



# DBS Group Holdings Ltd

Continued NIM growth boosts NII

## SINGAPORE | BANKING | 2Q23 RESULTS

4 August 2023

- 2Q23 adjusted PATMI of S\$2.69bn was above our estimates due to higher net interest income (NII). 1H23 adjusted PATMI is 57% of our FY23e forecast. 2Q23 DPS is raised 33% YoY to 48 cents, bringing 1H23 dividend to 90 cents. We raise our FY23e DPS from S\$1.68 to S\$1.86.
- NII surged 40% YoY to S\$3.43bn on NIM expansion of 58bps to 2.16% despite loan growth dipping 2% YoY. Fee income rose 7% YoY, the first YoY increase in six quarters, while other non-interest income grew 52% YoY. DBS increased its NIM guidance from 2.05-2.10% to around 2.15%, lowered loan growth guidance from 3-5% to low single-digit and maintained fee income guidance at high-single digit for FY23e.
- Maintain BUY with an unchanged target price of S\$41.60.** We raise FY23e earnings by 9% as we raise NII estimates for FY23e due to higher NIMs, offset by lower fee income, higher provisions, and higher expenses estimates. We assume 1.90x FY23e P/BV and ROE estimate of 16.6% in our GGM valuation.

### Results at a glance

(SGD mn)	2Q23	2Q22	YoY	1Q23	QoQ	Comments
Net Interest Income	3,433	2,454	40%	3,271	5%	Improvement due to 58bps surge in NIM to 2.16% despite loans growth dipping 2% YoY.
Net Fees & Comm	823	768	7%	851	(3%)	Fee income rises YoY for the first time in six quarters as mainly due to increases in wealth management, card and loan-related fees while transaction service fees declined slightly.
Other non-interest income	789	518	52%	814	(3%)	Growth was mainly due to higher treasury market customer sales offset by a decline in trading income.
<b>Total Income</b>	<b>5,045</b>	<b>3,740</b>	<b>35%</b>	<b>4,936</b>	<b>2%</b>	
Expenses	(1,931)	(1,658)	16%	(1,882)	3%	Expenses up by 16% YoY due to higher staff costs. Nonetheless, cost-income ratio improved 6% points YoY to 38.3%.
<b>Profit before allowances</b>	<b>3,114</b>	<b>2,082</b>	<b>50%</b>	<b>3,054</b>	<b>2%</b>	
Allowances	72	46	57%	161	(55%)	Allowances higher due to higher SP of S\$114mn (2Q22: S\$69mn) offset by GP writeback of S\$42mn (2Q22: write back of S\$23mn). 2Q23 credit cost increased 2bps YoY to 10bps.
<b>Adjusted PATMI</b>	<b>2,689</b>	<b>1,815</b>	<b>48%</b>	<b>2,571</b>	<b>5%</b>	
One-off expenses	(60)	-	NM	-	NM	Due to Citi integration costs.
<b>PATMI</b>	<b>2,629</b>	<b>1,815</b>	<b>45%</b>	<b>2,571</b>	<b>2%</b>	

Source: Company, PSR

### The Positives

**+ NIM and NII continue to increase.** NII spiked 40% YoY to S\$3.43bn due to a NIM surge of 58bps YoY to 2.16% (3Q22: +32bps, 4Q22: +15bps, 1Q23: +7bps, 2Q23: +4bps) despite loan growth dipping 2% YoY. Increases in non-trade corporate loans were offset by lower trade loans. Housing loans were stable, while wealth management loans declined modestly. Management spoke of an upside bias to NIM from its current levels and indicated that NIM will likely peak in 2H23.

