UOBKayHian

Sector – Update | Singapore

Thursday, 24 September 2026

Banking

Benefitting From Higher For Longer Bond Yields And Interest Rates

Highlights

- MAS expects core inflation to remain elevated till 1H27 and has increased the rate of appreciation of the S$NEER policy band. Money supply M2 has slowed to a growth of 2.7% yoy in Jul 26, reflecting MAS' tightening bias. Assuming the current pace of rise at 5bp/month is maintained, we estimate three-month compounded SORA would reach 1.4% by end-26.
- OCBC was more sensitive to rate hikes with NIM improving 20bp for every 100bp increase in 3M SORA during the last interest rate cycle (up-cycle: 2022-23 and down-cycle: 2024-25), compared with a smaller 15bp for DBS. We raise 2027 earnings forecasts for DBS by 5.7% and OCBC by 4.7% due to NIM expansion of 11bp and 12bp respectively.
- **Upgrade to MARKET WEIGHT.** We upgrade OCBC to BUY (Target: S$35.70) for its diversified growth from wealth management (63% of its fee income), trading income and insurance. We also upgrade DBS to HOLD (Target: S$83.60) but its valuation is stretched with 2027F P/B at 3.0x.

Analysis

- **MAS switches focus to fighting elevated inflation.** The Monetary Authority of Singapore (MAS) increased the rate of appreciation of the SGD Nominal Effective Exchange Rate (S$NEER) policy band slightly in Jul 26, despite having already done so in Apr 26. It expects imported costs to rise in the upcoming quarters. Higher fuel and electronic input costs will lift prices for upstream and intermediate items, such as construction materials, capital equipment and food commodities. Adverse weather conditions are expected to drive up food prices. MAS core Inflation is forecast to step up and remain elevated into 1H27.
- **The Fed has finally acted.** Fed chairman Kevin Warsh sees the US economy firing on all cylinders with robust hiring, business capital investment and private sector earnings. The labour market is literally at full employment, but inflation has been above the target of 2% for more than five years. Thus, the FOMC hiked the Fed Funds Rate by 25bp to 3.75% on 16 Sep 26 to ensure inflationary pressures do not broaden and to facilitate a timely return to price stability. This is the first hike under the helm of the new chairman after a pause for two consecutive FOMC meetings. Based on the dot plot as of Sep 26, the median projected path for the Fed Funds Rate is 4.1% by end-26, indicating one more hike of 25bp, either during October or December.
- **Situation in the Middle East remains dicey.** The Houthi rebels have seized Mokha, Dhubab, Perim Island and Hanish islands, which strengthened their grip on the Bab el-Mandeb Strait, a critical chokepoint for maritime traffic traversing through Suez Canal and the Red Sea. These gains could expose tankers to greater risk of attack, raise freight and insurance costs, and disrupt deliveries to Asian customers, particularly as restrictions at Hormuz have increased Saudi Arabia's dependence on its Red Sea export route. The potential disruption could constrain Saudi's export volume, delay deliveries and put upward pressure on global crude oil prices.

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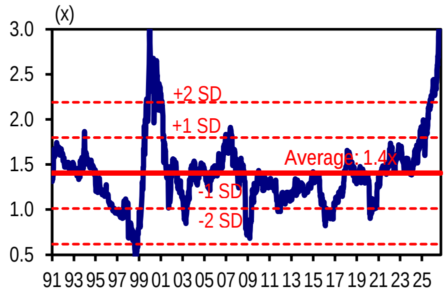
MARKET WEIGHT (Upgraded)

Sector Picks

Company	Ticker	Rec	Share Price (S$)	Target Price (S$)
DBS	DBS SP	HOLD	77.69	83.60
OCBC	OCBC SP	BUY	31.65	35.70

