UOBKayHian

SECTOR UPDATE

Banking – Singapore

1Q25 Results Preview: Calm Before The Storm

We should start to witness NIM compression at 6bp qoq for DBS and 7bp qoq for OCBC in 1Q25 due to a steep fall in SORA by 51bp to 2.56%. Fee income is expected to grow 10% yoy for DBS and 9% yoy for OCBC, driven by wealth management. We expect net profit of S$2,746m for DBS (-7% yoy, +9% qoq) and S$1,874m for OCBC (-5% yoy, +11% qoq). Asset quality is stable now but could deteriorate in 2H25. Maintain MARKET WEIGHT. BUY OCBC (Target: S$16.90). HOLD DBS (Target: S$40.00).

WHAT'S NEW

- The 1Q25 results season for Singapore banks kicks off with United Overseas Bank (UOB) reporting on 7 May 25, followed by DBS Group Holdings (DBS) on 8 May 25 and Oversea-Chinese Banking Corporation (OCBC) on 9 May 25.
- **DBS Group Holdings (DBS SP/HOLD/Target: S$40.00)**
  - We forecast DBS' net profit to decline 7% yoy but rebound 9% qoq to S$2,746m in 1Q25.
  - **NIM compression sets in.** We expect loan growth be flattish yoy in 1Q25 with growth from overseas crimped by the strong Singapore Dollar. We expect NIM to compress 6bp qoq to 2.09% in 1Q25. The Fed cut interest rates by 50bp in 4Q24, exerting downward pressure on NIM, while 3M compounded SORA further eased another 51bp to 2.56% during 1Q25. We expect net interest income to grow 6.0% yoy in 1Q25 (4Q24: +8.6% yoy).
  - **Fees increased at low double-digit rate of 10% yoy.** We expect contribution from wealth management to increase 17% yoy and 20% qoq to S$625m in 1Q25 due to initial optimism over the inauguration of President Donald Trump. Contribution from cards increased 10% yoy to S$331m due to continued recovery in business and leisure travel. Loans-related fees also recovered 18% qoq due to pick-up from loans syndication.
  - **Delivering on cost discipline and efficiency.** We expect operating expenses to increase 13% yoy and cost-to-income ratio to normalise to 41.3% in 1Q25 (FY24: 40.5%), in line with management's guidance of low-40% for 2025.
  - **Asset quality could deteriorate in 2H25.** We expect NPL formation to stay benign at this juncture, and NPL ratio to be stable at 1.1%. DBS has accumulated ample management overlay for general provisions of S$2.4b. We expect DBS to incur total provisions of S$208m and credit cost of 19bp in 1Q25 (2024: 14bp).
  - **Dishing out CRD.** We expect DBS to maintain quarterly dividend at 60 S cents and introduced its Capital Return Dividend (CRD) at 15 S cents for 1Q25.
- **Oversea-Chinese Banking Corporation (OCBC SP/BUY/Target: S$16.90)**
  - We forecast net profit to decline 5% yoy but rebound 11% qoq to S$1,874m for 4Q24.
  - **Steeper NIM compression.** Loans are expected to expand by a healthy 6.3% yoy but be muted at 0.2% qoq in 1Q25. Short-term loans secured in 4Q24 have run off in 1Q25. We expect NIM to ease 19bp yoy and 51bp to 2.56% in 1Q25 due to a steep drop in three-month compounded SORA of 64bp to 3.07%. Net interest income could decline 0.4% yoy in 1Q25 (4Q24: flat yoy).

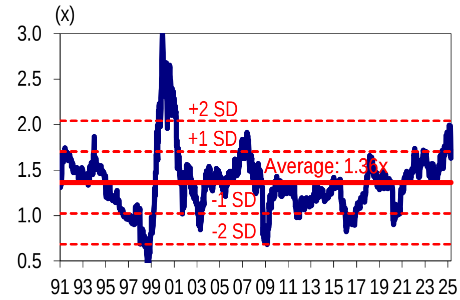
MARKET WEIGHT
(Maintained)

TOP BUYS

Company	Rec	Share Price (S$)	Target Price (S$)
DBS	HOLD	40.10	40.00
OCBC	BUY	15.67	16.90

