Singapore Banks

Refer to important disclosures at the end of this report

Sharp decline in NIMs in 2Q20

- Record quarterly decline in net interest margins (NIMs) likely a negative surprise, as repricing on sharply lower benchmark interest rates takes place
- Dividends cuts may happen as early as 2Q20 as MAS reviews banks' capital plans, including dividend payouts; scrip dividend is another possibility
- Weaker fee income and provisions to continue to weigh on earnings on top of decline in net interest income, offset by likely strong trading gains
- Maintain HOLD on OCBC and UOB, revised TP of $9.30 and $20.90, representing ~0.8x FY21F; we remain neutral on Singapore Banks due to limited catalysts ahead of expected weak 2Q20 earnings

STI : 2,629.45

Analyst
Rui Wen LIM +65 66823720
ruiwenlim@dbs.com

STOCKS

	Price S$	Mkt Cap US$m	12-mth Target Price S$	Performance (%) 3 mth	12 mth	Rating
DBS	21.40	39,122	NR	11.5	(20.0)	NR
OCBC Bank	9.21	29,210	9.30	4.4	(21.1)	HOLD
UOB	20.70	24,881	20.90	3.2	(23.7)	HOLD

Source: DBS Bank, Bloomberg Finance L.P.
Closing price as of 21 Jul 2020

ed: CK / sa: JC, PY, CS

Live more, Bank less

Record quarterly decline in net interest margins (NIMs). We expect Singapore banks to register a record quarterly decline in NIMs in 2Q20, following March's two Fed rate cuts in response to the spread of COVID-19 in the US, which resulted in the repricing of loans on lower benchmark rates through most of 2Q20. During the quarter, average 3MSIBOR and average 3MLIBOR declined 83 and 93bps, respectively, a multi-fold increase from the previous quarter.

We are pencilling in a 16 to 22bps decline q-o-q in NIM during 2Q20 (1Q20 NIM saw a q-o-q change of 0 to -5bps). Across the banks, quarterly NIMs are expected to be near their all-time post-global financial crisis (GFC) low. While 2Q20 should see the bulk of the repricing effect, there could be a spillover effect into 3Q20. Every 10-bps decline in NIM has a 6-8% impact on net profit.

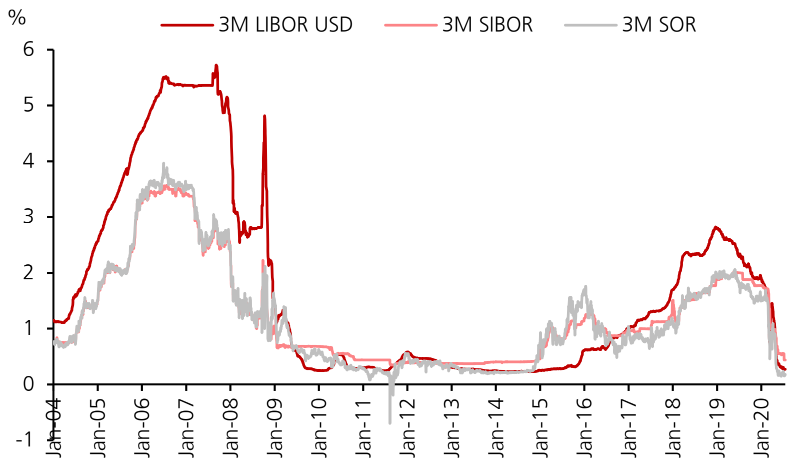
Singapore banks: 1Q20 quarterly NIMs

	DBS	OCBC	UOB
NIM	1.86%	1.76%	1.71%
NIM change q-o-q	0 bps	-1 bps	-5 bps

Source: Companies, DBS Bank

Singapore banks actively lowering interest rates on its flagship savings account to partially mitigate effect of lower loan yields. DBS and UOB have moved twice, effective in February and August, as well as May and August, respectively, in lowering the maximum interest payable deposit amount and/or interest rates on their flagship accounts. Similarly, OCBC has made changes to its flagship account's interest rates, effective July 2020. Assuming one maxes out the respective account balances and fulfils non-investment related transactions, interest rates have been reduced by 70 to 124bps across the board. We believe the interest rates reduction on deposits will have more impact on lowering cost of deposits in 3Q20.

3-month SIBOR, SOR and LIBOR trends: 3MSIBOR expected to remain at ~0.5% levels through FY21F



Source: Bloomberg Finance L.P., DBS Bank

Q-o-q change in NIMs vs. q-o-q change in average benchmark interest rates

	Average 3MLIBOR	Change q-o-q	Average 3MSIBOR	Change q-o-q	NIM impact
3Q19	2.20	-0.31	1.92	-0.05	-1 to -4bps
4Q19	1.93	-0.27	1.80	-0.12	0 to -4bps
1Q20	1.53	-0.41	1.55	-0.25	0 to -5bps
2Q20	0.60	-0.93	0.71	-0.83	Estimated: 16 to 21bps

Source: Companies, Bloomberg Finance L.P., DBS Bank

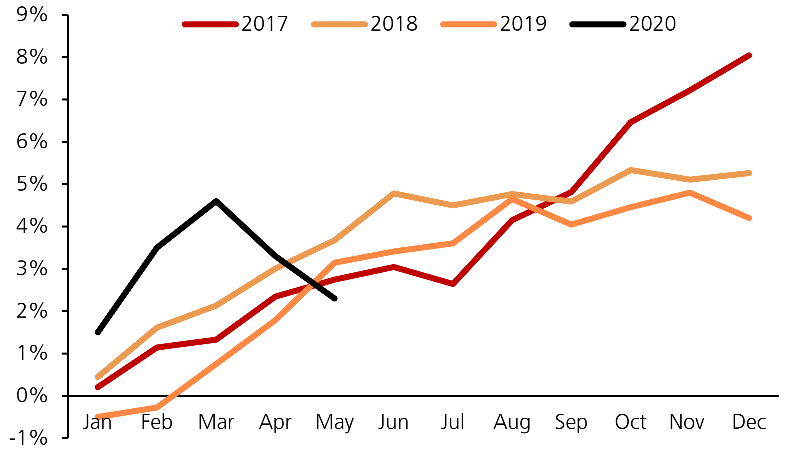
Loan growth continues to be varied across banks; net interest income to decline q-o-q. Year-to-date, industry loan growth was 2.3% as outstanding loans continued to decline in April and May m-o-m. We expect OCBC and UOB's loan growth q-o-q to be marginal for the quarter, with OCBC previously guiding for muted loan growth for the year and UOB guiding for mid-single-digit loan growth, On the other hand, DBS' loan pipeline as of 1Q20 was healthy with expected further drawdown of non-trade corporate loans in 2Q20. Alongside declining NIMs, we expect net interest income to decline q-o-q.

Singapore banks: 1Q20 loan growth

	DBS	OCBC	UOB
q-o-q	3	2	3
y-o-y	6	4	4

Source: Companies, DBS Bank

Singapore: Industry loan growth, +2.3% year-to-date



Source: MAS, DBS Bank

Fee income to bear full brunt of circuit breaker measures. As 2Q20 coincided with the period of circuit breaker in Singapore, from 7 April to 1 June 2020, we believe that impact will be seen in the banks' fee income where the decline in card fees, wealth management fees, investment banking fees is likely to be offset by loan-related fees in relation to loan activity during the quarter.

In 1Q20, DBS registered an 8% y-o-y decline in card fees and we expect a sharper magnitude of decline in 2Q20. While we expect Singapore banks to see higher assets under management (AUM) for its wealth management business due to recovery in underlying market values through 2Q20 as well as net new money increase, we expect an overall weak showing for wealth management fees as the closure of bank branches and circuit breaker measures would have impacted the sale of wealth products and bancassurance among others.

Singapore banks: Breakdown of fee income (FY19)

% of total fee income	DBS	OCBC	UOB
Card fees	22	14	20
Wealth management	36	43	27

Source: Companies, DBS Bank

Other non-interest income to see gains. DBS saw strong gains in non-fee non-interest income during 1Q20 largely attributed to gains in investment securities. Accordingly, DBS has been building duration and yield into its investment portfolio which is sitting on unrealised gains over S$1bn after amounts realised in 1Q20, as of 1Q20 earnings call. While OCBC saw +126% y-o-y gains in net investments driven by the sale of debt securities as well as the increase in treasury-related customer flow – this was more than offset by unrealised mark-to-market losses in Great Eastern's (GEH) investment portfolio with GEH's insurance income also declining 43%

y-o-y to S$157m during 1Q20 due to investment performance. Given the broader market recovery in 2Q20, we expect other non-interest income to see a q-o-q improvement largely across the board on strong trading gains, mark-to-market improvements, especially for GEH's investment portfolio.

Singapore banks: 1Q20 other non-interest income (S$m)

	DBS	OCBC	UOB
Non-fee non-interest income	712	318	298
y-o-y	+39%	-51%	-12%

Source: Companies, DBS Bank

Controlled operating expenses; wage subsidies should support cost-to-income ratios. Continuing from 1Q20's trend of lower operating expenses (DBS/OCBC/UOB: +4%/+5%/+1% y-o-y and -3%/-12%/-3% q-o-q), due to lower general expenses (in line with lower operating income), we expect wage subsidies for Singaporean workers to also support cost-to-income ratios during the quarter. As such, we expect cost-to-income ratios for 2Q20 to be similar to 1Q20's.

Singapore banks: Cost-to-income ratios

%	DBS	OCBC	UOB
1Q20	38.6	44.5	45.1
FY19	43.0	42.7	44.6

Source: Companies, DBS Bank

Likely to continue seeing elevated general provisions, lower specific provisions during 2Q20. DBS/OCBC/UOB have guided for 80-130bps (S$3-5bn), 100-130bps, and 100-120bps of credit costs cumulatively over the next two years respectively. We believe the banks are likely to write more provisions in FY20F and expect to continue seeing elevated general provisions during 2Q20 due to the deterioration in the general economic outlook that will lead to further macro-economic variables' (MEV) downgrade during the quarter. We believe UOB will see higher general provisions compared to its peers that have written more provisions (to P&L) during 1Q20, as UOB took a S$260m RLAR adjustment (~10bps of CET1 ratio) during 1Q20 in addition to its provisioning. Barring any chunky non-performing loans formation during the quarter, we believe specific provisions in 2Q20 may be lower than that in 1Q20, which included provisions for the banks' exposures to Hin Leong.

Watchful for 2H20 as government support measures taper off. We continue to remain watchful for 2H20 as various government support measures taper off (e.g. rental rebates, wage subsidies, among others), which may lead to ceasing of some businesses should underlying demand of these businesses fail to recover during the Phase 2 period.

