SECTOR UPDATE

Banking – Singapore

Donald Trump Will Likely Be Re-elected; BUY Banks

Banks deserve to be re-rated due to their attractive 2025 dividend yields, which stood at 6.3% for DBS and 5.9% for OCBC, despite the recent run-up. The basis of the latest spike is, however, questionable as it assumes the re-election of Donald Trump would invariably lead to higher treasury yield. Maintain OVERWEIGHT. BUY OCBC (Target: S$18.35), followed by DBS (Target: S$41.40).

WHAT'S NEW

- **A crisis of Biden's own making.** President Joe Biden's unnerving performance during the Presidential Debate last Friday has raised questions about his age and suitability to serve as President. The 81-year-old mumbled and lost his train of thought at times and 50m Americans tuned in and saw the debacle live. Many donors and Democrat congressmen are worried and have lost faith. A second debate is scheduled for September (assuming the Democratic Party does not replace their nominee).

- **Will Trump's presidency lead to higher bond yields?** Many Wall Street strategists have argued that Trump regaining the White House would lead to higher long-term treasury yields due to:

  a) Trump's plans to keep the US$1.5t tax overhaul enacted in 2017 in place when they expire in 2025. He is also exploring new rounds of individual and corporate cuts. The aggressive fiscal expansion would result in higher federal budget deficit and treasury yields.

  b) Trump's plans to institute tariffs of 10% on almost all goods imported into the US. The tariffs would increase if foreign countries manipulate their currencies or engage in unfair trading practices. The "universal" tariffs would lead to higher inflation for US consumers, which would inevitably result in higher interest rates.

- The yield for US 10-year government bonds has inched up by 14bp to 4.43% since last Friday. Higher bond yields are positive for banks. In Singapore, DBS, OCBC and UOB's share prices have rallied 6.4%, 4.0% and 4.0% respectively.

- **Counting chickens before they hatch.** It is dangerous to jump onto the bandwagon as:

  a) **The proof of the pudding is in the eating.** Promises that a politician made during the campaign trial might not be implemented when they are in office. They might have to make compromises that serve the needs of their broader political base. Changing of the economic environment might also disrupt their initial priorities.

  b) **Lower interest rates could be on the agenda as well.** President Donald Trump, being a "retired" real estate developer, loves low interest rates. One only has to look back to 2019 when President Trump was reportedly frustrated with the Fed for raising interest rates. He threatened to remove Jerome Powell as chairman of the Fed on various occasions in 1H19, which could have led to a series of three insurance rate cuts in July, September and October of 2019. President Trump's advisors are said to be mulling a potential restructuring of the Fed.

OVERWEIGHT

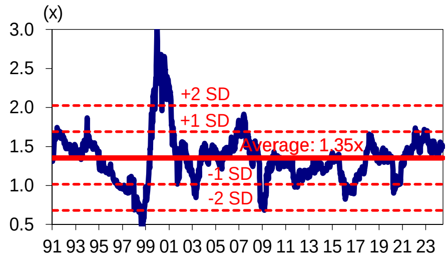
(Maintained)

SECTOR PICKS

Company	Rec	Share Price (lcy)	Target Price (lcy)
DBS	BUY	37.96	41.40
OCBC	BUY	14.98	18.35

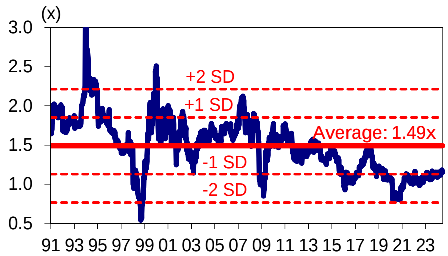
Source: UOB Kay Hian

P/B – DBS



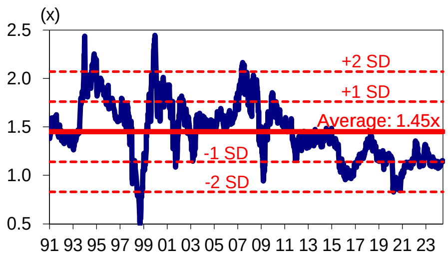
Source: UOB Kay Hian

P/B – OCBC



Source: UOB Kay Hian

P/B – UOB



Source: UOB Kay Hian

ANALYST(S)

