

Singapore

Overweight (no change)

Highlighted Companies
DBS Group
ADD, TP S\$40.20, S\$32.93 close

DBS had an estimated S\$1.5bn in management overlays as at 2Q22. Monetisation of digital assets is a potential rerating catalyst, although scaling-up and price discovery may take time.

OCBC
ADD, TP S\$15.50, S\$11.71 close

OCBC's robust CET-1 of c.15% remains a key tool, whether for M&As or to cushion against asset quality deterioration. Clarity on capital management plans are a rerating catalyst.

United Overseas Bank
ADD, TP S\$35.60, S\$26.13 close

We believe write-backs of management overlays would be unlikely until Covid-19 truly blows over. The credit quality of UOB's moratorium portfolio remains healthy. Its key risk of asset quality concerns from its SME and ASEAN portfolio have been well contained, in our view.

Summary Valuation Metrics

	Dec-22F	Dec-23F	Dec-24F
P/E (x)			
DBS Group	10.32	7.51	7.57
OCBC	8.74	7.09	6.89
United Overseas Bank	9.77	7.28	6.82
P/BV (x)			
DBS Group	1.42	1.26	1.14
OCBC	1.02	0.94	0.86
United Overseas Bank	0.97	0.89	0.82
Dividend Yield			
DBS Group	4.37%	4.37%	4.37%
OCBC	5.12%	5.12%	5.12%
United Overseas Bank	4.78%	4.78%	4.78%

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Banks

Turning it up

- Pricing in Fed fund futures of c.4.6% by mid-2023 and likely slower loan growth ahead, we estimate c.1-4% EPS upside across banks in FY22-24F.
- Escalating funding costs (given all-time high fixed deposit rates) and weakening borrower affordability are key risks to our thesis.
- Our stress tests using c.4.5% p.a. mortgage rates (currently c.3%) show that the average TDSR remains below 55% for those with public housing loans.
- We think that positive Fed rate hike momentum (and stronger NIM expansion ahead) will continue to support a sector rerating. DBS is our preferred pick.

Fed rates likely to rise towards c.4.6% by mid-2023

The Fed has taken unprecedented action, raising interest rates by 75bp to 3.25% in Sep 22 in its bid to reel in persistent inflation. This follows elevated core inflation readings, sparking fears of stagflation setting in. Including this hike, the Fed has raised its benchmark lending rate five times this year, with three of these being 75bp hikes. In Singapore, investors have correspondingly been holding their breath on a recession in the US spilling over into Asian economies, which has somewhat resulted in an overhang on banks' valuations. Although this translates to global economic growth further slowing amid higher unemployment rates, we think that Singapore banks will nonetheless remain beneficiaries from the pass-through of these higher rates into NIMs.

We raise EPS across banks by c.1-4% in FY23-24F

With the Fed's markedly firmer stance of committing to rate hikes until inflation moderates, the Fed fund futures now imply a c.4.3% rate by end-2022 (vs. c.3.7% at end-Aug 22) before rising to c.4.6% by mid-2023 (vs. c.3.9% at end-Aug 22). These rates are noticeably higher than the c.3.6% peak rate we assumed as inputs into our NIM estimates for the sector. Realistically, although higher benchmark rates bode well for banks' margins, we are cognisant that the region's economic growth will likely slow as customers hold back on investments and purchases, thereby dragging down loan growth to below the c.5-7% we factored in for FY23F. Factoring in forward Fed rate expectations (NIMs +c.30-50bp yoy in FY23F) and weaker growth (c.4-5% in FY23F) (Fig 4), we raise Singapore banks' EPS by c.1-4% in FY22-24F. In tandem, we believe that sequential NIM expansion will peak around 4Q22F (vs. 3Q22F previously).

Stress tests show that borrowers may hold up well at 4.5% rates

Risks to our estimated earnings upside include a sharper-than-anticipated rise in funding costs from attrition from CASA into fixed deposits (highest rates in Singapore in 24 years) or due to deposit-gathering efforts by banks, as well as possibly heftier credit costs to come as higher interest rates pressure borrower repayment capacities. While we understand that property developer exposures in China remain contained (<1% of gross loans), we think that SMEs (c.6-13% of gross loans) could be a segment at risk if trade sentiment weakens. Our stress test of household balances in SG (Fig 7 and 8) has found that all households servicing a mortgage for public housing (except those in the bottom 10% income levels) will remain below the 55% total debt servicing ratio threshold, even at a 4.5% p.a. rates.

Figure 1: Estimated monthly mortgage repayments as interest rates rise from c.2% p.a. to c.4.5% p.a. for property values ranging S\$0.5m to S\$2m at 75% LTV

		Mortgage rate						
		2.0%	2.5%	3.0%	3.5%	4.0%	4.5%	5.0%
Property value (\$m)	0.5	1,590	1,684	1,778	1,879	1,980	2,085	2,194
	0.8	2,544	2,694	2,844	3,006	3,168	3,336	3,510
	1.0	3,180	3,368	3,555	3,758	3,960	4,170	4,388
	1.3	4,134	4,378	4,622	4,885	5,148	5,421	5,704
	1.5	4,770	5,051	5,333	5,636	5,940	6,255	6,581
	1.8	5,724	6,062	6,399	6,764	7,128	7,506	7,898
	2.0	6,360	6,735	7,110	7,515	7,920	8,340	8,775

SOURCES: CGS-CIMB RESEARCH, COMPANY

Figure 2: Sector Comparison

Company	Bbg Ticker	Recom.	Price (local)	Tgt Price (local)	Mkt Cap (US\$ m)	3-year EPS CAGR (%)	P/BV (x)			Recurr. ROE (%)			P/PPOPS (x)			Div Yield (%)		
							CY22F	CY23F	CY24F	CY22F	CY23F	CY24F	CY22F	CY23F	CY24F	CY22F	CY23F	CY24F
DBS Group	DBS SP	Add	32.93	40.20	58,891	15.0%	1.42	1.27	1.15	14.3%	17.2%	15.3%	8.7	6.4	6.4	4.4%	4.4%	4.4%
OCBC	OCBC SP	Add	11.71	15.50	36,569	13.8%	1.02	0.94	0.87	12.2%	13.5%	12.7%	8.0	6.5	6.4	5.1%	5.1%	5.1%
United Overseas Bank	UOB SP	Add	26.13	35.60	30,406	16.7%	0.97	0.90	0.83	10.2%	12.5%	12.4%	6.9	5.7	5.3	4.8%	4.8%	4.8%
Singapore average						15.1%	1.16	1.06	0.97	12.4%	14.6%	13.6%	8.0	6.3	6.1	4.7%	4.7%	4.7%
Bank Central Asia	BBCA IJ	Add	8,375	9,300	67,643	13.3%	4.64	4.20	3.81	17.5%	17.9%	17.8%	19.8	17.9	16.3	1.8%	2.0%	2.2%
Bank Danamon	BDMN IJ	Add	2,550	3,300	1,633	na	0.50	0.47	na	7.7%	8.4%	na	2.4	2.2	na	5.3%	6.1%	na
Bank Jago	ARTO IJ	Hold	6,700	9,825	6,082	95.2%	11.15	10.64	9.96	0.9%	4.9%	8.0%	194.0	67.2	36.4	0.0%	0.0%	0.1%
Bank Mandiri	BMRI IJ	Add	9,250	10,700	28,282	18.8%	2.05	1.90	1.78	18.4%	20.3%	20.1%	6.4	5.9	5.6	5.3%	6.2%	6.6%
Bank Negara Indonesia	BBNI IJ	Add	8,975	10,600	10,966	30.3%	1.14	1.03	0.93	12.8%	13.4%	14.2%	5.0	4.7	4.3	3.6%	4.3%	5.8%
Bank Permata	BNLI IJ	Reduce	1,170	1,500	2,761	na	0.92	0.88	na	3.9%	4.8%	na	8.5	7.8	na	0.0%	0.0%	na
Bank Rakyat Indonesia	BBRI IJ	Add	4,480	5,200	44,486	21.3%	2.17	2.07	1.98	15.7%	17.5%	18.3%	7.7	7.2	6.6	5.9%	7.0%	7.7%
Bank Tabungan Negara	BBTN IJ	Add	1,465	1,800	1,016	17.5%	0.65	0.59	0.52	12.5%	13.2%	13.8%	2.4	2.1	1.9	3.6%	4.3%	5.0%
Bank Tabungan Pensi	BTPN IJ	Hold	2,460	2,500	1,313	na	0.64	na	na	7.2%	na	na	3.2	na	na	0.5%	na	na
Bank Tabungan Pensi	BTPS IJ	Hold	2,690	3,900	1,358	25.1%	2.46	2.05	1.68	22.8%	23.7%	25.7%	6.8	5.8	4.8	2.1%	2.5%	3.2%
Indonesia average						na	2.39	na	na	15.0%	na	na	9.3	na	na	3.6%	na	na
Affin Bank Berhad	ABANK MK	Add	2.01	2.31	958.3	0.4%	0.41	0.41	0.40	4.4%	5.1%	5.5%	4.7	4.8	4.3	10.3%	4.9%	5.5%
Alliance Bank Malaysia	ABMB MK	Hold	3.55	3.45	1,184	17.1%	0.79	0.73	0.69	11.2%	11.5%	11.7%	4.7	4.3	4.0	5.8%	6.5%	7.1%
AMMB Holdings	AMM MK	Add	3.90	4.28	2,783	6.4%	0.74	0.69	0.65	9.9%	9.7%	9.7%	4.7	4.3	3.8	4.2%	5.4%	5.8%
Bank Islam Malaysia B	BIMB MK	Add	2.59	3.23	1,203	11.2%	0.79	0.74	0.70	7.1%	9.3%	10.2%	5.3	4.5	4.2	4.1%	6.1%	7.1%
Hong Leong Bank	HLBK MK	Add	20.28	24.10	9,474	7.8%	1.30	1.16	1.08	11.3%	10.8%	10.6%	12.2	11.5	10.6	3.1%	3.5%	3.8%
Malayan Banking Bhd	MAY MK	Add	8.56	10.00	22,093	4.4%	1.05	1.00	0.94	9.4%	9.6%	9.9%	7.2	6.6	6.0	4.9%	5.7%	6.2%
Public Bank Bhd	PBK MK	Add	4.20	5.07	17,569	7.9%	1.57	1.45	1.35	12.1%	13.8%	13.3%	8.5	7.6	7.0	3.6%	4.6%	4.7%
RHB Bank Bhd	RHBBANK MK	Add	5.56	7.46	5,047	7.0%	0.73	0.67	0.62	8.9%	10.6%	10.6%	5.2	4.4	4.1	5.5%	7.6%	8.2%
Malaysia average						7.2%	1.09	1.01	0.95	9.9%	10.6%	10.6%	7.4	6.7	6.1	4.3%	5.2%	5.6%
Bangkok Bank	BBL TB	Add	138.0	174.0	6,898	8.0%	0.51	0.49	0.46	6.3%	6.4%	6.9%	3.9	3.6	3.2	3.3%	3.6%	5.1%
Kasikornbank	KBANK TB	Add	144.5	197.0	8,965	5.8%	0.67	0.63	0.59	9.3%	9.1%	9.2%	3.4	3.2	3.0	3.5%	4.2%	4.5%
Kiatnakin Phatra Bank	KKP TB	Add	69.75	90.00	1,547	5.9%	1.06	0.97	0.90	15.1%	13.7%	13.6%	4.0	3.9	3.5	4.7%	5.4%	5.7%
Krung Thai Bank	KTB TB	Hold	16.70	17.40	6,112	7.7%	0.61	0.57	0.54	8.0%	7.7%	7.4%	3.5	3.3	3.1	3.0%	3.3%	3.6%
Krungthai Card	KTC TB	Reduce	57.50	42.00	3,882	na	4.87	4.17	na	25.2%	26.0%	na	9.9	9.1	na	2.0%	2.4%	na
Muangthai Capital	MTC TB	Hold	36.25	51.00	2,012	18.4%	2.60	2.12	1.74	20.8%	22.5%	22.4%	8.9	7.0	5.9	1.1%	1.4%	1.8%
SCB X	SCB TB	Add	104.5	145.0	9,214	5.7%	0.77	0.72	0.68	9.3%	9.3%	9.5%	4.1	4.0	3.7	4.8%	5.3%	5.3%
Srisawad Corporation	SAWAD TB	Add	43.25	63.00	1,555	6.7%	2.23	1.99	1.77	17.9%	19.0%	20.6%	10.2	8.0	6.7	3.7%	4.5%	5.5%
Tisco Financial Group	TISCO TB	Add	93.75	103.0	1,966	-2.5%	1.76	1.71	1.65	17.6%	15.9%	16.1%	7.9	7.5	7.1	7.5%	7.5%	7.5%
TMBThanachart Bank	TTB TB	Add	1.21	1.44	3,064	10.3%	0.53	0.51	0.49	6.2%	6.1%	7.0%	3.3	3.2	2.9	4.1%	4.5%	5.0%
Thailand average						na	0.77	0.73	na	8.9%	8.9%	na	4.3	4.0	na	3.6%	4.1%	na

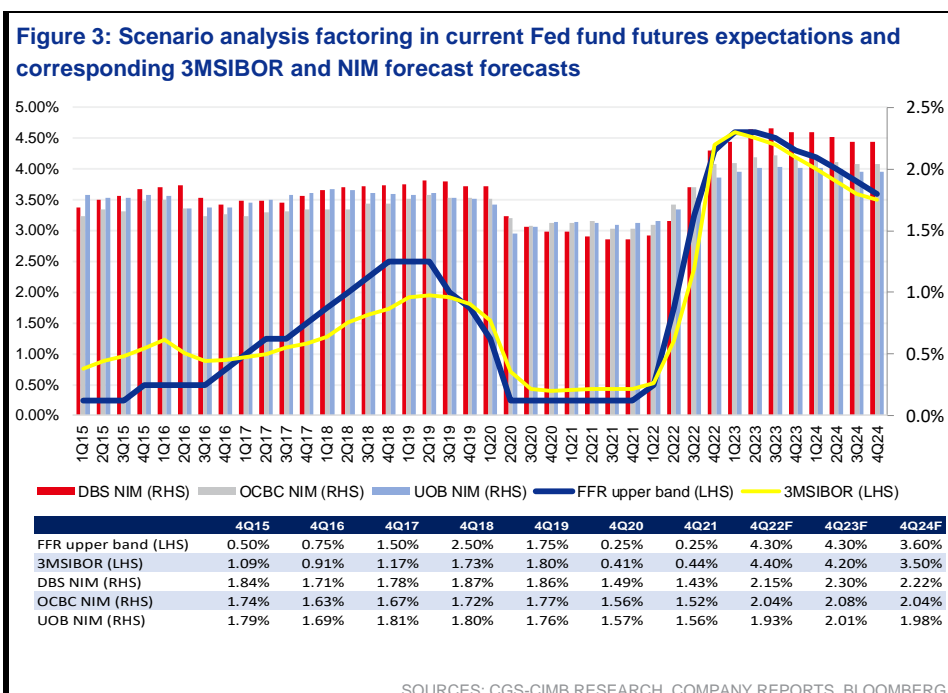
SOURCES: CSG-CIMB RESEARCH, COMPANY

Singapore banks are key beneficiaries of rate hikes

Fed fund futures pricing in c.4.3% by end-2022 and c.4.6% by mid-2023 ➔

The Fed's refreshed commitment to combat rising inflation using its policy rate has pushed the Fed fund futures rate even higher to c.4.3% by end-2022 (vs. c.3.6% as at end-Aug 22) and c.4.6% by mid-2023 (vs. c.3.9% as at end-Aug 22). Further, we think that sequential qoq NIM expansion will now peak around 4Q22F given the Fed's more aggressive stance – we think this will be a key gauge as to when sector valuations may peak. Although higher rates will bode well for banks' margins, we are cognisant that loan growth could correspondingly slow to c.4-5% in FY23F (vs. our current c.5-7% assumption).

