

Singapore Banks Balance sheet balancing

POSITIVE (Uncha

Deploying liquidity could be a strategic advantage

Singapore banks are sitting on massive liquidity. How they deploy could determine profitability on the other side of COVID. DBS has been mostly parking excess at central banks, while UOB has increased its securities holdings. For the latter, this may provide a near-term margin boost. Ultimately, higher lending is the most desired option, but varying speeds of re-opening cloud near-term visibility. Yet, we expect ASEAN-5 growth to surge (+5.6% GDP) in 2022E, which should give the sector significant opportunities to participate - particularly with SMEs. UOB with stronger ASEAN integration and SME franchise could benefit the most, in our view.

Liquidity wonderland

The banks are sitting on deposits piled up due to government stimulus and QE during the pandemic. While we think deposit growth has peaked, the sector would need to deal with excess liquidity for a while. On a 1H21 YoY basis, all have stayed away from government debt - likely taking in to account tapering expectations early. Placing with MAS and central banks have been the most popular strategy with DBS deposits increasing 56% YoY and OCBC 20%. While risk-free, yields are low and NIMs could be impacted. We see US banks such as BofA (BAC US, USD46.28, NR) delivering 10% YoY higher 3Q21 NII, despite weaker loans from larger deployments towards corporate debt. Singapore banks have also been increasing allocations of investment securities with UOB's rising 36% YoY. This may result in positive read-throughs to 3Q21 NII, in our view.

More loans, especially to SMEs

Loan growth could ultimately ease excess liquidity pressures. Currently, our checks suggest credit supply is crowded around large, investment grade customers. This is affecting pricing power. As vaccinations progress, and regional economies growing between 4-7% in 2022E, we expect credit demand to become broader - especially from SMEs and COVID frontline sectors. Post-*GFC* (2010-2012), SME loan growth outpaced system loans by 17ppts. We currently forecast Singapore banks loans to rise 7% in 2022E, but the risks are on the upside. We also expect Singapore base rates to be 21bps higher than 2020 from Fed tapering. We estimate every 10bps increase in the base rate could add 0.5-1.5% NPAT to the sector.

Liquidity, integration are regional advantages

We believe the sector's excess liquidity is a strategic advantage as the region emerges from COVID. Importantly, 31% of deposits are in USD essential for inter-ASEAN trade and North-South supply chain relocations. We believe UOB's regional integration (one-third of wholesale banking income is already from cross-border) and strong SME franchise would be a clear beneficiary going forward. DBS and OCBC with their North-South franchise would also benefit.

Stock	Bloomberg	Mkt cap	Rating	Price	TP	Upside	P/E	(x)	P/B	(x)	Div y	ld (%)
	code	(USD'm)		(LC)	(LC)	(%)	21E	22E	21E	22E	21E	22E
DBS Group	DBS SP	57,909	Buy	30.48	35.11	15	11.1	10.5	1.3	1.2	3.8	4.6
OCBC	OCBC SP	37,568	Buy	11.91	14.30	20	10.4	9.5	1.0	1.0	4.6	5.2
UOB	UOB SP	33,192	Buy	26.60	29.34	10	11.0	9.7	1.0	1.0	4.5	5.1

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Liquidity wonderland

The banks are sitting on deposits piled up due to government stimulus and QE during the pandemic. While we think deposit growth has peaked (Fig 2), the sector would need to deal with excess liquidity in the medium term.

Fig 1: Loan-to-deposit ratio (%)

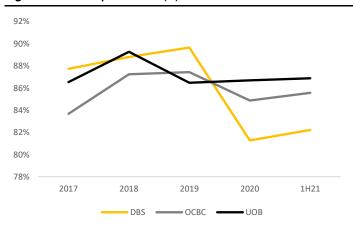
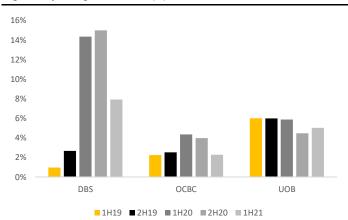


Fig 2: Deposit growth YoY (%)

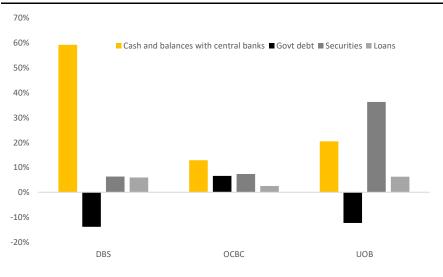


Source: Maybank Kim Eng, Company data

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On a 1H21 YoY basis, all have stayed away from government debt - likely taking in to account tapering expectations early. Placing with MAS and central banks have been the most popular strategy with DBS deposits increasing 56% YoY and 20% for OCBC. While risk-free, yields are low and this would negatively affect NIMs going forward.

