

DBS Group Holdings Ltd

Continued rise in NII while fee income recovers



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SINGAPORE | BANKING | 1Q23 RESULTS

5 May 2023

- 1Q23 earnings of S\$2.57bn were above our estimates due to higher net interest income (NII) and fee income. 1Q23 PATMI is 28% of our FY23e forecast. 1Q23 DPS is raised 17% YoY to 42 cents.
- NII surged 50% YoY to S\$3.27bn on NIM expansion of 66bps to 2.12% despite loan growth remaining flat YoY. Fee income decline moderated to 4% YoY and grew 29% QoQ, while other non-interest income grew 39% YoY. DBS lowered its guidance for FY23e, with NIM guidance from 2.10% to 2.05-2.10%; loan growth guidance from mid-single digit to 3-5%; and fee income guidance from double-digit to high-single digit.
- Maintain BUY with an unchanged target price of S\$41.60.** We maintain FY23e earnings as we lower NII estimates for FY23e due to lower loans growth and NIMs, offset by lower operating expenses and provisions estimates. We assume 1.90x FY23e P/BV and ROE estimate of 16.6% in our GGM valuation.

BUY (Maintained)

LAST TRADED PRICE	SGD 32.13
FORECAST DIV	SGD 1.68
TARGET PRICE	SGD 41.60
DIVIDEND YIELD	5.2%
TOTAL RETURN	32.8%

COMPANY DATA

BLOOMBERG TICKER	DBS SP
O/S SHARES (MN)	2,579
MARKET CAP (USD mn / SGD mn)	62543 / 82995
52 - WK HI/LO (SGD)	35.85 / 29
3M Average Daily T/O (mn)	4.17

Results at a glance

(SGD mn)	1Q23	1Q22	YoY	4Q22	QoQ	Comments
Net Interest Income	3,271	2,187	50%	3,280	(0%)	Improvement due to 66bps surge in NIM to 2.12% despite loan growth remaining flat YoY.
Net Fees & Comm	851	891	(4%)	661	29%	Fee income decline moderated to 4% YoY as card related fees continued growing while wealth management and investment banking fees declined slightly.
Other non-interest income	814	603	35%	649	25%	Growth was mainly due to higher trading income and a seasonally higher quarter.
Total Income	4,936	3,681	34%	4,590	8%	
Expenses	(1,882)	(1,644)	14%	(1,963)	(4%)	Expenses up by 14% YoY due to higher staff costs. Nonetheless, cost-income ratio improved 7 percentage points YoY to 38.1%.
Profit before allowances	3,054	2,037	50%	2,627	16%	
Allowances	161	55	193%	(42)	(483%)	Allowances lower due to higher GP of S\$99mn (write back of S\$112mn in 1Q22) despite lower SP of S\$62mn (1Q22: S\$167mn). 1Q23 credit cost improved 9bps YoY to 6bps.
PATMI	2,571	1,801	43%	2,341	10%	

Source: Company, PSR

The Positives

+ NIM and NII continue to increase. NII spiked 50% YoY to S\$3.27bn due to a NIM surge of 66bps YoY to 2.12% (2Q22: +12bps, 3Q22: +32bps, 4Q22: +15bps, 1Q23: +7bps) despite loan growth remaining flat YoY. Increases in trade and non-trade corporate loans led by Singapore real estate acquisition financing were offset by lower consumer loans as wealth management loans declined. Management has lowered its NIM guidance from 2.10% to 2.05-2.10% and indicated that NIM has likely peaked in 1Q23 with the NIM decline to be gradual for the rest of 2023 due to an increase in funding costs.

