

SECTOR UPDATE

Banking – Singapore

3Q23 Results Preview: Resilient NIM And Stable Asset Quality

Banks' 3Q23 earnings were powered by healthy yoy growth in net interest income, modest qoq recovery in wealth management and disciplined cost containment. Asset quality and credit costs remain benign. We forecast net profit of S\$2,532m for DBS (+13% yoy but -4% qoq) and S\$1,726m for OCBC (+7% yoy and +1% qoq). Our top picks are OCBC (BUY/Target: S\$17.65), followed by DBS (BUY/Target: S\$43.95). OCBC provides an attractive dividend yield of 6.2%. Maintain OVERWEIGHT.

WHAT'S NEW

- UOB will be announcing its 3Q23 results on 26 October, followed by DBS Group Holdings (DBS) on 6 November and Oversea-Chinese Banking Corporation (OCBC) on 10 November.

DBS Group Holdings (DBS SP/BUY/Target: S\$43.95)

- We forecast net profit to grow 13% yoy but drop 4% qoq to S\$2,532m in 3Q23. The sequential uptick in NIM and fees was offset by credit costs normalising higher.
- **Resiliency in NIM.** We expect muted loan growth of 0.2% qoq in 3Q23, which translates to a contraction of 2.9% yoy, driven by weakness in non-trade corporate loans. NIM expanded by 28bp yoy and 2bp qoq to 2.18%. NIM expansion was moderated by the outflow of CASA in Singapore and moderation of HIBOR in Hong Kong during August and September. We expect net interest income to grow 17% yoy in 3Q23.
- **Fees increased 16% yoy, accentuated by a low base in 3Q22.** Contribution from wealth management increased 21% yoy and 3% qoq to S\$390m in 3Q23 as market sentiment improved, especially during the early part of the quarter. Contribution from cards increased 5% yoy due to continued recovery in business and leisure travel.
- **Delivering on cost discipline and efficiency.** Management guided for operating expenses to increase 9-10% and cost-to-income ratio to fall below 40% in 2023. We see DBS performing in line with guidance, with operating expenses increasing 7% yoy and cost-to-income ratio maintaining at 39.2% in 3Q23 (1H23: 38.2%).
- **Asset quality remains benign.** We expect NPL formation to remain benign and NPL ratio to be stable at 1.1%. DBS has accumulated ample management overlay for general provisions of S\$2.1b set aside previously during the COVID-19 pandemic. We expect total provisions of S\$180m and credit cost of 17bp in 3Q23 (2Q23: 7bp).
- We expect DBS to maintain its quarterly dividend at 48 S cents for 3Q23.
- Our target price of S\$43.95 is based on 1.79x 2024F P/B, derived from Gordon Growth Model (ROE: 16.1%, COE: 9.0%, Growth: 0.0%).

Oversea-Chinese Banking Corporation (OCBC SP/BUY/Target: S\$17.65)

- We forecast net profit to grow 7% yoy and 1% qoq to S\$1,726m for 3Q23. On a yoy basis, healthy growth in net interest income was partially offset by lower contribution from insurance and higher credit costs.

PEER COMPARISON

Company	Ticker	Rec	Price @	Target	Market	FY	PE		P/B		P/POP		Yield		ROE	
			16 Oct 23	Price	Cap		2023F	2024F	2023F	2024F	2023F	2024F	2023F	2024F	2023F	2024F
			(\$)	(\$)	(US\$m)		(x)	(x)	(x)	(x)	(x)	(x)	(%)	(%)	(%)	(%)
DBS	DBS SP	BUY	33.44	43.95	63,064	12/2022	8.6	8.7	1.47	1.36	7.2	7.1	5.6	6.0	17.2	15.7
OCBC	OCBC SP	BUY	13.00	17.65	42,722	12/2022	8.4	8.4	1.11	1.05	7.3	7.4	6.2	6.2	12.9	12.5
UOB#	UOB SP	NR	28.13	n.a.	34,400	12/2022	8.2	7.9	1.05	0.99	6.2	5.9	6.1	6.3	13.3	12.9
Average							8.4	8.4	1.21	1.13	6.9	6.8	5.9	6.2	14.5	13.7

#Based on consensus estimate

Source: Bloomberg, UOB Kay Hian

OVERWEIGHT

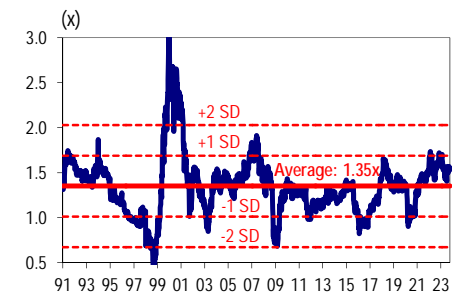
(Maintained)

TOP BUYS

Company	Rec	Share Price (\$)	Target Price (\$)
DBS	BUY	33.44	43.95
OCBC	BUY	13.00	17.65

