

SECTOR UPDATE

Banking – Singapore

4Q22 Results Preview: Continued Double-Digit NIM Expansion

The pace of NIM expansion has moderated but remains significant at double-digit. DBS and OCBC grew net interest income by a hefty 53% and 49% yoy respectively. Asset quality remains benign. We forecast net profit of S\$2,151m for DBS (+54% yoy but -4% qoq) and S\$1,510m for OCBC (+55% yoy but -6% qoq). DBS could provide a positive surprise by declaring a special dividend. **BUY DBS (Target: S\$45.35) and OCBC (Target: S\$17.75) for 2023 dividend yields of 4.7%. Maintain OVERWEIGHT.**

WHAT'S NEW

- DBS will be announcing its 4Q22 results on 13 February, followed by UOB on 23 February and OCBC on 24 February.

DBS Group Holdings (DBS SP/BUY/S\$35.51/Target: S\$45.35)

- We forecast net profit to grow 54% yoy but recede 4% qoq to S\$2,151m in 4Q22. The strong growth was powered by continued NIM expansion.
- Slower but still significant NIM expansion.** We expect loans to grow 4.8% yoy but remain flat qoq in 4Q22. The anaemic loan growth was caused by large Chinese corporations switching from borrowing US dollar offshore, such as trade finance facilities, to borrowing renminbi onshore. NIM expanded by a significant 15bp qoq to 2.05%. NIM expansion has moderated from the 32bp registered in 3Q22 as cost of deposits has crept up due to competition for fixed deposits. Net interest income grew by a massive 53% yoy.
- Fees & commission declined 3% yoy.** Contribution from wealth management remains lacklustre at S\$335m (-12% yoy) as high-net-worth clients continue to adopt a risk-off approach and remained on the sidelines. Fees from loan-related sources and transaction services are expected to be flat. Contribution from cards increased 15% yoy due to resumption of business and leisure travel.
- Other non-interest income higher yoy due to low base.** We expect other non-interest income to increase 13% yoy in 4Q22 with healthy increases in both net trading income and gains from investment securities.
- We expect operating expenses to increase 10% yoy and cost-to-income ratio at 42.8%.
- Asset quality remains benign.** We expect NPL formation to be benign and NPL ratio to be stable at 1.2%. DBS has ample management overlay for general provisions of S\$2.1b set aside previously due to the COVID-19 pandemic. Thus, we expect 4Q22 credit cost to come in at 14bp, marginally lower than the 16bp in 3Q22.
- We expect DBS to maintain its quarterly dividend at 36 S cents for 4Q22.
- Review of dividend policy.** The implementation of Basel 4 is expected to improve DBS' CET-1 CAR by 1-2ppt to 15-16% once it is implemented on 24 January, which is significantly above its comfortable operating range of 12.5-13.5%. Management could return the surplus capital to shareholders in the form of a special dividend. We have conservatively assumed that DBS rewards its shareholders with a special dividend of S\$0.80 per share, which would deplete CET-1 CAR by 0.6ppt.
- Our target price of S\$45.35 is based on 1.95x 2023F P/B, derived from Gordon Growth model (ROE: 16.1%, COE: 8.5%, Growth: 0.5%).

PEER COMPARISON

| Company | Ticker | Rec | Price @ 25 Jan 23 (\$) | Target Price (\$) | Market Cap (US\$m) | FY | PE 2023F (x) | PE 2024F (x) | P/B 2023F (x) | P/B 2024F (x) | P/POP 2023F (x) | P/POP 2024F (x) | Yield 2023F (%) | Yield 2024F (%) | ROE 2023F (%) | ROE 2024F (%) |
|---------|---------|-----|------------------------|-------------------|--------------------|---------|--------------|--------------|---------------|---------------|-----------------|-----------------|-----------------|-----------------|---------------|---------------|
| DBS | DBS SP | BUY | 35.51 | 45.35 | 69,475 | 12/2021 | 9.9 | 9.1 | 1.55 | 1.42 | 7.7 | 7.1 | 4.7 | 5.1 | 15.6 | 16.0 |
| OCBC | OCBC SP | BUY | 12.85 | 17.75 | 43,904 | 12/2021 | 8.9 | 8.5 | 1.02 | 0.95 | 7.9 | 7.7 | 4.7 | 5.0 | 11.5 | 11.2 |
| UOB* | UOB SP | NR | 29.91 | n.a. | 38,077 | 12/2021 | 9.1 | 8.4 | 1.09 | 1.02 | 7.2 | 6.7 | 5.3 | 5.6 | 12.5 | 12.8 |
| Average | | | | | | | 9.3 | 8.7 | 1.22 | 1.13 | 7.6 | 7.2 | 4.9 | 5.2 | 13.2 | 13.3 |

