

Singapore Banks

POSITIVE

[Unchanged]

Scope For Liability Management

Rising FD rates; but remain POSITIVE

As the 3M SIBOR, based on its 90-day moving average, has risen 30bps YTD, SGD customer cost of funds is likely to rise. More than a third of Singapore banks' customer deposits in 1Q18 was in SGD: DBS 43%, OCBC 35% and UOB 44%. That said, as NIM should also expand with higher lending yields, this can help offset higher cost of funds. Remain POSITIVE on the sector, with catalysts still anticipated from NIM expansion, higher loan growth and fee income. Our top pick is UOB.

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Higher cost of funds...

SGD fixed-deposit (FD) rates have risen 10-25bps since April for major local and foreign banks (Fig 1). OCBC and UOB raised their promotional rates while DBS raised its 9-12-month rates by 25-35bps. Meanwhile, they continue to prefer CASA deposits as these are typically sticky. CASA mix has improved by 9-13ppts since 2008: DBS from 54% to 63%, OCBC from 34% to 47% and UOB from 36% to 46%. Local banks continue to pay for current deposits as they bundle or cross-sell them with other products such as credit cards (see UOB One, OCBC 360, DBS Multiplier). SGD loan-deposit ratio is the highest for UOB, at 95% vs peers' 86-88% and the system's 86%, based on our estimation. With higher loan demand, banks are likely to price more aggressively to compete for deposits.

...but scope to improve liability management

That said, we think banks have scope to improve their liability management. Despite higher rates, the banks' customer cost of funds has not climbed as much. Between 1Q15 and 1Q18, the banks' customer cost of funds rose by 5-16bps, in contrast to the increase in SIBOR/LIBOR by 63/166bps. For OCBC and UOB, the spread between SIBOR and customer cost of funds turned positive to 2-6bps in 1Q18.

Prefer UOB

We continue to prefer UOB given that it has pricing discipline and dividend upside potential. Risks to our view are: 1) lower income; 2) higher-than-expected costs; and 3) higher-than-expected provisions.

Stock	Rec	Mkt Cap (USD b)	Price* (SGD)	TP (SGD)	Upside (%)	P/E (x)			P/BV (x)			ROAE (%)^			Div. yield (%)		
						FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E
DBS	HOLD	55.4	29.00	30.80	6	11.7	9.6	8.6	1.5	1.4	1.3	13.4	15.1	15.5	4.1	4.1	4.1
OCBC	BUY	40.6	13.01	14.60	12	10.8	9.3	8.2	1.3	1.2	1.1	13.1	13.8	14.3	3.0	3.2	3.3
UOB	BUY	36.8	29.57	32.88	11	11.2	9.6	8.4	1.4	1.3	1.2	12.5	13.7	14.4	4.4	4.7	5.1
Sector average						11.2	9.5	8.4	1.4	1.3	1.2	13.0	14.2	14.7	3.8	4.0	4.2

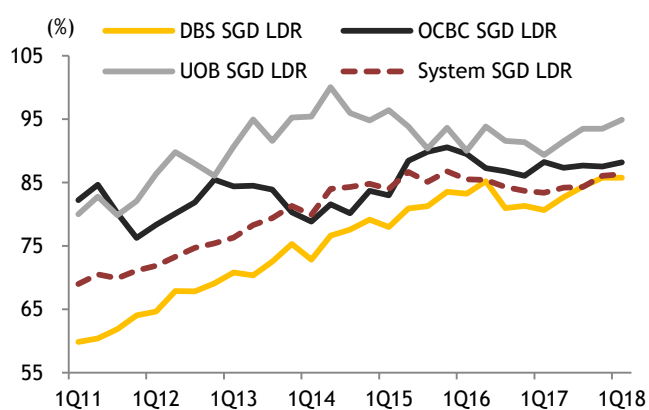
* Share prices as of 18 May 2018. ^Excludes one offs and goodwill.
Source: Factset, Maybank Kim Eng

Fig 1: SGD FD rates for deposits of SGD100,000 (2 Apr vs 16 May 2018)

As at	Interest rate (% p.a.)					FD Promotions		
	3M	6M	12M	24M	36M	% p.a.	Months	Min amt (SGD)
As at 2 April 2018								
Local banks								
DBS	0.150	0.200	0.350	1.000	1.100			
OCBC	0.100	0.150	0.250	0.550	0.650	1.20	12	20,000
UOB	0.100	0.150	0.250	0.700	1.000	1.25	10	20,000
Foreign banks								
HSBC	0.100	0.150	0.250	0.650	N.A.	1.30 (for Premier customers) 1.25 (for Advance customers)	12	30,000
StanChart	0.100	0.200	0.350	0.550	0.720	1.45 (Priority Banking) 1.40 (Promotional rate)	12	25,000
Citibank	0.080	0.100	0.100	0.100	0.100			
Maybank	0.350	0.450	0.700	1.000	1.400	1.65	12	50,000
CIMB	0.350	0.500	0.750	1.100	N.A.	1.25	12	20,000
Bank of East Asia	0.375	0.500	0.750	0.875	N.A.			
Bank of China	0.350	0.450	0.600	0.725	0.725			
ICBC	0.450	0.500	0.600	0.700	N.A.			
As at 16 May 2018								
Local banks								
DBS	0.150	0.200	0.600	1.000	1.100			
OCBC	0.100	0.150	0.250	0.550	0.650	1.30	12	20,000
UOB	0.100	0.150	0.250	0.700	1.000	1.35	10	20,000
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StanChart	0.100	0.200	0.350	0.550	0.720	1.35 (Priority Banking) 1.25 (Promotional rate)	12	25,000
Citibank	0.080	0.100	0.100	0.100	0.100	1.6-2.5%(bundle promotions)	3	50,000
Maybank	0.350	0.450	0.700	1.000	1.400	1.65	12	50,000
CIMB	0.350	0.500	0.750	1.100	N.A.	1.40	12	20,000
Bank of East Asia	0.375	0.500	0.750	0.875	N.A.			
Bank of China	0.350	0.450	0.600	0.725	0.725			
ICBC	0.450	0.500	0.600	0.700	N.A.			