Our scenario analysis in Fig 3 factors in current Fed fund future rates (as mentioned above) and our corresponding expectations of benchmark rates (including 3MSIBOR) and banks' NIMs.



In our base case (Fig 4), we factor in higher Fed fund rates and cut loan growth assumptions to c.4-5% (from c.5-7%) to simulate weaker economic growth ahead. With that, we raise Singapore banks EPS by c.1-4% in FY22-24F.

In a blue sky scenario (Fig 4) whereby global economic (and therefore loans) growth sustains at current levels despite the Fed's tightening monetary stance, we project that Singapore banks' EPS could potentially rise a more significant c.1-6% in FY22-24F.

Figure 4: In our base case, we factor in elevated Fed fund rates and weaker loan growth expectations. This results in c.1-4% EPS upsides across Singapore banks in FY22-24F. In a blue sky scenario where economic (and therefore loans) growth sustains despite the Fed's aggressive rate hike stance, Singapore banks' EPS could potentially rise a more significant c.1-6% in FY22-24F.

DBS				OCBC				UOB			
	2022	2023	2024		2022	2023	2024		2022	2023	2024
FFR upper band assumption as at end-year (Aug 2022)	3.6%	3.3%	2.8%	FFR upper band assumption as at end-year (Aug 2022)	3.6%	3.3%	2.8%	FFR upper band assumption as at end-year (Aug 2022)	3.6%	3.3%	2.8%
Loan growth expectations	6.5%	5.6%	5.2%	Loan growth expectations	6.2%	5.5%	5.2%	Loan growth expectations	5.6%	6.0%	6.5%
NIM expectations	1.74%	2.22%	2.16%	NIM expectations	1.79%	2.06%	2.00%	NIM expectations	1.73%	1.98%	1.94%
Net profit (S\$m)	8,071	10,829	10,690	Net profit (S\$m)	6,017	7,275	7,432	Net profit (S\$m)	4,436	5,864	6,298

Base case: Factoring in current Fed fund futures and weaker loan growth

DBS				OCBC				UOB			
	2022	2023	2024		2022	2023	2024		2022	2023	2024
FFR upper band assumption as at end-year (Sep 2022)	4.3%	4.3%	3.6%	FFR upper band assumption as at end-year (Sep 2022)	4.3%	4.3%	3.6%	FFR upper band assumption as at end-year (Sep 2022)	4.3%	4.3%	3.6%
Revised loan growth expectations	6.5%	4.7%	5.0%	Revised loan growth expectations	6.2%	4.5%	4.8%	Revised loan growth expectations	5.6%	4.6%	5.0%
Revised NIM expectations	1.75%	2.32%	2.27%	Revised NIM expectations	1.80%	2.12%	2.09%	Revised NIM expectations	1.77%	2.03%	2.01%
Revised net profit (S\$m)	8,178	11,243	11,149	Revised net profit (S\$m)	6,051	7,462	7,677	Revised net profit (S\$m)	4,471	6,000	6,402
Earnings upside	1.3%	3.8%	4.3%	Earnings upside	0.6%	2.6%	3.3%	Earnings upside	0.8%	2.3%	1.7%

Blue sky scenario: Factoring in current Fed fund futures and maintaining loan growth assumptions as is

DBS				OCBC				UOB			
	2022	2023	2024		2022	2023	2024		2022	2023	2024
FFR upper band assumption as at end-year (Sep 2022)	4.3%	4.3%	3.6%	FFR upper band assumption as at end-year (Sep 2022)	4.3%	4.3%	3.6%	FFR upper band assumption as at end-year (Sep 2022)	4.3%	4.3%	3.6%
Loan growth expectations	6.5%	5.6%	5.2%	Loan growth expectations	6.5%	5.6%	5.2%	Loan growth expectations	5.6%	6.0%	6.5%
Revised NIM expectations	1.75%	2.32%	2.27%	Revised NIM expectations	1.80%	2.12%	2.09%	Revised NIM expectations	1.77%	2.03%	2.01%
Revised net profit (S\$m)	8,178	11,395	11,344	Revised net profit (S\$m)	6,051	7,495	7,779	Revised net profit (S\$m)	4,471	6,091	6,576
Earnings upside	1.3%	5.2%	6.1%	Earnings upside	0.6%	3.0%	4.7%	Earnings upside	0.8%	3.9%	4.4%

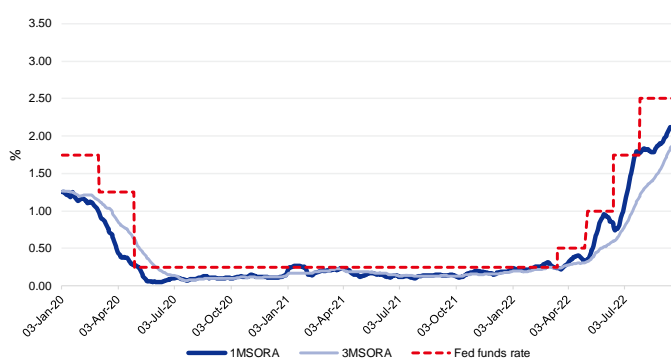
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS, BLOOMBERG

The risks: weaker borrower affordability and higher funding costs

Borrower repayment capacity increasingly pressured by higher interest rates ➤

The flip side of rising interest rates (and its positive impact on banks' NIMs) are borrowers finding it more challenging to service their mortgage repayments. To recap, Singapore fixed rate (for first 2-3 years) mortgages rose to c.3% in Jun 22 vs. c.1.5% in Jan 22, while floating rate mortgages based on 1M/3M compounded SORA increased to c.2%/1.8% in Jun 22 vs. c.1.2%/1.2% in Jan 22. Floating rate mortgages have subsequently risen to c.3% on 27 Sep 22, as 1M/3M compounded SORA increased to c.2%.

Figure 5: 1M and 3M compounded SORA have trended upwards in line with the Fed funds rate



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS, MAS, BLOOMBERG

In Fig 6, we computed the absolute monthly mortgage repayments for properties ranging from S\$500k to S\$2m at mortgage rates ranging from 2% p.a. to 5% p.a. at 75% LTV and 25-year tenure. The increase is hefty – floating-rate monthly mortgage payments for a S\$1m property would have risen S\$375 (or 12%) from S\$3,180 (at 2% p.a.) in Jun 22 to S\$3,555 (at 3% p.a.) Sep 22.

Figure 6: Monthly mortgage repayments for properties valued at between S\$500k and S\$2m with interest rates ranging from 2% p.a. to 5% p.a.

	Property value (\$m)	Mortgage rate						
		2.0%	2.5%	3.0%	3.5%	4.0%	4.5%	5.0%
Property value (\$m)	0.5	1,590	1,684	1,778	1,879	1,980	2,085	2,194
	0.8	2,544	2,694	2,844	3,006	3,168	3,336	3,510
	1.0	3,180	3,368	3,555	3,758	3,960	4,170	4,388
	1.3	4,134	4,378	4,622	4,885	5,148	5,421	5,704
	1.5	4,770	5,051	5,333	5,636	5,940	6,255	6,581
	1.8	5,724	6,062	6,399	6,764	7,128	7,506	7,898
	2.0	6,360	6,735	7,110	7,515	7,920	8,340	8,775

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Although borrowers' total debt service ratios (TDSR) are not reviewed in hindsight (borrowers may not breach a 55% TDSR when applying for a mortgage in Singapore), we stress test household balance sheets at various interest rate levels (Figs 7 and 8) below.

Borrowers in the private housing market ➤

In our analysis, we examine the TDSR levels using average household income by deciles. For household expenses, we used transaction data from the Urban Redevelopment Authority (URA) showing that the average property value of primary and secondary market sales came up to c.S\$2.3m in 1H22. We computed the corresponding mortgage repayments using rates of 2.5% p.a. to 4.5% p.a. based on a 75% LTV and 25-year tenure. Our car hire-purchase loan repayment assumes financing for a S\$180k car (50% LTV and 7-year tenure) and the minimum monthly repayment for credit cards (higher of 3% of the statement balance of S\$50, whichever is greater; this calculation is per Monetary Authority of Singapore guidelines) assuming c.S\$8.4k in outstanding receivables (per household balance sheet data from Singstat). To be realistic, our calculation omits other personal loans which are likely to be chunky loans related to business purposes taken out by a small proportion of borrowers.

Given that borrowers may not breach 55% TDSR when applying for a home loan, we found that, on average, only households in the 9th and 10th decile (top 20% income levels) may afford to service a loan for a private property (given TDSR not breaching 55% at 2.5% p.a. mortgage rate). Further, the rise in mortgage rates from 2.5% to an eventual 4.5% (likely – per Fed fund futures trajectory) will erode these borrowers' TDSR from the current 33% (10th decile) and 47% (9th decile) to 40% (10th decile) and 56% (9th decile).

Figure 7: Estimation of private housing market borrowers' total debt service ratio (TDSR) at 2.5%, 3.5% and 4.5% mortgage rates assuming property value of S\$2.3m at 75% LTV with 25-year loan tenure, car hire-purchase loan based on S\$180k vehicle value with 7-year loan tenure and the minimum monthly repayment amount for credit cards based on household balance sheet disclosure on Singstat (per MAS regulations)

a) TDSR estimation using 2.5% p.a. mortgage rate					
	10th decile	9th decile	8th decile	7th decile	6th decile
Average household income	28,901	20,420	16,752	14,216	12,087
Average household expenses:					
Mortgage	7,745	7,745	7,745	7,745	7,745
Car hire-purchase loan	1,575	1,575	1,575	1,575	1,575
Credit card	250	250	250	250	250
	9,570	9,570	9,570	9,570	9,570
TDSR	33%	47%	57%	67%	79%
b) TDSR estimation using 3.5% p.a. mortgage rate					
	10th decile	9th decile	8th decile	7th decile	6th decile
Average household income	28,901	20,420	16,752	14,216	12,087
Average household expenses:					
Mortgage	8,642	8,642	8,642	8,642	8,642
Car hire-purchase loan	1,575	1,575	1,575	1,575	1,575
Credit card	250	250	250	250	250
	10,467	10,467	10,467	10,467	10,467
TDSR	36%	51%	62%	74%	87%
c) TDSR estimation using 4.5% p.a. mortgage rate					
	10th decile	9th decile	8th decile	7th decile	6th decile
Average household income	28,901	20,420	16,752	14,216	12,087
Average household expenses:					
Mortgage	9,591	9,591	9,591	9,591	9,591
Car hire-purchase loan	1,575	1,575	1,575	1,575	1,575
Credit card	250	250	250	250	250
	11,416	11,416	11,416	11,416	11,416
TDSR	40%	56%	68%	80%	94%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS, SINGSTAT, MAS

Borrowers in the public property market ➤

Extending our analysis to the public housing market and using the 1st to 7th decile of household income (given the S\$14k income cap for public housing), we compute monthly mortgage repayments for an average property value of S\$0.5m at 75% LTV and 25-year tenure, car hire-purchase loan repayment assumes financing for a S\$150k car (50% LTV and 7-year tenure) and the minimum monthly repayment for credit cards (higher of 3% of the statement balance of S\$50, whichever is greater; this calculation is per Monetary Authority of Singapore guidelines) assuming an average 5 credit cards per household (per MAS statistics). Further, we assume that only households with income levels at the 5th decile and above will purchase a vehicle, and that only households at the 3rd decile and above hold credit cards given MAS's S\$30k p.a. minimum income requirement to hold a credit card).

