

SECTOR UPDATE

Banking – Singapore

4Q23 Results Preview: Slower Growth For Net Interest Income

Growth in net interest income is expected to moderate to single-digit rates of 7% yoy for DBS and 3% yoy for OCBC in 4Q23. Non-interest income, such as wealth management fees and net trading income, are likely to be seasonally softer. We forecast net profit of S\$2,368m for DBS (+1% yoy but -9% qoq) and S\$1,648m for OCBC (+26% yoy but -9% qoq). Our top picks are OCBC (BUY/Target: S\$17.00), followed by DBS (BUY/Target: S\$40.25). Maintain MARKET WEIGHT.

WHAT'S NEW

- The 4Q23 results season for banks starts with DBS Group Holdings (DBS) on 7 Feb 24, followed by United Overseas Bank (UOB) on 22 Feb 24 and Oversea-Chinese Banking Corporation (OCBC) on 28 Feb 24.
- DBS Group Holdings (DBS SP/BUY/Target: S\$40.25)**
- We forecast net profit to grow 1% yoy but recede 9% qoq to S\$2,368m in 4Q23.
- Slight moderation in NIM sequentially.** We expect subdued loan growth that is up marginally by 1.4% yoy but flat sequentially in 4Q23 due to weakness in corporate loans and repayments by customers. NIM eased 3bp qoq to 2.16% due to outflow of CASA to fixed deposits in Singapore. We expect net interest income to grow 7% yoy in 4Q23 (3Q23: 16% yoy).
- Fees increased 38% yoy, accentuated by low base effect.** Contribution from wealth management increased 53% yoy (low base in 4Q22) and 2% qoq to S\$400m in 4Q23 as market sentiment improved, especially during the latter part of the quarter. Contribution from cards increased 15% yoy to S\$282m due to continued recovery in business and leisure travel, augmented by acquisition of Citigroup Consumer Businesses in Taiwan.
- 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 better than guidance with operating expenses increasing 6% yoy but cost-to-income ratio seasonally higher at 42.8% in 4Q23 (9M23: 38.6%).
- Asset quality remains benign.** We expect NPL formation to remain benign and NPL ratio to be stable at 1.2%. DBS has accumulated ample management overlay for general provisions of S\$2.2b set aside previously during the COVID-19 pandemic. We expect lower total provisions of S\$128m and credit cost of 12bp in 4Q23 (credit cost was higher at 20bp in 3Q23 due to specific provisions of about S\$100m relating to a money laundering case in Singapore).
- Hike in quarterly dividend.** We envisage DBS returning surplus capital to shareholders by increasing its quarterly dividend by 6 S cents or 12.5% to 54 S cents for 4Q23.
- Our target price of S\$40.25 is based on 1.56x 2025F P/B, derived from Gordon Growth Model (ROE: 14.0%, COE: 9.0%, Growth: 0.0%).
- Oversea-Chinese Banking Corporation (OCBC SP/BUY/Target: S\$17.00)**
- We forecast net profit to grow 26% yoy but recede 9% qoq to S\$1,648m for 4Q23.

PEER COMPARISON

Company	Ticker	Rec	Price @	Target	Market	FY	PE		P/B		P/POP		Yield		ROE	
			19 Jan 24	Price	Cap		2024F	2025F	2024F	2025F	2024F	2025F	2024F	2025F	2024F	2025F
			(\$)	(\$)	(US\$m)		(x)	(x)	(x)	(x)	(x)	(x)	(%)	(%)	(%)	(%)
DBS	DBS SP	BUY	32.05	40.25	61,626	12/2022	8.4	9.0	1.31	1.24	7.0	7.4	6.7	6.7	16.0	14.0
OCBC	OCBC SP	BUY	12.91	17.00	43,257	12/2022	8.3	8.7	1.05	1.00	7.2	7.5	6.2	6.2	13.0	11.8
UOB#	UOB SP	NR	27.85	n.a.	34,723	12/2022	8.0	7.7	0.99	0.93	5.9	5.7	6.4	6.5	12.9	12.5
Average							8.2	8.5	1.12	1.06	6.7	6.9	6.4	6.5	14.0	12.8

#Based on consensus estimate
Source: Bloomberg, UOB Kay Hian

MARKET WEIGHT

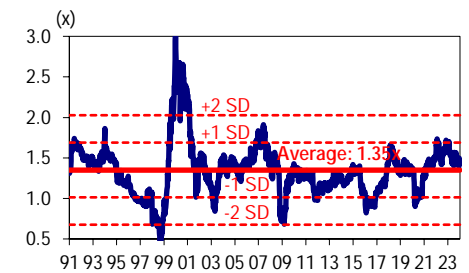
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SECTOR PICKS

Company	Rec	Share Price (\$)	Target Price (\$)
DBS	BUY	32.05	40.25
OCBC	BUY	12.91	17.00

