

DBS Group Holdings Ltd

Higher net interest income support profits



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SINGAPORE | BANKING | 2Q22 RESULTS

5 August 2022

- 2Q22 earnings of S\$1.82bn in line with our estimates due to higher net interest income offset by lower fee income and other non-interest income. 1H22 PATMI is 47% of our FY22e forecast. 2Q22 DPS up 9% YoY at 36 cents.
- NIM increased 13bps YoY to 1.58% and loan growth of 7% YoY lifted NII. NIM grew 12bps QoQ. Fee income fell 12% YoY and other non-interest income dropped 10% YoY due to weaker market sentiment.
- Maintain BUY with an unchanged target price of S\$41.60.** Our FY22e estimates remain unchanged. For FY22e, management guided benign provisions, stable growth in loans and improved NIMs. We believe there is upside to the NIM guidance. A 50bps move in interest can raise earnings by 13%.

BUY (Maintained)

LAST TRADED PRICE	SGD 32.41
FORECAST DIV	SGD 1.44
TARGET PRICE	SGD 41.60
DIVIDEND YIELD	4.4%
TOTAL RETURN	32.8%

COMPANY DATA

BLOOMBERG TICKER	DBS SP
O/S SHARES (MN) :	2,574
MARKET CAP (USD mn / SGD mn) :	60471 / 83408
52 - WK HVLO (SGD) :	37.49 / 29.18
3M Average Daily T/O (mn) :	4.40

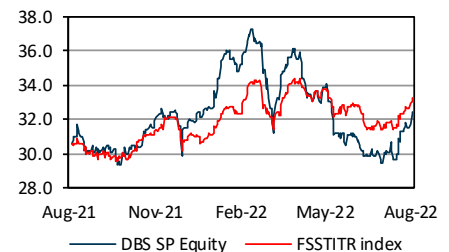
MAJOR SHAREHOLDERS (%)

Temasek Holdings Pte Ltd	30.2%
Capital Group Cos Inc	5.0%
Vanguard Group Inc	2.5%

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	9.63	(3.61)	1.15
STIRETURN	5.27	(2.02)	6.49

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec	FY 20	FY 21	FY 22e	FY 23e
Total Inc (SGD mn)	14,592	14,297	15,712	17,698
Op Profit (SGD mn)	5,368	7,776	8,898	10,613
NPAT (SGD mn)	4,756	6,803	7,622	9,020
EPS (SGD)	1.81	2.62	2.95	3.48
PER, (X)	20.3	14.1	12.5	10.6
P/BV, (X)	18	17	16	14
DPS (SGD)	0.87	1.20	1.44	1.44
ROE	9.2%	12.3%	12.7%	14.7%
Dividend Yield	2.4%	3.3%	3.9%	3.9%

Source: Bloomberg, Company, PSR

Valuation Method:

Gordon Growth Model (COE: 8.2%, g: 2.0%)

Glenn Thum (+65 6212 1851)

Research Analyst

glennthumjc@phillip.com.sg

Results at a glance

(SGD mn)	2Q22	2Q21	YoY	1Q22	QoQ	Comments
Net Interest Income	2,454	2,089	17%	2,187	12%	Improvement due to 7% loans growth and 13bps improvement in NIM YoY.
Net Fees & Comm	768	868	(12%)	891	(14%)	Fee income fell 12% YoY as weaker market sentiment affected wealth management and investment banking.
Other non-interest income	570	632	(10%)	669	(15%)	10% decline YoY were mainly due to investment gains fell due to less favourable market opportunities.
Total Income	3,792	3,589	6%	3,747	1%	
Expenses	(1,658)	(1,543)	7%	(1,644)	1%	Expenses up by 7% YoY due to higher staff costs. Cost-income ratio stable at 44%.
Profit before allowances	2,134	2,046	4%	2,103	1%	
Allowances	46	79	(42%)	55	(16%)	Allowances lower due to lower specific allowances of S\$69mn (S\$167mn in 1Q22). Credit cost improved 6bps YoY to 8bps.
PATMI	1,815	1,703	7%	1,703	7%	

Source: Company, PSR

The Positives

+ NII up 17% YoY. NII grew 17% YoY to S\$2.5bn due to NIM increase of 13bps YoY to 1.53% and continued loan growth of 7% YoY. Loan growth was driven by trade and corporate non-trade loans, while housing loans and wealth management loans were little changed. NIM improvement was mainly due to the rising interest rates as the impact of interest rate hikes was more fully felt. Management has lifted NIM guidance to 1.70-1.75% for FY22e (from 1.58-1.60%).

