

Singapore

**Overweight** (no change)

**Highlighted Companies**

**DBS Group**  
**ADD, TP S\$29.00, S\$25.32 close**  
 DBS displayed the strongest NIM performance in FY18, although upside going forward could be more moderate. Dividend yield of 4.7% in FY19F provides some support for the share price.

**OCBC**  
**HOLD, TP S\$12.00, S\$11.20 close**  
 Mark-to-market losses, weaker wealth and trading income, and heftier credit costs sum up OCBC's 4Q18 performance. Its CET-1 ratio of 14.0% was the highest amongst peers, providing capacity for dividend upside in FY19F.

**United Overseas Bank**  
**ADD, TP S\$29.00, S\$25.17 close**  
 UOB's market-related income lines were least-affected by the 4Q18 volatility among peers, given the bank's smaller trading book and structure of its wealth management franchise which generates more stable, recurring fees.

**Summary Valuation Metrics**

P/E (x)	Dec-19F	Dec-20F	Dec-21F
DBS Group	10.97	10.55	9.98
OCBC	10.47	10.22	9.97
United Overseas Bank	10.06	9.72	9.52

P/BV (x)	Dec-19F	Dec-20F	Dec-21F
DBS Group	1.32	1.24	1.16
OCBC	1.12	1.05	0.99
United Overseas Bank	1.05	1.00	0.94

Dividend Yield	Dec-19F	Dec-20F	Dec-21F
DBS Group	4.74%	4.74%	4.74%
OCBC	3.84%	3.93%	4.02%
United Overseas Bank	4.77%	4.77%	4.77%

**Analyst(s)**



**Andrea CHOONG**  
 T (65) 6210 8672  
 E andrea.choong@cgs-cimb.com  
**LIM Siew Khee**  
 T (65) 6210 8664  
 E siewkhee.lim@cgs-cimb.com

# Banks

## Leaning on stronger capital

- We think the implications of a pause in US rate hikes have been priced into bank valuations. Absence of asset quality pressure should prevent de-rating.
- 2019F could see weaker loan growth momentum in ASEAN markets due to slowing China growth. Resolution of US-China trade conflict is a key catalyst.
- DBS is our preferred pick for the sector due to its demonstrated execution in raising asset yields, strong CASA funding base, and visibility on dividends.
- Maintain Overweight. The sector trades below mean at 1.2x CY19F P/BV. Stronger CET-1 of c.14% underlines sustained dividend yields in 2019F.

### Valuations should find support at 1.1x CY19F P/BV

We believe current bank valuations have priced in downside risks of a pause in US Federal Reserve (Fed) rate hikes on sector earnings. At 1.18x CY19F P/BV (-0.5 s.d. from 15-year mean), we do not think that valuations should retrace significantly as current circumstances (slower regional growth and lower NIM expansion but stable asset quality) do not warrant a de-rating to levels seen during the oil & gas downturn (avg. credit costs of 29-54bp) or 2007-09 global financial crisis (GFC; NPLs of 1.4-2.1%) when the sector traded in the range of 0.9-1x P/BV. A downside risk to the sector is a Fed rate cut.

### NIM upside in 2019F from delayed effects of asset repricing

Optimism on rising interest rate has diminished, especially in light of potentially fewer Fed rate hikes in 2019. Net interest margin (NIM) trends diverged in 4Q18 with DBS/OCBC/UOB posting +1/0/-1bp qoq changes. DBS's strong CASA base continued to underpin the rise in its non-trade loan yield spread. A sharper rise in deposit costs capped margin expansion at OCBC while the small rise in UOB's loan yields was a function of its 4Q18 loan growth to the lower-yielding corporate segment. We think there is still room for a 2-5bp NIM increase in 2019F (2018: 5-10bp) as mortgage board rates catch up to SIBOR-pegged loan rates. 3M SIBOR rose further to an average 1.9% in 2M19 vs. 1.73% in 4Q18. More margin upside could come from a reversal of HIBOR's current downtrend.

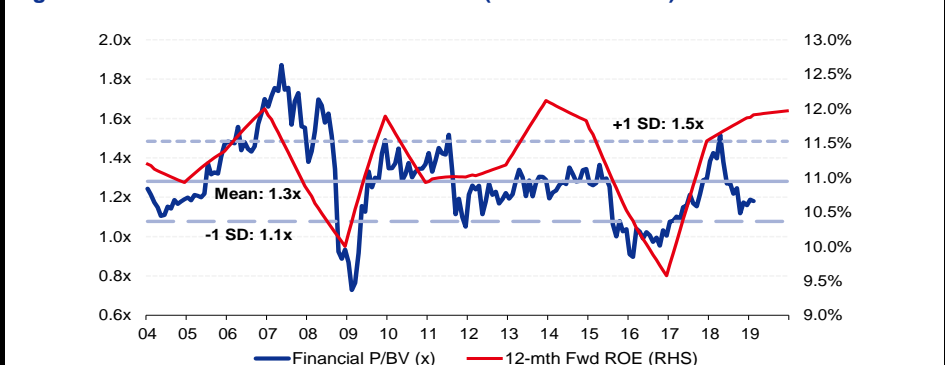
### Volatile market performance to be supported by resilient fee income

Reduced customer activity weighed on trading and wealth management income in 4Q18. In particular, these income segments were the lowest recorded for OCBC in two years. While the banks flag for possibly dimmer market-related income in 2019F in view of continued macroeconomic uncertainty, recurring fee income from cash management, bancassurance and loan-related services should support non-interest income growth.

### Maintain Overweight. Order of preference: DBS, UOB, then OCBC

Sector valuations are still attractive below 15-year mean of 1.3x CY19F P/BV. Slower risk-weighted asset (RWA) growth amid weaker regional loan growth should support capital levels, providing 2019F dividend visibility. DBS is our top pick for its ability in capturing NIM expansion.

