

SECTOR UPDATE

Banking – Singapore

Keep Calm And Carry On

The demise of SVB was caused by the untimely investment in treasury bonds and mortgage-backed securities at peak levels and panic caused by the shutdown of Silvergate Capital. We expect nerves to calm once investors realise that contagion from the three ill-fated banks did not spread to the broader economy. **BUY DBS (Target: S\$42.00) and OCBC (Target: S\$16.92) for 2023 dividend yields of 5.2% and 6.2% respectively. Maintain OVERWEIGHT.**

WHAT'S NEW

• **The three S of bank runs in the US.** Three regional banks in the US succumbed to bank runs last Friday:

a) **Silvergate Capital** (Bloomberg ticker: SI US) was described as the top bank for the crypto market. It helps institutional investors move funds into and out of crypto-trading platforms, such as FTX, Coinbase Global and Kraken. The collapse of FTX shocked the crypto market. Silvergate had to sell its holding of securities at a loss after crypto-related deposits plunged 68% in 4Q22. It laid off 40% of its staff in Jan 23. The authorities are investigating Silvergate for fraud due to its relationship with FTX and Alameda Research. Silvergate Capital shut down its payment network, Silvergate Exchange Network, and liquidated its bank on 10 Mar 23.

b) **Silicon Valley Bank** (SVB) is the 16th largest bank in the US. It was described as the go-to lender for venture capital and start-up companies. Many of its start-up companies successfully raised funds during the COVID-19 pandemic and placed them as deposits with SVB. SVB invested the funds in long-dated treasury bonds and mortgage-backed securities at the top of the market. It suffered losses when many start-up companies started to burn cash and withdraw their deposits in 2022.

SVB's parent company SVB Financial Group (Bloomberg ticker: SIVB US) tried to raise US\$2.25b through a private stock sale on 10 Mar 23 (last Friday). SVB suffered a bank run when Founders Fund and other high-profile venture capital firms advised portfolio companies to pull money from the bank.

c) **Signature Bank** (Bloomberg ticker: SBNY US) initially focused on financing commercial real estate but branched out into payment system for crypto companies in 2018. Regulators cracked down on banks' exposure to digital assets in the aftermath of the collapse of FTX in Nov 22. Thus, Signature Bank cut ties with Binance, the largest crypto exchange. It suffered a bank run as customers, spooked by the collapse of Silicon Valley Bank, pulled money from the bank on 10 Mar 23.

• **Deregulation contributed to lax supervision.** The rollback of Dodd-Frank Act in 2018 exempted banks with assets of up to US\$250b from strict regulatory measures, such as capital and liquidity requirements. The deregulation could have led to lax supervision of regional banks, which were previously deemed non-systemic.

• **Depositors panicked.** Confidence was fragile as investors were already spooked by the spectacular collapse of crypto exchange FTX in Nov 22.

PEER COMPARISON

Company	Ticker	Rec	Price @ 14 Mar 23 (S\$)	Target Price (S\$)	Market Cap (US\$m)	FY	PE		P/B		P/POP		Yield		ROE	
							2023F (x)	2024F (x)	2023F (x)	2024F (x)	2023F (x)	2024F (x)	2023F (%)	2024F (%)	2023F (%)	2024F (%)
DBS	DBS SP	BUY	32.33	42.00	61,837	12/2022	8.8	8.2	1.43	1.31	7.2	6.6	5.2	5.6	16.2	16.3
OCBC	OCBC SP	BUY	12.07	16.92	40,240	12/2022	8.1	7.8	0.99	0.93	7.2	6.9	6.2	6.6	12.2	12.0
UOB*	UOB SP	NR	27.84	n.a.	34,579	12/2022	8.3	7.8	1.04	0.98	6.5	6.1	5.8	6.2	12.9	12.9
Average							8.4	7.9	1.15	1.07	6.9	6.5	5.7	6.1	13.8	13.7

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

OVERWEIGHT

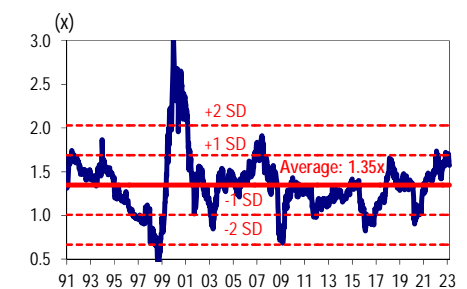
(Maintained)

