

DBS Group Holdings Ltd

Fee income recovers; strong dividend growth



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SINGAPORE | BANKING | 4Q23 RESULTS

9 February 2024

- 4Q23 adjusted PATMI of S\$2.39bn was slightly above our estimates due to higher NII, fee income, and other non-interest income offset by higher allowances. FY23 adjusted PATMI is 102% of our FY23e forecast. 4Q23 DPS is raised 29% YoY to 54 cents with an additional 1-for-10 bonus issue, dividend payout ratio was higher at 48.5% in FY23 (FY22: 47.7% excluding special dividends).
- NII rose 5% YoY on NIM expansion of 8bps despite loan growth remaining flat. Fee income rose 31% YoY, while other non-interest income grew 9% YoY. DBS has maintained its FY24e guidance of double-digit fee income growth (from wealth management and credit card fees), stable NII as higher NIMs from higher-for-longer rates will be offset by lower loan growth and total allowances to normalise to 17-20bps of loans. FY24e PATMI to be maintained at around the current levels in FY23.
- Maintain BUY with a lower target price of S\$38.90** (prev. S\$41.60). We lower FY24e earnings by 1% as we lower NII estimates for FY24e due to lower NIMs, and increase allowances and OPEX estimates, offset by higher fees, and other non-interest income. We assume 2.14x FY24e P/BV and ROE estimate of 16.0% in our GGM valuation. Stable NII from a recovery in loan growth and double-digit growth in fee income will sustain earnings momentum.

BUY (Maintained)

LAST TRADED PRICE	SGD 32.46
FORECAST DIV	SGD 2.16
TARGET PRICE	SGD 38.90
DIVIDEND YIELD	6.7%
TOTAL RETURN	26.5%

COMPANY DATA

BLOOMBERG TICKER	DBS SP
O/S SHARES (MN) :	2,579
MARKET CAP (USD mn / SGD mn) :	62168 / 83721
52 - WK HI/LO (SGD) :	35.85 / 30.3
3M Average Daily T/O (mn) :	3.86

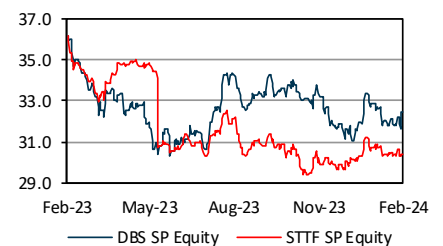
MAJOR SHAREHOLDERS (%)

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

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	(137)	(2.61)	(2.87)
STTF RETURN	(108)	(0.22)	(2.72)

PRICE VS. STTF



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec	FY 22	FY 23	FY 24e	FY 25e
Total Inc (SGD mn)	16,502	20,180	21,411	22,566
Op Profit (SGD mn)	9,175	11,525	11,676	12,170
NPAT (SGD mn)	8,194	10,286	10,409	10,842
EPS (SGD)	3.15	3.96	3.67	3.82
PER, (X)	10.3	8.2	8.9	8.5
P/BV, (X)	1.5	1.4	1.4	1.3
DPS (SGD)	2.00	1.92	2.16	2.40
ROE	14.9%	18.0%	16.5%	16.7%
Dividend Yield	6.2%	5.9%	6.7%	7.4%

Source: Bloomberg, Company, PSR

Valuation Method:

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

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Results at a glance

(SGD mn)	4Q23	4Q22	YoY	3Q23	QoQ	Comments
Net Interest Income	3,434	3,280	5%	3,504	(2%)	Improvement due to 8bps YoY rise in NIM to 2.13% despite loans growth staying flat YoY.
Net Fees & Comm	867	661	31%	843	3%	Growth led by cards, wealth management, card and loan-related fees offset slightly by decline in transaction service fees.
Other non-interest income	706	649	9%	845	(16%)	Growth in commercial book other non-income due to higher treasury market customer sales to wealth management customers.
Total Income	5,007	4,590	9%	5,192	(4%)	
Expenses	(2,205)	(1,963)	12%	(2,038)	8%	Expenses up by 12% YoY due to higher staff costs. Cost-income ratio rose slightly by 1% points YoY to 44%.
Profit before allowances	2,802	2,627	7%	3,154	(11%)	
Allowances	142	(42)	(438%)	215	(34%)	Allowances higher due to higher SP of S\$139mn (4Q22: S\$74mn) and normalised GP of S\$3mn (4Q22: writeback of S\$116mn). 4Q23 credit cost increased 5bps YoY to 11bps.
Adjusted PATMI	2,393	2,341	2%	2,633	(9%)	
One-off expenses	(124)	-	NM	(40)	NM	Due to Citi integration costs and CSR commitment.
PATMI	2,269	2,341	(3%)	2,593	(12%)	