**Figure 1: Sector trades at c.1.2x CY19 P/BV (-0.5 s.d. of mean) vs. ROE of 11.9%**



SOURCES: CGS-CIMB RESEARCH, COMPANY

**Figure 2: Sector comparison - South & South-East Asia**

Company	Bbg Ticker	Recom.	Price (local curr)	Tgt Price (local curr)	Mkt Cap (US\$ m)	Core P/E (x)			3-year EPS CAGR (%)	P/BV (x)			Recurring ROE (%)			P/POPS (x)			Dividend Yield (%)		
						CY18F	CY19F	CY20F		CY18F	CY19F	CY20F	CY18F	CY19F	CY20F	CY18F	CY19F	CY20F	CY18F	CY19F	CY20F
DBS Group	DBS SP	Add	25.32	29.00	47,692	11.5	11.0	10.5	16.5%	1.40	1.32	1.24	12.4%	12.3%	12.1%	8.8	8.3	7.9	4.7%	4.7%	4.7%
OCBC	OCBC SP	Hold	11.20	12.00	35,031	10.5	10.5	10.2	5.1%	1.20	1.12	1.05	11.7%	11.0%	10.6%	8.8	8.5	8.2	3.8%	3.8%	3.9%
United Overseas Bank	UOB SP	Add	25.17	29.00	30,869	10.4	10.1	9.7	8.7%	1.11	1.05	1.00	10.9%	10.7%	10.5%	8.2	7.6	7.3	4.8%	4.8%	4.8%
<b>Singapore average</b>						<b>10.9</b>	<b>10.6</b>	<b>10.2</b>	<b>10.6%</b>	<b>1.25</b>	<b>1.17</b>	<b>1.11</b>	<b>11.7%</b>	<b>11.4%</b>	<b>11.2%</b>	<b>8.6</b>	<b>8.2</b>	<b>7.8</b>	<b>4.5%</b>	<b>4.5%</b>	<b>4.5%</b>
Bank Central Asia	BBCA IJ	Hold	27,450	28,500	47,853	26.2	23.5	20.8	11.8%	4.46	3.89	3.39	18.3%	17.6%	17.4%	19.1	17.4	15.4	0.8%	0.9%	1.0%
Bank Mandiri	BMRI IJ	Add	7,075	8,800	23,345	13.2	11.6	10.1	16.6%	1.82	1.64	1.49	14.3%	14.9%	15.5%	6.9	6.7	6.0	2.8%	3.0%	3.4%
Bank Negara Indonesia	BBNI IJ	Add	8,800	11,100	11,603	11.1	9.2	8.0	14.5%	1.52	1.35	1.21	14.3%	15.6%	16.0%	6.1	5.3	4.6	2.9%	3.2%	3.8%
Bank Rakyat Indonesia	BBRI IJ	Add	3,900	4,500	34,013	14.9	13.0	11.4	13.8%	2.60	2.29	2.02	18.4%	18.8%	18.8%	8.0	7.4	6.7	2.7%	2.7%	3.1%
Bank Tabungan Negara	BBTN IJ	Add	2,350	3,400	1,760	7.6	6.6	5.5	13.3%	1.01	0.90	0.80	14.3%	14.5%	15.3%	4.6	3.8	3.1	2.4%	3.3%	3.8%
<b>Indonesia average</b>						<b>16.6</b>	<b>14.5</b>	<b>12.7</b>	<b>14.0%</b>	<b>2.59</b>	<b>2.29</b>	<b>2.03</b>	<b>16.4%</b>	<b>16.7%</b>	<b>17.0%</b>	<b>9.6</b>	<b>8.8</b>	<b>7.8</b>	<b>2.0%</b>	<b>2.1%</b>	<b>2.4%</b>
Affin Bank Berhad	ABANK MK	Hold	2.28	2.30	1,108	8.8	8.4	8.1	11.3%	0.51	0.43	0.41	6.1%	5.5%	5.2%	6.3	5.8	5.8	2.2%	2.3%	2.4%
Alliance Bank Malaysia Berhad	ABMB MK	Hold	4.22	4.18	1,598	11.3	10.4	9.6	11.7%	1.15	1.08	1.02	10.5%	10.8%	10.9%	7.3	6.9	6.5	3.9%	4.1%	4.4%
AMMB Holdings	AMM MK	Hold	4.50	4.39	3,319	10.3	9.7	9.1	8.8%	0.79	0.75	0.71	7.8%	8.0%	8.0%	7.4	6.8	6.3	3.9%	4.1%	4.4%
BIMB Holdings	BIMB MK	Hold	4.25	4.26	1,835	10.4	10.2	9.6	6.6%	1.43	1.32	1.21	14.6%	13.3%	13.1%	5.5	5.1	4.9	3.6%	3.6%	3.8%
Hong Leong Bank	HLBK MK	Reduce	21.30	17.10	10,661	16.8	15.7	14.7	9.8%	1.82	1.66	1.53	11.3%	11.1%	10.8%	15.6	14.3	13.3	2.4%	2.6%	2.7%
Malayan Banking Bhd	MAY MK	Hold	9.53	9.85	25,732	12.8	12.4	11.5	7.7%	1.40	1.29	1.24	11.2%	10.7%	11.0%	8.3	8.2	7.6	6.0%	5.8%	6.3%
Public Bank Bhd	PBK MK	Hold	24.54	25.70	23,310	17.0	15.6	14.8	7.3%	2.33	2.17	2.01	14.6%	14.3%	14.1%	13.1	11.9	11.3	2.8%	2.9%	3.0%
RHB Bank Bhd	RHBBANK MK	Add	5.48	6.38	5,377	9.5	8.8	8.2	13.2%	0.94	0.82	0.76	10.2%	9.9%	9.6%	6.4	5.9	5.5	3.7%	3.4%	3.7%
<b>Malaysia average</b>						<b>13.7</b>	<b>12.9</b>	<b>12.1</b>	<b>9.5%</b>	<b>1.49</b>	<b>1.36</b>	<b>1.29</b>	<b>11.3%</b>	<b>11.0%</b>	<b>11.0%</b>	<b>9.7</b>	<b>9.1</b>	<b>8.5</b>	<b>4.0%</b>	<b>4.0%</b>	<b>4.3%</b>
Bangkok Bank	BBL TB	Add	207.00	238.00	12,431	11.2	10.2	9.4	10.8%	0.96	0.90	0.85	8.7%	9.0%	9.3%	6.0	5.8	5.6	3.1%	3.1%	3.1%
Bank of Ayudhya	BAY TB	Hold	37.75	41.00	8,736	11.2	10.4	9.5	10.8%	1.14	1.07	1.00	10.6%	10.5%	10.8%	4.8	4.5	4.4	2.7%	3.2%	3.1%
Kasikornbank	KBANK TB	Add	192.00	244.00	14,457	11.9	11.0	9.8	13.3%	1.22	1.12	1.03	10.6%	10.6%	10.9%	5.3	5.0	4.6	2.1%	2.1%	2.1%
Kiatnakin Bank	KKP TB	Hold	70.25	71.00	1,871	9.8	9.6	8.8	8.2%	1.41	1.37	1.33	14.5%	14.3%	15.3%	6.5	6.1	5.7	7.2%	7.3%	8.0%
Krung Thai Bank	KTB TB	Hold	19.10	21.30	8,398	9.4	8.7	8.0	16.9%	0.87	0.82	0.77	9.6%	9.7%	10.0%	4.2	4.1	3.9	4.3%	4.6%	5.0%
Krungthai Card	KTC TB	Reduce	30.25	143.00	2,454	2.2	2.1	2.0	7.0%	0.53	0.47	0.41	25.6%	23.3%	21.4%	0.7	0.7	0.7	18.5%	19.2%	20.1%
Siam Commercial Bank	SCB TB	Hold	131.00	146.00	13,994	11.1	10.7	10.1	3.0%	1.17	1.10	1.03	10.8%	10.5%	10.6%	6.1	5.6	5.3	5.0%	5.7%	6.5%
Srisawad Corporation	SAWAD TB	Add	48.75	55.00	1,848	19.7	16.4	13.8	14.7%	4.72	3.56	2.85	26.0%	24.3%	23.0%	13.2	11.1	9.4	0.2%	0.3%	0.4%
Thanachart Capital	TCAP TB	Hold	55.75	56.00	2,009	8.4	8.7	8.2	7.6%	0.99	0.91	0.85	12.3%	10.7%	10.7%	2.9	2.8	2.6	3.6%	3.6%	3.6%
Tisco Financial Group	TISCO TB	Reduce	88.50	72.00	2,229	10.1	9.7	9.2	10.5%	1.88	1.71	1.55	19.4%	18.3%	17.7%	6.3	6.3	5.9	3.6%	4.1%	5.2%
TMB Bank	TMB TB	Hold	2.24	2.38	3,090	8.5	10.9	9.9	10.7%	0.99	0.94	0.87	12.3%	8.8%	10.2%	3.2	4.9	4.3	3.5%	2.7%	3.4%
<b>Thailand average</b>						<b>10.7</b>	<b>10.2</b>	<b>9.3</b>	<b>10.3%</b>	<b>1.11</b>	<b>1.04</b>	<b>0.97</b>	<b>10.7%</b>	<b>10.4%</b>	<b>10.8%</b>	<b>5.0</b>	<b>4.9</b>	<b>4.6</b>	<b>3.5%</b>	<b>3.7%</b>	<b>4.0%</b>
Axis Bank	AXSB IN	Add	733.75	850.00	26,947	34.3	18.5	13.2	122.4%	2.77	2.44	2.10	8.7%	14.2%	17.1%	10.3	8.4	6.6	0.4%	0.6%	0.8%
Bank of Baroda	BOB IN	Add	115.20	175.00	4,353	19.8	6.6	4.9	na	0.73	0.66	0.59	3.9%	10.6%	12.7%	2.4	2.1	1.8	1.3%	1.7%	1.7%
Bank of India	BOI IN	Reduce	90.70	100.00	2,258	6.3	5.6	na	na	0.35	0.33	na	5.7%	6.2%	na	1.3	1.2	na	2.2%	2.2%	na
Canara Bank	CBK IN	Add	257.35	335.00	2,769	424.1	7.5	6.1	na	0.63	0.58	0.53	0.2%	8.1%	9.1%	1.9	1.7	1.5	0.6%	1.1%	1.2%
Equitas Holdings Limited	EQUITAS IN	Add	127.25	200.00	621	26.5	14.3	10.0	77.0%	1.78	1.59	1.37	7.2%	11.9%	14.7%	11.4	7.3	5.3	0.0%	0.0%	0.0%
Federal Bank	FB IN	Add	87.95	120.00	2,494	14.8	11.1	8.7	24.4%	1.36	1.25	1.13	9.9%	11.9%	13.6%	6.5	5.6	4.7	2.3%	2.7%	2.7%
HDFC Bank	HDFCB IN	Add	2,126.50	2,500.00	82,683	27.5	22.6	18.2	18.0%	4.17	3.51	3.01	17.6%	17.0%	17.8%	14.8	12.3	10.0	0.6%	0.7%	0.7%
Housing Development Fin.	HDFC IN	Add	1,880.20	2,150.00	46,204	30.4	29.2	25.6	-0.2%	4.84	4.43	4.01	17.6%	16.0%	16.4%	20.8	19.9	17.5	1.1%	1.1%	1.1%
ICICI Bank	ICICIB IN	Add	370.80	450.00	34,129	32.0	18.2	13.9	25.0%	2.27	2.08	1.86	7.4%	12.0%	14.1%	10.1	9.2	7.7	1.1%	1.3%	1.4%
Indusind Bank	IIB IN	Add	1,531.25	2,100.00	13,182	22.7	17.6	13.8	21.6%	3.50	2.97	2.49	17.1%	18.5%	19.6%	11.6	9.4	7.6	0.4%	0.5%	0.5%
J&K Bank	JKBK IN	Add	46.05	90.00	366	3.0	na	na	na	0.34	na	na	12.1%	na	na	1.1	na	na	0.0%	na	na
LIC Housing Finance	LICHF IN	Add	488.05	590.00	3,518	10.7	9.2	na	na	1.66	1.43	na	17.4%	16.9%	na	6.5	5.6	na	1.7%	2.0%	na
Mahindra & Mahindra Finance	MMFS IN	Add	437.70	540.00	3,863	21.5	15.7	12.8	33.5%	2.65	2.32	2.00	13.7%	15.9%	16.8%	8.5	6.8	5.5	0.7%	0.8%	0.8%
Punjab National Bank	PNB IN	Hold	85.45	85.00	4,641	na	44.0	na	na	0.62	0.62	na	-16.1%	1.4%	na	2.2	2.1	na	0.9%	1.2%	na
Reliance Nippon Life Asset Manag	RNAM IN	Add	194.25	250.00	1,698	23.4	21.0	18.1	4.6%	5.08	4.94	4.68	23.5%	24.2%	26.5%	16.4	14.6	12.6	2.3%	3.6%	3.8%
Shriram Transport Finance	SHTF IN	Add	1,229.10	1,600.00	3,983	12.5	10.1	8.7	25.1%	1.97	1.67	1.43	17.4%	18.1%	17.6%	4.7	4.1	3.5	0.9%	0.9%	0.9%
State Bank of India	SBIN IN	Add	281.75	380.00	35,919	68.5	12.4	8.9	na	1.27	1.17	1.04	1.9%	9.9%	12.3%	4.3	3.5	2.9	0.7%	1.0%	1.1%
Union Bank of India	UNBK IN	Hold	80.10	180.00	1,337	2.2	na	na	na	0.22	na	na	10.6%	na	na	0.7	na	na	3.7%	na	na
Yes Bank	YES IN	Add	231.70	300.00	7,658	12.0	9.3	7.2	18.6%	1.88	1.61	1.35	17.3%	18.8%	20.4%	6.0	4.9	4.1	1.2%	1.2%	1.3%
<b>India average</b>						<b>29.8</b>	<b>na</b>	<b>na</b>	<b>na</b>	<b>2.23</b>	<b>na</b>	<b>na</b>	<b>8.0%</b>	<b>na</b>	<b>na</b>	<b>8.0</b>	<b>na</b>	<b>na</b>	<b>0.8%</b>	<b>na</b>	<b>na</b>
<b>South &amp; South-East Asia Average</b>						<b>16.9</b>	<b>na</b>	<b>na</b>	<b>10.7%</b>	<b>1.75</b>	<b>na</b>	<b>na</b>	<b>10.9%</b>	<b>na</b>	<b>na</b>	<b>8.0</b>	<b>na</b>	<b>na</b>	<b>2.3%</b>	<b>na</b>	<b>na</b>

SOURCES: CSG-CIMB RESEARCH, COMPANY

---

## Easing into 2019

### A patient pause, then a Fed rate cut?

We believe the capital markets have priced in some degree of “patience” into their expectations of further Fed rate hikes in 2019. Poised to be more data-driven, the Fed is waiting on US unemployment and inflation figures to signal the need for further monetary tightening or otherwise. Disappointing US retail sales and industrial production data support the views of several Fed policymakers for one rate hike in 2019, or none at all. We stretch these indicators to consider the effects of a Fed rate cut on the margins of Singapore banks, although this could play out over a longer term horizon.