### BUY (Maintained)

LAST TRADED PRICE	SGD 33.76
FORECAST DIV	SGD 1.86
TARGET PRICE	SGD 41.60
DIVIDEND YIELD	5.5%
<b>TOTAL RETURN</b>	<b>28.7%</b>

### COMPANY DATA

BLOOMBERG TICKER	DBS SP
O/S SHARES (MN):	2,579
MARKET CAP (USD mn / SGD mn):	64857 / 87070
52 - WK HI/LO (SGD):	35.85 / 30.3
3M Average Daily T/O (mn):	3.95

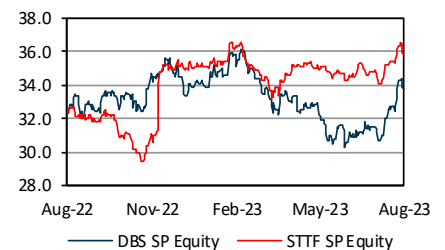
### MAJOR SHAREHOLDERS (%)

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

### PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	7.39	4.06	3.96
STTF RETURN	3.11	2.08	4.12

### PRICE VS. STTF



### KEY FINANCIALS

Y/E Dec	FY 21	FY 22	FY 23e	FY 24e
Total Inc (SGD mn)	14,297	16,502	19,737	20,720
Op Profit (SGD mn)	7,776	9,175	11,367	11,854
NPAT (SGD mn)	6,803	8,194	10,098	10,524
EPS (SGD)	2.62	3.15	3.86	4.02
PER, (X)	12.9	10.7	8.8	8.4
P/BV, (X)	16	16	12	12
DPS (SGD)	1.20	2.00	1.86	2.10
ROE	12.3%	14.9%	16.2%	14.7%
Dividend Yield	3.6%	5.9%	5.5%	6.2%

Source: Bloomberg, Company, PSR

### Valuation Method:

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

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**+ Fee income rose 7% YoY, first in 6 quarters.** Fee income increased 7% YoY, the first YoY increase in six quarters. WM fees increased 12% YoY to S\$377mn from higher bancassurance and investment product sales. Card fees grew 17% YoY to S\$237mn from higher spending including for travel while loan-related fees rose 17% YoY to S\$133mn. These increases were moderated by a 5% YoY decline in transaction service fees led by trade finance.

**+ Other non-interest income rose 52% YoY.** Other non-interest income rose 52% YoY mainly due to an increase in net trading income from higher trading gains and an increase in treasury customer sales to both wealth management and corporate customers. Additionally, gains from investment securities more than doubled due to improved market opportunities.

### The Negatives

**- Allowances rose 57% YoY.** 2Q23 total allowances were higher 57% YoY due to an increase in SP to S\$114mn (2Q22: S\$69mn) offset by higher GP write-back of S\$42mn for the quarter (2Q22: write-back of S\$23mn). Resultantly, 2Q23 credit costs rose by 2bps YoY to 10bps. Nonetheless, the NPL ratio declined to 1.1% (2Q22: 1.3%) as new NPA formation fell by 39% YoY. GP reserves rose slightly to S\$3.80bn, with NPA reserves at 127% and unsecured NPA reserves at 224%.

**- CASA ratio decline continues.** The Current Account Savings Accounts (CASA) ratio fell 14.9% points YoY to 51.5%, mainly due to the high interest rate environment and a continued move towards fixed deposits (FDs). Resultantly, total customer deposits fell 2% YoY to S\$520bn as the decline in CASA deposits were partially offset by growth in FDs.

### 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 0.3% points QoQ to 14.1% but is still at the upper end of DBS' target operating range of 12.5-13.5%. 2Q23 DPS is raised 33% YoY to 48 cents bringing 1H23 dividend to 90 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. There is further upside from cards from higher spending due to the ongoing recovery in travel and continued momentum is expected in wealth management, including from net new money inflows of S\$12bn in 1H23. DBS has maintained its guidance of high-single digit fee income growth for FY23e.