Figure 8: Estimation of public market borrowers' total debt service ratio (TDSR) at 2.5%, 3.5% and 4.5% mortgage rates assuming property value of S\$0.5m at 75% LTV with 25-year loan tenure, car hire-purchase loan based on S\$150k vehicle value with 7-year loan tenure and the minimum monthly repayment amount for credit cards based on household balance sheet disclosure on Singstat (per MAS regulations)

a) TDSR estimation using 2.5% p.a. mortgage rate							
	7th decile	6th decile	5th decile	4th decile	3th decile	2nd decile	1st decile
Average HH income	14,216	12,087	10,012	8,146	5,840	4,349	2,040
Average household expenses:							
Mortgage	1,684	1,684	1,684	1,684	1,684	1,684	1,684
Car HP	1,313	1,313	1,313	-	-	-	-
Credit card	250	250	250	250	250	-	-
Total	3,246	3,246	3,246	1,934	1,934	1,684	1,684
TDSR	23%	27%	32%	24%	33%	39%	83%
b) TDSR estimation using 3.5% p.a. mortgage rate							
	7th decile	6th decile	5th decile	4th decile	3th decile	2nd decile	1st decile
Average HH income	14,216	12,087	10,012	8,146	5,840	4,349	2,040
Average household expenses:							
Mortgage	1,879	1,879	1,879	1,879	1,879	1,879	1,879
Car HP	1,313	1,313	1,313	-	-	-	-
Credit card	250	250	250	250	250	-	-
Total	3,441	3,441	3,441	2,129	2,129	1,879	1,879
TDSR	24%	28%	34%	26%	36%	43%	92%
c) TDSR estimation using 4.5% p.a. mortgage rate							
	7th decile	6th decile	5th decile	4th decile	3th decile	2nd decile	1st decile
Average HH income	14,216	12,087	10,012	8,146	5,840	4,349	2,040
Average household expenses:							
Mortgage	2,085	2,085	2,085	2,085	2,085	2,085	2,085
Car HP	1,313	1,313	1,313	-	-	-	-
Credit card	250	250	250	250	250	-	-
Total	3,648	3,648	3,648	2,335	2,335	2,085	2,085
TDSR	26%	30%	36%	29%	40%	48%	102%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS, SINGSTAT, MAS

At a 2.5% p.a. mortgage rate, all households in Singapore except for the 1st decile (lowest 10% household income level) stand comfortably below the 55% TDSR threshold for mortgage applications.

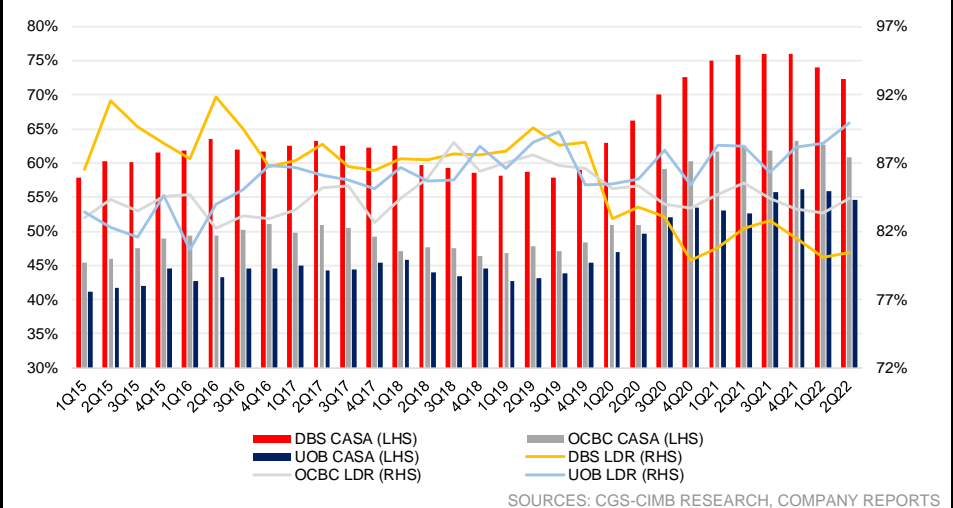
At a 4.5% p.a. mortgage rate, TDSR of the 2nd decile (lowest 20% household income level) rises from 39% (at 2.5% p.a.) to 48% - still below the TDSR assessment limit. Notably, borrowers in this decile may only withstand higher property prices of S\$700k (from S\$500k currently assumed) before breaching the 55% TDSR limit.

NIMs may be affected by rising funding costs ➤

While higher benchmark rates bode well for asset repricing, we highlight that stronger-than-expected increases in funding costs, whether from natural attrition of CASA to fixed deposits or due to deposit-gathering competition (to fund growth ahead) amongst banks, could slow the rate of margin expansion.

Although CASA ratios across Singapore banks have eased, from their c.56-76% peaks in 4Q21 to a c.55-72% in 2Q22, we highlight that these ratios remain firmly above that of the previous rate hike cycle in FY15-18 (average c.45-63%). We highlight that a key risk to our thesis is a more significant outflow of CASA as fixed deposit rates reach 24-year highs (c.2.6% p.a. for 12-month S\$ placements in Sep 22 vs. c.0.5-0.7% for 10–12-month S\$ placements in Jan 22).

Figure 9: Singapore banks' CASA ratios have tapered off slightly from their c.56-76% peaks in 4Q21 but remain firmly above the average c.45-63% seen in the previous rate hike cycle in FY15-18

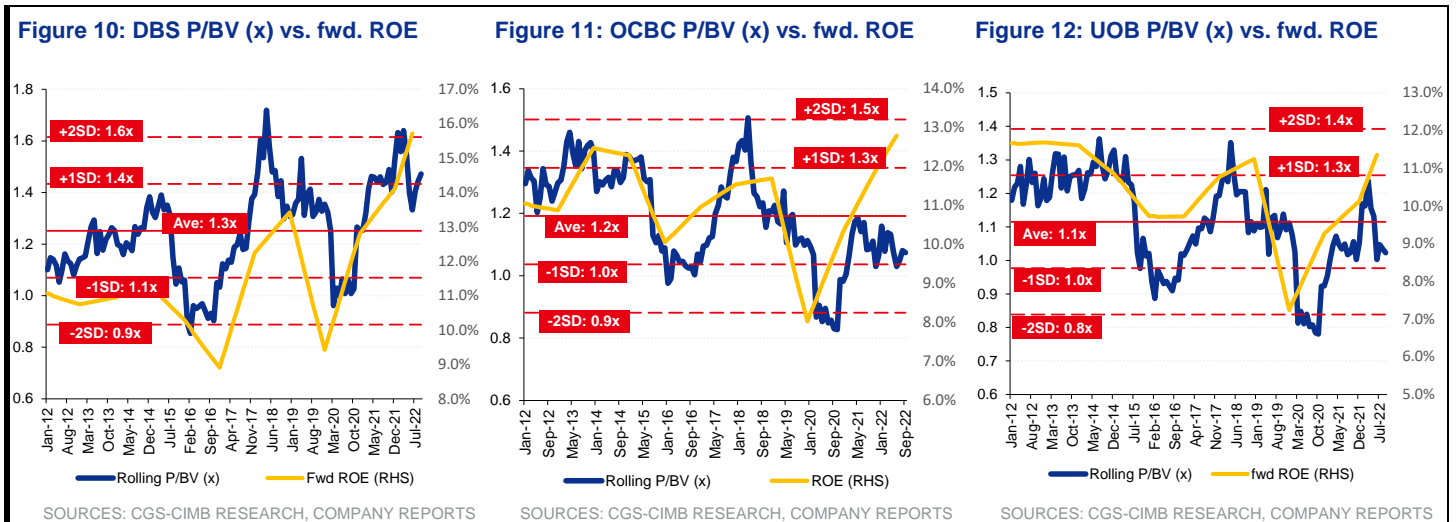



Reiterate Overweight on Singapore banks

DBS is our preferred pick for the sector ➤

We expect stronger sequential NIM expansion to continue driving the rerating of Singapore banks. Positive newsflow (to banks) of the Fed's refreshed commitment to contain inflation supports our thesis. Further, capital ratios across the sector remain robust at c.13-15% in 2Q22. Management overlay buffers of c.S\$500m-S\$1.5bn (translating to c.0.1-0.4% of gross loans) add an additional layer of downside earnings protection and pave the way for relatively benign credit costs in FY22-23F, thereby making way for ROEs to rise above the c.11-13% peaks seen across the sector during the last rate hike cycle.

DBS is our preferred pick for the sector, followed by OCBC and UOB. Although DBS is trading at 1s.d. above mean (currently trading at c.1.4x FY22F P/BV, above mean of 1.3x), we think the stock may outperform its peers as more meaningful NIM expansion comes through (given its more robust CASA deposit franchise, c.72% in 2Q22 vs. OCBC's 61%, and UOB's 55%) over the coming quarters.



<h2>ESG in a nutshell</h2>	
<p>Singapore banks' ESG scores (by Refinitiv) rank reasonably high (ranging from A- to B-) in our universe of covered companies in the city state (ranging from A- to D). While we do not see any material ESG issues for the banks given the nature of their business, controversies such as palm oil financing and financing disputes brought about by counterparties (borrowers) could result in severe reputational risk. That aside, we highlight that over the past five years, the banks have made noticeable improvements across all pillars in a bid to improve their scores. Singapore banks have committed to achieving sustainable financing targets over the medium term while implementing responsible financing policies. We believe these measures will support stronger ESG metrics across the sector over time.</p>	
<h3>Keep your eye on</h3> <p>Key controversies in the sector involve the financing of sectors deemed environmentally-depletive, such as palm oil plantations and coal-fired power plants (leading to deforestation), and the leakage of sensitive financial data.</p>	<h3>Implications</h3> <p>According to a study done by the World Wildlife Fund, Singapore banks have been at the forefront of reducing the financing of fossil fuel projects and implementing No Deforestation, No Peat, and No Exploitation (NDPE) policies. We believe these policies effectively address the controversies.</p>
<h3>ESG highlights</h3> <p>Singapore banks' ESG scores (including the controversy overlay) by Refinitiv range from B+ to B-, and rank among the top 25 highest-scoring companies (of 93) in our covered universe in Singapore.</p>	<h3>Implications</h3> <p>Singapore banks have sound corporate governance and strictly comply with regulatory requirements (under the Monetary Authority of Singapore's supervision). Given the lack of material controversial issues, we think banks may be valued at a premium by ESG-centric investors.</p>
<h3>Trends</h3> <p>The banks have progressively improved their ESG scores across all pillars, albeit at varying pace.</p>	<h3>Implications</h3> <p>We think the banks' strong ESG scores are implicit in their valuations. We think the materiality of any controversy flagged will be assessed (by investors) on a case-by-case basis. At the current juncture, we do not foresee valuation-related implications for the sector from any ESG issues raised.</p>

SOURCES: CGS-CIMB RESEARCH, REFINITIV

Singapore

ADD (no change)

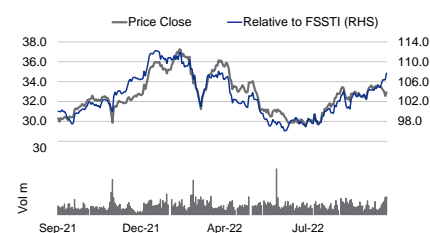
Consensus ratings*: Buy 15 Hold 3 Sell 0

Current price:	S\$32.93
Target price:	S\$40.20
Previous target:	S\$40.20
Up/downside:	22.1%
CGS-CIMB / Consensus:	2.3%
Reuters:	DBSM.SI
Bloomberg:	DBS SP
Market cap:	US\$58,891m
	S\$84,750m
Average daily turnover:	US\$95.15m
	S\$133.0m
Current shares o/s:	2,562m
Free float:	70.7%

*Source: Bloomberg

Key changes in this note

- ▶ We raise FY22-24F EPS by c.1-4% as we factor in higher Fed rate expectations and weaker loan growth ahead



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	1.2	9.8	9.4
Relative (%)	4.5	10.4	8.1

Major shareholders	% held
Temasek	29.3
Capital Group	2.5
Vanguard Group	2.1

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DBS Group

Poised to benefit from rate hikes

- We raise FY22-24F EPS by c.1-4% as we factor in higher Fed rates ahead.
- DBS Group is a key beneficiary of rising interest rates, given its c.71% CASA ratio, but steepening funding costs are a key risk to our thesis.
- Reiterate Add, with an unchanged GGM-based TP. Continued Fed rate hike newsflow amid persistent inflation is a key re-rating catalyst.

Higher Fed rates bode well for NIMs, but growth may slow

The Fed has taken unprecedented action, raising interest rates by 75bp to 3.25% in Sep 22 in its bid to reel in persistent inflation. This follows elevated core inflation readings, sparking fears of stagflation setting in. Including this hike, the Fed has raised its benchmark lending rate five times this year, with three of these being 75bp hikes. In Singapore, investors have correspondingly been holding their breath on a recession in the US spilling over into Asian economies, which has somewhat resulted in an overhang on banks' valuations. Although this translates into slower global economic growth amid higher unemployment rates, we think that SG banks will nonetheless remain beneficiaries from the pass-through of these higher rates into NIMs.

We raise FY22-24F EPS by c.1-4% given stronger rate outlook

Market participants have correspondingly reacted to the Fed's refreshed commitment towards staving off inflation, with the Fed fund futures now implying a c.4.3% rate by end-2022F (vs. c.3.7% at end-Aug 22) before rising to c.4.6% by mid-2023F (vs. c.3.9% at end-Aug 22) and easing to c.3.6% by end-2024F. These rates are noticeably higher than the c.3.6% peak rate (by mid-2023F) in our previous NIM assumptions. We now factor in the higher Fed fund rates mentioned above. We are cognisant that higher global interest rates may slow economic growth and have toned down our loan growth estimates for FY23-24F as well, from c.5-6% to c.4-5%. Putting these together, we expect stronger NIM expansion (+c.30bp/+57bp/-5bp to c.1.75%/2.32%/2.27% in FY22F/23F/24F) to lead c.1%/4%/4% EPS growth in FY22F/23F/24F.

We stay watchful on weaker trade and business sentiments ahead

Key risks to our thesis include a steeper-than-expected rise in funding costs, largely from customers rotating CASA into higher-yielding fixed deposits and deposit-gathering competition among banks. Although DBS's CASA ratio had tapered off its c.76% peak in 4Q21 to c.71% in 2Q22, this remains firmly above its c.61% average over the previous rate hike cycle in FY15-18. We remain watchful of severe asset quality deterioration given the sluggish economic conditions and inflationary pressures. SMEs could be a segment to watch out for given their higher vulnerability to weaker trade sentiment. We understand that onshore mainland China property developer exposures are contained; these came up to c.\$2bn in 2Q22 (c.0.5% of group loans), with the majority of these extended to SOEs. Management overlays of an estimated c.\$1.5bn (or c.0.4% of gross loans) lend an additional layer of earnings downside protection.