In so far as the nine Fed rate hikes (+225bp) over the past three years, Singapore banks' NIMs have risen only 3-8bp. Taking a closer look, most of the rate hike impact took place in 2018 as the time-lag effect of US\$ rates on S\$ rates passed through while banks managed a gradual repricing of their fixed rate loan portfolios to maintain market share. In part, the funding structure of domestic banks, having a sizeable current account, savings account (CASA) funding base (averaging 44-62% of total customer deposits across the banks), helped in the margin expansion.

Compared to previous steep cuts in the Fed funds rate of 400bp over a 12-month period during the GFC, we opine that a rate cut may not translate into immediate margin compression as the banks ride on longer-dated loans while reining in funding costs, which typically react more quickly to a change in interbank rates. Instead of margins, negative sentiments from the rate cut could instead weigh more heavily on valuations.

### Read-through from 2018 trends

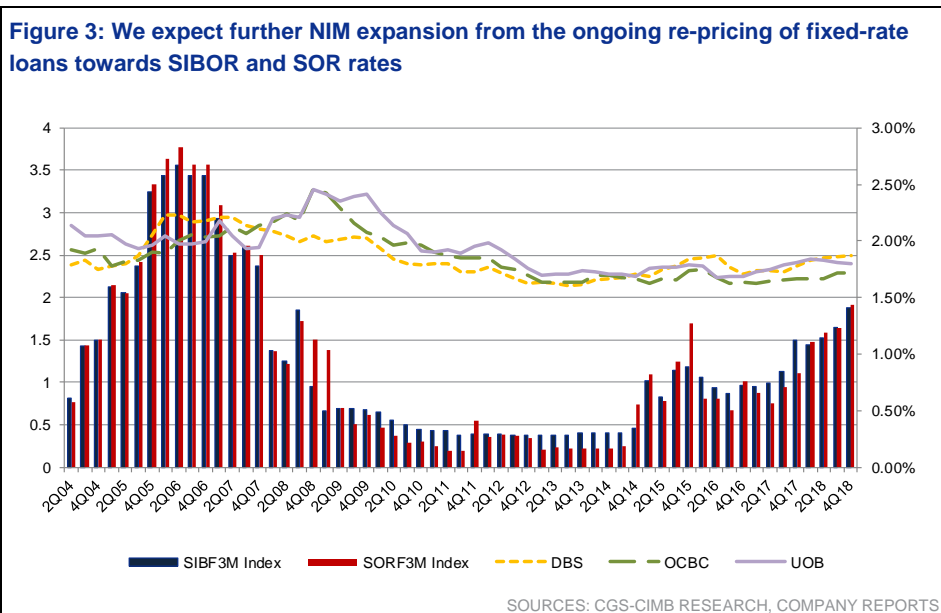
#### Lower 2019 loan growth guidance ➤

Growth in regional markets slowed in 2H18 following a resilient 1H18. All three banks guided for more moderate expansion in 2019, with DBS and UOB setting mid single-digit loan growth expectations and OCBC guiding for a more conservative low-to-mid single-digit growth. The environment of rising interest rates, slowing growth in China, and US-China trade tensions have had a part to play in the general outflow of capital from emerging economies and the weaker macroeconomic outlook – the effects of which could be seen in weaker corporate investment demand from 2H18. Accordingly, we have toned down our loan growth assumptions to a more conservative 4-5% across the banks in 2019F, from the 7-11% seen in 2018.

In 2018, loans extended to Greater China had weakened significantly in 2H18. We understand that banks' appetite for trade loans in 2H18 was likely curbed by unattractive pricing. Better rates at the end of 4Q18 could see growth from this segment reflected in 1Q19F figures. Dampened mortgage demand is likely to be a recurring feature in 2019F's playbook. DBS ended 2018 with less than S\$2bn of net new mortgages – the bank had forecasted S\$4bn at the start of the year, before the property cooling measures were introduced in Jul 2018. While we expect drawdowns from prior bookings will support housing loan growth in 1H19F, expansion from this segment in the later part of the year could be challenged by the reduced pipeline from a 30-40% reduction in bookings.

**Lagged repricing effects to flow through into 2019F NIMs**

DBS's 10bp yoy NIM increase in 2018 was underpinned by its robust funding base, 59% of which comprised low-cost CASA. NIM expansion at OCBC and UOB was smaller at 5bp yoy. In tandem with the rise of interbank rates (in step with the multiple Fed rate hikes), the banks' funding costs increased in steadfast fashion, thereby keeping a lid on margin expansion. Fixed deposit rates have increased to c.2% in Feb 2019, from c.1.5% a year ago.



For 2019, banks have generally guided for a continued uptrend, albeit at a slower pace compared to yesteryears. The continued expansion is likely to come from the sustained rise of 3M SIBOR and the ongoing repricing of mortgage board rates towards those of SIBOR-pegged loans. Average 3M SIBOR rose to 1.9% in 2M19 from 1.73% in 4Q18.

The contributions of regional operations towards bottomline NIM expansion have been a mixed bag in 2018. DBS and OCBC – the two banks with more significant HK operations – benefitted from the steep rise in HIBOR over the year, although the recent downtrend raises some questions over continued margin upside. Margin performance at UOB's regional operations have not been stellar, with the bank leveraging on higher loan-to-deposit ratios (LDRs) to support NIM growth.

**Asset quality to remain stable, albeit with rising credit costs**

It will come as no surprise if credit costs rise across Singapore banks in 2019 as the banks cruised on muted provisions over the past year following the adoption of IFRS9/SFRS109 in Jan 2018. Credit costs in 2018 came up to 12-21bp vs. the 29-60bp recorded in 2017. The banks have guided for normalising provisions towards their respective run rates of 20-25bp for DBS and UOB, and 12-15bp for OCBC.

Asset quality is still deemed stable, although we observe rising NPL accretion over consequent quarters in 2018 for both OCBC and UOB. Recall that this comes on the back of a portfolio review and accelerated recognition of vulnerable oil and gas (O&G) exposures. New NPLs recorded have so far been attributed to idiosyncratic corporate exposures, mainly in the banks' regional books, and some flow-through (and reversals) from mortgages. In Jan 2019, the liquidation of Coastal Oil Singapore, a Hong Kong-based company all three

banks have exposure to, gave rise to questions of a second round of O&G-related deterioration. We understand that there could have been fraud involved in the presentation of Coastal Oil's cashflows to the banks, resulting in the liquidation being unforeseen by the latter. Full credit costs on the exposure (net of collateral) have been provided for in 4Q18 – the impact of which was heaviest on OCBC. OCBC's exposure to the Coastal Oil was the largest among peers at US\$123m, followed by DBS (US\$30m) and UOB (US\$20m). Further concerns on the sector have not been highlighted; the banks continue to keep a watch on the asset quality of SMEs.

**Figure 4: Forecasts of Singapore banks' key metrics**

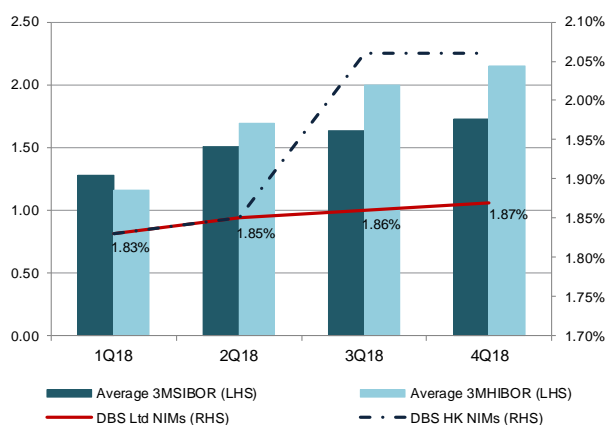
	DBS			OCBC			UOB		
	2019F	2020F	2021F	2019F	2020F	2021F	2019F	2020F	2021F
<b>NIM (%)</b>	1.90%	1.94%	1.97%	1.72%	1.74%	1.75%	1.84%	1.86%	1.87%
<b>Yoy loan growth</b>	5%	5%	5%	4%	4%	4%	5%	5%	5%
<b>NII growth (%)</b>	7%	4%	3%	7%	4%	4%	9%	5%	4%
<b>Non-II growth (%)</b>	3%	8%	7%	1%	3%	5%	7%	5%	3%
<b>Non-II % of income</b>	31%	32%	33%	38%	38%	38%	31%	32%	31%
<b>Total income growth (%)</b>	5%	5%	4%	5%	4%	4%	9%	5%	4%
<b>Cost-income ratio</b>	44%	44%	44%	44%	44%	44%	44%	45%	45%
<b>Provisions (bp of loans)</b>	23	25	25	15	17	20	21	23	25
<b>Yoy net profit (%)</b>	6%	4%	6%	1%	2%	3%	4%	3%	2%
<b>DPS (Scts)</b>	120	120	120	43	44	45	120	120	120
<b>Payout (%)</b>	52%	50%	47%	40%	40%	40%	48%	46%	45%
<b>NPL ratio (%)</b>	1.4%	1.3%	1.3%	1.4%	1.3%	1.3%	1.5%	1.5%	1.2%
<b>Yoy Deposit growth (%)</b>	5%	4%	4%	5%	5%	6%	7%	5%	6%
<b>LDR (%)</b>	88.9%	90.7%	92.3%	85.6%	84.5%	82.9%	86.8%	87.0%	85.9%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

