

DBS Group Holdings Ltd

NII and Fee Income boost earnings



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SINGAPORE | BANKING | 1Q24 RESULTS

- 1Q24 adjusted PATMI of S\$2.96bn was slightly above our estimates due to higher NII, fee income, and other non-interest income offset by higher expenses. 1Q24 adjusted PATMI is 28% of our FY24e forecast. 1Q24 DPS raised 29% YoY to 54 cents.
- NII rose 7% YoY on NIM expansion of 2bps and loan growth of 2% YoY. Fee income rose 23% YoY from WM and card fees, while other non-interest income grew 24% YoY. DBS has maintained its FY24e guidance of double-digit fee income growth (from wealth management and credit card fees) and credit cost of 17-20bps but increased its guidance for FY24e NII and PATMI to be above FY23 levels.
- Downgrade to ACCUMULATE with a lower target price of S\$38.50** (prev. S\$38.90) as we account for recent share price performance and 1-for-10 bonus share issue. We increased FY24e earnings by 2% as we increased NII estimates due to higher NIMs, fee income, and loan growth estimates. We assume a 1.83x FY24e P/BV and ROE estimate of 17.1% in our GGM valuation. Modest growth in NII from stable NIMs, low-single-digit loan growth, and double-digit growth in fee income will sustain earnings momentum.

Results at a glance

(SGD mn)	1Q24	4Q23	YoY	4Q23	QoQ	Comments
Net Interest Income	3,505	3,271	7%	3,434	2%	Improvement due to 2bps YoY rise in NIM to 2.14% and loans growth of 2% YoY.
Net Fees & Comm	1,043	851	23%	867	20%	Growth led wealth management from stronger market sentiment and increase in AUM, higher card fees from higher spending and higher loan-related fees.
Other non-interest income	1,009	814	24%	706	43%	Growth in commercial book other non-income due to higher treasury customer sales offset by lower markets trading income.
Total Income	5,557	4,936	13%	5,007	11%	
Expenses	(2,079)	(1,882)	10%	(2,205)	(6%)	Expenses up by 12% YoY due to higher staff costs. Cost-income ratio dipped slightly by 1% points YoY to 37%.
Profit before allowances	3,478	3,054	14%	2,802	24%	
Allowances	135	161	(16%)	142	(5%)	Allowances lower due to lower GP of S\$22mn (1Q23: S\$99mn) offset by higher SP of S\$113mn (1Q23: S\$62mn). 1Q24 credit cost increased 4bps YoY to 10bps.
Adjusted PATMI	2,956	2,571	15%	2,393	24%	
One-off expenses	(5)	-	NM	(124)	NM	Due to Citi integration costs.
PATMI	2,951	2,571	15%	2,269	30%	

Source: Company, PSR

The Positives

+ NII rises 7% YoY. NII rose 7% YoY to S\$3.5bn due to a 2bps NIM increase to 2.14% (4Q23: 2.13%) as interest rates continue to remain high and loan growth grew modestly by 2% YoY. Loan growth came from higher non-trade corporate loans and the consolidation of Citi Taiwan. Management noted that loan growth was broad-based but was seen more in Singapore and India, which was offset by Hong Kong loans shifting to mainland China.

+ Fee income continues to recover. Fee income rose 23% YoY to a record level of S\$1,043mn. The growth was led by wealth management (WM) fees surging 47% YoY from stronger

3 May 2024

ACCUMULATE (Downgraded)

LAST TRADED PRICE	SGD 35.55
FORECAST DIV	SGD 2.16
TARGET PRICE	SGD 38.50
DIVIDEND YIELD	6.1%
TOTAL RETURN	14.4%

COMPANY DATA

BLOOMBERG TICKER	DBS SP
O/S SHARES (MN)	2,844
MARKET CAP (USD mn / SGD mn)	74413 / 10112
52 - WK HI/LO (SGD)	36 / 27.55
3M Average Daily T/O (mn)	5.02

