

SECTOR UPDATE

Banking – Singapore

1Q24 Results Preview: Softer NIM But Resilient Asset Quality

The steep decline in 3M HIBOR could shave off 4-6bp from NIM in 1Q24 as Hong Kong dollar-denominated loans accounted for 11% and 13% of total loans respectively for DBS and OCBC. Singapore banks are expected to deliver steady net profits of S\$2,486m for DBS (-3% yoy but +10% qoq) and S\$1,824m for OCBC (-3% yoy but +12% qoq) in 1Q24, supported by resilient asset quality. Maintain OVERWEIGHT. Our top picks are DBS (BUY/Target: S\$43.25) followed by OCBC (BUY/Target: S\$18.15).

WHAT'S NEW

- The 1Q24 results season for Singapore banks kicks off with DBS Group Holdings (DBS) on 2 May 24, followed by United Overseas Bank (UOB) on 8 May 24 and Oversea-Chinese Banking Corporation (OCBC) on 10 May 24.

DBS Group Holdings (DBS SP/BUY/Target: S\$43.25)

- We forecast DBS' net profit to rebound 10% qoq but recede 3% yoy to S\$2,486m in 1Q24.
- Moderation in NIM sequentially.** We expect DBS to report a mild pick-up in loan growth with a marginal 0.8% yoy and 1.0% qoq increase in 1Q24. Industry statistics saw corporate loans expand 1.6% mom in Feb 24, which suggest that weakness in corporate loans and repayments by customers have eased. Unfortunately, 3M HIBOR also declined 43bp qoq to 4.72% in 1Q24. Thus, we expect NIM to ease 4bp qoq to 2.09% as Hong Kong dollar-denominated loans accounted for 11% of its total loans. We expect net interest income to grow 4.0% yoy in 4Q23 (4Q23: 4.7% yoy).
- Fees increased at double-digit rate of 10% yoy.** We expect contribution from wealth management to increase 10% yoy and 2% qoq to S\$400m in 1Q24 due to the initial euphoria over potential rate cuts earlier during the quarter. Contribution from cards increased 32% yoy to S\$300m 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 12% yoy and cost-to-income ratio to be seasonally lower at 41.5% in 1Q24 (4Q23: 46.7%). This is in line with management's guidance for cost-to-income ratio at low 40% in 2024.
- Asset quality remains benign.** We expect NPL formation to remain benign and NPL ratio to be stable at 1.1%. DBS has accumulated ample management overlay for general provisions of S\$2.2b set aside previously during the COVID-19 pandemic. We expect DBS to set aside total provisions of S\$213m and incur credit cost of 20bp in 1Q24.

Oversea-Chinese Banking Corporation (OCBC SP/BUY/Target: S\$18.15)

- We forecast net profit to rebound 12% qoq but drop 3% yoy to S\$1,824m for 1Q24.
- Moderation in NIM sequentially.** We expect OCBC to report muted loan growth, rising marginally by 1.4% yoy and 0.5% qoq in 1Q24 as some companies deleverage in response to the higher interest rates. 3M HIBOR declined 43bp qoq to 4.72% in 1Q24. Thus, we expect NIM to ease 6bp qoq to 2.23% as Hong Kong dollar-denominated loans accounted for 13% of its total loans. We expect net interest income to grow 4.0% yoy in 1Q24 (4Q23: 3.2% yoy).

PEER COMPARISON

Company	Ticker	Rec	Price @ 15 Apr 24 (S\$)	Target Price (S\$)	Market Cap (US\$m)	FY	PE		P/B		P/POP		Yield		ROE	
							2024F (x)	2025F (x)	2024F (x)	2025F (x)	2024F (x)	2025F (x)	2024F (%)	2025F (%)	2024F (%)	2025F (%)
DBS*	DBS SP	BUY	35.64	43.25	67,760	12/2023	9.3	9.3	1.45	1.38	7.8	7.8	6.9	7.4	15.4	14.7
OCBC	OCBC SP	BUY	13.71	18.15	45,303	12/2023	8.7	8.6	1.10	1.04	7.5	7.5	6.3	6.5	12.8	12.2
UOB#	UOB SP	NR	29.57	n.a.	36,413	12/2023	8.5	8.2	1.05	0.99	6.2	6.1	6.0	6.2	12.7	12.4
Average							8.8	8.7	1.20	1.14	7.2	7.1	6.4	6.7	13.6	13.1

Source: Bloomberg, UOB Kay Hian *Based on theoretical ex-bonus share price of S\$32.40. #Based on consensus estimate