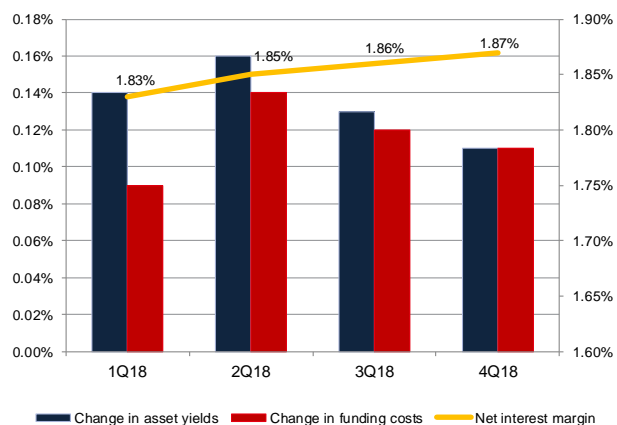
## Details from 4Q18 performance

### DBS ➤

DBS was the largest beneficiary of the Fed rate hikes in 2018, with a 10bp yoy NIM expansion. The bank's robust CASA funding base (59% of deposit base) and demonstrated ability to reprice assets underlined its 1bp qoq margin expansion in 4Q18. The NIM of DBS's HK operations increased a strong 27bp yoy, although NIMs stagnated in 4Q18 due to the dip of 1M HIBOR to c.1% and ample liquidity conditions. DBS's expectations of a 4-5bp NIM increase in 2019 (without rate hikes) incorporate the stabilisation of HK rates. Management remains positive on a catch-up in fixed mortgage rates towards SIBOR-pegged loans in 2019.

**Figure 5: Further upside to NIMs are plausible as fixed-rate loans catch up to SIBOR/HIBOR**


SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

**Figure 6: DBS was the only bank to record sustained qoq NIM expansion; funding costs contained by 59% CASA deposit base**


SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

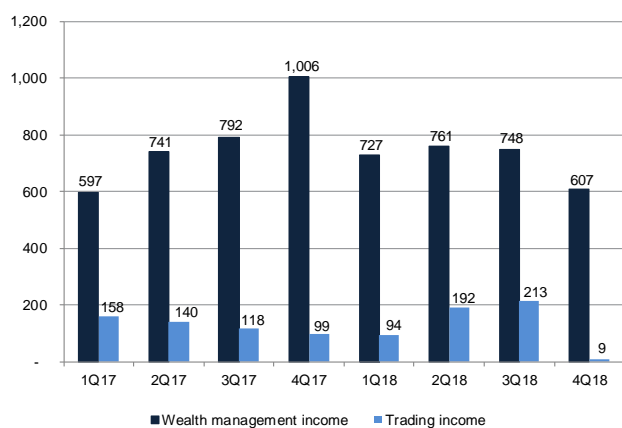


Weak market-related income was the key drag on its earnings in 4Q18 – treasury customer income dipped to S\$257m, the lowest in two years. While the macroeconomic landscape remain challenging, mitigating factors to this include the fact that the shift of corporates out of China due to its trade tensions with the US have not materialised – a positive development to DBS given its larger Greater China exposure. DBS does not have exposure to the many Chinese bond defaults. Corporate loan pipeline is likely to be slower in 2019F, but government-led stimulus could support economic growth (e.g. Changi Terminal 5). DBS’s vigorous digitalisation strategy encompasses cost reduction as one of its main goals – from the current 44% cost-to-income (CTI) ratio to 40%. That said, we think that costs are likely to be maintained at current levels in FY19F as the bank expands its footprint in India.

**OCBC**

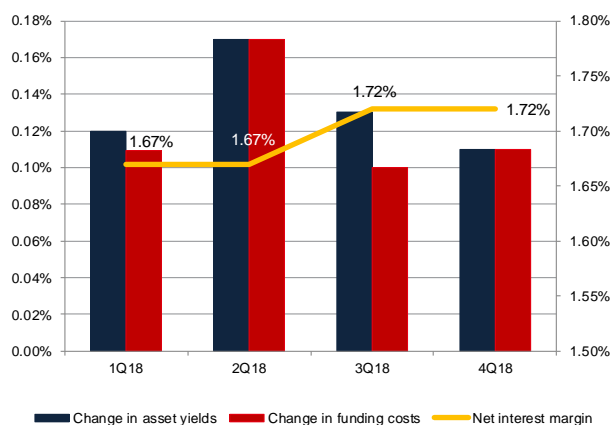
Weaker wealth management income and mark-to-market (MTM) losses from Great Eastern resulted in OCBC recording the largest total income contraction in 4Q18 (-8% qoq) amongst Singapore banks. Its quarterly wealth management and trading incomes were the lowest in two years. Income from its insurance segment remained volatile, but we think its trading income could rebound for the better in 1Q19F on improved market performance. Loan growth was a tepid 0.5% qoq, during which NIM stayed flat at 1.72% in 4Q18. Recall that OCBC had started shoring up on its funding base in 2H17 in anticipation of higher funding costs. Despite releasing some of that liquidity in 3Q18, the build-up of more expensive fixed deposits (FDs) resulted in OCBC experiencing a larger rise in deposit costs (+35bp yoy) vs. DBS (+29bp yoy) and UOB (+28bp yoy).

**Figure 7: 4Q18 income from OCBC’s wealth and trading segments were at their lowest in 2 years**



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

**Figure 8: Compared to peers, OCBC’s funding costs increased the most in FY18, thereby limiting NIM expansion**



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Credit costs escalated to 32bp in 4Q18 due to provisions for Coastal Oil Singapore and exposure to the O&G support sector in Malaysia. Additional impairments were taken as the bank revised cashflow expectations on its O&G portfolio. These provisions were attributable to seven accounts (belonging to five groups) where increased charter rates did not materialise; collateral for these exposures have been marked down to 30% of current market values.

Dividend payout came up to 43% for FY18 – a level lower than the c.50% declared by peers. This comes against its higher CET-1 ratio of 14% in 4Q18 and scrip dividend scheme for 2H18 DPS which allows for a larger payout capacity. While its dividend policy for FY19 remains in the works, the bank has

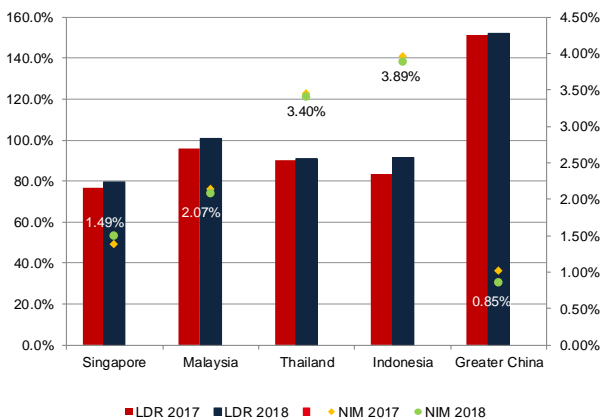
guided that it will retain capital for “defensive” and “offensive” purposes – the former so as to maintain a buffer against harsher operating conditions and the latter for opportunistic prospects, although the bank is not looking at any at the moment.

**UOB**

As with peers, UOB was hit by weaker wealth management and trading fees as a result of the volatile capital markets in 4Q18. That said, part of the impact was cushioned by the structure of its wealth management franchise – broadly comprising its high net worth (HNW) SME clients – which generates more stable recurring fees as opposed to income driven by client trading activity, as seen in its peers.

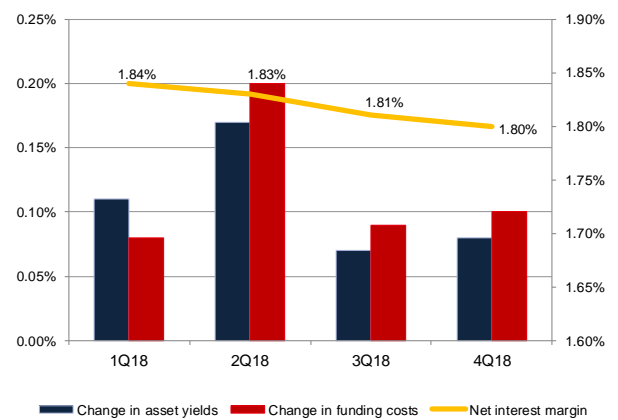
The 1bp qoq NIM contraction in 4Q18 was disappointing given that it delivered the strongest (+2.7% qoq) loan growth amongst peers. We think most of these loans were extended to the corporate segment, yielding very thin margins. Notably, the NIM expansion in FY18 have largely been supported by the bank’s Singapore operations, where a further rise in asset yields hinges on continued mortgage repricing in FY19F. UOB’s regional operations in Malaysia, Thailand, Indonesia and Greater China recorded yoy NIM compression. Full-year credit costs of 16bp were within expectations. The bank guides for some NPL accretion in FY19; we think the increase should be manageable.

**Figure 9: NIMs of UOB’s regional operations have declined yoy despite employing higher leverage (higher LDR ratios)**



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

**Figure 10: UOB recorded the smallest yoy rise in asset yields; NIM compressed for a third consecutive quarter**



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

The renewal of UOB’s bancassurance agreement with Prudential extends their original alliance through to 2034. The renewed agreement will see UOB receiving S\$1.15bn in fees (amortised over the 15-year period), providing a boost of S\$76.7m per year to its non-II. The agreement also adds Vietnam as a new market for the distribution of Prudential’s products through UOB.

