

SECTOR UPDATE

Banking – Singapore

2Q24 Results Preview: Stable Interest Rates And Resilient Earnings

Growth in net interest income has moderated but fee income continues to sustain its recovery. Asset quality is stable and the level of provisions remains benign. Singapore banks are expected to deliver resilient net profit, with S\$2,688m for DBS (+2% yoy but -9% qoq) and S\$1,830m for OCBC (+7% yoy but -8% qoq) in 2Q24, supported by resilient asset quality. Maintain OVERWEIGHT. Our top pick is OCBC (BUY/Target: S\$18.15), followed by DBS (BUY/Target: S\$41.40).

WHAT'S NEW

- The 2Q24 results season for Singapore banks kicks off with United Overseas Bank (UOB) on 1 Aug 24, followed by Oversea-Chinese Banking Corporation (OCBC) on 2 Aug 24 and DBS Group Holdings (DBS) on 7 Aug 24.

DBS Group Holdings (DBS SP/BUY/Target: S\$41.40)

- We forecast DBS' net profit to rebound 2% yoy but drop 9% qoq to S\$2,688m in 2Q24.
- NIM remained stable.** We expect DBS to report muted loan growth of 3.0% yoy and 0.8% qoq in 2Q24. Industry statistics saw consumer loans expand 1.1% yoy in May 24, offset by a 1.1% yoy contraction in corporate loans. We expect NIM to be stable at 2.13% as 3M Compounded SORA was relatively unchanged at 3.6%. 3M HIBOR remains depressed at 4.7% due to ample liquidity in Hong Kong. We expect net interest income to grow 1.2% yoy in 4Q23 (1Q24: 4.0% yoy).
- Fees increased at double-digit rate of 19% yoy.** We expect contribution from wealth management to increase 19% yoy but decline 16% qoq to S\$450m in 2Q24 due to expectations of impending rate cuts and investments in bond funds. Contribution from cards increased 31% yoy to S\$311m due to a continued recovery in business and leisure travel, augmented by the acquisition of Citigroup Consumer Businesses in Taiwan.
- Delivering on cost discipline and efficiency.** We expect operating expenses to increase 7% yoy and cost-to-income ratio to be seasonally lower at 40% in 2Q24 (2Q23: 40%), 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 1.1%. DBS has accumulated ample management overlay for general provisions of S\$2b set aside during the COVID-19 pandemic. We expect DBS to incur total provisions of S\$163m and credit cost of 15bp in 2Q24 (1Q24: 13bp).
- Regularly reviewing capital management.** We expect DBS to maintain quarterly dividend at 54 S cents for 2Q24. DBS will continue to review its capital structure to return surplus capital to shareholders.

Oversea-Chinese Banking Corporation (OCBC SP/BUY/Target: S\$18.35)

- We forecast net profit to grow 7% yoy but drop 8% qoq to S\$1,830m for 2Q24.
- NIM remained stable.** We expect OCBC to report marginally positive loan growth of 0.8% yoy and 0.5% qoq in 2Q24. Some corporate customers might have deleveraged in response to the higher interest rates. We expect NIM to be stable at 2.26% as 3M Compounded SORA was relatively unchanged at 3.6%. We expect net interest income to grow 2.3% yoy in 2Q24 (1Q24: 4.0% yoy).

PEER COMPARISON

Company	Ticker	Rec	Price @ 18 Jul 24 (S\$)	Target Price (S\$)	Market Cap (US\$m)	FY	PE 2024F (x)	PE 2025F (x)	P/B 2024F (x)	P/B 2025F (x)	P/POP 2024F (x)	P/POP 2025F (x)	Yield 2024F (%)	Yield 2025F (%)	ROE 2024F (%)	ROE 2025F (%)
DBS*	DBS SP	BUY	36.90	41.40	78,270	12/2023	9.7	10.0	1.66	1.57	8.2	8.4	6.0	6.5	16.9	15.5
OCBC	OCBC SP	BUY	15.12	18.35	50,682	12/2023	9.3	9.4	1.20	1.14	8.1	8.2	5.7	5.9	13.2	12.3
UOB#	UOB SP	NR	32.70	n.a.	40,809	12/2023	9.2	9.0	1.17	1.10	6.9	6.7	5.4	5.6	12.9	12.6
Average							9.4	9.5	1.34	1.27	7.7	7.8	5.7	6.0	14.3	13.4

