

SECTOR UPDATE

Banking – Singapore

Flexible Adaption In Response To Disapproval From Treasury Markets

The Trump Administration made two consecutive concessions: a) a 90-day pause for countries with reciprocal tariffs above the baseline rate of 10%, and b) exemption for electronics products imported from China. Trump has shown himself to be pragmatic enough to accommodate the concerns of businesses and consumers. Upgrade to MARKET WEIGHT. HOLD DBS (Target: S\$40.00). Upgrade OCBC to BUY (Target: S\$16.90). DBS and OCBC provide attractive 2025 yields of 7.9% and 6.7% respectively.

WHAT'S NEW

- Dialling back on assertiveness with 90-day pause.** The Trump Administration has authorised a 90-day pause for 60 trading partners and the European Union (EU) hit by higher reciprocal tariffs above the baseline rate of 10%. These countries are now subject to a flat reciprocal tariff of 10%. The US has started negotiations to cut deals with more than 70 countries. Countries could offer to lower their own tariff and remove other barriers to trade, such as simplifying regulations, removing import quotas and reducing subsidies to domestic producers. According to Chairman of National Economic Council Kevin Hassett, 15 countries have made offers to the US. Priority would be given to closing deals with allies, such as Japan and Israel.
- Imports of electronics products from China exempted from reciprocal tariffs.** The Trump Administration has exempted 20 categories of electronics products imported from China from reciprocal tariff of 125%. They include semiconductors, memory chips, smartphones, laptops, tablets, computer monitors and flat panel displays. The initial 20% tariff imposed on all imports from China related to Fentanyl trafficking remains in place. The exemption is a major reversal as these electronics products are the largest categories of imports, accounting for 23% of total imports from China.
- Heeding admonitions from treasury markets.** The Trump Administration's protectionist tendencies suggest that the US might play a less central role in global trade, making the US Dollar less important for invoicing imports and exports. Thus, the US Dollar's role as a safe haven and reserve currency has diminished. On the other hand, alternative safe havens and reserve currencies, such as the Euro and Japanese Yen, have gained traction. Long dated 10-year, 20-year and 30-year US government bond yields have rose by 50bp, 50bp and 47bp respectively last week to 4.49%, 4.93%, and 4.87%. The higher government bond yield reflected foreign investors' disappointment over uncertainties surrounding the Trump Administration's flip-flopping trade policy.
- Consumers starting to feel the pain.** Retailers, such as Target and Best Buy, have warned that price increases and product shortages could materialise as early as April. Prices of perishable goods are likely the first to be increased. Many retailers have stockpiled additional inventory since late-24. They could start to raise prices later in August/September, which coincide to back-to-school shopping. Eventually, retailers have to pass on some of higher costs to consumers. University of Michigan's one-year inflation expectation has soared to multi-decades high of 6.7% in Apr 25.
- Interest rates likely to be on hold.** John Williams, President of NY Fed, forecast inflation would rise to 3.5-4.0% in 2025 due to tariffs imposed by the Trump Administration. He expects GDP growth to slow considerably to below 1.0%, while unemployment would reach 4.5-5.0%. He views the current modestly restrictive stance of monetary policy to be appropriate. A few other Fed officials, such as Neel Kashkari and Alberto Musalem, have also signalled intention to keep rates on hold. The Fed will closely monitor that inflationary pressure does not become entrenched and persistent.

PEER COMPARISON

Company	Ticker	Rec	Price @	Target	Market	FY	PE		P/B		P/PPOP		Yield		ROE	
			11 Apr 25	Price	Cap		2025F	2026F	2025F	2026F	2025F	2026F	2025F	2026F	2025F	2026F
			(\$)	(\$)	(US\$m)		(x)	(x)	(x)	(x)	(x)	(x)	(%)	(%)	(%)	(%)
DBS	DBS SP	HOLD	38.13	40.00	82,124	12/2024	10.9	11.5	1.60	1.60	8.4	8.5	7.9	7.9	14.3	13.4
OCBC	OCBC SP	BUY	15.01	16.85	51,209	12/2024	9.8	10.0	1.13	1.09	8.0	7.9	6.7	5.6	11.6	10.9
UOB#	UOB SP	NR	32.47	n.a.	41,182	12/2024	8.6	8.2	1.08	1.02	6.3	6.2	6.9	6.4	12.9	12.9
Average							9.7	9.9	1.27	1.23	7.6	7.5	7.1	6.6	12.9	12.4