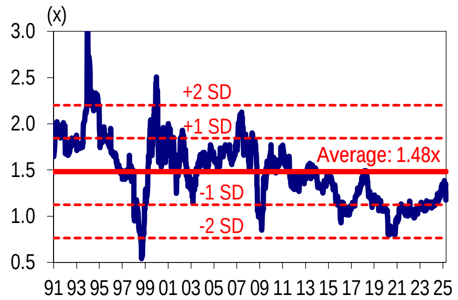
Source: UOB Kay Hian

P/B – DBS



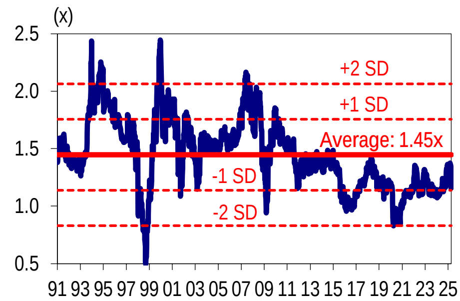
Source: UOB Kay Hian

P/B – OCBC



Source: UOB Kay Hian

P/B – UOB



Source: UOB Kay Hian

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PEER COMPARISON

Company	Ticker	Rec	Price @ 16 Apr 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	HOLD	40.10	40.00	86,665	12/2024	11.5	12.1	1.69	1.68	8.8	8.9	7.5	7.5	14.3	13.4
OCBC	OCBC SP	BUY	15.67	16.90	53,647	12/2024	10.2	10.4	1.18	1.14	8.3	8.2	6.4	5.4	11.6	10.9
UOB#	UOB SP	NR	34.13	n.a.	43,420	12/2024	9.0	8.6	1.14	1.07	6.7	6.5	6.5	6.1	12.9	12.9
Average							10.2	10.4	1.33	1.29	7.9	7.9	6.8	6.3	12.9	12.4

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

- **Contributions from wealth management holding up.** We expect fee income to grow 9% yoy to S$523m in 1Q25. Contribution from wealth management registered steady growth of 12% yoy. Market sentiment was buoyed by initial euphoria over the inauguration for President Donald Trump. Loans & trade-related fees were expected to be stable at 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$270m in 1Q25.
- **Asset quality could deteriorate in 2H25.** We expect NPL ratio to be stable at 0.9%. We have factored in total provisions of S$176m and credit costs of 22bp in 1Q25, which is in line with management's guidance of 20-25bp for 2025.

ACTION

- **Trade war causes slowdown.** The reciprocal tariffs introduced by the US are expected to weigh significantly on global trade. The outlook of the US has deteriorated due to expected weak consumption caused by higher import prices. China's exports growth is expected to stall amid the ongoing trade war. ASEAN countries will be negatively affected by weak external demand. Negative impact from the trade war would also spill over to dampen domestic consumption and business investments.
- **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. We expect the government to deploy targeted measures to bolster resilience and navigate the shifting economic landscape.
- **Singapore's 2025 GDP growth revised lower.** Ministry of Trade & Industry has revised its GDP forecast downward from 1.0-3.0% to 0.0-2.0% as global uncertainties and weakened external demand cast a shadow over our export-driven economy. The ongoing trade tensions and geopolitical risks have dampened growth prospects in key sectors, such as manufacturing and services.
- **Banks provide attractive and recurrent dividend yields.** Banks provide attractive value with a low P/B of 1.33x and high dividend yield of 6.8% for 2025. We like OCBC (BUY/Target: S$16.90) for its defensively low 2025F P/B of 1.18x. HOLD DBS (BUY/Target: S$40.00) for its focus and emphasis on capital management.
- **DBS Group Holdings (HOLD/Target: S$40.00).**
  - **Current guidance for 2025.** Management guided net interest income to be slightly above 2024 levels in 2025. The negative impact from slight NIM compression (management expects two rate cuts in 2025) would be offset by positive impact from mid single-digit loan growth. Management expects NIM to be around 2.10% (2024: 2.13%). Non-interest income is expected to grow at high single-digit, driven by wealth management and treasury customer sales. CIR is expected to be in low-40%. Specific provisions are expected to be 17-20bp. Pre-tax profit should be flat at around 2024 levels. Net profit is expected to be lower than 2024 levels due to global minimum tax rate of 15% (negative impact of S$400m).
  - **Capital management.** DBS has introduced a CRD of 15 S cents per quarter to be paid in 2025. Management expects to pay out similar amounts of CRD during the subsequent two years in 2026 and 2027. DBS has also established a new share buyback programme of S$3b.
  - **Maintain 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%).

PROFIT & LOSS – FORECAST FOR DBS (1Q25)

Profit & Loss (S$m)	1Q25F	1Q24	yoy % Chg	4Q24	qoq % Chg
Net Interest Income	3,714	3,505	6.0	3,728	-0.4
Fees & Commissions	1,148	1,043	10.1	968	18.6
Other Non-interest Income	875	1,009	-13.3	809	8.2
Total Income	5,737	5,557	3.2	5,505	4.2
Operating Expenses	(2,369)	(2,090)	13.3	(2,501)	-5.3
PPoP	3,368	3,467	-2.9	3,004	12.1
Provisions	(208)	(135)	54.0	(209)	-0.6
Associates	70	51	37.3	70	0.0
PBT	3,230	3,383	-4.5	2,865	12.7
Net Profit	2,746	2,951	-7.0	2,522	8.9
EPS (S cents)	96.7	103.8	-6.8	90.0	7.5
DPS (S cents)	75.0	54.0	38.9	60.0	25.0
BVPS (S$)	24.26	21.55	12.6	23.38	3.8

