

6 October 2022

Financial Services | Banks

Banks

Overweight (Maintained)

Rising Uncertainty Clouds Outlook

Stocks Covered 3
 Rating (Buy/Neutral/Sell): 2 / 1 / 0
 Last 12m Earnings Revision Trend: Positive

- Maintain OVERWEIGHT, Top Picks: DBS and OCBC.** The Monetary Authority of Singapore's (MAS) August banking system loans and deposits data lead us to believe that SG Banks (DBS, OCBC and UOB) may likely dial down their FY22 loan growth targets, as well as refine their guidance on NIM sensitivity to interest rate changes when they report 3Q22 results. Coupled with uncertainty over the 2023 outlook, investors will likely take a cautious stance on bank stocks. That said, DBS and OCBC – beneficiaries of rising interest rates – would still outperform the broader market, in our view.
- Subdued growth in banking system loans in YTD August.** Singapore's banking system loans ticked up 0.5% MoM in Aug 2022, with growth for 8M22 at an annualised 1.1% (Figure 1). Lending by commercial banks, which reported similar growth rates, was led mainly by the business segment. The 1.6% annualised increase in business loans was driven mainly by the building and construction sector (+4.4% annualised), as well as financial and insurance activities (+2.8% annualised). These helped offset declines in loans to the manufacturing (-4.4% YTD) and transport, storage & communications (-2.2% YTD) sectors. The consumer segment, however, was flatish (-0.1% YTD), with decent housing & bridging loans (+2.5% YTD) offset by car loans (-5.5% YTD) and others (-5% YTD).
- CASA attrition continues.** Banking system customer deposits expanded by a healthy 7.7% in YTD August, or an annualised 11.5%. Rising deposit rates – on the back of steep increases in US interest rates – have not only attracted more funds into the banking system, these also led to a sustained shift out of CASA deposits to fixed deposits (FDs). For 8M22, CASA deposits contracted by 7.5% YTD while FDs surged 42.2% YTD. The CASA ratio eased to 58.7% in August, from a high of 68.3% in Dec 2021 (Figure 4). With the moderation in loan growth, system LDR is estimated to have eased to 77.6% in August vs 83.0% in Dec 2021.
- Headwinds to loan growth targets.** SG Banks have been guiding for mid-single-digit loan growth in 2022. The banking system's 8M22 YTD loan growth suggests that achieving these targets would be a challenge. We believe loan demand would remain subdued in the near term, as borrowers fret over rising interest rates and the uncertain 2023 outlook, while banks continue with their cautious credit underwriting stance. The 29 Sep announcement of [additional measures](#) to promote sustainable conditions in the property market, we believe, would led to a further moderation in residential property loans in 2023. RHB's property analyst [believes the latest measures](#) would slow down transaction volumes (namely Housing and Development Board unit resales), have a slightly negative impact on mass market volumes and marginal slowdown on private property prices.
- Cost of funds to edge higher in 2H22.** The CASA ratio, at 58-59%, is almost back to pre-pandemic levels of 57-58%. The rapid attrition in low-cost deposits since May 2022, coupled with the robust increase in FDs, should lead to a gradual rise in banks' funding costs in the months ahead. Still, with the rise in deposit rates lagging behind the re-pricing of interest-earning assets, NIM should continue to expand in the next few quarters. The US Federal Funds Rate (FFR) is projected to rise by another 100-125bps to 4.25-4.5% by end-2022, after the 300bps surge between March and September.

Top Picks

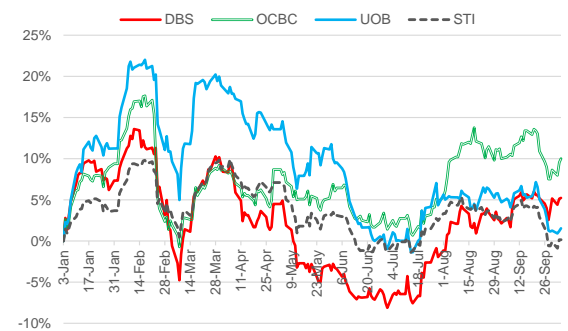
Target Price

DBS Group (DBS SP) - BUY SGD37.60
 OCBC Bank (OCBC SP) - BUY SGD13.90

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Comparative price performance of SG Banks, 2022 YTD

