

DBS Group (DBS SP)

High quality delivery

2Q surprised. Structural ROEs rising. So are dividends

DBS' 1H23 earnings were ahead of MIBG/Street expectations. The Group's strong franchise is helping asset yields expand in the current higher-for-longer interest rate environment, while keeping funding cost escalations under control. Strong wealth management inflows are poised to deliver additional growth as market conditions turn. These factors should be supportive of higher sustainable medium term ROEs as well as materially increased dividend upgrades. Asset quality in a slowing growth environment is a key risk. Raise TP to SGD39.36. Maintain BUY.

Scale and franchise driving growth

Further Fed hikes and higher HIBOR in HK pushed Group 2Q NIMs +4bps QoQ (+12bps ex-trading activities). While quarterly data is not available, 1H23 loan yields increased +106bps HoH, whilst deposit costs expanded just +88bps. This points to the strength of DBS' deposit franchise giving it the ability to manage funding costs reasonably. With at least one more Fed hike expected, we raise 2023E NIMs by +7bps. Separately, wealth management (WM) attracted SGD12bn of net new money in 1H, where nearly half is sitting as deposits. WM activities have seen a pick up over the past few weeks in a risk-on environment, according to Management. Hence, fee income - which disappointed in 1H - could see improved prospects in 2H, in our view. The Group's focus on large corporates seems to be keeping asset quality supported with NPLs falling -16% YoY in 2Q. We have lowered NPL assumptions by 9-10% for 2023-25E, but remain cautious on asset quality going forward.

Higher dividend potential going forward

DBS surprised with a SGD0.06 QoQ increase in DPS, when normally such hikes are reserved for 4Q. It plans to increase base dividends by SGD0.24 YoY. Additionally, there is SGD3bn (SGD1.20/sh) of excess capital Management plans to release going forward. While special dividends are one possibility, we think there is potential for base dividend to be raised above the minimum guided range over the medium term. We have conservatively assumed SGD0.01-0.07/sh of higher than base dividends for 2023-25E. Given the quantum of excess capital, risks are on the upside.

Raise TP to SGD39.36. Maintain BUY

Following 2Q23, we raise 2023-25E earnings by 4-6%. Our multi-stage DDM (COE 9.9%, 3% terminal) TP has been raised to SGD39.36 from SGD38.51. At this TP, DBS would trade at 1.6x PB. We think this is reasonable for an implied medium term ROE of 15%. Indeed, Management claims they are confident of defending 15-17% medium term ROE. Maintain BUY.

FYE Dec (SGD m)	FY21A	FY22A	FY23E	FY24E	FY25E
Operating income	14,188	16,502	19,633	20,274	21,522
Pre-provision profit	7,615	9,412	12,180	12,367	13,126
Core net profit	6,801	8,193	9,955	9,860	10,725
Core EPS (SGD)	2.6	3.2	3.9	3.8	4.2
Core EPS growth (%)	43.1	20.2	21.5	(1.0)	8.8
Net DPS (SGD)	1.2	2.0	1.9	2.1	2.4
Core P/E (x)	12.3	10.7	8.7	8.8	8.1
P/BV (x)	1.5	1.5	1.4	1.3	1.2
Net dividend yield (%)	3.7	5.9	5.5	6.2	7.2
Book value (SGD)	22.40	22.10	24.07	25.79	27.54
ROAE (%)	12.8	14.9	17.5	16.0	16.2
ROAA (%)	1.0	1.1	1.3	1.2	1.2
Consensus net profit	-	-	9,730	9,658	9,990
MIBG vs. Consensus (%)	-	-	1.1	2.1	7.4

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BUY

Share Price	SGD 33.76
12m Price Target	SGD 39.36 (+17%)
Previous Price Target	SGD 38.51

