Dividend forecasting

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Singapore banks' dividends to make strong comeback in FY 2021

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Key implications

- The banking trio of DBS, UOB, and OCBC in Singapore are expected to increase dividends by an average rate of 40% on a dividends-per-share (DPS) basis in fiscal year (FY) 2021 in the base case scenario, with estimated total dividend payouts expected in the amount of US$5.1 billion, versus US$3.6 billion in 2020.
- Our bull case scenario forecasts DBS, UOB, and OCBC will pay DPS of S$1.17, S$1.18, and S$0.52, respectively, for FY 2021.
- The recovery of dividends is attributable to the projected removal of dividend restrictions by the Monetary Authority of Singapore (MAS) and broad-based economic recovery on the back of the effective execution of Singapore's vaccination program.
- Singaporean banks lead among Southeast Asian markets in terms of aggregate dividend payouts recovery in 2021, with around 42% growth in comparison with Malaysia and Indonesia, which are expected to report largely flat aggregate dividends.

Sector highlight—What is expected from the MAS regulation update?

In July last year, MAS called local banks to cap dividends for FY 2020 at 60% of the amount in FY 2019 even after the resilient stress-testing results, as a preemptive measure to cushion the blow from the pandemic. As shown in the following graph, Singapore banks' dividend has been on an upward trajectory over the past decade prior to 2020. However, the regulation last year put a brake on the trend. Nearly one year has passed since and MAS is currently conducting stress tests to assess the viability of removing the cap on dividends. Given the strong capital position of the banks achieved by the conservative measures last year (dividend cuts, adoption of script option) and the improving economic outlook, we expect the regulator to remove the dividend cap. Additionally, in the MAS annual report that has been recently released, the central bank is positive on the outlook of Singapore's financial sector and is projecting a growth rate of 6% for the first half of this year. However, we do not rule out the possibility of "soft" restriction from the central bank to continue to call for moderation of dividends at least for the current financial year, as there are still uncertainties in the global economies on the back of resurging pandemic cases from the Delta variant. Given there is plenty of wiggle room for the banks to increase dividends in near future, we expect two scenarios with the dividend per share (DPS) forecasts, detailed in the following tables.

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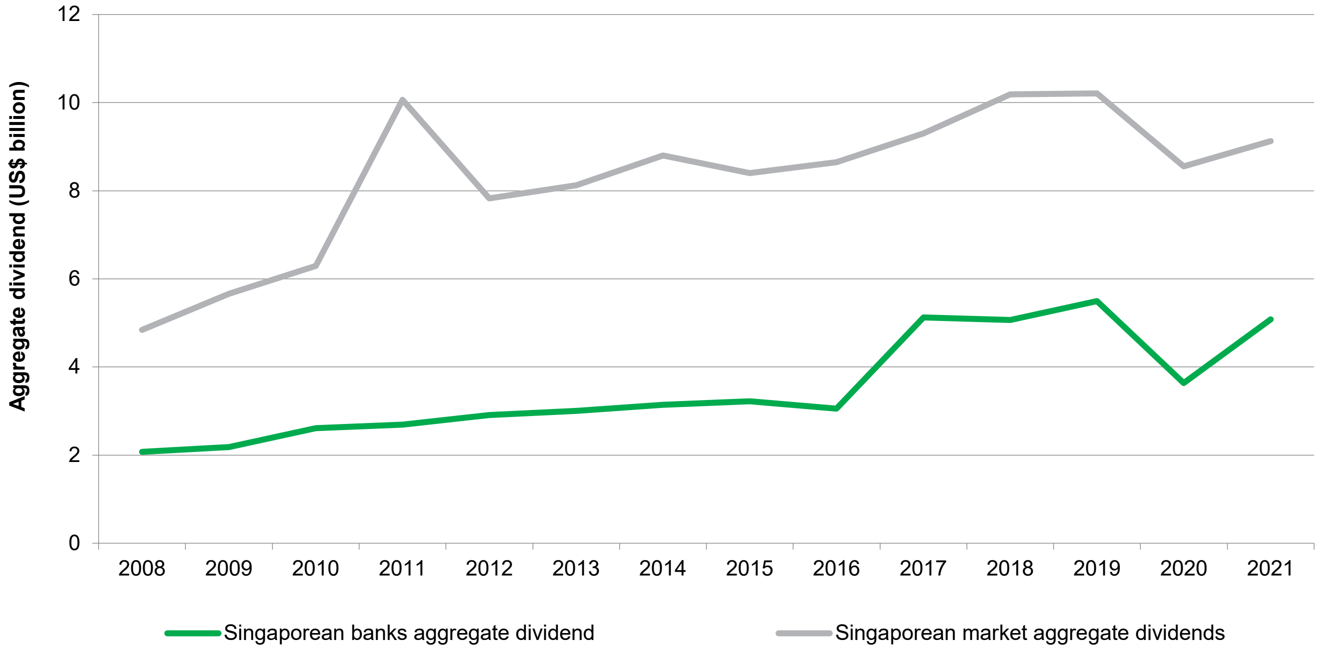
Singaporean bank dividend trend versus Singaporean market