+ Asset quality stable; 2Q22 allowances at S\$46mn. 2Q22 total allowances were lower YoY and QoQ due to lower SPs of S\$69mn for the quarter (S\$167mn in 1Q22). Further, credit costs improved by 6bps YoY to 8bps. The GP write-back of S\$23mn for 2Q22 was from credit upgrades and transfers to NPA. GP reserves remained prudent at S\$3.74bn, with NPA reserves at 113% and unsecured NPA reserves at 199%. The NPL ratio was maintained at 1.3% as new NPA formation remained low.

+ Loan growth up 7%; deposits up 9% YoY in 2Q22. Loans grew 7% YoY and 1% QoQ to S\$425bn. This was mainly driven by trade and corporate non-trade loans. Housing and WM loan growth was sustained at the previous quarter's levels. Management lowered its FY22e loan growth guidance to mid-single digit (from mid to high-single digit). Deposits grew 9% YoY and 1% QoQ to S\$528bn, and current and savings accounts (CASA) accounted for 72% of customer deposits.

The Negative

- Fee income fell 12% YoY. The fee income decline YoY was mainly due to weaker market sentiment affecting wealth management and investment banking. WM fees fell 21% YoY to S\$337mn as market conditions further weakened during the quarter. Investment banking fees fell by 54% YoY to S\$30mn alongside a slowdown in capital market activities. Nonetheless, card fees improved 23% YoY to S\$203mn as borders start to reopen and spending increased, while loan-related fees moderated from record levels. Other non-interest income fell 10% due to less favourable market opportunities.

Outlook

Business momentum is strong: Despite economic uncertainties from macroeconomic factors such as slower growth, higher inflation and supply chain disruptions, loans and transaction pipelines are expected to be strong. Management said that stress tests of vulnerable sectors and countries reveal no imminent areas of concern.

GP reserves sufficient: With its capital position and liquidity well above regulatory requirements and high allowance reserves, we believe the bank has sufficient provisions to ride out current economic uncertainties. The CET-1 ratio improved 0.2% QoQ to 14.2% and is at the upper end of DBS' target operating range. 2Q22 DPS is raised 9% YoY to 36 cents.

Upside from higher rates: Management said that it expects to end 2022 with an exit NIM of 2.0%. DBS said that a 1 bps rise in interest rates could raise NII by \$18mn-20mn (or NII sensitivity of 2% for every 10bps). Assuming hikes of 100bps this year, our FY22e NII can climb S\$2bn (or 21%) resulting in an increase in our FY22e PATMI by 26%.

Table 1: DBS guidance vs PSR estimates for FY22e

Assumptions	DBS	PSR
NIM (%)	1.70%	1.65%
Loans growth (%)	Mid-single digit	5.0%
Credit cost (bps)	Stable at 11 bps	10

Source: Company, PSR

Investment Action

Maintain BUY with unchanged target price of S\$41.60.

We maintain our BUY recommendation with an unchanged GGM target price of S\$41.60. We are keeping our FY22e forecast unchanged. Our target price remains based on GGM (1.79x FY22e P/BV, 13.0% ROE estimate) valuation.