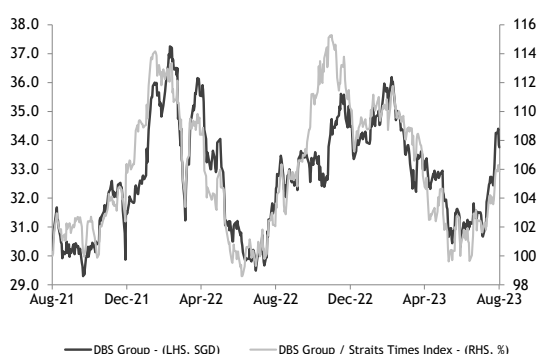
Statistics

52w high/low (SGD)	36.19/30.30
3m avg turnover (USDm)	90.5
Free float (%)	70.3
Issued shares (m)	2,564
Market capitalisation	SGD86.6B USD64.5B

Major shareholders:

Temasek Holdings	29.0%
Capital Research	2.1%
The Vanguard Group	2.1%

Price Performance



	-1M	-3M	-12M
Absolute (%)	7	5	4
Relative to index (%)	3	3	2

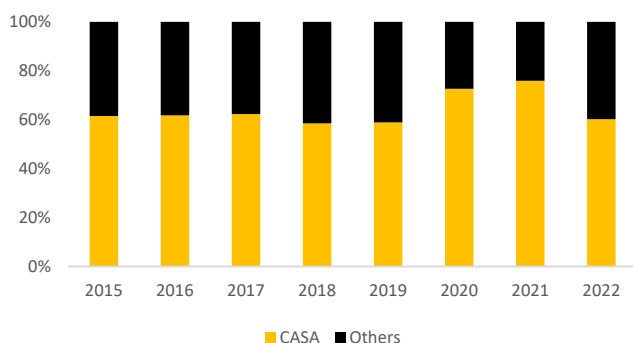
Source: FactSet

ESG@MAYBANK IBG
Tear Sheet Insert

Value Proposition

- SE Asia’s largest bank by assets, with strength in large corporate loans, cash management and wealth
- Over 50% market share of SGD CASA deposits through strong heartland banking franchise. Also strong USD funding base through HK operations
- Current strategy has the group refocusing on commercial banking following attempts to transform in to a universal bank pre-GFC which had mixed results
- Increasing presence in South and South Asia particularly India and Indonesia
- Early adopter of technology and automation providing opportunities for new revenue streams and cost savings

DBS deposit mix between low-cost CASA and others

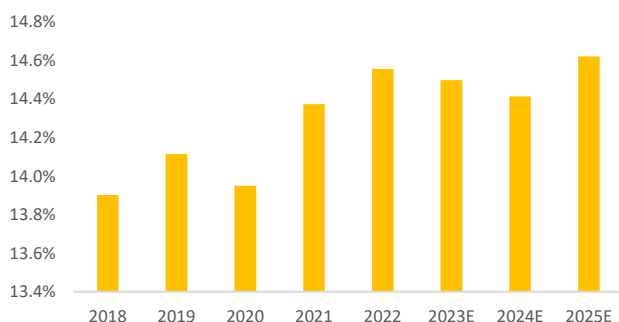


Source: Company

Financial Metrics

- NIM are set to see grow at a slower pace of +27bps in 2023E following a strong +30bps YoY inflection in 2022
- Asset quality risks may rise on higher interest rates and inflation. NPL ratios could go from 1.1% in 2022 to 1.2% in 2024E
- Credit charges are likely to rise to 24bps in 2024E following benign 6bps in 2022
- Core- ROE is structurally shifting higher. We expect this to average 15.9% in 2023-25E

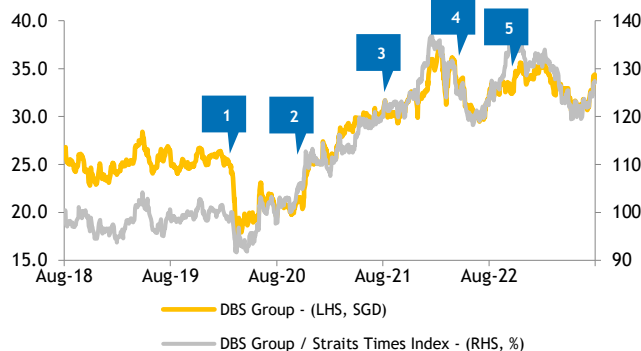
CET1 Ratio (%)