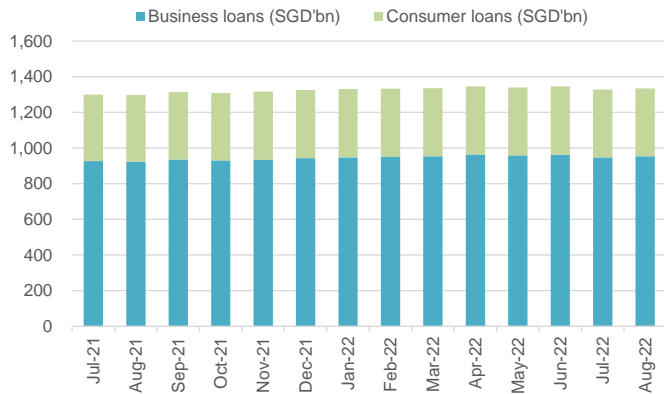


Source: Bloomberg, RHB

Company Name	Rating	Target (SGD)	% Upside (Downside)	P/E (x) Dec-23F	P/B (x) Dec-23F	ROAE (%) Dec-23F	Yield (%) Dec-23F
DBS	Buy	37.60	12.5	9.4	1.3	15.0	4.8
OCBC Bank	Buy	13.90	15.9	8.3	0.9	11.4	5.3
United Overseas Bank	Neutral	29.30	10.6	8.7	1.0	11.3	5.3

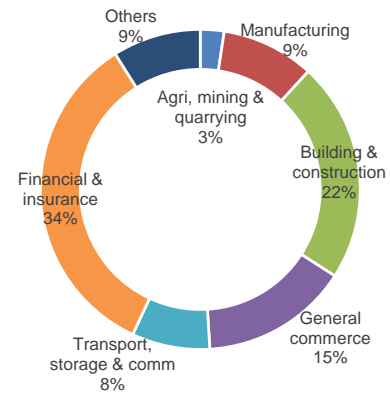
Source: Company data, RHB

Figure 1: Commercial bank loans grew by a mere 0.7% in YTD-Aug 2022



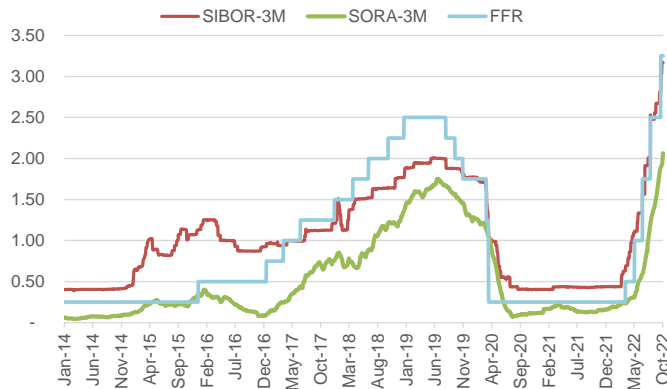
Source: MAS, RHB

Figure 2: Breakdown of business loans, Aug 2022



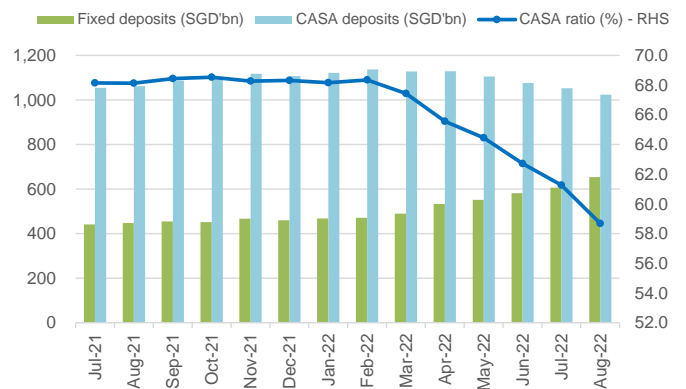
Source: MAS, RHB

Figure 3: Singapore short term rates have been rising in tandem with the FFR ...



Source: Bloomberg, RHB

Figure 4: ...resulting in CASA attrition since May 2022



Source: MAS, RHB

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Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
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