Financial Summary

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Net Interest Income (S\$b)	9.08	8.44	10.94	15.03	15.43
Total Non-Interest Income (S\$b)	5.52	5.86	5.75	6.07	6.40
Operating Revenue (S\$b)	14.59	14.30	16.69	21.10	21.83
Total Provision Charges (S\$b)	-3.07	-0.05	-0.43	-0.68	-0.85
Net Profit (S\$b)	4.72	6.80	8.18	11.24	11.15
Core EPS (S\$)	1.86	2.65	3.19	4.39	4.35
Core EPS Growth	(25.9%)	42.9%	20.3%	37.5%	(0.8%)
FD Core P/E (x)	17.74	12.41	10.32	7.51	7.57
DPS (S\$)	0.87	1.17	1.44	1.44	1.44
Dividend Yield	2.64%	3.55%	4.37%	4.37%	4.37%
BVPS (S\$)	19.98	21.42	23.17	26.11	29.01
P/BV (x)	1.65	1.54	1.42	1.26	1.14
ROE	9.4%	12.8%	14.3%	17.8%	15.8%
% Change In Core EPS Estimates			1.33%	3.82%	4.30%
CGS-CIMB/Consensus EPS (x)			1.06	1.23	1.17

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 1: Sector comparison


Company	Bbg Ticker	Recom.	Price (local)	Tgt Price (local)	Mkt Cap (US\$ m)	3-year EPS CAGR (%)	P/BV (x)			Recurr. ROE (%)			P/PPOPS (x)			Div Yield (%)		
							CY22F	CY23F	CY24F	CY22F	CY23F	CY24F	CY22F	CY23F	CY24F	CY22F	CY23F	CY24F
DBS Group	DBS SP	Add	32.93	40.20	58,891	15.0%	1.42	1.27	1.15	14.3%	17.2%	15.3%	8.7	6.4	6.4	4.4%	4.4%	4.4%
OCBC	OCBC SP	Add	11.71	15.50	36,569	13.8%	1.02	0.94	0.87	12.2%	13.5%	12.7%	8.0	6.5	6.4	5.1%	5.1%	5.1%
United Overseas Bank	UOB SP	Add	26.13	35.60	30,406	16.7%	0.97	0.90	0.83	10.2%	12.5%	12.4%	6.9	5.7	5.3	4.8%	4.8%	4.8%
Singapore average						15.1%	1.16	1.06	0.97	12.4%	14.6%	13.6%	8.0	6.3	6.1	4.7%	4.7%	4.7%
Bank Central Asia	BBCA IJ	Add	8,375	9,300	67,643	13.3%	4.64	4.20	3.81	17.5%	17.9%	17.8%	19.8	17.9	16.3	1.8%	2.0%	2.2%
Bank Danamon	BDMN IJ	Add	2,550	3,300	1,633	na	0.50	0.47	na	7.7%	8.4%	na	2.4	2.2	na	5.3%	6.1%	na
Bank Jago	ARTO IJ	Hold	6,700	9,825	6,082	95.2%	11.15	10.64	9.96	0.9%	4.9%	8.0%	194.0	67.2	36.4	0.0%	0.0%	0.1%
Bank Mandiri	BMRI IJ	Add	9,250	10,700	28,282	18.8%	2.05	1.90	1.78	18.4%	20.3%	20.1%	6.4	5.9	5.6	5.3%	6.2%	6.6%
Bank Negara Indonesia	BBNI IJ	Add	8,975	10,600	10,966	30.3%	1.14	1.03	0.93	12.8%	13.4%	14.2%	5.0	4.7	4.3	3.6%	4.3%	5.8%
Bank Permata	BNLI IJ	Reduce	1,170	1,500	2,761	na	0.92	0.88	na	3.9%	4.8%	na	8.5	7.8	na	0.0%	0.0%	na
Bank Rakyat Indonesia	BBRI IJ	Add	4,480	5,200	44,486	21.3%	2.17	2.07	1.98	15.7%	17.5%	18.3%	7.7	7.2	6.6	5.9%	7.0%	7.7%
Bank Tabungan Negara	BBTN IJ	Add	1,465	1,800	1,016	17.5%	0.65	0.59	0.52	12.5%	13.2%	13.8%	2.4	2.1	1.9	3.6%	4.3%	5.0%
Bank Tabungan Pensi	BTPN IJ	Hold	2,460	2,500	1,313	na	0.64	na	na	7.2%	na	na	3.2	na	na	0.5%	na	na
Bank Tabungan Pensi	BTPS IJ	Hold	2,690	3,900	1,358	25.1%	2.46	2.05	1.68	22.8%	23.7%	25.7%	6.8	5.8	4.8	2.1%	2.5%	3.2%
Indonesia average						na	2.39	na	na	15.0%	na	na	9.3	na	na	3.6%	na	na
Affin Bank Berhad	ABANK MK	Add	2.01	2.31	958.3	0.4%	0.41	0.41	0.40	4.4%	5.1%	5.5%	4.7	4.8	4.3	10.3%	4.9%	5.5%
Alliance Bank Malaysia	ABMB MK	Hold	3.55	3.45	1,184	17.1%	0.79	0.73	0.69	11.2%	11.5%	11.7%	4.7	4.3	4.0	5.8%	6.5%	7.1%
AMMB Holdings	AMM MK	Add	3.90	4.28	2,783	6.4%	0.74	0.69	0.65	9.9%	9.7%	9.7%	4.7	4.3	3.8	4.2%	5.4%	5.8%
Bank Islam Malaysia B	BIMB MK	Add	2.59	3.23	1,203	11.2%	0.79	0.74	0.70	7.1%	9.3%	10.2%	5.3	4.5	4.2	4.1%	6.1%	7.1%
Hong Leong Bank	HLBK MK	Add	20.28	24.10	9,474	7.8%	1.30	1.16	1.08	11.3%	10.8%	10.6%	12.2	11.5	10.6	3.1%	3.5%	3.8%
Malayan Banking Bhd	MAY MK	Add	8.56	10.00	22,093	4.4%	1.05	1.00	0.94	9.4%	9.6%	9.9%	7.2	6.6	6.0	4.9%	5.7%	6.2%
Public Bank Bhd	PBK MK	Add	4.20	5.07	17,569	7.9%	1.57	1.45	1.35	12.1%	13.8%	13.3%	8.5	7.6	7.0	3.6%	4.6%	4.7%
RHB Bank Bhd	RHBBANK MK	Add	5.56	7.46	5,047	7.0%	0.73	0.67	0.62	8.9%	10.6%	10.6%	5.2	4.4	4.1	5.5%	7.6%	8.2%
Malaysia average						7.2%	1.09	1.01	0.95	9.9%	10.6%	10.6%	7.4	6.7	6.1	4.3%	5.2%	5.6%
Bangkok Bank	BBL TB	Add	138.0	174.0	6,898	8.0%	0.51	0.49	0.46	6.3%	6.4%	6.9%	3.9	3.6	3.2	3.3%	3.6%	5.1%
Kasikornbank	KBANK TB	Add	144.5	197.0	8,965	5.8%	0.67	0.63	0.59	9.3%	9.1%	9.2%	3.4	3.2	3.0	3.5%	4.2%	4.5%
Kiatnakin Phatra Bank	KKP TB	Add	69.75	90.00	1,547	5.9%	1.06	0.97	0.90	15.1%	13.7%	13.6%	4.0	3.9	3.5	4.7%	5.4%	5.7%
Krung Thai Bank	KTB TB	Hold	16.70	17.40	6,112	7.7%	0.61	0.57	0.54	8.0%	7.7%	7.4%	3.5	3.3	3.1	3.0%	3.3%	3.6%
Krungthai Card	KTC TB	Reduce	57.50	42.00	3,882	na	4.87	4.17	na	25.2%	26.0%	na	9.9	9.1	na	2.0%	2.4%	na
Muangthai Capital	MTC TB	Hold	36.25	51.00	2,012	18.4%	2.60	2.12	1.74	20.8%	22.5%	22.4%	8.9	7.0	5.9	1.1%	1.4%	1.8%
SCB X	SCB TB	Add	104.5	145.0	9,214	5.7%	0.77	0.72	0.68	9.3%	9.3%	9.5%	4.1	4.0	3.7	4.8%	5.3%	5.3%
Srisawad Corporation	SAWAD TB	Add	43.25	63.00	1,555	6.7%	2.23	1.99	1.77	17.9%	19.0%	20.6%	10.2	8.0	6.7	3.7%	4.5%	5.5%
Tisco Financial Group	TISCO TB	Add	93.75	103.0	1,966	-2.5%	1.76	1.71	1.65	17.6%	15.9%	16.1%	7.9	7.5	7.1	7.5%	7.5%	7.5%
TMBThanachart Bank	TTB TB	Add	1.21	1.44	3,064	10.3%	0.53	0.51	0.49	6.2%	6.1%	7.0%	3.3	3.2	2.9	4.1%	4.5%	5.0%
Thailand average						na	0.77	0.73	na	8.9%	8.9%	na	4.3	4.0	na	3.6%	4.1%	na

SOURCES: CSG-CIMB RESEARCH, COMPANY

Figure 2: Earnings changes

	New			Old			% chg		
	FY22F	FY23F	FY24F	FY22F	FY23F	FY24F	FY22F	FY23F	FY24F
NIM (%)	1.76%	2.31%	2.26%	1.74%	2.22%	2.16%	+2bp	+9bp	+10bp
Net loan growth (%)	6.5%	4.7%	5.0%	6.5%	5.6%	5.2%	0%pt	-0.9%pt	-0.2%pt
NII (\$\$m)	10,935	15,030	15,429	10,811	14,555	14,905	1.1%	3.3%	3.5%
Non-NII (\$\$m)	5,755	6,069	6,402	5,755	6,069	6,402	0.0%	0.0%	0.0%
Operating expenses (\$\$m)	6,912	7,524	8,190	6,912	7,524	8,190	0.0%	0.0%	0.0%
Cost-to-income ratio	41.4%	35.7%	37.5%	41.7%	36.5%	38.4%	-0.3%pt	-0.8%pt	-0.9%pt
Provisions (\$\$m)	428	677	852	428	680	860	0.0%	-0.5%	-1.0%
Net profit (\$\$m)	8,178	11,243	11,149	8,071	10,829	10,690	1.3%	3.8%	4.3%
EPS (\$\$)	3.18	4.38	4.34	3.14	4.22	4.16	1.3%	3.8%	4.3%

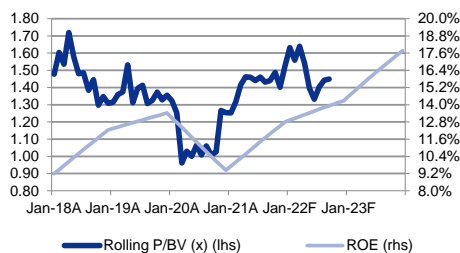
SOURCE: CIMB RESEARCH, COMPANY

ESG in a nutshell		Refinitiv ESG Scores					
							
		A- ESG Score	C+ ESG Controversies Score	B ESG Combined Score	A+ ESG Environment Pillar Score	B+ ESG Social Pillar Score	A- ESG Government Pillar Score
<p>DBS scored B for its ESG Combined Score by Refinitiv. Excluding environmental controversies, DBS maintained its A- ESG score in FY21 and is among the best in class in Singapore. The bank has progressively contributed to the development of best practices in specific sectors via its Responsible Financing Standard, and we expect this to be continuously refined going forward. DBS has raised its sustainable finance target to S\$50bn by 2024 (from S\$17bn currently) and commits to zero thermal coal exposure by 2039.</p>							
<p>Keep your eye on</p> <p>DBS has been flagged for environmental controversies relating to the financing of palm oil plantations, leading to deforestation.</p>	<p>Implications</p> <p>Controversies surrounding the financing of palm oil plantations have been long-standing. DBS recognises that it can play a role in achieving a more sustainable palm oil sector and requires new clients to demonstrate alignment with its No Deforestation, No Peat, and No Exploitation (NDPE) policies. These controversies are not currently factored into valuations, in our view, but a prolonged misalignment with responsible financing practices could be a longer-term drag on the stock.</p>						
<p>ESG highlights</p> <p>Excluding the environmental controversies, DBS's A- ESG score is among the best in class in Singapore. DBS ranks on the upper end of ESG scoring against its sector peers.</p>	<p>Implications</p> <p>DBS has proactively raised its ESG score over the past five years, demonstrating its commitment to improve on each pillar of this standard. While not priced in at the current stage, we believe that DBS's ESG progress and prominence will be a key differentiating factor among more discerning investors in time to come. In addition to the adherence to its Responsible Financing Standard, advancement towards its sustainable finance target and zero thermal coal exposure commitment will support re-rating cycles.</p>						
<p>Trends</p> <p>DBS has improved its scoring in each ESG pillar over FY16-20. That said, its ESG Controversies Score dipped to C+ in FY21 (from B in FY20).</p>	<p>Implications</p> <p>The improvements are positive and consistent. The recovery and management of its environmental controversy will be key to improving the bank's scores further.</p>						

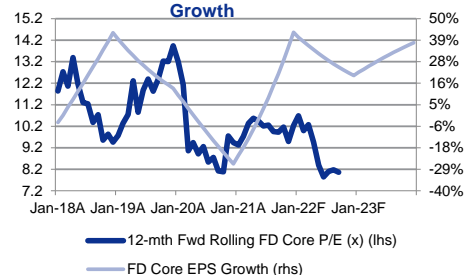
SOURCES: CGS-CIMB RESEARCH, REFINITIV

BY THE NUMBERS

P/BV vs ROE



12-mth Fwd FD Core P/E vs FD Core EPS Growth



Profit & Loss

(S\$b)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Net Interest Income	9.08	8.44	10.94	15.03	15.43
Total Non-Interest Income	5.52	5.86	5.75	6.07	6.40
Operating Revenue	14.59	14.30	16.69	21.10	21.83
Total Non-Interest Expenses	-6.16	-6.47	-6.91	-7.52	-8.19
Pre-provision Operating Profit	8.43	7.83	9.78	13.58	13.64
Total Provision Charges	-3.07	-0.05	-0.43	-0.68	-0.85
Operating Profit After Provisions	5.37	7.78	9.35	12.90	12.79
Pretax Income/(Loss) from Assoc.	0.00	0.00	0.12	0.12	0.12
Operating EBIT (incl Associates)	5.37	7.78	9.47	13.02	12.91
Non-Operating Income/(Expense)	0.00	0.00	0.00	0.00	0.00
Profit Before Tax (pre-EI)	5.37	7.78	9.47	13.02	12.91
Exceptional Items					
Pre-tax Profit	5.37	7.78	9.47	13.02	12.91
Taxation	-0.61	-0.98	-1.23	-1.69	-1.68
Consolidation Adjustments & Others					
Exceptional Income - post-tax	0.00	-0.00	0.00	0.00	0.00
Profit After Tax	4.76	6.80	8.24	11.33	11.23
Minority Interests	-0.04	0.00	-0.06	-0.08	-0.08
Pref. & Special Div	0.00	0.00	0.00	0.00	0.00
FX And Other Adj.	0.00	0.00	0.00	0.00	0.00
Net Profit	4.72	6.80	8.18	11.24	11.15
Recurring Net Profit	4.72	6.80	8.18	11.24	11.15

