

Singapore Banks

POSITIVE

[Unchanged]

Scope For Liability Management

Rising FD rates; but remain POSITIVE

As the 3M SIBOR, based on its 90-day moving average, has risen 30bps YTD, SGD customer cost of funds is likely to rise. More than a third of Singapore banks' customer deposits in 1Q18 was in SGD: DBS 43%, OCBC 35% and UOB 44%. That said, as NIM should also expand with higher lending yields, this can help offset higher cost of funds. Remain POSITIVE on the sector, with catalysts still anticipated from NIM expansion, higher loan growth and fee income. Our top pick is UOB.

Analyst

Ng Li Hiang
(65) 6231 5840
nglihiang@maybank-ke.com.sg

Higher cost of funds...

SGD fixed-deposit (FD) rates have risen 10-25bps since April for major local and foreign banks (Fig 1). OCBC and UOB raised their promotional rates while DBS raised its 9-12-month rates by 25-35bps. Meanwhile, they continue to prefer CASA deposits as these are typically sticky. CASA mix has improved by 9-13ppts since 2008: DBS from 54% to 63%, OCBC from 34% to 47% and UOB from 36% to 46%. Local banks continue to pay for current deposits as they bundle or cross-sell them with other products such as credit cards (see UOB One, OCBC 360, DBS Multiplier). SGD loan-deposit ratio is the highest for UOB, at 95% vs peers' 86-88% and the system's 86%, based on our estimation. With higher loan demand, banks are likely to price more aggressively to compete for deposits.

...but scope to improve liability management

That said, we think banks have scope to improve their liability management. Despite higher rates, the banks' customer cost of funds has not climbed as much. Between 1Q15 and 1Q18, the banks' customer cost of funds rose by 5-16bps, in contrast to the increase in SIBOR/LIBOR by 63/166bps. For OCBC and UOB, the spread between SIBOR and customer cost of funds turned positive to 2-6bps in 1Q18.

Prefer UOB

We continue to prefer UOB given that it has pricing discipline and dividend upside potential. Risks to our view are: 1) lower income; 2) higher-than-expected costs; and 3) higher-than-expected provisions.

Stock	Rec	Mkt Cap (USD b)	Price* (SGD)	TP (SGD)	Upside (%)	P/E (x)			P/BV (x)			ROAE (%)^			Div. yield (%)		
						FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E
DBS	HOLD	55.4	29.00	30.80	6	11.7	9.6	8.6	1.5	1.4	1.3	13.4	15.1	15.5	4.1	4.1	4.1
OCBC	BUY	40.6	13.01	14.60	12	10.8	9.3	8.2	1.3	1.2	1.1	13.1	13.8	14.3	3.0	3.2	3.3
UOB	BUY	36.8	29.57	32.88	11	11.2	9.6	8.4	1.4	1.3	1.2	12.5	13.7	14.4	4.4	4.7	5.1
Sector average						11.2	9.5	8.4	1.4	1.3	1.2	13.0	14.2	14.7	3.8	4.0	4.2

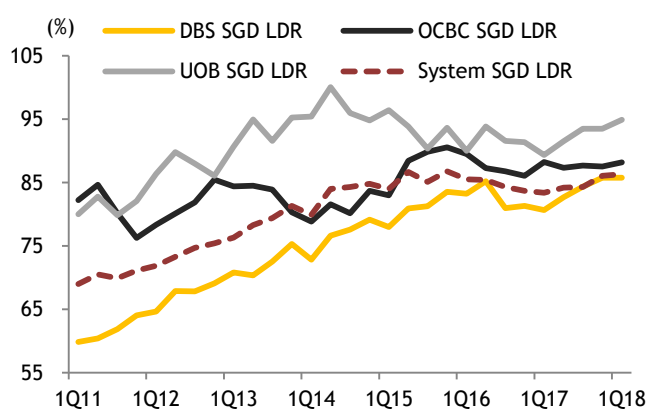
* Share prices as of 18 May 2018. ^Excludes one offs and goodwill.
Source: Factset, Maybank Kim Eng

Fig 1: SGD FD rates for deposits of SGD100,000 (2 Apr vs 16 May 2018)

