

# DBS Group Holdings Ltd

Volatility spurs trading income



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## SINGAPORE | BANKING | 3Q24 RESULTS

8 November 2024

- 3Q24 adjusted PATMI of S\$3.03bn was above our estimates due to higher fee income and trading income. 9M24 adjusted PATMI is 83% of our FY24e forecast. 3Q24 DPS rose 23% YoY to 54 cents.
- NII rose 3% YoY from interest earning asset growth while NIM dipped 8bps to 2.11%. Non-interest income growth of 28% was led by WM fees and trading income. DBS maintained its FY24e guidance with PATMI growth of mid to high-single digit, while providing FY25e guidance for NII at 2024 levels and non-interest income growth of high-single digit. PATMI to drop below 2024 levels.
- Maintain NEUTRAL with higher target price of S\$41.60** (prev. S\$38.50) as we raise our FY24e estimates. We raised FY24e earnings by ~7% from higher WM income, trading income and lower provisions. We assume a 1.98x FY24e P/BV and ROE estimate of 18.3% in our GGM valuation. We expect 4Q24 PATMI growth of ~9% YoY from stable growth in NII from the with continued fixed asset repricing and deployment of deposits into longer tenure income accretive interest earning assets, while double-digit fee and trading income growth will give a further boost to earnings. A steeper yield curve could provide tailwinds from another S\$55bn of fixed assets to be repriced in FY25.

### NEUTRAL (Maintained)

LAST TRADED PRICE	SGD 41.70
FORECAST DIV	SGD 2.16
TARGET PRICE	SGD 41.60
DIVIDEND YIELD	5.2%
TOTAL RETURN	4.9%

#### COMPANY DATA

BLOOMBERG TICKER	DBS SP
O/S SHARES (MN) :	2,844
MARKET CAP (USD mn / SGD mn) :	89491 / 18602
52 - WK HI/LO (SGD) :	41.9 / 28.19
3M Average Daily T/O (mn) :	4.60

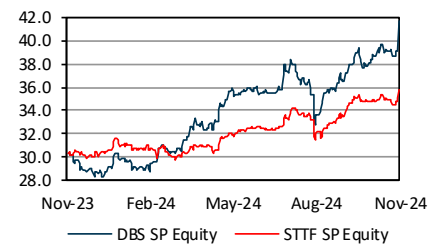
#### MAJOR SHAREHOLDERS (%)

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

#### PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	2.92	21.40	34.93
STTF RETURN	0.80	14.18	16.37

#### PRICE VS. STTF



Source: Bloomberg, PSR

#### KEY FINANCIALS

Y/E Dec	FY22	FY23	FY24e	FY25e
Total Inc (SGD mn)	16,502	20,180	22,326	23,525
Op Profit (SGD mn)	9,175	11,525	12,795	13,232
NPAT (SGD mn)	8,194	10,286	11,389	11,418
EPS (SGD)	3.15	3.96	4.01	4.02
PER, (X)	13.3	10.5	10.4	10.4
P/BV, (X)	2.0	1.8	1.8	1.8
DPS (SGD)	2.00	1.92	2.16	2.40
ROE	14.9%	18.0%	18.3%	17.0%
Dividend Yield	4.8%	4.6%	5.2%	5.8%

Source: Bloomberg, Company, PSR

#### Valuation Method:

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

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### Results at a glance

(SGD mn)	3Q24	3Q23	YoY	2Q24	QoQ	Comments
Net Interest Income	3,597	3,504	3%	3,594	0%	Improvement due to interest earning asset growth, Group NIM dipped 8bps YoY to 2.11%.
Net Fees & Comm	1,109	843	32%	1,048	6%	Mainly led by wealth management growth.
Other non-interest income	1,047	845	24%	840	25%	Boosted by markets trading income.
<b>Total Income</b>	<b>5,753</b>	<b>5,192</b>	<b>11%</b>	<b>5,482</b>	<b>5%</b>	
Expenses	(2,249)	(2,038)	10%	(2,172)	4%	Cost-to-income ratio stable YoY at 39%.
<b>Profit before allowances</b>	<b>3,504</b>	<b>3,154</b>	<b>11%</b>	<b>3,310</b>	<b>6%</b>	
Allowances	130	215	(40%)	148	(12%)	3Q24 credit cost improved 4bps YoY to 14bps, 9M24 credit cost at 11bps.
<b>Adjusted PATMI</b>	<b>3,027</b>	<b>2,633</b>	<b>15%</b>	<b>2,803</b>	<b>8%</b>	
One-off expenses	-	(40)	NM	(14)	NM	Due to Citi integration costs.
<b>PATMI</b>	<b>3,027</b>	<b>2,593</b>	<b>17%</b>	<b>2,789</b>	<b>9%</b>	

Source: Company, PSR

### The Positives

**+ Trading and WM income surges.** Volatility during the Yen carry trade in August contributed to markets trading income reaching a ten-quarter high (+53% YoY), as FX, interest rate and equity derivative activities benefited from market volatility. WM fees (+55% YoY) led fee income growth as there was a continued shift from deposits into investments and bancassurance as well as an expansion in AUM to S\$401bn (+14% YoY). As a result, non-interest income rose 28% YoY to S\$2,156mn and was the main contributor to earnings momentum.