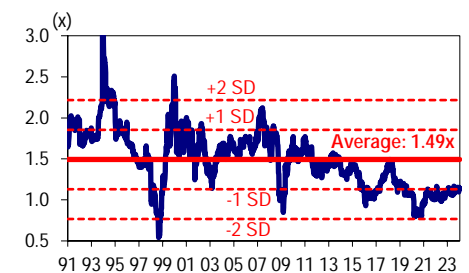
Source: UOB Kay Hian

P/B – DBS



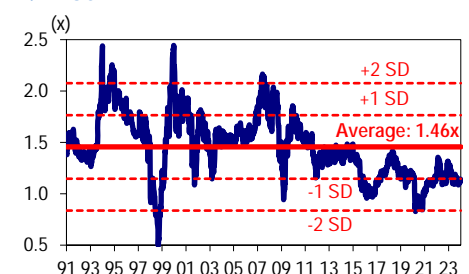
Source: UOB Kay Hian

P/B – OCBC



Source: UOB Kay Hian

P/B – UOB



Source: UOB Kay Hian

ANALYST(S)

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- Resilient NIM.** We expect muted loan growth that is up marginally by 1.1% yoy but flat sequentially in 4Q23 as heightened geopolitical uncertainties dampen corporate customers' appetite for business expansion. We expect NIM to be stable at 2.26% with Fed Funds Rate and compounded SORA 3M moving largely sideways. Net interest income is expected to grow 3% yoy in 4Q23 (3Q23: 17% yoy).
- Moderate recovery from wealth management.** We expect fee income to grow 24% yoy and rebound 7% qoq to S\$493m in 4Q23. Wealth management saw strong recovery of 55% yoy, accentuated by a low base in 4Q22. Loans and trade-related fees are expected to be stable.
- Stable contributions from insurance without swings from mark-to-market.** The adoption of SFRS(I) 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 69bp to 2.71% in 4Q23. We expect contribution from the insurance business at a normalised level of S\$230m in 4Q23 (+4.5% qoq).
- Asset quality remains stable.** We expect NPL ratio to be stable at 1.0%. OCBC is expected to review its macro-economic variable (MEV) model for general provisions due to heightened geopolitical tension caused by conflict in the Middle East. We have factored in credit costs of 30bp in 4Q23, which is higher than management's guidance of 20bp for 2023.
- Our target price of S\$17.00 is based on 1.31x 2025F P/B, derived from the Gordon Growth Model (ROE: 11.8%, COE: 9.0%, Growth: 0.0%).

ACTION

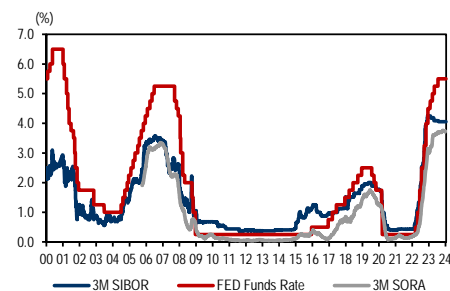
- Maintain MARKET WEIGHT.** The anticipated interest rate down-cycle has a negative impact on Singapore banks. Rate cuts are expected to result in NIM compression and lower net interest income in 2H24 and 2025. Valuations are undemanding with Singapore banks trading at low P/B of 1.12x, low PE of 8.2x and attractive dividend yield of 6.4% for 2024.
- 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.
- Oversea-Chinese Banking Corp (BUY/Target: S\$17.00).**
- Our top pick is OCBC due to its commitment to maintain dividend payout ratio at 50%, consistency in delivering growth in quarterly earnings, focus on trade and investment flows within ASEAN and defensively low 2024F P/B of 1.05x. It has the highest CET-1 CAR of 14.8% and lowest NPL ratio of 1.0% as of Sep 23.

PROFIT & LOSS – FORECAST FOR OCBC (4Q23)

Profit & Loss (S\$m)	4Q23F	4Q22	yoy % chg	3Q23	qoq % chg
Net Interest Income	2,451	2,386	2.7	2,456	-0.2
Fees & Commissions	493	399	23.7	461	6.9
Insurance	230	66	248.5	220	4.5
Net Trading Income	200	148	35.1	216	-7.4
Other Non-Interest Income	75	2	3650.0	76	-1.3
Total Income	3,449	3,001	15.0	3,429	0.6
Operating Expenses	(1,474)	(1,325)	11.2	(1,366)	7.9
PPOP	1,976	1,676	17.9	2,063	-4.2
Provisions	(224)	(314)	-28.8	(184)	21.6
Associates	234	223	5.0	254	-7.8
PBT	1,986	1,585	25.3	2,133	-6.9
Net Profit	1,648	1,306	26.2	1,810	-8.9
EPS (S cents)	36.3	29.0	25.2	39.5	-8.1
DPS (S cents)	40.0	40.0	0.0	0.0	n.m.
BVPS (S\$)	11.54	11.43	1.0	11.28	2.3