Balance Sheet Employment

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Gross Loans/Cust Deposits	81.3%	84.2%	85.2%	85.0%	85.0%
Avg Loans/Avg Deposits	85.2%	82.8%	84.7%	85.1%	85.0%
Avg Liquid Assets/Avg Assets	32.4%	33.0%	31.9%	30.9%	29.9%
Avg Liquid Assets/Avg IEAs	37.5%	39.0%	37.4%	36.6%	35.9%
Net Cust Loans/Assets	57.1%	59.5%	60.3%	59.9%	59.7%
Net Cust Loans/Broad Deposits	75.3%	78.3%	79.3%	79.1%	79.1%
Equity & Provs/Gross Cust Loans	14.5%	14.1%	14.3%	15.3%	16.1%
Asset Risk Weighting	49.4%	49.8%	50.1%	49.8%	49.7%
Provision Charge/Avg Cust Loans	0%	0%	0%	0%	0%
Provision Charge/Avg Assets	0%	0%	0%	0%	0%
Total Write Offs/Average Assets	0%	0%	0%	0%	0%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS... cont'd

Balance Sheet

(\$b)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total Gross Loans	428.6	466.4	492.7	514.0	537.5
Liquid Assets & Invst. (Current)	0.0	0.0	0.0	0.0	0.0
Other Int. Earning Assets	117.2	119.5	121.9	124.3	126.8
Total Gross Int. Earning Assets	545.8	585.9	614.6	638.3	664.3
Total Provisions/Loan Loss Reserve	(6.6)	(6.1)	(5.4)	(5.7)	(5.9)
Total Net Interest Earning Assets	539.2	579.9	609.2	632.6	658.4
Intangible Assets	5.3	5.3	5.3	5.3	5.3
Other Non-Interest Earning Assets	23.7	19.1	21.9	35.2	47.5
Total Non-Interest Earning Assets	29.0	24.4	27.2	40.5	52.8
Cash And Marketable Securities	81.7	83.4	85.5	87.8	90.1
Long-term Investments	0.0	0.0	0.0	0.0	0.0
Total Assets	649.9	687.6	722.0	760.9	801.3
Customer Interest-Bearing Liabilities	464.9	492.7	517.4	543.2	570.4
Bank Deposits	28.2	29.9	31.4	33.0	34.6
Interest Bearing Liabilities: Others	47.2	49.6	51.5	53.6	55.7
Total Interest-Bearing Liabilities	540.3	572.2	600.3	629.8	660.7
Bank's Liabilities Under Acceptances					
Total Non-Interest Bearing Liabilities	55.0	57.0	58.7	60.5	62.4
Total Liabilities	595.3	629.2	659.0	690.3	723.2
Shareholders' Equity	54.6	58.4	62.9	70.5	77.9
Minority Interests	0.0	0.0	0.1	0.2	0.2
Total Equity	54.6	58.4	63.0	70.6	78.1

Key Ratios

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total Income Growth	0.3%	(2.0%)	16.7%	26.4%	3.5%
Operating Profit Growth	1.8%	(7.2%)	24.9%	38.8%	0.5%
Pretax Profit Growth	(29.2%)	44.9%	21.8%	37.5%	(0.8%)
Net Interest To Total Income	62.2%	59.0%	65.5%	71.2%	70.7%
Cost Of Funds	0.61%	0.31%	0.50%	0.81%	1.01%
Return On Interest Earning Assets	2.30%	1.80%	2.31%	3.19%	3.37%
Net Interest Spread	1.69%	1.49%	1.81%	2.38%	2.36%
Net Interest Margin (Avg Deposits)	2.09%	1.76%	2.17%	2.83%	2.77%
Net Interest Margin (Avg RWA)	2.90%	2.54%	3.10%	4.06%	3.97%
Provisions to Pre Prov. Operating Profit	36.4%	0.7%	4.4%	5.0%	6.2%
Interest Return On Average Assets	1.48%	1.26%	1.55%	2.03%	1.98%
Effective Tax Rate	11.4%	12.5%	13.0%	13.0%	13.0%
Net Dividend Payout Ratio	46.9%	44.1%	45.1%	32.8%	33.1%
Return On Average Assets	0.77%	1.02%	1.16%	1.52%	1.43%

Key Drivers

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
NIM (%)	1.6%	1.5%	1.8%	2.3%	2.3%
Cost-to-income ratio (%)	42.2%	45.2%	41.4%	35.7%	37.5%
Loan growth (%)	3.7%	10.2%	6.5%	4.7%	5.0%
Deposit growth (%)	15.0%	6.0%	5.0%	5.0%	5.0%
Loans-to-deposits ratio (%)	79.8%	83.0%	84.2%	83.9%	83.9%
CASA ratio (%)	72.7%	76.0%	N/A	N/A	N/A
Credit cost (bp)	82.8	1.3	10.0	15.0	18.0

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Singapore

ADD (no change)

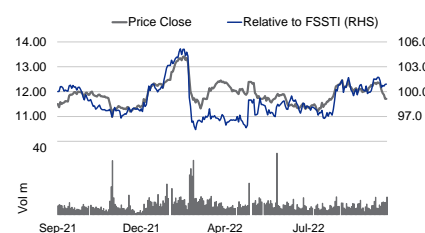
Consensus ratings*: Buy 14 Hold 5 Sell 1

Current price:	S\$11.71
Target price:	S\$15.50
Previous target:	S\$15.50
Up/downside:	32.4%
CGS-CIMB / Consensus:	9.7%
Reuters:	OCBC.SI
Bloomberg:	OCBC SP
Market cap:	US\$36,569m
	S\$52,626m
Average daily turnover:	US\$43.71m
	S\$61.12m
Current shares o/s:	4,496m
Free float:	79.8%

*Source: Bloomberg

Key changes in this note

- ▶ We raise FY22-24F EPS by c.1-3% as we factor in higher Fed rates and weaker loan growth ahead.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-2.1	1.6	2.2
Relative (%)	1.2	2.2	0.9

Major shareholders	% held
Selat Pte Ltd	11.0
Lee Foundation Singapore	4.3
Singapore Investments (Pte) Ltd	3.8

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OCBC

Riding the rate hike wave

- We raise FY22-24F EPS by c.1-3% as we factor in higher Fed rates ahead.
- Larger outflow of CASA into fixed deposits (rising funding costs) and weaker borrower repayment capacity (pressured cashflows) are key risks to our call.
- Reiterate Add with an unchanged GGM-base TP. Positive Fed rate hike newsflow and clarity on capital management are key catalysts for the stock.

Stronger NIM expansion from higher Fed rates but growth may slow

The US Federal Reserve (the Fed) has taken unprecedented action, raising interest rates by 75bp to 3.25% in Sep in its bid to reel in persistent inflation. This followed elevated core inflation readings, sparking fears of stagflation. Including this hike, the Fed has raised its benchmark lending rate five times this year, with three of these being 75bp hikes. In Singapore, investors have correspondingly been concerned that a recession in the US would spill over into Asian economies, resulting in an overhang on banks' valuations. Although higher interest rates may translate to slower global economic growth amid higher unemployment rates, we think Singapore banks will nonetheless remain beneficiaries of stronger NIM expansion ahead.

We raise FY22-24F EPS by c.1-3% in view of a stronger rate outlook

Market participants have correspondingly reacted to the Fed's refreshed commitment towards staving off inflation with the Fed fund futures now implying a c.4.3% rate by end-2022F (vs. c.3.7% at end-Aug 22) before rising to c.4.6% by mid-2023F (vs. c.3.9% at end-Aug 22), and then easing to c.3.6% by end-2024F. We raise our NIM expectations as we factor in higher Fed rates as outlined above, which are notably higher than the c.3.6% peak we previously assumed. In tandem, we have also toned down our loan growth estimates for FY23-24F from c.5-6% to c.4-5%, in line with softer global growth sentiment ahead. Consequently, we project FY22F/23F/24F NIM growth of c.+26bp/+32bp/-3bp to c.1.8%/2.12%/2.09%, correspondingly raising EPS by c.1%/3%/3%.

Steeper funding cost a key risk; clarity on capital a catalyst

Key risk to our call is a steeper-than-expected rise in funding costs from CASA outflow into higher-yielding fixed deposits amid stiffer deposit-taking competition. We have factored in c.15-20bp credit costs in FY22-24F (unchanged), though we remain cognisant of potential asset quality deterioration, particularly from the SME segment if trade sentiment weakens. While there is conflicting newsflow on the extent mortgage customers in China are refusing to service their payments, we highlight that OCBC's onshore mainland China exposure stood at c.2% of group loans at end-2Q22 (c.S\$6bn). Of this portfolio, about one-third was real estate and most of these are to network clients (e.g. Singapore developer expanding into China). Although OCBC's higher-than-peers CET1 ratio of 14.9% is a sizeable buffer against significant asset quality deterioration, if any, its high capital level is simultaneously an overhang on the stock given management's guarded guidance on M&A and dividends.

Financial Summary

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Net Interest Income (S\$b)	5.97	5.86	7.26	8.99	9.27
Total Non-Interest Income (S\$b)	4.17	4.74	4.59	4.90	5.24
Operating Revenue (S\$b)	10.14	10.60	11.85	13.90	14.51
Total Provision Charges (S\$b)	-2.04	-0.87	-0.43	-0.61	-0.64
Net Profit (S\$b)	3.59	4.86	6.05	7.46	7.68
Core EPS (S\$)	0.81	1.08	1.34	1.65	1.70
Core EPS Growth	(28.2%)	33.9%	24.0%	23.3%	2.9%
FD Core P/E (x)	14.51	10.84	8.74	7.09	6.89
DPS (S\$)	0.32	0.53	0.60	0.60	0.60
Dividend Yield	2.72%	4.53%	5.12%	5.12%	5.12%
BVPS (S\$)	10.24	10.70	11.44	12.49	13.59
P/BV (x)	1.14	1.09	1.02	0.94	0.86
ROE	8.0%	10.3%	12.1%	13.8%	13.0%
% Change In Core EPS Estimates			0.57%	2.57%	3.29%
CGS-CIMB/Consensus EPS (x)			1.05	1.15	1.12