**Loan growth and NIM guidance:** DBS has lowered loan growth guidance for FY23e from 3-5% to low-single digit mainly coming from non-trade corporate loans and trade loans in 2H23. Loans growth has been dampened by the higher interest rates and a sharp rise in HIBOR, with loans shifting from Hong Kong to Mainland China. For NIMs, management said that there is upside bias to NIM from the current levels mainly due to continued US interest rate hikes and an unexpected rise in HIBOR. There is also continued support from one-fifth of commercial book which has yet to repriced. Management said lower-than-expected deposit repricing pressure as system liquidity remains ample and loans growth is subdued.

### 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

**Table 1: DBS guidance vs PSR estimates for FY23e**

Assumptions	DBS	PSR
NIM (%)	Around 2.15%	2.15%
Loans growth (%)	Low-single digit	2.0%
Credit cost (bps)	10-15bps	12
Fee income growth (%)	Mid-single digit	5.5%

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 FY23e earnings by 9% as we raise NII estimates for FY23e due to higher NIMs, offset by lower fee income, higher provisions, and higher expenses estimates. We raise our FY23e DPS from S\$1.68 to S\$1.86. 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 <sub>f</sub>	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	13,890	14,459
Fees and Commission	3,058	3,524	3,091	3,261	3,553
Other Non int income	2,458	2,333	2,470	2,586	2,707
<b>Total income</b>	<b>14,592</b>	<b>14,297</b>	<b>16,502</b>	<b>19,737</b>	<b>20,720</b>
Operating expenses	-6,158	-6,469	-7,090	-7,670	-8,216
Provisions	-3,066	-52	-237	-700	-650
<b>Operating profit</b>	<b>5,368</b>	<b>7,776</b>	<b>9,175</b>	<b>11,367</b>	<b>11,854</b>
Associates & JVs	0	0	207	169	170
<b>Profit Before Tax</b>	<b>5,368</b>	<b>7,776</b>	<b>9,382</b>	<b>11,536</b>	<b>12,024</b>
Taxation	-612	-973	-1,188	-1,438	-1,500
<b>Profit After Tax</b>	<b>4,756</b>	<b>6,803</b>	<b>8,194</b>	<b>10,098</b>	<b>10,524</b>
Non-controlling Interest	35	2	1	1	1
<b>Net Income, reported</b>	<b>4,721</b>	<b>6,801</b>	<b>8,193</b>	<b>10,097</b>	<b>10,523</b>
<b>Net Income, adj.</b>	<b>4,721</b>	<b>6,805</b>	<b>8,193</b>	<b>10,097</b>	<b>10,523</b>

### Per share data (SGD)

Y/E Dec	FY20	FY21	FY22	FY23e	FY24e
EPS, reported	1.81	2.62	3.15	3.86	4.02
DPS	0.87	1.20	2.00	1.86	2.10
BVPS	20.08	21.47	21.17	27.21	28.49
Dividend Pay-out Ratio	48.1%	45.9%	63.6%	48.2%	52.2%

### Supplementary items

Y/E Dec	FY20	FY21	FY22	FY23e	FY24e
CET1 CAR	13.9%	14.4%	14.6%	17.4%	14.8%
Tier 1 CAR	15.0%	15.1%	15.2%	18.2%	15.6%
Total CAR	16.8%	17.0%	17.0%	20.3%	17.7%

### Balance Sheet

Y/E Dec, SGD mn	FY20	FY21	FY22	FY23e	FY24e
Cash and bal w central banks	50,618	56,377	54,170	87,755	96,526
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	421,274	447,088
JV and Associates	862	2,172	2,280	2,280	2,280
Other assets	19,495	15,895	18,303	18,303	18,303
<b>Total Assets</b>	<b>649,938</b>	<b>686,073</b>	<b>743,368</b>	<b>793,272</b>	<b>837,949</b>
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
<b>Total liabilities</b>	<b>595,295</b>	<b>628,359</b>	<b>686,296</b>	<b>720,660</b>	<b>762,058</b>
Shareholder's equity	54,626	57,526	56,887	72,429	75,711
Non-controlling interest	17	188	185	183	181
<b>Total Equity</b>	<b>54,643</b>	<b>57,714</b>	<b>57,072</b>	<b>72,612</b>	<b>75,892</b>