Singapore Banks: 1Q20 asset quality

	DBS	OCBC	UOB
NPL ratio	1.6% (4Q19: 1.5%)	1.5% (4Q19: 1.5%)	1.6% (4Q19: 1.5%)
Allowances on loans charged to P&L (S$m)	1,086	657	286
Total credit costs (bps)	99	86	36
(Total allowances + RLAR) / NPA (%)	92	90	88

Source: Companies, DBS Bank

Details on selected loan exposures (1Q20)

DBS		S$bn	% of total loans	Notes
Oil and gas		23	6%	
	Producers	7	2%	Principally to oil majors and state-owned companies.
	Processors	7	2%	Majority of loans are to midstream (transport and storage), which are benefiting from strong storage demand;Downstream (refining) loans are mainly to oil majors, leading refiners, or integrated operators with diversified income.
	Traders	5	1%	50% of loans backed by bank letters of credit; one loan recognised as NPA during quarter. Balance of loans are to global traders or state owned companies, or are tightly structured and secured loans.
	Support services	4	1%	Conservative stance taken in 3Q17 to recognise NPA, mark down collateral. Out of $ 4bn loans,loans,$3bn recognised as NPA; further special provisions expected to be taken.
SME		39	10%	Almost 90% of SME exposure in Singapore and Hong Kong (been through prolonged stress), predominantly secured against property. 10% to highly impacted industries such as hotels, food and beverage, and retailers.
Consumer	Unsecured credit	11	3%	In Singapore, borrowing limits have been progressively tightened since 2015.
OCBC		**S$bn**	**% of total loans**	**Notes**
Oil and gas		13	5%	O&G NPL ratio 0.8% as of 1Q20
	OSV			~35% of O&G exposure. 50-60% of loans are extended to Singapore Inc corporates and National Oil Companies, remaining of OSV exposures are to local and regional companies, of which 85% have been classified as NPLs with appropriate provisions taken (>50% provisions have been taken). Non-NPLs belong to 3 local names which are relatively strong.
	Oil traders			~25% of O&G exposure. 2 new NPLs. OCBC took quite some provisions for a Singapore based oil trader through special provisions in 1Q20. OCBC has relatively small exposure in another corporate and is supported by export documents which have been accepted, risk has been shifted to the banks. A third name has been placed on watchlist.
	Upstream			~25% of O&G exposure. Customers are major integrated companies, mostly Chinese names.
	Downstream			~10-13% of O&G exposure. Customers are smaller retailers involved in trading businesses, gas stations, local market oil distribution.
Shipping (ex OSV)		5	2%	
Commodities		16	6%	
SME		29	11%	
UOB		**S$bn**	**% of total loans**	**Notes**
Oil and gas		10	3.6%	
	Oil traders	4	1.3%	70% of customers (oil traders and downstream players) are national oil companies (NOCs) and global firms, while the remaining exposure are mainly short-term structured exposure.
	Downstream	4	1.5%	
	Upstream	3	0.9%	Upstream exposure is mainly to NOCs and international oil companies, while vulnerable accounts were already classified and their collateral value marked down (by as much as 90%) by end-2017.
SME		42	15%	Loans to SMEs predominantly well-secured.
Consumer				Consumer book (37% of loanbook) is predominantly mortgages. ~5% of consumer loans are unsecured credit, representing <2% of total loans.

Source: Companies, DBS Bank

Some dividend cuts expected as early as 2Q20; scrip dividend as capital management tool. In July 2020, MAS announced that it is currently reviewing banks' capital plans, including dividend payouts and that banks' capital management should be approached "from a position of strength". According to MAS managing director Ravi Menon, banks "should start early and not wait until the capital position starts looking weaker".

During their 1Q20 earnings calls, the managements of Singapore banks have generally kept their dividend options open. Currently, DBS pays an absolute DPS of 33 Scts per quarter, while UOB has a dividend payout ratio policy of ~50%, subject to a minimum CET1 ratio of 13.5% and sustainable outlook and OCBC's commits to a sustainable dividend in line with its long-term growth prospects.

Should the absolute DPS for DBS and OCBC be maintained in FY20F, their dividend payout ratio would be ~65-70% which we believe is relatively high. We believe that given the steep earnings decline expected across banks in FY20F and economic uncertainty amid a protracted pandemic, banks may likely err on the side of caution and voluntarily cut back on dividends and buffer up capital levels. Banks could also adopt scrip dividend with discount as a capital management tool (e.g. OCBC's historical scrip dividend offers 10% discount).

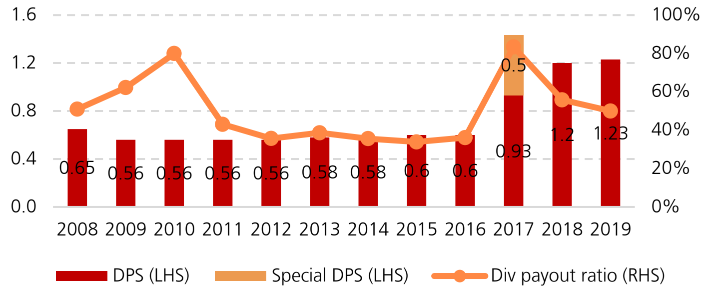
FY2019 dividends

	DBS	OCBC	UOB
DPS (Scts)	123 (1Q-3Q: 30/ quarter) 4Q: 33	Interim: 25 Final: 28	Interim: 55 Final: 55 Special: 20
Dividend payout ratio	50	46	51

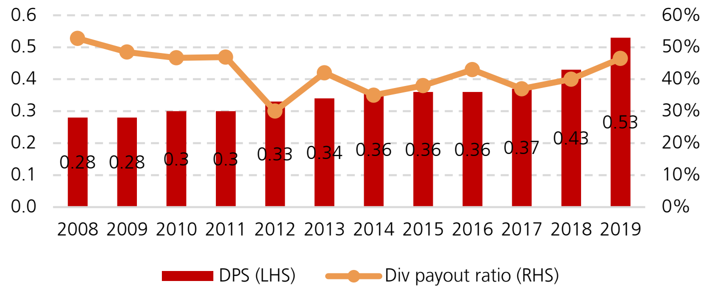
Source: Companies, DBS Bank

Singapore banks: Dividends and payout ratio

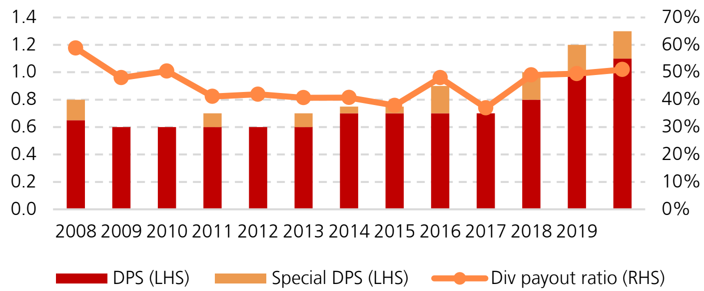
DBS



OCBC



UOB



Source: Companies, DBS Bank

Valuation and recommendation

Downside risks to earnings and dividends; maintain HOLD on OCBC and UOB. Singapore banks are now trading at c.0.8-1.0x FY21F BV. We have increased our TPs but retain our HOLD calls on OCBC (TP: S$9.30) and UOB (TP:S$20.90), representing ~0.8x FY21F BV. We believe there are limited catalysts at this juncture ahead of a weak 2Q20 earnings season, as there are downside risks to earnings arising from lower NIM, if Singapore banks' NIMs break below post-GFC lows. This could lead to lower dividends. Our revised TPs are derived from Gordon Growth Model (8% ROE, 3% growth, 9% cost of equity) as we expect FY21F ROEs to be c.8% levels, weighed down by NIMs, slower loan growth and provisions. Our previous TPs were pegged to GFC trough levels of ~0.7x FY21F BV, at the height of COVID-19 outbreak globally.

Key risks

NIM pressures. According to our sensitivity analysis, every 25-bps cut in interest rates may have an impact of 1-3bps on NIM for FY20F, while every 10-bps change in NIM has a 6-8% earnings impact on banks' FY20F bottom-line. As we expect record quarterly decline in NIMs in 2Q20 to reach post-GFC lows, there may be downside risks should NIMs break below the post-GFC levels, though we expect the further effect of rationalisation on deposits cost to come through in 3Q20.

Deteriorating asset quality trend. A larger-than-expected NPL arising from generic sectors and/or commodities-related exposure, as well as a worse-than-expected COVID-19 pandemic situation globally that will affect tourism and retail businesses could unwind expectations of credit cost and NPL declines, thus posing risks to earnings. Further, worse-than-expected unemployment arising from a deep recession could pose risks to mortgages and unsecured consumer lending among others, though this is not our base case. Based on our sensitivity analysis, every 10-bps uptick in credit costs may impact sector earnings by c.7-8%.

Recession risks. A deeper-than-expected recession in Singapore, a worse-than-expected COVID-19 outbreak in Singapore and regionally and a less firm macroeconomic outlook going forward could temper our fee income and loan growth expectations. Although loan growth is less sensitive to earnings, any deceleration as a result of weaker sentiment would dent top-line prospects. DBS Group Research currently expects full year GDP growth to decline 5.7% y-o-y, with entire cycle to take about 24 months on average to recover. Sectors that are worst hit by the pandemic, i.e. tourism, aviation and construction could potentially take as long as more than two years to recover back to pre-COVID levels (in terms of real GDP).

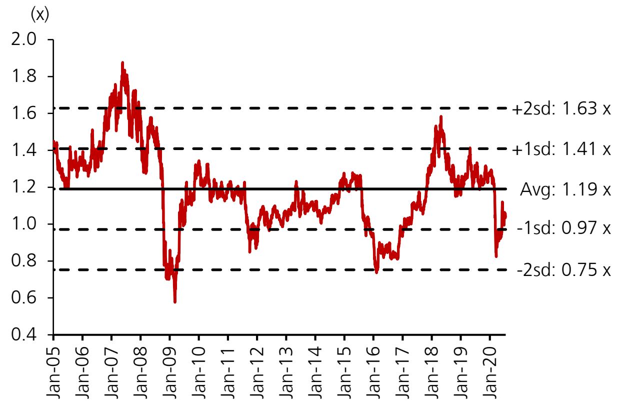
Singapore Banks: Peer comparison

	Mkt cap (US$m)	Price (S$/s)	12-mth TP (S$/s)	Rating	PE (x) FY19A	FY20F	FY21F	CAGR^ (%)	PBV (x) FY19A	FY20F	FY21F	ROE (%) FY21F	Net div (%) FY20F
DBS*	39,122	21.40	NA	NR	8.6x	11.2x	10.4x	-6%	1.0x	1.1x	1.0x	9.7%	5.9%
OCBC	29,210	9.21	9.30	HOLD	8.3x	10.4x	9.5x	-7%	0.9x	0.8x	0.8x	7.9%	5.0%
UOB	24,881	20.70	20.90	HOLD	7.9x	10.1x	9.5x	-7%	0.9x	0.8x	0.8x	8.3%	5.4%
Simple average					8.3x	10.6x	9.8x		0.9x	0.9x	0.9x	8.6%	5.4%
Weighted average					8.3x	10.7x	9.9x		0.9x	0.9x	0.9x	8.6%	5.5%

*^ Refers to 2-year EPS CAGR for FY19-21F   *Based on Bloomberg consensus*

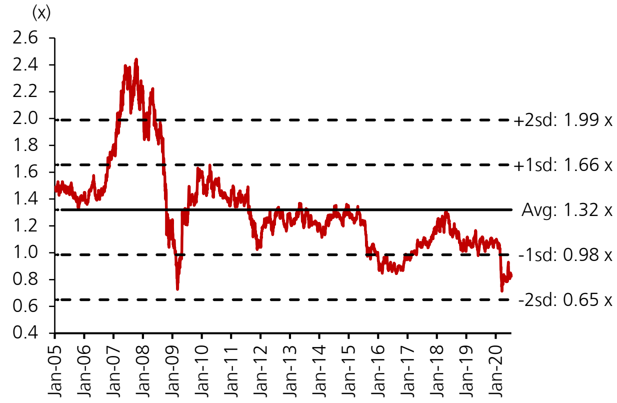
Source: Companies, Bloomberg Finance L.P., DBS Bank

DBS: Rolling forward P/BV band



OCBC: Rolling forward P/BV band

UOB: Rolling forward P/BV band



Source: Thomson Reuters, DBS Bank

Singapore Company Guide
OCBC

Version 25 | Bloomberg: OCBC SP | Reuters: OCBC.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

21 Jul 2020

HOLD

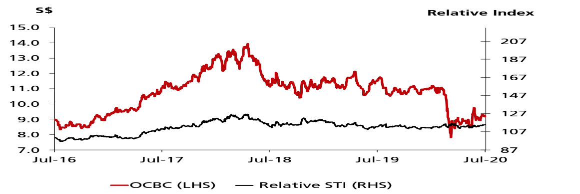
Last Traded Price (21 Jul 2020): S$9.21 (STI : 2,629.45)
Price Target 12-mth: S$9.30 (1% upside) (Prev S$7.90)

