

SECTOR UPDATE

Banking – Singapore

3Q24 Results Preview: Healthy Growth From Wealth Management, Trading Income And Strengthening Regional Currencies

OCBC should record stronger loan growth of +2.0% yoy than DBS' +0.2% yoy in 3Q24. OCBC benefits from the appreciation of MYR (+8.2%), while DBS is affected by the depreciation of USD (-5.2%) and HKD (-4.8%). We see a slight erosion in NIM qoq, offset by resilient growth from wealth and trading income. We expect net profit of S\$2,713m for DBS (+5% yoy, -3% qoq) and S\$1,904m for OCBC (+5% yoy, -2% qoq). Upgrade to OVERWEIGHT. BUY OCBC (Target: S\$19.40), followed by DBS (Target: S\$42.70).

WHAT'S NEW

- The 3Q24 results season for Singapore banks kicks off with DBS Group Holdings (DBS) reporting on 7 Nov 24, followed by Oversea-Chinese Banking Corporation (OCBC) and United Overseas Bank (UOB) the day after on 8 Nov 24.
- DBS Group Holdings (DBS SP/BUY/Target: S\$42.70)**
- We forecast DBS' net profit to grow 5% yoy but recede 3% qoq to S\$2,713m in 3Q24.
- Weakness in USD and HKD a drag on loan growth.** We expect loans to be flat yoy but contract 1% qoq in 3Q24. We attribute the qoq contraction to weakness in the USD and HKD, which depreciated 5.2% and 4.8% respectively against the SGD. USD and HKD denominated loans accounted for 25% and 11% of DBS' total loans respectively.
- NIM compression sets in.** 3M Compounded SORA, SOFR and 3M HIBOR dropped 15bp, 37bp and 57bp qoq respectively to 3.49%, 4.96% and 4.18% in 3Q24, ahead of the Fed's 50bp rate cut on 18 Sep 24. Thus, we expect NIM to narrow 10bp yoy and 5bp qoq to 2.09% in 3Q24. We expect net interest income to grow 1.5% yoy in 3Q24 (2Q24: +4.7% yoy).
- Fees increased at double-digit rate of 18% yoy.** We expect contribution from wealth management to increase 35% yoy and 3% qoq to S\$535m in 3Q24 due to positive sentiment and a rally in the equity market. Contribution from cards increased 24% yoy to S\$332m due to a continued recovery in business and leisure travel and acquisition of Citigroup Consumer Businesses in Taiwan.
- Delivering on cost discipline and efficiency.** We expect operating expenses to increase 5% yoy and cost-to-income ratio to be 40.7% in 3Q24 (3Q23: 40%), in line with management's guidance of low-40% for 2024.
- Asset quality remains benign.** We expect NPL formation to stay benign and NPL ratio to be stable at 1.1%. DBS has accumulated ample management overlay for general provisions of S\$2b set aside during the COVID-19 pandemic. We expect DBS to incur total provisions of S\$149m and credit cost of 14bp in 3Q24 (2Q24: 14bp).
- Regularly reviewing capital management.** We expect DBS to maintain quarterly dividend at 54 S cents for 3Q24. DBS will continue to review its capital structure to return surplus capital to shareholders.
- Oversea-Chinese Banking Corporation (OCBC SP/BUY/Target: S\$19.40)**
- We forecast net profit to grow 5% yoy but recede 2% qoq to S\$1,904m for 3Q24.
- Mild NIM compression.** Loans are expected to be flat qoq but expand 2% yoy in 3Q24. Corporate customers are waiting for lower interest rates before gearing up for business expansion. OCBC benefitted from the MYR appreciation of 8.2% against the SGD, which offsets weakness of the USD and HKD. We expect NIM to fall 9bp yoy and 2bp qoq to 2.18%. Net interest income could decline 1.0% yoy in 3Q24 (2Q24: +1.7% yoy).