The bank’s 50% dividend payout ratio came through a final 50Scts and 20Scts special DPS for 2H18. UOB’s strong 13.9% CET-1 capital ratio provides support for FY19F dividends to be maintained at current absolute levels, although the bank guides for excess capital to be retained for regional business expansion, such as in Indonesia and Vietnam.

## Valuation and recommendation

### Maintain Overweight on the sector >

We maintain our Overweight call on Singapore banks. We believe the current sector valuations of 1.18x 2019F P/BV (ROE: 11.9%) have priced in expectations of more modest NIM expansion in 2019F as the Fed takes a patient pause on rate hikes. In our view, the still-benign credit environment provides some support for valuations to be sustained above 1.1x P/BV (-1 s.d. from 15-year mean). Historically, valuations had dipped below these levels only during periods of severe asset quality pressures – the GFC and O&G downturn – when credit costs averaged 29-54bp while NPLs stood at 1.4-2.1%. We are cognisant, though, that Fed rate cuts could be a key de-rating catalyst for the sector.

The sector also trades below its 15-year historical mean of 1.3x CY19F P/BV. With RWA growth generally tracking that of loan expansion, the advent of slower regional loan growth forms the basis of strong capital buffers in the year ahead (barring acquisitions). Adjusting for final dividends, the 13.5% pro-forma CET-1 ratio of the banks are still deemed strong and provide visibility to sustained dividends in 2019F, in our view.

### Our order of preference: DBS, UOB then OCBC >

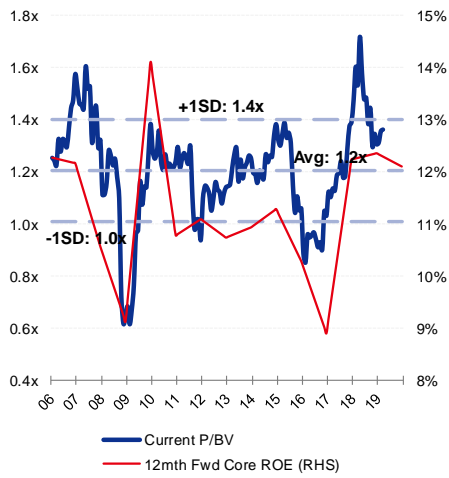
Our top pick among Singapore banks is **DBS** (GGM-based TP of S\$29.00 on 1.5x CY19F P/BV). DBS's share price has performed well, gaining c.7% since the start of the year – recouping some of the weakness experienced in 4Q18 due to market volatility and risk-off sentiment. DBS would be best-placed to capture further NIM upside given its strong funding base, mainly comprising CASA deposits. Although we think the market has priced in expectations of a delay in Fed rate hikes, there could be a negative reaction if regional loan growth slows more than expected. We believe a resolution of US-China trade tensions beyond the delay in planned tariff implementations would be a key catalyst for DBS given its exposure to Greater China. We like that its strong 13.9% CET-1 ratio provides visibility to FY19F dividends. Although trading above 15-year mean of 1.2x P/BV, DBS offers an ROE of c.12%, which is superior to peers' c.10.5%.

Our second choice is **UOB**. We have an Add rating on the bank with TP of S\$29.00 (1.1x CY19F P/BV, ROE: 10.7%). Valuations are attractive at -1 s.d. of 15-year mean. We believe UOB could be the most shielded from US-China trade war uncertainties given its smaller exposure to the Greater China region. The bank's smaller trading book and the more stable characteristic of its wealth management segment (less driven by client trading activities) underline its earnings visibility. NIMs should continue to expand as the bank reprices its loans, although this should be at a smaller quantum compared to DBS.

Our least preferred is **OCBC**; we have a Hold call on the stock with TP of S\$12.00 (1.1x CY19F P/BV, ROE: c.11%). Despite having a larger CASA base compared to UOB, OCBC's funding costs have risen the most amongst the three Singapore banks in FY18. While we think that wealth management and trading income could rebound on the back of better capital market performance in 1Q19F, the effects of any capital markets weakness in 2019 could be heftier on OCBC due to compounded effects from Great Eastern Holdings. We think its weaker loan growth prospects, volatile insurance contributions, and cloudy dividend guidance could cap its share price in the near term.

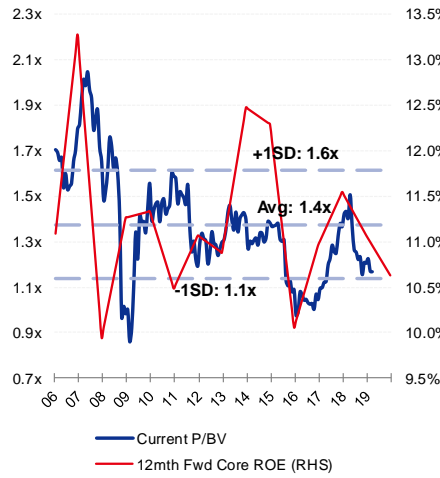


**Figure 11: DBS's current P/BV vs. 12mth fwd core ROE**



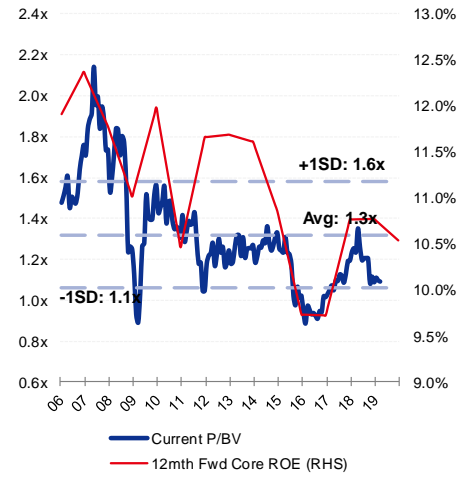
SOURCE: CGS-CIMB RESEARCH, COMPANY REPORTS

**Figure 12: OCBC's current P/BV vs. 12mth fwd core ROE**



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

**Figure 13: UOB's current P/BV vs. 12mth fwd core ROE**



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

## DISCLAIMER

The content of this report (including the views and opinions expressed therein, and the information comprised therein) has been prepared by and belongs to CGS-CIMB or CIMB Investment Bank Berhad (“CIMB”), as the case may. Reports relating to a specific geographical area are produced and distributed by the corresponding CGS-CIMB entity as listed in the table below. Reports relating to Malaysia are produced and distributed by CIMB.

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.

By accepting this report, the recipient hereof represents and warrants that he is entitled to receive such report in accordance with the restrictions set forth below and agrees to be bound by the limitations contained herein (including the “Restrictions on Distributions” set out below). Any failure to comply with these limitations may constitute a violation of law. This publication is being supplied to you strictly on the basis that it will remain confidential. No part of this report may be (i) copied, photocopied, duplicated, stored or reproduced in any form by any means or (ii) redistributed or passed on, directly or indirectly, to any other person in whole or in part, for any purpose without the prior written consent of CGS-CIMB or CIMB, as the case may be.

The information contained in this research report is prepared from data believed to be correct and reliable at the time of issue of this report. CGS-CIMB or CIMB, as the case may be, may or may not issue regular reports on the subject matter of this report at any frequency and may cease to do so or change the periodicity of reports at any time. Neither CGS-CIMB nor CIMB has an obligation to update this report in the event of a material change to the information contained in this report. Neither CGS-CIMB nor CIMB accepts any, obligation to (i) check or ensure that the contents of this report remain current, reliable or relevant, (ii) ensure that the content of this report constitutes all the information a prospective investor may require, (iii) ensure the adequacy, accuracy, completeness, reliability or fairness of any views, opinions and information, and accordingly, CGS-CIMB and CIMB, their respective affiliates and related persons including China Galaxy International Financial Holdings Limited (“CGIFHL”) and CIMB Group Sdn. Bhd. (“CIMBG”) and their respective related corporations (and their respective directors, associates, connected persons and/or employees) shall not be liable in any manner whatsoever for any consequences (including but not limited to any direct, indirect or consequential losses, loss of profits and damages) of any reliance thereon or usage thereof. In particular, CGS-CIMB and CIMB disclaim all responsibility and liability for the views and opinions set out in this report.

Unless otherwise specified, this report is based upon sources which CGS-CIMB or CIMB, as the case may be, considers to be reasonable. Such sources will, unless otherwise specified, for market data, be market data and prices available from the main stock exchange or market where the relevant security is listed, or, where appropriate, any other market. Information on the accounts and business of company(ies) will generally be based on published statements of the company(ies), information disseminated by regulatory information services, other publicly available information and information resulting from our research.

Whilst every effort is made to ensure that statements of facts made in this report are accurate, all estimates, projections, forecasts, expressions of opinion and other subjective judgments contained in this report are based on assumptions considered to be reasonable as of the date of the document in which they are contained and must not be construed as a representation that the matters referred to therein will occur. Past performance is not a reliable indicator of future performance. The value of investments may go down as well as up and those investing may, depending on the investments in question, lose more than the initial investment. No report shall constitute an offer or an invitation by or on behalf of CGS-CIMB or CIMB, as the case may be, or any of their respective affiliates (including CGIFHL, CIMBG and their respective related corporations) to any person to buy or sell any investments.

CGS-CIMB, CIMB, their respective affiliates and related corporations (including CGIFHL, CIMBG and their respective related corporations) and/or their respective directors, associates, connected parties and/or employees may own or have positions in securities of the company(ies) covered in this research report or any securities related thereto and may from time to time add to or dispose of, or may be materially interested in, any such securities. Further, CGS-CIMB, CIMB, their respective affiliates and their respective related corporations (including CGIFHL, CIMBG and their respective related corporations) do and seek to do business with the company(ies) covered in this research report and may from time to time act as market maker or have assumed an underwriting commitment in securities of such company(ies), may sell them to or buy them from customers on a principal basis and may also perform or seek to perform significant investment banking, advisory, underwriting or placement services for or relating to such company(ies) as well as solicit such investment, advisory or other services from any entity mentioned in this report.