List of Abbreviations

CET-1 ratio – Common Equity Tier 1
 NII – Net Interest Income
 Non-II – Non-Interest Income
 NIM – Net Interest Margin
 GP – General provisions
 SP – Specific provisions
 WM – Wealth Management

Valuation: Gordon Growth Model

Item	Description	Value
R _f	Risk-free rate	1.1%
E	Equity-risk premium	5.9%
B	Beta	1.2
COE	Cost of Equity	8.2%
ROE	Return on Equity	13.0%
g	Terminal growth rate	2.0%
(ROE-g)/ (COE-g)	Target Price to Book	1.79
	BVPS, S\$	23.29
	Valuation, S\$	41.60

Source: PSR

Financials

Income Statement

Y/E Dec, SGD mn	FY19	FY20	FY21	FY22e	FY23e
Net Int Income	9,625	9,076	8,440	10,426	10,850
Fees and Commission	3,052	3,058	3,524	3,076	3,258
Other Non int income	1,867	2,458	2,333	2,209	3,590
Total income	14,544	14,592	14,297	15,712	17,698
Operating expenses	-6,258	-6,158	-6,469	-6,612	-6,883
Provisions	-703	-3,066	-52	-202	-202
Operating profit	7,583	5,368	7,776	8,898	10,613
Associates & JVs	0	0	0	0	0
Profit Before Tax	7,583	5,368	7,776	8,898	10,613
Taxation	-1,154	-612	-973	-1,276	-1,594
Profit After Tax	6,429	4,756	6,803	7,622	9,020
Non-controlling Interest	38	35	2	16	10
Net Income, reported	6,429	4,721	6,803	7,622	9,020
Net Income, adj.	6,429	4,721	6,807	7,622	9,020

Per share data (SGD)

Y/E Dec	FY19	FY20	FY21	FY22e	FY23e
EPS, reported	2.51	1.81	2.62	2.95	3.48
DPS	1.23	0.87	1.20	1.44	1.44
BVPS	19.17	20.08	21.47	23.29	25.76
Dividend Pay-out Ratio	49.0%	48.1%	45.9%	48.8%	41.4%

Supplementary items

Y/E Dec	FY19	FY20	FY21	FY22e	FY23e
CET1 CAR	14.1%	13.9%	14.4%	14.6%	15.1%
Tier 1 CAR	15.0%	15.0%	15.1%	15.3%	15.8%
Total CAR	16.7%	16.8%	17.0%	17.2%	17.6%

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

Y/E Dec, SGD mn	FY19	FY20	FY21	FY22e	FY23e
Cash and bal w central banks	26,362	50,618	56,377	97,663	160,993
Due from banks	39,336	50,867	51,377	51,775	52,146
Govt, Bank & Corp Sec & T Bills	113,475	117,156	122,954	129,195	135,814
Derivatives	17,235	31,108	19,681	17,712	15,402
Goodwill and intangibles	5,170	5,323	5,362	5,362	5,362
Property and other fixed assets	3,225	3,338	3,262	3,262	3,262
Loans to non-bank customers	357,884	371,171	408,993	428,802	459,464
JV and Associates	835	862	2,172	2,260	2,351
Other assets	15,424	19,495	15,895	13,343	10,478
Total Assets	578,946	649,938	686,073	757,707	854,231
Due to banks	23,773	28,220	30,209	33,330	35,197
Deposits from customers	404,289	464,850	501,959	567,483	656,593
Derivatives	17,512	32,904	20,318	17,712	15,402
Other liabilities	20,907	22,074	18,667	17,027	14,599
Other debt securities	57,128	43,277	52,570	54,846	58,433
Subordinated term debts	3,538	3,970	4,636	4,636	4,636
Total liabilities	527,147	595,295	628,359	695,034	784,860
Shareholder's equity	50,981	54,626	57,526	62,475	69,166
Non-controlling interest	818	17	188	198	204
Total Equity	51,799	54,643	57,714	62,673	69,370

Valuation Ratios

Y/E Dec	FY19	FY20	FY21	FY22e	FY23e
P/E (X), avg	14.6	20.3	14.1	12.5	10.6
P/B (X), avg	1.9	1.8	1.7	1.6	1.4
Dividend Yield	3.3%	2.4%	3.3%	3.9%	3.9%

