

DBS Group Holdings Ltd

Higher net interest margin lift profits



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SINGAPORE | BANKING | 3Q22 RESULTS

4 November 2022

- 3Q22 earnings of S\$2.24bn in line with our estimates due to higher net interest income (NII) and net interest margins (NIM) slightly offset by lower fee income and higher allowances. 9M22 PATMI is 77% of our FY22e forecast. 3Q22 DPS up 9% YoY at 36 cents.
- NII surged 44% YoY to S\$3bn on NIM expansion of 47bps to 1.90% and loan growth of 6% YoY. Fee income fell 13% YoY due to weaker market sentiment while other non-interest income increased 32% YoY. 3Q22 ROE increased 4.2% points YoY to 16.3%.
- Maintain BUY with an unchanged target price of S\$41.60.** We raise FY22e earnings by 3% as we increase NII estimates for FY22e. We assume 1.77x FY22e P/BV and ROE estimate of 13.6% in our GGM valuation. We raised FY23e earnings by 6% as we increase NII estimates for FY23e. Our ROE estimate for FY23e is raised from 14.7% to 14.9%. A 50bps move in interest can raise earnings by 13%.

BUY (Maintained)

LAST TRADED PRICE	SGD 34.20
FORECAST DIV	SGD 1.44
TARGET PRICE	SGD 41.60
DIVIDEND YIELD	4.2%
TOTAL RETURN	32.8%

COMPANY DATA

BLOOMBERG TICKER	DBS SP
O/S SHARES (MN)	2,574
MARKET CAP (USD mn / SGD mn)	61880 / 88018
52 - WK HI/LO (SGD)	37.49 / 29.45
3M Average Daily T/O (mn)	4.09

Results at a glance

(SGD mn)	3Q22	3Q21	YoY	2Q22	QoQ	Comments
Net Interest Income	3,020	2,104	44%	2,454	23%	Improvement due to 47bps surge in NIM and 6% loans growth YoY.
Net Fees & Comm	771	888	(13%)	768	0%	Fee income fell 13% YoY as as lower wealth management and investment banking fees more than offset increases in card and loan-related fees.
Other non-interest income	753	569	32%	570	32%	32% increase YoY were mainly due to higher Treasury Markets non-interest income, treasury customer income and investment gains.
Total Income	4,544	3,561	28%	3,792	20%	
Expenses	(1,825)	(1,668)	9%	(1,658)	10%	Expenses up by 7% YoY due to higher staff costs. Cost-income ratio improved 6.6% YoY to 40.2%.
Profit before allowances	2,719	1,893	44%	2,134	27%	
Allowances	178	(70)	(354%)	46	287%	Allowances higher due to higher general allowances of S\$153mn (write back of S\$138mn in 3Q21). Credit cost improved 4bps YoY to 2bps.
PATMI	2,236	1,700	32%	1,815	23%	

Source: Company, PSR

The Positives

+ NIM and NII surge. NII grew 44% YoY to S\$3.02bn due to NIM increase of 47bps YoY to 1.90% (1Q22: +3bps, 2Q22: +12bps, 3Q22: +32bps) and continued loan growth of 6% YoY. Loan growth was driven by housing and non-trade corporate loans offset by lower trade loans as maturing exposures were not replaced due to unattractive pricing. Management has maintained NIM guidance of 1.75% for FY22e and targets to reach 2% by 4Q22.

+ Other non-interest income up 32% YoY. Other non-interest income was up 32% YoY and QoQ mainly due to higher Treasury Markets non-interest income, treasury customer income and investment gains.

