

Singapore Banks

POSITIVE

[Unchanged]

Of NIMs & other things

Despite higher costs, 2019E NIMs will be wider

SIBOR has increased 6bps YTD, following a 63bps rise in 2018. We believe SIBOR will continue this trajectory in 2019E as: (a) some bank deposit liquidity gets diverted to Singapore Savings Bonds (SSB) and (b) MAS maintains its current SGD appreciation policy in April. Last year, funding costs for the sector rose 35bps YoY. We estimate this will more than double in 2019. Banks with high loan to deposits (LD) and smaller low cost deposits mix should see downside NIM pressure. This will affect mostly the foreign banks, in our view. Domestic banks, with lower LD ratios and higher mix of low cost deposits, should see NIMs rise further. DBS - with its strong low cost deposit franchise - is our top pick.

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Higher SIBOR...

Our channel check indicates 1.88-2.05% on offer for promotional fixed deposits by Singapore banks. On the other hand, sovereign guaranteed SSB Retail bonds offer yields of 2-3%. Introduced in 2015, issuances accounted for 7% of system deposits. In 2018, this was 12%. Customers diverting deposits to SSBs heightens funding competition which will drive up costs. With the individual SSB investment limit doubled to SGD200k from February 2019, the pace of diversion may accelerate. Separately, MAS' current SGD appreciation policy - which has also contributed to driving up SIBOR - is unlikely to change in their April policy meeting, according to MKE's economics team. While system LD ratio has fallen to 105% in January 2019 from a recent peak of 110% in June 2018, as a result of slower loan growth, this alone is unlikely to mitigate overall system funding pressure.

...but different sensitivities

Our forecasts bake-in a 76bps increase in funding costs for the sector in 2019E - more than double 2018 levels. Of course, asset yields should also go up - with a lag - as banks re-price their loan books to reflect higher interest rates. A simulation of a further 10bps increase in SIBOR from our base case shows that net interest income will rise 0.5% for DBS, followed by 0.2% for OCBC and 0.1% for UOB. This is possible because of their low cost funding base (48% of deposits are CASA) and a low LD ratio (89% for domestic Singapore banks).

DBS top pick

We believe DBS (DBS SP, SGD25.43, BUY, TP: SGD29.56) is best positioned to surprise on the upside from rising SIBOR. Together with strong execution and a potential dividend yield of 5.4% (amongst the highest real dividend yields in the region), it remains our top pick. While OCBC (OCBC SP, SGD11.20, HOLD, TP: SGD10.73) may also benefit from the rising rate, 40% of its earnings are tied to non-interest income - largely from volatile insurance earnings. Until execution risks become clearer, Hold.

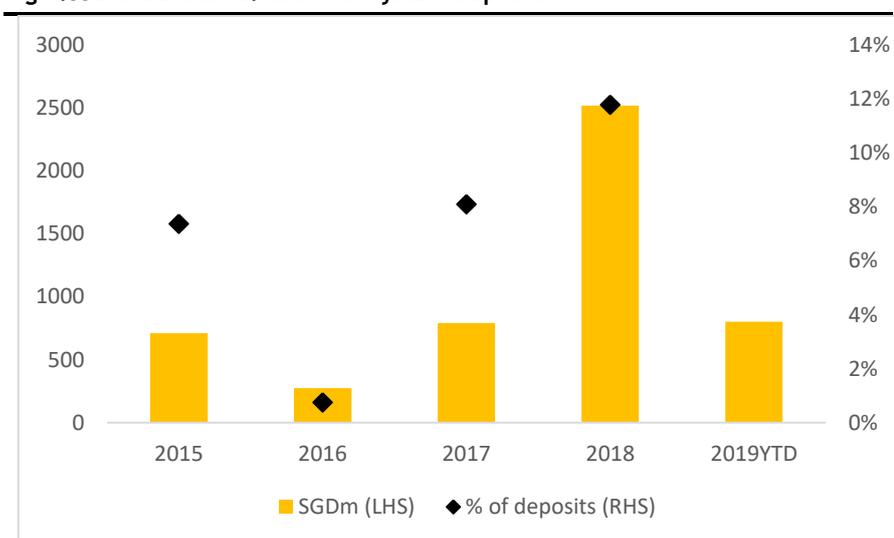
Stock	Bloomberg code	Mkt cap (USD'm)	Rating	Price (LC)	TP (LC)	Upside (%)	P/E (x)		P/B (x)		Div yld (%)	
							19E	20E	19E	20E	19E	20E
DBS Group	DBS SP	48,062	Buy	25.43	29.56	16	10.1	9.4	1.3	1.2	5.4	5.8
OCBC	OCBC SP	35,144	Hold	11.20	10.73	(4)	10.4	9.7	1.1	1.0	3.9	4.1
UOB	UOB SP	31,156	Buy	25.15	29.71	18	10.0	9.5	1.1	1.0	5.0	5.3