PEER COMPARISON

Company	Ticker	Rec	Price @	Target	Market	FY	PE		P/B		P/POP		Yield		ROE	
			16 Oct 24	Price	Cap		2024F	2025F	2024F	2025F	2024F	2025F	2024F	2025F	2024F	2025F
			(S\$)	(S\$)	(US\$m)		(x)	(x)	(x)	(x)	(x)	(x)	(%)	(%)	(%)	(%)
DBS*	DBS SP	BUY	39.00	42.70	84,723	12/2023	10.2	11.1	1.72	1.65	8.7	9.2	5.7	6.2	16.9	14.6
OCBC	OCBC SP	BUY	15.10	19.40	51,896	12/2023	9.1	9.4	1.19	1.13	7.8	8.0	5.8	5.8	13.4	12.2
UOB#	UOB SP	NR	32.34	n.a.	41,301	12/2023	9.1	8.9	1.15	1.08	6.8	6.6	5.5	5.7	12.9	12.6
Average							9.5	9.8	1.35	1.28	7.8	7.9	5.7	5.9	14.4	13.1

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

OVERWEIGHT

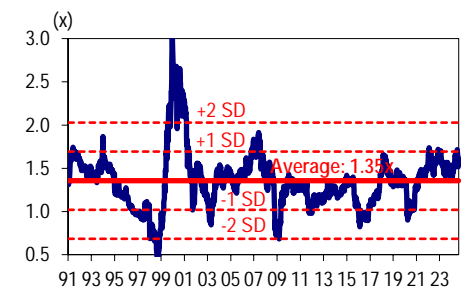
(Upgraded)

TOP BUYS

Company	Rec	Share Price (S\$)	Target Price (S\$)
DBS	BUY	39.00	42.70
OCBC	BUY	15.10	19.40

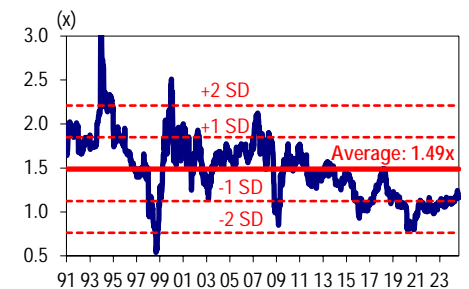
Source: UOB Kay Hian

P/B – DBS



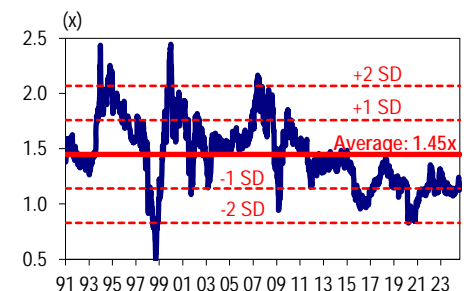
Source: UOB Kay Hian

P/B – OCBC



Source: UOB Kay Hian

P/B – UOB



Source: UOB Kay Hian

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- **Wealth management benefitted as clients put money to work.** We expect fees to grow 8% yoy to S\$497m in 3Q24. Contribution from wealth management increased 17% yoy in 3Q24 as investors participated in the stock market rally. Loans and trade-related fees are expected to expand 2% yoy to S\$126m.
- **Stable contributions from insurance without 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. We expect contribution from the insurance business to be at a normalised level of S\$280m in 3Q24 (+27% yoy).
- **Asset quality remains stable.** We expect NPL ratio to be stable at 0.9%. We have factored in total provisions of S\$152m and credit costs of 20bp in 3Q24, which is within management's guidance of 20-25bp for 2024.