Source: Maybank IBG Research, Company

Price Drivers

Historical share price trend



Source: Company, Maybank IBG Research

1. Start of COVID-19 pandemic
2. Announcement of successful COVID-19 vaccine trials
3. Rising rate expectations
4. Slowing growth fear
5. Higher NIM expectations and flight to quality

Swing Factors

Upside

- A stronger China re-opening could driver better loan demand as well as fee income
- Regional integration may provide enhanced market share opportunities
- Large wealth management inflows, currently sitting as deposits, could be diverted to higher fee generating products driving fee income higher

Downside

- Increased asset quality risks from a slower recovery in China as well as pressure on SMEs from higher interest rates
- Disruptions and outages to digital infrastructure
- Integration issues from new acquisitions delaying ROEs or increasing costs

1H23 results summary

Fig 1: 1H23 results summary

SGDm	1H23	1H22	YoY (%)	2H22	HoH (%)	Comments
Net interest income	6,704	4,641	44.5	6,300	6.4	Boosted NIMs from Fed hikes and higher HIBOR, offsetting weak loans
Non-interest income	3,277	2,780	17.9	2,781	17.8	Better customer driven trading income, while wealth flat
Total income	9,981	7,421	34.5	9,081	9.9	
Total expenses	(3,886)	(3,302)	17.7	(3,788)	2.6	Staff cost growth moderating, but included increments and headcount growth
Profit before allowances (PPOP)	6,095	4,119	48.0	5,293	15.2	
Allowances for credit and other losses	(233)	(101)	130.7	(136)	71.3	Fell HoH from GP write backs given no management overlays
Profit before tax	5,967	4,136	44.3	5,246	13.7	
Core Net Profit	5,260	3,616	45.5	4,577	14.9	56% of MIBG, 55% of Street 2023E
One time gains/expenses	(60)	-	NM	-	NM	Citibank Taiwan integration costs
Reported Net profit	5,200	3,616	43.8	4,577	13.6	
NIM (Reported) %	2.14%	1.52%	62	1.97%	17	Rising asset yields. Funding costs reaching stability from high liquidity
Cost/income ratio	38.2%	44.50%	(630)	41.70%	(350)	Opex growth offset by stronger income growth
Net Loans	415,713	424,533	-2.1	414,519	0.3	Foregoing low margin marginal loans, weak demand
Deposits	520,071	527,828	-1.5	527,000	-1.3	Some CASA leakage
Gross NPLs	1.1%	1.3%	(20)	1.1%	-	Improving repayments, recoveries

