

DBS Group (DBS SP)

Yielding results

BUY

Share Price	SGD 32.45
12m Price Target	SGD 37.66 (+16%)
Previous Price Target	SGD 37.81

Statistics

52w high/low (SGD)	36.19/30.30
3m avg turnover (USDm)	88.5
Free float (%)	70.3
Issued shares (m)	2,564
Market capitalisation	SGD83.2B USD61.9B

Major shareholders:

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

Price Performance



	-1M	-3M	-12M
Absolute (%)	(1)	(4)	(10)
Relative to index (%)	0	(3)	(2)

Source: FactSet

Earnings growth peaked. Not so for yields

DBS 2023 earnings were marginally ahead of MIBG/Street. Earnings growth has peaked. However, levers such as loan growth, fee income and large general provision overlays should allow the Group to keep earnings supported at current levels. Its shift to deliver higher base dividends, bonus share issues and potential special dividend increases capital returns visibility and dividend yield certainty, amidst an environment where risk free rates are set to fall. Lower TP to SGD37.66. Maintain BUY.

NII peaking, but total income has upside risks

4Q23 NII fell -2% QoQ, dragged by a -6bps fall in NIMs. Rising funding costs and potential policy rate cuts could drive NIMs to tighten further, in our view. For every 1bps cuts, NII is set to fall by SGD9-10m, according to Management. While loans were flat YoY, we expect the pace to pick up to +3.4% YoY in 2024E supported by better growth prospects globally. Separately, 4Q23 Noll was a bright spot, rising +20% YoY. Fee income (+28% YoY) made a comeback with wealth management and cards showing improvements. Management claims momentum is improving so far in 2024. Lower rates could be a positive catalyst as wealth AUM gets deployed to higher fee products. Overall, we have kept 2024-25E estimates largely unchanged until better clarity appears on macro momentum.

Asset quality well supported. Expect higher SP

New NPL formation came off -43% QoQ in 4Q23. Management claims there is limited sectoral stresses. Commercial real estate is still a risk. The Group's exposure is -21% of gross loans. However, 60% is in Singapore where the subsector is resilient. HK is -18% where exposure is to high end corporates and developers. The US and European exposure is 10%, which is mostly to network customers from Singapore. With portfolio LTV of <50%, DBS has not had to take any valuations adjustments. We expect credit charges to rise to 17bps in 2024E (vs. 14bps) from higher specific provisions taking into account the higher interest rate environment.

Increasing shareholder returns. Maintain BUY

DBS 4Q23 dividends was above expectations with quarterly payments increased by SGD0.06. This implies a +13% YoY increase in 2024E dividend. Taking into account the boost from the proposed 1-for-10 bonus issue, 2024E dividends should be 24% YoY higher. These moves are welcome and increases returns visibility and yield certainty. Despite this, we estimate a 2024E CET1 of 14.3% - well above regulatory minimums. This gives further capital return opportunities, in our view, including special dividends going forward. Following 2023 adjustments, our multi-stage DDM (COE 9.9%, 3% terminal) TP has been lowered to SGD37.66 from SGD37.81. Maintain BUY.

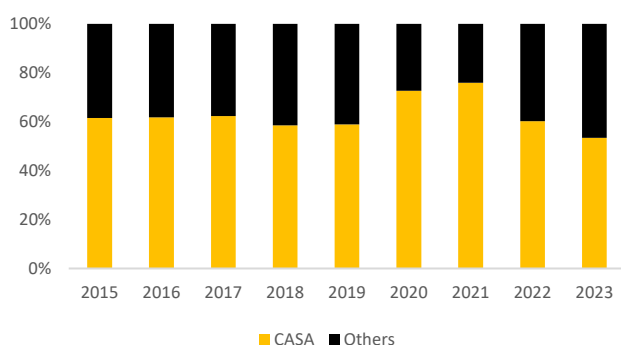
FYE Dec (SGD m)	FY22A	FY23A	FY24E	FY25E	FY26E
Operating income	16,502	20,162	20,747	21,741	22,937
Pre-provision profit	9,412	12,089	12,064	12,710	13,268
Core net profit	8,193	10,286	9,976	10,684	11,236
Core EPS (SGD)	3.2	4.0	3.9	4.1	4.4
Core EPS growth (%)	20.2	25.3	(3.0)	7.1	5.2
Net DPS (SGD)	2.0	1.9	2.2	2.3	2.5
Core P/E (x)	10.7	8.4	8.4	7.8	7.4
P/BV (x)	1.5	1.4	1.3	1.2	1.1
Net dividend yield (%)	5.9	5.7	6.7	7.0	7.7
Book value (SGD)	22.10	24.06	25.77	27.63	29.50
ROAE (%)	14.9	18.0	16.1	16.1	15.8
ROAA (%)	1.1	1.4	1.3	1.4	1.4
Consensus net profit	-	-	10,007	10,039	na
MIBG vs. Consensus (%)	-	-	(0.3)	6.4	na