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

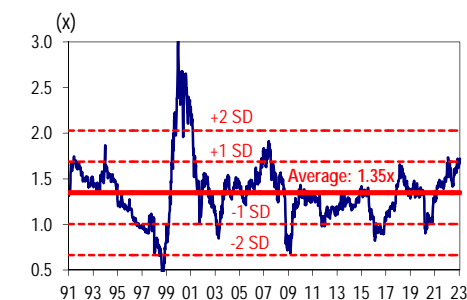
OVERWEIGHT (Maintained)

TOP BUYS

| Company | Rec | Share Price (\$) | Target Price (\$) |
|---------|-----|------------------|-------------------|
| DBS | BUY | 35.51 | 45.35 |
| OCBC | BUY | 12.85 | 17.75 |

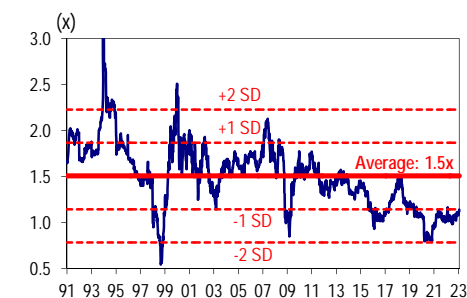
Source: UOB Kay Hian

P/B – DBS



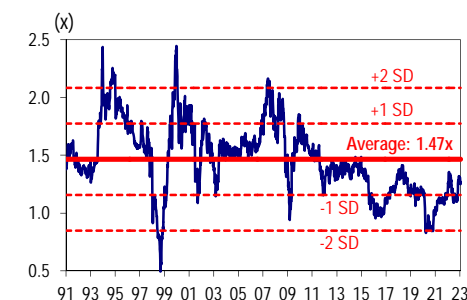
Source: UOB Kay Hian

P/B – OCBC



Source: UOB Kay Hian

P/B – UOB



Source: UOB Kay Hian

ANALYST(S)

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

PROFIT & LOSS – FORECAST FOR DBS (4Q22)

| Profit & Loss (\$m) | 4Q22F | 4Q21 | yoy % Chg | 3Q22 | qoq % Chg |
|------------------------|---------|---------|-----------|---------|-----------|
| Net Interest Income | 3,268 | 2,140 | 52.7 | 3,020 | 8.2 |
| Fees & Commissions | 791 | 815 | -3.0 | 771 | 2.5 |
| Other Operating Income | 500 | 442 | 13.1 | 753 | -33.6 |
| Total Income | 4,558 | 3,397 | 34.2 | 4,544 | 0.3 |
| Operating Expenses | (1,951) | (1,771) | 10.2 | (1,825) | 6.9 |
| PPoP | 2,607 | 1,626 | 60.3 | 2,719 | -4.1 |
| Provisions | (152) | (33) | 361.3 | (178) | -14.5 |
| PBT | 2,455 | 1,593 | 54.1 | 2,541 | -3.4 |
| Net Profit | 2,151 | 1,393 | 54.4 | 2,236 | -3.8 |
| EPS (S cents) | 82.5 | 53.0 | 55.7 | 85.3 | -3.2 |
| DPS (S cents) | 116 | 36 | 222.2 | 36 | 222.2 |
| BVPS (\$) | 21.73 | 21.47 | 1.2 | 20.66 | 5.2 |

Source: UOB Kay Hian

Oversea-Chinese Banking Corporation (OCBC SP/BUY/\$\$12.81/Target: \$\$17.75)