Source: Company data, Maybank IBG Research

Key assumption changes

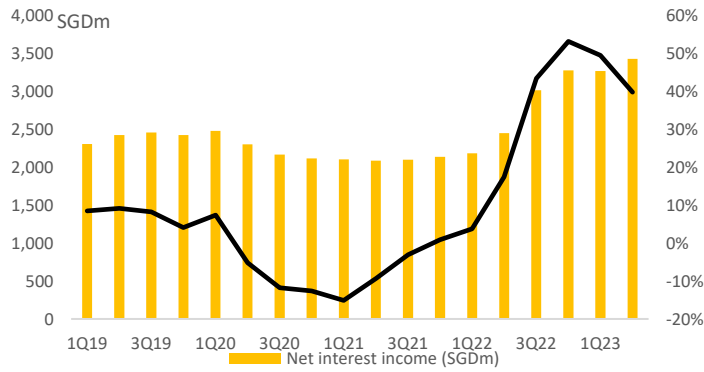
Fig 2: Key assumption changes

	2023E			2024E			2025E		
	Old	New	% Change	Old	New	% Change	Old	New	% Change
Net Interest Income	12,967	13,431	4%	12,534	13,416	7%	13,203	14,126	7%
Non-interest income	6,272	6,202	-1%	7,183	6,857	-5%	7,895	7,397	-6%
Total Income	19,239	19,633	2%	19,717	20,274	3%	21,097	21,522	2%
Total Expenses	(7,428)	(7,452)	0%	(7,907)	(7,907)	0%	(8,396)	(8,396)	0%
PPOP	11,811	12,180	3%	11,810	12,367	5%	12,701	13,126	3%
Allowance for credit and other losses	(975)	(781)	-20%	(1,191)	(1,076)	-10%	(943)	(845)	-10%
PBT	10,836	11,400	5%	10,618	11,291	6%	11,758	12,281	4%
Core-Net Profit	9,462	9,955	5%	9,273	9,860	6%	10,268	10,725	4%
NIM	1.87%	1.94%	7 bps	1.71%	1.83%	12 bps	1.71%	1.83%	12 bps
Gross Loans	432,879	430,643	-1%	451,242	448,312	-1%	472,472	468,759	-1%
Deposits	558,451	558,451	0%	589,323	589,323	0%	622,665	622,665	0%
Total NPA	5,735	5,206	-9%	6,619	5,978	-10%	6,734	6,037	-10%

Source: Maybank IBG Research

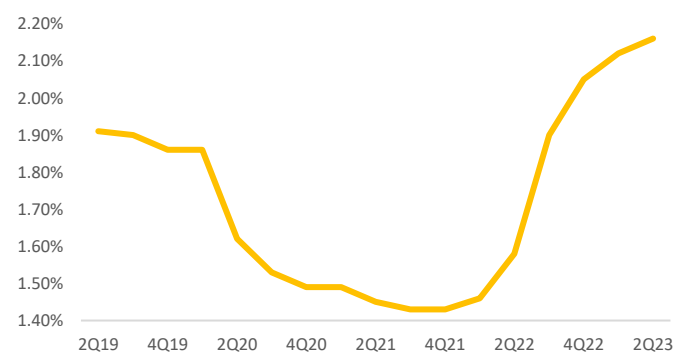
Focus charts

Fig 3: Net interest income YoY (%)



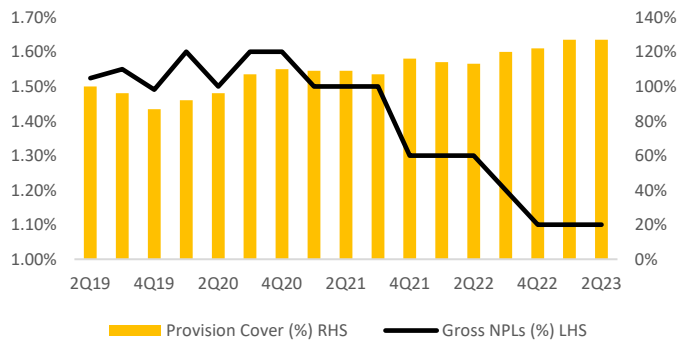
Source: Company data, Maybank IBG Research

Fig 4: Net interest margin (%)



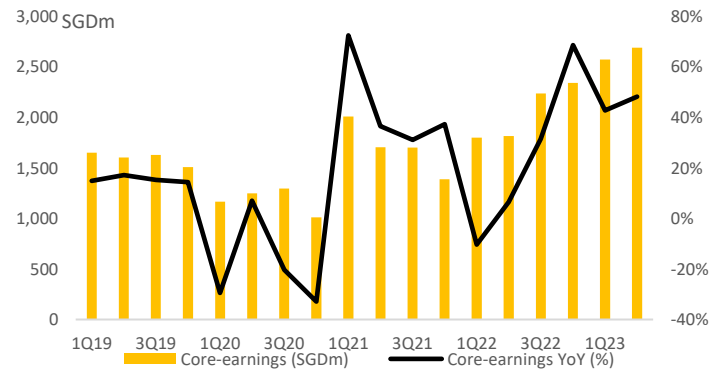
Source: Company data, Maybank IBG Research

Fig 5: Gross NPLs and provision cover (%)



Source: Company data, Maybank IBG Research

Fig 6: Core-earnings YoY (%)