Growth & Margins

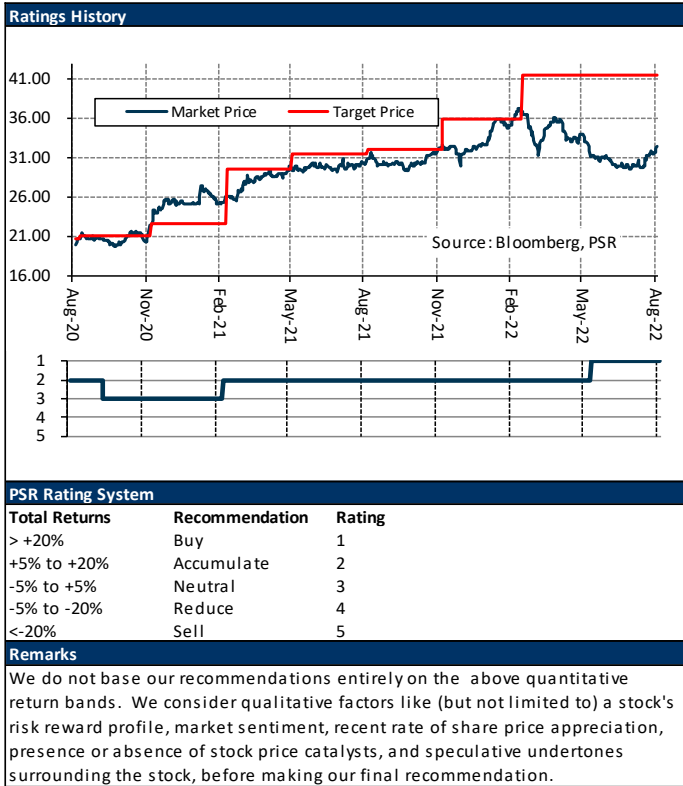
	FY19	FY20	FY21	FY22e	FY23e
Growth					
Net interest income	7.5%	-5.7%	-7.0%	23.5%	4.1%
Net Fee and Comm Inc	9.8%	0.2%	15.2%	-12.7%	5.9%
Total income	10.3%	0.3%	-2.0%	9.9%	12.6%
Profit before tax	13.9%	-29.2%	44.9%	14.4%	19.3%
Net income, adj.	13.7%	-26.6%	44.2%	12.0%	18.3%

Margins

	FY19	FY20	FY21	FY22e	FY23e
Net interest margin	1.89%	1.62%	1.45%	1.65%	1.62%

Key Ratios

	FY19	FY20	FY21	FY22e	FY23e
ROE	13.1%	9.2%	12.3%	12.7%	14.7%
ROA	1.1%	0.7%	1.0%	1.0%	1.1%
RORWA	2.1%	1.5%	2.1%	2.1%	2.4%
Non-interest/total income ratio	33.8%	37.8%	41.0%	33.6%	38.7%
Cost/income ratio	43.0%	42.2%	45.2%	42.1%	38.9%
Loan/deposit ratio	88.5%	79.8%	81.5%	75.6%	70.0%
NPL ratio	1.5%	1.6%	1.6%	1.7%	1.7%



Contact Information (Singapore Research Team)

Head of Research

Paul Chew – paulchewkl@phillip.com.sg

Research Admin

Qystina Azli - gystina@phillip.com.sg

Consumer | Industrials| Conglomerate

Terence Chua – terencechuatl@phillip.com.sg

Banking & Finance

Glenn Thum – glennthumjc@phillip.com.sg

US Technology Analyst (Internet)

Jonathan Woo – jonathanwookj@phillip.com.sg

US Technology Analyst (Software/Services)

Ambrish Shah – amshah@phillipcapital.in

Reits Analyst

Darren Chan – darrenchanrx@phillip.com.sg

Credit Analyst

Shawn Sng - shawnsngkh@phillip.com.sg

Contact Information (Regional Member Companies)

SINGAPORE

Phillip Securities Pte Ltd
Raffles City Tower
250, North Bridge Road #06-00
Singapore 179101
Tel +65 6533 6001
Fax +65 6535 6631
Website: www.poems.com.sg