Source: Company, PSR

The Positives

+ NIM and NII continue to increase YoY. NII rose 5% YoY to S\$3.4bn due to an 8bps NIM increase to 2.13% (3Q23: 2.19%) as interest rates continue to remain high, despite loan growth remaining flat YoY. Loan growth was stable as higher trade and consumer loans were

offset by lower non-trade corporate loans. Nonetheless, the Citi Taiwan consolidation contributed S\$10bn to loans.

+ Fee income recovers strongly. Fee income rose 31% YoY to S\$867mn. WM fees increased 41% YoY driven by strong net new money inflows as customers shifted deposits into bancassurance and investments, while card fees grew 27% YoY from higher spending and the integration of Citi Taiwan. Loan-related fees rose 80% YoY, while investment banking fees were up 26% YoY. These increases were moderated by a 4% YoY decline in transaction fees as trade finance slowed.

+ Other non-interest income rose 9% YoY. Other non-interest income growth was mainly due to higher treasury customer sales and gains from investment securities. Notably, commercial book accounts for a majority of other non-interest income was at 55%, while treasury markets accounts for 45%.

The Negatives

- Allowances rose 438% YoY. 4Q23 total allowances were higher 438% YoY due to normalised GP of S\$3mn (4Q22: writeback of S\$116mn) and higher SP of S\$139mn (4Q22: S\$74mn). As a result, 4Q23 credit costs rose to 11bps, with FY23 credit costs at 11bps. The NPL ratio was flat at 1.1% (4Q22: 1.1%), while GP reserves grew 4% YoY to S\$3.90bn. Notably, management mentioned S\$2.2bn of management overlay, which could be released if SP comes in higher than expected.

- CASA ratio decline continues. The Current Account Savings Accounts (CASA) ratio fell 8% points YoY to 52.3%, mainly due to the high-interest rate environment and a continued move towards fixed deposits (FDs). Nonetheless, total customer deposits grew 2% YoY to S\$535bn as the decline in CASA deposits was offset by growth in FDs and a contribution of S\$12bn from the Citi Taiwan consolidation.

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 rose 0.5% points QoQ to 14.6% and is still at the upper end of DBS' target operating range of 12.5-13.5%. 4Q23 DPS was raised 29% YoY to 54 cents with an additional 1-for-10 bonus issue, dividend payout ratio was higher at 48.5% in FY23 (FY22: 47.7% excluding special dividends). Including the bonus share issue and assuming the dividends are maintained at 54cents/quarter, DPS would increase by 24% YoY in FY24e.

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, as wealth management AUM grew 23% YoY to a record S\$365bn. DBS is guiding for double-digit fee income growth for FY24e which will be sustained by wealth management and credit card fees.

NII and PATMI guidance: DBS has maintained its FY24e guidance it provided in the previous quarter with net interest income to remain at the same levels as FY23, with NIMs to be maintained at FY23 exit NIM level with a possibility of a few bps drop. NII will be supported by the full-year impact of the Citi Taiwan consolidation and some trade-off between NIMs and loan growth, with the guidance of low-single-digit loan growth for FY24e. Total allowances are expected to normalise at around 17-20bps of loans and GP overlays of S\$2.2bn will be released if SP is higher than expected. As a result, DBS is guiding for PATMI to be maintained at around the current levels in FY23.