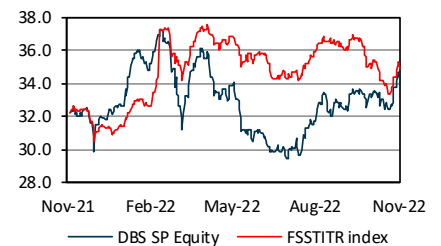
MAJOR SHAREHOLDERS (%)

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

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	4.04	10.76	9.89
STIRETURN	0.44	(157)	4.25

PRICE VS. STI



KEY FINANCIALS

Y/E Dec	FY20	FY21	FY22e	FY23e
Total Inc (SGD mn)	14,592	14,297	16,578	19,412
Op Profit (SGD mn)	5,368	7,776	9,189	11,258
NPAT (SGD mn)	4,756	6,803	7,871	9,567
EPS (SGD)	181	262	3.04	3.69
PER, (X)	20.3	14.1	12.1	10.0
P/BV, (X)	18	17	16	14
DPS (SGD)	0.87	120	144	144
ROE	9.2%	12.3%	13.6%	14.9%
Dividend Yield	2.4%	3.3%	3.9%	3.9%

Source: Bloomberg, Company, PSR

Valuation Method:

Gordon Growth Model (COE: 8.6%, g: 2.0%)

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+ Asset quality stable; 3Q22 allowances at S\$178mn. 3Q22 total allowances were higher YoY and QoQ due to higher GPs of S\$153mn for the quarter (write back of S\$23mn in 2Q22). Nonetheless, credit costs improved by 4bps YoY to 2bps as SPs were lower YoY and QoQ at S\$25mn. GP reserves rose to S\$3.9bn, with NPA reserves at 120% and unsecured NPA reserves at 216%. The NPL ratio declined to 1.2% (3Q21: 1.5%) as new NPA formation remained low and was more than offset by higher upgrades and repayments.

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

The Negatives

- Fee income fell 13% YoY. The fee income decline YoY was mainly due to weaker market sentiment affecting wealth management and investment banking which more than offset increases in card and loan-related fees. WM fees fell 30% YoY to S\$323mn as market conditions further weakened during the quarter. Investment banking fees fell by 38% YoY to S\$25mn alongside a slowdown in capital market activities. Nonetheless, card fees improved 24% YoY to S\$223mn as borders start to reopen and spending increased, while loan-related fees increased 15% to S\$122mn.

- CASA ratio declined YoY. The Current Account Savings Accounts (CASA) ratio fell 8.9% YoY to 60.3% mainly due to the high interest rate environment and a move towards fixed deposits (FD). Nonetheless, total customer deposits increased 9% YoY to S\$533bn. Management said that the drop in CASA was expected and that the increase in FDs was higher than the drop in CASA, hence a net increase in deposits.

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 dipped 0.4% QoQ to 13.8% but is still at the upper end of DBS' target operating range. 3Q22 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, the 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 (%)	1.75%	1.76%
Loans growth (%)	Mid-single digit	5.0%
Credit cost (bps)	10 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 target price of S\$41.60. We raise FY22e earnings by 3% as we increase NII estimates for FY22e. We assume 1.77x FY22e P/BV and ROE estimate of 13.6% in our GGM valuation. We raised FY23e earnings by 6% as we increase NII estimates for FY23e. Our ROE estimate for FY23e is raised from 14.7% to 14.9%. The COE is nudged up from a higher risk-free rate and lower equity-risk premium.

Valuation: Gordon Growth Model

Item	Description	Value
R _f	Risk-free rate	2.6%
E	Equity-risk premium	4.9%
B	Beta	1.2
COE	Cost of Equity	8.6%
ROE	Return on Equity	13.6%
g	Terminal growth rate	2.0%
(ROE-g)/ (COE-g)	Target Price to Book	1.77
	BVPS, S\$	23.53
	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	11,126	13,773
Fees and Commission	3,052	3,058	3,524	3,112	3,297
Other Non int income	1,867	2,458	2,333	2,339	2,343
Total income	14,544	14,592	14,297	16,578	19,412
Operating expenses	-6,258	-6,158	-6,469	-7,015	-7,655
Provisions	-703	-3,066	-52	-374	-500
Operating profit	7,583	5,368	7,776	9,189	11,258
Associates & JVs	0	0	0	0	0
Profit Before Tax	7,583	5,368	7,776	9,189	11,258
Taxation	-1,154	-612	-973	-1,318	-1,691
Profit After Tax	6,429	4,756	6,803	7,871	9,567
Non-controlling Interest	38	35	2	16	10
Net Income, reported	6,429	4,721	6,803	7,871	9,567
Net Income, adj.	6,429	4,721	6,807	7,871	9,567

