

### SECTOR UPDATE

## Banking – Singapore

3Q23 Round-up: Building Buffers To Weather Heightened Geopolitical Uncertainties

**Banks delivered resilient earnings in 3Q23 (DBS: +16% yoy, OCBC: +21% yoy) with NIM expansion yoy, enhanced cost discipline and benign asset quality. Geopolitical uncertainties have increased. Singapore banks can better weather the volatilities due to strong capital adequacy and stable asset quality. DBS and OCBC provide attractive 2024 dividend yields of 6.0% and 6.2% respectively. BUY OCBC (Target: S\$17.35), followed by DBS (Target: S\$44.28). Maintain OVERWEIGHT.**

### WHAT'S NEW

- **DBS Group Holdings' (DBS) and Oversea-Chinese Banking Corp's (OCBC) 3Q23 results** were slightly above our expectations. Assuming that consensus estimate of S\$1,483m excluded one-off expenses of S\$97m for Citi integration cost, United Overseas Bank (UOB) would have performed in line with expectations.
- **DBS and OCBC outperform in NIM expansion.** DBS and OCBC registered more sizeable NIM expansions of 29bp and 21bp yoy respectively in 3Q23 (UOB: +14bp yoy). On a sequential basis, DBS' and OCBC's NIM also expanded slightly by 3bp and 1bp qoq respectively (UOB: -3bp qoq). UOB deployed surplus liquidity to high-quality low-yielding assets, which resulted in moderation in NIM. Thus, DBS and OCBC achieved stronger growth in net interest income of 16% and 17% yoy respectively (UOB: 9% yoy).
- **UOB has strengthened deposit franchise.** UOB has maintained CASA ratio at 48.2% as of Sep 23 despite higher interest rates for fixed deposits. Conversely, DBS' and OCBC's CASA ratio has deteriorated 12.3ppt and 9.8ppt yoy respectively to 53.4% and 46.3%.
- **DBS and UOB saw stronger growth in fee income** of 9% and 14% yoy respectively (OCBC: +2% yoy). DBS benefitted from strong recovery of wealth management of 22% yoy (OCBC: 9% yoy, UOB: 11% yoy). DBS' loans and trade-related fees grew by 12% yoy (OCBC: -2% yoy, UOB: 5% yoy). UOB's credit card fees jumped by a sizeable 89% yoy to new record high of S\$104m due to higher customer spends and its enlarged regional franchise with the consolidation of Citi consumer businesses (DBS: 21% yoy).
- **Enhanced cost efficiency.** Banks delivered positive Jaws with revenue growth exceeding the increase in operating expenses. DBS, OCBC and UOB (exclude Citi integration costs) have controlled the increase in operating expenses at 12%, 5% and 4% yoy respectively. Cost-to-income ratios (CIR) have fallen below 40.0% at 39.3% for DBS and 39.1% for OCBC (UOB: 41% if we exclude Citi integration costs).
- **Asset quality was benign.** OCBC's and UOB's NPLs decreased by 5.5% and 3.5% qoq respectively due to benign NPL formation and continued upgrades and recoveries. DBS' NPLs jumped 6% qoq in 3Q23 due to the integration of Citibank Taiwan. DBS incurred specific provisions of about S\$100m due to exposures linked to the recent money laundering case in Singapore (financing for purchase of real estate).
- **Delivering high ROE.** DBS, OCBC and UOB reported high ROEs of 18.2%, 14.0% and 13.9% respectively.

### PEER COMPARISON

| Company | Ticker  | Rec | Price @ 10 Nov 23 (\$) | Target Price (\$) | Market Cap (US\$m) | FY      | PE        |           | P/B       |           | P/POP     |           | Yield     |           | ROE       |           |
|---------|---------|-----|------------------------|-------------------|--------------------|---------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
|         |         |     |                        |                   |                    |         | 2023F (x) | 2024F (x) | 2023F (x) | 2024F (x) | 2023F (x) | 2024F (x) | 2023F (%) | 2024F (%) | 2023F (%) | 2024F (%) |
| DBS     | DBS SP  | BUY | 33.17                  | 44.28             | 62,906             | 12/2022 | 8.4       | 8.6       | 1.46      | 1.35      | 7.1       | 7.1       | 5.6       | 6.0       | 17.3      | 15.8      |
| OCBC    | OCBC SP | BUY | 12.97                  | 17.35             | 42,863             | 12/2022 | 8.3       | 8.4       | 1.13      | 1.06      | 7.2       | 7.4       | 6.2       | 6.2       | 13.1      | 12.5      |
| UOB#    | UOB SP  | NR  | 27.40                  | n.a.              | 33,695             | 12/2022 | 8.0       | 7.8       | 1.02      | 0.96      | 6.2       | 5.7       | 6.3       | 6.6       | 13.3      | 12.9      |
| Average |         |     |                        |                   |                    |         | 8.2       | 8.3       | 1.20      | 1.12      | 6.8       | 6.7       | 6.0       | 6.3       | 14.6      | 13.7      |