Fig 3: Liquidity deployment growth 1H21 YoY (%)



Source: Maybank Kim Eng, Company data

We see US banks such as BofA (BAC US, USD46.28, NR) delivering 10% YoY higher 3Q21 NII, despite weaker loans from larger deployments to corporate debt.

Singapore banks have also been increasing allocations here with UOB's rising 36% YoY. This may result in positive read-throughs to 3Q21 NII, in our view.



A resurgence in SME lending?

Loan growth could ultimately ease excess liquidity pressure. Currently, our checks suggest credit supply is crowded around large, investment grade corporates. This is affecting pricing power. As vaccinations progress, and regional economies growing between 4-7% in 2022E, we expect credit demand to be broader - especially from SMEs and COVID frontline sectors.

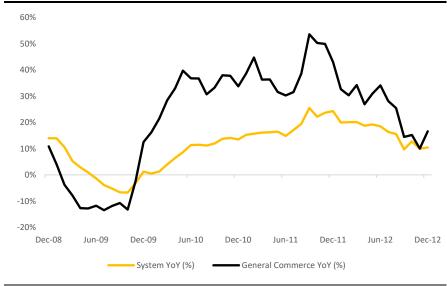
Fig 4: Regional GDP growth (%)

	2018	2019	2020	2021F	2022F
Indonesia	5.2	5.0	-2.1	4.2	5.4
Malaysia	4.8	4.3	-5.6	4.2	6.0
Philippines	6.2	6.1	-9.6	5.5	7.0
Singapore	3.5	1.3	-5.4	6.8	3.5
Thailand	4.2	2.3	-6.1	1.4	4.0
Vietnam	7.1	7.0	2.9	1.0	6.7

Source: CEIC, Maybank Kim Eng

Post-*GFC* (2010-2012), SME loan growth was 17ppts higher than system loans. We currently forecast sector loans to rise 7% in 2022E, but the risks are on the upside.

Fig 5: GFC system loans growth vs. General Commerce (SME) growth YoY (%)



Source: MAS

We also expect Singapore base rates to be 21bps higher than 2020 from Fed tapering. Malaysia and Thailand are set to have higher base rates too.

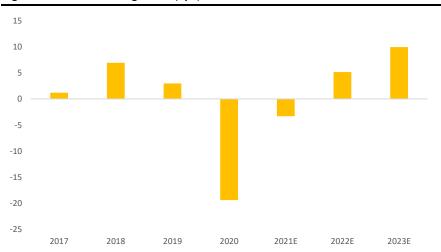
Fig 6: Regional policy rate forecasts (%)

-	2018	2019	2020	2021F	2022F
Indonesia	6.00	5.00	3.75	3.50	3.75
Malaysia	3.25	3.00	1.75	1.75	2.00
Philippines	4.75	4.00	2.00	2.00	2.25
Singapore	1.89	1.77	0.41	0.45	0.62
Thailand	1.75	1.25	0.50	0.50	0.50
Vietnam	6.25	6.00	4.00	4.00	4.00

Source: CEIC, Maybank Kim Eng

We are already building in NIM expansion going in to 2022E (+5bps YoY) from rising policy rates with acceleration in 2023E (+10bps YoY) with the support of more liquidity deployed in loans.

Fig 7: Sector NIMs change YoY (bps)

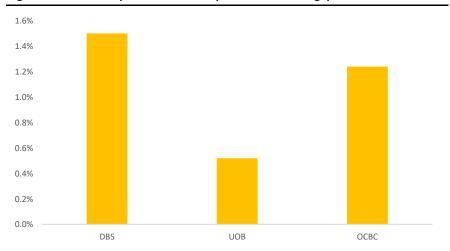


Source: Company data, Maybank Kim Eng

Nevertheless, according to <u>MKE's Regional Credit team</u>, rising inflationary concerns are pricing in more hawkish rates compared to even a month ago. As a result, there may be more upside to base rates going forward.

We test sensitivity of the Singapore banks to rising rates, taking in to account their asset-liability mix as of 1H21. We estimate, every 10bps increase in base rates could add 0.5-1.5% NPAT for the sector.

Fig 8: 2022E PAT impact from a +10bps increase to Singapore base rates

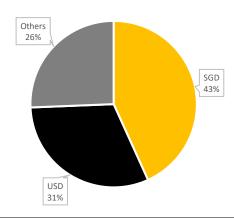


Source: Company data, Maybank Kim Eng

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We believe the sector's excess liquidity is a strategic advantage as the region emerges from COVID. Importantly, 31% of deposits are in USD - essential for inter-ASEAN trade and North-South supply chain relocations.

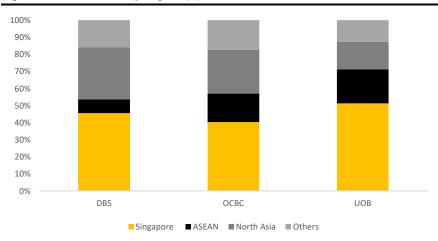
Fig 9: Singapore banks 1H21 deposit distribution by FX (%)



Source: Company data

We believe UOB's regional ASEAN integration (one-third of wholesale banking income already from cross-border) and strong SME franchise would be a clear beneficiary going forward. DBS and OCBC with its North-South franchise would also benefit.