Analyst
Rui Wen LIM +65 66823720 ruiwenlim@dbs.com

What's New

- 2Q20 NIM expected to see sharp decline of ~16bps q-o-q as loans reprice on lower benchmark rates
- Recovery in mark-to-market valuations should bolster GEH investment income from 1Q20's trough
- Provisions likely to weigh on earnings through 2Q20
- Maintain HOLD with higher TP of S$9.30

Price Relative



Forecasts and Valuation

FY Dec (S$ m)	2019A	2020F	2021F	2022F
Pre-prov. Profit	6,124	5,695	5,684	5,851
Net Profit	4,869	3,538	3,930	4,519
Net Pft (Pre Ex.)	4,869	3,538	3,930	4,519
Net Pft Gth (Pre-ex) (%)	8.4	(27.3)	11.1	15.0
EPS (S cts)	110	80.2	89.1	103
EPS Pre Ex. (S cts)	110	80.2	89.1	103
EPS Gth Pre Ex (%)	4	(27)	11	15
Diluted EPS (S cts)	110	80.2	89.1	103
PE Pre Ex. (X)	8.3	11.5	10.3	9.0
Net DPS (S cts)	53.0	46.0	46.0	46.0
Div Yield (%)	5.8	5.0	5.0	5.0
ROAE Pre Ex. (%)	11.0	7.4	7.9	8.7
ROAE (%)	11.0	7.4	7.9	8.7
ROA (%)	1.0	0.8	0.8	0.9
BV Per Share (S cts)	1,070	1,104	1,147	1,204
P/Book Value (x)	0.9	0.8	0.8	0.8
Earnings Rev (%):		-	-	-
Consensus EPS (S cts):		82.1	88.1	108.3
Other Broker Recs:		B: 9	S: 2	H: 8

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P.

GEH investment income a likely plus

Maintain HOLD with higher TP of S$9.30. We maintain our HOLD call, with a higher TP of S$9.30, as we believe there are limited catalysts for the stock currently amid the zero-rate environment, and uncertain economic recovery path. In the upcoming 2Q20 results, we believe a q-o-q NIM decline of ~16bps will surprise on the downside, with further downside in NIM expected as OCBC is expected to see repricing of its mortgage book in Singapore further in 2H20. The recovery in mark-to-market valuations should bolster Great Eastern's (GEH) investment income from 1Q20's trough, amidst mixed showing from lower fee income and higher trading income. We also believe that absolute DPS could be cut to 46 Scts in FY20F (FY19: 53 Scts) due to the expected decline in corresponding earnings.

Where we differ: We remain cautious over OCBC's SME books across the region, especially in emerging markets, in the face of a regional economic slowdown and recession in Singapore, arising from COVID-19.

Potential catalysts: Sustained business momentum. We believe sustained business momentum and broader recovery in macroeconomic sentiments would catalyse the share price.

Valuation:

Maintain HOLD; TP S$9.30. Our revised TP of $9.30 is based on the Gordon Growth Model (8% ROE, 3% growth, 9% cost of equity). This is equivalent to c.0.8x FY21F P/BV, which is 2S.D. below its average 10-year forward P/BV multiple. Our previous TP was pegged to OCBC's trough valuation of 0.7x P/BV.

Key Risks to Our View:

Deteriorating asset quality. A larger-than-expected NPL arising from generic sectors and/or commodity-related exposure, as well as a worse-than-expected COVID-19 pandemic situation globally could unwind expectations of credit cost and NPL declines, could pose risks to earnings. Further, unemployment arising from recession could pose risks to mortgages and unsecured consumer lending, among others.

At A Glance

Issued Capital (m shrs)	4,405
Mkt. Cap (Sm/USm)	40,570 / 29,210
Major Shareholders (%)	
Selat Pte Ltd	12.0
Free Float (%)	88.0
3m Avg. Daily Val (US$m)	52.9
GIC Industry : Financial / Banks	

Live more, Bank less

ed: CK/ sa: JC, PY, CS

CRITICAL DATA POINTS TO WATCH

Critical Factors

NIM pressures ahead. We expect loan growth to slow down in FY20F on slower business activity. In 1Q20, average 3MSIBOR 3MLIBOR declined 25/41bps bps q-o-q (previous quarter: 12/25bps), with further declines into 2Q20. We believe that loan yields will continue to decline on a lower reference rate. As economies in its key markets continue to slow, we believe net interest income growth will soften as loan growth weakens amid NIM pressures.

Non-interest income drivers remain its key differentiator, especially wealth management and insurance. OCBC differentiates itself from peers in terms of its non-interest income composition. Its focus is on growing its non-interest income franchise, especially its wealth management business.

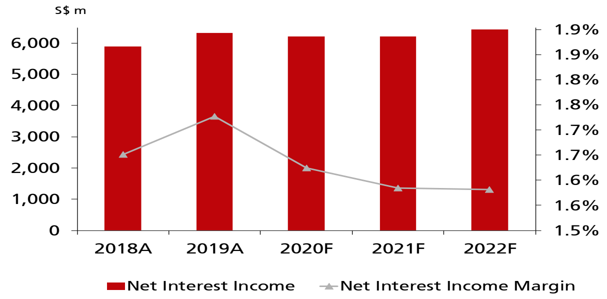
The bank's insurance business via c.88%-owned subsidiary, Great Eastern Holdings (GEH), remains a dominant contributor to its non-interest income. OCBC has no plans to sell its stake in GEH as the latter remains complementary to its non-interest income franchise. Management believes it is still logical and beneficial to keep the insurance product manufacturing in-house. GEH tends to exhibit earnings volatility due to fluctuations in interest rates. It is best to track GEH's underlying business trends, i.e. total weighted new sales and new business embedded values. These metrics have been growing robustly for GEH.

Since the acquisition of Bank of Singapore in 2010, its wealth management income has been growing steadily; and this trend is expected to be sustainable. The acquisition of the wealth and investment business of Barclays Bank in Singapore and Hong Kong, completed in Dec 2016, added US$13bn to OCBC's AUM. In May 2017, OCBC further acquired National Bank of Australia's wealth business in Singapore and Hong Kong.

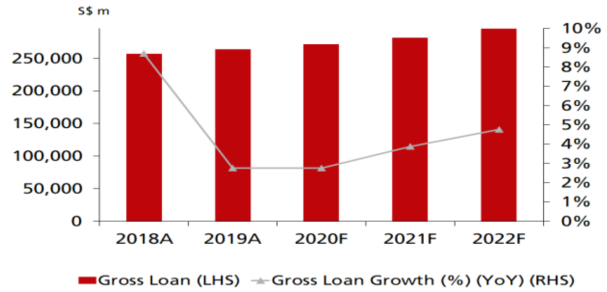
Asset quality. OCBC made provisions on its oil and gas portfolio through FY19 as c.65% of 4Q19 and FY19's elevated credit costs were oil and gas related (total provisions amounted to S$746m). As of 4Q19, OCBC had written down values of vessels to scrap value (3% of refreshed valuation) through FY19 for vessels with less than one year of charter. According to OCBC, oil and gas exposure accounts for c.5% of total loans, which includes oil majors, trading companies and OSV sector, with NPL ratio of 0.8% as of Dec 2019. We continue to keep watch on emerging risks from affected sectors from the fallout of COVID-19, oil and gas portfolio (due to low oil prices), as well as SME exposure.

Regionalisation is a key item on its agenda. Malaysia remains OCBC's second largest contributor. The bank has a track record of over 80 years in Malaysia, and its added advantage lies in its Islamic banking franchise. Elsewhere, management feels bullish about its operations in Indonesia. While still a small contributor, opportunities are aplenty for further growth. We see the wealth management income line as the key indicator to watch for sustained synergies in OCBC Wing Hang.

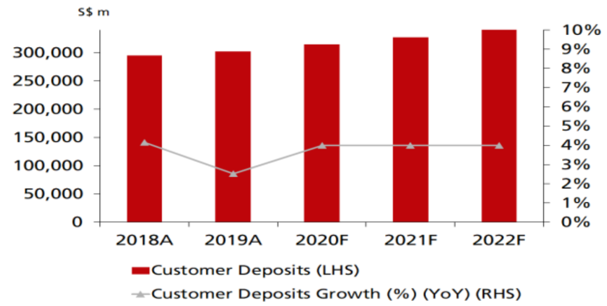
Margin Trends



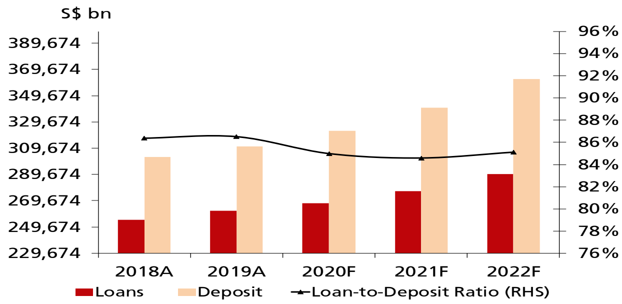
Gross Loan & Growth



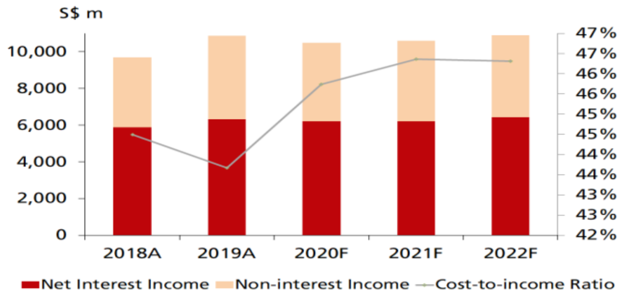
Customer Deposit & Growth



Loan-to-Deposit Ratio Trend



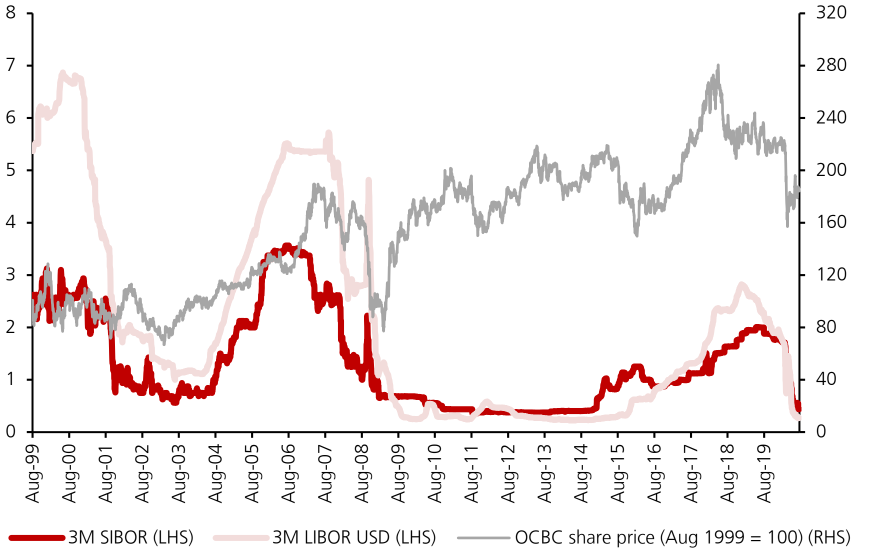
Cost & Income Structure



Source: Company, DBS Bank

Appendix 1: A look at Company's listed history – what drives its share price?