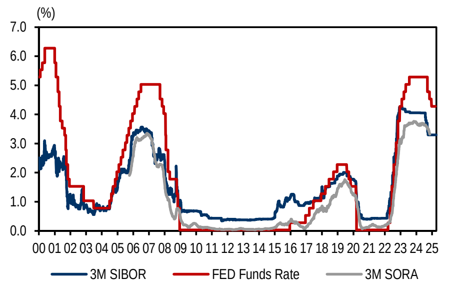
Source: UOB Kay Hian

PROFIT & LOSS – FORECAST FOR OCBC (1Q25)

Profit & Loss (S$m)	1Q25F	1Q24	yoy % Chg	4Q24	qoq % Chg
Net Interest Income	2,427	2,437	-0.4	2,455	-1.1
Fees & Commissions	523	479	9.2	517	1.2
Insurance	270	289	-6.6	101	167.3
Net Trading Income	350	370	-5.4	303	15.5
Other Non-Interest Income	60	51	17.6	40	50.0
Total Income	3,630	3,626	0.1	3,416	6.3
Operating Expenses	(1,476)	(1,369)	7.8	(1,584)	-6.8
PPOP	2,154	2,257	-4.6	1,832	17.6
Provisions	(176)	(169)	4.1	(208)	-15.4
Associates	268	255	5.0	245	9.3
PBT	2,246	2,343	-4.1	1,869	20.2
Net Profit	1,874	1,982	-5.4	1,687	11.1
EPS (S cents)	41.4	44.0	-6.0	37.0	11.8
DPS (S cents)	0.0	0.0	n.m.	57.0	n.m.
BVPS (S$)	13.21	12.27	7.7	12.80	3.2

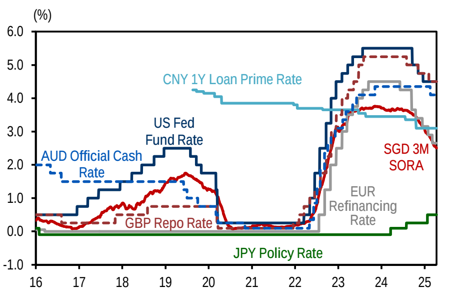
Source: UOB Kay Hian

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



Source: Bloomberg

POLICY INTEREST RATES



Source: Bloomberg

- **Oversea-Chinese Banking Corp (BUY/Target: S$16.90).**
  - **Current guidance for 2025.** Management guided for mid-single-digit loan growth in 2025, cost-to-income ratio at low 40%, and credit costs at 20-25bp. Management expects NIM to narrow 20bp to 2.00% in 2025, based on lagged impact of the 50bp cut to Fed Funds Rate in 4Q24 and three potential rate cuts in 2025.
  - **Capital management.** OCBC has announced a comprehensive package to return S$2.5b of excess capital to shareholders over two years: a) special dividends amounting to 10% of net profit for 2024 and 2025 (total dividend payout is equivalent to 60% of net profit during these two years), and b) share buybacks of S$1b over two years in 2025 and 2026.
  - **Maintain 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%).

PROJECTED DPS AND DIVIDEND PAYOUT RATIOS

		DBS			OCBC			UOB#	
Price (S$)		40.10			15.67			34.13	
Year to 31 Dec	FY24	FY25F	FY26F	FY24	FY25F	FY26F	FY24	FY25F	FY26F
EPS (S ¢)	394	350	332	167	154	151	356	378	398
DPS (S ¢)	222	300	300	101	100	84	205	228	217
Payout Ratio (%)	56.3	85.7	90.4	60.5	65.0	55.8	57.6	60.4	54.5
Dividend Yield (%)	5.5	7.5	7.5	6.4	6.4	5.4	6.0	6.7	6.4

 # Based on consensus estimate.
Source: UOB Kay Hian

ASSUMPTION CHANGES

- We maintain our earnings forecast for DBS.

KEY ASSUMPTIONS – DBS

	2023	2024	2025F	2026F	2027F
Loan Growth (%)	0.4	3.4	1.7	2.0	4.3
NIM (%)	2.15	2.14	2.04	1.99	1.99
Fees, % Chg	9.5	23.2	11.7	8.3	8.3
NPL Ratio (%)	1.11	1.09	1.23	1.33	1.36
Credit Costs (bp)	13.7	14.0	35.1	47.1	19.1
Net Profit (S$m)	10,062	11,289	10,160	9,689	11,387
% Chg	22.8	12.2	(10.0)	(4.6)	17.5

Source: UOB Kay Hian

- We maintain our earnings forecast for OCBC.

KEY ASSUMPTIONS – OCBC

	2023	2024	2025F	2026F	2027F
Loan Growth (%)	0.4	7.6	1.6	1.8	4.2
NIM (%)	2.28	2.20	2.04	2.03	2.04
Fees, % Chg	(2.5)	9.2	10.7	7.4	7.4
NPL Ratio (%)	0.95	0.89	1.07	1.22	1.22
Credit Costs (bp)	24.8	22.4	35.8	47.1	24.5
Net Profit (S$m)	7,021	7,587	6,931	6,818	7,762
% Chg	22.2	8.1	(8.6)	(1.6)	13.8

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.

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