As at	Interest rate (% p.a.)					FD Promotions		
	3M	6M	12M	24M	36M	% p.a.	Months	Min amt (SGD)
As at 2 April 2018								
Local banks								
DBS	0.150	0.200	0.350	1.000	1.100			
OCBC	0.100	0.150	0.250	0.550	0.650	1.20	12	20,000
UOB	0.100	0.150	0.250	0.700	1.000	1.25	10	20,000
Foreign banks								
HSBC	0.100	0.150	0.250	0.650	N.A.	1.30 (for Premier customers) 1.25 (for Advance customers)	12	30,000
StanChart	0.100	0.200	0.350	0.550	0.720	1.45 (Priority Banking) 1.40 (Promotional rate)	12	25,000
Citibank	0.080	0.100	0.100	0.100	0.100			
Maybank	0.350	0.450	0.700	1.000	1.400	1.65	12	50,000
CIMB	0.350	0.500	0.750	1.100	N.A.	1.25	12	20,000
Bank of East Asia	0.375	0.500	0.750	0.875	N.A.			
Bank of China	0.350	0.450	0.600	0.725	0.725			
ICBC	0.450	0.500	0.600	0.700	N.A.			
As at 16 May 2018								
Local banks								
DBS	0.150	0.200	0.600	1.000	1.100			
OCBC	0.100	0.150	0.250	0.550	0.650	1.30	12	20,000
UOB	0.100	0.150	0.250	0.700	1.000	1.35	10	20,000
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StanChart	0.100	0.200	0.350	0.550	0.720	1.35 (Priority Banking) 1.25 (Promotional rate)	12	25,000
Citibank	0.080	0.100	0.100	0.100	0.100	1.6-2.5%(bundle promotions)	3	50,000
Maybank	0.350	0.450	0.700	1.000	1.400	1.65	12	50,000
CIMB	0.350	0.500	0.750	1.100	N.A.	1.40	12	20,000
Bank of East Asia	0.375	0.500	0.750	0.875	N.A.			
Bank of China	0.350	0.450	0.600	0.725	0.725			
ICBC	0.450	0.500	0.600	0.700	N.A.			

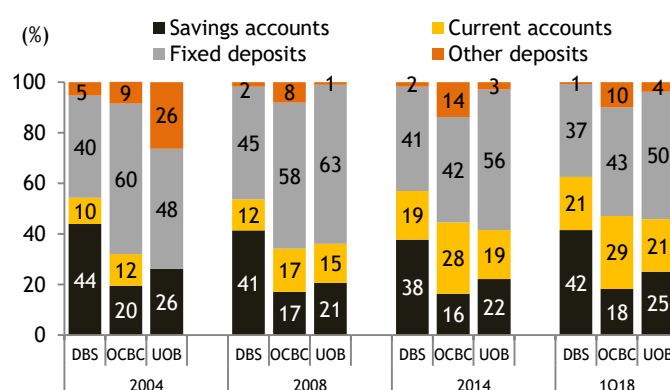
Source: Companies, Maybank Kim Eng. Higher rates shaded in blue.

Fig 2: SGD loan-deposit ratios^



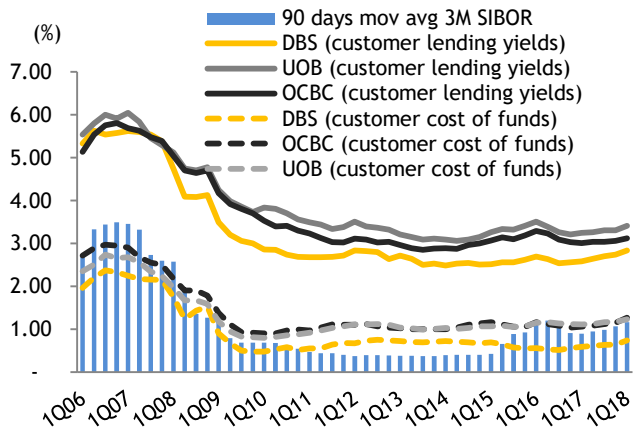
Source: Companies, MAS, Maybank Kim Eng. ^Local banks' LDR based on gross loans by currency. System SGD LDRs from 4Q17 onwards are estimations.