Fig 10: 1H21 loan mix by region (%)



Source: Company data, Maybank Kim Eng

3Q21 results

OCBC and UOB are set to release their trading updates on 03 November before market opening, with DBS on 05 November. We generally expect improved lending growth, largely driven by Singapore and North Asia. NIMs are likely to continue a flattish trajectory from improved lending offset by fairly static SIBOR. Fee income should continue to see growth, but likely could see slower QoQ momentum from a higher base effect. Credit charges are likely to see continued declines QoQ with potential for write-backs especially in the O&M sector given rising oil prices. Opex is likely to be higher QoQ as the sector normalizes operations and increases business development activities.



Appendix A: Bank valuation summary

Fig 11: Bank valuation summary

	DBS	UOB	OCBC
Ticker	DBS SP	UOB SP	OCBC SP
Market Cap (SGDm)	63,852	37,789	45,008
3-month ADV (SGDm)	113.9	71.1	63.1
Share Price (SGD)	30.48	26.60	11.91
Target Price (SGD)	35.11	29.34	14.30
Upside/Downside (%)	15%	10%	20%
Recommendation	BUY	BUY	BUY
PE (x)			
2019	12.2	10.2	10.8
2020	16.5	15.4	14.9
2021E	11.1	11.0	10.4
2022E	10.5	9.7	9.5
2023E	9.2	8.8	8.3
PB (x)			
2019	1.53	1.12	1.11
2020	1.42	1.10	1.07
2021E	1.33	1.04	1.02
2022E	1.24	0.99	0.97
2023E	1.16	0.94	0.91
ROE (%)			
2019	12.8%	11.2%	10.9%
2020	8.9%	7.2%	7.4%
2021E	12.4%	9.8%	10.1%
2022E	12.2%	10.5%	10.5%
2023E	13.1%	11.0%	11.3%
ROA (%)			
2019	1.1%	1.1%	1.0%
2020	0.8%	0.7%	0.7%
2021E	1.1%	0.9%	1.0%
2022E	1.1%	1.0%	1.0%
2023E	1.2%	1.0%	1.1%
Dividend yield (%)			
2019	4.0%	4.9%	4.5%
2020	2.9%	2.9%	2.7%
2021E	3.8%	4.5%	4.6%
2022E	4.6%	5.1%	5.2%
2023E	5.3%	5.6%	6.0%

Source: FactSet, Maybank Kim Eng



Appendix B: Bank operating summary

Fig 12: Bank operating summary

ig 12: Bank operating summary			
	DBS	UOB	OCBC
Total Income (SGDm)			
2019	14,544	10,030	10,871
2020	14,592	9,177	10,139
2021E	15,130	10,095	11,088
2022E	16,134	10,951	11,658
2023E	17,936	11,938	12,645
PPOP (SGDm)			
2019	8,286	5,558	6,124
2020	8,434	4,993	5,596
2021E	8,489	5,620	6,246
2022E	9,045	6,046	6,573
2023E	10,404	6,551	7,203
Core-Net Profit (SGDm)			
2019	6,391	4,343	4,869
2020	4,721	2,915	3,586
2021E	7,021	4,090	5,122
2022E	7,373	4,633	5,620
2022E 2023E	8,487		6,399
ZUZSE	0,407	5,102	0,399
Core EPS growth y-o-y (%)	1.49/	90/	8%
2019	14%	8%	
2020	-26%	-33%	-26%
2021E	49%	40%	43%
2022E	5%	13%	10%
2023E	15%	10%	14%
Gross Loan growth y-o-y (%)			
2019	3.7%	2.7%	2.7%
2020	4.2%	4.7%	0.9%
2021E	8.9%	8.0%	6.7%
2022E	7.1%	6.9%	7.5%
2023E	6.2%	4.8%	6.5%
Net Interest Margin (%)	4 020/	4 740/	4 700/
2019	1.83%	1.74%	1.70%
2020	1.61%	1.53%	1.55%
2021E	1.49%	1.55%	1.56%
2022E	1.57%	1.58%	1.60%
2023E	1.57%	1.58%	1.60%
Gross NPL (%)			
2019	1.5%	1.5%	1.5%
2020	1.6%	1.6%	1.5%
2021E	1.6%	1.6%	1.6%
2022E	1.5%	1.5%	1.5%
2023E	1.4%	1.5%	1.5%
CET1 (%)			
2019 `´	14.1%	14.3%	14.9%
2020	13.9%	14.7%	15.2%
2021E	13.9%	14.3%	15.6%
2022E	13.8%	13.7%	15.3%
2022E 2023E	13.8%	13.6%	14.2%

Source: FactSet, Maybank Kim Eng



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