



# Singapore Banks

- Is it time to bottom fish?




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# Outline of the presentation

- Where are global stock markets now ?
- The Singapore market in 2008
- Singapore Banking Sector
- Technical analysis – Singapore banks
- Conclusion on Singapore Banking sector



**Where are global stock  
markets now ? !**

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**Alan Greenspan – 17 March 2008**

**“The current financial crisis in the US is likely to be judged in retrospect as the most wrenching since the end of the second world war”**

**George Soros – 3 April 2008**

**“We are in the midst of the worst financial crisis since the 1930s”**

**Wee Cho Yaw – 7 July 2008**

**In my 48 years in banking – the current financial crisis is the worst I have encountered. No body knows how big the CDO writedowns will be. It will take one to two years to stabilise.**



# Global financial crisis worsening

- Nobody knows how big the CDO provisions will be. When crisis first started in August 2007, it was estimated at US\$60-70bn...its now US\$550bn and counting with figure likely to be closer to US\$1trillion
- 9 banks have failed in the US...crisis now spreading to credit cards, and commercial loans
- US, Europe and Japan are in or heading into a recession
- Higher US unemployment and further declines in property prices will aggravate CDO problems further
- High energy prices and inflation are limiting Central banks' ability to lower interest rates



# Snap shot of how stock markets have done in 2008

Index	YTD Performance %	YTD Performance in US\$ %
Dow Jones IA	-13.30%	-13.30%
Nasdaq Composite	-12.70%	-12.70%
Nikkei 225	-16.80%	-14.80%
Hang Seng Index	-24.30%	-24.30%
Shanghai Composite	-55.30%	-52.20%
Shenzhen Composite	-55.50%	-52.40%
KL Composite	-25.70%	-27.25%
Jakarta Composite	-21.60%	-19.60%
<b>Straits Times Index</b>	<b>-21.80%</b>	<b>-20.40%</b>



**Asian financial crisis of 1997 is  
nothing compared to current  
global credit crunch**

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## Asian financial crisis 1997 - small in comparison to current crisis

- BOJ hints of hike in interest rates to defend Yen
- Leads to sell off in Asian currencies – Thai baht, Philippine Peso, Malaysian Ringgitt and Indonesian rupiah and subsequently Korea, and Singapore as these countries tried to defend their currency and used up their foreign exchange reserves.
- Total US exposure to Indonesia, Korea, Malaysia, Philippines and Thailand was US\$26bn, German and UK exposure to same countries was only US\$28bn and US\$15bn....tiny when compared to CDO provisions made so far
- Asian currencies collapsed from August to Dec 2007 – Rupiah fell 81%, Won fell 53%, Ringitt down by 31%, Peso lower by 27% and Baht by 38%
- Thai, Indonesian and Korean stock markets fell 26%, 40% and 30% respectively.
- Singapore market fell 22% and Singapore dollar depreciated by 11%



## Some idea of the provisions made so far by global banks

- UBS – US\$37bn so far (2007 US\$13bn, H1-08 US\$24bn)
- Citigroup – US\$18bn in 2007 and maybe another US\$8bn in 2008
- Merrill Lynch estimated losses US\$40bn
- Bear Stearns – taken over by JP Morgan at US\$2 per share from peak of US\$153 –has US\$176bn in distressed securities and US\$42bn in mortgage debt



Singapore stock market  
still has downside as  
earnings are downgraded



# Singapore market still has 15% downside

- Singapore economic growth forecasts have been adjusted downwards and more aggressively over the last few weeks with consensus now pointing to below 4% for the year.
- IR and F1 will help but not enough to offset a slowdown in global demand. The decoupling story of Asia and the US with the onset of China and India – no longer talked about.
- Singapore market has fallen from peak of 3814 in late 2007 to 2709 (down 28.9%)
- PER for FY2007 was 9.9 with FY2008 PER at 13.5, ie a decline in earnings by 27%....close to fair value if there are no more earnings downgrades
- Technical indicators point to strong support at 2300 with intermediate support at 2600, ie further downside of about 15%
- Signs of a bottom materialising, ie low volume but we need to see earnings downgrades plateau before bottom can be formed