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 1: Sector Comparison




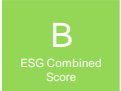



Company	Bbg Ticker	Recom.	Price (local)	Tgt Price (local)	Mkt Cap (US\$ m)	3-year EPS CAGR (%)			P/BV (x)			Recurr. ROE (%)			P/PPOPS (x)			Div Yield (%)		
						CY22F	CY23F	CY24F	CY22F	CY23F	CY24F	CY22F	CY23F	CY24F	CY22F	CY23F	CY24F	CY22F	CY23F	CY24F
DBS Group	DBS SP	Add	32.93	40.20	58,891	15.0%	1.42	1.27	1.15	14.3%	17.2%	15.3%	8.7	6.4	6.4	4.4%	4.4%	4.4%		
OCBC	OCBC SP	Add	11.71	15.50	36,569	13.8%	1.02	0.94	0.87	12.2%	13.5%	12.7%	8.0	6.5	6.4	5.1%	5.1%	5.1%		
United Overseas Bank	UOB SP	Add	26.13	35.60	30,406	16.7%	0.97	0.90	0.83	10.2%	12.5%	12.4%	6.9	5.7	5.3	4.8%	4.8%	4.8%		
Singapore average						15.1%	1.16	1.06	0.97	12.4%	14.6%	13.6%	8.0	6.3	6.1	4.7%	4.7%	4.7%		
Bank Central Asia	BBCA IJ	Add	8,375	9,300	67,643	13.3%	4.64	4.20	3.81	17.5%	17.9%	17.8%	19.8	17.9	16.3	1.8%	2.0%	2.2%		
Bank Danamon	BDMN IJ	Add	2,550	3,300	1,633	na	0.50	0.47	na	7.7%	8.4%	na	2.4	2.2	na	5.3%	6.1%	na		
Bank Jago	ARTO IJ	Hold	6,700	9,825	6,082	95.2%	11.15	10.64	9.96	0.9%	4.9%	8.0%	194.0	67.2	36.4	0.0%	0.0%	0.1%		
Bank Mandiri	BMRI IJ	Add	9,250	10,700	28,282	18.8%	2.05	1.90	1.78	18.4%	20.3%	20.1%	6.4	5.9	5.6	5.3%	6.2%	6.6%		
Bank Negara Indonesi	BBNI IJ	Add	8,975	10,600	10,966	30.3%	1.14	1.03	0.93	12.8%	13.4%	14.2%	5.0	4.7	4.3	3.6%	4.3%	5.8%		
Bank Permata	BNLI IJ	Reduce	1,170	1,500	2,761	na	0.92	0.88	na	3.9%	4.8%	na	8.5	7.8	na	0.0%	0.0%	na		
Bank Rakyat Indonesi	BBRI IJ	Add	4,480	5,200	44,486	21.3%	2.17	2.07	1.98	15.7%	17.5%	18.3%	7.7	7.2	6.6	5.9%	7.0%	7.7%		
Bank Tabungan Negar	BBTN IJ	Add	1,465	1,800	1,016	17.5%	0.65	0.59	0.52	12.5%	13.2%	13.8%	2.4	2.1	1.9	3.6%	4.3%	5.0%		
Bank Tabungan Pensi	BTPN IJ	Hold	2,460	2,500	1,313	na	0.64	na	na	7.2%	na	na	3.2	na	na	0.5%	na	na		
Bank Tabungan Pensi	BTPS IJ	Hold	2,690	3,900	1,358	25.1%	2.46	2.05	1.68	22.8%	23.7%	25.7%	6.8	5.8	4.8	2.1%	2.5%	3.2%		
Indonesia average						na	2.39	na	na	15.0%	na	na	9.3	na	na	3.6%	na	na		
Affin Bank Berhad	ABANK MK	Add	2.01	2.31	958.3	0.4%	0.41	0.41	0.40	4.4%	5.1%	5.5%	4.7	4.8	4.3	10.3%	4.9%	5.5%		
Alliance Bank Malaysi	ABMB MK	Hold	3.55	3.45	1,184	17.1%	0.79	0.73	0.69	11.2%	11.5%	11.7%	4.7	4.3	4.0	5.8%	6.5%	7.1%		
AMMB Holdings	AMM MK	Add	3.90	4.28	2,783	6.4%	0.74	0.69	0.65	9.9%	9.7%	9.7%	4.7	4.3	3.8	4.2%	5.4%	5.8%		
Bank Islam Malaysia B	BIMB MK	Add	2.59	3.23	1,203	11.2%	0.79	0.74	0.70	7.1%	9.3%	10.2%	5.3	4.5	4.2	4.1%	6.1%	7.1%		
Hong Leong Bank	HLBK MK	Add	20.28	24.10	9,474	7.8%	1.30	1.16	1.08	11.3%	10.8%	10.6%	12.2	11.5	10.6	3.1%	3.5%	3.8%		
Malayan Banking Bhd	MAY MK	Add	8.56	10.00	22,093	4.4%	1.05	1.00	0.94	9.4%	9.6%	9.9%	7.2	6.6	6.0	4.9%	5.7%	6.2%		
Public Bank Bhd	PBK MK	Add	4.20	5.07	17,569	7.9%	1.57	1.45	1.35	12.1%	13.8%	13.3%	8.5	7.6	7.0	3.6%	4.6%	4.7%		
RHB Bank Bhd	RHBBANK MK	Add	5.56	7.46	5,047	7.0%	0.73	0.67	0.62	8.9%	10.6%	10.6%	5.2	4.4	4.1	5.5%	7.6%	8.2%		
Malaysia average						7.2%	1.09	1.01	0.95	9.9%	10.6%	10.6%	7.4	6.7	6.1	4.3%	5.2%	5.6%		
Bangkok Bank	BBL TB	Add	138.0	174.0	6,898	8.0%	0.51	0.49	0.46	6.3%	6.4%	6.9%	3.9	3.6	3.2	3.3%	3.6%	5.1%		
Kasikornbank	KBANK TB	Add	144.5	197.0	8,965	5.8%	0.67	0.63	0.59	9.3%	9.1%	9.2%	3.4	3.2	3.0	3.5%	4.2%	4.5%		
Kiatnakin Phatra Bank	KKP TB	Add	69.75	90.00	1,547	5.9%	1.06	0.97	0.90	15.1%	13.7%	13.6%	4.0	3.9	3.5	4.7%	5.4%	5.7%		
Krung Thai Bank	KTB TB	Hold	16.70	17.40	6,112	7.7%	0.61	0.57	0.54	8.0%	7.7%	7.4%	3.5	3.3	3.1	3.0%	3.3%	3.6%		
Krungthai Card	KTC TB	Reduce	57.50	42.00	3,882	na	4.87	4.17	na	25.2%	26.0%	na	9.9	9.1	na	2.0%	2.4%	na		
Muangthai Capital	MTC TB	Hold	36.25	51.00	2,012	18.4%	2.60	2.12	1.74	20.8%	22.5%	22.4%	8.9	7.0	5.9	1.1%	1.4%	1.8%		
SCB X	SCB TB	Add	104.5	145.0	9,214	5.7%	0.77	0.72	0.68	9.3%	9.3%	9.5%	4.1	4.0	3.7	4.8%	5.3%	5.3%		
Srisawad Corporation	SAWAD TB	Add	43.25	63.00	1,555	6.7%	2.23	1.99	1.77	17.9%	19.0%	20.6%	10.2	8.0	6.7	3.7%	4.5%	5.5%		
Tisco Financial Group	TISCO TB	Add	93.75	103.0	1,966	-2.5%	1.76	1.71	1.65	17.6%	15.9%	16.1%	7.9	7.5	7.1	7.5%	7.5%	7.5%		
TMBThanachart Bank	TTB TB	Add	1.21	1.44	3,064	10.3%	0.53	0.51	0.49	6.2%	6.1%	7.0%	3.3	3.2	2.9	4.1%	4.5%	5.0%		
Thailand average						na	0.77	0.73	na	8.9%	8.9%	na	4.3	4.0	na	3.6%	4.1%	na		

SOURCES: CSG-CIMB RESEARCH, COMPANY

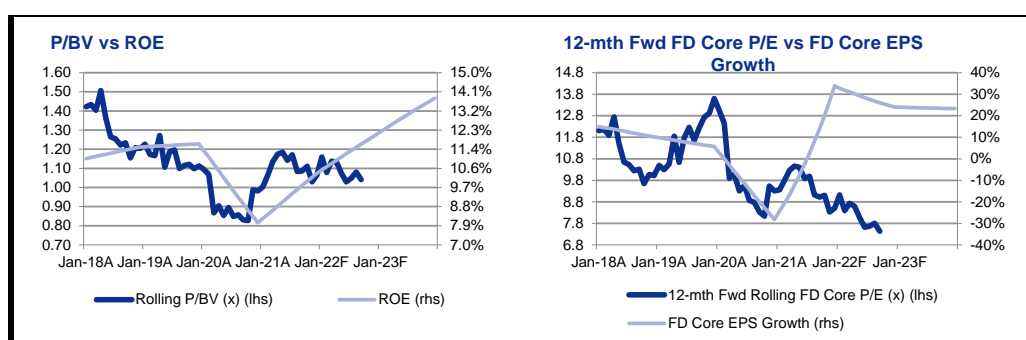
Figure 2: Earnings changes

	New			Old			% chg		
	FY22F	FY23F	FY24F	FY22F	FY23F	FY24F	FY22F	FY23F	FY24F
NIM (%)	1.80%	2.12%	2.09%	1.79%	2.06%	2.00%	+1bp	+6bp	+9bp
Net loan growth (%)	6.2%	4.5%	4.8%	6.2%	5.5%	5.2%	0%pt	-1.0%pt	0.4%pt
NII (\$\$m)	7,255	8,993	9,270	7,215	8,779	8,993	0.6%	2.4%	3.1%
Non-NII (\$\$m)	4,590	4,904	5,243	4,590	4,904	5,243	0.0%	0.0%	0.0%
Operating expenses (\$\$m)	5,069	5,426	5,809	5,069	5,426	5,809	0.0%	0.0%	0.0%
Cost-to-income (%)	42.8%	42.5%	42.5%	42.9%	42.5%	42.5%	-0.1%pt	0%pt	0%pt
Provisions (\$\$m)	433	608	637	433	611	644	0.0%	-0.5%	-1.2%
Net profit (\$\$m)	6,051	7,462	7,677	6,017	7,275	7,432	0.6%	2.6%	3.3%
EPS (Scts)	135	166	171	134	162	165	0.6%	2.6%	3.3%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Refinitiv ESG Scores	
	
     	
<p>ESG in a nutshell</p> <p>OCBC scored B for its combined ESG score by Refinitiv in 2021, anchored mainly by its steady Social pillar (c.50% weightage on its ESG score) over the past three years. The bank is guided by its Responsible Investing Policy developed to integrate ESG considerations into investment decision-making, and has outlined sector-specific policies to manage its ESG risks. While OCBC improved its Environmental pillar score in 2020 on the back of better resource use (environmental supply chain, energy efficiency, etc.), the effects on its overall ESG score were offset by a weaker Governance pillar score due to a lower proportion of independent board members. OCBC was the first bank in Singapore to assert its stance of no longer providing new financing of coal-fired power plants in 2019, and it has since raised its sustainable finance commitment target to S\$50bn by 2025 (having achieved S\$34bn by 2021).</p>	
<p>Keep your eye on</p> <p>OCBC has been flagged for controversy regarding product responsibility as the bank issued letters of credit supporting duplicate transactions in a case involving oil trader Hin Leong in Singapore. Nonetheless, OCBC won a favourable decision from the International Chamber of Commerce on the trade-finance dispute in relation to the collapsed oil trader. Hin Leong Trading is currently being investigated for fraudulent transactions.</p> <p>Apart from this, OCBC was also flagged for controversy surrounding phishing scams involving its customers in Dec 2021. The bank reported that a total of S\$13.7m was lost in relation to the scams. OCBC made full goodwill payouts to the affected customers. The Monetary Authority of Singapore (MAS) imposed additional capital requirements of c.S\$330m on OCBC given the deficiencies in the bank's response to the SMS phishing scams. The additional capital requirement will be reviewed when the MAS is satisfied that OCBC has addressed all deficiencies identified in its internal controls process.</p>	<p>Implications</p> <p>While court proceedings are still ongoing, the collapse of Hin Leong Trading is related to charges including cheating, conspiracy to commit forgery, and abetment of forgery of a valuable security against its founder amid sharp swings in crude oil prices. This incidence is one-off, and we believe does not implicate OCBC's underwriting standards. As such, this issue is not factored into our valuations.</p> <p>On its controversy regarding the phishing scam, OCBC engaged an independent firm to review its systems and processes. Deficiencies were noted in the bank's mitigation of identified risks, pre- and post-transaction controls, incident management and complaints handling, resulting in delays in containment measures and customer response time. The deficiencies identified are in line with MAS's assessment and the bank is in the process of addressing them. We expect the MAS to remove the additional capital requirement in due course.</p>
<p>ESG highlights</p> <p>Refinitiv ranked OCBC slightly weaker than peers (DBS: B+, UOB: B+). Apart from the controversies above, OCBC's softer score was largely due to weaker Environmental and Social pillar scores which carry weightages of c.14% and c.50%, respectively, on its ESG score.</p> <p>On the Environmental front, OCBC's peers had been more progressive in targeting CO2 emissions and environmental product innovation, which led to better scores. On the Social front, its peers were ahead with introduction and implementation of policies focused on child labour, forced labour, and fair competition.</p>	<p>Implications</p> <p>OCBC fares well in its Governance pillar, sustaining its score over the past five years. Notably, metrics on gender diversity of the board and executive members had improved yoy.</p> <p>We view OCBC as having sound corporate governance given its lack of governance-related controversies, and believe that this could be valued at a premium by some investors.</p>
<p>Trends</p> <p>OCBC significantly improved its Environmental pillar score to B in 2021, from D in 2019. Among the key contributors to this are its energy efficiency targets, environmental supply chain policies, and environmental material sourcing.</p>	<p>Implications</p> <p>We believe OCBC's Environmental pillar score will improve as the bank adopts practices to reduce its CO2 emissions. The rollout of environmentally-innovative products could also attract more interest from funds with an ESG focus.</p>

SOURCES: CGS-CIMB RESEARCH, REFINITIV

BY THE NUMBERS

Profit & Loss

(\$b)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Net Interest Income	5.97	5.86	7.26	8.99	9.27
Total Non-Interest Income	4.17	4.74	4.59	4.90	5.24
Operating Revenue	10.14	10.60	11.85	13.90	14.51
Total Non-Interest Expenses	-4.54	-4.87	-5.17	-5.53	-5.91
Pre-provision Operating Profit	5.60	5.73	6.67	8.37	8.60
Total Provision Charges	-2.04	-0.87	-0.43	-0.61	-0.64
Operating Profit After Provisions	3.55	4.86	6.24	7.76	7.96
Pretax Income/(Loss) from Assoc.	0.61	0.82	0.89	0.93	0.98
Operating EBIT (incl Associates)	4.17	5.68	7.13	8.69	8.94
Non-Operating Income/(Expense)	0.00	0.00	0.00	0.00	0.00
Profit Before Tax (pre-EI)	4.17	5.68	7.13	8.69	8.94
Exceptional Items					
Pre-tax Profit	4.17	5.68	7.13	8.69	8.94
Taxation	-0.44	-0.65	-0.89	-1.00	-1.03
Consolidation Adjustments & Others					
Exceptional Income - post-tax	0.00	0.00	0.00	0.00	0.00
Profit After Tax	3.73	5.03	6.24	7.69	7.91
Minority Interests	-0.14	-0.17	-0.19	-0.23	-0.24
Pref. & Special Div	0.00	0.00	0.00	0.00	0.00
FX And Other Adj.	0.00	0.00	0.00	0.00	0.00
Net Profit	3.59	4.86	6.05	7.46	7.68
Recurring Net Profit	3.59	4.86	6.05	7.46	7.68

Balance Sheet Employment

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Gross Loans/Cust Deposits	84.9%	82.3%	82.9%	82.1%	81.6%
Avg Loans/Avg Deposits	86.2%	83.5%	82.6%	82.5%	81.8%
Avg Liquid Assets/Avg Assets	17.8%	17.3%	16.7%	16.2%	15.6%
Avg Liquid Assets/Avg IEAs	27.3%	27.4%	26.5%	25.7%	25.0%
Net Cust Loans/Assets	50.5%	50.1%	50.9%	50.8%	50.9%
Net Cust Loans/Broad Deposits	81.2%	79.0%	79.5%	78.8%	78.3%
Equity & Provs/Gross Cust Loans	18.6%	18.6%	18.6%	19.4%	20.0%
Asset Risk Weighting	41.8%	41.3%	42.0%	42.0%	0.0%
Provision Charge/Avg Cust Loans	0%	0%	0%	0%	0%
Provision Charge/Avg Assets	0%	0%	0%	0%	0%
Total Write Offs/Average Assets	0%	0%	0%	0%	0%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS... cont'd

