SECTOR UPDATE

Banking – Singapore

4Q24 Results Preview: All Eyes On Capital Management

4Q24 is characterised by stable NIM and seasonally softer non-interest income, such as wealth management fees and net trading income. We expect net profit of S$2,535m for DBS (+12% yoy, -16% qoq) and S$1,748m for OCBC (+8% yoy, -11% qoq). We expect DBS to declare higher quarterly dividend of 60 S cents and special dividend of 50 S cents. We expect OCBC to raise interim dividend by 9.5% yoy to 46 S cents. Maintain OVERWEIGHT. BUY OCBC (Target: S$20.80), followed by DBS (Target: S$46.50).

WHAT'S NEW

- The 4Q24 results season for Singapore banks kicks off with DBS Group Holdings (DBS) reporting on 10 Feb 25, followed by United Overseas Bank (UOB) on 19 Feb 25 and Oversea-Chinese Banking Corporation (OCBC) on 26 Feb 25.

DBS Group Holdings (DBS SP/BUY/Target: S$46.50)

- We forecast DBS' net profit to grow 12% yoy but weaken 16% qoq to S$2,535m in 4Q24.
- **Steady loan growth aided by strength in USD and HKD.** We expect muted loan growth at 2.0% yoy and 1.2% qoq in 4Q24, driven by trade and non-trade corporate loans. Loan growth is supported by strength in USD and HKD, which appreciated 6.3% and 6.3% respectively against the SGD. USD- and HKD-denominated loans accounted for 25% and 11% of DBS' total loans respectively.
- **NIM compression delayed to 1Q25.** We expect NIM to be stable at 2.11% in 4Q24. While 3M Compounded SORA and SOFR eased 31bp and 47bp qoq respectively to 3.07% and 4.49% in 4Q24, NIM was supported by 3M HIBOR, which increased 19bp qoq to 4.37%. The Fed cut interest rates by 100bp during three consecutive FOMC meetings in Sep-Dec 24. These rate cuts would lead to NIM compression in 1Q25. We expect net interest income to grow 4.3% yoy in 4Q24 (3Q24: +2.7% yoy).
- **Fees increased at double-digit rate of 16% yoy.** We expect contribution from wealth management to increase 54% yoy but decline 6% qoq to S$570m in 4Q24 due to positive market sentiment but interrupted by seasonal softness. Contribution from cards increased 5% yoy to S$327m due to continued recovery in business and leisure travel.
- **Delivering on cost discipline and efficiency.** We expect operating expenses to decrease 1% yoy due to contribution of S$100m to Corporate Social Responsibility incurred last year. Cost-to-income ratio is seasonally higher at 43.5% in 4Q24 (FY24: 40.0%), in line with management's guidance of low-40% for 2024.
- **Asset quality remains benign.** We expect NPL formation to stay benign and NPL ratio to be stable at 1.0%. DBS has accumulated ample management overlay for general provisions of S$2.3b. We expect DBS to incur total provisions of S$172m and credit cost of 16bp in 4Q24 (2024: 12bp).
- **Review of capital management.** We expect DBS to increase quarterly dividend by 6 S cents to 60 S cents for 4Q24. We also expect DBS to return excess capital to shareholders through special dividend of 50 S cents per share.

Oversea-Chinese Banking Corporation (OCBC SP/BUY/Target: S$20.80)

- We forecast net profit to grow 8% yoy but decline 11% qoq to S$1,748m for 4Q24.

OVERWEIGHT

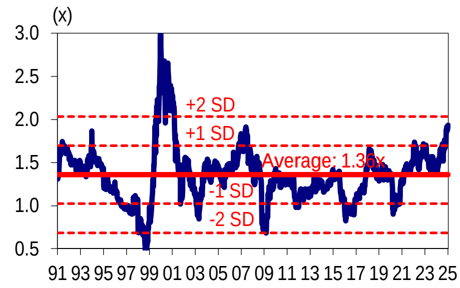
(Maintained)

TOP BUYS

Company	Rec	Share Price (S$)	Target Price (S$)
DBS	BUY	43.78	46.50
OCBC	BUY	17.02	20.80

