



Singapore Banking Monthly

Interest rates continue to rise in April

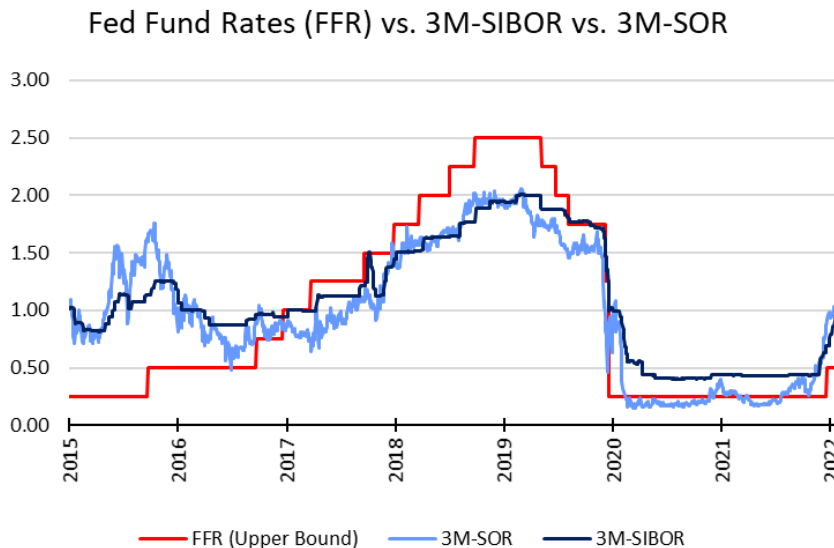
SINGAPORE | BANKING & FINANCE | UPDATE

- March 3M-SIBOR was up by 27bps MoM, the highest in 24 months.
- 1Q22 results, banks' NII and NIM remained stable despite healthy loans growth while fee income fell across the board in 1Q22.
- Hong Kong's domestic loans grew by 2.24% YoY and 0.29% MoM in March. Malaysia's domestic loans growth increased 4.56% YoY in March and 0.58% MoM in March.
- 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. We upgrade DBS and UOB from ACCUMULATE to BUY due to the recent share price weakness. No change in earnings or target price.

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

Interest rates continued to increase in April. The 3M-SOR was up 27bps MoM to 1.06%, while the 3M-SIBOR was up 27bps MoM to 0.94%. The 3M-SOR is 52bps higher than its 1Q22 average of 0.54% and has improved by 77bps YoY. The 3M-SIBOR is 41bps higher than its 1Q22 average of 0.53% and has improved by 50bps YoY (Figure 1).

Figure 1: Interest rates up in April



Source: Bloomberg, PSR

12 May 2022

Overweight (Maintained)

DBS Group Holdings

BUY (Upgraded)

BLOOMBERG CODE	DBS SP
LAST TRADED PRICE	SGD 31.36
FORECAST DIV	SGD 1.44
TARGET PRICE	SGD 41.60
DIVIDEND YIELD	4.59%
TOTAL RETURN	37.24%

Oversea-Chinese Banking Corp

BUY (Maintained)

BLOOMBERG CODE	OCBC SP
LAST TRADED PRICE	SGD 11.75
FORECAST DIV	SGD 0.66
TARGET PRICE	SGD 14.22
DIVIDEND YIELD	5.62%
TOTAL RETURN	26.64%

United Overseas Bank Limited

BUY (Upgraded)

BLOOMBERG CODE	UOB SP
LAST TRADED PRICE	SGD 28.40
FORECAST DIV	SGD 1.37
TARGET PRICE	SGD 35.70
DIVIDEND YIELD	4.82%
TOTAL RETURN	30.53%

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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

1Q22 RESULTS HIGHLIGHTS
NII and NIM remained stable despite healthy loans growth

DBS' 1Q22 earnings of S\$1.80bn are in line with our estimates, and 1Q22 PATMI is at 24% of our FY22e forecast. 1Q22 DPS is maintained QoQ at 36 cents, above pre-pandemic 33 cents. NIM grew 3bps QoQ but declined 3bps YoY to 1.46% due to lower market interest rates. NII grew 2% QoQ and 4% YoY to S\$2.2bn as higher loan and deposit volumes were moderated by stagnant NIMs. Loans grew 8% YoY and 2% QoQ to S\$416bn mainly due to non-trade corporate loans growth led by drawdowns in Singapore and Hong Kong across a range of industries.