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

## OVERWEIGHT

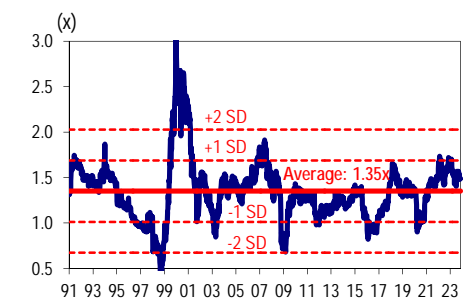
(Maintained)

### TOP BUYS

| Company | Rec | Share Price (\$) | Target Price (\$) |
|---------|-----|------------------|-------------------|
| DBS     | BUY | 33.17            | 44.28             |
| OCBC    | BUY | 12.97            | 17.35             |

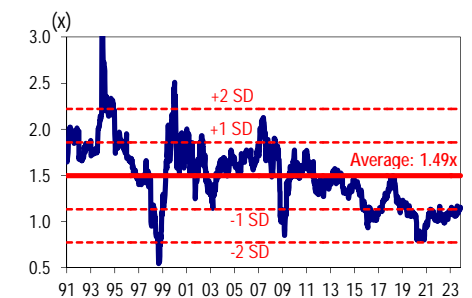
Source: UOB Kay Hian

### P/B – DBS



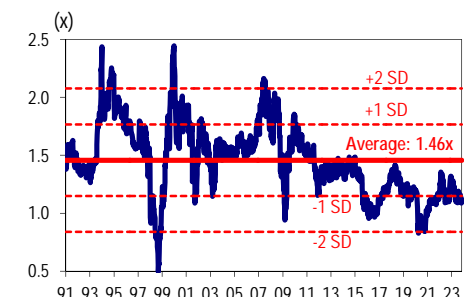
Source: UOB Kay Hian

### P/B – OCBC



Source: UOB Kay Hian

### P/B – UOB



Source: UOB Kay Hian

### ANALYST(S)

**Jonathan Koh, CFA, MSc Econ**  
 +65 6590 6620  
 jonathankoh@uobkayhian.com

### ACTION

- Maintaining a delicate balance.** The US Fed has kept Fed Funds Rate unchanged for the second consecutive meeting on 1 Nov 23. Chair Jerome Powell described the current stance for monetary policy as significantly restrictive. Nevertheless, he cautioned that the Fed would not hesitate if it becomes appropriate to tighten monetary policy further to bring inflation back down to its long-term target of 2%. He indicated that the Fed would proceed cautiously to address both risks of being misled by a few months of positive data and risk of over tightening. The Fed still has a long way to go before achieving its goal for price stability.
- 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 chain due to their extensive network within ASEAN countries.
- Maintain OVERWEIGHT.** Banks provide attractive value proposition with low P/B of 1.12x and sustainably high yield of 6.3% for 2024. Our top BUY pick is OCBC (Target: S\$17.35) for its new dividend policy with payout ratio at 50%, focus on ASEAN and defensively low 2024F P/B of 1.06x. We like DBS (Target: S\$44.28) due to its excellence in execution and consistency in delivering good results.

### COMPARISON OF PROFIT & LOSS

| 3Q23                      | DBS                                  | OCBC                                 | UOB                                 |
|---------------------------|--------------------------------------|--------------------------------------|-------------------------------------|
| Net Interest Income       | S\$3,504m<br>+16.0% yoy<br>+2.1% qoq | S\$2,456m<br>+17.0% yoy<br>+2.8% qoq | S\$2,429m<br>+8.7% yoy<br>-0.3% qoq |
| Fee Income                | S\$843m<br>+9.3% yoy<br>+2.4% qoq    | S\$461m<br>+1.8% yoy<br>+7.2% qoq    | S\$591m<br>+13.9% yoy<br>+12.8% qoq |
| Insurance                 | n.a.                                 | S\$220m<br>-11.6% yoy<br>-16.0% qoq  | n.a.                                |
| Other Non-Interest Income | S\$845m<br>+20.7% yoy<br>+7.1% qoq   | S\$292m<br>+27.0% yoy<br>-21.9% qoq  | S\$436m<br>+1.2% yoy<br>-25.0% qoq  |
| Provisions                | S\$215m<br>20bp                      | S\$184m<br>17bp                      | S\$235m<br>19bp                     |
| Net Profit                | S\$2,593m<br>+16.0% yoy<br>-1.4% qoq | S\$1,810m<br>+21.4% yoy<br>+5.8% qoq | S\$1,382m<br>-1.5% yoy<br>-2.3% qoq |

