

## Singapore Banks

### 3Q15 results preview: judgment day

- Reporting dates for upcoming results, OCBC: 28 October, UOB: 30 October, DBS: 2 November
- We expect weak QoQ loan growth, further QoQ improvements in NIMs, and some asset-quality deterioration
- 3Q15 results should provide some clarity on asset quality outlook. Maintain Positive rating for sector; DBS remains our top pick

Negative Neutral **Positive**



**Positive**  
(unchanged)

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**What's new:** The Singapore banks are scheduled to report their 3Q15 results from 28 October. Here we present our 3Q15 forecasts for each one. In our view, management commentary should provide better clarity on the outlook for NPLs and credit costs, and might even be a positive catalyst for share prices if end-3Q15 asset quality remains benign.

**What's the impact:** We expect marginally stronger loan growth of about 1% QoQ for all banks, and QoQ improvements in their net-interest margins (NIMs). The SIBOR and SOR rates were at elevated levels in 3Q15 (and this situation should be conducive for bank NIMs), corresponding to expectations for a Fed rate hike and a weak outlook for the Singapore dollar, though these expectations have faded sharply since early October.

We believe the area that will be scrutinised closely is the trend of asset quality (NPL ratios, credit costs [provisions], and provision coverage) for their industry exposure to commodities-related companies and geographic exposure to ASEAN and China. Up to 2H15, NPL ratios were near record lows. We believe these credit exposures are likely to deteriorate, but the severity (in quantifiable terms) is still highly uncertain. For most banks, we expect a QoQ uptick in the NPL ratios and a bigger QoQ increase in their credit costs for 3Q15.

These expectations are already incorporated in our 29 September 2015 initiation report on the sector: [Net-interest income growth at low prices](#). We believe the asset quality reported for 3Q15 and management commentary will provide better clarity on the outlook for NPLs and credit costs.

**What we recommend:** We **maintain our Positive rating** for the sector as we believe the multiyear process of global interest-rate normalisation remains intact and this trend will underpin NIM and net-interest income growth. **Our ratings in order of preference are DBS Group (DBS SP, SGD18.00, Buy [1]), Oversea-Chinese Banking Corporation (OCBC SP, SGD9.47, Buy [1]), and United Overseas Bank (UOB SP, SGD20.40, Outperform [2]).**

Risks to our positive sector rating include a worse-than-expected deterioration of loan exposures in ASEAN and China, a protracted decline in SIBOR and SOR rates, and a severe economic downturn in Singapore and the Asia region.

**How we differ:** Our annual total credit cost assumptions of 25-40bps for 2015-17 could possibly be lower than consensus, while our SIBOR forecast of 1.4% for 2016 and 1.9% for 2017 could be higher than consensus.

### Key indicators

	2Q15	3Q15E	2014	2015E
<b>NIM (%)</b>				
DBS	1.75	1.80	1.67	1.75
OCBC	1.67	1.75	1.68	1.72
UOB	1.77	1.78	1.71	1.79
<b>NPL (%)</b>				
DBS	0.88	0.92	0.87	0.97
OCBC	0.69	0.74	0.61	0.77
UOB	1.24	1.26	1.18	1.27
<b>Ttl credit costs (bps)</b>				
DBS	19	39	25	31
OCBC	15	36	19	25
UOB	30	19	33	25

Source: Companies, Daiwa forecasts

## Singapore banks: Daiwa 3Q15 results forecasts

DBS				OCBC				UOB			
SGDm	3Q15	YoY (%)	QoQ (%)	SGDm	3Q15	YoY (%)	QoQ (%)	SGDm	3Q15	YoY (%)	QoQ (%)
Net interest income	1,824	14	5	Net interest income	1,362	9	6	Net interest income	1,222	6	1
Non-interest income	857	(6)	(10)	Non-interest income	708	(41)	(25)	Non-interest income	819	0	15
Fee and commission income	555	0	(5)	Fee and commission income	402	(1)	(8)	Fee and commission income	481	1	3
Net trading income	220	(19)	(19)	Profit from life assurance	63	(64)	(52)	Dividend income	17	25	(35)
Net income from financial investments	70	(5)	63	Income from general insurance	40	(2)	(5)	Rental income	29	4	0
				Dividends	30	15	(19)	Net trading income	180	(19)	58
				Rental income	25	39	0	Net gain from inv securities	64	78	52
Other income	12	0	(76)	Other income	148	(72)	(44)	Other operating income	47	15	31
Total income	2,681	7	(0)	Total income	2,070	(15)	(7)	Total operating income	2,041	4	6
Total operating expenses	(1,205)	9	(1)	Total operating expenses	(922)	6	0	Total operating expenses	(855)	7	(2)
Operating profit	1,476	5	0	Operating profit	1,148	(27)	(12)	Operating profit	1,186	1	13
				Amortisation of intangible assets	(24)	71	0				
Total allowances	(277)	56	102	Total allowances	(192)	98	140	Total allowances	(97)	(40)	(36)
Share of profits of associates	13	117	30	Share of associates and JVs	44	214	(57)	Share of profit of associates	50	35	25
Profit before tax	1,212	(2)	(10)	Profit before tax	976	(26)	(16)	Profit before tax	1,139	9	22
<b>PATMI</b>	<b>1,001</b>	<b>(1)</b>	<b>(10)</b>	<b>PATMI</b>	<b>770</b>	<b>(38)</b>	<b>(27)</b>	<b>PATMI</b>	<b>963</b>	<b>11</b>	<b>27</b>