Fig 3: Group customer deposit mix



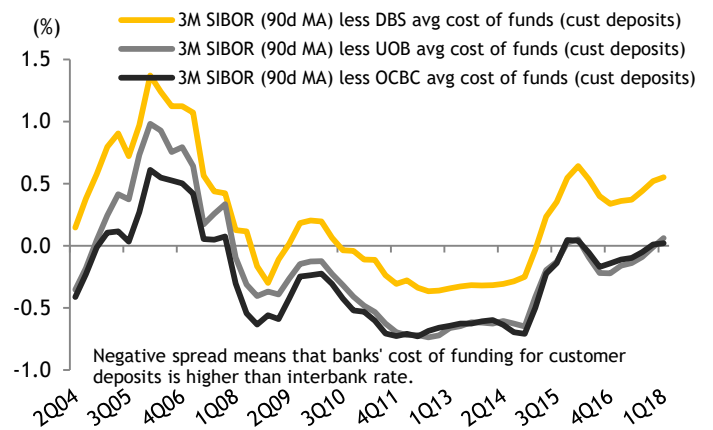
Source: Companies, Maybank Kim Eng. Group customer deposits shown are region-wide in assorted currencies. UOB's current accounts were subsumed under savings and other accounts in 2004. OCBC's other deposits include structured deposits and certificates of deposits.

Fig 4: Customer yields vs customer cost of funds



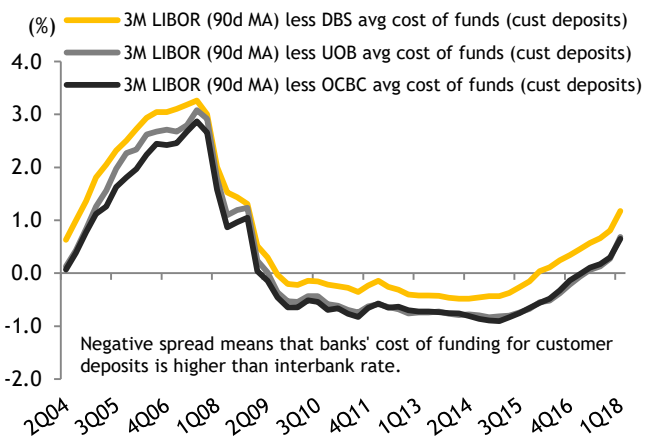
Source: Bloomberg, Companies, Maybank Kim Eng

Fig 5: Spread between SIBOR and cost of funds



Source: Bloomberg, Companies, Maybank Kim Eng. Shortcoming of this comparison is that the cost of customer deposits includes liabilities from Singapore as well as offshore operations where rates are higher.

Fig 6: Spread between LIBOR and cost of funds



Source: Bloomberg, Companies, Maybank Kim Eng. Shortcoming of this comparison is that the cost of customer deposits includes liabilities from Singapore as well as offshore operations where rates are higher.

Research Offices

REGIONAL

Sadiq CURRIMBHOY
Regional Head, Research & Economics
(65) 6231 5836
sadiq@maybank-ke.com.sg

WONG Chew Hann, CA
Regional Head of Institutional Research
(603) 2297 8686
wchewh@maybank-ib.com

ONG Seng Yeow
Regional Head of Retail Research
(65) 6231 5839
ongsengyeow@maybank-ke.com.sg

TAN Sin Mui
Director of Research
(65) 6231 5849
sinmui@kimeng.com.hk

ECONOMICS

Suhaimi ILIAS
Chief Economist
Malaysia | Philippines | China
(603) 2297 8682
suhaimi_ilias@maybank-ib.com

CHUA Hak Bin
Regional Thematic Macroeconomist
(65) 6231 5830
chuahb@maybank-ke.com.sg

LEE Ju Ye
Singapore
(65) 6231 5844
leejuye@maybank-ke.com.sg

Dr Zamros DZULKAFLI
(603) 2297 8618
zamros.d@maybank-ib.com

Ramesh LANKANATHAN
(603) 2297 8685
ramesh.l@maybank-ib.com

FX

Saktiandi SUPAAT
Head, FX Research
(65) 6320 1379
saktiandi@maybank.com.sg

Christopher WONG
(65) 6320 1347
wongkl@maybank.com.sg

Leslie TANG
(65) 6320 1378
leslietang@maybank.com.sg

Fiona LIM
(65) 6320 1374
fionalim@maybank.com.sg

STRATEGY

Sadiq CURRIMBHOY
Global Strategist
(65) 6231 5836
sadiq@maybank-ke.com.sg

Willie CHAN
Hong Kong / Regional
(852) 2268 0631
williechan@kimeng.com.hk

FIXED INCOME

Winson Phoon, ACA
(65) 6231 5831
winsonphoon@maybank-ke.com.sg

Se Tho Mun Yi
(603) 2074 7606
munyi.st@maybank-ib.com

MALAYSIA

WONG Chew Hann, CA *Head of Research*
(603) 2297 8686 wchewh@maybank-ib.com
• Strategy