Singapore Savings Bonds (SSB-Retail) add to deposit competition

Introduced in 2015, Singapore Savings Bonds are aimed at retail investors. Offering step up interest rates with yield-to-maturity ranging from 2-3%, these bonds are highly liquid - allowing redemption anytime - and backed by an AAA-rated Singapore government guarantee. Minimum investment required is SGD500 with an investment ceiling of SGD200k (double from SGD100k since 1 February 2019).

When introduced in 2015, SSB issuance was just 7% of banking system deposit formation. In 2018, this was 12%. With the investment ceiling doubling from February 2019, we expect more deposit diversions to SSB to result in pressure on deposit costs.

Fig 1: SSB issuances vs. as a % of system deposits



Source: MAS, Maybank Kim Eng

Deposit rates are rising

Our channel checks indicate rising promotional fixed deposit rates. However, these are still below SSB Retail yields.

Fig 2: Promotional FD rates as of 05 March 2019

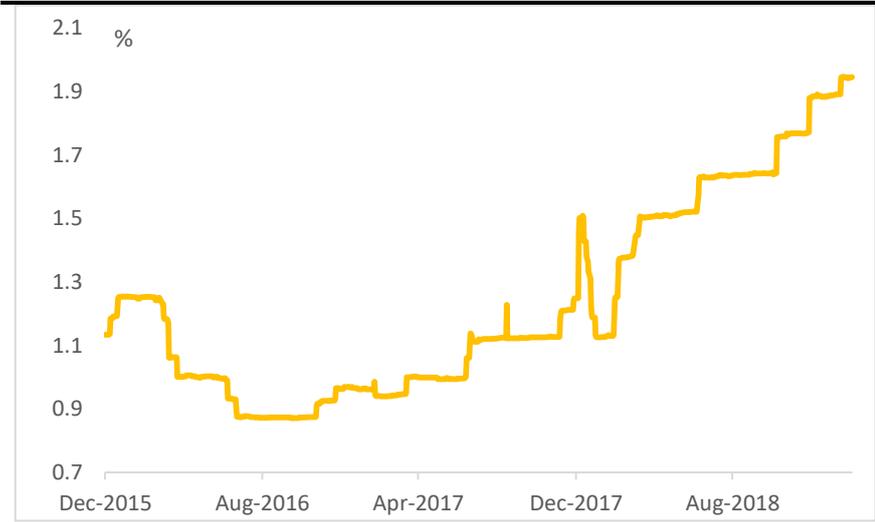
Bank	Min. Deposit (SGD)	Tenure (months)	Interest Rate
Maybank	20,000	12	2.05%
State Bank of India	50,000	12	2.00%
ICBC	20,000	12	1.98%
CIMB	10,000	12	1.90%
ICBC	20,000	9	1.88%
Hong Leong Finance	50,000	13	1.80%
UOB	20,000	10	1.80%
Citibank	50,000	6	1.78%
Standard Chartered	25,000	12	1.78%
OCBC	20,000	12	1.75%
DBS	<1,000,000	12	1.40%

Source: Money Smart, Relevant bank websites, Maybank Kim Eng

MAS policy stance should pressure SIBOR higher

MAS' current SGD appreciation policy - which has also contributed to driving up SIBOR - is unlikely to change in their April policy meeting, according to MKE's economics team.