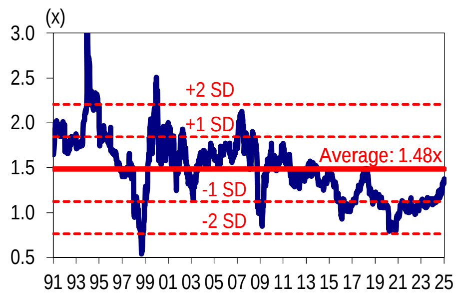
Source: UOB Kay Hian

P/B – DBS



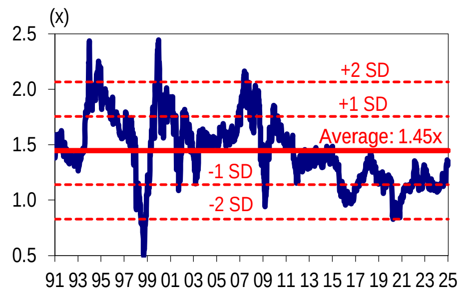
Source: UOB Kay Hian

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

PEER COMPARISON

Company	Ticker	Rec	Price @ 16 Jan 25 (S$)	Target Price (S$)	Market Cap (US$m)	FY	PE 2025F (x)	PE 2026F (x)	P/B 2025F (x)	P/B 2026F (x)	P/PPOP 2025F (x)	P/PPOP 2026F (x)	Yield 2025F (%)	Yield 2026F (%)	ROE 2025F (%)	ROE 2026F (%)
DBS*	DBS SP	BUY	43.78	46.50	90,939	12/2023	12.2	11.6	1.85	1.82	9.9	9.5	6.8	6.0	14.8	15.3
OCBC	OCBC SP	BUY	17.02	20.80	55,989	12/2023	10.5	10.1	1.30	1.23	9.0	8.6	5.4	5.6	12.4	12.3
UOB#	UOB SP	NR	37.06	n.a.	45,314	12/2023	9.8	9.4	1.24	1.16	7.3	7.1	5.5	5.5	12.9	12.7
Average							10.9	10.3	1.46	1.40	8.7	8.4	5.9	5.7	13.4	13.4

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

- **Mild NIM compression.** Loans are expected to expand 2.4% yoy and 0.5% qoq in 4Q24. MYR depreciated 2.1% against the SGD and might exert some negative pressure on loan growth. We expect NIM to ease 13bp yoy and 2bp qoq to 2.16%. Net interest income could decline 1.1% yoy in 4Q24 (3Q24: -0.9% yoy).

- **Wealth management seasonally softer.** We expect fee income to grow 7% yoy to S$492m in 4Q24. Contribution from wealth management increased 18% yoy but declined 6% qoq with positive market sentiment interrupted by seasonal softness. Loans and trade-related fees are expected to expand 2% yoy to S$135m.

- **Stable contributions from insurance without 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. We expect contribution from the insurance business to be at a normalised level of S$275m in 4Q24.

- **Asset quality remains stable.** We expect NPL ratio to be stable at 0.9%. We have factored in total provisions of S$170m and credit costs of 22bp in 4Q24, which is in line with management's guidance of 20bp for 2024.

- **Review of capital management.** We expect OCBC to increase final dividend by 9.5% yoy to 46 S cents for 2H24. We estimate payout ratio at 53.7% for 2024.

ACTION

- **Maintain OVERWEIGHT.** The US economy grew 3.1% yoy in 3Q24, driven by growth in consumer spending on services, exports, business investments and government spending. Thus, the trend of elevated government bond yields is expected to continue in the near term. Our positive view for banks is also supported by growth in the ASEAN economies driven by inflows of FDI. Asset quality remains pristine.

- **Benefitting from accelerated relocation to ASEAN countries.** Trade conflicts between the US and China are likely to resurface. Many multinational companies have adopted the China+1 strategy but must accelerate the expansion of their production facilities within ASEAN, such as Malaysia, Thailand, Indonesia and Vietnam. According to UOB Global Economics & Markets Research, FDI inflow into ASEAN countries is projected to expand at a CAGR of 8.3% to reach US$356b in 2030. OCBC and UOB are beneficiaries of the supply chain repositioning due to their extensive network within ASEAN countries. ASEAN countries, including Singapore, accounted for 48.5% of total loans for DBS, 55.7% for OCBC and 68.4% for UOB as of Jun 24. The region also accounted for 68.3% of total income for DBS, 81.4% for OCBC and 81.4% for UOB in 1H24.