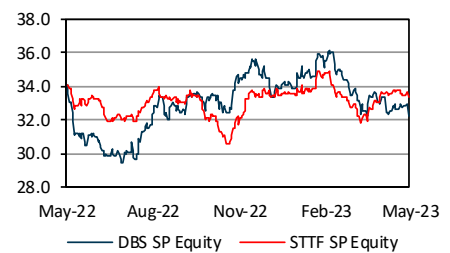
MAJOR SHAREHOLDERS (%)

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

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	0.47	(6.69)	(2.34)
STTF RETURN	0.15	(2.22)	132

PRICE VS. STTF



KEY FINANCIALS

Y/E Dec	FY 21	FY 22	FY 23 e	FY 24 e
Total Inc (SGD mn)	14,297	16,502	18,292	19,450
Op Profit (SGD mn)	7,776	9,175	10,403	10,985
NPAT (SGD mn)	6,803	8,194	9,256	9,765
EPS (SGD)	2.62	3.15	3.53	3.73
PER, (X)	13.5	11.2	10.0	9.5
P/BV, (X)	16	17	16	16
DPS (SGD)	1.20	2.00	1.68	1.68
ROE	12.3%	14.9%	16.7%	17.1%
Dividend Yield	3.4%	5.7%	4.8%	4.8%

Source: Bloomberg, Company, PSR

Valuation Method:

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

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+ Fee income rose 29% QoQ, YoY decline moderated to 4%. Fee income declined 4% YoY (3Q22: -13%, 4Q22: -19%) due to weaker market sentiment affecting wealth management and transaction service fees, which more than offset increases in card and investment banking fees. Nonetheless, fee income saw a recovery of 29% QoQ from broad-based growth. WM fees increased 39% QoQ to S\$365mn due partly to seasonal effects, while investment banking fees spiked 91% QoQ to S\$44mn from higher equity and debt capital market activity. Loan-related fees surged 80% QoQ to S\$142mn, while transaction service fees rose 2% QoQ. However, card fees fell 7% QoQ to S\$227mn due to seasonally-higher spending in 4Q22.

+ Other non-interest income rose 35% YoY. Other non-interest income rose 35% YoY and 25% QoQ, mainly due to an increase in treasury customer income and it being a seasonally higher quarter.

The Negatives

- Allowances rose 193% YoY. 1Q23 total allowances were higher 193% YoY due to higher GP of S\$99mn for the quarter (1Q22: write-back of S\$112mn) offset by a decline in SP to S\$62mn (1Q22: S\$167mn). Nonetheless, 1Q23 credit costs improved by 9bps YoY to 6bps as there was a decline in new NPLs by 89% to S\$17mn for 1Q23. The NPL ratio declined to 1.1% (1Q22: 1.3%) as new NPA formation fell by 53% YoY. GP reserves rose slightly to S\$3.83bn, with NPA reserves at 127% and unsecured NPA reserves at 229%.

- CASA ratio decline continues. The Current Account Savings Accounts (CASA) ratio fell 24% YoY to 52.4%, mainly due to the high interest rate environment and a continued move towards fixed deposits (FD). Nonetheless, total customer deposits increased 2% YoY to S\$529bn. Management said that deposits and wealth management net new money benefited from flight-to-safety inflows in March 2023.

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 0.2% QoQ to 14.4% but is still at the upper end of DBS' target operating range of 12.5-13.5%. 1Q23 DPS is raised 17% YoY to 42 cents.

Fee income recovery: With China's recent re-opening, management expects it to benefit the regional operating environment, and has seen an uptick in momentum and business volumes. Wealth management and investment banking is recovering steadily. However, the pace of growth is dependent on market conditions. Card fee growth is also sustained and supported by the ongoing recovery in travel. Management said that fee income has seen a recovery in February and March 2023, which has reversed the declines over the past year. DBS has lowered guidance from double-digit to high-single digit fee income growth for FY23e, despite strong growth in January and February, which was offset by market turmoil in March.

Loan growth and NIM guidance: Non-trade corporate loan pipeline remains healthy and while housing loan bookings have recovered, management said it may see some impact from the recent cooling measures. Furthermore, wealth management customers are not increasing their leverage, choosing instead to withdraw from deposits. As such, DBS has lowered loan growth guidance for FY23e from mid-single digit to 3-5%. For NIMs, management said it has likely peaked in 1Q23, with a gradual decline to be expected for the rest of the year. Asset pricing has been affected by the low HIBOR, and has affected NIM by 3-4bps. Repricing of deposits is set to continue which would further increase cost of funding. Commercial book NIM is robust and high but treasury markets NIM has fallen and was

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

negative for 1Q23, mainly due to a shift from net interest to non-interest income. DBS has lowered NIM guidance for FY23e from north of 2.10% to 2.05-2.10%.