Note: Singapore market dividend only include STI and MSCI Singapore stocks.
Source: IHS Markit

Bull case—Singapore banks FY21 DPS forecast

Bank	FY 2019	Year-on-year change (%)	FY 2020	Year-on-year change (%)	FY 2021 (E)
DBS	1.23	-29%	0.87	34%	1.17
UOB	1.30	-40%	0.78	51%	1.28
OCBC	0.53	-40%	0.32	64%	0.52

Note: E=Estimate

Source: IHS Markit

Bear case—Singapore banks FY21 DPS forecast

Bank	FY 2019	Year-on-year change (%)	FY 2020	Year-on-year change (%)	FY 2021 (E)
DBS	1.23	-29%	0.87	24%	1.08
UOB	1.30	-40%	0.78	46%	1.14
OCBC	0.53	-40%	0.32	51%	0.48

Note: E=Estimate
Source: IHS Markit

DBS

We expect DBS to pay S$0.3 per share for the remaining quarters in FY 2021. With the S$0.18 per share declared in first quarter FY 2021 (owing to the MAS restriction), the annual dividends amount to S$1.08 per share in base case, representing around 45% of the median consensus earnings estimate. DBS has been paying at a payout ratio of close to 50% prior to the pandemic. We expect the payout ratio for FY 2021 to be lower than this level. In addition, we currently assume that the bank will pay the dividend at the amount below pre-pandemic levels even when the restriction is removed. DBS has reported a set of strong results in first quarter FY 2021, with quarterly net profit above S$2 billion for the first time in the history. This is bolstered by the broad-based business momentum that mitigates impact of lower interest rates. Notably, income from its wealth management business reached a record high, cushioning the impact from margin compression in the ongoing low interest rate environment. Additionally, allowance plunged by 99% on a year-on-year (y/y) basis, given the improving outlook. Elsewhere, CET1 ratio continued to improve to 14.3%, up by 0.4 percentage point. Generally, street analysts are projecting the earnings per share (EPS) to improve close to pre-COVID-19 levels in FY 2021.

During its first quarter FY 2021 earnings call, the management of DBS highlighted the bank's capability to go back to pre-COVID-19 levels for dividends once the restriction is removed. The management also highlighted that the bank does not rule out the possibility of reverting the quarterly dividend to S$0.33 per share, depending on the upcoming regulation. Therefore, the total dividends in FY 2021 amount to S$1.17 per share in the bull case above.

UOB

We expect UOB to pay S$0.52 per share for the interim and final dividend and S$0.1 per share for the special dividend in FY 2021. The projected dividends amount to S$1.14, representing around 50% of the median consensus earnings estimate. The management highlighted during the earnings call that payout ratio will be resumed to 50% after the dividend cap is removed by MAS. We currently assume that the bank will continue to pay dividends below pre-pandemic levels. Generally, street analysts are projecting EPS for FY 2021 to still come below pre-pandemic levels. UOB has reported a set of strong results in its first quarter FY 2021 trading update. Net profit increased by 46% quarter on quarter (q/q) and 18% y/y; income increased by 11% on a quarterly basis. Notably, allowance reduced significantly during the quarter owing to good recovery of payment. Elsewhere, the CET1 ratio remained at a robust level of 14.3%.

In the bull case, we expect the bank to pay S$0.54 per share for the interim and final dividend respectively and S$0.2 for the special dividend in FY21, bring the total DPS to S$1.18. The DPU represents 50% of the upper bound of the earnings consensus estimate by street analysts. This also implies that UOB is expected to bring the dividend payout closer to pre-pandemic levels (FY 2019) during the current financial year.