# STI Index still in a downtrend





# Singapore Banking Sector

by Lynn Look, CFA

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# Potential Pitfalls in 2009

- US economy – long-drawn recession, recovery expected earliest in 2010.
- US sub-prime crisis – property slumps, credit card defaults. What next ???
- Rising unemployment ---> rising defaults
- Tighter global credit ---> rising spreads
- US, Europe, Japan already in or going into recession?
- Singapore – expect slower GDP growth



## Implications - Singapore Banks

- Slower GDP growth ---> slower loans gr.  
loans lags GDP growth by 12-18mth  
i.e expect slower loans growth in 2009-10
- But margins to hold or improve further due  
to global tight credit.
- Provisionings need to rise

# Interim Results Summary - 2008

2008 Interim Results	UOB	OCBC	DBS	UOB	OCBC	DBS
	----- S\$ million -----			----- y-o-y % change -----		
(S\$m)						
<b>Total Income</b>	2690	2053	3162	8	-1	2
<b>Net Interest Income</b>	1725	1317	2115	13	24	6
<b>Non-Interest Income</b>	964	736	1047	-0.3	-26	-4
- Fee income	592	415	695	0.6	5	2
<b>Less Operating Expenses</b>	1015	899	1343	4	17	2
<b>Operating Profit</b>	1675	1154	1819	11	-11	2
<b>Less Provisions/(writebacks)</b>	269	48	196	60	*	16
<b>Pretax Profit</b>	1457	1088	1667	0.3	-17	2
<b>Net Profit</b>	1130	841	1271	2.5	-18	-1

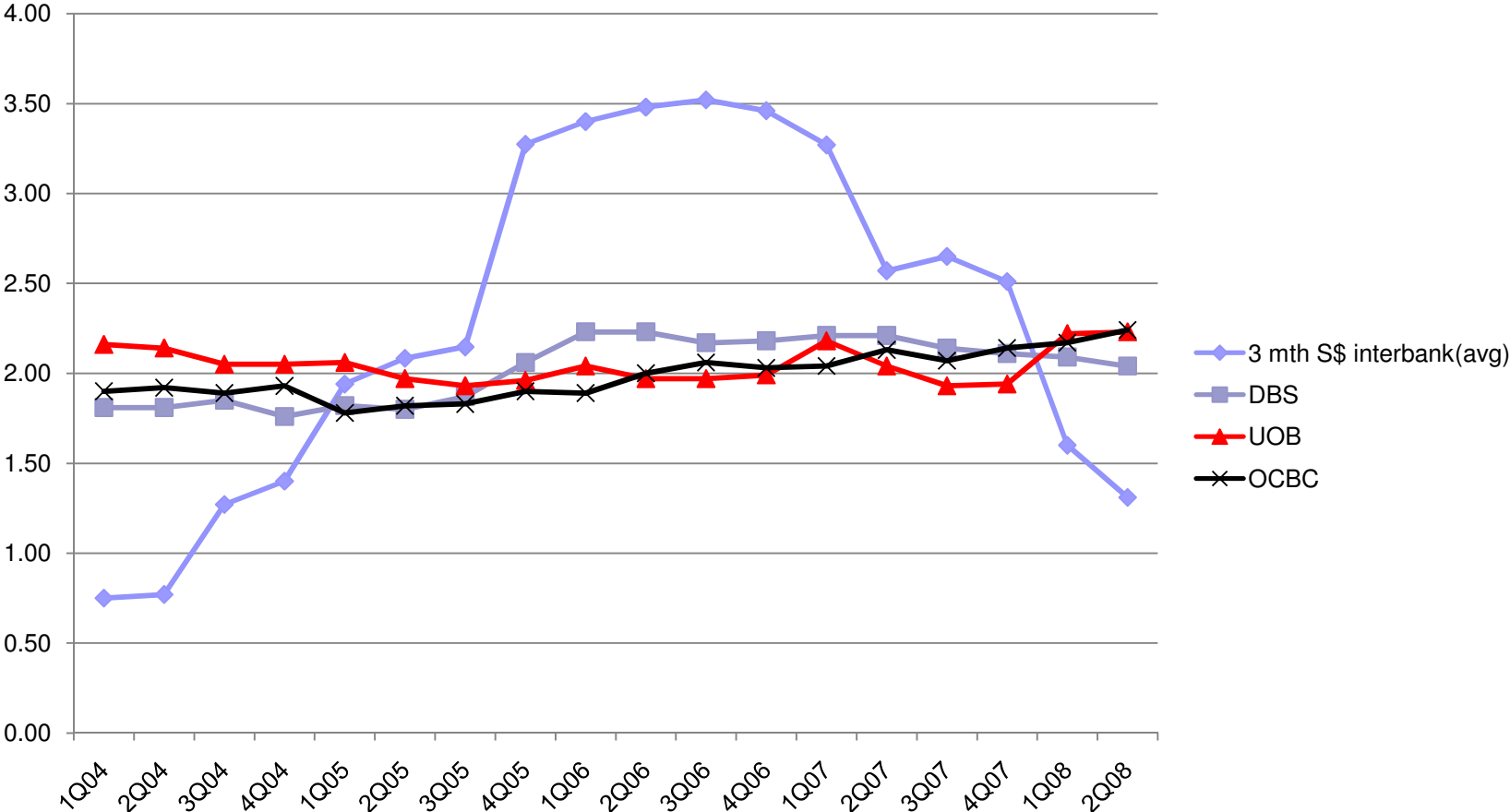
\*\$15m writebk in 1H07(\$8m in 2Q08)