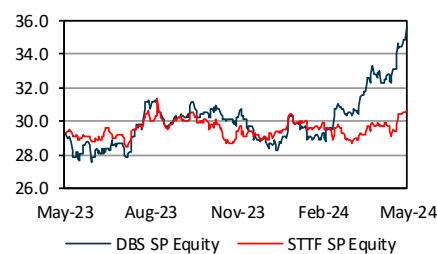
MAJOR SHAREHOLDERS (%)

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

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	8.17	22.25	16.65
STTF RETURN	3.00	5.56	2.85

PRICE VS. STTF



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec	FY 22	FY 23	FY 24 e	FY 25 e
Total Inc (SGD mn)	16,502	20,180	21,628	22,730
Op Profit (SGD mn)	9,175	11,525	11,888	12,332
NPAT (SGD mn)	8,194	10,286	10,594	10,984
EPS (SGD)	3.15	3.96	3.73	3.87
PER, (X)	11.3	9.0	9.5	9.2
P/BV, (X)	17	15	16	15
DPS (SGD)	2.00	1.92	2.16	2.40
ROE	14.9%	18.0%	17.1%	16.4%
Dividend Yield	5.6%	5.4%	6.1%	6.8%

Source: Bloomberg, Company, PSR

Valuation Method:

Gordon Growth Model (COE: 10.2%, g: 2.0%)

Glenn Thum (+65 6212 1851)

Senior Research Analyst
glenthumjc@phillip.com.sg

market sentiment and an increase in assets under management (AUM). Card fees rose 33% YoY from higher spending, while loan-related fees grew 30% YoY. The consolidation of Citi Taiwan benefitted both WM and card fees. This was offset slightly by a decline in investment banking fees (-59% YoY) due to slower capital market activities while transaction services were flat YoY.

+ Other non-interest income rose 24% YoY. This growth was mainly due to higher treasury customer sales, partially offset by a decline in market trading income from higher funding costs. Notably, commercial book continues to account for the majority of other non-interest income at 62% (1Q23: 53%), while treasury markets account for 38% (1Q23: 47%).

The Negatives

- SPs and NPAs rise YoY. SPs rose 82% YoY to S\$113mn, while new NPAs rose 45% YoY to S\$317mn from broad-based increases across all sectors. As a result, credit costs rose from 4bps YoY to 10bps. DBS has mentioned that the NPA formation was idiosyncratic, and they do not see particular stress in any sector. Nonetheless, 1Q24 total allowances were lower by 16% YoY as the higher SP was more than offset by a lower GP of S\$22mn (1Q23: S\$99mn). The NPL ratio was flat at 1.1% (4Q22: 1.1%), while GP reserves grew 4% YoY to S\$3.93bn. Notably, management mentioned ~S\$2bn of management overlay, which could be released if SP comes in higher than expected.

- The decline in the CASA ratio continues. The Current Account Savings Accounts (CASA) ratio fell 6% points YoY to 51%, mainly due to the high-interest rate environment and a continued move towards fixed deposits (FDs). The declining CASA ratio could further increase funding cost and there could be an increased dependence on FDs, which usually comes at a higher interest rate. Nonetheless, total customer deposits grew 3% YoY to S\$547bn 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 10bps QoQ and 30bps YoY to 14.6% and is still at the upper end of DBS' target operating range of 12.5-13.5%. 1Q24 DPS was raised 29% YoY to 54 cents. Management has mentioned that there is a need to return capital and hinted at a possibility for a further increase in dividends but has not confirmed how/when it would be done.

Fee income recovery: DBS has maintained its guidance of double-digit fee income growth for FY24e, which WM and credit card fees will sustain. They experienced better-than-expected momentum in WM and treasury customer sales in 1Q24 and are seeing the same momentum in WM going into 2Q24. The growth was mainly from a shift in investor sentiment, due to the expectation of rate cuts, where demand and funds were moved from deposits into investment products. There is also further upside from cards from higher spending due to the ongoing recovery in travel.