CGS-CIMB, CIMB or their respective affiliates (including CGIFHL, CIMBG and their respective related corporations) may enter into an agreement with the company(ies) covered in this report relating to the production of research reports. CGS-CIMB or CIMB, as the case may be, may disclose the contents of this report to the company(ies) covered by it and may have amended the contents of this report following such disclosure.

The analyst responsible for the production of this report hereby certifies that the views expressed herein accurately and exclusively reflect his or her personal views and opinions about any and all of the issuers or securities analysed in this report and were prepared independently and autonomously. No part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations(s) or view(s) in this report. The analyst(s) who prepared this research report is prohibited from receiving any compensation, incentive or bonus based on specific investment banking transactions or for providing a specific recommendation for, or view of, a particular company. Information barriers and other arrangements may be established where necessary to prevent conflicts of interests arising. However, the analyst(s) may receive compensation that is based on his/their coverage of company(ies) in the performance of his/their duties or the performance of his/their recommendations and the research personnel involved in the preparation of this report may also participate in the solicitation of the businesses as described above. In reviewing this research report, an investor should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additional information is, subject to the duties of confidentiality, available on request.

Reports relating to a specific geographical area are produced by the corresponding CGS-CIMB entity as listed in the table below. The term “CGS-CIMB” shall denote, where appropriate, the relevant entity distributing or disseminating the report in the particular jurisdiction referenced below, or, in every other case except as otherwise stated herein, CGS-CIMB Securities International Pte. Ltd. and its affiliates, subsidiaries and related corporations.

Country	CGS-CIMB Entity	Regulated by
Hong Kong	CGS-CIMB Securities (Hong Kong) Limited	Securities and Futures Commission Hong Kong
India	CGS-CIMB Securities (India) Private Limited	Securities and Exchange Board of India (SEBI)
Indonesia	PT CGS-CIMB Sekuritas Indonesia	Financial Services Authority of Indonesia
Singapore	CGS-CIMB Research Pte. Ltd.	Monetary Authority of Singapore
South Korea	CGS-CIMB Securities (Hong Kong) Limited, Korea Branch	Financial Services Commission and Financial Supervisory Service
Thailand	CGS-CIMB Securities (Thailand) Co. Ltd.	Securities and Exchange Commission Thailand

Reports relating to Malaysia are produced by CIMB as listed in the table below:

Country	CIMB Entity	Regulated by
Malaysia	CIMB Investment Bank Berhad	Securities Commission Malaysia

#### Other Significant Financial Interests:

(i) As of March 7, 2019 CGS-CIMB / CIMB has a proprietary position in the securities (which may include but not limited to shares, warrants, call warrants and/or any other derivatives) in the following company or companies covered or recommended in this report:

(a) DBS Group, OCBC, United Overseas Bank

(ii) Analyst Disclosure: As of March 8, 2019, the analyst(s) who prepared this report, and the associate(s), has / have an interest in the securities (which may include but not limited to shares, warrants, call warrants and/or any other derivatives) in the following company or companies covered or recommended in this report:

(a) -

This report does not purport to contain all the information that a prospective investor may require. Neither CGS-CIMB or CIMB, as the case may be, nor any of their respective affiliates (including CGIFHL, CIMBG and their related corporations) make any guarantee, representation or warranty, express or implied, as to the adequacy, accuracy, completeness, reliability or fairness of any such information and opinion contained in this report. Neither CGS-CIMB or CIMB, as the case may be, nor any of their respective affiliates nor their related persons (including CGIFHL, CIMBG and their related corporations) shall be liable in any manner whatsoever for any consequences (including but not limited to any direct, indirect or consequential losses, loss of profits and damages) of any reliance thereon or usage thereof.

This report is general in nature and has been prepared for information purposes only. It is intended for circulation amongst CGS-CIMB's or CIMB's (as the case may be) clients generally and does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may receive this report. The information and opinions in this report are not and should not be construed or considered as an offer, recommendation or solicitation to buy or sell the subject securities, related investments or other financial instruments or any derivative instrument, or any rights pertaining thereto.

Investors are advised to make their own independent evaluation of the information contained in this research report, consider their own individual investment objectives, financial situation and particular needs and consult their own professional and financial advisers as to the legal, business, financial, tax and other aspects before participating in any transaction in respect of the securities of company(ies) covered in this research report.

The securities of such company(ies) may not be eligible for sale in all jurisdictions or to all categories of investors.

**Australia:** Despite anything in this report to the contrary, this research is provided in Australia by CGS-CIMB Securities (Singapore) Pte. Ltd. and CGS-CIMB Securities (Hong Kong) Limited. This research is only available in Australia to persons who are "wholesale clients" (within the meaning of the Corporations Act 2001 (Cth) and is supplied solely for the use of such wholesale clients and shall not be distributed or passed on to any other person. You represent and warrant that if you are in Australia, you are a "wholesale client". This research is of a general nature only and has been prepared without taking into account the objectives, financial situation or needs of the individual recipient. CGS-CIMB Securities (Singapore) Pte. Ltd. and CGS-CIMB Securities (Hong Kong) Limited do not hold, and are not required to hold an Australian financial services license. CGS-CIMB Securities (Singapore) Pte. Ltd. and CGS-CIMB Securities (Hong Kong) Limited rely on "passporting" exemptions for entities appropriately licensed by the Monetary Authority of Singapore (under ASIC Class Order 03/1102) and the Securities and Futures Commission in Hong Kong (under ASIC Class Order 03/1103).

**Canada:** This research report has not been prepared in accordance with the disclosure requirements of Dealer Member Rule 3400 – Research Restrictions and Disclosure Requirements of the Investment Industry Regulatory Organization of Canada. For any research report distributed by CIBC, further disclosures related to CIBC conflicts of interest can be found at <https://researchcentral.cibcwm.com>.

**China:** For the purpose of this report, the People's Republic of China ("PRC") does not include the Hong Kong Special Administrative Region, the Macau Special Administrative Region or Taiwan. The distributor of this report has not been approved or licensed by the China Securities Regulatory Commission or any other relevant regulatory authority or governmental agency in the PRC. This report contains only marketing information. The distribution of this report is not an offer to buy or sell to any person within or outside PRC or a solicitation to any person within or outside of PRC to buy or sell any instruments described herein. This report is being issued outside the PRC to a limited number of institutional investors and may not be provided to any person other than the original recipient and may not be reproduced or used for any other purpose.

**France:** Only qualified investors within the meaning of French law shall have access to this report. This report shall not be considered as an offer to subscribe to, or used in connection with, any offer for subscription or sale or marketing or direct or indirect distribution of financial instruments and it is not intended as a solicitation for the purchase of any financial instrument.

**Germany:** This report is only directed at persons who are professional investors as defined in sec 31a(2) of the German Securities Trading Act (WpHG). This publication constitutes research of a non-binding nature on the market situation and the investment instruments cited here at the time of the publication of the information.

The current prices/yields in this issue are based upon closing prices from Bloomberg as of the day preceding publication. Please note that neither the German Federal Financial Supervisory Agency (BaFin), nor any other supervisory authority exercises any control over the content of this report.

**Hong Kong:** This report is issued and distributed in Hong Kong by CGS-CIMB Securities (Hong Kong) Limited ("CHK") which is licensed in Hong Kong by the Securities and Futures Commission for Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate

finance) activities. Any investors wishing to purchase or otherwise deal in the securities covered in this report should contact the Head of Sales at CGS-CIMB Securities (Hong Kong) Limited. The views and opinions in this research report are our own as of the date hereof and are subject to change. If the Financial Services and Markets Act of the United Kingdom or the rules of the Financial Conduct Authority apply to a recipient, our obligations owed to such recipient therein are unaffected. CHK has no obligation to update its opinion or the information in this research report.

This publication is strictly confidential and is for private circulation only to clients of CHK.

CHK does not make a market on other securities mentioned in the report.

**India:** This report is issued and distributed in India by CGS-CIMB Securities (India) Private Limited ("CGS-CIMB India"). CGS-CIMB India is a subsidiary of CGS-CIMB Securities International Pte. Ltd. which is in turn is a 50:50 joint venture company of CGIFHL and CIMBG. The details of the members of the group of companies of CGS-CIMB can be found at [www.cgs-cimb.com](http://www.cgs-cimb.com), CGIFHL at [www.chinastock.com.hk/en/ACG/ContactUs/index.aspx](http://www.chinastock.com.hk/en/ACG/ContactUs/index.aspx) and CIMBG at [www.cimb.com/en/who-we-are.html](http://www.cimb.com/en/who-we-are.html). CGS-CIMB India is registered with the National Stock Exchange of India Limited and BSE Limited as a trading and clearing member (Merchant Banking Number: INM00012037) under the Securities and Exchange Board of India (Stock Brokers and Sub-Brokers) Regulations, 1992. In accordance with the provisions of Regulation 4(g) of the Securities and Exchange Board of India (Investment Advisers) Regulations, 2013, CGS-CIMB India is not required to seek registration with the Securities and Exchange Board of India ("SEBI") as an Investment Adviser. CGS-CIMB India is registered with SEBI (SEBI Registration Number: INZ000157134) as a Research Analyst (INH000000669) pursuant to the SEBI (Research Analysts) Regulations, 2014 ("Regulations").

This report does not take into account the particular investment objectives, financial situations, or needs of the recipients. It is not intended for and does not deal with prohibitions on investment due to law/jurisdiction issues etc. which may exist for certain persons/entities. Recipients should rely on their own investigations and take their own professional advice before investment.

The report is not a "prospectus" as defined under Indian Law, including the Companies Act, 2013, and is not, and shall not be, approved by, or filed or registered with, any Indian regulator, including any Registrar of Companies in India, SEBI, any Indian stock exchange, or the Reserve Bank of India. No offer, or invitation to offer, or solicitation of subscription with respect to any such securities listed or proposed to be listed in India is being made, or intended to be made, to the public, or to any member or section of the public in India, through or pursuant to this report.