# Other Financials

30-Jun-08	UOB	OCBC	DBS
Net profit growth *	4	-18	-1
Operating profit growth	11	-11	2
Fee Income growth - ex mkt related	29	14	13
Loans growth	17.5	16.5	17.5
Deposit growth	4.3	12.0	12.0
Loan-deposit ratio	89.3	83.3	74.7
Net interest margin(@) %	2.22	2.21	2.07
Fee income/Total Inc %	22	20	22
Cost-income ratio %	37.7	43.8	42.5
NPL ratio	1.5	1.4	1.4
Car Tier 1	10.2	12.3	10
ROE (cash basis) @	13.8	11.6	12.4
Dividend Payout ratio	27	51	25

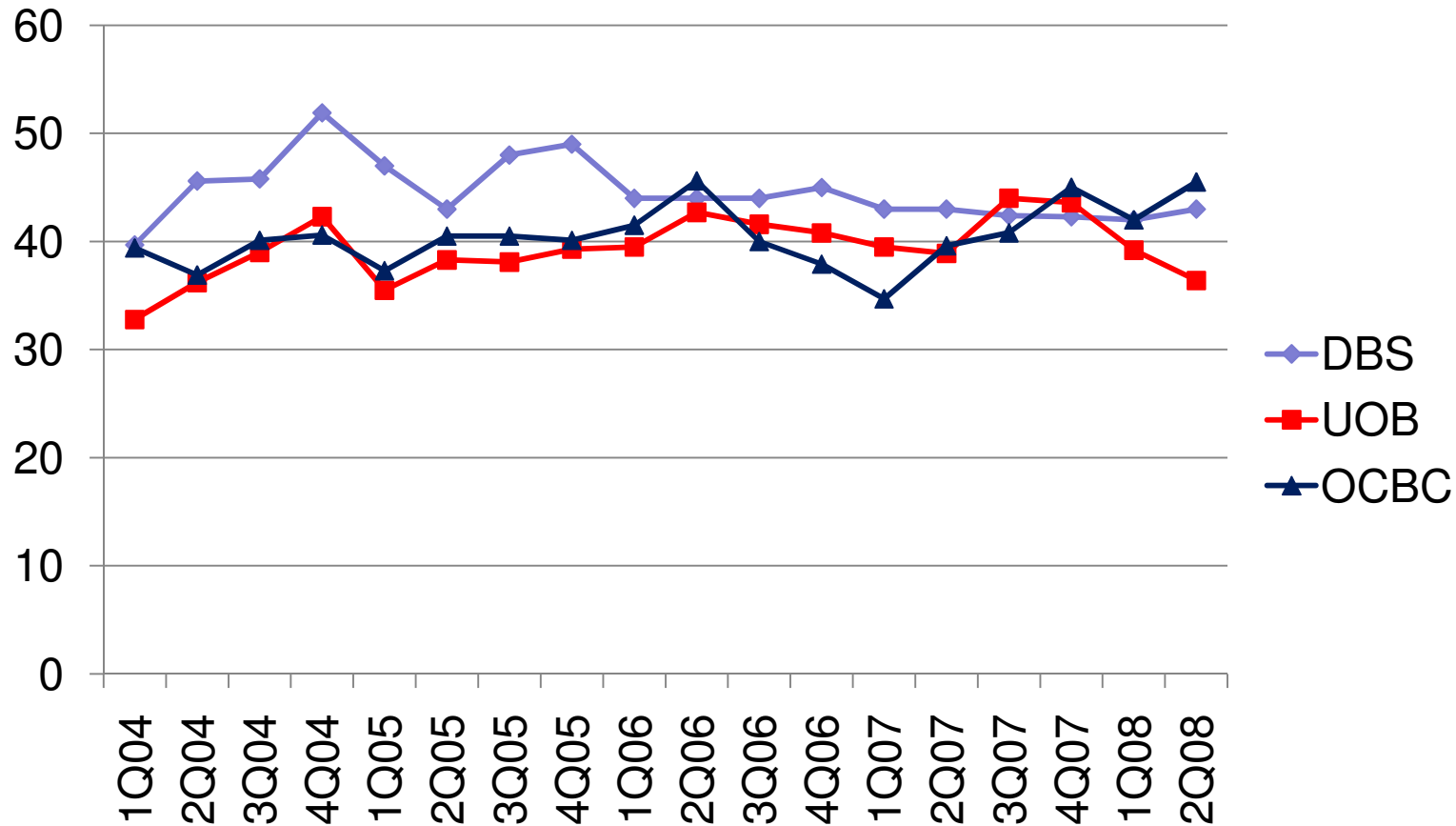
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# NIM – UOB tops in 1H08



# UOB the most cost efficient

Cost-to-income ratio





## UOB – Our Top Pick

- Best interim performance
- Highest NIM in 1H08
- Most cost efficient bank
- Highest ROE
- Fully provided for ABS CDOs
- Corporate CDOs – 1/2 provided for
- Impairment coverage highest @156%



## OCBC – 2<sup>nd</sup> preferred bank

- Proposed innovative pref share issue will raise Tier 1 CAR to 15%, highest among the banks.
- Also fully provided for ABS CDOs