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

OVERWEIGHT

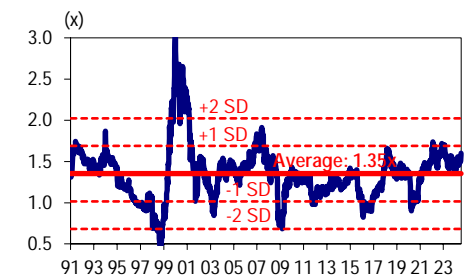
(Maintained)

TOP BUYS

Company	Rec	Share Price (S\$)	Target Price (S\$)
DBS	BUY	36.90	41.40
OCBC	BUY	15.12	18.35

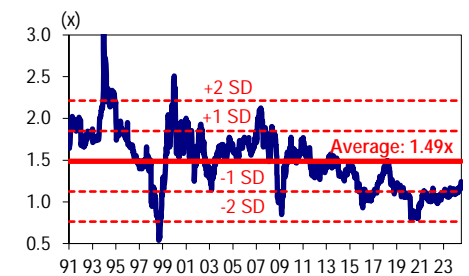
Source: UOB Kay Hian

P/B – DBS



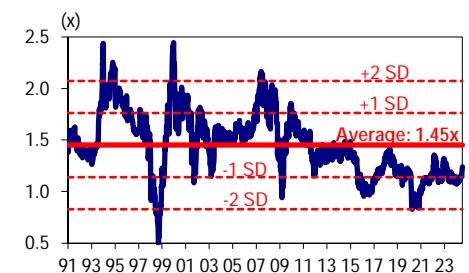
Source: UOB Kay Hian

P/B – OCBC



Source: UOB Kay Hian

P/B – UOB



Source: UOB Kay Hian

ANALYST(S)

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- **Continued recovery from wealth management.** We expect fee income to grow 16% yoy and rebound 4% qoq to S\$487m in 2Q24. Contribution from wealth management saw a continued recovery of 27% yoy in 2Q24, accentuated by the low base in 2Q23, driven by investments in bond funds. Loans and trade-related fees are expected to increase 5% yoy to S\$124m.
- **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\$240m in 2Q24 (-8% yoy).
- **Asset quality remains stable.** We expect NPL ratio to be stable at 1.0%. We have factored in total provisions of S\$165m and credit costs of 22bp in 2Q24, which is within management's guidance of 20-25bp for 2024.
- **Committed to maintaining payout ratio at 50%.** We expect OCBC to maintain interim dividend at 42 S cents for 1H24, a similar quantum as compared with 2H23.

ACTION

- **Maintain OVERWEIGHT.** Banks provide attractive value with a low P/B of 1.27x and high dividend yield of 6.0% for 2025. Our top pick is OCBC (BUY/Target: S\$18.35) for its commitment to maintaining dividend payout ratio at 50%, focus on trade and investment flows within ASEAN and a defensively low 2025F P/B of 1.14x. We also like DBS (BUY/Target: S\$41.40) for its excellence in execution and consistency in delivering good results. Management will continue to review DBS' capital structure in view of returning more surplus capital to investors.
- The US Presidential Election will be held on 5 Nov 24. Republican nominee Donald Trump regaining the White House is expected to be positive for banks:
- **Banks benefit from accelerated relocation to ASEAN countries.** Trump's inner circle is lined up with China hawks, including former Secretary of State Mike Pompeo and Trade Representative Robert Lighthizer. The Trump administration is expected to take an aggressive stance during trade negotiations, including imposing tariff of 60-100% on imports from China. Many multinational companies have adopted the China+1 strategy but must accelerate the expansion of their alternative production facilities within ASEAN, such as Malaysia, Thailand, Indonesia and Vietnam. OCBC and UOB are prime beneficiaries of the supply chain reorientation due to their extensive network within ASEAN countries.
- **Fiscal and trade policies lead to higher bond yields.** Trump plans to extend the US\$1.5t tax overhaul enacted in 2017 when they expire in 2025. He is also exploring new rounds of cuts for corporate income tax. The aggressive fiscal expansion would result in a larger federal budget deficit. Trump also has plans to impose an across-the-board tariff of 10% on all imports into the US. The tariffs would increase if foreign countries manipulated their currencies or engage in unfair trading practices. The "universal" tariffs would lead to higher inflation for US consumers, which would lead to higher interest rates and bond yields.

