yoy +2.6% qoq
NPL Ratio	1.3% Unchanged	1.4% -0.1ppt qoq	1.6% Unchanged
Loan Loss Coverage	118% +2ppt qoq	91 +1ppt qoq	94% -2ppt qoq
Core Equity Tier-1 CAR	14.0% -0.4ppt	15.2% -0.3ppt	13.1% -0.4ppt
Book Value Per Share (BVPS)	S\$21.02 +2.7% yoy -2.1% qoq	S\$11.55 +4.1% yoy +0.8% qoq	S\$24.23 +3.5% yoy +0.6% qoq

Source: Respective companies, UOB Kay Hian

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