OCBC

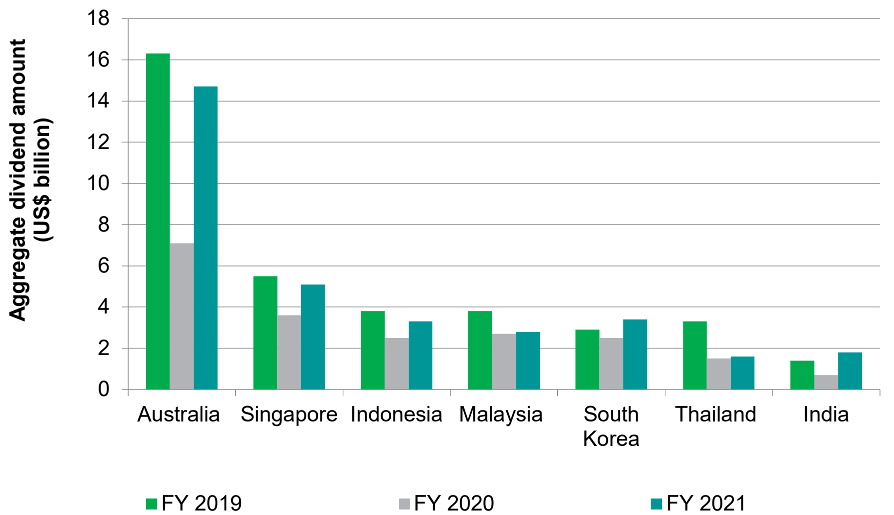
We expect OCBC to pay S$0.24 per share for the interim and final dividend respectively in FY 2021. The projected annual DPS of S$0.48 represents around 44% of the median earnings consensus estimate. We currently assume that the bank will continue to pay dividends below pre-pandemic levels even with the removal of the dividend cap by MAS. OCBC's dividend payout ratio has been fluctuating between 37–47% in the past five years (FY 2020=39%). OCBC reported a set of strong results in first quarter FY 2021, with net profit increased by 115% on y/y basis. This is attributable to higher non-interest income (including trading and insurance income). Allowance was significantly lower as compared with one year ago. Elsewhere, CET1 ratio continued to improve to 15.5% at the end of March 2021, from 15.2% at the end of December 2020.

The historical payout ratio range demonstrated by OCBC provides flexibility to increase the dividends this year. In the bull case, we expect OCBC to pay S$0.26 per share for the interim and final dividend. The total amount represents around 47% of the estimated earnings.

Asia Pacific banks dividend trend

A low interest rate environment, the surge in the pandemic-related bad loan provisions, and restrictions from regulators on distribution of capitals took a huge toll on the dividend payouts from banks across the Asia Pacific region. The following graph provides an overview of the Asia Pacific markets that have experienced substantial decrease in dividends from banking sector owing to the onset of the pandemic in 2020. The banks from Australia, Singapore, and India are expected to see the strongest recovery among others (to increase 107%, 42%, and 165%, respectively). The central banks in these three markets have all imposed different forms of restrictions on dividends in 2020—Australian Prudential Regulation Authority told the bank to "seriously consider" limiting the distribution, whereas Reserve Bank of India barred banks from paying dividend. The banks subsequently slashed or suspended dividends accordingly. However, Australia and India have already removed or relaxed these restrictions. Malaysia, Thailand, and Indonesia, however, are expected to see muted recovery in banking dividends in FY 2021, as these countries are still grappling with relatively high virus cases and the hits on their economies.