- **Banks provide attractive and recurrent dividend yields.** Banks provide attractive value with a low P/B of 1.46x and high dividend yield of 5.9% for 2025. Our top pick is DBS (BUY/Target: S$46.50) for its focus and emphasis on capital management. We also like OCBC (BUY/Target: S$20.80) for its focus on trade and investment flows within ASEAN and a defensively low 2025F P/B of 1.30x.

DBS Group Holdings (BUY/Target: S$46.50).

- **Leadership transition.** Tan Su Shan, current Group Head of Institutional Banking, was appointed as Deputy CEO. She will succeed Piyush Gupta as CEO when he retires at the next AGM on 28 Mar 25. She has more than 35 years of experience in consumer banking, wealth management and institutional banking and has been with DBS since 2010. She has managed both the consumer banking/wealth management and institutional banking businesses, which account for 90% of DBS' income. She operationalises DBS' digitalisation strategy across both businesses and is the first homegrown CEO groomed internally for succession.

- **Potential capital management exercise.** DBS could declare two special dividends of 50 S cents per share in 4Q24 and 4Q25 and increase quarterly dividend by 6 S cents to 60 S cents in 4Q24 and 66 S cents in 4Q25.

- **Maintain BUY.** Our target price for DBS of S$46.50 is based on 1.97x 2025F P/B, derived from the Gordon Growth Model (ROE: 15.0%, COE: 8.5%, growth: 1.8%).

PROFIT & LOSS – FORECAST FOR DBS (4Q24)

Profit & Loss (S$m)	4Q24F	4Q23	yoy % Chg	3Q24	qoq % Chg
Net Interest Income	3,582	3,434	4.3	3,597	-0.4
Fees & Commissions	1,002	867	15.6	1,109	-9.7
Other Non-interest Income	760	706	7.6	1,047	-27.4
Total Income	5,344	5,007	6.7	5,753	-7.1
Operating Expenses	(2,324)	(2,338)	-0.6	(2,255)	3.1
PPoP	3,020	2,669	13.1	3,498	-13.7
Provisions	(172)	(142)	21.2	(130)	32.4
Associates	49	47	5.0	66	-25.2
PBT	2,897	2,574	12.5	3,434	-15.6
Net Profit	2,535	2,269	11.7	3,027	-16.3
EPS (S cents)	89.1	91.4	-2.5	98.3	-9.3
DPS (S cents)	110.0	54.0	103.7	54.0	103.7
BVPS (S$)	23.15	22.31	3.8	22.12	4.7

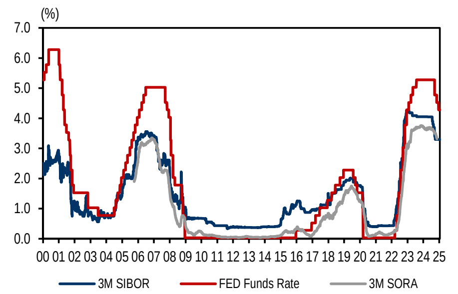
Source: UOB Kay Hian

PROFIT & LOSS – FORECAST FOR OCBC (4Q24)

Profit & Loss (S$m)	4Q24F	4Q23	yoy % Chg	3Q24	qoq % Chg
Net Interest Income	2,435	2,462	-1.1	2,433	0.1
Fees & Commissions	492	460	6.9	508	-3.2
Insurance	275	88	212.5	233	18.0
Net Trading Income	300	222	35.1	508	-40.9
Other Non-Interest Income	85	41	107.3	120	-29.2
Total Income	3,587	3,273	9.6	3,802	-5.7
Operating Expenses	(1,520)	(1,336)	13.8	(1,487)	2.2
PPOP	2,067	1,937	6.7	2,315	-10.7
Provisions	(170)	(187)	-9.3	(169)	0.4
Associates	200	189	5.8	251	-20.3
PBT	2,098	1,939	8.2	2,397	-12.5
Net Profit	1,748	1,622	7.8	1,974	-11.4
EPS (S cents)	38.5	39.5	-2.5	43.0	-10.5
DPS (S cents)	46.0	42.0	9.5	0.0	n.m.
BVPS (S$)	12.44	11.28	10.3	12.29	1.2