#Based on consensus estimate

Source: Bloomberg, UOB Kay Hian

MARKETWEIGHT

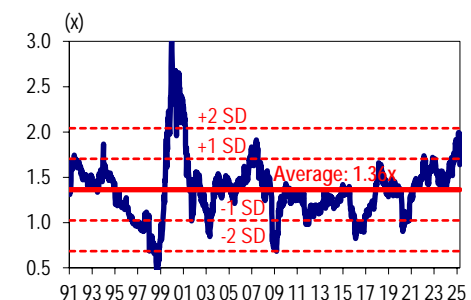
(Upgraded)

TOP BUYS

Company	Rec	Share Price (\$)	Target Price (\$)
DBS	HOLD	38.13	40.00
OCBC	BUY	15.01	16.90

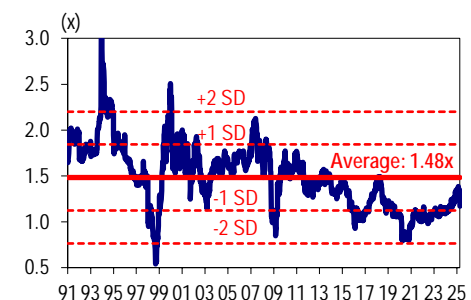
Source: UOB Kay Hian

P/B – DBS



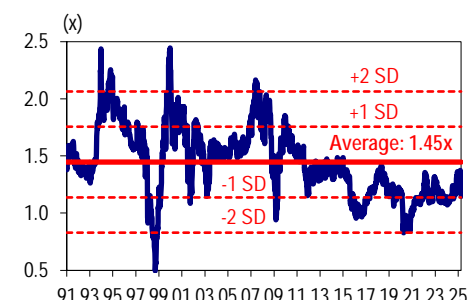
Source: UOB Kay Hian

P/B – OCBC



Source: UOB Kay Hian

P/B – UOB



Source: UOB Kay Hian

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- **The Fed stands ready to intervene.** Susan Collins, President of Boston Fed, assured that the Fed is prepared to deploy various tools to stabilise financial markets should trading become disorderly or liquidity dries up.

ACTION

- **Upgrade to MARKET WEIGHT.** The Trump Administration has made two major consecutive concessions last Thursday and Friday, reflecting pragmatic accommodation to concerns raised by leaders in the business communities. The moderation of intensity of trade conflict and toning down of aggression would facilitate negotiations with trading partners. The risk of triggering persistent inflation has also eased slightly.
- **Singapore remains vulnerable.** Singapore would be affected by a slowdown in trade globally and regionally. According to UOB GEMR, final demand from the US accounted for 8.3% of domestic value-add in Singapore, which is high relative to other ASEAN countries. Singapore would not be imposing retaliatory tariffs against the US. Deputy PM Gan Kim Yong assured Singaporeans that the government is prepared to provide more support for households and businesses if the situation deteriorates.

TROUGH P/B DURING PAST CRISES

(x)	Current P/B	Asian Financial Crisis	Dotcom Bubble	9/11 Terrorist Attack	SARS Outbreak	Global Financial Crisis	Europe's Sovereign Debt Crisis	Oil & Gas Debacle	COVID-19 Pandemic	Average - Past Four Crises
Trough		Sep-98	May-00	Sep-01	Apr-03	Mar-09	Oct-11	Feb-16	Apr-20	
DBS	1.60	0.38	2.30	1.24	0.91	0.75	1.00	0.82	0.96	0.88
Downside (%)		-76.3	43.8	-22.5	-43.1	-53.1	-37.5	-48.8	-40.0	-44.8
OCBC	1.13	0.57	1.67	1.44	1.37	0.92	1.32	0.95	0.83	1.01
Downside (%)		-49.6	47.8	27.4	21.2	-18.6	16.8	-15.9	-26.5	-11.1
UOB	1.08	0.55	1.71	1.25	1.27	0.99	1.28	0.96	0.88	1.03
Downside (%)		-49.1	58.3	15.7	17.6	-8.3	18.5	-11.1	-18.5	-4.9