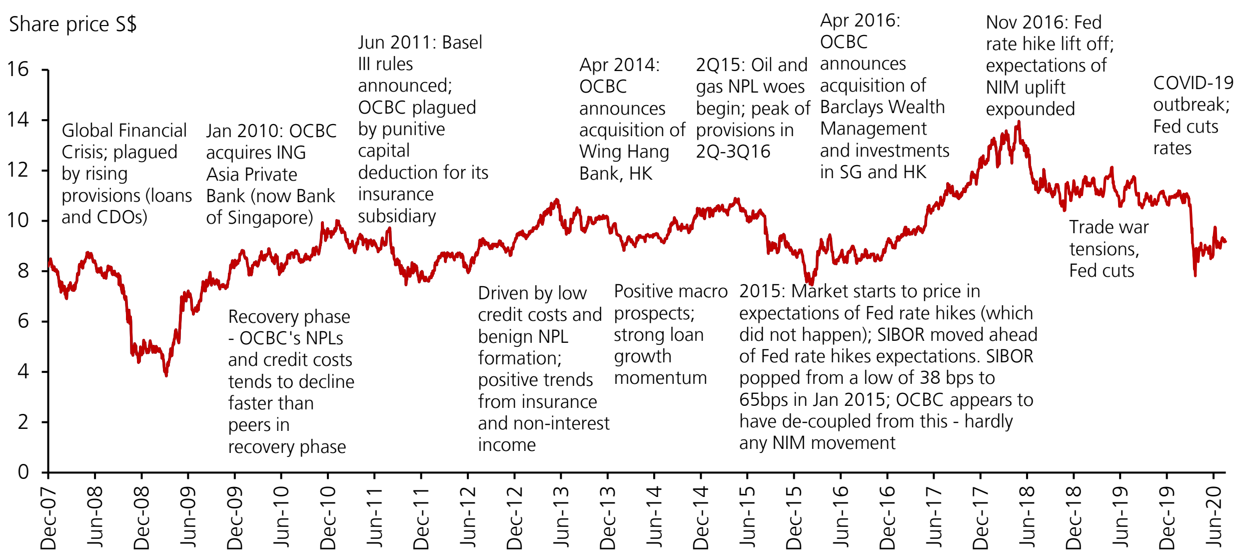
Interest rates as critical factor



Remarks

Interest rates, particularly SIBOR, is linked to loan pricing and hence NIM, which in turn drives earnings and share price performance. The Fed rate hikes which should lead to SIBOR uplift was historically 60% correlated. The relationship has somewhat broken down since late 2016 due to the relative strength of the SGD. As 3MSIBOR and 3MLIBOR have both declined from its peak, we expect NIM pressures to kick in, weighing on interest income growth.

Share price movement (10-year historical trends)



Source: Bloomberg Finance L.P., DBS Bank

Balance Sheet:

Keep watch on asset quality. OCBC's NPL ratio stood at 1.5% as at 1Q20. Over the last four quarters, OCBC has written special provisions for various stand-alone exposures. We remain cautious over OCBC's exposure as the bank has larger SME-related exposure in Hong Kong compared to its peers.

Capital ratios strong. OCBC reintroduced its scrip dividend scheme in FY18 up to FY19's interim dividend after halting it in 2Q16, to help shore up capital. We believe OCBC may reintroduce its scrip dividend scheme in FY20F as it seeks to shore up capital amidst more uncertain times. Aside, OCBC-WHB is transitioning to IRAB which may provide some risk-weighted assets release towards end-FY20F/early FY21F upon Hong Kong Monetary Authority's approval.

Share Price Drivers:

Sustained ROE improvement. OCBC's ROE for FY19 was 11.4%, compared to 11.5% in FY18. Successful credit cost and NPL containment could provide an added catalyst. Ability to demonstrate these, coupled with higher dividend payout ratio, will continue to drive OCBC's share price. OCBC has indicated a steady state CIR target of c.40% in the medium term as it continues to manage costs into FY20F due to declines in revenue.

Key Risks:

Recession impact. A deeper-than-expected recession in Singapore, a worse-than-expected COVID-19 outbreak in Singapore and regionally and a less firm macroeconomic outlook going forward could temper our fee income and loan growth expectations. Although loan growth is less sensitive to earnings, any deceleration as a result of weaker sentiment would dent top-line prospects.

Deteriorating asset quality. A larger-than-expected NPL arising from generic sectors and/or commodity-related exposure, as well as a worse-than-expected COVID-19 pandemic situation globally could unwind expectations of credit cost and NPL declines, thus posing risks to earnings. Further, unemployment arising from recession could pose risks to mortgages and unsecured consumer lending, among others.

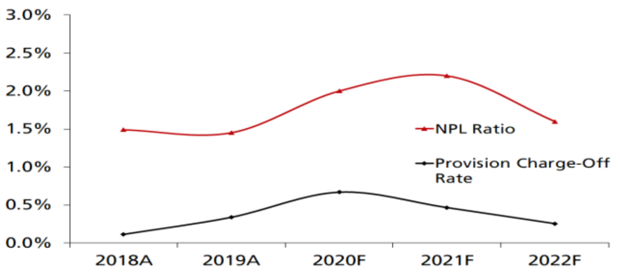
Environment, Social, Governance:

In FY18, OCBC developed a Sustainability Framework, reinforcing the bank's vision for sustainability. OCBC continues to implement its sustainability framework and monitors the progress via its KPIs. In FY19, OCBC commited to stop coal-fired power plant financing, on top of developing three additional sector-specific policies covering chemicals, infrastructure and waste management. OCBC added >S$5bn in new commitments to sustainable finance during FY19.

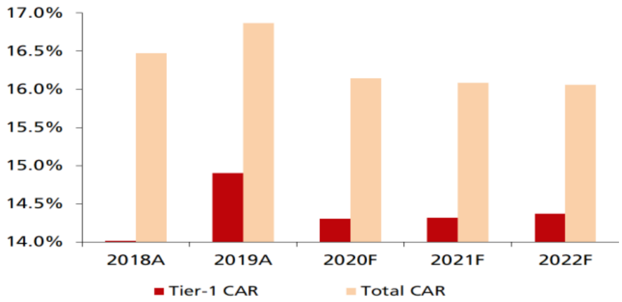
Company Background

The OCBC Bank group of businesses (OCBC) comprises a family of companies owned by Singapore's longest-established local bank.

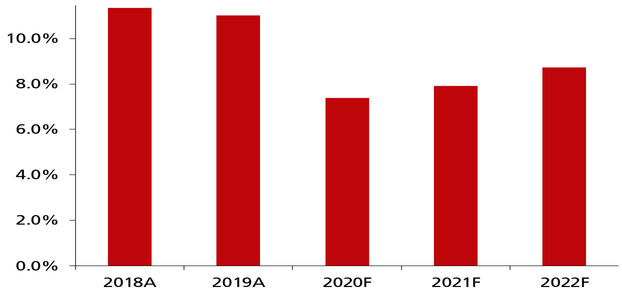
Asset Quality



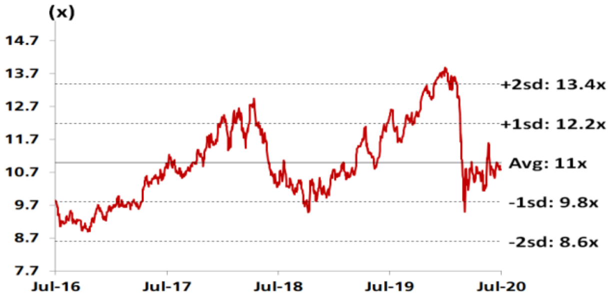
Capitalisation (%)



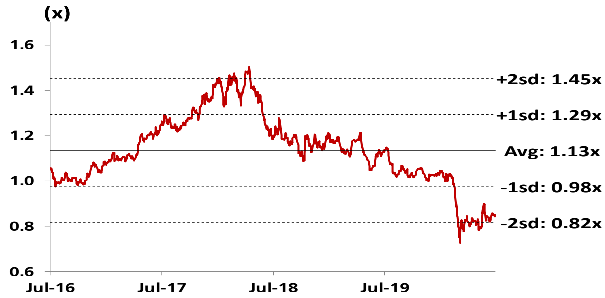
ROE (%)



Forward PE Band (x)



PB Band (x)



Source: Company, DBS Bank

Key Assumptions

FY Dec	2018A	2019A	2020F	2021F	2022F
Gross Loans Growth	8.7	2.7	2.8	3.9	4.8
Customer Deposits Growth	4.1	2.5	4.0	4.0	4.0
Yld. On Earnings Assets	3.2	3.4	3.0	2.9	2.9
Avg Cost Of Funds	1.6	1.7	1.4	1.4	1.3

Income Statement (S$ m)

FY Dec	2018A	2019A	2020F	2021F	2022F
Net Interest Income	5,890	6,331	6,216	6,218	6,443
Non-Interest Income	3,811	4,540	4,281	4,380	4,457
Operating Income	**9,701**	**10,871**	**10,496**	**10,598**	**10,899**
Operating Expenses	(4,316)	(4,747)	(4,801)	(4,914)	(5,048)
Pre-provision Profit	**5,385**	**6,124**	**5,695**	**5,684**	**5,851**
Provisions	(288)	(890)	(1,812)	(1,310)	(750)
Associates	455	566	583	600	618
Exceptionals	0	0	0	0	0
Pre-tax Profit	**5,552**	**5,800**	**4,466**	**4,974**	**5,720**
Taxation	(877)	(778)	(706)	(796)	(915)
Minority Interests	(183)	(153)	(223)	(249)	(286)
Preference Dividend	0	0	0	0	0
Net Profit	**4,492**	**4,869**	**3,538**	**3,930**	**4,519**
Net Profit before Except.	4,492	4,869	3,538	3,930	4,519
Growth (%)					
Net Interest Income Gth	8.6	7.5	(1.8)	0.0	3.6
Net Profit Gth bef Except	11.2	8.4	(27.3)	11.1	15.0
Margins, Costs & Efficiency (%)					
Spread	1.6	1.7	1.6	1.5	1.6
Net Interest Margin	1.7	1.8	1.7	1.6	1.6
Cost-to-Income Ratio	44.5	43.7	45.7	46.4	46.3
Business Mix (%)					
Net Int. Inc / Opg Inc.	60.7	58.2	59.2	58.7	59.1
Non-Int. Inc / Opg inc.	39.3	41.8	40.8	41.3	40.9
Fee Inc / Opg Income	20.9	19.5	21.0	21.9	22.5
Oth Non-Int Inc/Opg Inc	18.3	22.2	19.8	19.4	18.4
Profitability (%)					
ROAE Pre Ex.	11.4	11.0	7.4	7.9	8.7
ROAE	11.4	11.0	7.4	7.9	8.7
ROA Pre Ex.	1.0	1.0	0.8	0.8	0.9
ROA	1.0	1.0	0.8	0.8	0.9

Expect higher provisions through FY21F

Source: Company, DBS Bank

Quarterly / Interim Income Statement (S$ m)

FY Dec	1Q2019	2Q2019	3Q2019	4Q2019	1Q2020
Net Interest Income	1,534	1,588	1,600	1,610	1,626
Non-Interest Income	1,142	1,030	1,055	1,312	864
Operating Income	**2,676**	**2,618**	**2,655**	**2,922**	**2,490**
Operating Expenses	(1,120)	(1,177)	(1,158)	(1,292)	(1,135)
Pre-Provision Profit	**1,556**	**1,441**	**1,497**	**1,630**	**1,355**
Provisions	(249)	(111)	(323)	(207)	(657)
Associates	170	146	156	94	165
Exceptionals	0	0	0	0	0
Pretax Profit	**1,477**	**1,476**	**1,330**	**1,517**	**863**
Taxation	(195)	(224)	(139)	(220)	(165)
Minority Interests	(51)	(29)	(19)	(54)	0
Net Profit	**1,231**	**1,223**	**1,172**	**1,243**	**698**
Growth (%)					
Net Interest Income Gth	0.9	3.5	0.8	0.6	1.0
Net Profit Gth	32.9	(0.6)	(4.2)	6.1	(43.8)