OVERWEIGHT

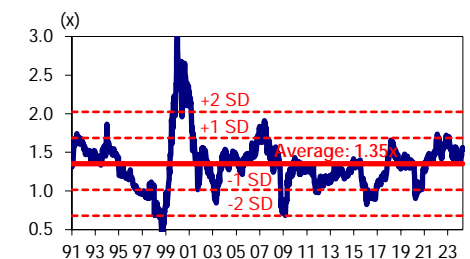
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SECTOR PICKS

Company	Rec	Share Price (S\$)	Target Price (S\$)
DBS	BUY	35.64	43.25
OCBC	BUY	13.71	18.15

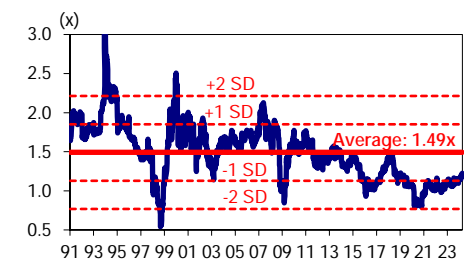
Source: UOB Kay Hian

P/B – DBS



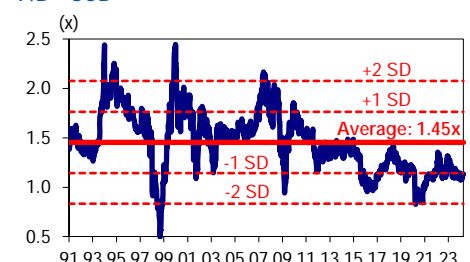
Source: UOB Kay Hian

P/B – OCBC



Source: UOB Kay Hian

P/B – UOB



Source: UOB Kay Hian

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- **Modest recovery from wealth management.** We expect fee income to grow 7% yoy and rebound 6% qoq to S\$487m in 1Q24. Contribution from wealth management maintains gradual recovery of 8% yoy in 1Q24, amidst heightened competition. Loans and trade-related fees are expected to be stable.
- **Stable contributions from insurance without swings from 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 (direct to balance sheet). We expect contribution from the insurance business to be at a normalised level of S\$225m in 1Q24 (-5% yoy).
- **Asset quality remains stable.** We expect NPL ratio to be stable at 1.0%. We have factored in credit costs of 22bp in 1Q24, which is within management's guidance of 20-25bp for 2024.

ACTION

- **Maintain OVERWEIGHT.** Banks provide attractive value with low P/B 1.14x and high dividend yield of 6.7% for 2025. Our top BUY pick is DBS (Target: S\$43.25) 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. We also like OCBC (Target: S\$18.15) for its commitment to maintaining its dividend payout ratio at 50%, focus on trade and investment flows within ASEAN, and defensively low 2025F P/B of 1.04x.
- **Banks as proxy to growth in ASEAN countries.** ASEAN countries have a large combined population of 680m and account for about 8% of global exports. Many multinational companies have adopted the China+1 strategy and plan to set up alternative production facilities within the ASEAN region. Malaysia, Thailand, Indonesia and Vietnam are seeing growth in foreign direct investments. OCBC and UOB benefit from the reorientation of supply chain due to their extensive network within ASEAN countries.

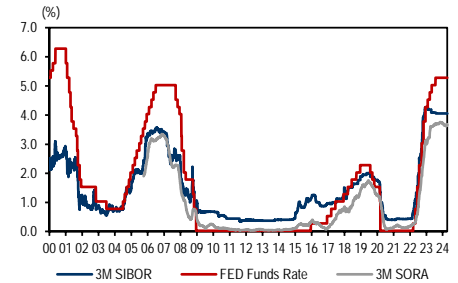
DBS Group Holdings (BUY/Target: S\$43.25 (ex 1-for-10 bonus: S\$39.30)).

- **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 68.8% for 2025 is supported by its high ROE of 15.1%.
- **Maintaining high ROE.** CEO Piyush Gupta has voiced confidence that DBS will be able to achieve ROE of 15-17% over the next 3-5 years assuming Fed Funds rate levels off 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.
- **Our target price for DBS of S\$43.25** is based on 1.68x 2025F P/B, derived from the Gordon Growth Model (ROE: 15.1%, COE: 9.0%, Growth: 0.0%).

Oversea-Chinese Banking Corp (BUY/Target: S\$18.15).

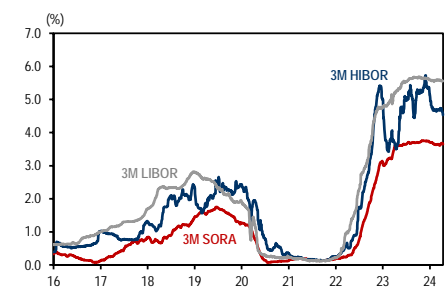
- **Strategic initiatives to deliver incremental S\$3b revenue.** Management aims to deliver incremental revenue of S\$3b cumulatively over 2023-25, driven by four growth pillars: a) Asian wealth, b) trade and investment flows, c) new economy, and d) sustainable financing. Management aims to deliver ROE of 12-13% with additional contribution of 1ppt from the incremental revenue of S\$3b. OCBC has the highest CET-1 CAR of 15.9% and lowest NPL ratio of 1.0% as of Dec 23.
- **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%.