### Valuation Ratios

Y/E Dec	FY20	FY21	FY22	FY23e	FY24e
P/E (X), avg	18.7	12.9	10.7	8.8	8.4
P/B (X), avg	1.7	1.6	1.6	1.2	1.2
Dividend Yield	2.6%	3.6%	5.9%	5.5%	6.2%

### Growth & Margins

#### Growth

Net interest income	-5.7%	-7.0%	29.6%	27.0%	4.1%
Net Fee and Comm Inc	0.2%	15.2%	-12.3%	5.5%	9.0%
Total income	0.3%	-2.0%	15.4%	19.6%	5.0%
Profit before tax	-29.2%	44.9%	18.0%	23.9%	4.3%
Net income, adj.	-26.6%	44.1%	20.4%	23.2%	4.2%

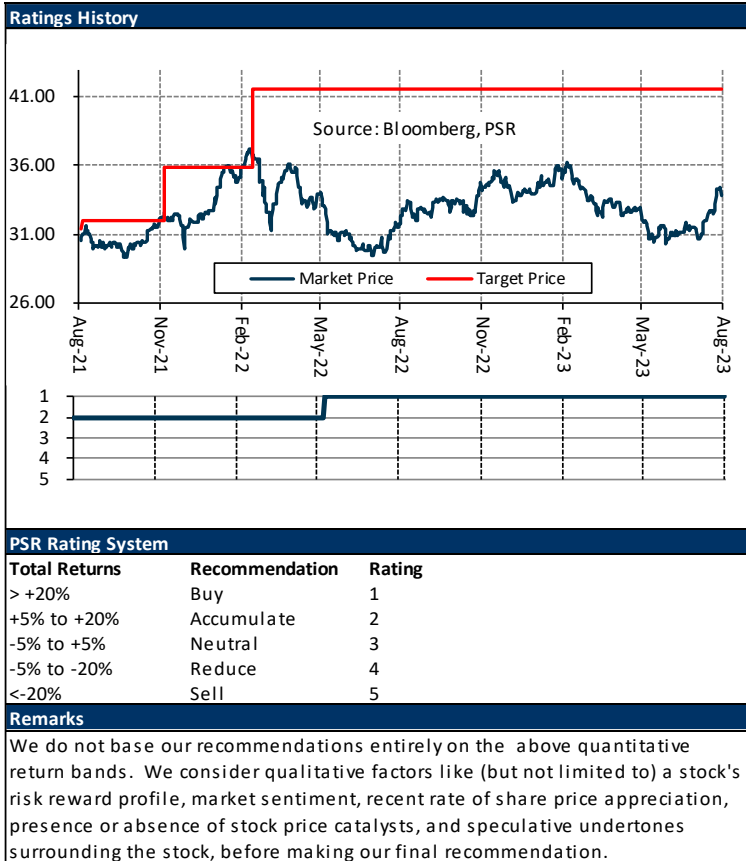
#### Margins

Net interest margin	1.62%	1.45%	1.75%	2.15%	2.13%
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#### Key Ratios

ROE	9.2%	12.3%	14.9%	16.2%	14.7%
ROA	0.7%	1.0%	1.1%	1.3%	1.3%
RORWA	1.5%	2.1%	2.4%	2.8%	2.7%
Non-interest/total income ratio	37.8%	41.0%	33.7%	29.6%	30.2%
Cost/income ratio	42.2%	45.2%	43.0%	38.9%	39.7%
Loan/deposit ratio	79.8%	81.5%	78.7%	76.8%	77.6%
NPL ratio	1.6%	1.3%	1.1%	1.0%	0.8%

Source: Company, Phillip Securities Research (Singapore) Estimates



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