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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

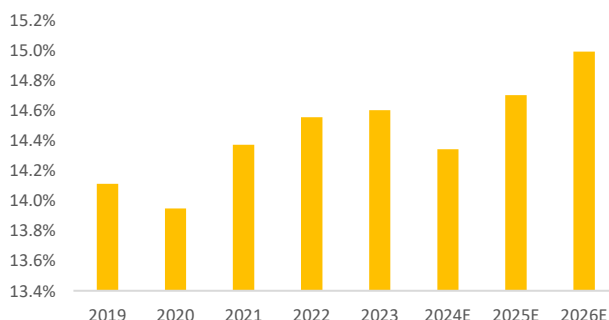


Source: Company

Financial Metrics

- NIM are set to fall -2bps YoY in 2024E following a +34% YoY increase in 2023 as funding costs rise and interest rate cuts arrive
- Improved economic outlook, especially in SE Asia should keep asset quality benign. However, the high rate environment could drive NPLs to reach 1.2% by 2026E
- Credit charges are likely to rise to 17bps in 2024E following an increase to 14bps in 2023
- Core- ROE is structurally shifting higher. We expect this to average 15.4% in 2024-26E

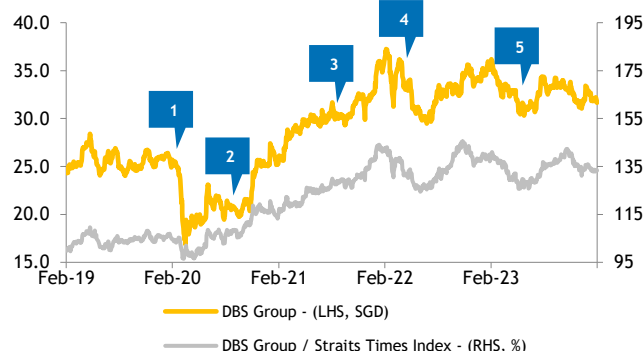
DBS CET ratio (%)



Source: Company, Maybank IBG Research

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

4Q23 results summary

Fig 1: 4Q23 results summary

SGDm	4Q23	4Q22	YoY (%)	3Q23	QoQ (%)	2023	2022	YoY	Comments
Net interest income	3,434	3,280	4.7	3,504	-2.0	13,642	10,941	24.7	Weaker NIMS and flat loan growth
Non-interest income	1,573	1,310	20.1	1,688	-6.8	6,520	5,561	17.2	Improved wealth management and credit cards
Total income	5,007	4,590	9.1	5,045	-0.8	20,162	16,502	22.2	
Total expenses	(2,205)	(1,963)	12.3	(2,038)	8.2	(8,073)	(7,090)	13.9	Higher tech and Citi Taiwan integration costs
Profit before allowances (PPOP)	2,802	2,627	6.7	3,154	-11.2	12,089	9,412	28.4	
Allowances for credit and other losses	(142)	42	NM	(215)	-34.0	(590)	(237)	148.9	SPs lower following 3Q kitchen sinking of money laundering case exposure
Profit before tax	2,698	2,705	-0.3	3,001	-10.1	11,704	9,382	24.7	
Core Net Profit	2,393	2,341	2.2	2,633	-9.1	10,286	8,193	25.5	102%/101% of MIBG and Street 2023E expectations
One time gains/expenses	(124)	-	NM	(40)	210.0	(224)	-	NM	Citibank Taiwan integration costs and CSR commitments
Reported Net profit	2,269	2,341	-3.1	2,593	-12.5	10,062	8,193	22.8	
NIM (Reported) %	2.13%	2.05%	8	2.19%	(6)	2.15%	1.75%	40	QoQ fall from higher funding costs
Cost/income ratio	44.0%	42.8%	120	39.3%	470	39.9%	43.0%	(310)	Higher from Taiwan and IT costs
Net Loans	416,163	414,519	0.4	419,927	-0.9	422,152	420,284	0.4	Weak demand across all categories due to high pricing
Deposits	535,103	527,000	1.5	531,269	0.7	535,103	527,000	1.5	Better CASA inflows QoQ
Gross NPLs	1.1%	1.1%	-	1.2%	(10)	1.1%	1.1%	(2)	Lower new NPL formation and higher write-offs