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



Source: Bloomberg

3M LIBOR AND 3M HIBOR



Source: Bloomberg

- 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.
- Our target price for OCBC of S\$18.15** is based on 1.37x 2025F P/B, derived from the Gordon Growth Model (ROE: 12.4%, COE: 9.0%, growth: 0.0%).

PROFIT & LOSS – FORECAST FOR DBS (1Q24)

Profit & Loss (S\$m)	1Q24F	1Q23	yoy % chg	4Q23	qoq % chg
Net Interest Income	3,402	3,271	4.0	3,434	-0.9
Fees & Commissions	936	851	10.0	867	7.9
Other Non-interest Income	745	814	-8.5	706	5.5
Total Income	5,082	4,936	3.0	5,007	1.5
Operating Expenses	(2,111)	(1,882)	12.2	(2,338)	-9.7
PPoP	2,972	3,054	-2.7	2,669	11.3
Provisions	(213)	(161)	32.4	(142)	50.1
Associates	66	63	5.0	47	40.7
PBT	2,825	2,956	-4.4	2,574	9.7
Net Profit	2,486	2,571	-3.3	2,269	9.5
EPS (S cents)	87.8	89.5	-1.8	100.5	-12.6
DPS (S cents)	54.0	42.0	28.6	54.0	0.0
BVPS (S\$)	21.96	21.17	3.7	22.31	-1.6

Source: UOB Kay Hian

PROFIT & LOSS – FORECAST FOR OCBC (1Q24)

Profit & Loss (S\$m)	1Q24F	1Q23	yoy % Chg	4Q23	qoq % Chg
Net Interest Income	2,433	2,338	4.0	2,462	-1.2
Fees & Commissions	487	453	7.5	460	5.8
Insurance	225	238	-5.5	88	155.7
Net Trading Income	200	251	-20.3	222	-9.9
Other Non-Interest Income	75	70	7.1	41	82.9
Total Income	3,419	3,350	2.1	3,273	4.5
Operating Expenses	(1,360)	(1,269)	7.1	(1,336)	1.8
PPOP	2,060	2,081	-1.0	1,937	6.3
Provisions	(164)	(110)	49.1	(187)	-12.3
Associates	273	260	5.0	189	44.4
PBT	2,169	2,231	-2.8	1,939	11.9
Net Profit	1,824	1,879	-3.0	1,622	12.4
EPS (S cents)	40.2	29.0	38.6	39.5	1.8
DPS (S cents)	0.0	0.0	n.m.	42.0	n.m.
BVPS (S\$)	12.17	11.43	6.5	11.28	7.9

Source: UOB Kay Hian

PROJECTED DPS AND DIVIDEND PAYOUT RATIOS

	DBS*			OCBC			UOB#		
Price (S\$)	35.64			13.71			29.57		
Year to 31 Dec	FY23	FY24F	FY25F	FY23	FY24F	FY25F	FY23	FY24F	FY25F
EPS (S c)	399	347	348	155	158	159	334	348	360
DPS (S c)	192	222	240	82	86	89	170	177	183
Payout Ratio (%)	48.1	63.9	69.0	53.0	54.5	56.2	50.9	50.8	50.9
Div Yield (%)	5.9	6.9	7.4	6.0	6.3	6.5	5.7	6.0	6.2

Based on consensus estimate

* Based on theoretical ex-bonus share price of S\$32.40

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	4.5	4.9	4.9
NIM (%)	1.75	2.15	2.07	1.96	1.94
Fees, % Chg	(12.3)	9.5	14.0	7.9	7.7
NPL Ratio (%)	1.13	1.11	1.18	1.21	1.22
Credit Costs (bp)	5.4	13.7	20.1	20.1	20.1
Net Profit (\$m)	8,196	10,062	9,822	9,843	10,192
% Chg	20.5	22.8	(2.4)	0.2	3.5

Source: UOB Kay Hian

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	2.23	2.14	2.12
Fees, % Chg	(17.6)	(2.5)	9.8	7.4	7.4
NPL Ratio (%)	1.15	0.95	0.99	1.01	1.02
Credit Costs (bp)	20.0	24.8	22.0	22.1	22.1
Net Profit (\$m)	5,748	7,021	7,164	7,193	7,473
% Chg	18.3	22.2	2.0	0.4	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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