Balance Sheet (S$ m)

FY Dec	2018A	2019A	2020F	2021F	2022F
Cash/Bank Balance	18,748	23,201	24,129	25,094	26,098
Government Securities	27,776	28,662	28,662	28,662	28,662
Inter Bank Assets	39,035	35,813	34,799	36,019	37,695
Total Net Loans & Advs.	255,193	262,045	267,682	277,069	289,958
Investment	25,542	28,533	29,147	30,169	31,572
Associates	3,183	3,638	4,221	4,821	5,440
Fixed Assets	4,217	4,467	4,690	4,925	5,171
Goodwill	5,093	4,980	5,160	5,160	5,160
Other Assets	11,889	13,014	13,294	13,760	14,400
Life Ass Fund Inv Assets	76,867	87,338	93,452	99,993	106,993
Total Assets	**467,543**	**491,691**	**505,236**	**525,672**	**551,149**
Customer Deposits	295,412	302,851	314,965	327,564	340,666
Inter Bank Deposits	7,576	8,250	8,065	13,055	21,699
Debts/Borrowings	30,272	29,388	29,388	29,388	29,388
Others	15,963	18,153	18,034	18,733	19,686
Minorities	1,255	1,441	1,664	1,913	2,199
Shareholders' Funds	42,137	47,162	48,673	50,575	53,064
Life Ass Fund Liabs	74,928	84,446	84,446	84,446	84,446
Total Liab& S/H's Funds	**467,543**	**491,691**	**505,236**	**525,672**	**551,149**

Source: Company, DBS Bank

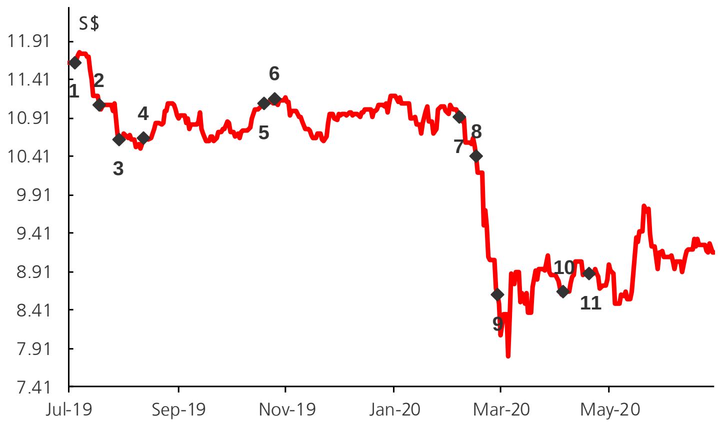
Financial Stability Measures (%)

FY Dec	2018A	2019A	2020F	2021F	2022F
Balance Sheet Structure					
Loan-to-Deposit Ratio	86.4	86.5	85.0	84.6	85.1
Net Loans / Total Assets	54.6	53.3	53.0	52.7	52.6
Investment / Total Assets	5.5	5.8	5.8	5.7	5.7
Cust . Dep./Int. Bear. Liab.	88.6	88.9	89.4	88.5	87.0
Interbank Dep / Int. Bear.	2.3	2.4	2.3	3.5	5.5
Asset Quality					
NPL / Total Gross Loans	1.5	1.5	2.0	2.2	1.6
NPL / Total Assets	0.8	0.8	1.1	1.2	0.9
Loan Loss Reserve Coverage	57.4	63.2	75.2	84.5	123.5
Provision Charge-Off Rate	0.1	0.3	0.7	0.5	0.3
Capital Strength					
Total CAR	16.5	16.9	16.1	16.1	16.1
Tier-1 CAR	14.0	14.9	14.3	14.3	14.4

Strong capital ratios

Source: Company, DBS Bank

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	22 Jul 19	11.64	11.50	HOLD
2:	05 Aug 19	11.08	11.50	HOLD
3:	16 Aug 19	10.63	11.50	HOLD
4:	30 Aug 19	10.65	11.50	HOLD
5:	06 Nov 19	11.10	11.50	HOLD
6:	12 Nov 19	11.17	11.50	HOLD
7:	24 Feb 20	10.92	11.50	HOLD
8:	05 Mar 20	10.42	11.00	HOLD
9:	17 Mar 20	8.61	8.60	HOLD
10:	23 Apr 20	8.65	7.90	HOLD
11:	08 May 20	8.88	7.90	HOLD

***Note** : Share price and Target price are adjusted for corporate actions.*

Source: DBS Bank
Analyst: Rui Wen LIM

UOB

HOLD

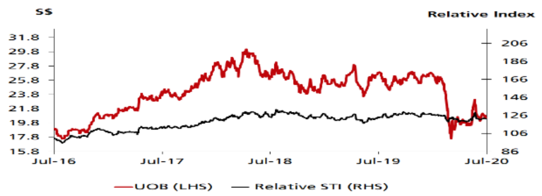
Last Traded Price (21 Jul 2020): S$20.70 (**STI :** 2,629.45)
Price Target 12-mth: S$20.90 (1% upside) (Prev S$17.50)

Analyst
Rui Wen LIM +65 66823720 ruiwenlim@dbs.com

What's New

- Expect to see sharp decline in NIM of ~19bps q-o-q in 2Q20 as loans reprice on lower benchmark rates
- UOB likely to see higher credit costs for 2Q20 compared to peers
- Possibility of a dividend cut in FY20F
- Maintain HOLD with higher TP of S$20.90

Price Relative



Forecasts and Valuation

FY Dec (S$m)	2019A	2020F	2021F	2022F
Pre-prov. Profit	5,558	5,118	5,343	5,620
Net Profit	4,343	2,942	3,439	4,018
Net Pft (Pre Ex.)	4,343	2,942	3,439	4,018
Net Pft Gth (Pre-ex) (%)	8.4	(32.3)	16.9	16.8
EPS (S cts)	260	176	206	241
EPS Pre Ex. (S cts)	260	176	206	241
EPS Gth Pre Ex (%)	8	(32)	17	17
Diluted EPS (S cts)	258	175	205	239
PE Pre Ex. (X)	8.0	11.7	10.0	8.6
Net DPS (S cts)	130	110	110	110
Div Yield (%)	6.3	5.3	5.3	5.3
ROAE Pre Ex. (%)	11.2	7.3	8.3	9.3
ROAE (%)	11.2	7.3	8.3	9.3
ROA (%)	1.1	0.7	0.8	0.9
BV Per Share (S cts)	2,376	2,442	2,538	2,669
P/Book Value (x)	0.9	0.8	0.8	0.8
Earnings Rev (%):		-	-	-
Consensus EPS (S cts):		181	193	241
Other Broker Recs:		B: 8	S: 3	H: 10

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P.

NIM and higher provisions to weigh on 2Q20 results

Maintain HOLD with higher TP of S$20.90. We maintain our HOLD call with a TP of S$20.90, as we believe there are limited catalysts for the stock currently amid the zero-rate environment, and uncertainty over the asset quality of its loan book (management guidance of 50-60bps each year through FY21F). In the upcoming 2Q20 results, we believe a q-o-q NIM decline of ~19bps will surprise on the downside, while higher credit costs q-o-q will continue to weigh on UOB's earnings. We believe a S$1.10 base DPS provides a key support for UOB (FY19: S$0.20 special DPS paid on top of base DPS) which UOB will try to maintain though there is a possibility of a dividend cut, due to reduced FY20F earnings wherein UOB's dividend policy is for a 50% dividend payout ratio, subject to a minimum CET1 ratio of 13.5% and sustainable outlook.

Where we differ: We remain cautious over the impact of asset quality on UOB's books, given the current COVID-19 situation and likelihood of a deep recession in Singapore.

Potential catalyst: Sustained positive deliveries. Lower–than-expected credit costs could drive earnings. Sustained ROE improvement will continue to drive UOB's share price.

Valuation:

Maintain HOLD, TP of S$20.90. Our revised TP of S$20.90 is based on the Gordon Growth Model (8% ROE, 3% growth, 9% cost of equity). This is equivalent to c.0.8x FY21F P/BV that is 2SD below its average 10-year forward P/BV multiple. Our previous TP was pegged to its trough valuation of 0.7x P/BV.

Key Risks to Our View:

Deteriorating asset quality. A larger-than-expected NPL arising from generic sectors and/or commodity-related exposure, as well as a worse-than-expected COVID-19 pandemic situation globally could unwind expectations of credit cost and NPL declines, thus posing risks to earnings. Further, unemployment arising from recession could pose risks to mortgages and unsecured consumer lending, among others.

At A Glance

Issued Capital (m shrs)	1,669
Mkt. Cap (Sm/USm)	34,557 / 24,881
Major Shareholders (%)	
Wee Investment Pte Ltd	8.0
Wah Hin & Co Pte Ltd	5.2
Free Float (%)	86.8
3m Avg. Daily Val (US$m)	59.2
GIC Industry : Financial / Banks	

CRITICAL DATA POINTS TO WATCH

Critical Factors

NIM pressures ahead. We expect loan growth to slow down in FY20F on slower business activity. In 1Q20, average 3MSIBOR 3MLIBOR declined 25/41bps bps q-o-q (previous quarter: 12/25bps), with further declines in 2Q20. We believe that loan yields will continue to decline on a lower reference rate.

Non-interest income driven more by loan activities. Contrary to peers, UOB's non-interest income is focused more on loan activities, which is its core business. While there is increasing traction from wealth management income, it remains small vs. peers. Fee income should be consumer business-driven from credit cards and private banking rather than from capital markets. While UOB's wealth management business makes up a smaller proportion of non-interest income vs. its peers, the bank has increasingly built up its wealth AUM which currently stands at S$127bn (4Q19), of which ~61% comes from overseas customers. Amidst COVID-19, we expect some pressures on non-interest income such as cards, trading income going forward.

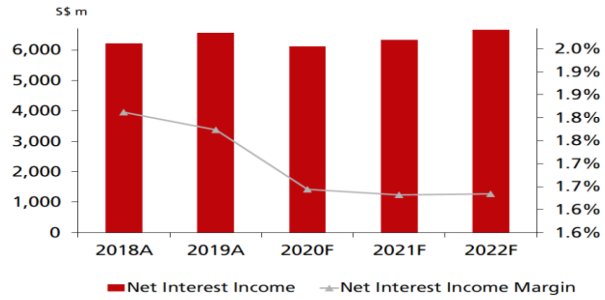
Costs skewed to business growth. We expect operating expenses to stay high with costs skewed towards business expansion and technology which is required particularly for digital banking and cyber security. Other investments to further enhance regional operations are still on-going but the increase should not be high. Cost-to-income target is 40% over the longer term. We forecast a higher c.47% cost-to-income ratio for FY20F due to lower expected revenues.

Asset quality. We continue to keep watch on emerging risks from affected sectors from the fallout arising from COVID-19, oil and gas portfolio (due to low oil prices), as well as SME exposure. UOB's oil and gas book is 3.6% of total loan book as of 1Q20 (2Q18: 4.7%). For vulnerable upstream exposures, they have been previously classified as NPLs and collateral values have been marked down by as much as 90% by end-2017.

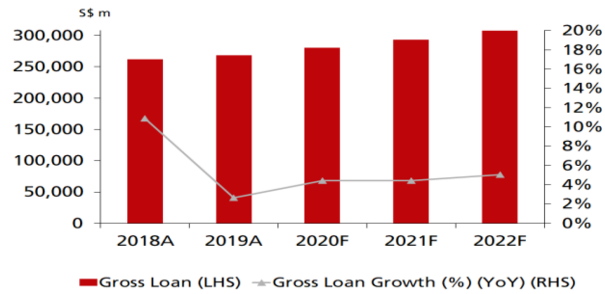
Regionalisation remains core to UOB's strategy. UOB's regionalisation agenda remains intact. The bank is relooking at its operations in Indonesia, given the current challenging operating environment. In Malaysia, growth remains cautious, but asset quality is at a comfortable position. Its Thai operations remain small, while its Greater China operations are still smaller than peers. UOB has not been aggressively acquiring to add new revenue streams but has chosen to grow organically. With its existing strong regional franchise within ASEAN and Greater China, and continued focus to tap intra-regional flows, UOB has a target to grow ex-Singapore revenues to ~50% (currently ~40%) by 2021. Currently, close to 40% of UOB's operating profit is derived outside of Singapore, primarily from ASEAN and Greater China. UOB opened its second branch in Vietnam in June 2019 as testament to its efforts to grow its regional network.