TOP BUYS

Company	Rec	Share Price (S\$)	Target Price (S\$)
DBS	BUY	32.33	42.00
OCBC	BUY	12.07	16.92

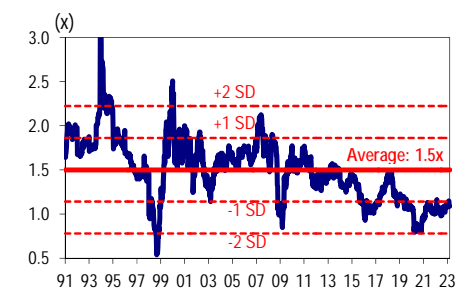
Source: UOB Kay Hian

P/B – DBS



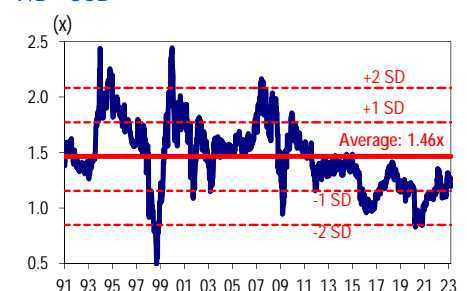
Source: UOB Kay Hian

P/B – OCBC



Source: UOB Kay Hian

P/B – UOB



Source: UOB Kay Hian

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ACTION

- The Fed's backstop offers reprieve.** The Federal Deposit Insurance Corporation has announced that it will fully protect depositors of SVB and Signature Bank, beyond the usual threshold of US\$250,000. The Fed has also set up a US\$25b Bank Term Funding Programme to offer banks one-year loans with collaterals valued at par. The terms for the Fed's discount window, which are up to 90 days, will also be relaxed with collaterals valued at par. The Fed's facilities will significantly reduce losses suffered by banks from their holdings of treasury securities.
- Solid, safe and sound.** Monetary Authority of Singapore (MAS) has announced that:
 - Singapore's banking system remains sound and resilient despite heightened volatility in financial markets. The S\$ money market and foreign exchange market continue to function well.
 - The Singapore banking system has insignificant exposures to failed banks in the US. Banks in Singapore are well-capitalised and conduct regular stress tests. Their liquidity positions are healthy, underpinned by a stable and diversified funding base.
 - MAS is ready to provide liquidity through its suite of facilities to ensure that Singapore's financial system remains stable.
- Keep calm and carry on.** The demise of SVB is disruptive to the ecosystem for financing of start-ups in the US. Decisive actions taken by the authorities and regulators should restore confidence. We expect nerves to calm once investors realise that contagion from the three banks did not spread to the broader economy.
- Maintain OVERWEIGHT.** Banks benefit from the ongoing hikes in interest rates and NIM expansion on a full-year basis in 2023. Shareholders would be rewarded with higher dividends in tandem with the strong growth in earnings. BUY DBS (Target: S\$42.00) and OCBC (Target: S\$16.92) for 2023 dividend yield of 5.2% and 6.2% respectively. Our top pick is OCBC due to its new dividend policy.

PROJECTED DPS AND DIVIDEND PAYOUT RATIOS

	DBS			OCBC			UOB#		
Price (S\$)	32.33			12.07			27.84		
Year to 31 Mar	FY22	FY23F	FY24F	FY22	FY23F	FY24F	FY22	FY23F	FY24F
EPS (S c)	315	366	397	127	149	156	269	334	357
DPS (S c)	200	168	180	68	75	80	135	161	173
Payout Ratio (%)	63.5	45.9	45.4	53.5	50.2	51.4	50.1	48.1	48.4
Dividend Yield (%)	6.2	5.2	5.6	5.6	6.2	6.6	4.8	5.8	6.2

Based on consensus estimate. * Include special dividend of 50 S cents.
Source: UOB Kay Hian

DBS (DBS SP/BUY/S\$32.33/Target: S\$42.00)