The research analysts, strategists or economists principally responsible for the preparation of this research report are segregated from the other activities of CGS-CIMB India and they have received compensation based upon various factors, including quality, accuracy and value of research, firm profitability or revenues, client feedback and competitive factors. Research analysts', strategists' or economists' compensation is not linked to investment banking or capital markets transactions performed or proposed to be performed by CGS-CIMB India or its affiliates.

CGS-CIMB India does not have actual / beneficial ownership of 1% or more securities of the subject company in this research report, at the end of the month immediately preceding the date of publication of this research report. However, since affiliates of CGS-CIMB are engaged in the financial services business, they might have in their normal course of business financial interests or actual / beneficial ownership of one per cent or more in various companies including the subject company in this research report.

CGS-CIMB or its associates, may: (a) from time to time, have long or short position in, and buy or sell the securities of the subject company in this research report; or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the subject company in this research report or act as an advisor or lender/borrower to such company or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.

CGS-CIMB India, its associates and the analyst engaged in preparation of this research report have not received any compensation for investment banking, merchant banking or brokerage services from the subject company mentioned in the research report in the past 12 months.

CGS-CIMB India, its associates and the analyst engaged in preparation of this research report have not managed or co-managed public offering of securities for the subject company mentioned in the research report in the past 12 months. The analyst from CGS-CIMB India engaged in preparation of this research report or his/her relative (a) do not have any financial interests in the subject company mentioned in this research report; (b) do not own 1% or more of the equity securities of the subject company mentioned in the research report as of the last day of the month preceding the publication of the research report; (c) do not have any material conflict of interest at the time of publication of the research report

**Indonesia:** This report is issued and distributed by PT CGS-CIMB Sekuritas Indonesia ("CGS-CIMB Indonesia"). The views and opinions in this research report are our own as of the date hereof and are subject to change. CGS-CIMB Indonesia has no obligation to update its opinion or the information in this research report. Neither this report nor any copy hereof may be distributed in Indonesia or to any Indonesian citizens wherever they are domiciled or to Indonesian residents except in compliance with applicable Indonesian capital market laws and regulations.

This research report is not an offer of securities in Indonesia. The securities referred to in this research report have not been registered with the Financial Services Authority (Otoritas Jasa Keuangan) pursuant to relevant capital market laws and regulations, and may not be offered or sold within the territory of the Republic of Indonesia or to Indonesian citizens through a public offering or in circumstances which constitute an offer within the meaning of the Indonesian capital market law and regulations.

**Ireland:** CGS-CIMB is not an investment firm authorised in the Republic of Ireland and no part of this document should be construed as CGS-CIMB acting as, or otherwise claiming or representing to be, an investment firm authorised in the Republic of Ireland.

**Malaysia:** This report is distributed in Malaysia by CIMB solely for the benefit of and for the exclusive use of our clients. Recipients of this report are to contact CIMB, at 17th Floor Menara CIMB No. 1 Jalan Stesen Sentral 2, Kuala Lumpur Sentral 50470 Kuala Lumpur, Malaysia, in respect of any matters arising from or in connection with this report. CIMB has no obligation to update, revise or reaffirm its opinion or the information in this research reports after the date of this report.

**New Zealand:** In New Zealand, this report is for distribution only to persons who are wholesale clients pursuant to section 5C of the Financial Advisers Act 2008.

**Singapore:** This report is issued and distributed by CGS-CIMB Research Pte Ltd ("CGS-CIMBR"). CGS-CIMBR is a financial adviser licensed under the Financial Advisers Act, Cap 110 ("FAA") for advising on investment products, by issuing or promulgating research analyses or research reports, whether in electronic, print or other form. Accordingly CGS-CIMBR is a subject to the applicable rules under the FAA unless it is able to avail itself to any prescribed exemptions.

Recipients of this report are to contact CGS-CIMB Research Pte Ltd, 50 Raffles Place, #16-02 Singapore Land Tower, Singapore in respect of any



matters arising from, or in connection with this report. CGS-CIMBR has no obligation to update its opinion or the information in this research report. This publication is strictly confidential and is for private circulation only. If you have not been sent this report by CGS-CIMBR directly, you may not rely, use or disclose to anyone else this report or its contents.

If the recipient of this research report is not an accredited investor, expert investor or institutional investor, CGS-CIMBR accepts legal responsibility for the contents of the report without any disclaimer limiting or otherwise curtailing such legal responsibility. If the recipient is an accredited investor, expert investor or institutional investor, the recipient is deemed to acknowledge that CGS-CIMBR is exempt from certain requirements under the FAA and its attendant regulations, and as such, is exempt from complying with the following :

- (a) Section 25 of the FAA (obligation to disclose product information);
- (b) Section 27 (duty not to make recommendation with respect to any investment product without having a reasonable basis where you may be reasonably expected to rely on the recommendation) of the FAA;
- (c) MAS Notice on Information to Clients and Product Information Disclosure [Notice No. FAA-N03];
- (d) MAS Notice on Recommendation on Investment Products [Notice No. FAA-N16];
- (e) Section 36 (obligation on disclosure of interest in specified products), and
- (f) any other laws, regulations, notices, directive, guidelines, circulars and practice notes which are relates to the above, to the extent permitted by applicable laws, as may be amended from time to time, and any other laws, regulations, notices, directive, guidelines, circulars, and practice notes as we may notify you from time to time. In addition, the recipient who is an accredited investor, expert investor or institutional investor acknowledges that as CGS-CIMBR is exempt from Section 27 of the FAA, the recipient will also not be able to file a civil claim against CGS-CIMBR for any loss or damage arising from the recipient's reliance on any recommendation made by CGS-CIMBR which would otherwise be a right that is available to the recipient under Section 27 of the FAA, the recipient will also not be able to file a civil claim against CGS-CIMBR for any loss or damage arising from the recipient's reliance on any recommendation made by CGS-CIMBR which would otherwise be a right that is available to the recipient under Section 27 of the FAA.

CGS-CIMBR, its affiliates and related corporations, their directors, associates, connected parties and/or employees may own or have positions in specified products of the company(ies) covered in this research report or any specified products related thereto and may from time to time add to or dispose of, or may be materially interested in, any such specified products. Further, CGS-CIMBR, its affiliates and its related corporations do and seek to do business with the company(ies) covered in this research report and may from time to time act as market maker or have assumed an underwriting commitment in specified products of such company(ies), may sell them to or buy them from customers on a principal basis and may also perform or seek to perform significant investment banking, advisory, underwriting or placement services for or relating to such company(ies) as well as solicit such investment, advisory or other services from any entity mentioned in this report.

As of March 7, 2019, CGS-CIMBR does not have a proprietary position in the recommended specified products in this report.

CGS-CIMBR does not make a market on other specified products mentioned in the report.

**South Korea:** This report is issued and distributed in South Korea by CGS-CIMB Securities (Hong Kong) Limited, Korea Branch ("CGS-CIMB Korea") which is licensed as a cash equity broker, and regulated by the Financial Services Commission and Financial Supervisory Service of Korea. In South Korea, this report is for distribution only to professional investors under Article 9(5) of the Financial Investment Services and Capital Market Act of Korea ("FSCMA").

**Spain:** This document is a research report and it is addressed to institutional investors only. The research report is of a general nature and not personalised and does not constitute investment advice so, as the case may be, the recipient must seek proper advice before adopting any investment decision. This document does not constitute a public offering of securities.

CGS-CIMB is not registered with the Spanish Comision Nacional del Mercado de Valores to provide investment services.

**Sweden:** This report contains only marketing information and has not been approved by the Swedish Financial Supervisory Authority. The distribution of this report is not an offer to sell to any person in Sweden or a solicitation to any person in Sweden to buy any instruments described herein and may not be forwarded to the public in Sweden.

**Switzerland:** This report has not been prepared in accordance with the recognized self-regulatory minimal standards for research reports of banks issued by the Swiss Bankers' Association (Directives on the Independence of Financial Research).

**Thailand:** This report is issued and distributed by CGS-CIMB Securities (Thailand) Co. Ltd. ("CGS-CIMB Thailand") based upon sources believed to be reliable (but their accuracy, completeness or correctness is not guaranteed). The statements or expressions of opinion herein were arrived at after due and careful consideration for use as information for investment. Such opinions are subject to change without notice and CGS-CIMB Thailand has no obligation to update its opinion or the information in this research report.

CGS-CIMB Thailand may act or acts as Market Maker, and issuer and offerer of Derivative Warrants and Structured Note which may have the following securities as its underlying securities. Investors should carefully read and study the details of the derivative warrants in the prospectus before making investment decisions.

AAV, ADVANC, AMATA, AOT, AP, BANPU, BBL, BCH, BCP, BCPG, BDMS, BEAUTY, BEM, BGRIM, BJC, BH, BLA, BLAND, BPP, BTS, CBG, CENTEL, CHG, CK, CKP, COM7, CPALL, CPF, CPN, DELTA, DTAC, EA, EGCO, EPG, ERW, ESSO, GGC, GFPT, GLOBAL, GLOW, GPSC, GUNKUL, HANA, HMPRO, INTUCH, IRPC, ITD, IVL, KBANK, KCE, KKP, KTB, KTC, LH, LPN, MAJOR, MEGA, MINT, MTL, ORI, PRM, PSH, PSL, PTG, PTT, PTTGP, PTTGC, QH, RATCH, ROBINS, RS, SAWAD, SCB, SCC, SGP, SIRI, SPALI, SPRC, STA, STEC, SUPER, TASCOS, TCAP, THAI, THANI, TISCO, TKN, TMB, TOA, TOP, TPIPL, TPIPP, TRUE, TTW, TU, TVO, UV, WHA, WHAUP, WORK.

#### **Corporate Governance Report:**

The disclosure of the survey result of the Thai Institute of Directors Association ("IOD") regarding corporate governance is made pursuant to the policy of the Office of the Securities and Exchange Commission. The survey of the IOD is based on the information of a company listed on the Stock Exchange of Thailand and the Market for Alternative Investment disclosed to the public and able to be accessed by a general public investor. The result, therefore, is from the perspective of a third party. It is not an evaluation of operation and is not based on inside information.