Digital banking adds to its regionalisation strategy. UOB has announced its Digital Bank efforts for ASEAN's "mobile first" and "mobile only" customers in Singapore, Malaysia, Indonesia, Thailand and Vietnam as part of its efforts to scale up its regional franchise over the next few years. Its digital-only bank, TMRW, has since been launched in Thailand and has achieved reasonable success. UOB's end goal in its Digital Bank agenda would be to establish itself in five markets and have 3-5m customers with a steady-state CIR of ~35% as it seeks to serve the mobile-first and mobile-only generation. UOB plans to launch its digital bank in a second country, after TMRW's initial launch in Thailand.

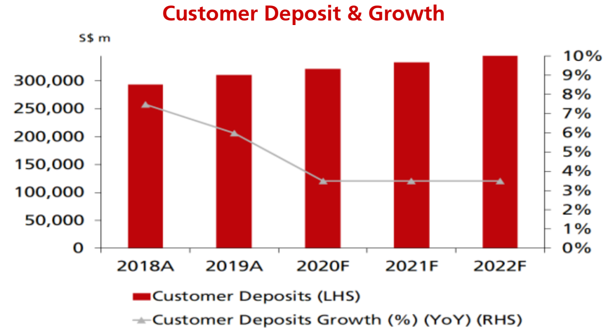
Margin Trends



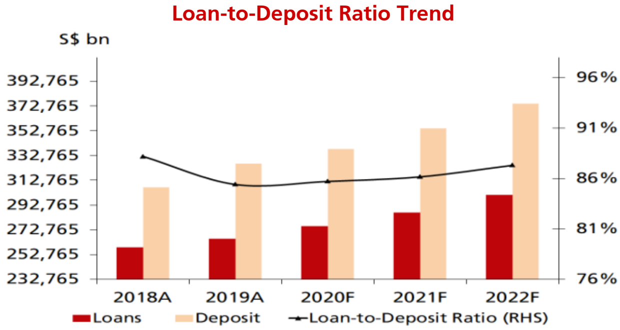
Gross Loan & Growth



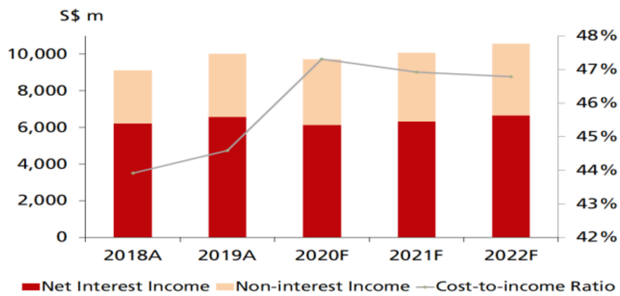
Customer Deposit & Growth



Loan-to-Deposit Ratio Trend



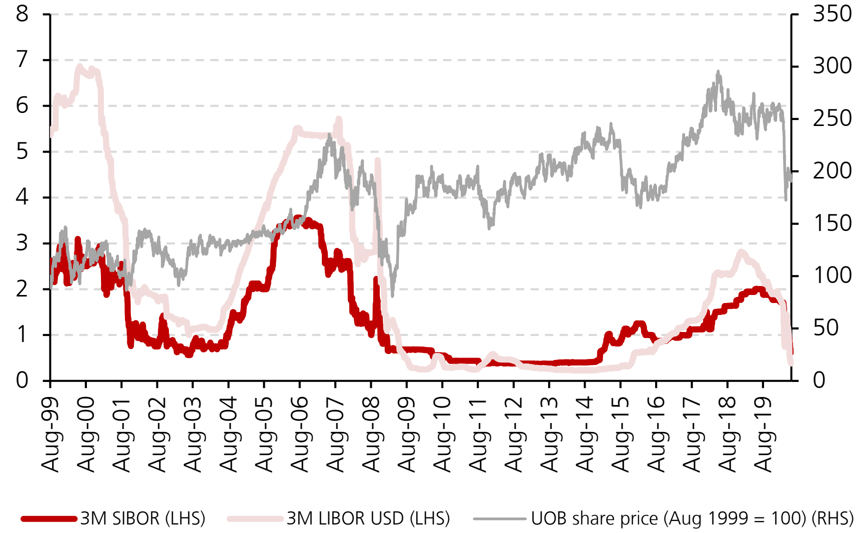
Cost & Income Structure



Source: Company, DBS Bank

Appendix 1: A look at Company's listed history – what drives its share price?

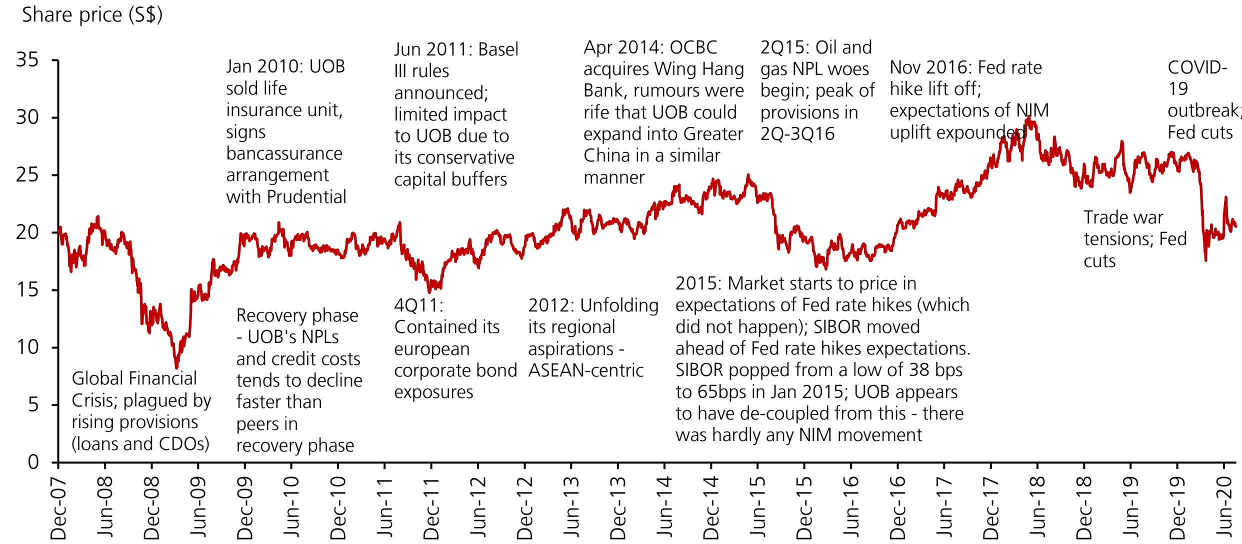
Interest rates as critical factor



Remarks

Interest rates, particularly SIBOR, is linked to loan pricing and hence NIM, which in turn drives earnings and share price performance. The Fed rate hikes which should lead to SIBOR uplift was historically 60% correlated. The relationship has somewhat broken down since late 2016 due to the relative strength of the SGD. As 3MSIBOR and 3MLIBOR have both declined from its peak, we expect NIM pressures to kick in, weighing on interest income growth.

Share price movement (10-year historical trends)



Source: Bloomberg Finance L.P., DBS Bank

Balance Sheet:

Keep watch on asset quality. While issues pertaining to the oil & gas exposure have largely been taken care of, we continue to keep watch on UOB's asset quality, especially in the SME space as higher credit costs could be indicators of an acceleration in economic slowdown. UOB had in the past built up general provisions as a prudent measure but is no longer able to do so under IFRS9.

Strong capital position. Its CET1 ratio's comfort zone is 12.5% to 13.5% and UOB announced the suspension of its scrip dividend programme together with its 2Q18 results. With its strong capital position (CET1 ratio of 14.3% as at end-Dec 2019), we believe DPS will be reduced to S$1.10, representing c.50% dividend payout ratio in FY20F as UOB seeks to defend a key dividend base level.

Share Price Drivers:

Sustained ROE improvement. Sustained ROE improvement will continue to drive UOB's share price on the back of strong net interest income (post zero-rate environment) and non-interest income growth on top of its efforts to digitalise internal processes to boost revenues. Sustained ROE improvement will continue to drive UOB's share price.

Key Risks:

Recession impact. A deeper-than-expected recession in Singapore, a worse-than-expected COVID-19 outbreak in Singapore and regionally and a less firm macroeconomic outlook going forward could temper our fee income and loan growth expectations. Although loan growth is less sensitive to earnings, any deceleration as a result of weaker sentiment would dent top-line prospects.

Worsened asset quality. A larger-than-expected NPL arising from generic sectors and/or commodity-related exposure, as well as a worse-than-expected COVID-19 pandemic situation globally could unwind expectations of credit cost and NPL declines, thus posing risks to earnings. Further, unemployment arising from recession could pose risks to mortgages and unsecured consumer lending, among others.

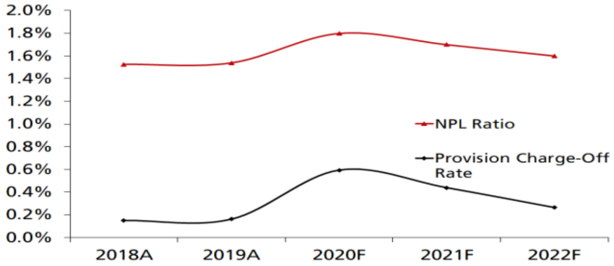
Environment, Social, Governance:

In FY18, UOB issued its third annual report which included Global Reporting Initiative (GRI) disclosures, highlighting the group's sustainability efforts. UOB continues to sustain growth responsibly and has integrated its Responsible Financing Policy into its business model. In FY19, UOB extended S$6bn of sustainable financing to corporates and completed its alignment of strategy to all United Ntions Susstainable Development Goals.

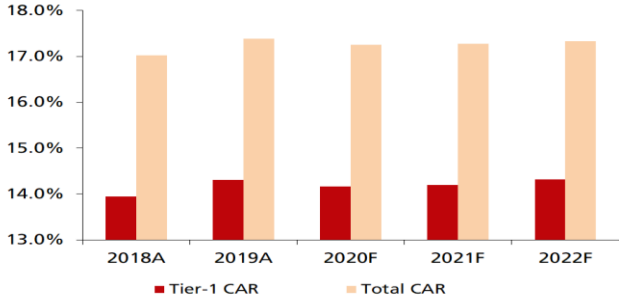
Company Background

UOB provides a wide range of financial services through its global network of branches, offices, subsidiaries and associates: personal financial services, private banking, commercial and corporate banking, investment banking, corporate finance, capital market activities, treasury services, futures broking, asset management, venture capital management, insurance and stockbroking services.