### ACTION

- **Upgrade to OVERWEIGHT.** We upgrade the banking sector to OVERWEIGHT due to increasing optimism of a soft landing for the US economy. Our positive view is also supported by growth in the ASEAN economies and strengthening regional currencies. China has also started to adopt pro-growth policies. Greater China accounted for 29.6% of total loans for DBS (Mainland China: 14.3% and Hong Kong: 15.3%) and 23.2% for OCBC. Asset quality remains pristine.
- **Banks provides attractive recurrent yield.** Banks provide attractive value with a low P/B of 1.28x and high dividend yield of 5.9% for 2025. Our top pick is OCBC (BUY/Target: S\$19.40) for its commitment to maintaining dividend payout ratio at 50%, focus on trade and investment flows within ASEAN and a defensively low 2025F P/B of 1.13x. We also like DBS (BUY/Target: S\$42.70) for 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.
- **Banks benefit from accelerated relocation to ASEAN countries.** Trade conflict between the US and China is likely to continue. Many multinational companies have adopted the China+1 strategy but must accelerate the expansion of their alternative production facilities within ASEAN, such as Malaysia, Thailand, Indonesia and Vietnam. OCBC and UOB are prime beneficiaries of the supply chain reorientation due to their extensive network within ASEAN countries.
- **Headwinds from the strong SGD have abated.** MYR, IDR and THB depreciated 11.3%, 9.4% and 5.3% respectively against the SGD cumulatively in 2022 and 2023. The strong SGD has previously affected contributions from overseas operations. The recent weakening of the SGD against regional currencies in 3Q24, such as the MYR (-8.2%), IDR (-3.3%), and THB (-7.4%), triggered by lower US interest rates is a welcomed relief. Depreciation of the SGD against regional currencies could continue with more upcoming rate cuts.
- **DBS Group Holdings (BUY/Target: S\$42.70)**
- **Leadership transition.** The board has appointed Tan Su Shan, current Group Head of Institutional Banking, as Deputy CEO. She will succeed Piyush Gupta as CEO when he retires at the next AGM on 28 Mar 25. She has more than 35 years of experience in consumer banking, wealth management and institutional banking and has been with DBS since 2010. She has managed both the consumer banking/wealth management and institutional banking businesses, which account for 90% of DBS' income. She operationalises DBS' digitalisation strategy across both businesses and will become the first homegrown CEO groomed internally for succession.
- **Maintain BUY.** Our target price for DBS of S\$42.70 is based on 1.80x 2025F P/B, derived from the Gordon Growth Model (ROE: 15.0%, COE: 9.0%, growth: 1.5% (previous: 0.0%)).
- **Oversea-Chinese Banking Corp (BUY/Target: S\$19.40)**
- **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)

### PROFIT & LOSS – FORECAST FOR DBS (3Q24)

Profit & Loss (S\$m)	3Q24F	3Q23	yoy % Chg	2Q24	qoq % Chg
Net Interest Income	3,558	3,504	1.5	3,594	-1.0
Fees & Commissions	991	843	17.6	1,048	-5.4
Other Non-interest Income	820	845	-3.0	840	-2.4
Total Income	5,369	5,192	3.4	5,482	-2.1
Operating Expenses	(2,184)	(2,078)	5.1	(2,192)	-0.4
PPoP	3,185	3,114	2.3	3,290	-3.2
Provisions	(149)	(215)	-30.6	(152)	-1.8
Associates	65	62	5.0	63	3.3
PBT	3,101	2,961	4.7	3,201	-3.1
Net Profit	2,713	2,593	4.6	2,789	-2.7
EPS (S cents)	95.9	91.4	5.0	98.3	-2.4
DPS (S cents)	54.0	48.0	12.5	54.0	0.0
BVPS (S\$)	22.35	22.31	0.2	22.12	1.0