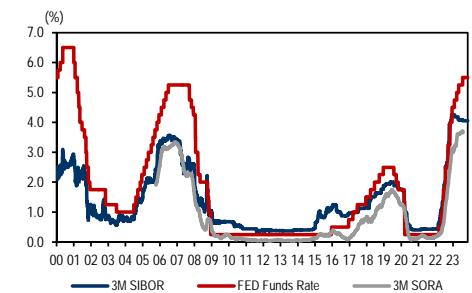
Source: Respective companies, UOB Kay Hian

### COMPARISON OF KEY RATIOS

| 3Q23                        | DBS                                | OCBC                               | UOB                                |
|-----------------------------|------------------------------------|------------------------------------|------------------------------------|
| Net Interest Margin (NIM)   | 2.19%<br>+3bp qoq                  | 2.27%<br>+1bp qoq                  | 2.09%<br>-3bp qoq                  |
| Loan Growth                 | -2.1% yoy<br>+1.0% qoq             | -1.8% yoy<br>+0.3% qoq             | -1.6% yoy<br>-0.3% qoq             |
| Deposit Growth              | -0.3% yoy<br>+2.2% qoq             | +4.7% qoq<br>-0.8% qoq             | +1.8% yoy<br>+1.3% qoq             |
| NPL Ratio                   | 1.2%<br>+0.1ppt qoq                | 1.0%<br>-0.1ppt qoq                | 1.6%<br>Unchanged                  |
| Loan Loss Coverage          | 125%<br>-2ppt qoq                  | 139%<br>+8ppt qoq                  | 102%<br>+3ppt qoq                  |
| Core Equity Tier-1 CAR      | 14.1%<br>Unchanged                 | 14.8%<br>-0.6ppt qoq               | 13.0%<br>-0.6ppt qoq               |
| Book Value Per Share (BVPS) | S\$22.31<br>+8.0% yoy<br>+2.1% qoq | S\$11.28<br>+3.8% yoy<br>-0.4% qoq | S\$24.89<br>+5.7% yoy<br>-0.9% qoq |

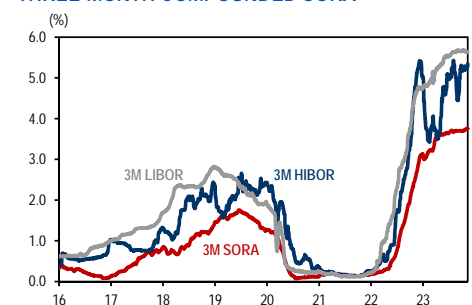
Source: Respective companies, UOB Kay Hian

### US FED FUNDS RATE VS 3M SIBOR



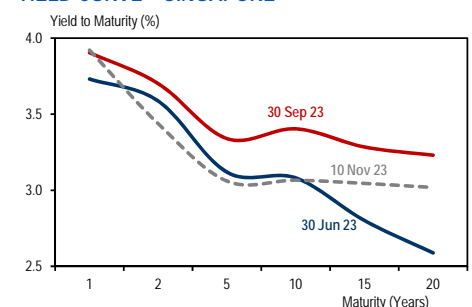
Source: Bloomberg

### THREE-MONTH COMPOUNDED SORA



Source: Bloomberg

### YIELD CURVE - SINGAPORE



Source: Bloomberg

### ASSUMPTION CHANGES

- We raised our 2023 earnings forecast for DBS by 0.6% due to good 3Q23 results.

#### KEY ASSUMPTIONS – DBS

|                   | 2021  | 2022   | 2023F  | 2024F  | 2025F  |
|-------------------|-------|--------|--------|--------|--------|
| Loan Growth (%)   | 9.9   | 1.3    | 2.4    | 4.9    | 4.9    |
| NIM (%)           | 1.45  | 1.75   | 2.16   | 2.10   | 2.00   |
| Fees, % Chg       | 15.2  | (12.3) | 11.4   | 15.3   | 7.5    |
| NPL Ratio (%)     | 1.27  | 1.13   | 1.22   | 1.27   | 1.30   |
| Credit Costs (bp) | 0.6   | 5.4    | 14.6   | 20.1   | 20.1   |
| Net Profit (\$m)  | 6,802 | 8,196  | 10,132 | 10,016 | 10,255 |
| % Chg             | 44.1  | 20.5   | 23.6   | (1.2)  | 2.4    |

Source: UOB Kay Hian

- We trimmed our 2024 earnings forecast for OCBC by 1% after factoring in slightly lower NIM.