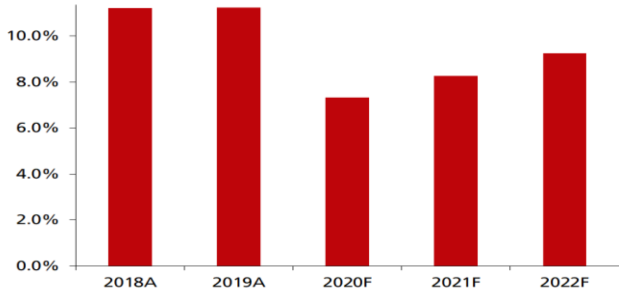
Asset Quality



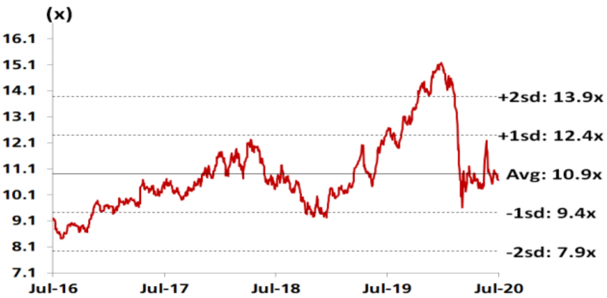
Capitalisation (%)



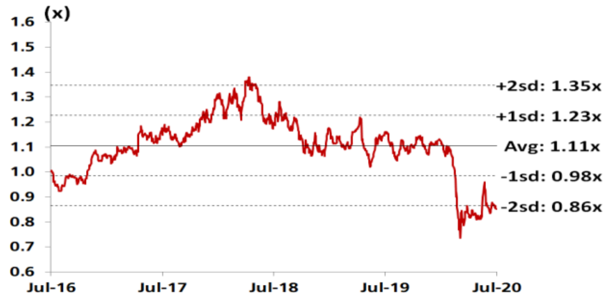
ROE (%)



Forward PE Band (x)



PB Band (x)



Source: Company, DBS Bank

Key Assumptions

FY Dec	2018A	2019A	2020F	2021F	2022F
Gross Loans Growth	10.9	2.7	4.4	4.4	5.0
Customer Deposits Growth	7.5	6.0	3.5	3.5	3.5
Yld. On Earnings Assets	3.3	3.4	3.0	2.9	2.9
Avg Cost Of Funds	1.5	1.7	1.4	1.4	1.3

Income Statement (S$m)

FY Dec	2018A	2019A	2020F	2021F	2022F
Net Interest Income	6,220	6,562	6,127	6,335	6,661
Non-Interest Income	2,896	3,468	3,588	3,733	3,901
Operating Income	**9,116**	**10,030**	**9,715**	**10,068**	**10,562**
Operating Expenses	(4,003)	(4,472)	(4,597)	(4,725)	(4,943)
Pre-provision Profit	**5,113**	**5,558**	**5,118**	**5,343**	**5,620**
Provisions	(393)	(435)	(1,666)	(1,286)	(812)
Associates	106	51.0	51.0	51.0	51.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	**4,826**	**5,174**	**3,503**	**4,109**	**4,858**
Taxation	(805)	(813)	(550)	(657)	(826)
Minority Interests	(13.0)	(18.0)	(10.5)	(12.3)	(14.6)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	**4,008**	**4,343**	**2,942**	**3,439**	**4,018**
Net Profit bef Except	4,008	4,343	2,942	3,439	4,018
Growth (%)					
Net Interest Income Gth	12.5	5.5	(6.6)	3.4	5.1
Net Profit Gth	18.2	8.4	(32.3)	16.9	16.8
Margins, Costs & Efficiency (%)					
Spread	1.8	1.7	1.6	1.6	1.6
Net Interest Margin	1.8	1.8	1.7	1.6	1.6
Cost-to-Income Ratio	43.9	44.6	47.3	46.9	46.8
Business Mix (%)					
Net Int. Inc / Opg Inc.	68.2	65.4	63.1	62.9	63.1
Non-Int. Inc / Opg inc.	31.8	34.6	36.9	37.1	36.9
Fee Inc / Opg Income	21.6	20.3	21.9	22.3	22.5
Oth Non-Int Inc/Opg Inc	10.2	14.3	15.1	14.8	14.4
Profitability (%)					
ROAE Pre Ex.	11.2	11.2	7.3	8.3	9.3
ROAE	11.2	11.2	7.3	8.3	9.3
ROA Pre Ex.	1.1	1.1	0.7	0.8	0.9
ROA	1.1	1.1	0.7	0.8	0.9

Higher provisions expected through FY21F

Source: Company, DBS Bank

Quarterly / Interim Income Statement (S$m)

FY Dec	1Q2019	2Q2019	3Q2019	4Q2019	1Q2020
Net Interest Income	1,587	1,653	1,687	1,635	1,593
Non-Interest Income	819	930	922	797	813
Operating Income	**2,406**	**2,583**	**2,609**	**2,432**	**2,406**
Operating Expenses	(1,073)	(1,130)	(1,154)	(1,116)	(1,086)
Pre-Provision Profit	**1,333**	**1,453**	**1,455**	**1,316**	**1,320**
Provisions	(93.0)	(51.0)	(145)	(146)	(286)
Associates	17.0	0.0	14.0	20.0	18.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Pretax Profit	**1,257**	**1,402**	**1,324**	**1,190**	**1,052**
Taxation	(200)	(231)	(202)	(178)	(197)
Minority Interests	(5.0)	(4.0)	(4.0)	(6.0)	0.0
Net Profit	**1,052**	**1,168**	**1,118**	**1,006**	**855**
Growth (%)					
Net Interest Income Gth	(1.3)	4.2	2.1	(3.1)	(2.6)
Net Profit Gth	14.8	11.0	(4.3)	(10.0)	(15.0)

Balance Sheet (S$m)

FY Dec	2018A	2019A	2020F	2021F	2022F
Cash/Bank Balance	25,252	25,864	26,769	27,706	28,676
Government Securities	18,816	21,365	24,259	27,546	31,277
Inter Bank Assets	50,800	52,840	54,881	57,102	59,882
Total Net Loans & Advs.	258,628	265,458	275,711	286,870	300,834
Investment	15,482	18,243	16,714	17,418	18,270
Associates	1,170	1,182	1,233	1,284	1,335
Fixed Assets	2,266	2,760	1,667	1,667	1,667
Goodwill	4,138	4,148	4,142	4,142	4,142
Other Assets	11,541	12,549	13,034	13,561	14,221
Total Assets	**388,092**	**404,409**	**418,411**	**437,297**	**460,305**
Customer Deposits	293,186	310,726	321,601	332,857	344,507
Inter Bank Deposits	13,801	15,301	16,271	21,647	29,974
Debts/Borrowings	30,606	25,209	25,209	25,209	25,209
Others	12,688	13,309	14,349	14,988	15,822
Minorities	189	227	238	250	264
Shareholders' Funds	37,623	39,637	40,743	42,346	44,527
Total Liab& S/H's Funds	**388,093**	**404,409**	**418,411**	**437,297**	**460,305**

Source: Company, DBS Bank

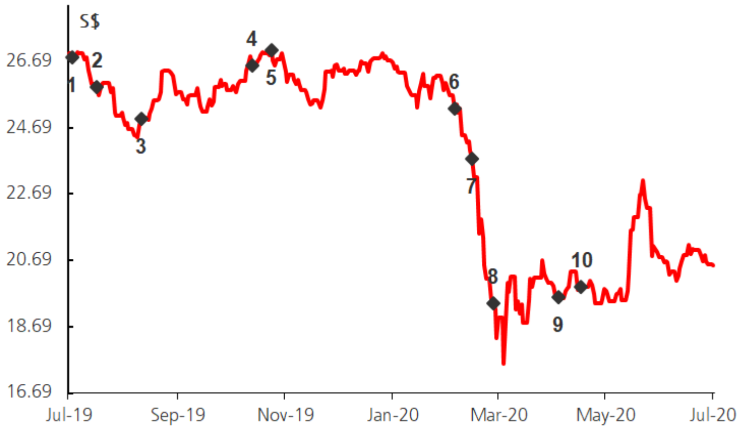
Financial Stability Measures (%)

FY Dec	2018A	2019A	2020F	2021F	2022F
Balance Sheet Structure					
Loan-to-Deposit Ratio	88.2	85.4	85.7	86.2	87.3
Net Loans / Total Assets	66.6	65.6	65.9	65.6	65.4
Investment / Total Assets	4.0	4.5	4.0	4.0	4.0
Cust . Dep./Int. Bear. Liab.	86.8	88.5	88.6	87.7	86.2
Interbank Dep / Int. Bear.	4.1	4.4	4.5	5.7	7.5
Asset Quality					
NPL / Total Gross Loans	1.5	1.5	1.8	1.7	1.6
NPL / Total Assets	1.0	1.0	1.2	1.1	1.1
Loan Loss Reserve Coverage	77.1	77.8	97.0	124.5	142.7
Provision Charge-Off Rate	0.2	0.2	0.6	0.4	0.3
Capital Strength					
Total CAR	17.0	17.4	17.3	17.3	17.3
Tier-1 CAR	13.9	14.3	14.2	14.2	14.3

Strong capital levels

Source: Company, DBS Bank

Target Price & Ratings History



Note: Share price and Target price are adjusted for corporate actions.

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	22 Jul 19	26.80	29.20	BUY
2:	05 Aug 19	25.91	29.20	BUY
3:	30 Aug 19	24.96	29.20	BUY
4:	01 Nov 19	26.57	29.20	BUY
5:	12 Nov 19	27.02	29.20	BUY
6:	24 Feb 20	25.28	27.20	BUY
7:	05 Mar 20	23.74	25.50	HOLD
8:	17 Mar 20	19.39	19.00	HOLD
9:	23 Apr 20	19.57	17.50	HOLD
10:	06 May 20	19.88	17.50	HOLD

Source: DBS Bank
Analyst: Rui Wen LIM

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*

Completed Date: 21 Jul 2020 17:39:09 (SGT)
Dissemination Date: 21 Jul 2020 17:54:15 (SGT)

Sources for all charts and tables are DBS Bank unless otherwise specified.

GENERAL DISCLOSURE/DISCLAIMER

This report is prepared by DBS Bank Ltd. This report is solely intended for the clients of DBS Bank Ltd, its respective connected and associated corporations and affiliates only and no part of this document may be (i) copied, photocopied or duplicated in any form or by any means or (ii) redistributed without the prior written consent of DBS Bank Ltd.

The research set out in this report is based on information obtained from sources believed to be reliable, but we (which collectively refers to DBS Bank Ltd, its respective connected and associated corporations, affiliates and their respective directors, officers, employees and agents (collectively, the "DBS Group") have not conducted due diligence on any of the companies, verified any information or sources or taken into account any other factors which we may consider to be relevant or appropriate in preparing the research. Accordingly, we do not make any representation or warranty as to the accuracy, completeness or correctness of the research set out in this report. Opinions expressed are subject to change without notice. This research is prepared for general circulation. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific addressee. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees, who should obtain separate independent legal or financial advice. The DBS Group accepts no liability whatsoever for any direct, indirect and/or consequential loss (including any claims for loss of profit) arising from any use of and/or reliance upon this document and/or further communication given in relation to this document. This document is not to be construed as an offer or a solicitation of an offer to buy or sell any securities. The DBS Group, along with its affiliates and/or persons associated with any of them may from time to time have interests in the securities mentioned in this document. The DBS Group, may have positions in, and may effect transactions in securities mentioned herein and may also perform or seek to perform broking, investment banking and other banking services for these companies.

Any valuations, opinions, estimates, forecasts, ratings or risk assessments herein constitutes a judgment as of the date of this report, and there can be no assurance that future results or events will be consistent with any such valuations, opinions, estimates, forecasts, ratings or risk assessments. The information in this document is subject to change without notice, its accuracy is not guaranteed, it may be incomplete or condensed, it may not contain all material information concerning the company (or companies) referred to in this report and the DBS Group is under no obligation to update the information in this report.

This publication has not been reviewed or authorized by any regulatory authority in Singapore, Hong Kong or elsewhere. There is no planned schedule or frequency for updating research publication relating to any issuer.