Source: Company data, Maybank IBG Research

Key assumption changes

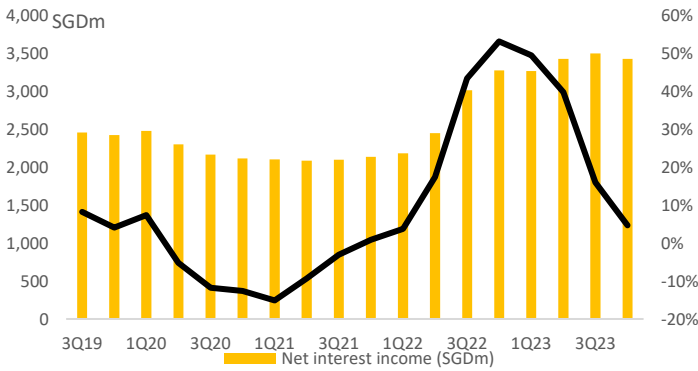
Fig 2: Key assumption changes

	2024E			2025E		
	Old	New	% Change	Old	New	% Change
Net Interest Income	13,397	13,902	4%	14,004	14,257	2%
Non-interest income	7,051	6,845	-3%	7,229	7,484	4%
Total Income	20,448	20,747	1%	21,233	21,741	2%
Total Expenses	(8,046)	(8,683)	8%	(8,152)	(9,031)	11%
PPOP	12,402	12,064	-3%	13,080	12,710	-3%
Allowance for credit and other losses	(897)	(712)	-21%	(845)	(554)	-34%
PBT	11,506	11,352	-1%	12,235	12,156	-1%
Core-Net Profit	10,048	9,976	-1%	10,685	10,684	0%
NIM	1.88%	2.00%	11 bps	1.91%	1.98%	7 bps
Gross Loans	424,680	436,485	3%	440,174	452,867	3%
Deposits	557,669	545,805	-2%	572,054	559,839	-2%
Total NPA	5,978	5,089	-15%	6,037	5,542	-8%

Source: Maybank IBG Research

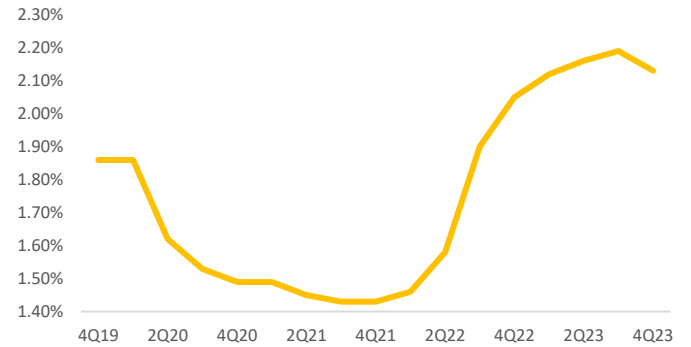
Focus charts

Fig 3: Net interest income YoY (%)



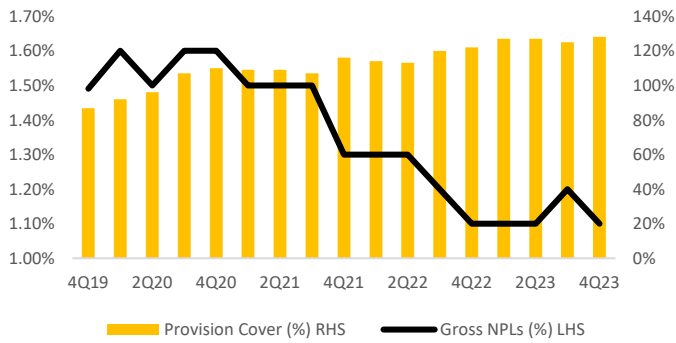
Source: Company data, Maybank IBG Research

Fig 4: Net interest margin (%)