DBS Group Holdings (BUY/Target: S\$41.40)

- **High payout ratio supported by high ROE.** Management estimates surplus capital at S\$3b or S\$1.20 per share based on an optimal operating range for CET-1 CAR of 12.5-13.5%. DBS will continue to review its capital structure to return surplus capital to shareholders. We expect DBS to raise quarterly DPS by 6 S cents to 60 S cents in 4Q24, representing an increase of 11%. The elevated payout ratio of 65% for 2025 is supported by its high ROE of 15.9%.
- **Maintaining high ROE.** CEO Piyush Gupta has voiced confidence that DBS could achieve ROE of 15-17% over the next 3-5 years assuming the Fed funds rate recedes to a new normal of 3%. Management expects growth to be driven by wealth management and global transaction services regionally. DBS had obtained regulatory approvals to increase its stake in Shenzhen Rural Commercial Bank from 13.0% to 16.7% in Dec 23. Management will also allocate S\$300m-500m to expand the consumer and SME businesses in India.
- **Maintain BUY.** Our target price for DBS of S\$41.40 is based on 1.77x 2025F P/B, derived from the Gordon Growth Model (ROE: 15.9%, COE: 9.0%, growth: 0.0%).

Oversea-Chinese Banking Corp (BUY/Target: S\$18.35)

- **Strategic initiatives to deliver incremental S\$3b revenue.** Management aims to deliver

PROFIT & LOSS – FORECAST FOR DBS (2024)

Profit & Loss (\$m)	2024F	2023	yoy % Chg	1Q24	qoq % Chg
Net Interest Income	3,548	3,433	3.3	3,505	1.2
Fees & Commissions	981	823	19.2	1,043	-5.9
Other Non-Interest Income	795	789	0.8	1,009	-21.2
Total Income	5,324	5,045	5.5	5,557	-4.2
Operating Expenses	(2,151)	(2,004)	7.3	(2,090)	2.9
PPoP	3,173	3,041	4.3	3,467	-8.5
Provisions	(163)	(72)	126.2	(135)	20.7
Associates	44	42	5.0	51	-13.5
PBT	3,054	3,011	1.4	3,383	-9.7
Net Profit	2,688	2,629	2.2	2,951	-8.9
EPS (S cents)	95.0	94.3	0.7	104.0	-8.7
DPS (S cents)	54.0	48.0	12.5	54.0	0.0
BVPS (\$)	21.52	19.86	8.3	21.55	-0.1

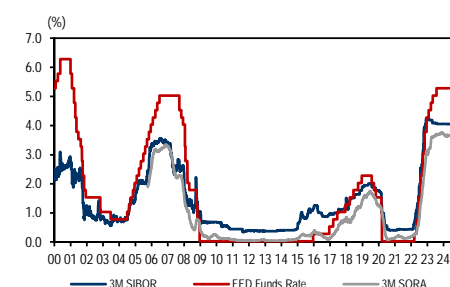
Source: UOB Kay Hian

PROFIT & LOSS – FORECAST FOR OCBC (2024)

Profit & Loss (\$m)	2024F	2023	yoy % Chg	1Q24	qoq % Chg
Net Interest Income	2,445	2,389	2.3	2,437	0.3
Fees & Commissions	499	430	16.1	479	4.2
Insurance	240	262	-8.4	289	-17.0
Net Trading Income	220	262	-16.0	370	-40.5
Other Non-Interest Income	75	112	-33.0	51	47.1
Total Income	3,479	3,455	0.7	3,626	-4.1
Operating Expenses	(1,400)	(1,355)	3.3	(1,372)	2.0
PPoP	2,079	2,100	-1.0	2,254	-7.8
Provisions	(165)	(252)	-34.6	(169)	-2.5
Associates	263	250	5.0	255	2.9
PBT	2,176	2,098	3.7	2,340	-7.0
Net Profit	1,830	1,710	7.0	1,982	-7.7
EPS (S cents)	40.3	37.8	6.9	44.0	-8.3
DPS (S cents)	42.0	40.0	n.m.	0.0	n.m.
BVPS (\$)	12.19	11.33	7.6	12.27	-0.6