- Provided for nearly 90% of corporate CDOs rated CC, remaining 83% rated A & above.
- Impairment coverage: 122% of total NPLs



## DBS – Switch to UOB

- Most exposed to slowdown in mfg loans (13% of loan portfolio vs 10% for UOB and 8% for OCBC)
- Later entry into commerce sectors: default rates likely to be higher than peers
- ABS CDOs – only 90% provided. Corporate CDOs – 98% rated A & above, 6% provided.
- Impairment coverage : 116%



## Corporate CDOs – Worst Case Scenario

	<b>Amt (S\$m)</b>	<b>Provision Coverage</b>	<b>Add'l Prov-S\$m</b>	<b>% of SHF</b>
<b>DBS</b>	859	6%	809	4.0
<b>OCBC</b>	343	8%	315	2.1
<b>UOB</b>	183	42%	107	0.6



# Profit Forecasts

S\$m	<b>UOB</b>	<b>OCBC</b>	<b>DBS</b>
2007(A)	2110	1878	2487
2008(E)	2174	1786	2365
2009(F)	2343	1899	2451
2010(F)	2508	2069	2611
% chg– 08	3%	-5%	-5%
- 09	8%	6%	4%
- 10	7%	9%	7%



# Financial Forecasts

	<b>UOB</b>	<b>OCBC</b>	<b>DBS</b>
Price (S\$)-26/8	18.84	8.05	17.62
PER-08E	13.0	14.1	12.0
-09F	12.1	13.3	11.6
-10F	11.3	12.2	10.9
Div yield (%)	4.2	3.8	4.3
NAV (S\$/sh)	10.46	4.6	12.78
P/NAV (X)	1.8	1.8	1.4