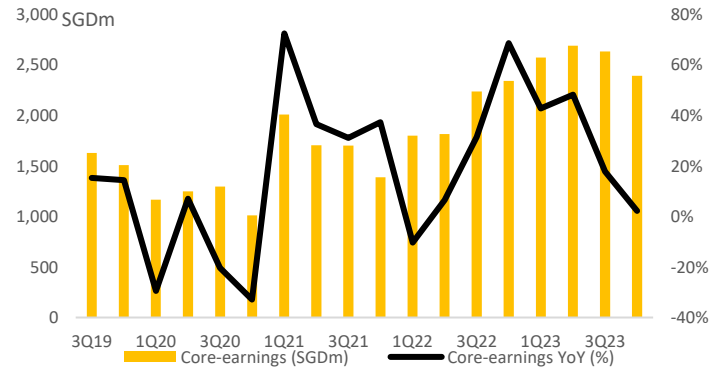
Source: Company data, Maybank IBG Research

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

	2019	2020	2021	2022	2023	2024E	2025E	2026E
Balance Sheet								
Loan growth y-o-y (%)	4%	4%	10%	1%	0%	3%	4%	4%
Consumer Loan growth y-o-y (%)	2%	0%	10%	-1%	8%	3%	4%	4%
Corporate Loan growth y-o-y (%)	4%	6%	10%	2%	-2%	3%	4%	4%
Deposit growth y-o-y (%)	3%	15%	8%	5%	2%	2%	3%	3%
CASA Deposit growth y-o-y (%)	3%	42%	13%	-17%	-10%	5%	12%	11%
Cash and balances with central banks as a % of Deposits	7%	11%	11%	10%	9%	9%	8%	10%
Loan to Deposit Ratio (%)	89.6%	81.3%	82.7%	79.8%	78.9%	80.0%	80.9%	81.9%
Profit & Loss								
Net Interest Margin - Adjusted (%)	1.83%	1.61%	1.37%	1.67%	2.01%	2.00%	1.98%	1.98%
Net Interest income growth y-o-y (%)	7.5%	-5.7%	-7.0%	29.6%	24.7%	1.9%	2.6%	3.4%
Non-interest income growth y-o-y (%)	16.3%	12.1%	4.2%	-3.3%	17.2%	5.0%	9.3%	9.5%
PPOP growth y-o-y (%)	12.2%	1.8%	-9.7%	23.6%	28.4%	-0.2%	5.4%	4.4%
PBT growth y-o-y (%)	13.6%	-29.2%	44.9%	20.7%	24.7%	-3.0%	7.1%	5.2%
Cost to Income Ratio (%)	43.0%	42.2%	46.3%	43.0%	40.0%	41.9%	41.5%	42.2%
Dividend Payout on core-profits (%)	49%	47%	45%	63%	48%	56%	55%	57%
Asset Quality								
Gross NPL (%)	1.5%	1.6%	1.3%	1.1%	1.1%	1.1%	1.1%	1.2%
Provision coverage (GP+SP+RLAR/NPA) (%)	94%	110%	116%	122%	128%	134%	126%	118%
Credit charge (Allowance for credit losses/gross loans) (%)	0.20%	0.83%	0.01%	0.06%	0.14%	0.17%	0.12%	0.10%
NPA growth y-o-y (%)	1.6%	15.8%	-12.5%	-12.4%	-1.3%	0.7%	8.9%	9.0%
Capital								
CET1 ratio (%)	14.1%	13.9%	14.4%	14.6%	14.6%	14.3%	14.7%	15.0%
Tier-1 ratio (%)	15.0%	15.0%	15.1%	15.2%	15.3%	15.4%	15.8%	16.1%
Total Capital ratio (%)	16.7%	16.8%	17.0%	17.0%	16.1%	17.1%	17.4%	17.7%