NII and PATMI guidance: DBS has increased the FY24e guidance it provided in the previous quarter, with net interest income to be "modestly better" than FY23, with NIMs to sustain an FY23 exit NIM level of 2.13%. 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 maintained. Total allowances are expected to normalise at around 17-20bps of loans, and GP overlays of ~S\$2bn will be released if SP is higher than expected. As a result, DBS is guiding for PATMI to be above FY23 levels.

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
 AUM – Assets under Management

Table 1: DBS guidance vs PSR estimates for FY24e

Assumptions	DBS	PSR
NIM (%)	Around 2.13%	2.14%
Loans growth (%)	Low-single digit	2.0%
Credit cost (bps)	17-20bps	18
Fee income growth (%)	Double digit	16.4%

Source: Company, PSR

Investment Action**Downgrade to ACCUMULATE with a lower target price of S\$38.50 (prev. S\$38.90).**

We downgraded to ACCUMULATE with a lower target price of S\$38.50 as we account for recent share price performance and a 1-for-10 bonus share issue. We increased FY24e earnings by 2% as we increased NII estimates due to higher NIMs, fee income, and loan growth estimates. We assume a 1.83x FY24e P/BV and ROE estimate of 17.1% in our GGM valuation. Modest growth in NII from stable NIMs, low-single digit loan growth, and double-digit growth in fee income will sustain earnings momentum.

Valuation: Gordon Growth Model

Item	Description	Value
	Risk-free rate	3.1%
E	Equity-risk premium	5.8%
B	Beta	1.2
COE	Cost of Equity	10.2%
ROE	Return on Equity	17.1%
g	Terminal growth rate	2.0%
(ROE-g)/ (COE-g)	Target Price to Book	1.83
	BVPS, S\$	21.04
	Valuation, S\$	38.50

Source: PSR

Financials

Income Statement

Y/E Dec, SGD mn	FY21	FY22	FY23	FY24e	FY25e
Net Int Income	8,440	10,941	13,642	14,095	14,109
Fees and Commission	3,524	3,091	3,384	3,938	4,522
Other Non int income	2,333	2,470	3,154	3,596	4,099
Total income	14,297	16,502	20,180	21,628	22,730
Operating expenses	-6,469	-7,090	-8,065	-8,680	-9,338
Provisions	-52	-237	-590	-860	-860
Operating profit	7,776	9,175	11,525	11,888	12,332
Associates & JVs	0	207	214	201	201
Profit Before Tax	7,776	9,382	11,739	12,089	12,533
Taxation	-973	-1,188	-1,453	-1,494	-1,549
Profit After Tax	6,803	8,194	10,286	10,594	10,984
Non-controlling Interest	2	1	1	1	1
Net Income, reported	6,801	8,193	10,285	10,594	10,983
Net Income, adj.	6,805	8,193	10,285	10,594	10,983

Per share data (SGD)

Y/E Dec	FY21	FY22	FY23	FY24e	FY25e
EPS, reported	2.62	3.15	3.96	3.73	3.87
DPS	1.20	2.00	1.92	2.16	2.40
BVPS	21.47	21.17	23.14	22.50	23.58
Dividend Pay-out Ratio	45.9%	63.6%	48.5%	57.9%	62.0%

Supplementary items

Y/E Dec	FY21	FY22	FY23	FY24e	FY25e
CET1 CAR	14.4%	14.6%	14.6%	13.3%	14.8%
Tier 1 CAR	15.1%	15.2%	15.3%	13.3%	14.8%
Total CAR	17.0%	17.0%	16.1%	13.3%	14.8%

Balance Sheet

Y/E Dec, SGD mn	FY21	FY22	FY23	FY24e	FY25e
Cash and bal w central banks	56,377	54,170	50,213	71,367	72,096
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	422,337	428,277
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	768,832	793,614
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	65,760	71,295
Non-controlling interest	188	185	182	178	174
Total Equity	57,714	57,072	62,247	65,938	71,469