Source: UOB Kay Hian

BANKS WEATHERING DOWNTURN IN CREDIT CYCLE

	2024	2025F	2026F
DBS			
NPL Ratio (%)	1.09	1.23	1.32
Increase in NPLs (%)	1.8	14.6	10.0
Credit Cost (bp)	14.0	35.2	47.1
Loan Loss Coverage (%)	129.3	131.1	142.3
OCBC			
NPL Ratio (%)	0.89	1.06	1.21
Increase in NPLs (%)	0.8	23.0	15.8
Credit Cost (bp)	22.4	36.0	47.1
Loan Loss Coverage (%)	158.9	145.1	146.1

Source: UOB Kay Hian

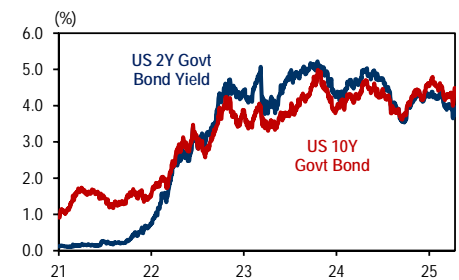
• DBS Group Holdings (HOLD/Target: S\$40.00).

- **Ability to pay generous dividend under threat.** We expect DBS to maintain DPS at 60 S cents in 4Q25 (previous: increase by 6 S cents to 66 S cents). We might have to revise our DPS forecast lower if downward pressure on economic growth intensifies going forward.
- **Upgrade to HOLD.** Our target price for DBS of S\$40.00 is based on 1.68x 2025F P/B, derived from the Gordon Growth Model (ROE: 14.7%, COE: 8.75%, growth: 0.0%).

• Oversea-Chinese Banking Corp (BUY/Target: S\$16.90).

- **Ability to pay generous dividend under threat.** We expect OCBC's DPS to be stable at 100 S cents in 2025 (unchanged, regular dividend: 84 S cents, special dividend: 16 S cents). We might have to revise our DPS forecast lower if downward

2Y AND 10Y US GOVERNMENT BOND YIELDS



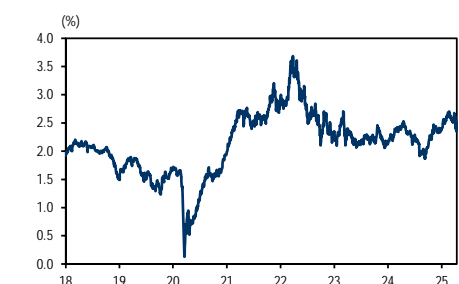
Source: Bloomberg

UNIVERSITY OF MICHIGAN 1Y INFLATION EXPECTATIONS



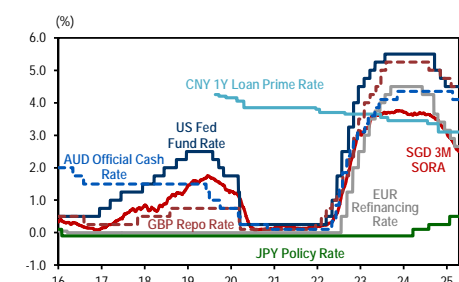
Source: Bloomberg

IMPLIED INFLATION BASED ON YIELD FOR 5Y TIPS



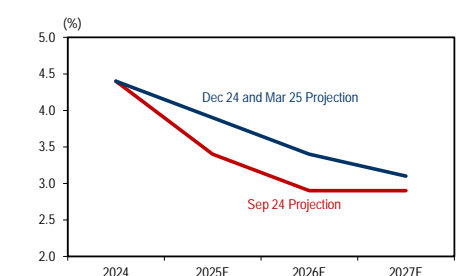
Source: Bloomberg

POLICY INTEREST RATES



Source: Bloomberg

FED'S DOT PLOT



Source: Federal Reserve

pressure on economic growth intensifies going forward.