Source: Company data, Maybank IBG Research

FYE 31 Dec	FY22A	FY23A	FY24E	FY25E	FY26E
Key Metrics					
Core P/E (x)	10.7	8.4	8.4	7.8	7.4
Core FD P/E (x)	10.7	8.4	8.4	7.8	7.4
P/BV (x)	1.5	1.4	1.3	1.2	1.1
P/NTA (x)	1.7	1.5	1.4	1.3	1.2
Net dividend yield (%)	5.9	5.7	6.7	7.0	7.7
INCOME STATEMENT (SGD m)					
Interest income	15,927.0	27,862.0	28,782.0	29,714.5	30,906.4
Interest expense	(4,986.0)	(14,220.0)	(14,880.4)	(15,457.3)	(16,162.6)
Net interest income	10,941.0	13,642.0	13,901.6	14,257.2	14,743.8
Net insurance income	0.0	0.0	0.0	0.0	0.0
Net fees and commission	3,091.0	3,366.0	3,702.6	4,183.9	4,727.8
Other income	2,470.0	3,154.0	3,142.8	3,300.0	3,464.9
Total non-interest income	5,561.0	6,520.0	6,845.4	7,483.9	8,192.8
Operating income	16,502.0	20,162.0	20,747.0	21,741.1	22,936.6
Staff costs	(4,376.0)	(5,053.0)	(5,305.7)	(5,730.1)	(6,188.5)
Other operating expenses	(2,714.0)	(3,020.0)	(3,377.1)	(3,300.5)	(3,480.3)
Operating expenses	(7,090.0)	(8,073.0)	(8,682.7)	(9,030.6)	(9,668.8)
Pre-provision profit	9,412.0	12,089.0	12,064.3	12,710.5	13,267.8
Loan impairment allowances	(237.0)	(590.0)	(712.5)	(554.2)	(483.3)
Other allowances	0.0	0.0	0.0	0.0	0.0
Associates & JV income	207.0	205.0	0.0	0.0	0.0
Pretax profit	9,382.0	11,480.0	11,351.8	12,156.3	12,784.4
Income tax	(1,188.0)	(1,417.0)	(1,374.4)	(1,471.8)	(1,547.8)
Minorities	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	8,193.0	10,062.0	9,976.5	10,683.6	11,235.6
Core net profit	8,193.0	10,286.0	9,976.5	10,683.6	11,235.6
BALANCE SHEET (SGD m)					
Cash & deposits with banks	114,301.0	117,674.0	123,576.1	124,670.3	136,726.3
Sec. under resale agreements	0.0	0.0	0.0	0.0	0.0
Derivatives financial assets	44,935.0	22,700.0	24,970.0	27,467.0	30,213.7
Dealing securities	0.0	0.0	0.0	0.0	0.0
Available-for-sale securities	75,457.0	81,735.0	87,456.5	93,578.4	100,128.9
Investment securities	64,995.0	70,565.0	65,496.6	67,180.7	57,424.2
Loans & advances	414,519.0	416,163.0	430,179.1	446,391.6	463,966.5
Central bank deposits	0.0	0.0	0.0	0.0	0.0
Investment in associates/JVs	2,280.0	2,487.0	2,487.0	2,487.0	2,487.0
Insurance assets	0.0	0.0	0.0	0.0	0.0
Fixed assets	3,238.0	3,689.0	3,689.0	3,689.0	3,689.0
Intangible assets	5,340.0	6,313.0	6,313.0	6,313.0	6,313.0
Other assets	18,303.0	17,975.0	19,772.5	21,749.8	23,924.7
Total assets	743,368.0	739,301.0	763,939.8	793,526.7	824,873.3
Deposits from customers	527,000.0	535,103.0	545,805.1	559,838.8	574,241.9
Deposits from banks & FIs	39,684.0	46,704.0	49,039.2	51,491.2	54,065.7
Derivatives financial instruments	45,265.0	23,457.0	23,457.0	23,457.0	23,457.0
Subordinated debt	4,412.0	1,319.0	1,319.0	1,319.0	1,319.0
Other securities in issue	0.0	0.0	0.0	0.0	0.0
Other borrowings	47,188.0	48,079.0	55,290.9	63,584.5	73,122.1
Insurance liabilities	0.0	0.0	0.0	0.0	0.0
Other liabilities	22,747.0	22,392.0	22,392.0	22,392.0	22,392.0
Total liabilities	686,296.0	677,054.0	697,303.1	722,082.4	748,597.7
Share capital	11,495.0	11,604.0	11,604.0	11,604.0	11,604.0
Reserves	43,000.0	48,069.0	52,458.6	57,266.2	62,097.6
Shareholders' funds	54,495.0	59,673.0	64,062.6	68,870.2	73,701.6
Preference shares	2,392.0	2,392.0	2,392.0	2,392.0	2,392.0
Minority interest	185.0	182.0	182.0	182.0	182.0
Total equity	57,072.0	62,247.0	66,636.6	71,444.2	76,275.6
Total liabilities & equity	743,368.0	739,301.0	763,939.8	793,526.7	824,873.3