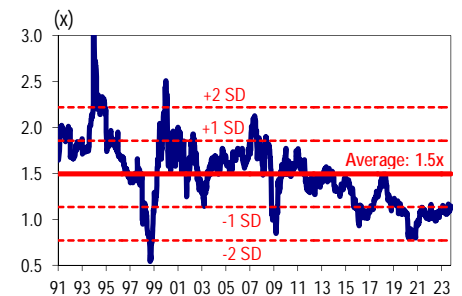
Source: UOB Kay Hian

P/B – DBS



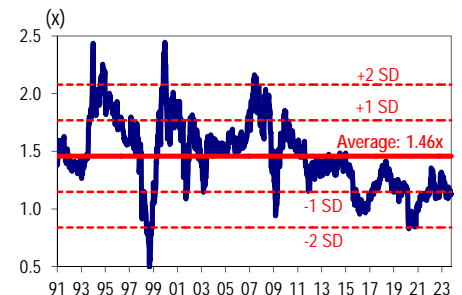
Source: UOB Kay Hian

P/B – OCBC



Source: UOB Kay Hian

P/B – UOB



Source: UOB Kay Hian

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- Resiliency in NIM.** We expect loan growth to be muted at 0.2% qoq in 3Q23, which translates to a contraction of 1.8% yoy, as corporate customers are cautious on business expansion and trade loans remain weak. We expect NIM to expand by 20bp yoy but remain flat qoq at 2.26%. Compounded SORA 3M inched marginally higher by 7bp to 3.71% in 3Q23 despite a 25bp hike in the Fed funds rate to 5.25% in Jul 23. Net interest income is expected to grow by a healthy 15% yoy in 3Q23.
- Contribution from wealth management remains soft.** We expect fee income to be flat yoy but rebound 5% qoq to S\$450m in 3Q23. Wealth management saw fragile recovery with contribution increasing 9% yoy and 8% qoq to S\$195m. Loans and trade-related fees are expected to be stable.
- Stable contribution from insurance without swings from mark-to-market.** The adoption of SFRS(l) 17 has moved mark-to-market for insurance assets and liabilities to fair value through other comprehensive income (direct to balance sheet). 10-year Singapore government bond yield rose 32bp to 3.40% in 3Q23. We expect contribution from the insurance business at a normalised level of S\$200m in 3Q23 (-24% qoq). The negative impact from mark-to-market for its bond portfolio to OCBC's profit & loss was minimised after the adoption of SFRS(l) 17.
- Asset quality remains stable.** We expect NPL ratio to be stable at 1.1%. OCBC is expected to review its macro-economic variable (MEV) model for general provisions due to heightened geopolitical tensions caused by conflict in the Middle East. We have factored in credit costs of 25bp in 3Q23, which is higher than management's guidance of 15-20bp for 2023.
- Our target price of S\$17.65 is based on 1.42x 2024F P/B, derived from the Gordon Growth Model (ROE: 12.8%, COE: 9.0%, Growth: 0.0%).

### ACTION

- Higher interest rates for a longer timeframe.** The Fed hiked the fed funds rate by 25bp at the FOMC meeting on 26 Jul 23. The dot plot indicates another rate hike of 25bp to bring the fed funds rate to 5.50% by end-23. Fed chairman Jerome Powell said he does not anticipate core inflation to return to the Fed's target of 2% until 2025, which suggests interest rates are likely to stay higher for a longer timeframe.
- Banks as proxy to growth in ASEAN countries.** ASEAN countries have a large combined population of 680m and account for about 8% of global exports. Many multinational companies have adopted the China+1 strategy and plan to set up alternative production facilities within the ASEAN region. Malaysia, Thailand, Indonesia and Vietnam are seeing growth in foreign direct investments. OCBC and UOB benefit from the reorientation of supply chains due to their extensive networks within ASEAN countries.
- Stability in environment clouded by uncertainties.** Banks provide attractive value proposition with low P/B of 1.13x and a sustainably high dividend yield of 6.2% for 2024. Our top BUY pick is OCBC (Target: S\$17.65) for its new dividend policy with payout ratio at 50%, focus on ASEAN and defensively low 2024F P/B of 1.05x. We like DBS (Target: S\$43.95) due to its excellence in execution and consistency in delivering good results. Maintain OVERWEIGHT.

### PROJECTED DPS AND DIVIDEND PAYOUT RATIOS

	DBS			OCBC			UOB#		
	FY22	FY23F	FY24F	FY22	FY23F	FY24F	FY22	FY23F	FY24F
Price (S\$)	33.44			13.00			28.13		
Year to 31 Dec									
EPS (S c)	315	387	382	127	154	156	269	345	354
DPS (S c)	200	186	200	68	80	80	135	170	178
Payout Ratio (%)	63.5	48.1	52.3	53.5	51.8	51.4	50.1	49.4	50.3
Dividend Yield (%)	6.0	5.6	6.0	5.2	6.2	6.2	4.8	6.1	6.3

