

22 September 2022

Financial Services | Banks

Banks

Overweight (Maintained)

Digital Banks To Stoke Deposit Competition?

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

- Maintain OVERWEIGHT; Top Picks: DBS and OCBC Bank.** Digital banks are gathering at the starting line, having first received their licences in Dec 2020. Attractive savings account offerings may stoke concerns that deposit competition would intensify, exerting pressure on incumbent banks' NIM. While the recent increase in deposit rates will see some attrition in CASA deposits, NIM should expand over the next few quarters, bolstered by the sharp rise in interest rates since Mar 2022. Banks with strong CASA deposits would also better withstand the rise in deposit rates.
- Digital banks cranking up the engine...** Within two days – 30 Aug and 1 Sep – Singapore saw the first offerings from two digital banks. GXS Bank, the Grab-Singapore Telecommunications (Singtel) consortium that was awarded the Digital Full Bank licence, launched a savings account at end-August. For now, this first product is offered to employees of Grab Holdings and Singtel (ST SP, BUY, TP: SGD3.55), as well as selected customers in their ecosystem. A day after, Trust Bank – the digital bank established by Standard Chartered Bank and FairPrice Group – launched savings accounts and credit card offerings for retail customers.
- ...with more to come.** Recall that winners of the Digital Wholesale Bank licences – Green Link Digital Bank and ANEXT Bank – had their soft launch in early June, with their products and services expected to be available later in the year. This leaves Maribank by SeaMoney as the only digital bank licence winner that has yet to announce its offerings.
- Deposit competition to intensify?** Digital banks have a large appetite to grow deposits to support their loan- and fee-based offerings. To drive deposit accumulation, digital banks generally offer higher interest rates on savings accounts to attract new customers. This is made possible by their branchless operations and lower overhead costs. Hence, it is no surprise that [Trust Bank](#) and [GXS Bank](#) announced attractive offerings for their savings accounts. This would inevitably give rise to concerns that competition for deposits would intensify, with NIMs compressed by the upward pressure on funding costs.
- Incumbents with strong CASA deposits to fare better.** Incumbent banks enjoyed meaningful NIM expansion in 2Q22 as interest rates started to rise from Mar 2022. While banks expect NIM to improve further given the rapid and sharp increase in US interest rates, they are cognisant that some of the margin improvement would be mitigated by the gradual upward repricing of deposits. The industry-wide [upward revision in deposit rates](#) in August, we believe, will result in some attrition in CASA deposits as customers shift funds to the higher yielding fixed deposits (FD). This is evident by news reports of [long queues for fixed deposits](#). Still, we believe, the potential impact on incumbent banks' funding costs would be manageable given their enlarged base of CASA deposits. At end-2Q22, CASA ratios stood at a high 72% for DBS, 61% for OCBC and 54.7% for UOB. The reported long queues at banks, despite the availability of online account opening and placement of FDs, also suggests that many depositors remain more comfortable placing their savings with a physical bank.

Top Picks

Target Price

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

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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	12.1	9.4	1.3	15.0	4.8
OCBC Bank	Buy	13.90	12.6	8.5	0.9	11.4	5.1
United Overseas Bank	Neutral	29.30	5.9	9.1	1.0	11.3	5.1

Source: Company data, 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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Take Profit:	Target price has been attained. Look to accumulate at lower levels
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