FYE 31 Dec	FY22A	FY23A	FY24E	FY25E	FY26E
Key Ratios					
Growth (%)					
Net interest income	29.6	24.7	1.9	2.6	3.4
Non-interest income	(3.3)	17.2	5.0	9.3	9.5
Operating expenses	7.9	13.9	7.6	4.0	7.1
Pre-provision profit	23.6	28.4	(0.2)	5.4	4.4
Core net profit	20.5	25.5	(3.0)	7.1	5.2
Gross loans	1.3	0.4	3.4	3.8	3.9
Customer deposits	5.0	1.5	2.0	2.6	2.6
Total assets	8.4	(0.5)	3.3	3.9	4.0
Profitability (%)					
Non-int. income/Total income	33.7	32.3	33.0	34.4	35.7
Average lending yields	2.43	4.11	4.13	4.13	4.15
Average financing yields	0.00	0.00	0.00	0.00	100.00
Average cost of funds	0.83	2.28	2.32	2.33	2.34
Net interest margin	1.67	2.01	2.00	1.98	1.98
Net income margin	49.65	51.02	48.09	49.14	48.99
Cost/income	43.0	40.0	41.9	41.5	42.2
Liquidity (%)					
Loans/customer deposits	78.7	77.8	78.8	79.7	80.8
Asset quality (%)					
Net NPL	(0.2)	(0.3)	(0.4)	(0.3)	(0.2)
Gross NPL	1.1	1.1	1.1	1.1	1.2
Net NPF	0.0	0.0	0.0	0.0	0.0
Gross NPF	0.0	0.0	0.0	0.0	100.0
(SP+GP)/average gross loans	0.1	0.1	0.2	0.1	0.1
(SP+GP)/average gross financing	0.0	0.0	0.0	0.0	100.0
Loan loss coverage	121.8	128.1	134.0	126.3	117.8
Capital adequacy (%)					
CET1	14.6	14.6	14.3	14.7	15.0
Tier 1 capital	15.2	15.3	15.4	15.8	16.1
Risk-weighted capital	17.0	16.1	17.1	17.4	17.7
Returns (%)					
ROAE	14.9	18.0	16.1	16.1	15.8
ROAA	1.1	1.4	1.3	1.4	1.4
Shareholders equity/assets	7.3	8.1	8.4	8.7	8.9

Source: Company; Maybank IBG Research

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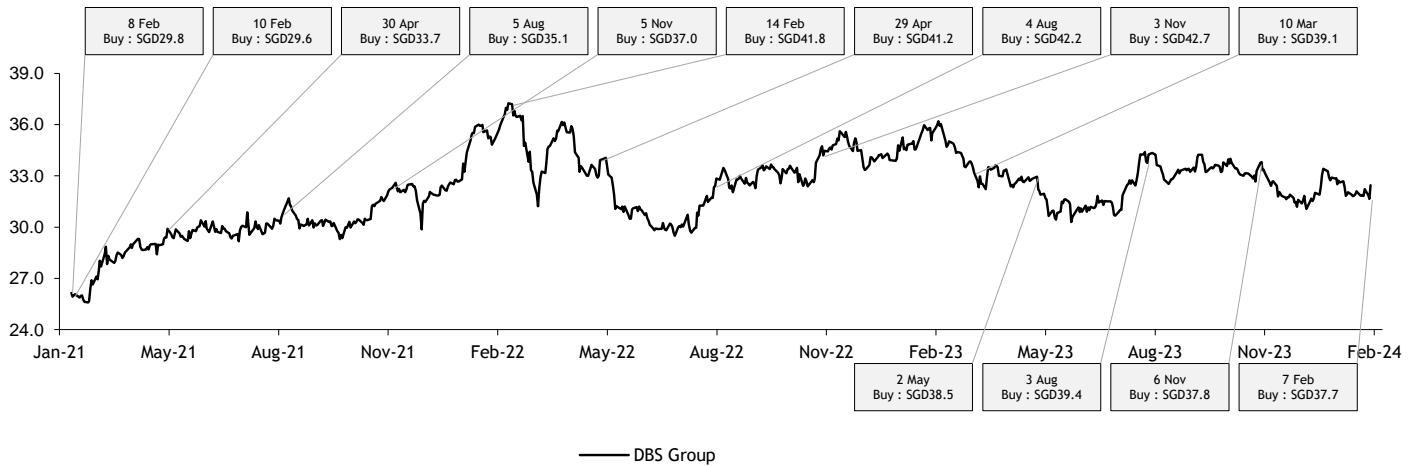
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