Source: Company data, Maybank IBG Research

Detailed assumptions

Fig 7: Detailed assumptions

	2018	2019	2020	2021	2022	2023E	2024E	2025E
Balance Sheet								
Loan growth y-o-y (%)	7%	4%	4%	10%	1%	2%	4%	5%
Consumer Loan growth y-o-y (%)	3%	2%	0%	10%	-1%	2%	4%	5%
Corporate Loan growth y-o-y (%)	8%	4%	6%	10%	2%	2%	4%	5%
Deposit growth y-o-y (%)	5%	3%	15%	8%	5%	6%	6%	6%
CASA Deposit growth y-o-y (%)	-1%	3%	42%	13%	-17%	-12%	1%	25%
Cash and balances with central banks as a % of Deposits	6%	7%	11%	11%	10%	12%	12%	12%
Loan to Deposit Ratio (%)	88.8%	89.6%	81.3%	82.7%	79.8%	77.1%	76.1%	75.3%
Profit & Loss								
Net Interest Margin - Adjusted (%)	1.80%	1.83%	1.61%	1.37%	1.67%	1.94%	1.83%	1.83%
Net Interest income growth y-o-y (%)	14.9%	7.5%	-5.7%	-7.0%	29.6%	22.8%	-0.1%	5.3%
Non-interest income growth y-o-y (%)	2.3%	16.3%	12.1%	4.2%	-3.3%	11.5%	10.6%	7.9%
PPOP growth y-o-y (%)	9.9%	12.2%	1.8%	-9.7%	23.6%	29.4%	1.5%	6.1%
PBT growth y-o-y (%)	38.3%	13.6%	-29.2%	44.9%	20.7%	21.5%	-1.0%	8.8%
Cost to Income Ratio (%)	44.0%	43.0%	42.2%	46.3%	43.0%	38.0%	39.0%	39.0%
Dividend Payout on core-profits (%)	55%	49%	47%	45%	63%	48%	55%	58%
Asset Quality								
Gross NPL (%)	1.5%	1.5%	1.6%	1.3%	1.1%	1.1%	1.2%	1.2%
Provision coverage (GP+SP+RLAR/NPA) (%)	98%	94%	110%	116%	122%	122%	113%	114%
Credit charge (Allowance for credit losses/gross loans) (%)	0.21%	0.20%	0.83%	0.01%	0.06%	0.18%	0.24%	0.18%
NPA growth y-o-y (%)	-6.4%	1.6%	15.8%	-12.5%	-12.4%	1.6%	14.8%	1.0%
Capital								
CET1 ratio (%)	13.9%	14.1%	13.9%	14.4%	14.6%	14.5%	14.4%	14.6%
Tier-1 ratio (%)	15.1%	15.0%	15.0%	15.1%	15.2%	15.6%	15.5%	15.7%
Total Capital ratio (%)	16.9%	16.7%	16.8%	17.0%	17.0%	17.3%	17.1%	17.3%