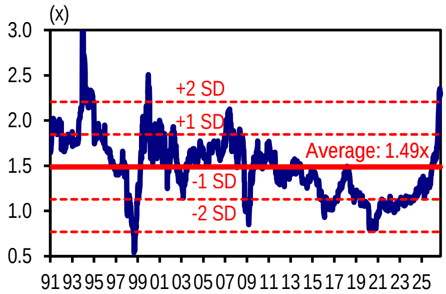
Source: Bloomberg, UOB Kay Hian

P/B – DBS



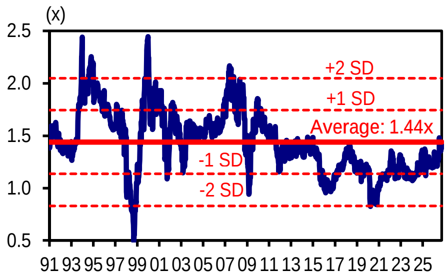
Source: UOB Kay Hian

P/B – OCBC



Source: UOB Kay Hian

P/B – UOB



Source: UOB Kay Hian

Peer Comparison

Company	Ticker	Rec	Price 23 Sep 26 (S$)	Target Price (S$)	Market Cap (US$m)	PE 2026F (x)	PE 2027F (x)	P/B 2026F (x)	P/B 2027F (x)	P/PPOP 2026F (x)	P/PPOP 2027F (x)	Yield 2026F (%)	Yield 2027F (%)	ROE 2026F (%)	ROE 2027F (%)
DBS	DBS SP	HOLD	77.69	83.60	172,938	19.1	17.8	3.10	3.00	15.4	14.3	4.2	4.5	16.5	17.4
OCBC	OCBC SP	BUY	31.65	35.70	111,364	17.6	16.3	2.24	2.09	15.1	14.1	3.0	3.1	12.7	13.2
UOB	UOB SP	NR	42.84	n.a.	55,267	12.8	11.9	1.35	1.29	9.1	8.8	4.1	4.3	10.8	11.1
Average						16.5	15.3	2.23	2.13	13.2	12.4	3.8	4.0	13.3	13.9

Source: Bloomberg, UOB Kay Hian

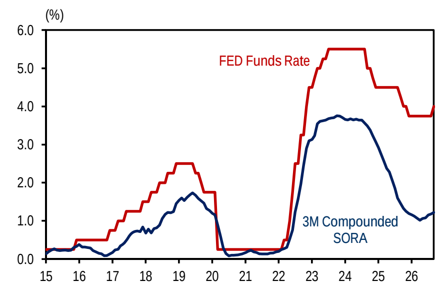
Valuation/Recommendation

- **Weighing the pros and cons.** We postulate that Singapore banks are a hedge against potential sovereign debt crises in developed countries. Conventional wisdom also dictates that higher government bond yields are positive for banks. However, we want to adopt a defensive posture due to near-term headwinds from a prolonged conflict in the Middle East, which will give rise to elevated inflation. The economy and loan growth could potentially slow down due to weakness in business sentiment.
- **SORA has bottomed and is expected to increase gradually.** We observed that money supply M2 has slowed to a growth of 2.7% yoy in Jul 26, compared to the recent peak of 9.5% yoy in Aug 25, reflecting MAS' tightening bias. Three-month compounded SORA troughed at 1.02% in Apr 26. Since then, it has risen smoothly and gradually by 14bp to 1.22% in 3Q26. Assuming that the pace of rise remains at the current 5bp/month, we estimate that three-month compounded SORA would reach 1.4% by end-26.
- **NIM sensitivity to 3M SORA.** We measured the NIM sensitivity against movements in 3M compounded SORA during the last interest rate cycle (up-cycle: 2022-23 and down-cycle: 2024-25). OCBC was more sensitive to rate hikes with NIM improving 20bp for every 100bp increase in 3M SORA, compared with a smaller 15bp for DBS.
- **Upgrade to MARKET WEIGHT.** Singapore banks deserve to trade at a premium for their structural resilience. On a ytd basis, DBS' and OCBC's share prices have rallied by 38% and 60% respectively. United Overseas Bank's (UOB) share price has also caught up, with a gain of 22% ytd.
- Our preferred pick is OCBC (BUY/Target: S$35.70) for its strategic shift to accelerate growth. OCBC is more sensitive to growth in wealth management fees, which accounted for 63% of its fee income. It has delivered the strongest and most diversified 2Q26 results with earnings growth at 22% yoy, driven by wealth, trading income and insurance. We like DBS (HOLD/Target: S$83.60) but its valuation is stretched with 2027F P/B at 3.0x, although it remains the leader in wealth management and scale of earnings.