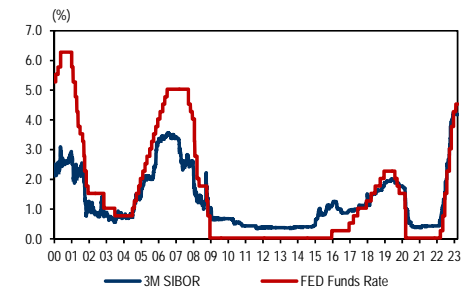
- DBS increased quarterly DPS by 17% to 42 S cents for 4Q22 and rewarded shareholders with a special dividend of 50 S cents.
- Management expects cost-to-income ratio to fall below 40% in 2023.
- We lowered our target price from S\$45.80 to S\$42.00 based on 1.86x 2023F P/B, derived from Gordon Growth Model (ROE: 16.7%, COE: 9.0% (previous: 8.5%), Growth: 0.0% (previous: 0.5%)).

KEY ASSUMPTIONS - DBS

	2021	2022	2023F	2024F	2025F
Loan Growth (%)	9.9	1.3	6.8	4.9	1.2
NIM (%)	1.45	1.75	2.19	2.20	2.20
Fees, % Chg	15.2	(12.3)	15.6	8.8	7.6
NPL Ratio (%)	1.27	1.13	1.30	1.35	1.37
Credit Costs (bp)	1.3	5.3	22.4	22.1	22.5
Net Profit (S\$m)	6,801	8,193	9,533	10,327	10,850
% Chg	44.1	20.5	16.4	8.3	5.1

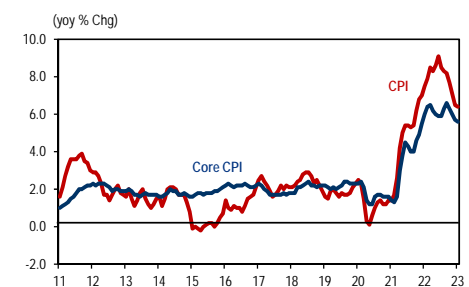
Source: UOB Kay Hian

FED FUNDS RATE VS 3-MONTH SIBOR



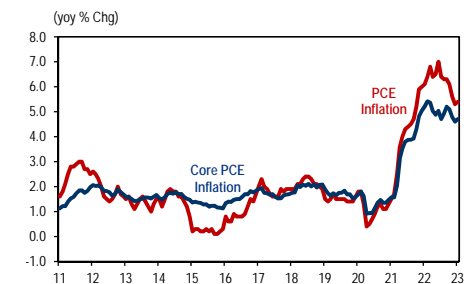
Source: Bloomberg

US CPI AND CORE CPI



Source: CEIC

US PCE INFLATION AND CORE PCE INFLATION



Source: CEIC

• OCBC (OCBC SP/BUY/S\$12.07/Target: S\$16.92)

- Management intends to maintain dividend payout ratio at 50% going forward. We expect DPS of S\$0.75 in 2023 and S\$0.80 in 2024, which provide dividend yield of 6.2% for 2023 and 6.6% for 2024.
- We like OCBC for its new dividend policy, its focus on ASEAN (55.5% of total loans and 80.7% of total income in 2022) and its defensively low 2023F P/B of 0.99x.
- We lowered our target price from S\$18.25 to S\$16.92 based on 1.39x 2023F P/B, derived from the Gordon Growth Model (ROE: 12.5%, COE: 9.0% (previous: 8.5%), Growth: 0.0% (previous: 0.5%)).

KEY ASSUMPTIONS – OCBC

	2021	2022	2023F	2024F	2025F
Loan Growth (%)	8.6	1.8	4.0	4.9	4.8
NIM (%)	1.55	1.91	2.29	2.28	2.29
Fees, % Chg	12.0	(17.6)	1.2	6.1	6.2
NPL Ratio (%)	1.45	1.15	1.40	1.49	1.48
Credit Costs (bp)	31.3	20.0	22.1	22.5	23.4
Net Profit (S\$m)	4,858	5,748	6,699	6,980	7,344
% Chg	35.4	18.3	16.6	4.2	5.2

Source: UOB Kay Hian

SECTOR CATALYSTS

- NIM expansion in 1H23 driven by upcycle in interest rates.
- Economic recovery driven by the reopening and easing of COVID-19 restrictions, including the ongoing reopening in China.
- Banks paying more dividends as risks emanating from COVID-19 pandemic recede.

ASSUMPTION CHANGES

- We maintain our existing earnings forecast.

RISKS

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

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