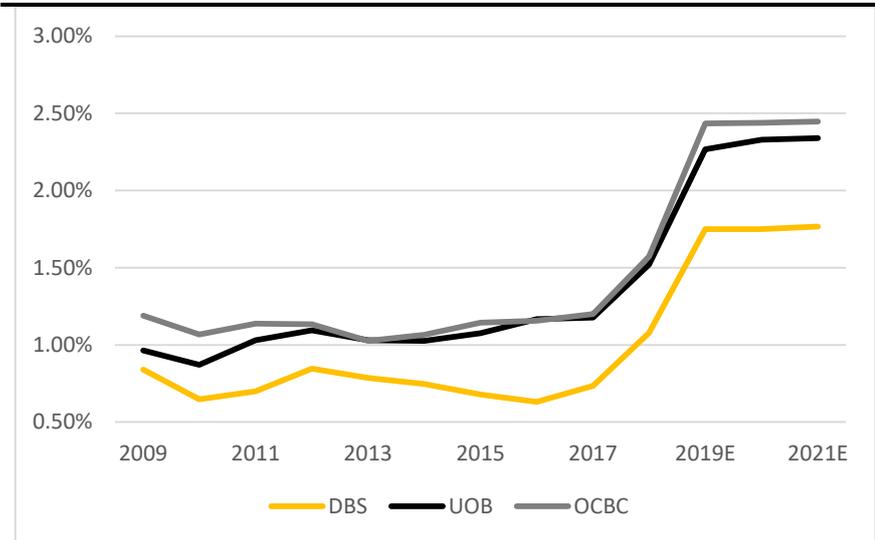
Fig 3: 3-month SIBOR (%)



Source: Factset

We assume fairly aggressive funding cost increases in 2019E

Fig 4: Average funding costs (%)

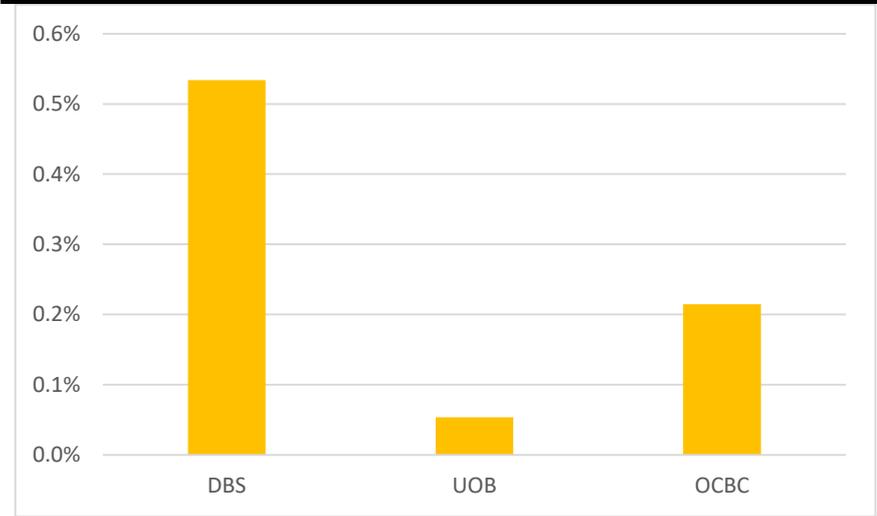


Source: Company data, Maybank Kim Eng

Net interest income sensitivity

Our simulation of NII sensitivity to a further 10bps increase in SIBOR in 2019E shows that DBS has the highest potential to surprise on the upside.