# DBS – Price to book chart 1990-2008

**DBS** SP SGD ↓ **17.640** -.100 S S17.640/17.660S 16Kx9,000 EquityGE  
At 09:17 Vol 319,000 Op 17.640 S Hi 17.680 S Lo 17.640 S ValTrd 5631200

## VALUATION GRAPH FOR DBS SP

Range	12/31/90-7/31/08	Price/Book	1.32	Book Val/share SGD	13.34		
Period	M-Monthly	High	12/31/99	3.06	High Price	27.300	12/31/99
Hi/Lo Graph	Y-Yes	Low	9/30/98	0.43	Low Price	3.8476	9/30/98
Ratio	3-Price/Book	Average	1.50				
Weighting	U-Unweighted						



Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 852 2977 6000  
Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2008 Bloomberg Finance L.P.  
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# OCBC – Price to book chart 1991-2008

OCBC SP SGD ↓ 8.050 +.010 S 58.050/8.060S 17Kx87K EquityGE  
 At 09:17 Vol 205,000 Op 8.050 S Hi 8.070 S Lo 8.050 S ValTrd 1651730

## VALUATION GRAPH FOR OCBC SP

Range	12/31/91- 7/31/08	Price/Book	1.65	Book Val/share SGD	4.89
Period	M-Monthly	High	12/31/93	3.91	High Price 9.400
Hi/Lo Graph	Y-Yes	Low	9/30/98	0.60	Low Price 1.3889
Ratio	3-Price/Book	Average	1.88		
Weighting	U-Unweighted				



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 Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2008 Bloomberg Finance L.P.  
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# UOB – Price to book chart 1991-2008

**UOB** SP SGD ↑ **18.700** -.060 S S18.680/18.700S 19Kx3,000 Equity**GE**  
 At 09:19 Vol 208,000 Op 18.640 S Hi 18.700 S Lo 18.640 S ValTrd 3881600

## VALUATION GRAPH FOR UOB SP

Range	12/31/91- 7/31/08	Price/Book	1.79	Book Val/share SGD	10.46
Period	M-Monthly	High	12/31/93 2.70	High Price	24.000 5/31/07
Hi/Lo Graph	Y-Yes	Low	9/30/98 0.53	Low Price	3.2965 9/30/98
Ratio	3-Price/Book	Average	1.73		
Weighting	U-Unweighted				



Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 852 2977 6000  
 Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2008 Bloomberg Finance L.P.  
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## Valuation Table

<b>Stock</b>	<b>Price (26/8)</b>	<b>Fair Price</b>	<b>Fair P/B(x)</b>	<b>Upside (%)</b>	<b>Recom</b>
<b>UOB</b>	\$18.84	\$21.60	2.0	15	BUY
<b>OCBC</b>	\$8.05	\$8.85	1.7	10	BUY on weakness
<b>DBS</b>	\$17.62	\$18.80	1.5	7	AVOID



## Conclusion – cautious

- Our key concern – not CDOs
- Ripple effects from recession in US, Europe, Japan
- Bankruptcy on the rise → loan defaults
- DBS at biggest risk
- Loans slowdown, offset by margin expansion due to tight global credit