Asia Pacific banking sector trend



Source: IHS Markit

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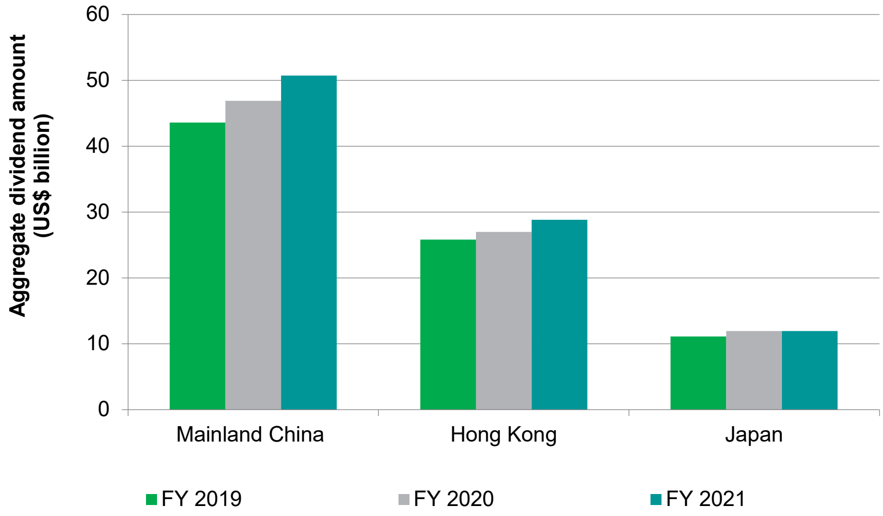
Mainland China, Hong Kong, and Japan are the Asia Pacific top dividend-paying markets, with banking dividends unfazed by the impacts from the pandemic last year. The three markets have not seen any restriction from the regulator even during the pandemic. Banks in mainland China and Hong Kong, the largest two contributors to Asia Pacific banking dividends (as shown in the following treemap), managed to inch up dividends owing to the effective control of the pandemic last year, as well high state ownership in the big banks. Banks in Japan maintained dividends, benefitting from their global exposure and diversified service lines. The management also took the chance to show their strong commitment to shareholder returns during uncertain times.

Mainland China, Hong Kong, and Japan banks dividend trend



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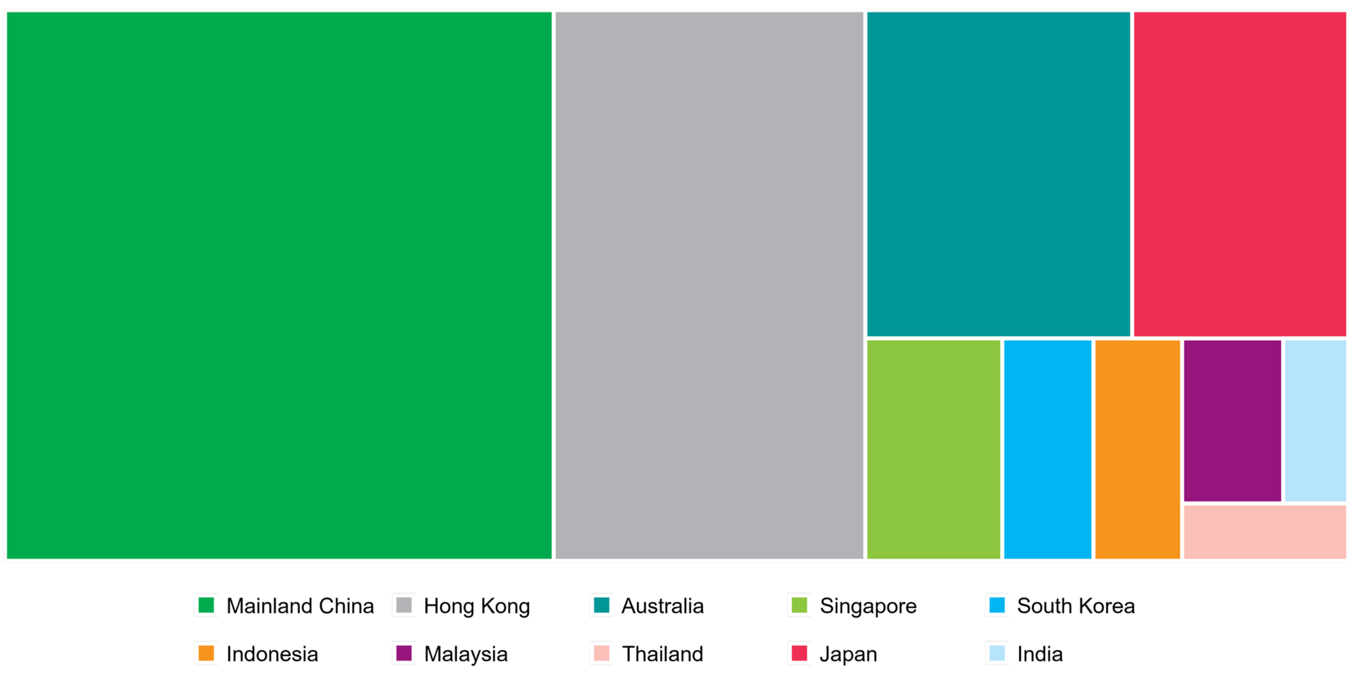
Asia Pacific banks dividend composition (US$ billion)



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