Fig 5: NII sensitivity to a 10bps increase in SIBOR

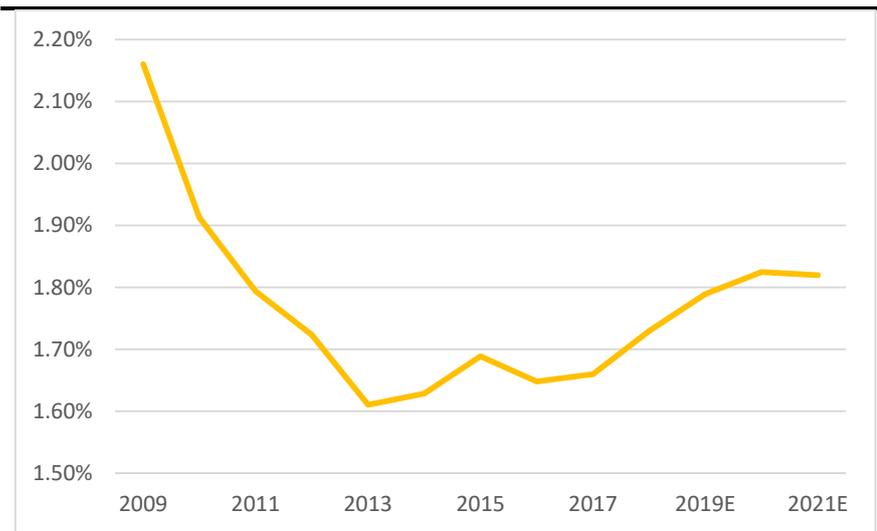


Source: Company data, Maybank Kim Eng

NIMs should see upside as SIBOR rises

For the local banks, despite rising funding costs, NIMs should see upside as they re-price their loan books - with a lag. This is particularly true for mortgages, where a significant proportion is tied to Board rates which are re-priced periodically. Nearly one-third of loan books for the domestic banks are mortgages.

Fig 6: Singapore banks Net interest margins - base case (%)



Source: Company data, Maybank Kim Eng

Sector valuation summary

Fig 7: Singapore banks valuation summary

	DBS	UOB	OCBC
Ticker	DBS SP	UOB SP	OCBC SP
Market Cap (SGDm)	65,201	42,266	47,676
3-month ADV (SGDm)	89.6	54.9	51.2
Share Price (SGD)	25.43	25.15	11.2
Target Price (SGD)	29.56	29.71	10.73
Upside/Downside (%)	16%	18%	-4%
Recommendation	BUY	BUY	HOLD
PE (x)			
2016	15.3	13.3	13.5
2017	16.0	12.3	11.6
2018	11.6	10.5	10.6
2019E	10.1	10.0	10.4
2020E	9.4	9.5	9.7
2021E	8.4	8.8	8.9
PB (x)			
2016	1.45	1.25	1.29
2017	1.37	1.13	1.22
2018	1.33	1.11	1.13
2019E	1.26	1.05	1.06
2020E	1.20	1.00	1.00
2021E	1.13	0.95	0.94
Return on total shareholders Funds (%)			
2016	10.0%	9.7%	9.8%
2017	8.8%	9.7%	10.8%
2018	11.7%	10.8%	11.1%
2019E	12.9%	10.8%	10.6%
2020E	13.1%	10.8%	10.6%
2021E	13.8%	11.0%	10.9%
ROA (%)			
2016	0.90%	0.94%	0.87%
2017	0.81%	0.97%	0.94%
2018	1.05%	1.07%	0.97%
2019E	1.14%	1.04%	0.96%
2020E	1.14%	1.04%	0.99%
2021E	1.19%	1.04%	1.04%
Dividend yield (%)			
2016	2.4%	2.8%	3.2%
2017	5.6%	4.0%	3.3%
2018	4.7%	4.8%	3.8%
2019E	5.4%	5.0%	3.9%
2020E	5.8%	5.3%	4.1%
2021E	6.5%	5.6%	4.5%

Source: Company data, Factset, Maybank Kim Eng

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