Balance Sheet

(\$b)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total Gross Loans	300.1	313.1	330.9	344.6	360.0
Liquid Assets & Invst. (Current)	33.1	33.5	33.8	34.1	34.5
Other Int. Earning Assets					
Total Gross Int. Earning Assets	333.2	346.6	364.7	378.7	394.5
Total Provisions/Loan Loss Reserve	(3.7)	(3.1)	(3.3)	(3.4)	(3.6)
Total Net Interest Earning Assets	329.5	343.5	361.4	375.3	390.9
Intangible Assets	4.8	4.8	4.8	4.8	4.8
Other Non-Interest Earning Assets	127.2	143.7	149.3	161.3	173.1
Total Non-Interest Earning Assets	132.1	148.5	154.1	166.2	178.0
Cash And Marketable Securities	59.8	60.9	62.0	63.1	64.3
Long-term Investments	0.0	0.0	0.0	0.0	0.0
Total Assets	521.4	552.9	577.5	604.6	633.1
Customer Interest-Bearing Liabilities	314.9	340.1	358.8	378.5	399.4
Bank Deposits	9.6	10.4	10.9	11.5	12.2
Interest Bearing Liabilities: Others	39.9	41.9	43.1	44.3	45.6
Total Interest-Bearing Liabilities	364.4	392.4	412.8	434.4	457.1
Bank's Liabilities Under Acceptances					
Total Non-Interest Bearing Liabilities	105.9	107.1	108.1	109.1	110.1
Total Liabilities	470.2	499.5	520.9	543.4	567.2
Shareholders' Equity	49.6	52.1	55.4	60.2	65.2
Minority Interests	1.6	1.4	1.2	1.0	0.7
Total Equity	51.2	53.5	56.6	61.1	65.9

Key Ratios

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total Income Growth	(6.7%)	4.5%	11.8%	17.3%	4.4%
Operating Profit Growth	(8.6%)	2.4%	16.5%	25.4%	2.8%
Pretax Profit Growth	(28.2%)	36.4%	25.5%	21.9%	2.9%
Net Interest To Total Income	58.8%	55.3%	61.2%	64.7%	63.9%
Cost Of Funds	0.89%	0.41%	0.82%	0.95%	1.05%
Return On Interest Earning Assets	2.76%	2.18%	2.97%	3.51%	3.61%
Net Interest Spread	1.86%	1.77%	2.15%	2.55%	2.56%
Net Interest Margin (Avg Deposits)	1.93%	1.79%	2.08%	2.44%	2.38%
Net Interest Margin (Avg RWA)	2.77%	2.62%	3.08%	3.62%	7.31%
Provisions to Pre Prov. Operating Profit	36.5%	15.2%	6.5%	7.3%	7.4%
Interest Return On Average Assets	1.18%	1.09%	1.28%	1.52%	1.50%
Effective Tax Rate	10.5%	11.4%	12.5%	11.5%	11.5%
Net Dividend Payout Ratio	39.7%	49.3%	44.8%	36.3%	35.3%
Return On Average Assets	0.71%	0.90%	1.07%	1.26%	1.24%

Key Drivers

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Net interest margin (%)	1.6%	1.5%	1.8%	2.1%	2.1%
Net interest income growth (%)	-5.8%	-1.9%	23.9%	24.0%	3.1%
Non-interest income growth (%)	-8.1%	13.6%	-3.2%	6.8%	6.9%
Cost-income ratio (%)	43.8%	45.0%	42.8%	42.5%	42.5%
Net loan growth (%)	0.5%	5.1%	6.2%	4.5%	4.8%
Deposit growth (%)	4.0%	8.0%	5.5%	5.5%	5.5%
Loans-deposits ratio (%)	83.7%	81.4%	82.0%	81.2%	80.7%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Singapore

ADD (no change)

Consensus ratings*: Buy 14 Hold 2 Sell 1

Current price:	S\$26.13
Target price:	S\$35.60
Previous target:	S\$35.60
Up/downside:	36.2%
CGS-CIMB / Consensus:	5.8%
Reuters:	UOBH.SI
Bloomberg:	UOB SP
Market cap:	US\$30,406m
	S\$43,758m
Average daily turnover:	US\$45.80m
	S\$64.04m
Current shares o/s:	1,672m
Free float:	85.6%

*Source: Bloomberg

Key changes in this note

- ▶ We raise FY22-24F EPS by c.1-2% as we factor in higher Fed rates and weaker loan growth ahead



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-3.9	-1.8	2.1
Relative (%)	-0.6	-1.2	0.8

Major shareholders	% held
Wee Investments Pte Ltd	7.7
Wah Hin & Co Pte Ltd	5.0
Vanguard Group	2.0

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United Overseas Bank

Margin upside from rising rates

- We raise FY22-24F EPS by c.1-2% as we factor in higher Fed rates ahead.
- Key risks are higher funding costs (outflow of CASA into higher-yielding FDs) and softer asset quality (as weaker trade sentiment disrupts cashflows).
- Reiterate Add with unchanged GGM-based TP. Rising Fed rate momentum and smooth integration of Citi's retail franchise are key re-rating catalysts.

Fed rate hikes are positive for banks although growth could slow

The Fed has taken unprecedented action, raising interest rates by 75bp to 3.25% in Sep 22 in a bid to reel in persistent inflation. This follows elevated core inflation readings, sparking fears of stagflation setting in. In Singapore, investors have correspondingly been holding their breath on a recession in the US spilling over into Asian economies, which has somewhat resulted in an overhang on banks' valuations. Although this translates into slower global economic growth amid higher unemployment, we think that SG banks will nonetheless remain beneficiaries from the pass-through of these higher rates into NIMs.

We raise FY22-24F EPS by c.1-2% given the stronger rate outlook

Market participants have correspondingly reacted to the Fed's refreshed commitment towards staving off inflation, with the Fed fund futures now implying a c.4.3% rate by end-2022F (vs. c.3.7% at end-Aug 22) before rising to c.4.6% by mid-2023F (vs. c.3.9% at end-Aug 22) and easing to c.3.6% by end-2024F. These rates are noticeably higher than the c.3.6% peak rate (by mid-2023F) in our previous NIM assumptions. We now factor in the higher Fed fund rates mentioned above. We are cognisant that higher global interest rates may slow economic growth and have toned down our loan growth estimates for FY23-24F as well, from c.6-7% to c.4-5%. Factoring in the stronger rate outlook, we project FY22F/23F/24F NIM growth of c.+21bp/+26bp/-2bp to c.1.77%/2.03%/2.01%, and correspondingly raise EPS by c.1%/2%/2%.

Smooth integration of Citi's franchise is a key re-rating catalyst

Risks to our thesis include a steeper-than-expected increase in funding costs as customers rotate CASA deposits into higher-yielding fixed deposits (FDs), although this is partly moderated by the bank's higher 55% CASA holdings in 2Q22 compared to the average of c.44% over the last rate hike cycle in FY15-18. At the same time, higher interest rates may pressure borrower repayment capacities. In particular, we think that the SME segment (c.13% of gross loans in 2Q22) could be most vulnerable to cashflow disruptions if trade sentiment weakens. That said, at this stage, we think that our credit cost estimates of c.20-23bp over FY22-24F (unchanged) caters to these risks. Further, UOB had c.\$1bn of management overlays in 2Q22, providing some buffer for downside earnings protection. UOB announced that it received regulatory approval for its acquisition of Citi's retail franchise in Malaysia. Smooth integration of Citi's franchise (in Malaysia, Thailand, Indonesia, Vietnam) leading to >13% ROE by 2026 (from c.10% currently, with c.2%pt uplift expected from Fed rate hikes) is a key re-rating catalyst.

Financial Summary

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Net Interest Income (S\$b)	6.04	6.39	7.60	9.21	9.42
Total Non-Interest Income (S\$b)	3.14	3.40	3.62	4.15	4.66
Operating Revenue (S\$b)	9.18	9.79	11.22	13.36	14.09
Total Provision Charges (S\$b)	-1.55	-0.86	-0.73	-0.67	-0.70
Net Profit (S\$b)	2.92	3.87	4.47	6.00	6.40
Core EPS (S\$)	1.75	2.31	2.67	3.59	3.83
Core EPS Growth	(33.0%)	32.5%	15.6%	34.2%	6.7%
FD Core P/E (x)	14.97	11.30	9.77	7.28	6.82
DPS (S\$)	0.78	1.20	1.25	1.25	1.25
Dividend Yield	2.99%	4.59%	4.78%	4.78%	4.78%
BVPS (S\$)	24.45	25.50	26.91	29.24	31.81
P/BV (x)	1.07	1.02	0.97	0.89	0.82
ROE	7.2%	9.3%	10.2%	12.8%	12.5%
% Change In Core EPS Estimates			0.80%	2.31%	1.65%
CGS-CIMB/Consensus EPS (x)			1.02	1.13	1.10

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 1: Sector Comparison


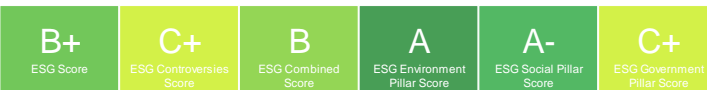
Company	Bbg Ticker	Recom.	Price (local)	Tgt Price (local)	Mkt Cap (US\$ m)	3-year EPS CAGR (%)	P/BV (x)			Recurr. ROE (%)			P/PPOPS (x)			Div Yield (%)		
							CY22F	CY23F	CY24F	CY22F	CY23F	CY24F	CY22F	CY23F	CY24F	CY22F	CY23F	CY24F
DBS Group	DBS SP	Add	32.93	40.20	58,891	15.0%	1.42	1.27	1.15	14.3%	17.2%	15.3%	8.7	6.4	6.4	4.4%	4.4%	4.4%
OCBC	OCBC SP	Add	11.71	15.50	36,569	13.8%	1.02	0.94	0.87	12.2%	13.5%	12.7%	8.0	6.5	6.4	5.1%	5.1%	5.1%
United Overseas Bank	UOB SP	Add	26.13	35.60	30,406	16.7%	0.97	0.90	0.83	10.2%	12.5%	12.4%	6.9	5.7	5.3	4.8%	4.8%	4.8%
Singapore average						15.1%	1.16	1.06	0.97	12.4%	14.6%	13.6%	8.0	6.3	6.1	4.7%	4.7%	4.7%
Bank Central Asia	BBCA IJ	Add	8,375	9,300	67,643	13.3%	4.64	4.20	3.81	17.5%	17.9%	17.8%	19.8	17.9	16.3	1.8%	2.0%	2.2%
Bank Danamon	BDMN IJ	Add	2,550	3,300	1,633	na	0.50	0.47	na	7.7%	8.4%	na	2.4	2.2	na	5.3%	6.1%	na
Bank Jago	ARTO IJ	Hold	6,700	9,825	6,082	95.2%	11.15	10.64	9.96	0.9%	4.9%	8.0%	194.0	67.2	36.4	0.0%	0.0%	0.1%
Bank Mandiri	BMRI IJ	Add	9,250	10,700	28,282	18.8%	2.05	1.90	1.78	18.4%	20.3%	20.1%	6.4	5.9	5.6	5.3%	6.2%	6.6%
Bank Negara Indonesi	BBNI IJ	Add	8,975	10,600	10,966	30.3%	1.14	1.03	0.93	12.8%	13.4%	14.2%	5.0	4.7	4.3	3.6%	4.3%	5.8%
Bank Permata	BNLI IJ	Reduce	1,170	1,500	2,761	na	0.92	0.88	na	3.9%	4.8%	na	8.5	7.8	na	0.0%	0.0%	na
Bank Rakyat Indonesi	BBRI IJ	Add	4,480	5,200	44,486	21.3%	2.17	2.07	1.98	15.7%	17.5%	18.3%	7.7	7.2	6.6	5.9%	7.0%	7.7%
Bank Tabungan Negar	BBTN IJ	Add	1,465	1,800	1,016	17.5%	0.65	0.59	0.52	12.5%	13.2%	13.8%	2.4	2.1	1.9	3.6%	4.3%	5.0%
Bank Tabungan Pensi	BTPN IJ	Hold	2,460	2,500	1,313	na	0.64	na	na	7.2%	na	na	3.2	na	na	0.5%	na	na
Bank Tabungan Pensi	BTPS IJ	Hold	2,690	3,900	1,358	25.1%	2.46	2.05	1.68	22.8%	23.7%	25.7%	6.8	5.8	4.8	2.1%	2.5%	3.2%
Indonesia average						na	2.39	na	na	15.0%	na	na	9.3	na	na	3.6%	na	na
Affin Bank Berhad	ABANK MK	Add	2.01	2.31	958.3	0.4%	0.41	0.41	0.40	4.4%	5.1%	5.5%	4.7	4.8	4.3	10.3%	4.9%	5.5%
Alliance Bank Malaysi	ABMB MK	Hold	3.55	3.45	1,184	17.1%	0.79	0.73	0.69	11.2%	11.5%	11.7%	4.7	4.3	4.0	5.8%	6.5%	7.1%
AMMB Holdings	AMM MK	Add	3.90	4.28	2,783	6.4%	0.74	0.69	0.65	9.9%	9.7%	9.7%	4.7	4.3	3.8	4.2%	5.4%	5.8%
Bank Islam Malaysia B	BIMB MK	Add	2.59	3.23	1,203	11.2%	0.79	0.74	0.70	7.1%	9.3%	10.2%	5.3	4.5	4.2	4.1%	6.1%	7.1%
Hong Leong Bank	HLBK MK	Add	20.28	24.10	9,474	7.8%	1.30	1.16	1.08	11.3%	10.8%	10.6%	12.2	11.5	10.6	3.1%	3.5%	3.8%
Malayan Banking Bhd	MAY MK	Add	8.56	10.00	22,093	4.4%	1.05	1.00	0.94	9.4%	9.6%	9.9%	7.2	6.6	6.0	4.9%	5.7%	6.2%
Public Bank Bhd	PBK MK	Add	4.20	5.07	17,569	7.9%	1.57	1.45	1.35	12.1%	13.8%	13.3%	8.5	7.6	7.0	3.6%	4.6%	4.7%
RHB Bank Bhd	RHBBANK MK	Add	5.56	7.46	5,047	7.0%	0.73	0.67	0.62	8.9%	10.6%	10.6%	5.2	4.4	4.1	5.5%	7.6%	8.2%
Malaysia average						7.2%	1.09	1.01	0.95	9.9%	10.6%	10.6%	7.4	6.7	6.1	4.3%	5.2%	5.6%
Bangkok Bank	BBL TB	Add	138.0	174.0	6,898	8.0%	0.51	0.49	0.46	6.3%	6.4%	6.9%	3.9	3.6	3.2	3.3%	3.6%	5.1%
Kasikornbank	KBANK TB	Add	144.5	197.0	8,965	5.8%	0.67	0.63	0.59	9.3%	9.1%	9.2%	3.4	3.2	3.0	3.5%	4.2%	4.5%
Kiatnakin Phatra Bank	KKP TB	Add	69.75	90.00	1,547	5.9%	1.06	0.97	0.90	15.1%	13.7%	13.6%	4.0	3.9	3.5	4.7%	5.4%	5.7%
Krung Thai Bank	KTB TB	Hold	16.70	17.40	6,112	7.7%	0.61	0.57	0.54	8.0%	7.7%	7.4%	3.5	3.3	3.1	3.0%	3.3%	3.6%
Krungthai Card	KTC TB	Reduce	57.50	42.00	3,882	na	4.87	4.17	na	25.2%	26.0%	na	9.9	9.1	na	2.0%	2.4%	na
Muangthai Capital	MTC TB	Hold	36.25	51.00	2,012	18.4%	2.60	2.12	1.74	20.8%	22.5%	22.4%	8.9	7.0	5.9	1.1%	1.4%	1.8%
SCB X	SCB TB	Add	104.5	145.0	9,214	5.7%	0.77	0.72	0.68	9.3%	9.3%	9.5%	4.1	4.0	3.7	4.8%	5.3%	5.3%
Srisawad Corporation	SAWAD TB	Add	43.25	63.00	1,555	6.7%	2.23	1.99	1.77	17.9%	19.0%	20.6%	10.2	8.0	6.7	3.7%	4.5%	5.5%
Tisco Financial Group	TISCO TB	Add	93.75	103.0	1,966	-2.5%	1.76	1.71	1.65	17.6%	15.9%	16.1%	7.9	7.5	7.1	7.5%	7.5%	7.5%
TMBThanachart Bank	TTB TB	Add	1.21	1.44	3,064	10.3%	0.53	0.51	0.49	6.2%	6.1%	7.0%	3.3	3.2	2.9	4.1%	4.5%	5.0%
Thailand average						na	0.77	0.73	na	8.9%	8.9%	na	4.3	4.0	na	3.6%	4.1%	na