Valuation Ratios

Y/E Dec	FY21	FY22	FY23	FY24e	FY25e
P/E (X), avg	13.6	11.3	9.0	9.5	9.2
P/B (X), avg	1.7	1.7	1.5	1.6	1.5
Dividend Yield	3.4%	5.6%	5.4%	6.1%	6.8%

Growth & Margins

Growth

Net interest income	-7.0%	29.6%	24.7%	3.3%	0.1%
Net Fee and Comm Inc	15.2%	-12.3%	9.5%	16.4%	14.8%
Total income	-2.0%	15.4%	22.3%	7.2%	5.1%
Profit before tax	44.9%	18.0%	25.6%	3.1%	3.7%
Net income, adj.	44.1%	20.4%	25.5%	3.0%	3.7%

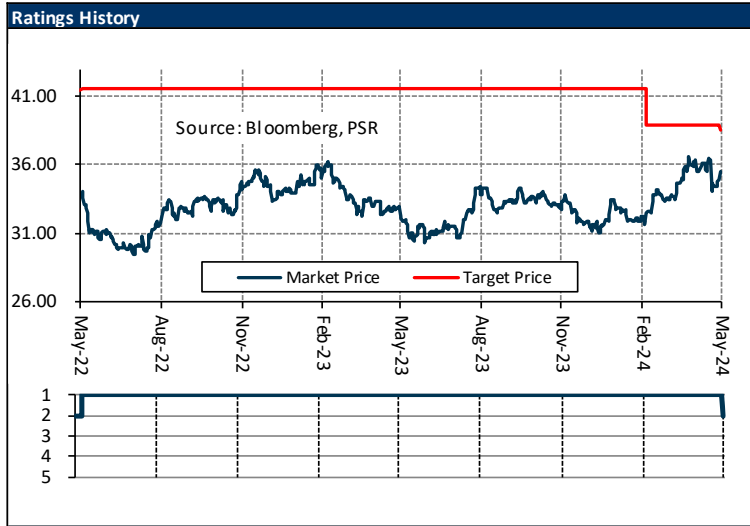
Margins

Net interest margin	1.45%	1.75%	2.15%	2.14%	2.08%
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Key Ratios

ROE	12.3%	14.9%	18.0%	17.1%	16.4%
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%	34.8%	37.9%
Cost/income ratio	45.2%	43.0%	40.0%	40.1%	41.1%
Loan/deposit ratio	81.5%	78.7%	77.8%	77.7%	77.5%
NPL ratio	1.3%	1.1%	1.1%	1.2%	1.2%

Source: Company, Phillip Securities Research (Singapore) Estimates



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
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Contact Information (Singapore Research Team)

Head of Research

Paul Chew – paulchewkl@phillip.com.sg

Research Admin

Qystina Azli - qystina@phillip.com.sg

Technical Analyst

Zane Aw – zaneawyx@phillip.com.sg

Property | REITs

Darren Chan – darrenchanrx@phillip.com.sg

Banking & Finance

Glenn Thum – glennthumjc@phillip.com.sg

Credit Analyst

Shawn Sng – shawnsngkh@phillip.com.sg

Property | REITs

Liu Miaomiao – liumm@phillip.com.sg

US Technology Analyst (Software/Services)

Ambrish Shah – amshah@phillipcapiatal.in

US Technology Analyst (Digital Media & Entertainment)

Jonathan Woo – jonathanwook@phillip.com.sg

US Tech Analyst (Hardware/E-commerce/ETF)

Helena Wang – helenawang@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.phillipcapital.in

MALAYSIA

Phillip Capital Management Sdn Bhd
B-3-6 Block B Level 3 Megan Avenue II,
No. 12, JalanYap 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.phillipcapiatal.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 (DGEX)
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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