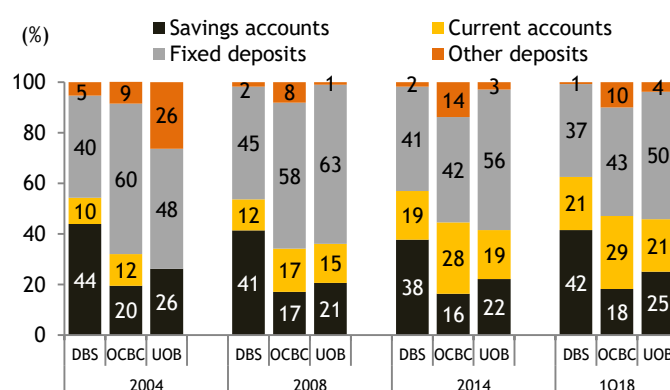
Source: Companies, Maybank Kim Eng. Higher rates shaded in blue.

Fig 2: SGD loan-deposit ratios^



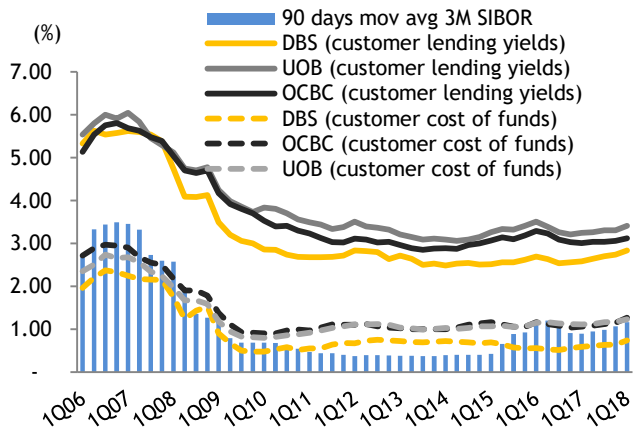
Source: Companies, MAS, Maybank Kim Eng. ^Local banks' LDR based on gross loans by currency. System SGD LDRs from 4Q17 onwards are estimations.

Fig 3: Group customer deposit mix



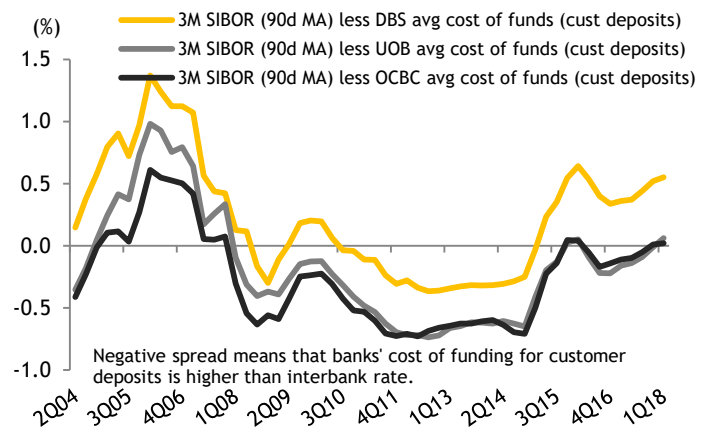
Source: Companies, Maybank Kim Eng. Group customer deposits shown are region-wide in assorted currencies. UOB's current accounts were subsumed under savings and other accounts in 2004. OCBC's other deposits include structured deposits and certificates of deposits.

Fig 4: Customer yields vs customer cost of funds



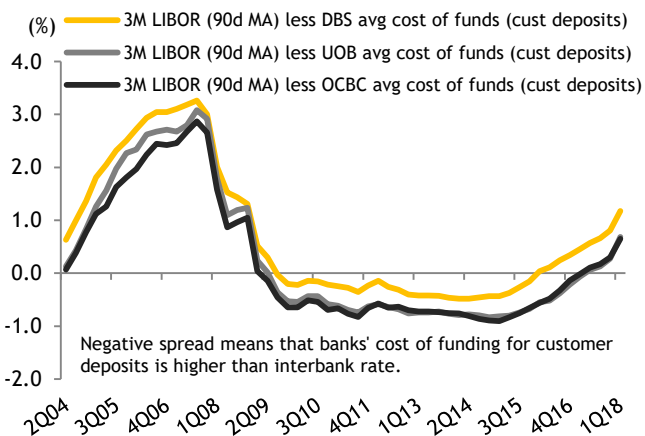
Source: Bloomberg, Companies, Maybank Kim Eng

Fig 5: Spread between SIBOR and cost of funds



Source: Bloomberg, Companies, Maybank Kim Eng. Shortcoming of this comparison is that the cost of customer deposits includes liabilities from Singapore as well as offshore operations where rates are higher.

Fig 6: Spread between LIBOR and cost of funds



Source: Bloomberg, Companies, Maybank Kim Eng. Shortcoming of this comparison is that the cost of customer deposits includes liabilities from Singapore as well as offshore operations where rates are higher.

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