Source: Company data, Maybank IBG Research

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Metrics					
Core P/E (x)	12.3	10.7	8.7	8.8	8.1
Core FD P/E (x)	12.3	10.7	8.7	8.8	8.1
P/BV (x)	1.5	1.5	1.4	1.3	1.2
P/NTA (x)	1.6	1.7	1.5	1.4	1.3
Net dividend yield (%)	3.7	5.9	5.5	6.2	7.2
INCOME STATEMENT (SGD m)					
Interest income	10,185.0	15,927.0	20,217.9	21,106.9	22,267.5
Interest expense	(1,745.0)	(4,986.0)	(6,786.9)	(7,690.7)	(8,141.7)
Net interest income	8,440.0	10,941.0	13,431.0	13,416.2	14,125.8
Net insurance income	0.0	0.0	0.0	0.0	0.0
Net fees and commission	3,524.0	3,091.0	3,369.2	3,874.6	4,262.0
Other income	2,224.0	2,470.0	2,832.7	2,982.9	3,134.6
Total non-interest income	5,748.0	5,561.0	6,201.8	6,857.5	7,396.6
Operating income	14,188.0	16,502.0	19,632.9	20,273.7	21,522.4
Staff costs	(3,875.0)	(4,376.0)	(4,594.8)	(4,916.4)	(5,260.6)
Other operating expenses	(2,698.0)	(2,714.0)	(2,857.6)	(2,990.6)	(3,135.9)
Operating expenses	(6,573.0)	(7,090.0)	(7,452.4)	(7,907.1)	(8,396.5)
Pre-provision profit	7,615.0	9,412.0	12,180.5	12,366.7	13,125.9
Loan impairment allowances	(52.0)	(237.0)	(780.9)	(1,076.1)	(845.1)
Other allowances	0.0	0.0	0.0	0.0	0.0
Associates & JV income	213.0	207.0	0.0	0.0	0.0
Pretax profit	7,780.0	9,382.0	11,279.5	11,290.6	12,280.8
Income tax	(973.0)	(1,188.0)	(1,443.5)	(1,429.7)	(1,555.1)
Minorities	(2.0)	(1.0)	(1.0)	(1.0)	(1.0)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	6,805.0	8,193.0	9,835.0	9,859.9	10,724.7
Core net profit	6,801.0	8,193.0	9,955.0	9,859.9	10,724.7
BALANCE SHEET (SGD m)					
Cash & deposits with banks	107,754.0	114,301.0	141,740.2	153,468.7	164,569.2
Sec. under resale agreements	0.0	0.0	0.0	0.0	0.0
Derivatives financial assets	19,681.0	44,935.0	49,428.5	54,371.4	59,808.5
Dealing securities	0.0	0.0	0.0	0.0	0.0
Available-for-sale securities	69,692.0	75,457.0	80,739.0	86,390.7	92,438.1
Investment securities	53,262.0	64,995.0	67,014.1	70,718.8	74,719.8
Loans & advances	408,993.0	414,519.0	424,792.6	442,099.2	462,428.5
Central bank deposits	0.0	0.0	0.0	0.0	0.0
Investment in associates/JVs	2,172.0	2,280.0	2,280.0	2,280.0	2,280.0
Insurance assets	0.0	0.0	0.0	0.0	0.0
Fixed assets	3,262.0	3,238.0	3,214.2	3,214.2	3,214.2
Intangible assets	5,362.0	5,340.0	5,340.0	5,340.0	5,340.0
Other assets	15,895.0	18,303.0	20,133.3	22,146.6	24,361.3
Total assets	686,073.0	743,368.0	794,681.9	840,029.5	889,159.5
Deposits from customers	501,959.0	527,000.0	558,451.0	589,323.0	622,664.9
Deposits from banks & FIs	30,209.0	39,684.0	52,130.8	54,737.4	57,474.2
Derivatives financial instruments	20,318.0	45,265.0	45,265.0	45,265.0	45,265.0
Subordinated debt	4,636.0	4,412.0	4,412.0	4,412.0	4,412.0
Other securities in issue	0.0	0.0	0.0	0.0	0.0
Other borrowings	52,570.0	47,188.0	49,547.4	56,979.5	65,526.4
Insurance liabilities	0.0	0.0	0.0	0.0	0.0
Other liabilities	18,667.0	22,747.0	22,747.0	22,747.0	22,747.0
Total liabilities	628,359.0	686,296.0	732,553.2	773,463.9	818,089.5
Share capital	11,383.0	11,495.0	11,495.0	11,495.0	11,495.0
Reserves	43,751.0	43,000.0	48,056.6	52,493.6	56,998.0
Shareholders' funds	55,134.0	54,495.0	59,551.6	63,988.6	68,493.0
Preference shares	2,392.0	2,392.0	2,392.0	2,392.0	2,392.0
Minority interest	188.0	185.0	185.0	185.0	185.0
Total equity	57,714.0	57,072.0	62,128.6	66,565.6	71,070.0
Total liabilities & equity	686,073.0	743,368.0	794,681.9	840,029.5	889,159.5

