

12 October 2018

Financial Services | Banks

Banks

Overweight (Maintained)

MAS Tightens, But NIM Will Still Widen

This morning (12 Oct), MAS announced its decision to increase slightly the slope of the S\$NEER policy band. With the MAS monetary tightening move, we believe the 3-month SIBOR will still rise, although somewhat more mildly. Our view remains that Singapore banks will continue to record NIM expansion, on the back of further FFR hikes. The 3Q18 sequential rise in 3-month SIBOR is also a positive for banks' 3Q18 NIM. Maintain **OVERWEIGHT** on Singapore banks, with UOB as Top Pick – its potential to dish out more dividends should attract more investor interest.

In its half-yearly monetary policy statement issued 12 Oct, the Monetary Authority of Singapore (MAS) decided to:

- Increase slightly the slope of the Singapore dollar nominal effective exchange rate (S\$NEER) policy band;
- Maintain the width of the policy band and the level at which it is centred.

This is in line with market expectations, as slightly more than half of the economists polled by Bloomberg had predicted the move.

This monetary tightening move follows the slight increase in the slope of the policy band in April from zero percent previously. MAS indicated this is consistent with a modest and gradual appreciation path of the S\$NEER policy band to ensure medium term price stability.

The upward trajectory for the 3-month SIBOR remains intact, although the extent of increase may be somewhat milder with the monetary tightening move. The driving factor for 3-month SIBOR increase is expected hikes in the Federal Funds rate (FFR) – the end-September US Federal Open Market Committee (FOMC) dot plot points to a further four hikes in FFR from now till end-2019. We note, however, that the US President had recently commented that the FOMC had raised US interest rates too aggressively – pointing to the risk that the number of hikes may be fewer than the dot plot suggests.

Recent checks with SG banks point to likely NIM expansion in 3Q18, on the back of higher lending yields from home mortgages and business loans, and amid interest rate increases eg 3-month SIBOR. From an average of 1.51% in 2Q18, the 3-month SIBOR rose to an average of 1.63% in 3Q18, representing a 12bps QoQ rise. We continue to be bullish on the banks' NIM expansion over the next few quarters.

NIM	DBS	OCBC	UOB
FY15	1.77%	1.67%	1.77%
FY16	1.80%	1.67%	1.71%
FY17	1.75%	1.65%	1.77%
1Q18	1.83%	1.67%	1.84%
2Q18	1.85%	1.67%	1.83%
FY18F	1.87%	NA	1.85%
FY19F	1.95%	NA	1.92%
FY20F	2.05%	NA	2.00%

Source: Respective companies, RHB

Company Name	Rating	Price (SGD)	Target (SGD)	% Upside (Downside)	P/E (x) Dec-19F	P/B (x) Dec-19F	Yield (%) Dec-19F
DBS	BUY	24.31	30.30	24.6	9.9	1.2	4.9
UOB	BUY	25.23	33.30	32.0	9.7	1.1	5.0

Source: Company data, RHB

Stocks Covered: 2
Ratings (Buy/Neutral/Sell): 2 / 0 / 0
Last 12m Earnings Revision Trend: Neutral

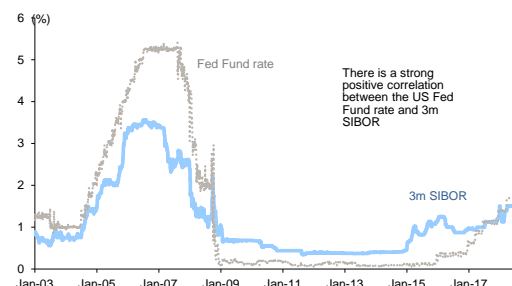
Top Picks

UOB (UOB SP) – BUY

Target Price

SGD33.30

Strong correlation between FFR and 3-month SIBOR



Source: Bloomberg

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Not Rated: Stock is not within regular research coverage

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