The valuations, opinions, estimates, forecasts, ratings or risk assessments described in this report were based upon a number of estimates and assumptions and are inherently subject to significant uncertainties and contingencies. It can be expected that one or more of the estimates on which the valuations, opinions, estimates, forecasts, ratings or risk assessments were based will not materialize or will vary significantly from actual results. Therefore, the inclusion of the valuations, opinions, estimates, forecasts, ratings or risk assessments described herein IS NOT TO BE RELIED UPON as a representation and/or warranty by the DBS Group (and/or any persons associated with the aforesaid entities), that:

(a) such valuations, opinions, estimates, forecasts, ratings or risk assessments or their underlying assumptions will be achieved, and
(b) there is any assurance that future results or events will be consistent with any such valuations, opinions, estimates, forecasts, ratings or risk assessments stated therein.

Please contact the primary analyst for valuation methodologies and assumptions associated with the covered companies or price targets.

Any assumptions made in this report that refers to commodities, are for the purposes of making forecasts for the company (or companies) mentioned herein. They are not to be construed as recommendations to trade in the physical commodity or in the futures contract relating to the commodity referred to in this report.

DBSVUSA, a US-registered broker-dealer, does not have its own investment banking or research department, has not participated in any public offering of securities as a manager or co-manager or in any other investment banking transaction in the past twelve months and does not engage in market-making.

ANALYST CERTIFICATION

The research analyst(s) primarily responsible for the content of this research report, in part or in whole, certifies that the views about the companies and their securities expressed in this report accurately reflect his/her personal views. The analyst(s) also certifies that no part of his/her compensation was, is, or will be, directly or indirectly, related to specific recommendations or views expressed in the report. The research analyst (s) primarily responsible for the content of this research report, in part or in whole, certifies that he or his associate[1] does not serve as an officer of the issuer or the new listing applicant (which includes in the case of a real estate investment trust, an officer of the management company of the real estate investment trust; and in the case of any other entity, an officer or its equivalent counterparty of the entity who is responsible for the management of the issuer or the new listing applicant) and the research analyst(s) primarily responsible for the content of this research report or his associate does not have financial interests[2] in relation to an issuer or a new listing applicant that the analyst reviews. DBS Group has procedures in place to eliminate, avoid and manage any potential conflicts of interests that may arise in connection with the production of research reports. The research analyst(s) responsible for this report operates as part of a separate and independent team to the investment banking function of the DBS Group and procedures are in place to ensure that confidential information held by either the research or investment banking function is handled appropriately. There is no direct link of DBS Group's compensation to any specific investment banking function of the DBS Group.

COMPANY-SPECIFIC / REGULATORY DISCLOSURES

1. DBS Bank Ltd, DBS HK, DBS Vickers Securities (Singapore) Pte Ltd (''DBSVS'') or their subsidiaries and/or other affiliates have proprietary positions in OCBC, UOB recommended in this report as of 30 Jun 2020.
2. Neither DBS Bank Ltd nor DBS HK market makes in equity securities of the issuer(s) or company(ies) mentioned in this Research Report.

Compensation for investment banking services:

3. DBSVUSA does not have its own investment banking or research department, nor has it participated in any public offering of securities as a manager or co-manager or in any other investment banking transaction in the past twelve months. Any US persons wishing to obtain further information, including any clarification on disclosures in this disclaimer, or to effect a transaction in any security discussed in this document should contact DBSVUSA exclusively.

Disclosure of previous investment recommendation produced:

4. DBS Bank Ltd, DBS Vickers Securities (Singapore) Pte Ltd (''DBSVS''), their subsidiaries and/or other affiliates may have published other investment recommendations in respect of the same securities / instruments recommended in this research report during the preceding 12 months. Please contact the primary analyst listed in the first page of this report to view previous investment recommendations published by DBS Bank Ltd, DBS Vickers Securities (Singapore) Pte Ltd (''DBSVS''), their subsidiaries and/or other affiliates in the preceding 12 months.

---

[1] An associate is defined as (i) the spouse, or any minor child (natural or adopted) or minor step-child, of the analyst; (ii) the trustee of a trust of which the analyst, his spouse, minor child (natural or adopted) or minor step-child, is a beneficiary or discretionary object; or (iii) another person accustomed or obliged to act in accordance with the directions or instructions of the analyst.

[2] Financial interest is defined as interests that are commonly known financial interest, such as investment in the securities in respect of an issuer or a new listing applicant, or financial accommodation arrangement between the issuer or the new listing applicant and the firm or analysis. This term does not include commercial lending conducted at arm's length, or investments in any collective investment scheme other than an issuer or new listing applicant notwithstanding the fact that the scheme has investments in securities in respect of an issuer or a new listing applicant.

RESTRICTIONS ON DISTRIBUTION

General	This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation.
Australia	This report is being distributed in Australia by DBS Bank Ltd, DBSVS or DBSV HK. DBS Bank Ltd holds Australian Financial Services Licence no. 475946. DBSVS and DBSV HK are exempted from the requirement to hold an Australian Financial Services Licence under the Corporation Act 2001 (“CA”) in respect of financial services provided to the recipients. Both DBS Bank Ltd and DBSVS are regulated by the Monetary Authority of Singapore under the laws of Singapore, and DBSV HK is regulated by the Hong Kong Securities and Futures Commission under the laws of Hong Kong, which differ from Australian laws. Distribution of this report is intended only for “wholesale investors” within the meaning of the CA.
Hong Kong	This report has been prepared by a person(s) who is not licensed by the Hong Kong Securities and Futures Commission to carry on the regulated activity of advising on securities in Hong Kong pursuant to the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong). This report is being distributed in Hong Kong and is attributable to DBS Bank (Hong Kong) Limited, a registered institution registered with the Hong Kong Securities and Futures Commission to carry on the regulated activity of advising on securities pursuant to the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong). DBS Bank Ltd., Hong Kong Branch is a limited liability company incorporated in Singapore. For any query regarding the materials herein, please contact Carol Wu (Reg No. AH8283) at dbsvhk@dbs.com
Indonesia	This report is being distributed in Indonesia by PT DBS Vickers Sekuritas Indonesia.
Malaysia	This report is distributed in Malaysia by AllianceDBS Research Sdn Bhd ("ADBSR"). Recipients of this report, received from ADBSR are to contact the undersigned at 603-2604 3333 in respect of any matters arising from or in connection with this report. In addition to the General Disclosure/Disclaimer found at the preceding page, recipients of this report are advised that ADBSR (the preparer of this report), its holding company Alliance Investment Bank Berhad, their respective connected and associated corporations, affiliates, their directors, officers, employees, agents and parties related or associated with any of them may have positions in, and may effect transactions in the securities mentioned herein and may also perform or seek to perform broking, investment banking/corporate advisory and other services for the subject companies. They may also have received compensation and/or seek to obtain compensation for broking, investment banking/corporate advisory and other services from the subject companies. Wong Ming Tek, Executive Director, ADBSR

Singapore	This report is distributed in Singapore by DBS Bank Ltd (Company Regn. No. 196800306E) or DBSVS (Company Regn No. 198600294G), both of which are Exempt Financial Advisers as defined in the Financial Advisers Act and regulated by the Monetary Authority of Singapore. DBS Bank Ltd and/or DBSVS, may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, DBS Bank Ltd accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact DBS Bank Ltd at 6327 2288 for matters arising from, or in connection with the report.
Thailand	This report is being distributed in Thailand by DBS Vickers Securities (Thailand) Co Ltd.
United Kingdom	This report is produced by DBS Bank Ltd which is regulated by the Monetary Authority of Singapore. This report is disseminated in the United Kingdom by DBS Vickers Securities (UK) Ltd, ("DBSVUK"). DBSVUK is authorised and regulated by the Financial Conduct Authority in the United Kingdom. In respect of the United Kingdom, this report is solely intended for the clients of DBSVUK, its respective connected and associated corporations and affiliates only and no part of this document may be (i) copied, photocopied or duplicated in any form or by any means or (ii) redistributed without the prior written consent of DBSVUK. This communication is directed at persons having professional experience in matters relating to investments. Any investment activity following from this communication will only be engaged in with such persons. Persons who do not have professional experience in matters relating to investments should not rely on this communication.
Dubai International Financial Centre	This research report is being distributed by DBS Bank Ltd., (DIFC Branch) having its office at units 608 - 610, 6th Floor, Gate Precinct Building 5, PO Box 506538, DIFC, Dubai, United Arab Emirates. DBS Bank Ltd., (DIFC Branch) is regulated by The Dubai Financial Services Authority. This research report is intended only for professional clients (as defined in the DFSA rulebook) and no other person may act upon it.
United Arab Emirates	This report is provided by DBS Bank Ltd (Company Regn. No. 196800306E) which is an Exempt Financial Adviser as defined in the Financial Advisers Act and regulated by the Monetary Authority of Singapore. This report is for information purposes only and should not be relied upon or acted on by the recipient or considered as a solicitation or inducement to buy or sell any financial product. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situation, or needs of individual clients. You should contact your relationship manager or investment adviser if you need advice on the merits of buying, selling or holding a particular investment. You should note that the information in this report may be out of date and it is not represented or warranted to be accurate, timely or complete. This report or any portion thereof may not be reprinted, sold or redistributed without our written consent.

United States	This report was prepared by DBS Bank Ltd. DBSVUSA did not participate in its preparation. The research analyst(s) named on this report are not registered as research analysts with FINRA and are not associated persons of DBSVUSA. The research analyst(s) are not subject to FINRA Rule 2241 restrictions on analyst compensation, communications with a subject company, public appearances and trading securities held by a research analyst. This report is being distributed in the United States by DBSVUSA, which accepts responsibility for its contents. This report may only be distributed to Major U.S. Institutional Investors (as defined in SEC Rule 15a-6) and to such other institutional investors and qualified persons as DBSVUSA may authorize. Any U.S. person receiving this report who wishes to effect transactions in any securities referred to herein should contact DBSVUSA directly and not its affiliate.
Other jurisdictions	In any other jurisdictions, except if otherwise restricted by laws or regulations, this report is intended only for qualified, professional, institutional or sophisticated investors as defined in the laws and regulations of such jurisdictions.

DBS Regional Research Offices

HONG KONG
DBS (Hong Kong) Ltd
Contact: Carol Wu
13th Floor One Island East,
18 Westlands Road,
Quarry Bay, Hong Kong
Tel: 852 3668 4181
Fax: 852 2521 1812
e-mail: dbsvhk@dbs.com

MALAYSIA
AllianceDBS Research Sdn Bhd
Contact: Wong Ming Tek (128540 U)
19th Floor, Menara Multi-Purpose,
Capital Square,
8 Jalan Munshi Abdullah 50100
Kuala Lumpur, Malaysia.
Tel.: 603 2604 3333
Fax: 603 2604 3921
e-mail: general@alliancedbs.com

SINGAPORE
DBS Bank Ltd
Contact: Janice Chua
12 Marina Boulevard,
Marina Bay Financial Centre Tower 3
Singapore 018982
Tel: 65 6878 8888
Fax: 65 65353 418
e-mail: equityresearch@dbs.com
Company Regn. No. 196800306E

INDONESIA
PT DBS Vickers Sekuritas (Indonesia)
Contact: Maynard Priajaya Arif
DBS Bank Tower
Ciputra World 1, 32/F
Jl. Prof. Dr. Satrio Kav. 3-5
Jakarta 12940, Indonesia
Tel: 62 21 3003 4900
Fax: 6221 3003 4943
e-mail: indonesiaresearch@dbs.com

THAILAND
DBS Vickers Securities (Thailand) Co Ltd
Contact: Chanpen Sirithanarattanakul
989 Siam Piwat Tower Building,
9th, 14th-15th Floor
Rama 1 Road, Pathumwan,
Bangkok Thailand 10330
Tel. 66 2 857 7831
Fax: 66 2 658 1269
e-mail: research@th.dbs.com
Company Regn. No 0105539127012
Securities and Exchange Commission, Thailand