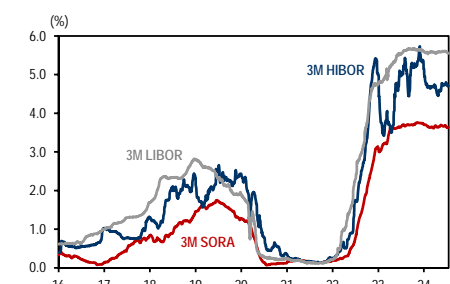
Source: UOB Kay Hian

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



Source: Bloomberg

3M LIBOR AND 3M HIBOR



Source: Bloomberg

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. OCBC had the highest CET-1 CAR of 16.2% and lowest NPL ratio of 1.0% as of Mar 24.

- **Potential upside from higher regular dividend.** We expect OCBC to raise its final dividend by 2 S cents to 44 S cents in 2H24, representing an increase of 5%.
- **Potential redevelopment of OCBC Centre.** OCBC has engaged a consultant to identify potential partners to execute the redevelopment of its properties at Chulia Street, comprising OCBC Centre (50 storeys), OCBC Centre South (seven storeys) and OCBC Centre East (15 storeys). The three properties sit on 120,000sf of prime land at Raffles Place with quadruple frontages on Chulia Street/South Canal Road, Synagogue Street, Church Street and Phillip Street. According to Business Times, the properties could be redeveloped into an integrated development with retail, office and hospitality components and could qualify for the Strategic Development Incentive scheme.
- **Maintain BUY.** Our target price for OCBC of S\$18.35 is based on 1.38x 2025F P/B, derived from the Gordon Growth Model (ROE: 12.4%, COE: 9.0%, growth: 0.0%).

PROJECTED DPS AND DIVIDEND PAYOUT RATIOS

	DBS			OCBC			UOB#		
Price (S\$)	36.90			15.12			32.70		
Year to 31 Dec	FY22	FY23F	FY24F	FY22	FY23F	FY24F	FY22	FY23F	FY24F
EPS (S c)	399	380	367	155	163	161	334	354	363
DPS (S c)	192	222	240	82	86	89	170	178	183
Payout Ratio (%)	48.1	58.4	65.4	53.0	52.9	55.4	50.9	50.2	50.3
Dividend Yield (%)	5.2	6.0	6.5	5.4	5.7	5.9	5.2	5.4	5.6

Based on consensus estimate. Source: UOB Kay Hian

ASSUMPTION CHANGES

- We maintain our earnings forecast for DBS.

KEY ASSUMPTIONS – DBS

	2022	2023	2024F	2025F	2026F
Loan Growth (%)	1.3	0.4	5.4	4.9	4.9
NIM (%)	1.75	2.15	2.13	2.04	2.02
Fees, % Chg	(12.3)	9.5	19.4	6.1	7.7
NPL Ratio (%)	1.13	1.11	1.17	1.20	1.21
Credit Costs (bp)	5.4	13.7	17.1	20.1	20.1
Net Profit (S\$m)	8,196	10,062	10,758	10,390	10,761
% Chg	20.5	22.8	6.9	(3.4)	3.6

Source: UOB Kay Hian

- We maintain our earnings forecast for OCBC.

KEY ASSUMPTIONS – OCBC

	2022	2023	2024F	2025F	2026F
Loan Growth (%)	1.8	0.4	3.4	4.9	4.9
NIM (%)	1.91	2.28	2.25	2.19	2.17
Fees, % Chg	(17.6)	(2.5)	12.4	7.4	7.4
NPL Ratio (%)	1.15	0.95	1.00	1.02	1.03
Credit Costs (bp)	20.0	24.8	22.2	22.1	22.1
Net Profit (S\$m)	5,748	7,021	7,371	7,283	7,568
% Chg	18.3	22.2	5.0	(1.2)	3.9

Source: UOB Kay Hian

SECTOR CATALYSTS

- Soft landing paving the way for continued economic expansion.
- Banks reviewing their dividend policies and capital management.

RISKS

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

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