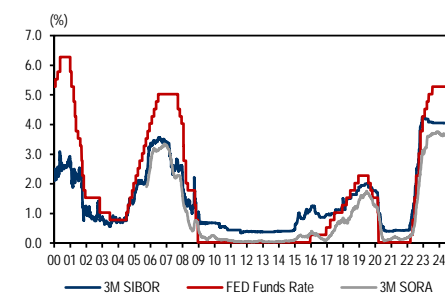
Source: UOB Kay Hian

### PROFIT & LOSS – FORECAST FOR OCBC (3Q24)

Profit & Loss (S\$m)	3Q24F	3Q23	yoy % Chg	2Q24	qoq % Chg
Net Interest Income	2,431	2,456	-1.0	2,430	0.0
Fees & Commissions	497	461	7.7	466	6.6
Insurance	280	220	27.3	294	-4.8
Net Trading Income	350	216	62.0	356	-1.7
Other Non-Interest Income	75	76	-1.3	83	-9.6
Total Income	3,632	3,429	5.9	3,629	0.1
Operating Expenses	(1,441)	(1,366)	5.5	(1,397)	3.1
PPOP	2,192	2,063	6.2	2,232	-1.8
Provisions	(152)	(184)	-17.4	(144)	5.5
Associates	241	254	-5.0	243	-0.7
PBT	2,281	2,133	6.9	2,331	-2.1
Net Profit	1,904	1,810	5.2	1,944	-2.1
EPS (S cents)	42.0	39.5	6.3	43.0	-2.3
DPS (S cents)	0.0	0.0	n.m.	44.0	n.m.
BVPS (S\$)	12.26	11.28	8.7	12.29	-0.2

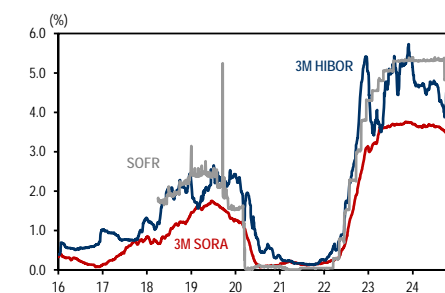
Source: UOB Kay Hian

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



Source: Bloomberg

### SOFR AND 3M HIBOR



Source: Bloomberg

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 had the highest CET-1 CAR of 15.5% and lowest NPL ratio of 0.9% as of Jun 24.

- **Maintain BUY.** Our target price for OCBC of S\$19.40 is based on 1.45x 2025F P/B, derived from the Gordon Growth Model (ROE: 12.4%, COE: 9.0%, growth: 1.5% (previous: 0.0%)).

### PROJECTED DPS AND DIVIDEND PAYOUT RATIOS

	DBS			OCBC			UOB#		
Price (S\$)	36.00			15.10			32.34		
Year to 31 Dec	FY22	FY23F	FY24F	FY22	FY23F	FY24F	FY22	FY23F	FY24F
EPS (S ¢)	399	383	351	155	166	161	334	355	365
DPS (S ¢)	192	222	240	82	88	88	170	179	184
Payout Ratio (%)	48.1	57.9	68.4	53.0	53.0	54.6	50.9	50.5	50.5
Dividend Yield (%)	4.9	5.7	6.2	5.4	5.8	5.8	5.3	5.5	5.7

# Based on consensus estimate.  
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	2.3	4.9	4.9
NIM (%)	1.75	2.15	2.09	1.93	1.91
Fees, % Chg	(12.3)	9.5	18.8	4.2	8.6
NPL Ratio (%)	1.13	1.11	1.15	1.18	1.19
Credit Costs (bp)	5.4	13.7	14.0	20.1	20.1
Net Profit (S\$m)	8,196	10,062	10,819	9,927	10,279
% Chg	20.5	22.8	7.5	(8.2)	3.6

Source: UOB Kay Hian

- We maintain our earnings forecast for OCBC.

#### KEY ASSUMPTIONS – OCBC

	2022	2023	2024F	2025F	2026F
Loan Growth (%)	1.8	0.4	3.7	4.9	4.9
NIM (%)	1.91	2.28	2.20	2.09	2.07
Fees, % Chg	(17.6)	(2.5)	8.2	7.4	7.4
NPL Ratio (%)	1.15	0.95	0.95	0.97	0.98
Credit Costs (bp)	20.0	24.8	21.0	22.1	22.1
Net Profit (S\$m)	5,748	7,021	7,526	7,311	7,612
% Chg	18.3	22.2	7.2	(2.9)	4.1

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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