Table 1: DBS guidance vs PSR estimates for FY23e

Assumptions	DBS	PSR
NIM (%)	2.05-2.10%	2.10%
Loans growth (%)	3-5%	5.0%
Credit cost (bps)	10-15bps	9

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 maintain FY23e earnings as we lower NII estimates for FY23e due to lower loans growth and NIMs, offset by lower operating expenses and provisions estimates. We assume 1.90x FY23e P/BV and ROE estimate of 16.6% in our GGM valuation.

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	16.6%
g	Terminal growth rate	2.0%
(ROE-g)/ (COE-g)	Target Price to Book	1.90
	BVPS, S\$	21.91
	Valuation, S\$	41.60

Source: PSR

Financials

Income Statement

Y/E Dec, SGD mn	FY20	FY21	FY22	FY23e	FY24e
Net Int Income	9,076	8,440	10,941	12,335	13,067
Fees and Commission	3,058	3,524	3,091	3,372	3,675
Other Non int income	2,458	2,333	2,470	2,586	2,707
Total income	14,592	14,297	16,502	18,292	19,450
Operating expenses	-6,158	-6,469	-7,090	-7,290	-7,865
Provisions	-3,066	-52	-237	-600	-600
Operating profit	5,368	7,776	9,175	10,403	10,985
Associates & JVs	0	0	207	169	170
Profit Before Tax	5,368	7,776	9,382	10,572	11,155
Taxation	-612	-973	-1,188	-1,316	-1,390
Profit After Tax	4,756	6,803	8,194	9,256	9,765
Non-controlling Interest	35	2	1	1	1
Net Income, reported	4,721	6,801	8,193	9,254	9,764
Net Income, adj.	4,721	6,805	8,193	9,254	9,764

Per share data (SGD)

Y/E Dec	FY20	FY21	FY22	FY23e	FY24e
EPS, reported	1.81	2.62	3.15	3.53	3.73
DPS	0.87	1.20	2.00	1.68	1.68
BVPS	20.08	21.47	21.17	21.91	22.59
Dividend Pay-out Ratio	48.1%	45.9%	63.6%	47.6%	45.1%

Supplementary items

Y/E Dec	FY20	FY21	FY22	FY23e	FY24e
CET1 CAR	13.9%	14.4%	14.6%	14.3%	14.2%
Tier 1 CAR	15.0%	15.1%	15.2%	15.0%	14.9%
Total CAR	16.8%	17.0%	17.0%	16.8%	16.6%

Balance Sheet

Y/E Dec, SGD mn	FY20	FY21	FY22	FY23e	FY24e
Cash and bal w central banks	50,618	56,377	54,170	61,395	67,890
Due from banks	50,867	51,377	60,131	63,793	67,678
Govt, Bank & Corp Sec & T Bills	117,156	122,954	140,452	146,354	152,562
Derivatives	31,108	19,681	44,935	44,935	44,935
Goodwill and intangibles	5,323	5,362	5,340	5,340	5,340
Property and other fixed assets	3,338	3,262	3,238	3,238	3,238
Loans to non-bank customers	371,171	408,993	414,519	433,983	460,555
JV and Associates	862	2,172	2,280	2,280	2,280
Other assets	19,495	15,895	18,303	18,303	18,303
Total Assets	649,938	686,073	743,368	779,621	822,780
Due to banks	28,220	30,209	39,684	43,752	48,236
Deposits from customers	464,850	501,959	527,000	548,291	576,034
Derivatives	32,904	20,318	45,265	47,528	49,905
Other liabilities	22,074	18,667	22,747	26,571	30,758
Other debt securities	43,277	52,570	47,188	49,882	52,302
Subordinated term debts	3,970	4,636	4,412	4,635	4,823
Total liabilities	595,295	628,359	686,296	720,660	762,058
Shareholder's equity	54,626	57,526	56,887	58,778	60,541
Non-controlling interest	17	188	185	183	181
Total Equity	54,643	57,714	57,072	58,961	60,722