# Based on consensus estimate  
Source: UOB Kay Hian

### PROFIT & LOSS – FORECAST FOR DBS (3Q23)

Profit & Loss (S\$m)	3Q23F	3Q22	yoy % Chg	2Q23	qoq % Chg
Net Interest Income	3,541	3,020	17.3	3,433	3.2
Fees & Commissions	894	771	16.0	823	8.6
Other Non-interest Income	530	700	-24.3	789	-32.8
Total Income	4,965	4,491	10.6	5,045	-1.6
Operating Expenses	(1,948)	(1,825)	6.7	(2,004)	-2.8
PPoP	3,018	2,666	13.2	3,041	-0.8
Provisions	(180)	(178)	0.9	(72)	149.3
Associates	50	53	-5.7	42	19.0
PBT	2,888	2,541	13.7	3,011	-4.1
Net Profit	2,532	2,236	13.3	2,629	-3.7
EPS (S cents)	97.3	85.3	14.1	103.8	-6.3
DPS (S cents)	48.0	36.0	33.3	48.0	0.0
BVPS (S\$)	22.33	20.66	8.1	21.85	2.2

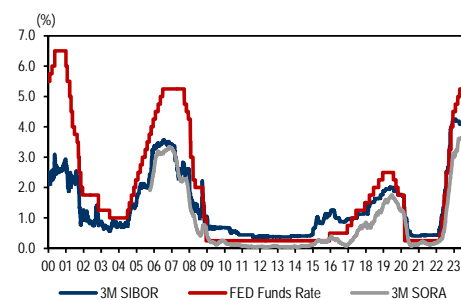
Source: UOB Kay Hian

### PROFIT & LOSS – FORECAST FOR OCBC (3Q23)

Profit & Loss (S\$m)	3Q23F	3Q22	yoy % Chg	2Q23	qoq % Chg
Net Interest Income	2,422	2,099	15.4	2,389	1.4
Fees & Commissions	450	453	-0.7	430	4.7
Insurance	200	370	-45.9	262	-23.7
Net Trading Income	200	194	3.1	262	-23.7
Other Non-interest Income	60	36	66.7	112	-46.4
Total Income	3,332	3,152	5.7	3,455	-3.6
Operating Expenses	(1,358)	(1,295)	4.8	(1,355)	0.2
PPOP	1,974	1,857	6.3	2,100	-6.0
Provisions	(186)	(154)	20.9	(252)	-26.1
Associates	269	256	5.0	250	7.5
PBT	2,057	1,959	5.0	2,098	-2.0
Net Profit	1,726	1,605	7.5	1,710	0.9
EPS (S cents)	38.5	35.0	9.9	37.8	1.9
DPS (S cents)	0.0	0.0	n.m.	40.0	n.m.
BVPS (S\$)	11.31	11.29	0.2	11.33	-0.2

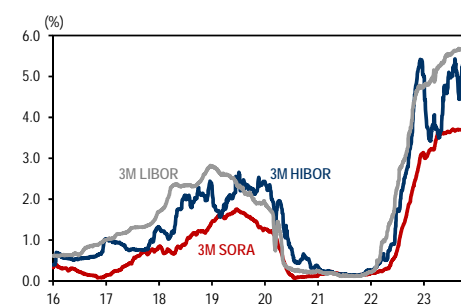
Source: UOB Kay Hian

### US FED FUNDS RATE VS 3M SIBOR AND 3M SORA



Source: Bloomberg

### 3M LIBOR AND 3M HIBOR



Source: Bloomberg

### ASSUMPTION CHANGES

- We forecast earnings growth of 22.9% for DBS in 2023.

#### KEY ASSUMPTIONS – DBS

	2021	2022	2023F	2024F	2025F
Loan Growth (%)	9.9	1.3	1.5	4.9	4.9
NIM (%)	1.45	1.75	2.16	2.13	2.03
Fees, % Chg	15.2	(12.3)	12.5	12.1	7.5
NPL Ratio (%)	1.27	1.13	1.22	1.28	1.30
Credit Costs (bp)	0.6	5.4	13.7	22.1	22.1
Net Profit (S\$m)	6,802	8,196	10,073	9,952	10,187
% Chg	44.1	20.5	22.9	(1.2)	2.4

Source: UOB Kay Hian

- We forecast earnings growth of 20.5% for OCBC in 2023.

#### KEY ASSUMPTIONS – OCBC

	2021	2022	2023F	2024F	2025F
Loan Growth (%)	8.6	1.8	1.9	4.4	4.9
NIM (%)	1.55	1.91	2.27	2.20	2.10
Fees, % Chg	12.0	(17.6)	(3.4)	5.9	6.1
NPL Ratio (%)	1.45	1.15	1.19	1.30	1.30
Credit Costs (bp)	31.3	20.0	24.0	22.5	23.3
Net Profit (S\$m)	4,858	5,748	6,925	6,979	7,060
% Chg	35.4	18.3	20.5	0.8	1.2

Source: UOB Kay Hian

### SECTOR CATALYSTS

- Economic recovery driven by the reopening and easing of COVID-19 restrictions, including the ongoing reopening in China.
- Banks reviewing their dividend policy and paying more dividends.

### RISKS

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

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