Desmond CH'NG, ACA
(603) 2297 8680
desmond.chng@maybank-ib.com
• Banking & Finance

LIAW Thong Jung
(603) 2297 8688 tjliaw@maybank-ib.com
• Oil & Gas Services - Regional

ONG Chee Ting, CA
(603) 2297 8678 ct.ong@maybank-ib.com
• Plantations - Regional

Mohshin AZIZ
(603) 2297 8692 mohshin.aziz@maybank-ib.com
• Aviation - Regional • Petrochem

YIN Shao Yang, CPA
(603) 2297 8916 samuel.y@maybank-ib.com
• Gaming - Regional • Media

TAN Chi Wei, CFA
(603) 2297 8690 chiwei.t@maybank-ib.com
• Power • Telcos

WONG Wei Sum, CFA
(603) 2297 8679 weisum@maybank-ib.com
• Property

LEE Yen Ling
(603) 2297 8691 lee.yl@maybank-ib.com
• Building Materials • Glove • Ports • Shipping

Ivan YAP
(603) 2297 8612 ivan.yap@maybank-ib.com
• Automotive • Semiconductor • Technology

Kevin WONG
(603) 2082 6824 kevin.wong@maybank-ib.com
• REITs • Consumer Discretionary

LIOW Wei Han
(603) 2297 8676 weihan.l@maybank-ib.com
• Consumer Staples

Adrian WONG
(603) 2297 8675 adrian.wkj@maybank-ib.com
• Constructions • Healthcare

Jade TAM
(603) 2297 8687 jade.tam@maybank-ib.com
• Media • Building Materials

Mohd Hafiz Hassan
(603) 2082 6819 mohdhafiz.ha@maybank-ib.com
• Small & Mid Caps

TEE Sze Chiah *Head of Retail Research*
(603) 2082 6858 szechiah.t@maybank-ib.com

Nik Ihsan Raja Abdullah, MSTA, Cfte
(603) 2297 8694
nikmohdihsan.ra@maybank-ib.com

SINGAPORE

Neel SINHA *Head of Research*
(65) 6231 5838 neelsinha@maybank-ke.com.sg
• Strategy
• SMID Caps - Regional

CHUA Su Tye
(65) 6231 5842 chuasutye@maybank-ke.com.sg
• REITs

Derrick HENG, CFA
(65) 6231 5843 derrickheng@maybank-ke.com.sg
• Property • REITs (Office)

Luis HILADO
(65) 6231 5848 luishilado@maybank-ke.com.sg
• Telcos

John CHEONG, CFA
(65) 6231 5845 johncheong@maybank-ke.com.sg
• Small & Mid Caps • Healthcare • Transport

NG Li Hiang
(65) 6231 5840 nglhiang@maybank-ke.com.sg
• Banks

LAI Gene Lih
(65) 6231 5832 laigenetih@maybank-ke.com.sg
• Technology

HONG KONG / CHINA

Mitchell KIM *Head of Research*
(852) 2268 0634 mitchellkim@kimeng.com.hk
• Internet & Telcos

Christopher WONG
(852) 2268 0652
christopherwong@kimeng.com.hk
• HK & China Properties

Jacqueline KO, CFA
(852) 2268 0633 jacquelineko@kimeng.com.hk
• Consumer Staples & Durables

Ricky NG, CFA
(852) 2268 0689 rickyng@kimeng.com.hk
• Regional Renewables
• HK & China Properties

Sonija LI, CFA, FRM
(852) 2268 0641 sonijali@kimeng.com.hk
• Gaming

Stefan CHANG, CFA
(852) 2268 0675 stefanchang@kimeng.com.hk
• Technology - Regional

Tony REN, CFA
(852) 2268 0640 tonyren@kimeng.com.hk
• Healthcare & Pharmaceutical

INDIA

Jigar SHAH *Head of Research*
(91) 22 6623 2632 jigar@maybank-ke.co.in
• Strategy • Oil & Gas • Automobile • Cement

Vishal MODI
(91) 22 6623 2607 vishal@maybank-ke.co.in
• Banking & Financials

Neerav DALAL
(91) 22 6623 2606 neerav@maybank-ke.co.in
• Software Technology • Telcos

Vishal PERIWAL
(91) 22 6623 2605 vishalperiwa@maybank-ke.co.in
• Infrastructure

INDONESIA

Isnaputra ISKANDAR *Head of Research*
(62) 21 8066 8680
isnaputra.iskandar@maybank-ke.co.id
• Strategy • Metals & Mining • Cement