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Ratios					
Growth (%)					
Net interest income	(7.0)	29.6	22.8	(0.1)	5.3
Non-interest income	4.2	(3.3)	11.5	10.6	7.9
Operating expenses	6.7	7.9	5.1	6.1	6.2
Pre-provision profit	(9.7)	23.6	29.4	1.5	6.1
Core net profit	44.1	20.5	21.5	(1.0)	8.8
Gross loans	9.9	1.3	2.5	4.1	4.6
Customer deposits	8.0	5.0	6.0	5.5	5.7
Total assets	5.6	8.4	6.9	5.7	5.8
Profitability (%)					
Non-int. income/Total income	40.5	33.7	31.6	33.8	34.4
Average lending yields	1.66	2.43	2.92	2.88	2.88
Average financing yields	0.00	0.00	0.00	0.00	0.00
Average cost of funds	0.31	0.83	1.06	1.12	1.12
Net interest margin	1.37	1.67	1.94	1.83	1.83
Net income margin	47.93	49.65	50.71	48.63	49.83
Cost/income	46.3	43.0	38.0	39.0	39.0
Liquidity (%)					
Loans/customer deposits	81.5	78.7	76.1	75.0	74.3
Asset quality (%)					
Net NPL	(0.2)	(0.2)	(0.2)	(0.1)	(0.1)
Gross NPL	1.3	1.1	1.1	1.2	1.2
Net NPF	0.0	0.0	0.0	0.0	0.0
Gross NPF	0.0	0.0	0.0	0.0	0.0
(SP+GP)/average gross loans	0.0	0.1	0.2	0.2	0.2
(SP+GP)/average gross financing	0.0	0.0	0.0	0.0	0.0
Loan loss coverage	116.3	121.8	121.7	112.5	113.5
Capital adequacy (%)					
CET1	14.4	14.6	14.5	14.4	14.6
Tier 1 capital	15.1	15.2	15.6	15.5	15.7
Risk-weighted capital	17.0	17.0	17.3	17.1	17.3
Returns (%)					
ROAE	12.8	14.9	17.5	16.0	16.2
ROAA	1.0	1.1	1.3	1.2	1.2
Shareholders equity/assets	8.0	7.3	7.5	7.6	7.7

Source: Company; Maybank IBG Research

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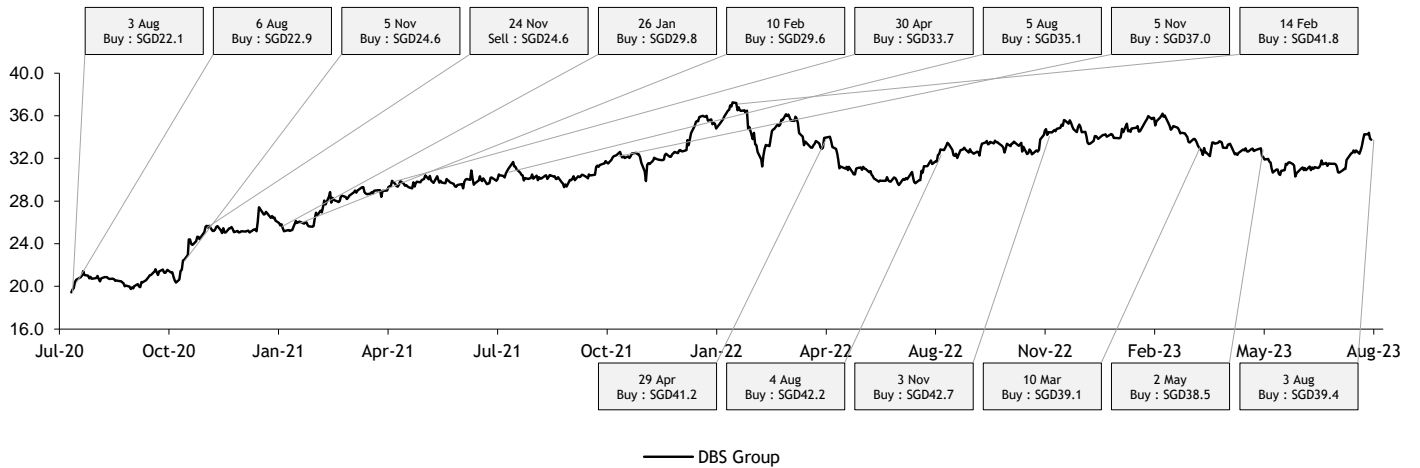
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