Jonathan Koh, CFA, MSc Econ
+65 6590 6620
jonathankoh@uobkayhian.com

PEER COMPARISON

Company	Ticker	Rec	Price @ 3 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/PPOP 2024F (x)	P/PPOP 2025F (x)	Yield 2024F (%)	Yield 2025F (%)	ROE 2024F (%)	ROE 2025F (%)
DBS	DBS SP	BUY	37.96	41.40	79,601	12/2023	10.0	10.4	1.71	1.62	8.5	8.7	5.8	6.3	16.8	15.5
OCBC	OCBC SP	BUY	14.98	18.35	49,640	12/2023	9.2	9.3	1.19	1.13	8.0	8.1	5.7	5.9	13.2	12.3
UOB#	UOB SP	NR	32.27	n.a.	39,821	12/2023	9.1	8.9	1.15	1.08	6.8	6.6	5.5	5.7	12.9	12.5
Average							9.5	9.5	1.35	1.28	7.7	7.8	5.7	6.0	14.3	13.4

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

ACTION

- **Rate cuts coming but not too much.** We reiterated our positive view on the banking sector last Thursday (one day before the US Presidential Debate). We anticipate one rate cut in 4Q24 (previous: three rate cuts) and four rate cuts in 2025 (unchanged), bringing the Fed Funds Rate to 4.00% by end-25. Rate cuts are less pronounced due to sticky inflation. The last mile for deceleration of inflation is drawn-out due to tight labour markets.

Click here for Morning Note dated 27 Jun 24

- **Maintain OVERWEIGHT.** Banks provide attractive value with low P/B of 1.28x and high dividend yield of 6.0% for 2025. Our top BUY pick is OCBC (Target: S$18.35) for its commitment to maintaining dividend payout ratio at 50%, focus on trade and investment flows within ASEAN and defensively low 2025F P/B of 1.13x. We also like DBS (Target: S$41.40) due to 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.

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

- **High payout ratio supported by high ROE.** 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 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 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 has 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)

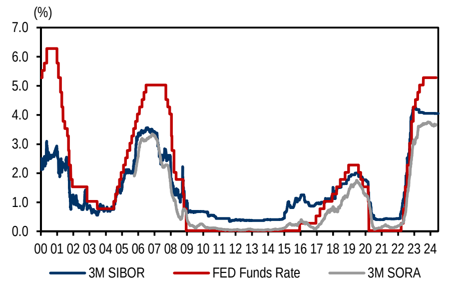
- **Strategic initiatives to deliver S$3b in incremental revenue.** Management aims to deliver incremental revenue of S$3b cumulatively over 2023-25, driven by four growth pillars: a) Asian wealth, b) trade and investment flows, c) new economy, and d) sustainable financing. Management aims to deliver ROE of 12-13% with additional contribution of 1ppt from the incremental revenue of S$3b. OCBC has 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 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.

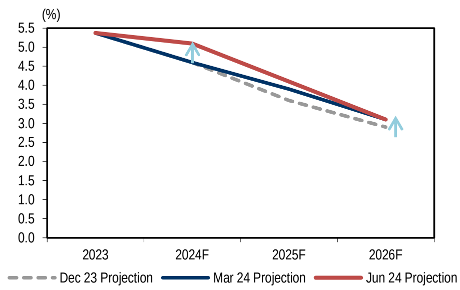
- **Maintain BUY.** Our target price for OCBC of S$18.35 is based on 1.38x 2025F P/B, derived from the Gordon Growth Model (ROE: 12.4%, COE: 9.0%, growth: 0.0%).