#### KEY ASSUMPTIONS – OCBC

|                   | 2021  | 2022   | 2023F | 2024F | 2025F |
|-------------------|-------|--------|-------|-------|-------|
| Loan Growth (%)   | 8.6   | 1.8    | 1.5   | 3.4   | 4.9   |
| NIM (%)           | 1.55  | 1.91   | 2.27  | 2.19  | 2.09  |
| Fees, % Chg       | 12.0  | (17.6) | (2.8) | 5.4   | 6.1   |
| NPL Ratio (%)     | 1.45  | 1.15   | 1.07  | 1.20  | 1.21  |
| Credit Costs (bp) | 31.3  | 20.0   | 23.9  | 22.3  | 23.3  |
| Net Profit (\$m)  | 4,858 | 5,748  | 7,000 | 6,900 | 6,976 |
| % Chg             | 35.4  | 18.3   | 21.8  | (1.4) | 1.1   |

Source: UOB Kay Hian

### SECTOR CATALYSTS

- Banks delivering resilient earnings as interest rates stay higher for longer.
- Banks review capital management and returning surplus capital to shareholders.

### RISKS

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

## Disclosures/Disclaimers

This report is prepared by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser in Singapore.

This report is provided for information only and is not an offer or a solicitation to deal in securities or to enter into any legal relations, nor an advice or a recommendation with respect to such securities.

**This report is prepared for general circulation.** It does not have regard to the specific investment objectives, financial situation and the particular needs of any recipient hereof. Advice should be sought from a financial adviser regarding the suitability of the investment product, taking into account the specific investment objectives, financial situation or particular needs of any person in receipt of the recommendation, before the person makes a commitment to purchase the investment product.

This report is confidential. This report may not be published, circulated, reproduced or distributed in whole or in part by any recipient of this report to any other person without the prior written consent of UOBKH. This report is not directed to or intended for distribution to or use by any person or any entity who is a citizen or resident of or located in any locality, state, country or any other jurisdiction as UOBKH may determine in its absolute discretion, where the distribution, publication, availability or use of this report would be contrary to applicable law or would subject UOBKH and its connected persons (as defined in the Financial Advisers Act, Chapter 110 of Singapore) to any registration, licensing or other requirements within such jurisdiction.

The information or views in the report ("Information") has been obtained or derived from sources believed by UOBKH to be reliable. However, UOBKH makes no representation as to the accuracy or completeness of such sources or the Information and UOBKH accepts no liability whatsoever for any loss or damage arising from the use of or reliance on the Information. UOBKH and its connected persons may have issued other reports expressing views different from the Information and all views expressed in all reports of UOBKH and its connected persons are subject to change without notice. UOBKH reserves the right to act upon or use the Information at any time, including before its publication herein.

Except as otherwise indicated below, (1) UOBKH, its connected persons and its officers, employees and representatives may, to the extent permitted by law, transact with, perform or provide broking, underwriting, corporate finance-related or other services for or solicit business from, the subject corporation(s) referred to in this report; (2) UOBKH, its connected persons and its officers, employees and representatives may also, to the extent permitted by law, transact with, perform or provide broking or other services for or solicit business from, other persons in respect of dealings in the securities referred to in this report or other investments related thereto; (3) the officers, employees and representatives of UOBKH may also serve on the board of directors or in trustee positions with the subject corporation(s) referred to in this report. (All of the foregoing is hereafter referred to as the "Subject Business"); and (4) UOBKH may otherwise have an interest (including a proprietary interest) in the subject corporation(s) referred to in this report.

As of the date of this report, no analyst responsible for any of the content in this report has any proprietary position or material interest in the securities of the corporation(s) which are referred to in the content they respectively author or are otherwise responsible for.

**IMPORTANT DISCLOSURES FOR U.S. PERSONS**

This research report was prepared by UOBKH, a company authorized, as noted above, to engage in securities activities in Singapore. UOBKH is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution by UOBKH (whether directly or through its US registered broker dealer affiliate named below) to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"). All US persons that receive this document by way of distribution from or which they regard as being from UOBKH by their acceptance thereof represent and agree that they are a major institutional investor and understand the risks involved in executing transactions in securities.

Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through UOB Kay Hian (U.S.) Inc ("UOBKHUS"), a registered broker-dealer in the United States. Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through UOBKH.

UOBKHUS accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to and intended to be received by a U.S. person other than a major U.S. institutional investor.

The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA") and may not be an associated person of UOBKHUS and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

### Analyst Certification/Regulation AC

Each research analyst of UOBKH who produced this report hereby certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject corporation(s) and securities in this report; (2) the report was produced independently by him/her; (3) he/she does not carry out, whether for himself/herself or on behalf of UOBKH or any other person, any of the Subject Business involving any of the subject corporation(s) or securities referred to in this report; and (4) he/she has not received and will not receive any compensation that is directly or indirectly related or linked to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. However, the compensation received by each such research analyst is based upon various factors, including UOBKH's total revenues, a portion of which are generated from UOBKH's business of dealing in securities.

Reports are distributed in the respective countries by the respective entities and are subject to the additional restrictions listed in the following table.

|                                   |   |
|-----------------------------------|---|
| General                           | This report is not intended for distribution, publication to or use by any person or entity who is a citizen or resident of or located in any country or jurisdiction where the distribution, publication or use of this report would be contrary to applicable law or regulation.  |
| Hong Kong                         | This report is distributed in Hong Kong by UOB Kay Hian (Hong Kong) Limited ("UOBKHHK"), which is regulated by the Securities and Futures Commission of Hong Kong. Neither the analyst(s) preparing this report nor his associate, has trading and financial interest and relevant relationship specified under Para. 16.4 of Code of Conduct in the listed corporation covered in this report. UOBKHHK does not have financial interests and business relationship specified under Para. 16.5 of Code of Conduct with the listed corporation covered in this report. Where the report is distributed in Hong Kong and contains research analyses or reports from a foreign research house, please note:<br>(i) recipients of the analyses or reports are to contact UOBKHHK (and not the relevant foreign research house) in Hong Kong in respect of any matters arising from, or in connection with, the analysis or report; and<br>(ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Hong Kong who is not a professional investor, or institutional investor, UOBKHHK accepts legal responsibility for the contents of the analyses or reports only to the extent required by law. |
| Indonesia                         | This report is distributed in Indonesia by PT UOB Kay Hian Sekuritas, which is regulated by Financial Services Authority of Indonesia ("OJK"). Where the report is distributed in Indonesia and contains research analyses or reports from a foreign research house, please note recipients of the analyses or reports are to contact PT UOBKH (and not the relevant foreign research house) in Indonesia in respect of any matters arising from, or in connection with, the analysis or report.  |
| Malaysia                          | Where the report is distributed in Malaysia and contains research analyses or reports from a foreign research house, the recipients of the analyses or reports are to contact UOBKHM (and not the relevant foreign research house) in Malaysia, at +603-21471988, in respect of any matters arising from, or in connection with, the analysis or report as UOBKHM is the registered person under CMSA to distribute any research analyses in Malaysia.  |
| Singapore                         | This report is distributed in Singapore by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser regulated by the Monetary Authority of Singapore. Where the report is distributed in Singapore and contains research analyses or reports from a foreign research house, please note:<br>(i) recipients of the analyses or reports are to contact UOBKH (and not the relevant foreign research house) in Singapore in respect of any matters arising from, or in connection with, the analysis or report; and<br>(ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Singapore who is not an accredited investor, expert investor or institutional investor, UOBKH accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.   |
| Thailand                          | This report is distributed in Thailand by UOB Kay Hian Securities (Thailand) Public Company Limited, which is regulated by the Securities and Exchange Commission of Thailand.  |
| United Kingdom                    | This report is being distributed in the UK by UOB Kay Hian (U.K.) Limited, which is an authorised person in the meaning of the Financial Services and Markets Act and is regulated by The Financial Conduct Authority. Research distributed in the UK is intended only for institutional clients.   |
| United States of America ('U.S.') | This report cannot be distributed into the U.S. or to any U.S. person or entity except in compliance with applicable U.S. laws and regulations. It is being distributed in the U.S. by UOB Kay Hian (US) Inc, which accepts responsibility for its contents. Any U.S. person or entity receiving this report and wishing to effect transactions in any securities referred to in the report should contact UOB Kay Hian (US) Inc. directly.   |

Copyright 2023, UOB Kay Hian Pte Ltd. All rights reserved.

<http://research.uobkayhian.com>

RCB Regn. No. 197000447W