Rahmi MARINA
(62) 21 8066 8689
rahmi.marina@maybank-ke.co.id
• Banking & Finance

Aurellia SETIABUDI
(62) 21 8066 8691
aurellia.setiabudi@maybank-ke.co.id
• Property

Janni ASMAN
(62) 21 8066 8687
janni.asman@maybank-ke.co.id
• Cigarette • Healthcare • Retail

PHILIPPINES

Minda OLONAN *Head of Research*
(63) 2 849 8840
minda_olonan@maybank-atrke.com
• Strategy

Katherine TAN
(63) 2 849 8843
kat_tan@maybank-atrke.com
• Banks • Construction

Luis HILADO
(65) 6231 5848 luishilado@maybank-ke.com.sg
• Telcos

Romel LIBO-ON
(63) 2 849 8844
romel_libo-on@maybank-atrke.com
• Property

THAILAND

Maria LAPIZ *Head of Institutional Research*
Dir (66) 2257 0250 | (66) 2658 6300 ext 1399
Maria.L@maybank-ke.co.th
• Strategy • Consumer • Materials •
Property/Ind. Estates • Oil & Gas • Telcos

Tanawat RUENBANTERNG
(66) 2658 6300 ext 1394
Tanawat.R@maybank-ke.co.th
• Banks & Diversified Financials

Ornmongkol TANTITANATORN
(66) 2658 6300 ext 1395
ormmongkol.t@maybank-ke.co.th
• Oil & Gas

Sukit UDOMSIRIKUL *Head of Retail Research*
(66) 2658 5000 ext 5090
Sukit.u@maybank-ke.co.th

Ekachai TARAPORN TIP *Deputy Head*
(66) 2658 5000 ext 1530
Ekachai.t@maybank-ke.co.th

Surachai PRAMUALCHAROENKIT
(66) 2658 5000 ext 1470
Surachai.p@maybank-ke.co.th
• Auto • Conmat • Contractor • Steel

Suttatip PEERASUB
(66) 2658 5000 ext 1430
suttatip.p@maybank-ke.co.th
• Media • Commerce

Sutthichai KUMWORACHAI
(66) 2658 5000 ext 1400
sutthichai.k@maybank-ke.co.th
• Energy • Petrochem

Termporn TANTIVIVAT
(66) 2658 5000 ext 1520
termporn.t@maybank-ke.co.th
• Property

Jaroontan WATTANAWONG
(66) 2658 5000 ext 1404
jaroontan.w@maybank-ke.co.th
• Transportation • Small cap

Sorrahbol VIRAMETEEKUL
Head of Digital Research
(66) 2658 5000 ext 1550
sorrahbol.v@maybank-ke.co.th
• Food, Transportation
Wijit ARAYAPISIT
(66) 2658 5000 ext 1450
wijit.a@maybank-ke.co.th
• Strategist

VIETNAM

LE Hong Lien, ACCA
Head of Institutional Research
(84 28) 44 555 888 x 8181
lien.le@maybank-kimeng.com.vn
• Strategy • Consumer • Diversified

THAI Quang Trung, CFA,
Deputy Head, Institutional Research
(84 28) 44 555 888 x 8180
trung.thai@maybank-kimeng.com.vn
• Real Estate • Construction • Materials

LE Nguyen Nhat Chuyen
(84 28) 44 555 888 x 8082
chuyen.le@maybank-kimeng.com.vn
• Oil & Gas

NGUYEN Thi Ngan Tuyen,
Head of Retail Research
(84 28) 44 555 888 x 8081
tuyen.nguyen@maybank-kimeng.com.vn
• Food & Beverage • Oil & Gas • Banking

TRUONG Quang Binh,
Deputy Head, Retail Research
(84 28) 44 555 888 x 8087
binh.truong@maybank-kimeng.com.vn
• Rubber Plantation • Tyres & Tubes • Oil & Gas

TRINH Thi Ngoc Diep
(84 28) 44 555 888 x 8208
diep.trinh@maybank-kimeng.com.vn
• Technology • Utilities • Construction

NGUYEN Thi Sony Tra Mi
(84 28) 44 555 888 x 8084
mi.nguyen@maybank-kimeng.com.vn
• Port Operation • Pharmaceutical
• Food & Beverage