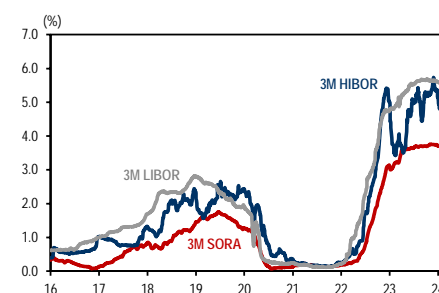
Source: UOB Kay Hian

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



Source: Bloomberg

3M LIBOR AND 3M HIBOR



Source: Bloomberg

• DBS Group Holdings (BUY/Target: S\$40.25).

- We like DBS for its excellence in execution and consistently delivering good results. Management estimated surplus capital at S\$3b or S\$1.20 per share based on optimal operating range for CET-1 CAR of 12.5-13.5%. DBS could consider potential capital management exercise to return surplus capital to shareholders over three years given that Final Basel III Reforms are already finalised and would be implemented starting 1 Jul 24.

PROFIT & LOSS – FORECAST FOR DBS (4Q23)

Profit & Loss (S\$m)	4Q23F	4Q22	yoy % chg	3Q23	qoq % chg
Net Interest Income	3,515	3,280	7.2	3,504	0.3
Fees & Commissions	915	661	38.4	843	8.6
Other Non-interest Income	430	649	-33.7	845	-49.1
Total Income	4,860	4,590	5.9	5,192	-6.4
Operating Expenses	(2,081)	(1,963)	6.0	(2,078)	0.2
PPoP	2,779	2,627	5.8	3,114	-10.8
Provisions	(128)	44	-390.4	(215)	-40.6
Associates	40	36	11.1	62	-35.5
PBT	2,691	2,707	-0.6	2,961	-9.1
Net Profit	2,368	2,343	1.1	2,593	-8.7
EPS (S cents)	92.1	89.5	2.9	100.5	-8.4
DPS (S cents)	54.0	92.0	-41.3	48.0	12.5
BVPS (S\$)	22.85	21.17	8.0	22.31	2.4

Source: UOB Kay Hian

PROJECTED DPS AND DIVIDEND PAYOUT RATIOS

	DBS			OCBC			UOB#		
	FY22	FY23F	FY24F	FY22	FY23F	FY24F	FY22	FY23F	FY24F
Price (S\$)	32.05			12.91			27.85		
Year to 31 Dec	FY22	FY23F	FY24F	FY22	FY23F	FY24F	FY22	FY23F	FY24F
EPS (S ¢)	398	382	356	155	155	149	341	350	360
DPS (S ¢)	192	216	216	80	80	80	171	178	181
Payout Ratio (%)	48.2	56.6	60.7	51.5	51.6	53.7	50.2	50.8	50.2
Dividend Yield (%)	6.0	6.7	6.7	6.2	6.2	6.2	6.1	6.4	6.5

Based on consensus estimate

Source: UOB Kay Hian

ASSUMPTION CHANGES

- We forecast earnings decline of 6.7% for DBS in 2025.

KEY ASSUMPTIONS – DBS

	2022	2023F	2024F	2025F	2026F
Loan Growth (%)	1.3	1.4	4.5	4.9	4.9
NIM (%)	1.75	2.16	2.07	1.82	1.78
Fees, % Chg	(12.3)	11.0	16.5	6.6	7.7
NPL Ratio (%)	1.13	1.19	1.25	1.28	1.29
Credit Costs (bp)	5.4	13.3	20.1	20.1	20.1
Net Profit (S\$m)	8,196	10,161	9,816	9,159	9,336
% chg	20.5	24.0	(3.4)	(6.7)	1.9

Source: UOB Kay Hian

- We forecast earnings decline of 4.0% for OCBC in 2025.

KEY ASSUMPTIONS – OCBC

	2022	2023F	2024F	2025F	2026F
Loan Growth (%)	1.8	0.9	3.4	4.9	6.4
NIM (%)	1.91	2.27	2.20	1.98	1.92
Fees, % Chg	(17.6)	(0.7)	12.9	7.6	7.2
NPL Ratio (%)	1.15	1.04	1.08	1.09	1.10
Credit Costs (bp)	20.0	25.9	22.0	22.1	22.1
Net Profit (S\$m)	5,748	7,047	7,040	6,760	6,919
% chg	18.3	22.6	(0.1)	(4.0)	2.4

Source: UOB Kay Hian

SECTOR CATALYSTS

- Economic expansion resumes after inflation has peaked and receding.
- Banks reviewing their dividend policy and paying more dividends.

RISKS

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

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