Source: Daiwa forecasts

## Singapore banks: comparative analysis

	Unit	DBS	OCBC	UOB	Wtd
Bloomberg		DBS SP	OCBC SP	UOB SP	avg
Share price as at 23-Oct-15	(SGD)	18.00	9.47	20.40	
<b>Daiwa rating</b>		<b>1</b>	<b>1</b>	<b>2</b>	
		<b>Buy</b>	<b>Buy</b>	<b>Outperform</b>	
Market cap	(USDbn)	32.4	27.5	23.6	
Avg daily turnover	(USDm)	88.8	48.7	54.1	
Core PER 2015E	(x)	10.7	10.1	9.9	<b>10.3</b>
Core PER 2016E	(x)	9.8	10.0	9.7	<b>9.8</b>
Core PER 2017E	(x)	8.3	9.5	8.7	<b>8.8</b>
<b>Avg 12-month forward PER from 2005</b>	<b>(x)</b>	<b>11.5</b>	<b>11.6</b>	<b>10.9</b>	<b>11.4</b>
Core EPS growth 2014	(%)	8.2	21.2	7.2	<b>12.2</b>
Core EPS growth 2015E	(%)	8.8	2.4	4.5	<b>5.4</b>
Core EPS growth 2016E	(%)	9.4	0.8	2.1	<b>4.5</b>
Core EPS growth 2017E	(%)	18.5	5.5	11.5	<b>12.3</b>
Core EPS CAGR 2015-17E	(%)	12.1	2.9	6.0	<b>7.3</b>
Dividend yield 2015E	(%)	3.3	4.0	4.2	<b>3.8</b>
Dividend yield 2016E	(%)	3.5	4.0	4.2	<b>3.9</b>
Dividend yield 2017E	(%)	3.9	4.0	4.5	<b>4.1</b>
PBR 2014	(x)	1.2	1.3	1.2	<b>1.2</b>
PBR 2015E	(x)	1.1	1.2	1.1	<b>1.1</b>
PBR 2016E	(x)	1.1	1.1	1.0	<b>1.1</b>
PBR 2017E	(x)	1.0	1.0	1.0	<b>1.0</b>
<b>Avg 12-month forward PBR from 2005</b>	<b>(x)</b>	<b>1.2</b>	<b>1.3</b>	<b>1.3</b>	<b>1.3</b>
Core ROE 2014	(%)	10.9	13.2	12.2	<b>12.0</b>
Core ROE 2015E	(%)	10.9	12.2	10.8	<b>11.3</b>
Core ROE 2016E	(%)	11.2	11.4	10.3	<b>11.0</b>
Core ROE 2017E	(%)	12.3	11.2	10.8	<b>11.5</b>
Gross-loan growth 2014	(%)	10.7	23.7	9.5	<b>14.7</b>
Gross-loan growth 2015E	(%)	2.7	2.8	3.0	<b>2.8</b>
Gross-loan growth 2016E	(%)	4.9	4.5	4.8	<b>4.7</b>
Gross-loan growth 2017E	(%)	6.0	5.4	5.8	<b>5.7</b>
Net-interest margin 2014	(%)	1.68	1.68	1.71	<b>1.7</b>
Net-interest margin 2015E	(%)	1.75	1.72	1.79	<b>1.75</b>
Net-interest margin 2016E	(%)	1.90	1.78	1.85	<b>1.85</b>
Net-interest margin 2017E	(%)	2.05	1.85	1.93	<b>1.95</b>
<b>As at 30 June 2015</b>					
NPL ratio	(%)	0.9	0.7	1.2	<b>0.9</b>
Allowances to NPAs	(%)	160.4	152.8	143.6	<b>152.7</b>
Common Equity Tier-1 ratio	(%)	13.4	14.1	14.0	<b>13.8</b>
CET1 CAR Basel III (1 Jan 2018)	(%)	12.3	11.2	12.5	<b>12.1</b>
Total CAR	(%)	15.3	16.1	16.8	<b>16.0</b>
Leverage ratio	(%)	7.3	7.4	7.6	<b>7.4</b>
Daiwa 12-month target price	(SGD)	23.60	11.80	21.30	
Upside potential to target price	(%)	31.1	24.6	4.4	<b>20</b>

Source: Companies, Daiwa forecasts

Note: We are using the warranted equity method as the basis for our 12-month target prices for DBS, OCBC and UOB. Risks to our target prices for all 3 banks include any delays in rate hikes, Singapore entering into a severe recession, or worse-than-expected deterioration of loan exposures in ASEAN and China.

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Source: Daiwa

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