DBS Group Holdings (HOLD/Target: S$83.60)

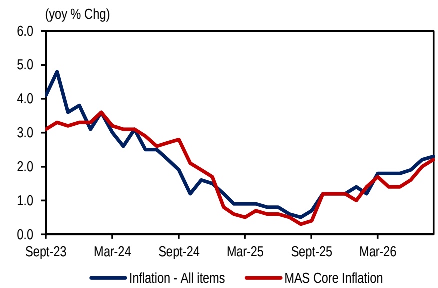
- **DBS is recognised as the world's best private bank** by Euromoney Private Banking Awards 2026. According to Asian Private Banker, DBS is ranked the 4th largest private bank in Asia with AUM having increased 22% to S$335b in 2025 (DBS is behind UBS and HSBC but neck and neck with JPMorgan). DBS has doubled its wealth management AUM since 2019, representing six-year CAGR of 12.2%. The proportion of AUM invested is also high at 58%. Wealth management fees grew 29% in 2025 and 25% yoy in 1Q26. DBS' cost-to-income ratio of 46% for wealth management stood out as one of the most efficient among top global private banks.
- **Drawing closer to HNW clients through new wealth centres.** DBS plans to open 18 new and 36 upgraded wealth centres across the Asia Pacific region, such as Singapore, Hong Kong, China, India, Indonesia and Taiwan in 2H26. It aims to be closer to its high-net-worth (HNW) clients, serving them where they live and work. The presence of its wealth centres in Singapore would be expanded by 50%. In-person face-to-face meetings remain important for HNW clients, despite actively engaging them through digital wealth platforms.
- Asset quality is pristine, with NPL formation muted at S$126m in 1Q26 and S$155m in 2Q26. NPL ratio is low at 1.0%, while loan-loss coverage is healthy at 130%. DBS has ample management overlay for general provisions of S$2,400m.
- We raised our 2026 and 2027 net profit forecasts by 1.5% and 5.7% respectively due to higher NIM of 1.90% in 2026 (previous: 1.87%) and 2.01% in 2027 (previous: 1.86%).

US Fed Funds Rate Vs 3M SORA



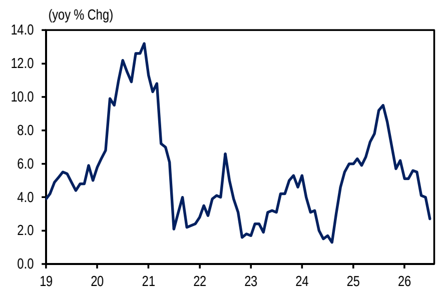
Source: Bloomberg

SG Core Inflation, yoy % Chg



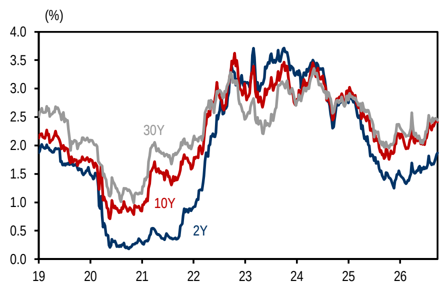
Source: CEIC

SG Money Supply M2, yoy % Chg



Source: CEIC

SG 2Y, 10Y and 30Y Government Bond Yields



Source: Bloomberg

- DBS provides a dividend yield of 4.5% for 2027 with latent potential for more capital management exercises. We expect DBS to raise its quarterly DPS by 6 S cents to 72 S cents starting 4Q26.
- **Upgrade to HOLD.** Our target price of S$83.60 is based on 3.23x 2027F P/B, derived from the Gordon Growth Model (ROE: 17.0%, COE: 7.0%, growth: 2.5% [previous: 2.2%]).

Key Assumptions – DBS

(S$m)	2024	2025	2026F	2027F	2028F
Net Interest Income	14,424	14,500	14,733	16,580	17,396
Non-Interest Income	7,873	8,400	9,497	9,869	10,395
Total Income	22,297	22,900	24,231	26,450	27,790
Pre-Provision Operating Profit	13,259	13,528	14,307	15,499	16,179
Net Profit	11,289	10,933	11,525	12,395	12,940
% Chg	12.2	(3.2)	5.4	7.6	4.4
Loan Growth (%)	3.4	3.3	7.5	4.5	4.5
NIM (%)	2.14	2.02	1.90	2.01	2.01
Fees, % Chg	23.2	17.5	16.6	8.9	8.4
NPL Ratio (%)	1.09	1.03	0.98	0.98	0.97
Credit Costs (bp)	14.0	17.8	15.2	17.1	17.1