Per share data (SGD)

Y/E Dec	FY19	FY20	FY21	FY22e	FY23e
EPS, reported	2.51	1.81	2.62	3.04	3.69
DPS	1.23	0.87	1.20	1.44	1.44
BVPS	19.17	20.08	21.47	23.53	26.11
Dividend Pay-out Ratio	49.0%	48.1%	45.9%	47.3%	39.1%

Supplementary items

Y/E Dec	FY19	FY20	FY21	FY22e	FY23e
CET1 CAR	14.1%	13.9%	14.4%	14.8%	15.2%
Tier 1 CAR	15.0%	15.0%	15.1%	15.4%	15.9%
Total CAR	16.7%	16.8%	17.0%	17.3%	17.8%

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	106,492	183,722
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	428,924	446,583
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	758,325	855,121
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	63,093	70,056
Non-controlling interest	818	17	188	198	204
Total Equity	51,799	54,643	57,714	63,291	70,260

Valuation Ratios

Y/E Dec	FY19	FY20	FY21	FY22e	FY23e
P/E (X), avg	14.6	20.3	14.1	12.1	10.0
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

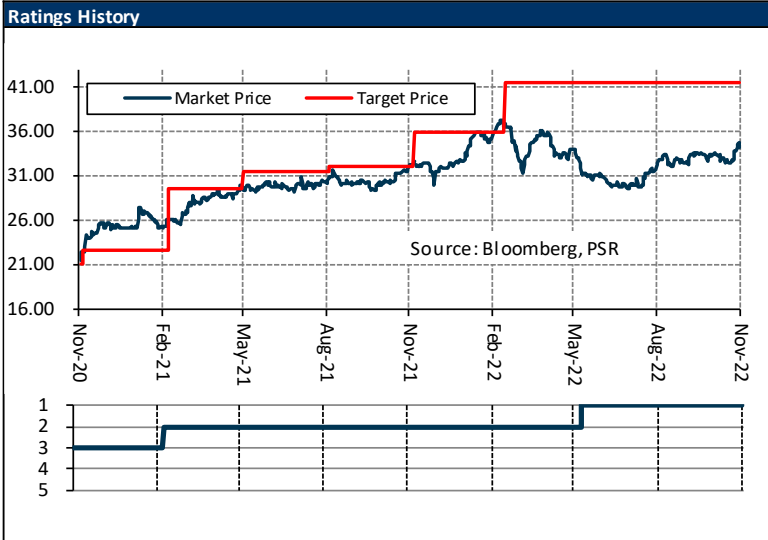
	FY19	FY20	FY21	FY22e	FY23e
Growth					
Net interest income	7.5%	-5.7%	-7.0%	31.8%	23.8%
Net Fee and Comm Inc	9.8%	0.2%	15.2%	-11.7%	5.9%
Total income	10.3%	0.3%	-2.0%	16.0%	17.1%
Profit before tax	13.9%	-29.2%	44.9%	18.2%	22.5%
Net income, adj.	13.7%	-26.6%	44.2%	15.6%	21.6%

Margins

	FY19	FY20	FY21	FY22e	FY23e
Net interest margin	1.89%	1.62%	1.45%	1.76%	2.10%

Key Ratios

	FY19	FY20	FY21	FY22e	FY23e
ROE	13.1%	9.2%	12.3%	13.6%	14.9%
ROA	1.1%	0.7%	1.0%	1.0%	1.1%
RORWA	2.1%	1.5%	2.1%	2.1%	2.3%
Non-interest/total income ratio	33.8%	37.8%	41.0%	32.9%	29.1%
Cost/income ratio	43.0%	42.2%	45.2%	42.3%	39.4%
Loan/deposit ratio	88.5%	79.8%	81.5%	75.6%	68.0%
NPL ratio	1.5%	1.6%	1.6%	1.7%	1.7%



PSR Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
<-20%	Sell	5

Remarks
 We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation.

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