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: FY23 results vs DBS guidance vs PSR estimates for FY24e

Assumptions	FY23 Results	DBS	PSR
NIM (%)	2.15%	Around 2.13%	2.12%
Loans growth (%)	Flat	Low-single digit	1.5%
Credit cost (bps)	11bps	17-20bps	18
Fee income growth (%)	9%	Double digit	14.9%

Source: Company, PSR

Investment Action**Maintain BUY with lower target price of S\$38.90 (prev. S\$41.60).**

We lower FY24e earnings by 1% as we lower NII estimates for FY24e due to lower NIMs, and increase allowances and OPEX estimates, offset by higher fees and other non-interest income. We assume 2.14x FY24e P/BV and ROE estimate of 16.0% in our GGM valuation. Stable NII from a recovery in loan growth and double-digit growth in fee income will sustain earnings momentum.

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	16.0%
g	Terminal growth rate	2.0%
(ROE-g)/ (COE-g)	Target Price to Book	2.14
	BVPS, S\$	18.18
	Valuation, S\$	38.90

Source: PSR

Financials

Income Statement

Y/E Dec, SGD mn	FY21	FY22	FY23	FY24e	FY25e
Net Int Income	8,440	10,941	13,642	13,928	14,002
Fees and Commission	3,524	3,091	3,384	3,887	4,464
Other Non int income	2,333	2,470	3,154	3,596	4,099
Total income	14,297	16,502	20,180	21,411	22,566
Operating expenses	-6,469	-7,090	-8,065	-8,674	-9,334
Provisions	-52	-237	-590	-860	-860
Operating profit	7,776	9,175	11,525	11,676	12,170
Associates & JVs	0	207	214	201	201
Profit Before Tax	7,776	9,382	11,739	11,877	12,371
Taxation	-973	-1,188	-1,453	-1,468	-1,529
Profit After Tax	6,803	8,194	10,286	10,409	10,842
Non-controlling Interest	2	1	1	1	1
Net Income, reported	6,801	8,193	10,285	10,408	10,841
Net Income, adj.	6,805	8,193	10,285	10,408	10,841

Per share data (SGD)

Y/E Dec	FY21	FY22	FY23	FY24e	FY25e
EPS, reported	2.62	3.15	3.96	3.67	3.82
DPS	1.20	2.00	1.92	2.16	2.40
BVPS	21.47	21.17	23.14	23.18	24.24
Dividend Pay-out Ratio	45.9%	63.6%	48.5%	58.9%	62.8%

Supplementary items

Y/E Dec	FY21	FY22	FY23	FY24e	FY25e
CET1 CAR	14.4%	14.6%	14.6%	13.6%	14.6%
Tier 1 CAR	15.1%	15.2%	15.3%	13.6%	14.6%
Total CAR	17.0%	17.0%	16.1%	13.6%	14.6%

Balance Sheet

Y/E Dec, SGD mn	FY21	FY22	FY23	FY24e	FY25e
Cash and bal w central banks	56,377	54,170	50,213	75,403	76,054
Due from banks	51,377	60,131	67,461	68,137	73,697
Govt, Bank & Corp Sec & T Bills	122,954	140,452	152,300	153,827	166,379
Derivatives	19,681	44,935	22,700	22,700	22,700
Goodwill and intangibles	5,362	5,340	6,313	6,313	6,313
Property and other fixed assets	3,262	3,238	3,689	3,689	3,689
Loans to non-bank customers	408,993	414,519	416,163	420,226	426,135
JV and Associates	2,172	2,280	2,487	2,487	2,487
Other assets	15,895	18,303	17,975	17,975	17,975
Total Assets	686,073	743,368	739,301	770,757	795,429
Due to banks	30,209	39,684	46,704	52,973	56,199
Deposits from customers	501,959	527,000	535,103	543,699	552,433
Derivatives	20,318	45,265	23,457	26,456	27,309
Other liabilities	18,667	22,747	22,392	25,305	26,161
Other debt securities	52,570	47,188	48,079	53,007	58,440
Subordinated term debts	4,636	4,412	1,319	1,454	1,603
Total liabilities	628,359	686,296	677,054	702,894	722,145
Shareholder's equity	57,526	56,887	62,065	67,686	73,110
Non-controlling interest	188	185	182	178	174
Total Equity	57,714	57,072	62,247	67,864	73,284