Source: UOB Kay Hian

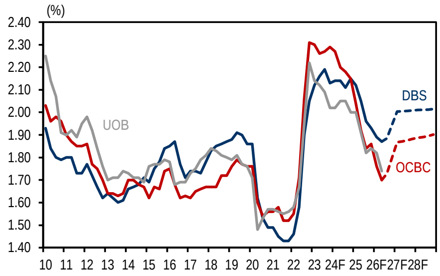
Oversea-Chinese Banking Corp (BUY/Target: S$35.70)

- OCBC's **New Frontier strategy** targets to deepen its domestic presence within the ASEAN region in Malaysia and Indonesia. It has embarked on a strategic shift to capture growth at its twin wealth hubs of Singapore and Hong Kong. Management targets to deliver Whole-of-Wealth (WoW) value proposition across the banking, wealth management and insurance businesses. Management targets double-digit growth in wealth management fees and AUM.
- OCBC's private banking arm, Bank of Singapore (BOS), is **sharpening its focus on ultra HNW** clients in Southeast Asia and North Asia, in line with the expansion of OCBC's WoW eco-system. BOS has achieved its target of 500 RMs for private banking by end-25. It aims to grow AUM contributed by ultra HNW clients by 30% by 2028. OCBC has set a new target of hiring 600 RMs for consumer financial services over the next three years.
- **OCBC entered into a new 10-year strategic cooperation agreement with Bank of Ningbo** (BON) in Sep 26, extending a partnership established since 2006 to capture trade, investment and wealth opportunities between ASEAN and Greater China. The collaboration combines BON's domestic customer franchise with OCBC's regional network to support Chinese businesses expanding overseas and deepen cooperation in wholesale banking and wealth management. OCBC, which holds a 20% stake in BON, registered a 50% increase in new-to-bank Chinese companies expanding into ASEAN in 2025. The agreement includes a US$5m training grant to support staff development and knowledge sharing between the two banks.
- OCBC's NPL formation was manageable at S$123m in 1Q26 and S$300m in 2Q26. It has the lowest NPL ratio of 0.9%, but the highest loan-loss coverage at 163%.
- We raised our 2026 and 2027 net profit forecasts by 0.6% and 4.7% respectively due to an expected higher NIM of 1.75% in 2026 (previous: 1.71%) and 1.87% in 2027 (previous: 1.71%).
- **Maintain BUY.** Our target price of S$35.70 is based on 2.36x 2027F P/B, derived from the Gordon Growth Model (ROE: 13.3%, COE: 7.25%, growth: 2.8% [previous: 2.5%]).

Key Assumptions – OCBC

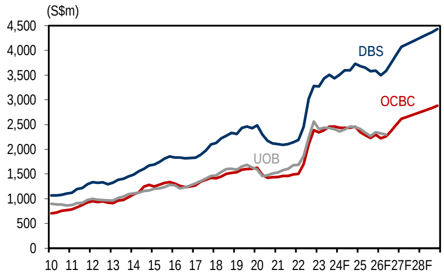
(S$m)	2024	2025	2026F	2027F	2028F
Net Interest Income	9,755	9,150	9,352	10,680	11,279
Non-Interest Income	4,718	5,464	6,506	6,519	6,868
Total Income	14,473	14,614	15,858	17,199	18,147
Pre-Provision Operating Profit	8,672	8,710	9,440	10,110	10,668
Net Profit	7,587	7,422	8,100	8,767	9,261

Net Interest Margin (NIM)



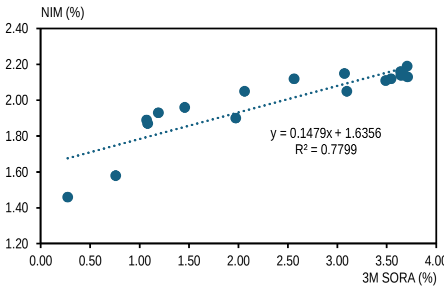
Source: Respective banks

Net Interest Income (NII)