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



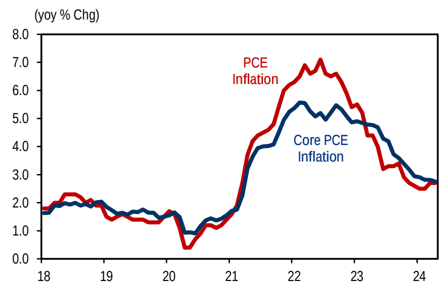
Source: Bloomberg

FED'S DOT PLOT



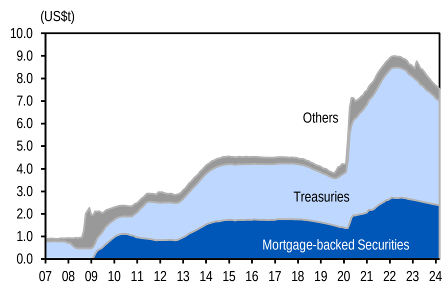
Source: Bloomberg

PCE AND CORE PCE INFLATION



Source: CEIC

SIZE OF FED'S BALANCE SHEET



Source: Federal Reserve

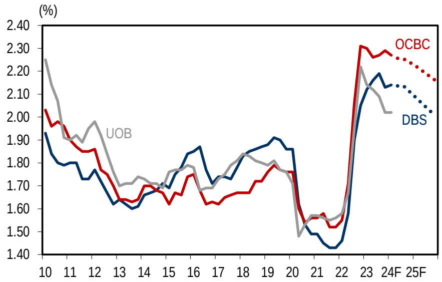
PROJECTED DPS AND DIVIDEND PAYOUT RATIOS

	DBS			OCBC			UOB#		
Price (S$)	37.96			14.98			32.27		
Year to 31 Dec	FY23	FY24F	FY25F	FY23	FY24F	FY25F	FY23	FY24F	FY25F
EPS (S ¢)	399	380	369	155	163	162	334	357	367
DPS (S ¢)	192	222	240	82	86	89	170	179	184
Payout Ratio (%)	48.1	58.5	65.1	53.0	52.7	55.1	50.9	50.1	50.2
Div Yield (%)	5.1	5.8	6.3	5.5	5.7	5.9	5.3	5.5	5.7

 # Based on consensus estimate

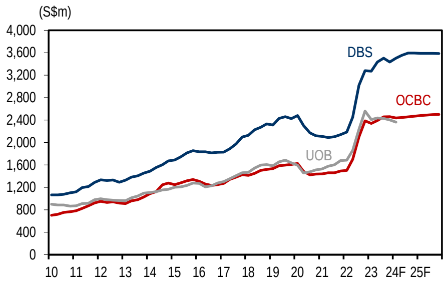
Source: UOB Kay Hian

NIM



Source: Respective banks, UOB Kay Hian

NET INTEREST INCOME



Source: Respective banks, UOB Kay Hian

ASSUMPTION CHANGES

- We maintain our existing earnings forecast for DBS.

KEY ASSUMPTIONS – DBS

	2022	2023	2024F	2025F	2026F
Loan Growth (%)	1.3	0.4	5.6	4.9	4.9
NIM (%)	1.75	2.15	2.13	2.05	2.03
Fees, % Chg	(12.3)	9.5	17.1	5.6	7.7
NPL Ratio (%)	1.13	1.11	1.17	1.20	1.21
Credit Costs (bp)	5.4	13.7	18.3	20.1	20.1
Net Profit (S$m)	8,196	10,062	10,683	10,357	10,724
% Chg	20.5	22.8	6.2	(3.0)	3.5

Source: UOB Kay Hian

- We maintain our existing 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 dividend policy and capital management.

RISKS

- Escalation of the Russia-Ukraine war and Israel-Hamas war.
- Geopolitical tensions and trade conflicts 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 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