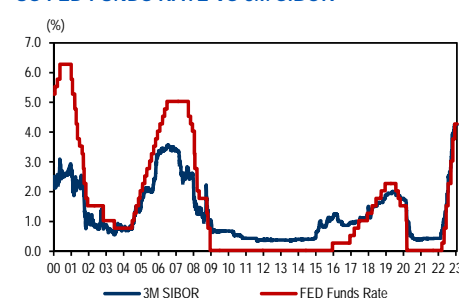
- We forecast net profit of S\$1,510m for 4Q22, representing a 55% yoy growth but a 6% qoq decline. The strong growth was powered by continued NIM expansion.
- On track to achieve mid-single-digit loan growth.** We expect loan growth to be slow at 4.2% yoy and 0.5% qoq in 4Q22, driven mainly by network customers expanding overseas to acquire logistics, data centre and student accommodation properties and sustainable finance. We expect NIM to expand by 13bp qoq to 2.19%. NIM expansion has moderated from the 35bp registered in 3Q22 as cost of deposits has crept up due to competition for fixed deposits. OCBC also revised interest rates for its flagship 360 saving accounts to 4.65% in Nov 22. Net interest income grew by a massive 49% yoy.
- Contribution from wealth management remains lacklustre.** We expect fee income to drop 14% yoy in 4Q22. Wealth management fees are expected to decline 19% yoy as investors gravitate towards low-risk assets, such as fixed deposits and treasury bills. Contributions from loans & trade related fees remain stable.
- Great Eastern incurred mark-to-market losses.** Yield for 20-year Singapore government bond yield compressed 77bp qoq to 2.60% in 4Q22. As such, we expect contributions from life insurance to be lower at S\$190m (4Q21: S\$249m) due to mark-to-market losses from revaluing life insurance liabilities higher. We expect net trading income to be seasonally softer at S\$175m (3Q22: S\$194m).
- Asset quality remains stable.** We expect NPL ratio to be stable at 1.3%. OCBC has to set aside additional general provisions after reviewing its macro-economic variable (MEV) model. We have factored in higher credit costs of 22bp in 4Q22 (9M22: 9bp), bringing credit costs for the full year to 15bp, which is in line with management's guidance of mid-teens for 2022.
- Our target price of S\$17.75 is based on 1.40x 2023F P/B, derived from the Gordon growth model (ROE: 11.7%, COE: 8.5%, Growth: 0.5%).

PROFIT & LOSS – FORECAST FOR OCBC (4Q22)

| Profit & Loss (\$m) | 4Q22F | 4Q21 | yoy % Chg | 3Q22 | qoq % Chg |
|---------------------------|---------|---------|-----------|---------|-----------|
| Net Interest Income | 2,229 | 1,492 | 49.4 | 2,099 | 6.2 |
| Fees & Commissions | 455 | 528 | -13.9 | 453 | 0.4 |
| Insurance | 240 | 299 | -19.7 | 370 | -35.1 |
| Net Trading Income | 175 | 152 | 15.1 | 194 | -9.8 |
| Other Non-Interest Income | 72 | 79 | -8.9 | 36 | 100.0 |
| Total Income | 3,171 | 2,550 | 24.3 | 3,152 | 0.6 |
| Operating Expenses | (1,452) | (1,315) | 10.4 | (1,295) | 12.1 |
| PPOP | 1,719 | 1,235 | 39.2 | 1,857 | -7.4 |
| Provisions | (166) | (317) | -47.6 | (154) | 7.8 |
| Associates | 218 | 198 | 10.0 | 256 | -14.9 |
| PBT | 1,771 | 1,116 | 58.7 | 1,959 | -9.6 |
| Net Profit | 1,510 | 973 | 55.2 | 1,605 | -5.9 |
| EPS (S cents) | 33.6 | 21.3 | 58.2 | 35.0 | -4.0 |
| DPS (S cents) | 28.0 | 28.0 | 0.0 | 0.0 | n.m. |
| BVPS (\$) | 11.79 | 11.46 | 2.8 | 11.29 | 4.4 |