**+ NII rises despite lower NIM.** Despite NIM dipping 8bps YoY to 2.11%, NII rose 3% YoY to S\$3.6bn due to deposit growth of 3% while loan growth was stable. Commercial book NIM was 1bps higher YoY mainly from fixed-rate asset repricing, but Group NIM declined due to deployment into lower yielding high-quality assets, which are accretive to earnings but diluted NIM.

**+ Allowances and credit costs improve.** SPs and GPs fell by 39% and 44% YoY respectively, while new NPAs were more than offset by higher upgrades, settlements and recoveries. As a result, credit costs improved by 4bps YoY to 14bps. Management said that the new NPA formation was mainly from two accounts but are idiosyncratic with no particular stress in any sector. NPL ratio improved to 1% (2Q24: 1.1%), while GP reserves rose slightly to S\$3.96bn. Notably, DBS has ~S\$2.3bn of management overlay, which could be released if SP comes in higher than expected.

#### 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

### The Negatives

**- Expenses climb up.** Higher staff costs resulted in expenses climbing 10% YoY to S\$2.2bn. Notably, Citi Taiwan accounted for 3% percentage points of the YoY increase. Nonetheless, the cost-to-income ratio (CIR) was stable YoY at 40%. DBS expects the current CIR of 39-40% to hold for the rest of FY24, and to be in the low-40% range in FY25e.

### Outlook

**Capital sufficient:** The CET-1 ratio (fully phased-in) rose 40bps QoQ and 110bps YoY to 15.2% and is still at the upper end of DBS' target operating range of 12.5-13.5%. 3Q24 DPS was raised 23% YoY to 54 cents. DBS has also announced a new share buyback programme of S\$3bn, which would reduce fully phased-in CET-1 ratio by 80bps when completed.

**Fee income recovery:** DBS has maintained its guidance of double-digit fee income growth for FY24e, which WM and credit card fees will sustain. We expect the momentum to continue and for fee income to grow by ~36% in 4Q24. Management has provided FY25e guidance, with commercial book non-interest income growth of high-single digits, led by WM fees and treasury customer sales.

**NII and PATMI guidance:** FY24e guidance has been maintained, with NII growth to be mid-single digit, low-single-digit loan growth, SPs of around 10-15bps of loans and PATMI growth of mid to high-single digit. DBS has provided FY25e guidance for (1) NII to maintain at 2024 levels from a slight decline in Group NIM offset by loan growth, (2) CIR in the low-40% range, (3) SPs to normalise to 17-20bps with potential for GP overlays of ~S\$2.3bn to be released; and (4) PBT to be around 2024 levels. Notably, PATMI is expected to decline from 2024 levels due to the global minimum tax of 15% (FY23: 12.4%). Management gave assurance that the current dividend policy of an additional 24 cents per year will be maintained, even if earnings fall and dividend payout ratio exceeds 50%.

**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)	10-15bps	12
Fee income growth (%)	Double digit	29.3%

Source: Company, PSR

### Investment Action

**Maintain NEUTRAL with higher target price of S\$41.60 (prev. S\$38.50).**

We maintain NEUTRAL with a higher target price of S\$41.60 as we raise our FY24e estimates. We raise FY24e earnings by ~7% from higher WM income, trading income and lower provisions. We assume a 1.98x FY24e P/BV and ROE estimate of 18.3% in our GGM valuation. We expect 4Q24 PATMI growth of ~9% YoY from stable growth in NII from the continued fixed asset repricing and deployment of deposits into longer tenure income accretive interest earning assets, while double digit fee income growth will give a further boost to earnings. A steeper yield curve could provide tailwinds from another S\$55bn of fixed assets to be repriced in FY25.

**Valuation: Gordon Growth Model**

Item	Description	Value
$R_f$	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	18.3%
g	Terminal growth rate	2.0%
$(ROE-g)/(COE-g)$ Target Price to Book		1.98
	BVPS, S\$	21.04
	Valuation, S\$	41.60

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	4,375	5,020
Other Non int income	2,333	2,470	3,154	3,856	4,396
<b>Total income</b>	<b>14,297</b>	<b>16,502</b>	<b>20,180</b>	<b>22,326</b>	<b>23,525</b>
Operating expenses	-6,469	-7,090	-8,065	-8,730	-9,392
Provisions	-52	-237	-590	-600	-700
<b>Operating profit</b>	<b>7,776</b>	<b>9,175</b>	<b>11,525</b>	<b>12,795</b>	<b>13,232</b>
Associates & JVs	0	207	214	201	201
<b>Profit Before Tax</b>	<b>7,776</b>	<b>9,382</b>	<b>11,739</b>	<b>12,996</b>	<b>13,433</b>
Taxation	-973	-1,188	-1,453	-1,606	-2,015
<b>Profit After Tax</b>	<b>6,803</b>	<b>8,194</b>	<b>10,286</b>	<b>11,389</b>	<b>11,418</b>
Non-controlling Interest	2	1	1	1	1
<b>Net Income, reported</b>	<b>6,801</b>	<b>8,193</b>	<b>10,285</b>	<b>11,388</b>	<b>11,417</b>
<b>Net Income, adj.</b>	<b>6,805</b>	<b>8,193</b>	<b>10,285</b>	<b>11,388</b>	<b>11,417</b>