OCBC's 1Q22 earnings of S\$1.36bn were in line with our estimates despite lower-than-expected non-interest income which were offset by higher net interest income and lower allowances. 1Q22 PATMI is 22% of our FY22e forecast. NII grew 4% YoY and 1% QoQ led by loan growth of 8% YoY and 1% QoQ, while NIMs declined 1bp YoY but grew 3bps QoQ to 1.55%. Loan growth was driven by Singapore, the UK, Australia and USA.

UOB's 1Q22 earnings of S\$906mn were lower than our estimates due to lower-than-expected fee and other non-interest income. 1Q22 PATMI is 19% of our FY22e forecast. NII grew 1% QoQ and 10% YoY, led by continued loans growth of 3% QoQ and 9% YoY, while NIM improved 2bps QoQ to 1.56%. Loan growth was led by corporate loans in Singapore, Greater China and Western countries, while QoQ loan growth was mainly from trade and term loans in Singapore.

Fee income fell across the board in 1Q22

DBS' fee income fell 7% YoY. Fee income decline YoY was mainly due to weaker market sentiment affecting wealth management and investment banking. Nonetheless, fee income grew 9% QoQ mainly due to higher fees from loan-related activities, transaction banking and wealth management as it recovered from a seasonally lower 4Q21.

OCBC's total non-interest income fell 23% YoY. The YoY decline was mainly due to lower WM fees, trading income and life insurance profit coming off the previous year's high, which was underpinned by robust customer and investment activities due to favourable market conditions.

UOB's fee and commission income fell 8% YoY, particularly from wealth and fund management due to the subdued market conditions. Fees, however, were stable QoQ as strong demand for lending and advisory business propelled higher loan-related fees which were moderated by seasonally lower credit card spending and lower wealth and fund management fees due to the dampened market sentiment.

Figure 2: Bank's key operating metrics in 1Q22

1Q22 vs. 1Q21	DBS	OCBC	UOB
NIM (vs. 1Q21)	1.46% (-3bps)	1.55% (-1bps)	1.56% (-1bp)
NII	+4%	+4%	+10%
Net fees & commissions	-7%	-23%	-8%
General provisions (\$)	(112) mn	(13) mn	(2) mn
NPL ratio	1.3%	1.4%	1.6%
	(-20bps)	(-10bps)	(+10bps)
NPA coverage	114%	91%	94%
Common Equity Tier-1	14.0%	15.2%	13.1%

Source: Company, PSR

Figure 3: Banks' guidance vs PSR estimates for FY22e

Assumptions	DBS	PSR
NIM (%)	1.58% - 1.60%	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 (1.58%)	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 improves while Malaysia's loans growth stagnates in March

Hong Kong's domestic loans grew by 2.24% YoY and 0.29% MoM in March. The YoY loans growth for March was an improvement from February's loans growth of 1.55%, and the MoM loans growth improved from February's loans growth of 0.13%.

Malaysia's domestic loans growth was 4.56% YoY in March and 0.58% MoM in March. The increase YoY in March was a slight dip from February's loans growth of 4.72%, while the increase MoM was an improvement from February's loans growth of 0.16%.

Figure 4: Hong Kong loans growth continues in March



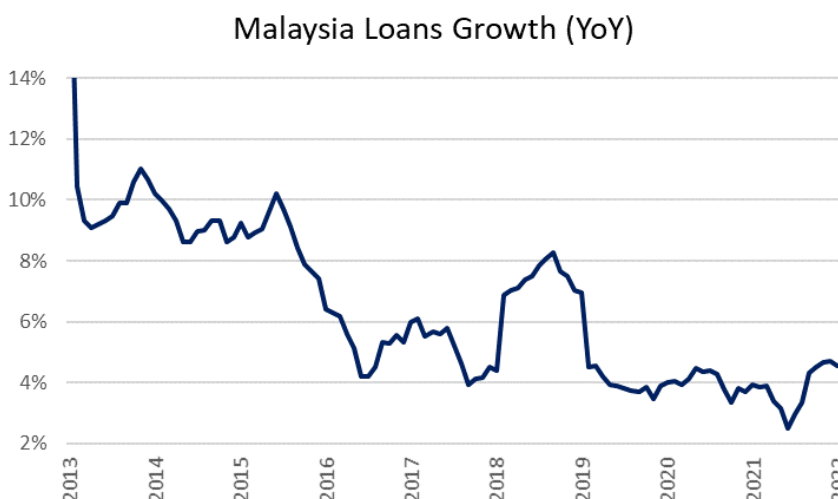
Source: CEIC, PSR

Figure 5: Hong Kong loans growth

2022/2021	Loans growth (YoY)
March	2.24%
February	1.55%
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%

Source: CEIC, PSR

Figure 6: Malaysia loans growth stagnates in March



Source: CEIC, PSR

Figure 7: Malaysia loans growth

2022/2021	Loans growth (YoY)
March	4.56%
February	4.72%
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%

Source: CEIC, PSR

Volatility fell as community cases begin to fall

Preliminary SDAV for April dipped 1% YoY to \$1,257mn (Figure 8), as community COVID-19 cases began to fall gradually. The VIX averaged 24.4 in April, down from 27.0 in the previous month.