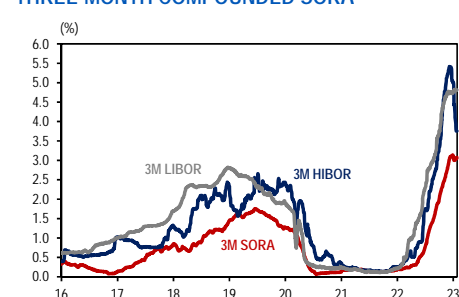
Source: UOB Kay Hian

US FED FUNDS RATE VS 3M SIBOR



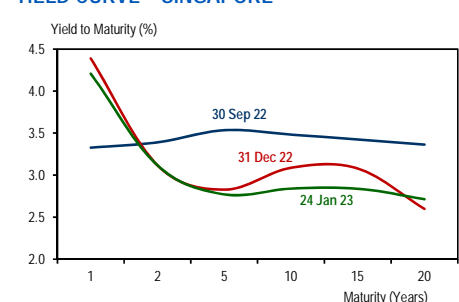
Source: Bloomberg

THREE-MONTH COMPOUNDED SORA



Source: Bloomberg

YIELD CURVE – SINGAPORE



Source: Bloomberg

ACTION

- **Recovery in Europe and China.** The US economy has decelerated with retail sales contracting 1.1% mom in Dec 22 on a seasonally adjusted basis. Industrial production has declined with weakness in manufacturing. Home sales fell 18% in 2022, while housing starts and building permits remain soft. On the other hand, the outlook for the European economy has improved. Fiscal stimulus has limited the impact of higher energy prices on businesses and consumers. European countries have overcome the energy crisis due to a mild winter and efforts to curb usage. China has switched from zero-tolerance to living with COVID-19 as an endemic disease. The reopening of the Chinese economy and recent refocus on pro-growth policies would engender recovery in 2H23.
- **Attractive dividend payout draws investors to banks.** Shareholders would be rewarded with higher dividends in tandem with the strong growth in earnings. We expect DBS and OCBC to increase DPS by 17% and 7% respectively to S\$1.68 (42 S cents per quarter) and S\$0.60 (30 S cents each for 1H23 and 2H23) in 2023. DBS and OCBC each provide 2023 dividend yield of 4.7%.
- **Maintain OVERWEIGHT.** Banks benefit from the ongoing hikes in interest rates and NIM expansion on a full-year basis in 2023, with DBS the most sensitive to higher interest rates. BUY DBS (Target: S\$45.35) and OCBC (Target: S\$17.75).

PROJECTED DPS AND DIVIDEND PAYOUT RATIOS

| | DBS | | | OCBC | | | UOB* | | |
|--------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Price (S\$) | 35.51 | | | 12.85 | | | 29.91 | | |
| Year to 31 Dec | FY22F | FY23F | FY24F | FY22F | FY23F | FY24F | FY22F | FY23F | FY24F |
| EPS (S c) | 307 | 359 | 392 | 132 | 145 | 151 | 277 | 330 | 354 |
| DPS (S c) | 144 | 168 | 180 | 56 | 60 | 64 | 135 | 159 | 167 |
| Payout Ratio (%) | 46.9 | 46.8 | 45.9 | 42.3 | 41.4 | 42.4 | 48.7 | 48.0 | 47.2 |
| Dividend Yield (%) | 4.1 | 4.7 | 5.1 | 4.4 | 4.7 | 5.0 | 4.5 | 5.3 | 5.6 |

* Based on consensus estimate

Source: UOB Kay Hian

ASSUMPTION CHANGES

- We trim our 2023 earnings forecast for DBS by 3% after toning down our expectations on NIM expansion.

KEY ASSUMPTIONS – DBS

| | 2020 | 2021 | 2022F | 2023F | 2024F |
|-------------------|--------|-------|-------|-------|--------|
| Loan Growth (%) | 4.2 | 9.9 | 4.8 | 6.7 | 4.9 |
| NIM (%) | 1.63 | 1.45 | 1.75 | 2.26 | 2.29 |
| Fees, % Chg | 0.2 | 15.2 | (8.6) | 13.8 | 8.8 |
| NPL Ratio (%) | 1.60 | 1.27 | 1.21 | 1.43 | 1.46 |
| Credit Costs (bp) | 79.7 | 1.3 | 10.1 | 27.5 | 27.2 |
| Net Profit (S\$m) | 4,721 | 6,805 | 8,003 | 9,352 | 10,203 |
| % Chg | (26.1) | 44.1 | 17.6 | 16.9 | 9.1 |

Source: UOB Kay Hian

- We trim our 2023 earnings forecast for OCBC by 3% after toning down our expectations on NIM expansion.

KEY ASSUMPTIONS – OCBC

| | 2020 | 2021 | 2022F | 2023F | 2024F |
|-------------------|--------|-------|--------|-------|-------|
| Loan Growth (%) | 0.6 | 8.6 | 4.2 | 4.0 | 4.8 |
| NIM (%) | 1.62 | 1.55 | 1.88 | 2.15 | 2.13 |
| Fees, % Chg | (5.6) | 12.0 | (15.1) | 0.7 | 6.1 |
| NPL Ratio (%) | 1.47 | 1.45 | 1.19 | 1.46 | 1.45 |
| Credit Costs (bp) | 76.7 | 31.3 | 14.7 | 27.1 | 27.7 |
| Net Profit (S\$m) | 3,588 | 4,858 | 5,952 | 6,505 | 6,768 |
| % Chg | (26.3) | 35.4 | 22.5 | 9.3 | 4.0 |

Source: UOB Kay Hian

SECTOR CATALYSTS

- NIM expansion in 2023 driven by upcycle in interest rates.
- Economic recovery driven by the reopening and easing of COVID-19 restrictions.
- Banks paying more dividends as risks emanating from COVID-19 pandemic recede.

RISKS

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

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. |

Copyright 2023, UOB Kay Hian Pte Ltd. All rights reserved.

<http://research.uobkayhian.com>

RCB Regn. No. 197000447W