### Per share data (SGD)

Y/E Dec	FY21	FY22	FY23	FY24e	FY25e
EPS, reported	2.62	3.15	3.96	4.01	4.02
DPS	1.20	2.00	1.92	2.16	2.40
BVPS	21.47	21.17	23.14	22.59	23.70
Dividend Pay-out Ratio	45.9%	63.6%	48.5%	53.8%	59.7%

### Supplementary items

Y/E Dec	FY21	FY22	FY23	FY24e	FY25e
CET1 CAR	14.4%	14.6%	14.6%	14.9%	16.5%
Tier 1 CAR	15.1%	15.2%	15.3%	15.5%	17.1%
Total CAR	17.0%	17.0%	16.1%	16.3%	17.9%

### Balance Sheet

Y/E Dec, SGD mn	FY21	FY22	FY23	FY24e	FY25e
Cash and bal w central banks	56,377	54,170	50,213	71,379	72,060
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	422,597	428,697
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
<b>Total Assets</b>	<b>686,073</b>	<b>743,368</b>	<b>739,301</b>	<b>769,104</b>	<b>793,997</b>
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
<b>Total liabilities</b>	<b>628,359</b>	<b>686,296</b>	<b>677,054</b>	<b>702,894</b>	<b>722,145</b>
Shareholder's equity	57,526	56,887	62,065	66,032	71,678
Non-controlling interest	188	185	182	178	174
<b>Total Equity</b>	<b>57,714</b>	<b>57,072</b>	<b>62,247</b>	<b>66,210</b>	<b>71,852</b>

### Valuation Ratios

Y/E Dec	FY21	FY22	FY23	FY24e	FY25e
P/E (X), avg	15.9	13.3	10.5	10.4	10.4
P/B (X), avg	1.9	2.0	1.8	1.8	1.8
Dividend Yield	2.9%	4.8%	4.6%	5.2%	5.8%

### 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%	29.3%	14.7%
Total income	-2.0%	15.4%	22.3%	10.6%	5.4%
Profit before tax	44.9%	18.0%	25.6%	11.0%	3.4%
Net income, adj.	44.1%	20.4%	25.5%	10.7%	0.3%

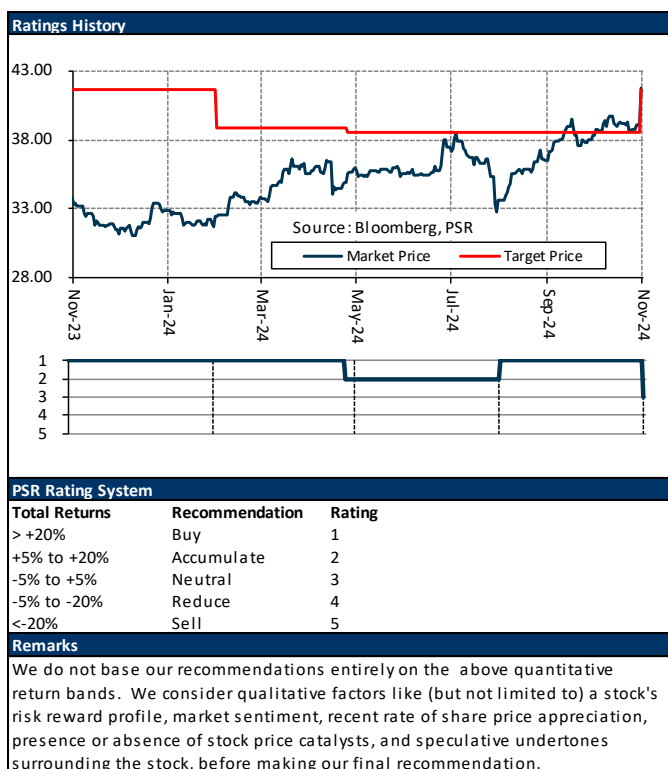
#### Margins

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%	18.3%	17.0%
ROA	1.0%	1.1%	1.4%	1.5%	1.4%
RORWA	2.1%	2.4%	2.8%	3.0%	2.9%
Non-interest/total income ratio	41.0%	33.7%	32.4%	36.9%	40.0%
Cost/income ratio	45.2%	43.0%	40.0%	39.1%	39.9%
Loan/deposit ratio	81.5%	78.7%	77.8%	77.7%	77.6%
NPL ratio	1.3%	1.1%	1.1%	1.2%	1.2%

Source: Company, Phillip Securities Research (Singapore) Estimates



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