The survey result is as of the date appearing in the Corporate Governance Report of Thai Listed Companies. As a result, the survey result may be changed after that date. CGS-CIMB Thailand does not confirm nor certify the accuracy of such survey result.



<b>Score Range:</b>	90 - 100	80 – 89	70 - 79	Below 70 or	No Survey Result
<b>Description:</b>	Excellent	Very Good	Good	N/A	

**United Arab Emirates:** The distributor of this report has not been approved or licensed by the UAE Central Bank or any other relevant licensing authorities or governmental agencies in the United Arab Emirates. This report is strictly private and confidential and has not been reviewed by, deposited or registered with UAE Central Bank or any other licensing authority or governmental agencies in the United Arab Emirates. This report is being issued outside the United Arab Emirates to a limited number of institutional investors and must not be provided to any person other than the original recipient and may not be reproduced or used for any other purpose. Further, the information contained in this report is not intended to lead to the sale of investments under any subscription agreement or the conclusion of any other contract of whatsoever nature within the territory of the United Arab Emirates.

**United Kingdom and European Economic Area (EEA):** In the United Kingdom and European Economic Area, this material is also being distributed by CGS-CIMB Securities (UK) Limited (“CGS-CIMB UK”). CGS-CIMB UK is authorized and regulated by the Financial Conduct Authority and its registered office is at 27 Knightsbridge, London, SW1X7YB. The material distributed by CGS-CIMB UK has been prepared in accordance with CGS-CIMB’s policies for managing conflicts of interest arising as a result of publication and distribution of this material. This material is for distribution only to, and is solely directed at, selected persons on the basis that those persons: (a) are eligible counterparties and professional clients of CGS-CIMB UK; (b) have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended, the “Order”), (c) fall within Article 49(2)(a) to (d) (“high net worth companies, unincorporated associations etc”) of the Order; (d) are outside the United Kingdom subject to relevant regulation in each jurisdiction, material (all such persons together being referred to as “relevant persons”). This material is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this material relates is available only to relevant persons and will be engaged in only with relevant persons.

Where this material is labelled as non-independent, it does not provide an impartial or objective assessment of the subject matter and does not constitute independent “research” (cannot remove research from here under the applicable rules of the Financial Conduct Authority in the UK. Consequently, any such non-independent material will not have been prepared in accordance with legal requirements designed to promote the independence of research (cannot remove research from here) and will not subject to any prohibition on dealing ahead of the dissemination of research. Any such non-independent material must be considered as a marketing communication.

**United States:** This research report is distributed in the United States of America by CGS-CIMB Securities (USA) Inc, a U.S. registered broker-dealer and a related company of CGS-CIMB Research Pte Ltd, PT CGS-CIMB Sekuritas Indonesia, CGS-CIMB Securities (Thailand) Co. Ltd, CGS-CIMB Securities (Hong Kong) Limited, CGS-CIMB Securities (India) Private Limited, and is distributed solely to persons who qualify as “U.S. Institutional Investors” as defined in Rule 15a-6 under the Securities and Exchange Act of 1934. This communication is only for Institutional Investors whose ordinary business activities involve investing in shares, bonds, and associated securities and/or derivative securities and who have professional experience in such investments. Any person who is not a U.S. Institutional Investor or Major Institutional Investor must not rely on this communication. The delivery of this research report to any person in the United States of America is not a recommendation to effect any transactions in the securities discussed herein, or an endorsement of any opinion expressed herein. CGS-CIMB Securities (USA) Inc, is a FINRA/SIPC member and takes responsibility for the content of this report. For further information or to place an order in any of the above-mentioned securities please contact a registered representative of CGS-CIMB Securities (USA) Inc.

CGS-CIMB Securities (USA) Inc. does not make a market on other securities mentioned in the report.

CGS-CIMB Securities (USA) Inc. has not managed or co-managed a public offering of any of the securities mentioned in the past 12 months.

CGS-CIMB Securities (USA) Inc. has not received compensation for investment banking services from any of the company mentioned in the past 12 months.

CGS-CIMB Securities (USA) Inc. neither expects to receive nor intends to seek compensation for investment banking services from any of the company mentioned within the next 3 months.

**Other jurisdictions:** In any other jurisdictions, except if otherwise restricted by laws or regulations, this report is only for distribution to professional, institutional or sophisticated investors as defined in the laws and regulations of such jurisdictions.

Distribution of stock ratings and investment banking clients for quarter ended on 31 December 2018		
758 companies under coverage for quarter ended on 31 December 2018		
	Rating Distribution (%)	Investment Banking clients (%)
Add	61.2%	4.2%
Hold	25.1%	2.1%
Reduce	13.7%	0.4%

### Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2018, Anti-Corruption 2018

**ADVANC** – Excellent, Certified, **AEONTS** – Good, n/a, **AH** – Very Good, n/a, **AMATA** – Excellent, Declared, **ANAN** – Excellent, Declared, **AOT** – Excellent, Declared, **AP** – Excellent, Certified, **ASP** – Very Good, Certified, **BANPU** – Excellent, Certified, **BAY** – Excellent, Certified, **BBL** – Very Good, Certified, **BCH** – Good, Certified, **BCP** - Excellent, Certified, **BCPG** – Excellent, Certified, **BEM** – Very Good, n/a, **BDMS** – Very Good, n/a, **BEAUTY** – Good, n/a, **BEC** – Very Good, n/a, **BGRIM** – Very Good, Declared, **BH** - Good, n/a, **BJC** – Very Good, Declared, **BJCHI** – Very Good, Certified, **BPP** – Very Good, Declared, **BR** - Good, Declared, **BTS** - Excellent, Certified, **CBG** – Very Good, n/a, **CCET** – Good, n/a, **CENDEL** – Very Good, Certified, **CHG** – Very Good, Declared, **CK** – Excellent, n/a, **COL** – Excellent, Declared, **CPALL** – Very Good, Certified, **CPF** – Excellent, Certified, **CPN** - Excellent, Certified, **DELTA** - Excellent, n/a, **DEMCO** – Excellent, Certified, **DDD** – Very Good, Declared, **DIF** – not available, n/a, **DTAC** – Excellent, Certified, **EA** – Excellent, n/a, **ECL** – Very Good, Certified, **EGCO** - Excellent, Certified, **EPG** – Very Good, n/a, **ERW** – Very Good, n/a, **GFPT** - Excellent, Certified, **GGC** – Excellent, Certified, **GLOBAL** – Very Good, n/a, **GLOW** – Very Good, Certified, **GPSC** – Excellent, Certified, **GULF** – Very Good, n/a, **GUNKUL** – Excellent, Certified, **HANA** - Excellent, Certified, **HMPRO** - Excellent, Certified, **HREIT** - Excellent, Certified, **ICHI** – Excellent, Declared, **HUMAN** – not available, n/a, **III** – Good, n/a, **INTUCH** - Excellent, Certified, **IRPC** – Excellent, Certified, **ITD** –

Very Good, n/a, **IVL** - Excellent, Certified, **JASIF** – not available, n/a, **KBANK** - Excellent, Certified, **KCE** - Excellent, Certified, **KKP** – Excellent, Certified, **KSL** – Excellent, Certified, **KTB** - Excellent, Certified, **KTC** – Excellent, Certified, **LH** - Very Good, n/a, **LPN** – Excellent, Certified, **M** – Very Good, Certified, **MACO** – Very Good, n/a, **MAJOR** – Very Good, n/a, **MAKRO** – Excellent, Declared, **MALEE** – Very Good, Certified, **MC** – Very Good, Certified, **MCOT** – Excellent, Certified, **MEGA** – Very Good, n/a, **MINT** - Excellent, Certified, **MTC** – Excellent, Declared, **NETBAY** – Good, n/a, **PLANB** – Excellent, Declared, **PLAT** – Very Good, Certified, **PSH** – Excellent, Certified, **PSTC** – Good, Certified, **PTT** - Excellent, Certified, **PTTEP** - Excellent, Certified, **PTTGC** - Excellent, Certified, **QH** – Excellent, Certified, **RATCH** – Excellent, Certified, **ROBINS** – Excellent, Certified, **RS** – Very Good, n/a, **RSP** – not available, n/a, **SAMART** - Excellent, n/a, **SAPPE** – Very Good, Declared, **SAT** – Excellent, Certified, **SAWAD** – Very Good, n/a, **SC** – Excellent, Declared, **SCB** - Excellent, Certified, **SCC** – Excellent, Certified, **SCN** – Very Good, Certified, **SF** – Good, n/a, **SIRI** – Very Good, Certified, **SPA** - Good, n/a, **SPALI** - Excellent, n/a, **SPRC** – Excellent, Certified, **STA** – Very Good, Certified, **STEC** – Excellent, n/a, **SVI** – Excellent, Certified, **SYNEX** – Very Good, Declared, **TASCO** – Excellent, Certified, **TCAP** – Excellent, Certified, **TIPCO** – Very Good, Certified, **TISCO** - Excellent, Certified, **TKN** – Very Good, Declared, **TMB** - Excellent, Certified, **TNR** – Very Good, Declared, **TOP** - Excellent, Certified, **TPCH** – Good, n/a, **TPIPP** – Good, n/a, **TRUE** – Excellent, Certified, **TU** – Excellent, Certified, **TVO** – Very Good, Declared, **UNIQ** – Good, n/a, **VGI** – Excellent, Certified, **WHA** – Excellent, Certified, **WHART** – not available, n/a, **WORK** – Good, n/a.

Companies participating in Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC) under Thai Institute of Directors (as of August 31, 2018) are categorized into:

- Companies that have declared their intention to join CAC, and
- Companies certified by CAC

\* The company, its director or management had been reportedly accused for breaching proper corporate governance such as violation of the SEC's regulations or charged with corruption.

### Recommendation Framework

#### Stock Ratings

Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

*The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.*

#### Sector Ratings

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

#### Country Ratings

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.