JAPAN

Phillip Securities Japan, Ltd.
4-2 Nihonbashi Kabuto-cho Chuo-ku,
Tokyo 103-0026
Tel +81-3 3666 2101
Fax +81-3 3666 6090
Website: www.phillip.co.jp

THAILAND

Phillip Securities (Thailand) Public Co. Ltd
15th Floor, Vorawat Building,
849 Silom Road, Silom, Bangrak,
Bangkok 10500 Thailand
Tel +66-2 6351700 / 22680999
Fax +66-2 22680921
Website www.phillip.co.th

UNITED STATES

Phillip Capital Inc
141 W Jackson Blvd Ste 3050
The Chicago Board of Trade Building
Chicago, IL 60604 USA
Tel +1-312 356 9000
Fax +1-312 356 9005
Website: www.phillipusa.com

INDIA

PhillipCapital (India) Private Limited
No.1, 18th Floor, Urmi Estate
95, Ganpatrao Kadam Marg
Lower Parel West, Mumbai 400-013
Maharashtra, India
Tel: +91-22-2300 2999 / Fax: +91-22-2300 2969
Website: www.phillipcapiatal.in

MALAYSIA

Phillip Capital Management Sdn Bhd
B-3-6 Block B Level 3 Megan Avenue II,
No. 12, Jalan Yap Kwan Seng, 50450
Kuala Lumpur
Tel +603 2162 8841
Fax +603 2166 5099
Website: www.poems.com.my

INDONESIA

PT Phillip Securities Indonesia
ANZ Tower Level 23B,
Jl Jend Sudirman Kav 33A
Jakarta 10220 – Indonesia
Tel +62-21 5790 0800
Fax +62-21 5790 0809
Website: www.phillip.co.id

FRANCE

King & Shaxson Capital Limited
3rd Floor, 35 Rue de la Bienfaisance 75008
Paris France
Tel +33-1 45633100
Fax +33-1 45636017
Website: www.kingandshaxson.com

AUSTRALIA

Phillip Capital Limited
Level 10, 330 Collins Street
Melbourne, Victoria 3000, Australia
Tel +61-03 8633 9803
Fax +61-03 8633 9899
Website: www.phillipcapital.com.au

TURKEY

PhillipCapital Menkul Degerler
Dr. Cemil Bengü Cad. Hak Is Merkezi
No. 2 Kat. 6A Caglayan
34403 Istanbul, Turkey
Tel: 0212 296 84 84
Fax: 0212 233 69 29
Website: www.phillipcapiatal.com.tr

HONG KONG

Phillip Securities (HK) Ltd
11/F United Centre 95 Queensway
Hong Kong
Tel +852 2277 6600
Fax +852 2868 5307
Websites: www.phillip.com.hk

CHINA

Phillip Financial Advisory (Shanghai) Co Ltd
No 550 Yan An East Road,
Ocean Tower Unit 2318,
Postal code 200001
Tel +86-21 5169 9200
Fax +86-21 6351 2940
Website: www.phillip.com.cn

UNITED KINGDOM

King & Shaxson Capital Limited
6th Floor, Candlewick House,
120 Cannon Street,
London, EC4N 6AS
Tel +44-20 7426 5950
Fax +44-20 7626 1757
Website: www.kingandshaxson.com

CAMBODIA

Phillip Bank Plc
Ground Floor of B-Office Centre, #61-64,
Norodom Blvd Corner Street 306, Sangkat
Boeung Keng Kang 1, Khan Chamkamorn,
Phnom Penh, Cambodia
Tel: 855 (0) 7796 6151/855 (0) 1620 0769
Website: www.phillipbank.com.kh

DUBAI

Phillip Futures DMCC
Member of the Dubai Gold and
Commodities Exchange (DGCX)
Unit No 601, Plot No 58, White Crown Bldg,
Sheikh Zayed Road, P.O.Box 212291
Dubai-UAE
Tel: +971-4-3325052 / Fax: + 971-4-3328895

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