# Technical analysis on the banks

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# DBS – Technical analysis

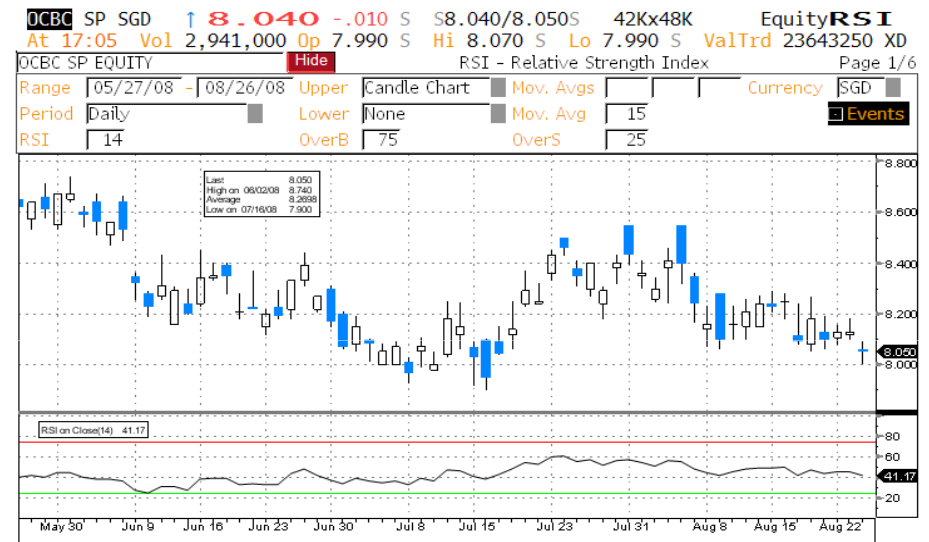




## DBS - Possible Technical Rebound Ahead

- DBS Group has been on a downtrend since 23 May 2007 after making an intra-day high of \$25.00. The trendline and 50, 100 & 200-day MA are all trending down, suggest ongoing bearish sentiment.
- However, technical indicators suggest that there might be a minor rebound ahead:
- The stock is currently trading near its oversold lower Bollinger band.
- RSI is near oversold region and flattening out.
- Stochastic is in oversold region and pointing upwards..
- MACD histograms continue to trend down, but losing momentum.
- A bullish dragonfly doji was formed on 22 Aug 2008.
- Resistance is at around \$18.00 and support is found around \$16.50.

# OCBC – Technical analysis





## OCBC – no strength in sight

- OCBC has been on a downtrend since 18 Apr 2007 after making an intra-day high of \$9.80. The trendline and 50, 100 & 200-day MA are all trending down, suggesting ongoing bearish sentiment.
- Technical indicators do not suggest strength either:
- MACD and its signal lines are below the zero horizontal axis and flattening out.
- The stock is currently trading near its oversold lower Bollinger band.
- Stochastic is in oversold region and consolidating.
- RSI is in mid region and dipping down.
- Although technical indicators show oversold conditions, no strength is noted currently. Resistance is at around \$8.20 where the 50 & 200-day MA converge and support is found around \$7.90.

# UOB – Technical analysis





## UOB – no strength in sight

- UOB has been on a downtrend since 1 Jun 2007 after making an intra-day high of \$24.20. The trendline and 50 & 200-day MA are all trending down, suggesting ongoing bearish sentiment.
- Technical indicators do not suggest strength either:
- The stock is currently trading near its oversold lower Bollinger band.
- RSI is in mid region and pointing down.
- Stochastic is in oversold region and flattening out.
- MACD and its signal lines are crossing down the zero horizontal axis.
- Although technical indicators show oversold conditions, no strength is noted currently. Resistance is at around \$19.10 where the 200-day MA is and support is found around \$18.00.



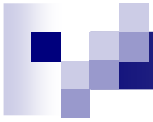
# Glossary

- **NIM – Net interest margin**  
(Net Interest Income )/Average Earning Assets
- **Cost-to-income ratio**  
Total cost/Total income
- **Loan-Deposit ratio**  
Total Loans/Total Deposits
- **ROE – Return on Equity**  
Net profit/Average Shareholders Funds



## Glossary – cont'd

- **Impairment coverage**  
Total Provisionings/Total Non-Performing Loans
- **ABS CDOs** – Asset-Based Securities Collateralised Debt Obligations
- **Corporate CDOs** – Collateralised against corporate loans
- **CAR – Capital Adequacy Ratio**  
Tier1 CAR: Tier 1 Capital/Risk wted assets  
Tier2 CAR: Tier 2 Capital/Risk wted assets



***Thank You***

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# Fair Value Computation

- $ROE = P/B \times 1/(P/E)$

- $$\frac{\text{Net Profit}}{\text{SHF}} = \frac{\text{Price}}{\text{SHF}} \times \frac{\text{Net Profit}}{\text{Price}}$$