- **Upgrade to BUY.** Our target price of S\$16.90 is based on 1.27x 2025F P/B, derived from the Gordon Growth Model (ROE: 11.1%, COE: 8.75%, growth: 0.0%).

ASSUMPTION CHANGES

- We maintain our existing forecast for DBS.

KEY ASSUMPTIONS – DBS

	2023	2024	2025F	2026F	2027F
Loan Growth (%)	0.4	3.4	2.3	2.0	4.3
NIM (%)	2.15	2.14	2.03	1.95	1.92
Fees, % Chg	9.5	23.2	2.0	8.3	8.3
NPL Ratio (%)	1.11	1.09	1.23	1.32	1.35
Credit Costs (bp)	13.7	14.0	35.2	47.1	19.1
Net Profit (S\$m)	10,062	11,289	9,907	9,317	10,896
% Chg	22.8	12.2	(12.2)	(6.0)	16.9

Source: UOB Kay Hian

- We maintain our existing forecast for OCBC.

KEY ASSUMPTIONS – OCBC

	2023	2024	2025F	2026F	2027F
Loan Growth (%)	0.4	7.6	2.2	1.8	4.2
NIM (%)	2.28	2.20	2.05	2.00	1.98
Fees, % Chg	(2.5)	9.2	10.6	7.4	7.4
NPL Ratio (%)	0.95	0.89	1.06	1.21	1.22
Credit Costs (bp)	24.8	22.4	36.0	47.1	24.5
Net Profit (S\$m)	7,021	7,587	6,963	6,766	7,633
% Chg	22.2	8.1	(8.2)	(2.8)	12.8

Source: UOB Kay Hian

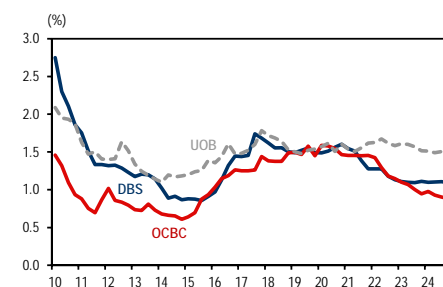
SECTOR CATALYSTS

- Slowdown in trade globally and regionally, leading to a decline in loan growth.
- Slowdown and job losses in the manufacturing sector within ASEAN countries, which are likely to spill over into a contraction in domestic consumption. Asset quality could start to deteriorate.

RISKS

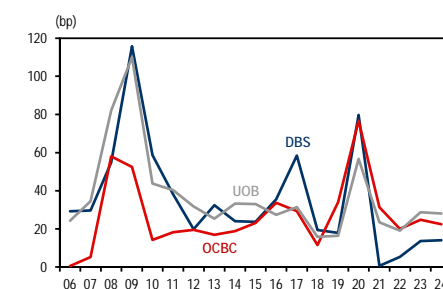
- Escalation of trade conflicts between the US, EU and China.
- Geopolitical tensions between the US, EU and China.

NPL RATIO



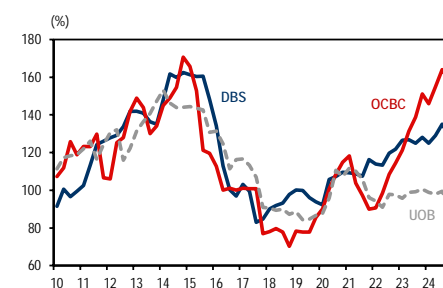
Source: Respective banks

CREDIT COSTS



Source: Respective banks, UOB Kay Hian

LOSS LOAN COVERAGE



Source: Respective banks, UOB Kay Hian