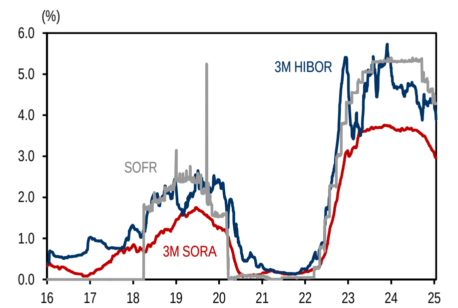
Source: UOB Kay Hian

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



Source: Bloomberg

SOFR AND 3M HIBOR



Source: Bloomberg

Oversea-Chinese Banking Corp (BUY/Target: S$20.80).

- **Strategic initiatives to deliver incremental S$3b revenue.** Management aims to deliver incremental revenue of S$3b cumulatively over 2023-25, driven by four growth pillars: a) Asian wealth, b) trade and investment flows, c) new economy, and d) sustainable financing. Management aims to deliver ROE of 12-13% with additional contribution of 1ppt from the incremental revenue of S$3b.
- **Potential capital management exercise.** OCBC had the highest fully phased-in CET-1 CAR of 15.6% and lowest NPL ratio of 0.9% as of Jun 24. OCBC could consider raising its dividend payout ratio to 57%, translating to DPS of 96 cents in 2026.
- **Maintain BUY.** Our target price of S$20.80 is based on 1.59x 2025F P/B, derived from the Gordon Growth Model (ROE: 12.6%, COE: 8.5%, growth: 1.5%).

PROJECTED DPS AND DIVIDEND PAYOUT RATIOS

	-------------- DBS --------------			-------------- OCBC -------------			-------------- UOB# ------------		
Price (S$)		43.78			17.02			37.06	
Year to 31 Dec	FY24F	FY25F	FY26F	FY24F	FY25F	FY26F	FY24F	FY25F	FY26F
EPS (S ¢)	397	354	373	168	161	169	362	376	393
DPS (S ¢)	272	296	264	90	92	96	192	207	204
Payout Ratio (%)	68.4	83.5	70.8	53.7	57.1	56.9	52.9	54.9	51.8
Dividend Yield (%)	6.2	6.8	6.0	5.3	5.4	5.6	5.2	5.6	5.6

 # Based on consensus estimate.

Source: UOB Kay Hian

ASSUMPTION CHANGES

- We maintain our earnings forecast for DBS.

KEY ASSUMPTIONS – DBS

	2023	2024F	2025F	2026F	2027F
Loan Growth (%)	0.4	2.0	4.9	4.9	1.2
NIM (%)	2.15	2.12	2.02	1.99	1.99
Fees, % Chg	9.5	24.2	3.4	8.3	8.3
NPL Ratio (%)	1.11	1.04	1.08	1.11	1.14
Credit Costs (bp)	13.7	13.3	19.1	19.1	19.5
Net Profit (S$m)	10,062	11,302	10,175	10,612	11,160
% Chg	22.8	12.3	(10.0)	4.3	5.2

Source: UOB Kay Hian

- We maintain our earnings forecast for OCBC.

KEY ASSUMPTIONS – OCBC

	2023	2024F	2025F	2026F	2027F
Loan Growth (%)	0.4	3.9	4.9	4.9	4.8
NIM (%)	2.28	2.20	2.07	2.07	2.08
Fees, % Chg	(2.5)	7.8	8.3	7.4	7.4
NPL Ratio (%)	0.95	0.95	0.96	0.98	0.99
Credit Costs (bp)	24.8	21.5	22.1	22.1	22.1
Net Profit (S$m)	7,021	7,648	7,335	7,677	8,040
% Chg	22.2	8.9	(4.1)	4.7	4.7

Source: UOB Kay Hian

SECTOR CATALYSTS

- Soft landing paving the way for continued economic growth.
- Banks reviewing their capital management policies and returning excess capital to shareholders.

RISKS

- Escalation of the Russia-Ukraine war and Israel-Hamas war.
- Geopolitical tensions 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 or jurisdictions 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: (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 (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: (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 (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.

http://research.uobkayhian.com

RCB Regn. No. 197000447W