Valuation Ratios

Y/E Dec	FY20	FY21	FY22	FY23e	FY24e
P/E (X), avg	19.5	13.5	11.2	10.0	9.5
P/B (X), avg	1.8	1.6	1.7	1.6	1.6
Dividend Yield	2.5%	3.4%	5.7%	4.8%	4.8%

Growth & Margins

Growth

Net interest income	-5.7%	-7.0%	29.6%	12.7%	5.9%
Net Fee and Comm Inc	0.2%	15.2%	-12.3%	9.1%	9.0%
Total income	0.3%	-2.0%	15.4%	10.9%	6.3%
Profit before tax	-29.2%	44.9%	18.0%	13.4%	5.6%
Net income, adj.	-26.6%	44.1%	20.4%	13.0%	5.5%

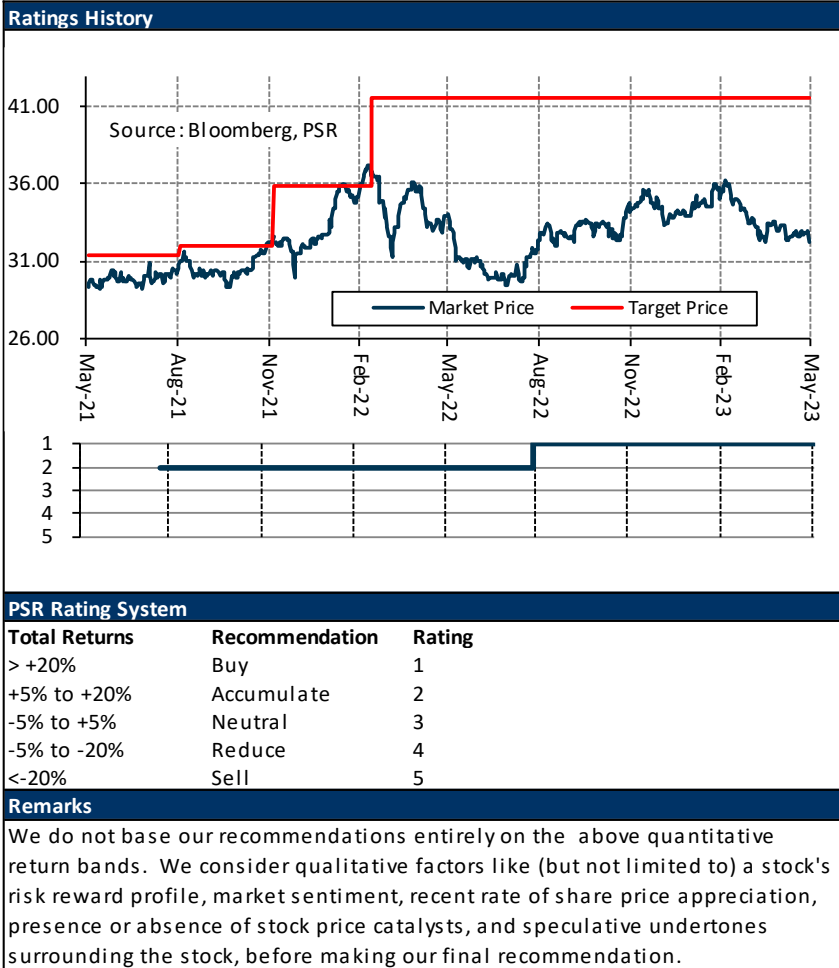
Margins

Net interest margin	1.62%	1.45%	1.75%	2.10%	2.11%
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Key Ratios

ROE	9.2%	12.3%	14.9%	16.7%	17.1%
ROA	0.7%	1.0%	1.1%	1.2%	1.2%
RORWA	1.5%	2.1%	2.4%	2.6%	2.6%
Non-interest/total income ratio	37.8%	41.0%	33.7%	32.6%	32.8%
Cost/income ratio	42.2%	45.2%	43.0%	39.9%	40.4%
Loan/deposit ratio	79.8%	81.5%	78.7%	79.2%	80.0%
NPL ratio	1.6%	1.3%	1.1%	0.9%	0.8%

Source: Company, Phillip Securities Research (Singapore) Estimates



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