The top five equity index futures turnover saw an increase of 23.3% YoY in April to 15.04mn contracts (Figure 9) mainly due to the higher trading volumes of its FTSE China A50 Index Futures and Nifty 50 Index Futures. However, the Nikkei 225 Index Futures fell 40.6% MoM to 0.92mn and the FTSE China A50 Index Futures fell 18% MoM to 9.1mn.

Figure 8: YTD SDAV and DDAV

	SDAV (\$mn)	YoY	DDAV (mn)	YoY
April	1,257	-1%	1.09	+25%
March	1,536	-6%	1.17	+13%
February	1,625	+20%	1.06	0%
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%

Source: SGX, Bloomberg, PSR

Figure 9: Turnover of top five equity index futures contracts up YoY

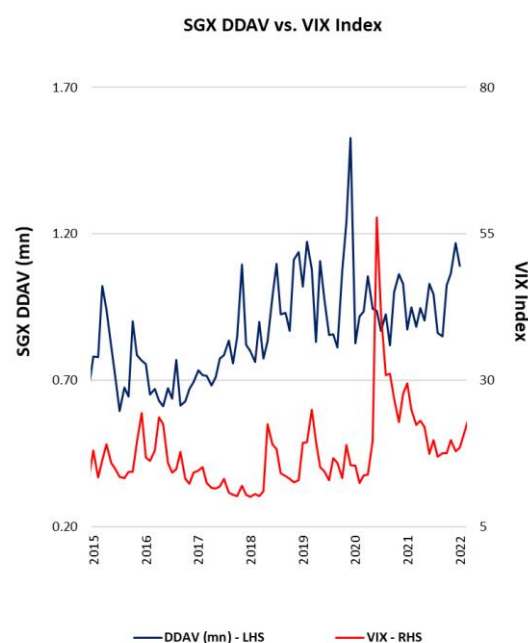
No. of contracts	Apr-21	Apr-22	YoY
FTSE China A50 Index Futures	6,656,948	9,139,214	+37.3%
Nifty 50 Index Futures	2,102,127	2,406,703	+14.5%
Nikkei 225 Index Futures	1,017,902	916,682	-9.9%
FTSE Taiwan Index Futures	1,413,711	1,518,868	+7.4%
MSCI Singapore Index Futures	1,008,301	1,063,098	+5.4%
Sub-total	12,198,989	15,044,565	+23.3%

Source: SGX, Bloomberg, PSR

Investment Action

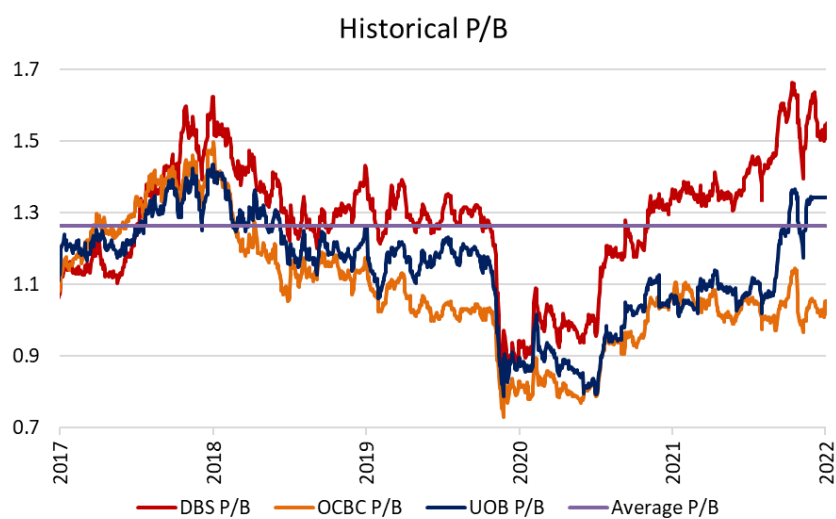
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Figure 10: Correlation of DDAV and VIX Index



Source: SGX, Bloomberg, PSR

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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