Valuation Ratios

Y/E Dec	FY21	FY22	FY23	FY24e	FY25e
P/E (X), avg	12.4	10.3	8.2	8.9	8.5
P/B (X), avg	1.5	1.5	1.4	1.4	1.3
Dividend Yield	3.7%	6.2%	5.9%	6.7%	7.4%

Growth & Margins

Growth

Net interest income	-7.0%	29.6%	24.7%	2.1%	0.5%
Net Fee and Comm Inc	15.2%	-12.3%	9.5%	14.9%	14.8%
Total income	-2.0%	15.4%	22.3%	6.1%	5.4%
Profit before tax	44.9%	18.0%	25.6%	1.3%	4.2%
Net income, adj.	44.1%	20.4%	25.5%	1.2%	4.2%

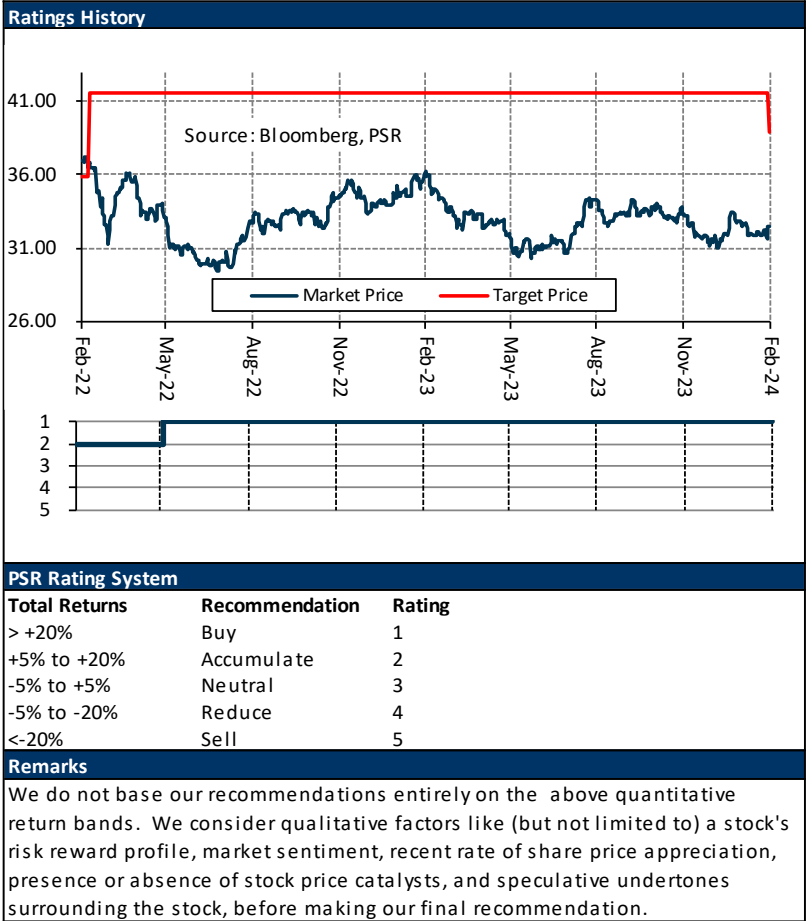
Margins

Net interest margin	1.45%	1.75%	2.15%	2.12%	2.07%
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Key Ratios

ROE	12.3%	14.9%	18.0%	16.5%	15.7%
ROA	1.0%	1.1%	1.4%	1.4%	1.4%
RORWA	2.1%	2.4%	2.8%	2.8%	2.8%
Non-interest/total income ratio	41.0%	33.7%	32.4%	34.9%	37.9%
Cost/income ratio	45.2%	43.0%	40.0%	40.5%	41.4%
Loan/deposit ratio	81.5%	78.7%	77.8%	77.3%	77.1%
NPL ratio	1.3%	1.1%	1.1%	1.2%	1.2%

Source: Company, Phillip Securities Research (Singapore) Estimates



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