

Singapore Industry Focus

Singapore Banks

Refer to important disclosures at the end of this report

DBS Group Research . Equity

30 Sep 2019

Resilient loan growth

- Industry loans continued to grow 1% m-o-m/ 5.1% y-o-y on strong business loan growth
- Domestic mortgages declined for seventh consecutive month
- Loan-to-deposit ratio continued to moderate on growing deposit base
- Remain watchful on asset quality; UOB remains our top pick

Industry loans continued to grow 1% m-o-m/5.1% y-o-y on strong business loan growth. August industry loan growth (DBU + ACU¹) was resilient at 1% m-o-m/5.1% y-o-y, having seen June-July 2019 loan growth moderating to 0.2-0.3% m-o-m. This was largely on the back of business loans, which saw strong growth of 1.4% m-o-m/7.5% y-o-y, particularly from building and construction (1.0% m-o-m/6.1% y-o-y), and financial institutions (3.7% m-o-m/11.3% y-o-y), which was largely attributed to ACU. We believe these two industries will continue to drive loan growth in FY19F. Year-to-date, industry loan book grew 4.7% in the first eight months, which is still on track to meet our mid-single-digit expectations for FY19F.

Domestic mortgages declined for seventh consecutive month. For the seventh consecutive month, Singapore's mortgage book continued to decline m-o-m, registering a 0.2% m-o-m decline in August 2019. Year-to-date, domestic mortgages declined 1.4% collectively. We believe the key to mortgage book lies in secondary market transactions, which in 2Q19 recovered from 1Q19's volumes by +27.6% q-o-q. We believe this should support the decline in mortgage loan book and do not expect the mortgage book to contract severely, unless there is an accelerated slowdown in the economy with massive unemployment.

Loan-to-deposit (LDR) ratio continued to moderate on growing deposit base. Deposit growth of 0.9% m-o-m/ 8.1% y-o-y continued to outpace loan growth as fixed deposit demand remained high even as fixed deposit interest rates have come off the peak. As a result, LDR (DBU) continues to moderate from the peak. As of August 2019, LDR stood at 101.8% while S\$ non-bank LDR stood at 83.5%.

Remain watchful on asset quality; UOB remains our top pick. With the region's growth slowing, we remain watchful on asset quality as regional banks have seen a handful of NPLs since 2Q19. We continue to prefer UOB for its attractive dividend yield of c.5%, smallest exposure to Greater China among the local banks, lowest sensitivity of falling interest rates to NIM, as well as a more defensive wealth franchise.

STI : 3,119.31

Analyst

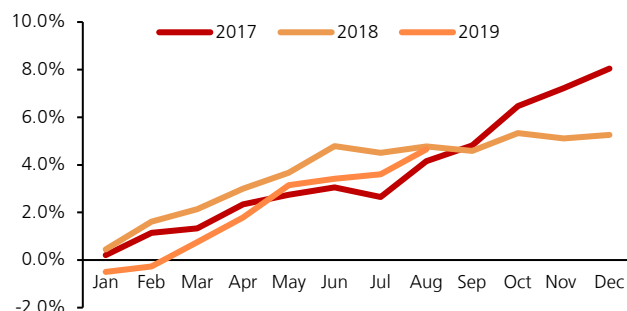
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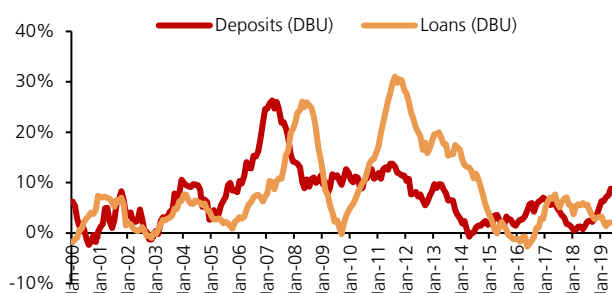
| | Price S\$ | Mkt Cap US\$m | 12-mth Target Price S\$ | Performance (%) 3 mth | 12 mth | Rating |
|-----------|--------------|------------------|-------------------------------|--------------------------|--------|--------|
| DBS | 25.00 | 46,236 | NR | (4.1) | (3.6) | NR |
| OCBC Bank | 10.86 | 33,946 | 11.50 | (5.1) | (5.0) | HOLD |
| UOB | 25.66 | 30,990 | 29.20 | (1.7) | (5.4) | BUY |

Source: DBS Bank, Bloomberg Finance L.P. (Closing price as of 30 Sep 2019)

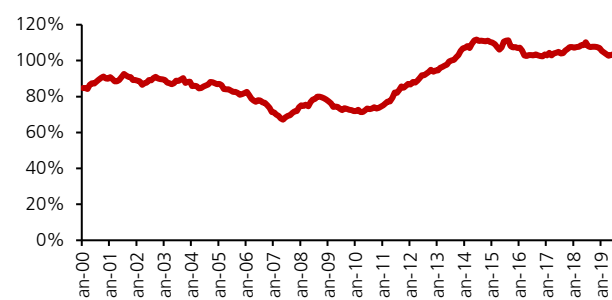
Singapore: Industry loans grew 4.7% year-to-date



Singapore: Deposits (DBU) grew 8.1% y-o-y, led by fixed deposit growth of 18.5% y-o-y



Singapore: Loan-to-deposit (DBU) ratio at 101.8%



Source: MAS, DBS Bank



Live more, Bank less

DBS Bank recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

**Share price appreciation + dividends*

¹DBU: Domestic Business Unit; ACU: Asian Currency Unit Currently, all banks in Singapore must maintain two separate accounting units – DBU and ACU. Banks are allowed to deal with any currency in the DBU. In the ACU, they are allowed to deal in all currencies except SGD.

Completed Date: 30 Sep 2019 17:38:13 (SGT)
Dissemination Date: 30 Sep 2019 17:48:03 (SGT)

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