NGUYEN Thanh Lam
(84 28) 44 555 888 x 8086
thanhlam.nguyen@maybank-kimeng.com.vn
• Technical Analysis

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Malaysia

Maybank Investment Bank Berhad
(A Participating Organisation of
Bursa Malaysia Securities Berhad)
33rd Floor, Menara Maybank,
100 Jalan Tun Perak,
50050 Kuala Lumpur
Tel: (603) 2059 1888;
Fax: (603) 2078 4194

Stockbroking Business:
Level 8, Tower C, Dataran Maybank,
No.1, Jalan Maarof
59000 Kuala Lumpur
Tel: (603) 2297 8888
Fax: (603) 2282 5136


Philippines

Maybank ATR Kim Eng Securities Inc.
17/F, Tower One & Exchange Plaza
Ayala Triangle, Ayala Avenue
Makati City, Philippines 1200

Tel: (63) 2 849 8888
Fax: (63) 2 848 5738


South Asia Sales Trading

Kevin Foy
Regional Head Sales Trading
kevinfoy@maybank-ke.com.sg
Tel: (65) 6636-3620
US Toll Free: 1-866-406-7447

Malaysia

Joann Lim
joann.lim@maybank-ib.com
Tel: (603) 2717 5166

Indonesia

Hariato Liong
hariato.liong@maybank-ke.co.id
Tel: (62) 21 2557 1177

New York

James Lynch
jlynch@maybank-keusa.com
Tel: (212) 688 8886

Vietnam

Patrick Mitchell
patrick.mitchell@maybank-kimeng.com.vn
Tel: (84)-8-44-555-888 x8080


Singapore

Maybank Kim Eng Securities Pte Ltd
Maybank Kim Eng Research Pte Ltd
50 North Canal Road
Singapore 059304

Tel: (65) 6336 9090


Hong Kong

Kim Eng Securities (HK) Ltd
28/F, Lee Garden Three,
1 Sunning Road, Causeway Bay,
Hong Kong

Tel: (852) 2268 0800
Fax: (852) 2877 0104


Thailand

Maybank Kim Eng Securities
(Thailand) Public Company Limited
999/9 The Offices at Central World,
20th - 21st Floor,
Rama 1 Road Pathumwan,
Bangkok 10330, Thailand

Tel: (66) 2 658 6817 (sales)
Tel: (66) 2 658 6801 (research)


North Asia Sales Trading

Andrew Lee
andrewlee@kimeng.com.hk
Tel: (852) 2268 0283
US Toll Free: 1 877 837 7635

Thailand

Tanasak Krishnasreni
Tanasak.K@maybank-ke.co.th
Tel: (66)2 658 6820

London

Mark Howe
mhowe@maybank-ke.co.uk
Tel: (44) 207-332-0221

India

Sanjay Makhija
sanjaymakhija@maybank-ke.co.in
Tel: (91)-22-6623-2629

Philippines

Keith Roy
keith_roy@maybank-atrke.com
Tel: (63) 2 848-5288


London

Maybank Kim Eng Securities
(London) Ltd
PNB House
77 Queen Victoria Street
London EC4V 4AY, UK

Tel: (44) 20 7332 0221
Fax: (44) 20 7332 0302


Indonesia

PT Maybank Kim Eng Securities
Sentral Senayan III, 22nd Floor
Jl. Asia Afrika No. 8
Gelora Bung Karno, Senayan
Jakarta 10270, Indonesia

Tel: (62) 21 2557 1188
Fax: (62) 21 2557 1189


Vietnam

Maybank Kim Eng Securities Limited
4A-15+16 Floor Vincom Center Dong
Khoi, 72 Le Thanh Ton St. District 1
Ho Chi Minh City, Vietnam

Tel : (84) 844 555 888
Fax : (84) 8 38 271 030


New York

Maybank Kim Eng Securities USA
Inc
400 Park Avenue, 11th Floor
New York, New York 10022,
U.S.A.

Tel: (212) 688 8886
Fax: (212) 688 3500


India

Kim Eng Securities India Pvt Ltd
2nd Floor, The International,
16, Maharishi Karve Road,
Churchgate Station,
Mumbai City - 400 020, India

Tel: (91) 22 6623 2600
Fax: (91) 22 6623 2604


Saudi Arabia

In association with
Anfaal Capital
Villa 47, Tujjar Jeddah
Prince Mohammed bin Abdulaziz
Street P.O. Box 126575
Jeddah 21352

Tel: (966) 2 6068686
Fax: (966) 26068787