SOURCES: CSG-CIMB RESEARCH, COMPANY

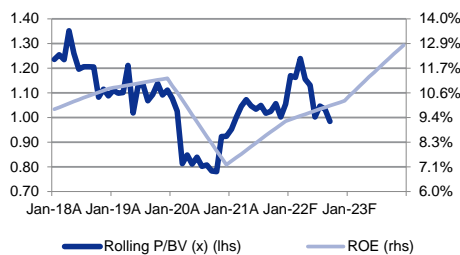
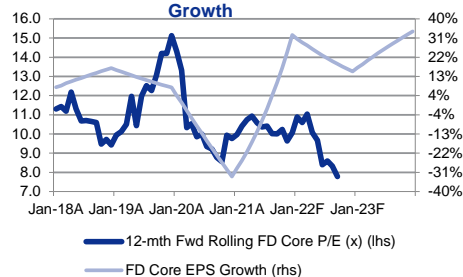
Figure 2: Earnings changes

	New			Old			% chg		
	FY22F	FY23F	FY24F	FY22F	FY23F	FY24F	FY22F	FY23F	FY24F
NIM (%)	1.77%	2.03%	1.99%	1.73%	1.98%	1.94%	+4bp	+5bp	+5bp
Net loan growth (%)	5.6%	4.6%	5.0%	5.6%	6.0%	6.5%	0%pt	-1.4%pt	-1.5%pt
NII (\$\$m)	7,729	9,213	9,424	7,555	9,054	9,312	2.3%	1.8%	1.2%
Non-NII (\$\$m)	3,621	4,151	4,663	3,621	4,151	4,663	0.0%	0.0%	0.0%
Operating expenses (\$\$m)	4,886	5,558	5,764	4,886	5,558	5,764	0.0%	0.0%	0.0%
Cost-to-income (%)	43.1%	41.6%	40.9%	43.7%	42.1%	41.2%	-0.7%pt	-0.5%pt	-0.3%pt
Provisions (\$\$m)	735	672	704	735	676	718	0.0%	-0.7%	-2.1%
Net profit (\$\$)	4,578	6,000	6,402	4,436	5,864	6,298	3.2%	2.3%	1.7%
EPS	2.74	3.59	3.83	2.65	3.51	3.77	3.2%	2.3%	1.7%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

 <div style="float: right;"> Refinitiv ESG Scores  </div>	
ESG in a nutshell <p>UOB was given a B for its combined ESG score by Refinitiv in 2021, led by an A- Social pillar score (c.50% weightage of its combined ESG score). UOB outlined five guiding principles in its approach to sustainability, as well as four overarching strategies to incorporate ESG into its operations. UOB registered improvements in both its Social and Governance pillars, driven mainly by its human rights efforts, management, and CSR strategy. Meanwhile, UOB had also launched Phase Two of Better U, the group’s learning and development programme that is focused on improving employees’ relevant skills. In 2020, it was included in the Bloomberg Gender-Equality Index for the 3rd consecutive year for its commitment to advancing workplace diversity.</p>	
Keep your eye on <p>In 2021, UOB was flagged for a controversy regarding product responsibility, where a staff fell for a scam and ended up disclosing information on 1,166 China-national customers in the process.</p>	Implications <p>We believe UOB has since reviewed its internal control processes and implemented safeguards and protocols for its staff. We think this issue will not be viewed too negatively by the investment community as it is a one-off. However, additional security breaches may not be seen as lightly and could cast a shadow on its valuations.</p>
ESG highlights <p>According to data from Refinitiv, UOB stands strong among its peers, charging ahead in the Environmental pillar.</p> <p>UOB also ranks well in the Social pillar, largely due to its heavy emphasis on human rights. This is exhibited in its Responsible Financing Policy that prohibits the financing of companies involved in the exploitation of forced and child labour, as well as those in violation of rights of local or indigenous communities, among others.</p>	Implications <p>We think UOB is viewed favourably by market participants given its pro-activeness in emphasising the importance of human rights issues. The implementation of its Responsible Financing Policy further highlights its commitment to sustainable investing. UOB may be valued at a premium when ESG mandates take off in a more material manner.</p>
Trends <p>From 2019 to 2021, UOB improved its Social scores from B+ to A- and maintained its Governance score at B-. Its Environmental score improved to A- (from B+) during this period.</p> <p>Its relative improvements in human rights, management and CSR categories were partially offset by relative deteriorations in emissions, workforce and environment innovation categories.</p>	Implications <p>While not explicitly factored into its valuations, we believe the progressive improvements in UOB’s ESG pillars will be appreciated by ESG-centric investors and could warrant a premium to valuations when the marketplace becomes more discerning in terms of ESG adherence.</p>

SOURCES: CGS-CIMB RESEARCH, REFINITIV

BY THE NUMBERS
P/BV vs ROE

12-mth Fwd FD Core P/E vs FD Core EPS Growth

Profit & Loss

(\$b)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Net Interest Income	6.04	6.39	7.60	9.21	9.42
Total Non-Interest Income	3.14	3.40	3.62	4.15	4.66
Operating Revenue	9.18	9.79	11.22	13.36	14.09
Total Non-Interest Expenses	-4.18	-4.31	-4.89	-5.56	-5.76
Pre-provision Operating Profit	4.99	5.48	6.33	7.81	8.32
Total Provision Charges	-1.55	-0.86	-0.73	-0.67	-0.70
Operating Profit After Provisions	3.44	4.61	5.60	7.14	7.62
Pretax Income/(Loss) from Assoc.	0.10	0.12	0.12	0.12	0.13
Operating EBIT (incl Associates)	3.54	4.73	5.72	7.26	7.74
Non-Operating Income/(Expense)	0.00	0.00	0.00	0.00	0.00
Profit Before Tax (pre-EI)	3.54	4.73	5.72	7.26	7.74
Exceptional Items					
Pre-tax Profit	3.54	4.73	5.72	7.26	7.74
Taxation	-0.61	-0.85	-1.23	-1.23	-1.32
Consolidation Adjustments & Others					
Exceptional Income - post-tax	0.00	0.00	0.00	0.00	0.00
Profit After Tax	2.93	3.88	4.49	6.02	6.43
Minority Interests	-0.02	-0.01	-0.02	-0.02	-0.03
Pref. & Special Div	0.00	0.00	0.00	0.00	0.00
FX And Other Adj.	0.00	0.00	0.00	0.00	0.00
Net Profit	2.92	3.87	4.47	6.00	6.40
Recurring Net Profit	2.92	3.87	4.47	6.00	6.40

Balance Sheet Employment

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Gross Loans/Cust Deposits	86.7%	88.1%	88.6%	88.3%	88.3%
Avg Loans/Avg Deposits	86.6%	87.4%	88.4%	88.5%	88.3%
Avg Liquid Assets/Avg Assets	29.5%	29.3%	28.1%	26.8%	25.8%
Avg Liquid Assets/Avg IEAs	33.6%	33.5%	31.8%	30.7%	29.9%
Net Cust Loans/Assets	64.2%	66.8%	67.1%	66.6%	66.4%
Net Cust Loans/Broad Deposits	81.4%	83.3%	83.8%	83.4%	83.4%
Equity & Provs/Gross Cust Loans	14.5%	13.7%	13.7%	14.2%	14.8%
Asset Risk Weighting	52.2%	56.4%	56.2%	55.2%	54.5%
Provision Charge/Avg Cust Loans	0.232%	0.259%	0.230%	0.200%	0.200%
Provision Charge/Avg Assets	0.152%	0.172%	0.156%	0.136%	0.135%
Total Write Offs/Average Assets	0.371%	0.194%	0.156%	0.136%	0.135%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS... cont'd

Balance Sheet

(\$b)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total Gross Loans	321.7	349.7	367.5	383.0	400.5
Liquid Assets & Invst. (Current)	51.4	57.2	58.0	58.8	59.6
Other Int. Earning Assets					
Total Gross Int. Earning Assets	373.1	406.9	425.5	441.8	460.1
Total Provisions/Loan Loss Reserve	(4.2)	(4.1)	(4.4)	(4.5)	(4.7)
Total Net Interest Earning Assets	368.9	402.8	421.1	437.2	455.3
Intangible Assets	4.1	4.1	4.1	4.1	4.1
Other Non-Interest Earning Assets	22.0	15.8	22.5	31.4	39.8
Total Non-Interest Earning Assets	26.1	20.0	26.6	35.6	44.0
Cash And Marketable Securities	36.8	36.6	34.7	35.4	36.1
Long-term Investments	0.0	0.0	0.0	0.0	0.0
Total Assets	431.8	459.3	482.5	508.2	535.5
Customer Interest-Bearing Liabilities	324.6	352.6	370.3	388.8	408.2
Bank Deposits	16.0	15.6	16.3	17.2	18.0
Interest Bearing Liabilities: Others	29.6	34.1	35.8	37.5	39.4
Total Interest-Bearing Liabilities	370.2	402.3	422.4	443.5	465.7
Bank's Liabilities Under Acceptances					
Total Non-Interest Bearing Liabilities	20.5	14.2	14.9	15.7	16.5
Total Liabilities	390.7	416.5	437.3	459.1	482.1
Shareholders' Equity	40.9	42.6	45.0	48.9	53.2
Minority Interests	0.2	0.2	0.2	0.2	0.2
Total Equity	41.1	42.9	45.2	49.1	53.3

Key Ratios

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total Income Growth	(8.5%)	6.7%	14.6%	19.1%	5.4%
Operating Profit Growth	(10.2%)	9.7%	15.6%	23.3%	6.6%
Pretax Profit Growth	(31.7%)	33.8%	20.9%	26.9%	6.7%
Net Interest To Total Income	65.8%	65.3%	67.7%	68.9%	66.9%
Cost Of Funds	0.99%	0.47%	0.80%	1.00%	1.10%
Return On Interest Earning Assets	2.62%	2.10%	2.62%	3.12%	3.20%
Net Interest Spread	1.63%	1.63%	1.82%	2.12%	2.10%
Net Interest Margin (Avg Deposits)	1.90%	1.89%	2.10%	2.43%	2.36%
Net Interest Margin (Avg RWA)	2.67%	2.64%	2.87%	3.34%	3.29%
Provisions to Pre Prov. Operating Profit	31.1%	15.8%	11.6%	8.6%	8.5%
Interest Return On Average Assets	1.44%	1.43%	1.61%	1.86%	1.81%
Effective Tax Rate	17.1%	18.0%	21.5%	17.0%	17.0%
Net Dividend Payout Ratio	44.7%	51.9%	46.7%	34.8%	32.6%
Return On Average Assets	0.70%	0.87%	0.95%	1.21%	1.23%

Key Drivers

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Net interest margin (%)	1.6%	1.6%	1.7%	2.0%	2.0%
Net interest income growth (%)	-8.0%	5.8%	18.9%	21.3%	2.3%
Non-interest income growth (%)	-9.4%	8.3%	6.5%	14.6%	12.3%
Cost-income ratio (%)	45.6%	44.1%	43.6%	41.6%	40.9%
Net loan growth (%)	4.4%	10.6%	5.6%	4.6%	5.0%
Deposit growth (%)	4.5%	5.0%	5.0%	5.0%	5.0%
Loans-deposits ratio (%)	85.4%	87.0%	87.5%	87.1%	87.1%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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Distribution of stock ratings and investment banking clients for quarter ended on 30 June 2022		
643 companies under coverage for quarter ended on 30 June 2022		
	Rating Distribution (%)	Investment Banking clients (%)
Add	68.4%	0.8%
Hold	24.6%	0.0%
Reduce	7.0%	0.2%

Recommendation Framework

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Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

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- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

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Definition:

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