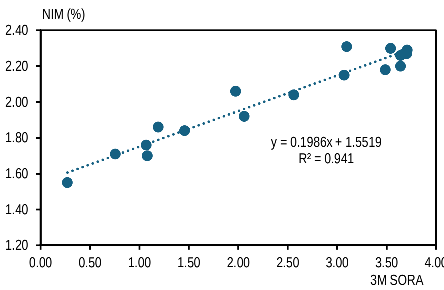
Source: Respective banks

NIM versus 3M SORA – DBS



Source: Respective banks

NIM versus 3M SORA – OCBC



Source: Respective banks

% Chg	8.1	(2.2)	9.1	8.2	5.6
Loan Growth (%)	7.6	6.9	9.0	4.4	4.4
NIM (%)	2.20	1.92	1.75	1.87	1.89
Fees, % Chg	9.2	22.4	15.6	9.7	8.8
NPL Ratio (%)	0.89	0.95	0.87	0.88	0.89
Credit Costs (bp)	22.4	20.1	20.8	20.1	20.1

Source: UOB Kay Hian

Sector Catalyst/Risk

- **Catalysts:** Singapore's strong fiscal standing, which attracts constant influx of safe haven liquidity, thus boosting Singapore banks' AUM, wealth management fees and trading income.
- **Risks:** Economic slowdown caused by uncertainties from a prolonged Middle East conflict and elevated energy prices.

Projected DPS And Dividend Payout Ratios

	-------- DBS (HOLD/S$77.69/Target: S$83.60) --------			-------- OCBC (BUY/S$31.65/Target: S$35.70) --------			------ UOB (NOT RATED / S$42.84) ------		
Year to 31 Dec	FY25	FY26F	FY27F	FY25	FY26F	FY27F	FY25	FY26F	FY27F
EPS (S ¢)	384	406	437	163	179	195	276	334	359
DPS (S ¢)	306	330	348	99	94	98	181	172	184
Payout Ratio (%)	79.7	81.3	79.7	60.7	52.4	50.3	65.6	51.4	51.1
Dividend Yield (%)	3.9	4.2	4.5	3.1	3.0	3.1	4.2	4.0	4.3

Source: Bloomberg, UOB Kay Hian

Comparison Of Profit & Loss

2Q26	DBS	OCBC	UOB
Net Interest Income	S$3,581m	S$2,264m	S$2,297m
	-1.8% yoy	-0.8% yoy	-1.7% yoy
	+2.5% qoq	+1.9% qoq	-1.2% qoq
Fee Income	S$1,460m	S$739m	S$665m
	+25.1% yoy	+27.4% yoy	+4.6% yoy
	-1.5% qoq	+9.5% qoq	+4.4% qoq
Insurance	n.a.	S$382m	n.a.
	n.a.	+69.0% yoy	n.a.
	n.a.	-6.6% qoq	n.a.
Other Non-Interest Income	S$1,052m	S$785m	S$632m
	+14.7% yoy	+71.4% yoy	+28.2% yoy
	+69.4% qoq	+50.4% qoq	+36.8% qoq
Provisions	S$113m	S$156m	S$211m
	10bp	14bp	28bp
Net Profit	S$3,079m	S$2,221m	S$1,476m
	+9.0% yoy	+22.3% yoy	+10.2% yoy
	+5.1% qoq	+12.5% qoq	+2.6% qoq

Source: Respective banks, UOB Kay Hian

Comparison Of Key Ratios

2Q26	DBS	OCBC	UOB
Net Interest Margin (NIM)	1.87	1.70	1.74
	-2bp qoq	-6bp qoq	-8bp qoq
Loan Growth	+8.2% yoy	+12.3% yoy	+5.4% yoy
	+3.5% qoq	+4.9% qoq	+2.1% qoq
Deposit Growth	+11.2% yoy	+12.8% yoy	+5.2% yoy
	+1.3% qoq	+3.4% qoq	-0.2% qoq
NPL Ratio	1.0	0.9	1.6
	Unchanged	Unchanged	+0.1ppt qoq
Loan Loss Coverage	130	163	88
	-1ppt qoq	Unchanged	-12ppt qoq
Core Equity Tier-1 CAR	14.6	14.0	15.4
	-0.2ppt qoq	-1.2ppt qoq	+0.1ppt qoq
Book Value Per Share (BVPS)	S$24.69	S$13.73	S$29.99
	+3.7% yoy	+6.3% yoy	+4.8% yoy
	+1.3% qoq	-0.7% qoq	+0.7% qoq

Source: Respective banks, UOB Kay Hian